

AID-FOR-TRADE CASE STORY

CAMBODIA

The Expansion and Diversification of Cambodia's Exports of Silk Products

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Executive Summary

Once a large producer of silk yarn and fabric, Cambodia saw the sector nearly extinguished by years of civil unrest. Starting back in the mid 1990s, a few development partners have focused Aid-for-Trade (AFT) on trying to rebuild the sector. There is a growing demand in the global market for silk-related products – fashion, home décor, others – and the sector was identified in the Cambodia Trade Integration Strategy 2007 as one of 19 potential sectors to assist with the expansion and diversification of the country’s export basket. In addition, the sector has a direct, immediate impact on poverty reduction and on women income and employment in particular.

Going forward, further development of the Cambodian silk value chain may require a stronger and more explicit engagement of the Government in setting out a road map and a policy environment for the sector to enable growth and expansion.

1. Issue Addressed

Once a large producer of silk yarn and woven silk, Cambodia’s saw its silk-related activities come to a virtual stop during the conflict years. Going back to the mid-1990s, with initial assistance from AFD, Cambodia began reviving the sector, focusing on sericulture (the production of raw silk), yarn production, weaving, and fashion and craft production. Since 2005, following the end of French support to the sector, the International Trade Center (ITC) with multi-donor funding has been the main development partner.

Cambodia’s 2007 updated Diagnostic Trade Integration Study, *Cambodia Trade Integration Strategy 2007 (CTIS 2007)*, identified silk exports as one of 19 potential sectors with opportunities for Cambodia to diversify its current export base, including by moving up the value chain and expanding into new product and geographical markets.¹

2. Objective Pursued

Silk-related activities are labor-intensive, heavily dominated by women, and based in rural areas with high, immediate impact on poverty-reduction. For instance, while one hectare of paddy rice production may yield between a \$500-to-\$600 annual income to a farmer, an equivalent one hectare of mulberry trees producing silk worms will yield approximately a \$2000 income to a farmer.

Silk-related finished products – fashion, home decoration items, other craft – are in high demand either for direct exports or as purchases by foreign visitors.

¹ Royal Government of Cambodia, *Cambodia Trade Integration Strategy 2007*, launched in Phnom Penh, December 2007

The Royal Government of Cambodia's (RGC) objective in the silk sector is to redevelop the value chain to expand and diversify its exports, reduce poverty, and benefit women.

3. Challenges Encountered and Factors for Success

3.1 Capacity Development of the Value Chain

Cambodia's silk value chain includes three main sub-sectors: sericulture and yarn production, weaving, and product and market development.

During the 1950s, Cambodia produced as much as 50 MT of yarn per year from its own sericulture. Today, production is approximately 5 MT per year, with about 1300 breeders and 160ha of mulberry trees. Production was somewhat higher towards the end of the French assistance in 2005 (about 7 MT produced and 230ha planted) but the numbers have come down somewhat since then due, in part, to disease. A two-year FAO project was launched in late 2009 and is focusing on silkworm egg production, disease control, and mulberry tree planting (mulberry grows in shrubs and can begin producing within eight months of planting.) The target is for 5,000 disease-free cases of silk worm per year. Seven demonstration farms will be set up to teach silkworm-raising and cocoon-reeling techniques.

Planting and production of yarn is concentrated in the Banteay Mean Chey and Siem Reap areas. Some of the main limitation to a more rapid expansion of domestic production is the lack of large enough plots of land (average size at present is 0.15ha) and the need to improve the reeling of cocoons to produce yarn by investing into a reeling factory (reeling at present is done by farmers themselves which leads to inconsistent quality.)

In contrast to production, which is centered in the NW, most weaving is based in the South (some 20,000 weavers) and some limited amount in the North (about 300 weavers.) See Table 1. Weaving is overwhelmingly an activity carried out by women. Of course, since production of yarn remains quite limited, Cambodia is a large importer of yarn, from Vietnam but also from China and Uzbekistan. Some 400MT are imported yearly at the moment. Some 2.3-to-2.4 million sqm. of fabric are produced and consumed yearly. Import of yarn declined to approximately 300MT in 2009 during the financial crisis but the numbers have rebounded since then.² The risk associated with the import of raw material is the potentially wide fluctuations in price which may undermine profitability for weavers. Weavers and breeders are organized in associations, the largest one of which is Khmer Silk Villages which federates about 700 breeders in the North West and 800 weavers in the South.

To leverage weaving, the current ITC project has been trying to introduce a Cambodia Golden Silk (CGS) Standard and Collective Mark based on well defined technical and fair trade standards and aimed at assisting with the branding of Cambodia's silk in the global marketplace.

² Phnom Penh Post, "Silk Imports set to slide as sector suffers from crisis," September 22, 2009

The third main subsector of the silk value chain is product and market development. Except for one large player, Artisans d'Angkor (both a weaver and producer/retailer of finished products), the sector is dominated by small producers, retailers, and NGOs loosely federated under such organizations as the Artisans Association of Cambodia, the Cambodia Silk Forum, the CraftNetwork-Cambodia or others. Artisans d' Angor is a public-private enterprise with 30% ownership by the Government, 30% by the SCA (a French company – operator of Cambodia's main airports), and 40% by the Artisans Association. The number of actors in the sector has been growing quite rapidly but they are typically small and have limited access to market information and limited knowledge of international markets, except for foreign visitors. The sub-sector is also in need of skill upgrading in the areas of product design, product development, and understanding of product demand in potential export markets.

