

Why Cambodia?

Summary

Area: 176,520 km²

Population: 15.8 million

Urban population: 20.9%

Population density: 89.3 people per km²

Population growth rate: 1.5% change

Capital city: Phnom Penh

Languages: Khmer, French, English (English is the language of business)

Currency: Cambodian Riel (KHR), although the US Dollar (\$) is the main currency

Nominal GDP: US \$20.2 billion

Real annual GDP growth: 7.0%

GDP per capita: US \$1,277.7

Annual inflation rate: 3.0%

General government gross debt: 36.7% of GDP

Fiscal balance: -2.8% of GDP

Current account balance: -8.8% of GDP / US \$-1.8 billion

Exports of goods to UK: £876.0 million

Imports of goods from UK: £19 million

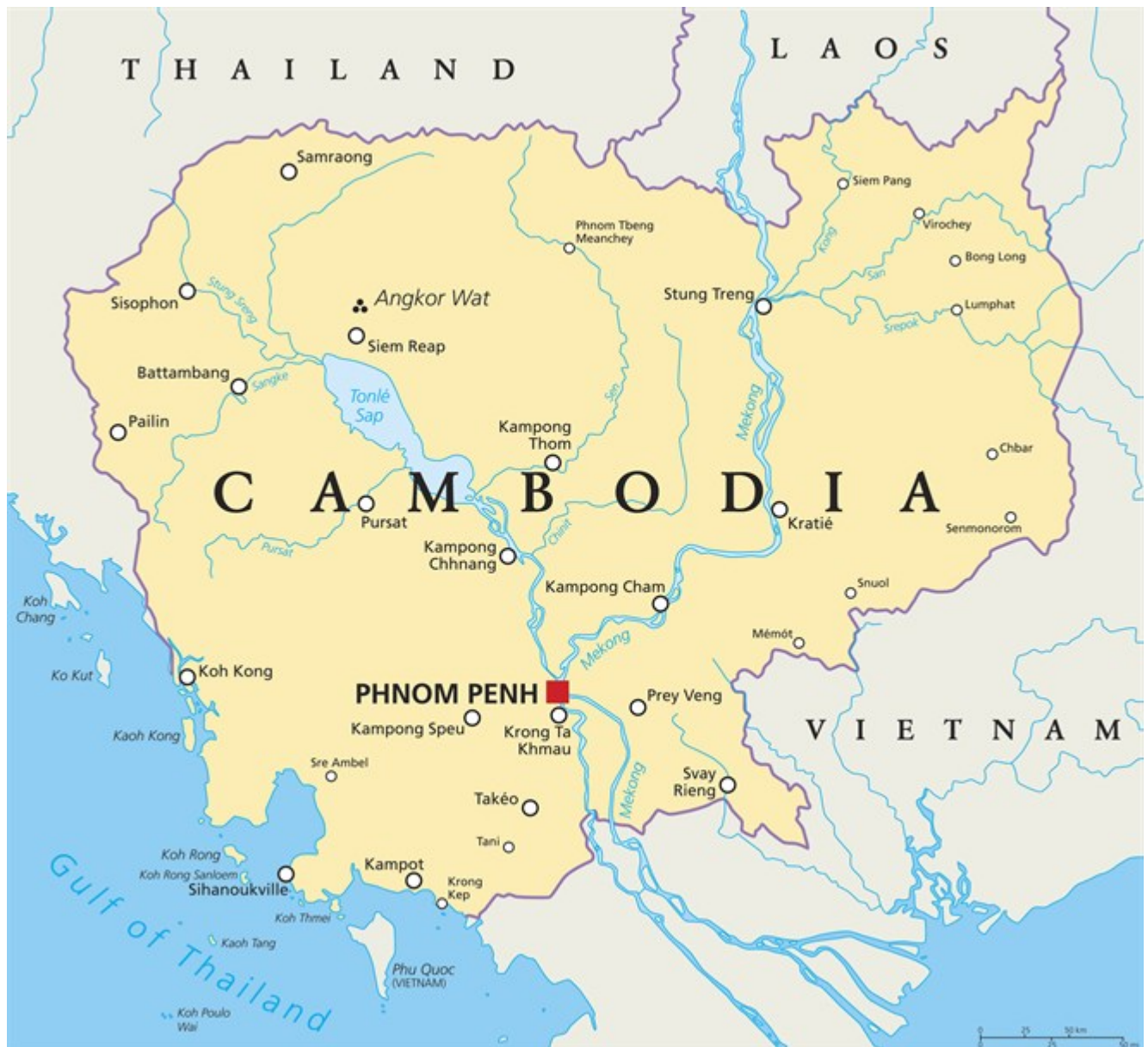
[Source: mostly FCO Economics Unit]

Geography

Cambodia is located in the centre of Southeast Asia, sharing borders with Thailand, Laos and Vietnam. It has a total territory of 181,035 km² of which 176,515 km² is land area. A large proportion of the country's land is either forested or dedicated to agricultural production.

