

Cambodia Garment, Footwear and Travel Goods (GFT)



Disclaimer

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The views and recommendations presented in this brief reflect the perspectives of the authors. It is important to note that these views and recommendations do not imply the endorsement by or indicate the opinions or viewpoints of any other contributing organisation to this sector brief. The inclusion of these views and recommendations serves to provide industry insights and perspectives, contributing a contextual dimension to an otherwise neutral presentation of statistics. The authors warmly welcome and invite stakeholders to engage in constructive dialogue on any recommendations proposed.

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Executive Summary

The global Garment, Footwear, and Travel Goods (GFT) sector is expected to continue growing at a healthy pace, with a yearly growth of 2.8% between 2024 to 2028. The largest segment within this industry is women's apparel, with a market volume of US\$940 billion forecasted for 2024.

The global footwear market is predicted to generate a revenue of US\$412.9 billion in 2024, with annual growth of 3.4% between 2024-2028. Non-luxury apparel and footwear dominate the market at 95% and 93% of total revenue, respectively.

Despite positive projected growth, uncertainties rooted in climate concerns, geopolitical conflicts, weakened macroeconomic performance, and rising interest rates, all which impact consumer disposable income and confidence, may affect consumption in major markets. Political uncertainties and geopolitical tensions have affected global production sourcing strategies, leading to uncertainties in production planning.

Fast Fashion, Smart Manufacturing, increasing sustainability requirements, and online shopping are other notable trends affecting the production and consumption in the GFT sector, requiring Cambodia manufacturers to keep abreast of them.

The world recorded a total value of US\$828 billion in GFT exports globally in 2023.

- ▶ China was the top exporter, accounting for 34% of world GFT exports (or almost US\$303 billion), followed by Vietnam (7.2%, or US\$63.9 billion).
- ▶ Cambodia ranked 14th in global GFT exports and 3rd in ASEAN in 2022, generating US\$12.7 billion in GFT export revenue and accounting for 1.4% of the total GFT market.

The GFT industry remains a key sector, contributing significantly to Cambodia's economic achievements.

- ▶ The total number of GFT firms expanded from 1,192 in 2020 to 1,579 firms in 2023.
- ▶ In 2024, the industry directly created jobs for more than 925,000 workers and indirectly benefited 2.5 to 3 million people.
- ▶ Female workers accounted for 75.5% of all employees in the sector.

In 2023, Cambodia exported a total of US\$11 billion of Cambodia's GFT products, a decline of more than 13% compared to 2022. The United States, the European Union, Japan, Canada, the United Kingdom, China, and ASEAN are the top export markets of Cambodia's GFT products.

- ▶ In 2023, the US market accounted for more than US\$4.2 billion, or 38.6% of the kingdom's GFT total export revenue in 2023.
- ▶ The European Union was the second most significant importer of Cambodia's GFT, accounting for almost US\$3 billion (or 27%) of 2023 GFT export revenue.
- ▶ The other top export markets of Cambodia's GFT in 2023 were Japan (US\$918 million), Canada (US\$773 million), the United Kingdom (US\$716 million), China (US\$274 million), and ASEAN (US\$194 million).

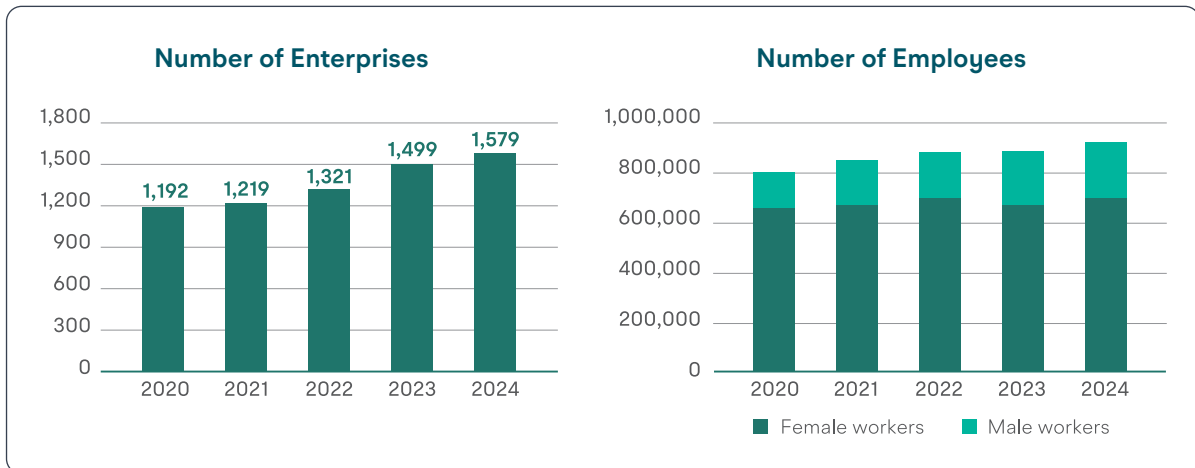
1. Introduction



The Garment, Footwear, and Travel Goods (GFT) industry has made significant contributions to Cambodia's economic achievements in the past two decades. Political stability, competitive wage and production costs, preferential trade access, and a favourable investment climate have been the sector's comparative advantages to allow this industry to flourish and become an economic growth pillar. According to the Cambodia GFT Sector Development Strategy 2022-2027, garments have remained at over 70% of the industrial export share since 2009, while Cambodia also diversified its exports of other products, such as bicycles, vehicle parts, and electronic parts. In addition, the exports of travel goods (or bags) such as luggage, backpacks, handbags, and wallets to the US market have experienced significant growth in the last few years under the Generalised System of Preference (GSP) granted to Cambodia in 2016.

The number of factories and enterprises producing garments, footwear, and travel goods has continued to grow. During the 2020-2024 period, the total number of GFT firms expanded from 1,192 in 2020 to 1,579 firms in 2023. These include direct export factories and subcontracting factories as well as enterprises that support the production of export-oriented factories such as laundry, embroidery, dyeing, sewing, packaging, etc. The industry has directly created jobs for more than 925,000 workers in 2024 and has indirectly benefitted 2.5 to 3 million people.¹ Female workers accounted for 75.5% of all employees in the sector in 2024.

¹ RGC (2022). *Cambodia Garment, Footwear and Travel Goods (GFT) Sector Development Strategy 2022-2027*, s.l.: Supreme National Economic Council.; TAFTAC (2023). *Cambodia Garment, Footwear and Travel Goods (GFT) Sector Brief*. September 2023.

FIGURE 1: Cambodia's GFT Sectoral Overview: Firms and Employees²

Source: Ministry of Labour and Vocational Training

There are several challenges faced by Cambodia's GFT sector. The sector was hit hard by the COVID-19 outbreak in 2020, with exports falling by 10% compared to 2019.² While 2021-2022 exports have recovered, the GFT sectors are expected to face other headwinds, especially considering the prospective graduation of several major exporting nations (including Cambodia) from the least developed country (LDC) status and the resulting derogation of preference in export markets, as well as the changing demands in the target markets.

This Sector Brief provides insights into the current state of the GFT sector in Cambodia. It focuses on the performance and trends observed in the sector up to the second quarter of 2024, where data is available. This analysis considers the global context and challenges faced by the industry, including Cambodia's prospective LDC graduation and the changed market access conditions to key export markets.

² TAFTAC, 2022. Cambodia Garment, Footwear and Travel Goods Sector Brief.

2. Global Trends in the Garment, Footwear, and Travel Goods Sector

Geopolitical Factors Affecting the Industry

Several geopolitical external factors occurred in the last few years which influence the flow of orders to the benefit of Cambodia so far include:

- ▶ **De-risking from China** by major brands and retailers (such as H&M, Esprit, Nike, Adidas) was driven by the need to comply with the UFLPA and avoid the legal and reputational risks associated with forced labour allegations.³
- ▶ **The Myanmar crisis which started in February 2021 shifted orders to other garment-producing** countries, including Cambodia. Though Myanmar's garment exports recovered in 2022, human rights and labour concerns have led international brands, including Japan's Fast Retailing (UNIQLO) and U.K. giant Marks & Spencer, to pull out of Myanmar's factories.⁴
- ▶ The recent **political turmoil in Bangladesh**, the second-largest ready-made garment producer, will likely have some reverberations on orders to other garment producers. This could particularly benefit Cambodia's garment apparel sector as an alternative manufacturing hub.⁵

Global Consumption

The global GFT sector is expected to continue healthy growth in the next five years.

- ▶ The global apparel market is expected to generate US\$1.79 trillion in revenue by 2024, with a compound annual growth rate (CAGR) of 2.81% between 2024 to 2028. The largest segment within this industry is women's apparel, with a market volume of US\$940 billion predicted by 2024.⁶
- ▶ The global footwear market is predicted to generate a revenue of US\$412.90 billion in 2024, with a CGAR of 3.43% between 2024-2028. ⁷ non-luxury apparel and footwear dominate the market at 95% and 93% of total revenue, respectively.⁸
- ▶ The United States generates the largest revenue worldwide for both apparel and footwear, estimated at US\$359 billion and US\$91.51 billion in 2024, respectively. Across ASEAN, the apparel market is projected to reach US\$51.34 billion and US\$16.99 billion for footwear in 2024.⁹

³ Ana Nicolaci da Costa (2019, November 13). Xinjiang cotton sparks concern over 'forced labour' claims. BBC; Alix Kroeger (2021, 26 March). Xinjiang cotton: How do I know if it's in my jeans? BBC; Also BBC (2021, 26 March). Xinjiang cotton: Western clothes brands vanish as backlash grows.

⁴ Aung Naing (2022, October 20). More international clothing companies pull out of Myanmar's factories, citing deteriorating labour conditions. Myanmar Now; Nikkei Aisa (2023, March 30). Uniqlo owner joins clothiers exiting Myanmar.

⁵ Fibre2Fashion (2024, August 14). Crisis in Bangladesh: A turning point for global apparel supply chains.

⁶ Statista (2024). Apparel - Worldwide | Statista Market Forecast

⁷ Statista (2024). Footwear - Worldwide | Statista Market Forecast

⁸ Statista (2024). Footwear - Worldwide | Statista Market Forecast

⁹ Statista (2024). Footwear - ASEAN | Statista Market Forecast; Apparel - ASEAN | Statista Market Forecast

Despite positive projected growth, uncertainties rooted in climate concerns, geopolitical issues, weakened economies, and rising interest rates impacting consumer disposable income and confidence may affect consumption in major markets.¹⁰ According to McKinsey's The State of Fashion 2024 report:

- ▶ Consumers' net intent to spend on apparel was down by 16% across the US, Europe and China in Q4/2023.
- ▶ Changes in consumer demand have resulted in the "bullwhip effect," where cuts to orders increase in magnitude at different parts of a supply chain, putting pressure on fashion's suppliers.
- ▶ More than \$65 billion of apparel exports are at risk of being wiped out by climate events such as flooding and extreme heat.

The COVID-19 pandemic accelerated the adoption of online shopping. Consumers who previously did not buy fashion online have shifted to e-commerce platforms. According to McKinsey (2024), 40% of US consumers have shopped at Shein or Temu in the last 12 months. By 2025, approximately half of the global fashion industry is expected to be online,¹¹ with social media platforms leading avenues.¹²

Global Production

Fast Fashion and **Small Batch** production trends require extended capacity and agility of manufacturers.

- ▶ The Fast Fashion trend is characterised by ultra-low prices and rapid turnover of fashionable styles with direct-to-consumer delivery via e-commerce channels, which has been boosted by the entrance of strong newcomers like Shein and Temu. Fast Fashion requires manufacturers to move toward a fully integrated production system in line with specifications by buyers, and brand leaders can control processes along the entire value chain from cotton to clothing with a very short lead time.¹³
- ▶ The Small Batch production trend, usually under 500 items, covers a range of products, from the quick turnaround of fast fashion buyers (like Zara) to market niches such as crowd-sourced designs (e.g., Threadless) and customised or personalised products (e.g., Nike). This trend requires a robust supplier network, efficient logistics and production management.



¹⁰ McKinsey (2024). *The State of Fashion 2024*. BoF & McKinsey & Co.

¹¹ McKinsey (2021). *What tech innovation means for the business of fashion*.

¹² Olwoch, M.A., Sonnenberg, N.C., Reis, T.L., Taljaard-Swart, H. (2023). *Consumers' Sustainable Clothing Consumption Practices: Adopting the Principles of Voluntary Simplicity*. In: Muthu, S.S. (eds) *Consumer Awareness and Textile Sustainability*. *Sustainable Textiles: Production, Processing, Manufacturing & Chemistry*. Springer.

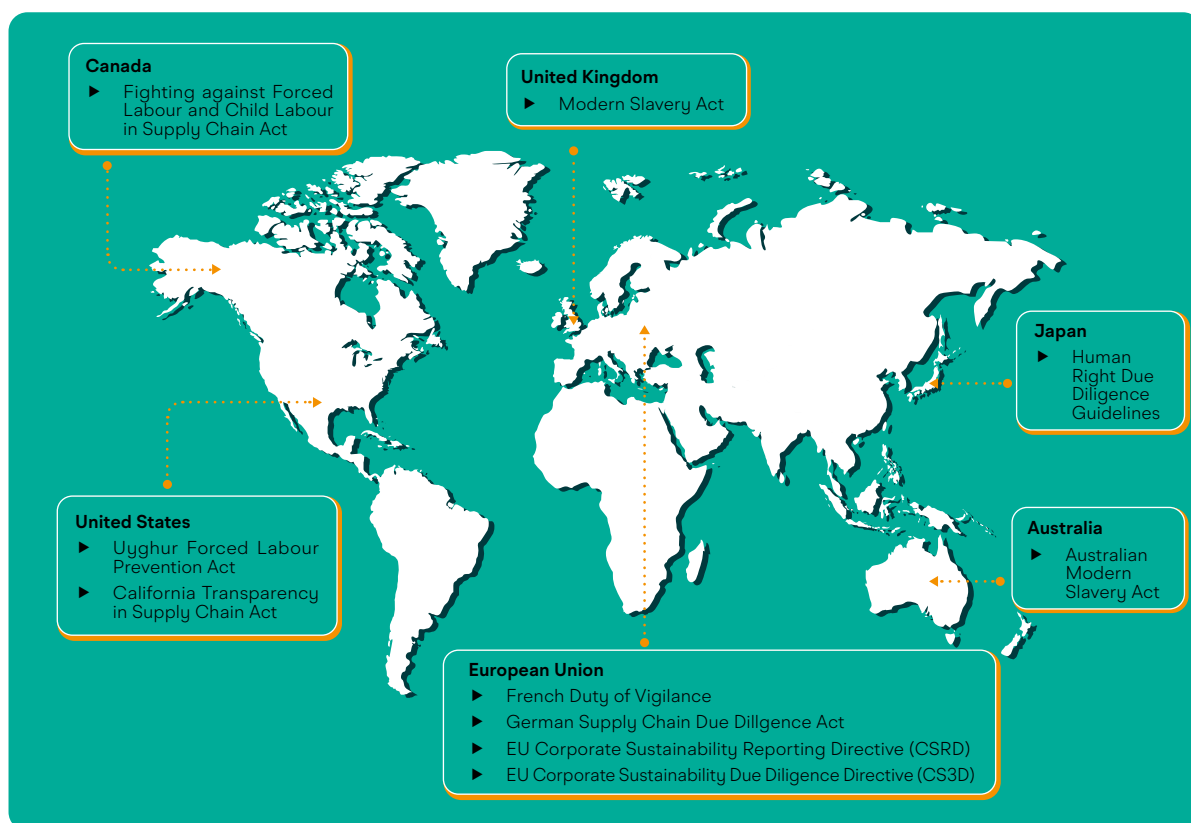
¹³ Companies like Inditex (Zara), headquartered in Spain with a design team of 300 people, can get a new item of clothing designed and into its more than 6,340 stores in as little as two weeks.

