



Understanding the Impact of the Global Economic Crisis on the Cambodian Garment Sector

**A Survey Conducted by
CAMFEBA and BDLINK (Cambodia) Co., Ltd**

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List of Acronyms

Acronyms	Full Form
BFC	Better Factories Cambodia
CAMFEBA	Cambodian Federation of Employers and Business Associations
CCTU	Cambodia Confederation Trade Unions
CCU	Cambodian Confederation of Unions
CLC	Confederation Labour of Cambodia
CNC	Confederation National of Cambodia
EU	European Union
FDI	Foreign Direct Investment
GMAC	Garment Manufacturers Association of Cambodia
ILO	International Labour Organization
MoC	Ministry of Commerce
MoLVT	Ministry of Labour and Vocational Training
MoSALVY	Ministry of Social Affairs Veteran and Youth Rehabilitation
UNDP	United Nations Development Programme
US	United States

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Executive Summary

The garment sector in Cambodia has been a key driver of economic growth since the mid-1990s. With few exceptions, the industry is almost solely foreign owned, with most decision makers based in foreign countries where production orders are received. The sector employs a large workforce and has undergone rapid development over the past decade. However, it has been hit hard by the current global economic crisis due to its heavy reliance on exports and foreign direct investment for its growth and development.

The survey reflects data and information collected at the end of 2009 unless otherwise articulated. Median workforce size in participating factories is around 700 workers per factory. The average number of workers per factory was higher, at 920, reflecting the moderate difference between large and small factories in the sample. A total of approximately 59,781 workers were employed in the surveyed factories, 90% of whom are women, and 2.8% of whom are temporary workers. On average, production employees worked 9 hours per day and 6 days per week, while median work hours were 10 hours per day, 6 days per week. The average monthly wage of a typical production worker (including overtime, bonuses and other monetary benefits) varies significantly from one factory to another, and ranges from \$50 to \$130. The median wage of workers employed in participating factories is \$83 per month, while the average salary is \$84 per month.

Less than 20% of participating factories experienced disputes, and the remaining factories have never experienced industrial disputes, implying that participating factories are among the better performing factories in Cambodia. Only 25% of the industrial disputes that did occur were linked by managers to the economic crisis.

The majority of factories managed to increase and maintain revenues prior to the global economic crisis even though factory expenses increased at that time. In contrast, factory revenues dropped from 5% to 75% between August 2008 and August 2009, highlighting the vulnerability of the sector in the face of external uncertainty. A large proportion of the participating factories' expenses increased or remained the same during that time. This has resulted in imbalanced revenues and expenses, which has negatively affected factory operations, leading to job losses and hurting Cambodia's economy.

Eighty-eight percent (58 out of 66 factories) of participating factories were affected by the economic crisis, while 12% escaped adverse impacts. Falling export orders, increasing pressure from buyers to reduce prices, and increasing costs of domestic inputs have been identified as the three primary pressures on garment factories.

More than half of the participating factories have altered their workforce in light of the current economic crisis. Measures taken include terminating temporary as well as permanent employees, reducing regular and overtime hours, negotiating cuts in bonuses, and training in-house staff to avoid layoffs. These measures have likely impacted the ability of the workers in the factories surveyed to cover remittances and to meet basic needs such as food, healthcare, children's education, and housing. Reduced remittances also impact rural household livelihoods reliant on factory workers' salaries for their own basic or supplementary expenditures. The survey shows that garment production workers are the first order victims of the crisis in Cambodia, and are thus highly vulnerable to workforce adjustments amid falling overseas demand. Meanwhile,

managers and non-production employees in the sector are less likely to experience problems in the face of the downturn, particularly in terms of income reduction and job loss.

Key findings of the survey highlight that factories that escaped significant adverse affects from the global economic crisis possess the following characteristics: (1) They appear to be more productive and face fewer challenges in finding skilled labour; (2) They do not view compliance with labour standards as a serious problem and they experience fewer industrial disputes; (3) Most factories have a parent company abroad; (4) They have few problems with lost products or stolen inventory; (5) They are large factories employing more than 1000 workers; (6) All factories are GMAC members; (7) Factories are 100% foreign owned and produce products for export only; (8) The owners of the factories have solid relationships with buyers abroad.

Perhaps the most encouraging finding of the survey is that more than half of the managers surveyed anticipated that the demand for their main products will expand relative to the first ten months of 2009. Although merely an expectation, this may suggest that the worst is now over for the garment sector. However, around one-third of managers believed that the prospects over the next six months will remain the same as during the first 10 months of 2009. Overall, factory managers were optimistic rather than pessimistic about the future demand for their products. Another encouraging finding of the survey is that the majority of factories expect to increase or maintain their current staffing levels, and less than 10% of participating factories anticipate additional job losses.

The five most critical constraints to the industry, as perceived by factory managers are: (1) the high cost of power; (2) low productivity; (3) high unofficial costs or facilitation fees; (4) the lack of skilled labour; and (5) the high cost of inputs. In addition, another finding provides cause for considerable concern going forward: seventy percent of managers have no plans to expand their businesses in Cambodia.

Looking into the future, there is an urgent need for the government, employers, workers, and key stakeholders to work closely together to overcome the critical constraints identified in this survey. However, this is not an easy task, and it requires a long-term approach. Serious, coordinated efforts to address these constraints must be undertaken to ensure the future success of the garment industry in Cambodia. Therefore, this report provides some possible suggestions addressing the challenges identified in this study for further consideration.

1 Introduction

The garment sector in Cambodia has been one of the country's key growth pillars since the mid-1990s. Exports from the sector grew from nothing in 1994 to \$1.9 billion in 2004 –the key markets being the US and EU. Garments now make up almost 90 percent of the country's exports and account for some 16 percent of GDP in 2007.¹ The industry employed approximately 353,000 in September 2008,² nearly 90 percent of whom are young women aged 18 to 25 years old. The majority of the more than 250 factories in the country are foreign owned (East Asian ethnic Chinese interests predominate).

Cambodia has been hit hard by the current global economic crisis –a product largely of its narrow economic base (of which garment manufacturing forms the centrepiece) and heavy reliance on exports and foreign direct investment for its growth and development impetus. Economic growth in recent years has been robust, with consecutive years up to 2007 posting double-digit figures (% GDP growth). Alongside this, poverty reduction was progressing steadily at around 1 percent per annum. However, since late 2008, the economy has gone into sharp decline, dragged down by plunging export orders for garments and stalling investment in its construction and real estate sectors. Tourism, another of the country's four "drivers" of growth (alongside agriculture, garments and construction) has suffered too, but to a lesser extent, with some signs of a recovery having emerged in recent months.

Of the country's four growth drivers, the garment industry was identified by a CIDS-ILO rapid assessment (January 2009) as the most vulnerable sector to the economic crisis, the reason being that it is both heavily reliant on overseas demand (the bulk of factories manufacture for export) and driven largely by FDI –both of which have slowed considerably since late 2008. As many as 70 factories have closed and up to 70,000 workers were retrenched between the third quarter of 2008 and December 2009.³ On top of this, there have also been work suspensions and reductions in overtime in a considerable number of factories. These trends have had –and continue to have-- a direct impact on the ability of factory workers to meet basic needs such as food, healthcare, children's education and housing. They also raise questions regarding the vulnerability of the laid-off workers themselves to various forms of risky employment, exploitation, unsafe migration and trafficking.

Following the ILO-CIDS rapid assessment, and after several rounds of consultation and discussion with key stakeholders including the government, workers and employers organisations, the ILO-SRO Bangkok developed a Plan of Action for the country. In late April 2009, the ILO fielded another mission to Phnom Penh to present the draft Plan of Action to constituents and seek validation and/or further comments and inputs. The Plan was met with widespread approval from these parties, and received particularly strong support from the main employers' organisation and workers groups. The plan itself comprises three main areas of short to medium term ILO assistance, covering technical assistance and project-based interventions to help alleviate the negative impacts of the

¹ The World Bank, 2009, Sustaining Rapid Growth in a Challenging Environment: Cambodia Country Economic Memorandum, February, 2009, p. 8

² ILO, 2009, Cambodia Garment Industry: Challenges and Opportunities

³ MOC data (exporting factories only)

economic downturn in the country –particularly on those most vulnerable (of which garment workers form a distinct subset).

As part of its overall crisis response plan for Cambodia, the ILO, in collaboration with UNDP, is currently undertaking a comprehensive study of the Cambodian garment sector in 2009/10, to assess the impact the global economic crisis is having on stakeholders at all levels -that is the sector, worker and enterprise levels. The last of these is the main focus of this survey: to assess and develop a clearer picture of garment enterprise operations in Cambodia, the impacts they have faced and the responses they have undertaken amid the global economic downturn. These survey results will be combined with industry level data and a Worker Level Tracking Study into a single comprehensive report that analyzes Cambodia's most important industry in the context of the current economic slowdown.

2 Survey Objectives and Methodology

2.1 Survey Objectives

Broadly speaking, this enterprise level assessment aims to survey and analyze the mechanisms implemented by the industry to cope with the economic crisis, with particular emphasis on identifying the different ways manufacturers are responding, in terms of –amongst other things- rationalizing production. The focus is on the economic, employment and social impacts of these measures, which may include layoffs, suspensions (of production), and in some cases closure.

Specifically, the primary objectives of this survey are:

- To provide a brief overview of garment factory operations in Cambodia;
- To analyze workforce composition, labour costs and other costs associated with production;
- To examine the situation regarding industrial relations/strikes and protests;
- To assess the impact of the global economic slowdown on factory operations;
- To identify measures taken by factories in response to this slowdown;
- To better understand the future plans of the factories.

2.2 Methodology

This firm level survey was undertaken with 66 garment factories, 56 of which are registered as exporting factories (GMAC members), and 10 of which are not (non-GMAC members). The exporting factories represent 22% of all factories registered with GMAC,⁴ as per the law for exporting factories. The ten factories not registered with GMAC (membership is only compulsory for export factories) are registered with the Ministry of Labour, Vocational and Training (MoLVT). They represent around 11% of all non-GMAC factories registered with MoLVT.⁵ Factories not registered to export typically are subcontracted by exporting factories, and are referred to in this report as subcontracting factories or non-GMAC factories.

⁴ Based on an interview with GMAC, there are around 250 GMAC factories in February 2010.

⁵ Based on MoLVT list of garment factories, the survey team estimated that there were around 92 non-GMAC factories (with appropriate contact phone numbers) registered with MoLVT in November 2009.

The factories were identified through the GMAC Member Directory and a list of Non-GMAC Members provided by the Department of Labour Inspection at the MoLVT. The sample size for GMAC factories provides a fairly good representation of GMAC factories in Cambodia (22%). On the other hand, the sample size for non-GMAC factories is only 11%.

Survey team members reviewed a draft ILO-designed survey questionnaire and slightly adjusted the survey tool to reflect local context. The team then took a two-day training program to become familiar with the English survey questionnaire. The survey tool was also translated into Khmer and Chinese. Each team member was instructed on how to obtain appropriate responses during data collection, and also was required to perform a role play with the survey manager in order to better understand the objectives of the survey and the contents of the questionnaire.

Prior to interviewing factory managers, the survey team contacted 288 GMAC Members representing 100% of all GMAC Members and 92 non-GMAC factories⁶ representing 100 % of non-GMAC Members to schedule interviews based on their availability and willingness to participate in the survey. In most cases, the interviews with factories lasted around two hours covering basic information, operations, global economic impacts on the factory, the firm's response to the economic crisis, and their perceptions of the future prospects of the sector. The data collected was cleaned and validated before it was entered into a database. The database was then available for data analysis based on survey objectives.

2.3 Study Constraints / Challenges

Every effort was made to contact factories for face to face interviews with factory managers/owners. Most factory managers were keen to cooperate. They openly shared their thoughts and experiences regarding their companies as well as the challenges they are facing as a result of the global economic downturn.

However, many factory managers could not be reached by phone to arrange interviews, especially the non-GMAC Members. The survey team suspected that these factories were already closed down or that they had incorrect contact information for these factories. The majority of non-GMAC factories that were reached declined to be interviewed. Thus, only 10 non-GMAC Members were interviewed, in contrast to 56 GMAC Members.

Based on survey team's previous experiences in undertaking surveys in garment sector, the team noted that the factories that participated in the survey tended to be leading factories in the garment sector. Therefore, the findings may reflect better performing factories in terms of labour standards and operations. A large proportion of factories were very busy because they were filling export orders from abroad for the holiday season. These factories are located primarily in the suburbs of Phnom Penh, with the majority of factory owners living abroad and spending little time in Cambodia. These factors presented significant challenges in collecting data.

⁶ This figure is based on the survey team estimation calculated from MoLVT list in November 2009.

Another challenge was that some factory managers were reluctant to provide detailed information about total costs of production, especially raw materials costs. Part of the reason for this is that factory managers themselves often do not know such costs, due to arrangements made by their central offices abroad. Moreover, in some cases managers were reluctant to provide information regarding revenues and expenses, which they viewed as highly sensitive.

Some factory managers were reluctant to provide the aforementioned information out of concern that it could be used improperly. The team made every effort to ensure that respondents were comfortable and understood the objectives of the survey, as well as to obtain information by asking questions in a variety of ways. Despite the challenges, the team is confident in the data collection efforts, as well as in the findings presented below.

3 Survey Results

3.1 General Findings regarding Characteristics of Participating Factories

3.1.1 Years in Operation

The first factory participating in this survey was established in 1992. However, the majority of factories started their operations in 2005. Forty-one percent of participating factories were established between 2000 and 2005, and another 41% were established after 2005. Only 18% of participating factories started operation prior to 2000. This result reveals that more than 80% of factories are relatively young, having operated for less than 10 years.

3.1.2 Nationality of Factory Owners/Managers

Similar to previous studies, the survey shows that factory ownership is dominated by East Asian ethnic Chinese interests. Businesses are mostly from China, Taiwan, Hong Kong, South Korea, Malaysia and Singapore. With few exceptions, this industry remains foreign owned, with most decision makers based (predominantly) in foreign countries, where production orders are received. These owners make decisions about operations in Cambodia and a large proportion of them have similar operations in other countries. The majority spend very few days per month in Cambodia. In some cases, owners visit factories only once every three months. The high level of foreign ownership means that foreign investors play a key role in the success or failure of the garment sector in Cambodia.

3.1.3 Legal Status of Factories

GMAC members and non-GMAC members are both registered as privately held limited companies. Overall, 58% of participating factories are registered as privately held limited companies, while sole proprietorships and partnerships represented 30% and 13%, respectively. There were just a few examples of private domestic and private foreign partnerships.

3.1.4 Main Products Produced

Factories produced mainly T-shirts, Pants, Jeans, Sportswear, Underwear, and Pyjamas. Many factories appear to focus on a few selected products, with factory owners specializing in a specific type of production.

3.1.5 Export Destinations

Garment products produced in Cambodia are exported, in order of importance, to the United States, the European Union (Spain, Germany, France, etc.), and Canada, while Japan is also a key Asian market for Cambodian products. With few exceptions, most garment factories began to export products immediately after or within a few months of establishing in the country.

3.1.6 Total Sales for Export

With just one exception, GMAC Members have exported 100% of their produce to foreign markets over the past 3 years. Non-GMAC Members are typically sub-contractors to GMAC Members that usually purchased more than 50% of the products produced; the remaining products were sold in the domestic (Cambodian) market.

3.1.7 Factory Size (Number of Employees)

There is a large variation in terms of factory workforce size, ranging from less than 100 to 4500 employees. Median employment for the participating factories was 700 workers per factory. The average number of workers per factory was higher, at 920, reflecting the moderate difference between the largest and smallest factories in the sample. Eighty percent of non-GMAC factories employed less than 500 employees. Additional information on factory size is provided below.

3.1.8 Factory Buildings

Fifty-two participating factories reported on the status of their factory buildings. Eighty-five percent of factories rent their production buildings and the remaining 15% of factories own the building. This result signals that factory owners can easily move to other countries if and when the business environment is more favourable or profits are higher than in Cambodia.

3.1.9 Raw Materials

Cambodia's garment sector relies primarily on imported raw materials from several source countries. Of those countries, China supplies the most factories surveyed with raw materials. More than 50% of participating factories import raw materials from China. Taiwan and Hong Kong are the second and third most important suppliers of raw materials. Usually, Cambodian factories import raw materials from more than one country. However, China, Hong Kong and Taiwan together are the dominant suppliers. Garment factories also import raw materials from South Korea, Malaysia, and Thailand. However, fewer factories rely on these countries as suppliers.

3.1.10 Investment

Forty-two participating factories reported on their investment capital. The amount of investment capital for these factories ranged from US \$250,000 to \$15 million. Median investment capital was \$1million and the average investment capital was \$1.8 million, reflecting a significant difference in investment and production capacity among participating factories. Total investment capital for the 42 participating factories was US \$76.25 million.

3.2 Other Results

3.2.1 Order and Delivery

Factories were asked to provide the average lead-time between the placement of an order and delivery to the buyer. The results indicate that it took an average of 50 days from the placement of an order to its delivery to the buyer. The majority of factories usually required 45 days lead time. The minimum lead-time was 10 days and the maximum was 105 days. No detailed information is available to compare lead times for the United States (as a destination market) with other destination countries.

3.2.2 Style Changing

Requests to change the style after buyers place the final order appear not to be a serious problem for factories in this survey. Only 41% or 23 GMAC members report they encountered requests for changes to the style after placement of the final order. This result reflects that fact that GMAC members and buyers normally have firm agreements in place before factories start to produce products ordered. However, it should be noted

that 23 factories were requested to change the style after receiving final order from buyers, for on average 11% of total orders (median 5%).

3.2.3 Open Book Costing

Thirty-six percent or 24 factories reported that buyers required a breakdown of all the finances and costs involved in producing products ordered. On average, 88% of buyers ordering products from factories required open-book costing from these factories.

3.3 Size of Factory Workforce

The garment factories surveyed can be classified into three size categories. The first category employs less than 500 workers. The second category employs between 500 to 1000 workers, and the third category employs more than 1000 workers. The factories surveyed are equally distributed among the three categories (less than 500 employees account for 38%, between 500 to 1000 employees represent 30%, and more than 1000 employees account for 32%). As indicated above, eighty percent of non-GMAC factories employed less than 500 employees.

Median employment for the participating factories was 700 workers per factory by the end of October, 2009. The average number of workers per factory was higher 920, reflecting the moderate difference between the large and small factories in the sample. In total, the factories surveyed employ around 59,781 workers, 90% of whom are women and 2.8% of whom are temporary workers. Only 17% (11 factories) employed temporary workers in 2009. Ninety-five percent of temporary workers are women, which is slightly higher than the percentage of female permanent workers employed in factories.

Table 1: Workforce in Garment Factory

Workforces	GMAC			Non GMAC			Both		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Min	200	204	72	40	30	28	40	30	28
Average	999	992	996	589	528	498	943	927	920
Median	800	800	800	160	160	204	750	670	700
Max	4,500	4,500	4,500	2,850	2,570	2,690	4,500	4,500	4,500
Total	43,970	48,623	54,800	4,122	4,220	4,981	48,092	52,843	59,781
# of respondent	44	49	55	7	8	10	51	57	65

As one might expect given the extent of the global economic crisis in Cambodia, the average workforce size in GMAC and non-GMAC factories decreased from 2007 to 2009. However, workforce reductions in participating factories were largely offset by workforce increases, resulting in an average loss in employment of less than 2% between 2007/2008 and 2008/2009.

Increases in total workforce in the factories surveyed from 2007 to 2008 (9%), and from 2008 to 2009 (12%) can be explained by the fact that more factories provided data regarding their workforce with each succeeding year. Other factors also contribute to the increase in total workforce among participating factories, despite the simultaneous industry-wide workforce reductions. First, many of the participating factories were able to retain their workforce, whereas non-participating factories would include factories that have closed down due to the economic crisis (and therefore are not captured in the

survey sample). Second, some participating factories have not been seriously affected by the crisis, and have actually recruited an additional 5,467 workers to fill export orders during September and October 2009. Third, the participating factories include factories established in 2009 that employed an additional 3,120 workers. As a result, 8,587 jobs were created during the first 10 months of 2009 in participating factories.

