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CAMBODIA'S GARMENT INDUSTRY POST-ATC:

Human Development Impact Assessment

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Introduction

Why the Study?

- **Context:**
- Garment industry started in Cambodia in mid-1990s, when Cambodia gained MFN status to access US garment market and GSP to access EU clothing markets.
- Garment exports has grown remarkably during the last decade.
- The Agreement on Textile & Clothing (ATC) ended on December 31, 2004.
- **Study's Main Objective:**
- To assess the impact of garment exports on human development at the Post ATC.

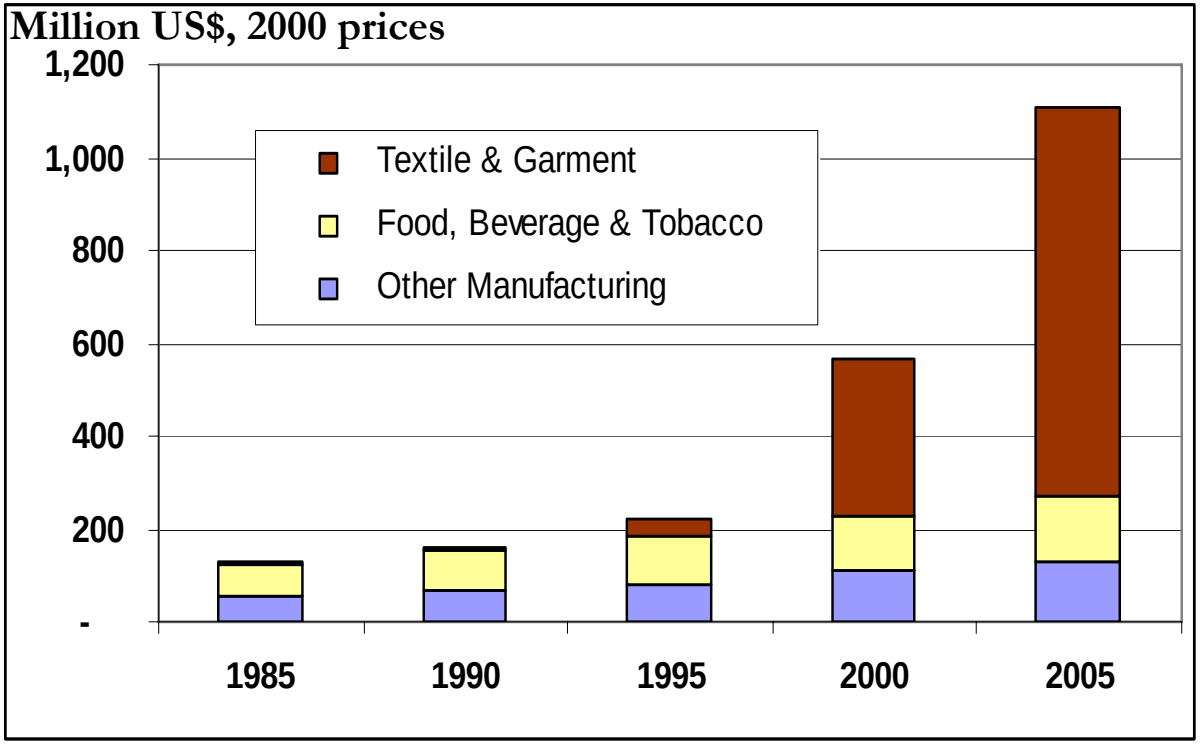
Cambodia's Real GDP Growth (%, 2000 prices)

	2001	2002	2003	2004	2005	2006p
Agriculture	**4.5%**	**-2.1%**	**11.9%**	**1.1%**	**16.4%**	**4.0%**
Paddy	0.7%	-7.8%	22.3%	-12.2%	43.6%	3.2%
Industry	**11.7%**	**17.7%**	**12.5%**	**16.8%**	**12.3%**	**14.0%**
Garments	28.4%	21.3%	16.8%	24.9%	10.3%	22.8%
Services	**8.7%**	**6.3%**	**4.4%**	**11.7%**	**12.1%**	**8.8%**
Tourism	22.6%	18.8%	-16.7%	23.4%	17.3%	11.9%
Total GDP	**7.7%**	**6.2%**	**8.6%**	**10.0%**	**13.4%**	**8.5%**

