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**Cambodia's Textile and Garment
Industry – A Showcase for Social
Sustainability, or not Better than its
Neighbors?**

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An Introduction to ATINER's Conference Paper Series

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Abstract

The textile and garment industry accounts for a lion's share of Cambodia's exports, and about a quarter of industrial employment in the country. An agreement with the USA on preferential trade terms based on the stipulation of better working conditions led to an improvement of working conditions in Cambodia's textile and garment industry. This has also had a positive effect on demand for garments produced in Cambodia, as good working conditions are increasingly important for clothing brands. In the last years, however, after the end of the trade agreement with the USA, the industry has been increasingly experiencing strikes and labor unrest, as well as a decline in demand. Also, China (a major investor in this industry) has partly moved production to cheaper locations.

This leads to the following research questions/starting points:

- Assessment of the labor conditions in the textile and garment industry in Cambodia.
- What are the potentials and challenges for sustainable social development in Cambodia's textile industry?

The paper combines qualitative and quantitative research methods by integrating a SWOT analysis and analysis of statistical data to show the tensions between economic development and social cohesion in this emerging economy.

Keywords: Cambodia, textile and garment industry, social sustainability

Introduction

Economic development in lesser developed economies and emerging markets in Asia focused in the past decades mostly on export driven economic growth (Oatley, 2010). This effect is also observable in Cambodia (see among others Ravin & Cheong, 2013), starting first in the 1970ies and then again in the 1990s after the end of the Khmer Rouge regime, with numerous structural reforms to become a market economy, and especially in the decade before the global financial crisis Cambodia when experienced economic growth rates of around 10%. Negative effects of such an approach of economic development cumulated in the past in economic downturns and recessions, after supply chains shifted towards other export oriented economies. Therefore export oriented economies, which lack internal demand to compensate for diminishing external demand in the case that supply chains are shifted, tend to cut on monetary and social compensation for workers or even disobey fundamental rules against child labor to keep up the economic position in the global production network. Consequently trade liberalization policies, which are favored in lesser developed economies to promote the national export sector, might be seen as stumbling blocks against sustainable social development. This leads to an increasing strike potential of workers, combined with a loss in productivity for firms, and finally in the fear of economic authorities that companies relocate their production to competitor economies, as the apparel sector has low entry barriers and is low-skilled labor intensive (see Staritz, 2012: 4).

The situation in Cambodia follows the picture of a lesser developed economy that successfully promoted growth via export-led measures and needs structural reforms after the global financial crisis. In the case of Cambodia the garment and textile sector has been one of the driving forces of economic growth. As it is estimated that the garment industry comprises more than 600,000 employees and 320 factories (in 2012) (Arnold, 2013: 4), this sector is of significant importance for the overall economic development. Facing these developments, Cambodia's authorities introduced in the past years changes in the legal settings as well as institutional reforms to improve labor conditions. This should enable the economy to follow a structured approach of economic development that allows for sustainable social and economic development - following among others the examples of Taiwan and South Korea in applying the so-called East Asian Model of Development (Oatley, 2010: 145f).

Therefore this paper analyzes the recent *structural and institutional reforms* in the garment sector indicating social sustainable development and *good working conditions* and compares in the following the strengths and weaknesses of the Cambodian garment and textile industry in a SWOT analysis.

Cambodia's Economic Development – Stylized Facts

The textile and garment industry, as well as tourism, construction, and agriculture are major drivers for economic growth in Cambodia (Central Intelligence Agency, 2013). Cambodia's economy is factor driven and thereby still at the lowest stage of development (World Economic Forum, 2013). In spite of strong economic growth rates before the global economic crisis, and a recovery of GDP growth following the crisis (coming to an estimated 7.2% in 2013; Asian Development Bank, 2013), GDP per capita is still below the average among developing Asian nations. Since 1990 the gap between GDP per capita in purchasing power parities between Cambodia and other developing Asian nations has even continuously widened (World Economic Forum, 2013). In the years before the global economic crisis a concentration of national income in the hands of the richest 10% of the population could be observed. Also wage inequalities are pronounced, but the gap in earnings between workers with high and low wages has become smaller in recent years (International Labour Office, 2012).

