



Trade and Poverty Link: The Case of the Cambodian Garment Industry

Draft Report for Comments

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LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AFD	Agence Française de Développement
AFTA	ASEAN Free Trade Area
ASEAN	Association of South East Asian Nations
BTA	Bilateral Trade Agreement
Camcontrol	Cambodia Import Export Inspection and Fraud Repression Department
CRD	Cambodian Researchers for Development
EC	European Community
EIC	Economic Institute of Cambodia
EU	European Unions
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GMAC	Garment Manufacturers Association in Cambodia
GSP	Generalized System of Preferences
ILO	International Labor Organization

MFA	Multi-Fiber Arrangement
MFN	Most Favored Nation
MOP	Ministry of Planning
RGC	Royal Government of Cambodia
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
US	The United States
USAID	United States Agency for International Development
WTO	World Trade Organization

Chapter 1

Introduction

1.1 Why this study?

Trade is widely believed to be one of the major drivers in boosting economic growth and thus a means to eradicate poverty. The economic development of a country is improved by trade through gaining foreign earnings, creating jobs and incomes and improving welfare. It is universally recognized as a central component to the remarkable growth of Western industrial countries in the mid-20th century and to some Asian countries in the 1970s and 1980s. Yet, the poverty found in many countries across Africa and Asia, once the economies were liberalized and opened in the 1980s and 1990s, makes one question the view that trade only plays a positive role. Many have posed that question: does trade help to reduce poverty or does trade cause poverty?

Cambodia is not exceptional in this rapidly globalizing world. Since the economic reforms in 1989, trade liberalization has been promoted as a source of economic growth and as one of the major weapons in fighting poverty. Trading activities, in terms of both commodity and destination diversification, have been rapidly and substantially expanded. Garments, the dominant outward oriented and only fast-growing industry, has been viewed as one of the main contributors in boosting economic growth and in reducing poverty.

Despite the industry's positive impact on economy and poverty, distribution of benefits appear unequally shared. The benefits from this industry's growth vary depending upon groups of population and geographical areas. Therefore, by examining this industry, this paper attempts to find out if there is a link between trade and poverty. And, if there is a link how and to what extend are they linked? This study specifically examines: (i) the significance of the garment sector in the economy; (ii) determines to what extend trade in garments affects poverty; and (iii) highlights trade policies of the garment industry.

1.2 Methodology

This paper is based on an earlier background paper, Trade in Garments and Poverty Reduction, which benefited from existing studies and observations which covered issues of importance of the industry in the economy, and workers' working conditions and their quality of life. Another complementary approach was to consider

the views and approach of the link between the industry, trade and poverty from stakeholders who are working with/watching closely the industry. The team had in-depth and extensive interviews and interactions with several key industry informants such as government officials from the Ministry of Commerce, Ministry of Labor and Vocational Training and Ministry of Women's Affairs, factory owners, labor unions, garment workers and other key resource persons to obtain their views on linkages between the industry's growth and poverty reduction (See appendix 1).

1.3 Sources of data

The paper benefited primarily from existing quantitative data from several studies. The study also obtained most updated data from General Preferential Department of Ministry of Commerce and Customs and Excise Department of Ministry of Economy and Finance as well as the Garment Manufacturers Association in Cambodia.

1.4 Organization of the paper

This paper is organized as follows: Part 2 briefly describes the industry's production, market and investment. Part 3 examines the effects of the garment trade on poverty. Part four draws a conclusion.

Chapter 2

Overview of the Industry

2.1 Production and market

The garment sector is one of the fastest growing industries in Cambodia. The number of factories has increased drastically over the last few years. In 1998 there were 129 factories, which then increased to 229 in 2004 and to 258 in 2005. However, the distribution of factories has concentrated only in the capital city Phnom Penh and its suburbs and in just a few neighboring major provinces, namely Kandal, Kampong Speu and a few in Kampong Cham and Sihanoukville.

