
krungsri
Research
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CAMBODIA
INVESTMENT HANDBOOK
June 2021
Krungsri Research

# *Executive Summary:* Cambodia's economy could resume its strong growth path in the post-pandemic era due to its favorable growth drivers



**Cambodia's economy is expected to recover in 2021 and to register a growth rate of about 4.0% following a negative growth of -3.5% in 2020, driven primarily by exports as economic activities in the major markets, especially the US, are starting to normalize.** The recovery of the construction and real estate sector will hinge on developments of the pandemic, while the outlook tourism sector remain bleak. However, risks to near-term growth outlook remain, particularly the resurgence of local outbreaks. In the medium to longer term, with the effective rollout of vaccination, a strong growth path of 6.0% -7.0% p.a. is expected to be resumed in the post-pandemic era due to Cambodia's favorable underlying trends. These include sustained inflows of FDI, strong exports of manufactured goods – garment and footwear products, increasing middle-class consumers, the rise of digital economy, as well as political stability.



**In this 2021 edition, we explore underlying trends to boost domestic consumption in Cambodia in the post-pandemic era.** There are four key factors to drive domestic consumption comprising of (1) favorable demographic structure, (2) rising income levels, (3) faster digital adoption, and (4) regionalization and economic integration. This would be a favorable backdrop for the digital economy, in particular e-commerce, to flourish. Ample business opportunities arise for local and foreign investors within the e-commerce ecosystem including various types of online commerce, logistics, and technology-based financial services.

# Cambodia in brief

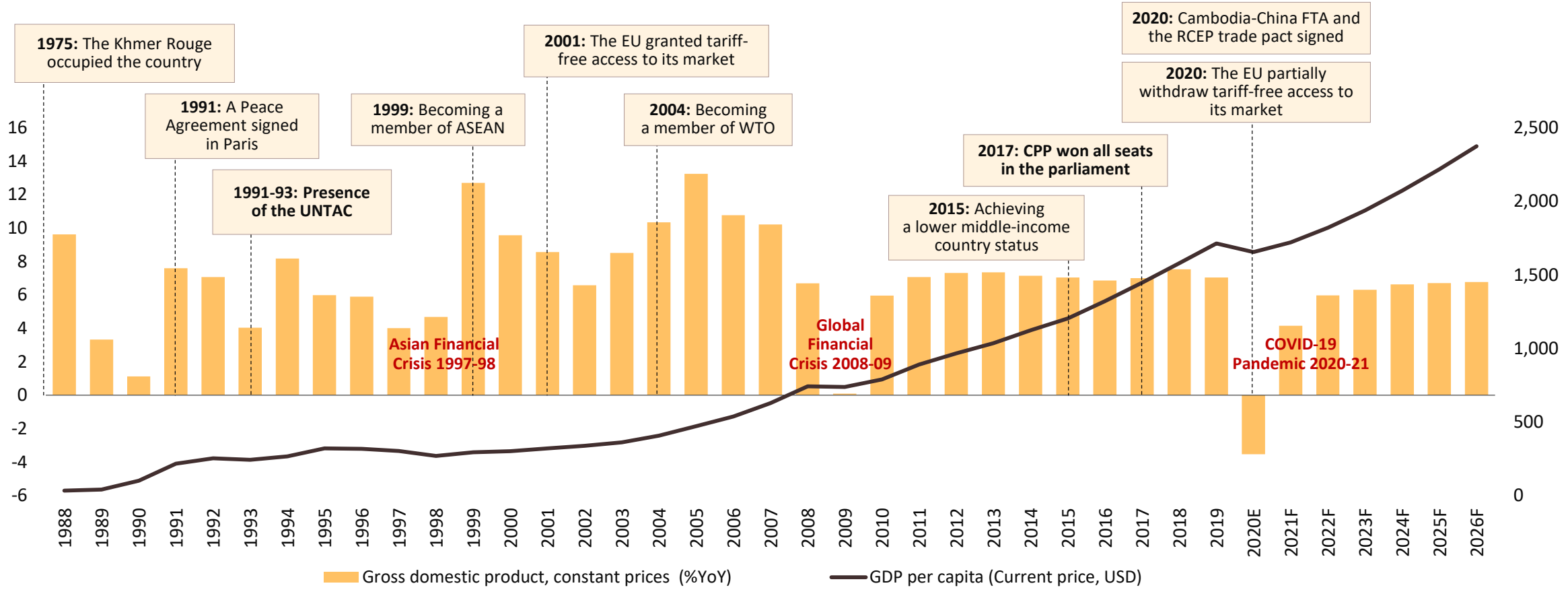



| | |
|---|---|
| **Official name** | The Kingdom of Cambodia |
| **Form of State** | Parliamentary constitutional monarchy |
| **Economic system** | Market economy |
| **Land area (sq. km)** | 181,035 sq km |
| **Local government** | 24 provinces (khett) and 1 municipality (krong, Phnom Penh) |
| **Total population (person)** | 17,304,363 (July 2021 est.) |
| **Climate** | Tropical; rainy, monsoon season (May to November); dry season (December to April); little seasonal temperature variation |
| **Main cities** | Phnom Penh, Siem Reap, Battambang, Sisophon |
| **Urbanization** | Urban population: 24.7% of total population (2021)<br>Rate of urbanization: 3.06% annual rate of change (2020-25 est.) |
| **GDP (Nominal GDP) (2019)** | USD27bn |
| **GDP per capita (Nominal)** | USD1,693.8 |
| **GDP - composition, by sector (2018)** | Agriculture: 18.0%<br>Industry: 35.5%<br>Services: 39.3% |
| **Agricultural products** | Cassava, rice, maize, vegetables, sugar cane, soybeans, rubber, oil palm fruit, bananas, pork |
| **Industries** | Garments, construction, rice milling, fishing, wood and wood products, rubber, cement, gem mining, textiles |
| **Labor force** | 9.2 millions (2020 est.) |
| **Labor force - by occupation (2019)** | Agriculture: %<br>Industry & Construction: %<br>Services: % |
| **Major export partners** | US, EU, Singapore, China, Japan |
| **Major import partner** | China, Thailand, Vietnam, Singapore, EU |
| **Main exports** | Garments and footwears, machinery and electronics, agricultural products, bicycles |
| **Main imports** | Fabrics, machinery, electronics, fuels, food and beverage |
| **Major sources of FDI** | China, South Korea, Vietnam, Singapore, Japan |

Source: CEIC, IMF World Economic Outlook Database (April 2021), CIA Factbook compiled by Krungsri Research

# *Cambodia* is expected to resume its high growth trajectory in the medium term boosted by FDI-driven manufactured exports and domestic demand

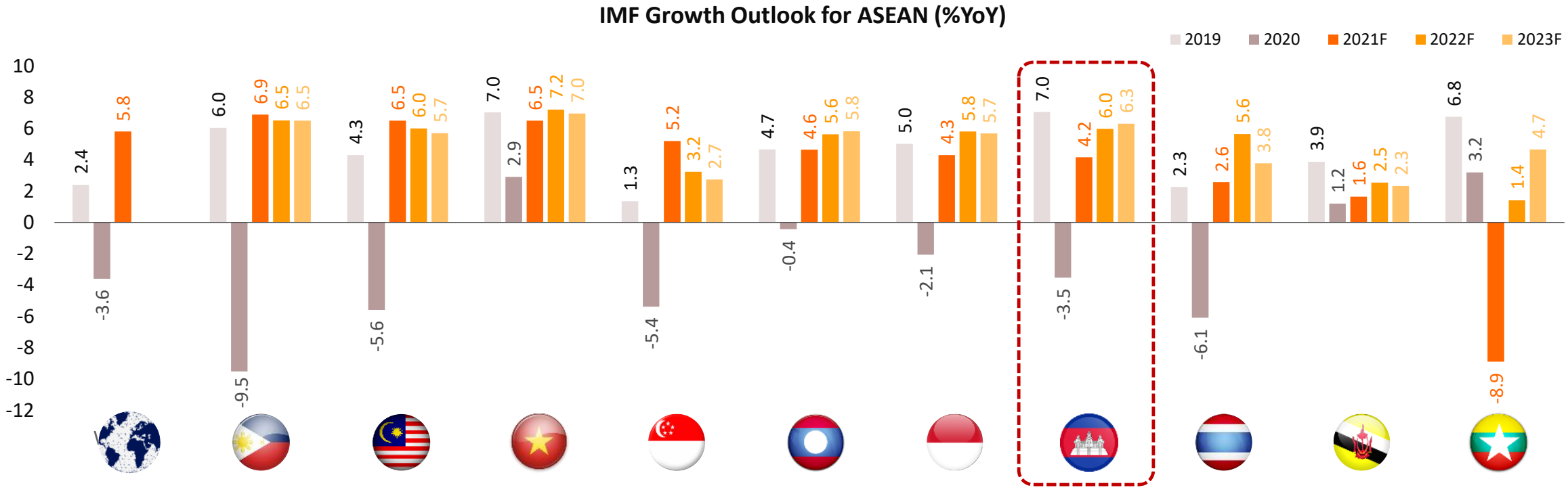
**Cambodia has achieved an impressive growth path over the past two decades and achieved a lower-middle income status in 2015.** Trade privileges granted by major markets, low regulatory restrictiveness to foreign investment, and a large pool of labor force have attracted foreign direct investment (FDI) inflows and driven labor-intensive manufacturing sector. Sustained inward FDI has fueled the growth of export-oriented garment and footwear industry which has turned to be not only a main source of foreign exchange earning but also income and job opportunities for the local population.




Source: CEIC, CIA Facebook, World Bank, Krungsri Research

# *Growth* will turn positive in 2021, but the outlook is tilted to the downside as risks and challenges remain immense

**Cambodia's economy is expected to gradually recover and likely to expand in the range of 3.0% - 4.0% in 2021 following a negative growth of -3.5% in 2020 due to the adverse impact of the pandemic at home and abroad.** In 2020, key growth drivers – exports, tourism, and construction – had been paralyzed. However, in 2021, a partial pickup of domestic demand at home and economic recovery of major markets will support Cambodia's economy. Risks to growth stem mainly from resurging of local outbreaks which may lead to renewal of lockdown and other containment measures. These would weigh on economic activities and could hinder the recovery.




Note: Data updated as of April 2020

Source: IMF WEO (April 2020), IMF 2019 Article IV Staff Report on Vietnam, Krungsri Research

# *Medium-term macro forecasts:* Growth will turn positive, and the economic recovery could be delayed due to resurgence of the pandemic

| Indicators (% of GDP, otherwise indicated) | 2018 | 2019 | 2020E | 2021F | 2022F | 2023F |
|---|---|---|---|---|---|---|
| Real GDP (%YoY) | 7.5 | 7.0 | **-3.5** | 4.2 | 6.0 | 6.3 |
| CPI (end-period, 2012 = 100) | 2.4 | 2.0 | 2.9 | 3.1 | 2.8 | 3.0 |
| Net lending (+)/borrowing (-) | 0.7 | 3.0 | -1.7 | -3.4 | -4.2 | -4.9 |
| Domestic public debt | 28.6 | 29.0 | 31.6 | 33.4 | 35.4 | 38.0 |
| Domestic bank credit to private sector | 99.4 | 114.2 | 123.3 | 132.0 | 140.0 | … |
| Current account balance | -12.2 | 15.8 | -12.5 | -18.0 | -14.6 | -8.5 |
| Foreign Direct Investment | 12.6 | 12.8 | 12.7 | 12.6 | 12.5 | 12.4 |
| Overall balance | 9.9 | 8.7 | 6.3 | 5.5 | 5.6 | 4.1 |
| Gross International reserves | | | | | | |
| In billions of USD | 14,598 | 16,929 | 18,753 | 20.488 | 22,404 | 24, 468 |
| In months of prospective GNFS imports | 7.0 | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 |
| Public external debt (USD bn) | 7.0 | 7.5 | 8.1 | 8.7 | 9.5 | 10.5 |
| Total external debt | 28.6 | 28.5 | 28.3 | 28.2 | 28.2 | 28.6 |
| | | | | | | |
| Nominal GDP (in billions of Riels) | 99,544 | 110,014 | … | … | …. | … |
| Nominal GDP (USD mn) | 24,488 | 27,031 | … | … | … | … |
| Exchange rate (Riels per USD, period average) | 4,047 | 4,061 | 4,093 | … | … | … |

Note: Data updated as of April 2020
Source: IMF WEO (April 2020), IMF 2019 Article IV Staff Report on Vietnam, CEIC, Krungsri Research

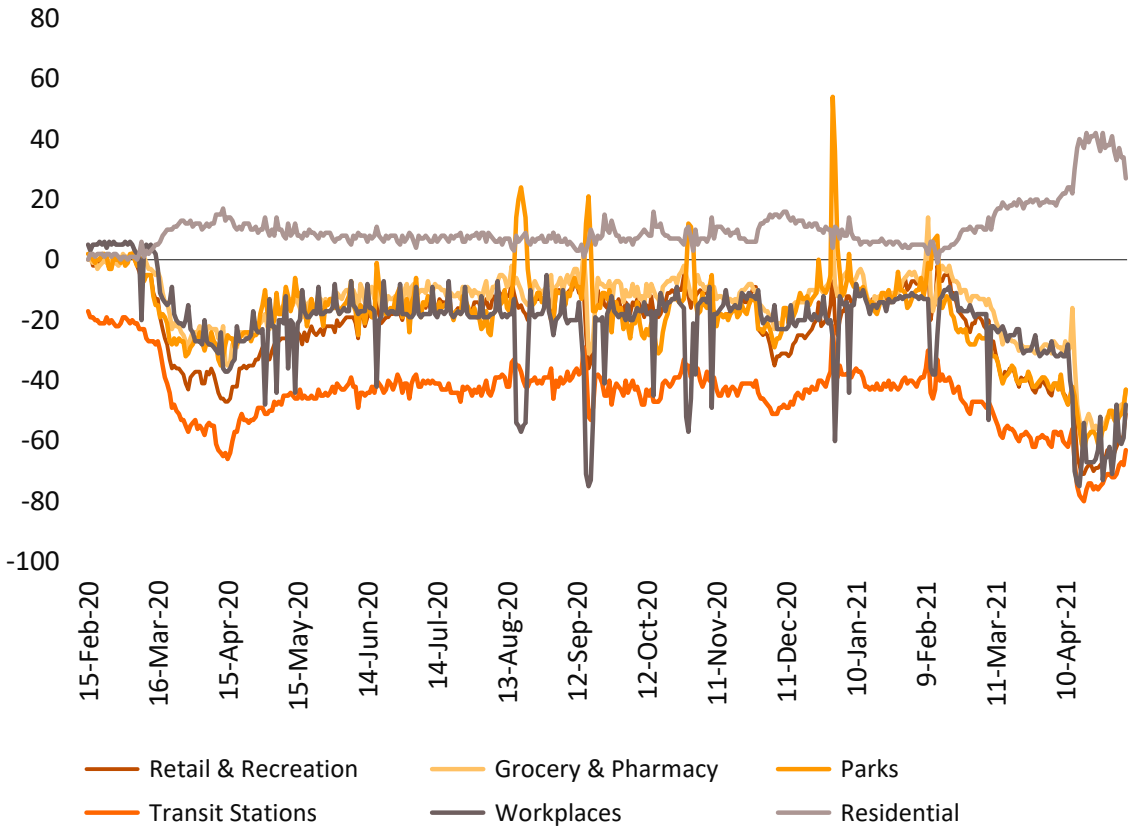
# Recent Economic Developments



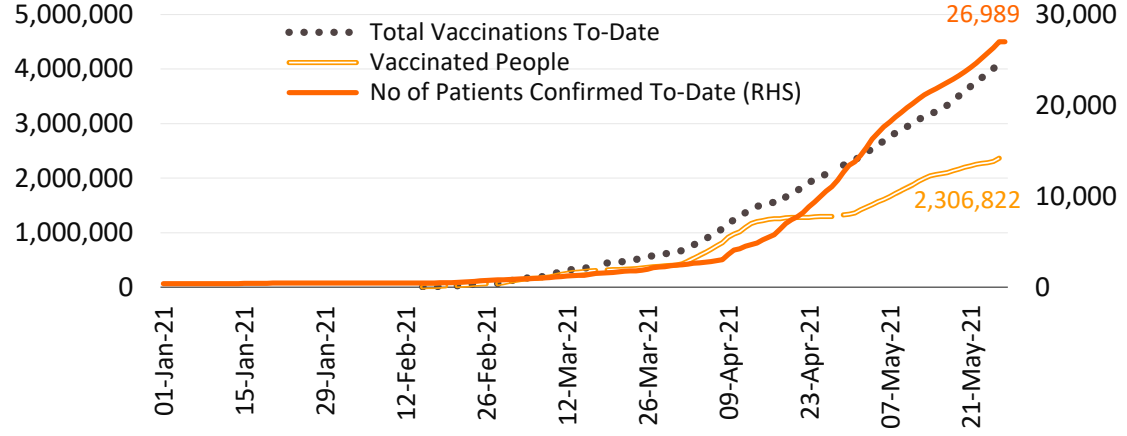
# *The recent outbreaks* of the pandemic could jeopardize the economic recovery in 2021, while accommodative policies and a pickup in exports would help cushion the adverse impact

The recent local outbreaks started in February 2021 have led to lockdowns in Phnom Penh and major cities. As a result, economic activities have dropped substantially reflected by the Google Mobility Trends. This will weigh on t the economy and could delay the recovery in 2021; however, the impact would hinge on the government support packages and the effective of vaccination program. In addition, a pickup in exports would be a tailwind to nurture Cambodia's early stage of the economic recovery in 2H2021.

