Cambodia has been named a success story in attracting global investors despite its relatively small-scale domestic investment opportunities.

The contributing factors to this success are mainly the country’s pro-business policies which have led to an influx of foreign direct investment into infrastructure, real estate and construction, manufacturing (primarily garment and textiles) and tourism.

The country, with its young and vibrant workforce also has competitive advantage in capturing a greater share of global manufacturing, especially from multinationals seeking a lower cost base or simply daunted by the challenges of doing business in China.

Yet, challenges exist as Cambodia looks to maximize the benefits of integration by expanding manufacturing.

The government will need to maintain macroeconomic and political stability, build world-class infrastructure, intensify focus on workforce skills, and improve the lack of transparency in the legal system. Other priorities will involve creating the right set of incentives, loosening foreign investment restrictions, and providing greater access to financing for Small and Medium-sized Enterprises (SMEs), which play an outsized role in the country’s economy, to scale up.

Managing these priorities can be highly challenging for an emerging economy like Cambodia. However, the benefits will contribute to a safe and sustainable ecosystem for business entities and cross-border opportunities.
Cambodia is a developing market economy with liberal policies that promote trade and foreign investment. Its business climate can remain challenging but opportunities can be found in several sectors, in particular in agriculture, food, garments, tourism, and construction and real estate. The country’s economic growth over the next two years is expected to remain strong, driven in part by tourism activity and fiscal expansion.

<table>
<thead>
<tr>
<th>GOVERNMENT</th>
<th>POPULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constitutional Monarchy</td>
<td>16 MILLION        (2016)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CURRENCY</th>
<th>LANGUAGES</th>
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<tr>
<td>Riel (KHR)</td>
<td>Khmer (official), English, French, Mandarin</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RELIGIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buddhism, Islam, Christianity, Hinduism</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit, Cambodia Ministry of Foreign Affairs & International Cooperation
OPEN MARKET ECONOMY

Cambodia is one of the fastest-growing economies in the region, albeit from a small base. Between 2000 and 2014, it averaged 7% growth due to healthy performance in real estate and construction and garment exports².

Agriculture remains by far the largest employer, but the country’s growing textile industry accounts for the majority of Cambodia’s exports. Tourism is also a major industry as visitor numbers rise due to the increased openness of the country and drawn by attractions such as Angkor Wat, a World Heritage Site.

Cambodia is keen to attract higher volumes of foreign investment and has developed liberal trade and investment policies to create an open business environment. There are few restrictions on which sectors foreign investment can be directed towards. As the country is classified as a Least Developed Country, it is eligible for duty free or preferential export access to many developed economies including the EU and US.

To stimulate foreign direct investment (FDI) inflows, 21 Special Economic Zones (SEZ) have been approved, providing benefits including tax holidays, zero rate VAT, and import duty exemption for raw materials, machinery and equipment. The primary authority responsible for SEZs is the Cambodia Special Economic Zone Board (CSEZB).

Main FDI investors

- China USD 501.5 mil
- Hong Kong USD 248.9 mil
- Japan USD 198.7 mil
- Vietnam USD 184.5 mil
- Singapore USD 168.9 mil

Source: ASEAN Secretariat - FDI Database as of 30 June 2017
DRIVING GROWTH

Cambodia has set its sights on becoming a developed nation by 2050 and recognises that economic diversification, strengthening of country competitiveness and enhancing productivity are key to realising this vision.3

Political stability

- Political stability has improved in recent years, although tensions may rise in the run-up to the 2018 general election.

Good governance

- This is a priority and the government will promote it through legal and judicial reforms, fighting corruption, public administration reforms including decentralisation and deconcentration and reform of the armed forces.4

Workforce

- Cambodia has one of the youngest populations in Southeast Asia, with about half of the population under the age of 25. Around 200,000 young people enter the jobs market each year, providing a large pool of potential employees for investors.
- Skilled positions can be hard to fill as workers lack basic skills and the government needs to provide more vocational training. According to some analysts’ estimates Cambodia will need an additional 35,000 engineers and 46,000 technicians by 2018 to maintain its current growth rate.

