



The End of Quotas: Impact on Cambodia's Export Garment Industry

...Has Cambodia's garment industry survived the end of quota?

The quota system expired at the end of 2004. Many predicted this would result in a dramatic reduction in employment and exports. However neither has occurred to date.

In fact, recent data shows:

- Both the quantity and value of exports to the US have increased in 2005 over the same period in 2004.
- Production is increasing even more in value than in quantity.
- Employment levels are steady.
- Factories are expanding in size.
- Wage levels are steady.

The US took safeguard action against some Chinese imports on 27 May 2005. The EU followed suit on 10 June. Over 40% of Cambodia's production occurs in categories in which the US has imposed safeguards on textile exports from China. Over 75% of Cambodia's production is exported to the US. The impact of these decisions on Cambodian export volumes is not yet reflected in the data. However it should help the Cambodian garment industry.

In June this year the International Monetary Fund (IMF) revised Cambodia's predicted GDP growth for 2005 from 2.3% to 6% based on the strength of the garment industry post quota. Mr Lee, an IMF Deputy Director for Asia said 'The main contribution to the revision is garment exports'.¹ Mr Sok Hach from the Economic Institute of Cambodia (EIC) said 'We had predicted no growth in the garment industry, but 10 to 20 percent growth now seems likely'.²

.....What has happened to exports?

The US import data shows that both the quantity and value of imports from Cambodia have significantly increased.³ Cambodia has 1.77% of the world share

of US imports by value. The growth in value has outstripped the growth in volume in January to April 2005. This may indicate a move up the value chain.

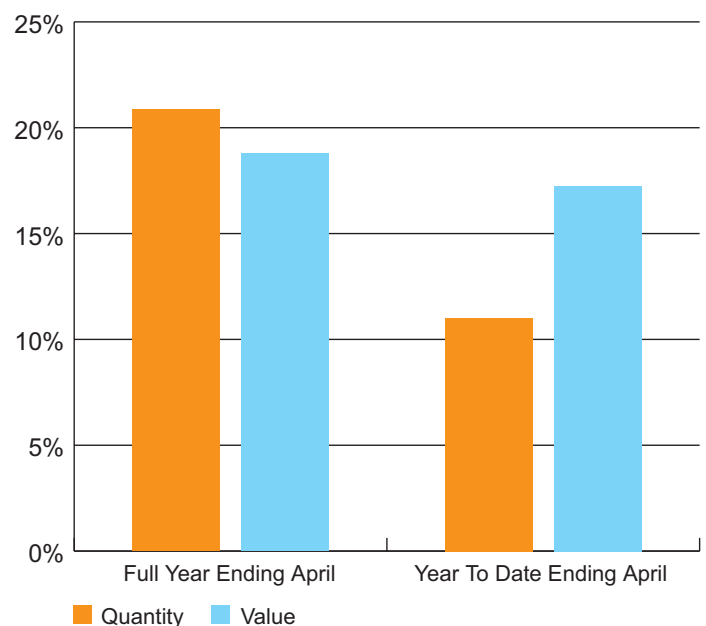
Table 1: Cambodia's Exports to the US for all MFA Categories

	Quantity	Value
Full year ending April exports comparing the 12 months ending April 2005 with the same period ending April 2004	+20.86%	+18.79%
Year to date ending April exports comparing the 4 months ending April 2005 with the same period ending April 2004	+11.01%	+17.25%

Source: www.otexa.ita.doc.gov

Figure 1 shows this data in graphical form.

