



African Cotton & Textile Industries Federation

REPORT ON CAMBODIA TEXTILE & GARMENT INDUSTRY

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Prepared by:

M. Zakir Hossain
Chief Executive, Young Consultants
Bangladesh
Email: youngconsultants@gmail.com

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Acronyms

ACP	-	Africa, Caribbean and Pacific
ASEAN	-	Association of South-East Asian States
ATC	-	Agreement of Textiles and Clothing
CDC	-	Council for the Development of Cambodia
CDRI	-	Cambodia Development Resource Institute
CIB	-	Cambodian Investment Board
CIF	-	Cost-Insurance-Freight
CIV	-	Customs Import Value
EBA	-	Everything-But-Arms (Initiative)
EC	-	European Commission
ETE	-	Export Tax Equivalent
EU	-	European Union
FDI	-	Foreign Direct Investment
FOB	-	Freight-On-Board
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Gross Domestic Product
GEM	-	General Equilibrium Modeling
GMAC	-	Garment Manufacturers Association of Cambodia
GSP	-	Generalized System of Preferences
GTAP	-	Global Trade Analysis Project
HS	-	Harmonized System
ICS	-	Investment Climate Survey
ILO	-	International Labor Organization
IMF	-	International Monetary Fund
LDCs	-	Least Developed Countries
LOI	-	Law on Investment
MFA	-	Multi-Fibre Agreement
MFN	-	Most-Favored Nation
NAFTA	-	North American Free Trade Agreement
NIEs	-	Asian Newly-Industrialized Economies
OTEXA	-	Office of Textiles and Apparels (USA)
RGC	-	Royal Government of Cambodia
SAARC	-	South Asian Association for Regional Co-operation
SITC	-	Standard International Trade Classification
SME	-	Small and Medium Enterprises
TATA US	-	Cambodia Trade Agreement on Textiles and Apparel
T&G	-	Textiles and Garments
USA	-	United States of America
VER	-	Voluntary Export Restraint
WB	-	World Bank
WTO	-	World Trade Organization

1.0 Overview of the Cambodian Economy

1.1 Country Background

The Kingdom of Cambodia is one of the fastest growing developing countries in Southeast Asia, occupies an area of 181,035 square kilometers at the south-western part of the Indochina peninsula. It has boundaries with Thailand, Laos PDR and Vietnam and to the Gulf of Thailand. The most important cities are the capital Phnom Penh with more than 1 million inhabitants, Battambang, Kampong Cham, Siem Reap and Sihanoukville. After the 1993 elections the Cambodian government formulated comprehensive macroeconomic and structural reforms towards a market-oriented economic system. The government encouraged the private sector, both domestic and foreign, as an engine of growth and economic development and poverty reduction. As such, the government put adequate stresses on sustained improvements in governance environment and improved infrastructure that could accelerate private sector development through promoting the growth of SMEs and export diversification. Since 2000, the economic development of Cambodia has been attributed to the stabilization of the currency, reduction of the inflation rate, and enhancement of export activity, mainly led by foreign direct investment¹.

1.2 Socio-Economic Profile

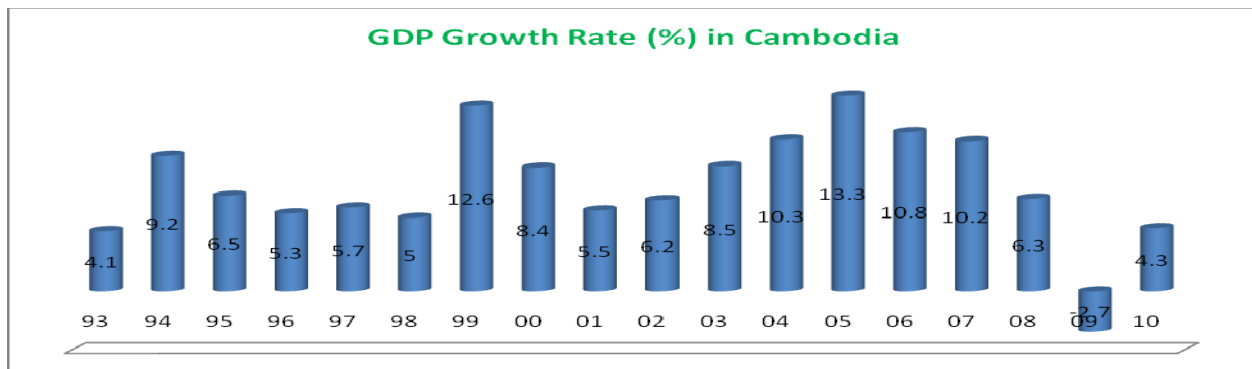
Cambodia is classified as a least developed country (LDC). Cambodian socio-economic status may be described at a glance as below:

- Area: 181, 035 sq km
- Population: 14 Million (2009)
 - Labor force: Male 7,053,398 (53%); Female: 3,608,345(47%)
 - Population growth rate : 1.54%
- GDP : US\$7.2 billion (2008)
- GDP per capita : \$739
- Religion: 95% are Buddhist
- Government: Constitutional Monarchy
- Borders: Laos, Thailand and Vietnam
- Region: ASEAN (Association of Southeast Asian Nations)
- Main sectors: Agriculture, Garments, Tourism and Construction
- Main industries: Textile and Garments, Tourism, Agro, Wood based, Food Processing, Plastic and Metal.
- Major investors: China, Taiwan, Hong Kong, Republic of Korea, USA, European countries, Thailand, Singapore. Japan and Malaysia.
- Major exports: Garments, timber, rubber, other agricultural commodities, footwear.
- Total approved FDI inflow: US\$ 10.89 billion (2008)
- 24 Provinces and Municipalities, Phnom Penh is the capital
- Sea port: Sihanoukville
- Exchange rate: USD 1 = 4,100 Riel

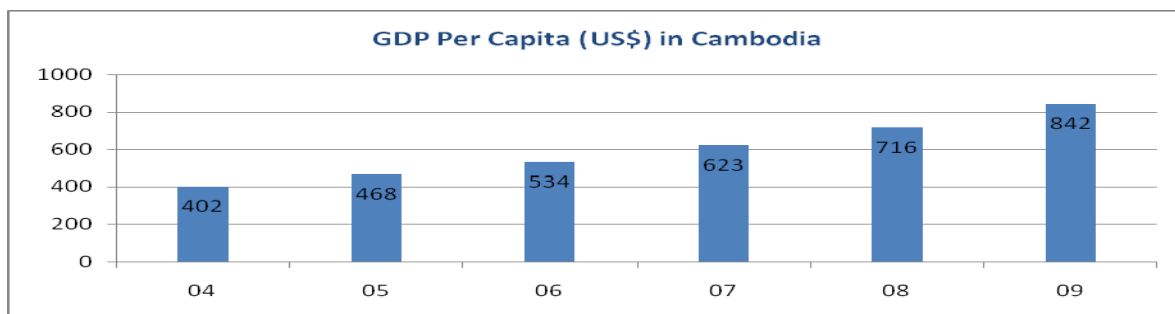
¹ JICA study 2007

1.3 Cambodia's Gross Domestic Product (GDP) and its Growth Rate

Gross Domestic Product (GDP) in Cambodia economy experienced mixed trend during the year 1993-2009. GDP of Cambodian economy comprises of three major sectors like Agriculture, Industry and Services. During the period from 1995 to 2006, contribution of Agriculture to GDP decreased, whereas industry sector's contribution increased from 14% in 1995 to 26.2% in 2006; and the Services sector's contribution has increased from 34.2% to 38.6%. This indicates growth in the Services sector that included tourism, construction, banking and finance, transports and communication, clearing and forwarding, courier services, shipping lines, etc. Again, over the years, Cambodian GDP increased approximately 2.5 times. The GDP growth rate in Cambodia reached 12.6% in 1999, peaking at 13.5 percent in 2005. However, GDP growth rate declined in the subsequent years and in 2009 it was negative due to adverse impact of global economic crisis. Positive growth of 4.8% has been projected for 2010. **Figure-1.1** below shows the trend in the GDP growth from 1993-2010 (projected):



Cambodian macroeconomic environment is quite stable. Cambodia has one of the most open economic policies as it progressively moves towards market based economy. GDP per capita in Cambodia has increased over the years from US\$ 228 in 1993 to US\$ 842 in 2009, as per IMF data source. **Figure 1.2** below shows the per capita GDP growth over the last 6 years:

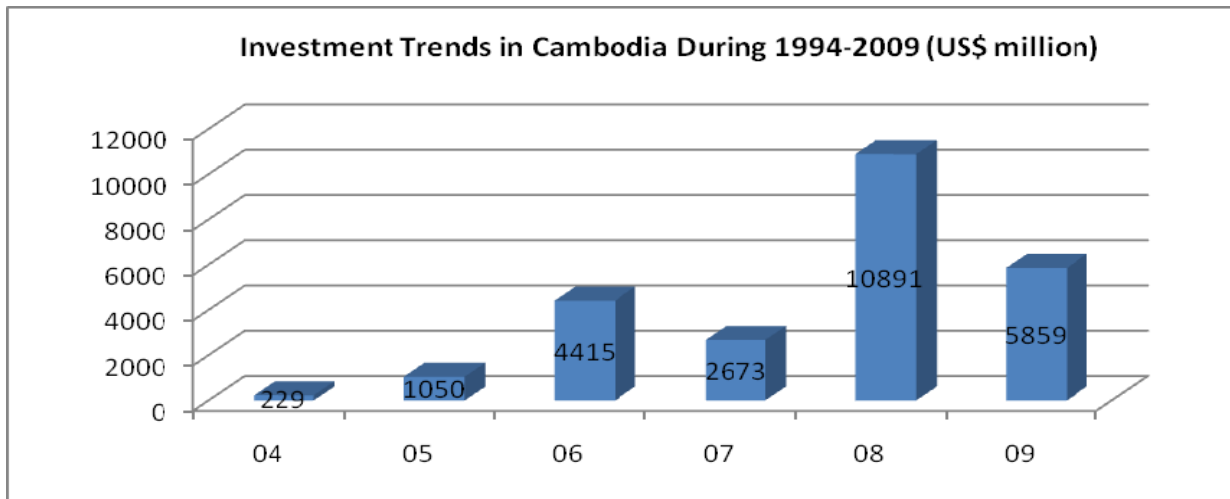


After achieving a decade of high economic growth Cambodian economy was hard hit by the global crisis in 2008. Although Cambodia banking sector has no direct toxic assets abroad, the global slowdown also impacted on the Cambodia banking sector. Real GDP was affected due to decline in the export and tourism receipts and falling agricultural commodity prices also depressed the rural economy of Cambodia².

² Invest in Cambodia, "The IMF on Cambodia" page 16, 2010 Edition, Commonwealth Communication Ltd.

