



Research Centre for
Sustainable Hong Kong

香港城市大學
City University of Hong Kong

A Summary of Discussion

CityU CSHK PASS Workshop Series – Workshop 1
Cultural Diversity and Efficient Management: Hong Kong Professional Services, Overseas
Investments and Special Economic Zones in Cambodia¹
CSHK Working Paper Series No.7

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On Feb 8, CSHK organized the first workshop of the series on business opportunities and challenges in Cambodia (especially on Special Economic Zones, SEZs) for Hong Kong investment and professional service sectors. A wide range of stakeholders were invited to share their insights and experiences, including the local government, banks, business organizations, enterprises and scholars.

Mr. Socheat Oum, Director, Foreign Language Department, NIDIR, Ministry of Foreign Affairs and International Cooperation

Mr. Oum discussed Cambodian economic policies and strategies from 2021 to 2023, which was newly launched in February. The Economic Diplomacy Strategy was proposed to fill the policy gap because Cambodia didn't have one before, and more importantly, to show how Cambodia could perform well to cope with and recover from the COVID-19 pandemic.

The goal of Cambodia Economic Diplomacy Strategy (2021-2023) is to improve efficiency, implement mechanism and enhance the momentum of economic growth by promoting and strengthening cooperation across all sectors including national and international institutions. The Ministry of Foreign Affairs and International Cooperation in Cambodia acts as a coordinator with numerous professionals in foreign affairs, such as consulates in Cambodia and other ASEAN countries, African, North America and Europe.

There are inter-connected systems of the factual economic globalization and political collaboration. Developing countries must establish their own policies to respond that they are capable of adapting the new environment and building up capacities by enhancing economy

¹ For details of CSHK PASS Workshop Series, please refer to Project Brief in Appendix.

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diversification, such as trade, investment promotion, and growing industries like tourism. Cambodia's newly formulated Economic Diplomacy Strategy cannot be explained only by the pursuit of a particular degree of openness to the world economy; Cambodia also aims to accelerate knowledge advancement and economic growth (through the Strategy). Thus, Cambodia needs to reinforce the export-oriented model by initiating a system that can attract more investment in innovations and services to reinforce human capital, to connect critical infrastructures and promote private sector engagement, and to capture opportunities for the evolution of the industries in Cambodia.

In this context, the Economic Diplomacy Strategy is essential to Cambodia. To further develop integration into the region and deepen the mutual cooperation, industrial diversification is encouraged to expand the economic potential. Economic diplomacy will:

- strengthen Cambodia's national prestige by advancing and maximizing national economic interests.
- contribute to achieving Cambodia's vision of becoming a higher middle-income country by 2030 and a high-income country by 2050;
- strengthen cooperation, collaboration and partnerships with national and international actors and relevant stakeholders;
- promote national socio-economic development.

The objectives of Economic Diplomacy are to: 1) promote international trade; 2) attract foreign direct investment; 3) promote tourism; and 4) promote cultural and sports exchanges. Some policies have set a solid foundation for the Strategy, such as the National Development Plan (2019-2023), Industrial Development Policy (2015-2025), Rectangular Strategy (phase four). Rectangular Strategy is the core strategy for governance reform, which was started with the Triangular Strategy and then updated into Rectangular with four phases. Linked to the Belt and Road Initiative (BRI), the Trade Integration Strategy (2019-2023) was proposed to promote investment and develop industries and public private partnership.

There are four areas in the framework of Economic Diplomacy: 1) develop human resource with expertise in economic diplomacy through diplomat capacities; 2) promote international trade by enhancing pushing Cambodia towards free trade agreements. Cambodia has a new FTA with China, and the trade agreement negotiation with South Korea has recently been concluded. Also, Cambodia is promoting cooperation with countries like New Zealand and Australia for regional comprehensive partnerships; 3) attract foreign direct investment. The new investment law is being drafted now; and 4) promote tourism, especially in culture, and sports. Although the number of overseas tourists visiting Cambodia during the COVID-19 pandemic last year dramatically dropped, local tourism continued to thrive.

