

# A comparative study of foreign direct investment activities by Japanese, Korean and Chinese companies in Cambodia

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## I. INTRODUCTION

The economic system of Cambodia was transformed from planned economy to market economy under the ‘‘Constitution of Cambodia’’ enforced in 1993. After the general election supported by the ‘‘United Nations Transitional Authority in Cambodia (UNTAC)’’ was held in 1993, the Royal government of Cambodia have been receiving foreign aids from many countries. Foreign direct investments in Cambodia have been increasing after the enforcement of the ‘‘Law on the Investment in the Kingdom of Cambodia’’ in 1994. Cambodian economy achieved rapid economic growth mainly led by foreign aids and foreign direct investments.

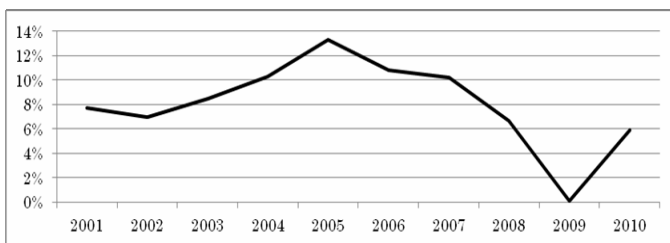


Figure 1. Growth rates of real GDP

Source: ADB (2011) Key Indicators for Asia and the Pacific 2011, p.173

This paper describes the situation of foreign direct investment in Cambodia, mainly focused on investments by Japanese, Korean and Chinese companies. The ‘‘Cambodia Investment Board (CIB)’’ has recorded the historical data of foreign direct investment in Cambodia, however, none of studies has not been conducted. This paper analyzes features of investment activities by companies of these three countries. In this paper, firstly, the current status of establishments in Cambodia is explained by using the results of the ‘‘Economic Census of Cambodia 2011 (EC2011)’’. Secondly, the situation of foreign direct investment in Cambodia is showed by using the historical data. Thirdly, features of investment activities by Japanese, Korean and Chinese companies are analyzed respectively. Fourthly, foreign direct investment activities by Japanese, Korean and Chinese companies in Cambodia are compared.

## II. ECONOMIC CENSUS OF CAMBODIA 2011

The EC 2011 was conducted by the ‘‘National Institute of Statistics (NIS)’’ in March 2011, supported by Japanese government and Japan International Cooperation Agency (JICA). The census covered all of fixed and movable

establishments in the whole territory of the Kingdom of Cambodia (NIS, 2012).

As the results of the census, the total number of establishments is 505,134, and the total number of persons engaged is 1,676,263 in the whole country. The projected population in 2011 is 14,521,275. The main features are 1) most of establishments are SMEs (Small and medium enterprises), 2) wholesale and retail trade sector, manufacturing sector, and accommodation and food service sector are main industries, and 3) establishments are concentrated in Phnom Penh, the capital city of Cambodia.

Table.1 shows the number of establishments by size of persons engaged and nationality of owner. The share of Chinese companies is only 0.4% of the total number of establishments. However, the share of Chinese companies of large scale establishments, the size of persons engaged is 101 and over, is 28.5%. Table.2 shows the number of persons engaged by size of persons engaged and nationality of owner. The share of Chinese companies is 11.4% of the total number of person engaged. However, the share of number of persons engaged by Chinese companies of large scale establishments is 38.6%.

TABLE I. NUMBER OF ESTABLISHMENTS BY SIZE OF PERSONS ENGAGED AND NATIONALITY OF OWNER

Size of persons engaged	Cambodian	Chinese	Korean	Others	Total
1-10	488,880	1,626	93	2,911	493,510
11-100	10,162	320	52	308	10,842
101 and over	456	223	23	80	782
Total	499,498	2,169	168	3,299	505,134

Source: NIS (2012) Economic Census of Cambodia 2011

TABLE II. NUMBER OF PERSONS ENGAGED BY SIZE OF PERSONS ENGAGED AND NATIONALITY OF OWNER

Size of persons engaged	Cambodian	Chinese	Korean	Others	Total
1-10	963,192	4,435	505	7,887	976,019
11-100	225,469	11,102	1,163	8,566	246,300
101 and over	195,473	175,085	12,454	70,932	453,944
Total	1,384,134	190,622	14,122	87,385	1,676,263

Source: NIS (2012) Economic Census of Cambodia 2011

Table.3 shows the number of establishments by industry and nationality of owner. Table.4 shows the number of persons engaged by industry and nationality of owner. The share of Chinese manufacturing companies is only 0.6% of the total number of establishments. However, the share of number of persons engaged by Chinese manufacturing companies is 32.2%.