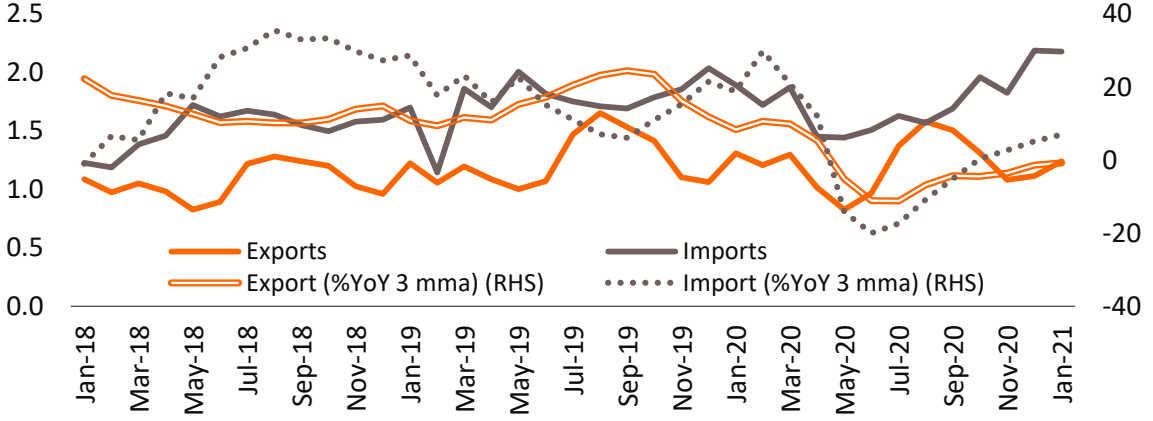
**Google Mobility Trends (% change compared to baseline)**




**Developments of the pandemic in Cambodia (as of 28 May 2021)**




**Exports and imports (USD bn)**

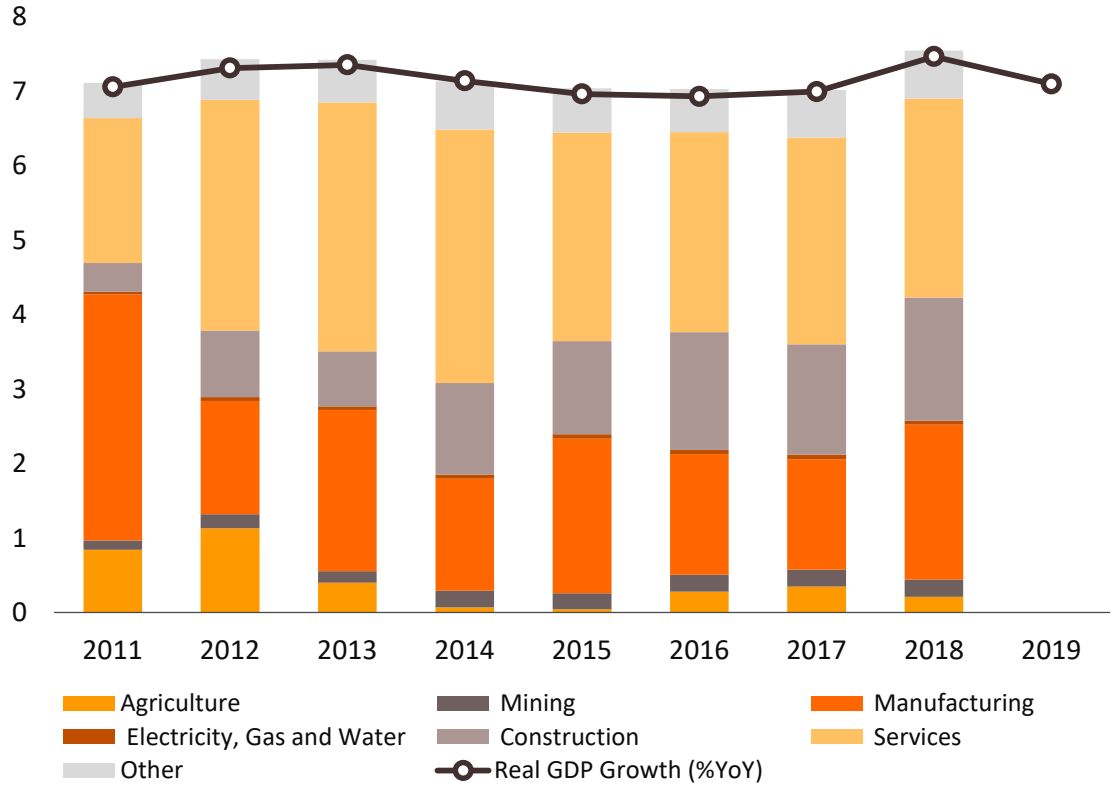



Source: Google Mobility Index, CEIC

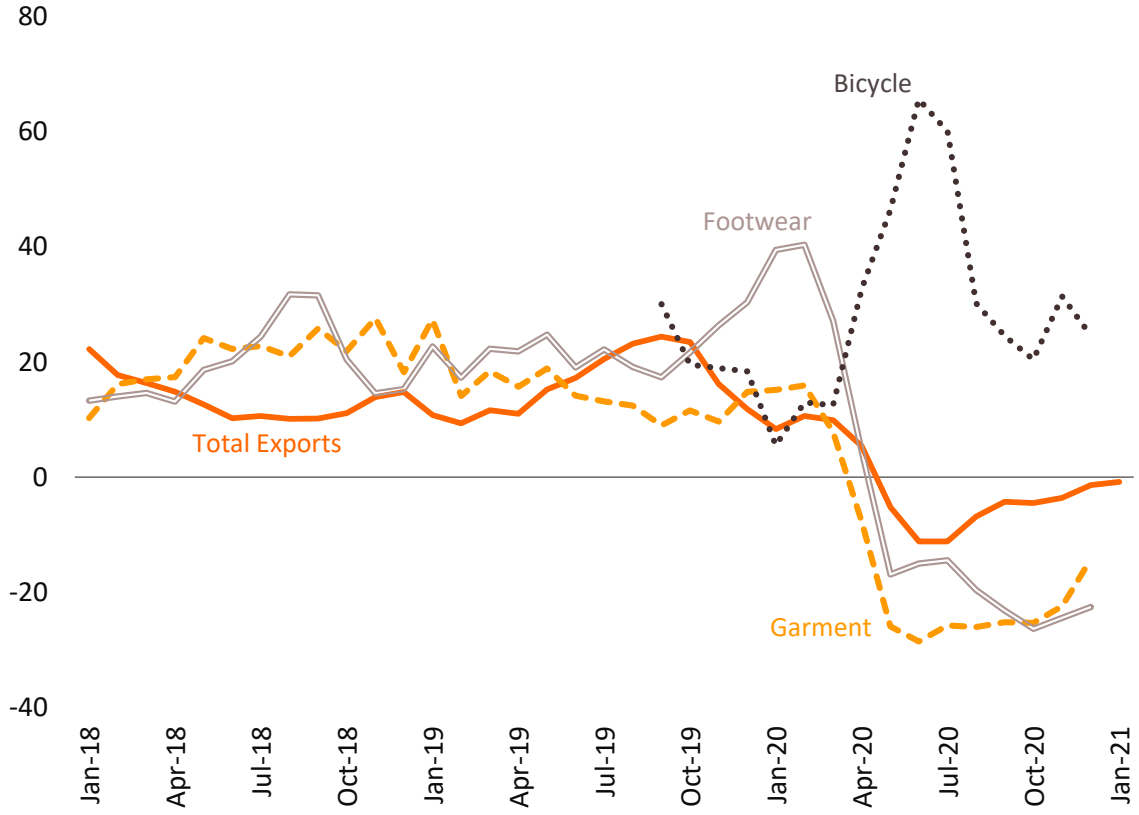
# *Exports* of garments and footwears will lead the economic recovery over the medium term

**Among the key growth drivers of Cambodia, we view that exports of manufactured products, particularly garment and footwear products, will be the key in supporting the recovery in 2021.** This is owing to the normalization of economic activities in Cambodia's major export markets including the US and the EU. Construction dominated by real estate developments is expected to be resumed in 2H2021 if new infected cases of the COVID-19 subside along with more inoculation and fewer mobility restriction measures.

**Sources of Real GDP Growth (ppt)**




**Exports of Cambodia's main manufactured products (% YoY, 3mma)**




Source: CEIC, Krungsri Research

# *Garment production and construction* have been key sectors in the industrial sector, while the agriculture sector remains crucial for the economy

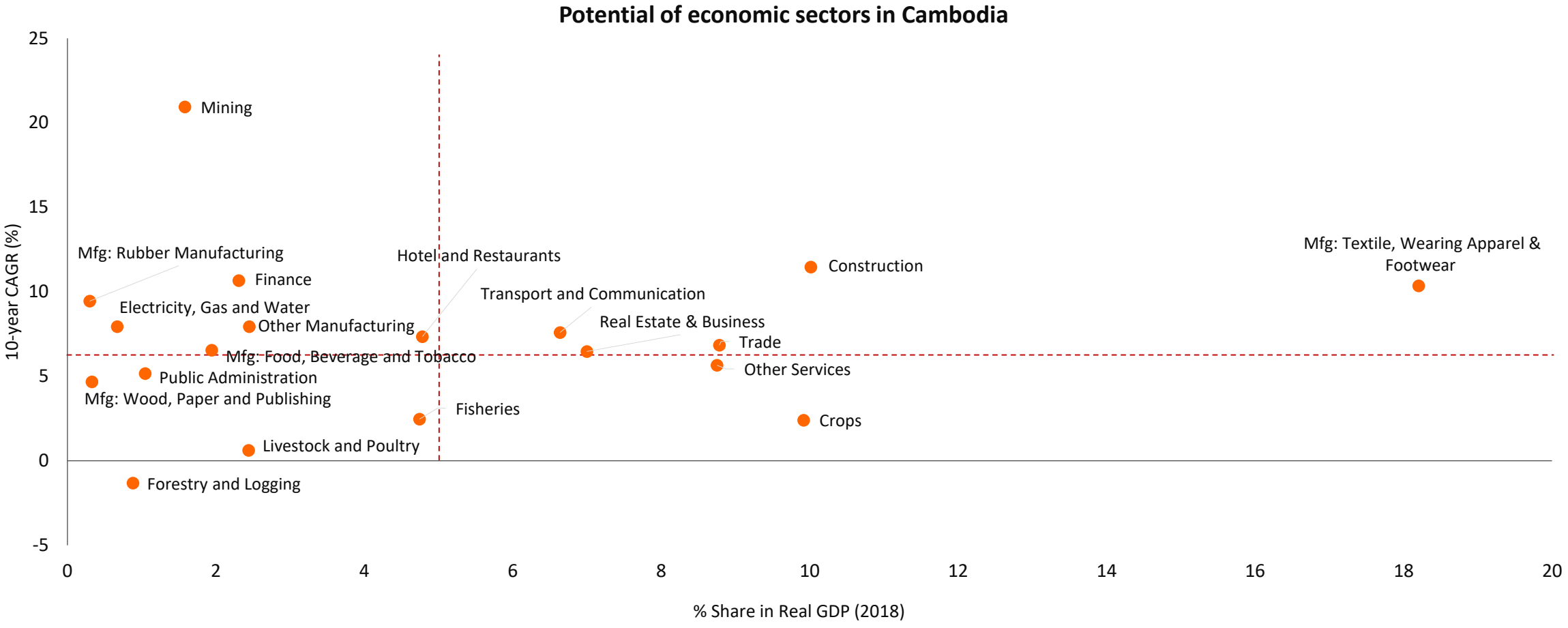
**Cambodia's economy has been transformed to be one of the garment and footwear production hubs in the region thanks to a pool of relatively low costs of labor and tariff-free access to major markets such as the US and the EU.** The production of garment products accounts for 18.2% in the country's GDP in 2018. With the share in GDP of about 10%, construction has benefited from FDI inflows, especially from China, leading to booms in real estates in major cities. Roles of agriculture have subsided but remain essential as a source of employment. Service sector dominated by tourism and trade is also a key source of growth.

| Structure of Real GDP: Supply Side (% Share) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP (%YoY) | 6.0 | 7.1 | 7.3 | 7.4 | 7.1 | 7.0 | 6.9 | 7.0 | 7.5 | 7.1 |
| Gross Domestic Product (2000p) in USD bn | 7.5 | 8.1 | 8.7 | 9.3 | 10.0 | 10.7 | 11.4 | 12.1 | 13.0 | 13.9 |
| Per Capita (USD) | 536.0 | 570.0 | 599.0 | 637.0 | 674.0 | 713.0 | 752.4 | 782.4 | 825.8 | 871.1 |
| **Agriculture, Fisheries and Forestry (AG)** | 27.3 | 26.3 | 25.6 | 24.2 | 22.7 | 21.2 | 20.1 | 19.1 | **18.0** | |
| **Industry** | 26.6 | 28.4 | 29.0 | 29.9 | 30.7 | 32.1 | 33.3 | 34.1 | **35.5** | |
| **Mining** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| **Manufacturing** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Textile, Wearing Apparel & Footwear | 15.4 | 17.3 | 17.2 | 17.7 | 17.6 | 18.1 | 18.0 | 17.8 | 18.2 | |
| Other Manufacturing | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.4 | 2.4 | 2.5 | |
| Food, Beverage and Tobacco | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 1.9 | |
| Electricity, Gas and Water | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | |
| Wood, Paper and Publishing | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | |
| Rubber Manufacturing | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | |
| Electricity, Gas and Water | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | |
| Construction | 4.9 | 4.9 | 5.4 | 5.7 | 6.5 | 7.3 | 8.3 | 9.1 | 10.0 | |
| **Services** | 39.0 | 38.2 | 38.5 | 39.0 | 39.6 | 39.6 | 39.6 | 39.6 | **39.3** | |
| Trade | 9.0 | 8.8 | 8.7 | 8.8 | 8.9 | 9.0 | 8.9 | 8.9 | 8.8 | |
| Other Services | 9.7 | 9.3 | 9.2 | 9.2 | 9.2 | 9.0 | 9.0 | 8.9 | 8.8 | |
| Real Estate & Business | 5.8 | 5.7 | 5.9 | 6.0 | 6.4 | 6.6 | 6.8 | 6.9 | 7.0 | |
| Transport and Communication | 6.5 | 6.4 | 6.3 | 6.4 | 6.4 | 6.5 | 6.5 | 6.6 | 6.6 | |
| Hotel and Restaurants | 4.9 | 4.9 | 5.1 | 5.4 | 5.4 | 5.1 | 4.9 | 4.9 | 4.8 | |
| Finance | 1.8 | 2.0 | 2.1 | 2.1 | 2.2 | 2.3 | 2.3 | 2.3 | 2.3 | |
| Public Administration | 1.3 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 | |
| **Other** | 7.1 | 7.0 | 6.9 | 6.9 | 7.1 | 7.2 | 7.2 | 7.4 | 7.5 | |

Source: CEIC, Krungsri Research

# *Business opportunities* arise in the service activities such as food and beverage as well as ICT for foreign investors

With relatively small shares in the GDP, several areas in the services sector have been growing fast in Cambodia over the past decade. Those include finance, transport and communication, food and beverage, and trade. This offers ample business opportunities for both domestic and foreign investors. Regarding the manufacturing sector, the production of garment and footwear products remains sizeable and growing. Products and services relating to construction and real estate are also attractive for foreign investment.

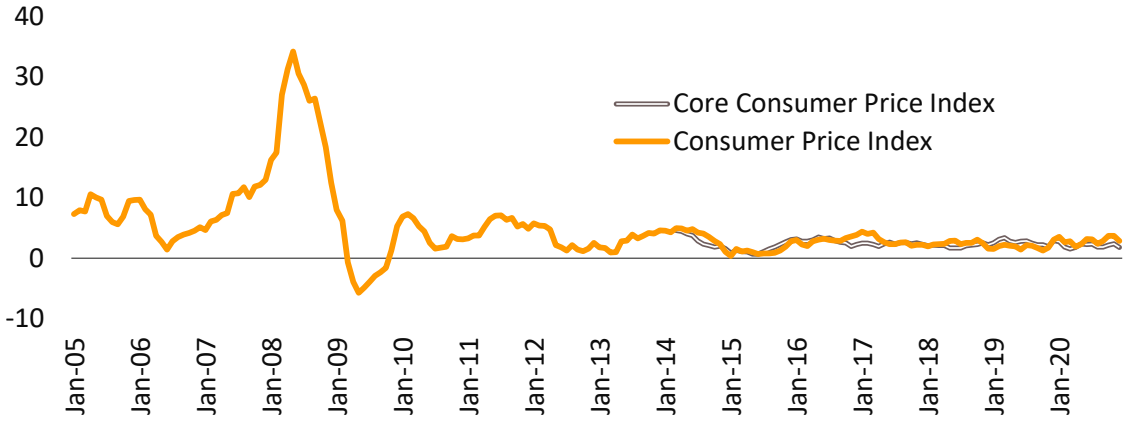



Source: CEIC, Krungsri Research

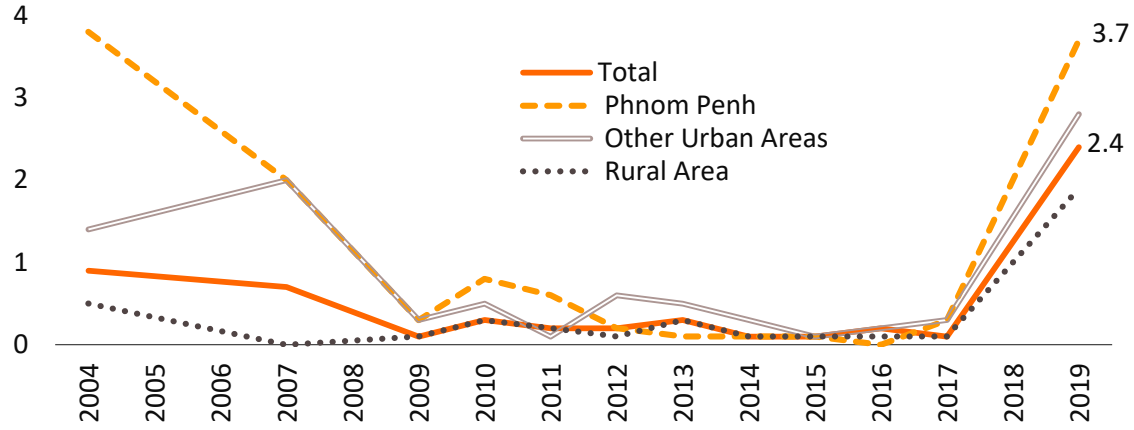
# *Price stability* is well anchored, while the labor market shows signs of higher vulnerabilities

While inflationary pressure remains muted, unemployment in both urban and rural areas is rising and this may reflect vulnerabilities in the labor market.

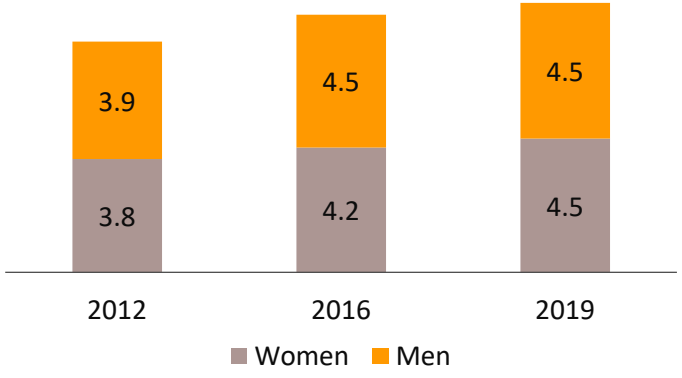
**Inflationary pressure (%YoY)**



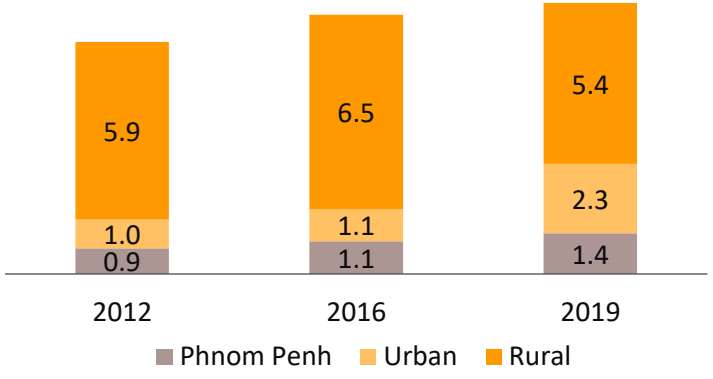

**Unemployment (%)**



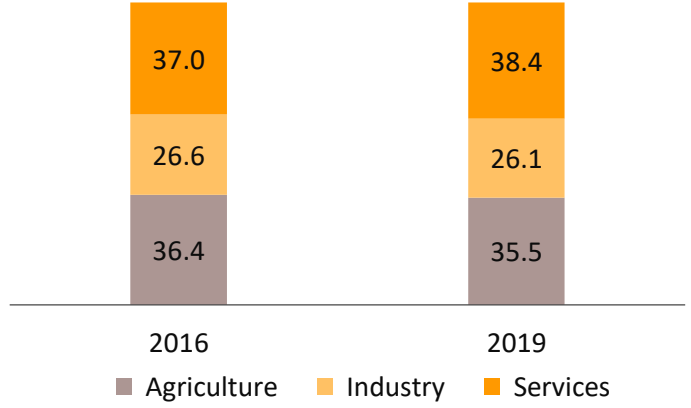

**Labor force (person mn) by gender**




**Labor force (person mn) by geography**




**Employment by industry (% of total)**

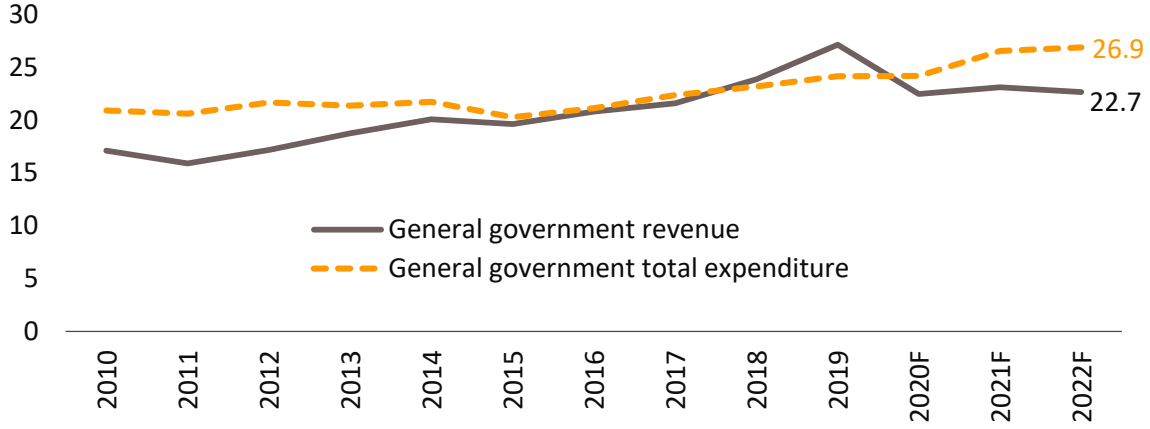



Source: CEIC

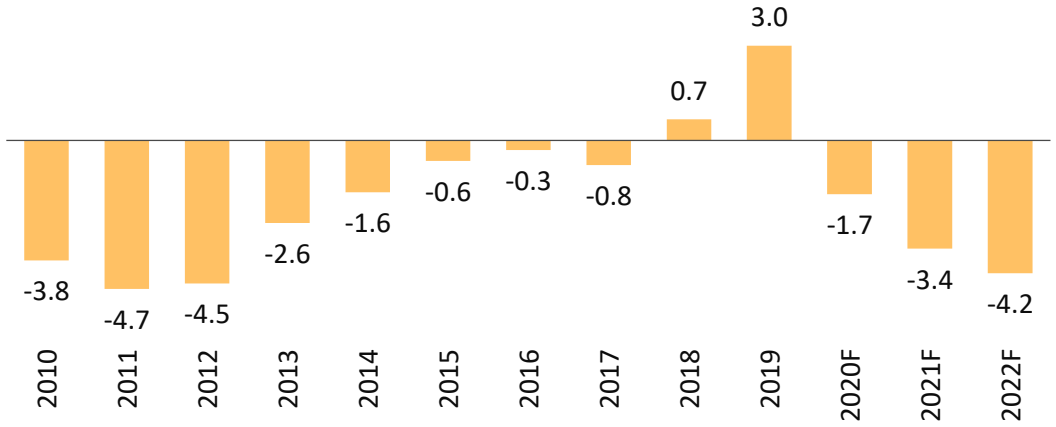
# The government is expected to run budget deficits over the medium term to nurture the recovery and to contain the adverse impact of the pandemic

Debt sustainability remains manageable for Cambodia. In the medium term, the government may need to run budget deficits to nurture the economic recovery in the post-pandemic world.

