

# NEWSLETTER

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# CAMBODIA'S POLITICAL TRANSITION – WHAT DOES IT MEAN FOR BUSINESSES AND INVESTORS?



**HE Dr. Hun Manet**

Following the watershed National Assembly Election on 23 July 2023 during which 120 out of the 125 seats in the National Assembly were won by the ruling Cambodian People's Party (CPP), King Norodom Sihamoni issued a royal decree on 7 August 2023 to appoint HE Dr. Hun Manet, an elected lawmaker for Phnom Penh, as the new Prime Minister of the Kingdom of Cambodia.

Former PM Hun Sen had been the head of government of Cambodia for more than 38 years, one of the longest serving leaders in the world.

The newly elected representatives of the 7th Legislature sat for the first session of the National Assembly on 21 August. When the new cabinet ministers were sworn in on 22 August, it heralded the start of a new era for Cambodia: a successful political transition from the old guards to a new team comprising mostly younger, better educated and more progressive-minded policy makers.

## WHAT DOES THIS MEAN FOR BUSINESSES & INVESTORS?

### **Fundamental considerations that businesses and investors may have overlooked:**

It is a fundamental rule of thumb that every emerging market or frontier economy will have their own potential and opportunities, and that's why they are attractive to international businesses and investors. But the critical factor for long-term business and investment decisions must incontrovertibly be, political stability. If a country or destination market is not politically stable, then the business and investment risks go up exponentially. In fact, whereas certain developing countries or emerging economies have shown tremendous investment potential and offered numerous business opportunities, they are now mired in political turmoil or uncertainty, causing investment flight and loss of confidence by investors and businesses.

Political stability is hence the harbinger or barometer of whether an emerging market has the right pre-conditions for businesses and investors to establish a presence or venture in. For Cambodia, the case for it has been further bolstered by its political continuity, regardless how other governments or critics may define it to be.

## LOOKING PAST THE VEIL

The usual narratives and depiction of Cambodia by the international media and certain governments have mostly been anything but positive, and this has created and reinforced long-held misperception and outdated perspectives of the emerging economy among international businesses and investors.

It is therefore not surprising that many continue to ignore or dismiss the factual realities: that the Kingdom has been politically stable for the past two decades plus, and has been one of the fastest growing economies in the world at 7.7% per year since 1998, according to the World Bank.

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**Cambodia's economy grew by more than 8 times from USD 3.654 billion in 2000 to USD 29.96 billion in 2022**

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In economics, the Rule of Seven means that if an economy were to grow at 7% annually, the size of its economy would double within 10 years. Theoretically, Cambodia's economy would therefore have more than quadrupled between 2000 to 2022. However, it has in fact grew by more than 8 times from USD 3.654b in 2000 to USD 29.96b in 2022, despite Covid-19 challenges and major disruptions in global supply chain and logistics, bearing in mind that Cambodia is an open economy that is susceptible to external shocks on trade and investments.

Another often overlooked fact is that even though Cambodia's population is just 16.7m (as of 2022), it has 22m mobile phone users (130% of population), 19.5m registered e-wallet accounts involving 467.4 m transactions, and its total e-payment transactions last year reached USD 272 billion which is more than 9 times its official GDP.

## WHAT LIES AHEAD?

Those who understand econometrics will be aware that a youthful demography and a growing economy are strong indicators of a country's longer-term socio-economic development.

Well, Cambodia has a growing economy and more than 70% of Cambodia's population are under the age of 35. Add to this the adoption rate of digitalization in Cambodia, which has been much faster and earlier than many other countries in the region, and it should become evident that its economic growth looks set to continue on an upward trajectory.

In fact, despite current global economic challenges and post-Covid stresses, Cambodia looks to be on track to graduate from its LDC status by 2027, and the government has doubled down on its ambition to become a high middle-income country by 2030.

## FDI GROWTH AMONG 'STABLEST' IN ASEAN

A senior official of the Council for the Development of Cambodia (CDC) said that despite the effects of the Covid-19 pandemic, geopolitical tensions including the US-China trade situation, foreign direct investments (FDI) into Cambodia are remarkably stable and in good condition compared to other countries in ASEAN.

