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# SURVEY REPORT

## Cambodia's Attractiveness for EU Foreign Direct Investments



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## Introduction

The levels of European Foreign Direct Investment (FDI) into Cambodia have generally lagged behind American and Asian levels of FDI. Following up on the ASEAN-Cambodia Business Summit in September 2023, the European Union Delegation to Cambodia and the Cambodia ARISE+ team commissioned a business survey to understand how European businesses view the Cambodian business environment, and the relatively low levels of investment. This report seeks to identify which factors would drive European investment into Cambodia, the priorities of the European private sector when investing in Cambodia, and the barriers facing European investment. As such, it provides complementary insights to the Business Confidence Surveys which focuses on the perception of companies already operating in Cambodia. As a market attractiveness survey, the present report shows the perception of the business ecosystem in Cambodia from the perspective of prospective European investors.

The research methodology employed in this study adopts a qualitative approach. The survey's respondent pool comprises 6 European companies with substantial operational presence, across multiple Southeast Asian countries, including Thailand, Vietnam, Singapore, Hong Kong, and Malaysia. The research prioritises companies engaged in emerging sectors in Cambodia, particularly manufacturing areas such as electrical and automotive parts, but also in tourism and business development. These European businesses were selected on the condition that they are active in at least one other Asian country and not necessarily on size. The report exclusively comprises interview findings, enriched with contextual details. This contextual information serves the purpose of framing the interviewee's statements within the broader Cambodian market landscape.

These interviews aim to provide a profound insight into the various factors that influence these companies' decisions regarding their investment locations. The key factors explored include the favourability of national legislation and the investment climate (policy), the cost and skill level of the workforce (labour), the reliability and cost of electricity (energy), the state of logistics and access to logistical hubs (logistics), awareness of the country as an attractive investment destination (promotion), and the level of support, whether from chambers of commerce, the government, or other stakeholders, for establishing and expanding their operations (stakeholder support). For each factor, one or more baseline facts & figures are added to provide a benchmark for the perceptions of the interviewees. The research findings will serve as a valuable contribution to discussions aimed at enhancing Cambodia's attractiveness as a destination for foreign direct investment from the European states and fostering improved regional connectivity in the Mekong region.

## Cambodia at a glance

### Governance and Politics

**Government:** Cambodia is a constitutional monarchy with an elected parliamentary. The seventh legislature of government is run by the Cambodian People's Party (CPP), under the direction of Prime Minister Hun Manet.<sup>1</sup> The election was held with the active participation of local and international observers who monitored the electoral process in 2023.<sup>2</sup>

**Human Rights and Rule of Law:** Cambodia ranks at only 24/100 in the Freedom House Index in 2022. The UN Human Rights (HR) office has raised concerns regarding the treatment of activists and NGOs engaged with HR matters, suggesting the need for enhanced protection against interference, intimidation, or harassment. The judiciary has room for improvement, as evidenced by Cambodia's scores of a dismal 1 out of 4 both

### Cambodia's Economy

**Economy:** In June 2023, the Industry sector accounted for 38% of GDP, service sector 35%, and agriculture 21%.<sup>7</sup> The service sector is expected to overtake industry as the government entices greater importance to tourism post Covid-19. Cambodia's main exports are garments, footwear, and travel goods.<sup>8</sup>

**Currency:** The Cambodian Riel is pegged to the USD, and hovers around 4,100 to the USD. Recent US interest rate hikes have put pressure on the Riel, appreciating it, which has affected Cambodia's exports, and forced the government to spend dollar reserves to stabilise the currency.<sup>9</sup> The Cambodian Economy is also heavily **dollarized**, with the USD being legal tender for all transactions.

