Policy Report

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FOREIGN POLICY IN FOCUS

Linking Textiles to Labor Standards: Prospects for Cambodia and Vietnam

By Andrew Wells-Dang

OVERVIEW

Efforts to craft effective vehicles to link trade and labor rights continue to be a major goal for fair trade advocates and members of the global justice movement. Much of this debate has focused on the issue of a social clause in the World Trade Organization (WTO) and the appropriate use of sanctions as a policy tool to advance labor rights. Alongside this debate, a different approach linking trade and labor rights has emerged in the context of the textile trade between the U.S. and Cambodia. The first trade agreement of its kind, the 1999 U.S.-Cambodian textile compact links increases in garment export quotas to improvements in labor conditions. Labor provisions similar to those in the Cambodian textile agreement, but applying to all sectors of the economy, also make up part of the U.S.-Jordan Free Trade Agreement, signed in 2001. Senate Finance Committee leaders Max Baucus (D-MT) and Charles Grassley (R-IA), despite their different political views, see both the Jordan and Cambodia agreements as setting a precedent for future negotiations.

This policy report focuses on the cases of Cambodia and Vietnam, two countries with clear historical reasons for wanting trade and improved relations with America. In the quarter century since the end of the Vietnam War, normalization of relations with both countries has come gradually. Since Cambodia was granted Normal Trade Relations (NTR) in 1996, however, its total exports to the U.S. have skyrocketed from $3.7 million in 1996 to $300 million in 1998 to nearly $1 billion in 2001. Clothing constitutes over 95% of this total.

After years of delay, Vietnam's bilateral trade agreement (BTA) with the U.S. was signed in 2000 and ratified in the fall of 2001. As part of the debate over NTR for Vietnam, several members of Congress conditioned their approval on the approval of a textile agreement along similar lines with Cambodia's. Preliminary negotiations between Washington and Hanoi have already begun in what is bound to be a contentious process on both sides. In light of the Cambodian experience, American and Vietnamese officials need to consider a number of complex policy issues as they work toward an agreement.

In the U.S., responses to the Cambodian textile agreement have been generally positive across partisan lines. Labor activists, while continuing to criticize working conditions and legal abuses in Cambodia, agree that labor standards are improving. Free traders, while opposed to quotas and other trade barriers, have also responded favorably to the agreement's use of incentives for good behavior, rather than sanctions for noncompliance.

Textiles are not included in general trade agreements due to the provisions of the Multi-Fiber Agreement (MFA) and the WTO Agreement on Textiles and Clothing (ATC). The MFA, which dates from 1975, assigns quotas as a means to limit textile imports to America. It is due to MFA quotas that clothing sold in U.S. stores often comes from unlikely locations such as Nicaragua, Bangladesh, or Mauritius—as well as Cambodia. Quotas may benefit some small country producers that might otherwise have difficulty selling to the U.S., but in general, the MFA is a prime example of how the U.S. has sought to protect key domestic industries while preaching free trade for others. In the words of a recent Oxfam report, "from its inception, the MFA has been a clear departure from the principles underpinning the entire multilateral trading system." Few other industries have such obvious double standards.

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Not surprisingly, developing countries have sought the elimination of the MFA since it began. With the establishment of the WTO in 1995, the MFA became the ATC, a binding commitment for all WTO member countries to phase out all garment quotas by 2005. When a country joins the WTO, any bilateral textile agreements become invalid, along with labor or other "nontrade" provisions. In theory, removal of garment quotas through the ATC should benefit U.S. consumers, who should see lower prices, as well as the most competitive foreign producers, who should be able to export more of their products to America. In practice, many small producers may be unable to compete with larger competitors, which could result in a greater concentration of garment production in the lowest-cost economies.

Cambodia and Vietnam are not yet members of the WTO, and hence are not bound by the ATC. Together with some 30 other developing countries, however, they do have observer status at the WTO, with a commitment to begin accession procedures within five years. At an April 2001 meeting with Southeast Asian economics ministers in Bangkok, U.S. Trade Representative (USTR) Robert Zoellick said the U.S. supported Cambodia, Vietnam, and Laos joining the WTO. Negotiations for WTO accession are typically a long and complex process, however, and Cambodia and Laos in particular are perceived to be far from meeting the organization's requirements.

