

# THE IMPACT OF EBA WITHDRAWAL & COVID-19 ON CAMBODIA'S INTERNATIONAL TRADE

by

Sotheara SOK

An Essay

Submitted to the French Cooperation Department

Royal University of Law and Economics

In Partial Fulfilment of the Requirements

For the Degree of Economics and Management

June 2020

## Contents

Introduction.....	1
The Impact of EBA Withdrawal .....	1
The Impact of COVID-19 .....	2
Conclusion .....	3
References.....	4

## Introduction

Cambodia in 2020 has been having a hard time to survive this year and do not expect to cross the finishing line of the year with healthy economic growth as well as prosperity in international trade like we always do in the past decades. Nevertheless, we have to face reality and do whatever we can to minimize the unfavourable future due to the fact of EBA withdrawal, which forecasted to have a significant impact on our exports and the deadly disease, namely COVID-19, that has almost shut down our economy entirely periodically.

The scope of the impact caused by the two elements above mentioned has found by this essay that (i) EBA withdrawal severely hit the textile and footwear industries; (ii) COVID-19 brought an enormous blow to garments, tourism, and construction sectors.

The following paragraph will illustrate the impact of EBA withdrawal, analyze the consequence of COVID-19, and provide a conclusion and personal comments on the matters.

## The Impact of EBA Withdrawal

The EBA is one of the preferential trade arrangements under the EU Generalized Scheme of Preferences that grants full duty-free, quota-free access into the EU market for all products except arms and ammunition for countries classified as Least Developed Countries. Access to these preferences comes with the obligation to respect human rights and labour rights. Consequently, the EU became Cambodia's largest trading partner, accounted for 45% of Cambodian exports in 2018. Exports to the EU from Cambodia reached €5.4 billion in 2018. 95.7% of these exports entered the EU market under EBA tariff preferences.

The European Commission announced the misfortunate news to suspend duty-free access for 40 products in selected garment and footwear products as well as all travel goods and sugar from Cambodia, equal to about 20% of the country's exports to the bloc, or \$1.19 billion. Hence it will increase the tariff for clothes and footwear, 12% and 17%, respectively. The textile and footwear sectors account for 75 per cent of Cambodia's exports into the EU and rank as the second and third most imported categories of goods from Cambodia to the EU. It is also crucial to mention that 1,069 factories in 2019, of which garment and textile factories accounted for 823, travel goods factories for 114 and footwear factories for 132, together with employed 923,313 workers.

The hit to the economy by the new tariffs was set to be around 2% of GDP, and the estimated cost of producing the targeted goods would rise by \$140 million. Other negative impacts will hit hard on the employment of the people in the textile industry. Moreover, it will negatively affect future investments, predictability, and trust, two crucially essential elements of a well-functioning industry. It would be difficult for Cambodia to create a modern and competitive industry with a skilled workforce to compete with the international market.

Barring this, economists expect higher export costs will see some textile production shifted away from the country's vital apparel industry. With labour costs increasing, garment manufacturers with thin profit margins would be squeezed out of Cambodia by the higher export costs. Plus, the minimum monthly wage in the garment and footwear sectors increases to \$187 in 2020,

approaching the wage levels in Vietnam and far higher than those in Bangladesh. With investment barriers such as poor infrastructure, some trade preferences will weaken its appeal over rivals vying for low-cost manufacturing. Countries like Bangladesh, Sri Lanka, and Vietnam that have signed a free trade agreement with the EU are robust competitors and alternatives for investors to switch their productions.

For instance, Germany's Adidas, which sources 22% of its textiles from Cambodia, its most extensive production base for such products said the company was reviewing the implications of the EU's decision. Moreover, Swedish giant H&M which sources from factories in Cambodia employing about 77,000 workers has signalled changes to its supply chain and said that the partial EBA withdrawal would constrain the competitiveness of Cambodia's textile sector as well as negatively affect future investments, as well as predictability and trust, two crucially essential elements of a well-functioning industry.

## The Impact of COVID-19

Garments, tourism, and construction have been hit the hardest. The pandemic would put at risk 1.76 million Cambodian jobs from losses in tourism, manufacturing, and construction, which together account for more than 70 per cent of growth and almost 40 per cent of employment.

In the garment sector, 60 per cent of factories had been severely affected by cancelled orders of ready-made garment exports because of the COVID-19 pandemic. The bulk of these cancelled orders have come from both the US and EU markets, representing 28 per cent and 46 per cent of our export market. As a consequence, around 500,000 workers have been affected by these cancellations. Hence, 256 garments, footwear, and travel goods factories in Cambodia suspending their operations so far. The projected exports are likely to be down around 60% in the second quarter of this year compared to 2019 because there has yet to receive any orders from buyers for both May and June, as well as for the foreseeable future. Therefore, payment defaults will affect not only the workers but also the 2 million Cambodian family members who depend on them.

The coronavirus outbreak is expected to deal a blow to the country's tourism sector, heavily dependent on Chinese visitors and accounts for nearly 20% of GDP. Plus, about 169 companies in the tourism sector had also been closed temporarily, leaving roughly 16,891 people unemployed. Cambodia will see a massive loss in revenue generated from the tourism sector of around \$3billion this year due to the pandemic spread. Moreover, foreign and local visitors expected to be declined by about 70 per cent and 50 per cent, respectively this year. During the first four-month, Cambodia welcomed 1.16 million foreign visitors, a decline of 52 per cent compared with the same period last year. So far around 2,956 tourism-related business in Cambodia has been closed, leaving a further 45,405 people unemployed. According to the State Secretariat of Civil Aviation, Air passenger numbers fell by more than 90% in April, while ticket sales at Cambodia's world-famous Angkor Wat temples fell by 99.5%.

