Globalization, Labour Market, and Gender Inequality

Yana Rodgers, Ph.D.
Rutgers University

Economic Institute of Cambodia

"Export Diversification and Value Addition" Dissemination Workshop

January 11, 2007

Organization

1. Motivation
2. Background: Structural Changes in Cambodia
3. Growing Competition in Textiles and Garments
4. Impact of Better Factories Cambodia
5. Conclusion and Policy Recommendations

Motivation

- Quota elimination from the end of the Multi-Fiber Agreement has been causing major changes in world trade and production patterns in textiles and garments
  - Large production gains for China (the dominant low cost producer of textiles and garments)
  - Struggle for other low-cost producers in Asia to maintain market shares (esp. if not protected with other favorable trade arrangements)
    - disproportionate job losses for women workers
    - Cambodia: 85% of workforce in garment production is female (above average for Asia). Female labour Force Participation Rate is 84%, highest in Asia.
- Other developments related to reforms in the region:
  - China's and Cambodia's accession to the WTO
  - Liberalization of capital and commodity flows

Motivation

- These developments led to major challenges for female workers
- Against backdrop of these developments, innovative labour standards program helping Cambodia stand out against other Asian producers:
  - Program: “Better Factories Cambodia” monitoring program
  - Origins: Bilateral Trade Agreement btw U.S. and Cambodia (1999-2004)
  - Trade agreement response to Cambodia’s rapid export growth
- The program:
  - Positive trade incentives to increase quota limits if proven compliance with labour standards
  - Factory inspections by International labour Organization (first time in this role); all factories participate; results posted on-line; factories named if they don’t follow suggestions.
  - Inspection results → good opportunity to examine impact of trade environment on female workers

Motivation

- Objective of this study:
  - examine the success of the labour standards program
    - ✓ Garment exports, production, and employment have all expanded despite end of MFA
  - In context of debate in the economics literature on the merits and drawbacks of enforcing labour standards with trade incentives.
- One view: international mobility of capital erodes labour standards as countries seek to compete on the basis of lower labour costs.
  - "Race to the bottom": compete with China on basis of low labour costs→ do not enforce or dismantle labour standards.

Motivation

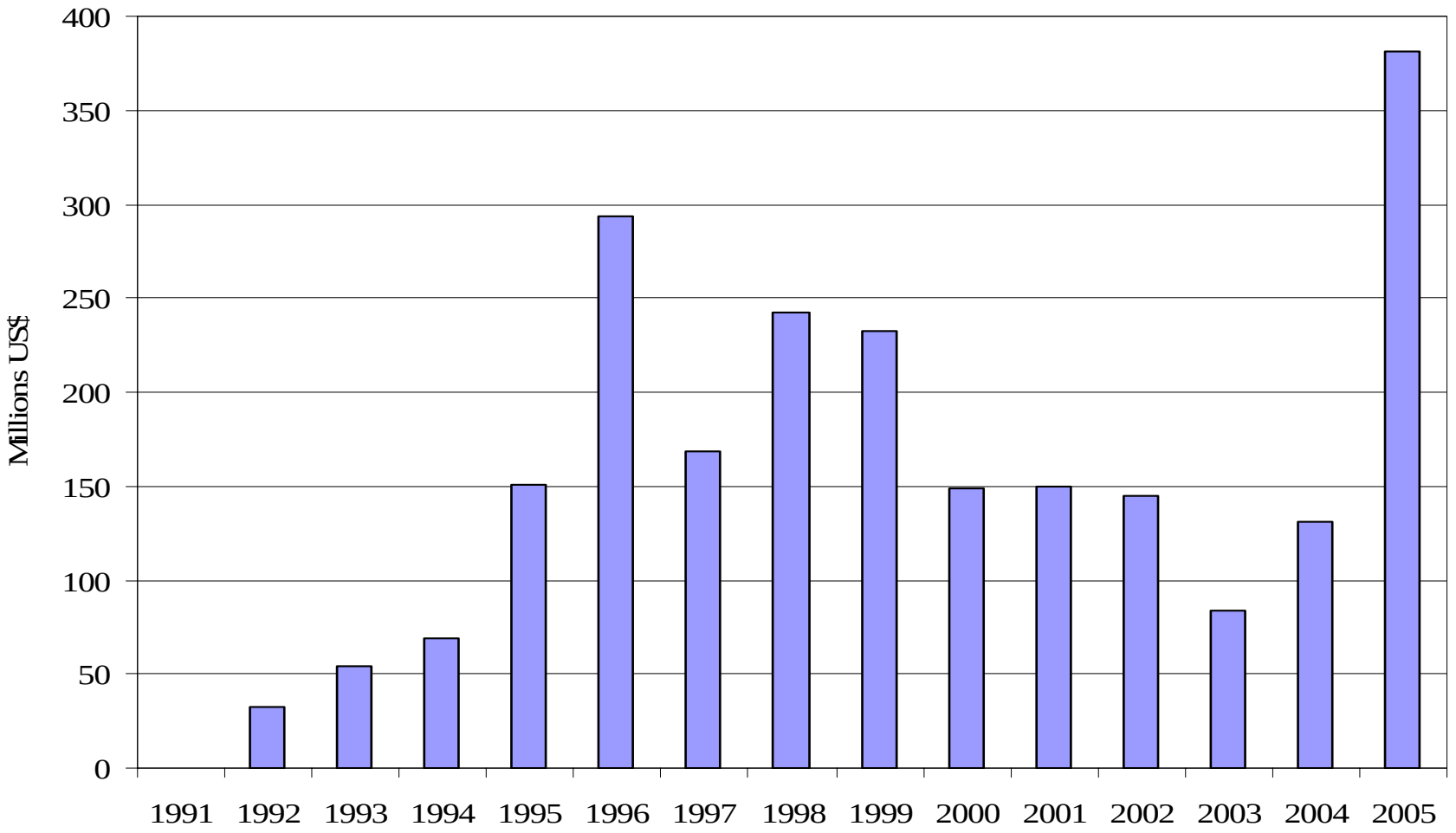
- Other view: compete on the basis of quality, technological upgrading, and investment in workers' skills.
  - "Take the high road": higher wages consistent with higher productivity.
- Main argument: linking enforcement of labour standards with positive trade incentives has helped to alleviate some of the challenges facing female workers in Cambodia.

