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**Working Paper**

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Working Paper, No. 2007-03

**Provided in Cooperation with:**

Department of Economics, The University of Utah, Salt Lake City

*Suggested Citation:* Berik, Günseli; van der Meulen Rodgers, Yana (2008) : The debate on labor standards and international trade: Lessons from Cambodia and Bangladesh, Working Paper, No. 2007-03, The University of Utah, Department of Economics, Salt Lake City, UT

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DEPARTMENT OF ECONOMICS WORKING PAPER SERIES

**The Debate on Labor Standards and International Trade:  
Lessons from Cambodia and Bangladesh**

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June 2007

Revised January 2008

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# **The Debate on Labor Standards and International Trade: Lessons from Cambodia and Bangladesh**

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## **Abstract:**

This study examines the status and enforcement of labor standards in two Asian economies (Cambodia and Bangladesh) that are experiencing strong pressures to cut labor costs and improve the price competitiveness of their textile and garment exports. Analysis of survey, interview, and compliance data indicate differing trajectories in compliance with basic labor standards. While problems persist in Bangladesh, compliance has improved in Cambodia following a trade agreement with the United States that linked positive trade incentives with labor standards enforcement. These contrasting experiences suggest that trade-linked schemes can achieve improvements in labor standards without hindering export growth or job growth.

**Keywords:** Working conditions, enforcement, labor laws, female workers, gender and trade

**Acknowledgements:** The authors gratefully acknowledge Indira Hirway, Joyce Jacobsen, Mümtaz Keklik, Shaianne Osterreich, Farah Siddique, and Yumiko Yamamoto for helpful comments, Nursel Aydiner-Avsar and Kulkunya Prayarach for research assistance, and the United Nations Development Programme for financial support.

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## **I. Introduction**

Accession to the World Trade Organization and the liberalization of capital and commodity flows have increased the integration of many Asian countries into world markets. In addition, these economies have confronted world-wide forces of intensified competition in textiles and apparel production following the expiration of the Multi-Fibre Agreement (MFA) trade regime in 1994 and the Agreement on Textiles and Clothing (ATC) at the end of 2004. The MFA, in place from 1974, guaranteed protected markets for poor countries and made it possible for a number of low-cost producing countries to launch export-oriented textiles and apparel industries that generated significant export earnings and employment, primarily for women workers. In the post-ATC world, these economies have strengthened their competition with each other and with the dominant producers—China and India—to increase exports. The ex-quota countries face the prospect of job losses and downward pressure on wages and working conditions as potential consequences of the new trade regime in world textile and garment markets.

This study uses a combination of survey, focus group, and compliance data to demonstrate that Cambodia and Bangladesh have taken different trajectories in response to increased trade competition.<sup>1</sup> Garment production is the main source of wage employment for women in Cambodia and Bangladesh, where over two-thirds of the workforce in the garment sector is female. As a result, the growing competition with China and the structural shifts in these economies pose substantial challenges for female workers. Yet in Cambodia, results from a series of factory inspections indicate that labor standards have been improving in recent years. In contrast, downward pressure on labor costs in Bangladesh has resulted in the persistence of poor working conditions and violations of the country's labor laws and its international commitments.

The main explanation for the difference between these two countries is an innovative labor standards program in Cambodia that appears to have helped boost both exports as well as employment conditions. The program, known as “Better Factories Cambodia,” developed out of a bilateral trade agreement that the United States negotiated with Cambodia in 1999. The agreement linked expansion of Cambodia’s U.S. market access to improvements in labor standards, relied on the International Labor Organization to serve as the monitoring agent, and adopted rigorous transparency measures in reporting factory inspection results.

Our objective is to revisit the debate on labor standards in the development literature using evidence from these contrasting trajectories. The debate has been marked by sharp division on the usefulness of global enforcement of labor standards as a means for improving wages and terms of employment in a world of liberalized trade and capital flows. While some see trade sanctions as a necessary mechanism, many have expressed strong opposition to trade-linked enforcement of labor standards. This opposition is based on fears of job losses in developing countries as they push for higher workplace standards. We use the case study evidence from Cambodia and Bangladesh to argue that textile and garment exporting countries can protect jobs and resist a decline in labor standards in an increasingly competitive environment.

Despite negative predictions, in the first two years after the ATC ended, neither country saw a decline in export values or experienced net employment losses in textiles and garments. Quite the contrary, their exports and share of major markets have increased. This positive development is widely attributed to the effects of trade rules that shielded Cambodia and Bangladesh from the full effects of the ATC expiration. Specifically, import restrictions imposed on China in 2005 by the European Union and the United States have limited competition in several major categories of apparel. Given that these restrictions will expire at the end of 2008,

there is continued risk of job losses and downward pressure on wages and labor costs for Cambodia and Bangladesh. A trade-incentives approach, similar in principle to that of Cambodia's trade agreement with the United States, offers a promising alternative to overcome the potential trade off between jobs and working conditions associated with the trade-sanctions approach. When simultaneously implemented in several competitor countries, and supported by complementary domestic policies, we argue that this approach could provide an effective strategy for raising the global floor under working conditions and worker pay.

## **II. The Labor Standards Debate**

China's dominance in world markets for textiles and garments and its poor compliance with its own national legislation on labor rights have raised concerns that in the post-ATC era competing countries will seek to weaken their labor standards. This concern is based on the microeconomic argument that emphasizes the costs to employers for complying with legislation that protects workers (Nataraj *et al.* 1998; Rodgers and Berik 2006). In an environment where capital is mobile, employers who compete on the basis of labor costs may relocate production to countries with weaker worker protections, hence putting added pressure on employers that comply with labor regulations. The alternative argument is that competition from China may be resisted by a strategy that promotes competitiveness based on improved working conditions. By promoting improved labor relations, cooperation on the job, and worker effort, better labor standards are likely to generate productivity increases that could compensate for their higher costs (Palley 2004). In addition, higher labor standards offer greater macroeconomic benefits as well as political stability. They enable a redistribution of income toward workers, and thereby raise global demand and contribute to growth (Marshall 1994). Some further argue that the realization of these private and public returns is more feasible in an economy that has balance

between domestic- and export-oriented production, compared to an economy that has a fully open, export-oriented market structure (Palley 2004, 2006).

Previous empirical studies have examined these arguments using various indicators of labor standards, trade competitiveness, and foreign direct investment (FDI). Much of the literature focuses on the International Labor Organization's (ILO) core labor standards as enshrined in eight conventions.<sup>2</sup> Studies that focus on the relationship between labor standards and comparative advantage or export success find either no relationship or a positive relationship, with the caveat that these results can be sensitive to variations in model specification and in the labor-intensity of exports (Kucera and Sarna 2006).<sup>3</sup> In addition, studies that investigate whether improved labor standards deter FDI generally do not find such adverse effects.<sup>4</sup> While no direct evidence supports the contribution of greater domestic orientation to improvements in working conditions, Felipe and Lim (2005) have raised doubts as to whether less export orientation can help Asian economies to achieve stable growth. Most empirical studies of labor standards have not focused on the anti-discrimination core labor standard. Those that have examined gender discrimination have used measures based on women's access to paid work and not discrimination in wages (Kucera 2002; Busse 2002).

In a parallel body of scholarship, a number of authors have focused specifically on the usefulness of globally-enforced labor standards in improving the livelihoods of women workers employed in export-oriented sectors of low income countries. Several authors support global enforcement of labor standards while recognizing that enforcement through a "social clause" or through the World Trade Organization (WTO) is not sufficient for improving women's working conditions and raising absolute and relative pay.<sup>5</sup> For example, Cagatay (1996) calls for broader labor market regulations, stronger union activity, and new political objectives that are cognizant

of the nature of women's work (since much of women's work lies beyond the scope of the market, and within the market their work often lies in informal units beyond the reach of regulation). Hale (1996) goes a step further in arguing that the standards embraced in discussions of trade-linked social clauses serve as a minimum baseline; international alliances need to perform additional work in order to fully incorporate the needs of women in developing countries. In general, improved enforcement of labor standards and full employment policies can help provide women with more job security, and assist women in gaining access to a wide range of better-paying jobs in traditionally male-dominated occupations. Seguino (2006) and Seguino and Grown (2006) argue for the benefits of a complementary policy package in which labor standards enforcement combined with industrial policy and investments in new technology can help to diversify exports and spur productivity growth. They also argue that prioritizing gender equality in an open economy may necessitate measures that slow the speed with which firms can leave a country in response to women's higher relative wages.

