

MADE-BY

**SOCIAL POLICY IN
DEVELOPED COUNTRIES**



**Fashion with respect
for people and planet**

General

In order to improve the social circumstances in sewing factories throughout the world MADE-BY promotes the use of code of conducts based on the core ILO conventions. Factories are audited to see whether the conditions in these factories are compliant with international labour law. Non compliant factories are supported in order to raise the level of labour conditions.

The production of fashion is a labour intensive process. In order to minimize the costs, the production of fashion is often located in countries where labour costs are low. Countries like China, India, Bangladesh, Pakistan and Turkey are main exporting countries. Due to the development stage of these countries, worker rights are often poorly protected.

However fashion is also produced in countries in more developed countries. Fashion producers in developed countries do not compete on price but on quality, innovativeness and flexibility. Due to the better functioning of governments in these countries and the more developed institutional sector, worker rights are better protected in these countries.

In principle MADE-BY believes that the protection of worker rights is a local responsibility. By joining the United Nations countries worldwide commit themselves to protecting human rights in general and by ratifying conventions of the International Labour Organisation (ILO) they oblige themselves to protecting the basic rights of their workers. Only when governments, institutions and employers fail to organize the protection of workers, social auditing is necessary to protect workers. In developed countries where government effectiveness and institutional capacity is on sufficient level, it is not desirable and efficient to do social audits. In these countries social auditing has no added value on top off procedures already initiated by responsible parties. In the worst case performing social audits in these countries can even undermine the authority of the responsible parties or can disrupt already ongoing procedures or processes.

The scarce resources available for social auditing can therefore better be spent on audits and support in poorly developed countries where the need and added value is clear. In these countries auditing helps factories and brands to raise labour conditions and lower the risk on violation of worker rights. In developed countries institutionalised law, policies and effective dialogue between parties lower this risk. In both perspectives it is about lowering risk not eliminating risk.

Because of the above a methodology is needed in to order distinguish between countries where worker rights are sufficiently protected and countries where protection is lacking.

Methodology

The methodology used is based on finding a macro economic indicator on country level which establishes the development stage of a country and links the development stage to the level of protection of worker rights.

The economic situation in a country can be used to establish the development stage of a country. However the economic situation proves to be an important indicator in a broader sense.

Firstly it is an indicator for the ILO convention on living wages. The better the economic situation, the higher the income per capita per country, the bigger the chance that the income will cover the basic needs of workers as defined in most codes of conduct.

Secondly the economic situation is in an indicator for (non) compliance on several other ILO conventions. Research clearly shows a high correlation between the economic situation per country and respecting international labour standards. Most important research on this relation is done by the Harvard University and the World Bank.

The Harvard University published the 2004 Global Labor Survey. Established is to what extent the general economic situation in a country defines the compliance to international labour standards. The general economic situation is measured by the economic growth and the unemployment and poverty per country.

The general economic situation is linked to:

1. The labor market. Indicators: wage-setting, enforcement of minimum wage policies, wage arrears, prevalence of child labour and gender discrimination.
2. Freedom of association and collective bargaining. Indicator: legal and economic positions of unions.
3. Labor disputes. Indicators: nature and frequency of industrial disputes, institutions for resolving labor conflicts.
4. Employment regulations and working conditions. Indicators: Effect of regulations and collective bargaining on labor contracts, work hours and hiring and firing decisions.
5. Employee benefits. Indicators: pension schemes, sickness benefits, unemployment insurance.

The research found high positive correlation between the general economic situation and the labor market, freedom of association, employment regulations, and working conditions and employee benefits. Also a strong positive correlation was found between the economic situation and the percentage of employees organised in labour unions and the percentage of working contracts arranged under collective bargaining. A strong negative correlation was found between the economic situation and the percentage of workers active in the informal economy. A weak positive correlation was found between the economic situation and labor disputes.

The World Bank (Kaufmann, Kraay and Zoido-Lobaton (1999) and Kaufmann, Kraay and Mastruzzi (2006)) found similar relationships.

Development outcomes as income per capita are linked to governance. Governance is defined as the traditions and institutions by which authority in a country is exercised. This includes (1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound social policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them.

In order to measure this definition six indicators were chosen.

1. Voice and Accountability. Relates to political process and rights, civil liberties and media independence.
2. Political Instability and Violence. Measures the possibility that a government will be destabilised by unconstitutional and/or violent means.
3. Government effectiveness. Measures the quality of public service, the quality and independence of civil service and the credibility of governments.
4. Regulatory burden. Relates to the incidence of market-unfriendly policies and excessive regulation.
5. Rule of law. Measures the extent to which citizens have confidence and abide by the rules of society.
6. Control of corruption. Measures the control of corruption in the public and private sector.

The outcomes of the studies show a high correlation between a high income per capita and all six indicators of good governance.

From both studies a strong and direct relation between the economic situation or income per capita and compliance with international labour standards as defined in the core ILO conventions can be derived. The Global Labor Survey shows a direct relationship between a good economic situation and all core ILO conventions. The research of the World Bank gives another important insight. In both under developed and higher developed countries the law often defines the protection of workers. The World Bank shows that due to the lack of corruption, the respect and belief of citizens in the law and the effectiveness of the government, law is effectively implemented and operated in higher developed countries. The development of the country is measured in income per capita.

