

The Impact of COVID-19 on the Garment Sector in Cambodia

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INTRODUCTION

As of 2020, business plans, studying, traveling, working-life have been completely ruined by an infectious disease called “COVID-19” which took their first spotlight in Wuhan, China. Since it is a disease that could heavily infect the lungs, it can spread more easily and much worse and faster than expected. Consequently, many schools, restaurants, movie theaters, and other public places have been closed. With fear and concern, people have to practice social distancing, washing their hands, wearing masks, and avoiding the crowds. In the worst-case scenario, some cities were in lockdown due to immoderate cases going up. In terms of the marketplace, when everything is closed, the demands for many products and services including clothing started to shrink significantly in the first few months. Therefore, companies, corporations, and local businesses whether they were medium or large, it somehow affected them in various ways. Some enterprises had a hard time making meet ends struggling to survive and some are encountering bankruptcy. Ever since COVID-19 existed, not only has it affected people’s lives, it also affects the nation as a whole. It is quite worrisome that most of the fundamental sectors in Cambodia such as the garment, tourism, agriculture, and transport have now run into numerous difficulties. Regarding transportation, neither imports nor exports are being traded, some countries even closed their borders for their safety. Not to mention tourism where some airlines have declared bankruptcy because tourists are nowhere to be found. The garment factories in Cambodia and across Southeast Asia were also severely affected by the pandemic. The majority of the population in impoverished countries are mostly blue-collar workers because they have limited access to education, which is the reason why Europe or any other parts of the world like having their products being made here with low wages provided and they can make more profits. However, with the demands from Europe and other parts of the world diminished, these workers are facing massive layoffs and the unemployment rate, especially in developing countries such as Cambodia increased dramatically.

OBJECTIVES OF THE STUDY

Our research aims to investigate how COVID-19, directly and indirectly, impacted the Cambodian garment industries, especially the effects on the owners of factories and workers including the subcontractors. We also explored the solutions and policies to minimize the damage, and made recommendations on how the government could mitigate this crisis.

STUDY METHODOLOGY

The data used in this research were gathered from various secondary sources such as online news articles, newspapers, organizations' reports, and case studies from institutions like Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and Human Rights Watch (HRW). We decided to take this approach due to the restrictions imposed on movement during COVID-19. In addition, we took advantage of other available reports and official documents of the Ministry of Economy and Finance (MEF), and Ministry of Labor and Vocational Training (MLVT).

RESULTS AND DISCUSSION

The Effects of COVID-19 on the Garment Sector in Cambodia

The garment industry plays a vital role in Cambodia's economy as this sector had accounted for 80 percent of Cambodia's export and employed around 800,000 people (Pierson, 2020). However, this sector is also one of the most vulnerable sectors to the COVID-19 which resulted in closing down of 180 factories and removing approximately 150,000 workers out of their jobs temporarily (Heng, 2020).

Impact of COVID-19 on Factory Owners

In February 2020, the problem started as the factories in Cambodia did not receive any raw materials for production. This was due to the spread of COVID-19 in China, the main supplier which accounted for 60 percent of the total raw materials to garment factories in Cambodia. Although factories in Cambodia had started receiving supplies again in March 2020, the markets and demand for clothes diminished rapidly. COVID-19 had spread to major markets such as Europe and the United States. The people living there had to stay at home due to the lockdown and many of them lost their jobs and/or received lower earnings. These factors contribute directly to the shrinking of demand for new clothes.

According to the Garment Manufacturers Association in Cambodia (GMAC), the main reason why factories had to close their doors was that they have lost their

income as the factories only get paid when clothes are delivered (Pierson, 2020). Many cases affected the industry such as the orders were canceled, or the brands did not accept the products that had already been made, or the products were accepted and delivered but payments had not been received (Lipes, 2020a), or the buyers even demanded discounts for products that already been delivered (Human Rights Watch [HRW], 2020). For instance, C&A, a Belgian-German-Dutch chain of fast-fashion clothing retailer, by citing *force majeure* had issued a letter to a supplier in Cambodia stating that the company would cancel all the orders that was supposed to be completed in March until June 2020, and this cancellation would apply immediately. *Force majeure* is a common clause in contracts which frees both parties from liability when an extraordinary event beyond the control of the parties prevents from fulfilling their obligations under the contract. The vice legal director at the European Centre for Constitutional and Human Rights, however, argued that the term *force majeure* cannot be used in this particular circumstance as the German retailer was facing economic difficulties, not an impossible event. She further commented that “in my opinion, one could argue that the risk of pandemics was not unknown in recent years and was not unforeseeable. Brands should have prepared” (as cited in The Star, 2020).

