Promoting Cambodia’s Competitiveness in a Post-MFA World

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Carnegie Endowment for International Peace

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Brad Figel, Nike, Director of Government Affairs

Nike, like other companies, is willing to pay a premium for labor compliance. Companies are willing to shoulder some of the cost of compliance, but they cannot do it alone and need the assistance of the governments of the countries in which they work. Nike, for example, lost confidence in Cambodia’s compliance in 2000 and began the process of pulling out of the country. The company re-entered in 2002 after the International Labor Organization began the labor monitoring program and government and contractors promised greater labor compliance. A new dialogue was created between labor and management. The ILO monitoring program has worked so well that the World Bank has proposed to continue funding it for an additional three years. But in addition to labor standards, companies are also interested in continuing political stability and vertical textile integration to make the country more competitive overall.

Congressman Jim Kolbe (R-AZ, 8th)

The TRADE Act of 2005 is essential for encouraging economic growth and solidifying democratic transition in Cambodia. It will grant the country trade preferences that many other least developed countries already receive through other preference programs (such as the Africa Growth and Opportunity Act). But this necessary extension of trade preferences faces an uphill battle in Congress. There is not a coalition in the United States in support of market access for the Least Developed Countries to move the TRADE Act forward. In the United States, there is a growing anxiety and hypersensitivity over globalization that has led to the partisan polarization regarding trade agreements. Trade agreements have only passed the U.S. Congress by razor thin margins because of the bipartisan failure to maintain a trade consensus. This lack of a healthy bipartisan center has led to the alarming and frustrating trends in U.S. trade policy. The responsibility lies with both parties (for example, during the CAFTA negotiations Republicans politicians almost succeeded in keeping sugar out of the agreement). Countries such as Cambodia stand to suffer the most from this U.S. deadlock on trade. The U.S. needs to use its tremendous economic weight to do more to encourage trade for development and to provide technical assistance for those impoverished countries trying to gain access to the global trading system.

Senator Gordon Smith (R-OR)

With the end of the quota system covering trade in textiles and apparel, China is projected to provide 50 percent of all garments to the world. But it is in the U.S.’ interest to have a broader commercial supply base. The TRADE Act covers some of the world’s poorest countries that are also subject to some of the world’s highest average tariffs (approximately 16%). The TRADE Act would encourage development by basing eligibility for the preferences upon the country’s rule of law, political pluralism, and market-based economy.

H.E. Cham Prasidh, Cambodian Senior Minister and Minister of Commerce
In the post-quota world, larger countries are gaining at the expense of smaller ones. In this new ultra-competitive clothing industry, countries such as China with well-established industries and long-standing consumer relationships will benefit. China is able to produce products both more quickly and cheaply than Cambodia. The post-quota world is filled with challenges for Cambodia to remain competitive. There has already been a sharp drop in retail prices (30 percent), imperiling already razor-thin profit margins for firms.

In 1999, Cambodia signed a pioneering trade agreement with the United States linking increased market access with labor standards. The agreement was a success, providing protection to vulnerable workers at the same time that it built up the country’s garment industry. The incentive of increased quotas ended with the phase-out of MFA, but Cambodia has decided to unilaterally continue the ILO monitoring program to ensure that there are no sweatshops in the country. The monitoring system is currently even better than before (with the introduction of a new monitoring website and other enhancements), and there has not been backsliding in the factories since the end of quotas. In fact, there are more unions than factories in Cambodia (approximately 3-4 unions per factory).

In addition, the country is undertaking other measures to make the country more attractive to investors (such as options for protection of the environment and intellectual property). The TRADE Act would help Cambodia by giving the country tariff relief and helping to prevent a race to the bottom.

By building and sustaining a competitive garment industry, Cambodia can move away from aid towards self-reliance. While China is still competitive, even with the recently imposed safeguards, companies want to diversify and not place all of their production in one country. Buyers are interested in labor compliance in addition to price and time to market. If Cambodia is granted trade preferences, the country would be able to match China in terms of price, but will have better quality goods because of labor compliance.

