

# International Market Demand for Cambodian Garments<sup>1</sup>

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## Abstract

The Cambodian garment industry has seen rapid growth over the past decades, which has also lifted many Cambodians out of poverty. As a result, Cambodia became a good source of low-cost clothing manufacturing due to its favorable trade agreements and low labor costs. This extra source of revenue contributed significantly to the growth of the Cambodian economy, especially by providing employment opportunities for Cambodian women, which led to the reduction of poverty and rising living standards. On the other hand, there are major issues stemming from the industry as well, such as environmental pollution, labor abuse, and a lack of competitiveness. The Cambodian government has recognized the issues and has drafted several plans to improve the industry. Moreover, some other recommendations from other authoritative organizations, such as the IFC and EuroCham, highly encouraged improving our infrastructure, improving energy costs, and diversifying.

**Keywords:** Market demand, international market, garment

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## **Introduction**

The garment industry has been a crucial contributor to the growth of Cambodia. According to the Cambodia Garment, Footwear, and Travel Goods (GFT) Sector Development Strategy 2022–2027, it has supported the lives of two and a half to three million Cambodians (2022). Moreover, the report also highlighted that the industry had been a growth pillar for the Royal Cambodian Government. Therefore, it is very important for us to understand the deeper implications of the international demand for this industry and how it can drastically affect our country.

## **Research Questions**

The study seeks to answer the following research questions:

- What are the key export destinations for Cambodian garments?
- What are the most popular product categories?
- How does Cambodia's garment export landscape differ from other major players in the region?
- What is the impact of the international demand for Cambodian garments on the local economy and the livelihoods of people?
- How can Cambodia improve its garment industry and its competitiveness?

## **Research Objectives**

This research aims to provide a comprehensive understanding of the international market demand for Cambodian garments and the opportunities and challenges faced by the Cambodian garment industry in responding to this demand. The research findings intend to support policy decisions aimed at promoting greater competitiveness, sustainability, and value addition in the industry. In specific, the objectives of this research are:

- To analyze the trends and patterns of international market demand for Cambodian garments, including the key export destinations, product categories, and changes over time.
- To examine the competitive landscape of the Cambodian garment industry in relation to other major players in the global market, including China, Bangladesh, Vietnam, and India.
- To assess the impact of international market demand for Cambodian garments on the local economy, including employment and income.

- To explore the potential for value addition and upgrading in the Cambodian garment industry, including opportunities for innovation, diversification, and sustainability.

## **Review of Literature**

### **Conceptual Literature**

Over the years, Cambodia has emerged as one of the top garment manufacturers and exporters in the world. A "garment" is anything that can be worn and is made using fabric or textile materials (Kiron, 2021). Cambodia, along with more than 200 other countries, operates under the Harmonized System, which is a numerical coding system used to categorize traded goods. Based on the Harmonized System, chapters 61–63 are for readymade garments and other made-up articles such as knitted, crocheted, non-knitted, and non-crocheted apparel (Kiron, 2021).

Over time, Cambodia has established a name for itself in the largest market in the world, the international market. "International market" is where goods are traded across different countries and how many nations are able to increase their GDP. Essentially, the more a country exports, the more money will flow into its economy.

### **Empirical Literature**

The garment industry has always been known to be the largest and most important industry in Cambodia. In 2022, Cambodia's export earnings from garment products increased by 24%, reaching a total of \$10.25 billion (Khmer Times, 2022). Data from the General Department of Customs and Excise Cambodia states that the top countries and regions that import the most Cambodian garments include the US, the EU, including the UK, Japan, and other ASEAN countries. In 2020, 36.7% of garments were exported to the US, 34.9% to the EU, including the UK, 8.9% to Japan, and 19.5% to ASEAN countries (The Supreme National Economic Council, 2022).

