

IDE Discussion Papers are preliminary materials circulated to stimulate discussions and critical comments

IDE DISCUSSION PAPER No. 667

Trade and Investment in Cambodia

Kiyoyasu TANAKA*

May 2017

Abstract

Openness to international trade and foreign direct investment (FDI) has contributed to the recent growth of the Cambodian economy. This paper documents patterns of international trade and FDI in Cambodia. First, both export and import increased substantially in recent periods. The major export partners are mainly developed countries including the U.S., the U.K., Germany, and Japan. The major import partners are mainly East Asian countries including China, Thailand, Vietnam, and Hong Kong. Second, fabrics and manmade staple fibers are the major import commodities whereas apparels, clothing, and footwear are the major export commodities. Third, inward FDI stock increased substantially from 1.7 billion US dollars in 2001 to 7.8 billion US dollars in 2012, suggesting a substantial growth of economic activity by foreign-owned firms.

Keywords: Cambodia, Trade, Investment, Garment sector, Global Value Chain

JEL classification: F14, F21, F63

* Research Fellow, Institute of Developing Economies; Visiting Professor, Royal University of Phnom Penh (Kiyoyasu_Tanaka@ide.go.jp)

The Institute of Developing Economies (IDE) is a semigovernmental, nonpartisan, nonprofit research institute, founded in 1958. The Institute merged with the Japan External Trade Organization (JETRO) on July 1, 1998. The Institute conducts basic and comprehensive studies on economic and related affairs in all developing countries and regions, including Asia, the Middle East, Africa, Latin America, Oceania, and Eastern Europe.

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute of Developing Economies of any of the views expressed within.

INSTITUTE OF DEVELOPING ECONOMIES (IDE), JETRO
3-2-2, WAKABA, MIHAMA-KU, CHIBA-SHI
CHIBA 261-8545, JAPAN

©2017 by Institute of Developing Economies, JETRO

No part of this publication may be reproduced without the prior permission of the IDE-JETRO.

Trade and Investment in Cambodia[†]

Kiyoyasu Tanaka[§]

May 2017

Abstract

Openness to international trade and foreign direct investment (FDI) has contributed to the recent growth of the Cambodian economy. This paper documents patterns of international trade and FDI in Cambodia. First, both export and import increased substantially in recent periods. The major export partners are mainly developed countries including the U.S., the U.K., Germany, and Japan. The major import partners are mainly East Asian countries including China, Thailand, Vietnam, and Hong Kong. Second, fabrics and manmade staple fibers are the major import commodities whereas apparels, clothing, and footwear are the major export commodities. Third, inward FDI stock increased substantially from 1.7 billion US dollars in 2001 to 7.8 billion US dollars in 2012, suggesting a substantial growth of economic activity by foreign-owned firms.

Keywords: Cambodia, Trade, Investment, Garment sector, Global Value Chain

JEL classification: F14, F21, F63

[†] This paper is written for a 2016 workshop on trade and foreign investment in ASEAN countries held at the College of Social Sciences, National Taiwan University. I would like to thank the participants for their useful comments as well as Kristy Hsu, a discussant of this paper, for her excellent comments. I am also grateful to Samsen Neak for his data assistance. I acknowledge the financial support of JSPS Grant-in-Aid for Young Scientists (B) Grant Number 16K17129 and JSPS Grant-in-Aid for Scientific Research (B) 26285058. All remaining errors are my own.

[§] Research fellow, Institute of Developing Economies, JETRO; address: 3-2-2 Wakaba, Mihama-ku, Chiba-shi, Chiba 261-8545, Japan; e-mail: kiyoyasu_tanaka@ide.go.jp

1. Introduction

Cambodia celebrated the 63rd anniversary of its independence from the French protectorate on November 9th, 2016. Greeted by a crowd of Cambodians waving the national flag with an image of Angkor Wat, King Norodom Sihamoni lit a ceremonial victory fire at the Independence Monument in Phnom Penh. This annual ceremony highlights national unity among Cambodians after experiencing turbulent times following their independence in 1953. While political tensions have still remained to some extent until recent years, the most striking difference between the Cambodia of 1953 and 2016 is the peaceful society and economic prosperity they have today.

The Cambodian economy has experienced remarkable economic growth in recent decades. During the colonial period, agricultural production such as rice, corn, and rubber, has played a major role in the Cambodian economy in addition to economic changes in foreign trade, transportation, and demography (Chandler, 2008). Ever since Cambodia gained independence, its government has attempted to promote industrialization. However, from 1975 to 1979, the industrial base was completely devastated by the Pol Pot regime, which abolished formal institutions such as schools, private property, and money. The Paris Conference on Cambodia in 1991 led to agreements on a comprehensive political settlement of the Cambodia conflict following a decade of civil war. A massive influx of foreign aid supported the reconstruction of the Cambodian economy during the UN period, which set a stage for its subsequent economic growth. During this period of high economic growth, openness to international trade and foreign direct investment (FDI) contributed to industrial development in Cambodia (Chhair and Ung, 2013).

The objective of this chapter is to document patterns of international trade and FDI in Cambodia. In section 2, I briefly review the Cambodian economy over the past few decades. In section 3, I describe recent trends in the export and import of goods and illustrate the patterns of export and import disaggregated by major partner countries and major commodities. In section 4, I describe trends in inward FDI by disaggregating across major home countries and industrial sectors. In section 5, I describe the garment and footwear sectors, as the overall trends in trade and FDI indicates the large role of these commodities in the Cambodian economy. Specifically, I use the Cambodian economic census in 2011 to describe the size of these sectors in manufacturing, followed by a description of trends in their trade and inward FDI. In section 6, I summarize the main findings regarding trade and investment in Cambodia and conclude by discussing current policy issues in the Cambodian economy.

2. A Brief Review of the Cambodian Economy

Cambodia is located in Southeast Asia and shares its borders with Thailand to the northwest, Vietnam to the east, and Laos to the north. Phnom Penh is the capital of Cambodia. There are 14,073 villages within 1,621 communes, which are further clustered into 194 districts in 24 provinces. According to the World Bank, the population of Cambodia in 2015 was 15.5 million. By way of comparison, the population of neighboring Thailand was 67.9 million, with 91.7 million in Vietnam, and 6.8 million in Laos. In terms of the population size, Cambodia is clearly much smaller than Thailand or Vietnam. Consequently, this has an impact on each country's economic size; Cambodia's GDP in 2015 was 18.05 billion US dollars, as compared to 395.3 billion US dollars in Thailand, 193.6 billion US dollars in Vietnam, and 12.3 billion US dollars in Laos. Thus, the economic size of Cambodia is much smaller than that of Thailand or Vietnam.

