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The Analysis of Foreign Direct Investment in Textile and Garment Industries in Cambodia

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Abstract: **Foreign Investment in Garment & Textile factor is considered as the second biggest industry which plays an important role in improvement and development of Cambodia economy and reduces unemployment issue through accessibility the thousand prospect jobs for Cambodian people who can be contributed in garment & textile factory in order to generate income for supporting their expense daily and help for developing community. Since the signing of the 1991 Paris Peace Accords and the structural economic reform, foreign investment were encouraged to invest in Cambodia through a political environment in which there was domestic peace and security, and commitment to ensure the macroeconomic stability and provided a favorable investment climate enshrined in the Law on investment of 1994 by revolution from social market to free market for receiving all sides of international investors in region and outside region relocate businesses into Cambodia that get highly competency. Cambodia economy focuses on four main factors such as agricultural tourism, and import & export, and garment sectors.**

And then, Cambodia's export-oriented garment industry has emerged and growth very effective when flowing foreign investors relocated investment into Cambodia that those investors from Hong Kong, Taiwan, Malaysia, Singapore, and Cambodia was provided advantage in the country's quota-free access to the US and EU markets and secondarily its relatively low wage rates so Cambodia' garment industry has been a pivotal source of export growth representing 80% of the country's total export and directly contributing approximately 20% to the country's gross domestic product (GDP). Increasing investments have helped development economic, reducing unemployment rate, and reduce migration to finding job in neighboring countries including Thailand, Vietnam, and etc. Basically, garment & textile finished products have offered free taxation in exporting to hug markets in the world as the United States, EU, Australia and ASEAN countries. These potential sectors that encouraged mainly foreign investors relocated manufacturing bias in Cambodia because beside the provided profitable permission, there are several factors which attractively for international investment that look for advantages of business location, product floor cost, and worker if compare to other countries in the region. Therefore, the flowing of garment & textile investments was increasing very fast and Cambodian government was created the special economic zones (SEZs) where located the mainly sub-city and provinces in order to efficiency accessed production and connected to workforce. And especially Cambodia has created regulatory framework for investment which importantly focused on FDIs including FDIs can be freely implemented, except in areas prohibited to or restricted for foreign investors. In this case, foreign investors have to register with the Ministry of Commerce and obtain relevant operating permits. But if international investors seek investment incentives, they have to apply for investment registration, which can be obtained through the CDC or the Provincial-Municipal Investment Sub-Committee (PMIS). Recently, Ministry of Commerce has accessed business registration system by online that provided easily to register business in Cambodia that can insure security and short time.

As the result, garment & textile sector have pushed Cambodia with improvement of social infrastructure, economic growth rate, and reduced flowing of workforce to the neighboring countries which confront a lot of problems and lack of workforce to supply in domestic industries such textile & garment, tourism, agricultural, and construction sectors. That's why, Cambodian government affords in promoting the potential prospect investments which offered multiple business incentives refer to increase interaction of business activities with the mainly foreign investors that enable to upgrade the numerous of exporting garment & textile products into the foreign markets which occupied the big market shares among others countries' products and Cambodia is one of the beneficiaries of the Generalized System of Preferences (GSP) schemes operated by the developed countries. Under these schemes, import tariffs on many products from the beneficiary countries are exempt or reduced if requirements such as rules of origin are fulfilled.

Keywords: **Foreign Direct Investment in Textile, Garment, and Business Incentive Policy.**

1. INTRODUCTION

Cambodia is the developing country among ASEAN country members and over the world, and it was challenged with the civil war for two decades and economy rate was slow down. Since 1980s, Cambodia started to shift from a command and control economy to the free market. Cambodia's law on investment was initiated to establish an open and liberal foreign investment regime to attract the foreign investment from all countries around the world that might be able to increase economy scale and reduced the poverty so all sectors of the economy are privatized and open to foreign investment. There are no performance requirements and no sectors in which foreign investors are denied national treatment. The Law on Investment was amended in 2003, bestowing a simplified, more transparent, and faster mechanism for investment approval. Furthermore, following the signing of the 1991 Paris Peace Accords and the structural economic reform, foreign investors were encouraged to invest in Cambodia by a political environment in which there was domestic peace and security, a commitment to macroeconomic stability, and a favorable investment climate enshrined in the Law on Investment of 1994. And Cambodia economic focuses on four main factors such as agricultural, tourism, export & import, and garment industry factors which turn economic distribution increase and decrease, and help to develop Cambodia condition become advance country in the region.

