

The Footwear Sector - New Opportunities for Cambodia?

By Andrea Schill | ILO Better Factories Cambodia

Introduction

Part I of this edition of the Bulletin includes a statistical overview and analysis on the key characteristics and developments of the footwear sector, both globally and in Cambodia. Part II provides an update of key statistics and analyses trends of the garment, textile, and footwear (GTF) sector in Cambodia.

Methodology

The data on trade developments used in this Bulletin was derived from the World Integrated Trade Solution (WITS) provided by the World Bank and United Nations Conference on Trade and Development (UNCTAD) as well as the World Trade Organization (WTO). Data for the year 2018 is not yet available. Where necessary missing trade data for 2017 was added from national sources. Cambodian specific data was provided by various institutions of Cambodia, namely the Ministry of Commerce (MoC) and the Ministry of Economy and Finance (MoEF). Data on the garment and footwear factories' compliance with labour standards and national labour law was based on the annual factory assessments of the International Labour Organization's (ILO) Better Factories Cambodia Programme (BFC).

Data on the footwear suppliers' and workers' perspective was based on interviews that were conducted with factory managers and workers from four footwear factories in April 2019. Those factories voluntarily joined BFC as the MOU between the Royal Government of Cambodia and ILO/BFC is a mandatory programme for exporting garment factories only. This and the limited number of interviews means that drawn conclusions in the respective chapters are not necessarily representative for the whole footwear sector. However, they give first in-depth insights into the under-researched sector and suggest areas for further research.

Part I – The footwear sector

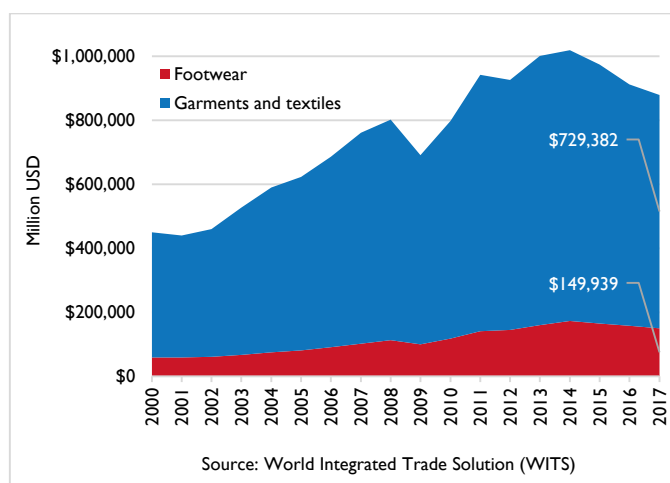
Data analysis of export value in the last issue has shown that the footwear sector gained in significance in Cambodia. Between 2013 and 2018 the footwear sector's share in

Cambodia's total GTF export value has grown by 4.4 percentage points while the garment sector's share has decreased by almost 10 percentage points. This development raises the question whether the footwear sector offers new opportunities for investment and production in Cambodia and invites further research. Before taking a closer look at the specifics of the Cambodian footwear sector, the section below presents a global overview to allow comparison between global and national developments.

PART I.I The global footwear sector

In 2017, the global footwear market was valued at US\$222 billion (bn)¹ and is expected to grow further. The market can be divided into athletic and non-athletic footwear mainly made from leather, textile, rubber, and plastic. Globally, the footwear sector's share in total GTF export value was stable at 17 percent since 2014, an increase of 4 percentage points compared to 2000. In 2016, the GTF sector exported goods at a value of US\$879bn for which footwear accounted for US\$150bn (see figure I).

Figure I: Global export value of the GTF sector 2000 - 2017

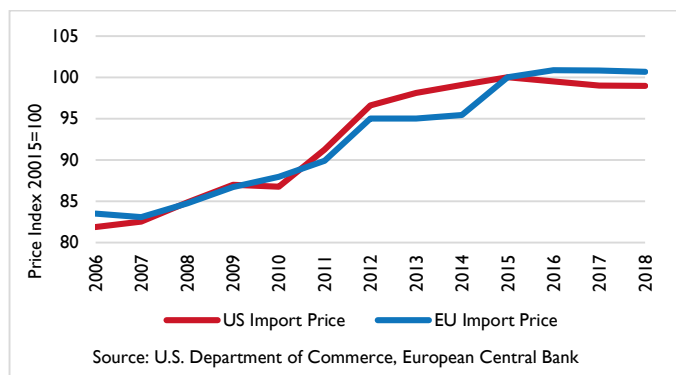


The global export value of footwear declined by 5 percent in 2017. However, a decline in the export value does not necessarily mean a decrease in the volume of shoes. Lower purchasing prices for the same or even a higher amount of shoes could also be a reason for the declining export value.

¹ <https://www.credenceresearch.com/report/footwear-market>

Correspondingly, figure 2 shows a decline in global import prices of shoes for the US and a stagnation for the European Union (EU) since 2015. This figure can only give a general indication that prices stagnated or even declined in the sector. The index² controls for the type of products, however it cannot control for design complexity and material quality that can vary over time and influence prices positively or negatively.

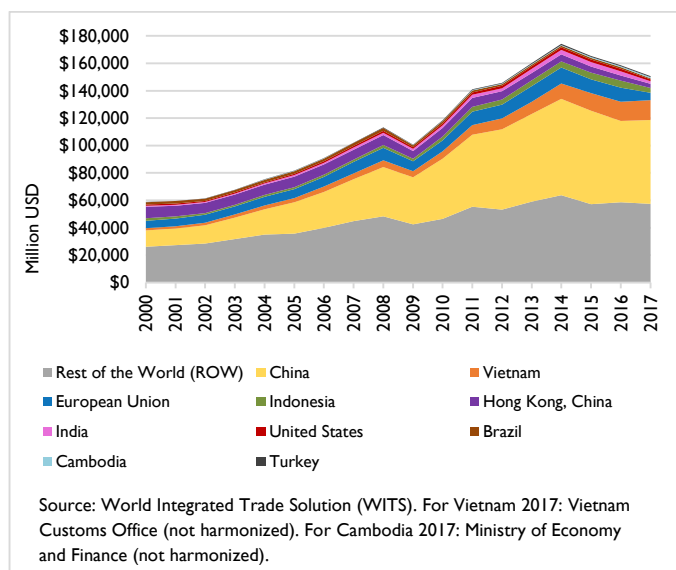
Figure 2: Footwear import prices 2006 – 2018 by the US and EU over time (2015=100)



Footwear production countries

Data shows that global footwear production primarily takes place in Asia. The most important production countries in terms of export value are China (38%), Vietnam (9%), and the EU (7%) (see figure 3). The main production countries in Europe are Italy, Germany, and Belgium.

Figure 3: World's top 10 footwear export countries in 2017 and their share since 2000



In 2017, the top 10 production countries produced 62 percent of footwear. In terms of export value growth Turkey and Cambodia have seen the strongest growth rates (see table I). Cambodia joined the top 10 producing countries for footwear

for the first time in 2016 with a global share of 0.4 percent (2017: 0.6%). The biggest decline in export value was registered with the EU, India, Indonesia, and the US.

