Westsächsische Hochschule Zwickau
University of Applied Sciences

Languages and Business Administration
mit dem Schwerpunkt frankophoner Kulturraum

BACHELORARBEIT

Fair Trade and Least Developed Countries: The Case of Cambodia.
Can Cambodia Use Fair Trade as a Market Niche to Get Global Market Access?

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Abgabedatum: 05.06.2013

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1 Introduction

"In a country well governed, poverty is something to be ashamed of. In a country badly governed, wealth is something to be ashamed of."
(Confucius)

In economic terms, poverty is when a family's income fails to meet a federally established threshold that differs across countries. Typically it is measured with respect to families and not the individual, and is adjusted for the number of persons in a family. Economists often seek to identify the families whose economic position falls below some minimally acceptance level (Smelser/ Baltes 2001). Similarly, the United Nations' definition of extreme poverty is set to the possession of less than 1 USD a day.

For many, Fair Trade seems to be an equitable alternative to current economic patterns in order to reduce poverty in countries that are most affected by the negative impacts of poverty. In recent times Fair Trade has become increasingly important for least developed countries such as Cambodia. Once regarded as only an ethical movement, Fair Trade has become a tool for helping poorer countries, such to get global market access. While in many countries, the garment industry is just one of many industries, in Cambodia it is the main one even if Cambodia is only involved in the actual manufacturing process of garments. This thesis focuses on the conditions under which garments are being produced in Cambodia.

In order to establish to what extent Fair Trade takes place in Cambodia, it is necessary to define what Fair Trade is and how it works by defining Fair Trade principles as well as its strategy. Chapter two will further give an insight of how Fair Trade developed over the years; starting from a simple ethical movement up to a whole new industry.

Fair working conditions and international labour rights are only one part of the Fair Trade concept, but equally important to the vision of Fair Trade. That is why chapter three will focus on Fair Trade and International Labour Standards by evaluating the benefits of international labour conventions and recommendations.

Cambodia is one of the poorest countries in the world. Chapter four starts by analyzing Cambodia's economic environment including its main economic developments, its development in trade and foreign direct investment as well as its trading relations with other countries and organizations. As Cambodia is only involved in the manufacturing process of garments, this chapter mainly focuses on Cambodia's manufacturing sector. It is further evaluated how labour standards in the garment industry help in creating a niche market for Cambodia and to which extent fair labour principles can be used to get global market access.

2 What Fair Trade Is and How It Works

According to the United Nations, 1.4 billion people earn an income below the international poverty line of EUR 0,90 Euros (USD 1.24) per day. Oxfam further mentions that nations, which are rich or have middle income benefit from 97 per cent of the income that international trade generates. Recently, awareness among Northern buyers has increased tremendously resulting in the exponential growth of sales of Fair Trade products. Simultaneously, the number of producers becoming members of the World Trade Organization has grown as well. In the economic literature the Fair Trade model is assumed to be more equitable and seen as an alternative to current patterns of economic activity (Barratt Brown 1993; Nicholls/Opal 2005; Ransom 2001; Raynolds et al. 2007, pp. 33-48). In many ways Fair Trade can be described as a good example of "how the economy can be based upon solidarity and sustainability" (Ims/ Jakobsen 2006, pp. 19-32).This chapter focuses on defining what Fair Trade is and how it works by evaluating its principles and strategy, while giving insight to its market characteristics and structure.

2.1 Fair Trade Definition

There are many definitions of Fair Trade in the economic literature. VanderHoff Boersma[1] defines Fair Trade as a form of relief work and gives four basic rules of Fair Trade: 1) effectiveness in regard of quality, production and marketing, 2) ecological sustainability such as the protection of biodiversity and the non-contamination of ground water, 3) social sustainability with increasing democratic and social control, and 4) the establishment of a producer-consumer relationship (VanderHoff Boersma 2009, p.57) Additionally he sees Fair Trade as a niche market within the larger capitalist market with "ethical products" rather than a transitional market (VanderHoff Boersma, p. 54).

Furthermore Le Velly distinguishes between two main characteristics of Fair Trade. Firstly he defines Fair Trade as niche commerce where buyers are typically well informed over the origins and the production process of the "fair" products. Secondly Fair

[1]Francisco VanderHoff Boersma, a Roman Catholic Priest, was born in Holland and worked as a small coffee farmer. He is a co-founder of Fair Trade "Max Havelaar" (Holland) and of the small farmer co-operative UCIRI (Unión de Communida des Indígenas de la Región del Istmo).

Trade products that can be sold at a higher price compared to conventional products regardless of their quality. According to Lemaigre and Verbeeren Fair Trade poses itself as an alternative to the traditional trade system which it denounces as inequitable (Lemaigre/ Verbeeren 1997 in Bowen 2001, p. 25). In addition to being an alternative system of trade, Fair Trade also acts as "a new form of commerce with the specific aim of reserving a just price for producers (Low/Davenport 2005, pp. 143-153).

The most common definition of Fair Trade is given by FINE[2] describes Fair Trade as "a trading partnership, based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practices of conventional trade" (FINE 2001). From this definition the following goals of Fair Trade can be deduced:

1) To improve the livelihoods and well-being of producers by improving market access, strengthening producer organizations, paying a better price and providing continuity in the trading relationship.
2) To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
3) To raise awareness among consumers of negative effects on producers of international trade so that they exercise their purchasing power positively.
4) To set an example of partnership in trade through dialogue, transparency and respect.
5) To campaign for changes in the rules and practice of conventional international trade.
6) To protect human rights by promoting social justice, sound environmental practices and economic security (Redfern/ Snedker 2002, p. 11).

One of the reasons Southern producers are attracted to the Fair Trade model seems to be the payment of a "fair" price, which is a fundamental element of Fair Trade. Littrell and Dickson (1997) note that the financial return to artisan producers averages 40 per cent of the retail prices as compared to 10 per cent from mainstream retailers. (ibid. 1998, p.177) Raynolds contemplates that "Fair Trade prices thus follow market trends, but they are consistently higher and fairer. What most reflects alternative norms of fairness is that these prices are guaranteed" (Raynolds 2002, pp. 416-417). In order to avoid price fluctuation buyers are inclined to pay a premium that passes directly to the producer or a social premium that benefits the community. Within the Fair Trade movement, however,

[2] FINE is an association of the main four Fair Trade networks (FLO, WFTO, NEWS! and EFTA).

there are many different opinions of what a fair price should be, making it difficult to define a common ground of fair pricing.

Fair Trade further emphasizes on direct relationships between buyers and producer organizations, which also provides pre-financing to producers as part of a stable long-term relationship. Kocken for example argues that for many producer organizations the payment of a fair price is less important than the long-term relationship, the advance payment and the certainty of the price once fixed. Such a fixed and "fair" price could turn into the disadvantage of producing dependency, whereas one goal of Fair Trade is to enable producers to "become sustainable businesses in the local, regional and international market places" (Littrell/ Dickson 1997, p.181).

In addition to being paid a "fair" price, Southern producers are also provided with information on design, rules and regulations, and price policy (Oxford Policy Management 2000, p.10). However, they must provide safe and healthy working conditions and other social benefits to their workers in return.

The definition of the characteristics of Fair Trade leads to some foundational issues, such as the challenge to differentiate "Fair Trade" from international and "free" trade. In order to give an accurate definition of Fair Trade, it is necessary to differentiate it from other known trading forms. The definitions given by the Fair Trade movement, position Fair Trade between free trade and protectionism. In the economic literature comparisons between fair and free trade are also often drawn and Fair Trade is often characterized as "a "third way" between free trade and protectionism. On the other hand protectionism is defined as Fair Trade in reference to "calls of protectionist measures by developed countries against products that have been produced in poorer countries at prices developed countries cannot compete with because of their different economic circumstances" (Maseland/ De Vaal 2002, p.252). Subsequently, developed countries demand from developing countries compliance with environmental and labour by. Free traders, however, are viewing "many fair traders as charlatans (protectionists masquerading as moralists)" (Howse/ Trebilcock 1996, p.61). In contrast to other trading forms alternative trade refers to a form of commerce that "occurs on the margins of traditional commerce, taking on the characteristics of benevolent commerce" (Gendron 2009, p.67). It seems, however, that under certain conditions, both free trade and protectionism are more efficient than Fair Trade and direct donation is also declared to be better working than Fair Trade.

In general Fair Trade can be seen as a practical and campaigning response to the perceived and observed injustices of the capitalist system (Moore 2004, pp.73-86). The lack of consistent data for Fair Trade as well as the absence of a comprehensive database makes it hard to give a common definition and set associated standards for Fair Trade, which makes an analysis of that topic rather difficult.

2.1.1 Fair Trade Principles

"The moral obligation to act in this fair trade manner stems from an idea of justice that lies underneath the fair trade concept. That concept of justice emphasizes many of the principles on which Fair Trade is based on." (Maseland/ De Vaal 2002, p.253)

The FLO defines several criteria for Fair Trade principles regarding producers and buyers, where producers for example are obliged to function either in co-operative form or in another form of participatory and democratically structured organization. In addition they must pay decent salaries to their workers, guarantee the right of workers to unionize, and offer adequate lodging if possible. They are further bound to respect health, safety and environmental standards, and any use of forced labour, child labour in particular, is strictly forbidden (FLO 2004). On the other hand, buyers provide direct access to producers' products by avoiding middlemen and speculators (Bowen 2001, p. 25). They are further inclined to pay a fair price for the product that cover not only the basics needs of producers including their production costs, but also leaves a margin for investment. Buyers are inclined to pay part of the price (40-45 per cent) in advance; producers can purchase the necessary raw materials, which are necessary for completing an order without falling into debt.

