

# Investment Opportunities for Thai Business in Cambodia



I. Overview

II. Why invest in Cambodia ?

III. Cambodia Myths and Reality

IV. Sectors of Opportunities



# Overview

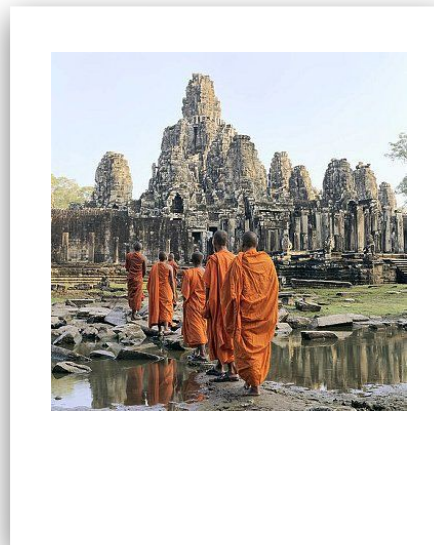
# Overview: Location



- **Area:** 181,035 sq km (69,898 sq miles)
- **Capital city:** Phnom Penh
- **Location:** Southeast Asia
- **Border:** Thailand, Laos, Vietnam, and the Gulf of Thailand
- **Landscape:** low-lying central plain surrounded by low mountains
- **Water:** Tonle Sap, Mekong River & 443 km of coastline

# Overview: Main data

|                           |  |
|---------------------------|--|
| <b>Currency</b>           | Riel (KHR) 1 USD≈ 4055.00 KHR  |
| <b>GDP</b>                | 20.02 billion USD (world bank: 2016)   |
| <b>Official language</b>  | Khmer, English widely used   |
| <b>Capital city</b>       | Phnom Penh   |
| <b>Major cities</b>       | Siem Reap, Sihanoukville, Battambang   |
| <b>Government type</b>    | Constitutional Monarchy  |
| <b>Head of State</b>      | King Norodom Sihamoni  |
| <b>Head of Government</b> | Prime Minister Hun Sen   |
| <b>Population</b>         | 16,245,729 people (worldometers 2018)  |
| <b>Climate</b>            | Wet season: May to October, dry season: November to April, average temperature: 27°C |
| <b>Major religion</b>     | Buddhism   |



# Overview: political & legal structure

- Government type: parliamentary democracy with a constitutional monarch.
- The Prime Minister is the head of government and a Monarch is head of state. The kingdom formally takes place according to the nation's constitution (enacted in 1993) in a framework of a parliamentary, representative democracy. Executive power is exercised by the government.
- Cambodia is a one party dominant state with the Cambodian People's Party in power led by Prime Minister Hun Sen since 1985
- Cambodia is a member of various international organizations including:



**THE  
WORLD  
BANK**



WORLD TRADE  
ORGANIZATION



# Macroeconomic Stability

GDP growth (annual %) increased from 1997 to 2017 by 4.0 % to 6.8% respectively

Low inflation rate (2.3% in March 2018)

Deficit of 481.70 KHR Billion in March of 2018. Balance of Trade in Cambodia averaged -1147.90 KHR Billion from 2009 until 2018

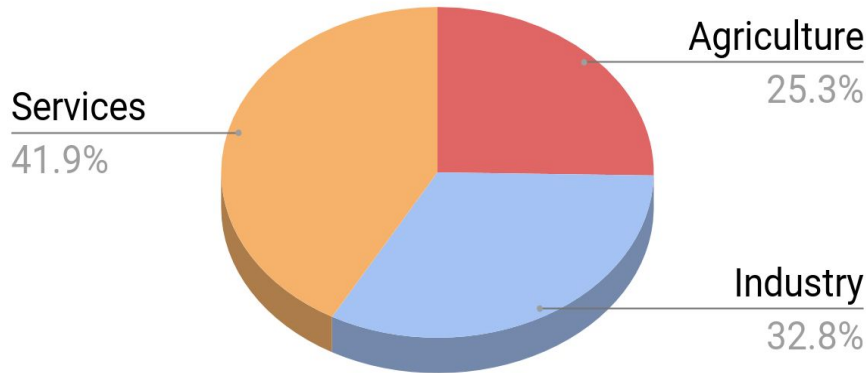
The benchmark interest rate in Cambodia was last recorded at 1.26 percent. Interest Rate in Cambodia averaged 3.51 percent from 1994 until 2018

Government Debt to GDP ratio was 37.9%  
Government Debt to GDP in Cambodia averaged 35.52 percent from 1996 until 2017