Innovations like automation, smart manufacturing, generative AI, and digital platforms are propelling new production processes. Automation, technical textiles (including smart textiles for medical and sports uses), and the use of generative Artificial Intelligence (AI) in product conceptualisation and design are some of the notable trends in the garment industry. Specifically relevant to Cambodia is the trend toward technical outdoor wear propelled by consumers' post-pandemic embrace of healthier lifestyles, thus boosting demand for products from brands such as Salomon, Patagonia, Arc'teryx and The North Face.¹⁴

Increasing sustainability requirements are driven by responsible consumption, climate change concerns and increasing regulations (see Box 1).

- ▶ McKinsey (2020) survey reveals that 66% of respondents (and 75% of millennial respondents) consider sustainability when making a purchase.¹⁵
- ▶ Mandatory sustainability requirements will drive firms to cut down on greenhouse gas emissions and waste while promoting more sustainable and circular¹⁶ business models.¹⁷ This trend is embraced by major brands such as Adidas, Gap, H&M, Levi's, Nike, Zara, etc.
- ▶ For Cambodian manufacturers, this would require investments in low-emission and energy-efficient production facilities, renewable energy and clean technology equipment, reducing pollution and waste by minimising resources used, and recycling and reusing waste.
- ▶ Ongoing and increased attention to the social sustainability aspect of GFT production.

FIGURE 2: Due diligence requirements across the globe



¹⁴ McKinsey (2024). *Ibid.*

¹⁵ McKinsey (2020). *The State of Fashion 2020.*

¹⁶ *Circularity refers to an economic system aiming to eliminate waste and pollution, lengthen product lifecycles, promote the continual use of resources and minimise resource inputs. See (McKinsey, 2023; Ellen MacArthur Foundation, n.d.).*

¹⁷ McKinsey (2024). *Ibid.*

BOX 1: Some regulatory trends affecting the GFT sector¹⁸

The **OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector and the UNECE Recommendation No. 46 on Enhancing traceability and transparency of sustainable value chains in the garment and footwear sector** promote responsible supply chains and transparency in the GFT sector.¹⁹ These aim to help companies identify and address labour and human rights violations, environmental impacts, and reputational risks. They also encourage the adoption of sustainable and circular business models, focusing on waste reduction, recycled materials, and product longevity.

The **EU Strategy for Sustainable and Circular Textiles** aims to create a greener, more competitive textile sector by setting design requirements for textiles, introducing clearer information and a Digital Product Passport, introducing mandatory Extender Producer Responsibility rules, restricting textile waste export, incentivising circular business models, among others.

The EU's **Corporate Sustainability Reporting Directive (CSRD)**, introduced on 5 January 2023, applies disclosure requirements across the in-scope company's value chain according to European Sustainability Reporting Standards (ESRS).²⁰ Consolidated sustainability reporting will be required for non-EU headquartered companies at a global level that have at least one EU-based subsidiary or branch and meet the prescribed revenue thresholds. The EU's **Directive on Corporate Sustainability Due Diligence (CS3D)** outlines due diligence obligations for larger companies to identify, prevent, mitigate, and account for adverse impacts on human rights, labour rights, and the environment along global supply chains²¹.

The **U.S. Uyghur Forced Labor Protection Act (UFLPA)**, which came into effect in June 2022, aims to prevent goods produced with forced labour from entering the U.S. market, particularly those from the Xinjiang Uyghur Autonomous Region in China. Accordingly, the UFLPA establishes a rebuttable presumption that goods mined, produced, or manufactured wholly or in part in Xinjiang or by entities on the UFLPA Entity List are made with forced labour and are, therefore, prohibited from importation into the United States.²² To prove compliance with the UFLPA, entities may provide evidence such as affidavits, audit reports, policies and procedures for compliance programmes, or other relevant documentation.²³

¹⁸ This list focuses on regulatory requirements relevant to the GFT sector and is not exhaustive.

¹⁹ OECD, 2018. *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector*, s.l.: Organisation for Economic Cooperation and Development; UNECE (n.d.). *Traceability for Sustainable Garment and Footwear*.

²⁰ Balsanek, K. et al., 2023. *EU's Corporate Sustainability Reporting Directive: What US companies need to know*; European Commission, 2023. *Corporate sustainability reporting*.

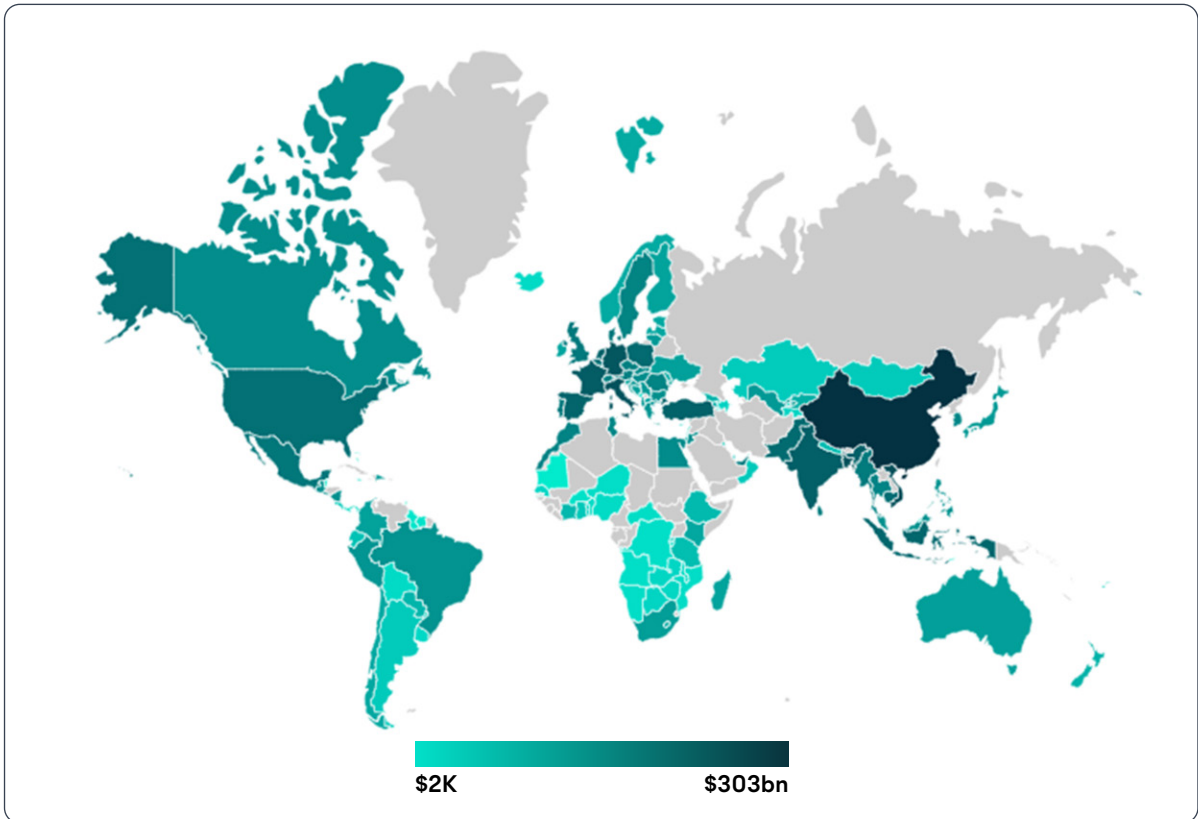
²¹ To find out more about HREDD topics please visit: <https://rbh-eurochamcambodia.com/>

²² US Customs and Border Protection (n.d.). *Uyghur Forced Labor Prevention Act*.

²³ White & Case (2022, 28 June). *US Authorities Begin Enforcement of Uyghur Forced Labor Prevention Act and Issue Guidance for Importers*.

Global GFT Trade

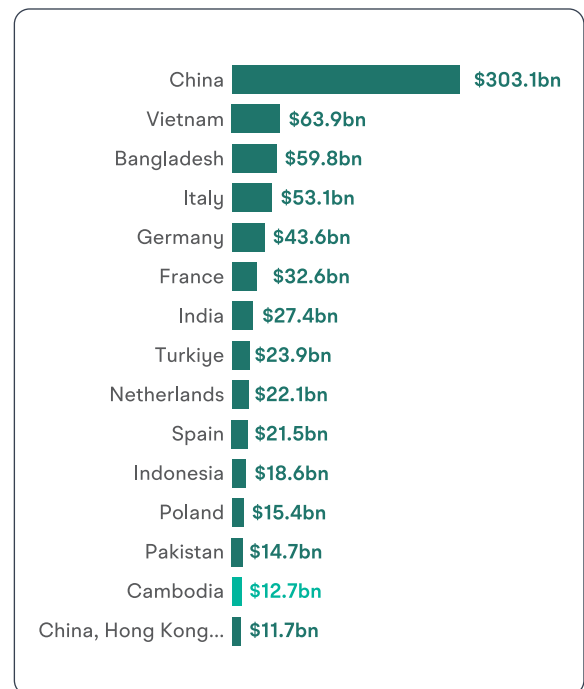
FIGURE 3: Global GFT Exports, by Country, 2022



2022, the world recorded a total value of US\$827 billion in GFT exports globally.

- ▶ China was the top exporter, accounting for 34% of the total world's GFT export (or almost US\$303 billion), followed by Vietnam (7.2%, or US\$63.9 billion), and Bangladesh (6.7%, or 59.8 billion).
- ▶ Cambodia ranked 14th in the global GFT exports and third in ASEAN in 2022, generating approximately US\$12.7 billion in GFT export revenue and accounting for almost 1.4% of the total GFT market.

FIGURE 4: Top 15 Global GFT exporters, 2022



Source: IEC GFT Dashboard, data from UN Comtrade

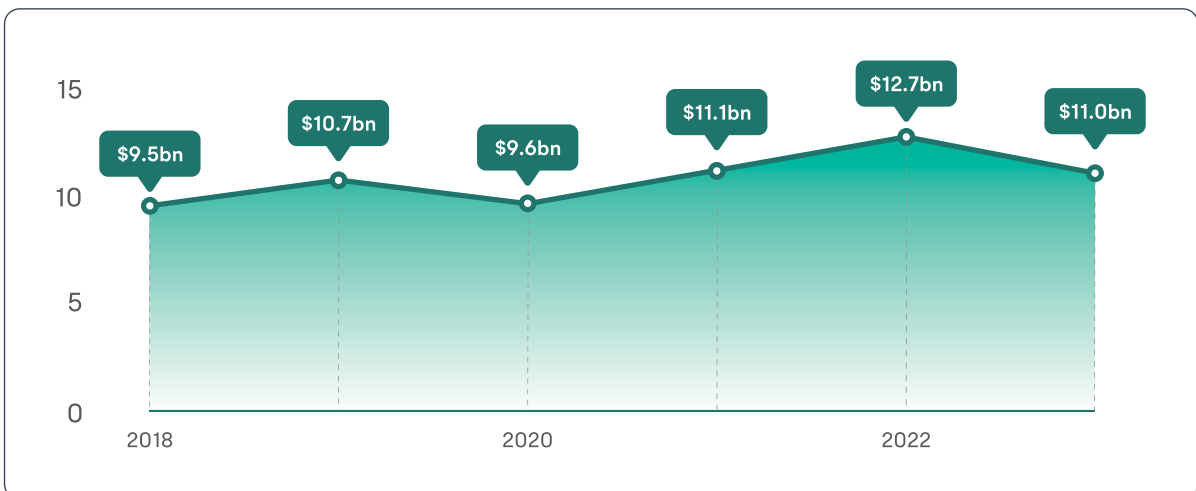
3. Cambodia's Major Export Markets

Cambodia's Overall Trade in GFT

After a sudden dip in 2020 due to the COVID-19 pandemic, Cambodia's GFT exports have recovered strongly from 2021-2022, to surpass the pre-COVID-19 export levels and reach US\$12.7 billion in 2022. However, in 2023, Cambodia exported a total of US\$11 billion of GFT products, falling by 13% compared to 2022 (Figure 5). This dip reflected the adjustment made by retailers to reduce the high inventory resulting from the high orders made post-pandemic. It also was caused by the concerns of the global fashion industry in supply chain disruptions and economic factors such as inflation.²⁴ The high volatility of the order placements, as indicated by the large swings in export growth (going from +15% to -10), emphasises that resilience, innovation and adaptation are key to the future of the sector's industry.

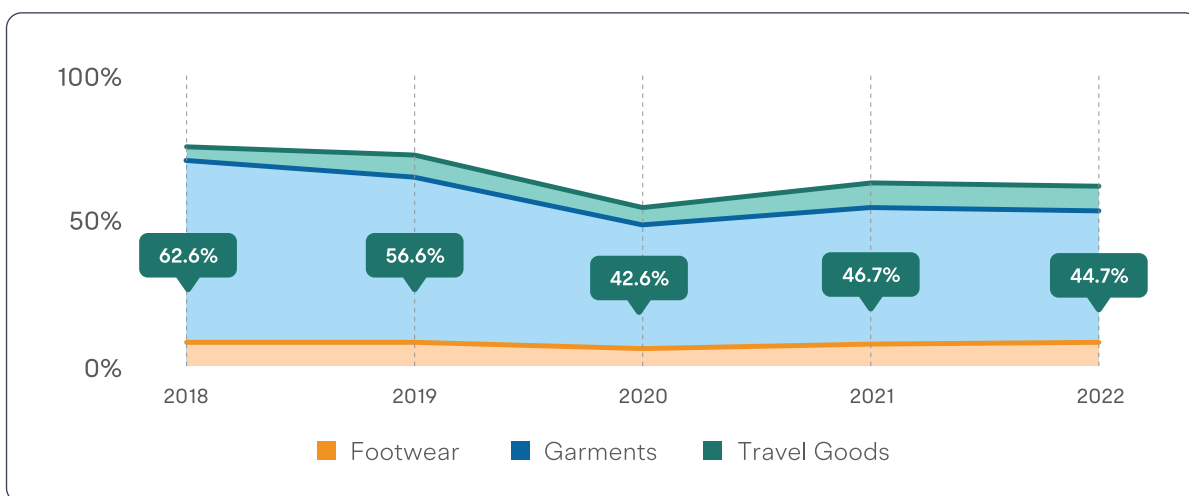
Overall, while the share of GFT exports over the country's total exports has been declining, the GFT sector remained a critical source of export revenue for Cambodia (Figure 6).