Since then, Cambodia's export-oriented garment industry has emerged and growth very fast when Asian textile and garment investors from Hong Kong, Taiwan, Malaysia, and Singapore, started to produce for export in Cambodia. In doing this, they took advantage of the country's quota-free access to the US and EU markets and, secondarily its relatively low wage rates. Cambodia's garment industry has been a pivotal source of export growth representing 80% of the country's total export and directly contributing approximately 20% to the country's gross domestic product (GDP). Since 2012, 471 garment export-oriented factories have been currently operating, of which about 95% are foreign-owned, and which has employed about 415,550 Cambodian workers. The ownership is dominated by investors from other Asian countries, in particular Taiwan, China, Hong Kong, and South Korea. Taiwan tops the list with 111 factories, followed by Hong Kong, China, South Korea and Malaysia (Garment Manufacturers Association in Cambodia).The global downturn depressed the demand for garments, and exports, particularly hard-hit, declined by 19% in 2009. However, the United States remained a key market. The government stated that 73 garment factories closed in 2008 with a loss of about 25,000 jobs but in the same year, 64 new factories opened, and absorbing 13,000 workers. Since about 70% of its clothing exports go to the US and 25% to Europe, the crisis took its toll with about 100 factories closing in 2009. The structure of the businesses makes it susceptible to shocks in the global economy because it is so export-driven. Rather, the research focuses on key implications for managerial practice at the firm level related to strategic entrepreneurial posture that has an effect on the export performance of garments manufacturing businesses in Cambodia (MFE, 2014). Foreign investment in garment manufacture industry has increased that stimulated exporting garment products increase to the region and the world with high rate because Cambodia was provided free taxation to export finish products to those countries such as the United States, European Union, China, Australia, and all ASEAN countries and another main reason is low labour cost if we compare to worker's fee other countries in Asia and ASEAN. That's why; Cambodia is the best location to build garment manufacture industry of foreign investment in garment sector that provided high profitability and opportunities to export and import garment products to the worldwide markets without regulatory prohibition the ASEAN members and outside region. The end of 2015, ASEAN will be fully integration into ASEAN economic that staking is long-standing commitment by the ten Member States of ASEAN to " hasten the establishment of the AEC and to transform ASEAN into a region with free movement of goods, services, investment, skilled labour and free flow of capital." This integration provides a lot of benefits and chances for foreign direct investment in garment sector in Cambodia to increase outcome of products to export finished products to overseas and import raw material, equipment, and material to improve garment productivity and labour skill.

In conclusion, Cambodia is looking to promotion of foreign investment in textile and garment industry sector in order to attracting foreign investors sites of world who outlook best perspective business context in Cambodia along with providing high foreign investment incentive and usefully import and export through reduced trade barrier and no tax duty among ASEAN country members, USA, European Union, and ASEAN plus members that upgraded availability and mutual recognition of foreign investment, which have signed agreement.

2. OBJECTIVE

This study aims to examine the validity of some of the concerns expressed in Cambodia over the potential effects of foreign direct investment in garment sector on local communities, infrastructure and great more job prospects for local people who can be gotten benefit from increasing foreign investment in this sector. Growing foreign companies in

Cambodia have pushed improvement on all mainly sectors that changed new appearance to have actually development and reduce flow labor to neighboring countries. The overall goal of this research study is to analyze the foreign direct investment in special economy zones, export & import procedure, and investment incentives that focus on basically points:

– Initially, it investigates the extent and nature of FDI in textile and garment sectors. It then analyses the policy and regulatory environment and institutions governing and facilitating such FDI, as well as prevailing business models, in the acquisition of garment factory location. The paper concludes by providing some policy recommendations in response to the challenge facing the sector.