Others oppose a social clause approach on grounds that any global enforcement of labor standards will inevitably result in job losses for women workers. In particular, Kabeer (2004) argues that enforcement of labor standards with trade sanctions could exacerbate inequalities in the labor market due to a reduction in women's employment or job transfers to the informal sector (which has no labor standards). Like Kabeer, Razavi (1999) views keeping export-oriented jobs as a policy priority over concern for working conditions, no matter how poor these conditions are. Implicitly, both authors interpret the pursuit of (and compliance with) core labor standards in *outcome* terms, with high penalties for failure to achieve them, rather than as a *process*. They also tend to overlook the international nature of a global enforcement mechanism, which would reduce the incentive for firms and buyers to move across countries in search of the



lowest labor costs. Razavi is also doubtful that many poor countries can succeed in raising productivity through upgrading export products and matching the productivity increases with higher wages. Even if a country is successful in upgrading products and technologies, she cautions that the upgrade may entail a shift in employment opportunities toward men, and several empirical studies indicate that this concern is valid: Berik (2000), Fussell (2000), and Elson (1996) each argue that upgrading products generates more jobs for men, who are considered more skilled by employers. In Bangladesh, the limited upgrading of technology and the diversification of garment production since the late 1990s have increased the demand for skilled labor and reduced the demand for low-skilled helpers, who are almost exclusively women (Zohir 2003). Both Kabeer and Razavi argue for a move away from a narrow focus on labor standards in the formal sector toward more broad-based social policies that raise living standards for large numbers of women without jeopardizing their employment. They do not entertain the possibility of crafting a complementary set of policies that aim to improve labor standards.

Some researchers argue that a social clause has lost its relevance beginning in 1996 when members of the WTO rejected an active role for the organization in enforcing global labor standards. Since then, the WTO has not pursued close collaboration with the ILO on this issue (Burda 2007).<sup>6</sup> The enforcement vacuum among international organizations, together with the growing consumer pressure for goods production under decent working conditions, has contributed to a surge in corporate self-regulation through codes of conduct since the mid-1990s.<sup>7</sup> With pressure from non-governmental organizations and the negative consequences of media exposures of non-compliance, most major retailers and manufacturers now either have their own compliance programs or rely on multi-stakeholder organizations such as the Fair Labor Association.<sup>8</sup> These programs establish a set of guidelines—usually the ILO’s core standards

plus a few other labor regulations—under which a factory must operate; these guidelines are usually administered by company-employed inspectors or by independent audit companies. While this approach may improve working conditions in monitored factories, the scope of the effort is limited.

To identify more effective policy options that seek to improve working conditions and raise wages of women workers in export-oriented manufacturing without adversely affecting their employment prospects, in the remaining sections we discuss the particular labor standards enforcement program in Cambodia's textiles and garments industry. Contrary to the likely results of a punitive, trade-sanctions mechanism, the trade-incentive approach as employed in Cambodia set in motion a process that relied upon transparent monitoring of working conditions, and offered a promising alternative means for expanding employment and improving working conditions.<sup>9</sup> In contrast, leaving labor standards enforcement to a combination of market forces and poorly-paid public sector inspectors in Bangladesh has resulted not only in the persistence of poor working conditions, but also an environment of employment precariousness and instability as global competition in textiles and garment markets intensified.

### **III. Manufacturing Garments for Export in Cambodia and Bangladesh**

Cambodia and Bangladesh rank among the poorest Asian economies. Cambodia has a fairly small population of 14 million people and a Gross National Income per person of \$380 (World Bank 2007). Since liberalizing its investment and trade policies in the early 1990s, Cambodia has seen increasing FDI inflows and international trade. During this period Cambodia's garment exports have grown rapidly, due in large part to binding MFA restrictions on larger exporting countries that helped small garment producers such as Cambodia gain access to large markets overseas (Kolben 2004). Access to a large workforce consisting of low-wage

female labor also proved instrumental in Cambodia's export performance. In response to the rapid growth of garment exports from Cambodia, the United States negotiated a bilateral trade agreement with Cambodia. Signed into effect in January 1999, the U.S.–Cambodia Bilateral Textile Trade Agreement set quantitative limits on Cambodia's clothing exports, with conditions for increasing the quotas subject to “substantial compliance” with Cambodia's national labor laws and internationally-recognized core labor standards. This unique bilateral trade agreement used trade incentives for enforcing labor standards, and it relied on the ILO to serve as the monitoring body. The trade agreement expired late in 2004, coinciding with the end of the Agreement on Textiles and Clothing, but the factory monitoring program continued and expanded in scope.

With a population of 142 million in 2005, Bangladesh is one of the most populous countries in Asia and has a Gross National Income of \$470 per person in current US\$ (World Bank 2007). Bangladesh's garment industry took off in the early 1980s after a major structural adjustment program emphasized export-orientation. Garment exports made up just one percent of Bangladesh's total manufactured exports in 1981 (United Nations Industrial Development Organization 2005). At the time, textiles accounted for 93 percent of exports, over half of which were destined for developing country markets. Over the next two decades, Bangladesh's dependence on garment exports increased substantially, while at the same time their destination shifted dramatically toward industrial country markets. As in Cambodia, garment manufacturers in Bangladesh have relied on a large supply of low wage female labor, an important part of labor-intensive production for the high-volume, low-margin segment of the world market. Low wages and generally poor adherence to the country's own labor regulations and international labor conventions provided the basis for competitive labor costs.

To the surprise of skeptics who expected most small Asian exporters to record export declines following the end of the ATC in 2004, Cambodia and Bangladesh managed to increase their exports of ready-made garments to the United States. Cambodia, often considered a “disadvantaged” producer of garments, saw an increase of 50 percent in the value of garment exports to the United States between 2004 and 2006. As shown in Figure 1, United States imports from Cambodia took off rapidly after 1996 and grew steadily, with jumps occurring in 1999 and 2000 following the Bilateral Trade Agreement. Textiles make up a very small share while ready-made garments, both knitted and non-knitted, make up the lion’s share. Large jumps in the value of apparel imports from Cambodia also. Figure 1 also indicates that Bangladesh increased the value of its textile and clothing exports to the United States by almost 50 percent between 2004 and 2006. Both Cambodia and Bangladesh also saw a small increase in their share of the United States market rather than the expected decrease. Between 2004 and 2006, Cambodia’s U.S. market share of textile and garment imports rose from 1.7 percent to 2.2 percent, and Bangladesh recorded a small increase from 2.3 to 3.0 percent. However, China recorded a tremendous increase in its U.S. market share of textile and garment imports in a short period, from 17.2 percent in 2004 to 27.5 percent in 2006.<sup>10</sup>

In contrast to the gains in the U.S. market, both Cambodia and Bangladesh met with less success in the European Union market (Figure 2). In the early 2000s, both Cambodia’s and Bangladesh’s exports to the European Union stagnated somewhat until 2004. Clearly, the end of the ATC had an impact on the European Union’s imports from both countries, with a marked decline in total value in 2005. Yet by the end of 2006, European Union garment imports were back up, especially for Bangladesh. In terms of market shares, Cambodia’s E.U. market share of textile and garment imports remained fairly flat, with a 0.8 percent share in 2004 and a 0.7

percent share in 2006, while Bangladesh recorded a very small increase from 5.6 to 6.0 percent. As in the United States market, China recorded an enormous increase in its E.U. market share of textile and garment imports, from 21.6 percent in 2004 to 29.4 percent in 2006.<sup>11</sup>

In sum, Cambodia and Bangladesh have done roughly equally well with regard to export growth, in spite of their different approaches to labor standards, and by the end of the first two years after the expiration of the ATC, neither country experienced a decline in garment exports to its major markets. Quite the contrary, both increased their exports and gained market share. Yet the trade environment that contributed to this positive development will change when global competition in garments intensifies following Vietnam's membership in the WTO in 2007 and the end of import restrictions on China in 2009. These changes put women's employment, wages, and labor standards in both Cambodia and Bangladesh at continued risk. While insufficient time series data on labor standards enforcement prevent us from empirically testing the links between trade performance and labor standards enforcement, we can use these countries' experiences with labor standards regulation to make policy conclusions about minimizing the projected risks for women workers.

