‘Business - as usual?’

Governing the supply chain in clothing post MFA phase out. The case of Cambodia

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Abstract

In 1999 the US-Cambodia Bilateral Textile Agreement linked quota access in the US market to factories' compliance with international labour standards, as monitored by the (now named) 'Better Factories Programme' of the International Labour Organization. By 2004, Cambodia, had quadrupled its garment exports to $1.6 billion from a 1995 figure of $26 million. Much of this was based on incremental awards of quota to those registered factories which had shown improvements in working conditions under the ILO monitoring programme. Many have hailed this a breakthrough model for linking development with improvements in labour standards. Certainly with apparel accounting for 85% of the country's merchandise exports to the USA and the EU and 80% of the country's manufacturing employment in 2004, the country's economy has gained from quota increase based on sector-wide labour standards performance. On December 31, 2004, however, quotas were eliminated under the Agreement of Textiles and Clothing (ATC) and trade in textiles and clothing was thus reintegrated into the world trade system.

Major questions have arisen as to whether the Cambodian apparel industry can remain competitive in the wake of the MFA phase out and more fundamentally whether the 'Better Factories Programme' has actually improved the material position of Cambodian garment workers. This paper addresses these questions and concludes that Cambodia is faring better than expected post phase-out, but poses questions as to the extent to which this is attributable to the imposition of China safeguards, rather than the impact of the enforcement of labour standards. Moreover,study of the early phase of the Better Factories Cambodia suggests a somewhat premature award of quota, a low propensity on the part of Cambodian garment manufacturers to improve and major resistance to change on the key issues of low wages and excessive working hours. As the monitoring and remediation programme moves towards a market-based incentive system/framework to increase compliance with international labor principles and local labor law in the garment sector, industry studies point not to socially responsible production as the palliative for survival post 2008, when the safeguards are lifted, but to major efforts at industrial upgrading.

Introduction

On 20 January 1999, the Governments of the Kingdom of Cambodia and the United States of America entered into a three-year Trade Agreement[1] on Textile and Apparel which set an export quota of up to 14% for garments from Cambodia to the United States, contingent on improvements in working conditions and adherence to Cambodia's Labour Code as well as internationally recognised core labour standards. In this unprecedented step the Governments of the United States and Cambodia agreed to jointly request ILO technical assistance to implement this ‘social clause’. Following extensive consultation with the major stakeholders (the Ministry of Social Affairs, Labour, Vocational Training and Youth Rehabilitation (MOSALVY), the Garment Manufacturers Association in Cambodia (GMAC), the Cambodian trade union movement and the United States Government, the ILO began to implement the Garment Sector Working Conditions Improvement Project in January 2001.

As its title suggests, the principal objective of the project was to improve working conditions in Cambodia's textile and apparel sector via the establishment of an independent system for monitoring working conditions; assistance in drafting new laws and regulations where

[1] *See* Cambodia Bilateral Textile Agreement, Jan. 20, 1999, U.S.-Cambodia, *at*http://www.tcc.mac.doc. gov/cgi-bin/doit.cgi?204:64:889223583:25 This agreement was extended through December 31, 2004 by the Memorandum of Understanding dated December 31, 2001; *see* Press Release, Office of the United States Trade Representative, U.S.-Cambodian Textile Agreement Links
Increasing Trade with Improving Workers’ Rights (Jan. 7, 2002), *at* http://www.ustr.gov/releases/2002/01/02-03.pdf

necessary, and awareness and capacity building for employers and workers and government officials to ensure greater compliance with core labour standards and Cambodian labour laws.

With that the growth of the garment industry and in turn the Cambodian economy became contingent on quota awards based on favourable reports from the ILO factory monitoring team. Quite remarkably the value of Cambodia’s textile exports rose rapidly from $ 26 millions in 1995 to $ 1.6 billion by 2004 and over $ 2 billion in 2006 with around 2/3 going to the US and the rest to EU . By any stretch this might appear a success story and with total employment in the sector numbering 265,811 (ILO - Better Factories 2006) – some 65% of manufacturing employment, analysts have hailed Cambodia as a model for linking development with improvements in labour standards (Asia Development Bank 2004, UNCTAD 2005, ILO 2005, Wells 2005, Frost & Ho 2006, Polaski 2004, Prasso 2005)

These claims were, however, severely put to the test on 31 December 2004, when the Multi Fibre Agreement (MFA) and the Cambodian-US trade agreement expired thus exposing the Cambodian garment industry to global competition. As a smaller producing country, Cambodia now had to distinguish itself in the market to remain competitive and bank on ‘its adherence to international labor standards to carry it through these turbulent times’ (Siphana 2005). Significantly, Cambodia is more than holding its own in the post MFA world. Data from the Better Factories Programme reveals that the total value of exports of Cambodian garment and textile increased almost 10 percent to $2.175 billion in 2005. Exports to US grew by just over 10 percent in quantity and nearly 20 percent in value. From the 1st January 2005 to 30th April 2006, nearly 30,000 new jobs were created, and thee has been an increase in the number of establishments. (Better Factories Programme 2006). However, this growth has to be viewed in the context of the re-imposition of quotas on certain categories of clothing from China – the so-called China safeguards – which has increased buyer dependency on alternative sources of supply. Consequently, it cannot yet be argued that Cambodia's 'social label' has been the motor for growth in the sector – categorical answers may be come apparent in 2008 when the China safeguards are removed under the terms of the Agreement on Textiles and Clothing.

This paper will briefly outline the structure of the Cambodian garment industry in the context of the US/Cambodian Trade Agreements of 1999/2001 and examine in detail the relationship between the findings of the ILO Monitoring Project and the awards of quota under the said Agreements. It will then assess the extent to which the stated project objective – namely the improvement of working conditions in the garment sector, has in fact been achieved and evaluate the extent to which the Cambodian 'social model' will succeed in attracting buyers in the future.

