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## Cambodia: an Unpolished Gem

Steady economic growth, new infrastructure and cooperation between the public and private sectors are fast-tracking this Asian market's capital investment prospects.



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The starting point for any gem is, of course, the rough. Crystals are removed with violent strikes from miners and machines and beaten until the flawed portions of the stone come off and expose a rough gem prime for

the cutting, or faceting process. The stones are then molded into a preform and loaded onto machines where the gem cutter skillfully adjusts the height, angle and index of the crystal to be cut.

Much in the same way, Cambodia has come from the rough: its recent history is scarred by the Khmer Rouge era of the late 1970's where the genocide of over 2 million persons remains one of the worst historical examples of man's inhumanity to man. Slowly but surely, the Cambodian leadership in the past two decades has focused on leaving the negative legacies of the past and on building its soft and hard infrastructure to better support foreign direct investment (FDI) and economic growth.

And while an expert gem cutter must display considerable skill in engineering a shape worthy of its stone, one critical factor to success is patience. After steady, consistent economic performance over the past 15 years, the Kingdom's time to be recognized as a viable investment destination is arriving. While much of the recent press on ASEAN foreign investment trends has been focused on Myanmar's recent opening, Thailand's recovery from the floods and the growth markets of Indonesia and Vietnam, Cambodia's reforms and opening are giving way to its patient gem cutters and revealing an under-valued investment destination gem.

### Cambodia's economic coming out

Its capital city, Phnom Penh, has been carefully rebuilt maintaining its rich Khmer culture and colonial ambiance while positioning itself as a business hub. In fact, the US ASEAN Business Council chose Cambodia as the location for this year's annual ASEAN conference focusing on Commitment to Connectivity—a test of

For more info on Malaysia's strengths click here.



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confidence of Cambodia's progress on development on behalf of ASEAN. Additionally, it is one of only a few of the United Nation's Least-Developed Countries with membership in the World Trade Organization (WTO).

Cambodia has long been the recipient of multilateral and NGO largess; it is now beginning to show its glint as an investment destination with economic vitality. The Cambodian economy has been growing steadily over the past decade at an average of 9.4 percent. The exchange rate has been fairly stable over the past 15 years, and inflation has been low at about 5 percent on average. Whereas several countries in the Eurozone are battling debt crises, the Cambodian debt to GDP ratio is below 30 percent, an enviable position. Furthermore, the IMF and World Bank recently changed Cambodia's debt distress risk from moderate to low. All in all, Cambodia's economy is coming into the spotlight as a platform for consistent growth.

According to Chanthol Sun, Senior Minister and Vice Chairman of the Council for Development of Cambodia (CDC), the industries that Cambodia is focusing on include labor-intensive industries, agriculture and agro-food industries, light and medium manufacturing, tourism, human resource development and oil and gas. To date, one growth story has been Cambodia's garment sector, which exported about US\$3.3 billion last year. In 2011, over US\$7 billion worth of projects were approved by the Cambodian Investment Board compared with US\$2.7 billion in 2010.

Opportunities for international companies are growing quickly in these industrial sectors. Take for example the foods and beverages sector: the Kingdom imported US\$94.7 million in foods and beverages between January and June, a significant increase from \$74 million in 2011 in what industry watchers see as a widening gap in its ability to meet domestic demand. The shortfall can be attributed to not only the lack of production capacity for domestic producers, but also is a result of the healthy economic growth. As the economy grows and international businesses continue to enter Cambodia, the breadbasket of opportunities will grow. Up to 60 new Japanese companies are expected to apply for business licenses in 2012 after the number tripled to about 30 in 2011.

The CDC chaired by Premier Hun Sen has developed a three-part economic development plan, including an aggressive public works program to improve road, rail, port and telecoms connectivity; an attractive set of investment incentives with a streamlined approvals process under a transparent regulatory environment; and a focus on the development of its young, energetic Cambodian population.

## Among the most open in the world

The investment incentives policies were developed by benchmarking best practices of other Asian and global nations and are an excellent combination of clear and easy-to-understand policies for investment and tax incentives with the ability to grant special dispensation to significant projects that the government feels are of national importance. Indeed, the Cambodian government is proud of their openness to foreign investors: Cambodia's 1994 Law on Investment created an open foreign investment regime—all sectors of the economy are open to foreign investment, and 100 percent foreign ownership is permissible in nearly all sectors.

According to the U.S. Department of State's 2012 Investment Climate Statement - foreign investment has very few restrictions on participation with the exception of cigarettes, movie production, rice milling, gemstones, publishing and printing, radio and television, manufacturing wood and stone carvings, and silk weaving. In addition, there are no restrictions on capital conversion for investors. While foreigners are not allowed to own land, they are able to take on 99-year leases. These liberal investment policies have placed Cambodia among the list of leading progressive investment regimes in Asia.

