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POVERTY MONITORING AND ANALYSIS

The Apparel Industry in Cambodia: Employment, Wages and Implications for Poverty

Significance

Cambodia has achieved impressive growth in GDP over the past two decades, sustained despite the world financial crisis, and has significantly reduced poverty. World Bank policy studies have found that countries that experience growth in labor-intensive sectors are more likely to reduce poverty. Labor intensive sectors not only provide employment, but also often hire workers from the lower end of the wage distribution scale. This note shows that this has been the case in the apparel industry in Cambodia, where, after the end of the Multi-Fibre Agreement in 2004, exports market share has increased as well as total employment, although wage premiums have decreased and upgrading has been limited. Improvements in working conditions did not increase the incidence of plant closure, and provided a clear benefit to employees. Nevertheless, gains can only be sustained if accompanied by productivity increases, allowing for better conditions, including wage premiums and other benefits.

Background

One of the first steps in many countries' development path is the movement from agriculture to manufacturing. Apparel is often one of the first labor-intensive manufacturing industries to develop, and provides entry to formal employment for the unskilled and the poor. Importantly, apparel workers are predominantly young, less-educated women, whose employment results in a wage premium that directly contributes to poverty reduction.

Given the weight of the apparel industry in Cambodia, and its important role in salaried job creation, we need to understand the effects of

policy changes on apparel production – both between and within countries – across the developing world. One of the most significant recent policy changes affecting apparel was the end of the Multi-Fibre Arrangement (MFA) in 2004. The book *Sewing Success* (Lopez-Acevedo and Robertson 2012) examines employment, wages, and poverty following the end of the MFA for nine developing countries: Honduras, Mexico, Morocco, Bangladesh, India, Sri Lanka, Pakistan, Vietnam, and Cambodia. The Chapter on Cambodia includes an analysis of Cambodia's unique Better Factories Program, aimed at improving working conditions in apparel factories; and the impact that has had on competitiveness and exports.

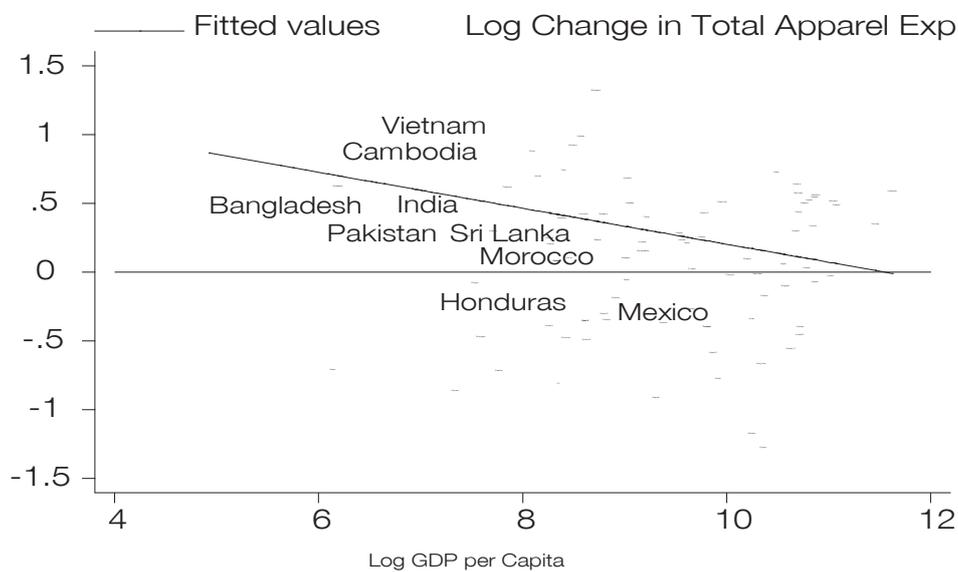
This note summarizes the main findings in relation to the impact of two policies: removal of the MFA and the establishment of the Better Factories Cambodia (BFC).

Analysis

The end of the MFA induced a significant reallocation of apparel production across

Cambodia in particular experienced significant gains in exports. Contrary to what might have been expected, the rate of increase in Cambodia's exports increased after the end of the MFA. Like much of the rest of the world, exports fell during the financial crisis. Recovery after the crisis, however, has been strong. Exports increased 10.6% in 2012 over 2011. Much of this increase was in the European market following a revision

Figure 1: Change in Apparel Exports as a Function of GDP per capita



Source: Lopez-Acevedo and Robertson (2012)

countries. Figure 1 shows the relationship between GDP per capita (a proxy for wages), and the change in apparel exports after the end of the MFA. The downward-sloping fitted line shows that exports shifted from the high-wage countries to the low-wage countries, but wages only explain part of the story. Exports fell in Honduras and Mexico while Vietnam and Cambodia experienced greater increases in exports than that predicted by GDP per capita alone. The other countries experienced smaller increases than would be expected by income per capita alone.

of EU's tariff provisions for Cambodia. But exports to the rest of the world also increased (45.4%), representing a significant diversification of Cambodia's export market.