Cambodia's Textile and Garment Industry

In this section first the significance of the textile and garment industry for Cambodia's economy is highlighted. This is followed by an analysis of the labor conditions in this industry during and after the *Bilateral Textile Agreement* with the United States. The influence and bargaining power of trade unions and a comparison of labor conditions in the textile and garment industry in selected other developing countries serve as a basis for the discussion of the reasons for shortcomings in labor conditions in this industry.

Importance of the Industry for the Cambodian Economy

The Cambodian textile and garment industry was established rather recently, in 1994, with the help of foreign direct investments. The Cambodian government followed a policy aiming at actively attracting foreign investors with generous incentives (Source ASEAN, 2010). Approximately 15% of Cambodia's GDP is generated by the textile and garment industry (figure for 2010; Asuyama / Neou, 2012). About 356,000 workers are directly employed in production (figure for first quarter of 2012), while in total more than 600,000 workers are employed in this sector. The workforce in this industry consists predominantly of female workers who had migrated from rural regions to more central areas, where production sites are located. This group accounts for 85 to 90% of the textile and garment workers. Earnings sent by workers to their families residing in peripheral areas are also a major economic factor for the rural areas of origin of these workers (Arnold, 2013:4).

Cambodia is among the leading exporting nations of garments, however the share on the world market does not account for more than 1% (figure for 2011; WTO, 2013: table II.69). In the first half of 2013 garment exports from

Cambodia reached USD 1.56 billion, and thereby increased by 32% compared to the same period in the previous year. Especially exports to Europe experienced a major increase by 45%, reaching USD 532 million, while garments worth USD 660 million were exported to the USA, that is an increase by 17% compared to the first half of 2012. According to Kong Puthera, director of the Ministry of Commerce's Statistics Department, the strong growth can be explained by a "stabilization of demand". Also the rise in labor costs in China and dramatic accidents in garment factories in Bangladesh, which attracted worldwide attention, may have contributed to this development (Maierbrugger, 2013). Furthermore, the "*Everything But Arms*" initiative by the EU for LDCs is a major driver for Cambodia's garment exports to the European Union (Phnom Penh Securities, 2012).

An important milestone for Cambodia's textile and garment industry was the *Bilateral Textile Agreement* with the United States. The agreement, which was signed in 1999 and was in force until 2005, was the only U.S. bilateral labor agreement that linked increased market access to improved compliance with labor regulations. Standards included among others minimum wages, hours of work, child labor, forced labor, and freedom of association (Wells, 2006: 360). This led to Cambodia developing a reputation as a labor-friendly producer of textiles and garments, which in turn helped increase employment and exports.

Labor Conditions

Fires and the collapse of a building in textile and garment factories in Bangladesh in 2012 and 2013 have called international attention to working conditions in textile and garment factories in developing countries. The question of working conditions raises the question of how "*good*" working conditions can be defined. As table 1 shows, working conditions comprise a multitude of dimensions and indicators, and with several of these indicators the minimum standards can be subject to discussion. The International Labor Organization launched an approach called "Decent Work", which is defined as "*productive work for women and men in conditions of freedom, equity, security and human dignity*" (Öz, 2008). Decent Work includes also dimensions which are related to the overall living conditions of the workers, which go beyond the working conditions at the workplace, like combining work and family. In contrast to the ILO's approach, this paper intends to analyze changes in actual working conditions. Therefore the focus is put on wage, leave / holiday and contract related indicators, as it can be assumed that these are the areas in which employers will see the greatest incentive in discontinuing high work standards after the end of the *Bilateral Textile Agreement*, since these standards would have the highest potential for savings in employee related costs. Since a worsening in these conditions can be expected to result in increased actions by unions, the status of freedom of association is highlighted in section 3.3 of this paper.