**GDP:** The economic growth for 2023 is projected at 5.3% and 6% in 2024<sup>10</sup>.

in whether due process prevails in civil and criminal matters, and whether laws, policies and practices guarantee equal treatment.<sup>3</sup>

**Corruption:** CPI gives Cambodia a 24 out of 100 in 2022, up from 20 out of 100 in 2018. Despite improvement, Cambodia has the 3rd lowest transparency in Asia Pacific, coming above Myanmar then North Korea. For the most part, Cambodia is prioritising economic development over good governance reform.<sup>4</sup>

**Quality of life:** Cambodia's Human Development Index stood at 0.593 in 2021, ranked 140 out of 183 countries. It has only slightly improved over 10 years when, in 2011, it stood at 5.42, ranked at 141 of 183.<sup>5</sup> Much of this has to do with a lack of a comprehensive welfare regime, growing unemployment in informal labour, stagnation in wages, and large cuts in government spending.<sup>6</sup>

Cambodia is one of the world's fastest-growing economies, with GDP per capita currently at US\$ 1.920.<sup>11</sup>

**LDC:** Cambodia met their graduation criteria in 2021, and a review will take place in 2024, with a possible, and expected graduation by 2027.<sup>12</sup>

**Inflation:** Inflation stands at 1.9% for the first quarter of 2023. Stabilised oil and gas prices post Covid-19 have lowered it from over 5% in 2022.<sup>13</sup>

**Interest rate:** Cambodia allows banks to set their own interest rates. On average interest rates have risen, following the US Federal Reserve hikes. In February 2023 U.S. dollar-denominated and riel-denominated term loans rose to 10.19 percent per year and

12.61 percent per year, averaged.<sup>14</sup> The government has capped MFI interest rates at 18%.<sup>15</sup>

**Foreign Direct Investment** flows have been growing rapidly over the last decade. Of the 1.1 Billion USD in FDI in 2022, 80% came from China, with other major investors being South Korea, Hong Kong, and Vietnam.<sup>16</sup>

**Global innovation index** score: 97 out of 132.<sup>17</sup> Cambodia faces certain innovation-related challenges that need to be addressed to strengthen its capacity for research, development, and technological advancement.

## Determining factors for European investment into Cambodia

### 1. Policy

Factoring policy into investment research, and indirectly Cambodia's investment climate, is the foundation for all market attractiveness assessments. In this theme, interviewees delve into discussions on the intricacies of government regulations, administrative challenges, taxation complexities, and the broader ecosystem within which businesses operate in the country. Exploring this factor is essential as it holds significant implications for the other factors and wider economic prospects of Cambodia.

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| ↑88th in the Good Government Index, up from 90th in 2022 <sup>18</sup> | ↑24/ 100 on the Corruption Perception Index (CPI), up from 20/100 in 2018 <sup>19</sup> | - 55/69 on the tax complexity rankings (2020) <sup>20</sup> |
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### Policy, Investment Climate and business ecosystem

There are still many hurdles that are faced by the country in the realm of policy and investment climate. Investors have identified numerous administrative challenges, such as time-consuming paperwork and bureaucracy that can slow down intended business operations. In the tourism sector, representatives call for Cambodia to ease its visa policies for longer stays and a simplification of the application process, citing the example of neighbouring countries' more lenient visa policies.

The (structural) barriers usually perceived by investors are slowly being eroded. There is positive sentiment on the investment climate with the new government, which was sworn in the summer of 2023. Here, change is observed by investors, not only through the robust economic growth but also in the capacity of the government in times of hardship, noting the speed of national vaccination campaigns as an example. More gradual efforts, such as infrastructure, which has been prioritised by the government, are also showing results in the capital, Phnom Penh and the port city of Sihanoukville. Combined, this has led to a growing business ecosystem, not only for local subsidiary production purposes but also for a domestic market where products can be sold, rather than only for export markets. A sign of market transition as noted by one investor was greater awareness in Cambodian society for sustainable business practices, where value is also

considered in environmental aspects, not solely economic.

### **Complexities in tax systems, transparency and barriers to fair business practices**

The complexity of the tax system is perceived as a major issue, with most frustration aimed at the import procedures and fees.

***“In Vietnam it's also strict, but at least it's fair.”***

Taxation is a complex issue for companies, particularly on customs duty & bureaucratic red tape, resulting in some evading taxes easily while others must navigate a challenging tax process.

In the past 2-3 years, challenges in taxation have been more prevalent, with some companies paying significantly higher taxes than others of similar volume. Looking at the past 20 years, however, there are positive signs of improvement in tax regulations and enforcement with the practice of lump-sum payments, which used to be as high as 50% for 20 years of operation in Cambodia, now being reduced to 20%.