Figure 1: Percentage Increase in Quantity and Value of Exports to US April 2005

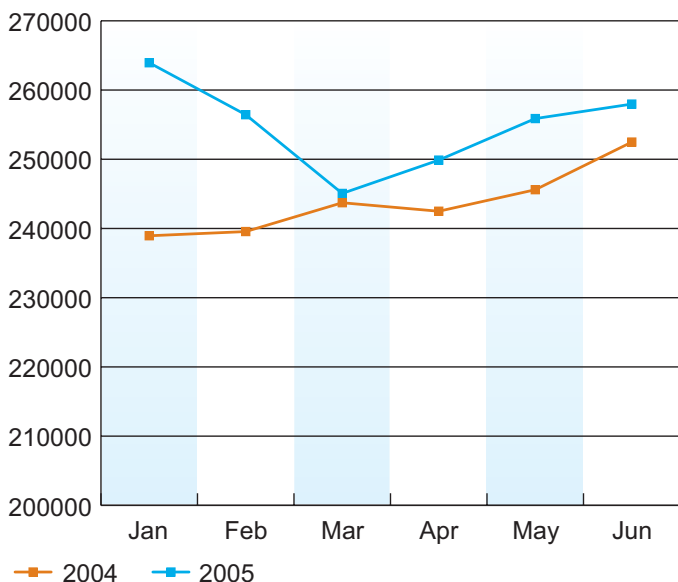


Source: www.otexa.ita.doc.gov

...Have employment levels been affected?

Net employment levels have been maintained. June 2005 job numbers were only 2% lower than at January. This is shown in figure 2.

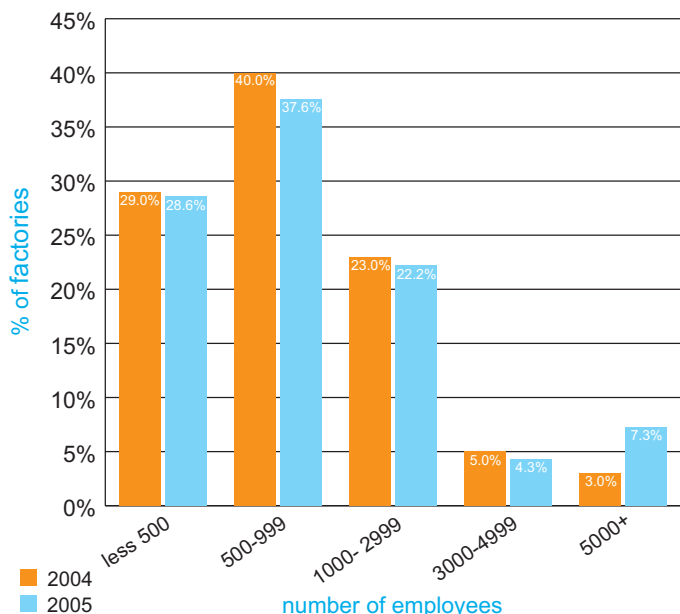
Figure 2: Total Employment January - June 2004 and 2005 Cambodia Garment Export Industry



Source: Ministry of Commerce

While net employment is steady, there has been considerable labour adjustment within the industry in Cambodia. Buyers are consolidating their supply bases between and within countries. Therefore, they are seeking to source from fewer, but bigger factories. Figure 3 shows the number of factories employing more than 5000 workers has more than doubled. There was a decline in the number of factories in all categories with smaller workforces. This trend can be expected to continue, putting smaller factories under pressure. Job losses in smaller factories are likely to continue to occur, affecting in particular women workers, who are most vulnerable at the point of recruitment and termination.

Figure 3: Percentage of Factories by Factory Size (2004 compared with June 2005)



Source: Ministry of Commerce

....What about wages?

There were reports of downward pressure on wages from Cambodian labour unions particularly in April. This was reflected in data from the Ministry of Commerce. However June figures show wages returned to normal at an average of 71USD a month.

...overall what is the situation?

In summary the situation in Cambodia 4 months after the end of the MFA is:

- exports have increased in both volume and value over comparable periods
- growth forecasts have been revised upwards
- employment levels are relatively stable
- average factory size is increasing
- the effect of US and EU actions on Chinese imports should be felt in the next few months.

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¹ The Cambodia Daily, June 15 2005, p. 17

² The Cambodia Daily, June 15 2005, p. 17

³ Comparable EU data is not yet available.