

International trade agreements and the Cambodian garment industry

How has the Multi-Fibre Agreement affected Cambodia?

Signed in 1995 under the General Agreement on Tariffs and Trade (GATT), the MFA provided a 10-year window for industrialized countries to adapt to the requirements for open competition in the textile and garment industry. In effect, rich countries gained some breathing space by imposing limits on imports from key garment manufacturers such as China and India. Companies in those countries had to pay a premium on exports to high-cost producing countries including the United States and the European Union countries.

Cambodia benefited incidentally. Due to the limits on imports, rich-country buyers began to source materials from countries not subject to the quota rules. Cambodia was one of these. Bangladesh was another, and is probably Cambodia's closest competitor in this sector.¹

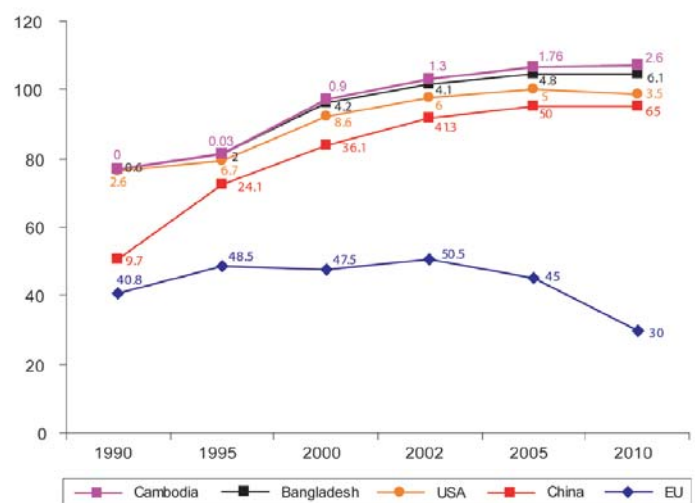
The garment trade in Cambodia took off so quickly that by 1998, the US government began negotiations to bring Cambodia under the quota system. Through a deal linking labour conditions to trade privileges, the US allocated bonus quota to Cambodia for gains made in ensuring workers' rights.²

What happens after the expiry of the MFA?

The Multi-Fibre Agreement expired on 31 December 2004. Cambodia still benefits somewhat from the US government's bilateral quota allocations. However, with the expiry of trade restrictions, all countries face global competition. In the long run, smaller producers like Cambodia will find it difficult to compete with the integrated supply chain, service standards and savings on volume that the large producers can offer, unless they can somehow distinguish themselves in the market.

The quota system helped Cambodia's garment industry get started. But sales of clothing items not covered by the quota have also been rising.³

Expected growth in the global market for textiles and garments could cushion impacts on the garment industry in Cambodia.⁴ Garment exports from Cambodia in 2003 amounted to 0.74% of global production.⁵



Global foreign trade in garments, US\$bn⁶

Will jobs be lost in Cambodia?

This is difficult to answer. It depends on whether buyers continue to buy from Cambodian factories. Most analysts expect buyers to consolidate sourcing – they may buy more from fewer countries, and deal with larger factories in those countries.

How buyers decide

Buyers make sourcing decisions based on four factors:

- Price
- Quality
- How long it takes to get produce to the marketplace
- Social compliance, including compliance with labour standards

A recent World Bank⁷ survey of garment industry buyers rated Cambodia as having “moderate to good” labour standards, ranking above Thailand, China, Vietnam and Bangladesh.

Buyers accounting for 45 per cent of Cambodia’s garment trade said they intend to increase or maintain current sourcing levels even after the MFA expires. More than 60 per cent of surveyed buyers said that factories’ compliance with labour standards was of equal or greater importance to them than price, quality and lead time to market. Almost all buyers surveyed – 86 per cent – thought that fair working conditions were of “moderate to critical importance” to their customers.

If these survey results are correct, job losses may not be as severe as some people fear.

Have any factories closed already?

In general, factories surveyed recently were adopting a “wait-and-see” approach to the end of the MFA. However, some factories have actually been expanding because of increased orders.

Most analysts expect smaller factories to be most at risk. In Cambodia 30 per cent of the factories employ less than 500 people. Together these factories employ less than 6 per cent of the garment factory workforce. It is important to look at the number of workers affected, rather than just the number of factory closures.

How will Cambodia fare?

A recent Asian Development Bank report found that much depends on what steps are taken by the Cambodian Government and, to a lesser extent, by the industry itself in the near future. Cambodian labour costs in the garment industry are the lowest in the world, at 23 US cents per hour.⁸ But costs are driven up by informal and unpredictable payments within the government bureaucracy and the high costs of transport, electricity and other inputs. For example, electricity costs US 15 cents per kilowatt-hour in Cambodia, compared with the international norm of just 6 cents.⁹

Amounts paid in unofficial payments added up to 7 per cent to the cost of total sales.¹⁰ For example, the transport of one container from the factory to the customer should cost just under US\$4,000, according to the official schedule of charges, including port fees, loading costs and customs charges. However the real cost is well over US\$6,000 – adding more than 37 per cent to the official costs.¹¹

No other country in the world depends so much on the garment industry as Cambodia, so there are pressing reasons for reform.

Labour productivity also needs to improve, and does appear to be improving. This would mean a combination of developing workers’ skills, using better technology in factories, finding solutions to health and stress problems¹² and harnessing better communication between workers and management. The ILO is committed to working with the social partners on this agenda.

Cost of making denim jeans in Cambodia¹³

Materials and accessories	\$4.42	65% of total
Labour	\$1.02	15% of total
Other inputs	\$1.22	18% of total
Profits	\$0.14	2% of total
Total cost	\$6.80	100% of total

¹ Asian Development Bank, *Cambodia’s Garment Industry: Meeting the challenge of the post-quota environment*, October 2004

² Sandra Polaski, *Cambodia Blazes A New Path To Economic Growth and Job Creation*, Carnegie Papers No. 51, October 2004, p. 4

³ Polaski, p. 8

⁴ ADB report, p. 15

⁵ ADB report, p. 22

⁶ ADB report, p. 15

⁷ *Cambodia: Corporate Social Responsibility & the Apparel Sector Buyer Survey Results*, December 2004, Foreign Investment Advisory Service (a joint service of the International Finance Corporation and The World Bank, December 2004).

⁸ Werner International Management Consultants (Spinning and Weaving Labour Cost Comparisons), cited in ADB report, p. 56

⁹ ADB report, p. 33

¹⁰ ADB report, p. 31

¹¹ ADB report, p. 32

¹² ADB report, p. 33

¹³ ADB report, p. 33