

# Cambodia's Garment Sector in Transformation

External Shocks, Political Space  
and Supplier Consolidation

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# Executive Summary

## Overview

This project assesses the impacts of the Covid-19 pandemic and the partial withdrawal of the European Union's Everything but Arms trade arrangement on employment in Cambodia's garment sector. These trade-related shocks or disruptions are analyzed in the political context of Cambodia's authoritarian shift, as the country has no functioning political opposition and independent trade unions ability to promote workers' rights has been compromised. As for the economic context, the report looks at Cambodia's foothold in the global garment industry, which remains as an assembly platform of low-value added apparel. The research addresses this de-facto market specialization and the implications when considering changes in power dynamics between global buyers and manufacturers who are consolidating and transnationalizing their production networks.

## Methodology and personnel

The project was undertaken by Dr. Dennis Arnold, Associate Professor of Political-Economic Geography at the University of Amsterdam. This is a desk-based study, data sources include reports, newspaper

articles, journal articles, books and websites. Between 20 November 2020 – 18 January 2021 the researcher also conducted interviews or discussions via zoom with 11 key stakeholders from the private sector, government and civil society. Lieke Ruijschoot and Nuon Veasna (labour rights expert and associate of CNV Internationaal) took part in research design and feedback at subsequent stages of the project. Kong Athit from Coalition of Cambodian Apparel Workers Democratic Union advised the team. Dan Pisey (national consultant CNV Internationaal) provided research assistance.

## Summary of findings

### *Covid-19 impacts*

- As of October 2020, Cambodia's garment exports have decreased by roughly 9% year on year. 65 new factories have registered and opened, up from 60 in 2019. That Cambodia has maintained production can be attributed to continued demand for low-cost apparel which is the mainstay of production, the lack of lockdowns in Cambodia (to date) due to low Covid-19 infection rates, and a steady supply of inputs from China. However, employers also report, as in other countries, that buyers are using

the pandemic to drive down prices while extending payment terms for suppliers from 30 to 90 days, which essentially means that suppliers are financing buyers during the pandemic.

- Despite the relatively moderate production disruptions, the impacts have been quite severe for hundreds of thousands of workers. As of October 2020, an estimated 35-40,000 workers out of some 800,000 have lost their jobs without finding another formal sector job (i.e., they are no longer registered with the national social security fund). A far larger number of workers are working fewer hours than they did pre-Covid 19, meaning already meagre incomes are negatively impacted. This has profound impacts, including: basic nutrition has been compromised and debts are mounting as are cases of loan defaults. Alongside this work pressure has reportedly intensified. In sum, the reduction of working hours, much less the loss of their job, has led to socio-economic hardships or even disaster for many garment factory workers in Cambodia. This points to the persistence of highly precarious employment in the sector.

### ***EBA withdrawal impacts***

- The EU's Everything but Arms (EBA) arrangement was initiated in 2001 to give Least Developed Countries full duty-free and quota-free access to the EU for all their exports with the exception of arms and armaments. It was partially withdrawn on 12 August 2020 in response to the Cambodia's shift to one-party rule.

- Due to the Covid-19 pandemic it is too early to determine the impacts of EBA withdrawal. It would seem, however, that the impacts may not be dramatic, given: the limited scope of the withdrawal, the UK's continuation of the EBA after Brexit (in its GSP program), and limited capacity of other 'competing' manufacturing countries to absorb the types of production done in Cambodia.

### ***Political space in Cambodia***

- The EU's attempt to use the EBA withdrawal as leverage to pressure Cambodia's ruling Cambodian People's Party (CPP) to reform has failed. The EBA withdrawal and the lead up to it has pushed the CPP into deeper ties with the Chinese state.
- Basic rights, such as the right to strike and freedom of association continue to be curtailed.
- Rank and file workers and leaders of the few independent unions have limited opportunity to enter tripartite negotiations on an equal footing, due to the collaborate relations among government, employers' associations and pro-government trade union.
- Trade unionists engaging in activities which may be deemed political, or in any way oppositional to the CPP, risk serious consequences including imprisonment.



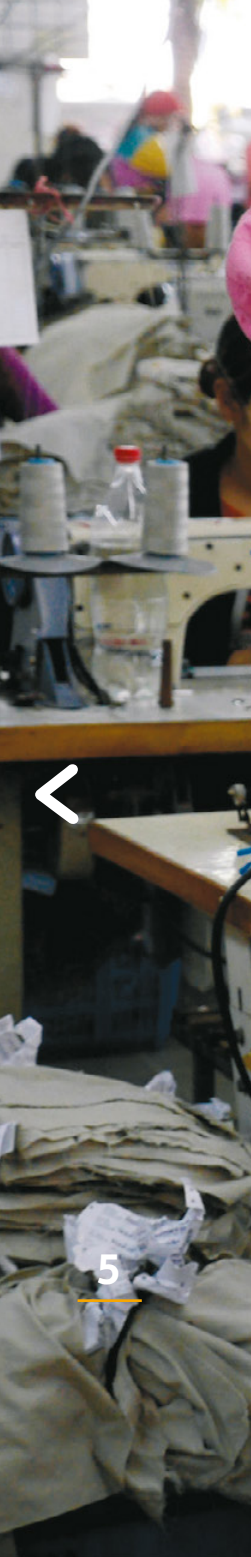
### *Global garments division of labour*

- Diversification has failed to materialize in Cambodia, in both garments and the economy as a whole. The country is stuck at the lower rungs of the global apparel industry. The opportunities to escape this 'low-income trap' are very limited. It would seem, then, that in the short to medium term Cambodia will continue to specialize in low-cost apparel production.
- The global apparel industry is changing. The supplier base continues to consolidate, with the Covid-19 pandemic contributing to the further thinning of less competitive manufacturers. Manufacturers are increasingly part of larger transnational corporations, or manufacturing (TNCs). These TNCs and global buyers are increasingly co-dependent upon one another, as buyer's supplier base also continues to consolidate.
- Some garment TNCs are highly profitable and are making investments in production technology and also have the capacity to employ workers on better terms, if workers have the organizational and institutional capacity to actuate demands for improvements and monitor their own workplaces. On the other hand, many manufacturing TNCs will continue to utilize a sweatshop strategy to remain competitive in the ongoing race to the bottom, meaning global garment manufacturing is likely to remain heterogenous and witnessing a multiplicity of capital accumulation strategies.

# I. Introduction

The garment sector is central to Cambodia's socio-economic development strategy. The sector is a major employer of young women from rural areas, who have limited labour market opportunities given the lack of economic diversification. In 2020, prior to the Covid-19 pandemic, some 800,000 were directly employed in the garments and shoe sector. In turn, hundreds of thousands of families depend on these workers' remittances, while a wide range of service sector jobs also depend on factory workers in and around the industrial zones, including food vendors, clothes sellers, transport operators, and many others. In this context, the demand-side shock to the global apparel industry as a result of the Covid-19 pandemic has had a huge negative impact in Cambodia, with (by some estimates) some 150,000 workers out of work or with reduced working hours.

