KCS Group Europe

Cambodia's Open Doors: An emerging frontier for foreign investment

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Cambodia has been experiencing remarkable change of late, evident in large increases in foreign investment, in particular, in infrastructure and real estate. This pivot from a traditionally agricultural economy to a potentially industrialised and urbanised one is not too dissimilar to Vietnam and its rise to prominence. Credit is mainly due to consistent flows of capital from Asian neighbours Hong Kong and China, both of which are actively hunting for additional growth markets in Southeast Asia. This month Standard Chartered and Citibank reported significant increases in client transactions from Hong Kong and China into Singapore, Cambodia, Indonesia, Vietnam, Laos, Thailand, the Middle East and Africa in a move they believe is fuelled by poor domestic growth performance.

Financial incentives aside, analysts believe the activity is also due to pushing on with macro-objectives in line with the Belt & Road Initiative (BRI). Cambodia has of course welcomed these huge capital inflows and is moving forward with new developments across the country including roads, bridges and urban centres, enabling the country to become a more connected and naturally independent economy.

Historical context and economic evolution

Cambodia's transition from the dark era of the Khmer Rouge regime to its current status as a growing concern in Southeast Asia, is a testament to its resilience and ability to adapt; a growing trend across the region. Since 1979, the nation has set about rebuilding its battered society and ailing economy. The government first looked to prioritise efforts in boosting agriculture to support the people. However, it wasn't until the early 1990s that reforms were introduced to liberalise the economy.

Over the following two decades, anyone observing regional developments which brought free-market trade and private investment will appreciate how essential those reforms were. The transition from a previously state-controlled land to one now embracing the private sector is impressive. The fact it has successfully evolved from an agriculture-based economy to an emerging manufacturing and services hub has been attracting investors.

Political landscape and the drive for foreign investment

Looking at Prime minister Hun Sen's term since taking the helm in the mid-1980s provides some background to help appreciate the nation's policies and thinking. Investors respect strength and Hun Sen's leadership style was often noted for its firmness. At times criticised for his authoritarian undertones, Hun Sen had to all intents and purposes created an environment from which the economy now implements long-term growth strategies.

As with other more mature Asian Tigers, Cambodia leveraged policies like the establishment of Special Economic Zones (SEZs) to attract investment. The SEZs entice with tax breaks and simplified customs procedures, which is naturally music to the ears of would-be contributors. In addition, the nation has made efforts to simplify trade by streamlining processes, removing red tape and improving legal frameworks.

Key players and elite support

Prime Minister Hun Sen held his position of power in Cambodia for close to four decades resigning from his role in August 2023. Some have viewed Hun Sen's regime as a "personalist" dictatorship, others saw him merely operating within the Cambodian People's Party (CPP) structure and believe he was very much accountable to his coalition members. However, one cannot but observe the ongoing hereditary succession, pointing to a more authoritarian Hun Sen control influenced by other key actors.

For 40 years, a combination of the CPP, the security forces and various economic tycoons have all played key roles in the nation's governance. These groups have helped provide stability to the CPP's power, with security forces monitoring dissent and tycoons ruling the roost under the state's umbrella.

Hun Sen prepared for his succession many years prior to stepping down, with his children always placed inline to take control. His eldest son, Hun Manet, Cambodia's de facto military leader, ascended to Prime Minister on 22 August 2023, with youngest son, Hun Many, also a CPP parliamentarian offering support from the party's younger members.

Along with Hun Sen's daughters, the eldest of which is Hun Mana, a notable and powerful business leader, it is fair to assume Hun Sen's legacy is secured and that the Hun dynasty will dominate Cambodia for the foreseeable future.