***“If we cannot expand more, it is because of the tax issue. The guidelines are very clear in the book, however, there are still transparency issues resulting in unfair market competition.”***

Unclear legislation is intertwined with the (lack of) transparency in the business ecosystem. An area where this has created barriers for European firms is in Public Private Partnership (PPP) projects and government tenders. The lack of transparency creates an enabling environment for unfair business practices and fraudulent activities, which disincentivises European firms from entering the market. All investors raised this issue in some capacity, calling for structural solutions to this issue. One explained that this issue would be a barrier for their company as it would be impossible to manage effective international business operations in Cambodia without engaging in some form of financial misconduct.

### **Cambodia's role in regional economic trends**

In a more regional scope, Cambodia is perceived as being favourably positioned to be a beneficiary of better regional connectivity with regards to the souring of US-China trade relations. As businesses seek to diversify their production sites, through *nearshoring* - moving production closer to home or by implementing a *China Plus 1 policy* - where at least one production site is based outside China.

### **Summary**

Despite facing challenges such as time-consuming bureaucracy and complex tax systems, there may be a positive shift in the investment climate with the new government. The strides in tax

regulations and enforcement, growth in the government's overall capacity and overall robust economic growth have developed Cambodia over the past two decades, however existing perceptions may take longer to change. Clarity and predictability of legislation and tax matters are seen to be at the centre of investment decision-making to European firms interviewed. Nonetheless, while transparency issues persist, Cambodia could benefit from the regional trends that are in its favour, and the government can act as an 'enabler' for potential business that will determine its success in capturing the opportunities for nearshoring and positioning itself as a favourable production and distribution hub.

**2. Labour**

The Cambodian workforce is the core of the country's Total Factor Productivity (TFP) and its economic development strategy. Regarding TFP inputs, labour stands as Cambodia's most abundant resource, with a young workforce of an average age of 27. Over the past decade, the labour force has been a key pillar in fostering the development of the light manufacturing sector; however, competitiveness highly depends on factors such as education, productivity and wage. In this factor interviewees highlighted themes of education and training, productivity and the cost of labour.

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| <p>165th in labour productivity out of 189 countries. Vietnam and Bangladesh score 121<sup>st</sup> and 145<sup>th</sup> respectively.<sup>21</sup></p> | <p>US\$ 3.48 GDP per hour worked in 2021 (GDP constant 2017 international \$ at PPP). Vietnam and Bangladesh are \$10.22 and \$6.38 respectively.<sup>22</sup></p> |
|---|--|

**Education and training**

The Cambodian labour market is quite varied when it comes to education and skill level. English proficiency is recognised by investors, particularly that of the younger generation, which is a positive indicator, especially in sectors like tourism where communication is vital. However, there are structural challenges stemming from the education system, which has room for improvement to prepare individuals effectively for the professional market. While the skill level, particularly in sectors like engineering, is progressing, there remains a need for more university programs to meet the evolving demands of the job market.

Two key issues are highlighted by interviewees - the scarcity of skilled labour in some areas, leading to low productivity and sometimes reliance on expatriate staff for certain roles. Additionally, there is a notable gap in the education of local managers. While there is a growing digital knowledge base, the quality of education and training for managers lags behind international standards. This gap is not merely in certifications but pertains to the broader aspects of education, including behaviour and work ethic. Furthermore, a cultural challenge is observed by interviewees, where there is a tendency to rely on hierarchical approval rather than embracing proactive problem-solving and decision-making.



### Productivity and the cost of labour

The interviewees affirmed the intrinsic connection between education and skill development and workforce productivity. This connection is substantiated by the benchmark figure, which reveals Cambodia's labour productivity ranking. This ranking is reflected in the country's GDP per hour worked, currently standing at US\$ 3.48. It's worth noting that the relatively low wages in Cambodia somewhat offset this lower productivity, providing the country with a competitive advantage as long as productivity increases at the same rate as the minimum salary.

