

Chapter 1

Introduction

1.1 Background of the Thesis

Child labor is a common phenomenon in developing countries and a debatable global issue. Most normative studies on child labor arrive at the conclusion that child labor is detrimental to social welfare (Maffei *et al.*, 2004). A normative statement concerning child labor always implies a value judgment. The value judgments concerning child labor may vary among different cultures. This might explain why child labor in some countries (especially in Africa) is not judged as "bad" by natives, while it seems to be harmful from the viewpoint of foreign observers. Besides, the stage of both social and economic development influences the way in which child labor is perceived. Even within a given society, value judgments can vary. In the developed countries, child labor is nowadays mostly considered as evil, but during as well as before the industrial revolution child labor used to be widely accepted (Hemmer *et al.*, 1996). There is a large group of critics that disapproves and termed child labor as "stealing childhood", "economic exploitation"¹, "perpetuate poverty for the next generation"², "reasons for adult unemployment"³, "unfair trade"⁴ etc.

According to recent estimates, 191 million children between the ages of 5 and 14 are economically active in the world in 2004, and this accounts for less than one-sixth (15.8 per cent) of the world's population of all children in that age (Hagemann, 2006); of those 166 million are child laborers⁵. In fact, 108 million child laborers in the world are younger than 12 years and more than 74 million children from the age

¹Children are paid at the lowest rates, and sometimes not at all.

²Child laborers deprived of education or healthy physical development, are likely to become adults with low earnings prospects.

³Children often replace adult labor; employers prefer them because they are cheap and docile.

⁴Countries that allow child labor are able to lower their labor costs; thus they attract investors and also benefit from "unfair trade" due to their low production costs.

⁵The ILO treats any child as economically active as long as they work for one hour or more in a reference week during the school year. Economic activity excludes children seeking work or those who are currently unemployed. On the other hand, the ILO defines a child laborer as follows: between the ages of 5-11 it is treated as synonymous with economically active while for ages 12-14 it includes children who do 14 or more hours of non-hazardous work per week or 1 hour of hazardous work per week (Hagemann, 2006 ; Basu, A. *et al.* forthcoming)

group 5 to 14 are employed in hazardous jobs. In total, there are 20 million fewer working children in this age group (5 to 14) than there had been four years earlier in 2000. The global picture emerges that child work is declining, the number of child laborers globally fell by 11 per cent over the last four years, while that of children in hazardous work decreased by 26 per cent (ILO, 2006). Latin America and the Caribbean are contributing the largest share of reducing child labor - the number of children at work has fallen by two-thirds over the last four years, with just 5 per cent of children now engaged in work. The least progress has been made in Sub-Saharan Africa, where the rates of population growth, HIV/AIDS infection and child labor remain alarmingly high. The total number of child laborers increases by more than 1 million in 2004 compared to 2000 in Sub-Saharan Africa. The Asian-Pacific region accounts for the largest number of child workers in the 5-14 age category, 122.3 million in total in 2004. It is followed by Sub-Saharan Africa and Latin America & the Caribbean with 49.3 million and 5.7 million, respectively. Developed economies and transition economies have the lowest absolute numbers of child workers. Sub-Saharan Africa has the highest proportion of working children. The estimates show that about 1 in 4 children younger than 15 years is economically active in this region (26.4 per cent); 1 in 5 in the Asia-Pacific region (18.8 per cent), and 1 in 20 in Latin America and the Caribbean. In Asia-Pacific and Latin America & the Caribbean the incidence is 18.8 and 5.1 per cent, respectively. Relatively few children are working in developed countries (ILO, 2004). Humphries (2003) points out, child labor was more prevalent in the 19th century newly industrializing countries of Britain, France, Belgium, Western parts of Prussia and the United States than in today's developing economies (Basu, A. *et al.*, forthcoming). According to the Census of England and Wales in 1861, 36.9 % of boys in the 10-14 age-group were laborers and the statistics for girls were 20.5% (Basu, K. 1998). The activism and economic progress of the 19th and early 20th century saw some sharp reductions in child labor in industrialized nations (Basu, K. *et al.* 2003).