Table 2.1: Evolution of garment production in Cambodia, 1998-2005 (US\$ Million)

	1998	1999	2000	2001	2002	2003	2004	2005
Number of factories	129	152	190	186	188	197	229	258
Local value added*	113	166	296	347	387	474	591	659
Raw material imports**	238	348	621	728	813	995	1,240	1,384
Garment exports	378	553	985	1,156	1,291	1,580	1,969	2,197

Sources: USAID (2005), GMAC, Sok Hach et al. (2001) and own calculation

**Local value added was calculated as 30 percent of total garment exports based on an estimate of 28.6 percent of local value added to total garment exports by Stuart-Smith et al. (2004) and estimate of 1/3 of total garment exports by Sok Hach et al. (2001); ** Value of imported raw material is estimated at 63 percent of total garment exports in Sok Hach et al. (2001)*

In tandem to the increase of factories, the total production of the industry increased rapidly. It increased from US\$400 million in 1998 to US\$1.9 billion in 2004.¹ However, the industry produced mostly finished garment products. The industry relied almost exclusively on imported raw materials such as yarns, woven and circular knitted fabrics, accessories and almost all packing and presentation materials from China, Hong Kong, Taiwan and South Korea (Stuart-Smith, 2004; Bargawi, 2005). The proportion of local contributions (mostly labor and some materials like cardboard cartons & poly bags) remained basically unchanged between 2000 and 2004, around 30 percent of total exports.² In absolute value, this industry's local value added was estimated at US\$113 million in 1998 if 30 percent applied. Hence in terms of absolute value, this local

¹ The industry is totally outward oriented. Thus, export value means total production.

² This estimation was based on Cambodia Development Resource Institute's study in 2000, which estimated 63 percent of total sales were spent on raw materials and a Technical Assistance report for the Asian Development Bank in 2003, which estimated that value added from local contributions was 28.6 percent (Stuart-Smith, 2004).

contribution rose dramatically to US\$591 million in 2004, more than five times an increase in six years.

Although there were a considerable number of formal and registered garment factories, there are also a large number of cottage garment factories in Phnom Penh for sub-contracting supplies to the formal garment factories in Phnom Penh during the peak order season. Outside the capital, there are a few such informal garment factories in provinces such as Battambang and Banteay Meanchey in the Northwest of the country. Production in these provinces has been set up for exports to neighboring Thailand. It is very difficult to get the exact figures of these cottage garment factories as they remain informal and unregistered. Besides these two types of garment industries, traditional and family-based textile and garment productions for local markets also exist. However the total size of this industry is relatively small compared to formal garment production. This smaller sized industry produces traditional cotton garments, kramas, sarongs and silk garments such as houls and pramuorngs.

These garment products are mainly exported to supply huge and lucrative markets in developed countries. Only outlet products are sold at very low prices in local markets, of which the Russian market [Phnom Penh] is the most popular and well-known. Garment exports have seen an impressive performance since the resumption of private production in the early 1990s. From a low base, exports grew 66 percent in 1998, 46 percent in 1999, and 78 in 2000. Since then, the industry's growth continued to increase but at a much slower rate mainly because of a higher base. In 2001, growth was 17 percent, it then rose in 2002 to 24 percent. Most recent growth, after the MFA phase out, was 11 percent in 2005.

The US and EU markets are the most important buyers of Cambodian garment products. During 1998-2004, exports to the US accounted for 74 percent while exports to the EU accounted for 23 percent. Exports to other markets mainly Canada, Australia and Japan remained minimal but on an increasing trend.

Table 2.2: Exports to external markets, 1998-2005

	1998	1999	2000	2001	2002	2003	2004	2005
Total garment exports	378	553	985	1,156	1,291	1,580	1,969	2,197
Growth rate (%)	66	46	78	17	11	22	24	11
Export to US (%)	79	88	76	71	71	69	64	70
Export to EU (%)	20	10	22	26	26	25	29	22
Export other markets (%)	1	2	2	3	3	6	7	8

Sources: *Total exports of merchandise from EIC Database Online (2006); Total garment exports from Customs and Excise Department (2005)*

Concerning the range of buyers, there were around 10 important buyers of which GAP is the biggest buyer, ordering one third of Cambodia's garment products, according to USAID (2005). The industry also has other key buyers such as Nike, Reebok, Adidas, Abercrombie & Fitch, Marks & Spencer, Wal-Mart, Sears, Columbia, Perry Ellis, Liz Claiborne, and Nautica.

In the post-quota environment, Cambodia's garment industry continued to grow but at a slower rate. The number of factories increased to 258 in 2006 (from 229 in 2004) thanks to new investment projects. These factories made up the total export of more than US\$2 billion of which US\$660 million was estimated to be shared by local value added (Table 3.1). This striking foreign exchange earner allowed the industry to account for approximately 76 percent of the country's total exports (Figure 3.1). Concerning export destinations, the country should be able to keep their share of the two main destinations, the US and EU markets; with no signs of shifting to other markets as Cambodian exports were nurtured by the MFA.