Background: Structural Change in Cambodia

- FDI takeoff since 1991; fluctuations
- Cambodia's investment climate: vibrant but challenging
- Investment climate surveys by World Bank indicate that investors value compliance with labour standards.
- Published study by Kevin Kolben argues that corruption is main reason for poor enforcement of labour standards in the past.
- Cambodia's ratification of ILO fundamental labour standards among the best in Asia.
- Evidence on gender inequality in labour market

Background: Structural Change in Cambodia

FDI Inflows into Cambodia



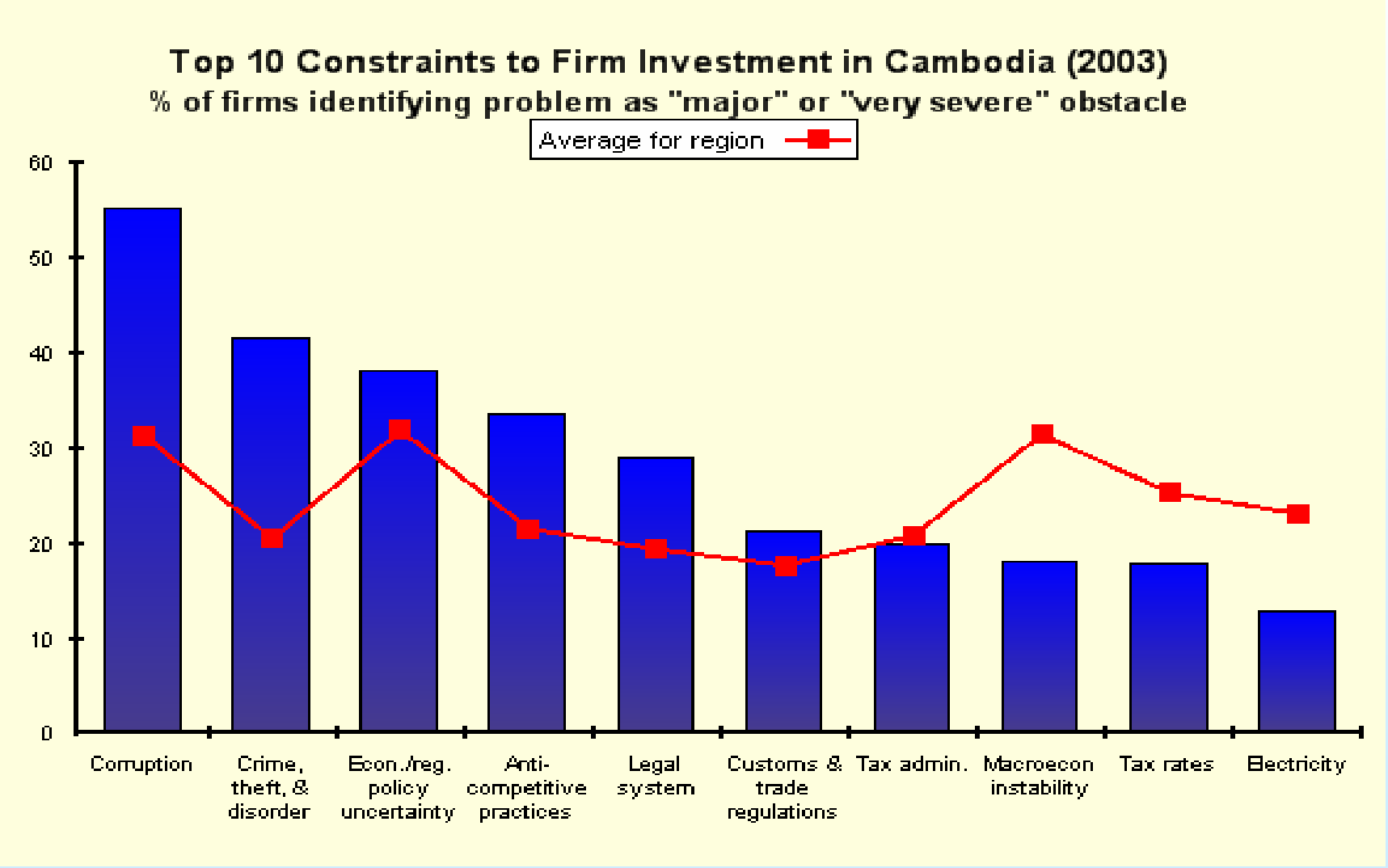
Background: Structural Change in Cambodia