Table 1. Working Conditions

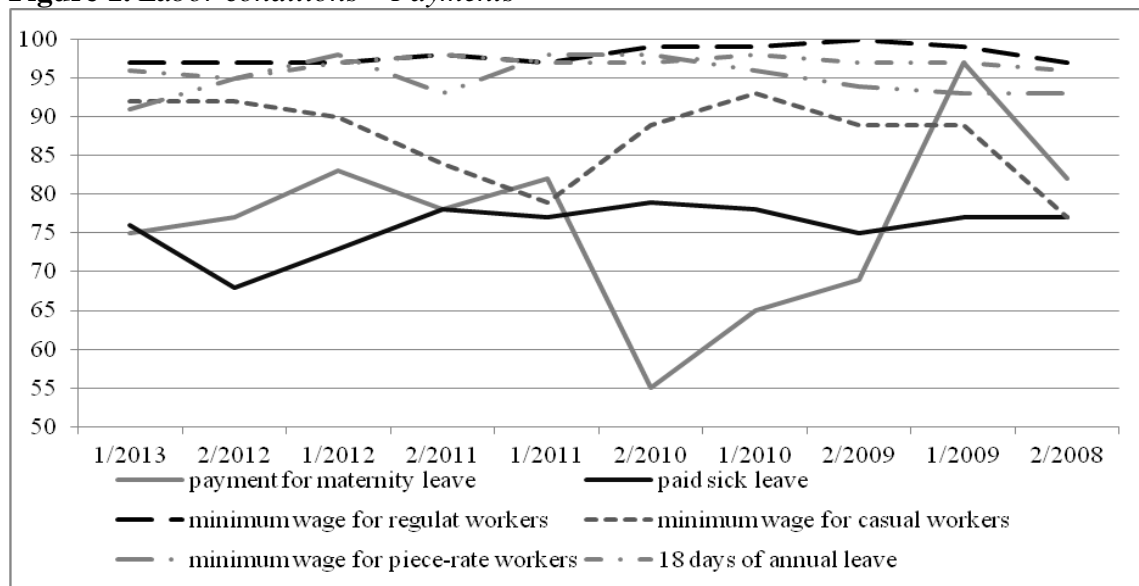
Category	Indicators
Remuneration	Wage per hour Minimum payment requirements not observed / observed / exceeded Overtime payment
Additional benefits	Paid sickleave Maternity leave Health insurance
Physical work environment	Equipment Lighting Temperature Ventilation Emergency exits Emergency routines
Work time and time off	Daily / weekly / monthly work hours Overtime per day / week / month Night work Breaks Number of holidays Number of sickdays
Health	Exposure to harmful substances, noise, risky work settings Accidents Health services
Work contract	Permanent / temporary / no contract
Other	Unionization permitted Child labor Forced work Discrimination

Source: own presentation

Figure 1 shows the compliance with regulations by factories that are monitored by the *Better Factory* initiative. In the time period 2008 to 2013 especially the share of companies paying for maternity leaves fluctuated strongly, with particularly low compliance rates in 2010. On the other hand payments of minimum wages for regular and piece-rate workers show a steady high adherence rate, while it seems that rather payments to casual workers are used by employers to cut labor related costs during periods of economic downturn. When it comes to hourly wage levels for textile and garment workers in Cambodia, these are with USD 0.33 per hour among the lowest compared to the country's main regional competitors in East and South East Asia (Staritz, 2011: table 4.13). In this context a comparison of wages in the textile industry compared to other professions in Cambodia is also of interest.

