European market study Cambodia Home Decoration & Personal Accessories

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European imports of home decoration and home textiles totalled €120 billion in 2014, of which 40% came from developing countries at a value of €48 billion. While China is by far Europe's leading supplier of home decoration and home textiles, Southeast Asia is an important production area with four countries (Vietnam, Indonesia, Thailand and Malaysia) ranking among the leading suppliers outside Europe. European imports show an annual import growth rate of 2.5% from 2010-2014, which indicates that the market recovered from the economic crisis in 2007-2009. Current European economic forecast data suggest that the growth trend is likely to continue.

At an abstract level, the European market for home decoration and home textiles comprises four different market segments (high-end, mid-high, mid-low and low-end) that offer opportunities for suppliers from developing countries. The main market trends for home decoration and home textiles in Europe are currently the trends for individuality/originality, functional and appealing products from emerging markets, sustainable/ecological/fair products and the growing importance of alternative trade channels such as direct supply. Value chain integration is on the rise. The market demands closer cooperation, greater efficiency, transparency along the supply chain and shorter lead times.

In a survey conducted for this research among 25 European importers and consultants, the sources indicated the highest market demand is for product groups such as recycled products, bags, home textiles, scarves and other textile accessories, basketry, seasonal decoration as well as wooden items, while there is less demand for small bamboo and rattan furniture, carpets, paintings, sculptures etc. The sources provided detailed information on competitive prices for a number of products and provided feedback on import experience with Cambodia, Laos and Myanmar. They suggested that Cambodia, Laos and Myanmar should not try to compete with cheap products from China or India. Instead, the countries should focus on high quality, developing their own style and functional, unique, contemporary design as well as sustainable materials.

Among the three countries that were part of this research, Cambodia is by far the most important exporter of home decoration, home textiles and gifts to the European market, with a value of US$44.874 million for selected HS codes in 2015, while imports from Myanmar were $12.396 million and those from Laos were $0.391 million. Compared to neighbouring Vietnam, with its export of $441.975 million according to the selected HS codes, Cambodia's exports amounted to just 10% of Vietnam's exports, which can serve as a benchmark.

The product groups of home decoration, home textiles and gifts imported from Cambodia to Europe that are the largest by far are 1) suitcases, bags, wallets, 2) home textiles, and 3) scarves and accessories of textile materials. Cambodia ranks first among the three countries in all three product groups. In all three groups, imports grew in the last five years. However, Cambodia is particularly weak at exporting basketry and wickerwork to Europe. The main European importing countries in 2015 were the United Kingdom, Belgium and France.

Cambodia has a population of 15.6 million people and a gross national income of $1,070 per capita. The garment sector (which employs 600,000 persons), construction and services are the main drivers of the economy. The poverty rate was 17.7% in 2012 according to the poverty headcount ratio at national poverty line level. As for the production of home decoration, home textiles and gifts in Cambodia, four main categories of companies can be distinguished. These are 1) companies with a focus on silk, 2) companies with a focus on rattan and other natural fibres such as sedge, 3) companies with a focus on recycling products and 4) general handicraft companies working with a broad range of different products.

The companies largely focus on handmade production. Silk weaving, as well as rattan & sedge weaving, provide the most employment with about 5,000 active weavers in each product group. About 3,000 persons are employed at production level by other general handicraft companies and the production of recycled products is estimated to provide income to about 800 families. Including suppliers, end producers and traders, it is estimated that the industry employs more than 20,000 people in total. The goods are mainly produced for three main markets: domestic consumers, the tourism market and the export market. Social enterprises and women-led enterprises play an important role in the value chain. It is estimated that there are more than 50 companies with ongoing exports of silk products, more than 10 companies exporting some kind of recycled products and a further 8-10 general handicraft enterprises with export activities. For basketry, there is one larger export company only.

The main ministries in charge of the industry are the Ministry of Industry and Handicrafts with responsibility for small and medium enterprises and the Ministry of Commerce with responsibility for trade facilitation. The main sector associations are the Artisans Association of Cambodia in Phnom Penh and the Angkor Handicraft Association (AHA) in Siem Reap province. There are a number of ongoing support programmes on silk and other natural fibres, and the Ministry of Commerce recently launched a new National Silk Strategy 2016–2020. It was learned from past programmes that there is potential for hand-woven silk from Cambodia on the international market. Projects in the past contributed to an increase in Cambodian silk exports and particularly silk scarves proved to be competitive. Past attempts to promote sericulture farming were difficult, while promotion efforts for basketry products showed mixed results.