Sources: *NIS for 2001-2005, EIC Projection for 2006.*

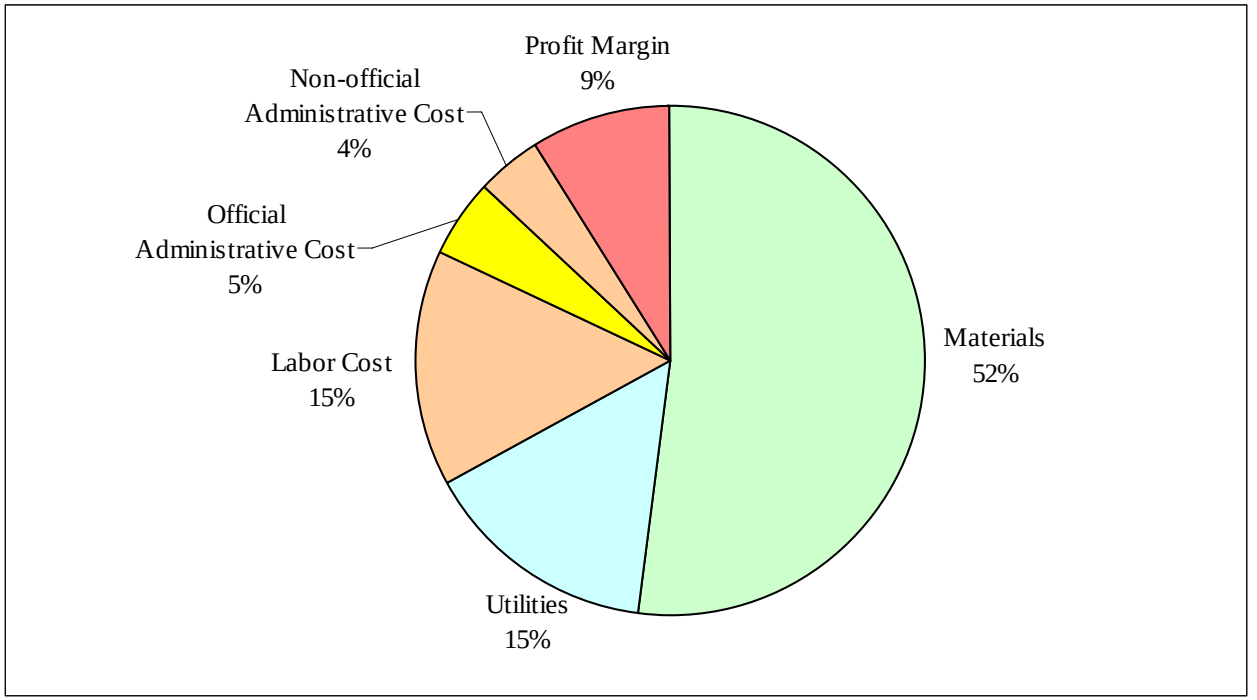
Contribution of Garment Exports to the Economy and to Human Development

Value Added of Manufacturing Sector



- **Source:** *NIS, 2006.*

Cost Profile of Garment Industry



- **Source:** *EIC, HDIA Garment Factory Survey, May 2006.*

Contribution of Garment Exports to the Economy

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- Garment exports made up 75% of the country's exports.
- Garment exports generated about US$0.8 billion trade surplus.
- Garment exports contribute to 26 per cent of GDP growth during 1995-2005 (or about 2 percentage points annually).
- Before 2005, fees on quotas and export licenses amounted to around US$40 million a year.
- EIC estimates that US$100 increase in garment exports result in an increase of US$45 in local value added.

Garment Exports and Employment

	Number of Jobs (in 000's)	%
Total Jobs	**512**	**100%**
Direct Jobs	**270**	**53%**
Indirect Jobs	**242**	**47%**
Agriculture	92	18%
Industry (excl. garment)	37	7%
Services	113	22%
Transportation	*37*	*7%*
Trade	*29*	*6%*
Hotel & Restaurant	*17*	*3%*
Other Services	*30*	*6%*

