



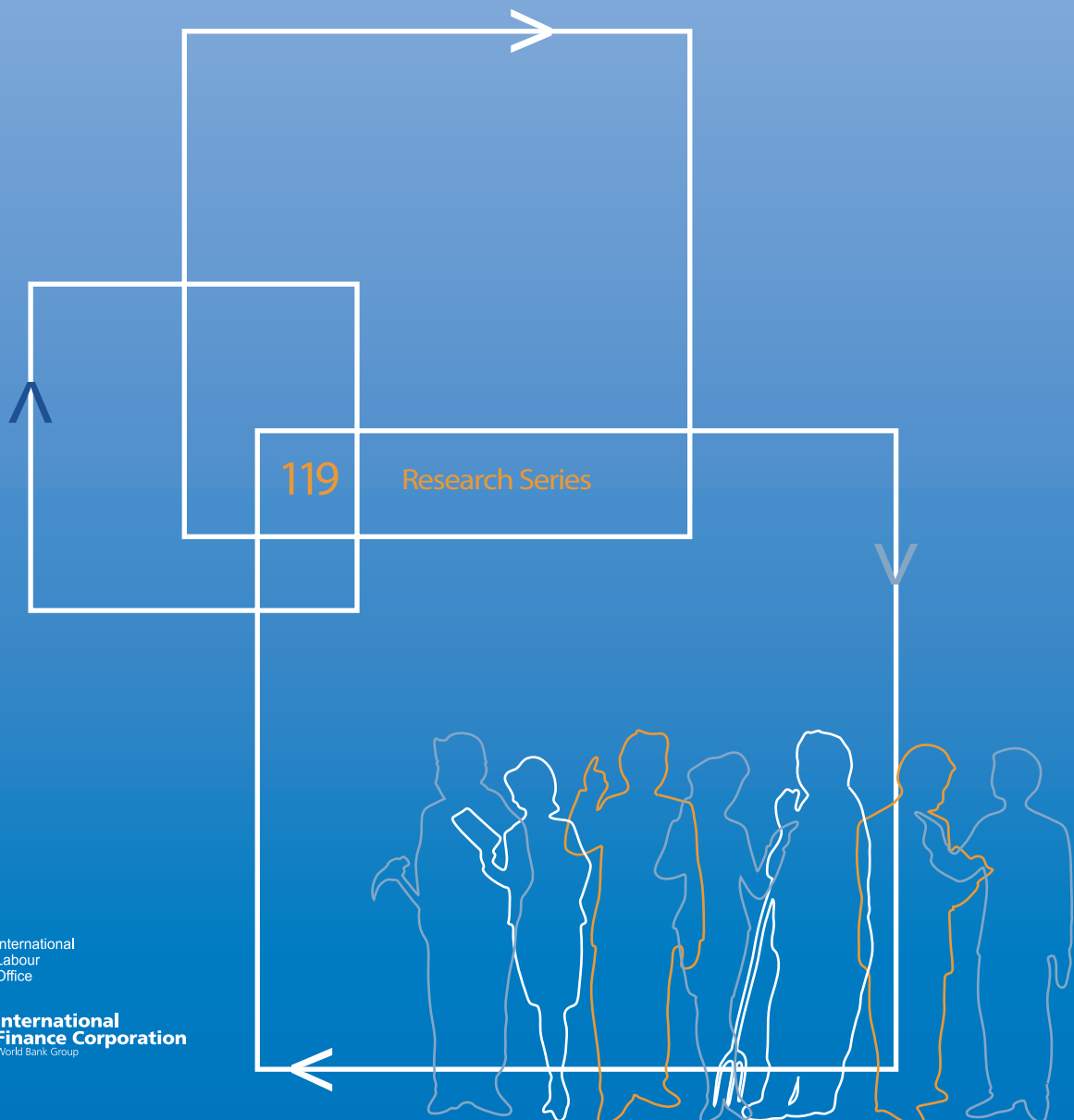
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BETTER WORK

HARNESSING GLOBAL FORCES TO CREATE DECENT WORK IN CAMBODIA

Sandra Polaski



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HARNESSING GLOBAL FORCES TO CREATE DECENT WORK
IN CAMBODIA

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Table of Contents

Preface	vii
1. Overview	1
2. Genesis of the experiment	2
3. Key elements of the policy	4
Linking trade and labor rights	4
Monitoring of the private sector by the ILO.....	5
How the mechanisms worked and were adjusted	6
4. Current status of the project	7
5. Analysis of the policy	8
6. Impact on Employment and Working Conditions in Cambodia.....	11
7. Benefits and costs.....	14
A. Positive incentives.....	16
B. Goal setting.....	17
C. Role of an international intergovernmental organization	17
D. Transparency	18
E. Role of governments.....	19
Bibliography	22

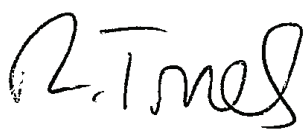
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Preface

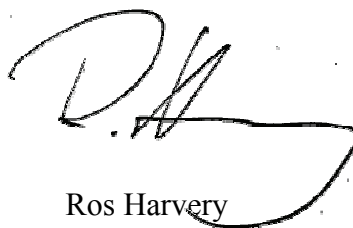
The present paper analyses one of the most comprehensive and promising attempts to promote compliance with labour standards through trade arrangements. In this case, positive incentives to comply with labour standards offered under the Bilateral Textile Agreement between the United States and Cambodia were combined with responsibility by the ILO for monitoring of compliance. The project has been viewed as a success by the governments involved, the relevant business actors (including global buyers) and Cambodian workers themselves.

The paper provides an in-depth analysis of the context in which the project came into existence, its main features, and the factors and mechanism that contribute to its alleged success. Importantly, the text also discusses how the project may serve as a guideline for strengthening the links between trade and labour standards in other countries and beyond the garment sector.

Such an approach becomes all the more pivotal following the economic crisis, where concerns have risen concerning the threat of protectionism on the one hand, and the spectre of greater downward pressure on wages and working conditions on the other hand. The Cambodian trade agreement provides one of the most important innovations on how to enhance complementarities between trade liberalisation and social progress. It has also served as a model program for interventions at the factory level to improve working conditions. The new ILO-IFC Better Work program is taking this experience into other countries where both trade agreements and supply chain relationships put pressure on governments and businesses to improve conditions for workers. Better Factories Cambodia and Better Work are demonstrating the potential of globalization to improve outcomes for workers, businesses, and countries.



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1. Overview

For the past nine years, a path-breaking policy experiment has harnessed global forces to create employment and improve working conditions in the small Southeast Asian nation of Cambodia. The fundamental strategy is to improve labor conditions, verify the improvement through monitoring by a respected international organization and use the results to create a “safe haven” for production and sourcing by international firms who wish to avoid reputation risk. The policy was pioneered in the apparel sector, which is the main exporting industry in Cambodia and the largest source of formal private sector employment.

The International Labour Organization (ILO), a specialized agency of the United Nations, conducts ongoing monitoring of conditions in the apparel factories.² The results are published in highly transparent reports that detail compliance or non-compliance by each factory with national labor laws and internationally agreed basic labor rights.³ Industry synthesis reports are posted on the internet and available to all interested parties. Until the end of 2004, these reports were used by the United States government as a key input for decisions under an innovative scheme that allowed Cambodian apparel producers increased access to the US market in exchange for improved working conditions and labor practices.

An important element of the experiment that was largely unanticipated but has proven critical to its ongoing success is the use of the ILO reports by private retail apparel firms that buy from Cambodian producers. These buyers, conscious of their brand reputations, use the reports to determine whether their supplier firms comply with labor standards. Where there are problems, they encourage the firms to remedy them. If supplier firms refuse or repeatedly fail to improve, the buyers shift orders to other firms that have demonstrated better compliance with labour laws and better workplace practices.