#### **IV. Labor Standards in Cambodia and Bangladesh**

Both Cambodia and Bangladesh are extremely poor developing economies with histories of weak adherence to labor standards in industrial production. In both countries, textile and garment workers experienced numerous violations of worker rights supposedly guaranteed in their national labor codes, ranging from long working hours, forced overtime, illegal pay deductions, lack of safe and sanitary working conditions, and denial of the freedom to associate and bargain collectively (Chowdhury Repon and Ahamed 2005; Kolben 2004; Hall 2000; Wells 2006; Zohir 2001). In this section, we discuss the regulations in place and their enforcement,

without comparing the levels of labor standards in Bangladesh and Cambodia but with a view toward examining the direction of change in recent years.

Cambodia. Cambodia's Constitution and the 1997 Labor Code encompass a comprehensive set of labor regulations that reflect the country's ratification of all eight of the ILO's core labor standards (ILO 2007a). Although Cambodia's ratification record is among the best in Asia, having these rights on the books does not mean that they are enforced, and the government appears to have placed low priority on enforcing most areas of the Labor Code (United States Department of State 2006). In the exercise of trade union rights, for example, Cambodia ranks roughly in the middle of all Asian countries, where workers have fewer trade union rights compared to other developing regions (Kucera 2004; Rodgers and Berik 2006).

Labor regulations are viewed by only a small proportion of firms as a major or severe obstacle to their investment decisions in Cambodia. As indicated by a survey on the investment climate that the World Bank conducted in 2003, fewer than 6 percent of firms interviewed considered labor regulations a "major or severe" obstacle, compared to a global average of 12 percent (World Bank 2006). In contrast, relatively high levels of corruption, disorder, economic uncertainty, and uncompetitive practices dampened Cambodia's investment climate. Weak regulatory institutions and a dearth of important business-related codes, such as bankruptcy and arbitration laws presented additional difficulties for firms (United States Department of State 2006). The costs of administrative hurdles and corruption were estimated to reach as high as 7 percent of the total value of sales in the early 2000s (United States Agency for International Development [USAID] 2005). Corruption was viewed as the main reason why enforcement of Cambodia's 1997 Labor Code was so difficult before the U.S.-Cambodia trade agreement (Kolben 2004). Low-paid labor inspectors purportedly accepted bribes for under-reporting code

violations; extensive cronyism between the government and industry contributed to poor enforcement of the Labor Code; and weak unions existed more to mobilize political support for particular leaders than to promote the needs of workers.

Almost 300,000 people in Cambodia work in the garment industry, and about 90 percent of Cambodia's workforce in apparel production is female (USAID 2005). This proportion is even higher than the average of 75 percent female in garments across Asian economies (Rodgers and Berik 2006). Most of these women originate from the rural sector. Within the garment sector, the majority of women have a primary school education or less, which helps to explain why they predominantly obtain jobs as sewing machine operators and positions in labor-intensive production areas. Men in the garment sector are employed in relatively higher-paying positions in management and in more capital-intensive areas of production. Even for the same occupation categories, women's relative lack of educational attainment helps to explain why they achieve lower ranking positions, such as junior-level controllers, while men work as senior-level controllers (Adhikari and Yamamoto 2006). Available data indicate that in 2003, the female to male wage ratio stood at 67 percent after controlling for gender differences in age and experience, with considerable variation across occupation groups and education categories (World Bank 2004).

High concentration indices in Cambodia's textiles and garment industries suggest that individual establishments have relatively more market power, and by implication, more negotiation power in employer-employee relations relative to other sectors (Cambodia National Institute of Statistics 2000). Further information in Kolben (2004) indicates that almost all textile and garment factories are foreign-owned, with ownership origins in Taiwan, Singapore, Thailand, and Malaysia, and with ownership patterns that reflect considerable factory movement from

country to country in search of low-cost labor. Owners' strong bargaining power, combined with weak enforcement of labor regulations and an environment of corruption, contributed to very poor working conditions before the 1999 trade agreement came into effect. The labor disputes that did occur after promulgating the Labor Code mostly involved worker demands for standards to which they were already legally entitled (United States Department of State 2006). These disputes continued during the U.S.–Cambodia trade agreement period since gains in working conditions and worker rights occurred slowly. In addition, the AFL-CIO, the large United States labor organization, supported labor-standards compliance in Cambodia and provided Cambodian workers with training in how to organize and bargain collectively (Wells 2006).

Bangladesh. Bangladesh has ratified seven out of the eight core ILO conventions, and it has extensive national labor laws that protect workers. Child labor in the garment sector has almost disappeared in recent years following concerted efforts put in motion as a result of pressure from the United States and the ILO.<sup>12</sup> However, the government has a poor enforcement record, particularly for trade union rights and anti-discrimination legislation. Bangladesh had among the weakest union rights in Asia in the mid-1990s, and Export Processing Zones continue to advertise the absence of union activity as a way to attract FDI (Rodgers and Berik 2006; Export Promotion Bureau 2007). A very small proportion of workers (mostly male) belong to unions, which function as extensions of political parties and are therefore limited in their effectiveness as representative of workers' interests (Kabeer 2004). According to the World Bank surveys on the investment climate, a smaller proportion of the workforce is unionized in Bangladesh compared to other countries, fewer days are lost to strikes and other labor disputes, and fewer firms view Bangladesh's labor regulations as a major obstacle (World Bank 2006). As in Cambodia, firms cite non-labor aspects of competitiveness as more important obstacles. For



example, in 2002 problems with electricity supply and corruption were identified as major obstacles by 73 percent and 58 percent of firms, respectively, in contrast to 8.4 percent who viewed labor regulations as such.

In 2003, an estimated 1.8 million workers, about 60 percent women, held formal jobs in the garment sector (Bangladesh Bureau of Statistics 2004). The sector offers better pay for women workers compared to their few alternatives outside of manufacturing (Kabeer and Mahmud 2004), though it is a low-wage sub-sector of manufacturing. Gender segregation of employment, the lack of job alternatives for women on any significant scale, the lack of minimum wage increases, and absence of effective union activity contribute to low pay in the sector.<sup>13</sup> Bangladesh's hyper-specialization in garment exports has been accompanied by an extreme concentration of women's employment in garments production as well as a high proportion of workers who are women in the sector.<sup>14</sup> Over time, this concentration has increased and garments became the source of more than 90 percent of manufacturing sector jobs for women in 1997 (the last year in the employment data series), up from 0.1 percent in 1981 (UNIDO 2005).

## **V. Impact of Monitoring Program in Cambodia**

The U.S.–Cambodia trade agreement produced a labor-standards compliance program called Better Factories Cambodia (known as the ILO Garment Sector Working Conditions Improvement Project until 2005, when the ILO renamed it to reflect a stronger focus on remediation and training). This program includes technical assistance and capacity building for strengthening the enforcement capability of Cambodia's government, as well as direct monitoring and inspections of all garments factories by ILO personnel. The program was initially funded with a fairly modest budget of \$1.4 million, of which the United States government paid

\$1 million, the Cambodian government paid \$200,000, and the Garment Manufacturers Association of Cambodia contributed \$200,000 (ILO 2005a). Program administrators kept costs down primarily with their local hiring of factory monitors who were paid salaries that were low by international standards but high enough by local standards to avoid the risk of bribery (Polaski 2006).

An extension of the program in 2003 with these same three funders saw the Cambodian government paying a higher proportion (27 percent) of the total cost, and subsequent funding announcements indicate that by 2009, the Cambodian government will provide the highest portion of funding (ILO 2005a, Better Factories Cambodia 2006). Having the program locally managed and funded is viewed as contributing to the program's sustainability. While the modest start-up costs would help to make the program replicable in other low-income countries, the increased burden on poor country governments over time is likely to reduce its attractiveness. To the extent that the Cambodian government is borrowing from international donors to cover these costs, this funding structure implies that Cambodia is bearing the implementation costs in the form of higher debt as well as upfront costs. In contrast, international buyers, who have enjoyed the benefits of what in effect became a type of reputation insurance, paid none of the program's start-up costs (Polaski 2006, Better Factories Cambodia 2006).

