AFTER THE WTO-MFA: WILL CAMBODIA AND VIETNAM BE A DYNAMIC GARMENT EXPORTER?

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Cambodia joined the WTO in 2003 when the WTO negotiations round in Cancun ended up with failure. Vietnam joined the system in a time when the negotiations on the Doha Development round were de facto suspended. They continue claiming that the international trading system does not cater enough for their specific needs. And yet, they have been able to engender economic gains since engaging in global trade by way of liberalizing its economy and have shown how trade can in fact spur economic and social development. The study at hand looks into the question whether trade liberalization has had an effect on the garment sector of both countries, as it is one of its main export, and economic development. This study also reviews features of development of the export-oriented garment industry in the two countries, and studies future prospects of industrialization of the two transition economics countries based on the development of the garment industry after the WTO-MFA.

1-Introduction

Integrated to the world stage and becoming a member of the WTO brings both opportunities and challenges for Cambodia and Vietnam. The economic achievements of these two countries over the past decade are indeed impressive: In the case of Cambodia its GDP has grown at two digits for the past 3 years (EIC 2007) and Vietnam GDP has grown at an annual average rate of 7.8 per cent for the past 6 years (2001–2006) (http://www.mofa.gov.vn/en/tt_baochi/nr060704083048/ns070705155736 last visited 2009/01/28). However, the global trade integration never comes without sacrifices. On top of these inherent scarifies, Oxfam has noted that as a consequence of its joining the WTO, Vietnam is now being forced to

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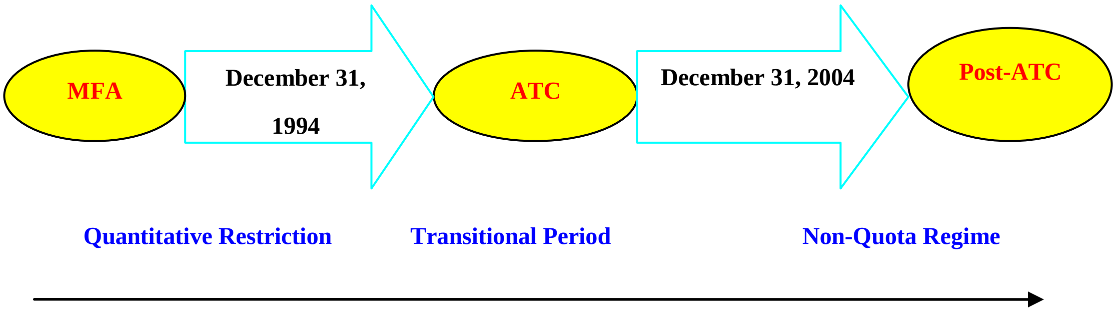
liberalize its agricultural sector above and beyond the commitments of original WTO members (Oxfam 2005). Of particular significance is the issue of export subsidies: while original members currently maintain export subsidies for agricultural products[1], Vietnam agreed to eliminate all agricultural export subsidies immediately upon its accession, in response to pressure from developed country members of the Working Party (See WTO Doc. WT/ACC/VNM/48, p.93 and WTO Doc.WT/ACC/SPEC/VNM/3/Rev.7, p.7). Furthermore, under pressure from negotiating members, the average agricultural tariff which Vietnam had to apply upon accession was 25.2 per cent, while its final bound tariff (following a phase-in period) will be 21 per cent (Oxfam 2005: 11) – a level that already threatens rural livelihoods, and which is more than 10 per cent lower than the average bound levels in neighboring Thailand and the Philippines (WTO Doc. WT/ACC/VNM/14/Rev.1, p. 36).

In the experience of Cambodia their level of concessions and commitments is much higher than that of the existing Least Develop Countries and in some areas even higher than the existing developing countries and developed countries members (Stiglitz and Andrew 2005: 160). Regarding the overall binding tariff lines, Cambodia agreed to 100 per cent bound tariff lines. However, some WTO Members have not had 100 per cent of their tariff lines bound and some only have a small percentage of their tariff lines bound. For example, Cameroon and Tanzania only have 13.3 per cent bound tariff lines and Australia, a developed member, only has 97 per cent bound tariff lines. Concerning tariff ceiling in agriculture products, Cambodia has the highest tariff rate at 60 per cent. However, members like Myanmar and Egypt have their highest level of tariff rate at 550 per cent and 3000 per cent respectively and some developed members like the U.S. and South Korea have their tariff ceiling at 350 per cent and 887.4 per cent respectively. Moreover, in the area of non-agriculture, Cambodia has its tariff ceiling at 50 per cent. However, Myanmar, Maldives and Romania have their tariff ceiling rate for non-agriculture at 550 per cent, 300 per cent and 220 per cent respectively and Australia has it at 48 per cent (UNCTAD 2004).