Several actions will be taken to implement the Economic Diplomacy. The first is Branding Strategy. It is a comprehensive communication strategy that will help enhance reputation and brand of Cambodia. It contains commercial advertisement, information sharing and immersive trip to Cambodia. The second action is about economic intelligence, such as economic information collections including analysis of policy, suggestions and decision making.

Regarding business community engagement, it is important to maintain the relationship between the government and private sectors by cultivating trust based on common interests. The last action is economic agenda. The main purpose is to promote maximum benefits from existing bilateral and multilateral mechanism by exploring why some issue impact economic cooperation.

There are other strategies to strengthen competitiveness in human capitals. Professionals in Cambodia could be trained to fully understand different kinds of skills by information sharing from international practices. Apart from building the communication and information sharing mechanism, public private partnership also plays a key role in Economic Diplomacy, especially for some BRI-related projects.

Regarding the timeline of implementation of Economic Diplomacy, the Cambodian government keeps improving the capacity of all stakeholders to implement Economic Diplomacy, such as online training courses in various fields. Gathering, formulation, and regular dissemination of socio-economic information had already begun. It's a better way for economic diplomat to access the information and catch up quicker, and to work with related partners. The coordination and collaboration were improved by inter-ministry platforms and the monitoring and evaluation (M&E) practicing. In phase two, the Cambodian government develops information sharing platform, extends training programs on economic diplomacy for all stakeholders, strengthens public-private partnerships and multi-stakeholder dialogues, keeps improving performance and further conducts M&E. For phase three, the Cambodian government continues the training program, the regular update tools to improve the information sharing platform, and consolidate overall M&E and achievements, preparing for Cambodia Economic Diplomacy Strategy (2024-2028).

Mr. Sophal Suon, Director, Public Relations and Promotion of Private Investment, The Council for the Development of Cambodia (CDC)

CDC focuses on accelerating the economic development in Cambodia. The promotion of economy and trade cooperation through the development of SEZs along the Belt and Road (B&R) needs to be enhanced, intensified and engaged in a wider spectrum. Mr. Suon gave a snapshot about how the CDC is working to promote investment in SEZ, as well as in other area.

Since its launch, the BRI becomes one of the vital cooperation initiatives that brings the world closer together on the basis of open, inclusive, win-win, and mutually beneficial cooperation. In this regard, the economic and trade cooperation zones along the B&R countries are expected to enable cross-border developments of the industrial value chains and move the participating countries upward in the global value chain. Cambodia, as an active collaborator and supporter of this cooperation initiative, seeks to harness and seize every opportunity and advantage from the promotion of investment and development in the special economic zones and industrial parks.

The establishment of industrial zones and industrial parks for SMEs in targeted provinces with expectation to attract industrial clusters is a complementary effort to synergize with the BRI,

the ASEAN Community Vision 2025, the Master Plan on ASEAN Connectivity 2025 and the Action Plan to deepen the Mekong-Lancang Production Capacity Cooperation. Cambodia also joined with other countries in Mekong-Lancang region to develop and carry out cross-border trade and investment cooperation in the field of logistics, trade and transport facilitation, e-commerce, industrial parks and cross-border economic zones, SMEs development, human resource development as well as technical and knowledge exchanges.

As a witness, Cambodia approved 58 investment projects in the zone development, among which 23 zones are in operation and attracting investment of more than \$4.31 billion. Despite being disrupted by the COVID-19 pandemic, the special economic zones attracted investment of \$248.38 million in 2020. In the entire country, total investment approved in 2020 exceeded \$8.2 billion. Compared to 2019, the approved investment decreased by around 12%. It's worth noting that Cambodia's economic performance remains in good prospects for the coming years.