Panel One: Overview and Key Outcomes of the Cambodia Labor Strategy


The Cambodian policy of linking trade and labor standards encompasses three distinct components:

1. a textile agreement with the United States, in effect from 1999 through 2004, that granted Cambodia and its exporters quota increases for improved labor conditions in the apparel factories. These incentives expired with the end of quota system on January 1, 2005;
2. an ILO monitoring program that began in 2000 and continues today; and
3. a commitment by the Cambodian government that all factories would participate in the monitoring program.

The first unique and innovative feature of the bilateral textile agreement between the U.S. and Cambodia was the creation of an economic reward—an increase in Cambodia’s allowed quotas of exports to the U.S., in response to an improvement of labor standards and working conditions in Cambodia. This was the first time that a positive incentive was included in a trade agreement. Under the agreement, the U.S. did see progress and granted the quota increases.
While gaps remain in labor conditions, there has been marked improvement in labor standards in the country.

The second innovation involved the creation of a new role for the International Labor Organization (ILO). The ILO was asked to monitor conditions in the apparel factories to serve as a credible source for information on working conditions and labor rights. Government resources were constrained for monitoring because Cambodia is a least developed country and does not have adequate resources to perform all of the functions desired of governments. Beyond this resource constraint, civil servants are paid extremely low salaries—lower than those of garment workers—and so there was a large potential for bribery and corruption. The ILO had never before monitored private firms, but agreed to do so because they were requested to by both governments involved. The director of the monitoring project is hired internationally, but all monitors are hired in Cambodia. They speak the language and know the community. They are paid a salary high enough to discourage corruption but less than private, for-profit monitoring firms would charge. The monitors visit a group of factories and report compliance and noncompliance on a wide range of issues. A period of time is allowed for the factories to improve their compliance with labor laws. After a second visit, the ILO published a report—on the internet—that details the performance of individual factories by name. There is a tremendous amount of transparency in the process. This transparency means that everyone involved—producers, international brands and retailers, consumers, workers, trade unions and NGOs—all know what happens in each factory. This has the effect of aligning the incentives of factory managers with those of buyers and the government to improve practices. The Cambodian government immeasurably helped the process by requiring all factories to participate in order to get export licenses, thereby avoiding a free-rider problem.

Ros Harvey, International Labor Organization, Chief Technical Advisor in Cambodia, Operation of “Better Factories Cambodia”

After a hard decision-making process, the ILO agreed to conduct the monitoring in order to help fulfill its mandate of reducing poverty through decent work. The ILO conducts its visits to factories on an unannounced basis. It performs independent inspections inside the factory, meets with management, talks with workers both inside and outside the factories, and meets with union representatives. As Cambodia has ratified the relevant ILO conventions and incorporated them into its own national labor laws, the ILO is monitoring domestic labor law. Many buyers in Cambodia now require an ILO report before making sourcing decisions. In the past two years, the ILO has worked towards developing more training for factory managers and building up greater capacity to encourage sustainability of the program. Initially, the resources for the program were provided by the United States ($1 million), the Cambodian government ($200,000), and the Cambodian factories ($200,000). The Agence Française de Développement (AFD) has now committed funding for some new innovations and the World Bank will also provide funding for a three year transition to an independent Cambodian body. By 2009, the program will be fully funded and supported by Cambodia.

Even with the end of the quota bonuses, it appears that buyers will continue sourcing from Cambodia. The quantity and value of exports has been increasing while labor conditions have been simultaneously improving. Although labor conditions are still not perfect, there has been a tremendous amount of improvement. Good working conditions and decent wages are essential to reducing poverty and promoting the growth of a civil, democratic society. But labor standards alone will not save the garment industry in Cambodia. The country needs to
strengthen its rule of law, reduce corruption, and improve trade facilitation for the sector to remain competitive and for the success of the agreement not to be undone.