The Cambodian economy has experienced rapid growth over the past few decades. According to the World Bank, the GDP growth rate in 2015 was 7 percent, bringing the gross national income per capita up to 1,070 US dollars. As of 2015, Cambodia has attained a lower-middle-income status. As a result, the poverty level in Cambodia has steadily declined to a poverty rate of 17.7 percent in 2012. However, the majority of the poor still live in rural regions, as an inequality between urban and rural regions substantially increased through the course of the country's economic development. Additionally, the World Bank estimates that around half a million children under five are stunted, and 12.3 million people do not have access to piped water. Indeed, health and education are still major issues for the livelihood of Cambodian people.

The agricultural sector has been a large pillar of the Cambodian economy. According to the agricultural census of Cambodia in 2013, it was estimated that there were 8.5 million households who maintain agricultural holdings.¹ In the northern areas, which are characterized by hilly uplands and plateau areas, 50 percent of villages collect forest products. In the southern areas along the Gulf of Thailand, 66 percent of villages engage in fishing. In the middle area along the Mekong River and Tonle Sap lake, 40 percent of villages engage in aquaculture.² In the surrounding areas of Phnom Penh, 40 percent of villages earn their income in more than one job. Additionally, the agriculture in these regions is susceptible to severe weather, such as heavy rains and floods during the wet season and droughts during the dry season. Villages hit by floods and droughts tend to experience food insecurity.

¹ Agricultural holdings are defined on the basis of a minimum cropping area of 0.03 hectares, having at least two large livestock, three heads of small livestock, and a minimum of 25 poultry.

² These include provinces such as in Kratie, Siem Reap, and Koh Kong, and Kampong Thom.

Manufacturing and service sectors have developed rapidly and have played a crucial role in the recent growth of the Cambodian economy. In 1990, the share of agriculture in Cambodia's GDP was 55.6 percent, which decreased further to 33.6 percent in 2012. Industry sectors including mining, manufacturing, utilities, and construction accounted for merely 11.2 percent in 1990, but 22.9 percent in 2012. Service sectors such as wholesale and retail trade, transport, communications, finance, and public administration accounted for 31.7 percent in 1990, and 37.8 percent in 2012 (Hill and Menon, 2014). The major driver of Cambodia's industrial development has been garment factories, which manufacture and export apparel and footwear. The garment sector has grown more rapidly than other sectors and contributed significantly to the expansion of manufacturing bases in the country's economy. Additionally, there has been a rapid growth of service sectors such as transportation, telecommunications, and hotels and restaurants; the latter of which has been mainly encouraged by the growing number of tourists to Cambodia (Guimbert, 2010).³

3. International Trade in Goods

In this section, I describe international trade in goods in Cambodia. For this task, I use the UN Comtrade Database – a repository of official trade statistics – to extract trade statistics reported by Cambodia for the period 2000-2015. While I use the official trade statistics for my descriptive analysis, the results should be interpreted with care. As emphasized in Hill and Menon (2014), the official trade statistics in Cambodia tend to suffer from measurement errors for several reasons, including the inadequate capacity of statistical collection, commodity misclassification, unrecorded trade flows, and smuggling to evade import tariffs.⁴

Figure 1 shows the aggregate volume of export and import in Cambodia for the years 2000-2015. The total volume of export increased from 1.38 billion US dollars in 2000 to 8.54 billion in 2015. The total volume of import also increased from 1.43 billion US dollars in 2000 to 10.6 billion US dollars in 2015. Both export and import increased rapidly over time, whereas the volume of import increased more rapidly than that of

³ Inbound tourists to Cambodia have increased rapidly over time from one hundred thousand tourists in 1993 to 4.5 million in 2014. The estimated amount of tourism receipts in Cambodia has increased from 0.1 billion US dollars in 1995 to 2.7 billion US dollars in 2014 (Cambodian Ministry of Tourism, 2014).

⁴ See Hamanaka (2011) for a discussion on measurement issues in trade statistics in Cambodia. For instance, it is widely considered that a large amount of rice, timber and sand are unofficially exported from Cambodia and not reported as formal export. As a result, export statistics reported by Cambodia tend to fall short of import statistics reported by, for instance, Vietnam for rice and timber and by Singapore for sand.

export. Investigating discrepancies in trade statistics between Cambodia and partner countries, Hamanaka (2011) finds a relatively small discrepancy in data on total export from Cambodia. However, data on total import to Cambodia tend to be largely underestimated. His findings suggest that the volume of import in Cambodia may have grown much more substantially than that of export.

---Figure 1 here---

To understand the structure of Cambodia's international trade, I disaggregate trade statistics by major partner countries. Figure 2 shows the volume of export by 6 partner countries according to the volume of export in 2015: the U.S. (USA), the U.K. (GBR), Germany (DEU), Japan (JPN), Canada (CAN), and China (CHN). These countries account for around 62% of the total export from Cambodia in year 2015. Note that the vertical axis is shown in log scale. The U.S. has been the largest destination market for Cambodia's export, and has seen an increase from 750 million US dollars in 2000 to 2,136 million US dollars in 2015. Around a quarter of the total export from Cambodia was accounted for by the U.S. market, which is followed by the European countries such as the U.K. and Germany. Additionally, other major markets include Canada, Japan, and China. The volume of export to these markets increased substantially between 2000 and 2015.

---Figure 2 here---

Figure 3 presents the volume of import disaggregated by major partner countries: China (CHN), Thailand (THA), Vietnam (VNM), Hong Kong, China (HKG), Singapore (SGP), and South Korea (KOR). These countries account for around 76% of the total import to Cambodia in 2015, with China being the largest partner country. Import from China increased from 115 million US dollars in 2000 to 3,926 million US dollars in 2015, and accounted for over a quarter of import to Cambodia. Import from neighboring countries, such as Thailand and Vietnam, were also substantial. Hong Kong has been a major import partner for Cambodia, followed by Singapore and South Korea. However, these results should be interpreted carefully. Hamanaka (2011) shows large discrepancies between Cambodia's imports and the exports of its trade partners in the cases of Thailand and Vietnam, implying that import from neighboring countries might have been much larger than the volume of import reported in official trade statistics.

---Figure 3 here---

I turn to examine the major commodities in Cambodia's trade statistics. Table 1 presents the major export goods in Cambodia for 2000 and 2015. In both years, the largest commodity was apparel and accessories (knit or crochet). The volume of export of these commodities increased from 849 million US dollars in 2000 to 5,550 million US dollars

in 2015. Together with other commodities in footwear, gaiters, apparel and clothing accessories (not knit or crochet), the volume of export in garment and footwear amounted to 6.5 billion US dollars in 2015. These commodities accounted for around 61 percent of Cambodia's total export in 2015. Among these commodities, the volume of export in footwear and gaiters increased substantially from 28.8 million US dollars in 2000 to 637 million US dollars in 2015. Additionally, the volume of export in electrical machinery and vehicles and parts increased substantially in 2015, although these were not major export commodities in 2000.

