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Profits and poverty: The economics of forced labour

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The global integration of economies, including labour markets, has brought many opportunities for workers and businesses and has spurred economic growth. However progress has not been beneficial for all. Millions of people are trafficked while they search for decent jobs, are held in debt bondage or in slavery-like conditions, and are trapped by poverty and discrimination.

The abolition of slavery and forced labour was the first human rights struggle in modern history, and the development of international law around this issue has fundamentally shaped labour relations more broadly. The power of normative pressure against those who still use or condone the use of forced labour is essential. National legislation needs to be strengthened to combat forced labour, and penalties against those who profit from it need to be strictly enforced. Responses against forced labour, however, also require an understanding of the socio-economic root causes in order to bring about change.

This report looks at both the supply and demand sides of forced labour. It is based on primary data and, for the first time, provides solid evidence for a correlation between forced labour and poverty. The report further offers a new ILO estimate of the profits generated through the use of forced labour in various economic sectors, as well as in commercial sexual exploitation.

DATA AND DEFINITIONS

To determine the profits from forced labour, it was necessary first to develop a new estimate of its extent. In 2012, the ILO published new estimates indicating that about 21 million men, women and children are in forced labour. The vast majority, 90 per cent, is exploited in the private economy. The 2012 figure is significantly higher than the ILO's earlier estimate as a result of better data and an improved methodology. The new estimate confirmed that state-imposed forced labour is declining in importance, and recent political developments further contribute to this trend. In some countries, forced labour imposed by state authorities is still of major concern, and continued vigilance is needed to protect the freedom of workers from such exploitative and repressive state practice. The emphasis, however, has now shifted to addressing forced labour and human trafficking in the private economy, often in relation to organized crime.

In the 2012 survey, it was estimated that 22 per cent of people in forced labour are victims of commercial sexual exploitation, and 68 per cent are victims of forced labour exploitation, for example in agriculture, construction, domestic work or manufacturing. The Asia-Pacific region accounts for by far the largest number of forced labourers – almost 12 million (56 per cent) of the global total – whereas countries of Central, South-Eastern and Eastern Europe (non-EU) and the Commonwealth of Independent States (CIS) have the highest prevalence rate with 4.2 victims per 1,000 inhabitants.¹

To develop a new estimate of the profits generated by forced labour, the ILO used economic data stored in the database from which the 2012 Global Estimate is derived, such as information on sectors and industries where victims of forced labour were held, their wages, if wages had been paid at all, and other economic data.

In addition, the ILO implemented national surveys on forced labour, sometimes with a focus on specific sectors and industries, children and adults or a particular form of forced labour. The results of these surveys provide the basis for an analysis of the determinants of forced labour, focusing in particular on factors that make some people more vulnerable to it than others.

Governments that collaborated with the ILO to implement these surveys are to be commended for their willingness to test innovative survey methodologies, to validate results and to review policy recommendations. In September 2013, ILO member States and social partners adopted a resolution at the International Conference of Labour Statisticians that calls for further harmonization of the definition of forced labour for statistical purposes, the development of survey methodologies and the implementation of national surveys.

¹ For more information about the 2012 global estimate, see ILO Global Estimate of Forced Labour: Results and Methodology (Geneva, 2012).

The information presented in this report is based on the definition of forced labour enshrined in the ILO's Forced Labour Convention, 1930 (No. 29), adopted in 1930. The definition encompasses all forms of work or service, whether formal or informal, legal or illegal. Forced labour also requires an element of coercion ("menace of penalty") to distinguish it from labour exploitation more broadly. The free and informed consent of workers throughout the labour relationship is another important element of the definition.

Convention No. 29 requires member States to make forced labour a penal offence; hence the exaction of forced labour is not a minor labour law violation, but a criminal act. As such, it is closely related to the concept of human trafficking as defined by the UN Protocol of 2000 to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, Supplementing the United Nations Convention Against Transnational Organized Crime. The Protocol makes trafficking in persons a criminal offence. All exploitative purposes of trafficking are covered by the ILO's Forced Labour definition with the exception of trafficking for the purpose of the removal of organs.

Slavery or practices similar to slavery as defined by the UN Slavery Convention and Supplementary Convention on the Abolition of Slavery, the Slave Trade, and Institutions and Practices Similar to Slavery (1956) are also captured by the ILO's definition of forced labour, with some exceptions like forced marriage, unless it leads to the exaction of forced labour or service.

WHAT ARE THE PROFITS FROM FORCED LABOUR?