Table 1: Export value and growth of the top 10 footwear export countries in 2017

Reporting Economy	Export value (in million USD)		Growth 2016 - 2017
	2016	2017	
World	157,954	149,939	-5%
China	59,435	61,106	3%
Vietnam	13,877	14,600	5%
European Union	10,407	5,397	-48%
Indonesia	5,068	3,410	-33%
Hong Kong, China	3,680	3,068	-17%
India	3,036	1,924	-37%
United States	1,867	1,283	-31%
Brazil	1,169	832	-29%
Cambodia	825	873	6%
Turkey	744	812	9%

Source: World Integrated Trade Solution (WITS). For Vietnam 2017: Vietnam Customs Office (not harmonized).

Reasons for the decline among many countries, could be rising labour costs and a lack of workforce, a pattern known from the garment sector. The relocation of production to other countries over time can also be observed when comparing the top five exporting countries for footwear in 2000, 2010, and 2017 (see table 2). Vietnam steadily increased its footwear production over the last decade. China's footwear production over the last decade. China's footwear production export value declined in 2016 by 13 percent.

Table 2: World's top 5 footwear production countries based on export value per year

2000	2010	2017
China	China	China
Hong Kong, China	European Union	Vietnam
European Union	Hong Kong, China	European Union
Indonesia	Vietnam	Indonesia
Vietnam	Indonesia	Hong Kong, China

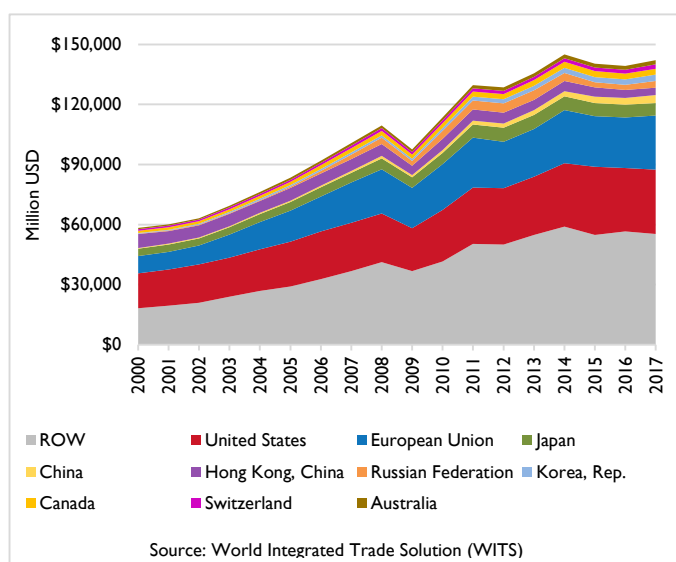
Source: World Integrated Trade Solution (WITS). For Vietnam 2017: Vietnam Customs Office (not harmonized).

² An import price index measures changes in the prices of imports of merchandise into a country. See OECD: <https://stats.oecd.org/glossary/detail.asp?ID=1302>.

Footwear destination countries

Since 2009, the same destination countries for footwear exports have headed the top 10 list, namely the US (23%), the EU (19%), and Japan (4%). In 2017, those countries imported shoes at a value of US\$98 (US), US\$52.8 (EU), and US\$49.9 (Japan) per inhabitant. Among European countries Germany, France and the United Kingdom (UK) are key destination countries for shoes.

Figure 4: World's top 10 footwear importers in 2017 and their share since 2000



The top 10 importers bought 61 percent of footwear in 2017. A 2 percent decline in this share compared to 2016 indicates that there are new upcoming consumer markets for footwear. Since 2015, China is among the top five footwear importers indicating a growing consumer market. Among the top 20 importing countries in the list it is India (+19%), Chile (+17%), Indonesia (+17%), and Argentina (+14%) with the highest growth rates from 2016 to 2017.

The two key players in terms of revenue in 2018, not only in the athletic footwear market, have been Nike (US\$22.3bn, +6%) and Adidas (US\$14.5bn, -2%). Both also source from Cambodia. They are followed by brands with revenues below US\$5bn such as Asics, New Balance and PUMA. Big non-athletic footwear brands are Sketchers, Bata, Burberry and VFC.

PART I.II Cambodia's footwear sector

Cambodia's footwear export and growth

As mentioned in the introduction, the significance of footwear production compared to garment production in Cambodia has increased steadily. Compared to 2010 the share in exports of footwear more than doubled from 5.4 percent to 11.1 percent

in 2018. In comparison, the share of footwear in the global GTF sector has been around 17 percent since 2014.

To illustrate its growing importance in manufacturing and future potential further, the footwear sector also shows higher growth rates than the garment sector since 2006 (see table 3).

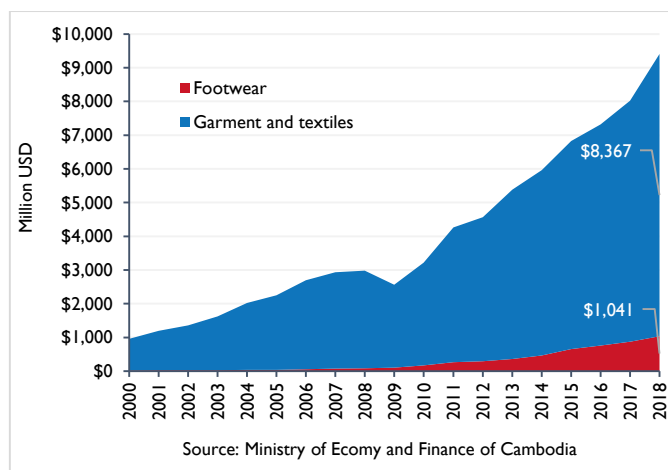
Table 3: Growth rates of the garment and footwear sector in Cambodia over time

Annual growth rate export value	2001	2005	2010	2015	2016	2017	2018
Footwear	18%	-7%	61%	40%	16%	14%	19%
Garment and Textiles	25%	12%	24%	12%	6%	9%	17%

Source: Ministry of Economy and Finance of Cambodia

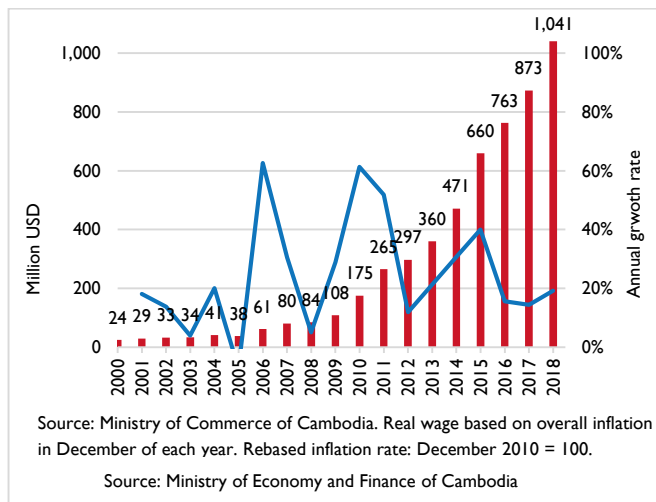
Contrary to the global decline in footwear export value between 2015 and 2017 (see figure 3 and table 1), Cambodia increased its production steadily with an average growth of 27 percent per year in the same period (see figure 5).