---Table 1 here---

Table 2 shows the major import goods in Cambodia for 2000 and 2015. Knitted or crocheted fabrics were the largest commodities imported to Cambodia, which increased from 131 million US dollars in 2000 to 1,984 million US dollars in 2015. The import of manmade staple fibers also increased from 228 million US dollars in 2000 to 962 million US dollars in 2015. Since these commodities are used to manufacture apparel, clothing accessories, and footwear, they are imported mainly to manufacture and export garment and footwear products. Additionally, vehicles and vehicle parts experienced a marked increase in their import from 73.8 million US dollars in 2000 to 1,148 million US dollars in 2015.

---Table 2 here---

Taken together, a pattern of Cambodia's international trade in goods can be summarized as follows. First, both export and import in Cambodia have increased substantially in recent years. Given that the volume of import may be underestimated in trade statistics reported by Cambodia, the growth of import tends to exceed the growth of export. Overall, the Cambodian economy imports from foreign markets more than it exports. Second, major export partners are mainly developed countries including the U.S., the U.K., Germany, and Japan. Major import partners are mostly East Asian countries including China, Thailand, Vietnam, and Hong Kong. These patterns suggest that Cambodia imports mainly from proximate Asian countries and export to high-income markets. Finally, fabrics and manmade staple fibers are Cambodia's major import commodities whereas apparels, clothing, and footwear are its major export commodities. These patterns indicate the large presence of the garment sector in Cambodia, in which fabrics and manmade staple fibers are processed to manufacture and export garment and footwear.

4. Inward Foreign Direct Investment

This section describes recent trends in inward FDI activity in Cambodia. In general,

FDI is an investment made by a resident in one country for the purpose of long-term management of a business enterprise in another country. By making FDI, a parent firm in one country holds more than 10 percent of the voting shares of the enterprise in another country in order to significantly manage and control the enterprise.⁵ Thus, data on inward FDI sheds light on the role of foreign-owned firms in the Cambodian economy. However, FDI statistics should be interpreted carefully as an indicator of multinational activity for measurement issues such as the definition of foreign investors, valuation of capital investment, and firms' incentives to minimize tax burden.

For this task, I use the UNCTAD FDI/TNC database, which is based on data sources from the National Bank of Cambodia. Figure 4 presents a trend in the aggregate volume of inward FDI stock for the periods 2001-2012. The FDI stock increased substantially from 1.7 billion US dollars in 2001 to 7.8 billion US dollars in 2012. During this period, the FDI stock in Cambodia increased by almost 350 percent, suggesting a substantial growth of economic activity by foreign-owned firms. In addition to the rapid growth of international trade, the rapid growth of inward FDI activity has been a crucial feature of the Cambodian economy in recent decades.

---Figure 4 here---

Figure 5 presents inward FDI stock in Cambodia disaggregated by the major home countries of foreign investors. In 2012, China was the largest home country of inward FDI stock in Cambodia. Between 2001 and 2012, FDI stock held by Chinese investors increased from 89 million US dollars to 1,408 million US dollars, suggesting over 1,400 percent growth in their FDI stock. Malaysia was the second major home country and its FDI stock increased from 406 million US dollars in 2001 to 990 million US dollars in 2012. While the FDI stock by Malaysia exceeded that by China in early 2000s, its growth of FDI stock has been moderate. Additionally, other major home countries of foreign investors in Cambodia are South Korea, Vietnam, Taiwan, and Thailand.⁶ Thus, the home countries of FDI in Cambodia are mainly East Asia, and neighboring countries such as Thailand and Vietnam also significantly increased FDI stock.

---Figure 5 here---

I turn to describe major sectors of inward FDI in Cambodia. Since sectoral composition is not provided in the UNCTAD FDI/TNC database, I use data on investment projects by foreign investors collected by the Council for the Development of Cambodia

⁵ See UNCTAD (2009) for a comprehensive review of FDI statistics.

⁶ Kristy Hsu suggests that some Taiwanese firms making direct investment in Vietnam started to invest in Cambodia as foreign investors originating from Vietnam, implying that Taiwanese investment in Cambodia may be underestimated in official FDI statistics. Consequently, Vietnamese investment in Cambodia may be overestimated.

(CDC). The data include investment projects approved by the CDC to grant investment incentives such as corporate tax exemption. If investment projects by foreign investors are not applied to the CDC for investment incentives, such investment projects are not included in the CDC's statistics on FDI projects. Thus, the data on FDI projects from the CDC should be viewed as only approximately representing the major FDI projects in Cambodia.

Figure 6 shows the number of FDI projects aggregated over major sectors during years 2003-2014: agriculture, mining, garment, other manufacturing, services, and tourism. Since there were 597 FDI projects in the garment sector, it was the largest among these sectors. Additionally, there has been a relatively large number of FDI projects in other manufacturing and agricultural sectors. Note that agriculture includes agro-industry, plantation, animal farming, and rubber.

---Figure 6 here---

Taken together, my descriptive analysis shows that inward FDI in Cambodia increased substantially over the past few decades. Major foreign investors come from East Asian countries including China, Malaysia, Korea, and Taiwan. There has been a growing volume of FDI inflows from neighboring countries such as Thailand and Vietnam. Across all sectors, the garment sector is the largest in the number of FDI projects, followed by other manufacturing and agriculture.

5. The Garment Industry

My discussions up to this point have focused primarily on the overall patterns of international trade and inward FDI. The results indicate that the garment industry has played a significant role in trade and investment in Cambodia. In this section, I shed further light on the characteristics of Cambodia's garment industry by describing the industrial structure, trends in garment factories, and international trade in garment products.

5.1. The Industrial Structure

To describe the industrial structure, I use the 2011 Economic Census of Cambodia (EC2011). The purpose of the EC2011 is to survey economic activities of all the nonfarm establishments and enterprises over the entire territory of Cambodia. The survey was mainly funded by Japanese Official Development Assistance and implemented by the National Institute of Statistics (NIS), the Cambodian Ministry of Planning, in cooperation with the Japan International Cooperation Agency. Census enumeration was conducted during March 2011 to survey all establishments and enterprises, including street vendors

that operate at a fixed location but are still mobile.⁷ To collect the data, census enumerators visited each establishment to interview its representative and/or owner. Through face-to-face interviews, the enumerators filled out a questionnaire for each establishment. The NIS collected all the questionnaires for data input and checked the consistency of the data by comparing two data files created separately by two data-input operators.

