

The Likely Impact of Proposed Industrial Zones on Conditions in Cambodian Garment Factories

During 2005 the Cambodian government is going to debate a draft Law on Industrial Zones ('the Draft Law') that will lead to the formation of Export Processing Zones (EPZs) in Cambodia. This paper discusses the impact of these EPZs, to be locally known as Industrial Zones (IZs), on female garment factory workers in Cambodia. In addition to producing garments, the Cambodian IZs may also produce plastics, shoes, textiles. This report focuses specifically on issues in EPZ garment factories, but the information about working conditions is similar to that in other factories.

This report is divided into three parts. Part I outlines the reasons why the Government plans to open IZs in Cambodia. Part II presents an analysis of the Draft Law and, using information from EPZs in other Asian countries, uses this to predict what the conditions in Cambodian IZs might be like. Part III critically assesses the purported benefits of opening an IZ in Cambodia. The report concludes that shifting Cambodian garment factories into IZs will lead to a significant drop in labour standards, and that the IZs are unlikely to produce substantial gains for employment, the community, Cambodian industrial development or the economy.

The Cambodian Garment Production Industry

In 2000, the garment industry in Cambodia accounted for about 87 percent of total exports. It has grown from 35 factories in 1996 to over 220 factories in 2001 and employs 160 000 people, most of whom are young women.¹

An Export Processing Zone is:

*A special industrial zone in which governments grant foreign investors financial incentives such as tax holidays, preferential treatment with respect to various fiscal and financial regulations, and exemptions from customs duties in order to attract investment.*²

Hundreds of export processing zones across the developing world have been created in response to World Bank and IMF structural adjustment policies.³

It is claimed that EPZs enable developing countries to attract foreign direct investment, increase domestic capacity, create new employment opportunities, increase exports and ultimately assist in poverty alleviation. The Royal Government of Cambodia continues to push this policy even though the experience of the vast majority of developing

¹ Royal Government of Cambodia, Ministry of Commerce; WTO; World Bank; UNCTAD; IMF and UNDP, *Cambodia: Integration and Competitiveness Study Part A*, Phnom Penh, 2001, p40.

² International Labour Organization, 'Export processing zones: Addressing the social and labour issues' Available at: <http://www.transnationale.org/pays/epz.htm>

³ Asia Monitoring Resource Center, *We in the Zone: Women Workers in Asia's Export Processing Zone*, AMRC, Hong Kong, 1998, p1.

countries has been that EPZs fail to produce the economic and investment-related benefits that the theory promises.⁴

IZs are currently being planned for Poipet, Pailin, Koh Kong and Sihanoukville. Zones in other areas are also being considered.

I. Rationale for Creating IZs in Cambodia

The End of the Multi-Fibre Arrangement in January 2005

On January 1st 2005 the Multi-Fibre Arrangement (MFA) will come to an end. The MFA is a protectionist quota system set up by the US, EU and Canada in 1974 to protect their domestic garment industries. Under the MFA, developing countries were allocated export quotas on specific textiles and garment items. It was illegal for a particular country to export more than its allocated quota. In addition to protecting jobs in the developed world, the MFA system also distributed garment production around the developing world. Once the most cost-efficient countries had filled their quotas, companies chose to reduce costs by buying garments produced in countries that still had unfilled quota allocations. This meant that even though the costs of garment production are higher in Cambodia, a local garment industry was created to take advantage of the quotas allocated to Cambodia.

In 1995 the World Trade Organisation (WTO) established the Agreement on Textiles and Clothing (ATC). The ATC sets out a process for phasing out the MFA quotas in four stages over 10 years. Contrary to the spirit of the ATC, the US, EU and Canada have waited until the last stage of the ATC to phase out over 80% of the quotas. The elimination of MFA quotas will place the garment industries in developing countries in direct competition. The countries that will benefit from this are those that produce a diversified mix of high-quality high-value added products, are capable of supplying all steps in the production process, and have markets other than those in the US or EU. Although predictions vary, it is likely that China and India will increase their production dramatically, and that production will also shift to Vietnam, South Korea, Pakistan, Hong Kong and Taiwan. Countries such as Cambodia and Sri Lanka, where the garment industries were set up in response to quota shortages will most likely experience massive job losses as production re-locates to more efficient and lower priced countries. Cambodia is in a particularly precarious situation because the majority of the factories are foreign owned. It is estimated that as many as a third of Cambodian garment factories will close in 2005, and that this will lead to a slowdown in national economic growth of between 3.5 and 4.5%.⁵ The government hopes that the “gains in competitiveness” from the IZs will help the economy recover by 2007.

