



Building more resilient and sustainable global value chains through responsible business conduct



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International trade and investment have long been powerful drivers of growth and development, enabling poverty reduction and convergence in living standards across countries. Recent years however have seen growing questioning of international trade and globalisation, and increasing demands for better management and integration of environmental and social considerations in global value chains (GVCs). The COVID-19 crisis has brought these questions to the fore, and reignited debates about the ability of GVCs to ensure security of supply of essential products and generate benefits for all. Promoting policy coherence between responsible business conduct (RBC), trade and investment, and mainstreaming RBC into GVCs can provide an avenue to make GVCs more resilient, sustainable, and ensure that the gains from globalisation are more fairly distributed.

This paper explores the links between RBC and GVC resilience in the context of COVID-19 and other threats such as climate change. It shines a light on the relationship between business practices, GVC disruptions, and environmental and social impacts, and identifies practical RBC-based options to build resilience to a broad range of salient risks. This paper also proposes priority actions for businesses and governments to further integrate trade, investment and RBC policies and practices, and develop partnerships to foster trust in global markets, resilience and sustainability.

This paper is a result of joint efforts between the OECD Centre for Responsible Business Conduct, within the Directorate for Financial and Enterprise Affairs, and the Trade and Agriculture Directorate. It has been prepared by Coralie Martin from the OECD Centre for Responsible Business Conduct and Sébastien Miroudot from the Trade and Agriculture Directorate, under the strategic guidance and oversight of Allan Jorgensen, Head of the OECD Centre for Responsible Business Conduct, and John Drummond, Head of the Trade in Services Division. The authors are grateful to Benjamin Michel and Benjamin Rutledge from the OECD Centre for Responsible Business Conduct for their excellent input and research support. The report benefitted from valuable comments from Marie Bouchard, Tihana Bule, Jingjing Chen, Julia Del Valle, Lena Diesing, Benjamin Katz, Dorothy Lovell, Louis Maréchal, Jean-François Leruste, Cristina Tébar-Less, Stephanie Venuti, Frédéric Wehrle, Sébastien Weber, all from the OECD Centre for Responsible Business Conduct, as well as Jakob Tange and Evdokia Moise from the Trade and Agriculture Directorate, and Ana Novik from the Investment Division. Juliet Lawal from the OECD Centre for Responsible Business Conduct provided communication support and prepared the report for publication.

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Key messages

- Rising expectations on RBC, illustrated by a proliferation of high-level statements, policies and laws, pre-date COVID-19. Advances on RBC are concomitant with growing awareness of risks embedded in global supply chains, and demands to make global markets more environmentally sustainable and fair.
- COVID-19 has highlighted both weaknesses and strengths of GVCs. Overall, GVCs proved relatively resilient and instrumental in solving shortages of goods during the crisis and remain essential to support economic recovery.
- Disruptions in GVCs can have wide-ranging impacts on the economy, but also on workers and societies. These impacts are more severe when compounded with vulnerabilities, such as weak worker protection, low-paid or non-standard work.
- RBC can help achieve the dual objectives minimising the risks of GVC disruptions, and minimising the environmental, social and governance impacts of disruptions when the latter do occur. Across the board, mainstreaming RBC in investment and trade can help make GVCs more resilient, sustainable, and ensure that the gains from globalisation are more fairly distributed.
- Learning lessons from the crisis implies adopting a comprehensive approach to resilience that further integrates risk management and sustainability considerations, underpinned by policy coherence on trade, investment and RBC.

Calls to embed Responsible Business Conduct (RBC) in Global Value Chains (GVCs) precede COVID-19

International trade and investment have been strong drivers of economic growth and development in the last decades. Since the early 1990s, GVCs have reshaped and accelerated international trade and investment by reinforcing economic ties between countries and by creating new opportunities to optimise production processes (OECD, 2017; World Bank, 2020a).

While the expansion of GVCs slowed down after the 2008 Global Financial Crisis (GFC), they have become a cornerstone of the world economy. Today, about 70% of international trade involves GVCs, whereby services, raw materials, parts, and components cross borders often numerous times before being incorporated into a final product and shipped to consumers all over the world (OECD, 2020a).

The rise of GVCs has brought important benefits including productivity gains, technology diffusion and poverty reduction. Over the past 30 years, the steepest declines in poverty occurred in countries that became integral parts of GVCs, enabling convergence in living standards as developing and emerging economies grew on average faster than advanced economies. According to recent World Bank estimates, a 1% increase in GVC participation boosts per capita income by more than 1%, and much more than the 0.2% income gain from standard trade (World Bank, 2020a).

Recent years however have seen a growing questioning of GVCs, and more broadly international trade and globalisation. These debates find their roots in concerning trends, including the difficulty to ensure that the gains from GVC participations are shared across locations, skill levels, and societal groups (e.g., women and youth) (OECD, 2017; World Bank, 2020a). The existence of environmental and social risks in GVCs – such as greenhouse gas emissions, hazardous waste, poor working conditions, child labour – has fuelled further backlash, and raised concerns regarding the potential role of GVCs in exacerbating such risks.

These considerations have played an important role in growing calls and initiatives to put Responsible Business Conduct (RBC) at the core of business operations, and make global markets more inclusive and sustainable. In the last decade, the concept of risk-based due diligence in particular has emerged as an important tool to mitigate the actual and potential adverse environmental and social impacts from business operations, including throughout supply chains. RBC considerations have increasingly been integrated in policies and regulations, as well as economic diplomacy tools (See Box 1).

Box 1. Growing expectations on RBC due diligence to address environmental and social risks embedded in GVCs

RBC principles and standards set out an expectation that businesses contribute to sustainable development, while avoiding and addressing adverse impacts of their operations, including throughout their supply chains and business relationships. A key element of RBC is risk-based due diligence – a process through which businesses identify, prevent and mitigate their actual and potential negative impacts and account for how those impacts are addressed.