Another issue imbricated with workers' rights in Cambodia is the Cambodian People's Party's (CPP) approach to labour politics. Over the past five-six years the CPP has consolidated its power by eliminating the main opposition party, jailing or pushing into exile leading voices of the opposition, and culminating, in a sense, with the murder of activist Kem Ley and the subsequent show trial of what appears to be a fall guy.






Alongside this independent media has been severely curtailed. The shift to one party rule led the European Union to partially suspend Cambodia's access to the Everything but Arms trade scheme which had provided duty and tariff free access to the EU single market. The withdrawal was approved in February 2020 and implemented in August 2020. While it is too early to determine impacts on manufacturing for export to the EU, it seems that the political effects are the opposite of those intended, with the ruling CPP hunkering down and deepening its grip on power. Indeed, the likelihood of its being effective in pressuring the CPP to reassess its political trajectory seems negligible, given the close geopolitical and geoeconomics relations Cambodia enjoys with China.

Cambodia's civil and political restrictions are usefully viewed in relation to the fact that Cambodia's economy has not diversified much beyond its 'growth pillar's in garments, agro-industry, construction and tourism. In garment manufacturing, the country is stuck at the lower rungs of the global division of labour. The opportunities to escape this 'low-income trap' are very limited. The global apparel industry is, however, changing. The supplier base continues to consolidate, with the Covid-19 pandemic contributing to the further thinning of less competitive manufacturers. Manufacturers are increasingly part of larger transnational corporations, or Asian transnational manufacturing corporations. These TNCs and global buyers are increasingly co-dependent

upon one another, as buyer's supplier base also continues to consolidate. It remains to be seen how this growing middle of the garment industry will affect wages and workers' rights in Cambodia. There are opportunities to demand more from employers, but this requires freedom of association which is in short supply. Furthermore, Cambodia's low-value added development 'model' defines the boundaries of demands that workers can successfully make.

This report is organized as follows. The subsequent section provides an overview of the impacts Covid-19 has had on employment and conditions of work, supply and demand side implications for manufacturing in Cambodia and the general precarity of both workers' rights and lives as well as the precarious foothold Cambodia maintains in global sourcing. After that, a brief update on the impacts of EBA withdrawal is provided, before moving on to a linked discussion on political space in Cambodia and the increasingly restrictive civil and political environment. The final section looks at the issue from a global scale to analyze changes occurring the garment industry, with an eye on how this may shape sourcing in Cambodia and workers' capacity to negotiate better terms and conditions of work.





## II. Covid-19 Impacts

The garment and footwear sectors account for almost 80% of Cambodia's total exports, making them linchpin in Cambodia's US\$26bn economy. Nearly one in five employed women in Cambodia work in the garment sector (Jackson et. al. 2020). Some 90% of these (typically young) women are from rural areas. Their labour market opportunities remain limited given country's the lack of economic diversification. In 2019 some 800,000 were directly employed in the garments and shoe sector. When taking unregistered garment firms into account the number is certainly well over 900,000. Indirect employment is also significant, with a wide array of livelihoods surrounding the industrial zones, including food sellers, transportation providers, consumer goods vendors, and others. Furthermore, hundreds of thousands of families depend on workers' remittances, effectively propping up large swaths of the rural economy. In sum, the importance of this industry for the country's economy and society cannot be underestimated.

In the political realm garments is also significant as the overwhelming majority of unionized workers in Cambodia are in the sector. And, despite myriad



challenges, the union movement has been an important element, from the late 1990s through today, in Cambodia's fraught 'transition' to democracy and its subsequent backsliding toward one party rule in recent years. Unions have been significant forces behind opposition political parties and their significance has led the ruling Cambodian People's Party to co-opt other segments of the labour movement<sup>1</sup> as part of their hegemonic imperatives. Furthermore, there remains a handful of politically independent and pro-worker (as opposed to pro capital) unions in Cambodia, of most significance over the past decade the Coalition of Cambodian Apparel Workers Democratic Union (CCAWDU), and in more recent years the Cambodian Alliance of Trade Unions (CATU).

<sup>1</sup> I refer here to pro-opposition unions: the Cambodian Confederation of Unions (CCU) and (formerly politicized) Free Trade Unions of Workers of the Kingdom of Cambodia. The main pro-CPP unions are the National Union Alliance Chamber of Commerce (NACC) and Cambodian Confederation of Trade Unions (CCTU).



In this context, 2020 has been tumultuous in Cambodia. A country so heavily dependent on a single sector that is so susceptible to crisis is bound to bear a heavy load. The impacts of the Covid-19 pandemic on sourcing and employment in Cambodia have resulted from both demand and supply side factors. On the demand side, imports of garments in Europe declined by 25% from January to June 2020 compared with the same time period in 2019, with similar declines in the United States and Japan import (26% and 17% respectively). The EU and US markets comprise roughly 43% and 30% of Cambodia's garment, textile and footwear exports (Edge and Lu 2020). Following five years of positive growth in the apparel and footwear industries, McKinsey & Company (2020) estimates that revenues for the sectors will contract by 27 to 30 percent in 2020 year-on-year, with even deeper declines in some sub-sectors and countries. McKinsey estimated in April

2020 that up to one-third of global fashion buyers will not survive the crisis. Reasons for buyer bankruptcies vary, analysts indicate that many companies had already been struggling to adapt to a changing retail environment and some large retail chains were deeply in debt before the pandemic (McKinsey 2020).

**Figure 1:** Cambodia's apparel exports by market share (in %)

Export market	2005	2010	2015	2017	2019
EU	22.0	23.4	42.9	47.1	42.9
US	71.1	60.2	30.6	24.7	30.6
EU and US total	93.0	83.5	73.4	71.9	73.4
Rest of the world	7.0	16.5	26.6	28.1	26.6

Source: Edge and Lu (2020)

On the supply side, the role of China as the primary source for raw material supply in Asia was felt most strongly in the first quarter of 2020 as the lockdowns swept across China, shuttering its factories. Countries like Cambodia that lack downstream capacities in textiles and raw materials, and that specialize in cut-make-trim (see below), are particularly susceptible to such disruptions in supply. China continues to dominate global apparel production, accounting for roughly 33% of global totals, with Bangladesh in second place in Asia at 6%, and Cambodia comprising