Three main reasons have been observed to explain the continued increase of the Cambodian garment industry, according to EIC's Cambodia Economic Watch (2006). Firstly, the industry benefited from safeguard measures imposed by the US and the EU to restrain Chinese exports. Secondly, garment factories maintained its good labor compliance. Finally, the industry benefited from the recent improvement in trade facilitation reforms which reduced time and cost related to shipments of imports and exports.

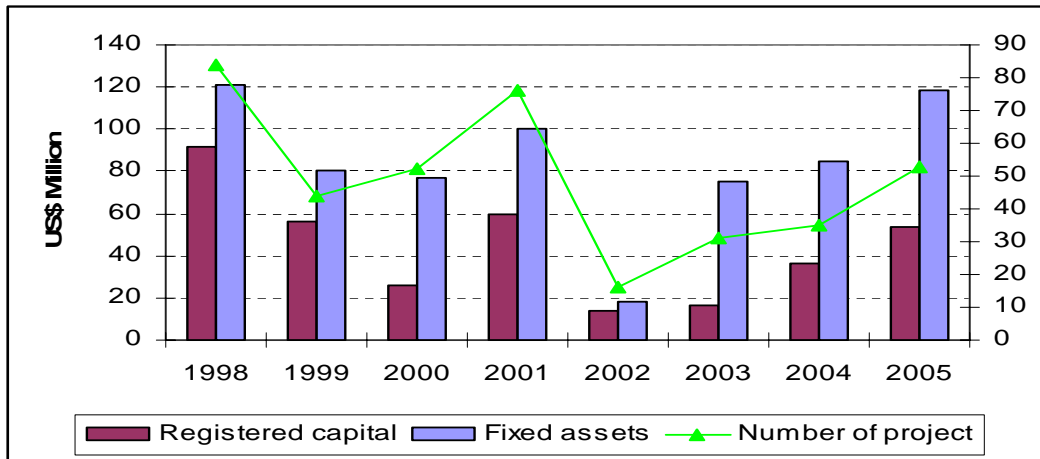
2.2 Investment

Investment proposals to establish garment factories represented 20 percent of total fixed assets and 59 percent of total investment projects, approved by a single-stop investment agency Cambodian Investment Board between 1998 and 2004.³

According to data from the Cambodian Investment Board, private investments have increased unexpectedly both in terms of number of investment project proposals approved, capital investment and fixed asset approved. In 2005, a year after the end of the quotas, the investment situation in this industry was very good contrary to many predictions. Investment applications to establish garment factories continued to increase in terms of both number of projects and capital. Investment projects numbered 54 while fixed assets reached US\$118 million.

³ The approval investment projects in terms of both registered capital and fixed assets did not represent actual investment since some proposals has not been carried out.

Figure 2.1: Evolution of investment in garment industry



Sources: Number of factories from Table 3.1; and the rest from Cambodian Investment Board, various monthly report from 1998-2005

Nonetheless, investment in this industry has been mainly sourced from foreign capital; there are few local investors. Most foreign investors are from Hong Kong, Taiwan, and China. These three top investor groups control more than 70 percent of total garment factory owners (Sok Hach, 2005). Moreover, despite the industry’s good performance in 2005, the future is uncertain due to fierce competition from other countries in the region to attract foreign investment. One potential competitor is China where safeguard measures by US and EU against its textiles and clothing exports will be lifted after 2008. Another potential source of competition will occur when Vietnam is expected to join WTO in 2007. This new membership may divert FDI away from Cambodia and force some factories to move, given the cheaper costs of displacements and incentives.

Chapter 3

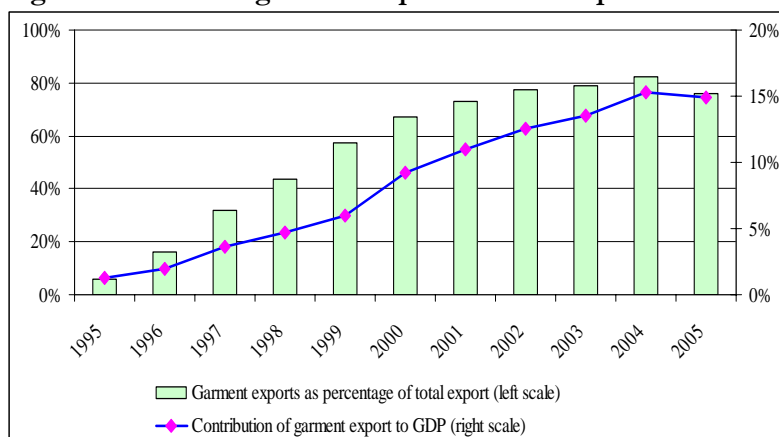
The Effects of Garment Trade on poverty reduction

