

Challenges to the Cambodian Garment Industry in the Global Garment Value Chain*

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*RCAPS Working Paper No. 09-3
July 2009*

Ritsumeikan Center for Asia Pacific Studies (RCAPS), Ritsumeikan Asia Pacific University,

URL: <http://www.apu.ac.jp/rcaps/>

*We are grateful to Ritsumeikan Asia Pacific University in Japan and the Japan Society for the Promotion of Science for research finance.

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ABSTRACT

This paper examines the competitiveness of Cambodia's garment export industry, on which the country's recent and successful economic development has depended to an unusually heavy extent. Using primary interviews and drawing on the Japanese-language literature, it documents how Cambodia was inserted into garment global value chains, based almost entirely on inward investment. Despite its expansion in the face of strong Chinese competition since the end of the Agreement on Textiles and Clothing in December 2004, the industry remains vulnerable as a result of deficient infrastructure, labour unrest, official corruption and the absence of a domestic textile industry, all of which serve to diminish its attractiveness to global buyers.

Keywords: Cambodia, garments, textiles, global value chains, development

1. Introduction

The garment and textile industries have been the archetypal drivers of early industrialisation in both developed and less developed countries, requiring relatively low levels of production technology and abundant cheap labour. Garments in particular have also been the vehicle through which many developing countries have initiated export-led growth in manufacturing. Cambodia is a late-comer to this development path, having become a garment exporter in the 1990s following the end of an exceptionally turbulent period of political and social upheaval (Hughes 2002; Sjoberg and Sjolholm 2006). Cambodia is somewhat unusual in that – unlike Vietnam¹ for example – it was not building on earlier import-substituting industrialisation in textiles, and its garment exports were developed almost entirely by an influx of foreign firms. Cambodia is also extremely dependent on the garment industry, which in 2007 generated 90

¹ See Nadvi and Thoburn (2004a and 2004b), and Thoburn (2009).

percent of the country's export earnings and 27 percent of its industrial employment.² The industry has brought large numbers of poorly educated workers (mostly rural women) into the labour market as migrants, whose employment and remittances to their home areas have worked to reduce poverty.

Cambodia's rapid expansion of garment exports was dependent on special access to the US market before it became a member of the World Trade Organization in 2004, and this access in turn was made conditional by the US on Cambodia's willingness to promote high labour standards in its export industries. Until the end of 2004, Cambodia was also aided by the provisions of the Multi-Fibre Arrangement/Agreement on Textiles and Clothing (MFA/ATC), under which exports to the EU and US markets were limited by export 'quotas', tightly stipulated quantitative controls on a product-by-product and country-by-country basis. By restricting the amount that major producers such as China could export to 'quota markets', the MFA³ gave new exporting countries an opportunity to enter the industry on the basis of their underutilized MFA export quotas.

When the MFA was due to end, it was widely predicted that China and India would greatly increase their market share (eg Nordas 2004), and that most other countries would be losers. In the event, China has increased its market share, although India has not (refer to Table 6 below). Some of the direst predictions have been borne out for sub-Saharan African countries, but Asian producers, particularly Vietnam and Cambodia (also Bangladesh) have increased their share of world exports of textiles and garments.

² See sources cited in section 2.

³ Strictly, the MFA was *replaced* by the ATC in 1994 under the GATT Uruguay Round agreement. In fact, most people in the industry have continued to refer to the 'MFA', and we do too. Textiles and garments were to be integrated into the mainstream of WTO rules over ten years to the end of 2004 by the progressive expansion and abolition of export quotas, though this process was heavily end-loaded towards the concluding years of the ATC period.

Cambodia's garment industry, however, remains vulnerable, and the extreme dependence on the industry makes the country's apparently successful development performance vulnerable too. Since the wide geographical spread of the garment industry was closely associated with the trade distortions engendered by the MFA, global buyers' sourcing patterns could be expected to consolidate on to a smaller range of countries, and the (generally) East Asian manufacturing companies associated with these buyers⁴ would reduce the number of countries in which they produced. Garment factories operated by foreign producers can enter and leave a country very rapidly. This has happened, for example, in Mauritius, one of sub-Saharan Africa's most important garment producers, where almost all East Asian companies left after the end of the MFA.⁵

We use the concept of the global value chain, whose basic idea is the sequential and interconnected structures of economic activities, with each link or element in the chain adding value to the process. The GVC approach includes three important dimensions: an input-output structure, a territoriality and a governance structure (Gereffi 1994: 96-97). Garments and textiles are part of a typically *buyer-driven* global value chain characterised by highly competitive and globally dispersed production systems. Profits in the chain are generally attributed to combinations of high-value research, design, sales, marketing and financial services rather than volume and technological advances (Gereffi 1999, p.43). The GVC analysis has been used in investigating global production and trade of the garment industry because the approach includes the role of intermediate players, such as global buyers and international trading companies, which coordinate global garment production in relation to final customers as forward linkages,

⁴ This is the well known system of 'triangular manufacturing' within global textile and garment value chains, where global buyers devolve sourcing to well established garment manufacturing companies from countries such as Hong Kong, Korea and Taiwan (Gereffi 1997).

⁵ Author interviews in Mauritius in June 2009. Mauritius was not so vulnerable as Cambodia, though, as it has substantial locally owned garment production.

and local industry in developing countries as backward linkages (Gereffi and Memedovic 2003; Schmitz and Knorringa 2000).

This paper documents how Cambodia was inserted into the textile and garment GVC. We ask what are the bases of Cambodia's continued competitiveness in garment exporting, and whether this can be preserved and strengthened. To answer these questions we use in-depth interviews conducted in Cambodia in 2008, supplemented by the drawing together of a wide range of secondary and survey sources, including Japanese-language literature.