The main OECD instrument for promoting and enabling RBC is the OECD Guidelines for Multinational Enterprises (the Guidelines) - the most comprehensive recommendations on what constitutes responsible business addressed by 50 adhering governments to businesses operating in or from their territories. To support implementation of the Guidelines, the OECD has developed a range of due diligence guidance, which provide practical guidance to businesses on how to identify and respond to risks of adverse impacts associated with particular products, regions, sectors or industries.

Recent years have seen growing calls to embed RBC in supply chains and mitigate RBC risks, reflected in a number of high-level statements. For example, in 2019, G7 Social Ministers committed to promote decent work, responsible business conduct and human rights due diligence in global supply chains. This echoed previous commitments by G7 leaders who pledged in 2015 to lead by example to promote international labour, social and environmental standards in global supply chains, and to encourage due diligence. Similar commitments have been made at G20 level, including in September 2018, when G20 Ministers of Labour and Employment committed to promote due diligence and transparency in global supply chains, and encouraged businesses to consider the 2018 OECD Due Diligence Guidance for Responsible Business Conduct. In July 2017, G20 Leaders committed to foster the implementation of labour, social and environmental standards and human rights in line with internationally recognised frameworks, including the OECD Guidelines.

RBC expectations are increasingly translated into domestic legislation. Several countries, including the UK, Australia, France and Germany have passed laws to strengthen due diligence requirements to address supply chain and sustainability risks. Since 2010, Section 1502 of the United States Dodd–Frank include due diligence requirements for minerals supply chains. Similarly, the EU regulation on conflict minerals, which entered into force in 2021, includes due diligence requirements for EU-based importers of tin, tantalum, tungsten and gold. Recently, the European Commission committed to address RBC risks in GVCs through mandatory human rights and environmental due diligence legislation.

RBC is also increasingly referenced in various economic instruments, such as trade and investment agreements. For example, the EU commonly includes RBC in the Trade and Sustainable Development chapters of its trade agreements. The 2021 EU trade policy “An Open, Sustainable and Assertive Trade Policy” integrates RBC as a key feature to enhance supply chain sustainability and resilience. The OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence encourages members, via their export credit agencies (ECAs), to promote the Guidelines and give consideration to the Guidelines when undertaking project review.

COVID-19 has exposed both vulnerabilities and strengths in GVCs

COVID-19 has attracted renewed attention on the role and importance of GVCs due to the disruptions induced by the global pandemic (See Box 2). On the one hand, the role of GVCs in transmitting the crisis when trade is disrupted, combined with shortages of goods such as personal protective equipment (PPE), have fuelled frustrations about GVCs. On the other hand, GVCs were rather resilient in the manufacturing sector and were instrumental in addressing shortages and supporting economic recovery.

Box 2. How has COVID-19 “disrupted” GVCs?

GVC disruptions refer to events affecting one or a cluster of entities in the value chain. Due to the interconnected nature of GVCs, any such event might have consequences on the rest of the chain. The OECD has identified four main channels through which GVCs have been impacted during the COVID-19 crisis:

Health risks and government-mandated lockdowns directly resulted in a reduction or interruption of production processes. While this phenomenon disrupts GVCs, it is not specific to international supply chains: any company, whether or not it is linked to GVCs, could be affected in every location where the virus has spread.

When production in one location requires inputs from another directly impacted by the global pandemic and government lockdowns, there is an indirect impact resulting from GVC linkages. The supply chain impact can also come from a disruption in international transport networks, affecting the intermediary means of transportation of intermediate inputs.

Falling incomes, job insecurity and lockdowns reduced the demand for some products while the pandemic increased the demand for others (e.g. medical products, IT goods needed for teleworking, food consumed at home). Such shifts in demand create disruptions that are not specific to GVCs (domestic value chains are also affected) but create ripple effects through GVCs (as lower demand for final products in a given country reduces demand for inputs produced in other countries).

Finally, there is a trade and investment policy risk, for example when countries implement export bans for key medical supplies or increase pressure to reshoring production. The impact can be immediate (e.g., impossibility to move goods and services across borders), but the uncertainty can also have a long term impact on GVCs and supply chain structures.

Source: OECD (2020)

COVID-19 has put a spotlight on the risk of ripple effect when GVCs are disrupted

COVID-19 has raised awareness of the inter-connectedness of production networks, and the inter-dependencies this may create between companies and countries. While enabling optimisation and efficiency gains through on-shoring and off-shoring activities, GVCs have increased the fragmentation of international production, leading to a situation where each link in the chain relies on the next for the production, transportation and supply of inputs and final products.

Disruptions in GVCs can therefore have considerable impacts, notably because of the potential domino effect that any local disruptions may cause. Such risks are not new and have materialised in several occasions – for example, with the 2008 GFC, and in 2011 when two natural disasters occurred in Japan and Thailand (OECD, 2013; OECD, 2020a). The disruptions induced by COVID-19 have made these risks global and more apparent. For example, factory closures in China at the end of January 2020 had knock-

on effects on other economies due to the prevalence of inputs from China in many manufacturing value chains (OECD, 2020a, Baldwin and Freeman, 2020; Di Stefano, 2021). The feedback effects of GVC contagion have also been found to create a vicious circle when losses originating in one part of the supply chain are transmitted first to a foreign country and then back to the point of origin (Friedt, 2021). But in the recovery phase, these contagion effects accelerate the recovery and evidence shows that international companies producing in GVCs recover more quickly than domestic-oriented firms (Giglioli et al., 2021).

The crisis has also put into question the reliance of individual countries on global production networks for the supply of products considered essential. Shortages of goods such as PPE, ventilators, or COVID-19 tests prompted important debates and policy reflections on how to ensure a certain degree of autonomy for critical supply chains¹, and whether more localised production of key goods would provide greater security against disruptions (OECD, 2021e).