labour Force Indicators of Investment Climate

	Cambodia	Asia	World
Females in senior management (%)	21.3	30.6	32.2
Workforce that is unionized (%)	5.7	33.5	22.9
Optimal employment level compared to current level (%)	91.9	93.6	109.1
Firms offering formal training (%)	22.5	39.0	56.0
Permanent skilled workers receiving training (%)	64.2	46.2	28.2
Production days lost to strikes, etc	3.5	1.1	0.7
labour regulations a “major or severe obstacle” (% of firms)	5.7	18.3	12.2

Background: Structural Change in Cambodia

Indicators of Investment Climate



Background: Structural Change in Cambodia

Ratification of Fundamental ILO Conventions

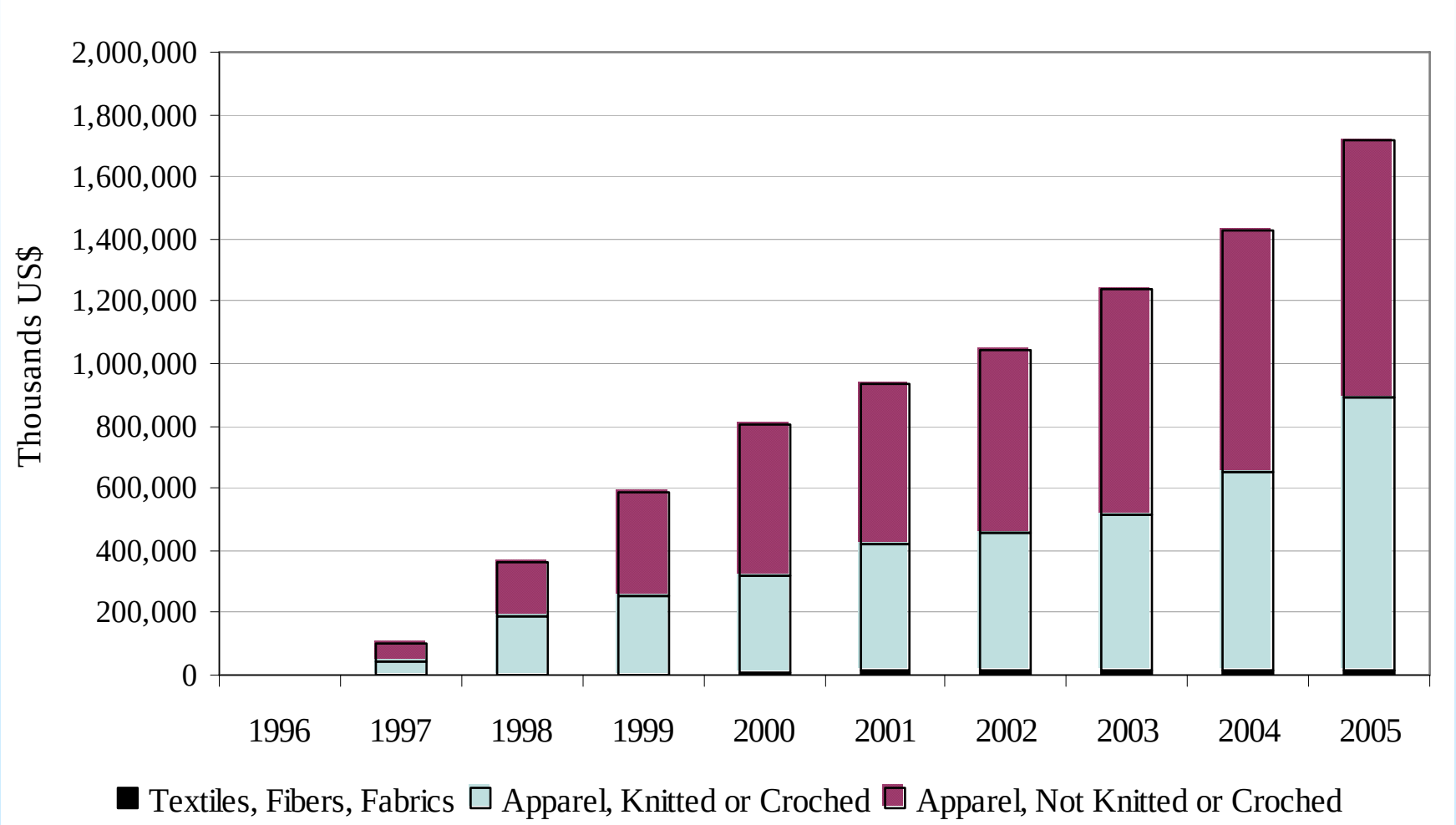
	Freedom of association and collective bargaining		Elimination of forced and compulsory labour		Elimination of discrimination in employment		Abolition of Child labour	
	Conv. 87	Conv. 98	Conv. 29	Conv. 105	Conv. 100	Conv. 111	Conv. 138	Conv. 182
Bangladesh	1972	1972	1972	1972	1998	1972	..	2001
Cambodia	**1999**	**1999**	**1969**	**1999**	**1999**	**1999**	**1999**	**2006**
China	..	..	..	..	1990	2006	1999	2002
India	..	..	1954	2000	1958	1960	..	..