South Asia remains home to the largest number of working children in the world. While statistics on the number of economically-active children vary, a conservative estimate is that some 20-30 million live in the five large South Asian countries. Children's workforce participation rates (the ratio of the number of child workers to the child population) range from just above 1 percent in Sri Lanka to more than 27 percent in Nepal (World Bank, 2000). The South Asian Coalition on Child Servitude (SACCS) however estimates that there are more than 80 million

working children in South Asia under 14. On an average, the percentage of working children/ economically active children in the age group 5-14 years varies between 5-42 percent in five major countries in South Asia (Bangladesh: 19.1 percent, India: 5.4 percent, Nepal: 41.7 percent, Pakistan: 8.3 percent). In South Asia, Nepal leads in terms of the percentage of children who are economically active. Sri Lanka makes a significant improvement of reducing child labor in South Asian Countries while Nepal has the opposite situation. A look at the index of total child labor (10-14 years of age) in South Asia with 1970 as base year shows that in the years 1950 and 1960, Sri Lanka had a higher child labor index compared with all other countries of the region. In the year 1995, the same figure declined to become the lowest amongst the countries of South Asia. At the same time there was also a marginal decline in the index of child labor for India whereas the other three countries (Bangladesh, Nepal, and Pakistan) recorded an increase in the child labor index. Projecting this trend into the future indicates that by the year 2010, Sri Lanka would reach zero and Nepal would reach highest on the child labor index of South Asian Countries (CUTS, 2003). All other countries would also show a varying degree of decline, except Nepal which would be the highest (Appendix A.1). The incidence of child labor in Nepal is similar to that of Sub-Saharan Africa where the highest proportion of children are laborers. The estimates show that almost one child in three below the age of 15 is economically active in Sub-Saharan Africa as well as Nepal. Child labor is a hard reality for one in every three Nepalese children, with each child laborer being a tangible living symbol of a vulnerable and marginalized family (Gilligan, 2003). Child laborers typically contribute between 20-25% of household income in Nepal, though there is no evidence that this is sufficient to raise a family out of poverty (NLFS, 1999; Gilligan, 2003).

In the process of globalization, the labor-intensive industries in South Asian Countries do not only earn a large share of foreign exchange, but also provide a significant share of employment by emphasizing export-led growth. In addition, the growth and expansion of these industries is determined by intra and inter industry competition to gain better comparative advantage across the South Asian Countries. Children are generally fast and quick learners, they do not have any labor union for support, and they are very cheap laborers. Therefore, the opponents of globalization argue that market integration, by increasing labor demand, expands the earnings opportunities of children and thereby inevitably leads to more child labor. A study in Vietnam (Edmonds *et al.*, 2005) shows that the increased earnings opportunities

associated with globalization for children working in export-oriented sectors do not necessarily lead to more child labor.

In recent years, the discussion about the impact of globalization on the incidence of child labor has started to evoke a debate in different literature. Neumayer and de Soysa (2005) argue that countries being more open towards trade and/or having a higher stock of foreign direct investment also have a lower incidence of child labor. They conclude that globalization is associated with less, not more, child labor. Maskus (1997), however, considers globalization as an expanded opportunity to engage in international trade so that a larger export sector will raise the demand for child labor inputs. According to Maskus (1997) as long as children work in a sector, formal or informal, which supplies inputs to the export sector, increased trade can lead to a greater child labor incidence. According to Brown (2002), the rise in the demand for child labor will be accompanied by a rise in the child's wage. This change lowers the return to education and raises the opportunity cost of education, thereby stimulating child labor. On the other hand, Basu and Van (1998) and Basu (2002) argue that any positive income effects that accompany trade openness will help families by meeting or even exceeding the critical adult-wage level at which child labor begins to decline. Contrary to this argument, Edmonds (2002) postulates that increased earning opportunities for parents may change the types of work performed by parents. As a result, children may be forced to take over some of the activities usually performed by adults within their household.

It does not seem to be worth to debate whether changes in local labor markets caused by globalization increases or decreases child labor because no developing country can afford not to participate and/or accept the opportunity of receiving foreign investment by trade creation and trade diversion. However, it might be well argued that the globalization process has been playing a major role in pushing the issue of fair and ethical trade⁶ as a priority issue in the international trade debate. That is why the above intellectual debate is very important to address the child labor problem in the international trade literature, especially after the nineties when consumers have learned from the media that a number of the products they purchase could have been produced by child labor.