The Debate over Labor Standards in Cambodia

On December 31, 2001, U.S. Ambassador Kent Wiedemann and Cambodian Commerce Minister Cham Prasidh signed a three-year extension of the U.S.-Cambodian Bilateral Textile Agreement. Cambodia had demanded a 28% quota increase, but settled for 15%: a 6% normal yearly increase plus an additional 9% in return for improvements in labor standards. After internal debate, Robert Zoellick certified that Cambodia has demonstrated "substantial compliance" both with its own labor law and with internationally recognized "core labor standards," in particular International Labor Organization (ILO) conventions including those on freedom of association, child labor, forced labor, and workplace discrimination. Zoellick concluded that Cambodia has seen "positive links between trade, economic growth, and labor standards."

After the first review of the textile agreement in December 1999, Cambodia entered into an agreement with the ILO to set up an external monitoring program comprising representatives from the ILO, the Cambodian government, and the Garment Manufacturers' Association. The program's $2 million budget is being largely financed through U.S. government assistance. Although some labor activists criticize the inspection teams for not being strict enough, most observers agree that monitoring creates pressure to comply with Cambodia's own laws and greatly limits the extent of violations in the garment industry.

A November 2001 ILO report based on data from a baseline survey of 30 factories (out of approximately 300 in Cambodia) showed "no evidence of child labor, forced labor, or sexual harassment," but it did find "some problems" with forced overtime and antiunion discrimination. An April 2002 report on an additional 34 factories presented a similarly mixed picture. On the positive side, Cambodia has ratified all core ILO conventions, implemented a progressive, though imperfect, labor code, and provided for the registration of independent unions.

Enforcement of these regulations continues to be constrained, however, by corruption, a lack of resources, and a weak judicial system. Policy change is a difficult enough task, but effective implementation and monitoring to ensure compliance with these policies is an even greater challenge. Part of the difficulty lies in the uneven nature of the ILO inspection regime, which does not differentiate between factories producing for the U.S. market and those that trade with other destinations. There is no way for an outside observer to know which factories are relatively more compliant than others. Nor is there any direct connection between factory compliance and allocation of quota increases, which is done by a Cambodian government panel with no outside involvement.

Proponents of the bilateral textile agreement overstate their case when they attempt to give the accord primary credit for Cambodia's rapid export growth. For instance, Zoellick stated in a January 2002 press release that "our Bilateral Textile Agreement [with Cambodia] is an excellent example of the way trade agreements lead to economic growth and promote a greater respect for workers' rights." USTR cites studies by the World Bank and Brookings Institution claiming that free trade and open markets form "the most reliable way to improve the condition of third-world workers."

Given that the textile agreement is based on the protectionist MFA, such claims are a little difficult to take seriously. Cambodia has certainly benefited from increased trade with the U.S., but it is disingenuous to give the textile agreement credit for this growth, which was well underway before the agreement entered into force. One trade lobbyist who works for textile importers notes that two-thirds of the specific clothing items that the U.S. imports from Cambodia, such as nightwear and women's dresses, are not covered by quotas at all. Without quotas on other items such as shirts, trousers, and sweaters, Cambodia might be able to export even more. At best, the argument can be made that the quotas contained in the textile agreement have not impeded Cambodia's trading relations with America.

Do the labor restrictions in the textile agreement affect Cambodia's competitiveness? With little market share in the coming post-MFA trading system, smaller countries risk becoming trapped in what many global justice advocates term a "race to the bottom." As long as the market is determined by quotas, these critics argue, countries with higher standards are at no disadvantage. But in a free market, and with labor expenses forming a large percentage of the cost of production in this sector, countries with the lowest wages and weakest labor and environmental standards are likely to outcompete countries with stricter regulations and more rigorous enforcement.

As Gary Burtless points out in the Fall 2001 Brookings Review, providing for many of the most basic labor rights—freedom from child labor, forced labor, or workplace discrimination—costs virtually nothing. But Burtless claims that other key rights, such as environmental protections, workplace safety requirements, or wage floors, come at "a real efficiency cost." Even here, however, it is difficult to see how unlocking doors and providing fire extinguishers will cut too deeply into a factory's profit margin. There might even be positive externalities to higher standards, as a World Bank study argues: "Adherence to core labor standards promotes effective labor market institutions that can contribute to economic growth and reduce workplace risks faced by the poor."

