

What explains strong export and weak employment figures in the Cambodian garment sector?

Part I – Subcontracting factories

1. Introduction

Cambodia's garment and footwear exports have grown at a solid pace in recent years, with a compound annual growth rate of 10.8 per cent per annum over the 2014-2016 period.¹ However, while the sector's export performance has been strong, other statistics suggest a less positive situation. The number of operating factories and people employed in the sector appears to have grown more slowly than usual, or even fallen. Anecdotal reports also suggest some softness in industry conditions. This asymmetry between solid growth in the sector's exports and a slowdown in other measures is examined in this issue of the Bulletin.

Part I of this sixth issue of the ILO's Cambodian Garment and Footwear Sector Bulletin examines the apparent discrepancy between strong export growth and mixed indicators regarding the number of factories and workers in the sector. Part II provides a regular update of key statistics and developments relating to the garment and footwear industry in Cambodia.²

2. Why are exports growing solidly while other indicators are mixed?

There are a range of potential explanations for the apparent discrepancy between the export statistics and other indicators of the industry's performance. These include:

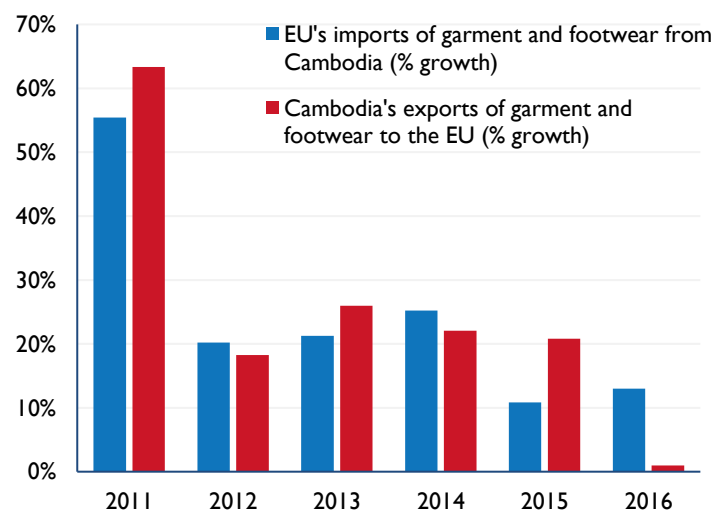
- statistical problems with the export figures;
- statistical problems with the measurement of employment and factory numbers;
- a rise in export prices;
- a rise in the industry's productivity; and/or
- an increase in production of unregistered subcontracting factories or enterprises.

These explanations are not mutually exclusive. They are considered below.

a) Statistical problems with the export figures

The first potential explanation is that the export statistics may not be accurate. To ascertain whether this could be the case, we can compare Cambodia's export data³ with the import statistics of its major markets, notably the EU and US.⁴ The EU and the US are the top two destinations for Cambodia's garment and footwear exports, together representing 65 per cent of Cambodia's exports in 2016. Cambodia's export statistics are compared to the EU's import figures in Figure 1; a comparison with the US statistics is shown at Figure 2.

Figure 1: Growth of Cambodia's garment and footwear exports to the EU and the EU's imports of garment and footwear from Cambodia



Source: EU Eurostat and Cambodia's General Department of Customs and Excise (GDCE). Note: EU figure for 2016 is preliminary (retrieved on 20 March 2017)

¹ According to the statistics of Cambodia's General Department of Customs and Excise (GDCE)

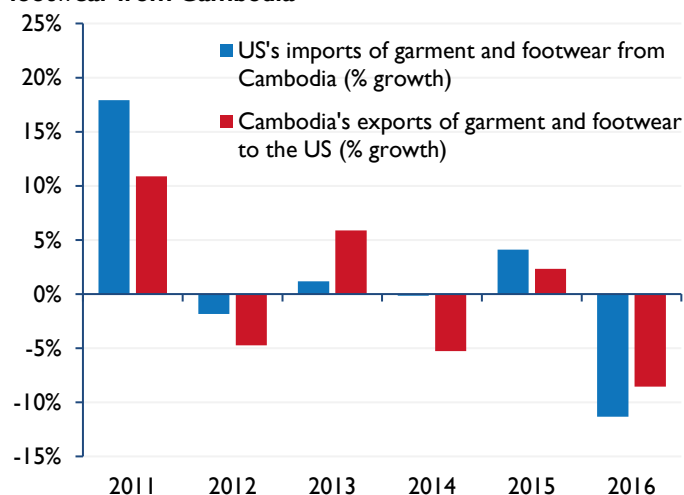
² The analysis in this Bulletin is based on official statistics from various official sources including the European Commission (Eurostat), UNCTAD, Cambodia's Ministry of Commerce, the Ministry of Labour and Vocational Training, the Cambodia Investment Board, the General Department of Customs and Excise, the National Institute of Statistics and the National Bank of Cambodia. The ILO wishes to acknowledge and thank the Ministry of Labour and Vocational Training; the Ministry of Commerce; the Cambodia Investment Board; General Department of Customs and Excise, the National Institute of

Statistics and the National Bank of Cambodia for their support and the data used in this publication. Any errors should be attributed to the ILO.

³ The Bulletin uses garment and footwear export figures from the General Department of Customs and Excise (GDCE) of Cambodia (also available from its website <http://www.customs.gov.kh/km/>)

⁴ The Bulletin uses garment and footwear import figures of the EU (from the Eurostat, <http://ec.europa.eu/eurostat/web/main>) and of the US (from the US Department of Commerce, <https://www.commerce.gov/>)

Figure 2: Growth of Cambodia's garment and footwear exports to the US and the US's imports of garment and footwear from Cambodia



Source: US Department of Commerce and Cambodia's General Department of Customs and Excise (GDCE)

Figures 1 and 2 show that Cambodia's figures regarding exports to its major markets are reasonably consistent with the import statistics from the EU and US. If anything, Cambodia's statistics regarding exports to the EU appear to have understated the growth in 2016. We therefore rule out statistical anomalies with the Cambodian export statistics. The divergence between solid export statistics and weaker figures elsewhere cannot be explained by statistical problems with the export figures.