The Cambodian Garment Industry

Cambodia's garment export industry was born after neo-liberal restructuring and resumption of peace and normal political and economic relations between the country and the global community in the mid 90s when IMF and World Bank policies – including the privatization of a few state-owned textile and apparel plants - were adopted and the first democratic election took place. Not yet a WTO member, Cambodia was a rather late entrant to the global export market with garment export sales first recorded in the middle 1990s. Between 1995 and 2004 garment exports grew dramatically from $26 million to almost $2 billion, and apparel now accounts for nearly 80 per cent of the country's merchandise exports to the USA and the EU. Such market potential has attracted foreign capital from the region. Cambodia was targeted by foreign investors who started exporting textile products from the country without quota limit under the MFA and the subsequent ATC. The small, but gradually growing industry was then boosted when the US granted Cambodia Most Favoured Nation Status (MFN) in 1996 and further in 1997 when special trade privileges under the US Generalized System of Preferences (GSP) were awarded. In 2001, Cambodia's access to EU market became quota-free and duty-free under the 'Everything But Arms Generalized System of Preferences' for the least developing countries. However, as can be seen from Table 1 below, the major takeoff of the industry did not occur until after the US Cambodia Textile negotiations were initiated and finalised in 1999.

Table 1.

Evolution of Cambodia's Garment Industry

Indicator	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Factories (number)	20	24	67	129	152	190	186	188	197	206
Total employment (thousand)	18.7	24.0	51.6	79.2	96.6	122.6	188.1	210.4	234.0	245.6
Garment exports (US$ million)	26.2	106.4	223.9	355.3	653	965	1,119.8	1,338.4	1581.5	1987

Source: U.S. Embassy in Cambodia, "Economic Significance of the Garment Sector in Cambodia."

Figures from the Garment Manufacturers Association of Cambodia, reveal the relative importance of Chinese, Taiwanese and Korean ownership and, with that, managerial style. (See Table 2) Significantly, virtually all fabrics and accessories are imported from these countries because of the near-absence of backward linkage in the sector.

Table 2

Garment Industry by Owner's Nationality

Nationality	General Factory Population	
	Number	Percentage
Cambodia	13	5%
China and Hong Kong	66	28%
Taiwan	41	17%
Korea	12	5%
Other	59	25%
Joint Venture	47	20%
Total	238	100%

SOURCE: GMAC, January 18, 2005

Cambodian garment production, while critical to the economy of Cambodia, remains relatively small in global terms, with about 0.3% of garment production worldwide and 0.7% of global foreign trade, by value, based on WTO data (Asia Development Bank 2004). Yet the clothing industry has been important for economic and social development of the country as it accounts for to 80 % of the country's exports, 12 % of the GDP, and employs directly 65% of the industrial labour force. Consequently, Cambodia has become one of the few countries in the world whose economies are most dependent on textile exports.

Most of the garment labour force is made up of young women, employed directly in around 292 factories located in Phnom Penh, Kandal, Kampong Province and Sihanouk Ville. (Better Factories Programme 2006a) Work in the garment industry offers women higher income and better working conditions compared to other jobs available. Sizable remittances from garment workers support up to a million people in rural areas, reducing food insecurity there (FIAS, 2005).

The garment industry is dependent almost completely on imported yarns (for knitwear);

finished wovens and circular knitted fabrics (for woven and knitted cut and sew garments); all accessories and almost all packing and presentation materials. The domestic material content is limited to some cardboard cartons and poly bags. This places Cambodia within Gereffi's archetypal buyer-driven 'Asia Production network' (Applebaum & Gereffi 1994, Gereffi & Memedovic 2003, (Gereffi and Korzeniewicz, 1994) and dominated by large predominantly US apparel retailers and branded merchandisers. The top 25 buyers based on volume of production are listed below in Table 3

Table 3

Top 25 of the Biggest Cambodia Buyers

Source: Ministry of Commerce

Position	Buyer
1	GAP
2	H&M
3	Levi Strauss
4	Adidas
5	Target
6	Sears Holdings Corp (Sears, Kmart)
7	Children's Place
8	Charles Komar
9	The William Carter
10	VF Jeanswear LTD
11	Matalan
12	Blue Star
13	Nike
14	PVH
15	C & A
16	Walmart
17	Kohl's
18	MGT
19	American Marketing
20	J.C Penney
21	C.S.I.
22	Fruit of the loom
23	Puma
24	Roga
25	Paceman

Asian multinational suppliers seeking to access business in the global market are dependent, as Sturgeon (2003; cited in Gereffi et al, 2005) points out, 'on participating in global production networks led by firms in developed countries". Supply factories in Cambodia may thus be wholly dependent on single clients or multiple buyers, or sell through agents in Hong Kong or maybe buyers themselves as they subcontract work to local factories (Salinger et.al. 2005)

Gereffi's (1994) global commodity chains framework stresses the importance of "*triangle manufacturing*" in the global dispersion of production which began in the 1970s, wherein overseas buyers placed their orders to East-Asian manufacturers in who in turn reallocated most if not all of the orders to affiliated offshore factories in newly-industrializing countries. These new production relations between the overseas buyers and NIC manufacturers, which has involved large volumes of business has contributed to the growing position of a number of Asian manufacturers which have evolved into large multinationals in their own right. Table 1 above clearly shows how investment in new factories accelerated in tandem with quota allocation. We would maintain that the magnet for buyer and supplier multinationals was largely the preferential access to major markets afforded by quota and the prevalence of relatively low wage costs stemming from the country's large labour surplus (Bargawi, 2005) Asia Development Bank 2004:56), and that as we shall see, the ILO Monitoring Project proved the perfect foil for not only those multinational buyers which already factored corporate social responsibility into their business policy, but also for those which did not.

The ILO Factory Monitoring Project /Better Factories Programme

The ILO factory monitoring programme in Cambodia (which in 2001 became known as the 'Better Factories Programme) is arguably the most comprehensive and systematic monitoring effort[2] governing any national garment supply base in the world.[3] Virtually all factories in the sector (with the exception of a number of sub-contractors) are registered with the scheme and a team of 12 (originally 8) Khmer speaking inspectors are engaged in a constant cycle of monitoring visits to ensure that all factories undergo an inspection visit, culminating in a factory report for the registered supplier and a publicly available 'Synthesis Report' which distils the findings from the factories in the sample or cohort. The process is now streamlined via a computerised Information Management System which buyers and suppliers can access.[4]

Notwithstanding critiques of the monitoring methodology (Pandita 2002, Womyn for Change 2002) supplier factories would appear to be subjected to a rigorous examination of every main aspect of the Cambodian Labour Code (initially on a 2 year now 10 month) cycle, and a requisite public disclosure on the internet. The monitors' checklist, based on Cambodian labour law and core ILO standards, covers more than 500 items. Monitors, who work in pairs and arrive unannounced, interview workers and management separately and confidentially.