Shrill (2019) pointed out that, from inception to 2018, the EU had been the biggest consumer of Cambodian garments, with the US coming in as the second largest at 43% and 26% in 2028, respectively. Japan represented the third-biggest consumer of Cambodian clothing at 9% in the same year. During the period of 2016–2018, the growth of the export value also saw a significant increase from the major buyers. The report highlights the importance of the various FTAs that have been signed among the major buyers. It had been giving the Cambodian garment industry an advantage in the major markets and could be regarded as very significant to the growth of the sector, one of which was the "Everything But Arms" agreement. As a whole, the report concludes that the garment industry had a major development during the period analyzed and had been a major factor in the development of Cambodia.

Based on a study done by Arnold (2021), international demand for Cambodian garments decreased by 9% in 2020 due to COVID-19.

After almost two decades of rapid development, Cambodia has received an ethical reputation for its garment industry from the Better Factories Cambodia program. Thanks to this program, global buyers and international investors are confident in outsourcing garment products from Cambodia, as the report is widely accepted as reliable and accurate. Finally, for Cambodia's garment industry to develop further, they have to secure the original trademark of "Made in Cambodia" (Tang, U., 2016). With additional investment, the Cambodian garment industry will continue to flourish into the foreseeable future.

### **Research Methodology**

To meet the objectives of this study, we conducted thorough secondary research from various sources on the internet. This includes data from notable sources such as the Cambodian National Government, the World Bank, and the International Labor Organization, as well as the important sources listed below:

- Bangladesh Bank
- World Integrated Trade Solution
- General Department of Vietnam Customs
- China's General Administration of Customs
- General Department of Customs and Excise Cambodia
- 2019 Report prepared by the International Labor Organization (ILO)
- India's Ministry of Commerce and Industry, Department of Commerce
- 2022-2027 Report prepared by the Supreme National Economic Council

Afterwards, the collected data is compared and analyzed using different variables like exports, GDP, and employment. Finally, we are able to use the results of our research to verify our findings, ultimately drawing conclusions and closing out the report by providing recommendations on the topic.

## Findings and Discussions

### The Trends of International Market Demand for Cambodian Garments

Ever since the mid-1990s, there has always been a high international market demand for Cambodian garment exports, making the garment industry the major driver for Cambodia's economic growth. According to the data collected from the World Bank Organization and the General Department of Customs and Excise, the graph below shows a significant increase in Cambodian garment exports from 2000 to 2023, despite the small fluctuations over the years.

#### Cambodian Textiles Export (US\$ Billion)

Data from the World Bank and the General Department of Customs and Excise

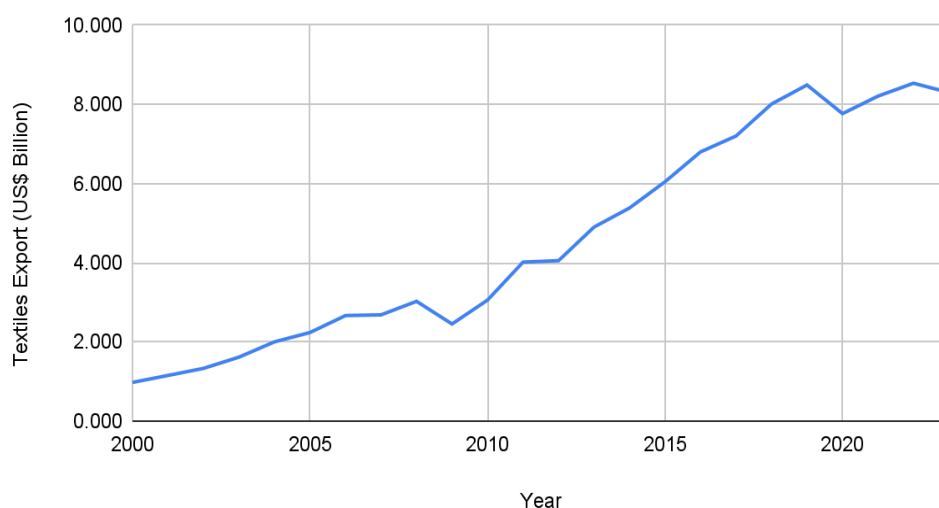


Figure 1: International Market Demand

Source: Authors

Due to the COVID-19, Cambodian textile exports decreased by 9% in 2020 (Arnold, D. 2021). Despite the fact that there was a 13% increase in 2022, a declining pattern of garment exports can be observed in 2023 due to a 25% decrease in the first quarter of the period, according to the data provided by the General Department of Customs and Excise.