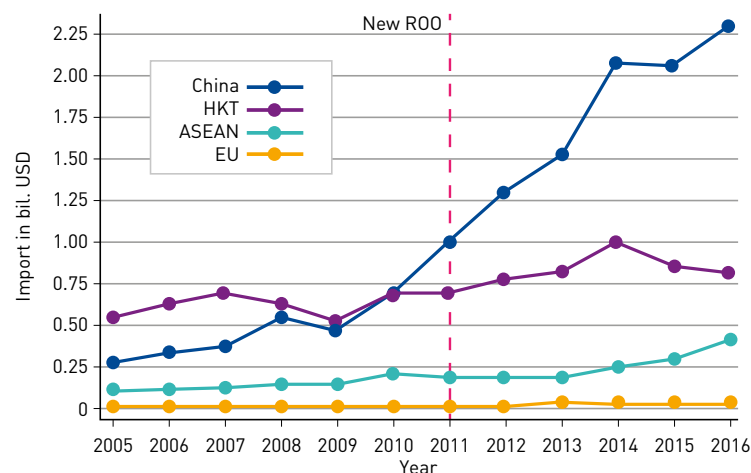
roughly 1.3% of global totals. However, China is continuing the trend of the past few years in which it is exporting less apparel and more textiles to the world (Lu 2020), meaning apparel production is slowly shifting away from China, primarily to South and Southeast Asia, while China's central role in global apparel supply chains is deepening with its expanded textile industry. According to Sheng Lu (2020) as much as 55.3% of Asian countries' textile imports (measured by value) came from China in 2019, compared with only 37.2% in 2010. According to Lu (2020) Cambodia's imports of Chinese textiles have gone up from 30% to

65% over the same period, similar to Vietnam which has gone up from 26% to 57%.


The Chinese state has managed the pandemic with astonishing effectiveness when compared to Europe and North America. One result is its manufacturing sector was up and running again from the second quarter of 2020 and since then has not been forced to dramatically slow down due to further Covid-19 outbreaks. Cambodia has managed to avoid, to date, an outbreak that has led to workplace closures. There have been only 362 confirmed national cases as of 15 December and no deaths reported (Ratcliffe 2020). While both numbers may be underreported, as is common globally, it would be impossible for Cambodian authorities to hide a major outbreak.

In sum, factory closures due to outbreaks have not been a cause of production slowdowns in Cambodia. The situation in Myanmar and Bangladesh is worse in these terms, so it would seem that Cambodia has absorbed orders from these two 'competing' countries, at least temporarily, according to Dr. Ken Loo from the Garment Manufacturers Association of Cambodia (GMAC) (interview, 18-12-20). Furthermore, the supply of textiles from China has not been a major production impediment, as Cambodia was one of the first countries to resume textile importing from China due to the two countries' close geo-political ties. This has been greeted with fanfare, for instance with PM Hun Sen greeting a container ship when textile shipments resumed.

**Figure 2:** Fabric imports in Cambodia



Note: The EU's reform of its rules of origin (ROO) in 2011 resulted in a significant increase of Cambodian garment exports to the EU, under the EBA program. Source: Tanaka 2020




In terms of supply chain dynamics, a major implication of decreased demand is excess capacity in the Asia region, in which suppliers compete with one another over the now limited orders with the potential for buyers to further drive prices down (Anner and WRC 2020). According to a McKinsey & Company (2020) survey, fashion retailers and brands have reported that at least 25 percent of their suppliers are facing financial distress, with the expectation among 45 percent of surveyed sourcing executives that more than half of their suppliers would be in financial distress in six months' time (McKinsey 2020). Ken Loo of GMAC reiterated these points by confirming that payment terms for suppliers in Cambodia are worsening, shifting from 30 to 90 days, with Loo stating "Across the board this is happening." Secondly, Loo noted that although buyers can demand extensions on payments, manufacturers cannot do the same with workers, who need to be paid on time. This results in the rather absurd situation in which manufacturers are financing buyers. This is uneven in many respects, foremost is the capacity of buyers to absorb such shocks vis-à-vis suppliers.

Reactions and strategies of buyers and suppliers to this unprecedented situation have varied and are as yet insufficiently researched. A broad trend, according to McKinsey's (2020) survey of sourcing executives, is characterized by a mixed approach to managing existing orders through a combination of reducing the number of orders, reducing the quantities per








order, and canceling finished-goods orders altogether. McKinsey research found that almost half of sourcing division respondents (49%) have canceled less than a quarter of their existing orders of finished goods, while 22 percent have not canceled any orders at all. A more critical and insightful perspective is offered by Mark Anner and the Worker Rights Consortium (2020), who find that many brands and retailers are treating their suppliers' increasing desperation for orders as a source of bargaining leverage by demanding price discounts substantially larger than the year-over-year reductions they typically seek (Anner and WRC 2020). They also find that over half of respondents are being forced to accept prices for orders that are below the cost of production, a common practice in the industry heightened during the pandemic.

Reliable and comprehensive data on the production and employment impacts in Cambodia is not as yet available, with figures varying. For example, in July Cambodian media indicates 400 factories suspended operation, with more than 150,000 workers having lost their jobs during the pandemic (Khmer Times 2020). The industry sourcing magazine *just-style* published data claiming shutdowns of one-third of Cambodia's garment, footwear, and travel goods factories during the first half of 2020. An ILO (2020) publication citing a GMAC source estimates that approximately 15-25 percent of factories had no orders at the end of the second quarter of 2020, with more than one-quarter of GMAC member companies not reopened by July

2020 (Jackson et. al. 2020). An Nan from the Worker Rights Consortium (WRC) (interview 1-12-20) noted that Ministry of Labour claimed that 450-470 factories (out of some 1000) were suspended around May-July, with the number of suspensions down to 70 in November-December. One anonymous stakeholder interviewed for this research suggest that GMAC figures are likely inflated, and another noted that GMAC and Ministry of Labour estimates do not include unregistered factories, of which there are many hundreds in Cambodia. According to Sara Park of the ILO-Better Work programme (interview 20-11-20), GMAC maintains that, overall, sourcing in Cambodia has remained relatively stable with many factories at full production capacity. In other words, there are opposing views and perspectives on GMAC's data and the ways in which it is used.

Ken Loo offered clarity on GMAC's data. He said that as of October 2020 official factory closures registered with the MoL stands at 110. 65,000 workers in these firms were officially laid off. However, this figure refers to all factories in Cambodia that are registered with the ministry (i.e., garments, food processing, electronics, etc.) and furthermore includes both domestic and export production. GMAC on the other hand only represents exporting firms in the apparel and bag sectors, with a few shoe members, though most of them are part of the recently formed footwear manufacturers association. He went on to state that tracking closures through the year is always difficult







for GMAC. For example, GMAC knows when there is a new factory because it registers with them as a member. But when a factory closes GMAC may not be notified. He said that, for example, GMAC may be notified of the closure in the following calendar year when the factory does not pay their dues invoice, in other words around February of March. Bearing that in mind, Loo estimates that 50-60 factories have closed in 2020. However, 65 new factories have registered and opened, up from 60 in 2019. For him this is a clear sign that investors are still coming to Cambodia, despite more factory closures in 2020 as compared to 2019.

