Berik, Günseli; van der Meulen Rodgers, Yana

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Günseli Berik
and
Yana van der Meulen Rodgers

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University of Utah
Department of Economics
1645 East Central Campus Dr., Rm. 308
Salt Lake City, UT 84112-9300
Tel: (801) 581-7481
Fax: (801) 585-5649
http://www.econ.utah.edu

Options for Enforcing Labor Standards:
Lessons from Bangladesh and Cambodia

Günseli Berik
Economics Department, University of Utah
berik@economics.utah.edu

Yana van der Meulen Rodgers
Department of Women's and Gender Studies, Rutgers University
yrodgers@rci.rutgers.edu

Abstract

This study examines labor standards enforcement and compliance in two Asian economies (Bangladesh and Cambodia) that have amongst the lowest labor costs in the world but are experiencing strong pressures to improve the price competitiveness of their textile and garment exports. Analysis of survey, focus group, and inspection data indicate differing trajectories in compliance with basic labor standards. While extremely low wages and poor working conditions have persisted in Bangladesh, compliance has begun to improve in Cambodia following a trade agreement with the United States that linked positive trade incentives with labor standards enforcement. These contrasting experiences suggest that in less developed countries governments consider trade-linked schemes to achieve improvements in working conditions without hindering export growth or job growth.

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Corresponding author: Yana Rodgers, Department of Women's and Gender Studies, Rutgers University, 162 Ryders Lane, New Brunswick, NJ 08502.

I. Introduction

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

This study uses a combination of survey, focus group, and inspection data to examine the trajectories that Bangladesh and Cambodia have taken in response to increased trade competition.[1] Garment production is the main source of wage employment for women in Bangladesh and Cambodia, where over two-thirds of the workforce in the garment sector is female. As a result, the growing competition with China and the structural shifts in these economies pose substantial challenges for female workers. Both Bangladesh and Cambodia are extremely poor developing economies with histories of weak adherence to labor standards in industrial production and some of the lowest labor costs in the world. In both countries, textile and garment workers have experienced numerous violations of worker rights supposedly guaranteed in their national labor codes, ranging from long working hours, forced and excessive overtime, illegal pay deductions, lack of safe and sanitary working conditions, and denial of the freedom to associate and bargain collectively (Chowdhury Repon and Ahamed 2005; Kolben 2004; Hall 2000; ITUC 2008; Wells 2006; Zohir 2001). This paper discusses the status of working conditions and the direction of change in labor-standards enforcement and compliance in Bangladesh and Cambodia.

An extremely competitive world market in textiles and garments has put strong pressures on both Bangladesh and Cambodia to improve the price competitiveness of their exports. While extremely low wages and poor working conditions have persisted in Bangladesh, results from a series of factory inspections in Cambodia indicate that very poor working conditions have begun to show signs of improvement in recent years. The main explanation for the difference between these two countries is a trade-based labor standards program in Cambodia that appears to have helped boost employment conditions without jeopardizing export growth. The program, known as "Better Factories Cambodia," developed out of a bilateral trade agreement that the United States negotiated with Cambodia in 1999. The agreement linked expansion of Cambodia's U.S. market access to improvements in labor standards, relied on the International Labor Organization (ILO) to serve as the monitoring agent, and adopted transparency measures in reporting factory inspection results.

Our objective is to use the Bangladeshi and Cambodian trajectories as an opportunity to discuss and evaluate alternative mechanisms for improving working conditions in developing countries' manufacturing sectors. These mechanisms include country ratification of ILO conventions, national government promulgation and enforcement of labor laws, global enforcement of labor standards, and corporate self-regulation through codes of conduct. These processes for implementing labor standards and enhancing working conditions have garnered varying degrees of skepticism, particularly in developing countries that lack adequate funding for enforcement. In addition, the development literature on labor standards is marked by a longstanding debate that encompasses a sharp division on the usefulness of global enforcement of labor standards through trade sanctions as a means for improving wages and terms of employment in a world of liberalized trade and capital flows. While some view trade sanctions as necessary punitive action for countries that violate fundamental worker rights, many have expressed strong opposition to trade sanctions. This opposition is based largely on concerns about job losses in developing countries as governments push for higher workplace standards. We use the case study evidence from Bangladesh and Cambodia to argue that textile and garment exporting countries can protect jobs and resist a decline in labor standards in an increasingly competitive environment via trade-linked scheme that emphasize incentives for labor standards compliance.

Despite negative predictions, in the first three years after the ATC ended, neither country saw a decline in exports or experienced employment losses in textiles and garments. Quite the contrary, their export values and shares of major markets have increased. This positive development is widely attributed to the effects of trade rules that shielded Bangladesh and Cambodia from the full effects of the ATC expiration. Specifically, import restrictions imposed on China in 2005 by the European Union and the United States have limited competition in several major categories of apparel. Given that these restrictions expire at the end of 2008, there is continued risk of job losses and downward pressure on wages and labor costs for Bangladesh and Cambodia. A trade-incentives approach, similar in principle to that of Cambodia's trade agreement with the United States, offers a viable alternative to overcome the potential trade off between jobs and working conditions associated with the trade-sanctions approach. When simultaneously implemented in several competitor countries, and supported by complementary domestic policies, this approach could provide an effective strategy for raising the global floor under working conditions and worker pay.

II. Mechanisms for Improving Working Conditions

The ILO plays an important role in the advocacy, guidance, and monitoring of international labor standards (Berg and Kucera 2008). The ILO conventions represent benchmarks of strong labor standards toward which countries can strive by promulgating and enforcing national laws that comply with the conventions. Through the 1998 *Declaration on Fundamental Principles and Rights at Work*, the ILO delineated the basic labor market norms to be upheld universally regardless of a country's level of economic development (ILO 2007b). Also known as the "core" labor standards, these labor market norms ensure four workplace rights—freedom from forced labor, non-discrimination, abolition of child labor, and freedom to associate and bargain collectively—that are spelled out in eight ILO conventions.[2] However, the ILO has limited power to enforce these and other conventions. Rather than direct enforcement mechanisms, it uses moral suasion and public embarrassment to bring about voluntary compliance by signatory country governments. Since the early 1980s, numerous scholars, activists, and policy makers have increasingly voiced their concerns about the ILO's lack of effectiveness in addressing poor labor standards, particularly in the context of rising capital mobility and an increasingly competitive world trade environment. These concerns center around the idea that the quest to expand exports or attract foreign direct investment can cause firms to compete on the basis of labor costs, leading to a decline in international labor standards as governments either dismantle national laws that protect workers or weaken the enforcement of these laws.

Some participants in this policy debate have responded to the perceived weakness of the ILO by seeking a global institutional arrangement for monitoring and improving working conditions that is linked to rights to international trade.[3] They have often argued in support of a "social clause" at the level of the World Trade Organization (WTO) in order to strengthen the enforcement mechanism, stop the erosion of labor standards, and improve working conditions.[4] A number of authors have focused specifically on the usefulness of globally-enforced labor standards in improving the livelihoods of women workers who are employed in export-oriented sectors of low income countries. In general, improved enforcement of labor standards and full employment policies can help provide women with more job security, and assist women in gaining access to a wide range of better-paying jobs in traditionally male-dominated occupations. Several authors support global enforcement of labor standards while recognizing that enforcement through a social clause is not sufficient for improving women's working conditions and raising absolute and relative pay. For example, Cagatay (1996) calls for broader labor market regulations, stronger union activity, and new political objectives that recognize the nature of women's work (since much of women's work lies beyond the scope of the market, and within the market their work often lies in informal units beyond the reach of regulation). Hale (1996) takes an additional step in arguing that the standards embraced in discussions of trade-linked social clauses serve as a minimum baseline; international alliances need to perform additional work in order to fully incorporate the needs of women in developing countries. Seguino (2006) and Seguino and Grown (2006) go even further to argue that prioritizing gender equality in an open economy may necessitate measures that slow the speed with which firms can leave a country in response to women's higher relative wages.

Others oppose a social clause approach on grounds that any global enforcement of labor standards will inevitably result in job losses for women workers. In particular, Kabeer (2004) argues that enforcement of labor standards with trade sanctions could exacerbate inequalities in the labor market due to a reduction in women's employment or job transfers to the informal sector (which remains uncovered by labor regulations). Like Kabeer, Razavi (1999) views keeping export-oriented jobs as a policy priority over concern for working conditions, no matter how poor these conditions are. Implicitly, both authors interpret the pursuit of (and compliance with) core labor standards in *outcome* terms, with high penalties for failing to achieve these outcomes, rather than as a *process*. They also tend to overlook the international scope of the core labor standards, which would reduce the incentive for firms and buyers to move across countries in search of the lowest labor costs. Both Kabeer and Razavi argue for a move away from a narrow focus on labor standards in the formal sector toward more broad-based social policies that raise living standards for large numbers of women without jeopardizing their employment. They do not entertain the possibility of crafting a complementary set of policies that aim to improve labor standards.

Many researchers argue that a social clause has lost its relevance beginning in 1996 when members of the WTO rejected an active role for the organization in enforcing global labor standards. Since then, the WTO has also not pursued close collaboration with the ILO on this issue (Burda 2007).[5] The enforcement vacuum among international organizations, together with changes in market forces arising from growing consumer pressure for goods production under decent working conditions, has contributed to a surge in corporate self-regulation through codes of conduct since the mid-1990s.[6] With pressure from non-governmental organizations and the negative consequences of media exposures of non-compliance, most major retailers and manufacturers now either have their own compliance programs or rely on multi-stakeholder organizations such as the Fair Labor Association.[7] These programs establish a set of guidelines—usually the ILO's core standards plus a few other labor regulations—under which a factory must operate; these guidelines are usually administered by company-employed inspectors or by independent audit companies. While this approach may improve working conditions in monitored factories, the scope of the effort is limited. Critics argue that even if corporate codes of conduct continue to spread, relying on companies to self-regulate compliance based on market forces does not ensure adequate safeguards for working conditions. Of particular concern are the strong consumer demand for low-cost clothing, the lack of agreement among corporations and monitoring groups over a common set of labor standards, and the large number of factories and sub-contractors that remain outside the scope of private monitoring efforts.

