

ATINER CONFERENCE PAPER SERIES No: CBC2014-1430

Athens Institute for Education and Research

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**ATINER's Conference Paper Series
CBC2014-1430**

**Institution Building to Foster
Development: Cambodia's Trade
Union Setting in Discussion**

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This paper should be cited as follows:

Homlong, N. and Springler, E., (2015) "Institution Building to Foster Development: Cambodia's Trade Union Setting in Discussion", Athens: ATINER'S Conference Paper Series, No: **CBC2014-1430.**

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URL Conference Papers Series: www.atiner.gr/papers.htm
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ISSN: **2241-2891**
27/05/2015

Institution Building to Foster Development: Cambodia's Trade Union Setting in Discussion

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Abstract

Theories on economic development suggest that the institutional set-up of an economy is crucial to promote sustainable economic growth. Cambodia's textile industry, which is of great importance to Cambodia's economic development, was hit by numerous strikes in 2014. This development raises questions about the effectiveness of Cambodia's textile trade union in promoting social and economic development for its members and the economy. Therefore the following research questions are addressed in this paper:

Have unions contributed to improving the wage level in line with the macroeconomic performance in Cambodia's garment industry?

Can institutional weaknesses be detected in the wage bargaining process and hinder further improvements of working conditions?

Methodologically the paper draws on an adapted Calmfors/Drifill model to create a typology of trade unions' structural features and macroeconomic performances to analyze the current situation in Cambodia. As deviations between the macroeconomic aims of the legal setup of trade unions and the actual institutional outcomes can be detected, statistical data on trade union density and development is enriched by expert interviews.

Key words: Cambodia, Corporatist structures, Economic development, Garment industry, Wage bargaining process

Introduction

In 2014 news about unsocial and unethical working conditions, as well as too low wages in the Cambodian textile industry hit the global community (e.g. Chun and Sun 2014). Trade union representatives were arrested, strikes increased and chaotic scenarios seem to hamper economic development. As a result also numerous international textile brands re-evaluated the outsourcing of parts of their production to Asian Economies, especially to Cambodia (see e.g. joint Open letter¹ to the Permanent Deputy Prime Minister from C&A, H&M and others). This increased the worries of a downturn of the current economic development process. These worries are also supported by economic approaches of development: theories on economic development suggest that the *institutional set-up* of an economy is crucial in promoting sustainable economic growth. Especially emerging markets are in the course of setting up new institutional frameworks once they have reached a certain level of economic development, mainly driven by export-oriented development strategies (e.g. Thirlwall 2011).

Given these developments this paper seeks to shed light on the effectiveness of Cambodia's garment trade unions in promoting social and economic development for its members and the economy. This leads to the following research questions:

- Have unions contributed to improving the wage level in line with the macroeconomic performance in Cambodia's garment industry?
- Can institutional weaknesses be detected in the wage bargaining process and hinder further improvements of working conditions?

Methodologically the paper draws on an adopted Calmfors (2004) and Drifill (2005) model to create a typology of trade unions' structural features and macroeconomic performances to analyze the current situation in Cambodia. As deviations between the macroeconomic aims of the legal setup of trade unions and the actual institutional outcomes can be detected, statistical data on trade union density and development is enriched by expert interviews, to detect aspects in the institutional setting of Cambodian trade unions in need of reconfiguration.

Stylized Facts: Cambodian Trade Unions Under “Distress”

The Importance of the Textile and Garment Industry

Accounting for about 16% of Cambodia's total GDP and for 70 to 80% of Cambodia's total export revenue, the garment industry is of major importance for Cambodia's economy (Phnom Penh Securities 2013, Textile World Asia

¹<http://www.evalliance.eu/IMG/pdf/rev5-2.pdf?19/389e0818a3f441f85b30bce9c0b8c0e1f467af2c>

2013). Cambodia's growth strategy in this industry has been to capitalize on low-cost labor-intensive production with strong export orientation. In terms of location, textile and garment factories are concentrated in the provinces, which are in the vicinity of the capital Phnom Penh, as well as in the province of Siem Reap, while peripheral regions have not been targeted as locations for garment factories (Invest Vine n.y.). In spite of that, also peripheral regions have been benefitting from this industry. Approximately 400,000 persons – with over 90% of them women – work directly in the textile and garment industry. By employing predominantly women from poor rural areas with low education levels, the garment industry has also been an important factor in reducing poverty (Phnom Penh Securities 2013, Yamagata 2006).