In fact, the pattern of hereditary succession extends beyond politics, with children of other elites also rising to inherit important roles across Cambodia's political, business and military hierarchy. One such example of this includes the son of the powerful Interior Minister Sar Kheng. His son Sar Sokha was made Secretary of State for Sport and a Lieutenant General in the military. Say Sam-al, the son of Senate President and CPP Deputy leader Say Chhum, is now in control of the country's Ministry of Environment. Tea Seiha, the Defence Minister's son, has now been made the Governor of Siem Reap. The son in law of the deputy head of the armed forces has been made head of gendarmes in Siem Reap. And this pattern goes on throughout Cambodia's society.

Tycoon families continue to amass fortunes by marrying into political power. Sok Sokan, son of Council of Ministers President Sok An – also a CPP parliamentarian and Secretary of State – married Sam Ang Leakhena, whose parents own Vattanac Capital, one of the country's most prominent business groups.

It is clear that these figures are important members of Cambodia's elite circle, and that their interests fall under the protection of a powerful Prime Minister. This is the solidification of a system of patronage-based control among the nation's elite reinforced by marriage. This social system is interwoven by nepotism and matrimony and suggests Hun Sen's legacy will determine Cambodia's political and economic future long after he has gone.

Influence and investments from Hong Kong and China

As of the first quarter of 2023, the National Bank of Cambodia (NBC) ranked China as the largest contributor of Foreign Direct Investment (FDI). At the time, this total amounted to 45% of Cambodia's FDI 185.7 trillion Riel (US$45.86 billion), followed by South Korea, Singapore, Japan, Vietnam, Malaysia and Thailand.

Just from January to February 2024, Chinese investment in Cambodia surpassed US$1.3bn, which was 40% of the country's FDI total. These deals focussed on a trading exchange between China's Shandong province and Cambodia, with a view to developing an Industrial and Fish and Rice Corridor. These investments also form part of the BRI enhancing connectivity across the region.

In 2024, Prime Minister Hun Manet announced a 174 project 10year plan to overhaul the nation's national transportation and logistics network. The mission is to create an advanced infrastructure of public transport, expressways and high-speed rail lines in keeping with Cambodia's ambition to become an upper to middle class country by 2030. The World Bank stated that Cambodia had experienced two decades of exponential growth with some of the worst infrastructure in Asia. As the bank also predicted accelerating GDP in coming years, fears abound that the existing transport logistic would be stretched to breaking point unless improved.

Presence of Western and other foreign businesses

As of 2024, more than 50% of Cambodia's population is under the age of 25 - staggering when compared to China and Thailand whose average ages are 39 and 41, and the USA and the UK approx. the same at 38 and 40. A majority of the market shares goes to food and beverage sectors, with consumer spending reaching around 41%; the remainder includes fashion, hospitality, technology, car rental, real estate, cleaning and education.

Western companies have successfully established themselves in Cambodia into sectors such as garment manufacture, hospitality and technology. The country now enjoys playing host to over 130 international and domestic franchised brands. There are also other international food and restaurant franchises in Cambodia coming from Singapore, Taiwan, Korea, Thailand and Australia. Retail space has also seen tremendous growth in Cambodia, noticeably in the number of shopping malls and convenience stores appearing in just the last several years. Aside from local brands, major international supermarkets such as Lucky, Thai Huot, Bayon, and Chip Mong, Japan's AEON mall, and Thai-owned Makro supermarket have a presence.

It is said that Western business practices in Cambodia contrast with Asian firms, specifically in areas like corporate governance and transparency. Western businesses tend to favour strict international standards of governance and adhere to a formalised management style. This often clashes with local business cultures that choose to prioritise personal relationships and flexibility. Western businesses must accept Cambodia's cultural challenges and appreciate the fact that this country's business culture is heavily focussed on local customs and political relationships.

Conclusion

Cambodia's rapid and impressive economic rise reveals a new Asian tiger on the move, growing quickly thanks to massive foreign investment being pumped in from China and Hong Kong.

As the nation gets to work renewing worn out logistics routes through the construction of better roads and urban centres, more business and investment will be drawn to it. Cambodia's future looks bright as long as the government is able to balance the new developments in a way that considers the expectations of the younger generation.