

# Modern Slavery, Exploitation and the Issues with Low Cost Sourcing

**“No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms”\***



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## What is Modern Slavery?

Slavery is one of the most serious human rights issues of our time. Modern slavery is a complex crime which can take many forms. It can range from intentional trafficking of people for commercial gain to child labour and even forcing people to work in hazardous circumstances for no pay. According to the 2016 Global Slavery Index (GSI), it has been estimated that 45.8 million people are in some form of modern slavery in 167 countries. Despite the efforts of governments and NGOs, around the world the problem continues to grow.

## Modern Slavery in Emerging Markets

The issue of modern slavery is particularly prevalent in emerging markets. GSI findings show that the countries with the highest absolute numbers of people in modern slavery are India, China, Pakistan and Bangladesh. Furthermore, as illustrated in Exhibit 1, the countries with the highest proportion of their population in modern slavery are North Korea, Uzbekistan, Cambodia, India and Qatar. The statistics for child labour are even more alarming. The Child Labour Index, produced by global risks advisory firm Maplecroft, rated 68 countries as ‘extreme risk’, with Bangladesh, China, India, Nigeria and Pakistan among the worst. According to the International Labour Organization (ILO), there are 215 million children working throughout the world. Of these, 115 million are victims of child labour and almost half of them work in hazardous conditions. The majority of child labour cases are in emerging markets.

Several recent events have brought modern slavery and exploitative labour practices to the fore. In Bangladesh, the collapse of the eight-storey Rana Plaza factory complex in Dhaka resulted in 1,100 fatalities. In Thailand, the seafood industry came under fire after investigations showed widespread slavery, trafficking and violence both on the fishing boats and in onshore food processing factories. Three quarters of migrants working on Thai fishing vessels had been held in debt bondage working to pay off an obligation. In China, a worker at GCL Footwear in Shenzhen committed suicide after being fired due to a long-running dispute between workers and management. The corporate and investor communities need to acknowledge that these practices are occurring.

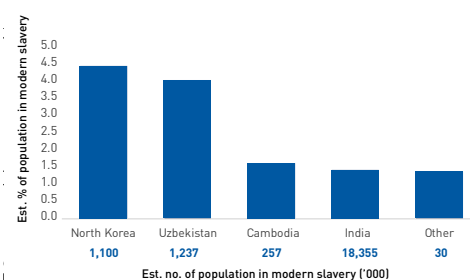
## Low-Cost Sourcing

Modern slavery and exploitative labour practices are a cause for concern in global supply chains. It has been estimated that 60% of forced labour occurs in supply chains. These instances are prevalent in industries such as agriculture, construction, hospitality and consumer goods. Whilst almost all corporations have no wish to be involved with the use of slave labour, many turn a blind eye to mod-

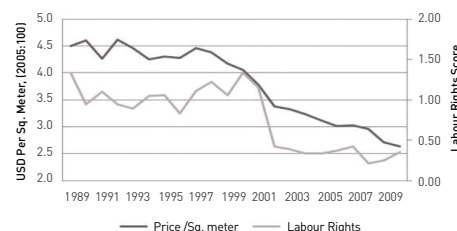
ern slavery and exploitative labour practices, perhaps hoping to avoid the potentially costly consequences of having to launch internal investigations.

Studies have found that the lower the cost of sourcing, the lower the associated labour rights. As illustrated in Exhibit 2, between 1989 and 2010, the real price of a square metre of apparel entering the USA declined by 48%. During this period, the labour rights score also declined. These issues cannot be ignored and need to be addressed.

**Exhibit 1: Estimated proportion of population in modern slavery by country**



**Exhibit 2: Decline of labour rights score**



Source: Amer, Blair & Blasi, (2013) Toward Joint Liability in Global Supply Chains: Addressing the Root Causes of Child Labour Violations in International Subcontracting Networks, Comparative Labor Law and Policy, 35(1), pp. 1-43

## Avoiding investing in modern slavery and exploitative labour practices

Modern slavery and human rights issues are very hard to detect in emerging markets for the following reasons:

- Weak law enforcement and corruption** – in some countries, there is a lack of enforcement of regulations and laws relating to slavery and exploitative labour, with high levels of corruption a significant factor.
- Cultural differences** – Suppliers in some countries such as Myanmar and Cambodia (where it is legal for children aged between 14 and 16 to work four hours a day) may feel that they are supporting the local community by employing children.
- Workers' perceptions** – Workers may not necessarily identify themselves as victims. If they are working illegally, they may not speak up due to the fear of employer retaliation and punishment. There is also very little guidance for workers on how they can speak out as there is no obvious platform for them to raise their concerns.

As investors, it is vitally important that we are cognisant of modern slavery and exploitative labour practices, particularly in the supply chain. The RBC Global Asset Management Emerging Markets Equities team has a rigorous process to ensure that we do everything we are able to avoid businesses that support modern slavery and exploitative labour practices. We engage constantly with management teams and suppliers. Investor research trips will always include, where possible, site and factory visits. These are a crucial component of our due diligence.

We look for evidence of a company cutting corners; cheap contractors, child labour, or poorer quality materials, which can be a strong indication of both slavery and and/or an exploited workforce. Many companies use third party agents to manage various parts of the process so when we conduct our bottom-up due diligence, it is vital to ensure that we understand a company's due diligence process regarding agents and indirect suppliers.

We look for and focus on companies that have a formal Responsible Sourcing Policy. Stronger emerging markets companies often have an oversight committee to ensure that the value chain is sustainable, efficient, effective and compliant. Many of these companies also partner with not-for-profit organisations such as the Supplier Ethical Data Exchange and the Ethical Trading Initiative. These partnerships enable them to collectively tackle issues that cannot be addressed by individual companies working alone.

We also look for companies that have strong supplier engagement and human resources practices. We want to know how the company's various stakeholders are treated, how employees are engaged, and whether they are paid enough. Finally, we look for the company's auditors as an additional source of information; unusual changes in the company's auditing structure are a red flag.

## Conclusion

As investors, we can, and must, do our part to reduce modern slavery and exploitative labour practices by ensuring the firms we invest in adhere to the basic ethical standards we ourselves accept. As we have discussed, this is not always a straightforward process in emerging markets. It is our experience, however, that with careful investigation and engagement we can avoid companies that engage in or support modern slavery and exploitative labour practices.

\*Article 4 of the Universal Declaration of Human Rights



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