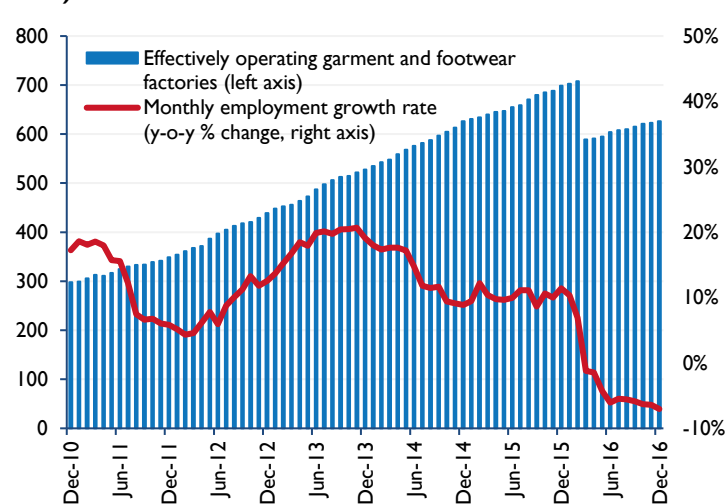
b) Statistical problems with the employment and factory figures

Another possible explanation for the divergence between exports on the one hand and employment and factory figures on the other is that there may be statistical problems with the employment and factories data. The employment and factory database used here is derived from the official record maintained by the Ministry of Commerce that is updated and revised on a monthly basis.

There have been some recent revisions and improvements to the Ministry of Commerce's administrative data. In early 2016, the Ministry became aware that a number of factories that had been classified as 'operating' in its database had, in fact, ceased to operate without providing the required official notice to the Ministry. As a result, the Ministry revised its database in early 2016, as part of which a number of factories were re-classified to better reflect the reality on the ground. A number of factories were reclassified as inactive, or closed either temporarily or permanently. This exercise has resulted in statistics that better reflect the true number of operating factories and employed workers in Cambodia. However, the reclassification means that comparisons of the 2016 figures to earlier figures is fraught. Some of the slowdown in employment

growth and operating factories that is apparent in the 2016 data is the result of statistical reclassifications.

Figure 3: Number of effectively operating garment and footwear factories and employment growth rate (2011-2016)



Source: Cambodia's Ministry of Commerce (MOC).

Note: The number refers to exporting factories that are officially registered with the Ministry of Commerce only. Some sub-contractor factories (which are not directly exporting, nor officially registered) are not included.

The efforts made by the MOC to improve the quality of the administrative data are welcomed. The database provides a more accurate snapshot of the number of operating factories and employed persons than it did in 2015. However, these improvements mean that the apparent slowdown in employment and factory openings in 2016 is likely to have been exaggerated as a result of the statistical revisions. Some of the divergence between strong export figures and weaker employment and factory growth figures is due to these issues; it is not possible to precisely identify how much.

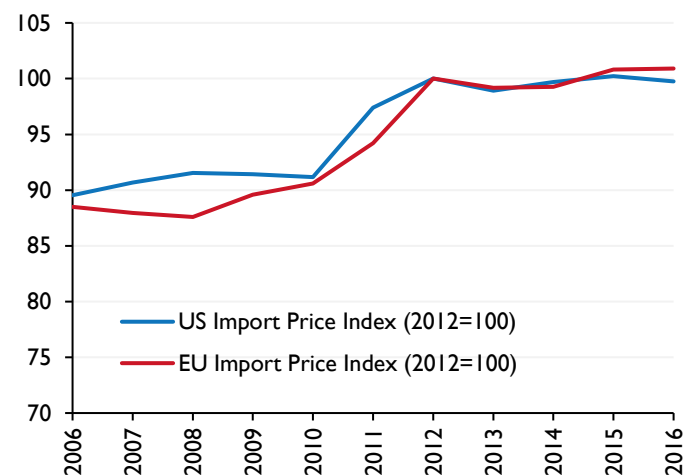
c) A rise in export prices

Another possible cause of the discrepancy between solid export growth and a softer growth rate in employment and operating factories could be the rising prices of Cambodia's exports. The export statistics measure the value, in dollar terms, of exports. If the real quantity of products produced and exported remains the same, but the price increases, this will be recorded as strong measured export growth while it could be entirely consistent with stagnant employment figures.

The evidence does not suggest that prices have increased to a material extent in recent years. The price of exports to the US has fallen. According to the US Department of Labour, the US import price index of apparel declined by 0.5 per cent in 2016. Similarly, the price of apparel imported by the US buyers from the ASEAN-member state countries also fell by 0.5 per cent

during 2016, compared to 2015.⁵ A similar pattern is also seen in the EU market. According to the European Commission's Eurostat, the EU import price index of wearing apparel grew by only 0.1 per cent in 2016 over its 2015 levels.⁶

Figure 4: US and EU import price indexes of wearing apparel manufacturing (2006-2016), index 2012=100



Source: US Department of Labour and European Commission's Eurostat
 Note: EU index refers to the Euro-area 19 member countries (as over 70 per cent of Cambodia's garment and footwear exports to the EU are destined in the Euro-area 19 member countries)

Prices were nearly flat for garment exports to the EU, while average prices fell for exports to the US. We can therefore conclude that price increases are not the cause of the divergence between solid export figures and weaker figures elsewhere.

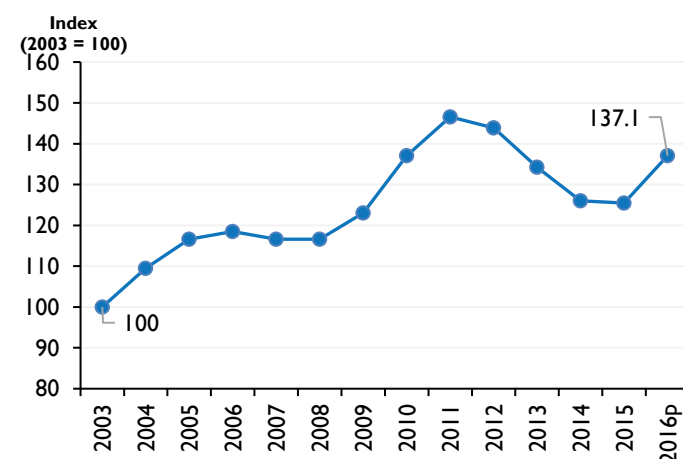
d) A rise in the industry's productivity

To the extent that the discrepancy between the different statistical measures is real, as opposed to an artefact of statistical problems, an increase in productivity growth could be another potential cause. Productivity is a measure of the quantity of outputs produced per input used in the production process. If productivity were to grow rapidly, this would result in strong growth in output (and hence export) volumes, without a corresponding increase in employment or factories.

To estimate the labour productivity of the garment and footwear sector, both the real value added of the sector and the employment figures are needed. Cambodia's national accounts provide a time-series of the industry's value added; an approximate measure of the labour productivity of the sector can therefore be estimated using these figures and the employment numbers of the sector from the Ministry of Commerce's database of officially registered factories.