2. Overview of the Cambodian Economy and Garment Industry

Cambodia is one of the fastest growing countries in Southeast Asia. Over the period of 1996-2007, Cambodian GDP expanded approximately 2.5 times (see Table 1). However, GDP per capita is still relatively low and Cambodia is classified as a least developed country (LDC). Since 2000, the economic development of Cambodia has been attributed to the stabilisation of the currency, reduction of the inflation rate, and the enhancement of export activity, led by foreign direct investment (JICA 2007). The GDP growth rate in Cambodia reached 10 percent in 2004, peaking at 13.5 percent in 2005. A more moderate economic growth rate of six percent is expected to continue until 2010, as targeted by the National Strategic Development Plan (NSDP) (Royal Government of Cambodia 2006, p.39). Similarly, the Ministry of Economy and Finance of Cambodia forecasts around six percent of annual GDP growth rate from 2006 to 2010 (JICA 2007, p.2-2).

Table 1 Trends of GDP in Cambodia, 1996-2007

	1996	1998	2000	2001	2002	2003	2004	2005	2006	2007
GDP (constant 2000 US\$ Million)	2,707	3,002	3,654	3,948	4,206	4,564	5,021	5,697	6,314	6,967
GDP (current US\$ Million)	3,507	3,120	3,654	3,980	4,278	4,651	5,310	6,271	7,258	8,628
GDP growth (annual %)	5.4	5.0	8.8	8.0	6.5	8.5	10.0	13.5	10.8	10.3
GDP per capita (constant 2000 US\$)	231	245	286	303	317	338	366	408	445	482

Source: World Development Indicators (Online)

There has been considerable structural change in Cambodia (Table 2), with the share of industry rising from 14.3 percent in 1995 to 26.2 percent in 2006. The garment industry, particularly, has been a main driver of industrial growth of Cambodia since the late 1990s, with its share of GDP from just 1.3 percent in 1995 to 9.2 percent in 2000 and 15.9 percent in 2006, and generating export earnings of US\$3.3 billion in 2006 (CDRI 2008a, p.41).

Table 2 Composition of GDP by Sector in Cambodia, 1995-2006

	1995	2000	2002	2003	2004	2005	2006
Agriculture	47.7	35.9	31.2	32.0	29.5	30.8	30.1
Industry	14.3	21.8	24.3	25.0	25.8	25.1	26.2
Services	34.2	37.1	39.2	38.1	39.3	38.5	38.6

Note: % of GDP at current prices

Source: ADB (2007)

2.1 The Development of the Cambodian Garment Industry

The origins of the Cambodian garment industry can be traced back to the French colonial era (1863-1953). The current foundation of the garment industry, however, was established by foreign investors from Hong Kong, Taiwan, Malaysia and Singapore, operating export-oriented garment factories in Cambodia from around 1994 (Bargawi 2005). In 1996, Cambodia was granted the status of Most Favoured Nation (MFN) by the United States and European Union (EU), which accelerated foreign direct investment into the Cambodian garment sector, for the purpose of utilising the low tariff rate in those markets (Hatsukano 2005). Unlike other countries in Southeast Asia, Cambodia did not get through the stage of import-substitution industrialisation (ISI). Rather, the government shifted from a centrally planned market system to a free market economy in the mid 1990s; subsequently the garment industry in Cambodia came to rely on a free market system and developed with foreign investment.

2.2 Employment

The rapid expansion of the Cambodian garment industry can be seen in increase in the number of factories and the growth in employment (Table 3). 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 327,100 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.⁶ 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). 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.

Table 3 The Number of Factories and Employment in the Garment Industry, 1995-2008

	1995	1997	1999	2000	2002	2003	2004	*2005	**2006	***2007	****2008
Factories (number)	20	67	152	190	188	197	206	n.a	305	288	285
Employment (thousands)	18.7	51.6	96.6	122.6	210.4	234.0	245.6	270.0	317.1	347.8	327.1

Note: ILO's figures include all factories active on 31st October, which have been monitored by Better Factory of Cambodia.

Source: USAID (2005, p.4); *EIC (2007, p16); **ILO (2006, p. 2); ***ILO (2007, p.2); **** ILO (2008, p.2).

⁶ Interview, 1st September 2008.

The garment industry has been playing an important role in both income generation and poverty reduction in Cambodia, contributing to not only the 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 Phnom 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 labour 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).

Table 4 Direct and Indirect Employment Created by the Garment Industry in 2005

	No. of Jobs	Percent
Total Jobs	512,000	100%
Direct Jobs	270,000	53%
Indirect Jobs	242,000	47%
Indirect Jobs (breakdown)		
- Agriculture	92,000	18%
- Industry (excl. garment)	37,000	7%
- Services	113,000	22%
Transportation	37,000	7%
Trade	29,000	6%
Hotels&Restaurant	17,000	3%
Other Services	30,000	6%

Source: EIC (2007, p.16)

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 (see Table 4). 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.