One of the main Fair Trade principles is the establishment of long-term working relationships between buyers and producers. Other goals are the diversification of production, the respect of the conventions of the International Labor Organization, the security of local food as well as the balance between local and export market access (Bowen 2001, pp. 29-30).

2.1.2 Fair Trade Strategy

The Fair Trade strategy aims to play a wider, more active role in the global arena in order to achieve greater equity in international trade (FINE cited in EFTA 2001). The most important part of the Fair Trade strategy, however, is the work with marginalized producers and workers in order to help them move from a position of vulnerability to one of security and economic self-sufficiency. The Fair Trade strategy further focuses on the empowerment of producers and workers as stakeholders in their own organizations.

Within the Fair Trade movement there are two distribution strategies for fair-traded products. One distribution strategy focuses on alternative commercialization, where shops are connected to central merchandizing networks or Fair Trade Organizations. That strategy, however, applies mostly to crafts products. The other distribution strategy works within the market rather than creating a new market. By using a conventional way of distribution the Fair Trade movement is able to reach a larger market for selling its products. These two different distribution strategies reflect the two different visions that exist within the Fair Trade movement.

2.2 History of Fair Trade

The first Fair Trade movement appeared in form of a co-operative movement in the late 19^{th} century in Italy and the UK, which aimed to develop a co-operative economy that is integrated from the production to the distribution of products (IFAT 2003). The Fair Trade movement, however, has its origin in some of the 20^{th} century's political movements of solidarity, which resulted from different local initiatives of alternative commerce. As a result, a different type of market emerged during the 1980s as an answer to the neo-liberal trade regime based on neo-liberal economic principles that highlight the benefits of free markets. Within free markets all costs (including social costs of production) must be calculated.

According to Tallontire four periods of development in the Fair Trade movement can be identified: 1) goodwill selling, 2) solidarity trade, 3) mutual beneficial trade, and 4) trading partnerships (Tallontire 2000, pp.167-169).

In the mid-1950s, the first movement of Fair Trade emerged in form of goodwill selling that lasted until the early 1970s. At the end of the 1960s developmental trade appeared when international agencies and organizations initiated "developmental trade", which consisted of assisting Southern producers in production and exportation by establishing the slogan “Trade, not Aid” (Kocken 2003). Moreover, solidarity trade emerged from the political movements of solidarity and imported products from politically or economically marginalized Southern countries in the 1960s and 1970s (Kocken 2003; Renard 2003). It was based on the commitment of activists who opposed capitalism and neo-liberalism by preaching alternative ways of life (Low/ Davenport, 2005; Renard 2003). Additionally, charity business as a form of the solidarity movement began after the Second World War with mainly religious organizations and non-governmental organizations financing their development projects through the sale of crafts products. Overall Le Velly describes these four different approaches of Fair Trade as the “trade of benevolence” demonstrating its multiple origins (Le Velly 2004, p.65).

Nowadays Fair Trade is part of a wide and complex ethical consumer movement that insists on socially and environmentally sustainable production processes (Low/ Davenport 2005, pp.143-153).

2.3 Fair Trade Market Characteristics

As there is no overarching trade body, it is difficult to quantify Fair Trade in terms of market size and market segmentation.

According to Redfern and Snedker (2002, p.22) the Fair Trade market reaches an estimated USD 500 million market value worldwide. The estimated annual aggregate net retail value of Fair Trade products sold in Europe through alternative channels and supermarkets exceeds EUR 260 million (EFTA 2001, p.14), subsequently leaving the Fair Trade retail value in the rest of the world excluding Europe to an estimated USD 240 million. Additionally, the Fair Trade Federation (2002) in North America assessed that the gross sales by Fair Trade Federation companies, combined with sales of certified Fair Trade coffee sold by conventional companies, neared USD 140 million in the United States and Canada in 2000, leaving a market of approximately USD 100 million in other developed countries such as Australia, New Zealand and Japan. Although these figures seem a bit optimistic overall, they do confirm the USD 500 million as a reasonable market volume throughout the world.

Moreover, the Fair Trade market can be segmented into labelled and non-labelled products. According to the FLO (FLO 2003) an estimated EUR 260 million of Fair Trade labelled products were sold to consumers in 17 countries in Europe, North America and Japan in 2002. Additionally the European Commission (1999) assessed that in the European Union food products represented around 60 per cent of retail turnover of which approximately 50 per cent was from coffee sales. Alternatively EFTA (2001, p.14) evaluates that of the EUR 260 million gained through fair traded products, approximately EUR 210 million or 80 per cent were food products in 2000.

The Fair Trade products worth around USD 500 million are mainly distributed through distribution channels, such as dedicated retail outlets, supermarkets or per mail order. In Europe fair-traded products are available in approximately 2700 "world shops" and around 43,000 supermarkets. In the United States and Canada, on the other hand, there exist at least 7000 retail outlets for Fair Trade products (Fair Trade Federation2002). From these distribution channels accounted mail order for less than 10 per cent in the past, but online retailing has affected this channel in recent years. Additionally there are other retail channels like solidarity groups, wholefood shops, and independent commercial stores (EFTA2001, p.14), which distribute fair-traded products.

On the whole there seem to be many benefits resulting from a fair market. Within such a fair market, consumers can support their values, which subsequently lead to positive effects on society that make it more just and sustainable (VanderHoff Boersma, p. 57). These positive effects of a fair market on society include the improvement of family incomes and the strengthening and diversification of local economies.

2.3.1 Industry Structure

In terms of industry structure, there several organizations framing the Fair Trade movement can be divided into four groups.

The first group of organizations includes producer organizations in Southern countries that provide the products sold in Northern countries. The second group consists of buyers' organizations in Northern countries, which act as importers, wholesalers and retailers of products bought from Southern producer organizations, commonly known as Alternative Trading Organizations (ATOs). The third group is composed of the following six organizations that simultaneously act as "umbrella bodies".

One of the most important "umbrella bodies", the World Fair Trade Organization (WFTO), formerly known as International Fair Trade Association (IFAT)**,** was founded in

1989 and functions as a worldwide membership organization uniting both producers and buyers. It further consists of approximately 450 members representing them in 75 countries across five regions (Africa, Asia, Europe, Latin America, North America and the Pacific) (WFTO 2012). The Fairtrade Labelling International Organization (FLO) is a worldwide Fair Trade standard setting and certification organization that was established in 1997. According to the FLO "it permits more than 800,000 producers and their dependents in more than 40 countries to benefit from their labelled Fairtrade" (FLO). Additionally it guarantees that Fairtrade-labelled products sold anywhere in the world are conform to Fair Trade standards. Consequently, the FLO introduced the first common label to be applied to all fair-traded products worldwide in 2002 (FLO, 2013). In addition to international organizations, there are also European Fair Trade Organizations. Since 1994 the Network of European Worldshops (NEWS!) has been working as the "umbrella body" for world shops that retail Fair Trade goods across Europe (EFTA 2001, p.10). Another European organization, the European Free Trade Association (EFTA) was founded in 1990 as an association of 12 importing organizations working in nine European countries (ibid. p.10). The only International Fair Trade network on the consumer side that is not based in Europe is the US-based Fair Trade Federation, which is an association of Fair Trade wholesalers, retailers and producers. Its official founding year is 1994 and at the beginning of 2008 it had a member base of approximately 300 organisations (EFTA 2007, p.27). It covers the U.S. and Canada by promoting products with the TransFair label. The sixth "umbrella body", Shared Interest was formed in 1990 specialises in Fair Trade financing for its 8,400 members (EFTA 2007, p. 29).

Lastly, there are several conventional organizations, usually supermarkets that engage somehow in Fair Trade. As of 2007 there have been over 112,439 across Europe, North America and the Pacific Rim that stock Fair Trade products (EFTA 2007, p.10). These conventional organizations have become more and more important in retailing Fair Trade products pushing them towards the mainstream. This trend is likely to increase as many supermarkets have already started selling their "own brand" fair-traded products, which they bought directly from producers without involving the ATOs as middlemen.

The creation of Fair Trade Networks, such as the WFTO, NEWS! and EFTA, helped the Fair Trade movement expanding and positioned it on the political scene.

2.3.2 Standards and Certification

The first idea of a Fair Trade label emerged in the 1980s as the idea of a "just and equitable" alternative to the conventional trade system emerged.

The two umbrella organizations, WFTO and FLO, act simultaneously as Fair Trade standard setting agencies by introducing several standards for its members. The WFTO has traditionally been working with craft producers, who sell their products through ATO channels. The recession in the 1980s reduced consumer buying power resulting in people becoming more demanding regarding the quality of the products they buy. Consequently marketing became unavoidable as Fair Trade products had to meet new international health and safety standards, calling for international standards and certification (Low/ Davenport 2005, pp. 143-153).

The emergence of a Fair Trade certification can be seen as a triple evolution with 1) the professionalization of world shops, 2) the arrival fair traded food products, and 3) the establishment of the Fair Trade label.

