

STITCHED UP?

THE GARMENT INDUSTRY'S MINIMUM WAGE DILEMMA

BY AN SITHAV
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As protests over factory wages take hold elsewhere in Asia, Cambodia faces a difficult dilemma—keep garment wages low to attract investment, or raise minimum pay to give Cambodian workers a better standard of living.

China, the factory of the world, has recently been rocked by labor protests and strikes, with workers appealing for better wages and conditions and the right to form labor unions. But even as observers were predicting a movement of manufacturing to other Asian countries with cheaper wages, factory worker dissent was seen elsewhere.

In late June tens of thousands of Bangladeshi workers took to the streets of the capital Dhaka to ask that their minimum monthly pay of US\$24 be raised, resulting in the temporary closing of around 700 garment factories. In early July, Indonesian workers making World Cup jerseys in Jakarta likewise publicly appealed for their basic wage of around US\$122 per month to be increased.

Cambodia, already no stranger to factory worker demonstrations over

conditions and pay, is also seeing union appeals for more pay. The Kingdom is left with a difficult choice—garment competitiveness or worker welfare.

THE EYE OF A NEEDLE ...

Cambodian garment workers are often from rural areas with few opportunities. They typically remit money back to their families, providing a useful supplementary income for poor households. But as previously reported by Economics Today, factory workers are complaining that their salaries are not even sufficient to support their own basic needs.

According to a September 2009 study on Cambodia's garment industry minimum wage by the Cambodia Institute for Development Study



Union leader Chea Mony

(CIDS), the current minimum wage of US\$50 per month is not sufficient to cover the minimum basic needs of a worker and their dependants.

“Workers need at least US\$71.99 per month, of which US\$56.99 is to cover the worker's basic needs and US\$15 is to cover the basic needs of their dependants,” found the CIDS report. Food was found to be most significant primary expense.

The Labor Advisory Committee (LAC), which consists of representatives of Ministry of Labor, employers and employee (trade unions) met in ▶

“It is a proper amount. If we increase more than this, our buyers will not buy Cambodian's garment products and will go to Bangladesh or Vietnam.”

VAN SOU IENG, PRESIDENT OF THE
CAMBODIAN FEDERATION OF EMPLOYERS
AND BUSINESS ASSOCIATION (CAMFEBA)



A garment worker protest in front of the National Assembly in Phnom Penh

“Both employers and employees are all affected. The Government is trying to coordinate both sides’ requirements.”

MINISTER OF LABOR AND VOCATIONAL TRAINING VONG SOTH



Sorting garments in one of the capital’s many factories

► February to discuss increasing minimum wage in the textiles, garment and shoe industries. On Jun 25, the Government recommended a US\$5 increase to the current basic monthly minimum wage US\$50 for garment industry, plus an additional US\$6 living allowance. This new minimum wage is set to be in place until 2014. Probation workers will also benefit from this US\$5 increase.

The final decision to raise wages as of Oct 1, 2010 was not welcomed by all during a July 8 meeting. Some workers’ unions complained the new wage is still not high enough, though another 20 members seemed satisfied enough not to protest.

The dissenters complain that pay is still not adequate to meet expenses in the city. During a Focus Group Discussion (FGD) held by CIDS, workers said must they send at least US\$15 per month to support their dependants. They asked that minimum wage policy be adaptable to changing circumstances. “Workers express that the minimum wage should be reviewed every year because of three reasons: First, workers say that their health deteriorates every year, which increases their health expenses. Second, the economic situation changes unpredictably each year. Third, changes in family structure, for example workers getting married or having a child,” recounted the CIDS Minimum Wage for Cambodia’s Garment Industry report.

While a planned strike in Cambodia was cancelled, the anarchic protests in Dhaka loomed large in many minds

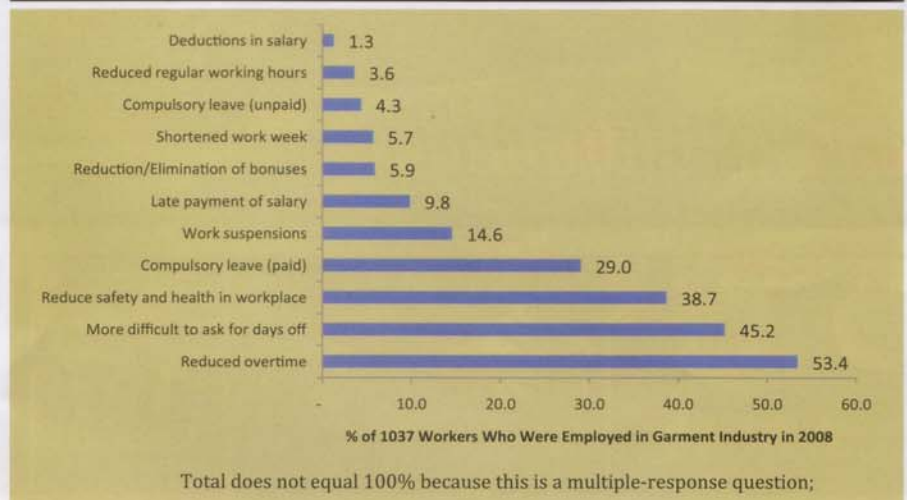
as garment worker unions voiced demands that the minimum wage be increased to at least US\$72. As Cambodia loses market share in its main export markets, workers protesting over pay could be cutting their own throats.