The graph below shows an estimate of the trend in the productivity of Cambodia's garment and footwear sector. A decline in measured productivity was seen during 2012-2015, falling at a compound annual rate of 3.4 per cent per year. A rebound was recorded in 2016, with an estimated productivity growth rate of approximately 9.3 per cent in the sector. It should be noted that the value added data for 2016 are still preliminary, and that improvements to the employment statistics undertaken by the Ministry in 2016 (discussed above) mean that the rate of productivity growth may have been somewhat understated in 2015 and somewhat overstated in 2016.

Figure 5: Estimated labour productivity in the Cambodian garment and footwear sector



Source: Cambodia's National Institute of Statistics, 2016 National Accounts (preliminary figures) and the Cambodia's Ministry of Commerce. Note: the 2016 figure is based on a calculation from preliminary figures from the Cambodia's National Accounts.

The estimated labour productivity growth rate for 2016 is preliminary, and the figures for all years are estimates, but the data does suggest that the productivity of the sector grew in 2016. We may therefore tentatively conclude that this played some part in boosting the industry's export growth rate in 2016. The increased productivity of the sector in 2016 is believed to have contributed to the monetary volumes of the sector's exports without a corresponding increase in employment and the number of operating factories.

The 2016 productivity resurgence, to the extent it is not just a statistical anomaly, may reflect an increased focus on productivity improvements in the sector. In a 2015 statement, the Garment Manufacturers Association in Cambodia (GMAC) called for renewed focus on improving productivity of the industry.⁷ Liaison with industry stakeholders by Better Factories Cambodia also suggests that factories have been increasingly cognisant of the need to further boost productivity, given that wages have been increasing and garment prices have not. Some factories have reported making

⁵ The US Department of Labour
⁶ The European Commission Statistics (or Eurostat)

⁷ GMAC Statement dated 20 October 2015

investments in capital equipment, or process improvements, or higher production targets, in a bid to increase productivity.⁸

e) Increase in production of unregistered subcontracting factories or enterprises:

There remains another possible explanation for the discrepancy between solid export growth and weaker growth in factory and employment numbers: a rise in the number of subcontracting factories. If a larger share of the industry's output is being produced in subcontracting factories that are not registered as exporters, this could further explain the continued strong export growth amidst the declining growth of operating factories and employment. This raises questions about how many factories not registered for exports are in operation, how many people they employ, and whether the non-registered part of the sector has grown faster than the registered part.

Cambodia's most recent labour force survey, undertaken in 2012, showed that there were 614,540 workers in the wearing apparel sector in that year, while the MOC database showed there were 376,920 garment and 70,932 footwear workers in registered exporting factories at that time. Employment in non-exporting factories therefore represented a little over a quarter (27.1%) of employment in the sector, a significant proportion. Unfortunately, more up-to-date employment figures for the industry as a whole are not available.

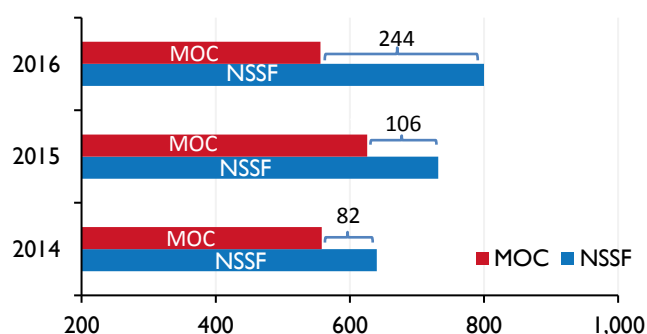
However, it is possible to estimate the number of factories in the subcontracting/non-exporting part of the sector by comparing the number of factories in the MOC database to the number of factories in other lists.⁹ We have compared the number of factories in the MOC database to the statistical record of the National Social Security Fund (NSSF), which registers all garment and footwear factories, whether exporting or non-exporting or subcontracting establishments, as long as they have eight employees or more. The difference between the number of factories on the MOC and NSSF lists gives a rough proxy measure of the number of subcontracting enterprises that may be operating and contributing to the total export values of the sector. Some of the enterprises that are registered with the NSSF and not the MOC may be producing for the domestic market; the difference is therefore only a rough proxy measure of 'subcontracting' factories. However, the domestic market is small and production for the domestic

market is believed to be a very minor component of Cambodian garment production.

The NSSF records are used for this analysis because they have a broad coverage of garment enterprises.¹⁰ The NSSF has its own Inspection and Legislation Division with duties to ensure the implementation of the law on the Social Security Scheme and other regulations in force.¹¹ The Inspection and Legislation Division is also responsible for carrying out regular monitoring and ensuring compliance with the law.¹² Each month, employers of the factories/enterprises are required to send a report to the NSSF reporting all their employees, which must be signed by the director or owner of the respective factories or enterprises.¹³ All of this means that the NSSF factory list is arguably the most comprehensive record of Cambodian garment enterprises currently available.

There appears to have been a growing number of subcontracting garment factories and enterprises in 2016. The difference between the number of factories in the NSSF and MOC databases rose from 82 factories/enterprises in 2014 to 106 in 2015 and then to 244 in 2016.¹⁴

Figure 6: Comparison of records of effectively operating garment factories/enterprises



Source: National Social Security Fund (the NSSF) of the Ministry of Labour and Vocational Training and the Ministry of Commerce (MOC)

Note: Refers to effectively operating factories or establishments only (excluding on-going closure, temporarily closed and definitely closed factories). The NSSF list records all garment enterprises with 8 employees and above, whether exporting or non-exporting or subcontracting or not, while the MOC list records all exporting garment factories that are officially registered with the Ministry.

Comparison of the NSSF factory list with other sources also supports the view that subcontracting or non-exporting factories have increased as a proportion of total factories in the industry. There has been a growing divergence between the number of factories on the NSSF list and those monitored

⁸ The extent to which these strategies have been employed across the industry will be a subject of further study by the ILO.

⁹ The number refers to exporting factories that are officially registered with the Ministry of Commerce only. Some sub-contractor factories (which are not directly exporting, nor officially registered) are not included.

¹⁰ National Social Security Fund (NSSF) Newsletter, What is the NSSF? (Cambodia 2014, Year 1, No. 1), p. 9

¹¹ All employers or owners of the enterprises/establishments under the scope of the law on Social Security Scheme for persons defined by the provisions of the Labour Law

shall be compulsory to register their enterprises/establishments and pay contribution to the NSSF. For the initial phase of NSSF, the registration of the enterprises/establishments shall be made of the enterprises/establishments with 8 workers and more (NSSF 2016 Annual Report).