Table 3 presents the economic indicators of garment industries in Cambodia for February 2011. Garment industries are further disaggregated by textiles, wearing apparel, and leather and footwear sectors. By way of comparison, I show figures in the total garment, food and beverages, and aggregate manufacturing. The number of establishments was 71,416 in manufacturing and 25,155 in the garment industry. The total sales were 53.4 million US dollars in manufacturing and 17.8 million US dollars in the garment industry. Additionally, the total expenses were 41.1 million US dollars in manufacturing and 13.9 million US dollars in the garment industry. These figures suggest that the garment industry accounted for one third of manufacturing activity in Cambodia.

---Table 3 here---

The garment industry plays a large role in terms of wage payments and employment. Total wage payments were 6.5 million US dollars in manufacturing and 4.1 million US dollars in the garment industry. 63.8 percent of wages in manufacturing were generated in the garment industry. On the other hand, there were 530,341 workers in manufacturing and 374,338 workers in the garment industry.⁸ 70.6 percent of manufacturing employment belongs to the garment industry. Moreover, the garment industry played a larger role in terms of regular employees and female employment. The garment industry accounted for 83.8 percent of regular employees and 85.1 percent of female employment in manufacturing. Taken together, these figures indicate the substantial role of the garment industry in Cambodia's industrialization.

Within the garment industry, the largest sector is wearing apparel, followed by textiles, leather, and footwear. The number of establishments was 15,958 in wearing apparel, 8,919 in textiles, and 278 in leather and footwear. Furthermore, the number of workers was 294,433 in wearing apparel, 39,041 in textiles, and 40,864 in leather and footwear. These figures suggest that the average employment size per establishment was

⁷ The survey does not cover the establishments classified into (1) agriculture, forestry, and fishing, (2) public administration and defense, (3) activities of households as employers, (4) activities of extraterritorial organizations and bodies, and (5) mobile establishments such as bike taxis and street vendors.

⁸ ILO (2015) reports that over 600,000 workers were employed in the garment sector in the middle of 2015.

147 workers in leather and footwear, 18 workers in wearing apparel, and 4 workers in textiles. The reason is that factories for wearing apparel and footwear employed a greater number of workers and operated at a large scale than textiles.

Finally, Table 3 shows that foods and beverages industry generated substantial sales. The total sales in this industry were 15.8 million US dollars, and amounted to 29.6 percent of aggregate manufacturing sales. Despite the substantial volume of sales, wage payments and employment in food and beverages industry were substantially smaller than those in the garment industry. For instance, food and beverages industry accounted for only 8.1 percent of wage payments in manufacturing whereas it accounted for 15.3 percent of employment. In particular, this industry made up only 3.8 percent of regular employees in manufacturing, suggesting that garment industry contributed to generate formal employment opportunities more substantially than other comparable industries.

5.2. FDI and Global Value Chains in Textiles and Garments

Since discussions up to this point have highlighted the prominence of the garment sectors in the Cambodian economy, I describe their trade patterns. There has been a growing body of literature on Cambodia's garment industry such as Bargawi (2005), Asuyama et al. (2013), Asuyama and Neou (2014), and ILO (2015). These previous works provide a comprehensive analysis of the garment industry and policy issues. In particular, Asuyama and Neou (2014, pp. 40-46) discuss international trade agreements, government policies, and a domestic garment association as underlying reasons for the growth of the garment industry. For example, Cambodia obtained the most-favored-nation (MFN) status from the U.S. in 1996, and the generalized-system-of-preferences (GSP) status from the EU in 1997. ASEAN-Japan Comprehensive Economic Partnership (AJCEP) came into effect between Cambodia and Japan in December 2009, which provided duty-free export treatment. These trade agreements encouraged foreign investors to manufacture garments in Cambodia and export to foreign markets such as the U.S., EU, and Japan. Additionally, wage increases and labor shortages in China and Vietnam in recent years contributed to the relocation of garments production from these countries to Cambodia. In terms of a regulatory framework in Cambodia, few foreign ownership restrictions are imposed except for those on land ownership, and generous tax incentives were provided for foreign investors. Thus, the growth of the garment industry has been supported by a wide range of external and internal factors in Cambodia.

Drawing on these previous works, I describe the two key features of the industry: the large role played by foreign-owned manufactures and labor-intensive tasks as part of a global value chain. The first feature is the prominent role of foreign-owned garment

manufactures. Describing the origins of the garment industry, Bargawi (2005) explains that silk and cotton were produced to manufacture garments in Cambodia during the French colonial rule, and industrial production of textiles started after the country gained independence. Such an industrial base was devastated during the periods of the Khmer Rouge and subsequent civil war. After the Paris Peace Accords in 1991 set a stage for the reconstruction of the Cambodian economy, foreign investors started to build and operate export-oriented garment factories since the mid-1990s.

To document such an observation, I examine data on the factory registration by the Cambodian Ministry of Industry and Handicraft. In Figure 7, I use a sample of garment factories after the year 1995 and show the number of registered garment factories disaggregated by major home countries. Note that Cambodian-owned garment factories (KHM) are also included in the figure.⁹ Since the mid-1990s, there has been an increase in garment factory registrations from home countries such as China (CHN), Taiwan (TWN), South Korea (KOR), and Hong Kong (HKG). In particular, the garment factory registrations from China, Taiwan, and South Korea increased substantially over the past few decades. Factory registrations from Japan started to increase only in recent years. As compared with the Cambodian-owned garment factories, foreign-owned garment manufactures played a dominant role in the recent expansion of garment production.

---Figure 7 here---

The second feature is that garment manufactures in Cambodia tend to engage in labor-intensive tasks such as cutting, trimming, and making yarns and fabrics to manufacture final apparel products. While garment products were increasingly exported to high-income markets such as the U.S., Europe, and Japan, these manufactures mainly imported materials such as textiles and fabrics. As a result, wage payments to local unskilled workers are a main component of local value added. Garment factories recently started to purchase locally produced materials such as cardboard boxes, but their backward linkage to local industries appears to be limited (Hatsukano and Tanaka, 2014). Production processes in Cambodia generate relatively low value added in terms of a global value chain in textile and garment production.

To illustrate the dependence of garment production on imported materials in Cambodia, I show the volume of import in fabrics from major partner countries in Figure 8. Using the UN Comtrade database, I describe a trend in the import volume of knitted or crocheted fabrics. In early 2000s, China (CHN), Malaysia (MYS), and Hong Kong (HKG) were the major exporters of fabrics to Cambodia. In particular, import from China increased substantially over time. In recent years, the volume of import in fabrics rapidly

⁹ These may include factories jointly owned by Cambodian and foreign partners.

increased from countries such as Vietnam (VNM), South Korea (KOR), and Thailand (THA). A substantial growth of the volume of fabrics imported from East Asian markets is consistent with the growing number of garment factories in Cambodia originating from similar East Asian countries.