Over the years of the garment sector's growth Bangladeshi suppliers and government have experienced pressure to strengthen labor standards in garment factories via a variety of mechanisms. Since the country ratified six of the eight core ILO Conventions shortly after its independence and has extensive national labor laws that protect workers the external pressures have mostly focused on shortcomings in enforcement. The industry has been subjected to the threat of trade sanctions from the US government in the early 1990s, the moral suasion approach of the ILO to secure legal reform and enforcement of national laws and ILO core conventions, and increasingly the codes of conduct imposed and monitored by non-governmental organizations and brand-name buyers. By contrast, Cambodia has both a relatively young garment sector and new legal framework on labor standards. Cambodia ratified all eight of the

ILO's core conventions in the early 1990s and the Constitution and the 1997 Labor Code encompass a comprehensive set of labor regulations that are consistent with these labor standards (ILO 2007a). Although Cambodia's ratification record is among the best in Asia, as in Bangladesh, the government placed low priority on enforcing most areas of the Labor Code, at least until the late 1990s (United States Department of State 2006). In response to the rapid growth of Cambodian garment exports, the U.S. government took an approach that contrasts with its dealings with Bangladesh when it pursued the U.S.-Cambodia bilateral trade agreement. This mechanism, which emphasized trade incentives as a reward for enforcing labor standards, provides a unique and potentially more promising option than other approaches in addressing poor working conditions in low-income exporters and thereby raising the global floor under wages and working conditions.

III. Manufacturing Garments for Export in Bangladesh and Cambodia

Bangladesh and Cambodia rank among the poorest Asian economies. With a population of 156 million in 2006, Bangladesh is one of the most populous countries in Asia and has a Gross National Income of $450 per person in current US$ (World Bank 2008). Bangladesh's garment industry took off in the early 1980s after a major structural adjustment program emphasized export-orientation. Garment exports made up just one percent of Bangladesh's total manufactured exports in 1981 (UNIDO 2005). At the time, textiles accounted for 93 percent of exports, over half of which were destined for developing country markets. Over the next two decades, Bangladesh's dependence on garment exports increased substantially, while at the same time the destination shifted dramatically toward industrial country markets. In 2006, 93 percent of Bangladesh's garment exports were destined to the United States and the European Union (CPD 2008b).

Garment manufacturers in Bangladesh have relied on a large supply of low wage female labor, an important part of labor-intensive production for the high-volume, low-margin segment of the world market. Garments became the source of more than 90 percent of manufacturing sector jobs for women in 1997 (the last year in the employment data series), up from 0.1 percent in 1981 (UNIDO 2005). In 2003, an estimated 1.8 million workers, about 60 percent women, held formal jobs in the garment sector (Bangladesh Bureau of Statistics 2004). Low wages and generally poor adherence to the country's own labor regulations and international labor conventions provided the basis for competitive labor costs. As shown in Table 1, in 2008, Bangladesh had the lowest labor costs from a sample of 38 apparel manufacturers. With workers earning an average of US$ 0.22 per hour, Bangladesh ranked considerably lower than the next country (Cambodia, at US$ 0.33 per hour). With rising wages in recent years, China is no longer the lowest cost producer in Asia, with workers in the inland parts of China earning US$ 0.55 to 0.80 per hour, and workers in coastal regions earning up to US$ 1.08 per hour. Asian countries as a group still provide a cost advantage compared to other regional apparel producers.

Cambodia has a fairly small population of 14 million people and a Gross National Income per person of $490 (World Bank 2008). Since liberalizing its investment and trade policies in the early 1990s, Cambodia has seen increasing FDI inflows and international trade. Cambodia's garment exports have also grown rapidly, due in large part to binding MFA restrictions on larger exporting countries that helped small garment producers such as Cambodia gain access to large markets overseas (Kolben 2004). Access to a large workforce consisting of low-wage female labor also proved instrumental in Cambodia's export performance. Most of these women originate from the rural sector, have a primary school education or less, and end up as sewing machine operators and in labor-intensive production areas.[8] In 2007, about 350,000 people in Cambodia worked in the garment industry, and about 90 percent of Cambodia's workforce in apparel production was female (ILO 2008a, USAID 2006). This proportion is even higher than the average of 75 percent female in garments across Asian economies (Rodgers and Berik 2006).

Signed into effect in January 1999, the U.S.–Cambodia Bilateral Textile Trade Agreement set quantitative limits on Cambodia's clothing exports, with conditions for increasing the quotas subject to "substantial compliance" with Cambodia's national labor laws and internationally-recognized core labor standards. This rather innovative trade agreement used export incentives for enforcing labor standards, and it relied on the ILO to serve as the monitoring body. The trade agreement expired late in 2004, coinciding with the end of the ATC, but even without trade incentives the factory monitoring program continued and expanded in scope to include new training programs for workers, capacity building, remediation, and improved information dissemination.

To the surprise of skeptics who expected most small Asian exporters to record export declines following the end of the ATC in 2004, Bangladesh and Cambodia managed to increase their exports of ready-made garments to the United States and, to a lesser extent, the European Union. Many attribute the absence of an adverse effect partly to temporary import restrictions that the United States and the European Union placed on garment imports from China in 2005. A number of scholarly and media articles have pointed to the appeal of Bangladesh and Cambodia as opportunities for buyers from the United States and the European Union to diversify their sources of garments in the global market, especially with the temporary import restrictions placed on China (e.g. Abernathy, Volpe, and Weil 2006; *Economist* 2007).[9] Because these safeguard measures on Chinese imports are scheduled to end in 2009, the trade environment that contributed to these positive developments will change when global competition in garments intensifies.

Between 2004 and 2007, Bangladesh increased the value of its exports to the United States by almost 60 percent, from an already high base of about US$ 2.0 billion up to US$ 3.1 billion (Figure 1). During this same period Cambodia also saw an increase of 70 percent in the value of exports to the United States (although this growth started from a lower base of about US$1.4 billion). United States imports from Cambodia took off rapidly from virtually nothing in 1996, well after Bangladesh had already developed a strong foothold in the U.S. market.[10]

Compared to the gains in the U.S. market, Bangladesh and Cambodia met with more muted success in the European Union market (Figure 2). In the early 2000s, both Bangladeshi and Cambodian exports to the European Union stagnated somewhat up through 2003. After a temporary spurt in 2004, the end of the ATC saw a marked decline in the European Union's imports from both countries in 2005. Although European Union garment imports were back up in 2006, especially for Bangladesh, gains were reversed for both countries in 2007, with Cambodia returning to its export level of 2004. In terms of composition, knitwear (rather than woven garments) comprises the bulk of Bangladeshi and Cambodian exports to the European Union. Because knitwear inputs are predominantly locally-produced while woven garments rely more on imported fabrics, it is easier for knitwear producers to satisfy the 51 percent domestic and regional value addition requirement to gain eligibility for preferential duty-free access to the European Union (Bangladesh Bank 2008).

In terms of market share, both Bangladesh and Cambodia saw a small increase in their share of the United States market rather than the expected decrease after 2004. Between 2004 and 2007, Bangladesh recorded an increase from 2.3 to 3.1 percent, and Cambodia's U.S. market share of textile and garment imports rose from 1.7 percent to 2.5 percent (Figure 3). However, China recorded a tremendous increase in its U.S. market share of textile and garment imports in a short period, from 17.2 percent in 2004 to 31.4 percent in 2007. In the European Union, Bangladesh recorded an increase from 5.6 to 6.0 percent between 2004 and 2006 but then lost this gain the following year, while Cambodia's market share went from small to even smaller. In contrast to the United States, where Cambodia has started to catch up to Bangladesh as a comparably sized competitor, in the European Union, Bangladesh has remained a much bigger player than Cambodia. As in the United States market, China recorded an enormous increase in its European Union market share of textile and garment imports, from 21.6 percent in 2004 to 32.6 percent in 2007. Most of this increase occurred in the direct aftermath of the expiration of the ATC, with some levelling off in 2006.

In sum, both Bangladeshi and Cambodian exports to the United States have shown fairly robust growth. By the end of the first three years after the expiration of the ATC, both countries were able to build their U.S. market share. Exports to the European Union also rose in the post-ATC environment, albeit with less consistency from year to year. The expiration of the safeguard measures in 2009 puts women's employment, wages, and working conditions in both Bangladesh and Cambodia at continued risk. In the next section, we use case study evidence from these countries' experiences with labor regulations to support the case for minimizing projected risks for women workers without jeopardizing export success.

IV. Labor Standards in Bangladesh: Persistence of Problems

Studies that span two decades indicate the persistence of the same set of working condition problems in Bangladesh's garment sector, with a few improvements.[11] Child labor in the garment sector has almost disappeared in recent years following concerted efforts put in motion as a result of pressure from the United States and the ILO.[12] According to a 2006 survey, between 80 and 90 percent of employers check a worker's age upon hiring the worker (CPD 2008a). Not providing workers an appointment letter, which is considered a mild form of forced labor, is an ongoing problem. Between 70 to 80 percent of employers continue to hire workers informally and only half of the large employers provide them with an appointment letter (CPD 2008a). Other forms of economic coercion (for example, irregular and delayed wage payments used by employers to discourage turnover) are ongoing problems (CPD 2008b). All indications are that the ILO's two core anti-discrimination conventions, which Bangladesh ratified in 1972 and 1998, are poorly enforced.

