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Trade and Labour: Rethinking Policy Tools for Better Labour Outcomes

WHITE PAPER

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Foreword



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Supply chains are currently being reshaped as a result of digital and green transitions and geopolitical shifts. In such a context, it is fundamental to rethink the intricate relationship between trade and labour, and identify opportunities to leverage the ongoing transitions to improve labour standards and create a more inclusive economic system that contributes to global prosperity.

This report is part of the Trade and Labour programme jointly conducted by the Centre for Regions, Trade and Geopolitics at the World Economic Forum and the Thinking Ahead on Societal Change (TASC) Platform at the Geneva Graduate Institute, and is funded by Laudes Foundation. It delves into the different dimensions of the trade and labour nexus, exploring the progress made in recent years and the benefits trade can bring to labour outcomes, as well

as investigating the persistent and emerging challenges associated with a world of work in transition.

Through desk research and qualitative interviews with stakeholders from diverse backgrounds, this report offers invaluable insights into the evolving issues and opportunities at the intersection of trade, global supply chains and labour standards. It underscores the critical role of policy tools and mechanisms, such as multilateral instruments, regional trade agreements and corporate due diligence frameworks in shaping strengthened labour commitments and better labour outcomes. We hope that it will stimulate further attention and a constructive dialogue among stakeholders on measures and mechanisms to enhance labour standards, strengthen commitments to improve workers' rights and well-being, and build more sustainable, inclusive and resilient supply chains.

Executive summary

Labour issues deserve fresh discussion in light of geopolitical shifts, green and digital transitions and new approaches to supply chain policy.

Trade and globalization have contributed to job creation, expanded market opportunities, lifted incomes and improved working conditions across the globe. Yet they have also exacerbated longstanding labour challenges as the benefits of trade have not been distributed evenly across countries, sectors, firms or workers. Wage inequality, informal employment and forced labour persist, while millions lack access to essential social protections.

As the green and digital transitions, alongside geopolitical shifts, stand to further disrupt and reshape labour markets and supply chains, a key question is whether they will create more and better jobs, or leave more people behind. These transitions should not come at the expense of labour standards, but should present opportunities to ensure the benefits are fairly distributed and cultivate greater social justice.

This report addresses the state of play in trade-related policy instruments and frameworks addressing labour issues. Based on desk research and over 50 multistakeholder interviews, it compiles insights on the latest developments as well as persistent and emerging implementation challenges.

There has been an evolution of policy instruments over the last two decades aimed at strengthening labour outcomes and upholding labour and human rights in supply chains. This includes several multilateral instruments adopted at the International Labour Organization (ILO), the United Nations (UN), and the Organisation for Economic Co-operation and Development (OECD). These have informed the evolution of due diligence (DD) instruments, from voluntary towards mandatory approaches, with a growing number of legislations at the national level, as well as at the European Union (EU) level.

In parallel, a growing number of regional trade agreements (RTAs) contain labour provisions using a variety of approaches. This includes preambular language obligations, monitoring and cooperation, employment generation, and dispute settlement. Multistakeholder initiatives and private sector standards are playing an important role in guiding implementation and adherence to international standards and regulations. Streamlining compliance within this increasingly complex environment presents a significant challenge.

Despite the growing adoption of such instruments, key challenges remain. Based on interviewees' insights, this paper suggests the following actions:

- Strengthening synergies between trade and labour policy tools and supply chain initiatives to promote policy coherence, and encouraging international collaboration.
- Adopting a supply chain perspective to address the imbalance of bargaining power within supply chains through deeper dialogue and cooperation with stakeholders across supply chains.
- Strengthening implementation, compliance and enforcement through inclusive social dialogue and stepping up engagement with all social partners at the domestic level.

The findings underscore the need for enhanced dialogue and collaboration between the trade and labour communities, including the dissemination of information about policy tools, mechanisms and potential synergies to ensure just transitions. They highlight the role of policy interventions and commitment by all actors to harness the potential of trade in fostering better labour outcomes amidst evolving environmental, technological and geopolitical landscapes, bearing in mind specific contexts at the supply chain, domestic and regional levels.

Introduction

The trade and labour relationship warrants renewed attention in light of recent geopolitical, social and other shifts impacting supply chains.

While trade and globalization have created jobs and new pathways to market, lifted incomes and improved working conditions, they have also exacerbated significant labour challenges. The benefits of trade have not been distributed evenly, across countries, sectors, firms or workers. Inequalities have raised resistance to globalization with calls for protection from competition. Trade liberalization has been linked to higher wage inequality, especially in developing economies,¹ downward pressure on working conditions, and increases in informality.² 21% of individuals who are employed nonetheless experience poverty as a result of inadequate wages. Informal employment affects two billion individuals, or 61.2% of the global workforce, while 27.6 million people are trapped in forced labour. Globally, more than four billion people are devoid of any type of social protection.³

While geopolitical, technological and environmental shifts pose increasingly complex challenges for worker rights across supply chains (which represent around 70% of global trade), they also offer an opportunity to rethink how trade rules can support a more inclusive trading system and more equitable access to the benefits of trade for all. Addressing the trade and labour relationship as part of a broader agenda to achieve a more inclusive trading system could have a meaningful impact on both domestic inequality and global disparities.

In this context, labour standards have become an integral part of international trade discourse. Examples include key international conventions and frameworks, unilateral preferential schemes, labour provisions in regional trade agreements (RTAs), due diligence (DD) instruments and other initiatives which increased focus on unilateral policy

action at the supply chain and facility level, as well as private standards.

Despite the growing adoption of trade tools to improve labour outcomes in supply chains, stakeholders are raising several concerns. Unilateral measures by governments hosting the headquarters of large multinational enterprises (MNEs) are perceived as an imposition on developing countries, and the proliferation of private standards as pressuring small- and medium-sized enterprises (SMEs) through MNEs, in particular when the standards are *de facto* mandatory since this can potentially exclude SMEs from markets.

There is a need to reconsider how cooperation could help avoid a race towards unilateralism and support an inclusive trading system. Enhancing stakeholders' understanding of relevant agreements and initiatives, strengthening coordination for effective implementation, and fostering communication between trade and labour communities are crucial for maximizing their impact.

This paper gathers issues at the interface of trade and labour and suggests perspectives for renewed conversation and cooperation in the international arena for a just green and digital transition. It reflects findings from qualitative interviews with stakeholders from businesses, workers' organizations, governments, international organizations (IOs) and non-governmental organizations (NGOs), without intending to advocate for a particular approach nor to be exhaustive. This report's findings highlight the increasing interest in meaningful collaboration between stakeholders to strengthen synergies between trade and labour policy tools and supply chain initiatives.

“ While technological and environmental shifts pose complex challenges, they also offer an opportunity to rethink how trade rules can support a more inclusive trading system.

Labour challenges and transitions

Green and digital transitions must not come at the expense of labour standards, but ensure benefits are fairly distributed.

1.1 Addressing interconnected challenges

“ A just transition process, grounded in respect for workers’ rights and adherence to labour standards, is critical for the realization of decent work.

Will the green and digital revolutions create more jobs or leave people behind? While the transition to low-carbon and resource-efficient economies promises net job gains, significant economic and social transformations are inevitable in the short term. According to International Labour Organization (ILO) estimates,⁴ implementing the Paris Agreement on climate change can generate 25 million new jobs by 2030, yet 6 million jobs may be lost in resource-intensive industries. The picture is further complicated by the accelerating pace of technological change. A significant transformation is predicted across the global job market, with 23% of jobs expected to change within the next five years due to advancements in AI and other technologies.⁵ However, research highlights a potential disconnect, as the recent rise of generative AI hasn’t translated into improved living standards or productivity growth.⁶

These major shifts create an urgent need to reskill and upskill the workforce for the jobs of a greener and more digitalized world, since they will also cause significant disruptions to global supply chains, impacting millions of workers in trade-focused sectors. Automation is driving a shift towards production closer to consumers, potentially reshoring existing global value chains. The ILO⁷ has found that automation deployment in developed countries led to a lower reliance on offshoring, impacting employment in emerging economies. This aligns with links drawn by the Organisation for Economic Co-operation and Development (OECD)⁸ between industrial robots and slowed offshoring rates. In parallel, the quest for resilient supply chains may have unintended consequences, impacting the environment through reshoring of industry and increased extraction in contested areas, and straining the economy through pressure on public budgets.⁹ A just transition process, grounded

in respect for workers’ rights and adherence to labour standards, is critical for the realization of decent work and for ensuring a smooth transition for communities and regions most vulnerable to economic, employment and social disruptions.¹⁰

These transitions disproportionately burden disadvantaged groups already facing challenges in the labour market, such as women, older workers, people with disabilities, migrant workers and indigenous peoples, who often lack the resources or opportunities to adapt to changing realities. Digitalization and automation within these transitions may increase job insecurity, compounding the economic strain of potential increases in energy and food prices associated with the green shift. Difficulties in affording energy-efficient home improvements and green transport options further exacerbate these challenges. Furthermore, the digital divide between advanced and lagging firms widens regional disparities in economic development and social prosperity. For instance, the emergence of high-tech or AI-driven industries may not generate sufficient replacement employment opportunities in regions where traditional industries are declining.¹¹ Similarly, the creation of green jobs may not occur simultaneously or at the same rate as the loss of traditional jobs¹² and the benefits may not be evenly distributed across all regions and communities. The combined effects of the transitions will need to be considered to enable viable pathways towards inclusive growth.