The impacts of GVC disruptions on workers and societies are severe, especially when compounded with environmental and social vulnerabilities. Wherever GVCs are disrupted, impacts are likely to ensue for workers, as well as people who rely on GVCs to access goods and services, and ultimately for all those directly or indirectly affected by the economic slowdown induced or magnified by GVC disruptions. Workers in particular are on the front line of these consequences. In June 2020, the ILO estimated that 292 million jobs worldwide were at risk in the manufacturing sector due to COVID-19 supply chain impacts related to drops in demand. The same study concluded 255 million workers were in sectors with a high or medium vulnerability to imported input supply disruption, corresponding to 69% of manufacturing employment (ILO, 2020a).

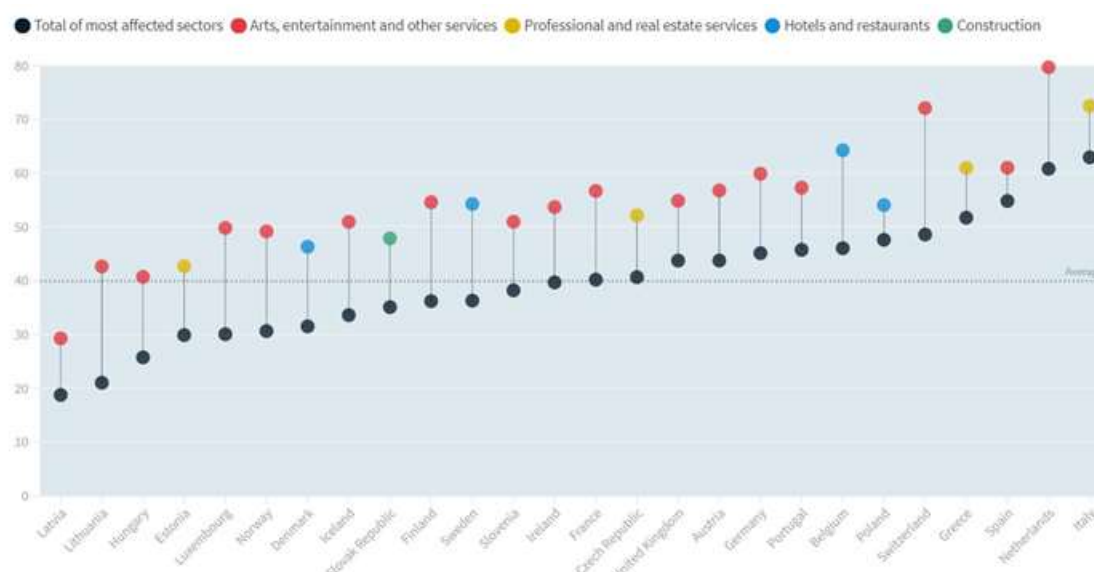
The impact of supply chain disruptions can be more severe when compounded with pre-existing vulnerabilities. For example, a rise in unemployment may have a stronger impact on workers who are not covered by regular (e.g. sick or unemployment paid leave) or exceptional COVID-19 specific social safety nets such as independent workers, zero hour contract workers, or informal workers, among whom are many migrant workers and women (OECD, 2020c). As a result, disruptions in GVCs can also play a role in exacerbating situations of vulnerability or inequality, both within and between countries.

For example, as illustrated in Figure 2, non-standard work (e.g. part-time, self-employed, or interrupted work patterns) makes up a large share of employment in the most affected sectors in European OECD member countries. Non-standard work tends to make the impact of COVID-19 worse, due to lower access to government benefits. In emerging and developing economies, the informal sector on average accounts for 70% of total employment, and is associated with features (low-paid jobs, lack of access to social safety nets, etc.) that have amplified the COVID-19 economic shock to livelihoods and threatened to move large numbers of people into extreme poverty (World Bank, 2020c).

¹ See for example the March 2021 Note by the European Parliament Research Service on the EU Strategic Autonomy Debate, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/690532/EPRS_BRI\(2021\)690532_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/690532/EPRS_BRI(2021)690532_EN.pdf)

Figure 1. Non-standard workers make up a large share of employment in the most affected sectors

% of employment in respective sectors, 2018 (total and sector with highest share)



Note: Non-standard worker: mostly part-time work, mostly self-employed, or interrupted work patterns in the past two years.

Source: OECD (2020), OECD Economic Outlook, Volume 2020, Issue 1 : Preliminary version.

Women have also been severely hit by the pandemic. Women generally have less secure jobs, making them among those facing the greatest risk of joblessness and poverty (OECD, 2021b). In addition, they make up a large share of employment in some of the industries most immediately affected by the crisis, such as those relying on travel and on physical interaction with customers. On average across OECD countries with comparable data, women make up 47% of employment in the air transport industry, 53% in food and beverage services, 60% in accommodation services, and 62% in the retail sector (OECD, 2021b; OECD, 2020d). Women are also heavily represented in some industries affected by supply chain disruptions such as garment manufacturing, where they represent over three-quarters of the workforce globally. Due to the global distribution of garment supply chains, women in developing and emerging economies have been particularly exposed (OECD, 2021b).

A recent study analysed the gendered impact of COVID-19 on workers in GVCs in three different value chains - business process outsourcing (BPO), garment and electronics. The authors concluded that gender-based vulnerabilities in employment persisted and were magnified during the pandemic, in all three sectors. The study also identified that workers in industries that suffered primarily from supply disruptions due to the lockdown such as BPO, and (to a lesser extent) electronics, were in a better position to protect their jobs and incomes through the continuation of work whether at home or in factories, even if it comes with new risks and vulnerabilities. By contrast, severe demand contraction combined with industry-wide churn led to permanent job and income losses for women. Structural imbalances in bargaining power and profit distribution along the value chain contributed to more severe impacts on the highly feminised garment industry (Tejani and Fukuda-Parr, 2021).