Chea Mony, the president of the Free Trade Union of Workers of the Kingdom of Cambodia (FTU), firmly sided with the garment workers. He

sent a letter to the Interior Minister detailing the workers’ difficulties and proposing a three-day strike to press his demand for monthly wages be raised to US\$70.

Ath Thun, president of coalition of Cambodian Apparel Worker Demographic Union, went even further. He criticized the US\$5 increase as inadequate given the current worker privations and lack of money to pay ►

New Hardships for Employed Workers



SOURCE: BENCHMARKING SURVEY REPORT (FINAL) RELEASED IN MARCH 2010 “TRACKING STUDY OF CAMBODIAN GARMENT SECTOR WORKERS AFFECTED BY THE GLOBAL ECONOMIC CRISIS” BY CAMBODIA INSTITUTE OF DEVELOPMENT STUDY (CIDS).



The mainly migrant garment workforce quietly complain of and low pay

► for basics like healthcare. Workers cannot afford healthy food and are adversely affected by chemicals during work, he claimed. He cited the anecdotal reports of former garment workers entering the entertainment as evidence of garment factory worker hardships. Ath Thun was seeking a US\$93 minimum monthly wage

Others took a different view. Vong Sovan, president of the Cambodia Confederation of Trade Unions (CCTU), lauded the recent raise, calling it a good result to help Cambodian garment workers' living. His said his union fully backs the LAC's decision.

Van Sou Ieng, president of the Cambodian Federation of Employers

and Business Association (CAMFEBA), an organization with 230 members, told the July 8 LAC meeting that compromise was needed. He cited a living wage survey on Cambodia's garment industry that found workers need a bare minimum of US\$57 to live. The US\$70 per month figure (or more accurately US\$72) used by unions

“Provided it is accessible, workers can use the down time to participate in vocational skills training and improve their employability in doing so.”

CATHERINE VAILLANCOURT-LAFLAMME,
A TRAINING SPECIALIST FOR ILO'S
BETTER FACTORIES CAMBODIA

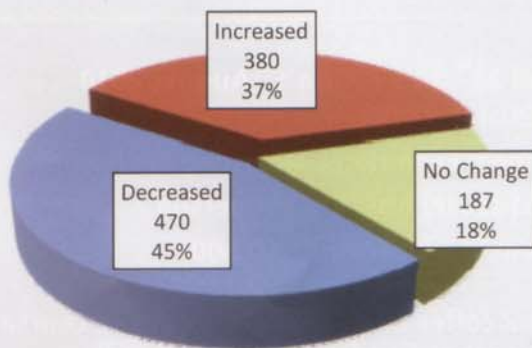
breaks down into US\$57 for personal basic needs such as food and shelter, and US\$15 for remittances, including positive savings of around US\$7 per month.

The current minimum wage may not be enough to cover remittances and savings, it is above the absolute minimum, Van Sou Ieng noted. The US\$5 rise is equivalent to a 10 percent increase, he told reporters after the meeting. “We not only discussed with our garment factory owners, but also our buyers. It is a proper amount. If we increase more than this, our buyers will not buy Cambodia's garment products and will go to Bangladesh or Vietnam.”

Minister of Labor and Vocational Training Vong Soth also defended the new wage. He noted that the minimum wage has already been increased several times before, making better pay a goal to be reached via incremental stages. “Both employers and employees are all affected,” he said. “The Government is trying to coordinate both sides' requirements.”

The first minimum wage, ►

How garment workers' incomes have changed since 2008 from factory job?



Percentage out of 1037 workers who worked in the garment industry in 2008

SOURCE: BENCHMARKING SURVEY REPORT (FINAL) RELEASED IN MARCH 2010 “TRACKING STUDY OF CAMBODIAN GARMENT SECTOR WORKERS AFFECTED BY THE GLOBAL ECONOMIC CRISIS” BY CAMBODIA INSTITUTE OF DEVELOPMENT STUDY (CIDS).

► introduced in 1997 along with the Labor Law, was US\$40 per month. In 2000, the minimum wage was increased to US\$45 per month for workers in the garment industry, then raised again to US\$50 per month in 2006.

WORK FAST, NOT CHEAP

Considering competitiveness is vital. Cambodia's garment sector has suffered in the wake of the global downturn, with orders from the recession-hit US and EU markets down significantly.

The 2010 Asian Development Bank (ADB) outlook report found that industrial output last year fell by an estimated 13 percent. Data from the US Department of Commerce showed that US garment imports from Cambodia plummeted by 20.9 percent in dollar terms in 2009 because of lower overall US demand and a loss of market share to competitors such as Bangladesh. The US accounts for around 70 percent of Cambodia's garment exports.