Sources: *EIC using I/O model simulation*

Garment Exports and Workers' Income

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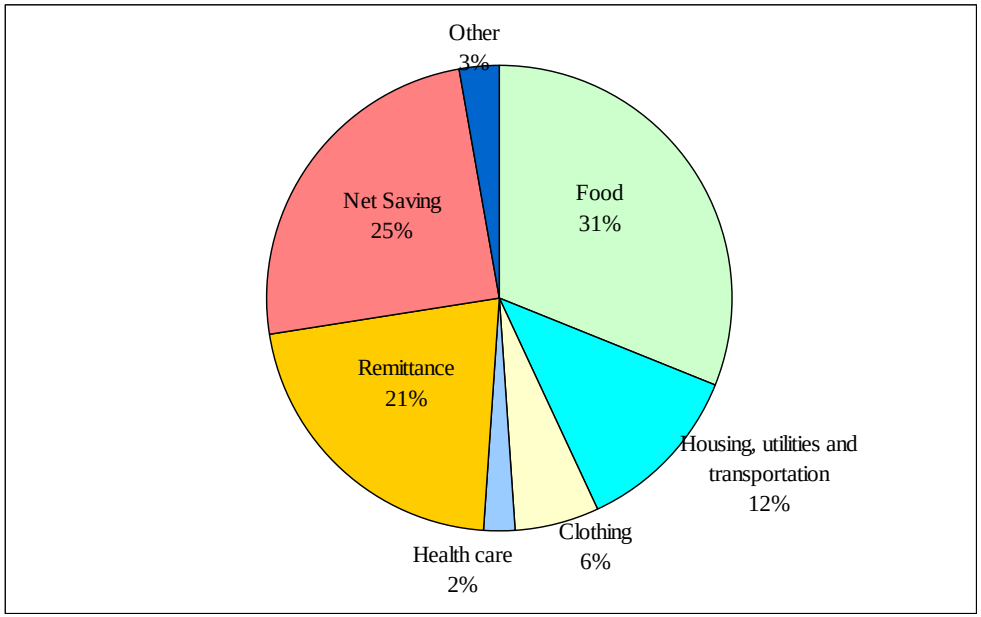
How do garment workers spend their income?



Source: *EIC, HDIA Garment Worker Survey, May 2006.*

- It is estimated that garment workers sent home about US$50 million in 2005 to support families in rural area.

Garment Exports and Working Conditions

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- Corporate Social Responsibility.
- 73% of workers surveyed are satisfied with the working conditions.
- However, 55% of workers surveyed perceive that their health conditions worsen after working in the industry for several years.
- Worker's empowerment through union participation.
- Women's empowerment through job creation.

Trend of Garment Exports (12-month moving average)

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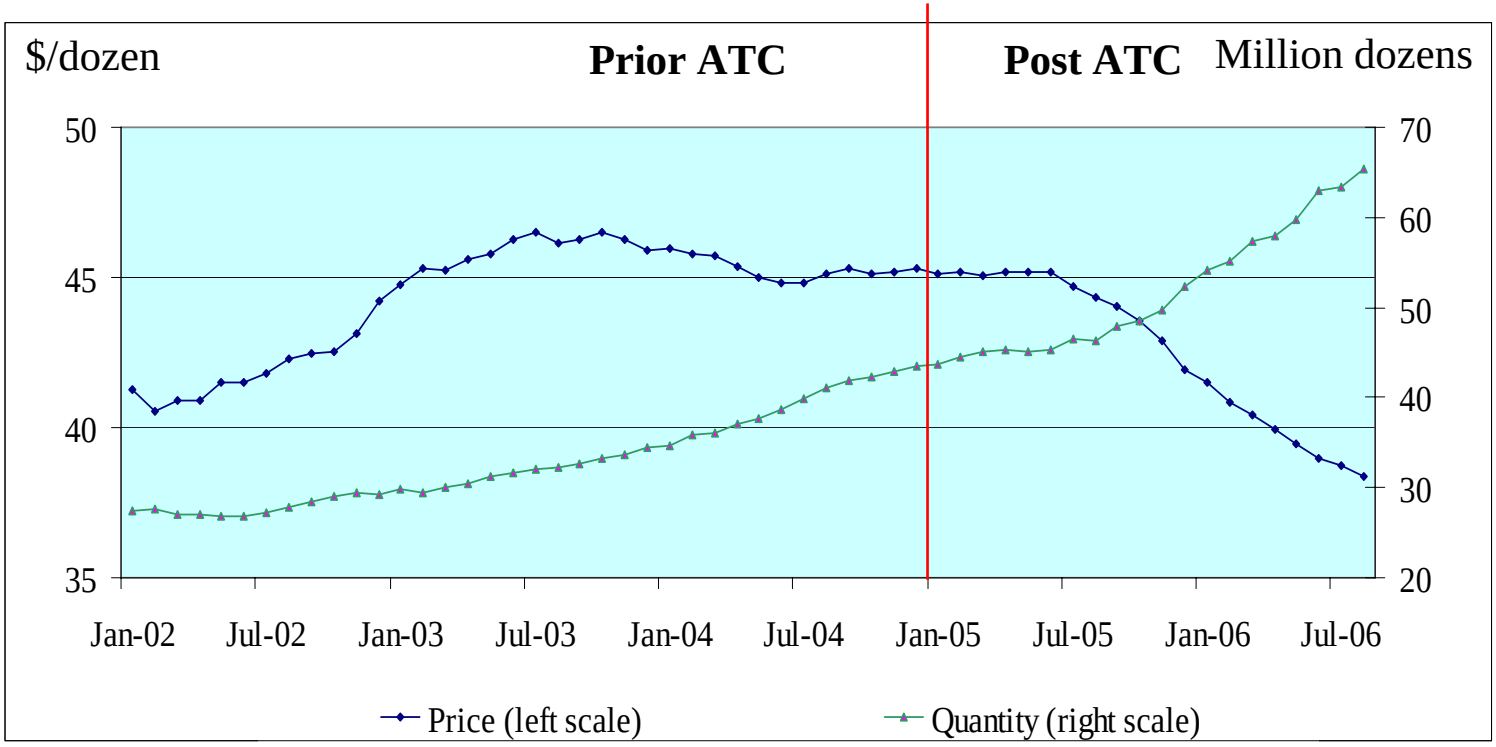