FIGURE 5: Cambodia's GFT Exports, 2018-2023



Source: IEC GFT Dashboard, data from General Department of Customs and Excises (GDCE)

²⁴ Achim Berg (2022). How current global trends are disrupting the fashion industry. McKinsey; Smith, P. (2024). Global apparel market - statistics & facts. Statista.

FIGURE 6: Share of GFT exports in Cambodia's total exports to the World

Source: IEC GFT Dashboard, data from GDCE

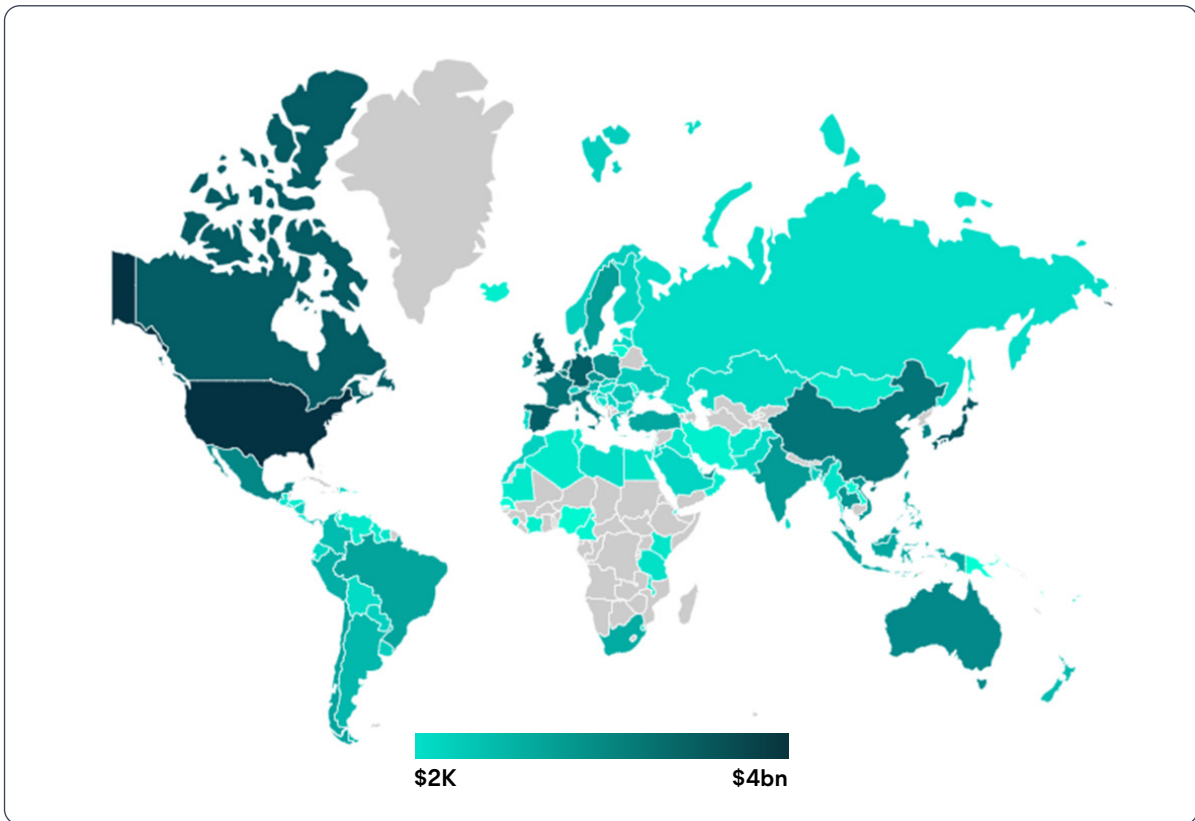
Major GFT Export Markets

The United States, the European Union, Japan, Canada, the United Kingdom, China, and ASEAN are the top export markets of Cambodia's GFT products.

Since 2019, the United States has remained the top export destination for Cambodia's GFT. The US market accounted for more than US\$4.2 billion, or more than 38% of the Kingdom's GFT total export revenue in 2023. The European Union was the second most significant importer of Cambodia's GFT, accounting for almost US\$3 billion (or 27%) of 2023 GFT export revenue. The other top GFT export markets of Cambodia's GFT in 2023 were Japan (US 918 million), Canada (US 773 million), the United Kingdom (US 716 million), China (US 274 million), and ASEAN (US 194 million).

Overall, Cambodia's GFT exports to the US have grown since 2019. The ASEAN market also maintained growth of GFT import from Cambodia, at 2.7% per annum. On the other hand, exports to the European Union, Japan, Canada, the United Kingdom, and China have shown decline from 2%-5% per annum (Figure 8).

FIGURE 7: Top Export markets of Cambodia’s GFT products, 2023



Source: IEC GFT Dashboard, data from GDCE

FIGURE 8: Top 15 export markets for Garment, Footwear, and Travel Goods in Cambodia, 2023



FIGURE 9: Cambodia’s GFT Export Performance by market

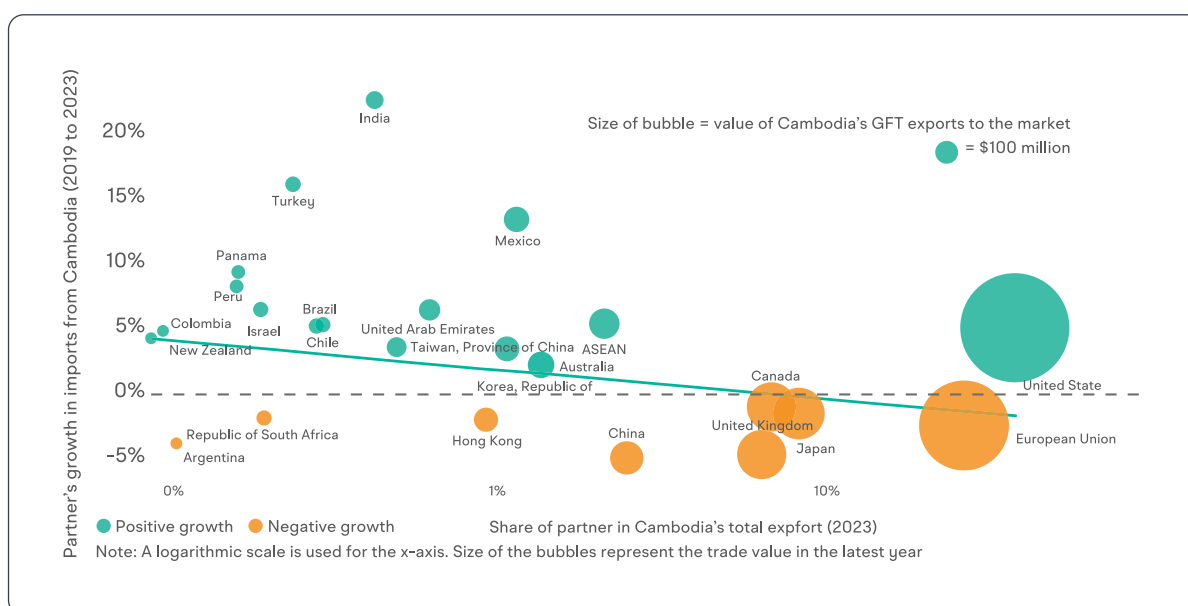


TABLE 1: CAMBODIA’S GFT EXPORT PERFORMANCE IN TOP 10 MARKETS

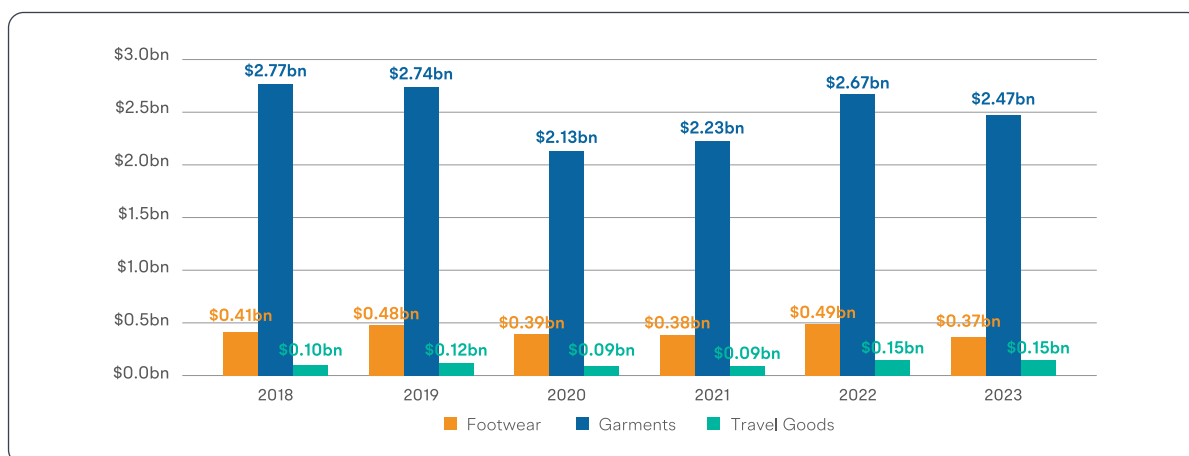
Partner	Annual Growth in GFT Imports from Cambodia, 2019-2023 (%)	Share in Cambodia's total exports, 2023 (%)	2023 Exports (US\$ million)
United States	5.1%	38.6%	4,235
European Union	-2.5%	27.2%	2,987
Japan	-1.5%	8.4%	918
Canada	-1.2%	7.1%	774
United Kingdom	-4.8%	6.5%	716
China	-5.1%	2.5%	274
ASEAN	2.7%	1.8%	194
Korea, Republic of	2.3%	1.4%	151
Mexico	13.8%	1.2%	127
Australia	3.6%	1.1%	119

Source: IEC GFT Dashboard, data from GDCE

The European Union

Cambodia's GFT exports to the European Union remained strong over the years, boosted by duty-free quota-free market access under the Everything But Arm (EBA) scheme. Despite the decline due to the COVID-19 outbreak, which disrupted the supply chain, consumption demand, and manufacturing operation, as well as partial withdrawal of the EBA scheme in 2020, exports to the EU market in 2022 bounced back to reach US\$3.3 billion. Consumption in 2023, however, slowed down, slashing GFT exports by more than 9.5% in 2023 compared to 2022.

FIGURE 10: GFT Export Trend: the EU market



Source: IEC GFT Dashboard, data from GDCE



GFT exports to the EU in the first half of 2024 indicated a strong growth for Garment and Travel Goods, with an increase of 24% and 20% respectively compared to the same period in 2023.

	2022 (US\$)	2023 (US\$)	2023 vs. 2022 (%)	H1/2023 (US\$)	H1/2024 (US\$)	H1/2024 vs. H1/2023 (%)
Garment	2,665,630,985	2,472,790,815	-7%	1,137,794,000	1,405,351,000	24%
Footwear	488,994,870	365,866,498	-25%	203,252,000	205,901,000	1%
Travel Goods	145,425,250	148,124,386	2%	76,926,000	92,354,000	20%

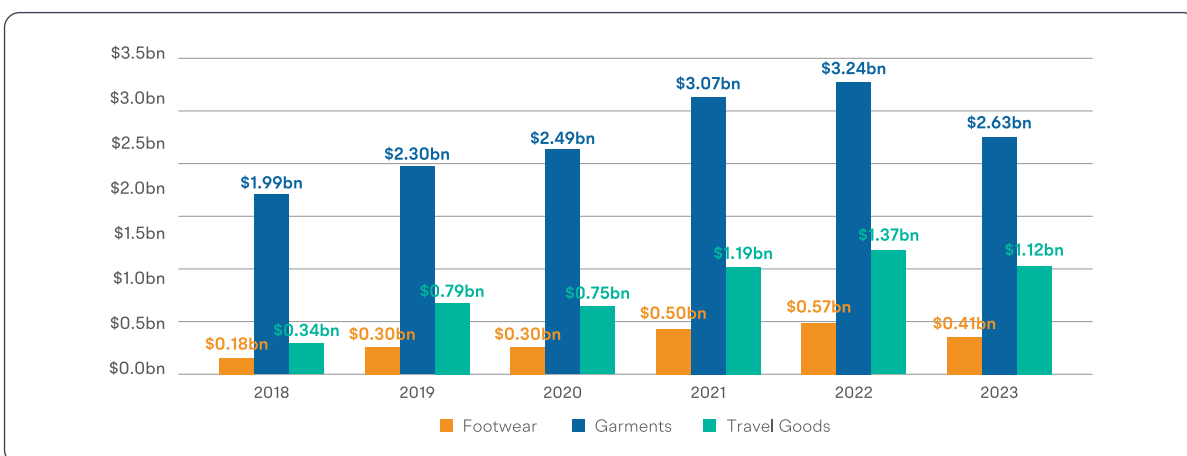
Source: Annual data (2023, 2024) from GDCE. H1/2023 & H1/2024 data from ITC Trademap

The United States

Title V of the Trade Act of 1974 granted duty-free treatment under GSP for eligible products imported from beneficiary developing countries (BDCs) and least-developed beneficiary developing countries (LDBDCs). While apparel and footwear are excluded from the US GSP scheme, the inclusion of travel goods and handbags has been a key factor boosting Cambodia's export of travel goods to the US. Overall, the US market is large in size and, therefore, more attractive in comparison to other major markets. However, Cambodia is competing on the same ground as other major garment exporter, such as Bangladesh and Vietnam. Furthermore, the US market is considered more volatile compared to the EU market or the Japanese market.

Cambodia's GFT exports to the United States have expanded strongly over the years. In 2022, Cambodia's GFT exports reached almost US\$5.2 billion. In 2023, GFT exports to the US dropped to US\$4.2 billion. Nevertheless, the US remained the biggest importer of Cambodia's GFT globally. The US alone accounted for more than 73% of all Cambodia's travel goods exports in 2023.

FIGURE 11: GFT Export Trend: the US market



Source: IEC GFT Dashboard, data from GDCE

Category	2022 (US\$)	2023 (US\$)	2023 vs. 2022 (%)
Garment	US\$3.2 billion	US\$2.6 billion	-19%
Footwear	US\$570 million	US\$408 million	-28%
Travel Goods	US\$1.4 billion	US\$1.2 billion	-13%

Cambodia's GFT exports to the US in the first half of 2024 indicated a strong recovery from the decline in the 2022-2023 period. Compared to the first half of 2023, exports in the first half of 2024 expanded by 16% for Garments, 21% for Footwear, and 9% for Travel Goods.

