

The Role of Business in Human Trafficking and Forced Labor

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The Business of Human trafficking and Forced Labor

- A great amount of revenue generated by businesses in the global economy can be linked to the trafficking and enslavement of human beings.
- Efforts that seek to address this situation have focused on ways to encourage businesses to voluntarily adopt more socially responsible practices.
- However, they are generally believed to be at tension with the for-profit purposes of businesses, making the task of convincing businesses to adopt more humane policies seem an uphill battle.
- I suggest that we can make a “business case” for eliminating forced labor and human trafficking from global supply chains
- Business policies that improve worker well-being do not inherently compromise profits and can also improve a business’ bottom line.
- There is some data from which to draw:
 - a few leading apparel manufacturers are focusing on responsible yet profitable labor practices
 - preliminary data from the ILO Better Work Program demonstrates linkages between better work conditions and improved market competitiveness.

Profiting from Exploitation

- We need to focus on the economics of human trafficking and forced labor.
- At its core, human trafficking entails the enslavement and exploitation of people for economic gain through means of force and coercion.
- Great amount of revenue generated throughout global trade and in legitimate industries is linked directly and indirectly to the trafficking and enslavement of millions of people.
- Such revenue often goes “unnoticed” in the discussion about human trafficking, and businesses, specifically, are facilitating and benefiting from it
- Current estimates [ILO 2014] puts the total illegal profits obtained from the use of forced labor worldwide at US \$150.2 billion per year.
 - Of that, victims of forced labor exploitation, including in domestic work, agriculture, and other economic activities, generate an estimated US \$51 billion in profits per year.
 - Profits for other economic activities are estimated at US \$34 billion per year, encompassing construction, manufacturing, mining, and utilities.
- ILO also estimated [2005] that victims of forced labor forgo at least US \$21 billion each year in unpaid wages and illegal recruitment fees.
- Those numbers, however, do not truly account for the substantial amount of (legal) commercial revenue that would not exist without the trafficking of billions of people around the globe

Profiting from Exploitation

- First, the “business” of human trafficking directly contributes to the revenue of certain industries such as tourism, banking and financing, telecommunications and media outlets, and travel and hospitality—industries that are regularly used by traffickers.
- Second, of the 300 billion dollars generated annually by migrant worker remittance, possibly as much as 20% goes to pay traffickers/recruiters commission and debt bondage.
- Third, and most importantly, businesses and economies all over the world import and export billions of dollars in products tainted by forced labor in manufacturing and raw materials procurement → Trade in goods and services now accounts for more than 60% of the global GDP.
- The U.S. government alone spends between US \$350 and \$500 billion a year to purchase goods and services, making it the largest single purchaser in the global economy :
 - The U.S. spends about \$74 billion annually on “off-the-shelf” information technology products, such as electric and electronic equipment components or computers and data processing equipment, many of which are made in China in factories known for their harsh working conditions, including extreme low wages and working hours, hazardous conditions, and child labor.
 - Similar concerns are raised with regards to the raw minerals found in many of these products, which are obtained through forced and trafficked labor in many parts of the world.
 - Most of the apparel purchases on which the U.S. government spends between \$1.5-\$2.4 billion a year are manufactured in countries such as Bangladesh and Cambodia, where sweatshop conditions through the apparel and textile industry are prevalent.
 - Forced and trafficked labor, including bonded labor and child labor, are found throughout the supply chains of the food, agriculture, seafood and meat products that the U.S. government procures when it purchases commercially available products imported from India, Indonesia, Thailand, Pakistan, Cote d’Ivoire, Brazil, Ghana etc’.

Global Supply Chains

- Exploitation and human trafficking thrive as part the global economy while remaining “unseen” partially due to the complexity of global supply chains.
- Global competition serves as the catalyst for very complex and dispersed business models → global outsourcing and subcontracting—a trillion dollar industry—resulted in sweeping structural reorganization across industries.
- Current global supply chains often include multiple companies and suppliers in the production and delivery of a single product
- The garment industry, for example, has undergone major restructuring over the last several decades:
 - Before: smaller manufacturers overseeing all steps from the initial design to fulfilling orders
 - Now: giant (often US and EU based) retailers contracting out apparel production to manufacturing contractors all over the world while dictating price point and turnaround time.
 - Those mid-chain garment suppliers may source the different components and raw materials, such as fiber, dye and weave, or zippers and buttons, from different countries, and send it to yet another country, such as Thailand or Bangladesh, for assembly.