⁴ See for example Kingdom of Cambodia Supreme National Economic Council, *Poverty Reduction Strategy: Second Draft Progress Report*, 30th December 2003, Ministry of Economy and Finance, Council for Social Development. Available from www.mef.gov.kh

⁵ National Economic Council, *PRS: Second Draft Progress Report*, *op cit* n 4.

US Preferential Trade Agreements with Other Countries

A further problem for the Cambodian garment industry is that over the past two years US preferential trade agreements with other countries have cut into the market share of Cambodian garment manufacturers.

Cambodian Economic Concessions and Regional Cooperation Agreements

The WTO system was set up during the Clinton Administration to institute and enforce a global system of trade rules. In spite of purporting to operate on behalf of all members, the WTO agreements prioritise the interests of rich countries, and WTO processes are notoriously difficult for developing countries to negotiate. The WTO's response to the vastly different levels of development amongst its members, has been to set up two schemes through which trade concessions and other support can be provided to developing countries by developed countries. These schemes are called Special and Differential Measures and the Generalized System of Preferences (GSP).⁶ Under the GSP, member states can provide preferential tariff rates on specific products, as well as some non-tariff preferences, to nominated developing countries. However, these schemes are heavily biased in favour of developed country interests, as these countries have the freedom to decide the extent to which they participate in these schemes, and which countries they provide concessions to. In addition to this, countries are only eligible for the scheme if they are classified as "developing" or "least developed" according to the WTO classification system. The classification is decided by WTO members upon a country's accession and is regularly reviewed.

Thailand was recently reclassified from a "developing country" to a "newly industrialized country" within the WTO. It therefore no longer has access to the WTO concessional schemes. Cambodia and Lao PDR are the only countries in the region that still have GSP access. In Cambodia's case, it has GSP access to 28 markets. Thai investors are interested in mitigating the loss of Thai GSP access by shifting manufacturing from Thailand to Cambodia. Similarly, Vietnam is classified as a "developing country" and therefore has fewer concessions than Cambodia.

The creation of Cambodian IZs is also part of an integrated plan for economic co-operation between Cambodia and Thailand. The IZ planned for Koh Kong is located just across the border from Thailand and is being promoted as providing Thai garment manufacturers with 50% cheaper production prices, while still using familiar Thai infrastructure such as roads, electricity and water in the production process. Thai manufacturers will also benefit from "duty and tax free imports of all imported inputs, including their current purchases of Thai inputs..."⁷ Using the same rationale, the Royal Government of Cambodia is planning an EPZ just across the border from Vietnam.

⁶ Trebilcock M J & Howse R, *The Regulation of International Trade*, Routledge, London, 1995, p 307.

⁷ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, *op cit* n 1, p102-103; 'Relative Interests of Industrial Estate Partners', from Draft Report, Ministry of Commerce,

II. The Cambodian Draft Law on IZs and Conditions in Asian EPZs

This section discusses the Draft Law on IZs. The draft contains a number of statements and omissions that raise concerns about the protection of labour rights within the zones. This section quotes the Integration and Competitiveness Study for Cambodia. This Study was published by the Cambodian Ministry of Commerce. It was prepared under the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries which is supported by the WTO, the World Bank, the IMF, the UNDP and UNCTAD as well as some bilateral donors. It was written by Ministry of Commerce officials and a team of consultants, many from the IMF, World Bank and other development institutions. The Study was part of the design process for Cambodia's National Poverty Reduction Strategy (NPRS) facilitated by the World Bank.

Management of the IZs

Under Article 10 of the Draft Law, the Cambodian IZs can be established either by the state, as a joint ventures, or by private companies. It is most likely that in practice private companies will set up the IZs. The Integration and Competitiveness Study for Cambodia comments:

“Given Cambodia's scarcity of experienced managers and limited financial resources the Government is likely to rely upon a private developer to create and manage one or more of the zones.”⁸

For example, the strategy for the Koh Kong IZ, which is currently at the most advanced stages of planning of any of the proposed IZs, is to heavily rely on private financing. It is envisaged that private developers will pay for all zone construction and development costs.⁹

Privately owned zones have been described as the “ultimate expression of EPZs”, because corporations are able to control the incentives, regulations and operation of all zone activities.¹⁰ Countries that allow private ownership of zones often do so because they lack the resources to manage and control the zones through public bodies. This means that the private management is often free from even the most basic public scrutiny. It is within privately owned zones that corporations have the greatest power over workers and working conditions. Private ownership also means that access by worker advocacy groups to workers inside the IZ can be limited or banned altogether. The planning documents indicate that the investor in a privately owned zone will retain full control

Cambodia, Integration and Competitiveness Study prepared for meeting in Phnom Penh November 19-20 2001, 2002.

