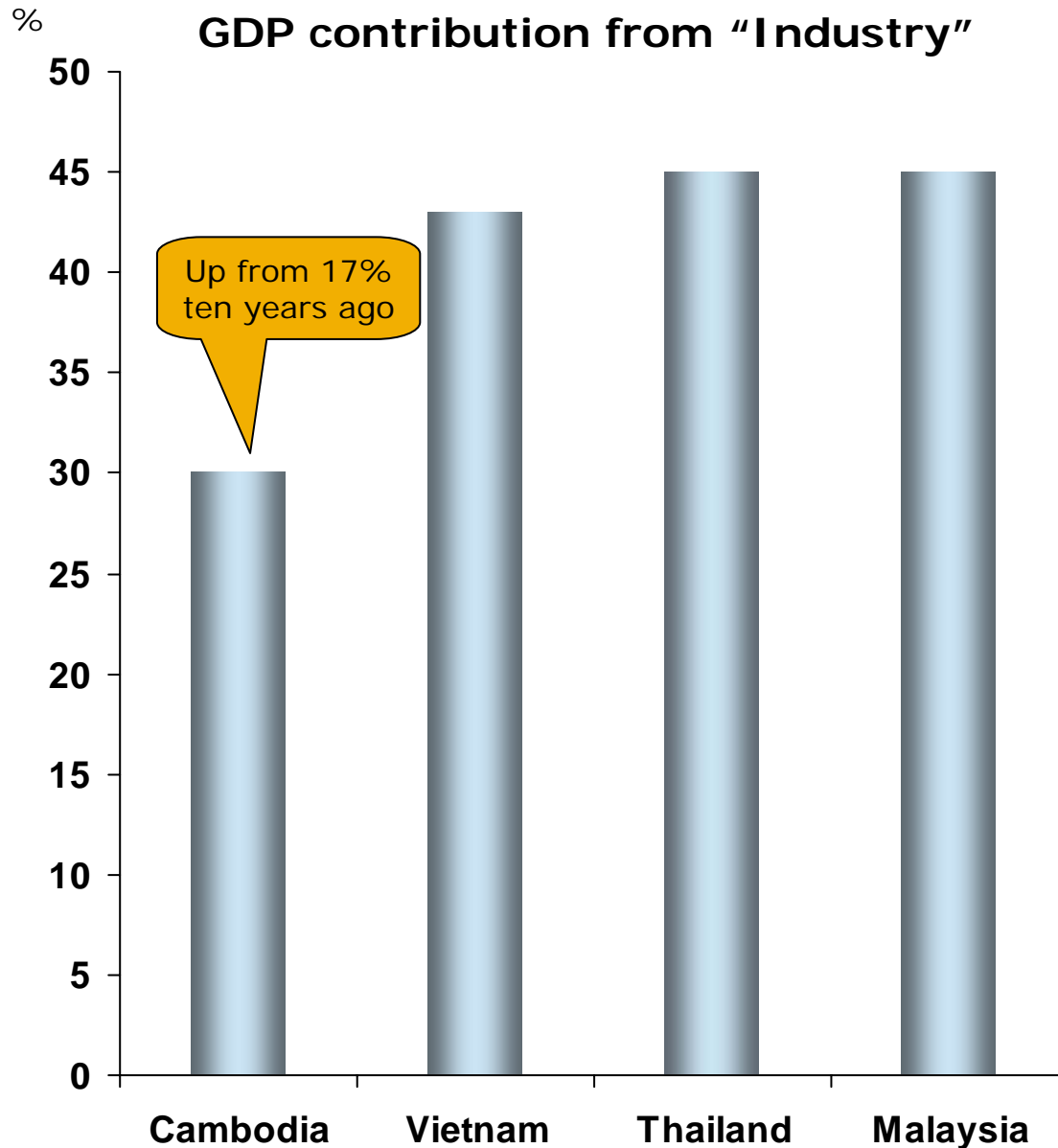




Manufacturing & Infrastructure – Cambodia's hidden opportunity

**What does a banker know about
Infrastructure or Manufacturing?**

Industrialisation – key to economic transformation of Cambodia



Following a well worn path

- Thailand – modernization process started late 1950's, with per capita income growing from US\$100 to US\$3,000.
- Manufacturing played a critical role, with share of GDP tripling.
- Started with labour intensive textile industry, then promote and attract other light manufacturing
- Increased income growth and consumer demand accelerated the transformation.

