
krungsri
Research
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CAMBODIA
INVESTMENT HANDBOOK
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Krungsri Research

Executive Summary: Growth in 2020 will turn negative of -2.8%, while the growth in the medium to longer term should rebound to its annual rate of 6.0-7.0%



As a small open economy with a narrow economic structure, Cambodia's economy is severely hit by the covid-19 pandemic. FDI inflows which have been driving booms in domestic demand and export-oriented garment sector are fading. Inadequate policy support means Cambodia's recovery will be not only depend on the domestic containment of the pandemic but also the global economy.



However, with its impressive growth trajectory in the past decades and its economic fundamentals, we view that Cambodia's long-term growth prospects remain favorable. This would be driven by (1) positive demographic structure, (2) engaging in regional trade agreements, (3) open and liberal foreign investment regimes (4) foreign direct investment (FDI) inflows. Against a backdrop of benign long-term growth of Cambodia, there are business opportunities for Thailand in some potential sectors in Cambodia including (1) food and beverage, (2) healthcare and pharmaceuticals (3) homewares, and (4) Agribusiness.

Cambodia: A Country Overview



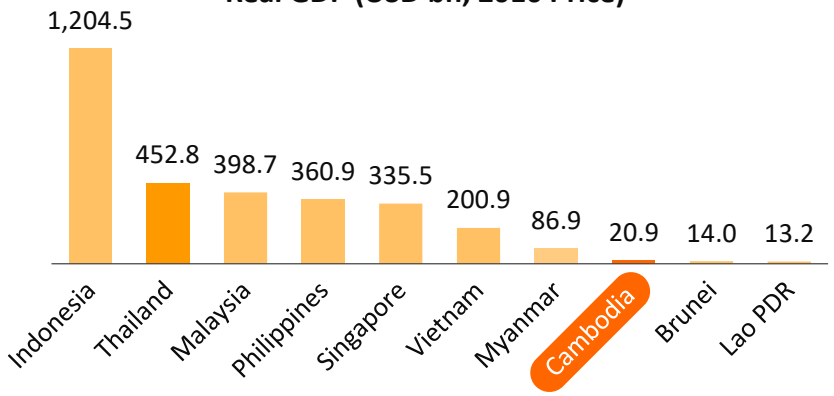
Official name	Kingdom of Cambodia
Form of State	Parliamentary constitutional monarchy
Economic system	Market-led economy
Total area (sq. km)	181,035
Administrative divisions:	24 provinces and 1 municipality (Phnom Penh)
Total population (person mn)	16.9 (July 2020 est.) Median age: 26.4 years (2020 est.) Population growth rate: 1.4% (2020 est.)
Climate	Tropical; Rainy, monsoon season (May to Nov); Dry season (Dec to Apr); Little seasonal temperature variation
Urbanization	Urban population: 24.2% of total population (2020) Rate of urbanization: 3.25% annual rate of change (2015-20 est.)
GDP (official exchange rate)	USD22.1bn (2017 est.)
GDP - composition, by sector	Agriculture: 25.3% (2017 est.) Industry: 32.8% (2017 est.) Services: 41.9% (2017 est.)
Agricultural products	Rice, rubber, corn, vegetables, cashews, cassava (manioc, tapioca), silk
Industries	Tourism, garments, construction, rice milling, fishing, wood and wood products, rubber, cement, gem mining, textiles
Exports - commodities:	Semiconductors and electronic products, machinery and transport equipment, wood manufactures, chemicals, processed food and beverages, garments, coconut oil, copper concentrates, seafood, bananas/fruits
Imports - commodities:	petroleum products, cigarettes, gold, construction materials, machinery, motor vehicles, pharmaceutical products
Labor force	8.9 million (2017 est.)
Labor force - by Occupation:	Agriculture: 48.7% Industry: 19.9% Services: 31.5% (2013 est.)
Taxes and other revenues:	17.9% (of GDP) (2017 est.)
Fiscal year:	Calendar year

Source: CIA Factbook compiled by Krungsri Research

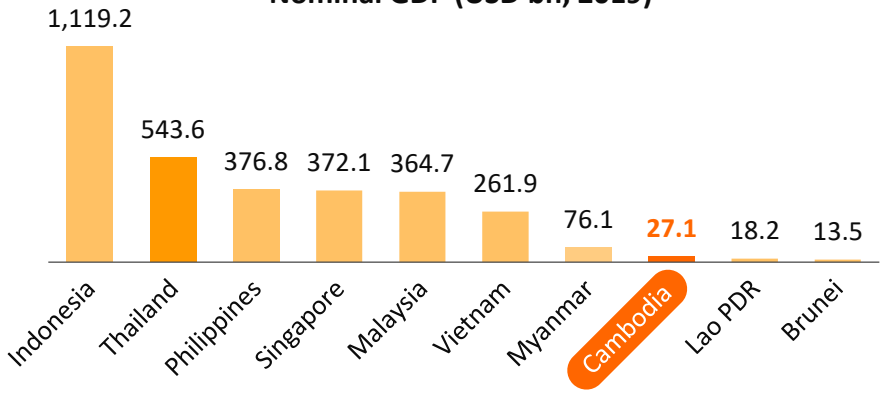
Cambodia among ASEAN peers: It is one of the vibrant frontier markets in the region

Cambodia is currently classified as an lower-middle income country by the World Bank in July 2020 with the GNI per capita of USD1,480, slightly higher than that of Myanmar of USD1,390. Sustained high economic growth over the last two decades with the annual growth rate of around 7-8% leads to a continuous increase of GNI per capita for Khmer people. Cambodia's higher growth momentum should continue in the long term driven by FDI-driven labor-intensive manufacturing sector and exports of garments as well as tourism sector.

Real GDP (USD bn, 2010 Price)



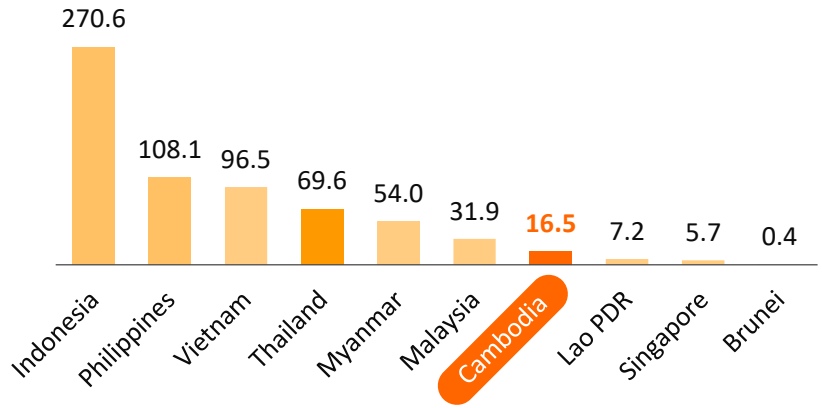
Nominal GDP (USD bn, 2019)



ASEAN members by income status (as of 1 July 2020)

ASEAN member	GNI per capita[1/] (USD)	Classification by income
Singapore	59,590	High-income
Brunei	32,230	High-income
Malaysia	11,200	Upper-middle income
Thailand	7,260	Upper-middle income
Indonesia	4,050	Upper-middle income
Philippines	3,850	Lower-middle income
Lao PDR	2,570	Lower-middle income
Vietnam	2,540	Lower-middle income
Cambodia	**1,480**	**Lower-middle income**
Myanmar	1,390	Lower-middle income

Population (Person mn, 2019)



Note: 1/ Based on classification by the World Bank, lower middle-income economies are those with a GNI per capita between USD1,026 and USD3,995; upper middle-income economies are those with a GNI per capita between USD3,996 and USD12,375; high-income economies are those with a GNI per capita of USD12,376 or more.

Source: CEIC, World Bank: WDI, Krungsri Research

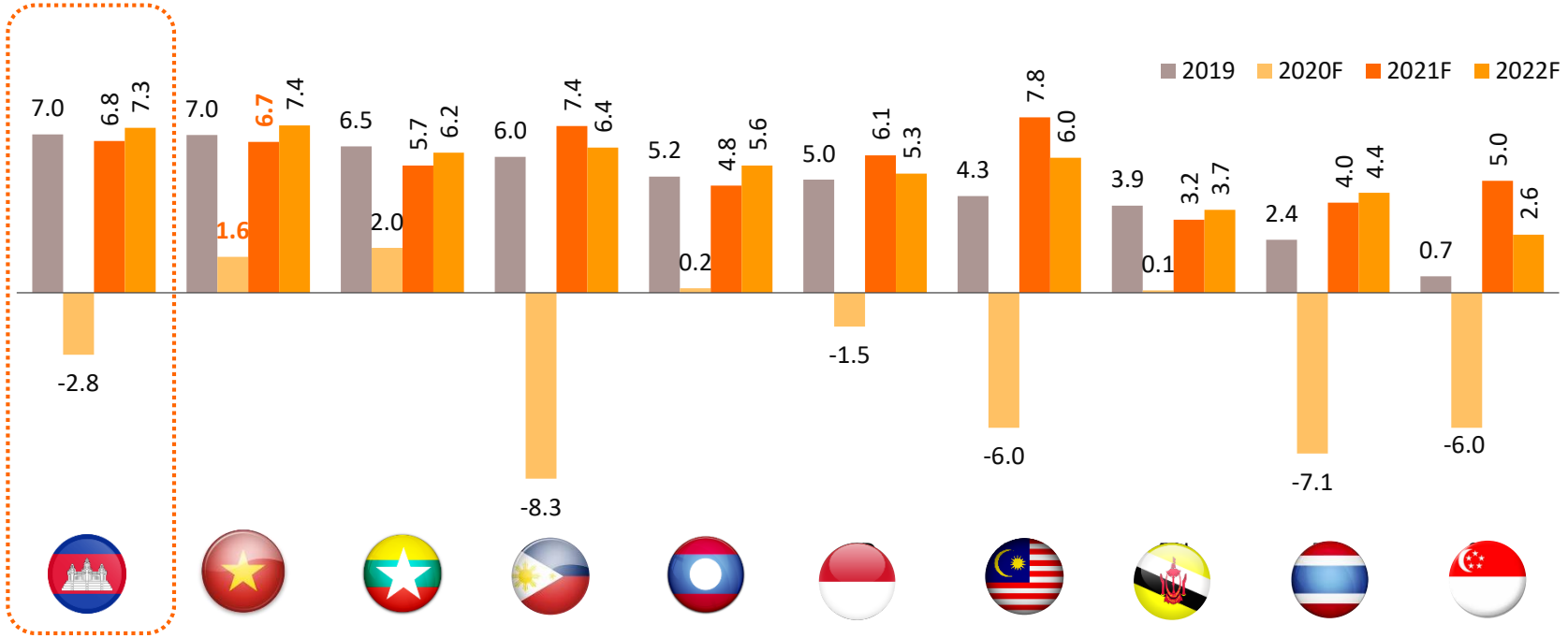
Major milestone of Cambodia s' developments

1863	Becoming a protectorate of France and French colonial rule lasted for 90 years.
1953	Gaining independence from France. The country became the Kingdom of Cambodia under King Sihanouk.
1975	• The Khmer Rouge led by Pol Pot occupied Phnom Penh and the country was re-named Kampuchea. • All urban dwellers were forcibly evacuated to the countryside becoming agricultural workers. Money became worthless-demonetization, basic freedoms were curtailed and religion was banned. The Khmer Rouge coined the phrase "Year Zero". • Hundreds of thousands of the educated middle-classes were tortured and executed in special centers. Others starve, or die from disease or exhaustion. The total death toll was estimated to be at least 1.7mn.
1979	The Vietnamese occupied Phnom Penh. Pol Pot and Khmer Rouge was forced flee to the border area. The People's Republic of Kampuchea was established. Many elements of life before the Khmer Rouge take-over were re-introduced.
1985	Hun Sen became prime minister. Cambodia was plagued by guerrilla warfare and hundreds of thousands became refugees.
1989	Vietnamese troops withdraw. Hun Sen tried to attract foreign investment by abandoning socialism and the country was re-named the State of Cambodia. Buddhism was re-introduced as the state religion.
1991	A peace agreement was signed in Paris.
1991-93	Presence of the United Nations Transitional Authority in Cambodia (UNTAC) as the United Nations peacekeeping operations unit in the country. Dollarization –the use of USD as money- has started to proliferate in Cambodia.
1999	Joining the Association of Southeast Asian Nations (ASEAN)
2001	The European Union (EU) granted the duty-free access to its single market under the Everything but Arms (EBA) Scheme to Cambodia which was considered one of the world's poorest countries.
2002-13	Enjoying the averaged economic growth of 8% pa in 2002-13 and 7% in 2014-17
2004	Becoming the member of World Trade Organization (WTO)
2014-19	High growth period: economic growth of 8% p.a. in 2002-13 and 7% p.a. in 2014-17
2016	Attaining a lower middle-income status as GDP per capita reached USD1,070
2017	Cambodia's Supreme Court dissolved the country's main opposition party, the Cambodia National Rescue Party (CNRP), and placed a five-year ban to effectively preclude 118 CNRP members from participation in any political activity.
2018	Cambodia's ruling Cambodian People's Party (CPP) won all 125 seats in the parliament becoming a single party ruler. The western countries condemned the deterioration in democratic developments and human rights in Cambodia.
2020	The EU partially withdrew Cambodia's duty-free quota-free access to its market under the EBA Initiative due to the EU's concerns related to human rights ascertained in the country.

Source: World Bank, IMF, BBC, and various sources compiled by Krungsri Research

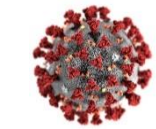
Growth in 2020 will turn negative of about -2.8% weighed on severely by the pandemic, but it should recover in line with the global economy in 2021

IMF's Growth projection for ASEAN members (2019-2022, %YoY)



Source: IMF WEO (October 2020) compiled by Krungsri Research

Covid-19 pandemic shocks are likely to impact Cambodia's growth through different channels on the demand side*



Covid-19

1 Domestic demand

- Final Household consumption (70.6%)
  - Drop in household spending due to lockdown measures and the outbreak
  - Income shocks, particularly if the informal sector is large
- Private Investment (23.5%)
- Public Investment
  - Possible delay in investment projects due to lockdown measures and execution of projects

2 External sector

- Exports (61.6%)
  - Weak global demand prevails prior to the global pandemic
  - Global lockdown leading to cancellation of orders
- Imports (63.3%)
  - Disrupted imports of raw materials e.g. from China
- Tourism Revenue (18.2%)
  - Cross-border travel restrictions at the global level
- Inflows of remittances (5.6%)
  - Global lockdown could lower remittances
- Net FDI Inflows (13.5%)
  - Delay or slower FDI inflows
- Cross-border funds flows
  - Low appetite for cross-border lending

Note: () is in terms of % of 2019 nominal GDP, adverse effects of shocks impact the supply-side of the economy as well, but it is not discussed here
Source: Krungsri Research

The pandemic could pose a negative impact of 6.9% on Cambodia 's growth in 2020 according to our model

The outbreak would reduce global GDP growth substantially by 5.5ppt from baseline forecast (pre-outbreak). **Krungsri Research now projects the outbreak would pose a negative impact to Cambodia's economy of 6.9 ppt, which is relatively significantly compared to that of regional peers in ASEAN.** The impact of the pandemic to the economy is passed through different channels – tourism, supply disruption at home and abroad, and multiplier effect.

Spillover impact of coronavirus outbreak on GDP growth of selected Asian economies



Note: *Krungsri Research has studied these effects by adopting computable general equilibrium model (CGE) to measure the spillover effects. Also, we adopt vector autoregression model to assess how economies react periodically to these changes.

Source: Global Trade Analysis Project (GTAP), Krungsri Research

Policy measures have been deployed to cushion the dire economic impact of the pandemic, but their sizes are small relative to those of regional peers

The first confirmed COVID-19 case in the country was reported on 27 January and, so far, there have been no deaths. Returning migrant workers are required to perform a self-isolation for 14 days. Domestic travel restrictions were lifted on 16 April. Since June, casinos, cinemas, museums and theatres have been reopened. And since July, entertainment venues (e.g. karaoke and clubs), restaurants and schools have been reopened. With the devastating impact of the pandemic on the Cambodian economy, particularly during the first half of 2020, through exports of garments and textiles and tourism, the authorities have introduced measures –fiscal and monetary policy- to alleviate the economic impact:

Fiscal Policy



- A package worth USD60mn has been allocated for virus testing, containment, and treatment. Social assistance of nearly USD400mn is being implemented, including USD300mn for a new monthly cash transfer program for poor and vulnerable households (5-7 months from June 2020) and USD100mn cash for a work program.
- In September the government extended relief measures until the end of this year:
    1) Allowance subsidy for garment and tourism sectors;
    2) Tax exemption for tourism and aviation sector;
    3) Cash relief program for poor and vulnerable families.

Monetary policy



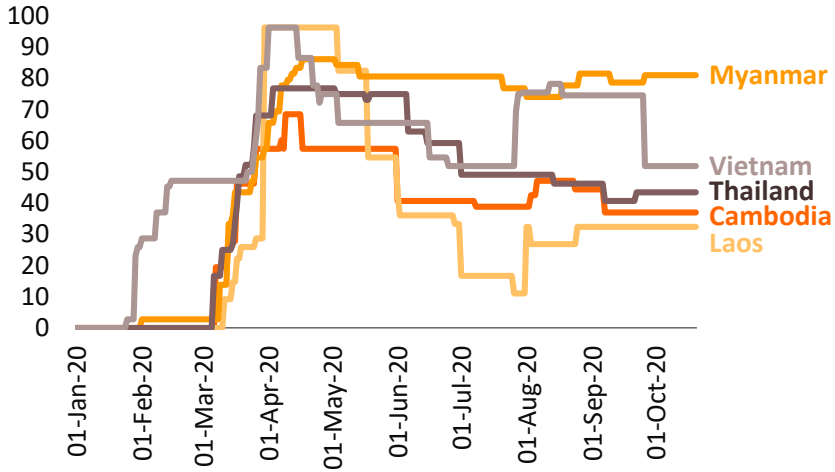
The National Bank of Cambodia has implemented four measures to improve liquidity in the banking system:

1) Delaying additional increases in the Capital Conservation Buffer;
2) Cutting the interest rate in its Liquidity Providing Collateralized Operations, decreasing banks' funding costs in domestic currency;
3) Cutting the interest rate on Negotiable Certificates of Deposit (the collateral for LPCOs), to encourage banks to disburse loans; and
4) Lowering required reserves that banking and financial institutions must maintain at the National Bank of Cambodia both for local (riel) and foreign currencies.

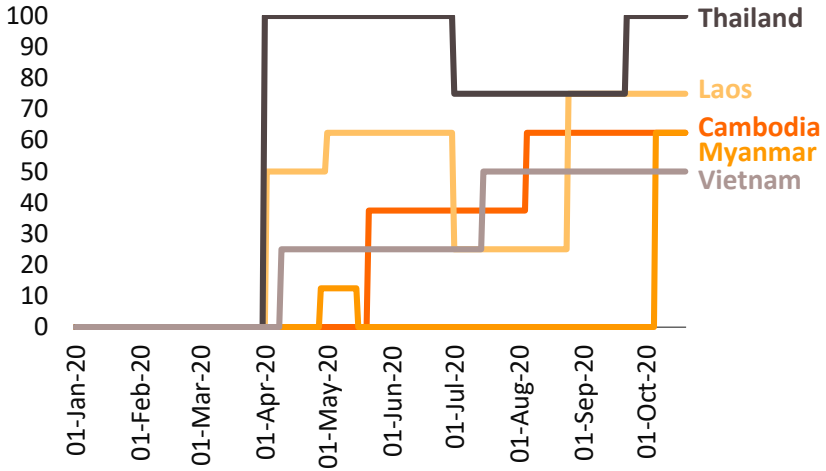
Source: IMF: The IMF and COVID-19, Policy Tracker

…And containment measures are relatively less stringent compared those imposed by reginal peers

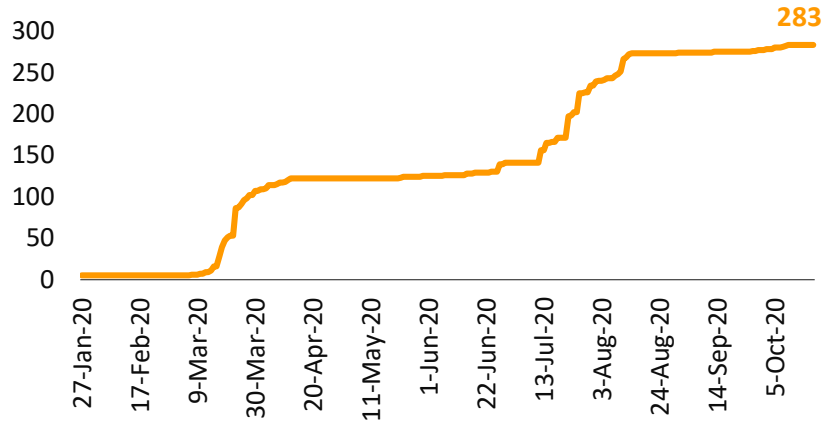
Oxford Covid-19 Government Response Tracker (OxCGRT): Stringency Index



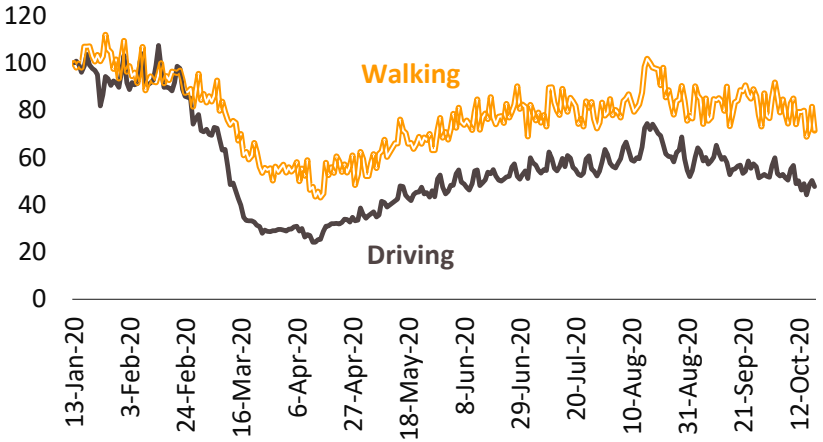
Oxford Covid-19 Government Response Tracker (OxCGRT): Economic Support Index