3.1 Structural effects

3.1.1 Export performance and economic growth

The outward oriented garment industry has helped the country in foreign exchange earnings since 1995 when the industry started to emerge. Its role in boosting foreign earnings has been significantly increased from a 6 percent share in total exports in 1995 to approximately 65 percent in 2000 and to more than 80 percent in 2004 and still to 76 percent in 2005. The industry's performance continued to grow despite the industry having to compete freely in the international garment markets after the phasing out of the Multi-Fiber Arrangement at the end of 2004. In 2005, exports of apparel products reached US\$2.2 billion, increasing by 11 percent from 2004. Due to this record of garment exports the industry's share in total exports reached 76 percent of total exports in 2005.⁴

Figure 3.1: Share of garment exports in total exports and GDP



Source: EIC, Compiled from Government primary data

In addition to the vital role of the garment industry in keeping a trade balance, it has contributed to total country output and has been a major driver for the country's economic growth since the mid 1990s. Contribution of the industry to total country output constantly increased from 1 percent in 1995 to 9 percent in 2000 and to 15 percent in 2005. An estimate by Economic Institute of Cambodia's Cambodia Economic

⁴ However, in many reports, it is estimated that in 2004 garment exports accounted for 80 percent of total merchandise exported. For example, Spinanger D. (2004) "Cambodia after Quotas: Will the Garment Industry Be Gone with the Wind? Prepared for the World Bank, Bangkok. Draft report; Similarly, Stuart-Smith (2004) also estimated that in 2003, the share of garment exports to total goods exported was 78 percent.

Watch stated that in 2005 the garment industry contributed to economic growth of around 3 percent out of 10 percent.

3.1.2 Spillover effects to other industries

There has been no attempt to empirically and thoroughly examine how the garment industry has impacted on supporting and related industries. Nevertheless, a rough and preliminary exercise by the Economic Institute of Cambodia - based on the Input/Output Model⁵ - estimated that a 10 percent increase in demand of garment products would result in a 17.5 percent increase in total domestic production. More specifically, this would lead to increases in domestic production of trading business by about 2.4 percent, transportation by about 0.5 percent, electricity by about 0.4 percent, hotels and restaurants by about 0.3 percent.

3.1.3 Government policies and institutions

The success of the garment industry underlined a number of policy changes and institutional establishments.

Concerning policies, the industry partly played a role in encouraging the Government to normalize trade relations with the West after 10 years of the country's isolation (1980-1990). This normalization led to Cambodian garment products benefiting from the MFN rate provided by the US in 1996 and GSP rate provided by the EU in 1999. These agreements, together with generous government investment incentives, have attracted a considerable amount of investment in the garment sector. According to Sok Hach (2004), 50 percent of US\$1.3 billion investment capital stock has been absorbed by investment in industry, in which investment in establishing garment factories took the main share. Besides, the Government promulgated Labor code in 1997 and ratified several ILO conventions on labor issues. Last but not least, the industry was one of the major forces in influencing Cambodia to join ASEAN in 1999 and WTO in 2004.

In addition to these direct policies, the industry, to some extent, also put pressure to the establishment of a better environment for trading activities and investment climate as the Government launched its trade facilitation reforms in 2004⁶. These reform efforts have produced remarkable achievements. According to Cambodia Economic Watch (2006), the time and cost of shipments of import and export goods have been substantially reduced as shown in table 3.1.

⁵ There is no official Input/Output Model for Cambodia. However, the EIC Input/Output Model is under construction and is subject to necessary revisions when required to bring up the quality of the Model.

⁶ The trade facilitation reform is commonly known as Twelve Point Plan: Government Commitments to Improve the Investment Climate and Trade Facilitation.

Exporters spent 20.2 hours in 2005 compared with 15 days in 2003 while importers spent 45.5 hours in 2005 compared with 11 days in 2003. The average total cost per processing export (through border police, veterinary and phyto-sanitary fee, customs clearance, Camcontrol, and VAT rebate departments) was scaled down from US\$942 in 2003 to US\$598-612 in 2005. Similarly, the average total cost per processing import was also diminished from US\$2,247 in 2003 to US\$673 in 2005. Furthermore, the problem issuing from administrative authorities has been reduced. Only 10 percent of firms interviewed in a survey by Emerging Market Consulting stated to have problems with importing and exporting documentation. This improvement is the outcome of good dissemination by the authorities of the required documentation.