With respect to freedom of association, right to strike, and collective bargaining, the government has imposed legal restrictions, and it has a poor enforcement record. In the mid-1990s, Bangladesh had among the weakest union rights in Asia, where workers already have fewer trade union rights compared to other developing regions (Kucera 2004; Rodgers and Berik 2006). Some evidence even indicates a deterioration of union rights in Bangladesh since the extreme dependence on garment exports started in the early 1980s. Time series data based on U.S. State Department Reports indicate that over the 1981-2006 period, worker rights in Bangladesh changed from being "fully protected" during part of the 1980s to "somewhat restricted" during the 1990s to "severely restricted" after 2001 (CIRI 2008).

The effectiveness, even the necessity, of unions in the garment sector is a contentious issue. A very small proportion of workers (mostly male) belong to unions in Bangladesh, which some argue function as extensions of political parties and are therefore limited in their effectiveness as representative of workers' interests (Kabeer 2004). In the garment sector only 2 percent of workers belong to unions (CPD 2008a). With regard to union formation in EPZs, there is an implicit, if not outright, questioning of their rationale since wages and working conditions are better in EPZ establishments than in their non-EPZ counterparts (Kabeer and Mahmud 2004; Van Heerden and Baumann 2005).

With the EPZ Trade Union and Industrial Relations Bill of 2004, Bangladesh began to phase in trade union activity in EPZs by November 2008. However, the law is not in full compliance with the ILO's conventions on freedom of association and collective bargaining (which Bangladesh ratified), as it gives near unlimited authority to the EPZ administration to deregister unions. Thus far the ILO's attempts to secure amendments to the law have not been successful (ITUC 2008). Moreover, during this transitional phase, EPZ employers have vigorously sought to prevent the formation of worker organizations. EPZ administrators have also failed to provide protection to workers seeking to form worker associations. It is telling that as of mid-2008, Export Processing Zones continued to advertise the absence of union activity as a way to attract FDI (Export Promotion Bureau 2008).[13] There is also reported government harassment of organizations or unions that support EPZ workers or insist on the implementation of labor laws (ITUC 2008). While less in the spotlight, employer resistance to unions outside the EPZs follows a similar pattern of intimidation and total disregard for legal protections for union rights. Such tactics, which include dismissal of workers trying to organize unions, leave workers without an effective means to address a whole range of workplace grievances.

Results of World Bank surveys on the investment climate are consistent with this picture of limited activity and effectiveness of trade unions: a smaller proportion of the workforce is unionized in Bangladesh compared to other countries, fewer days are lost to strikes and other labor disputes, and fewer firms view Bangladesh's labor regulations as a major obstacle (World Bank 2006). Firms cite non-labor aspects of competitiveness as more important obstacles. For example, in 2002 problems with electricity supply and corruption were identified as major obstacles by 73 percent and 58 percent of firms, respectively, in contrast to 8.4 percent who viewed labor regulations as such.

The absence of effective bargaining power of workers vis-à-vis employers in the garment sector is associated with predictable outcomes: the serious deterioration of real wages over the course of the 1990s and early 2000s, the persistence of the sector as a low-wage sub-sector of manufacturing, and the widening of the gender wage gap. The minimum monthly pay structure for entry-level garment workers was increased in October 2006, the first raise since 1994.[14] However, in US dollar terms, this adjustment represents a decline from the previous minimum wage for the lowest grade workers (CPD 2008b). Moreover, this new wage rate falls short of the international poverty threshold of one dollar a day. Although the sector offers better pay for women workers compared to their few alternatives outside of manufacturing (Kabeer and Mahmud 2004), women's relative wages have declined as the concentration of women workers in the sector increased. Two recent surveys indicate that in 2006, the gender wage ratio in the garment sector was between 72 and 80 percent (after controlling for productivity-related worker characteristics), down from an average of 95 percent for the 1991-95 period (CPD 2008a; 2008b).

Another outcome of workers' lack of bargaining power is the poor employer compliance with the country's own laws. In 2006, only 11 percent of the 190 garment factories surveyed were "highly compliant," based on a multidimensional indicator of compliance (CPD 2008a).[15] In 2005, government inspectors paid an average of 8 visits per garment factory, compared to 16 in Cambodia and 14 in China (CPD 2008a). This compliance outcome in Bangladeshi garment factories was the product of pressure from brand-name buyers, the principal mechanism of enforcement. This conclusion is further supported by compliance evidence collected by the Fair

Labor Association (FLA) as well as a 2006 focus group discussion with workers in Dhaka. We compiled data on the observance of labor standards from reports generated through unannounced factory visits of FLA monitors to mostly Export Processing Zone (EPZ) factories in Bangladesh in 2005.[16] The focus group was conducted in July 2006 with eleven garment workers in a Dhaka *basti* (slum) for a project sponsored by the United Nations Development Programme, with one of the authors participating.[17]

The FLA public reports disclose the identity of the buyers but not the inspected factories. This reporting mode is arguably less conducive to achieving improvements in labor standards than an approach that discloses the identity of factories that are found non-compliant in the follow-up inspection as was pursued by Cambodia's monitoring program (Polaski 2006). That said, the compliance record of FLA-monitored factories is likely to be at least as good as other EPZ factories and better than non-EPZ factories in Bangladesh. Comparative research on earnings and working conditions indicates that EPZ factories offer superior conditions compared to non-EPZ factories (Kabeer and Mahmud 2004; CPD 2008a; 2008b). In addition, participation of companies in the FLA monitoring program is voluntary and their suppliers consent to periodic monitoring and follow-up visits by the FLA monitors for remediation. Thus, even if the supplier is not shamed through public announcement of monitoring results, both the buyer and the factory would have a vested interest in compliance with the FLA code of conduct.

Figure 4 shows how various types of labor standard violations in garment factories were distributed relative to China, the rest of Asia, and other regions in 2005. To construct this figure, we compiled country-level data from the FLA tracking charts generated in each initial factory visit.[18] In cases where a factory was in violation of multiple provisions of a given FLA code (such as health and safety), we recorded it as a single case of non-compliance. Hence the figure reports whether or not a code violation was observed, not its severity. In the four factory visits in Bangladesh in 2005, there were 23 code violations documented out of a total of 301 violations in FLA-monitored clothing factories worldwide. For Bangladesh, the major violation was non-compliance with code awareness, which accounted for 17 percent of all violations. FLA inspectors found limited code awareness among workers and supervisors, insufficient code posting (which is intended to serve as an awareness-raising tool in the factories), and absence of confidential reporting channels for non-compliance in the factory. However, taken together, violations of codes regarding wages and benefits, hours of work, and overtime compensation accounted for 35 percent of all violations in Bangladesh. Noncompliance with the wage and hour codes also accounted for most of the code problems elsewhere in 2005 and in Bangladesh in previous years' data.[19] Bangladesh's violations in the wage and benefits category were consistent with China and other Asian factories as a whole but considerably lower than the record for other regions. In contrast, Bangladesh's record for excessive hours of work was considerably worse than China and other regions. This record is consistent with Bangladesh's particular niche in the world garment market where its export performance depends on increasing the export volume rather than the unit price. Indeed, between 2005 and 2007, the average price of knitwear has declined by 1.32 percent, and for woven garments it has fallen by 6.8 percent (CPD 2008a). These features in turn translate into maintaining pressure on workers to achieve high production targets. Hence excessive overtime (of more than two hours per day) not only is common but also has increased after the end of the ATC (CPD 2008a).

Bangladeshi suppliers had a wide range of violations of national laws designed to ensure a minimum wage, a wage breakdown, timely wage payment, overtime pay, limits on overtime hours, voluntary overtime, periodic days off, and transparent payment statements. Participants in the Dhaka focus group also emphasized problems they experienced with delayed wage payments, punitive deductions of pay, hours of work in excess of legal working hours, and continuous work schedules. It was common for workers to work 72 hours per week and only take two days off per month. Yet workers want to work overtime in order to make ends meet, an observation that is supported by surveys in 2006 (CPD 2008a; 2008b).

Noncompliance with health and safety regulations was less prevalent in Bangladesh than elsewhere. [20] Given the relatively large size of Bangladesh's inspected factories, with employment ranging from 530 to 1404 workers in 2005, health and safety code violations present serious risks. Factory tracking charts indicate inadequate fire safety equipment and training, inadequate first aid kits and procedures, inadequate toilet facilities, lack or non-use of protective gear as common problems. Such violations in non-EPZ factories is fairly common in Bangladesh and attributed to the rapid growth of the industry in the 1980s and 1990s, which left little time for expansion of proper infrastructure and adjustment of regulatory mechanisms. Many factories continued to operate in residential buildings not intended to accommodate factory production. This state of affairs has resulted in fires and building collapses in garment factories (FLA 2005).

Harassment or abuse of workers was more prevalent in Bangladesh than elsewhere (Figure 4). Verbal abuse, penalties for mistakes or failure to achieve production targets were some of the common harassment problems and were accompanied by lack of written disciplinary policy or training for supervisors. While the FLA inspections in 2003 and 2004 further revealed problems of physical abuse (FLA 2005), the 2005 reports do not indicate physical abuse. Problems with beating in factories were documented by garment worker surveys conducted by the Bangladesh Institute of Development Studies in 1990 and 1997 (Zohir 2001, 2003). For example, in 1997, 14 percent of surveyed female workers in the Dhaka EPZ reported being hit by supervisors, a higher proportion than workers in non-EPZ factories. Moreover, workers in the 2006 focus group also reported verbal and physical abuse in response to their inability to meet hourly production targets set by supervisors. Workers indicated that even if they could meet the targets in the first two hours, they could not keep up the pace for the entire day because the quotas were increased each time they met the target.