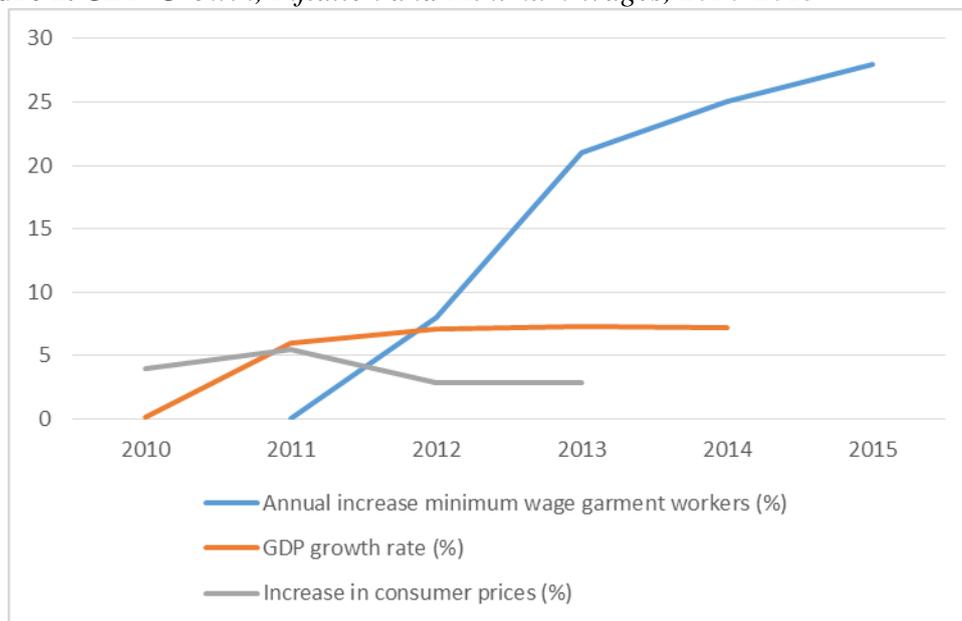
In contrast to other sectors in Cambodia, domestic investments play a minor role for the garment and textile industry, while foreign direct investments (FDI) account for about 90% of the investments in this industry. The majority of investments come from Asian countries, namely China, Taiwan, South Korea, Malaysia and Singapore. There are a number of features that make Cambodia attractive for FDI. On the one hand, Cambodia offers production at low labor costs and provides favorable conditions for FDI. On the other hand, production in Cambodia grants preferential market access in terms of duty and quota free access to the EU and the USA (UNCTAD 2013, 3-4, Asuyama and Neou 2012: 6-7), and the country is located in proximity to ASEAN markets.

A bilateral textile agreement between the United States and Cambodia, which was in force from 1999 to 2005, linked increased access of Cambodian textiles to the US market to compliance with labor regulations. Among these were the payment of minimum wages, prohibiting child labor and forced labor, regulations on work hours and the right to join unions (Homlong and Springler 2014). In 2001 this led to the establishment Better Factories, a project by the International Labour Organization. Also after the end of the trade agreement Better Factories is monitoring working conditions in garment factories in Cambodia (ILO 2008). In the past years, in some aspects a worsening of working conditions could be observed. Among others, the number of cases of child labor and short-term work contracts are on the rise (Homlong and Springler 2014). Among the causes for these developments is the fact that Cambodia's garment industry is facing challenges in competitiveness in terms of pricing, quality and speed to market. The industry is therefore trying to improve its competitive position by trying to keep wages low and by limiting permanent positions and rather only granting fixed-duration work contracts (Arnold 2013). Another major weakness is the position of Cambodia's garment industry in the value chain – Cambodia's garment industry is focusing mostly on the final stages of garment production, with cutting, sewing and trimming. There is little domestic textile production, and the industry is relying on imported fabrics and yarns, mainly from China and other Asian countries (Textile World Asia 2013).

