

**Assessing the impact of tariff uncertainty on the
garment, footwear and travel goods sector in Cambodia**
Initial survey findings

June
2025





Background

Cambodia's garment, footwear, and travel goods (GFT) sector is foundational to the country's economic output and growth. In 2024, the sector recorded exports of US\$ 13.6 billion. Growth in this sector—which supports an estimated 918,000 formal jobs—hinges on maintaining export market access in a volatile global trading environment. As exports in Cambodia's GFT sector primarily rely on preferential market access granted by the United States and the European Union, the withdrawal of trade benefits, the imposition of tariffs from major trading partners, or a global economic recession could negatively affect the strong recent growth in the sector.

Cambodia is particularly reliant on the US market, the destination for 39 per cent of its GFT exports.¹ Twenty-five of the 45 international brands partnering with Better Factories Cambodia are based in the United States. As a result, the imposition of tariffs on GFT goods exported to the United States, as proposed and partially implemented by the US government in 2025, stands to have an oversized effect on the industry and its workers.² If fully implemented, significant tariffs on GFT goods entering the US market would likely force US brands to reconsider their production and sourcing strategies, with sector stakeholders expressing concern about potential pricing squeezes and reduced or cancelled orders, with negative spillover effects for workers and working conditions. Since the initial tariff announcement, Cambodian and US government officials have discussed trade conditions in a series of ongoing high-level negotiations.

Better Factories Cambodia, a partnership between the International Labour Organization and International Finance Corporation, works with stakeholders across the GFT industry to promote competitiveness and better working conditions. It promotes evidence-based dialogue and policy making, including through gathering enterprise-level data. In a rapidly evolving environment, BFC's efforts can help policy makers understand the perspective of factory managers and track the impact of a changing business environment on enterprises and workers. To support this work with timely insights, Better Factories Cambodia leveraged its trusted partnership with GFT factories to encourage their feedback through a brief survey aimed at understanding the current status of orders, operational sustainability, and buyer relations. Factory responses will help inform future guidance, policy development, and targeted solutions for the sector.

¹ Cambodia Garment, Footwear and Travel Goods Sector Brief: Issue 4 (March 2025). TAFTC, Eurocham Cambodia, Responsible Business Hub

² A “reciprocal tariff” plan was announced by the US government on 2 April 2025, affecting especially hard poorer garment-producing countries, such as Cambodia, that maintain a large trade imbalance with the United States. Cambodia was assigned a 49 per cent tariff on goods, the highest rate in Southeast Asia. This reciprocal tariff is in addition to baseline tariffs of 10 per cent tariff for all products entering the U.S. (with some exceptions). Baseline tariffs went into effect 5 April 2025, with reciprocal tariffs initially slated to begin as of 9 April, but subsequently delayed until 9 July 2025.