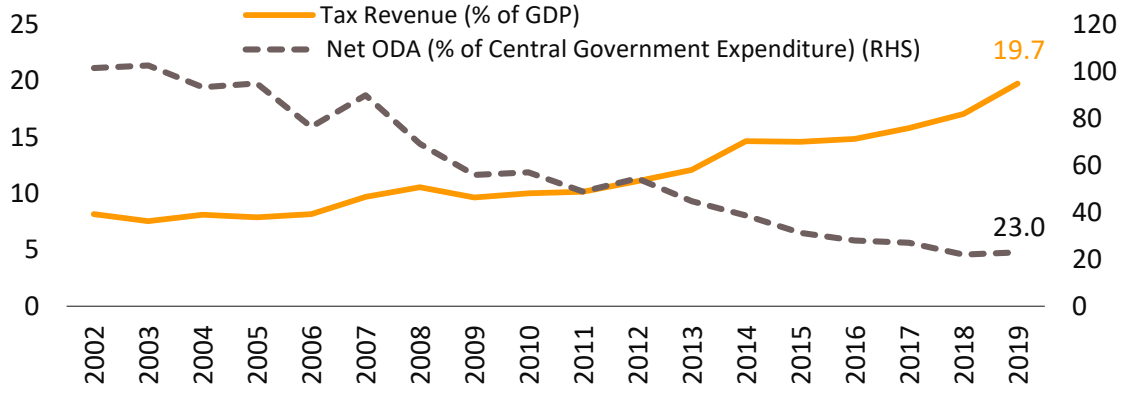
**Government budget balance (% of GDP)**



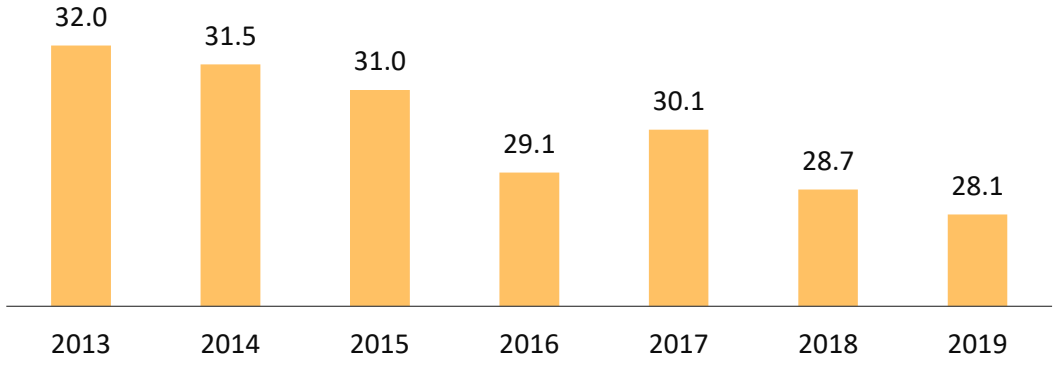

**Net lending/borrowing (% of GDP)**




**Sources of Government Revenue**




**External Public Debt (% of GDP)**

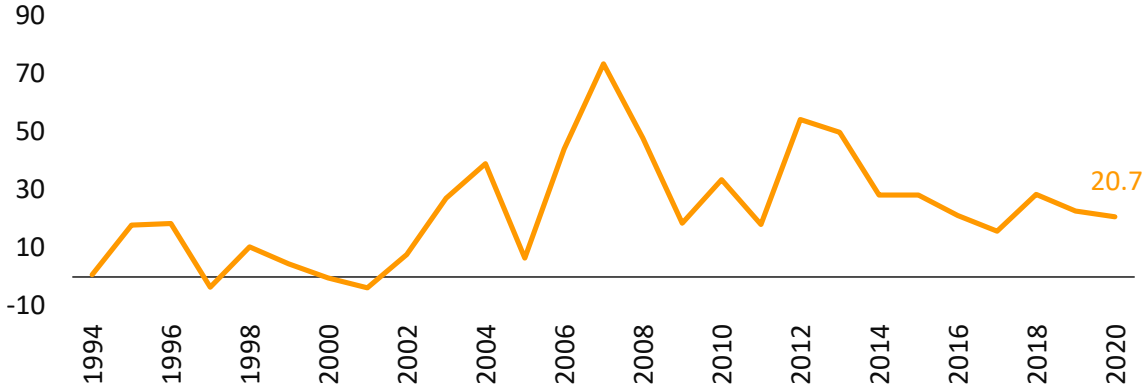



Source: CEIC

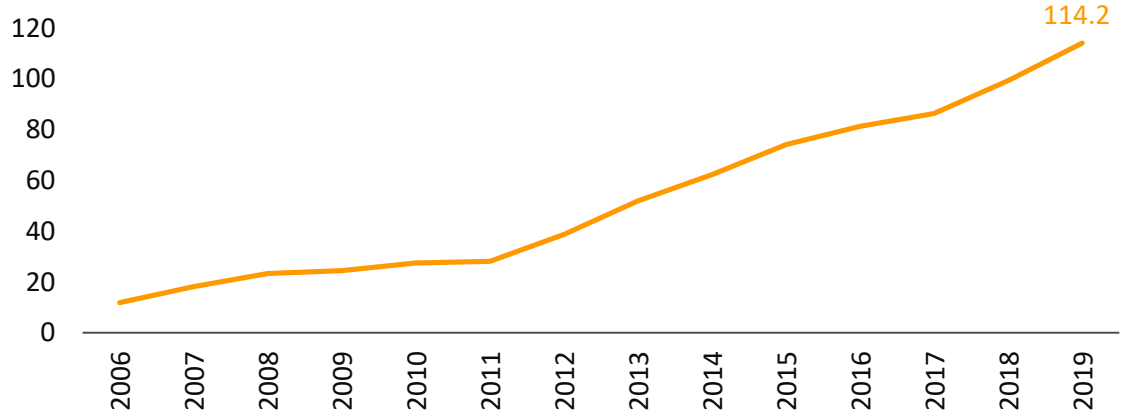
# *Credit growth* has declined over the past decade against a backdrop of a highly dollarized economy

Credit growth which has supported economic expansion has recently slowed down. This may help contain booms in the real estate sector and vulnerabilities in the financial sector. On the other hand, the degree of dollarization remains substantial, and this has hindered the maneuver of monetary policy in achieving macroeconomic aims.

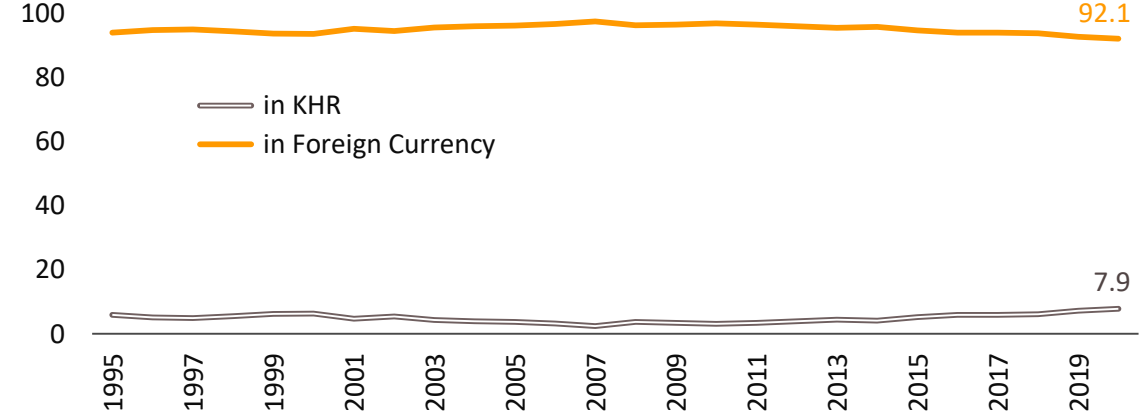
**Domestic Credit (USD mn) (% YoY)**



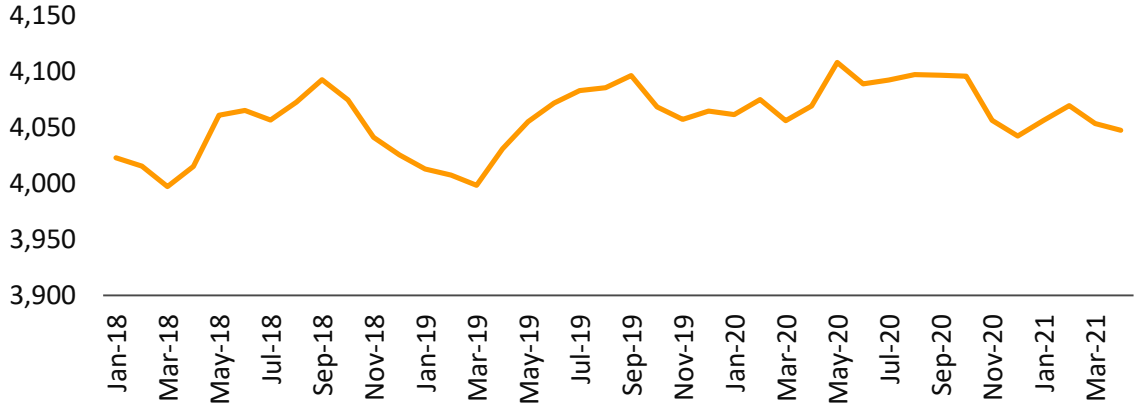

**Domestic credit to private sector (% of GDP)**




**Deposit by currency (% of total)**




**KHR/USD (Monthly Average)**

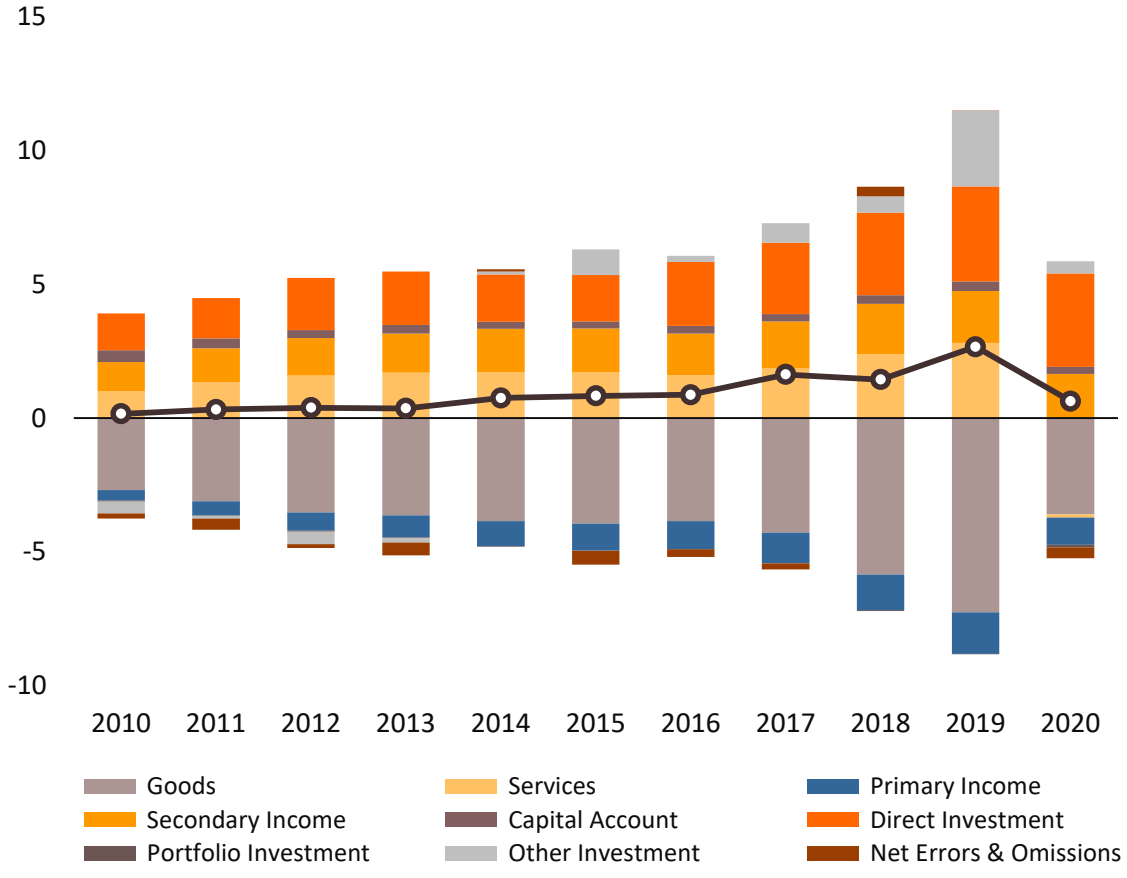



Source: CEIC

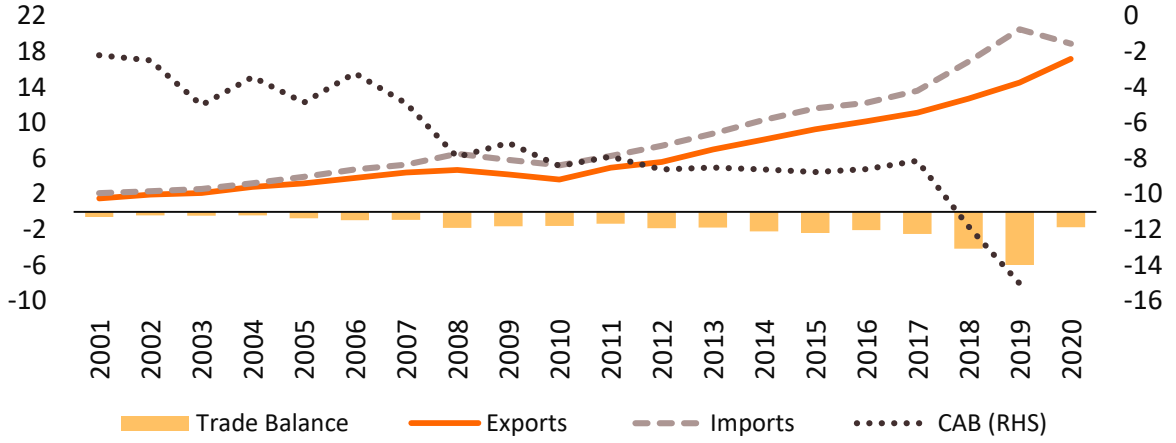
# *Direct investment and remittances* have played essential roles in financing chronic trade deficits

Twin deficits – government budget deficits and current account deficits – have been a chronic macroeconomic symptom for Cambodia. However, foreign direct investment (FDI) inflows along with surpluses of trade in services and inward remittances have fully financed those deficits. Looking ahead, this trend will continue in the post-pandemic era.

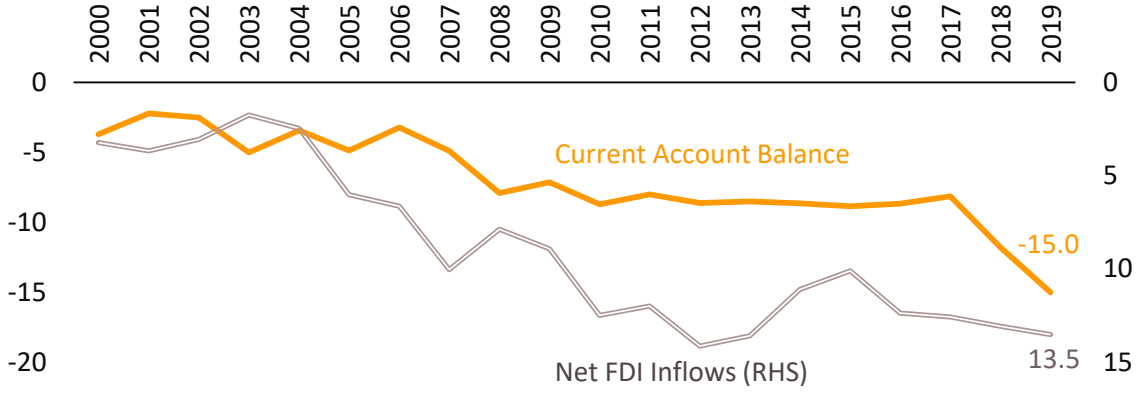
**Balance of Payments (USD bn)**




**Trade Balance (USD bn) and Current Account Balance (% of GDP)**




**Net FDI inflows and Current Account Balance (% of GDP)**




Source: CEIC

# *Garment and footwear products* have dominated Cambodia's exports, while exports of machinery and electronics have grown gradually

Despite its diversification efforts, Cambodia's export structure remain dominated by garment and footwear products, which account for about 50% of the country's total export value in 2020. However, exports of other products such as electronics and vehicles (bicycles) are on the rise.

| Major exports by product group | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Live animals/products | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| **Vegetable products** | 0.8 | 1.8 | 2.7 | 4.1 | 3.9 | 3.9 | 3.4 | 3.6 | 4.0 | 3.6 | 3.6 |
| Animal or vegetable fats | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Prepared foodstuffs | 0.6 | 0.6 | 0.9 | 1.7 | 1.1 | 1.0 | 1.1 | 1.3 | 1.3 | 1.1 | 0.8 |
| Mineral products | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 |
| Products of the chemical | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.5 | 1.2 | 0.9 | 0.2 | 0.2 | 0.2 |
| Plastics and articles | 1.7 | 3.0 | 3.2 | 2.9 | 2.4 | 2.8 | 2.9 | 3.6 | 3.3 | 3.1 | 3.3 |
| Raw hides and skins | 0.0 | 0.0 | 0.2 | 0.3 | 0.5 | 3.2 | 3.3 | 5.1 | 6.9 | 9.5 | 6.9 |
| Wood and articles | 0.7 | 0.8 | 0.4 | 0.9 | 1.6 | 0.2 | 0.4 | 1.0 | 1.2 | 1.0 | 1.2 |
| Pulp of Wood | 31.8 | 23.6 | 11.1 | 0.1 | 1.5 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 2.2 |
| Fabrics | 0.1 | 0.2 | 0.4 | 0.6 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 | 0.7 |
| **Garments** | 54.5 | 59.7 | 69.5 | 72.9 | 78.3 | 70.3 | 67.0 | 63.5 | 62.6 | 56.8 | 43.2 |
| **Footwear** | 3.3 | 4.1 | 5.0 | 5.5 | 6.5 | 7.9 | 8.2 | 8.2 | 8.6 | 9.0 | 6.8 |
| Articles of stone | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Precious metals incl. gold and diamonds | 0.1 | 0.3 | 0.5 | 0.1 | 0.6 | 0.6 | 2.1 | 2.1 | 0.7 | 3.0 | 17.2 |
| Base metals | 0.3 | 0.2 | 0.4 | 0.5 | 0.4 | 0.4 | 0.5 | 0.7 | 0.8 | 0.9 | 0.9 |
| **Machinery and mechanical appliances** | 2.7 | 0.2 | 0.9 | 3.8 | 1.2 | 4.4 | 4.8 | 4.6 | 4.8 | 4.7 | 5.3 |
| Vehicles | 2.1 | 4.6 | 4.0 | 5.5 | 0.1 | 3.4 | 3.5 | 3.4 | 3.2 | 3.0 | 3.2 |
| Optical | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Arms and ammunition | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| **Miscellenous manufactures** | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.5 | 0.7 | 1.0 | 1.4 | 3.2 | 4.1 |
| Antiques | 0.4 | 0.0 | 0.1 | 0.1 | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: ITC Trade Map, Krungsri Research

