

GARMENT INDUSTRY MONITORING REPORT

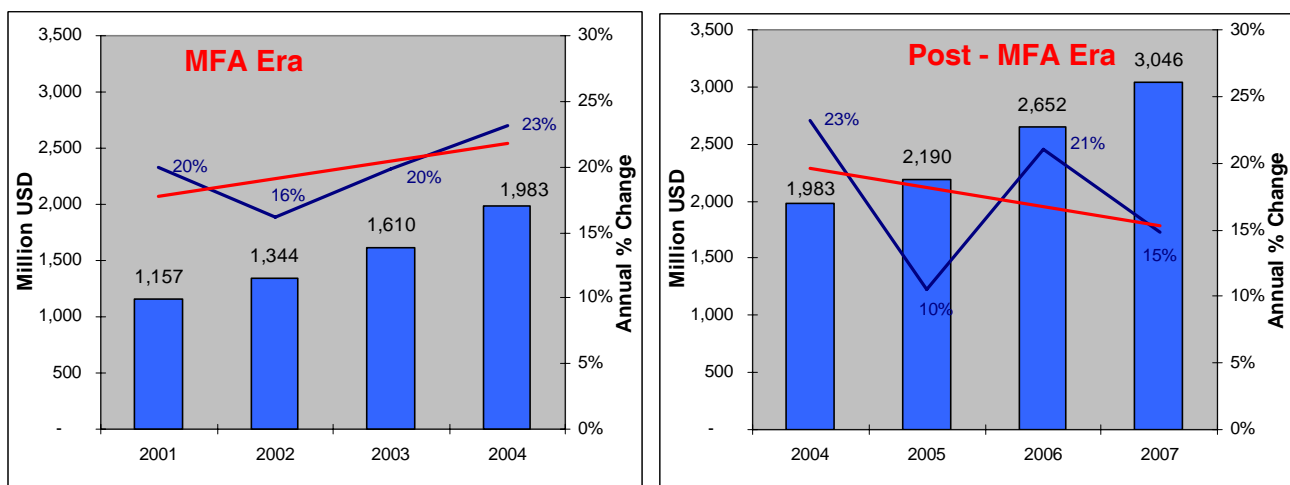
The Multi-Fiber Arrangement (MFA), which governed international trade of textiles and clothing (T&C) through a regime of bilateral quotas since 1974, expired on December 31, 2004. Under this multilateral agreement, quotas were imposed, which specified the volume of items that could be traded between trading partners, restricting exports for large producing countries (e.g. China) and opening opportunities for small or non-producing countries (e.g. Cambodia, Bangladesh, Indonesia).

So how has Cambodia's garment industry fared since the removal of the MFA? So far,

- Growth in the sector is decelerating
- After a dramatic downfall in 2005 and 2006, price of garments have recovered to levels similar to those in the MFA period
- Aggregate number of factories and employment is steady, however, factory closures and lay-offs is still substantial
- Pace of job creation is slowing
- Inflation is outpacing wage increases
- Investment in the sector is modest

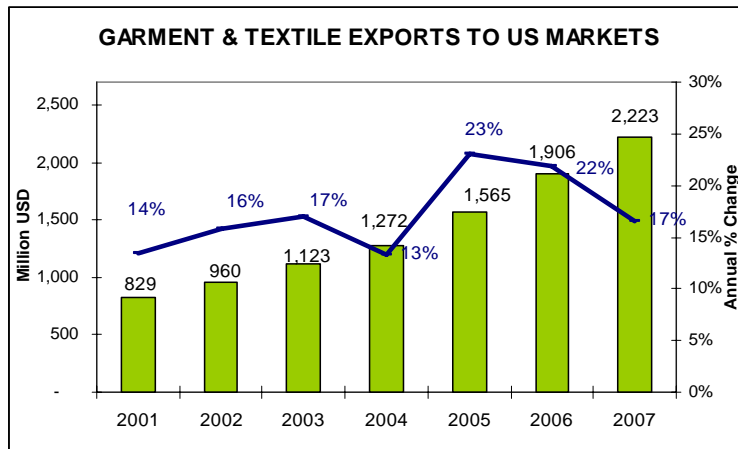
Annual growth of garment exports dropped to 15% in 2007, from 21% in the previous year. As shown in Figure 1 (red line), the growth trend of garment exports in the post-MFA era is dipping. Growth of apparel to the United States has nosedived for three consecutive years (Figure 2), while exports to the European Union contracted by 15% in 2005, regained to 16% in 2006 but fell again to 6% in 2007 (Figure 3).