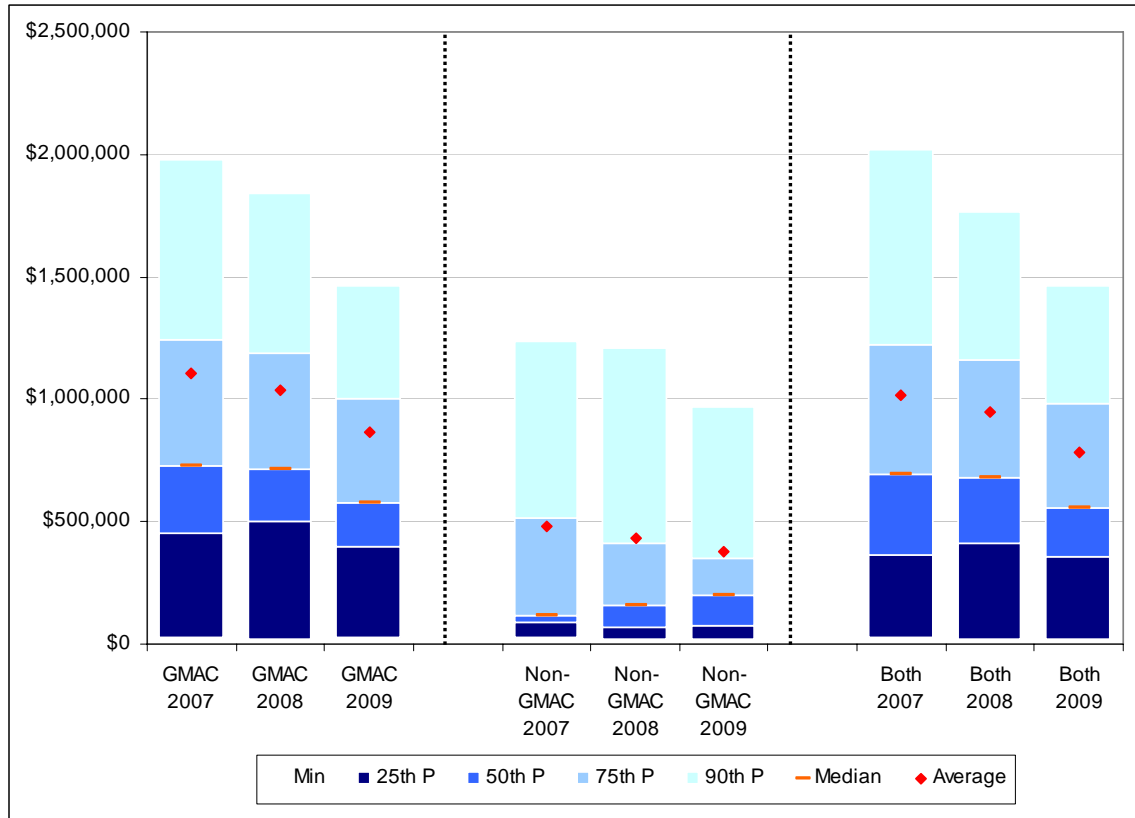
3.4 Workforce Costs

The term workforce in this context is defined as the number of production workers, while manpower costs are defined as wages paid for production workers during a given year. Results of correlation analysis indicate that there is a strong relationship between the workforce and manpower costs over the past three years (from 2007 to the first 10 months of 2009). With a view to understanding manpower costs, managers were asked how much they paid for total manpower costs since 2007. The costs varied greatly across garment factories, ranging from less than US \$30,000 to \$6 million during 2009. The median manpower costs in factories (both GMAC and non-GMAC) decreased from around \$0.7 million in 2007 to \$0.55 million during the first 10 months of 2009. Average annual manpower costs were significantly higher than median manpower costs during that time.

However, average and median manpower expenses per factory were both on the same downward trend. This result is consistent with national data, and underlies that fact that 2007 was a good year for the garment sector, and that it only started to suffer during the last quarter of 2008. The sector's continuing decline has had adverse impacts on workers, as reflected by substantially lower manpower costs during the first 10 months of 2009. This finding also reflects the fact that a significant proportion of workers working in participating factories have been affected by the crisis, as a result of terminations of both temporary and permanent workers, reduced working hours, negotiated cuts to wages and bonuses, and particularly, reduced overtime hours (discussed in section 3.7.1.)

Looking into the overall total manpower costs of participating factories, nearly US\$51million was paid to workers in 2007. This figure rose to \$53 million in 2008 due partly to an increase in the minimum wage from \$45 to \$50 per month, amid spiralling inflation that peaked at 13.5%. However, total manpower costs in 2009 declined again to \$50 million, although the total number of factories reporting manpower costs is significantly higher than for the prior two years. This figure would be additionally reduced by 5% or \$2.5M to \$47.8M if the manpower costs for the five factories established during 2009 are excluded. Among GMAC factories specifically, annual manpower costs declined gradually over the past 3 years. Twenty-five percent of GMAC factories reported manpower costs during 2009 below \$0.4M, while three quarters reported manpower costs below \$1 million.

Figure 1: Manpower Costs over the Last Three Years



Data Source: Table 10: Manpower Costs over the Last Three Years (US\$)

Note on Minimum Wages:

In Cambodia, only the garment and footwear industries are covered by minimum wage regulations. The minimum wage was first introduced in Cambodia on 1st August 2000 through Notification 017 (MoSALVY, 2000). This Notification provides that workers in the garment and footwear industries should receive at least \$40 per month during the 3-month probationary period, and \$45 per month after becoming regular workers.

In addition to minimum wage, workers who work regularly during a month are entitled to an attendance bonus of at least \$5 per month. Workers also receive 1,000 Riels (\$0.25) or one free meal each day they work overtime. Workers who have worked for a company for over one year should also be paid a seniority bonus of \$2 per month. This bonus is increased to \$3 per month for the second year, \$4 per month for the third year, and \$5 per month for the fifth year, which is the maximum bonus permitted.

Minimum wage for probationary and regular workers in the garment and footwear industries was increased to \$45 and \$50 per month, respectively, starting from April 2008. The other benefits provided by Notification 017 remained the same.

3.4.1 Production Costs

One of the most important aspects of factory operation is production, which represents the largest share of total factory expenses. Managers were asked to provide their total production costs⁷ from 2007 to 2009. Some factories could only supply information on production costs minus the cost of raw materials, because their raw materials are arranged for by their head offices in foreign countries while some factories were able to provide information on full production costs (including raw materials). The production costs reported in the table below are broken down based on whether they include raw materials costs or not.

Total production costs excluding raw materials increased gradually over the past 3 years for the 21 factories that provided figures, to \$39M in 2009. Median production costs excluding raw materials were \$1.1M, while average production costs were \$1.8M, indicating significant differences among factories in terms of operations. Twenty-five percent of the factories that reported production costs excluding raw materials spent less than \$0.5M on production, and 90% of them spent no more than \$3.6M during 2009.

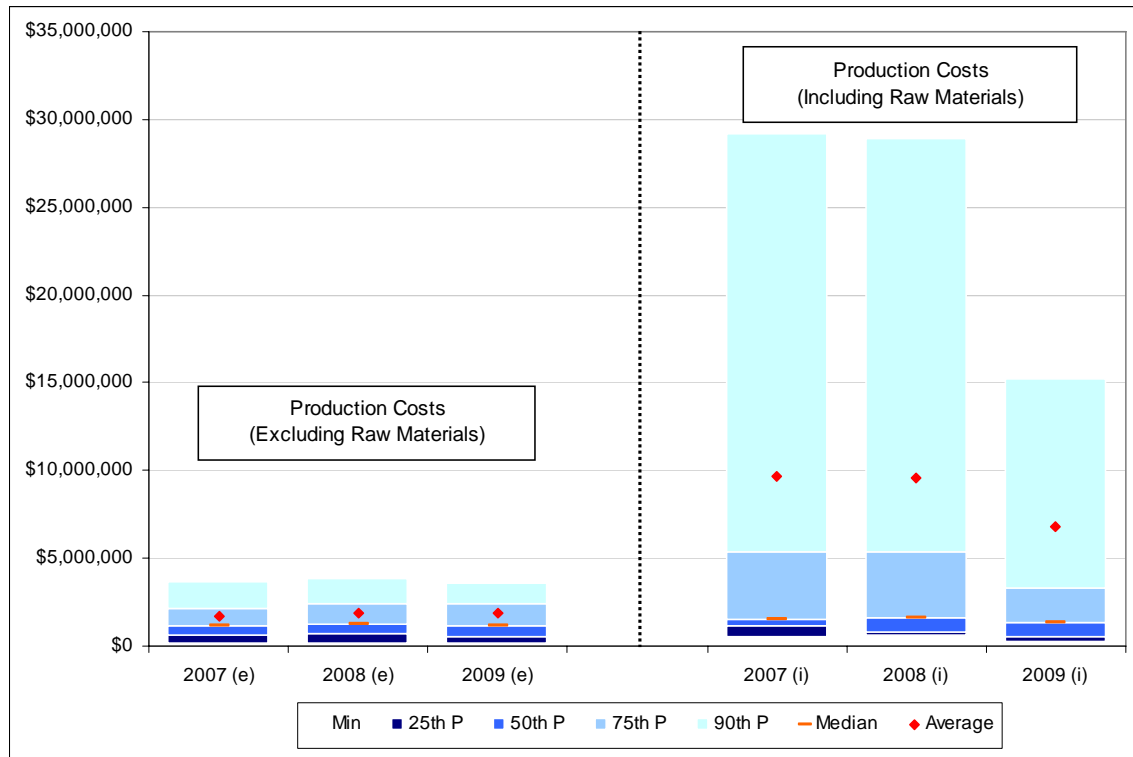
Production costs increase many times over when raw materials costs are included. This demonstrates the relatively small proportion of labour costs in the production process, when compared with raw materials costs. Sixteen participating factories reported that they paid up to \$108M during the first 10 months of 2009, down from \$116M in 2007. Median production costs including raw materials are estimated at around \$1.3M per factory in 2009. Average production costs are around \$6.7M, reflecting a big difference between the smallest and largest factories in terms of production capacity.

One-fourth of the 16 participating factories that supplied information on production costs including raw materials in the first 10 months of 2009 spent less than \$0.54M on this component. Ninety percent of factories that reported on production costs including raw materials, however, spent less than \$15.25M on production. Average production costs (including raw materials) fell considerably from 2008 to 2009. The fact that 2009 covers only 10 months worth of data accounts for part of this drop. Total production costs for both groups of factories (those that reported costs with raw materials costs, and those that reported without those costs) during the first 10 months of 2009 were \$148M.⁸ Figure 2 below displays the information collected on production costs.

⁷ The term total production costs in this survey is defined as all costs associated with production, including manpower costs or wages.

⁸ This figure was reported by 37 GMAC factories only.

Figure 2: Production Costs of GMAC Factories



Data Source: Appendix: Table 11: Production Costs of GMAC Factories

3.4.2 Working Hours and Wages

Working Hours: On average, production employees worked 9 hours per day, 6 days per week during the field survey in late 2009, while median hours of work were 10 hours per day, 6 days per week, reflecting the small variation among factories on this issue. Both GMAC and non-GMAC factories shared similar results. Factory managers reported that workers generally prefer to have overtime work. If factories do not have overtime work or if they have little overtime work, worker turnover is likely to be high. Workers tend to seek work in factories that can offer many overtime hours and resulting higher pay, even if that means changing jobs. Only two factories (3%) worked occasionally up to 12 hours per day. In such cases, the deadline for export orders is usually very short.

Table 2: Working Hours for Production Employees

Indicators	GMAC		Non GMAC		Both	
	Hours/day	Days/week	Hours/day	Days/week	Hours/day	Days/week
Min	8	5	8	6	8	5
Average	9	6	10	6	9	6
Median	10	6	10	6	10	6
Max	12	7	10	6	12	7
# of respondents	55	55	10	10	65	65

Monthly Wage: The average monthly wage of a typical production worker (including overtime, bonuses and other monetary benefits) varies from factory to factory, and

ranges from \$50 to \$130. However, the median wage of workers employed in participating factories is \$83 per month, while the average salary is \$84 per month. As expected, median and average wages of GMAC factory workers were significantly higher (\$17 and \$14 higher, respectively) than Non-GMAC factories. Since working hours are roughly comparable, this is likely due to the fact that GMAC factories are regularly monitored by ILO Better Factories Cambodia, and they are more likely to have engaged buyers and to provide monetary incentives to workers.

Table 3: Monthly Wage

Monthly Wage	GMAC (USD)	Non-GMAC (USD)	Both (USD)
Min	50	55	50
Average	85	71	84
Median	85	68	83
Max	130	105	130
# of respondents	55	8	63

3.4.3 Unionization

The first trade unions in Cambodia were set up in 1996 and the labour law was enacted in 1997. Since then, a number of trade unions and federations have been established, representing a wide range of industries, including garment, tourism and hotels, construction and the informal sector. Around 40 national trade union centres are recognized and they are federated into the following groups: Confederation Labour of Cambodia (CLC), Cambodia Confederation Trade Unions (CCTU), Confederation National of Cambodia (CNC), and Cambodian Confederation of Unions (CCU).

For factories in the survey, the number of unions ranges from one to seven unions in each factory. Some factories have several unions, but the majority of factories possess only one or two unions.

Table 4: Percentage of Unionisation Workforce

Indicator	GMAC		Non GMAC		Both	
	% unionization work force	# of Union	% unionization work force	# of Union	% unionization work force	# of Union
Min	0%	0	0%	0	0%	0
Average	48%	1	13%	0	42%	1
Median	50%	1	0%	0	40%	1
Max	100%	7	70%	1	100%	7
# of respondents	55	56	10	10	65	66
# of factories at least with 1 unions		41		2		43

As one might expect, the unionization rate in the GMAC factories is much higher than non-GMAC factories. On average, forty eight percent of the workforce in GMAC factories is unionized, in comparison with 13% in Non-GMAC factories. When all the factories are combined, 42% of the workforce is unionized. This survey also reveals that there is a moderate correlation (correlation co-efficient: 0.4) between the number of unions and the number of workers in 2009. Factories employing large number of workers are likely to have more unions.

Several factory managers expressed their concern about the number of unions in their factories. The survey team was often told that the more unions in a factory, the higher the rate of industrial disputes. In many cases, managers indicated that it is difficult to negotiate with unions and to fulfil their requests. Different unions often have different demands, making it hard to consider the demands of one union and not the other(s). Managers said that sometimes they reject all union demands, in order to be viewed as treating unions equally.

3.5 Industrial Relations / Strikes & Protests

3.5.1 Factory Experiences in Industrial Disputes

Industrial disputes in this context are disagreements between factories and workers or their representatives that interrupted the operations of the factories. Among 64 participating factories, 11 factories or 17% of them have experienced disputes since September 2008. The remaining factories had not experienced industrial disputes during that period. This finding suggests that a significant number of factories face industrial disputes, which may impede future growth in the sector.⁹

An attempt was also made to explore whether the disputes that did occur were related to the crisis. The finding indicates that fully one quarter of the industrial disputes reported were linked to the economic crisis. Most factory managers indicated that industrial disputes were usually not caused by the economic crisis, but instead typically arose from differences between workers or their representatives and managers ranging from interpretation of the labour law to compensation issues.

Factory managers added that the unions play a vital role in causing and resolving the disputes. In some cases, miscommunication between unions and factory managers created a poor working environment in the factories, which led to strikes while unions were waiting for a response to their demands or when they received unclear solutions to their demands. Managers also said that, in other cases, differences among leaders of different unions in the same or different factories attempting to raise their popularity among workers could contribute to industrial disputes.

Lower education among workers was also cited by some managers as one of the main causes of disputes. Because workers generally have low levels of education, they can be easily persuaded to support demands that are seen as unreasonable by employers. Differences in culture and attitudes within the workplace, especially among managers and workers also were seen to contribute to disputes. Managers indicated in the survey that Chinese supervisors tend to talk loudly when they interact with workers doing their jobs. However, cultural differences and language barriers can lead workers to feel that they are being insulted. Workers then approach the unions, who may lead workers to go on strike.

⁹ This figure is consistent with recent pre-crisis strike levels. Between 13% and 15% of monitored factories experienced strikes between 1 May 2007 and 31 October 2008. *Better Factories Cambodia* 19th, 20th and 21st Synthesis Reports on Working Conditions in Cambodia's Garment Sector.

Figure 3: Experience Industrial Dispute

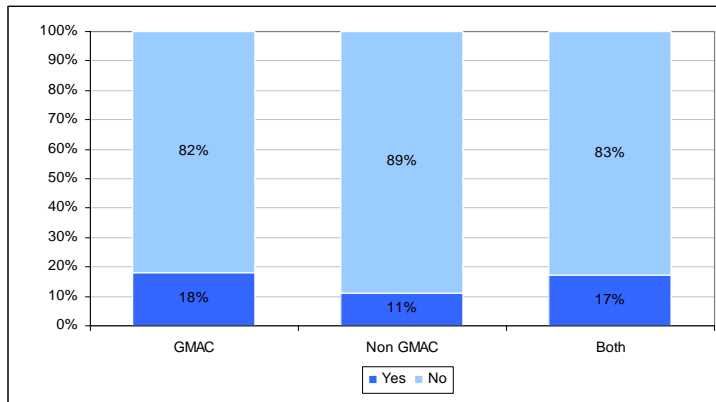
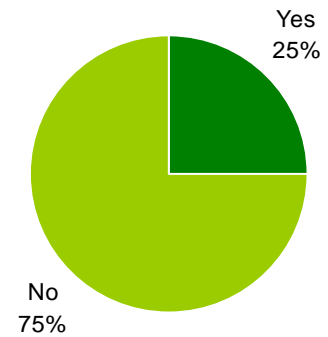


Figure 4: Dispute related to the Economic Crisis



3.5.2 Cost of Strikes/Protests

With a view to understanding the cost of industrial disputes, factory managers were asked to indicate the cost of strikes in their factories. The result reveals that less than 20% of participating factories experienced industrial disputes over the past 3 years, perhaps because labour standards and the working environment in the participating factories are reasonable. The cost of strikes/protests in the survey is calculated by adding up the cost of the time lost by workers involved in the industrial disputes, the cost of the supervisors' and managers' time in solving disputes, legal staff costs, informal fees paid to resolve the strikes, and other costs associated with strike. Under normal conditions, the longer the protest lasts, the higher cost to the factory.

Table 5: Cost of Strikes/Protests

Indicator	2007	2008	2009
Min	\$1,875	\$144	\$370
Average	\$16,329	\$13,002	\$39,829 ¹⁰
Median	\$7,193	\$4,150	\$6,520
Max	\$49,056	\$49,056	\$172,800 ¹¹
Total	\$65,318	\$65,012	\$238,976
# of respondents	4	5	6

Only 15 factories reported the cost of strikes over the past 3 years; four, five and six factories reported strikes in 2007, 2008, and 2009 respectively. The median cost of the strikes during 2009 is estimated at around \$6,520 per strike and the average cost per strike that year was around \$39,829, reflecting large differences between low and high costs of incidents among factories. GMAC data indicates that the total number of strikes in 2007 was 80, while this number increased to 105 in 2008.

Based on the median cost of strikes over the past three years, the cost per strike is around \$5,954. Using the GMAC figures cited above for total number of strikes, the total

¹⁰ One factory in the sample had strike costs that greatly exceeded the other factories in the sample. When that one factory is removed from the sample, the average becomes US\$ 13,235.

¹¹ This figure is high due to other costs related to strike/protest, especially production operation.

cost of strikes for the garment sector in 2007 is estimated at around \$476,000 and the total cost of strikes in 2008 is estimated at approximately \$625,000. However, these figures should be treated as indicative due to the small number of factories that reported strikes, and the great differences in costs per strike, due themselves to other associated costs like production disruption and changes to means of transportation. The total number of strikes in 2009 is not yet available, so a cost estimate for strikes during 2009 can not be provided.

Note: Correlation Analysis on Unions, Strike, and Employees

In an effort to understand the relationship between the number of unions and the cost of strikes, and the number of unions and number of employees working in garment factories, a correlation coefficient was calculated using 66 data points to measure the strength of their relationship as a pure number. In principal, the coefficient of correlation can vary from positive one (indicating a perfect positive relationship), through zero (indicating the absence of a relationship), to negative one (indicating a perfect negative relationship). As a rule of thumb, correlation coefficients between .00 and .30 are considered weak, those between .30 and .70 are moderate and coefficients between .70 and 1.00 are considered high.