Growing Competition in Textiles and Garments

- China dominates Asian export markets in textiles and garments
- Yet Cambodia's exports to US have risen, despite the end of the MFA
- Cambodia's exports to EU have fallen
- Share of U.S. textile and garment imports
  - China: 14.9% in 2003, 24.2% in 2005, and 25.4% in Aug. 2006
  - Cambodia: 1.5% in 2003, 1.9% in 2005, and 2.2% in Aug. 2006
- Share of E.U. textile and garment imports
  - China: 22% in 2004, 29% in 2005
  - Cambodia: 0.8% in 2004, 0.7% in 2005

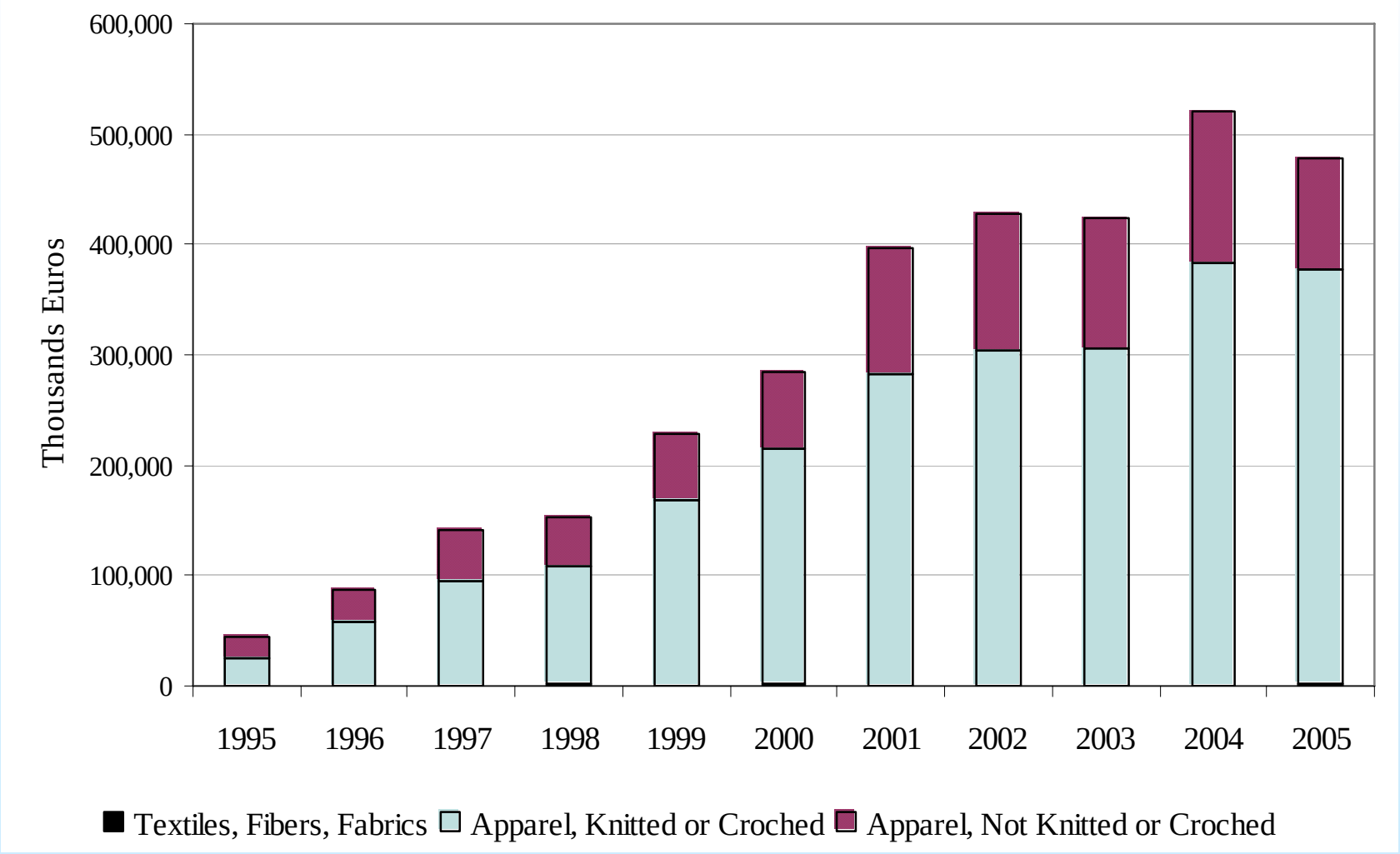
Growing Competition in Textiles and Garments