In 1988 the Max Havelaar association created a new labelling system with its labels *Max Havelaar* in covering the Netherlands, Belgium and Switzerland, *Fair Trade* acting in the United Kingdom, Ireland and Canada and *Transfair* working in Austria, Germany, Italy and Luxembourg. Additionally the establishment of the FLO in 1997 (fusion of seventeen certification organizations) further paved the way from alternative trade to fair trade. In 2004 the WFTO launched the "FTO Mark" – a label that IFAT members receive after a successful monitoring. It aims to reassure consumers about the commitment of these members towards Fair Trade (WFTO, 2004).The labelling of fair-traded products has allowed the Fair Trade movement to penetrate the market by using conventional distribution channels.

The responsibility for applying these standards, however, falls on importers buying the products from the original growers or producers. Fair Trade standards include to pay a minimum price for producers as well as a "Fair Trade premium" that is to be set annually. In addition a social premium must be paid, which will fund development projects. These advanced payments will finance and benefit small producers in particular. Other standards include long-term contracts with predefined minimal prices, producers participating in democratic cooperatives and the use of sustainable environmental practices by producers. All products purchased according to the above standards are called "Fair Trade products" and receive a Fair Trade Label (Hira/ Ferrie 2006, pp. 107-

118). According to Transfair the greater the volume of Fair Trade products, the more producers will be able to benefit from its advantageous conditions and broader client base (Transfair 2001). It seems that the cooperation between fair trade actors and traditional actors is a win-win situation for labeling organizations as their main focus lies on the quality and image of Fair Trade by trying to work “within the market instead of creating a new market” (Renard 2003, p. 90).

3 Fair Trade and International Labour Standards

As the compliance with International Labour Standards is a vital part of the Fair Trade concept, chapter three defines International Labour Standards and highlights the benefits of those standards for the international community and the importance for the Fair Trade movement.

3.1 International Labour Standards

"The rules of the global economy should be aimed at improving the rights, livelihoods, security, and opportunities of people, families and communities around the world."

(World Commission on the Social Dimension of Globalization, 2004)

International labour standards address to a growing number of needs and challenges faced by workers and employers in the global economy. Since 1919, the International Labour Organization (ILO) has preserved and developed a system of international labour standards which aim to promote opportunities for both women and men "to obtain decent and productive work, in conditions of freedom, equity, security and dignity" (ILO). Moreover, international labour standards have become more and more important in today's globalized economy for guaranteeing that the growth of the global economy benefits all players. Additionally, international labour standards are an essential component of the international framework for labour standards, which are set up by governments, employers and workers in cooperation with global experts in order to implement decent work in the globalized economy. As a result the world community developed legal instruments on trade, finance, environment, human rights and labour.

> *"They represent the international consensus on how a particular labour problem could be tackled at the global level and reflect knowledge and experience from all corners of the world. Governments, employers', and workers' organizations, international institutions, multinational companies and non-governmental organizations can benefit from this knowledge by incorporating the standards in their policies, operational objectives and day-to-day action"(ILO 2013).*

As international labour standards are legally binding, they can be used in the legal system and administration at the national and international level.

3.1.1 International Labour Conventions and Recommendations

With the ILO's Declaration of Philadelphia in 1944, the global community acknowledged that "labour is not a commodity" and must not be treated like an inanimate product that can be agreed on for the highest profit or the lowest price (ILO 2013).

Conventions and recommendations are set by representatives of governments, employers and workers and are adopted at the ILO's annual International Labour Conference. These international labour standards define the basic principles and rights at work and act as legal instruments at the same time. They can either be "conventions, which are legally binding international treaties that may be ratified by member states, or recommendations, which serve as non-binding guidelines" (ILO 2013). A convention often defines the basic principle that must be implemented by member countries, whereas a recommendation complements a convention "by providing more detailed guidelines on how it could be applied" (ILO 2013). After adopting a standard, member states are obliged under the ILO constitution to present them to their competent authority (normally the parliament) for consideration. A convention generally comes into force one year after the date of ratification. With the ratification, countries commit themselves to implement the convention into their national law and practice and report on its implementation at regular intervals.

According to the ILO's Declaration on Fundamental Principles and Rights at Work (1998) there are eight conventions, which can be defined as "fundamental" covering important principles and rights at work, such as freedom of association and the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. These basic labour market standards must be applied "regardless of a country's level of economic development" (ILO 2007b).

Declaration on Fundamental Conventions of the ILO:

- *Freedom of Association and Protection of the Right to Organise Convention, 1948 (No.87)*
- *Right to Organise and Collective Bargaining Convention, 1949 (No. 98)*
- *Forced Labour Convention, 1930 (No. 29)*
- *Abolition of Forced Labour Convention, 1957 (No. 105)*
- *Minimum Age Convention, 1973 (No. 138)*
- *Worst Forms of Child Labour Convention, 1999 (No. 182)*
- *Equal Remuneration Convention, 1951 (No.100)*
- *Discrimination (Employment and Occupation) Convention, 1958 (No.111). (ILO 2013)*

However, the ILO has only limited power to put in force the conventions mentioned above and therefore “uses moral suasion and public embarrassment to bring about voluntary compliance” (Berik/ Rodgers 2008). Since the 1980s there have been concerns over the lack of effectiveness the ILO shows in addressing the issue of poor labour standards.

3.1.2 The Benefits of International Labour Standards

Work is part of everyone’s daily life and is fundamental to a person’s development, dignity, and well-being. International labour standards aim to improve people’s lives and dignity and can lead to economic development. Therefore the main focus of international labour standards lies on the development of people as human beings.

Moreover, ILO labour standards are backed by governments, employers, and workers by laying down basic minimum social standards agreed upon by all global players in the economy. They further help governments and employers to improve rather than to lower standards in order to get greater comparative advantages in international trade. According to the ILO lowering labour standards can encourage the spread of low-wage, low-skill, and high-turnover industries and prevent a country from developing more stable high-skilled employment, while at the same time making it more difficult for trading partners to develop their economies upward (ILO 2013). However, international labour standards are still only minimum standards adopted by global players.

Sometimes international labour standards are accused of leading to significant costs and therefore hindering economic development. Recent research results indicate, however, that compliance with international labour standards often results in improvement of productivity and economic performance. In addition higher wages, better working time standards, and respect for equality can contribute to better and more satisfied workers. Furthermore investment in training programmes can lead to a better-trained workforce (and higher employment levels), while the adherence to safety standards can reduce health care and accidents costs and encourage workers to take risks and innovate. The freedom of association and collective bargaining can further result in better labour-management and cooperation, thereby enhancing social stability.

Moreover, the compliance with ILO standards can be an incentive for foreign investment as the beneficial effects of labour standards do not go unnoticed by foreign investors.

According to the ILO, studies have shown that in their criteria for choosing countries in which to invest, foreign investors rank workforce quality and political and social stability above low labour costs (ILO). In contrast countries, which do not obey labour standards, seem to be more competitive in the global economy.

In many developing and transition countries a great part of the workforce is employed in the informal working sector. Although such economies often “lack the capacity to provide effective social justice” (ILO 2013), the implementation of international labour standards can be effective in those countries as well. Most labour standards, however, concern all workers, even those working under no formal work arrangement. According to the ILO the extension of freedom of association, social protection, occupational safety and health, vocational training, and other measures required by international labour standards have proved to be effective strategies in reducing poverty and bringing workers into the formal economy (ILO 2013). Additionally the setting of international labour standards results in the call for the creation of institutions and mechanisms, which help to put in effect labour rights. Furthermore a set of defined rights and rules, as well as functioning legal institutions can help formalize the economy and create a climate of trust and order, which is essential for economic growth and development.

Lastly, international labour standards can be applied to improve administrative structures “such as labour administration, labour inspection, social security administration, employment services” (ILO 2013).

On the whole a market governed by a fair set of rules and institutions can be more efficient, benefitting everyone. If fair labour practices are implemented in international labour standards and applied through a national legal system, they can ensure an efficient and stable labour market for both workers and employers.

3.2 Fair Labor Association

The Fair Labor Association aims to promote the protection of worker’s right all over the world. Over the years they established a “workplace code of conduct”, which defines its various fair labour standards in order to achieve decent working conditions. Additionally those principles reflect the good labour practices of the International Labor Organization. Member companies are expected to respect all relevant and applicable laws and regulations of the country in which their employees work. They are further inclined to implement a workplace code in their factories by applying the highest standard of labour conditions. The FLA also observes, whether the workplace code is respected and examines adherence to its principles expecting its member companies to make improvements, when FLA standards are not met to develop new mechanisms to ensure future compliance (FLA 2013).

On the whole, the FLA provides a model of collaboration, accountability, and transparency and serves as catalyst for positive change in workplace conditions by establishing best practices for respectful and ethical treatment of workers, and in promoting sustainable conditions through which workers earn fair wages in safe and healthy workplaces (FLA 2013).

3.2.1 Fair Labour Principles

The FLA established several fair labour principles for enforcing adherence to decent working conditions.

Employers affiliated with the FLA are obligated to adopt and adhere to rules and conditions of employment that respect workers and uphold their rights under national and international labour laws and regulations.

One of the central labour principles is the non-discrimination of workers. According to the FLA no person shall be subject to any discrimination in employment, including hiring, compensation, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social group or ethnic origin (FLA 2013).

Furthermore, employees must be treated with respect and dignity and should not be subjected to physical, sexual, psychological or verbal harassment or abuse. Additionally the use of any form of forced labour including the use of child labour is strictly prohibited, which means that no person under the age of 15 or under the age for completion of compulsory education can be employed.