# *The US and the EU* remain the two largest export markets for Cambodia

On the export markets, **Cambodia has been dependent on the US and the EU, which together account for more than 50% of the total value in 2020.** This is due primarily to trade privileges under the Generalized System of Preferences (GSP). For example, the EU's GSP scheme called Everything but Arms (EBA), have led to a massive surge in Cambodia's exports of garments to the bloc since the tariff-free access was granted in 2001.

| Major exports by product group | US | EU | Singapore | China | Japan | United Kingdom | Canada | Hong Kong | Thailand | Viet Nam | South Korea |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Live animals/products | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Vegetable products | 0.1 | 3.8 | 0.4 | 27.5 | 0.1 | 1.2 | 0.1 | 2.8 | 0.9 | 3.8 | 0.3 |
| Animal or vegetable fats | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Prepared foodstuffs, beverage | 0.4 | 0.1 | 0.1 | 1.9 | 0.1 | 0.0 | 0.0 | 0.1 | 0.9 | 15.2 | 1.7 |
| Mineral fuels, mineral oils | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 |
| Products of the chemical | 0.1 | 0.3 | 0.0 | 1.8 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.8 |
| Plastics and articles | 5.2 | 0.4 | 0.3 | 2.2 | 0.3 | 0.5 | 0.4 | 0.0 | 0.1 | 52.7 | 1.2 |
| Raw hides and skins | 14.5 | 2.6 | 0.0 | 20.7 | 4.6 | 0.6 | 2.8 | 4.2 | 0.3 | 0.2 | 1.6 |
| Wood and articles | 3.8 | 0.0 | 0.0 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.5 | 0.1 |
| Pulp of Wood | 0.1 | 0.0 | 4.6 | 0.0 | 0.5 | 0.0 | 0.0 | 38.6 | 0.1 | 0.2 | 0.5 |
| Fabrics | 0.9 | 0.0 | 0.2 | 1.0 | 0.1 | 0.0 | 0.0 | 0.4 | 0.1 | 5.4 | 0.0 |
| Garments | 46.7 | 70.7 | 2.0 | 20.4 | 69.5 | 78.0 | 85.9 | 7.5 | 4.3 | 10.3 | 48.3 |
| Footwear | 6.2 | 11.5 | 0.1 | 6.1 | 10.9 | 8.4 | 8.1 | 1.3 | 0.8 | 2.1 | 19.0 |
| Articles of stone | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 |
| Precious metals | 0.5 | 0.1 | 92.0 | 0.0 | 0.0 | 0.0 | 0.0 | 37.9 | 52.4 | 0.0 | 0.0 |
| Base metals | 0.5 | 0.2 | 0.1 | 6.9 | 0.1 | 0.0 | 0.1 | 0.1 | 5.2 | 1.1 | 2.4 |
| Machinery and mechanical appliances | 5.4 | 1.1 | 0.2 | 9.7 | 12.1 | 1.2 | 0.0 | 6.7 | 31.9 | 6.0 | 20.8 |
| Vehicles | 2.9 | 9.0 | 0.0 | 0.1 | 0.1 | 9.7 | 1.2 | 0.0 | 1.2 | 0.5 | 1.2 |
| Optical | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 | 1.5 | 0.0 |
| Arms and ammunition | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Miscellenous manufactures | 12.6 | 0.2 | 0.0 | 0.1 | 1.4 | 0.3 | 1.1 | 0.1 | 1.6 | 0.1 | 1.9 |
| Antiques | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| **Share of total exports (%)** | **30.1** | **22.9** | **14.8** | **6.1** | **6.0** | **4.7** | **4.2** | **3.8** | **3.7** | **2.2** | **1.0** |
| **Total Exports (USD bn)** | **5.3** | **4.1** | **2.6** | **1.1** | **1.1** | **0.8** | **0.8** | **0.7** | **0.7** | **0.4** | **0.2** |

Note: Data as of 2020
Source: ITC Trade Map, Krungsri Research

# *Intermediate inputs* for the manufacturing sector have dominated Cambodia's imports

The share of imports of intermediate inputs for the garment production and consumer products together has been sizeable. In 2020, the imports of fabrics accounts for more than a fifth of Cambodia's total imports.

| Major exports by product group | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Live animals/products | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.7 |
| **Vegetable products** | 0.8 | 0.8 | 1.1 | 1.0 | 1.0 | 0.8 | 0.8 | 0.7 | 0.8 | 0.9 | 1.0 |
| Animal or vegetable fats | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Prepared foodstuffs | 6.0 | 5.4 | 5.6 | 5.6 | 6.6 | 6.7 | 6.6 | 6.5 | 6.6 | 5.8 | 6.5 |
| Mineral products | 8.4 | 14.9 | 16.9 | 13.3 | 4.7 | 2.2 | 8.9 | 10.8 | 11.2 | 12.6 | 10.6 |
| Products of the chemical | 5.3 | 4.7 | 4.8 | 5.1 | 5.7 | 5.3 | 5.2 | 5.2 | 5.3 | 5.0 | 5.7 |
| Plastics and articles | 3.3 | 2.8 | 2.9 | 3.1 | 3.9 | 4.1 | 4.6 | 4.4 | 4.3 | 4.7 | 5.3 |
| Raw hides and skins | 0.9 | 1.0 | 0.9 | 1.0 | 1.4 | 2.8 | 2.6 | 3.3 | 3.3 | 3.0 | 2.3 |
| Wood and articles | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 | 0.5 | 0.9 | 1.1 | 1.0 | 1.2 |
| Pulp of Wood | 2.7 | 2.5 | 2.2 | 2.3 | 3.5 | 2.5 | 2.6 | 2.7 | 2.4 | 2.5 | 2.9 |
| Fabrics | 36.8 | 34.7 | 33.7 | 34.3 | 37.5 | 34.7 | 32.8 | 30.6 | 28.2 | 24.9 | 22.8 |
| **Garments** | 2.2 | 2.2 | 2.0 | 1.7 | 1.9 | 1.5 | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 |
| **Footwear** | 0.9 | 0.5 | 0.6 | 0.7 | 1.1 | 1.0 | 1.0 | 1.0 | 0.9 | 1.0 | 0.9 |
| Articles of stone | 1.3 | 1.2 | 1.2 | 1.2 | 1.7 | 1.5 | 1.5 | 1.5 | 1.4 | 1.8 | 1.6 |
| Precious metals incl. gold and diamonds | 3.4 | 1.8 | 1.4 | 1.1 | 2.1 | 5.6 | 2.1 | 1.8 | 3.3 | 0.8 | 5.6 |
| Base metals | 4.1 | 4.7 | 4.4 | 4.1 | 5.1 | 4.7 | 4.9 | 5.3 | 5.7 | 7.7 | 7.2 |
| **Machinery and mechanical appliances** | 13.1 | 11.1 | 10.0 | 12.4 | 15.2 | 11.1 | 12.1 | 11.3 | 10.4 | 12.3 | 12.5 |
| Vehicles | 7.7 | 7.4 | 9.6 | 9.9 | 4.3 | 11.0 | 9.3 | 9.5 | 9.9 | 12.0 | 9.1 |
| Optical | 0.8 | 0.8 | 0.6 | 0.7 | 0.8 | 0.9 | 0.7 | 0.5 | 0.5 | 0.5 | 0.6 |
| Arms and ammunition | 0.1 | 0.5 | 0.1 | 0.1 | 0.0 | 0.4 | 0.0 | 0.1 | 0.5 | 0.0 | 0.1 |
| **Miscellenous manufactures** | 1.6 | 1.7 | 1.5 | 1.8 | 2.6 | 2.0 | 2.0 | 2.1 | 2.2 | 2.2 | 2.2 |
| Antiques | 0.1 | 0.8 | 0.0 | 0.0 | 0.1 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Note: Data as of 2020
Source: ITC Trade Map, Krungsri Research

# *China* is the single largest source of imports for Cambodia

Currently, **China is the largest source of Cambodia's imports with the share of 36.7% in 2020.** The imports are dominated by inputs for the garment industry and machinery and electronics. Vietnam, Taiwan, and South Korea are also sources of fabric imports. Imports from Thailand – the second largest source of imports – are dominated by food and beverage, fuels, base metals, and vehicles.

| Major import groups | China | Thailand | Viet Nam | Singapore | EU-28 | Taiwan | Indonesia | Japan | South Korea | Switzerland |
|---|---|---|---|---|---|---|---|---|---|---|
| Live animals/products | 0.1 | 2.7 | 0.3 | 0.0 | 1.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| Vegetable products | 0.1 | 0.4 | 1.3 | 0.1 | 6.4 | 0.0 | 0.2 | 0.1 | 0.1 | 0.0 |
| Animal or vegetable fats | 0.0 | 0.1 | 0.2 | 0.1 | 0.1 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| Prepared foodstuffs, beverage | 0.6 | 13.2 | 5.4 | 5.3 | 7.5 | 3.7 | 46.7 | 0.8 | 13.7 | 0.4 |
| Mineral fuels, mineral oils | 0.1 | 26.6 | 21.8 | 23.3 | 0.2 | 1.2 | 28.5 | 0.1 | 0.1 | 0.0 |
| Products of the chemical | 4.4 | 8.0 | 8.4 | 4.2 | 11.8 | 3.6 | 3.8 | 2.4 | 3.9 | 1.4 |
| Plastics and articles | 6.5 | 4.3 | 4.9 | 1.5 | 1.4 | 15.8 | 0.8 | 4.8 | 3.5 | 0.0 |
| Raw hides and skins | 1.2 | 0.5 | 2.4 | 0.0 | 26.4 | 1.0 | 0.0 | 1.1 | 5.9 | 0.0 |
| Wood and articles | 2.6 | 0.3 | 0.4 | 0.0 | 1.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 |
| Pulp of Wood | 2.4 | 1.6 | 4.4 | 7.5 | 4.5 | 4.3 | 2.5 | 0.4 | 1.1 | 0.0 |
| Fabrics | 39.5 | 4.1 | 24.1 | 0.1 | 5.6 | 43.3 | 1.6 | 5.4 | 12.4 | 0.1 |
| Garments | 1.6 | 0.3 | 0.9 | 0.1 | 0.2 | 0.7 | 0.1 | 1.4 | 4.9 | 0.0 |
| Footwear | 1.2 | 0.2 | 2.7 | 0.0 | 0.1 | 0.5 | 0.1 | 0.1 | 0.0 | 0.0 |
| Articles of stone | 2.8 | 1.5 | 1.1 | 0.0 | 0.5 | 0.0 | 0.6 | 3.0 | 0.1 | 0.0 |
| Precious metals | 0.0 | 0.1 | 0.0 | 51.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 97.0 |
| Base metals | 10.8 | 2.7 | 11.3 | 0.7 | 1.7 | 5.5 | 0.2 | 2.4 | 13.7 | 0.0 |
| Machinery and mechanical appliances | 19.7 | 13.3 | 4.0 | 2.7 | 20.3 | 4.0 | 4.2 | 19.4 | 7.9 | 0.9 |
| Vehicles | 2.7 | 17.1 | 3.6 | 2.4 | 9.2 | 13.1 | 10.2 | 55.4 | 31.4 | 0.0 |
| Optical | 0.6 | 0.3 | 0.1 | 0.6 | 1.5 | 0.1 | 0.1 | 1.5 | 0.4 | 0.2 |
| Arms and ammunition | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Miscellenous manufactures | 3.0 | 2.6 | 2.5 | 0.1 | 0.6 | 2.9 | 0.1 | 1.3 | 0.8 | 0.0 |
| Antiques | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Share of total imports (%)** | **36.7** | **14.9** | **13.8** | **5.1** | **3.7** | **3.9** | **3.4** | **3.4** | **2.8** | **2.8** |
| **Total Exports (USD bn)** | **7.1** | **2.9** | **2.7** | **1.0** | **0.7** | **0.8** | **0.7** | **0.7** | **0.5** | **0.5** |

Note: Data as of 2020
Source: ITC Trade Map, Krungsri Research

# *Free trade agreements* at the regional and bilateral levels could provide a boost to its exports in the medium term

**Cambodia has recently been active in engaging bilateral free trade agreements (FTAs) with its trading partners to help gain greater market access and to diversify export markets.** Over the past two decades, Cambodia has been crucially dependent on the US and the EU for its exports, mainly garments and footwears. Diversification of export markets has become vital for the country following the EU's decision to partially suspend tariff-free access to the bloc's single market in 2020. Currently, Cambodia is in talk with countries like South Korea, and India for FTAs following its first free trade deal with China signed in October 2020.

**Signed Bilateral FTAs of Cambodia**

Cambodia- People's Republic of China FTA
(signed but not yet in effect)

Note: FTAs signed and in effect for Cambodia are those under ASEAN Frameworks

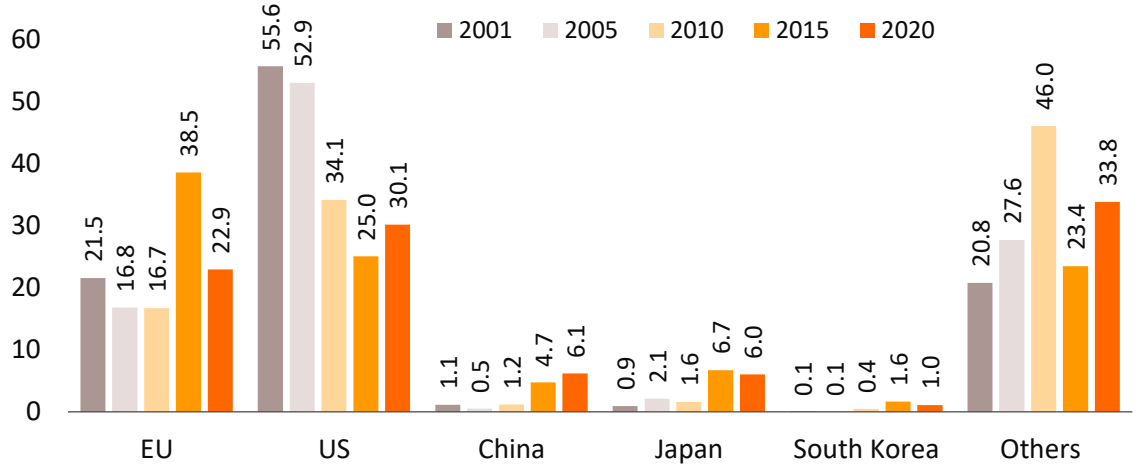
**Other Bilateral FTAs (Proposed/Under Negotiations/Under Consultation and study )**

Cambodia- Republic of Korea FTA
(Negotiations launched)

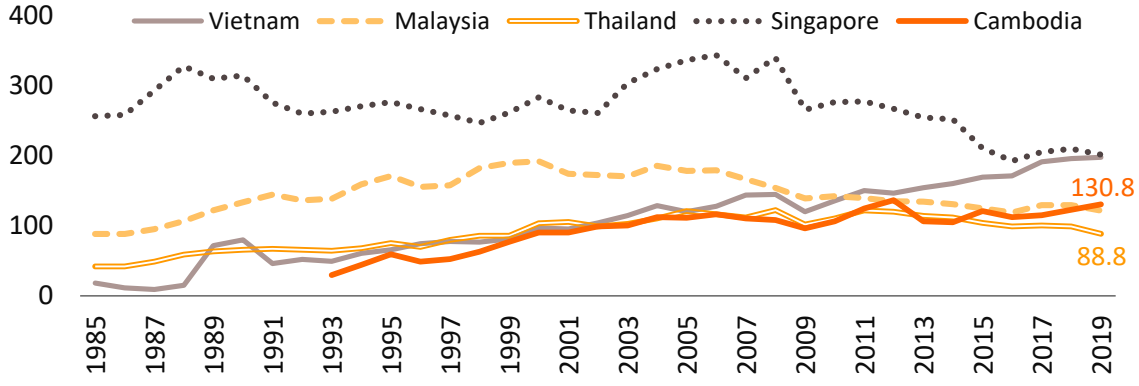
Cambodia- Eurasian Economic Union FTA
(Proposed/under consultation and study)

Cambodia- India FTA
(Proposed)

**Developments in shares of major trading partners of Cambodia (%)**




**Goods Trade (% of GDP)**




Source: CEIC, ARIC/ADB

# *EU's partial suspension* of tariff-free access to its single market under the EBA scheme undermines Cambodia's competitiveness

In August 2020, The EU's partial withdrawal of the preferential treatment enjoyed by Cambodia under Everything But Arms (EBA) – the EU's trade arrangement for Least Developed Countries (LDCs) has been in effect due to perceived setbacks in democracy and human rights in the country. Cambodia has enjoyed the EBA privileges since 2001. Under the partial suspension, it is estimated that about 20% of the exports or about USD1bn of the annual export value of Cambodia has been reimposed higher tariffs by the EU. To assess competitiveness of Cambodia's exports compared to that of Vietnam by tariffs imposed, it is clear that Cambodia's export competitiveness has been eroded, particularly footwears, travel goods and handbags.

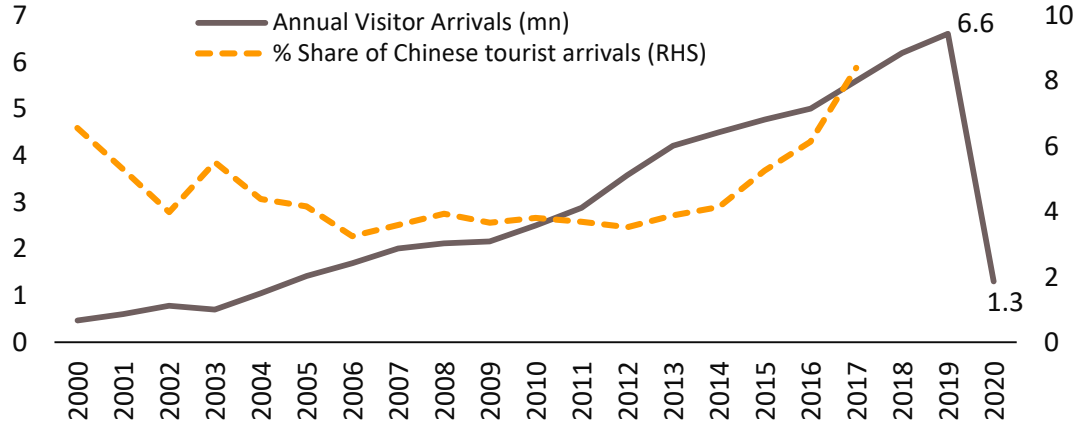
| Top-10 Cambodia exports to the EU in 2020 | | | | Cambodia | | Vietnam | | Thailand | |
|---|---|---|---|---|---|---|---|---|---|
| HS Code | Product Description | Value (USD mn) | % Share | MFN Tariff | **Effectively Applied Tariff** | MFN Tariff | Effectively Applied Tariff | MFN Tariff | Effectively Applied Tariff |
| 61 | Apparel and clothing accessories, knitted or crocheted | 1,602.8 | 49.7 | 11.79% | 4.12% | 11.79% | 5.54% | 11.79% | 11.79% |
| 62 | Apparel and clothing accessories, not knitted or crocheted | 607.2 | 18.8 | 11.52% | 2.30% | 11.52% | 7.24% | 11.52% | 11.52% |
| 64 | Footwear, gaiters and the like | 387.5 | 12.0 | 10.73% | 4.48% | 10.73% | 2.75% | 10.73% | 10.73% |
| 87 | Bicycle | 282.9 | 8.8 | 8.18% | 0% | 8.18% | 4.35% | 8.18% | 8.18% |
| 10 | Cereals | 133.7 | 4.1 | 14.07% | 1.27% | 14.07% | 2.91% | 14.07% | 14.07% |
| 42 | Travel goods, handbags | 92.8 | 2.9 | 4.75% | 4.75% | 4.75% | 0% | 4.75% | 4.75% |
| 85 | Electrical machinery and equipment | 28.6 | 0.9 | 1.19% | 0% | 1.19% | 0.29% | 1.19% | 1.19% |
| 63 | Other made-up textile articles | 12.8 | 0.4 | 10.39% | 0% | 10.39% | 3.54% | 10.39% | 10.39% |
| 40 | Rubber and articles thereof | 8.1 | 0.3 | 2.43% | 0% | 2.43% | 0.06% | 2.43% | 2.43% |
| 65 | Headgear and parts thereof | 7.8 | 0.2 | 3.07% | 0% | 3.07% | 0% | 3.07% | 3.07% |

Source: ITC Trade Map, Krungsri Research

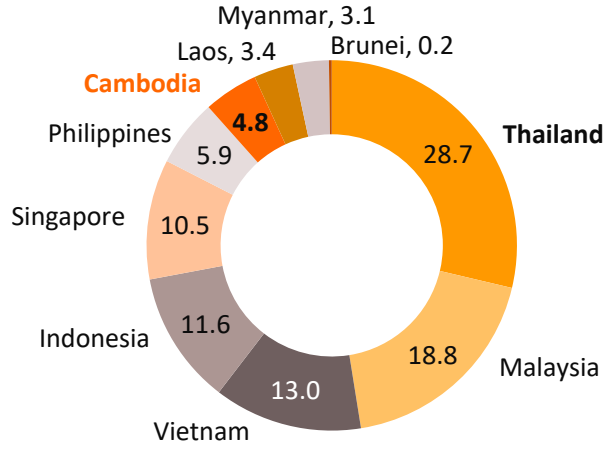
# *Tourism sector* has been a key source of foreign exchange earnings over the past decade

**Tourism sector has recently emerged as not only one of the key economic drivers, but also as one of the main sources of foreign exchange earnings for Cambodia.** Despite its a relatively small share of ASEANS's annual tourist arrivals, the sector accounts for almost a fifth of Cambodia's GDP in 2019 and tourism revenues account for more than a third of the country's total exports.