This illustration indicates that Cambodia and Vietnam have made concessions and commitments at higher level than existing members of the WTO and even than some developed members of the WTO in some areas. It has also brought challenges for Cambodia and Vietnam which are not only economic and diplomatic, but social, political and legal as well, and membership of the WTO will surely exacerbate the potential for further development and growth, as well as the level and incidence of associated challenges.

[1] Export subsidies, up to a bound level, are permitted under the Agreement on Agriculture. While developed country WTO members have agreed to eliminate their agricultural export subsidies, the time frame for the elimination of export subsidies is the subject of ongoing negotiation in the Doha Round. In the most recent revision of the draft modalities on agriculture, circulated by the chairperson of the agriculture negotiations, Ambassador Crawford Falconer, on 8 February 2008, the deadline for export subsidy elimination by developed country members is 2013, while developing countries have until 2016. See WTO Committee on Agriculture Special Session, Revised Draft Modalities for Agriculture, WTO Doc. TN/AG/W/4/Rev.1, p. 26.



Textiles and Clothing Trade Liberalization

Figure 1

Like the case of agriculture sector, the garment sector may be more significant and more complicate. Cambodia and Vietnam did not attempt a state-organized entrance into the garment manufacturing industry until 1994[2], as it was the issue in GATT, it still considers as a main sector in both countries[3].

Vietnam's garment industry accounted for 16% of all exports in 2004 (Kabeer and Tran 2006: 3), and the garment industry is expected to expand further[4], now that, following WTO accession, exports of garments to the EU, Japan and the US – the garment industry's three biggest markets – will be free from all quotas.

The export-oriented garment industry is labor intensive, and has been a significant source of new jobs, particularly for women, who make up approximately 78% of garment workers. Statistical analysis of female garment workers shows that they are often young (20–30 years), generally single and without children.

Most are leaving agricultural work in rural areas to seek out wage employment in the city. However, labor conditions in the garment industry are not always satisfactory. Garment workers face long hours sitting in the same position, carrying out repetitive tasks, often in hot, noisy and dusty factories, and because of this, most do not stay more than a couple of years in the industry.

Surveys among female workers demonstrate that they generally work overtime, often an additional 10 to 15 hours per week[5], which puts pressure on their ability to visit their home town or participate in cultural activities. Increased competition in the garment and footwear industries could increase

2 As both countries was not a member of the GATT/WTO until 2004 and 2007 respectively.

3 A time line summarizing the historical development of trade liberalization regimes governing world garment trade is outlined in figure 1.

4 The garment making and textile sector has expected to increase its yearly export revenue by more than 23 percent to 9.5 billion USD in 2008 http://www.vneconomy.com.vn/eng/ last visited 2009/01/28.

5 Hai Ha, Tại các khu công nghiệp:Lao động nữ luôn biến động, vì sao?, 14 May 2007, available at http://www.thuongtin.com.vn/?do=service&dtd=view&id=1041(in Vietnamese) last visited 2008/01/12.

this risk of unemployment. For example, many workers were at risk of losing their jobs following the announcement by the EC on 23 February 2006 that it would apply an anti-dumping duty to leather shoes from Vietnam and China[6]. Such events demonstrate that these export-oriented industries, and the people they employ, are vulnerable to fluctuations in the international market.

As noted above in the case of female garment workers, there is increasing internal migration in Vietnam, from rural to urban areas. High levels of unemployment and underemployment in the rural agricultural sector, and the promise of earning a wage in the city, have precipitated this trend. However, a particular difficulty faced by workers who migrate from rural to urban areas is that they lack formal rights to live in the city, under Vietnam's household registration system. This can make it difficult to access municipal services, such that migrant workers may face higher housing, water and electricity costs, higher costs of medical treatment and education, and higher administrative costs. Temporary or unregistered migrants often face difficulties finding decent housing and live in more crowded accommodation.

Many who migrate to urban areas end up working in casual labor, and are especially vulnerable to abuse or violence, particularly sexual abuse which leads to a risk of HIV infection and other sexually transmitted diseases. Migrants are at a disadvantage when it comes to accessing social and health care services, including access to contraceptives, reproductive health, STDs and HIV/AIDS prevention.