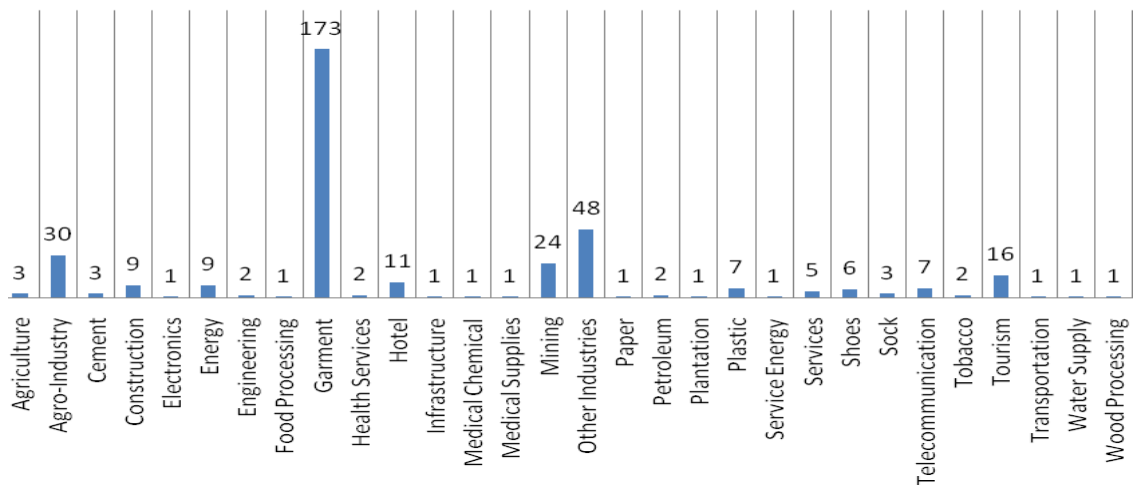
1.4 Trend of investment in Cambodia

Trend of investment in Cambodia has been positive over the last 15 years due to its fiscal incentives except in 2009. Low income and corporate tax rates (20%) contributes to low tax burden for the investors and thus played a positive role in pulling foreign direct investment in sectors like construction, telecommunication, tourism, hotel and health services, agriculture and agro-based industries, textile and garment industries, etc. Almost all the economic sectors are open for business and investment. Moreover, Cambodian cheap labor force is abundant and every year around 300,000 workers come into the market. **Figure-1.3** below shows the trend of investment in Cambodia, where it shows very sharp rise in 2008, again decline in 2009:



Sector wise number of investment projects in Cambodia can be seen in **Figure 1.4**, where Textile and garments ranked the top and other nearer sectors include other industries, agro-based industry, mining, tourism, construction and energy.

Sector wise Number of Projects



1.5 Recent Investment Trend in Cambodia

Table 1.1: Trend of Investment in Cambodia during 2004-June2010 (Amount in US\$)

Year	No. of Project	Registered Capital	Overseas Loan	Fixed Assets	Equities
2004	28	32,900,000		65,422,007	65,422,007
2005	47	48,500,000	1,500,000	103,241,226	101,741,226
2006	39	40,900,000		138,478,665	138,478,665
2007	25	28,500,000		101,589,246	101,589,246
2008	37	47,700,000		146,636,172	146,636,172
2009	23	23,000,000		90,119,340	90,119,340
2010 (June)	15	16,000,000		41,804,342	

Figure-1.5: Number of Projects by the Registered Capital during 2004-2010

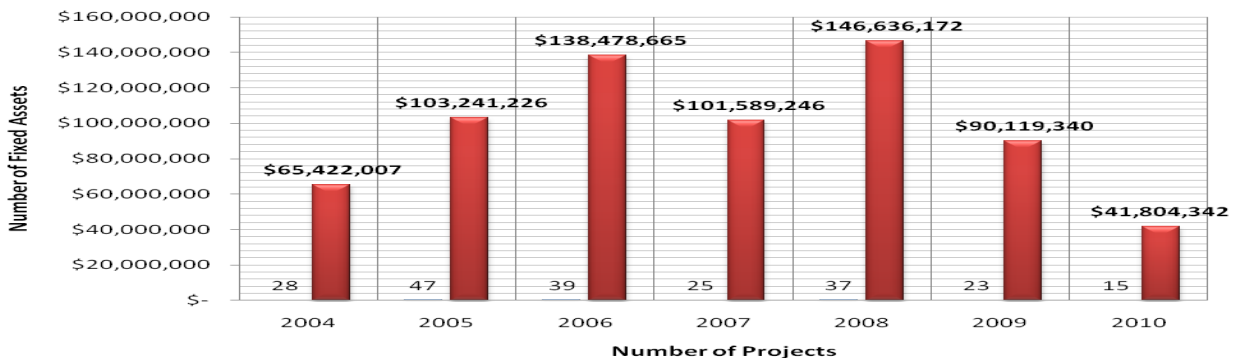
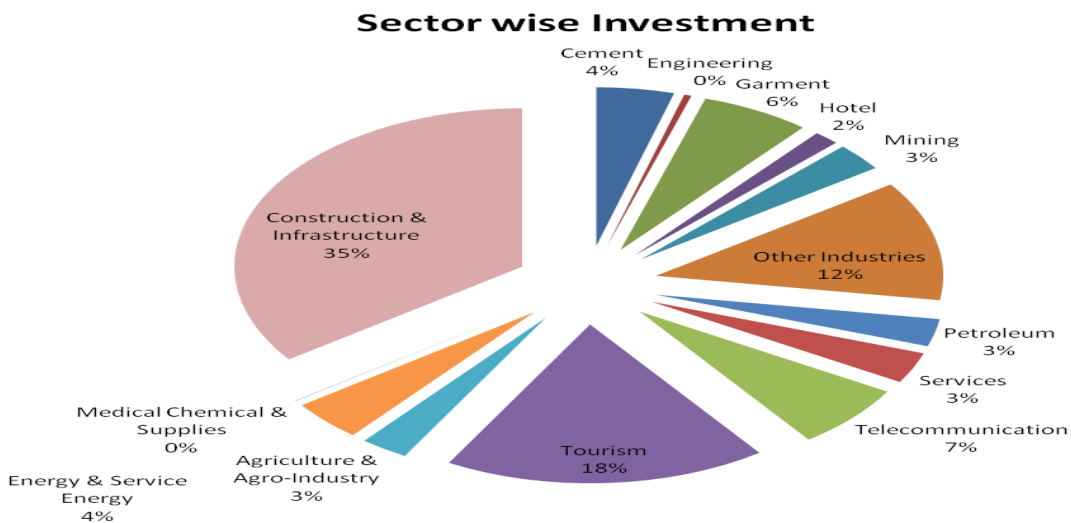


Figure 1.6: Sector wise investment in Cambodia during 2004-2010



2.0 Business Environment and Investment Climate in Cambodia

2.1 Profile of the Private Sector

Over the past ten years, the growth of the private sector in Cambodia has been remarkable. Private sector in Cambodia predominantly consists of small-scale unregistered enterprises mainly involved in agriculture, food processing and services sector, which accounts for 80% of GDP and 95% of employment. Formal private sector includes more than 10,000 registered private enterprises mostly foreign direct investment (FDI), originated mainly from Asian countries, primarily Malaysia, Taiwan, China, South Korea and Singapore and a few US and European small scale enterprises in sectors including apparels. In fact, in Cambodia the “**foreign sector**”, belongs to the formal sector that concentrates in the apparels industry, tourisms and hotels, and telecommunications sector. After the enactment of the Investment Law in 1994, Cambodia has been very successful in attracting a significant amount of FDI. FDI in the apparel sector mainly attracted due to its preferential market access of Cambodia to the US and EU apparel markets.

2.2 Trade Policy Environment and Market Access

Cambodia accessed to the World Trade Organization (WTO) in September 2003 and became a member of WTO in October 2004. In 1993, Cambodia was granted Most Favored Nation (MFN) status by the EU which gave equally privileged market access to EU markets. Cambodia benefits from the Generalized Scheme of Preferences (GSP) that provides tariff reductions without quantitative limitations in the EU markets. Cambodia is entitled to duty-free and quota-free access to the EU for all its exports under Everything but Arms (EBA). Also, the EU-Cambodia Textiles Agreement allowed Cambodian producers to export garments to the EU based on rules of origin which include the possibility of regional accumulation of origin. Cambodia is also a member of the Association of South-East Asian Nations (ASEAN) which is engaged in an economic integration process, including the ASEAN Free Trade Area (AFTA) currently being implemented and the establishment of the Asian Economic Community (AEC) set as the end-goal of economic integration by the year 2020. Recently, Cambodia also granted duty free and quota free by the Japanese and Canadian governments

2.3 Investment Climate and Incentives

During the past 20 years, Cambodia has been found as one of the most peaceful and stable economies in Southeast Asia. Due to her strategic location investment climate in Cambodia is quite encouraging. There are also many positive factors that could promote investment both local and foreign during the last 10-15 years. Political and macroeconomic stability, pro-business government with its competitive investment incentives including investment guarantee and protection, abundance of land, natural resources and young and trainable work force are the key factors for attracting local and foreign direct investment. Finally, strong access to the world market also plays a positive role in promoting foreign investment in Cambodia.

Currently, Cambodian government offers investment guarantee and protection schemes that include equal treatment of all investors, no nationalization adversely affecting the property of investors, no price controls on products or services, no requirement of local equity participation, no restriction on foreign exchange convertibility and free remittance of foreign currencies abroad. For investors, Cambodian government offers the following investment incentives:

- Corporate Tax - 20%
- Tax holidays: 6 - 9 years
- Full Import Duty Exemption for raw materials and capital machinery
- Repatriation of profit (withholding tax)
- Free reinvestment of earning (special depreciation)

2.4 Legal and Regulatory Framework

The Cambodian government has made significant progress in creating an enabling legal framework for the private sector by enacting a number of important laws, such as the Law on Banking and Financial Institutions, the Insurance Law, a new Land Law, the Trademarks Law and the Law on Enterprise Accounting and Auditing. The Investment Law was also amended to simplify the investment licensing process and modify tax incentives offered to qualified investment projects. Further, new laws are also being drafted such as Law on Commercial Enterprises, the Law on Commercial Arbitration, the Commercial Contract Law, the Law on Secured Transactions, the Insolvency Law, Anti-corruption Law, the Law on Customs and the Tourism and Entertainment Law. Cambodian government signed a memorandum of understanding with Asian Development Bank and International Finance Corporation to set a National Arbitration Center to help resolve business disputes outside the court system.

2.5 Physical Infrastructure

Cambodia, to some extent, seems to be more closely characterized as a klepto-partrimonial state, in Peter Evans's term, where personal ties are the only source of cohesion, and individual maximization takes precedence over the pursuit of collective goals (Evans 1995, p.12). In addition, the country is also facing difficulties in the provision of basic infrastructure – hard (or physical) infrastructure such as railroads, ports, electricity supply; and soft infrastructure (or human capital) such as basic education. In general, the quality of Cambodia's hard infrastructure is poor and only comparable to that of Bangladesh. For instance, Phnom Penh has one of the highest electricity costs for industrial use in the region, US\$0.12-0.175 per KWh in 2005, in comparison with Bangkok and Jakarta for US\$ 0.04, Hanoi and Singapore US\$0.07 (JICA 06).

Table 2.1 Level of Hard and Soft Infrastructures in Asian Garment Exporting Countries

Country	*Railroad Infrastructure	*Port Infrastructure	*Electricity Supply	**Telecom Infrastructure	***Secondary Enrolment	*Education System
Cambodia	1.6	3.4	2.5	0.2	38.2	2.7
Vietnam	2.4	2.8	3.2	32.2	64.5	2.6
China	4.1	4.3	4.7	27.8	75.5	3.8
Bangladesh	2.3	2.6	1.9	0.8	43.8	2.9
India	4.4	3.3	3.2	3.6	54.0	4.3

Scale 1 (of underdeveloped)-7 (of extensive and efficient by international standards). Source: World Economic Forum. Executive Opinion Survey 2007 and 2008; ** Main telephone lines per 100 population. Source International Telecommunication Union (2008) World Telecommunication Indicators. * Gross secondary education enrolment rate, source: World bank (2008) World Development Indicators. Source: Adopted from World Economic Forum (2008)*

2.6 Cost of Doing Business and Economic Freedom

The Cambodian government has strongly stressed freedom of the market, because government officials believe that ‘economic freedom’ enhances FDI, and subsequently leads to economic growth (Dawson, 1998 and Gwartney *et al.*2006). The government has been trying to improve the business environment of the country by providing a favorable legal environment and policies for foreign investors. The government also introduced the new laws to establish special economic zones (SEZs), as well as one-stop service, simplifying investment procedures and establishing bilateral investment agreements with various countries in order to protect foreign investors. Table-2 indicates the ‘economic freedom’ of Asian garment-exporting countries. Cambodia is ranked the highest among these and 106th out of 179 countries in 2009. Furthermore, in the World Bank’s Doing Business Index of 2009, Cambodia’s rank in “**ease of doing business**” rose from 150th in the 2008 index to 135th in 2009 (World Bank 2008).

