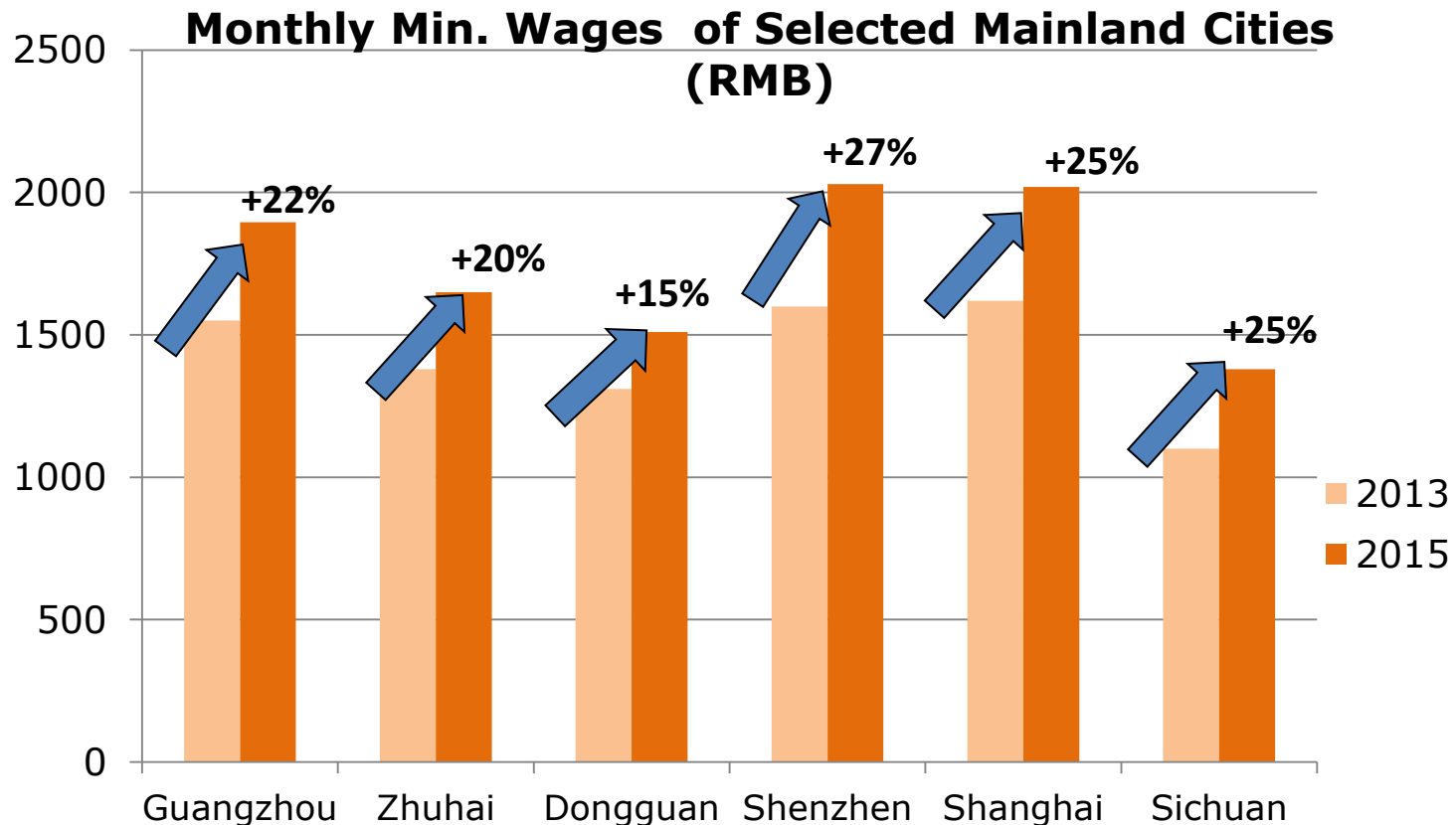


An assessment of production bases in Indochina for Hong Kong manufacturers

9 October 2015

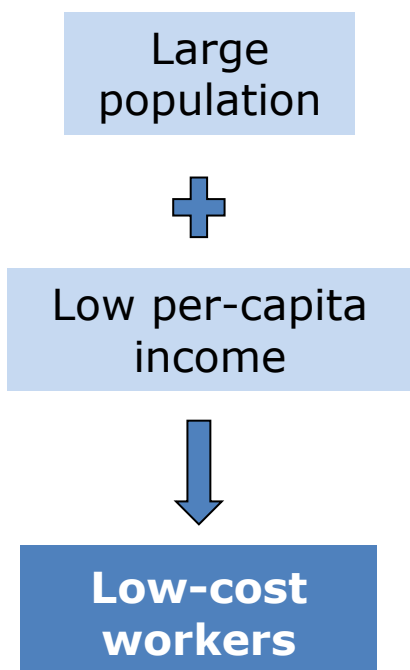
Rising production costs in China

- Hong Kong manufacturers as well as multi-national corporations (MNCs) are reorganising their regional supply chains in the face of China's surging production costs and difficulty in hiring workers