⁸ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, p100.

⁹ UNDP, *Social Impact Assessment (SIA) of Koh Kong Export Processing Zone Project Draft Final Report*, Phnom Penh, September 2003, p15.

¹⁰ Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p3.

over the use of the land and infrastructure,¹¹ so this may become a problem in the Cambodian IZs.

The role for government in the management model set out in the Draft Law involves the Council for the Development of Cambodia, which is chaired by the Prime Minister and composed of senior ministers from related government agencies. The Council will act as the policy making body for the IZs, but will delegate executive power to another body that would in turn delegate daily management to zone representatives.¹² Rather than encouraging the Cambodian Government to retain this level of over-sight, the Integration and Competitiveness Study proposes that the statutory authority given to the Council should be contracted to a private developer so that the developer has the power to make policy and management decisions.¹³ The Study suggests that under this approach, “[p]ublic interests are still protected through the provisions of government’s agreement with the developer and through legislation”.¹⁴ However, the UNDP Social Impact Assessment for the Koh Kong IZ points out:

“Currently, private financing transactions are not subject to published performance requirements, a competitive bidding process or established procurement procedures, and more broadly, from an appropriate oversight and public scrutiny.”[sic]¹⁵

The contracting out of policy making to a private company will make it difficult to safeguard worker rights.

Labour Laws

Around the world, labour laws have been modified in favour of the producers operating in EPZs. Extremely poor working conditions in EPZs and the widespread failure to protect workers rights within the zones have led to them being described as “zones of oppression”, “links in the chain of exploitation” or “danger zones.”¹⁶ The Draft Law only refers to the Cambodian Labour Law once in Part 3, entitled “Incentives for using the Labor Force”, at Article 25. It stipulates that the salaries or benefits reserved for the labor force, as well as the remuneration of Cambodian laborers, shall be identified in a written employment contract, in accordance with the Labor Law of the Kingdom of Cambodia.

The UNDP has interpreted this to mean that the Cambodian Labor Law will apply within the zones,¹⁷ but a joint statement of Cambodian NGOs on the Draft Law concluded that

¹¹ ‘Relative Interests of Industrial Estate Partners’, Ministry of Commerce, Cambodia, op cit n 7.

¹² Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, p101; Articles 6 and 7 of the Draft Law on Industrial Zones, Royal Government of Cambodia.

¹³ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, p100.

¹⁴ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, p101.

¹⁵ UNDP, *Social Impact Assessment (SIA) of Koh Kong EPZ*, op cit n 9, p15.

¹⁶ Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p2.

¹⁷ UNDP, *Social Impact Assessment (SIA) of Koh Kong EPZ*, op cit n 9, p15.

this was not guaranteed. The joint NGO statement also noted that there was no legal requirement that IZs comply with International Labor Conventions that have been ratified by the Kingdom of Cambodia, or that the Law on Social Security will be enforced.

These omissions do not bode well for the enforcement of worker rights, particularly because Cambodian garment factories have a mixed record of abiding by existing laws, and because in other countries in the region it is common for companies operating in zones avoid legal requirements. For example, a 1993 survey of 180 workers in the three zones in Sri Lanka found that only 17 per cent of the male workers and 39 per cent of the women had written contracts, even though this is required under the Sri Lankan Board of Investment's regulations on Labour Standards and Relations.¹⁸ Research about EPZs in Madagascar, Brazil and Guatemala found that Governments either lack the resources or the will to ensure legislation is enforced.¹⁹

The modification of labour laws is part of a broader trend whereby national governments actively repress worker rights in EPZs in partnership with corporations. To name just a few of the countless examples:

- In the Philippines the government passed laws banning strikes in EPZs
- In Malaysia, the government legislated to prevent unions from operating within EPZs. The government also took aggressive action against Malaysian organizations outside the zones that tried to organize worker activities.²⁰

According to the Integration and Competitiveness Study, the advantages to the developer of investing in the IZs are that it will “[m]inimise risk of cost changes and government interference”.²¹ This fits within the IMF and World Bank’s broad agenda of privatizing government-run services and implementing reforms that liberalise markets. Thus, even before the zones are opened, the Cambodian IZs are being promoted as a place where companies have free rein.