Moreover, employers must respect the right of employees to freedom of association and collective bargaining. Employer must further provide safe and healthy workplace conditions in order to prevent accidents and injuries.

Concerning hours of work, employees cannot be forced to work more than the regular and overtime hours set by the law of the country where the workers are employed. Additionally, the regular work week shall not exceed 48 hours and employees should be allowed at least 24 consecutive hours of rest in every seven-day period and all overtime work must be consensual and must be compensated at a premium rate (FLA 2013).
In addition to getting a compensation for overtime work, every worker has the right to get their regular work week compensated in a way that is sufficient to meet the workers' basic needs.

According to FLA employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract (FLA 2013).

4. Cambodia

Cambodia is one the poorest countries in the world and after a period of instability and economic uncertainty it is on the road to recovery. Chapter four gives an overview of Cambodia's current economic situation by evaluating its main economic developments.

Moreover, trading relations with Cambodia's most important trading partners and export markets are defined. Subsequently Cambodia's "engine of growth" – the garment industry is analysed by evaluating to what extent "fair trade" takes place in the Cambodian garment sector. Chapter four further focuses on labour standards and their use to gain global market access.

4.1 Cambodia's Economic Environment

Cambodia has a relatively "small population of 14 million people and a gross national income per person of USD 490 " (World Bank 2010a), and therefore counts with an estimated average per capita income of USD 300 to the poorest and least developed countries in the East-Asian region.

Between 1998 and 2007 the real GPD[3] grew approximately 10 per cent on average, which marked the highest growth of any Asian low-income country (WTO 2008, p.1). As a result the income per capita almost doubled, the poverty index fell gradually and consumer price inflation decreased compared with the 1990-98 period (WTO 2008, p.1). In addition new fiscal policies helped securing Cambodia's macroeconomic growth and its integration into the world market. Since Cambodia has liberalised its investment in the early 1990s, it has increased its foreign direct investment inflows and international trade. In recent year the trade-based labour standards program in Cambodia showed signs of improvement in applying international labour standards. In addition Cambodia became a member of the WTO in 2004.

However, after a decade of strong economic expansion and stability, the 2008-09 recession highlighted Cambodia's vulnerable economic structure and its export-driven dependence on developed countries, such as the U.S. and countries belonging to the European Union. There have been, however, several approaches to strengthen

[3]The real gross domestic product describes the market value of all officially recognized final goods and services produced within a country in a given period of time.

Cambodia’s investment climate by reducing the costs of production in an attempt to further attract foreign investors. In order to improve Cambodia’s international competitiveness, it expanded its international market access with the help of trade agreements.

Although Cambodia has been very eager for economic recovery, it still suffers from major socio-economic problems with “its engine of growth – the garment industry – facing uncertainty” (Chea/ Sok 2005). The recent discovery of oil and gas on the other hand should secure that Cambodia’s major socio-economic problems will be addressed in the future, if the use of the new-found natural resources is handled properly.

4.1.1 Main Economic Developments

After a period of economic and political instability, and prior to the 2008-09 global crisis, Cambodia’s economy benefited from a relatively stable economic growth that resulted in the improvement of living standards and the reduction of poverty. According to the World Trade Organization (WTO) there exist four drivers of GDP growth: 1) rapid garment exports, 2) strong tourism receipts, 3) a construction boom, and 4) robust crop growth in agriculture (WTO 2011, p.1). After the liberalisation of its capital and commodity flows in the 1990s, Cambodia became a member of ASEAN in 1999 and joined the WTO the same year as the first Least Developed Country to do so.

However, the 2008-09 global crisis caused a downturn in Cambodia’s economic performance affecting three of the four drivers of growth (except agriculture). As a result the GDP growth fell under seven per cent in 2008 and contracted by two per cent in 2009 (see figure I.I) reflecting Cambodia’s dependency on other countries, namely the United States economic cycle, which makes it vulnerable to external shocks, such as the 2008-09 crisis. According to the WTO actual foreign direct investment in Cambodia is estimated to have fallen from USD 815 million in 2008 to USD 530 million in 2009 (WTO 2011, p.1). Additionally the impact of the global financial crisis exposed structural and competitiveness weaknesses in Cambodia’s economy. Cambodia’s garment exports for example, declined more than other South-East Asian countries, like Bangladesh (WTO 2011, p.3).

In 2010, however, Cambodia’s economy recovered stronger than expected with an estimated GDP growth of 4.8 per cent, which was mostly driven by exports (ibid. 2011).

Cambodia's better-than-expected economic recovery was driven by its strong garment exports and the tourism sector. According to the WTO garment exports increased by 24 per cent in 2010, after shrinking by 20 per cent during the 2008-09 crisis. In addition to the increase in garment exports, tourism grew by 16 per cent in tourist arrivals and increased by 14 per cent in tourism receipts (ibid. 2011).

Although Cambodia's economy continues to recover, its annual growth is not expected to reach the highs preceding the global crisis. Moreover, Cambodia's garment and footwear exports are estimated to reach approximately six per cent, due to the EU's rule of origin on preferential tariffs for Least Developed Countries' (LDC) exports to the EU markets, which has been effective since 1 January 2011. In addition to the garment and tourism sector, the Cambodian government seeks other sources for economic growth resulting in agriculture becoming a more and more important sector for its economy.

On the whole Cambodia remains a very poor country with an estimated GDP per capita of approximately USD 790 in 2010 (ibid. 2011). The poverty rate declined reasonably from 47 per cent in 1993 to 35 per cent in 2004, and to an estimated 30 per cent in 2007 (ibid. 2011). In order to protect its economy, Cambodia's government developed a National Strategic Development Plan (valid until 2013) that targets an economic growth of six per cent per year and a per capita income of approximately USD 1,000 in 2013. These goals stand in accordance with Cambodia's Millennium Development Goals to be reached until 2015. In 2004 the Royal Government of Cambodia (RGC) implemented the "Rectangular Strategy" for growth, employment, equity and efficiency, which is a wide-ranging strategy for boosting development in Cambodia. It focuses on four main areas: the enhancement of the agricultural sector; the rehabilitation and construction of physical infrastructure; private sector development and employment generation; and capacity building and human resource development.

4.1.2 Development in Trade and Foreign Direct Investment

Since the early 1990s, Cambodia shifted towards a market economy and macroeconomic stability resulting in a growth of Foreign Direct Investment (FDI). In 1994 the Cambodian government began to implement laws and regulations on investment that offered incentives to potential investor that included a tax holiday of up to eight years followed by a concessionary corporate tax rate of about nine per cent as against standard rate of 20 per cent (WTO 2011, p.25).

A significant amount of Cambodia's FDI between 1995 and 2003 (WTO 2011, p.25) went into the manufacturing sector, supporting garment factories in particular. Garment companies producing in Cambodia benefited from cheap labour and preferential access to the U.S. and European markets. However, Cambodia has yet to attract foreign investors outside its garment and tourism sectors in order to access the export-potential of other sectors.

In 2005 the Cambodian Government changed its foreign direct investment policy regime. The main new features include an eight-year blanket tax holiday for foreign investors that was replaced with a tax holiday based on a formula for all qualifying new investors (foreign and local). Once the tax holiday expires, all investment projects are subject to the standard corporate tax rate (currently 20 per cent) and all previously approved and operational projects currently subject to the nine per cent concessionary corporate tax are to be brought under the standard corporate tax within the next five years. In place of the provision of tax-free reinvestment of profits, an accelerated depreciation allowance was introduced under the general tax law for all qualified investors, irrespective of source of finance, and profit that is repatriated is now subject to a one per cent withholding tax (ibid. 2011).

4.1.3 Trading Relations

Cambodia has various important trading relations that helped it to reach international market access. The most notable trading partners are described below.

4.1.3.1 World Trade Organization

After the Paris Peace Agreement in 1991 that subsequently lead to the first democratic elections, made it possible for Cambodia to rejoin the international community and participate in multilateral and regional institutions. In an attempt to help solve its economic problems Cambodia turned towards the World Trade Organization (WTO) for support by applying for membership in 1994, which became effective in 2004.

As part of the accession process, Cambodia had to conduct institutional and policy reforms alike. It implemented, for example, a large number of laws and regulations that dealt with areas, where existing law did not meet WTO requirements.
According to the WTO (2011, p.), the primary objective of Cambodia in becoming a member of the WTO is the protection of its growing garment industry after the removal of export quotas at the end of 2004 under the Multi-Fibre-Agreement (MFA). As the garment industry has become a significant part of the Cambodian economy, Cambodia is interested in sustaining it.

There are, however, some doubts to what extent the benefits from Cambodia's WTO membership will surpass the costs that come will come with it.

4.1.3.2 ASEAN

Cambodia became a member of the ASEAN[4] in 1999 resulting in the liberalisation of its regional trade in order to harmonize trade and trade-related procedures, as well as developing trade relations with other ASEAN dialogue partners.

As part of its ASEAN membership, Cambodia agreed to follow a schedule for reducing tariffs on goods originating from ASEAN trading partners. Subsequently Cambodia's trade with other ASEAN partners expanded rapidly, and during a three-year period from 2006 to 2008, Cambodia's exports to ASEAN countries rose at an average annual rate of 37 per cent, compared with an average rise of 14 per cent in its exports to the rest of the world (WTO, p.23). Even though intra-ASEAN trade grew rapidly over this period, exports to ASEAN accounted for only seven per cent of the value of Cambodia's total exports.