Table 2.2: Economic Freedom in Asian Garment Exporting Countries

	World Rank	Overall Score	Business Freedom	Trade Freedom	Investment Freedom	Financial Freedom	Freedom from Corruption
Cambodia	106	56.6	42.7	63.4	50.0	50.0	20.0
Vietnam	145	51.0	61.7	63.4	30.0	30.0	26.0
China	132	53.2	51.6	71.4	30.0	30.0	30.0
Bangladesh	160	47.5	62.9	40.2	20.0	20.0	20.0
India	123	54.4	54.4	51.0	30.0	40.0	35.0

Note: 0-49.9 repressed; 50-59.9; mostly unfree; 60-69.9; moderately free; 70-79.9 mostly free; 80-100 free. Source: Adopted from The Heritage Foundation (2009, p.58)

However, according to Transparency International, the corruption perception index in Cambodia is one of the worst, ranked 166th out of 180 countries in 2008.(China is ranked at 72nd, India at 85th, Vietnam at 121st and Bangladesh at 147th. ³Corruption is a critical issue (or constraint) for companies operating in Cambodia. A World Bank survey indicated that 82 percent (368 out of 447) of companies needed to pay bribes in order to conduct business. Many companies operating in Cambodia viewed the integrity of the bureaucracy as very poor (ADB 2004, p.9).

2.7 Skills Level and Their Availability

Low level of education is a critical issue for the Cambodian industrial growth and further development. Secondary school enrolment is the lowest in Asian garment producing countries (WDI 2007). Due to low level of education, productivity level is also very low in the industrial sector. This is also a reason of higher rejection rate in Cambodian factory compared to other countries, as mentioned by one garment technical expert in Cambodia.

Also, Chinese Language skills within workers is important factor since Supervisors and Managers of factories owned by Taiwan, Hong Kong, China, Malaysia, Singapore, Macau and Indonesia are mainly Chinese speaking. It is estimated that approximately 5000 Chinese garment technicians and supervisors were dispatched to garment factories in Cambodia Chinese human resource agencies (Natsuda, Goto and Thoburn, 2009).

³ The website of Transparency International www.transparency.org/policy_research/surveys_indices/cpi/2008)

3.0 Overview of the Textile and Apparels Industry in Cambodia

3.1 Textile and Apparels Industry Sector in Cambodia

Unlike Bangladesh, Vietnam and other countries in Southeast Asia, Cambodia has not passed through the stage of import-substitution industrialization (ISI). During French colonial rule (1863-1953), silk and cotton were produced and made into garments in Cambodia on a small scale but industrial production of textiles only began after independence from the French with the establishment of state-owned textile company SONATEX (Prud'homme, 1969). There followed a period of modest expansion of textile and garment production which came to an abrupt end when the Khmer Rouge regime took power in 1970s. Today's Cambodian textile and garment industry has resulted from the broader restructuring of international textile and garment industry value chain. The consequence of several shifts in production of the international textile and garments industry since the 1950 has created opportunities for many least developed countries including Cambodia. Capturing such opportunity was possible because of the government's shift from a centrally planned market system to a free market economy in the mid 1990.

Although Cambodia was a late-comer in the global apparel exporters has made remarkable performance over the last 15 years. However, unlike Bangladesh and Vietnam, the textile and apparels industry in Cambodia is not vertically integrated. In the entire production functions of textile and apparels industry, Cambodia is only doing the **'cutting and sewing'** on CMT basis using all imported raw materials except some locally produced accessories. Cambodia does not have any primary textile industry like Vietnam and Bangladesh. The primary textile production is zero probably till 2008. Recently, only two factories have been established to produce knit fabrics. A very limited number of backward linkage industries exist in Cambodia and these include embroidery, thread, elastic band, labels, hunger, draw string, screen printing, poly bag, paper cartoon, button, laundry and washing, etc. 3-4 dyeing and printing industries recent established in Cambodia by Chinese, Taiwanese and US investors.

The rapid growth of apparel industry in Cambodia has been accelerated by the influx of foreign firms mainly originated from Asian region. Now a day, Cambodia is extremely dependent on its export oriented readymade garments industries, which generated around 90% of its total export earning and created employment opportunities for 27% of the total industrial employments and it opened job opportunities for a large number of illiterate poor rural women into the labor market. China continues to be the principal supplier of imported fabrics, with a share of around 74 percent due to its price advantage in quality categories. Fabric consumption in FY 2009-10 is estimated at 6 billion meters up by around 3 percent from FY 2008-09, consumption comprising of 2.4 billion meters for the domestic sector and 3.6 billion meters for the export oriented RMG sector. Fabric imports in FY 2010-11 are forecast at 2.25 billion meters, marginally lower that the estimated 2.26 billion meters fabric imports in FY 2009-10.

Besides a considerable number of formal and registered garments factories in Cambodia, there are around 1,000 of cottage garments factories in Phnom Penh for sub-contracting supplies to the formal sector during peak order season. There are also a few such informal garments factories in provinces that produce for export to Thailand and Myanmar. These are basically family based small scale garment production unit for local markets. Each cottage garment is having on an average 5-12 sewing machines employing similar number of people who are mainly the family members, friends and relatives. A total of 10,000-15,000 people are directly employed by this informal sector. Interestingly, the factories are surrounded by the shops of fabrics and accessories suppliers. Table 3.1 below furnishes data on Cambodian textile industry which mainly the apparel sector:

Description	Dec.04	Dec.05	Dec.06	Dec.07	Dec.08	Dec.09	Mar. 10
No. of Garment Factories	219	247	290	292	284	258	242
No. Direct Employees (000)	269.8	283.9	334.0	353.0	324.8	289.4	275.7
No. Indirect jobs (000) (Projected) ***	229.3	242	283.9	300.1	276.1	246.0	234.3
Total Value of Export (US\$ '000') **	2,477.30	2,698.28	3,321.76	3,766.89	3,857.13	2,477.30	2,698.28
Total Exports in pieces (Dozen)	N/A	N/A	N/A	N/A	N/A	28,375,024	36,238,484
Percentage of Export Value on GDP ****	46%	43%	46%	43%			

Source: Cambodia Investment Guidebook January 2010, published by CDC, Cambodia. ** ITC COMTRADE data
 *** It is estimated that every single direct job creates one more indirect job in sectors relating to garment production and export. **** IMF Statistical Appendix for Cambodia

3.2 Current State of Apparel Industry in Cambodia

The current foundation of the apparel industry in Cambodia was established by the foreign investors from Hong Kong, Taiwan, Malaysia and Singapore in around 1994 (Bargawi 2005). In 1996, Cambodia was granted the status of Most Favored Nation (MFN) by the United States and European Union (EU), which accelerated foreign direct investment into the Cambodian garment sector, for the purpose of utilizing the low tariff rate in those markets (Hatsukano 2005).

The government encouraged the creation of factory association and trade unions in order to ensure that the sector establishes itself institutionally and the Garment Manufacturers Association of Cambodia (GMAC) was established in March 1996. GMAC has played an important role in the development of the garment industry in Cambodia through lobbying with the government to seek GSP and MFN status. Trade unions also played an active role in ensuring the respect of the ILO core labor standards and Cambodia labor law. Although there are problems with the labor unions however, they have had notable success in negotiating with the factory owners and the government in raising minimum wages from US\$27 to US\$ 40 in 1997 and from US\$ 40 to US\$ 45 in 2000. Recently, they also negotiated in raising minimum wages from US\$ 45 to US\$ 61, although they expected at a higher amount of US\$82. Currently, state of apparel industry in Cambodia can be described as below:

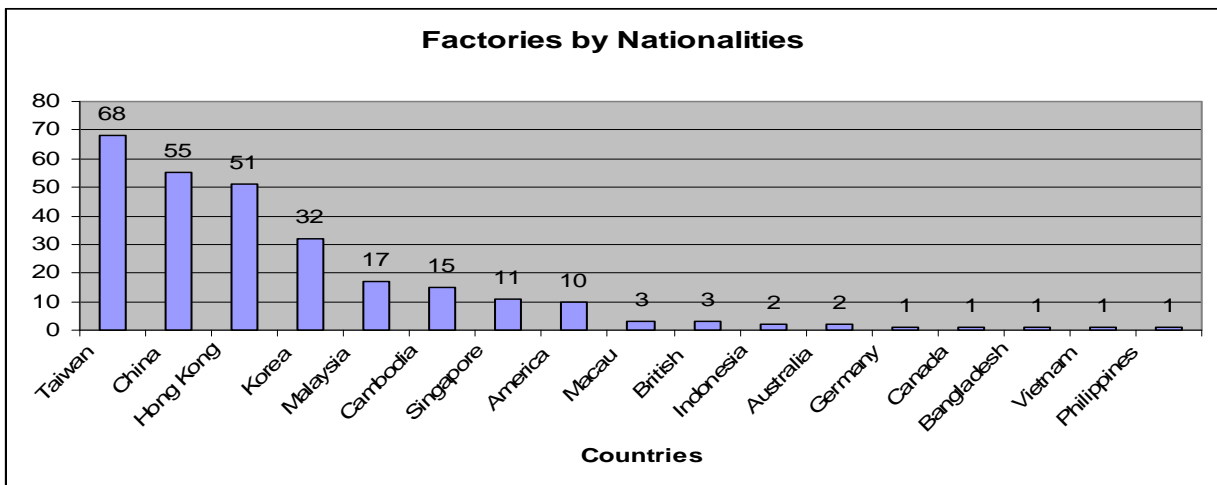
- 242 garment export-oriented factories are operating and registered with GMAC, with 94% being 100% FDI, 1% joint venture and 5% locally owned.
- Taiwan tops the list with 68 factories, followed by China, Hong Kong and Korea
- 316,000 workers (92% female) are employed, with average wage of \$80 and minimum wages is US\$ 61 (very recently minimum wages has been increased from US\$ 45)
- Main markets are US, EU, Canada and Japan

3.2.1 Ownership of Cambodian Apparel Industry

Figure 3-1 presents the ownership of apparel factories by nationality in Cambodia. Direct foreign capital companies accounted for over 95 percent of apparel factories. Only a small percentage of local ownership of apparel industry exists in Cambodia, which is rather stark contrast to Vietnam and Bangladesh where local ownership is much more significant. In most cases, many of these companies in Cambodia operate through their parent companies in other countries in other apparel factories and the products are more or less substitutable. In Cambodia, buyers play a major role in sourcing decisions in terms of where to place orders of the garments, but the local companies operating in Cambodia are mainly responsible for ‘cutting and sewing’ following the design determined by the headquarters.

