This paper is a compilation of information from various sources such as websites, third-party country reports and verbal discussions with business contacts. This document serves solely as a guide and not intended to offer business and/or investment advice.
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1. Introduction to Cambodia

a) Geographical Profile

- Location:
  Southeastern Asia, bordering the Gulf of Thailand, between Thailand, Vietnam, and Laos

- Area
  181,035 sq km

b) Demographic Profile

- Population
  14.95 million (July 2012 est.)

- Population growth rate
  1.687% (2012 est.)

- Urbanization
  Urban population: 20% of total population (2010)
  Rate of urbanization: 3.2% annual rate of change (2010-15 est.)

c) Political Profile

- Government type
  The kingdom of Cambodia is a multiparty constitutional monarchy under which the King is the head of state and the prime minister is the head of government. The prime minister is appointed by the King, on the advice and with approval of the National Assembly. 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. Legislative power is vested in the two chambers of parliament, the National Assembly and the Senate.

- National Legislature
  The 123-seat National Assembly sits for a term of five years. The term of the 61-member Senate (the upper house) is six years. (Source: EIU)

- Capital
  Phnom Penh

- Administrative Divisions
  23 provinces
  Banteay Mean Choay, Batdambang, Kampong Cham, Kampong Chhnang, Kampong Speoe, Kampong Thom, Kampot, Kandal, Kaoh Kong, Keb, Krachen, Mondol Kiri, Otdar Mean Choay, Pailin, Pouthisat, Preah Sihanoukville, Preah Vihear, Prey Veng, Rotanokiri, Siem Reab, Stoeng Treng, Svay Rieng, Takev
1. **Municipality:**
   Phnom Penh

- **Independence**
  9 November 1953 (from France)

- **Ruling Party**
  Cambodian People’s Party (CPP) remains the country’s dominant political force. Headed by Chairman Chea Sim and Vice-Chairman Hun Sen, the CPP controls over two-thirds of the seats in the lower house of parliament.

**d) Economic Profile**

- **Overview**

  From 2004 to 2008, the economy grew about 10% per year, driven largely by an expansion in the garment sector, construction, agriculture, and tourism. GDP contracted slightly in 2009 as a result of the global economic slowdown but climbed more than 6% in 2010 and 6.7 in 2011, driven by tourism and renewed exports. With the January 2005 expiration of a WTO Agreement on Textiles and Clothing, Cambodian textile producers were forced to compete directly with lower-priced countries such as China, India, Vietnam, and Bangladesh.

  The garment industry currently employs more than 300,000 people, about 5% of the workforce, and contributes more than 70% of Cambodia’s exports. In 2005, exploitable oil deposits were found beneath Cambodia’s territorial waters, representing a potential revenue stream for the government when commercial extraction begins. Mining also is attracting significant investor interest, particularly in the northern parts of the country.

  Rubber exports increased about 50% in 2011 due to continued demand for raw rubber, particularly from China, Malaysia, and Vietnam. The tourism industry has continued to grow rapidly with foreign arrivals exceeding 2 million per year since 2007; economic troubles abroad dampened growth in 2009 but arrivals rebounded to over 2 million in 2010–11.

  More than 50% of the population is less than 25 years old. The population lacks education and productive skills, particularly in the poverty-ridden countryside, which suffers from an almost total lack of basic infrastructure.

- **GDP (purchasing power parity)**
  US$33.82 billion (2011 est.)

- **GDP (real growth rate)**
  7.1% (2011 est.)

- **GDP (per capita)**
  US$2,200 (2011 est.)

- **Income groups (below poverty, LI, MI, HI)**
  Population below poverty line: 31% (2007 est.)
- **Economic Sectors (Agriculture, Industry, Services)**

  i. **Agriculture, Forestry and Fisheries**

  This sector primarily focuses on Crops, Livestock & Poultry, Fisheries and Forestry & Logging. One of the characteristics of changes that took place in between 2006 and 2011 is the ratio of industry dropped from 26% to 22% while ratio of Agriculture, Forestry and Fisheries increased from 30% to 32%.

  As for Agriculture, the crops gross value added (GVA) dropped to 3.7% in 2011, although it grew at the highest record of 27.6% in 2005. Livestock & Poultry recorded the growth of 5% or more in 2009 and 2010 but growth ratio became lower in 2011. The growth ratio of Fisheries and Forestry & Logging sharply dropped in 2010 but recovered in 2011 to 3.8% and 1.1% respectively.

  ii. **Industry**

  This sector focuses on manufacturing, Textile, Apparel & Footwear and Construction.

  Among Industry, the Textile, Apparel & Footwear and Construction which occupied 76% share in 2007 have been the major players for fast growth of the sector. These subsectors, however, were seriously affected during the financial crisis of 2008. Industry's growth decreased to 4.0% in 2008 and -9.5% in 2009 but recovered to 13.6% in 2010. According to Ministry of Economic and Finance forecast, the growth rate of the Industry will remain at 8% to 9% in the next few years.

  iii. **Services**

  This sector focuses on Trade, Hotel & Restaurant, Transport & Communication, Real Estate & Business and Other Services.