In terms of export figures, Loo said that GMAC data indicates exports are down 9 percent year on year (2020-2019), which is less than he and other experts

expected earlier in the year. He noted that production in the last quarter of 2020 has picked up. Furthermore, he reports as an indicator of the garment sector's relative 'good health', that of the top 10 garment exporters to the U.S. market, Cambodia is the only one that has seen positive growth this year. In terms of gross impacts on employment, not taking reduced hours into account, Loo said that the NSSF tracks the number of workers contributing to the fund, and they have reported 35,000-40,000 lost jobs. Set against the figure of 65,000 officially laid off, means, according to this line of calculation, that some 20,000 or so found jobs elsewhere and re-registered with the NSSF. In sum, GMAC members are weathering the storm. They are not necessarily doing well, they are under intense pressure and clearly subject to unfair contract terms with buyers, but are maintaining orders and production. Beyond GMAC membership are a large number of unregistered, subcontract factories. It is currently impossible to know of their experiences in terms of sourcing and employment, though it would be logical that less work is going to them if the registered factories are operating below production capacity. Another complication in reporting is due to the fact that factory closures are regular under 'normal' circumstances, and closures take various forms, from bankruptcy or related financial distress, to closure and reopening under another name to avail of tax incentives and/or eliminate workers seniority benefits. According to Sara Park it is also hard to know what is happening with factories that have suspended

operations, as it may be happening for weeks or months, and a single factory may undergo numerous and varying forms of suspension over time.

The impact on workers in Cambodia, despite evidence that garment manufacturing in Cambodia has on the whole weathered the crisis relatively well, has been dramatic. This points to the highly precarious nature of employment in the sector. Workers in Cambodia, like garment workers across the world, are facing high competition for jobs during the economic crisis, which can readily translate to increased work pressure in order to find new or keep current jobs. One result is the focus shifts to basic issues like being employed or not, having an income that covers basic nutritional or housing costs, or not. Issues like compliance with labour laws or codes of conducts are then relegated to secondary concerns. Instances of union-busting, already common in Cambodia and other producing countries, may easily increase as workplaces are recomposed. The ILO (2020b) notes that reduced profit margins and unstable production demands resulting from the pandemic may increase rush orders, further exacerbating pressures linked to verbal abuse in garment factories.

Beyond the factory floor, concerns such as violence and harassment as well as gender equality will likely receive less attention in the near-term (ILO2020). The pandemic's impact on families and workers have brought into sharp focus the failure of governments



to enforce compliance with child-care requirements enshrined in law and the need to support affordable, professional and accessible care services for all workers (Jackson et. al. 2020). Furthermore, more than 2.6 million Cambodians held more than \$10 billion in microloans at the end of 2019, with borrowers holding an average of \$3,804 – by far the highest average microloan size in the world, and far exceeding GDP per capita or annual incomes (CATU et. al. 2020). Cambodia has the highest penetration of microloans in the world and is completely saturated, with Human Rights Watch (2020) reporting coerced land sales and other rights abuses linked to predatory lending and over-indebtedness in the micro-loan sector. CATU et al's (2020) survey on loans among garment factory





workers (162 respondents) found that most (72%) had already eaten less food or taken another loan (51%) to repay their microloan. 95 percent of workers said they would be unable to repay their microloans if their factory was suspended.

Comprehensive studies on workers' experiences in Cambodia have not yet been executed, but reports from CARE International and the ILO's Better Work provide some insights. CARE (CARE 2020) finds that while the Cambodian government worked with employers to provide a US\$70 benefit to furloughed workers, only 41 percent of surveyed workers in May had actually received the full benefit. It also reports that workers who had been suspended or laid-off reported a 70 percent decrease in income, leaving approximately 50 percent of laid off workers below the international poverty line of US\$ 1.90 per day. For workers who were still employed, 88 percent reported an average income reduction of 42 percent due to COVID-19. An ILO BFC (Better Work 2020, cited in Jackson et. al. 2020) survey of 375 workers in May and June 2020 found that 49 percent experienced a reduction in income as a result of COVID-19 production disruptions, and 41 percent report working fewer hours. Regarding childcare, CARE (2020) reports that 36 percent of respondents bore a heavier workload than men during the pandemic and 13 percent identified an increase in unpaid care work among the top three problems from the crisis. In terms of workers' families, the implications on the rural remittance socio-economy



have yet to be studied. One indication of the inability of rural families to absorb the shock is the fact that workers interviewed for an unpublished Solidar-Suisse study (shared with the author) have remained in Phnom Penh and vicinity to seek out day labour in construction or garment factories rather than return to the countryside.

The most alarming findings emerge from the WRC study on hunger in the apparel supply chains. The research draws on survey data from 396 workers in nine countries, including Cambodia, finding that: “88 percent of workers reported that diminished income had forced a reduction in the amount of food consumed each day by themselves and members of their household; 67 percent of workers reported that they or members of their household had been forced to skip meals during the pandemic or reduce the quality of meals; 75 percent of workers reported that they had borrowed money or accumulated debt in order to buy food since the beginning of the pandemic” (Kyritsis et al. 2020:2).

In sum, for many a reduction of working hours much less the loss of a job is a socio-economic disaster (ILO 2020). Although there is light at the end of the pandemic tunnel with the rollout of vaccinations across Europe and North America, the global economic recession will lead to reduced demand in the near term. Thus, the coming year or two survival and



recovery will guide buyers and manufacturers and a wide range of nefarious practices may well take root on the part of both buyers and employers looking to shed productivity and profitability diminishing practices. For some workers there will be extended periods in which debts are accumulated to simply pay for basic needs such as housing, food and health care. The lack or dysfunctional nature of social protection systems in Cambodia points to a very worrying and troubling year or two ahead.

### III. EBA Withdrawal Impacts

The EBA withdrawal was formally approved on 12 February 2020 and came into effect on 12 August. Through 2019, 95.7 percent of Cambodia's exports entered the EU market under EBA tariff preferences. Withdrawal affects selected garment and footwear products, and all travel goods and sugar. The withdrawal amounts to around one-fifth or €1 billion of Cambodia's yearly exports to the EU. Deciding upon which tariff lines to include was a long process in which European Union Delegation trade officials reported (interview, 8-12-20) that they assessed the socio-economic impact of each line. For example, excluded were high value-added garments and bicycles, as the EU aims to continue to promote upgrading in garment supply chains and economic diversification. Delegation officials said that they tried to identify items like travel goods that are less dependent on the EU market and/or have a low MFN duty, so that reimposition of the tariff would buffer the impact. Along these lines, all emerging industries in Cambodia continue to enjoy EBA access to the EU market. The problem with this, as addressed below, is the continued lack of diversification and higher value-added garment production in Cambodia, and the unlikelihood that EBA withdrawal will somehow kickstart that process. More generally, also addressed

below, there is no reason to believe EBA withdrawal will have any of the desired political impacts as envisioned in Brussels. Rather, the Cambodian state is being pushed further into China's orbit.