An article released by HRW stated that there are several clothing brands and retailers that have canceled orders without undertaking responsibility financially. As a result, suppliers across Asia including ones in Cambodia were not able to pay the wages to the workers. A former manager of a garment factory in Cambodia told HRW that brands usually were the ones who came up with all the terms and conditions and they were not willing to negotiate with the suppliers. In his experience, the brands did not make advance payment and their payment usually came after the products were delivered (Human Rights Watch, 2020).

The factories owned by the multinational companies (MNCs) are not being hit the hardest but most of the factories in Cambodia are the smaller factories, and subcontractors which have been badly damaged as a result of their limited financial resources (Hoekstra, 2020). Subcontractors are tiny businesses operating in a significantly smaller workplace such as private homes, warehouses, or industrial buildings. These factories are usually located in remote areas, do not display their name, and change locations regularly to avoid their responsibilities to their workers (Peter, 2017). Furthermore, according to HRW, these factories are not being monitored carefully. They usually keep their operation secret from their workers and the public organizations as well as the government. Most of the time, the products that were assembled by these subcontractors did not have any tags or brand identifiers on them until they arrived at the bigger factories (Griffin, 2016). There are also speculations that suppliers were using subcontractors to evade any regulations

including the increase of minimum wage and laws protecting workers' rights (Peter, 2017).

According to a report by the International Labor Organization (ILO) the gap between the number of export-oriented factories issued by the Ministry of Commerce (MOC) and the number of garment factories registered in the National Social Security Fund (NSSF) were widening significantly. Between 2014 and 2016, 244 garment factories are not export-oriented which raises the question of who they are producing for. In their report, the ILO concluded that the domestic market and demand for these garment products was still small and insignificant. Therefore, they believe that these factories are subcontracting companies that are not monitored by ILO's Better Factories Cambodia and receive less attention from agencies in Cambodia (ILO, 2017). We believe that the number of subcontracting factories rose significantly since 2016 though there is no available data on those subcontractors.

Even though factories in Cambodia were already at a financial disadvantage, the factory workers are demanding a hike in their wage. According to the president of the Cambodian Alliance of Trade Unions (CATU), the unions will urge the government to increase the minimum wage of garment workers. However, the GMAC which represents the factory owners announced that they wanted to delay the negotiation on the minimum wage as the sector is already devastated and needs recovery (Lipes, 2020a). Consequently, the MLVT recently announced that the new minimum wage would increase from US\$190 to US\$192 in 2021 (Lipes, 2020b).

The Impact of COVID-19 on Garment Workers

While Cambodia has been active in curbing the spread of COVID-19, many workers are still affected as they find it difficult to sustain their living standards. After the emergence of the pandemic, nearly 130 factories in Cambodia have been forced to close, involving at least 100,000 workers. The salaries of employed workers have been reduced, and workers' unions are now under pressure (Frye, 2020).

The Unemployment Effect and Workers' Living Conditions

The onset of coronavirus caused Cambodia's garment industry to be disrupted, affecting hundreds of thousands of workers. According to domestic workers in Phnom Penh, several factories had introduced a lottery scheme to decide who is going to be employed. Workers must work harder to earn enough money to support themselves with their new minimum wage. Inflation needs to remain at a minimum if the government does not raise the minimum wage so that workers can live with their existing incomes. In June 2020, GMAC called on Cambodia's government to suspend annual arbitration on the minimum wage, claiming that the sector must first rebound from a lack of orders from international buyers as factory shutdowns were triggered by

the coronavirus outbreak. A worker from a garment factory, W&D (Cambodia) Co. Ltd., said that she needs at least US\$200 to cover her daily expenses. She continued that her current income, which is US\$192 is not enough to maintain her decent living conditions (Lipes, 2020b).