Cambodia is also one of the least populated countries in ASEAN with around 88 people per square kilometre, up from 75.5 in 2005. Most of the population lives in and around the lowland corridor that stretches from the Thai border in the northwest to the Vietnamese border in the southeast.

Cambodia has a geographical advantage in terms of position and access to regional markets. The Mekong and Tonle Sap rivers run through the country and play a vital role in the nation's economic success by providing transportation routes and sustenance.



General overview

Cambodia is one of the fastest-growing economies in Southeast Asia and currently ranks 11th in the world in terms of high GDP growth over the last decade. With a forecasted 7% economic growth per year for the next five years and a rapidly growing consumer class that is earning triple the average income, it is an attractive market to invest and do business in.

Significant opportunities are available for businesses in a number of different sectors. UK companies are finding opportunities in education and vocational training, construction, manufacturing, retail, automotive, agribusiness, tourism and the financial/professional services.

However, doing business in Cambodia takes patience and perseverance. Companies should be prepared to invest time and resources in regular visits over a period of months, sometimes years, before seeing returns.

Contact a Department for International Trade (DIT) export adviser at: <https://www.contactus.trade.gov.uk/enquiry/topic> for a free consultation if you are interested in exporting to Cambodia.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies, see: <https://www.gov.uk/government/organisations/uk-export-finance>. You can also check the current UKEF cover position for Cambodia at: <https://www.gov.uk/guidance/country-cover-policy-and-indicators#cambodia>.

[Source – BritCham Cambodia/DIT/ UKEF/gov.uk]

Government overview

Political situation

The Cambodia People's Party (CPP) is the ruling power and has been for the last four decades. The main opposition was the Cambodia National Rescue Party (CNRP). Incidents of politically-motivated violence have fallen in recent years, but political disputes could trigger violent protests.

During 2016, legal action was taken against the leaders of the CNRP. Several party members and activists were jailed and on 7th July 2016 Dr Kem Ley, a prominent political commentator, was shot dead.

Political tensions remain high following the dissolution of the CNRP on 16th November 2017. This followed the arrest of the CNRP leader Kem Sokha on 3rd September 2017. Political disputes could trigger violent protests.

A general election will take place in July 2018. It is possible that political tensions will increase in the run-up to this election. Commune (local) elections took place in June 2017 and passed-by smoothly.

[Source – FCO Overseas Business Risk/gov.uk]

Human rights and business

The United Nations Office of the High Commissioner for Human Rights (OHCHR) Cambodia Country Office is the oldest field presence of OHCHR. It has been through several transformations and traces its origins back to the United Nations Transitional Authority in Cambodia (UNTAC). There is also an independent UN Special Rapporteur for Human Rights – Dr Rhona Smith of the UK. See the OHCHR pages at: <http://www.ohchr.org/EN/countries/AsiaRegion/Pages/KHIndex.aspx> for more information on human rights issues in Cambodia.

[Source – FCO Overseas Business Risk/gov.uk]

Economic overview

Alongside further ASEAN integration, an interconnected series of highways, railways, power and telecommunications is being implemented across Cambodia. This is happening in the Greater Mekong Subregion (GMS) countries of China, Thailand, Myanmar, Laos, Cambodia, and Vietnam and it will greatly enhance intra-regional trade.

In 2004, Cambodia joined the World Trade Organization which has led to improvements in the business environment. Practical information on trading with and conducting business in Cambodia can be found on the official website of the Ministry of Commerce.

Cambodia's economic growth remained strong at 6.9% in 2016, after 7.0% in 2015. Cambodia's economic activity continues to expand at a robust pace. Construction remained one of the main drivers of growth. Garment exports eased slightly as the country's external competitiveness was eroded by US Dollar appreciation, rising labour costs and increasing competition from other regional low-wage countries. Better weather conditions last year resulted in increased agricultural production, although agricultural commodity prices remain depressed.

Real growth is projected to remain strong, expanding at 6.9% in 2017 and 2018, partly underpinned by government spending. Downside risks to this outlook include the fallout from further rises in US interest rates, a slower-than-expected economic recovery in Europe, and uncertainties over global trade. Poverty reduction is expected to continue over the next few years, driven mainly by the garment, construction and service sectors, together with increases in remittances.