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[2] http://www.betterfactories.org/ILO/aboutBFC.aspx?z=2&c=1accessed 12.7.06

[3] The United States agreed to pay the bulk of the costs of monitoring contributing an initial $1 million to a $1.4 million fund to task the ILO with setting up the monitoring system. (The remainder was split between GMAC - the Garment Manufacturers Association in Cambodia and the Cambodian government.)

[4] http://www.betterfactories.org/ILO/infosystem.aspx?z=13&c=1 accessed 12.7.06

Interviews with workers usually take place away from the factory. The monitors also talk with factory worker representatives and union leaders. Management is requested to provide relevant documents (payroll, sample contracts, leave records, etc.) as evidence of working conditions and terms of employment.

Polaski (2004) has argued that the Better Factories Programme has led to 'significant and widespread improvements in wages, working conditions and respect for workers' rights' (25). We will return to this claim presently. In the meantime it is important to critically assess the reasons she advances for this being the case. Firstly, it is argued that there was a close temporal connection between the improved behaviour of firms and the rewards in the form of increased quota. Secondly, because the quota increase depended upon sector-wide performance, non-compliant firms therefore faced peer pressure from the rest of the industry and would be more likely to comply voluntarily with labor laws and accord labor rights to their workers. Thirdly, the improvement in the availability of monitoring information allowed buyers (often multinational apparel firms that are concerned about their reputations) to direct orders towards firms that have complied with labor laws and away from firms who have violated them. Let us look at each of these claims in turn.

If we look at Appendix 1, which charts the temporal link between the award of quota to factory/sectoral improvement, then one might be drawn to the conclusion that at the outset of the project the will to make the initiative appear to work was far greater than the will to exact change in Cambodian garment factories. Under the terms of the agreement, the US Government of the United States was to 'make a determination by December 1 of each agreement period, beginning on December 1, 1999, whether working conditions in the

Cambodian textile and apparel sector substantially cope with such labour law standards'. Information from the ILO[5] reveals that there were 2 annual meetings in this respect, a mid year consultation and year end determination/negotiation. The first ILO report, based on a sample of 30 out of 190 factories was published in November 2001 (ILO 2001). Implementation of the provisions was extremely slow. It had taken more than a year for the ILO to even begin entering Cambodian factories to begin the process. Significantly then, the first tranche of quota was awarded on the basis of one report which had not been followed up and consisted of a 16% sample of the existing supply base. Of these factories only 50% acknowledged receipt of their respective monitoring report and of the 15 which did respond, 7 disagreed with some of the findings.

This somewhat rash allocation of quota may have been caused by intense lobbying by GMAC.

According to Prasso:

> 'Cambodians were frustrated with the slow pace of the process, complaining publicly that they had improved factory conditions and had suffered serious labor unrest from emboldened unions without the promised results of an increase in the U.S. textile quotas. Cambodia's textile quotas for 2002 were increased by a bonus of 9% (out of a possible 14%) on top of the minimum 6% annual increase as required by the agreement. Previous annual quota increases had been 9%. By 2002, Cambodia's quotas had exceeded its ability to meet capacity, and it left part of its quota partially unfilled for that year.' (2004)

On the basis of this, the agreement was extended for a further 3 years and quota progressively increased. By the time of the second determination (December 2002), a further 2 cohorts of companies had been monitored and a second inspection of cohort A had occurred, as reported

[5] Email from Ros Harvey 19.7.2006

in Synthesis Report number 3 (ILO 2002).Thus the second determination (12% quota award) was made by the US Government on the basis of *one* cohort of factories which had undergone a follow up inspection. The third allocation of quota (14%) was made on the basis of 2 follow up reports - Cohort A (third report) again and Cohort B (first follow up). Finally the 18% quota allocation was made on the basis of one follow up report of Cohort C (65/225 factories) Report 8 (ILO 2004).

Let us now consider the issue of incentive to improve. Here we have to consider the elements of a ‘stick’ versus ‘carrot’ approach. In Cambodia, the Ministry of Commerce’s Trade Preferences Department (TPD) managed and sub-allocated quota to local manufacturers. A ‘stick’ approach would have involved threat of withdrawal of an export licence against evidence from the ILO monitoring project of a repeated failure to improve on the suggestions made by the ILO factory inspectors. However the model chosen was an industry wide incentive system rather than a factory based system. Quota was therefore awarded for general improvements in the sector as measured by the ILO reports, and the mechanism for access to quota for garment employers was the process of registration and participation in the ILO monitoring programme. (Better Factories Programme 2006 MOU)

Although registration with the ILO scheme was compulsory to attract quota, the industry wide model of quota allocation meant that it was easy for companies to hide and or do very little.(see Table 4 below column 5) This is of course entirely separate from the ‘black hole’ of Government corruption in relation to the allocation of actual quota to each factory. A study by the Cambodian Development Research Institute found that 7% of garment factory operators' costs were attributable to so-called "bureaucracy costs," the euphemism for bribes paid to government officials up and down the line in the clothing industry. (2001)[6] This was also highlighted in a World Bank Survey of buyer views in respect of sourcing from Cambodia (FIAS 2004)

Thirdly, there is the question of buyer and, by implication, consumer sensitivity to the transparency generated by the ILO inspection programme. Firstly, it is important to note that factories were only named in follow up report(s) after they had been given a grace period to make improvements based on the suggestions made by the Project (ILO 2003). As can be seen from Table 4 by the time a third cohort had been publicly disclosed, totalling about 50% of the total registered factories, the final quota allocation was about to be made

[6] Corruption in recruitment practices is an issue monitored by the ILO team although , a CDRI survey revealed that about 50% of garment industry workers had paid an average of US$38 (about one month's wages), to obtain jobs in the garment industry. This "fee" is paid to a number of people, i.e. factory security guards, interpreters, labor brokers, etc. (MacLean, 1999) and appears to be officially tolerated as bona fide management practice (ADB 2004:61)

Table 4 Acknowledgements of monitoring reports and challenges to findings

Synthesis Report Number	Status	Date of publication	% of suggestions not implemented*	Supplier factory response**	Quota awarded
1	Initial	2001 November	No data	15/30 8 agreed	
2	Initial	April 2002	No data	8/34 6 agreed	9%
3	Follow Up	June 2002	**57%**	6/29 4 agreed	
4	Initial	Sept 2002	No data	9/65 4 agreed	
5	Follow Up	June 2003	55%	5/30 3 agreed	12%
6	Follow Up	June 2003	53%	3/29 all agreed	
7	Initial	Oct 2003	No data	6/58 3 agreed	
8	Follow up	February 2004	51%	9/62 3 agreed	14%