Source: *MEF, Customs and Excise Department.*

Trend of Garment Exports in US & EU (12-month moving average)

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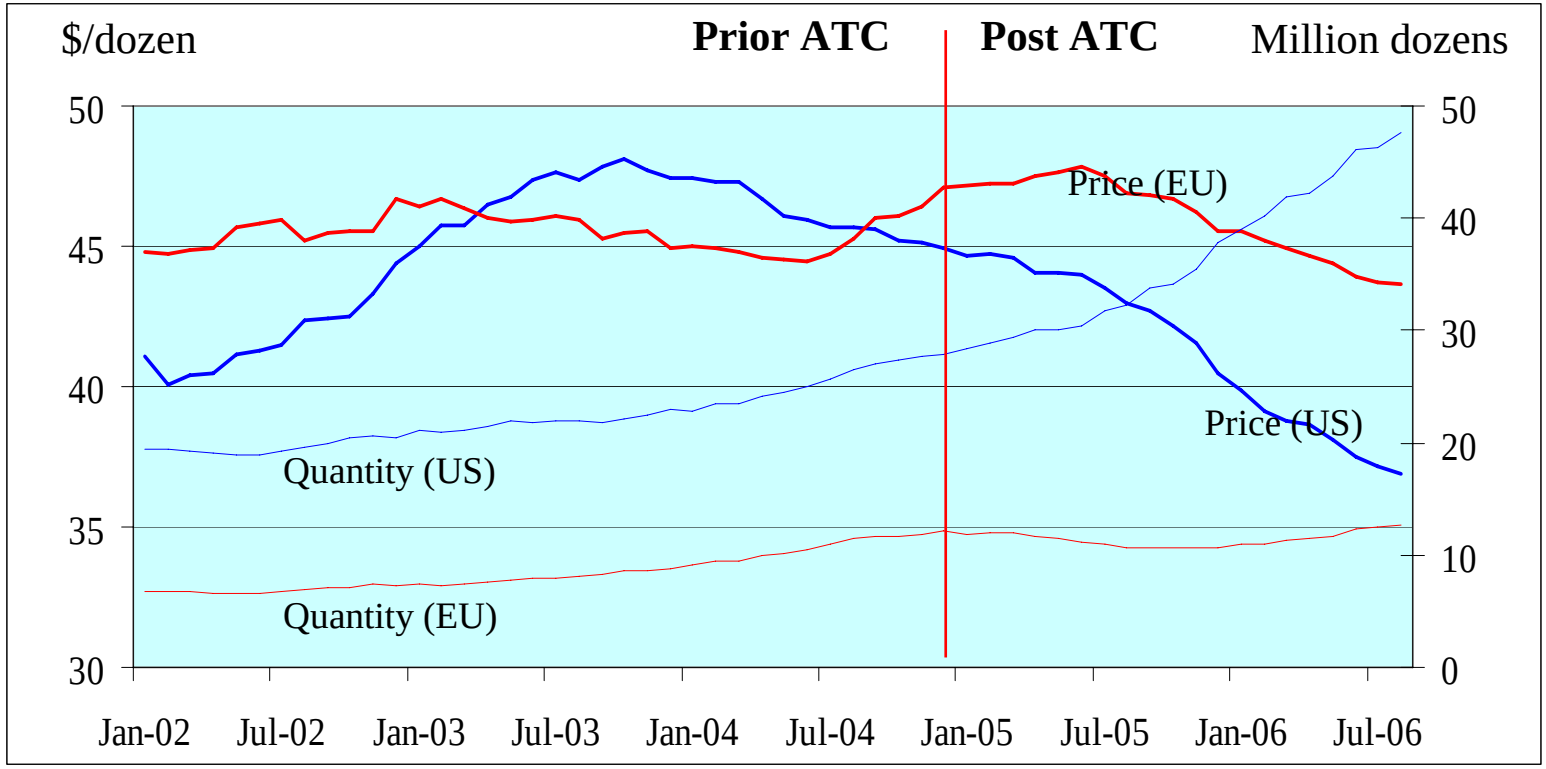

