

# Cambodia's Garment Industry Monitoring Report

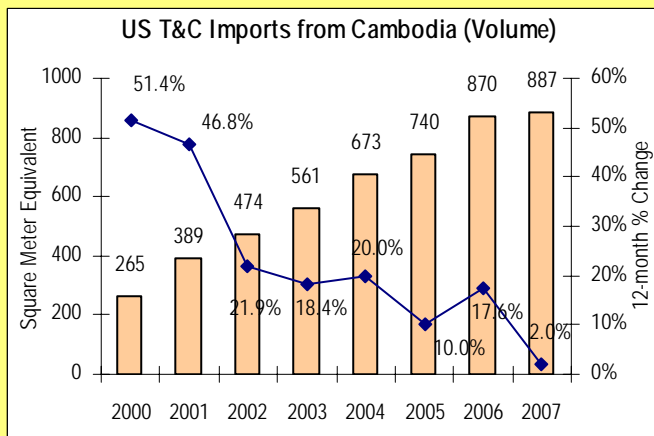
## Summary

Trend shows that in the first five months of 2008 Cambodia's textile & clothing (T&C) exports slowed down, mainly due to the major slow down of exports to the United States, which accounts for 70% of all T&C exports, even though there was an increase to the European Union, which makes up about 20%. While the number of factories remained steady, employment in operating factories fell by 8,000 workers between Jan 2008-April 2008, which includes lay-offs and voluntary resignations. Despite the increase in wages, new trends show that many garment workers are voluntarily quitting their jobs to find higher-paying employment alternatives and/or business opportunities. As price competition will likely continue to intensify, especially after the US lifts its safeguards on Chinese T&C exports at year's end, Cambodian factories will likely lean on the strategy of labor compliance in the short term and raising productivity and skills in the long term.

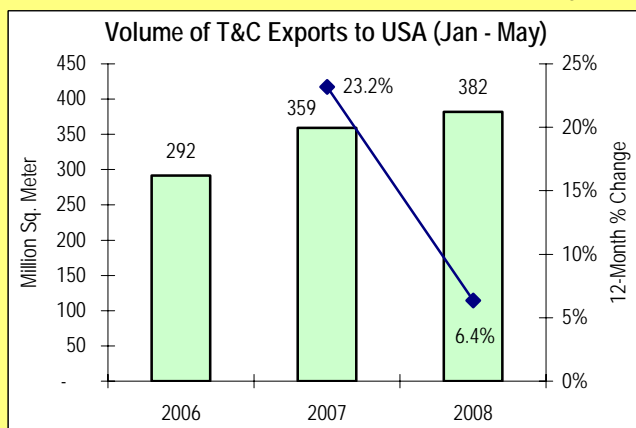
### Garment Exports is Slowing Down

The quantity of Cambodia's T&C exports to the United States, which buys 70% of T&C exports, has been decelerating since 2007, dipping to just 2% growth compared to 17.6% in 2006. This downward trend continued into the first five months of 2008 when production volume dramatically slowed to 6.4% compared to 23.3% the same period a year ago. During this period, export value to US markets grew at a slower pace of 7.7% compared with 23.3% in 2007, to USD 581 million. Some possible reasons for the downturn are the on-going recession in the US, Vietnam joining the WTO, and depreciation of the US dollar.

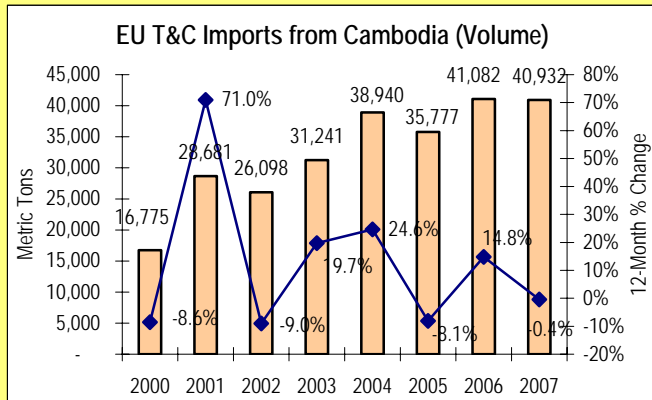
Even more drastic, export volume to the EU, which buys about 20% of T&C exports, fell by 0.4% in 2007 to 40,932 tons from 41,082 tons in 2006. The situation turned around in the first five months of 2008 when export volume grew by 31.9%, making up for the 0.5% drop the same period a year ago. Value of exports during this period rose to US\$ 222 million from US\$175 million the previous year. This growth is mainly attributed to the weakening of the US dollar, which helped boost demand for garments from Cambodia. However, with signs of economic slowdown in the EU, this situation could turn around in the next few months.