Table 3.1: Average times and costs of processing imports and exports

	2003	2005
Times and Costs of Exports	- 15 days - US\$942	- 20.2 hours - US\$598-612
Times and Costs of Imports	- 11 days - US\$2,477	- 45.5 hours - US\$673

Source: *EIC Cambodia Economic Watch Table 9.2, Issue 4, 2006*

To ensure that the sector establish itself institutionally, the Government encouraged the creation of factory associations and trade unions. The Garment Manufacturers Association in Cambodia (GMAC) was established in March 1996. As of August 2006, there were 278 active members. GMAC has played an important role in the development of the garment industry through lobbying the Government to seek GSP and MFN status and advising the Government in relevant policies to promote the industry (Sok Hach, 2004). At the same time, the association of factory owners and the Government recently tried to lobby the US Congress to award the TRADE ACT which will allow Cambodia to export clothing without tariffs and quotas.

Labor unions also played an active role in ensuring the respect of the ILO core labor standards and Cambodian labor law. There have been many complaints, strikes and demonstrations which was facilitated or organized by trade unions. It was estimated that in 2005 there were 823 labor unions under 24 labor federations, according to records provided by the Ministry of Social Affairs, Veterans and Youth Rehabilitation.⁷ These labor unions organized 76 strikes in 1999 and about the same number in 2000 (Sok Hach, 2004). However, strikes have steadily declined in recent years. In 2005, there were

⁷ However, according to an interview with The Arbitration Council it is estimated that in 2006 there are 800 unions, 18 federations and three confederations.

66 strikes, according to the Ministry of Social Affairs and GMAC. Labor unions have had a notable success in negotiating with factory owners and the Government in raising minimum monthly wages from US\$27 to US\$40 in 1997 and from US\$40 to US\$45 in 2000. More recently, in July 2006 the unions again tried to negotiate with the factory owners to possibly increasing the minimum wage from US\$45 to US\$82. However, by July 27 2006, according to The Cambodia Daily, they reached a basic agreement to increase the minimum wage. Yet, the exact amount has not been found as further negotiations are expected.

Table 3.2: Evolution of government policies relevant to the garment industry

1996	<ul style="list-style-type: none"> ▪ Normalization of trade relations with the United States. Obtained Most Favored Nation (MFN) from the United States ▪ Establishment of Garment Manufacturers Association in Cambodia (GMAC) ▪ Establishment of several labor unions
1997	<ul style="list-style-type: none"> ▪ Normalization of trade relations with European Union ▪ Promulgation of labor law ▪ Ratification of major ILO conventions
1999	<ul style="list-style-type: none"> ▪ A full member of Association of Southeast Asian Nations (ASEAN) which automatically qualified for AFTA ▪ Signing a Bilateral Textile Agreement (BTA) with the US that set a reduction of tariff linked quota restrictions (on 12 broad categories of garment products) to core labor standard compliance ▪ Signing an EC-Cambodia Trade in Textile Agreement allowing unlimited textile product access
2002	<ul style="list-style-type: none"> ▪ Expiration of EC-Cambodia Trade in Textile Agreement but Cambodia still could benefit from “Everything but Arms” initiative providing duty-free and quota-free access for all exports (except arms) originating from Cambodia
2004	<ul style="list-style-type: none"> ▪ Member of World Trade Organization ▪ Obtaining an additional incremental quota allocation of 14 percent from the US thanks to good labor compliance
2005	<ul style="list-style-type: none"> ▪ Maintaining Better Factories Project undertaken by ILO and jointly funded by the US Department of Labor, USAID, AFD, GMAC, RGC and international buyers ▪ Negotiating TRADE ACT to obtain quota free and duty free access to the US

Sources: *Author compilation from Sok Hach (2004), US Embassy (2004), GMAC (2004), EU and Cambodia (2005), Phnom Penh Post (2005), and the Cambodia Daily (2005)*

The ILO Better Factories Cambodia was established in 2001 after Cambodia signed a deal with the US to improve working conditions in the exchange for better access to the US market. This program aims to oversee the labor compliance to ensure a “sweat shop free” industry in the country. In 2005, Better Factories Projects executed by ILO- formally funded by only the US development agency USAID- was jointly funded by the Government, the association of apparel manufacturers GMAC, international buyers, USAID and the French development agency AFD.

The Arbitration Council, whose members are representatives nominated by trade unions, GMAC and Ministry of Social Affairs, Veteran & Youth Rehabilitation was established in 2003. The Council's main function is to resolve collective labor disputes which cannot be resolved through negotiation or conciliation.