  Services occupied 38% share in GDP in 2011 with heavy dependency on the Trade and Transport & Communication. Hotel & Restaurant which have benefited from tourism and infrastructure development remained high growth ratio constantly until 2011 except for 2009. While the growth rates of Real Estate and Business were sharply dropped to -2.5% in 2009 and -15.8% in 2010 due to world economic crisis of 2008, the rate recovered to 5.1% in 2011.

![GDP Distribution by economic activity in 2006](image1)

![GDP Distribution by economic activity in 2011](image2)

Note: Figures of 2011 are the estimated value.
Source: Ministry of Economic and Finance, Cambodia

Figure 1: Composition of GDP by economic activity
Note: Figures of 2011 are the estimated value.
Source: Ministry of Economic and Finance, Cambodia

Table 1: GDP growth rate by economic activity, 2005-2011

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Fisheries &amp; Forestry</td>
<td>15.7</td>
<td>5.5</td>
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<td>5.7</td>
<td>5.4</td>
<td>4.0</td>
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<td>6.6</td>
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<td>5.7</td>
<td>3.7</td>
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<tr>
<td>Livestock &amp; Poultry</td>
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<td>3.9</td>
</tr>
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<td>6.5</td>
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<td>0.4</td>
<td>3.8</td>
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<td>0.9</td>
<td>1.1</td>
<td>0.2</td>
<td>1.1</td>
</tr>
<tr>
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<td></td>
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<tr>
<td>Manufacturing</td>
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<td>8.5</td>
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<td>-25.5</td>
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<td>3.3</td>
<td>6.3</td>
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<td>7.1</td>
<td>9.5</td>
<td>9.4</td>
<td>4.2</td>
<td>7.5</td>
<td>6.0</td>
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<tr>
<td>Hotel &amp; Restaurant</td>
<td>22.3</td>
<td>13.7</td>
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<td>9.8</td>
<td>1.8</td>
<td>11.2</td>
<td>10.7</td>
</tr>
<tr>
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<td>7.2</td>
<td>7.1</td>
<td>3.9</td>
<td>8.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Real Estate &amp; Business</td>
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<td>10.9</td>
<td>10.7</td>
<td>5.0</td>
<td>-2.5</td>
<td>-15.8</td>
<td>5.1</td>
</tr>
<tr>
<td>Other Services</td>
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<td>17.2</td>
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<td>12.0</td>
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<td>4.2</td>
<td>4.6</td>
</tr>
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<td>7.6</td>
<td>45.7</td>
<td>9.1</td>
<td>6.1</td>
<td>0.1</td>
<td>4.1</td>
</tr>
<tr>
<td>GDP</td>
<td>13.3</td>
<td>10.8</td>
<td>10.2</td>
<td>6.7</td>
<td>0.1</td>
<td>6.0</td>
<td>6.0</td>
</tr>
</tbody>
</table>

2. Construction Industry

a) Overview & Trend

In terms of the quality of construction industry, Cambodia is still very much behind Vietnam, Thailand and Singapore. The government has recently taken initiative to focus on the development of infrastructure such as roads and bridges. However, the government lacks funds to improve the facilities. As such, the Cambodian government had sought loans from the Japanese and Chinese governments to ensure that they have the necessary funds to execute these large infrastructure projects. In addition, the governments which provided the loans have stipulated conditions to allow their local companies to secure certain infrastructure projects.

Cambodia also formed its first constructors’ association, Cambodia Constructors’ Association, in October 2011, with the aim of boosting the technical expertise of the sector. Cambodia has 1,074 construction and design companies, comprising 847 foreign firms, according to the Ministry of Land Management, Urban Planning and Construction.

One of the largest Cambodian companies involved in the infrastructure sector, Royal Group, is keen to drive developments, announcing ambitious plans in May 2010 to develop Asia’s ‘first environmentally planned resort island’ according to news source Travel Daily. The Royal Group has been granted a 99-year lease on the 78 square kilometre island of Koh Rong, which is 30 minutes by boat from Sihanoukville. It aims to create a destination to rival neighbouring Phuket, Koh Samui and Bali, with a corresponding increase in transport infrastructure.

The outlook of the industry is that it is moving towards high-rise buildings. Previously, the government stipulated restrictions on the height of the building. However, it has revised those restrictions to promote urbanization.
b) **Share of GDP** \(^2\)

The construction share of GDP in 2011 is estimated at 3,161 billion riel.

<table>
<thead>
<tr>
<th>Sector</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>97</td>
<td>115</td>
<td>135</td>
<td>165</td>
<td>196</td>
<td>279</td>
<td>317</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4,584</td>
<td>5,541</td>
<td>6,074</td>
<td>6,441</td>
<td>6,208</td>
<td>6,913</td>
<td>7,742</td>
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<tr>
<td>- Food, Beverages &amp; Tobacco</td>
<td>608</td>
<td>664</td>
<td>757</td>
<td>924</td>
<td>978</td>
<td>1,071</td>
<td>1,160</td>
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<tr>
<td>- Textile, Apparel &amp; Footwear</td>
<td>3,158</td>
<td>3,869</td>
<td>4,234</td>
<td>4,315</td>
<td>3,938</td>
<td>4,403</td>
<td>4,993</td>
</tr>
<tr>
<td>- Rubber Manufacturing</td>
<td>126</td>
<td>181</td>
<td>148</td>
<td>153</td>
<td>168</td>
<td>219</td>
<td>248</td>
</tr>
<tr>
<td>- Other Manufacturing</td>
<td>545</td>
<td>657</td>
<td>732</td>
<td>811</td>
<td>872</td>
<td>947</td>
<td>1,047</td>
</tr>
<tr>
<td>Electricity, Gas &amp; Water</td>
<td>124</td>
<td>164</td>
<td>195</td>
<td>212</td>
<td>230</td>
<td>252</td>
<td>280</td>
</tr>
<tr>
<td>Construction</td>
<td>1,631</td>
<td>1,995</td>
<td>2,338</td>
<td>2,572</td>
<td>2,694</td>
<td>2,845</td>
<td>3,161</td>
</tr>
<tr>
<td>Total Industry</td>
<td>6,436</td>
<td>7,816</td>
<td>8,741</td>
<td>9,389</td>
<td>9,327</td>
<td>10,289</td>
<td>11,501</td>
</tr>
</tbody>
</table>