[Source – UKABC/FCO Overseas Business Risk/gov.uk]

Industries importing into Cambodia

The major industries importing into Cambodia are:

- petroleum products
- cigarettes
- gold
- construction materials
- machinery
- motor vehicles
- pharmaceutical products

[Source – UKABC]

Cambodian consumers

Modern Cambodia is among the fastest-growing economies in the world, averaging just over 7% annual growth for more than a decade. Its young population – half under the age of 25 – is tech-savvy and worldly: avid users of Facebook and YouTube, with increasing awareness of the world outside of Cambodia. This awareness shapes their preferences for how they want to live – and they want to live like the world they see through their smartphones: individual, independent but family-orientated, self-directed, and with all the choices and accoutrements of a middle-income society.

In 2016, Cambodian incomes moved into the World Bank's Middle Income bracket, passing US \$1,045 GNI per capita. Income levels are rising across all socio-economic classes. A small but significant group of highly-affluent families have emerged, of particular interest to luxury goods sellers. In remote rural villages, subsistence farmers now have income for the first time in their lives, and in the cities – where much of the action of economic growth is visible – educated young adults' income is growing, and they expect to have more highly-paid careers.

With this growth in earnings comes a growth in disposable incomes. Borders are opening up, trade is increasing, and there are many more products to buy. Products – and brands – represent a connection to the wider world, and the promise of a successful and prosperous future.

Against this backdrop, tastes, preferences and habits are forming, and changing rapidly. In a unique inversion of the mature market process, it is the young population that is driving new product preferences – guiding habit formation, and influencing the adoption of branded products by their parents. Young people are teaching their parents about products “new to Cambodia”, and how to use them. They are leading the way in the adoption of new technologies.

As these brand-preference habits are forming, the opportunity to introduce products typically favours first movers; product preference is more expensive to change, once established.

In the past, established multinationals could wait for emerging nations to develop robust consumer societies, before entering the market with their products. Recent reports, however, show that local and regional firms are entering these markets earlier, winning market share from established multinationals because of a deeper understanding of regional markets, and robust relationships with stakeholders, governments and customers.

A DIT/BritCham Cambodia report: “An Insider’s Look at the Changing Cambodian Consumer: Executive Summary”, provides an overview of growth trends and opportunities across consumer goods categories, including food and beverages, personal and home care, clothing, accessories, electronics, and luxury goods. For a copy of the full report see the UK-ASEAN Business Council (UKABC) site at: <http://www.ukabc.org.uk/publication/insiders-look-changing-cambodian-consumer-executive-summary/>.

[Source – UKABC/BritCham Cambodia/DIT]

Benefits to UK businesses

Cambodia offers:

- Investor-focused policies. The government’s Council for the Development of Cambodia facilitates investment in the country, which includes a ‘Qualified Investment Project’ tax exemption for up to nine years, and some exemptions from import duty.
- Competitive tax rates. The profit tax rate for companies is 20%, among the lowest in the region.
- Market access preference for Europe. The EU allows duty- and quota-free access on all products (except for armaments); however, this access may change soon, as Cambodia has exited its Least Developed economic status.

- Access to neighbouring markets. Cambodia is part of the ASEAN Economic Community, whose benefits include elimination of tariffs between the Association's ten member countries, as well as the free flow of goods, services and workers.
- Central location in Southeast Asia. Nestled in the heart of the northern part of Southeast Asia, Cambodia enjoys easy land connections to its neighbours Thailand, Laos and Vietnam, and land access beyond these to Myanmar, Malaysia, Singapore and China.
- Special Economic Zones. Government-created special manufacturing areas have been developed, with improved access to government ministries to facilitate regulatory compliance. These SEZs also work to facilitate logistics for importing of goods.
- Easy foreign currency remittances. There are no restrictions on foreign exchange through official banks.

[Source – BritCham Cambodia/EuroCham Cambodia/DIT]

In addition:

- Cambodia is ranked 161st out of 180 countries in Transparency International's latest 2017 Corruption Perceptions Index (the UK ranks 8th): https://www.transparency.org/news/feature/corruption_perceptions_index_2017.
- Cambodia ranks 135th out of 190 global economies in the World Bank's Ease of Doing Business report 2018 (the UK ranked 7th): <http://www.doingbusiness.org/data/exploreeconomies/cambodia>.
- The World Economic Forum's Global Competitiveness report 2017-18 ranks Cambodia 94th out of 137, down four places since 2016-17 (the UK is ranked 8th, down one place): <http://reports.weforum.org/global-competitiveness-index-2017-2018/countryeconomy-profiles/#economy=KHM>.

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[Source – DIT/UKEF/gov.uk]

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