After describing the strong relation between the economic situation of a country and its development stage and the level of protection of worker rights, an indicator of the economic situation per country is needed.

Used indicators in order to measure and rank the economic situation of countries are among others gross domestic product (GDP), the Global Competitive Index (GCI) developed by the World Economic Forum and the Human Development Index (HDI) of the United Nations Development Program (UNDP).

The HDI is selected as indicator since it measures the economic situation of a country in terms of the gross domestic product (GDP) per capita in purchasing power parity terms but also measures to what extent a country is able to transfer its economic wealth for realisation of quality of life. When a ranking on GDP alone is used the capability to transfer economic power to other means is excluded. This affects the position of countries ranked on GDP alone or ranked on the HDI. The United States for instance is number one when ranked on GDP but number eight in the HDI ranking. The Scandinavian countries and Eastern European countries perform relatively low on the GDP ranking and relatively high on the HDI index.

The HDI measures the economic performance as described and ranks countries according to their performance. Not established yet is where to draw the line in the HDI ranking. What countries are able and what countries are not able to comply to international labour law?

As a first step the top 45 out of the HDI ranking 2006 was selected. The top 45 comprises the below listed countries:

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|------------------|----------------------------|-----------------------|
| 1. Norway | 16. France | 31. Barbados |
| 2. Iceland | 17. Italy | 32. Malta |
| 3. Australia | 18. United Kingdom | 33. Kuwait |
| 4. Ireland | 19. Spain | 34. Brunei Darussalam |
| 5. Sweden | 20. New Zealand | 35. Hungary |
| 6. Canada | 21. Germany | 36. Argentina |
| 7. Japan | 22. Hong Kong, China (SAR) | 37. Poland |
| 8. United States | 23. Israel | 38. Chile |
| 9. Switzerland | 24. Greece | 39. Bahrain |
| 10. Netherlands | 25. Singapore | 40. Estonia |
| 11. Finland | 26. Korea, Rep. of | 41. Lithuania |
| 12. Luxembourg | 27. Slovenia | 42. Slovakia |
| 13. Belgium | 28. Portugal | 43. Uruguay |
| 14. Austria | 29. Cyprus | 44. Croatia |
| 15. Denmark | 30. Czech Republic | 45. Latvia |

In order to give some perspective China, Turkey and India, main exporting countries of apparel and footwear, are respectively ranked on positions 81, 92 and 126 of the HDI.

Though there is a strong relationship between the economic situation and the level of protection of workers rights, the correlation is not flawless. Therefore the top 45 countries were all screened individually in order to remove countries where the relationship between the two variables is not strong enough. Screening was done by checking EU membership, OECD membership, The Global Competitiveness Index, ILO membership and core convention ratification and Country reports of the U.S. Department of State.

All European Union (EU) countries (except Rumania and Bulgaria who just entered in January 2007) are included in the top 45. Besides economic development, the EU also promotes the protection of workers rights. The Charter of Fundamental Rights (<http://europa.eu/scadplus/leg/en/lvb/l33501.htm>) explicitly strives for respect of fundamental human rights among which freedom of association, collective bargaining, rights of the child and non-discrimination. Legislation is formulated in order to put this into effect.

Research of the Fair Wear Foundation gives detailed insight in the level of protection of worker rights in the EU countries. Important finding of this report is that the level of worker rights protection in “old” and “new” EU member states are similar or almost similar. New members are the Middle and Eastern European countries that entered the EU in 2004. The report also underlines that the level of compliance to international labour law in Rumania and Bulgaria and non EU members like Moldova, Russia and Belarus is not on EU level yet.

The top 45 of the HDI proves to be a reliable indicator since it includes all EU members except Rumania and Bulgaria and excludes countries as Moldova, Russia and Belarus.

The Organisation for Economic Co-operation and Development (OECD) groups 30 member countries sharing a commitment to democratic government and the market economy. The OECD develops policy and advises member states on issues as emerging economies, sustainable development, territorial economy and aid (http://www.oecd.org/about/0,2337,en_2649_201185_1_1_1_1_1,00.html). All OECD countries except for Turkey and Mexico are in the top 45 of the HDI ranking.

In the Global Competitiveness Index, the World Economic Forum divides countries in development stages. Based on GDP per capita countries are divided in development stages 1 to 3. In development stage 1 emphasis should be on the Basic Requirements of a country. These requirements are Institutions, Infrastructure, Macroeconomy and Health and primary education. Higher developed countries (stage 2 and 3) need to put more emphasis on aspects as Higher education and training, Technological readiness and Innovation in order to foster their development. In stage 2 and 3 development has passed the basic requirements. The top 45 of the HDI ranking consists of countries in phase 2 and 3.