The main source of evidence on the effectiveness of the monitoring program comes from summary reports of factory inspections posted on-line by the ILO ([www.betterfactories.org](http://www.betterfactories.org)). These reports provide a unique opportunity to obtain more information on the impact of a factory monitoring program on working conditions, employment outcomes, and factory closures in the garment industry. Yet this reporting system does entail some drawbacks, not least of which is the "judge and jury" problem in which the organization charged with monitoring factory

compliance (the ILO) also has the authority to compile and publish the results. It is unclear how this judge and jury issue may affect monitoring results. In one direction of potential bias, the original trade agreement gave the ILO rather than Cambodian NGOs or unions the dominant role in determining compliance, and it did not specify the meaning of “substantial compliance” with Cambodian and international labor standards (Wells 2006). Both these factors could potentially give the ILO excessive latitude in interpreting whether particular factories had code violations. If the ILO wanted to signal program success, it may have downplayed non-compliance. Working in the opposite direction, the ILO had no authority to force factories to become compliant with labor standards and implement suggestions for improvements. In such a scenario, the ILO may have overcompensated by taking a tougher stance in published monitoring reports. With this caveat in mind, the ILO reports overall do point to benefits over time for Cambodia’s workers in the area of higher wages and improvements in core labor standards.

To date, the ILO has published nineteen “synthesis” reports for the years 2001 through 2007. To generate the inspection reports, all factories were divided into five groups, and each group had an initial visit by ILO inspectors and then up to six additional follow-up visits. Analysis of the first eight reports in Polaski (2006) indicates that during the first visit, the ILO monitors typically found fairly good compliance with several core labor standards (no child labor and no discrimination by sex), but compliance with health, safety, wage, and hour regulations was poor. A small number of factories were cited for major violations of workers’ rights to form unions and bargain collectively. During the initial visits, ILO inspectors made suggestions for improvements, and in the follow-up visits inspectors recorded whether factories had implemented the suggestions. Factories showed the greatest responsiveness in correcting wage

payment infractions, while they demonstrated more limited success in correcting problems with health, safety, and overtime regulations (Polaski 2006; Wells 2006).

Tabulations of factory inspection results in the more recent reports (which changed in format and transparency beginning with the seventeenth report) indicate further improvement in working conditions in Cambodia's garment factories, with good compliance with minimum wage and overtime pay regulations as a result of the repeat factory inspections. Table 1 shows inspection results from the seventeenth and nineteenth synthesis reports covering a total of 212 and 227 factories that were visited during May-October in 2006 and 2007. The highest compliance rates are for correct payment of overtime wages and minimum wages, with at least 92 percent of factories paying the correct wages for regular and piece-rate workers. Yet compliance drops rapidly for occupational safety issues, such as installing needle guards on sewing machines, and restricting overtime hours to just two hours per day. The synthesis reports for both years cite evidence of no forced labor, and strong improvements in employers' efforts to raise worker awareness of labor laws and workplace entitlements (ILO 2006b, 2007b). However, there is still some evidence of discrimination: in 2007, out of 227 inspected factories 17 engaged in some form of gender discrimination, and 8 factories engaged in some form of anti-union discrimination.

Tabulations of data from the factory inspection reports indicate a fairly high rate of closure for factories following their first inspections in 2001. Between 2001 and early 2006, a total of 240 factories went through an initial inspection, and 40 of those factories (or 17 percent) closed.<sup>15</sup> These results suggest that the gains in labor standards for women who remain employed may be partially offset by job losses for women in factories that are forced to close. That said, it is not possible to determine from the synthesis reports the exact reasons for factory closures. The

factories may have closed even without the labor standards enforcement program due to their inability to compete in the new post-ATC world trade environment.

Moreover, it is important to consider the factory closure data in light of data the opening of new factories. While the inspection reports cite the number of factory closures, they do not indicate whether factories that first enter the inspection cycle are newly created factories or existing factories that are new to the inspection cycle. Other evidence indicates that the number of garment factories operating in Cambodia increased on net by 28 between 2004 and 2005 (ILO 2006a). In addition, foreign ownership is increasing while domestic ownership is falling, suggesting that the factory closures are primarily Cambodian-owned operations and that in the period leading up to the end of ATC, Cambodia became a choice site for FDI.<sup>16</sup> Moreover, employment data indicate a rise in the number of jobs in the garment industry. The total number of workers in garments has risen steadily every year, from approximately 110,000 in 2000 to 285,000 in 2006 (ILO 2006a). This rise includes an increase of 10.4 percent between 2004 and 2005 when the ATC ended, suggesting that women's employment opportunities have continued to grow during the period of increased enforcement of labor standards.

Although the program has focused primarily on labor standards enforcement, Better Factories Cambodia has also implemented a number of new training programs. These programs include a training course that helps newly employed workers to understand their rights and also helps employers to improve on their existing training methods. The program has also organized training sessions for human resource managers and trade union leaders on topics such as employment contracts, working conditions, and worker recruitment. As a further innovation, Better Factories Cambodia has sponsored and launched a new soap opera on national television called "At the Factory Gates." The main objective behind the television show is to educate new

female employees, as well as the general public, about worker rights in the garment factories, dispute resolution, and ways to handle workplace issues. The series aims to educate in a way that is easy to understand, with scenes in actual factory settings. The idea to educate the Cambodian public about worker rights through a soap opera is supported with a growing scholarly literature on the success of using education-in-entertainment programming (Singhal and Rogers 1999).<sup>17</sup>

## **VI. Weak Monitoring: Persistence of Noncompliance in Bangladesh**

Studies that span two decades indicate the persistence of the same set of working condition problems in Bangladesh's garment sector.<sup>18</sup> Poor employer compliance with the country's own laws and with international conventions ratified by the government is further confirmed by compliance evidence collected by the Fair Labor Association (FLA) as well as a 2006 focus group discussion with workers in Dhaka. We compiled data on the observance of labor standards from reports generated through unannounced factory visits of FLA monitors to mostly Export Processing Zone (EPZ) factories in Bangladesh in 2005.<sup>19</sup> The focus group was conducted in July 2006 with eleven garment workers in a Dhaka *basti* (slum) for a project sponsored by the United Nations Development Programme, with one of the authors participating.<sup>20</sup>

Unlike Cambodia's monitoring program, which publicizes the names of non-complying factories, the FLA public reports disclose the identity of the buyers but not the factories. This reporting mode is arguably less conducive to achieving improvements in labor standards than the fully transparent approach (Polaski 2006). That said, the compliance record of FLA-monitored factories is likely to be at least as good as other EPZ factories and better than non-EPZ factories in Bangladesh. Comparative research on earnings and working conditions indicates that EPZ factories offer superior conditions compared to non-EPZ factories (Kabeer and Mahmud 2004).

In addition, participation of companies in the FLA monitoring program is voluntary and their suppliers consent to periodic monitoring and follow-up visits by the FLA monitors for remediation. Thus, even if the supplier is not shamed through public announcement of monitoring results, both the buyer and the factory would have a vested interest in compliance with the FLA code of conduct.

Figure 3 shows how various types of labor standard violations in garment factories were distributed relative to China, the rest of Asia, and other regions in 2005. To construct this figure, we compiled country-level data from the FLA tracking charts generated in each initial factory visit.<sup>21</sup> In cases where a factory was in violation of multiple provisions of a given FLA code (such as health and safety), we recorded it as a single case of non-compliance. Hence the figure reports whether or not a code violation was observed, not its severity. In the four factory visits in Bangladesh in 2005, there were 23 code violations documented out of a total of 301 violations in clothing factories worldwide. For Bangladesh, the major violation was non-compliance with code awareness, which accounted for 17 percent of all violations. FLA inspectors found limited code awareness among workers and supervisors, insufficient code posting (which is intended to serve as an awareness-raising tool in the factories), and absence of confidential reporting channels for non-compliance in the factory. However, taken together, violations of wages and benefits, hours of work, and overtime compensation codes accounted for 35 percent of all violations in Bangladesh. Noncompliance with the wages and hours codes also accounted for most of the code problems elsewhere and in Bangladesh in previous years' data.<sup>22</sup> These are the categories in which ILO-monitored compliance in Cambodia yielded improved results. Bangladesh's violations in wages and benefits category were consistent with China and other Asian factories as a whole but considerably lower than the record for other regions. In contrast,

Bangladesh's record for excessive hours of work was considerably worse than China and other regions.