Source: World Bank; Breisinger & Diao

A lot to be excited about



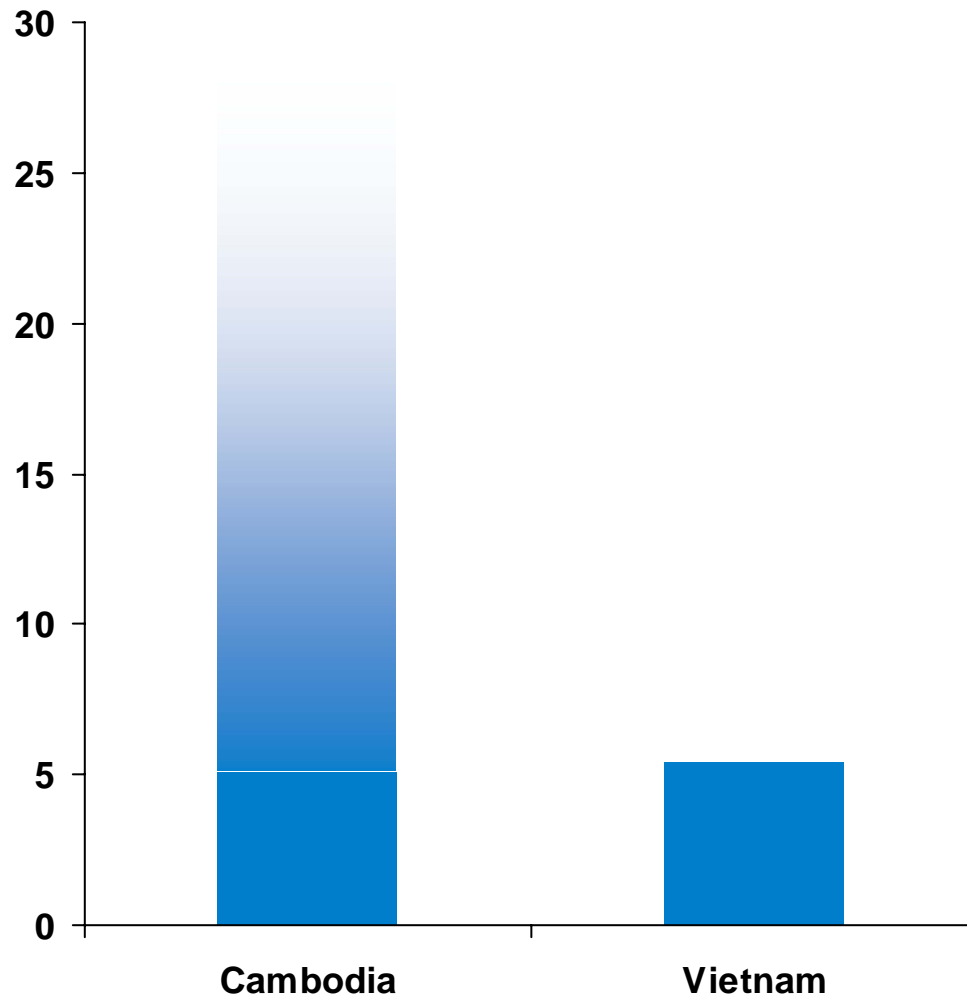
The geographic heart of the most dynamic region on Earth!!!

Snapshot of "Industry" in Cambodia

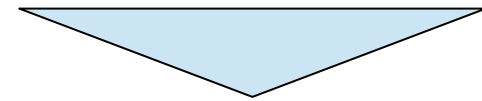
- Garment sector represents just over half of industrial output
- Labour productivity in Garments has now matched Vietnam levels (it can be done!)
- Just 13% of workforce engaged in Industry, compared to 59% for agriculture (despite lower contribution to GDP).
- Food manufacturing represents less than 10% of industrial output

Infrastructure issue 1 - Electricity

Electricity cost per kWh (cents)



- Estimated that Firms produce 36% of electricity from generators
- Estimated that diesel represents 20%+ of operating costs for some hotels
- Power supply unreliable