Other key institutions were also established. The Garment Training Center was established in 1999 to train Cambodians to become supervisors on the management level; currently this center is providing basic sewing skills rather than supervising skills to workers. However, the Garment Industry Productivity Center was established in 2005 to provide training and consulting in improving productivity of the garment industry.

3.2 Labor supply and demand effect

3.2.1 Employment

This sector has provided a significant number of jobs to low-skilled labor forces. In 1998, the sector employed only 79,000 people. In 2004, the sector employed approximately 246,000 workers, 42 percent of total industry employment and 4.3 percent of total country employment. Female workers make up the majority, as much as 85-90 percent, which improved this industry's employment share in the total female workforce to 20 percent.⁸ These women migrate from provinces where livelihoods are at risk due to frequent problems in agricultural production. According to an ADB-sponsored survey in February 2004, the populous and nearby provinces of Prey Veng, Kompong Cham and Kandal were among the top three that provided women worker migrants.⁹ Besides this vast amount of direct employment, indirect job creation has provided necessary support services to this sector. Approximately 150,000 informal jobs around the factory location, including beauty parlors, street vendors, moto-taxi drivers, home workers and pieceworkers, have all been benefiting from the existence of this industry.

⁸ UNDP/UNIFEM report prepared by Fitzgerald, I. (2005) estimated 200,000 women employed in garment sector in 2003 and this number translated to 85 percent of total jobs in garment sector, and 6% of the total female workforce; ADB socio- economic survey of employees in garment sector phase two asserted that almost 90 percent of workers in garment industry are female.

⁹ Other provinces, in ranking order, are Takeo, Svay Rieng, Kampong Thom, Kampong Speu, Kampot, Kampong Chhnang, Pursat, and Battambang, according to ADB-sponsored survey: Garment employee in Cambodia: A socio-economic survey.

Table 3.3: Stock of employment

	1998	1999	2000	2001	2002	2003	2004	2005
Total country employment (000)	4,864	4,966	5,082	5,333	5,349	5,492	5,647	n.a
Total industry employment (000)	402	440	473	501	527	549	583	n.a
Total garment employment (000)	79	97	123	188	210	234	246	284
% of country employment	1.62	1.95	2.42	3.53	3.93	4.26	4.36	n.a
% of industry employment	19.7	22.0	26.0	37.5	39.8	42.6	42.2	n.a

Sources: *USAID (2005), GMAC, Sok Hach et al. (2001), and MOP (2005) and Own calculation*

3.2.2 Wage and income

As mentioned earlier, the garment industry contributed to the economy by providing more than 280,000 jobs as of December 2005. This industry also made some significant impact on poverty in terms of income, empowerment (transformation of economic and social status) and rural livelihoods.

The sector created jobs and thus income to nearly half a million people. The income of workers in the garment sector was around 13 percent of total garment sales from 2000 until 2003, according to Sok Hach et al. (2001) and Sok Hach (2004) who estimated that wages accounted for 13 percent of total production costs. Approximately US\$135 million was earned by garment workers in 2003 according to Stuart-Smith (2004). A garment worker in 2004 received an average wage of US\$60 per month.¹⁰ Of this amount, they spent around half for basic living (food, accommodation and utilities) and transportation to and from work and sent the remaining amount (about US\$30) to their families in the rural areas to support another four or five members. According to the World Bank's Cambodia Poverty Assessment 2006, remittance has been used in productive investment such as buying fertilizer or buying pigs to raise, renovating their homes, digging wells, investing in farm inputs or livestock, purchasing motorbikes and TVs, and sending their younger children to school. The money was also used to sustain low levels of immediate consumption, allowing flood- and drought-affected households to purchase rice and other food, settle health expenditures, invest in restarting rice production, and pay off debts. Hence, the impact of income from this sector goes far beyond the workers employed in this sector.

Nevertheless, as garment workers try to save part of their relatively small salaries their overall livelihoods are affected. Garment workers tend to reduce their spending as much as possible (Stuart-Smith 2004) by (1) reducing spending on food; (2) minimizing

¹⁰ Latest ADB Phase I survey commissioned to Cambodian Researchers for Development (CRD) in December 2004 interviewed 15,000 garment employees and reported that an average monthly wage is US\$50-75; monthly basic living costs is US\$20-40; and remittance to family is US\$10-30.

spending on accommodation by sharing small and narrow rooms. Thus, their health can deteriorate. After the end of quota system, worker's welfare seemed to deteriorate due to the drop in purchasing power (lower income and high inflation). Workers' earnings decreased by 2.7 percent due to decreasing garment prices, the closure and reopening of some factories, short working contracts, and less overtime work.¹¹