Finally, I describe a trend in garment exports by major partner countries using the UN Comtrade Database. For this task, I focus on exported apparel and clothing accessories. Consistent with the trend in aggregate exports, North American markets such as the U.S. (USA) and Canada (CAN) are the largest export market for garment products in Cambodia, followed by the major European markets including the U.K. (GBR), Germany (DEU), and Spain (ESP). Additionally, the volume of garment export to Japan (JPN) increased substantially from 2000 to 2015. Thus, these patterns are consistent with the idea that garment production in Cambodia is located in low-end labor-intensive tasks of a global value chain in textiles and garments.

6. Conclusion

The Cambodian economy has experienced a remarkable growth in recent decades after a long turbulent period of domestic conflicts. As the growth of international trade and inward FDI contributed to industrial development in Cambodia, this paper sheds light on recent trends in international trade and inward FDI. Both export and import in Cambodia have increased substantially in recent periods, while the growth of import tends to exceed the growth of export. Major export partners are mainly developed countries including the U.S., the U.K., Germany, and Japan. Major import partners are mostly East Asian countries including China, Thailand, Vietnam, and Hong Kong. Fabrics and manmade staple fibers are the major import commodities whereas apparels, clothing, and footwear are the major export commodities. Additionally, inward FDI in Cambodia has grown substantially in recent decades. Major foreign investors come from East Asian countries including China, Malaysia, Korea, and Taiwan. There has been a growing volume of FDI inflows from neighboring countries such as Thailand and Vietnam. Across sectors, the garment sector is the largest in the number of FDI projects, followed by other manufacturing and agriculture.

By opening up to international trade and foreign investors, Cambodia has made a remarkable progress in its industrialization. While the industrial development has certainly contributed to the rapid growth of the Cambodia economy, there remain a number of issues in terms of sound economic development. First, the informal sector, as measured by unregistered non-farm business establishments, has been substantially large and possibly grown more rapidly than the formal sector. Tanaka and Keola (2017) show

that 96.6 percent of establishments do not formally register with the government, and their sales accounted for 76.6 percent of total sales in 2011. Estimating past sales in the formal and informal sectors from changes in nighttime light for 1993-2010, they find that a share of estimated sales in the informal sales increased from 68.8 percent in 1993 to 76.6 percent in 2011. Because informal businesses tend to avoid formal tax burden and distort fair competition in a local market, the formalization of business establishments is a crucial policy issue.

Second, a potentially growing share of informal businesses suggests that the formal sector has not grown rapidly enough to provide formal employment opportunities for the growing labor force in Cambodia. According to the World Bank, the annual growth rate of population is over 2.3 percent during the period 1990-2011. While a supply of workers has increased substantially, a number of new workers do not find an employment in the formal sector, thereby seeking jobs in the informal sector. Additionally, a shortage of educated entrepreneurs explains partly an insufficient expansion of formal-sector employment to absorb the growing number of new workers.

Third, there appears to be no substantial improvements in governance and institutions in Cambodia to support the sound growth of formal businesses in industrialization processes (Hill and Menon, 2013). According to the Worldwide Governance Indicators by the World Bank, the control of corruption indicator shows the extent to which public power is exercised for private gain, and ranges from -2.5 (weak) to 2.5 (strong). This indicator for Cambodia deteriorated from -0.96 in 1996 to -1.22 in 2011. The regulatory quality indicator shows the ability of the government to provide sound policies and regulations for private sector development. This indicator also deteriorated from -0.05 in 1996 to -0.57 in 2011. While the political stability in recent decades helped to promote economic growth and industrialization, low institutional quality would deter sound transformation of industrial activities.

Finally, it should be emphasized that economic liberalization and global integration in Cambodia have contributed not only to reduce poverty but to increase inequality in Cambodia. From a political-economy point of view, Hughes and Un (2011) discuss a wide range of examples in which economic and political elites benefit disproportionately during the post-conflict period. A deep relationship between politics and businesses in Cambodia blurs a distinction between private business and public regulation, which may severely distort resource allocation. Patronage-client connections can deteriorate a market mechanism in which more productive business firms gain a larger market share, leading to an improvement in industrial productivity. For instance, a high government official may receive a consultation fee from a firm over which he/she is supposed to supervise

(Ear, 2011). A person connected to the ruling elite in the government acquires land held by villagers in rural area and influences the court in addressing land disputes in favor of the ruling elite (Cock, 2011). The rushed passage of a Land Law in 1992 contributed to exacerbate land grabbing by civilian government officials and members of the armed forces, which negatively impacted impoverished rural farmers (So, 2011). As these examples are a tip of iceberg of social problems faced by Cambodians, they indicate substantial social barriers to be removed for sound economic development.