For the green and digital transitions to succeed, inclusivity and equity are paramount. Crucially, these transitions must not come at the expense of labour standards, but rather present opportunities to ensure the benefits are fairly distributed, cultivating greater social justice.¹³

1.2 Building a just future with sustainable supply chains

Global supply chains now dominate world trade, encompassing developed, emerging and developing economies. They are also a significant source of employment. ILO data shows that in 40 countries, primarily emerging economies in Asia and the Americas, global supply chain jobs surged from 296 million in 1995 to 453 million in 2013.¹⁴ This growth is further underscored by more recent OECD data (2020), indicating that around 70% of international trade flows through these global supply chains, creating millions of new jobs.¹⁵

Global trade is increasingly conducted by MNEs, which oversee the exchange of inputs and outputs within complex cross-border supply chains. Recognizing the critical role of supply chains in today's world, sustainable development efforts have increasingly targeted them through unilateral DD and private standards, driving demand for companies to monitor and manage labour risks in their end-to-end supply chains. While a focus on supply chains offers avenues to address interconnected challenges through a trade lens, significant obstacles remain. Limited transparency within complex supply

chains makes it difficult to track labour practices and environmental impact throughout all tiers. Smaller suppliers in developing countries often lack the resources or expertise to implement sustainable practices. Inconsistent enforcement across countries, particularly in regions with weak governance, creates an uneven playing field for businesses and undermines efforts to protect workers' rights. The multi-tiered nature of global supply chains further complicates enforcement, making it difficult to track labour practices throughout the entire chain. Additionally, resource constraints in many countries (e.g. limited resources for inspections), as well as a lack of political will to promote the right to freedom of association (FoA) and collective bargaining hinder their ability to effectively implement and enforce labour standards.

Governments, international organizations, MNEs, SMEs, worker representatives and civil society have a significant role to play in the creation of a future where global supply chains and trade are an engine not only of economic growth, but also of decent work and a just transition for all.

“ The multi-tiered nature of global supply chains complicates enforcement of workers' rights, making it difficult to track labour practices throughout the entire chain.



2

Policy tools and mechanisms

Multilateral and multistakeholder consensus on ILO core labour standards is driving both development and debate of trade tools and mechanisms.

The past two decades have seen an increasing number of international instruments and frameworks, as well as national and supranational legislation aimed at strengthening labour outcomes aligned with ILO core labour standards (CLS) and fundamental principles and rights at work (FPRW). Also, an increasing number of RTAs contain labour provisions referring to such instruments and frameworks.

The sub-sections below outline historical developments as well as the current state of play of the policy landscape and offer insights from interviewees on the effectiveness of some policy tools.

2.1 International instruments and frameworks

BOX 1 International instruments and frameworks

- International Bill of Human Rights (IBHR), consisting of the Universal Declaration of Human Rights, 1948, the International Covenant on Economic, Social and Cultural Rights, 1966, and the International Covenant on Civil and Political Rights, 1966
- Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises (the OECD Guidelines), 1976, updated in 2000, 2011 and 2023
- ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, 1977
- ILO Declaration on Fundamental Principles and Rights at Work (FPRW), 1998, amended in 2022
- United Nations Global Compact, 1999, containing 10 principles including labour and human rights
- United Nations Guiding Principles on Business and Human Rights (UNGPs), 2011
- OECD Due Diligence Guidance for Responsible Business Conduct (RBC), 2018

These instruments are the result of years of complex negotiations between governments at the UN and OECD, between social partners (governments, employers and workers) at the ILO, and extensive multistakeholder consultation in the case of the UNGPs.

The ILO Declaration on FPRW¹⁶ (adopted in 1998 and amended in 2022) reflects a consensus on the definition and recognition of a set of CLS among government, business and labour representatives. These principles and rights include FoA and the effective right to collective bargaining; the elimination of all forms of forced and compulsory labour; the effective abolition of child labour; the elimination of discrimination in respect of employment and occupation; and the principle and right to a safe and healthy working environment. ILO supervisory mechanisms ensure FPRW compliance through

monitoring, identifying violations and advocating for redress.

The UNGPs,¹⁷ based on a three-pillar framework endorsed in 2011, built upon the ILO declaration on FPRW and the IBHR¹⁸ are the common framework for handling human rights risks and impacts linked to business activities. They identify clear responsibilities for all states to protect human rights and fundamental freedoms, for all business enterprises to comply with applicable laws and respect human rights, and for both to provide appropriate and effective remedies.



“ The OECD Guidelines and UNGPs are widely credited for paving the way for national supply chain DD legislations.

Also, in 2011, the OECD Guidelines, jointly addressed from governments to MNEs, were reviewed to include a chapter on human rights consistent with the UNGPs, as well as a more comprehensive approach to DD and supply chain management. In 2023, the OECD Guidelines were further updated to align with the OECD DD Guidance on RBC, and to include, among others, respect for the rights of all workers in the value chain; DD over impacts associated with the enterprises' products and services; training for up- and re-skilling of workers in anticipation of future changes, including those linked to the green transition and to technological changes linked to automation and digitalization. The OECD Guidelines and UNGPs are widely credited for paving the way for national supply chain DD legislations, and for playing a critical role in increasing interest in and implementation of responsible supply chain and labour practices. In addition, most of

the International Framework Agreements (IFAs) negotiated globally between trade unions and multinational corporations refer to ILO Conventions.

Despite steady progress, significant implementation challenges remain. On the one hand, many governments have not ratified the entire set of legally binding ILO core conventions or do not fully enforce them. On the other hand, the UNGPs, as well as the OECD instruments above, are mainly non-binding. The 10-year review of the UNGPs noted the persisting implementation challenges in preventing and protecting against adverse human rights impacts, as well as ensuring access to remedy.¹⁹ In some stakeholders' opinion, the role of the OECD National Contact Points (NCPs), responsible for the implementation of the guidelines, as well as for handling cases as a non-judicial grievance mechanism, should be further strengthened.

2.2 Legislation at the national and supranational level

Efforts towards more mandatory requirements to tackle human rights and labour rights violations across supply chains have been multiplying at the national and supranational level, taking the shape of legislations on modern slavery, forced labour import bans, due diligence and sustainability reporting. An indicative list of these instruments can be found in Annex 1.

Regarding specific instruments adopted at the national level, legislations on modern slavery were the first addressing human rights and labour rights violations in supply chains. Interviewed stakeholders highlighted that strengthening domestic legislations, and enforcing labour bans at the border (such as the ones adopted by the US, Canada, Mexico, the UK and the EU), are key to effectively tackling modern slavery in supply chains. Thus, they consider it essential to have well-designed legislation addressing issues in a comprehensive manner, taking into account the context and domestic structural issues, with clear enforcement guidelines and penalties for non-compliance.

For many NGOs and labour unions, the implementation of human rights DD legislations around the world, as well as of domestic labour laws, with effective enforcement mechanisms, is a fundamental policy priority. In this regard, many interviewees referred to the EU Corporate Sustainability Due Diligence Directive (CSDDD), which, together with the EU Corporate Sustainability

Reporting Directive (CSRD), is part of the EU Green Deal. The CSDDD (in its final stages of adoption by the full European Parliament) aims to enhance and expand sustainability, due diligence and accountability within large EU and non-EU-based companies conducting a set level of business in the EU, for human rights violations and environmental damage across their supply chains.²⁰ Overall, the CSDDD has been welcomed as a necessary regulatory framework to guide businesses and other stakeholders towards ensuring more sustainable and transparent supply chains. Nevertheless, stakeholders highlighted the practical implementation challenges that may result from its level of requirements, as well as the complexities deriving from the differences in scope and coverage in legislations (see Annex 1). For this reason, they called for harmonization through the development of common standards, with some suggesting the ongoing elaboration of a legally binding instrument on Transnational Corporations and Other Business Enterprises, mandated by the UN Human Rights Council, as a potential avenue for the negotiation of such standards.