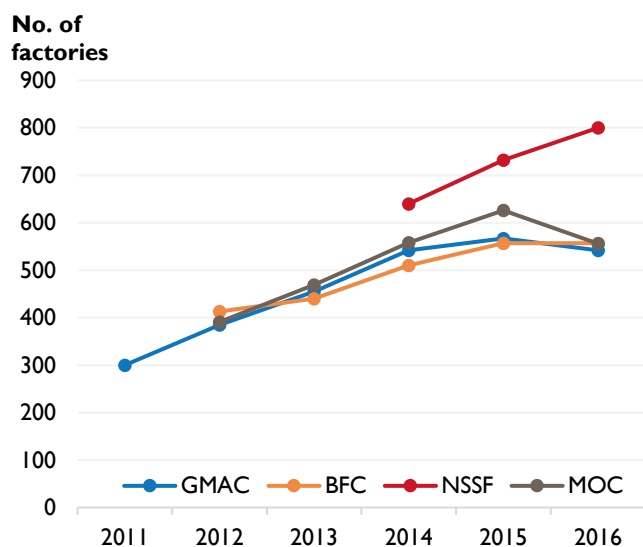
¹² National Social Security Fund (NSSF) Annual Report: 2016 Achievements and Goals for Carrying On, p. 7 (Phnom Penh 2016)

¹³ National Social Security Fund (NSSF) Newsletter, What is the NSSF? (Cambodia 2014, Year 1, No. 1), p. 19

¹⁴ Refers to effectively operating garment factories/enterprises/ establishments only

by the ILO-IFC Better Factories Cambodia (BFC) programme, and those that are members of the Garment Manufacturers' Association in Cambodia (GMAC).

Figure 7: Number of Cambodian garment factories listed in the databases of four institutions



Source: Databases of the Garment Manufacturers' Association in Cambodia (GMAC); Better Factories Cambodia (BFC); National Social Security Fund (NSSF) and Ministry of Commerce (MOC).

It appears that the number of subcontracting enterprises may have grown in 2016. These subcontracting factories provide employment and contribute to economic growth; they can potentially be legitimate parts of the industry. However, if subcontracting is being used as a way to undercut regulations, including labour law and the minimum wage, then this is a concerning development. Unlike registered exporting factories, subcontractors are not monitored by BFC and also may receive less attention from national enforcement agencies.

Better Factories Cambodia has observed that all parts of the garment production process are outsourced to subcontractors. Subcontractors' enterprises are operated from private home, warehouses or industrial buildings. It is common for there to be no name displays on the facility and for factories to change locations regularly; in some cases they may do so to evade their responsibilities to their workers.¹⁵

The subcontracting and non-exporting part of Cambodia's garment and footwear sector should be properly managed and carefully monitored in order to track progress and development and implementing related existing rules and regulations, including labour laws.

f) Conclusion

Based on the above analysis, we conclude that, productivity growth in 2016 and the increasing number of subcontracting garment enterprises appear to be the two prime explanations for the divergence between strong export statistics and some sluggishness in other indicators. Improvements to the MOC database of registered factories and workers may also have contributed.

Garment and footwear exports grew by 7.2 per cent in 2016 while the number of officially registered exporting factories fell by 10.4 per cent and the employed workers of these exporting factories declined by 2.9 per cent. The available evidence suggests that the rise of subcontracting factories has made an increasingly large contribution to the output of the industry, and thus to the divergence between exports on the one hand and employment and registered factory figures on the other.

The reasons for increasing subcontracting require further analysis, as do the consequences of this trend for workers. The ILO will continue to monitor developments in the industry, including the subcontracting sector.

¹⁵ Better Factory Cambodia (BFC) presentation on "Understanding the Subcontracting Sector", dated 19 October 2016.

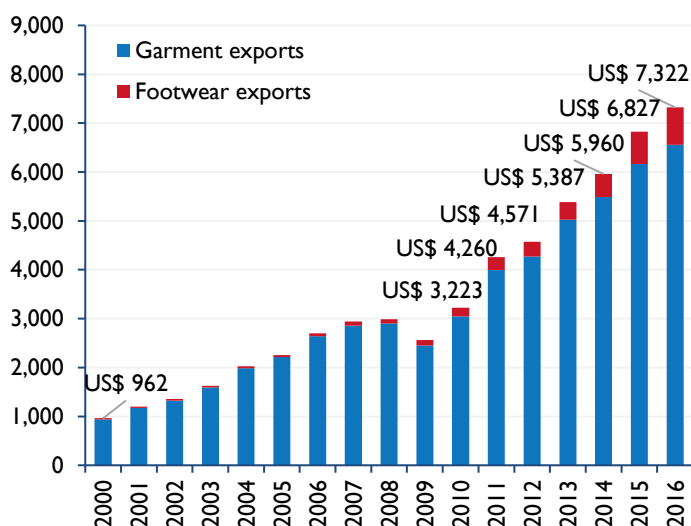
Part II - Statistical update

Part II of this Bulletin provides key statistics and analysis regarding recent developments in Cambodia's garment and footwear industry.

I. Garment and footwear exports

According to Cambodia's General Department of Customs and Excise (GDCE), the exports of Cambodia's garment and footwear sector continued to grow in 2016 but at a slower pace than that of 2015. The sector's exports rose by 7.2 per cent to US\$ 7.3 billion in 2016 (up from US\$ 6.8 billion in 2015). The sector remains the most important component of Cambodia's exports, with garment and footwear exports accounting for 78 per cent of the country's total merchandise exports in 2016. This ratio edged down slightly from 81 per cent in 2015. Footwear continues to be dwarfed by garment exports, but footwear is rising as a share of the sector's total.

Figure 8: Cambodia's garment and footwear exports, 2000–2016 (US\$ million)



Source: Cambodia's General Department of Customs and Excise

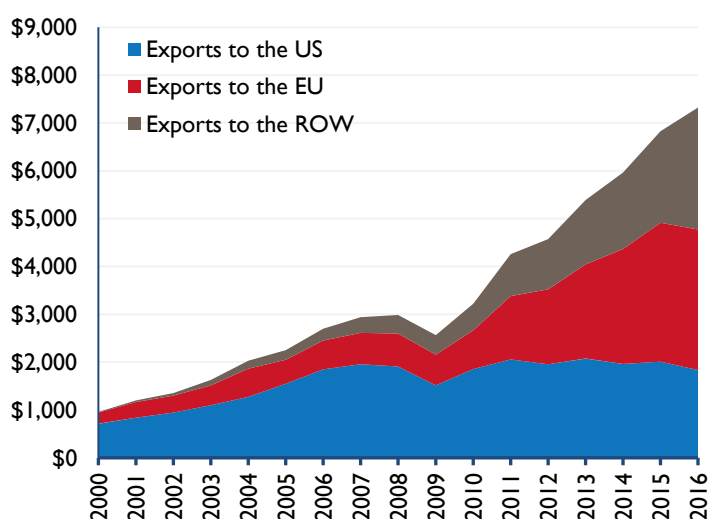
A diminishing share of Cambodia's garment and footwear exports has gone to the US in recent years, and this trend continued in 2016. The share of the sector's exports going to the US market continued to drop from 29 per cent in 2015 to 25 per cent in 2016. The US market, which was a lifeline for the industry just a few years ago, now accounts for just a quarter of the sector's exports. It should be noted that Cambodian garments entering the US market are subject to an average tariff rate of about 16.8 per cent (of MFN rate¹⁶) and according to the US Department of Labour, the price of

¹⁶ Most Favoured Nation (or MFN) is a status/level of treatment accorded by one country to another in international trade. Cambodia signed a normalized trade relationship agreement with the US in 1997 and being granted a "Normal Trade Relations" status or NTR (formerly referred to as "most favoured nation" or MFN) with lower tariff rate treatment for Cambodia's

apparel imported by the US buyers from the ASEAN-member state countries fell by 0.5 per cent during 2016.