The FLA visits in 2005 did not record any non-compliance on union rights or the non-discrimination code. Because until 2004 Bangladeshi EPZs suspended workers' rights to unionize and bargain collectively, the union rights evidence in Figure 4 refers to effectiveness of the Workers' Welfare Committee in the factory. However, the FLA reports also point out a risk of non-compliance in three of the inspected factories. One factory did not have any workers' organization, while the other two had a Workers' Welfare Committee. Yet either workers did not know of the Committee's existence or did not trust it because the worker representative was selected by management. In the Dhaka focus group, non-EPZ factory employees reported that their factories had no union (or other worker organization) presence. In practice, more experienced workers who instigated for higher pay frequently ended up with higher wages. While the FLA monitors did not report any violation of the non-discrimination code in 2005, workers in the focus group reported gender differentials in pay for the same job as sewing machine operator. They stated that men were paid a base wage of 2,000 Taka compared to 1,500 Taka for women, and men also received a higher overtime rate.[21]

Among the regulations that specifically address women the FLA inspectors also report, contrary to Bangladeshi law, the existence of non-functional childcare facilities in two of the factories (i.e. workers were not aware of its existence and the space was used for other purposes).

The maternity leave provision (not raised as a discrimination issue in the FLA's 2005 factory reports) remains largely on the books. As in most other Asian countries, Bangladeshi law provides for 12-weeks of employer-financed maternity leave (Nataraj *et al*. 1998). In practice, however, women workers rarely exercise their legal rights to full maternity leave. In the early 1980s their reluctance reportedly stemmed from onerous requirements to obtain the six-week leave prior to delivery as well as male co-workers' lack of support for maternity leave (Hossain *et al.* 1988). Recent survey evidence is inconsistent, with the share of workers reporting employer provision of unpaid maternity leave ranging between 47 and 87 percent (Chowdhury Repon and Ahamed 2005; CPD 2008a; 2008b). Workers in the Dhaka focus group reported that their employers did not provide maternity leave and that pregnant workers would quit their jobs to have the baby and later seek a new job.

V. Labor Standards in Cambodia: New Incentives for Change

As in Bangladesh, labor regulations are viewed by only a small proportion of firms as a major or severe obstacle to their investment decisions in Cambodia. As indicated by the World Bank's 2003 survey on the investment climate fewer than 6 percent of firms interviewed considered labor regulations a "major or severe" obstacle, compared to a global average of 12 percent (World Bank 2006). In contrast, relatively high levels of corruption, disorder, economic uncertainty, and uncompetitive practices dampened Cambodia's investment climate. Weak regulatory institutions and a dearth of important business-related codes, such as bankruptcy and arbitration laws presented additional difficulties for firms (United States Department of State 2006). The costs of administrative hurdles and corruption were estimated to reach as high as 7 percent of the total value of sales in the early 2000s (USAID 2005).

Corruption was viewed as the main reason why enforcement of Cambodia's 1997 Labor Code was so difficult before the U.S.-Cambodia trade agreement (Kolben 2004). Low-paid labor inspectors purportedly accepted bribes for under-reporting code violations; extensive cronyism between the government and industry contributed to poor enforcement of the Labor Code; and, weak unions existed more to mobilize political support for particular leaders than to promote the needs of workers (ITUC 2008). In the mid-1990s Cambodia ranked roughly in the middle of all Asian countries in the exercise of trade union rights, a ranking that is not necessarily favorable given Asia's poor record in union rights compared to other regions (Kucera 2004; Rodgers and Berik 2006). Further evidence indicates that in 2003, the female to male wage ratio stood at 67 percent after controlling for gender differences in age and experience, with considerable variation across occupation groups and education categories (World Bank 2004). Evidence from the early 2000s indicates that it was standard practice for men to be paid more than women, even when they performed the same tasks. For example, casual male laborers could earn up to 5000 riels ($1.25) per day while casual female laborers would earn just 2500 riels for the same work (World Bank 2004).

High concentration indices in Cambodia's textiles and garment industries suggest that individual establishments have relatively more market power, and by implication, more negotiation power in employer-employee relations relative to other sectors (Cambodia National Institute of Statistics 2000). Further evidence indicates that almost all textile and garment factories are foreign-owned (as of 2008, only 5 percent of factories had sole ownership by a Cambodian firm). Ownership origins mostly include Taiwan, Singapore, Thailand, and Malaysia, and ownership patterns reflect considerable factory movement from country to country in search of low-cost labor (Kolben 2004, Cambodia Ministry of Commerce 2008). Owners' strong bargaining power, combined with weak enforcement of labor regulations and an environment of corruption, contributed to very poor working conditions before the 1999 trade agreement came into effect. The labor disputes that did occur after promulgating the Labor Code mostly involved worker demands for standards to which they were already legally entitled (United States Department of State 2006). These disputes continued during the implementation of the U.S.–Cambodia trade agreement (2001-2004) since gains in working conditions occurred slowly. In addition, the AFL-CIO, the large United States labor organization, supported labor-standards compliance in Cambodia and provided Cambodian workers with training in how to organize and bargain collectively (Wells 2006).

Published ILO data indicate that strike activity in Cambodia's manufacturing sector rose sharply in the late 1990s and early 2000s. In 1997, the ILO reported just one strike in Cambodia involving 200 workers, whereas by 2001 Cambodia experienced 95 strikes involving over 38,500 workers (ILO 2008b). Because the garments and textiles industry is Cambodia's largest manufacturing sector and women comprise the majority of workers in this sector, women arguably played a prominent role in these strikes. One very large strike alone in the summer of 2000, comprising of 20,000 garment workers who protested for a higher minimum wage, pressured the Ministry of Labor into actually raising the minimum wage in 2000 to $45 per month (Kolben 2004). In part due to this labor organization and strike activity and in part due to their higher educational attainment, women in garments are relatively well-paid compared to women who work in other sectors in Cambodia (World Bank 2004). More recent data on strike activity indicate another surge in both the number of strikes and the number of days lost to strikes in 2006 caused by worker demands for higher real wages and the implementation of arbitral awards, and by trade union reliance on wildcat strikes to achieve their objectives (Better

Factories Cambodia 2006, ILO 2008a). This pressure contributed to another increase in the minimum wage to $50 per month in 2007.

The U.S.–Cambodia trade agreement produced the new labor-standards enforcement program Better Factories Cambodia (known as the ILO Garment Sector Working Conditions Improvement Project until 2005, when the ILO renamed it to reflect a stronger focus on remediation and training). This program includes technical assistance and capacity building for strengthening the enforcement capability of Cambodia's government, as well as direct monitoring and inspections of all garments factories by ILO personnel. The program was initially funded with a fairly modest budget of $1.4 million, of which the United States government paid $1 million, the Cambodian government paid $200,000, and the Garment Manufacturers Association of Cambodia contributed $200,000 (ILO 2005a). Program administrators kept costs down primarily with their local hiring of factory monitors who were paid salaries that were low by international standards but high enough by local standards to avoid the risk of bribery (Polaski 2006).

An extension of the program in 2003 with these same three funders saw the Cambodian government paying a higher proportion (27 percent) of the total cost, and subsequent funding announcements indicate that by 2009, the Cambodian government will provide the highest portion of funding (ILO 2005a, Better Factories Cambodia 2006). Having the program locally managed and funded is viewed as contributing to the program's sustainability.

The main source of evidence on the effectiveness of the monitoring program comes from summary reports of factory inspections posted on-line by the ILO (www.betterfactories.org). To date, the ILO has published nineteen "synthesis" reports for the years 2001 through 2007. To generate the inspection reports, all factories were divided into five groups, and each group had an initial visit by ILO inspectors and then up to six additional follow-up visits. These reports provide a unique opportunity to obtain more information on the impact of a factory monitoring program on working conditions, employment outcomes, and factory closures in the garment industry. Yet this reporting system does entail some drawbacks, not least of which is the "judge and jury" problem in which the organization charged with monitoring factory compliance (the ILO) also has the authority to compile and publish the results. It is unclear how this judge and jury issue may affect monitoring results. In one direction of potential bias, the original trade agreement gave the ILO rather than Cambodian NGOs or unions the dominant role in determining compliance, and it did not specify the meaning of "substantial compliance" with Cambodian and international labor standards (Wells 2006). Both these factors could potentially give the ILO excessive latitude in interpreting whether particular factories had code violations. If the ILO wanted to signal program success, it may have downplayed non-compliance. Working in the opposite direction is the possibility that the ILO may have overcompensated for its lack of authority to force factories to become compliant by taking a tougher stance in published monitoring reports.

Analysis of the first eight reports in Polaski (2006) indicates that during the first visit, the ILO monitors typically found fairly good compliance with several core labor standards (no child labor and no discrimination by sex), but compliance with health and safety, and wages and hours regulations was poor. Although a small number of factories were cited for violations of workers' rights to form unions and bargain collectively, the violations were severe. During the initial visits, ILO inspectors made suggestions for improvements, and in the follow-up visits inspectors recorded whether factories had implemented the suggestions. Factories showed the greatest responsiveness in correcting wage payment infractions, while they demonstrated more limited success in correcting problems with regulations on health, safety, overtime, and freedom of association (Polaski 2006; Wells 2006). For example, close to 95 percent of factories had followed ILO recommendations on improving wage payments, while about 75 percent of factories had corrected some or all problems with the freedom of association, and no factories were fully compliant with safety and health regulations. Polaski also credits the bilateral trade agreement for the progress that Cambodian policymakers, employer organizations, and trade unions made in collaborating with U.S. officials and the ILO to draft new legislation that filled existing gaps in the 1997 Labor Law and strengthened union rights. Hence Polaski's assessment of the ILO reports points to benefits over time for Cambodia's garment workers in the area of higher wages and improvements in core labor standards.