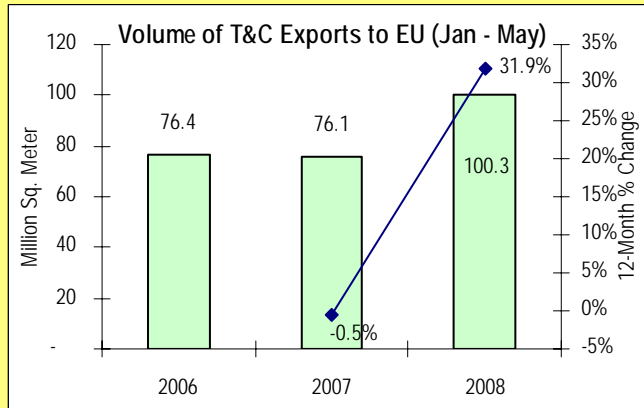
Source: International Textiles & Clothing Bureau



Source: Ministry of Commerce



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### Prices

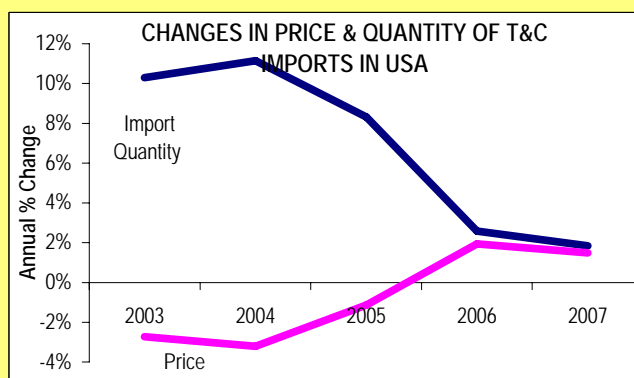
A look at the trends of US and EU T&C imports show a general downward trend in the price of T&C, especially after 2006, suggesting that price competition is intensifying.

In the first five months of 2008, the average unit price of Cambodia's T&C exports to the US increased by 1.3%, slower than the same period a year ago, which was 5%. To the EU, unit price fell by 4% during this period.

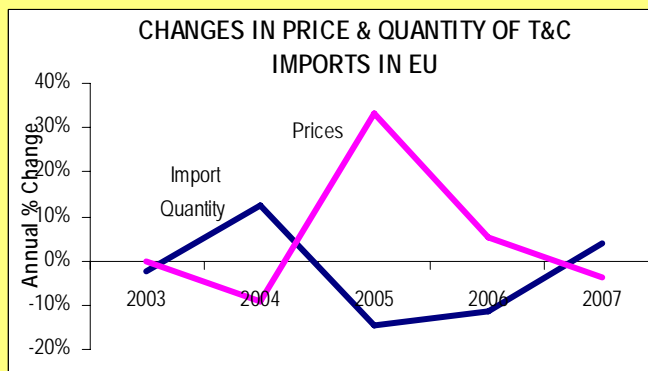
12-Month % Change in Price of Cambodia's T&C Exports (JAN - MAY)

MARKET	2007	2008
US	+5.0%	+1.3%
EU	+4.0%	-4.0%

Source: Ministry of Commerce



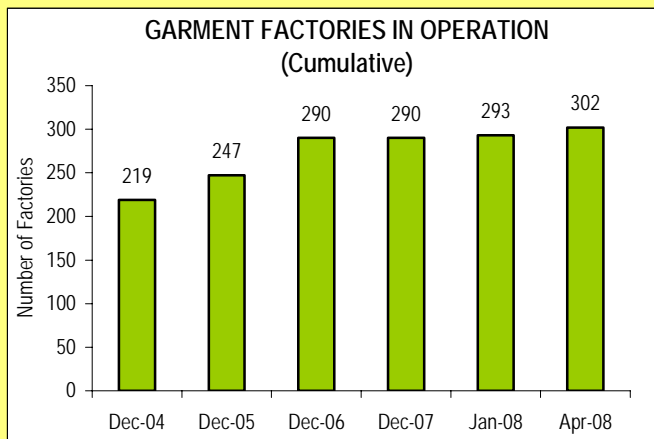
Source: International Textiles & Clothing Bureau



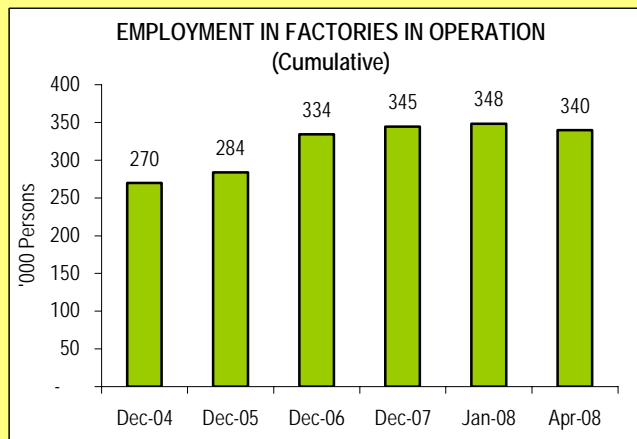
Source: International Textiles & Clothing Bureau

