

Cambodia's Success in Trade

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Recent trade data reveal an odd but fascinating fact. America's fastest-growing trade relationship is with neither China nor Mexico -- it's with Cambodia.

Since 1996, American imports from Mexico and China have nearly doubled. By contrast, U.S. imports from Cambodia -- from clothes and hats to fish, gems and wooden packing crates -- have grown more than two hundred-fold.

The story is worth telling simply as a bit of good news from a country where observers reflexively look for poverty and conflict. But the growth of American trade with Cambodia also has roots in two trade policy measures -- first overall trade normalization, then a unique agreement on textile trade and labor policy reform. And thus it offers lessons for one of the most emotional debates on trade and globalization: that on the relationship between trade and labor policies.

Cambodia's success dates to the winter of 1996, when after the signature of a Bilateral Trade Agreement, Congress granted Cambodian exports Normal Trade Relations (NTR) tariff levels. This sharply cut tariffs, and for the first time since the 1960s, enabled Cambodian businesses to compete on equal terms with exporters in other countries.

Cambodia has used NTR to remarkably good effect. In 1996, Cambodia sold the U.S. about \$6 million dollars worth of goods. Five years later, it is near the \$1 billion mark. The Tonle Sap and the lower Mekong are among America's largest sources of frozen eels, tilapia and other freshwater fish. Long a source of wood and gems for its neighbors' factories, Cambodia is now starting to produce and sell value-added products from doors to cut sapphires. Most of all, Cambodians are making clothes.

Since the mid-1990s, foreign companies from Malaysia, Taiwan, Singapore, Thailand, Europe and elsewhere have invested about \$150 million a year in Cambodia, to build over 200 garment factories. The factories -- employing about 160,000 men and women, or three-fifths of Cambodia's industrial workforce -- now produce millions of shirts, hats and dresses for sale in American department stores.

An especially interesting fact is that success in trade has gone together with a serious effort, though one with some flaws, to develop modern labor policies.

Governments in ASEAN and other developing regions, like traditional free trade intellectuals in the industrial world, typically see linkages between trade and labor policies as threats to growth. They are right, I believe, to say that sanctions-based efforts to raise labor standards are almost always poorly conceived. Such policies, in most cases, will simply force workers out of factory jobs back to far worse occupations picking coffee or cutting sugar cane.

But it is also true that rapid industrialization, if not accompanied by more sophisticated oversight of factory safety and similar issues, can lead to deadly factory fires, workplace accidents and abuses that can be prevented. And trade policy, if carefully conceived and based on incentives for improved policies rather than on sanctions, can make a useful contribution.

Cambodia's experience is a case in point. As the country's manufacturing sector has grown, the Cambodian government has done its best to develop a modern labor policy in response. In this response trade policy, in the form of a unique textile trade agreement signed in early 1999 and up for renewal early next year, has played a useful part.

Most textile agreements simply limit the right to sell clothes in the American market. This one, by contrast, gave Cambodia extra rights to export apparel, on the understanding that Cambodia would reform its labor laws and invite experts from the International Labor Organization to help implement the new code.

So far, it appears that the approach has been reasonably successful. The ILO recently reviewed a group of Cambodian plants -- 30 factories employing over 20,000 people -- and found them largely free of exceptional abuses such as child labor or forced labor. Even American labor activists, so often bitterly opposed to imports, attest that Cambodia's government has kept its side of the bargain. One garment industry union representative told a Senate hearing last spring that "the agreement is responsible for opening some political space for workers and unions to assert their rights."

The record on the American side, unfortunately, is less impressive. The U.S. government's textile bureaucracy is one of the cleverest, most experienced and most protection-minded around. Ever since 1999, it has exploited ambiguities in the agreement's text to deny Cambodia some of the additional access to the U.S. market the agreement had offered. Creating uncertainties in Cambodia's export prospects, this has to some extent deterred higher-value apparel investment, and given ammunition to critics unwilling to consider any role for labor issues in trade policy.

With the agreement set for renewal early in 2002, Cambodians should expect the U.S. to do better. This is especially important as recent events -- the global economic slowdown, the sharp interruption in America's trade flows after September's terrorist attacks, and new competition as the U.S. and Vietnam begin a new trade relationship -- cloud Cambodia's export prospects.

But on balance, the agreement looks reasonably successful. Its incentives, placed on top of the earlier grant of NTR, have helped Cambodia's apparel exports to grow faster and by more than those of any other ASEAN country. And as export growth encouraged creation of new jobs, the labor policy reforms it supported also helped make sure those jobs are fair and safe. The result is a good sign for the future -- if participants in the globalization do not simply assume the worst of one another, their core concerns can be satisfied.

On a larger scale, Cambodia's larger experience is equally heartening. Still today, writers travel to Phnom Penh to cover the aftermath of war and genocide. It's important that they do so. But one hopes that they will see the new -- and for the future, more important -- story emerging in Cambodia's trade success. This is a story of optimism, resilience, and the return of normal life; and it is well worth telling.