As for potential impacts on sourcing, it is important to note that the UK comprises some 20 percent of total EU imports from Cambodia, and that due to Brexit exports to the EU are set to continue with EBA tariff preferences. Specifically, according to information published by GMAC (GMAC 2020) the UK's Department for International Trade announced on 10 November 2020 that from 1 January 2021 eligible developing countries will be able to get trade preferences through

**Figure 3:** Cambodia's garment exports to the EU

	2010	2015	2017	2019
Total	€526	€2,971	€3,660	€3,988
Under MFN	€107	€202	€121	€203
Under EBA	€419	€2,769	€3,539	€3,785
% of exports under EBA	79.7%	93.2%	96.7%	94.9%

Source: Edge and Lu (2020)

the UK GSP. The UK GSP will initially provide trade preferences to the same countries as the EU GSP, thus Cambodia will be entitled to duty- and quota-free access on exports of all goods to the UK, except arms and ammunition, in other words the equivalent of the complete EBA scheme.

According to EU Delegation officials (interview, 8-12-20) they are communicating regularly with GMAC to monitor the impact of the withdrawal. GMAC has identified 37 companies affected, and only 3-4 companies have closed for good as a result. Based on this it seems that the impact has been less than expected, up to now. When asked about this a few weeks later, Ken Loo from GMAC said there is no point trying to disentangle EBA withdrawal from Covid-19 impacts, and that GMAC is no longer making such an effort. An (anonymous) source stated that in EBA conversations with brands in 2019 they reported that they would probably not change their sourcing dramatically due to the withdrawal, but then Covid-19 came along and upended everything. In sum, it is as yet impossible to get a clear picture of the impacts, assuming they exist. Given the centrality of Covid-19, it may take some time for buyers to alter their supply chain to take the EBA preferences into account. If the EBA tariff is the deciding factor in determining which country to source from, there are only a few other options, including Bangladesh, Ethiopia and Myanmar. As discussed in further detail below, the relative stability in Cambodia vis-à-vis these countries may dampen the effect.



## IV. Labour Rights and the Authoritarian Turn

Prime Minister Hun Sen has been in power since 1995 and has been the Chairman of the ruling Cambodian People's Party (CPP) since 2015. Despite the strong human rights provisions in the 1991 Paris Peace Agreements and the 1993 constitution—and billions of dollars in development aid, including nearly every conceivable aspect of technical assistance devoted to the rule of law, judicial reform, human rights and labour rights (HRW 2018)—the country has almost fully reverted back to a one-party state – where it began with the Paris Peace Accords of 1991.

Officially, it remains a multiparty democracy, since numerous political parties were able to run in the recent elections. However, the only viable opposition party, the Cambodia National Rescue Party (CNRP) was disbanded in November 2017 and its leaders either imprisoned or exiled. Essentially, Cambodia is a one-party state that dabbles in liberal discourses and policies, while the CPP occupies every seat in Parliament and dominates the political apparatus through the provinces and down to the commune level. These developments, as addressed earlier, led to the EU partially withdrawing Cambodia's EBA access, but as yet to no avail.

The CPP is a reformulated version of the Marxists-Leninist Kampuchean People's Revolutionary Party, which governed Cambodia during Vietnam's occupation from 1979 to 1989. The CPP reformulated after Vietnam's withdrawal to become a pro-market kleptocracy categorized as authoritarian neoliberal. It's an astonishing feat of political shapeshifting on the part of Hun Sen, who went from Army Commander for the ultra-Maoist Khmer Rouge, to Marxist Leninist, to free market strongman, all by his 40<sup>th</sup> birthday.



Hun Sen has remained in power since 1985, winning disputed elections, while proving effective at eliminating any opposition from within or outside of the party apparatus. Following a coup in 1997, the Hun Sen-led CPP came to sole power. In the 2008 National Assembly elections the CPP further consolidated its position, winning 90 of 123 seats, securing Cambodia's position in the 'electoral authoritarianism' camp (Hughes 2007: 835). Elections in 2013 saw dramatic gains for the opposition CNRP and triggered the current authoritarian turn. By now it is clear that if the CNRP had not been eliminated they poised to take power through the popular vote. 2013-2018 were thus eventful in terms of shrinking political space. A 2018 report by Human Rights Watch succinctly sums up the situation:

In September 2017 the Cambodia Daily was forced to close, while in May 2018 the owners of the Phnom Penh Post were coerced by the government into selling the paper to a Malaysian company with ties to Hun Sen. The government has ordered FM radio stations to stop broadcasting news produced by Radio Free Asia (RFA) and the Voice of America (VOA); two former RFA journalists have been arbitrarily detained and accused of espionage simply for providing information to a foreign news organization. Critical voices have all but disappeared from the country's media. Five staff members of the highly regarded Cambodian Human Rights and Development Association (ADHOC) were

jailed and now are out on bail awaiting trial on politically motivated charges. Human rights organizations and other critics of the government have responded by self-censoring to avoid being targeted.

The list of attacks on basic rights and freedoms could go on and on.

Hun Sen's official title in Khmer is "Samdech Akka Moha Sena Padei Techo Hun Sen," which literally translates to "princely exalted supreme great commander of gloriously victorious troops" (HRW 2018). He has also called himself the "five-gold-star general to infinity." A common critique summed up by Hughes and Un (2011: 10), is that under Hun Sen's tutelage, 'The Cambodian state is authoritarian, corrupt and based heavily upon neo-patrimonial institutions, whose survival and expansion represent key interests driving, and limiting, public policy'.

Obviously, then, the CPP is a powerful force delimiting the space for workers' and their organizations. Furthermore, the GMAC has maintained significant influence with the government. For example, GMAC has enjoyed considerable legitimacy for having facilitated the survival and eventual expansion of the industry through MFA phase out in 2005 and the global economic crisis of 2008-2009, both events deemed to have had the potential to decimate the industry in Cambodia. A manifestation of this is a royal decree

dated 24 October 2017 which grants Ken Loo, the secretary-general of the GMAC, an adviser position with a rank equivalent to undersecretary of state as adviser to the Ministry of Labour and Vocational Training. Not surprisingly, tripartite negotiations and social dialogue have been skewed towards the coalescing interests of government and employers, regularly backed by pro-government trade unions. As a result, rank and file workers and leaders of the few independent unions have limited opportunity to enter negotiations on an equal footing.

From the late 1990s through to today trade unions have been a locus of political contention in Cambodia's national body politic. As addressed in more detail elsewhere (Serrano and Nuon 2020) there are a multiplicity of unions in Cambodia, unlike neighboring Vietnam and China which allow only a single state-aligned trade union. Furthermore, unionization rates in Cambodia are much higher than Thailand, a country that also fosters union pluralism. However, a high number of (typically conflicting) unions is not an indicator of a healthy environment for freedom of association and other core workers' rights and concerns. Rather, it indicates that unions are seen by many as an institutional channel for power and often profit, and thus the stakes can be high. This is a critical factor in understanding the authoritarian turn in Cambodia and the specific role that unions play. The institutional context in which trade unions operate, then, is characterized by interference, manipulation

and often outright suppression by the government, employers, and union leaders themselves. Furthermore, the authoritarianism, hierarchy and patriarchy that characterizes Cambodia's national political life clearly reaches into union leadership and trade union's organizational structures.