GVCs have been playing a central role in addressing shortages of goods and remain vital for the economic recovery

In 2020, GDP is estimated to have declined by 3.5% globally and by 4.8% in OECD countries as a result of COVID-19 (OECD, 2021a). Global income will be approximately USD 3 trillion less by end 2022 than

was expected before the crisis hit (OECD, 2021a). For the first time in 20 years, global poverty is rising, with an estimated additional 119 to 124 million people facing extreme poverty in 2020, of which 87% are located in South Asia and Sub-Saharan Africa (Lakner et al). The magnitude and severity of these impacts has reinforced pre-COVID calls for a more inclusive and sustainable global economic system.

Isolating and quantifying impacts directly attributable to GVCs however, is a challenging task. For example, employee sickness and containment measures have impacted business operations even when they were not linked to GVCs. Similarly, the decline in demand resulting from the pandemic has affected both companies that serve domestic markets and those linked with global value chains (OECD, 2020a).

Recent studies have attempted to estimate the impact of GVCs on GDP losses in the context of COVID-19. By comparing countries integrated in GVCs to varying degrees, Bonadio et al. (2020) estimated that, on average, a third of total GDP contraction resulting from COVID-19 was related to foreign shocks transmitted through GVCs. The same study also found that repatriating GVCs would not make countries more resilient to pandemic-style labour supply shocks, since pandemics such as COVID-19 also affect domestic sectors: repatriation of GVCs would only transfer the impact to domestic supply chains, rather than suppress it (Bonadio et al, 2020). Similarly, OECD studies show that a localised trade regime would actually be more vulnerable to shocks than the current trade regime with production fragmentation (OECD, 2021e).

While there is no evidence that economies would have fared better in the absence of GVCs, the latter proved instrumental during the crisis in solving key issues such as shortages of medical equipment. The exceptional and urgent levels of demand of face masks, for example, could not have been met without GVCs, and notably the ability of China to ramp up its production by a factor of 12 and supply countries in need. GVCs are also vital to produce, distribute and administer the vaccines needed to end the pandemic (OECD, 2021c).

In 2021, the gradual development of effective vaccines in many advanced economies has already been driving improvements in economic growth prospects. Enabling access to COVID-19 vaccines in developing countries will largely depend on a high degree of trade interdependencies and specialised supply chains involving a range of countries (OECD, 2021a; OECD, 2021c). The rebound in merchandise trade and investment since March 2021 has also boosted economic recovery, benefitting countries heavily involved in GVCs, particularly pharmaceuticals, medical supplies, and IT. Differences in the strength of recovery across countries is also driven by the extent of government support to vulnerable workers and businesses (OECD, 2021a).

How does RBC increase GVC resilience?

The examples of face masks and vaccines illustrate how open and diversified markets remain critical to ensure supply, in particular of essential goods. The participation of countries and businesses in GVCs remains an important factor for growth and a sustainable recovery. Rather than reshoring GVCs, learning the lessons from the COVID-19 crisis implies designing strategies to avoid disruptions, and embedding safeguards in GVCs to ensure that when disruptions occur, the impacts on workers, the environment and society is minimised. More broadly, addressing pre-existing risks, imbalances and environmental and social vulnerabilities remains essential to strengthen resilience and rebuild trust in public institutions and global markets. RBC can help across these different objectives.

This section provides examples of how RBC instruments can help guide business decisions both before and after shocks have occurred, in a way that minimises the likelihood and severity of a broad range of risks and impacts. A summary of different ways in which RBC increases GVC resilience is provided in table 2 for illustrative purposes only.

Table 1. In what ways can RBC increase resilience?

| Ex-ante | Ex-post |
|---|---|
| <ul style="list-style-type: none"> • Reduce the probability and severity of foreseeable shocks on which businesses have an influence (e.g., climate change, biodiversity losses) • Enhance business ability to identify and prepare for shocks (e.g., through enhanced knowledge of supply chains, robust risk management frameworks, etc.) • Enhance overall business capacity to absorb and recover from shocks (e.g., social dialogue structures, industry initiatives, grievance mechanisms) | <ul style="list-style-type: none"> • Minimise risks of transmission of shocks through GVCs (e.g., through responsible buyer-supplier relationships) • Minimise impacts of disruptions on workers, the environment and society (e.g., by protecting frontline workers) |

Note: the table provides a simplified illustration of links between RBC and GVC disruptions. It does not intend to provide a comprehensive account of the different ways in which RBC increases resilience.

Source: Authors

Business practices can minimise or aggravate GVC disruptions and their impacts

GVCs are exposed to a variety of risks and shocks, including the risk of a global pandemic, but also climate change, natural disasters, geopolitical tensions, the risk of cybersecurity attacks, and others that might be more difficult to anticipate. Some of these risks - such as COVID-19 - take their origin primarily outside of the economic system, and businesses may not always be able to prevent their occurrence. However, the experience of COVID-19 has shown that business practices play an important role in either minimising or aggravating the impact of such shocks on GVCs. For example, although all enterprises are equally exposed to health risks, those that have implemented strong health and safety management practices may be better equipped to protect their employees and maintain or resume their activity faster.

Having sound RBC management practices in place before a shock occurs can help businesses respond faster and more effectively, thus minimising the severity of its impact. For example, an analysis carried out by the ILO on the supply chain ripple effect of COVID-19 on garment factory workers in Asia and the Pacific identified that social dialogue was effective in finding solutions only when existing structures and initiatives were in place. This was the case in Myanmar, where a Freedom of Association protocol negotiated between brands members of the ACT (Action, Collaboration, Transformation) initiative and the Industrial Workers' Federation of Myanmar (IWFM), which is an affiliate of IndustriALL Global Union, proved to be a useful tool in the reinstatement of terminated workers in factories. The fact that an existing dialogue was in place between unions and global apparel brands likely contributed to the relatively quick agreement between IndustriALL affiliates and employers. In Bangladesh, a Memorandum of Understanding between the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and IndustriALL Bangladesh Council was signed in May 2020, as a way to avoid lay-offs and pay apparel worker salaries for April 2020. The negotiation also built on an existing ACT structure (ILO, 2020b).