International reserves reached 8,851,524,787 USD in 2016

# Pillars of growth

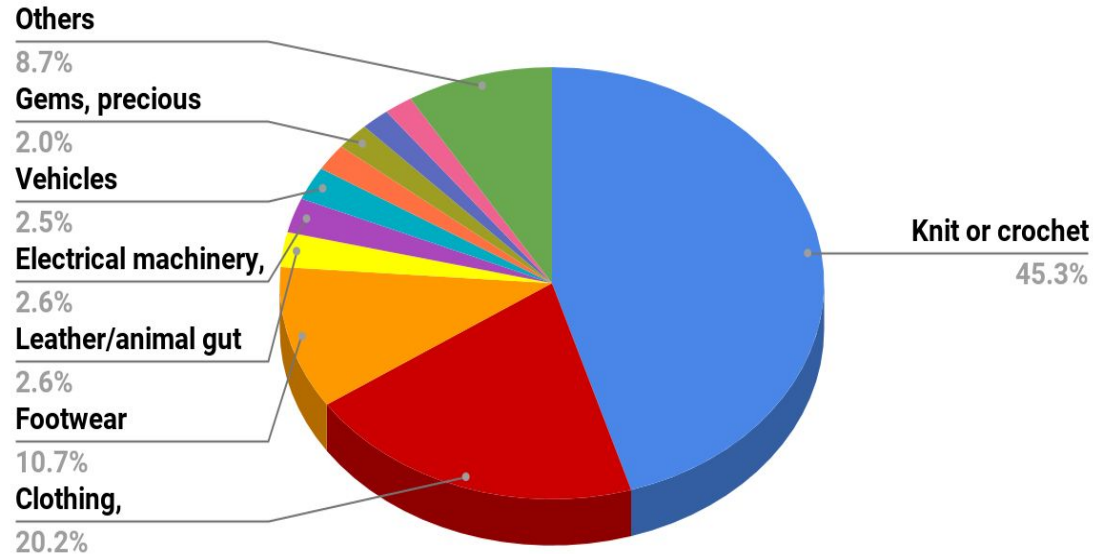
## Composition of GDP by sector, 2017



1. **Services** cover government activities, communications, transportation, finance, and all other private economic activities that do not produce material goods.
2. **Industry** includes mining, manufacturing, energy production, and construction.
3. **Agriculture** includes farming, fishing, and forestry

# Limited diversification for exports

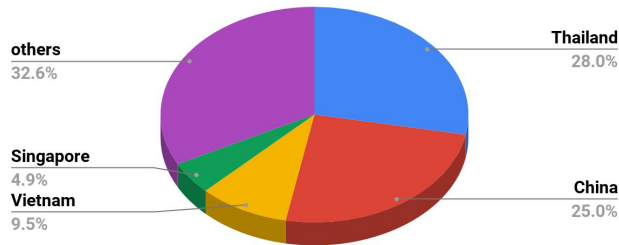
## Top 10 Exports by goods



# Diversification for exports

## Exports by destination

### Import by origin



### others

31.0%

### China

4.7%

### France

4.9%

### Canada

5.2%

### Thailand

5.4%

### United States

17.0%

### Germany

8.9%

### United Kingdom

7.9%

### Japan

7.8%

### Singapore

7.2%

**Why invest in Cambodia ?**

# One of ASEAN's fastest-growing economies

## SOUTHEAST ASIA'S GDP GROWTH TRAJECTORY



Unit: %

|             | Year |      |      |
|-------------|------|------|------|
|             | 2017 | 2018 | 2019 |
| Thailand    | 3.9  | 4    | 4.1  |
| Indonesia   | 5.1  | 5.3  | 5.3  |
| Malaysia    | 5.9  | 5.3  | 5    |
| Singapore   | 3.6  | 3.1  | 2.9  |
| Philippines | 6.7  | 6.8  | 6.9  |
| Vietnam     | 6.8  | 7.1  | 6.8  |
| Brunei      | 0.8  | 1.5  | 2    |
| Laos        | 6.8  | 6.8  | 7    |
| Myanmar     | 6.8  | 6.8  | 7.2  |
| Cambodia    | 7    | 7    | 7    |

Note: GDP growth rates for 2017 are actual data and figures for 2018 and 2019 are estimates