Wages in Cambodia's factories remain quite low by international standards. Garment workers earn between $45 (the minimum wage, raised from $40 in 2000) and $100 per month. Even at minimum wage, however, workers earn substantially more than Cambodia's per capita income of $350 annually. A Cambodian woman quoted by Oxfam International captures the ambivalence many workers feel: "In the countryside, we have more freedom, but no money. In the factory we have no freedom, but we have money to support our families."

When assessing a country's competitiveness in international markets, however, wages are only one of many components to consider. Oxfam cites a survey of textile manufacturers in Hong Kong that concludes that labor costs are the fourth main factor of competitiveness, behind political stability, transportation, and communications. Since wages make up only a small portion of the price of a finished good, a small increase in labor costs has only a marginal effect on total costs.

As a result, Cambodia's garment sector remains competitive by any global measure. When the MFA is abolished in 2005, Cambodian exports will face increased competition from larger producers, but improvements in labor conditions need not have any adverse effects on productivity, competitiveness, or export growth.

Although the race-to-the-bottom argument may hold some water in terms of companies moving to low-cost production sites, it does not necessarily apply to core labor rights. The growth of the anti-sweatshop movement in Western countries has shown that consumers prefer, when given the choice, to purchase clothes made in conditions where basic labor rights are protected. And U.S. corporations are beginning to listen. The negative publicity accorded to name brands who have violated these standards has prompted voluntary compacts to uphold basic rights and obtain SA 8000 quality certification. Pressure from labor rights groups and anti-sweatshop groups might even keep some producers in Cambodia who would otherwise go elsewhere.

Of course, just because Cambodia is currently competitive in textiles does not necessarily mean that it will remain so. From a broader economic development standpoint, Cambodia and other clothing exporters may need to diversify their economic bases to include industries with higher value-added components. In any case, it is generally unwise to depend too heavily on earnings from just one sector. In this respect, Cambodia's larger neighbor Vietnam is in a somewhat better position, though its nonclothing exports still consist largely of primary commodities and natural resources with unstable prices on the world market.

The Politics of Textiles and Labor in Vietnam

What is the likely outcome as Congress and the executive branch consider a textile agreement for Vietnam along Cambodian lines? The potential economic benefits to Vietnam are beyond dispute. Before the BTA was passed, Vietnam exported only $47 million worth of textiles to the U.S. in 2001 and faced tariff rates ranging from 48-90%. With NTR garment tariffs averaging closer to 10-12%, trade analysts estimate overall Vietnamese exports to the U.S. will double within one or two years. Vietnam's Ministry of Industry hopes to export as much as $400 million in garments to the U.S. in 2002.

A textile agreement has yet to be formally negotiated or signed, but the main components of it are already known to both sides, a product of the long delays in approval and implementation of the U.S.-Vietnam BTA. Unlike NTR, a textile agreement does not require congressional approval; the USTR has standing authority to negotiate such agreements, but Congress can play a significant role in shaping their contents.

On the pro-agreement side are long-time congressional supporters of normalization with Vietnam (notably Senators John Kerry (D-MA) and John McCain (R-AZ)), the Bush administration, and Vietnam's ministries of Foreign Affairs, Trade, and Planning & Investment. Some congressional Democrats who opposed the BTA, such as Senator Russell Feingold (D-WI), might look more favorably on a textile agreement that includes labor incentives. Vietnam may also become a test case or carrot to attract support for other items in President Bush's trade agenda.

Opponents of a textile accord with labor provisions include certain critics of human rights in Vietnam, the Vietnamese Communist Party-sponsored trade union, and both Vietnam's Ministry of Labor, Invalids and Social Affairs (MOLISA), and its Ministry of Public Security. Many U.S. corporations are also opposed. In March 2001 testimony before the Senate, U.S. Chamber of Commerce President Thomas Donohue used economic-nationalist arguments: "Handing foreign governments the means to sanction U.S. companies under the guise of labor or environmental concerns will prove disastrous to American interests." Donohue emphasized that U.S. business should support trade agreements only if they do not include "blue/green" linkages. Indeed, according to one source, Western companies pressured the Vietnamese government to weaken the power of trade unions, which had began to criticize labor practices in foreign-owned garment and shoe factories.