### LATEST FROM THE CDC



HE Chea Vuthy, Deputy Secretary-General of the Cambodian Investment Board and Cambodian Special Economic Zone Board of the CDC, said at a recent business forum that the country has economic potential, peace, security and political and economic stability.



He also added that the private sector remains an important driving force for the national economy.

According to CDC figures, in the first half of 2023, Cambodian investors ranked first place because of their confidence in the country's investment situation and their trust in the leadership. There were 128 projects (\$1.3 billion) compared to 111 projects (\$3.1 billion) in the same period in 2022.

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“We see that the FDI in a year is nearly \$4 billion. In 2020, ASEAN saw a sharp decline of about 40 per cent, but FDI remained stable for us at around \$3.6 billion.

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“This is the amount of capital investment that we have registered as a Qualified Investment Project (QIPs) at the CDC, we see that the figures in 2021 and 2022 are similar, but in 2023 for a period of six months compared to the same period in 2022, we see that the volume of investment has decreased slightly because in 2023 there are no large projects, but the number of investments has increased,” he said.

Royal Academy of Cambodia economic researcher Hong Vanak said that although the global economic growth situation continues to be affected by the pandemic and geopolitical conflicts, the investment status persists as usual, just not as strong as before 2020.

“Although the number of projects and investments approved by the CDC is not large, it is also a positive for Cambodian economic activity at this stage,” he added.

# LIFESTYLE IN CAMBODIA

View our round up of the latest in lifestyle news in the Kingdom!

## NEW LUXURY HAVEN PLANNED IN KEP

The Cambodian government has granted approval for the Kep Tourism Development Master Plan 2023-2035, a strategic blueprint set to reshape Kep, infusing it with new dimensions of luxury and envisioning its metamorphosis into a premier tourist destination. [Read More](#)



## MG CAMBODIA MOVES TOWARDS E-VEHICLES



The automobile industry is undergoing a significant transformation as the world moves towards sustainable transportation options, including MG, who are now exploring EVs and the potential benefits Cambodia can derive from embracing the transition. [Read More](#)

## LEGEND CINEMA CELEBRATES 12 YEAR ANNIVERSARY

In a gala celebration that brought together over 100 influential individuals of the Cambodian film industry, Legend Cinema marked its 12th year in business, with the homegrown company becoming a hallmark of cinematic innovation and a symbol of entrepreneurial success. [Read more](#)



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# SOLID RESERVES REFLECT STABILITY OF CAMBODIAN ECONOMY, RIEL

The rise in Cambodia's international reserves reflects the confidence in Khmer Riel, stability of the exchange rate, high liquidity and a sound economy that can withstand external shocks or crises, according to the National Bank of Cambodia (NBC)



“Total international reserves as of June 30, 2023 rose 32 per cent to \$18.4 billion from \$17.8 billion at the end of 2022, despite global headwinds in the banking sector, including interest rate hikes.

“International reserves have risen because of an increase in income from foreign investment, gold prices and deposits of the government and banking and financial institutions in the central bank.”

The latest from the NBC bi-annual performance report

Chhay Bora, Managing Director of Bower Group Asia (BGA), a strategic advisory firm supporting foreign direct investments in the Indo-Pacific region, has noted an impressive surge in Foreign Exchange Reserves.

They have more than doubled compared to the figures from a decade ago, showcasing the robust growth of Cambodia's economy. Averaging at a solid 7 percent, the economic expansion and a swift recovery in the post-Covid-19 era have boosted people's income and savings.

Bora elaborated that this growth in the nation's foreign reserves is an indicator of Cambodia's economic resilience against external threats, and underlines the country's capacity to weather global crises.

It also upholds the nation's financial stability and the ability to sustain its import capabilities.