Having said that, it does not appear to be the case that CCAWDU and other pro-worker unions such as CATU are currently at risk of being banned. The arrest and detention of the pro-opposition President of the Cambodian Confederation of Unions, Rong Chhun on 31 July 2020, it would seem, is about his statement on the Vietnam-Cambodia border demarcation, rather than his involvement in workers' rights issues. His statement mirrors repeated claims by former Cambodia National Rescue Party leader Sam Rainsy, now in exile in France, which on two occasions led to Rainsy being charged in absentia. However, there is reason to be cautious that union multiplicity and freedom of association could one day be further institutionally restricted in Cambodia, following in the footsteps of China.

China has come to maintain a presence across many facets of social and political economic life in Cambodia. FDI from China far outstrip all others, including in garment manufacturing; China is Cambodia's largest source of development assistance, aid and grants, there are several Chinese owned and operated special economic zones, and nearly the entire economy of

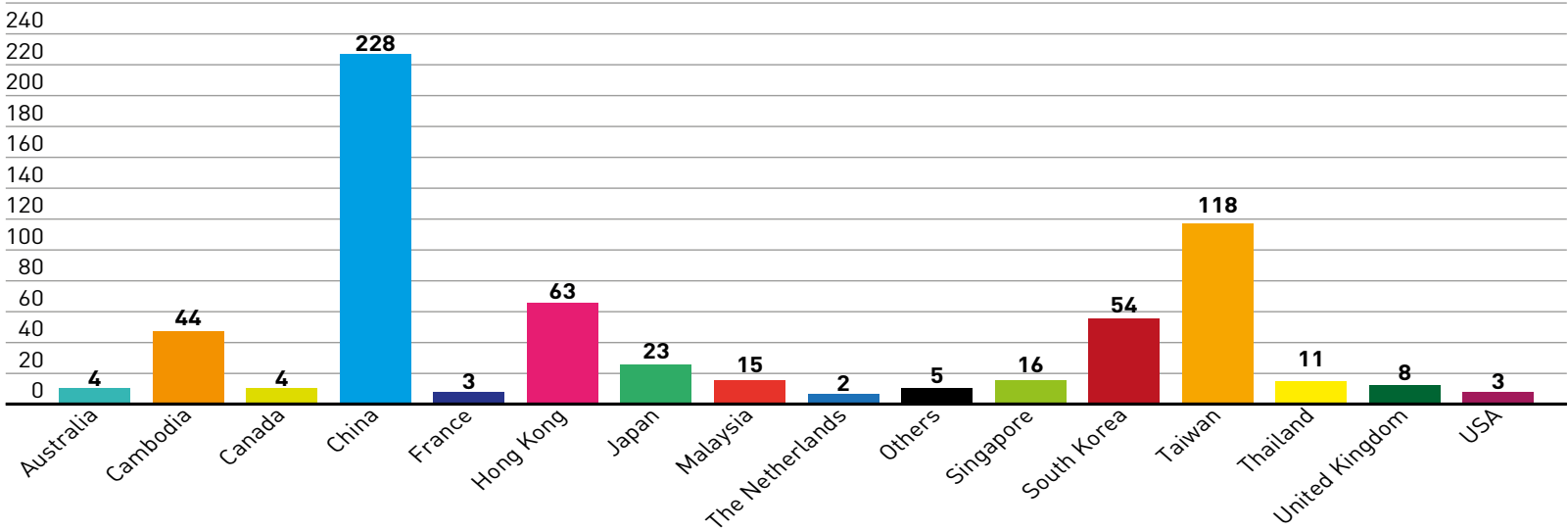


Cambodia's third largest city Sihanoukville has been sinicized. Up until recently Chinese presence in civil society in general and trade unions specifically has been limited, but there are clear signs this is also changing.


Recently published research by Ivan Franceschini (2020) provides much needed yet potentially troubling insights. He finds that from November 2017 Chinese and Cambodian authorities officially pledged to “increase human resources training in order to strengthen cooperation between unions and Chinese factory owners in the kingdom” and, in order to achieve this goal, Cambodian unionists were invited to China to “learn about and improve the labour sector.” This is

of added significance due to the EBA withdrawal in 2020, as at the time Cambodian Labour Minister Ith Samheng warned Cambodian unionists to “work hard with the Chinese,” because “Cambodian unions will not be welcomed in Europe or the United States due to the current political situation in the country”. The All China Federation of Trade Unions (ACFTU) went on to sign an undisclosed agreement with the Cambodian Civil Society Alliance Forum (CSAF), an umbrella organization for local unions and NGOs established in 2016 by the Cambodian government with the goal of “[supporting] the development of the country through civil society in accordance with Cambodia’s national development policy.”

Figure 4: GMAC Factory Owners by Nationality




Source: Central (2020)



Through several years of research and interviews with pro-CPP union leaders, Franceschini situates the increased union cooperation in the wider frame of China's Belt-Road Initiative, demonstrating that the cooperation has involved paid study trips to China for Cambodian union officials—as many as 30 people at a time, occasional visits from delegations from national and provincial branches of the ACFTU, and material support, for example the ACFTU also providing the NACC with two brand-new buses sent directly from China<sup>2</sup>. In the end, a core argument of the paper is that the ACFTU's provision of a few vehicles, possibly a union building, and a few paid trips to China is not going to change the current situation all that much, namely the NACC maintains a marginal role in labour politics. While it is unlikely that the ACFTU is going to singlehandedly effect any significant change on the Cambodian labour movement, there is a great risk if we consider how the activities of the ACFTU and NACC align with the agenda of the CPP and Chinese investors.


The specificities of the Chinese state's increasing use of its trade unions in its geopolitical ambitions should be viewed within a broader context of labour and trade union diplomacy. For example, the Solidarity Center (American Center for International Labour Solidarity) maintains strong support from U.S. government agencies who see trade unions, and the fostering of

civil society more generally, as institutional necessity for liberal democracy and pro-American geopolitical and geoeconomics relations. While Dutch unions the CNV and FNV may not have maintained such close relations with the Dutch state in their international efforts, there still exists a clear intent to export from North to South labour relations norms, discourses and practices that are conducive to corporatist Dutch unions efforts to 'tame globalization' at home and abroad. The Chinese state is, in many respects, simply mirroring such international initiatives with an eye on promoting and protecting what it deems to be its interests abroad. As such, one should not be surprised or moralize such ambitions. Beyond this relativizing exercise, however, is the deeply worrying fact that the Chinese state is intentional and willful in its promotion of one-party rule in Cambodia.