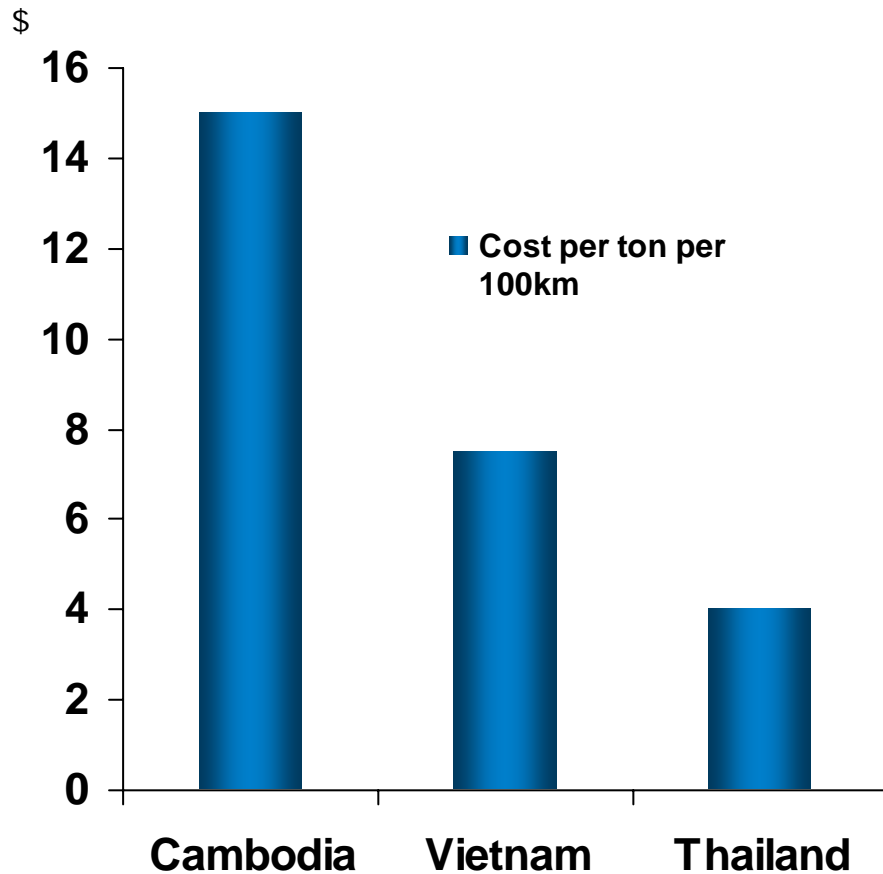


The good news

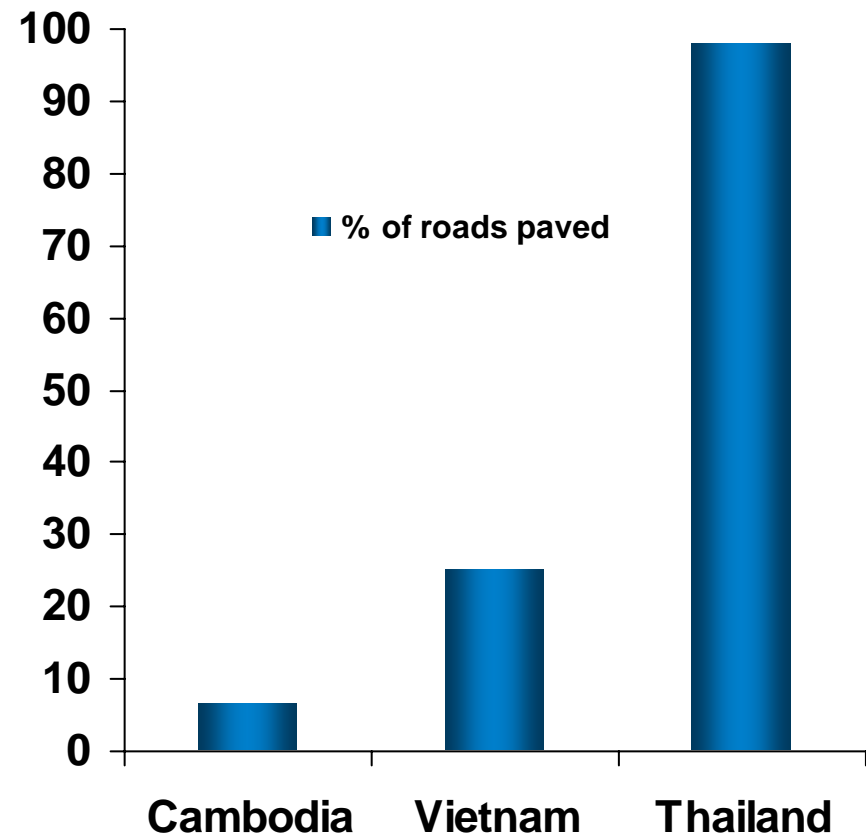
- Vietnam & Thai interconnects
- Hydro schemes coming on line
- Investment in electricity grid

Infrastructure issue 2 - Transport

Cost of transporting agri products is high....



....for multiple reasons, but includes poor road network



Some other issues

- **Do not underestimate the importance of contract enforcement**
 - Particularly important for foreign investors and bank financing
 - Strong commercial court would be ideal with high quality judges
- **Why aren't banks more supportive of manufacturing?**
 - It is harder!
 - Given additional analysis required, bigger deals needed to justify work
 - Products required tend to be more sophisticated
- **Dollarisation – help or hinder?**
 - Help – foreign investors like operating in USD
 - Hinder – currency devaluation to improve competitiveness not a viable option

Some policy moves

- **Electricity a big issue, but being dealt with**
- **More spending on transport infrastructure (road and rail) – makes even more sense during Global Financial Crisis**
- **More investment in vocational training**
- **Avoid tax incentives**
- **A commercial court would be a big step forward**
- **A recent survey found 52% of firms identify corruption as a major constraint – this scares off investors and must be dealt with**
- **Develop industry policy to move Cambodia “beyond” garments**