Development of Minimum Wages in the Garment Industry and Overall Economic Development

In the years leading up to the global economic crisis, Cambodia's economy experienced robust GDP growth rates at or exceeding 10%. Cambodia was strongly affected by the crisis, resulting in a severe drop in GDP growth - amounting to only 0.1% - in 2009. However, Cambodia's economy recovered quickly, and as can be seen in figure 1, from 2011 GDP growth rates have been at about 7% (World Bank 2014). Consumer prices increased by 5.5% in 2011, since then increases have been at around 3%. As shown in figure 1, minimum wages have experienced significant growth, with the highest increase rise in this time period from USD 80 to USD 128 as a result of the latest minimum wage increase in 2014.

Figure 1. GDP Growth, Inflation and Minimum Wages, 2010-2015



Source: Trading Economics 2015, Ulandssekretariat 2012, Ulandssekretariat 2014, UNCTAD 2013, Wall Street Journal 2014, Author's calculations

Institutional Set Up of the Wage Bargaining Process to Promote Economic And Social Stability

Especially due to the quick economic development of European Economies that followed a Keynesian economies policy mix after the Second World War, economists started discussing the importance of the institutional setting for wage policy (in this context the specific structure of the wage bargaining process in economies like Austria is analyzed – see among others Tálos 1993). Neoclassical approaches state that the labor market has to be seen as any other market and indicate that following Say's law, supply side economies policies would lead – under the assumption that markets are free of

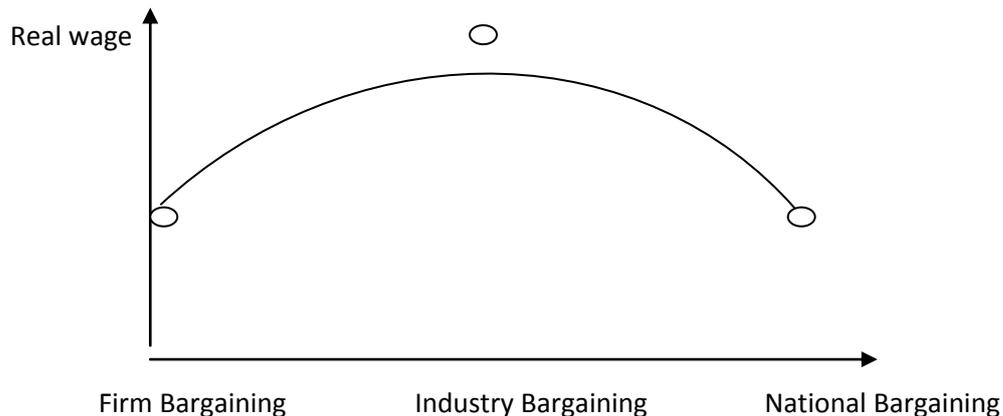
state invention - to a general economic equilibrium. Conversely to this, Keynesian approaches claim that the labor market has to be fostered within a stable institutional setting. Trade unions are not blamed for disturbing free markets, but should diminish uncertainty when properly embedded into national wage policies. The question that arises out of this understanding of wage policy is how the national wage bargaining process should be set up (not only in terms of organization but also regarding its institutional structure) to reach the best possible macroeconomic and social outcome in terms of low unemployment, low inflation, support of economic growth and social peace in terms of low strike rates. Also newer standard economic approaches reflect the importance of institutions, as pointed out among others by Dorward et al. (2005). The models described in the following are regarded as crucial for the understanding of the discussion of the importance of the institutional structure for the wage bargaining process and the power of trade unions.