### GDP Annual Growth Rate



SOURCE: TRADINGECONOMICS.COM | NATIONAL INSTITUTE OF STATISTICS OF CAMBODIA

### GDP per capita



SOURCE: TRADINGECONOMICS.COM | WORLD BANK

### Population growth



SOURCE: TRADINGECONOMICS.COM | WORLD BANK

# FDI has increased almost tenfold since 2000

## Cambodia FDI inflows, current USD

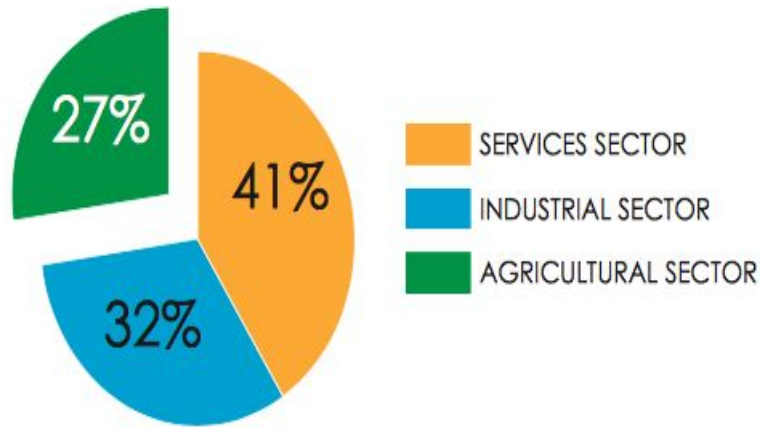


### Main investors (mostly Asian)

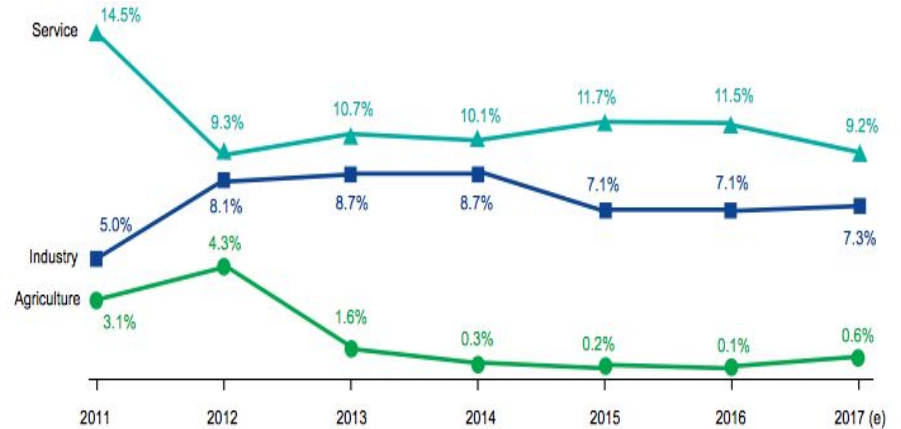
- China
- Korea
- Vietnam
- Malaysia
- Japan

# Committed Investment

## Cambodia GDP share by sectors



## Cambodia Growth by sector



Source world bank 2017

# Competitive advantages-overview

Preferential Market  
access  
“Strategic Geographic  
location”

Business-friendly  
government  
“Open economy”

Competitive labor force  
Abundant and cheap  
resources : land, labor

Quality of life growing  
middle -class

Untapped  
market:opportunities exist  
in all sectors of the  
economy

# Reasons to invest in Cambodia

- Macroeconomic Stability
- Pro-business government
- Competitive investment incentives
- One-stop service investment promotion agency
- Preferential access to regional & world markets
- Investment protection
- Efficient infrastructure and strategic location
- Sound financial sector
- Abundant resources, Labor, land, natural resources

## ● Pro-business government

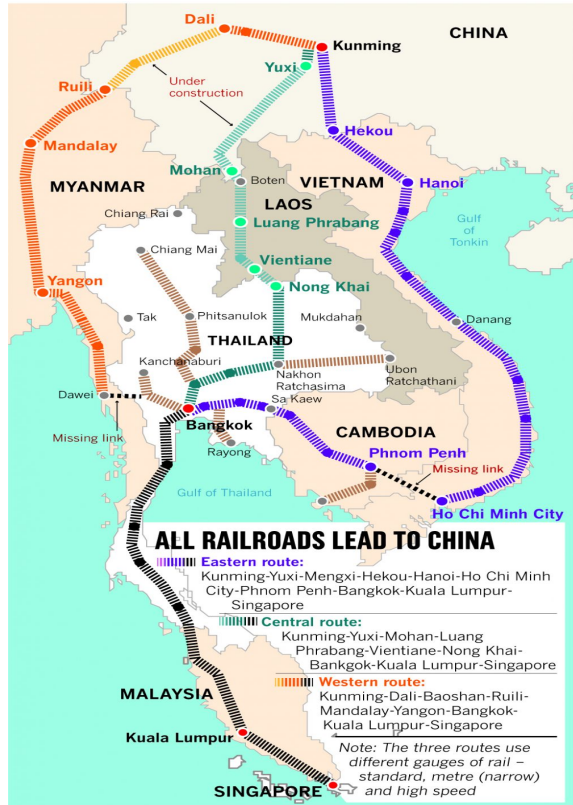
- Government and Private sector Working Groups and forums
- Easy Access to relevant government officials
- Competitive Investment Incentives
- One-Stop Service Investment Promotion Agency (CDC)
- Preferential Access to Regional & World Markets
- Investment Protection Agreements



