

Verité, CalPERS and Productive Labour Practices in Asia

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Presentation to

Singapore Values – Value for Singapore

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Outline

- Verité and CalPERS
- Research Methodology
- Findings: what we learned
- Reactions: what this means
- Next steps



Introduction to Verité

- Only non-profit global research organization to specialize in monitoring consumer products manufacturing: including footwear, apparel, accessories, toys and food products
- Over 700 completed audits
- Audits in 50 countries thus far (inc'l US and UK)
- Regional Coordinators in China, Philippines, India, Sri Lanka, Bangladesh, Thailand and Turkey



The CalPERS *Emerging Markets* *Research Project*

- Change in CalPERS' emerging markets investment approach
- Assessing “ability to support institutional investment” through “Permissible Countries List”
- 27 countries

CalPERS Investment Criteria

- *Five Market Factors*
 - Market liquidity and volatility
 - Market regulation/investor protection
 - Capital markets openness
 - Settlement proficiency
 - Transaction costs
- *Three Country Factors*
 - Political stability
 - Transparency
 - Productive Labor Practices
 - *Verite contracted to provide*



Investment Criteria: Productive Labour Practices

- Wilshire Associates: “a productive workforce is a critical factor in economic growth and, ultimately, equity market success”
- Focus of research
 - “To facilitate economically-productive labor practices, markets shall be evaluated based on their ratification of and adherence to the **International Labour Organization**’s principles ... and the degree of effectiveness of implementation”

Research Methodology: Sources

- Desk research: publicly available documents
- In-country interviews by country nationals
 - Government
 - Business and trade associations
 - Trade unions
 - Non-governmental organizations
- Verite on-the-ground knowledge from audits, training, etc.



Research Methodology: Criteria

- 4 ILO Core Convention Areas
 - Child labor
 - Forced labor
 - Freedom of association
 - Equality/Discrimination
- 4 functional areas
 - Convention Ratification (10%)
 - National legislation (25%)
 - Institutional capacity (15%)
 - Effectiveness of implementation (50%)

Research Methodology: Indicators

- 41 Indicators: examples:
 - “The country has/has not ratified Convention 11”
 - “Child labor is illegal as defined in Convention 138”
 - “Ratio of number of inspectors to number of factories”
 - “Trade unions are:
 - Fully independent
 - Somewhat independent
 - Not independent”
- Weighted final score represented as a % of total

CalPERS calculations

- Wilshire scored all seven factors 1 – 3
- Weighted country score >2 is permissible
- Permissible countries:
Argentina, South Korea, Taiwan, Hungary, Chile, Poland,
Israel, Czech Republic, Peru, South Africa, Brazil,
Mexico, Turkey
- Impermissible countries
Philippines, Jordan, India, Thailand, Egypt, China,
Malaysia, Colombia, Pakistan, Venezuela, Sri Lanka,
Morocco, Indonesia, Russia

Findings: Regional Comparison of Labour Practices

<i>Region</i>	<i>Labour Practices %</i>	<i>Acceptable to CalPERS?</i>
Europe	79%	3 of 4
Latin America	66%	7 of 7
Mid East	60%	3 of 5
All Asia	54%	5 of 10

Findings: Asia breakdown of Labour Practices

<i>Region</i>	<i>Labour Practices %</i>	<i>Acceptable to CalPERS?</i>
East Asia	61%	2 of 3
SE Asia	55%	2 of 4
South Asia	46%	0 of 3

Findings: GDP Link?

- Top third of countries by labour practices, all but one also in top third by GDP
- Of bottom third of countries by labour practices, all but two also in bottom third by GDP
- Labour practices correlate with GDP

Findings: Asian Countries – Wilshire Score

Acceptable on Labour Practices

- 8 Taiwan 75.0% Wilshire score 2
- 9 South Korea 71.3% Wilshire score 3
- 12 Philippines 63.8% Wilshire score 2
- 13 Thailand 63.0% Wilshire score 2

Unacceptable on Labour Practices

- 19 Sri Lanka 53.0% Wilshire score 1
- 22 India 46.5% Wilshire score 1
- 23 Malaysia 46.3% Wilshire score 1
- 24 Indonesia 44.5% Wilshire score 1
- 26 Pakistan 40.0% Wilshire score 1
- 27 China 36.3% Wilshire score 1

Findings: Asian Countries – Law

Acceptable on Labour Practices

- **8 Taiwan** **Legal score 92%**
- **9 South Korea** **Legal score 94%**
- **12 Philippines** **Legal score 97%**
- **13 Thailand** **Legal score 89%**

Unacceptable on Labour Practices

- **19 Sri Lanka** **Legal score 67%**
- **22 India** **Legal score 85%**
- **23 Malaysia** **Legal score 51%**
- **24 Indonesia** **Legal score 75%**
- **26 Pakistan** **Legal score 60%**
- **27 China** **Legal score 69%**

Findings: Asian Countries - Implementation

Acceptable on Labour Practices

- **8 Taiwan** **Implementation score 67%**
- **9 South Korea** **Implementation score 72%**
- **12 Philippines** **Implementation score 48%**
- **13 Thailand** **Implementation score 55%**

Unacceptable on Labour Practices

- **19 Sri Lanka** **Implementation score 43%**
- **22 India** **Implementation score 34%**
- **23 Malaysia** **Implementation score 45%**
- **24 Indonesia** **Implementation score 30%**
- **26 Pakistan** **Implementation score 31%**
- **27 China** **Implementation score 20%**

Findings: Thailand and Philippines

- Thailand and Philippines impermissible
- Both countries scored well on “country factors”, but impermissible due to scores < 2 on some “market factors”
 - Philippines avg. 1.86
 - Scores of 1 for market liquidity, market openness, settlement proficiency
 - Thailand avg. 1.64
 - Scores of one for market liquidity, transparency, market regulation/investor protection, transaction costs

Findings: Overall View

- Great national variation
- Strong legal system a key common thread among “permissible” countries
 - Does strength of labour law indicate a broader commitment to rule of law?
- GDP Link
 - Countries with higher GDP tend to have better labor conditions

Reactions: Finding meaning in this investment decision

- Positive news for social investors:
 - Redefinition of fiduciary responsibility
 - An opportunity to demonstrate that values-based investing necessitates no loss
 - About \$1 billion additional in socially-screened portfolios

Reactions: Finding meaning in this investment decision

- Negative news for social investors:
 - Exclusion, not engagement
 - Will it help workers?
 - Will it make for more productive investments?
 - Danger of a backlash

Next steps: What's possible?

- Engage with countries instead of excluding them
- Extend to company-level decision-making
 - Active portfolio management will examine ILO standards and Global Sullivan Principles
- Include developed market companies with overseas operations

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