The EU remains the most important market destination for Cambodia's garment and footwear exports; it represented 40 per cent of the sector's exports in 2016. This was down from 43 per cent in 2015. Exports to the EU and US markets combined accounted for only 65 per cent of the sector's exports in 2016, down from 72 per cent in 2015. There is an emerging sign of strong growth of the sector's exports to markets outside the EU and US. Exporting to other markets represented 35 per cent in 2016, up from 28 per cent in 2015, and from just 11 per cent 10 years ago.

Figure 9: Destinations of Cambodia's garment and footwear exports, 2000–2016 (US\$ million)



Source: Cambodia's General Department of Customs and Excise

The impressive growth of garment and footwear exports to markets outside the US and EU is mainly because of solid expansion of exports to the Japanese and Canadian markets. Japan has also grown in importance as an export destination for Cambodia. According to Cambodia's General Department of Customs and Excise (GDCE), Cambodia's exports of its garment and footwear products to the Japanese market accounted for 9.0 per cent of the total sector's exports in 2016, up from 7.7 per cent in 2015 and just 2.7 per cent in 2010. Similarly, strong growth has been observed in exports to the Canadian market. In 2016, Canada absorbed nearly 8.0 per cent of Cambodia's garment and footwear exports, up from 7.5 per cent in 2015 and just 0.5 per cent in 2010.

The growth of Cambodia's garment and footwear exports to China has also been quite strong, from a low base. The sector's

access to the US market (the tariff rate is normally lower compared to country without NTR or MFN status).

exports to the Chinese market was virtually zero in 2010, yet the market accounted for 2.3 per cent of Cambodia's exports of garment and footwear in 2016, up from 1.8 per cent in 2015. It appears as if Cambodian garment and footwear export patterns may be driven by a number of free trade agreements that Cambodia had with various countries, particularly under the ASEAN frameworks. Those agreements include:

- The ASEAN–Japan Comprehensive Economic Partnership (AJCEP) agreement, signed in 2008 to create an ASEAN–Japan Free Trade Area. Under the agreement, Japan's tariff rates on garment and textile imports are mostly eliminated from the date of entry into force of the Agreement and with a phasing-out reduction of tariff rates on footwear imports¹⁷. Generally, under the trade in goods, Japan has to eliminate 92% of its tariff rates based on tariff lines and trade value for goods in the Normal Track within 10 (ten) years of the entry into force¹⁸.
- ASEAN–China Free Trade Area (ACFTA) covering trade in goods by 2010 for ASEAN 6 and by 2015 for the newer ASEAN member states¹⁹ (newer ASEAN member states are Cambodia, Lao PDR, Myanmar and Vietnam). Under the ACFTA agreement, China's tariff rates on garment and footwear imports are reduced to almost zero during the 2015-2017 period).²⁰
- Cambodia also benefits from Canada's Market Access Initiative for Least Developed Countries, which allows qualifying quota-free and duty-free access to the Canadian market of all products except dairy, poultry and egg products (the Initiative came into force since 2003, aimed at contributing to economic growth in developing countries and reducing poverty through increased investment and economic development).²¹ Since Cambodia is still technically classified by the UN²² as an LDC, the country can still benefit from special access to the Canadian market through its LDC tariff system and the General Preferential Tariff (GPT).
- In the future, Cambodia is also expected to benefit from the proposed Regional Comprehensive Economic Partnership (RCEP) which is a more comprehensive free trade framework that involves ASEAN and six other partner countries with which ASEAN has a free

trade agreement, namely China (ACFTA), Republic of Korea (AKFTA), Japan (AJCEP), India (AIFTA) as well as Australia and New Zealand (AANZFTA). Economic Ministers of the 16 participating countries endorsed the Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership in August 2012²³. If the RCEP is endorsed, it would furnish Cambodia with greater potential in the future for its garment and footwear exports (along with other products) by having a freer access to its regional markets.

2. New investments, factory openings and closures

a – New investment: In 2016, the Cambodian Investment Board (CIB) approved a total of 121 new investment projects worth US\$ 3.2 billion in fixed assets, across all sectors. This represents a fall in new investment of 17 per cent compared to the size of fixed assets approved in 2015. Of these total new investment projects approved in 2016, 56 projects are in the garment and footwear sector, consisting of 41 garment and 15 footwear projects. Newly approved garment and footwear projects in 2016 were valued at US\$ 248 million in fixed assets, a decline of 34 per cent compared to 2015. This made 2016 the fourth straight year in which the value of newly approved investments in the garment and footwear sector declined in Cambodia.

The value of newly approved investments in the garment and footwear sector represented only 7.6 per cent of the total fixed asset values of the all newly approved investment in Cambodia. This ratio is down from 28 per cent in 2014 and 10 per cent in 2015. New FDI inflows into Cambodia remain relatively strong, notwithstanding some annual fluctuations; investors appear to be diversifying beyond garments and footwear in Cambodia. This is in line with the country's Industrial Development Policy (IDP 2015-2025) which aims to transform the country's industrial structure by increasing and diversifying the country's exports²⁴.