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## SBF IN CAMBODIA: A WEEK OF EXPLORATION, COLLABORATION, AND CONFIDENCE IN EMERGING MARKETS

The [Singapore Business Federation \(SBF\)](#) landed in Phnom Penh, this month, for a weeklong delegation visit to Cambodia with the aim of exploring and unlocking the developing business and investment opportunities within the Cambodian market. [Read More](#)

The visit kicked off with a meeting with His Excellency Aun Pornmoniroth, Deputy Prime Minister and Minister of Economy and Finance, who shared updates on the Government's economic performance and new policy measures



The delegation visits

Mr. Michael Tan, the Founder Director of Aquarii SG Pte Ltd & CEO of Aquarii BD Cambodia, shared with the SBF delegation his personal observations on the political and business aspects of Cambodia that many international investors and businesses had overlooked or dismissed without attempting to understand the context and underlying considerations.

“ Delegates benefited from the diverse mix of attendees who were able to share candidly from their experiences and insights on the various challenges and opportunities of doing business in Cambodia. ”

“The Kingdom is on track to graduate from its LDC status by 2027, and the government has doubled down on its ambition to be a high middle-income country by 2030.”

“We look forward to continuing our efforts to raise awareness of Cambodia to international businesses and investors who have overlooked or dismissed Cambodia for misplaced reasons or outdated perspectives, and to attract more foreign investment to the Kingdom of Possibilities,” he added.

During the five-day long trip, the delegation also heard from H.E. Dr. Chhieng Vanmunin, the Chief Executive Officer of Khmer Enterprise, who spoke about Cambodia's international trade and its initiatives to support startups and small-to-medium enterprises (SMEs). Mr. Ong Teong Hoon, Director and Shareholder Representative of Phillip Bank Cambodia, provided an overview of Cambodia's banking and finance industry, and Mr. Sim Laysym, Partner of VDB Loi Cambodia, spoke about Cambodia's legal and tax reforms. There was also a number of visits to Special Economic Zones, major new developments and leading businesses, giving a comprehensive overview of the Kingdom.

## NEW GOVERNMENT SET TO FOCUS ON MSME DIVERSIFICATION



The Secretary of State of the Ministry of Economy & Finance, Hem Vandy

The new government is expected to inject more funds into micro-small and medium size enterprise (MSMEs), with specific sector targets.

Secretary of State for the Ministry of Economy and Finance (MEF), Hem Vandy, said MSMEs are the backbone of a country's economy but access to finance in the sector remains limited due to challenges.

"If you look at where Cambodia is moving towards in the next five to 10 years with the new Prime Minister, diversification is very important. But how do we diversify?" he said.

“Of course, so far, we have been talking about MSMEs in general but now we have to be more specific and look into sub-sectors and how we can lift some of those. We can talk about agri-business in general but I think again, we need to be more specific at this time.”

Heng Koy, General Manager of the Association of Banks in Cambodia (ABC), shared during the forum that his association has been facilitating efforts for local businesses to access more funds. However, there are still some challenges in the banking sector on how to de-risk, suggesting that both the business association and ABC work together to overcome those challenges.

Meanwhile, MEF's Vandy said that currently, Cambodia has more than 500,000 MSMEs, which makes it difficult for development partners to provide loans [to all], adding that there is also a need for a strong centre providing more realistic information about their businesses.



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## CHINESE CHAMBER OF COMMERCE TO BRING OVER 40 CHINESE INVESTORS TO CAMBODIA



The Chinese Chamber of Commerce met this month

Boris Xue, President of the Ningbo Chamber of Commerce in China, pledged to spearhead the arrival of over 40 prominent Chinese companies to Cambodia. He also reaffirmed his commitment to foster and elevate the Cambodia-China partnership during a meeting with HE Chea Vuthy, Deputy Secretary General of the Cambodian Investment Committee (CEC) and the Cambodian Special Economic Zones Committee (CEC)

The strategic alliance aims to invigorate key sectors through impactful investments, spanning industry and manufacturing, with a particular focus on fabric and yarn production. The collaboration will also extend to technology, commerce, and real estate.

Boris Xue and the 15-member investment delegation, embarked on the fact-finding mission to understand Cambodia's investment ecosystem, including its legal framework, opportunities, and investment environment.

This demonstration of commitment underscores his dedication to laying a robust foundation for constructive and enduring partnerships.

