

Manufacturing Sector Brief
CAMBODIA



COUNTRY OVERVIEW

Cambodia is bordered by Lao PDR, Thailand, and Vietnam and its economy is very much influenced by the Mekong River and Tonle Sap Lake. Approximately 86% of the total land area lies within the Mekong River Catchment Area. According to the International Labour Organization (ILO) Cambodia's working population aged 16-64 comprise about 82.7 percent of the labour force making it among the highest labor force participation rate in Southeast Asia. Garment and footwear still dominate the country's total merchandise exports of about 70%. Cambodia aims to diversify its economic sectors to reduce over-dependence on the garment sector and target high-value exports.



MANUFACTURING SECTOR OVERVIEW

The manufacturing sector in Cambodia is dominated by garment and footwear followed by bicycles, electronic and vehicle parts. Cambodia is Europe's largest exporter of bicycles. The garment sector accounted for 16% of the GDP and 80% of total exports in 2019. Under its new Industrial Development Policy, the government of Cambodia plans to diversify its manufacturing sector especially by scaling up value-added agri-food processing as over 90% of its food export is not processed. Cambodia's main export destinations are the United States, Hong Kong, Singapore, Canada, Germany, UK, Thailand and Viet Nam.

Table 1: Cambodia Distribution of GDP by Economic Sector

● Sector	● 2015 (%)	● 2019 (%)	● 2020 (%)	2020 (%target by IDP)	2025 (%target by IDP)
Agriculture	29.0	20.7	22.8	25	23
Industry	26.2	34.2	34.67	28	30
Manufacturing	16.0	16.3	16.5	18	20
Services	39.4	38.8	36.2	40	40

Major manufacturers of garments and footwear in Cambodia are foreign-owned such as Quantum, Dewhirst Cambodia (Co) Ltd and Scandinavian Textile (Cambodia) Co., Ltd. There are currently five bicycle assembly plants in Cambodia – A and J (Cambodia) Co, Ltd; Speedtech Industrial Co, Ltd; Smart Tech (Cambodia) Co, Ltd; Xds Bicycle (Cambodia) Co, Ltd; and Evergrand Bicycle (Cambodia) Co, Ltd.



MSMES IN THE SECTOR

According to the Ministry of Industry, Science, Technology and Innovation, SMEs accounted for 70% of employment, 99.8% of enterprises and 58% of GDP in 2018. Women-led enterprises are concentrated in the MSMEs. There is a significant presence of the informal sector in Cambodia. MSMEs in manufacturing cater primarily domestic market, are basic and less sophisticated and focused mostly on food processing.

Share of sectors in the manufacturing industry of all the establishments in 2021 (%)

Table 2 : MSMEs establishments by Manufacturing Sub-sector in 2021 (MISTI reported)

● Category of Manufacturing Sub-sectors	● % of MSMEs
Food, beverage and tobacco products	65.46
Textile, wearing apparel and leather related products	7.68
Wood and wooden industries (excluding furniture)	0.65
Paper and paper products; and printing products	0.45
Chemical and chemical products; rubber and plastic industries	2.94
Non-metallic mineral manufacture	4.85
Steel processing industries	12.41
Furniture products	2.06
Other manufacturing	3.49

More than 63% of large manufacturing enterprises are foreign direct investment and export-oriented in the garment, footwear and bicycle located primarily in the capital Phnom Penh and the province of Kandal.



GEOGRAPHICAL PRESENCE

Together with Phnom Penh and Kandal province, Sihanoukville are major manufacturing hubs in Cambodia taking advantage of the Mekong River and the only international sea port respectively. Phnom Penh is also located in the Southern Economic Corridor (SEC) of the Greater Mekong Sub-region (from Myanmar through Thailand and Cambodia to Vietnam). As a result of the SEC development, two towns have become manufacturing hubs for specific sub-sectors: Poipet for automotive parts and Bavet for watches.

Automotive manufacturers especially from Japan have established factories in Poipet taking advantage of low cost of labor and cheap electricity imported from Thailand.

Bavet is known mainly for garment manufacturing but has also become an important location for the production of watches garnering the term 'watch village.' Other locations for manufacturing include Kampong Speu, Kampong Cham, Kampong Chhnang and Kampot.



STRATEGIES, POLICIES AND REGULATIONS

The National Strategic Development Plan for 2014–2018 of Cambodia sets the direction for the country to become a middle-income economy by 2030 and high income by 2050. MSMEs have been earmarked as a key driver of future growth in the country. The 10-year Industrial Development Policy (IDP) approved in 2015 (2015–2025) aims to increase the share of the industrial sector's gross domestic product (GDP) by 30 percent and the manufacturing sector by 20 percent in 2025. The IDP aims to strengthen value-addition in the agri-food sector taking advantage of Cambodia's abundance of natural resources.

The government of Cambodia has mainstreamed the establishment of special economic zones or SEZs. The establishment and administration of the SEZs are governed by Sub-Decree No. 148 on the Establishment and Management of the Special Economic Zone" (the SEZ Sub-Decree) issued on 29 December 2005. These are strategic economic hubs with preferential incentives to investors and import-export administrative support to facilitate trade. Main economic activities in the SEZs are light manufacturing but still labor-intensive operations for automotive parts, electrics and electronics, and other assembly activities. According to the Council for the Development of Cambodia, as of 2019, there are 54 Special Economic Zones.

The new investment law which is already adopted and implemented in October 2021 aims to increase FDI in Cambodia especially in SEZs targeting the manufacturing sector. Enhanced incentives to prioritize sectors to foster development in science and technology, job creation, skills training, research, innovation and small and medium enterprises will be introduced under the new law.

