



Executive Forum

BUSINESS FOR DEVELOPMENT: IMPLICATIONS FOR EXPORT STRATEGY-MAKERS

CAMBODIA

GARMENT MANUFACTURE VALUE CHAIN ANALYSIS

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INTRODUCTION

Both, Market Contact and Product Development/Design, are processes that evolve over time. Unless concerted efforts are made by the Cambodian operations of locally or foreign owned garment factories to acquire these skills, the entire industry has to keep on relying on imported inputs.

Sourcing is one aspect where the Cambodian operation may contribute increasingly to the overall process. Deepening the Value Chain will involve a thorough understanding of the technical aspects of raw materials (fabrics, dyes, accessories etc) to comply with buyers' specifications and general trends in the T&C trade such as use of environmentally friendly or bio-degradable materials & eco-labeling etc. In depth knowledge of regional suppliers and terms of trade will be harnessed to Cambodia's advantage. Cambodia is fortunate to be situated and flanked by two of the most efficient and low cost textiles and accessories producers in the world - Thailand and Vietnam. National government should be persuaded to accept proposals from suppliers within ASEAN to set up bonded warehouse for fabrics (example: denims) commonly used by Cambodia's garment factories. This is the next best thing to having a fabric factory on site in country. E-Commerce through the internet should be employed to disseminate relevant sourcing information.

As material costs constitute about 65% of a Cambodia-made garment total cost, savings derived from this process will contribute significantly to the competitiveness of our garment products.

C: LOGISTICS

With more emphasis on regional sourcing, inbound logistics play an increasingly vital role in the deepening of the VC. Diversification of sources will give rise to competing modes of supply. Containers can come directly into Phnom Penh port by barge coming upstream along the Mekong River from HCM City. With the completion of the Cambodian sections of the Asian Highway, containers can be trucked into Phnom Penh from either Thailand or Vietnam. (We cannot do so now as the road conditions in Cambodia are still bad and it takes a long time to travel within Cambodia.) This will drastically cut down on the manufacturing lead-time required and lower the transport cost. The national government should set in firmly to cut down on the intervention cost that has plagued the Cambodian transport sector for so many years.

Once the strangle hold of inbound logistics is broken by the new river route and overland hauling truck route, exporters can use the HCM bound barge and land routes to leverage their export containers against the traditional Sihanoukville only route. This is expected to bring down outbound logistics costs. It offers the Phnom Penh exporter an alternative when the Phnom Penh-Sihanoukville Highway 4 is impassable to traffic, inundated by floodwater during the rainy season. Here again, the national government's intervention in cutting down the near monopolistic logistics fee structure is called for.

Currently, buyers' nominated forwarding companies controlled a high percentage of the outbound garment container traffic volume. They provide world-class services, but also at world-class prices. Until local entities can take over the operation of such services at a comparable service level and at a lower price range, outbound logistics charges are still an irritably high cost to Cambodian garment exporters.

The Selling & Distribution process is conducted entirely beyond Cambodia's borders and is therefore outside the ambit of this discussion.

D: PRODUCTION

All the 3 processes mentioned within this function are under the entire and direct control of the Cambodian factories.

On a regional level, OPA schemes should be encouraged taking into consideration the comparative advantage of each ASEAN member *vis-à-vis* another member. Trade privileges (arising from FTA, EBA, LDC etc) enjoyed by one member state should be fully exploited by the other ASEAN members.

On the national level, “best practices” procedures should be introduced among factories producing the same commodity in order to reduce the productivity disparities between factories. We expect this will increase overall productivity.

SMEs should be inducted into the VC process by actively out sourcing many minor production procedures to them.

In the Cambodian context, special emphasis should be placed on the impact of the export document processing charges on the costs of the garment sector.

CONCLUSION

What makes the Cambodian garment industry what it is today is the collective and accumulated contacts, goodwill and management expertise of the nearly 200, mostly foreign, owners implanted into their Cambodian operations. They will stay as long as it is profitable to operate in Cambodia. Deepening the value chain is an exercise undertaken to induce them to stay longer in Cambodia by identifying the possible spots along the garment manufacturing process where they can cut cost and smoothen the integration of their Cambodian operations more snugly into the overall business strategy of their overseas holding companies.