Mainland China remains the leading source of foreign investment in garment and footwear industries in Cambodia. Of the new investment in the garment and footwear sector being approved in 2016, investors from mainland China accounted for 36 per cent, followed by investors from Hong Kong at 17 per cent, Taiwan 15 per cent, the United Kingdom

¹⁷ Annex I of the ASEAN-Japan Free Trade Agreement (Section 2 of Japan's Schedules), <http://asean.org/asean-economic-community/>

¹⁸ ASEAN-Japan Comprehensive Economic Partnership, <http://ajcep.asean.org/trade-in-goods/>

¹⁹ Initial framework agreement was signed on 4 November 2002 in Phnom Penh, Cambodia with commitment to establish a ASEAN-China free trade area by 2010 (Website of Cambodia's General Department of Customs and Excise (GDCE), <http://www.customs.gov.kh/km/>)

²⁰ ACFTA Tariff Reduction Schedule-China, http://asean.org/?static_post=asean-japan-free-trade-area-2

²¹ A Guide to Canada's Market Access Initiative, July 2003, http://www.tfocanada.ca/global/File/AAGuide_En.pdf

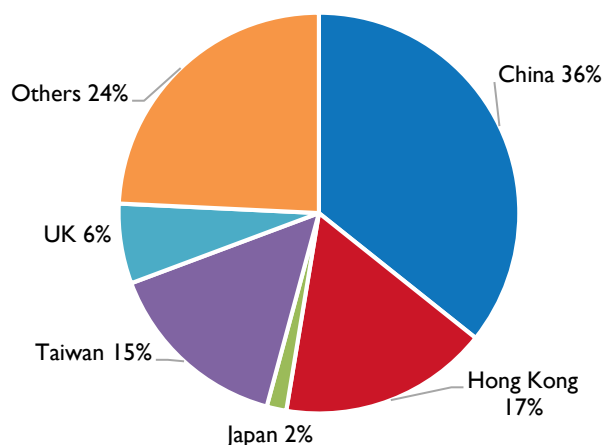
²² The UN's list of the least developed countries (LDCs) is decided upon by the United Nations Economic and Social Council and, ultimately, by the General Assembly, on the basis of recommendations made by the Committee for Development Policy. The basic criteria for inclusion require that certain thresholds be met with regard to per capita GNI, a human assets index and an economic vulnerability index (extracted from UN 2016 Report on World Economic Situation and Prospects, p. 158)

²³ The ASEAN Secretariat (http://asean.org/?static_post=rcep-regional-comprehensive-economic-partnership)

²⁴ Cambodia's Industrial Development Policy 2015-2025 (p. 13-14)

6 per cent, Japan 2 per cent and the remaining 24 per cent coming from elsewhere.

Figure 10: Share of approved new investment in garment and footwear sector by country of origin (in 2016)



Source: Council for the Development of Cambodia (CDC-CIB)

Investment in labour-intensive sectors such as garment and footwear industries remains an important source of employment growth in Cambodia. Cambodia's economy remains heavily reliant on its garment and footwear sector for employment. The sector's value added accounted for nearly 11 per cent of the Cambodia's Gross Domestic Product (GDP)²⁵, 78 per cent of merchandise export revenues²⁶ and about a third of manufacturing employment²⁷.

b – Opening, closure and operating factories: according to the Ministry of Commerce, by the end of 2016, there were 626 garment and footwear factories in effective operation.²⁸ The number fell from 699 garment and footwear factories that were effectively operating in 2015. In fact, there were 58 newly-opened garment and footwear factories in 2016 but at the same time, there were also 131 garment and footwear factories closed down. So, this indicated a net closure of 73 factories in 2016 (of which 70 factories are in garment and 3 factories are in footwear sector). The closure being referred here includes factories of temporarily close, on-going closure and definitely closed. It should also be noted that some of the recorded closures represent garment and footwear factories that actually ceased operations over the indicated period, while some other recorded closures here are the result of statistical refinement to reflect the reality on the ground. As pointed out in Part I of this Bulletin, the Ministry of Commerce regularly updates and improves its database. In early 2016, its database was improved by reclassifying a number of factories that had been inactive for months, and in some cases, had

closed down but had not provided official notice to the ministry. Therefore, some of the changes in factory numbers are the result of statistical improvements.

3. Employment and wages

Employment in officially registered garment and footwear factories edged down slightly in 2016, totalling 605,129 employees²⁹ working in the sector. This was down from 622,943 employees working in the sector in 2015, representing a 2.9 per cent shrinking of employment size in the sector in 2016. It should be noted that these employment figures are subject to the same statistical issues as the factory figures; some unknown portion of the decline in employment in 2016 is due to improvements in the MOC's database, rather than reflecting actual job losses.

The minimum wage of the garment and footwear sector increased every year between 2013 and 2017, rising from US\$ 80 in 2013, to US\$ 100 in 2014, to US\$ 128 in 2015, to US\$ 140 in 2016 and US\$ 153 from 1 January 2017. The rising minimum wage in recent years has generated increasing discussion of the need to monitor wage trends and to ensure sustainable wage policy in this largest exporting sector. The increase in the minimum wage has contributed to improving living conditions of hundreds of thousands of low-paid workers, but at the same time economic factors must be taken into account in adjusting wages.

Largely due to these minimum wage increases, the average monthly earnings (including overtime) of Cambodia's garment and footwear workers increased from US\$ 145 in 2014, to US\$ 175 in 2015 and to US\$ 195 in 2016. If this average monthly wage is calculated in inflation-adjusted (real) terms, the real average monthly wage³⁰ of these workers rose from US\$ 127 in 2014 to US\$ 151 in 2015 and to US\$ 163 in 2016, expressed in 2010 prices. In other word, real average monthly wages/earnings were 8.0 per cent higher in 2016 than they were in 2015; this rate of real average monthly wage growth was down from 19.3 per cent the previous year.

²⁵ National Institute of Statistics' National Accounts 2016 (preliminary figures)

²⁶ National Bank of Cambodia (NBC) and the Cambodia's General Department of Customs and Excise (GDCE)

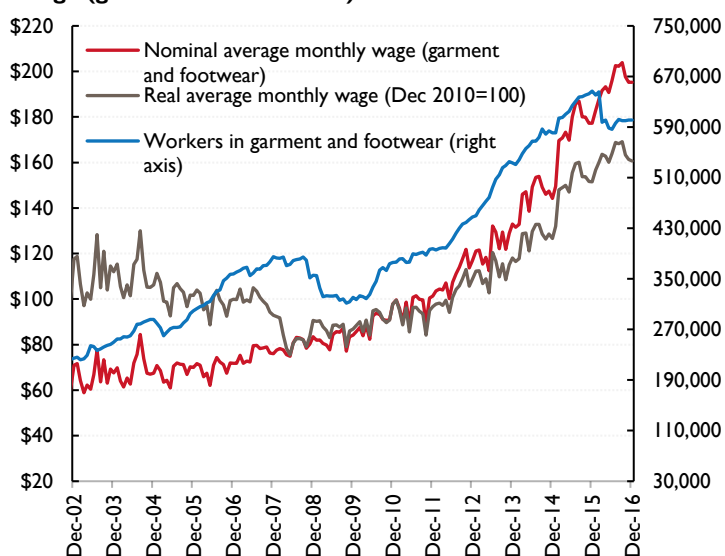
²⁷ IMF: China's Changing Trade and the Implications for the CLMV Economies, Asia and Pacific Department, September 2016 (p. 57)

²⁸ The number refers to exporting factories that are officially registered with the Ministry of Commerce only. Some sub-contractor factories (which are not directly exporting, nor officially registered) are not included.