– Identify the revolutionary of textile and garment products to overseas markets and its procedures.

– Determine the perception of key stakeholders toward investment regulatory of Cambodia.

– To assessment the FDI aspects recently in Cambodian by comparing to ASEAN country aspects conformance with exactly data and believable information relevance to requirement of business applications, workforce's wage, taxable and shares of exportation of textile and garment products to the oversea markets.

– To analyzing the import and export of textile and garment products to the oversea markets which help to push Cambodia GDP and improvement of people living conditions equal to ASEAN region.

– Make recommendation for improvement on investment situation in Cambodia.

3. LITERATURE REVIEW

The economy of Cambodia' at present follows an open market system (market economy) and has seen rapid economic progress in the last decade. Cambodia had a GDP of $13 billion in 2012. Per capita income, although rapidly increasing, is low compared with most neighboring countries. Cambodia's two largest industries are textiles and tourism, while agricultural activities remain the main source of income for many Cambodians living in rural areas. The service sector is heavily concentrated on trading activities and catering-related services. Recently, Cambodia has reported that oil and natural gas reserves have been found off-shore. In 1995, the government transformed the country's economic system from a planned economy to its present market-driven system. Following those changes, growth was estimated at a value of 7% while inflation dropped from 26% in 1994 to only 6% in 1995. Imports increased due to the influx of foreign aid, and exports, particularly from the country's garment industry, also increased. After four years of improving economic performance, Cambodia's economy slowed in 1997-98 due to the regional economic crisis, civil unrest, and political infighting. Foreign investments declined during this period. Also, in 1998 the main harvest was hit by drought. But in 1999, the first full year of relative peace in 30 years, progress was made on economic reforms and growth resumed at 4%.

Currently, Cambodia's foreign policy focuses on establishing friendly borders with its neighbors (such as Thailand and Vietnam), as well as integrating itself into regional (ASEAN) and global (WTO) trading systems. Some of the obstacles faced by this emerging economy are the need for a better education system and the lack of a skilled workforce; particularly in the poverty-ridden countryside, which struggles with inadequate basic infrastructure. Nonetheless, Cambodia continues to attract investors because of its low wages, plentiful labor, proximity to Asian raw materials, and favorable tax treatment.