Figure 1: Garment Exports from Cambodia (2001-2007)



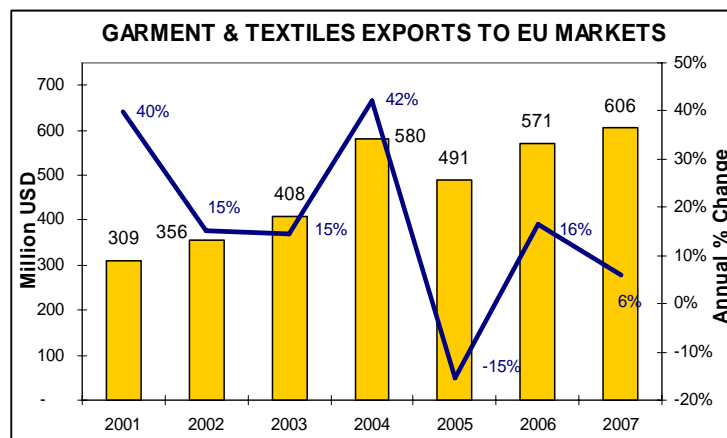
Source: Ministry of Commerce

Figure 2: Garment Exports to U.S. Market (2001-2007)



Source: Ministry of Commerce

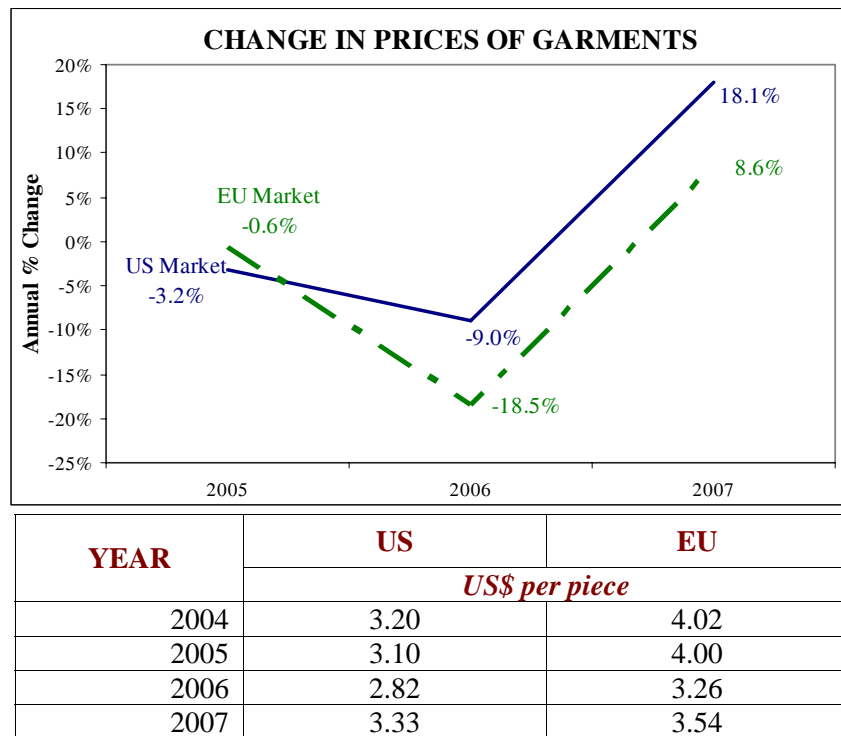
Figure 3: Garment Exports to E.U. Market (2001-2007)



Source: Ministry of Commerce

Unit prices of T&C from Cambodia to the U.S. and EU. fell after the removal of the MFA, but have regained its loss and are now at similar levels as in 2004. In 2005, the price of garments to the U.S. dropped by 3.2% and to the EU, 0.6%. In the subsequent year, prices were slashed by even more – a cut of 9% for garments to U.S. and 18.5% for those to EU. (See Figure 4)