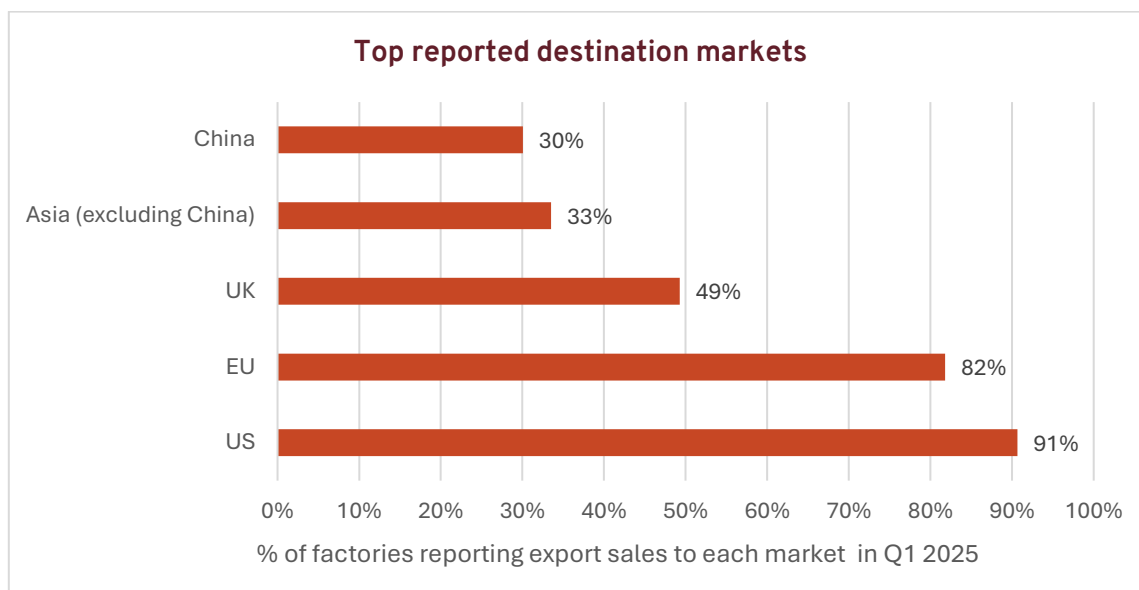


The survey was launched in late May 2025 via an online survey platform among focal points within the 756 factories registered with BFC. By law, all garment and travel goods factories seeking to export must enrol in BFC, while enrolment for footwear factories remains optional. The self-guided survey was designed for a focal point to gather input from relevant departments—such as production, human resources, and sales—before submitting a final response. Over a 12-day period, a total of 315 responses were received, representing an estimated response rate of 44 per cent. Of these, 203 submissions were fully completed and deemed valid for analysis. The sample of current respondents may not be fully representative of all firms in the GFT sector. The BFC programme expects to conduct a follow-up survey among all enrolled factories in Q3 2025 to track changes over time and provide up-to-date insights to inform sector stakeholders.

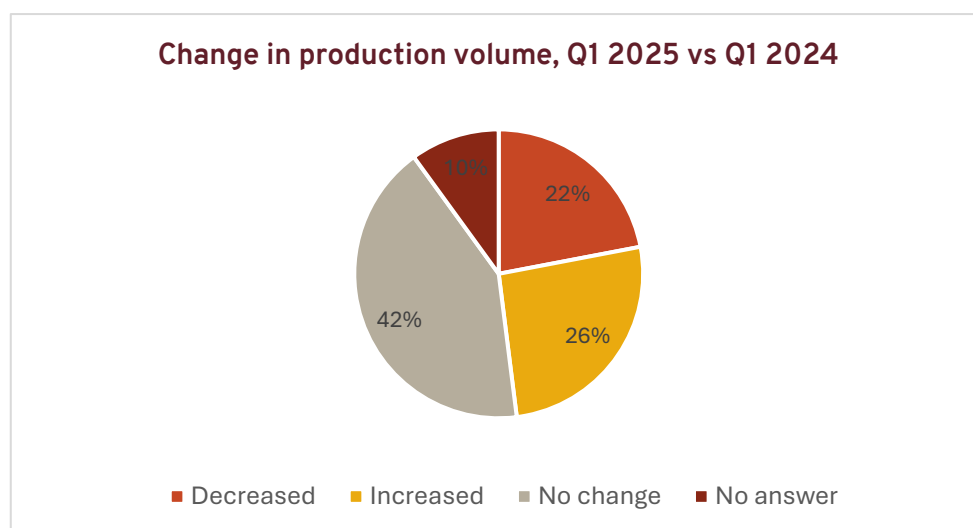
Key Findings

- Nearly half of the respondent factories anticipate difficulty to sustain current operations beyond three months with current orders
- 27 per cent of respondents affirmed existing buyers have requested reduced pricing for orders in 2025
- Despite challenges, 65 per cent of respondents expressed optimism about the near-term outlook

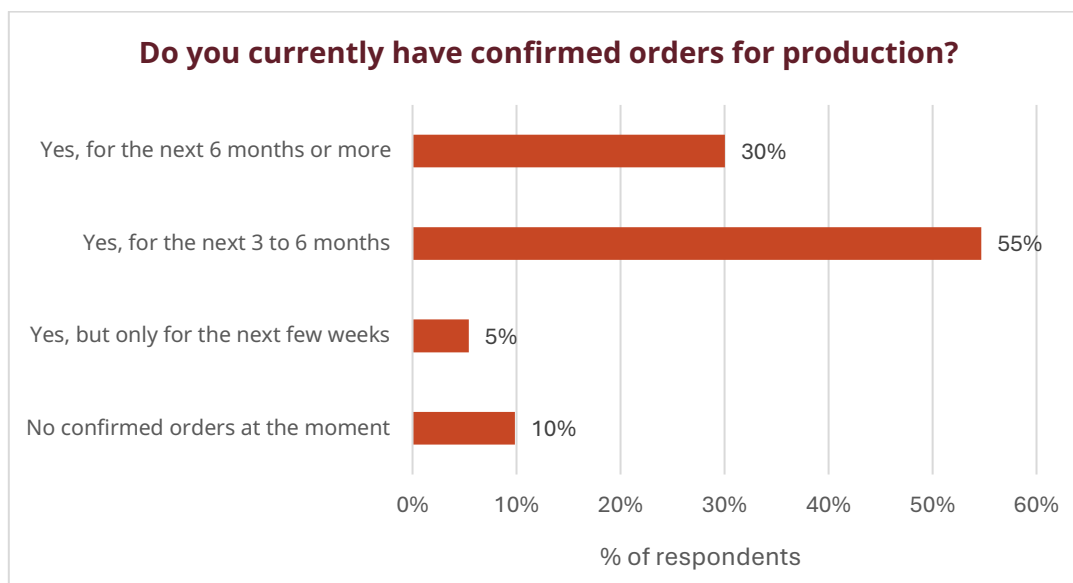
The export profile of firms confirms an export-dominated sector with diverse product destinations but reliance on access to US and EU markets. Two-thirds (66 per cent) of survey respondents indicated that their business revenue is fully dependent on export sales. An addition 10 per cent of respondents affirmed that export sales accounted for at least 80 per cent of revenue, together underscoring the sector's strong export orientation. Export markets are diverse, but broadly dominated by exports to the United States and EU. Among respondents, 91 per cent stated their factory exports at least some of their production to the United States, 82 per cent produced for export to the EU, and nearly half to the UK. Other significant markets included and Japan, Canada, China, and Australia. Among those exporting to the United States, factories reported that 51 per cent of their production was tied to the US market; for those exporting to the EU, the share of production for EU exports stood at 31 per cent.