### Number of Factories Steady, But Employment Down

As of April 2008, there are 302 factories in operation, 12 more factories than in Dec 2007. In the first four months of 2008, employment in operating factories fell by 8,000 jobs, from 348,000 workers to 340,000. This figure represents jobs loss due to lay-offs as well as voluntary resignations. During a provincial public dialogue organized by FES and CIDS on 24<sup>th</sup> June 2008, Kandal's Chief of Department of Industry, Mines and Energy confirmed this trend and reported that more than 4,000 garment workers in his province quit their jobs between January–June 2008 because wages are not sufficient to cover the higher cost of goods and services. Most of these workers have returned to their villages to start up small tailor shops.



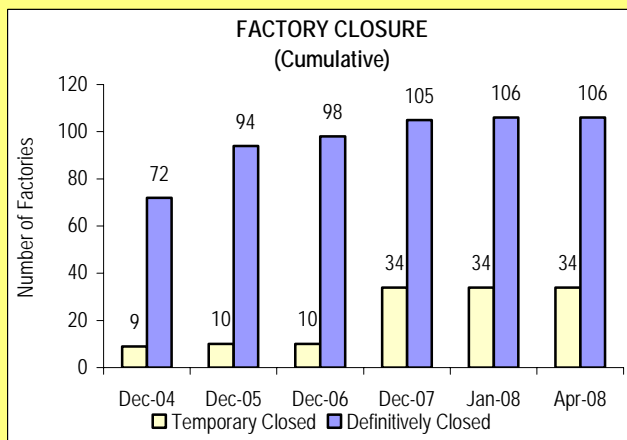
Source: Ministry of Commerce



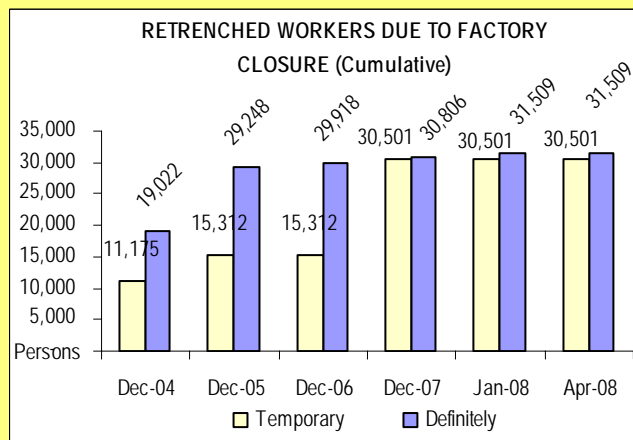
Source: Ministry of Commerce

### Factory Closures

Up to April 2008, a total of 106 garment factories have permanently closed down, eliminating 31,509 jobs, while another 34 factories are temporarily closed, suspending 30,501 jobs. From Dec 2007-Jan 2008, one factory permanently closed down, retrenching over 700 workers, almost as high as jobs loss during the 12-month period of Dec 2006-Dec 2007, which was 888 workers.



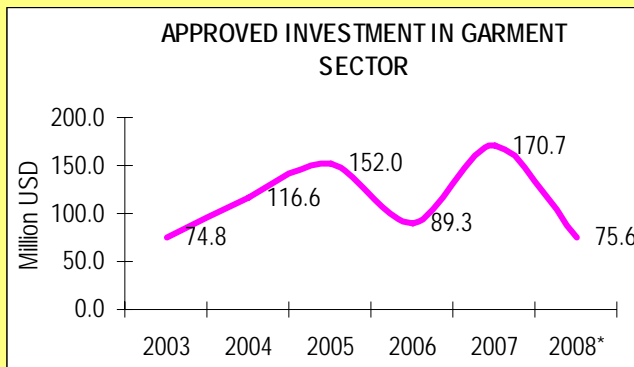
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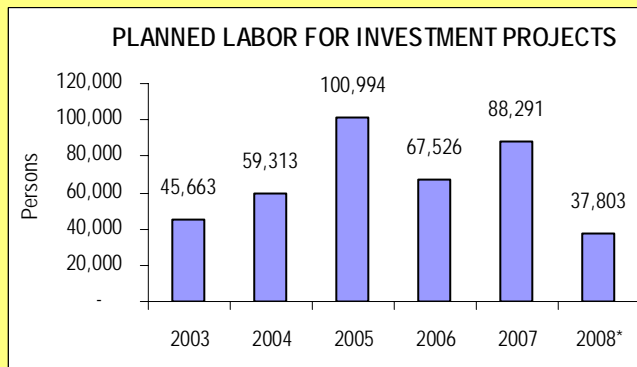
### Investment

Between Jan-April 2008, the CDC approved 19 garment sector investment projects, worth US\$75.6 million of fixed assets. According to previous records, actual investment tends to be less than approved investment. During the period 2003-2007, 35% of 208 approved investment projects were not implemented.