## ● Competitive investment incentives

- Tax holiday up to 9 Years
- Full import and export duty exemption (QIP Projects)
- No discrimination, no nationalization
- No local participation requirement
- No price control on any products or services
- No foreign exchange control
- No restriction on capital repatriation: free repatriation of profits & free
- Remittance of royalty, interest, loan repayment, dividend, investment capital, etc.
- No trade restriction
- Long-term land lease

# ● Efficient infrastructure and strategic location



Source: China Railway International

NATION GRAPHICS

## Strategic location

- Positioned on the gulf of Thailand, north of the strait of Malacca
- Mekong region (integrated economy with China)

## ASEAN highway network

- Completed ASEAN highway linking Thailand, Cambodia, Vietnam
- Completed ASEAN highway linking Cambodia, Lao PDR, China
- ASEAN community expected to connect this route with Europe in the future.

# Access to border crossings



Cambodia has border connect with

1. Thailand
2. Vietnam
3. Laos

**Example**

## Crossing with Thailand

Aranyaprathet, Thailand/Poipet, Cambodia

Hat Lek, Thailand/Koh Kong, Cambodia

Chong Jom, Thailand/O'Smach crossing, Cambodia

## Crossing with Vietnam

Bavet checkpoint: Moc pai, vietnam/Bavet, Cambodia

Vinh Xuong, Vietnam/Kaam Samnor, Cambodia

Tinh Bhei, Vietnam/Phanom Den, Cambodia

## Crossing with Laos

Voeung Kam, Laos/Dom Kralor, Cambodia

**About 15 directions cross the borders.**

# Cambodia International Ports

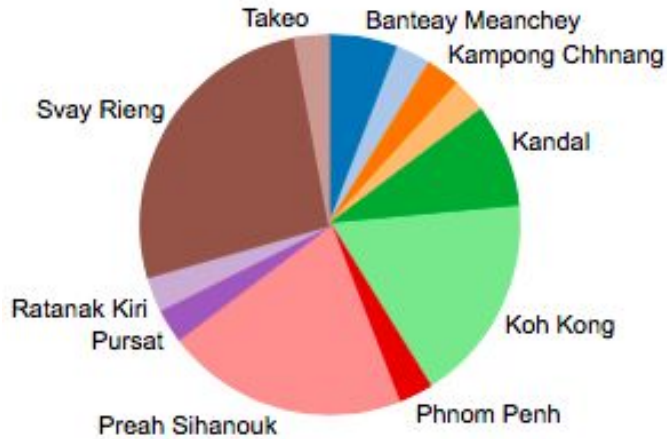


Three main international ports in Cambodia

1. Sihanoukville on the Gulf of Siam
2. Phnom Penh on the Mekong river
3. the provincial port of Koh Kong

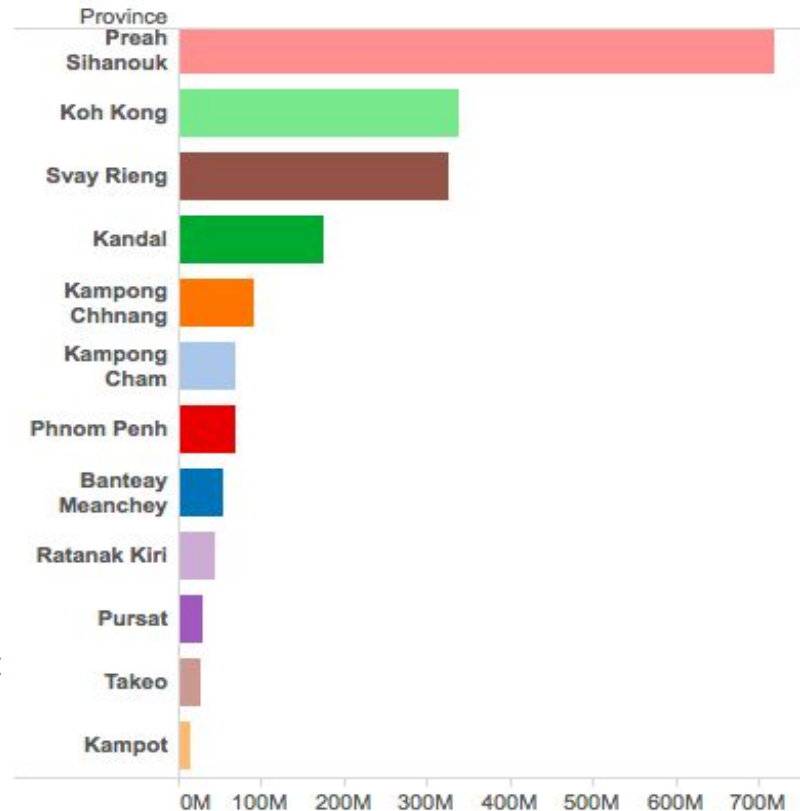
Cambodia can export the product by both Gulf of Siam and Mekong river