Ambassador Ronald Eng, Cambodian Ambassador-at-Large for Development, “Contributions of ‘Better Factories Cambodia’ to the Apparel Sector”

In conjunction with the ILO, Cambodia introduced this unique monitoring mechanism. The Cambodian labor code already conforms to international standards, and if a factory is found violating the code it can be banned from exporting. So far only two factories have been closed because of violations, and now just a letter of intent is enough to prod factories into improving their practices. Cambodia does not have an established union culture, but in the past six years unions have expanded rapidly in the country. Although strikes increased in the early years of the experiment, this part of the transition process. With the establishment of arbitration panels in the last two years strikes have been declining. There are currently 230,000 union members, with in excess of 90% of garment workers unionized.

Despite these positive developments, Cambodia is beginning to feel the impact of the end of quota system. Some factories have already closed, although other new factories have opened. Cambodia desperately needs the tariff preferences that the TRADE Act would provide. While orders have increased since the safeguards were placed on China, Cambodia remains in a precarious position.

Sean Ansett, GAP Inc., Director Global Partnership, “A Retailer’s Perspective”

Over the next three-to-five years, many Least Developed Countries will be affected by the end of apparel quotas. In order for garment sectors in these countries to survive, the industries need to adopt a partnership approach with their governments and global buyers. In addition to price, companies value quality, innovation, and labor compliance. Companies plan for long-term ongoing commitments and are therefore willing to invest in quality.

Cambodia has an advantage over its competition, since it already has a progressive labor strategy in which all factories participate and the results are made public. But Cambodia’s competitiveness is challenged by an over-reliance on foreign materials, administrative problems, weak trade facilitation, and shaky political stability (such as the assassination of union leaders).

In terms of labor compliance strategies, GAP would support the expansion of the Cambodian program to other countries.

Panel Two: Promoting the Viability of the Cambodia Apparel Industry in the Post-Quota World

Viji Rangaswami, Carnegie Endowment, “Impact of MFA on Smaller Producers”

In addition to Cambodia, other Least Developed Countries will face similar challenges with the end of the quota system. The quotas, which were designed to protect rich country producers, inadvertently created a proliferation of developing country suppliers. Now with the end of quotas, production will likely be concentrated in a few, well-equipped suppliers. Although the end of quotas was always going to be a risk for the most vulnerable suppliers, there is a greater threat now than when the Agreement on Textiles and Clothing was negotiated, since China was not then a member of the WTOS and developing countries did not appreciate the full
potential strength of China. China stands to become the dominant player in the global apparel market.

Some of these vulnerable countries need help in saving their apparel sectors. Some countries, such as the Philippines and Indonesia that have a diversified economy, should not attempt to save their apparel sector. But for others that are highly dependent on apparel exports, such as Cambodia, Bangladesh, Haiti, intervention is needed. Since so much of their economy is dominated by apparel, it would be extremely difficult for these countries to transition to other sectors. The only available alternative would be agriculture, which is often considered a step backward in the development process. The loss of the apparel sector would also hurt the ability of these countries to attract further investment since garments are often the first step toward development. A garment sector allows for the building of an industrial base, the development of communication and transportation infrastructure, and the gradual accumulation of manufacturing skills by the workforce.

To help these countries, the United States should provide enhanced trade preferences (with liberal rules of origin), targeted technical assistance to improve competitiveness, assistance in differentiating exports, and assistance in dealing with dislocation of workers.

Sarah Marniesse, Agence Française Développement, Economist, “Strengthening the Cambodian Apparel Sector after the End of Quotas”

If the garment sector in Cambodia were to collapse, it would lead to even more poverty in the already impoverished country. Cambodia still needs to improve its competitiveness, since it still confronts high administrative costs, poor transportation, and too much corruption.

It is too risky for buyers to relocate all of their supply to China, however, in order to maintain orders long term Cambodia still needs to reform, since its current strategy of price competition is unsustainable. Cambodia instead should turn to its ASEAN neighbors and focus on regional supply of inputs such as textiles (which would also allow the country to comply with European rules of origin).

Cambodia also needs to exploit its competitive advantage in labor and use it to develop into an ethical export niche in sectors other than apparel, since it still needs to improve its investment climate. The country should search for new markets where it can have an advantage over its competitors based on its ethical labor practices. Finally, it should continue to try to secure additional trade preferences to ensure the survival of the apparel sector.