Indeed, the construction industry's total investment ran to around \$11 billion in 2019, an increase of nearly 90 per cent on 2018's \$5.5 billion. However, estimated to experience negative rate growth of 5.3 per cent in 2020 and is expected to hit a growth rate of 3.3 per cent next year. Undoubtedly, Cambodia will face a decreasing rate in foreign direct investments (FDIs), especially from China

and the construction demand in tourism, commercial, and local investors' confidence because of COVID-19. For instance, FDI value declined by 52.2 per cent in the first two months of 2020, attributing the significant drop to the global COVID-19 pandemic effect on the appetite for international investment because COVID-19 has devastated international economies; this has resulted in significant cutbacks by international investors.

In a nutshell, the impact of COVID-19 has added more weight to the already severely impact industries such as garment and footwear sectors, which affect by the EBA withdrawal and facing lots of uncertainty shortly. Plus, it has caused massive damage to other industries, especially tourism, which is one of the main driving forces of Cambodia's GDP or internal trade.

## Conclusion

In conclusion, the impact of EBA withdrawal is projected to profoundly affect the textile and footwear sector and a considerable amount to travel goods and sugar. Plus, the impact from COVID-19 had added weight to the sectors mentioned above and spread its deadly damage to the tourism industry, all of which are the main drivers of Cambodia's internal trade.

However, with the supportiveness from the government and other organization align with the mercy from China, we would expect Cambodia to experience a sharp decline in GDP for a few years but will bounds back at a fast pace speed and experience the prosperity for years to come.

## References

- #EUTrade news. (2019, November 12). Trade - European Commission.  
<https://trade.ec.europa.eu/doclib/press/index.cfm?id=2080>
- #EUTrade news. (2020, February 12). Trade - European Commission.  
<https://trade.ec.europa.eu/doclib/press/index.cfm?id=2113#:~:text=The%20withdrawal%20amounts%20to%20around,effect%20on%2012%20August%202020>
- H&M Group comments on EU trade preference withdrawal for Cambodia. (2020, February 12). H&M Group. <https://hmgroup.com/media/news/general-news-2020/h-m-group-comments-on-eu-trade-preference-withdrawal-for-cambodi.html>
- Kong, K. L. A. M. (2018, December 13). “If the factory closes what could I afford to eat?” BBC News. [https://www.bbc.com/news/business-45957193?fbclid=IwAR2QHAruk\\_425NOO3itluMbC0Q3EXItY8nVoRK2iCgXnzlMQ\\_O7KtC9ozkM](https://www.bbc.com/news/business-45957193?fbclid=IwAR2QHAruk_425NOO3itluMbC0Q3EXItY8nVoRK2iCgXnzlMQ_O7KtC9ozkM)
- Statement on European Commission’s Cambodia decision. (2020, February 13). EBCA. <https://www.ebca-europe.org/policy-priorities/international-trade/details/statement-on-european-commission-s-cambodia-decision.html>
- European companies ask EU to postpone EBA withdrawal. (2020, April 9). Khmer Times. <https://www.khmertimeskh.com/711044/european-companies-ask-eu-to-postpone-eba-withdrawal/>
- 256 factories suspended due to COVID-19, affecting over 130,000 workers. (2020, June 2). Khmer Times. <https://www.khmertimeskh.com/50729329/256-factories-suspended-due-to-covid-19-affecting-over-130000-workers/>
- Bunthoeun, C. (2020, May 4). Cambodia’s bilateral trade drops with Vietnam, yet Thailand steady. Khmer Times. <https://www.khmertimeskh.com/719618/cambodias-bilateral-trade-drops-with-vietnam-yet-thailand-steady/>
- Bunthoeun, C. (2020, May 5). GMAC demands all payment from buyers. Khmer Times. <https://www.khmertimeskh.com/719909/gmac-demands-all-payment-from-buyers/>
- Bunthoeun, C. (2020, June 23). Construction suffers from low growth. Khmer Times. <https://www.khmertimeskh.com/50736882/construction-suffers-from-low-growth/>
- Cambodia to lose \$3bn in revenue from tourism sector. (2020, June 5). Khmer Times. <https://www.khmertimeskh.com/50730893/cambodia-to-lose-3b-in-revenue-from-tourism-sector/>
- Chan, S. (2020, April 17). Aviation sector records over 90 percent drop. Khmer Times. <https://www.khmertimeskh.com/714007/aviation-sector-records-over-90-percent-drop/>

- Crispin, S. W. (2020, May 21). *Cambodia poised to be big Covid-19 loser*. Asia Times.  
<https://asiatimes.com/2020/05/cambodia-poised-to-be-big-covid-19-loser/>
- Galileo de Guzman Castillo. (2020, June 7). *Cambodia COVID-19 Situationer*. Focus on The Global South. <https://focusweb.org/cambodia-covid-19-situationer/>
- Himel, J. (2020, March 9). *How will COVID-19 Affect Cambodia's economy?* Cambodianess.  
<https://cambodianess.com/article/how-will-covid-19-affect-cambodias-economy>
- Huaxia. (2020, June 13). *Cambodian PM says economy to shrink 1.9 pct this year due to COVID-19 impact - Xinhua | English.news.cn*. XinhuaNet.  
[http://www.xinhuanet.com/english/2020-06/13/c\\_139136436.htm](http://www.xinhuanet.com/english/2020-06/13/c_139136436.htm)
- Up to 15 percent of logistics providers 'heading for bankruptcy.'* (2020, June 25). Khmer Times.  
<https://www.khmertimeskh.com/50737975/up-to-15-percent-of-logistics-providers-heading-for-bankruptcy/>