Figure 5: Share of export value of the GTF sector in Cambodia



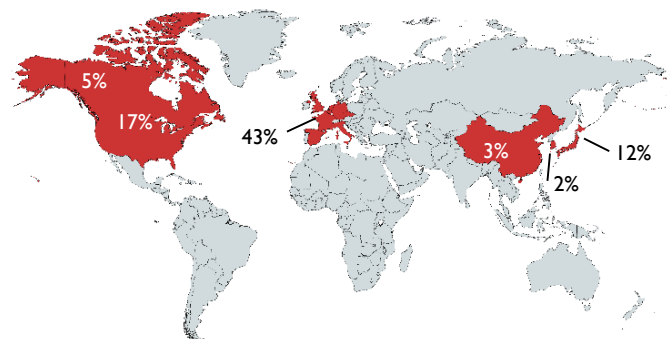
Cambodia also was among the top 10 group of footwear producers, exporting footwear at a value of US\$1,041 million in 2018 (+19%). Growth slowed down relatively compared to previous years, however this is not uncommon given the rapid growth in earlier years (see figure 6).

Figure 6: Cambodia's footwear export value and growth rate



Cambodia's most important export markets for shoes are the EU (46%), the US (17%), and Japan (12%) (see figure 7). Within the EU, it is the UK, Germany, and France that import the most footwear from Cambodia.

Figure 7: Cambodia's Top Footwear Export Destinations 2016



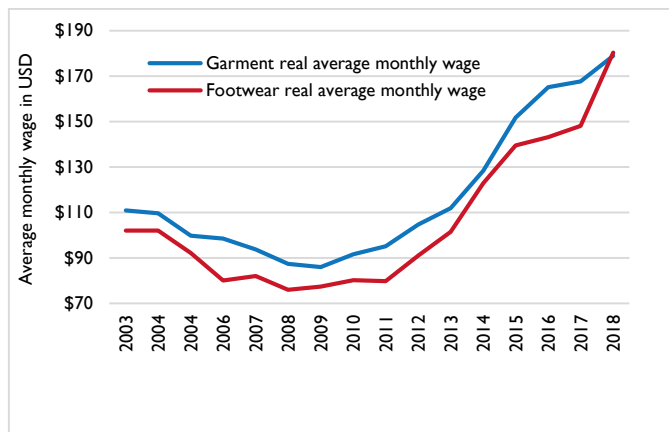
Source: World Integrated Trade Solution (WITS). Own illustration based on blank map from mapchart.net.

Employment and wages in the footwear sector

Cambodia's main competitors in footwear production in Southeast Asia are Vietnam and Indonesia (see table 1). These three countries also have similar minimum monthly wages in the sector: Cambodia (US\$182), Vietnam (varies across regions, US\$180 in Vinh Duong, US\$171 in Dong Nai), Indonesia (varies across regions, US\$193 West Java, US\$272 Banten)³.

Monthly wages in both the garment and footwear sectors have almost become equal for the first time in 2018. Before that, the wage in the footwear sector has been consistently lower than in the garment sector.

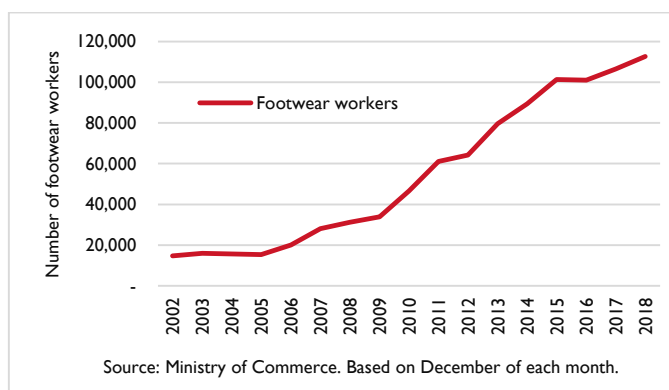
Figure 8: Real average monthly wage in the garment and footwear sector in Cambodia 2003 – 2018



Based on the average nominal monthly wage of US\$227.66, the real, inflation adjusted, monthly wage in the footwear sector was US\$180.27 in 2018⁴. This was an increase of 22 percent from the year before. In garment factories, workers earned a monthly real wage of US\$178.90 based on the average nominal wage of US\$225.93. In 2010, workers earned only half the monthly real wage in the two sub-sectors, namely US\$90.61 in a garment factory and US\$80.14 in a footwear factory.

Based on data from the Ministry of Commerce of Cambodia, approximately 14.5 percent of workers in the GTF sector worked in the footwear sector in 2018. Compared to 2017, this is a six percent employment increase (see figure 9). Of the 112,589 footwear workers, 87 percent are women, a two percent point higher share compared to the garment sector.

Figure 9: Employment in Cambodia's footwear sector 2002 - 2018



Cambodia's footwear factories

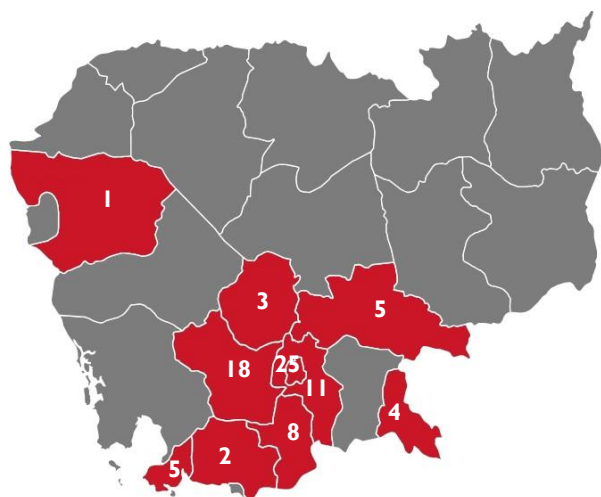
In 2018, there were 83 effectively operating footwear factories in Cambodia, six more factories than in 2017. The number of footwear factories in Cambodia has increased steadily since 2003, with the majority of factories located in Phnom Penh (25), Kampong Speu (18), and Kandal (11) provinces (see figure 10).

³ Better Work Assessment Reports of Vietnam and Indonesia, 2019.

⁴ Real average wage = Nominal monthly wage/Rebased Inflation Rate (December 2010=100)*100. Rebased Inflation Rate December 2018: 126.3. Rebased Inflation Rate

December 2018 = Headline Inflation December 2018 (174.6)/Headline Inflation December 2010 (138.2)*100.

Figure 10: Footwear factories across Cambodia

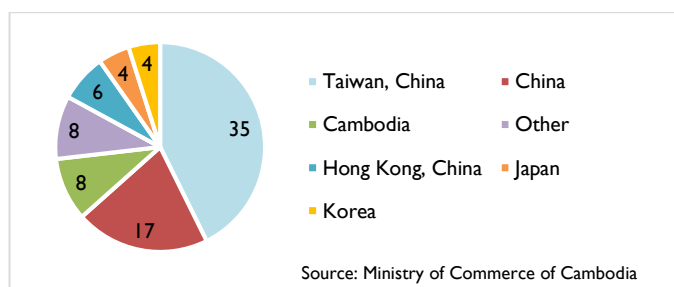


Source: Ministry of Commerce of Cambodia. Own illustration based on blank map from simplemaps.com.