Edward Gresser, Progressive Policy Institute, Director, “Preferences”

Least Developed Countries need to take actions to improve their own competitiveness (such as customs reform) and not try to place all of the responsibility on rich countries. Cambodia, as well as other LDCs, should have more people trained in trade negotiations (through such organizations such as UNCTAD and ASEAN) in order to fully represent their country’s needs. For example, despite being underway for four years, the Doha Round is still not close to realizing its promises on development. Major developing countries (such as China and India) also need to start shouldering some responsibility for helping their poorer neighbors.

In eight years, Cambodian exports to the United States jumped from $6 million to $1.5 billion, mainly in apparel. But compared to the U.S.’ main trading partners, Cambodia (because of the apparel products that it exports) pays much more in tariffs than developed countries such as France. This leads to a very regressive trade policy compared to the rest of the world. Cambodia is in the unenviable position of being squeezed between tough competitors (i.e.,
China) and countries that enjoy tariff preferences (i.e., sub-Saharan Africa with AGOA). The price gap that Cambodia faces could easily be fixed by tariff relief, thereby leveling the playing field with its global competitors.

David Birnbaum, Industry Analyst, “Improving the Overall Competitiveness of the Industry”

Factories are selected based on full-service packaging, price, quality, and speed to market. It is wrong to assume that without monitoring all factories would be sweatshops. The apparel industry is highly competitive (with a high rate on bankruptcies), and customers are not willing to pay a premium for better labor standards. The consumer has been taught to expect higher quality and lower prices and the mindset will be hard to break. The garment sector in Cambodia cannot survive without a trade agreement since the country cannot just sell compliance. To survive in this apparel industry, countries need to have a niche to survive (not just stay in the mainstream assembly) and need to have an upscale industry. The design process is 30 to 40 steps, and it is essential for Cambodia to join the process. It was the quota system that allowed China to upgrade its production and developed a skilled and educated workforce and the ability to source fabrics. Countries and factories need to look at their workers as a capital investment. Good labor conditions are not about being virtuous but about efficiency and profitability. It is in everyone’s interest to stop a race to the bottom.

Friday, July 22nd (Carnegie)

Panel One: The Cambodia Monitoring Program: Lessons Learned and New Challenges for “Better Factories Cambodia”

Ros Harvey, International Labor Organization, Chief Technical Advisor in Cambodia, “ILO Perspective”

An enormous industry has grown up around corporate social responsibility. The issue is here to stay and will continue to grow rapidly. With the resources of the Internet, it is not possible for companies to hide their supply chains. The ILO has entered the process through its monitoring program in Cambodia. Since the inception of the program, the ILO reports have provided important information in the global supply chain and as a source for feedback. The monitoring system (now called the ‘information management system’) is online with results available in English, Khmer, and Chinese (the owners of the factories are primarily Chinese speakers). This ensures that all of the stakeholders have access to the information. In the near future, the ILO will be able to do quantitative analysis on compliance data. The entire process has provided a way of making conditions better in a practical way.

Nigel Twose, World Bank, Manager of the Foreign Investment Advisory Service, “Learning from Surveys of Buyers”

The World Bank’s Foreign Investment Advisory Service (FIAS) conducted a survey of the major international apparel buyers in Cambodia in 2004. The buyers rated labor standards and tariff preferences at the top of their list of items that affect decisions on which countries they
select as locations in which to source. At the factory level, buyers rated price at the top, but labor standards still scored high.

Corporate social responsibility has become an increasingly important issue, with 61 percent of businesses saying it is at least as influential as other traditional factors (price, speed, etc.). Cambodia ranked ahead of its neighbors in terms of labor standards, but behind its neighbors in almost every other factor. Of the buyers currently sourcing in Cambodia, 60 percent said they would increase orders, while 40 percent said they would wait and see. With the exception of China, Cambodian exports have been growing faster than any of its other competitors. Currently, Cambodia has a temporary first mover advantage (on the basis of its labor standards), which it should use to improve its fundamentals. Businesses and other governments should look to follow the Cambodian example and establish a corporate social responsibility code that is sector-wide, transparent, has a shared governance structure, reduces inefficiencies, measures productivity impacts, and achieves market-based results.

