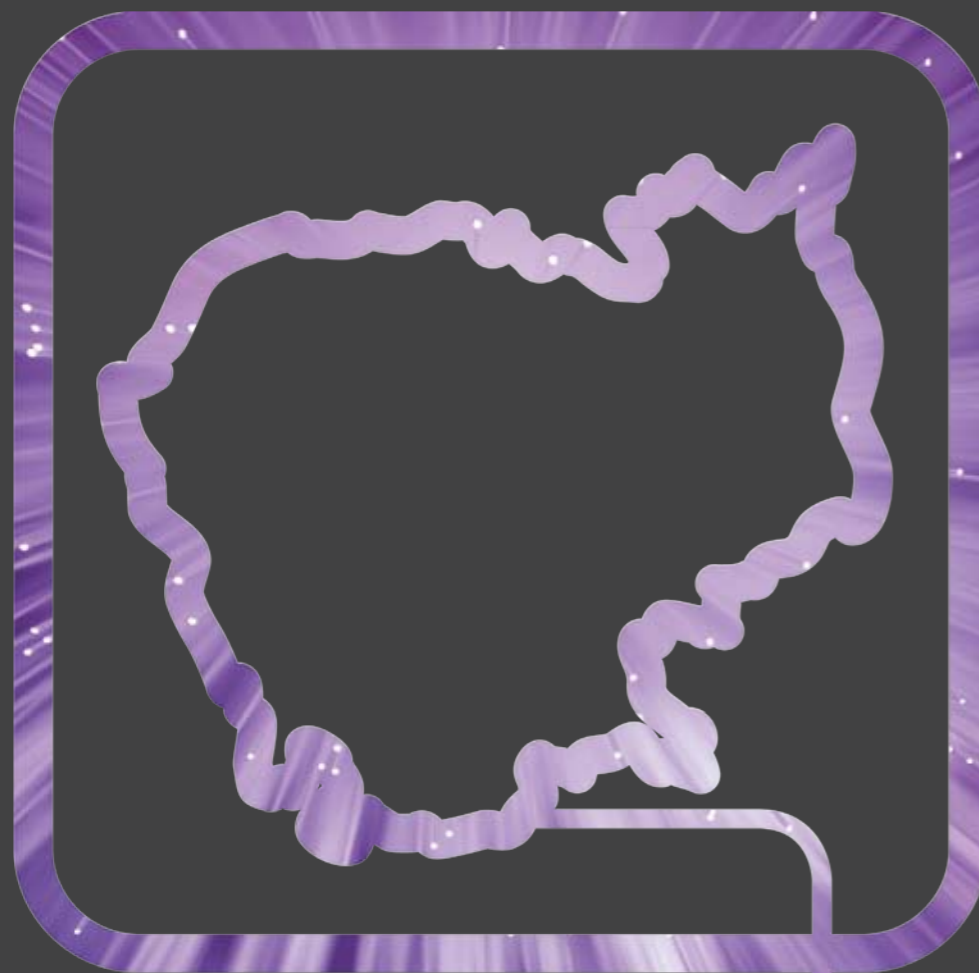


CAMBODIA

# FOREIGN BUSINESS LEADERS SURVEY

Perceptions about the Cambodian business environment





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## A country at work

Knowledge is the key to successful investment, says Laurent Notin, general manager of Indochina Research

I am very pleased to welcome you to the first edition of the Foreign Business Leaders Assessment Survey/ Cambodia. This initiative, taken by Southeast Asia Globe and Indochina Research Ltd., is a tool to help potential investors understand the Cambodian business environment and enable them to make an informed investment decision. To deploy an investment at the right moment or to decide to engage in a business in a foreign country requires a certain level of confidence in a market. Providing an accurate and reliable picture about Cambodia's business climate, by those who

experience this exciting market first hand, can certainly nurture such confidence. What better source of information than to assess the perceptions of those foreign businessmen and women who have already invested in Cambodia and proven themselves successful at it ever since? Indochina Research Ltd. is the only independent market research agency with operations in the three countries of Vietnam, Laos and Cambodia. We have been servicing private and public institutions for the past 15 years and have acquired deep knowledge of the local people, market trends and business

environment. This survey was conducted by e-mail. We have talked to a large number of foreign business leaders, representing a broad range both of sectors of activity and nationalities. The results highlight key strengths and challenges for those already doing business, or planning on doing business, in Cambodia. They will come as no surprise to those already familiar with the country's environment, but they may put the enthusiasm of those looking at investing in the country into a broader context.

Let's put Cambodia back into the context

**"No doubt there are challenges ahead, but there are also long-term opportunities for businesses that are ready to benefit from Cambodia's current development"**

of its history: one does need to remember that it has come a long way since the Khmer Rouge era, but entire sections of its economy still need to be built from scratch again. So yes, no doubt there are challenges ahead, but there are also long-term opportunities for businesses that are ready to benefit from Cambodia's current level of development and accept the constraints of a country still under construction. These are exciting times in a fast-moving economy and this may be why 93% of the businesses we have interviewed expressed their intentions to continue investing in this market.

My deepest thanks go to all of the participants in this survey for kindly supporting this initiative. I hope you will enjoy reading this report as much as we have enjoyed preparing it. I also hope it becomes a reference for investors inside and outside Cambodia and look forward to your feedback – and to welcoming you as new partners in the country.

*Laurent Notin*

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The Questionnaires for this survey were sent by email to a pre-selected list of foreign business managers/decision-makers/leaders working for private companies based in Cambodia. The survey was conducted between July and August 2010. Final sample size of n=63

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# Minimising investor risk by studying the market

**T**here are two grand assumptions that immediately clash when dealing with an emerging market such as Cambodia.

The first is that a country such as Cambodia is considered an unknown among many foreign investors and therefore high risk compared to more developed economies. The second is that a country generating GDP close to double digits per year offers a surefire return for those with capital available.

Both assumptions, while partly true, also point to the problem of ignorance when investors seek new frontiers of economic growth. As is often the case, the truth is somewhat more nuanced than numbers alone imply.

Risk can be minimised in Cambodia by looking more closely at the country itself, which in turn should help indicate areas of the economy where high growth is almost guaranteed in sectors which, in many cases, still remain close to being completely untapped. This survey should therefore serve as both a status update on where Cambodia has come from and where it is headed, as well as an indicator in terms of where the most lucrative investment opportunities lie.

While some investors view the local dearth of raw materials as detrimental to profit-making, other pioneers take the view that Cambodia is crying out for a fabric manufacturer to serve the garment export industry, for example, and there-

fore it's time to set up shop. Similarly, the lack of transportation cited by other investors might suggest that Phnom Penh is in dire need of a public transport solution, a potentially huge opportunity for an overseas transport company in possession of enough capital.

In other words, knowing the configuration of Cambodia's unique and dynamic economy is all-important and there is no better group of people to assist potential investors than those who, once upon a time, were themselves potential investors in the country.

This exclusive survey therefore provides an invaluable tool for those who are seri-

**"Smart investment not only benefits the investor, it can benefit everyone"**

ously considering making an investment in Cambodia now that the worst of the global economic crisis is over.

It is perhaps obvious that the country's long-term prospects for GDP growth look very good indeed. Less clear is where exactly these growth pockets lie. Investors who can identify these unique opportunities in Cambodia will therefore not only reap potentially huge profits themselves, but could also help plug the huge holes that still exist within the overall economy. Therefore smart investment not only benefits the investor, it can benefit everyone. That is what this survey is all about.

