

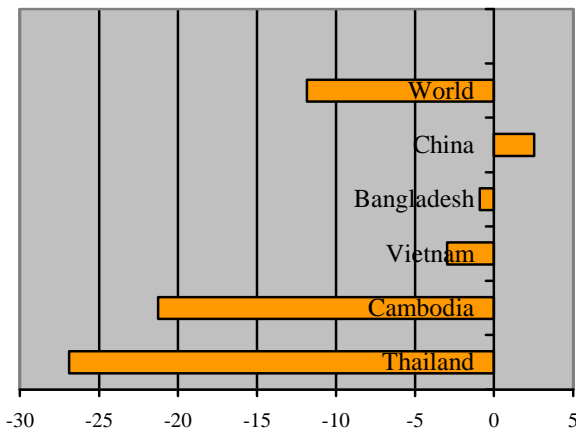


Cambodia's Garment Industry Struggles in the Face of the Global Economic Downturn

The Global Economic Downturn

In 2008, the world economy plummeted into recession. As a consequence, demand in the US and Europe, the world's largest markets for apparel products, fell sharply.¹ US trade statistics show that Cambodia's garment sector is among the worst affected in the region (see figure 1).

Figure 1: US Garment Imports by Country Dec 2008-Dec 2009 (% change)²

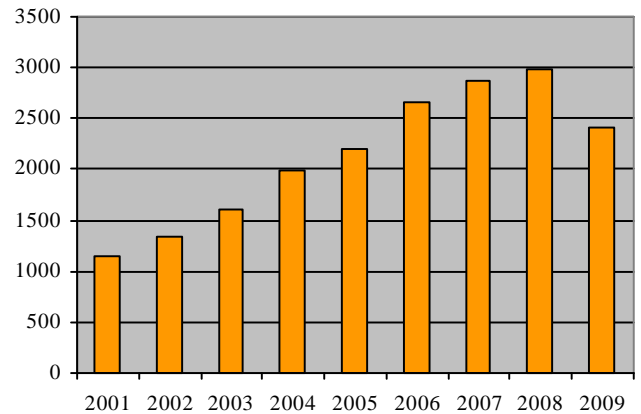


Presumably, increased competition, relatively low productivity, long lead times, and high infrastructure costs are among the primary causes of the difficulties the country is facing during the crisis.

Sectoral Impact

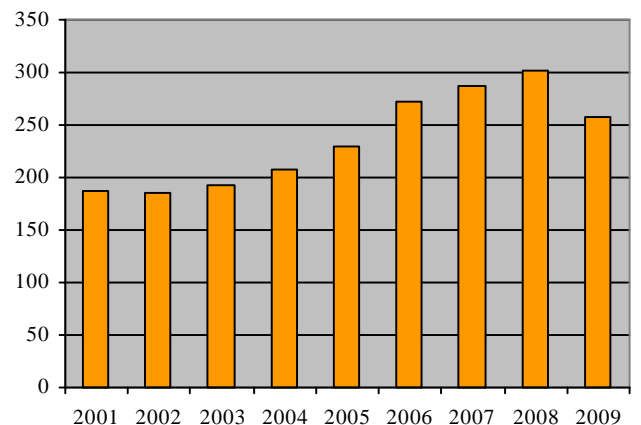
Cambodia's exports are overwhelmingly dominated by garments, which account for approximately 70% of total export value. In 2008, garment exports amounted to US\$ 2.98 billion, up from US\$ 2.87 billion in 2007. However, in 2008, growth was dampened somewhat by the first impacts of the crisis, which appeared during the last quarter of the year.³ Due to continuing sharp decline in demand in Europe and the US, Cambodia's garment exports contracted by 18.9% in 2009 (see figure 2).

Figure 2: Cambodia's Garment Exports, 2001-2009 (US\$ million)⁴



Data about factory closures provides further evidence of the impact of the crisis. Beginning in November 2009, a wave of factory closures ended a trend of steady growth (see figure 3). Within a year's time, the number of operating factories dropped from a peak of 313 in October 2008 to a low of 241 in November 2009, with most of the remaining factories running at only 60-70% of their capacity.^{5/6}