The CSRD, which requires sustainability reporting, and other legislations on disclosure lead to sharing of otherwise siloed data on supply chains, and can contribute to standardization of reporting and data sharing requirements. Stakeholders working on data managements across supply chains advocate for open data principles to be introduced into such legislations.

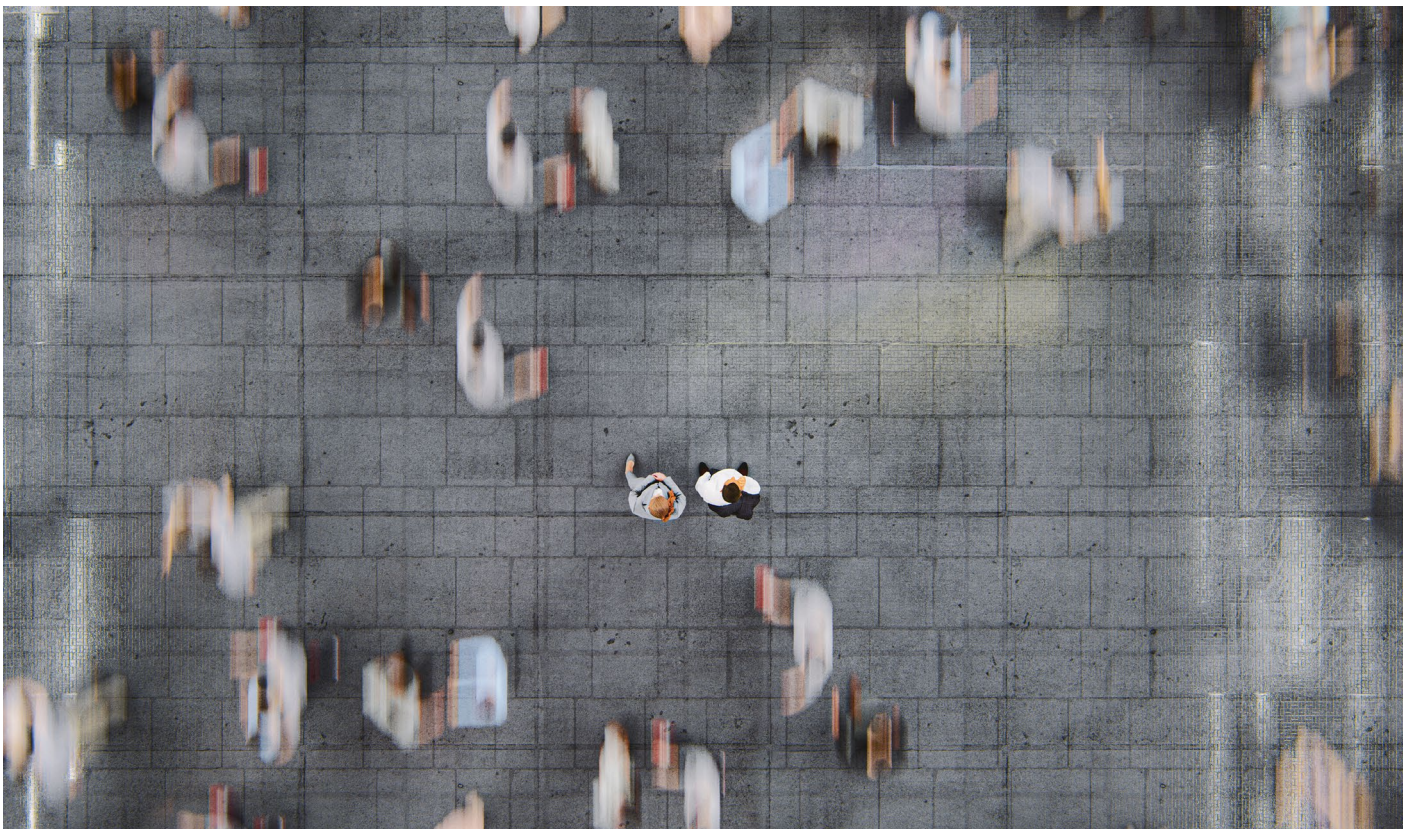
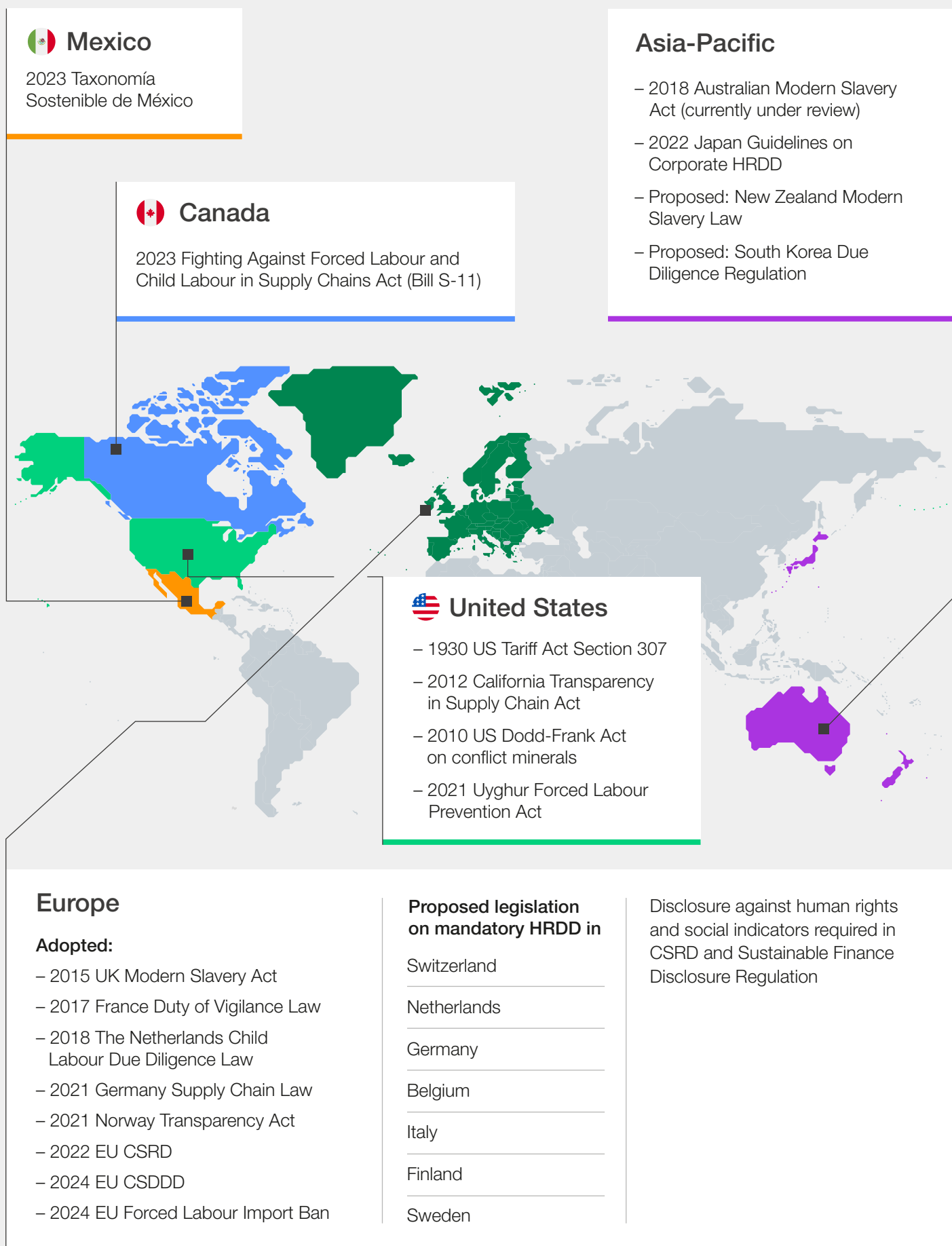


FIGURE 1 | Examples of legal instruments addressing labour rights in supply chains



Source: Adapted from Principles for Responsible Investment (PRI). For more information on DD tools and remedy laws, refer to BHR ([bhr-law.org](https://www.bhr-law.org)).

2.3 International trade agreements



115 out of 365

regional trade agreements included labor provisions as of December 2023, according to the ILO LP Hub.

