



Doing business in Cambodia

Cambodia is a developing market economy in Southeast Asia with a population of 16.5 million and GDP of around USD 22 billion (2017). The country has seen rapid economic development over the past decade, with an average GDP growth rate of 7 percent annually. Liberal trade and investment policies have been introduced to promote trade and foreign investment. Despite its challenging business climate, opportunities can be found in several sectors, in particular in agri-food & horticulture, garments, healthcare, logistics, energy and tourism.

Cambodia began its transformation from a planned economy to a free market economy in the late 1980s and has been one of the fastest growing economies among Asia's developing economies in recent years. Its annual growth averaged 7 percent post-crisis, driven by robust garments exports, services, real estate and construction. The country's economic growth is expected to remain robust in the coming years, although Cambodia is increasingly exposed to greater competition from other countries in the region, in particular from Myanmar, Laos and Vietnam.

Cambodia became a member of the World Trade Organization (WTO) in 2004. Its membership of the Association of Southeast Asian Nations (ASEAN) provides businesses in Cambodia the advantages of the ASEAN Economic Community, a single market of over 600 million people covering ten countries in the region. In addition, free trade agreements have been concluded between ASEAN and China, Japan, South Korea, India, Australia and New Zealand. Furthermore, under the Anything But Arms (ABA) agreement, Cambodia can export any product, except for weapons, to the EU tariff-free. The US and the EU are Cambodia's main export markets, while its main foreign investors include China, Vietnam, Japan and South Korea.

Despite the liberalization of the Kingdom's economy, there remain significant challenges to doing business in Cambodia. Those most commonly cited by the private sector include a weak rule of law, poor infrastructure, high energy costs, red tape and corruption and under-developed human resources. Land appropriation and the lack of ade-

quate intellectual property protection are also significant risks. Human rights concerns remain, in particular with respect to freedom of expression, freedom of assembly and media freedoms.

Cambodia is keen to attract higher volumes of foreign investment and as such has developed liberal trade and investment policies in order to create an open business environment in the country. There are few restrictions on which sectors foreign investment can be directed towards and the country enjoys a high degree of investment freedom. Investment incentives available to foreign investors include wholly foreign ownership of companies, corporate tax holidays of up to eight years, a 20 percent corporate tax rate after the incentive period ends, duty-free import of capital goods and no restrictions on capital repatriation. In addition, the country is competitive in terms of the corporate taxation, with one of the lowest headline tax rates in the region and a relatively competitive tax compliance system, which reduces the fiscal burden placed on businesses. As the country is classified as a Least Developed Country (LDC), it is eligible for duty free or preferential export access to many developed economies, including the EU and US.

To stimulate FDI inflows, 25 Special Economic Zones have been approved, of which 13 are in operation as of November 2018. Projects within the SEZs are offered incentives such as tax holidays, zero rate VAT and import duty exemption for raw materials, machinery and equipment. The primary authority responsible for SEZs is the Cambodia Special Economic Zone Board (CSEZB).



Although poverty rates continue to fall, Cambodia remains one of the poorest countries in the region with a per capita GDP of around 1,400 US dollar. Agricultural activities are responsible for around 25 percent of GDP, while industry and services are rapidly increasing their share in the economy with respectively 33 percent and 42 percent. The role of trade has also rapidly increased in the last decade, as exports as a share of GDP have reached 69 percent.

This Southeast Asian country has a relatively small population in comparison to its neighbors at around 16.5 million. However, the Kingdom's population is growing (1.5 percent per year) and urbanising (around 3.3 percent per year). Moreover, Cambodia's labor force is expected to grow rapidly as more than half of the population is below 25. This acceleration of the labor force, coupled with a transition from subsistence farming to secondary and tertiary activities, makes Cambodia an appealing country for expansion in light manufacturing and services.

Dutch business opportunities

Agri-food & horticulture

Rice is by far Cambodia's main crop, with a total production of 9.95 million tons in 2016. Rice-milling facilities offer interesting potential for development as the kingdom lacks the capacity to process its domestic produce. Hence, most of the country's production is currently exported to neighboring countries, prior to being re-exported. Apart from rice, rubber and cassava are currently amongst the most popular export commodities. Subsidiary crops enjoyed a 400 percent boom in production between 2006 and 2015. To support this transformation, several programs assist farmers by providing them with market information, training, and technology as well as financing options. Collaborating with such projects could provide a market entry mechanism for prospective Dutch businesses aiming to supply Cambodian farmers with agricultural inputs. Rising living standards, coupled with greater diversification of household food consumption has led to an increased demand for livestock and meat (280,000 tons in 2016). Dutch companies could contribute to overcome the shortcomings of the Cambodian meat industry by working in supply chain integration as well as improving quality standards thanks to their experience in animal care and nutrition.