Out of the 83 footwear factories, eight produce footwear accessories only (e.g. shoelaces, inner soles). All 75 shoe producing factories export part or all of their products to the US or the EU. All except one shoe factory use leather and Polyvinylchloride (PVC) as principal materials, many of them also use textiles and Polyurethane (PU)⁵. The raw materials come from many different sources: China, Korea, Thailand, Pakistan, Taiwan, China, Hong Kong, Vietnam, Italy, India, Spain, and Bangladesh.⁶

Eight footwear factories are owned by Cambodian investors. The other 75 factories are mainly owned by investors from China and Taiwan, China (see figure 11). Four of the 75 foreign-owned factories are owned by non-Asian investors; Canada (2), UK (1), and Seychelles (1). The ten largest factories with up to 7,112 workers are owned by investors from Cambodia and Taiwan, China.

Figure 11: Ownership of footwear factories 2018



Perspectives from the footwear factories

Four footwear factories were interviewed on their perspective on the sector by the author with support of BFC Advisors and Assessors in April 2019. Separate interviews were undertaken with workers and management. In total, 13 management team members, including general managers, compliance and human

⁵ Both PVC and PU are substitutes for real leather. PU is known to be less toxic to produce than PVC, however PVC usually costs less.

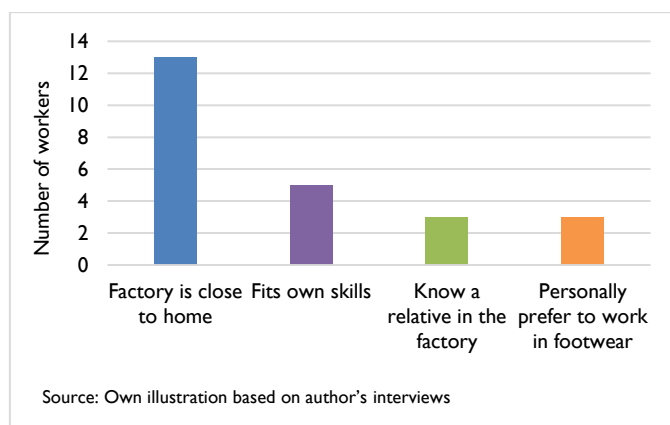
resource officers, and 23 workers of different sections were interviewed. All factories interviewed produced very similar product types including running shoes, sneakers, boots, women shoes, and children shoes. Their buyers ranged from low-end to high-end brands from the EU, US or East Asia.

Production of footwear is structured in different assembly lines which produce one style at a time. Footwear production is often more complex than garment production, with higher quality requirements. It therefore focuses more on quality than quantity with a lower capacity per hour. Because of the need for more machines than in garment production, the footwear sector requires higher and more long-term investment. Footwear factories also face more complex and training-intensive chemical management as production involves more glues and other chemical substances. As a result, occupational health and safety risks are higher in the footwear sector.

Workers' perspective

The average years of work experience among the 23 interviewed workers in each of the four footwear factory was five years. For the majority of workers interviewed, they stated that proximity of the factory to their home is one of the most important factors when deciding where to work. (See figure 12).

Figure 12: Reasons for applying for a job in a footwear factory



Thirteen workers gained experience in the garment sector before coming to a footwear factory. The majority of workers agreed that there is pressure to stay in the factory as it is very close to their home as well as hard to move to the garment sector or to find another job because of the different skill set required in garment factories. Workers that have been promoted to supervisors said that they had not received any specific training to prepare them in the role. Supervisor promotion is based on overall job performance in production.

⁶ There was no additional data on volumes and materials per country provided by the Ministry of Commerce.

Workers were divided on their views whether working in a garment or footwear factory is more exhausting; one half said that footwear production jobs are more tiring due to fact that much of the work needs to be done standing up and the heaviness of some of the tasks, while the other half indicated that the piece rate system and more individual pressure for performance in garment factories is more exhausting.

Every third worker felt that using chemicals is a real challenge in their daily work. Every fourth worker agreed that the heat level is a challenge in their factory, while every fifth worker faced challenges with their supervisors. If workers spoke about their personal goals, almost none see themselves in a factory in the future but owning a small business.

Factory management perspective

Only three of the 13 management team members interviewed have worked in the garment sector before and could compare the two sectors. Their average years of work experience with their current factory was 3.5 years.

The majority of management and workers stated that they feel less competition among footwear factories and have more stable orders than the garment sector. Lead times seemed to be adequate and seemed more negotiable than in the garment sector.

Representatives from three factories said compliance with local law and buyers requirements is a key challenge in their daily operations as well as communication and language barriers (one factory), productivity (one factory), order cancellations (one factory), and the potential for EBA withdrawal (one factory). Buying prices stagnated in recent years which concerns many factories in light of the increases in minimum wages.

Outlook

Overall, the footwear sector has become increasingly more important in Cambodia. The Cambodian footwear sector grew more rapidly than the garment sector in recent years, joining the top 10 production countries in 2016 for the first time.

The EU and the US will remain very important export destination markets for Cambodia due to current tariff exemptions, and based on interviews, workers and managers in Cambodia seem confident in the footwear sector's future profits and orders.

Part II – Statistical update

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

Part II.I The Global Garment, Textile and Footwear (GTF) Sector

In 2017⁷, global garment exports were valued at US\$471 billion, 5 percent growth compared to 2016. The top garment production countries/regions were China, the EU, Bangladesh and Vietnam (see table 4). These top 10 countries produced 88 percent (-1%) of all garments in terms of value in 2017. In volume terms this list would look quite different as some countries produce low volumes at high export values and vice versa.

In 2017, Vietnam, Indonesia, and the EU have increased their export value growth significantly. The main production countries of garments in the EU have been Italy, Germany, and Spain.

With a share of 1.5 percent in the world's export value, Cambodia is the 9th largest garment producer in the world. Cambodia's garment export value increased by 8 percent in 2017 allowing the country to create new jobs. The garment export value of China and Hong Kong, China decreased in the same period.

Table 4: Top 10 garment exporters in 2017 and growth rate

Reporting Economy	Export Value in Million USD		Growth 2016-2017
	2016	2017	
World	448,611	471,594	5%
China	159,341	158,463	-1%
European Union	117,703	129,733	10%
Bangladesh	28,668	29,213	2%
Viet Nam	23,005	27,782	21%
India	18,193	18,617	2%
Turkey	15,047	15,101	0%
Hong Kong, China	15,688	14,490	-8%
Indonesia	7,474	8,214	10%
Cambodia	6,651	7,193	8%
US	5,712	5,728	0%

World's Top 10 Clothing Exporters. Source: World Trade Organisation (WTO).