Note: Figures of 2011 are the estimated value.
Source: Ministry of Economic and Finance, Cambodia

Table 2: Breakdown of Industry in GDP, 2005-2011 (Unit: Billion Riel)

c) **SWOT** \(^6\)

i. **Strengths**

- Increasing international investment: particularly from Asian development funds which provides stimulus for the sector.
- Some of the lowest construction costs in the region.
- High return on investment for successful projects.
- Robust tourist arrivals into Cambodia, driving demand for infrastructure.

ii. **Weaknesses**

- Existing infrastructure is extremely poor especially access to electricity; thereby limiting the growth rate of projects.
- Excessive corruption and a lack of transparency lead to untenable delays to many projects.
- Underdeveloped financial and regulatory systems create problems for project financing.

iii. **Opportunities**

- Weak existing infrastructure provides many opportunities for growth, particularly in road and rail construction.
- Mekong-Japan Economic and Industrial Cooperation Initiative Action Plan promises new projects.
- Geographical location provides excellent opportunities for increased transportation links.
- Government keen to develop the tourism sector, with an ambitious target of 6 million foreign visitors by 2020, thereby boosting the demand for transport infrastructure.
- Large scope for international involvement, due to limited domestic expertise.

iv. Threats

- Strong dependence on Chinese and South Korean economies means that Cambodia is exposed to any possible double-dip recession in these countries.
- Lack of a mature infrastructure market leaves the sector open to external risks, such as recession or currency volatility.
- Regional competition is strong and skirmishes between Cambodia and Thailand may weaken the political situation.

d) Foreign Financing

The Asian Development Bank (ADB) has been heavily involved in developing the country’s infrastructure, most notably in the transport sector. Among the initiatives the bank has established over the years is the GMS Cross-Border Transport Agreement, which seeks to integrate the trade practices of the countries in the Greater Mekong sub-region, which includes Cambodia, China, Laos, Myanmar, Thailand and Vietnam.

The Cambodian government is working with bilateral and multilateral donors, including the World Bank and International Monetary Fund (IMF), to address the country's pressing needs. It is also working with countries such as Japan, and in September 2010, Mekong and Japanese economic ministers approved the Mekong-Japan Economic and Industrial Cooperation Initiative Action Plan. This call for the development of physical infrastructure, trade facilitation, support for small and medium enterprises (SMEs) and a boost in services and industrial sectors in five Mekong countries: Cambodia, Vietnam, Laos, Thailand and Myanmar. The US$5.9 billion action plan will help the implementation of road projects in Cambodia.

China has also been a keen investor in Cambodia’s infrastructure. In a meeting with the Cambodian government in November 2010, China announced that it would invest in 23 cooperation projects in Cambodia over the following five years. These initiatives will be funded by China and include hydropower power dams, mining projects, bridges and railway links. China has also provided a US$430 million loan for the construction of two national road projects and a multipurpose dam in Battambang and plans to commit US$500 million for the construction of a 257km railway line, connecting Cambodia’s capital city Phnom Penh to Vietnam’s Binh Phuoc Province.

South Korea has become one of the largest foreign investor in Cambodia. In January 2011, Reuters reported that South Korea promised investments valued at US$1.02 billion in 2010 - a sharp increase from the US$120 million of investments in 2009. The bank was a major financier for the US$1 billion New Siem Reap International Airport, a Build-Operate-Transfer project won by a joint venture between South Korean companies Lees A&A Co. and Camko Airport Co., and the Camko City, a US$2 billion satellite city project in Phnom Penh.

e) Types of Projects in pipeline

Refer to Annex 1: List of Special Economic Zones
f) **Manpower cost**

<table>
<thead>
<tr>
<th>Position</th>
<th>Monthly Median Salary Range (as of Jan 2011)</th>
<th>USD</th>
<th>Riel</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Worker</td>
<td>101</td>
<td>426,500</td>
<td></td>
</tr>
<tr>
<td>Engineer (mid-level)</td>
<td>363</td>
<td>1,540,000</td>
<td></td>
</tr>
<tr>
<td>Middle Management</td>
<td>416</td>
<td>1,764,000</td>
<td></td>
</tr>
<tr>
<td>Legal Minimum Wage</td>
<td>55</td>
<td>222,832</td>
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</table>