COVID-2019: No of Patients, Confirmed To-Date (19 Oct), in Cambodia



Apple Mobility Trends in Cambodia



Source: CEIC

Macro forecasts

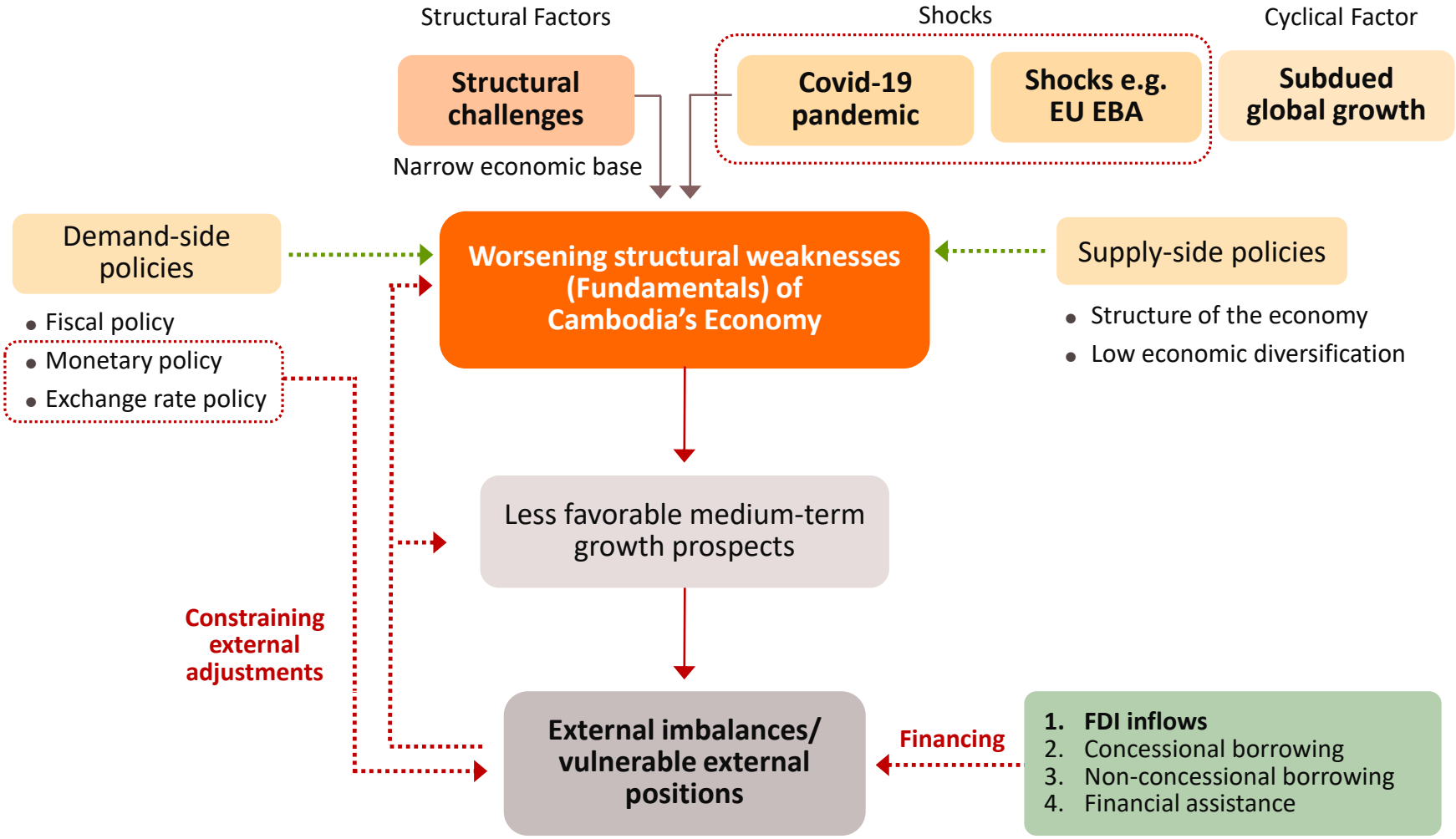
Indicators (% change, otherwise indicated)	2017	2018	2019	2020F	2021F
Real GDP	7.0	7.5	**7.0**	-2.8	6.8
CPI (end-period, 2012 = 100)	2.2	1.6	2.7	2.8	2.8
Net lending (+)/borrowing (-) (% of GDP)	-0.8	0.7	0.5	-1.7	-1.4
Private credit growth	18.5	23.2	28.0	25.0	22.0
Current account balance (% of GDP)	-8.1	-12.2	-13.5	-13.6	-13.4
Trade balance (% of GDP)	-19.3	-23.9	**-26.9**	-27.7	-27.2
Capital and financial account (% of GDP)	15.9	17.1	22.2	19.9	18.9
Overall balance	13.8	9.9	8.7	6.3	5.5
Gross International reserves					
In billions of USD	12.6	14.6	16.9	18.8	20.5
In months of prospective GNFS imports	6.7	7.0	7.2	7.1	7.1
Public external debt (% of GDP)	30.0	28.6	28.5	28.3	28.2
Total external debt services (% of exports)	1.3	1.4	1.6	1.7	1.6
Nominal GDP (in billions of Riels)	89,754	98,919	908,550	118,982	n.a.
Nominal GDP (USD bn)	22.2	24.4	26.7	28.9	n.a.

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

Cambodia's Economic Structure and Its Medium-term Prospects

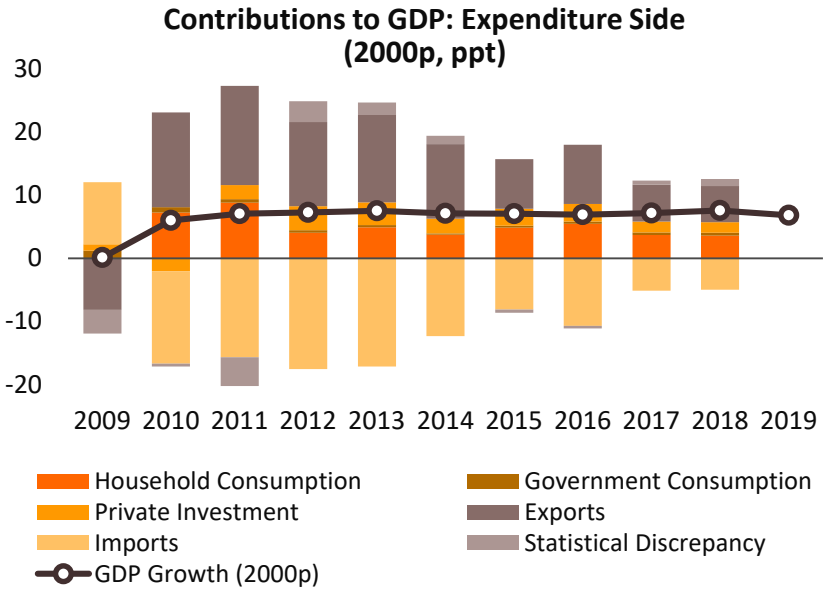


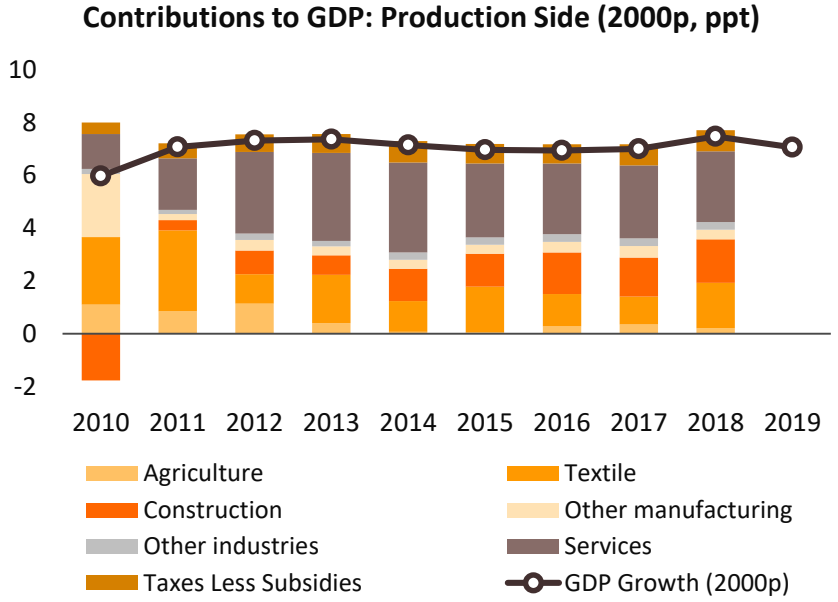
Both cyclical and structural factors are likely to worsen less favorable fundamentals of Cambodia' s economy and its medium-term prospects

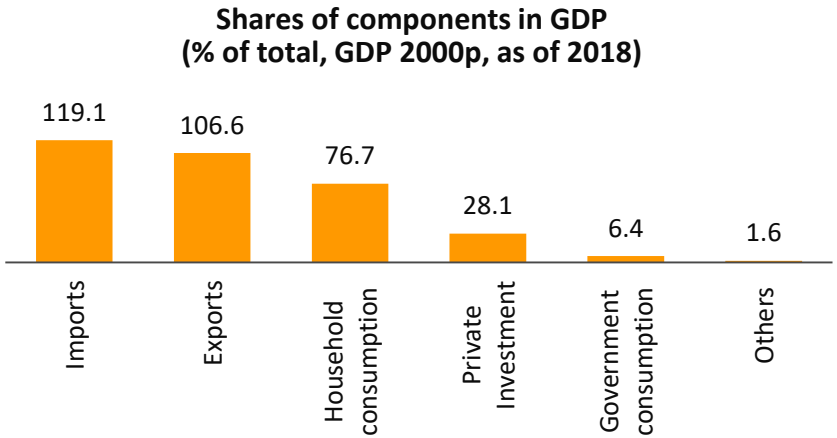


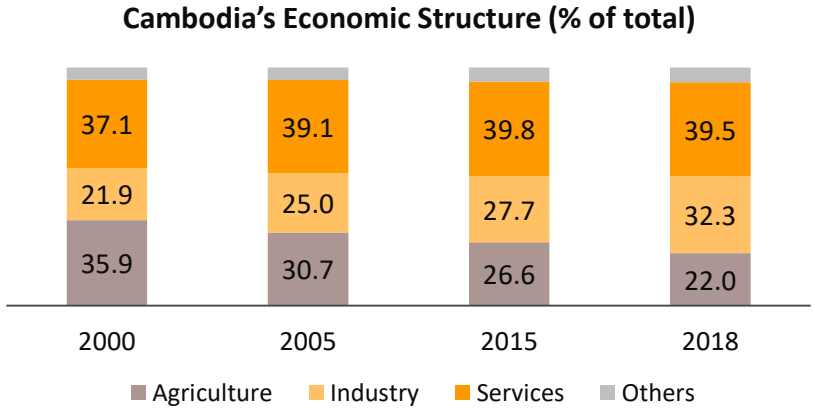
Source: Krungsri Research

Cambodia with its small open economy and narrow economic structure is severely hit by the pandemic





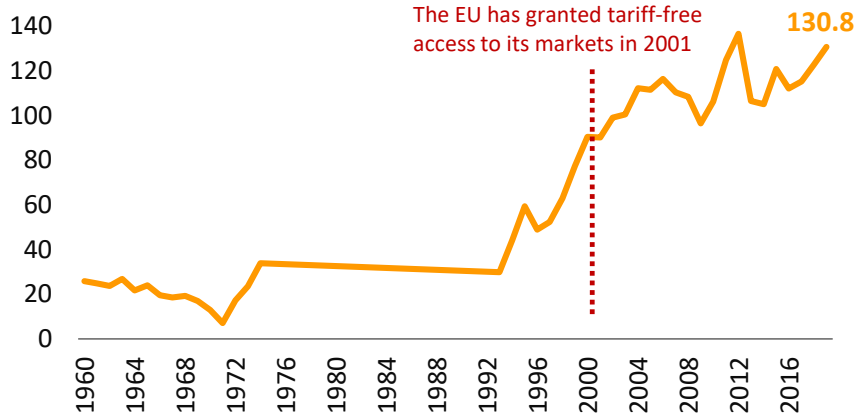




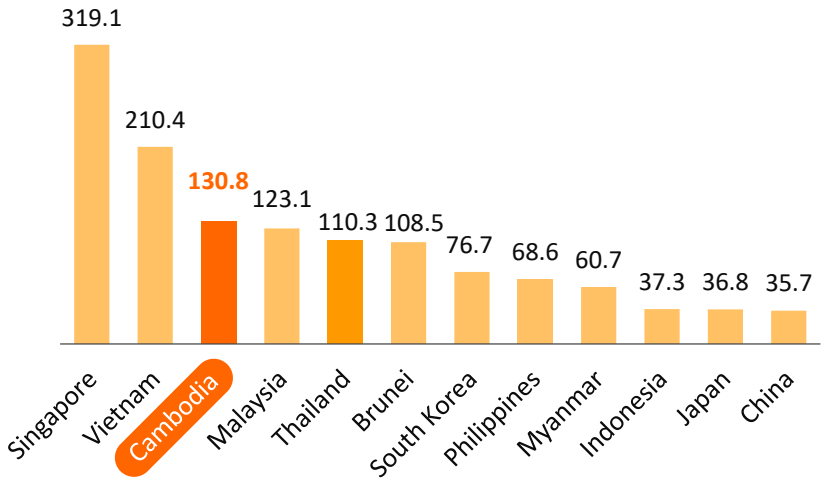
Source: CEIC

Substantial openness to trade should structurally expose the country to a weak global demand and shocks trigged by the pandemic

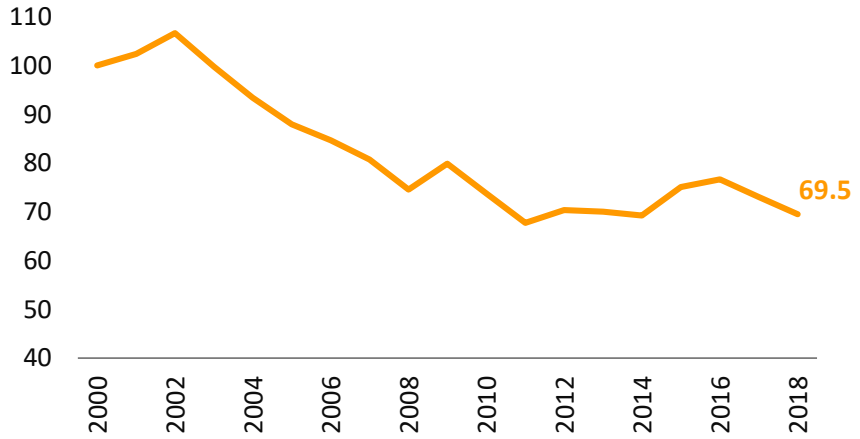
Goods Trade (% of GDP)



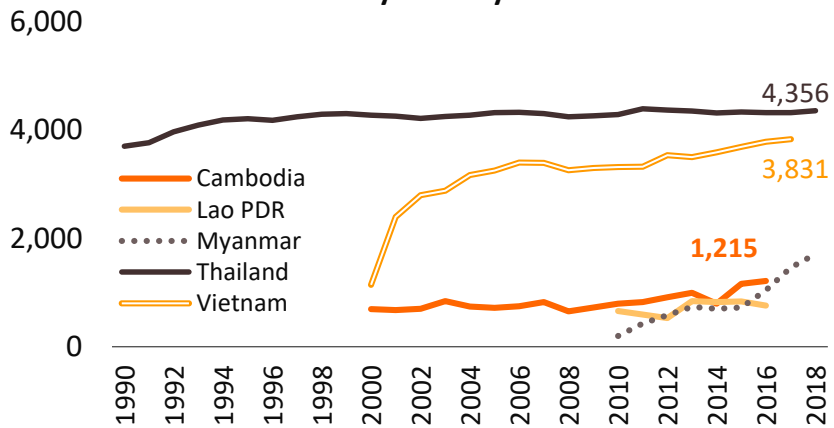
Trade (% of GDP, 2019)



Net Barter Terms of Trade Index



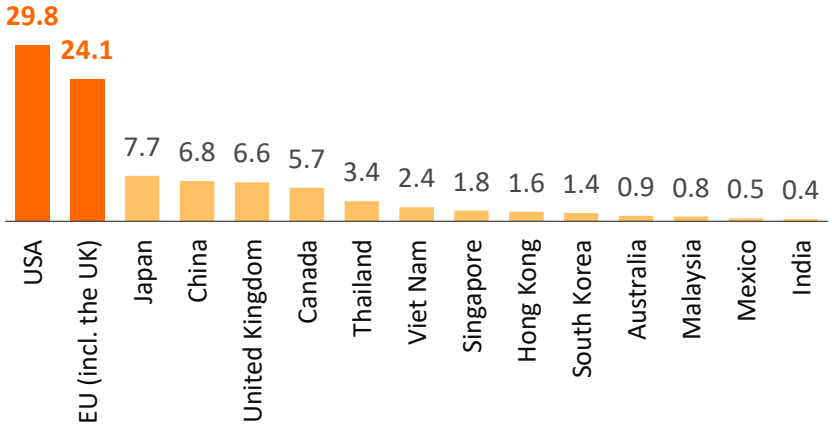
Number of Exported HS6 digit Products by Country



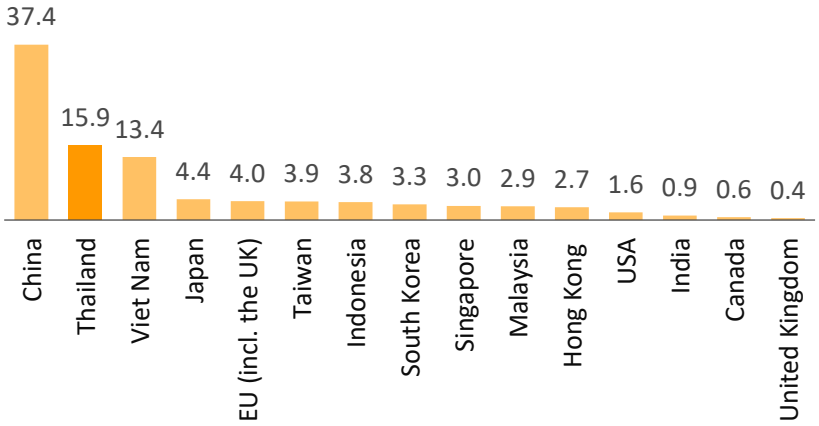
Source: CEIC

The concentration of export products and markets adds downside risks to Cambodia's near-term growth prospects

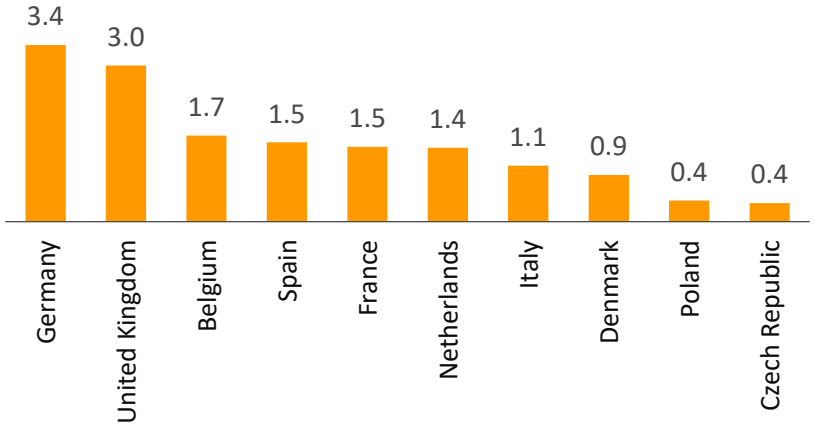
Shares of major export markets of Cambodia (% of total exports, 2019)



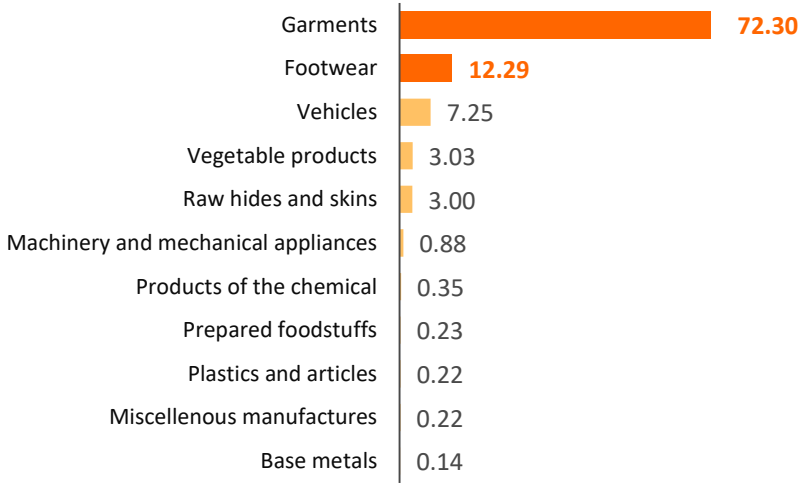
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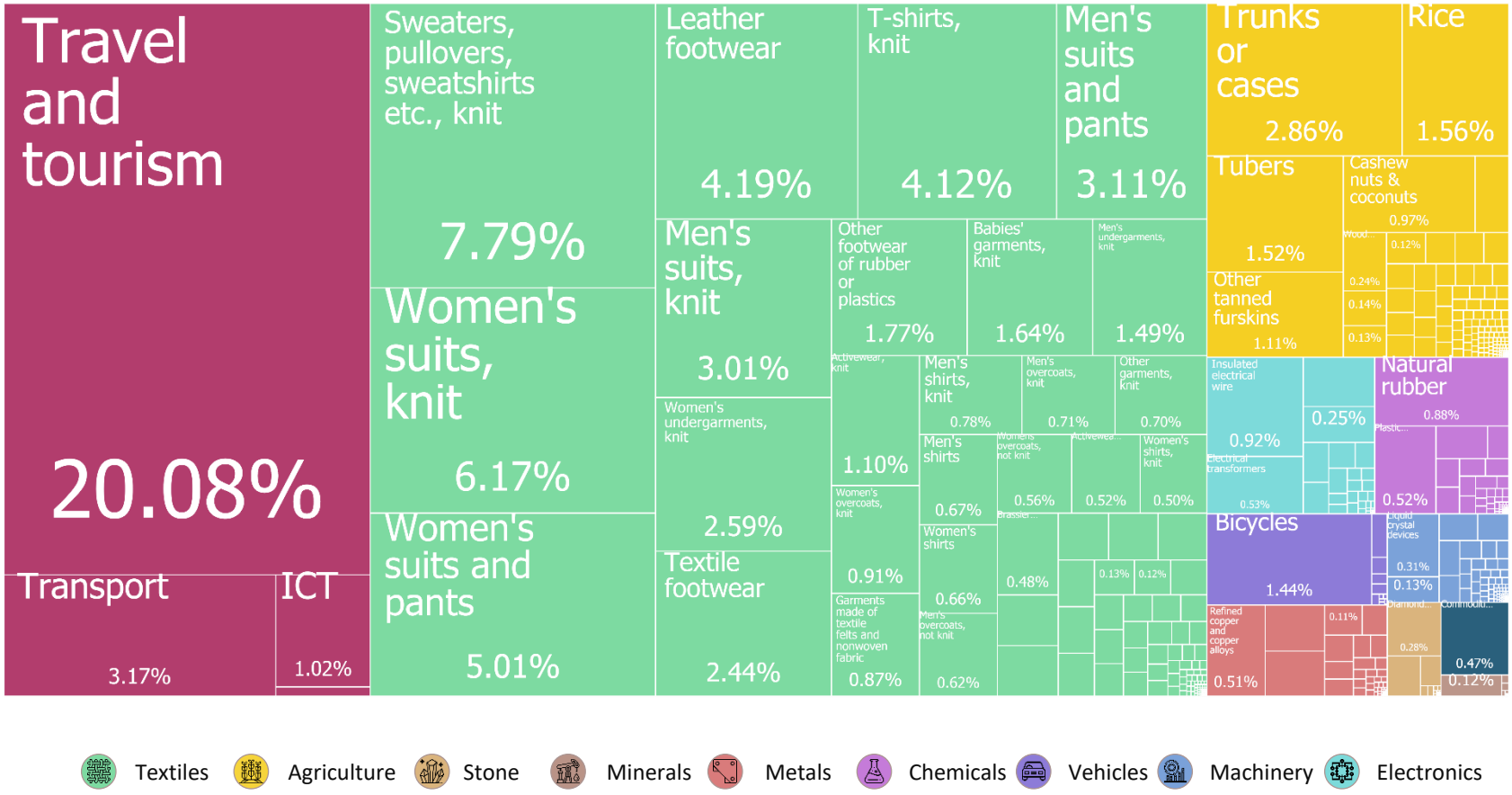
Shares of Cambodia's exports to the EU in 2019 by product type (% of total)



