HNOM PENH, Cambodia - Clothing manufacturers here dread New Year's Day 2005. That will be the first day they have to compete with China, no holds barred, to supply their most important market, the United States.

A decades-old system of American textile import quotas is due to expire at the end of 2004 - a system that capped China's share of the market and effectively assured manufacturers in smaller nations that they would receive some American orders.

Now, American trade officials are warning that of the 50 nations exporting clothing to the United States, perhaps only 10 may be able to withstand untrammeled competition from China, with its almost limitless supply of cheap labor and its capacity for high-volume production. And Cambodia, they say, might not be one of them.

At factories clustered in a new industrial zone on the south side of this capital city, manufacturers acknowledge that they will not be able to beat China on price. Production costs here, though much lower than in North America, are nonetheless about 25 percent higher than in China, the manufacturers say, citing a host of reasons: electricity costs are three times those in neighboring Thailand or Vietnam; it takes 18 days for a freight container to wend its way here from the country's only major seaport at Sihanoukville, 115 miles away; and monitors sent by Nike, the Gap and the International Labor Organization are always breathing down their necks, the garment manufacturers say, insisting that workers receive overtime pay, bathroom breaks and union representation.

But in the scramble to find shelter from the Chinese storm, this year's liability may be next year's asset. Gambling on the social consciousness of American and European consumers, Cambodian garment makers say they believe they can carve out a role as Asia's labor-friendly producer.

"We are looking at a niche market," said Ray Chew, secretary general of the Garment Manufacturers' Association in Cambodia. "We are trying to create a niche that builds on Cambodia as a safe producer - that this garment is made in a country that respects labor rights."

Cambodia's clothing manufacturers have been operating since 1999 under an inspection program directed by the International Labor Organization. To be eligible to ship goods to the United States - the destination for about two-thirds of Cambodia's clothing exports - a factory must participate in a working-conditions improvement program devised by the organization, a United Nations affiliate. To reward its progress under the program, the United States has given Cambodia a larger quota and lower tariffs.

As a result, Cambodia's clothing industry has mushroomed. Production for export has quadrupled, to $1.5 billion, over the last five years. In 2003, exports rose 11 percent, helping the nation's economy as a
whole to grow about 5 percent.

Employment at Cambodia's 200-odd garment manufacturers has tripled since 1999, to 235,000 workers - almost all of them women - whose earnings help support one-tenth of the nation's 13 million people.

"We are all worried" about China, said Tep Rany, a 21-year-old seamstress who was relaxing at home on Jan. 7, a national holiday commemorating the 1979 expulsion of the Khmer Rouge from Phnom Penh. Speaking under the shade of a plastic tarpaulin outside her house, she said that she and her sister Sophal, 20, each earned $55 a month making clothes, helping to support their family of 12. Her father, she said, made only $10 to 20 a month as an electrician.

If the garment factories lose to Chinese rivals, women from rural districts can fall back on field work. But for urban women, the only employment alternative may be as a bar hostess or prostitute.

"Working in the factory is much, much better than working in a karaoke bar or a nightclub," Miss Tep said. "In the factory, we have prestige. We make more money."

China already looms large in Phnom Penh. Signs using Chinese characters have largely replaced those using French, the former colonial tongue, as the ones most often seen in the garment district (after those in Khmer and English). Many of the investors whose capital built the industry came from Taiwan, Hong Kong, Singapore, or Cambodia's own ethnic Chinese minority of about 300,000 people. Now, though, China has new connotations for many workers: a threatened flood of cheap goods.

"Competing with China would bring a lot of problems, because Cambodia is a small country with a small population," said Long Sareth, a neighbor of the Teps whose daughters work in garment factories. "You can see products from China sold here that are cheaper than products from our own region."

Nations far from Asia are also feeling the heat. In Mexico, Chinese imports have been blamed for a loss of 200,000 jobs in apparel and other industries since 2001. In 2003, the United States bought more goods from China than from Mexico for the first time.