Attention increasingly focussed on lower-income ASEAN countries with relatively large population

Economic and Population Statistics (2014)



	Population (million)	GDP (US\$ bn)	Per-capita income (US\$)
ASEAN	625.1	2.574	4.135
Indonesia	252.2	984	2,816
Thailand	68.7	373	5,436
Malaysia	30.3	326	10,784
Philippines	101.2	285	3,901
Vietnam	90.6	186	2,055
Myanmar	51.4	66	1,278
Cambodia	15.3	17	1,154
Laos	6.9	12	1,730
Guangdong*	106.4	981	9, 220

Source: ASEAN, Statistics Yearbook of Guangdong
*2013 figures

In fact, wages in ASEAN countries are also rapidly increasing...

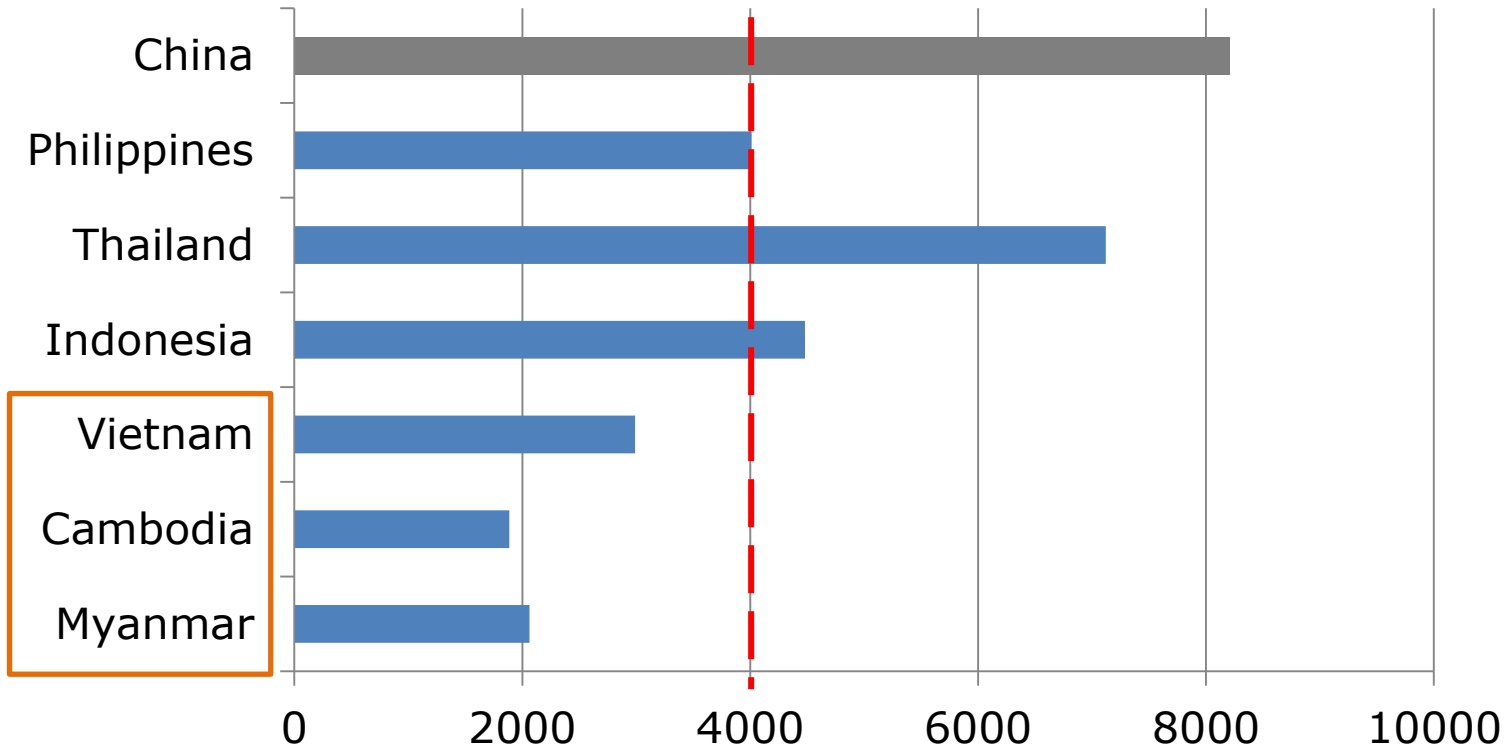
	Monthly Minimum Wage (US\$)
Malaysia	250
Philippines (Manila)	240*
Thailand (Bangkok)	216*
Indonesia (Jakarta)	215
Vietnam (HCMC/Hanoi)	145
Cambodia (garments/shoes)	128
Laos	111
Myanmar	67*
Shenzhen	320