Labour Disputes

The Draft Law is silent on the question of whether the recently established Cambodian labor arbitration council will be authorised to resolve industrial disputes inside the IZs. The only possible reference is contained in Article 8, which states:

The Industrial Zone Administration is the sole and one-stop service administration inside the Industrial Zone. The Industrial Zone Administration has the duty of administering all daily tasks. It coordinates these tasks in order to encourage timely and effective investment-need resolutions in the Industrial Zone

¹⁸ International Labour Organization, ‘Export processing zones: Addressing the social and labour issues’ op cit n 2.

¹⁹ International Confederation of Free Trade Unions, *Export Processing Zones – Symbols and Exploitation and a Development Dead-End*, September 2003, p13. Available at: www.icftu.org

²⁰ Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p63-64.

²¹ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, p100.

The Draft Law does not indicate whether the Industrial Zone Administration will be responsible for mediating complaints by workers or for determining working conditions. If this is the case, the mandate of the Industrial Zone Administration, namely to "...encourage timely and effective investment-need resolutions...", suggests that it will prioritise the interests of the investors over those of the workers.

Physical Isolation

The Draft Law proposes that the entire IZ will be contained in a fenced-off area without public access. This will place workers in a vulnerable position.

Article 5 states:

The Export Processing Zone and Free Trade Centre shall be protected by surrounding walls, and its entrances and exits shall be checked.

This means that NGOs, support workers and other people such as the families of workers will not have easy access to the workers, and could well be denied access altogether. For example, in the Philippines, the zones are enclosed with barbed wire fences and security guards monitor the entrances and exits. According to Filipino trade unionists, it is impossible to enter the zones without authorization from the company management, and this makes it extremely difficult to organise workers.²² Barricades around the zones could also mean that workers may not have the freedom to enter and exit the zone as they choose, even in their free time.

Another concern is that IZ authorities will prevent monitoring of working conditions by independent bodies. The success of the International Labour Organization factory monitoring project in Cambodia has demonstrated that independent inspections of garment factories are critical to maintaining labour standards. However Article 27 states:

Competent agencies of the Cambodian Development Council (CDC), whose task it is to perform inspections, are eligible to enter peripheral manufacturing or service area within the Industrial Zone during working-hours in order to ask for information, research documents, or investigate other cases related to those peripheries, in compliance with the existing laws and provisions. The CDC shall provide a written notification of its inspection at least 24 hours prior to arriving at the site, except in cases where the Director of the Industrial Zone administration shall reserve the right to make such announcements.

This article indicates that only CDC agencies will be able to inspect conditions in the factories or investigate complaints. This means that rather than independent monitors visiting factories, the inspections will be carried out by a body that has a direct interest in maintaining the profitability of the zones and therefore may not report or document violations accurately. The 24-hour notice period also means that in most instances factories will have ample time to prepare for inspections. The proposal mentioned above to delegate CDC authority to a private contractor would further jeopardise the independence of these inspections. It also places the Cambodian government in the awkward position of holding direct culpability for workers rights violations in the

²² ICFTU, op cit n 19, p13-14

factories and makes it easier for the brands that produce in the factories to deny responsibility.

Physical isolation of workers is not only directly linked to poor observance of labour rights, but is often accompanied by close surveillance of workers inside EPZs. Article 4 of the Draft Law decrees that the accommodation center to house the workers will be located inside each zone. In other countries where EPZs have in-zone accommodation, zone authorities have used this control over workers to intrude on the workers personal lives and monitor their activities outside working hours.²³

The joint statement of Cambodian NGOs on the Draft Law suggest the following amendments to the Draft Law:

“Trade Unions and their representatives have adequate freedom to perform their duties in the IZs to ensure the workers’ rights and interests”;²⁴

“Associations/national and international NGOs or Union federations-trade union related to the working sector have the right to communicate, ask for information and research the working conditions and Labor Law enforcement in all zones and centers in the Industrial Zones”;²⁵ and

“An inspection office of the Ministry of Social Affairs, Labor, Vocational training, and Youth Rehabilitation is established inside or next to the IZs to enable the workers who meet difficulties to ask for assistance in the inspection office”²⁶

These amendments demonstrate the shortcomings of the Draft Law.