A general competitive advantage of the home decoration, home textiles and gifts value chain in Cambodia is the fair trade and social orientation of the industry, with many companies having an NGO background. Some companies are fair trade certified or use fair trade certification. The social orientation makes the industry attractive for fair trade-oriented buyers in Europe and is a strong advantage. However, many (former) NGOs have difficulties moving towards commercial business models which enable them to grow significantly. Most companies are small and do not have the necessary human capacities in design, production management and marketing.

The greatest export promotion potential for home decoration, home textiles and gifts in Cambodia is in silk. The silk industry has the largest number of export-oriented and export-experienced companies that employ a large number of people. There is proven market demand for silk products from Cambodia, and they have proven to be competitive. Second, Cambodia is strong on recycled products. There are a number of export-experienced companies that specialise in this product group, for which there is especially strong market demand. The industry is particularly dynamic and employs a reasonably large number of craftsmen. Third, there are a number of major general handicraft companies offering a broad range of various crafts with export potential, such as organic cotton textiles, ceramics etc. The companies have different competitive advantages in terms of their solid economic background and specialisation in particular products. Basketry products rank fourth. The industry provides employment to a large number of producers and has export-ready products, but companies have less export experience and there is tough competition for basketry products.

The main general barriers hindering export to Europe are cumbersome customs procedures, difficult company registration requirements and the need for unofficial payments. These result in additional costs and subsequent customer complaints about high transport cost and high prices. Further on, companies do not receive much support from associations and the government in terms of training services and trade promotion support, resulting in less innovation and few market contacts. The main specific barriers for increasing silk exports to Europe are inconsistent/expensive raw materials, low weaver productivity resulting in relatively high product prices, predominant focus on the export of silk scarves and rather poor communication by companies. For recycled products, key constraints are low productivity resulting in relatively high prices, products that are too simple or not durable, the specific niche market character and unfavourable framework conditions. The general handicraft producers have a strong focus on the domestic market, lack export market knowledge/experience, have low productivity and are affected by unfavourable framework conditions as well. The main barriers hindering the export of basketry products are the relatively high price level and the lack of general export experience or specific export experience to Europe.

Cambodia can benefit from sharing experience with Vietnam in terms of purchasing silk yarn and accessories there directly, and can learn from the organisational models of Vietnamese companies. The mobilisation of

Vietnamese experts for technology transfer, participation in regional trade shows such as LIFESTYLE Vietnam and an exchange on organisation development among the handicraft associations would be welcome developments, and would help Cambodian companies to become more competitive. As for suggested solutions to upgrade the value chain, the silk industry should get better control over its supply chain, introduce new technologies and diversify the product range for export. The major silk export companies should be registered formally, improve their communication and participate regularly in international trade fairs to develop more market contacts. The expected impact would be that 10 companies double their current combined export turnover of $500,000 per year and increase their permanent and part-time workforce by 500 workers. The recycled products industry can be upgraded to offer a more sophisticated and broader product range. Productivity can be increased so that prices become more competitive. The expected impact would be that 5 companies double their current combined export turnover of $400,000 per year and increase their permanent and part-time workforce by 300 workers.

The general handicraft companies can use their existing local production system and resources to develop the export market as well, focusing on selected products that can be produced at lower cost and in larger quantity. The expected impact would be that 6 companies double their combined current export turnover of $400,000 per year and increase their permanent and part-time workforce by 400 workers.

Basketry companies can develop export market knowledge and contacts on the European market and supply sustainably-produced basket ware in larger quantities. The expected impact would be that 4 companies increase exports by $100,000 per year each and increase their permanent and parttime workforce by 400 workers.

The capacity of the local associations Artisans Association of Cambodia (AAC) and Angkor Handicraft Association (AHA) should be strengthened to provide better services to their members, e.g. for design capacity development and lobbying for improved framework conditions.

The total impact of upgrading the value chain that can be expected within a period of five years is estimated to be an increase in exports of $1.4 million per year and 1,600 jobs created. This impact should make it possible to develop a positive project business case with a generated impact higher than the required investment. A support project is recommended to increase exports of home decoration, home textiles and gifts to Europe.

As for the Social Responsibility Risk assessment undertaken, most companies assessed in the home decoration, home textiles and gifts value chain show more social responsibility advantages than risks. The companies are particularly important for income generation for women and many companies are managed by women. An important number of companies play an important role for the employment of handicapped people. Moderate risks should be addressed with targeted activities to avoid child work in the predominant cottage industries, improve occupational health and safety, reduce environmental pollution and corruption and ensure better traceability of the origin of inputs.