U.S. Imports of Textiles and Garments from Cambodia



Growing Competition in Textiles and Garments

EU Imports of Textiles and Garments from Cambodia

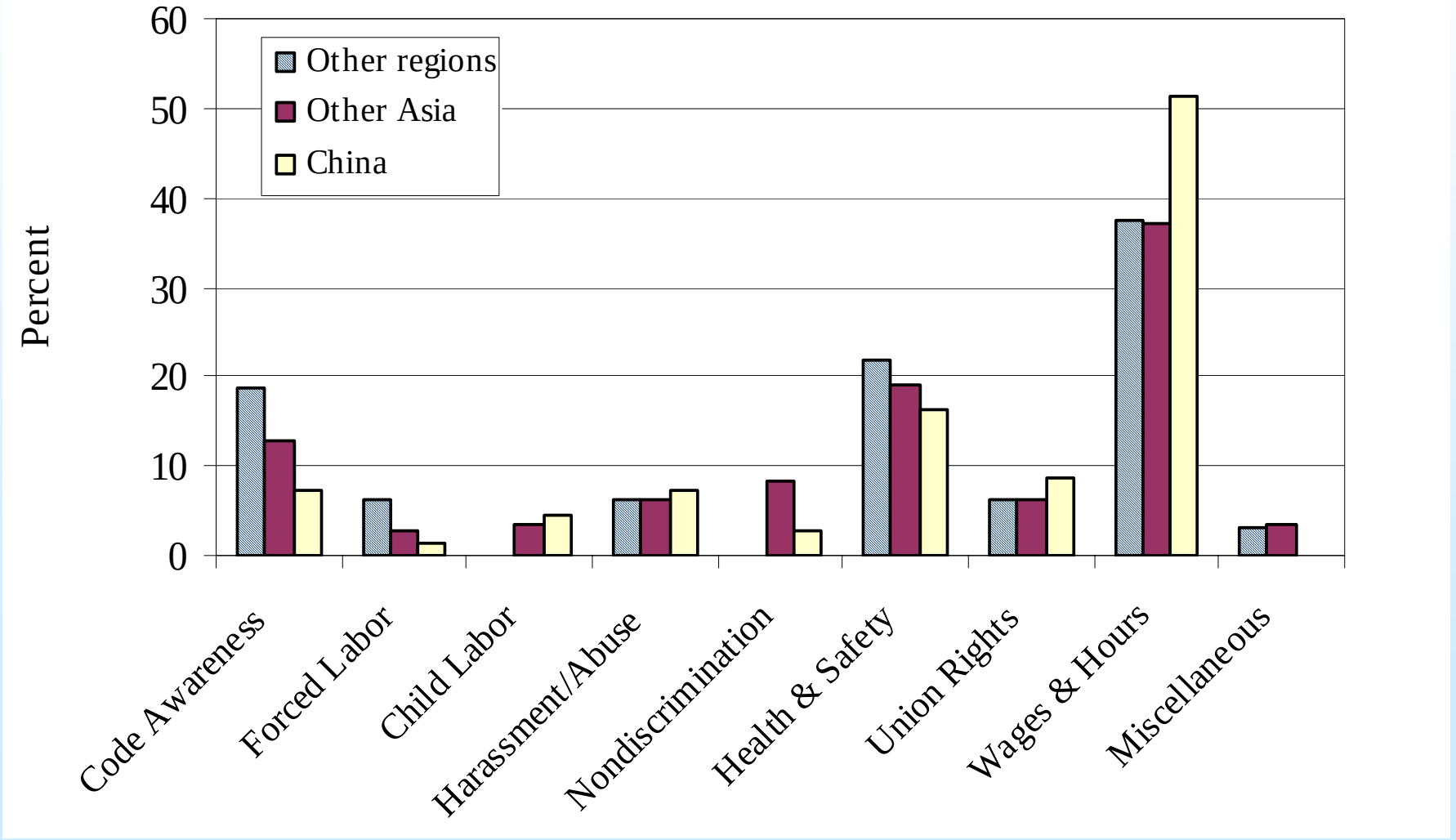


Growing Competition in Textiles and Garments

- China's low production costs result from a combination of factors.
- Factors that determine competitiveness in textiles and garments (i.e. on what basis do buyers choose which country to buy from and where firms will invest):
  - labour costs, infrastructure, access to raw materials/inputs, ease of entry and operations, political stability, minimal corruption
- Important contributor to China's low labour costs is unusually poor compliance with international labour standards and its own labour laws.
  - China has a worse track record on wage and hour violations than most other Asian countries and other regions, as indicated by the observance of labour standards generated through visits to garment factories of the non-governmental Fair labour Association (FLA)