**Chhorn Sokha, Cambodian Trade Unionist, “Workers’ Perspective”**

The growth of the apparel sector in Cambodia since 1997 has played a vital role in economic growth and alleviating poverty, especially for women, who make up 85 percent of the 230,000 garment workers. While labor standards in Cambodia are still a work in progress, there has been an improvement in working conditions through the cooperation of multinational corporations (i.e., Gap, Nike, H&M) and the government. Through this process and the comprehensive labor code, the labor movement has been strengthened, despite the sometimes ineffective inspections and recent strikes. The current priorities are to ensure that the labor code is not weakened, as some investors and businesses are aiming to do, to try to enhance collective bargaining rights, to establish a Labor Court, and to increase enforcement of existing law. Efforts to lower cost should not focus on wages (which are already the lowest in the region), but rather on eliminating corruption and improving the infrastructure.

**Ken Loo, Garment Manufacturers’ Association in Cambodia, Secretary General, “Industry Perspective”**

Businesses need to find a link between the costs of compliance and the benefits. With the end of apparel quotas, quota benefits have disappeared but the government has continued to apply the ILO monitoring program. Businesses are no longer rewarded for compliance, rather it is just expected.

Even with these improved conditions, the country still suffers through many strikes, 99 percent of which are illegal. Some member factories are still not convinced of the link between productivity and labor conditions, since scientific studies are needed to back up the antidotal evidence. There is also a free rider problem since the industry needs to ensure that one black-sheep factory does not destroy the reputation of the entire sector. Compliance alone is insufficient to keep the industry afloat in Cambodia and to survive the industry needs a reduction in the cost of doing business in the country and new tariff preferences from the United States.

**Jason Judd, Director of the AFL-CIO Wal-Mart Campaign, “US Union Perspective”**

The U.S. trade agreement with Cambodia was more beneficial to workers than any anti-sweatshop campaign. It protected a young labor movement and garment industry. The 100 activist (out of 785 total) unions have been winning bargaining agreements, even though the country is still an intimidating place to organize.
The Cambodian model should be replicated in other countries, including its four main features:

- it provided incentives for better labor standards and the accompanying scrutiny to be sure they were actually taking place;
- it strengthened the Cambodian labor law;
- it allowed the development of an activist labor movement; and
- it created a robust and reliable monitoring scheme.

In Cambodia this approach has led to notable improvement in labor conditions, even though there are still serious problems with compliance. The corrupt criminal courts are still used to break strikes and the investigation into the assassination of union leader Chea Vichea remains stalled after a year and a half.

The TRADE Act includes only the weak, “standard issue” labor language in AGOA, rather than the more effective Cambodia language that labor unions could support.

Sean Ansett, Gap Inc., Director Global Partnership, “Buyers’ Perspective”

With the end of apparel quotas, there will be a drastic change in the way clothing is sourced. Cambodia has an advantage over its competitors because of its progressive labor program, that Gap would like to see expanded to other countries.

Despite its progress, there are still many areas for improvement in Cambodia, which is why the ILO is shifting attention towards training and capacity building. The information that the ILO provides about factories in Cambodia can also facilitate market access, since it will be quicker for companies to approve locations.

Panel Two: Increasing the Prominence of the Cambodia Program among Consumers and Activists

Bama Athreya, International Labor Rights Fund, Deputy Director

Developing countries that benefit from the U.S. GSP program must show that they are making improvements on core labor standards. There have been mixed results, as only a handful of benefits have been revoked based on failure to do so. But sometimes just the filing of petitions has led to positive changes.

Since the TRADE Act is still under consideration, it would be possible to amend the bill to include monitoring so other countries would not be free riders on Cambodia’s labor progress. There is also a consumer market for good behavior and enforcing labor standards. In a study, 35 percent of consumers actually paid 40 percent more for a product made under good working conditions. The market for fair trade goods and organic goods has also experienced tremendous growth. For this niche to expand even further, consumers need to be educated and companies need to realize that it is in their best interest to improve labor conditions and comply with labor laws.