Rankings

• All rankings are global unless otherwise indicated


<table>
<thead>
<tr>
<th>Index</th>
<th>Ranking*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of Doing Business</td>
<td>135</td>
</tr>
<tr>
<td>Intellectual Property Protection</td>
<td>130</td>
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<tr>
<td>Transparency of Government Policymaking</td>
<td>120</td>
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<tr>
<td>Corruption Perceptions Index</td>
<td>156</td>
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<tr>
<td>Global Competitiveness Index</td>
<td>94</td>
</tr>
<tr>
<td>Global Innovation Index</td>
<td>101</td>
</tr>
</tbody>
</table>
Tax environment

- Income tax:
  - Resident tax rates are progressive and up to 20%
  - Non-residents are taxed at a flat rate of 20%
- Corporate tax: 20%; 30% in oil and gas, and mineral exploitation
- Value added tax: 10% on all supplies other than exports and non-taxable supplies
- Tax and other incentives include:
  - Investment incentives for Qualified Investment Projects in certain industries
  - Investment incentives for projects in Special Promotion Zones or Export Processing Zone
  - Duty free import of select production equipment and construction materials
  - Tax holidays for certain projects
  - No restrictions on capital repatriation

Trade agreements

- Cambodia became a member of the World Trade Organization in 2004 and is party to several regional free trade agreements (FTA) via its membership of ASEAN.
Regional FTAs

Agreements signed between Cambodia and a group of trading partners

1. ASEAN Free Trade Area
   - Elimination of tariffs on more than 99% of products
   - Allows for back-to-back shipment of goods between member countries
   - Allows for third-party invoicing of goods
   - Allows for ASEAN cumulation

2. ASEAN-Australia-New Zealand Free Trade Agreement
   - Elimination of tariffs on at least 90% of the products with the exception of exclusions
   - Allows for back-to-back shipment of goods between member countries
   - Allows for third-party invoicing of goods
   - Allows for ASEAN cumulation

3. ASEAN-Republic of Korea Comprehensive Economic Cooperation Agreement
   - Elimination of tariffs on at least 90% of the products
   - Allows for back-to-back shipment of goods between member countries
   - Allows for third-party invoicing of goods
   - Allows for ASEAN cumulation

4. ASEAN-India Comprehensive Economic Cooperation Agreement
   - Elimination of tariffs on at least 80% of product lines with the exception of exclusions
   - Allows for back-to-back shipment of goods between member countries
   - Allows for third-party invoicing of goods
   - Allows for ASEAN cumulation

5. ASEAN-Japan Comprehensive Economic Partnership
   - Elimination of tariffs on at least 90% of product lines with the exception of exclusions
   - Allows for back-to-back shipment of goods between member countries
   - Allows for third-party invoicing of goods
   - Allows for ASEAN cumulation

6. ASEAN-People’s Republic of China Comprehensive Economic Cooperation Agreement
   - Elimination of tariffs on at least 90% of product lines with the exception of exclusions
   - Allows for back-to-back shipment of goods between member countries
   - Allows for third-party invoicing of goods
   - Allows for ASEAN cumulation

7. ASEAN-Australia-New Zealand Free Trade Agreement
   - Elimination of tariffs on at least 90% of the products
   - Allows for back-to-back shipment of goods between member countries
   - Allows for third-party invoicing of goods
   - Allows for ASEAN cumulation

8. ASEAN-People’s Republic of China Comprehensive Economic Cooperation Agreement
   - Elimination of tariffs on at least 90% of the products
   - Allows for back-to-back shipment of goods between member countries
   - Allows for third-party invoicing of goods
   - Allows for ASEAN cumulation

9. ASEAN-India Comprehensive Economic Cooperation Agreement
   - Elimination of tariffs on at least 80% of product lines with the exception of exclusions
   - Allows for back-to-back shipment of goods between member countries
   - Allows for third-party invoicing of goods
   - Allows for ASEAN cumulation

10. ASEAN-Japan Comprehensive Economic Partnership
    - Elimination of tariffs on at least 90% of product lines with the exception of exclusions
    - Allows for back-to-back shipment of goods between member countries
    - Allows for third-party invoicing of goods
    - Allows for ASEAN cumulation

11. ASEAN-People’s Republic of China Comprehensive Economic Cooperation Agreement
    - Elimination of tariffs on at least 90% of the products
    - Allows for back-to-back shipment of goods between member countries
    - Allows for third-party invoicing of goods
    - Allows for ASEAN cumulation

12. ASEAN-Australia-New Zealand Free Trade Agreement
    - Elimination of tariffs on at least 90% of the products
    - Allows for back-to-back shipment of goods between member countries
    - Allows for third-party invoicing of goods
    - Allows for ASEAN cumulation

