



Cambodian Garment Industry: Challenges and Opportunities

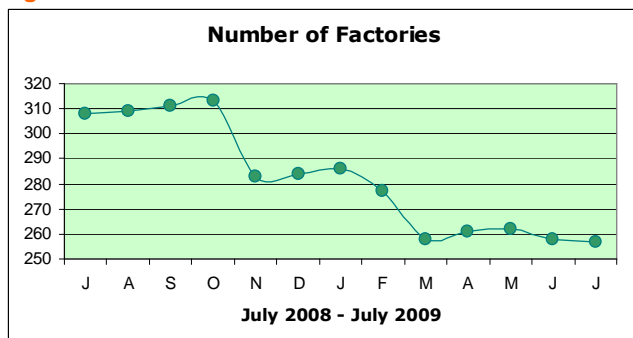
Cambodia has achieved one of the highest growth rates in Southeast Asia for over a decade. However, along with the rest of the world, the country's rate of growth has contracted sharply during the past year due to the current economic and financial crisis. In Cambodia, the hardest hit sectors have been those that are heavily dependant upon exports and foreign investment, namely, the garment sector, and the construction and tourism industries.

This fact sheet focuses on the impacts of the crisis on the garment industry, and the steps being taken to help those most affected.

Impact of the crisis on garment exports and factories

The dollar value of garment exports to the EU as well as the US has fallen considerably in comparison with the value of exports a year ago. In comparing the first half of this year with that of 2008, garment exports to the EU have fallen by 9.7%, while garment exports to the USA have dropped by 32.5%. The overall reduction in the value of garment exports has been 24.5%.¹ Not surprisingly, these sharp reductions in exports are mirrored by factory closures.

Figure 1: Number of factories 2008-2009



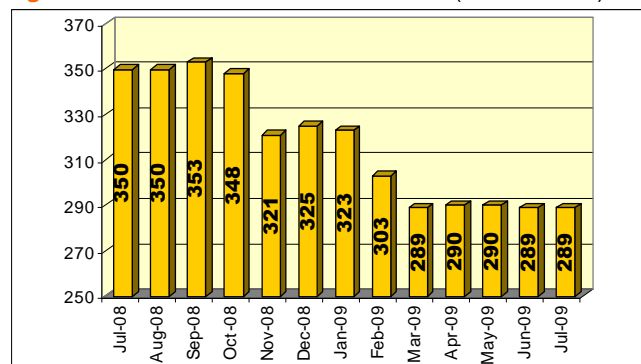
(Source: Ministry of Commerce, 2009)

While 307 factories were operating as of the end of June 2008, by June 2009 the number was down to 258.²

What does this mean for jobs?

The reduction in exports and the factory closures have resulted in significant job losses. The number of workers at the end of June 2009 was just below 289,000, down over 18% from a high of nearly 353,000 workers in September 2008. In addition to the layoffs, workers have seen their take-home pay drop, due to work suspensions and reduced overtime.

Figure 2: Workforce evolution 2008-2009 (in thousands)



(Source: Ministry of Commerce, 2009)

Starting after June 2008, workers' incomes have declined, leaving them less able to send money back to their families in the provinces. During focus group discussions with female garment workers in early 2009, workers indicated that previously, they were able to send home US\$30-40 every month. However, since mid-2008 they have only enough money to cover their own living expenses. As a result of reduced overtime hours and higher prices, they no longer have extra money to send home.³

Industrial relations

Decreasing job security and reduced purchasing power have contributed to an increase in the number of strikes. In 2008, there were about 30% more strikes than those reported during 2007.⁴ Most strikes involved claims for higher wages, payments for entitlements, non-discrimination

¹ Ministry of Commerce, 2009

² Ministry of Commerce, 2009

³ CIDS Rapid Assessment, March 2009

⁴ Rapid Assessment

against union members, and rehiring of retrenched workers.⁵

The garment industry stakeholders increasingly acknowledge that social dialogue is a vital part of well functioning industrial relations and that collective bargaining and promotion of existing dispute resolution processes are important means to reduce the number of disputes.

It is also clear that industry actors must work together to increase productivity and preserve industrial peace, if the Cambodian garment industry can hope to ride out the economic storm without significant negative impacts on its business performance or the work force.

Crisis Response

In response to the global crisis, several initiatives are underway to assist the garment sector and affected workers. The Ministry of Labour and Vocational Training, with technical assistance from the ILO, plans to open nine regional job centers by the end of 2010. The job centers will assist laid-off workers by assessing their skills, and linking them to potential employers and/or skills training programs. They also will facilitate access to micro-credit for workers seeking to open small businesses. In addition, GMAC has announced its intent to invest US\$2 million in a training center to develop skilled labour in the garment sector, with the goal being to boost industry competitiveness.⁶

The Government has granted garment manufacturers a two-year tax holiday on profits. In addition, the monthly 1% turnover tax that normally is imposed on all garment factory expenditures (including material inputs and labour costs), has been suspended for 2 years starting in January of this year in an effort to ease factory cash flows.

The Cambodian National Social Security Fund (NSSF) was established in November 2008 and a program to compensate workers for work-related accidents and injuries is currently underway. In order to reduce the cost of doing business, the Government has lowered the employer contribution to the accident compensation fund to

0.5% of wage payments instead of the initial 0.8% for the years 2009 and 2010.

Better Factories Cambodia and other UN agencies also are working to better understand the impacts of the crisis and develop sound policy responses and measures to help those affected. In cooperation with UNDP, BFC is overseeing a study that will look at the social and economic impacts of the crisis on a group of 2000 garment workers, including both employed and unemployed workers. The goal of the study is to gather additional data on the impacts of the crisis on employed and laid off garment workers, and to develop recommendations that will effectively address their needs.

Better Factories Cambodia, along with the Garment Industry Productivity Center (GIPC), the government, industry associations, and other UN agency partners, also recently launched the second "I am precious" campaign, which seeks to promote Cambodian garment workers, emphasize the value of the work they do, and enable them to show their talents through a dress and T-shirt design competition. Particularly in the face of the economic crisis, it is important to promote the industry's positive image.

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⁵ Rapid Assessment

⁶ UNDP, *Crisis Impact Watch*, 10 April 2009