The *number of unions and costs of strikes*, and the *number of unions and number of employees* do appear to be related. However, the levels of correlation vary:

- *There is a correlation between the number of unions and the costs of strikes over the past 3 years. However, the level the correlation is weak (correlation coefficient: 0.2)*
- *There is a moderate correlation (correlation coefficient: 0.4) between the number of unions and the number of workers in 2009.*
- *There is a moderate correlation (correlation coefficient: 0.4) between the number of workers and the costs of strikes in 2009.*

3.6 Global Economic Slowdown Impact on Factory Operations

3.6.1 How has the Economic Crises Impacted Factories

The garment sector is the biggest export earner for the Cambodian economy. Exports in 2008 totalled \$2.9 billion and accounted for 65% of Cambodia's export earnings during that year.¹² However, the sector has been seriously affected by the global economic downturn, resulting in factory closures, job losses, and reduced foreign currency earnings. Garment exports dropped 20.83% in the first 11 months of 2009 compared to the same period in 2008.¹³ Based on Ministry of Commerce data, more than 70,000 workers have lost their jobs since the third quarter of 2008, and around 70 exporting factories have closed nationwide.¹⁴ More than 320,000 people are still employed in

¹² United Nations Country Team, 2009, The Global Economic Downturn: Opportunity or Crisis?, p. 23

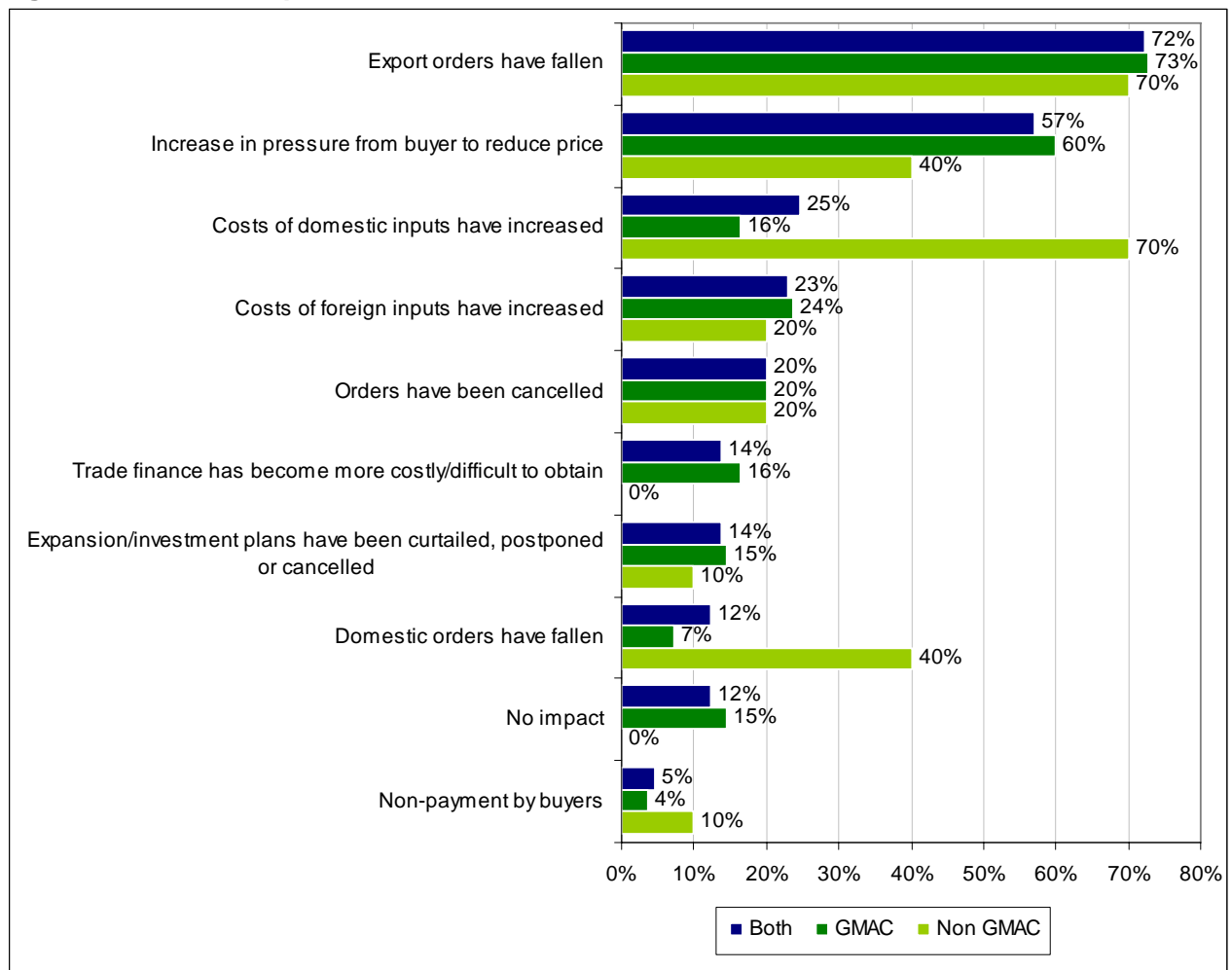
¹³ The Cambodia Daily, January 5, 2010.

¹⁴ MoC data only includes exporting factories, so the numbers of factories and closures are actually higher.

exporting garment and footwear factories¹⁵. During the same period, 34 additional garment factories registered with MoC.

While much is known about the garment sector at the national level, less is known about the impact of the crisis at the firm level. In order to understand the adverse impacts of the crisis at the factory level, factory managers were asked what adverse impacts their factories have experienced since the onset of the crisis (August 2008). Eighty-eight percent (58 out of 66 factories) of participating factories reported that they had been adversely impacted by the crisis. In general, **export orders have fallen, there is increased pressure from buyers to reduce price, and the costs of domestic inputs have increased.**

Figure 5: Adverse Impacts on Garment Factories



More than 70% of factory managers cited “export orders have fallen” as the number one adverse impact on business operations. In this regard, both GMAC and non-GMAC members experienced roughly the same level of impact. Consultations with factory managers showed that many factories suddenly experienced significant reductions in orders, especially factories receiving orders from other factories within the country. This

¹⁵ MoC.

finding is consistent with MoC figures indicating that exports dropped sharply during the first 11 months of 2009, and also reflects the garment industry's heavy reliance on foreign markets.

The second most common adverse impact is increased pressure from buyers to reduce price. Nearly 60 percent of factories experienced increasing downward pressure on prices. Many firms have reduced price in order to survive the global economic slowdown. Forty percent of non-GMAC members had to reduce prices, while this was the case for sixty percent of the GMAC members. This figure should be interpreted with caution because there is a connection between reduced export orders and increased price pressure. Non-GMAC members may have been shielded to some extent from downward price pressure because the exporting factories were filling more of the orders in-house.

The third most common adverse impact on the garment factories is the increased cost of domestic inputs. This finding is not surprising, considering the high rate of inflation in Cambodia in 2008 (13.9%).¹⁶ The minimum wage also increased from \$45 to \$50 per month in the same year. High energy and other operational costs both contributed to an increase in the cost of domestic inputs. In addition to these adverse impacts, factories experienced increased costs of foreign inputs, cancelled orders, postponed investment plans, and difficulties obtaining trade finance, but to a lesser degree. Notably, 40% of non-GMAC members saw reductions in domestic orders, which may include orders from GMAC members as well as from the domestic market.

3.6.2 Characteristics of “No Impact” Factories

As noted earlier, 88% (58 out of 66 factories) of participating factories reported that they have been adversely impacted by the economic crisis, while 12% of participating factories reported that they have escaped adverse impacts. The survey sought to understand the characteristics of the non-impacted factories in order to shed light on the keys to success when faced with a global economic downturn.

The survey shows that factories likely to escape negative impacts of the global economic crisis possess the following characteristics:

- Productivity and lack of skilled labour are not seen as significant constraints to the success of the garment sector in non-impacted factories, whereas these are viewed as important constraints in impacted factories. This suggests that these factories are more productive and face fewer challenges in finding skilled labour.
- Non-impacted factories also stated that compliance with labour standards was not a serious problem for them, and they experienced fewer industrial disputes, while factories affected by the crisis face more difficulties in complying with labour standards.
- Most of the non-impacted factories have a parent company abroad. In some cases, factory owners own several factories in many countries, especially in China.
- Non-impacted factories have little experience with lost products or stolen inventory.

¹⁶ EIC Projection

-
- These factories tend to be larger than impacted factories, employing more than 1000 workers on average (impacted factories employ an average of 904 workers, with a median of 675 workers).
 - All non-impacted factories are GMAC members implying that exporting factories are in a better position to deal with the global economic crisis.
 - Non-impacted factories are 100% foreign owned.
 - Of the 8 factories that said they had experienced no impact, 5 export mainly to US; one exports mainly to Canada; one exports to China and the other exports to Japan.

Voices from the field:

- The most frequently stated explanation for escaping the impact of the crisis from the non-impacted factories was that the owners have strong, positive relationships with their buyers abroad. These relationships have helped to ensure that they still receive the same amount of export orders, even though export orders have generally fallen quite significantly. Interestingly, some factory managers said they received export orders from China and Vietnam, which could indicate that owners of some factories operating in Cambodia are also running factories in China and Vietnam. Interestingly, Cambodia's direct competitors, such as China, Vietnam and Bangladesh, managed to increase their exports to the US by 3.23%, 1.47% and 9.51% respectively, despite the fact that overall US garment imports actually fell by 12.04%. Cambodia, by contrast, has seen its exports to the US fall by over 20% in the first five months of 2009, compared to same period in 2008.¹⁷

3.6.3 Revenue & Expenses Before and During Crisis

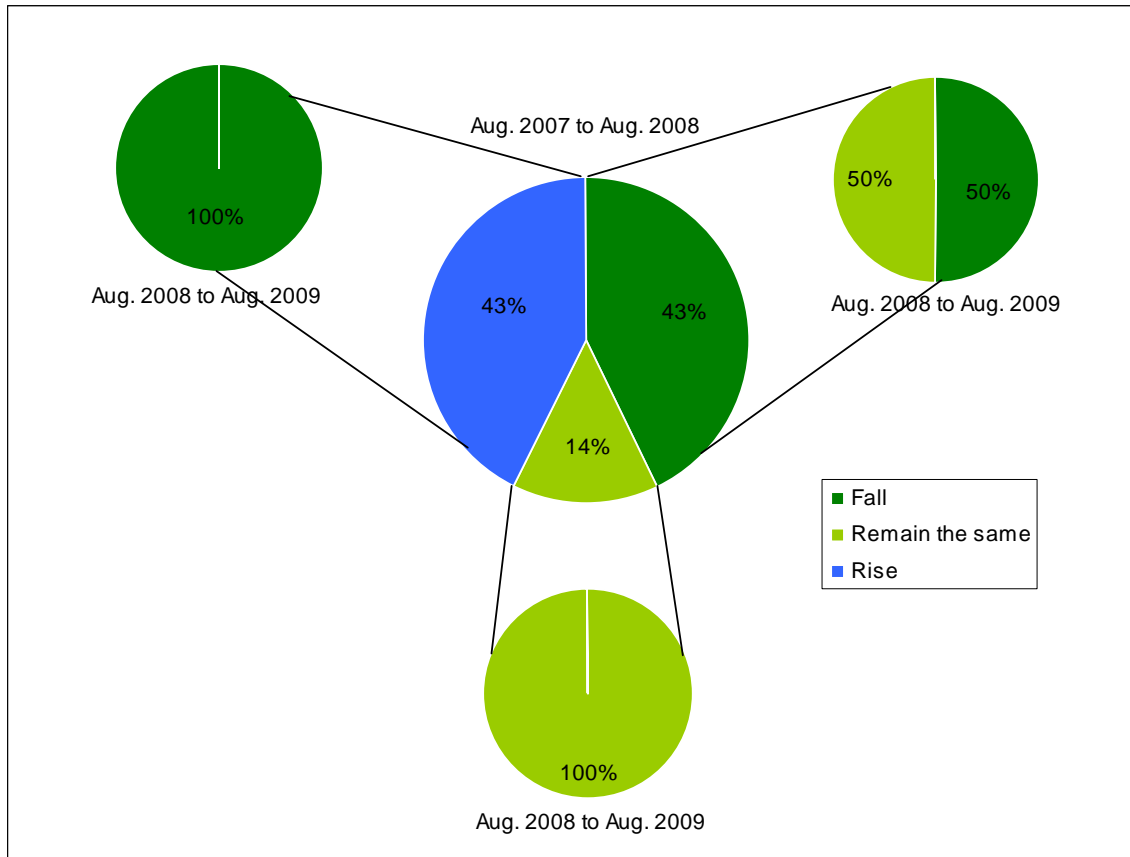
Following more than a decade of high growth in the garment sector in Cambodia, the global economic crisis has negatively impacted industry performance since late 2008. In order to better understand the associated trends of this performance at the firm level, both before and during the crisis, managers were asked how their firms' **revenues and expenses** had fared over the last two years (August, 2007 to August, 2009).

On the revenue side, from August 2007 to August 2008 (before the onset of the economic crisis), GMAC factory managers provided mixed results over the course of the year. Thirty-seven percent of managers said their factories' revenues were increasing at an average of 18%. Thirty-six percent reported declining revenues of on average 34%, while the remaining factories (27%) cited no change.

To some extent, non-GMAC factories shared similar results with GMAC factories. Forty-three percent of managers said that their factories' revenues were rising, while another 43% reported falling revenues, and only 14% said their revenue remained the same. This finding shows that factories were experiencing mixed results before the crisis. Some factories were managing to grow while others saw their revenues declining, and the rest remaining steady.

¹⁷ United Nations Country Team: The Global Economic Downturn: Opportunity or Crisis?, pp. 25

Figure 6: Revenue Before and During Crisis for non-GMAC factories



One of the clear messages from the firm level survey is that approximately 90% of both GMAC and non-GMAC factories' revenues fell or remained the same from the onset of the economic crisis in August, 2008 through August, 2009 (falling in 58% of factories, and remaining the same in 30%). Factories experienced an average drop of 30% in total revenues between August 08 and August 09, which has affected workforce adjustments and investment plans in the country. The losses in revenues are reflected in national level statistics, which show a 20.83% drop in garment exports¹⁸ during the first 11 months of 2009.

Only 11% of participating factories reported increasing revenues, ranging from 5% to 30%. The median and average revenue increases are 10% and 14%, respectively. This finding is consistent with the finding that 12% of participating factories reported no impacts as a result of the global economic crisis, and they managed to sustain growth during the crisis.

¹⁸ The Cambodia Daily, January, 2010 based on figures from Ministry of Commerce.

Figure 7: Revenue Up and Down between 2007-2008 and 2008-2009

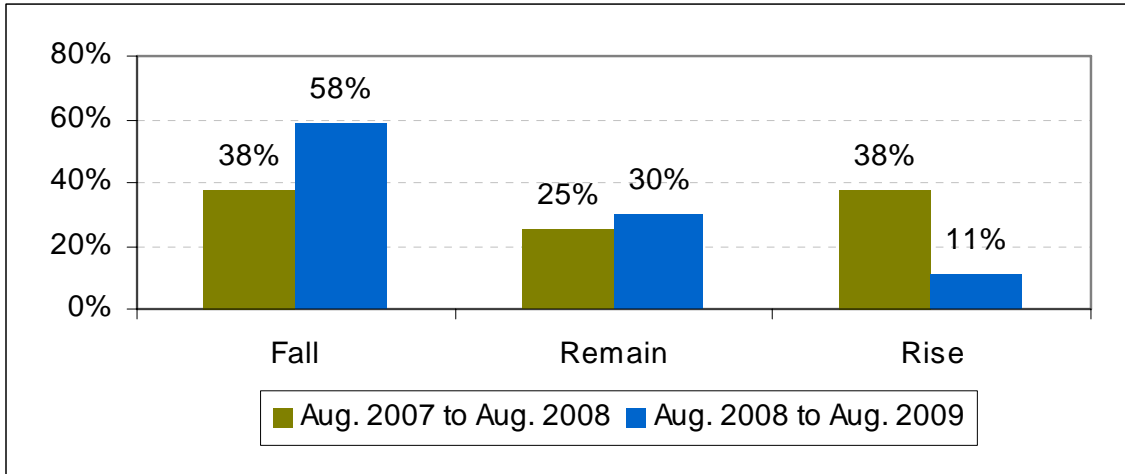


Figure 8: Revenue Before and During Crises: GMAC and non-GMAC

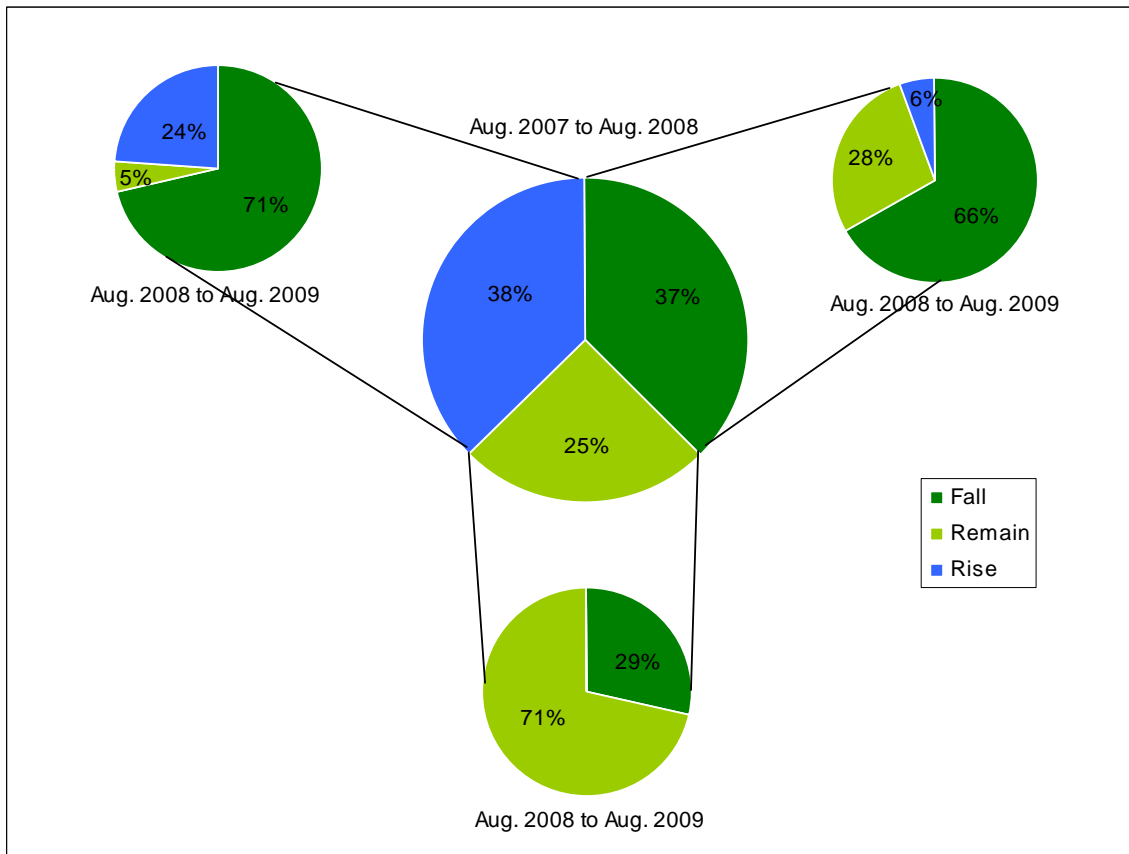
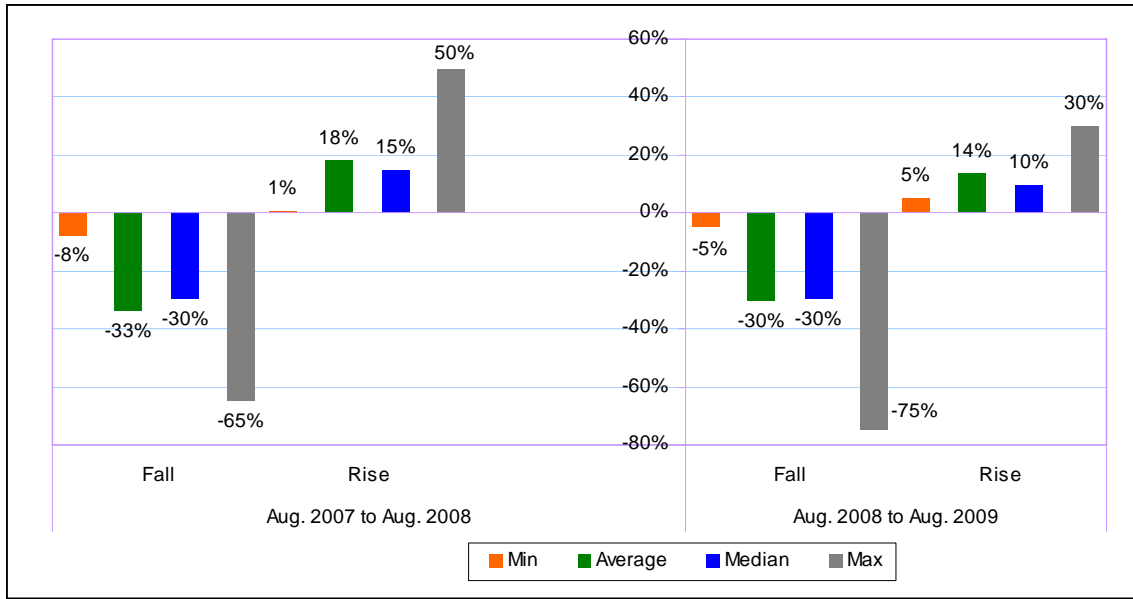
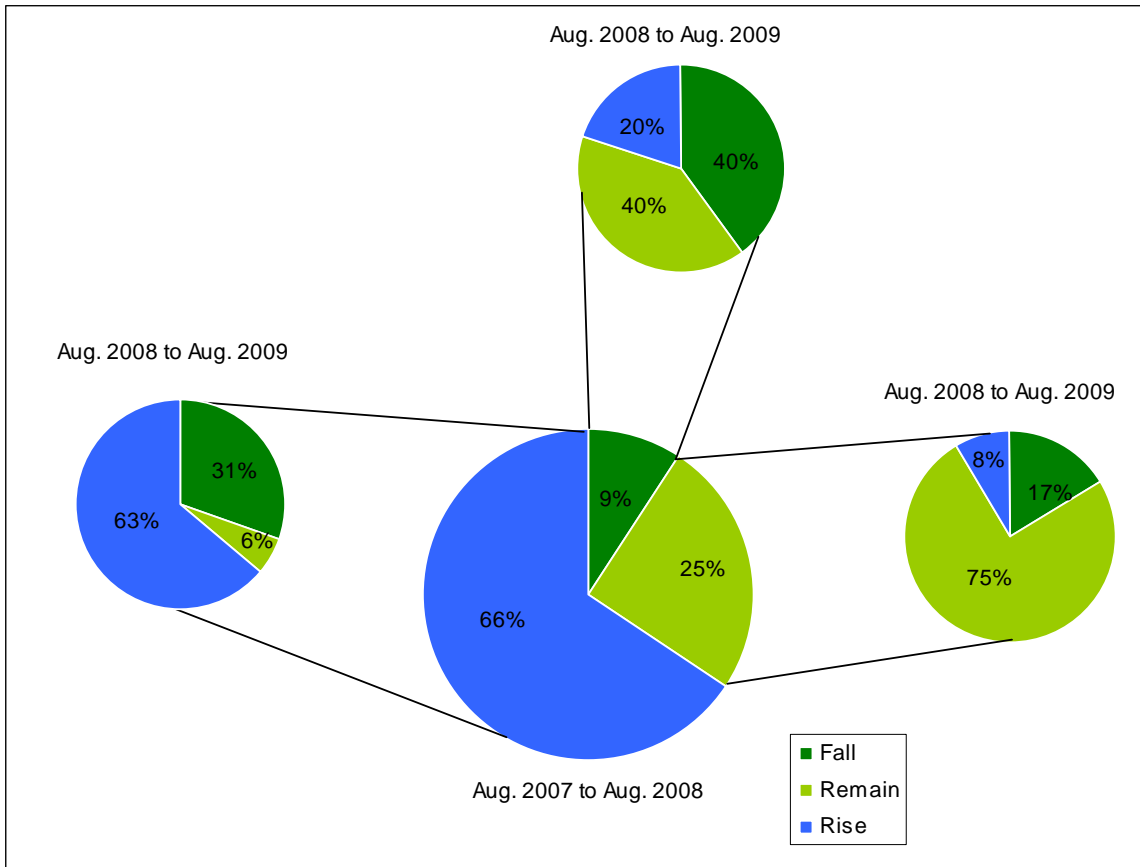


Figure 9: Overall Revenue Before and During Crises



On expense side, from August 2007 to August 2008 (before the onset of the economic crisis), around two-thirds of GMAC and non-GMAC factory managers said their factory expenses rose an average of 18%, while one out of four factories reported that factory expenses had remained steady prior to the global economic crisis. This result is not surprising to those living in Cambodia, as the country experienced double-digit inflation during 2008, although as seen above, the majority of factories managed to grow or maintain their revenues during that time. Less than 10% of factories cited decreasing expenses during that time.