Source: CEIC

Exports of garment, textile, and footwear (GTF) products have dominated Cambodia's commodity exports

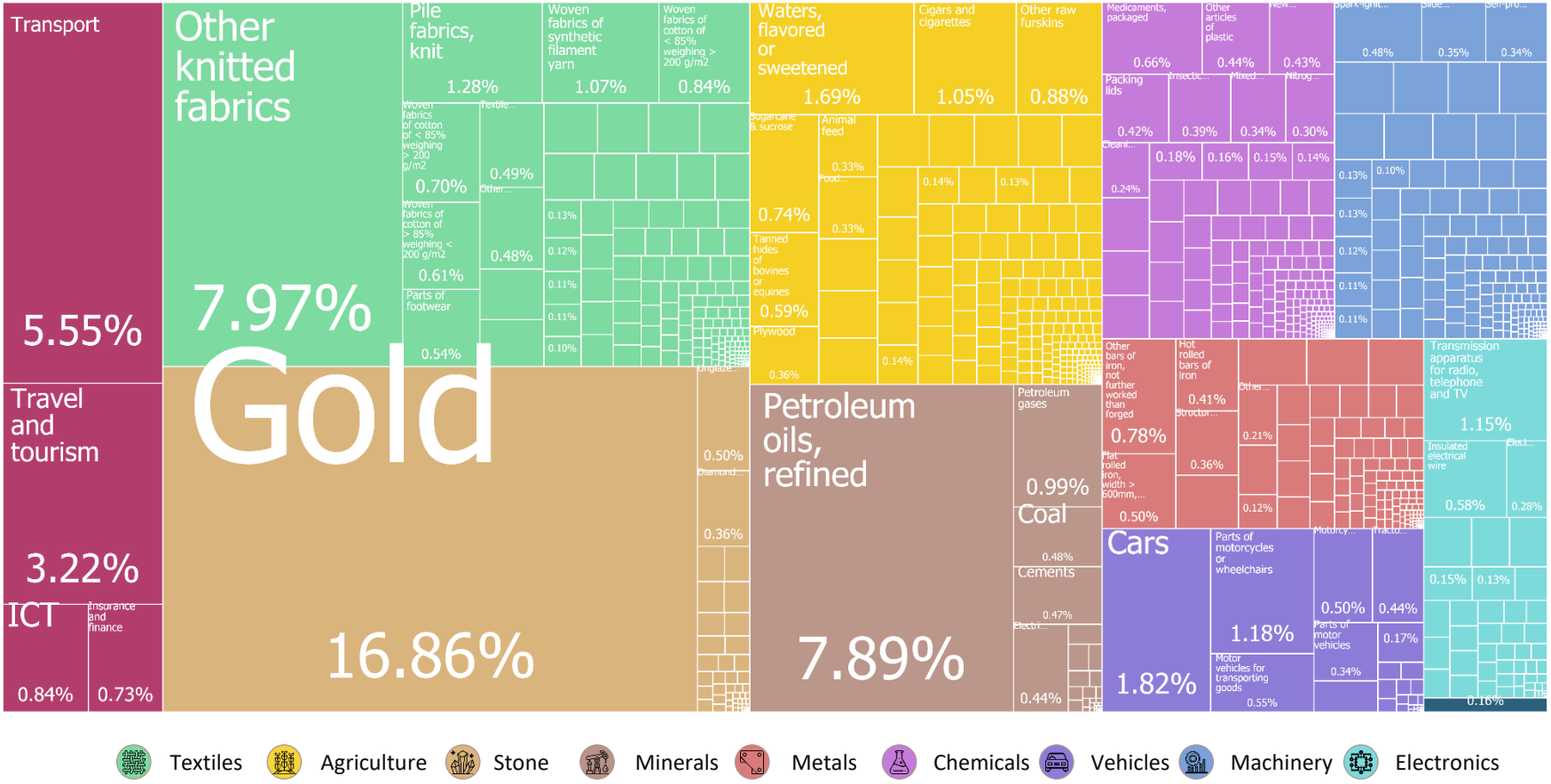
Structure of Cambodia's Exports in 2018 (% of total)



Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity (2017). http://www.atlas.cid.harvard.edu.

Intermediate products and final goods are mainly imported to support domestic industries and services

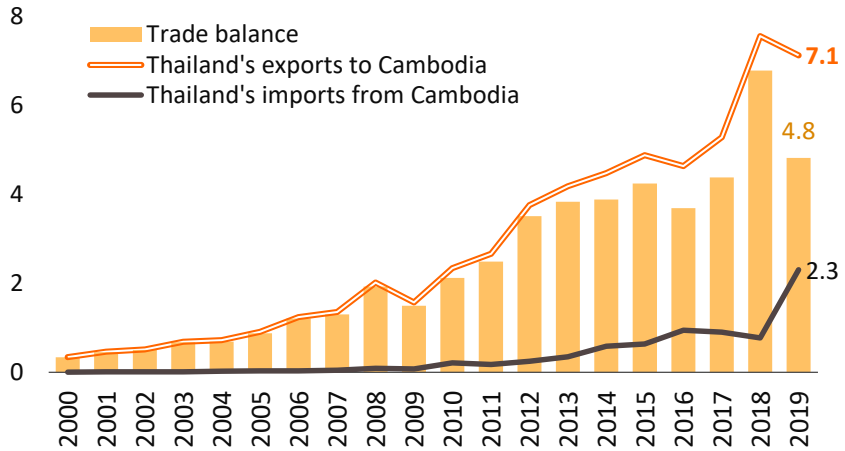
Structure of Cambodia's Imports in 2018 (% of total)



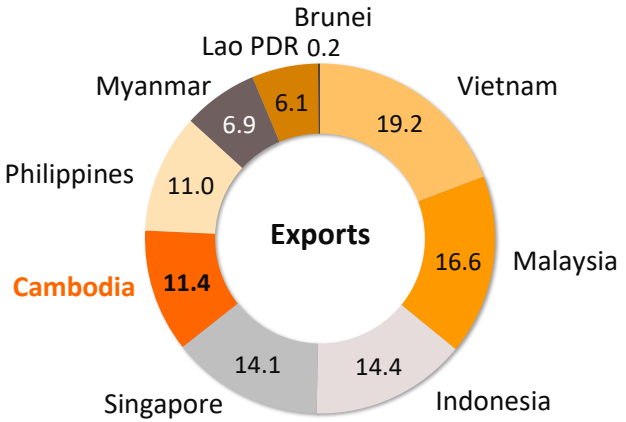
Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity (2017). http://www.atlas.cid.harvard.edu.

Cambodia is one of the key trading partner in ASEAN for Thailand

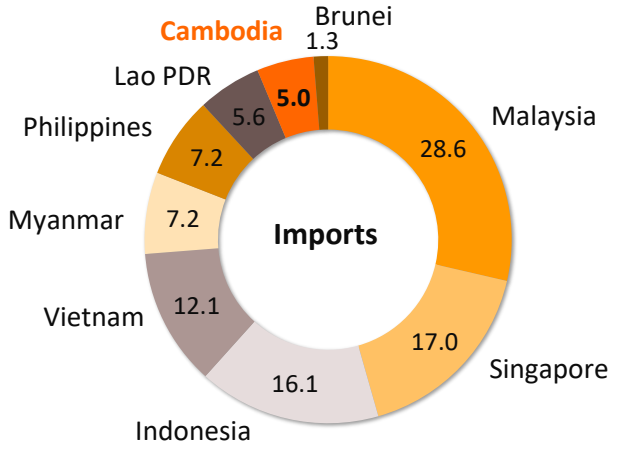
Thailand's Bilateral Trade with Cambodia (USD bn)



Share of Thailand's export to ASEAN (%, 2019)



Shares of Thailand's import from ASEAN (% , 2019)



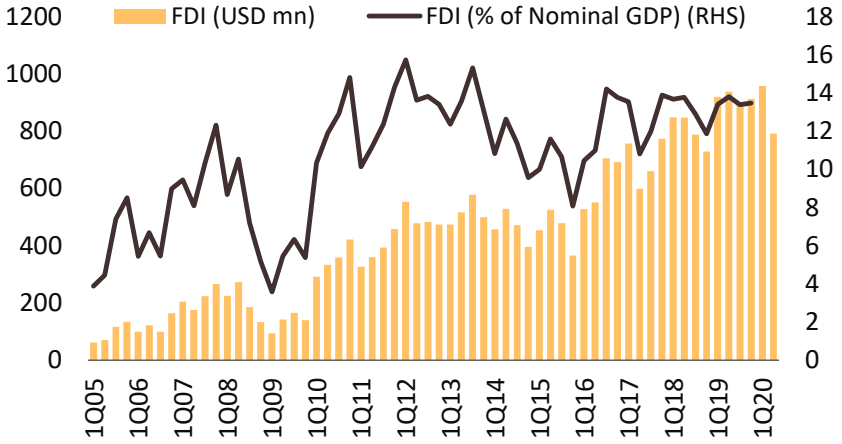
Major goods traded between Thailand and Philippines (2019)

Major Thailand's Exports to Cambodia	USD mn	Major Thailand's imports from Cambodia	USD mn
1. Refine fuels	1,422.7	1. Jewelry gems silver bar and gold	1,536.3
2. Precious stones and jewelry	612.2	2. Fruits, vegetables, their preparations	202.5
3. Beverages	527.4	3. Stranded wire and cable	122.4
4. Motorcars, parts and accessories	435.2	4. Other metal ores, metal waste scarp, and products	117.5
5. Sugar	229.1	5. Garments	94.6

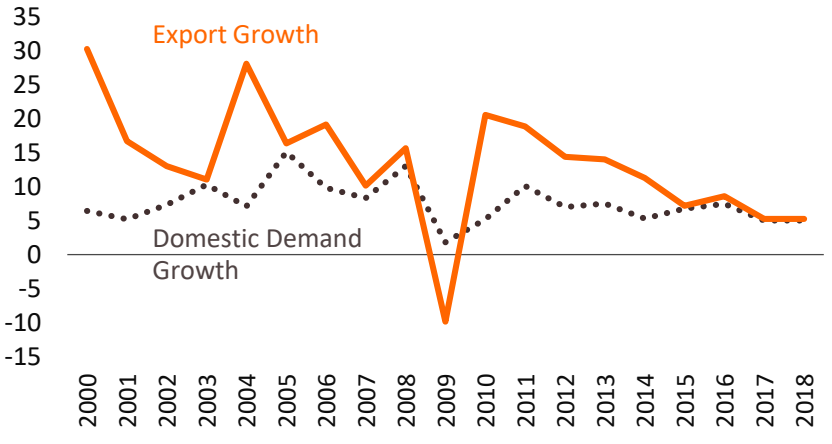
Source: CEIC, Thailand's Ministry of Commerce

FDI inflows which has been financing investment-led growth over the past decade

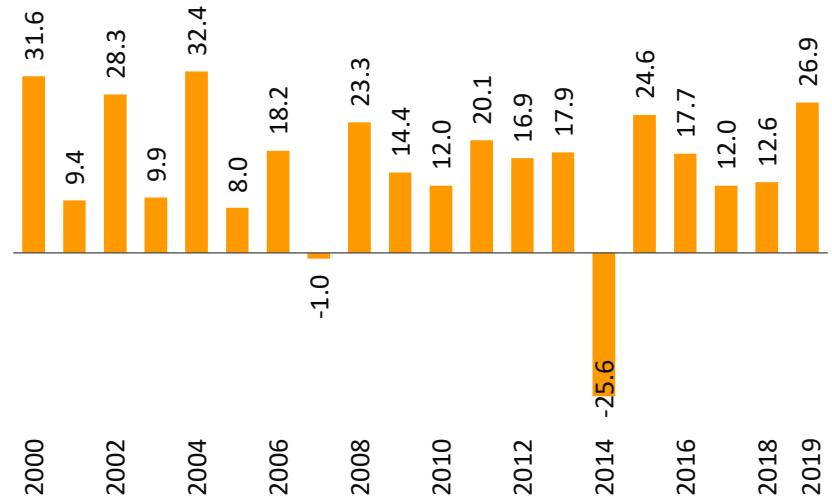
FDI Inflows to Cambodia



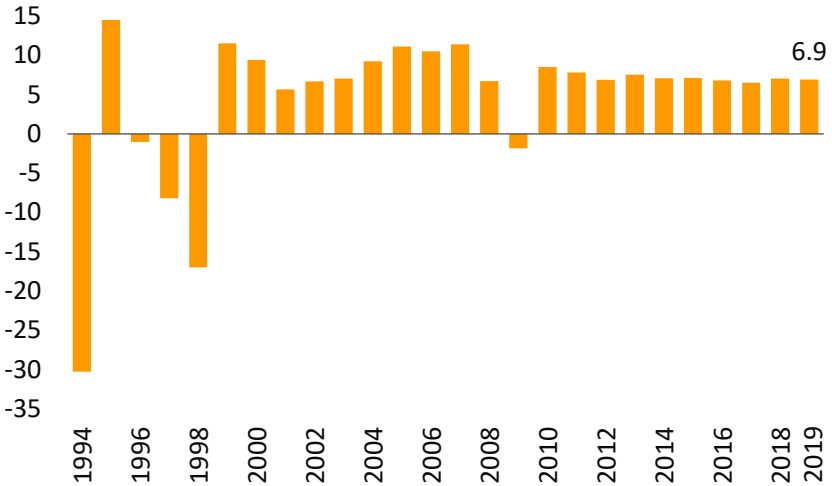
Domestic demand and export growth (%YoY)



Cambodia's Export Growth (USD mn, % YoY)



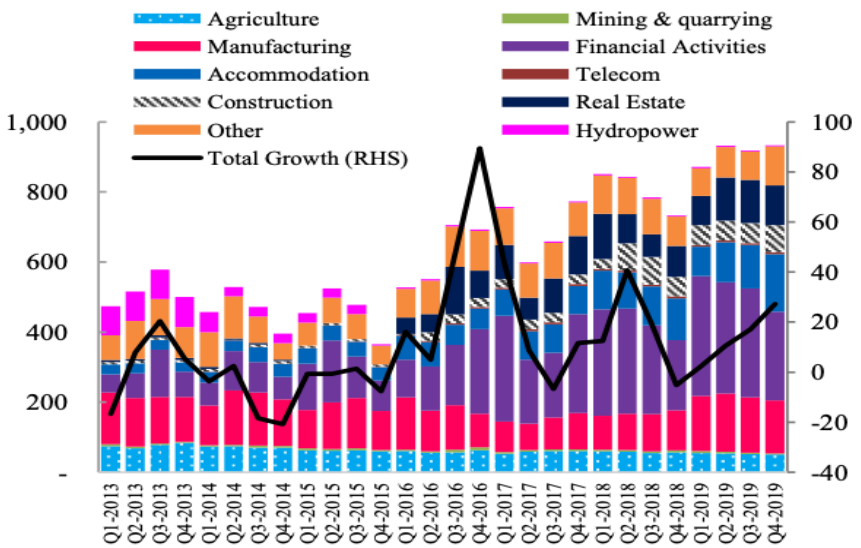
Real GDP Growth (USD mn, % YoY)



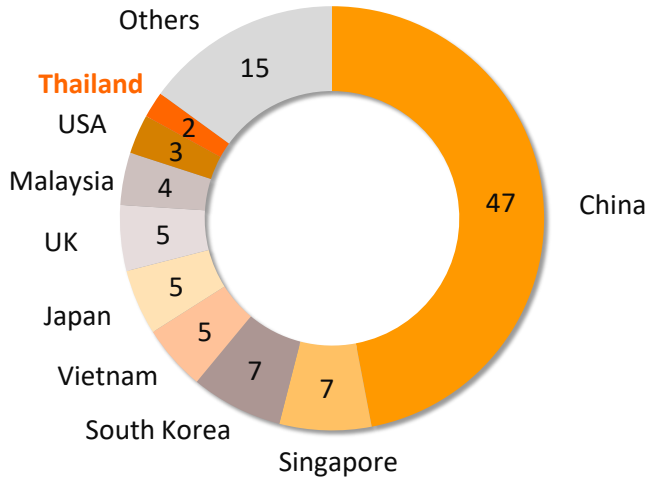
Source: CEIC

The pandemic and the subdued global growth could delay FDI inflows into key sectors driving growth

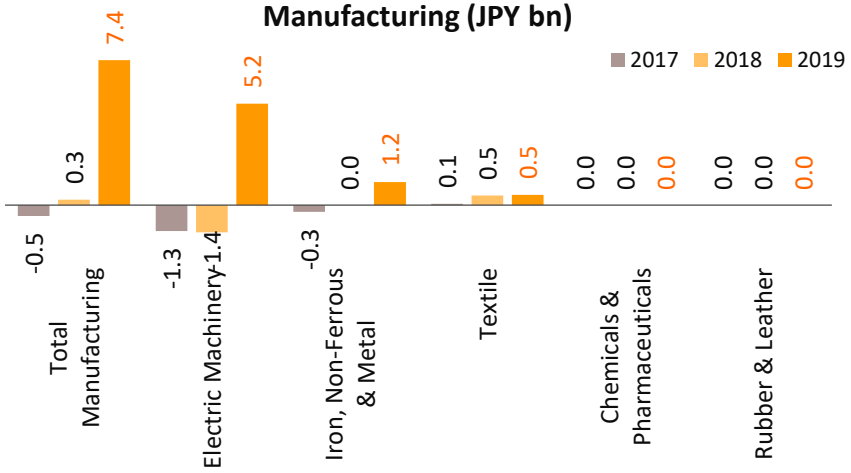
FDI Inflows by sector (USD mn, 2013-2019)



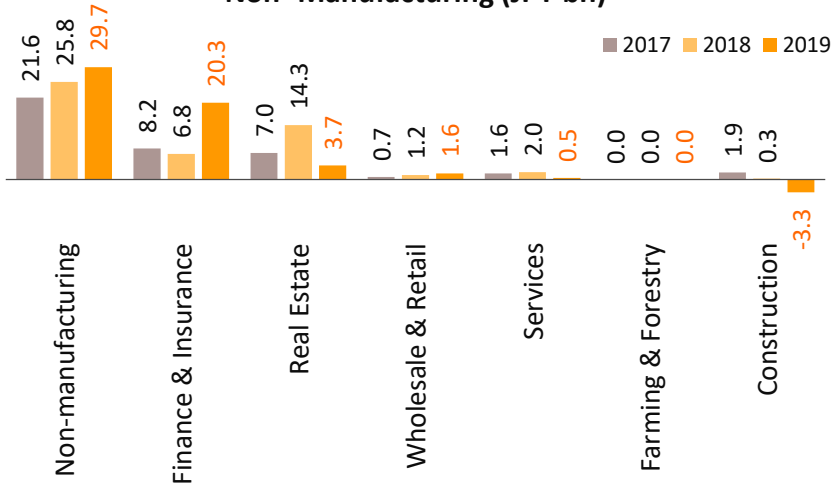
FDI Inflows by Source Country (% of total, 2019)



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



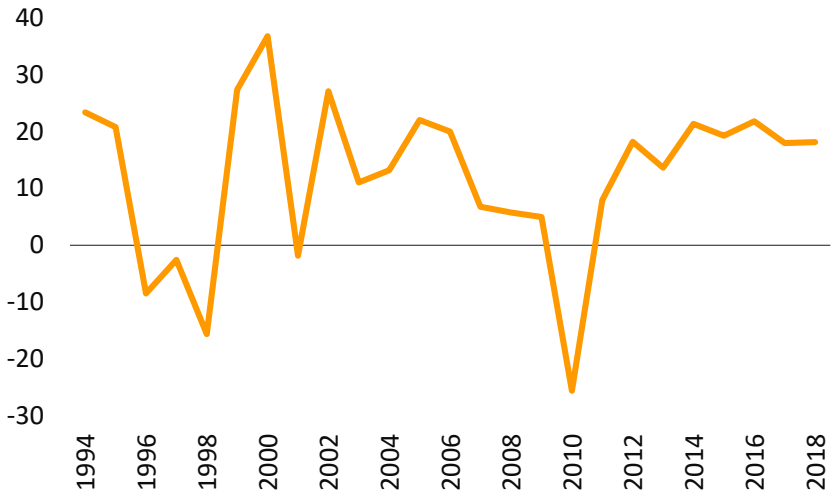
Japanese Outward Direct Investment to Cambodia: Non- Manufacturing (JPY bn)