Most temporary migrants have no health insurance, and a fear of high medical costs often results in delays in seeking treatment.

Despite these risks and disadvantages, internal migration has allowed many people from rural areas to find work, especially in the manufacturing industries. Many internal migrants send remittances back to their families, and studies show that this has played a critical role in poverty reduction in many rural areas (Vietnamese Academy for Social Sciences 2006:38-39).

As in Vietnam, the garment industry has been one of the most important entry points for Cambodia's industrialization and economic development and one of the promising products for Cambodia entry to the global trade community. The garment industry is dominated by overseas Chinese capital due to a generous foreign investment policy and relatively relaxed government administration. The majority of factories are located in Cambodia's capital city, Phnom Penh. These factories prefer to employ young female rural migrants for their nimble hands, docility, and cheap labor cost, and attract considerable rural-urban migration. Cambodia enjoys large inflows of foreign assistance and preferential treatments from many trading partners, especially the US and EU. With low cost labor and good compliant with labor standard, the country attracts many foreign investors, and many industries have emerged garment represents 80% of total Cambodian exports (Cambodia Business Issues Bulletin. 2005. No.5: 1; EIC 2008). Clothing exports have grown dramatically over the past ten years,

[6] Đông Hieu, 'Lao động nữ chịu nhiều thiệt thòi trong kiện giày da', 2 March 2006, available at: http://vietnamnet.vn/kinhte/vieclam/2006/03/548499/ (in Vietnamese), lasted visited 2008/1/12.

from $26 million in 1994 to more than $2 billion in 2008 (EIC 2008).

2-The Current Development of Garment Industry in Cambodia and Vietnam in a Quota Free Environment

Garment is a major source of export revenue for developing countries, especially for Asia countries. But garment trade has proved to be one of the most controversial problems of the GATT/WTO. As noted, however, Cambodia and Vietnam did not attempt a state-organized entrance into the garment manufacturing industry until 1994. And due to the limitation of the paper, this paper notes only the case of Cambodia and Vietnam's garment trade and its current development.

The development of the garment industry in Cambodia and Vietnam has been long downplayed, irrespective of the fact that Vietnam has maintained a steady and more growth of the industry since the beginning of the 1990s. In general, critics have suggested that the development of the garment industry solely hinges on a protective trade regime, which is the result of the Multi-Fiber Arrangement (MFA), and that the specialization in production of labor-intensive products industries such as wearing apparel brings about no prospects for further industrialization. Critics have also suggested that these countries will reach a dead end relative to industrialization and that even if a country could penetrate the international market with a labor-intensive product, price competition would be problematic and there would be no additional sources for technological progress and capacity development. Moreover, critics expected that the MFA phase out, which was completed in January 1, 2005, would fatally damage the garment industry in the two countries[7].

These expectations have turned out to be different. Both Cambodia and Vietnam expanded 2005 garment exports to the United States[8]. Even after liberalization, the garment industry continues to grow rapidly and contribute greatly to economic development and poverty reduction in Cambodia and Vietnam through employment of underprivileged people, in particular women, and the generation of foreign exchange earnings.

3-The Garment Industry as a Trail-blazer toward Globalization and Industrialization

Looking back at the history of economic development in Asia, the garment industry has played a key role in industrialization not only in the two countries but also in other Asian countries (Majer 2005; Shahin 2005). In particular, Asian Newly Industrializing Economies (NIEs) and original ASEAN member countries had a period during which wearing apparel was, without exception, a main export item. In the 1960s-70s the average wage rate of these economies was low enough for labor-intensive industries to be internationally competitive, and foreign direct investment poured into the export-oriented production sector of these economies. As was true in the 1950s amid the controlled trade regime

[7] The ramifications would be catastrophic for most of the 39 countries other than China to which the MFA gave access to US and European markets. Magnusson *et al.* (2003) predicted '30 million workers could lose their jobs when the quotas go at the end of [2004]', and Cambodia would be as hard hit as any. See also IMF (2005:46).

[8] Cambodia and Vietnam have clearly done best according to Frost and Ho 2006: 39.

initiated between Japan and developed countries of that period, the textile and wearing apparel industries led industrialization in these economies.

These economies developed so fast that the leading role of wearing apparel was overtaken by electrical and electronic machinery in the 1970s-80s (Dowla 1999, Kaplinsky 2005). However, the garment industry was certainly a trailblazer for globalization and industrialization in many East Asian economies, and there is no wonder the garment industry is playing the same role in Cambodia and Vietnam.