Therefore, strong concern throughout the importing countries about the social status of the commodity as well as questions of ethical trade in the globalization

⁶Fair and ethical trade aims to ensure that conditions within mainstream production chains meet basic minimum standards and to eradicate the most exploitative forms of labor such as child and bonded labor and sweatshops. (Zadek *et al.*, 1998)

process have been raised. India's profits from exporting hand-woven carpets (in which a lot of child laborers are involved) increased from US\$ 65 million to US\$ 229 million between 1979 and 1983. Due to consumer boycotts that figure dropped to US\$ 150 million in 1993, indicating the power consumers have to putting an end to child labor by not buying carpets made by children (Charl, 2001). Activists have been quick in blaming trade liberalization for the negative effects on local labor markets, and have suggested trade sanctions as tools to coerce policy changes aimed at mitigating child labor (Edmonds, 2004). Trade intervention has taken the form of either the threat of or the immediate imposition of trade sanctions.

Strong support to the idea of using trade interventions for abolishing child labor arose from the Harkin's Bill, also called the US Child Labor Deterrence Act from 1993. This bill proposed to partially or fully ban the import of goods produced by child laborers. It was based on concerns raised by Senator Harkin about the lack of child protection and the need to ensure mass education (UNICEF, 2003). The immediate influence of the bill, which eventually never became law, was dramatic in the case of Bangladesh. Fearing a trade sanction and a loss in market share, almost all child laborers were fired from the garments sector in Bangladesh. An estimated 50,000 children lost their jobs (UNICEF, 2003), and nearly 1.5 million families were affected (CUTS, 2003) by the secondary effects. According to UNICEF (2003), 77 percent of the children retrenched from the garment industries were adversely affected in Bangladesh. Majorities of the children were pushed into the informal sector, which offers more hazardous and lower paid jobs. Trade sanctions, thus, have severe limitations. Many doubt the ability of trade sanctions to eliminate child labor (Bhagwati, 1995; Maskus, 1997). Theoretical models by Maskus (1997) and Melchior (1996) show that trade sanctions or import tariffs against countries where the use of child labor is prevalent do not necessarily reduce the incidence of child labor. On the contrary, the multinational company insisting that its subcontractors fire all child laborers may be doing those children more harm than good (Freeman, 1994). After being displaced from the export sector, these children may find themselves worse-off if no viable alternative like education or better working conditions in other sectors exists (Hemmer, 1996). In many developing countries, children may also have to work for the economic survival of the family (Grote *et al.*, 1998).

The main theoretical finding of the normative theory of child labor is that trade restrictions/bans which are put on child labor tainted imports from developing countries in order to make such countries comply with internationally harmonized child

labor standards are not the first best measures to accomplish this aim. Rather, the first best policy to implement international child labor standards would be income transfers from developed countries to poor families in developing countries. These transfers would compensate poor parents for the family income loss if they send their children to school instead of sending them into employment (Maffei, 2005). The question then arises why demands from interest groups in the developed world persist to enforce international child labor standards through trade policies. The political economic approach could be clear from the Harkin's Bill. The aim of the Harkin's bill was to avoid the employment of children aged 14 or less by eliminating the possibility of exporting products made by children to the American market. The reason for this unilateral measure is partly the concern for the children and partly the fear that adult employees in the US may lose their jobs due to competitive imports. This has partly been achieved as the US have managed to include social standards in NAFTA (Wiig *et al.*, 1997). The import competing sector in a developed country could also get benefits from putting trade restrictions on imports produced by child labor. Therefore, governments in developed countries would take into account those interests and therefore may want to restrict imports produced by child labor. Moreover, the altruistic consumers in developed countries could also increase their utility by deriving a utility gain if children are not employed in the production of the importable goods.

As a result, several measures and initiatives like 'Social Labeling' or 'Codes of Conduct' are directed towards ending the use of child labor. They are increasingly suggested in the context of ethical trade and implemented as an alternative tool to trade sanctions. Social labeling for example acts as a signal in the market informing consumers about the social conditions of production, and assuring them that the item or service they purchase is produced under equitable working conditions (Hilowitz, 1997). It is praised as a market-based and voluntary, and therefore more attractive instrument to raise labor standards (Basu *et al.*, 2000). Social labeling initiatives play an important role within the category of extra-national institutions (Hilowitz, 1997). Extra-national institutions dealing with child labor are based on legislation and other measures enacted in developed countries in order to curb child labor in developing countries (Basu, 1999)