In 2017, The EU, the US, Hong Kong, China and Canada were the main importers of garments (see table 5). In terms of value,

⁷ Data for 2018 is not yet available neither the World Bank nor with the World Trade Organization.

more than half of the global garment production (52%) has been imported by ten countries.

Among the top 10 importers, consumer demand has increased in Russia (+26%) and China (+13%), while having decreased in Hong Kong, China (-6%) and the United Arab Emirates (-6%).

Among the top 20 importing countries, Brazil (+22%) and Chile (+15%) show the highest growth rates indicating new growing markets beyond Europe, North America, and East Asia.

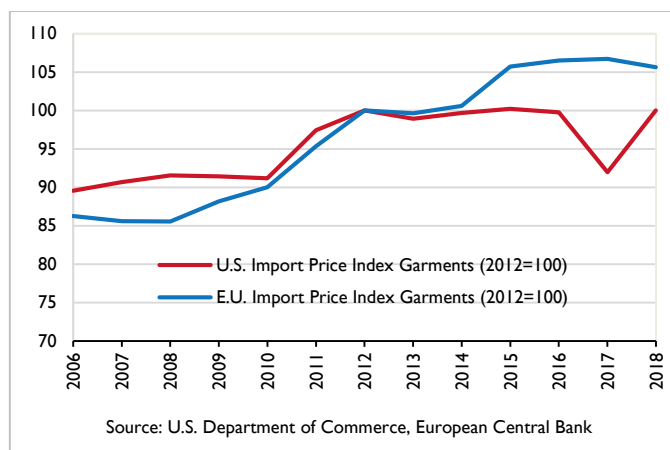
Table 5: Top 10 garment importers in 2017 and growth rate

Reporting Economy	Import Value in Million USD		Growth 2016-2017
	2016	2017	
World	468,290	486,060	4%
European Union	90,167	99,005	10%
US	91,211	91,300	0%
Hong Kong, China	13,216	12,426	-6%
Canada	9,568	10,078	5%
Korea, Republic of	8,640	9,319	8%
China	6,449	7,268	13%
Russian Federation	5,770	7,264	26%
Australia	6,413	6,897	8%
Mexico	3,719	3,629	-2%
United Arab Emirates	3,745	3,534	-6%

World's Top 10 Importers Clothing. Source: World Trade Organisation (WTO).

Prices for garments being imported by the US and EU have been stable between 2012 and 2014. In 2018, garment prices to the EU increased by 5.6% and to the US did not change at all compared to the baseline in 2012. The import price index controls for the same types of garments, but changes in quality could have taken place.

Figure 13: Import Price Index for Garments to the US and EU

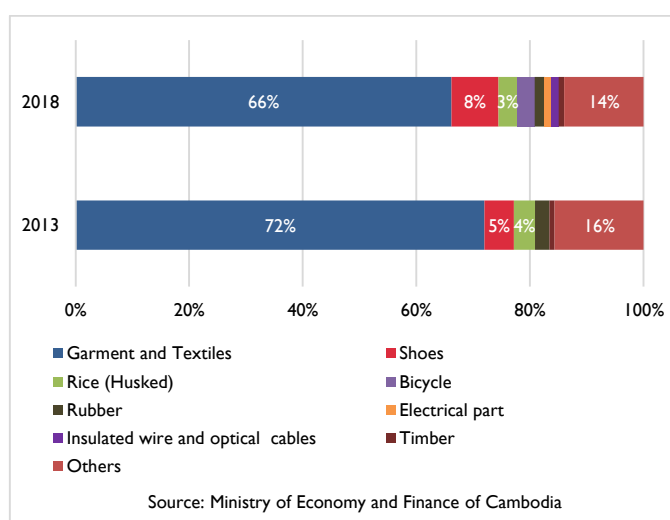


PART II.2 Cambodia's GTF sector

Cambodia's GTF exports and growth

The GTF sector continues to play a leading role in the economy of Cambodia, accounting for 74 percent of Cambodia's total merchandise exports in 2018. While the significance of garments and textiles declined by 6 percentage points over the last five years, footwear saw its share in merchandise exports increase by 3 percentage points during the same period. Compared to 2013, the GTF sector's overall contribution to merchandise exports seems to have continued to decline (-3 percentage points). However, as data for sectors such as bicycles and electrical parts that appear in the graph of 2018 have not been collected in 2013, it cannot be determined that a gradual diversification has taken place.

Figure 14: Cambodia's merchandise exports in 2013 and 2018

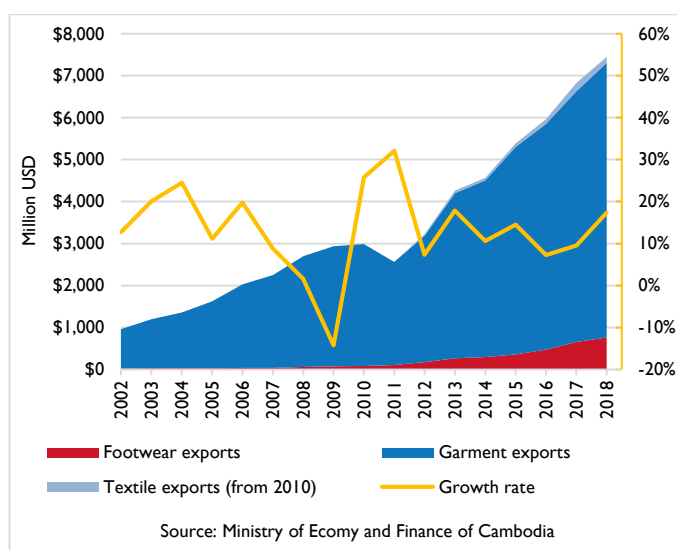


In 2018, Cambodia's GTF export value continued to grow, namely by 17.3 percent (+7 percentage points), reflecting comparable growth rates for both the footwear (+19 percentage points) and the garment and textile sector (+17

percentage points). This is the second year of continued growth for the sector after a decline from 15 percent in 2015 to 7 percent in 2016. In the last five years, export value of the Cambodian GTF sector grew by 75 percent (see figure 15).

In 2018, the export value of garments had a share of 82 percent in the GTF sector, footwear of 11 percent, and textiles of 7 percent. Footwear slightly continued to increase in relative importance to the garment and textiles exports (+0.2 percentage points). Compared to 2013, the footwear sector's share in export value has increased by 4.4 percent points.

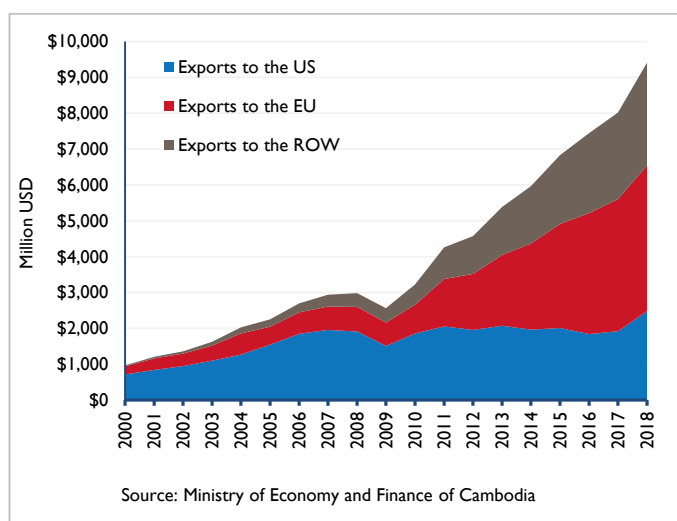
Figure 15: Cambodia's GTF export value 2000 – 2018



Destinations of Cambodia's GTF products

Cambodia's GTF export to the three main destination countries has continued to increase in 2018, namely to the US (+29%), the EU (+10%), and ROW (Rest of World) (+27%) (see figure 16).