Garments

The garment industry in Cambodia was established in the early 1990s when foreign investors started to set up manufacturing facilities. The garment industry has grown significantly over the past twenty years, contributing to one third of the country's economy and employing over 800,000 in more than 1,000 garment factories. Most factories are foreign owned, using Cambodia for the CMT (cut, make and trim) process and arrange sourcing for textile from other countries, in particular from China. International companies have established factories in Cambodia due to low labor costs, investment incentives given by the Cambodian government and market access to ASEAN and the EU due to preferential treatment. Garment exports account for about 60 percent of the country's total exports. The two main export destinations for garments and footwear are the EU and the United States.

Healthcare

Cambodia's economic growth has caused a demographic and health transition. As a member of the WTO, Cambodia allows for the establishment of full foreign-owned hospitals with the single requirement that one of the directors must be Cambodian, which represents an opportunity for private investment due to the low ratio of hospital beds. Cambodia's medical device market is very small when compared to most ASEAN countries but it's expected to have great growth potential. Due to low domestic production of medical devices in Cambodia and more developed markets in the neighbor countries, most medical devices are currently imported, which presents an opportunity for Dutch exporters. The volume of imported medicines has also been increasing in recent years and is expected to keep growing. While the spending on pharmaceuticals was reported to be around USD 250 million in 2015, some professionals expect it to overpass USD 400 million in 2021.

Logistics

Increased integration into regional and global value chains has made the logistics sector central to the country's development strategy. Sihanoukville port will welcome deep-sea cargoes up to 14.5 meters by 2022 while Phnom Penh's port capacity will be expanded to 500,000 TEU by 2025. Logistical developments are expected to follow these infrastructure upgrades, which present opportunities for Dutch companies for capacity building and consulting. Moreover, most trucks and trailers on Cambodian roads are not yet adapted to the specificities of Cambodia. The government is starting to implement standards aimed at reducing traffic congestion, excessive carbon emissions and deterioration of existing roadways. Hence, supplying compliant modern trucks to the Cambodian market could represent a fruitful opportunity. Furthermore, smart logistics solutions are mostly lacking in Cambodia. Systems like International Vendor Management Inventory (VMI) and Less Container Load (LCL) bear potential as they could contribute to reduce the overall costs of logistics in the country.

Energy

The energy sector is gaining momentum in Cambodia. The nationwide electricity supply soared up by 20 percent in 2016, followed by a growth of 11 percent in 2017. Hydro-power is the first source of domestic power in Cambodia, accounting for 40 percent of all the energy consumed in the country in 2017. Specialized Dutch firms could take advantage of Cambodia's interest in hydro-power development. In addition, Dutch firms can offer engineering consulting services in regard to environmental, social and ethical impacts of large developments. Furthermore, Cambodia has great solar potential, due to high average irradiation. The latest figures indicate that more than 30 percent of rural households use off-grid solutions, half of which are solar technologies. Since there are few large solar farms in a country with high solar potential, first movers may be able to take advantage of the lack of competition.

Tourism

With more direct flights to Cambodia, the number of foreign arrivals reached 5 million in 2016, providing 3.2 billion US dollar to the economy, or 14.5 percent of the country's GDP, and employing more than 620,000 people. The majority of tourists are of Asian origin and are attracted to the historical/cultural complex of Angkor Wat, but an increasing number of tourists are also visiting the beaches in the southern town of Sihanoukville. Arrivals from North America and Europe have picked up in recent years, as the tourism sector is diversifying in scale and scope. Ecotourism in Cambodia is underdeveloped, but has a large potential together with the development of rich coastal areas.

Starting up a business

Under Cambodia's Law on Commercial Enterprise, permitted forms of business organization include a (wholly foreign owned) limited liability company, branch office, representative office, partnership, and sole proprietorship. Investors who are not eligible for investment incentives, must register directly with the Ministry of Commerce. Businesses seeking investment incentives must submit an application to the Cambodian Investment Board (CIB). The CIB is a division of the Council for the Development of Cambodia (CDC), which is responsible for accepting and reviewing applications for investment incentives. From the date of submission of the application, the CIB has three working days to issue a Conditional Registration Certificate or a Letter of Non-Compliance to investors. A Final Registration Certificate must be issued within 28 working days of the issuance of the Conditional Registration Certificate. Upon receipt of the Final Registration Certificate from the CIB, the registration forms for the formal business license can be filed with the Ministry of Commerce.



Do's and Don'ts in Cambodia

Be prepared

Good preparation is essential before coming to Cambodia. Get to know the country and its culture, as well as the economic and political climate. Make good use of the knowledge and services available from branch organizations and government authorities. Talk to entrepreneurs with experience doing business in Cambodia.