The factory tracking charts indicate a wide range of violations among Bangladeshi suppliers of national laws designed to ensure a minimum wage, a wage breakdown, timely wage payment, overtime pay, limits on overtime, voluntary overtime, periodic days off, and transparent payment statements. Participants in the Dhaka focus group also emphasized problems they experienced with delayed wage payments, punitive deductions of pay, hours of work in excess of legal working hours, and continuous work schedules. It was common for workers to work 72 hours per week and only take two days off per month.

Noncompliance with health and safety regulations was less prevalent in Bangladesh than elsewhere.<sup>23</sup> Given the large sizes of Bangladesh's inspected factories, with employment ranging from 530 to 1404 workers in 2005, health and safety code violations present serious risks. Factory tracking charts indicate inadequate fire safety equipment and training, inadequate first aid kits and procedures, inadequate toilet facilities, lack or non-use of protective gear as common problems. Such violations in non-EPZ factories is fairly common in Bangladesh and attributed to the rapid growth of the industry in the 1980s and 1990s, which left little time for expansion of proper infrastructure and adjustment of regulatory mechanisms. Many factories continued to operate in residential buildings not intended to accommodate factory production. This state of affairs has resulted in fires and building collapses in garment factories (FLA 2005).

Harassment or abuse of workers was more prevalent in Bangladesh than elsewhere (Figure 3). Verbal abuse, penalties for mistakes or failure to achieve production targets were some of the common harassment problems and were accompanied by lack of written disciplinary policy or training for supervisors. While the FLA inspections in 2003 and 2004 further revealed



problems of physical abuse (FLA 2005), the 2005 reports do not indicate physical abuse. Problems with beating in factories were documented by garment worker surveys conducted by the Bangladesh Institute of Development Studies in 1990 and 1997 (Zohir 2001, 2003). For example, in 1997, 14 percent of surveyed female workers in the Dhaka EPZ reported being hit by supervisors, a higher proportion than workers in non-EPZ factories. Moreover, workers in the 2006 focus group also reported verbal and physical abuse in response to their inability to meet hourly production targets set by supervisors. Workers indicated that even if they could meet the targets in the first two hours, they could not keep up the pace for the entire day because the quotas were increased each time they met the target.

The FLA visits in 2005 did not record any non-compliance on union rights or the non-discrimination code. Because Bangladeshi EPZs have suspended workers' rights to unionize and bargain collectively, the union rights evidence in Figure 3 refers to effectiveness of the Workers' Welfare Committee in the factory. However, the FLA reports indicate a risk of non-compliance in three of the inspected factories. One factory did not have any workers' organization, while the other two had a Workers' Welfare Committee. Yet either workers did not know of the Committee's existence or did not trust it because the worker representative was selected by management. In the Dhaka focus group, non-EPZ factory employees reported that their factories had no union (or other worker organization) presence. In practice, those workers who appeared to instigate for higher pay frequently earned higher wages. While the FLA monitors did not report any violation of the non-discrimination code in 2005, workers in the focus group reported gender differentials in pay for the same job as sewing machine operator. They stated that men were paid a base wage of 2,000 Taka compared to 1,500 Taka for women, and men also received a relatively higher overtime rate.<sup>24</sup>

Among the regulations that specifically address women, contrary to Bangladeshi law, the FLA inspectors also report the existence of non-functional childcare facilities in two of the factories (i.e. workers were not aware of its existence and the space was used for other purposes). The maternity leave provision (not raised as a discrimination issue in the FLA's 2005 factory reports) remains largely on the books. As in most other Asian countries, Bangladeshi law provides for 12-weeks of employer-financed maternity leave (Nataraj *et al.* 1998). In practice, however, women workers rarely exercise their legal rights to full maternity leave. In the early 1980s their reluctance reportedly stemmed from onerous requirements to obtain the six-week leave prior to delivery as well as male co-workers' lack of support for maternity leave (Hossain *et al.* 1988). Recent survey evidence indicates that 53 percent of respondents thought that their employer did not provide maternity leave (Chowdhury Repon and Ahamed 2005). Workers in the Dhaka focus group reported that their employers did not provide maternity leave. Pregnant workers usually quit their jobs to have the baby and later would seek a new job.

## **VII. An Agenda for Improving Labor Conditions in Export Manufacturing**

To the surprise of skeptics who expected most small Asian exporters to record export declines following the end of the Agreement on Textiles and Clothing, Cambodia and Bangladesh both increased their exports of ready-made garments to the United States and the European Union. However, the temporary nature of the relatively protected trade environment that enabled this export growth after the end of the ATC suggests that these countries continue to risk employment loss and erosion of labor standards. The Better Factories Cambodia monitoring and training program may offer greater protection to jobs in Cambodia during the transitional phase. Buyers are likely to continue sourcing from Cambodia, given recent evidence that buyers and investors value compliance with labor standards and the growing awareness of the Better

Factories Cambodia program.<sup>25</sup> Survey results in the Foreign Investment Advisory Service (2004) support this argument, with international buyers giving Cambodia's labor standards compliance a higher rating than regional competitors (including China and Bangladesh). Respondents in the survey also viewed improved labor standards as having a positive effect on a number of worker productivity indicators, but a negative effect on production costs. As of 2004, all the buyers surveyed planned to either increase or maintain their purchasing levels from Cambodia after the end of the ATC. In contrast, Bangladesh's reliance on the market for monitoring labor standards provides little else but the discipline of the market when Bangladesh faces the full force of international competition in 2009.

Among low-income, export-oriented economies, a complementary set of policies that include a trade-incentives approach can be pursued to increase the chances of improving working conditions and expanding employment in the new global order of intensified competition. As the centerpiece of a strategy for trade and decent working conditions, we propose forging trade arrangements under a Generalized System of Preferences (GSP)-type scheme that rewards compliance with national labor regulations and internationally-recognized labor rights. Currently, under the GSP, the European Union and United States can offer increased export market access to the least developed countries, such as Cambodia and Bangladesh, at reduced tariff rates or duty-free, conditional on the exporting country's achievement of certain requirements such as improved labor standards.<sup>26</sup> As this paper has shown, linking export quota expansions with adherence to national labor laws and international conventions, coupled with independent monitoring by the ILO, has served as a viable enforcement mechanism in Cambodia. Monitoring reports indicate considerable progress in improving work conditions as a result of the inspection process and repeat factory visits.

In a post-ATC trade regime that no longer allows the use of quotas to regulate trade, reduced tariffs or duty-free market access under the GSP or a similar scheme could serve as the reward for progress in working conditions. Implementing the GSP with a credible monitoring program in a group of competing least-developed countries can work as an effective tool for lifting the global floor under wages and working conditions. As a global initiative, this proposal calls for revisiting the GSP to transform it into an instrument that truly benefits developing countries. Revisions include removing obstacles to GSP benefits, creating a global institutional structure for GSP implementation, and supporting developing country efforts to boost working conditions.<sup>27</sup> Hence we argue for the feasibility of improving labor standards through a GSP-type scheme and show the lack of improvement when left to the market mechanism. Of course implementation of this proposal is contingent on political conditions, particularly in developed countries that would have to play a leading role in extending such GSPs to other countries.

This trade-incentive approach requires an international mechanism for funding its monitoring component. International agencies and brand name buyers ought to share the cost of monitoring, since improved working conditions can be considered a global public good. In this scenario, buyers reap the benefits of expanded sales by consumers eager to spend on “sweat-free” products made under decent working conditions. Shifting a greater proportion of the monitoring costs toward international buyers will facilitate replication of the proposed trade-incentives approach in other low-income countries. Moreover, suppliers at the end of the global value chain in garments operate in a highly price competitive environment, and if burdened with the added cost of workplace reforms and wage increases, they may not undertake sustainable improvements in working conditions.

Even if corporate codes of conduct continue to spread, relying on companies to self-regulate compliance does not ensure adequate safeguards for working conditions, especially in light of strong consumer demand for low-cost clothing, the lack of agreement among corporations and monitoring groups over a common set of labor standards, and the large number of factories and sub-contractors that remain outside the scope of private monitoring efforts. Therefore, government enforcement of and funding for viable enforcement structures remain top policy priorities.