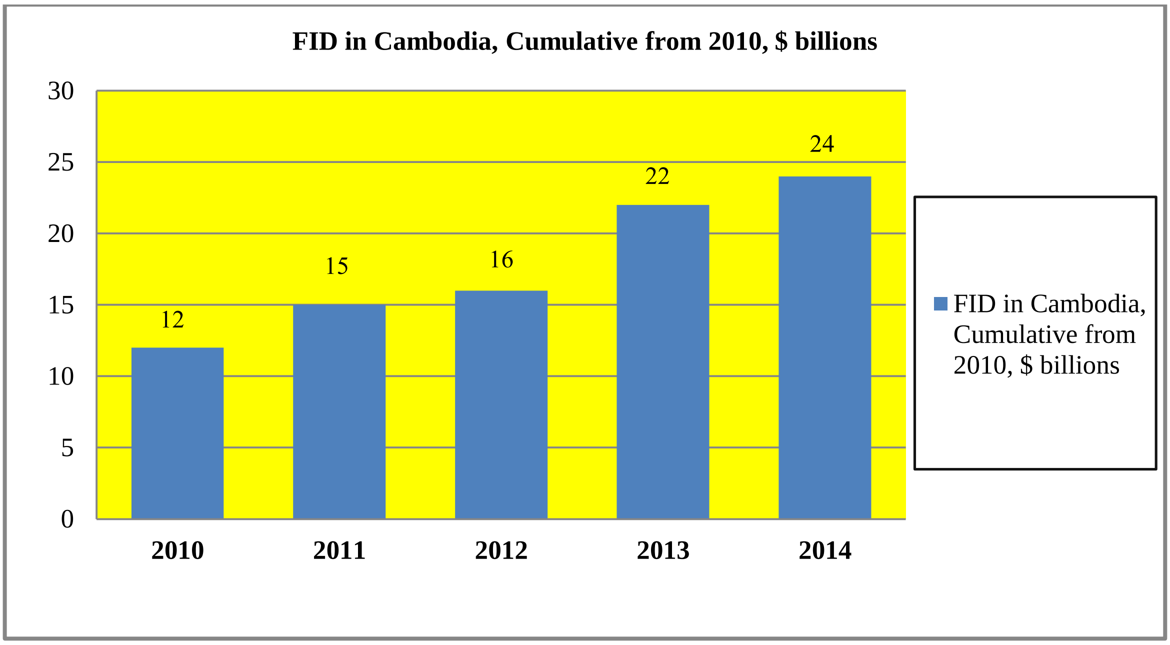
In 2007, Cambodia's gross domestic product grew by an estimated 18.6%. Garment exports rose by almost 8%, while tourist arrivals increased by nearly 35%. With exports decreasing, the 2007 GDP growth was driven largely by consumption and investment. Foreign direct investment (FDI) inflows reached US$600 million (7 percent of GDP), slightly more than what the country received in official aid. Domestic investment, driven largely by the private sector, accounted for 23.4 percent of GDP. Export growth, especially to the US, began to slow in late 2007 accompanied by stiffer competition from Vietnam and emerging risks (a slowdown in the US economy and lifting of safeguards on China's exports). US companies were the fifth largest investors in Cambodia, with more than $1.2 billion in investments over the period 1997-2013. Cambodia was severely hit by the 2008 economic crisis (refer to figure below), and its main economic sector, the garment industry, suffered a 23% drop in exports to the United States of America and Europe. As a result, 60,000 workers were laid off. However, in the last quarter of 2009 and early 2010, conditions were beginning to improve and the Cambodian economy began to recover. Cambodian exports to the US for the first 11 months of 2012 reached $2.49 billion, a 1 per cent increase year-on-year. Its imports of US goods grew 26 per cent for that period, reaching $213 million. Another factor underscoring the potential of the Cambodian economy is the recent halving of its poverty rate. The poverty rate is 20.5 percent, meaning that approximately 2.8 million people live below the poverty line.

4. METHOD

The survey collected qualitative and quantitative data. The textile & garment industry, Ministry of Commerce, and Ministry of Economic and Finance interviews were conducted by research teams composed of one technical garment expert and one economic researcher. In one day, each three-person team could visit as many as four factories. Two teams mad visits during a five-week period in September and November 2015. To gain a qualitative sense of factory operations, the team usually spent three hours visiting an entire factory during work hours, observing everything from the warehousing of raw material and accessories to the cutting and assembly process to textile and garment finishing and shipping. The garment expert toured the factory with a representative of management and generally ended the visit by making some immediate observations and recommendation. Questionnaires were distributed by e-mail before the factory visit. The questionnaire was composed of six sections; general profile, organization profile, technical factory profile, export and import profile, quality and service profile. At the outset of the factory visit, the economist spent about an hour explaining the questionnaire and data definitions. Because the questionnaires were complex, they were left with the factory managers to allow the factory to collect the information. It took an average of two days for factories to gather data from several departments and make the calculations necessary to complete the questionnaire. Electronic or paper copies were subsequently returned by the factories. Follow up was time-consuming. Half the questionnaires were not complete when returned, and half of the factories that completed the questionnaires asked the assistance in completing them.