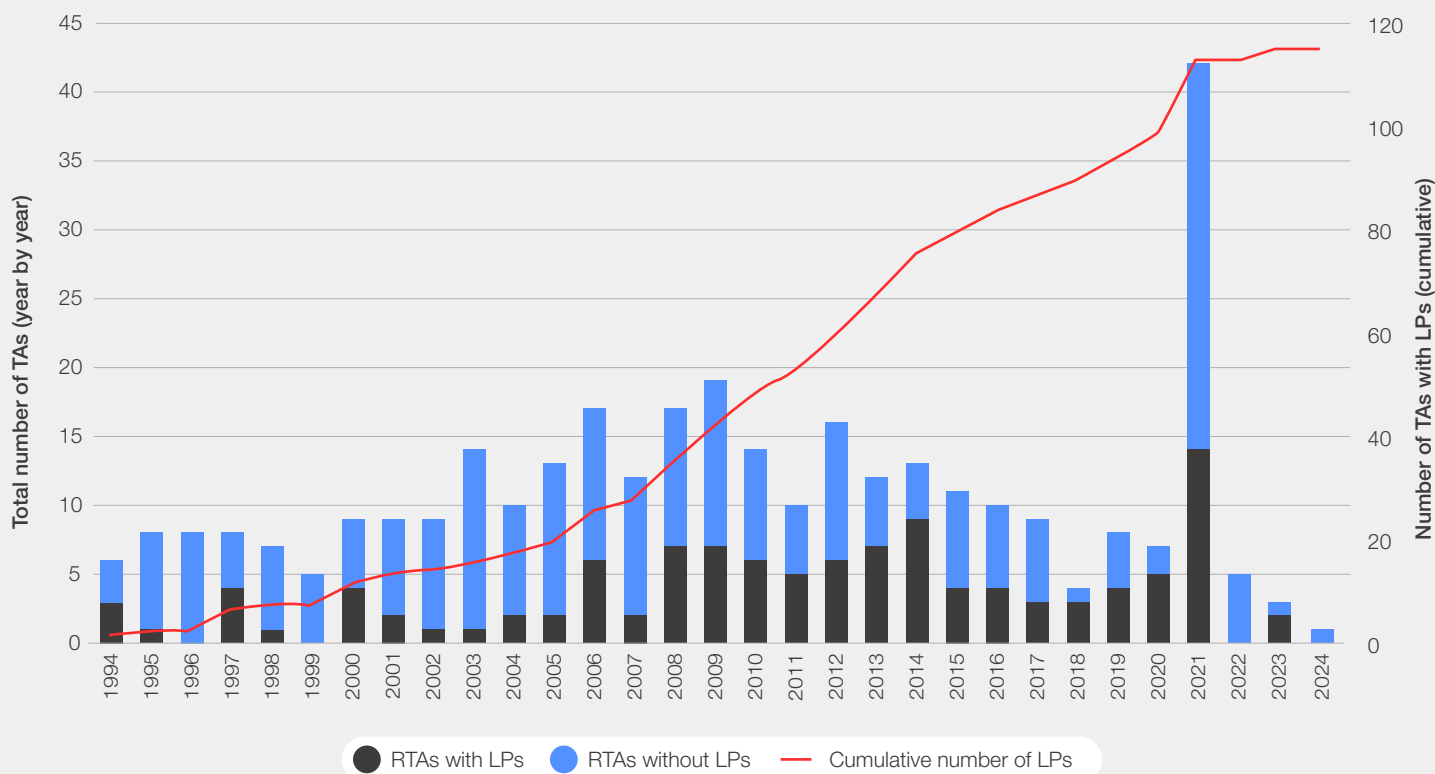
Efforts to formalize the link between international trade and labour at the multilateral level were first made through the 1948 Havana Charter, which, though never adopted, called for the establishment of an international trade organization in which members would take measures against unfair labour conditions in cooperation with the ILO. The discussion gained momentum again during the negotiations leading to the establishment of the World Trade Organization (WTO) in 1994, without consensus. Following an intense debate at the WTO's First Ministerial Conference in Singapore in 1996, WTO members agreed that the ILO should function as the competent body to set and deal with internationally recognized CLS. The issue of trade and labour standards was unsuccessfully raised again at the subsequent WTO Ministerial Conference (Seattle, 1999). More recently, labour-related issues were introduced into the plurilateral negotiations of the Agreement on Investment Facilitation for Development, finalized in 2023, through the insertion of Article 37 on RBC, and into the negotiations of the Agreement on Fisheries Subsidies, based on a proposal on forced labour submitted by the US delegation in 2021.²¹

Trade and labour standards are not discussed at the WTO and the issue remains controversial among WTO members. Nevertheless, this

relationship has been addressed through preferential trade schemes (providing beneficiaries with non-reciprocal market access for certain exports contingent upon compliance with labour and human rights), as well as through the insertion of labour clauses in regional trade agreements (RTAs).

The past two decades have seen an increasing number of RTAs containing labour provisions, dating back to the 1994 North American Free Trade Agreement (NAFTA) between the US, Canada and Mexico, through the North American Agreement on Labor Cooperation. According to the ILO Labour Provisions in Trade Agreements Hub (LP Hub), as of December 2023, 115 out of 364 RTAs in force included labour provisions.²² The scope of such provisions is progressively widening, as well as the range of trading partners including labour provisions in RTAs. While nearly half of such RTAs have been concluded by the EU, Canada and the US, Chile, the European Free Trade Association (EFTA), New Zealand, the Republic of Korea and the United Kingdom (in 2021 following the departure from the EU, as per the graph below) are very active in this area. Moreover, approximately 19% of RTAs including labour provisions are concluded between developing and emerging economies.²³

FIGURE 2 RTAs with and without labour provisions in force, cumulative and year by year, 1994-2024



Source: ILO Labour Provisions in Trade Agreements Hub.

In addition to promoting labour rights, experts note that labour provisions in RTAs reflect governments' views on the role of international trade as an engine for economic growth while avoiding its potential negative impacts on domestic labour markets. They also highlight the increasing trend to attain such goals through enhanced transparency, stakeholder engagement, cooperation, and capacity building.²⁴ In a recent development, the India-EFTA Trade and Economic Partnership Agreement (TEPA) included a provision aimed at facilitating the generation of 1 million jobs resulting from inflows of foreign direct investment from EFTA States into India.

In terms of enforcement of labour provisions, some experts make a distinction between the approach followed by the North American RTAs and the EU model. The former are based on binding dispute settlement, while the latter contains non-binding adjudicatory procedures (except the agreement with New Zealand providing for binding dispute resolution for some labour and environment provisions).²⁵ These approaches have evolved over the years and contain different standards to determine the level of compliance by trading partners.

BOX 2 USMCA Facility-Specific Rapid Response Labour Mechanism (RRM)

In 2019, a year after the renegotiation of NAFTA, which created the United States-Mexico-Canada Agreement (USMCA), the parties signed a Protocol of Amendment to the USMCA. One of its main elements is a Facility-Specific Rapid Response Labour Mechanism (RRM), which was the outcome of complex negotiations²⁶ that also included a reform to Mexico's labour legislation. This reform encompassed new labour justice procedural mechanisms, a new system for worker representation and collective bargaining, and a new centre for labour conciliation at the Federal level, for a registry of labour associations, collective agreements and regulations, and for verification and follow-up on labour democracy processes.²⁷ In case of an alleged denial of rights at a covered facility in a priority sector, as defined in the USMCA, a party can choose to invoke the RRM.

The negotiation and implementation of the USMCA, and the RRM, has elicited contrasting views on its impact and replicability as an example for future policy tools and mechanisms.

Some consider the USMCA's RRM as a positive development towards empowering Mexican

workers and ensuring the enforcement of labour rights, such as workers' representation and collective bargaining rights, as well as towards building capacity in Mexico, with US support, to implement the new labour justice system. However, several concerns are raised regarding the RRM asymmetry in the protection of workers' rights (it does not provide for equal utilization by all three USMCA parties), the lack of predictability for the importer (no objective parameters have been established for the final settlement of customs accounts related to imports of goods from the covered facility),²⁸ as well as its high implementation cost for the US (\$210 million for USMCA-implementation activities).²⁹