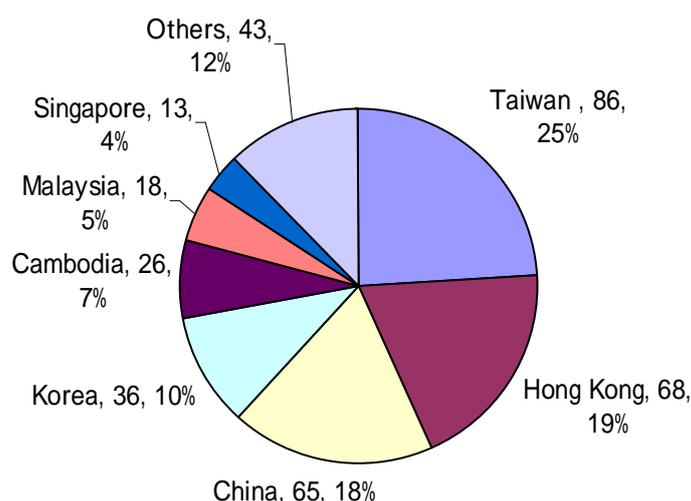
2.3 Ownership

Figure 1 represents the ownership nationality of garment factories in Cambodia. Foreign capital companies accounted for over 90 percent of garment factories. The small share of local ownership is one of the important characteristics of the Cambodian garment industry for the purpose of analysis, and is in rather stark contrast to Vietnam where local ownership is much more significant. This is important particularly from a GVC perspective as it partly determines how those suppliers are linked to the international production and distribution networks. More precisely, these suppliers are by definition linked to the GVC through their foreign parent companies where governance structures are hierarchical. In most cases many of these parent companies operate other garment factories in other countries simultaneously, and the products produced in those factories are more or less substitutable. In such contexts, buyers would still have a major role in sourcing decisions in terms of where to place orders of the garments, but the parent companies' roles could be even greater in this as they would strategically allocate orders in relation to its garment factories in other countries. Unlike locally owned companies such as those seen in Vietnam, this could mean that the Cambodian factories would have much limited leverage and autonomy in terms of strategic decision making compared to locally owned companies in terms of attracting orders, as negotiations with buyers are normally done at headquarters by their parent companies. We will return to these points later when we analyze specific cases.

This 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). Following this, a number of companies (particularly from Northeast Asia) have relocated their production base in order to utilise the export quota and low tariff rate to the US market since the late 1990s.

Figure 1 Garment Factories by Ownership Nationality in 2008



Note: 324 factories (including 14 temporary closed factories) registered under the Garment Manufacturers' Association in Cambodia (GMAC) as of the 27th August 2008; and 355 ownerships due to a joint venture of plural nationalities.

Source: GMAC (2008)

In 2008, as the figure shows, the main nationalities that had ownership in Cambodian garment factories were Taiwan (86 factories and 25 percent), Hong Kong (68 factories and 19 percent) and China (65 factories and 18 percent). Firms from 'greater China' such as Taiwan, Hong Kong and China, accounted for over 60 percent of the total garment factories in Cambodia. With the industry consisting of mostly foreign firms, production, export and management decisions are made from distant offshore offices (ADB 2004).

3. International Trade and the Cambodian Garment Industry

The garment industry developed rapidly throughout the late 1990s after Cambodia was granted Most Favoured Nation (MFN) status by the US in 1996 as a non-member of the WTO. However,

the US government started negotiating for the establishment of quotas for garment exports in 1998, due to its concerns over the rapid increase in garment and textile imports from Cambodia at that time. In addition, a number of international NGOs began focusing on the issues of labour standards in the factories of developing countries directly owned or sourced by international companies (Yamagata 2004, p.56). As a result, in January 1999, Cambodia and the United States concluded a bilateral three-year trade agreement on textile and apparel (TATA), which linked export quotas to labour standards in Cambodia.⁷ Moreover, the TATA was extended in December 2001 for a further three years, up until the end of the MFA/ACT in January 2005 (Chui 2007).

In relation to the EU market, a three-and-a-half year EU-Cambodian textile agreement was set up in 1999, which provided duty and quota free access for Cambodian garment products, subject to rules of origin requirements being met (Bargawi 2005). In addition, since 2001, the EU also has introduced its “Everything But Arms (EBA)” scheme, which allows quota and duty-free access to all Cambodian exports to the EU market.⁸ However, because the Cambodian garment industry sources fabrics, yarns and accessories from abroad, particularly China, it is difficult for it 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). By the same token, 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).

The most important event in relation to international trade for the Cambodian garment industry was Cambodia’s accession to WTO membership in October 2004. Cambodia’s primary

⁷ We examine issues of labour standards in section 4.3.

⁸ See more details in EBA, www.ec.europa.eu/trade/issues/global/gsp/eba/index_en.htm [accessed on 25 February 2009].

objective was to protect its fledgling garment industry after the removal of export quotas under the MFA. In particular, the Cambodian government was concerned that the US government might impose high import tariffs. Secondly, WTO membership was expected to facilitate Cambodian access to the world market, which would attract both local and foreign investment to complement its weak domestic production capacity (Chea and Sok 2005). The extension of TATA, and WTO membership, enabled Cambodia to conduct a smooth transition into quota-free access to the US market in the post MFA era.

Table 5 shows the expansion of Cambodian garment exports over the decade to 2007. During this period, 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. Furthermore, Cambodian garment exports increased in value by approximately 45 percent 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. The largest export destination is the US market, which share peaked at 87.7 percent of total garment exports in 1999, decreasing to 68.4 percent in 2006. The fall in the US share has been the result of an increased share going to the rest of the world, rather than an increase in share to the EU. However, the total value to the US has been steadily growing.

Table 5 Trends of Cambodian Garment Exports in Value, 1997-2007

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Exports (TE)	493.4	784.4	941.1	1,056.2	1,268.2	1,453.2	1,708.1	2,108.1	2,352.8	2,799.9	3,097.0
Garment Exports (GE)	227.2	378.0	554.0	962.1	1,202.2	1,355.8	1,628.4	2,027.0	2,253.3	2,698.9	2,938.9
Share in TE	46.0%	48.2%	58.9%	91.1%	94.8%	93.3%	95.3%	96.2%	95.8%	96.4%	94.9%
GE to US	107.2	74.1	486.0	714.1	840.9	943.4	1,099.8	1,270.9	1,546.1	1,847.1	n.a
Share in total GE	47.2%	19.6%	87.7%	74.2%	69.9%	69.6%	67.5%	62.7%	68.6%	68.4%	n.a
GE to EU	n.a	n.a	n.a	228.1	323.3	356.3	414.7	590.8	503.1	601.0	n.a
Share in total GE	n.a	n.a	n.a	23.7%	26.9%	26.3%	25.5%	29.1%	22.3%	22.3%	n.a
GE to Rest of World	n.a	82.0	68.0	19.9	38.0	56.1	113.8	165.3	204.1	250.7	n.a
Share in total GE	n.a	21.7%	12.3%	2.1%	3.2%	4.1%	7.0%	8.2%	9.1%	9.3%	n.a

Unit: US\$ Million

Source: CDRI (2005 and 2008b)

Table 6 shows that, contrary to the predictions of commentators such as Nordas (2004), some Asian countries that were new to garment exporting – Vietnam, Cambodia and Bangladesh – increased their share of world exports, although India did not.