# Special of economic zones



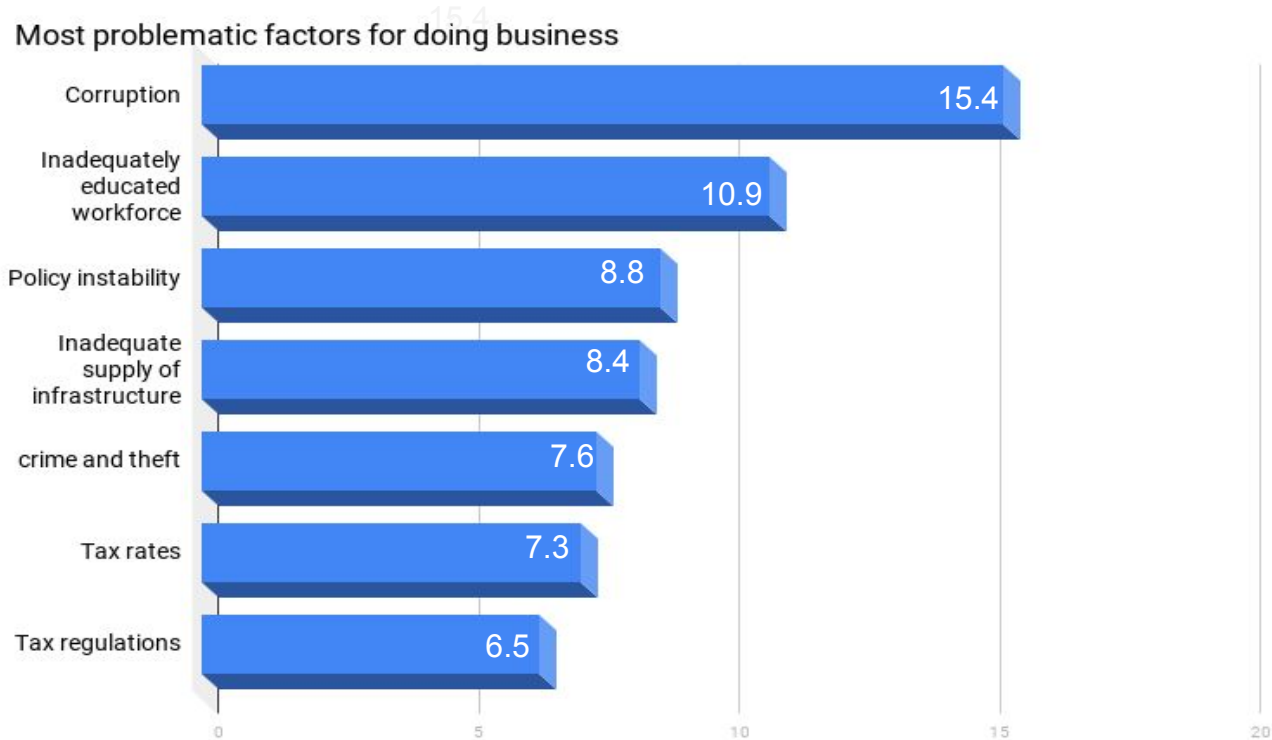
## Benefit from special economic zones

- Benefit for tax like QIP
- Benefit for VAT rate 0% for import product and ingredient to special economic zone.



# **Cambodia Myths and Reality**

# Top 7 Obstacles to doing business



Source : Global competitiveness 2017 - 2018

# Business Sentiment Survey

In comparison with its neighbours...