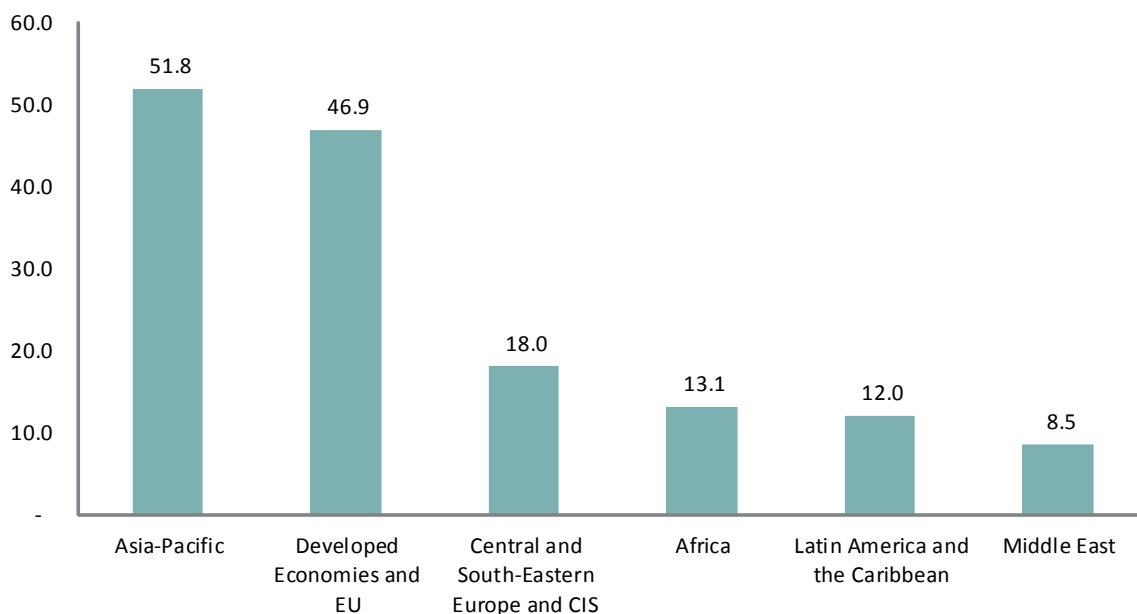
Profits generated by forced labour are by definition illegal. This study presents a new global estimate of the profits generated on the backs of the millions of forced labour victims today. In 2005, the ILO provided the first estimate of the profits from forced labour using data on the value added in the agricultural sector. Estimates were also given for commercial sexual exploitation. The focus was on the agricultural sector and commercial sexual exploitation as it was assumed that most forced labour victims would be found in these economic activities. Profits were defined as the difference between the average economic value added and the sum of expenditures on wage payments and intermediate consumption. It was estimated that the global profits made using forced labour were at least US\$44 billion per year, of which US\$32 billion was generated by human trafficking.²

² ILO: A Global Alliance against Forced Labour, Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Geneva 2005; Patrick Belser: Forced Labour and Human Trafficking: Estimating the Profits, ILO DECALARATION/WP/42, Geneva 2005

Based on recent estimates of the number of victims and a more refined methodology, the ILO is now able to present a new estimate of profits generated by forced labour. Profits are broken down into the following categories: commercial sexual exploitation, domestic work, agriculture and other economic activities. The latter category encompasses construction, manufacturing, mining and utilities.

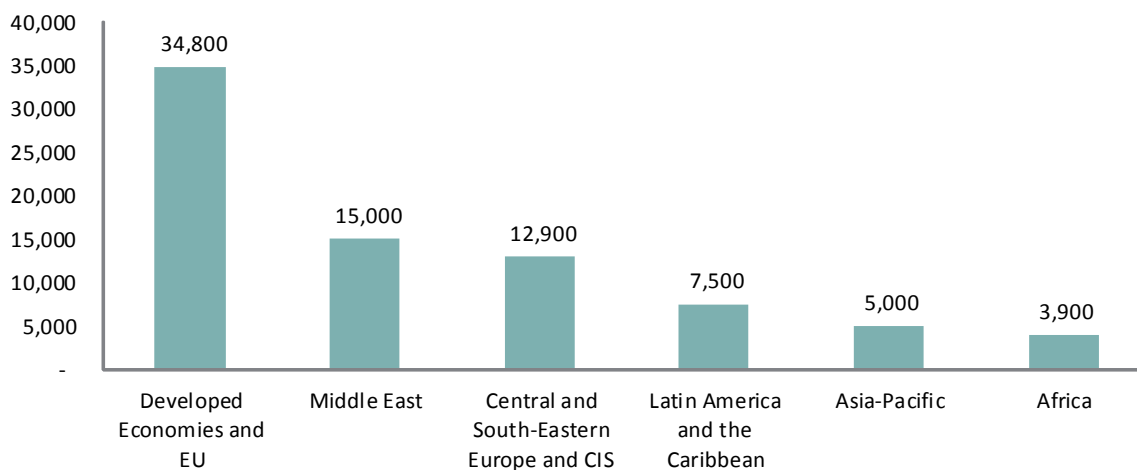
It is estimated that the total profits obtained from the use of forced labour in the private economy worldwide amount to US\$150 billion per year. A majority of the profits are generated in Asia, with two-thirds in this region originating from commercial sexual exploitation.

