

## **Cambodia Textile and Garment Industry**

Garments and textiles are the lifeblood of the Cambodian economy representing 85% of the country's total exports, and that amount rises to 95% if you include footwear<sup>i</sup>. Garment manufacturing accounts for 16% of the country's gross domestic product and employs 45% of its manufacturing workforce.<sup>ii</sup> Garments make up the lion's share of the industry, as the country only has two small textile mills.

Those numbers are impressive for an industry that only formed in 1994 through foreign investment. The government encouraged these investors with a series of generous incentives, and in 1996 the United States and the European Union granted the country most favored nation and generalized system of preferences (GSP) trade privileges.<sup>iii</sup>

In 1999, the US and Cambodia signed a bilateral textile trade agreement that allowed increased garment exports for Cambodia, if it reformed its labor laws with the assistance of the International Labor Organization.<sup>iv</sup> This quota system lasted until January 2005, but the US remains by far the largest market for its garment exports.

The US accounts for about two-thirds of exports, the EU 22%, and the remainder to Canada, South Korea and Japan, as seen in Table 1. Because Cambodia's exports to the US are dominated by garments, the country pays the highest tariff rate of any US partner (15-25%), depending on the category of product. Cambodia is urging the US to lower these tariff rates so it can compete with China.<sup>v</sup>

There were 247 operating garment factories in April 2010, rising from 191 in January 2000 and hitting a peak at 313 in October 2008.<sup>vi</sup> About 280,000 workers, over 90% of them rural females, were working in the industry in April 2010, rising from a range of 112,676 in January 2000 to a peak of 353,017 in December 2007.<sup>vii</sup>

A sewing operator in Cambodia makes on average \$80 a month compared to \$200 for a Chinese worker.<sup>viii</sup> These employees were surveyed in 2007, and the wage level has not changed since then.<sup>ix</sup>

Partially because of stagnant wages, frequent strikes as well as low worker productivity afflict the industry. The Garment Manufacturing Association of Cambodia (GMAC) reports a Chinese worker produces 100-120 shirts per hour, a Vietnamese worker makes 60-70 shirts per hour and a Cambodian worker produces 30-40 shirts per hour.<sup>x</sup>

Some 93% of the capital in the garment industry is foreign-owned, with Taiwan the leader with 25%, China and Hong Kong both at about 20%, and South Korea owning 12%.<sup>xi</sup>

Cambodia has a modest domestic market for imported garments, in part because the economy only produced \$28 billion in GDP in 2008 for 14.5 million people.

### **Effects of the 2008-2009 Global Financial Crisis**

The global downturn depressed demand for garments, and exports declined by 19% in 2009, as the particularly hard hit United States remained such a key market.<sup>xii</sup> The government stated 73 garment factories closed in 2008 with a loss of about 25,000 jobs, but in the same year 64 new factories opened absorbing 13,000 workers.<sup>xiii</sup>

As about 70% of its clothing exports go to the US and 25% to Europe, the crisis took its toll with about 100 factories closing in 2009.<sup>xiv</sup> The structure of the industry makes it susceptible to shocks in the global economy because it is so export-driven. Some 60% of the factories operate on a cut, make and trim basis as subsidiaries of foreign companies in China, Taiwan and South Korea.<sup>xv</sup> Cut, make and trim means the supplier controls the designs and fabrics used, but outsources the labor-intensive jobs.

At the ASEAN Federation of Textile Industries meeting in Phnom Penh in January 2009, the Ministry of Commerce stated production had fallen 15-20% since October 2008. To keep jobs and exports steady, the government suspended a 1% Advance Profit Tax until the end of 2012 and also announced a subsidy for factories' payments to the National Social Security Fund.<sup>xvi</sup>

### **Strategy for the Future**

The industry hopes to cut costs through productivity gains, and it wants to diversify its trade partners.<sup>xvii</sup> It is also planning on harmonious industrial relations to reduce strikes and keep foreign investment pouring in and an abundant supply of cheap labor sated.<sup>xviii</sup> Producing higher quality products is a goal for the industry, but a realistic look at the sector will reveal there are several hurdles to clear before this can happen.

Along with making value-added products, the industry is keen to see more local fabric production, since the overwhelming majority comes from imports.<sup>xix</sup> The government is mindful of the sector, since it plays such a key role in the country's economy, but at the same time the government has not provided necessary support to attract domestic fabric production. Some foreign investors remain jittery about committing massive capital to the country.<sup>xx</sup>

## **Intra-ASEAN Integration**

Cambodia stands to gain plenty if ASEAN economic integration continues on course. The country already receives tax favors from the EU for using fabric from ASEAN members for its clothing, and elimination of most tariffs between ASEAN countries in 2010 should reduce the cost of fabric imports.<sup>xxi</sup>

The era of trade liberalization, along with acknowledgment that fashion and value-added products provide the best returns, presents Cambodia a major challenge. International buyers now want “full service” from the first designer sketch to stock delivery to their warehouses. This can shorten lead time and lower costs for customers.