Source: *MEF, Customs and Excise Department.*

Worker's Earning & Export Prices (%, increase)

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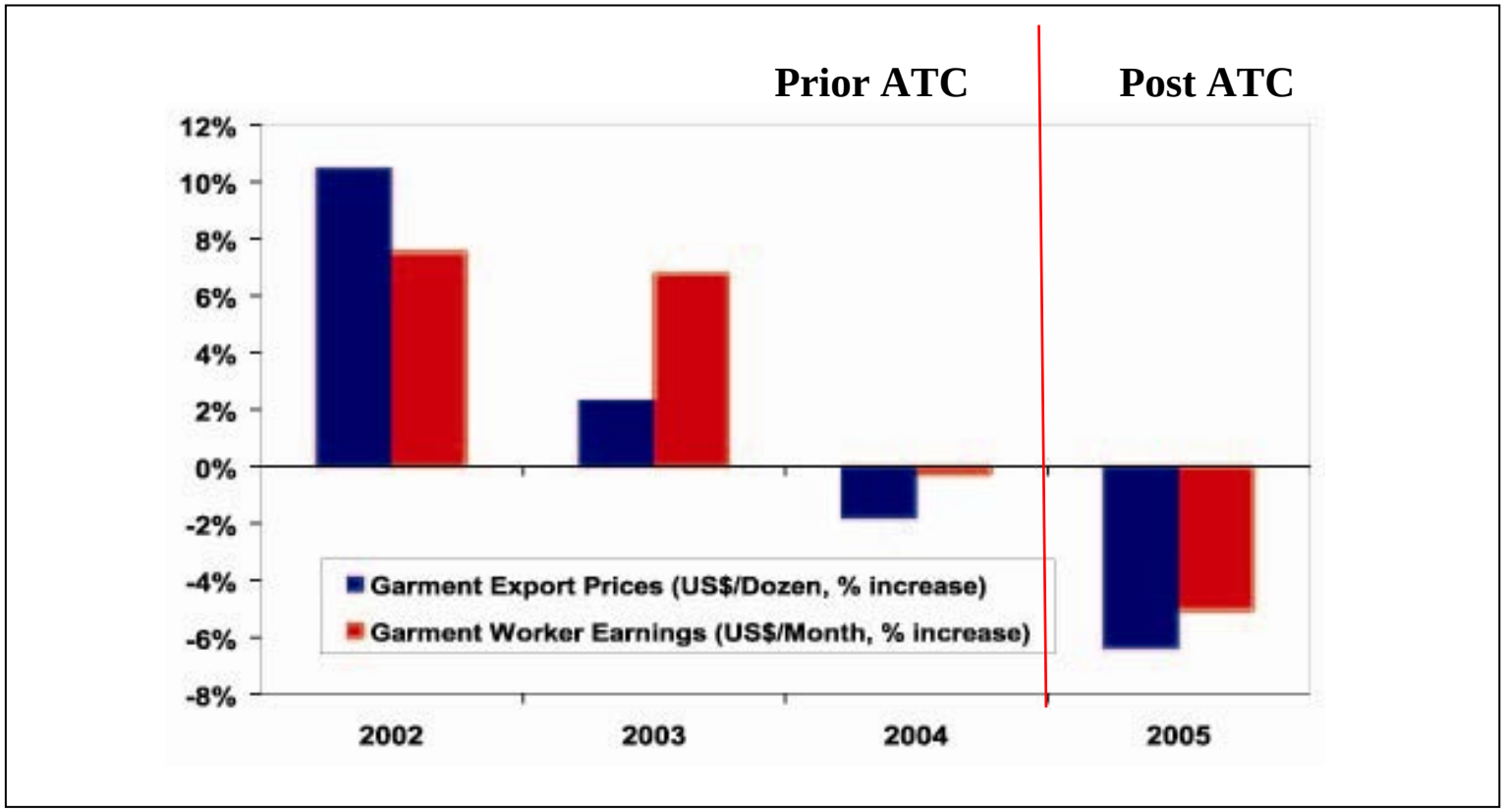