**Annual profits of forced labour per region
(US \$ billion)**



Annual profits per victim are highest in the developed economies (US\$34,800 per capita), followed by countries in the Middle East (US\$15,000 per capita), and lowest in the Asia-Pacific region (US\$5,000 per capita) and in Africa (US\$3,900 per capita).

**Annual profit per victim of forced labour per region
(US \$)**



Globally, two-thirds of the profits from forced labour were generated by commercial sexual exploitation, amounting to an estimated **US\$99 billion per year**. In calculating the profits, it is assumed that wages and intermediate consumption make up about 30 per cent of the total earnings of forced labour victims in commercial sexual exploitation.

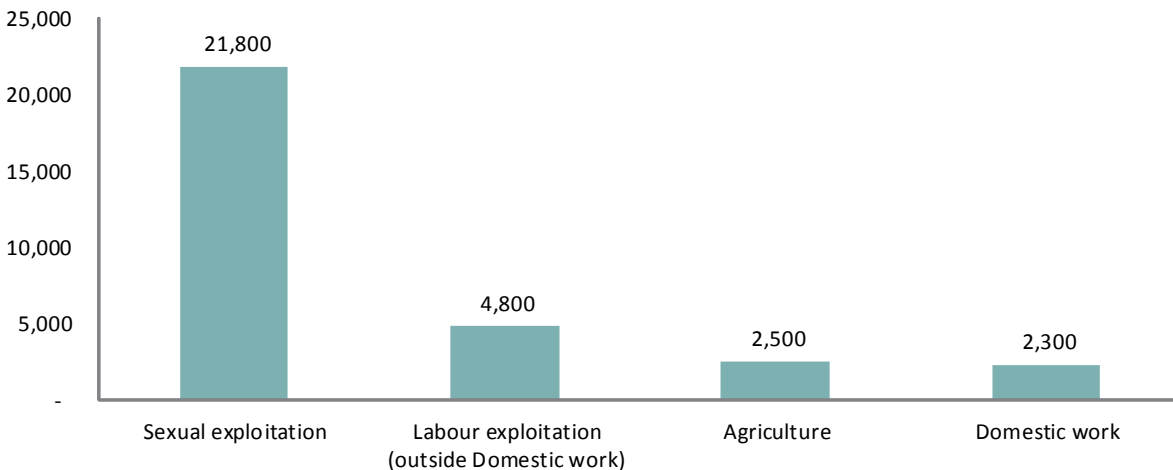
Victims of forced labour exploitation, including in domestic work, agriculture and other economic activities, generate an estimated **US\$51 billion** in profits per year. Of those, the profits from forced labour in agriculture, including forestry and fishing, are estimated to be **US\$9 billion per year**. This was calculated by estimating the difference between the value added accruing to labour (using the value added per worker, which was then multiplied by the labour share, conservatively estimated to be two-thirds) and the wages paid to victims of forced labour in that sector, using 2012 Global Database information.

Profits for other economic activities are estimated at **US\$34 billion per year**, encompassing construction, manufacturing, mining and utilities. In this case, the value added accruing to labour is calculated using the sector-specific average earnings divided by the labour share.

Finally, it is estimated that private households that employ domestic workers under conditions of forced labour save about **US\$8 billion annually** by not paying or underpaying their workers. Those savings were calculated based on the difference between the wage that domestic workers should receive and actual wages paid to domestic workers in forced labour. Based on information in the 2012 Global Database, it can be estimated that forced domestic workers are paid on average about 40 per cent of the wage they should receive.

Per capita profits are highest in commercial sexual exploitation, which can be explained by the demand for such services and the prices clients are willing to pay, by low capital investments and by the low operating costs associated with this activity.

**Annual profits per victim per sector of exploitation
(US \$)**



WHAT ARE THE SOCIO-ECONOMIC FACTORS THAT MAKE PEOPLE VULNERABLE TO FORCED LABOUR?

The research confirmed that forced labour is common in sectors and industries that attract low- or unskilled workers, where labour demand fluctuates and where working conditions are often poor. Commercial sexual exploitation apart, the sectors most often cited in the 2012 Global Estimate are agriculture, including fishing and forestry, construction, manufacturing, mining, utilities and domestic work. While highly skilled workers also exist in these sectors, victims of forced labour tend to be among the low- or unskilled workers.