The information provided by the ILO changes the incentives facing private actors, including both the international buyers and the supplier factories. The international firms now know the full range of labour conditions in their supplier firms and the other apparel firms in the country. Armed with this knowledge, they can effectively protect their reputations. The factory owners have direct economic incentives to come into compliance with labour laws and to improve working conditions, because by doing so they can attract orders.

The project combines roles for national governments, international organizations, firms at the global and local level and trade unions in previously untried ways. The experiment warrants attention by policy makers elsewhere for two reasons. First, it

² The ILO is a specialized agency of the United Nations system.

³ The member states of the ILO, currently 183 nations, have agreed that all workers have certain fundamental rights, regardless of the level of development of their country. These include the right to freedom of association and collective bargaining, freedom from forced labor, restrictions on employment of children and elimination of the worst forms of child labor, and freedom from discrimination in employment. *ILO Declaration on Fundamental Principles and Rights at Work*, Geneva, June 1998. Available at www.ilo.org.

introduces novel policy tools that can help developing countries insert themselves into the global production system and create needed employment without sacrificing decent wages and treatment for workers. These new policy tools now have a record of effectiveness that can be examined and replicated by others. Second, the project relies primarily on private sector forces, while utilizing limited but essential public interventions to correct for market failures. The resulting system effectively aligns the interests of private sector actors more closely with public objectives.

As policy makers search for effective ways to engage global production systems for local development and employment objectives, the Cambodian experiment offers new and successful methods that can be replicated elsewhere. This study provides a description of the project, analysis and insights about the underlying mechanisms that determined its success, and guidance for replicating it in other countries.

2. Genesis of the experiment

Cambodia is one of the least developed countries in the world. It entered the modern global economy late, partly because of civil strife from the 1960's through the 1980's. As the country stabilized in the 1990's, it sought to make up for lost time in its economic development. One important strategy aimed to transform a handful of state-owned textile and apparel factories into an export industry and to attract new foreign direct investment into the sector, in order to earn foreign exchange and to create jobs for the underemployed Cambodian workforce. The apparel industry requires relatively low levels of investment and limited skills on the part of workers. It is typically the first step in the process of industrialization and Cambodia was eager to take it.

The global apparel trading system was governed for 40 years by a system that allowed countries to set quota limits on the textile and apparel exports from any one country that could enter their markets.⁴ The quota system was codified in the Agreement on Textiles and Clothing of the World Trade Organization (WTO), in force until January 2005.⁵ Because Cambodia was a latecomer to the apparel industry, it was not party to that system and therefore had no quotas. It was free to sell into the large, affluent markets of the US and EU, for example, but at the same time those countries were free to limit or cut off access at will in the absence of negotiated agreements. Notwithstanding that risk, willing investors from Hong Kong, Taiwan, China, South Korea and other countries bought, leased or built apparel factories in Cambodia. Buyers from the US and Europe also arrived, in part to circumvent the export limits they faced when purchasing from other countries under the global quota system.

⁴ The quota system dates back to the 1960's and reflected the fact that these industries were important sources of exports, income and jobs in many countries, both rich and poor. To address concerns of domestic industries and workers in rich countries, while allowing poor countries to grow out of poverty, successive international agreements were negotiated over several decades that allocated shares of guaranteed access to rich country markets. As developing countries' capacity grew, they began to push for a phase-out of the system, and this was finally agreed in the negotiations that created the World Trade Organization in 1995. The quota system was phased out over ten years and completely eliminated on January 1, 2005.

⁵ The Agreement on Textiles and Clothing succeeded the Multi-Fibre Arrangement or MFA in 1995.

The infant apparel industry grew rapidly. From virtually no apparel exports in 1994, exports had grown to almost half a billion dollars in value by 1998.⁶ The share going to the US increased rapidly, to the point that in 1998 the domestic US textile and apparel industries called for import restraints. Meanwhile in Cambodia, the growing workforce in the apparel factories had become increasingly discontent with conditions. The workers turned for help to labor unions, many affiliated with political parties. Demonstrations and strikes became increasingly common. In June of 1998, supportive labor groups in the US petitioned the US government to review claimed abuses of workers' rights in Cambodia's apparel factories.

In response to the pressures from the US textile industry and US labor groups, the US government initiated negotiations with Cambodia to bring it under the quota system. The converging issues came at a time when the US government was increasingly interested in experimenting with ways to link trading privileges with support for labor rights.⁷ US and Cambodian negotiators worked out a three-year apparel trade agreement for the period 1999-2001 that established fixed quotas for the twelve largest categories of apparel exports. However, in a unique step, they agreed that if the Cambodian government were able to ensure substantial compliance by the apparel factories with that country's labor laws and internationally agreed labor rights, the new quotas would be increased on an annual basis.⁸ The parties agreed to consult twice each year during the three-year agreement to identify the key labor problems and ways to address them. These consultations established practical goals for each semiannual period, which were used as benchmarks to determine whether to grant the quota increase for the subsequent year.

Both parties recognized that a reliable source of information on the actual practices and conditions in the factories would be needed for the quota determination. The capacity of the Cambodian government to inspect private firms and enforce national labor laws was extremely weak. It was tacitly acknowledged that reporting by government inspectors was not credible as a basis for the quota decisions. Alternatively, private for-profit and not-for-profit monitoring groups existed, but none were deemed to have the credibility to provide the basis for significant government decisions that would have broad economic impacts. To fill the gap, the two countries turned to the ILO, an arm of the United Nations system with responsibility for setting international labor standards and supervising compliance. The ILO had a well-established supervisory system to review the conduct of governments, both through periodic examinations of their compliance with ratified international labor conventions and in response to complaints raised by trade unions and others.⁹ However the organization had never monitored the private sector and had never engaged in on-site inspection of workplaces. The request from the US and Cambodia to take up a new role evoked a cautious response from the Director General of the organization, Juan Somavia, and provoked debate within the ILO

⁶ "Cambodia: Selected Issues and Statistical Appendix", IMF Country Report No. 03/59, International Monetary Fund, Washington, DC, March 2003, p. 9.

⁷ Polaski, Sandra, "Protecting Labor Rights through Trade Agreements: An Analytical Guide", *Journal of International Law and Policy*, Vol. 10, No. 1 (Fall 2003), p. 14.

⁸ US-Cambodia Bilateral Textile Agreement, available at: http://199.88.185.106/tcc/data/commerce_html/TCC_2/Cambodiatextilebilat.html.

⁹ See ILO website, www.ilo.org.

bureaucracy and governing body.¹⁰ After a deliberative process, Somavia decided that the ILO should support a project that was seen to have value by both of the governments involved and that had the backing of employers and trade unions in the target country.¹¹

3. Key elements of the policy

The two key innovations that launched the original project have been identified: the creation of a trade agreement that provided positive market access incentives as a reward for improved labor conditions; and the inauguration of a new monitoring role in the private sector by an international public agency. We first examine each of these elements separately and explore the context in which the innovation arose. We then turn to a discussion of how the elements of the strategy interacted and were adapted to work more effectively.

Linking trade and labor rights

The idea of trying to improve international labor standards and working conditions by linking them with trading privileges has been discussed at least since the early twentieth century, but the first practical attempts to implement such a linkage date from the mid-1980s.¹² The first instruments to be created arose under the multilateral trading system, which from the early 1970s allowed countries to extend special trade preferences to developing countries for the purpose of aiding their development. Under this exception, wealthy nations can lower tariffs or extend other market access privileges unilaterally to poorer countries without violating WTO rules that forbid discrimination among trading partners. In 1983, the US made participation in such preferential trade programs conditional on respect for labor rights by developing country recipients.¹³ In 1993, the US took a further step by including a labor provision as part of a negotiated free trade arrangement.¹⁴ A side agreement to the North American Free Trade Agreement (NAFTA) required the parties to effectively enforce their own labor laws.¹⁵ If a party failed to do so, it could risk being fined by the other parties or, in extreme cases, losing some of the trade benefits created by the pact.