Figure 10: Expenses Before and During Crisis: GMAC and non-GMAC Factories



From August 2008 to August 2009 (during the onset of the economic crisis), 47% of participating factories (GMAC and Non-GMAC) reported that factory expenses rose an average of 17%. Twenty-five percent of factories said that factory expenses remained the same, and 28% reported that expenses fell during that time, anywhere from 10% to 60%. In factories with falling expenses, the average drop was 25%, resulting mainly from reductions in overtime, working days, imported raw materials, and other variable costs associated with production.

Figure 11: Expenses Up and Down between 2007-2008 and 2008-2009

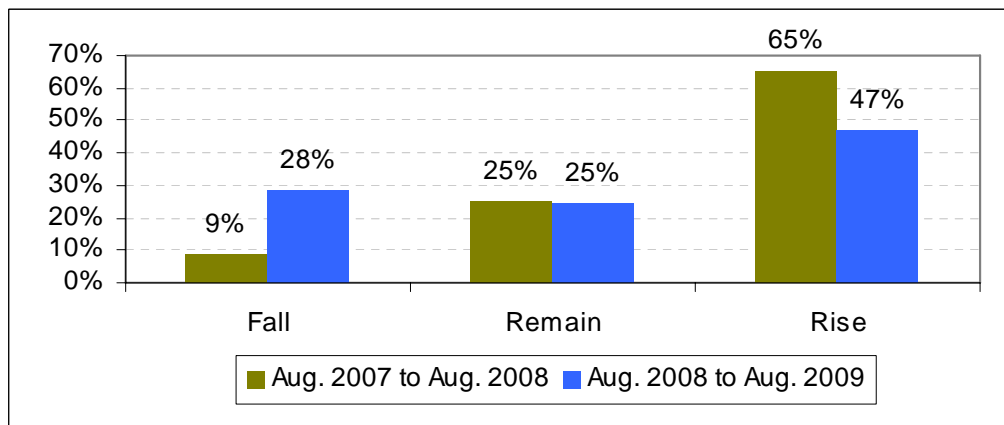
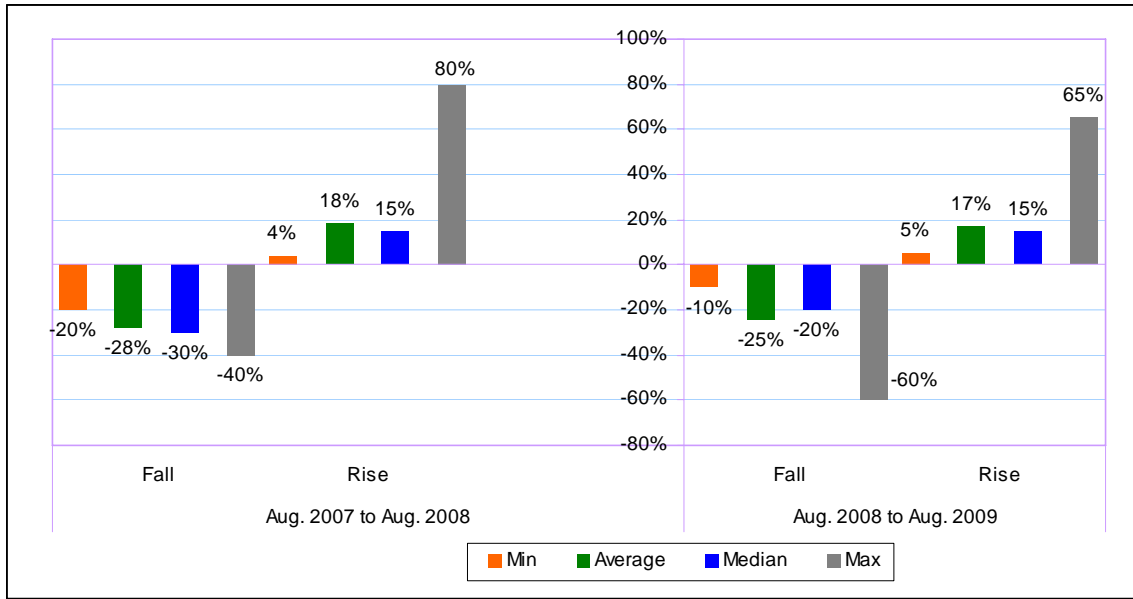


Figure 12: Overall Expenses Before and During Crisis



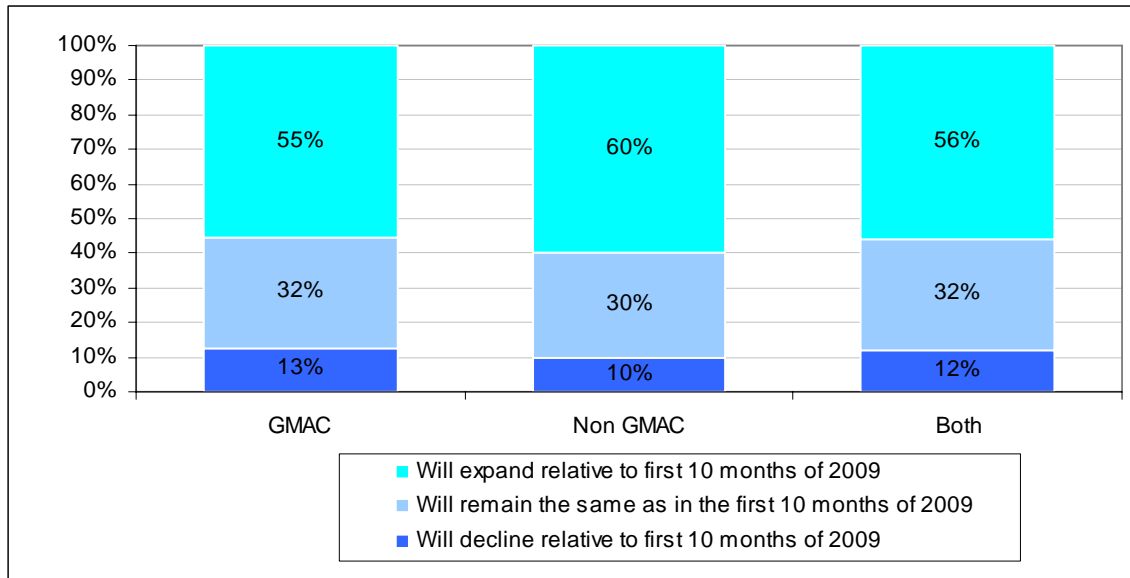
In summary, most factories (63%) managed to increase or maintain revenues prior to the economic crisis, even though expenses were increasing at the time. However, revenues dropped for most factories (58%) between August 2008 to August 2009 (from 5% to 75%). The imbalance in revenues and expenses has negatively affected factory operations, as reflected by the job losses and factory closures in the sector.

3.6.4 Future Perceptions on Demand

Understanding the future perceptions of employers is crucial to forecasting the future outlook of the sector. Managers were asked about their expectations regarding the demand for their products over the following six months. Both GMAC and non-GMAC factory managers shared similar future demand expectations. Perhaps the most encouraging finding of the survey is that more than half of the managers surveyed anticipate that demand for their main products will expand relative to the first ten months of 2009. This result suggests cause for optimism that perhaps the worst of the crisis is now over.

However, this result should be interpreted with caution. Managers often remarked that unlike before the crisis, it is now difficult to forecast the future demand for their products, as export orders are being placed only on short notice (e.g. less than three months in advance), making it difficult to provide an accurate forecast of factory operations in the long run. Prior to the crisis, managers said they could normally forecast export order volumes for six months.

Figure 13: Demand Expectations over the Next 6 months of Main Products



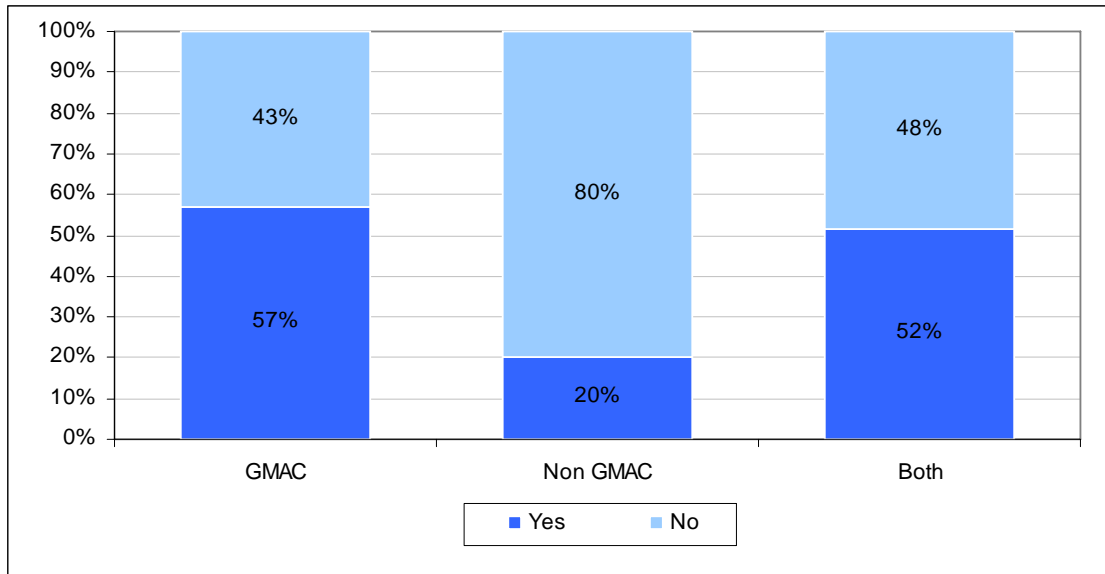
While most managers were optimistic about future demand, around one-third of managers believed that demand for their products would remain the same as during the first 10 months of 2009. Only 12% of managers reported that they expected future demand to decline. The pessimism of these managers stemmed by and large from their interpretation of the difficult economic conditions in major export markets. However, notwithstanding the concerns of these individuals, factory managers on the whole were optimistic rather than pessimistic about upcoming demand for their products.

3.7 Responding to the Financial Crises: What Measures have factories taken?

3.7.1 Addressing the Workforce Changes

The rapid decline in export orders and increasing pressure on factories to cut prices since late 2008 has adversely affected factory operations and resulted in workforce adjustments for a significant number of export and subcontracting factories. More than half of the managers surveyed in this study reported having had to adjust their workforce in light of the current economic crisis.

Figure 14: Make Adjustments of Workforce in Light of the Current Economic Crisis



There is a large discrepancy between GMAC factories and non-GMAC factories, which suggests that non-GMAC factories may be better able to deal with the crisis because they did not have to adjust their workforce. However, it is worth noting that only 10 out of 66 participating factories are non-GMAC factories. This figure is relatively small in terms of the total sample size for comparative purposes. It also is possible that the non-GMAC factories involved in this survey are good performers in comparison with non-participating factories, which may be more likely to have been seriously affected and/or have already closed down.¹⁹

Table 6: Type of Adjustments

Adjustments	# of respondents	% of responses	No. of Workers Affected	Average % impact in affected factories
Terminated temporary employees	4	8%	573	85% of temporary workers
Reduced overtime hours	23	43%	13,199	72% average reduction in OT hours
Reduced working hours/days/shifts	10	19%	6,515	50% reduction in hours/days
Negotiated cuts in bonuses	1	2%	400	48% reduction in bonus
Use of in-house (re) training of staff, to avoid terminating their contracts	2	4%	975	32% of workforce
Terminated permanent employees	11	21%	5,032	26% of permanent workers
Other measures	2	4%	30	20% of workforce
Negotiated wage cuts	0	0%	-	0%

Fifty-two percent or 34 factories who reported that they altered their workforce in light of the crisis did so in a variety of ways. In this regard, factories typically terminated temporary and permanent employees, reduced standard and overtime working hours, and/or negotiated cuts in bonuses. Some trained staff in-house to avoid having to terminate contracts. The most common action taken by factories was to reduce overtime hours. Twenty-two percent of workers in all factories surveyed have been affected by

¹⁹ There are totally 92 Non-GMAC factories in the list. The survey team made a phone call to all factories. However, 32 factories could not be contacted/reached by phone

overtime reductions. Reductions in working hours also were common, and impacted over ten percent of workers in the factories surveyed. Many workers were directly affected by both actions.

These measures have substantially impacted monthly wages for workers and affected their ability to meet basic needs such as food, healthcare, children’s education, housing, and funds for remittances. This has implications for the well-being of rural households as well as for the workers themselves.²⁰

Among the fifteen factories who reported that they terminated workers, 5,032 permanent employees and 573 temporary employees were terminated (8% and 1% of workers in all of the factories surveyed). Temporary workers were not terminated as often because they were not widely hired by factories. These job losses potentially leave laid-off workers vulnerable to various forms of risky employment, exploitation, unsafe migration and trafficking. Only a few factories reported that they negotiated cuts in bonuses and re-trained staff in-house to avoid terminating their contracts.

3.7.2 Who has been Most Impacted

As noted earlier, a large number of workers have been affected by the global economic crisis. However, the degree of workforce adjustments varied significantly by job function. Management, production staff, and non-production staff (i.e., administrative, clerical, support staff, etc.) experienced different degrees of adjustment. The survey makes clear that production staff were highly vulnerable to many more types of workforce adjustment than management and non-production staff.

Factory managers indicated that 68% of production staff were subject to high and moderate levels of workforce adjustments, whereas small numbers of management staff (15%) and non-production staff (9%) experienced significant adjustments. Only one in four production staff was reported to be subject to low levels of workforce adjustment, and only 9% of production workers did not make changes to production staff during the crisis. Non-GMAC factories did not report adjustments sufficiently to enable comparisons between GMAC and non-GMAC factories.

Table 7: Degree of Different Levels of Adjustments

Level of Impact	GMAC			Non GMAC			Both		
	Management	Production Staff	Non-production Staff	Management	Production Staff	Non-production Staff	Management	Production Staff	Non-production Staff
None	75%	6%	74%	100%	50%	100%	76%	9%	76%
Low	9%	25%	16%	0%	0%	0%	9%	24%	15%
Moderate	13%	50%	6%	0%	50%	0%	12%	50%	6%
High	3%	19%	3%	0%	0%	0%	3%	18%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
# of respondents	32	32	31	2	2	2	34	34	33

²⁰ See Cambodian Institute for Development Studies, Garment Workers Survey, Benchmarking Report (March 2010)

Only a small proportion of management staff and non-production staff were subject to workforce adjustments. Nearly 80% of them were not affected, even though most factories were confronting falling export orders and increasing pressure from buyers to reduce price. It is thus reasonable to conclude that **production workers are the first victims and thus highly vulnerable to workforce adjustments, while managers and non-production employees are less likely to be affected by such measures**. This finding can be at least partially explained by the nature of garment factory operations, which employ large numbers of production workers relative to non-production and managerial staff.

3.7.3 Managing Transitions in the Workforce

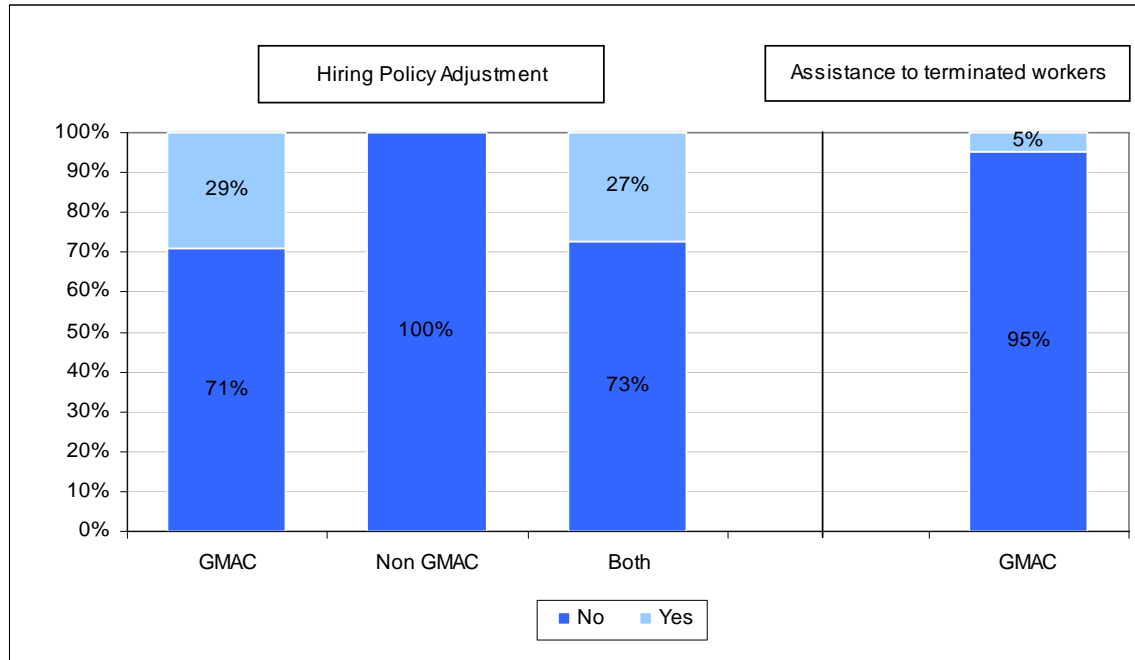
3.7.3.1 Hiring Policy Changes

With a view to understanding internal recruitment policies, managers were asked whether they have changed their hiring policies in light of the economic crisis. More than 70% of factories did not change their hiring policies. Factory managers often said their hiring policy remained the same. Only 27% of participating factories reported they altered their hiring policy to address the global economic crisis.

When managers altered their policies during the crisis, they typically (1) did not renew workers' contracts, especially poorly performing workers; and (2) put stricter recruiting processes in place, including requiring relevant documents from local authorities when they hired additional workers. Unlike before the economic crisis, factories typically renewed workers' contracts and only recruited additional workers from time to time.

