

## CAMBODIA

### Business Conditions Snapshot

- Cambodia is a highly open and accessible emerging market that has seen rapid economic growth and transformation over the last two decades. It has consistently been one of the fastest growing economies in the world, with GDP growing by 7 per cent in 2019.
- Cambodia's quick development from subsistence agriculture to a market-based, lower-middle income country, was driven by concentrated growth in the garment, textile and footwear sector, as well as construction and tourism.
- The agriculture sector retains a central economic and cultural role in society, particularly for rural populations, and its importance has increased due to the COVID-induced downturn in the other key sectors of the economy. Attracting investment and modernisation remain challenges, despite opportunities for growth.
- Cambodia has so far avoided the worst of the COVID-19 health crisis and has maintained most economic activities with minimal restrictions. The pandemic did expose the vulnerability of Cambodia's reliance on a narrow base of sectors, first from supply chain disruptions sourced from China, and then severe demand shocks in European and North American markets. Cambodia's economy is expected to contract in 2020, though forecasts indicate a recovery in 2021, buoyed by improving agricultural performance and increasing exports of manufactured goods, such as electronics, bicycles and personal protective equipment.
- Cambodia's competitive advantages are its cost-effective labour force, young population, central location between Vietnam and Thailand and preferential tariff access. This positions the country to participate in global value chains, with firms adopting 'Plus one' production strategies to complement existing operations in neighbouring countries to benefit from Cambodia's low-cost production and preferential and free trade access. International companies are also entering the

### Key facts and figures

- Population: 16.3 million (2018)
- GDP growth: 7.0% (2019)
- GDP per capita: US\$1,620.6
- Political system: Constitutional monarchy
- Two-way trade: A\$659 million (2018–2019)
- Key exports: other textile clothing A\$71 million, footwear A\$33 million (2018–2019)
- Key imports: cereal preparations A\$23m, computers A\$6m (2018–2019)
- Key services: education, travel
- Aid relationship: total ODA A\$66.1 million, total bilateral program A\$43.4 million (2020–2021)



market to target high-end retail and services to the growing middle class in the capital city, Phnom Penh.

- New market entrants should be aware of persistent issues that result in a challenging business environment. This includes inconsistent regulatory enforcement and corruption, scarcity of skilled labour, relatively expensive and unstable electricity, and limited infrastructure outside urban areas.
- Australia's development cooperation is supporting Cambodia to work towards overcoming these issues and ensuring a robust recovery from the COVID-19 economic crisis. This is focused on building economic resilience through promoting economic diversification and competitiveness, attracting quality investment, managing infrastructure development more strategically and promoting economic opportunities in rural and peri-urban areas.

## Trade and Investment Opportunities

- Australia's existing commercial interests in Cambodia are focused in education services, food and beverage, financial and professional services, mining and resources, hospitality and garment sourcing.
- Australia is the most popular English-language educational destination for Cambodia's students.
  - Education services make up over 80 per cent of Australian services exports to Cambodia, with around 2,900 Cambodians currently enrolled in Australian educational institutions.
- Demand for quality education continues to increase. With around 60 per cent of the population under the age of 30, enrolment rates in school are improving and a growing middle class can afford private education.
- Cambodia has relatively under explored mineral resources and the Cambodian Government has demonstrated strong support for the industry's development.
  - Opportunities for larger scale extraction have been identified by several Australian companies currently or historically involved in the sector.
- Education services, premium food and beverage, consumer goods, agribusiness and food manufacturing, renewable energy, water-related infrastructure and technology, health care, telecommunications, logistics, design and construction, e-commerce and other technology-based businesses all present potential trade and investment opportunities for Australian businesses.
- COVID-19 has reprioritised the need for Cambodia to modernise its agriculture sector and the Cambodian Government is keen to attract new foreign direct investment into agriculture and emerging agro-industry.



# MARKET INSIGHTS

CONNECTING AUSTRALIAN BUSINESS TO THE WORLD

- Australia is providing technical support to resolve constraints in the sector and is also planning for (likely virtual) trade and investment missions for interested Australian businesses in 2021.
- Australia, through the Investing in Infrastructure (3i) program, also has extensive cooperation in the water and renewable energy sectors.
  - This creates opportunities for Australian businesses to provide technological solutions in those sectors at scale.
- Australia will invest in a new package of economic, development and security measures, which includes \$232 million to support economic integration and development in the Mekong region.
- Cambodia will host the 14<sup>th</sup> Asia-Europe Meeting (ASEM) in mid-2021.
  - This is an intergovernmental dialogue and cooperation forum links Asia and Europe by facilitating discussion on political, economic and cultural relations.
  - The ASEM meeting will include a business and investment side event.

## Trade Policy Focus

- Cambodia is a member of the ASEAN Economic Community and joined the World Trade Organization in 2004. It has a relatively open trading regime.
- Australia, Cambodia and 13 other countries in the Indo-Pacific region signed the Regional Comprehensive Economic Partnership (RCEP) on 15 November 2020.
- RCEP will complement and build upon Australia's existing ASEAN–Australia–New Zealand FTA to deliver significant opportunities for Australia to enhance economic engagement with Cambodia. RCEP provides a single set of rules and procedures to access RCEP's preferential tariffs, avenues to tackle non-tariff barriers and new market access commitments to benefit service suppliers and investors. New opportunities are anticipated in Cambodia for Australian service suppliers and investment in research and development, professional services, mining and manufacturing.
- Australia and Cambodia are parties to the ASEAN–Australia–New Zealand FTA (AANZFTA) which entered into force in January 2010 for Australia and eight other signatories. Cambodia, Laos and Indonesia followed in 2011–12.
- Negotiations are underway to upgrade AANZFTA to ensure it remains up-to-date and relevant to business.
- The European Union partially withdrew tariff preferences granted to Cambodia under the Everything But Arms (EBA) trading scheme due to the EU's concerns over violations of human rights. This took effect on 13 August 2020.



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# MARKET INSIGHTS

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- The vast majority of Cambodian exports enter the Australian market tariff-free, due to Cambodia's Least Developed Country status.
- The Australian Competition and Consumer Commission is working with the Cambodian Government to adopt more effective laws and enforcement mechanisms that promote and protect consumer interests.

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*This Insight current as at December 2020.*



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