In sum, the contemporary export from North to South of the institutions of tripartite and corporatist labour relations is part of the political economic modernization project. The development of trade unions inevitably takes place both within and beyond the arena of the state. Likewise, the export from South to South of China's 'Leninist' model of trade unionism as a transmission belt of state policy is playing out, in both cases Cambodia acts as a canvas

2 According to Franceschini the NACC, led by Som Oun, is the union favored by the ACFTU for cooperation.



upon with international institutions and stakeholders *act*. In both cases an objective seems to be to quell more radical protests in the interests of productivity, compromise and reproduction of political economic systems (East or West). Few unions in Cambodia can secure operating budgets from foreign 'solidarity support organizations', as is the case with CCAWDU, yet that is changing. Furthermore, few unions can consistently weather the hostility of employers without the backing of the state or international networks. Thus, in Cambodia a tendency is for unions to either come under state patronage, or rely on international trade unions for financial, organizational and solidarity support. For the pro-government oriented unions, they might well qualify as direct components of the state apparatus. For the few 'pro-worker' unions, their organizational structure and strategies are heavily

influenced by European and American unions, which have themselves been in steady decline for decades. It is a rather bleak picture in terms of the opportunities for trade unions and other civil society organization to make demands of the Cambodian state for improved labour rights and social entitlements, especially if they are deemed to be oppositional or confrontational.





## V. The Global Garment Industry in Transformation

This section first looks at changing supply chain dynamics, in an effort to map out the industrial context in which trade unions operate. Broadly speaking in recent years there have been prominent discussions that indicate the potential for major transformations in the garment industry, including: Industrialization 4.0 and the shift to increasing automation in the production process; the possibility of reshoring in which buyers in the EU increasingly source from North Africa, Turkey and the Middle East; and a shift in the geographies of sourcing to African countries including Ethiopia, considered by some to be the next and last 'frontier' of low cost labour<sup>3</sup>.

To begin, there is no clear evidence to suggest that global buyers are diversifying apparel sourcing from Asia in any substantial way (Lu 2020). Simply put, Asia has too much to offer in relation to other world regions. First, global garment value chains are quite firmly rooted in Asia in terms of the scale of operations, proximity to raw materials, developed infrastructure and supply chain linkages, and productive labour (ILO 2020). The range of participating

firms runs the range of the supply chain, from design, retail and marketing, to procurement of all necessary inputs, to assembly of the lowest cost apparel. This cannot be replicated in other regions such as Africa or Latin America in the short to medium term. Secondly, Asia's middle class is growing and thus it represents a major market for global brands and retailers. For example, Cambodia's exports to China currently comprise some 2% of the total and are expected



<sup>3</sup> To be clear, discussions go beyond these elements, to more environmentally friendly sourcing practices and business models, as well as the continued shift to smaller batch orders, greater flexibility and shorter lead times, but these are beyond the current scope.

to grow quickly in the coming years, and already Myanmar is exporting significant apparel volumes to China and Korea. As for Asia's primary established market, Japanese apparel manufacturing has been concentrated in China for decades, more so than a majority of European and American buyers, and there are signs that Japanese firms are diversifying their geographies of sourcing in Asia.

Regarding automation associated with Industry 4.0, a (as yet) discourse pursued by the ILO, World Economic Forum and other actors in recent years, it would require major investments from global buyers and brands working in cooperation with strategic suppliers. In other words, it would require a paradigm shift in the way buyers engage manufacturing. Disincentives exist, then, in terms of high initial investments in technologies required for i4.0, as well as the availability of low wage and increasingly productive labour. Rather than a radical transformation in the production process as proposed by the Industry 4.0 thesis, what we are instead seeing is a gradual upgrading of technologies used in the production process, rather than labour replacing technology. Beyond these issues, there is no homogenous future for the industry, rather, the sector will evolve in mutable, multiple, and sometimes competing and contradictory ways in the coming years (ILO 2020).

A major issue that requires attention ongoing consolidation of buyers sourcing options, and the

concomitant consolidation of the supplier base, as less competitive firms continue to fall by the wayside. Put another way, in the 1980-1990s when the global economy witnessed a manifold expansion of the global labour pool with the opening of formerly closed economies including China, Vietnam and Cambodia, along with the later rise of major manufacturing countries like Bangladesh, millions of firms entered the fray, enabled by low startup costs and expanding market opportunities created by the growth of fast fashion and heightened consumption. This created a monopsony situation in which buyers could choose from many thousands of suppliers and thus drive costs down and press suppliers to meet their demands for quality and speed to market (Kumar 2020). This situation has been gradually changing since MFA phase out in 2005, as buyers have been reducing their supplier base, often by two-thirds or three-quarters. There are many implications of this addressed in turn.

First, some buyers have begun to prioritize working with more professionalized manufacturers with more advanced operations who are better equipped to manage risks as well as address a wider range of supply chain tasks (procurement, shipping, etc.), while others may continue to double down on cost prerogatives in a continued race to the bottom (ILO 2020). Both types of manufacturers are found and are highly competitive in Asia. In other words, Covid-19 may contribute to a growing divide among Asian garment manufacturers—a divide that existed before Covid-19.

On the one hand are larger and more professionalized Tier 1 manufacturers who will continue to gain market share and exert a greater global footprint with subsidiary companies across a wide range of countries. Illustrating this point, 60 percent of sourcing division respondents to a McKinsey survey believe that the supplier base will consolidate after Covid-19, as fashion companies move to larger, more advanced suppliers with an international footprint (McKinsey 2020). These companies are more likely to have the financial resources necessary to continue upgrading and technological investments in their factories, they can perform multiple supply chain functions (design, sourcing and production), and they also the capacity to invest in downstream nodes of the supply chain, such as textiles. These types of companies, while obviously dependent upon buyers, are able to be more selective in their customers. Importantly, given their wide reach, in any given factory production for a single buyer would likely constitute a small proportion of total production, meaning buyers capacity to enforce social compliance and specific terms including pay and working hours are rather limited.