The survey also asked whether employers offered any assistance to terminated workers. The result shows that only 5% of participating factories provided assistance to workers upon termination. Assistance typically included consulting workers and/or searching for jobs for workers through factory networks. This finding highlights the fact that supportive infrastructure in times of crisis is not yet functional or established.

Figure 15: Hiring Policy Adjustments and Assistance to Workers Terminated from your Firm



Employers do not have access to labour market information or knowledge of employment opportunities for retrenched workers. For employers who have strong networks, assistance through personal and informal networks is provided to explore job opportunities in other factories; however, this is not sufficient in times of crisis. Supporting government facilities in training, re-training or skills up-grading is necessary to ensure that the workforce can remain productive and be flexible in locating alternative employment.

In late 2009, the Ministry of Labour and Vocational Training launched the first “Job Center” in the capital, to help enhance access to employment and training opportunities both among existing job seekers and crisis-hit workers like those from the garment industry. This initiative may be rolled out in various provinces in 2010, including those from which significant numbers of garment workers originate. However, government and donor funding for these facilities remains limited, and there is a great need to ensure that such facilities are linked to both appropriate training and career support, so that workers can be tested and guided into occupations and opportunities through appropriate counselling, information provision and knowledge of broader labour market opportunities.

3.7.4 Perception of Labour Regulations in Adjusting Workforce

Knowledge of employers’ perceptions of labour regulations is one of many objectives of this survey. Managers were asked whether any aspects of the government’s labour regulations made it difficult to adjust their workforce. 60% of respondents said that governmental regulations made it difficult to adjust their workforce, and 40% did not view existing regulation as an impediment.

Most managers who viewed governmental regulations as a constraint saw severance pay regulations as the most difficult. Managers usually said they rarely terminated contracts before they expired due to severance pay requirements. When factories need to terminate contracts before they expire, they usually hold out until expiration to avoid paying damages in an amount equal to the wages owed through the end of the contract. The contract then terminates automatically. Nearly 40% of respondents also reported that the Government's labour regulation makes it difficult to fire permanent workers.

Understanding employer perceptions of the degree of difficulty in negotiating adjustments to the workforce with unions/worker representatives is also important in order to fully answer the question whether employers are having difficulty in altering workforce, as well as to build good relationships among employers, employers associations, employees, worker representatives, and unions. For this reason, factory managers were asked to rate the level of difficulty in negotiating adjustments to the workforce with unions/worker representatives from least difficult or not difficult at all to very difficult.

The finding based on the input from participating factories remains favourable. One third of managers said it was not difficult at all to negotiate with unions/worker representatives, while another 44% of managers reported they encountered slight difficulty (28%) or moderate difficulty (16%) in discussing workforce changes with workers/unions. Despite these optimistic results, 22% of managers said that negotiating with unions/worker representatives was extremely difficult, and they did not have any negotiations. Broadly speaking, managers did not view negotiations on workforce adjustments as a serious challenge. However, the relevant actors must manage this matter carefully so that problems can be minimized or avoided and good industrial relations can be maintained and improved.

3.8 *Future Plans: Post Economic Crises*

3.8.1 Workforce Plans & Expansion Opportunities

Part of the survey focused on the future plans of employers to (re-)hire new or previously laid-off staff in the next 12 months. GMAC factories and non-GMAC factories expressed slightly different points of view in hiring additional staff. However, they both plan to hire staff. Nearly 60% of factories reported they are planning to (re-)hire new or previously laid-off staff in the next 12 months, while 40% have no plans to hire. This is a positive signal that the garment sector may start to play an important job creation role again. However, it is imperative to note that the garment sector is highly sensitive to external factors due to heavy reliance on exports to foreign markets, especially the US and EU, so economic recovery in these countries will play a big role in the sector's recovery.

Figure 16: Plan to (Re-)Hire New Previously Laid-off Staff in the Next 12 Months

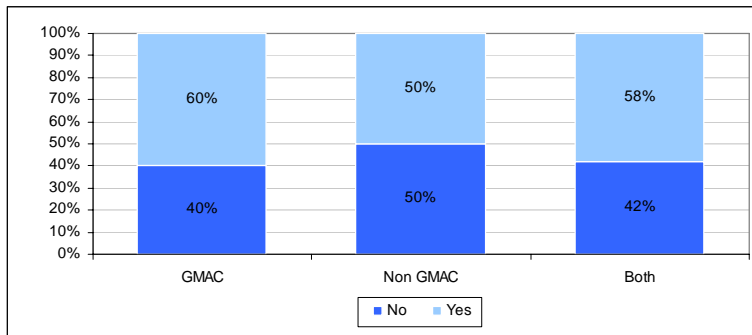
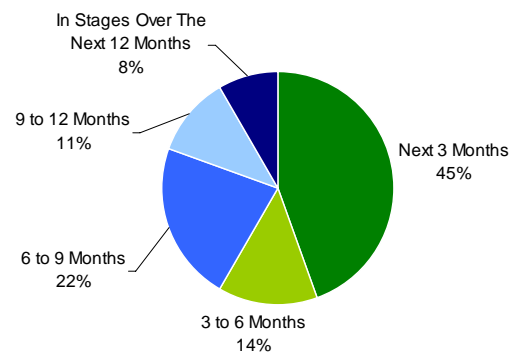


Figure 17: Time Frame Will Re-hire



Managers were asked about the time frame in which they would re-hire staff. Forty-five percent of managers said that they will re-hire staff in the next three months starting from November 2009 to January 2010. This result was confirmed when the survey team conducted a field survey in November and December 2009 and observed that some factories were recruiting additional workers in response to orders from foreign markets for the holiday season in late December. Thirty-six percent of managers reported that they will start to recruit new or previously laid-off staff in the next three to nine months. The remaining 19% of managers said they will re-hire staff within the timeframe of nine to 12 months or continuously in stages over the next 12 months.

Managers were also asked what they anticipated in terms of net loss or gain of staff, compared to 31st October 2009. Again, managers were optimistic in terms of employment. More than half of the respondents anticipated that the total number of staff would increase. This group of managers forecasted that their staff would grow anywhere from 5% to 68%, with an average expected increase in staffing of 20%.

However, 40% of managers reported that their staff numbers would remain the same in the next 12 months compared to 31st October 2009. Less than 10% of respondents or 5 factory managers said their total staff numbers would be lower than total the number of staff as of 31st October 2009. They forecasted an average net loss of staff to the tune of 28%, with median net job loss at 10%. The emerging issue from this survey is that the majority of factories expect to add additional staff or maintain their current staffing levels, with less than 10% of participating factories anticipating (further) job losses.

Table 8: Percentage of Net Loss or Gain of Staff in 12 Months

Indicators	GMAC		Non GMAC		Both	
	Net Loss	Net Gain	Net Loss	Net Gain	Net Loss	Net Gain
Min	5%	5%	0%	10%	5%	5%
Average	28%	20%	0%	26%	28%	20%
Median	10%	20%	0%	10%	10%	18%
Max	85%	68%	0%	59%	85%	68%
# of respondents	5	25	0	3	5	33

3.8.2 Industry Constraints to Future Growth

The survey seeks to understand the perceptions of factory managers regarding the main challenges facing the garment sector in Cambodia, so that policy makers, workers, unions, development partners and relevant stakeholders can work together to maintain and promote the development of the sector. In order to do so, factory managers were requested to rate the most critical constraints to the success of garment sector by level of importance.

Factory managers see the five main constraints to the success of the industry as: (1) the high cost of power; (2) low productivity; (3) high unofficial costs or facilitation fees; (4) the lack of skilled labour; and (5) the high costs of inputs. Interference from government through regulation, labour standards, and access to foreign markets was not seen as significant constraints to the sector's growth.

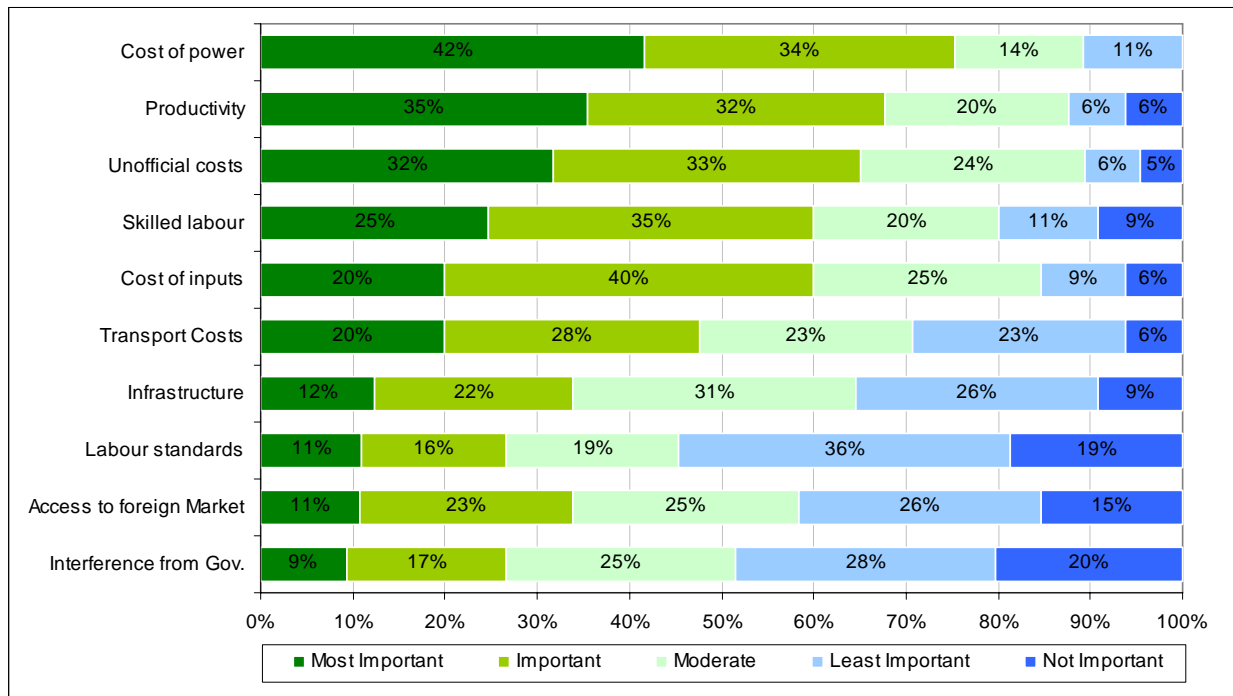
High cost of power is emerging as a key constraint to factory operations. Seventy-six percent of managers reported high energy costs as the biggest constraint to the sector. Based on GMAC data, power costs represented about 5% of total costs in 2005. By 2009, that figure had tripled to 15% of total costs. This survey finding confirms the results of a recent Study on Energy Performance in the Cambodian Garment Sector conducted by ILO and IFC in collaboration with GMAC that found that factories scored low on energy management, and only a few factories had comprehensive energy policies. Encouragingly, this issue has already received attention from the Royal Government of Cambodia, and is addressed in the master plan, which aims to increase capacity by more than 3,000 megawatts of energy by the year 2020. If this master plan is achieved, the cost of power will be reduced.

The second biggest constraint on garment sector is productivity. Managers typically said that the productivity of Cambodian workers is low in comparison with foreign workers. Some managers claimed that when their factories employed both Chinese and Cambodian workers to sew the same products, the daily productivity of the Chinese workers was 2.5 times higher than that of the Cambodian workers. Managers believed this is because the Chinese workers are more focused on their work. Some managers also reported that Vietnamese workers are more productive than Cambodian workers.

In addition to productivity, the ability of workers to adjust to different styles of clothes is also important. Some managers said that when buyers require immediate adjustments to a style, the majority of Cambodian workers cannot adequately adjust to the change. Vietnamese workers on the other hand are able to adjust quickly to new styles of

clothes. This is an interesting finding which should be investigated further. Despite productivity challenges, a small proportion of managers expressed different views. They said productivity is no longer a problem for their factories after operating their business in Cambodia for many years. They have witnessed gradual increase in terms of productivity. An important step has also been taken recently to improve productivity in the country by establishing the Cambodia Garment Training Centre, which aims to boost productivity and address skilled labour shortages.

Figure 18: Critical Constraints to the Success of Garment Sector



The third biggest constraint to the success of garment sector is high unofficial costs or facilitation fees. Two-thirds of managers viewed high unofficial costs as a problematic factor in ensuring the success of the industry in the future. They generally complained that they have to pay unofficial fees to several government agencies. In many cases, managers paid facilitation fees to speed up processing, which increases their cost of doing business, thereby reducing the competitiveness of the Cambodian garment sector in relation to regional competitors such as China and Vietnam.

Lacking of skilled labour is the fourth challenge impeding the success of the garment sector. Sixty percent of managers viewed the lack of skilled labour as a key challenge for the industry. The survey team often met with a team of foreign supervisors and managers at factory. Foreign employees normally hold middle and top management level positions in which they supervise substantial numbers of workers. However, it appears that the skilled labour issue is improving over time. More and more Cambodian senior workers now move up to work at a supervisory level. Twenty percent of managers believed that the lack of skilled labour can be solved by offering training to Cambodian employees. Some managers continued to say that Cambodian employees who graduate from universities in fact can replace most of the foreign supervisors. To some extent, negative perceptions of the sector on the part of educated Cambodians may also

contribute to this problem. If the negative perceptions of the industry can be overcome, the supply of local skilled labour will increase, and Cambodian employees will be able to replace many of the foreign workers currently employed. It is expected that the newly established Cambodia Garment Training Centre will to some extent address this challenge.

The fifth most important constraint is the high cost of inputs. Because garment factories import the raw materials, machinery, and other necessary products for production, the industry bears high input costs. High costs of energy and double digit inflation in 2008 have put additional pressure on the garment sector. Some factory managers also expressed concern over the cost of labour, which some believe to be the key to the survival of the garment industry in Cambodia. They added that if labour costs continue to increase, the sector could potentially collapse. It is apparent that the high cost of inputs is an emerging issue for the sector, and requires immediate attention.

Looking ahead, the findings clearly show that the Cambodian garment sector faces a number of critical challenges to its recovery and future performance. Unless serious efforts are made by government, employers, workers, unions, and other key stakeholders to overcome these challenges, the future prospects of this sector will remain uncertain.

3.8.3 Investment Plans

In order to look ahead to the future of the industry, the survey asked managers about their timeframe for expanding their businesses. Only 10% of managers reported an intention to expand their businesses next year, with another 11% planning to expand in the next three to five years. Seventy percent have no plans to expand their businesses in Cambodia in the foreseeable future.

One reason for these trends may be that participating factories were operating in the context of falling export orders, increasing pressure from buyers to reduce price, and increasing costs of domestic inputs. Under present conditions, managers typically cannot forecast export orders even six months in advance. These factors may combine to influence managers' decision-making about future investment plans for factory expansion in Cambodia.

The constraints to the future success of the industry, namely the high cost of power, low productivity, high unofficial costs, and the lack of skilled labour may also influence investment decisions. Employers, workers, governmental agencies, and key stakeholders must work closely together to overcome these constraints. However, this will not be easy to achieve and will require a long-term strategic approach. Serious and coordinated efforts must be undertaken in order to ensure the future success of the industry.

4 Concluding Remarks

Nearly 90% of participating factories were affected by the economic crisis, while only 12% escaped the adverse impacts. Falling export orders, increasing pressure from buyers to reduce prices, and increasing costs of domestic inputs have been identified as the three primary pressures on garment factories. Fifty-two percent of the factories surveyed have altered their workforce in light of the current economic crisis. Measures taken include terminating temporary as well as permanent employees, reducing working hours and overtime hours, negotiating cuts in bonuses, and training in-house staff in an effort to avoid layoffs. Shorter working hours and less overtime directly translate into lower monthly wages for these workers, and likely have eroded their ability to meet basic needs.

Key findings of the survey highlight that factories that are likely to escape from the global economic crisis possess the following characteristics: (1) They appear to be more productive and face fewer challenges in finding skilled labour; (2) They do not view compliance with labour standards as a serious problem and they experience fewer industrial disputes; (3) Most factories have a parent company abroad; (4) They have few problems with lost products or stolen inventory; (5) They are large factories employing more than 1000 workers; (6) All factories are GMAC members; (7) Factories are 100% foreign owned and produce products for export only; (8) The owners of the factories have solid relationships with buyers abroad.

The five most critical constraints to the industry, as perceived by factory managers are: (1) the high cost of power; (2) low productivity; (3) high unofficial costs or facilitation fees; (4) the lack of skilled labour; and (5) the high cost of inputs. In addition, another finding provides cause for considerable concern going forward: seventy percent of managers have no plans to expand their businesses in Cambodia.

5 Possible Recommendations

Looking into the future, there is an urgent need for the government, employers, workers, and key stakeholders to work closely together to overcome the critical constraints identified in this survey. However, this is not an easy task, and it requires a long-term approach. Serious, coordinated efforts to address these constraints must be undertaken to ensure the future success of the garment industry in Cambodia. Therefore, this report provides some suggestions for addressing the challenges identified in this study that may serve as a platform for further discussion:

- One reason the garment sector has been so vulnerable during the crisis is that it relies on so few countries for exports (primarily the US and EU). Government, factory managers and other important stakeholders must continuously strive to **diversify the country's export markets**. Efforts such as those by the Government to bring Cambodian garment representatives and potential Japanese buyers together should be expanded to other countries in order to diversify Cambodia's export markets.

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- In addition to expanding foreign markets, public and private sector stakeholders at all levels should increasingly explore the domestic garment market. Relevant government agencies should promote public awareness to **stimulate domestic demand**, while garment factory managers should assess local demand in terms of quantity and quality in an effort to replace imported products with those produced domestically. Key to the success of these initiatives is **increased local investment in the sector**.
 - The high cost of electricity has already received the Government's attention in its master plan, which aims to increase domestic energy supply. However, there remains an urgent need to **identify shorter term strategies for lowering electricity costs**, such as accelerating the import of electricity from neighbouring countries and accelerating investment in hydropower projects in the country. Lower cost electricity would help to enhance the competitiveness of the sector by reducing the cost of inputs.
 - **Improving productivity** should be also a priority. Possible approaches include pay-by-the piece wages that provide productivity incentives, and promotion of **vocational training to upgrade the skills of managers, supervisors, and production workers**. Training should focus on both soft and hard skills for direct and indirect staff to increase efficiency in the production process (e.g., through improved plant layout, workflow, line balancing, and management information systems), and to stimulate performance.
 - High unofficial costs or facilitation fees were identified as a major constraint to the industry. Governmental agencies involved in the development and facilitation of the garment sector, employers, and other stakeholders need to work closely together to **minimize unofficial fees** by improving transparency, increasing accountability, and streamlining relevant permits and procedures. Lower unofficial fees will reduce the cost of doing business and improve industry competitiveness.
 - As has been noted before, **Cambodia also needs to upgrade its position in the global value chain for textiles and clothing**. Key to this should be the development of additional value chain functions, such as domestic fabric production and additional product design capacities, to –at least partially- replace the current reliance on raw material imports and Cut-Make-Trim production. For this, favourable tax and investment policies, as well as further improvements to the training and skills base of the garment sector workforce, will be required.
 - The survey found that production workers are the first victims of the global economic crisis and are highly vulnerable to lay-offs and other operational adjustments. Employers, unions and relevant governmental agencies need to work closely together to monitor labour market information, and employment and training opportunities. When training and job opportunities exist, employers, government agencies and unions should work in a coordinated manner to pass information to terminated workers in order to minimize their period of unemployment. The job centres that the government is establishing should provide a useful mechanism for facilitating the collection and dissemination of employment and training information.