Table 3: Monthly median salary range according to job position

g) **Resource issues in the industry**

As the local workforce is unskilled, the companies usually employ engineers, supervisors and skilled tradesmen from Malaysia, Thailand and China. For some of the projects in the Special Economic Zones, the developer or contractor can apply to the respective Ministry for special concessions to import foreign skilled labour to supplement the local manpower. In Cambodian labour context, 1 foreigner is equivalent to 100 locals.

h) **Forms of contract**

Foreign entities (FE) would need to joint venture (JV) with local partners to undertake projects. And JV partnerships constitutes, FE holding 49% stake and local partner holding 51%.

i) **FDI Trend**

Investment projects, which are approved by the Council for the Development of Cambodia (CDC) to grant investment incentives and guarantee, consist of Cambodian and foreign capital. Those projects were called “Investment Projects” under the Law on Investment of 1994 and are now called “Qualified Investment Projects (QIPs)” under the Law on Amendment to the Law on Investment of 2003.

In 1995, one year after the enactment of the Law on Investment, the fixed asset investment amount approved by the CIB (CDC) totalled US$2.3 billion. From 1994 to 2005, the annual average of twelve years was US$640 million, and during the following five years (2006 to 2010), the average amount became approximately 8.3 times larger as US$5.3 billion. In 2011, the fix asset investment amount approved by the CIB (CDC) reached US$5.7 billion until September 2011. From 1994 to September 2011, the cumulative investment approved by CIB (CDC) is US$39.9 billion. Figure 2 shows such overall investment approval trend in Cambodia.

As shown in Figure 3, the FDI ratio among the total investment amount approved by the CIB (CDC) between 1994 and 2005 was approximately 71%. Such FDI ratio dropped to approximately 36% in 2009 and increased to 85% in 2010. Consequently, overall FDI ratio was approximately 62% of the total approved investment amount from 1994 to September 2011.

In terms of the cumulative FDIs approved in the period of around 18 years ending at September 2011, the largest amount of US$8.9 billion came from China. The second biggest FDI provider is Korea followed by Malaysia. The other major sources of FDI are UK, USA, Taiwan, Vietnam, Russia and Singapore. Figure 4 shows the investment approval trend by five leading countries.
Figure 2: Investments Approved by CDC by Major Countries (1994 – September 2011)

<table>
<thead>
<tr>
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<td>Cambodia</td>
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<td>1,323</td>
<td>3,862</td>
<td>3,753</td>
<td>391</td>
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<td>20</td>
<td>12</td>
<td>2</td>
<td>113</td>
<td>8</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>152</td>
</tr>
<tr>
<td>Others</td>
<td>220</td>
<td>-</td>
<td>38</td>
<td>270</td>
<td>81</td>
<td>93</td>
<td>86</td>
<td>42</td>
<td>941</td>
</tr>
<tr>
<td>Total</td>
<td>7,077</td>
<td>-</td>
<td>4,440</td>
<td>2,666</td>
<td>10,899</td>
<td>5,886</td>
<td>2,691</td>
<td>5,674</td>
<td>30,886</td>
</tr>
</tbody>
</table>

Source: CIA (CDC)

Figure 3: Investment Fixed Assets by Source of Investment (1994 – September 2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign (a)</th>
<th>Cambodia</th>
<th>Total (b)</th>
<th>FDI ratio (a)/(b) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994–2005</td>
<td>5,417</td>
<td>2,260</td>
<td>7,677</td>
<td>71%</td>
</tr>
<tr>
<td>2006</td>
<td>2,359</td>
<td>2,081</td>
<td>4,440</td>
<td>53%</td>
</tr>
<tr>
<td>2007</td>
<td>1,333</td>
<td>1,323</td>
<td>2,656</td>
<td>50%</td>
</tr>
<tr>
<td>2008</td>
<td>6,957</td>
<td>3,932</td>
<td>10,889</td>
<td>64%</td>
</tr>
<tr>
<td>2009</td>
<td>2,106</td>
<td>3,753</td>
<td>5,859</td>
<td>36%</td>
</tr>
<tr>
<td>2010</td>
<td>2,300</td>
<td>391</td>
<td>2,691</td>
<td>85%</td>
</tr>
<tr>
<td>2011 (1-9)</td>
<td>4,307</td>
<td>1,367</td>
<td>5,674</td>
<td>76%</td>
</tr>
<tr>
<td>Total</td>
<td>24,779</td>
<td>15,107</td>
<td>39,886</td>
<td>62%</td>
</tr>
</tbody>
</table>

Source: CIA (CDC)

Figure 4: Investment by Leading Countries
Figure 5: Investment Trend by Sector (2006 – September 2011)

j) Growth Forecast

Figure 6: Cambodia Construction Industry Data

Latest data from the Asian Development Bank (ADB) showed that Cambodia's construction industry saw a recovery in 2011, with real growth reaching 7.9%. Looking into 2013, Cambodia's construction real growth would be at 7.4%. This is primarily due to the country's reliance on foreign investment to support construction activity. Global economic conditions continue to worsen, with growing signs of a sharp economic slowdown in several major economies such as China, the EU and the US. As Cambodia is a relatively open economy and is heavily reliant on tourism and exports to drive growth, deteriorating global conditions are likely to adversely impact both sectors (more than 80% of the country's garment exports are destined for the EU and US). This would result in decreasing investment in non-residential construction.
A weakening global economy could also reduce foreign direct investment (FDI) inflows into Cambodia's construction sector. This occurred in 2009, when the global financial crisis spurred a 34.5% decline in the country's FDI inflows. This led to a severe decline in construction activity in 2010, and a similar scenario could occur in 2012 and 2013. But FDI inflows grew by 11% to reach US$846 million in 2011.