Build relationships

Building and maintaining personal relationships is essential for doing business in Cambodia. A reliable local partner can speed up the preparatory work considerably, as it can provide market knowledge and access to established networks.

Understand business etiquette

English is the business language. However, reliable interpreters are useful for profound business discussions with SMEs. The safe dress code is to go formal and use conservative colours. Handshakes are common when Cambodians greet foreigners. Do show up exactly on the agreed time, especially at meetings with the authorities and introductory/first business meetings. Do not show your temper and do avoid conflict. Be patient, very often things do not move at the same pace as in the West.

Know your challenges

Cambodia has a lot to offer, but there are undoubtedly many challenges in doing business here. Firstly, understand where to expect challenges: culture and language, laws and regulations, trade barriers, personnel and bureaucracy. Secondly, develop a solid business plan and do market research: set clear goals and ambitions, know your market and your competitors. Thirdly, make sure you do due diligence prior to entering into contracts or other commercial arrangements.

Act responsibly

Corruption can pose a serious barrier for doing business in Cambodia. Dutch businesses are expected to integrate social, environmental, ethical and human rights concerns into their business strategy and operations.

Official name	The Kingdom of Cambodia
Government type	Constitutional Monarchy
Population	16.5 million
Area	181,035 Km ² (4.4 times larger than the Netherlands)
Main cities	Phnom Penh (capital, around 1.95 million), Sihanoukville, Siem Riep
Time difference	+ 6 hours (NL winter time), + 5 hours (NL summer time)
Currency	Riel (KHR), 1 EUR = 4,607 KHR (19/11/2018), US dollars are accepted in Cambodia
GDP growth rate	6.8% (2017), 7.0% (2016), 7.0 % (2015), 7.1% (2014), 7.4% (2013)
FDI	(USD billion) 2.29 (2016), 1.70 (2015), 1.72 (2014), 1.87 (2013), 1.84 (2012)
Trade volume	Export USD 11.42 billion (2017), import USD 14.37 billion (2017)
Inflation	2.9% (2017)
Global competitiveness	rank 94/137 (2017/2018)
Ease of doing business	rank 131/190 (2018)
Global corruption perception	rank 161/180 (2018)
Memberships	WCO, WTO, ASEAN, APEC, GMS, ACMECS
Main trading partners	EU, US, China, Japan, Singapore, Thailand, Malaysia, South Korea, Vietnam
Major imports	Petroleum products, fabrics, vehicles, wholesale yarn, cigarettes and medicines
Dutch-Cambodian trade	Export to NL (2017): EUR 307 million, import from NL (2017): EUR 29 million
Bilateral treaties	Bilateral Investment Treaty between the Netherlands and Cambodia (2006)

We support your business

The number of Dutch businesses active in Cambodia is limited, but steadily increasing. The Netherlands does not have a diplomatic or consular mission in Cambodia. The Embassy in Bangkok offers support to Dutch companies interested in doing business in Cambodia.

Our main services are the following:

- Providing information on sectors and rules and regulations.
- Supporting trade missions and visiting programs to Cambodia.
- Organizing meetings with relevant authorities at local, provincial or government level.
- Monitoring business opportunities.
- Trouble shooting and assisting in conflict situations.
- Advising on available instruments and services.
- Promoting Dutch business in Cambodia.

If your company is in need of support, do not hesitate to contact the Netherlands Embassy in Bangkok.

Published by:

Netherlands Embassy in Bangkok
W. www.netherlandsandyou.nl, E. ban-ea@minbuza.nl
Follow us on [Facebook](#) (Netherlands Embassy in Bangkok) and [LinkedIn](#)
© Ministry of Foreign Affairs | January 2019

Trade fairs

Interesting trade fairs are mostly to be found outside Cambodia in the Southeast Asian region. Occasionally, the Netherlands Embassies and Consulates organize events, such as Holland pavilions, visiting programs or networking events. Please contact us for more information on relevant trade fairs and events.

Business support instruments

The Netherlands government has developed several instruments to support Dutch companies in doing business in Cambodia. For more information, please visit the country page for Cambodia on the website of the Netherlands Enterprise Agency at www.rvo.nl/cambodja (in Dutch).

‘NL exporteert’ App A free export app, designed for entrepreneurs with international ambitions. It provides information on events, the do’s and don’ts of doing business, economic data and financing possibilities. Download the app in the App Store (iOS) or in Google Play.

Other relevant contacts

EuroCham Cambodia
www.eurocham-cambodia.org

Cambodian Investment Board
www.cambodiainvestment.gov.kh