#### Key export destinations

Based on the data derived from the World Integrated Trade Solution (WITS) provided by the World Bank, the summarized stacked bar chart shows that the main export destinations for Cambodian garment products have always been the United States, the United Kingdom, Germany, Japan, and Canada.

### Cambodia's Garment Exports by Country Share

(Data from the World Integrated Trade Solution)

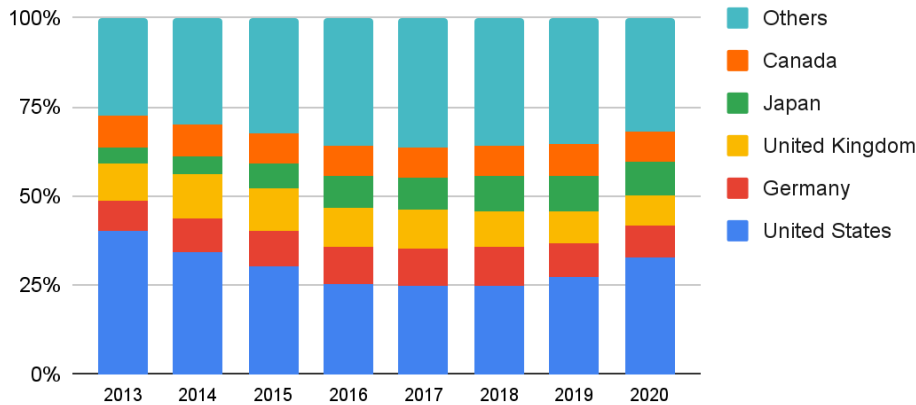


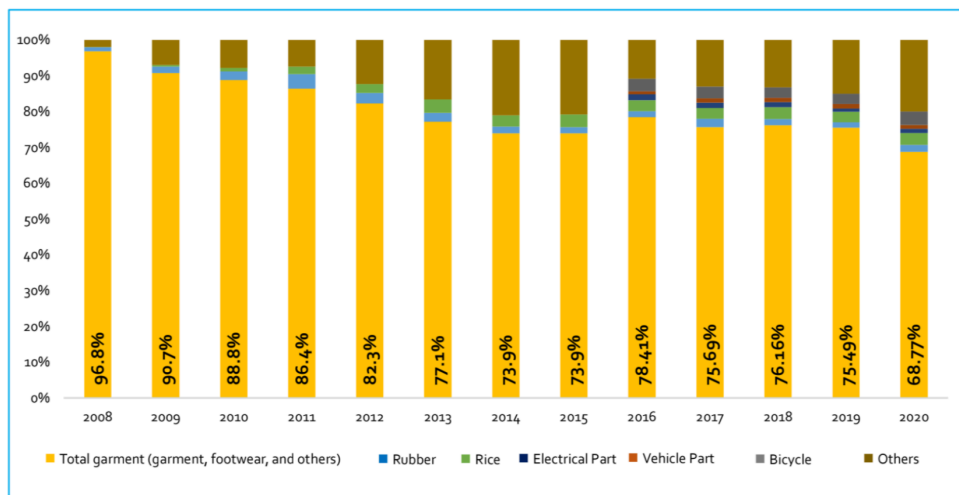
Figure 2: Garment Exports

Source: Authors

### Most Popular Product Categories

Based on a report prepared by the Supreme National Economic Council in 2022, the bar chart depicted below clearly illustrates that the majority of the export share was attributed to total garment products, which include garments, footwear, and others (The Supreme National Economic Council, 2022).