Figure 3: Number of Factories, 2000-2009 (year average)⁷

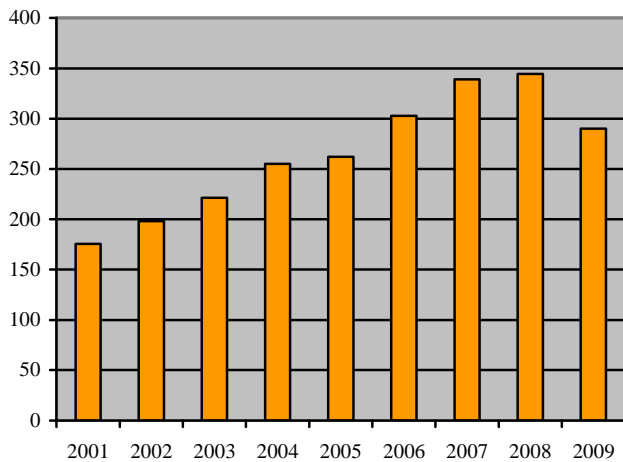


¹ 90% of Cambodia's garments are exported to the US and EU
² US Department of Commerce 2010: International Trade Administration, Office of Textiles and Apparel, (<http://otexa.ita.doc.gov/MSRCTRY.htm>, last updated 4 February 2010, accessed 12 February 2010)
³ UNDP 2009: The Global Economic Downturn: Opportunity or Crisis?, November 2009, p. 23

⁴ Ministry of Commerce 2010
⁵ ibid.
⁶ UNDP 2009, p. 23
⁷ Ministry of Commerce 2010

According to the Ministry of Commerce, these factory closures led to the layoff of 75,500 workers, or 21% of the total workforce. Between September 2008 and October 2009 Cambodia's garment industry workforce fell from 352,955 to 278,398 (see figure 4). Moreover, many factories have been temporarily suspended.

Figure 4: Workforce Evolution 2000-2009 (thousands, year average)⁸

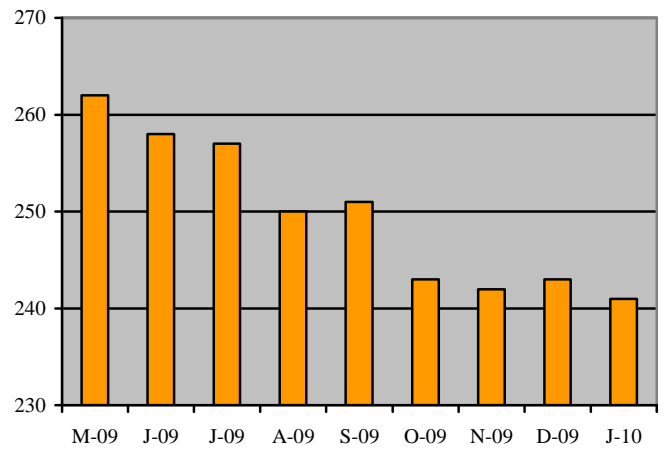


Since the vast majority of garment workers are women and come from the country's impoverished rural areas, the impact of the global crisis has been overwhelmingly felt by the some of the most vulnerable members of society. Preliminary results of studies suggest that garment workers have been forced to reduce their spending on food and health care during the crisis.

Outlook and responses

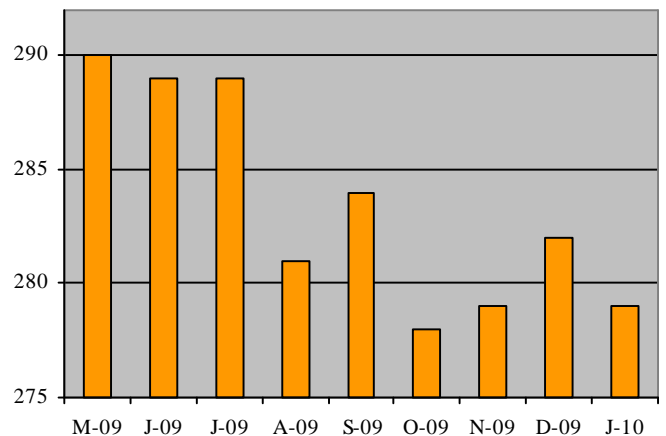
The figures presented above draw a rather gloomy picture of the sector. However, data from the last quarter of 2009 and early January 2010 suggests that the industry has hit the bottom and is on its way to recovery. The numbers of factories and workers seem increasingly stable (see figures 5 and 6) and in January 2010, for the first time since December 2008, garment exports slightly increased (7.3%) when compared to the same month of the previous year.

Figure 5: Number of Factories, May 09 - Jan 10⁹



Over the long term, the crisis may serve to strengthen the industry by highlighting the need to increase productivity and improve competitiveness while maintaining decent working conditions

Figure 6: Workforce Evolution, May 09 - Jan 10 (thousands)¹⁰



The government and industry partners are seeking to mitigate the negative effects of the crisis on garment workers and to ensure the sector's recovery and long-term prosperity in an increasingly competitive market environment. BFC is currently supporting these objectives through:

- A tracking study following 2000 workers over a six-month period
- Training of workers and employers on socially responsible transitions
- Industry confidence and skills building measures including advocacy events and training.

⁸ Ministry of Commerce 2010

⁹ *ibid.*

¹⁰ *ibid.*