Increasing wages is complex issue and will depend on a number of

factors, including raising the productivity of workers through skills development and better working conditions and ensuring that rising productivity translates into higher wages through representation and voice, said Kee Beom Kim, programme manager and labor economist at the Youth Employment Programme of the International Labour Office (ILO) in Jakarta, Indonesia. "The ILO's Better Factories Programme is supporting Cambodia's garment industry in many of these areas," he told Economics Today.

Catherine Vaillancourt-Laflamme, a training specialist for ILO's Better Factories Cambodia, said the new minimum wage is the result of negotiations between the Government, trade unions and employers since the beginning of the year "The garment industry is made up of many different stakeholders; the workers themselves, but also the employers, the trade union and the Government," she said. "Each of them has a role to play to work toward more decent work together."

The Cambodian Government has already initiated measures to help

the industry during difficult times, she said, including: agreeing to pay 0.3 percent of the 0.8 percent social insurance; agreeing to fund short-term training to unemployed workers. But Vaillancourt-Laflamme said more can be done: the Government could enforce compliance of lay off compensation to help ease the financial pressure on unemployed workers; could provide low cost loans to workers to cover cash flow shortages; could increase outreach and marketing to boost awareness of the Government's employment services agencies and vocational training programs.

Trade unions could also help, Vaillancourt-Laflamme continued. She suggested unions could pool information on job opportunities to disseminate to job seekers to decrease the cost and time of job searches; provide information on credit opportunities; disseminate information on vocational training programs; engage in consultation with the management when faced with layoffs; inform workers on their rights such as advance notice and lay offs compensation pay.

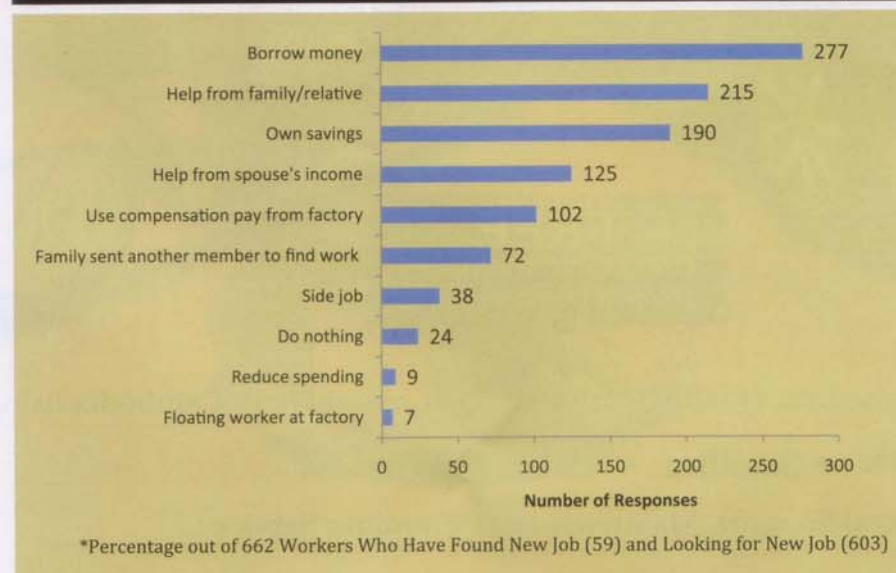
Employers, said Vaillancourt-Laflamme, should use down time to provide retraining and enhance workers' skills to increase productivity; consult with unions before undertaking mass lay offs or closing factories; and comply with the laws on termination notices and lay off compensation.

A downturn in the industry could actually prove to be an opportunity, she added. "Provided it is accessible, workers can use the down time to participate in vocational skills training and improve their employability in doing so."

Cambodia's garments will need to become more competitive one way or another.

Saing Chan Hang, a research associate at the Cambodia Resource Development Institute (CDRI), said that the Cambodian garment industry is still vulnerable. Growth is not likely in 2010, he said, as the sector appears to have reached its peak, and has suffered since late 2007. There has

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been evidence of declining unit price of clothing, albeit amid rising export volumes, he explained. "Additionally, industrial relations, cost of transport and time and cost of export procedures and productivity have improved, but [are] slow compared with those in Thailand and Vietnam," he told *Economics Today*.

Improving industrial relations—meaning a reduction in number of strikes—higher labor productivity and a better worker attitude are key to generating more income and, thus, better wages, he said. Achieving this will require strong commitment from both workers and employers, and will need support from the Government.

Van Sou Ieng cautioned against raising Cambodia's minimum wage too fast. Low wages with low productivity can be competitive, he said, but high wages and low productivity is an obvious no-no. There may also be unforeseen secondary consequences, he warned. "If we increase more than US\$90 or US\$100 per month of minimum wage, this means [workers] can earn more than US\$1,000 per year," he added. "The world will no longer consider Cambodian a poor country, and they will reduce or cut their assistance, support and duty free or quota [access]. That will be bad while our productivity in the sector is still low, even though it is increasing."

Cambodia must find the middle ground, and quickly, if Cambodia's garment industry is to thrive—or even survive. ■









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