Both the preference programs and the NAFTA labor side agreement can be viewed as creating a disincentive for bad labor practices. Countries are granted trade privileges

¹⁰ The ILO is governed by a unique structure that includes the governments of the 178 member countries (controlling half of the votes in decisions), employers' organizations (one quarter of votes) and labor unions (one quarter of votes).

¹¹ Conversation with the author, Geneva, Switzerland, January 19, 2000. See also Elliott, Kimberly Ann and Richard B. Freeman, *Can Labor Standards Improve under Globalization?* Washington, DC: Institute for International Economics, June 2003, p. 117.

¹² Polaski, *op. cit.*, pp. 13-15.

¹³ Such programs are permitted under the Generalized System of Preferences (GSP) of the World Trade Organization. The European Union also created a similar link between respect for labor rights and market access under its GSP+ programs.

¹⁴ Free trade agreements are also permitted under the rules of the WTO, if they cover essentially all trade. The trade privileges can be considered "WTO-plus" and a withdrawal from such an agreement would return trade to the rules established in the WTO.

¹⁵ The North American Agreement on Labor Cooperation (NAALC), agreed between Canada, Mexico and the US in August 1993. Available at www.naalc.org.

that could later be withdrawn if the party fails to comply with the labor obligations.¹⁶ The US-Cambodia Textile Agreement, by contrast, created a positive incentive to improve practices. The country was guaranteed a baseline level of access to the US market, while additional quota would be granted annually for progress on labor conditions during the previous period. The incentive was purely positive in that nothing would be lost but something could be gained through improvement of labor conditions. Significantly, the strategy changed the incentives facing the private sector to be more closely aligned with those of the government and labor force. Improved labor conditions would expand the market in the subsequent year. The effectiveness of the reward was enhanced by the close temporal connection between the behavior of firms and government in one year and the rewards that would flow from good behavior during the following year. It was also a significant departure from previous trade-labor linkages in that the arrangement was repeated year after year, thereby creating the potential for continuing improvements.

Based on the actual performance of the Cambodian government and garment sector, the US government decided to award a 9 per cent increase in each of the quotas for 2000 and again for 2001.¹⁷ The parties were pleased with their experiment and agreed to extend the trade pact for three additional years, from 2002 through 2004. Across-the-board quota increases of 9 per cent, 12 per cent and 18 per cent were awarded for those years.

Monitoring of the private sector by the ILO

The second innovative mechanism in the Cambodian experiment is the novel role for the ILO. To make the quota decisions, the US needed credible and timely information on actual labor conditions in Cambodian apparel factories. The Cambodian government was not an effective source of such information. As noted above, Cambodia had been engaged in civil strife or outright war for much of the last 30 years, and is still struggling to establish full rule of law. The state is generally weak and faces severe resource constraints. Civil servants, including labor inspectors, are woefully underpaid. As a result, it is difficult to attract and hold competent inspectors. The average wage of a civil servant is the equivalent of US\$28 per month.¹⁸ By contrast, the minimum wage in the apparel industry in Cambodia is \$50 per month, and the average monthly wage in the sector is about \$77.¹⁹ By any account, the pay of government inspectors does not provide an acceptable minimum standard of living, and therefore second and third jobs that compete for inspectors' time are the norm, not the exception. Taking bribes from employers is also common. Under these circumstances, the role of the national public authorities in inspecting workplaces and ensuring compliance with labor laws was a goal to be pursued over the medium term. It was not a reliable source of information for the immediate purposes of the textile agreement. At the same time, a growing apparel sector that created

¹⁶ Verma, Anil, "Global Labour Standards: Can we get from here to there?" Centre for Industrial Relations and Rotman School of Management University of Toronto, December 2002. Available at: http://www.fu-berlin.de/iira2003/papers/track_3/Workshop_3_4_Verma.pdf

¹⁷ Elliott and Freeman, op. cit., pp. 117-118.

¹⁸ IMF Country Report No. 03/59, op. cit., p. 27.

¹⁹ ILO, Better Factories Cambodia, "Cambodian Garment Industry: Challenges and Opportunities", April 2008. Available at: <http://www.betterfactories.org/ILO/aboutIndustry.aspx?z=3&c=1>.

jobs and profits was part of the solution to the problem of government capacity, as it would increase the tax base and resources for essential government functions. So while building public capacity to enforce labor laws was desirable, a short-term solution was needed to fill the information gap.

It was possible to engage private actors to monitor the worksites. Over the course of the 1990's, the creation of corporate codes of conduct and the need to monitor their implementation created an array of private actors. They ranged from for-profit accounting firms such as KPMG and PricewaterhouseCoopers (PwC) and specialized for-profit auditing groups like Intertek Testing Service, to non-profit social auditing groups such as Verité and non-profit multi-stakeholder groups like the Ethical Trading Initiative, Fair Labor Association and Social Accountability International. However none of these groups had established credibility at an international level among the diverse groups affected by the textile agreement, including employers, investors, buyers, labor unions, consumers and governments. There was no clear, credible leader in the field of labor auditing. Nor was there a widely accepted auditing standard or methodology.

Good information is a prerequisite for any well functioning market, and in this case it was essential to public decision making as well.²⁰ In the absence of national public capacity or satisfactory international private capacity, the two governments faced the necessity of finding an agent to supply the missing information. They turned to the ILO, which was established by the Treaty of Versailles in 1919 and is the oldest agency in what would become the UN system. Over the years, the ILO had gained extensive experience in evaluating labor practices in countries at all levels of development and possessed an established record of neutrality. However it lacked experience in monitoring private sector workplaces. As global economic integration accelerated in the 1990's and labor markets became increasingly integrated, rich country governments felt increasing pressure from domestic constituents to address poor labor conditions abroad as a way to maintain labor conditions at home. It was natural that policy makers grappling for means to address the new challenges would turn to the ILO to play new roles. For most of the 1990's, however, the new roles envisioned were in the public sphere, and entailed functions such as technical assistance and capacity building for ministries of labor in the developing world. The unprecedented US-Cambodia agreement, with its requirement for reliable, timely and credible information about actual factory conditions, pushed the ILO to move beyond its traditional scope of action in the public sphere. Arguably, this foray into the private domain may prove to be a critical element of continued relevance for the ILO, as the system of global production makes it more difficult for national labor ministries and labor inspectorates to effectively maintain and enforce their country's labor laws.

How the mechanisms worked and were adjusted

The experiment was put in place through two formal agreements: the textile agreement that began January 1, 1999 and an agreement between the ILO and the Cambodian government, garment manufacturers and trade unions to launch the

²⁰ The problem of imperfect information is a widely recognized impediment to well-functioning markets. See for example Joseph Stiglitz, "Information and the Change in the Paradigm in Economics", in *The Nobel Prizes 2001*, ed. Tore Frangmyr (Stockholm: The Nobel Foundation, 2002), pp. 472-540.

monitoring initiative, signed on May 4, 2000.²¹ The two agreements operated independently, but in complementary ways. The potential quota bonus created an incentive for the Cambodian government and the factory owners to improve labor conditions in order to obtain the economically valuable increases in access to the US market; and the ILO monitoring program provided critical information for the bonus decisions. However there were shortcomings in the arrangement launched by these agreements that might have greatly limited the project's effectiveness. A first shortcoming was that the ILO monitoring program, as created, provided for voluntary participation by factories. By contrast, the quota bonus was awarded to the country based on the overall performance of the apparel sector. The voluntary nature of participation meant that information would be incomplete, and perhaps unrepresentative, to the extent that factories chose not to participate. Further, it created a perverse incentive for firms to stay out of the monitoring program, because those factories that did participate would bear the burden of improvement while non-participating firms could share the increased bonus without the costs of better labor practices (a "free-rider" problem, in economic terms). The government of Cambodia recognized the danger that voluntary participation posed to the new scheme and stepped in to remedy it by issuing a regulation (the Cambodian term is *prakas*) that limited the availability of export licenses to the US to those firms participating in the monitoring program.²² This resulted in full participation and allowed the ILO monitors to generate information covering the entire sector. The Cambodian government's innovative action demonstrates that even a relatively weak and resource-constrained government can find ways to leverage its power by creative use of those instruments that it does control, such as export licensing and quota allocation.