Xue has grand plans to bring in another wave of over 40 enterprises to Cambodia.

This ambitious endeavour, slated for mid-August, signifies a momentous stride in further unlocking the investment potential within Cambodia's burgeoning economy.

HE Chea Vuthy, echoing Xue's optimism, expressed confidence in the forthcoming delegation's intentions to explore opportunities across pivotal sectors.

Through direct investments, joint ventures, or partnerships with local entities, the delegation is poised to tap into Cambodia's growth potential.

The proactive approach is a testament to the shared vision of fortifying Cambodia-China relations, as underlined by the leaders of both nations.

## PHILLIP BANK PAVES THE WAY FOR SINGAPOREAN BANKING & BUSINESS INTERESTS IN CAMBODIA



Mr. Ong Teong Hoon of Phillip Bank.

Sharing on how Phillip Bank is helping to extend Singapore's distinctive business practices to Cambodia, [Phillip Bank's Cambodia Director and Shareholder's Representative](#), Mr. Ong Teong Hoon, was one of the key speakers in a business seminar hosted by Aquarii BD Cambodia to share with the visiting delegation of the Singapore Business Federation (SBF) on opportunities and challenges of the Cambodian market and how they can navigate the local business environment.

Mr Ong also shared his insights and experiences on the Banking and Finance Industry and Regulatory Regime in Cambodia. He said, "Phillip Bank embodies the Singaporean approach in Cambodia, reflecting our commitment to nurture the relationship between the two nations. The banking landscape here consists of about 60 banks, numerous MFIs, leasing companies, and pawnshops."

“ We recognize the challenges of an imperfect market in Cambodia, but we see it as an opportunity. Phillip Bank is here to assist with loans, deposits, funds transfers, and other financial products tailored to the Cambodian economy ”

The SBF's visit, was an encouraging step in strengthening Singapore's engagement with Cambodia' and its interest in the emerging market. Phillip Bank's presence and its banking practices exemplifies how Singapore's practice of doing business can be successfully adapted in a new and vibrant economy.

In the words of Mr. Ong, "This delegation is more than a business expedition; it's a bridge between cultures and economies. Phillip Bank is honored to play a role in this significant stride towards a more unified Southeast Asia."

The visit opens another pathway for more Singaporean businesses to explore and engage in Cambodia, with Phillip Bank setting a promising example. It will undoubtedly shape the way forward for Singaporean businesses, amplifying their influence in the rapidly growing Cambodian market.

# THE EXCITING POTENTIAL OF CAMBODIA'S E-COMMERCE REVOLUTION

The rapidly developing e-commerce movement in Cambodia is shaping up to be an exhilarating game-changer, with online shopping quickly becoming a lifestyle in the Kingdom.

According to a PROFITENCE E-commerce report, this trend is anticipated to spread more rapidly across the nation, creating an array of opportunities for small to medium sized businesses.



The report was launched at Raffles Hotel

The report, which is supported by the Ministry of Commerce, unveiled useful insights and provides a comprehensive overview of Cambodia's growing e-commerce sector.

According to the report's survey data, live streamers and influencers emerged as the top sales drivers in the e-commerce delivery domain, with online purchases surging from 6.8% in 2017 to a 21.8% in 2022. Wing was the preferred payment method for online shopping, utilized by 53% of the respondents, and was also the most popular method for clothing purchases, chosen by 47% of those surveyed.

Laichea Chea, Director of the Department of International Cooperation at the Ministry of Commerce, shared insights on the matter in an exclusive interview with Cambodia Investment Review. He attributes the spike in online shopping to the digital literacy of the populace and supportive governmental policies.

“ The increasing digital adoption by the public, coupled with supportive policies and legislative mechanisms by the government, have played a significant role in the proliferation of online shopping in Cambodia ”

As Cambodia embraces the digital revolution, online shopping platforms are playing an increasingly integral role in the country's daily life. With a vast range of items, including clothing, electronics, groceries, and household goods available at the click of a button, the convenience and ease of online shopping are hard to ignore.