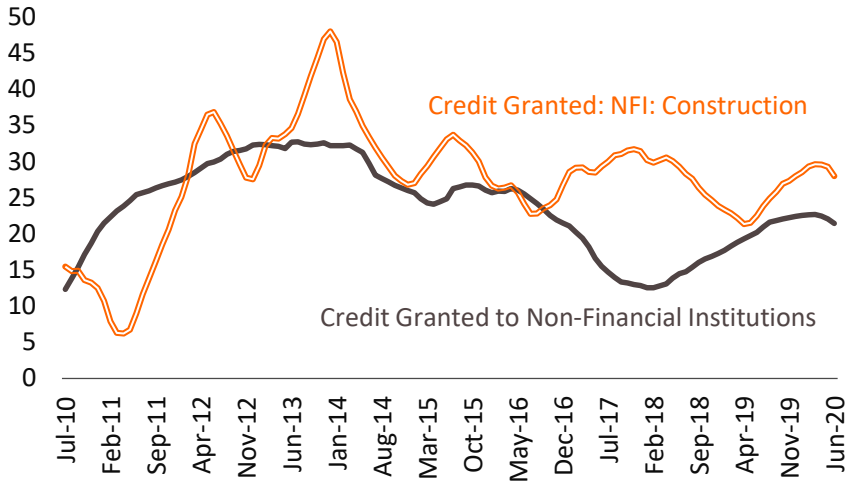
Source: CEIC, NBC's 2020 Financial Stability Review

…including the construction sector which has been booming for many years

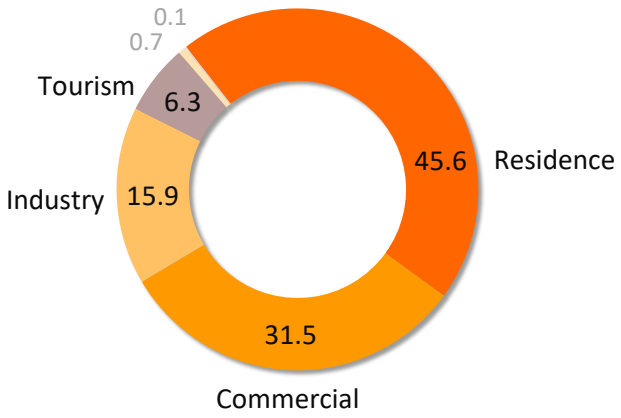
Growth of the construction sector (%YoY)



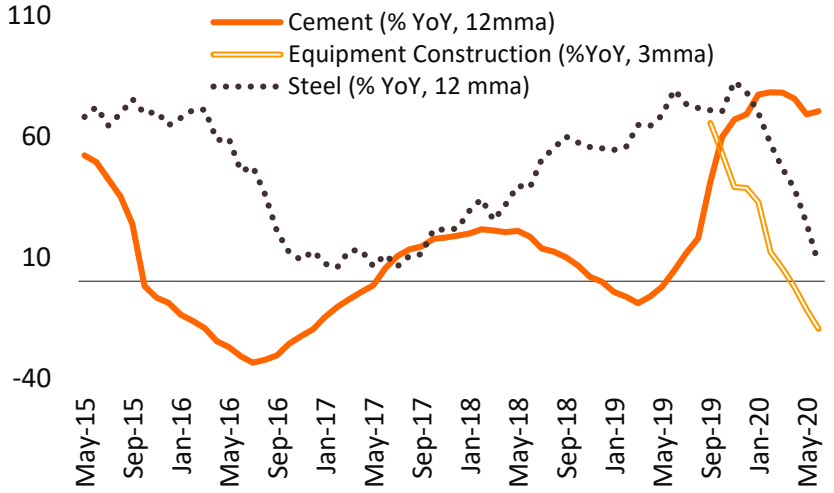
Credit growth (% YoY, 12 mma)



Share of Approved Projects by Sector by Surface Area in 2019 (% of total)



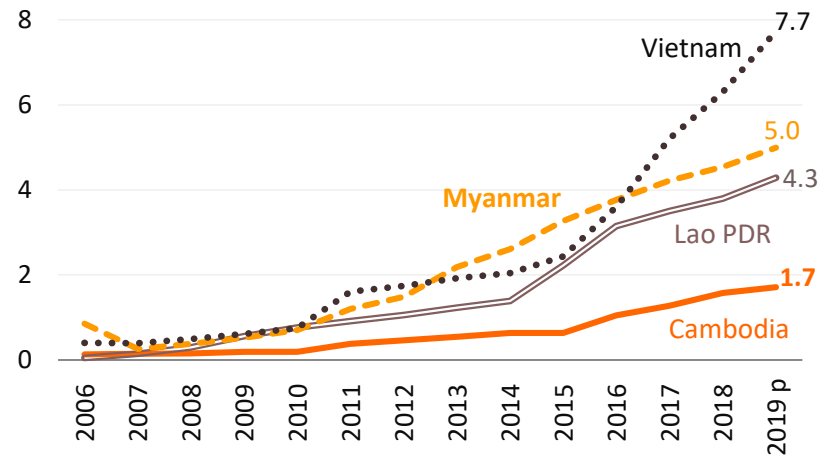
Imports of construction materials



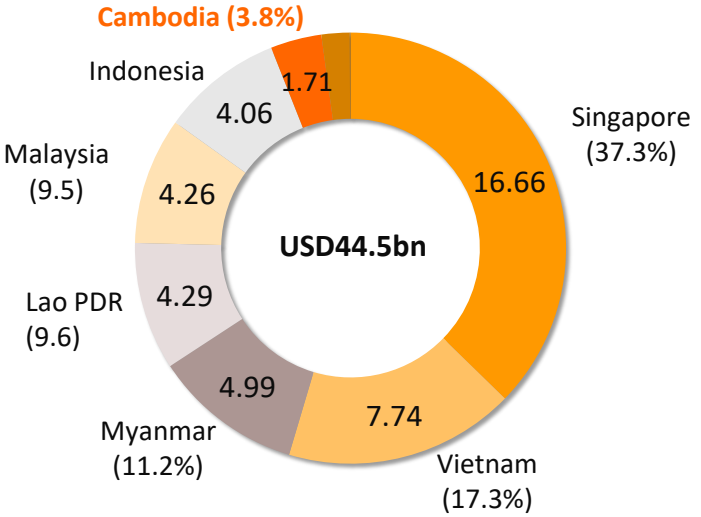
Source: CEIC

…while Thai direct investment (TDI) in Cambodia remains small

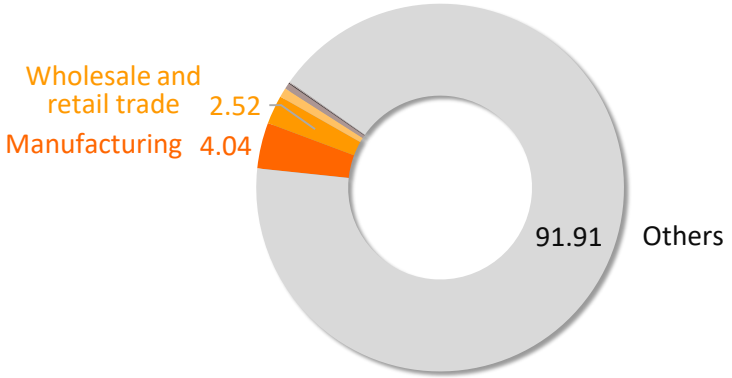
Thai Direct investment Position Abroad Classified by Country (USD bn)



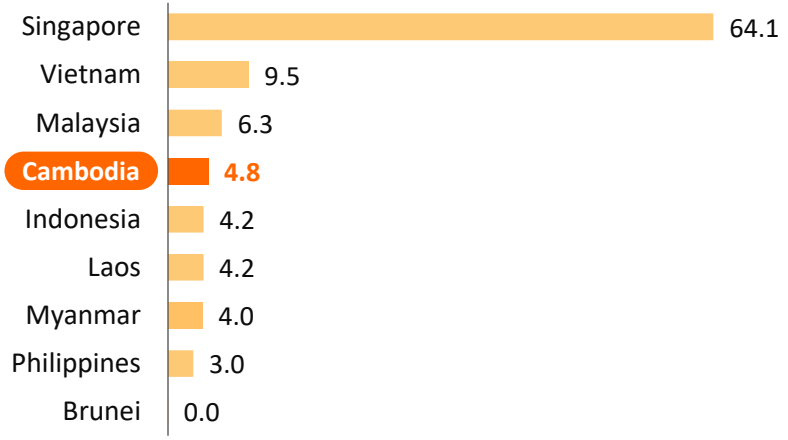
TDI Position Abroad Classified by Country/Economic territories (USD bn, as of 2019)



TDI (Outflows) in Cambodia Classified by Business Sector of Thai Investors in 2019 (% of total)



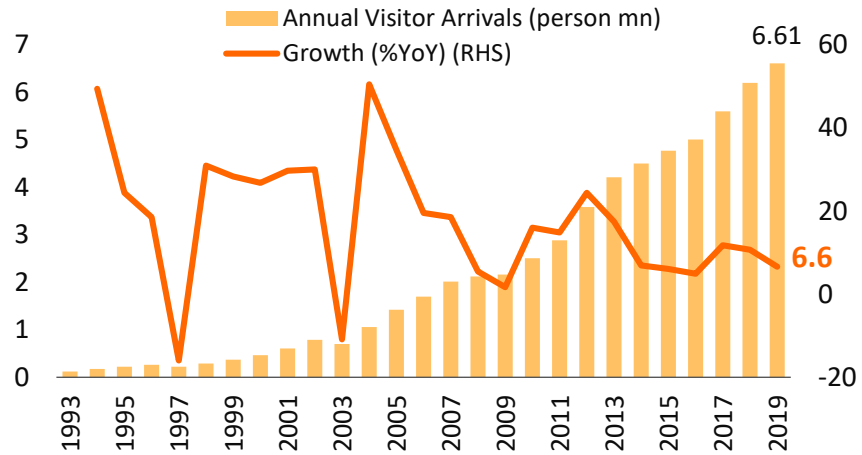
Share of TDI to ASEAN by country (% share of total TDI,2019)



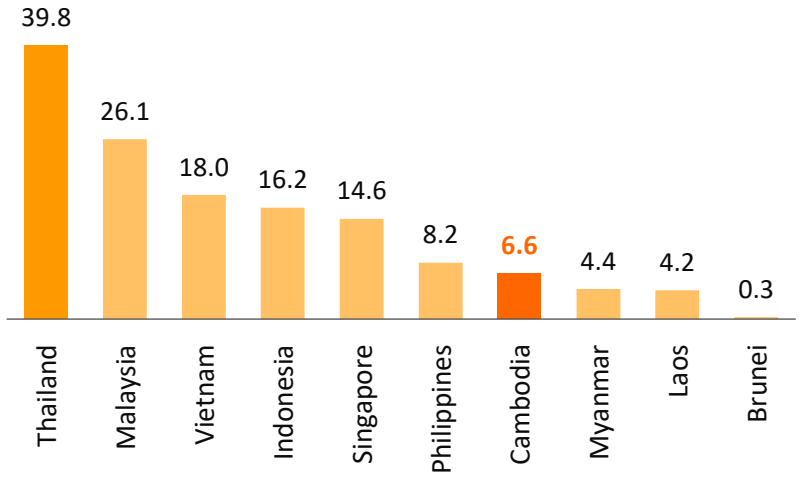
Source: CEIC, Bank of Thailand

Tourism sector, another key growth driver for Cambodia, should be the worst affected by the pandemic

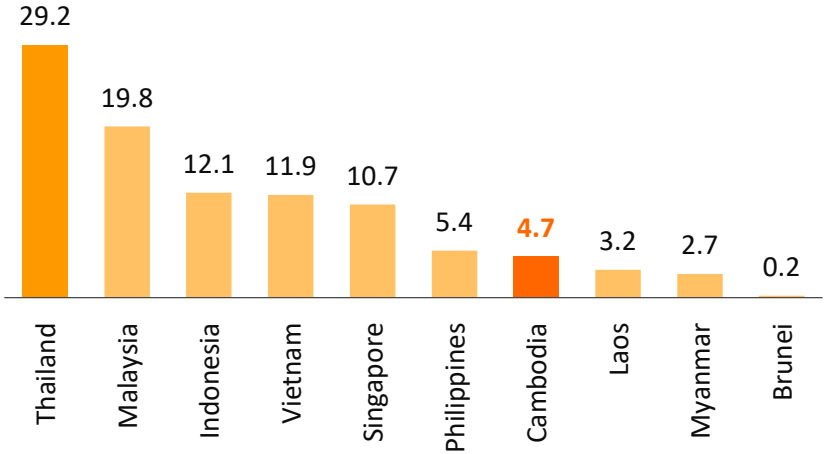
Annual Tourist Arrivals in Cambodia



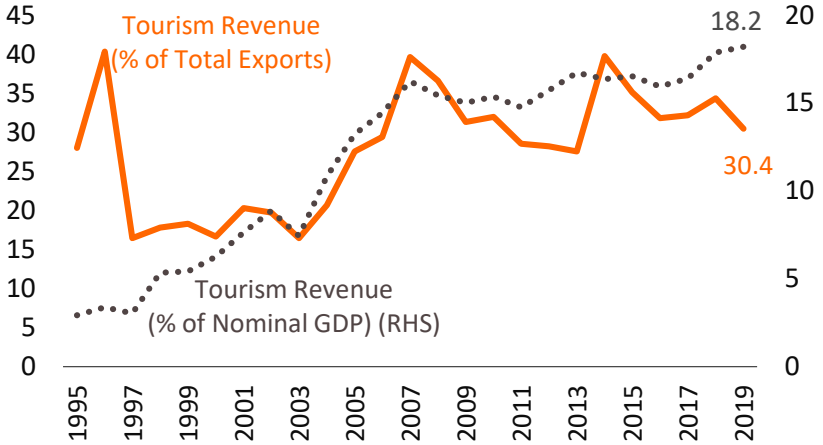
Visitor Arrivals in 2019 (person mn)*



Annual Visitor Arrivals (% of ASEAN, 2018)



Cambodia's Tourism Revenues

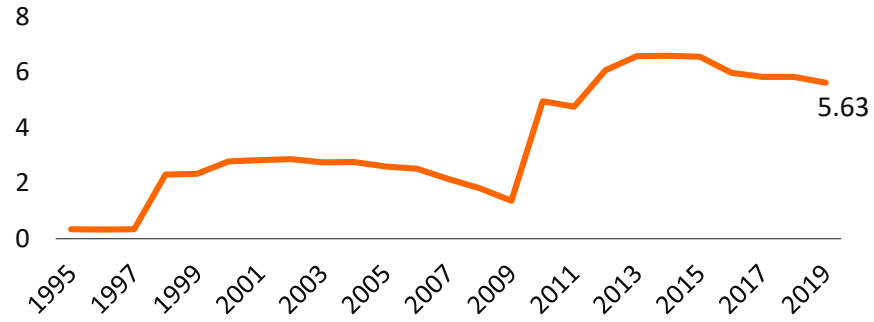


Source: CEIC, Bank of Thailand

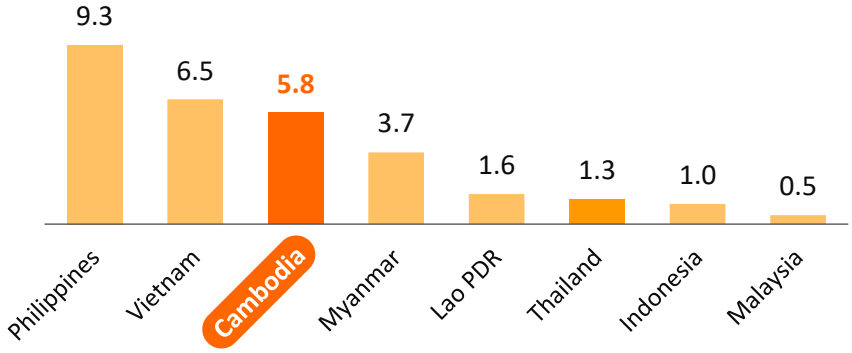
Flows of cross-border remittances financing 9% of total households in Cambodia will be disrupted

Cross-border flows of remittances currently account for about 6% of Cambodia's GDP in 2019 playing a crucial role as a main source of income for a number of households in the country around 9% of the total households, according to the figure provided by the ADB. We expect that inflows of remittances should resume strongly once the pandemic is effectively contained and the global economic activity starts to recover in the medium term.

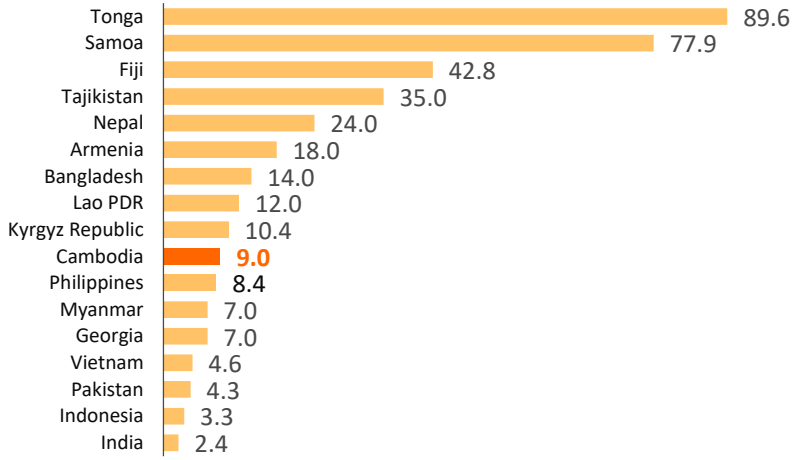
Cambodia's Received Personal Remittances (as % of GDP)



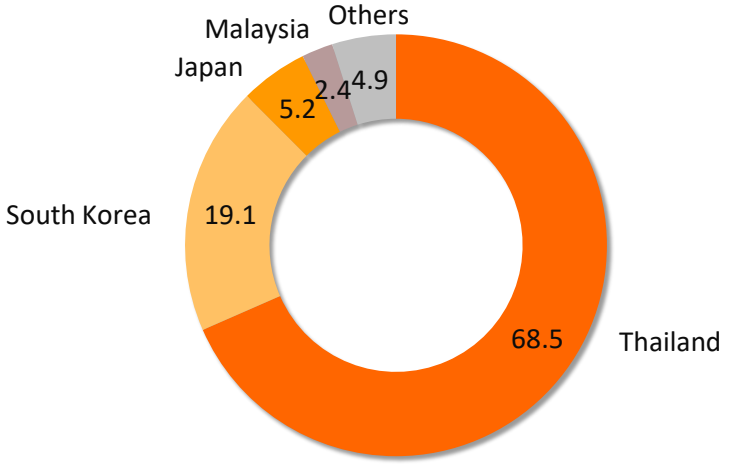
Personal remittances, received (% of GDP, 2019)



Share of recipient households with international remittances (% of total, 2020)



Share of Remittances Inflows by Source Country (% of total, 2019)



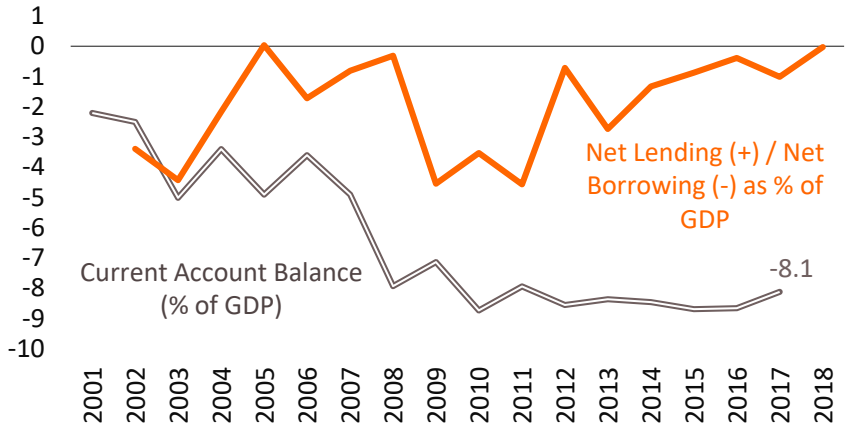
Source: World Bank: World Development Indicators, ADB, CEIC

Main Structural Challenges

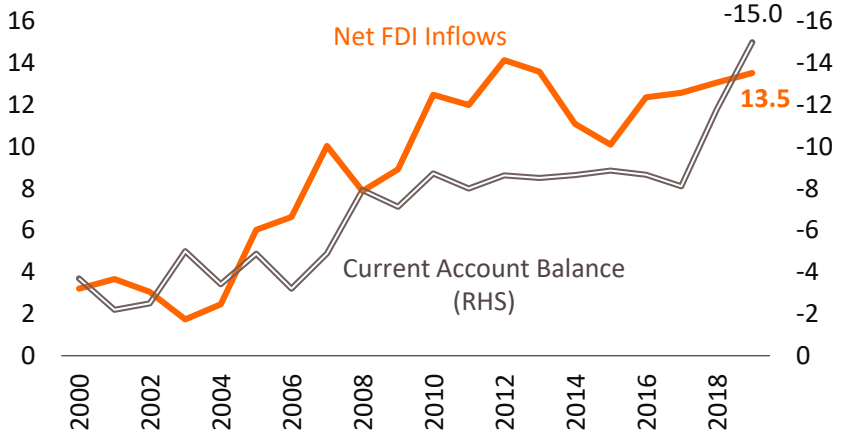


Fading FDI inflows may not be sufficient to finance Cambodia's persistent twin deficits