## Advantages



- Low cost of labor
- CDC
- Office costs
- Taxation
- Business incentives
- Tax structure

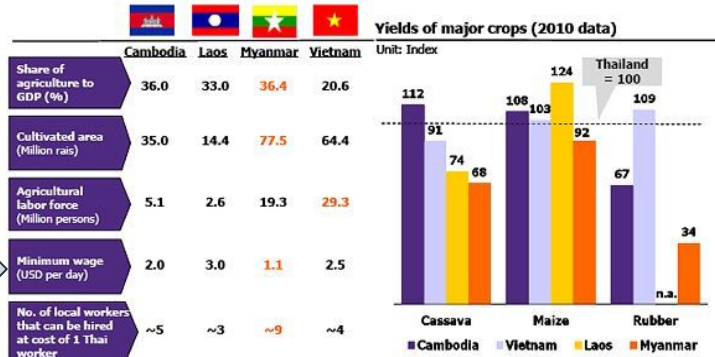
## Disadvantages

- Governance shortcomings/corruption
- Poverty rate still high
- Lack of skilled workforce
- Underdeveloped transport networks
- Laws and regulations
- Political risks from election-related uncertainty

# Advantage

## 1. Low cost of labor

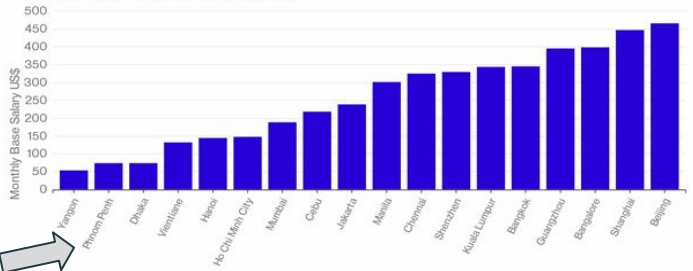
Myanmar has greatest farm potential among CLMV economies



Sources: SCB EIC analysis based on data from World Bank, FAO, and Department of Labor and Employment, Republic of the Philippines

### Asian Labor Costs

Factory workers' wages in emerging Asia



## 2. CDC (The council of development of Cambodia)

- Council that support and help FDI
- FDI have the same benefit as local investor except land use



## 3. Taxation

- Get an exception from Tax on profit : TOP
- Get an exception for minimum tax
- Get an exception for import duty
  - Domestic oriented QIP
  - Export oriented QIP
  - Supporting Industry QIP
- Get an exception for outgoing duty

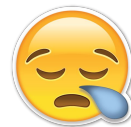
# Business Sentiment Survey

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# Disadvantage

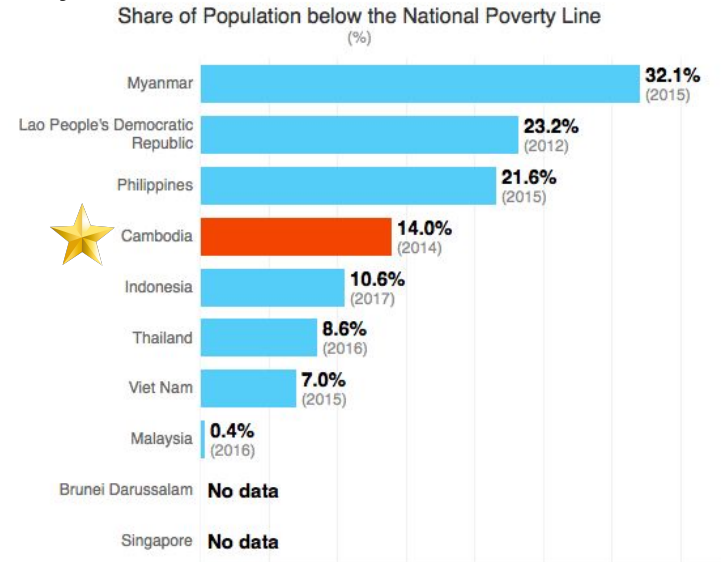
## 1. Governance shortcomings/corruption

## 2. Poverty rate still high



Cambodia get the lowest score among Asean countries

### Poverty Data: Cambodia



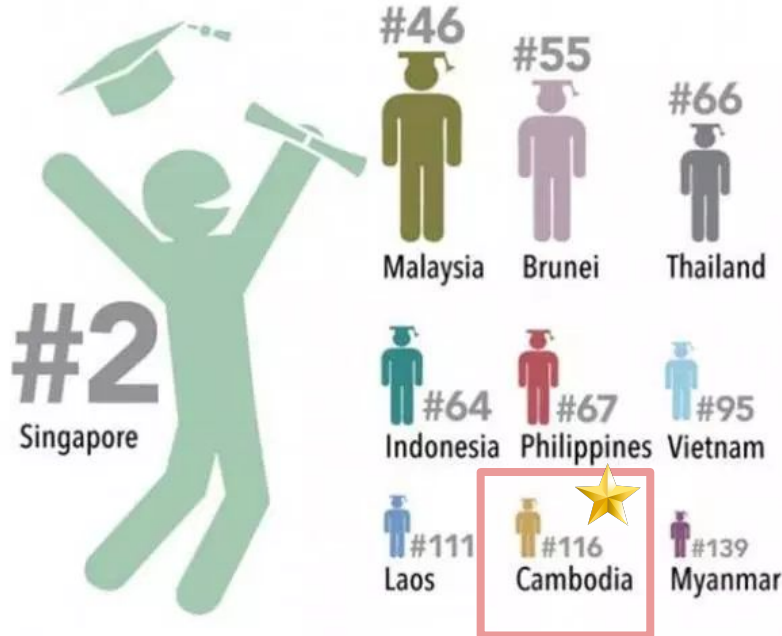
Source: Asian Development Bank. *Basic Statistics 2018*