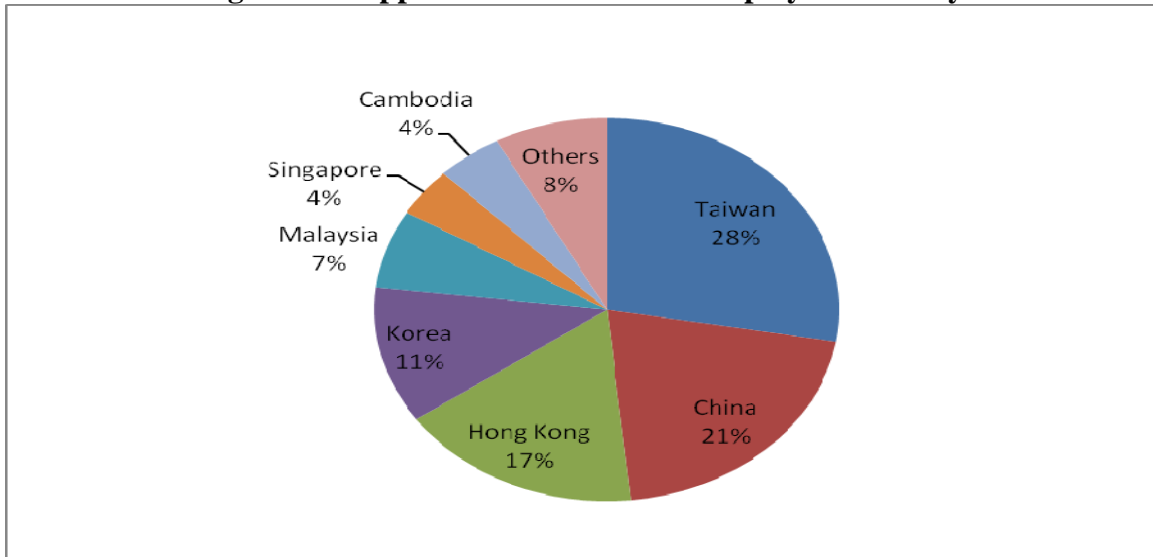
Unlike locally owned companies those seen in Bangladesh and Vietnam, the Cambodian factories have much limited leverage and autonomy in terms of strategic decision making. They do not enjoy any freedom or autonomy compared to those locally owned companies in Bangladesh and Vietnam in terms of attracting orders and negotiations with buyers and these are normally done at headquarters by their parent companies. With the industry consisting of mostly foreign firms, production, export and management decisions are made from distant offshore offices (ADB 2004).

Figure 3.1: Ownership of Factories by Nationalities



Due to global economic recession, a good number of factories showed above have closed down during the last couple of years. Figure-3.2 below shows the current changed scenario of main nationalities that have ownership in Cambodian apparel factories. 28% Foreign Investors originated from Taiwan, 21% from China, 17% from Hong Kong, 11% from Korea, 7% from Malaysia, 4% from Singapore and the rest 8% owned by rest of the world. Firms from ‘greater China’ such as Taiwan, Hong Kong and China, accounted for over 66% of the total apparel factories in Cambodia whereas Cambodia owns only 4% of the total factories, as of January 2010.

Figure 3.2: Apparel Factories Ownership by Nationality



Source: GMAC data (2010 June)

3.2.2 Capacity Utilization and Production Orientation of Garment in Cambodia

3.2.2.1 Capacity Utilization

Currently, the production capacity of the garment industry in Cambodia is 100% utilized as reported by the garment entrepreneurs, officials of the trade association and the researchers during the field trip of the author. All the factories are fully occupied with adequate export orders and the factories are running in full swing in a single shift of eight-nine hours, sometime factories operate in two shifts. Some of the factories reported that their capacity is sometimes over utilized. However, no study conducted so far to assess the capacity utilization of factories.

3.2.2.2 Production Modality in Cambodian Garment Factories

In the Cambodian garment industry, the value-added activity is the lowest i.e. CMT (Cut, Make and Trim). Factories are provided with required raw materials by their customer, and upon production of readymade garment, they are paid based on CMT. According to GMAC officials' observation of the garment business structure in Cambodia there are three types of operation in garment industry in Cambodia like CMT, FOB and subcontracting arrangements that accounts for 60 percent, 25 percent and 15 percent respectively (USAID 2007, p.11). Highest value-added activities, including design, advertising and marketing, remain in the global buyers' hands. Most of the factories usually only do CMT with all the pre-productions done in their headquarters located in Taiwan, Hong Kong, China, Singapore, Malaysia, etc. However a handful of them are making approval and development samples based on given garment technical specification. The local designers and NGOs/social enterprises are trying to develop their own design for domestic and regional exports (but they are very small in numbers). Their products are usually bags and accessories rather than garments. There are many tailors who one might consider themselves as "designers" as well. Local manufacturers in Cambodia are yet to learn from global buyers in four different types of upgrading trajectories like *process upgrading*, *product upgrading*, *functional upgrading* and *inter-sectoral upgrading*.

According to Yamagata's survey of 164 garment firms in Cambodia, 139 firms (87.4 percent) were engaged in only sewing fabric and making final products (Yamagata 2006, pp.9-10). Similarly, the Asian Development Bank study estimated that over 70 percent of garment exports were based on CMT work (ADB 2004, p.25). While FOB (Free on Board), the main alternative to CMT, requires producing firms to source fabrics and other materials themselves, and they receive a price from the buyer or trader for the completed garment. Moving from CMT production to FOB is widely regarded as representing an improvement in firms' capabilities (Goto, 2007).

3.2.2.3 Productivity in Cambodian Garment Industries

Productivity of the garment industry in Cambodia can be generally classified as quite low. It is understood from the interactions with some industry players during field trip of the author that Cambodia's labor productivity is in between 60-65 percent of that of China. USAID's study evaluated that productivity in Cambodia is low at all stages of garment manufacturing and this has been attributable to inefficient use of machinery. Typically, machines are operated at low level of efficiency, due to deficiencies in equipment and lack of investment in maintenance in Cambodia. In addition, a World Bank study concluded that Cambodian firms and workers are generally less productive than China, India, Pakistan and Bangladesh, and Cambodia's low labor costs do not wholly compensate for lower productivity of its workers (World Bank 2004, pp.11).

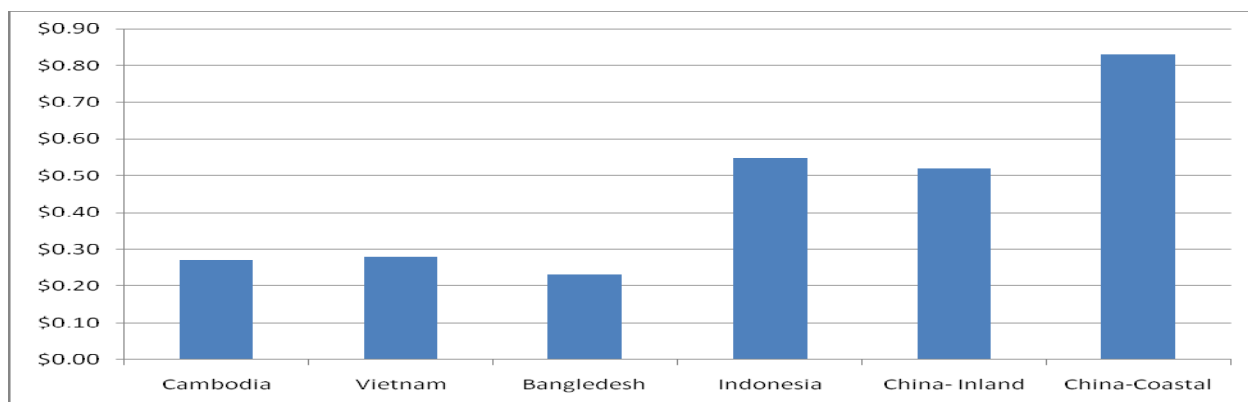
3.2.2.4 Lead Time or Delivery Period

In Cambodian garment industry, normally it takes 40-45 days to complete shipment of an order no matter what category of product a factor produces. Such lead or delivery time varies with the sourcing of raw materials. Interestingly, if the raw materials are sourced locally, there is no reduction in lead time rather it may take longer period of time due to unavailability of some items. In most cases, upon finalization of order, the parent companies arrange sending the entire raw materials in one single container from China and other countries. Local source of raw materials is very limited.

3.2.2.5 Workers' Wages in Cambodian Garment Industries

In 2004, a garment worker in Cambodia received an average wage of US\$ 60 per month⁴. During 2007 and 2008, most of the factories reported a rapid increase in wages that ranged from US\$ 75 to US\$ 85 for the line operators. Currently, the minimum wages is US\$ 61; however, on an average a line operator receives around US\$ 80-100, as reported by one factory manager during the field trip. Figure 3-3 shows results of a survey on hourly wages in different countries:

⁴ ADB phase 1 survey commissioned to Cambodian Researchers for Development in December 2004



Source: Werner International, 2007 Salary Survey.

In Cambodian garment industry, actual wages payment to the workers is higher than the minimum wages. Average monthly pay with overtime comes at US\$ 78.97 that include base rate, payment for overtime (1.5 x base rate x 2hours) and holidays (11.5x2.0 x base rate), after taking into account annual holidays for 23 days and 18 days vacation.

3.2.2.5 Size of Garment Factories in Cambodia

Most of the garment factories in Cambodia are small and lower medium category in size compared to the factories in Bangladesh and Vietnam. From a survey, it was found that about 65% of the garment factories in Cambodia employ 500-2,000 workers and the most common size of factories with 500-1,000 workers. There are only 3% factories that employ more than 4,000-5,000 workers. Table 3.2 presents data on the number of workers, % of factories and workers:

Table 3.2: Factory Sizes by Number of Workers

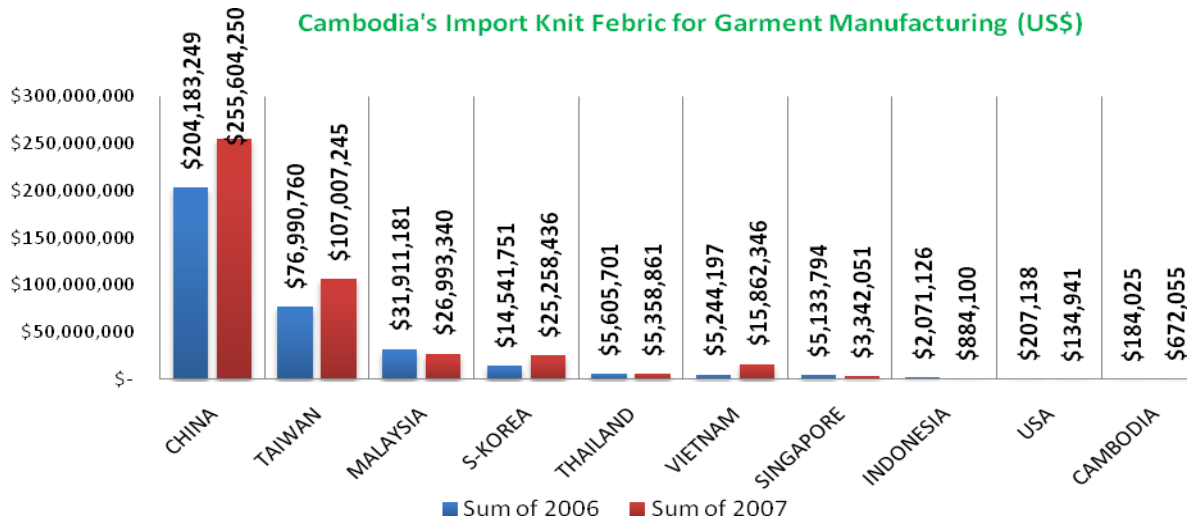
No. of workers	% of factories	% of workers
5000 +	2%	8%
4000 – 4999	1%	4%
3000 – 3999	5%	12%
2000 – 2999	9%	19%
1000 – 1999	30%	32%
500 – 999	35%	20%
< 5000	18%	5%

3.2.3 Raw Material Resources for the Garments Sector in Cambodia

Cambodia has no upstream suppliers in fabrics, threads, accessories and trims. Most fabrics and accessories come from China, Taiwan and other countries. Due to lack of domestic supporting (textile and accessory) industry, most garment manufacturers in Cambodia import their input materials from abroad, particularly from China, Hong Kong and Taiwan. Indeed, Cambodia's textile (fabric) imports in 2007 were 24.5 percent of the country's total merchandise imports (WTO 2008, p.110). Again, Cambodian garment industry sources fabrics, yarns and accessories from abroad, particularly China, it is difficult for them to meet the rule of origin requirements. As a result, benefits from the EU-GSP schemes are relatively limited in comparison with the US market (Hatsukano 2005, p.176).