Global Supply Chains

- Constant drive to remain competitive by lowering prices and meeting market demands for year round and speedy availability of products → retailers, suppliers, and employers compete and pass down the supply chain cost-cutting measures → often translate to exploitive wages and working conditions for vulnerable workers, including conditions amounting to trafficking.
- H&M, the second largest global clothing retailer, mapped the social impacts throughout its supply chain, and identified concerning working conditions associated with
 - the processing of raw material (*e.g.* cotton) used in its apparel
 - the production of yarn and final fabrics in supplying mills
 - the garment production itself.
- The spinning mills in Tamil Nadu, India, for example, do not have direct business relations with H&M, but are a key sourcing market for the company → In many of these spinning mills, women are held in forced labor arrangements called Sumangali schemes, where young women from rural areas commit to long-term working contracts in return for money paid to their families at the end of the period to be used for dowry.

Global Supply Chains

- The global apparel sector has long been associated with harsh working conditions characteristic of sweatshops: threat of workplace injuries, low and unreliable pay and/or excessive deductions, forced overtime hours and verbal and physical abuse.
- The manufacturing and sales of clothing, textiles, footwear, and luxury goods are vital to the global economy. In 2011, it generated over 3 trillion USD in sales.
- Buyers are concentrated among well-known multinational brands, and fierce competition amongst suppliers all over the world puts a constant downward pressure on price, turnaround time, and orders fulfillment.
- Power imbalances between those buyers and the first few tiers of suppliers gives buyers both a high degree of control over its direct suppliers and the power to switch suppliers, leading to even more pressure on suppliers down the chains.
- This global industry relies heavily on manufacturers and a workforce in developing and under-developed countries → 60 million workers in the developing world work in the garment industry.
- Issues of forced and exploited labor, including trafficked labor, are prevalent throughout the supply chain.

Global Supply Chains

- Workers in Bangladesh's apparel industry have been chronically exploited in manner that often amounts to human trafficking and forced labor.
- In fact, Bangladesh's garment sector underwent tremendous growth and accounts for 13% of the country's GDP because of its ability to meet the demands of the global fast-fashion timelines that focus on cost and speed by "not-so-secretly" maintaining hostile working conditions which may amount to forced labor and human trafficking.
- In Jordan, the apparel industry accounts for nearly 30% of the country's total exports (mostly to brands and consumers in the U.S.) → The majority of those employed in the industry are migrant workers from South Asia and South-East Asia, particularly from India, Sri Lanka, Bangladesh and China → Issues of forced labor are present in debt bondage, excessive overtime, restrictions on workers ability to come and go, particularly through mandatory nighttime curfew in the factories' housing, use of threats and violence to intimidate workers, wage withholding and deduction for recruitment fees, withholding of travel documents, exits that are locked/blocked during work hours → These have all been considered strong indicators of human trafficking and forced labor.
- Forced labor is widespread in the Malaysian electronics industry (one in three workers), which manufactures many of the electronics products reaching American consumers
- Apple's supply chains have come under increased scrutiny following scores of suicides by young overworked and abused factory workers at facilities in China operated by Foxconn, the Taiwanese based manufacturer of Apple's iPhone, iPad, and other hi-tech devices.
- In the global food industry, e.g. in agriculture and in fishing which tend to be very labor intensive, global and local corporations are connected to human trafficking and forced labor → Poor men from Cambodia and from Myanmar are sold to captains on Thai fishing boats and work in slave conditions to fulfill the global demand for inexpensive shrimp. → In Spain, illegal migrants live and work in grave conditions to pick fruit and vegetables sold in retail grocery chains throughout Europe.

The Current landscape of Corporate Citizenship:

Companies have begun to proactively manage the risks of human trafficking associated with globalization →

I. Voluntary Corporate Social Responsibility (CSR) Measures

•Thousands of companies are adopting the CSR label + The UN Global Compact has more than 12,000 participants, including over 8,000 businesses in approximately 150 countries around the world →

- Nike monitors the working conditions in its international manufacturing plants
- Ikea banned child labor in India and provides families with educational stipends to keep children in school
- Starbucks carries only free-trade coffee
- Home Depot will not purchase timber from old-growth forests

•Increased corporate attention to CSR has not been entirely “voluntary” → often in response to a specific business crisis and public outcry, e.g.:

- Nike faced an extensive consumer boycott in the early 90s after reports surfaced of abusive labor practices in some of its contract manufacturers in Indonesia
- Similar public outrage and call for action was expressed more recently, after it became evident that the garment factories that collapsed or caught fire in Bangladesh, killing over a 1000 workers that were kept in unsafe and sweatshop conditions, were manufacturing for some of the largest western retailers, including Walmart, Gap and H&M, to name but a few.