A second potential shortcoming was that the ILO monitoring program required public reports on conditions in the factories, but left unclear whether the information would be provided in an aggregate form or would identify conditions in individual factories by name. As the monitoring program began, this issue remained unsettled. After discussions among the multiple stakeholders, the ILO decided to issue reports in two stages. A first round report would present aggregate results for all firms that had been inspected. These "synthesis reports" would give a profile of problems in the sector without naming individual firms. However, after a period of time was allowed for remediation of any problems found, the ILO monitors would re-inspect each factory for compliance. Factories that had not remedied violations of national labor laws or international labor standards found on the first visit would be identified by name in a subsequent report, with details of each area of non-compliance. This decision established a very high level of transparency regarding factory conditions, significantly higher than that provided by any private monitoring programs that currently exist.

4. Current status of the project

The international apparel quota system ended on January 1, 2005, and the US-Cambodia textile agreement, which was based on that system, expired at the same time. Anticipating the changes that would ensue in global apparel trade, the Cambodian

²¹ Because of delays in launching the monitoring project, decisions on the quota increases for 2000 and 2001 were made without the benefit of information from the ILO monitoring project.

²² *Prakas* No. 108 MOC/M2001, Cambodian Ministry of Commerce, March 28, 2001.

government and the country's apparel manufacturers concluded that the value of good labor standards and transparency would survive because of the demonstrated utility of the policies to buyer firms.²³ In 2003, they asked the ILO to continue the monitoring program for three years beyond the end of the Agreement on Textiles and Clothing. As the end of the quota system neared in late 2004, the World Bank Group's Foreign Investment Advisory Service (FIAS) conducted surveys among apparel buyers, finding that buyers rated Cambodia's labor standards higher than those of regional competitors, and that the buyers would continue to purchase garments from Cambodia if credible monitoring by the ILO were to continue.²⁴ The Cambodian government ensured that the project would continue to operate on an industry-wide basis after the quotas expired by making continued participation in monitoring a condition for receiving export licenses.²⁵

The Cambodian government and the ILO developed a long-term plan to continue the monitoring program and eventually make it self-sustaining. The project has been renamed "Better Factories Cambodia" and expanded to include training programs on how to achieve and maintain good labor standards. The results of ILO monitoring are now reported through a sophisticated internet-based system that allows closer tracking of violations and improvements.²⁶

5. Analysis of the policy

The Cambodia policy experiment is a successful example of combining roles for the public and private sectors to achieve goals that support broad economic and social objectives while contributing to the success of private firms. While the role of the private sector has been important from the beginning and has become paramount since the end of the apparel quota system, the experiment would not have been successful without the two seemingly small public interventions already mentioned, one by the Cambodian government to require participation in the monitoring program of all exporting firms, and the other by the ILO to provide full transparency of monitoring results.

These policy interventions together created an unprecedented incentive for private firms to comply with labor norms. By providing extensive, specific, reliable information to all actors regarding labor conditions and legal compliance across the entire Cambodian apparel sector, both the international buyers and the apparel factory owners now knew the full range of labor conditions in all apparel firms in the country.²⁷ International buyers who were concerned about working conditions and/or their brand reputations now were able to choose among supplier factories on the basis of good information about their

²³ Siphana, Sok, Secretary of State for Commerce, Royal Kingdom of Cambodia, speaking at the World Bank Group's International Conference on Public Policy for Corporate Social Responsibility, Country Session 1, October 8, 2003.

²⁴ World Bank, "Overseas buyers plan to continue purchasing Cambodian garments after 31 December", Press Release No. CMB2004/01, December 3, 2004.

²⁵ ILO, Better Factories Cambodia, "About Better Factories". Available at <http://www.betterfactories.org>.

²⁶ Agence France Presse, "Cambodia: UN labour body expands monitoring of Cambodia's garment factories", 11 February 2005.

²⁷ Interviews with factory managers and buyers, reported in Kolben, Kevin, "Trade, Monitoring, and the ILO: Working to Improve Conditions in Cambodia's Garment Factories", *Yale Human Rights & Development Law Journal*, Vol.7 (2004), p. 105-106.

labor practices. Under conditions of transparency, the factory owners now had multiple incentives to come into compliance with labor laws and to improve working conditions. While the textile agreement and quota system were still in force, they stood to gain increased market access to the US and faced peer pressure from other firms, whose own quota expansion would be at risk if other factories failed to comply. Thus the arrangements eliminated the free-rider problem and increased the incentives for collective action. Perhaps most important, the factories could attract orders based on compliance and would lose them for noncompliance. This incentive has continued after the end of the quota system and is now the primary incentive for labor compliance.

The Cambodia experiment marks the first time that credible information about labor conditions in a developing country's workplaces has been accessible to both public and private actors at the local, national and international levels. It thus provides an unprecedented opportunity to evaluate the importance of information and to witness the effect on market participants' behavior. As noted, the initial effect was to align the incentives facing private firms with Cambodia's twin public objectives of winning more market access to the US while creating employment and improved labor incomes. However the private sector dynamic, which changed the direction of orders toward compliant firms, became increasingly important over time.²⁸ This can be seen by examining the evolution of apparel exports. From 1999 through 2002, apparel exports from Cambodia to the US of items that were covered by quota limits increased by 44.8 per cent, from a value of US\$433 million in 1999 to US\$627 million in 2002. Over the same period, apparel exports that were not covered by the quotas (in other words, types of garments that had neither guaranteed access to the US market nor limits on that access) increased by 302 per cent, albeit from a smaller base of US\$83 million in 1999 to US\$334 million in 2002.²⁹ This indicates that buyers were attracted to place orders with factories that were compliant with labor norms even when they were making decisions on items that were not restricted by quota and thus would not benefit from the labor-based quota increases. Collectively, these incremental buyer decisions shifted the composition of Cambodia's apparel exports. In 1999, only 19 per cent of exports were of non-quota items, while by 2002, 53 per cent of exports were not under quotas.

The economic basis for the changed behavior by international buyers can be understood as an insurance function or as risk mitigation. The ILO monitoring and reporting system provides a form of reputation risk insurance to global apparel retailers who source their goods in Cambodia. While labor conditions are still far from perfect in the country's apparel factories, as discussed below, ILO monitoring reveals any serious abuses. The detailed ILO factory monitoring reports are provided to the individual factories soon after the monitors' visits, to allow them to begin remediation. Most buyers now pay a subscription fee to Better Factories Cambodia and can download these reports from the program's website once they are published. reports when they are received, rather than waiting for the periodic public reports in which the ILO describes non-compliance in each factory.³⁰ Buyers can insist on rapid remediation to eliminate or reduce risk to their reputations. A failure by a factory to address the problems can lead to loss of orders, as the buyer shifts to other factories with better practices. Over time, this

²⁸ Kolben, *op. cit.*, p. 106.

²⁹ IMF Country Report No. 03/59, *op. cit.*, p. 9.

³⁰ Kolben, *op. cit.* pp.105-106.

has led to a general upgrading of labor conditions and practices in the country's apparel sector, as non-compliant firms go out of business and compliant firms expand. This further mitigates risk to international buyers who source from Cambodia.