* From report 5 onwards reports referred to the previous

**indicates the number of monitoring reports returned and acknowledged by companies compared with the total number of factories in the cohort and the number of returns which agreed with the findings

More significant for the reputation of brands is the fact that the ILO Synthesis Reports which named factories, did not in any way link them to buyers so that it was and still is impossible for consumers and other interested parties (shareholders, trade unions, governments, NGOs) to know what is being produced for whom and under which conditions. As has been pointed out by Pandita (2002), Cambodia was a great low cost umbrella from a corporate social responsibility point of view, since the pressure was ostensibly placed on the Cambodian government and suppliers to improve change, whereas the buying multinationals appeared to be taking little or no share in the responsibility to improve the conditions. As Prasso states: ‘the international certification from the ILO that Cambodia's garments are produced under fair labor practices - in a kind of "safe haven" -- gives a certain degree of reassurance and cover to retailers concerned about their brand images among consumers, particularly those stung by allegations of sweatshop practices in the 1990s. Gap, The Limited, Abercrombie & Fitch, Adidas, Ann Taylor, Kmart, Wal-Mart, Nike, OshKoshB'Gosh and Reebok are just some of the retailers who buy garments manufactured in Cambodia' (2005). The reality on the ground is somewhat more complex with large buyers such as the GAP maintaining a significant local CSR presence.

This still leaves the question concerning buyer sensitivity to ILO report findings. We have no information on buyer access to ILO reports prior to the introduction of their computerised management system (IMS) in 2006. However, the FIAS buyer survey in 2004 revealed that although 43% of buyers considered ILO standards to be of major to critical importance and a further 43% considered it of 'moderate importance' to consumers although the survey was based on a sample of 15 out of 69 buyers. In the sample there appeared to be a discrepancy between US & European companies, where 71.47% of European companies stated that such standards were of 'major' or 'critical importance' to consumers. US had the opposite response with 85.7% stating that they were of 'minor' or 'moderate importance'. Similarly, it was reported that the majority of respondents were either somewhat or not familiar with the 'Better Factories Programme' and did not know enough about it to rate its ability. (FIAS 2004). Indeed in a follow up aide memoire the FIAS noted a major problem with duplication of effort[7]. The

[7] Despite the achievements of the Project, there is considerable inefficiency because of duplicate compliance systems from individual buyers, as well as inspections from the Ministry of Labor. All overseas buyers still undertake their own monitoring; some is undertaken by buyers' compliance staff with the cost covered by the buyer (typically the case with premium brands); some by external providers as a requirement of the buyer but

situation seems to be improving, since the introduction of the IMS in 2006. Information from the ILO reveals that 13 buyers representing 40% of buyer volume (but only 19% of buyers[8]) are using the IMS to access monitoring reports and 178 third party access forms have been signed by supplier firms giving access by buyers to ILO monitoring reports via the IMS. Nine major international buyers are relying exclusively on ILO monitoring reports and have stopped their own monitoring. Others have given a commitment to reduce their own monitoring. Eleven buyers have been granted third party access by factories to their reports but with whom there is currently no relationship and in the first quarter of 2006, a further 3 major brands conducted shadow monitoring visits to improve their understanding of ILO monitoring processes with a view to decreasing or eliminating their own monitoring

So did working conditions improve?

The most enduring question is, of course, the extent to which the ILO Project has contributed to improvement in working conditions and industrial relations in the Cambodian garment industry. It is important at this juncture to remind ourselves of the status of the ILO and this initative. The ILO is at pains to state in its Synthesis Reports that the monitoring of factories is <u>not</u> an objective in itself, but part of a process aimed at improving working conditions in Cambodia's garment sector as a whole. It is generally accepted that it is not the role of the ILO to bring about those improvements – this being the responsibility of factory management,

financed by the supplier factory (typically the case with retailers), with the prices the suppliers negotiate taking account of the cost of audits their buyers make them pay for. Some factories with multiple buyers report up to 60 labor inspections a year, each lasting between ½ to two days and each costing approximately $2,000, as well as significant opportunity cost to factory management. FIAS 2005:3

[8] Buyer Figures supplied by Dept. Commerce

government and the trade unions. From the Third Synthesis Report onwards, a retrospective section was included in which the tripartite partners – MOSALVY, GMAC, individual factories and the trade unions were invited to report on steps they had taken to address shortcomings highlighted in the previous Report (First Synthesis Report). It could be argued that this section in the report should have been the main point of reference for making quota determinations but after the initial statements in the Third Synthesis Report, the Government and GMAC refrained from tendering any further information and the summary report items for individual factories (which described Aids awareness initiatives) and trade unions (which commented on efforts to address the incidence of strikes had become so repetitive that by Synthesis Report 8 the item had been dropped. Nevertheless the meat of those Synthesis Reports which were follow-up (3, 5, 6, 8, 9, 10, 12-16), did consist in a detailed summary of working conditions found and discrepancies in the implementation of labour standards and Cambodian Law. However although Synthesis Reports 3,5,8,9, and 16 refer back to the original baseline data, reports 6,10,12,13,14, and 15 were accumulative, only measuring against the previous cohort report. This meant that improvement could be understated. (See Appendix 1)

It is not our intention to present a detailed analysis of all the 500 items monitored by the Better Factories Programme but to dwell on those core labour standards which were featured in the report summaries: *child labour, forced labour, discrimination/harassment, excessive working hours/ correct payment of wages/ freedom of association and collective bargaining and the prevalence of strikes.*

A comparison of Synthesis Report 3 findings in relation to these issues with the baseline data contained in Synthesis Report 1 is summarised in Table 5 below. Since the same cohort was inspected on 2 further occasions and covers the life of the ILO Project to date we include these findings in Table 5 but these columns are shaded since these subsequent reports were accumulative and did not refer back to Synthesis Report 1.

Table 5: Tracked changes in working conditions and implementation of labour standards Synthesis Report Numbers 1, 3, 6, and 12.

