ADW Arbeitskreis Deutsche Wirtschaft German Business Group Cambodia

BritCham Cambodia

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Business Opportunities in Cambodia

Bangkok, 19 May 2015

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Cambodia Key Facts

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Overview: location

- 181,035 km2
- South of the Indochina Peninsula
- Bordered by Thailand, Laos, Vietnam, and the Gulf of Thailand
- Landscape: low-lying central plain surrounded by low mountains
- Water: Tonle Sap, Mekong River & 443km of coastline

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Overview: main data

Currency	Riel (KHR): 1USD ≈ 4,000 KHR. Dollarized economy at 85%
GDP	16.7 billion USD (2014: World Bank)
Official language	Khmer, English widely used
Capital city	Phnom Penh
Major cities	Siem Reap, Sihanoukville, Battambang
Government type	Constitutional Monarchy
Head of State	King Norodom Sihamoni
Head of Government	Prime Minister Hun Sen
Population	15.46 million, annual growth 1.8 %, <25 years old: 52%
Time zone	GMT +07:00
Climate	Wet season: May to October, dry season: November to April, average temperature: 27°C
Major religion	Buddhism

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Overview: political & legal structure

- Constitutional monarchy with an elected government
- Multiparty democracy, **political stability (for now)**
- Monarch & head of state since 2004:

  King Norodom Sihamoni
- The Cambodian People's Party is the current ruling party, led by Prime Minister Hun Sen since 1985
- Cambodia is a member of various international organizations including:

THE WORLD BANK

INTERNATIONAL MONETARY FUND

United Nations

asean

WORLD TRADE ORGANIZATION

ADB

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Macroeconomic Stability

GDP growth averaged 7.6% per annum the last 10 years (2005 –2014)

Low inflation (3.9% in 2014 and 1% in the first half of 2015)

Low budget deficit (around 6% of GDP in 2013 and estimated 4% 2014 and 2015)

International reserves reached US$ 4.7 billion in first half of 2015

Debt to GDP ratio 32.8% (at the end of 2013)

Stable exchange rate (1$ = 4100 Riels on average)

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Pillars of growth

1. Agriculture
2. Real Estate and Construction
3. Tourism
4. Garment Industry

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Limited diversification for exports

Export by goods

Export by destination

Import by destination

Why invest in Cambodia ?

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One of ASEAN's fastest-growing economies

Country	2014 GDP Growth (%)
Myanmar	8.5
Laos	7.4
Cambodia	7.0
Philippines	6.2
Malaysia	5.9
Vietnam	5.5
Brunei	5.3
Indonesia	5.2
Singapore	3.0
Thailand	1.0

Source: CIA World Factbook, estimate figures

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FDI has increased almost tenfold since 2000

Source: World Bank

Main investors (mostly Asian)

- China
- Korea
- Vietnam
- Malaysia
- Japan

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Committed Investment

	2011	2012	2013	2014	Jan-Jun 2015
Agriculture	794.5	556.6	1,128.8	264.7	352.7
Industries	1,340.8	1,489.7	1,106.7	2,835.6	359.9
Infrastructure	2,782.3	227.8	2,620.8	353.5	2,529.4
Tourism	845.6	691.5	106.0	479.6	73.9

Source: Council of Development of Cambodia

Investment Capital (2011- June 2015) Total of USD 20.94 billion

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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

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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

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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 restrictions
- Long-term land lease

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Reforms, reforms, reforms…

- ✓ Since the last election in 2013, the government has engaged in the course of reforms
- ✓ New Industrial development Policy to upgrade the industrial sector
- ✓ Investment law to be amended
- ✓ Reforms in the Ministry of Commerce (CoO, online company registration)
- ✓ Key ministries : education, environment, industry, Labor, tourism, Customs…etc

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Cambodia Myths & Reality

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Top 5 Obstacles to doing business

Global Competitiveness Report 2014-2015

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Business Sentiment Survey (Amcham)

In comparison with its neighbours…

Low cost of labor	Corruption
Low protectionism	Infrastructure
Office costs	Laws and regulations
Taxation	Stable Political Systems
Business incentives	Ease of Customs
Tax structure	
HR availability	

Business Confidence Survey (EuroCham)

Main competitive advantage: Low cost of labor (79%)

Main obstacle: Lack of availability of HR

Need for greater transparency

64%

Not much changes in ease of doing business **(69%)** after the reforms …but **71%** reached or exceed profitability target

Major Improvement: upgrades in infrastructure (45%)

Least area of Improvement: transparency

58% of respondents predict a large or very large growth in Cambodia for their company

81% planned to invest further in 2016 and expand

Impact of AEC : **53%** somewhat positive

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Investing in Cambodia today

COMPLAINTS

1- Electricity is expensive

2- Corruption / transparency

3- Frequent labor disputes and strikes

4- Low Productivity Levels

5- Poor infrastructure and Environment

6- Slow Customs procedures

7- Difficult to set up a business

REALITY

1- Investment in domestic power generation has resulted in Electricity rates **planned at $0.129/kwh by 2016**.