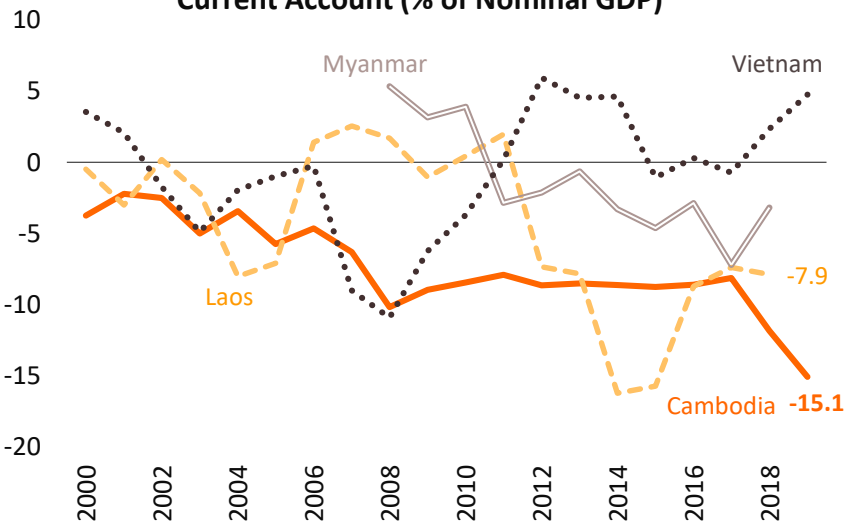
Twin deficits in Cambodia



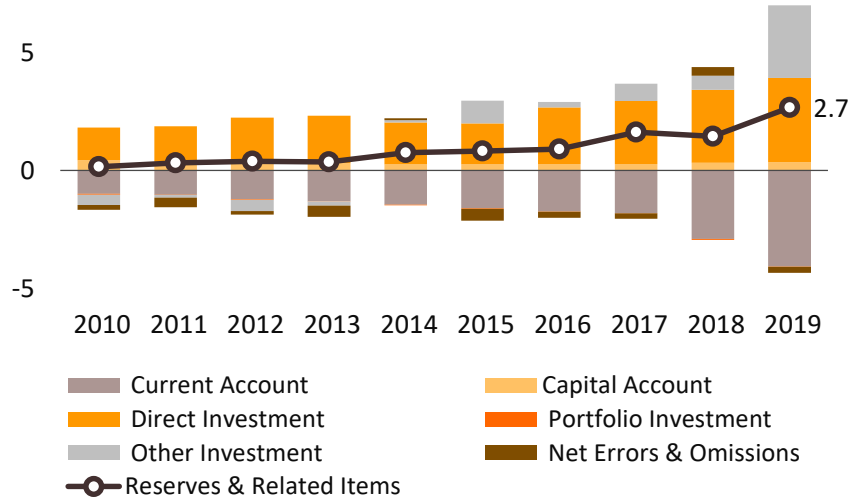
Financing of Current Account Deficits (% of GDP)



Current Account (% of Nominal GDP)



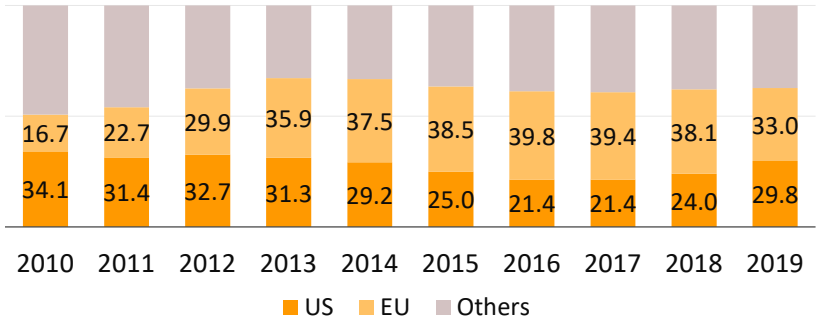
Balance of Payments (USD bn)



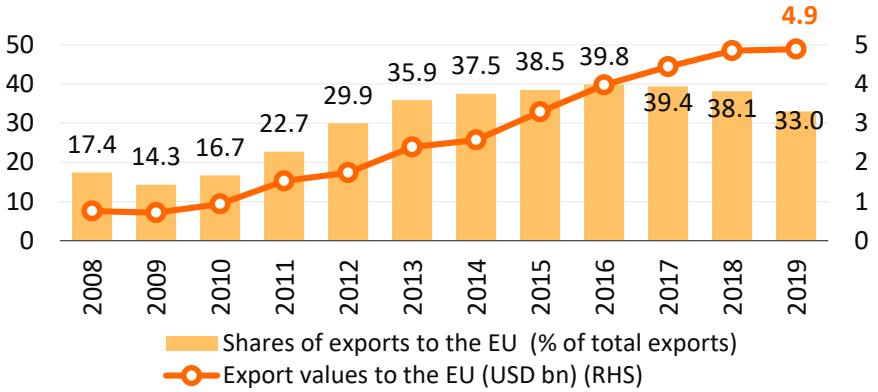
Source: CEIC

Losing the EU's trade privileges un the EBA Scheme substantially affects Cambodia's garment sector

Cambodia's Export dependence on the EU



Cambodia's exports to the EU



Cambodia's exports subject to the suspension of the EUs tariff-free (4-digit HS code)

HS code	Description	value (USD mn)	% of Total
6109	T-shirts	620.07	51.9
4202	Suit-cases, bags and cases, of leather	182.52	15.3
6107	Men or boys pyjamas and underpants, knitted or crocheted	141.07	11.8
6205	Men's or boys' shirts (excluding knitted or crocheted)	104.70	8.8
6105	Men or boys shirts knitted or crocheted	70.85	5.9
6212	Brassieres, girdles, corsets, braces, suspenders, garters	57.51	4.8
6207	Men or boys pyjamas and underpants (excluding knitted or crocheted)	8.61	0.7
4203	Apparel and clothing accessories, of leather	7.05	0.6
6405	Footwear	3.48	0.3
	Total	1,195.87	100.0

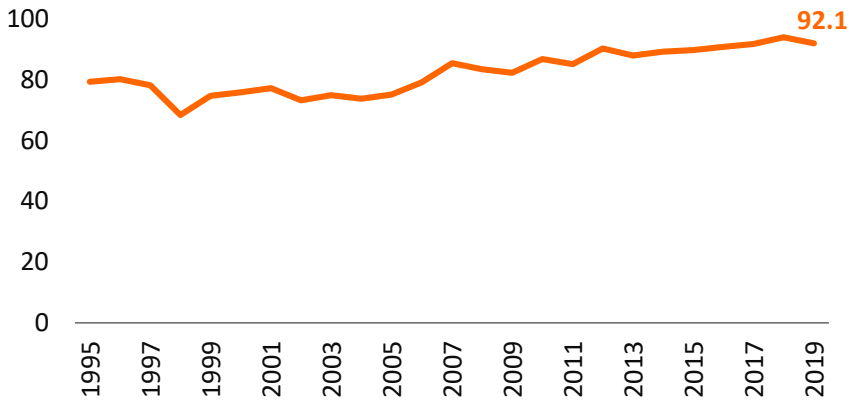
Effective tariff rates for Cambodia's exports to the EU

Sector	Before	Effective rate after partial withdrawal
1. Agricultural	0%	Less than 0.01%
2. Textile	0%	2.39%
3. Light manufacturing	0%	0.08%
Other	0%	0%
Total	0%	1.97

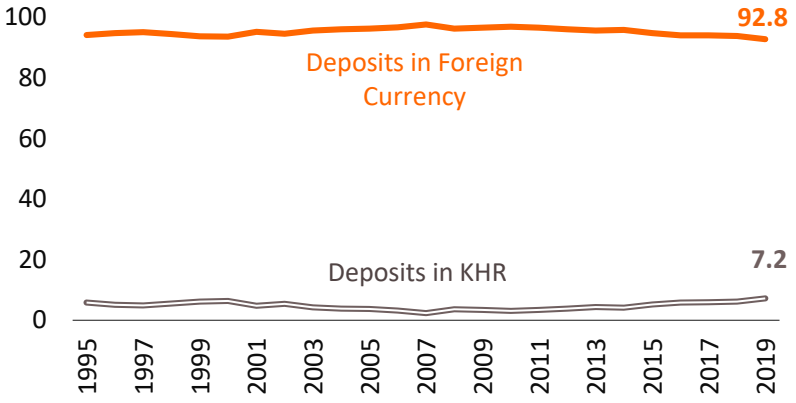
Source: CEIC, Trade Map, Krungsri Research

External sector adjustments to correct imbalances are constrained by a high degree of dollarization

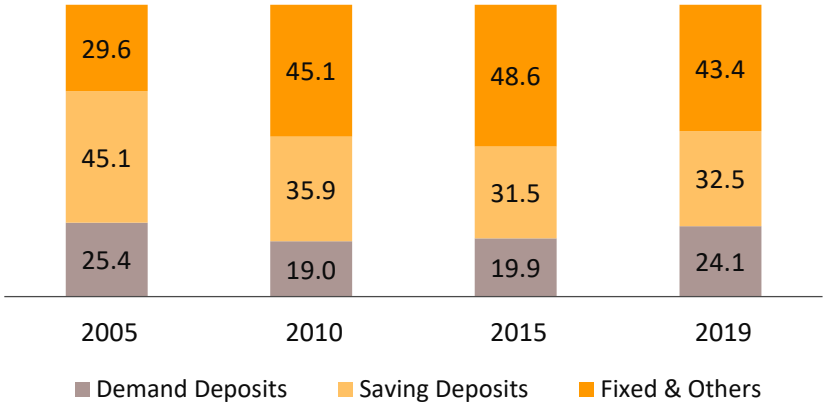
Foreign Currency Deposits to Broad Money in Cambodia (%)



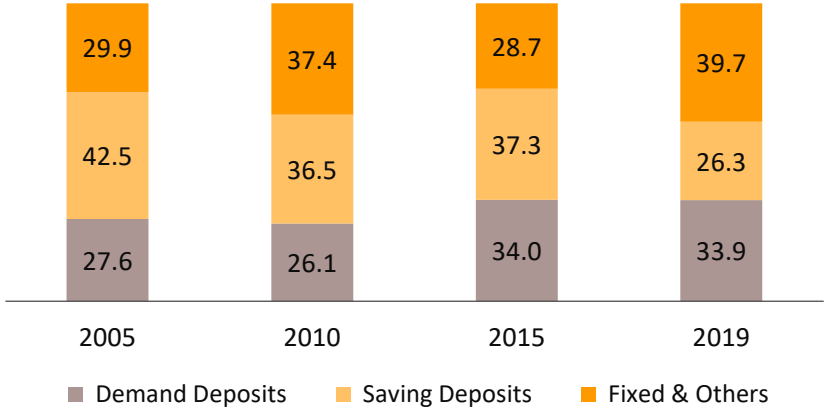
Structure of deposits at Deposit Money Bank (% of total)



Structure of FCD by type of deposit (% of total)



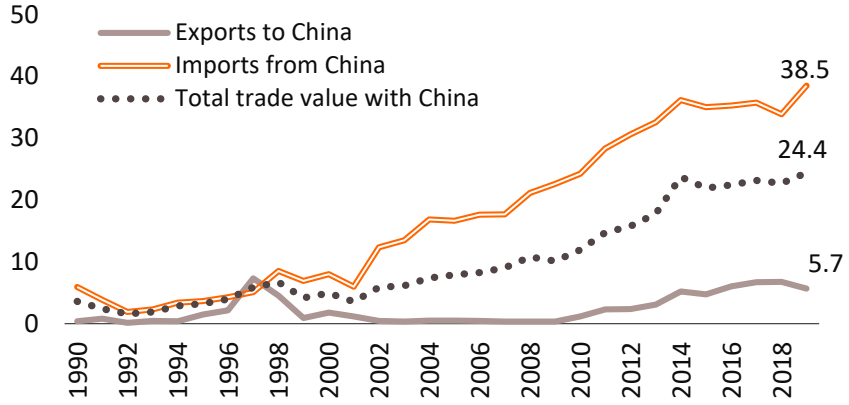
Structure of KHR Deposits by type of deposit (% of total)



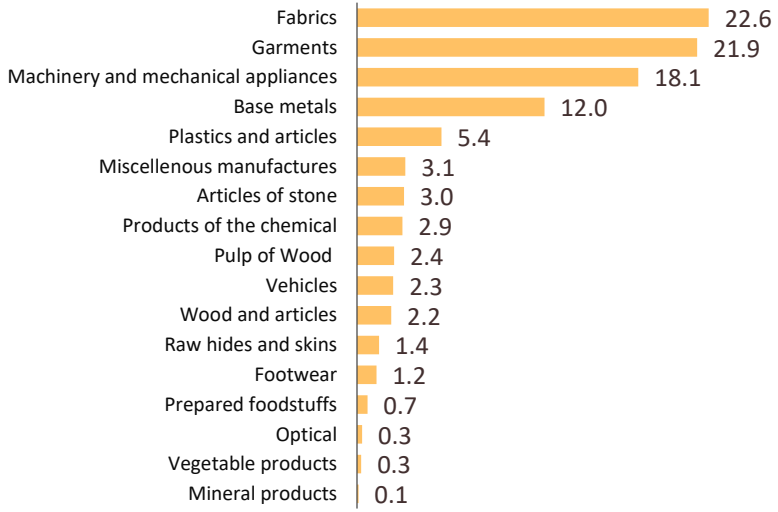
Source: CEIC

Closer interconnectedness to China is unlikely to help diversify Cambodia's export structure both in terms of products and markets

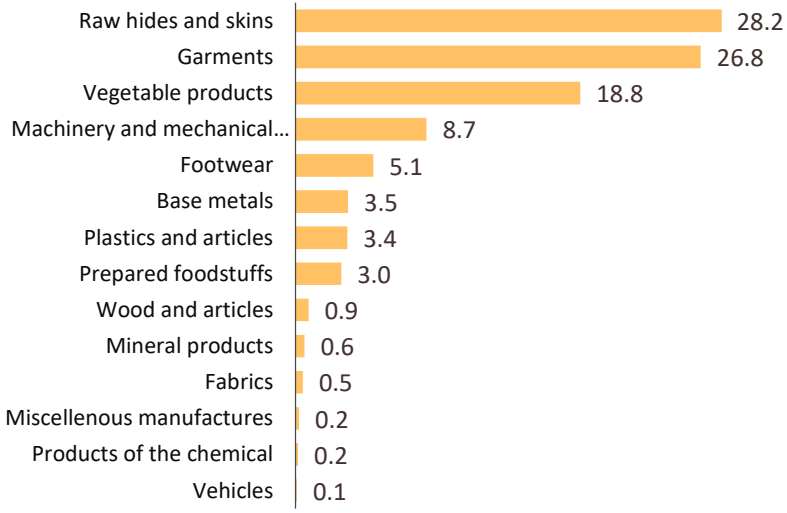
Trade with China (% of total trade)



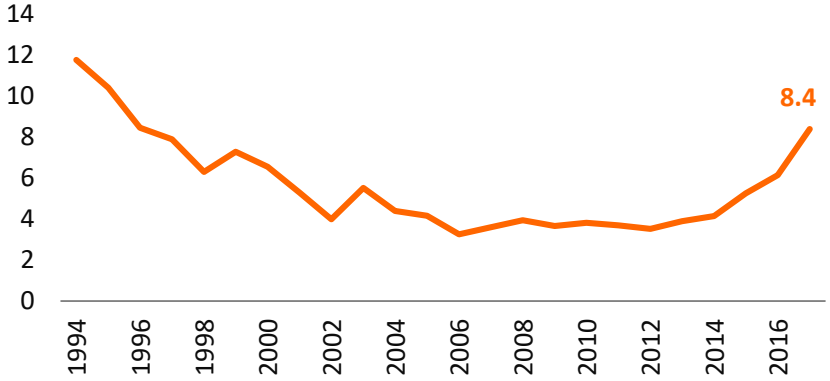
Shares of Cambodia's imports from China by product group in 2019 (% of total)



Shares of Cambodia's imports from China by product group in 2019 (% of total)



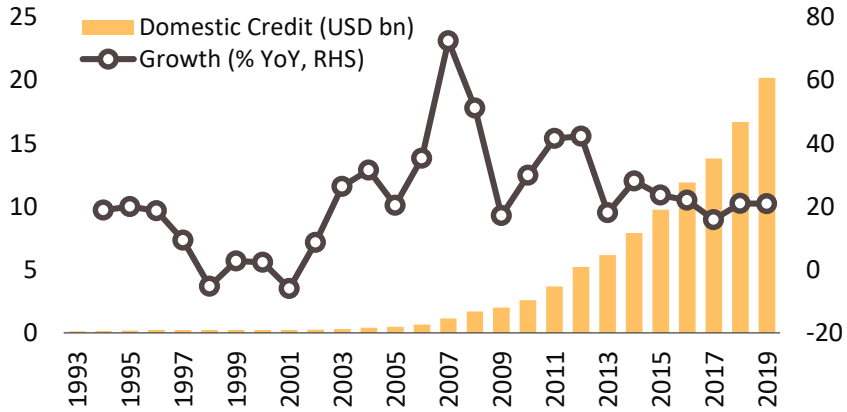
Shares of Chinese tourist arrivals in Cambodia (% of total)



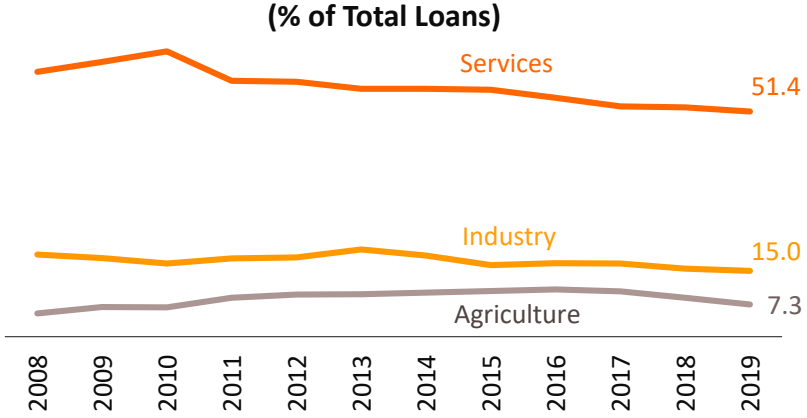
Source: CEIC

High growth of credits fueled by MDIs and MFIs over the past decade adds downside risks to the financial stability

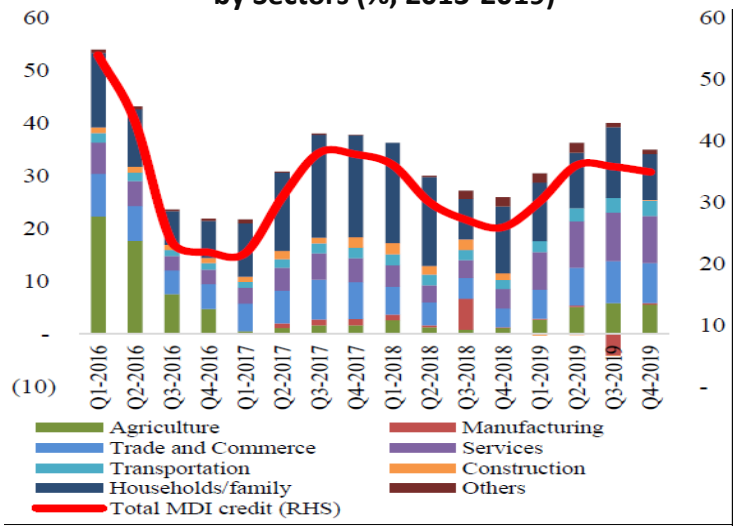
Domestic credit



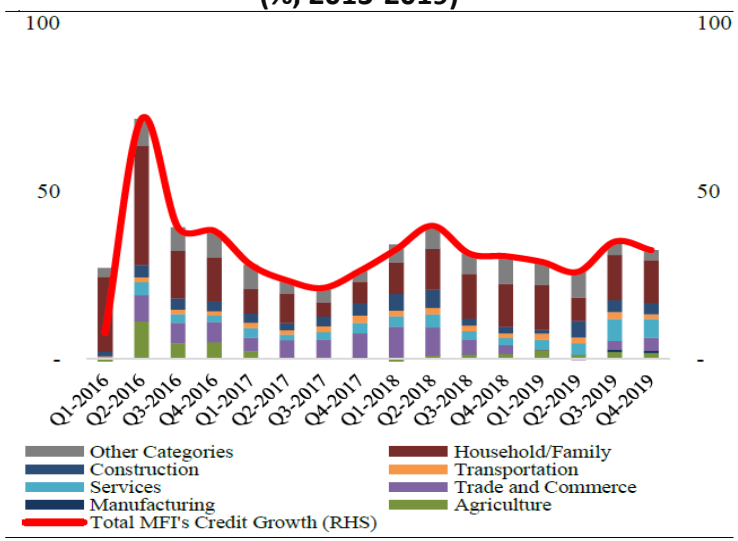
Bank Loans for Economic Activity (% of Total Loans)



Shares of Microfinance Deposit-Taking Institutions (MDIs Credits by Sectors (%, 2013-2019)