Table 1 summarizes the empirical results for changes within countries presented in [Sewing Success](#). The nine countries fall into three main categories. The top four (Bangladesh, Vietnam, Pakistan, and India) experienced increases in exports, employment, and wage premiums. These countries also actively engaged in some form of upgrading or moving up the value chain. On the

Table 1: Summary of results in *Sewing Success*

Country	Across Country Changes	Within Country Changes		
	Exports Value/Market Share (% change 04-08)	Total Employment	Wages Premium	Upgrading
Bangladesh	Improved	Improved	Improved	Yes
Vietnam	Improved	Improved	Improved	Yes
Pakistan	Stagnant	Improved	Improved	Yes
India	Improved	Improved	Improved	Yes
Sri Lanka	Stagnant	Declined	Declined	Yes
Cambodia	Improved	Improved	Declined	No Change
Morocco	Stagnant	Declined	n.a.	Yes
Honduras	Declined	Declined	Declined	No Change
Mexico	Declined	Declined	Declined	No Change

Source: Lopez Acevedo and Robertson (2012).

other hand, Morocco, Honduras, and Mexico experienced stagnant or falling exports, falling employment, and falling wage premiums. In contrast to the first group, Honduras and Mexico did not enact policies to promote upgrading.

Cambodia was somewhat unique, because it experienced rising exports and employment without enacting policies to promote upgrading. One possible reason for Cambodia's exceptional performance may be the presence of the Better Factories Cambodia (BFC) program. This

International Labor Organization program brought together buyers, factory managers, labor and the government in an attempt to improve working conditions in the factories.

In an industry driven by reputation-sensitive buyers in importing countries, concern for labor conditions and worker treatment may be not only a labor rights issue, but also a competitive advantage, as the case of Cambodia suggests. This program was unique in the world and may help explain Cambodia's tremendous success.

World Bank studies show that:

- the BFP program coincided with significant improvements in working conditions – especially in the areas where compliance was the lowest;
- improvements in working conditions do not increase the probability of plant closure, and in some cases may actually decrease it;
- ending public disclosure lowered the rate of increase in compliance;
- regression in labor standards is very rare; factors related to regression are similar to those affecting compliance; and
- retrogression is rare: factories that try out improvements rarely reverse them, which supports the idea that they may not make the factories worse off.

The Road Ahead: An Opportunity for Directed Development

Understanding the effects of globalization and trade on job creation, job destruction, and changes in the quality of jobs is essential for the design of sustainable poverty reduction strategies. The apparel sector is particularly important for poverty reduction, given the high numbers of employees and higher than average wages.

The *Sewing Success* report illustrates that, while Cambodia's apparel sector remained focused on the lower end of the value chain, the Sri Lankan government worked with the private sector to encourage upgrading and focusing on higher value-added items. Interestingly, employment expanded in Cambodia and fell in Sri Lanka, although the total value of exports increased in both. This comparison highlights the importance of understanding industry structure and policies. Policies to move up the value chain may cause the industry to move away from precisely those entry-level positions that give opportunities for people to exit poverty, raising the question of what other policies might be needed to complement policies that facilitate such upward movement.

One policy-related concern is that the opportunities for pro-poor apparel production may

be short-lived, and are highly sensitive to changes in the global economic environment. It is important to identify how the change in policy is affecting workers, and through which channels they are being affected, so that the appropriate policy responses can be applied. For economies that are gaining, it is important to know who is benefiting, and what conditions are necessary for the poor to benefit from the change in policy. If the poor are not benefiting, policy makers need to ask why, and to determine what, if anything, might be done to help the poor capture some of the gains.

Export gains in the apparel industry were not simply due to industry relocation from higher-wage countries to lower-wage countries. Upgrading, ownership and domestic policies also seemed to play a role. BFC may have contributed to Cambodia's growth in the sector post-MFA. Ensuring that all apparel producers are monitored through BFC may be one way to help guarantee the quality of the industry, and to maintain Cambodia's international reputation as a source of compliant production.

The current industry boom creates an opportunity for government and industry stakeholders together to resolve bottlenecks, increase productivity, and distribute gains. Without careful direction, the current development opportunity may escape.

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