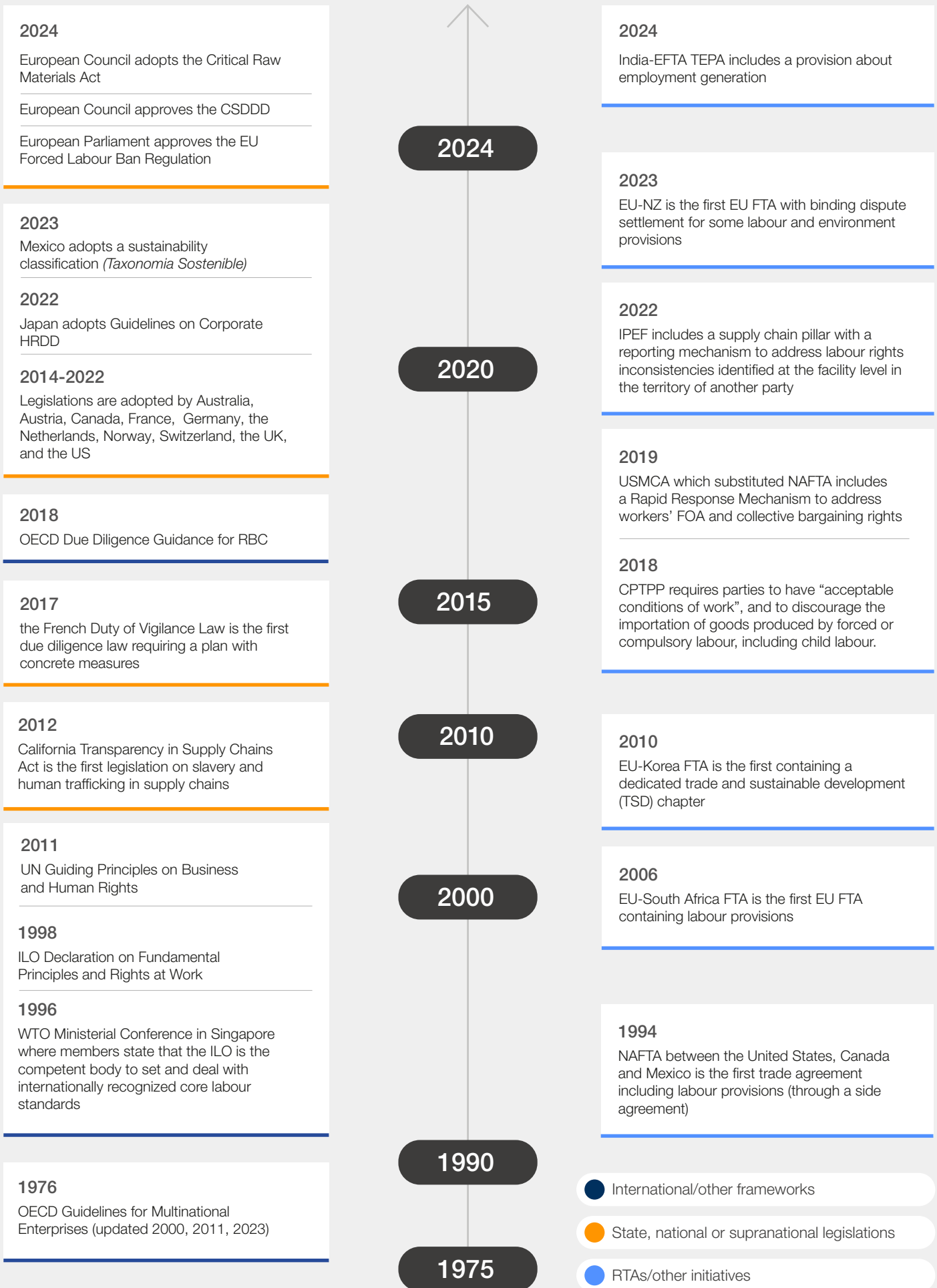
Drawing from this example, some believe that RTAs can have a role to play in enforcing living wage requirements through labour provisions and have highlighted the need to align trade policies and labour standards. That said, it was also noted that the RRM negotiation took place in very specific and complex circumstances and, for this reason, its replicability in other negotiations remains an open question.

In other developments, the Indo-Pacific Economic Framework for Prosperity (IPEF), based on four pillars, includes a supply chain pillar³⁰ with a reporting mechanism to address labour rights inconsistencies identified at the facility level in the territory of another party (IPEF parties are not required to adopt all pillars). Under the EU-US

negotiations of a Critical Minerals Agreement,³¹ aimed at fostering EU-US supply chains in critical raw materials (CRM) to produce electric vehicle batteries, parties are discussing the inclusion of specific mechanisms to address reported breaches of fundamental labour rights.



FIGURE 3 | Timeline of important milestones in the trade-labour nexus



2.4 Multistakeholder initiatives, agreements and standards

“ Multistakeholder collaboration and social partner consensus are proving crucial in advancing a stronger commitment to decent work.

Efforts to link trade and labour also include voluntary cross-border social dialogue initiatives and agreements such as IFAs, negotiated between trade unions and MNEs, establish high standards for workers' rights, health and safety, environmental practices, and quality of work principles throughout a company's global operations, irrespective of whether such standards are present in a specific country. Though there are variations across sectors and companies, IFAs share certain commonalities: they refer to ILO CLS and the ILO Declaration on FPRW. These frameworks also serve as vital tools for trade unions to participate in social dialogue concerning RBC, including DD processes.

Overall corporate action on sustainable supply chains,³² encompassing issues from climate action to labour standards, has accelerated in recent years, driven by a confluence of factors, including growing consumer demand for sustainable products and investor pressure for environmental, social and governance (ESG) compliance. The International Trade Centre (ITC) has identified over 291 sustainability standards that cover labour and human rights.³³ These include voluntary sustainability standards (VSS), codes of conduct, audit protocols, reporting frameworks and company programmes on sustainability. These tools can help companies and their partners implement and adhere to internationally recognized standards and

regulations; however, they can also restrict market access, and are increasingly referenced through unilateral legislations. Expert³⁴ have expressed concerns that standard-takers are largely those with little bargaining power, and they have called for these standards to be brought under the WTO transparency and non-discrimination disciplines.

As supply chain DD transitions from voluntary to mandatory provisions to protect worker rights across the value chain, companies are required to delve deeper into their operations. This involves systematic identification, mitigation, and reporting of environmental, human, and labour rights issues. Many companies remain unprepared for the level of scrutiny, transparency and responsibility required by these regulations. Streamlining compliance within an increasingly complex global regulatory environment also presents a significant challenge.

Concurrently, multistakeholder collaboration and social partner consensus are proving crucial in advancing a stronger commitment to decent work, particularly in the face of ongoing work transformations and transitions. The multistakeholder expert consultation that informed the ILO's governing body's endorsement of a living wage definition is an example of this.³⁵ Such efforts require concerted action from companies, governments, civil society, trade unions, investors and consumers.³⁶



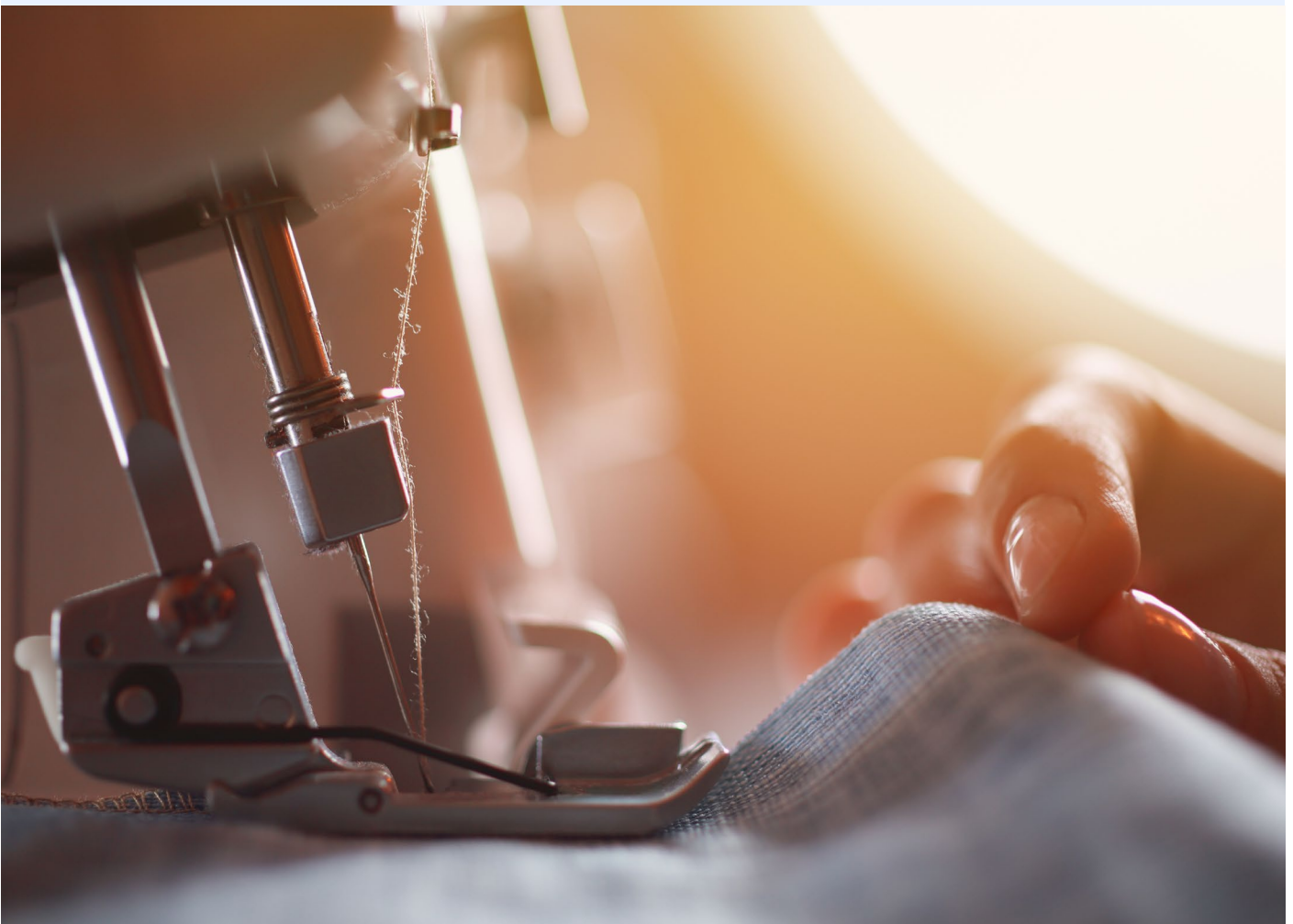
Addressing the safety of Bangladesh's garment sector