As this development progresses, so too will the associated considerations. One interviewee, who expressed concerns regarding the socio-economic well-being of workers, emphasised the necessity for increased worker compensation in Cambodia. This includes the provision of social insurance and healthcare benefits.

On the higher-skilled spectrum a disparity in the cost of labour was identified. The inconsistency in salary levels can create uncertainties in budgeting and present a significant cost challenge for companies in the country, especially when a high turnover rate is observed after businesses invested in training individuals to meet specific role requirements.

***“Managers can earn as little as \$700, while others command salaries as high as \$4,000”***

### Summary

The balance between labour costs and productivity in Cambodia has fostered favourable conditions for the growth of the light manufacturing sector, diversifying the economy solely away from agriculture. However, challenges exist in sourcing highly skilled labour and proficient management due to issues stemming from the country's educational framework and hierarchical system. To increase overall productivity as the nation moves forward, it becomes imperative to strike a balance between the cost of labour and worker productivity. However, as the country aspires to diversify its economy, the importance of capital (machinery) and other inputs in the Total Factor Productivity equation will become more pronounced in the future.

### 3. Energy

The energy landscape in Cambodia is quickly improving, having gone from 6.6% of Cambodians with access to electricity in 2000, to 97.5% in 2021.<sup>23</sup> The Cambodian government has introduced numerous plans to show that energy security is a developmental priority, namely the Power Development Master Plan 2022-2040, which represents Cambodia's inaugural strategy for the nation's energy sector; and the National Energy Efficiency Policy (NEEP). The aim is to ensure a more consistent supply of electricity at stable prices through the state-owned electricity provider and thus insulate itself from recurring global price volatility. Currently, Cambodia is still very dependent on imported fossil fuels that feed generators and imported electricity. Consequently, Cambodia has some of the highest electricity tariffs in Asia.<sup>24</sup> Moreover, the national electricity grid does not cover the entire country, leaving some rural areas without electricity. It also faces

challenges in really jumpstarting the renewable energy sector, outside of hydropower. Issues cited by the interviewees are the lack of a regulatory framework for renewable energy, high upfront costs for renewable energy projects, and lack of access to affordable financing options.<sup>25</sup> The themes discussed in this factor are transparency, reliability and costs, and renewable energy.

|   |   |   |
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| 73.5% of electricity is domestically produced | ↑97.5% of population has access to energy in 2021, up from 6.6% in 2000 | 45% is Hydropower<br>5% from solar power<br>50% - fossil fuels and heavy oils <sup>26</sup> |
|---|---|---|

**Reliability and Costs**

One interviewee mentioned that the frequency of power cuts, while seemingly low due to backup generators, poses a hidden challenge. In an office environment, with generator support, the impact may seem manageable. However, this perspective may not hold for energy-intensive manufacturing facilities, where consistent supply is imperative but backup systems are costly. The occurrence of power cuts, especially during heavy rainfall, could severely disrupt operations.

Another interviewee was keen to specify that assessing energy costs in Cambodia requires a nuanced perspective. While energy costs may appear high on the surface, the stability of the energy supply offsets this concern, a conflicting approach from another interviewee. Cambodia boasts a relatively stable energy grid, with minimal electricity disruptions compared to previous years.

***“Manufacturing here may not seem cost-effective when considering energy costs. However, the energy supply is available and relatively stable, we experience far fewer power outages here compared to Myanmar.”***

Nonetheless, on the downside, the cost of energy remains a point of contention. High energy costs can be a deterrent for potential investors, especially for those interviewed in this report, European firms in electrical and automotive sectors who are likely to introduce more capital and energy-intensive machines in their production locations.

**Renewable Energy**

Furthermore, while the significance of renewable energy availability is recognized - especially hydroelectric dams, there is a lack of a clear development and utilisation plan according to investors’ perception. The concern was raised about access to clean energy, noting that the electricity provider does not assure the provision of clean energy through certifications. This issue is of particular concern to EU-based companies, as they prioritise transitioning to renewable energy to ensure a sustainable energy supply.

## Transparency

The quest for a reliable and cost-effective energy supply is paramount for investors in the manufacturing industry. Moreover, while specific price figures are not disclosed, the prevailing concern lies in the perceived corruption within the energy sector, as stated by an interviewee. Addressing this issue is crucial for ensuring fair pricing and predictability for the market as well as being able to credible supply green energy for responsible businesses who want to pay the premium.