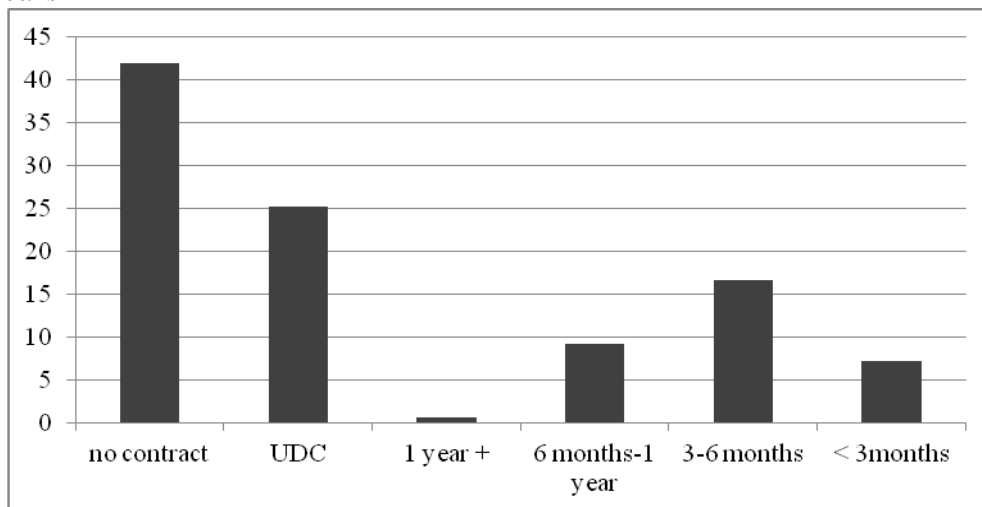
In an interview conducted in 2010, a representative of a company that monitors working conditions in the textile and garment industry in Cambodia commented that the wage levels in the textile and garment industry in Cambodia were still clearly above those of other professions. While the minimum wage for the industry was at USD 61, the minimum wage for police was only USD 25 at that time (interview Gridling, 2010). In general casual workers make up a significant share of the work force in the monitored textile and garment factories. Another important aspect in the contractual framework is the fact that only a minority of workers, who are employed in a textile factory over two years, also have a contract of a year or longer. More than 40% of workers, who work for one company for more than two years, do not even have a formal work contract.

Figure 1. Labor conditions – Payments



Source: Better factories (various years)

Figure 2. Contract duration of workers employed at current factory for over 2 years



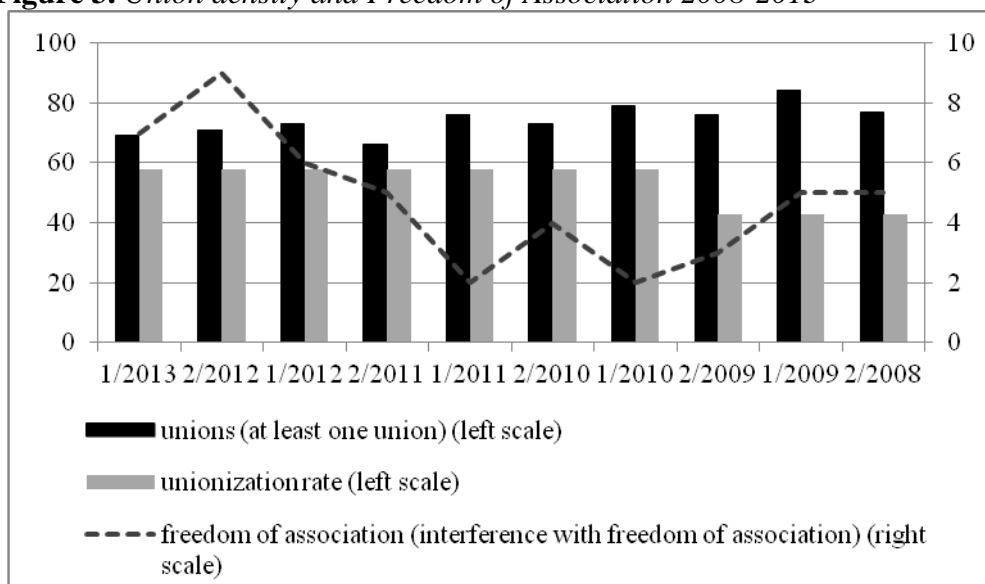
Source: Better Factories (various years)