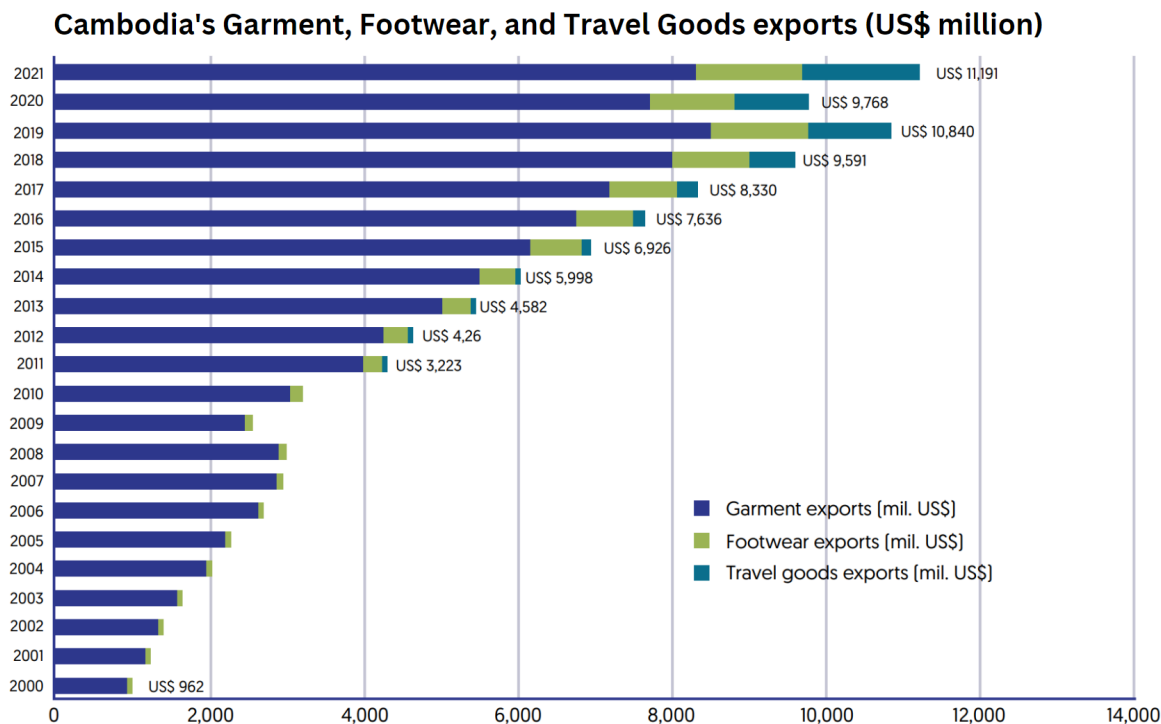
#### Share of Cambodia's Export by Product 2008 - 2020



Source: General Department of Customs and Excise of Cambodia, Ministry of Economy and Finance

Figure 3: Popular Products

As stated by the graph taken from a study done by EuroCham Cambodia in 2022, among the total garment, footwear, and travel goods (GFT) being exported, around 70% to 90% were normally accounted for by the garment and textile goods (EuroCham Cambodia, 2022).



Sources: National Institute of Statistics (NIS) and the General Department of Customs and Excise (GDCE).

Figure 4: Garment, Footwear, and Travel Goods

Upon further examination of the exported garment and textile goods, which include Chapter 61 (knitted apparels), Chapter 62 (not knitted apparels), and Chapter 63 (other made-up textile articles), the most popular textile product categories appear to be from Chapter 61, based on the data provided by the General Department of Customs and Excise. As of 2022, the export from Chapter 61, which includes articles of apparel and clothing accessories, knitted or crocheted, amounted to US\$ 510,021 thousand, sharing about 68.03% of the total textile export (Ministry of Economy and Finance, 2023).