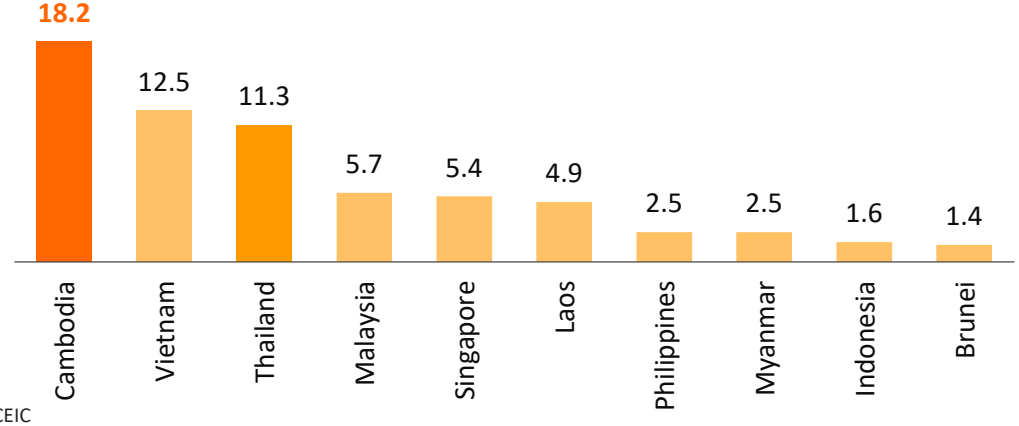
**Annual Tourist arrivals**



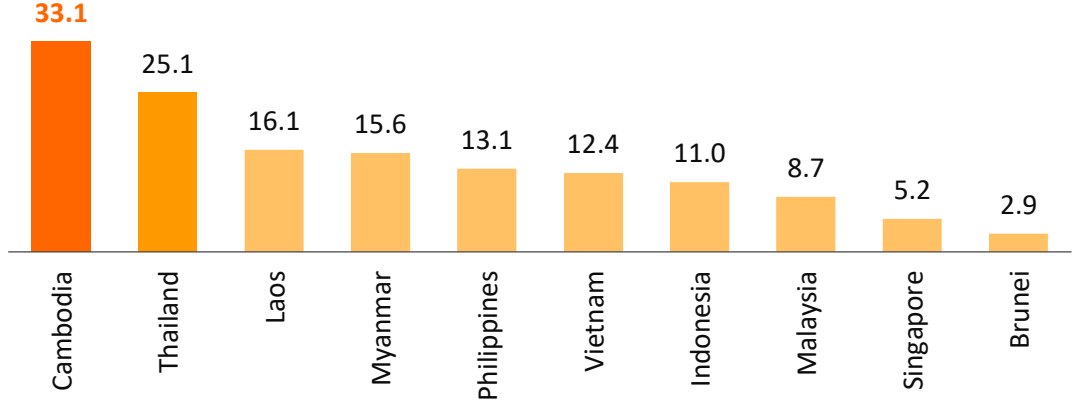

**Annual Visitor Arrivals in 2019 (% of ASEAN)**




**Tourism Revenue in 2019 (% of Nominal GDP)**



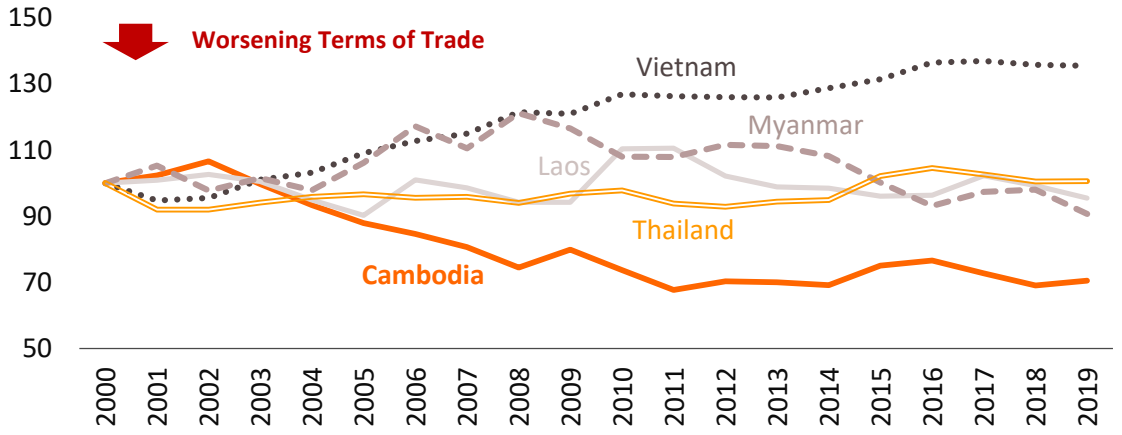

**Tourism Revenue in 2019 ( % of Total Exports)**



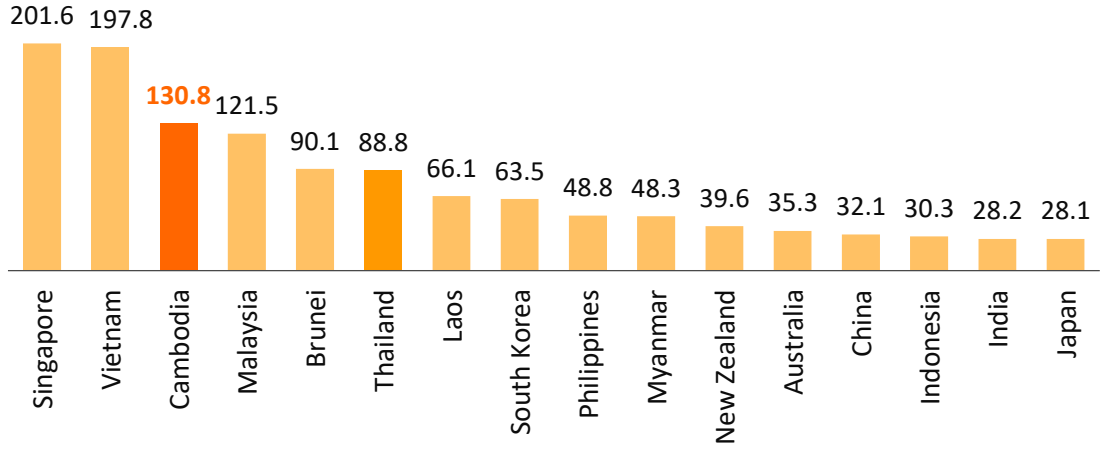

Source: CEIC

# *External competitiveness* of Cambodia has deteriorated, while its openness to cross-border trade both in terms of goods and services is among the highest regionally

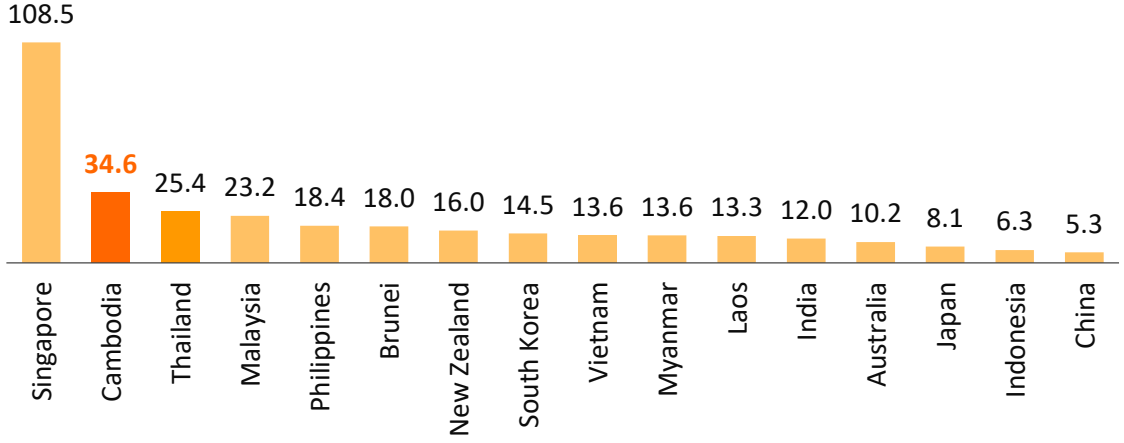
**Net Barter Terms of Trade Index (2000 = 100)**



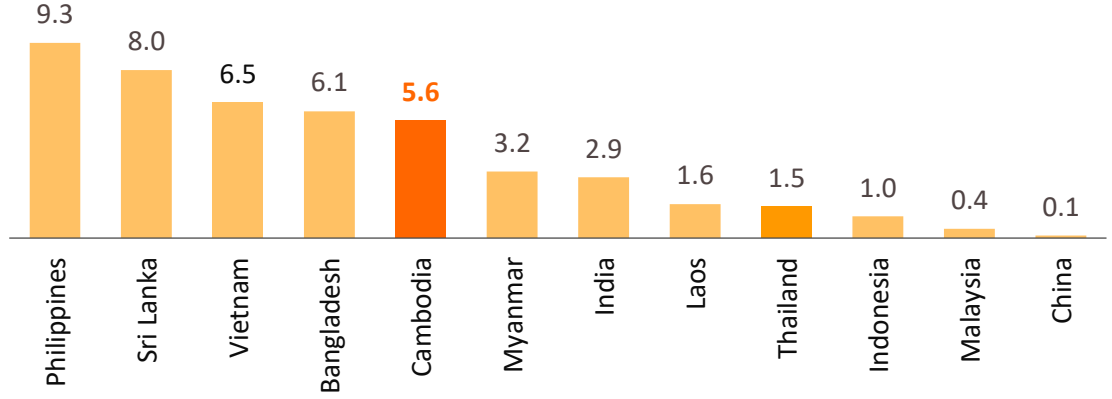

**Goods Trade (% of GDP) of ASEAN+6 countries in 2019**




**Trade in Services of ASEAN +6 countries in 2019 (% of GDP)**

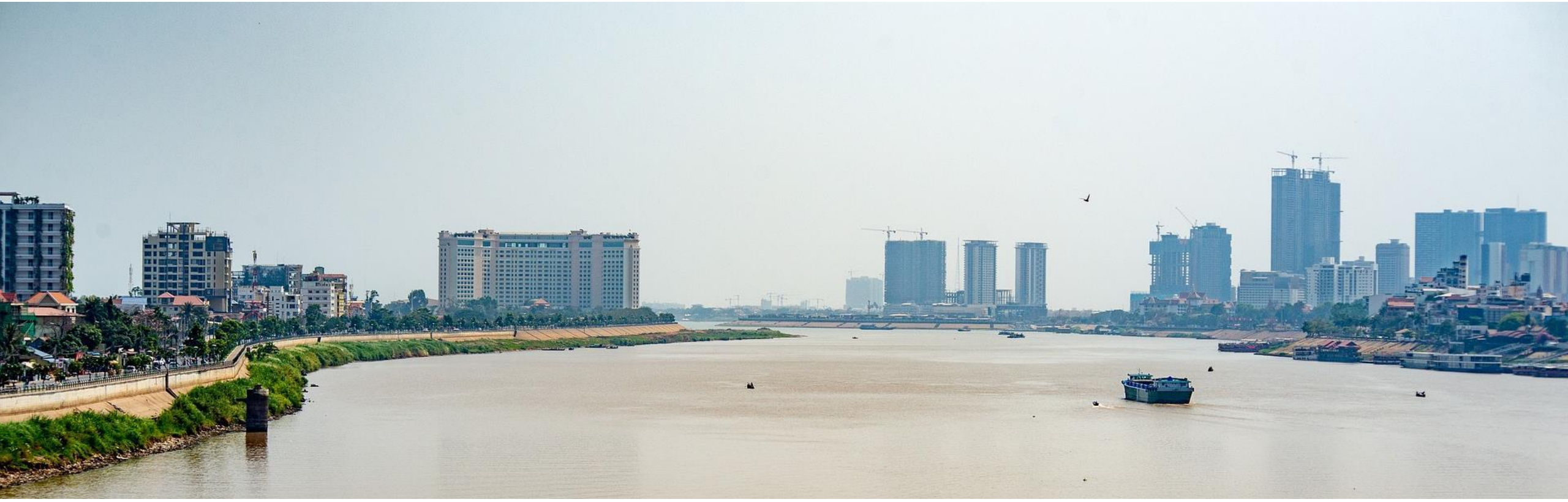



**Personal Remittances Received of some Asian countries in 2019 (% of GDP)**




Source: CEIC, World Bank Databank

# Medium-term prospects



# *Favorable underlying trends* will help sustain Cambodia's strong growth in the long term

**A strong growth path of 6.0% -7.0% p.a. is expected to be resumed in the post-pandemic era due to Cambodia's favorable trends.** These include sustained inflows of FDI, exports of manufactured goods – garment and footwear products, increasing middle-class consumers, the rise of digital economy, as well as political stability. In our view, against this backdrop, business opportunities for both local and foreign investors arise, particularly in the sectors such as e-commerce, financial services, healthcare, food and beverage, logistics, and education technology (EdTech).

## 5 Key Factors to Sustain Vietnam's High Growth

1. **Sustained FDI inflows**
2. **Exports of Manufactured goods**
3. **Growing middle-class consumers**
4. **The Rise of Digital Economy**
5. **Political stability**

## Some Potential Business Opportunities



**E-commerce**



**Financial Services**



**Healthcare**



**Food & Beverage**



**Logistics**



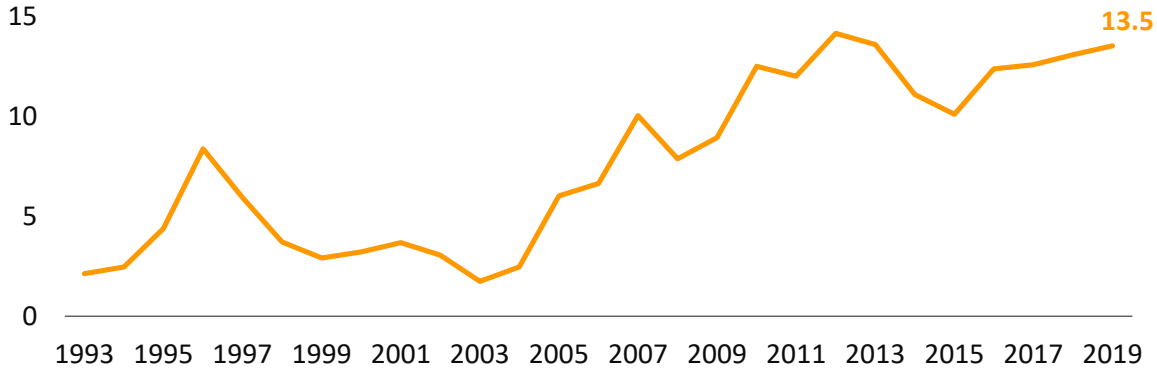
**Education Technology (Edtech)**

Source: Krungsri Research, icons are from www.flaticon.com

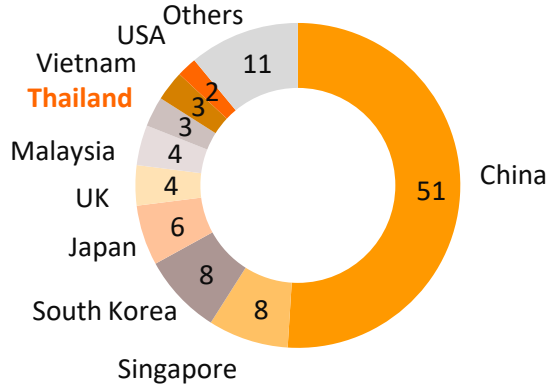
# *FDI inflows* into key sectors are expected to surge should the pandemic outbreak subsides

**Inward FDI is expected to resume its upward trend should the outbreak subsides.** FDI inflows from major sources, especially from China, to key sector such as construction and real estate are likely to surge. In addition, Cambodia could benefit from FDI diversion from Myanmar.

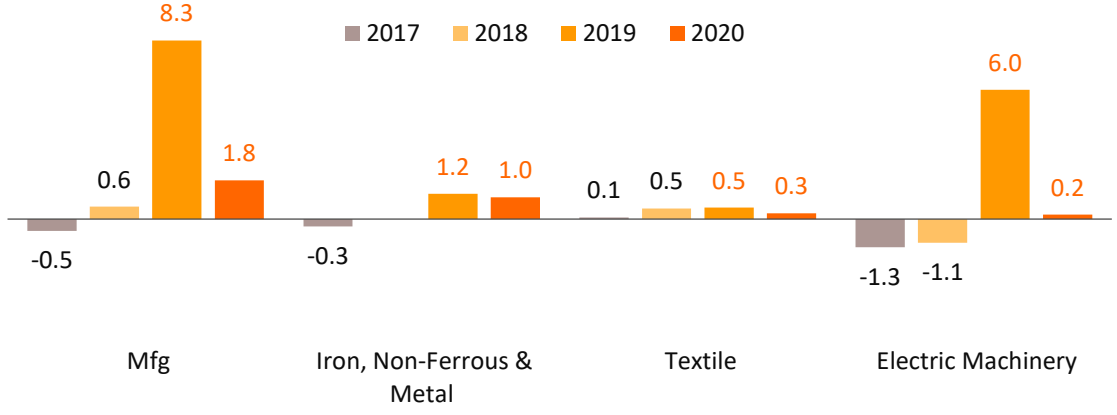
**Net FDI inflows (% of GDP)**



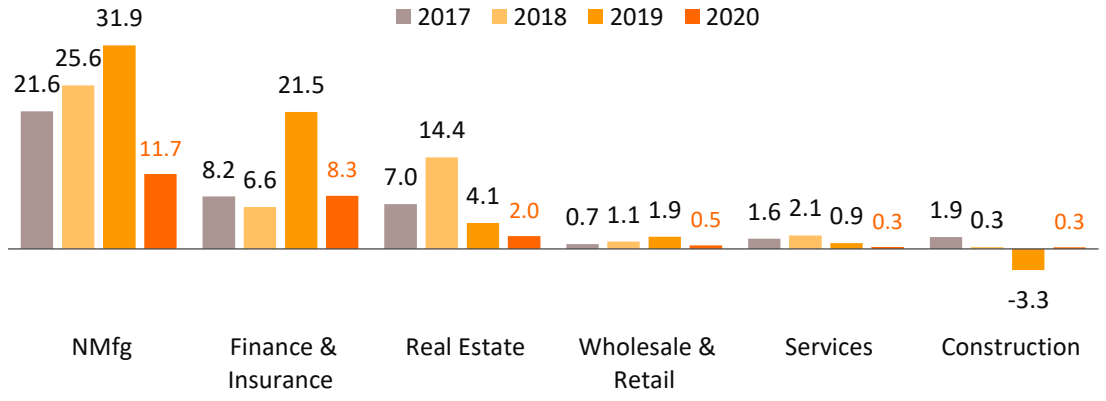

**FDI Inflows by Source Country (% of total, 2020)**




**Japanese Outward Direct Investment to Cambodia: Manufacturing (JPY bn)**




**Japanese Outward Direct Investment to Cambodia: Non-Manufacturing (JPY bn)**




Source: CEIC, NBC's 2020 Financial Stability Review

# *Thailand Direct Investment (TDI)* to Cambodia is dominated by manufacturing and financial activities

TDI to Cambodia's service sector is expected to increase, and sub-sectors such as financial services and wholesale and retail trade are likely to be major beneficiaries. This may be because the sector is attractive and has sizeable room to grow going forward.