Moreover, the industry is now facing the effect of the EU elimination of duty-free, quota-free entry to its market under the 'Everything But Arms' (EBA) structure for 20 percent of exports in Cambodia (Lipes, 2020b). Another worker from the Hung Wah (Cambodia) Garment Manufacturing Ltd., believes that the removal of EBA had an immensely negative effect on her career opportunities such as layoffs, lack of overtime, and shortened hours. Some often complain that it is challenging to feed the whole family because the monthly earning does not cover everything they need to pay regularly, including housing, food, medication, and education for their children (Hunt, 2020).

The difficulties in living have lured many Cambodian workers to be indebted by the loan sharks. One of the factory workers said that she would force herself to work to support her family. She described how her two sisters had closed their food shop, forcing her to repay huge debts to cover family medical bills. A program manager for the Center for Alliance of Labor and Human Rights (CENTRAL) said that "it was easy to fall into poverty even before COVID-19." He continued that he saw employees sleeping outside of warehouses, and some had to sell their homes to support their families. Trade unions are stressing the government to compel the microfinance institutions to compromise repayment schedules (Blomberg, 2020).

Working Conditions of Workers of Subcontractors

While there is research conducted to investigate the impact on garment workers in the export-oriented factory, little attention has been paid to the subcontractor workers. Subcontractor factories were usually located in rural areas, had no name, looked like homes, had little ventilation, and mostly recruited people, especially women who did not want to separate from their family. These workers had been through tough experiences such as discrimination against pregnant women, fixed duration contracts, near impossible quota on the number of products needed to be produced, and very low wage (Griffin, 2016). By interviewing these subcontractor workers, HRW obtained some critical information that these workers did not know their factory names, whether they were registered in NSSF or not, no identification card and unaware of the brands that are sourcing their products. Furthermore, HRW speculated that these unidentifiable factories might even use abusive labor practices that violate the laws domestically and internationally (Kashyap, 2016).

Workers are paid on a piece-rate basis which can be described as the payment depending on how many products each worker produced, different from the

common paid-by-the-hour method which pays workers based on how many hours that the workers have been working (Kashyap, 2016). Those subcontractor' employers usually ramp up the quota when workers nearly hit the quota so that the workers can barely finish it and work to their limit. In one of an investigation conducted by an Non-government Organization (NGO), they found out that those workers sometimes had only a 15 minutes lunch break and had to continue producing at home if they failed to meet the quota. Despite the work that the workers put in, they were never paid for working overtime, and they often had to pay for the electricity bills for the sewing machines at home. Further, due to noncompletion of their quota, they have been warned and their contracts were terminated (Griffin, 2016). If they were already struggling in their work before this pandemic, this COVID-19 will surely worsen their situation but without any sufficient data, we could not estimate the impacts of COVID-19 on these subcontractor workers.

ACTIONS AND RECOMMENDATIONS

To mitigate the crisis and its adverse impacts on the garment factory owners, the government had exempted the employers from paying for the worker's insurance and the NSSF. Besides, the MEF has already prepared a US\$300 million subsidy to help essential sectors including garments to sustain and recover at a faster rate (Sim, 2020). The General Department of Customs and Excise also announced that they would cooperate with the factories and other actors to shorten the import process of raw materials by assessing and issuing documents immediately (Medina, 2020). There are also some suggestions made by the brands that advised the suspended factories to shift their production lines to start making personal protective equipment and medical supplies whose demand had skyrocketed (Human Rights Watch, 2020).

Cambodia might feel huge pressure due to the decline of the garment industry, however, the government is the worker's biggest support with an announcement of reserve funds. Clothing factory workers who are unemployed will receive a payment of US\$70 each month (Heng, 2020). Companies that want to halt employment contracts need to submit documents to the MLVT. In Kandal Province, out of all the 164 factories, 44 are now in suspension. Among the 44 factories, only 14 issued themselves to receive support funds from the government. This pandemic created uncertainty for not only the owners but also the workers and their families because, in Kandal province alone, the estimated earnings of the workers are around US\$35 million per month only from the garment sector. The amount of money workers is expected to receive is based on the days of suspension. They are issued to receive US\$15 for a suspension of 7–10 days, US\$30 for 11–20 days, and US\$40 if the suspension is more than 21 days. Although they are not employed anymore, the Ministry of Health (MOH) takes extreme measures in tackling the virus by educating

workers to practice good hygiene both in the workplace and at home. As such it can be concluded that the government did a wonderful job in supporting the factory workers. However, the vital question is, can the workers and their families survive on US\$70 per month while their original salary before the pandemic was much more than that (Sen, 2020).