A Brief History of Social Labels

Social labels have a long history, and their alter-ego consumer boycotts an even longer one. The Boston-Tea Party was an example of consumer action by early American colonists. Boycotting of products has been used by abolitionists in opposing the slave trade, and going further back, to 1327, the citizens of Canterbury imposed a consumer boycott on the Christ Church Monastery. The first social labels within consumer society were associated with the trade union and the co-operative movements. One of the first 'ethical brands' was the Co-op brand linked with the co-operative movement spearheaded by the 'Rochdale Pioneers' in the UK in the 19th Century. This is continued today in the CWS 'Co-op' brand. In the USA, the National Consumers League (NCL) developed and oversaw the use of the White Label on women and children's underwear which guaranteed that they were made in factories that obeyed all factory laws, made all goods on the premises, required no overtime work, and employed no children under the age of 16. The label was backed up by NCL representatives and its use spread to 13 states. Founded in 1899, NCL is the US pioneer consumer group which works to bring consumer power to bear on marketplace and workplace issues. NCL worked for child labor provisions in the Fair Labor Standards Act (passed in 1938) and more recently, has helped to construct the Child Labor Coalition (CLC) which is committed to ending child labor exploitation in the U.S. and abroad. The National Consumers League (NCL), with over 100 years of experience in fighting child labor, was part of the Rugmark campaign.

The Rugmark Foundation (1994), Care & Fair (1995), STEP (1995) were created to encourage manufacturers of hand knotted carpets to produce them without child labor. While the NGOs differ in their approach and objectives, they operate within a broader common goal - the removal of child labor. The common basic goals of the NGOs are to eliminate child labor from the hand-knotted carpets and also to rehabilitate former child carpet workers. Most Rugmark carpets are shipped to Germany which accounts for 30% of the rugmarked market as the largest share of Rugmark-licensed importers are from Germany. Part of the Rugmark program is to rehabilitate and educate former child carpet workers.

Source: Modified from Zadek *et al.*, 1998

Many labeling programs have been developed, especially by non-governmental organizations (NGOs) like Rugmark, Care & Fair, or STEP. To make sure that these labels remain credible, regular monitoring of the programs is conducted. Generally, if after one or two inspections, children are found working, the licensee is decertified and no longer permitted to use the agency's label. Nevertheless, labeling programs have been criticized on grounds of the credibility of the claims made on their labels. Some organizations believe that credible monitoring is simply an impossible task.

For example, the Secretary General of Care & Fair, argues that there are "280,000 looms in India spread over 100,000 square kilometers" (U.S. Department of Labor, 1997, p. 46.). Thus, it is argued that credible monitoring of such a large number of geographically dispersed looms is simply not tenable.

Several recent studies have highlighted the fact that Nepal lacks basic data needed for monitoring employment and labor market conditions⁷. Therefore, the study presented here is an attempt to collect and analyze primary data from Nepali carpet industries. It will focus on the two labeling programs Rugmark and Care & Fair, which have been in operation now for 10 years in Nepal. The Rugmark Foundation, established by "Brot fur die Welt", "Misereor", "terre des hommes" and UNICEF in 1995, aims at eliminating the employment of children in the carpet industry by assigning the Rugmark-label to carpets made without child labor. A fund has been set up which is financed by contributions of the exporting companies. This fund is intended to support the establishment of schools and training institutions in those regions where many children were employed prior to the campaign (Hemmer, 1996). Care & Fair is an association established by the German federation of carpet importers. The label does not promise child labor-free products, and monitoring is therefore not needed. It rather supports rehabilitation and education programs for children, financed by the imposition of an export charge levied on all carpet imports of member companies to Germany from India, Nepal and Pakistan (Hemmer, 1996).

The effectiveness of these labeling programs in eliminating child labor in the Nepali carpet industries will be analyzed in the following. The results of this research will contribute to a better understanding of whether the marketing signals carried by the logos of labeling NGOs are reliable or credible in terms of reducing child labor and increasing school attendance. Schooling decision on the part of the parents or guardians can reduce child labor by keeping children in schools and away from the work place. However, poverty compels children in many less developed countries, including South Asian Countries, to work. In making a decision whether or not to send children to school, parents, especially the less fortunate ones have to consider the 'opportunity cost' even though they may not be at all familiar with the concept per se. This opportunity cost comprises of the direct schooling expenses plus the forgone earnings of a child had she/he been engaged in some gainful employment. Schooling typically raises future earnings. But even when schooling is made more

⁷See for instance the report: International Labor Organization Nepal Labor Statistics: Review and Recommendations - A report prepared by an ILO mission, 1-10 July 1996, Kathmandu.