In order to harmonize trade processes, ASEAN has designed a number of programmes to help starting the harmonization of standards, and the mutual recognition of conformity certifications.

As a member of the ASEAN, Cambodia further benefits from free-trade agreements with Australia/New Zealand, China, India, Japan, and the Republic of Korea. These agreements, negotiated by ASEAN, include trade in goods and services, as well as

[4]ASEAN stands for the *Association of Southeast Asian Nations*, which is an international organisation of Southeast Asian states.

investment. Additionally Cambodia takes part in tariff reductions, placed in free-trade agreements (FTAs) between ASEAN and its partners (WTO 2011, p.24).

4.1.3.3 Other Trading Relations

Cambodia further has tight trading relation with the United States and the European Union, and benefits from the Generalized System of Preferences (GSP) schemes managed by developed countries. The GSP schemes allow benefiting countries to be exempt from import tariffs on many products if certain requirements such as rules of origin are fulfilled. As Cambodia is regarded as a least developed country, it benefits from additional preferences, under which more of its products qualify for duty-free treatment or tariff reductions.

Furthermore the European Union granted Cambodia duty-free and quota-free access to its markets under the Everything-But-Arms Initiative (EBA) that is part of the EU's GSP programme for least developed countries.

Additionally Cambodia further benefits from the U.S. GSP programme. In 2006, Cambodia signed a Trade and Investment Framework Agreement (TIFA) with the United States, which aims to encourage greater trade and investment in both countries.

4.2 Cambodia's Manufacturing Sector

Cambodia's manufacturing sector mainly focuses on the production of garments and therefore needs to import most of the textiles used for its garment production making it somewhat dependent on countries such as Bangladesh for supplying it with textiles necessary for its domestic garment production. While Bangladesh is a major supplier of textiles, there is a lack of sufficient information on where all fabrics are originating from and whether they had been produced under fair conditions. However, one can assume that those textiles used in the production process do not come from fair trade.

Cambodia's manufacturing sector consists of small and medium-sized businesses with an approximately 37,000 registered and unregistered companies in 2010 (WTO 2011, p.76). According to Cambodian authorities there are around 600 large enterprises (with capital investment of more than USD 500,000), with the garment sector accounting for 75 per cent registered industrial establishments (WTO 2011, p.76).

Cambodia’s industrial policy focuses on providing “incentives to attract investment in sectors, where Cambodia has comparative advantages and export potential” (WTO 2011, p.76). These industrial policies consist of: 1) the development of labour-intensive industries, such as the garments and footwear, 2) the improvement of the agriculture sector and industries processing other natural resources, 3) the promotion of SMEs and micro-enterprises by providing micro-finance, and 4) the facilitation of exports through export processing zones by developing infrastructure.

Moreover, Cambodia’s workforce, employed in the manufacturing sector, consists of low-wage female workers and proved influential in its export performance. In terms of labour characteristics; most women come from the rural working sector, have primary school education or less, and mainly work as sewing machine operators in labour-intensive production areas.

4.2.1 Cambodia’s Garment Industry

For many South-East Asian countries, the garment industry is one of many, for Cambodia it is the only one making it the most important sector of its economy. In the past decade Cambodian garment exports have grown rapidly due to the United States-Cambodia bilateral trade agreement and other binding restrictions on bigger exporting countries like China, which specifically “helped small garment producers such as Cambodia gain access to large markets overseas” (Kolben 2004 cited in Berik/ Rodgers 2008, p. 9). The United States granted Cambodia the most-favoured nation (MFN) status in 1996, which subsequently resulted in the rapid growth of its garment industry. According to the WTO, Cambodia further benefited from the Multi-Fibre-Agreement[5] (MFA), which imposed a quota system on most large garment-exporting countries, and attracted foreign investors from Hong-Kong, China, Chinese Taipei, Malaysia, and Korea to take advantage of Cambodia’s original quota-free status (WTO 2011, p.78). Furthermore, the expiry of

[5]The MFA imposed selective quantitative restrictions on imports of particular products that caused or threatened to cause serious damage to the industry in the importing country and aimed to protect developed country producers by restricting exports of textiles and clothing from developing countries to developed countries (Wang 2008, p.5). It further granted several LDCs preferential quota access to international markets.

international quotas under the Agreement on Textiles and Clothing[6] (ATC) in 2005 has lead to increased competition among ASEAN countries and global competitors supplying the U.S. and EU markets. As quotas were no longer a factor in deciding where to establish their production, companies from the United States and the European Union fused their supply bases.

Subsequently the garment industry became the most important exporting sector for Cambodia over the past decades by generating approximately 69 per cent of export earnings in 2008, accounting for about 15 per cent of the GDP, and employing about 320,000 workers in the formal sector (WTO 2011, p.77). As Cambodia takes only part in the "cut, make, trim[7]" (CTM) phase of the garment production process, it only has a limited share of the value chain and value added. Additionally Cambodia imports almost all inputs for its garment sector[8] (WTO 2011, p.79).

The aggressive competition from China, Vietnam, and Bangladesh resulted in the decrease of unit prices for Cambodian garments by more than seven per cent in 2008 and 2009 (WTO 2011, p.77). One reason for the increased competition between these countries is the establishment of free trade agreements (FTAs) between other low-income countries (LICs) and developed countries such as the United States. They have also granted other LICs quota-free and duty-free access through trade agreements, whereas Cambodia is subjected to an average 16 per cent tariff on garment imports. In addition to these trade agreements, the expiry of safeguard measures imposed on China by the United States and the European Union is expected to narrow the growth margins of Cambodia's garment industry even further, as Cambodia is not regarded as internationally-competitive without quotas that give it an advantage compared to those restricted countries.

According to the WTO there exist various factors that slow down Cambodia's competitiveness of its garment industry such as a lower productivity, the unreliable supply and high cost of electricity[9], high transport costs, and protracted transport time to the market (WTO 2011, p.77). The Garment Manufacturers Association of Cambodia

[6]The Agreement on Textiles and Clothing provides a framework for the transitional process of ultimately removing quotas outside the GATT rules allowing those countries affected by the MFA to make the necessary changes towards a "free trade" environment (Wang 2008, p.5).

[7]Being involved in the „cut, make and trim" phase means that the supplier controls the designs and fabrics used but outsources the labour-intensive jobs.

[8]According to the WTO around two thirds of garment raw material imported in 2008 came from China (WTO 2011, p. 77).

[9]The costs of electricity make about 15 per cent of the total production costs in Cambodia (WTO 2011, p. 77).

(GMAC) estimates the total manufacturing cost to be about 20 per cent higher than in neighbouring Viet Nam. Although Cambodia does have lower hourly wages, the lower productivity, higher electricity costs and less developed infrastructure contribute to Cambodia's weak competitiveness performance.

In recent times quick turnover and delivery times have become an increasingly important factor for companies in deciding where to produce their garments intensifying competition among the suppliers. In terms of direct competition for Cambodia from other ASEAN countries, Viet Nam, an efficient and low-cost garment producer, has become a major competitor after gaining full market access to the U.S. market in 2006 and becoming a member of the WTO in 2007.

However, the United States and Cambodia agreed on a bilateral trade agreement that imposed quantitative restrictions on Cambodia's garment exports, while at the same time giving incentives to compliance with international labour standards. Even after the expiry of the ATC agreement, Cambodia was able to increase exports of ready-made garments to the U.S. and European markets. The main reason for Cambodia's good economic performance was the temporary import restrictions placed on Chinese garment imports by the United States and the European Union. The WTO notes, that between 2004 and 2007 Cambodia's value of exports to the United States increased by 70 percent compared to the beginning of the partnership in 1996. In the early 2000s Cambodian exports to the EU stagnated through 2003, after a temporary spurt in 2004, while the end of the ATC marked a decline in the EU's imports in 2005.

In terms of market share, Cambodia saw a small increase in its shares of the U.S. market compared to the expected decrease after 2004" (Berik/ Rodgers 2008, p.9), whereas Cambodia's market share in the EU "went from small to smaller" (ibid. 2008). Between 2004 and 2007 the U.S. market share for Cambodian textile and garment imports increased from 1.7 per cent to 2.5 per cent (ibid. 2008). Moreover, Cambodia is the only least developed country with a trade-labour agreement that secures a quota for exports to the U.S. market. On the whole the bilateral trade agreement uses export incentives for enforcing international labour standards while relying on the ILO to monitor the whole process. Because of its cooperation with the ILO, the programme was regarded as a successful new approach in the sourcing strategies for foreign buyers and investors, which subsequently resulted in the creation of a niche market for Cambodian garments.

The 2008-09 financial crisis, however, lowered the demand for clothing, causing a severe economic downturn in Cambodia's garment industry. The Cambodian government stated that approximately 100 factories closed in 2009 with 40,000 workers losing their jobs (World Bank 2010a). As Cambodia is highly dependent on exports to the U.S. and EU markets, its industry structure makes it vulnerable for shocks in the global economy.