*Steve Finch*



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**Sok Chenda Sophea**  
Secretary General,  
Council for the Development  
of Cambodia

HE Sok Chenda Sophea has led the gate to the Cambodian market ever since its foundation. Launched to promote investment in the Cambodian economy, provide information about opportunities and speed up investments and relying procedures, the CDC is today a major centerpiece of any investment strategy in contemporary Cambodia.

## Supporting growth

The inevitable shift from low- to hi-tech has already begun, says Sok Chenda Sophea, secretary general of the Council for the Development of Cambodia, but it will take time

■ **How would you summarise Cambodia's investment policy right now?**

"It's a very open policy. Since 1994, when we adopted our law on investment, the intention was to open the country for all investment and to all investors – local, national or foreigners [with] no discrimination. In 1994, many countries made a distinction between their own investors and foreign investors. Not in Cambodia. We need them both."

■ **What incentives do you offer foreign investors to come here?**

"We do offer them [a] quite generous set of incentives. Our corporate tax or profit tax is one of the lowest in the region and in addition to this, for their projects, they can import duty-free equipment, raw materials, construction materials – this is for the construction phase. Then during

the operational phase they are eligible for six to nine years' tax holidays."

■ **Before the global financial crisis hit, a lot of international companies were ready to come to Cambodia, but once it started, they were afraid to make that leap. Are they coming here now?**

"During the financial crisis, if you look around, everywhere in the world people were staying home. It's not about Cambodia. Now the global economy has recovered a bit, we're pleased to see that those people who were interested pre-crisis are coming. For example, before the crisis, some Japanese companies came to do some fact-finding, including Japanese bank. During the crisis, the Japanese bank stayed at home, but now we have a new source of investment, also from Japan. This is something really new,

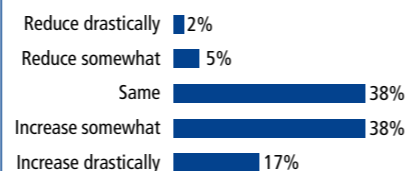
something we've been looking for for a while – diversification, not only in terms of sector, but also in terms of FDI."

■ **What do you consider the next sector in Cambodia that will begin to attract large amounts of foreign investment?**

"Electrical appliances, electronic equipment and other light manufacturing.

### Investment outlook

What is your expectation regarding further investments in your business for the coming 12 months?



Garment factories were the first step for us and it's labour-intensive. We cannot jump from labour-intensive to high-tech, but in between you have other activities that still need a lot of labour, but at a higher degree of complexity so we will have room for new industries such as electronics or electronic appliances – and some firms have been applying already. And this is the classic movement of industry. You always start very labour-intensive and at the very end, if you are successful, you will go for hi-tech."

■ **Do you think Cambodia is starting to attract companies that looking for more than cheap labour?**

"So far we have been able to attract 200 garment factories. People, many people, when they are not looking seriously at the situation, think that those factories came for cheap labour, but that's completely wrong. It is one reason, but not the first. The first reason those garment factories came

**"You always start labour intensive and at the very end, if you are successful, you will go for hi-tech"**

to invest in Cambodia was access to markets. Remember that before 2005 you had the quota system and many exporters, for example China, were allowed to export to the US only five million [pairs of] jeans. A Chinese company that wanted to sell

more jeans had no other choice than to come to invest in Cambodia, taking advantage of the Cambodian quota, and would then sell the jeans. Access to markets is the main reason we attracted garment factories."

■ **What factors are still active in preventing foreign investors from coming here to Cambodia?**

"The real problems are the very high cost of electricity and very high cost of transportation. I am not proud of this, but still it's a fact of life. In 1994, we didn't have electricity. Now we have electricity and it's expensive, but we expect the prices to go down in 2011. It will be cheaper than now, but still more expensive than in neighbouring countries, so that's a real impediment. Transport costs due to bad roads and long transportation times are the same.

These are things we expect to improve in the next three to four year. Skills of the available workforce are an issue, too, but we have our programmes for technical and vocational training. The government is paying a lot of attention now and has launched the Cambodian economic forum – and skill development will be the top issue to be discussed."

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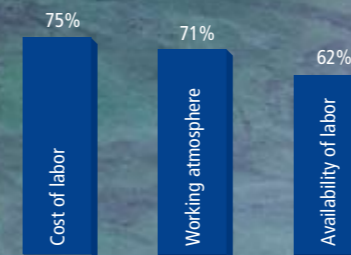


# Time to move forward

Cambodia has all the ingredients to brew up a healthy business environment in 2011 – and the time to start is now, says Steve Finch

*Ajinomoto is a Japanese multi-national which has successfully invested in Cambodia since 2001*

Top three support factors in the business environment



When Japanese multinational Ajinomoto opened a small sales office in Phnom Penh back in 2001, it was the first company of its kind to set up a presence in Cambodia selling food seasonings and, in particular, Monosodium Glutamate (MSG).

Nine years on, the company has just opened a US\$6 million packing plant in the Phnom Penh Special Economic Zone and already dominates the market despite the entrance of new competitors. In short, Ajinomoto has tapped into low but growing domestic demand in Cambodia early and has backed up long-term intentions with a facility that shows it is ready to take supply to the next level.

For Cambodia, it shows the country is entering the next stage of the classic industrial model whereby, in the beginning, fly-by-night companies come to take advantage of low-paid, low-skilled workers to produce for external markets before the domestic market comes into play and resident industries diversify both in terms of skills and sectors.

"We cannot jump from labour-intensive to hi-tech," said Sok Chenda, secretary general of the Council for the Development of Cambodia. According to this exclusive survey on foreign investment, there are signs that Cambodia is inching closer to reaching that critical next stage of development.

Although 19% of respondents cited a lack of domestic demand as a negative of doing business in the Kingdom, more than double that number considered demand within the country to be a positive. It was also noted that Cambodia's appetite for products and services is most definitely on the rise.

It is factors such as these that are giving large companies more reason to come to Cambodia. Hong Kong-based Jardines Matheson has in the past year taken a minority stake in ACLEDA Bank, Hyundai is almost ready to begin assembling cars in Koh Kong province at a new \$62 million plant and Pizza Hut is reportedly joining rapidly expanding KFC in the country's burgeoning fast-food sector. Meanwhile, the world's largest bank, Industrial and Commercial Bank of China, is scheduled to open its first branch in Phnom Penh.

Cambodia is therefore at a crossroads. The country has achieved a great deal economically since the end of the Khmer Rouge regime, but key challenges still remain that analysts and investors say must be addressed if the Kingdom is to maximise the next stage of growth.

According to our survey, corruption remains the top concern, with many investors complaining that informal fees add a regular stream of hidden costs, even if many others pointed out that the situation is improving. Another key worry is the still insufficient legal framework necessary to protect investments, along with access to loan financing and high interest rates.

Stephen Higgins, CEO of ANZ Royal Bank, points out however that available liquidity has snowballed since the worst of the economic crisis at the start of 2009.

"I suspect most banks are very keen to be lending money," he said. In many cases, he added, businesses themselves often have to shoulder the responsibility for failing to secure loans: many simply do not meet accepted auditing >



Labour-intensive industries such as garment factories (such as the one above, in Phnom Penh Special Economic Zone) which mainly serve export markets still dominate and, due to incentives, will remain a major source of investment, even as the domestic market gains momentum

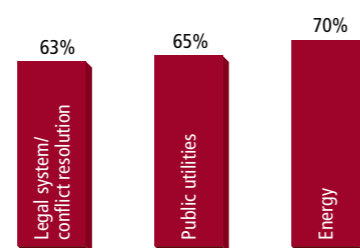
standards, which in turn makes it difficult to accurately assess financials. The problem of collateral is an issue related directly to Cambodia itself in that land titles too often simply do not exist, Higgins added.