## The Difference Between Cambodia's Garment Export Landscape and Other Major Players in the Region

In order to examine the competitive landscape of the Cambodian garment industry in relation to other major players in the global market such as China, Bangladesh, Vietnam, and India, it is necessary to assess the productivity of Cambodia's garment industry over the past few years.

According to Cambodia's General Department of Customs and Excise, Cambodia's total garment exports in 2017 totaled 7.15 billion USD and continued to increase to 7.95 billion USD in 2018. By 2019, Cambodia was able to export 8.4 billion USD worth of garments, but due to the COVID-19 pandemic, the country's total exports and GDP plummeted. Unfortunately, its total garment exports dropped to 7.55 billion USD in the aftermath of the pandemic. Even though 2020 caused the country to have a major setback, they were able to increase their numbers in the succeeding year to 8.2 billion USD. By 2022, Cambodia's garment exports were able to surpass their value in 2019 by 1 billion USD.

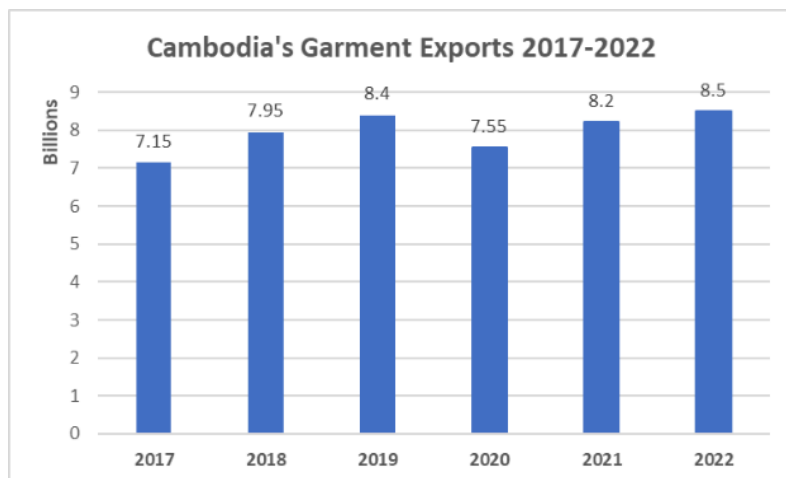


Figure 5: Garment Exports 2017 - 2022

Based on the graph below (Garment Exports 2022), sourced from reports issued by the General Department of Vietnam Customs, China's General Administration of Customs, India's Department of Commerce, and the Central Bank of Bangladesh, it is evident that China holds a prominent position in the garment industry. In 2022, China's garment exports were valued at a staggering 175 billion USD, solidifying its dominance in the market. The Central Bank of Bangladesh reported that its country exported 42.61 billion USD worth of garments, while Vietnam's numbers totaled 37.57 billion USD. Lastly, India's total garment exports came out to be 22.79 billion USD.



When comparing Cambodia's total garment output with those four countries, Cambodia is noticeably billions of dollars behind. Even though the country has made great progress in developing its garment sector, it must continue persevering if it wants to become one of the major players in the region.