The extent to which the program achieved actual improvements in labor standards has been also called into question. Miller *et al*. (2008) argue that between 2002 and 2004 the export quota increases for Cambodia were granted in haste on the basis of limited evidence of improvement in working conditions. Miller *et al.*'s examination of changes in the same factories between the first and 12th reports (Nov. 2001-Aug. 2005) shows slight improvements in working conditions (i.e. reduction in non-correct payment of wages, forced overtime, and excessive overtime) but on trade union rights there is either no evidence of change or no reporting of evidence. Other evidence supports ongoing violations of trade union rights in Cambodia, with a trend from being "somewhat restricted" toward "severely restricted" between the late 1990s and the 2000-2006 period (ITUC 2007; CIRI 2008). Furthermore, Miller *et al*. argue that in the post-ATC period strong employer resistance to the exercise of union rights, rising employer pressure on workers to intensify work effort, and persistence of earnings below what is deemed a living wage are indications of ongoing problems that the Better Factories Cambodia program has not been able to address. Hence, according to Miller *et al*., Cambodia's export success under the program has less to do with its attraction as a site for buyers interested in good labor standards compliance and more to do with Cambodia's preferential and relatively protected access to major markets—under the ATC quota system until 2005 and as a substitute for China's exports after 2005.

Our tabulations of factory inspection results in the more recent reports (which changed in format and transparency beginning with the seventeenth report in 2006) indicate improvement in working conditions in garment factories, with good compliance with minimum wage and overtime pay regulations as a result of the repeat factory inspections. Table 2 shows inspection results from the seventeenth and nineteenth synthesis reports covering a total of 212 and 227 factories that were visited during May-October in 2006 and 2007. The highest compliance rates are for correct payment of overtime wages and minimum wages, with at least 92 percent of factories paying the correct wages for regular and piece-rate workers. These are the categories in which evidence for Bangladesh suggests persistent problems. Yet compliance drops rapidly for occupational safety issues, such as installing needle guards on sewing machines, and restricting overtime hours to just two hours per day. The synthesis reports for both years cite evidence of no forced labor, and strong improvements in employers' efforts to raise worker awareness of labor laws and workplace entitlements (ILO 2006b, 2007c). However, there is still some evidence of discrimination: in 2007, out of 227 inspected factories 17 engaged in some form of gender discrimination, and 8 factories engaged in some form of anti-union discrimination.

Tabulations of data from the factory inspection reports indicate a fairly high rate of closure for factories following their first inspections in 2001. Between 2001 and early 2006, a total of 240 factories went through an initial inspection, and 40 of those factories (or 17 percent) closed.[22] It is not possible to determine from the synthesis reports the exact reasons for factory closures. The factories may have closed even without the labor standards enforcement program due to their inability to compete in the new post-ATC world trade environment.

Moreover, it is important to consider the factory closure data in light of data on the opening of new factories. While the inspection reports cite the number of factory closures, they do not indicate whether factories that first enter the inspection cycle are newly created factories or existing factories that are new to the inspection cycle. The available evidence indicates that the number of garment factories operating in Cambodia has been increasing since 2004 (ILO 2006a, 2008a). Moreover, employment data indicate a rise in the number of jobs in the garment industry. The total number of workers in garments has risen steadily every year, from approximately 160,000 in 2000 to 350,000 in 2007 (ILO 2008a). Hence women's employment opportunities have continued to grow during the period of increased enforcement of labor standards.

Although Better Factories Cambodia has focused primarily on labor standards enforcement, the program has also implemented a number of new training programs. These programs include a training course that helps newly employed workers to understand their rights and also helps employers to improve on their existing training methods. The program has also organized training sessions for human resource managers and trade union leaders on topics such as employment contracts, working conditions, and worker recruitment. As a further innovation, Better Factories Cambodia has sponsored and launched a new soap opera on national television called "At the Factory Gates." The main objective behind the television show is to educate new female employees, as well as the general public, about worker rights in the garment factories, dispute resolution, and ways to handle workplace issues. The series aims to educate in a way that is easy to understand, with scenes in actual factory settings. The idea to educate the Cambodian public about worker rights through a soap opera is supported with a growing scholarly literature on the success of using education-in-entertainment programming (Singhal and Rogers 1999).[23]

Our assessment of Better Factories Cambodia indicates that the program has set in motion a process for improving working conditions in the garment sector and has achieved modest improvements in working conditions. As is also recognized by Miller *et al*. (2008), the program's effectiveness in delivering actual improvements may have increased after 2005 with the changes in its monitoring and reporting methodology and allocation of the majority of its funds to capacity building and remediation. The improvements in Table 2 may be picking up these changes. Nonetheless, it is disconcerting that the improvements have taken place in an environment of suppression of freedom of association and collective bargaining rights. Thus, further steps need to be taken to make programs like Better Factories Cambodia more effective in delivering sustainable improvements in working conditions. These program-level changes include disclosing the identity of both buyers and their suppliers in order to make buyers more accountable in their sourcing decisions, insisting on progress in the exercise of union rights, and monitoring intensification of work by employers (to make up for any increase in unit labor costs and declining unit prices of exports).[24] The funding structure of the monitoring program also needs to be revisited. While the modest start-up costs would help to make the program replicable in other low-income countries, the increased burden on poor country governments over time is likely to reduce its attractiveness. To the extent that the Cambodian government is borrowing from international donors to cover these costs, this funding structure implies that Cambodia is bearing the implementation costs in the form of higher debt as well as upfront costs. In contrast, international buyers, who have enjoyed the benefits of what, in effect, became a type of reputation insurance, paid none of the program's start-up costs (Polaski 2006, Better Factories Cambodia 2006).

VI. Competition with China

Our comparison of the particular labor standards enforcement program in Cambodia's textiles and garments industry to the approach pursued in Bangladesh shows that the trade-incentive approach as employed in Cambodia set in motion a process that relied upon transparent monitoring and reporting of working conditions by the ILO, and offered a promising alternative means for expanding employment and improving working conditions.[25] In contrast, leaving labor standards enforcement to a combination of market forces, corporate self-regulation, and poorly-paid public sector inspectors in Bangladesh has resulted not only in the persistence of poor working conditions, but also an environment of employment precariousness and instability as global competition in textiles and garment markets intensified. That said, countries like Bangladesh and Cambodia are not likely to withstand competition with China solely on the basis of improving labor standards and promoting the "Better Factories Cambodia" or "Better Factories Bangladesh" brand.

China's dominance in world markets for textiles and garments only partly stems for its low unit labor costs. China has low labor standards in terms of its ratification record of ILO conventions and its national laws on the core standards, job security provisions, and terms of employment (Rodgers and Berik 2006). While its legislative status is neither unique nor the worst in Asia, China's competitive threat at least in part stems from its extremely poor record in enforcing labor standards. These violations contribute to labor cost savings, and hence lower unit labor costs, albeit at comparatively high wages and labor productivity (see Table 1).

China's low unit labor costs raise concerns about a downward pressure in the world economy when companies seek to minimize costs of compliance with labor legislation and relocate production to or source from sites with weaker worker protections. Countering this microeconomic argument that emphasizes the costs of compliance (Nataraj *et al*. 1998) are other arguments that emphasize the higher labor productivity generated by better working conditions that could compensate for the higher labor costs, boost aggregate demand and political stability (Palley 2004, Marshall 1994). Empirical studies that focus on the relationship between labor standards and comparative advantage or export success find either no relationship or a positive relationship, with the caveat that these results can be sensitive to variations in model specification, the labor-intensity of exports, and region.[26] Kucera and Sarna (2006), in particular, show that weak union rights are not associated with strong export performance, except in Asia. Conversely, studies that investigate whether improved labor standards deter FDI generally do not find such adverse effects.[27] Nonetheless, successful late industrializers, such as China, Korea, and Taiwan, present counter examples for the argument that stronger labor standards promote either political stability or strong export growth, at least in early stages of export-oriented industrialization. The assumption that productivity gains resulting from improved working conditions can offset their elevated costs has also been empirically challenged in the case of labor-intensive export manufacturing.

Beyond weak enforcement of labor laws and low unit labor costs, however, China achieves lower production costs from a combination of competitive factors in the overall investment climate. Other factors include superior infrastructure (including shorter times for clearing customs, fast and regular shipping lines, a reliable transportation network, and modern telecommunications), ease of entry and operations, and governance that increase exports and attract FDI. Not only does China have a competitive edge in these areas, but its government also has a long track record of using development and industrial policy to support technological improvements that raise labor productivity, marketing, and financial services (Nolan 2001, 2002).

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

Industrial policy that diversifies export products, moves toward higher quality exports, and builds backward linkages also serves as a component in the strategy for better labor standards. Price inelastic goods with low income elasticity constitute ideal targets. Promoting vertical integration such as building knitting mills and dye facilities nearby, can improve competitiveness in the garment industry. While Cambodia has secured its access to niche markets that value socially responsible production, the Cambodian and Bangladeshi governments have been relatively slow to pursue such productivity-enhancing industrial policy. Government efforts in Bangladesh are limited to duty free imports of machinery, which the garment manufacturers have taken advantage of to upgrade their capital stock in the post-ATC period. There is also some firm level restructuring, a scaling of production, through manufacturers' own efforts, but there is very limited in-house research and development, which is highly correlated with labor productivity, and the sector has achieved limited export diversification (CPD 2008a). Industrial policy, implemented by several other developing countries--most notably in East Asia (Chang 2003), generates higher markups in markets for such products and makes possible provision of higher wages and better working conditions. Evidence for Bangladesh also shows that higher wage levels and higher levels of factory compliance with labor standards boost labor productivity (CPD 2008a). These features are associated with larger enterprises underscoring the need for industrial policy. Industrial policy can also attract multinational buyers and investors who value social stability fostered by compliance with standards that protect workers' fundamental rights and appeal to industrialized country consumers. Pollin, Burns, and Heintz (2004) find that the retail price increases needed to cover the cost of a substantial improvement in labor standards in developing country garment factories fall well within the range of price increases that American consumers are willing to bear.