	2022 (US\$)	2023 (US\$)	2023 vs. 2022 (%)	H1/2023 (US\$)	H1/2024 (US\$)	H1/2024 vs. H1/2023 (%)
Garment	3,234,475,829	2,630,070,834	-19%	1,177,374,000	1,362,020,000	16%
Footwear	570,528,909	408,258,285	-28%	201,468,000	244,028,000	21%
Travel Goods	1,371,347,307	1,196,948,599	-13%	593,547,000	649,490,000	9%

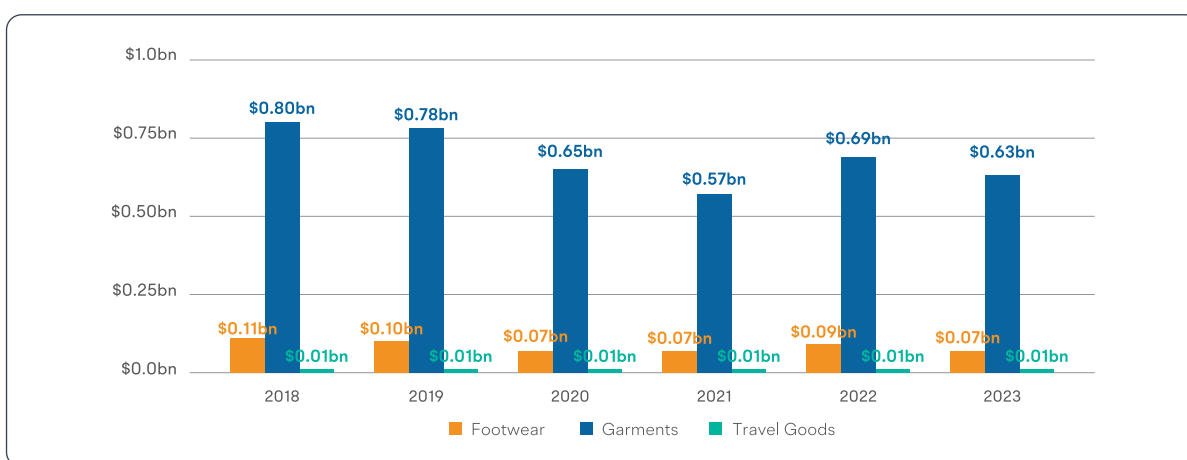
Source: Annual data (2023, 2024) from GDCE. H1/2023 & H1/2024 data from ITC Trademap

The United Kingdom

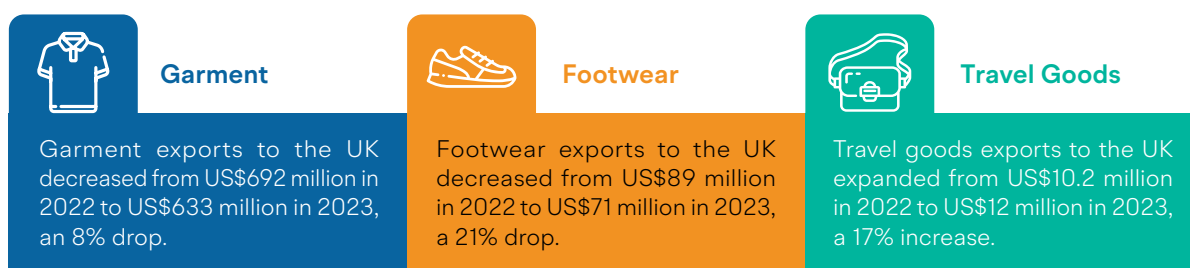
After Brexit, the United Kingdom developed its own Generalised Scheme of Preference (GSP), which has been in place since 1 January 2021. It largely resembled the EU GSP with three separate sub-schemes (the Least Developed Countries Framework, the Enhanced Framework, and the General).²⁵ Following on, the Developing Countries Trading Scheme (DCTS) entered into force on 19 June 2023, replacing the UK's GSP and is now the applicable trading scheme for exports from Cambodia.²⁶

Cambodia's GFT exports to the United Kingdom dropped in 2020 with the outbreak of the COVID-19 pandemic and have not recovered to the pre-pandemic level. In 2022, Cambodia's GFT exports to the United Kingdom recorded US\$792 million in total export revenue, which further dropped to US\$716 million in 2023.

FIGURE 12: GFT Export Trend: the UK market



Source: IEC GFT Dashboard, data from GDCE



Cambodia's GFT exports to the UK in the first half of 2024 indicated a strong bounce back, with a strong increase of 78% for Travel Goods and 18% and 17% for Garments and Footwear, respectively, compared to the same period in 2023.

	2022 (US\$)	2023 (US\$)	2023 vs. 2022 (%)	H1/2023 (US\$)	H1/2024 (US\$)	H1/2024 vs. H1/2023 (%)
Garment	691,668,802	633,044,528	-8%	269,516,000	318,074,000	18%
Footwear	89,718,139	71,041,084	-21%	37,052,000	43,181,000	17%
Travel Goods	10,178,825	11,955,533	17%	6,175,000	10,965,000	78%

Source: Annual data (2023, 2024) from GDCE. H1/2023 & H1/2024 data from ITC Trademap

²⁵ Paul Baker (2022). UK's Trade Approach Towards Developing Countries. Written evidence to UK International Trade Committee.

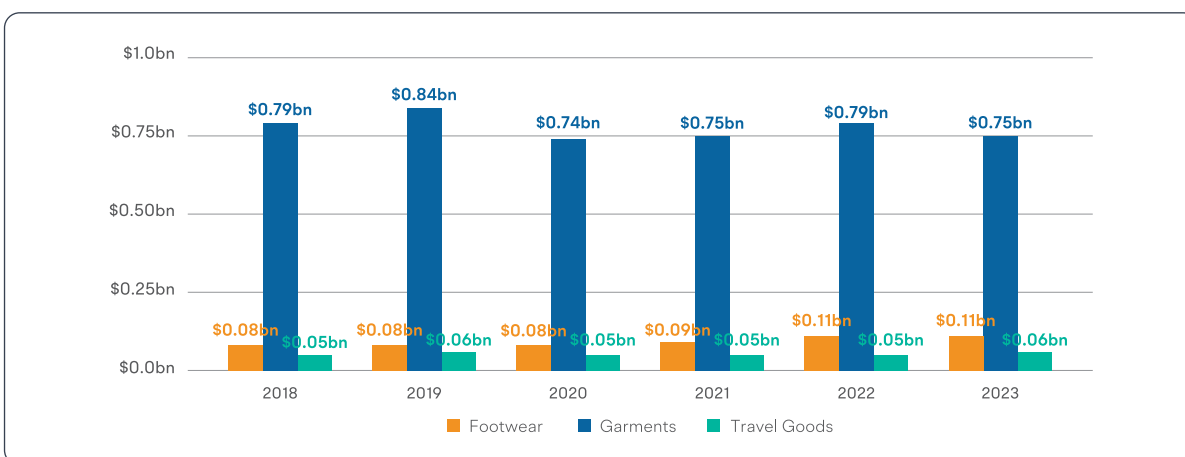
²⁶ Gov.uk (2023). Preference tiers under the Developing Countries Trading Scheme.

Japan

Japan's GSP program, first implemented in 1971 and currently in place, provides preferential tariff treatment to 128 developing countries and territories. Furthermore, Cambodia, as part of the ASEAN, has also signed the ASEAN-Japan FTA and the RCEP, which provide preferential market access for Cambodia's exports to Japan.

Cambodia's GFT exports to Japan showed slight decline during 2020-2021, before slightly recovering to US\$956 million in 2022. In 2023, Cambodia's exports of GFT products to Japan fell back to COVID-19 level at US\$918 million.

FIGURE 13: GFT Export Trend: Japan market



Source: IEC GFT Dashboard, data from GDCE



GFT exports to Japan in the first half of 2024 indicated considerable recovery compared to the same period in 2023, with an increase of 19% for Garments, 8% for Footwear, and 5% for Travel Goods.

	2022 (US\$)	2023 (US\$)	2023 vs. 2022 (%)	H1/2023 (US\$)	H1/2024 (US\$)	H1/2024 vs. H1/2023 (%)
Garment	793,895,717	747,409,789	-6%	327,635,000	391,452,000	19%
Footwear	109,616,296	110,518,888	1%	53,989,000	58,460,000	8%
Travel Goods	52,469,108	60,260,259	15%	25,653,000	26,890,000	5%

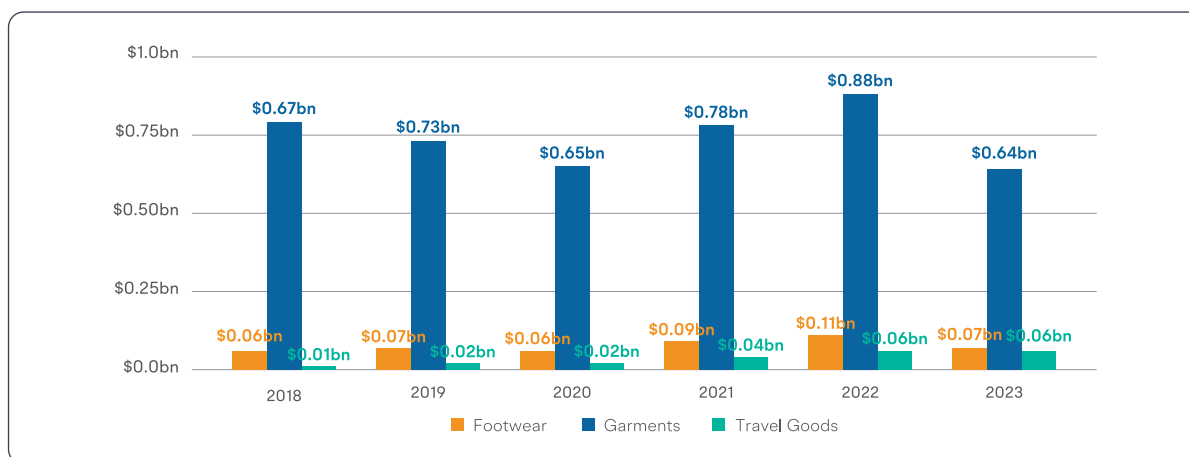
Source: Annual data (2023, 2024) from GDCE. H1/2023 & H1/2024 data from ITC Trademap

Canada

Canada's General Preferential Tariff (GPT), first implemented in 1974, provides duty-free or reduced tariff rates for designated developing country beneficiaries. Cambodia is also currently negotiating a regional trade agreement with Canada together with other ASEAN Member States.

Cambodia's GFT exports to Canada reached a peak of US\$1.05 billion in 2022, before falling back to around pre-COVID 19 level, at US\$774 million in 2023.

FIGURE 14: GFT Export Trend: Canada market



Source: IEC GFT Dashboard, data from GDCE



Cambodia's Garment exports to Canada in the first half of 2024 increased by 16% compared to the same period in 2023. However, Footwear exports continued to drop by 7%, while Travel Goods saw no improvement, indicating the need to strengthen export ties in the Canadian market.

	2022 (US\$)	2023 (US\$)	2023 vs. 2022 (%)	H1/2023 (US\$)	H1/2024 (US\$)	H1/2024 vs. H1/2023 (%)
Garment	880,735,827	639,055,532	-27%	296,608,000	344,260,000	16%
Footwear	109,768,941	73,590,025	-33%	38,907,000	36,235,000	-7%
Travel Goods	60,446,570	60,861,666	1%	33,919,000	33,852,000	0%

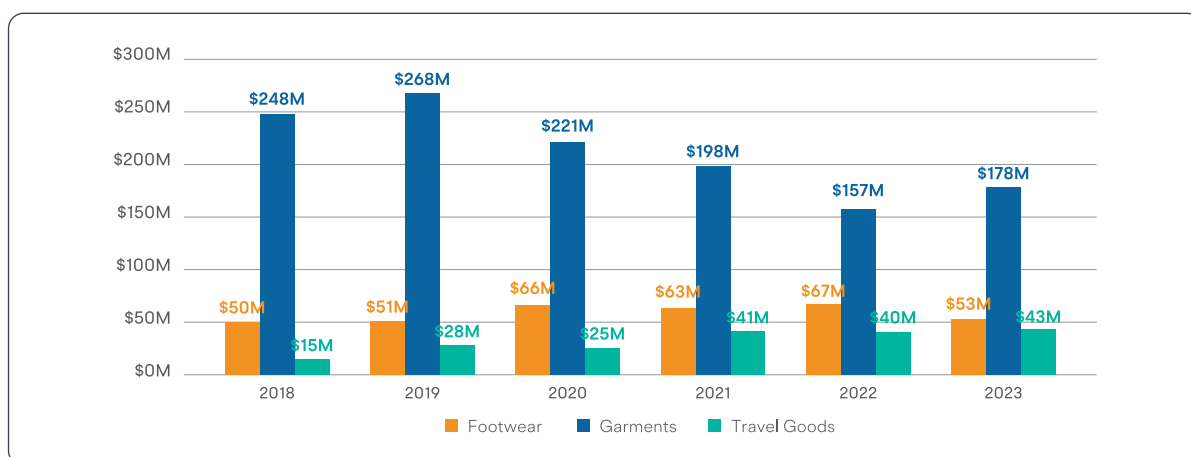
Source: Annual data (2023, 2024) from GDCE. H1/2023 & H1/2024 data from ITC Trademap

China

China has adopted a GSP regime that provides duty-free treatment for LDCs since July 1st, 2010. Furthermore, for trading with China, Cambodia can also utilise the ASEAN-China FTA as well as the China-Cambodia Free Trade Agreement, which was signed in October 2020 and entered into force on January 1st, 2022.

For the GFT sector, Cambodia's exports to China experienced a slight expansion during the 2022-2023 period after a drop from 2021. GFT exports from Cambodia to China rose from US\$267 million in 2022 to US\$276 million in 2023, indicating an increase of 4%.

FIGURE 15: GFT Export Trend: China market



Source: IEC GFT Dashboard, data from GDCE



GFT exports to China recovered in the first half of 2024 compared to the same period in 2023. Footwear exports experienced a bigger increase of 42%, followed by Travel Goods (13%) and Garments (8%).