Synthesis Report Number, date Same sample of factories *	1 November 2001 30	3 June 2002 29	6 June 2003 28	12 August 2005** 26
Child labour	No evidence	No evidence	No evidence	No evidence
Forced labour	No evidence	No evidence	No evidence	No evidence
Sexual harassment	No evidence	No evidence	No evidence	No evidence
Non-correct payment of wages	Occurs in 15 of the factories	Statement of some improvement but 15 factories still failing to address the issue in some way	18 factories still problematic on this issue.	Substantial range of non correct payment of wages in at least 50% of the factories
Forced overtime	Overtime not undertaken voluntarily in 13 of the factories	Statement of some improvement but 12 factories still have not implemented suggestions here	14 factories still problematic on this issue.	More than two thirds of the factories monitored ensure that overtime work is voluntary.
Excessive overtime	Beyond the legal limits in 27 of the 30 factories;	Statement of some improvement but 17 factories still reveal problems	beyond the legal limits in 15 of the 30 factories	However, in most of the factories monitored, overtime work is not exceptional or limited to two hours per day.
Freedom of association	Unions present in 15 factories but 8 instances of breaches of FOA	Statement of improvement but difficult to assess from the report 18 factories not providing facility time to shop stewards	Statement of some improvement but difficult to assess from the report. 19 factories not providing facility time to shop stewards	Statement of some improvement but difficult to assess from the report. 11 factories not providing facility time to shop stewards
Collective bargaining	24 factories had no collective agreement	No data on cbas	No data on cbas	No data on cbas
Strikes	Unofficial and unconstitutional but peaceful in 14 of the 30 factories	Unofficial and unconstitutional but peaceful in 4 of the 29factories	Unofficial and unconstitutional but peaceful in 7 of the 28 factories	Unofficial and unconstitutional but peaceful in 4 of the 26 factories

* First cohort of factories inspected – sample size changed due to factory closures ** incorporating new monitoring methodology

As one would expect, in most export oriented supplier factories there were no cases of forced labour [9]and child labour, although in Synthesis Report 16 instances of underage recruitment were cited (ILO 2006:6)[10]–On harassment, a notoriously difficult issue to audit, the monitors found limited reported cases. The ILO in 2006 commissioned CARE international to undertake a survey of 1000 workers on gender and workplace cooperation issues. Included in this was sexual harassment. Preliminary results have been released to allow for consultation with stakeholders. The research has found that 25% of workers experience derogative words about women. This occurs equally from management and co-workers. Nearly 5% of workers report experience unwanted touching of a sexual nature by supervisors. [11] The failure to pay correct wages - a persistent problem in garment supply chains was undoubtedly an issue – occurring in half of the factories inspected and remaining a problem through to Synthesis Report 12. Data from Synthesis report 16, however, reveals that some improvements (albeit in a different cohort of factories) have been achieved on this issue. All but one of the factories monitored pay regular workers the minimum wage for ordinary hours of work and 84% of the factories pay regular workers (including probationary workers, and workers paid by piece rate) correct wages for normal overtime work. Similarly, for casual workers, about sixty-one percent of the factories comply with minimum wage requirements, and eighty-six percent are paying the correct rate for normal overtime work (ILO 2006:57).

[9]The US Department of Human Rights was prompted to question this claim although this was based on a relaxed general definition of forced labour which includes involuntary overtime.(2006)

[10] Some laxity in enforcing the requirement on workers to provide reliable age-verifying documents prior to hiring (Synthesis Reports 13/14)

[11] Information provided by Ros Harvey ILO

On overtime, if the factory cohort in Synthesis Report One is representative, then forced and excessive overtime was endemic in the industry at the time of the implementation of the terms of the Trade Agreement. Virtually all were working excessive overtime and in half the sample workers were engaging in involuntary overtime.

If we look at the findings of Synthesis Report 16, which again represents a picture from a different and larger cohort of factories measured against a baseline, we see that the issue of forced overtime has not changed but that there has been a slight improvement in terms of excessive overtime work with more than two thirds of the factories monitored, failing to limit overtime to two hours per day (ILO 2006:6).

On freedom of association, although the First Report commented on the existence of some 200 factory unions in the sector (p.28), many of these were rival unions existing alongside each other in a single factory, without representational rights. Tellingly, the First Synthesis Report gives a flavour of industrial relations at the time the Better Factories Programme was launched. Out of small sample of 30 there had been strikes at 16 factories:

> 'The reasons for the strikes held were the dismissal of a union leader(s)/shop stewards allegedly without a valid reason (4 factories), the dismissal of a union leader with a valid reason (2 factories), the dismissal of (individual) workers (2 factories), the dismissal of worker activists (non-elected) during a strike (1 factory), non-compliance with various provisions of the law (6 factories), in solidarity with striking workers at another factory (2 factories), partial payment of wages with deferment of the remaining wage payment to next month (1 factory), demand for payment of 45 US$ minimum wage following the issuing of the relevant regulation (2 factories), non-payment of over time and meal allowance (1 factory), and to ensure that an agreement concerning wages when the factory had no work would be honoured by new management (1 factory).' (ILO 2001: 24-5)

Similarly an analysis of urgent appeals handled by the ITGLWF (see Appendix 2) reveals a similar pattern of trade union victimisation. Although trade union density is comparatively high at 43%[12] and numerous factory unions exist (current MOLVT statistiocs place the figure at 1005 , and, according to ILO survey data, workers consider unions to be treated generally fairly, there is still no bona fide collective bargaining. ILO data reveals that by mid 2003 there were only some 23 cbas, however these are largely restatements of the Cambodian Labour Code and lend weight to the observation by the US Government that the practice of collective bargaining has not yet begun in Cambodia on a meaningful scale (US Department of Labor, Bureau of International Affairs 2003:11). In 2006, the US Department of Human Rights commented that the 15 collective bargaining agreements registered with the MOLVT, most of which were conciliation agreements, which did not meet international collective bargaining standards and only 5 of which were genuine collective bargaining agreements (US Department of Human Rights 2006).

The absence of collective bargaining is in part exacerbated by multi unionism in the workplace. there are 16 trade union federations in the garment sector -and the government *prakas* 305 under which employers are supposed to concede representation to any union with over 50% of a factory workforce. Significantly efforts are currently underway to establish sectoral bargaining between GMAC and a number of the federations.