Industrial policy, however, raises questions as to whether upgrading of products and technologies could be implemented on a large enough scale in poor economies and whether it would generate sufficient higher-quality jobs to replace the low-skill, low-paid jobs, particularly for women workers, who are likely to experience disproportionate job losses (Razavi 1999). Several empirical studies indicate that the concern about potential shift of the gender composition of employment in garments production away from women to men is valid: Berik

(2000), Fussell (2000), and Elson (1996) each argue that upgrading technologies generates more jobs for men, who are considered more skilled by employers. In Bangladesh as well there is evidence that the limited upgrading of technology and the diversification of garment production since the late 1990s have increased the demand for skilled labor and reduced the demand for low-skilled helpers, who are almost exclusively women (Zohir 2003). This trend is more prominent in woven garments, where women constitute higher proportion of workers, than in knitwear, (CPD 2008b). This evidence suggests that governments have to take seriously the antidiscrimination core convention of the ILO and vigorously pursue anti-discrimination measures in training and hiring policies.

VII. An Agenda for Improving Labor Conditions in Export Manufacturing

To the surprise of skeptics who expected most small Asian exporters to record export declines following the end of the Agreement on Textiles and Clothing, Bangladesh and Cambodia both increased their exports of ready-made garments to the United States and the European Union and maintained their market shares. However, the temporary nature of the relatively protected trade environment that enabled this export growth after the end of the ATC suggests that these countries continue to risk employment loss and erosion of labor standards. During this transitional phase the Better Factories Cambodia monitoring and training program may have offered greater protection to jobs in Cambodia. Buyers likely have continued and will continue sourcing from Cambodia, given recent evidence that buyers and investors value compliance with labor standards and the growing awareness of the Better Factories Cambodia program.[28] Survey results in the Foreign Investment Advisory Service (2004) support this argument, with international buyers giving Cambodia's labor standards compliance a higher rating than regional competitors (including China and Bangladesh). Respondents in the survey also viewed improved labor standards as having a positive effect on a number of worker productivity indicators, but a negative effect on production costs. As of 2004, all the buyers surveyed planned to either increase or maintain their purchasing levels from Cambodia after the end of the ATC. In contrast, Bangladesh's reliance on the market and corporate self-regulation for monitoring labor standards provides little else but the discipline of the market when Bangladesh faces the full force of international competition in 2009.

Among low-income, export-oriented economies, a complementary set of policies that include a trade-incentives approach can be pursued to increase the chances of improving working conditions and expanding employment in the new global order of intensified competition. Specifically, we argue that over the long haul industrial policy of the type China has pursued is essential for Bangladesh and Cambodia to compete with China. As the centerpiece of a strategy for trade and decent working conditions, however, we propose forging trade arrangements under a Generalized System of Preferences (GSP)-type scheme that rewards compliance with national labor regulations and internationally-recognized labor rights. Currently, under the GSP, the European Union and United States can offer increased export market access to the least developed countries, such as Bangladesh and Cambodia, at reduced tariff rates or duty-free, conditional on the exporting country's achievement of certain requirements such as improved labor standards.[29] Yet, the GSP has not functioned as an effective mechanism to improve working conditions due to other obstacles that prevent eligibility of low-income countries for GSP benefits.[30] As this paper has shown, linking export quota expansions with adherence to national labor laws and international conventions, coupled with independent monitoring by the ILO, has served as a viable enforcement mechanism in Cambodia. Monitoring reports indicate modest progress in improving work conditions as a result of the inspection process and repeat factory visits. We also identified the ways in which the program could be strengthened, notably with respect to union rights, so as to make the gains for workers sustainable.

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

This trade-incentive approach requires an international mechanism for funding its monitoring component. International agencies and brand-name buyers ought to share the cost of monitoring, since improved working conditions are a global public good. In this scenario, buyers reap the benefits of expanded sales by consumers eager to spend on "sweat-free" products made under decent working conditions. Shifting a greater proportion of the monitoring costs toward international buyers will facilitate replication of the proposed trade-incentives approach in other low-income countries. Moreover, suppliers at the bottom of the global value chain in garments operate in a highly price competitive environment, and if burdened with the added cost of workplace reforms and wage increases, they may not undertake sustainable improvements in working conditions. Thus, international funding for viable enforcement structures remains a top policy priority, with the ultimate goal of generating a self-sufficient monitoring program where national governments have adequate resources to sustain their own credible enforcement agency and to cover as large a proportion of the workforce with labor standards protection as possible.

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

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Table 1. International Comparison of Labor Costs in Apparel Manufacturing, 2008

Country	*Labor Cost (US$/Hour)*	*Country*	*Labor Cost (US$/Hour)*
Bangladesh	0.22	Guatemala	1.65
Cambodia	0.33	Tunisia	1.68
Pakistan	0.37	Dominican Republic	1.55-1.95
Vietnam	0.38	South Africa	1.75
Sri Lanka	0.43	Honduras	1.72-1.82
Indonesia	0.44	Peru	1.78
India	0.51	El Salvador	1.79
Haiti	0.49-0.55	Lithuania	1.97
China (Inland)	0.55-0.80	Morocco	1.97
Egypt	0.83	Turkey	2.44
China (Coastal)	0.86-1.08	Mexico	2.54
Nicaragua	0.97-1.03	Poland	2.55
Jordan	1.01	Brazil	2.57
Russia	1.01	Costa Rica	3.35
Philippines	1.07	Slovakia	3.44
Malaysia	1.18	Slovenia	3.55
Thailand	1.29-1.36	Romania	4.03
Colombia	1.42	Latvia	4.23
Bulgaria	1.53	Hungary	4.45

Source: Emerging Textiles (2008).

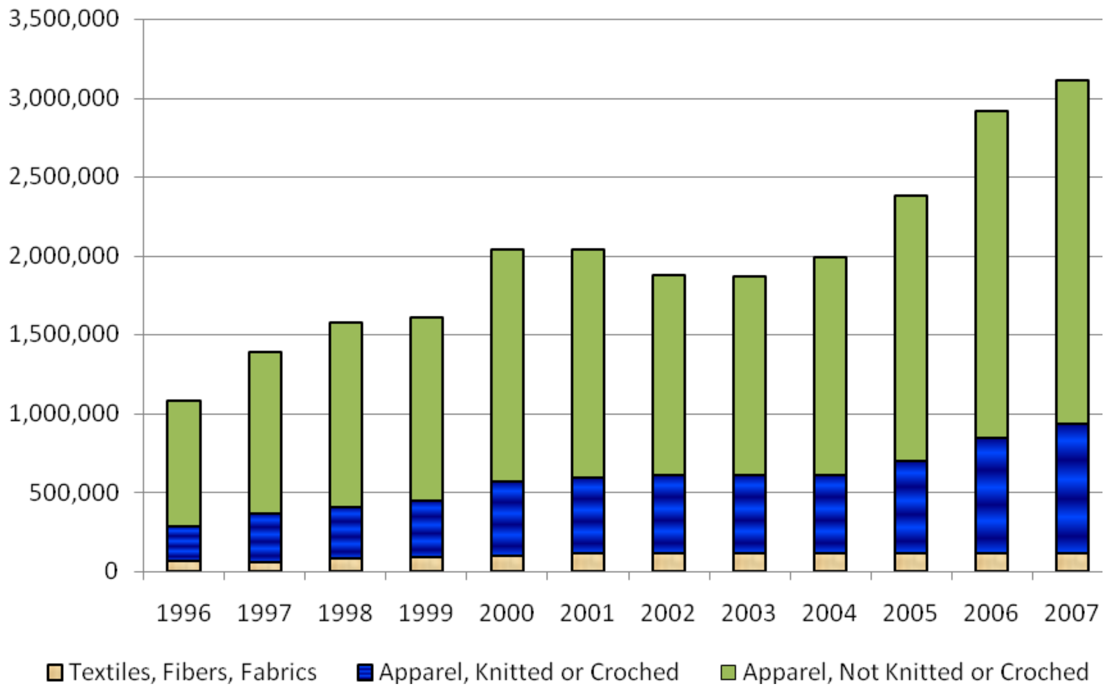
Table 2. Number of Cambodian Factories in Compliance with Selected Labor Standards

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

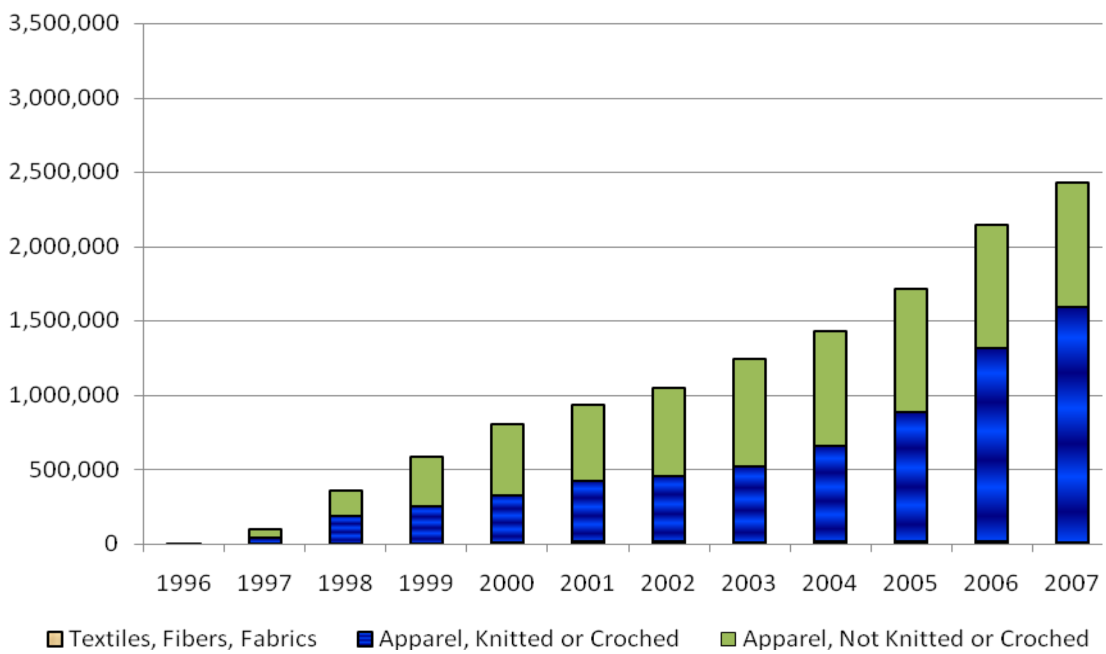
Source: ILO (2006b, 2007c). A total of 212 and 227 factories were inspected in the Better Factories Cambodia program in May through October of 2006 and 2007, respectively.