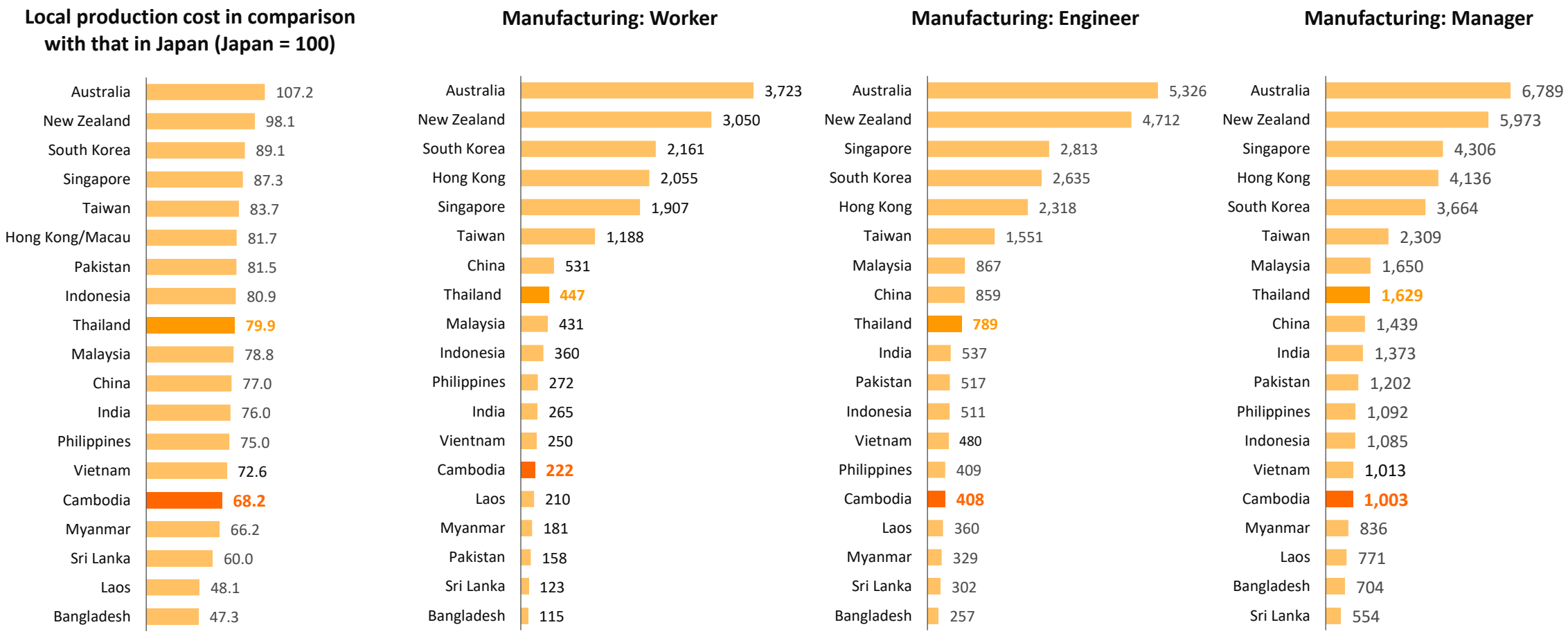
| Thai Direct Investment (Outflow) to Cambodia Classified by Business Sector of Thai Investors (USD mn) | | | | | | | | | | | | % Share of TDI Total Outflows (2005-20) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sector** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | |
| Agriculture, forestry and fishing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Mining and quarrying | 2.6 | 0.9 | 3.8 | 0.1 | 0.0 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.2** |
| **Manufacturing** | **13.7** | **5.4** | **14.9** | **46.6** | **120.0** | **99.4** | **124.8** | **58.5** | **145.9** | **45.6** | **155.8** | **7.6** |
| **Chemicals and chemical products** | 6.7 | 1.0 | 4.9 | 21.9 | 19.2 | 52.9 | 45.2 | 1.0 | 18.1 | 2.1 | **25.1** | **1.7** |
| **Food products** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 |
| Manufacture of textiles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 |
| **Beverages** | 0.0 | 0.2 | 0.1 | 0.0 | 0.0 | 2.1 | 6.7 | 2.5 | 16.5 | 10.9 | **41.3** | **0.6** |
| **Machinery and equipment n.e.c.** | 0.0 | 0.0 | 0.0 | 12.0 | 7.1 | 2.5 | -1.4 | 0.2 | 2.4 | 3.5 | **4.5** | 0.2 |
| Electrical equipment | 0.0 | 0.0 | 0.0 | 0.0 | -1.3 | -1.2 | -1.3 | -1.6 | -0.4 | -0.9 | 0.4 | 0.0 |
| Computer, electronic and optical products | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Other manufacturing | 7.0 | 4.2 | 10.0 | 12.8 | 95.0 | 43.1 | 75.6 | 56.4 | 109.3 | 29.9 | 84.5 | **5.1** |
| **Electricity, gas, steam and air conditioning supply** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 | **5.0** | 0.1 |
| **Construction** | 0.0 | 1.6 | 3.0 | 0.2 | 0.6 | 0.2 | 0.0 | 0.0 | 0.2 | 0.1 | **4.1** | 0.1 |
| **Wholesale and retail trade; repair of motor vehicles and motorcycles** | 13.3 | 7.0 | 7.9 | 8.3 | -0.3 | 2.2 | 2.7 | 2.5 | 21.0 | 29.2 | **19.3** | **1.2** |
| Transportation and storage | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.9 | 0.0 | 1.2 | -1.6 | 0.0 |
| **Accommodation and food service activities** | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.7 | 0.5 | 0.3 | **3.3** | 0.1 |
| **Financial and insurance activities** | 17.8 | 19.4 | 11.0 | 39.8 | 54.0 | 26.2 | 250.7 | 19.6 | 67.8 | 9.6 | **3.7** | **4.3** |
| Real estate activities | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 1.6 | 0.6 | 0.9 | 0.5 | 0.2 | 0.1 |
| Others (e.g. account receivables) | 6.0 | 837.5 | 1,191.8 | 1,947.4 | 1,034.8 | 1,110.5 | 990.2 | 1,056.7 | 1,372.8 | 1,048.0 | 740.4 | **86.2** |
| **Total (USD mn)** | 54.8 | 871.8 | 1,232.4 | 2,042.4 | 1,209.1 | 1,241.6 | 1,370.1 | 1,139.6 | 1,609.2 | 1,140.4 | 930.3 | **100% (USD13.2bn)** |
| **Thai Direct investment Position (Outstanding) (USD bn)** | 0.2 | 0.4 | 0.5 | 0.5 | 0.6 | 0.6 | 1.0 | 1.3 | 1.6 | 1.7 | 1.9 | |

Remark:
1/ The table displays outflow of TDI data of ALL sectors, reflects that the volume of transactions associated with the increase in investment during the period (either in the form of equity capital, reinvestment of earnings, or lending to affiliates).
2/ Starting 2011 this item includes transactions in trade credits between affiliated enterprises.
3/ Negative Thai Direct Investment Abroad (TDI) outflows may occur in the event that affiliated enterprises abroad incur losses or pay dividend in excess of the profit of the current period, thereby resulting in negative "reinvestment of earnings" which surpasses the normal TDI outflows.

Source: Bank of Thailand

# *Low costs of production* provide Cambodia competitive advantage as an investment destination for labor-intensive manufacturing production

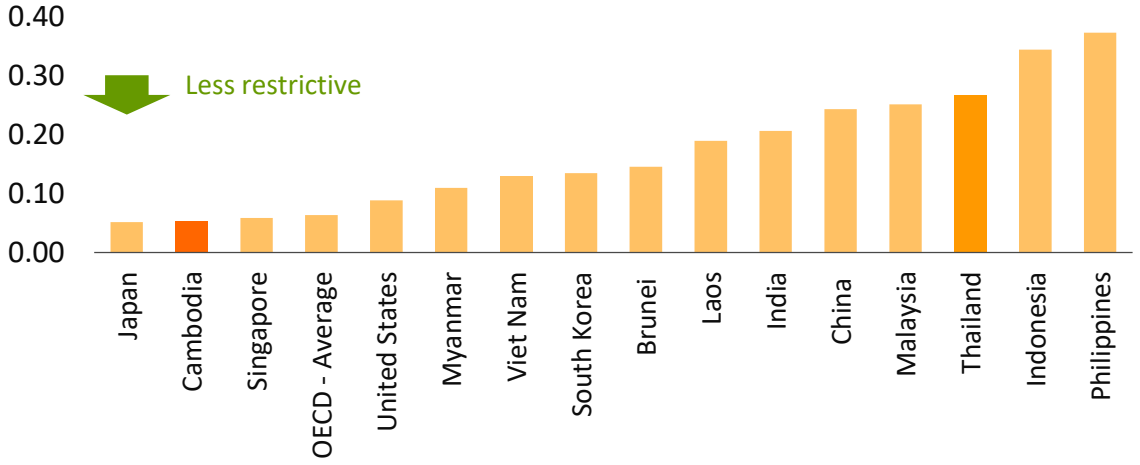
**Production cost and wages for the manufacturing sector in Asia and Oceania**



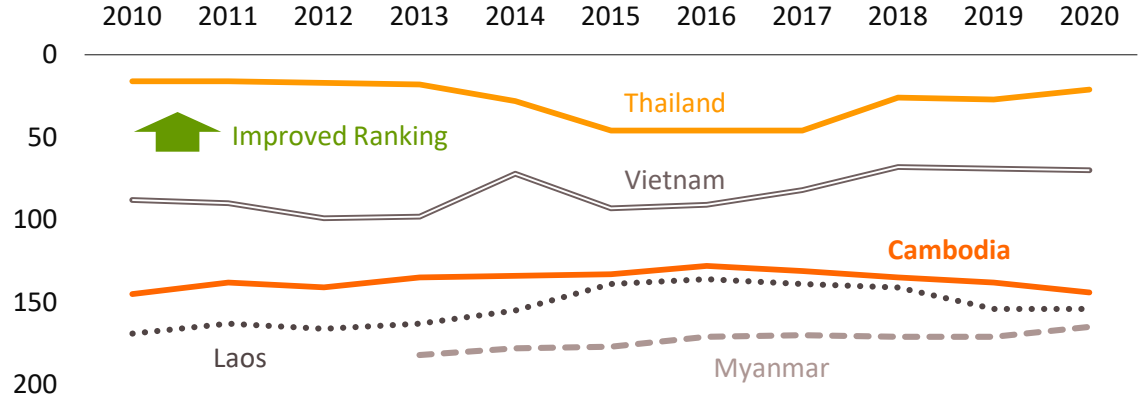

Source: Data based on JETRO Survey Report: Survey on Business Conditions of Japanese-Affiliated Companies: Asia and Oceania, December 2020

# *Low regulatory restrictiveness* offers conducive business environment for foreign investors, while overall ease of doing business remains challenging

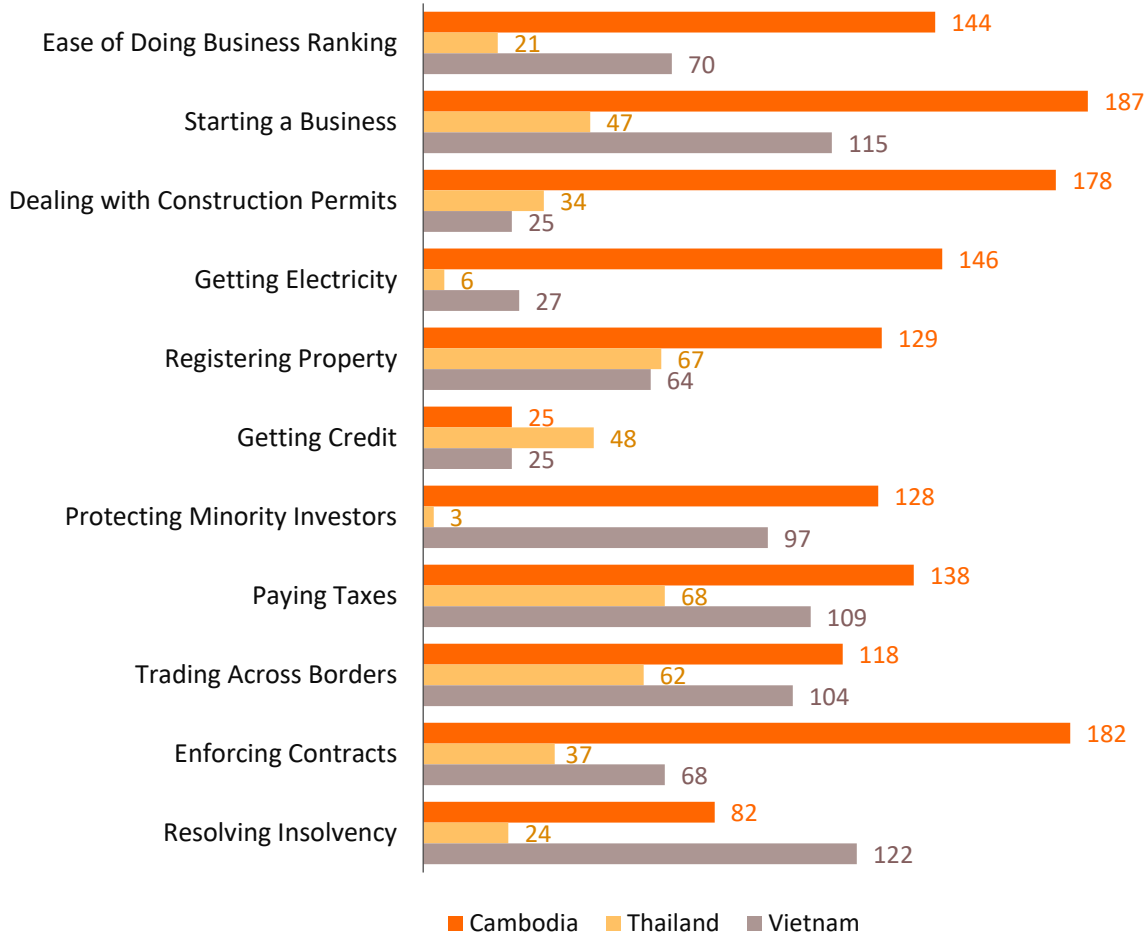
**OECD FDI Regulatory Restrictiveness Index (2019)**




**Ease of Doing Business Ranking (of 140 countries)**




**2020 Ease of Doing Business Ranking (of 140 countries)**

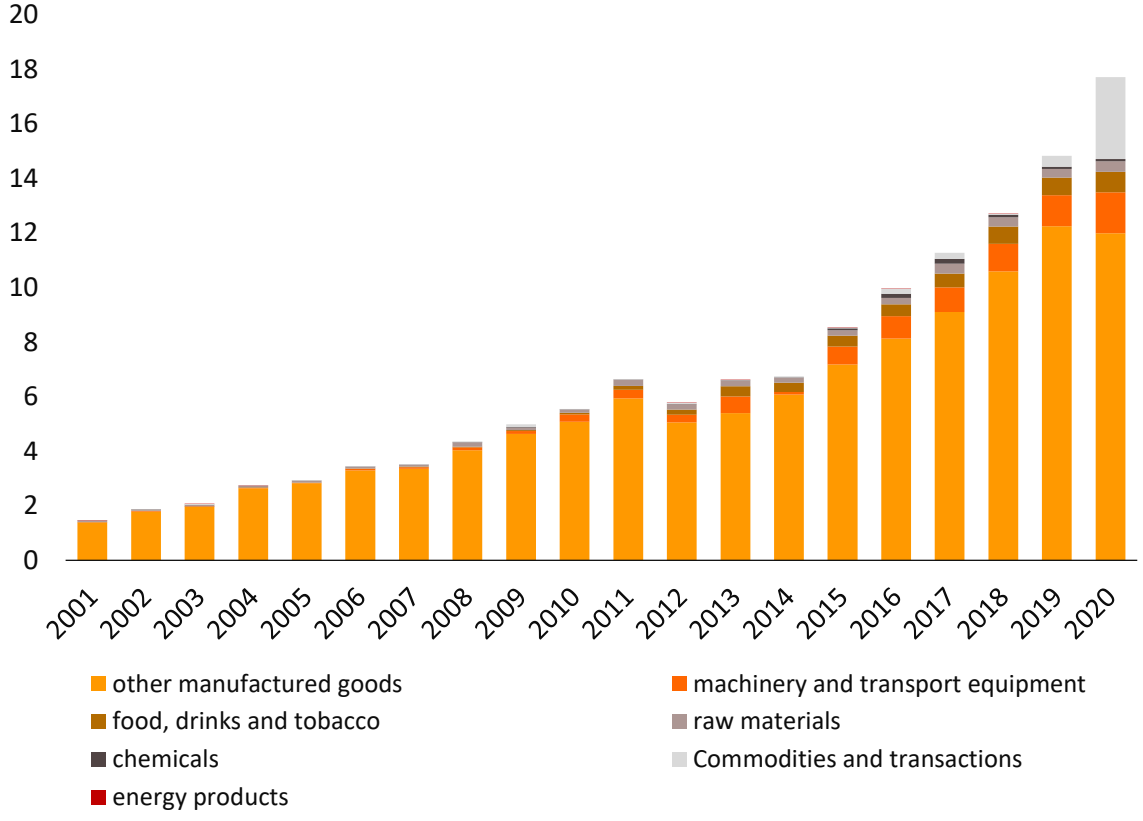



Source: CEIC, OECD, Krungsri Research

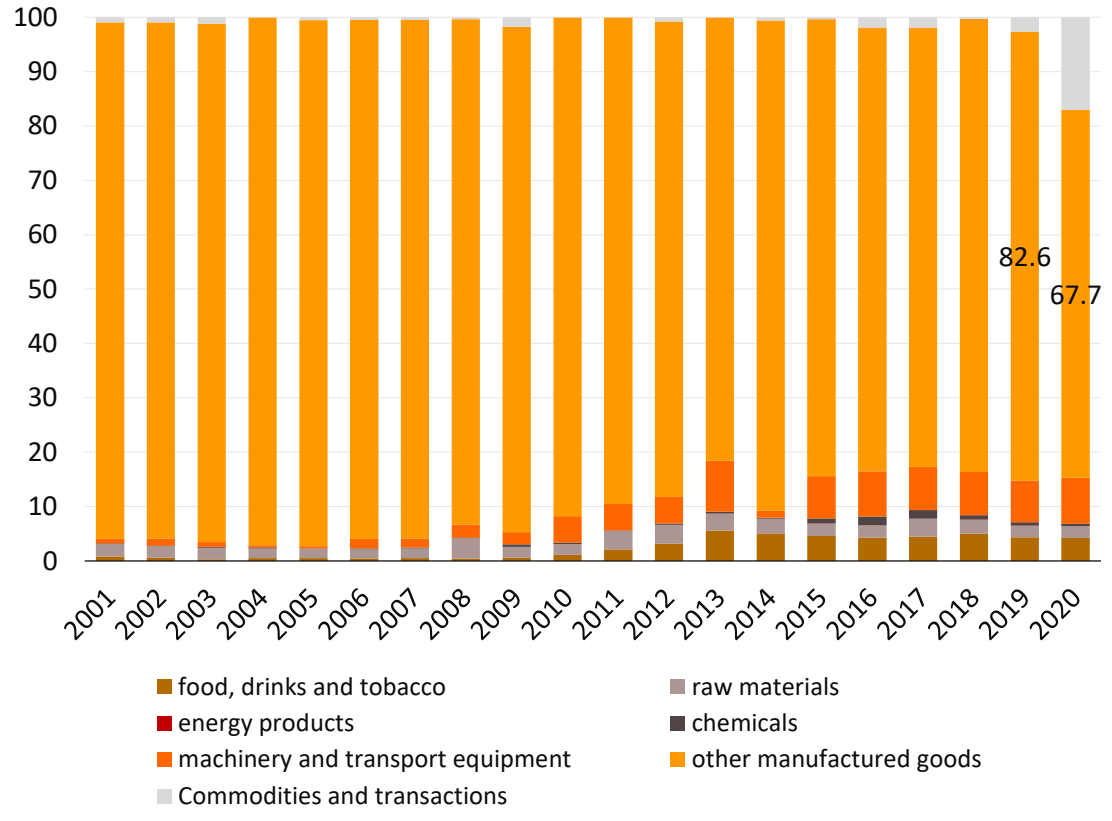
# *Exports of manufactured products* will continue to sustain Cambodia's growth in the post-pandemic world

Despite a high concentration, exports of manufactured goods dominated by garments and related products will continue to be a key growth driver for Cambodia in the post-COVID 19 era, and garment exports account for about 80% of the total exports in the past decade. In addition, Cambodia could benefit from foreign direct investment (FDI) diversion from Myanmar as a result of political turmoil.