•The global spread of CSR is now enabled by the adoption of guidelines, standards and recommendations that apply specifically to international conduct and activities by multinational corporate enterprises → e.g. in 2011, the United Nations Human Rights Council unanimously endorsed the *Guiding Principles on Business and Human Rights* → Business can no longer ignore human rights violations in their operations and supply chains and must act with due diligence to avoid infringing rights and to address negative impacts with which they are involved.

The Current landscape of Corporate Citizenship:

II. State-driven CSR: Mandatory Regulatory Compliance

•Government regulation increasingly mandates social responsibility reporting, including on issues related to forced and trafficked labor, e.g.:

- the Dodd-Frank Wall Street Reform and Consumer Protection Act requires persons to disclose whether “conflict minerals” are used in their products and what due diligence steps have been taken to prevent the use of such conflict minerals → there is significant evidence that human trafficking and forced labor accompanies the mining of diamonds and other gemstones, especially in conflict-ridden areas
- The California Transparency in Supply Chains Act requires large retailers and manufacturers doing business in California to disclose to the public the efforts that they are undertaking to prevent and root out human trafficking and slavery in their domestic and global supply chains
- President Obama issued Executive Order 13627, Strengthening Protections Against Trafficking in Persons in Federal Contracts (2012) to pursue clean supply chains in federal government procurement
- In Europe, the Modern Day Slavery Act 2015 in the UK, the first of its kind in Europe, also specifically targets forced labor and human trafficking in supply chains

•The government of India has now taken steps to proactively mandate CSR, including CSR spending

III. Business Entities with Profit+ Missions: Flexible Purpose and Benefit Corporations

•We are seeing the emergence of for-profit mission oriented business entities that directly integrate social and environmental purposes into their stated purpose and structure → Benefit Corporations, L3Cs, Special Purpose Corporations, and Flexible Purpose Corporations.

A Business Case for Clean Supply Chains

- Many companies pursue corporate citizenship as long as it does not jeopardize monetary profits.
- To a large extent, part of the problem stems from corporations trying to optimize short-term financial performance in a bubble while ignoring the broader factors that influence longer-term and sustainable success.
- As long as businesses continue to view CSR as a moral obligation or, at best, as a marketing strategy or risk-management issue, focused on avoiding reputational harm and revenue loss, businesses will continue to be stuck in this vicious cycle.
- I suggest that it may be possible to maintain and even enhance short-term and long term financial performance with socially and environmentally responsible business strategies → at least in the context of environmental sustainability there is growing evidence of high-profile U.S. and global companies achieving both significant reduction in costs and increased revenue and growth through environmentally sustainable in their business practices.
- The goal should be to fully integrate corporate citizenship into the supply chain practices that drive the company's business strategies and align it with the core objective of the company to pursue profit.
- Harvard Business School “Gurus” - Michael Porter and Mark Kramer - suggest that if corporations assess their CSR opportunities as any other core business decision, they will see the opportunities and competitive advantage that CSR can bring with it (rather than just viewing it as a cost/constraint) → It is vital to create “Shared Value” or “A Convergence of Interests” between the social goals and the company's economic goals, in a way that enhances the overall competitive context of the company + the pursuit of shared value needs to be at the center of what businesses do.

Case Study: Nestlé in Moga, India (Porter & Kramer)

- Fully integrated value chain innovations combined with investments in competitive context end up looking (and behaving) very much like any other business and regular operations of the company → The study of Nestlé serves as case in point.
- When Nestlé wanted to enter the Indian market in the early 60s, it had to significantly invest in the poverty-stricken and underdeveloped region of Moga. → Since Nestlé's value chain model (originating in Switzerland) depended on establishing local sources of milk for a large and diverse base of small farmers, Nestlé had to transform the competitive context in Moga.
- It built refrigerated dairies; provided medicines, nutritional supplements and veterinarians, agronomists, and quality assurance experts to ensure the health of the milk cows; it provided training, technical assistance and financing for local farmers so that they can have better irrigation and crops to support the cows diet.
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- Consequently milk production in Moga has increased 50-fold, sourced from more than 75,000 local farmers (compared to 180 initially)+ The quality of the milk has improved as well
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- Leading Nestlé to pay higher prices to the farmers and facilitate access to credit and a competitive industry.
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- As a result of these improvements, such as improved water quality and crops and higher regular income, the overall standard of living in Moga is significantly higher.
- Nestlé duplicated similar practices and investments in its coffee and cocoa value chains in Brazil, Thailand, and China.
- Notably, “Nestlé came to Moga to build a business, not to engage in CSR.” → The company was able to ensure reliable supply of high quality commodities that are essential to its business and directly tied to its strategic commitment to work with small farmers for that purpose.
- Both Nestlé and the communities where it operates prospered when “shared value” was created.