Corporatism: Old and Revisited Hypotheses

An important model describing the impact trade unions and the structure of the wage bargaining process have on economic and social indicators and leading the whole discussion was presented by Calmfors and Driffill in the late 1980s.

The center of the argument of the so-called Calmfors Driffill hypothesis states “...that both very centralized and very decentralized wage bargaining systems are likely to produce real wage moderation and high employment.”(Calmfors 1993:165). This indicates that strong trade unions would not – unlike the assumptions of the economic advisers of the 1980s – lead to high unemployment and high wages. The argument for the hypothesis is that very centralized wage bargaining structures take the real consumption wage for the whole industry and not just the one for one single company into account, when opening the wage bargaining process. A centralized bargaining process indicates also that a rise in the real wage level increases the wage level on the national level as a whole and has an impact on the inflation rate. Therefore increases in real wages depend on the overall macroeconomic performance and are coordinated with employers’ representatives, who in turn have an incentive to increase their profits but are as well interested in promoting macroeconomic stability and in promoting consumption wages up to a certain point. While an increase in the consumption wage diminishes profits, a rise in the output price induced due to raising wages reduces the decrease in profit. In the case of a much decentralized bargaining process the impact on the real wage level might be low, as a perfect competitive structure of the goods market is assumed.

Figure 2. *Calmfors/Driffill Hump Shaped Real Wage Curve*



Source: Calmfors 1993

If his assumption is relaxed, the impact on the firm level for the overall wage level might be higher. Similarly the impact for the wage level in the case of a very centralized bargaining structure might increase when an open economy with a strong export sector is assumed, as part of the wage increase is consumed for imported goods. Figure 1 shows the graphical explanation of the Calmfors and Driffill hypothesis of a hump shaped aggregate real wage level. The structure presented in Figure 1 resembles the assumptions of monopolistic competition and a strong external sector (see for the impact of increased foreign competition in the EMU also Calmfors 2004). Therefore the results of firm and national level bargaining are at a similar level. In case of a more closed economy the results of the national level bargaining would lead to an overall lower level of real wages. The national level wage bargaining process is called *corporatist structure*.

To compare the wage bargaining processes between economies, the following indicators were considered: to be classified as national wage bargaining economies, a *strong centralized bargaining* process, e.g. one strong federation bargains for all trade unions, in combination with *high trade union density* was assumed. Economies usually classified as strong corporatist societies were among other Scandinavian Economies, as well as Austria. Austria incorporated a system of so-called *Social Partnership* (= *Sozialpartnerschaft*) (especially in the 1950s), in which the *Federation of Trade Unions* and the *Federation of Employers* under the supervision of the *Ministries of the Economy and Finance* bargained over real wages, as a so-called price commission (*Paritätische Kommission für Lohn- und Preisfragen*) existed till the 1960s to control for inflation. After that period the bargaining process concentrated on nominal wages (Tálos and Kittel 1995:118 [12]). As these economies focused in the wage bargaining process also on the overall macroeconomic performance of the economy, these economies showed moderate levels of real wages – and annual increases, which broadly reflected annual GDP growth rates plus a markup for the rise in productivity. Compared to this also economies with a *firm bargaining structure* were supposed to show

a comparable level of the overall real wage rate, with another causal mechanism in the background. In this case trade unions are assumed to be very weak with maybe a negligible number of members and a very low degree of centralization. In this case trade unions do not have the power to demand an extraordinary high wage rise, therefore pressure on the overall price level remains low, but also nominal wage rises are moderate. The *middle-position* of industry wide wage bargaining process resembles in this understanding the idea of *beggar my neighbor* – in this case another industry. Industry bargaining in the understanding of Calmfors (2004) Driffill (2005) in combination with medium density – quite respective numbers of members in scattered trade unions, which do not bargain under an umbrella organization, but for themselves – try to reach the highest possible gain in terms of wage rise for their members. Insider-outsider theory applies - leads to layoffs in the industry of the medium strong trade union and employees are forced to switch to another sector, maybe with a similar situation of the wage bargaining process. This leads to an overall situation of higher real wages in comparison to the other two solutions, and fulfills the neoclassical argument that the existence of trade unions leads to high wages and price pressure, which in the end lead to an upward spiral of nominal wages and prices in combination with a rise in unemployment. From the first sight this situation fulfills the criteria for the neoclassical demand to suppress trade unions. When taking a closer look, it becomes evident that the complex underlying institutional structure is the crucial factor. Conversely to mainstream analysis, the approach of Calmfors and Driffill leads to the conclusion that the proper set up of institutions and the structure of the wage bargaining process itself are crucial for the long term impact on macroeconomic indicators.