TABLE III. NUMBER OF ESTABLISHMENTS BY INDUSTRY AND NATIONALITY OF OWNER

Industry	Cambodian	Chinese	Korean	Others	Total
Manufacturing	74,331	485	23	192	75,031
Wholesale and retail trade	287,045	774	31	1,280	289,130
Accommodation and food service	67,968	427	47	1,127	69,569
Others	70,154	483	67	700	71,404
Total	499,498	2,169	168	3,299	505,134

Source: NIS (2012) Economic Census of Cambodia 2011

TABLE IV. NUMBER OF PERSONS ENGAGED BY INDUSTRY AND NATIONALITY OF OWNER

Industry	Cambodian	Chinese	Korean	Others	Total
Manufacturing	300,288	173,487	12,036	53,323	539,134
Wholesale and retail trade	538,599	3,031	266	5,975	547,871
Accommodation and food service	185,191	3,351	499	5,962	195,003
Others	360,056	10,753	1,321	22,125	394,255
Total	1,384,134	190,622	14,122	87,385	1,676,263

Source: NIS (2012) Economic Census of Cambodia 2011

Table.5 shows the number of establishments by province and nationality of owner. The share of establishments located at Phnom Penh city is 19.0%. Especially, 47.3% of Chinese companies and 54.8% of Korean companies are located at Phnom Penh city.

TABLE V. NUMBER OF ESTABLISHMENTS BY PROVINCE AND NATIONALITY OF OWNER

Province	Cambodian	Chinese	Korean	Others	Total
Phnom Penh	93,537	1,027	92	1,192	95,848
Others	405,961	1,142	76	2,107	409,286
Total	499,498	2,169	168	3,299	505,134

Source: NIS (2012) Economic Census of Cambodia 2011

### III. FOREIGN DIRECT INVESTMENT IN CAMBODIA

The foreign direct investment in Cambodia has increased after the ‘‘Law on Investment’’ was enforced in 1994. In late 1990’s, major sectors of investment were garment and tourism.

Major investors were overseas Chinese from Hong Kong and companies from the ‘‘Association of South East Asian Nations (ASEAN)’’ such as Malaysia and Thailand.

The foreign direct investment in Cambodia has been increasing rapidly since 2005. Major sectors of investment are agriculture, energy, mining and construction in addition to garment and tourism. Major investors are Chinese and Korean companies in addition to companies from ASEAN countries. On investments approved as the ‘‘Qualified Investment Project (QIP)’’ by the ‘‘Council for the Development of Cambodia (CDC)’’, investors can enjoy tax incentives such as the exemption or reduction of the profit tax and the import duty, followed by the ‘‘Law on the Amendment to the Law on Investment’’ enforced in 2003 and related decrees.

### IV. FOREIGN DIRECT INVESTMENT BY JAPANESE, KOREAN AND CHINESE COMPANIES

#### A. Foreign direct investment by Chinese companies

Foreign companies started to invest in Cambodia in the middle of 1990’s. Many garment factories were established by overseas Chinese, mainly from Hong Kong and other ASEAN countries. Their business model is called CMP that means cutting, making, and packing. They import materials from India and other countries. Workers cut materials, saw them and pack clothes. They export all products to advanced countries, mainly to the United States. Their benefits are 1) cheap labor cost, 2) tax incentives under the ‘‘Law on Investment’’, and 3) tax exemption to export products to the United States under the ‘‘Generalized System of Preferences (GSP)’’. The Garment Manufacturers Association in Cambodia (GMAC) was established. The number of garment factories is approximately 300 and the number of workers is approximately 300,000, and the annual export amount is approximately 3 billion US dollars today.

Since the middle of 2000’s, Investment from mainland Chinese companies has been increasing rapidly, and become the 1st largest investing countries in terms of aggregated approved investment amount today. Hu Jintao, President of the People’s Republic of China visited Cambodia in 2012 and promised to enhance business of Chinese companies in Cambodia under the Go global strategy.