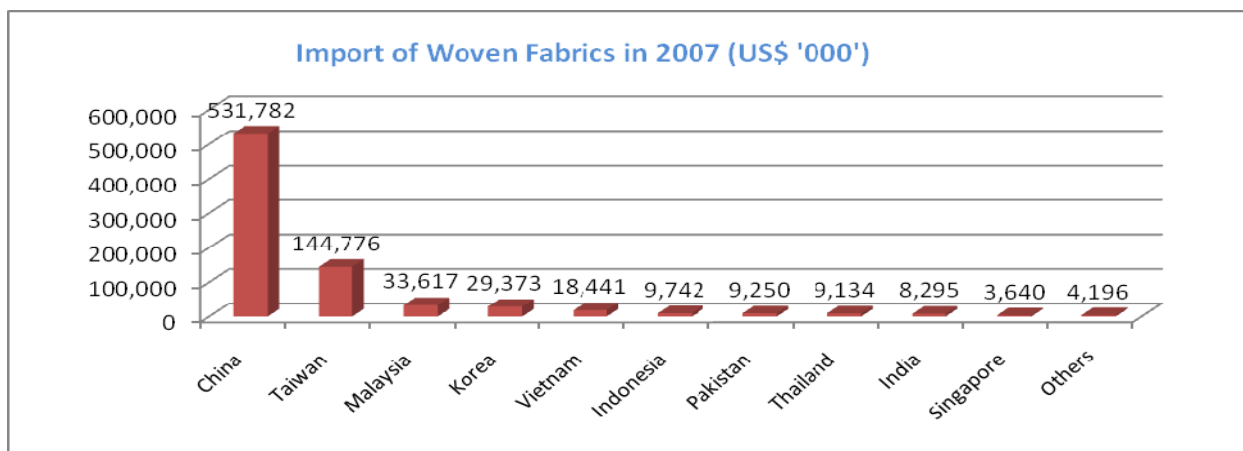
Also, the Japanese government provides duty free access to almost all industrial products, including Cambodian textile and garment products, subject to rules of origin requirements being met (ADB 2004, p.17). Cambodia needs to develop its full range of backward linkage industries in order to reduce lead time as well as to earn a higher mark up and greater value addition to its economy.

Figure 3.4: Cambodia’s Import of Knit Fabrics for Garment Manufacturing during 2006-2007(US\$)



The volume of imported fabrics has increased in the year 2007 substantially that indicates an increased production and export of garment products from Cambodia. However, Cambodian government is losing a large amount of foreign currency earnings from the export of garments which spent against importation of fabrics, unlike Bangladesh and Vietnam.

Figure 3.5: Cambodia’s Import of Woven Fabrics for Garment Manufacturing in 2007(US\$ '000')



It was reported during the field trip that almost 95% of the required raw materials are being imported in Cambodian garment industries. Data on utilization of fabrics and other accessories for the year 2004, 2005, 2008, 2009 and 2010 could be obtained from the Ministry of Commerce, Cambodia despite repeated attempts.

3.2.4 Growth in Apparels Industry in Cambodia

Over the last decade, Cambodia's garment industry has been a key source of export growth and formal employment, and directly contributes approximately 10% to the country's GDP. Given the fact that the industry was practically non-existent in the early 1990s, its growth all the more remarkable. From 20 factories in 1995 the number went up to around 292 in 2007.

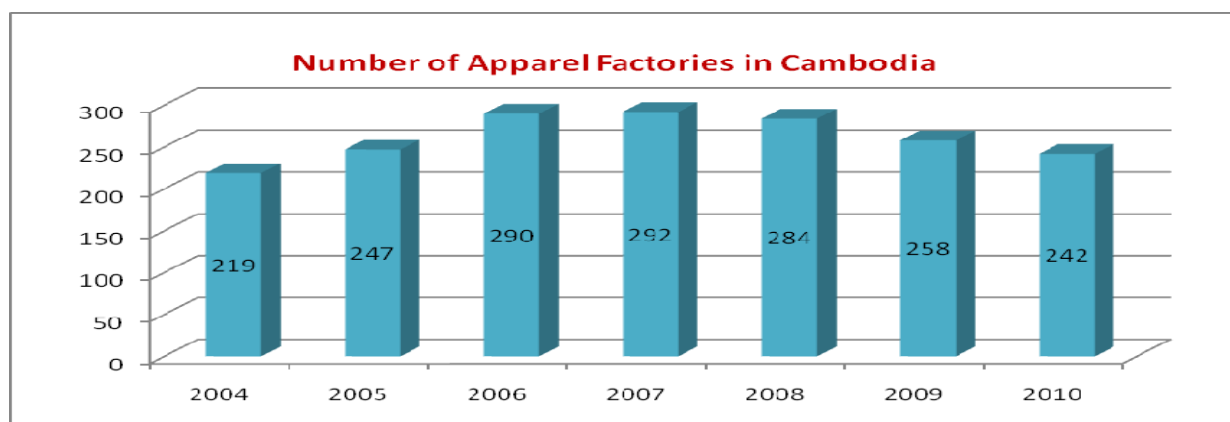
Table: 3.3 Growth of Cambodia's Garment Industries

Year	Export Volume ('000' dozen)	Garment Exports (US\$ Mil.)	Garment share of Total Exports (%)	Employment ('000s)	No. of garment factories
1995	854	27	3.3	18	20
1996	1,076	80	12.1	24	24
1997	9,306	227	28.9	82	67
1998	12,206	359	51.7	79	129
1999	15,516	661	66.2	96.	152
2000	22,419	985	77.0	161	190
2001	29,390	1,156	81.4	187	185
2002	33,903	1,338	81.3	208	187
2003	38,857	1,607	83.8	234	197

Source: Cambodian Ministry of Commerce, Trade Department

Between 1996 and 2003, a total of US\$656 million in fixed asset investment and US\$445 million in garment sector registered capital approved by the government. Garment investment represented approximately 27% of total registered capital approvals and 17% of total fixed asset investment approvals between 1996 and 2003, and more than 36% of total foreign fixed asset investment approvals, in Cambodia over the period 1998-2003. The investment in Cambodia's garment industry has declined during the year 2008 and 2009 due to the global economic crisis. However, during the first half of the year 2010, 15 new garments industries have registered with Cambodian Investment Board (CIB). Year-wise apparel industry in Cambodia can be seen in **Figure-3.5** below:

Figure 3.5: Number of Apparel Factories in Cambodia



Source: GMAC data 2010

3.2.5 Total Export and Export of Garment Products (US \$ million)

The share of garment products in Cambodia's total exports increased from less than 60 percent in the era before 1999, and over 90 percent after 2000, based on study conducted by local research organization. Furthermore, Cambodian garment exports increased in value by approximately 45% from before the abolition of the MFA in 2004 until 2007. The United States and European Union are the two major markets for the Cambodian garment industry. Table 3.4 below shows the expansion of Cambodian garment exports during 2004-2008 based on ITC trade statistics, which gives less impressive scenario than others.

Table 3.4 Cambodian Total Export and Garment Exports during 2004-2008 (Value in US\$ 000)

Particulars	2004	2005	2006	2007	2008
Total Exports (TE)	2,797.46	3,258.97	4,014.16	4,602.23	4,540.03
Garments Exports	2,477.30	2,698.28	3,321.76	3,766.89	3,857.13
Share in TE (%)	88.56%	82.80%	82.75%	81.85%	84.96%

Source: www.intracen.org/menus/countries.htm

The US and the EU are Cambodia's main export destinations, respectively accounting for 70% and 25% of total garment exports. Exports to the non-quota-imposing Japanese market, the third largest in the world, are negligible.

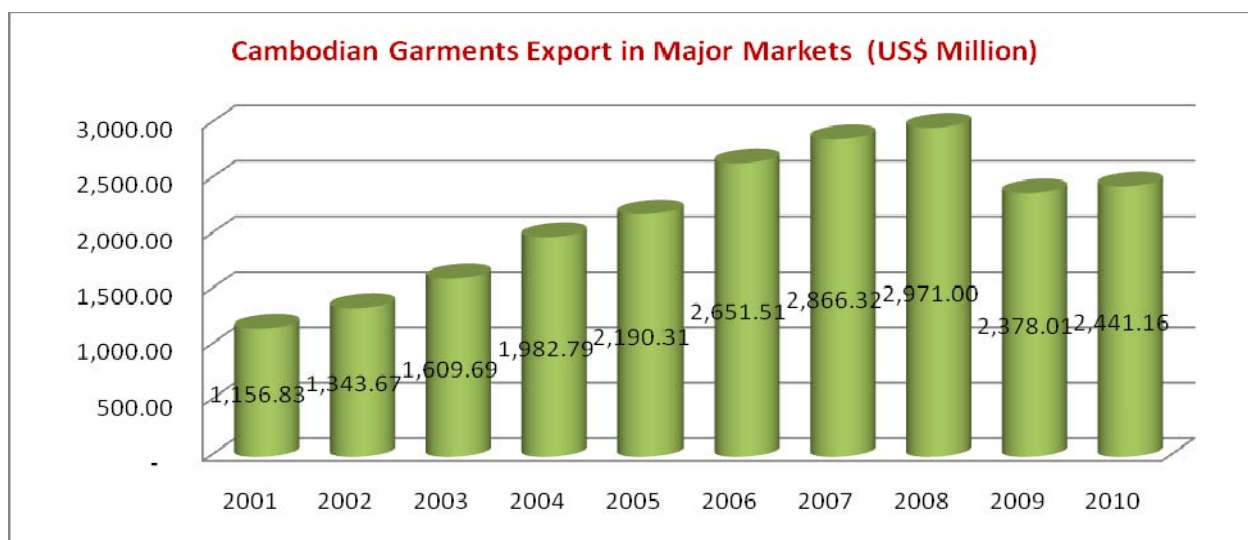
Cambodia's exports to Canada have grown from less than US\$20 million in 2002 (when Cambodia was granted quota- and duty-free access under the Canada LDC market access initiative) to over US\$70 million in 2003, or about 4% of total garment exports, indicating that Cambodia's garment industry is proving responsive to preferential market access opportunities.

Cambodia's garment exports to the EU have also shown growth of about 15% per annum since quota and duty-free access was granted by the EU to all least developed countries under the 'Everything-But-Arms Initiative' in 2001. However, these growth rates are significantly below those of the pre-EBA period of 1998-2001 when exports to the EU grew at over 70% per annum.

Between 1997 and 2003, exports of garment products from Cambodia grew by over 300% in volume, and over 600% in nominal US\$ value terms. Exports to the US alone rose from less than US\$ 1 million in 1995 to over US\$1.1 billion in 2003. Figure 3.6 below shows a positive trend till 2008. In 2008, total export of garments to USA and EU were US\$ 1,974.76 million and US\$ 658.65 million respectively.

However, the export has declined in 2009 due to closure of around 65 garments factories in Cambodia affected by the global economic recessions. Figure 3.6 presents trend in garment export of Cambodia to the major markets during 2001-2010.

Figure 3.6: Trend in Garment Export of Cambodia to Major Markets (2001-2010).