Institutional Settings

The establishment of trade unions and the process of collective bargaining in the textile industry emerged primarily after 2004. In the year 2004 first collective bargaining agreements were resolved in the hotel industry (National institute of Statistics, 2010:37). While trade unions are active in ensuring the respect of fundamental workers’ rights and labor conditions (set in the Labor Code of 1997 and the eight core labor conventions of the ILO signed in 1999) (National institute of Statistics, 2010:37), the government also supported the establishment of the federation of employers, the *Garment Manufacturers Association of Cambodia (GMAC)*, which as the oldest employers’ association was established in 1996 (ACTIF, 2010:12). In industrial relations 28 federations of trade unions represent today workers in the textile sector and interact with the employers’ associations in the garment industry, which are members in the umbrella organization, *The Cambodian Federation of Employers and Business Associations* (National Institute of Statistics, 2010: 37f).

As figure 3 shows, unionization rates increased after the global financial crisis from 43% to 58%, indicating the workers’ overall willingness to engage in the bargaining processes and in improving working conditions. Similarly numerous garment factories interviewed in the survey of *Better Factories* reported to have at least one workers’ union in their company. Nevertheless the social pressure on workers is visible when looking at the percentage of companies admitting to violating the workers’ rights of forming an association. Data seems to reflect the dual picture of the current situation in the Cambodian garment industry. While the vast majority of companies is eager to improve the situation for garment workers in Cambodia, the situation gets worse for workers in a minority of companies, where not even the compliance with fundamental rights can be observed.

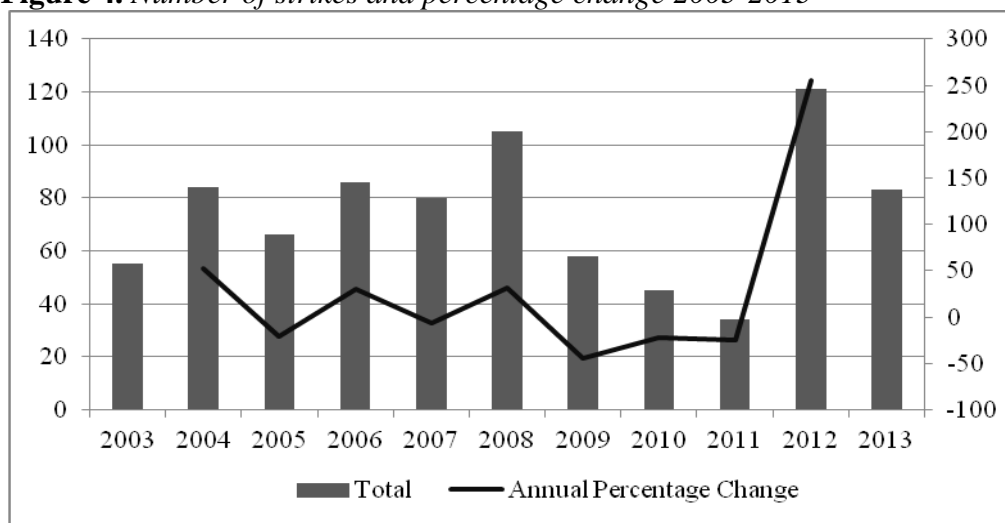
Figure 3. *Union density and Freedom of Association 2008-2013*



Source: Better factories (various years)

Despite the fact that a Memorandum of Understanding was signed between GMAC and six (now eight) major trade union federations and renewed in 2012 to comply with the existing labor dispute resolution mechanism, which states that the right to strike is guaranteed after the labor dispute resolution procedure is exhausted (GMAC, 2013), the number of strikes is increasing. During the global financial crisis a decrease in the overall number of strikes could be observed (from 105 in 2008 to 34 in 2011). As figure 4 shows, the number of strikes increased in the year 2012 by more than 250% to 121 strikes. Lost man days in this period cumulated to more than 540,000 (GMAC, 2013). A major reason for the ongoing labor disputes is the level of minimum wages in the textile industry (see also section 4.2 below).