The Better Work Program

- Better Work is a partnership between ILO, the International Finance Corporation/World Bank, and leading brands that aims to improve garment workers' lives and working environment while promoting and boosting business benefits in the garment industry.
- Building on the success of Better Factories Cambodia (2001), Better Work currently operates in Cambodia, Jordan, Haiti, Vietnam, Indonesia, Lesotho, Nicaragua, and most recently Bangladesh.
- Better Work practices have led to specific improvements relating, e.g.
 - to trafficked and forced labor issues in Jordan, including coercion and restriction on worker movement, withholding of passports, excessive overtime, and withholding of correct wages.
 - “sweatshop” working conditions in Cambodia and in Vietnam, where workers were regularly coerced to produce through physical and verbal abuse, and subjected to sexual harassment, dangerous working environment and excessive pay deduction and unreliable payment of wages.
- Ongoing research in Better Work factories in Cambodia and in Vietnam indicates that better working conditions drive greater productivity, leading to higher profits and improving the chances of a factory's survival in an economic downturn.
- In Vietnam, factories in which workers trust that they are paid correctly and report low verbal abuse are almost 8% more profitable than those factories in which workers do not report these conditions → 65% of Better Work Vietnam factories have seen a rise in total sales, 62% have increased production capacity, and 60% have expanded employment.
- **Profitability can increase even with wage increases** to the workers → In Vietnam, for each 1% increase in wage levels, factories show a 0.6% increase in revenues over their costs → Higher wages appear to boost the bottom line of factories by fostering greater productivity among workers that more than compensates for their added cost



Corporate Buy-In: Emerging Approaches by Leading Companies

I. Gap Inc.

- Gap doesn't pay more for apparel as a way to reward supplier factories that meet high social and environmental standards, but it does try to steer more work their way → order volume as a key lever.
- It has been putting increasing efforts on evaluating its purchasing practices and their impact on suppliers and workers, such as last minute changes to production specifications, short turn around time, etc.'
- Sourcing strategy now fosters deeper ongoing partnerships with a smaller, consolidated vendor base, in a way that creates longer-term sustainable incentives for the suppliers to improve their conditions rather than continuously compete for orders from multinational buyers at the workers expense.

II. Levi Strauss & Co.

- Levi's has been advocating a paradigm shift in which "a focus on worker well-being will not only benefit individual workers and their families, but strengthen the factories in which they work, improving efficiency and productivity, and ultimately Levi Strauss & Co.'s bottom line"
- Focus on supplier engagement, business decision-making (specifically improving purchasing practices), and on building partnerships + introduced financial incentives to its global suppliers tying increased financial rewards to higher social and environmental performance on the company's code of conduct.
- Levi's 2013 and 2014 Annual Reports show a continued growth in both revenue and profit.

Fair Wages in Supply Chains: H&M and New Approaches to Internalizing Labor Costs and Enhancing Cash Net Revenue

- Some companies recognize the positive effects of a fair living wage and safe working conditions on productivity.
- It's a hot-button issue: Very few companies have made concrete commitments to providing fair wages throughout their supply chains or more equally distributing profit margins across all suppliers.
- H&M does not own any of the factories and its products are manufactured by around 850 independent suppliers (20 % in Europe and 80% in Asia) and 1,900 factories. Those factories employ about 1.6 million people, of which about 64% are women.
- In 2013, H&M launched a roadmap to pay all workers in its global supply chains a fair living wage → It's committed to work with H&M's strategic suppliers (750 factories producing 60% of its product) to put in place pay structures that would provide to around 850,000 textile workers a fair living wage by 2018.
- H&M introduced three model factories in Bangladesh (2) and in Cambodia (1) → H&M will source a 100% of the products manufactured in the three factories for a period of 5 years, and has begun implementing a Fair Wage Method in each of the three model factories.
- H&M also improved its purchasing practices: (1) By developing a price method that is true to the cost of the labor, *i.e.*, by paying suppliers a price which allows them to pay their textile workers a fair living wage and to reduce overtime; and (2) By improve purchasing practices to reduce production peaks for the suppliers, which allows them to better plan the capacity of their factories.
- Wages increased and overtime reduced by 40%, but productivity nonetheless increased due to better production planning and incentives and skilled stable workforce
- H&M did not sacrifice short-term profits → continues to grow in profit and in market share + does not have a negative impact on the price of its products.