For projects approved in the first four months of 2008, the planned labor requirement is over 37,000 persons. From Jan 2003- April 2008, only 37% of planned labor was materialized, 147 thousand jobs created compared to 400 thousand jobs planned.



Source: CDC, \* Data for 2008 up to April



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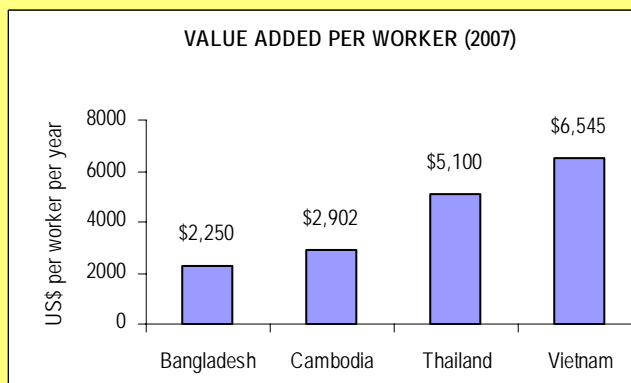
### Wages & Labor Productivity

In response to the growing inflation, the minimum wage was increased by \$6 from \$50 per month to \$56 per month. In Mar 2008, the average nominal wage is \$76 per worker.<sup>1</sup> A recent study by Jassin-O'Rourke Group finds that wages in Cambodia ranks second lowest among 40 major apparel producers at just 33 cents per hour, compared to 38 cents in Vietnam, \$1.29 in Thailand, and \$4.45 in Hungary.

However, despite cheaper labor cost in absolute terms, labor cost in Cambodia is relatively higher than in other countries when factoring in productivity. In 2007, one garment worker in Cambodia generated a value added of \$2,903; one worker in Thailand generated a value added nearly double this figure and in Vietnam, almost 3 times more.

Country	Average Wage Per Worker
Bangladesh (Lowest)	\$0.22 per hour
Cambodia	\$0.33 per hour
Vietnam	\$0.38 per hour
Thailand	\$1.29 - \$1.36 per hour
Hungary (Highest)	\$4.45 per hour

Source: Jassin-O'Rourke Group



Source: Calculated by CIDS based on data from various sources

### Industrial Relations

In 2007, more than 294,000 working days were lost to strikes, 17% lower than in 2006, but still significant. According to the ILO's recently released report, 35 strikes took place in 27 of its 200-monitored factories during October 2007 to April 2008. Of this, 32 strikes failed to comply with the legal requirements.



Source: GMAC labour statistics

<sup>1</sup> CIDS workers survey, March 2008

## Outlook

It can be expected that price competition will continue to intensify, especially once the US removes its safeguards on Chinese T&C exports at year's end. Buyers' strategy to consolidate its global supply chain also increases the pressure on factories. On the basis of price, Cambodian producers have little room to lower price as a strategy to gain/maintain market share because of three factors: 1) high production costs, 2) high dependency of imported inputs, and 3) high dependency on US market and economy. One of the top cost disadvantage faced by Cambodian producers is the relatively higher price of electricity. Data collected by CIDS shows that electricity in Cambodia is 19 cents per kilowatt-hour, nearly 4 times higher than producers in Vietnam (5 cents) and 5 times higher than those in China (4 cents). In China and Vietnam, electricity is heavily subsidized by the government.

To cope with this new trading environment, Cambodian factories will need to offset the stiffer price competition with the following measures:

1. *Labor Compliance*– According to the ILO monitoring reports, the compliancy rate in Cambodia's factories is high and continuously improving. This good progress should continue to maintain the high reputation. However, the positive image of labor compliancy is challenged by the high number of working days loss to strikes. Further improvements could be made in industrial relations, especially to promote cooperation and communication between employers and employees.
2. *Increase Workers' Capacity particularly in productivity, skills and knowledge* – Raising the productivity of labor, specifically through increasing workers' specialization and skills, could help offset higher costs. Skill upgrading could also open opportunities for higher value added production in the long run, helping to minimize the impacts of price competition.

These measures could strengthen and increase the capacity of factories to upgrade into new market segments that are less vulnerable to price competition. Undoubtedly, this new trading era will ignite structural transformation in Cambodia's garment industry; factories with the capacity to implement the measures mentioned above may survive the transition and come out stronger, while those who don't, will likely close down. But factories need time to make these adjustments. During the transition phase, it is likely that there will be more job losses in the garment sector (structural unemployment).

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