Some interviewees referred to the garment industry in Bangladesh, which has experienced remarkable growth and constitutes over 80% of the country's exports³⁷ with the EU and the US being their primary destinations.³⁸ Since the Rana Plaza collapse in 2013, concerted policy and multistakeholder efforts have significantly reshaped the trade and supply chain policy space. Governments, NGOs, corporations and IOs have collaborated to address labour rights, safety standards and sustainability.

Prominent global retail brands joined two voluntary international initiatives aimed at enhancing factory standards. The Accord on Fire and Building Safety, a legally binding agreement between brands and trade unions, focused on independent inspections, remediation and training programmes in Bangladesh and the Alliance for Bangladesh Workers' Safety, a voluntary coalition of North American retailers, emphasized factory inspections, worker empowerment initiatives and safety training, and played significant roles in enhancing and standardizing fire, structural and electrical safety measures in the country's factories. The emphasis by the Accord and the Alliance on multistakeholder collaboration, binding commitments, transparency and capacity building are critical components also adopted by other countries such as Pakistan to enhance industrial safety and labour rights.

The Alliance, terminated in 2018, reported a 93% remediation rate across 700 inspected factories, while the Accord, in force until 2020, contributed to standardizing safety measures in over 2,000 ready-made garment (RMG) factories. Subsequently, the RMG Sustainability Council (RSC) emerged in 2020, comprising RMG manufacturers, global brands, retailers and unions, licensed by the Bangladeshi government, ensuring national ownership and accountability for continued progress.³⁹ Bangladesh revised its labour legislation⁴⁰ in 2013 and 2018 to protect worker rights. Additionally, development of tracking and reporting tools such as [Mapped in Bangladesh](#) that enhance transparency and accountability along the garment industry supply chain in Bangladesh have been instrumental in filling the information gaps along garment supply chains within the country.

Over 80% of Bangladesh's 3,200 RMG factories now meet international safety and security standards. Presently, Bangladesh is home to half of the world's top 100⁴¹ Leadership in Energy and Environmental Designs (LEED)-certified green industrial units. Despite progress, enforcement and transparency challenges persist. Moving forward, sustained commitment from all stakeholders will be crucial to ensure that the trade and supply chain policy continues to prioritize human rights, worker safety and environmental sustainability.



3

Policy options for better labour outcomes

Policy coherence, international cooperation, a supply chain lens and strong enforcement are key to ensuring better labour outcomes.

This section presents a set of policy options and insights, informed by multistakeholder interviews, to advance a positive trade and labour agenda that seeks to strengthen tools and mechanisms to ensure better labour outcomes across evolving supply chains in the green and digital transitions. It is structured into three categories:

- 1 Promoting policy coherence and international cooperation
- 2 Adopting a supply chain perspective
- 3 Strengthening implementation, compliance and enforcement

3.1 Promoting policy coherence, international cooperation and multilateral engagement

Interviewees highlighted the need to enhance policy coherence among countries and regions to ensure alignment on the implementation and enforcement of internationally agreed labour and human rights. This included strengthening international cooperation and harmonization of DD frameworks to address persistent and emerging challenges, as well as enforcement of labour laws at the domestic level. Key suggestions raised by interviewees include:

- Balancing voluntary approaches with stricter rules and/or legislative and regulatory efforts, emphasizing dialogue and cooperation while ensuring compliance through effective sanctions, and further developing a “smart mix” approach by combining hard law and soft law instruments.
- Fostering cooperation, keeping in mind different levels of development among countries and regions, as well as company size, providing for some flexibility in implementation, and avoiding unilateral measures.
- Fostering harmonization of DD frameworks, through the development of common standards, to avoid policy fragmentation and to ensure consistency and coherence in RBC standards across countries, institutions and firms.

- Developing harmonized and coherent guidance for companies operating in conflict-affected areas to ensure consistency and effectiveness in addressing labour and human rights risks and enable ongoing engagement where possible.
- Considering the ongoing elaboration of a legally binding instrument on transnational corporations and other business enterprises with respect to human rights, as a potential avenue for the negotiation of mandatory DD standards at the international level.
- Fostering collaboration between international organizations (ILO, WTO, ITC, UNCTAD, UNICEF), regional organizations and policy communities. This could include taking stock of policy developments on trade and labour, and identifying potential avenues to address areas for further dialogue and capacity building aimed at tackling current and emerging challenges. Some suggestions included building on ILO’s research on the just transition and integrating trade and decent work (INTEGRATE), as well as informal conversations at the WTO with a focus on cooperation on MSMEs; women’s economic empowerment; digitalization and analysis of developing countries’ ability to use the WTO Subsidies Agreement to improve labour conditions.

3.2 Adopting a supply chain perspective

Interviewees called for the adoption of a supply chain perspective to better understand and address the impact of evolving dynamics on labour outcomes. This includes addressing the imbalance of bargaining power within supply chains, particularly with multinational buyers, to ensure fair treatment of workers, including tackling sector-specific and gender-specific labour challenges, and to enhance worker rights through deeper dialogue and cooperation with stakeholders across supply chains. Specific opportunities identified include:

- Fostering stakeholder engagement and shared commitments by encouraging companies to move beyond standalone social audits and engage in meaningful partnerships with suppliers to address human rights and labour rights challenges.
- Addressing implementation challenges faced by suppliers in developing countries, considering weaker relationships and higher risks with second or third-tier suppliers. Fostering longer-term business relationships, as well as addressing capacity building constraints and incorporating remediation where possible, is seen as crucial in promoting stability and accountability along the supply chain.
- Integrating human and labour rights standards into procurement processes and evaluating supplier performance based on adherence to these standards. Suggested avenues include the incorporation of criteria related to the abolition of forced labour, the right to collective bargaining and effective remedy into supplier evaluation and purchasing decisions.
- Investing in responsible purchasing strategies, clearly outlining commitments, including responsible sourcing along with procurement criteria, implementation plans and consistent monitoring of labour conditions. Monitoring should assess how purchasing practices, such as frequent order changes or tight lead times, can impact labour rights. Identified issues require corrective action to ensure improvements. Mitigation strategies and responsible exit plans are essential to prevent negative impacts during supplier transitions. Collaboration between lead brands and suppliers can significantly remove roadblocks