[12] ILO figures

Let us now turn to those issues of most concern to garment workers –wages and working hours. The issue of a 'living wage' is not an item in the ILO monitoring schedule yet the demand for a substantial wage increase lies at the heart of much of the unrest which has dogged the sector since the ILO project began. In 2000, the Labour Advisory Committee approved a minimum wage for the garment sector at 45 US$ for regular workers, with 40 US$ for workers on probation and 30 US$ for apprentices. If a piece rate worker's output falls below 45 US$, the employer is obliged to make up the difference. Workers are entitled to a 5 US$ bonus for regular attendance. Normal overtime is paid at 1.5 times the normal rate. Work on Sunday and public holiday is paid at 2 times the normal rate. Night working, set by MOSALVY as the period between 2200 and 0500 hours, is paid at double time. Workers are entitled to a 1,000 Riel meal allowance, or a meal, when working 2 hours overtime.[13]

In an economy where the living wage is estimated at $US 82 (ICFTU 2005) Garment workers earned an average wage equivalent to $65 per month in 2005, including overtime and bonuses, prompting the US Department of State to report that prevailing monthly wages in the garment sector and many other professions were insufficient to provide a worker and family with a decent standard of living (2006). Understandably, there has been a build up of worker frustration around wages, much of which has been vented in short stoppages on day to day wage issues relating to correct payment of the existing wage.

[13] Source ILO Synthesis Reports

It reveals a correlation with the findings of Pruett et. al. (2005: 29) that social audits have the propensity to impact on child labour, forced labour and health and safety[14] but have limited or no impact on freedom of association, collective bargaining, wages and working hours. In short poverty wages and excessive working hours have prevailed for the whole duration of the ILO project/Better Factories Programme and attempts to address this by workers through collective bargaining have been and continue to be systematically quashed. It comes as no surprise that these are the industrial relations issues which have figured markedly in a persistently high incidence of strikes in the Cambodian garment sector (see Appendix 3) since the inception of the Trade Agreement in 1999. This has certainly been one factor which has prompted the Better Factories Programme to become very much more 'hands on' during recent years, devoting 50% of resources to engage in capacity building[15], and building on the earlier establishment of an Arbitration Council (2001) to assist in disputes resolution and a tripartite review of labour law as well as aiding the parties in the negotiation of an industry wide agreement to cover increases in the minimum wage and the enforcement of labour law.

The Future - post MFA

In their assessment of the Cambodian Garment industry, the Asia Development Bank predicted almost a threefold increase in trade between Cambodia and the rest of the world by 2010 see Appendix 4. Undoubtedly now the major question hanging over the Cambodian apparel industry is whether it can remain competitive by social-responsibility alone in a post quota

[14] Progress in meeting health and safety standards was mixed. Nearly half of the factories provided some personal protective equipment to workers. However, about seventy percent of the factories failed to install safety guards on all machines. Synthesis Report 16:6

[15] Currently the programme is spending more than 60% of resources on remediation and capacity building having delivered almost 1000 training days and facilitated over 90 factory level union/management consultative committees in the first half of 2006 (email from Ros Harvey 19.7.06)

world. This question appears to have been answered by a 14.6 % increase in textile imports to the US during 2005 putting the country on track for the Asia Development Bank prediction. Despite a series of gloomy predictions and factory closures, there has been job growth - indeed from the 1st January 2005 to 30th April 2006, nearly 30,000 new jobs were created. The total number of garment workers was 293,600 in April 2006 and the number of factories increased approximately 13 percent in 2005. (Better Factories Programme 2006).

A series of qualifications are however necessary here. Firstly, the boost in exports, we would argue, is due in no small part to the substitution effect of buyer behaviour searching for alternative sources of supply as the so-called China safeguards[16] began to bite during 2005. Industry estimates a 50% impact on the sector – see Table 6 below:

Table 6

Potential Export Loss From Expiration of China Safeguard/Quota Removals	
Developing Country	Loss of Exports ($mil)
Turkey	-6,051
CBI countries	-4,829
Mexico	-$3,070
Indonesia	-$2,264
Thailand	-$1,575
Cambodia	-$1.313
Sub-Saharan Africa	-$1,327
Sri Lanka	-$1,328
Romania	-$1,246
Pakistan	-$1,159
Philippines	-$1,210
Tunisia	-$849
Morocco	-$836
Andean	-$715
Malaysia	-$550
Jordan	-$546
Egypt	-$483
Bulgaria	-$374
See Table 11. Assumes a 50% decline in exports to the US and EU over three year time period.	

Quoted in Johnson 2006

Conversely this implies that Cambodia is competing in the absence of quota restrictions in about 50% of its product. Cambodia's textile structure is very particular and specialises in certain segments - high volume, mid range quality and cost, making it compete alongside other Asian supplying countries (Bangladesh, Asia, Jordan) and hence the industry has had to embark on a series of initiatives with some degree of success on improving competitiveness by reducing the cost of trade processing and the time taken for clearance and inspections (Asian Development Outlook 2006).

As ever, buyer sourcing strategies base their requirements on the contract manufacturer's ability to meet demanding needs, particularly "full package" services – which include interpreting designs, making samples, sourcing inputs, monitoring product quality, meeting buyer's price, and guaranteeing on-time delivery (Gereffi et al, 2005). This implies that lead firms in the sector will focus on large factories in smaller number of countries who have the capacity to meet these services. The rise of "full package" suppliers also means that competency of suppliers (in complex coordination and information exchange) will have to be continuously enhanced to remain competitive making 'industrial upgrading' - a key survival strategy in the post quota world (Tam & Gereffi 1999).

In 2004, a survey was conducted by the Foreign Investment Advisory Services (FIAS), a joint service of the International Finance Corporation (IFC) and the World Bank in response to the Royal Government of Cambodia's request to assist the government in determining current buyer's sourcing decisions Post-MFA. Senior sourcing staff from 15 of the largest US and EU buyers[17] (cf. Table 1) accounting for 45% of Cambodia's garment export in particular were interviewed in the survey.