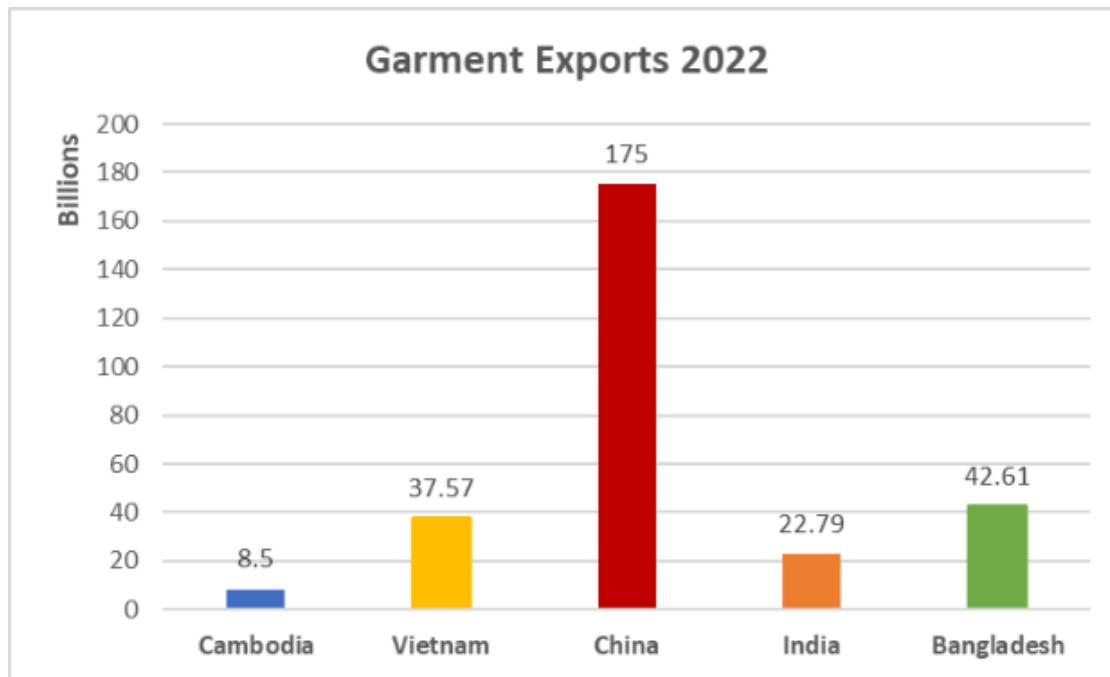
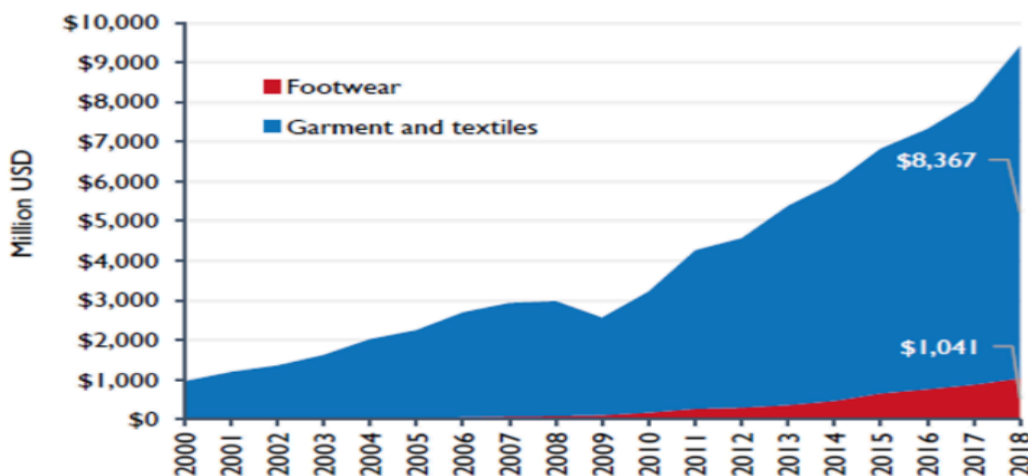


Figure 6: Garment Exports 2022

### **The Impact of International Demand for Cambodian Garments on the Local Economy and the Livelihoods of People**

The international demand for Cambodian garments has had both positive and negative impacts on the local economy and the livelihoods of people in Cambodia.

On the bright side, the garment industry has been a significant contributor to Cambodia's economic growth. The industry has helped increase the country's GDP and has been a significant source of foreign exchange. In 2018, the garment and footwear industries accounted for 74% of Cambodia's total merchandise exports, worth approximately US\$10 billion (InvestInCambodia), as shown in the figure below.