It is interesting to note how hard-liners on both sides often end up taking similar positions, as if Leninist party bureaucrats and their most strident U.S. opponents were actually working together. Conservative nationalists in Hanoi will view U.S. demands for labor standards both as an encroachment on Vietnam's sovereignty and as hypocritical given the past U.S. role in Vietnam. The fact that labor provisions apply specifically to the garment sector may also raise fears of trade wars and protectionism.

Questions of nationalistic principle aside, Vietnam should have little to fear from the labor-related incentives that might be included in a textile agreement. Though less open than Cambodia in terms of freedom of association, labor conditions in Vietnam are arguably no worse overall. Vietnam's unions are centralized under the Vietnam General Confederation of Labor (VGCL). The VGCL is viewed by labor experts as well-intentioned but ineffective, at best, although less restrictive in practice than the similarly structured labor regime in China. Strikes are permitted, in theory, and unions are given some freedom to organize, particularly in foreign-owned enterprises. Vietnam has ratified three of the eight core ILO conventions to date (on child labor, nondiscrimination, and equal pay for equal work), and it reportedly has plans to ratify others over the next several years. (The U.S. has only ratified two—on child labor and forced labor.)

Up to now, the Vietnamese government has resisted negotiation of a textile agreement, with or without a labor clause. Exporters would understandably prefer to operate without any quota restrictions. Unlike Cambodia, which may have benefited from quota allotments as it started up its garment industry, Vietnam's export sector is already well-established. In the absence of a textile agreement, however, exports could still be subject to unilateral quota restrictions, which the Vietnamese would prefer to avoid. In the longer view, Vietnam also needs American support to join the WTO and take advantage of the more open ATC rules beginning in 2005.

Despite this mixed picture, Vietnam's record of pragmatism in economic policy matters suggests that the government will accept a textile agreement as an intermediate step toward WTO membership. It is difficult to imagine the ILO taking the same sort of active role in Vietnam that it has in Cambodia, however, and decisions about compliance or noncompliance with labor standards will not be easy.

The best possible solution to the dilemma of bilateral agreements would be an international accord on labor standards that applies to all U.S. trading partners and all sectors of the economy equally, rather than individual pacts that must be negotiated separately. But such a common standard is still a long way off. In the meantime, Vietnam and the U.S. both stand to benefit from a textile agreement, with or without labor conditions. Given the inherent inequalities and political obstacles in trade negotiations, both sides may have to settle for second- or third-best choices. With patience and a little luck, a compromise should be possible in the short term, though much work still lies ahead.

Sources for More Information

Organizations

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U.S. Trade Representative press release (January 2002)
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Citizen movements organizing across national borders are increasingly a key factor in reshaping global affairs policy at both the national and international levels. To further its own mission to reform U.S. foreign policy—"making it a more responsible global partner and global leader"—Foreign Policy In Focus (FPIF) is committed to strengthening and advancing citizen movements concerned with global affairs. As part of that effort, we are drafting profiles of many of the most prominent citizen-based global affairs agendas.

Protecting Labor Standards in the Global Economy

Investment and trade flows—facilitated by new international agreements and advances in communications technology—are increasingly integrating the world into a global economy. In the absence of enforceable international labor standards, this economic integration has weakened unions and created a downward pressure on wages. An array of citizen movements is organizing to ensure that basic labor rights and standards are integrated into new trade/investment agreements and into the rules of the World Trade Organization (WTO). As set forth by the International Labor Organization (ILO) and written into the national laws of most developed nations, the core labor standards are freedom of association, collective bargaining rights, no forced labor, prohibition of child labor, and no discrimination. In their campaigns for "fair trade," many citizen and union activists advocate that these core standards become part of enforceable social clauses written into trade/investment agreements—violations of which would result in economic consequences for both governments and corporations. Other citizen groups argue that that the WTO should be abolished, not reformed, and that the incorporation of labor standards through social clauses will serve to strengthen corporate-driven globalization while doing little to protect labor. Another faction of activists argue, along with most developing country governments, that social clauses in trade/investment agreements will primarily serve the interests of wealthy countries that already have these standards in place. Citizen groups and unions concerned with advancing global labor standards have been largely responsible for raising international awareness about the downside and corporate-driven character of economic globalization. Related citizen movements advocate corporate codes of conduct, independent monitoring of working conditions, and a "living" minimum wage for all workers who produce goods for the international market.

—FPIF Editors

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