With Cambodia's economy so heavily dollarised, the National Bank of Cambodia still has few tools at its disposal to enact monetary control. This means interest rates are largely driven by the highly competitive banking and microfinance sectors. Cambodia by no means suffers from the highest interest rates in the region, said Higgins, citing Vietnam and Indonesia.

"Let's assume the average rate is somewhere between 10% and 12%," he said. "If rates at this level become an impediment to business or a project, then ... [it] is either carrying more debt than appropriate, or the underlying profitability is marginal."

One clear sign that Cambodia's economy is turning a corner is the survey's finding that respondents considered the available workforce both a major negative and a major positive.

**Top three challenges in the Cambodian business environment**



Some 43% of respondents said finding Cambodian managers proved difficult, but 33% said the labour force was a positive aspect of doing business in Cambodia given the "high degree of young and motivated people."

Again, it's a sign that Cambodia has come a long way, but still has some way to go to catch up with more developed economies in the region, says Awie Foong, a Global Research Centre associate director at Aon Hewitt, the world's largest human consulting and outsourcing firm.

"Cambodia starts at a very low base so one would expect the rate of progress might be faster compared to places like Vietnam or Indonesia, but it would still take a considerably long time to get to the level of, say, Indonesia," he said. Foong also notes that tertiary education enrolment in Cambodia remains at just 7% compared to 18% in Indonesia and 48% in neighbouring Thailand. Meanwhile, Thailand and Indonesia are spending 4% and 3.5% of their respective GDPs on education while Cambodia attributes just 1.6% – and that represents a thinner slice



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of a much smaller GDP when compared to elsewhere in the region, equating to just \$33 per capita.

In a people risk note published at the end of November, Foong indicates, however, that education spending is not everything: "The overall people risk of Chengdu (the capital of China's Sichuan Province) is substantially lower than Phnom Penh, partly thanks to higher education standards despite a similarly low level of per capita educational spending."

In Aon Hewitt's people risk survey assessing 90 Asia-Pacific cities, only the Bangladeshi capital Dhaka ranked below Phnom Penh. In terms of education then, Cambodia clearly still has a long way to go, but Sok Chenda points out it's an issue that has received a great deal of government attention.

Despite the lingering effects of the economic crisis; despite the corruption; despite the dearth of skills and multiple structural problems such as the high costs of electricity, fuel and logistics and all the smaller issues that accompany doing business here in Cambodia, the overwhelming tone of the survey is a very positive one.

Some 67% of respondents said they were either somewhat confident or very confident about the performance of their own business over the next six to 12 months.

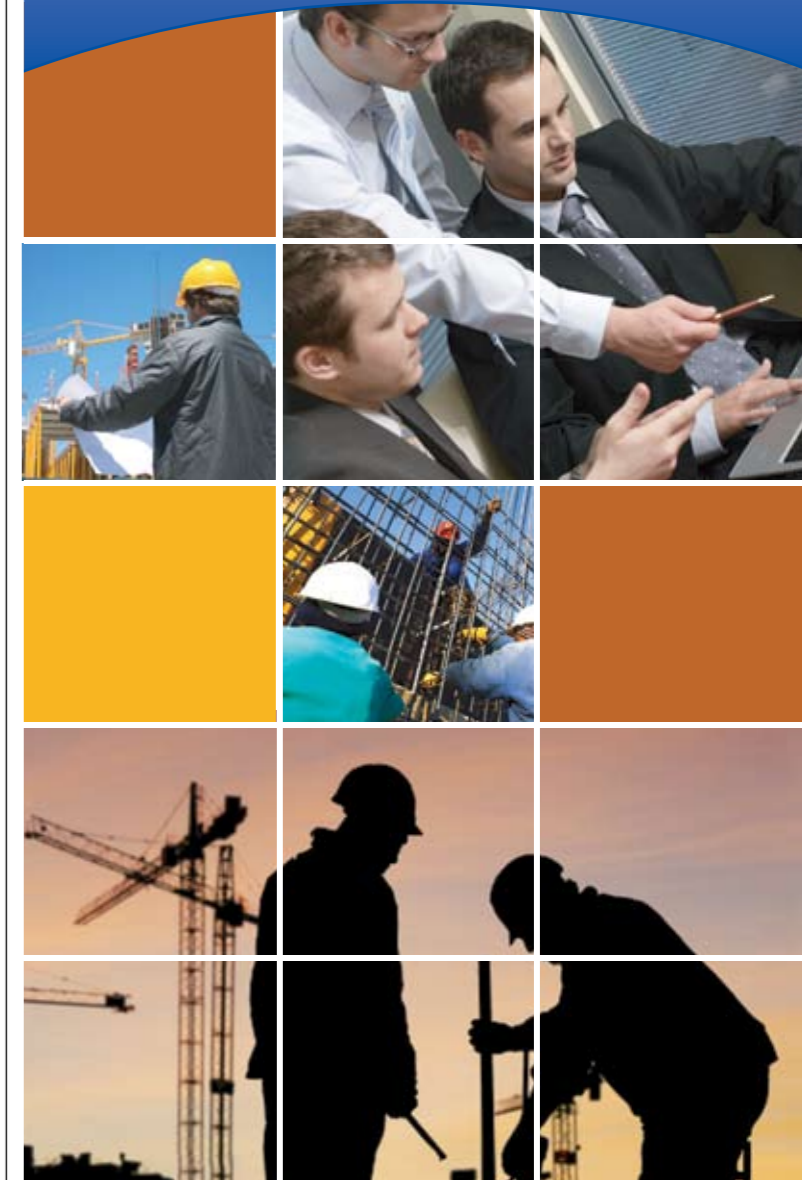
**"The only logical direction for the domestic economy is up"**

In the longer term, a staggering 88% of businesses said they felt the same about the next three to five years. This seems to be the effects of an almost giddy feeling about the Cambodian economy as a whole. In total, 60% were somewhat confident or very confident about the economy over the next six to 12 months, a figure that suddenly jumps to 83% in relation to the longer term.

How many investors in Ireland, Spain, Portugal, Greece or even the United States would come to a similar conclusion right now? It's perhaps an unfair comparison – and no doubt other countries in the region such as China, Laos and Vietnam would score similarly – but the overriding point seems to be that investors based here are confident that Cambodia is making sufficient progress.

Indeed, there is every reason to feel that way, given that the government and World Bank among others raised their GDP outlooks throughout 2010. Most analysts were in agreement that the economy would grow at around 5% in 2010 and at about 6% in 2011, a strong indicator that Cambodia is quickly returning to the near double-digit growth recorded before the global financial crisis took hold.

Combine this outlook with the fact that investors overall said ease of doing business had improved since first entering the country and there is only one possible conclusion: the Kingdom has made a strong comeback from the global crisis, which means that – another tragedy of worldwide proportions notwithstanding – the only logical direction for the domestic economy is up.



# Domestically on the move

Tax breaks are a powerful incentive says Hiroshi Uematsu, managing director of Phnom Penh Special Economic Zone, but must be balanced with the need for self-sufficiency



■ **How attractive are tax breaks in Cambodia compared to other countries in the region?**

"Actually, the tax system and tax incentives in Cambodia are not so... different from neighbouring countries such as Thailand, Vietnam or the Philippines. So at PPSEZ, we understand that foreign investors don't come to Cambodia just for the tax incentives.

For the manufacturing industry, the Cambodian government has prepared certain tax incentives under the QIP – Qualified Investment Project [a government-licensed investment project] – so there are certain incentives, but these incentives are not the only factors encouraging investors to come to Cambodia."