6 Appendix

6.1 Additional Information

Figure 19: Year of Establishment

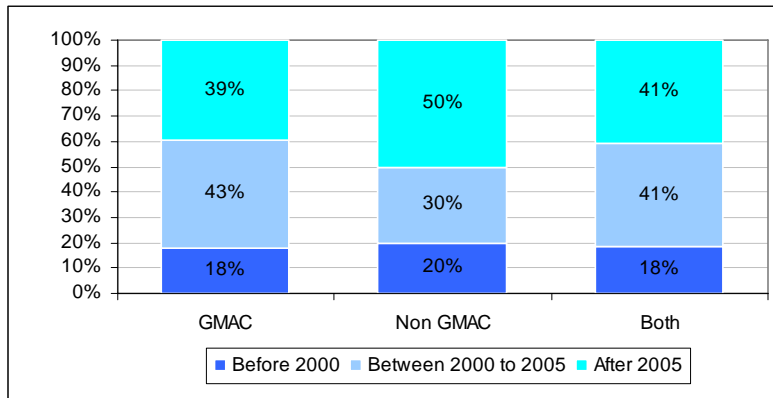


Figure 20: Number of Employees

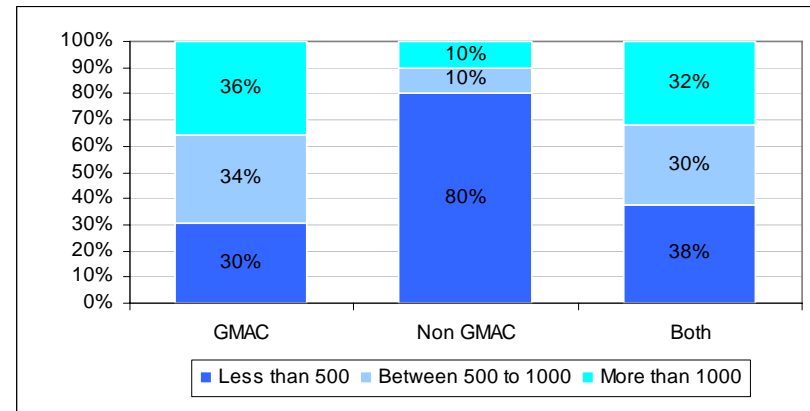


Figure 21: Legal Status

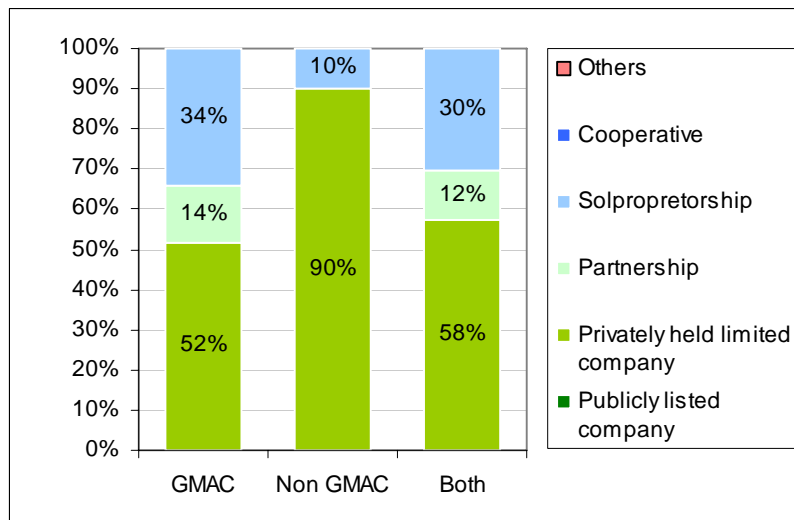


Figure 22: Factory Managers' Nationalities

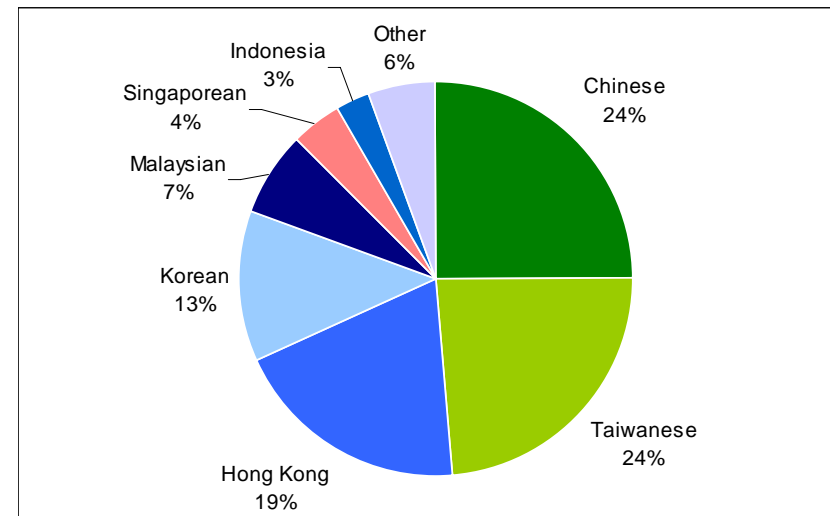


Figure 23: Raw Material Suppliers by Number

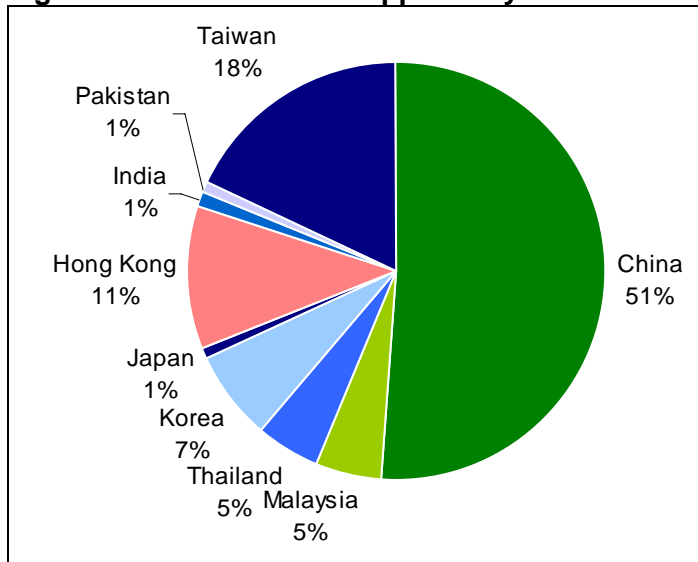


Table 9: Investment Capital (US\$)

Min	250,000
Max	15,000,000
Average	1,815,476
Median	1,000,000
Total	76,250,000
# respondents	42

Table 10: Manpower Costs over the Last Three Years (US\$)

GMAC	Min	25th P	50th P / Median	75th P	90th P	Max	Average	Total	# of respondents
2007	\$30,000	\$451,680	\$730,851	\$1,243,800	\$1,977,600	\$6,000,000	\$1,103,787	\$47,462,834	43
2008	\$18,000	\$499,500	\$711,000	\$1,191,300	\$1,839,600	\$6,000,000	\$1,036,757	\$49,764,332	48
2009	\$25,000	\$400,000	\$579,500	\$1,000,000	\$1,463,297	\$6,000,000	\$862,162	\$46,556,757	54
Non-GMAC	Min	25th P	50th P / Median	75th P	90th P	Max	Average	Total	# of respondents
2007	\$26,400	\$88,452	\$115,200	\$517,500	\$1,238,400	\$2,016,000	\$481,358	\$3,369,504	7
2008	\$19,800	\$71,730	\$154,560	\$415,500	\$1,212,000	\$1,800,000	\$432,120	\$3,456,960	8
2009	\$18,480	\$74,165	\$201,250	\$351,085	\$969,000	\$1,590,000	\$376,418	\$3,764,180	10
Both	Min	25th P	50th P / Median	75th P	90th P	Max	Average	Total	# of respondents
2007	\$26,400	\$366,600	\$696,000	\$1,220,700	\$2,018,400	\$6,000,000	\$1,016,647	\$50,832,338	50
2008	\$18,000	\$410,300	\$678,600	\$1,161,000	\$1,764,000	\$6,000,000	\$950,380	\$53,221,292	56
2009	\$18,480	\$354,000	\$555,500	\$982,375	\$1,463,297	\$6,000,000	\$786,265	\$50,320,937	64

Table 11: Production Costs of GMAC Factories

Production Costs (Excluding Raw Materials)	Min	25th P	50th P / Median	75th P	90th P	Max	Average	Total	# of respondents
2007	\$190,000	\$650,000	\$1,140,000	\$2,160,000	\$3,682,320	\$5,918,000	\$1,727,798	\$29,372,560	17
2008	\$190,000	\$744,000	\$1,260,600	\$2,373,500	\$3,822,120	\$6,808,000	\$1,837,570	\$36,751,410	20
2009	\$200,000	\$500,000	\$1,151,000	\$2,380,000	\$3,590,000	\$7,800,000	\$1,891,777	\$39,727,322	21
Production Costs (Including Raw Materials)	Min	25th P	50th P / Median	75th P	90th P	Max	Average	Total	# of respondents
2007	\$552,000	\$1,196,850	\$1,500,000	\$5,358,536	\$29,148,770	\$60,000,000	\$9,688,417	\$116,261,005	12
2008	\$660,000	\$816,000	\$1,580,000	\$5,402,309	\$28,955,048	\$60,000,000	\$9,587,329	\$115,047,953	12
2009	\$248,600	\$546,875	\$1,300,000	\$3,336,641	\$15,253,986	\$60,000,000	\$6,784,215	\$108,547,436	16

Note: - Data in Table 3 presents only GMAC factories.
- Data in 2009 covers only the first 10 months in 2009 (1st, January to 31st, October, 2009)

Figure 24: Workforce and Manpower Costs in 2009

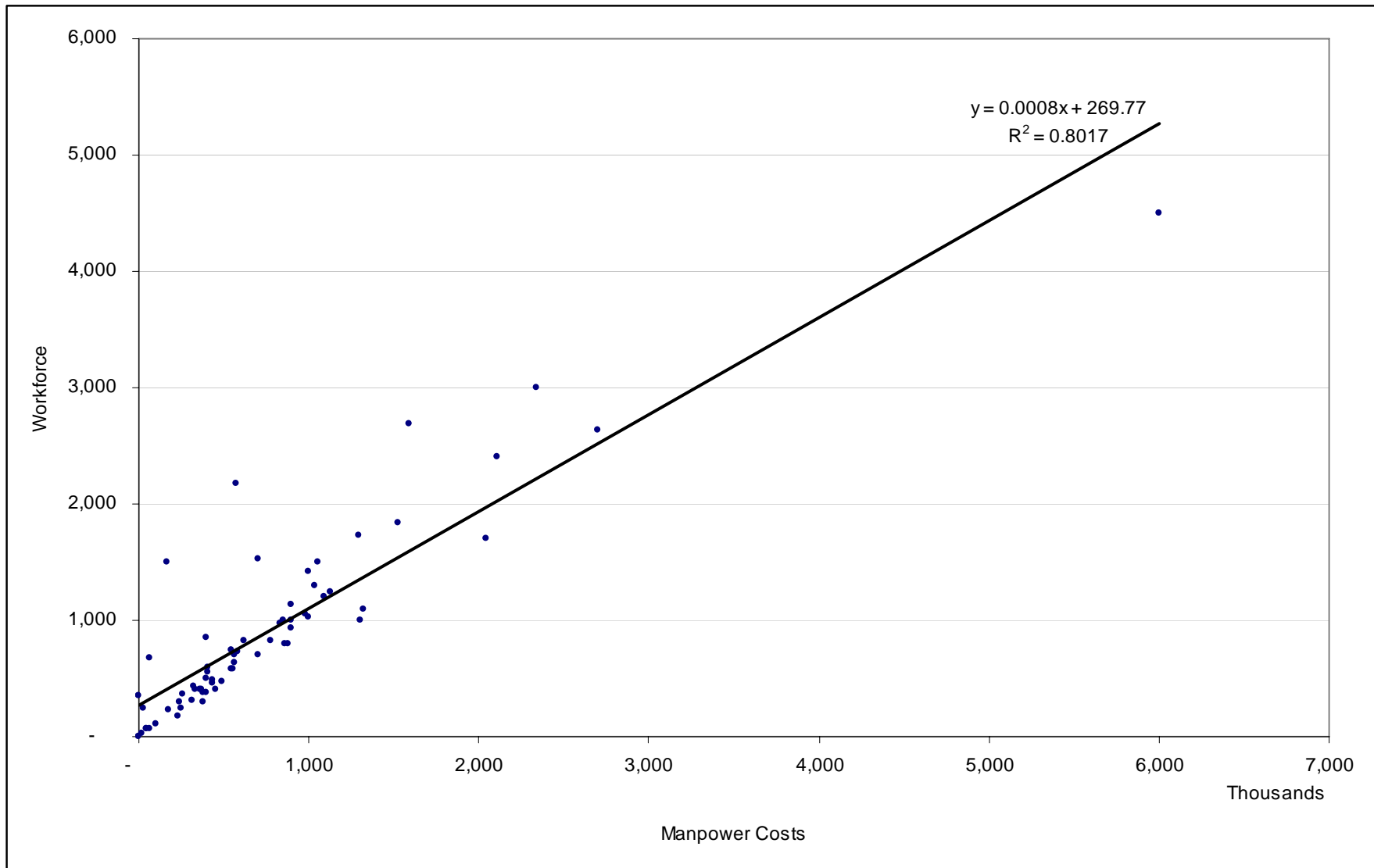


Table 12: Revenue Up and Down for GMAC and non-GMAC Factories

Indicator	Rise	Fall	Rise	Fall
	Aug. 2007 to Aug. 2008 (%)	Aug. 2007 to Aug. 2008 (%)	Aug. 2008 to Aug. 2009 (%)	Aug. 2008 to Aug. 2009 (%)
Min	1%	8%	5%	5%
Average	18%	33%	14%	30%
Median	15%	30%	10%	30%
Max	50%	65%	30%	75%

Table 13: Revenue Before and During Crisis

Status	Aug. 2007 to Aug. 2008		Aug. 2008 to Aug. 2009			
GMAC			Fall	Remain	Rise	Total
Fall	% of respondents	36%	69%	25%	6%	100%
	# of respondents	18	11	4	1	16
Remain	% of respondents	27%	31%	69%	0%	100%
	# of respondents	13	4	9	0	13
Rise	% of respondents	37%	67%	6%	28%	100%
	# of respondents	18	12	1	5	18
Total	% of respondents	100%	57%	30%	13%	100%
	# of respondents	49	27	14	6	47
Status	Aug. 2007 to Aug. 2008		Aug. 2008 to Aug. 2009			
Non GMAC			Fall	Remain	Rise	Total
Fall	% of respondents	43%	50%	50%	0%	100%
	# of respondents	3	1	1	0	2
Remain	% of respondents	14%	0%	100%	0%	100%
	# of respondents	1	0	1	0	1
Rise	% of respondents	43%	100%	0%	0%	100%
	# of respondents	3	3	0	0	3
Total	% of respondents	100%	67%	33%	0%	100%
	# of respondents	7	4	2	0	6
Status	Aug. 2007 to Aug. 2008		Aug. 2008 to Aug. 2009			
Both			Fall	Remain	Rise	Total
Fall	% of respondents	38%	67%	28%	6%	100%
	# of respondents	21	12	5	1	18
Remain	% of respondents	25%	29%	71%	0%	100%
	# of respondents	14	4	10	0	14
Rise	% of respondents	38%	71%	5%	24%	100%
	# of respondents	21	15	1	5	21
Total	% of respondents	100%	58%	30%	11%	100%
	# of respondents	56	31	16	6	53

Figure 25: Revenue Before and During Crisis: GMAC Factories

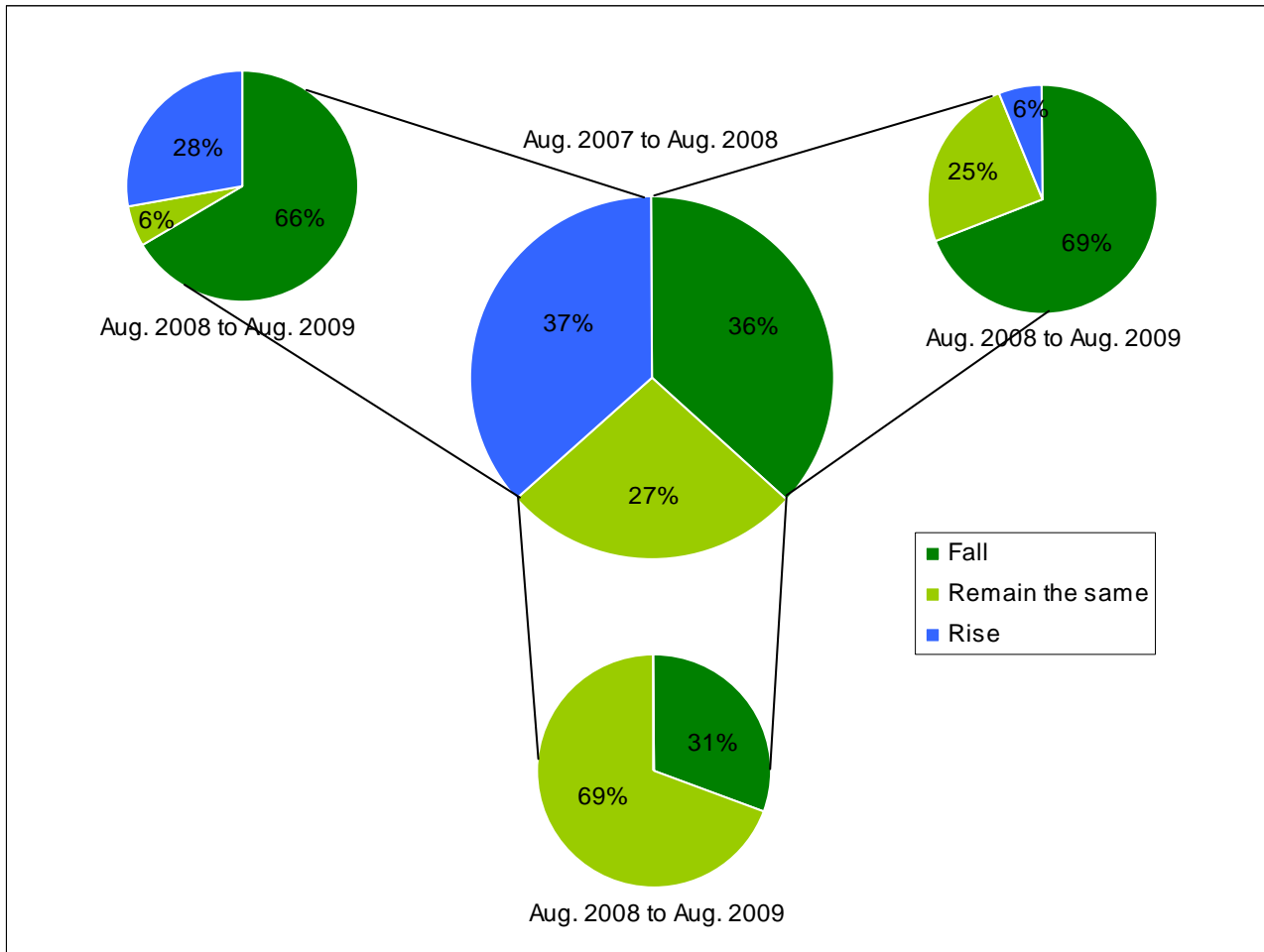


Figure 26: Revenue Before and During Crisis: non-GMAC Factories

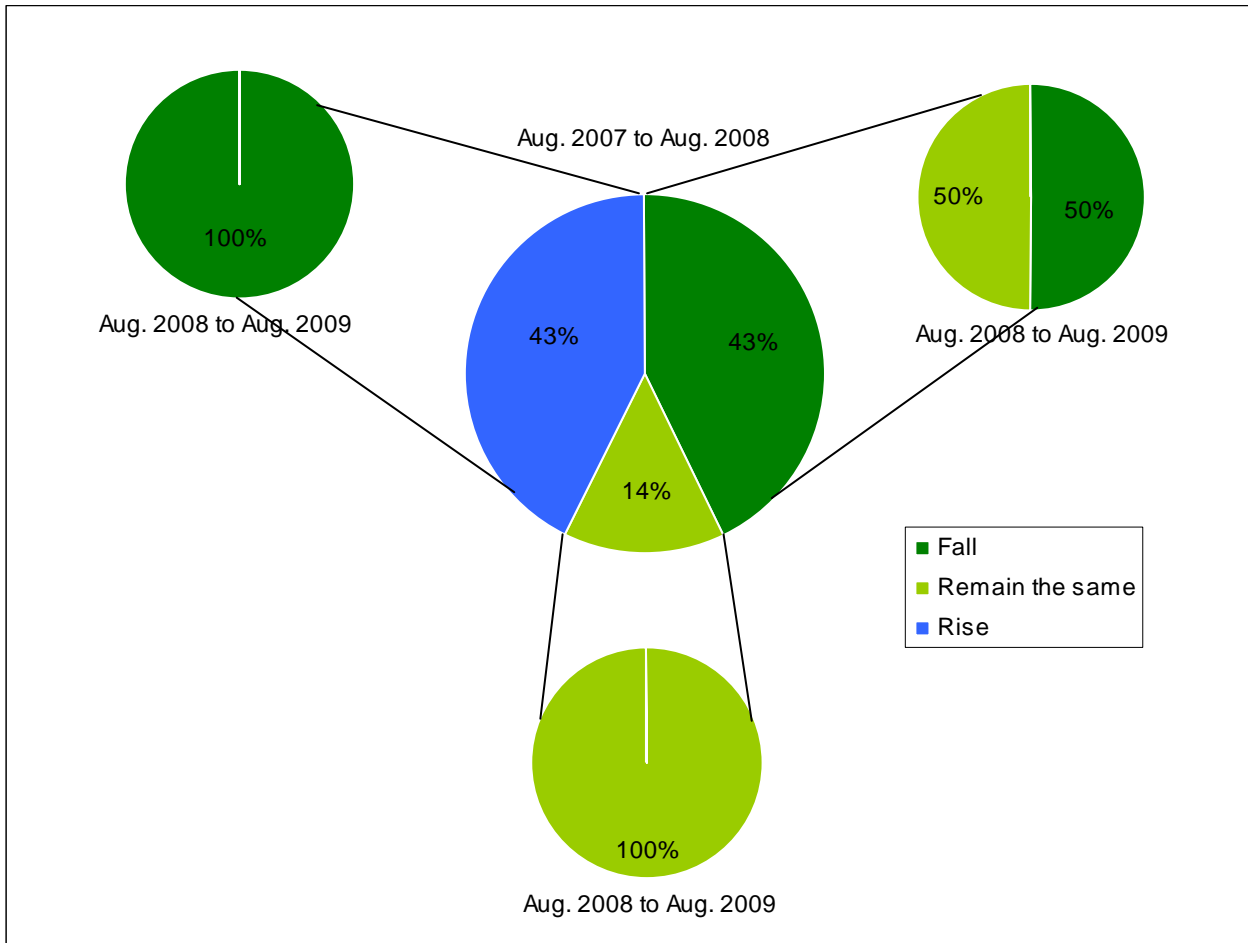


Table 14: Expenses Up and Down for GMAC and non-GMAC Factories

Indicator	Rise	Fall	Rise	Fall
	Aug. 2007 to Aug. 2008 (%)	Aug. 2007 to Aug. 2008 (%)	Aug. 2008 to Aug. 2009 (%)	Aug. 2008 to Aug. 2009 (%)
Min	4%	20%	5%	10%
Average	18%	28%	17%	25%
Median	15%	30%	15%	20%
Max	80%	40%	65%	60%