A common experience throughout the developing world is that the relaxation of labour standards inside EPZs is linked to the creation of jobs that are characterized by poor working conditions, safety hazards and work-related dangers. Health issues are already a major problem for Cambodian garment factory workers. It is difficult for workers to access health care that is independent of the factory management, and management limits medical investigations of worker health complaints. The cost of health care is also prohibitive for workers who earn just enough to survive each month. In a fenced-off area such as that envisaged by the Draft Law, IZ management will have even more power to prevent any external medical teams from investigating health complaints. In Thai EPZs, health issues are solely dealt with by medical teams hired by the factories, and their conclusions about worker health problems often contradict the symptoms experienced by the workers.²⁷

Minimum Wage

At present, Cambodian factory workers are protected by a legislated minimum wage. Although workers generally earn more than this through overtime and other bonuses, the

²³ Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p6.

²⁴ *Joint NGO Statement on the Cambodian Draft Law on Industrial Zones*, prepared by Star Kampuchea, p5.

²⁵ *Joint NGO Statement on the Cambodian Draft Law on Industrial Zones*, op cit n 24, p10.

²⁶ *Joint NGO Statement on the Cambodian Draft Law on Industrial Zones*, op cit n 24, p4

²⁷ Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p76.

minimum wage is not always enforced. Workers who earn the average of around \$60 have trouble meeting family commitments as well as the cost of living near the factories. Many workers eat poorly and avoid seeking medical care because their wages are simply not enough.²⁸ In spite of this, the Integration and Competitiveness Study argues against the minimum wage, stating that the current minimum wage of \$45 is higher than the market can bear and should be reconsidered in the interests of “long-term competitiveness”. For example, the Study notes that minimum wages prevent factory owners from using pay schemes to promote productivity, thus creating a need for additional incentives and pushing up costs.²⁹ Given the uncertainty as to whether the Cambodian Labour Law applies to the IZs, this flawed reasoning may be used to deny IZ workers even the minimum wage.

Corruption

In other Asian EPZs, illegal levies and fees are placed on goods manufactured in the EPZ by both zone officers and government officials. Factory owners claim that this additional cost reduces the advantages of operating in the zones, and use this as an excuse to reduce wages to workers.³⁰ The extent of corruption across all sectors in Cambodia suggests that businesses operating in Cambodian IZs will have to deal with some level of corruption. This already impacts upon Cambodian working conditions as factories attempt to mitigate the loss of profits through corruption by reducing worker standards and wages.

Living Conditions

At present, the living conditions of Cambodian garment factory workers are very poor. They live in over-priced, crowded, insecure and unventilated housing blocks, often in mosquito-infested malarial areas, with little access to fresh water, sanitation or rubbish disposal facilities, and limited access to health care and education. The draft law does not provide workers with any legal rights to health care or other services. The *Project Investment Master Plan for Koh Kong Province (2002-2007)* includes government plans to construct a community health center, elementary school, and office of the District Education Office. Not only will this drain government resources, and potentially be financed through loans from the International Finance Institutions, these incentives are unlikely to substantially assist workers. The Social Impact Assessment for Koh Kong found that the Koh Kong EPZ will suffer from “physical and social infrastructure bottlenecks”.³¹ It concludes:

“... the capacity of the existing and planned physical and social infrastructure (water supply, electricity supply, health services, educational facilities as well as facilities for human waste disposal may appear limited in the event of large inflows of migrants.”³²

²⁸ Womyn’s Agenda for Change, Case Studies, Garment Worker Project 2003

²⁹ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, p69.

³⁰ Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p86.

³¹ UNDP, *Social Impact Assessment (SIA) of Koh Kong EPZ*, op cit n 9, p38.

³² UNDP, *Social Impact Assessment (SIA) of Koh Kong EPZ*, op cit n 9, p38.

The Koh Kong EPZ is expected to create 28000 jobs. It is predicted that migrants to the area will fill at least 23000 of these jobs.³³

Furthermore, while it is not possible to make a blanket statement on what the actual living conditions will be like, at least in the early stages of the Koh Kong zone, housing for migrant workers will be in temporary dormitories,³⁴ and this is very likely to be sub-standard. Drawing on the experiences with EPZs in other countries in the region, it is also possible to predict that many of the services promised for EPZ workers will never materialise, and that "temporary" accommodation may never be replaced with proper facilities.