Main sectors of investment are energy and agriculture. Some hydro power generations such as Koh Kong hydro power project by China Heavy machinery Corporation, Kampot hydro power project by Sinohydro Corporation, Stung Russay hydro power project by Huadian Lower Stung Russay Hydro Corporation are constructed under BOT scheme. Transmission line, oil refinery, and nonferrous metal projects are also ongoing. In agriculture sector, Chinese companies make big investment in plantation type business through taking the Economic Land Concession (ELC) from the Government. Yellow Field Investment Corporation and Grate Field Investment Corporation grow sugarcane, Research Mining Development Corporation and Un Inter Trading Corporation grow natural rubber, East Hope Animal Nutrition grows animal feed, Guohong Industry establishes the rice mill factory and so on.

Moreover, Taiwan companies have been investing in Cambodia, mainly in shoe manufacturing sector. Their business model is also CMP type as same as garment manufacturing. They import materials from India and other countries. Workers cut materials, saw them and pack shoes. They export all products to advanced countries, mainly to Japan. Their benefits are 1) cheap labor cost, 2) tax incentives under the ‘‘Law on Investment’’, and 3) tax exemption to export products to Japan.

#### *B. Foreign direct investment by Korean companies*

Foreign direct investment by Korean companies has not been so active until the middle of 2000’s. After President Roh Moo-hyun visited Cambodia in 2006, Korean companies started to invest in Cambodia, and become the 2nd largest investing countries in terms of aggregated approved investment amount today.

Major sector of investment is real estate including tourism and construction. The aggregated approved investment amount to real estate sector is 3,257 million US dollars of the total amount of 3,903 million US dollars from 1994 through 2010.

Main projects were constructing skyscrapers for office space and commercial center in Phnom Penh city such as Phnom Penh Tower by Hyundai Amco, Gold tower by Yon Woo Corporation, and Camco City by World City Corporation. Some villas and golf resorts were constructed. New Angkor international airport will be constructed until 2015 by NSRIA. Five banks, Kookmin Bank, Sinhan Khmer Bank, Booyoung Khmer Bank, Camco Bank and Tomato Specialized Bank were opened in 2007 and 2008. It is noted that some projects are delayed or canceled after the financial crisis in 2008.

In 2010, 11 qualified investment projects by Korean companies were approved. Some projects were in agriculture sector such as Horison Agriculture Development (Natural rubber), BNA Corp (Cassava), and Lunastra (agricultural plantation). In 2011, 28 qualified investment projects by Korean companies were approved. Most of them were manufacturing companies such as KTC cable (cable), I sound Cable Cambo (electronics), Dy-Tech Cam (electronics), SUN IZE Industry (boat), S-Won Label (label), First Safety (Shoes) and some garment factories.

Economic relationship between Korea and Cambodia become more active. Trade amount between two countries has been increasing. The total number of Cambodian workers legally sent to Korea is 16,983, especially 4,957 workers were sent in 2011. Visitors from Korea to Cambodia are 248,705 in 2010 as ranked at 1st. The ‘‘KOREA Trade-Investment Promotion Agency (KOTRA)’’ opened in Phnom Penh to enhancing trade and investment between two countries and to supporting Korean companies in Cambodia. The ‘‘Korean Chamber of Commerce in Cambodia Association’’ was also established in Phnom Penh.

#### *C. Foreign direct investment by Japanese companies*

In the middle of 1990’s, most of large scale Japanese trading companies such as Mitsubishi Corporation, Mitsui Corporation, Itochu Corporation, Sumitomo Corporation,

Marubeni Corporation, Toyota Tsusho Corporation and Sojitz Corporation, and most of Japanese large scale construction companies such as Kajima Corporation, Shimizu Corporation, Taisei Corporation, Takenaka Corporation, and Obayashi corporation opened their branch in Cambodia. However, foreign direct investment by Japanese companies has not been so active until 2009. The number of members of the ‘‘Japan Business Association of Cambodia (JBAC)’’ has been remaining under 50 companies.

Since 2009, the situation has dramatically changed because of the rise in the exchange rate of the yen against US dollars from 120 yen per US dollars in 2007 to 80 yen per US dollars in 2011. Especially, manufacturing companies had difficulties of producing their products in Japan. These companies looked for new location in Asian countries, and some of Japanese companies decided to establish factories in Cambodia. 86 Japanese companies registered to the Ministry of Cambodia in 2011, and 68 companies registered in the first half of 2012.