Table 6 Clothing Exports of Selected Asian Countries, 2000-2007

	2000		2005		2006		2007	
Cambodia	970	0.5%	2,231	0.8%	2,513	0.8%	2,893	0.8%
Vietnam	1,821	0.9%	4,681	1.7%	5,579	1.8%	7,186	2.1%
China	36,071	18.2%	74,163	26.8%	95,388	30.8%	115,238	33.4%
Bangladesh	5,067	2.6%	7,510	2.7%	9,634	3.1%	10,060	2.9%
India	5,960	3.0%	8,595	3.1%	9,465	3.1%	9,655	2.8%
World	198,158		276,822		309,593		345,301	

Unit: US\$ Million

Source: WTO (2008, p.115)

Table 7 indicates clothing imports into the United States, EU and Japan from selected Asian countries in 2007. The Cambodian share of imports into the US, EU, and Japan accounted for 3.1 percent, 0.4 percent and 0.1 percent respectively (see Table 7). In comparison with other Asian exporters, the Cambodian share is relatively low in both the EU and Japanese markets.

Table 7 Clothing Imports of Three Major Markets from Selected Asian Countries in 2007

	US		EU		Japan	
Cambodia	2,559	3.1%	715	0.4%	15	0.1%
Vietnam	4,619	5.5%	1,605	1.0%	717	3.0%
China	28,530	34.0%	32,285	19.9%	19,795	82.6%
Bangladesh	3,286	3.9%	6,004	3.7%	30	0.1%
India	3,505	4.2%	5,719	3.5%	157	0.7%
Total	83,885		161,970		23,972	

Unit: US\$ Million

Source: WTO (2008, pp.112-113)

Table 8 summarizes the major export destinations of Cambodian garments in 2007 according to the type of product based on the HS 2002 classification. 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, sweaters, sweat shirts and polo shirts. Trousers, shirts, jackets are normally classified as woven fabric based garments as they tend to use more woven fabrics than knitted fabrics. The production of knitted fabric based garments is often more vertically integrated and for some of the products, such as sweaters and underwear, the knitting and assembly processes are almost indivisible. In contrast, the division of labour between textile producers and garment producers for woven fabric based garments is much more common. 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.

Table 8 Main Export Destination According to Products in 2007

Knitted fabric based garments (HS2002, Code 61)			Woven fabric based garments (HS 2002, Code 62)		
Country	Amount	Share	Country	Amount	Share
USA	\$1,673,918,233	64.3%	USA	\$880,168,801	76.5%
Germany	\$220,085,000	8.4%	Canada	\$70,919,283	6.2%
United Kingdom	\$134,090,848	5.1%	United Kingdom	\$43,582,382	3.8%
Spain	\$122,791,922	4.7%	Germany	\$33,396,000	2.9%
Canada	\$114,540,917	4.4%	France	\$17,933,414	1.6%
France	\$69,080,566	2.7%	Netherlands	\$14,206,983	1.2%
Belgium	\$39,587,871	1.5%	Singapore	\$10,734,824	0.9%
Austria	\$27,158,662	1.0%	Mexico	\$8,670,075	0.8%
Ireland	\$21,852,800	0.8%	Luxembourg	\$7,710,090	0.7%
Italy	\$15,032,971	0.6%	Russian Federation	\$7,576,512	0.7%
Others	\$167,105,439	6.4%	Others	\$56,164,776	4.9%
Total	\$2,605,245,229		Total	\$1,151,063,140	

Note: The figures in this table are import data that are reported by each of the importing countries, as export data for Cambodia was only available until 2004 at the time of producing this table.

Source: UN Commodity Trade Statistics Database (UN Comtrade)

4. Cambodia's Challenges in the Global Garment Value Chain

Although the Cambodian garment industry has developed rapidly since the late 1990s, it is facing various challenges in the post-MFA era, including issues in production orientation,

relationships with global buyers, labour standards, and finally, state capacity. In this section, we discuss each challenge separately below.

The information that we use in this paper is based on secondary data and reports as well as on primary data collected during authors' fieldwork in Phnom Penh in September 2008. In-depth interviews were conducted with seven garment manufacturing companies (see Table 9). In addition, industry associations (Garment Manufacturing Association of Cambodia, GMAC), research institutes and government organizations were also interviewed. Table 9 provides an outline of the seven companies studied.

Table 9 Company Outline

Company	Year established	Location of HQ	Number of factories in	Number of workers	Main products	Export orientation			Factories outside of Cambodia
						US	EU	Others	
A	2006	Taipei	3	4000	knitted garments	70	30	0	Changzhou (China), Kunshan (China), Lesotho, Kenya
B	1999	Hong Kong	1	1200	knitted garments, children's wear	95		5*	Dongguan (China)
C	1999	Macau	1	600	knitted garments	20	80	0	n.a.
D	2005	Taipei	2	1900	knitted garments	95		5*	Lesotho (closed in 2005, and came to Cambodia)
E	2004	Shanghai	1	1500	woven fabric garments	60	30	10	Changzhou (China)
F	1997	Hong Kong	2	8300	knitted garments (sweaters)	40	60	0	n.a.
G	2003	Korea	3	3000	knitted garments.	100	0	0	n.a.