- **Vietnam** announced a **12%** rise in 2016 minimum wage
- **Laos** increased its monthly minimum wage by **44%** to 900,00 Laotian kip (about US\$111) from April 2015
- **Myanmar** introduced its first nationwide minimum wage in September 2015

* assume 24 working days per month

Yet, overall labour costs remain way below China's

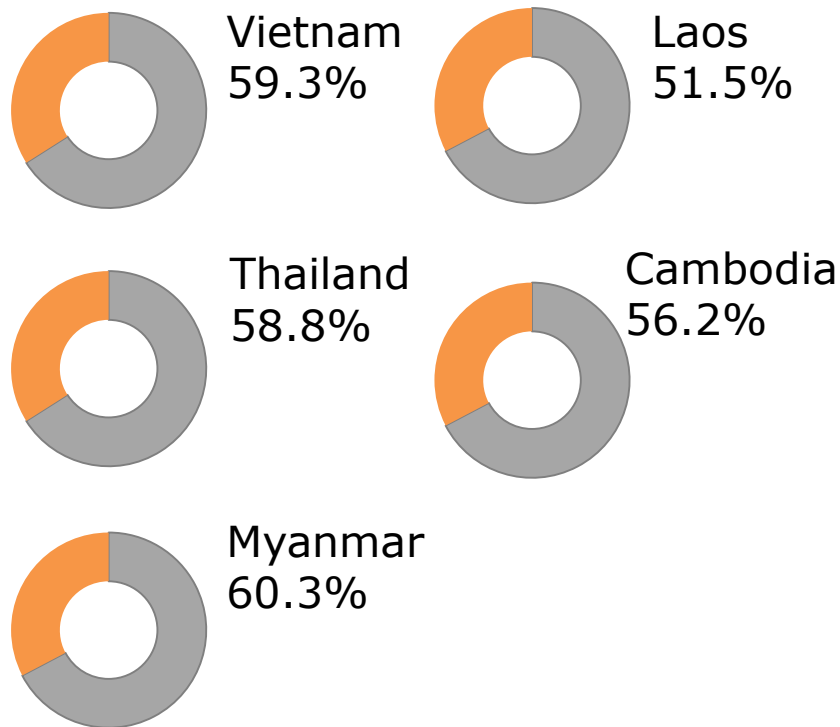
Average Annual Manufacturing Wages in Selected Asian Countries (US\$)



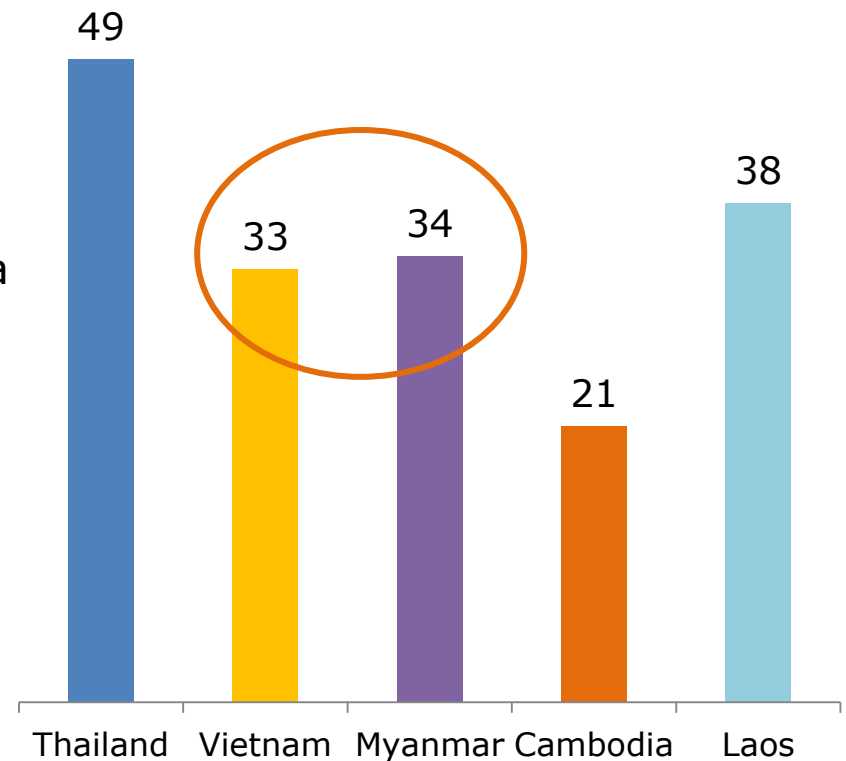
Source: FY2014 Survey of Japanese-Affiliated firms in Asia and Oceania, JETRO