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

Panel A: From Bangladesh



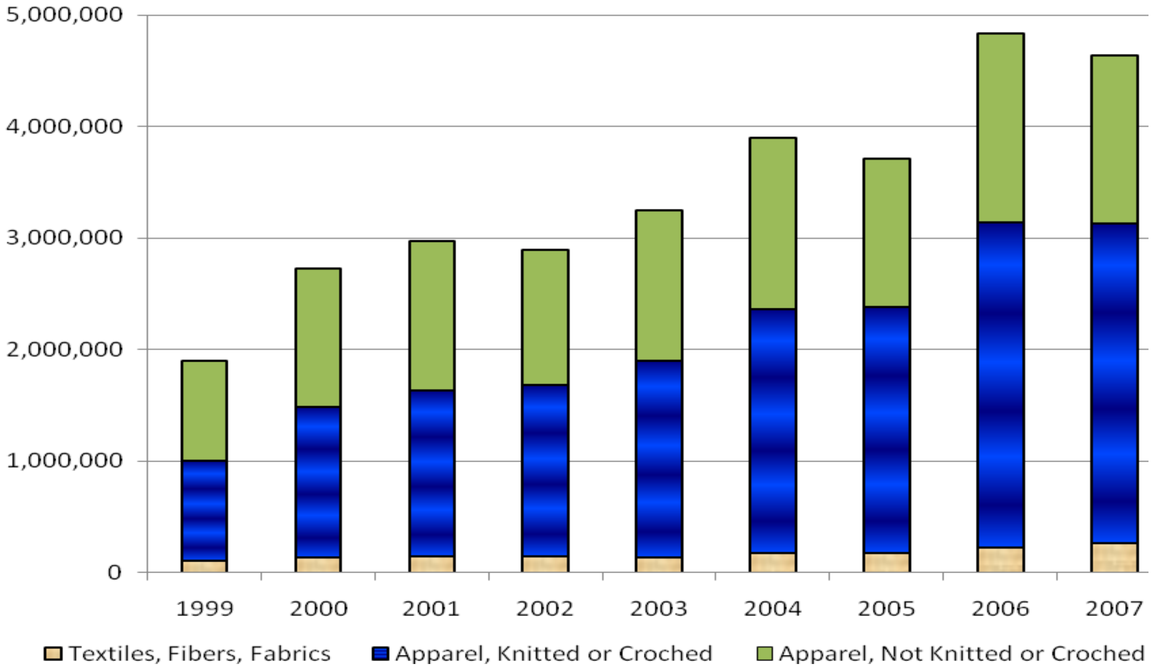
Panel B: From Cambodia



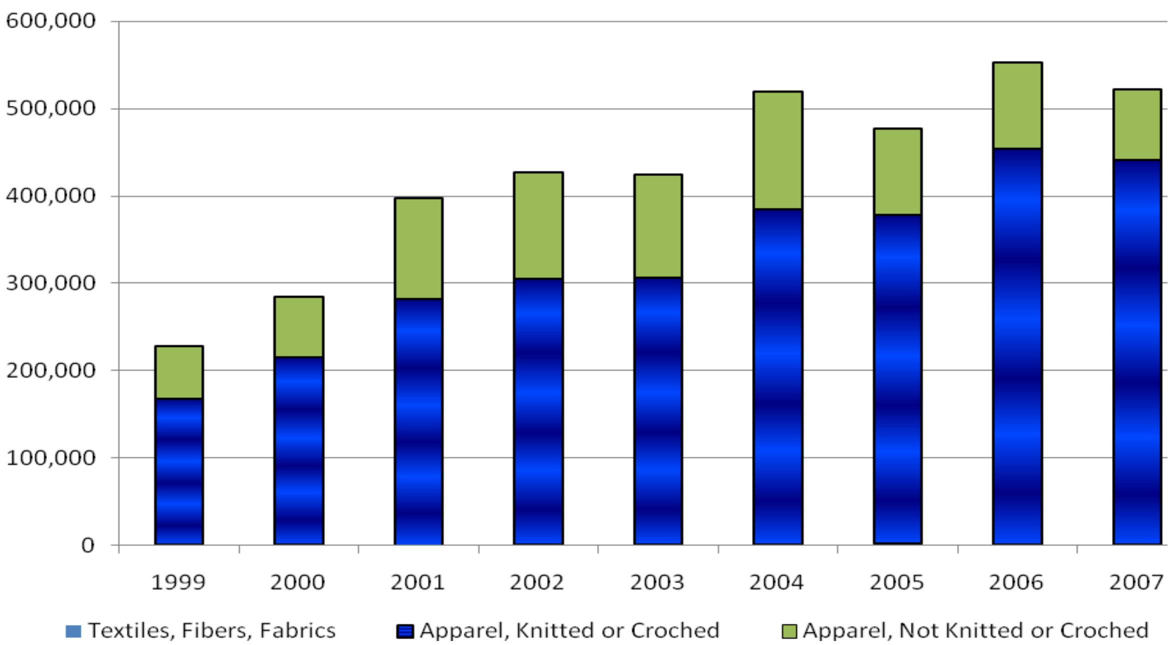
Note: Trade categories include HTC codes 50 (silk yarns and fabrics) through 63 (other made-up textile articles). Source: Authors' calculations using import data from the United States International Trade Commission (2008).