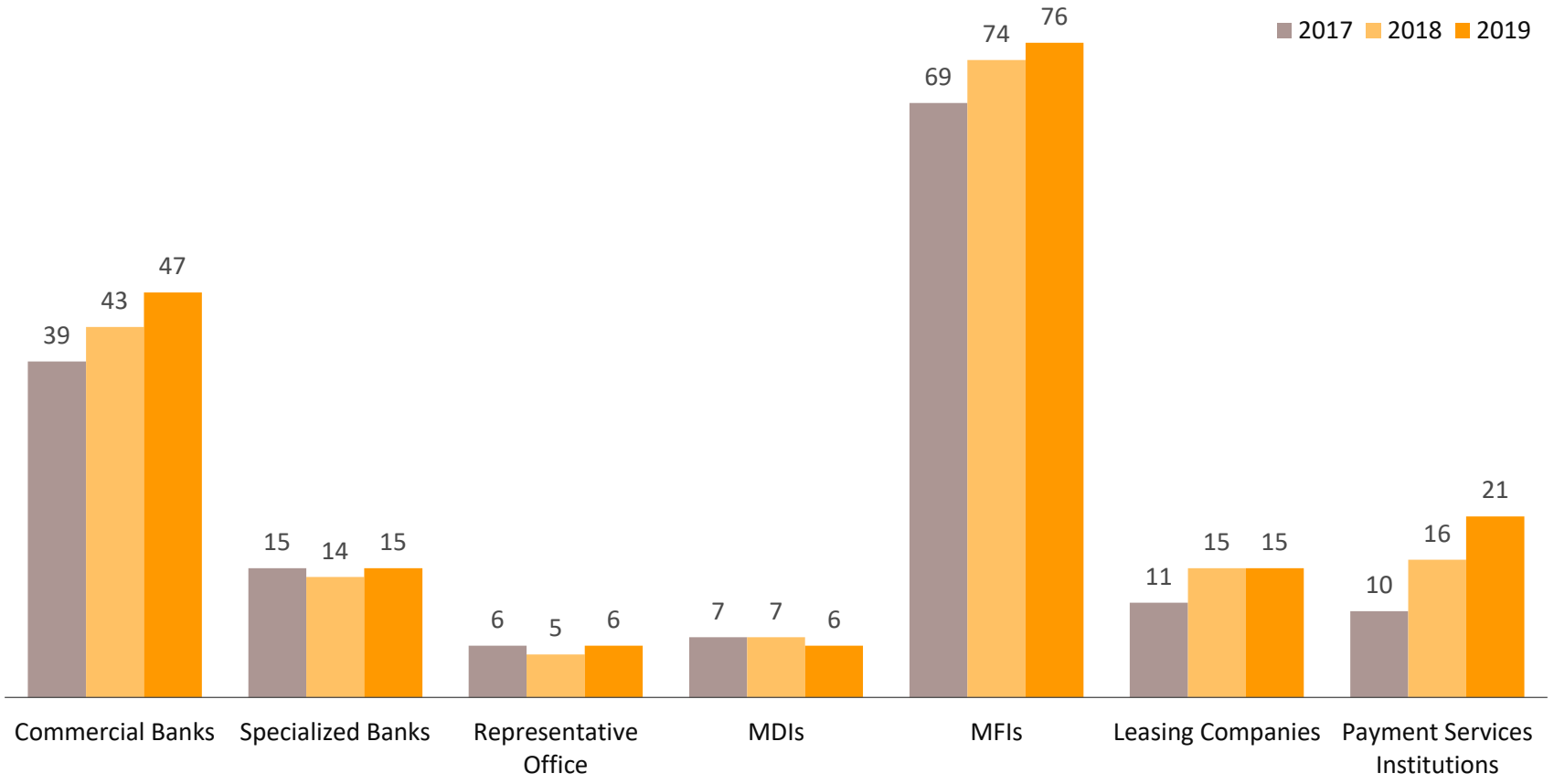


Shares of Microfinance Institutions (MFIs) Credits by Sectors (%, 2013-2019)



Source: CEIC, NBC's 2020 Financial Stability Review

Credit growth may also be driven by rising number of financial institutions in the country



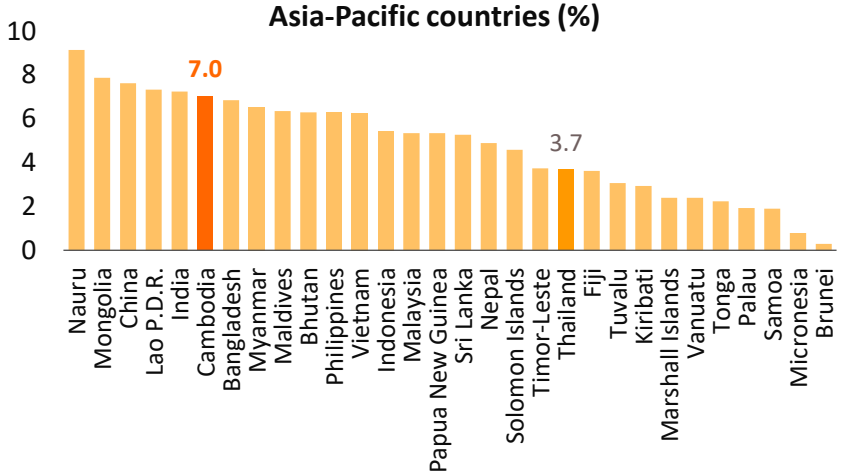
Source: CEIC, NBC's 2020 Financial Stability Review

Underlying fundamentals driving Cambodia's Long-term Prospects

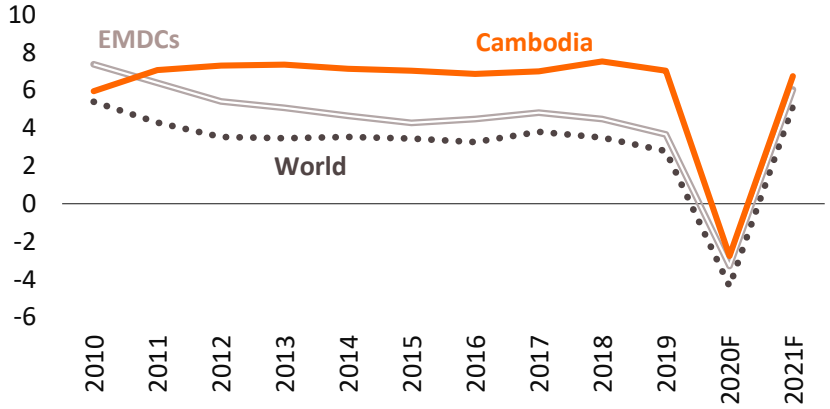


In the long term, *Cambodia' growth path* of 6.0-7.0% p.a. is likely to be re-emerged should near-term vulnerabilities are well managed

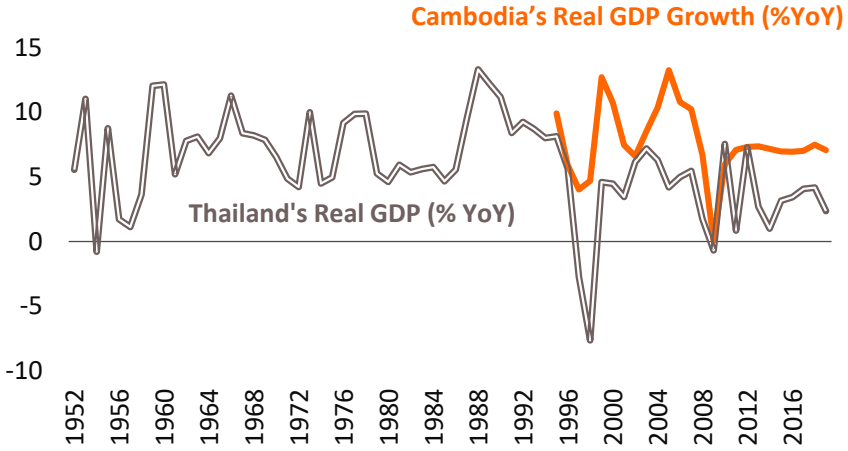
10-year average of annual growth rate of Asia-Pacific countries (%)



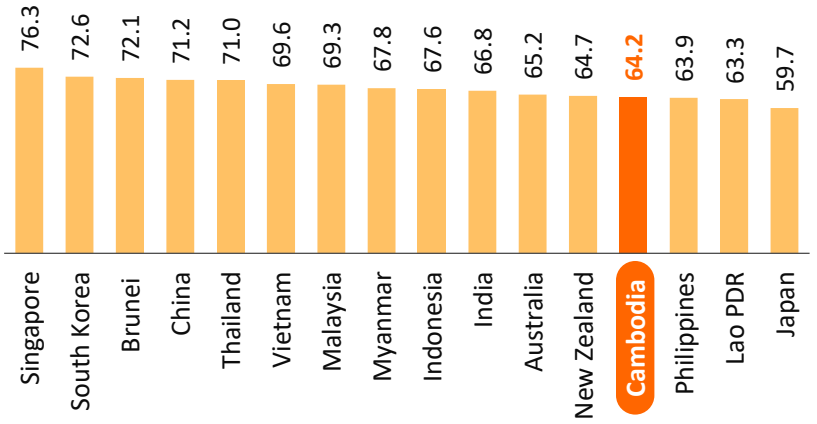
Growth outlook for Cambodia and the global economy (%)



Economic Growth of Cambodia and Thailand (2010 price)



Population ages 15-64 (% of total population) in ASEAN+6 countries (2018)



Source: IMF WEO (April 2020), CEIC, Krungsri Research

…supported by its favorable fundamentals

Although the pandemic is expected to substantially affect Cambodia's growth trajectory in the medium term, over the medium to long term, we view that the economy should be able to eventually return to its potential path of 6.0%-7.0%. There are 4 main drivers comprising (1) favorable demographic structure, (2)engaging in regional trade agreements, (3) open and liberal foreign investment, and (4) foreign direct investment (FDI) inflows. These factors will support Cambodia to remain one of the fastest growing economies regionally.



1

Favorable demographic structure (young labor force)

- Pools of young labor force for labor-intensive manufacturing
- Attracting FDI inflows
- Growing middle-class consumers and sizeable domestic market as young workers earning higher income
- Expanding physical and digital urbanization



2

Engaging in Regional Trade Agreements



3

Open and Liberal Foreign Investment Regime



4

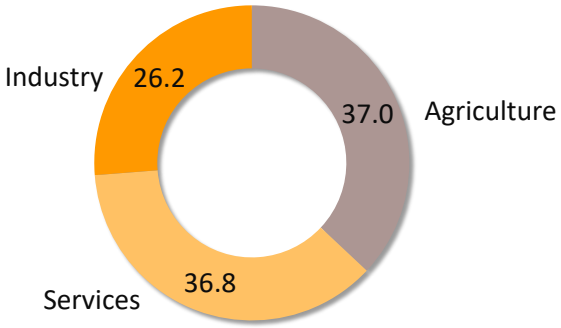
Foreign Direct Investment (FDI) inflows

- Promoting ease of doing business
- Underpinning confidence and attracting FDI inflows
- Further supporting and facilitating Cambodia's industrialization
- Supporting the integration to regional supply chains and value chains
- Creating jobs and new business opportunities for growing young workers.

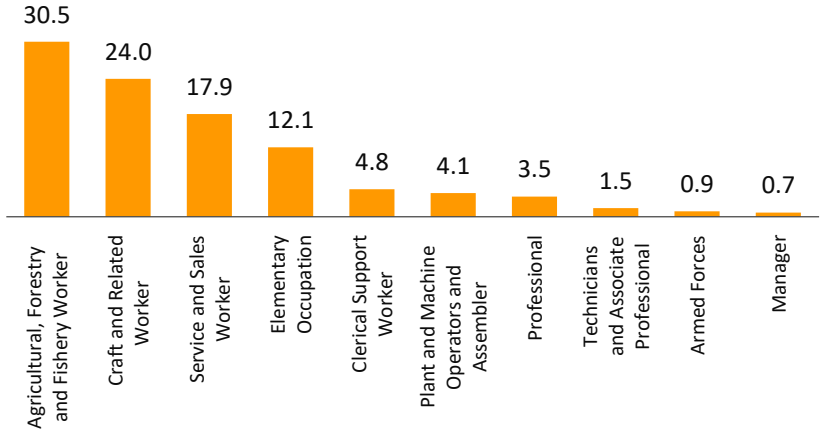
Source: Krungsri Research

1 Youthful population will support labor-intensive and export-oriented manufacturing sector

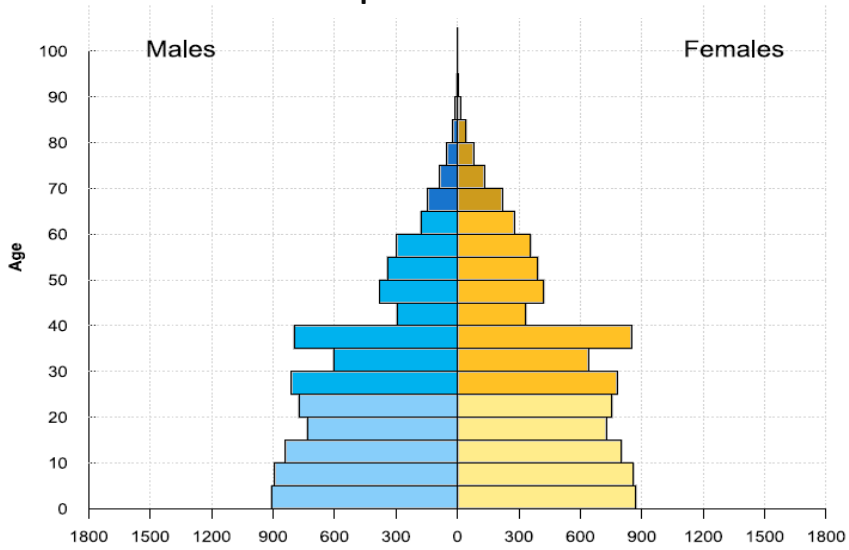
Shares of employment by economic sector (% of total, 2017)



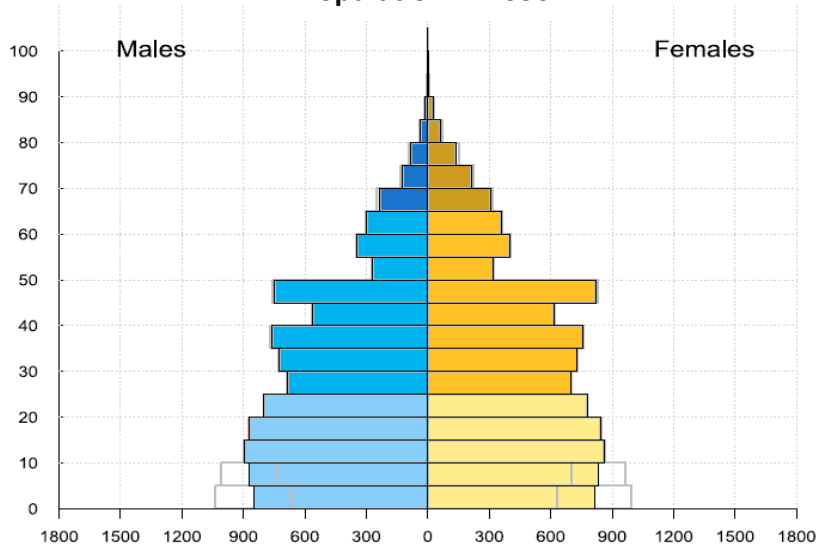
Employment by occupation (% of total, 2017)



Population in 2020



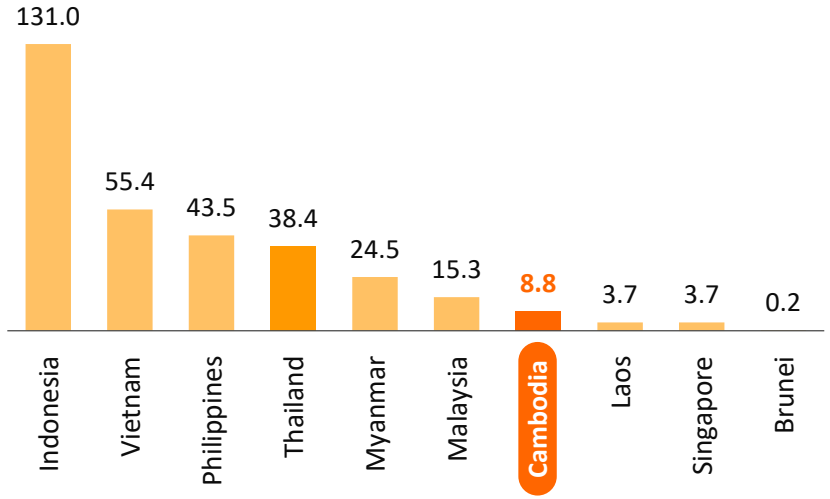
Population in 2030



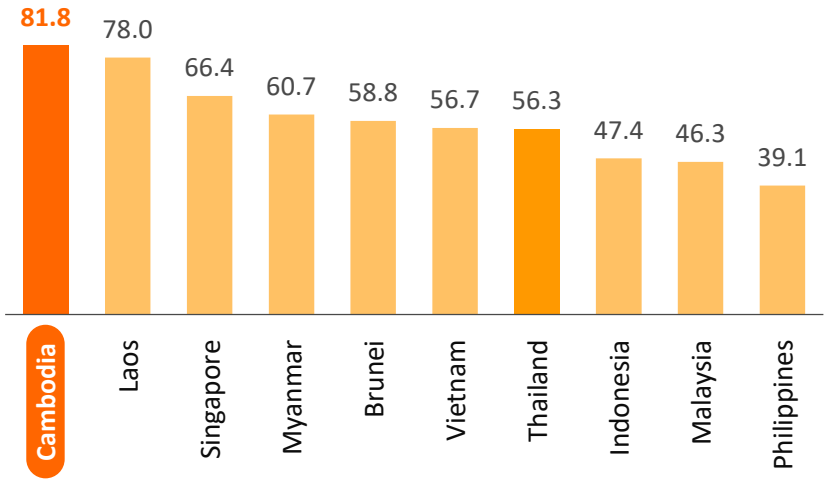
Source: CEIC, UN Population Prospects 2019, Krungsri Research

1 Young workers with higher income are becoming sizeable middle-class consumers amid rising urbanization

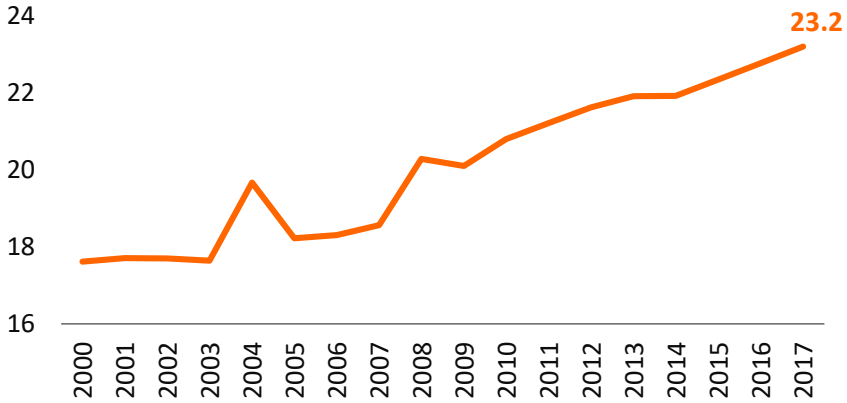
Labour Force (Person mn)



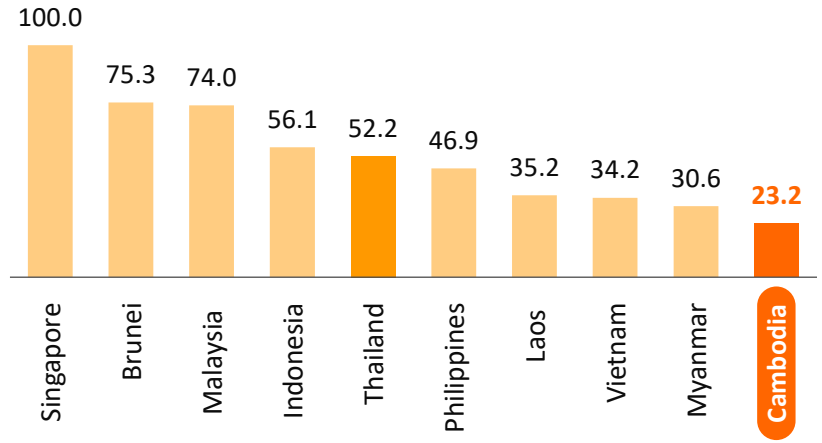
Employment to Population Ratio (% of total, 2019)



Urban Population (% of Total Population)

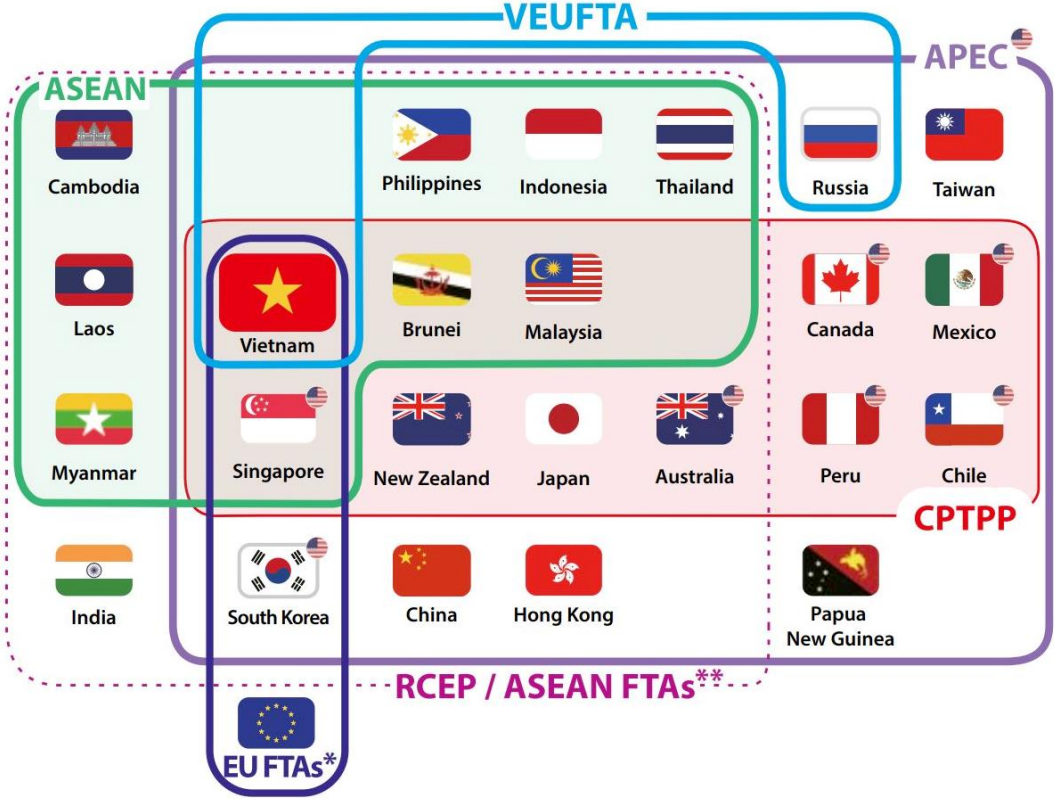


Urban Population (% of Total Population, 2018*)



Note: *Data for Cambodia is in 2017
Source: CEIC

2 Engaging in regional trade agreements should help diversify export markets for Cambodia



APEC
Asia-Pacific Economic Cooperation

CPTTP
Comprehensive and Progressive Agreement for Trans-Pacific Partnership

VEUFTA
Vietnam Eurasian Union FTA

ASEAN
Association of Southeast Asian Nations

EU
European Union

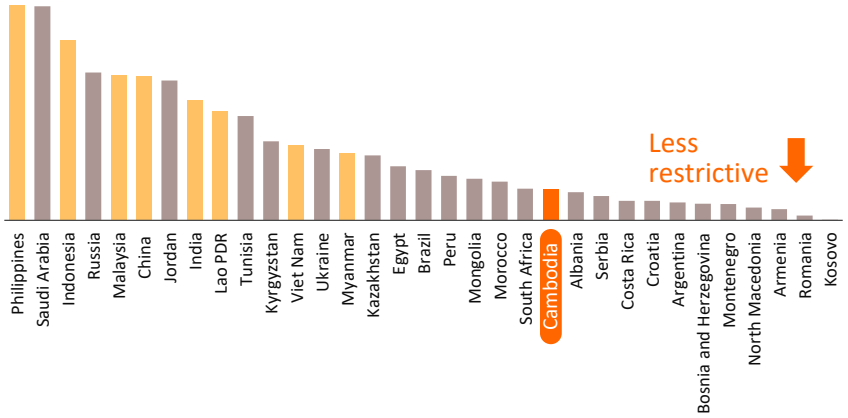
RCEP
Regional Comprehensive Economic Partnership