Being a developing country, Cambodia comprises of both farming and nonfarming communities. Undoubtedly, these people borrow money from the microfinance institutions and were having trouble paying it back even before the pandemic strikes. With today's COVID-19 situation, the workers are struggling to even keep food on their plates, let alone pay their loans. HRW stated that the government is not effective in protecting borrowers and as such they are forced to sell land and properties to make ends meet. The HRW's deputy Asia's director suggested the authority to postpone debt payments from workers affected by the coronavirus as well as hold financial institutions accountable that failed to protect the workers' interest. The lack of concern from the government can result in workers falling into wider debt, poverty, and illegal borrowings from loan sharks. With this accusation, comes a response from one of the government's spokesperson, saying that the situation that is described by HRW does not match with the actual one in Cambodia. He added that Cambodia's National Bank has already come up with a plan to aid people. The Cambodia Microfinance Association (CMA) spokesperson stated that microfinance institutions have introduced a special payment plan of around three to six months. With this new debt repayment policy, some pressure can be lifted from the workers' shoulders. However, the microfinance institutions also noted that the debts will not be excused as it is illegal to do so (Lipes, 2020c).

The president of the Cambodian Labor Confederation (CLC) said that as long as the pandemic is growing, unemployment rates among garment workers will also increase. The government is finding ways to reduce unemployment rates by developing the country's infrastructure. Therefore, garment workers that are affected by the pandemic can find jobs in the agriculture and construction industries. The authority is also taking extreme action against the causes of factory closure as some owners use the COVID-19 excuse to shut down their struggling factories without paying workers compensation. The president of the Building and Wood Workers Trade Union Federation of Cambodia (BWTUC) stated that the government should be more concerned about the worker's safety as well as set a higher minimum wage as construction works are dangerous and tiring. Women are known to be most affected when working to build infrastructures as they are in immediate danger of sexual harassment and not given time off for labor. At the moment, all we can do is hope that the garment industry will recover soon, and therefore, the women can return to their original job (Khy, 2020).

To prevent this crisis from reoccurring in the future, the Royal Government needs to inspect the contracts made between the buyers and the suppliers in Cambodia. They must ensure that there will be someone who will take financial responsibility or share the responsibility between all actors including the government, the suppliers, and the brands making the orders. Moreover, the government has to push the brands to make advance payments to help local suppliers to deal with financial issues or debts as well as be transparent and request the microfinance institutions to postpone more debts that the factory workers have borrowed. The government should also consider implementing measures to reduce inflation so that the workers can repay their debt and improve their living conditions.

CONCLUSION

To conclude, this research has shown the negative impacts of COVID-19 on garment factories stakeholders, specifically the employers and employees. Although this pandemic was an external factor that could not be avoided, brands, suppliers and the government are partly responsible for this crisis. These impacts could have been less severe if the buyers and suppliers had negotiated and shared their responsibilities on workers when making the contracts. However, we also found that most of the research conducted by other groups or experts have been focusing on the workers in the export-oriented factory and little attention has been paid to the workers of the subcontractors in the rural areas.

Our research is not free from limitations. One of the most significant limitations of our research is the absence of the primary data in the study. Further, we carried out our research within a limited time period. These limitations no doubt affected our study. We recognize the limitations of data of COVID-19 impacts on worker's economic, physical and mental health and living conditions, and conditions of workers working under the subcontractors. In addition, there are limited evidence to separate the impacts caused by EBA withdrawal and the impacts caused by COVID-19 on garment workers. Future research attempts should therefore be made using primary data, focusing more on the workers of the subcontractors, especially to understand their economic difficulties in this COVID-19 era to provide meaningful recommendations and plan of actions.

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