■ **Should the Cambodian government be offering more attractive tax breaks to boost investment?**

"From the viewpoint of foreign investors, of course it's much better if the Cambodian government can offer more tax incentives, but on the other hand, we should also understand that the Cambodian government needs to increase its tax revenues. [Cambodia to a large extent still]... depends on foreign aid. So we understand that there must be an effective tax system in the country to increase tax revenue. Of course, from the point of view of foreign investors, who doesn't want tax advantages or even tax-free opportunities? But tax-free can mean the Cambodian government can't stand by itself, so it's a question of keeping a healthy balance."

■ **Aside from tax, are there any other factors that make Cambodia an attractive destination for foreign investment?**

"It depends on the industry. It's hard to generalise. For manufacturing industries... these need infrastructure, a reliable and cost-effective labour force, then security. Security means political stability and also convenient government procedures and not too much red tape. This is what manufacturers want. We believe that our SEZ so far has been able to offer certain conditions to attract foreign manufacturers. We do

support government procedures so newcomers feel [it's] more safe and convenient to come here. The labour force, compared with Thailand and Vietnam, is available at a cheaper rate. In general, we are today receiving more manufacturers in Cambodia."

■ **In terms of red tape, how is Cambodia progressing – if at all?**

"Inside special economic zones, there is much improvement. Outside, I don't know actually – and I don't care! Japanese companies especially feel more confident to come to PPSEZ. We are not saying that we can eliminate informal fees (bribes) in one day, it's impossible. However, speed in bureaucracy and cost structure have much improved."

■ **Domestic demand is a major factor for foreign investors considering a new country, but Cambodia has generally lacked in the past. Are there any improvements on this front?**

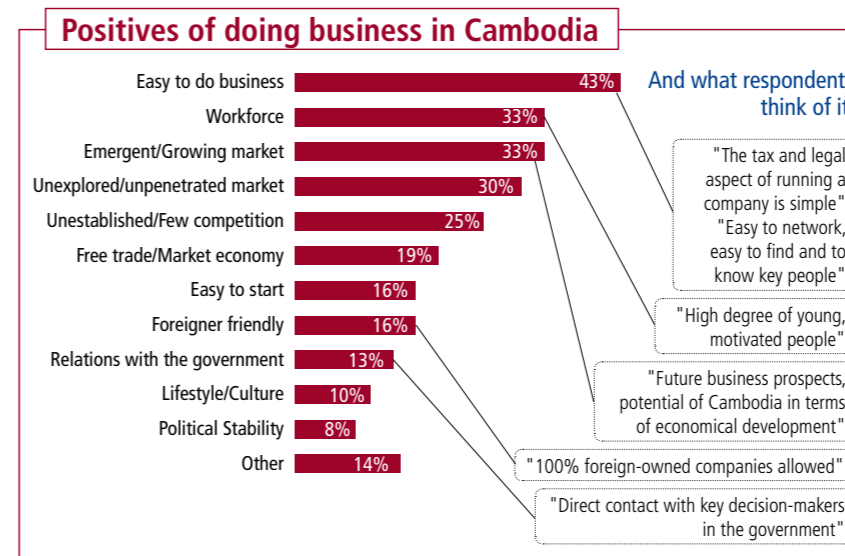
"Again it depends on the products which they are producing. Even though the market is small, especially with basic-needs commodities, the market is definitely expanding. We see this with our client Ajinomoto [the world's leading producer of MSG by

market share]. Ajinomoto was able to successfully penetrate the market with their brand. In Cambodians' daily life, Ajinomoto is already a necessary product. Then there is snack food ... junk food, like potato chips. We have one Philippines company who came this year and they are going to start a factory construction, their product is Oishi. In Vietnam and China they already are widely popular. So this snack food – even if people are poor

**"Everyone we talk to expects that in the future the domestic market will expand"**

– kids want to buy it all the time in the local markets.

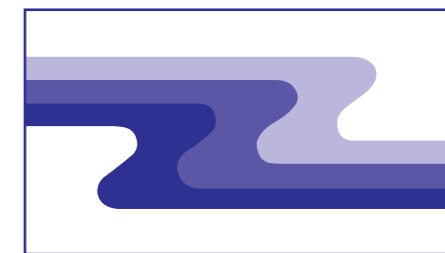
These products are becoming basic needs in a fast-changing society so, even though the market is small, some of these companies decided to come to Cambodia to take advantage as pioneers. Everyone we talk to expects that in the future, the domestic market will expand, although the size may not be as big as Thailand or Vietnam. Once they penetrate the market now, they can expect a much, much bigger share in the future. Currently, we see a few of these basic commodity industries who are coming to Cambodia." ●



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# Moving into the future

The secret of sustainable growth lies in diversification, says DHL General Manager Kevin Kee, for whom 2010 has been 'superb'

Clearly key challenges remain for the Cambodian economy. As a logistics company, how does it look from the ground level?

"Well, things have improved a lot. Obviously, I think dealing with the authorities, that bureaucratic process, I think it's still one area that needs to be improved. Generally, because the logistics industry is so skewed towards the garment manufacturing industry, planning external factors is always a yo-yo kind of trend. One year we'll do extremely well, like this year for instance – a record year, but last year because of the global financial crisis and the channelling of orders back

to China, Vietnam and Bangladesh, people like us in the logistics business had a very difficult year. This year it's superb... to the point where you find that obtaining space, whether container by ocean freight or even by air, is a challenge for us."

You were one of the first multinational logistics companies to come to Cambodia and now others are coming too. Given the size of the Cambodian market, what challenges does that pose?

"Well, competition is fine. I mean, people like us always welcome



**Kevin Kee**  
General Manager, DHL

The 53-year-old logistics expert has been in Cambodia since 2003, and today heads DHL's operations in both Cambodia and Laos. Since he set up its local offices, DHL Cambodia has grown by CAGR 26% annually. It now handles over 230,000 items coming through the country every year.

competition. Basically the point I am trying to stress is that we tend to be too reliant on one industry – garment manufacturing – which is not healthy. We just can't wait to see some form of diversification into other industrial sectors like, for instance, petroleum or the mining industry. So I reckon that, given two to three years, hopefully we can see a new source of growth from new industries."

Light manufacturing was all but destroyed during the Cambodian civil war. Do you see any signs that this sector is

starting to re-emerge?

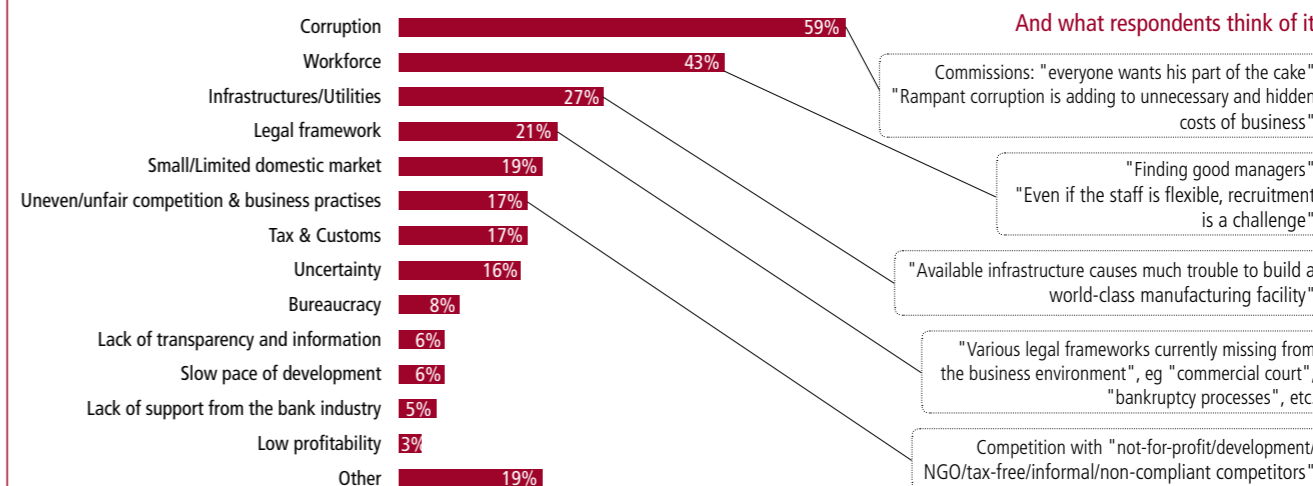
"No, I don't... because the other key concern we have with the garment manufacturing industry in the country is if the external factors or preferential treatment is given to Cambodia, you find that people come here and set up a factory. Tomorrow you find that if the same conditions are better somewhere else, the factory owner will not hesitate to close down and move production to the likes of Africa or South America. So that's a concern, but overall the outlook for 2011 is very positive as imports from Cambodia into EU countries will be with zero tariffs. You'll find

parties... is not something we are comfortable with, so that's the reason why we take it upon ourselves to actually manage as much as we can ourselves."