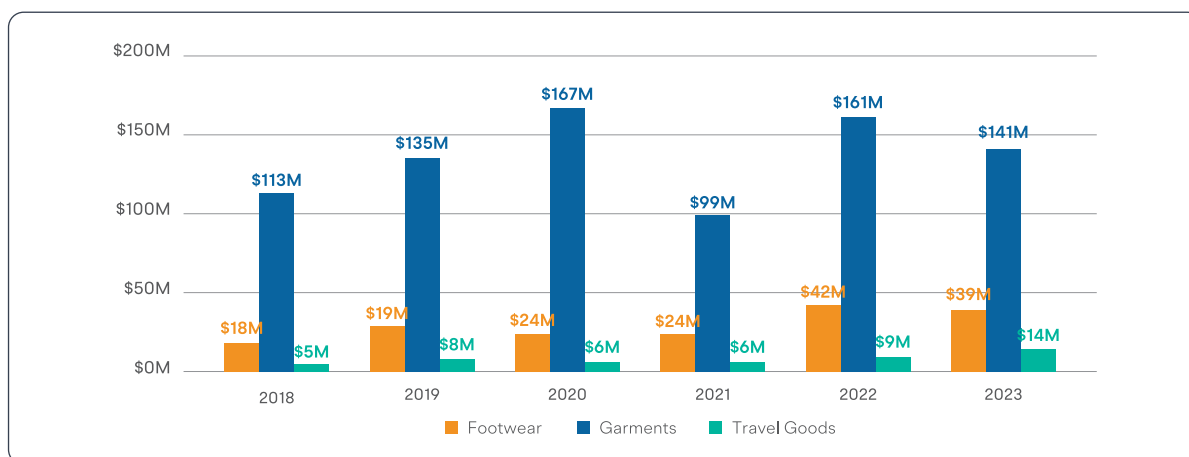
	2022 (US\$)	2023 (US\$)	2023 vs. 2022 (%)	H1/2023 (US\$)	H1/2024 (US\$)	H1/2024 vs. H1/2023 (%)
Garment	156,541,906	178,229,516	14%	93,270,000	100,792,000	8%
Footwear	67,427,333	53,306,435	-21%	24,521,000	34,847,000	42%
Travel Goods	40,233,245	42,861,103	7%	20,713,000	23,317,000	13%

Source: Annual data (2023, 2024) from GDCE. H1/2023 & H1/2024 data from ITC Trademap

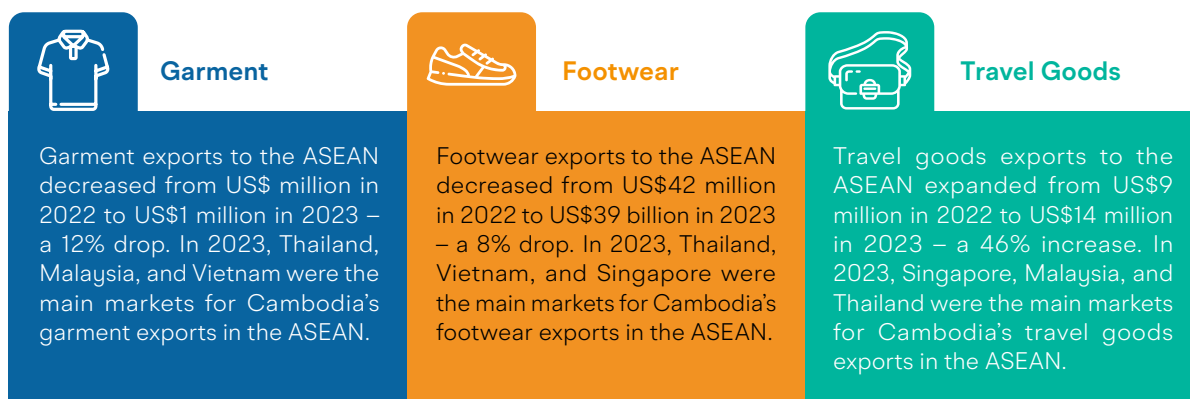
ASEAN

Cambodia joined ASEAN as its 10th member on April 30, 1999, and ever since has benefited from the duty-free market-free access to the ASEAN market for almost all goods under the ATIGA as well as ASEAN+ FTAs. While most other ASEAN Member States have a GFT industry, Cambodia managed to generate export revenue of US\$254 million and US\$235 million to other ASEAN Member States in 2022 and 2023 respectively.

FIGURE 16: GFT Export Trend: ASEAN market



Source: IEC GFT Dashboard, data from GDCE



Cambodia's GFT exports to the ASEAN in the first half of 2024 indicated a strong bounce back for Travel Goods, with an increase of 177% compared to the same period in 2023. Footwear and Garments had more moderate growth of 11% and 8%, respectively.

Category	2022 (US\$)	2023 (US\$)	2023 vs. 2022 (%)	H1/2023 (US\$)	H1/2024 (US\$)	H1/2024 vs. H1/2023 (%)
Garment	161,080,000	141,244,876	-12%	69,616,000	75,109,000	8%
Footwear	42,058,670	38,777,209	-8%	20,329,000	22,556,000	11%
Travel Goods	9,310,304	13,564,412	46%	4,627,000	12,814,000	177%

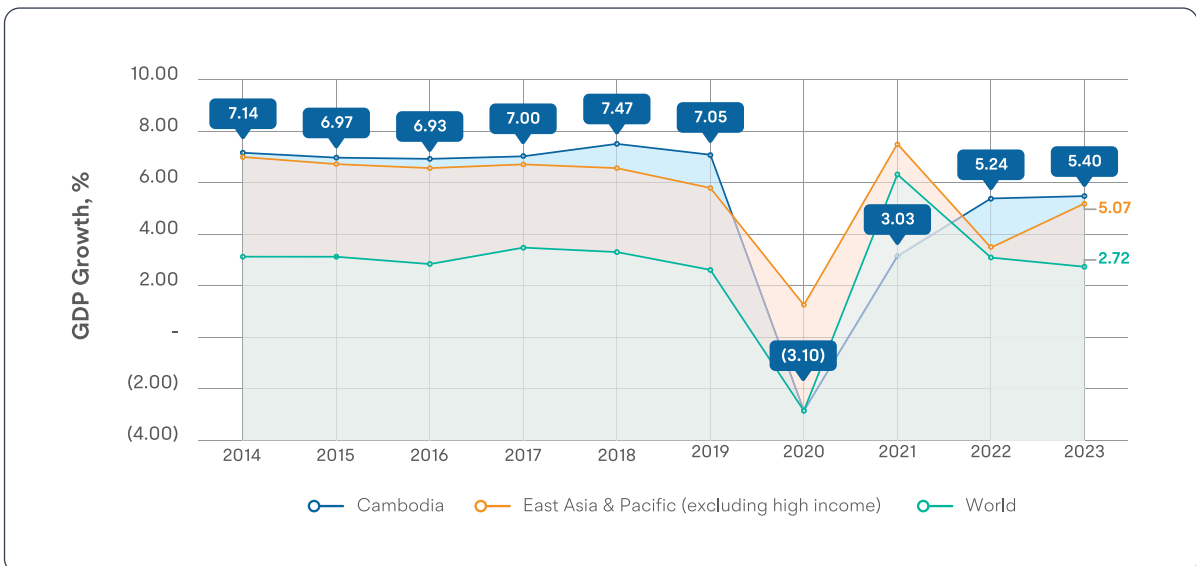
Source: Annual data (2023, 2024) from GDCE. H1/2023 & H1/2024 data from ITC Trademap

4. Outlook

Economy Outlook

Cambodia's economy regained growth momentum even though the growth rate has not returned to the pre-pandemic level. In 2023, nominal GDP reached US\$31.8 billion, indicating of growth of 5.4% compared to 2022. This growth rate is considerably higher than the average growth of the East-Asia Pacific region and the world, which stood at 5.07% and 2.72%, respectively (Figure 17).

FIGURE 17: Cambodia's GDP Growth Rate



Source: World Bank (WDI)

In 2024, the Royal Government of Cambodia (RGC) predicted economic growth to remain robust at 5.5%. This growth is primarily fuelled by the flourishing tourism and non-garment manufacturing sectors, as well as increased FDI and infrastructure development. The National Bank of Cambodia anticipated several macroeconomic risks faced by Cambodia's economy in 2024, with direct impacts on the GFT sector as below:²⁷

²⁷ National Bank of Cambodia (2024). *Macroeconomic and Banking Sector Development in 2023 and Outlook for 2024* by the National Bank of Cambodia, 29 January 2024.

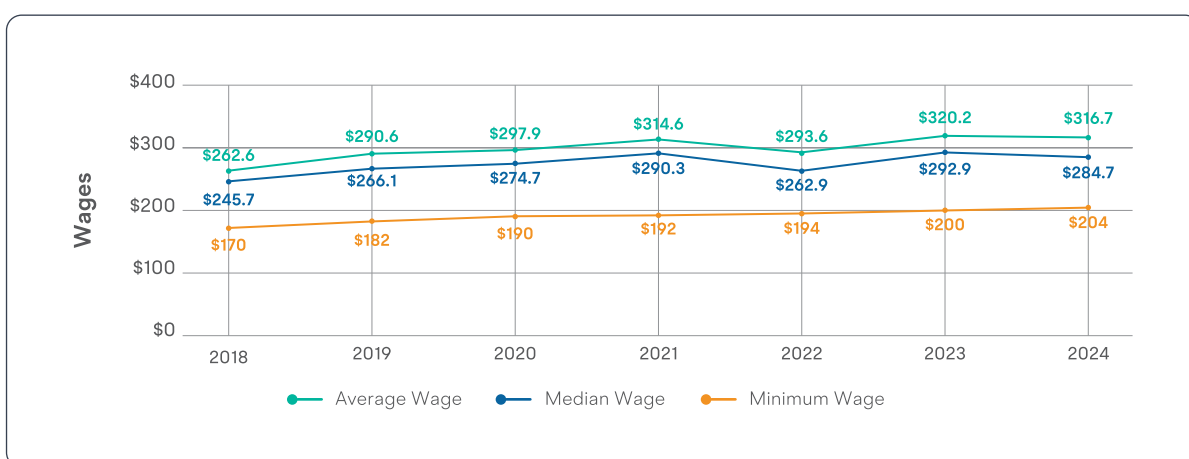
External risks	Internal risks
<ul style="list-style-type: none"> ▶ Slow growth in Cambodia’s major trading partners impacting investment, exports, and tourism ▶ Escalating tensions and geopolitical fragmentation disrupting supply chains, exports and investment ▶ Adverse effects of climate change 	<ul style="list-style-type: none"> ▶ Rising threat of non-performing loans, which could dampen consumption and investment, including for GFT investment and consumption ▶ Limited capacity, skills, and productivity ▶ High transportation and electricity costs

Source: Summarised from NBC (2024)

Wages

The GFT is a labour-intensive sector, and labour cost represents a major component of CMT operation, which accounts for 70% of the operations of Cambodia’s GFT factories. The nominal minimum wage in Cambodia’s GFT sector has seen an increase over the past ten years from a low base of US\$100 in 2014. As of 2023, the minimum wage in Cambodia increased to US\$200 per month, up from US\$194 US\$ per month in 2022. Starting from January 1, 2024, the minimum wage in Cambodia increased to US\$204.²⁸ In addition to the base wage, workers are also entitled to various fringe-benefit payments for transportation, rent, seniority bonus, meal allowance, and regular attendance. This results in higher real income for GFT workers, averaging US\$316 per month (Figure 18). Cambodia’s current minimum wage is slightly higher than Vietnam (US\$154-US\$198) and much higher than Bangladesh (US\$75), two major competitors of Cambodia in the GFT sector.²⁹

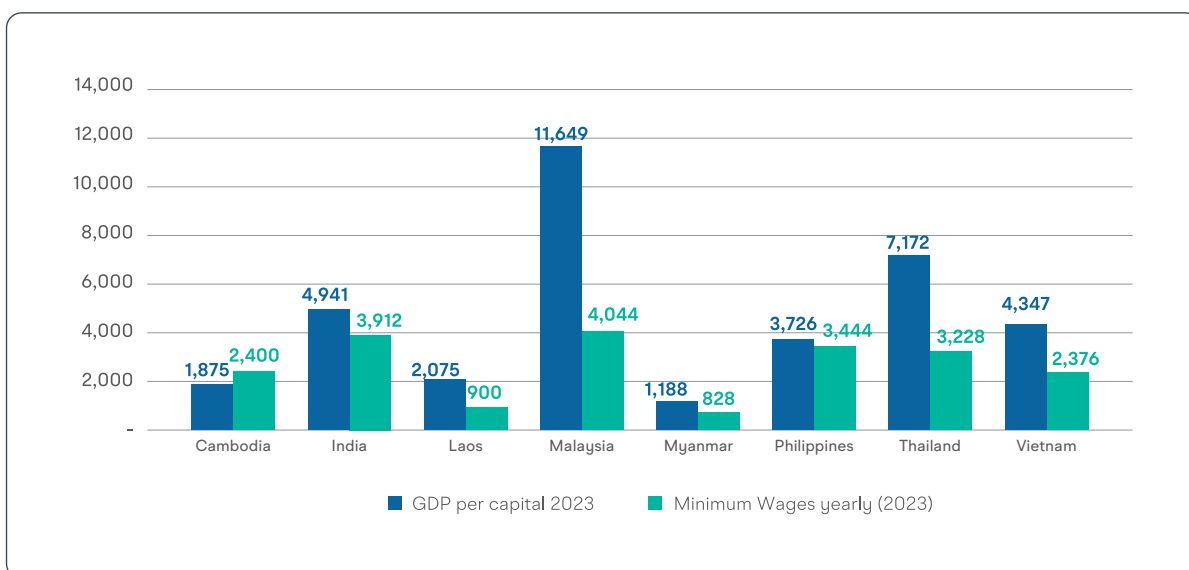
FIGURE 18: Changes in Cambodia GFT Workers’ Wages, 2018-2024



Source: IEC GFT Dashboard, data from TAFTAC

²⁸ Prakas (283/23 on the Determination of Minimum Wage for Workers in the Garment and Textile, Footwear, and Travel Product and Bag (GFT) Sectors issued by the Ministry of Labor and Vocational Training (MLVT) on September 29, 2023 (B2B Cambodia, 2023).

²⁹ Fresh News Asia (2023). PM Hun Manet: Current Minimum Wage in Cambodia is Higher than in Some Countries in the Region.

FIGURE 19: Minimum wages in selected countries, 2023 (in US\$)

Source: Minimum wages from Ministry of Labour and Vocational Training (TAFTAC Sectoral Brief 2023); GDP per capita from World Bank. Indonesia, Vietnam, the Philippines, and Thailand have different minimum wages by region, for which the upper bounds are taken.

Cambodia currently sets a minimum wage for the GFT sector, which is higher than the country's per capita GDP (compared on an annual basis) (Figure 19), highlighting the importance of the sector in creating income for labour. As such, the minimum wage is relatively high in comparison to other countries³⁰. However, increasing labour costs also puts pressure on CMT factories operating at low margins. As the minimum wage continues to rise, increasing productivity and lowering the time and cost of doing business will be necessary to retain the competitiveness of the GFT sector.

³⁰ Care should be taken in comparing the minimum wage of a sector (such as GFT in Cambodia) to the average GDP per capita of a country across all sectors. The GFT sector is a major source of foreign exchange revenue for Cambodia, and the GFT sector is a more tradeable sector than most other sectors of an economy, such that the wages are likely to be higher than (less tradable sectors) of an economy. Nevertheless, the comparison of the minimum wage across ASEAN countries, comparative to national GDP per capita, appears relatively higher in Cambodia.

From Crisis to Recovery: How ASEAN Minimum Wages are Evolving¹



Examining Minimum Wage Dynamics in Selected ASEAN Economies

INTRODUCTION

I. The Role of Minimum Wage Policies in Asia's Garment Industry and Beyond

Minimum wage approach in the ASEAN context

Minimum wages have re-emerged as a central topic in policy debates across Asia and the Pacific, particularly within labour-intensive industries like the garment sector. Setting adequate minimum wages is viewed as a vital mechanism to address income inequality and improve the living standards of the most vulnerable workers. This perspective is driven by evidence-based decisions that, when carefully implemented, minimum wages do not lead to widespread job losses as once feared.