4-A Limited Number of Big Firms in Cambodia

The garment industry in Cambodia and Vietnam shares interesting similarities beyond high growth rates and dominance in value of exports; there also are critical differences between the two countries. The differences and similarities reflect the historical factors and international environments that have determined the development paths of the industry in the two countries.

The first notable difference is that the average scale of garment factories in Vietnam is larger than in Cambodia. In other words, there is no state own factories like in Vietnam. State owned enterprises (SOEs) comprised 25 per cent of Vietnam's garment output in 2004, while the domestic private sector comprised 35 per cent and the foreign-owned sector 40 per cent, although the domestic private sector was underrepresented in its share of exports. Vietnam's garment SOEs have undertaken great restructuring as part of the country's moves into the global economy, as also have China's (Eberhardt and Thoburn, 2007). Additionally, in Vietnam many garment factories are located in the center of business quarters and Export Processing Zones (EPZs). In Cambodia, most garment factories are located on a huge estate, enclosed by a tall fence, on the outskirts of Phnom Penh. This visible difference in scale seems to be due to a difference in ownership of factories between Cambodia and Vietnam as shown in the following.

In recent history, export-oriented garment production in Asia has been initiated almost always by multinational enterprises. Foreign (mainly Chinese) investors helped Cambodia start the garment production in the early 1990s. They transferred technological and managerial know-how of the export-oriented garment business to Phnom Penh entrepreneurs. It is noted that technicians and managers from the Chinese firms initially formed the main body of local export-oriented garment firms.

Without the Chinese investors, Cambodian female workers might remain untapped. Before the advent of Cambodian investors, Cambodian female workers had rarely worked outside villages in Cambodia because of strict rules imposed on women. The export-oriented garment factories were the first employers for Cambodian women to grant massive employment opportunities outside villages. By creating a de facto sanctuary, with only a limited number of men, the garment factories succeeded in attracting rural women to towns to work for low wages in factories.

5-Favorable Labor Conditions and Relatively High Wage Rate in Cambodia

Another factor influencing the garment industry in Cambodia is the bilateral agreement with the US, which was concluded in 1999. Under its conditions, the US restricts textile and garment imports from Cambodia, imposing ceilings by quantity of item; this is parallel to the actions taken by the US against other WTO member countries under the Agreement on Textiles and Clothing (ATC). The ceilings were called “quotas”.

The bilateral agreement between Cambodia and the US stipulated that granting quotas on garment imports to Cambodian firms was conditional upon compliance by Cambodia with the decent labor standard in its garment factories. Even though the agreement expired when Cambodia joined the WTO in October 2004, Cambodia has retained the high labor standard and minimum wage conditions in order to maintain a good reputation as a model country of garment production (ILO 2005:36-41). Due to its actions, Cambodia has successfully evaded “sweatshop” criticisms generally leveled by labor unions and consumer organizations in developed countries against factories engaged in labor-intensive production with low labor conditions and wage payments. As a result, the entry-level workers into the garment industry in Cambodia earn as much as US$65 per month, which is well above the ILO salary standard (US$45 per month).

Although the per capita income of Vietnam is a little greater than that of Cambodia, entry-level workers in Vietnam earn as low as US$ 20 per month, according to Nghiem Lien Huong (2007: 219) “In 1999, the monthly minimum wage in the foreign sector was set at US$ 45, while in the state sector it was as low as US$ 15”. He further noted that “In general, the implementation of the Labor Code was weak. Many workers, even trade union officers, were unaware of their rights and obligations under the Labor Code. There was still little understanding of the trade union’s role within a market economy”.

The high wage and labor standards in Cambodia are maintained by frequent inspection visits undertaken by the International Labor Organization (ILO 2005: 36-41).

As a result of the expiration of the bilateral agreement between the United States and Cambodia, the United States does not continue to finance inspections by the ILO in Cambodia. Alternative financing is being sought by involving buyers of garments made in Cambodia, namely the Gap, Adidas, Nike, Wall mart, Reebok, and Levis. The World Bank is also helping finance inspections during the transition period. Thus, the high labor standards and minimum wage policy will be maintained as a trademark of garments made in Cambodia for a time (Better Factory Cambodia http://www.betterfactories.org/ last visited 2009/01/28).

6- After the WTO-MFA: Will Cambodia and Vietnam be a Dynamic Garment Exporter?