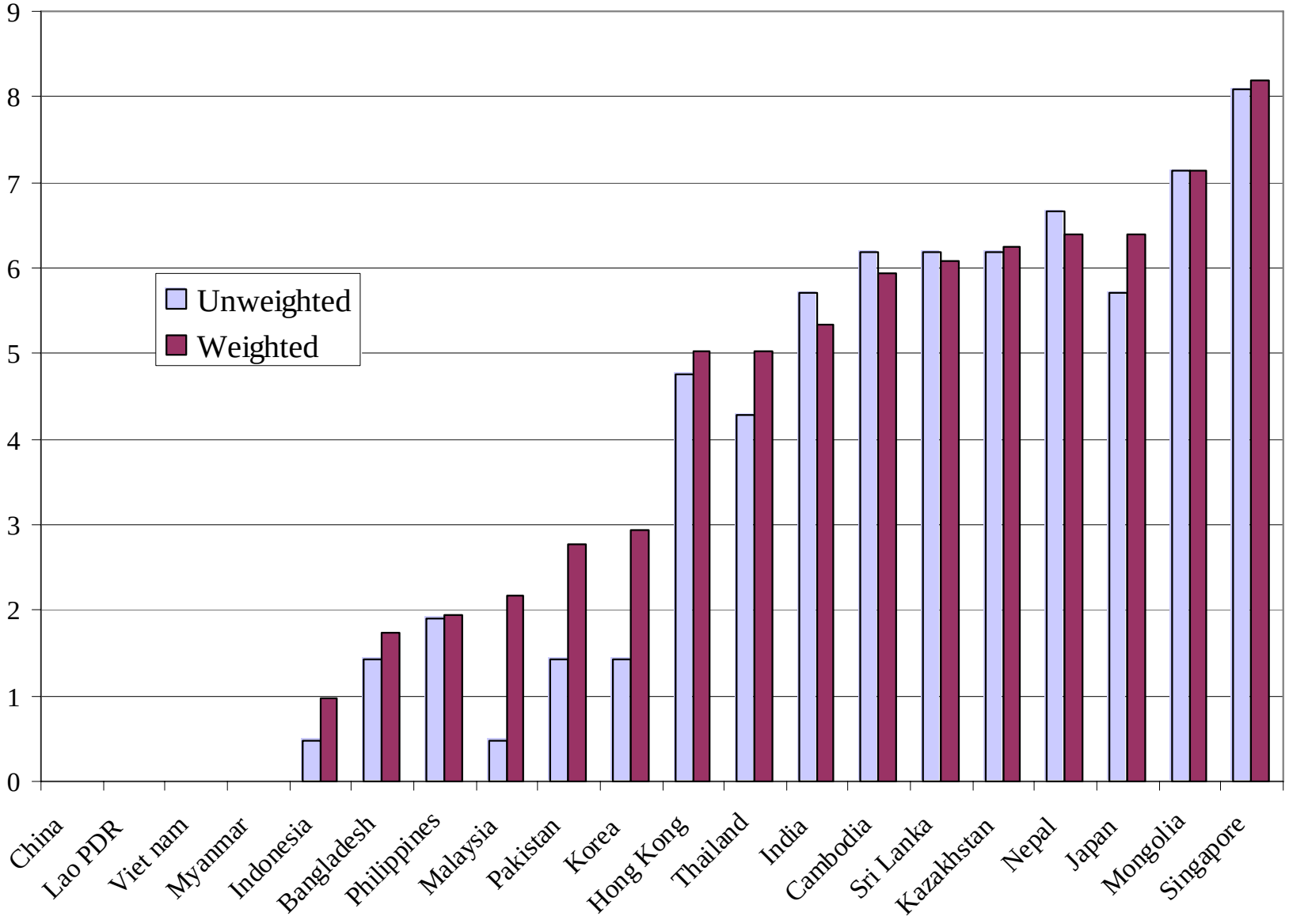
Growing Competition in Textiles and Garments

Workplace Code of Conduct Violations in Garment Factories Monitored by the Fair labour Association, 2003