After a shock has occurred, an RBC-based response can contribute to minimising environmental and social impacts, while also preventing or limiting the cascading effects of disruptions thus strengthening the entire value chain. During the pandemic, many companies made efforts to support their suppliers and business partners, for example by accelerating payments to solve immediate cash-flow issues, or helping suppliers to reconfigure factory floorplans and implement flexible working hours to maximise interpersonal space (OECD, 2021d).

Conversely, irresponsible business practices can amplify the knock-on effects and environmental and social impacts of disruptions. Abrupt cancellations of orders or contractual non-performance by importing companies, which have been widespread during the COVID-19 crisis, may cause obstruction of scheduled wages, and push factories out of business, leading to severe impacts on workers as well as shortages in

raw materials or intermediary inputs (Lovell, 2020). According to the Center for Global Workers' Rights, retroactive order cancellations by brands in the garment sector led to a drastic reduction or suspension of suppliers operations, which in turn resulted in a sharp drop in both import volume and prices in key importing markets (CGWR, 2020).

Companies' responses to surges in demand for certain goods have sometimes generated additional risks, or exacerbated severe impacts on workers, and created further disruptions. In Malaysia - the world's leading supplier of medical glove and other rubber products - the sudden rise in demand for surgical gloves was at times met with productivity targets resulting in excessive working hours in unsafe conditions, while country wide lockdown measures were in place. These issues were reported in an industry with pre-existing allegations of forced labour, notably affecting vulnerable migrants from Bangladesh and Nepal (The Guardian, 2020a). After these allegations resurfaced, the U.S imposed a ban on imports of surgical gloves from specific companies linked to forced labour in March 2021, limiting supply from some of the world's biggest producers (SCMP, 2021).

Lowering RBC safeguards in times of crisis may not be effective in ensuring the supply of essential goods and can have long-term consequences for people, the environment and the global economy

The examples above underscore how supply chain disruptions and RBC are intrinsically linked. During a crisis such as COVID-19, however, there is a risk that businesses may shift away from RBC due to the magnitude of challenges they face. For example, a 2020 OECD business survey conducted in 10 ASEAN countries indicated that while 58% of respondents consider that environmental, social and governance risks have increased as a result of COVID-19, a non-negligible share of 13% of respondents indicated that they expected cuts in the budget allocated to the management of these risks. Another business survey by GlobeScan and BSR found that 47% of respondents predicted budget cuts on sustainability functions (OECD, 2020e; GlobeScan, 2020).

The need to maintain the supply of goods and services, particularly the most essential ones, has also led to temptations by businesses and governments to lower implementation of RBC standards and safeguards to fast-track procurement. While there is no evidence that lowering essential safeguards achieves any of these objectives, detrimental effects have impacted livelihoods and eroded trust in GVCs. A case in point is the amount of fraudulent products – from masks, to medicines, tests and vaccines – that have flooded markets as a result of both increased demand and expedited processes. In Peru, three months after the country declared the state of emergency due to COVID-19, anti-corruption prosecutors reported an increase of 700% of presumed cases of corruption in public procurement (RPP, 2020).

The impacts of relaxing of RBC safeguards can be wide-ranging. For example, lower enforcement of environmental standards during lockdowns have led to a rise in deforestation. According to the Brazil's national space research institute, Amazon forest deforestation experienced its highest rate since 2008 under lockdown measures (Weir, 2020). Data from "Global Land Analysis & Discovery" suggests that deforestation has increased by over 50% globally during the pandemic, in particular in Brazil, the Democratic Republic of Congo and Indonesia (WWF, 2020).

Throughout the crisis, governments and businesses have struggled with the need to secure the supply of essential goods while ensuring the protection of workers involved in the production or delivery of critical supplies and services (OECD, 2020f; TUAC, 2021). Difficulties to protect the health and safety of frontline workers (notably due to shortages in PPE) have had impacts on these workers' lives, as well as the spread of virus, and the effective functioning of critical supply chains. While health workers have been particularly affected, severe impacts have also been reported in other sectors. Essential workers in supply chains and related services – including truck drivers, warehouse workers, couriers, were often excluded from lockdowns and facing heightened health risks as demand for such services increased during the crisis (EAPIL, 2020). Seafarers were often denied repatriation, crew changes, shore leave and ultimately being

forced to stay working on ships long beyond their contracts due to COVID-19 restrictions (UN, 2021). In response to this situation, the ILO, together with the UN Global Compact, the Office of the High Commissioner for Human Rights and the International Maritime Organisation, launched a Human Rights Due Diligence Tool to help businesses in the maritime sector to comply with international RBC standards (UNGC et al, 2021). This tool complements industry-led collective action, such as the Neptune Declaration on Seafarer Wellbeing, signed by more than 750 companies (UN, 2021).

RBC due diligence increases resilience of firms and entire value chains

In the face of many constraints and opportunities to optimise production across supply chains, decision-making to find the right balance between economic, environmental and social expectations is a challenging task for businesses. International RBC standards such as the OECD Guidelines for Multinational Enterprises (the Guidelines), can provide a framework to guide business action. The OECD has also developed a range of due diligence instruments to help businesses operationalise the Guidelines. Implementing the recommendations contained in these instruments can help enterprises avoid and address adverse impacts related to workers, human rights, the environment, bribery, consumers and competition that may be associated with their operations, supply chains and other business relationships.