An important aspect of the ‘new’ competition is the impending phase out of the Multi-Fibre Arrangement (MFA), the regime governing international trade in textiles and garment. Accompanying the changing trade regime is increasing competition from China. Also, there are pressures to meet international labor and environmental standards, and demands from global buyers for cheaper products, higher quality, and shorter lead times. Adjustments arising from such global challenges can have significant local effects.

In 1992, the EU–Vietnam Textile and Clothing Agreement were signed, and by the late 1990s 43.3% of Vietnam's clothing exports were going to the EU market (Hill, 2000). A later version of the EU–Vietnam Textile and Clothing Agreement was ratified in 2003. Since 2005, World Trade Organization (WTO) members have been unable to place quotas on imports of textiles and garment from other members. Vietnam only became a WTO member in 2007, but the country was allowed to export without quotas to the EU from January 2005 under a further revision of the bilateral trade agreement (Lotte Thomsen 2007).

Now, Vietnam has been admitted to WTO membership, but it is too early to say what will be the impact on its garment exports to the US. Vietnam at the moment seems to be staying in the game, and is seen by buyers as an alternative to China, particularly now that China is restricted in the US market until 2008. Vietnam has skilled workers and low wages. However, it has various problems.

First, its textile industry has proved inadequate to meet the needs of garment exporting, and some three-quarters of fabrics used for export garments are imported. Fabrics are often supplied by buyers, and the Vietnamese garment manufacturers are paid a processing fee. Some textile state own enterprises have integrated forwards into garment production using their own fabrics (Robert and Thoburn 2003), but this makes them inflexible, and they often do not know how to source fabrics from elsewhere. As one buyer in Hong Kong explained, buyers want vertical production not vertical integration. That is, they want all stages of production in one country or area, but not necessarily in vertically integrated and inflexible firms.

Second, Vietnam garment production is largely confined to manufacturing, and does not include product development. Even Hong Kong foreign investors in Vietnam do their product development with buyers in the manufacturer's Hong Kong office and just use Vietnam for manufacturing. Thus Vietnam's garment exporting seems to generate less value-added in the country than might be first supposed. To increase its gains, Vietnam requires development of its textile industry, particularly through foreign investment to generate international standards of quality. It requires more skill in textile sourcing, even if these are not produced domestically, to gain the control to move towards 'full package' production.

The Cambodia's success was mainly linked with: first, the US–Cambodia Textile Agreement in 1999 which set export quotas for clothing from Cambodia to the United States. The country then attracts many foreign direct investment projects, and many industries have emerged. Most of them belong to foreign owners, mainly from China, Hong Kong, and Taiwan[9].

Second, low labor cost and good compliance with labor standard, the country attracts many foreign investors, and many industries have emerged. Cambodia, where a unique trade agreement with the US that linked trade with labor rights led to the establishment of an innovative project of the International Labor Organization, aimed at trying to make improvement of working conditions one of the cornerstones of the country's economic-growth strategy. To ensure this was the case, it was agreed upon that the ILO to would monitor registered factories to the relevant standards.

In 2001, the ILO built on its monitoring work and developed the ILO Garment Sector Project to help factories achieve and maintain improvements in workplace standards. The program was later renamed Better Factories Cambodia (http://www.betterfactories.org/ last visited 2008/11/01). Better Factories Cambodia is not simply an auditing program (nor is it a labor inspection program), although monitoring factories is an essential component; it helps factories improve working conditions, comply with labor standards, and increase productivity through monitoring, factory level remediation, training and capacity building.

The monitoring project to oversee compliance to Cambodia's laws saw the ILO initially provide technical expertise and partner with the Cambodian Government. Other local members include GMAC (Garment Manufacture Association in Cambodia), the Cambodian trade union movement, the government of the United States, NIKE, GAP, etc. Enrolling in the project has never been compulsory, but access to the US market does require factories to demonstrate their compliance to set standards. The only way of doing so is, however, to register with the program and allow ILO monitoring. If factories want to export to the US they have no choice but to join the program – it is a government regulation to allow monitoring. In the first year (2001), 190 factories registered. By March 2002, 198 had registered (Interview with the Garment Manufactures Association of Cambodia (GMAC), "now all had registered", January 2008). Cambodia then enjoys large inflows of foreign assistance and preferential treatments from many trading partners, especially the US (Hecker 2008: 3).

