Southward bound
Keith Bradsher

Thomas Cristofoletti for The New York Times
A truck brings factory workers to the Phnom Penh Special Economic Zone in central Cambodia.

Tiffany & Company is quietly building a diamond-polishing factory in Cambodia, a country popularly associated more with killing fields and land mines than baubles.

Some of Japan's biggest manufacturers are also rushing to set up operations in Phnom Penh to make wiring harnesses for cars and touch screens and vibration motors for cellphones. European companies are not far behind, making dance shoes and microfiber sleeves for sunglasses.

Foreign companies are flocking to Cambodia for a simple reason. They want to limit their overwhelming reliance on factories in China.

Problems are multiplying fast for foreign investors in China. Blue-collar wages have surged, quadrupling in the last decade as a factory construction boom has coincided with waning numbers of young people interested in factory jobs. Starting last year, the labor force has actually begun shrinking because of the "one child" policy and an aging population.

"Every couple days, I'm getting calls from manufacturers who want to move their businesses here from China," said Bradley Gordon, an American lawyer in Phnom Penh.

But multinational companies are finding that they can run from China's rising wages but cannot truly hide. The populations, economies and even electricity output of most Southeast Asian countries are smaller than in many Chinese provinces, and sometimes smaller than a single Chinese city. As companies shift south, they quickly use up local labor supplies and push wages up sharply.

While wages and benefits often remain below levels needed to provide proper housing and balanced diets, the manufacturing investment — foreign direct investment in Cambodia rose 70 percent last year from 2011 — is starting to raise millions of people out of destitution. "People along the Mekong River are being lifted out of poverty by foreign investment inflows

driven by higher Chinese wages," said Peter Brimble, the senior economist for Cambodia at the Asian Development Bank.

Only a smattering of companies, mostly in low-tech sectors like garment and shoe manufacturing, are seeking to leave China entirely. Many more companies are building new factories in Southeast Asia to supplement operations in China. China's fast-growing domestic market, large population and huge industrial base still make it attractive for many companies, while productivity in China is rising almost as fast as wages in many industries.

Foreign investment in China nonetheless slipped 3.5 percent last year, after rising every year since 1980 except 1999, during the Asian financial crisis, and 2009, during the global financial crisis. Still, at $119.7 billion, foreign investment in China continues to dwarf investment elsewhere. By comparison, investment in Cambodia rose to $1.5 billion.

"People are not looking for exit strategies from China, they're looking to set up parallel operations to hedge their bets," said Bretton Sciaroni, another American lawyer here. Among Japanese makers, Sumitomo is making wiring harnesses for cars, Minebea is assembling parts for cellphones and Denso is about to start production of motorcycle ignition components. Bloch, a European dance shoe company, buys shoes made here, while Oakley buys sleeves for its sunglasses.

Foreign investment also increased sharply last year in Vietnam, Thailand, Myanmar and the Philippines.

As companies compete for employees, working conditions in the region are improving. Pactics, a Belgian-run company that is the world's largest maker of microfiber sleeves for luxury sunglasses, has introduced employee benefits that were previously rare in Cambodia, like medical insurance, accident insurance, education allowances and free lunches.

Because costs are extremely low in Cambodia, where a visit to the doctor may cost only a couple of dollars, overall compensation for each worker is still less than $130 a month. At the company's factory on the outskirts of Shanghai, workers doing the same tasks earn $560 to $640 a month, including government-mandated allowances, said Piet Holten, the company's president.

Cambodian workers sew 15 to 30 percent fewer sleeves per day than their Shanghai counterparts, but productivity in Cambodia has been catching up.

"I will never get it up to China, but the cost is less than a third of China's, and China only gets more expensive," Mr. Holten said.

Overall monthly compensation for industrial workers has increased as much as 65 percent in the last five years in Cambodia, although from such a low base that workers here remain among the poorest in Asia. A decade ago, workers flocked to newly opened factories in Phnom Penh that posted hiring notices, but "today, you put a notice on a factory and you don't have anybody come," said Sandra D'Amico, the managing director of HR Inc. Cambodia, a human resources company.

Production was temporarily crippled this winter by strikes at numerous Taiwanese-owned garment factories in eastern Cambodia producing simple garments like bathing suits after Japanese factories moved in to make more sophisticated products like business suits and gloves — and offered higher pay and benefits.

At the Phnom Penh Special Economic Zone here in central Cambodia, Minebea is trying to attract workers by building a modern, four-story dormitory for 2,000 people with six beds to a room and a large recreation hall — a big change from the plywood houses with thatched roofs in which millions of Cambodians still live. The Laurelton Diamonds unit of Tiffany has already driven pilings for a modern, 95,000-square-foot factory across the street to polish small diamonds, and is seeking international "green building" accreditation for the project.

Employment at the zone is doubling this year, to 20,000 workers, and is projected to redouble to 40,000 in the next several years, said Hiroshi Uematsu, the zone's managing director.

Skeptics like David J. Welsh, the Cambodia representative of the A.F.L.-C.I.O.'s Solidarity Center, say that rising food and housing costs prevent many workers from fully benefiting from rising wages. Ken Loo, the secretary general of the Garment Manufacturers Association in Cambodia, said that his industry needed to resist workers' demands for further pay increases so as to preserve its international competitiveness.

Tatiana Olchanetzky, a manufacturing consultant to companies in the handbag and luggage industry, said that she had analyzed the costs in her industry of moving operations from China to the Philippines, Cambodia, Vietnam and Indonesia. She found that any savings were very small because China produces most of the fabrics, clasps, wheels and other materials required for the bag trade, and these would have to be shipped to other countries if final assembly moved there.

But some factories have moved anyway, at the request of Western buyers who fear depending exclusively on a single country.

While moving to a new country with an unproved supply chain is a risk, Ms. Olchanetzky said, "They think there's a risk in staying in China, too."

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