International-standard logistics in Cambodia remain very expensive, which in itself presents a major challenge to other sectors of the economy. Why is this still the case?

"Generally the cost of living here is much higher than the neighbouring Indochina countries. The telecommunications costs are among the highest in the region, our fuel costs are

## Challenges to doing business in Cambodia



that a lot of investors will be back in Cambodia."

A key challenge for Cambodia remains developing solid, countrywide infrastructure at an affordable price. Is there any progress here?

"It has improved, to be fair. It's just that we tend to rely more on our own selves. We don't rely on third parties or the authorities to actually help us in managing our control of the quality aspect of how we actually manage our shipments. Relying on third

also among the highest in the region because the government doesn't have the kind of funding to subsidise, so speak no more because if your core raw materials like fuel and electricity are actually pricey you'll find that everything else will go up in terms of costs. Similarly, in our industry just like any other industry, you are talking about economies of scale, so generally we don't have the volume but we still need to have the infrastructure, the investment in infrastructure, to actually manage the business, so our operating costs are high."



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**In Channy**  
President & CEO  
ACLEDA Bank Plc.

Today one of the largest banks in Cambodia, Acleda was established in 1993 as a national NGO for micro and small enterprises – the country's first microfinance institute. It was turned into a commercial bank in 2003 and renamed Acleda Bank Plc. The bank today has 234 branches in Cambodia and expanded into Laos in 2008. In Channy is one of the founding members of the original NGO now at the helm of the successful enterprise, today one of Cambodia's largest.

## More strength in 2011

Acleda President and CEO In Channy believes the recent surge in loan portfolios bodes well for investors in the coming year

■ **What prospects for the Cambodian economy in 2011 and beyond?**

"When we talk about the short-term, I want to touch base on 2010 – this will be the foundation for 2011. I'm looking at the banking perspective. The banking sector grew in terms of the loan portfolio in 2009 by 7%, but when I look into the banking sector as a whole for 2010, especially at the end of the third quarter, I can see that the loan portfolio grew at 16%. So from 7% to 16%, if we take the last quarter into

consideration, then I think the bank loan portfolio has grown by at least 20% – it's a very strong growth for 2010. Then look at domestic deposits: they grew 26%. If we include the end of 2010, it's close to 30%. You see it's a very strong growth. Why can the banks grow in 2010? We look, in terms of growth, at the garment exports and then tourism and agriculture. These are the three main pillars of the Cambodian economy. When these three grow, they pull along the other sub-sectors."

■ **How will this translate into GDP growth for the overall economy?**

"The GDP growth for 2010 is 5%, so in 2011 it will be at least 6.5%. Why? I'm looking again at agriculture. The surplus of agriculture [produce] here as reported by the National Bank, the prime minister and the Ministry of Agriculture point in that direction. Land available to agriculture is greater. In 2009, the report on the surplus of paddy rice was 3.6 million tonnes, but what happens if they do more than they have done in 2009?

It will give more strength to 2010 as the agriculture crops are collected in January, February and March and the returns reinvested, so a strong 2010 will give a good input for 2011. Add in improved infrastructure, another support for goods transportation. The railway was launched late this year, but in 2011 will offer alternatives for transportation in addition to roads connected to major provincial towns."

■ **Last year was a difficult one for the Cambodian economy. When will the recovery process be completed?**

"When people talk about the economic downturn and the global financial crisis, they say that it did not directly affect Cambodia, but the global economic downturn – yes, it had an impact on Cambodia. In 2009 the GDP growth was only 0.1%. In 2010 it has risen to 5%. Why can it be 5%?

Today, the government and senior ministers talk about 5.5%. Suddenly, from almost negative to high percentage points of growth – I strongly believe it has recovered. At this point I think politicians and economists try to be very conservative because they start to see the risks of a renewed, this time European economic crisis – it

started with Greece and then Portugal and then other countries. This makes people nervous. They say it is not the end of the economic crisis yet, but then look at the Asian perspective and especially at Cambodia. I believe these [Asian economies] have well recovered from the economic downturn."

■ **Coming out of the economic crisis, Cambodia's financial sector struggled to free up liquidity. To what extent will the country be better able to mobilise liquidity in the future?**

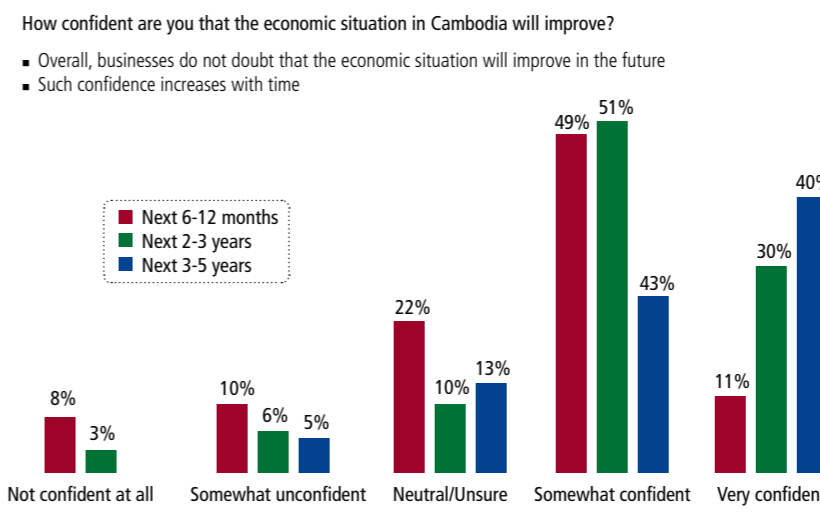
"We are looking at liquidity in the bank industry and then credit in the

**"The room for growth is there, because we have the resources in place"**

banking sector. Deposits at banks here currently are US\$4 billion and loans are \$2.8 billion – these numbers are from October 2010.

So it's different – it means liquidity is in the country and it's ready to finance loan growth. Why is there such a difference between the two? Because of the reserve requirement from the regulatory agency, but the room for growth is there because we have the resources in place." ●

### Confidence in future economic situation



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# Partnering for a better future

Foreign investors can expect to be greeted with open arms by the government, says Bretton Sciaroni, but should be prepared for challenges along the way



## Bretton Sciaroni

Partner, Sciaroni & Associates and Chairman of the International Business Chamber, Cambodia

Having worked as one of the first foreign lawyers in Cambodia since 1993, Bretton Sciaroni is a prominent member of the business community. He also co-chairs the working group on law, tax and good governance, which is a platform of discussion between private sector and government delegates.