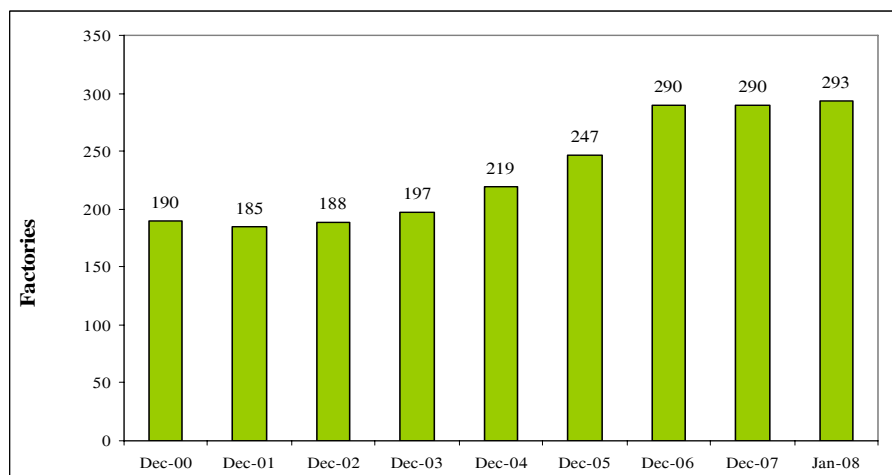
Figure 4: Change in Prices of Garments from Cambodia (2005-2007)



Source: Ministry of Commerce

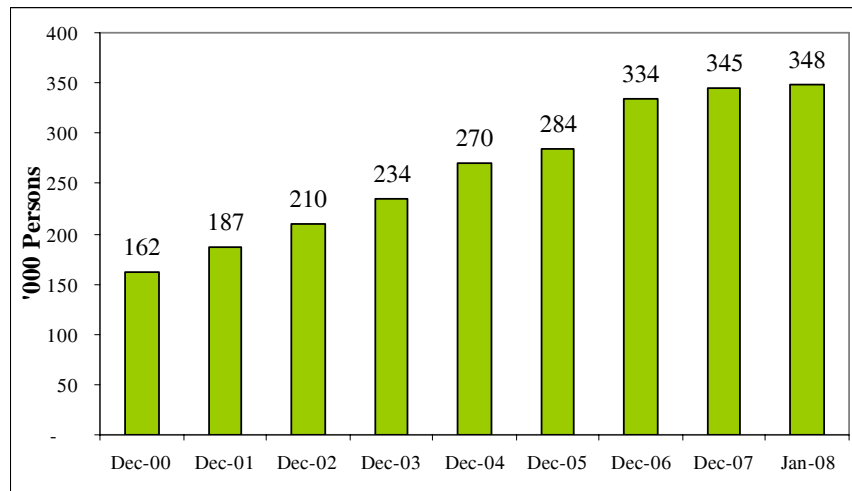
At the aggregate level, the number of garment **factories** remains relatively steady at 293 factories in Jan 2008, compared with 290 factories in Dec 2006 and Dec 2007, and 247 in Dec 2005 (Figure 5). Total **employment** in the sector is also stable: 348,000 workers as of Jan 2008, up from 345,000 in Dec 2007, and 334,000 in Dec 2006 (Figure 6). According to labor unions, employers have changed the structure of employment since the phase out of quotas; employment contracts are shorter, and new workers are hired on a temporary basis.

Figure 5: Number of Operating Garment Factories in Cambodia (2000-2008)



Source: Ministry of Commerce

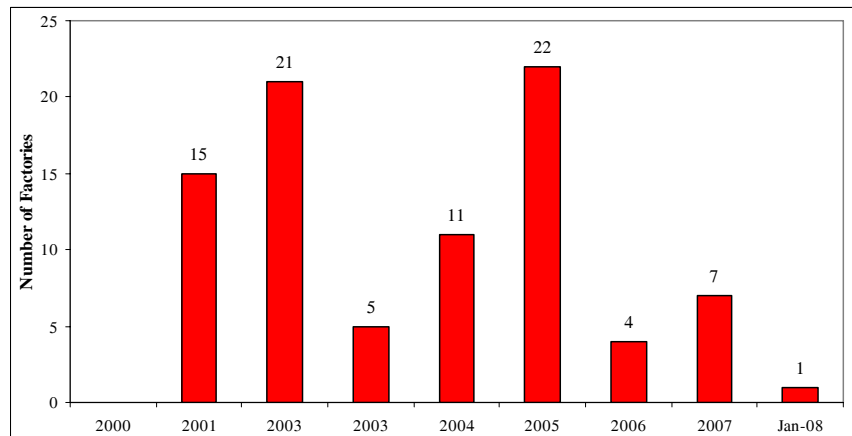
Figure 6: Employment in Garment Industry (2000-2008)