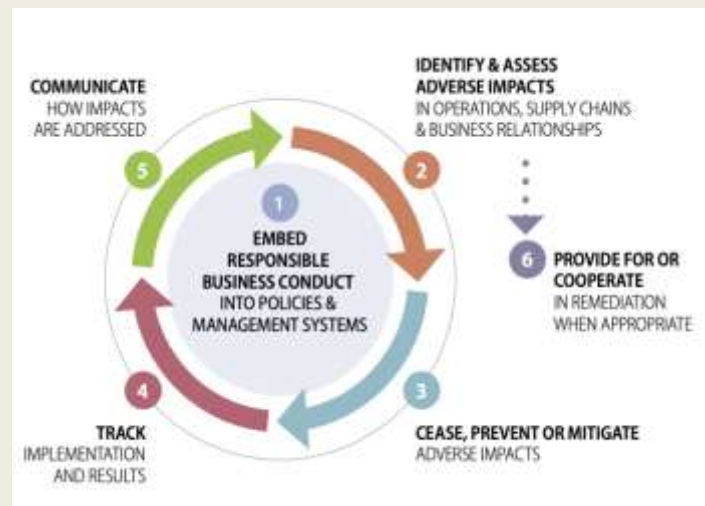
Box 3. OECD Responsible Business Conduct principles and standards

The OECD Guidelines for Multinational Enterprises (“The Guidelines”) are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. The Guidelines are the only multilaterally agreed comprehensive code of RBC that governments have committed to promote, representing international consensus on the responsibility of businesses regarding impacts on society and the environment. The Guidelines cover all major areas related to RBC, including information disclosure, human rights, employment and industrial relations, environment, bribery and corruption, consumer interests, science and technology, competition, and taxation. Currently 50 governments have adhered to the Guidelines.

One of the key expectations reflected in the OECD Guidelines is that companies should not only contribute positively to environmental, economic, and social progress worldwide, with a view to achieving sustainable development (“do good”), but also avoid causing or contributing to adverse impacts and seek to prevent or mitigate adverse impacts related to their activities or business relationships (including throughout supply chains) (“do no harm”) through conducting risk based due diligence.

Due diligence is the process enterprises should carry out to identify, prevent, mitigate and account for how they address adverse risks and impacts in their own operations, their supply chain and other business relationships, as recommended in the OECD MNE Guidelines. Effective due diligence should be supported by efforts to embed RBC into policies and management systems, and aims to enable enterprises to remediate adverse impacts that they cause or to which they contribute to (see Figure below).

Source: OECD (2011, 2018)



In addition to supporting businesses in meeting international RBC standards and expectations, RBC due diligence can help improve overall business risk management practices – which has been identified in the management literature as a key component of firm-level resilience to supply chain risks (OECD, 2020a). Through RBC due diligence processes, businesses map their supply chain and gain a better knowledge of the risks that they might entail. Information from supply chain due diligence, for example on origin of raw

materials, and other traceability data, can be used to understand short-term and medium-term vulnerabilities in the supply chain, and support continuity planning to manage disruptions (OECD, 2020f).

RBC due diligence expectations related to disclosure and collaboration mean that collective implementation of RBC standards contributes to supply chain transparency, pooled knowledge and collaboration around solutions to solve supply chains issues, which enhances collective capacity to prepare for and respond to shocks. A number of industry and multi-stakeholder initiatives have been developed to promote shared standards and support supply chain due diligence efforts. In the Netherlands, for example, since 2014, the Dutch government has been facilitating sector-based agreements on how to address risks relating to international responsible business conduct. Agreements have been concluded in various sectors including garment and textile, banking, gold and food products, with a view to address RBC risks and offer a collective solution to problems that businesses are unable to solve, or solve entirely, on their own (BHRCC, 2019). In the context of COVID-19, such initiatives have helped businesses define common responses to address salient risks and challenges. The Ethical Trading Initiatives (ETI), for example, published a briefing to define the responsibility of employers toward migrant workers during the pandemic (ETI, 2020). The Partnership for Sustainable Textile – a multi-stakeholder initiative facilitated by the German government – released guidance on responsible purchasing practices during COVID-19 (Partnership for Sustainable Textile, 2020).

Shared standards and practices on RBC are also increasingly becoming essential to promote trust, facilitate trade and ensure the sustainable supply of goods. This applies to critical minerals, which are key elements of clean technologies, and thus essential to advance the transition to a low-carbon economy. According to the International Energy Agency, reaching the ambitions of the Paris Agreement would require quadrupling mineral requirements for clean energy by 2040 (IEA, 2021). While demand for critical minerals is rising, the production of critical minerals is highly concentrated in a few countries, including areas where risks spanning human rights, security contracting and corruption are prevalent (Katz, forthcoming). Due diligence standards such as the OECD *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* (hereafter: the Minerals Guidance) can help stay engaged across all sources of supply while managing such risks. With the rise of legislation such as the EU Conflict Minerals Regulation, observing shared standards and establishing responsible sources of supply is increasingly becoming an imperative for companies, and a factor of strategic security of supply (See Box 1) (OECD, 2021d)

Adopting a comprehensive and outward-facing approach to risk to better anticipate, prevent and manage key emerging risks

The broad scope and outward-facing approach to risk of RBC due diligence makes it a particularly relevant tool to increase resilience not only of firms, but of entire value chains. Unlike other risk management framework, RBC due diligence is concerned with the impacts that enterprises may have on people, the environment and society (See Box 4). This feature makes RBC due diligence well-suited to help businesses navigate a broad range of risks and sustainability issues, and minimise the likelihood of disruptions on which businesses have an influence.