Source: GMAC data 2010

Above chart shows a sharp decline in export during the year 2009 mainly due to closure of factories as mentioned earlier and 2010 figure is projected based on first six months performance. Volume of garments exported in year 2008 and 2009 were 85,618,890 dozens and 74,720,196 dozens respectively. Table 3.5 below also presents data on export of garments from Cambodia to the major markets namely USA, EU countries, Canada and rest of the world during 2001-2010:

Table 3.5 Cambodia's Garments Export to the Major Markets (in US\$ Mil.)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (June)
USA	829	960	1,123	1,272	1,565	1,906	1,999	1,978	582	661
EU Countries	309	356	408	580	491	571	632	659	185	205
Canada	6	7	58	97	92	116	154	199	68	84
Other Markets	13	21	21	34	43	58	81	136	51	67
Total	1,157	1,344	1,610	1,983	2,190	2,652	2,866	2,971	885	2,441

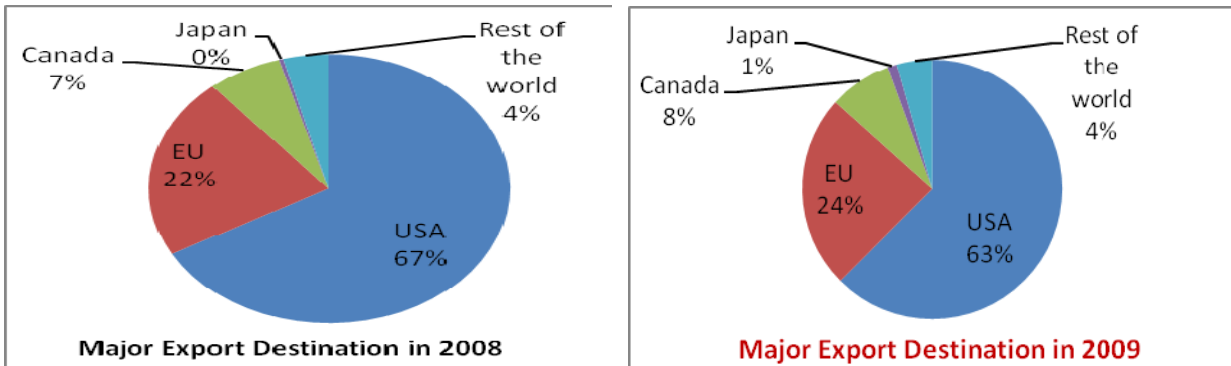
Source: GMAC data 2010

3.2.6 Main Product Category and Export Markets of Cambodian Garments

Cambodian garment exports mainly concentrate in the US market, which accounted for over two-thirds of the total garment exports. Export to EU countries has also increased over the years. Canada also imports an increased volume of garments from Cambodia over the last 6-7 years. About 70 percent of the garments that are exported from Cambodia are knitted fabric based garments (Code 61), and the rest are woven fabric based garments (Code 62). Knitted garments typically include items such as T-shirts, Polo-Shirt, Sweat Shirts and Sweaters. Woven garments are Trousers, Shirts, Jackets, Skirts, Children wear, Dress, Blouses, Under and Nightwear, Jeans Pants, Sportswear, etc. are normally classified as woven fabric based garments as they tend to use more woven fabrics than knitted fabrics. For both types of garments, the US market is its largest importer, with a particularly high share in the export of woven fabric based garments.

Figure 3.7 present share of major export destinations of Cambodian garments during the year 2008 and 2009:

Figure 3.7 Major Export Destinations in 2008 and 2009



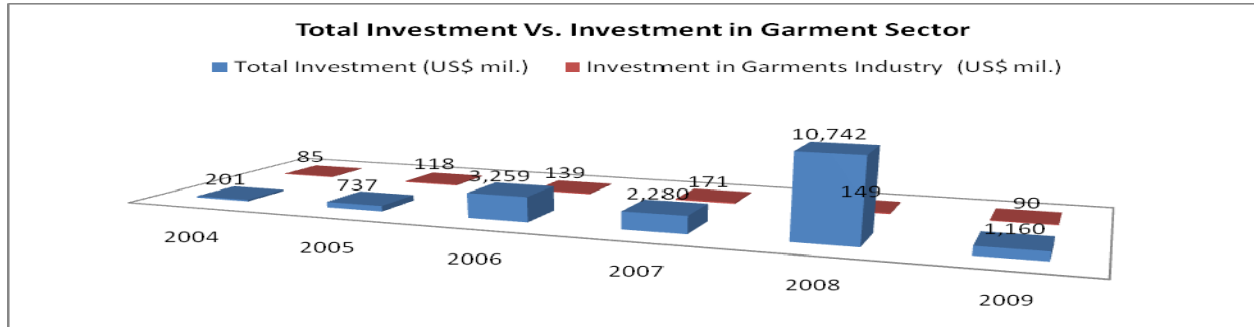
Source: GMAC data 2009

Cambodian garment exports are controlled by large predominately US and EU buyers. For instance, it is estimated that one-third of Cambodia’s total exports are manufactured for the largest buyer in the country, GAP (USAID 2005). Additionally, over 50 percent are for the top garment 15 buyers (KOICA and KIEP 2006). In Cambodia, all reputed buyers place orders. Top 20 buyers include GAP, H & M, Levi Strauss, ADIDAS, Target, Sears Holdings (Sears and Kmart), Children’s place, The William Carter, VF Jeanswear, Matalan, Blue Star, Nike, PVH, C%A, Wal-Mart, Kohl’s MGT American Marketing and JC Penny.

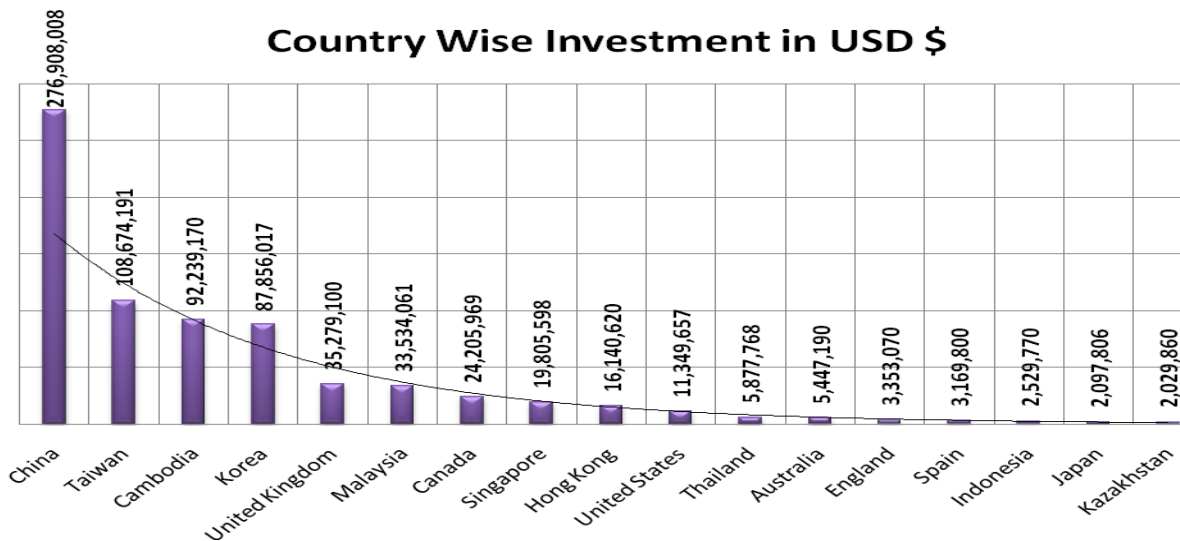
4.0 Trend of Investment in Garment Sector in Cambodia

4.1 Foreign Direct Investment in the Apparel Industry of Cambodia

The inflow of foreign firms has been aided by the Cambodian government providing an approval of establishment of 100 percent foreign owned firms in Cambodia in 1994, because the role of state-owned enterprises (SOEs) in the economy was relatively limited (JICA 2007). Figure 3.8 shows total investment and the investment in the garments industry of Cambodia during 2004 to 2009:



Cambodian government adopted new policies in the mid-1990s that broadly have been supportive of foreign garment manufacturers interested in investing in Cambodia. Figure 3.9 presents country-wise investment in garment sector in US\$:



In conclusion, the origins of Cambodia's export-oriented garment industry can be traced to the relatively permissive investment and open trade regimes as well as the lack of quota restrictions on important Western markets at a time when regional exporters were beginning to face constraints. Relatively low wages appear to have played only a secondary role in the establishment of the industry in Cambodia.

5.0 Incentive and Support to the Textile and Apparel Sector

Textile and garment industry in Cambodia does not enjoy cash incentives and direct support from the government like Bangladeshi textile and garment industries. Some indirect incentives are there in the form of investment incentives, tax low income and corporate tax rates, exemption of custom duty on import of raw materials and capital machinery, incentives for special economic zones, etc. and these are also applicable to the garment industries in Cambodia. Followings are the investment, tax and other incentives for any qualified investment projects which include exemption, in whole or in part of customs duties and taxes:

- a. Qualified investment projects (QIP) are entitled to exemption from the tax on profit for a certain profit exemption period that composed of trigger period plus 3 years plus priority period. Maximum period of trigger period is to be first year of profit or three years after the project earns it first revenue, whichever is sooner.
- b. A local market QIP is entitled to import production equipment and inputs duty free
- c. Export oriented QIP using Customs Manufacturing Bonded warehouse mechanism are entitled to import production equipment, construction materials, raw materials, intermediate goods and production inputs and accessories duty free.
- d. Supporting industries to the export oriented QIP are also entitled to import production equipment, construction materials, raw materials, intermediate goods and production inputs and accessories duty free.
- e. A QIP which is located in a designated Special Economic Zone or Export Processing Zone in a development priority list are also entitled to enjoy similar incentives as other QIPs enjoy
- f. A QIP is entitled to 100% exemption of export tax, except for activities as stipulated in laws in effective
- g. A QIP is entitled to obtain visas and work permit for the employment in the Kingdom of Cambodia of foreign citizens as Managers, Technicians, and skilled workers and residency visas for the spouses and dependents of those foreign nationals.
- h. The Zone Developers shall receive the following tax incentives for their investment activities
 - i. Tax on profit shall be provide for a maximum of 9 years
 - ii. Import of equipment and construction materials for infrastructure construction in the zones shall be allowed and exempted of import duties and other taxes
 - iii. The Zone Developer shall receive the fiscal incentives under Law of Investment and other regulations of Kingdom of Cambodia
 - iv. The Zone Developer shall be entitled to enjoy zero value added tax on every import
- i. The Zone Developer shall receive customs duty exemption on all import of machinery and equipment to construct roads and other public services infrastructure
- j. The Zone Developer shall be entitled to request for A Temporary Admission the import of means of transports
- k. The Zone Developers, Zone Investors and Foreign employees have the rights to transfers their all income into banks in other countries after payment of tax
- l. The Zone Developers and Zone Investors are entitled to obtain investment guarantee
- m. The Zone Developers may obtain land concession from the State for establishment of a special economic zone in borders or isolated regions and may take lease from the State

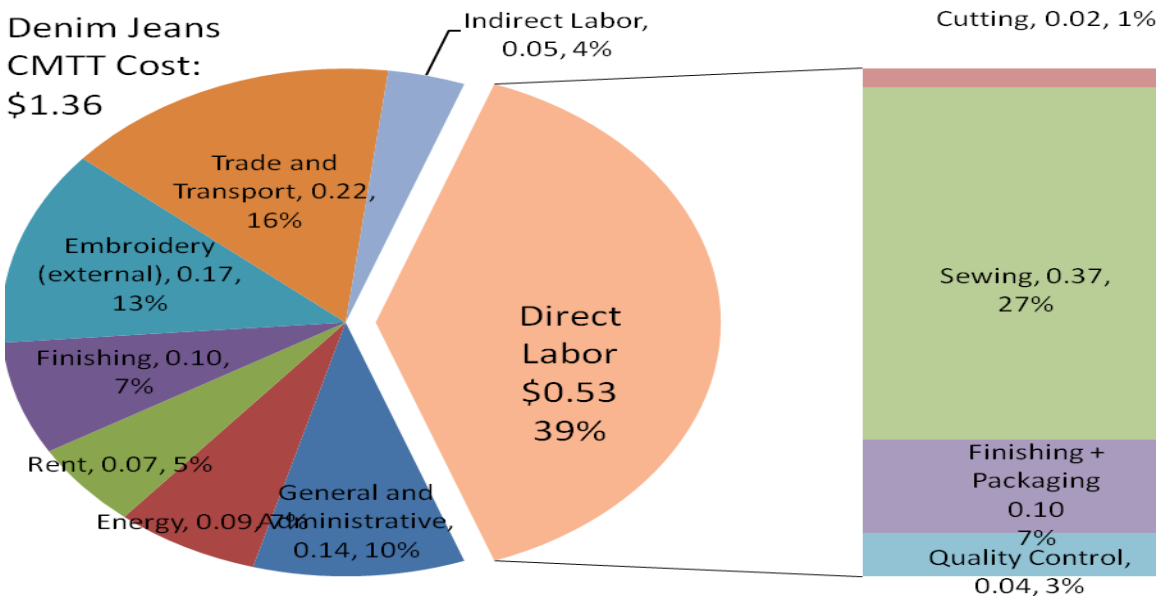
6.0 Costing and Value Chain Analysis of Garment in Cambodia