Source: Ministry of Commerce

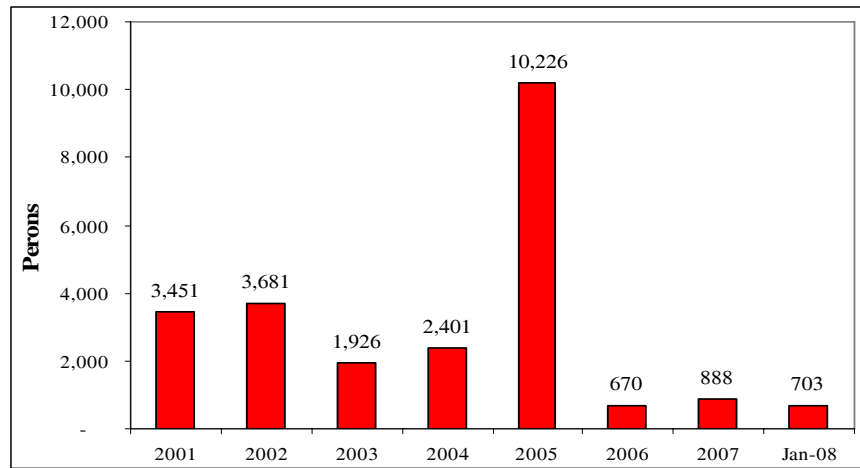
However, the number of factory closures and lay-offs is substantial. Factory closure was most devastating in 2005; 22 factories permanently closed down, leaving over 10,000 workers displaced (see Figure 7 and Figure 8). In this same period, 10 factories temporarily suspended operation and laid-off more than 15,000 workers (Figure 9 and Figure 10. While only a few factories have permanently closed down since then (4 factories in 2006, 7 in 2007 and 1 in January 2008), the number of jobs loss is still significant (2,261 jobs loss). As of January 2008, 34 factories are temporarily closed, and along with it, more than 30,000 jobs.

Figure 7: Factories Permanently Closed (2000 – 2008)



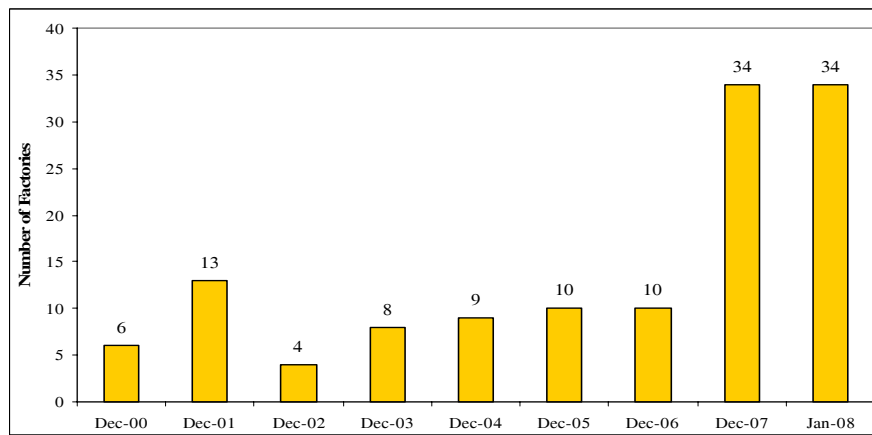
Source: Ministry of Commerce

Figure 8: Workers Permanently Retrenched (2001-2008)



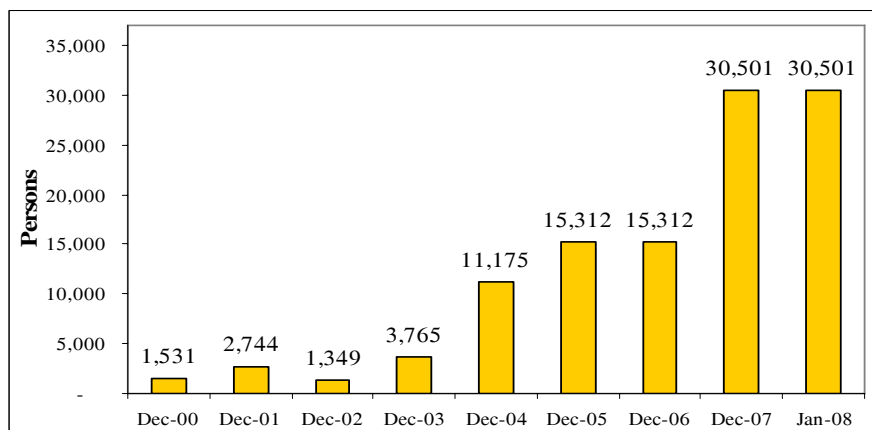
Source: Ministry of Commerce

Figure 9: Factories Temporarily Closed (2000-2008)