Cambodia's plans for the future development of its most important economic sector include the diversification of its trade partners, as well as the harmonization of industrial relations in order to reduce strikes and keep attracting foreign direct investment. Cambodia's main goal for the future, however, remains the production of higher quality products in an attempt to strengthen its international competitiveness. Furthermore, the Cambodian government is keen on supporting more local fabric production as the majority of the fabrics used in its garment production is imported, making it somewhat too dependent on international textile prices. So far, however, the government has not provided enough support to enforce local fabric production. This somewhat new U.S. strategy aimed at enforcing Cambodian economic growth, while at the same time giving Cambodia the chance to differentiate itself from other low-labour neighbour countries by respecting international labour standards. Even after the end of the United States-Cambodia bilateral trade agreement in 2004, the International Labour Organisation (ILO) continued its monitoring program in Cambodia. Because of its cooperation with the ILO, Cambodia, as a location for garment manufacturing, mostly appeals to brands, which approach an ethical way of manufacturing and focus on their corporate social responsibility.

In summary Cambodian exports to the U.S. market have shown steady growth, while Cambodia was able to build its U.S. market share in the first three years after ATC has ended. At the same time exports to the EU increased in the post-ATC era, even though they grew less consistent from year to year. On the whole Cambodia provides attractive investment incentives in order to get support for its domestic fabric production.

4.2.2 Garment Industry Labour Market

This section provides an overview of the key players in the garment industry labour market covering both the labour demand (employers) and supply (workers, youth and education institutions).

Cambodia's garment industry consists of over 250 factories, ranging from small and medium up to large factories with over thousand workers. Additionally over 90 per cent of the Cambodian factories are foreign-owned (WTO 2011, p.78) with investors originating from Hong Kong, Taiwan, China, and Korea. The remaining investors come from Europe, North America and other Asian countries leaving only ten per cent of factories in Cambodian ownership. The interests of garment industry employers are represented by the Garment Manufacturers Association in Cambodia (GMAC), which is comprised of twenty firms.

Cambodian garment factories focus mainly on the "cut, make, trim" process. Therefore, Cambodia needs to import almost all inputs for the sector (WTO 2011, p.79) limiting its share of the value chain and value added.

The garment industry is the largest formal sector of employment in the Cambodian economy, employing approximately 300,000 workers in its garment factories. Over 90 per cent of jobs involve female, minimally skilled production workers (USAID 2006). Tasks involving the CMT process include: cutting, knitting, sewing, quality control, and trimming. According to USAID the monthly pay for Cambodian garment factory workers is USD 50 (ibid. 2006). GMAC estimates that the average compensation level of production workers is more than USD 65 per month. In general workers can earn USD 80 to USD 120 per month (overtime and production incentives included) (ibid. 2006) compared to USD 25 per month for school teachers and an annual gross national per capita income of USD 350 (World Bank 2010a).

Besides low-skilled worker, factories also employ skilled workers, both male and female, to manage the garment factories: on two levels: on the production floor and in the office. However, office positions comprise roughly three to four per cent of total employment in Cambodian garment factories (USAID 2006). The salary for skilled workers ranges from USD 200 to USD 400 per month, although with increased training and skills levels the salary can reach USD 1000 to USD 2000 per month (USAID 2006). Most of the skilled workers, however, are from foreign countries with a longer history of garment manufacturing such as China, Taiwan, Korea, and the Philippines. According to an USAID survey, factory owners would rather employ Cambodian workers for these positions, but so far could not identify adequate numbers of qualified candidates who met their needs.

The integration of Cambodian workers in positions aimed at skilled workers is difficult, as they are usually required to speak English and or Chinese, be trained by their foreign colleagues, and be respected by their Cambodian co-workers.
The interests of Cambodian garment industry workers are represented by a large number of union organizations[10] (USAID 2006).

4.3 Labour Standards in Cambodia

"Decent work is one of the democratic demands of people everywhere. The Decent Work Agenda is an agenda for development that provides a sustainable route out of poverty."

(H.E. Ellen Johnson Sirleaf, President of the Republic of Liberia)

The quest to expand exports or attract foreign direct investments has, in recent times, resulted in firms competing on the expense of labour costs. Consequently international labour standards declined as "governments dismantled national laws that protect workers or weaken the enforcement of these laws" (Berik/ Rodgers 2008, p.9). Improving the enforcement of labour standards, however, can give more job security and specifically help women to gain access to a wider range of better-paying jobs in men-dominated professions. Catagay (cited in Berik/ Rodgers 2008, p.9) for example calls for broader labour market regulations, stronger union activity, and new political objectives that recognize the nature of women's work. Additionally Hale (ibid. 2008) argues in the same way that standards embraced in discussions of trade-linked social clauses serve as a minimum baseline and that international alliances need to perform additional work in order to fully incorporate the needs of women in developing countries. On the contrary Kabeer (cited in Berik/ Rodgers 2008, p.9) believes that the enforcement of labour standards with trade sanctions could intensify inequalities in the labour market due to a reduction in women's employment or job transfers to the informal market. The "social cause" has lost its importance when members of the WTO declined an active role in the enforcement of international labour standards in 1996. In addition to the lack of

[10] Some of the labour union organizations include the Free Trade Union of Workers of Kingdom of Cambodia, National Independent Federation of Textile Unions of Cambodia, Cambodia Labor Organization, and the Cambodia Labor Union Federation (USAID 2006).

enforcement of member states, the WTO has also failed to pursue a close collaboration with the ILO on these issues (Burda 2007).

As a result from changes in market forces in the mid-1990s, namely growing consumer pressure for products produced under decent working conditions has lead to corporate self-regulation through codes of conduct. Additionally the pressure from non-governmental organizations and the fear of negative consequences of media exposures of non-compliance forced most major retailers and manufacturers into having their own compliance programs or cooperating with multi-stakeholder organizations, like the Fair Labour Association. There are, however, some concerns regarding the strong consumer demand for low-cost clothing, the lack of agreement over a common set of labour standards, and the large number of factories and sub-contractors that cannot be monitored.

Cambodia has a relatively young garment sector, yet its new legal framework on labour standards has adopted all eight of ILO's core conventions in the early 1990s. So far Cambodia is the only least developed country to have adopted all eight of ILO's core conventions..

4.3.1 Incentives for Improving Working Conditions

Nearly all textile and garment factories in Cambodia are foreign-owned and "as of 2008, only five per cent of factories had sole ownership by a Cambodian firm" (Berik and Rodgers 2008, p.9). Factory owners usually origin from Taiwan, Singapore, Thailand and Malaysia, which are countries known for their search of low-cost labour (Kolben, 2004; Cambodia Ministry of Commerce, 2008).

According to Rodgers and Berik a complementary set of policies that includes a trade-incentives approach has been established in attempt to increase the chances of improving working conditions and expand employment in the new global order of intensified competition among low-income and export-oriented economies.

Furthermore, a relatively high level of corruption and economic uncertainty has weakened Cambodia's investment climate in the past. The United States Agency for International Development (USAID) estimated that the costs of administrative hurdles and corruption reached as high as seven percent of the total value of sales in the early 2000s (USAID 2006), making corruption "the main reason why enforcement of Cambodia's 1997 Labour Code was difficult before the U.S.-Cambodia bilateral trade agreement" (Kolben 2004). The poor enforcement of the Labour Code was reinforced by low-labour inspectors that accepted bribes as well as widespread cronyism between the government and other industry players. As a consequence of the poor enforcement of international labour laws, Cambodia only ranked in the middle of all Asian countries in the exercise of trade union rights in the mid-1990s (Kucera 2004, p.55).

In an attempt to improve adherence to labour standards, the AFL-CIO[11], the largest US labour organization, enforced labour-standards compliance in Cambodia by providing Cambodian workers with training in how to organize and bargain collectively (Wells 2006 cited in Berik/Rodgers 2008, p.21), resulting in an increased strike activity in the manufacturing sector in the late 1990s and early 2000s. In 2000 approximately 20,000 workers took part in a strike pressuring the Ministry of Labour to raise the minimum wage to USD 45 per month (Kolben, 2004). In 2007 the minimum wage was once more increased to USD 50 per month as a result of rising demand for higher real wages.

4.3.2 Cooperation with the International Labour Organization

Cambodia became a member state of the ILO in 1969 and has since then ratified all eight fundamental labour standards and 13 ILO conventions.

- *(No.4) Night Work (Women) Convention, 1919 – ratified 1969*
- *(No.6) Night Work for Young Persons (Industry) Convention, 1919 – ratified in 1969*
- *(No.13) White Lead (Painting) Convention, 1921 – ratified in 1969*
- *(No.29) Forced Labour Convention, 1930 – ratified in 1969*
- *(No.105) Abolition of Forced Labour Convention, 1957 – ratified in 1999*
- *(No.87) Freedom of Association and Protection of the Right to Organise Convention, 1948 – ratified in 1999*
- *(No. 98) Right to Organise and Collective Bargaining Convention, 1948 – ratified in 1999*
- *(No. 100) Equal Remuneration Convention, 1951 –ratified by Cambodia in 1999*
- *(No. 111) Discrimination (Employment and Occupation) Convention, 1958 – ratified in 1999*
- *(No.138) Minimum Age Convention, 1973 – ratified in 2005*
- *(No. 182) Worst Forms of Child Labour Convention – ratified in 2005*
- *(No. 122) Employment Policy Convention (1964) – ratified in 1971*
- *(No. 150) Labour Administration Convention (1978) – ratified in 1999. (ILO, The work of the ILO in Cambodia)*

[11] The American Federation of Labor and Congress of Industrial Organizations (AFL–CIO) is a national trade union centre, the largest federation of unions in the United States that is made up of fifty-six national and international unions.