6.1 Costing of Garments on FOB Basis

While calculating the costing of any garment item, there are basic elements of cost in the entire process starting from sourcing up-to final delivery. These are raw material costs (fabrics and accessories), direct labor costs, indirect labor costs that include salary of managers, supervisors and other staff, general and administrative costs, utility expenses, finishing costs, rentals, trade and transport costs and screen printing or embroidery costs which is not common for all items. However, since Cambodian garment industry work on CMT basis, the cost calculation limits to – Cutting, Making and Trimming. In case of a Denim Trouser or a Polo Shirt or Shirt, the key elements of cost are as explained below:

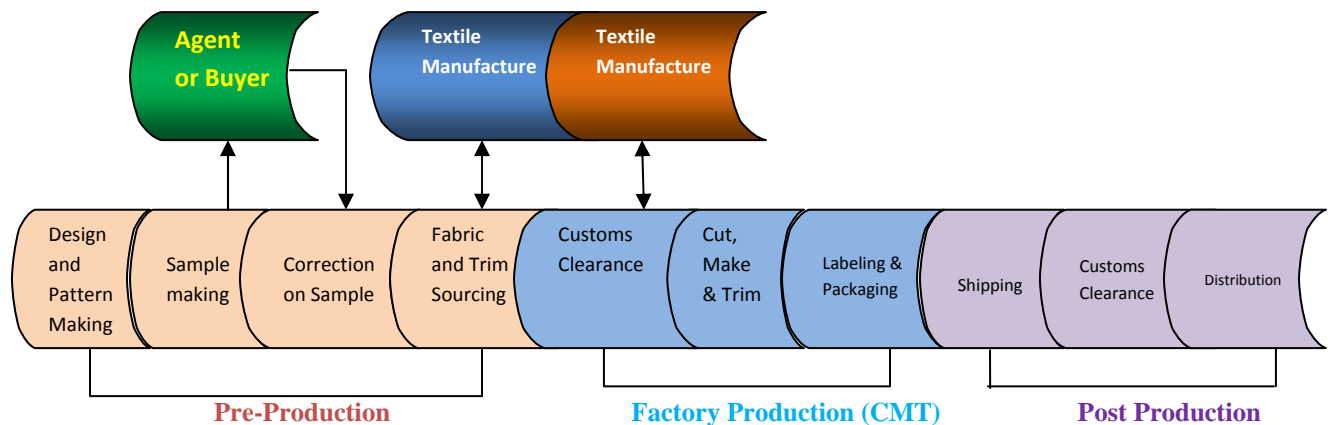
Elements of Cost	Denim Trouser	Polo Shirt	Shirt
Raw Materials (Fabrics, Trims, thread & packaging sourced from outside Cambodia)	4.14	1.39	4.47
Cut, Make, Trims and Finishing	1.15	0.43	1.32
Trade and Inland Transports	0.22	0.06	0.21
Price per piece (US\$)	5.51	1.88	6.00

If CMTT cost is US\$ 1.36 for a denim jeans trouser, labor cost is US\$0.53 (sewing 27% + cutting 1%, +quality control 3% + finishing and packaging 7%); trade and transport cost is 16%, embroidery cost is 13%, General and administrative costs is 10%, Finishing cost is 7%, energy cost 7% and the rest is rent and indirect cost. A typical cutting, making, trimming and finishing and transportation of denim jeans trouser can be seen in the figure shown below:



6.2 Value Chain of Garment in Cambodia

Of the total gross revenue from sales of a garment at the retail end, typically out of every five dollars, three will accrue at the retail end, one to the producer, and one for freight, import duties, insurance and transportation. Thus the scope for upgrading in production is necessarily limited in terms of gaining additional value-added activity, but upgrading in products, processes and functions is also an important way of retaining competitiveness. Value chain in Cambodian garments industry is very narrow and limited. Due to weak local supply chain and absence of backward linkage industries, Cambodian enterprises only work on CMT. However, a typical value chain in garment production can be drawn as below:



6.3 Impact on Other Related Industries across the Value Chain

In Cambodia, there has been no official attempt to evaluate the impact of textile and garments industries on the other related industries across the value chain. However, Economic Institute of Cambodia, (EIC⁵), estimated the possible impact using input and output modeling. EIC estimated that a 10% increase in demand of garment products would result in a 17.5% increase in total domestic production, this would lead to an increase in domestic production of trading business by about 2.4% , transportation by about 0.5% electricity by about 0.4%, hotels and restaurants by about 0.3%.

Moreover, it can be assumed that increased volume of business has created additional demand of more workers and thus created additional demand for housing and cooking facilities in urban area (Phnom Penh where most factories are located), additional market for toiletries and cosmetics industries due to increased buying capacity of the workers, and increased load on the recreational facilities, increased initiatives for skilled development training, etc. Finally, Cambodian banking sector could have more business transactions if they could have built confidence on sound banking transaction in the form of back to back letters of credit for sourcing fabrics and accessories from local sources.

⁵ a research institute and think tank based in Phnom Penh and engaged in socio-economic research,

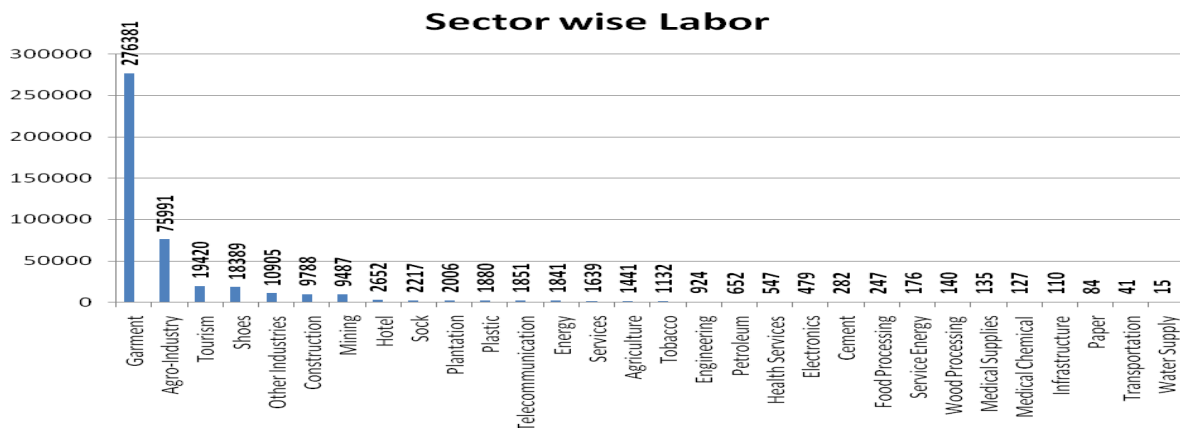
7.0 Socio-Economic Impact of Cotton, Textile and Apparel Sector on the Country

7.1 Impact on Economic Growth

Since 1995 when Cambodia first exported garment the economy started experiencing a positive growth in its GDP, exports, investment, industrial development, employment creation and thus poverty alleviation. With growing and increased volume of foreign direct investment (FDI) from Asian countries, the garment sector has contributed been playing an important role in both income generation and poverty reduction in Cambodia. Due to growth in garment exports, the country also attracted FDI in other services sector like telecommunication, banking and insurance, construction and real estate, energy, transport and communication, education, etc. The garment sector contributed to not only in creation of employment in city areas, but also remittance to workers' families in rural areas. Many workers are young females who migrated from poor rural areas to Phonon Penh, where most garment factories are located (Bargawi 2005, p.9). Thus, the majority of people who benefit from the industry are unskilled and poorly educated young women from rural areas, who typically would be among the most vulnerable within the labor market (CDRI 2008a). According to Hatsukano's survey of 292 garment workers in Cambodia, over 90 percent of workers were females, over 60 percent were below the age of 24 years, and 47 percent had only elementary school education or less (Hatsukano 2005, pp.180-185). A survey by the Asian Development Bank showed that approximately 90 percent of workers sent remittances to their families (ADB 2004, p.60) and thus contributed rural economy to a significant extent.

7.2 Impact on Employment

The National Institute of Statistics (NIS) in Cambodia estimated that total employment in the country reached approximately 8 million, of which 1.17 million workers were engaged in the industry sector in 2006 (CRDI 2008a, p.85). Thus, employment in the garment industry can be estimated to be approximately four percent of total employment, and 27.1 percent of the industry sector in Cambodia. **Figure 7.1** presents data on sector wise labor as well as labor employed in the garments industries in Cambodia in 2006, which is the highest in number i.e. 276,381:



The rapid expansion of the Cambodian garment industry can be seen in increase in the number of factories and the growth in employment. Garment factories in Cambodia increased in number from a mere 20 in 1995 to a peak of over 300 in 2006. However, the number slightly declined in

2007 and 2008. In parallel with this, employment expanded over 17 times in the period of 1995-2008, rising to 324,871 in 2008. This indicates that there have been some restructurings within the industry, with a recent trend for larger garment factories to become more common.(Natsuda, Goto and Thoburn, 2009). In June 2010, around 275,706 are employed in garment industry.

With regards to new employment creation, the garment industry in Cambodia generated an average of 38,300 new jobs per annum in the period 1995-2002, slowing down to 15,500 new jobs in the period of 2003-2008. This downward trend of employment generation is attributable to the decline in new investment since 2002 (EIC 2007). **Figure 7.2** presents year-wise data on the number of labor employed in the garment sector of Cambodia:

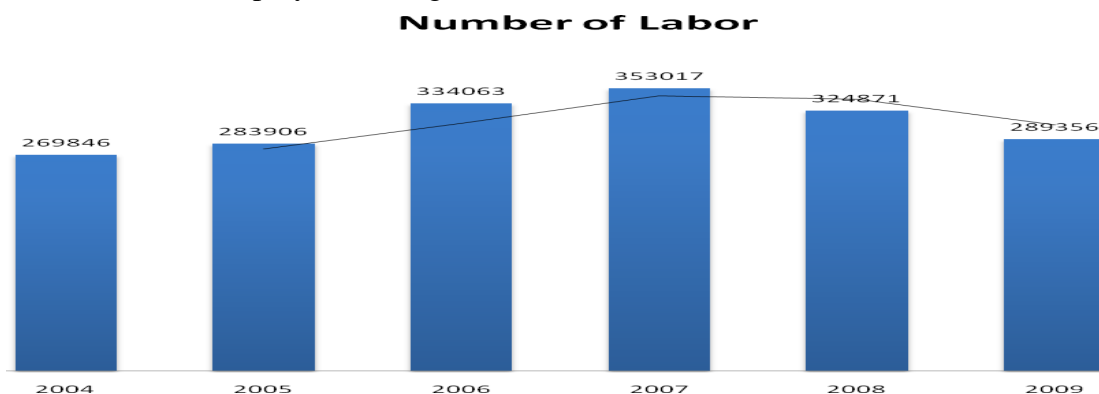


Table 7.1 Number of Factories and Employment in Garment Industry (2003-2010)

Particulars	2003	2004	*2005	**	***	2008	2009	2010
				2006	2007	****		
Factories (No.)	197	219	247	290	292	284	258	242
Employment (000)	234.0	269.8	283.9	334.0	353.0	324.8	289.4	275.7

*Source: USAID (2005,P.4); *EIC (2007); ** ILO (2006, p.2); *** ILO (2007, p.2); **** ILO (2008, p.2),*

Most of the technical, management and supervisory positions in the factories are held by foreigners. According to Yamagata's survey 2006 of 164 garment firms, 30% of top managers were from mainland China, 21% from Taiwan, 15% from Hong Kong, and only 8% of top managers were from Cambodia. The Ministry of Commerce reported that a total of 5,458 foreigners employed as office staffs who are usually management or technical experts. Many cutting, sewing and finishing supervisors/department heads are Chinese regardless of factory ownership. Even if the investor is 100% Korean, they hire Chinese sewing supervisors.