This strategy for improvement of labor standards also necessitates complementary domestic policies that strengthen non-labor aspects of export competitiveness. In both Bangladesh and Cambodia, non-labor components of costs and supply bottlenecks have hampered competitiveness and created non-negotiable costs, making labor costs the only true variable cost. Investment climate data show fairly clearly the need to fight corruption in both economies, which serves not only macroeconomic objectives but also helps to improve the enforcement of labor standards. In addition, Bangladesh has experienced persistent problems with infrastructure (especially electricity supply), insufficient financing, and high reliance on imported inputs in the context of cumbersome trade and customs regulations. These problems have raised costs, reduced productivity, and weakened export competitiveness. Investments in infrastructure, such as highways and port improvement, as well as organizational improvements in firms, can cut non-labor costs and reduce lead-time in ready-made garment exports. This argument is consistent with evidence in Dollar *et al.* (2005), who show that reduction of these infrastructural bottlenecks are associated with higher growth and accumulation at the firm level.

Industrial policy that diversifies export products and moves toward higher quality exports also serves as a component in the strategy for better labor standards. Price inelastic goods with

low income elasticity constitute ideal targets. While Cambodia has secured its access to niche markets that value socially responsible production, the government of neither Cambodia nor Bangladesh is pursuing such productivity-enhancing industrial policy. This approach, implemented by several other developing countries--most notably in East Asia, facilitates higher wages and better working conditions given the higher markups in markets for such products (Chang 2003). The strategy can also attract multinational buyers and investors who value social stability fostered by compliance with standards that protect workers' fundamental worker rights and appeal to industrialized country consumers. Pollin, Burns, and Heintz (2004) find that the retail price increases needed to cover the cost of a substantial improvement in labor standards in developing country garment factories fall well within the range of price increases that American consumers are willing to bear. Industrial policy, however, entails questions as to whether it could be implemented on a large enough scale in poor economies and whether it would generate sufficient higher-quality jobs to replace the low-skill, low-paid jobs, particularly for women workers. A potential shift of the gender composition of employment in garments production away from women to men calls for the state to vigorously pursue anti-discrimination measures in training and hiring policies.

In closing, we do not see a trade-incentive mechanism as the magic bullet for raising labor standards in low-income, export-oriented economies. We do, however, see trade incentives as a promising route when coupled with strong independent monitoring as well as domestic policies that promote productivity and fairness. Such a complementary set of policies increases the chances that the trade-linked strategy would work to improve labor standards while minimizing risks to employment and export growth. When simultaneously implemented across low-income countries, this approach provides an effective strategy for raising the global floor in

working conditions. Breathing new life into the GSP and revisiting global governance of trade are essential for improving working conditions and reshaping trade policy in a manner that benefits developing countries.

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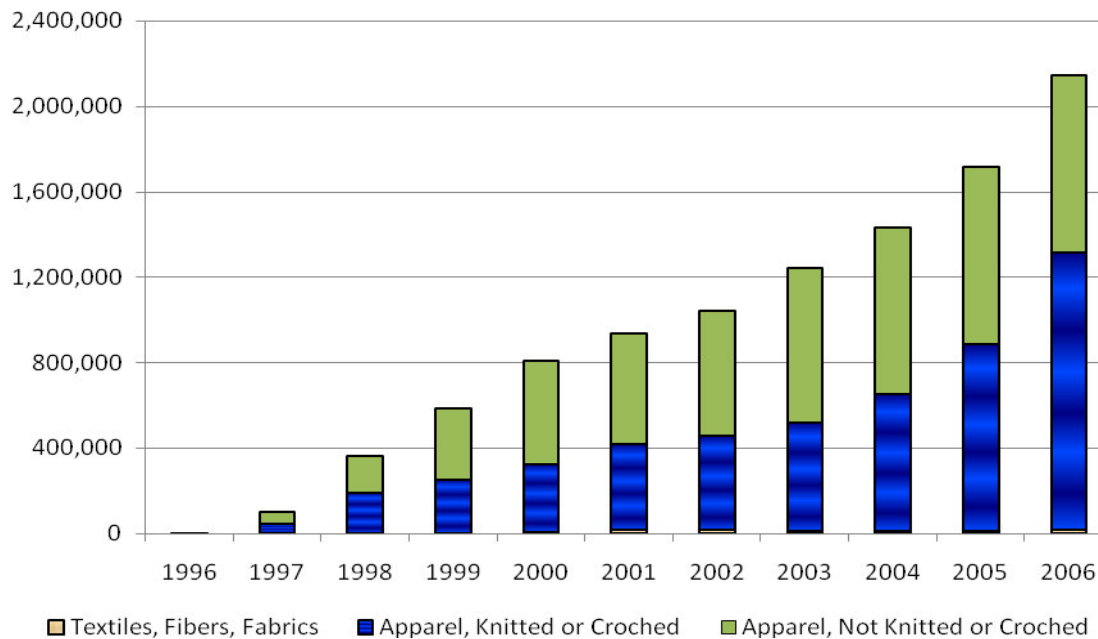
**Table 1.** Number of Cambodian Factories in Compliance with Selected Labor Standards

	<i>Proportion of Factories</i>	
	<i>2006</i>	<i>2007</i>
<b>Total Factories Inspected</b>	<b>100%</b>	<b>100%</b>
Correct OT Wage for Regular Workers	95%	98%
Correct OT Wage for Piece-Rate Workers	93%	95%
Correct OT Wage for Casual Workers	93%	93%
Minimum Wage for Regular Workers	93%	98%
Minimum Wage for Piece-Rate Workers	92%	97%
Minimum Wage for Casual Workers	74%	69%
18 Days of Annual Leave	67%	94%
Payment for Maternity Leave	65%	95%
Voluntary Overtime	49%	78%
Paid Sick Leave	41%	68%
Provide Personal Protective Equipment	34%	56%
Install Needle Guards on Sewing Machines	28%	48%
Overtime Limited to Two Hours per day	24%	38%

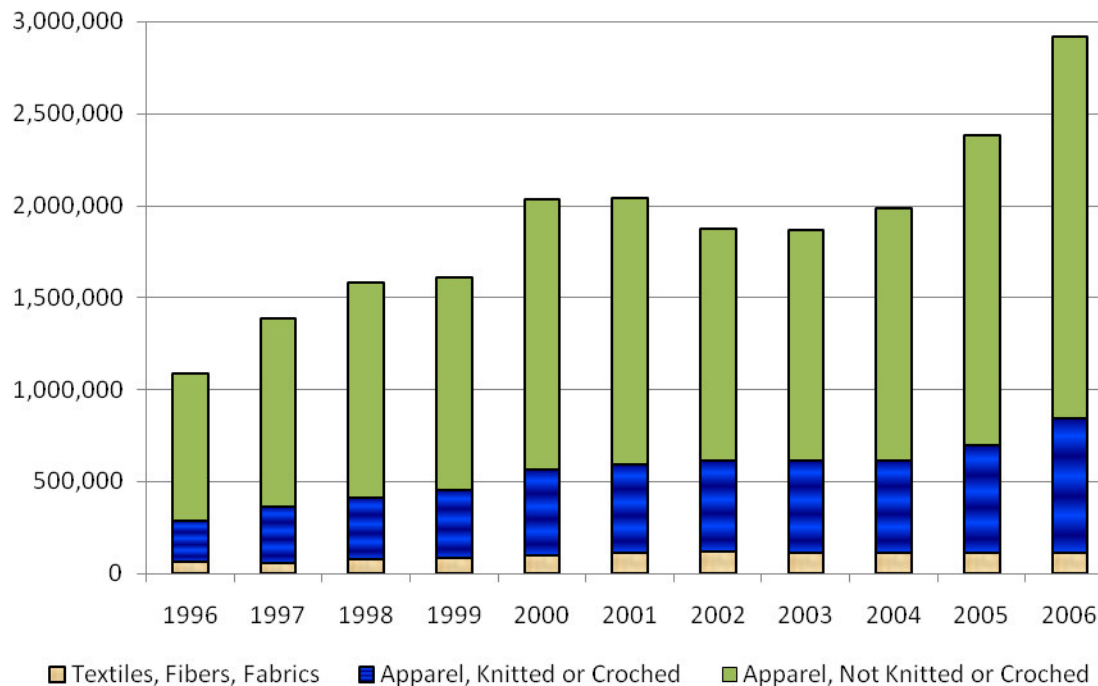
Source: ILO (2006b, 2007b). A total of 212 and 227 factories were inspected in the Better Factories Cambodia program in May through October of 2006 and 2007, respectively.