The ILO-Cambodia cooperation to enforce economic and democratic development began in the early 1990s after Cambodia started to rebuild its economy. Although the rate of poverty in Cambodia declined over the past years, rural poverty remained high, at around 35 to 40 per cent (ILO 2009, p.12).

The ILO organises the work in Cambodia with its Decent Work Country Programme (DWCP) consisting of four components: 1) upholding the fundamental rights at work, 2) ensuring adequate livelihoods, 3) providing social protection, and 4) promoting social dialogue (ILO 2009, p.12).

4.3.3 Better Factories Cambodia

The ILO supports several initiatives and organizations throughout Cambodia. The Better Factories Cambodia (BFC) program was initiated by the United States-Cambodia trade agreement and aims to enforce new labour-standards as part of the ILO working program in Cambodia. The basic objective of the BFC program is to improve working conditions in Cambodia's garment industry by giving technical assistance and aiding to build new capacities in order to strengthen the Cambodian government. Furthermore, all garment factories are being directly monitored by ILO personnel.

According to Polaski the 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). The Better Factories Cambodia program further focuses on enforcing labour standards and implementing new training programs. They offer several training courses designed for newly employed workers to help understanding their rights.

Moreover, the program helps employers to improve their existing training methods and offers organized training sessions to human resource managers and trade union leaders on issues like employment contracts, working conditions, and worker recruitment. The Better Factories Cambodia program also sponsored and launched a soap opera on national television called "At the Factory Gates" which aims to educate in particular new female workers about worker rights in garment factories and ways to handle workplace issues.

Polaski notes that the analysis of the first eight reports indicates that during their first visit, the ILO monitors typically found fairly good compliance with several standards (no child labour and no discrimination), but compliance with health and safety, and wages and hours regulations was poor (Polaski 2006 in Berik/Rodgers 2008, p.21). Moreover, he credits that the bilateral trade agreement contributed to the progress, which Cambodian policymakers, employer organizations, and trade unions made in collaborating with the United States officials and the ILO to draft new legislation filling existing gaps in the 1997 Labour Law and strengthening union rights (ibid. 2008).

During the post ATC-era the Better Factories Cambodia monitoring and training program may have protected Cambodian jobs, as buyers continued their sourcing from Cambodian factories. Above all they seem to strongly value compliance with international labour laws and regulations. According to the Foreign Investment Advisory Service (FIAS 2004), international buyers are giving Cambodia's labour standards compliance a higher rating than regional competitors (including China and Bangladesh). Furthermore, respondents viewed that the improved labour standards have a positive effect on worker productivity indicators, but negative effect on production costs. As of 2004 all buyers planned to either increase or maintain their purchasing levels from Cambodia after the end of the ATC. (FIAS 2004)

5 Conclusion

Over the past years some new ideas on how to make the global trade regime fairer and better working for developing countries have emerged in order to help poorer countries realise their development and economic growth. However, there is no answer yet on how to manage the relationships between the richest and poorest countries and "to devise a system of freer, fairer trade, which reflects the interests and the concerns of the developing countries while balancing the needs of the industrialised world […]" (Stiglitz 2006). One new strategy that has evolved over the past decades has been the use of Fair Trade principles in order to reduce poverty and promote development in the poorest countries of the world.

Cambodia, too, went its own path of economic rebuild by using the Fair Trade approach to differentiate itself from other neighbouring countries such as China or Bangladesh leading to the creation of a niche market for its garment products. It is a path that no other developing country so far has taken. Cambodia is currently the only least developed country to have a monitoring program in cooperation with the International Labour Organization making its garment products somewhat unique as they are produced under fair working conditions and garment factories are being monitored as part of the ILO monitoring programme. Through the improvement of its labour standards, Cambodia is able to attract global brands (Levi's, Gap, Wal-Mart, Disney), which are following their ethical conscious strategies and are looking for countries where they will be able to produce their products under decent working conditions in order to meet their clients' expectations. However, improved working conditions and the compliance with international labour standards do not mean that garment products made in Cambodia are manufactured solely through Fair Trade. It rather proves that products can be manufactured under fair working conditions (no forced labour, no child labour, decent salaries, and the respect of health and safety standards) in least developed countries. Cambodia is working on maintaining fair labour standards, but it is difficult to implement the Fair Trade thought through the whole production process, as the garment manufacturing cycle is quite complex, and Cambodia is dependent on imports of the fabrics used in its cut-make-trim process.

Furthermore, Cambodia needs to be careful in remaining attractive for developed countries to outsource their labour-intensive jobs to Cambodia. The increased competition from other South-East Asian countries such as Bangladesh and Vietnam could have negative effects on Cambodia's compliance with international labour standards putting its market niche – the garment industry in danger. Although Cambodia currently holds a unique position as the only LCD country that uses Fair Trade as an incentive to promote economic growth, it might be worth having a closer look at how other developing countries succeeded in growing their economies. Out of all developing countries, for instance, only China managed to change within one generation from a poverty-stricken country to one of the world's largest economies (Zhang 2009). China has concluded that neither the Soviet Communist nor the Western democracy model would work for a developing country in terms of achieving economic modernisation. Therefore, China decided to go its own way of development and to adopt "a pragmatic, trial-and-error approach for its massive modernization programme" (Zhang 2009).

Cambodia's economy is heavily relying on the cooperation with Western countries, such as the United States, to achieve its future economic goals. Although these trading relationships have granted Cambodia preferential market access to the United States, the European Union, Canada, and Japan, it also made it highly dependent on other developed countries and thus extremely vulnerable to external shocks, such as financial crises. In addition to its preferential market access it further benefits from the most favoured nation status, the GSP system as well as the lesser developed country categorisation, which all subsequently contribute to a considerable market access. Forging trade arrangements under a GSP-type scheme seems to have further benefitted developing countries, such as Cambodia. However, in order for Cambodia to get self-sufficient and economically independent it needs to diversify its trading partners, and to open its markets towards other developing countries rather than relying solely on the aid of developed countries.

Secondly the establishment of good governance in a country that has suffered from social and economic instability for a long period of time seems to be a vital part of the modernisation process. In its five-year "National Strategic Development Plan", one of Cambodia's main goals is to achieve good governance to further democratize its country.

Furthermore, China focused on educating its citizens through selective learning, where learning from others is prized making today's Chinese leaders competent, sophisticated and well-tested at different levels of responsibility (Zhang 2009). With the help of their education strategy, the Chinese developed an extraordinary capacity to adapt to new challenges such as the IT revolution and later excelling in it (ibid. 2009). As Cambodia has to start all over in educating its domestic workforce and is still suffering from the lack of skilled workers with experience in technology, and management, it might be worth copying China's education strategy. So far, Cambodia has aimed at improving its production efficiency with cut-make-trim operations by offering skills training programmes, lean manufacturing, and new technology such as automatic sewing machines, pattern systems and new software. By taking China as an example in how to succeed in education as a developing country, Cambodia could soon employ its own skilled workers in leading positions in its garment factories rather than foreigners from China and other neighbouring countries.

The Chinese government further declared reducing poverty as a most fundamental human right, which paved the way for China's enormous success in lifting nearly 400 million individuals out of internationally defined poverty (ibid. 2009). The reduction of poverty is by far one of the biggest goals set by the Cambodian government, and is arguably the most important issue to be solved in order for Cambodia to move from a position of poverty and vulnerability to one of economic independency and welfare.

The conclusion is that Fair Trade can be a positive tool in the enforcement of development, and with the right reforms and principles could help the poorest countries out of poverty. It further improves welfare by strengthening competition for labour, and should be encouraged as a complementary element of trade liberalisation reforms (Hayes 2006). Additionally, he linking of export quota expansions with compliance to national and international labour laws, joined with ILO monitoring, has served as an effective growth mechanism in Cambodia by creating a niche market for garment products. However, in order to secure its global market access, Cambodia needs to diversify its range of production and trading partners. As its whole economy is focused on its niche market - the garment industry, it is extremely vulnerable to external shocks, making Cambodia's long-term survival dependent on the diversification of its economy.