Table 15: Expenses Before and During Crisis

Status	Aug. 2007 to Aug. 2008		Aug. 2008 to Aug. 2009			
GMAC			Fall	Remain	Rise	Total
Fall	% of respondents	8%	69%	25%	6%	100%
	# of respondents	4	2	1	1	4
Remain	% of respondents	29%	31%	69%	0%	100%
	# of respondents	14	2	9	1	12
Rise	% of respondents	63%	67%	6%	28%	100%
	# of respondents	31	9	2	20	31
Total	% of respondents	100%	28%	26%	46%	100%
	# of respondents	49	13	12	22	47
Status	Aug. 2007 to Aug. 2008		Aug. 2008 to Aug. 2009			
Non GMAC			Fall	Remain	Rise	Total
Fall	% of respondents	17%	50%	50%	0%	100%
	# of respondents	1	0	1	0	1
Remain	% of respondents	0%	0%	100%	0%	100%
	# of respondents	0	0	0	0	0
Rise	% of respondents	83%	100%	0%	0%	100%
	# of respondents	5	2	0	3	5
Total	% of respondents	100%	33%	17%	50%	100%
	# of respondents	6	2	1	3	6
Status	Aug. 2007 to Aug. 2008		Aug. 2008 to Aug. 2009			
Both			Fall	Remain	Rise	Total
Fall	% of respondents	9%	40%	40%	20%	100%
	# of respondents	5	2	2	1	5
Remain	% of respondents	25%	17%	75%	8%	100%
	# of respondents	14	2	9	1	12
Rise	% of respondents	65%	31%	6%	64%	100%
	# of respondents	36	11	2	23	36
Total	% of respondents	100%	28%	25%	47%	100%
	# of respondents	55	15	13	25	53