13. ASEAN-People’s Republic of China Comprehensive Economic Cooperation Agreement
    - Elimination of tariffs on at least 90% of the products
    - Allows for back-to-back shipment of goods between member countries
    - Allows for third-party invoicing of goods
    - Allows for ASEAN cumulation

14. ASEAN-India Comprehensive Economic Cooperation Agreement
    - Elimination of tariffs on at least 80% of product lines with the exception of exclusions
    - Allows for back-to-back shipment of goods between member countries
    - Allows for third-party invoicing of goods
    - Allows for ASEAN cumulation

15. ASEAN-Japan Comprehensive Economic Partnership
    - Elimination of tariffs on at least 90% of product lines with the exception of exclusions
    - Allows for back-to-back shipment of goods between member countries
    - Allows for third-party invoicing of goods
    - Allows for ASEAN cumulation

16. ASEAN-People’s Republic of China Comprehensive Economic Cooperation Agreement
    - Elimination of tariffs on at least 90% of the products
    - Allows for back-to-back shipment of goods between member countries
    - Allows for third-party invoicing of goods
    - Allows for ASEAN cumulation
In 2017-20 the projected acceleration in economic growth, to an annual average of 7.6%, will be driven by domestic demand. The economy is based primarily on private consumption, which accounts for around three-quarters of GDP. Incomes will continue to rise rapidly from a low base as productivity rises and the development of higher-value sectors, such as electronics manufacturing, gains traction.

The decline in the level of household indebtedness over the past few years to more moderate levels bodes well for consumption activity. The proportion of indebted households fell to 31.6% in 2014, well below the peak of 38.3% in 2010.

The outlook for investment growth also remains positive. Cambodia’s good relations with China suggest that it should be in a strong position to access the capital that China is making available for overseas infrastructure projects under initiatives like its Belt and Road Initiative.

POSITIVE GROWTH

Endnotes

4 ibid
8 Free Trade Agreements, Asia Regional Integration Center. Retrieved from https://aric.adb.org/fta-country
9 International Financial Statistics, IMF
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KPMG HAS A PRESENCE IN EVERY ASEAN NATION

<table>
<thead>
<tr>
<th>Country</th>
<th>Offices</th>
<th>Staff</th>
<th>Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>1 office</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>1 office</td>
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<td>Indonesia</td>
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<td>Laos</td>
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<td>Malaysia</td>
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<td>Myanmar</td>
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<td>Philippines</td>
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<td>Singapore</td>
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<tr>
<td>Thailand</td>
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<tr>
<td>Vietnam</td>
<td>4 offices</td>
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</tr>
</tbody>
</table>

24 Offices  
over 8,000 Staff  
more than 300 Partners
KPMG SERVICES

Audit

• Fundamental to a risk-based audit approach is understanding the way our clients run their businesses and drive performance.
• KPMG focuses on the areas which are critical to our clients in delivering their strategies and meeting goals.
• KPMG’s extensive experience and proprietary tools have enabled us to provide seamless services to clients across industry sectors and geographical boundaries.

Tax

• Against a backdrop of increasing complexity in the business and tax landscapes, clients will need to weigh its tax options against many factors, such as tax ramifications against the financials, increased information sharing between tax authorities, evolving regulations, global competitions and new economies.
• Through two main service lines: tax consulting and tax planning and compliance, KPMG’s tax practice consistently provides proactive advice and quality service. Our tax consulting service lines cover mergers & acquisitions & government incentives, global transfer pricing services, global indirect tax services, financial services tax and international tax. Our multi-national clients enjoy this single point of contact in Asia Pacific for all regional tax issues.
• In addition, our tax planning & compliance services include global mobility services, global immigration services network, global compliance management services, dispute resolution & controversy, tax management consulting and property tax / stamp duty advisory. With KPMG’s vast network, clients’ business commitments and tax needs will be best served by KPMG member firms in the region.

Advisory

• KPMG’s Advisory team works with a range of clients, helping them meet challenges associated with growth, performance and governance.
• Our professionals can cover both operational and transactional activities.
• Our Advisory practice assembles skilled and experienced professionals in multi-disciplinary groups tailored to the needs of individual clients and their unique circumstances.
• In our clients’ interests, we also draw on the capabilities and knowledge resources of KPMG’s global network.
• We offer our clients a single point of contact to help streamline the relationship and enhance its productivity and usefulness to them.
• We understand and respect clients’ needs and aspirations. Clients can draw from a range of management and risk consulting services covering a broad spectrum of business activity.

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For further information about this guide and how KPMG member firms can help your business, please contact asean@kpmg.com.sg