



Cambodia Moves Forward for Post-Pandemic Growth

While the United States and China appear to enjoy a strong recovery from the worst of the COVID-19 pandemic, the crisis is far from over. Outside of the world's two largest economies, the path to recovery seems much more uncertain and uneven.

In Southeast Asia, new waves of the pandemic have hit the region hard and will likely delay the region's economic recovery. Despite Cambodia's initial success at controlling the outbreak of COVID-19, its tourism and garment manufacturing sectors suffered.

Total international tourist arrivals into Cambodia decreased by 80.2% year-on-year to just 1.3 million visitors in 2020. In the garment manufacturing sector, 129 factories were shut in the past year. Both sectors were significant contributors to Cambodia's economy and the pandemic has undoubtedly impacted earnings and the livelihoods of workers in these sectors.

Strong Support

The Cambodian government has responded with a broad package of fiscal stimulus measures designed to aid economic recovery. Support measures accounting for over 5% of its GDP so far includes US\$1.16 billion in equity injections, loan guarantees, development spending, and tax relief for hard-hit businesses.

In the hard-hit tourism sector, government support measures include monthly tax exemptions for hotels, guesthouses, tourism businesses, and restaurants. At the same time, the National Bank of Cambodia is allowing banks and financial institutions to continue loan restructuring right through 2021.





A Warm Welcome

Given the current challenges and uncertain business environment, it may seem risky to consider entering or investing in new overseas markets. However, emerging economies in the region like Cambodia offer numerous opportunities and advantages for astute and agile businesses.

Cambodia is led by a stable and progressive government which adopts investor friendly policies, emerging as one of Asean's more welcoming investment destinations. For example, Cambodian law still allows 100% foreign ownership of companies in a wide range of industries and sectors, without any requirement for a local partner.

According to the Asian Development Bank's forecasts, Cambodia is expected to record 4.0% growth in 2021, well above Southeast Asia's average of 3.14%. It is no doubt a temporary setback for Cambodia's celebrated growth story as it had averaged 7.7% real growth rate during the last two decades. Yet there is cause for optimism as Cambodia looks to expand domestic and foreign investment.

GDP Growth Rate, 2020, 2021F		
	2020	2021F
Vietnam	2.9%	6.7%
Singapore	-5.4%	6.0%
Malaysia	-5.6%	6.0%
Indonesia	-2.1%	4.5%
Philippines	-9.6%	4.5%
Cambodia	-3.1%	4.0%
Lao PDR	-0.5%	4.0%
Thailand	-6.1%	3.0%
Brunei Darussalam	1.2%	2.5%
Myanmar	3.3%	-9.8%
Average of ASEAN-10	2.5%	3.14%

Source: Asian Development Bank - Asian Development Outlook (ADO) 2021, April 2021. F=Forecast.

The China Factor

Cambodia’s openness to foreign investors has also attracted many strong partners, and none more influential than China. Cambodia has warmly embraced China’s Belt and Road Initiative and counts China as its largest trading partner and foreign investor.

According to figures from China’s Ministry of Commerce, total trade between Cambodia and China has grown steadily. Chinese direct investment in Cambodia reached US\$860 million in the first 11 months of 2020, up a staggering 70 per cent from the same period in 2019.

Amount Of Committed Investments In Cambodia					
Year	2015	2016	2017	2018	2019
Total	\$4.6 Billion	\$3.6 Billion	\$6.3 Billion	\$6.4 Billion	\$9.4 Billion
China	18.62%	29.92%	25.97%	51.06%	39.55%
Singapore	2.18%	3.03%	4.12%	0.28%	0.32%
Others	79.20%	67.05%	69.91%	48.66%	60.13%

Note: The data is extracted from *Council for the Development of Cambodia (CDC)*. The data only reflects that of qualified investment projects according to the Law on Investment, thus, excludes investments that are not eligible for investment incentives in sectors such as Banking, Insurance, and Construction.

As China successfully staged an early recovery and has since rebounded from the initial impact of COVID-19, there is a positive knock-on effect on its investments and its businesses in Cambodia. Cambodia stands to gain further in tandem with China’s promising growth outlook in 2021.