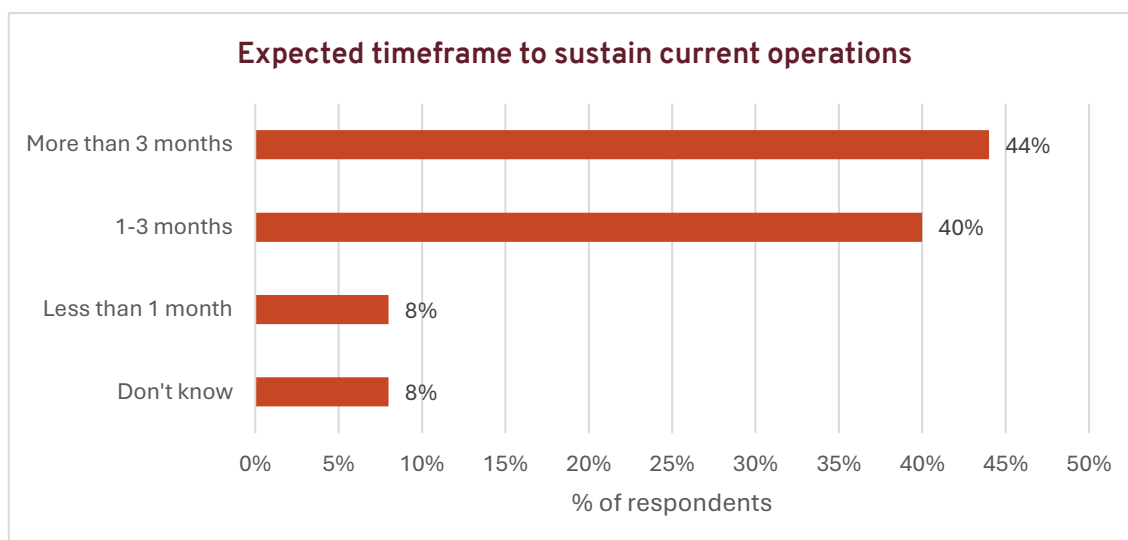
Production volumes fluctuated in Q1 2025 compared to a year prior, with a relative increase. Factory production trends in the first quarter of 2025 show mixed performance compared to the same period in 2024. While 42 per cent reported no significant change in output, a larger share of factories experienced changes: 26 per cent reported an increase in production, and 22 per cent reported a decrease, highlighting varied operational conditions across the sector, but an overall increase relative to a year prior.



Most firms have maintained customer orders for the short term, but nearly half face operational uncertainty beyond the next three months. In terms of orders, 55 per cent of respondent factories have confirmed orders for the next 3–6 months, and 30 per cent have secured orders for six months or more, though 15 per cent currently have no confirmed orders, or orders only for the next few weeks.



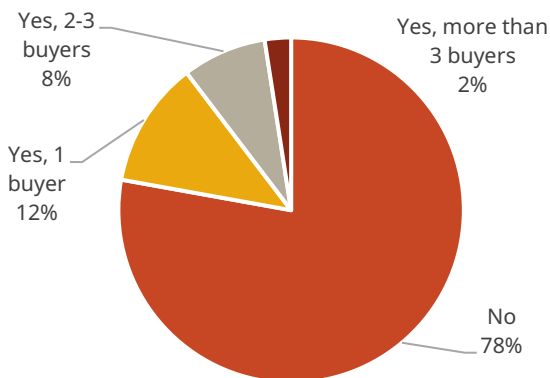
Regarding operational sustainability, 44 per cent of factories can continue operating at current capacity for at least three months, based on current orders and raw material availability. Reflecting the volatility and uncertainty of the current environment, nearly half of respondent factories indicate they are unable to sustain their current operations beyond the next 90 days: 40 per cent say they can sustain for one to three months, and 8 per cent for less than one month. In the context of a sector already characterized by flexible and fast-moving production decisions, these results suggest firms are vulnerable to a sudden reduction in orders that could result from the imposition of significant tariffs within a major export market. As witnessed during the demand shock prompted by the COVID-19 pandemic, sudden disruptions in orders holds the potential for negative business outcomes and repercussions for workers, including the possibility of retrenchments, worker suspensions, and dismissals.