■ You have been directly involved in the Government-Private Sector Forum which holds a regular dialogue. What does the government still need to do in terms of facilitating business here?

"From my standpoint, actually we have a very good working relationship with the government and we have had for 10 years. Most of our dialogue partners are very good. My co-chair is Deputy Prime Minister Keat Chhon, Minister of Economy and Finance. He's second-in-charge of the Private Sector Forum underneath Samdech Prime Minister, so I have to say the government works very well with the private sector... Mainly because of not only the role that Keat Chhon plays in the government, but also he is such a dedicated fan of the consultation process with the private sector. The problem we face in the private sector is not the lack of consultation, but there are bottlenecks in the government that hold up things and there are a lot of things that need to be done. Cambodia is starting from way back. I've been here 17-and-a-half years now and we've come a long way, but we're still struggling to catch up with the rest of the world in terms of establishing and building a modern economy, so we have a long way to go."

■ You have been in Cambodia a long time and dealt with a lot of foreign businesses looking at the country. What problems do they often face?

"Cambodia is not an easy place to understand and I suppose that in any country in Asia you have to learn a lot about the local environment to make sense of it and Cambodia's no different. In many ways we are going to be more difficult to understand than other countries because of the unfortunate history of Cambodia

– there are bigger capacity issues, but there are other issues too. Just learning how to work inside the framework of Cambodia: it's not always easy, sometimes it's challenging.

I think that the good thing about Cambodia is the government provides a very welcoming environment for foreign investment so they're anxious to get foreign investment in here, they work at it. I think the government, to its credit, understands that we have skewed demographics here – we have a very young population. The government is very cognisant that the economy has to keep moving, we have to keep creating new jobs to keep the young people employed and to keep the place moving in the right direction."

■ You make reference to Cambodia's capacity issue. Can you explain that in more detail?

"The capacity issue is that the Khmer Rouge wiped out a whole generation of... the educated class, merchants and government workers – they just wiped out everybody. And those that fled overseas, a lot of them did not come back to help rebuild the country. So you've got to build up the human capacity from the ground level up and that takes time; that's not something that is going to be solved overnight.

I have to say that whenever I see people in the government, in the private

sector, the young people coming up, you have a much better-educated, a much smarter group of people coming up in the system. It will just take time for them to get the experience."

■ If there was one thing the government could do immediately to help the investment climate, what would you recommend?

"If you take a look at the major areas of

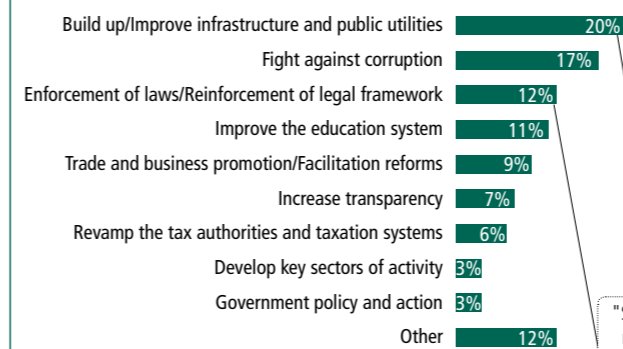
**"The government provides a very welcoming environment for foreign investment"**

the economy: agriculture, that's moving and that was our mainstay during the financial crisis; garments are coming back; tourism, it's coming back. There are a lot of areas that are, I think, pretty good.

The one area that has not come back at all is real estate. Now we were in a highly speculative area before the crash and we needed to cool it off, but it has never reignited again. The government is doing what it can to help because in very fast order they passed a... [property] law for foreigners to try to inject some activity and some interest in that sector.

Ironically, one of the things they could do right now would be a two-for-one. If they could get regularly scheduled flights to Sihanoukville, it will help tourism [and] it will help the real-estate market." ●

### Recommendations for government initiatives



And what respondents think of it:

"Improved access to information and knowledge (including IT, media)"  
 "Promote infrastructure developments to reduce business operating costs"

"Set laws to improve industrial relationships. All stakeholders must be responsible for their actions"



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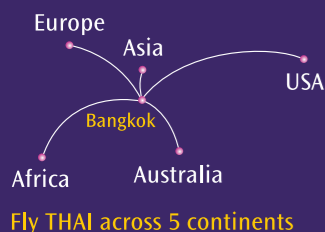
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# Taking centre stage

General manager of Phnom Penh's newest luxury hotel, Sofitel's Didier Lamoot has his sights set firmly on courting five-star clientele

■ Why haven't any other five-star hotels opened in Phnom Penh during the past decade? The region's booming and yet, until now, it hasn't really been able to capitalise on global interest.

"When talking about Cambodia, people immediately think of Angkor and who can blame them? It is one of the world's marvels. For the past dozen years, so much of the interest in Cambodia, for both the leisure and the corporate traveller, has been in Angkor. There's been so much attraction to Siem Reap – gravitational attraction, inevitable attraction – that Phnom Penh has been left playing second fiddle, but the second fiddle is now asking the first violin for some time on the main stage."

■ Can the city support another five-star hotel? It already has two, as well as a 600-room hotel-casino.

"In 2004-2005, they were telling me it would be crazy to put up a hotel. The upscale hotels were losing money then, but by 2007-2008, everyone was saying we're waiting for you. We need more rooms."

■ How do you persuade corporate and leisure travellers that Phnom Penh should be on their destination list?

"This is the future of Cambodia. This city is emerging as Cambodia's hub – as a gateway to Angkor, yes, but also to Sihanoukville and the southern coast. Note that Thai Airways flies into Phnom Penh, not Siem Reap. If we want to develop the country as a real destination, we have to develop the south. That's how Phnom Penh becomes a hub."

■ But that's not how the city is perceived at the moment, is it?

"Correct. According to the official statistics, we had 334,000 arrivals to Phnom Penh in the first half of the year, while there were 395,000 arrivals to Siem Reap. That doesn't suggest the country revolves around a hub yet."



**Didier Lamoot**  
Area general manager  
Sofitel Phnom Penh Phokeethra

Didier Lamoot is area general manager of the capital's most recent addition to the luxury hotel offering, the Sofitel Phnom Penh Phokeethra. Equipped with a wide range of state-of-the-art amenities for meetings, conferences and luxury leisure time and located in the centre of the city overlooking the Mekong and Tonle Sap rivers, it is set to become a key player in any business traveller's Cambodian itinerary.

■ What does the opening of the Sofitel mean for Phnom Penh? As general manager of the hotel, we know you're predisposed to say it's a big deal, but is it really?

"It is and for this reason: there has been very little investment in upscale hotel development over the past 10 or 12 years."

**"With this hotel, we open with as much panache as any other hotel can claim in Southeast Asia"**

So now, with this hotel, we open with as much panache as any other hotel can claim in Southeast Asia."

■ How does the hotel establish itself as the destination of choice for inbound arrivals?

"When you look at the investments made here in the ballroom, which is one of the largest in Southeast Asia, and in the audio-visual technologies in the meeting facilities alone where we've spent more than \$1.5 million, then I think we become immediately attractive as a destination property. We can seat 2,000 people in our ballroom alone and have 1,100 people to a sit-down dinner. We can do concerts. We have a room just for translators. We can do functions for 700 people outside by the pool. It's hard for me to imagine that we do not make a grand impression in this part of the business."

■ So the corporate business is to loom large here?

"In Phnom Penh, we anticipate that two out of every three guests will be a corporate traveller, but these travellers no longer fit so neatly into this bucket or that bucket. One is no longer just at the hotel for leisure, or just for business."