Understanding that the private sector is crucial to the economic growth of the Kingdom, the government has been liaising closely with the private sector through the creation of nine work groups encompassing major industries. More than paying lip service, the Prime Minister chairs the government and private sector forum on a semi-annual basis to resolve issues and concerns in which the working groups could not agree. To make the meetings more transparent and participatory, this forum is broadcasted live on televisions across the Kingdom in addition to having the attendance of cabinet ministers, over 200 representatives of the private sector and diplomatic corps. Through an independent survey conducted by the International Finance Corporation of the World Bank the forum was ranked as the most efficient and productive out of 24 countries conducting similar forums.

## Development of physical infrastructure

To aid in the development of Cambodia, the government has taken upon itself to increase exports through the creation of special economic zones (SEZ), with the goal of attracting increasing foreign direct investment. The Cambodia Special Economic Zones Board (CSEZB) had approved 22 SEZs by the end of 2011; 14 are established and five are in operation. These zones have been strategically located near the borders of Vietnam and Thailand, Phnom Penh, Kampong Spek, and Sihanoukville. Currently, their main sectors of investment include garments, shoes, bicycles, food processing and electrical equipment.



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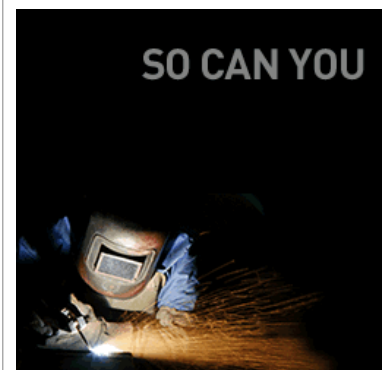
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garments, shoes, bicycles, food processing and electrical equipment.

Infrastructure development has been funded and spurred on by billions on multilateral programs as well as billions in Chinese monies for infrastructure projects. The Chinese have been responsible for funding around 317 projects under construction in Cambodia with total assistance amounting to a whopping US\$8.9 billion, making China the largest investor in the Southeast Asian nation. China is also Cambodia's largest source of foreign aid, with funds numbering around US\$600 million in 2007 and US\$260 million in 2008, much of which went to build dams, roads and other infrastructure projects. "The development of physical infrastructure over the past two years is quite impressive and has really helped improve the country's logistics," commented Oknha Van Kimmchan, President and CEO Geolink Group, the exclusive partner of DHL in Cambodia.

## Challenges

While Cambodia has a wealth of positives, it certainly is not without obstacles to investment. The young, energetic labor force has a relatively low level of education, and skilled or technical labor is difficult to find. While the government is supportive of training programs, most investors need to invest themselves in technical training. Despite the huge leaps in the development of the infrastructure much of the country is still vastly under-developed and it will take many more years until the road network sufficiently opens the country for investment nationwide. Much of the industrial development is focused in and around two specific areas – the capital of Phnom Penh and the port of Sihanoukville. While its small size and population for some investors will be a negative, for others it makes it an easier market to navigate than its larger neighbors of Thailand and Vietnam and a potential central hub for the new ASEAN Economic Community.

And while Cambodia has made a stark departure from its Khmer Rouge era, the destroying of several legal documents during the Khmer era has turned land rights into a controversial issue in the Kingdom. Most property holders do not have legal documentation of their ownership rights, and there reportedly have been cases of influential groups attaining land titles through questionable means.

Similar to many countries in the region, one of the largest deterrents to investment in Cambodia is corruption. Public-sector employees maintain wages of approximately US\$25-60 per month, significantly below what is required to maintain a decent quality of life in Cambodia. As such, numerous incidents have been reported of companies having to pay "facilitation" fees in order to spur business transactions. Nonetheless, the Cambodian government has taken the issue head on and is working through an innovative Anti-Corruption Unit that has taken on numerous high-profile prosecutions made to make examples of public officials.

Another challenge to investment for the Kingdom has been the cost of electricity. Currently the majority of the electricity is imported into Cambodia, so keeping costs low has been a challenge. Nonetheless, the government is going to great lengths to ameliorate the situation. According to CDC Senior Minister Sun pledges are in place to build over a 1,000 megawatts of hydroelectric capacity over the next two years, a 1,150 megawatt coal-fired power plant in Sihanoukville, and a 1,800 megawatt plant in Koh Kong island that will supply both domestic needs as well as export to neighboring Electrical Generating Authority of Thailand. The CDC also confirmed that the Government of Cambodia aims to triple its energy output to 5,000 megawatts by 2020. Not wanting to fall behind in a key operating cost, the Cambodian government has made a clear commitment to ease investors' worries about the high cost and consistency of electricity.

Like the precious gems sapphire and ruby that have long been hidden in the jungles and hills of this rich land, Cambodia has sparkling future economic prospects.

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