Seamstresses interviewed here said that they wanted the United States to go on giving preferential market access to Cambodian goods. While that is unlikely to happen, the United States has reserved the right to extend some restrictions on apparel imports from China through 2008. Last November, under pressure from domestic textile manufacturers, the Bush administration said it was considering the imposition of new quotas on Chinese dressing gowns, brassieres and knitted fabrics. Now, European manufacturers are pressing the European Union to take similar steps.

Even without trade preferences, Cambodia may be able to keep some garment work simply because it is not China. "We have always tried to spread our sourcing across the globe," said Alan Marks, a spokesman for Gap, which has its clothes produced in about 50 countries. Gap is by far the Cambodian industry's largest customer, taking about 40 percent of its exports, mainly for the Banana Republic and Old Navy brands. In a telephone interview from San Francisco, Mr. Marks stressed the need for diversity of sources to cope with unexpected problems, citing the outbreak of SARS in southeastern China last spring as an example.

"With a diversified global sourcing bases, we can easily shift production and not disrupt our supply chain," Mr. Marks said. Though Gap gets one-sixth of its clothes from China, he said, "Cambodia has been an important market for us, and in the near term will continue to be."
As for developing labor friendliness as a competitive advantage, the consensus here is that factory conditions have improved under the International Labor Organization inspection program.

"In the last three years, it has gotten a little better," said Chea Vichea, president of the Free Trade Union of Workers of the Kingdom of Cambodia, an umbrella labor group with links to the opposition Sam Rainsy Party. "We are better than Vietnam and China - we have the right to strike, to negotiate with employers. In Vietnam and China, there are no free trade unions."

One of the most important improvements in Cambodia, Mr. Chea said, was the organization of an arbitration council, which has managed to broker settlements of a number of disputes that might otherwise have led to wildcat strikes and stone-throwing clashes with police, much like the incident that led to 2 deaths and 26 injuries last June.

[On Jan. 22, a few days after this interview, a gunman walked up to Mr. Chea as he was reading a newspaper and shot him three times in the chest, killing him. His death, presumed to be connected to his union work, is expected to cloud Cambodia's efforts to market itself as labor friendly.]

A rival labor group, the pro-government Cambodian Union Federation, has also hailed the mediation efforts. "The arbitration panel has played a good role; they do their job, not like a normal court," said Chuon Mom Thol, the president of the federation, alluding to the widespread corruption in the country's judicial system. "Compared with two years ago, there have been very, very few strikes" this year, he said.

Under the inspection program, 11 field monitors - Cambodians working for the International Labor Organization - visit factories regularly to check on labor-law violations. Every four months, the team compiles and publishes a report, which is also available online. The program's $750,000 annual budget is financed by the Garment Manufacturers Association and by grants from the governments of the United States and Cambodia.

According to the most recent report, monitors found no forced labor, child labor or discrimination problems at 61 factories they visited. But overtime work was not always voluntary, the report said, and many factories kept poor payroll records, failed to make clear to workers how their pay was calculated, and often paid them incorrect amounts, in some cases using slips written in a language they could not read.

In general, though, conditions are improving, said Lejo Sibbel, the director of the inspection program.

Still, Mr. Sibbel stressed that his program could not provide what Cambodians wanted most: a seal of approval for their labor practices. "The I.L.O. is not in the business of certifying countries or factories," he said. "We do not say if it is good or bad."

So the government is seeking validation elsewhere, perhaps on the model of the privately run certification programs for "fair trade" coffee, "dolphin safe" tuna or "sustainably harvested" hardwood lumber.

"We need to find an inspection company acceptable to the buyers, that all the players can trust," Cham Prasidh, the commerce minister, said in an interview. "We need a green label, something like 'Cambodia: Free of Sweatshops.' "

But Ineke Zeldenrust, the international coordinator for the Clean Clothes Campaign, a European
advocacy group that aims to improve working conditions in the garment industry, said that was premature.

"Labeling is the final stage of an ethical program," she said in a telephone interview from the Netherlands. "You have to make sure standards are O.K., and there is compliance - only then can you start labeling. If Cambodians were to come up with a label now, we would ask, How credible is this?"