Growing Competition in Textiles and Garments

Kucera Indicator of Trade Union Rights for Asia, Mid-1990s



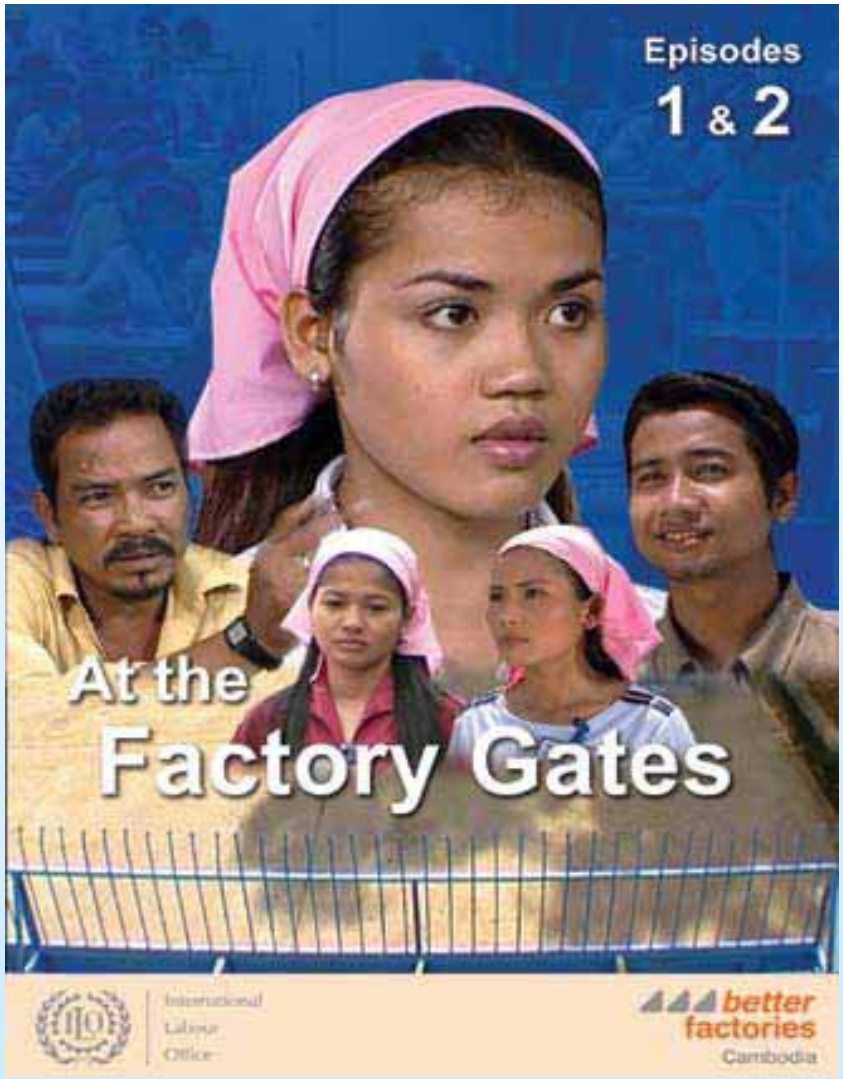
Impact of Better Factories Cambodia

Factories in Compliance with Selected Standards

	# of Factories	*Percent of Factories*
Correct OT Wage for Regular Workers	201	95%
Correct OT Wage for Piece-Rate Workers	197	93%
Correct OT Wage for Casual Workers	197	93%
Minimum Wage for Regular Workers	197	93%
Minimum Wage for Piece-Rate Workers	195	92%
Minimum Wage for Casual Workers	157	74%
18 Days of Annual Leave	142	67%
Payment for Maternity Leave	138	65%
Voluntary Overtime	104	49%
Paid Sick Leave	87	41%
Provide Personal Protective Equipment	72	34%
Install Needle Guards on Sewing Machines	59	28%
Overtime Limited to 2 Hours per day	51	24%
Exceptional Overtime	25	12%