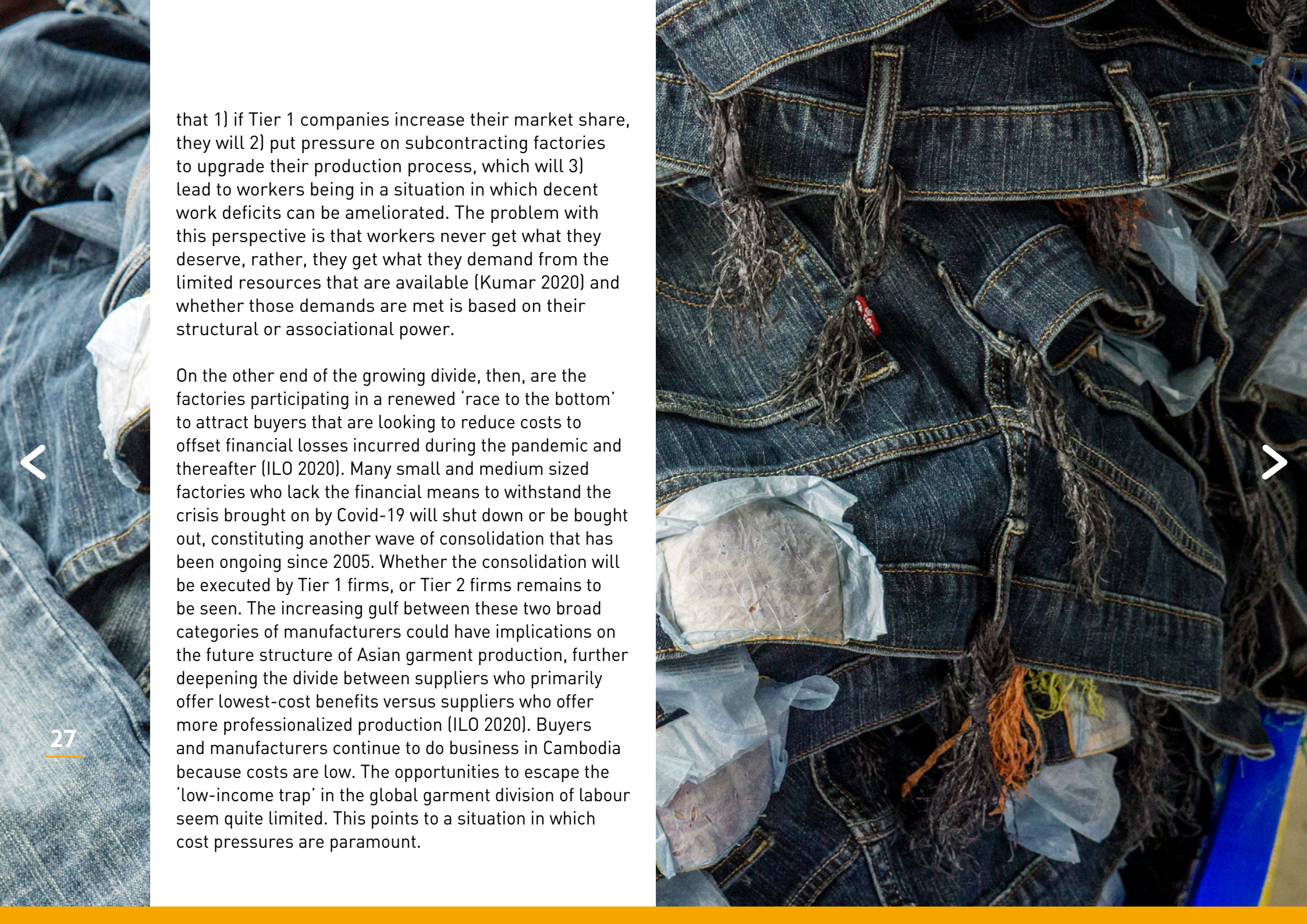
This has multiple consequences. Buyers leverage to 'impose' decent working conditions (as demanded by anti-sweatshop campaigners) may be limited due to the fact that tier 1 companies have diversified their businesses and serve multiple brand-name clients, each representing a relatively small share of its business (Merk 2014). In other words, the power dynamic between lead companies and tier 1



manufacturers may not be as asymmetrical as has been assumed by some labour-rights advocates (Merk 2014). In short, these manufacturing transnational corporations are increasingly powerful and a symbiotic relation between them and their customers (brands, retailers) is emerging—in short, they are becoming mutually dependent. Having said that, the Covid-19 pandemic has upended this emerging 'symbiosis' in that with the dramatic reduction in total orders suppliers are in fierce competition with one another, putting the ball in buyers court.

Some claim that this group of increasingly powerful manufacturers who have consolidated their market position have the potential to make positive impacts in improving the performance of the industry as a whole. ILO (2020) researchers, for example, take a neoclassical perspective on this matter by inferring





that 1) if Tier 1 companies increase their market share, they will 2) put pressure on subcontracting factories to upgrade their production process, which will 3) lead to workers being in a situation in which decent work deficits can be ameliorated. The problem with this perspective is that workers never get what they deserve, rather, they get what they demand from the limited resources that are available (Kumar 2020) and whether those demands are met is based on their structural or associational power.

On the other end of the growing divide, then, are the factories participating in a renewed 'race to the bottom' to attract buyers that are looking to reduce costs to offset financial losses incurred during the pandemic and thereafter (ILO 2020). Many small and medium sized factories who lack the financial means to withstand the crisis brought on by Covid-19 will shut down or be bought out, constituting another wave of consolidation that has been ongoing since 2005. Whether the consolidation will be executed by Tier 1 firms, or Tier 2 firms remains to be seen. The increasing gulf between these two broad categories of manufacturers could have implications on the future structure of Asian garment production, further deepening the divide between suppliers who primarily offer lowest-cost benefits versus suppliers who offer more professionalized production (ILO 2020). Buyers and manufacturers continue to do business in Cambodia because costs are low. The opportunities to escape the 'low-income trap' in the global garment division of labour seem quite limited. This points to a situation in which cost pressures are paramount.



## VI. Conclusion and Recommendations

Garment factory workers and independent trade unions in Cambodia are between a rock and a hard place at the edge of a cliff. To change this situation would require a paradigm shift in the ways in which business is conducted in the global garment industry, as well as a return to political pluralism in Cambodia. In the short to medium term both are unlikely, and the recommendations provided are so informed.

It is clear that buyers remain the main culprits in driving the precarity that workers experience. Their retail strategies and purchasing practices necessitate low wages and high work intensity. No amount of social dialogue is going to change that, only changes in power will. One observed change happening in the industry is the consolidation of suppliers and the increasing transnationalization of garment manufacturers. A mutual dependence among garment TNCs and buyers seems to be emerging. This provides opportunities to more strategically pull the bottom of the industry up. This is enabled by many factors, including the twilight of China's sweatshop-driven economic growth paradigm and the fact that there is no 'next-China', or next great 'frontier' of low-cost labour. This global environment enables bolder thinking. Purchasing practices are a core point of

concern, but the focus should better center the point of production where workers' agency is manifest. In other words, pressure from organizations in the major markets on buyers' practices should be better coupled with workers' (potential) power to effect improvements in the supplier base that is more regionally integrated in Asia than ever before.

The Covid-19 pandemic has demonstrated, yet again, how precarious garment workers lives and livelihoods are. Workers are a missed paycheck or two away from extreme hardships. Through social security policy that draws on government and employer contributions workers in Cambodia were provided with *some* relief, but it was neither enough nor sustained. Workers are left to the vicissitudes of the labour market in what can be described as hyper-neoliberalism regulated by an authoritarian state. Attention needs to be paid to social and economic entitlements rather than social protections whose core aim is to enhance labour market participation. In other words, workers need protection from labour market uncertainties with an objective to improve quality of life.

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