Although most apparel buyers have their own internal codes of conduct and undertake factory compliance inspections themselves or contract with for-profit or non-profit monitoring agencies to do so, none of these efforts have the high credibility of the ILO system. Purely self-regulatory schemes may assure buyers that their suppliers are not violating laws or codes of conduct, but they have little credibility with the public and other interested actors because of the potential conflict of interest between the firm's incentive to cut costs and its desire to avoid reputation risk. This perceived conflict of interest is compounded by the lack of transparency of many private sector self-monitoring efforts, creating a potentially large credibility gap. A respected third party such as the ILO, whose governance structure includes governments, trade unions and employer organizations, has interests in the monitoring process that broadly correspond to the combined interests of the workers, firms and governments involved in the monitoring scheme. The high level of transparency that the ILO adopted in its reporting also enhances the credibility of results through another channel: the specificity of the reports allows for challenges by any actors that hold contrary information. This operates as a reality check and reinforcement of the credibility of the ILO. Another advantage of the ILO is that it has had a long-term presence in Cambodia, and workers and others can access its staff on an ongoing basis to share information or complaints, in contrast to the private sector auditors who typically fly in for a one or two day inspection. It is hard to imagine a purely self-regulatory scheme that could achieve the ILO's level of credibility and effectiveness.

The Cambodia policy experiment also gave rise to progress in the factories through channels other than the ILO monitoring program. During the period of annual consultations under the US-Cambodia Textile Agreement, the two governments identified and addressed gaps in Cambodia's regulatory regime that hindered the implementation of labor laws. The Cambodian labor law, which was drafted with the assistance of the ILO and adopted in 1997, is a modern law incorporating all of the basic international norms. However the law left many institutional and procedural lacunae that were meant to be filled through regulations, known in Khmer as *prakas*. Few of these regulations had been enacted and the resulting procedural gaps included such basic matters as the method for a union to establish its status as the legitimate representative of workers in a factory and thus gain the legal right to engage in collective bargaining with the employer. Another missing regulation involved the creation of an arbitration council, which was foreseen in the law as a venue to resolve workplace disputes without the need for strikes by workers, lockouts by employers, or intervention by government inspectors and courts.

These gaps came to be a major focus of the semiannual meetings between the Cambodian and US governments. Progress on drafting and issuing the most critical *prakas* sometimes was used as a benchmark by the US in judging whether to award a quota bonus.³¹ The Cambodian government often sought US and ILO assistance in drafting the procedural regulations. Draft *prakas* were reviewed with employers'

³¹ Public meetings between the US and Cambodian governments, June 4, 2001 and November 30, 2001, in which the author chaired the US government delegation.

organizations and trade unions for further modification before being enacted. Gradually, procedures were put in place that allowed for orderly determination of worker, union and employer rights and obligations.³² The arbitration council *prakas* was issued and the body was established with further assistance from the ILO. The arbitration council is now functioning and commands wide respect from employers, trade unions and workers in the private sector. From its establishment in 2003 through 2008, 650 cases had been filed with the council.³³ A digest published by the council after its first year of existence showed that 85 per cent of the disputes had been resolved, either through awards or voluntary agreements.³⁴ Large numbers of workers and managers have now had the experience of peaceful settlement of disputes based on neutral interpretation of laws and contracts, as well as the more intangible but significant experience of participation in a rules based system that serves their interests. Thus, the labor consultations mandated by the textile agreement provided an impetus and contributed to the articulation of institutions that extended the rule of law and dispute settlement in Cambodia. These mechanisms are likely to have positive spillover effects on the broader political system. Lessons from other developing countries suggest that nations that create institutions to successfully resolve distributional conflicts enjoy stronger and steadier growth than those that do not.³⁵

6. Impact on Employment and Working Conditions in Cambodia

The impact of the quota bonus and monitoring experiment has been positive for employment and working conditions in Cambodia's apparel sector by many measures.³⁶ At the most basic level, the increases in quota and the decisions by reputation-conscious buyers to source their products from Cambodian factories have been key drivers of a very large increase in output and employment in the sector. In 1998, before the textile agreement took effect, apparel factories employed about 80,000 workers. By late 2008, apparel employment stood at 350,000.³⁷ These jobs make up a major share of scarce formal sector employment and are among the highest paid jobs for low skilled workers in the country. The overwhelming majority of employees in the sector are young women, aged 18 to 25, from rural households. To put the desirability of these jobs in context, the minimum monthly wage in the sector (US\$50) is greater than the entire average monthly household income in rural areas (US\$40).³⁸ Average monthly apparel wages are about

³² For example, *Prakas* No. 305 established procedures to determine the representation status of unions. Issued by MOSALVY (Cambodian Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation), November 22, 2001.

³³ See Arbitration Council web site at http://www.arbitrationcouncil.org/eng_index.htm.

³⁴ Ibid, see "Digest #2" of 2004.

³⁵ See for example Dani Rodrik, "Institutions for High-Quality Growth: What They Are and How to Acquire Them", *Studies in Comparative International Development*, Vol. 35, No. 3 (Fall 2000).

³⁶ For example, an extensive list of positive results is included in a speech by Lorne W. Craner, US Assistant Secretary of State, "Corporate Social Responsibility at the State Department", March 11, 2004. Available at: <http://www.state.gov/g/drl/rls/rm/30962.htm>.

³⁷ ILO, Better Factories Cambodia, Quarterly Newsletter No. 12, December 2008. Available at <http://www.betterfactories.org>.

³⁸ IMF Country Report No. 03/59, op. cit., p. 13.

US\$77, and many workers earn more through production incentives and overtime. Remittances by workers to their families in the countryside have been credited with living many rural households out of poverty. According to an Asian Development Bank survey, 90 per cent of those surveyed regularly send a major portion of their monthly income home to ensure that their families have enough food to eat and are able to send younger siblings to school rather than putting them to work.³⁹

Another measure of the impact of the experiment can be found in the ILO monitoring reports. Twenty-one reports had been issued by December 2008.⁴⁰ Each report covers a group of factories that were visited by the ILO monitors. After the first visit, the details of compliance or non-compliance with national labor laws and international labor standards are reported, in an aggregated form, for that group of factories. The ILO then allows those factories a period of several months for remediation of any problems found, while it visits a different group of factories. Later, it revisits each group, noting which recommendations (called “suggestions” in the ILO reports) have been acted upon and which have not been remedied. In a subsequent report, the ILO publishes these findings, identifying each factory by name and noting whether it has complied with the suggestions or not.

The reports show that on their first visit, ILO monitors typically found a mixed pattern of compliance and non-compliance by factories.⁴¹ Compliance was generally good in two key areas of basic labor rights: there was little or no child labor and no forced labor. Gender discrimination was not a widespread problem in hiring or wages, however discrimination on the basis of pregnancy was fairly common and isolated instances of sexual harassment were found. Widespread problems were found in incorrect payment of wages and excessive hours or forced overtime. Violations of health and safety laws were common, including both minor and more serious infractions. Problems with freedom of association—the right to form unions and bargain collectively—were found in a relatively small number of factories, although the violations found were sometimes very serious.

The pattern of initial findings was in itself somewhat encouraging. Before the advent of the ILO monitoring project, a British Broadcasting Corporation (BBC) program had interviewed two ostensibly underage workers in a factory that supplied apparel products to Nike. While many knowledgeable observers questioned the accuracy of the program, Nike ended its contracts with the factory and left Cambodia. After the ILO began its monitoring program and issued its first report, Nike returned to place orders in Cambodia and continues to do so. Although Nike had internal monitoring mechanisms in place before the BBC report, the company knew that its own internal findings would not be sufficiently credible to counter the damaging report. The ILO’s findings, by contrast, command global respect and thus provide real value to global firms.

The ILO monitors make detailed suggestions to managers of each factory to correct the deficiencies identified. In the early years of the program, monitors returning to the

³⁹ Asian Development Bank, “Preventing Poverty and Empowering Female Garment Workers Affected by the International Trade Environment”. Available at: <http://www.adb.org/gender/country/cam005.asp>.