FTA with the United States
Agreements in Force
Singed Agreements
Negotiations ongoing

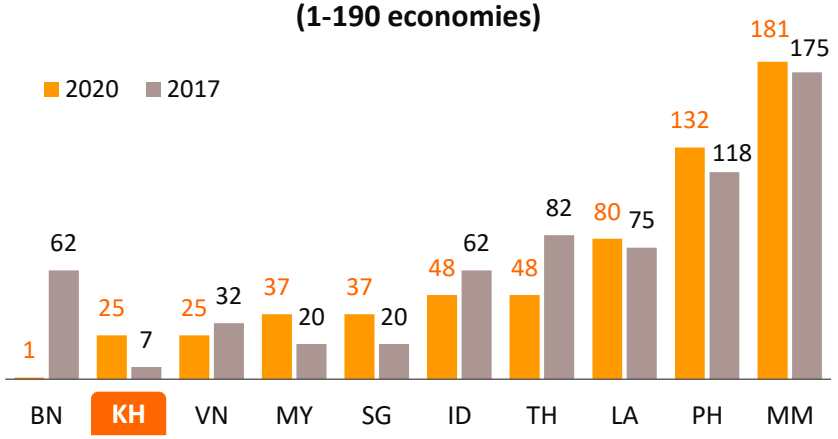
Source: Vietnam Briefing

2 Open and liberal foreign investment regime should support attractiveness of Cambodia for FDI inflows

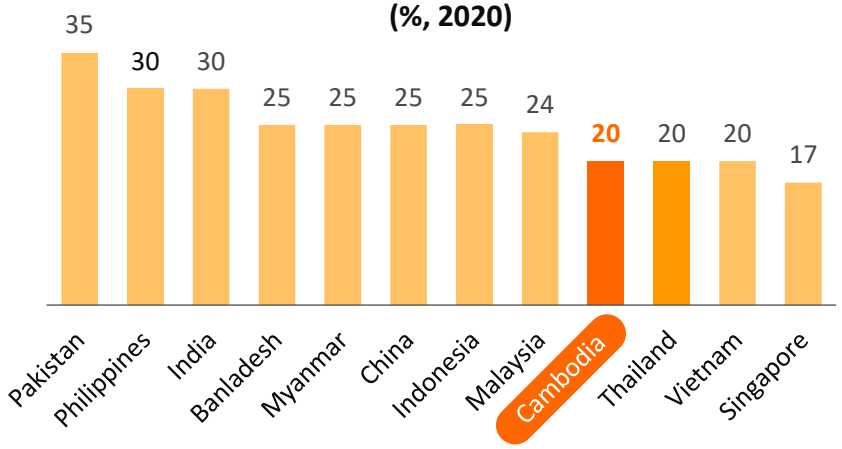
OECD FDI Regulatory Restrictiveness Index for some selected non-member countries (2018)



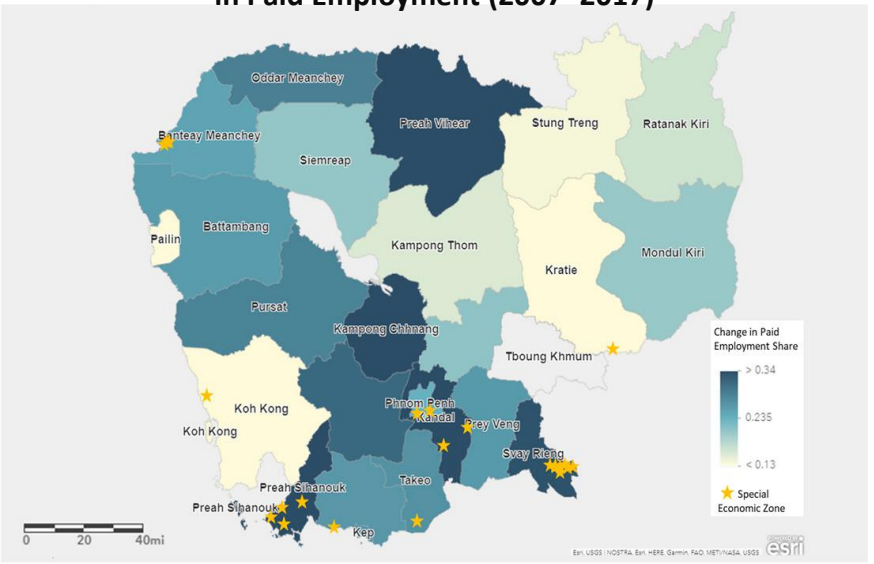
Ease of Doing Business: Getting credit ranking (1-190 economies)



Corporate tax rates in some selected countries (%, 2020)



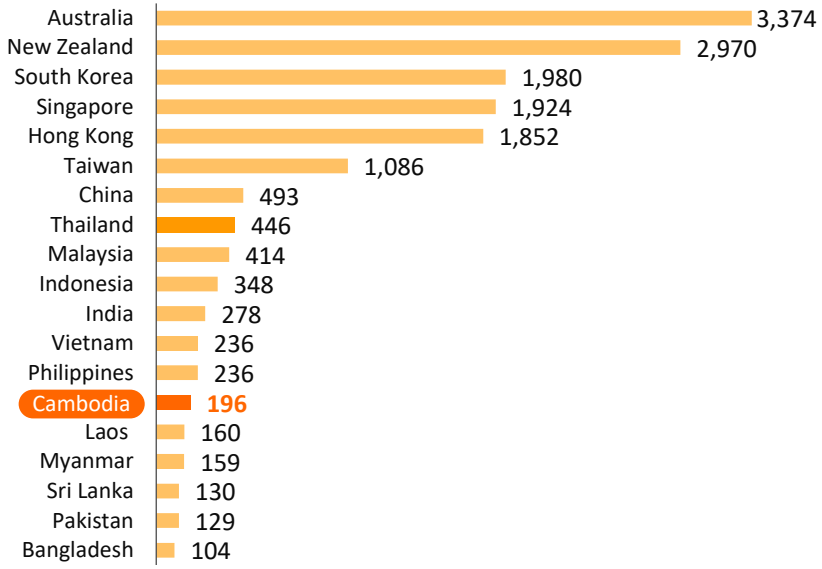
Cambodia: SEZ Geographic Distribution and Change in Paid Employment (2007–2017)



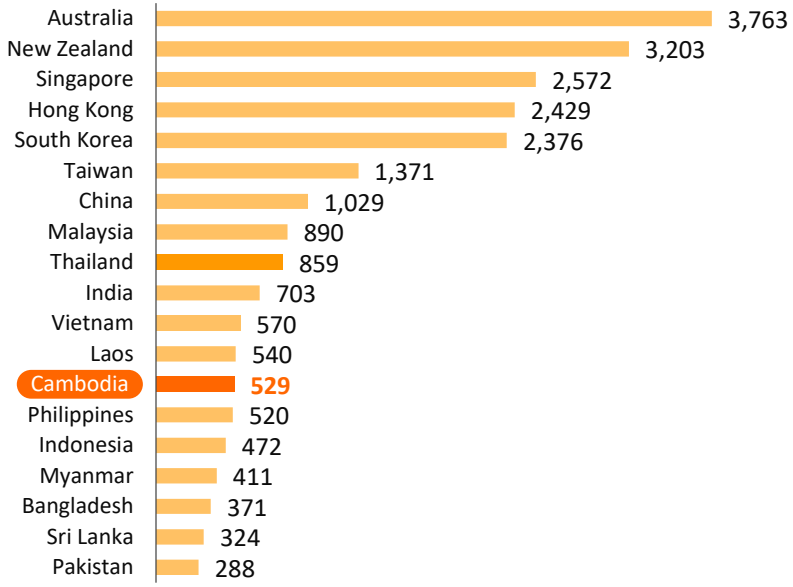
Source: CEIC, OECD, IMF 2019 Article IV Staff Report on Cambodia, Krungsri Research

3 Wages which remain relatively lower than those of regional peers should also be conducive for foreign investment

Base monthly salary for manufacturing worker (USD, 2019)



Base monthly salary for non-manufacturing staff (USD, 2019)



Official minimum wage in the CLMV economies

The monthly minimum wage is USD190 in 2020 (compared to USD182 in 2019)

The monthly minimum wage for all businesses and factories is ranged from LAK900,000 (USD101) to LAK1.1mn (USD124).

Current daily minimum wage is set at MMK4,800 (USD3.29) for eight hours of work

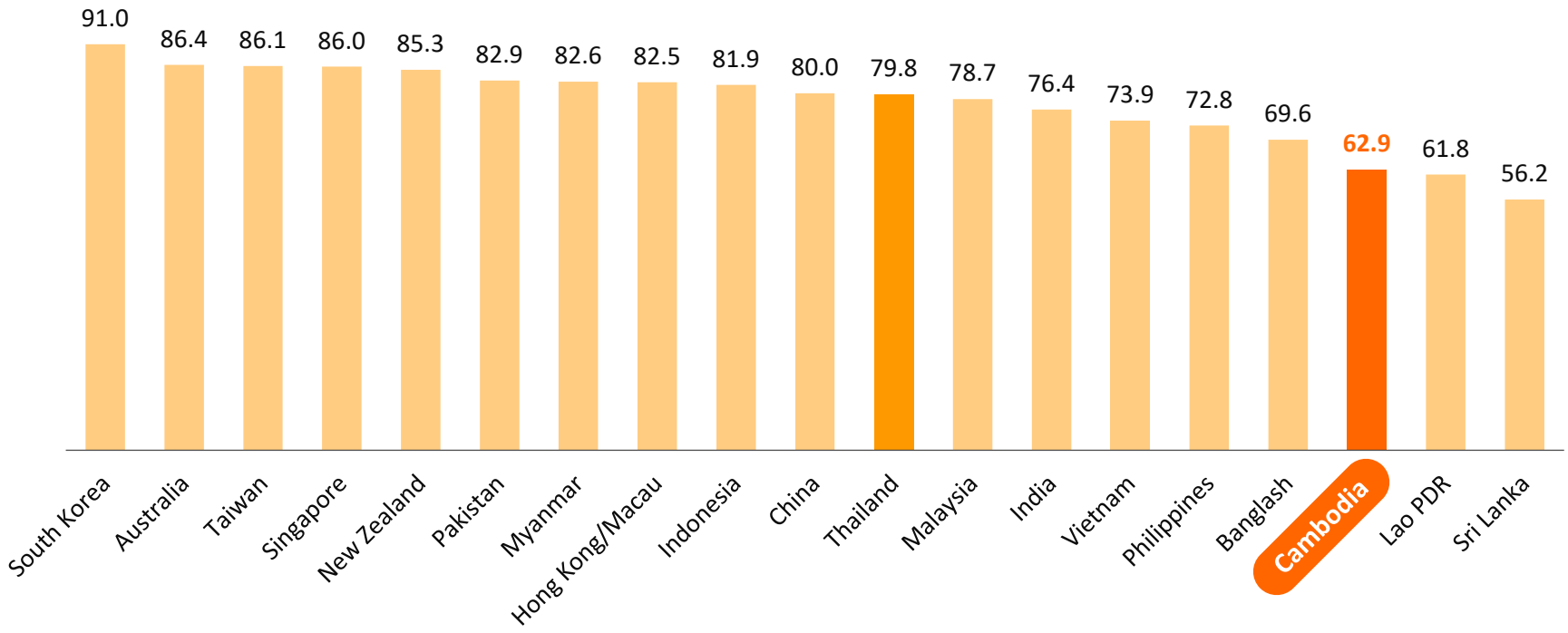
Current monthly minimum wage is set by region*:
Region I: USD190 (VND4.42mn)
Region II: USD169 (VND3.92mn)
Region III: USD148 (VND3.43mn)
Region IV: USD132 (VND3.07mn)

Note: *Region I covers urban Hanoi and Ho Chi Minh City
Region II covers rural Hanoi and Ho Chi Minh City along with Da Nang
Region III includes provincial and the district of Bac Ninh, Bac Giang, Hai Duong, Phu Tho, Vinh Phuc, and other provinces not listed in Region I and II
Region IV covers the remaining localities

Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania, and various sources

3 *Cost of production* in Cambodia is among the lowest compared to that of regional peers

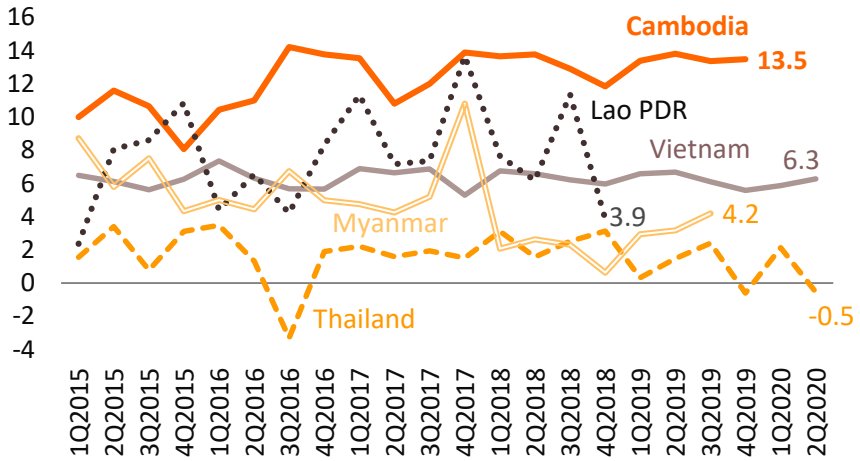
Local production cost in comparison with production cost in Japan, (Japan = 100, by country/region)



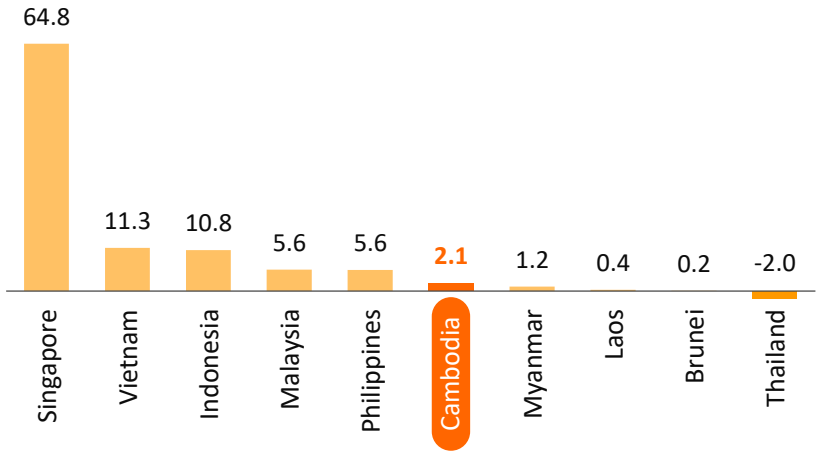
Note: Production costs for Japanese firms operating in those countries which include the costs of all resources consumed in producing a product, such as materials, labor, and others.
Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

4 Foreign investment should continue driving growth, exports, and jobs in Cambodia in the post-pandemic era

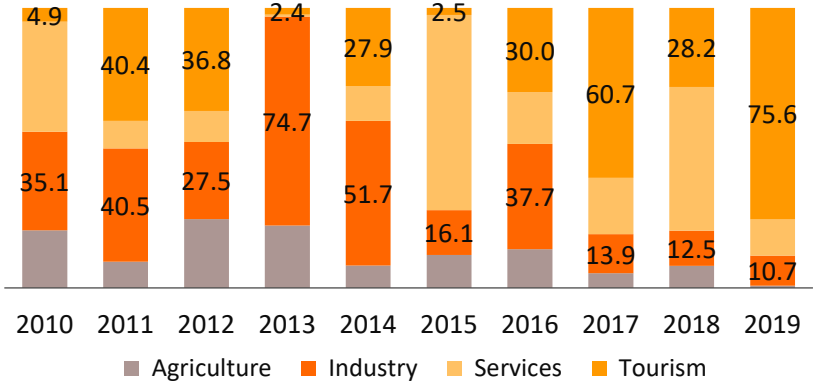
Foreign Direct Investment (% of Nominal GDP)



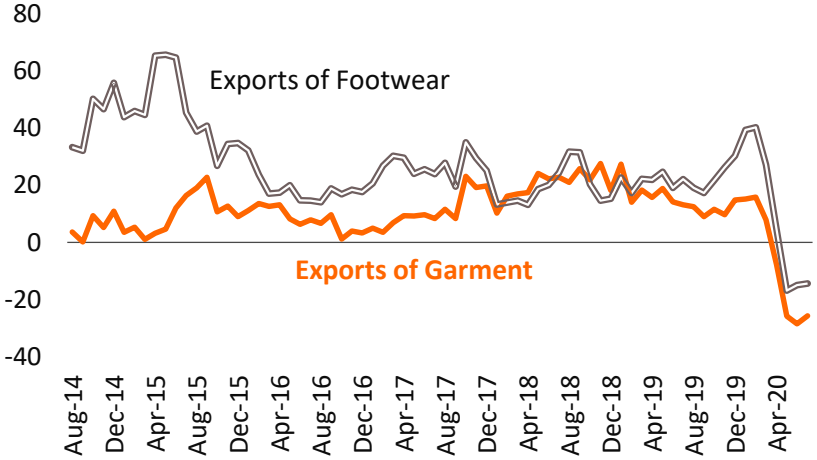
FDI Inflows (% of ASEAN, as of 4Q2019)



FDI: Share of Total Fixed Assets Approved (% of total)



Exports of Garments and Footwears (KHR bn, %YoY)



Source: CEIC

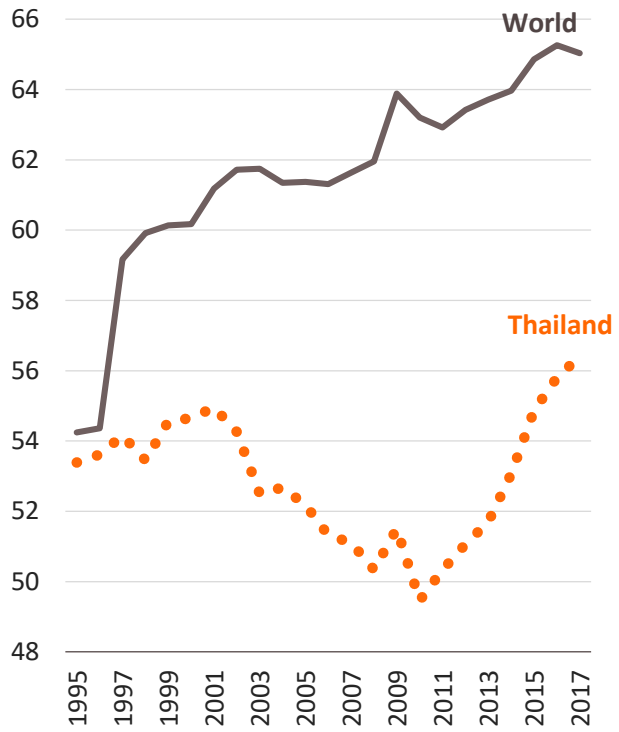
Business Opportunities in Cambodia for Thailand



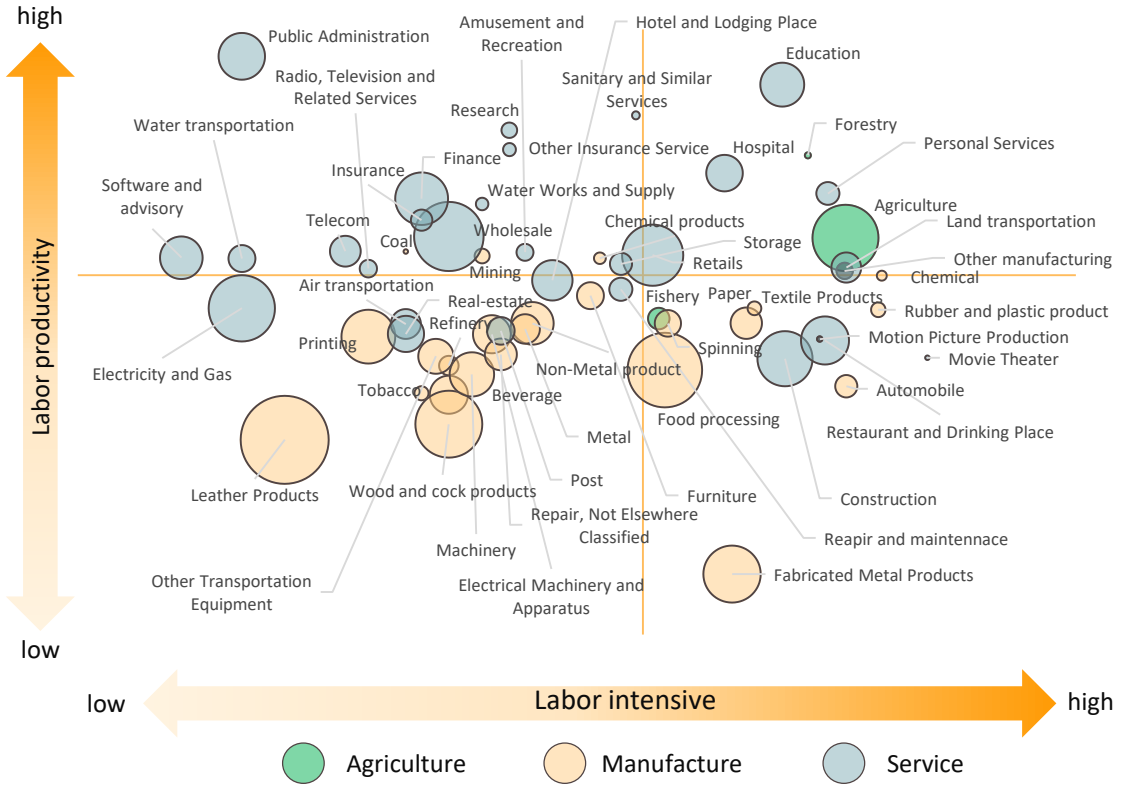
Thailand is moving toward service-based economy and could shift some labor-intensive activities to the region

Thailand is in line with the world economy in moving toward a service-based economy, and this is depicted by a rising contribution of service sector to GDP from 50.3% in 2008 to 56.9% in 2017. **Based on the recent data, we found that Thailand also has relatively high valued-added labor productivity in the services sector. Thai businesses may be able to reap the advantages to shift labour-intensive manufacturing activities as well as export services to countries in the region including Cambodia.**

Value-added Services Sector (% of GDP)



Thailand's Labor dependency and productivity by industry (Input-Output Tables 2015)



Source: Office of the National Economic and Social Development Council (NESDC), National Statistical Office (NSO), World Bank, Krungsri Research

Growing domestic demand and growing wealthier middle-class consumers offer business opportunities for Thai investors

On the back of high economic growth over the past two decades, this has resulted in a growing and sizeable wealthier young consumers. Therefore, looking ahead, Cambodia should remain one of the most vibrant economies regionally and provide business opportunities for Thai firms seeking markets to grow their business in the region. And, some potential sectors that are on the top of our mind are (1) food and beverage, (2) Homewares, (3) healthcare and pharmaceuticals, and (4) Agribusiness.