**Developments of Cambodia's exports (USD bn)**




**Structure of Cambodia's exports (% share)**




Note: Based on SITC (Standard International Trade Classification).
Source: ITC Trade Map, Krungsri Research

# *Young and wealthier population* will drive domestic consumption in Cambodia in the periods ahead

**The strong economic growth of 7.0 - 8.0% in the past decades has resulted in growing middle-class consumers in Cambodia.** In 2020, it is estimated that there is about 20% of middle-class households and we view that, by 2030, the number will certainly increase as a result of sustained and strong economic growth in the post-pandemic world. On the back of higher income levels, we view that favorable demographic structure, faster digital adoption and regionalization – engaging free trade agreements (FTAs), will be tailwinds in boosting domestic consumption in Cambodia.

## Underlying trends to drive domestic consumption in Cambodia



**1 Favorable demographic structure**

- Young and wealthier working population
- Rising urbanization



**2 Rising income levels**

- An increase in consumption and changing patterns of demand
- Expansion of mid- and high-segment of consumers



**3 Faster digital adoption**

- Rise of e-commerce, mobile commerce, and social commerce
- Government initiatives to drive the public adoption of digital technology
- Booms of innovation



**4 Regionalization**

- Improved regulatory and policy environment
- Free Trade Agreements (FTAs)

Source: Krungsri Research

# *Consumer behaviors* are changing, and some are accelerated by the COVID-19 pandemic

**New consumer habits will emerge in Cambodia, and some are driven by the pandemic, in line with other ASEAN countries.** In our view, there are six key themes that will shape consumption patterns in Cambodia in this decade.

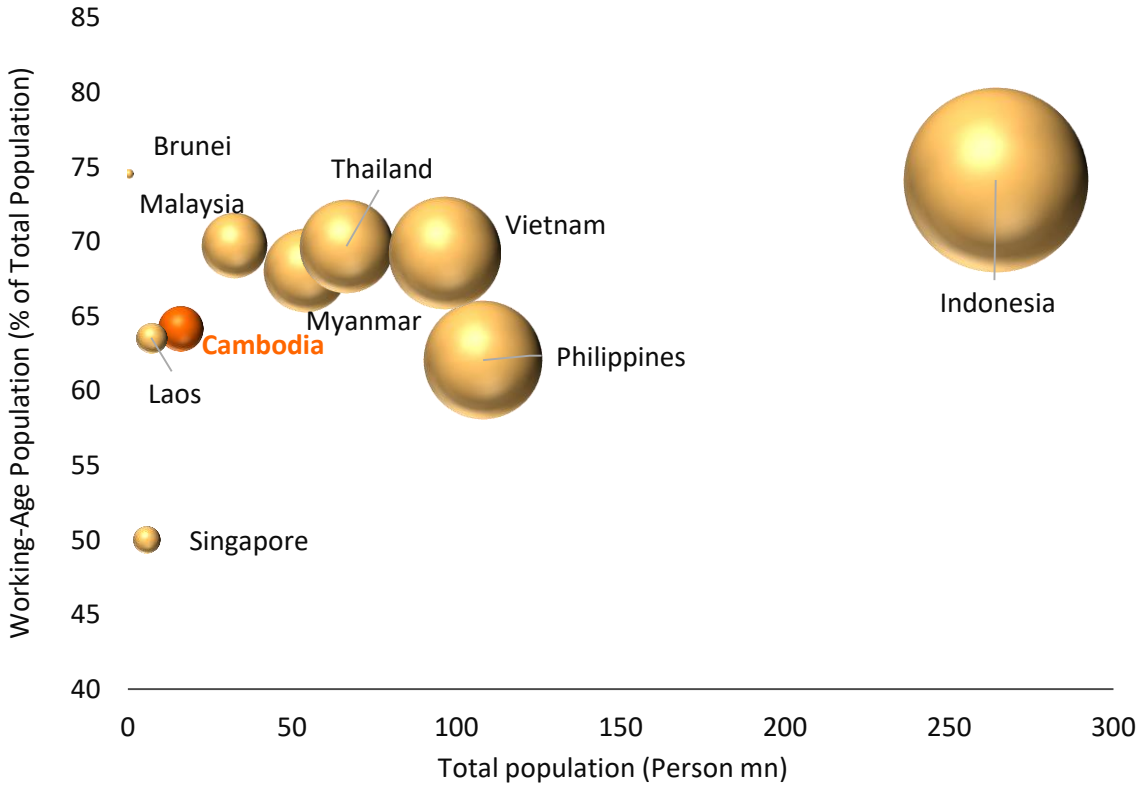
| Key consumption themes in Cambodia in the long term | Implications for businesses |
|---|---|
|  • **Growing middle-class consumers will drive consumption booms** | • Cambodia has sizeable unserved domestic market, along with a growing middle and affluent class of consumers.<br>• Opportunities in the food and beverage (F&B) sector will be immense, along with electronics, education, and transport. |
|  • **Digital adoption will be prevailing** | • Millennials and Gen Z will turn to be the largest segments for digital consumption<br>• Information sets and choices for consumers will become near that of a perfect competition market as online marketplaces become prevailing. |
|  • **Socio-economic walls will be overcome by technology-led online platforms** | • Financial technology will enable greater financial access and financial inclusion. Newly-enabled financial services will be provided.<br>• Accelerating of tele-medicine services and education technology (EduTech)<br>• New business models including subscriptions, renting and sharing will accelerate. |
|  • **Retail omni-presence will be demanded beyond omni-channel** | • Traditional trade will exist together with new channels of services.<br>• New consumers will prefer both online and offline commercial presence. |
|  • **Consumers will demand for more convenience** | • Super-apps providing a one-stop services will become dominant. |
|  • **Consumers will become more aware of health and environment** | • Products and services are needed to be healthy and environmentally sustainable.<br>• Issues relevant to environmental, social, and governance (ESG) will become general standards for businesses. |

Source: World Economic Forum: 8 ways ASEAN consumer habits will change by 2030 - shaped by COVID-19, tech and more

# *Untapped domestic consumer market* remains sizeable with high growth potentials as income levels of working-age population are rising

**While the total population of about 17 millions may be considered relatively small, an unserved domestic market is sizeable and growing.** As a result of sustained and strong growth in the past two decades, Cambodia is currently a lower-middle income country with the annual GNI per capita of 1,480 USD (as of 2020). And income levels of labor force are expected to be higher in the periods ahead as economic growth will remain strong. The increase income levels will shape new patterns of domestic demand.

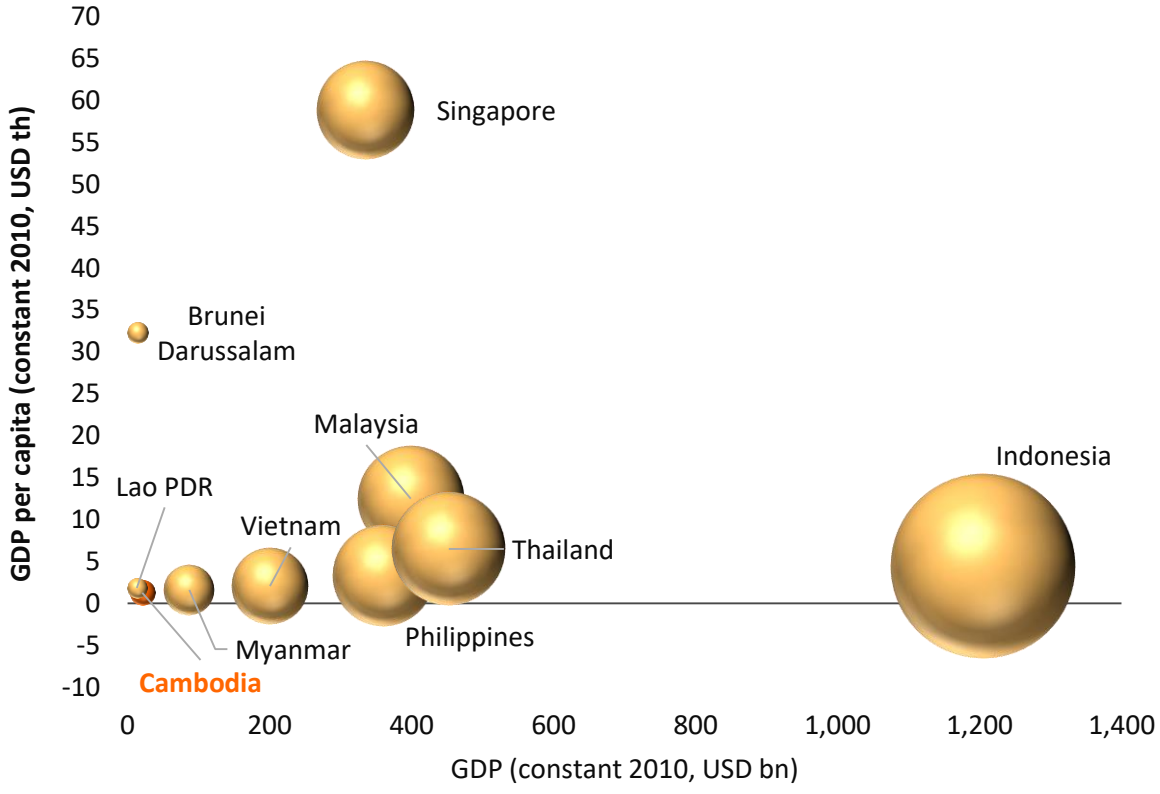
**Market size of Cambodia**




Note: Size of the bubble represents % of ASEAN

Source: CEIC

**Economic size and GDP per capita (constant 2010 USD)**

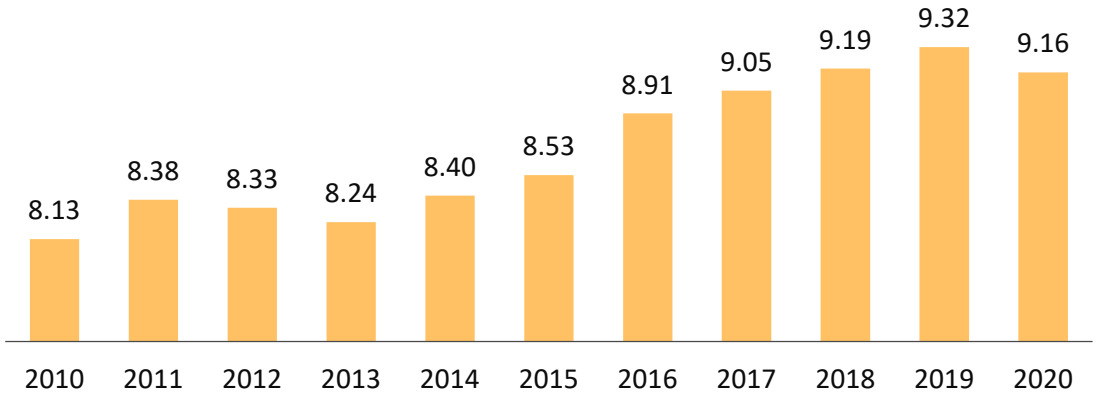



Note: Size of the bubble represents % share of ASEAN GDP

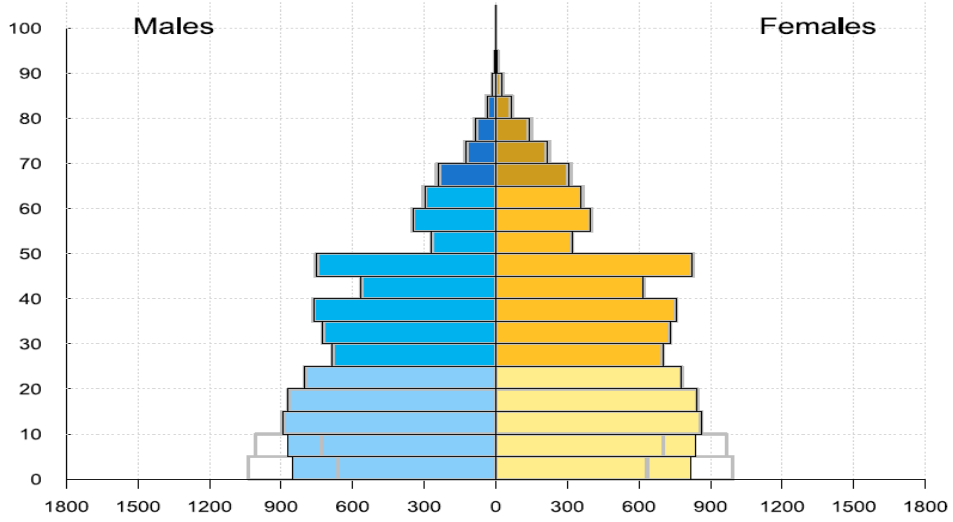
# *Favorable demographic structure* will be a key boost to Cambodia's economy

**By 2030, Cambodia will enjoy demographic dividend by having a sizeable workforce earning high income on the backdrop of strong economic growth.** Undoubtedly, domestic consumption will be boosted. In addition, the country has relatively high rates of labor force participation, more than 80% on average, and this would be mean large and sizeable consumers. In addition, urbanization will be advanced across major provinces.

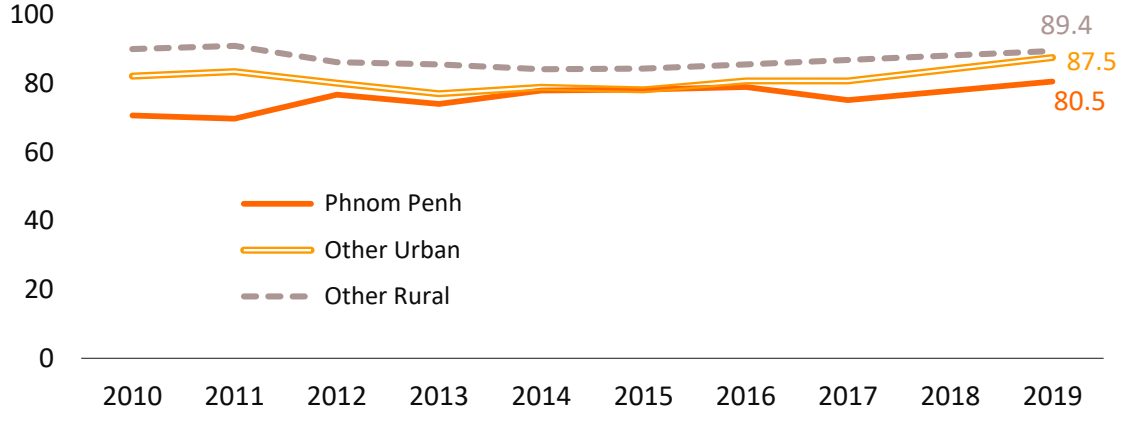
**Labor Force (Person, mn)**



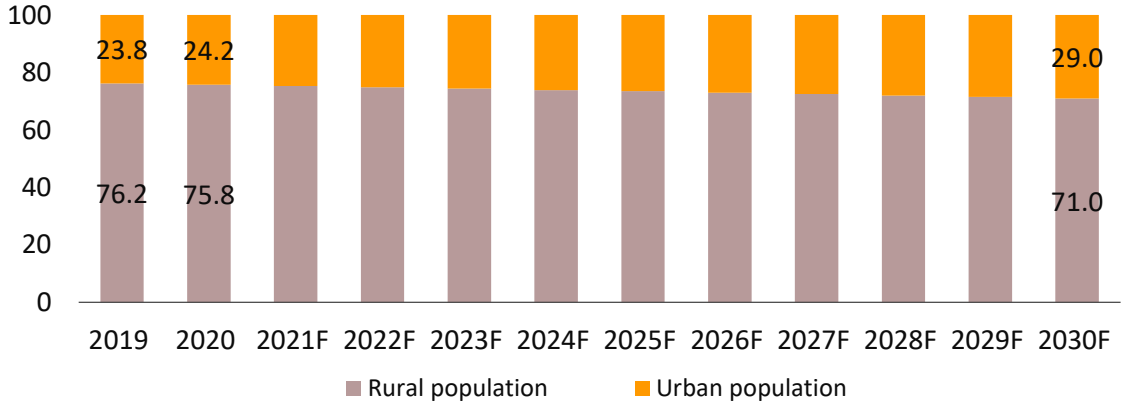

**Population in 2030**




**Labor Force Participation Rate (%)**




**Structure of rural and urban population (% of total)**

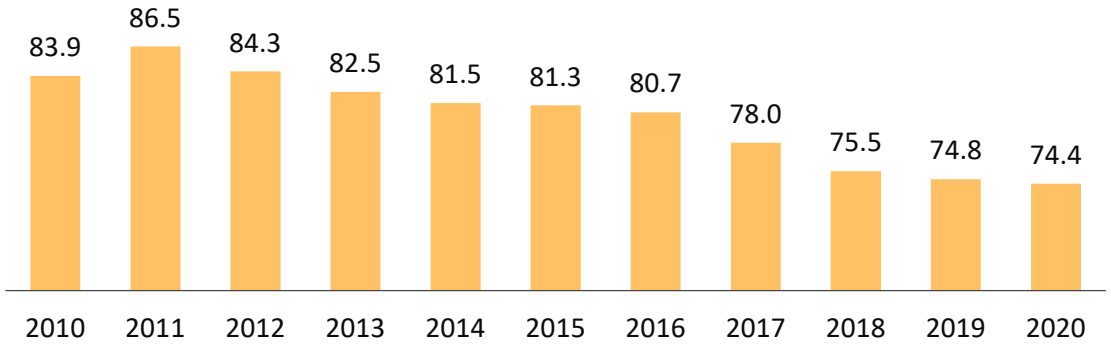



Source: CEIC

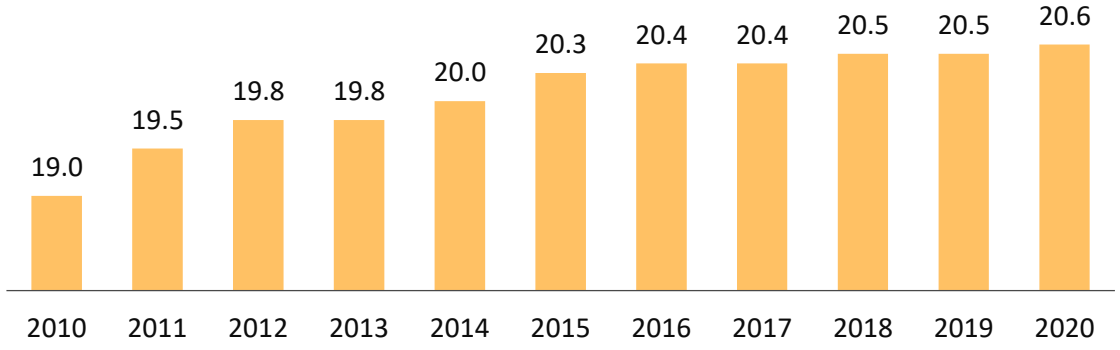
# *Domestic consumption* will be sizeable and dynamic as working-age population become wealthier

**Size of Cambodia's domestic consumption in percent of GDP is relatively large compared to that of regional peers in ASEAN, more than 70% of GDP.** And it has been a key driver of the country's economic growth, along with exports, on the demand side. This trend is expected to continue as young working-age population become wealthier. Regarding the consumption pattern, consumers' expenditure is dominated by categories such as food and transport, housing, and health.