Rural-urban migration generates a good supply of low-cost labour in some CLMV countries

Labour Force to Population



2014 Urbanisation Rate (%)



Among CLMV, it is relatively easier to find skilled workers and managers in Vietnam

- Ratio of average wages of managers to workers is a reflection of the relative supply of senior production personnel in a country

Average Monthly Wages Excluding Benefits (US\$)

Country	Worker	Engineer	Manager	Manager / Worker Ratio
Myanmar	127	388	951	7.5
Laos	112	174	771	6.9
Cambodia	113	323	668	6.0
Vietnam	176	372	810	4.6
Thailand	369	681	1,487	4.0

Source: FY2014 Survey of Japanese-Affiliated firms in Asia and Oceania, JETRO

Vietnam's export growth outstripping GDP growth, fastest among CLMV

Exports of Goods & Services as GDP share (%)

Country	2010	2011	2012	2013	2014
Thailand	71.3	76.9	75	73.6	75
Vietnam	72	79.4	80	83.6	86.4
Cambodia	54.1	54.1	62.8	65.8	68.4
Laos	35.5	37.2	38.8	37.2	40.3

- **Thailand** has massive capital-intensive manufacturing plants to grow its exports
- **Vietnam** shows rapid export growth in many sectors, driven by growing FDI in the manufacturing sector
- **Cambodia** over-reliant on garment exports (80% of total export) owing to LDC status

Cambodia, Laos and Myanmar gain special export access due to GSP privileges

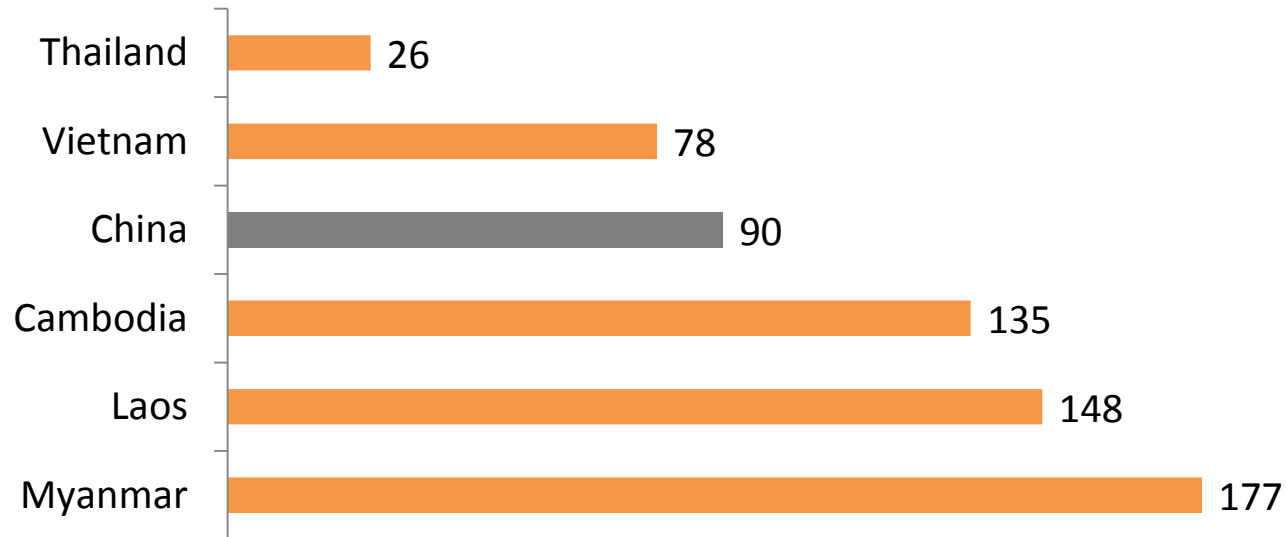
- **Cambodia, Laos** and **Myanmar** are least-developed countries (LDCs) that are given special access privileges under the Generalised Scheme of Preferences (GSP)
- **Vietnam** is to gain greater access to the US market due to its membership in the Transpacific Partnership (TPP) pact