[17] Senior sourcing staff: from **US** GAP, Levis Strauss, VF Jeanswear, Kellwood, Sears Roebuck, Children's Place, Alpha Garment, Nike **EU:** H & M, Inditex, Matalan, Charles Vogele, Esprit, Tapestry Design, Reebok -

Tellingly, all of the buyers interviewed in the survey indicated that they prefer to *source* rather than to *invest* in Cambodia suggesting ominously that there is little prospect for external assistance from within the industry to develop and upgrade into full-package production which is essential in such a globally competitive sector. Secondly, most buyers considered labor standards observance to be of critical importance when sourcing from *a country*, ranking labour standards higher than preferential tariffs/quota, yet when asked to rank the importance of each of *factory-specific* factors in their decision to source from or invest in a country, placed price and production costs ahead 'human resource practices'. Undoubtedly buyer estimation of the Cambodian labour standards programme varies considerably. GAP which has some 45% of volume of production in Cambodia is quoted as being committed to sourcing there as long as it maintains the Better Factories Programme (Becker: New York Times, 2005). Another buyer surveyed by the FIAS admitted: "The reason we did business in Cambodia is strictly the quota" (FIAS, 2004). The majority are adopting a wait and see a stance – also, obviously, true for the multinational suppliers who accept compliance as a necessary condition although clearly this was not the reason for investing there in the first place

And what of improvements in working conditions post MFA? Average monthly earnings now stand at $US 72. (Better Factories Programme 2006) However this remains $10 short of a Cambodian living wage and masks the excessive amounts of overtime necessary to attain that level and a 6% real reduction due to cost of living increases. Social pressure to introduce a living wage continues to mount: in June 2006 100 union leaders from Free Trade Union of Cambodia representing workers at 90 garment factories agreed to call a General Strike for higher wages on July 3 2006 (The Cambodia Daily June 26th 2006). Tellingly, the Better factories Programme reported in May 2006 that prices per piece in the industry fell by 4.47% during the Post MFA period. The impact of such trends on working conditions is something which the ILO inspection is unlikely to pick up:

> *"Before the MFA phase-out I had to finish 300 pieces per 8 hours and worked only on one machine. But now I am assigned 550-600 pieces to finish in 8 hours work and operate two machines. They said I have to accept this".*
>
> A worker from a PhnomPenh factory producing for Old Navy brand (Womyns' Agenda for Change case study 2005) 2005)[18] See also Cambodian Labour Organisation 2004

This phenomenon is of course nothing new, as suppliers globally intensify work in their efforts to meet tighter deadlines and lower prices (ETI 2005, Oxfam 2004, Responsible Purchasing 2006). As trade unions seek to address the issue of a living wage, their efforts to establish collective bargaining in the workplace continue to meet heavy resistance - in its worst form – the murder of trade union leaders (ITGLWF 2005) and in its more frequent form – the dismissals of trade union activists (ICFTU 2005, See Appendix 2) It is a sobering observation that the very real impact which the Better Factories Programme has had on wages has been to ensure that Cambodian garment workers in the main are now paid what they are entitled to!

Conclusions

[18] Ongoing case studies and data collected by six Phnom Penh based drop-in centres operated by garment workers in collaboration with Womyn's Agenda for Change indicate that in context of these worsening working conditions, many factories are employing new management tactics whereby workers are subject to increased threats of dismissal, increased competition between individual workers, and, a decline in worker's rights because union activity is being stifled. Womyns Agenda for Change 2005

It is worth restating - the ILO factory monitoring programme in Cambodia (which in 2001 became known as the ‘Better Factories Programme) is arguably the most comprehensive and systematic monitoring effort governing any national garment supply base in the world. By devoting 50% of resources to remediation it clearly has identified the nature of industrial relations problems in the country and is still viewed by all stakeholders as a key component in Cambodia’s efforts to brand itself as competitive player in the global garment industry. However a critical assessment of the *impact* of the ILO project suggests that it has been a project which needs to be assessed very much in two phases. We would argue that the original ‘social clause’ needed to be seen to work and that quota awards were made prematurely and on somewhat shaky evidence of improvement. Significantly, however, the re-branded Better Factories Programme has heralded in changes in methodology both in monitoring and reporting and a greater hands on involvement in capacity building as the sector seeks to make labour standards part of its strategy for competing against China and other Asian countries once the safeguards are lifted on certain categories of clothing. There is little doubt that this has been accompanied by real changes in working conditions and working environment as results from the Synthesis Reports and independent surveys indicate.

Despite the unprecedented nature of this model, in a number of key respects, however, the garment sector in Cambodia still remains essentially no different from the industry in other parts of the world, where factory owners continue to mount dogged resistance to trade unions and collective bargaining in the workplace and demand excessive overtime from their workers and for less than a living wage.

We would suggest that carefully designed programmes combining trade opportunities (with incentives for compliance with labor rights or penalties for non-compliance) and targeted technical assistance might carry greater promise for sustainable industrial relations, if and when the multinational buyers are fully integrated into the process, are disclosed in publicly accessible monitoring reports along with offending suppliers, and confronted with the impact which their buying practices has on the capacity to make real headway on wages and working hours. Focusing on buying practices would also lend greater transparency to decisions by multinational brand-owners and retailers to withdraw from or maintain their business as usual in Cambodia. This is most certainly the commitment which the Cambodian people will be seeking post 2008.

Appendix 1: Overview of synchronisation of quota awards with ILO Reports

Year	Report Number	Status	Date of publication	Sample size	Factory disclosure	Quota awarded
2001	1	Initial	2001 November	Cohort A 30 factories/21,431 workers	No	
						December 1st determination
2002	2	Initial	April 2002	Cohort B 34 factories/30,207 workers	No	9%
	3	Follow Up	June 2002	Cohort A 30 factories/21,431 workers	Yes	
	4	Initial	Sept 2002	Cohort C 65 factories/	No	
						December 1st determination
2003	5	Follow Up	June 2003	Cohort B 34 factories/30,207 workers	Yes	12%
	6	Follow Up	June 2003	Cohort A 30 factories/21,431 workers	Yes	
	7	Initial With the publication of this report all garment factories in Cambodia were covered at least once, with the exception of recently established factories.	Oct 2003	CohortD 61 factories/52,349 workers	No	
						December 1st determination
2004	8	Follow up	February 2004	Cohort C 65 factories/	yes	14%
						December 1st determination
2005	9 New format	Follow up	Jan 2005	Cohort D 61 factories/52,349 workers	yes	18%
	10	Follow up	March 2005	Cohort B 34 factories/30,207 workers	yes	