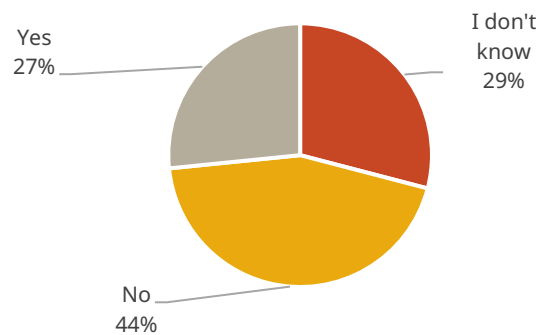


Factories report volatility and price pressures in buyer relationships. In terms of buyer relationships, over 20 per cent of respondents report their factory has seen production orders discontinued by at least one buyer in Q1 2025. Twelve per cent of factories reported losing one buyer since the beginning of 2025, while ten per cent experienced discontinuation from multiple buyers. Regarding pricing pressures, 27 per cent of factories reported that buyers requested discounts for new orders in 2025, which provides some indication of the willingness of buyers to shift costs on to suppliers in an environment where new tariffs could increase costs to buyers importing goods. To address customer and order uncertainty, most factories are seeking to expand their customer base. Twenty-six per cent of factories have already secured new buyers or opportunities.

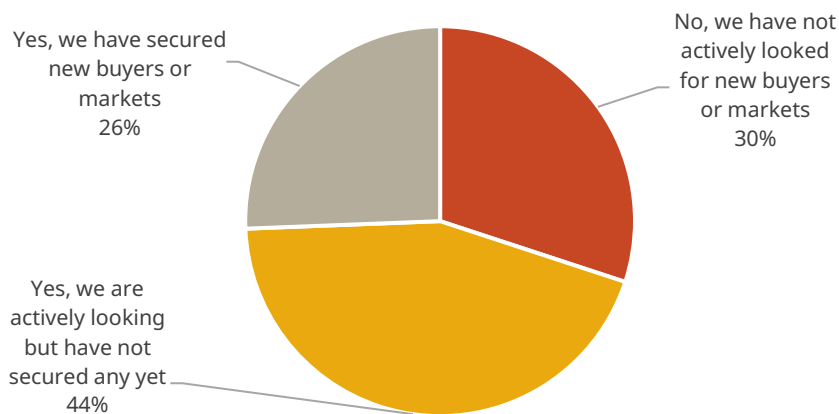
Sourcing discontinued by buyers in Q1 2025



Buyers requested discounts on new orders in Q1 2025



New buyer outreach





Despite a challenging environment, a majority of factory respondents remain optimistic about the future.

The current survey of firms enrolled in BFC attempted to understand business concerns within an uncertain trading environment. When asking factories about business concerns in general, open-ended responses confirmed that uncertainty surrounding US tariff policy, as well as concerns with insufficient current orders and unpredictable customer demand, were common. The survey revealed an additional significant challenge: concern with a widespread labour shortage. Many factories reported increasing difficulty in recruiting and retaining skilled workers—especially sewers and technical staff—due to rising competition from new factories in provincial areas and a reluctance among workers to return after relocating. These labour issues have contributed to high turnover and reduced production efficiency. Respondents pointed to the need for more vocational training, improved workplace conditions, and better recruitment coordination to address these gaps. At the same time, a sharp drop in buyer orders—often attributed to tariff uncertainty and rising US export taxes—has heightened operational instability. Factories cited delayed or cancelled orders, rushed shipments to avoid potential tariffs, and production being shifted to other countries as key concerns.

To manage these challenges, factories are adopting a variety of coping strategies, including expanding recruitment efforts, improving worker benefits, introducing training programmes, and investing in automation and flexible operations. On the trade front, many are seeking to diversify their customer base and exploring new markets beyond the United States, while engaging in ongoing dialogue with existing buyers. Some factories, however, remain constrained by limited resources and are awaiting government direction before making significant changes. Despite the difficult environment, the survey indicates a generally positive short-term business sentiment, with 65 per cent of respondents expressing optimism about their factory's outlook over the next three months.

Next steps

Better Factories Cambodia plans to conduct a second round of business environment surveys among its enrolled base of factories later in 2025. Conducting successive rounds of surveys among its engaged based of enrolled factories can help provide useful evidence and insights into how challenges and opportunities for the sector may evolve during a time of uncertainty. Through its efforts to generate evidence and to convene industry and national stakeholders, BFC remains committed to promoting decent work and a competitive and sustainable GFT sector in Cambodia.