	GSP Donors				
	Australia	Canada	EU	Japan	US
Cambodia	X	X	X	X	X
Laos	X	X	X	X	
Myanmar	X		X	X	

Thailand and Vietnam are regional front runners in doing business

- **Thailand** wields a clear development lead as the key business hub in Indochina
- **Vietnam** ranks top among CLMV countries, particularly in registration of property and contracts enforcement

2014 Ease of Doing Business Ranking



Vietnam leads among CLMV countries in logistics and supply chain efficiency

- **Thailand** has higher LPI ranking than CLMV due to massive public investment over the years
- Land-locked **Laos** performs better than under-invested **Myanmar**, thanks in part to GMS transportation corridors construction

	LPI	Customs Efficiency	Infra-structure	Inter-national Shipments	Logistics Competence	Timeli-ness	Tracking and Tracing
THA	3.43	3.21	3.4	3.3	3.29	3.96	3.45
VMN	3.15	2.81	3.11	3.3	3.09	3.49	3.19
CAM	2.74	2.67	2.58	3.3	2.67	2.75	2.92
LAO	2.39	2.45	2.21	3.3	2.31	2.2	2.39
MYA	2.25	1.97	2.14	3.3	2.07	2.83	2.36
CHN	3.53	3.21	3.67	3.3	3.46	3.87	3.5

Thailand: a supply chain hub tussling with rising wages

- Second largest economy in ASEAN and ***a major business and commercial hub*** in Indochina
- ***Transportation networks and logistics advantages surpass CLMV***
- 2015 investment policy offers ***incentives in high-tech projects***
- ***Construction of industrial estates*** inside SEZs bordered by some CLMV countries
- ***Thailand's unemployment ~1%, driving up wages***



Myanmar: a new option for factory relocation

- **Wage advantage:** Minimum wage levels among the lowest in the region
- Economic reforms and temporary lifting of economic sanctions brighten **investment and export outlooks**
- **Potential GSP access to the US market** may give garment exports a real push
- Presidential elections in November 2015 cast **shadow over reform momentum**
- **Unstable power supply, and poor transportation and logistics setup** in sites outside cities a looming challenge



Cambodia: a garment production base with wage surges and risks over GSP access looming over mid-to-long term

- ***Low costs of labour and land use*** make it attractive for light industry production
- Garment exports aided by ***GSP privileges***
- ***Small population*** for sustained labour supply, with repeated ***worker strikes***
- ***Least number of FTAs*** among THA+CLMV
- ***Lack strong textile production base*** with fabrics/materials dependent on China
- ***Competitive advantages*** like GSP access overshadowed over the mid-to-long term

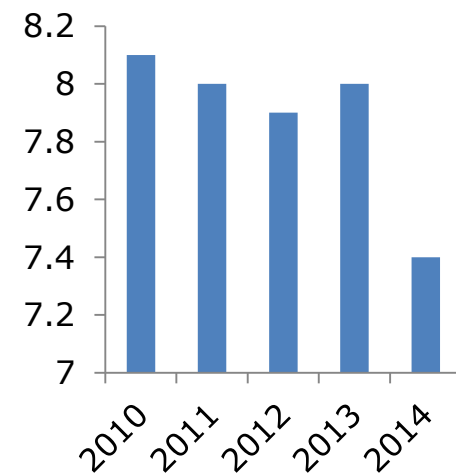


Laos: a landlocked CLMV country facing a great challenge in enticing sustained factory relocation

- **Government aims to promote exports** manufactured goods and create new FDI opportunities
- Garment manufacturing affected by **labour shortage and wage surges**
- **Low productivity** offsets wage advantages
- **Heavy import reliance** on fuels and raw materials needed in garment manufacturing
- **High transportation costs** in shipping finished goods outside thus only landlocked ASEAN country



Laos Real GDP Growth (%)



Source: IMF

Vietnam: an expanding manufacturing base with growing product diversity

- ***Relatively low-cost among CLMV***
- ***Good labour supply***, esp. in Red River Delta
- ***Better transport infrastructure and logistics*** facilities than those CLMV peers
- ***Some 300 industrial parks*** offer greater relocation choices for manufacturing companies in different industry sectors
- ***Popular MNC choice for electronics manufacturing*** (e.g. Samsung and Intel)
- ***Wages are also fast increasing***, higher than either Cambodia or Myanmar, yet considerably lower than Thailand or China





- END -