The International Labour Organization (ILO) is a UN related agency which seeks the promotion of social justice and internationally recognized human and labour rights. ILO Conventions have the force of international law. States that ratify them are required to incorporate the principles into national law and to ensure the implementation of the law. In addition, all ILO member states, regardless of ratification, are obliged to respect, promote and realize the principles contained in the core ILO Conventions, which address freedom of association and the right to collective bargaining, forced labour, child labour, discrimination and equal remuneration.

All countries in the top 45 of the HDI are member states of the ILO. Most but not all countries have ratified the core conventions.

For all countries but especially for those that did not ratify all core conventions, the country reports of the United States Department of State were checked. (<http://www.state.gov/g/drl/rls/hrrpt/2005/>). The reports specify the human rights situation per country. The report also gives insight in the worker rights per country.

After consultation of the above described resources Brunei, Bahrein, Kuwait, Israel, Hong Kong, Republic of Korea (South Korea), Argentina, Chile, the United States and Croatia were removed from the list.

Though rich due to the availability of natural resources as oil, the level of democracy in Brunei, Bahrein and Kuwait is low. The ILO core conventions are not ratified. The U.S. Department of State reports restrictions on freedom of association, discrimination and restrictions on labour rights.

Argentina and Chile both ratified the core ILO conventions. However Argentina faces serious problems on freedom of association and collective bargaining, forced and child labour and living wage, working hours and

health and safety problems in the informal sector. Chile is doing better but problems on child labour and not meeting living wage in the informal sector are reported.

Hong Kong is a Special Administrative Region (SAR) of the People's Republic of China. Hong Kong enjoys a high degree of autonomy except in matters of defense and foreign affairs. The basic law of Hong Kong provides for the protection of fundamental human rights. Hong Kong is doing much better than China in protecting working rights. However Hong Kong has not ratified all ILO core conventions. This leads to restrictions in freedom of association and collective bargaining. Also problems on health and safety are prevalent.

The republic of Korea did not ratify all core conventions of the ILO. Problems regarding freedom of association, collective bargaining, living wage and working hours are reported by the U.S. Department of State.

Israel has ratified all core conventions and the majority of the Israeli workforce is protected well. The Arab minority and foreign workers are discriminated institutionally, legally, and societally. Also problems on government corruption, child labour and health and safety have been reported.

The United States have not ratified core conventions on freedom of association, forced labour, discrimination and child labour. Though labour conditions in the United States are good on average, the garment industry faces particular problems. Due to the heavy competition of low wage countries the garment industry is declining rapidly. Competition is putting pressure on the labour conditions especially in the so called "sweatshops" mainly based in Los Angeles and New York. In these sweatshops living wage, working hours and the health and safety conditions are serious problems.

Croatia did ratify all ILO conventions. However problems were reported on child labour, minimum wage not meeting living wage and health and safety problems.

After screening the top 45, the following 35 countries remain:

Norway	Germany	Estonia
Iceland	Greece	Lithuania
Australia	Singapore	Slovakia
Ireland	Slovenia	Uruguay
Sweden	Portugal	Latvia
Canada	France	
Japan	Italy	
Switzerland	United Kingdom	
Netherlands	Finland	
Luxembourg	Cyprus	
Belgium	Czech Republic	
Austria	Barbados	
Denmark	Malta	
Spain	Hungary	
New Zealand	Poland	

Implementation

The list of countries respecting international labour law will be updated annually. This will be done after publication of the new HDI. The same criteria as described will be used to screen the list. Over the years the list of countries will change due to changes on national or international level. However the list is expected to grow. As the world economy grows, the economic situation in certain countries will gradually improve to the level where basic working rights are protected sufficiently. Countries like Rumania and Bulgaria will do better in the future due to EU-membership, Croatia might enter the EU in 2010. South American countries like Chile will gradually overcome institutional problems due to its economic growth. Other countries will follow. Each year the updated list will be communicated to the brands and other relevant stakeholders.

Factories producing for MADE-BY brands in the listed countries will not be audited, since factories are in general compliant to international labour law. This is in line with the earlier made statement that social auditing is only necessary to protect workers when governments, institutions and employers fail to organize the protection of workers. However violations of international labour law will be reported incidentally in developed countries. This will be done by the brand, unions, press or other stakeholders. If the situation in a factory is not matching the standard as described in the MADE-BY Benchmark for Social Standards, MADE-BY and the brand will operate together in order to find a solution for the reported violations. Together with the supplier and local institutions appropriate action will be planned. If a supplier is unwilling to co-operate the brand might be forced to end the relationship with the supplier.

As described in the MADE-BY Benchmark for Social Standards suppliers are rated according to their social performance. Depending on the code of conduct implemented, a supplier is rated higher or lower. Since suppliers in developed countries in general comply with international labour law, suppliers from the countries listed will be rated on the highest level. Important is that the claim of MADE-BY “made with respect for people and nature” is valid. In countries not in the list of developed countries this claim can be covered by social certification on the highest level. In more developed countries this claim is covered due to the fact that the more advanced development stage leads to general compliance to international labour standards.

After approval of the MADE-BY board the procedure will be implemented in retroaction starting 1st of January 2006.

Edwin Koster, 23th of March 2007

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