Source: Ministry of Commerce

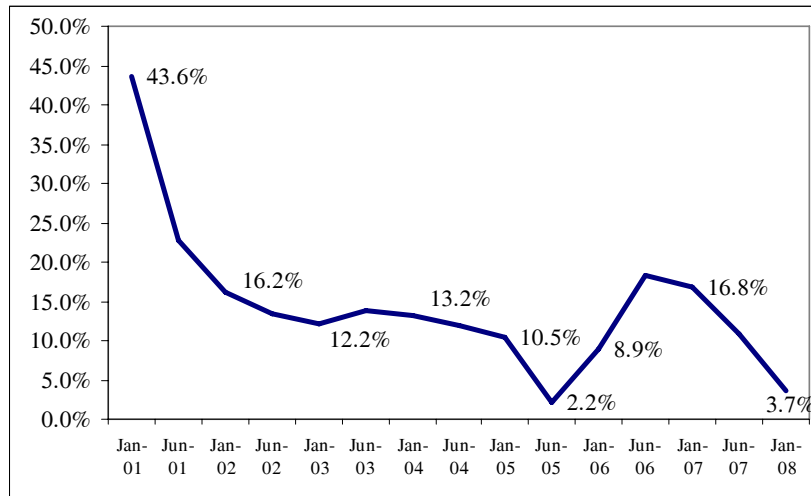
Figure 10: Workers Temporarily Laid-Off (2000-2008)



Source: Ministry of Commerce

Job creation in the garment sector has also rapidly slipping: in Jan 2007, jobs grew by 16.8% compared to the previous year; in Jan 2008, annual growth of jobs slowed to 3.7% (Figure 11). This trend indicates a decline in the demand for labor, an indication that orders may be falling.

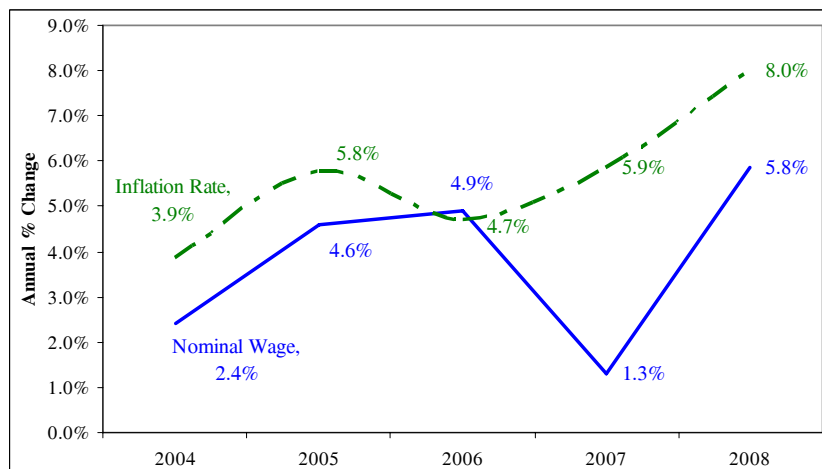
Figure 11: Employment in Garment Industry (12-Month Percent Change)



Source: Ministry of Commerce

Inflation has outpaced wage increases, further igniting the already poor industrial relations between labor unions and employers. Figure 12 shows the trend of annual wage growth and inflation. The sluggish growth of wages in 2007 represents a slow down in the demand for labor, indicating that orders may have decreased during that period.

Figure 12: Wages and Inflation (2004-2008)



Source: Nominal Average Wages based on CIDS Labor Survey in March 2008; Inflation Rate from NIS CPI (2004-2007), Inflation Rate for 2008 is projected

Investment projects into the garment industry have declined consecutively since 2005, from 64 projects in 2005, down to 35 in 2006 and 33 in 2007 (Figure 13). The volume of fixed asset investments remains relatively modest. New investments are generally new factories opening up, replacing the factories that have closed down.

Figure 13: Investment in Garment Industry (2004-2007)

Investment	Units	2004	2005	2006	2007
Projects Approved	number	40	64	35	33
Fixed Assets	million USD	117	152	124	144
Labor	persons	59,313	100,994	67,526	75,226
Job / FA	jobs	509	655	544	522
<i>Annual % Change</i>					
Projects Approved	percent	29%	60%	-45%	-6%
Fixed Assets	percent	60%	30%	-18%	16%
Labor	percent	30%	70%	-33%	11%
Job / FA	percent				

Source: Council for the Development of Cambodia

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