**Figure 1.** United States Textile and Garments Imports from Cambodia and Bangladesh (in 1000s US\$)

Panel A: From Cambodia



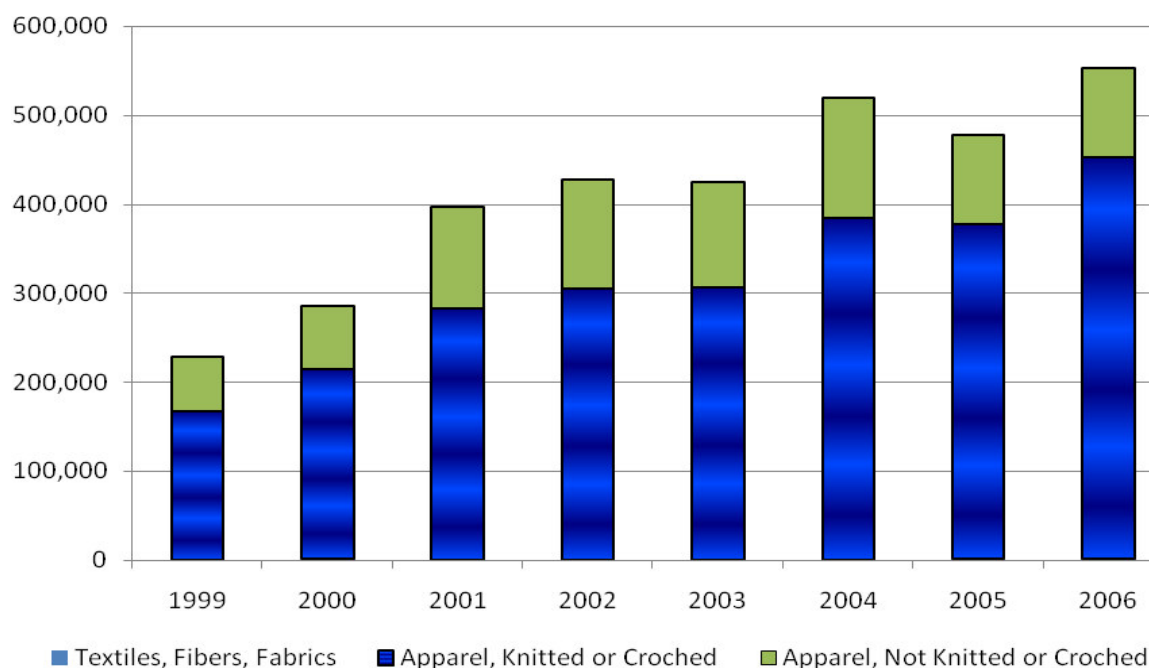
Panel B: From Bangladesh



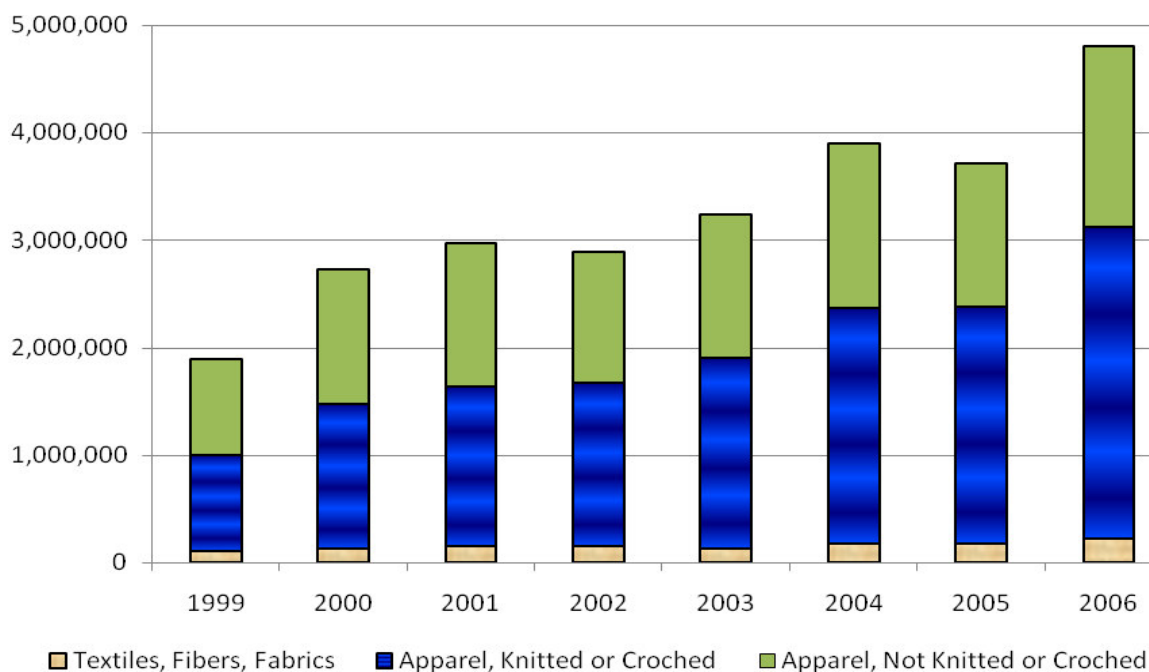
Note: Trade categories include HTC codes 50 (silk yarns and fabrics) through 63 (other made-up textile articles). Source: Authors' calculations using import data from the United States International Trade Commission (2007).