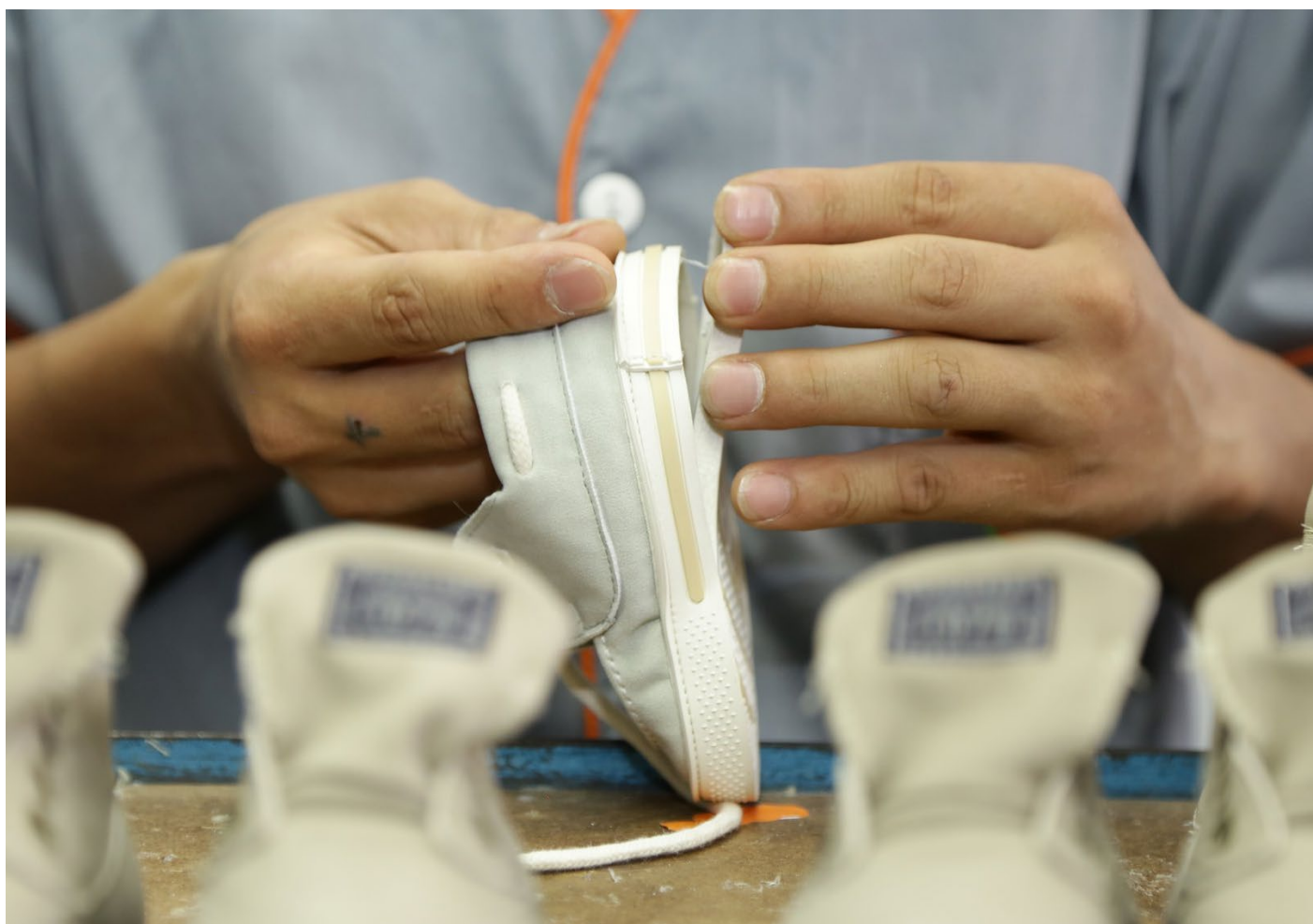
to achieving decent work by fostering a joint, progressive approach.

- Providing incentives in areas such as taxation and government procurement to companies going beyond legal requirements in promoting human rights and responsible business, to motivate front-runners and help to level the playing field for companies operating across regions with varying regulatory standards.
- Increasing transparency and traceability through emerging technologies and methodologies. Some areas include:
 - Promoting transparent, publicly available data and methodologies e.g. for living wage calculation. Emphasis should be placed on the simplification of data collection tools and the facilitation of data sharing among companies, sector-level organizations and trade unions to address key labour challenges, as well as to foster collaboration and informed decision-making.
 - Considering blockchain technology as a potential tool to bolster transparency within complex supply chains, particularly in addressing challenges linked to second or third-tier supplier outsourcing, while addressing the challenges derived from its costs, data privacy, security and quality, and gaining stakeholder buy-in.
 - Using mobile technologies to enable direct communication between workers, employers and relevant stakeholders. Mobile applications can enable swift responses to labour issues, facilitate the monitoring of supply chain activities, allow organizations to track and verify compliance with labour standards, and empower workers by providing a platform for anonymous feedback.
 - Promoting multistakeholder initiatives such as the ILO's Better Work Initiative to align national labour laws with international standards, providing data-driven insights to employer and worker organizations, and fostering capacity building among labour unions.

3.3 Strengthening implementation, compliance and enforcement

Interviewees highlighted the value of promoting inclusive social dialogue and stepping up engagement with all social partners at the domestic level. Cooperative processes are essential to strengthen the effective implementation of internationally recognized CLS and to strengthen compliance. Key suggestions include:

- Ensuring the inclusion of workers and trade unions, particularly in countries limiting FoA and collective bargaining. Ensuring tangible improvements and reforms at the domestic level by allocating resources to strengthen domestic labour market institutions, as well as legal and regulatory frameworks towards meaningful reforms in areas such as wages, working conditions and labour rights.
- Enhancing dialogue mechanisms between workers, governments and employers around trade agreements and gathering insights on the challenges facing the implementation of labour provisions to evaluate their effectiveness.
- Supporting workers in sectors highly exposed to the green and digital transitions through targeted upskilling and reskilling pathways to prepare them for the evolving demands of their industries, as well as for work in emerging new sectors.
- Reassessing existing incentive and disincentive policy mechanisms aimed primarily at domestic private sector actors as tools to promote shared responsibility and enforce compliance with labour provisions in trade agreements.
- Prioritizing policy action to tackle informality issues, address systemic failures and improve labour standards for the significant portion of the workforce operating in the informal sector, where labour standards are often not enforced which, in turn, perpetuates informality.
- Investing in labour inspection and monitoring at the domestic level through the allocation of sufficient resources by governments and social partners to effectively enforce labour laws. This includes providing adequate funding, training and equipment for labour inspectors to carry out inspections and investigate complaints.



Conclusion

The findings in this paper underscore the need for enhanced dialogue and collaboration between the trade and labour communities at the international, regional and domestic levels. Sharing information regarding tools, mechanisms and potential synergies is crucial to a more effective and productive collaboration. Our findings also highlight the role that policy interventions and inclusive dialogue can play in harnessing the potential of trade to foster better labour outcomes

and just transitions, bearing in mind the context specificities at the supply chain, domestic and regional levels. Promoting coordinated efforts and innovation empowers stakeholders to navigate green, digital and geopolitical transitions more effectively. This collaborative approach will contribute to progression towards strengthened labour commitments, adherence to international labour standards, and ultimately, the safeguarding of worker's rights and dignity worldwide.

Annex: Sample policy tools and mechanisms

TABLE 1 International instruments

Instrument and year	Description (relevance to labour issues)
International Bill of Human Rights (IBHR, 1948)	<ul style="list-style-type: none"> – Composed of the Universal Declaration of Human Rights (UDHR, 1948), the International Covenant on Economic, Social and Cultural Rights (ICESCR, 1966), and the International Covenant on Civil and Political Rights and its two Optional Protocols (ICCPR, 1966). – Sets out rights including freedom from slavery, right to form trade unions, right to strike.
OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (RBC, 1976, most recent update in 2023)	<ul style="list-style-type: none"> – Non-binding recommendations addressed to MNEs by governments on RBC. – Include areas such as human rights, employment, disclosure. – The 2023 edition provides updated recommendations for supply chain DD.
OECD Due Diligence Guidance (2018)	<ul style="list-style-type: none"> – Provides practical support to enterprises to implement the OECD Guidelines for MNEs through explanations of their DD recommendations.
OECD sector-specific DD guidance (2011 onwards)	<ul style="list-style-type: none"> – Non-binding DD guidance on supply chains in agriculture, artisanal and small-scale gold mining, conflict minerals, child labour in minerals, extractives, financial sector, garment and footwear.
ILO Tripartite Declaration of Principles concerning MNE and Social Policy (1977, most recent update 2017)	<ul style="list-style-type: none"> – Non-binding principles and standards building on ILS addressed to MNEs, governments of home and host countries, and employers' and workers' organizations.
ILO Declaration on Fundamental Principles and Rights at Work (FPRW) (1998, amended 2022)	<ul style="list-style-type: none"> – Commitment by governments, employers' and workers' organizations to respect and promote principles and rights including FoA and effective right to collective bargaining; elimination of all forms of forced and compulsory labour; effective abolition of child labour; elimination of discrimination in respect of employment and occupation; and a safe and healthy working environment.
UN Guiding Principles on Business and Human Rights (UNGPs) (2011)	<ul style="list-style-type: none"> – Built on the ILO Declaration on FPRW and the IBHR the UNGPs provide for a global common framework containing guidelines for States and companies to prevent, address and remedy negative impact of business activity on human rights.