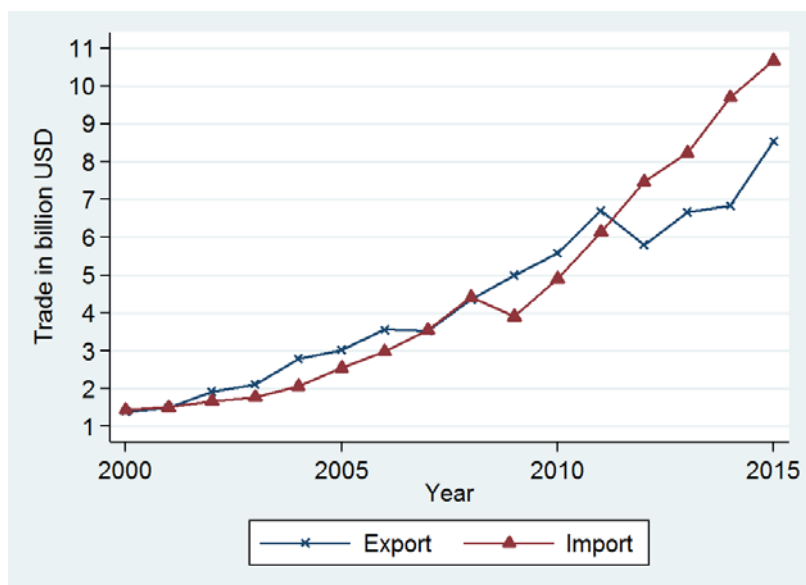
References

- Asuyama, Yoko, Chhun, Dalin, Fukunishi, Takahiro, Neou, Seiha, and Yamagata, Tatsufumi, 2013. Firm dynamics in the Cambodian garment industry: firm turnover, productivity growth, and wage profile under trade liberalization. *Journal of the Asia Pacific Economy*, 18 (1), 51-70.
- Asuyama, Yoko, Neou, Seiha, 2014. Cambodia: growth with better working conditions. In Fukunishi, T. and Yamagata, T. (Eds.), *The Garment Industry in Low-Income Countries* (pp. 38-76). Hampshire: Palgrave Macmillan.
- Bargawi, Omar, 2005. Cambodia's garment industry – origins and future prospects. ESAI Working Paper No. 13, Overseas Development Institute, London.
- Chandler, David, 2008. *A History of Cambodia*. Bangkok: Westview Press.
- Chhair, Sokty, and Ung, Luyna, 2013. Economic history of industrialization in Cambodia. WIDER Working Paper 2013/134. Helsinki: UNU-WIDER.
- Cock, Andrew R., 2011. The rise of provincial business in Cambodia. In Hughes, C., and Un, K. (Eds.), *Cambodia's Economic Transformation* (pp. 27-49). Copenhagen: NIAS Press.
- Ear, Sophal, 2011. Growth in the rice and garment sectors. In Hughes, C., and Un, K. (Eds.), *Cambodia's Economic Transformation* (pp. 27-49). Copenhagen: NIAS Press.
- Guimbert, Stéphane, 2010. Cambodia 1998-2008: an episode of rapid growth. The World Bank Policy Research Working Paper No. 5271.
- Hal, Hill, Menon, Jayant, 2013. Cambodia: rapid growth with weak institutions. *Asian Economic Policy Review*, 8, 46-65.
- Hal, Hill, Menon, Jayant, 2014. Trade policy challenges in a small, open, fragile, postconflict economy: Cambodia. ADB Working Paper on Regional Economic Integration No. 141.
- Hamanaka, Shintaro, 2011. Utilizing the multiple mirror technique to assess the quality of Cambodian trade statistics. ADB Working Paper on Regional Economic Integration No. 88.
- Hatsukano, Naomi, Tanaka, Kiyoyasu, 2014. Challenges to make Cambodian SMEs participate in global value chains: towards addressing poverty and inequality. In Kuroiwa, I. and Hatsukano, N. (Eds.), *Inclusive Development in the Era of Economic Integration: Policy Implications for LDCs* (pp. 70-92). Bangkok Research Center Research Report No. 14.
- Hughes, Caroline, Un, Kheang, 2011. *Cambodia's Economic Transformation*. Copenhagen: NIAS Press.
- International Labor Organization, 2015. Labor standards in global supply chains: a programme of action for Asia and the garment sector. Cambodian Garment and Footwear Sector Bulletin Issue 2, ILO, Geneva.
- So, Sokbunthoeun, 2011. The politics and practice of land registration at the grassroots. In Hughes, C., and Un, K. (Eds.), *Cambodia's Economic Transformation* (pp. 27-49). Copenhagen: NIAS Press.

Tanaka, Kiyoyasu, Souknilanh, Keola, 2017. Shedding light on the shadow economy: a nighttime light approach. *Journal of Development Studies*, 53 (1), 32-48.

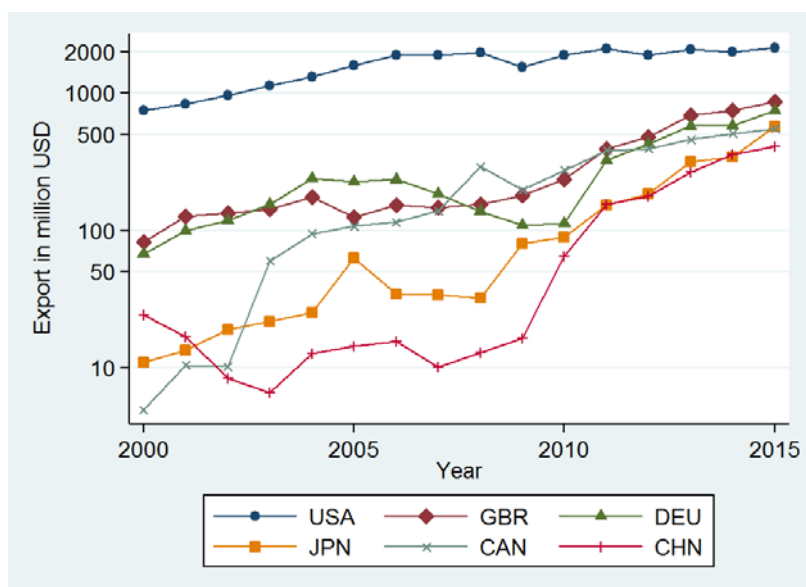
UNCTAD, 2009. UNCTAD Training Manual on Statistics for FDI and the Operations of TNCs – Volume I: FDI Flows and Stocks. Geneva: United Nations.

Figure 1. The Volume of Export and Import



Source: UN Comtrade Database (accessed as of October 25th 2016)

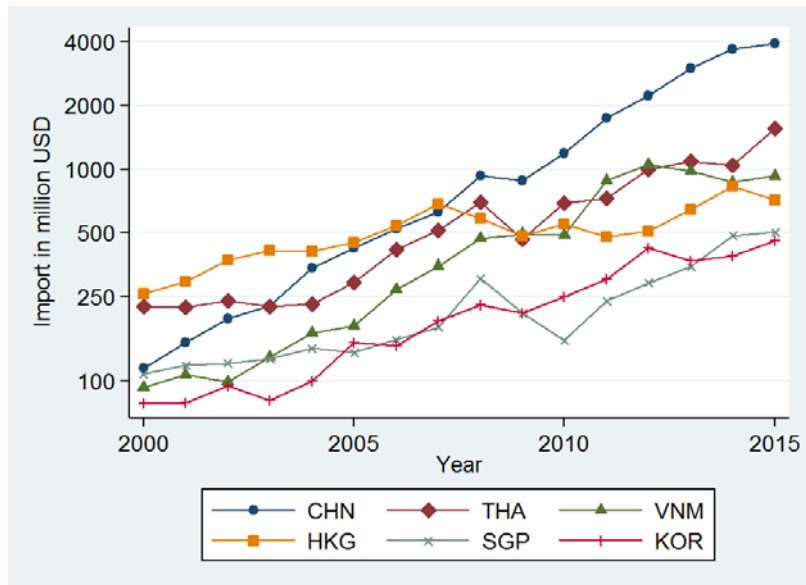
Figure 2. The Volume of Export by Major Partner Countries



Note: The vertical axis is shown in log scale.