Box 4. Adverse impact and risk under the OECD Guidelines for Multinational Enterprises

Due diligence addresses actual adverse impacts or potential adverse impacts (risks) related to the following topics covered in the Guidelines: human rights, including workers and industrial relations, environment, bribery and corruption, disclosure, and consumer interests (RBC issues). The Guidelines chapters provide detailed provisions on the type of conduct recommended for each RBC issue

The likelihood of adverse impacts increases in situations where an enterprise's behaviour or the circumstances associated with their supply chains or business relationships are not consistent with the recommendations in the OECD Guidelines for MNEs.

For many enterprises, the term "risk" means primarily risks to the enterprise – financial risk, market risk, operational risk, reputational risk, etc. Enterprises are concerned with their position in the market vis-à-vis their competitors, their image and long-term existence, so when they look at risks, it is typically risks to themselves.

The Guidelines however refer to the likelihood of adverse impacts on people, the environment and society that enterprises cause, contribute to, or to which they are directly linked. In other words, it is an outward-facing approach to risk. Enterprises can identify risks on RBC issues by looking for divergences between what is recommended in the OECD Guidelines for MNEs on the one hand, and the circumstances associated with their operations, supply chains or business relationships on the other.

Source: OECD (2018)

While COVID-19 has its origins in causes primarily exogenous to the global economy, most risks appear to be at least partially the result of human activity or intervention of some sort (OECD, 2021d) - for many of them, businesses can play a role in averting them, or minimising the likelihood that they will materialise as an acute shock. This was notably the case of the GFC, where excessive risk taking by financial institutions, lack of transparency, and failure to protect the interests of customer contributed to the start and spread of the crisis. Other examples of risks of disruptions on which businesses have an influence include imbalances and distortions in markets, cybersecurity attacks, climate change, or biodiversity losses. According to the International Union for Conservation of Nature, for example, conversion of land to agriculture and over-extraction of natural resources have led to significant land degradation - between 25% and 30% of all land on the planet is degraded, with important impacts on climate change, biodiversity loss and the spread of zoonotic diseases.

While some of these risks constitute risks to society and the environment, they may also have direct impacts on business performance and continuity. For example, depletion of fish stocks due to unsustainable fishing practices, threatens to push some fishermen out of business (Farge, 2020). According to the Business Continuity Institute – a network of over 8,000 business continuity, resilience and disaster recovery experts – climate change might be the biggest threat to business continuity in the century, due to direct and indirect effects of risks such as extreme weather events, flooding, as well as government regulations and changing customer behaviour (Deloitte, 2020). The 2020 AXA Future Risks Report foresees that the main risks in the next 5 to 10 years will be related to pandemics and infectious diseases, climate change and cyber risks² (See Table 1) (AXA, 2020). Identifying and addressing them is therefore increasingly becoming a matter of business and GVC resilience, as much as it is a matter of sustainability.

² Data based on a survey of more than 2,700 risk experts from 54 countries, as well as a general public survey of close to 20,000 people.

Table 2. Main emerging risks: wide-ranging and sustainability-linked

| Top 10 emerging risks |
|---|
| 1. Pandemics and infectious diseases |
| 2. Climate change |
| 3. Cybersecurity risks |
| 4. Geopolitical instability |
| 5. Social discontent and local conflicts |
| 6. New threats to security |
| 7. Macroeconomic risks |
| 8. Natural resources and biodiversity risks |
| 9. Financial risks |
| 10. Pollution |

Source: AXA (2020)

Traditional risk management approaches, which consist in managing the risks that external events may have on the company, while useful to build resilience at firm level, are insufficient to effectively anticipate and address the breadth of risks that are directly or indirectly caused by businesses. Face masks and other PPE value chains, for example, have been under intense pressure during the crisis and demonstrated a relative resilience and agility to respond to an exceptionally high and sudden demand. As a result, however, the use of approximately 129 billion disposable face masks used every month, most often made from plastic microfibers are creating new environmental challenges including increased plastic pollution which threatens aquatic organisms (Selvaranjan et al, 2021; Xu and Ren, 2021). While a range of measures including government guidance and regulations could be relevant to address the issue, embedding RBC into core business operations could also play a role in anticipating and minimising such risks, for example by considering the use of sustainable materials, circular models and embedding environmental impacts into product design.

The nature of the most pressing risks faced by businesses and society as a whole calls for a broadening of the scope of traditional compliance frameworks to include a broad range of sustainability risks under a comprehensive approach to risk management. RBC and sound risk management practices can contribute positively to avoiding certain shock disruptions, minimising the magnitude of the ripple effects of disruptions, and the severity of the impacts of GVC disruptions on people, the environment and society.

Toward a more comprehensive and integrated approach to risk, sustainability and resilience

The impact of COVID-19 on GVCs has shown the need for comprehensive and integrated approaches to risk, resilience and sustainability. This implies considering businesses not as isolated entities, but as part of an ecosystem that includes other businesses, but also consumers, workers, communities, the environment and society as a whole. Disruptions to any part of this ecosystem may have a range of implications. Building resilience therefore implies going beyond traditional risk management strategies, to consider also risks that sustainability issues pose to businesses and others. RBC can provide a framework for businesses to balance economic, environmental and social considerations, and to align objectives and practices at firm, GVC and society levels.

The virtuous interactions between RBC and other business functions was widely acknowledged before the crisis and verified empirically with COVID-19 disruptions. Multiple studies have found that firms with high Environmental, Social and Governance (ESG) ratings saw their share prices climb higher relative to their competitors during the crisis (Amundi, 2020). Multiple factors could explain this correlation, including

enhanced ability to withstand shocks enabled by sound risk management practices, but also investors' perceptions and what could reflect broader societal expectations. Another study conducted between January and June 2020 using a sample of 1 597 listed firms in China concluded that companies with higher corporate social responsibility (CSR) performance before the shock experienced fewer losses and took a shorter time to recover (Huang et al, 2020).