²⁹ According to the Ministry of Commerce (annual average figure).

³⁰ ILO calculation based on December 2010 prices.

Figure 11: Employment, nominal and real average monthly wage (garment and footwear)



Source: Cambodia's Ministry of Commerce, National Institute of Statistics (NIS) of the Ministry of Planning (of Cambodia)

4. Other policy developments relating to the garment and footwear sector

There have been a number of other relevant recent developments.

- i) The National Social Security Fund (NSSF), a government-run insurance scheme (under the Ministry of Labour and Vocational Training) covering workers' injuries, work-related illness and travel-related accidents, has been in place since mid-2008 (1st phase of the NSSF scheme). The NSSF broadened its coverage on 6 January 2016 to include healthcare services³¹ (2nd phase of the NSSF scheme). The healthcare service commenced implementation from 1 May 2016 starting from Phnom Penh, Kandal and Kampong Speu provinces and it is in the process of rolling out to other provinces³².
- ii) The 3rd phase of the NSSF scheme, which concerns pensions, has been planned and is under preparation. It is tentatively anticipated to launch sometime later in 2017; the NSSF's task team is currently studying the relevant regulatory frameworks in order to ensure smooth implementation³³.

- iii) According to the NSSF's 2016 annual report³⁴, by the end of 2016, the NSSF has signed agreements with some 783 public hospitals and healthcare centres (of which 3 are national hospitals, 100 are referral hospitals and 680 are health centres) to provide healthcare services to its beneficiaries (its private sector insured workers/employees).
- iv) On 1st February 2017, the government has set up a similar NSSF scheme covering insurance of work-related injuries/illness/accidents and healthcare for its civil servants, retirees and veterans. According to the royal decree, dated 1 February 2017, the government has established a Social Security Fund (NSSF) to insure work-related risks for its civil servants and healthcare for its civil servants, retirees and veterans. The scheme is also run by the National Social Security Fund (the NSSF) of the Ministry of Labour and Vocational Training. The exact monetary contribution rates will be set out in a separate sub-decree. And, the exact timeframe and implementation phase of the scheme will also be set out in an inter-ministerial Prakas of the Ministry of Labour and Vocational Training and the Ministry of Economy and Finance³⁵.

5. Conclusion

Garment and footwear products remain the most important exported commodities of Cambodia, accounting for two-thirds of the country's total merchandise exports in 2016. Garment and footwear exports continued to grow in 2016, though at a slower pace than in 2015. Newly approved FDI in garment and footwear sector in 2016 fell by 34 per cent in in fixed-asset value (compared to 2015) and China remains the dominant source of investors. In the meantime, workers' wages in the industry, both in nominal and real terms, continued to increase in 2016 with a recorded 11.0 per cent growth of nominal monthly earning and 8.0 per cent growth of real monthly earning of workers in garment and footwear industry in 2016. Employment in the sector shrank by 2.9 per cent in 2016, although some of this recorded decline is due to statistical improvements.

³¹ Government's sub-decree #01, dated 6 January 2016.

³² Ministry of Labour and Vocational Training, Prakas #093 on "Setting of Timeframe and Phase of Implementation of the Social Security Scheme on Healthcare"

³³ According to the National Social Security Fund (NSSF) 2016 Annual Report (p. 19)

³⁴ The National Social Security Fund 2016 Annual Report (p. 18)

³⁵ Royal decree (#0217/078), establishment of Social Security Fund (NSSF) covering work-related risks for civil servants and healthcare for civil servants, retirees and veterans, dated 1 February 2017.

Annex Table I. Cambodian garment and footwear industry – selected indicators

	2014				2014	2015				2015	2016				2016
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
I. Economic output															
GDP (% real growth)	-	-	-	-	7.1	-	-	-	-	7.0	-	-	-	-	7.0
GDP (% nominal growth)	-	-	-	-	10.0	-	-	-	-	8.9	-	-	-	-	10.6
GDP (current prices, US\$ million)	-	-	-	-	16 703	-	-	-	-	18 083	-	-	-	-	20 043
Value added (garment and footwear, current prices, US\$ million)	-	-	-	-	1 683	-	-	-	-	1 915	-	-	-	-	2 111
Value added (garment and footwear, % of GDP)	-	-	-	-	10.1	-	-	-	-	10.6	-	-	-	-	10.5
2. Garment and footwear exports															
2a. Growth of total garment and footwear exports															
Garment and footwear exports (US\$ million) ^{1/}	1 464	1 379	1 625	1 493	5 960	1 549	1 602	1 995	1 681	6 827	1 773	1 718	2 072	1 758	7 322
% growth (year-on-year)	19.7	9.6	3.6	11.9	10.7	5.8	16.1	22.8	12.6	14.5	14.5	7.2	3.9	4.6	7.2
Garment exports (US\$ million) ^{1/}	1 359	1 271	1 502	1 357	5 489	1 400	1 434	1 832	1 501	6 167	1 605	1 527	1 882	1 545	6 559
% growth (year-on-year)	19.8	8.7	1.8	9.1	9.3	3.0	12.9	21.9	10.6	12.3	14.7	6.5	2.7	2.9	6.3
Footwear exports (US\$ million)	105	109	122	135	471	149	168	163	180	660	168	191	191	213	763
% growth (year-on-year)	19.2	20.1	33.1	50.6	30.8	41.7	54.4	33.6	33.0	40.0	12.9	13.8	16.7	18.6	15.6
Retained imports of garment materials (US\$ million)	-584	-672	-643	-671	-2 571	-616	-816	-813	-705	-2 949	-710	-846	-890	-	-
2b. Garment and footwear exports by main destination															
Total exports (garment and footwear, US\$ million)	1 464	1 379	1 625	1 493	5 960	1 549	1 602	1 995	1 681	6 827	1 773	1 718	2 072	1 758	7 322
To United States (garment and footwear) ^{1/}	531	452	511	469	1 964	491	494	585	439	2 009	429	440	555	414	1 838
To European Union (garment and footwear) ^{1/}	533	559	674	639	2 404	617	686	844	757	2 904	793	777	733	629	2 932
To rest of world (garment and footwear) ^{1/}	400	368	440	385	1 593	440	422	566	486	1 914	550	501	785	715	2 551
Total exports (garment, US\$ million) ^{1/}	1 359	1 271	1 502	1 357	5 489	1 400	1 434	1 832	1 501	6 167	1 605	1 527	1 882	1 545	6 559
To United States (garment) ^{1/}	512	437	494	446	1 889	462	461	557	408	1 888	400	409	521	382	1 711
To European Union (garment) ^{1/}	482	500	616	575	2 173	546	600	768	670	2 583	714	679	669	542	2 604
To rest of world (garment) ^{1/}	365	334	392	337	1 427	392	373	508	424	1 696	491	439	693	621	2 243
Total exports (footwear, US\$ million)	105	109	122	135	471	149	168	163	180	660	168	191	191	213	763
To United States (footwear)	19	15	17	23	74	29	33	28	31	121	29	32	34	32	126
To European Union (footwear)	51	59	58	64	231	72	86	76	86	321	79	97	65	87	328
To rest of world (footwear)	36	34	48	48	166	49	49	58	62	218	60	62	92	95	308
3. New Investment, factory openings and closures															
3a. New Investment Project															
Total CIB approved investment projects	44	48	42	15	149	37	26	30	31	124	37	23	33	28	121
Thereof: Garment and footwear projects ^{1/}	25	32	15	6	78	19	19	20	14	72	22	9	15	10	56
Garment projects	24	29	13	6	72	17	12	15	13	57	18	7	10	6	41
Footwear projects	1	3	2	0	6	2	7	5	1	15	4	2	5	4	15
Total CIB approved projects (US\$ million)	446	382	626	150	1 604	2 873	255	279	513	3 920	955	827	960	507	3 249