Another important aspect of employment in the garment industry is the creation of indirect jobs. EIC (2007) estimated the spill-over effects of the garment industry in 2005, concluding that 242,000 indirect jobs were generated by the garment industry, of which 113,000 jobs were in the service sector, including transportation and trade, 37,000 jobs were in non-garment manufacturing, in particular, the construction industry, and 92,000 jobs were in the agriculture sector. In 2005, direct employment in the garment industry was assumed to be around 270,000, which means for every direct job created within the garment industry, another was created through indirect employment.

7.3 Other Spillover Impacts of Garment Industry in Cambodia

7.3.1 Improved Industrial Relations

Labor standards have become an increasingly important factor in the global garment industry, due to the growth of consumer consciousness about labor issues in developing countries, as well as campaigns of compliance with labor standards by international NGOs (Nadvi and Thoburn 2004b). Cambodia has ratified International Conventions No. 87 & 98 which ensures freedom of association and the rights to collective bargaining agreement. Despite multiple unions in most factories, only the Most Representative Union will be able to approach the employer for the purpose of collective bargaining negotiation. All workers shall be bound by the Collective Bargaining Agreement once reached. Informal sources quoted that currently, there exist 1,730 trade unions in Cambodia, many of them are not matured enough and one single garment worker belongs to at least 3 trade unions. The labor dispute is resolved firstly through reconciliation at the factory level. If no agreement could be reached, there will be reconciliation at the Ministry of Labor and Vocational Training after any party file a complaint. The government is in the process of establishing a new Trade Union Law in consultation with three parties -government, employers and trade union leaders.

7.3.2 Reputation for Higher Level of Labor Standard and Social Compliance

Cambodian is the only country who links trade to good working conditions. Through this daring policy comes the monitoring program of the “**ILO-Better Factories Cambodia**”. Better Factories Cambodia ensures improved working conditions in Cambodia's export garment factories. It combines independent monitoring with finding solutions, through suggestions to management, training, advice and information. Reports on factories are posted on its website, while the synthesis report is published every 6 months, providing generic information on compliance level of factories in Cambodia.

Two key factors can be identified as significant improvements of Cambodian labor standards since the late 1990s. Firstly, as noted earlier, there is the TATA agreement of 1999, under which the US set quotas for textile and apparel exports from Cambodia, which would increase to a maximum of 18 percent if Cambodia met its obligations to improve the enforcement of its own labor laws and to protect internationally recognized worker's rights (Polaski 2004). Secondly, establishment of a new governance system for labor standards between the International Labour Organization (ILO), the government of Cambodia and industrial associations such as the Garment Manufacturers' Association in Cambodia (GMAC). In 2001, the ILO started a monitoring program, the “ILO Garment Sector Project”, later renamed “Better Factories Cambodia”.

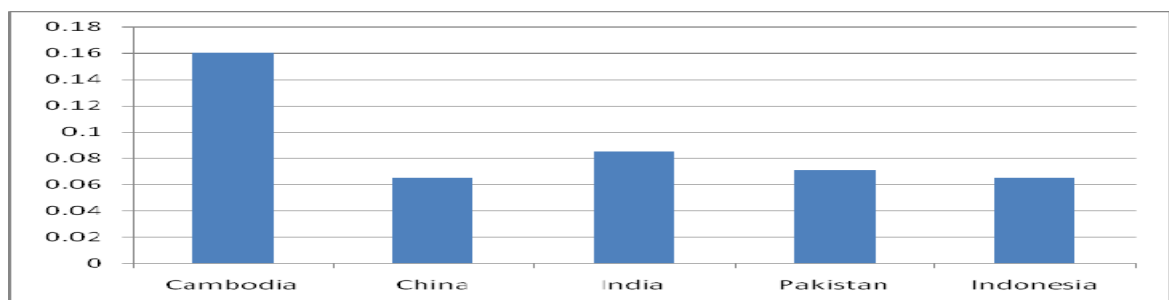
7.3.3 Economic Empowerment of Young Rural Women

The garment industry in Cambodia employs more than 90% female young girls who migrated from remote rural villages. Upon receiving jobs, they are now self dependent and moreover, they could remit a portion of their income to their families. Thus the garment industry helped in economic empowerment of poor rural women.

8.0 Future Challenges of Cambodia and Recent Initiatives

8.1 Cambodia's Challenges in the Global Garment Value Chain

- 8.1.1 Absence of Backward Linkage Industries:** To capture a greater value chain, the Cambodian garment industry needs to develop its own backward linkage industries to ensure smooth supply of yarn and fabrics and accessories, which would need a large amount of investment. Without creating required backward linkage industries, scope for higher value addition is very limited. In absence of such supply chain, Cambodian garment industry has to depend on other factors to be globally competitive.
- 8.1.2 Improvement of Workers' Productivity:** Several studies conducted found that the current productivity level in Cambodia is lower than that of Bangladesh and Vietnam based on Chinese benchmark. So far, least initiatives taken with regards to the productivity improvement. Moreover, number of institutes offering specialized training on apparel design, fashion and production is very limited in Cambodia compared to other competing countries.
- 8.1.3 Increased Wages and Salaries:** Although the Cambodian garment industry has developed rapidly since the late 1990s. Recently, minimum wages and salaries appear to be very crucial among major challenges in post-MFA era given its large number of trade unions.
- 8.1.4 Increased Cost of Electricity:** High electricity cost in Cambodia is another major challenge for garment industry. High cost of electricity and lack of uninterrupted power supply pushed all the garment enterprises to have their own alternative power generation system i.e. diesel generators. Figure 8.1 below gives a comparative scenario:



- 8.1.5 Weak Governance and Lack of Anti-corruption Drive:** Almost every government offices operate on speed money starting from immigration up-to departure from Cambodia. Corruption perception index in Cambodia is one of the worst, ranked 166th out of 180 countries in 2008. Corruption is a critical issue for companies operating in Cambodia. A World Bank survey indicated that most companies needed to pay bribes to conduct business. Many companies operating in Cambodia viewed the integrity of the bureaucracy as very poor (ADB 2004, p.9).

8.2 Current Initiative to Face Challenges of Garment Industry

- 8.2.1 Establishment of National Garment Training Institute:** GMAC in collaboration with Japanese Overseas Development Assistance is in the process of establishing a National Garment Training Institute in response to the need for productivity improvement, localization of workforce and upgrading of supply chain. By consolidating all the training providers, the institute will offer courses such as Production & Planning, Garment Technologist, Industrial Engineer, Pattern Maker, Quality Assurance Auditor, etc. Interestingly, Cambodian female workers seem to be brighter and stronger than those of Bangladeshi and Vietnamese workers who are easily trainable.
- 8.2.2 Trade Union Law:** GMAC had successfully pushed for the law to be developed and is now actively contributing to the development of this long-awaited law which is expected to be out by mid 2011. Meanwhile, the government in consultation with the representatives of GMAC and trade unions has increased minimum wages at US\$ 61.
- 8.2.3 Regional Integration:** Through ASEAN Federation of Textile Industry, Cambodia jointly with ASEAN countries is implementing a strategy called Source ASEAN Full Service Alliance (www.sourceASEAN.com). ASEAN includes some of the world's most important garment factories, and several of its members have large garment industries. Even so, most factories will not be able to provide all services or achieve speed to market standards if acting alone. Through SAFSA, they will be able to form **virtual vertical factories** with downstream material suppliers and other upstream suppliers in order to provide particular buyers full service and speed-to-market. This is a 3-year program started since April 2009.
- 8.2.4 Expansion of Physical Infrastructure:** To reduce price of electricity as well as expand capacity of power supply, the government of Cambodia has taken initiative to install hydro power plants and allows private sector to install small scale captive power plants.
- 8.2.5 Trade Facilitation:** Cambodian government has recently installed automated system for customs data, widely termed as ASYCUDA which has been done to shorten the delay in documentation and speed up the export and imports, as reported by the officials in the Ministry of Commerce. Also, Cambodia Investment Board also introduced one-stop services.
- 8.2.6 Setting up Special Economic Zones:** Cambodian government has recently established Special Economic Zones Board in Cambodia and earmarked different regions for developing SEZ for further industrial development with similar investment incentives.
- 8.2.7 Recent legal reforms and initiatives:** In order to bring more improved law and order situation as well as combat corruption, the government is drafting different laws such as Anti-corruption Law, Law on Commercial Enterprises, Law on Commercial Arbitration, Commercial Contract Law, Law on Secured Transactions, Insolvency Law, Law on Customs and the Tourism and Entertainment Law. Issue of weak governance and corruption is a concern within the local and international organizations in Cambodia.

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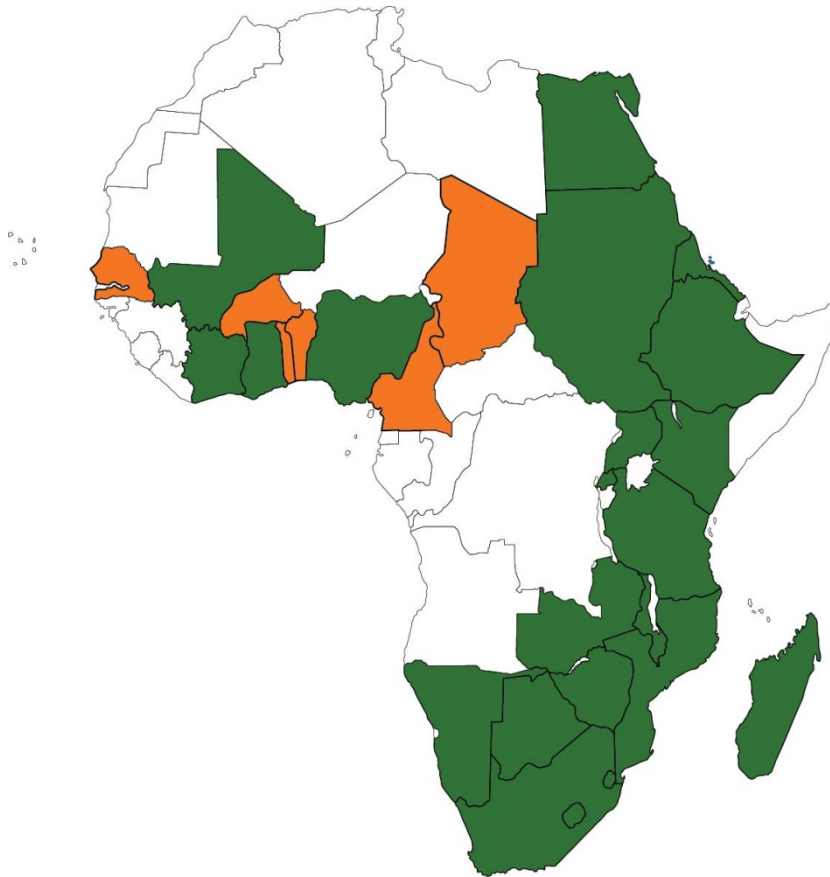
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Tel: 254-725038884/733247052
Fax: + 254 20 2022531
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