The COVID-19 pandemic has impacted significantly on the people, diminished economic activities within the region, disrupted the supply chain and weakened investors' confidence. This unprecedented challenge has accelerated the digital transformation worldwide. These developments prompted Cambodia to provide remote investor services through establishing the common IT platform, online system to handle qualified investment projects linking with Cambodia Data Exchange (CAMDX), and a single gateway for business registration. A new investment tracking system enables investors to track their investment applications. The request for import duty exemption in the Master List has also been done via the National Single Window, a single portal for trade facilitation. The CDC is working to support and provide a database of investment projects in order to improve the linkage between foreign firms to domestic suppliers.

The pandemic provided a unique 'reset' moment at which Cambodia has an unparalleled opportunity to create an enduring inclusive, green and resilient path to recovery. Scaling up investment in the green economy is another opportunity, by channeling more investment to agro-processing, climate-friendly infrastructure, including renewable energy, energy efficiency, and other sectors articulated in the Cambodia Industrial Development Policy, while leveraging on industrial linkages with the regional and global supply chains.

On 23 December 2020, Cambodia issued the seventh round of incentives to support the private sector, including (a) Financial aid to suspended workers in the textile, garment, tourism, and footwear sectors until the end of March 2021, with support of up to US\$40 per month and up to an additional US\$30 to workers suspended from the textile and garment industries, (b) Monthly tax exemptions for hotels, guesthouses, travel agents, and restaurants located in select provinces until the end of March 2021, (c) Tax exemptions for the 2021 Patent Tax for all businesses in the tourism industry, (d) Reduction of withholding tax (WHT) rate for new loans (both domestic and offshore) to five percent for 2021 and 10 percent for 2022, and (e) Exemption of "Minimum Tax" payment for airlines and suspension of aviation fees until March 2021. This is part of the pro-business approach that CDC provides to lure more investment to

Cambodia.

To sustain investment resilience and accelerate growth, Cambodia has set key priorities in national and international investment policies that not only encourage the attraction of investments but also ensure that they contribute to sustainable development. As guided under the Cambodia Industrial Development Policy 2015-2025, the work on three important dimensions, namely (i) improving legal framework, (ii) enhancing investment facilitation, and (iii) undertaking proactive investment promotion, is a priority. The fundamental legal framework to facilitate, promote and protect foreign investments has been laid out to provide equitable and non-discriminated treatment to both local and foreign investors except land ownership. A draft of the new Investment Law was finalized. It will enable the targeted SMEs to get more comprehensive investment opportunities. The welfare benefit enhances the productivities and skill development of the Cambodian workforce. Cambodia has been putting a strong emphasis on the development of SEZs as well as focusing on the improvement of the international investment arrangements. Cambodia has been active in participating in the WTO restructuring discussion to establish the Framework on Investment Facilitation for the Development.

Furthermore, investment facilitation contributes to accelerate Cambodia's economic diversification. CDC expects that more investments would help encourage industrial development, attract industrial clusters, strengthen competitiveness, and promote productivity to maintain sustainable and high inclusive economic growth. As such, the implementation of Industrial Development Policy 2015-2025 was proposed to realize Cambodia's visions to transform and modernize its industrial structure from a labor-intensive industry to a skill-based industry by 2025, linking with global value chain, integrating into regional production networks and developing clusters, also strengthening competitiveness and improving the productivity of domestic industries, and marching toward developing modern technology and knowledge-based industry.

CDC is also working to enhance one-stop services to streamline the investment procedures online, and provide investment aftercare. Full guarantee is given to investments. There will be no nationalization, no local content requirement, no restriction on foreign exchange, no capital and price control. Investors only need to go through the expropriation process.

Undertaking investment promotion in targeted industries and harnessing the benefits of China+1, Thai+1, and Viet Nam+1 have also been the tasks that Cambodia put forward with strengths and commitments. Cambodia would like to be the destination of those companies that have already expand larger markets. This is the reason why CDC wants to collaborate with other countries, so that the investment promotion strategies could benefit their future investments in Cambodia.