The latest survey from ADB Phase I in December 2004 reports that as much as 90 percent of these garment workers are women. They typically come from large families and from villages which suffer frequently from droughts and floods. Thus, jobs in the garment sector have made them better off. Furthermore, this economic opportunity has broken down the prevailing social norms and traditional attitudes such as "girls should stay at home doing housework" and "girls should not go to work outside and away from parents". Through this garment industry, the whole society has started recognizing the important contribution of women for the country's economic development. Nevertheless, female garment workers face many risks such as losing their reputation and chances of marriage when they leave home to work in this sector (Stuart-Smith, 2004 & FitzGerald, 2005). They also risk their health and their livelihoods, inside and outside garment factories. Working overtime and returning home late at night are safety risks. Unfavorable factory working environments and insufficient sanitation facilities are also health risks.

Though there are noticeable detrimental affects to these women working long days in the factories, the monthly remittance of US\$10-30 of a typical garment worker to his or her family has a very positive effect on rural livelihoods. According to the ADB Phase I survey, around 90 percent of 15,000 respondents sent their remaining wages to their families. If one was to imagine that, in 2004, 90 percent of garment workers sent such remittances to their families then about US\$80 million would have been circulated into the rural economy. This money has been used both directly and indirectly to reduce the incidence of poverty by ensuring enough food to eat, housing repair and supporting the education of younger siblings. According to the World Bank-Cambodia Poverty Assessment 2006, about 13 percent of rural households received some remittances from family members working in cities. Having a daughter working in the garment industry was considered to be one of the primary factors in allowing families to move out of poverty.

¹¹ Neou Seiha, Economic Researcher of EIC, remarked in the Roundtable on "Garment Industry after the end of the quotas system" on March 14th, 2006, organized by EIC under the support from CCLSP project.

3.3 Human development effect

3.3.1 Human capital

More than 90 percent of garment workers are young women who have little education. According to a survey by Cambodian Researcher for Development commissioned by ADB in 2005, about 90 percent of 1,538 respondents in the sample survey did not complete lower secondary education. Of these, 54 percent had primary education. After being employed in this industry, they only have been being able to improve their skills through daily jobs; many of these jobs are assigned to sewing. They, however, did not have opportunities and time to further learn new skills as most of them spend around 10 hours in the garment factories including overtime work, according to interviews with trade unions. According to a rough estimate through interviews with labor unions only 2-5 percent of garment workers study English or computing or hair dressing while 90 percent do not spend time learning anything else besides working in factories. This, in turn, limits their opportunities to engage in other economic activities if jobs in the garment factories were to be reduced.

Concerning their health conditions, responses from various interviewees stated that the health of workers has deteriorated. This negative health impact was because workers themselves limit their daily expenses on food and accommodation so that they could maximize their savings for other purposes. Health problems were also caused from overwork load due to the fact that factories prefer their workers working overtime to meet the increasing orders. Another reason for this negative health impact is from the working conditions and the working place, where heat and dust were found to be the most common health problem.

3.3.2 Opportunities, voice and power

The garment industry has widened opportunities for women to participate in the country's economic activities. In addition, it is even beyond direct contribution of these young women in contributing to the economy; indirectly women play an even more important role in the society through their support to poor family members in rural areas. According to a study by the Committee for Research on Worker's Salary in 2002, a garment worker supports another three family members.

Empowerment of workers has also been improving through union membership of female workers. Forty percent of 1,538 garment workers interviewed reported to be members of trade union, according to a CRD survey in 2004 for ADB. Through union participation, female workers can express their concerns to their representatives so that their voice becomes more powerful and necessary actions can be taken for their common interest. In this context, trade in garments has changed the mindset of women themselves and social stigma that only men should be involved in the economic and union activities.

3.3.3 Wealth

Interviews with government officials, trade unions, civil society organizations indicated that garment workers have a subsistence wage level. Some people even argued that earnings of approximately US\$80 are not livable income in the capital city if half of this amount is to be sent back to their families. Responses from interviews and observations, thus, pointed out that given this ‘just-enough’ earnings, workers have minimized their spending on consumer durables and cannot afford expensive items such as motorbikes. Generally, in a rent room-where three to four female workers stay together- there is one TV and radio.

On the measurement of wealth of their family in rural areas conducted by the CRD survey in 2004 which asked the worker to report their family wealth with regard to possessing a TV, radio, motorcycle, car, home, home construction type, farming land, land size. Results showed that 81 percent of workers had average scores lower than the moderate scores which were considered as having moderate wealth.