Trini Leung, Oxfam Great Britain, Trade Policy Advisor

Oxfam launched the “Make Trade Fair” campaign to work towards greater market access for the Least Developed Countries. The organization has lobbied corporations to adopt pro-poor policies and to integrate ethical labor standards into their sourcing policy. Any policy should be
inclusive and transparent. While conditions are not perfect in these countries, the poorest nations in the world cannot afford to wait.

Agatha Schmaedick, Worker Rights Consortium, Field Director for Southeast Asia

The U.S.-Cambodian Trade Agreement is beneficial for all parties involved, especially in giving a voice to workers. Cambodia’s obstacles to competitiveness are not high labor standards, but rather lack of enforcement, the cost of corruption, and poor infrastructure. For example, the lack of domestic law enforcement can lead workers to seek recourse through other means, such as anti-sweatshop activists in the United States. Problems still exist with attempts to unionize, and Cambodian unions have engaged in an international campaign for buyers to intervene.

There is currently a campaign to weaken the labor code, but that needs to be stopped. Unions will actually benefit the sector by giving the factories a more skilled and productive workforce. To try to solve some of these continuing problems, the Cambodian government should develop internal grievance procedures and binding arbitration as well as attempt to tackle corruption.

Tim Reif, U.S. House of Representatives, Committee on Ways and Means

The solution to helping countries such as Cambodia will not be easy, since there is not a good trade climate in Congress. Labor standards will become increasingly critical, but even with the benefits to Cambodia the TRADE Act will have a tough time passing.

There are some in the current administration that want to end preferential trade programs, but these programs have only been expanded, never contracted or discontinued. In the post-quota world, the big trade question is: what is driving the dominance of China, are they reaching their position through fair means or unfair means.

Cambodia, Trade, Labor and Development

Congressman Sandy Levin (D-MI, 12th)

For years, people dismissed labor rights as a social issue, that didn’t belong in trade agreements, but it really is an economic issue. President Clinton lost trade promotion authority and the WTO Seattle Ministerial meeting collapsed partly as a result of labor issues. Clinton wanted to promote a leveling up, not a leveling down, of labor standards. The U.S. trade agreement with Cambodia was pursued somewhat “below the radar” during the early stages, because of the controversial nature of provisions linking trade to labor standards. But Cambodia turned out to be an excellent example of what the linkage of trade and labor standards can accomplish.

Cambodia has instead made remarkable progress under this agreement, both in economic development and improved working conditions and labor standards. The Cambodian agreement undercuts the notions that Least Developed Countries are not interested in upholding labor standards and that globalization will only lead to a race to the bottom.

Since the late 1990s, labor standards have played an increasingly important role in trade talks. The trade agreement with Jordan also included strong provisions on labor standards, although without a monitoring program like the one in Cambodia.
Cambodian Minister of Commerce Cham Prasidh

In 1998, (before the U.S.-Cambodia Textile Agreement was negotiated) there were calls in the United States to place restraints on surging apparel exports from Cambodia. While it is true that the exports were growing at a very fast rate, they started from zero. Instead, the United States negotiated the trade agreement with Cambodia linking trade to labor standards. There were objections by some in Cambodia to the linkage and what was seen as an intrusion into Cambodian internal affairs. But the Cambodian government believed that linking trade to labor standards would be the most efficient way of attracting investment without exploiting our workers, who are mainly women from the country side, many with low levels of education.

The government did not give up its autonomy. It continued to self-regulate its industry and is fighting hard to maintain improved working conditions. To date, the program has been a success and the threat of revoking export licenses has never failed to change the behavior of a firm. Firms are given seven days to start making corrections or else there is a temporary ban on exporting. We were disappointed, though, that we did not receive the full quota increases allowed in the agreement until 2004. Before that we only received a part of the potential quota increase.

This process has not been easy for Cambodia since it is an extremely poor country with such a violent past, but the results have been worth it. Now if we can level the playing field by eliminating the high tariffs we pay compared to most other Least Developed Countries, Cambodia will have the advantage since we have taken the first steps on good labor practices and only the best factories are allowed in the country.