But Cambodia’s industry cannot yet provide full service to buyers, as it mainly consists of low-skilled cut, make and trim laborers. Through Source ASEAN Full Service Alliance (SAFSA) manufacturers in the region are able to form virtual vertical factories by combining downstream material suppliers with intermediate and upstream suppliers, mostly in different countries, to provide buyers full service and speed to market. This strategy has the potential to really aid Cambodia because it imports most of its fabric and has an abundant supply of cheap labor.

Table 3 shows Cambodia’s exports to ASEAN countries for woven and pile fabrics dove dramatically in recent years after topping \$1 million earlier in the decade, while knitted fabrics are showing promising growth in recent years.

Since Cambodia imports most of the fabric it uses for its garments, ASEAN integration in this sector could be quite a boon. Pile and terry fabrics were the most popular import from the region from 2001-2008, as seen in Table 4, hitting \$77.9 million in 2008.

## **Strengths, Weaknesses, Opportunities and Threats**

An undeniable strength is the preferential market access Cambodia is granted to the US, the EU, Canada and Japan through trade agreements. Most favored nation status, the generalized system of preferences and the lesser developed country categorization all guarantee low tariffs and considerable market access.<sup>xxii</sup>

In addition to an abundant supply of cheap labor and government recognition of the industry’s importance, Cambodia is the only country in the world where the International Labor Organization (ILO) independently monitors and reports on working conditions in clothing factories according to national and international

standards.<sup>xxiii</sup> This is a major incentive for leading brands such as Levi's, Gap, Sears, Wal-Mart and Disney to keep buying from the country.

Despite favorable market access, no country should feel comfortable when it is dependent on one industry, particularly one that is so dependent on raw material imports to produce its merchandise and foreign investment for capital. Some 93% of the industry is owned by foreigners<sup>xxiv</sup> and 66% of garment raw materials imported in 2008, totaling \$1 billion, came from China, with the remainder from Taiwan and South Korea.<sup>xxv</sup> The import trend is troubling, as World Trade Organization statistics show that Cambodia's textile imports almost doubled from \$713 million in 2003 to \$1.35 billion in 2007, with the segment making up 24.5% of the economy's total merchandise imports.<sup>xxvi</sup>

Spiking electricity costs are another concern, as they used to represent 5% of total costs a few years ago and now tally 10-15%.<sup>xxvii</sup> Wild swings in fuel prices also affect shipping costs.

In addition, labor will not remain cheap forever, and with long stagnant wages, GMAC describes labor relations as "improved but still fragile".<sup>xxviii</sup> Frequent strikes and low worker productivity remain a major problem.

Opportunities include free trade agreements with China, South Korea and Japan that guarantee a market for Cambodia's products. In addition, China's growth and concurrent higher production costs mean it will continue to look elsewhere to outsource its work.<sup>xxix</sup>

The country wants to improve its production efficiency in the industry, and with cut, make and trim operations, those improvements could be achieved through skills training, lean manufacturing and other process improvements as well as new technology such as automatic sewing machines, hanger systems, pattern-making systems and new software.

Many threats make Cambodia's garment industry vulnerable. The country is particularly wary of increasing competition, especially from Vietnam and Bangladesh. The former reported 300% export growth in the sector over the last seven years and was the US's second-largest foreign supplier in 2008 behind China.<sup>xxx</sup> The latter has the same abundant cheap labor as Cambodia along with a low inflation rate and a large spinning capacity leading to 90% vertical integration for knit products.<sup>xxxi</sup>

The country's dependence on imports makes it susceptible to rising material prices, while its reliance on both export markets and foreign investment make it vulnerable to financial crises.<sup>xxxii</sup>

Cambodia must also be mindful of competition from China now that US and EU safeguard restraint measures on Chinese exports that started in 2005 ended in 2009. This move, coupled with US tariffs on Cambodian exports in eight garment categories in 2009, provides extra impetus for the country to finally search for new trading partners.<sup>xxxiii</sup> In fact, the country's long-term survival depends on it diversifying its economy.

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

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

Source: Garment Manufacturers Association in Cambodia

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

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

Source: UN Comtrade Statistics

**Table 3: Cambodian exports to ASEAN countries 2001-2008 (US\$'000)**

Product label	Cambodia's exports to ASEAN							
	2001	2002	2003	2004	2005	2006	2007	2008
Warp knit fabrics incl. those made on galloon knitting machines, of a width of > 30 cm	-	-	-	-	328	-	51	1,009
Fabrics, knitted or crocheted, of a width of > 30 cm (excl. warp knit fabrics)	-	-	-	19	457	542	737	948

Pile fabrics including long pile fabrics & terry fabrics, knitted/crocheted	857	1,284	428	301	776	163	212	381
Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2	-	-	39	-	421	121	409	366
Knitted or crocheted fabrics, of a width <= 30 cm (excl. those containing by weight >= 5%)	-	-	-	-	34	2	164	335
Knitted or crocheted fabrics, nes	-	21	1	320	88	117	170	309
Knitted or crocheted fabrics, of a width > 30 cm, containing by weight >= 5% of elastomer	-	-	-	296	432	56	309	261
Woven fabrics of synthetic filament yarn (including hd no 54.04)	56	206	2	1	41	40	67	224
Nar woven fabrics, other than those of hd 5807	1	61	9	22	35	37	89	163
Woven fabrics of cotton, nes	-	-	-	-	84	8	-	158
Woven fabrics of synthetic staple fibers, nes	611	1,166	1,314	1,965	709	687	645	110