Note: * EU and Others

Source: Authors' Field Work in 2008

All of the companies interviewed were subsidiaries of foreign companies, from countries including mainland China, Hong Kong, Taiwan, Macau and Korea. Most of the companies were relatively new, with the oldest company established in 1997, and the latest in 2006. A few companies had more than two factories in Cambodia, which were all producing more or less the same types of garments. The number of workers employed varied from 600 to 8300, which nevertheless is quite large in comparison to foreign owned companies in Vietnam. Most except company E were producing knitted garments, and five out of the seven companies exported mainly to the US market, while companies C and F were exporting more to the EU. Company E

was the only one that exported garments to non-US and EU markets. Most had sister factories outside Cambodia, including in China, Lesotho and Kenya.

4.1 Production Orientation

The GVC approach emphasises that local manufacturers can improve their position within the chain by taking on greater value-added functions. Upgrading functions within the chain could lead to further industrial development (Humphrey and Schmitz 2002). The GVC approach particularly emphasises local manufacturers' ability to learn from global buyers and identifies four types of upgrading trajectories, starting with: (1) *process upgrading*, then move to (2) *product upgrading*, to (3) *functional upgrading*, and finally to (4) *intersectoral upgrading*.

However, in the garment value chain, the highest value-added activities, including design, advertising and marketing, remain in the global buyers' hands. 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.⁹ 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.

In the Cambodian garment industry, the lowest value-added activity – CMT (Cut, Make and Trim) – has a core role in the industry. This is where the producing firm is supplied with materials by its customer, and is paid a processing fee. According to Yamagata's survey of 164 garment firms in Cambodia, 139 firms (or 87.4 percent) were engaged in only sewing fabric and making final products (Yamagata 2006, pp.9-10). Similarly, the Asian Development Bank estimated that over 70 percent of garment exports were based on CMT work (ADB 2004, p.25).

⁹ Information from a major trading company in Hong Kong interviewed in 2008.

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.¹⁰ In addition, according to GMAC officials' observation of the garment business structure in Cambodia, CMT, FOB and subcontracting¹¹ arrangements account for 60 percent, 25 percent and 15 percent respectively (USAID 2007, p.11).

Table 10 summarizes the production modalities of the companies we interviewed. All orders that these companies received were allocated from their respective head offices outside of Cambodia. Such decisions on the allocation of orders are made in relation to their sister subsidiary factories in other countries, unless buyers insist on having the garments produced in Cambodia.

Table 10 Order, Production, Modalities and Productivity

Company	Orders	Prices	production modality		Fabrics and other input materials
			CMT	FOB	
A	From HQs in Taipei	Decreasing	0	100	Knitted fabrics produced in own factories in Changzhou and Kunshan, but purchased fabrics are also used.
B	From HQs in Hong Kong	Don't know as everything is negotiated at HQs.	Most	Few	Most of the fabrics imported from China
C	From HQs in Macao	Decreasing	0	100	Yarn imported from China and Thailand
D	n.a.	Decreasing	n.a.	n.a.	Fabric imported from China, Taiwan, Korea
E	From HQs in Shanghai	Decreasing. For an unspecified product, \$9 to	0	100	n.a.
F	From HQs in Hong Kong	n.a.	Few	Most	Yarn imported from China, Taiwan and Indonesia.
G	n.a.	Decreasing	100	0	Fabric purchased (not produced in-house)

Note: n.a. means information not available

Source: Authors' Field Work in 2008.

¹⁰ However, it would be important to note that the difference between CMT and FOB types can be a less relevant indicator in terms of upgrading for the production of knitted garments, as some types of knitted garments can be entirely based on FOB contracts primarily due to technological specifications stemming from indivisibility of the knitting and assembly processes. See Goto (2007).

¹¹ Firms, which are subcontracted by CMT or FOB manufacturers to conduct some of cutting and sewing process, can be classified as the lowest value-added activity.

All of the companies that provided information reported that prices were going down for the same types of garments produced. This could be the result of increased competition in the post-MFA era as well as the contracting demand in the exporting markets due to the recent financial crisis, particularly in the US. In terms of production modality, four companies reported that they produced mostly on an FOB base, and three on CMT base. However, the production modality for knitted garments could be dependent technologically based on the type of knitted garments as mentioned earlier. All were producing under buyers' brand names, and none were exporting their own branded garments. Fabrics are mostly imported from China and other neighbouring countries such as Thailand, Taiwan and Korea. Companies C and F, whose production processes are vertically integrated, import yarn from these countries instead of fabrics.

From these, several issues can be identified with regard to moving from CMT into FOB arrangements in the Cambodian garment industry. Firstly, the weakness of the domestic supporting (textile and accessory) industry, in consequence of which 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).

The second – and more fundamental – issue relates both to the possibilities of moving from CMT to FOB, and to upgrading more generally. In an economy such as Vietnam where there is a substantial domestically owned garment sector, upgrading can mean raising productivity towards the level of foreign firms in the country. As has been shown in the case of Vietnam, industrial labour productivity tends to be lower in domestically owned firms than in foreign ones (Jenkins 2004: 200). In Cambodia, in contrast, with almost all garment export production in the hands of foreign firms, major foreign firms are likely already to have access to best-practice technology (Appelbaum 2008), much of it tacit and not embodied in capital equipment.

So how they decide to produce in their Cambodia factories is not primarily a question of *learning* how to upgrade their products, processes and functions, but of their choice of what and how to produce.¹² For instance, a company with its own textile production in China may normally wish to source its fabrics from China.

It is also a question of what constraints they face. Constraints could include low educational and training levels that may reduce the labour productivity of their workers. The lack of a tradition of industrial discipline and of good labour relations, and a poor industrial infrastructure (such as frequent power cuts), may also reduce productivity. All such constraints reduce the competitiveness of the industry, and we examine them below.

In these circumstances of foreign domination of the garment industry, upgrading from a Cambodian national standpoint should also be seen in terms of how far Cambodians are employed as technical workers or managers. Such domestic capacity building would also condition how likely it is for locally owned firms to be set up, as Cambodian former technicians and managers could establish their own companies on the basis of experience gained in employment by foreign firms. In this regard, it is estimated that approximately 5000 Chinese garment technicians and supervisors were dispatched to garment factories in Cambodia through Chinese human resource agencies.¹³ According to Yamagata's survey of 164 garment firms in Cambodia, 30 percent of top managers were from mainland China, 21 percent from Taiwan, 15 percent from Hong Kong, and only 8 percent of top managers were from Cambodia (Yamagata 2006, p.8).