Based on predictions in the PROFITENCE 2023 report, the future of e-commerce in Cambodia seems exceptionally bright. The report anticipates continuous private sector growth in alignment with the government's digital economy roadmap, with consumers becoming more comfortable and savvy in the use of digital technology.

## INDONESIA SIGNS MOU FOR IMPROVED TRADE FACILITATION AND FINANCE



The MoU was signed this month

Cambodia and Indonesia signed a Memorandum of Understanding (MOU) on financial services and to facilitate better business, trade and investment for both countries. Cambodia Chamber of Commerce (CCC) Vice-President Lim Heng said that the cooperation is a new effort by both countries' financial sectors to provide greater confidence to investors to work together, invest or do business in Cambodia and Indonesia.

The MoU was signed in Phnom Penh on August 7 by Mey Vann – Head of the General Department of Financial Industry under the Ministry of Economy and Finance, and who is also Secretary-General for the Non-Banking Financial Services Authority (NBFSA) – and Agus Edy Siregar, Deputy Commissioner for International Affairs, Anti-Money Laundering and Terrorism Financing of the Indonesian Financial Services Authority.

Lim Heng said, “Indonesia is a good trading partner for our country. We receive [a lot of] foreign direct investment in various fields from them every year. Therefore, the MoU provides more confidence and trust to the businesspeople and investors of both countries.”

“Cambodia has an open economy. There is no discrimination between local and foreign investors, so Indonesia can look at the Kingdom as an investment destination, particularly in the agricultural sector. They can also export from Cambodia or supply locally under the regional and global free trade agreements that the Kingdom has formalized,” he said.

He added that Indonesia is one of the most populous countries in ASEAN, which means there is high demand for goods and services and Cambodia is thus a good place for Indonesia to invest in, given the amenable investment climate in the Kingdom.

The General Department of Customs and Excise stated that in 2022, bilateral trade between Cambodia and Indonesia totalled \$948.5 million, up 48.3 percent from \$639.7 million in 2021. Of that, goods imported from Indonesia amounted to \$911.7 million, rising by 50 per cent, and goods exported from Indonesia were only \$36.839 million, an increase of 15.9 per cent.

## 5TH EBN MEETING SEES PROGRESS ON CAMBODIA'S ENTREPRENEURIAL ECOSYSTEM ROADMAP



The meeting was held at the Khmer Enterprise Offices

The 5th Ecosystem Builders Network (EBN) meeting was held on 26th July 2023 at the Khmer Enterprise Office in Phnom Penh. Initiated in 2022, the EBN aims to create collaboration among Development Partners, ecosystem builders, and government agencies. The EBN has been working on the six pillars of the Isenberg model, leading to a shared vision validated at CAMESCO22.

H.E. Dr. Chhieng Vanmunin, CEO of Khmer Enterprise, opened the meeting by emphasizing the collective commitment towards enhancing Cambodia's entrepreneurial landscape.

“The work of the EBN shows the strength of collaborating with the stakeholders including Khmer Enterprise who outlined their desire to create an entrepreneurial ecosystem roadmap that will lead Cambodia into a future that is filled with entrepreneurial opportunities.”

The discussion of the EBN Roadmap was led by Rajiv Pradhan, Country Director of Swisscontact, and participants reviewed feedback from the 4th EBN meeting and strategized the roadmap preparation.

“We need a cohesive and comprehensive strategy that speaks to the heart of Cambodia's entrepreneurial spirit,”

The meeting also involved deliberation on the governance structure of the Technical Working Group (TWG). The participating stakeholders and partners discussed the membership criteria, rules and responsibilities, and a clear timeframe to create a robust framework for the TWG.

The exercise ensured that the newly formed group would operate with efficiency and transparency. Participants were also informed that the TWG is planned to be formed by August 2023, signaling a promising new phase in Cambodia's entrepreneurial ecosystem roadmap.

From its inception in March 2022 to the current meeting, the EBN has made steady progress. The 5th EBN meeting has carved a significant path towards realizing Cambodia's entrepreneurial vision, particularly with the TWG's formation. The collective commitment holds the promise of transforming Cambodia into a hub for innovation and entrepreneurship.