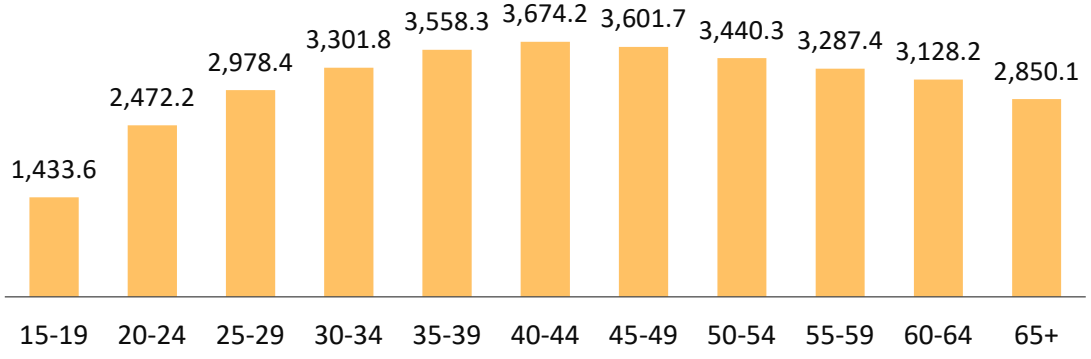
**Consumer Expenditure as % of GDP**



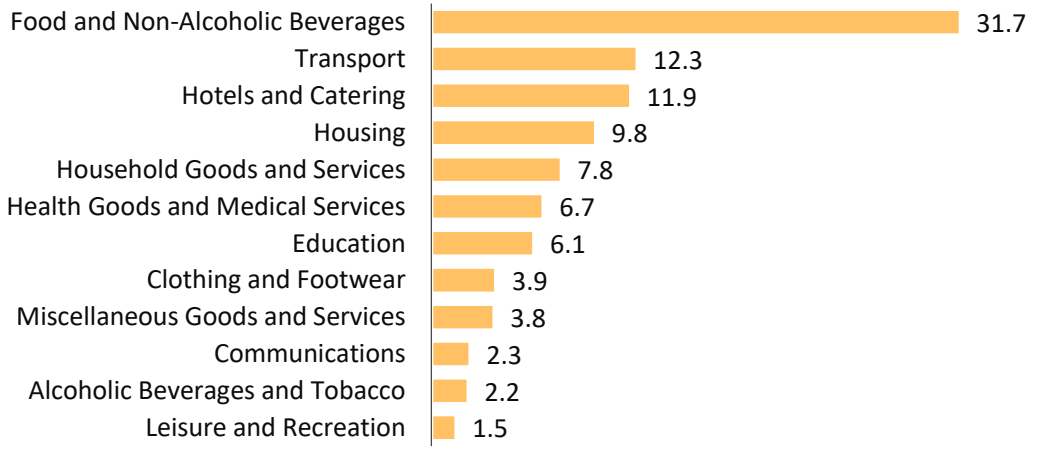

**Middle Class Households (% of Total)**




**Estimate of Average Gross Income of Population by Age Group in 2020 (USD)**




**Share of consumer expenditure in 2020 (%)**

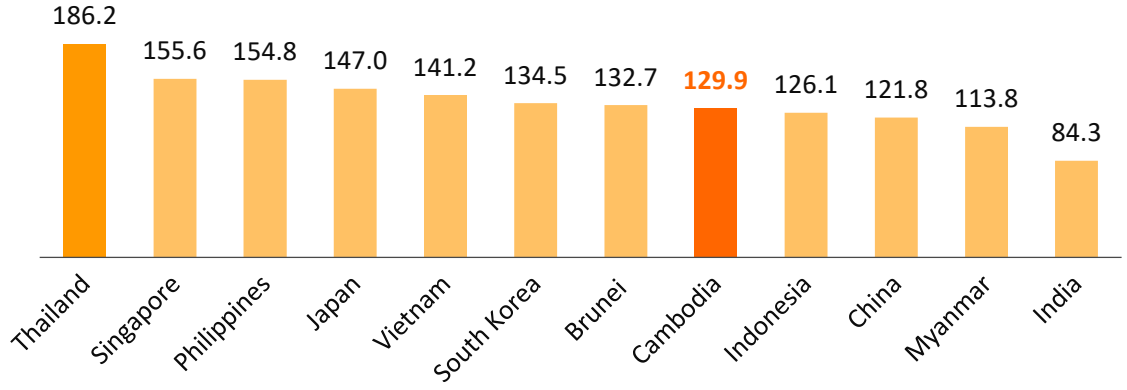



Source: CEIC

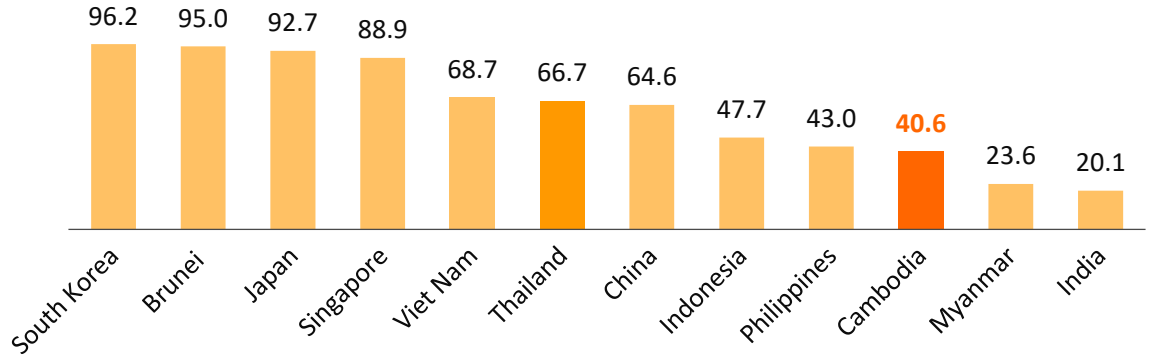
# *Digital economy* will boom as young population tend to embrace new technologies as enablers are becoming more conducive

**Cambodia is another country that have a large young and tech-savvy consumers, and they are embracing new technological trends to become indispensable parts of their lifestyles. Against this backdrop, it would help drive the digital economy such as e-commerce and digital financial services to flourish.** While the number of consumers using the internet is relatively low compared to that of peers, this means that there is more room to grow as the ownership of smartphone and mobile cellular subscriptions are high. In terms of digital infrastructure, it has been improved considerably reflected by higher GSMA Mobile Connectivity Index.

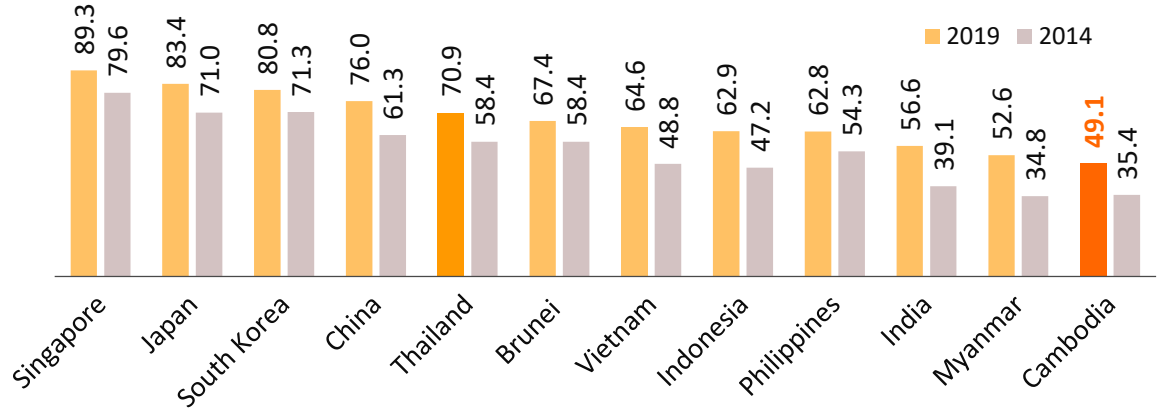
**Mobile cellular subscriptions (per 100 people) in 2019**




**% of Individuals using the Internet in 2019**




**GSMA Mobile Connectivity Index**




**Enabler Score of the GSMA Mobile Connectivity Index**

| ASEAN + 3 country | Infrastructure | Affordability | Consumer Readiness | Content and Services |
|---|---|---|---|---|
| Brunei | | | | |
| **Cambodia** | | | | |
| China | | | | |
| India | | | | |
| Indonesia | | | | |
| Japan | | | | |
| South Korea | | | | |
| Myanmar | | | | |
| Philippines | | | | |
| Singapore | | | | |
| Thailand | | | | |
| Vietnam | | | | |

Source: CEIC, GSMA, World Bank

# Majority of Cambodia's population become digitally connected

**Total Population**



16.83
million

Urbanization:
24.5%

**Mobile Connections**



21.18
million

vs. Population:
125.8%

**Internet Users**



8.86
million

vs. Population:
71.3%

**Active Social Media Users**



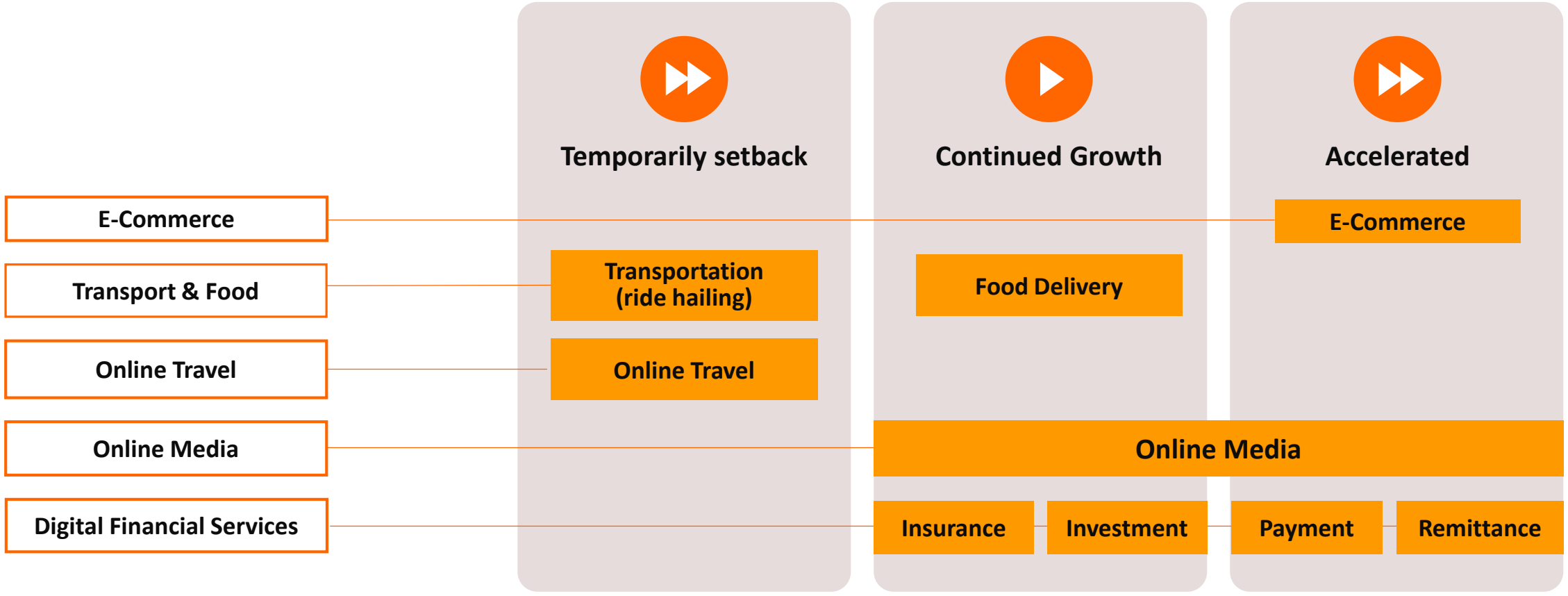
12.00
million

vs. Population:
71.3%

Source: We Are Social Report: Digital in Cambodia (January 2021)

# *E-commerce and digital financial services* will be accelerated by COVID-19 and consumer adoption is expected to grow faster

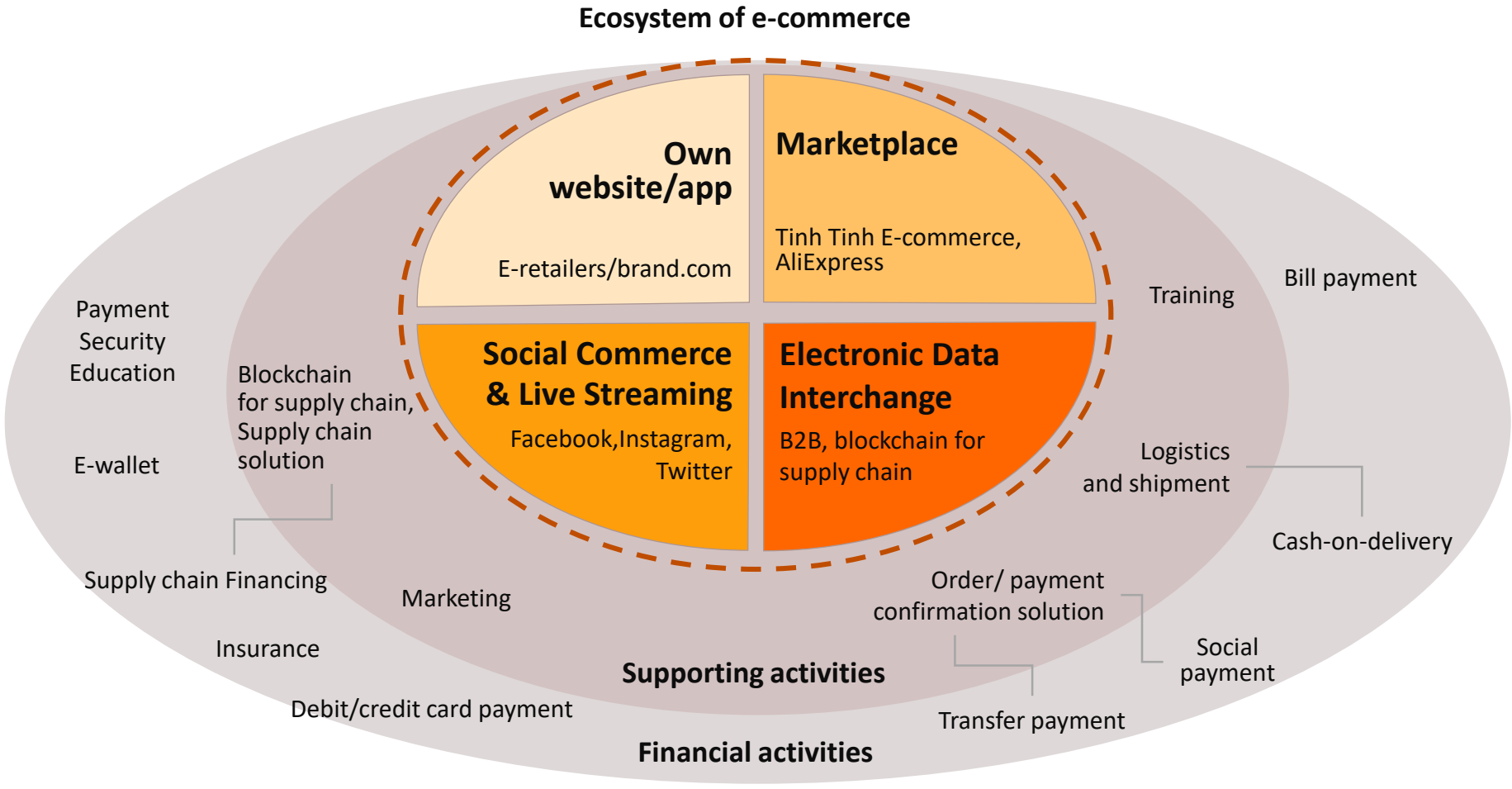
**In line with other countries in the region, e-commerce, especially mobile commerce, and digital financial services in Cambodia are among the sectors that will grow rapidly as consumers are adapting to the new normal of the post-pandemic world.** While the number of the unbanked population remains large, higher adoption of digital financial services such as e-wallets and mobile money would promote greater access to financial services. And this will in turn fuel the growth of mobile commerce.




Source: The e-Conomy SEA 2020 report by Google, Temasek and Bain & Company

# *Growing e-commerce* in Cambodia offer business opportunities for both local and foreign investors within its grand ecosystem

Against a backdrop of growing digital economy in Cambodia, ample business opportunities for both local and foreign players arise in the country's e-commerce ecosystem, particularly supporting activities from training to supply chain solutions as well as financial activities and financial solutions.




Source: Krungsri Research

# Cambodia's political stability will continue, and investment-friendly policies will be ensured

It is widely recognized that Prime Minister Hun Sen, who is now 68 years old, faces no challenge to his position until the next general election in 2023. And, going forward, his party, Cambodian People's Party (CPP), will remain in power. As a result, political stability in Cambodia will be ensured. We also view that the current administration will continue to adopt the economic liberalization approach and pursue policies that are friendly to foreign investors to help attract inward FDI to boost the economic recovery in the post COVID-19 era.

## Key Political Figures



Samdech Akka Moha Sena Padei Techo **Hun Sen**
Prime Minister



**Mr. Aun Pornmoniroth**
Deputy Prime Minister
Minister of Economy and Finance



Governor **Chea Chanto**
Governor
National Bank of Cambodia (NBC)

## Some of Economic Policy Frameworks and Initiatives

### The Post-COVID-19 Economic Recovery Plan (2021-2023)

In late May 2021, it is reported the Cambodia government is preparing to launch the economic plan to support the economic recovery with the key objectives of:

- Reviving economic growth back to the growth potential with sustainability and inclusiveness.
- Ensuring safety, managing impacts, stabilizing and promoting the revival of potential businesses, especially the hard-hit sectors, and speedily creating jobs.

### The Rectangular Strategy Phase IV (2018–2023)

The Rectangular Strategy is Cambodia's medium-term development plan based on the 4-pillar structure: (1) economic diversification and private sector and market development, (2) Human Resource Development, (3) Sustainable and Inclusive Development, and (4) Acceleration of Governance Reform. Some key issues under the current phrase are:

- Ensuring sustainable and resilient economic growth of around 7% p.a.
- Creating more jobs for the citizens.
- Achieving the poverty reduction target of below 10%.
- Strengthening the capacity and governance of public institutions, both at national and sub-national levels, to ensure an effective and efficient delivery of public services.

Source: ADB, the Rectangular Strategy Phase IV Paper, Local Media compiled by Krungsri Research

# Appendix: Overview of Online Behaviors in Cambodia



# Overview of Population in Cambodia

| Total Population | Female population | Male population | Annual change in Total Population | Median Age |
|---|---|---|---|---|
|  |  |  |  |  |
| 16.83 million | 51.2% | 48.8% | +1.4% | 25.8 |

| Urbanization of Population | Population Density (people per $km^2$) | Overall Literacy (Adult Aged 15+) | Female Literacy (Adult Aged 15+) | Male Literacy (Adult Aged 15+) |
|---|---|---|---|---|
|  |  |  |  |  |
| 24.5% | 95.4 | 80.5% | 75.0% | 86.5% |

Source: We Are Social Report: Digital in Cambodia (January 2021)

# Overview of internet use

Total number of internet users (any device)



8.86
million

Internet users as a percentage of total population



52.6%

Annual change in the number of internet users



+14.4%
+1.1 million

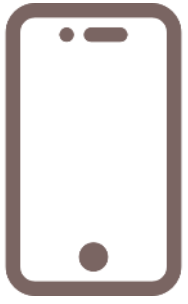
Proxy for mobile use: share of social media users accessing via mobile devices



99.1%

Source: We Are Social Report: Digital in Cambodia (January 2021)

# Social media use

| Total number of Active Social Media Users* | Social Media Users as a Percentage of the Total Population | Annual Change in the Number of Social Media Users | Number of Social Media Users Accessing Via Mobile Phones | Percentage of Total Social Media Users Accessing Via Mobile |
|---|---|---|---|---|
|  |  |  |  |  |
| 12.00 million | 71.3% | +23.7% +2.3 million | 11.89 million | 99.1% |

Note: *Social media users may not represent unique individuals and may exceed internet user numbers.
Source: We Are Social Report: Digital in Cambodia (January 2021)

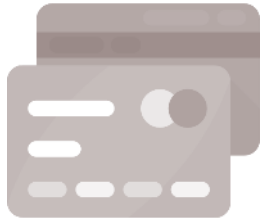
# Overview of financial inclusion in Cambodia

Has an account with a financial institution




21.7%

Has a credit card



0.6%

Has a mobile money account



5.7%

Makes online purchases and/or pays bills online




3.8%

% of women with a credit card



+0.8%

% of men with a credit card



+0.2%

% of women making online transactions



+4.3%

% of men making online transactions



+3.2%

Source: We Are Social Report: Digital in Cambodia (January 2021)

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