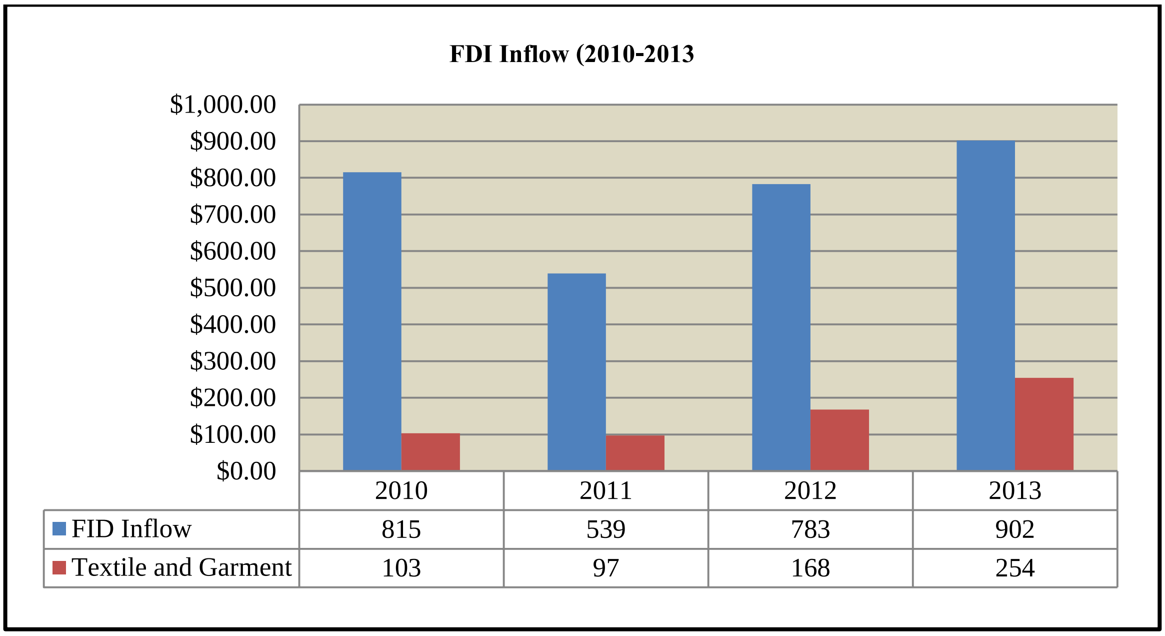
5. RESULTS

Foreign direct investment in Cambodia began in the mid-1990s and expanded sharply after the conclusion of a comprehensive trade agreement with the United States that granted Most Favored Nation (MFN) treatment to Cambodian exports. The introduction of the Qualified Investment Project (QIP) incentive scheme and the creation of Special Economic Zones (SEZ), underpinned by political stability and rapid economic growth, have boosted the FDI stock from an initial value of $149 million (four percent of GDP) in 2010 to $7 billion (over 50 percent of GDP) in 2014. Between 2010 and 2014, 29 percent of approved FDI projects were realized. This FDI realization ratio would be much higher if mega-investment projects were excluded.



China (excluding Macau, Hong Kong, and Taiwan), South Korea, Vietnam, Malaysia, and Taiwan are the top five countries in terms of FDI inflows in Cambodia since 2005, accounting for 65 percent of the total $6.3 billion. These countries are also the top five investors in terms of FDI approvals. Given that their total FDI approvals were $11.2 billion during the same period, their realization rate of the approved FDI projects was around 56 percent.

Figure below shows the total foreign director investment and investment in textile and garment sector during 2010 to 2013. The foreign direct investment wavered in 2011 due to the effects of the global economic crisis (2011: 5.3% of GDP), but recovered again in 2012. The net foreign direct investment (FDI) inflows into Cambodia surged by an estimated 75% in 2012, to $1.5 billion, in various industries as well as diversifying garment production into higher- value products and tourism into new areas. In addition, Cambodia's economic growth is forecast at 7.2% in 2013, picking up to 7.5% next year as recovery in Europe and the United States takes hold (ADB's annual economic outlook).



	2010	2011	2012	2013
FID Inflow	815	539	783	902
Textile and Garment	103	97	168	254

The United States is the prime market for Cambodian garment products, stayed 45% of total export in 2012, and followed by European (33%), Canada (9%) and Japan market (3%) (See Figure 2.5a). The total export to the US increased year-on-year, however, in 2012 there was a slightly decrease to about US$1.99 billion, around 3% compared to the same period in previous year. Moreover, garment export to European market had increase by 24% to US$1.45 billion in 2012 due to "Everything But Arms" initiative, which is the new GSP granted by European Union to LDCs (see Figure 2.5b). Last year in addition, Canada and other markets imported Cambodian garment-product which grew year-on-year by 7% and 21% respectively. Yet, during the first three months of 2013, the product of garment export still stayed in a decline stage by 92% lower from the same period of 2012, in which USA, EU, Canada, and Japan accounted for 28%, 37%, 29%, and 48% respectively.