Figure 16: Cambodia GTF export destinations 2000 - 2018



In terms of share, the EU has been buying 43 percent of Cambodia's GTF products in 2018 (-2.8 percentage points),

thus remains the largest export market for Cambodia (see figure 15). The second-largest destination market was the US accounting for a share of almost 26 percent (+2 percentage points), followed by Japan with 9 percent (+/-0 percentage points).

Even though the share of export value declined for EU, the EU still increased the import of products from Cambodia in terms of absolute value as stated in the first paragraph. With the US now accounting for an increased share and value of overall exports, these figures may signal an early indication that the current tariff policies between China and the US may be having the effect of solidifying Cambodia's position in the US market. For the EU, the figures indicate still an increase in exports but a slowdown in year-on-year growth of the same for 2018.

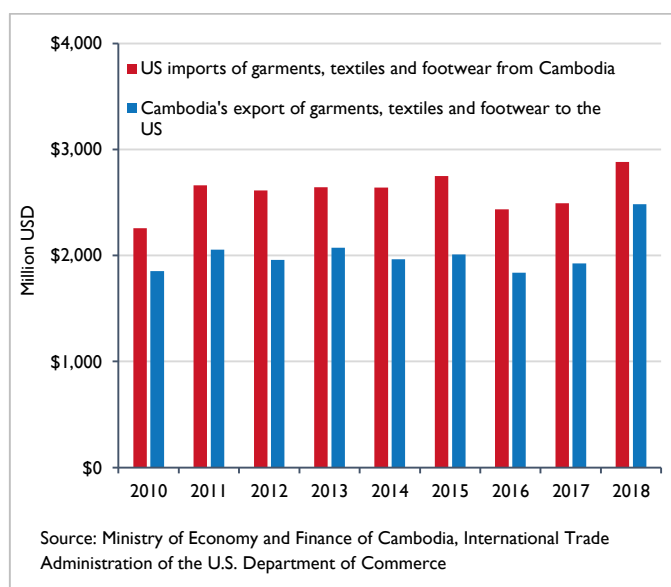
Table 6: Cambodia's export value growth to the US, EU, and Japan 2016 - 2018

Reporting Economy	Export Value Growth 2016	Export Value Growth 2017	Export Value Growth 2018
US	-9%	5%	29%
EU	1%	26%	10%
Japan	25%	7%	27%

Source: Source: Ministry of Economy and Finance of Cambodia

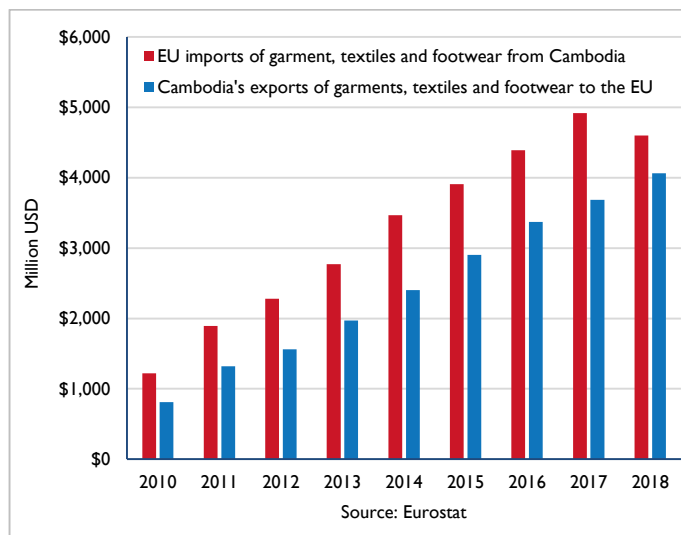
Corresponding data from the destination markets for Cambodia's exports show similar trends. Data on imports to the US of garment and footwear products from Cambodia are broadly consistent with Cambodia's exports during 2018 (see figure 17). In value terms, the US always recorded a higher import value than the export value recorded by Cambodia in the shown years.

Figure 17: Comparison of US GTF imports from Cambodia and Cambodia's GTF exports to the US



As is the case with the US data for this period, the value of imports recorded by the EU is higher than the export value reported by Cambodia. (see figure 18).

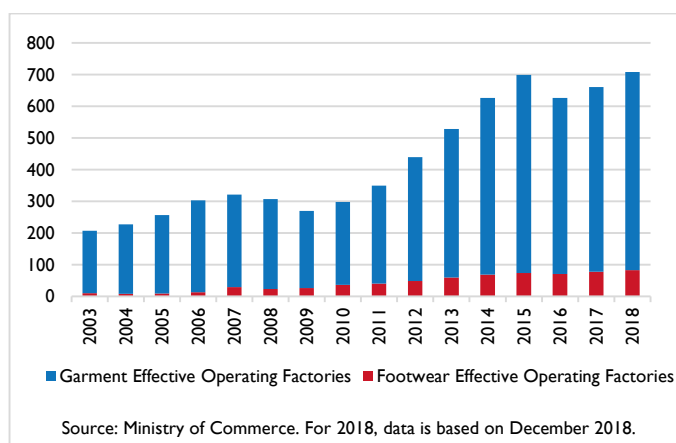
Figure 18: Comparison of EU GTF imports from Cambodia and Cambodia's GTF exports to the US



New investments, factory openings, and factory closures

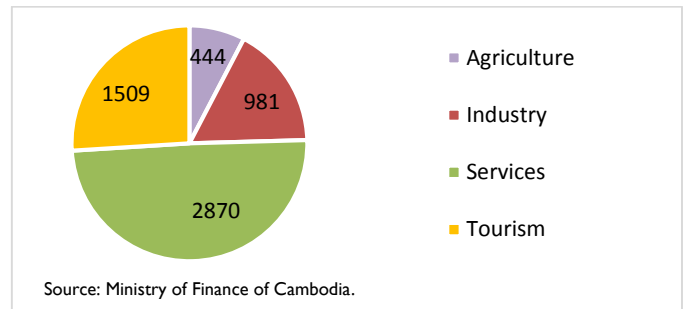
According to Cambodia's Ministry of Commerce (MOC), by the end of 2018, there were a total of 625 exporting garment and exporting 83 footwear factories in Cambodia in effective operation. This was a net addition of 47 factories in 2018, compared with the number of factories recorded by the end of 2017. Of this net increase, 41 factories were in the garment sector, and the remaining six were in the footwear sector.