14% of the population lives below the national poverty line in 2014.

# Disadvantage

## Higher education and training: world ranking

World Economic Forum ranking out of 148 countries



Source: World Economic Forum's Global Competitiveness Report 2013-2014

## 3. Lack of skilled workforce/Poor education


- **Government factor:** Low government fund spent on education system
- Almost the lowest rank in ASEAN

“Here, employers particularly face significant skill shortages, so education system and the increase of investment in education has a role to play in filling those gaps” (Inguna Dobraja, the World Bank's country manager in Cambodia. May 15,2018)

# Disadvantage

## 4. Underdeveloped transport networks

Infrastructure Development Ranking



|           | Overall | Quality of Roads | Quality of Railroad Infrastructure | Quality of Port Infrastructure | Quality of Air Transport Infrastructure |
|-----------|---------|------------------|------------------------------------|--------------------------------|---|
| Laos      | 108     | 91               | NA                                 | 132                            | 100                                     |
| Cambodia  | 106     | 93               | 98                                 | 76                             | 99                                      |
| Vietnam   | 79      | 89               | 52                                 | 77                             | 86                                      |
| Indonesia | 60      | 75               | 39                                 | 75                             | 62                                      |
| Thailand  | 49      | 60               | 77                                 | 65                             | 42                                      |
| Singapore | 2       | 2                | 5                                  | 2                              | 1                                       |

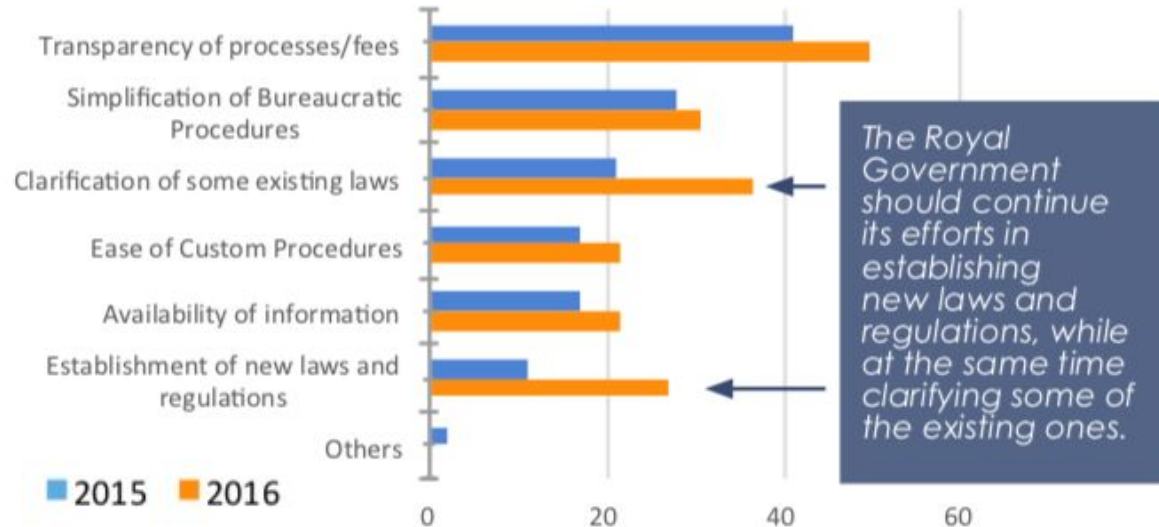
Source: Global Competitiveness Report 2016-2017, World Economic Forum

**Cambodia ranked 106th in the world for infrastructure development**

# Disadvantage

## NEEDS FROM THE ROYAL GOVERNMENT

*In your main sector, what do you need the most from the Government?*



## 5. Laws and regulations

There are more needs in every aspect from the royal government to improve laws and regulations system especially