# Creative leisure time

Make the most of your free time in the Kingdom and experience some of its many cultural - and culinary - delights



Art, dance and music festivals offer insights into the country's revived cultural landscape

outside influences, but their own traditions still need rebuilding. Curiosity combined with the force of the internet is allowing youth to draw inspiration from a global creative archive. This new generation is in a unique position to expand Cambodia's cultural activities and it will be a pleasure to watch them reach new heights.

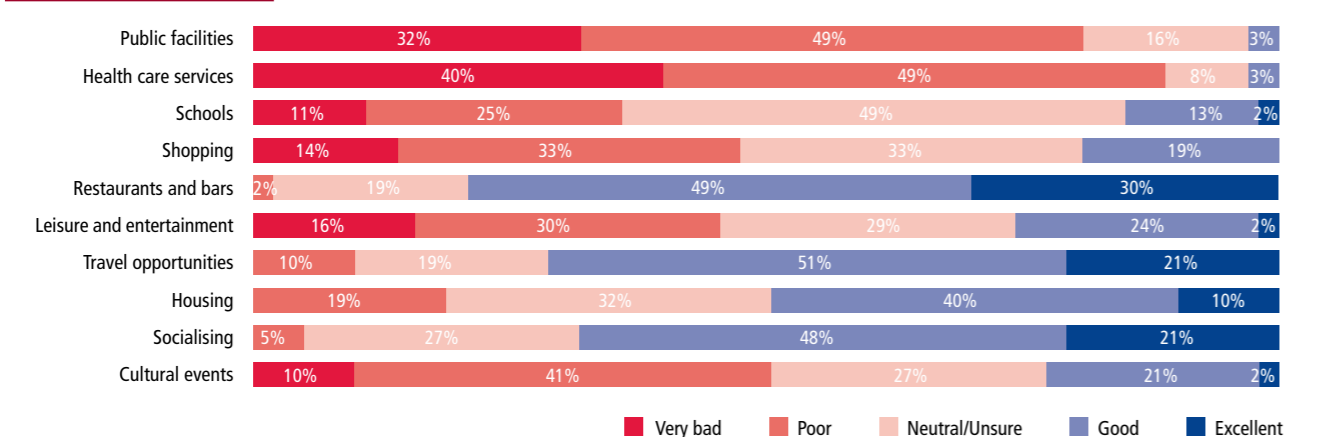
Public transport and health care received critical responses in our survey. The latter has, however, improved significantly and the situation for foreigners in need of medical help is much better than it once was. Besides existing hospitals and clinics, larger facilities are on the way in 2011 and 2012. Minor ailments can easily be treated in the country, but more complex medical treatment still requires a trip across the border to Thailand or even Singapore.

The highest ratings, besides an easily accessible housing market, are reserved in for the country's great cuisine, which to many observers is above par with many of its regional neighbours. Phnom Penh's nightlife and its highly sociable environment - meeting friends and colleagues at one of the capital's many venues is de rigeur most nights - makes living in Phnom Penh an endlessly exciting experience.

Business people like to play golf, Everyone knows that. The same is true of Cambodia, where palm-shaded courses cater to entrepreneurs keen to meet up for a few holes on Friday afternoon (and some business talk, of course). But what else matters to a company sending its management team to Cambodia to set up operations? People whose families may have to be brought along, whose children need schools, whose wives or husbands may want to enjoy the cinema, theatre or an opera?

Cambodia lost much of its cultural heritage to those who had no understanding of the power of creativity under the Khmer Rouge. Today, the Kingdom's art scene is reawakening, with progressive musicians, painters and performers making waves in the global arts movement. Concerts, festivals and exhibitions are being staged on a daily basis, a huge step forward compared to the cultural black hole of just a few years ago. Cambodia's younger generations are increasingly subject to

## Amenities ratings



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# Increasing number of options

A glut of properties greet expat house-hunters, according to CBRE's Daniel Parkes, with new areas of the capital now opening up

■ Phnom Penh has in the past been considered overpriced and limited in housing terms. Is that still the case?

"I arrived here in Phnom Penh in June 2009, about a year-and-a-half ago. It was after the financial crisis which affected all countries around the world, including Cambodia. I was not here before, but I hear prices peaked in 2008. When I first arrived it is true there were limited options. I was lucky enough to stay at Colonial Mansion Serviced Apartments ... for the first six months until I decided where it was I wanted to live for the longer-term. There are a number of options. BKK I was the district where originally the embassies and NGOs set up in 1993 and when people looked for residences, they focused on being close to work and close to their embassy.

In time, more accommodation has come on-stream. Tuol Kork in the northwest of the city is now providing an alternative location. I myself have moved over the Japanese Bridge to Chruoy Changva, the peninsular where the Tonle Sap and the Mekong meet. It is less built-up with cheaper accommodation. There is also the option of a new villa development like Grand Phnom Penh ... built around a golf course designed by Jack Nicklaus. So there are an increasing number of options to choose from and, depending on the size and location, there is something for everyone."

■ To what extent are high costs for utilities such as electricity, water and telephone/internet coming down?

"Electricity is about 30% more expensive than in Thailand. In Phnom Penh, every building should have an electrical back-up supply because power-cuts can still happen at peak hours and during rain storms. In the short-term I don't see electricity supply getting cheaper, but in the medium term it will. At the moment Cambodia imports



**Daniel Parkes**  
Managing Director, CB Richard Ellis, Cambodia

CBRE is a leading Los Angeles-based real estate company which entered the Cambodian market in mid-2009. The Fortune 500 firm currently has a team of six in Cambodia, headed by 30-year-old Daniel who has eight years' experience in the property sector.

electricity from Vietnam, but the Chinese are helping to build hydroelectric dams in Cambodia. Cambodia may well end up being a net exporter one day. Water is quite reasonable, as is the internet. The telecoms industry is highly competitive with nine operators and so will continue to offer good prices."

■ Our survey found many expats still consider public services such as health care and transportation a concern. What's your view?

"Due to being accident-prone, I have tried most hospitals here, so I am quite well qualified! In my view Calmette Hospital functions perfectly well, the doctors are wonderful and I have the utmost respect for them. There is also Royal Rattanak, NagaClinic and SOS. Pharmacies here are also excellent and often you can go to see the pharmacist who can diagnose simple stomach trouble or minor ailments. When it comes to bigger problems, then the health system needs investment. I actually see this as a great investment opportunity."

■ In terms of getting to Phnom Penh from outside the country, are the options increasing?

"Tourism is perhaps the most exciting

growth area for the country and the south coast is largely untapped. We have good links to Bangkok, Vietnam, Hong Kong, Singapore and China, but we need more direct flights. Actually international arrivals are probably not as much of a pressing issue as domestic connectivity. As a first step we need flights from Siem Reap and Phnom Penh to Sihanouville Airport, which is ready to receive flights."

■ What about those other factors that can make or break the experience of living in a particular city? Do you think there is enough to see and do in and around Phnom Penh?

"Ask anyone who lives here and the answer is energy – and Cambodia has bucketfuls. Maybe it is because it is a country which has been held back for a

**"Tourism is perhaps the most exciting growth area for the country and the south coast is largely untapped"**

long time. Maybe it is because 75% of the population is under 30 years old. I am not sure, but there is an energy here which is palpable. You can feel it. It has a buzz to it and you just know the place is going to take off. It is a very exciting time for Cambodia and I feel very lucky to be a part of it."

### Positives of living in Cambodia



And what respondents think of it:

"Socially and culturally, it is a particularly friendly place to live and work"  
"Friendly and welcoming people, no hostility against foreigners"

"Good location in the dynamic Southeast Asia"

"Ease of having interesting job with responsibilities"



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# Facts & figures

Cambodia has one of the most open and welcoming economies in the region. With 100% foreign ownership for companies and businesses, competitive wages and salaries as well as a range of tax incentives for qualified investment projects, the country is a prime destination for successful business. Here some key information that helps to get your investment started!