Figure 4. *Number of strikes and percentage change 2003-2013*



Source: GMAC website

Strengths and Weaknesses of the Sector

As the sector showed strong economic dynamics in the last years and experienced as well institutional and structural changes, specific strengths and weaknesses can be detected. These are in the following explored. Furthermore this sections aims to shed some light on the potential reasons for the existing shortcomings of the apparel sector in Cambodia.

SWOT analysis

Table 2 presents a summary of strengths and weaknesses of the sector according to the current institutional and structural framework of the sector in Cambodia.

The *strengths* of the sector are clearly given by the experience of the economy in the apparel sector, as well as the demographic and education settings. The sector still represents high potential growth for an economy with a comparatively low educated labor force and low capital accumulation.

Table 2. SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> - Experience - Labor force 	<p>Weaknesses</p> <ul style="list-style-type: none"> - Child labor - Intransparent labor contracts
<p>Opportunities</p> <ul style="list-style-type: none"> - Textile value chain - Improvements in working conditions, might offset low wage level 	<p>Threats</p> <ul style="list-style-type: none"> - Low wage level increases number of strikes - Dependence on neighboring economies

Source: own presentation

While the strengths of the sector are mainly economically driven, the major *weaknesses* are on the legal and social level. Especially the still existing high level of child labor has to be counted as a major weakness. As presented in Part 3 of this paper, social benefits like maternity leaves are already implemented in many companies, similarly to the increasing awareness to create better working conditions. Despite of the attempt to increase the level of working conditions, fundamental rights of children are still disobeyed in numerous factories.

Depending on how the value chain in the apparel sector is used and transformed in Cambodia in the future, also *opportunities* for the sector can arise. Currently most value added comes from direct production, which accounts for only minor value changes in the overall value added curve in the apparel industry (see Staritz 2012: figure 2). All other services, like distribution, marketing, but also design and the purchase of logistics services for raw materials produce a higher added economic value. Therefore the Cambodian apparel sector could create further economic opportunities by widening the services along the value chain in the textile sector.

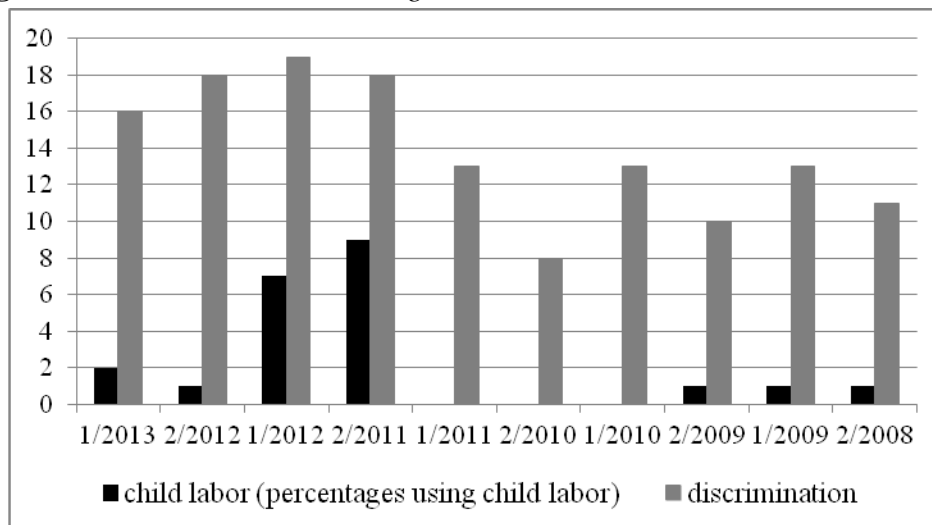
These opportunities are also strongly related to the potential *threats* of the sector. Currently the major part of factories is foreign owned. According to a study by the World Bank (see Staritz 2011: Figure 4.2.), 25% of Cambodian textile companies are owned by FDIs from Taiwan, another 19% by FDIs from Hong Kong, and 18% by FDIs from China. Only a minority of 7% of companies are Cambodian owned textile factories. This created future dependence on these economies and other economic actors (e.g. companies, investors and institutions) threatens the sector to transfer main elements of the value chain of textile production to other economies. Additional threats can be detected related to wage levels, which are too low, resulting in strikes and hampering social peace. Therefore an increase in the minimum wage level could serve as a tool to minimize this threat.