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

Panel A: From Bangladesh



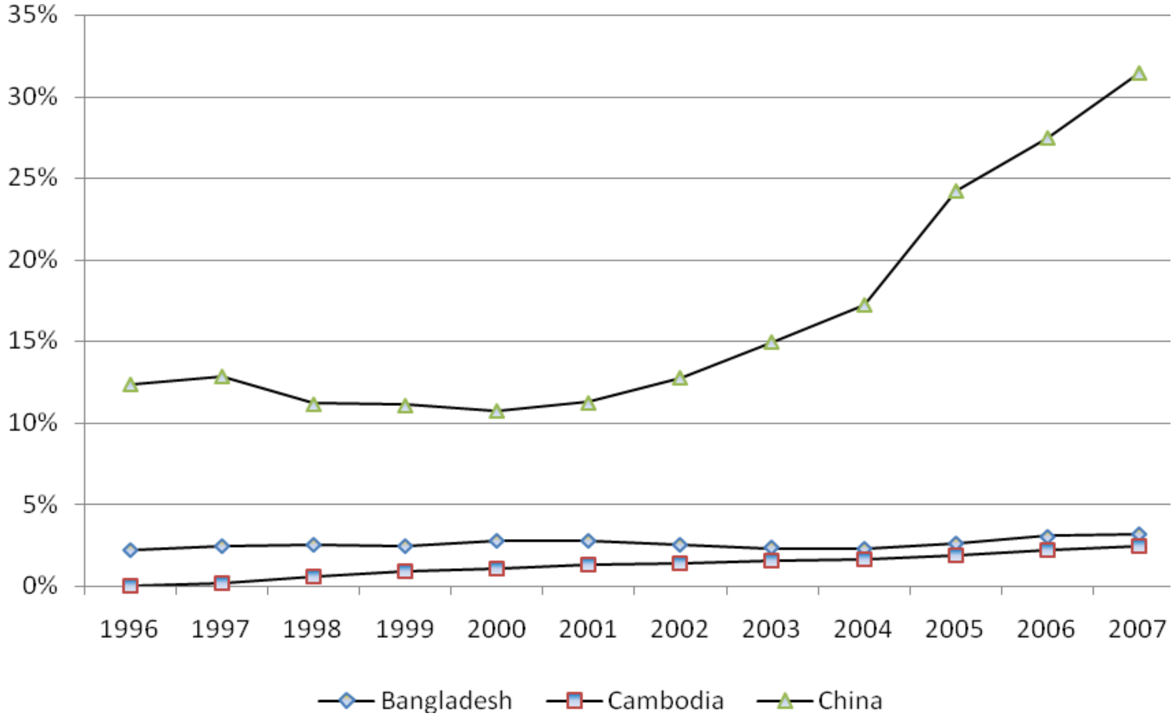
Panel B: From Cambodia



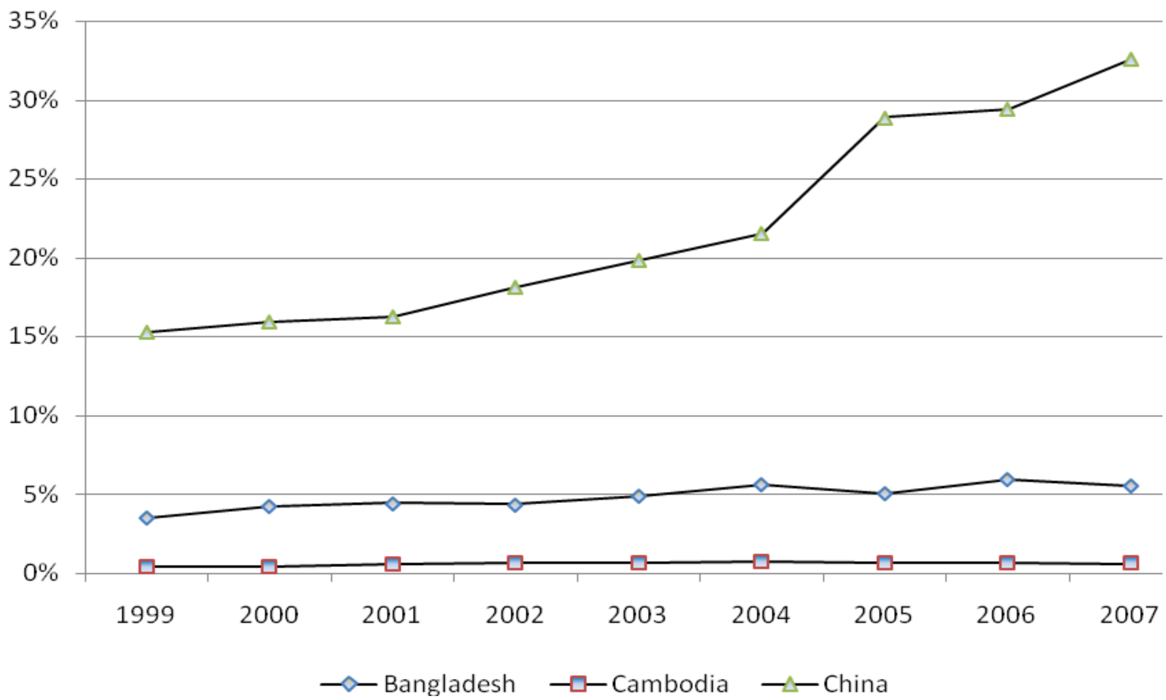
Note: EU is the EU-25 as specified in the source data. Trade categories include HTC codes 50 (silk yarns and fabrics) through 63 (other made-up textile articles).
Source: Authors' calculations using import data from European Commission (2008).

Figure 3. United States and European Union Market Shares, Textile and Garments Imports

Panel A: United States Market Shares

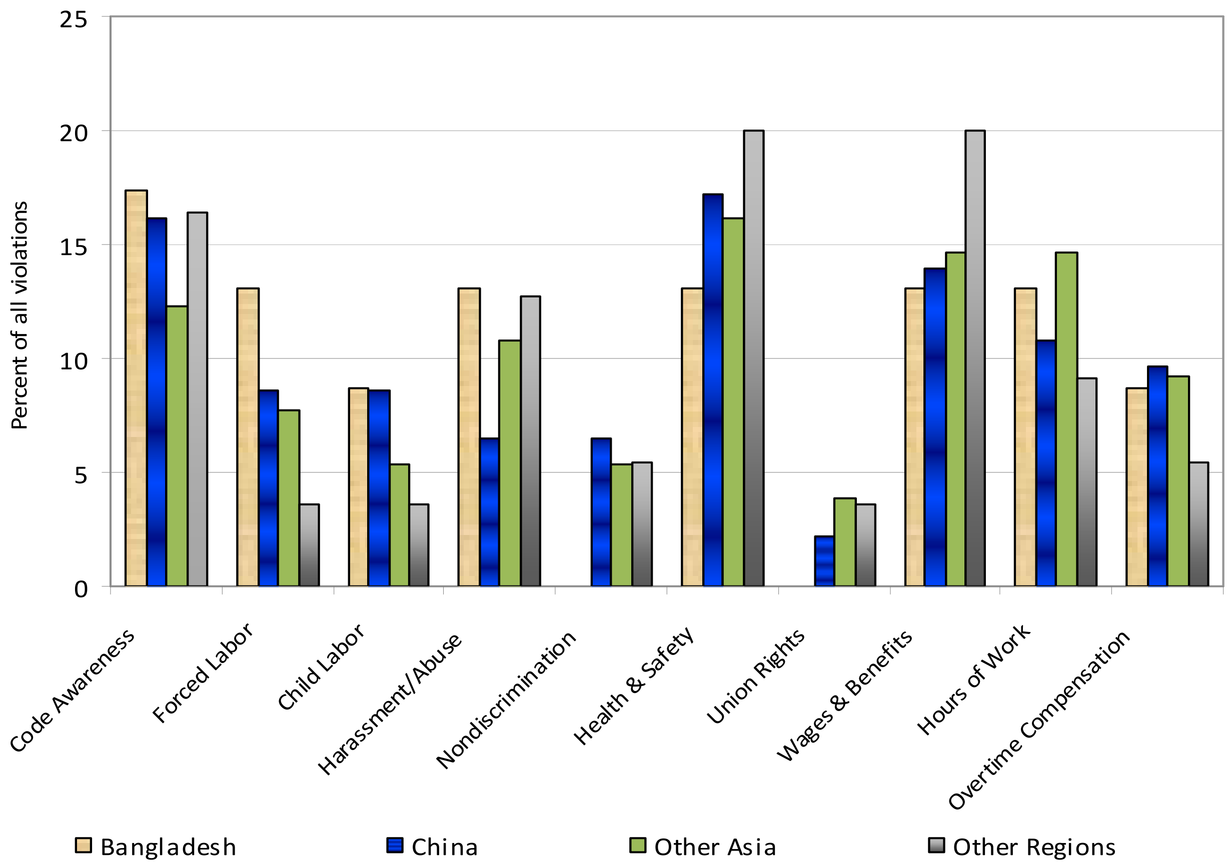


Panel B: European Union Market Shares



Source: See Figures 1 and 2.

Figure 4. Code of Conduct Violations in Clothing Factories Monitored by the Fair Labour Association, 2005



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

Endnotes

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

[2] Conventions No. 138 and No. 182 prohibit child labor, No. 29 and No. 105 eliminate forced labor, No. 100 and No. 111prohibit discrimination, and No. 87 and No. 98 ensure freedom of association and collective bargaining.

[3] For debates on this issue see, for example, Sengenberger and Campbell (1994) and Basu *et al.* (2003).

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

[5] For further discussion on how the World Trade Organization is distancing itself from discussions of a social clause, see Sum and Ngai (2005).

[6] For a comprehensive review of issues related to codes of conduct, see Jenkins *et al.* (2002).

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

[8] Men in the garment sector are employed in higher-paying positions in management and in more capital-intensive areas of production. Even for the same occupation categories, women have lower ranking positions. For example, among controllers, women tend to be "junior-level" while men are "senior-level" (Adhikari and Yamamoto 2006).

[9] Furthermore, as noted in the *Economist* (2007), Canada, the only large import market that has not placed safeguard measures against China, has seen a declining market share for Bangladesh since the end of the ATC.

[10] For both Bangladesh and Cambodia, textiles make up a very small share while ready-made garments, both knitted and non-knitted, make up the lion's share.

[11] See Hossain *et al.* (1988), Zohir (2001), and Chowdhury Repon and Ahamed (2005).

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

[13] Bangladesh EPZ Administration (BEPZA)'s website continues to boast of "Production Oriented Laws **--**Law forbids formation of any labor union in EPZs" and points out that "BEPZA is vested with responsibility to administer labor matters for all enterprises in EPZs" (Export Promotion Bureau 2008).

[14] As of mid-2008, the policy has yet to see widespread implementation in garment factories owing to political turmoil and the lack of enforcement. Resistance to implementation stems from the higher costs of labor imposed on firms at a time of intensified competition. If the new wage structure is fully implemented, an estimated 5 percent of enterprises are likely to earn negative profits (CPD 2008a).

[15] Fifty seven percent of factories were "less compliant" and 31 percent were "moderately compliant."

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

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

[18] The tracking charts provide evidence on the remediation process following the initial visit that identifies noncompliance, with most instances recorded as "pending" or "ongoing."

[19] The FLA does not monitor factories in Cambodia.

[20] However, additional tabulations for severity of code violations indicate that most code violations occur in the area of health and safety, not only in Bangladesh but also in China, the rest of Asia, and other regions.

[21] In Figure 4, violations of the child labor code in Bangladesh involved lack of documentation of age, and violations on forced labor involved employment of workers without a contract (an

"appointment letter"), which constitutes a form of forced labor according to the FLA code of conduct (FLA 2006).

[22] This number reflects tabulations of data from the first sixteen reports; the seventeenth report changed in format and did not include the number of factories that closed.

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

[24] Evidence in EIC (2007) indicates that unit values for Cambodian exports dropped about 9 percent in the U.S. market and 2 percent in the EU market when the ATC ended.

[25] See Barry and Reddy (2006) for an argument, which is similar in spirit, in favor of linking labor standards to trade, primarily through positive trade incentives.

[26] See Rodrik (1996), Organization for Economic Cooperation and Development (1996, 2000), Busse (2002), Flanagan and Gould (2003), and Kucera and Sarna (2006).

[27] See Rodrik (1996), Kucera (2002), Cooke and Noble (1998), Palley (2005), and Neumayer and de Soysa (2005).

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

[29] Since 1984, the United States GSP has made eligibility for duty free imports conditional on a country's progress toward ensuring "internationally recognized workers' rights," which includes most of the core standards of the ILO, but also wages- and hours-related provisions. However, the program has been limited in scope, accounting for about 2-3 percent of United States imports, because of other restrictions on GSP benefits (for example, exclusion of certain products—such as textiles and clothing). There is some evidence that using the GSP does promote labor standards (Elliott and Freeman 2003). The European Union currently provides duty-free access to Bangladesh and Cambodia under its GSP (which is called "Everything But Arms"), but not under its new GSP-plus arrangement (which is an extension of the GSP that includes additional tariff preferences for poor countries demonstrating sustainable development and good governance).

[30] A major obstacle that prevents the least developed countries from benefiting from the GSP is the rules of origin requirements that the European Union or the United States routinely apply to imports from these countries. These requirements stipulate that, in order for a country to take advantage of GSP tariffs, a certain minimum percentage of value added has to originate in the exporting country. It is difficult for countries like Bangladesh and Cambodia to meet these requirements in garments production given the limited capacity of their textile industries, even when they are eligible for GSP tariffs in textiles and clothing. Removal of these origin

requirements would ensure that a least developed country indeed obtains market access when it demonstrates progress toward improved labor standards and is granted the GSP tariffs.