Source: Ministry of Economy and Finance of Cambodia

Figure 7: Impact of Garment on Local Economy

Additionally, the growth of the garment industry has created new employment opportunities for a lot of Cambodian citizens. These jobs provide the workers and their families with a stable income, allowing them to meet their essential needs. With the inflow of revenue from the garment industry, Cambodia was able to allocate some of its budgets to the development of the country's infrastructure, which has led to improvements in transportation, communication, and other related industries. This has improved the business environment in Cambodia, paving the way for other industries to operate as well as encouraging investment from foreign countries (ILO, 2021). Furthermore, the evolution of the garment industry has stimulated the development of supplementary industries such as textiles, accessories, and packaging (2021). This has led to more diversified value chains and contributed to the overall growth of the domestic economy. Lastly, the garment industry played a major role in making Cambodia known internationally as a global manufacturing hub and has attracted investors from all over the world. This resulted in a diversification of the country's economy and new job opportunities for Cambodian workers outside of the garment industry.

Conversely, the garment industry has also received criticism for its negative impacts. Firstly, the industry is equipped with poor working conditions, and workers are paid the minimum wage. US\$100 to US\$182 (2014–2019), US\$200 (2023).

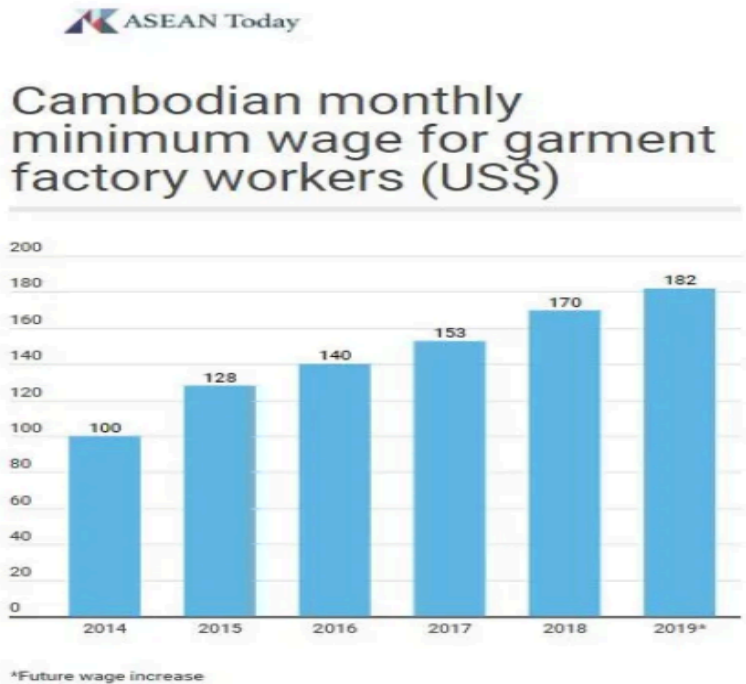


Figure 8: Monthly Wage

The industry is also faced with ethical suspicions about not upholding labor rights (SEI, 2023). Moreover, the industry is also accused of causing environmental damage. With the involvement of hazardous chemicals during production and the improper handling of waste materials after production, concerns for the environment arise (ILO). In addition, heavy reliance on the garment industry can leave Cambodia vulnerable to external shocks, such as changes in global demand or fluctuations in the prices of raw materials. This was particularly evident during the COVID-19 pandemic, when there was the closure of many factories and a steep decline in garment exports (Phnom Penh Post, 2022). This has also caused significant job losses and economic struggles for the ex-workers and their families.

Overall, while there was a massively positive impact on the local economy and employment, there are also concerns about the industry's sustainability, especially in terms of workers' rights and environmental impact. It is imperative that these challenges be addressed to ensure that the garment industry can continue to aid Cambodia's economic growth and development while also protecting the wellbeing of its workers and the surrounding environment.