Analysis of reasons for shortcomings in Cambodia

One of the major shortcomings in the labor structure in Cambodia’s garment industry is the still high percentage of child labor. Figure 5 shows the estimates of child labor according to a survey by the project Better Factories. Despite the fact that the percentage of companies varies significantly in 6-

months periods, the percentage of child labor has even increased in the last years. While 9% of companies admitted to using child labor in 2011, only 1% indicated that in 2008/2009. Also the interviewed representative of a company that monitors working conditions in garment factories in Cambodia reported in 2010 that there was virtually no child labor and little forced labor at that time (interview Gridling), underlining the changed use of child labor in recent years. Comparing this data with the fact that Cambodia's apparel industry managed to achieve significant increases in growth in 2011/2012 after the economic downturn due to the global financial crisis, it can be concluded that part of the success of Cambodia's garment industry is built on disobeying fundamental rights. When comparing the data for Cambodia with numbers from Bangladesh or Sri Lanka, both Asian economies which also focus on the garment sector for economic development, the situation in Cambodia seems to be worse. While Sri Lanka (ILO, 2011) documents 12.9% (data 2008/2009) of children as economically active in all sectors and Bangladesh reports a share of around 15% as child laborers (data 2005/2006), reports from Cambodia show a share of 27.3% of child laborers in 2009. This suggests that the results from the project *Better Factories* might also underestimate the extent of child labor in the textile sector. Similarly a significant percentage of factories admit to discriminating labor rights like maternal leave (see Figure 5).

Figure 5. *Child labor and labor rights discrimination 2008-2013*



Source: Better factories (various years)

Reasons for these shortcomings might be the strong increase in the number of garment factories over the last years (412 exporting factories in the sector in April 2013 compared to 261 in April 2009 and 313 factories in November 2008; Better factories: various years) and the ongoing global pressure on the wage level, which had already been comparatively low before the global financial crisis and despite of international pressure, would need a significant rise to create sustainable internal consumer demand. In 2013 minimum wages in the textile sector were increased after strikes of garment workers, but strike

threats are also at the end of 2013 not resolved as the wage rise was far below the demanded level (David 2013; Kunthea, 2013).

Conclusion and Outlook

The *Bilateral Textile Agreement* with the United States had helped improving the working conditions in the Cambodian garment and textile industry. However, as shown in this paper, some aspects of working conditions in this industry have not been maintained. Especially in recent years part of the companies cut corners in an attempt to reduce labor related costs when aiming to compete with other low-cost producers. This has among others had the effect that increasing numbers of factories are paying below minimum wages for casual workers and are not following regulations regarding the payment of maternity benefits. Child labor has become a lot more widespread in the textile and garment industry in recent years. The worsening of labor conditions is reflected in a significant increase in the number of strikes. While such practices might have short-term benefits for the producers, they threaten to undermine the competitive position of Cambodia as a textile and garment producer in the long term. International clothing brands are under increasing scrutiny and pressure to sell products that are produced under good working conditions. By no longer adhering to standards set under the agreement with the United States, Cambodia is giving up a unique selling position in an industry that can easily relocate to other business locations, especially given the fact that the majority of textile and garment producers in Cambodia are foreign owned.

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Interview

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