Figure 19: Effective operating garment and footwear factories



In 2018, the Cambodian Investment Board approved a total of 148 investment projects with a total value of US\$5.8bn for Cambodia (see figure 20).

Figure 20: Value of 148 approved investment projects in Cambodia in 2018 in Million USD.

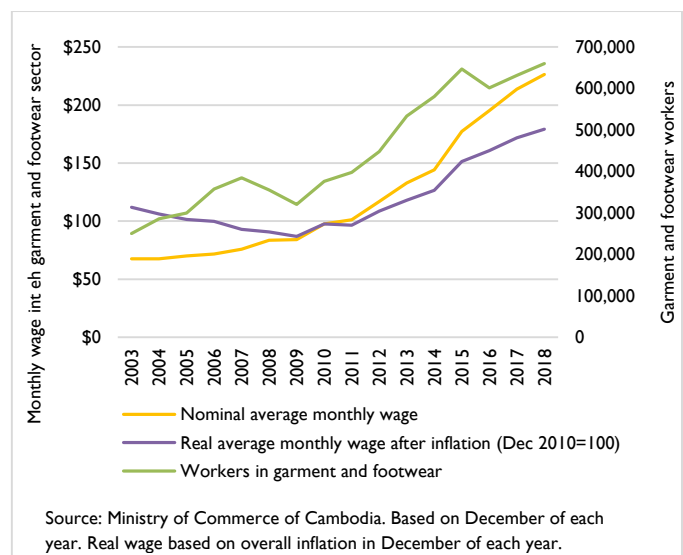


Employment and wages

According to employment data from the Ministry of Commerce of Cambodia (MoC) as of December 2018, employment in the garment and footwear sector stood at 660,327.⁸ This represents an increase of 4.5 percent, a slight slowdown of growth compared to 2017 (5.1%).⁹

The statutory minimum monthly wage for 2019 is US\$182, representing an increase of 7 percent from US\$170 in 2018. From 2017 to 2018 the minimum wage grew from US\$153 to US\$170 (+11%). MoC data indicates that workers in the garment and footwear sector earned on average a nominal wage of US\$226.20 in December 2018¹⁰, which was 5.9 percent higher than the wage of US\$213.60 in December 2017.

Figure 21: Employment, nominal and real average monthly wage in the garment and footwear sector



After adjusting for inflation, in real terms, average wages in the garment and footwear sector increased by 4.2 percent from 2017 to 2018, bringing average real earnings to US\$179.10 in

⁸ The MoC keeps records of only registered exporting factories. The total number of employment in the GTF sector in Cambodia is higher than this number, when employment at sub-contracting factories are included.

⁹ The MoC overhauled its database in 2016, and as the result, employment figures dropped. Since then, the employment figures have been climbing up and is now surpassing the pre-overhaul level.

¹⁰ For 2018, the MoC only provided data for December 2018, so the yearly average could vary.

December 2018 up compared to US\$171.90 in December 2017.

Policy developments relating to the GTF sector

There were a number of recent key policy developments relating to the GTF sector in Cambodia, including:

New minimum wage law: The new minimum wage law was promulgated in July 2018, following its adoption by the parliament in June 2018. The new minimum wage law sets out three objectives: (a) to ensure the minimum wage fixing for all workers under minimum wage law for all persons covered by Labour Law (i.e. to expand minimum wage coverage beyond the current scope of applicant to the garment sector and footwear sector alone); (b) to establish a scientific minimum wage fixing procedure based on social and economic criteria; and (c) to establish a new National Minimum Wage Council as a tripartite mechanism for research and recommendations on minimum wage and other benefits of all persons covered by Cambodia's Labour Law.

New minimum wage for 2019: The Ministry of Labour and Vocational Training (MoLVT) announced an increase in the statutory minimum wage in October 2018, following rounds of negotiations between unions, employer's representative and the Labour Advisory Committee (LAC). From 1 January 2019, workers in the garment and footwear sector saw their monthly minimum wage rise to US\$182 per month. As a departure from practice over the previous three years to date, no announcement on an increase in income tax thresholds has been made, thereby bringing worker's income closer to the tax threshold.

Notice on Everything But Arms (EBA) access: In October 2018, Cambodia was served a notice of the launch by the EU of a process to withdraw Cambodia's duty-free and quota-free access to the EU Single Market under the Everything But Arms (EBA) scheme. The 18-month process officially started in February 2019. Officials from the European Commission and the European External Action Service (EEAS) visited Cambodia in March and June 2019, holding discussions with Government, as well as civil society, UN and ILO representatives in the country. The monitoring and evaluation period will end in mid-August. Following that date, the EU will produce a report of its findings and conclusions. The Royal Government of Cambodia will have one month to reply to this report, then a final decision will be made on whether or not to withdraw tariff preferences. It is also at this stage that the Commission will decide the scope and duration of the withdrawal. Any withdrawal would come into effect after a

further six-month period, meaning that no tariffs will be revoked before mid-2020.¹¹

Payment of seniority indemnity: In September 2018, the MoLVT issued a *Prakas* (Ministerial regulation) on payment of a seniority indemnity, to take effect in 2019. Under the *Prakas*, qualified workers will receive indemnity pay equal to 15 days of their wage and benefits per year with regular pay-outs in the months of June and December. The *Prakas* was issued in response to recent incidents affecting the garment sector in Cambodia involving bankrupt employers absconding on their obligations to pay workers.

Determination of Types of Employment Contracts: The MoLVT Instruction #050/19 on Determination of Types of Employment Contracts clarifies timeframes and purpose for the use of fixed duration versus unspecified duration contracts, was issued on 17 May 2019.

Wage payment for workers/employees: In September 2018, the Ministry of Labour and Vocational Training (MoLVT) issued a *Prakas* (ministerial regulation) on wage disbursement. From 1 January 2019, wage payments have to be made two times per month. The first 50 percent of the net monthly salary must be paid in the second week of each month, while the second payment in the fourth week of each month.

Viet Nam-EU free trade agreement: In October 2018, after three years of negotiation, Viet Nam and the EU reached agreement on a free trade deal. The new EU-Viet Nam free trade agreement will eliminate more than 99 percent of all tariffs, the most salient of which in respect of Cambodia will be the removal of duties on all textile fabric trade between Viet Nam and the EU. These duties are currently set at 12 percent.¹² The agreement was signed on 30 June 2019.

Healthcare MoU signed for garment workers: In April 2018, the National Social Security Fund (NSSF) and the Techo Volunteer Youth Doctor Association signed a memorandum of understanding to expand healthcare by providing services to citizens who qualify for social security, including garment workers.

Conclusion

The Garment Textile and Footwear sector in Cambodia maintained robust double digit growth during 2018. Its share in Cambodia's merchandise exports was 74 percent. The EU and the US continued to be Cambodia's most important trading partners in the sector, accounting for a combined 69 percent of the sector's exports. Both employment and average wage levels ended higher than at the end of 2016. The year-on-year increase from 2016 to 2017 in employment stood at

¹¹ The Everything But Arms (EBA) scheme grants full duty free and quota free access to the EU Single Market for all products (except arms and armaments). See further: <http://trade.ec.europa.eu/tradehelp/everything-arms>

¹²<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1922>

5.6 percent with the average nominal wage increasing by 3.1 percent year-on-year. After controlling for inflation, real wages grew by 0.6 percent from 2016 to 2017. With the living

conditions of workers in the sector relying heavily on the minimum wage rate, continued monitoring of the impact of minimum wages remains a matter of priority.