Other Issues

In addition to the specific problems raised by the IZ legislation, the opening of IZs will also exacerbate a number of problems currently faced by Cambodian garment factory workers. Common problems in EPZs around the world include:

- factory management using the threat of dismissal to discourage workers from taking action on labour rights violations
- factories under-paying workers, refusing to pay proper over-time rates, changing wages, refusing to pay leave and other entitlements
- unreasonable working hours
- inadequate health and safety standards including over-crowding, lack of ventilation, fire hazards, exposure to chemicals, and insufficient breaks.³⁵

III. Purported Benefits of Opening an IZ in Cambodia

According to the Royal Government of Cambodia, the benefits of setting up an IZ are that it will:

- Attract foreign direct investment (FDI) into Cambodia
- Create jobs which will stimulate economic growth
- Facilitate export development by creating infrastructure and utilities
- Develop facilities for transport, communications, power, water, waste management, education, health care and shopping complexes that will be available to the surrounding area.
- Act as a business incubator environment to exchange ideas and experiences
- Help with poverty reduction.³⁶

The World Bank Poverty Reduction Strategy Paper (PRSP) for Cambodia affirms these points, and adds the unlikely advantage that the concentration of export-oriented

³³ UNDP, *Social Impact Assessment (SIA) of Koh Kong EPZ*, *op cit* n 9, p37.

³⁴ UNDP, *Social Impact Assessment (SIA) of Koh Kong EPZ*, *op cit* n 9, p38.

³⁵ ICFTU, *op cit* n 19, p14-15.

³⁶ Hang Sochivin, Head of Technical Bureau, Export Promotion Department, 'Special Promotion Zone (SPZ): a necessary urgent need to absorb FDI' Speech delivered on February 28th 2003, Available at: http://www.moc.gov.kh/Newsletter/version2/special_promotion_zone.htm; see also http://www.cdc-crdb.gov.kh/cdc/socio_economic/economic_sector.htm

enterprises in EPZs would also “permit better control of environmental impacts of specific business activities.”³⁷ There is no reason in either theory or past practice to believe that the will be the case, particularly as the draft law does not include any environmental controls.

However, support for the EPZ strategy is not universal, even amongst the organisations that are pushing it as a strategy for Cambodia. The 2003 International Development Association and IMF Joint Staff Assessment found that:

“... international experience with export processing zones (EPZs) is inconclusive with respect to their efficacy in stimulating growth, and especially poverty reduction.” The Assessment recommended further analysis before opening Cambodian EPZs.³⁸ The World Bank PRSP also raises a number of concerns, in particular that:

“EPZs risk the export of all the benefits along with the products, if they do not guarantee backward linkages and address the possible intensification of income inequalities between rural and urban areas, increased rural to urban migration, and the creation of urban and peri-urban slums.”³⁹

There is no evidence that the income inequality problem is being seriously addressed, and as noted above, the plans for socio-economic infrastructure in Koh Kong at least, will not be enough to meet the demands of rural-urban migration or to shield workers from sub-standard living conditions.

EPZs and the Local Economy

An EPZ is a legally separate enclave from the domestic economy. However, proponents argue that EPZs will benefit the local economy because of “backward linkages” whereby corporations who are enticed into the zones with investment incentives will then purchase materials and services from the local economy, invest in infrastructure built by local companies and bring new technology into the zones that will be transferred to the rest of the economy. As the above comment from the Cambodian PRSP demonstrates, the experience of many countries has been that these backward linkages fail to appear. It is common for companies to buy all the materials for the production process overseas and ship them into the EPZ solely for the purposes of production before shipping them out again. Companies that manufacture in EPZs have also repeatedly failed to invest in the local economy. The flow-on effects of technology are also very limited because EPZ host countries simply do not have the physical and economic infrastructure for high-technology processes used inside the zones to be adopted elsewhere in the economy.⁴⁰ The equipment that is shipped into EPZs is also very often obsolete and in poor condition.

³⁷ Kingdom of Cambodia, *National Poverty Reduction Strategy*, Phnom Penh, 2002, p74.

³⁸ International Development Association and International Monetary Fund, *Poverty Reduction Strategy Paper Joint Staff Assessment*, January 23rd, 2003.

³⁹ Kingdom of Cambodia, *National Poverty Reduction Strategy*, *op cit* n 37, p74.