## Summary

Cambodia's energy landscape offers both prospects and challenges. Some interviewees pointed out the advantages of a reliable and stable energy supply, while others emphasised that the persistently high costs and corruption in the sector need to be solved to attract investments in the wider economy. However, the remarkable increase in electrification over the past decade demonstrates a substantial commitment to enhancing energy provision nationwide through generation, distribution and reliability to meet the growing demand of the market. Furthermore, electricity tariffs in Cambodia, though higher than those in neighbouring countries such as Vietnam and Laos, experienced a 22% reduction between 2015 and 2020.<sup>27</sup> This decrease was attributed to government initiatives aimed at enhancing the affordability of electricity.

## 4. Logistics

Infrastructure is widely seen as an important factor in the decision-making of investors, especially for Cambodia's competitive low-tech manufacturing sectors, such as garments, bicycles, and potentially electronics, factors like transport costs, accessibility, and logistics efficiency are vital, directly influencing product competitiveness.

The RGC has recognized the pivotal role of infrastructure in fostering economic growth, placing infrastructure at the centre of its development strategy. This is reflected in the government's conservative fiscal policy commitment where borrowing capital is exclusively for productive investments, notably in the realm of infrastructure.

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| 115/139 countries in the Logistics Performance Index (LPI) <sup>28</sup> | ↑ <i>Tracking and tracing</i> scored highly in the LPI | ↓ <i>customs, infrastructure</i> scored minimally in the LPI |
|--|--|--|

## Infrastructure and Special Economic Zone

The interviewees revealed significant impediments stemming from logistical challenges, notably, the highway system within Cambodia varies in quality. The state of road infrastructure connecting Cambodia to its neighbouring nations of Thailand and Vietnam is raised as an issue, with roads linking Thailand to Phnom Penh via Siem Reap and the route from the capital to southern Vietnam seen as logistically costly, underscoring the need for further improvements.

Despite the concerns raised by investors, the efforts of the RGC to make the country more

attractive to Foreign Direct Investment did garner recognition. The creation of the Phnom Penh Special Economic Zone (PPSEZ) in 2006 has been widely regarded as a prime location for businesses to establish their operations. This favourable perception is largely attributed to the infrastructure and business-friendly environment offered by PPSEZ. Located in the South West of Phnom Penh, one electronics enterprise representative highlighted the PPSEZ's proximity to the Phnom Penh airport, for the export of their high valued products via airfreight.

### Cross border trade

Complimentary to this is the recently completed Phnom Penh-Sihanoukville highway, which also originates in the southwestern area of the capital city. This infrastructure project has been lauded for its role in connecting the capital to the bustling port city and international markets.

***“Connectivity is improving significantly, especially with the Sihanoukville expressway handling more containers.”***

The Sihanoukville port has earned recognition for its substantial capacity to handle cargo. Currently, the shipment of goods often requires transit through Malaysia or Singapore; however, considerable potential exists if direct routes to Europe are launched in the future, thereby further bolstering trade opportunities.

However, there remain logistical issues at the borders, where imports and exports are time-consuming endeavours, which frequently necessitate unofficial transactions for timely movement of goods across national borders. The scale of this issue in Cambodia was seen as unique when compared to neighbouring countries.

### Supply chains

As a result, supply chains in Cambodia are still commonly regarded as underdeveloped, posing challenges to the efficiency of logistics and transportation within the country. Prospective investors have expressed apprehensions regarding the limited availability of and potential delays in, the procurement of essential raw materials and inputs for their (industrial) operations. The high transportation costs associated with the acquisition of these raw materials (textiles, metals and synthetic polymers...), coupled with the possibility of operational disruptions stemming from delivery delays, are viewed as unacceptable risks by manufacturing enterprises.