## Recommendation

According to an IFC (International Finance Corporation) press release, the cost of energy remaining high and low productivity have been the causes of our lack of competitiveness. Most of our workers still earn a low income and remain competitive only by being affordable. The cost of energy in Cambodia is one of the highest compared to its neighbors. In fact, based on GlobalPetrolPrices, the price of electricity for Cambodian households as of March 2023 was \$0.148, while the price of electricity for Vietnam at the same time was just \$0.08 (2023).

Moreover, according to a Kirirom Post article based on the The Industrial Transformation Map for the Textile and Apparel Industry (T&A ITM) 2023–2027 strategy, the royal government is also focusing on improving the human resource in pursuit of local high-value jobs, improving productivity, strengthening supply chains, and supporting a friendly business environment (2023).

According to an EU Brief on Textile Workers in Developing Countries and the European Fashion Industry, it cautioned poorer countries to be more aware of the nature of the industry and to race to the bottom in terms of price competitiveness (2023). This means that we should be more careful about focusing on just our affordability alone to compete in the international market. Poorer countries tout their prices as their main competitive advantage. However, as more poor countries adopt the same strategy, it will just be a race to become the cheapest and will not result in development.

According to a report by the Konrad Adenauer Stiftung Foundation Office in Cambodia, there are six crucial factors to examine to prepare for the future of the garment industry: education, infrastructure, energy, value chain, access to markets, and diversification (2020). Education refers to the development of more advanced human resources, while infrastructure refers to the creation and maintenance of new roads and transportation to transfer goods. Energy alludes to the affordability of electricity. On the other hand, value chain indicates the integration into the global value chain, which leads to the technological upgrade of industries. Access to markets simply means being able to sell to markets without substantial barriers. Finally, diversification refers to developing more industries to rely on besides the garment industry.

According to the Cambodia Garment, Footwear, and Travel Goods (GFT) Sector Development Strategy 2022–2027, it agreed with the two main points from the report by the Konrad Adenauer Stiftung Foundation Office in Cambodia, which are education and diversification (2023). It further expanded its focus to three more objectives, such as better working conditions, increasing the value added of the industry, and attracting investment in other industries supporting the garment industry.

## Conclusion

In conclusion, as can be seen from the numbers and reports, it is important to consider the fact that we are relying on one or two big markets to support our industry. Political or environmental disruptions can interrupt our growth and prospects drastically, such as the removal of the EBA. Therefore, it is imperative that we develop our human resources to upgrade the industry, create a business-friendly environment, and have more diversification in the industry.

However, it must be noted that there is also one major limitation in regards to the methodology. This report does not contain any primary data from relevant stakeholders in Cambodia, such as factory owners. This could affect the result of the report relating to the impact of the industry and the recommendations.

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## Appendices

Q1: What are the key export destinations for Cambodian garments?

Year	United States	Germany	United Kingdom	Japan	Canada	Others
2013	40.00%	8.49%	10.72%	4.43%	8.79%	27.56%
2014	34.13%	9.69%	12.22%	5.22%	8.86%	29.88%
2015	30.51%	9.67%	11.89%	7.26%	8.19%	32.48%
2016	25.49%	10.09%	11.14%	9.08%	8.48%	35.72%
2017	24.58%	10.68%	11.03%	8.77%	8.48%	36.45%
2018	25.02%	10.69%	10.03%	9.92%	8.39%	35.95%
2019	27.37%	9.35%	9.23%	9.96%	8.59%	35.51%
2020	32.70%	9.20%	8.35%	9.52%	8.30%	31.93%

Q2: What are the most popular product categories?

Cambodia garment exports by product category in 2022	Value (US\$ Thousand)	Share
61 - Articles of apparel and clothing accessories, knitted or crocheted.	510,021	68.03%
62 - Articles of apparel and clothing accessories, not knitted or crocheted.	225,329	30.05%
63 - Other made up textile articles; sets; worn clothing and worn textile articles; rags.	14,387	1.92%
<b>Total Garment and Textiles</b>	<b>749,737</b>	<b>100.00%</b>