	2014				2015				2016				2016		
	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3	Q4	2015	Q1	Q2		Q3	Q4
Thereof: Garment and footwear projects (US\$ million) ^{1/}	135	200	86	30	452	72	80	84	141	377	86	42	75	46	248
Garment projects (US\$ million)	127	174	77	30	408	64	42	64	55	225	71	31	55	19	175
Footwear projects (US\$ million)	7	27	9	0	44	8	38	20	86	151	15	11	20	27	73
3b. Factory openings and closures (registered factories) ^{1/}															
Total garment and footwear factories (end of period)	548	576	597	626	626	640	655	680	699	699	589*	604	615	626	626
Garment factories (e. o. p.)	488	515	532	558	558	572	585	607	626	626	526	538	548	556	556
Footwear factories (e. o. p.)	60	61	65	68	68	68	70	73	73	73	63	66	67	70	70
Total net openings (garment and footwear) ^{1/}	20	28	21	29	98	14	15	25	19	73	-110*	15	11	11	-73
Garment factories	19	27	17	26	89	14	13	22	19	68	-100	12	10	8	-70
Footwear factories	1	1	4	3	9	0	2	3	0	5	-10	3	1	3	-3
Openings (garment and footwear) ^{1/}	22	33	25	29	109	14	16	26	19	75	12	15	19	12	58
Garment factories	20	31	21	26	98	14	14	23	19	70	10	12	18	9	49
Footwear factories	2	2	4	3	11	0	2	3	0	5	2	3	1	3	9
Closures (garment and footwear) ^{1/}	2	5	4	0	11	0	1	1	0	2	122*	0	8	1	131
Garment factories	1	4	4	0	9	0	1	1	0	2	110	0	8	1	119
Footwear factories	1	1	0	0	2	0	0	0	0	0	12	0	0	0	12
4. Employment in the garment and footwear sector															
Total garment and footwear workers (period av., '000)	539	561	576	581	564	597	616	635	643	623	628	592	600	601	605
% change (year-on-year)	17.6	16.5	11.7	9.1	13.5	10.7	9.8	10.3	10.7	10.4	5.3	-3.9	-5.7	-6.6	-2.9
Workers in garment sector (period average, '000)	454	475	484	488	475	500	516	533	538	522	525	494	499	498	504
Workers in footwear sector (period average, '000)	85	87	92	93	89	97	101	102	106	101	103	98	101	103	101
5. Wages and prices															
Minimum wage (garment and footwear sector, US\$)	100^{2/}	100	100	100	100	128	128	128	128	128	140	140	140	140	140
Average monthly wage (garment and footwear, US\$)^{4/}	137	145	152	146	145	164	174	184	178	175	187	193	203	196	195
Average monthly wage (garment workers, US\$) ^{3/}	139	147	153	146	146	165	176	188	181	178	190	195	208	201	198
Average monthly wage (footwear workers, US\$) ^{3/}	127	137	149	146	140	157	165	166	165	163	173	184	180	173	178
Real average monthly wage (garment and footwear, constant Dec. 2010 US\$)^{3/ 4/}	121	127	131	127	127	143	151	158	152	151	160	162	169	162	163
Real average monthly wage (garment, Dec. 2010 US\$) ^{3/ 4/}	123	128	132	127	128	144	152	161	154	153	162	164	173	166	166
Real average monthly wage (footwear, Dec. 2010 US\$) ^{3/ 4/}	113	119	129	127	122	137	143	142	141	141	148	154	149	143	149
Consumer Price Index (period average) rebased, Dec. 2010=100	113.0	114.5	115.8	114.7	114.5	114.2	115.6	116.8	117.0	115.9	117.0	119.1	120.2	121.2	119.4
Inflation rate (CPI period average, y-o-y growth)	4.6%	4.8%	4.0%	2.1%	3.9%	1.0%	1.0%	0.8%	2.0%	1.2%	2.5%	3.0%	3.0%	3.6%	3.0%

Note: 2016 real GDP growth rate is projected figure (of the IMF and the Cambodia's Ministry of Economy and Finance)

1/ Includes textiles.

2/ Effective 1 February 2014.

3/ Based on Ministry of Commerce, effectively operating factories only. The data exclude foreign office workers and foreign managers.

4/ At December 2010 prices.

*/ Note that a large proportion of the recorded closures are the result of the Ministry of Commerce's inspection and reclassification of on-going and temporary closed factories, which includes some inactive factories that closed down without notice to the Ministry.

Sources: National Institute of Statistics, Ministry of Commerce, National Bank of Cambodia, IMF and ILO Staff Calculation

Contact Information

ILO National Coordinator for Cambodia
Phnom Penh Centre, Building 1, 2nd Floor,
Corner Sihanouk (274) & Sothearos (3) Blvd.
Phnom Penh, Cambodia
Tel.: +855 23 220 817
Internet: www.ilo.org/asia
Email: huot@ilo.org & cowgill@ilo.org

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This publication has been published within the framework of the Labour Standards in Global Supply Chains programme financed by the Government of the Federal Republic of Germany and by the GIZ, on behalf of the German Government. The programme was initiated as part of a renewed partnership between the German Ministry for Development Cooperation (BMZ) and the International Labour Organization (ILO). The responsibility for opinions expressed in this publication rests solely with its author(s), and its publication does not constitute an endorsement by the ILO or the Government of the Federal Republic of Germany of the opinions expressed in it.