### Summary

In the past decade, Cambodia has witnessed a notable expansion in its access to international markets, thereby enhancing its allure for investors seeking to export its products globally. Nevertheless, concerns persist regarding the procurement of essential inputs for production operations in Cambodia. These concerns raised by the interviewees and reflected in the Logistics Performance Index primarily revolve around the timely delivery and cost-effectiveness of operating within the country's borders. Key factors contributing to these reservations include

limitations in domestic road infrastructure, underdeveloped supply chain networks, and issues related to import procedures.

## 5. Promotion

In addition to the tangible factors discussed, Cambodia's economic attractiveness is also influenced by more subjective perceptions of investors. How Cambodia presents itself on a global stage is crucial to attracting Foreign Direct Investment (FDI) to the country, marketing efforts play a large role in the awareness of Cambodia as an investment destination. The themes discussed in this factor are market distinction, global image, trade envoys and the wider 'China Plus 1' development.

105th in the global Attractiveness Index, out of 148 countries, in the attributes of: Openness, Innovation, Efficiency, and Endowment<sup>29</sup>

### Market distinction

Cambodia is often perceived as a relatively costly satellite destination compared to its larger neighbours, according to interviews, who called attention to the fact that marketing efforts should differentiate Cambodia from its regional counterparts such as Vietnam, Thailand or Korea, which have diverted substantial resources in the promotion of their tourism landscape and commercial market. The interviewee indicated that to achieve this, there is a need for targeting marketing campaigns, particularly in the single European Union (EU) market.

### Global image

On the business front, Cambodia's potential as a manufacturing and distribution hub is still relatively underexplored. While the country may not boast the largest clientele base, interviewees saw the potential for the country to serve as a strategic production and distribution centre. Collaboration between the government and the Cambodia Chamber of Commerce (CCC) is essential to promote Cambodia as an attractive investment destination. One of the persistent challenges is the international image of Cambodia, where an interviewee raised the point that reputation can also be a barrier to accessing finance for operations within the country. Despite commendable efforts of all the (international) Chambers of Commerce to create a supportive ecosystem within the country, the perception of Cambodia internationally remains a hurdle. Improving the country's global reputation should take precedence.

***“Organizing international seminars and promotional trips for companies is essential to enhance Cambodia's reputation as an investment destination.”***

### Trade envoys

An interviewee raised the point that Cambodia's interaction with markets of Northern European countries is still limited. To attract attention and investments, it is imperative to engage with foreign

governments, industry organisations, and businesses. Establishing stronger connections, organising seminars, and facilitating promotional trips for companies can transform Cambodia's image from a mere tourist destination to a promising investment hub.

### China Plus 1

The China Plus 1 development, where multinationals seek to create more resilience in their supply chain in response to the ongoing China-US trade disputes, will provide Cambodia with new opportunities. This 'push' factor can increase the market attractiveness of Cambodia as a country to host a 2<sup>nd</sup> 'alternative' production location in Asia besides China. With competitive advantages such as a cost-effective labour force and a strategic location, Cambodia can position itself as the next frontier for light manufacturing and assembly.

### Summary

Cambodia's journey to enhance its international market attractiveness involves overcoming barriers related to its reputation concerning illicit business practices, as evident in its 105th rank of the Global Attractiveness Index. Consequently, it is essential to enhance international promotional efforts to attract investors interested in commercial activities. By leveraging its unique strengths like cost-effective labour, improving (energy) infrastructure and actively engaging with global partners, Cambodia can emerge as a competitive economy in the region.

## 6. Stakeholder support

Foreign investors seeking to participate in commercial activities within Cambodia may face formidable obstacles due to the unfamiliarity with local business registration procedures and the unique business culture prevalent in the country. To effectively navigate these intricacies and cultivate a conducive environment for European Foreign Direct Investment (FDI) in Cambodia, government agencies and formal networks, notably the Cambodian Chamber of Commerce, and relevant foreign representative chambers of commerce such as EuroCham or AmCham, can play a pivotal role.

These stakeholder organisations possess the capacity to provide crucial support in various initial stages, including market research, business registration, ensuring compliance with legal, tax, and financial requirements, as well as facilitating essential networking opportunities. Importantly, this support is extended to investors without necessitating substantial resource allocation by the investor to independently learn these complex procedures for a one-time establishment.