Figure 7: Cambodia FDI Inflows and Construction Real Growth

**i. Short term outlook**

Despite the bearish short-term outlook for Cambodia's construction sector, there are some signs of progress for several large-scale construction projects that were repeatedly delayed. In August 2012, the CEOs of two South Korean companies were partially cleared of their fraud charges, paving the way for their companies to restart their projects in Cambodia. World City has since resumed civil works at Camko City, a US$2 billion satellite city in northwestern Phnom Penh, but the US$1 billion New Siem Reap International Airport has yet to break ground.

Another large-scale project that is showing some signs of progress is the rehabilitation of Cambodia's 650km railway network. In August 2012, a consortium consisting of China's Sino-Pacific Construction Consultancy, Cambodia's Rail Services and Malaysia's Hikmat Asia expressed interest in investing nearly US$850 million in the rehabilitation project, as well as construction of the long-delayed railway line between Phnom Penh and Vietnam. This could provide the necessary financing to completing the project after years of slow progress, should their proposal be accepted.

**ii. Medium term outlook**

The medium-term outlook for Cambodia construction also remains hopeful, with real growth for the construction sector forecast to average 9.5% per annum between 2014 and 2017. There are the several factors supporting for this outlook:-

- Cambodia's manufacturing industry is growing and many foreign companies are keen to convert Cambodia's agricultural produce into higher value manufactured
products such as processed rubber and palm oil. This would drive activity in the non-residential building construction sector.

- Tourism is a key sector driving economic growth in Cambodia, and the government has plans to promote the development of the tourism sector with an ambitious target of 6 million foreign visitors by 2020. To meet this target, transport infrastructure, airports, non-residential buildings such as hotels and entertainment centres would also be developed. In August 2012, Ruijin Investment Holding announced that it intends to develop a US$5.8 billion resort known as the Sihanouk-Hainan City over the next decade.

- Although Cambodia’s urbanisation rate (currently 23% of total population) is not as fast as in some other emerging Asian economies, it is still expected to create significant demand for residential construction - the Cambodian government expects 10,000 new families to move into Phnom Penh each year.

- The severe lack of affordable and reliable electricity to support investment. Cambodia has the second lowest electrification rate in Asia after Myanmar and has to rely on expensive electricity imports to support its economy. The government is keen to address this deficit, with several large-scale projects already under construction and in the pipeline.

3. Investment Scheme

a) Policies toward FDI

i. Laws and regulations governing FDI in Cambodia are basically designed to encourage investments. As the Law on Investment stipulates, FDIs are treated in a non-discriminatory manner except for land-ownership, which is stated in the Constitution, and allowed to invest freely in many areas. Under the current Law on Investment, the investors, who are given Final Registration Certificates, will be entitled to various incentives.

ii. In addition, the Cambodian government has been improving their investment facilitation services. For example, the Government decided in 2005 to establish the Cambodian Special Economic Zone Board (the CSEZB) under the CDC to promote the special economic zone (SEZ) scheme in Cambodia. Administered by the CSEZB, the Special Economic Zone Administration is to be established in authorized SEZ and expected to provide one-stop service to zone investors from the registration of investment projects to routine export-import approvals.

b) Regulatory Framework for Investment

In Cambodia, the FDI is free to be implemented except in those areas listed in Section 1 of Annex 1 (Negative List) of the Sub-Decree No.111 on the Implementation of the Law on the Amendment to the Law on Investment, which are prohibited for both Cambodian and Foreign Investors. It has to be only registered at the Ministry of Commerce and obtain relevant operating permits. However, if the foreign investors seek investment guarantee and/or incentives, they have to apply for the investment project registration which would be approved by the Council for the Development of Cambodia (CDC) or the Provincial-Municipal Investment Sub-Committee (PMIS).

c) Prohibited Fields of Investment

The activities listed in Section 1 of ANNEX 1 (“Negative List”) of the “The Sub-Decree No. 111 on the Implementation of the Law on the Amendment to the Law on Investment” are prohibited for the investment of both Cambodian and foreign entities. Those investment activities are as follows:

i. Production/processing of psychotropic substances and narcotic substances
ii. Production of poisonous chemicals, agriculture pesticide/insecticide and other goods by using chemical substances prohibited by international regulations or the World Health Organization, that affect the public health and environment

iii. Processing and production of electrical power by using any waste imported from a foreign country

iv. Forestry exploitation business prohibited by Forestry Law

v. Investment activities prohibited by law

d) Limitation on Foreign Investment

i. **General Principles**

There is no sector closed only to foreign investment.

ii. **Restrictions on Foreign Citizenship**

Some restrictions on foreign citizenship in terms of investment activities are as follows:-

**Ownership and Use of Land**

Ownership of land by investors for the purpose of carrying on a Qualified Investment Project (QIP) shall be vested only in natural persons holding Cambodian citizenship or in Cambodian entities but the use of land shall be permitted to investor, including concessions, unlimited long-term leases and limited short-term leases that are renewable. The investor is also admitted to have the right to own and pledge as security the real and personal property on the land (Article 16, “Amended Law on Investment”).