⁴⁰ Asia Monitoring Resource Center, *We in the Zone*, *op cit* n 3, p70.

At present, the basic materials used in the manufacturing process are imported into Cambodia by foreign firms who merely contract the garment factories to manufacture on commission.⁴¹ Evidence from other countries suggests that this will not change. The Social Impact Assessment for Koh Kong concedes that there might be some possibility of supplier linkages between the zone and the local economy, but states that “Large backward linkage effects within Cambodia should not be expected because of the enclave nature of the firms which typically invest in EPZs.”⁴² The bottom line is that EPZs provide a way for companies to exploit cheap labour in the developing world and have produced few benefits for the host economies or societies.

Infrastructure Development

At the same time as claiming that the EPZs will "facilitate export development by creating infrastructure and utilities" the Cambodian Government is promoting the Koh Kong EPZ as "located close to Thailand in order to take advantage of Thai infrastructure, in particular road and rail links to Thai ports."⁴³ Companies investing in that EPZ will also "enjoy" access to Thai electricity, Thai telephone services and Thai ports.⁴⁴ The Minister of Commerce, Cham Prasidh has publicly commented that companies re-locating to Koh Kong from Thailand "... may re-export their production from the same port of Thailand and reach the same old customer in Europe, but cheaper because it is duty-free ... They will still have access to the good highways and ports on the other side of the border but will beneficiate [sic] of our tax rates. "⁴⁵

This does not suggest that IZs will lead to the development of infrastructure that can assist the Cambodian economy. More worryingly, the Integration and Competitiveness Study argues that “[g]iven the poor condition of much of the country’s infrastructure, scarce infrastructure development resources could be focused initially inside the zone to bring them to an internationally competitive level.”⁴⁶ This means that Cambodia will be pouring money into infrastructure for the benefit of companies with little prospect of a return, but at the expense of infrastructure that could directly benefit the Cambodian people.

Employment Opportunities

New jobs will be created by the EPZs, but in other countries in the world this has been at the expense of working conditions and wages. The jobs in EPZs do not provide workers with marketable skills (see below) and are not sustainable - on average, an EPZ worker

⁴¹ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, Terms of Reference.

⁴² UNDP, *Social Impact Assessment (SIA) of Koh Kong EPZ*, op cit n 9, p10.

⁴³ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, p98.

⁴⁴ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, p103.

⁴⁵ Cham Prasidh, Minister Of Commerce, The Kingdom Of Cambodia, from an interview in Phnom Penh, 4th of March 2003, Available at: <http://www.winne.com/asia/cambodia/2004/vi02.php>

⁴⁶ Royal Government of Cambodia et al, *Cambodia: Integration and Competitiveness Study*, op cit n 1, p98.

stays in the zone for between two and a half to three years.⁴⁷ It is commonly argued that it is better to create sub-standard jobs than to have no jobs at all. The reality, as the ILO has pointed out, is that this is not a strategy for the sustainable reduction of poverty. The 2003 ILO Report *Working Out of Poverty* found instead:

“Breaking cycles of poverty is thus really about creating a new cycle of local wealth creation, in which step-by-step progress towards more and better jobs and social inclusion are mutually reinforcing.”⁴⁸

Furthermore, the experience in other countries has been that EPZs have failed to create the estimated number of jobs. In the Philippines for example, the CALABARZON zone generated only 20,865 of its target of 150,000 new jobs.⁴⁹

The first problem with the argument that EPZs will create jobs and stimulate economic growth is that the Cambodian EPZs are partly designed to retain jobs that will otherwise be lost when the MFA ends. The Social Impact Assessment for Koh Kong also found that indirect employment from EPZs is very limited because EPZs tend not to interact with the local economy.⁵⁰

A second problem is that EPZ jobs do not increase the local skills base. Foreign investors are attracted to EPZs because of the cheap labour they provide and rarely invest in building the skills of the workforce. Article 26 of the Draft Law places no legal limit on the employment of foreigners in the IZs. This means that, as has happened in EPZs overseas, foreigners will most likely be employed to do most of the skilled jobs. There is no incentive to train Cambodian workers and no way that Cambodian people in low-skilled jobs can work their way up to better jobs. This also means that working conditions are likely to remain low. A study by the Brookings Institute of EPZs in Costa Rica, the Dominican Republic and the Philippines found that working conditions only improve as businesses shift from requiring low-skilled to slightly higher-skilled workers.⁵¹

The Joint NGO Statement suggests the following two amendments to the Draft Law:

The IZs “shall be allowed to hire foreign nationals who are management personnel, experts, technical personnel and skilled workers provided that the qualification and expertise are not available among Cambodian nationals” and
“IZs developers and investors in the IZs shall have the obligation to provide adequate and consistent training (culture, general knowledge and vocational skills) to Cambodian employees; and the promotion of Cambodian employees to senior positions will be made over time.”