The most striking finding of this research, however, is the clear correlation between household vulnerability to sudden income shocks and the likelihood of ending up in forced labour. Surveys cited in this report illustrate that, despite the variations in countries and economic conditions, poor households find it particularly difficult to deal with income shocks, especially those that push households below the food poverty line. In the presence of such shocks, men and women without social protection nets tend to borrow to smooth consumption, and to accept any job for themselves or their children, even under exploitative conditions. This can lead to heavy dependence on creditors, recruiters and unscrupulous employers who exploit their situation of vulnerability.

Lack of education and illiteracy are also key factors. Adults with low education levels and children whose parents are not educated are at higher risk of forced labour. Low education levels and illiteracy reduce employment options for workers and often force them to accept work under poor conditions. Furthermore, literate individuals who can read contracts may be in a better position to recognize situations that could lead to exploitation and coercion. Being educated and literate also leads to higher incomes that reduce the likelihood of falling into abject poverty, and hence reduces dependence on credits.

Gender is another important factor that determines the likelihood of being in forced labour, especially in relation to specific economic activities. According to the ILO's global estimate, about 55 per cent of all victims are women and girls. In commercial sexual exploitation and in domestic work, the vast majority of victims are women and girls. In other economic activities, however, men and boys tend to be disproportionately represented. According to national survey data, men and boys are slightly more at risk of falling victim to forced labour than women and girls. This can be explained by the selection of surveys and a particular focus on bonded labour or debt bondage. Previous ILO studies have shown that it is usually the male head of the household that borrows from moneylenders and

hence pledges his labour as collateral. This often implies that the entire family is considered to be bonded. Some country surveys showed that men who migrated were more often in forced labour than women, depending very much on the choice of the destination country. Other country surveys showed that single female-headed households were more at risk of forced labour than male-headed households. Thus, while gender is an important factor determining the risk of forced labour, it is often contextual with great variances across countries, sectors and forms of forced labour.

Finally, migration is an important risk factor. According to the ILO's global estimate, 44 per cent of all victims had migrated either within or across international borders prior to being in forced labour. Surveys that focused on migrant workers in Eastern Europe showed a clear correlation between the need to borrow money for the payment of recruitment fees and the risk of ending up in forced labour. Educated migrants were less likely to be in forced labour, pointing again to the importance of education. Finally, the choice of destination country and the legal status of migrant workers in that country played a significant role in determining the likelihood of being in forced labour: an irregular migration situation entails a higher risk of exposure to forced labour.

THE WAY FORWARD

While unscrupulous employers and criminals reap huge profits from the illegal exaction of forced labour, the losses incurred by the victims, their families and society are significant. Victims and their families lose income and as a result cannot escape poverty. In addition, many victims are traumatized and may need years to rebuild their lives. Law-abiding businesses and employers are disadvantaged by forced labour as it creates an environment of unfair competition and risks tarnishing the reputation of entire industries. Governments and societies are harmed because the profits generated by forced labour bypass national tax collection systems, and the costs involved in dealing with forced labour cases are significant.

What needs to be done? There is a critical need for standardized data collection methods across countries. Such standardization and regular data collection would enable the ILO and other international organizations to generate more reliable global figures, to measure trends and to better understand risk factors. Better data and research will contribute to the design of more effective policies. Following the resolution of the International Conference of Labour Statisticians adopted in September 2013, the ILO will now establish a working group of statisticians, economists and other experts to further advance data collection and research in this area.

However, if the lives of the 21 million men, women and children in forced labour are to be significantly changed, concrete and immediate action is needed. The fact that, with limited deterrence, huge profits can be made from millions of poor and uneducated workers who are easy to deceive provides a compelling argument for stronger government intervention. Despite enhanced enforcement action against forced labour and human trafficking in recent years, it remains a low risk and high gain enterprise. This has to change.

Measures are needed to strengthen laws and policies and reinforce inspection in sectors where the risk of forced labour is high. This should be linked to an early identification system of victims and their effective protection. Labour rights violations should be swiftly punished and criminal sanctions should be imposed on those who prey on particularly vulnerable workers. Workers need to be empowered by supporting their organization and access to remedies.

There is also a need to strengthen preventive measures against forced labour and to address specific risk factors. Social protection can prevent household vulnerability to sudden income shocks and debt bondage. Access to education and skills training can enhance the bargaining power of workers and prevent children in particular from becoming victims of forced labour. Measures to promote social inclusion and address discrimination against women and girls can also go a long way towards preventing forced labour. Good migration governance can enhance the positive development impact of migration and prevent the exploitation and abuse of migrant workers.

The need to address the socio-economic root causes of this hugely profitable illegal practice is urgent. Comprehensive measures are required that involve governments, workers, employers and other stakeholders working together to end forced labour. The continued existence of forced labour is bad for business, bad for development and bad for its victims. It is a practice that has no place in modern society and should be eradicated as a matter of priority.

Special Action Programme to Combat Forced Labour (SAP-FL)

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