**Employment of Foreigners**

A QIP is entitled to obtain visas and work permits for the employment in Cambodia of foreign citizens as managers, technicians and skilled workers, if the qualification and expertise are not available in Cambodia (Article 18, “Amended Law on Investment”).

*For full details on Investment schemes and Taxation, please refer to official website of the Council for the Development of Cambodia.*

4. Engagements by Singapore Government & Companies

a) **Bilateral relationship between Singapore and Cambodia**

i. Prime Minister Lee Hsien Loong visited the Kingdom of Cambodia on 21 October 2012 to pay tribute to the late King-Father of the Kingdom of Cambodia, His Majesty Norodom Sihanouk. Prime Minister Lee had a Royal Audience with His Majesty King Norodom Sihamoni and Her Majesty Queen-Mother Norodom Monineath, and also met with Prime Minister Hun Sen.

ii. Cambodian Deputy Prime Minister and Minister of Defense General Tea Banh made an introductory visit to Singapore on 13 February 2012 in conjunction with his attendance at the Singapore Airshow. General Tea Banh called on Minister for Defence Dr Ng Eng Hen.

iii. Minister for Foreign Affairs K Shanmugam made an official visit to Cambodia from 5-6 October 2011. Minister Shanmugam met with Deputy Prime Minister and Minister of Foreign Affairs and International Cooperation Hor Namhong. Minister Shanmugam also
The Cambodian Prime Minister Hun Sen made an official visit to Singapore from 25-27 July 2010. Prime Minister Hun Sen called on President S R Nathan and Prime Minister Lee Hsien Loong, who also hosted him to dinner. Prime Minister Hun Sen also met with then-Senior Minister Goh Chok Tong and was hosted to lunch by Minister for Trade and Industry Lim Hng Kiang.

Over the years, on the back of close bilateral relations, Cambodia and Singapore have forged a strong partnership in trade and investment and human resource development cooperation. Singapore is now Cambodia's 5th largest trading partner and its 8th largest foreign investor in the world. This spans a range of sectors including tourism, agriculture, manufacturing, construction and energy. Both countries are continuously finding new ways to expand our cooperation. In the field of human development cooperation, about 4000 Cambodian officials have been trained at the Cambodia-Singapore Training Centre (setup in 2002) in Phnom Penh under the Initiative of ASEAN Integration. Another 4000 Cambodian officials have undergone training in Singapore sponsored under the Singapore Cooperation Programme.

### b) Temasek Foundation

Temasek Foundation and Building and Construction Authority (BCA) launched a programme to train 1,140 Cambodian government officials in land management, urban planning and building control. Initiated by International Enterprise (IE) Singapore, this training programme is being conducted in Phnom Penh by a team of senior officials and experts from the BCA, Urban Redevelopment Authority (URA) and Singapore Land Authority (SLA).

The first batch of 140 officials from the Ministry of Land Management, Urban Planning and Construction of Cambodia (MLMUPC) participated in this customised programme which started on 1 August 2011. It concluded officially on 9 September 2011.

Temasek Foundation committed a grant of S$265,000 to this programme. It supports the Cambodian government's strategies in urban development for the country's economic growth.

Through the programme, the Cambodian officials learned about:

- Singapore's strategies in national development in land management, urban planning and building control
- the policies and regulations that were developed for these strategies
- the resources and expertise needed to administer these policies and regulations;
- Singapore's building codes and regulations, including the issuance of construction permits.

### c) Singapore construction companies doing business in Cambodia

#### i. TA Corporation Ltd

It is an established quality property and construction group with a track record of almost 40 years' experience in the Singapore construction industry and over 15 years' experience in real estate development. It entered the real estate development business in Singapore in 1995. It had since ventured overseas through joint-venture partnerships in the PRC and Cambodia.

Their main construction business is undertaken through their subsidiary, Tiong Aik Construction Pte Ltd, which holds the highest BCA grading of A1 for general building work. To complement its construction business, they have also expanded into
specialised services such as steel fabrication and metal works, a worker training and test centre in Chennai, India, as well as the design, installation and maintenance of air-conditioning and mechanical ventilation systems.

The company has been investing in Cambodia since 12 years ago into micro-financing business. It then moved into property development through a joint-venture with a reliable Cambodian contractor. Its first property development of a 49% stake JV was for a 21-unit Villa development in Phnom Penh. Construction is expected to be completed in March 2013 and will move into the marketing phase to launch the units. TA is primarily an investor in this project and the actual construction work is undertaken by their JV partner. Their next target is to invest in the development of office buildings.

ii. HLH Group Limited

The flagship of the company, Hong Lai Huat Construction Pte Ltd (HLHC) was incorporated in 1992. With an A1 and B2 grade registration with Building and Construction Authority (BCA) in General Building and Civil Engineering respectively, Hong Lai Huat Construction Pte Ltd was one of the Singapore's major home-grown building construction company. The Company was listed on the mainboard of the Singapore Stock Exchange under the name “Hong Lai Huat Group Limited” on 21 June 2000, before eventually renaming itself HLH Group Limited on 15 June 2007. The Company is a diversified group with interests in investment and development of commercial, residential and industrial properties, Building Construction and Agriculture. They have market interests in Brazil, China, Cambodia, India, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Ukraine, USA, Taiwan and Vietnam.