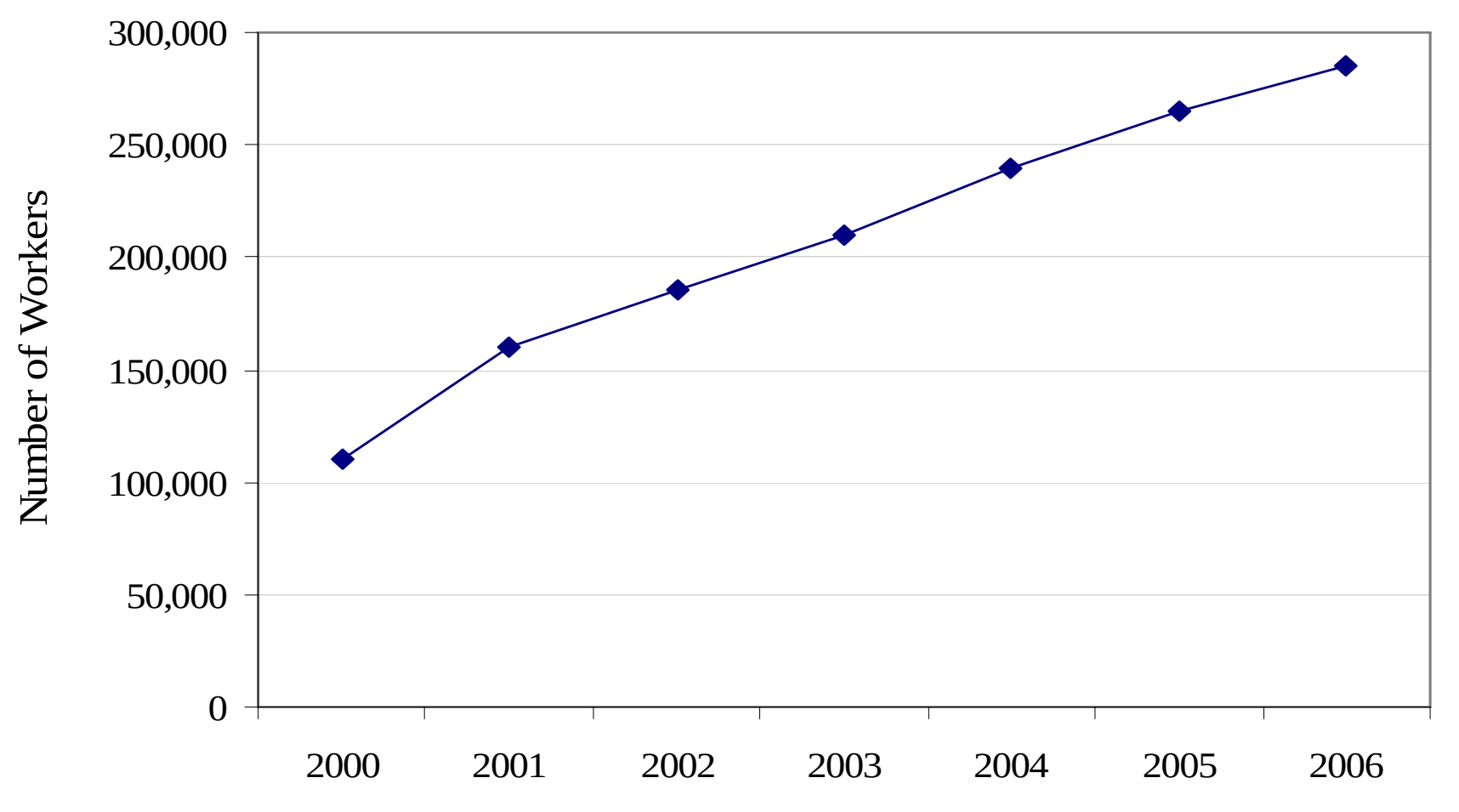
Impact of Better Factories Cambodia

Promotional Image for Soap Opera Educating About Worker Rights



Impact of Better Factories Cambodia

Garment Industry Workforce



Conclusion and Policy Recommendations

1. China dominates in textiles and garments, poor compliance with labour standards an important factor
   - Female workers stand to lose as firms make decisions about how to adjust to the new post-MFA trade rules
2. Cambodia has maintained, even improved, its U.S. market share with success of the “Better Factories Cambodia” program; not the case in EU
3. Cambodian case consistent with value consumers place on “sweat-free” goods and codes of conducts
   - Attract capital that values compliance.
4. Importance of monitoring by an independent, reputable organization (ILO)
   - voluntary self-regulation by corporations not sufficient

Conclusion and Policy Recommendations

5. Policy recommendations consistent with the High Road
   a) Improve health and safety standards so employers rather than workers bear more of the cost
      - Better access to affordable health care services
      - Adequate access to clean drinking water and sanitation for workers and their families
      - Medical coverage for injuries that occur in the workplace
      - Social security tax on employers to fund a stronger social safety net (Cambodia is 1 of 10 countries in the world that does not levy a social security tax).
   b) Improve labour productivity by strengthening training opportunities, professional development, production controls and engineering, and organization of work
      - Train local workforce in middle management (e.g. line supervisors, industrial engineers
      - Train machine operators and mechanics in methods that reduce costs
      - Diversify into broader range of higher value-added garments

Conclusion and Policy Recommendations

5. Policy recommendations consistent with the High Road
   c) Achieve greater gender equality in literacy rates and at education levels beyond primary school so women have access to same range of occupations as men across sectors
      - Includes greater access to vocational education, firm-specific training, and new programs for accreditation for workers' skills
   d) Child labor appears to have been eliminated in textiles and garments, but still an issue in other sectors. Improve quality of educational system and offer financial incentives for poor families to send children to school.
      - World Bank study shows positive effects in Cambodia of a scholarship program for girls transitioning from primary to secondary school.
   e) Engage in gender-sensitive reforms of the Labour Code
      - Ensure participation of women's groups
      - Improved enforcement of standards that improve women's work environment (esp. eliminate abuse and harassment)

Conclusion and Policy Recommendations

5. Policy recommendations consistent with the High Road
   - f) Administrative red tape and corruption approximated by USAID at 7% of the total value of sales. Reducing these costs improves competitiveness in world market.
   - g) Improved social safety nets in rural sector will lessen reliance on remittances and ease pressure on female workers. Women factory workers remit high shares of their incomes back to families in rural sector (supporting about 20% of Cambodia's population.
   - h) More public provision of day-care services for very young children and after-school services for school-age children.
   - i) Fill data gaps, especially in labor market indicators.
     - Better Factories Cambodia data is a step in right direction, but published reports very difficult to use for data analysis.