7-Challenges Ahead

The survival of Cambodia and Vietnam in the international garment markets after the MFA phased out, surprised people who expected a collapse of the two countries in garment exports and worried about adverse consequences to their economies. For example, China

[9] According to the year 2008 field survey by the author in Cambodia revealed that most Cambodian clothing factories are owned by Chinese investor. One reason for the high percentage of Chinese investor in Cambodia seems that the country is a close ally to Chinese government and therefore an easier place for Chinese to stay and to do business because of a large Chinese community (for others see EIC 2006: 8-12).

accepted restrictions on its garment exports to the United States which will be effective until 2008. As a result, the garment industry in Cambodia and Vietnam appears to have gained relief, and the competitiveness of the industry might be maintained for a while. However, the high dependence on garment in foreign exchange earnings is not ideal.

In the case of Cambodia, it is argued that global market access, low labor cost and labor compliance alone are not enough to ensure that trade growth will really benefit the country garment sector after a free environment. Even though the trends of Cambodia garment sector turn to be increase after the quota phased out (see table 1). This trend will be come to an end after special safeguard is phased out in 2008. Table 1 shows that the future of Cambodia's T&C sector is at risk[10]. The reasons for this are discussed in some details as follow.

Table 1: Trends of T&C Industry Sectors (% increase, 2000 prices)

2003	2004	2005	2006	2007	2008	2009 P
16.8%	24.9%	9.2%	20.4%	20.1%	8.9%	4.9%

Sources: National Institute of Statistic for 2001-2006, 2007, 2008 and Economic Institute of Cambodia Projection for 2009

First, the system of import quotas that has dominated the garment trade under the MFA since the early 1960s ended in 1993 at the GATT-Uruguay Round (Majer 2005). Cambodia, at least from the historical background, did not participate at all in the GATT-Uruguay Round of trade negotiation T&C trade. So Cambodia did not have a significant role at all in the WTO-ATC.

The Cambodian government paid less attention to T&C trade policy during the transitional phasing out of all quota restrictions and discriminatory measures over a period of ten years (1994–2004) that resulted from the GATT-Uruguay Round. The country should at least learn from the experiences of other LDC like Bangladesh. The case of Bangladesh is less complicated, as the country is one of the most densely populated in the world. Their comparative advantages clearly lie in labor intensive products such as clothing. While poor, and facing many development challenges, it does not lack the human capacity to participate fully in the GATT/WTO regime (for example, as in the case of Bangladesh during the Doha negotiations, according to Jawara and Kwa (2003: 109), "Bangladesh expressed disappointment at the weakness of the textiles agreement, saying that, as a result, they were leaving the conference empty-handed"). However, past experience tells us that the GATT/WTO regime has not had a direct and substantial positive impact on Bangladesh's economic development. The case of Bangladesh is very concrete as the country has been a member of both GATT and its successor WTO, and it was hoped that garment exports would contribute to economic growth and

[10] The Asian Development Bank (ADB), in a version of its publication in development outlook, also said that Cambodia's garment sector had an "uncertain future" (ADB Outlook 2008)

poverty reduction. However, statistics did not particularly show that Bangladesh became better off, since half of her population still lives under the poverty line (IMF Country Report No.06/53: 2006).

So far, no one has advocated that Cambodia change course and either abandon the WTO membership or seek to negotiate different terms. At the very least, however, serious questions about whether it is advantageous for Cambodia to rush to ratification[11]. Cambodia should have analyzed the costs and benefits in order to avoid failure like other LDCs. Bangladesh was an example lesson to be learn which linked to the research. There was hope that the increased and participated in international trade could help economic growth and reduce poverty. However, it is not true, for years Bangladesh has suffered from the in international trade and unequal trade negotiation. As a result haft of her population is living under the poverty line. Another example explained, as a LDC Bangladesh in the GATT and the WTO, her market access is supported by the developed countries (EU and the US) preferences. However, evidence has shown us that rules of origin are a main reason for under-utilization of trade preferences (UNCTAD 2003(b)). The cost impose by rules of origin is that they may disqualify LDCs exports from preferences if they avail themselves to cheap imported immediate inputs. UNCTAD (1996 and 2003(b)) finds evidence of this by relating peaks in Bangladesh imports of cotton and fabrics from China to low utilization rates of preference schemes by textiles exporters in this country. This can be explained that Bangladesh has chosen to give up preferences because Bangladesh cannot comply with rules of origin. If the WTO membership has been such a misfortune for LDCs, like the case of Bangladesh, can Cambodia realistically expect a better experience? Each country, of course, negotiates its own terms for joining the WTO, and it might be hoped that Cambodia's negotiators have done better. But in Cambodia, with a much smaller economy than Bangladesh, corruption is rampant[12] and garment is less competitive, and thus does not have a bright future for its economy and development. This raises serious concerns about the benefits to Cambodia in the multilateral trade regime. A comprehensive comparison with Bangladesh of its development impact has yet to be made despite its clear necessity. While the comparison of Bangladesh is beyond the scope of the study, this paper’s contribution lies in examining the key trade development of garment, especially trade development in Cambodia and Vietnam after the post-MFA.