HLH has an agriculture business in Cambodia where it owns a large plot of land at Kampong Speu to cultivate corn. Their business chain includes agricultural development, cultivation, branding, merchandising and distribution of corn and other agricultural commodities. Their corn products are specially produced for our customers in the animal feed milling and corn processing industries that use these corns for producing high nutrition animal feeds and for processing into corn starch, corn oil, ethanol and other products. They select only the best hybrid cultivars with specific end-use trait to cultivate. This is to ensure their harvests are of high quality and offer higher extraction of nutritional contents when processed. To achieve this, they adopt the most effective cultivation and handling method to preserve the quality of each grain they produce. And HLH is planning to move all its property development operations to Cambodia where they have significant interests.

5. Market Assessment

a) GDP growth

Economic expansion is nevertheless being supported by rapid growth in infrastructure and business investment. Domestic demand will remain strong in 2013-14, against the backdrop of an improving job market and strong public spending (especially around the 2013 election campaign). Expect real GDP to expand by 6.4% in 2013 and 7% in 2014. Economic expansion will then average 7.1% a year in 2015-17.

Agricultural growth will remain relatively strong, in line with official plans to boost exports of milled rice. There are also signs that Cambodia's Special Economic Zones (SEZs) are beginning to attract foreign direct investment (FDI) in a range of manufacturing activities. Inflows of FDI, especially from Asian investors, will be relatively impressive during the forecast period. But the small size of Cambodia’s domestic market will limit their scale: of the ten ASEAN economies, only Laos's nominal GDP is smaller, and Cambodian GDP per head is the lowest in the sub region. In 2013-17 the garment sector will continue to dominate the local economy, which will remain vulnerable to external shocks owing to its narrow base.
b) Business Environment

The long term development of Cambodian economy remains a daunting challenge after decades of war. The country suffers from almost total lack of basic infrastructure in the countryside. The government is working with bilateral and multinational donors, including the World Bank and IMF, to address the country’s many pressing needs. Recently, the government is committed to increasing infrastructure development including road expansion, road maintenance, and bridge construction in order to facilitate transportation in the country.

The major economic challenge for Cambodia over the next decade will be fashioning an economic environment in which the private sector can create enough jobs to handle Cambodia's demographic imbalance. More that 50% of the population is under age 25. The population lacks education and productive skills, especially in the poverty ridden countryside.

Cambodia considers the private sector to be a significant engine to generate economic growth. The royal government is making an effort to provide a favourable environment for the private sector. In particular, the government is trying to reduce the cost of doing business by combating corruption and mobilising resources in order to enhance the development of socio-economic and physical infrastructure.

c) Construction Industry

Most of the large infrastructure projects (roads, highways, ports and bridges) had been handed out to the Chinese, Japanese and Koreans who have invested heavily in Cambodia through G-to-G engagements. And the Cambodian government had granted waiver to bring in workers directly from the source country.

The Cambodian building codes are not yet established, as such, most of the companies use the Vietnamese codes and/or other international codes for reference. However, the government is not particular about the quality of construction. Therefore, most of the buildings are of poor quality and not properly constructed.

This industry is also complicated due to the nature of managing the local contractors and land issues. Labour is also largely unskilled and considerable amount of training is required to build up their capabilities. It is preferred by most foreign companies to recruit engineers from neighbouring countries. Because of such issues, foreign companies should rather invest in the land and refrain from engaging in actual construction work.

As language is predominantly Khmer and the rules of business engagement with Cambodians are relatively unknown for foreigners, it is vital that foreign companies first establish a reliable local business partner. Moreover, a local will definitely prove handy when it comes to negotiations and execution of transactions.

The land is primarily held by civil servants and retired officers. And these are the locals who would prefer to cash-in their land with foreigners. On the other hand, most of these locals must be part of the joint-venture of the development to share the profits according to their newly-formed business entity. It is important to know a local business contact for negotiations and to execute transactions.

i. Construction Value

The amount of money spent on construction in Cambodia soared by 72% in 2012 compared to 2011, according to data from the Ministry of Land Management, Urban Planning and Construction.

The ministry had issued 1,694 construction patents covering 6.5 million square metres of land, involving total capital of US$2.1 billion in 2012, compared with 2,125 patents for 4.2 million square metres and capital of US$1.2 billion in 2011, an increase of 71.9 per cent.
Because Cambodia’s economic situation is stable, the capital has increased well, local and international investors are confident in the political policies. As Cambodia’s population and economy have climbed steadily, the demand for housing, trade buildings, offices, factories, hotels, schools, hospitals and entertainment centres has increased as well.

In 2013, construction will be boosted further than in 2012 despite Cambodia holding a general election, because the economic situation, daily life, micro-finance and security are good, and investors have confidence in the government. All these are the foundations to push the national economy because it can provide many jobs to workers, architects, engineers, technicians and increase the price of real estate.