Greater coherence and integration between RBC and other economic policies also makes sense at national and global level, and increasingly necessary to enhance the resilience of GVCs, facilitate trade and investment and rebuild trust more broadly in the global economy and public institutions. The 2021 Edelman Trust Barometer identified a widening trust gap, with widespread mistrust of societal institutions and leaders around the world, fuelled by persisting societal fears exacerbated by the pandemic (including job losses, climate change, cyberattacks, contracting COVID-19), and the inability of institutions to address widespread misinformation. The Barometer also found that businesses emerged as the most – and only – trusted institution, with rising expectations for CEOs to lead on societal issues such as pandemic impact, job automation, local community issues, and to step in when the government doesn't fix societal problems (Edelman, 2021). These findings provide additional incentives for businesses to answer these demands through RBC, and a strong argument for policy makers to promote RBC and collaborate with the private sector on the achievement of public goals.

When it comes to GVCs, priority actions could include business and government actions:

- **Business should further integrate GVC risk management approaches, by**
 - ***Integrating sustainability considerations into GVC risk management.*** A range of strategies are available to firms to better withstand shocks and ensure business continuity in case of disruptions. These may include diversification of supplier or sourcing locations; supplier redundancy; shorter supply chains; or building trusting relationships with a small network of suppliers. (OECD, 2021d). Such strategies are necessary but insufficient to build resilience not only of firms, but entire GVCs, and to maximise their ability to deliver sustainable development benefits. RBC due diligence can complement the toolbox to build long-term resilience.
 - ***Building awareness of risks of acute supply chain disruptions into RBC due diligence processes.*** COVID-19 has spotlighted the magnitude of the impacts that GVC disruptions on business continuity, economic outcomes, as well as workers, the environment and society. These learnings must be integrated by businesses that wish to manage the environmental, social and governance impacts of business operations. This may imply specific attention to avoiding and addressing risks of disruptions – for example, by further defining companies' responsibilities towards suppliers, collaborating in responsible purchasing initiatives, or by making supply chain stress-testing part of the RBC due diligence process.
- **Strengthening public-private collaboration on and through RBC, including**
 - ***Involving businesses in the design and implementation of RBC-based policies aiming to strengthen GVC resilience.*** As policy makers are designing strategies to make GVCs more resilient and ensure the security of essential goods, public-private collaboration is essential to design policies and strategies grounded in practical understanding of business challenges, and to engage businesses in the achievement of public goals. RBC can provide a common framework to support such collaboration and ensure that businesses meet government and international expectations on RBC.
 - ***Enhancing social dialogue at firm level and through adequate structures at national and global level.*** The crisis has highlighted the importance, risks and shortcomings related to workers protection, in particular those who are vulnerable and / or involved in critical sectors or supply chain functions. Social dialogue has also proven effective in accelerating

the design of solutions to address disruptions. Ensuring that the views of stakeholders are considered in the economy, GVCs and business operations is a practical and effective way to build resilience and make GVCs more inclusive. Governments can play an important role in encouraging and facilitating social dialogue, for example by forming adequate structures to support social dialogue. Such collaboration has proved successful during the COVID-19 pandemic. In Sri Lanka for example, a tripartite COVID-19 taskforce established by the government reached an agreement, endorsed by the Sri Lankan ministerial cabinet in May 2020, to ensure the payment of wages and employment to workers in all sectors. The agreement aims to ensure that workers remain in employment, and that in case they are not deployed, they are paid 50% of their basic wages and keep receiving pension contributions (IndustriALL, 2020). Such partnerships can be powerful to safeguard workers interests and foster economic resilience.

- **Promoting policy coherence between trade, investment and RBC.** The crisis has also highlighted the importance of government actions, which requires, among other things, deepening efforts to integrate RBC and sustainability considerations into trade and investment. Important milestones had already been achieved before COVID-19 and could be deepened by:
 - ***Mainstreaming RBC into trade policies.*** A recent report by Board of Trade Sweden highlights the need and rationale for bringing together the trade and RBC policy communities, which have often been treated in silos, to achieve a sustainable economic recovery (Kvarnström and Zurek, 2021). Several countries have already taken steps in this direction. The EU trade policy, for example, includes specific objectives to promote RBC and recognises that enhancing the resilience of supply chains goes hand-in-hand with the EU's objective of making supply chains more sustainable (EU, 2021). The APEC Putrajaya Vision adopted in November 2020 includes commitment to promote seamless connectivity, resilient supply chains and RBC as part of objectives related to trade and investment (APEC, 2020). Such examples could be generalised, and efforts to promote policy coherence trickled down at different level of regional, national and sub-national processes.
 - ***Promoting and using tools such as the Guidelines and the OECD Policy Framework for Investment (PFI) to enhance investment climates and embed RBC in the design of investment policies.*** For example, over 30 countries to date have used the PFI in collaboration with the OECD to assess and improve their investment climates through investment policy reviews (OECD, 2021). The 2020 ASEAN Economic Recovery Framework, which lays out ASEAN's strategy to exit and recover from the COVID-19 crisis, includes specific commitments and plans to promote sustainable and responsible investment using international frameworks such as the Guidelines and PFI as reference (ASEAN, 2020). Countries could also improve the links between investment and other sustainable policies and institutions to enhance the positive impact of international investment in the environment and society. Instruments such as the FDI Qualities Policy toolkit (OECD, 2021f) and FDI qualities Indicators could be useful to assess and enhance the qualities of FDI (OECD, 2019).
 - ***Integrating and implementing RBC provisions into trade and investment policies and ensuring their implementation.*** As indicated previously (See Box 1), RBC and sustainability considerations are increasingly integrated into economic instruments, including Free Trade Agreements. Such instruments can go a long way in promoting a level playing field on RBC and encouraging businesses at home and abroad to observe international RBC standards. Implementation of RBC and sustainability considerations contained in such policies can be strengthened through adequate monitoring and enforcement mechanisms. Some multilateral efforts are also relevant, such as WTO negotiations on Investment Facilitation for Development.

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