From the late 1980s onwards numerous changes in the structure of international relations – e.g. the transition of former Socialist Economies in Europe - as well as national structures - e.g. overall decline in trade Union membership – occurred (see among other Driffill 2005). This leads to a necessary revisiting of the Calmfors and Driffill analysis and a critical evaluation (see among others Gürtzgen 2003).

Defining Indicators to Structure the Institutional Set Up

Based on these developments also the analysis of the structure of the institutional features of the wage bargaining process became more developed, especially when it comes to the definition of the *corporatist structure* and how to measure it.

Applying this more differentiated approach, two dimensions of the structural set up of trade unions can be identified (Traxler 2001, Hein 2004): *forms of wage regulation – horizontal coordination*, and *structure of the intermediation of interest – vertical coordination*.

As it regards *wage regulation*, six different forms of wage regulation can be distinguished in the wage bargaining process (Traxler 2001: 5ff): Four forms can be regarded as corporatist approaches. Alternatives to corporatist forms of wage setting can be on the one hand an *autocratic approach*, in which

a state authority has the right to constrain a solution and represses the power of the bargaining institutions involved at the same time. Conversely to that, in a corporatist approach the wage bargaining process is settled via a voluntary agreement. Another solution apart from corporatist approaches might be a *pluralistic wage* agreement, in which there is no focus on the macroeconomic dimension. Within corporatist approaches, *inter-organizational*, *intra-organizational*, *pattern seeking* and *state collaborated coordination* can be distinguished. Inter-organizational wage bargaining processes claim that an agreement is found by the employees' and employers' organizations, while the state is not involved. Whenever an intra-organizational agreement is reached, the respective leading organizations of employees' and employers' interests find an agreement within the respective organization, without an agreement between the two parties. If the wage agreement is reached with state coordination, this represents a tri-party situation. Pattern seeking corporatist approaches start off with a specific sector, which leads the wage bargaining process and should have the function of a trend line for all the other sectors of the economy. Discussing the pattern of the wage bargaining process in this way, the traditional distinction between macro-agreements for corporatist wage bargaining systems and non-macro agreements for non-corporatist wage bargaining systems are differentiated, as intra-organizational, as well as pattern seeking models start with a meso-level. Therefore it becomes more important that also the vertical dimension shows a corporatist structure. The mixture of both dimensions accounts for the classification of the wage bargaining process.

The *vertical dimension* of the coordination process addresses the question of the level of the representative power of the trade union, the level of agreement and the role of the state in granting the representative and organizational power of the representatives. The level of representative power is measured by the *concentration and centralization* of the agreement. Whenever both is given, this is an indicator for a corporatist structure. Whenever an effective obligation to enforce the agreement is given, the structure is regarded as corporatist.

Development and Status of the Wage Bargaining Process in Cambodia

Literature (see mainly for this part Nuon and Serrano 2010, Yoon 2009) divides the development of trade unions in Cambodia generally in three parts: the first period is characterized by state controlled unions, and starts already during the Khmer Rouge regime. While little is known about the structure during the Khmer Rouge regime, it can clearly be pointed out that in 1979 when the new government was set up, also so called *syndicates* (Nuon and Serrano 2010: 20) were established. Unionized workers were mainly civil servants – in those days also e.g. rubber plantations were run by civil servants. The structure was top-down and strongly connected to the communist party (Nuon and Serrano 2010:22). The second period (1990 to 1993) is determined by the transition towards a free market economy. In this period many ideas for

union set up came from Vietnam. The transition towards a market economy also demolished the system of state controlled unions and reshaped the structure towards independent trade unions. The third and so far last period started in the late 1990s and is mainly characterized by the growth, expansion, but also splits within the trade union movement.