Source: UN Comtrade Statistics

**Table 4: Cambodian imports from ASEAN countries 2001-2008 (US\$'000)**

Product label	Cambodia's imports from Intra-ASEAN							
	2001	2002	2003	2004	2005	2006	2007	2008
Pile fabrics including long pile fabrics & terry fabrics, knitted/crocheted	30,641	35,691	34,690	471	43,449	50,406	65,475	77,903
Knitted or crocheted fabrics, of a width > 30 cm, containing by weight >= 5% of elastomer				22,311	4,398	11,725	11,472	18,601
Fabrics, knitted or crocheted, of a width of > 30 cm (excl. warp knit fabrics)				7	16,752	30,810	14,957	17,417
Woven cotton fabrics, 85% or more cotton, weight less than 200 g/m2	506	229	38	80	13,899	24,545	12,815	13,687
Knotted netting of twine, cordage/rope made up fishing nets	325	257	160	109	11,993	11,186	10,513	11,859
Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2	8	160	2,354	3,577	16,098	15,487	9,847	10,239
Woven fabrics of synthetic filament yarn (incl. hd no 54.04)	142	524	2,669	5,269	8,488	8,852	10,191	7,680
Sewing thread of man-made filaments	469	704	624	124	4,582	4,923	5,025	6,166
Tulles & other net fabric not including woven, knit/crocheted; etc	189	214	66	1,104	2,560	2,133	3,334	4,389
Woven fabric of synthetic staple fib (< 85% of such fiber), mixed with cotton	93	697	3	8	2,547	4,071	2,027	4,190

Source: UN Comtrade Statistics

**Table 5: Cambodian global textile imports 2003-2007 (US\$M)**

	2003	2004	2005	2006	2007
Textile imports	713	867	1,003	1,202	1,350

Source: South East Asia Textile Business Review 2009 (1<sup>st</sup> edition)

**Table 6: Recent Data on Cambodia Garments and Textiles 2007-2010**

Total Workers (2010)	280,000
Cambodia Export Total (2008)	\$2.97 billion
<b>Average Wage (same from 2007 to 2010)</b>	<b>\$80 / month</b>
Garment Factories (2010)	247

Source: Garment Manufacturers Association in Cambodia

### SWOT Analysis

<b>Strengths:</b>	<b>Weaknesses:</b>
<ul style="list-style-type: none"> <li>+ Market access to the US, EU, Canada and Japan through trade agreements</li> <li>+ Abundant cheap labor and government recognition of industry's importance in the economy</li> <li>+ ILO independently monitors and reports on working conditions</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of skilled workers with experience in technology, fashion and management</li> <li>- Dependent on fabric imports, foreign investment and export demand</li> <li>- Rising electricity and fuel costs</li> <li>- Somewhat fragile labor relations</li> </ul>
<b>Opportunities:</b>	<b>Threats:</b>
<ul style="list-style-type: none"> <li>+Free trade agreements with China, South Korea and Japan ensure market access</li> <li>+Chinese growth and production costs ensure it will look for cheaper locations</li> <li>+Ability to improve efficiency through skills training, lean manufacturing, and process improvements</li> <li>+ASEAN integration would allow Cambodia and other countries to cooperate and produce competitively priced garments quickly.</li> </ul>	<ul style="list-style-type: none"> <li>-Reliance on exports and foreign investment make it vulnerable to financial crises</li> <li>-Fierce competition from Vietnam and Bangladesh</li> <li>-Rising raw material prices</li> <li>-US and EU lifting of safeguard measures on Chinese products in 2009 coupled with US quotas on eight categories of Cambodian garments</li> </ul>

Source: GMAC and South East Asia Textile Business Review 2009 (1<sup>st</sup> edition)

i Garment Manufacturers Association in Cambodia. Submission to the author. 15 June 2010.  
ii South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).  
iii Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010.  
iv South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).  
v Ibid.

- 
- vi Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010.
- vii Ibid.
- viii South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).
- ix Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010.
- x South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).
- xi Ibid.
- xii Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010 and South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).
- xiii South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).
- xiv Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010.
- xv South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).
- xvi Ibid.
- xvii Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010.
- xviii Ibid.
- xix South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).
- xx Ibid.
- xxi Ibid.
- xxii Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010.
- xxiii South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).
- xxiv Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010.
- xxv South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).
- xxvi Ibid.
- xxvii Ibid.
- xxviii Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010.
- xxix Ibid.
- xxx Garment Manufacturers Association in Cambodia. Submission to the author. 13 May 2010.
- xxxi Ibid.
- xxxii Ibid.
- xxxiii South East Asia Textile Business Review 2009 (1<sup>st</sup> edition).