Food and beverage



Homewares



Healthcare services and Pharmaceuticals



Agribusiness



Underlying trends in Cambodia

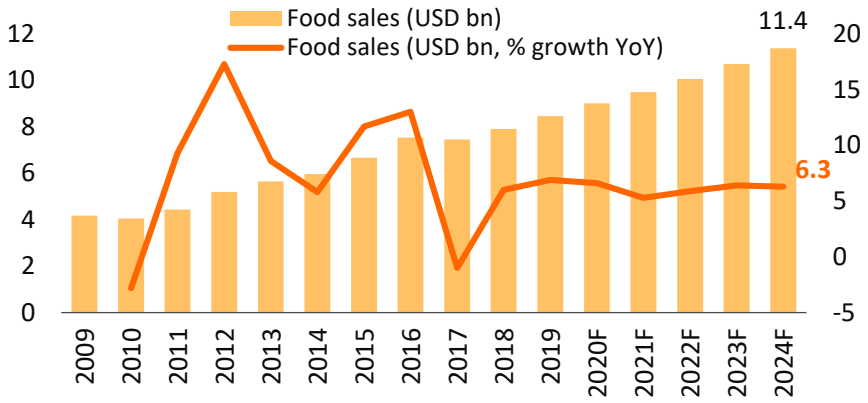
1. **Sizeable and unmet domestic demand**
2. **Growing middle-class consumers**
3. **Urbanization**
4. **Shifting in consumer behaviors**

Source: Krungsri Research

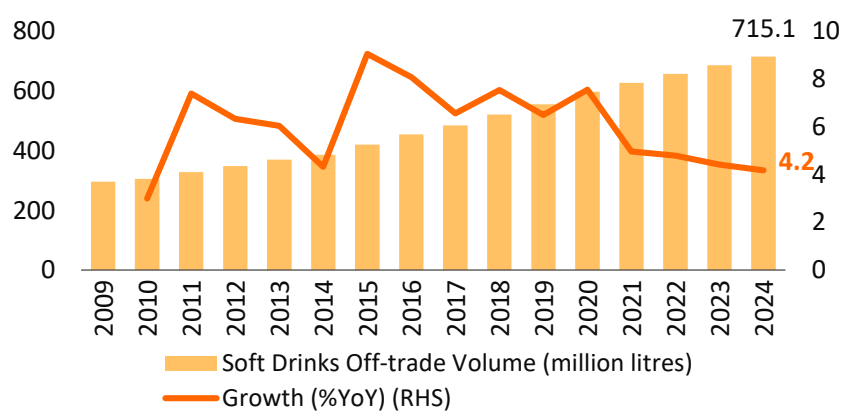
Food and beverage: Growing young wealthier consumers and tourism sector will be major drivers in the long term

Over the medium to longer term, we view that demand for food and beverage in Cambodia will be supported by favorable demographics due to a large youthful population and rising disposable incomes as well as the recovery of the tourism sector in the post-pandemic era.

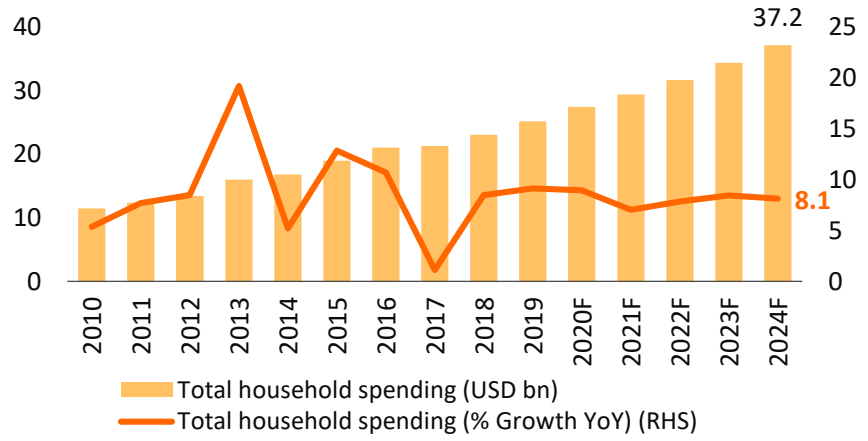
Food sales in Cambodia



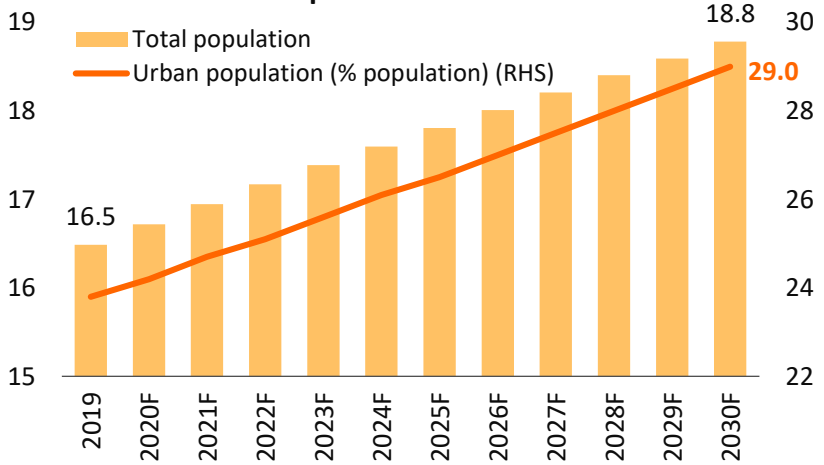
Market size of soft drinks in Cambodia



Household spending in Cambodia



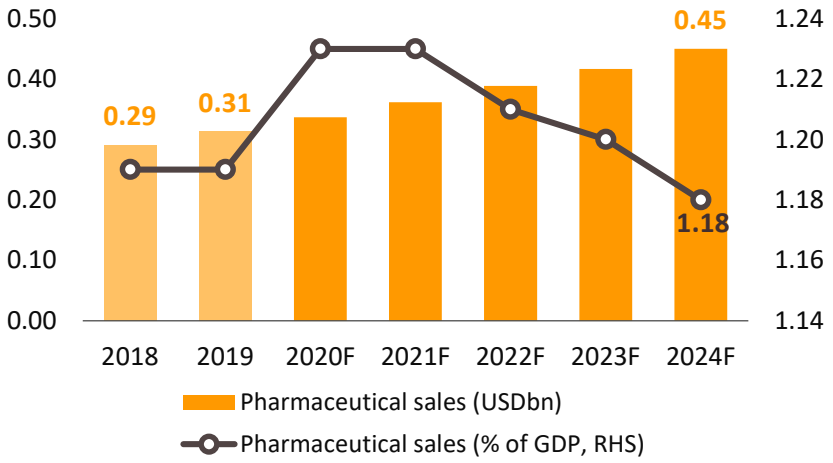
Population Trends



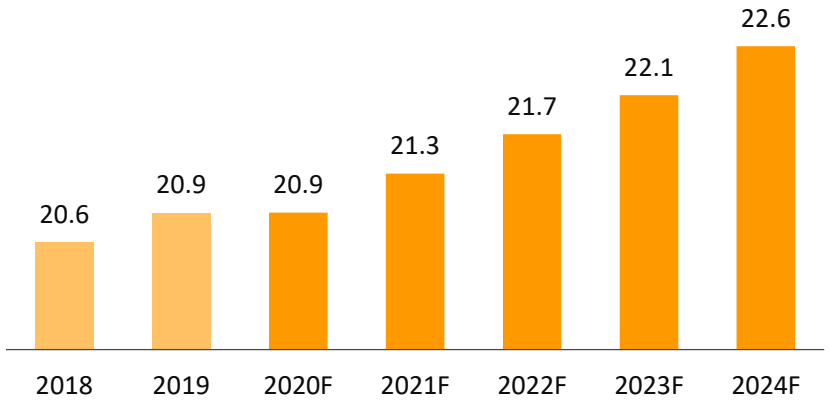
Source: Fitch Solutions, Krungsri Research

Healthcare and pharmaceutical sector: Large unmet demand and gaps in local supply offer business opportunities

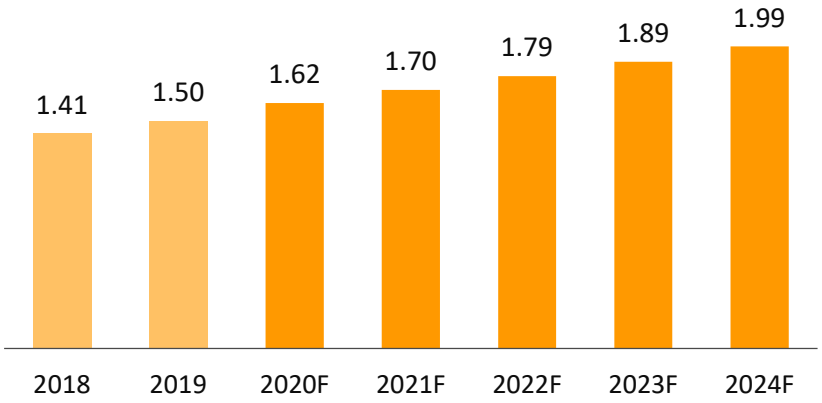
Pharmaceutical sales in Cambodia



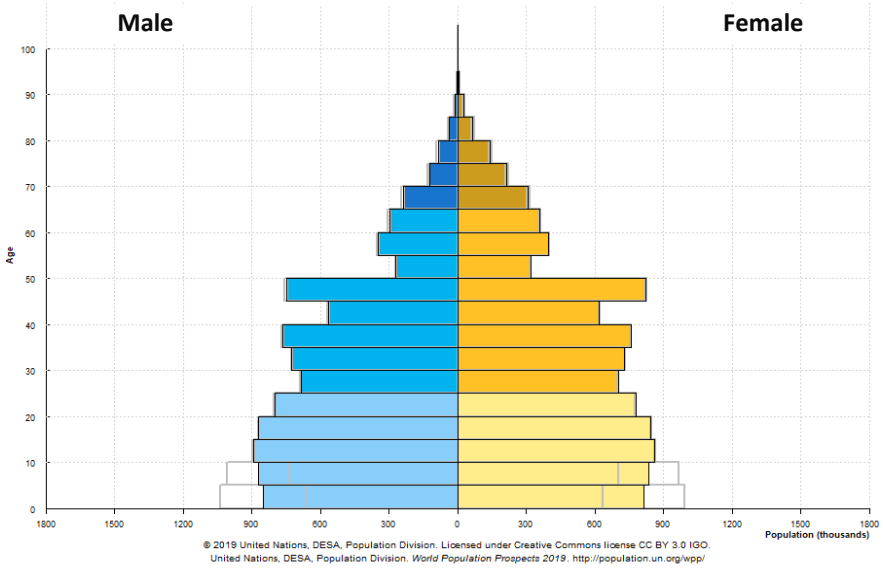
Pharmaceutical sales (% of health expenditure)



Health spending (USD bn)



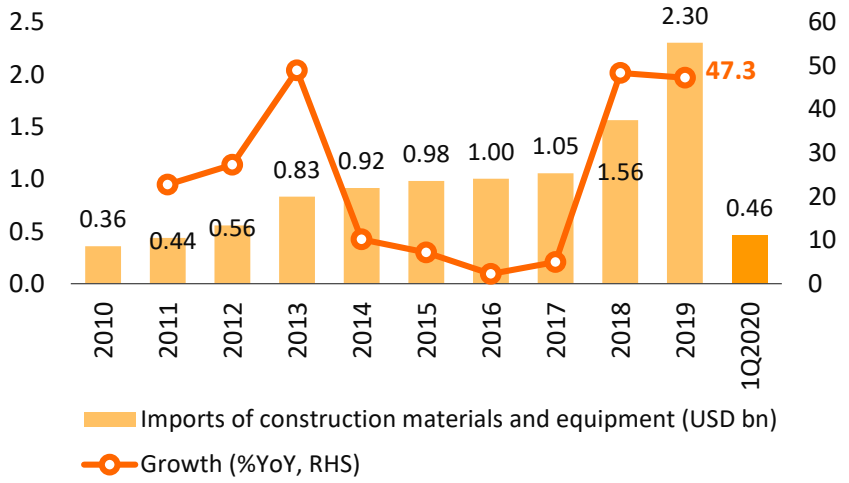
Cambodia: Population in 2030



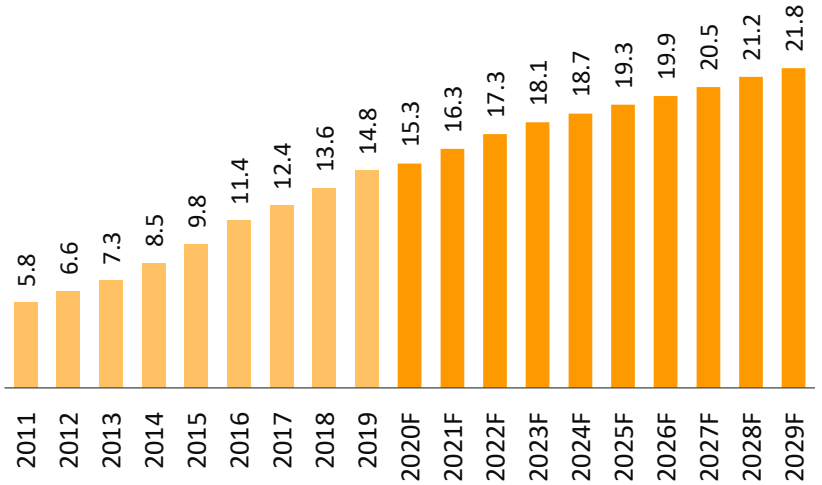
Source: Fitch Solutions, Krungsri Research

Homewares: Growing investment in residential construction amid limited domestic supply should support the demand

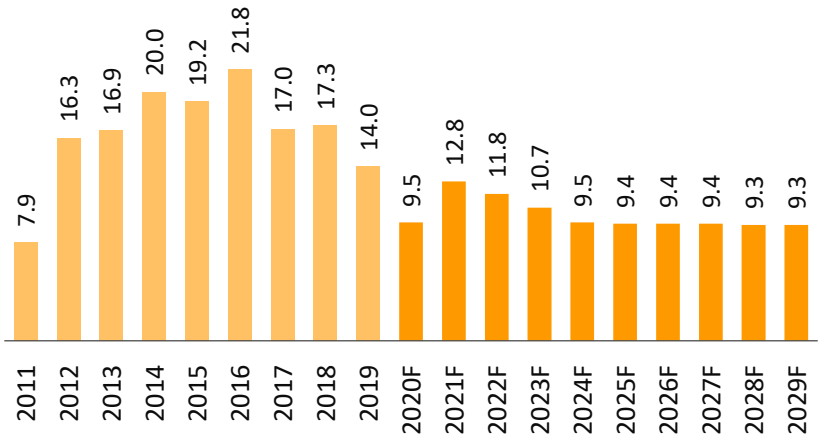
Imports of construction materials and equipment



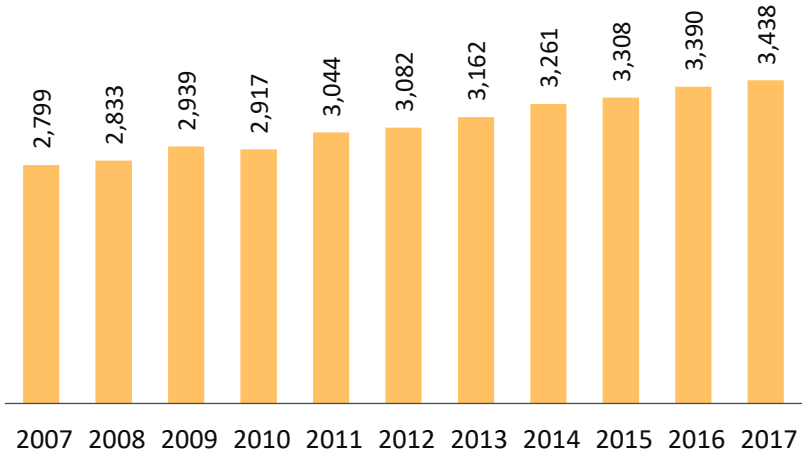
Construction Industry Value (% of GDP)



Construction Industry Value, Real Growth (%YoY)



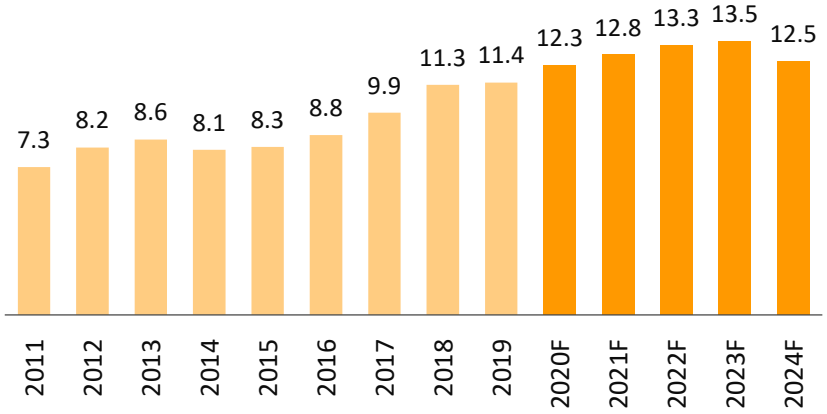
Number of Households



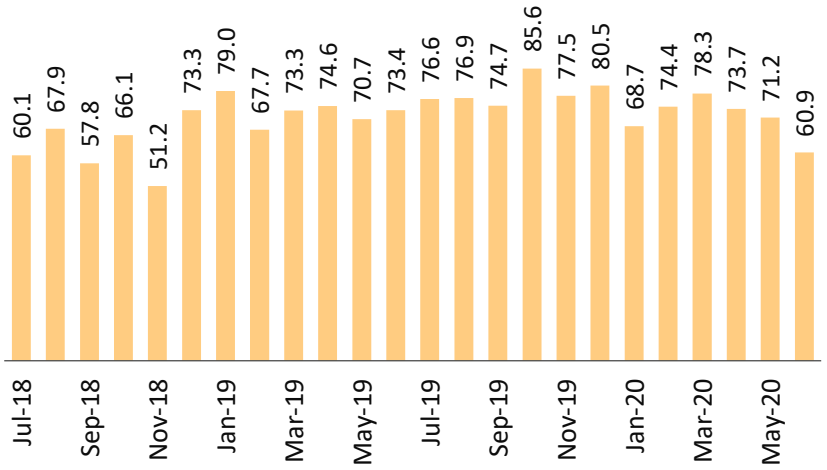
Source: Fitch Solutions, Krungsri Research

Agriculture business: Domestic food production is not sufficient to meet domestic demand

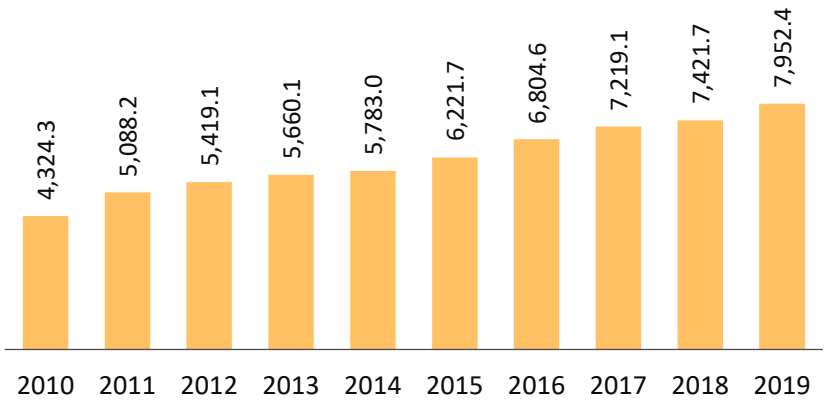
Agribusiness Market Value (USD bn)



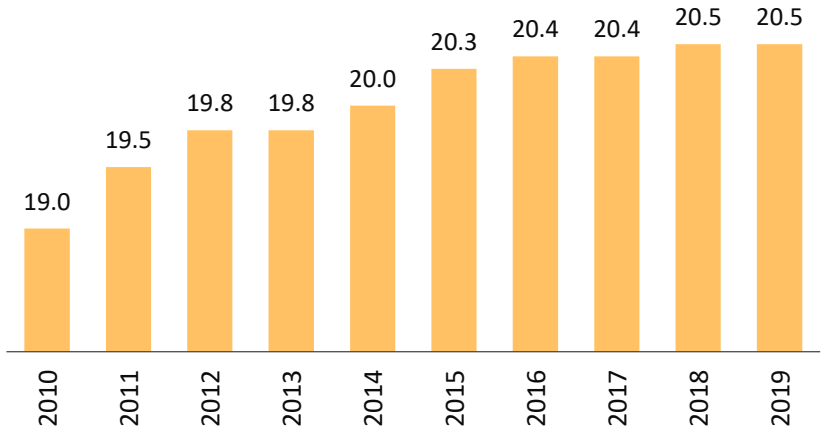
Imports of Food and Beverage (USD mn)



Consumer Expenditure on Food and Non-Alcoholic Beverages (USD mn)



Middle Class Households (% of Total)



Source: Fitch Solutions, Krungsri Research

KRUNGSRI RESEARCH

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