Trade Unions in the Textile and Garment Sector

As figure 2 shows, currently there are nine registered trade union confederations Altogether 68 federations exist in Cambodia, which comprise more than 1,700 individual trade unions. Compared to that, in 1997 only about 20 trade unions – covering different economic sectors – existed. Today the actual number might be higher than 1700. The Cambodian Garment Manufacturers’ Association names 3,000 (interview Monika), but Cambodia has an imprecise system of recording active unions. Most trade unions are affiliated with Cambodia’s ruling party, the Cambodian People’s Party, but some unions are affiliated with the opposition party or are independent. Trade unions are formed at the enterprise level and can be affiliated with a union federation. It is also allowed to form more than one trade union at the firm level in each company (Ann et al. 2006: 10). In Cambodia the regulations make the foundation of unions easy, only eight persons can found a union (interview Pichmalika and Tivea).

Despite of this large number of trade unions, only a small share of workers is unionized. BNG Legal (2013:2) estimates that only about 1% of the total workforce is unionized, while Ulandssekretariatet (2014) estimates that 7.7% of the workforce (approximately 650,000 workers from all sectors of industry) are unionized. This source marks this as a sharp increase compared to figures from 2012, when about 484,000 persons were reported as trade union members according to their statistics (Ulandssektretariatet 2012: 3). These tremendous differences are the result of different approaches of determining the size of the labor force. This also indicates the massive problems statistical data is confronted with generally when it comes to the Cambodian labor market. It is estimated that around 90% of the workforce are employed in the informal sector (Ulandssektretariatet 2014). Therefore all data presented can only be a rough estimate.

Figure 3. Structure of Trade Unions in Cambodia

Trade unions in Cambodia	
Registered trade union confederations	9
Registered trade union federations	68
Registered trade unions	1,758
Dues per month (standard)	US\$0.25
Members of trade unions confederations	646,104
Trade union members share of labour force	7.7 %
Trade union members to waged workers	25 %
Female member share of trade unions	83 %
Members of affiliated trade unions from the informal economy (IDEA and NACC)	24,819
Number of CBAs	405
Workers covered by CBAs (NACC, CCT, CLC)	63,665
Share of waged workers covered by CBAs	2.5 %
Labour force (2013)	8,597,000

Source: Ulandssekretariatet 2014:4

Wage Bargaining Process and Minimum Wages in the Garment Industry

In general, collective bargaining in Cambodia can take place at the enterprise level or at the industry level (ILO 2008: 23). Each trade union can bargain collectively with the respective employer. In case there is more than one trade union, the agreement reached with the majority trade union is applied to all workers (independently also minor trade unions can bargain and reach an competitive agreement which only applies to its respective members) (Yoon 2009:16). In the garment industry the wage bargaining process is conducted at the industry level between GMAC (Garment Manufacturers Association in Cambodia) and the union federations. Although not all factories might be members in GMAC, the whole industry is forced to implement the reached agreement as minimum wage level (ILO 2008: 24). On top of this, individual companies can agree on higher wages than the minimum wage level.

Assessment of the Theoretical Framework: Critical Evaluation and Proposals for Future Development

In the following in the level of corporatism is assessed applying the indicators of the adapted Calmfors and Driffill model presented above and discussing potential additional elements of structural characteristics as determined by expert interviews.