	11	Initial Newly invested companies	June 2005	Cohort E 50/42,937	no	
	12	Follow up	August 2005	Cohort A 30 factories/21,431 workers 26 factories/21,729	yes	
	13	Follow up	August 2005	Cohort C 65factories/73,030	yes	
	14	Follow up	October 2005	Cohort D Originally 61 factories/52,349 workers – now 46 companies/46,483	yes	
	15	Follow up	October 2005	Cohort B 34 factories/30,207 workers Now 24 factories/32,950	yes	
2006	16 Reporting against base line	Follow up	March 2006	Cohort E 50 factories/42,937 Now 44 factories/24,183 workers	yes	

(9% in 2002, 12% in 2003, 14% in 2004, and18% in 2005)

Appendix 2: Urgent Appeals dealt with by the ITGLWF on violations of workers rights in Cambodia

Date	Company	HQ	Country	Buyer	Union	Issue
September 29, 1999	China Key					Company suspended three workers do to trade union activities
December 14, 2000	Khmer Lady Garment		Belgium		KLGWDU	Anti-union behaviour from the factory management, by trying to replace long-t workers with union memberships with non-organized temporary workers, with support from the Cambodian government.
January 15, 2001	Luen Thai	Hong Kong	Hong Kong	Calvin Klein	FTUWKC	Anti-union behaviour by falsely accusing the President of FTUWKC of having criminal record, which resulted in a strike when the management threatened to dismiss the President.
July 4, 2001			Cambodia			ILO complaint towards the Cambodian government do to legislation regarding union representation that is in breach with ILO Con. No. 87
May 29, 2002	Gold Fame Enterprises Ltd.			Dagenham		Violating ILO Con. No. 87 by firing two workers for attempting to organise. Th has also been cases of harassments, bribery and other illegal firings do to trade unionisation. They also failed to pay the workers their legitimate bonuses and compensation.
June 24, 2003			Cambodia			Demand for investigation regarding police violence against and arrests of protes workers outside Terratex Knitting and Garment Factory
November 27, 2003			Cambodia			Demanded that the Cambodian government take action in the case of police vio against some 400 workers during a march to protest against poor wages and for overtime at the Won Rex factory.
July 2004			Cambodia			A formal complaint was lodged to the ILO against the government of Cambodi following the killing of Ros Sovannareth President of the Trinonga Komara Garment Factory Union and a top leader of the FTUWKC.
Spring 2004	Sam-Han Cambodia Fabrics Ltd.		Cambodia	Gap Inc.	FTUWKC	Closed down in February leaving the workers with unpaid wages and severance compensation. The government paid the outstanding wages but the severance compensation remain unpaid. ITG. Has requested assistance from its Korean affiliate, the Korean government and the retailer sourcing from them Gap. Inc.

May 2005	Fortune Garment and Wollen Knitting Factory			Debenham, Belk, Fred Meyer, Kellwood, (Next, Bhs, Asda and Littlewoods)	C.CAWDU	Suspension and firings of workers representatives as well as filing criminal cha against them.
April, 2005	Wear Well Garment Factory			Levi Strauss & Co	FTUWKC	Workers went on strike do to late payment of wages, excessive overtime, not ha a weekly day off and the firing of two trade union leaders.
January 12, 2006			Cambodia		FTUWKC	Protests against arrests of trade union and human rights' activists.
February 3, 2006	Trinunggtal Komara Factory			Gap Inc.		Strike do to delayed payment of wages as well as protests against harassments f one of the supervisors.
Autumn 2005	Fortune Garment and Wollen Knitting Factory				C.CAWDU	Repeated suspensions and firings of workers representatives (C.CAWDU) tryin negotiate on behalf of the workers.
December, 2005	City New Garment (Cambodia) Co. Ltd.			Target		Company filed charges against trade union representatives at different occasion

Appendix 3

Figures on industrial conflicts in textile and clothing industry in Cambodia

Year	Strikes	Days lost
1999	76	100
2000	92	157
2001	80	136
2002	76	163
2003	80	136
2004	150	200
2005	67	Not known
2006 as of June	54	Not known

Source: US Embassy Economic/Commercial Section Collated by Kim Chhay Ly, January 27, 2006 and Department of Conflict Resolution, Ministry of Labour, Cambodia

Appendix 4.

Table 2.1: Global Foreign Trade in Garments

Top Exporting Countries (Actual and Projected, US$ bn)

		1990	1995	2000	2002	2005	2010
	Total Trade	108.1	158.3	197.0	200.9	*250.0*	*320.0*
Of which:							
EU		40.8	48.5	47.5	50.5	*45.0*	*30.0*
China		9.7	24.1	36.1	41.3	*50.0*	*65.0*
Hong Kong		9.3	9.5	9.9	8.3	*7.5*	*6.0*
S. Korea		7.9	5.0	5.0	3.7	*3.0*	*1.8*
Taipei		4.0	3.3	3.0	2.2	*1.9*	*1.4*
Thailand		2.8	5.0	3.8	3.4	*3.2*	*2.5*
Turkey		3.3	6.1	6.5	8.1	*9.4*	*12.5*
USA		2.6	6.7	8.6	6.0	*5.0*	*3.5*
India		2.5	4.1	6.2	5.9	*6.9*	*8.8*
Bangladesh		0.6	2.0	4.2	4.1	*4.8*	*6.1*
Pakistan		1.1	1.6	2.1	2.2	*2.6*	*4.0*
Indonesia		1.7	3.4	4.7	4.0	*4.6*	*6.0*
Hungary		0.4	1.0	1.2	1.3	*2.5*	*3.0*
Viet Nam		0.3	0.5	0.9	1.0	*1.5*	*4.0*
Canada		0.3	1.0	2.1	2.0	*1.8*	*1.1*
Malaysia		1.3	2.3	2.3	2.0	*1.8*	*1.3*
Mexico		0.6	2.7	8.6	7.8	*6.9*	*5.4*
Morocco		0.7	0.8	2.4	2.4	*2.8*	*3.9*
Philippines		1.7	2.4	2.5	2.6	*3.0*	*3.9*
Sri Lanka		0.6	1.8	2.8	2.3	*2.5*	*3.0*
Tunisia		1.1	2.3	2.2	2.7	*3.1*	*5.0*
Cambodia	Value	0.00	0.03	0.90	1.30	*1.76*	*2.60*
(growth case)	Share of total	0.0%	0.0%	0.5%	0.6%	*0.7%*	*0.8%*

Source: WTO and project projections

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