¹² Rasiyah (2009: 157-8) notes the low technological level of Cambodian garment firms. He indicates the influence on this of poor infrastructure and lack of human capital, but does not discuss the impact of choice by the parent companies about the technological level at which to produce.

¹³ Interview with a former garment technical expert in Cambodia, 3rd March 2009.

With regards to the productivity of the garment industry, Cambodia's can be generally classified as quite low. For instance, one manager of a garment factory in Cambodia evaluated Cambodia's labour productivity to be 65 percent of that of China, while Bangladesh and Vietnam were at 75 percent and 95 percent of China's, respectively (KOICA and KIEP 2006, p.583). By the same token, USAID's study evaluated that productivity in Cambodia is low at all stages of garment manufacturing. This can be 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. This is despite the fact that the condition of the machinery is, on average, reasonably good (USAID 2005, pp.19-22). 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 labour costs do not wholly compensate for the lower productivity of its workers (World Bank 2004, pp.11-12).

Table 11 provides a summary of the workers' profile, employment issues and productivity levels of the companies we interviewed. Most of the companies reported a rapid increase in wages, especially during 2007 and 2008. Wages for line operators were somewhere between \$70 and \$100, which were almost reaching the wage levels of garment companies in Vietnam. Productivity, however, were perceived as lower in all cases in comparison to its neighbouring countries such as China and Vietnam. For instance, Company A reports that the productivity level of Cambodia is about 90 percent of that of China and Lesotho, and roughly three quarters of Taiwan. Company D estimated that in comparison with Taiwan, Cambodia's productivity is about 60 percent. G reports that in comparison to Vietnam and China, Cambodia is about 75 percent to 80 percent efficient. The combination of relatively low productivity levels and rising wages is certainly a major issue for the Cambodian garment industry. In addition, the garment industry, which is still Cambodia's largest export oriented industry, is already experiencing some difficulties in retaining and hiring workers. Upgrading in process or product must happen

so that increase in productivity levels can absorb the rapidly increasing wage rates soon for this industry to develop sustainably. This phenomenon however is observed in other countries such as Vietnam as well (Goto et al. 2009).

Table 11 Workers and Wages

Company	Number of workers	number of factories in Cambodia	wages (US\$)	productivity	Labor shortages
A	4000	3	\$100	(polo shirts) 900 in Cambodia, 1000 in China, 1000 in Lesotho, 1200 in Taipei.	No problems as the company offers relatively high wages
B	1200	1	\$80-\$90	n.a.	Serious. Very hard to find workers, and more are leaving, especially in April. Women go to nearby factory, or go home to countryside.
C	600	1	\$45 probation, \$50 thereafter (minimum wage)	n.a.	Very difficult to recruit and retain workers.
D	1900	2	\$70-\$80	Taiwan 100, Lesotho 40-50, Cambodia 60.	Was serious before the election (late July 08), but now fine.
E	1500	1	\$80-\$100	n.a.	Very high turnover (20-30 leaving per month), and recruitment difficult especially during farming seasons.
F	8300	2	\$80 and up	n.a.	Recruiting workers is difficult.
G	3000	3	\$90 (\$6 increase in one year)	Vietnam and China 100, Cambodia 75-80, Honduras and Guatemala 130.	30 workers leave the company every month, but not difficult to replace them.

Note: n.a. means information not available

Source: Authors' Field Work in 2008.

4.2 Global Buyers

As noted earlier, there is a heavy concentration of Cambodian garment exports in the US market, which accounted for over two-thirds of the total garment exports in 2006 (refer back to Table 5). Cambodian garment exports are controlled by large predominately US (and EU) buyers (Table 12). 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 15 buyers (KOICA and KIEP 2006).

It might be advantageous if the Cambodian garment industry could diversify buyers and markets, and Table 5 shows that some progress in this direction has been made in the 2000s with regard to markets. Research on the Vietnamese garment industry reveals that there are significant

market differences in relation to the level of value added and production volume per order (see Figure 2). Garment products for the US market are mostly produced for segments in the lower price range, where competition in prices is extremely fierce. Price is the most important element for production, and subsequently, garment manufacturers employ simple design and specifications in order to minimise operational costs during the CMT process. In addition, however, volume per order is very large in terms of quantity, which allows garment manufacturers to gain productivity from being on the same learning curves for a long time. In contrast, garment products for the Japanese market are produced to the higher value-added segment with relatively complex design and product specification. Here, volume per order is typically small, with variation in size and colour. Although cost pressures are increasing from the Japanese market oriented value chains, quality is still regarded as the most important element for production. The EU market is situated between the Japanese and US markets in relation to both levels of value added and order size (Goto *et al.* 2009).

Table 12 Top 20 Buyers in Cambodia

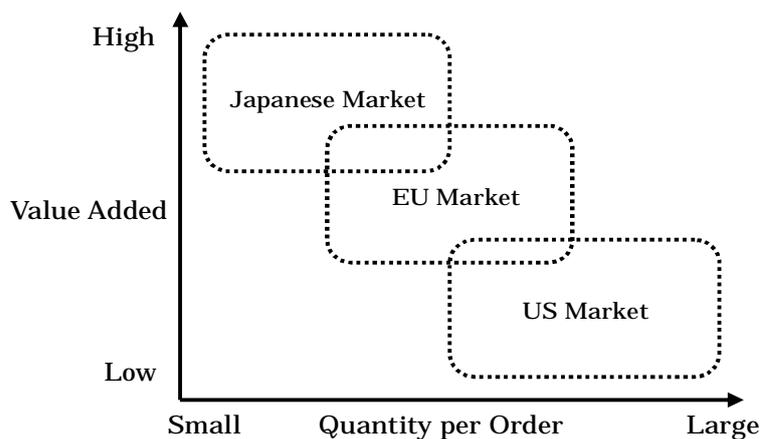
Position	Buyer	Position	Buyer
1	GAP	11	Matalan
2	H&M	12	Blue Star
3	Levi Strauss	13	Nike
4	Adidas	14	PVH
5	Target	15	C&A
6	Sears Holdings(Sears and Kmart)	16	Walmart
7	Children's Place	17	Kohl's
8	Charles Komar	18	MGT
9	The William Carter	19	American Marketing
10	VF Jeanswear	20	JC Penny