In the garment industry, where workers often earn low wages and work extensively, minimum wage policies can help raise the incomes of millions of workers and contribute to broader economic and social stability. Countries like Viet Nam, Cambodia, and Malaysia have taken steps to strengthen their minimum wage systems, recognizing that these policies can provide a critical lifeline during the cost-of-living crisis. As countries in the region grapple with the ongoing crisis, a well-calibrated minimum wage system

promises to deliver fairer outcomes for workers in the garment sector and beyond.

While adjusting wages to keep pace with inflation is essential for providing a decent standard of living for low-wage earners, doing so can be challenging in countries where minimum wages are already high compared to median wages or where economic conditions are fragile, such as in the aftermath of the COVID-19 crisis. To address this, robust social dialogue is needed to ensure timely and evidence-based adjustments that balance the needs of workers and economic factors.

Addressing minimum wage systems in the context of the cost-of-living crisis requires robust social dialogue founded on evidence. This approach is crucial to prevent the decline in purchasing power experienced by millions of workers in the region. Moreover, it must consider the sustainable development of enterprises that create more job opportunities. In this context the tripartite mechanism put in place by Cambodia a few years ago has come to mostly a positive fruition.

Out of 10 Member States of ASEAN, eight have statutory minimum wages in place. These are, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand and Vietnam.

¹ This policy brief update was authored by Xavier Estupiñan, Regional Wage Specialist DWT Asia.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by their affiliated organizations of the opinions expressed in them.

Comparing monthly minimum wages in ASEAN countries in US\$ and PPP\$, 2015, 2019 and 2023.

How Minimum Wage Policies Have Shaped Wage Levels in ASEAN Countries

In 2023, monthly minimum wage levels in ASEAN countries exhibited distinct groupings, creating three discernible categories. Given the existence of multiple minimum wage levels in some countries, we have chosen mainly to use the median minimum wage value as a representative measure in this brief (See Box 1).

The lower minimum wage group comprised countries with monthly minimum wages below \$100, the middle group extended to the \$200 mark, and the two highest minimum wages corresponded to countries like Thailand and Malaysia, reflecting the highest income per capita among the selected ASEAN nations (Figure 1).

FIGURE 1:

ASEAN minimum wage-levels in US\$, 2023



Source: Author's estimation based on minimum wage levels ASEAN countries.

Countries can be broadly grouped into three categories based on their median wage levels. For example, Viet Nam, the Philippines, and Indonesia display significant wage variation, likely reflecting regional or sectoral differences. Notably, the highest minimum wage in the Philippines exceeds that of Thailand, and Indonesia's highest minimum

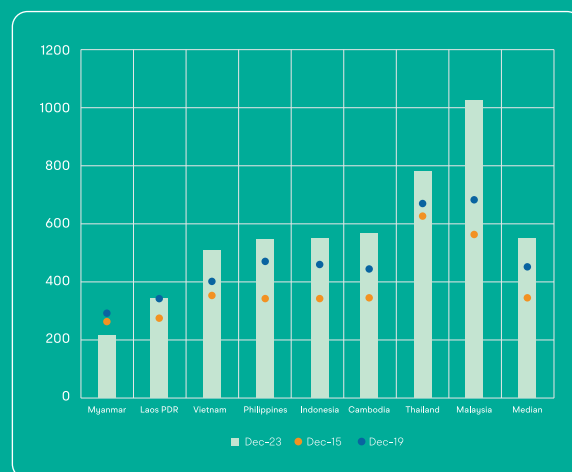
wage approaches Malaysia's, which has the highest overall wages in the ASEAN context.

A more accurate way to compare minimum wages is using Purchasing Power Parity (PPP) rather than in US dollars. This is because PPP considers the cost of living in a country and adjusts for differences in prices of goods and services, allowing for a more realistic representation of the purchasing power of minimum wage earners.

Among the ASEAN countries, the median value of the monthly minimum wage in 2023 was US\$546 (PPP). Malaysia had the highest monthly minimum wage of US\$1,024 in PPP, while Myanmar had the lowest monthly minimum wage of US\$214 in PPP (Figure 2).

FIGURE 2:

ASEAN minimum wage-levels in US\$ (PPP), 2015, 2019 and 2023



Source: Author's estimation based on minimum wage levels ASEAN countries.

Most ASEAN countries have seen an improvement in their median minimum wages expressed in PPP\$US since 2015, with the only exemption of Myanmar and Laos P.D.R.

BOX 1: Comparing minimum wages across countries

To accurately compare minimum wages in ASEAN, it is essential to adopt a standardized approach. Using a common currency and uniform time rates facilitates a clearer understanding of workers' earnings across countries. Choosing a representative minimum wage rate is crucial, especially in countries with varied levels based on regions, sectors, occupations, and skill levels.

In this article, median values were utilized for 34-38 provincial minimum wages in Indonesia, the lowest non-agriculture minimum wages in 17 regions in the Philippines, regional minimum wages in Thailand, and minimum wages in the four regions of Vietnam. National minimum wages were employed for Lao People's Democratic Republic, Malaysia (or City Council or Municipal Council area), and Myanmar. For Cambodia, the sole minimum wage covers only the garment, textile, and footwear sectors.

We can also make a relative comparison of the evolution of minimum wages within the ASEAN context to understand which countries experienced higher increases in their minimum wage adjustments during the 2015-2023 period. Notably, Myanmar and Lao P.D.R. experienced substantial reductions their minimum wage relative to the median minimum wages of all ASEAN countries, declining from 0.68 to 0.38 (Dec 2015 to Dec 2023) and from 0.88 to 0.48 (Dec 2015 to Dec 2022), respectively.

Viet Nam and Indonesia maintained a relatively stable minimum wage to ASEAN median minimum wage ratio, while the Philippines and Thailand saw decreases from 1.21 to 0.99 and from 1.81 to 1.32, indicating a relative reduction compared to others.

TABLE 1:**Minimum wage ratio to median minimum wages of all ASEAN countries, 2015, 2019 and 2023**

	Dec-15	Dec-19	Dec-23
Myanmar	0.68	0.50	0.38
Laos	0.88	0.77	0.48
Viet Nam	0.94	0.92	0.87
Philippines	1.21	0.97	0.99
Indonesia	0.98	1.03	1.01
Cambodia	1.02	1.11	1.06
Thailand	1.81	1.61	1.32
Malaysia	1.83	1.62	1.74
Median	126	164	189

Source: Author's estimation based on minimum wage levels ASEAN countries and World Bank's World Development Indicators for the exchange rates.

Cambodia initially increased their relative performance in 2019 but has recently stabilized its minimum wage growth aligned with the central tendency. Lastly, Malaysia, which has the highest minimum wage ratio relative to the overall median wage in the region, experienced a decline in 2019 before rebounding to 1.74 in 2023 (See Table 1). It's noteworthy that the country adjusts its minimum wage approximately every two years, with notable increases occurring in 2020 and 2022. In December 2022, the minimum wage ratio peaked at 1.91, significantly surpassing the ASEAN median minimum wage.

II. Latest minimum wage adjustments in ASEAN countries

In many ASEAN countries, the process of setting and adjusting minimum wages has become more structured and frequent. For instance, annual wage revisions are common, with governments and councils/boards actively engaging in discussions to determine appropriate wage levels. These deliberations often consider a range of socio-economic factors, including inflation, cost of living, economic growth, and productivity.

Some countries have implemented substantial hikes in minimum wages to combat inflation and support workers’ purchasing power. For example, Malaysia increased in by 25 per cent the minimum wage in 2022, and Indonesia by 10 per cent in 2023 followed by an adjustment between 1.2 and 7.5 per cent across Provinces in 2024. In other countries real wage increases came not only by significant adjustments but through efforts to control inflation, as in Thailand and Viet Nam.

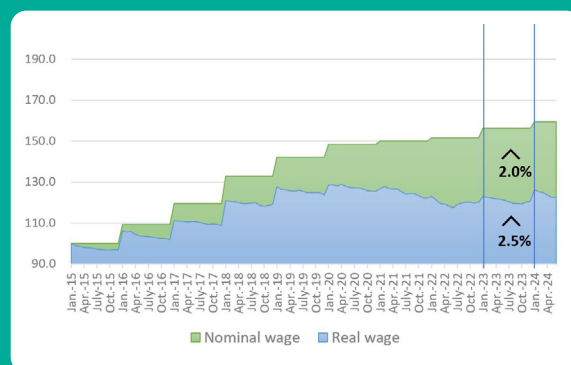
Cambodia

In Cambodia, the scope of minimum wage regulations is limited to the garment, textile, footwear and bags. Notably, there are annual adjustments to the minimum wage.

The National Council for Minimum Wage (NCMW) plays a key role in determining and recommending the minimum wage and associated benefits. The process comprises regularly convened meetings which serve as platforms for discussions, enabling the council to determine an appropriate minimum wage. These deliberations incorporate a consideration of various social indicators².

FIGURE 3:

Nominal and real minimum wage index for Cambodia, 2015-24 (base year January 2015 = 100)



Source: Author’s estimation based on ILO minimum wage database for the minimum wage level and for inflation (consumer prices) from data from National Bank of Cambodia – latest CPI June 2024.

The 2023 minimum wage adjustment made the US\$200 mark, through a 3.1% increase that surpassed the previous year’s inflation. Moreover, commencing from January 1, 2024, the minimum wage in Cambodia increased to US\$204, reflecting a rise of 2 per cent, as defined in Prakas 283/23.

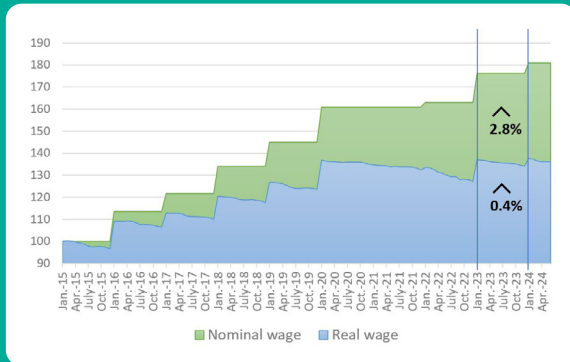
² The social criteria include family situation, inflation rate and cost of living, while the economic criteria comprise profitability of the sector, labour market situation, competitiveness of the country and productivity.

APPENDIX

Indonesia

FIGURE A1:

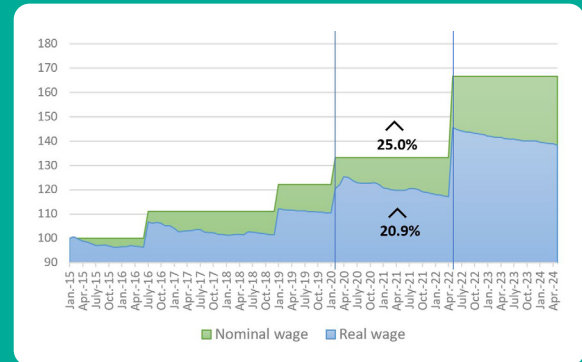
Nominal and real minimum wage index for Indonesia, 2015-24
(base year January 2015 = 100)



Malaysia

FIGURE A3:

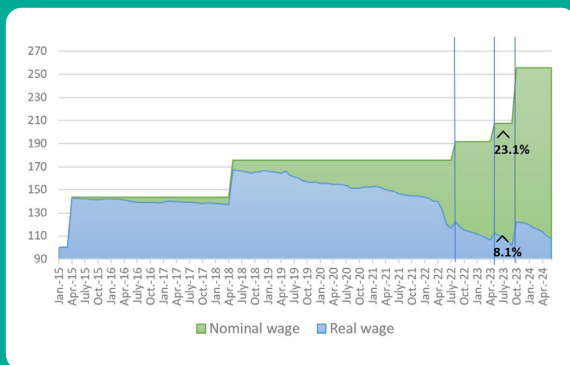
Nominal and real minimum wage index for Malaysia, 2015-24
(base year January 2015 = 100)



Lao People's Democratic Republic

FIGURE A2:

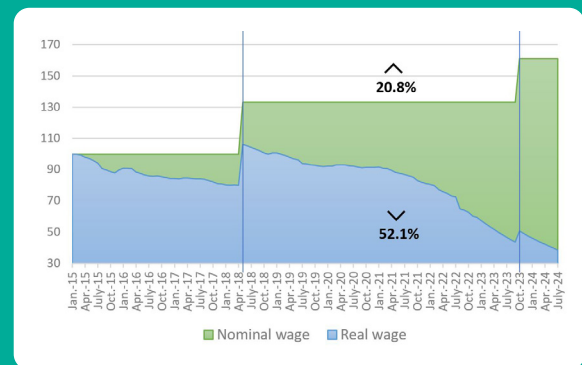
Nominal and real minimum wage index for Lao PDR, 2015-24
(base year January 2015 = 100)



Myanmar

FIGURE A4:

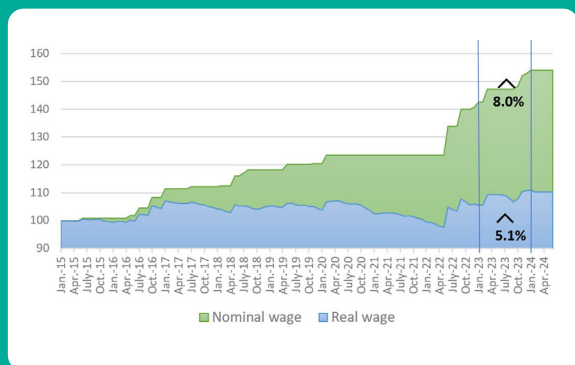
Nominal and real minimum wage index for Myanmar, 2015-24
(base year January 2015 = 100)



Philippines

FIGURE A5:

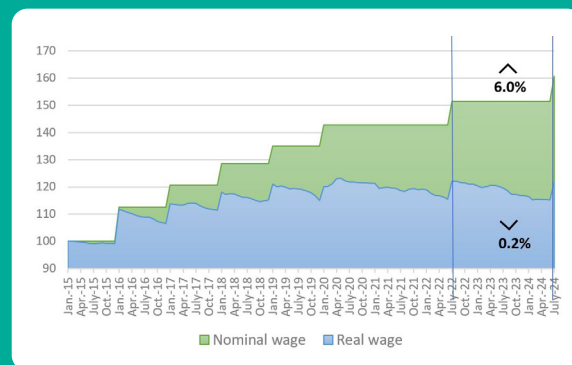
Nominal and real minimum wage index for Philippines, 2015-24
(base year January 2015 = 100)



Viet Nam

FIGURE A7:

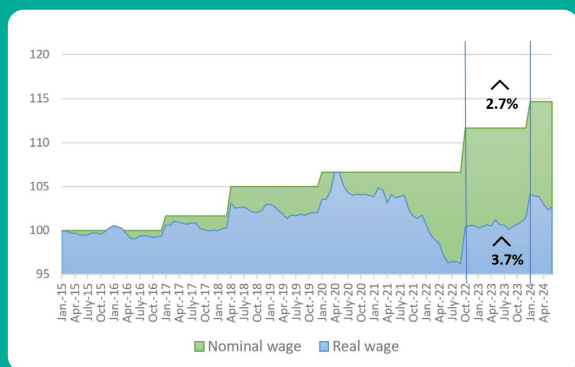
Nominal and real minimum wage index for Viet Nam, 2015-24
(base year January 2015 = 100)



Thailand

FIGURE A6:

Nominal and real minimum wage index for Thailand, 2015-24
(base year January 2015 = 100)

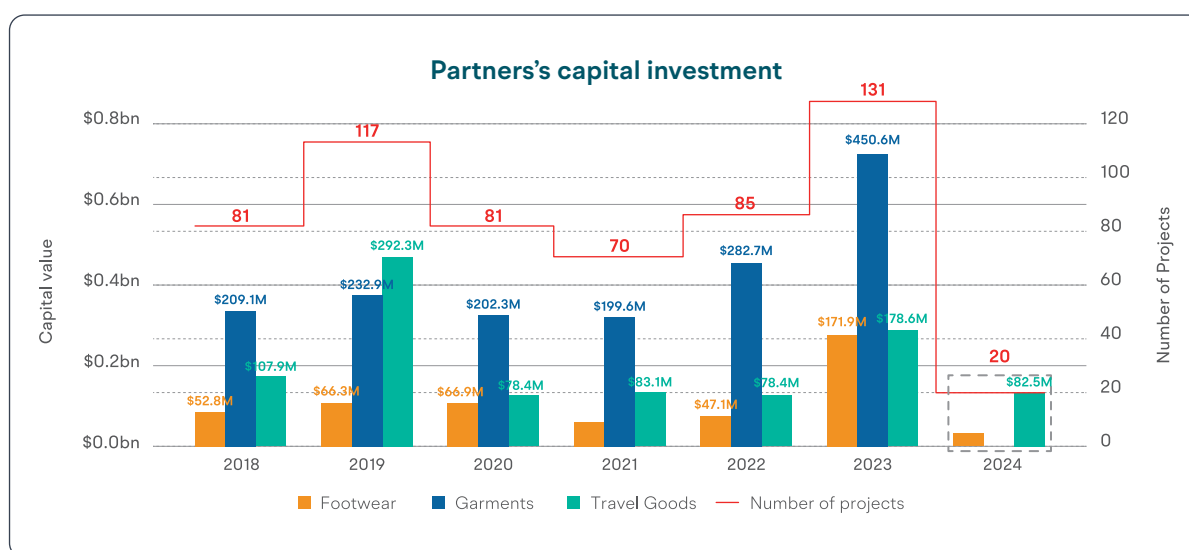


Source: Author's estimation based on ILO minimum wage database for the minimum wage level and inflation (consumer prices) from BPS General Consumer Price Index of 90 Cities / latest CPI June 2024.

Investment

Investment in the GFT sector in Cambodia followed an upward trend during 2018-2023, totalling US\$2,84 billion across 565 projects. Garments accounted for more than 55% of cumulated GFT investment during the 2018-2023 period; however, up to Q1-2024, there was no new investment in the Garment sector. On the other hand, investment in the Travel Goods sector in Q1-2024 reached US\$82 million, accounting for 46% of investment in Travel Goods in 2023.

FIGURE 20: Investment in the Cambodian GFT, 2018-2023



Note: 2024 data is for the first quarter only and is not comparable to previous years.

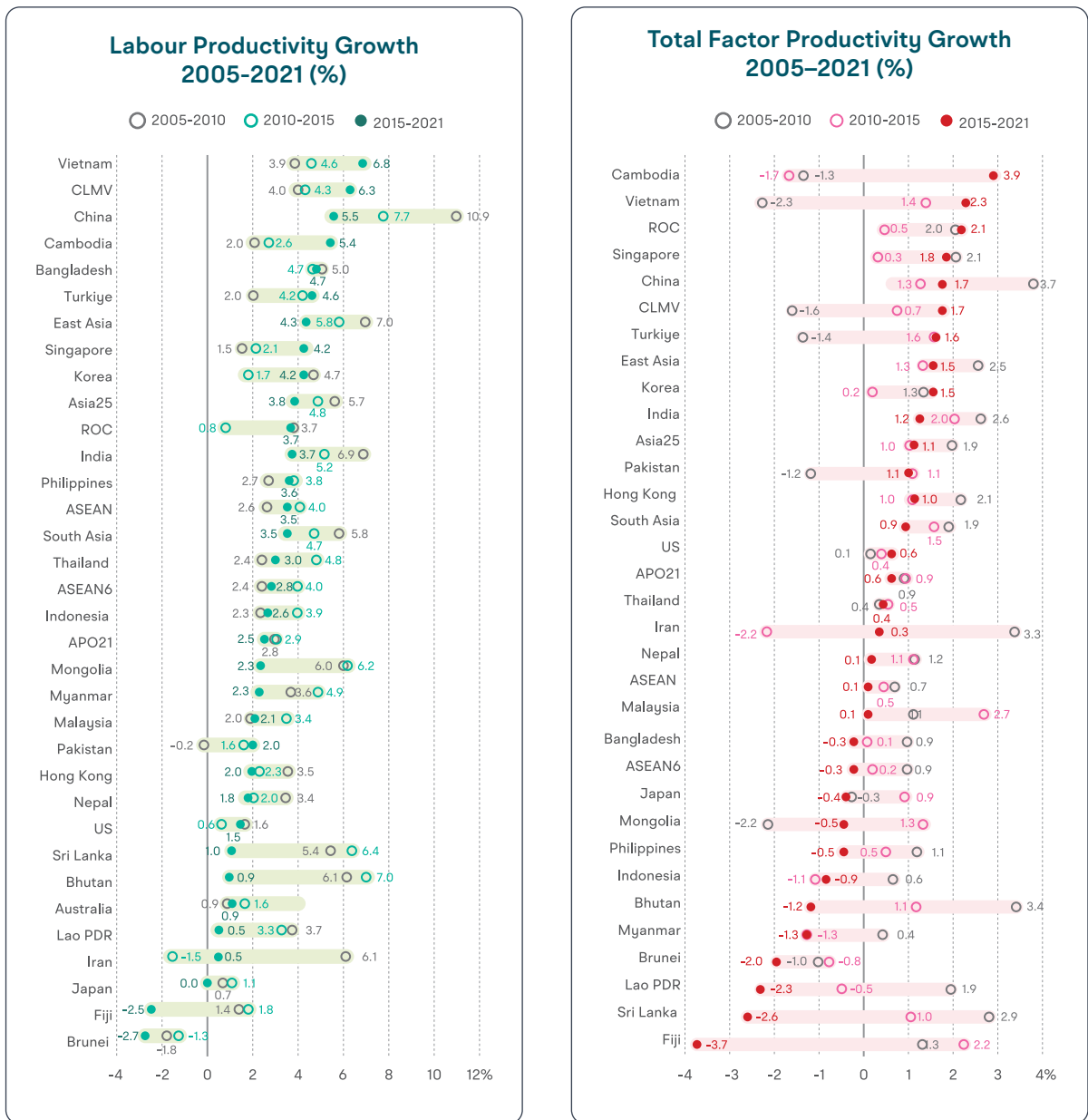
Source: IEC GFT Dashboard, data from UN Comtrade

Productivity

According to the Asian Productivity Organisation (2023), Cambodia's Per-Worker Labour Productivity remained low compared to other ASEAN peers. In 2021, the Per-Worker Labour Productivity in Cambodia was US\$8,800,³¹ higher than Myanmar (US\$6,400) but lower than Lao PDR (US\$13,600), Vietnam (US\$20,500) and the CLMV group (average US\$16,400). However, Cambodia exhibited high labour productivity growth (calculated as growth in per-hour GDP) and total factor productivity growth (calculated as growth in output per combination of labour and capital input) over the 2015-2021 period (Figure 21). It is projected that Cambodia's productivity will continue to grow in the 2024-2025 period as a result of combined growth in labour quality, labour input, and capital input growth, which may contribute to the kingdom's catching up with regional and global productivity.

³¹ Calculated as GDP at constant basic prices per worker.

FIGURE 21: Cambodia's Productivity Growth



(%: average annual growth rate)	1970	1980	1990	2000	2010	2025	2018	2019	2020	Projection			
	-80	-90	-2000	-10	-21	-21	-19	-20	-21	2021-22	2022-23	2023-24	2021-25
Labor input growth	1.3	2.9	5.4	4.6	4.2	3.1	1.6	-2.2	5.1	2.7	2.3	2.2	2.2
Labor quality growth	0.9	0.5	1.2	1.0	1.7	0.4	-0.9	-0.6	0.4	2.4	2.3	2.2	2.2
Hours worked growth	0.5	2.5	4.2	3.7	2.4	2.7	2.5	-1.6	4.8	0.4	0.0	0.0	0.0
College labor input growth	6.9	4.6	6.1	14.1	7.7	7.6	4.8	-0.1	3.7	2.9	2.3	2.5	2.4
Non-college labor input growth	1.2	2.9	5.4	4.2	3.9	2.7	1.3	-2.4	5.2	2.7	2.4	2.2	2.2
ICT capital input growth	-26.2	-6.7	21.7	16.6	18.8	10.0	8.0	1.1	0.6	11.2	13.8	15.4	15.1
No-ICT capital input growth	1.8	-0.3	3.1	7.7	7.5	7.7	7.7	7.8	7.6	8.3	8.3	8.4	8.4
Per-worker labor productivity growth	-6.0	0.6	2.2	4.4	4.2	5.7	3.3	4.7	10.3	5.8	5.8	5.9	5.8
Per-hour labor productivity growth	-7.0	1.5	1.9	4.0	4.1	5.4	4.0	6.7	7.7	5.9	6.2	6.3	6.3
Capital productivity growth	-0.1	0.0	-3.0	-7.7	-7.5	-7.6	-7.6	-7.6	-7.4	-2.0	-2.1	-2.2	-2.2
TFP growth	-7.8	3.2	2.1	1.3	0.8	2.9	2.3	3.3	5.0	1.3	1.4	1.5	1.5

Source: APO Productivity Databook 2023

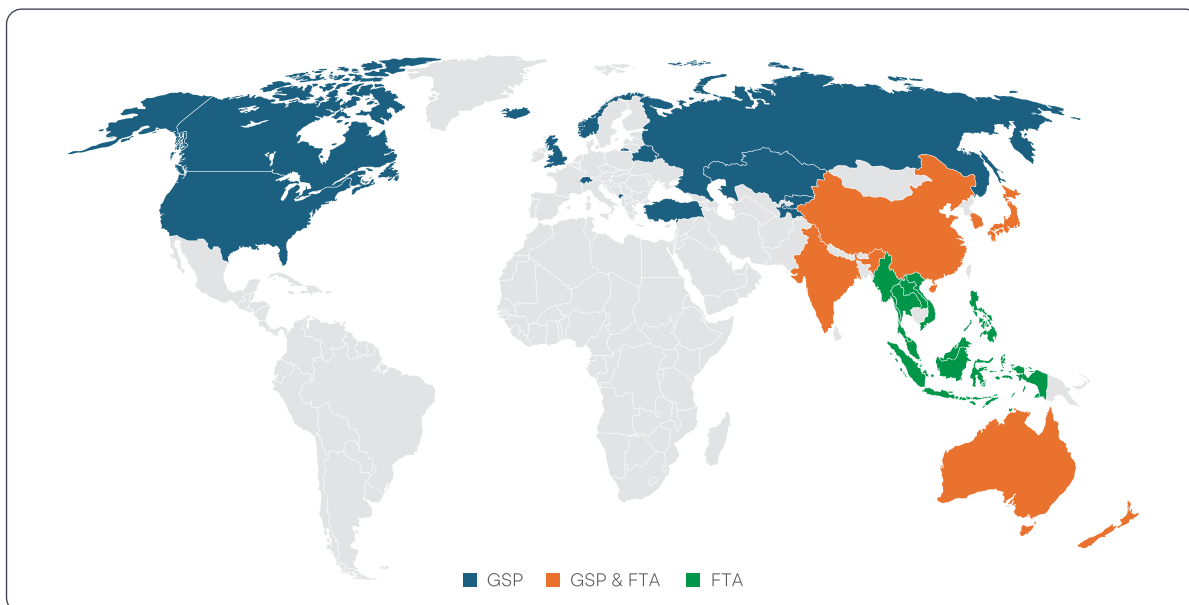
5. LDC Graduation: Potential Impacts and Responses

Cambodia's access to preferential trade arrangements

Cambodia is on track to graduate from the Least Developed Country (LDC) category. Cambodia first met all three objective criteria to prepare for graduating from LDC status in 2021,³² and the country is now set to have a five-year preparation period for its transition from the LDC status until 2029. While this transition signifies an important milestone in the kingdom's economic development, it might also associate with challenges for businesses.

Cambodia currently can benefit from 22 preferential trade arrangements provided to developing countries (including LDCs). These include the General System of Preferences (GSP) schemes of the European Union (EU) and the United States (US),³³ which offer Cambodia duty-free quota-free market access into the preference-granting countries. Furthermore, the Kingdom has also signed regional trade agreements (RTAs) with Australia, China, India, Japan, the Republic of Korea, and New Zealand, in addition to the other nine Members of the Association of Southeast Asian Nations (ASEAN) (Figure 22), which reduce significantly tariffs on Cambodian exports.