ILO Announcement

Ten of Cambodia’s top brands (including Gap, H&M, Levi’s, Nike, Wal-Mart, and Walt Disney) have agreed to help finance the ILO program starting in 2006. This new funding is part of a broader strategy for sustainability of the program.

Edward Alden, Financial Times

The debate over trade and labor standards is tied up with U.S. politics. President Clinton negotiated the labor side agreement to NAFTA in order to win Democratic support for the trade agreement. In the 1990s, there was a debate over whether or not labor standards should even be included in agreements, but recently President Bush has been including the provisions. The current, increasingly partisan debate is over a narrower divide than ever before and both sides need to be more creative in order to find a consensus.

Elizabeth Becker, The New York Times

Workers in El Salvador want a Cambodia-model trade agreement, not the CAFTA that was negotiated. Central American negotiators also wanted to include emigration as an issue, but were rebuffed by the United States. People have been left out of trade agreements, but they will eventually find their way back in.

In Cambodia, the monitoring agreement allows the benefits of trade and development to reach the people. For example, labor unions have more political space than any other group in the country. Partly as a result, Cambodia is not failing as Lesotho and other countries in sub-Saharan Africa are. The agreement also helps the private sector fight corruption (which is a huge problem in the country) by providing them with leverage.
John Podesta, Center for American Progress, President and CEO

President Clinton underscored the importance of open markets, but also the right of association (freedom to form unions) as a fundamental human right. The current trading system is in need of new global thinking and increased transparency. The developing world has reached the same juncture as the United States had reached at the turn of the twentieth century, when the competition between the states was driving down wages and labor standards. The agreement with Cambodia is an example of the innovative thinking that is needed, and because of this accord Cambodia is now a better place.

Panel Three: Competitiveness Part One – Priorities for the Private Sector Beyond the Monitoring Program

Erik Autor, National Retail Federation, Vice President

The end of apparel quotas has complicated sourcing decisions for firms since new factors are now involved in the decision. Cambodia is already competing effectively in the labor compliance category. Generally, the end of quotas favors countries with skilled workers and cost-effective production.

Firms need to be able to provide “concept to market” packages of services and work with customers. Wage costs are not the only determinant. Speed to market, compliance (both in labor and security standards), tariff preferences enjoyed by a country, access to fabric, and quality of product are also important in making sourcing decisions. The new structure of the apparel trade forces countries to be competitive in the products that they produce and to focus on value, not just price.

Angela Hoffman, Wal-Mart, Director of International Trade

Since the end of quotas at the beginning of 2005, Wal-Mart has changed little of its sourcing, remaining diversified among 63 different countries. In terms of choosing firms and host countries, reliability, on-time delivery, work with customers, adherence to regulations (both labor and security), tariff preference programs, trade facilitation, and access to inputs are all important factors in addition to price.

Preference programs need to be streamlined to lessen the variety of rules that are frequently cumbersome. Different rules of origin need to be harmonized in order for one firm to more easily export to both the European and U.S. markets. Also, the preferences should be extended for longer terms and should be structured to encourage countries and firms to work with neighboring countries in their region. Overall, products need to be kept flowing as consistently and quickly as possible.

Sarah Marniesse, Agence Francaise de Développement

Cambodia was able to quickly build up a garment assembly industry and start exporting to the U.S. and the European Union. But in the post-quota world, the industry is vulnerable. Cost of production plays a larger role for small countries such as Cambodia than for large countries such as China, because large countries can satisfy more of large buyers overall demand.

Wages have a limited effect on sector competitiveness. For example, wages are higher in China than in Cambodia, but productivity is also higher in China. The important cost differences
that Cambodia faces are its high costs for administration, energy, and shipping as well as corruption (which has been measured at 7 percent of the value of its exports). Costs in Cambodia are 10-20 percent higher overall than in China or Vietnam.