Source: Ministry of Commerce of Cambodia, adopted from Miller *et al.*(2007, p.5)

With regards to technology transfer, because the Japanese market requires high quality products, Japanese buyers place priority on maintaining quality and uniformity, and provide strong commitments to improving the technical capacity of local manufacturers, typically dispatching technicians. In contrast, because exporting to the US market requires low-end products and is

typically conducted by middlemen¹⁴ – agents from Hong Kong and Taiwan – the transfer of technology through production arrangements is much more limited in comparison with Japanese buyers. Therefore, further market diversification, particularly exporting to the Japanese market, might facilitate more efficient technology transfer for the Cambodian garment industry.

Figure 2 Market Segment Classification for Vietnamese Garment



Source: Goto *et al.*(2009)

4.3 Labour Standards

Labour standards have become an increasingly important factor in the global garment industry, due to the growth of consumer consciousness about labour issues in developing countries, as well as campaigns of compliance with labour standards by international NGOs (Nadvi and Thoburn 2004b). In Cambodia, the rights and obligations of employers and employees are defined in the country's labour law, which extensively and progressively covers vital areas such as minimum wage, collective employment provisions, including freedom of association, and collective bargaining (Chiu 2007). Furthermore, international labour standards have been ratified by the Cambodian constitution (ILO 2005).

¹⁴ At least in the case of Vietnam (see Goto *et al.* 2009).

Two key factors can be identified as significant improvements of Cambodian labour 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 labour laws and to protect internationally recognised worker's rights (Polaski 2004).

The second factor lies in the establishment of a new governance system for labour 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 programme, the "ILO Garment Sector Project", later renamed "Better Factories Cambodia". This is also supported by the Royal Government of Cambodia, the GMAC and the unions.¹⁵ In addition to the ILO, international NGOs and US buyers are also enforcing monitoring. For instance, one of the largest US buyers, GAP, monitors the compliance levels of individual factories (Chui 2007).

Monitoring requirements from the ILO and global buyers have certainly put pressure on factories to comply with labour laws and international labour standards. As a result, Cambodia obtained an additional nine percent quota bonus in the US market in 2002 and 14 percent in 2004.¹⁶ In this context, "Better Factories Cambodia" contributed significant improvements in wages, working conditions and worker's rights (Polaski 2004).

¹⁵ See more details see: <http://www.betterfactories.org> [accessed on 26 August 2008]

¹⁶ "Garment Sector in the End of the Multi-Fiber Agreement", speech by Jennifer Spande (US Embassy Economic officer) on 18 May 2006 available at www.cambodia.usembassy.gov/sp_0518061.html [accessed on the 26th August 2008].

Although labour standards in the Cambodian garment industry have absolutely improved, one needs to ask how Cambodian labour standards influence the global competitiveness of the Cambodian garment industry in the post-MFA era. In response to this, the Foreign Investment Advisory Services (FIAS) conducted a survey on sourcing criteria of 15 senior sourcing staff of the largest US and EU buyers, accounting for 45 percent of Cambodia's garment export in 2004. This survey showed that Cambodia was rated the highest on "level of labour standards" and "protecting the rights of workers to organise unions" among Asian garment exporting countries, including China, Vietnam, Thailand and Bangladesh. It was also found that 46.7 percent of buyers considered ILO standards (international labour standards) were either critical or of major importance to their customers. A further 40 percent considered these to be moderately important. In addition, 78.6 percent of buyers in a 2004 survey considered that voluntary certification and audit schemes would be of critical or major importance when they sourced in the post-MFA era (FIAS 2004).

These survey results certainly indicate some positive effects on Cambodian labour standards for buyers' decision making in sourcing from Cambodia. However, at the same time, the Cambodian garment industry is currently facing serious problems in the issue of industrial relations. Firstly, although labour compliance enhances working conditions, it has a negative effect on price competitiveness due to the higher costs needed for compliance. Secondly and more importantly, it might generate a negative impact if work is seriously disrupted by increased union militancy. In fact, it is common that several labour unions are organised in any one factory and there are many illegal labour strikes in the Cambodian garment industry.¹⁷ A number of factory owners complained about the current situation where some labour unions are 'irresponsible' and work for their personal benefit (EIC 2007, pp.27-28). Furthermore, labour

¹⁷ Illegal strike means a strike which does not take formal resolution procedures. According to GMAC, there were over 100 illegal strikes in 2007 (Interview, 1 September 2008).

unions are strongly linked to political parties, so labour disputes are politicised in Cambodia. For example, one of the managers in a Hong Kong capital garment factory in Phnom Penh commented that they had to close the factory for six months in 2006 due to many illegal strikes, finally re-opening in early 2007.¹⁸ Buyers are also concerned about strikes in Cambodia. For example, one US buyer felt reluctant to place an order in Cambodia because of the risks of delayed delivery.¹⁹

4.4 State Capacity

Much has been written about the ‘development state’ in Asia (for example, Woo-Cumings 1999), where the state intervenes in partnership with the private sector to promote industrial development. Compared to East Asian countries such as Taiwan and Korea, or more recently China and Vietnam, it has been argued that South East Asian countries have weaker state capacity (Booth 1999). However, as global production networks have emerged in the region, leading Southeast Asian countries, such as Singapore, Malaysia, and Thailand, began to employ policies that would complement them by encouraging localised capability, building both within MNC establishments and through broader efforts to create cluster dynamics in the form of specialised infrastructure, human resources and supplier bases (Felker 2003, p.273).