FIGURE 22: Cambodia's access to preferential trade arrangements



Source: IEC (2024) based on WTO PTA List

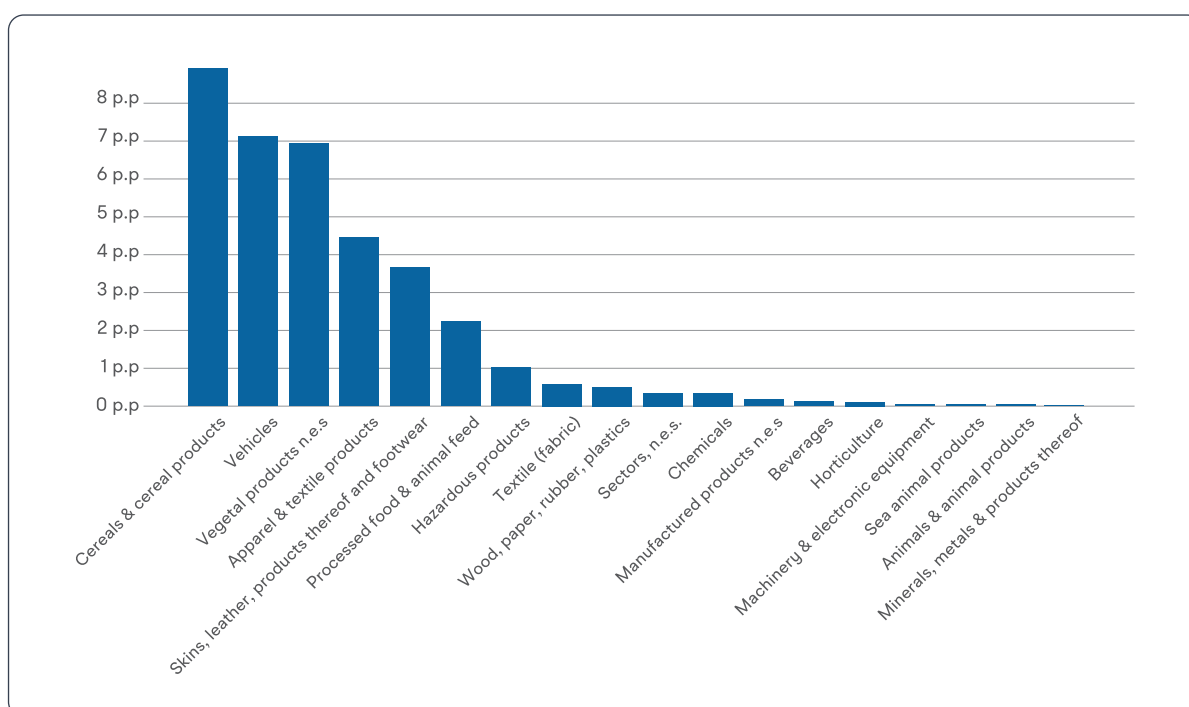
³² To graduate, countries must meet two out of three criteria: GNI per capita of US\$ 1,306 or more, a Human Assets Index (HAI) of 66 or higher, and an Environmental Vulnerability Index (EVI) of 32 or lower in two consecutive reviews. See UN DESA (2024). *The Least Developed Country Category: 2024 Country Snapshots*. April

³³ The US GSP scheme expired on December 31, 2020. Although the program has expired, U.S. Customs and Border Protection (CBP) has instructed importers to continue flagging GSP-eligible products on import documents so that it may automate duty refunds if Congress retroactively reauthorizes the program. Congress has typically applied the retroactivity from the day after the program expired to when the reauthorization came into effect. See Congressional Research Service (2023). *Generalized System of Preferences (GSP): Overview and Issues for Congress*.

What LDC graduation entails

Upon LDC graduation, Cambodia will lose access to LDC-specific duty-free treatment schemes, such as those offered by the US, EU, Canada, Chile, China, India, and others. Although graduation does not mean losing all preferential market access, higher tariffs after LDC graduation in importing markets will impact Cambodia's exports, eroding the competitive edge it currently holds thanks to the duty-free access under LDC-specific duty-free treatment schemes. Cereals and cereal products will witness the biggest tariff hike of 9%, followed by vehicles (8%) and vegetal products (7%). Apparel and textile products and skins and leather products will also see an additional 4% rise in tariff, on average (Figure 10).³⁴

FIGURE 23: Change in tariffs on Cambodia's exports (percentage points)



Source: ITC Trade Briefs, using data from ITC Market Access Map, ITC Trade Map and national sources (2024)

Note: The chart considers only markets with LDC preference schemes. Tariffs are weighted by 2018-2022 average exports.

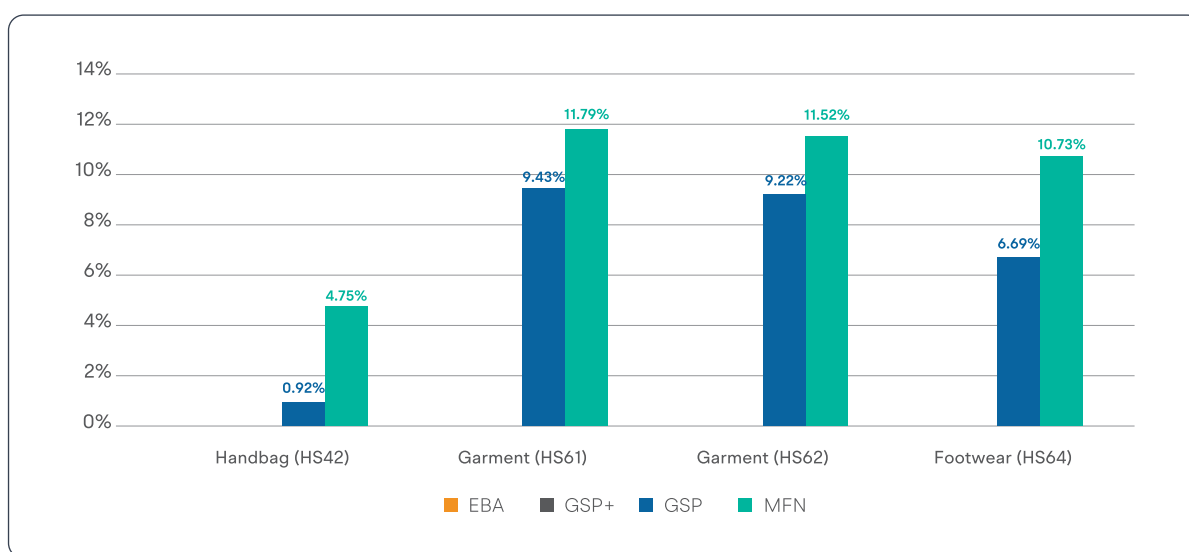
³⁴ ITC (2024). ITC Trade Briefs.

LDC Graduation's Impact on the GFT Sector

From 2018 to 2022, Cambodia's biggest export sector was apparel and textile, accounting for 48% of total exports. A considerable share, approximately 38% of all apparel and textile exports, is expected to be affected by the anticipated tariff rise following LDC graduation. Similarly, exports of skins and leather products from Cambodia, which account for around 12% of overall exports, will face a 4% hike in average duties following graduation.³⁵

For the EU, following LDC graduation plus three transitional years, Cambodia will have to move away from the EBA trade regime into the EU's GSP system for developing countries (either GSP+ or Standard GSP). Following LDC graduation, Cambodia can still maintain zero tariffs for GFT exports to the EU if access to the GSP+ is granted, subject to requirements to comply with human rights, labour rights, environmental protection, and good governance standards under international conventions. Cambodia GFT products may face tariffs³⁶ of 0.92% for handbags, 9.22% - 9.43% for garments, and 6.69% for footwear under the Standard GSP, subject to compliance with the EU Standard GSP's Rules of Origin (RoO). Failure to meet the GSP RoO will result in higher tariffs faced under the most-favoured-nation (MFN) regime (Figure 24).

FIGURE 24: Average tariff faced under each EU's trading schemes for GFT, by chapter



Source: Author's compilation from ITC MacMap

Graduation from the LDC status will also mean that the graduating countries will also face stricter RoO to qualify for the trade preferences under the GSP or RTAs, particularly in their exports of clothing. LDCs' garment exports have benefitted the most from simplification of RoO, particularly in their trade with Canada and the EU. Graduation will entail that, irrespective of the graduating LDC's access to the GSP or GSP+ scheme, producers of clothing will need to comply with the double-transformation requirement.

The current EU's GSP scheme has been extended until 31 December 2027 and is subject to a review in the near future. Few LDCs, except for Bangladesh, have domestic capacity to produce yarn. Furthermore, unlike EU FTAs such as the EU-Viet Nam FTA (EVFTA), double

³⁵ ITC (2024). ITC Trade Briefs.

³⁶ Tariffs are calculated simple average ad valorem equivalents.

transformation is not required present in the EU's Economic Partnership Agreements (such as with African countries),³⁷ which will further derogate Cambodia's competitiveness if the country cannot expand capacity to meet the double transformation requirements.

Opportunities for Upgrading

Following LDC graduation, Cambodian manufacturers will need to upgrade their production processes and consider vertical integration to improve control over the supply chain and enhance value addition.

For the EU markets, following the transitional post-LDC graduation, Cambodia will need to comply with more demanding Rules of Origin under GSP, which entails a higher level of domestic value added. For garments, the change would imply an additional transformation step, such as knitting or weaving, or a higher level of domestic sourcing. In the absence of such capacity within Cambodia, an option for Cambodia to meet the RoO is to cumulate with the EU countries, with Southeast Asian and South Asian GSP beneficiaries, or with the EU's FTA partners via extended cumulation (such as Vietnam, the Republic of Korea, Japan, etc.) upon a request-and-granting procedure.

To counter the potential declines in market access, Cambodia GFT manufacturers may explore alternative strategies (Table 1). For example, expanding to alternative markets will help to mitigate the risk of market fluctuations and stabilise export revenues. To create new competitive advantages, Cambodia should invest in higher-value-added production. Obtaining certifications under sustainability schemes (such as Leadership in Energy and Environmental Design (LEEDS) certifications, Life And Building Safety (LABS) requirements, Effluent Treatment Plant (ETP), Model Green Factory, etc.) will also contribute to increasing efficiency, sustainability, and competitiveness of manufacturers. Moreover, the cost of labour, one of Cambodia's key advantages, has been increasing yearly. To upgrade the GFT value chain, Cambodia needs to promote workforce skills and invest in machinery and business processes.³⁸

Upgrading type	Description	Example
Channel	Acquire new skills by serving new buyers or markets, often in emerging domestic or regional markets.	Exports to the EU, US, China, Japan, Canada
Product	Shift to more complex products or expand capabilities	Produce travel goods and handbags in addition to garment
Process	Reduce cost, increase productivity, and improve flexibility by investing in new or better machinery or logistics technology.	Cutting costs in production by adopting lean production or Enterprise resource planning (ERP) systems
Functional upgrading	Manufacturers acquire responsibility for more value-adding activities and switch to service providers.	Garment CMT → OEM → ODM → OBM → Lead firm
Integration in the supply chain	Establish backward manufacturing linkages within the supply chain	Garment → Textiles → Fibres → Machinery

Source: Baker, Le, Ngov & Sothea (2024). *Value chain analysis of Cambodia's Garment, Footwear, and Travel Goods Global Report. ARISE+ Cambodia.*³⁹

³⁷ Baker, P. (2021). *Impact of LDC Graduation on the Textiles and Clothing Sector. LDC Graduation and the WTO: Assisting LDCs to Address the Trade-Related Implications of Graduation from LDC Status.*

³⁸ World Bank (2019). *Cambodia Economic Update. Recent Economic Developments and Outlook. Special Focus: Upgrading Cambodia in Global Value Chains.*

³⁹ Baker, Le, Ngov & Sothea (2024). *Value chain analysis of Cambodia's Garment, Footwear, and Travel Goods Global Report. ARISE+ Cambodia.*

6. Recommendations

The below table summarises the strength, weakness, opportunity, and threat factors affecting Cambodia's GFT sector, and the recommendations for the government and sector players to take advantage of opportunities and cope with headwinds for the sector's long-term growth.

S

Strength

Factor	Action
Continued growth of the domestic GFT investment and manufacturing	Expanding capacity across the value chain by developing support industries (fabrics, zippers, buttons, labels, packaging, etc.) and services (design, distribution, marketing)
Political stability	Promote Cambodia's profile to foreign investors to encourage inbound investments.
Low cost of establishment	Continue to provide incentives for investments in preferred sectors
Favourable framework for FDI in the GFT sector	Combine green and sustainable requirements for investments
Relative availability of labour	Implementing vocational training programs to improve the skills of the workforce, productivity, and value-added.
Continued growth in labour and total productivity	Sustaining growth by continued labour upskilling, investing in technology capital, and adopting performance management systems

W

Weakness

Factor	Action
Fast Fashion, Small Batch production	Developing internal capacity on procurement, production, and management to coordinate the multiple inputs
High logistic costs	Improving customs procedures, trade facilitation, logistics capacity and connectivity
High electricity costs	<ul style="list-style-type: none"> ▶ Promoting the development of renewable energy sources and rooftop solar ▶ Improving logistics connectivity
Difficulty in installing Rooftop Solar due to high taxation	Reduce taxation and provide incentives for expanding rooftop solar.
Relatively limited capacity and skills	Adopting automation and smart manufacturing techniques to improve efficiency and enhance product quality; Streamline production processes and optimise resource utilisation via lean manufacturing principles.
Increasing wages and labour costs	



Opportunity

Factor	Action
Growing demand in major markets	Consolidating a set of strategic international buyers and vendors
Increasing online shopping, especially on social media platforms	Promoting digital transformation for GFT manufacturers and distributors/ retailers
Increasing voluntary and mandatory sustainability requirements	<ul style="list-style-type: none"> ▶ Raising awareness and reporting capacity for voluntary and mandatory sustainability requirements ▶ Encourage obtaining sustainability certifications (such as LEEDS, LABS, ETP, Model Green Factory, etc.) to increase the efficiency, sustainability, and competitiveness of manufacturers. ▶ Establishing Green Special Economic Zones (SEZs)
Innovation in manufacturing (automation, smart manufacturing, digitalisation, AI)	Promoting the adoption of innovative production solutions and the use of new technology



Threat

Factor	Action
Strong competition from other GFT exporters	Increasing productivity and reducing production costs to maintain competitiveness
Uncertainties rooted in climate concerns, geopolitical issues, weakened economies affecting demands	Diversifying export markets, partners, suppliers, and logistics networks
Losing LDC preferences following LDC graduation	Retaining competitiveness via quality and differentiation strategies

Source: Authors' compilation

Sustainability Recommendation Papers (SRPs) for the Cambodian GFT Sector

To support the rollout of Cambodia's GFT Sector Development Strategy, which aims to ensure the sustainable transformation of the industry, GIZ-FABRIC, on behalf of BMZ, is engaging in **extensive dialogue with public and private partners as well as with civil society** to develop concrete recommendations for action. These efforts included a public-private dialogue event series 2023 organized in cooperation with the Responsible Business Hub (RBH), which is embedded in the European Chamber of Commerce in Cambodia (EuroCham) and supported by Cambodia's GFT sector association, TAFTAC.

As a result of the continuous dialogue, GIZ-FABRIC, along with several partners, including CARE, RISE, and individual experts, have prepared **Sustainability Recommendation Papers (SRPs) for the Cambodian GFT Sector** on the following topics:

Published SRPs:

- 1. Prevention of Gender-Based Violence and Harassment (GBVH) at the Workplace** aims to provide strategic recommendations to address the important issues of GBVH in the Cambodian textile industry. The full paper is available here.

https://asiagarmenthub.net/resources/2024/sustainability-recommendation-paper_gbvh.pdf/view

- 2. Promoting the Inclusion of Persons with Disability in the GFT Sector** aims to strengthen diversity and equal employment opportunities in Cambodia's GFT sector. The full paper is available here

https://asiagarmenthub.net/resources/2024/srp_inclusion.pdf/view

Upcoming SRPs: The full papers will be available on the Asia Garment Hub (AGH) website and RBH website

- 3. Promoting Textile Waste Management and Recycling in the GFT Sector** [September 2024]
- 4. Responsible Wage Digitalization in the GFT Sector** [October 2024]
- 5. Enhancing Sustainability Reporting in the GFT Sector** [October 2024]



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