- Clarification of existing laws
- Establishment of new laws and regulations

# **Sector Opportunities**

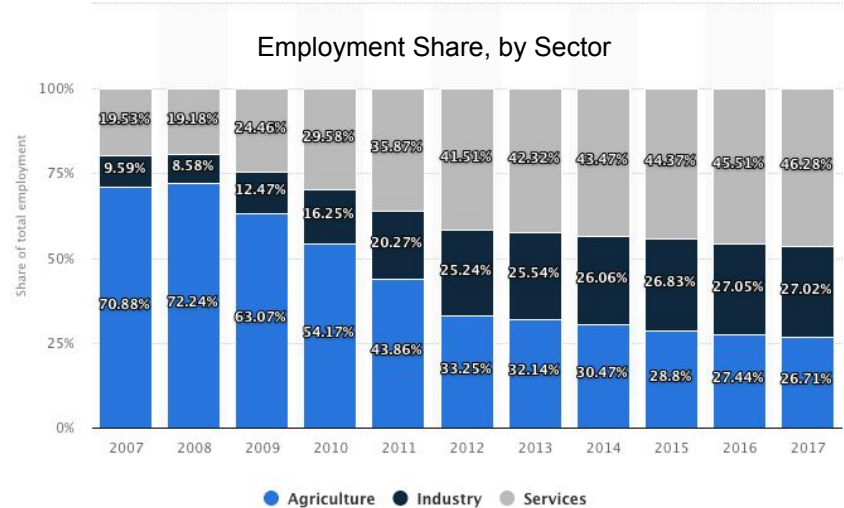
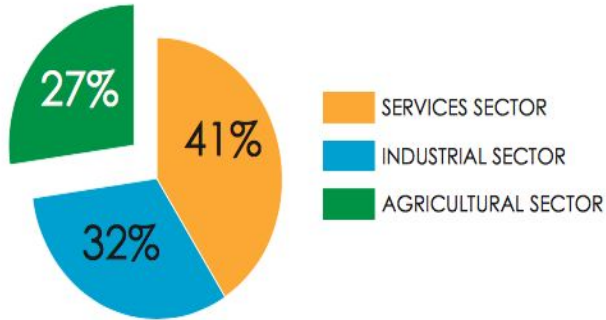


# Economic Structure

**AGRICULTURE 26.66%**

**INDUSTRY 31.74%**

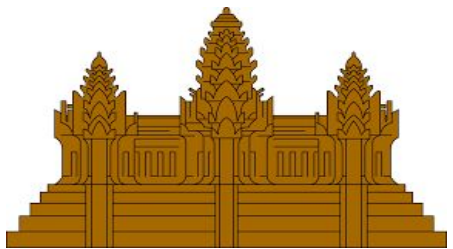
**SERVICES 41.60%**



Data visualized by + a b | e a u

© Statista 2018

# SERVICE SECTOR



# INFLUENCING FACTORS



New airports and expansion of new flight paths



“One Belt One Road”



Development of basic infrastructure



Increasing in purchasing power

# Increasing in purchasing power

CAMBODIA MINIMUM WAGES



SOURCE: TRADINGECONOMICS.COM | MINISTRY OF LABOUR, CAMBODIA

# INFLUENCING FACTORS



Increasing in expected number of tourists in 2020.  
5.3-7 million people  
(30%+)



High trust and high credibility



Deficit supply in hotel sector



Increasing in quality of human resource. (“China-Ready” strategy.)

# MANUFACTURING SECTOR

## Garment & Footwear Sector



Rising in labor costs



Competition from other regional low-wage countries, in particular Myanmar, Bangladesh, and Vietnam



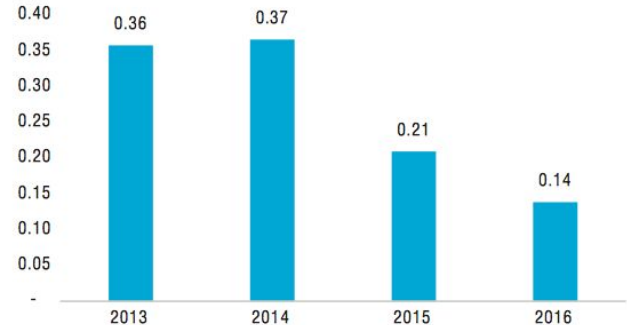
Investment is currently moving towards higher value-added products and services



Tougher price competition

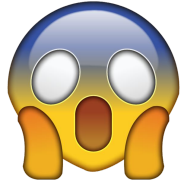
As a result, average footwear prices stagnated

**Figure 5: FDI in the garment sector is declining.**  
(Total fixed assets, in US\$ billion)



Source: the Cambodian authorities

# AGRICULTURAL SECTOR



Weather conditions



Most agricultural commodity prices remain low



Investment is currently moving towards higher value-added

# Thank you

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