### Chamber of Commerce activity

Interviewees experienced that both the Cambodia Chamber of Commerce and EuroCham offer valuable resources for potential investors. The Chambers are seen to provide a platform for building connections within the business community, fostering a collaborative approach to addressing challenges in the private sector.

***“All the Chambers are known for their high level of interactivity and dynamism. If you're seeking networks and support, a chamber is the place to go.”***

One interviewee stated that the chambers of commerce in Cambodia while supporting businesses internally, have the potential to expand their efforts in attracting businesses to the country. This limitation is interconnected with Cambodia's image and represents an opportunity for growth.

### Engagement with public entities

Public bodies, including the Council for the Development of Cambodia (CDC) and the Ministry of Commerce (MOC), are key players in investment promotion, while the significance of other ministries and local authorities increases during business registration and commencement of business operations. In these early phases, investors have encountered challenges in engaging with administrative bodies, particularly in obtaining crucial information. This spans from the availability of information on Public Private Partnerships and government tenders and contracts, which was perceived as more ambiguous compared to other countries in the region. It extends to issues that are significant to European firms, such as human rights concerns that have, in the past led to trade disruptions with the EU<sup>30</sup>. Additionally, it encompasses the utilisation of green energy from the grid, for which there are currently no green energy service contracts available.

### Government support and access

Government officials in Cambodia remain accessible to investors, interviewees expressed. However, the effectiveness of these interactions is often determined by an investor's existing network. Therefore, as advised by interviewees, initiating contact with the chambers of commerce as an initial point of contact not only offers valuable insights but also allows investors with the skills to navigate the Cambodian business landscape. The Ministry of Tourism was also acknowledged for its proactive assistance to European businesses expressing interest in launching services in the Kingdom.

↑ **29,000 businesses** have registered via the new 'single portal', an E-business service for registration and taxes.<sup>31</sup>

Launched in 2020, the 'Single Portal' E-service for business registration and taxes is a new effort by the government to reduce potential bureaucratic burden by encompassing six ministries, which include the Ministry of Interior, Economy and Finance, Commerce, Labor and Vocational Training, the General Department of Taxation, and the Council for the Development of Cambodia. This integrated approach allows investors to register their businesses and manage taxes through a unified platform. Moreover, all associated fees can be processed efficiently using various e-payment channels, streamlining the administrative procedures.<sup>32</sup> Despite aiming to solve many barriers mentioned, none of the interviewees mentioned the portal or its functions.

### Summary

In regional competition for foreign direct investment, Cambodia is recognized to have substantial investment potential. However, as one investor noted, greater synergy in these efforts could be achieved through more effective coordination among the relevant organisations. They cited Singapore's investment apparatus as an example. Such a transformation would aim to make the

government more of an 'enabler' for potential investors, lowering the barriers to entry and potentially allowing firms to enter the Cambodian market without the need to create a subsidiary or form a partnership.

## Conclusion

The interviews conducted to assess Cambodia's market attractiveness for European companies revealed several key insights, that largely aligned with the baseline facts and figures provided for contextual understanding. Cambodia faces challenges in terms of policy and administrative complexities and transparency that can hinder business operations, but positive changes have been noted contributing to a growing business ecosystem. The labour force, though abundant, faces challenges related to education and productivity. Notably, while improvements have been made in transport infrastructure, border delays and costs remain, with supply chains still perceived as underdeveloped. In terms of energy, the infrastructure is present, but the management of it can be further improved. Marketing efforts play a crucial role in Cambodia's market attractiveness, where differentiating from regional competitors and improving the international image of the country is essential. There is a large potential for further engagement with European markets and further development of the (light) manufacturing industry, especially with the momentum brought on by the "China Plus 1" trend. Lastly, stakeholder support through chambers of commerce and government entities is crucial in navigating Cambodia's business landscape and thus for any potential investor the first reference point.

According to the market attractiveness survey, some significant barriers remain for European investors who show an interest in starting business activities in the country, however all factors are perceived to have improved in some capacity. With Cambodia's robust economic growth over the past two decades, this market attractiveness survey presented an outlook where the opportunities are larger than the current barriers, however, the extent to which this can be capitalized upon, depends on the further improvement in the factors explored in this report.



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