3.2 Government-Private Sector Coordination

Government's leadership in structuring the sector has been limited until recently.

Earlier efforts were mostly driven by donors and have tended to focus on a private-sector-led development of the sector. However, this is unlikely to be sufficient to drive a full-scale development of Cambodia's silk value chain going forward. The Government has a key role to play in setting out policy and the business enabling environment for the sector, which is something the private sector cannot do alone.

The ITC multi-donor support, launched in 2006 and implemented by Ministry of Commerce (MoC), worked with the Ministry at an early stage to formulate a sector-wide strategy for Cambodian silk.³ At the moment, the project is focusing on trying to create an institutional mechanism, the "Silk Board", to bring together all key actors. The proposed Board is to include not only private sector representative organizations (Khmer Silk Villages, Artisans Associations, others) but key line ministries as well under MoC leadership, such as the Ministry of Rural Development (MRD), the Ministry of Agriculture, Forestry and Fisheries (MAFF), the Ministry of Industry, Mines and Energy (MIME) and the Ministry of Women Affairs (MoWA.) The view is that the Silk Board could provide impetus and ideas on ways in which the Government could develop a supportive and enabling environment for an accelerated development of the sector. Terms of Reference for a Silk Board are being drafted.

3.3. Aid for Trade

From the mid-1990s through the mid-2000s, AFD was the prime development partner to the sector, through its PRESNOC program (1995-1998 extended to 2001) followed by its PASS program (2002-2005.) In 2006, the International Trade Center (ITC) took the relay with financing support from NZAid, SECO and UNDP-TRADE.⁴ More recently, FAO has started providing support, focusing on sericulture. The Belgian Government is planning a support to strengthen production capacity of local silk yarn in Phnom Srok.

³ ITC, *Sector-wide Strategy for the Cambodian Silk Sector*, March 2006

⁴ UNDP-TRADE stands for UNDP "Trade-Related Assistance for Development and Equity" project

3.4 Mitigating External Factors

A more rapid development of the sector may require a more deliberate commitment of institutional and financial resources from RGC. In the short term, however, more Aid-for-Trade (AfT) is likely to be required to continue investing in the sector's long term future. To mobilize new AfT may require a more explicit commitment and engagement of RGC in setting out a road map for the sector, possibly in the form outlined under the current MoC-implemented ITC assistance.

4. Results Achieved – Measurable Impacts

Gross output of the sector is approximately \$50 million, of which approximately \$25 million represent the cost of yarn import. In other words, value added of the sector is about \$25 million. A 2009 estimate suggested exports of silk products somewhere in the vicinity of \$3.5 to \$4 million. A sharp substitution of domestic production for current imports of yarn could create as many as an additional 20,000 to 25,000 job to the current 22,000 to 25,000 jobs in the sector.

The great majority of the jobs created in the silk sector benefits women and is concentrated in regions that are relatively poorer and need income-producing employment creation.

5. Lessons Learned

Until recently, the redevelopment of the silk sector in Cambodia has been mostly a private-sector and donor driven effort. Earlier attempts to drive the sector principally through private-sector initiatives such as the Cambodia Silk Forum or the CraftNetwork-Cambodia, while helpful, have shown limitations. There is a need to create a Government-Private Sector partnership to address issues confronted by the sector and consolidate progress accomplished thus far. The proposed creation of a Silk Board is intended to address this institutional gap.

In addition to creating an appropriate mechanism for a public-private partnership in silk, there is a need for Government to provide a policy framework for the sector and a road map for the different partners to contribute to the success of the policy. The 2006 "Sector-wide Strategy for the Cambodian Silk Sector" can provide a foundation for such effort but, ultimately, it has to be a policy developed and endorsed by the Government, not a donor-driven strategy. The RGC's recent Policy Paper on Rice Export might provide a very useful example and guide for what might need to happen in the Silk sector.⁵

AfT support to the Cambodian silk sector is a good example of how AfT can target directly disadvantaged groups and bring immediate poverty-reduction benefits in addition to trade gains.

⁵ Royal Government of Cambodia, *Policy Paper on the Promotion of Paddy Production and Rice Export*, approved by the Council of Ministers, Phnom Penh, July 25, 2010

Table 1: Number and Location of Cambodian Silk Weavers, 2010

Area	# Weavers	Specialization
Takeo	12,584	Hol (86%), Plain Fabrics (8%), Krama (6%)
Kandal	4,513	Phamuong , Chorobab, Lberk
Kampong Cham	770	Hol (95%)
Prey Veng	2,037	Plain Fabrics/Organza (83%), Krama (17%)
Northwest Area	321	Plain Fabrics, Blanket, Krama (70%)
Total	20,225	

Source: Khmer Silk Villages (April, 2010)