Source: UN Comtrade Database (accessed as of October 25th 2016)

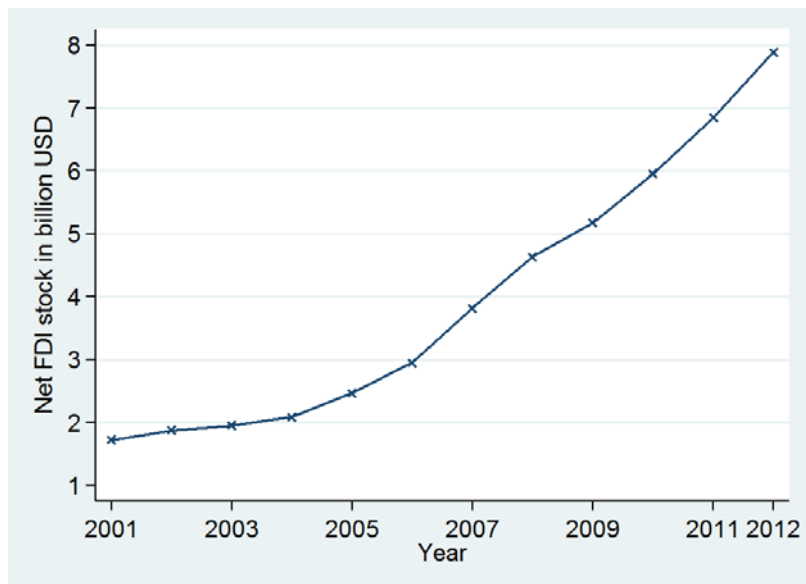
Figure 3. The Volume of Import by Major Partner Countries



Note: The vertical axis is shown in log scale.

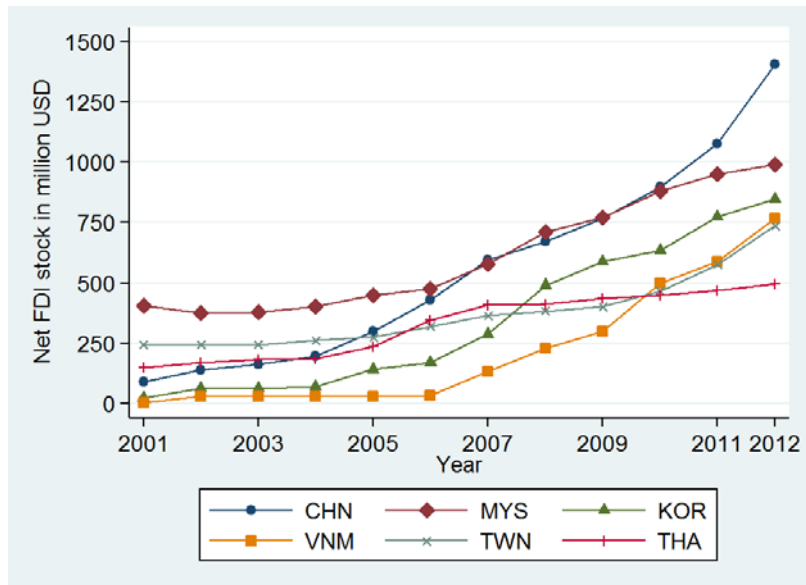
Source: UN Comtrade Database (accessed as of October 25th 2016)

Figure 4. Inward FDI Stock in Cambodia



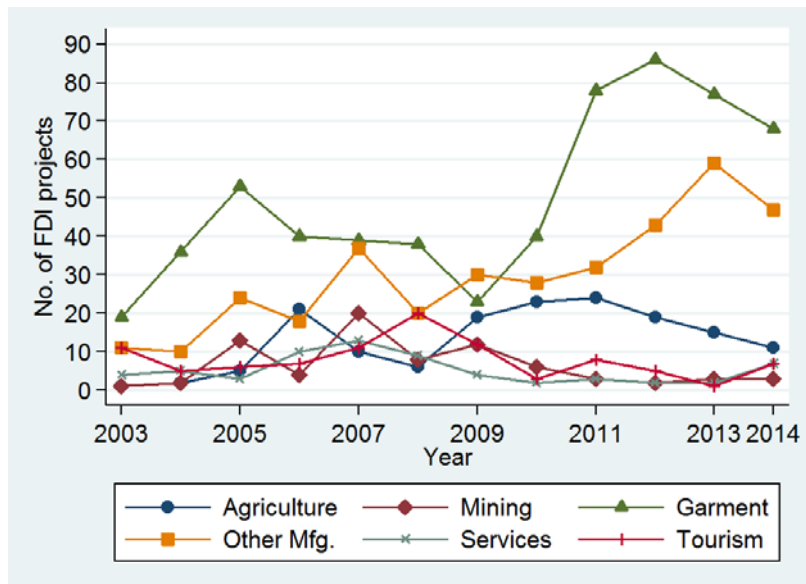
Source: UNCTAD FDI/TNC database, the National Bank of Cambodia.

Figure 5. Inward FDI Stock in Cambodia by Major Home Countries



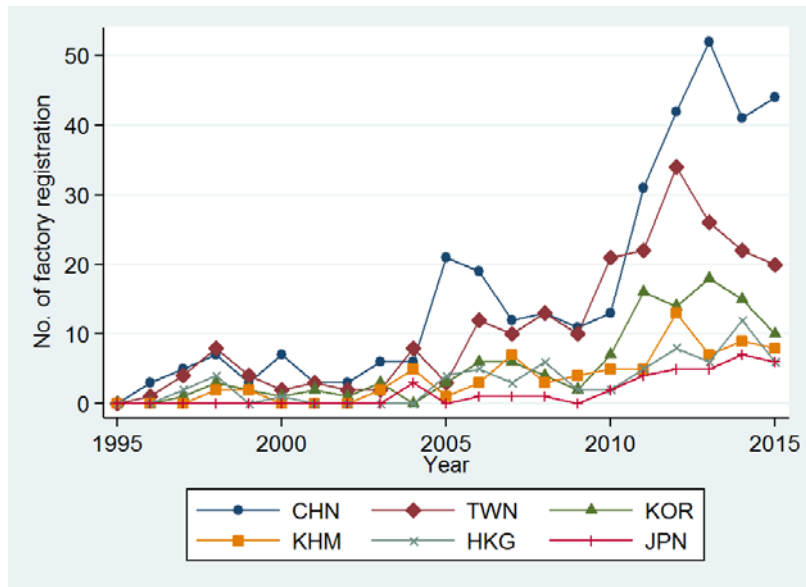
Source: UNCTAD FDI/TNC database, the National Bank of Cambodia.