6. CONCLUSION AND RECOMMENDATION

In my research study mainly focused on foreign investment in textile and garment sectors in Cambodia that was extremely attractive from international investors who are finding the best location to industry biased. After Cambodia finished civil war in 1993 and changed its economy system from socialism economy to free market economy and signed agreement with international community relevance to trade dimension included European Union, United States of America, and China that provided a lot of chances to develop economic, political system, and social infrastructure throughout country. Therefore, Cambodia has built many manufacturing industries to complete the global market demand that required huge amount of finished products to supply, and many foreign businessmen replaced manufacturing industry to the countries, where offered the business competitive advantages and sustainability of productivity with low product floor and workforce costs.

The results of foreign investment, Cambodia was attracted and received numerous international companies, which operated in textile and garment sector amount 411 companies and 90% was managed by foreign companies since 2008, which created thousands jobs prospects for Cambodia people who enable to completed the production process' requirements in the garment factories. The textile and garment sector is the second important pillar in stimulating national economic growth rate and promoted the Cambodian people's living standard in their communities such as social infrastructure included building highway and subway to connect transportation process and push community development.

To accomplishing and encouraging the foreign investors, Cambodia has created the Special Economic Zones in sub Phnom Penh city and vital provinces to respond the increasing of garment manufacturing industries in whole country with providence the special investment incentive policies during its business operation. This reason, investors wouldn't overlook Cambodia business location among ASEAN countries and gave fully resources to facilitate the manufacture's requirements and progressively. Furthermore, International community offered the quota on exportation products to global market with less taxation duty aim to improve Cambodia position in the world context. This factor has stimulated Cambodian industry increased the size of production and outputs flow into the oversea market.

As we seen, the gathering more foreign investment in textile & garment sector has pushed wealthy and development Cambodia to be advance country in the region and restored the economic growth rate, develop the education system, people's income, and push Cambodia economy growth from time to time that can be improvement all economy revolutionary and poverty to equal ASEAN countries that might be competitive including qualification of skill labors who flow into ASEAN when ASEAN community will be fully integrated, and Cambodia is the best location for international investment that receive high profitability and effectively production outputs to export to the world markets. Here are some recommendations for strengthen foreign investment in textile and garment sector that should be considered;

✓ Should be improved enforcement law in state institutions and justice system that can effected to the investment aspect because stakeholders need the prevention and equality during their business processing.

✓ Increasing government professional consultancy for consulting investment troubles and provident investment regulatory documentation required that focused on Cambodia investment prospects.

✓ Have to deduct the corruption that can be affected to country's development and welfare because the losing government revenue due to government employees didn't commit from clearance properly taxation and bribed with some import & export agencies who can't take this revenue to deposit the government financial pocket. The commitment of enforcement regulation is the basically of foreign investment attractiveness and confidence that make sure the manufacturing process muse be insured and protected by the Royal Government of Cambodia.

✓ Textile and garment employees should be offered properly salary and wage to workers that can be response daily expenses and improve their living condition because workers can share more energy and skills to increase product outcomes and the government will upgrade export product volume to the oversee markets which earn more national budget to improvement infrastructure and country development.

✓ The Royal Government of Cambodia continues still to need foreign investment professionals to re-study the priority tasks of investment that given benefits to country and convince potential investors to entrance business in Cambodia because we need more jobs for people to detect flowing workforces to neighboring country that cause of lack workforces to supply domestic manufacturing requirement in the nearly future.

Besides the above points, the study understand there is an information gap about initiatives within the foreign investment companies in textile and garment sector as well as the exactly work of Ministry of Economic and Finance agencies. The studies could be considered more empirical research with specific foreign investment representatives such as accommodation suppliers from different locations of the country, the size of manufacturing industries and workers.

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