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Japanese garment giants leave China for Cambodia

Manoj Mathew / Khmer Times



Rising costs in China force Japanese garment companies to move to Southeast Asia. KT/Chor Sokunthea

The garment sector in the Kingdom has received a boost as some big Japanese garment companies are making the move to shift their manufacturing and procurement bases from China to Cambodia and Vietnam due to rising costs and the Chinese government's zero Covid-19 policy.

This was revealed recently by Chea Vuthy, Deputy Secretary General of the Council for the Development of Cambodia (CDC), while attending an event to launch the Garment, Footwear and Travel (GFT) goods 'Sector Brief' in Phnom Penh.

Indications are that major apparel companies, such as Adastria, Aoyama Trading and suppliers of Uniqlo, will move some of their production bases from China to RCEP (Regional Comprehensive Economic Partnership) member countries in Southeast Asia such as Cambodia and Vietnam to take advantage of exemptions from textile import tariffs.

But there are even more compelling reasons behind the development, it is learnt. "Rising labour costs and the zero Covid-19 policy of the Chinese government have prompted the Japanese manufacturers to move to Southeast Asian countries such as Cambodia and Vietnam," said Vuthy.

According to the Japan External Trade Organization, the average monthly salary of a factory worker in Guangzhou, China, recently reached about \$670, almost double that of an average worker in Cambodia.

Other factors such as depreciating yen and rising costs of raw materials in China have also been cited as reasons behind the decision of the Japanese garment manufacturers to move out. The RCEP that came into effect in January has given several companies a new lifeline, said reports.

Adastria, operating retail stores under 26 brands, for example, has already increased production in Cambodia and Vietnam this year. Moreover, the company also plans to expand production areas to include Indonesia, Bangladesh, and other countries, and increase production in Southeast Asia to 50 percent by 2026.

According to industry reports, out of Adastria's total clothing imports into Japan, the number of items produced in China fell to 59 percent in 2021, down from 81 percent a decade earlier.

Meanwhile, Aoyama Trading, a major menswear company, is reportedly expanding its product procurement from Indonesia and Vietnam.

Matsuoka Corporation, a contract manufacturer for Uniqlo subsidiary Fast Retailing, produced 50 percent of its clothing in China in the fiscal year ending in March 2022, but is reportedly planning to decrease that to 29 percent by 2025.

Over the same period, it will increase production in Bangladesh to 34 percent from 28 percent and in Vietnam to 28 percent from 16 percent.

Meanwhile, according to the GFT Sector Brief, launched jointly by European Chamber of Commerce in Cambodia (EuroCham), Textile, Apparel, Footwear & Travel Goods Association in Cambodia (TAFTAC), and International Labour Organization (ILO), the sector has been the backbone of the Cambodian economy for more than two decades.

It is labour-intensive, and traditionally attracts a large number of female workers – 75.9 percent of the employed population in the sector are women.

In the decade of 2010-2019 (before the Covid-19 pandemic), the GFT sector represented an average of 10 percent of Cambodia's GDP annually. During this period, Cambodia's GDP grew at an average rate of seven percent per year and of that, roughly a quarter came from the GFT sector.