⁴⁰ ILO Synthesis Reports on the Working Conditions Situation in Cambodia’s Garment Sector. Available at: <http://www.betterfactories.org>.

⁴¹ Ibid.

factories found that some progress had been made by the majority of factories in correcting the problems identified. A tabulation of the first group of synthesis reports to cover monitoring and re-monitoring of the same group of factories found that about 60 per cent of factories had implemented between one-third and two-thirds of the ILO's suggested corrections, while an additional 8 per cent of factories had implemented more than two-thirds of the recommendations.⁴² A small group of factories came into full compliance with the ILO recommendations. Figure 1 shows the responsiveness of factories to ILO recommendations. The factories are sorted into three categories: those with relatively few deficiencies on the first inspection (fewer than 20 of the 156 items required improvement), those with 20-39 deficiencies, and those with 40 or more deficiencies. For each group, the figure presents the percentage of problems that were corrected between the first and second visits (less than one-third, one-third to two-thirds, or greater than two-thirds of suggestions implemented).⁴³

As factories have been revisited multiple times in ensuing years, there has been a declining trend in the number of problems found. In some important areas, such as wages (including compliance with laws on minimum wage, overtime payment, and other payments), performance has improved considerably. Figure 2 summarizes re-monitoring results for wages.⁴⁴ In the factories that had been visited over the first four years of the program, the number of violations found declined on each monitoring visit.

The ILO reports also show progress over time on respect for workers' legal right to freedom of association and collective bargaining. There were few examples of unions successfully establishing themselves in Cambodian apparel factories before the US-Cambodia textile agreement and the ILO monitoring program began. By 2004, there were about 500 registered factory level unions.⁴⁵ In 2007, 79 per cent of the factories monitored had at least one union and the ILO estimated that 40 to 50 per cent of the sector workforce belonged to unions.⁴⁶ The monitoring reports also document some progress in health and safety, although few firms were in full compliance with the law and ILO suggestions.

⁴² Tabulation of Third, Fifth and Eighth ILO Synthesis Reports on the Working Conditions in Cambodia's Garment Sector (these reports covered the same group of factories) by Jacob Steinberg, Junior Fellow at the Carnegie Endowment for International Peace, May, 2004.

⁴³ ILO monitors report areas of non-compliance as suggestions for improvement. As of 2004, suggestions are standardized and represent one specific non-compliance finding. In the early years of the program, however, suggestions used by monitors were not thoroughly standardized. Sometimes different wording was used for the same violation or multiple violations were noted in one suggestion. For this reason, the methodology of summing up suggestions based on publicly available synthesis reports may lack accuracy in the early years of the program (approximately 2001 to 2004). Research conducted by Better Work based on original documents from monitoring visits, however, has produced findings in line with the results published in this paper.

⁴⁴ Tabulation of the First through Fifteenth ILO Synthesis Reports on the Working Conditions in Cambodia's Garment Sector by Kristopher Nordstrom, Terry Sanford Institute of Public Policy, Duke University, April 2006.

⁴⁵ Raghwan, Raghwan, "Uncomfortable but Taking Part—Cambodia's Unions and the PRSP", in ILO, ed. "Trade Unions and Poverty Reduction Strategies", special issue of *Labour Education*, Vol. 2004/1-2, No. 134-135, pp. 55-58. Available at <http://www.ilo.org/public/english/dialogue/actrav/publ/134/index.htm>.

⁴⁶ ILO, Better Factories Cambodia, Quarterly Newsletter No. 6, October 2006, p.3; "Cambodian Garment Industry: Challenges and Opportunities", April 2008. Available at <http://www.betterfactories.org>.

The ILO reports continue to provide a source of useful and reliable information about conditions in the factories and progress on remediation of problems. Although many problems remain, it is remarkable that so many factories have made rapid changes and corrections to practices that routinely confront apparel workers in many developing countries.

7. Benefits and costs

Many of the benefits of the quota bonus and monitoring experiment are direct, quantifiable and substantial. The augmented quota allowances themselves constituted a clear benefit to the Cambodian government, apparel firms and workers. For example, in 2002, the value of the quota bonus was US\$56.4 million (calculated by multiplying the 9 per cent additional quota for that year times the share of exports under quota, valued at US\$627 million).⁴⁷ About 13,000 jobs were created by the increased exports that year, and workers earned total wages of US\$9.5 million at those jobs. As the quota bonus grew to 12 per cent in 2003 and 18 per cent in 2004, the value to all parties increased. The earnings of apparel firms and workers also translated into increased tax revenue for the government.

Beyond the quantifiable contribution of the quota bonuses, the risk mitigation that the good labor practices and monitoring offered to buyers led to their increased sourcing from Cambodia. Although it is impossible to calculate a precise level of orders attributable to the risk mitigation effect, the earlier discussion of growth in non-quota exports suggests that this effect was even larger than the quota increases, with attendant contributions to exports, employment, wages and taxes.

The ILO monitoring program has led to benefits for Cambodian apparel workers beyond the creation of jobs. They are now more likely to be paid the wages to which they are entitled under law, to receive appropriate overtime pay and bonuses, to work in safer and healthier workplaces and to enjoy freedom of association, which in turn gives them the wherewithal to further improve wages, benefits and treatment through their collective bargaining strength.⁴⁸

The costs of the program have been surprisingly modest. Total funding for the initial three-year monitoring project was US\$1.4 million. The US and Cambodia governments contributed US\$1 million and US\$200,000, respectively, and the Garment Manufacturers Association of Cambodia contributed US\$200,000. Spread over three years, with an average of 200,000 workers in the sector during that period, the annual cost per worker was US\$2.33 and the annual cost per factory was US\$2,333. These costs compare very favorably to private monitoring schemes in the region, where the cost of factory inspections and certification that the factory conforms to a buyer's code of conduct can range as high as \$10,000.⁴⁹ The current annual cost of the monitoring project, after

⁴⁷ IMF, IMF Country Report No. 03/59, p. 9.

⁴⁸ Elliott and Freeman, *op. cit.*, p. 118.

⁴⁹ Nguyen Manh Cuong, Deputy Director, International Cooperation Department, Ministry of Labor, Invalids and Social Affairs, Government of Viet Nam, speaking at the World Bank Group's International Conference on Public Policy for Corporate Social Responsibility, Country Session 1, October 8, 2003.

additional features were added to assist factory managers and workers, is about US\$3 per worker, or US\$2800 per factory.⁵⁰

The program has been cost effective primarily because of personnel costs. The project director and assistant director are hired by the ILO at competitive international salaries, reflecting the substantial experience and expertise required by the positions. However the monitors and other staff are hired locally in Cambodia, at salaries that are attractive by Cambodian standards, but very economical by international standards. The director trains the local monitors and exercises oversight to ensure that the monitoring meets international norms. The local monitors (there are currently about twenty) are carefully selected and generally have been praised by all parties.⁵¹ Because the monitors are paid at levels that are attractive in Cambodia, they are less vulnerable to the temptation to corruption faced by low-paid government labor inspectors. In addition, all monitoring visits are carried out by teams of two and the teams visiting particular factories are rotated to minimize the risk of bribes. The structure of salaries in the project makes it possible to carry out activities at a level of competence that commands international credibility while paying most salaries at the level of the local labor market. One reason for the high costs of many private monitoring programs is that auditors are typically paid at international salary or consultant levels and are flown in for inspections from distant locations with attendant travel, housing and per diem costs.

The cost-effectiveness of the local hires is further enhanced by their equally important non-monetary contributions. The local hires speak Khmer and thus are able to communicate with both workers and employers. As local residents, they are well positioned to meet with workers and unions away from the work place when necessary. By contrast, private auditors who are not locally based may have difficulty communicating with workers and may not inspire their confidence, particularly if the only contact is in the workplace where workers may feel intimidated by their managers. A final benefit of this approach is that the locally hired monitors acquire important technical, process and conflict management skills that add to the store of the society's human and social capital.