Countries that are insufficiently competitive overall can lose ground in the ultra-competitive garment trade. The existence of an “ethnical niche” for Cambodia (based on its progress on labor issues) might preserve the garment industry in the short term, but alone it will not be sufficient in the long term. To improve its overall cost competitiveness, Cambodia needs to improve its investment climate, upgrade its infrastructure, and fight corruption.

Panel Four: Competitiveness Part Two – Opportunities for Public Policy Interventions

Hervé Gallepe, Agence Française de Développement, “Reinforcing Cambodia’s Trade Capacity”

After the launch of the Doha Round in 2001, the French government designed a three year “Integrated Framework” plan for development projects to improve developing countries’ trade capacity. Cambodia is one of the 12 countries that are eligible for €25 million in grants as part of the Integrated Framework. The program targets trade capacity building and technical assistance.

In Cambodia, the French government is supporting the promotion of the garment sector by financially supporting the ILO monitoring program. In addition, AFD will provide training to workers and managers and help construct new social facilities.

Magdi Amin, World Bank, Senior Private Sector Development Specialist in East Asia and Pacific Region, “Customs Facilitation Challenges”

No country is as dependent on the garment sector as Cambodia. Unfortunately, Cambodia suffers from a poorly designed, excessive inspection system that requires time, among the highest time burden in the world. The Cambodian government responded to a 2003 World Bank report outlining weaknesses in the economy by trying to streamline some of the regulatory processes. The government has also tried to improve infrastructure, the investment climate, trade facilitation, and its legal transparency. There has already been progress as administrative time has decreased and costs have gone down.

While there has been improvement, additional reforms are needed. Civil service reform is needed, including higher government salaries to lessen the risk of corruption and more inter-agency cooperation is also required to streamline government services and operations. Fortunately, Cambodia is blessed with good leadership and political will, so the prospects are encouraging.

David Birnbaum, Industry Analyst, “Challenges to Becoming a Full Package Producer”

The TRADE Act of 2005 has the potential to help those Least Developed Countries not covered by other preference programs, but the countries need to be able to take advantage of the benefits. NAFTA failed to help Mexico’s garment sector after the first several years and AGOA is not stopping the slide of sub-Saharan Africa. On the other hand, China has succeeded in the garment sector through knowing the industry and its own advantages in the market.

Cambodia should be grateful that it has foreign supporters and brand names willing to support its industry since this confers an advantage against its competitors. Despite this support,
Cambodia still needs to develop a more skilled workforce in order to move up to higher value-added products and to improve its time to market. For a truly successful industry, factories need such skilled workers as engineers and merchandisers to better understand what the buyer wants. With the support of its friends, Cambodia has the potential to build up its industry into a win-win situation for everyone involved.


Preference programs are very important to help developing countries succeed. And it matters how those programs are structured. Developed countries need to design the contents for the programs correctly if they are to help with development. Developed countries should liberalize their rules of origin, which are currently highly restrictive. The rules of origin are designed either to promote economic activity in the targeted country or to provide a captive market for rich country suppliers. These rules often end up impeding utilization of the preference programs. For example, under the European Union’s Everything but Arms Initiative, approximately half of Bangladesh’s exports (which are primarily garments) do not qualify, because they are not made with EU or regional fabric. These restrictive rules of origin do not conform to today’s sourcing requirements. It is not always viable for countries to purchase fabric from the developed country granting the preferences or within the region. U.S. fabric tends to be 40 percent higher in cost, in addition to higher transportation and administrative costs. These restrictive rules of origin have not led to backward or forward linkages, wherein other industries develop to supply or support the garment sector and thus a major development benefit has been missed by the targeted countries. Least Developed Countries sometimes contribute to their own problems, as well, for example by levying high tariffs on imported fabric.

Developed countries need to simplify their cumbersome rules of origin for the benefit of developing countries. Canada currently has the most progressive rules of origin, requiring only assembly and 25 percent local content. The United States has somewhat liberal rules in its AGOA program through the “third country fabric” provision, which allows a certain percentage of exports to enter duty-free despite the origin of the fabric. Developed countries should move beyond these complex and cumbersome rules and instead adopt the rules of origin used for WTO determination purposes – origin is conferred by the place of assembly.