



Kingdom of the Netherlands

# GARMENT INDUSTRY IN CAMBODIA

Cambodia's garment and footwear industry has become a main pillar of the Cambodian economy, following the enactment of a new constitution introducing the free market economy and investment-friendly government policies in 1993. Since then, exports from the garment sector have grown in importance, and the sector has withstood fluctuations in demand. Moreover, in response to intense price competition from regional competitors, efforts are being made to move up the value chain by manufacturing more complex products. In parallel, progress is currently underway to further integrate Cambodia into global value chains (GVC), in order to better leverage the Kingdom's undeniable comparative advantages.

## Garment in Cambodia

The garment industry is the Kingdom's largest export earner, accounting for more than 78% of the country's total merchandise exports and 1.4 percentiles of the country's annual 7% economic growth in 2016. Exports are still growing and increased by an additional 12% in 2016. It is also the main non-agrarian employer in the country with over 600,000 workers employed in over 600 factories.

These factories are almost exclusively foreign-owned, emphasizing the strong attractiveness of the sector for FDIs.



Figures from 2016 indicate that FDI in this industry reached USD 248 million. Most of these factories are Chinese-owned (90.5%). Some examples of successful European, including Dutch, ventures in the sector are also to be found.

Unlike investment sources, Cambodia's garment exports are mostly shipped to Western countries, with the European Union (EU) holding the lion's share (40% in 2016), followed by the United States (25%).

The share of the Netherlands's garment and footwear imports from Cambodia has been relatively high, ranking third among EU members, behind Germany and the UK (2000-2015). The latest data indicated that the Netherlands represented 12.6% of EU imports from Cambodia in 2015.

The dynamism of Cambodia's garment industry is greatly explained by the country's strong comparative advantages in the sector. First, despite rising wages, Cambodia is still relatively competitive in terms of labour cost. This is a key factor for labor-intensive activities like "Cut-Make-Trim" (CMT), which represent the Kingdom's main segment of specialization. Second, unlike regional neighbors like China or Vietnam, Cambodia enjoys preferential market access to the EU and the US markets thanks to the Everything But Arms



and Generalized System of Preferences schemes. Third, investment is encouraged through incentives schemes offered under the framework of Qualified Investment Projects (QIPs), especially in the Special Economic Zones (SEZs).

More importantly, the combination of these favorable conditions in a country where the garment production is already well established makes Cambodia quite unique and particularly competitive.

## Technical and vocational training

Currently, the majority of labour within the garment sector is concentrated in low-value added CMT production. Indeed, most workers do not go through any technical training as employers have little incentive to enhance their workers' skills. However, over the medium and long terms, this skill gap stands as an impediment to the development of more sophisticated products, thus preventing Cambodia to effectively climb up the value chain.

For this reason, efforts are being made to encourage skill development through both formal and non-formal education. The development of technical and vocational training (TVET) curriculums will undoubtedly increase workers' productivity, thus justifying their higher wages in the eyes of investors. Such programs could greatly benefit from foreign support and investment.

Dutch firms with expertise in curriculum development for TVET courses, or in manufacturing technology for the garment industry may find opportunities in Cambodia.



## Textile & Fabric

It is challenging to upgrade the garment value chain when its supporting industries are still in their infancy (for example, textile manufacture). Currently, there is a heavy reliance on imported input materials such as fabric. It is estimated that 44% of the revenue generated from Cambodian garment exports is spent on imported inputs.

Two main explanations are usually mentioned as the causes for these shortcomings. Firstly, due to relatively high electricity costs, investment incentives are insufficient to attract investors in the heavily mechanized, and therefore power-reliant, industry of textile manufacturing. Secondly, approximately 90% of manufacturing plants are foreign-owned,

with headquarters in other countries in the region. The international dimension of these companies allows them to source their inputs from countries which are typically more cost-competitive.

However, further developments, such as the government's efforts to lower the costs and increase access to electricity could pave the way for further investment in machine-intensive activities such as textile production.



## Working conditions

The garment industry is the only one in Cambodia for which there is a stipulated minimum wage. Between 2008-2012, the minimum wage of this sector grew at a rate of less than 10% year on year. Labour unrest in late 2013 voiced up a concern for government and investors. With the presence of collective negotiation, the issue later was alleviated by an increase in minimum wage, from USD 80 per month in 2013 to USD 128 in 2015. The Ministry of Labor and vocational training recently announced a remarkable increase, up to USD 170 per month for garment and foot wear workers in 2018.

Although these developments could be perceived as an increased cost by investors, they can alternatively be seen as providing a fairer income to employees, more than 80% of whom are women, usually below 30 years-old.

Moreover, under the supervision of the International Labor Organization (ILO), the implementation of the Better Factories Cambodia (BFC) program, including unannounced factory inspections, has significantly improved the sector's standards for working conditions.

These improvements could become a sale argument for suppliers. Indeed, international clothing brands are facing mounting pressure from consumers for ethical products, following several past scandals in various countries.



## Opportunities & Challenges

Dutch companies should consider the following:

Opportunities	Challenges
<ul style="list-style-type: none"> <li>Strong comparative advantages for manufacturers (market access, low labour costs, investment incentives and existing industrial basis)</li> </ul>	<ul style="list-style-type: none"> <li>High energy costs impeding the development of a strong textile industry</li> </ul>
<ul style="list-style-type: none"> <li>Potential to manufacture higher-end products as Cambodia is moving up the value-chain</li> </ul>	<ul style="list-style-type: none"> <li>Rising wages</li> </ul>
<ul style="list-style-type: none"> <li>Develop technical and vocational training centres</li> </ul>	<ul style="list-style-type: none"> <li>Lack of high quality teaching staff, and unskilled labour force.</li> </ul>
<ul style="list-style-type: none"> <li>Decent working conditions for workers, monitored by the BFC programme.</li> </ul>	<ul style="list-style-type: none"> <li>International competition</li> </ul>

## Trade fairs

**Cambodia International Textile and Garment Industry Exhibition, August 22-25, 2019, Phnom Penh**

<https://www.camboexpo.com/CTG/>

**Eurofair Cambodia, Phnom Penh**

<https://www.facebook.com/eurofaircambodia/>

## Relevant contacts

**Ministry of Industry and Handicraft**

<http://www.mih.gov.kh/>

**Ministry of Labour and Vocational Training**

<http://www.mlvt.gov.kh/index.php?lang=en>

**Garment Manufacturers Association in Cambodia (GMAC)**

<https://www.gmac-cambodia.org>

**Cambodian Investment Board**

[www.cambodiainvestment.gov.kh](http://www.cambodiainvestment.gov.kh)

**Delegation of the European Union to Cambodia**

[eeas.europa.eu/delegations/cambodia\\_en](http://eeas.europa.eu/delegations/cambodia_en)

**European Chamber of Commerce in Cambodia**

[www.eurocham-cambodia.org](http://www.eurocham-cambodia.org)

**Netherlands Enterprise Agency**

[www.rvo.nl](http://www.rvo.nl)

**Dutch Development Bank**

[www.fmo.nl](http://www.fmo.nl)

**Asian Development Bank**

[www.adb.org/countries/cambodia/main](http://www.adb.org/countries/cambodia/main)

**World Bank**

[www.worldbank.org/en/country/cambodia](http://www.worldbank.org/en/country/cambodia)

Published by:

Netherlands Embassy in Bangkok

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