**Figure 2.** European Union Textile and Garments Imports from Cambodia and Bangladesh (in 1000s of Euro)

Panel A: From Cambodia



Panel B: From Bangladesh

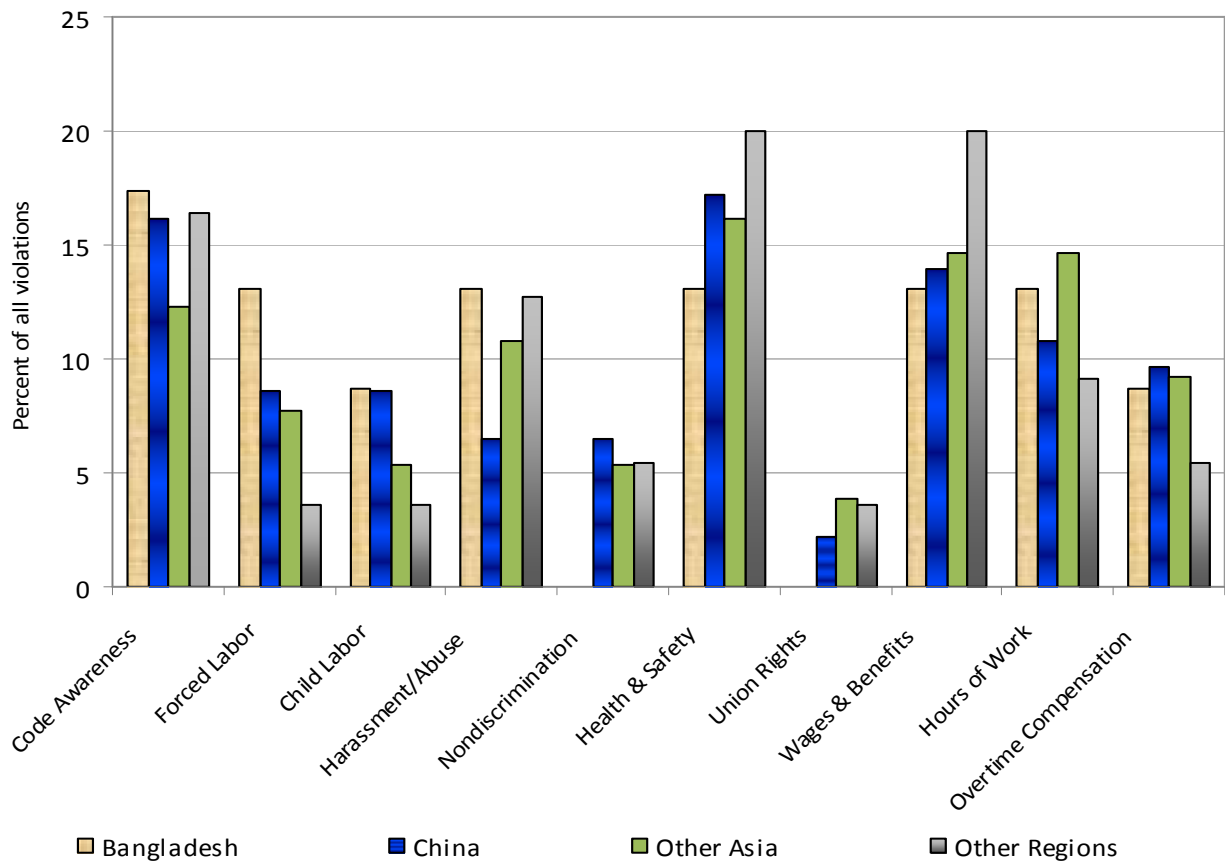


Note: EU is the EU-25 as specified in the source data. Trade categories include HTC codes 50 (silk yarns and fabrics) through 63 (other made-up textile articles).

Source: Authors' calculations using import data from European Commission (2007).



**Figure 3.** Code of Conduct Violations in Clothing Factories Monitored by the Fair Labour Association, 2005



Note: The number of violations in each country or region is indicated in parentheses.  
Source: Fair Labor Association (2006).

## Endnotes

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<sup>1</sup> Country-level studies provide contextual information on economic history and institutions, and they have the advantage of examining outcomes that are generated as a result of a combination of economic shocks and policies (Rodrik 2003). Comparative evaluation of country studies can also help identify empirical regularities that could be used in building and testing formal models.

<sup>2</sup> These conventions prohibit child labor (No. 138 and No. 182), eliminate forced labor (No. 29 and No. 105), prohibit discrimination (No. 100 and No. 111), and ensure freedom of association and collective bargaining (No. 87 and No. 98).

<sup>3</sup> See Rodrik (1996), Organization for Economic Cooperation and Development (1996, 2000), Busse (2002), Flanagan and Gould (2003), and Kucera and Sarna (2006).

<sup>4</sup> See Rodrik (1996), Kucera (2002), Cooke and Noble (1998), Palley (2005), and Neumayer and de Soysa (2005).

<sup>5</sup> Following the literature, we refer to the “social clause” as a legal provision in an international trade agreement that seeks to eliminate the worst forms of worker exploitation in exporting countries. Under such a clause, importing countries could prevent exporters with unacceptable labor standards from receiving preferential trade terms under the Generalized System of Preferences or Most Favored Nation status, or they could impose punitive trade sanctions through higher tariffs, more restrictive non-tariff barriers, or outright bans (Lim 2001). Most discussions of the social clause are based on the core ILO conventions.

<sup>6</sup> For further discussion on how the World Trade Organization is distancing itself from discussions of a social clause, see Sum and Ngai (2005).

<sup>7</sup> For a comprehensive review of issues related to codes of conduct, see Jenkins *et al.* (2002).

<sup>8</sup> The FLA combines the efforts of industry, universities, and consumer, labor and human rights organizations to improve labor standards in factories that supply goods for FLA-affiliated companies ([www.fairlabor.org](http://www.fairlabor.org)).

<sup>9</sup> See Barry and Reddy (2006) for an argument, which is similar in spirit, in favor of linking labor standards to trade, primarily through positive trade incentives.

<sup>10</sup> Authors’ calculations using import data from the United States International Trade Commission (2007).

<sup>11</sup> Authors’ calculations using import data from European Commission (2007).

<sup>12</sup> See Elliott and Freeman (2003) for a summary of this successful program in the late 1990s. The ILO, along with UNICEF and the Bangladesh Garment Manufacturers and Exporters Association, funded and oversaw the monitoring of the joint effort.

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<sup>13</sup> The minimum monthly pay for an entry-level garment worker was increased in October 2006, the first raise since 1994. However, as of late 2007, the policy has yet to see widespread implementation in garment factories owing to political turmoil and the lack of enforcement.

<sup>14</sup> This portrait of gendered employment and wage trends is based on authors' calculations using UNIDO (2005).

<sup>15</sup> This number reflects tabulations of data from the first sixteen reports; the seventeenth report changed in format and did not include the number of factories that closed.

<sup>16</sup> This evidence is consistent with other research results that multinational firms tend to pay higher wages and have better working conditions than domestically-owned firms in developing countries (Brown *et al.* 2004).

<sup>17</sup> This approach is being used in other countries such as China, Mexico, and India to try to affect social change in such areas as HIV and AIDS prevention, family planning, environmentally-sound behaviors, and attitudes about the status of women.

<sup>18</sup> See Hossain *et al.* (1988), Zohir (2001), and Chowdhury Repon and Ahamed (2005).

<sup>19</sup> In addition to the core labor standards of the ILO, the FLA uses key terms of employment criteria and a code awareness criterion (which records workers' and managers' awareness of the FLA workplace code of conduct in the factory) as the basis for monitoring. The FLA relies on external monitors who are accredited, local, and independent. The brand-name companies make a commitment to promote labor standards in their suppliers (and apply the higher standard if the national laws differ from the FLA codes). The FLA-affiliated companies have to convey the expected standards to their suppliers, monitor them, work on remediation when violations are identified on monitoring visits by the FLA, and agree to public reports.

<sup>20</sup> The focus group discussion on July 11, 2006 took place in a worker's home in Rayerbazar Basti, Dhaka. The ages of workers ranged from 14 to 35, with an average age of 19 years. Years at garment work ranged from a quarter year to 17 years, with an average of almost 4 years. This demographic profile is consistent with results of surveys of the Bangladesh Institute of Development Studies (Zohir 2001, 2003).

<sup>21</sup> The tracking charts provide evidence on the remediation process following the initial visit that identifies noncompliance, with most instances recorded as "pending" or "ongoing."

<sup>22</sup> The FLA does not monitor factories in Cambodia.

<sup>23</sup> However, additional tabulations for severity of code violations indicate that most code violations occur in the area of health and safety, not only in Bangladesh but also in China, the rest of Asia, and other regions.

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<sup>24</sup> In Figure 3 for Bangladesh, violations on child labor involved lack of documentation of age, and violations on forced labor involved employment of workers without a contract, which constitutes a form of forced labor according to the FLA code of conduct (FLA 2006).

<sup>25</sup> A number of large multinational corporations have publicly pledged support for the Better Factories Cambodia program (with some announcing this support on their corporate websites). These companies include Gap, Nike, Reebok, Adidas, Levi Strauss, Sears, Wal-Mart, Hennes and Mauritz (H & M), the Children's Place, and Walt Disney (ILO 2005b).

<sup>26</sup> Since 1984, the US GSP has made eligibility for duty free imports conditional on a country's progress toward ensuring "internationally recognized workers rights," which includes most of the core standards of the ILO, but also wages and hours-related provisions. However, the program has been limited in scope, accounting for about 2-3 percent of US imports, because of other restrictions on benefits (for example, exclusion of certain products—such as textiles and clothing). There is some evidence that using the GSP does promote labor standards (Elliott and Freeman 2003). The E.U. currently provides duty-free access to Cambodia and Bangladesh under its GSP (which is called "Everything But Arms"), and in recent years the Bangladeshi government has been seeking similar U.S. market access for garment exports.

<sup>27</sup> One of the major obstacles that prevent the least developed countries from benefiting from the GSP is the rules of origin requirements that the EU or the US routinely apply to imports from these countries. These requirements stipulate that, in order for a country to take advantage of GSP tariffs, a certain minimum percentage of value added has to originate in the exporting country. It is difficult for countries like Bangladesh or Cambodia to meet these requirements in garments production given the limited capacity of their textile industries, even when they are eligible for GSP tariffs in textiles and clothing. Removal of these origin requirements would ensure that a least developed country indeed obtains market access when it demonstrates progress toward improved labor standards and is granted the GSP tariffs.