Cambodia, in contrast, seems to have weaker state capacity than even in South East Asia, which previously employed ISI strategies for protecting and upgrading local industries. All that could be argued in Cambodia’s favour is that it could ‘enjoy’ the absence of inefficient infant state-owned enterprises (Sjoberg and Sjolholm 2006).²⁰

¹⁸ Interview, 4 September 2008.

¹⁹ See GMAC News Issue 14, November 2007:<http://www.gmac-cambodia.org/newspop.asp?newsID=37> [Accessed on the 20th February 2009].

²⁰ But note that Vietnam’s state-owned textile and garment enterprises, for example, are by no means economic dinosaurs (Nadvi and Thoburn 2004a).

Hence, Cambodian industrial development has been dependent on the influx of foreign-owned firms (see Figure 1 on the garment industry). 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.²¹ The government has been trying to improve the business environment of the country by providing a favourable legal environment and policies for foreign investors, including the provision of various tax incentives, the introduction of 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.

The Cambodian government’s efforts, to some extent, are positively reflected in various international business rankings of Cambodia. Table 13 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 13 ‘Economic Freedom’ in Selected Asian 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)

²¹ For instance, issues of economic freedom in Cambodia were emphasised at the Cambodian Investment Seminars in Japan in October 2008; regarding the relationship between economic freedom and economic growth, see Dawson (1998) and Gwartney *et al.* (2006).

However, according to Transparency International, the corruption perception index in Cambodia is one of the worst, ranked 166th out of 180 countries in 2008.²² Corruption 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, and the average of such payments amounted to 5-6 percent of total sales in Cambodia (World Bank 2004, p.14). The survey conducted by Yamagata noted that 146 out of 164 garment companies said that payment of “speed money” to government officers was unavoidable in order to expedite and smooth the procurement of materials (Yamagata 2006, p.14). Many companies operating in Cambodia viewed the integrity of the bureaucracy as very poor (ADB 2004, p.9). Cambodia, to some extent, seems to be more closely characterised as a *klepoto-partrimonial* state, in Peter Evans’s term, where personal ties are the only source of cohesion, and individual maximisation takes precedence over the pursuit of collective goals (Evans 1995, p.12).

Table 14 Level of Hard and Soft Infrastructures in Selected Asian Countries

	*Railroad Infrastructure	*Port Infrastructure	*Electricity Supply	**Telcom 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)

In addition, the country is 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 (see Table 14). In general, the quality of Cambodia’s

²² China is ranked at 72nd, India at 85th, Vietnam at 121st and Bangladesh at 147th. See the website of Transparency International: www.transparency.org/policy_research/surveys_indices/cpi/2008 [accessed on 18 March 2009].

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 2006, p.10-30).

Furthermore, the low level of education is a critical issue for Cambodia's industrial development. The secondary school enrolment rate in Cambodia is the lowest of the major Asian garment exporters, and was at 29 percent in 2005 (WDI 2007). This low level of education works to create a low level of productivity in the industry sector, which typically requires basic literacy and arithmetic. Possibly due to the low education level of workers, the rejection (defect) rate of garment products is very high.²³ The low level of education impedes absorbing new technology and upgrading to higher value activities.

Although the Cambodian government is trying to establish a favourable legal environment for foreign investors, it seems that this is not enough. A lack of state capacity, serious corruption, as well as the low level of hard and soft infrastructure, are likely to act as constraints for the further development of the garment industry in Cambodia. One manager of a Taiwanese owned garment firm, which relocated from Lesotho in Africa to Cambodia, commented that the government's commitment and support for the industry, particularly in settling the issues of illegal labour strikes, are essential for the sustainability of the garment industry in Cambodia. Without the government's positive commitment, a number of garment firms might disappear from Cambodia in order to look for other production locations in the future, as they did from Lesotho.²⁴

²³ According to a former garment technical expert in Cambodia, the rejection rate is estimated to be approximately 15 percent in Cambodia (Interview, 3 March 2009).

²⁴ Interview, 2 September 2008, emphasis is added.

5. Conclusion

This study set out to assess how the Cambodian garment industry can maintain global competitiveness in the post-MFA era. The Cambodian garment industry has been rapidly expanding since the late 1990s, as a main driving force for the economic development of the country. The industry contributes not only to the industrialisation of the country, in terms of the employment creation for young uneducated female workers and the generation of export earnings in the country, but also to poverty alleviation in Cambodia, through worker's remittances into the rural areas.

The Cambodian garment industry has developed in association with foreign direct investments by garment manufacturers from Asian NIEs and China. The Cambodian government has provided a favourable legal environment for foreign investors, and over 90 percent of garment factories in Cambodia are owned by foreign firms. Furthermore, the Cambodian government successfully integrated the industry with the international trading regime, initially linking a quota allocation for the US market with its improvements of labour standards under the TATA agreement, and later by joining the WTO.

However, this study concludes that the Cambodian garment industry remains vulnerable to global competition in the post-MFA era, because the industry is currently facing various impediments for industrial upgrading for sustainable development. These challenges include Cambodia's position of the lowest value-added segment in the global garment value chain, high dependence on the US market and foreign capital firms, and a lack of efficient technology and management transfer to the local economy. Although labour standards in Cambodia are generally deemed to be a positively competitive factor in the Cambodian garment industry, a number of illegal strikes indicate that the enhancement of the consciousness in workers' rights does not always improve the global competitiveness of the industry. In addition, the weak state

capacity of the Cambodian government seems to limit growth opportunities for the industry. Above all, the quality of basic education, namely, the quality of labour force, is a critical element that needs to be addressed.

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