Source: *EIC, 2006.*

International Competitiveness of Cambodia's Garment Industry

National Competitiveness of Cambodia

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Global Competitiveness Index (GCI)

Countries	GCI 06-07		GCI 05-06		Changes in rankings	
	Rank	Score*	Rank	Score*		
Switzerland	1	5.81	4	5.67	↗	3
Finland	2	5.76	2	5.73	→	0
United States	6	5.61	1	5.85	↘	-5
Thailand	35	4.58	33	4.59	↘	-2
Indonesia	50	4.26	69	3.96	↗	19
China	54	4.24	48	4.26	↘	-6
Vietnam	77	3.89	74	3.91	↘	-3
Bangladesh	99	3.46	98	3.45	↘	-1
Cambodia	**103**	**3.39**	**111**	**3.20**	↗	**8**
Angola	125	2.50	n/a	n/a	n/a	n/a

Source: *WEF, Global Competitiveness Report 2006-2007.*

**Note: 1: The least competitive, 7: The most competitive.*

Problematic Factors for Doing Business in Cambodia

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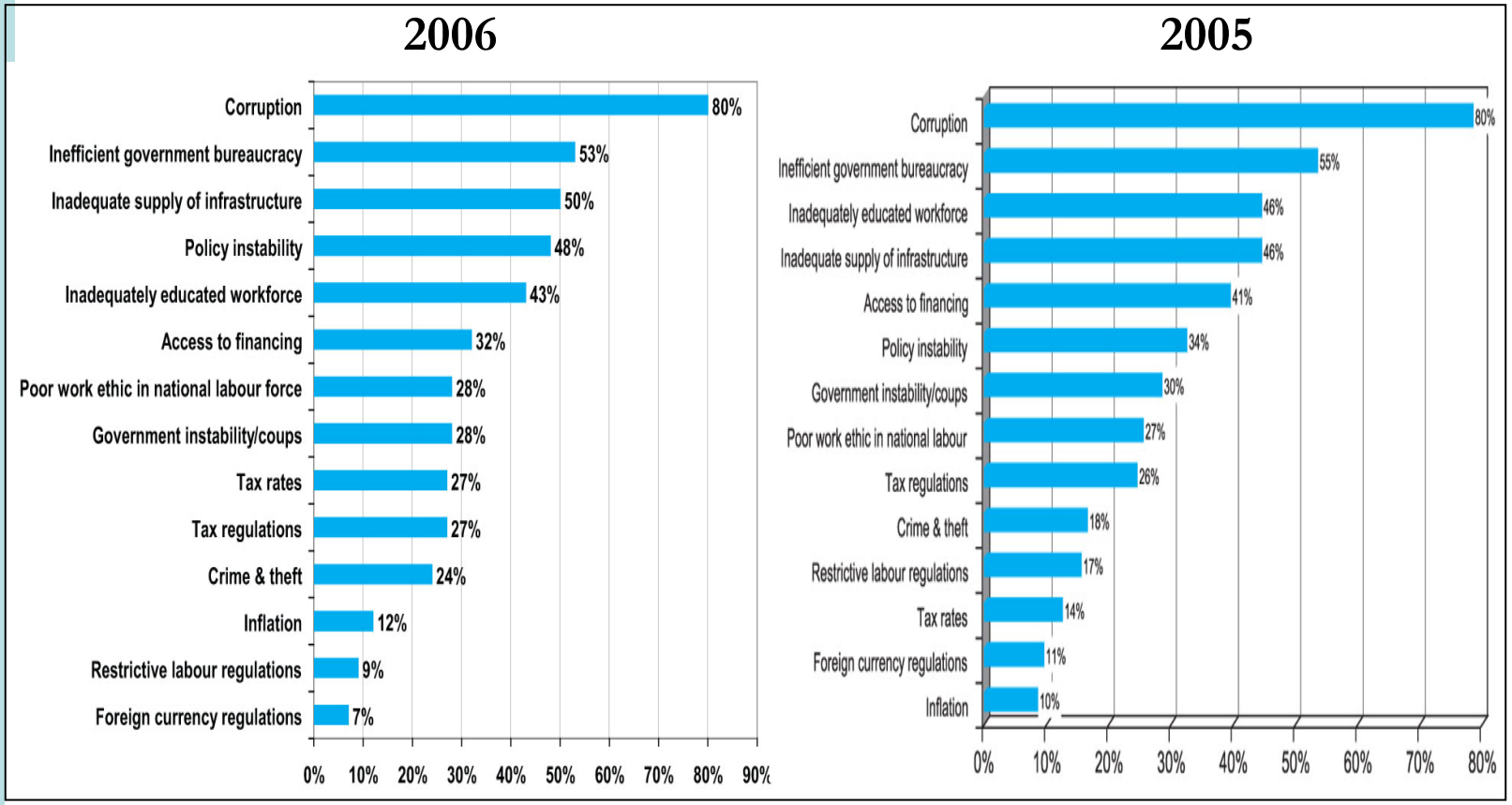
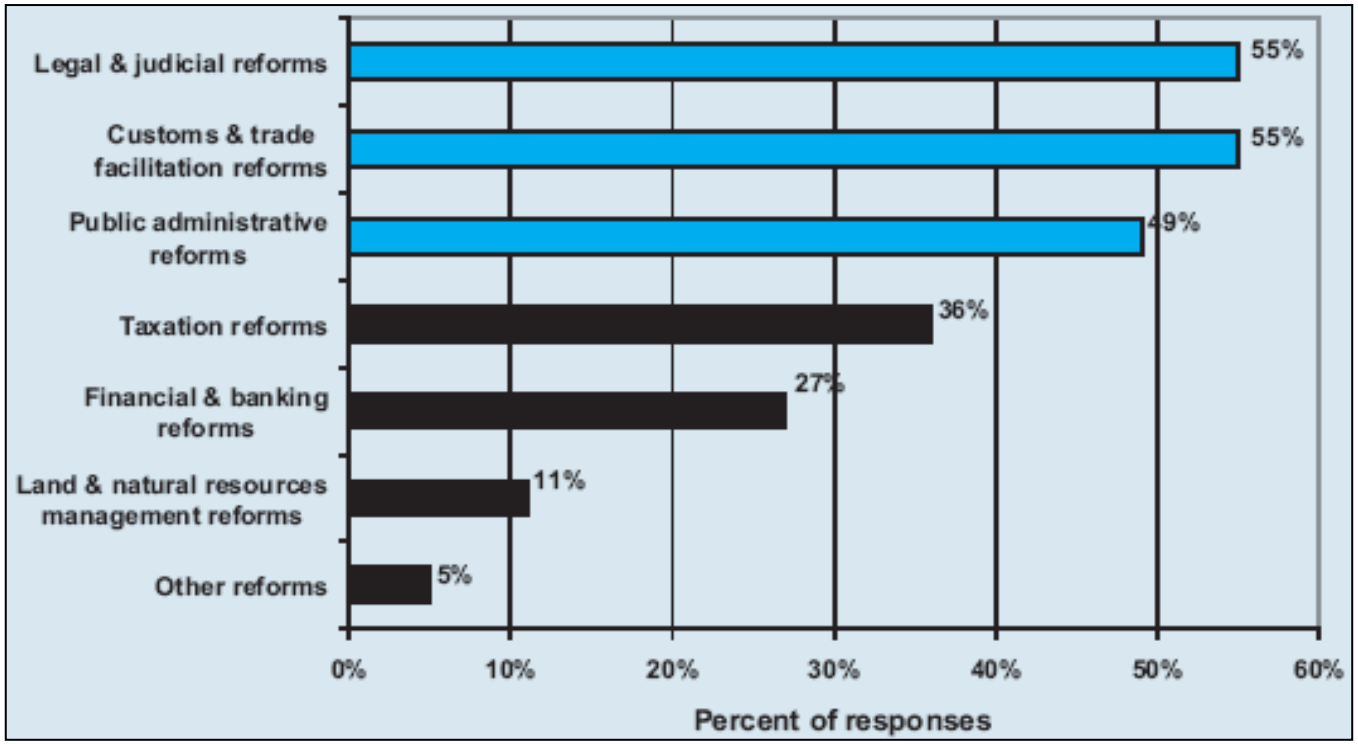


Source: EIC, Executive Opinion survey in Cambodia.