Although workers in EPZs are exposed to new technologies, this usually has a negative effect on work conditions. The AMRC found that:

⁴⁷ International Labour Organization, ‘Export processing zones: Addressing the social and labour issues’ op cit n 2.

⁴⁸ ILO, *Working Out of Poverty*, International Labour Conference 91st session, Geneva, 2003, p37.

⁴⁹ Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p113.

⁵⁰ UNDP, *Social Impact Assessment (SIA) of Koh Kong EPZ*, op cit n 9, p33.

⁵¹ ILO, *Working Out of Poverty*, op cit n 48, p91.

"New technology is often designed merely to increase the pace and intensity of work, rather than improving the working conditions of those who use it. In the absence of any real training it also creates more physical and mental stress for workers who are unfamiliar with this technology. Of course this technology is not always new, but is relocated from elsewhere because it is old or because it fails to meet health and safety requirements."⁵²

Export Orientation

The World Bank and IMF are encouraging Cambodia to attract foreign investment as part of an export orientated strategy to increase the competitiveness of Cambodian industry.⁵³ This has been the rationale for setting up EPZs in other Asian countries such as Indonesia. However the experience has been that EPZ factories merely exploit cheap labour by subcontracting orders from the developed world, and have not developed local export capacity. Ten years after the government established EPZs as part of an export-led industrialization strategy in the Philippines, the verdict was that "there is no significant change in the economic conditions of the country." The strategy had "failed to deliver on its promise of creating employment and promoting industrialisation".⁵⁴

Conclusion

In October 2003 the ILO Seventh Synthesis Report on the Working Conditions Situation in Cambodia's Garment Sector was released. To quote the 2nd PRS Progress report, the ILO found that throughout the year there had been:

- improvements in compliance with laws on wages and hours
- greater respect for freedom of association
- improvements in labor-management relations
- fewer illegal dismissals of union leaders
- fewer illegal strikes
- the successful establishment of Cambodia's first labor arbitration council for resolving industrial disputes
- and the recent negotiation of the garment sector's first true collective bargaining agreement.

The report also noted continuing problems in relation to incorrect payment of wages, involuntary and excessive overtime and anti-union discrimination.⁵⁵

This paper has demonstrated that the opening of EPZs in Cambodia threatens to undermine the few gains in labour standards that have been achieved to date and to push conditions well below standards that exist in Cambodia today.

Key areas of concern for workers are:

⁵² Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p5.

⁵³ Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p104.

⁵⁴ Asia Monitoring Resource Center, *We in the Zone*, op cit n 3, p83.

⁵⁵ National Economic Council, *PRS: Second Draft Progress Report*, op cit n 4.

- Private control over IZ management systems
- Inadequate protection or enforcement of the Cambodian Labour Law
- Possible investor-biased labour disputes procedures
- Physical isolation of workers inside the zones
- Potential for the violation of minimum wage laws
- Corruption and its impact on worker wages
- Inadequate temporary living conditions
- Failure to fulfil promises of social and community services for workers and communities near the IZs

At the same time, the benefits of the IZs for the Cambodian people and the Cambodian economy are questionable. Failure to establish backward linkages limits any potential for IZ production to benefit the local economy, infrastructure development will most likely only service the needs of IZ-based companies, employment opportunities will be limited to IZ-based jobs in poor conditions with little prospect of worker training, and the export orientation theory that is heralded as a poverty alleviation strategy has failed in other countries.

In an attempt to halt the transfer of production from Cambodia, and to attract new investment after the end of the MFA, the Ministry of Commerce plans to market Cambodia as an ethical producer country. This strategy involves encouraging big brands to view Cambodia as a “safe haven” where production is guaranteed to meet minimum standards that are above those in other countries.

The opening of EPZs in Cambodia directly contradicts this strategy. The conditions in the factories located inside the IZs, and the serious omissions in the Draft Law will jeopardise any attempt to present Cambodia as an ethical producer country. It will also further jeopardise the health and welfare of Cambodian women working in the garment factories.