3.3.4 Vulnerabilities

Given the nature of the garment industry which is fragile and can relocate to other countries within a few days; in addition to other limited job opportunities in other formal sectors and their low level of education, garment factory workers are extremely vulnerable to job loss if economic or social or political upsets occur.

The vulnerabilities of workers, especially female workers, also results from their lives whereby they are living in rented accommodation away from their parents and family members. Hence, they are the targets of such social ills of the sex trade, robbery, gang rape and harassments.

Chapter 4

Conclusion

Although the history of Cambodia's garment industry is relatively short, it is a good example of a success in trade liberalization in the past decade. Also, it is a model to understand the connection between trade and poverty reduction. The sector's success underscores its vital role as not only an engine for economic growth but also a weapon to fight or at least a means to reduce the pressure of poverty in both urban and rural areas.

The industry has made considerable contribution to ensure average annual economic growth of 6-7 percent and has played a prime and dominant role in earning foreign exchange; thereby balancing the country's trade account. The industry had spillover effects to other supporting industries, for positive effects on increasing in domestic production were noticeable. Another structural effect on the establishment of several institutions to facilitate the industry growth was also observed.

In addition, the garment industry has reduced the increasing number of young low skilled labor force. It has also decreased the pressure of extreme poverty in rural areas which have been plagued by insufficient food, shelter and clothing and by illness and illiteracy. At least one million people in the country benefited from garment exports through direct and indirect employment and income, and remittance.

Last but not least, the industry proved to have a positive impact on other non-income dimensions of poverty. Health and education of worker's family members in the rural areas have been relieved, if not much improved; remittance was used for supporting family healthcare and education. The industry provided opportunities for the rural low-educated female labor force to participate in economic and social activities. Nonetheless workers were subject to health deterioration and at risk of various upsets as a result of job loss and social ills such as sexual trading, robbery, gang rape and harassment.

The key to the industry's success was a combined result of relevant local and international players. Out of the many factors, Cambodian policies to gain trade deals with the US and EU and maintaining good labor standards which are coherent with global policies of trade in garments should be particularly praised.

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Appendix 1 List of Persons Consulted

	Name	Position	Organization
1	An Nan	Arbitrator	The Arbitration Council
2	Ath Thorn	President	Coalition of Cambodian Apparel W.D.U
3	Ouch Chandarany	Research Assistant	Cambodia Development Resource Institute (CDRI)
4	Chea Mony	President	Free Trade Union of Workers of the Kingdom of Cambodia
5	Chea Sophal	Programme Assistant	International Labor Organization (ILO), Better Factories Cambodia
6	Chork Yorn	Secretary General	Cambodian Union Federation
7	Dorina Pon	Research Assistant	Cambodia Development Resource Institute (CDRI)
8	Dr. Huy Han Song	Under Secretary of State	Ministry of Labour and Vocational Training
9	Dr. Joern Rieken	Team Leader	MOC, Departments of Domestic Trade and Export Promotion
10	Ek Siden	Development Issues Programme Coordinator	THE NGO FORUM ON CAMBODIA
11	Jane B. O' Dell	Chief of Party	Garment Industry Productivity Center
12	Kim Chan Samnang	President	Trade Union Workers Federation of Progress Democracy (TUWFPD)
13	Lou Sak	Executive Director	Cambodia Industrial Union Federation
14	Ma Vanny	Director	Ministry of Women's Affairs, Department of Economic Development
15	Mean Sophear	Director	Ministry of Commerce, Trade Preferences Department
16	Meas Samart	Accountant	Best Tan Garment Ltd.
17	Mumtaz Keklik	Trade Policy Adviser.	United Nations Development Programme (UNDP)
18	Noun Chantha	Director	Cambodian Inheritance Confederation

19	Ny Lya	Acting Director	Cambodian Labor Organization
20	Pheak Sika	High Class Secretary	Min Kuan Textile Co., Ltd.
21	Phoung Montry	President	Union Federation of Independent and Democratic
22	Poullang Doung	Business Development Analyst	MPDF
23	Ros Kan	Vice President	National Independent Federation Textile Union of Cambodia
24	Sdoeung Vanyouthea	Consultant	Cambodian Researchers for Development
25	Sok Ravuth	President	Free Union Federation of Khmer Labour
26	Un Dara	President	Democratic Independent Solidarity Union Federation (DISUF)
27	Va Chan Kosal	Vice General Secretary	Democratic Independent Solidarity Union Federation (DISUF)
28	Wisal Lim	Trade and Private Sector Analyst	United Nations Development Programme (UNDP)
29	Yun Rithy	Director	Khmer Youth Federation of Trade Unions