Business leaders with China experience are likely to do well in Cambodia with Chinese clients and partners.

Turbocharging Trade

Cambodia’s signing of Free Trade Agreements (FTAs) with its key trading partners is set to further boost its growth and development and will be key to the Kingdom’s post-pandemic growth.

Cambodia’s first bilateral trade agreement, the China-Cambodia FTA, is set to come into effect this year and will cover some 300 products. This will be crucial in boosting Cambodia’s agriculture and manufacturing exports to the Chinese market.

The Cambodia-South Korea FTA is also now in its final stages of negotiations and is expected to boost key exports to South Korea including garments, footwear,

travel goods, rubber, medicines, agricultural products, and electronic equipment components.

Finally, Cambodia has also entered into the Regional Comprehensive Economic Partnership (RCEP). This allows for production to be shared among member states, including Cambodia, while avoiding red tape and reducing production cost and time for companies. The RCEP is also expected to help Cambodia attract new FDI inflows to projects in non-garment industries and agriculture.



New Opportunities

Just like Singapore, the Cambodian government considers affordable housing to be essential for the country's economic development. Investments in affordable housing projects are expected to receive strong support from local government authorities.

Cambodia's infrastructure continues to experience rapid growth, providing greater connectivity and new development opportunities at the periphery of urban centres. As urban centres continue to grow and expand, developments at its periphery are expected to record significant capital gains in line with Cambodia's continued economic growth.

The World Bank's Cambodia Economic Update highlighted that Foreign Direct Investment has shifted to non-garment manufacturing projects and there are positive signs that the inflows are not only returning but also more diversified.

Despite the optimism for Cambodia's future, some local businesses are undoubtedly under pressure amidst the global COVID-19 crisis. Under these circumstances, this is the ideal time to look for value deals in distressed assets or businesses. These businesses will be in dire need of new investment and partners for support, particularly those in tourism-related industries. New investors or partners may then have a stronger bargaining hand to negotiate better terms.

Open for Business

Despite the pandemic, Cambodia remains open to foreign investors and deals continue to move forward. Singapore's YCH Group and Cambodia's Ministry of Public Works and Transport have recently signed a framework agreement to develop the Phnom Penh Logistics Complex.

Surbana Jurong has also recently obtained approval and support from local government and other foreign investors for its sustainable development masterplan to develop a 834-hectare "Ream City" in Sihanoukville, Cambodia. Both projects reflect the immense potential that Cambodia has for foreign investors.

Fortune Favours the Bold

COVID-19 presents unique challenges for businesses pursuing an acquisition, merger or asset purchase. With travel restrictions as the biggest hurdles in cross border transactions, it is important to adopt new processes and technology, especially in the course of due diligence, negotiations and closing. To overcome these challenges, the use of new processes and technology, such as electronic data rooms, video-conference facilities for negotiations, and virtual signature platforms, are critical.

Definitely, the pandemic cannot hinder growth forever and now is the time for businesses to seize unique opportunities especially when new capital and investors are highly sought after. Cambodia presents compelling advantages for foreign investors to start a new business and to look for value acquisitions or partnerships. With the right professional support and expertise, the Cambodian market could be your next engine of growth.

About the Author



Liow Yee Kai

Partner (Foreign Lawyer)
yeekai.liow@rhtlawasia.com
+65 6381 6834

Liow Yee Kai is a foreign legal advisor based in Phnom Penh, Cambodia and has advised numerous Cambodian projects over the last 8 years. He is a Partner at RHTLaw Asia LLP.

About RHTLaw Asia

RHTLaw Asia offers a different perspective on client experience and commercial thinking. As a leading regional law firm headquartered in Singapore, clients can expect intelligent and innovative solutions from a team that is attuned to the nuances of doing business in Asia. With access to our own ASEAN Plus Group, a network of leading firms comprising over 2,000+ lawyers in 14 jurisdictions around Asia, as well as our membership with The Interlex Group, a global network of leading law firms, we help clients understand the local challenges, navigate the regional complexity to deliver the competitive advantage for their businesses in Asia.

We collaborate closely with the RHT Group of Companies to provide an all-rounded integrated business solution. We believe in pushing the boundaries of what can be achieved for our clients in this evolving marketplace.