Cost-effectiveness is further promoted by charging international buyers for access to the monitoring reports produced for their suppliers. Buyers can now purchase subscriptions online and receive detailed monitoring reports. Some major international buyers have begun to contribute additional sums to sustain the project.⁵²

Financial support for the project has also broadened as international development agencies witnessed the gains in economic development, employment creation and poverty alleviation that Cambodia was able to achieve through this innovative approach. Additional funding is now provided by the World Bank's International Finance Corporation, the Agence Française de Développement (AFD), the Asian Development Bank (ADB), and New Zealand's International Aid and Development Agency (NZAID).

⁵⁰ ILO, Better Factories Cambodia, "Funding". Available at <http://www.betterfactories.org>.

⁵¹ International Labor Organization and US Department of Labor, *Mid-term Evaluation Report* of the project, "Ensuring that Working Conditions in the Textile and Apparel Sector in Cambodia Comply with Internationally-recognized Core Labour Standards and the Cambodian Labour Law", Phnom Penh, February 2003.

⁵² A list of firms that contribute is available at: <http://www.betterfactories.org/donors.aspx?c=1>.

8. Lessons and conclusions

The Cambodian policy experiment can be judged as a success measured against its ambitious objectives: to increase apparel exports, improve economic growth, and improve working conditions and worker rights in the country. The policy continues beyond the framework in which it was originally conceived (the apparel quota system that ended in 2005) primarily because of the benefits it provides for private firms. However even in the current private sector-driven context, the policy continues to provide benefits to the wider society in terms of employment, working conditions, the dispute settlement mechanism and participation of workers' representatives in policy setting for the sector.

The experiment is a rare example of a new policy idea and its successful implementation in the globalized production system. When such successes occur, it is useful to search for lessons that can be learned to inform policy making elsewhere, and we turn to that topic in this final section. Five distinct characteristics of the innovative Cambodian policy can be identified as essential to its success.

A. Positive incentives

An important innovation was the manner in which trade privileges were linked with improved labor rights. Labor provisions had been included in other trade agreements and trade preference programs by the US and some other governments, but those provisions operated as negative incentives.⁵³ In those arrangements, trade privileges were granted to the trading partner with the condition that they could later be revoked if governments failed to address existing problems, if labor conditions deteriorated or if new violations were discovered. In negotiating terms, the privileges were front-loaded and the accountability was back-loaded (if it happened at all).

By contrast, the textile agreement with Cambodia created a positive incentive that operated prospectively. The additional market access (quota) was not granted until the Cambodian employers and government met pre-established benchmarks of progress on labor conditions, resolved specific problems and upgraded legal instruments. The improvements had to be demonstrated first, and then the commercial reward followed. The difference in impact of positive and negative incentives can be substantial. Looked at from the perspective of the recipient country, a positive incentive system requires real changes in behavior in order to access the desired market reward. Under a negative incentive system, continuing improvement in labor standards may be less likely once the desired market access has been granted, for several reasons. The deterrent effect of a general and vague conditionality may be discounted by the recipient. From the perspective of the granting country, it may be politically unappealing to employ a negative incentive, because revoking privileges already granted can disrupt ongoing economic activities. Partly as a consequence, negative incentives are typically employed only in cases of egregious abuse of labor rights. This can limit the efficacy of such arrangements to achieve incremental, sustained progress on labor rights and conditions.

⁵³ Polaski, *op. cit.*, pp. 21-22.

In this case innovation went beyond the substitution of positive for negative incentives. The positive incentives were structured in a way that required progress in each annual period to gain a quota increase for the following year. The repetitive nature of the exercise elicited more progress than a one-time qualifying period could achieve. It allowed modest, feasible steps to be taken and rewarded rapidly, as part of the repeated annual exercise. This aspect of the policy design is particularly important, because many of the labor problems encountered in developing countries are complex and difficult to solve in one stroke.

For countries that wish to fashion a positive incentive for improvement of labor conditions, the initial incentive granted to Cambodia is not available because the quota system has ended. However there are many other positive incentives that could be granted by developed to developing countries to achieve labor goals. Many restrictions still confront developing country exports and policy makers could link expansion of trade benefits to progress on labor rights and other developmental objectives. For example, bilateral free trade agreements, which typically phase out tariffs over a period of many years, could accelerate those tariff reductions or offer tariff benefits beyond the basic reductions if agreed benchmarks were met on labor standards.

B. Goal setting

The semi-annual consultations between the US and Cambodian governments proved to be an important mechanism for harnessing the positive incentives to practical goals. Benchmarks were set that could be achieved in a six to twelve month period. The goals ranged from major structural changes, such as the issuance of necessary regulations and creation of institutions, to the remediation of specific, egregious problems in particular factories. Once the ILO monitoring reports became available, an overall goal in each period was the demonstration of effort and steady progress by factories in remedying identified problems.

The short-term goals were agreed in consultations between the two governments, and the views of apparel factory managers and workers' organizations were also sought. The involvement of all relevant Cambodian actors in the discussions meant that the resulting goals were widely known. The specificity of the goals meant that all actors understood what was expected. The challenge faced by the parties was to identify goals that were sufficiently ambitious to contribute to significant and sustained progress in labor rights, while recognizing the constraints on the Cambodian actors.

Policy makers seeking to replicate this approach should include a frequent consultative process that sets ambitious but realistic objectives and takes stock of progress. It would be desirable to include all affected actors in the consultations.

C. Role of an international intergovernmental organization

As noted above, the Cambodia monitoring program marked the first time the ILO had inspected factories or directly monitored private sector behavior. The organization proceeded in a careful, deliberative manner, which slowed the development of the program somewhat. However in the process it built consensus among relevant actors at each step and developed an iterative approach to problem solving on issues that arose. This careful process was an important factor in the success the monitoring program has enjoyed.

The experience has built a strong new capacity within the ILO that is highly relevant to the needs of its constituencies elsewhere. The organization has now created a capacity to replicate the monitoring and other aspects of the Cambodia program in other countries. A new entity, called Better Work, has been established at the ILO headquarters in Geneva in conjunction with the International Finance Corporation. Three countries, Jordan, Haiti, and Vietnam, have already launched programs with Better Work and several other countries are exploring programs.

As countries struggle to achieve economic growth while advancing social equity, particularly during the current global economic downturn, they can call upon the ILO to use its newly developed skills to monitor and provide credible information about their workplaces.

The role of the ILO in Cambodia is illustrative of a function that could also be assigned to other intergovernmental agencies that deal with different substantive matters. As an example, an effort known as the Kimberly Process, a scheme to stop trade in diamonds that fuel and finance civil wars in Africa, recently agreed that self-regulatory efforts by the diamond industry required more aggressive oversight by governments and greater transparency of information about traded diamonds.⁵⁴ This role could be played effectively by intergovernmental organizations.

D. Transparency

One aspect of the Cambodia monitoring program that has been indispensable to its success is the high level of transparency that the ILO provided through its reports. As discussed, this transparency allowed governments, firms, trade unions and other interested parties equal access to the information generated. The reports served a multiplicity of purposes in the hands of different actors and reinforced the common interests they shared. Any future monitoring role for the ILO or other intergovernmental agency should replicate at least an equal level of transparency.