Many countries have invested in Cambodia since 2000, such as China, South Korea, Britain, Thailand and Malaysia. In 2012, several big Japanese companies have also invested heavily in Cambodia.

ii. Ongoing Large Projects

- **World City Co., Ltd.** is now developing the “Phnom Penh New Town” also known as Camko City is located in the Pong Peay Lake Development Zone in Phnom Penh, Kingdom of Cambodia. This project is planned and invested by Korean investors. The project size is 119 ha and the period of construction is from 2005 – 2018 (6 phases). The total project cost is US$2 billion. The major facilities include residential apartments, villas, condominiums, public schools, international schools, technical college, general hospital, cultural centres, government offices, trade centre, convention centre, exhibition centre, financial centre, office buildings, shopping malls, hotels and serviced residence.

- Japanese mall operator **Aeon Co.** had started construction on Cambodia’s first high-end, foreign-financed shopping mall (**Aeon Mall**) at a prime location in the capital Phnom Penh on 10 December 2012. Aeon will invest $200 million into the 100,000-square meters complex that will house at least 150 retail outlets, a cinema wing with a capacity of 1,000 seats and 15,000 square meters of entertainment space. The mall is scheduled to open in 2014, which will make Aeon the first Japanese retailer to make a foray into Cambodia.

- The **Grand Phnom Penh International City** is the first and the biggest international city which is currently under construction. This new town development project is a joint development between **Ciputra Group - Indonesia and YLP Group - Cambodia**. The 260 hectares new town development is just 7 kilometres North West of the city of Phnom Penh. This integrated new town will consists as many as over 4,000 houses comprising of villas, apartments, shop houses, office buildings, shopping centres, hotel, school, hospital, sport and leisure areas, and an 18 – holes golf course and with a Driving Range. Furthermore, this project has fully obtained the Master Plan approval from the authority of Phnom Penh Municipality on 9 August 2006, to develop the integrated new town project and expected to complete in 2018.

- **Overseas Cambodia Investment Corporation** (OCIC) is known as one of the biggest real estate development company in Cambodia. It had been developing various projects such as Diamond Island, Rose condo, Canadia tower, Sorya department stores. OCIC had received in-principle approval from Prime Minister Hun Sen to develop a new satellite city (**Chroy Changva**) in Phnom Penh's Chroy Changvar peninsula. It will take from 10 to 15 years to complete with the estimated investment of 3 billion U.S. dollars. This is one of A7corp’s projects in Cambodia.
d) Opportunities

i. Property Market

The property market in Phnom Penh remains resilient with strong demand in the serviced apartment sector set to continue. The serviced apartment market is one of the strongest in Phnom Penh, and although a large number of units were launched in 2012, the sector grew in strength, with occupancy levels increasing. However, there will be competition from buy-to-let owners of finished condominium projects looking to see a return on their investment. With an increase in supply, rental rates are predicted to decrease slightly, especially in older buildings. Meanwhile the Phnom Penh office market is set to increase by 27 per cent in 2013, with the Vattanac Capital building accounting for 18 per cent of that increase in supply. It is becoming evident that current occupiers of villa office space looking to relocate to purpose-built offices to improve their professional image and to maximise the efficiency of their rented space.

The retail market in Phnom Penh is one of the sectors with the highest demand. New large-scale retail space, such as the Aeon Mall, is still a number of years away from completion, and new supply in 2013 will be limited, pushing new entrants towards standalone retail outlets. This means that rental rates for retail space in prime locations within well-managed buildings is likely to increase. Without an improvement in management, existing shopping centres are unlikely to see much demand.

The condominium sector will see a large amount of units launched back to the market in 2013, as projects that sold extremely well off plan before 2008 are now nearing completion. Demand for condominiums is increasing as the city expands, and with land prices increasing the domestic market is likely to look towards condominiums.

Industrial property remains buoyant, with the risk of an impact from an economic slowdown in the US and EU, the two largest destinations of the Kingdom’s key garment and textile exports, not yet materialising, with garment exports rising almost 10 per cent in the first nine months of 2012.

Trade and investment relationships with Vietnam, South Korea and Japan are also strengthening which bodes well for the future. It has been noticed that an increase in the number of Japanese expatriates coming into Cambodia in the last year, with an increasing number of Japanese companies entering Cambodia and opening up offices in Phnom Penh, such as the Bank of Tokyo, Mitsui and Itoshu.

ii. Special Economic Zones (SEZs)

The Cambodian government had so far officially approved 22 SEZs with a total investment capital in excess of US$1 billion. Among them, 14 SEZs have been authorized by the Sub-Decree and 8 other SEZs (Sihanoukville SEZ, Phnom Penh SEZ, Manhattan SEZ, Taï Seng Bavet SEZ, Poipet SEZ, Goldflame Pak Shun SEZ, Koh Kong SEZ and the recently opened Sihanoukville Port SEZ) already received the licences. Others are at various stages of development, and some remain undeveloped. Among the approved SEZs, 21 are privately owned and operated and 1 is owned by the state company. As of November 2011, 94 investors are located in 8 SEZs and the investors’ favourable locations are Phnom Penh, Svay Rieng and Preah Sihanouk. For more details, refer to Annex 1: List of SEZs.
6. References

5. PwC report on ‘Doing Business in Cambodia’
6. BMI Cambodia Infrastructure Report Q4 2012 (from IE Singapore)