2- Creation of ACU (anti-corruption unit)

3- Work Stoppage inexistent in non-garment factories

4- Work Force is young and easily trained if conditions and incentives are good

5- SHK port development

6- Automated Customs Procedures are now in place in key locations

7- New automated business system by MoC

Source : Kerry Worldbridge

Perceptions and uncertainty…

Cambodia suffers from a perception lag

It is more easy to do business in Cambodia than in some other countries in the region

Progress made are impressive

Strong willingness from the Government to push for reforms

Implementation and transition are painful but all goes to the right direction…

However, next elections in 2018 can bring some turbulences…

Sectors of Opportunities

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Overview

Energy
- No national grid
- Oil & gas, hydro potential
- Open market, high tariffs

Financial Services
- Banking/MFIs saturated
- Insurance growth potential

Mining
- Gold, bauxite & gems
- Mid-stage exploration
- Developing

Manufactu--ring
- Garments, textile & footwear
- Lobor intensive+ Processing industry
- Minimum wage issues

Education, Training (HR developemt
- Huge Needs

Agriculture & Agro-industy
- Rubber, cassava, timber & rice (moratorium)
- Attractive incentives

Tourism
- Angkor Wat & coast
- Casinos
- Rapid growth

Real Estate
- Phnom Penh & coast
- Buoyant residential

Commercial development

ICT
- Important needs
- Potential : e-commerce…

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ENERGY

Source: Electricity Authority of Cambodia 2015

Considerable opportunities to be found in renewable energy projects.

Opportunities in

- equipment such as solar panels, biodigestors or biomass gasifiers,
- in maintenance and repair services, quality control, R&D, marketing and targeted financing.

✓ Growing Energy Demand
✓ Reduced reliance on imported energy
✓ Importance of Hydropower projects

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Real Estate & Construction : FDI fueling a construction boom

Approved construction projects: Ministry of Land Management, Urban Planning and Construction.
Construction materials imported: Ministry of Economy and Finance
2014 and 2015 are unofficial estimates

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Rapidly-growing condominium supply

As of December 2014, 35 condominium projects within Phnom Penh (completed and under construction).

Large-scale projects set to increase supply of condominiums by 533.75% by end of 2018.

Source: CBRE http://www.cbre.com.kh/2015/01/20/phnom-penh-condominium-market-cbre-cambodia-market-view-in-december-2014/

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Non-Garment manufacturers

Some manufacturers in Cambodia today…(non-garment)

- Laurelton Diamond (USA)
- Minebea (JP)
- Shinih (TW)
- SVI Pubic Ltd (TH).
- Aprati Foods (USA)
- Denso (JP
- Vinamilk (VN)
- Sumitomo Wiring (JP)
- Yamaha Motorcycle (JP)
- Betagro (TH)
- Stratco (AUS)
- EuroStar Diamond (BE)
- Coca Cola (USA)

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Agro-industries : Opportunities

Heavy Machinery for Farming

As farmers seek to enhance productivity, increasing demand for equipment such as tractors and combine harvesters. Growth of around 10% per year.

Agro-Processing Equipment

As the country enhances its milling and agro-processing capacities, will need industrial machinery such as rice milling equipment and automated packaging systems.

Targeted Financing

Significant opportunities in targeted financing packages for farmers and agro-processors looking to acquire equipment or needing cashflow during procurement cycle.

Services

Opportunities for service providers (eg. Repair and maintenance, quality control, laboratory testing, employee training and development)

Conclusion

Niche Market + Right Timing = Great Opportunities

- ✓ Can be considered as an additional market for Companies that are already present in the region (Roll down an existing strategy)
- ✓ Leverage experience and Synergies from the proximity of the neighboring countries (economies of scale, efficiencies)
- ✓ Take advantage from specific niches market in Cambodia : leisure industry, food & beverage, organic products, precision industry, renewable energy…etc.
- ✓ In a market with much less competitors…
- ✓ And a changing environment (growing middle-class looking for more quality products

Conclusion

“ In Cambodia, nothing is easy but everything is possible”

Key to success is to keep a long term stance and expectations at a right level

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EuroCham overview

- Founded in June 2nd, 2011, EuroCham is now the largest western business association in Cambodia with more than 220 members.
- Supported by the European Union via the **ICI+ program** since September 2014.
- Provide a bridge between European investors and various stakeholders in the Kingdom

Your Gateway to Cambodia !

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Thank you !

Ratana Phurik-Callebaut, CFA
Executive Director
EuroCham Cambodia

Email: director@eurocham-cambodia.org
Phone: 010 801 950
www.eurocham-cambodia.org

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