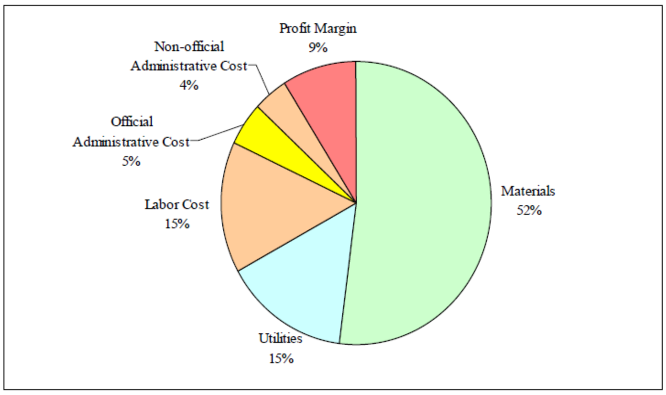
[11] Cambodia rush to accede to the WTO without adequate preparation, in return, the country accepted more concessions than other LDCs (Oxfam 2003; Chea and Sok 2005: 131).

[12] Among the more surprising results found by the World Bank is that the share of sales revenue paid by Cambodian firms in the form of bribes is over twice that of Bangladesh (World Bank 2004)

Second, the MFA is provided and restricted by the developed countries. They invoke greater quota restrictions for countries that are larger and more developed than LDC. Investors from larger developing countries seek reduced quota restrictions for LDCs, so they can enjoy export quota to developed countries. As in many Asia LDCs, Cambodia's T&C industry flourished under the MFA, as primarily Chinese and other investors saw an opportunity to access the U.S. and EU markets free from the need to remain within the more limited quotas available in their home countries. Production and export levels have been increasing ever since. Cambodian companies opened their own clothing factories, but controls of market channels by foreign companies proved to be a serious hurdle as Cambodia's share is only 11% of the entire clothing sector in Cambodia (UNCTAD 2005: 48).

Third, another problem in Cambodia's T&C sector is lack of resources, and since it is not a producer of cotton, it is very dependent on imported cotton. Cambodia's clothing sector could lose its market share to China, as was explained in Bureau et al., (2006: 238): "Countries that cannot produce cotton within their own borders could lose market share in clothing to countries such as China, and suffer from deterioration in their terms of trade". Heavy dependence on imported inputs will also lead to low value added (see figure 2).

Figure 2: Production Costs of Cambodia's Clothing Industry in 2006



Source: EIC 2006 *(Notes: The clothing industry generates limited value added because factories only perform the Cut, Make and Trim (CMT) and most materials are imported. Therefore, the value added from Cambodia's clothing industry is generated mainly from labor. Results reveal that raw materials alone constitute 52 percent of total sale).*

While national infrastructure is weak, this will make the transaction costs in Cambodia higher than in other countries. For example the Cambodian transportation system is limited; many industrial facilities are built near Phnom Penh City, which is far away from international seaport. An UNCTAD study found out that the production costs in Cambodia are 20% higher than China. Fortunately, China invested in Cambodia because it can enjoy Cambodia-LDC privileges in the US market as it accounts for two third of clothing trade exports (UNCTAD 2005: 48).

The perceived serious level of corruption and the weak enforcement of laws create a lack of confidence among business people, investors and the public. Non-official administrative costs or corruption has been judged to be pervasive in Cambodia[13], and is the leading constraint for doing business in Cambodia (see figure 2). Corruption is the most problematic issue that Cambodia faces, because it diminishes willingness to invest. According to the labor union, “It is one of the biggest, biggest challenges that we face” and the Cambodian government recognizes that “the country needs to reform, especially in terms of good governance” (*Interview with staff of labor union and government officers, 2008*).

Cambodian human resources are perceived to be generally of low quality and as having low education. The public educational system is observed as being very poor, and hardly able to be the breeding ground for a competitive economy. Cambodian people were, however, perceived as particularly willing to learn and very flexible, which is appreciated by the business community. However, there is no longer the case for Cambodia. With the expiration of the ILO-funded "Better Factories Program" by the end of 2008, the labor standard safe-haven will be at a crossroads. Once it returns back to the government, there is concern that how they will run this institution. Cambodian public institutions constitute a disadvantage to the country, believed to negatively affect the process of development. The Ministry of Labor, for example, still suffers from low capacity and high levels of corruption due to extremely low wages.