The question arises whether private auditing groups could substitute for an intergovernmental organization to provide monitoring with a similar degree of transparency and credibility. Currently, no private sector group has attempted this level of transparency. Those groups that monitor labor conditions in factories abroad generally have been unwilling to identify the specific factories inspected and the findings, both positive and negative, in those factories. Some multi-stakeholder monitoring groups have improved their transparency in recent years, but reporting typically covers only a small percentage of factories or buyers. Without specific information about individual factories outside actors are not in a position to act on the information and a useful check on the accuracy of reports is lost if workers or others who might possess conflicting information are not able to identify the firms involved. Unless private monitoring groups were to report with full transparency to all interested actors, it is unlikely that they could fill the role of providing sufficient information to improve the functioning of markets, generate the progress on workplace performance that was achieved by the ILO in Cambodia, and provide effective reputation risk insurance to factories and buyers.

⁵⁴ Financial Times, “Conflict diamond curbs agreed”, November 10, 2006.

E. Role of governments

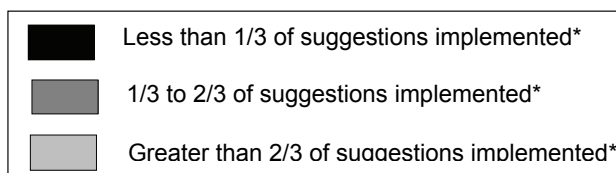
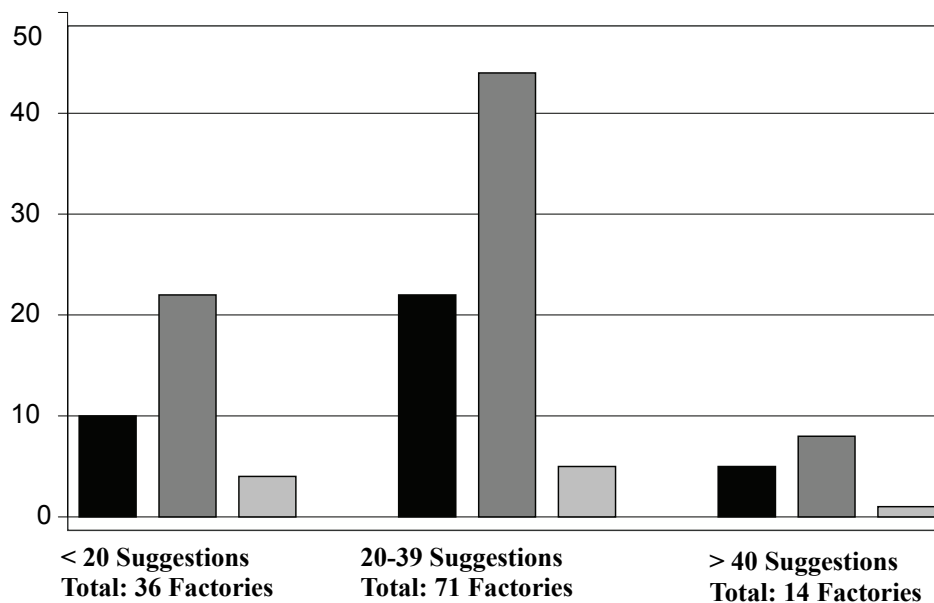
The apparel industry in Cambodia was a major beneficiary of the policy experiment, but did not initiate it. The multiple firms in the sector faced a classic coordination problem in which all firms would be better off with increased market access in the form of quota and increased purchasing by international buyers. However individual firms did not want to lead the effort, without assured participation by all, to avoid bearing disproportionate costs of improving labor conditions. The role of the Cambodian and US governments in initiating the policy, and the role of the Cambodian government in requiring sector wide participation, were essential.

The Cambodian government had strong interests in creating the policy and ensuring its success. The interests encompassed economic, social and political objectives. In the economic realm, the gains to be achieved included increased exports, which would stimulate overall economic growth, increased employment and increased fiscal revenues. The societal goals of the government were to improve the employment opportunities, incomes and working conditions of Cambodian workers. Because the apparel sector offers the best employment available to unskilled workers in Cambodia, expanding the number of positions was a major goal of the government. In addition to direct employment opportunities, growth in the apparel sector also had a beneficial economic effect on households, mainly in the countryside, which received remittances from the young, largely female workforce drawn from rural households. At the political level, worker unrest was rising in the years after Cambodia achieved peace in 1991. In a polity where disputes had long been resolved through violence, the creation of economic opportunity and peaceful means for addressing distributional disputes was a significant breakthrough.

Due to resource and capacity constraints, the government had very limited ability to achieve its goals through direct governmental interventions such as inspection, fines or judicial settlement of disputes. In this case, the government effectively leveraged the policy instruments it did possess, such as the ability to negotiate market access abroad and the granting of export licenses, to elicit greater compliance by firms. Even least developed countries such as Cambodia have instruments with which to achieve more favorable terms for their insertion into the global economy, by leveraging international norms and intergovernmental capacity to their own purposes.

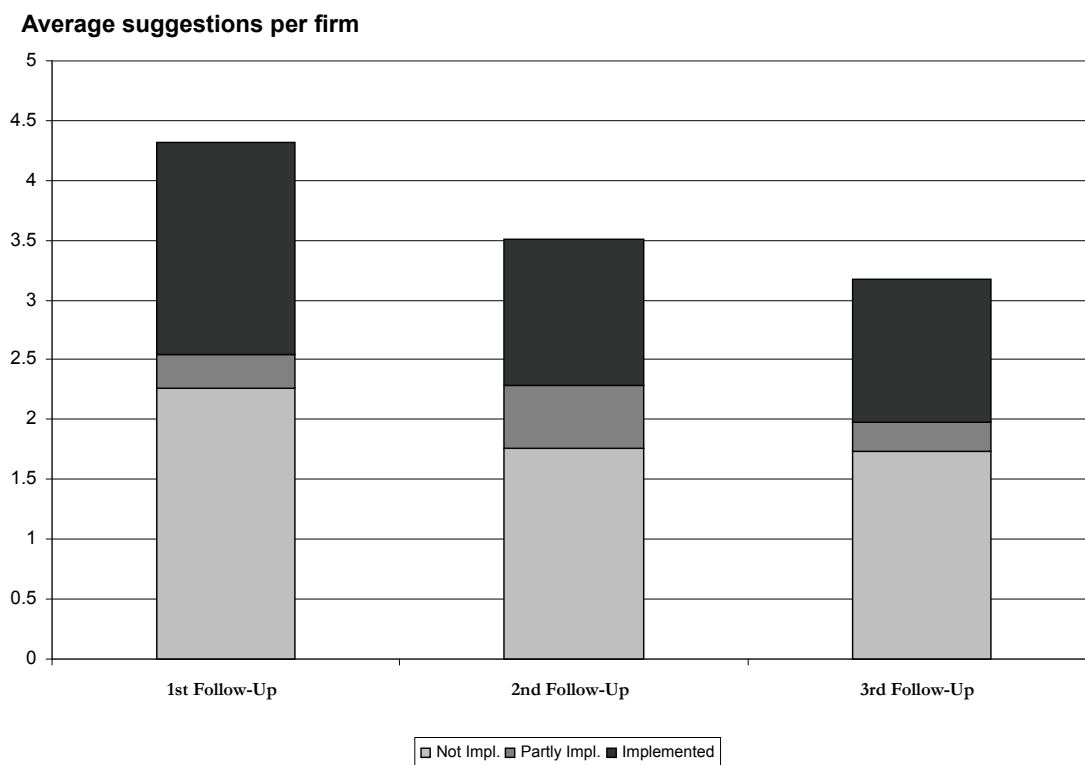
Figure 1: Re-visited factories: Response to ILO suggestions

Number of factories



* Includes suggestions partly implemented and in the process of being implemented
 Source: Tabulations of ILO Third, Fifth, and Eighth Synthesis Reports on the Working Conditions Situation in Cambodia's Garment Sector

Figure 2: Incidence and remediation of wage problems



Source: Tabulation of ILO First through Fifteenth Synthesis Reports on the Working Conditions Situation in Cambodia's Garment Sector by Kristopher Nordstrom, Terry Sanford Institute of Public Policy, Duke University, April 2006.

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