TABLE 2 | National and supranational legislations

Instrument and year	Description (relevance to labour in supply chain related aspects)	Scope (companies/sectors)
EU Corporate Sustainability Due Diligence Directive (CSDDD) (2024)	<ul style="list-style-type: none"> - Requires mandatory corporate DD by identifying, preventing and mitigating negative human rights and environmental impacts in the company's own operations and their value chains. - EU Member States will have two years to transpose the CSDD into national legislation. 	<ul style="list-style-type: none"> - EU companies and parent companies having more than 1,000 employees and a net worldwide turnover higher than €450 million. - Companies with franchising or licensing agreements in the EU with worldwide turnover higher than €80 million if at least €22.5 million was generated by royalties. - Non-EU companies, parent companies and companies with franchising or licensing agreements in the EU with a €450 million net turnover generated within the EU.
EU forced labour import ban (2024)	<ul style="list-style-type: none"> - Prohibits the sale, import and export of goods made using forced labour. 	<ul style="list-style-type: none"> - All products made available within the EU market. - If the investigation confirms the use of forced labour, imports and exports of such goods will be halted at the EU borders and companies will have to withdraw goods from the EU market.
EU Critical Raw Materials Act (2024)	<ul style="list-style-type: none"> - Covers "critical" and "strategic" raw materials based on their economic importance and supply risk. 	<ul style="list-style-type: none"> - Strategic projects and third country partnerships will require the implementation of labour rights and labour laws as part of various selection criteria.
Canada Fighting Against Forced Labour and Child Labour in Supply Chains Act (2023)	<ul style="list-style-type: none"> - Requires companies and government organizations to provide annual reports on how they address forced labour and child labour risks in their own operations and their supply chains. 	<ul style="list-style-type: none"> - All Canadian government institutions and any Canadian-linked entity that is listed on the Canadian stock exchange or non-listed entities with at least 250 employees and CAD 40 million (Canadian dollars) in revenue.
EU Corporate Sustainability Reporting Directive (CSRD) (2022)	<ul style="list-style-type: none"> - Requires companies to disclose information on risks arising from social and environmental issues, and on the impact of their activities. 	<ul style="list-style-type: none"> - All large companies and all listed companies (except microenterprises) - Some non-EU companies with securities listed on an EU regulated market. - From 2028, non-EU companies with a direct net turnover of over €150 million in the EU and a subsidiary office with a net turnover of at least €40 million in the EU, or a large or listed EU subsidiary.
Japan Guidelines on Respecting Human Rights in Responsible Supply Chains (released 2022)	<ul style="list-style-type: none"> - Contain voluntary guidelines setting out how businesses should address the human rights risks arising in their operations and supply chains. 	<ul style="list-style-type: none"> - Any business conducting activities in Japan.
US Business Supply Chain Transparency on Trafficking and Slavery Act (introduced 2022)	<ul style="list-style-type: none"> - Would require businesses to audit their supply chains to ensure they do not utilize forced labour. - Would require chief executive officers' disclosure of any instances of forced labour within their supply chains, or certification if this is not the case. 	<ul style="list-style-type: none"> - Companies with an annual, worldwide revenue above \$500 million and involved in the mining, production, or manufacture of goods for sale.

TABLE 2 | National and supranational legislations (continued)

Instrument and year	Description (relevance to labour in supply chain related aspects)	Scope (companies/sectors)
Germany Act on Corporate Due Diligence Obligations in Supply Chains (2021)	<ul style="list-style-type: none"> Requires large enterprises to implement defined DD obligations on human rights and environment in their own business area, the actions of their contracting partners and the actions of other (indirect) suppliers. 	<ul style="list-style-type: none"> Since 2024 companies with at least 1,000 employees in Germany.
Norway Transparency Act (2021)	<ul style="list-style-type: none"> Requires companies to conduct human rights DD and issue human rights statements yearly. 	<ul style="list-style-type: none"> Companies registered in Norway with at least 50 employees or an annual turnover of €5.9 million.
US Uyghur Forced Labor Prevention Act (2021)	<ul style="list-style-type: none"> Contains a rebuttable presumption that goods manufactured entirely or partially in Xinjiang (or by related named entities) are a result of forced labour and their importation into the US is prohibited. 	<ul style="list-style-type: none"> Any company importing goods to the US that have been entirely or partially produced in or sourced from Xinjiang.
Australia Modern Slavery Act (2018)	<ul style="list-style-type: none"> Requires businesses to report and address the risk of modern slavery in their operations and supply chain as well as its owned and controlled entities. 	<ul style="list-style-type: none"> Australian entities or entities conducting business in Australia with a minimum annual consolidated revenue of AUD 100 million (Australian dollars).
France Duty of Vigilance Law (2017)	<ul style="list-style-type: none"> Requires companies to manage their human rights and environmental risks within the company and its subsidiaries, subcontractors and suppliers and to establish, implement and publish an effective vigilance plan. 	<ul style="list-style-type: none"> Companies with head offices in France or abroad must comply if they have 5,000 employees in France or 10,000 employees globally across their subsidiaries for two consecutive financial years.
UK Modern Slavery Act (2015)	<ul style="list-style-type: none"> Requires companies to undertake DD to eliminate modern-day slavery in their business operations and supply chains through risk assessment, corrective action, regular audits and an annual modern slavery statement. 	<ul style="list-style-type: none"> UK companies and subsidiaries, and non-UK-based companies doing business in the UK and having an annual turnover of £36 million.
State of California Transparency in Supply Chains Act (2012)	<ul style="list-style-type: none"> Requires retailers and manufacturers to disclose information about their efforts to eradicate human trafficking and slavery within their supply chains. 	<ul style="list-style-type: none"> Retail sellers or manufacturers conducting business in California with annual worldwide gross revenue of \$100,000 or more.
US Dodd-Frank Wall Act (Section 1502) (2010)	<ul style="list-style-type: none"> Requires companies to disclose whether certain conflict minerals originated in the Democratic Republic of Congo or neighbouring countries. 	<ul style="list-style-type: none"> US-listed companies using tin, tungsten, tantalum or gold.
US Tariff Act S 1307 (1930) (several amendments)	<ul style="list-style-type: none"> Section 307 prohibits the import of any product that was mined, produced, or manufactured wholly or partially by forced labour or indentured child labour. 	<ul style="list-style-type: none"> Any class of merchandise that is being, or is likely to be, imported into the US believed to be produced by forced labour.

TABLE 3 | Free trade agreements and other initiatives

Agreement and year	Labour provisions
India-EFTA Trade and Economic Partnership Agreement (2024)	<ul style="list-style-type: none"> – Contains a provision aimed at facilitating the generation of 1 million jobs resulting from inflows of foreign direct investment from EFTA States into India.
US-Japan Critical Minerals Agreement (2023)	<ul style="list-style-type: none"> – Provides for remedies in case of violations of labour rights at entities connected to critical minerals supply chains.
Indo-Pacific Economic Framework for Prosperity (IPEF) (2022)	<ul style="list-style-type: none"> – Trade pillar contains provisions to adopt, maintain and enforce national laws based on internationally-recognized labour rights, the ILO Declaration on FPRW; encourage corporate accountability in cases of national labour law violations; public engagement; cooperate on emerging labour issues to support labour rights and workforce development, including with respect to workers in the digital economy.
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (2018)	<ul style="list-style-type: none"> – Promotes compliance with internationally-recognized labour rights, enhanced cooperation and consultation on labour issues, and effective enforcement of labour laws in CPTPP parties. – Requires CPTPP parties to have laws on minimum wages, working hours, and occupational health and safety, as well as to discourage the importation of goods produced by forced or compulsory labour, including child labour. – Cooperation on job creation, skill development, promotion of equality and the elimination of discrimination against women, and protection of vulnerable workers.
United States-Mexico-Canada Agreement (USMCA) (2018)	<ul style="list-style-type: none"> – Requires parties to adopt and maintain labour rights recognized by the ILO, enforce domestic labour law, prohibit imports made with forced labour, address violence against workers exercising their rights and sex-based workplace discrimination and protect migrant workers. – Rules of origin: 40-45% of the value of the automobile must be made by workers paid a minimum of \$16 per hour for tariff cuts to apply. – Provides for a dispute settlement mechanism as well as for a Labour Rapid Response Mechanism.
EU-South Korea Free Trade Agreement (2010)	<ul style="list-style-type: none"> – The TSD chapter contains a commitment to ratify and effectively implement conventions that go beyond the ILO CLS, a shared commitment to the ILO CLS and to the decent work agenda. – Provides for government consultations and for a panel of experts.

Note: This table includes a sample of initiatives and therefore is not exhaustive. For a more comprehensive overview of RTAs, please refer to the ILO's Labour Provisions in Trade Agreements Hub: <https://www.ilo.org/LPhub/>.

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