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

	Q1	Q2	Q3	Q4	2016	Q1	Q2	Q3	Q4	2017	Q1	Q2	Q3	Q4	2018
I. Economic output															
GDP (% real growth)	-	-	-	-	6.9	-	-	-	-	7	-	-	-	-	7.3
GDP (% nominal growth)	-	-	-	-	10.6	-	-	-	-	10.3	-	-	-	-	10.7
GDP (current prices, USUS\$ million)	-	-	-	-	20 159	-	-	-	-	22 189	-	-	-	-	24 817 ¹³
Value added (GTF, current prices, USUS\$ million)	-	-	-	-	2 123	-	-	-	-	2 356	-	-	-	-	2 793
Value added (GTF, % of GDP)	-	-	-	-	10.5	-	-	-	-	10.4	-	-	-	-	11.3
Consumer Price Index (period average) rebased, Dec. 2010=100	117	119.1	120.2	121.2	119.4	122	122.4	123.3	123.9	122.9	124.7	125.8	126.4	126.8	125.9
Inflation rate (CPI period average, y-o-y growth)	2.50%	3.00%	3.00%	3.60%	3.00%	4.27%	2.77%	2.58%	2.23%	2.93%	2.21%	2.78%	2.5%	2.4%	2.5%
2. Garment, textiles and footwear exports															
2a. Growth of total GTF exports															
GTF exports (USUS\$ million)¹¹	1 773	1 718	2 073	1 758	7 322	1 856	1 874	2 290	2 000	8 020	2 092	2 241	2 771	2 304	9 403
% growth (year-on-year)	14.5	7.2	3.9	4.6	7.2	4.7	9.1	10.5	13.7	9.5	12.7	19.6	21.0	15.2	17.2
Garment exports (US\$ million) ¹¹	1 605	1 527	1 882	1 545	6 559	1 647	1 655	2 084	1 761	7 147	1 867	1 970	2 501	2 084	8 367
% growth (year-on-year)	14.7	6.5	2.7	2.9	6.3	2.6	8.4	10.7	14.0	9.0	13.3	19.0	20.0	18.4	17.1
Footwear exports (US\$ million)	168	191	191	213	763	209	219	206	239	873	225	271	270	239	1 041
% growth (year-on-year)	12.9	13.8	16.7	18.6	15.6	24.6	14.7	8.0	12.0	14.4	7.7	23.5	31.1	0.0	14.7
2b. Garment and footwear exports by main destination															
Total exports (GTF, US\$ million)	1 773	1 718	2 073	1 758	7 322	1 856	1 874	2 290	2 000	8 020	2 092	2 241	2 771	2 384	9 403
To United States (garment and footwear) ¹¹	429	440	555	414	1 838	452	426	571	475	1 924	538	574	743	627	2 483
To European Union (garment and footwear) ¹¹	793	777	921	881	3 372	797	895	1 055	939	3 686	890	1 009	1 199	964	4 063
To rest of world (garment and footwear) ¹¹	550	501	597	463	2 111	607	553	665	586	2 410	664	658	828	712	2 862
	Q1	Q2	Q3	Q4	2016	Q1	Q2	Q3	Q4	2017	Q1	Q2	Q3	Q4	2018
3. New Investment, factory openings and closures															

¹³ Based on 1 USD= 3,999 KHR in December 2018
(<http://www.gdp.mef.gov.kh/SEAD/statistics-by-market-prices>)

3a. New Investment Project													
Total CIB approved investment projects	37	23	33	28	121	21	33	38	25	117	36	29	
Thereof: Garment and footwear projects^{1/}	22	9	15	10	56	11	5	24	15	55	13	13	
Garment projects	18	7	10	6	41	7	4	21	13	45	10	12	
Footwear projects	4	2	5	4	15	4	1	3	2	10	3	1	
Total CIB approved projects (US\$ million)	955	827	960	507	3 249	131	1 960	3 005	120	5 217	469	2 426	
Thereof: Garment and footwear projects (US\$ million)^{1/}	86	42	75	46	248	76	30	102	61	269	70	43	
Garment projects (US\$ million)	71	31	55	19	175	54	22	81	56	214	53	37	
Footwear projects (US\$ million)	15	11	20	27	73	22	8	20	5	55	17	5	
3b. Factory openings and closures (registered factories) ^{1/}													
Total garment and footwear factories (end of period)	589*	604	615	626	626	638	643	646	661	661		708	
Garment factories (e. o. p.)	526	538	548	556	556	567	571	573	584	584		625	
Footwear factories (e. o. p.)	63	66	67	70	70	71	72	73	77	77		83	
Net growth (garment and footwear)^{1/}	-110*	15	11	11	-73	12	5	3	15	35		47	
Garment factories	-100	12	10	8	-70	11	4	2	11	28		41	
Footwear factories	-10	3	1	3	-3	1	1	1	4	7		6	
	Q1	Q2	Q3	Q4	2016	Q1	Q2	Q3	Q4	2017	Dec-2016	Dec-2017	Dec-2018
4. Employment in the garment and footwear sector													
Total garment and footwear workers (period av., '000)	628	592	600	601	605	609	650	668	639	641	601	631	660
% change (year-on-year)	5.3	-3.9	-5.7	-6.6	-2.9	-3.1	9.9	11.3	6.3	5.9	-7.5	5.0	4.6
Workers in garment sector (period average, '000)	525	494	499	498	504	506	541	562	531	535	498	523	548
Workers in footwear sector (period average, '000)	103	98	101	103	101	103	109	106	108	107	103	109	113
5. Wages and prices													
Minimum wage (garment and footwear sector, US\$)	140	140	140	140	140	153	153	153	153	153	140	153	170
Average monthly wage (garment and footwear, US\$)^{4/}	187	193	203	196	195	205	197	193	210	201	195	214	226
Average monthly wage (garment workers, US\$) ^{3/}	190	195	208	201	198	209	200	194	213	204	201	208	226

Average monthly wage (footwear workers, US\$) ^{3/}	173	184	180	173	178	183	184	187	198	188	174	184	228
Real average monthly wage (garment and footwear, constant Dec. 2010 US\$)^{3/ 4/}	160	162	169	162	163	168	161	156	170	164	161	172	179
Real average monthly wage (garment, Dec. 2010 US\$) ^{3/ 4/}	162	164	173	166	166	171	163	157	172	166	165	168	179
Real average monthly wage (footwear, Dec. 2010 US\$) ^{3/ 4/}	148	154	149	143	149	150	151	152	160	153	134	148	180

Note: GDP growth rates for 2016, 2017 and 2018 are based on GDP values in Cambodian Riel. Source: Ministry of Finance and Economy of Cambodia.

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

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