Corporatism according to Horizontal and Vertical Indicators

Apart from the wage bargaining process, which is presented in section 4.2, the general wage regulation mechanism is relevant to detect the level of corporatism in the section of *horizontal coordination*. (see Figure 3)

Figure 4. *Assessment of the Institutional Features of the Wage Bargaining Process in Cambodia*

Indicator	Structure in Cambodia	Level of Coordination / Corporatism
Horizontal coordination		
<i>Wage regulation</i>	Industry: garment; company level; no macroeconomic level	<i>Pluralistic</i> , the garment sector does not function as main sector for a <i>pattern seeking</i> wage bargaining process yet.
Vertical coordination		
<i>Centralization</i>	Weak in all sectors	Weak
<i>Concentration</i>	In the garment industry stronger than in other sectors, but still very fragmented	Weak
<i>Enforcement of the agreement</i>	Fragmentation diminishes power of enforcement	Weak

Source: Author's Presentation and Analysis.

It turns out that out of the six mentioned forms for wage regulation the situation in total Cambodia would most resemble a *pluralistic approach* as trade unions can bargain on enterprise- as well as at industry level. For the situation in the garment sector, one can detect differences, as in this case an industry wide approach is promoted. As the garment sector cannot be regarded as a leading industry in terms of the wage bargaining process, it can be noted that Cambodia is at the moment not following a pattern seeking approach. Although the state has power to enforce the Labor Law, also no specific autocratic approach can be detected. This leads to the conclusion that overall the wage bargaining process is not yet corporatist. The garment industry might serve as pattern seeking industry in the future, once the wage bargaining process is reshaped and strengthened also in terms of vertical coordination, but so far no such tendencies can be observed.

The high numbers of trade unions increase the risk to be marginalized (Yoon 2009: 5; Nuon and Serrano 2010: 69), as they are too fragmented. Of course while this aspect might be negative for the enforcement of *the agreement* and the *vertical coordination* power of the trade unions, it is a sign of an increase in the democratic governance of the economy. As regards *concentration* and the level of unionization, the structure differs quite substantially between the sectors. While in the garment sector around 60% of the workers across all garment factories are unionization, e.g. in the tourism sector only 0.06% of the workers are members of a union.

Additional Structural Weaknesses in the Cambodian Wage Setting Process

In addition to the issues discussed in chapter 5.1, other structural features of trade unions in Cambodia also pose problems. On the one hand there is the motivation for the foundation of unions and the strategies chosen as a consequence of that. As mentioned, there is a low threshold for the foundation of unions. As a result of that, there are factories with as many as 40 to 50 unions. The unions are dependent on the financial contributions of their members – USD 0.25 per member per month for most unions (Ulandssekretariatet 2014: 5). This puts union leaders under pressure to be uncompromising in negotiations with factory owners. One interview partner (interview Gridling) stated that in some cases unions are putting companies with high compliance with regulations and good working conditions under pressure in order to demonstrate to their members that they are achieving improvements for them. Another problem is the lack of cooperation between unions in the same factory (interviews Gridling and Monika).

On the other hand, corruption – which is generally widespread in Cambodia – is also an issue. Some of the unions are demanding money for not raising unrest (interview Gridling). In some cases unions are led by criminals (interview Monika), but as a result of a new union law, criminal records have to be presented upon the formation of a trade union (interview Pichmalika and Tivea).

Concluding Remarks

Despite of the fact that the garment industry is the leading industry in terms of contribution to GDP growth in Cambodia, neither the wage bargaining process, nor the institutional structure are following a corporatist approach. Furthermore, as shown in figure 1, the outcome of the wage bargaining process is not in line with the macroeconomic performance of the economy. Especially in the last years minimum wages increased sharply without comparable increase in labor productivity. Given the leading role of the garment industry, in the future this sector might serve as pattern seeking form of corporatist wage bargaining. So far our first research question “*Have unions contributed to improve the wage level in line with the macroeconomic performance in Cambodia’s garment industry?*” has to be answered with a clear NO. As it regards the second research question about *institutional weaknesses* it has to be stated that numerous institutional weaknesses can be detected – as mentioned in section 5.2. – that hinder further improvement not only of the working conditions, but also of the institutional structure of the labor market. To reach this strong institutional setting to promote economic growth, these weaknesses need to be tackled.

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