The Better Factories Cambodia (BFC) programme which began in 2001 has strengthened working conditions and labour protection, especially in its garment sector. The BFC aims to improve working conditions and boost the competitiveness of the garment industry. It is now in its current strategic vision implementation period (2019–2022) and continues to support good and stable working conditions in the Cambodian manufacturing sector – primarily the garment sub-sector.



INVESTMENT AND MARKET ENTRY OPPORTUNITIES

The government has developed additional industrial corridors such as the Sihanoukville-Phnom Penh as manufacturing development zones for export; the Kampong Cham Province-North-West industrial corridor for agricultural processing zones; and Siem Reap for handicraft production to support the tourism sector.

Cambodia's geographic proximity to Thailand and Vietnam is of strategic advantage due to the spillover effect from SEZs and Japanese companies' "Thailand-Plus-One" strategy. Cambodia is also one of the few Southeast Asian nations which allow full foreign-owned investments.

Various incentives to investors include:

- full foreign ownership of businesses
- corporate tax holidays (up to eight years, followed by a flat 20 percent corporate tax rate)
- duty-free import of select goods
- minimal restrictions on capital repatriation

The Council for the Development of Cambodia (CDC) is the government agency in charge of administering incentives to stimulate growth in foreign investment in the country.



KEY CONSIDERATIONS

About 90 percent of Cambodia's agricultural exports in 2015 were unprocessed and investment in food processing could help diversify its manufacturing sector. A number of Cambodian products have a good international reputation such as the Cambodian premium jasmine rice which won World's Best Rice award in 2012, 2013, 2014 and 2018. Kampot pepper has Geographical Indication (GI) status, a World Trade Organization initiative that links the quality of a product to its origin. Other products with GI potential are Kampong Speu Palm Sugar and Phnom Srok silk, and recently Kampot fish sauce to be registered as Geographical Indication (GI) as well.

In order to qualify for duty-free status in the EU, Cambodian manufactured bicycles need to be made of a minimum of 40 percent local components (as announced by the Ministry of Commerce in 2019). Cambodia has yet to take advantage of the rising demand for e-bicycles. Neighboring Vietnam has been leading in this segment and has exported about 115,000 e-bicycles to the EU in the first six months of 2019.

Cambodia concluded the negotiation and signed on bilateral Free Trade Agreement (CCFTA) with China [come into force on 1st of Jan 2022] and Korea-CKFTA (officially signed on 26th Oct 2021) While regional and two-thirds of economy FTA, Regional Comprehensive Economic Partnership – RCEP has been signed and into force on 1st of Jan 2022.



ISSUES AND CHALLENGES

The manufacturing sector which comprises mainly of MSMEs still face various challenges, many of which are being addressed under the IDP and Rectangle Strategy. Among the key challenges are:

- ① **Access to finance, namely access to working capital.** Cambodia has improved financial services in recent years, yet a third of the population does not use formal financial services.
- ② **The human capital still has limited technical knowledge and skills** such as trained and skilled workers, technicians and engineers to absorb and utilize modern technology for industrial development under the IDP. The World Economic Forum's Global Human Capital Report 2017 gave Cambodia the poorest score in ASEAN for educating and training its citizens to develop a competitive workforce and put their skills to productive use.
- ③ **Cambodia's ease of doing business index (53.8 in 2020) is still among the lowest in ASEAN,** ahead of Lao PDR (50.8) and Myanmar (46.8). Doing business in Cambodia is relatively costly, from starting to operating and closing a business and electricity tariff is a major concern for starting a business.
- ④ **Tax revenue collection is difficult when a large part of MSMEs is operating informally,** making it difficult for the government to collect taxes and for these MSMEs to benefit from policies that help them move up the value chain under the IDP.
- ⑤ **National quality infrastructure and compliance programmes not able to support value-addition** and high-value market access for Cambodian products. Cambodian businesses rely mostly on laboratories services from neighboring countries like Viet Nam and Thailand to prove compliance with food safety management requirements for example. This poses a challenge in improving the competitiveness of Cambodian products against competitors in the region.



RECOMMENDATIONS

The manufacturing sector in Cambodia has immense growth potential due to the wave of investment-friendly policies, natural resources endowment and a young workforce. Given the challenges, the following recommendations could accelerate growth in the manufacturing sector as envisaged under the IDP (2015-2025). Given the recent FTAs, many industry linkages and partnership opportunities are waiting for qualified investment/entities.

Strengthening the institutional, regulatory and operational environment especially in:

- institutional framework for SME policy
- legislation, regulation and tax
- facilitating SME access to finance
- establish specific manufacturer associations (ensuring collective benefits through information exchange, advocacy and cooperation)

Strengthening national quality infrastructure and trade facilitation

Strengthen efforts towards mutual recognition agreements (MRAs) for compliance or conformity assessment programmes (product certification and inspection results in Cambodia recognized by importing countries).

Enhancing access to market and internationalisation

- boosting productivity, innovation and adoption of new technologies
- stimulating entrepreneurship and human capital development
- entrepreneurial education and skills
- social and inclusive entrepreneurship

Human capital development

Develop a critical mass and skill mix of workers, technicians, engineers and scientists to advance the manufacturing sector development under the IDP.

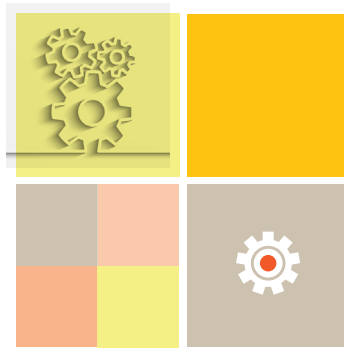
Electricity and tariff

Investment promotion should also include the electricity sector to support efforts in ensuring reliable and affordable/competitively priced electricity supply.



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