## Profit tax

Legal entities in general:	20%
Oil or natural gas production sharing contracts, or exploitation of natural resources:	30%
Existing business enterprises granted profit tax investment incentives by the CDC (during the five-year transitional period, starting from January 1, 2006):	9%
Business enterprises granted tax freedom by the CDC for Qualified Investment Projects (QIP), maximum nine years:	0%

Source: DFDL - www.dfdlmekong.com

## Tax on salary

500,000 Riel or less (\$125 or less)	0%
500,001 to 1,250,000 Riels (\$125 to \$312.50)	5%
1,250,001 to 8,500,000 (\$312.50 to \$2,125)	10%
8,500,001 to 12 million (\$2,125 to \$3,125)	15%
Over Riel 12 million (over \$3,125)	20%

## Starting a business

Deposit the legally required initial capital in a bank and obtain deposit evidence:	1 day / no charge
Check the uniqueness of the company name:	5 days / \$10
Incorporate the company with the Commercial Register, maintained at the Office of the Clerk of the Commercial Court:	25 days / \$105
Make a company seal:	1 day / \$15
Register the company for VAT and patent at the Real Regime Tax Office:	13 days / \$390
Have registration documents stamped and approved by Phnom Penh Tax Department:	3 days / \$49
Notify the Ministry of Labor of the start of operations and hiring of employees:	30 days / \$250

Source: doingbusiness.org

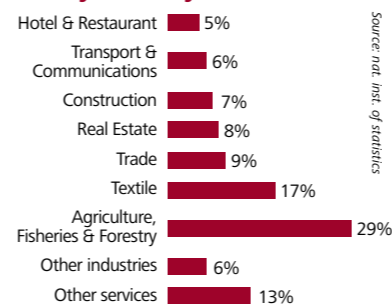
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## Tax or mandatory contribution

	Payments	Statutory tax rate	Tax base	Total tax rate (% of profit)
Corporate income tax	12	20% on profits or 1% on turnover whichever is higher	taxable profit	18.9
Fuel tax	1		included in the fuel price	1.3
Patent tax	1	fixed fee (KHR 1,140,000)	fixed fee (KHR 1,140,000)	1.3
Transport tax	1	fixed fee (KHR 774,206)	fixed fee (KHR 774,206)	0.9
Social security contributions	12	0.8% of the monthly average wage (defined in the Law on Social Security) of the employee with a cap of KHR1 million (approximately US\$250) per month	gross salaries	0.1
Tax on interest	0	4.0%	interest income	0.1
Value added tax (VAT)	12	10.0%	value added	

Source: doingbusiness.org

## GDP by industry sector (2008)



Source: nat. inst. of statistics

## Trading across borders

<b>Nature of export procedures</b>	
Documents preparation:	14 days / \$220
Customs clearance and technical control:	3 days / \$262
Ports and terminal handling:	3 days / \$100
Inland transportation and handling:	2 days / \$150
<b>Nature of import procedures</b>	
Documents preparation:	15 days / \$210
Customs clearance and technical control:	3 days / \$265
Ports and terminal handling:	5 days / \$217
Inland transportation and handling:	3 days / \$180

Source: doingbusiness.org

## More information:

American Cambodian Business Council  
[info@sa-cambodia.com](mailto:info@sa-cambodia.com)

Australian Business Association of Cambodia (ABAC) [abac@irl.com.kh](mailto:abac@irl.com.kh)

British Bus. Association of Cambodia (BBAC) [sue.kemp@internationalsos.com](mailto:sue.kemp@internationalsos.com)

Cambodia Federation of Employers and Business Associations (CAMFEBA) [camfeba.com](http://camfeba.com)

Cambodian Chamber of Commerce [ccc.org.kh](http://ccc.org.kh)

China, Hong Kong and Macau Business Association [www.chkmeba.com.kh](http://www.chkmeba.com.kh)

French Cambodian Chamber of Commerce [ccfcambodge.org](http://ccfcambodge.org)

Garment Manufacturers Association in Cambodia (GMAC) [gmac-cambodia.org](http://gmac-cambodia.org)

German Business Group (ADW) [adw-cambodia.org](http://adw-cambodia.org)

Int. Business Chamber of Cambodia (IBCC) [ibccambodia.com](http://ibccambodia.com)

Japanese Business Association of Cambodia [locomo.com](http://locomo.com)

Korea Trade Center (KOTRA) [ktcpnh@online.com.kh](mailto:ktcpnh@online.com.kh)

Malaysian Bus. Council of Cambodia (MBCC) [mbccambodia.org.kh](http://mbccambodia.org.kh)

Taiwan Business Association in Cambodia (TBAC) [tbac@camnet.com.kh](mailto:tbac@camnet.com.kh)

Thai Business Council of Cambodia (TBCC) [tbcc@camshin.net](mailto:tbcc@camshin.net)

## Business law firms in Cambodia (A-Z):

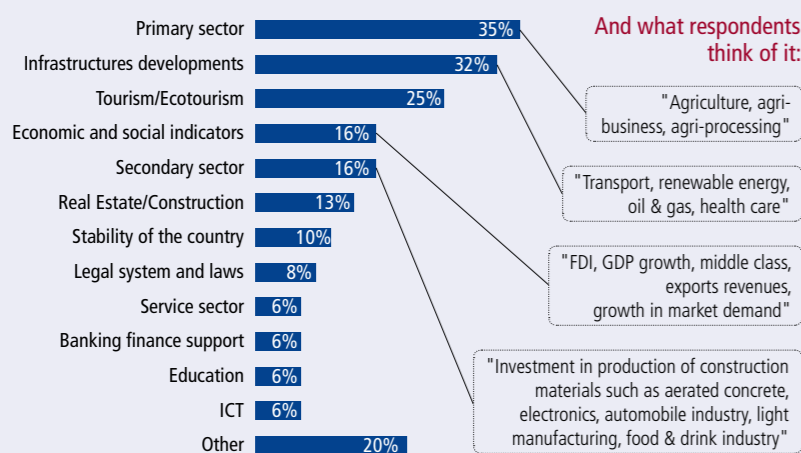
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Source: Chambers & partners



## The outlook for 2011 - 2012

### Recommended mid-term opportunities & trends



With most respondents very positive on the medium- and long-term growth prospects of the Cambodian business environment, a few sectors will be of particular interest. The agricultural sector, where most Cambodians are employed today, is of high priority to both the Cambodian government and to business – the sector holds large reserves following long years of neglect. Tourism, extended from the temples of Angkor to Phnom Penh, from seaside resorts to inland sites, will continue to grow for years to come, while infrastructure projects in the health, energy and transportation sectors hold promising returns for anyone with a long-term vision.

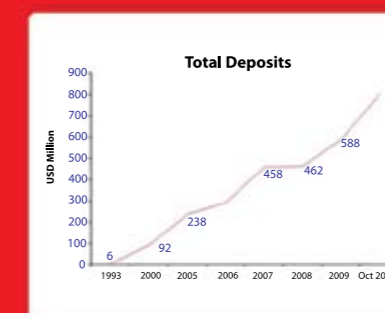
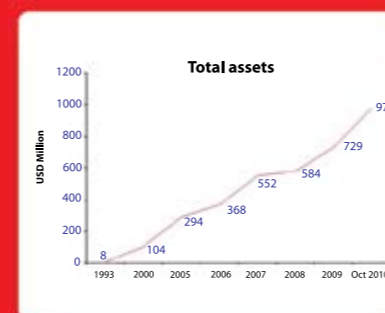
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