Fourth, even if the US will use selective safeguard measures again China after 2008. The Cambodian garment sector is likely to face its most serious hit yet as the worsening financial crisis in America further dampens trade. Buyers appear increasingly likely to turn towards cheaper manufacturers in countries like China and Vietnam, Cambodia's most serious competitors, and the effects are beginning to show. Cambodia exported $967.9 million worth of clothing to the US in the first five months of 2008, while Vietnam tallied up $1.9 billion and China $12 billion, according to (The Phnom Penh Post 2008). The ADB also noted that "The scheduled removal at end-2008 of the US special safeguard on Chinese T&C, coupled with Vietnam's accession to WTO, will expose it to much stiffer competition (ADB Outlook 2008).

As of the beginning of 2007, for the case of Vietnam, it has been admitted to WTO membership, but it is too early to say what will be the impact on its garment exports. However, in a short run, this sector has enjoyed opportunities to expand markets but also faced difficulties resulting from possible US protectionism and limited competitiveness of local firms. Although the US announces insufficient evidence for antidumping investigation into apparel products imported from Vietnam (Nan Dhan News, November 25, 2008). There are some problems that could arise from the supervision, for example, some American importers like Macy and Hagel have withdrawn orders from Vietnam and given them to other countries. This situation could be increase when the financial turmoil and

[13] Prime Minister Hun Sen Keynote Addressed during the 10th Government-Private Sector Forum that “Although garment exports have increased, the Cambodian government tax revenue declined by 120 billion Riel per year”, Koh Santepheap Daily, June 22, 2006.

economic recession have weakened US purchasing power while a labor shortage has hit Vietnamese garment makers. (Vietnam Business Finance. November 20, 2008).

Although Vietnam has skilled workers and low wages, the country is also affected by various problems (Vietnam Business Finance. November 20, 2008). Moreover, its textile industry has proved inadequate to meet the needs of garment exporting, and some three-quarters of fabrics used for export garments are imported. Fabrics are often supplied by buyers, and the Vietnamese garment manufacturers are paid a processing fee. According to Lê Trung Hải, Vinatex's deputy director general, the localization ratio plays an important role in the industry's strategies because Viet Nam now has to import 70-80 per cent of fabric and other materials, directly impacting on businesses (http://www.supplychain.vn/en/art/?2878 last visited 2/2/2008).

Thus Vietnam's garment exporting seems to generate less value-added in the country than might be first supposed. To increase its gains, Vietnam requires development of its textile industry, particularly through foreign investment to generate international standards of quality. It requires more skill in textile sourcing, even if these are not produced domestically, to gain the control to move towards 'full package' production.

8-Concluding Remarks

This article focuses on differences and similarities in the development of the garment industry in Cambodia and Vietnam. A typical garment factory in Cambodia is more tightly linked with its Chinese parent firms, and it behaves as a subsidiary of the parent firm. Meanwhile in Vietnam, where the export-oriented garment business was initiated by Chinese, Taiwan, Hong Kong investors, the garment industry is also controlled by the government.

There are challenges and prospects of the two countries garment sector after the WTO-MFA. In the case of Vietnam, the country does better than Cambodia. The current situation of Cambodian garment sector now is at the cross road. This sector is going to face a serious challenge in maintaining its competitiveness in the post WTO-MFA era. The garment sector is also face a serious challenge in maintaining its competitiveness at the end of 2008, given its structural weakness. Cambodian economy which depends on this export will be in danger. This challenge should serve as a wakeup call for policy makers. This requires Cambodia to move to diversify growth. Promoting other industry (agriculture and services) is the best strategy to secure a key source of growth that could absorb part of the expected increase in the labor force, address poverty more efficiently, and provide a more rapid expansion of the domestic market for manufactured products.

To improve the competitiveness of the Cambodian and Vietnam garment sector, the government can also assist firms in applying international standards and technical know-how for upgrading the technological and value-added level of the industry. The quality of human resources should be improved through strengthening the country's educational system. The quality of education should be raised not only for public schools but also for higher education, particularly in business and management schools in order to meet business requirements. Finally, it should be emphasized that Cambodia and Vietnam can be a model of development for other countries. It is hoped that other LDCs encountering analogous development circumstances can draw some relevant and applicable lessons and experiences from this study.

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