

MANUFACTURING SECTOR (I)

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EXECUTIVE SUMMARY

This report is written to study the manufacturing sector particularly the garment industry. Cambodia's economy strongly depends on the garment exportation and had contributed 90% of total export value and employed over 300,000 workers. Firstly, overview of manufacturing sector described the importance of the industry in Cambodia's economy. Next, garment industry in detail will be described in which apparel and footwear play important role in the sector. The strategy for the future of the industry such as cutting cost, increasing productivity and market diversification will be focused, afterward. The outlook of industry seems to be positive due to the world economic recovery. Finally, leading companies in the industry will be enumerated.

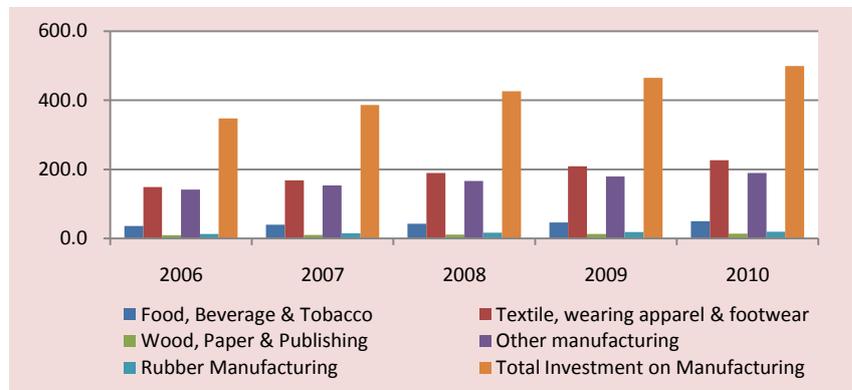
OVERVIEW OF MANUFACTURING SECTOR

During the global economic crisis, Cambodia's economy was badly affected particularly by the garment industry and led to loss of 25,000 jobs as the government stated 73 garment factories were closed in 2008 and at the same year there were 64 new factories opened absorbing 13,000 workers, according to South-East Asia Business Review. The rebound of garment sector and the growing in food industry absorbed more workers back. In December 2010, there were 262 garment factories active, in which new 20 factories were opened, compared with 243 in December 2009, according to MOC. Among them, there were 236 garment export-oriented factories registered with GMAC with 93% of them were foreign direct investment.

Many sub-sectors in the industry such as food, beverage and tobacco; garment were recovered and translated in hiring and re-hiring of 38,543 workers back to factories. The growth in the agro-industry comes largely from the fast development in the remarkable growth of the food, beverage and tobacco industries, as reflected a surge in projected investment for manufacturing sector from 2006-2010 (figure 1), according to CDC. Cambodia has abundant of cheap labor and recognition from the government on industry's importance in the economy as the Royal Government of Cambodia treats the labor intensive and exported industries as one of the priorities for the 4th term of the legislature (2008-2013). Besides, the country enjoys some benefit from the market access to the US, EU, Canada and Japan through trade agreements.

Figure 2 shows the performance of industry in which garment industry was recovered in 2010 after encountered the economic downturn since 2008. On the other hand, food, beverage and tobacco industries were slightly increased thanks to the government policy promoting export particularly rice products.

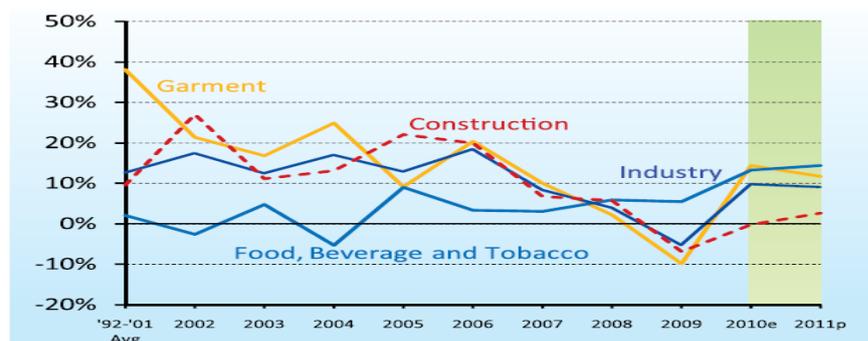
Figure 1: Projected Investment for Manufacturing Sector 2006-2010



Source: CDC

Figure 2: Performance of Industry Sector

(Real Growth, %y-o-y)



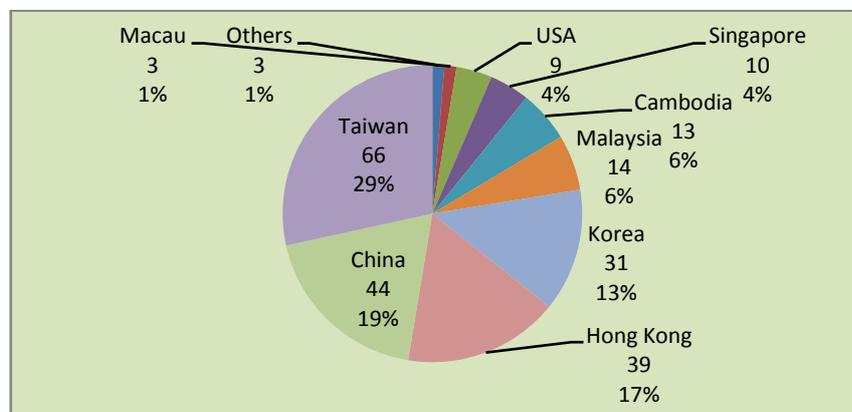
Source: EIC

GARMENT INDUSTRY IN DETAIL

• Textile and Garment:

The global economic downturn reduced demand for garment, and export declined by almost 16% in 2009. There were 262 factories employing 319,313 workers in 2010 lower than 350,000 in mid-2008, with average wage of US\$80 and 92 % of them were female, according to MOC. Many Garment factories which were foreign-owned companies accounted for almost 90 % in the industry. The main nationalities were Taiwan (66, 29%), China (44, 19%), Hong Kong (39, 17%) and Korea (31, 13%) as seen in *figure 3*.

Figure 3: Garment Factories by Ownership Nationality in 2010



Source: GMAC (2010)

Figure 4 shows the expansion of Cambodian garment export which increased in value by US\$27.71 million in 1995 to US\$2,981.27 million in 2008. Still, in 2009 the garment industry was affected by the global crisis and led to decline in value of export to US\$2,418.58 million. However, within the first 4 months of 2010, the export value generated was US\$780.32 million which grew at 11% rate comparing to that of the first 4 months in 2009. Therefore, the world economic recovery boosted the garment exportation. In 2010, the value of garment and textile exported was at US\$ 2,967.98 million increased by 22% from US\$2,418.58 million in 2009, according to MOC.

Figure 4: Annual Garment and Textile Products Exported 1995-2010



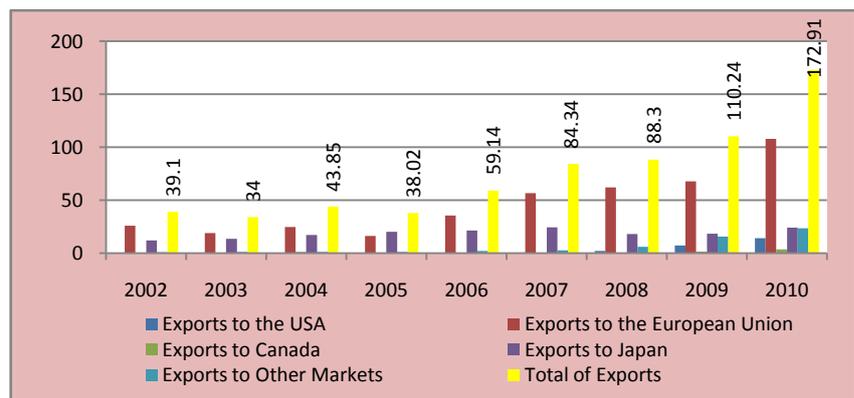
Source: MOC as of January 2011

The United States and European Union were the two major markets for Cambodian garment industry. The largest export destination accounted for about 61% to US, 23% to EU, and 16% the remainder to Canada and other markets.

• **Footwear:**

Footwear which is one of the main export products increased its export value remarkably from US\$28.05 million in 2001 to US\$172.91 million in 2010. The main markets for footwear industry are EU and Japan, which represent US\$107.98 and US\$24.04 million respectively (figure 5). In this industry, there were 36 factories employing 56,643 employees with total salary of US\$4.47 million.

Figure 5: Cambodia Footwear Exports (2001-2010, in Million US\$)



Source: MOC as of 15 January 2011

STRATEGY FOR THE FUTURE

The industry hopes to cut costs through productivity gains, to diversify its trade partners, in which it has strong reliance on the US and EU's markets, to reduce strike that led to low productivity, to see more local fabric production as for the time being the industry strongly depends on import from China.

OUTLOOK

The garment sub-sector which is the main part of manufacturing sector in Cambodia is very promising. It will likely benefit from two large changes to the industry. First, the rising wages of Chinese, Vietnamese, Bangladeshi workers led foreign producers to diversify their supply chains. Although, there are continued wage pressures in Cambodia, it has one of the lowest minimum in the region. Second, Cambodia will benefit from the changes to the EU's "Everything But Arms" initiatives rule of origin policy for Least Developed Countries (LDCs), that went into effect at the beginning of 2011.

Apart from benefiting from external factors, Cambodia continues to improve internally. The industry partners are committed to increase productivity, while the government is working to lowering energy costs with the aim to ensure Cambodia's competitiveness in the global market. Therefore, the outlook of the industry in 2011 seems to be positive.

LEADING COMPANIES IN MANUFACTURING INDUSTRY

- **Garment Industry:** the new executive committee, a team of 27 members, was elected by all members in 2009. The team who was garment investors from different nationalities was entrusted with the obligation to guarantee the development and sustainability of Cambodian garment industry. Those are prominent companies are PPS Limited (Cambodia) Ltd, Evergreen Apparel (Cambodia) Co., Ltd, PPCS Garment Limited. June Textile Co., Ltd, In Fong (Cambodia) Garment Co., Ltd, Thai Pore Garment Manufacturing Co., Ltd, Supertex Ltd, Tai Yang Entreprises Co.,Ltd, Kinma Industries Pte. Ltd, Talent Garment Industry (Cambodia) Co., Ltd...etc.

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