Critical Reforms for Business in Cambodia, 2006-2007



Source: *EIC, Executive Opinion Survey 2006-2007 in Cambodia.*

Competitiveness of Cambodia's Garment Industry

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- **Cheap and abundant labor supply**
  - Average new entrants on labor market 250 000 per year.
  - Relatively lower wage rate.
- **Corporate Social Responsibility (CSR)**
  - Cambodia's labor standard was rated much better than Thailand, China, Vietnam and Bangladesh (WB Survey, 2004).
  - CSR could be a two-edge sword when some unions over execute their rights.
- **Supporting Environment**
  - Import tax exemption and holiday tax on profit.
  - Poor governance and bureaucracy.
  - Lack of a supporting industry, especially textile industry.
  - Poor physical infrastructure (transportation, energy etc.).

Demand-Side Factors Affecting the Cambodia's Garment Industry

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- Tariffs in the US Market
- EU's Rules of Origin
- Safeguard measures on China
- Membership of Vietnam in the WTO

Assessing the Impact of Different Scenarios on Cambodia's Garment Industry

Methodology

- **Scenarios**
  - US Duty-Free Scenario.
  - Flexible EU Rules of Origin Scenario.
- **Model Simulation: Computable General Equilibrium and Input/Output**
- **Main Assumptions:**
  - Base year: 2005
  - Cambodia's production capacity would be able to respond to the immediate increase in demand.
  - Changes in Cambodia's production would have no impact on global prices.
  - Overall growth of global garment market is assumed at 5%.

Potential Effect of US Duty-Free

Main Assumptions	
Average Tariff to US Market	*-20%*
Export Price in US Market ($/piece)	*+5%*
Export to US Market (million pieces)	*+30%*
Impact on the Garment Industry	
Exports of Garments (million US$)	*+ 626*
Balance of Trade in Garments (million US$)	*+ 296*
Investment (million US$)	*+116*
Employment (000's)	*+77*
Impact on the Economy	
Real GDP Growth (%)	*+4.6%*
Balance of Trade (million US$)	*+138*
Total Employment (000's)	*+ 146*

Source: *EIC Model Simulation.*

Garment Exports to EU market

	2004	2005
As % of Garment Export to EU Markets		
Under form A (duty-free)	61%	67%
Under form N (with duty)	39%	33%
Total	**100%**	**100%**
As % of Total Garment Exports		
Export to EU Markets	**29%**	**22%**
Under form A (duty-free)	18%	15%
Under form N (with duty)	11%	7%
Export to non EU Markets	**71%**	**78%**
Total Garment Exports	**100%**	**100%**

Source: *Ministry of Commerce, 2006.*

Potential Effect of EU Duty-Free with No Condition to ROO

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Main Assumptions	
Average Tariff to EU Markets	*-12%*
Export Price in EU Market ($/piece)	*+3%*
Export to EU Markets under Form N (million pieces)	*+18%*
Impact on the Garment Industry	
Exports of Garments (million US$)	*+ 36*
Balance of Trade in Garments (million US$)	*+ 17*
Investment (million US$)	*+7*
Employment (000's)	*+4*
Impact on the Economy	
Real GDP Growth (%)	*+0.3%*
Balance of Trade (million US$)	*+ 8*
Total Employment (000's)	*+ 8*

Source: *EIC Model Simulation*

Recommendations and Concluding Remarks

Lessons Learned: Issues and Challenges

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- In the Post ATC, Cambodia's garment exports continue to growth while price has been decreased.
- Membership of Vietnam in the WTO.
- Safeguard measures on Chinese imports will be lift out in 2008.

Recommendations

- **Dealing with supply-side constraints**
  - Curbing corruption
  - Developing skilled workers
  - Developing spirit of negotiation and conciliation among employers and trade unions
  - Reviewing the Current Labor Law
  - Improving infrastructure and trade facilitation
  - Encouraging development of a supporting industry
- **Lobbying for quota-free and duty-free access to the US and EU market.**

Concluding Remarks

- The history of Cambodia's garment industry is quite recent but it has played a significant role in the economy.
- Trade in garment has positive impact on human development in Cambodia.
- Dealing with supply-side constraints is essential to maintain the industrial competitiveness.
- Duty-free and quota-free from the US and EU would help the Cambodia's garment industry.

Thank you for your attention.