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Appendix

Contents

I. Table of Figures

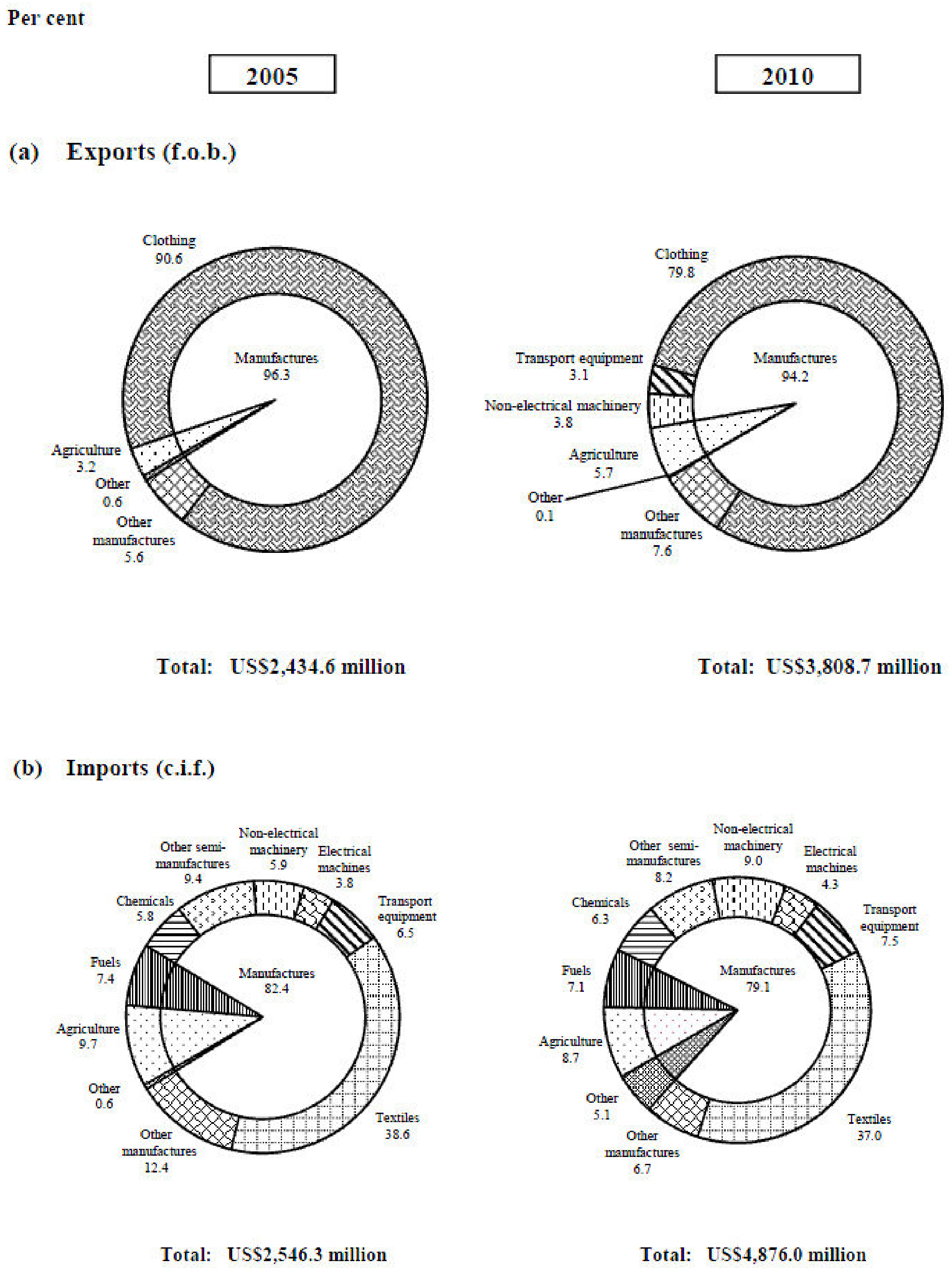
I.I Figure: Selected Economic Indicators 2004-10

Selected economic indicators, 2004-10

	2004	2005	2006	2007	2008	2009[a]	2010[a]
Income and growth							
GDP per capita at current market price (US$)	401.3	466.2	534.9	626.0	739.4	732.9	791.2
GDP growth (%, constant 2000 prices)	10.3	13.3	10.8	10.2	6.7	-2.0	4.8
Agriculture[b]	-0.9	15.7	5.5	5.0	5.7	5.4	4.0
Manufacturing	17.7	9.7	17.4	8.9	3.1	-5.3	1.8
Services	13.2	13.1	10.1	10.1	9.0	2.3	3.3
Savings and investment (current market prices, % of GDP)							
Gross domestic investment	18.6	21.4	22.7	26.5	22.6	22.7	..
Gross national savings	16.3	17.2	21.7	22.6	10.3	17.9	..
Prices and interest rates							
Inflation (CPI, %age change, annual average)	3.9	6.3	6.1	7.6	25.1	-0.4	4.0
Inflation (CPI, %age change, end-year)	5.3	8.4	4.2	14.0	12.5	5.3	3.1
Deposit rate (%)	1.79	1.92	1.84	1.90	1.91	1.66	1.26
Lending rate (foreign currency) (%)	17.62	17.33	16.40	16.18	16.01	15.81	15.63
Government finance (% of GDP)							
Revenue	10.4	10.6	11.4	12.1	13.3	11.8	12.6
Current revenue	10.3	10.0	10.1	12.0	13.1	11.7	12.5
Tax revenue	7.7	7.7	8.0	10.2	11.2	10.1	10.6
Expenditure	14.2	13.2	14.1	14.7	15.9	17.5	17.8
Current expenditure	8.4	7.9	8.2	8.5	9.4	10.7	10.8
Current fiscal balance	1.9	2.1	1.9	3.5	3.7	1.0	1.6
Overall balance	-3.8	-2.6	-2.7	-2.6	-2.7	-5.7	-5.3
External sector (% of GDP, unless otherwise indicated)							
Current account	-8.2	-9.8	-7.9	-8.0	-13.3	-11.6	-10.9
Net merchandise trade	-12.8	-16.1	-14.8	-15.6	-17.4	-15.7	14.9
Merchandise exports	48.5	46.2	50.8	47.3	45.5	40.3	41.1
Merchandise imports	61.3	62.3	65.6	62.9	62.9	56.0	56.0
Services balance	5.4	7.6	6.8	7.3	5.9	5.8	5.6
Services exports	15.1	17.8	17.8	17.9	15.9	15.6	14.5
Services imports	9.6	10.2	11.1	10.6	10.0	9.8	8.9
Financial account	4.1	4.9	2.9	7.9	13.4	5.8	5.6
Foreign direct investment	2.3	6.0	6.5	10.0	7.7	4.9	4.9
Balance of payments	1.1	1.2	2.7	4.9	5.0	-0.0	1.3
Terms of trade (2005 = 100)	100.9	100.0	99.7	98.8	99.6	..	..
Merchandise exports (annual %age change)	24.0	12.4	27.0	10.7	15.2	-10.9	11.7
Merchandise imports (annual %age change)	22.5	19.8	21.8	13.8	19.8	-10.4	9.5
Service exports (annual %age change)	46.9	38.9	15.9	19.4	6.3	-1.2	1.7
Service imports (annual %age change)	18.6	24.9	25.1	13.9	12.3	-1.7	0.1
Foreign exchange reserves (US$ million)	708.9	834.0	1,096.7	1,615.6	2,163.5	2,259.9	2,550.0
in months of imports	2.1	2.0	2.2	2.8	3.2	3.7	3.6
Total external debt stocks (US$ million; end-period)	2,991.7	3,350.2	3,698.0	4,313.1	4,395.5	4,357.6	5,033.2
Debt service ratio[c]	1.0	0.9	0.7	0.7	0.7	0.8	0.8
Memorandum items							
Current GDP (riels billion)	21,438.3	25,754.3	29,849.5	35,042.2	41,968.4	43,080.0	47,680.0
Current GDP (US$ million)	5,337.8	6,293.0	7,274.5	8,639.2	10,351.8	10,407.6	11,393.3
Rs/US$ (annual average)	4,016.3	4,092.5	4,103.3	4,056.2	4,054.2	4,139.3	4,184.9
Population (millions)	13.3	13.5	13.6	13.8	14.0	14.2	14.4

Source: IMF (2010): "International Financial Statistics".

I.II Figure: Product composition of merchandise trade, 2005 and 2010



Source: WTO (2011): Trade Policy Review, Report by the Secretariat Cambodia.

I.III Figure: Cambodian Textile and Garment Exports, 2001 -2009

Table 1: Cambodian Textile and Garment Exports, 2001-2009 (US$M)

Year	2001	2002	2003	2004	2005	2006	2007	2008	Jan-Mar 2009
US	828.51	959.50	1,122.99	1,272.11	1,564.63	1,906.07	1,999.41	1,977.78	277.96
EU	309.12	355.94	407.83	580.06	490.80	571.00	631.70	658.65	104.95
Canada	5.80	6.91	57.56	96.91	92.37	116.47	153.78	198.81	39.57
Other Markets	13.40	21.32	21.31	33.71	42.51	57.97	81.43	135.76	33.27
Total	**1,156.84**	**1,343.67**	**1,609.69**	**1,982.79**	**2,190.31**	**2,651.51**	**2,866.32**	**2,971.00**	**455.75**

Source: ASEAN (2010): *"Cambodian Textile and Garment Industry".*

I.IV Figure: Cambodia's Most Popular Garment and Textile Exports to the World

Table 2: Cambodia's Most Popular Garment and Textile Exports to the World (US$M)

HS Code	Product	2007	2008
6109.10	T-shirts, singlets or vests	698.8	657.2
6104.62/6204.62	Women's trousers, bib and brace overalls, shorts	407.6	399.1
6203.42	Men's trousers, bib and brace overalls, shorts	187.8	199.6
6104.29	Female ensembles, knitted or crocheted, of textile materials	67.9	81.8
6112.19	Track suits, knitted or crocheted, of textiles other than cotton	53.0	47.0

Source: Source: ASEAN (2010): *"Cambodian Textile and Garment Industry".*

Versicherung an Eides statt gemäß § 23 Abs. 2 S. 4 SächsHG zur Anfertigung der (Bachelor-, Master-, Diplomarbeit)

mit dem Thema: Fair Trade and Least Developed Countries: The Case of Cambodia. Can Cambodia Use Fair Trade as a Market Niche to Get Global Market Access?

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