Figure 6. The Number of FDI Projects in Cambodia by Sector



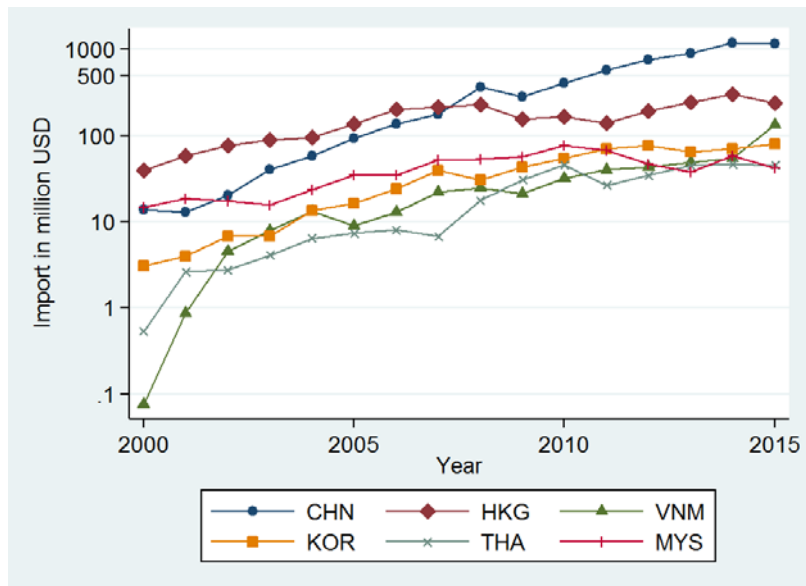
Source: The Council for the Development of Cambodia

Figure 7. The Number of Registered Garment Factories by Major Home Countries



Source: The Cambodian Ministry of Industry and Handicraft

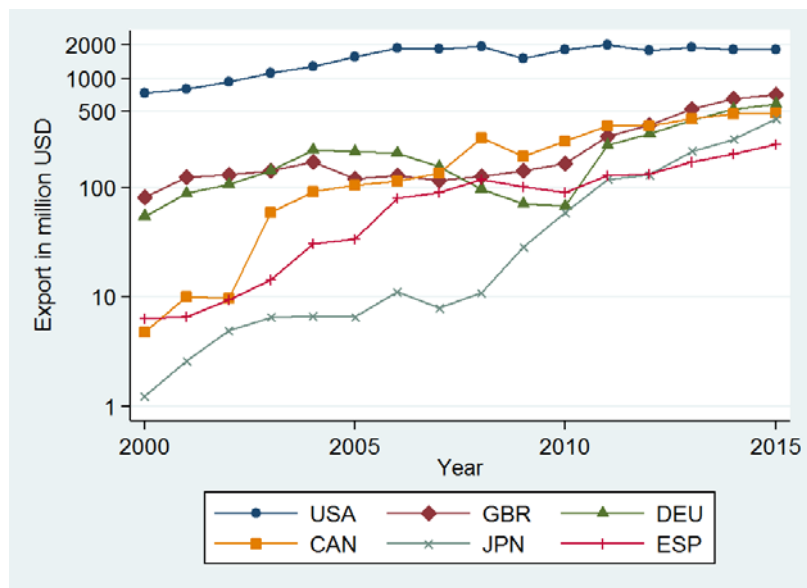
Figure 8. The Volume of Import in Fabrics by Major Partner Countries



Note: The vertical axis is shown in log scale.

Source: UN Comtrade Database (accessed as of October 25th 2016)

Figure 9. The Volume of Export in Garments by Major Partner Countries



Note: The vertical axis is shown in log scale.

Source: UN Comtrade Database (accessed as of October 25th 2016)

Table 1. The Major Commodities of Export in Cambodia

Rank	Year 2000		Year 2015	
	Commodity	Export	Commodity	Export
1	Apparel, accessories, knit or crochet	840.72	Apparel, accessories, knit or crochet	5550.19
2	Printed books, newspapers, pictures	272.41	Footwear, gaiters	637.00
3	Apparel and clothing accessories (not knit or crochet)	121.85	Apparel and clothing accessories (not knit or crochet)	366.28
4	Wood, wood charcoal	34.60	Electrical machinery and equipment and parts	321.29
5	Rubber	32.49	Cereals	285.64
6	Footwear, gaiters	28.83	Vehicles and parts and accessories	281.29
7	Headgear	7.42	Fur skins and artificial fur	166.12
8	Fish, crustaceans, molluscs, aquatic invertebrates	5.99	Rubber	163.34
9	Pearls, precious stones, metals, coins	5.96	Leather, saddlery and harness	95.84
10	Other made textile articles, sets, worn clothing	5.47	Other made textile articles, sets, worn clothing	86.06

Note: Export is in millions of USD.

Source: UN Comtrade Database (accessed as of October 25th 2016)

Table 2. The Major Commodities of Import in Cambodia

Rank	Year 2000		Year 2015	
	Commodity	Import	Commodity	Import
1	Manmade staple fibers	228.61	Knitted or crocheted fabrics	1984.80
2	Mineral fuels, oils, distillation products	182.78	Vehicles and parts and accessories	1147.97
3	Knitted or crocheted fabric	131.48	Man-made staple fibers	962.59
4	Nuclear reactors, boilers, machinery	104.54	Nuclear reactors, boilers, machinery	670.41
5	Tobacco	77.03	Pearls, precious stones, metals, coins	599.11
6	Vehicles and parts and accessories	73.85	Electrical machinery and equipment and parts	512.19
7	Electrical, electronic equipment	54.80	Cotton	380.96
8	Other made textile articles, sets, worn clothing	47.71	Plastics	317.80
9	Pharmaceutical products	40.70	Paper, paperboard, pulp	242.48
10	Paper, paperboard, pulp	36.86	Tobacco	235.70

Note: Import is in millions of USD.

Source: UN Comtrade Database (accessed as of October 25th 2016)

Table 3. The Garment Industry in February 2011

	Garment Industry				Food and Beverages	Manufacturing
	Textiles	Wearing Apparel	Leather and Footwear	Total		
Number of establishment	8,919 (12.5)	15,958 (22.3)	278 (0.4)	25,155 (35.2)	32,075 (44.9)	71,416
Sales (mil. USD)	2.53 (4.7)	14.35 (26.9)	0.96 (1.8)	17.84 (33.4)	15.82 (29.6)	53.40
Expenses (mil. USD)	1.93 (4.7)	11.11 (27.0)	0.86 (2.1)	13.90 (33.8)	12.04 (29.2)	41.18
Wages (mil. USD)	0.47 (7.2)	3.41 (52.3)	0.28 (4.3)	4.16 (63.8)	0.53 (8.1)	6.51
Employment	39,041 (7.4)	294,433 (55.5)	40,864 (7.7)	374,338 (70.6)	81,245 (15.3)	530,341
Self-employed proprietors	8,814 (12.5)	15,673 (22.2)	240 (0.3)	24,727 (35.0)	31,970 (45.2)	70,653
Unpaid family workers	5,848 (9.5)	10,164 (16.5)	203 (0.3)	16,215 (26.3)	33,958 (55.0)	61,723
Regular employees	24,379 (6.1)	268,596 (67.5)	40,421 (10.2)	333,396 (83.8)	15,317 (3.8)	397,965
Female employment	31,822 (8.2)	260,783 (67.1)	37,942 (9.8)	330,547 (85.1)	33,619 (8.7)	388,586

Notes: Parenthesis shows a percentage share of each sector in aggregate manufacturing sector; expenses include purchases of products, costs for providing services, rents and employees' wages.

Source: The Economic Census 2011