Major manufacturing companies are Minebea Corporation (motor), Yazaki Corporation (wire harness), Sumitomo Wiring Systems Corporation (wire harness), and much number of the ‘‘Small and Medium sized Enterprises (SME)’’. These companies enjoy the benefits of 1) cheap labor cost, 2) tax incentives under the ‘‘Law on Investment’’, and 3) tax exemption to export products to advanced countries. Some factories are moved from mainland China and Vietnam because of the rise of labor cost in both countries. These factories are labor intensive and export all their products to advanced countries. The business model of some companies is the vertical diversification. They moved more labor intensive process to Cambodia. Some factories are located at Koh Kong, the border between Cambodia and Thailand, and Bavet, the border between Cambodia and Vietnam, mainly in the ‘‘Special Economic Zone (SEZ)’’. In some cases, the value chains are established through the ‘‘Indochina South Corridor’’, companies import materials from Vietnam, produce parts in Cambodia, and export them to Thailand to assemble final products.

On the other hand, some Japanese companies focused on consumers in Cambodia. GDP per capita is still low in Cambodia, however, the level of living standard has been going up in Phnom Penh. Major investors are Aeon Corporation (Shopping center), Ajinomoto (condiment), Suzuki, Honda and Yamaha (motorcycle).

Economic relationship between Japan and Cambodia become more active. The ‘‘Agreement between Japan and The Kingdom of Cambodia for the Liberalization, Promotion and Protection of Investment’’ was effective in 2007. The ‘‘Japan External Trade Organization (JETRO)’’ opened the branch to enhance trade and investment. Japan desk was also opened in CDC.

## V. CONCLUSION

This paper explained the current status of establishments in Cambodia by referring the results of EC 2011 and the situation of foreign direct investment in Cambodia by using the historical data by CDC. This paper also analyzes features of investment activities by Japanese, Korean and Chinese companies, respectively. These companies become main investors in terms of the number of companies and the amount of investments today.

In the aspect of the investment sector of industry in Cambodia, there is a difference among companies of these three countries. Chinese companies are mainly focus on energy and agriculture sectors. Many companies from Hong Kong invested in garment sectors. Moreover, companies from Taiwan invested in shoe sector. On the other hand, Korean companies are mainly focus on real estate sector including tourism and construction. Japanese companies mainly focus on manufacturing sector of labor intensive industry. Companies from these three countries mainly target on different segments under their corporate strategy, sharing the role, and greatly contribute to the economic growth and industrial development in Cambodia as a whole.

Moreover, these three countries are in charge of the international cooperation activities. Japanese government and JICA have been contributing the rehabilitation and development of Cambodia since 1990's. Korean International Cooperation Agency (KOICA) opened the branch in Phnom Penh in 2003 and increased their supports to Cambodia. Chinese assistance has been greatly increasing since the middle of 2000's. These supports have been contributing to the infrastructure development and human resource development with the synergistic effect with the foreign direct investments from these three countries into Cambodia.

In near future, the relationship among ASEAN countries would be tight under the "ASEAN Free Trade Area (AFTA)" scheme. The cooperation among ASEAN countries would be enhanced, on the other hand, the competition among ASEAN countries would be also severe. For the purpose of economic

and industrial development of Cambodia, continuous foreign direct investment from these three countries would be the key issue.

TABLE VI. APPROVED DIRECT INVESTMENT IN CAMBODIA BY INDUSTRY (UNIT: MILLION US DOLLARS)

Industry	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agriculture	5	12	0	9	20	505	371	95	590	554
Mining	0	0	0	0	181	3	31	5	15	92
Energy	50	5	3	26	289	197	11	494	665	589
Garment	32	44	65	135	200	149	205	147	93	134
Tourism	80	47	148	113	107	777	1,295	8,776	3,901	132
Construction	8	0	12	0	30	2,156	640	260	410	1,059
Others	60	147	113	91	364	653	103	1,112	185	131
Total	235	255	341	374	1,191	4,440	2,656	10,889	5,859	2,691

Source: CIB (2011) Statistical data of direct investment

TABLE VII. APPROVED DIRECT INVESTMENT IN CAMBODIA BY COUNTRY (UNIT: MILLION US DOLLARS)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cambodia	62	94	222	141	384	1,145	704	3,932	3,753	391
China	8	24	45	107	458	763	137	4,371	893	694
Korea	3	82	3	8	61	77	86	1,238	120	1,026
Japan	0	2	0	2	0	3	56	8	5	0
Others	162	53	71	116	288	643	850	1,340	1,088	580
Total	235	255	341	374	1,191	2,631	1,833	10,889	5,859	2,691

Source: CIB (2011) Statistical data of direct investment

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