Figure 27: Expenses Before and During Crisis: GMAC Factories

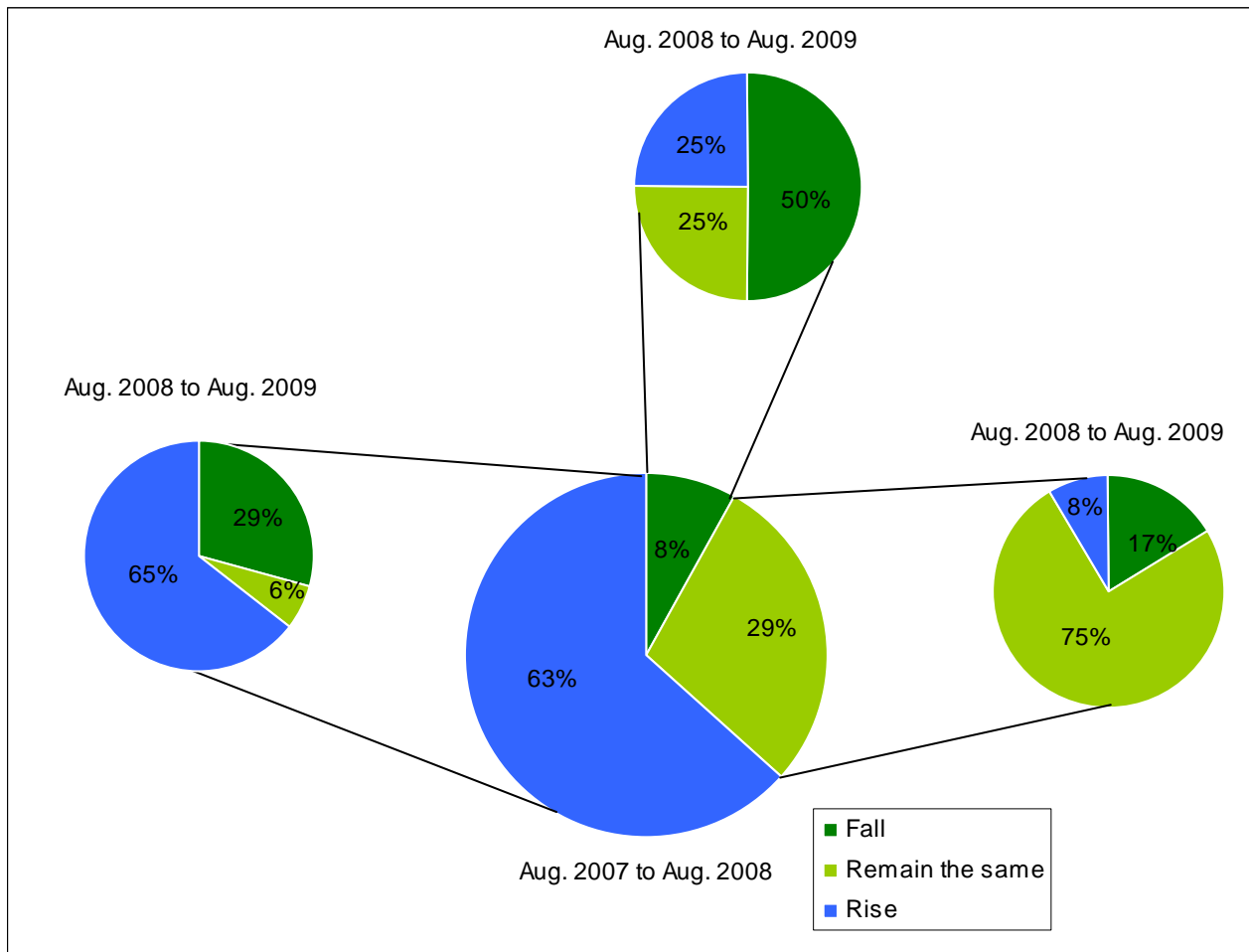


Figure 28: Expenses Before and During Crisis: non-GMAC Factories

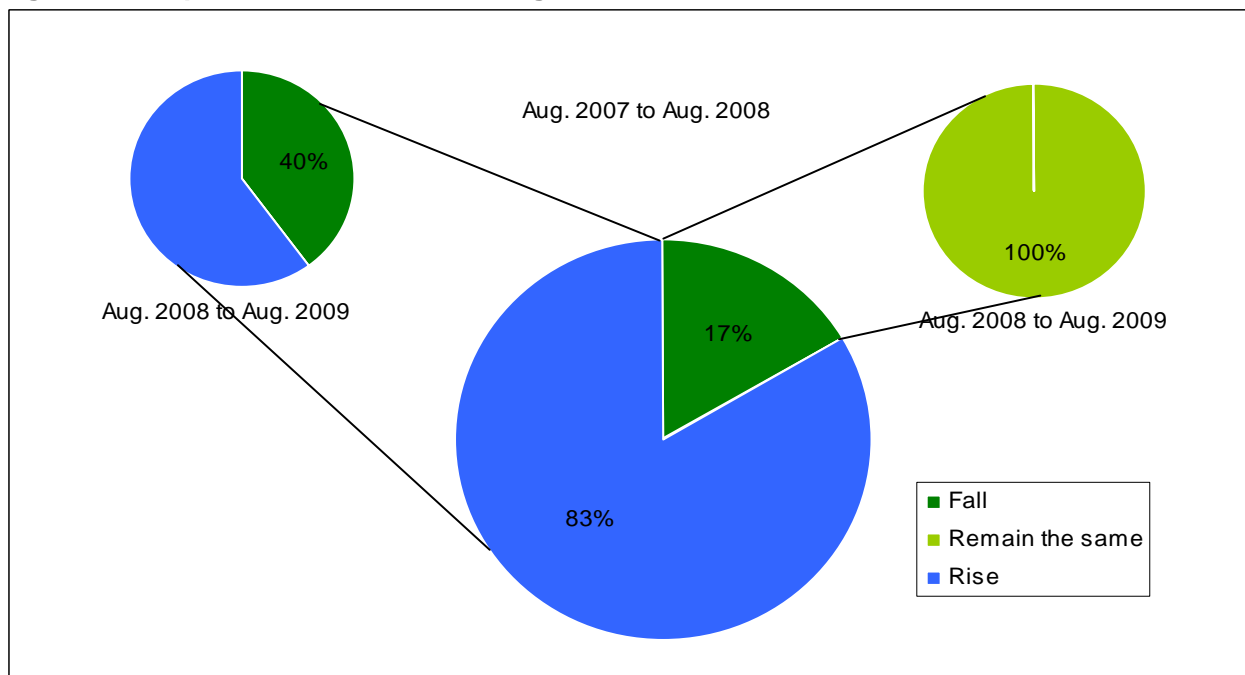


Figure 29: Plan to (Re-)Hire New Previously Laid-off Staff in the Next 12 Months

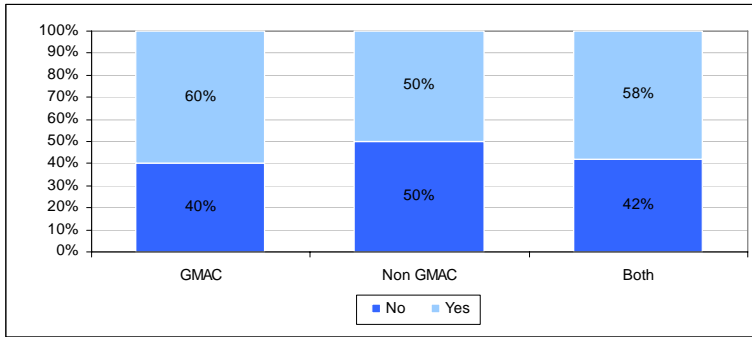


Figure 30: Time Frame Will Re-hire

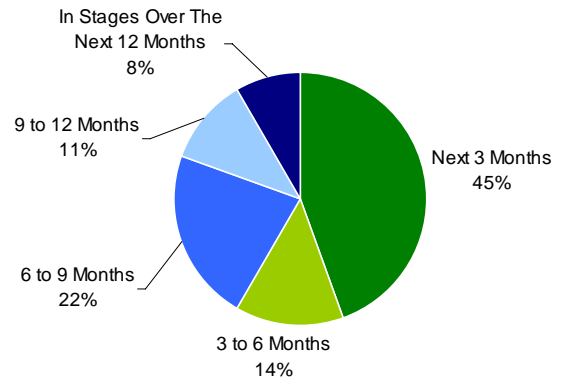


Figure 31: Net Loss or Gain of Staff in 12 Months

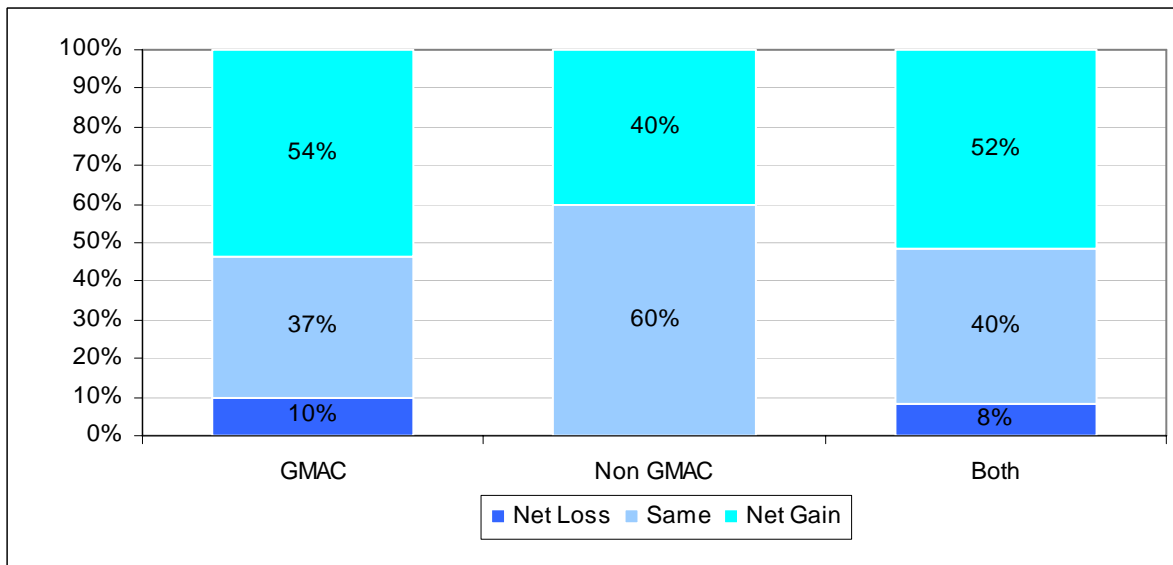


Figure 32: Number of Unions at Factories

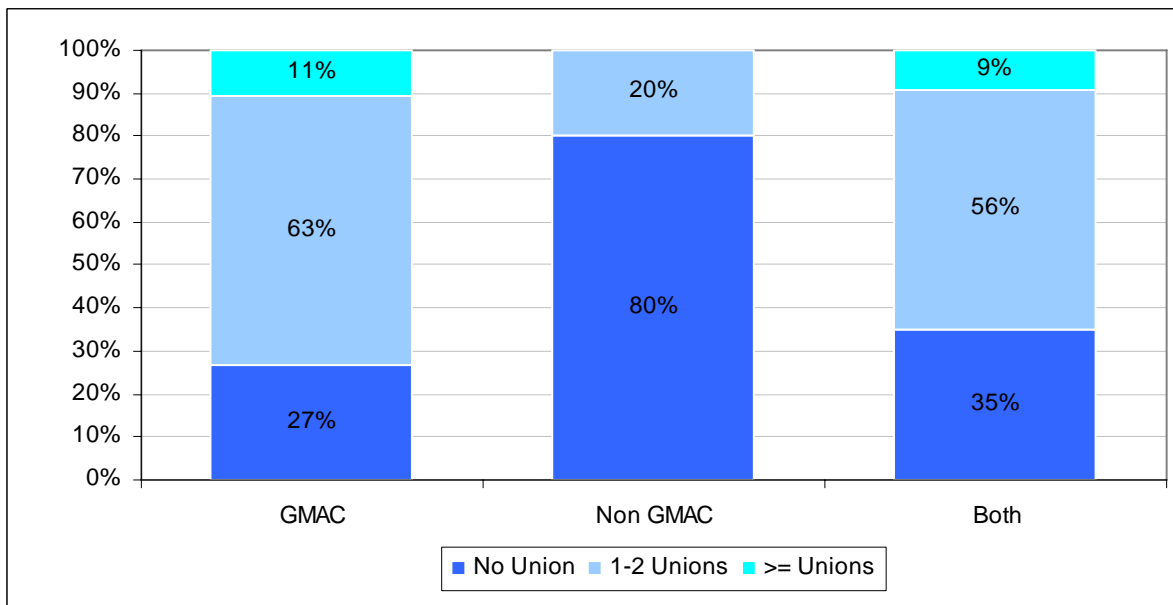


Figure 33: Plan to Expand Business in Cambodia

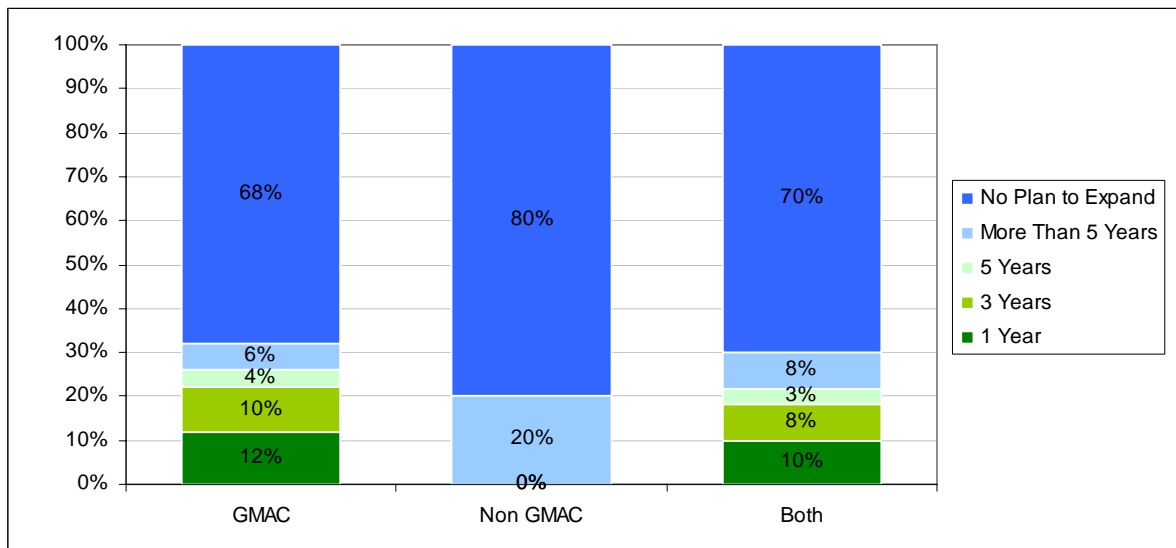


Figure 34: Labour Regulation Made it Difficult to Adjust Workforce

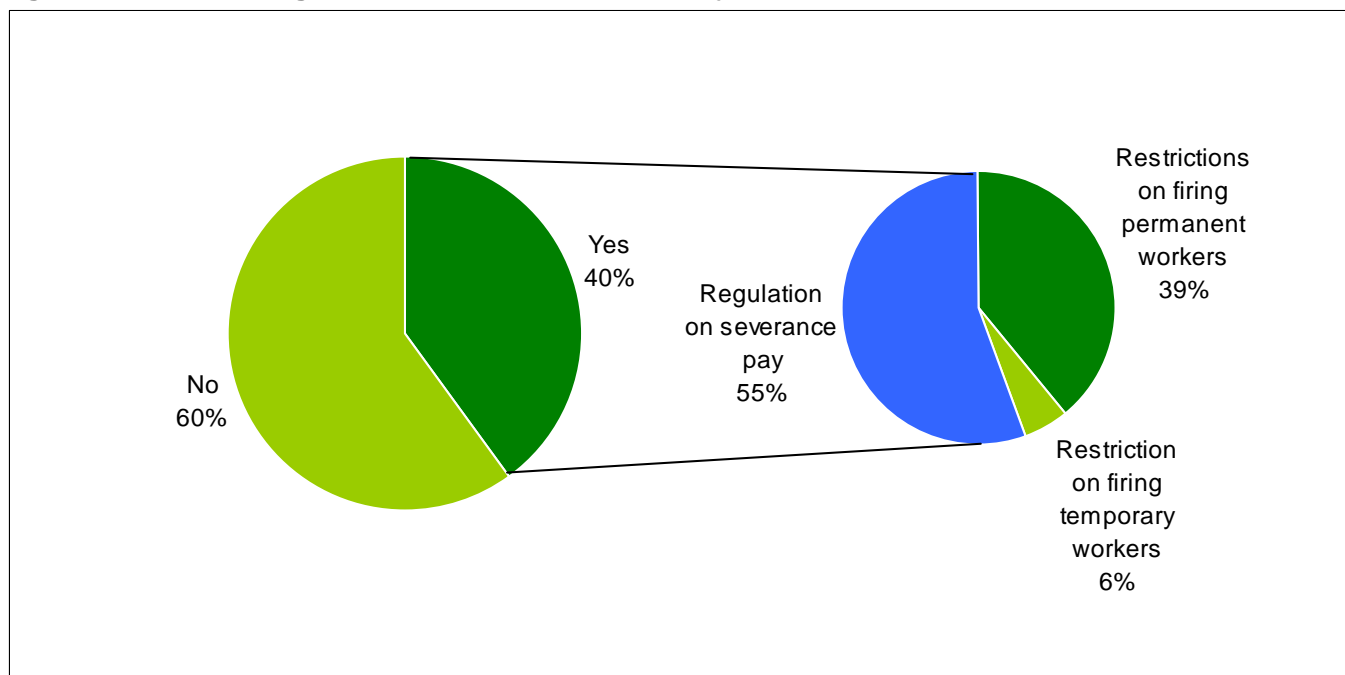


Figure 35: Perception on Labour Regulations in Adjusting Workforce

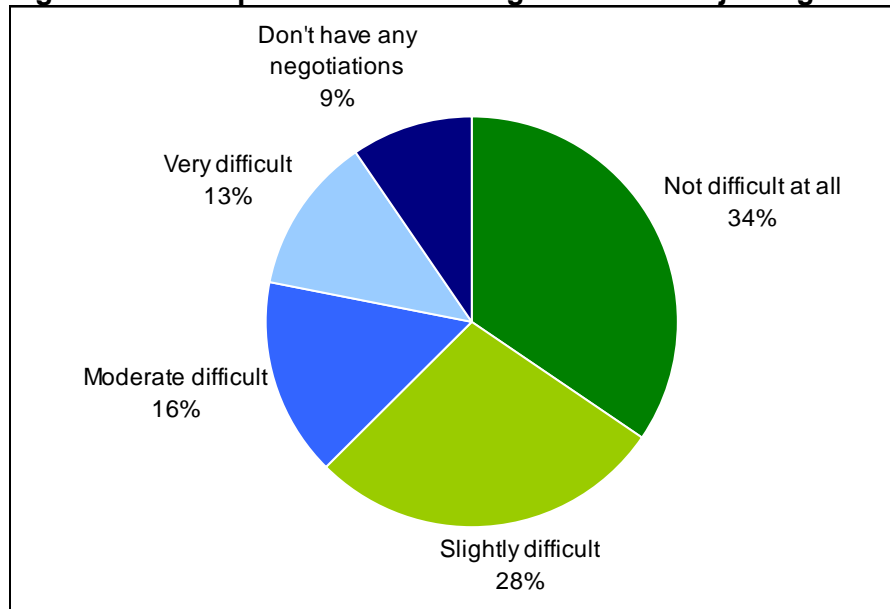


Figure 36: Inventory stolen over the past 3 years

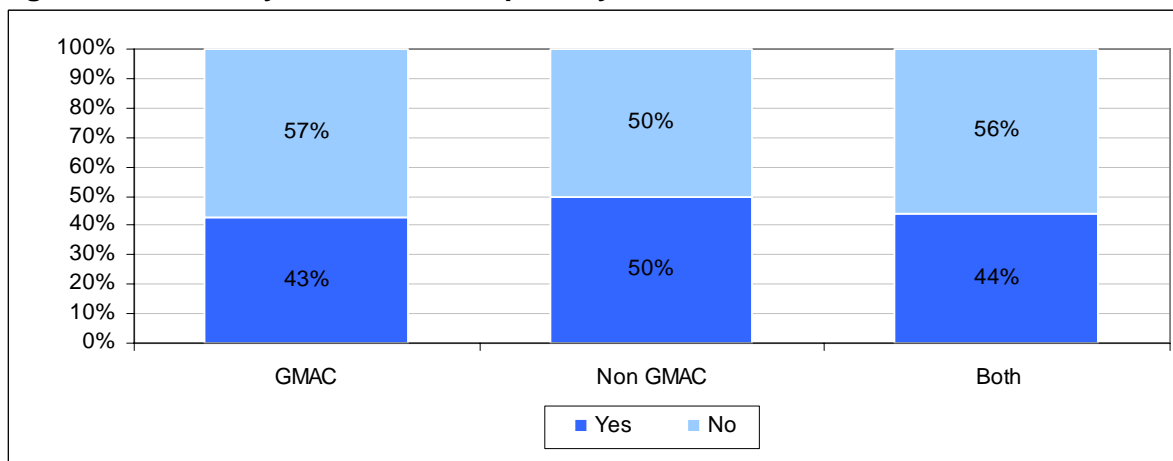


Figure 37: Where Inventories/Finished Products Were Stolen

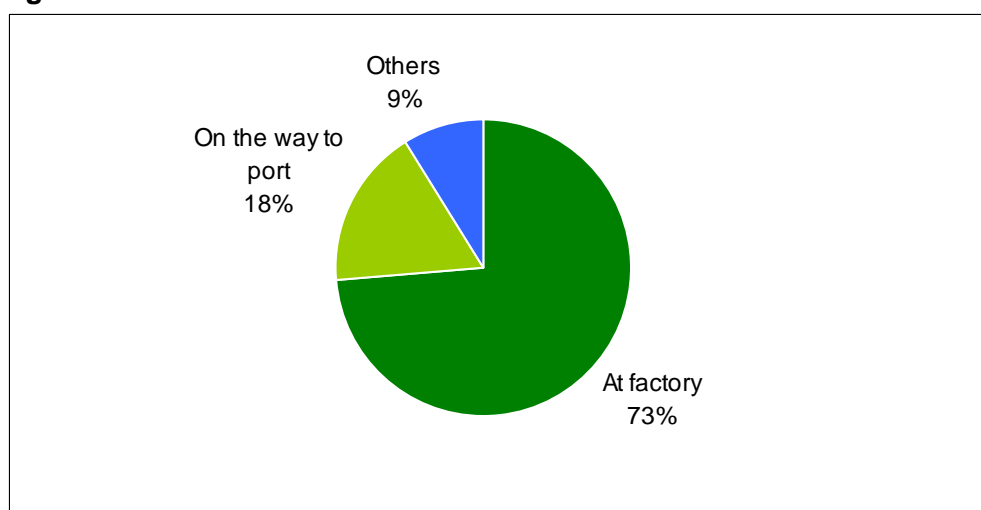


Table 16: Percentage of Total Inventories/Finished Product Stolen

Indicator	GMAC			Non GMAC			Both		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Min	0.001%	0.001%	0.010%	0.010%	0.020%	0.010%	0.001%	0.001%	0.010%
Average	1.288%	1.252%	1.015%	0.020%	0.034%	0.028%	1.006%	1.030%	0.807%
Median	1.000%	1.000%	1.000%	0.010%	0.025%	0.015%	0.750%	1.000%	1.000%
Max	5.000%	5.000%	5.000%	0.050%	0.065%	0.070%	5.000%	5.000%	5.000%
# of respondents	14	18	15	4	4	4	18	22	19

Table 17: Losses in Total Value in 2007, 2008, 2009

Indicator	GMAC			Non GMAC			Both		
	2007 (USD)	2008 (USD)	2009 (USD)	2007 (USD)	2008 (USD)	2009 (USD)	2007 (USD)	2008 (USD)	2009 (USD)
Min	450	450	200	3,000	5,000	8,000	450	450	200
Average	99,143	77,468	95,784	5,500	11,500	19,667	88,126	71,470	83,766
Median	11,000	10,500	6,000	5,500	11,500	16,000	8,000	10,500	8,000
Max	750,000	750,000	750,000	8,000	18,000	35,000	750,000	750,000	750,000
Total	1,487,150	1,549,350	1,532,550	11,000	23,000	59,000	1,498,150	1,572,350	1,591,550
# of respondents	15	20	16	2	2	3	17	22	19

6.2 Detailed Results of Constraints to the Success

Table 18: Key Constraints to the Success in Garment Sector

Both											
Level	Productivity	Skilled labour	Interference from Gov.	Labour standards	Unofficial costs	Cost of inputs	Access to foreign Market	Infrastructure	Transport Costs	Cost of power	Other
Most Important	35%	25%	9%	11%	32%	20%	11%	12%	20%	42%	60%
Important	32%	35%	17%	16%	33%	40%	23%	22%	28%	34%	20%
Moderate	20%	20%	25%	19%	24%	25%	25%	31%	23%	14%	10%
Least Important	6%	11%	28%	36%	6%	9%	26%	26%	23%	11%	10%
Not Important	6%	9%	20%	19%	5%	6%	15%	9%	6%	0%	0%
GMAC											
Level	Productivity	Skilled labour	Interference from Gov.	Labour standards	Unofficial costs	Cost of inputs	Access to foreign Market	Infrastructure	Transport Costs	Cost of power	Other
Most Important	35%	25%	9%	13%	36%	24%	13%	13%	24%	45%	60%
Important	31%	33%	19%	15%	29%	42%	27%	24%	27%	35%	20%
Moderate	22%	22%	28%	17%	23%	20%	25%	33%	24%	13%	10%
Least Important	5%	11%	22%	33%	7%	7%	22%	20%	20%	7%	10%
Not Important	7%	9%	22%	22%	5%	7%	13%	11%	5%	0%	0%
Non-GMAC											
Level	Productivity	Skilled labour	Interference from Gov.	Labour standards	Unofficial costs	Cost of inputs	Access to foreign Market	Infrastructure	Transport Costs	Cost of power	Other
Most Important	40%	20%	10%	0%	10%	0%	0%	10%	0%	20%	0%
Important	40%	50%	10%	20%	60%	30%	0%	10%	30%	30%	0%
Moderate	10%	10%	10%	30%	30%	50%	20%	20%	20%	20%	0%
Least Important	10%	10%	60%	50%	0%	20%	50%	60%	40%	30%	0%
Not Important	0%	10%	10%	0%	0%	0%	30%	0%	10%	0%	0%

6.3 Questionnaires

Assessing the Impact of the Global Economic Crisis on Garment Sector

We are conducting a short survey of garment factories to gather information on how they have been affected and how they have responded to the current global economic downturn. This information is designed to provide insights that can be used to inform future policy decisions in the sector, particularly in terms of measures that can be taken to alleviate the impact of the crisis on companies operating in Cambodia.

PLEASE NOTE:

ALL RESPONDANTS ARE ASSURED OF COMPLETE **CONFIDENTIALITY** IN THIS PROCESS. INFORMATION ON INDIVIDUAL FACTORIES AND THEIR RESPONSES ARE FOR DATA VERIFICATION AND CROSS-REFERENCING PURPOSES ONLY SHALL NOT BE DISSEMINATED TO ANY EXTERNAL SOURCES.

PART 1: Economic Crisis on Garment Sector

Section A: Basic Information on the Firm

Please note, in this questionnaire, the word "firm" will be used to refer to the factory or business being questioned and not its parent company/group of companies.

1.	a) In what year did your firm begin operations in this country? []
	b) Nationality of factory manager:
	c) Name of parent owner/parent company (If any):
2.	What is the current legal status of your firm? Please tick as appropriate
	<input type="checkbox"/> Publicly listed company <input type="checkbox"/> Privately held limited company <input type="checkbox"/> Partnership
	<input type="checkbox"/> Sole proprietorship <input type="checkbox"/> Cooperative <input type="checkbox"/> Other(specify)[]
3.	What percentage of your firm's ownership is:
	Private domestic []%
	Private foreign []%
	Government []%
	Other []%
	TOTAL [100]%
4.	Approximately what <u>percentage</u> of your firm's total sales are/were exports:
	(a) in 2007 []% (b) in 2008 []% (c) in 2009 []%
	<i>If you do export, please continue with Question 5 (below).</i>
	<i>If you do not export, please go straight to Question 8</i>
5.	In which year did your firm first export? []
6.	What are the three main items you export?
	a.
	b.
	c.
7.	Which countries are the 3 largest markets for your exports (by value)? (e.g. US, EU, Japan, etc.)
	1.
	2.
	3.
8.	What is the average lead time (in days) between placement of an order and delivery to the buyer? [] days
9.	How often do buyers request changes to styles after they place the final order? []% of orders placed
10.	What percentage of your buyers requires open book costing (partners to see a breakdown of all the finances and costs involved)? []%

	a) Has your factory had any inventory or finished products stolen during the past 3 years?		<input type="checkbox"/> Yes	<input type="checkbox"/> No	
	If Yes, please answer the following question	2007	2008	2009	
	b) In comparison with total inventories/finished products in 2007/2008/2009, how many percent of total inventories/finished products stolen?	[]%	[]%	[]%	
	c) How much did you lose in total value in USD in 2007, 2008, 2009?	[]USD	[]USD	[]USD	
11.	<p>d) Do you have any ideas where your inventories/finished products were stolen? (e.g. at factory, on the way to port, etc.)</p> <p>1.</p> <p>2.</p> <p>3.</p> <p>e) Do you have any suggestions for reducing losses due to stealing?</p> <p>.....</p>				
	Approximately how many employees in total were employed in your firm over the last three years, and what percentages were female?	End 2007	End 2008	31 st , October, 2009	
12.	No. of Permanent employees	[]	[]	[]	
	Percentage female	[]%	[]%	[]%	
	No. of Temporary employees	[]	[]	[]	
	Percentage female	[]%	[]%	[]%	
	What are your total manpower costs and total cost of production (USD)?	2007 (USD)	2008 (USD)	2009 (USD)	
13.	Total manpower costs (including wages, salaries, allowances, bonuses and other benefits)	[]	[]	[]	
	Total costs of production	[]	[]	[]	
14.	On average, how much do production employees in your firm work?	[] hours per day		[] days per week	
15.	What is the average wage of a typical production worker (including overtime, bonuses and other monetary benefits)? <i>Please complete one or more as appropriate.</i>	USD[] per hour	USD[] per day	USD[] per week	USD[] per month
16.	What percentage of your workforce is unionized?	[]%			
17.	How many unions are present in your firm? (include only active, registered unions)	[]			

18.	Has your firm experienced any industrial disputes (e.g. strikes, protests, lockouts) since September 2008?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
	a. If YES, do you think these disputes were related to the economic crisis?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
	b. What were the main causes of industrial disputes (e.g. strikes, protests, lockouts) since September 2008?		

19. If your factory has experienced in industrial disputes (e.g. strikes, protests), in an attempt to calculate the total costs of strike or protest, please fill in the Table below as much as it is relevant to your factory:

Items	2007				2008				2009			
	# of person involved	Average cost of person/day	How many days of strike?	Total costs	# of person involved	Average cost of person/day	How many days of strike?	Total costs	# of person involved	Average cost of person/day	How many days of strike?	Total costs
Workers involved in strike	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Supervisors involved in strike	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Managers dealing with strike	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Legal staffs resolving of strike	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Sub-Total				[]				[]				[]
a) Informal fee to solve the strike				[]				[]				[]
b) Other costs related to strike				[]				[]				[]
Total Costs of Strike/protests (Sub-Total + a + b)				[]				[]				[]

20. What ideas do you have for reducing the incidences of industrial disputes?

.....

Section B: Global Economic Slowdown and Your Establishment

As you are aware, the world economy and global trade have slowed significantly since 2007. We will now ask you some questions regarding the experience of your establishment amid these challenges

	How have your firm's <u>revenues</u> fared over the last 2 years (August, 2007 to August, 2009)?	Aug., 2007 to Aug., 2008	Aug., 2008 to Aug., 2009
21.	Rise <input type="checkbox"/>	[]%	[]%
	Fall <input type="checkbox"/>	[]%	[]%
	Remains the same <input type="checkbox"/>	[]%	[]%
	How have your <u>expenses</u> fared over the same period?	Aug., 2007 to Aug., 2008	Aug., 2008 to Aug., 2009
22.	Rise <input type="checkbox"/>	[]%	[]%
	Fall <input type="checkbox"/>	[]%	[]%
	Remains the same <input type="checkbox"/>	[]%	[]%
	a) Since the onset of the economic crisis (August 2008), has your firm felt any of the following adverse impacts? (Please chose <u>only 3 adverse impacts</u>)		
23.	<input type="checkbox"/> Export orders have fallen	<input type="checkbox"/> Domestic orders have fallen	<input type="checkbox"/> Cost of domestic inputs have increased
	<input type="checkbox"/> Non-payment by buyers	<input type="checkbox"/> Orders have been cancelled	<input type="checkbox"/> Cost of foreign inputs have increased
	<input type="checkbox"/> Trade finance has become more costly/difficult to obtain		
	<input type="checkbox"/> Expansion / investment plans have been curtailed, postponed or cancelled		
	<input type="checkbox"/> Increase in pressure from buyer to reduce price		
	<input type="checkbox"/> No impact <input type="checkbox"/> Others (please specify):[]		
	B) If you answered <u>NO impact</u>, why do you think this is?		
	What are your expectations over the <u>next six months</u> with regard to demand for your main products? (Please tick as appropriate)		
24.	<input type="checkbox"/> Will <u>decline</u> relative to first ten months of 2009		
	<input type="checkbox"/> Will <u>remain</u> the same as in the 1st ten months of 2009		
	<input type="checkbox"/> Will <u>expand</u> relative to first ten months of 2009		

Section C: Your Firm's Response to The Economic Crisis

1.	Have you been forced to make adjustments to your workforce in light of the current economic crisis?				
	<input type="checkbox"/> Yes If YES , please answer the following questions:				
	<input type="checkbox"/> No If NO , please go straight to SECTION D				
	What type of adjustments have you made? (Please tick all that apply) <i>Also, please quantify the adjustments: for example, if you have terminated temporary workers, please state how many have been terminated. For the purposes of this question, termination includes non-renewal of fixed term contracts</i>	No. of workers affected	Reduction by what percentage? %		
2.	Terminated temporary employees <input type="checkbox"/>	[]	[]% temporary employees		
	Terminated permanent employees <input type="checkbox"/>	[]	[]% permanent employees		
	Reduced working hours/days/shifts <input type="checkbox"/>	[]	[]% working hours/days		
	Reduced overtime hours <input type="checkbox"/>	[]	[]% overtime hours		
	Negotiated wage cuts <input type="checkbox"/>	[]	[]% of pre-reduced wage		
	Negotiated cuts in bonuses <input type="checkbox"/>	[]	[]% of total bonuses		
	Use of in-house (re-)training of staff, to avoid terminating their contracts Other measures: (Please specify).....	<input type="checkbox"/>	[]	[]% of workforce	
3.	To what degree have different types of workers (by job function) experienced these adjustments? Please <u>tick</u> choices as appropriate.	None	Low	Moderate	High



	Management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Production staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Non-production staff (admin, clerical, support staff, etc)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	Have you made any adjustments to your hiring policy in light of the economic crisis? <input type="checkbox"/> Yes If YES, please describe the nature of these adjustments: [] <input type="checkbox"/> No				
	Have you offered any assistance to workers terminated from your firm?			<input type="checkbox"/> Yes	<input type="checkbox"/> No
	If YES, what type of assistance? (Please tick as appropriate)				
	Subsidized re-training	<input type="checkbox"/>			
5.	Counselling	<input type="checkbox"/>			
	Assistance in finding a new job	<input type="checkbox"/>			
	Loans	<input type="checkbox"/>			
	Other (please state) []	<input type="checkbox"/>			
	Has any aspect of the government's labor regulations made it difficult to adjust your workforce?			<input type="checkbox"/> Yes	<input type="checkbox"/> No
	If YES, please state which ones below.				
6.	Restrictions on firing permanent workers	<input type="checkbox"/>			
	Restrictions on firing temporary workers	<input type="checkbox"/>			
	Regulations on severance pay	<input type="checkbox"/>			
	Other (please state) []	<input type="checkbox"/>			
7.	How difficult was it negotiating adjustment of the workforce with the trade union/worker representatives? <input type="checkbox"/> Not difficult at all <input type="checkbox"/> Slightly difficult <input type="checkbox"/> Moderately difficult <input type="checkbox"/> Very difficult <input type="checkbox"/> Didn't have any negotiations				

Section D: The Future
If you answered Block C, please answer all of the following questions
If you did not answer Block C, please go straight to question 3.

	Do you plan to (re-)hire new or previously laid-off staff in the next 12 months?			<input type="checkbox"/> Yes	<input type="checkbox"/> No
	IF YES, what is the likely time frame in which you will re-hire?				
	Within the next three months	<input type="checkbox"/>			
1.	Within 3 to 6 months	<input type="checkbox"/>			
	Within 6 to 9 months	<input type="checkbox"/>			
	Within 9 to 12 months	<input type="checkbox"/>			
	Continuously / in stages over the next 12 months	<input type="checkbox"/>			
2.	In 12 months time what do you anticipate will be the net loss or gain of staff, compared to 31st, October, 2009? If possible, please also state a percentage gain/loss.		<i>Please tick one only</i>	<i>Percentage</i>	
	Net loss	<input type="checkbox"/>		[]%	



	The same number	<input type="checkbox"/>	[]%			
	Net gain	<input type="checkbox"/>	[]%			
3.	Do you intend to expand your business in this country in the next: (Please tick)					
	<input type="checkbox"/> One year <input type="checkbox"/> Three years <input type="checkbox"/> Five years <input type="checkbox"/> More than five years <input type="checkbox"/> No plan to expand					
4.	What do you believe are the most critical <u>constraints</u> to the success of the Cambodian garment sector in the future? Please rank 1 (most important) to 5 (least important)					
		1	2	3	4	5
	Productivity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Lack of skilled labour	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Interference from government (including through regulation / legislation)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Compliance with labour standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	High unofficial costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	High cost of inputs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Limited access to foreign markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Poor infrastructure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	High transport costs (for inputs and finished goods)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	High cost of power (e.g. electricity)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Other (please state) []	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section E: Suggestions

1. What, if anything, do you think the government can do to help firms in your industry cope with the global economic slowdown?

2. What are your suggestions to workers/unions and other relevant stakeholders to assist your factory to overcome global impact on garment sector in Cambodia?