Perspectives from business:

Mr. James Chang, Market Manager, Phnom Penh Special Economic Zone (PPSEZ)

Inside the SEZ, the one-stop service center is a very essential part for investors. Officials from

different government units will provide services directly to investors, which includes the Council for the Development of Cambodia, Customs and Excise Department, Ministry of Commerce, Ministry of Labor and Vocational Training. Investors inside the SEZ don't have to visit every government unit to conduct each procedure. They can solve problems conveniently in the one-stop service center, such as investment applications, import/export permissions, custom clearance, issuance of certificate of origin, work permits and support for labor issues.

Then Mr. Chang introduced the tax incentives for Qualified Investment Projects (QIP). In Cambodia, if projects are granted as QIPs, investors can enjoy three incentives from the government if they mainly conduct industrial activities.

1. Import duty exemption on construction materials and production equipment;
2. Import duty exemption on production materials for export industry and export duty exemption;
3. Profit tax exemption

Type of QIP	Construction material	Production equipment	Production material
Export industry	Exempted	Exempted	Exempted
Domestic industry	Exempted	Exempted	Not exempted

PPSEZ has applied for 6 to 9 years profit tax exemption. It is also granted with exemption of 10% VAT in addition to import duty exemption.

In addition, Cambodia offered equal market access for foreign investors, which means investors can establish a 100% foreign-owned company and the market is open for all investors. However, foreigners and foreign companies are not applicable for obtaining the land title. PPSEZ is actually leasing land for 50 years, which is the longest in Cambodia.

Regarding location and condition, PPSEZ received a lot of supports from the government. In front of the zone is road No.4. Road No.3 is on the right side. In the future, there will be an expressway to channel the new city. The distance between the zone and the airport is only 8 kilometers, and the zone is just 18 kilometers away from the city center. This means the zone stays in an advantageous location.

PPSEZ is geographically close to the center of the country. It is 200 kilometers to Sihanouville port in the south; from PPSEZ to Bavet, the city near the border with Vietnam, is 178 kilometers; and to Poi Pet, near the border with Thailand, it is 418 kilometers. Besides PPSEZ, the company has a second SEZ in Poi Pet city, which is called as Poi Pet PPSEZ. Phnom Penh stays in the middle between Bangkok and Ho Chi Min city. The transportation system will benefit the zone development a lot.

PPSEZ has been established for 15 years. It has employees from different jurisdictions.

Regarding the development process of PPSEZ, it has three phases. The first one is initial development around 141 ha. There is a dry port near the management office. Phase 2 is around 162 ha. The power plant and sewage treatment plant are constructed in this area. And the third part is close to the river, so the water purification plant is set up in this area, and it is around 57 ha. Right now, 95% of current three phases are developed.

For the last 10 years, the zone accommodates lots of Japanese companies and Chinese companies in different industrial sectors. Owing to the advantageous location of Cambodia, PPSEZ received a lot of investors from Thailand, Singapore, Malaysia, and also from US, and Netherlands. Now, around 13 countries directly invest in the zone. The largest one is from China based on last three years' data. PPSEZ has a variety of industrial sectors, like footwear and garment, accounting for less than 15% investors in the zone. More investors are doing automobile parts, electrical and electronics, paintings, plastic products or diamond polishing. Thus, the list of manufacture companies in our zone contains the mobile part like DENSO, the electronic manufacturers like Minebea and SVI, and some domestic industries providing the food, beverage or daily products. Besides industrial sectors, there are some non-manufacturers, like TOYOTA, developing multilayer houses in the zone. Some companies offered logistics services of the zone, and there are also four banks and several construction companies and restaurants.

For export value, until September in 2020, the data is 421 million dollars even under the COVID-19 pandemic. Investors in the zone still improve and expand their businesses. The number of employees also shows a growing trend. Last year, the number of workers increased by around 5,000.

The biggest Japanese company in the zone, MINEBEA, produces small-size motors and electronic parts. The number of employees is around 5,000. SUMI WIRING manufactures auto mobile parts and wiring harness, and it has around 4,000 employees. In last 2 years, it expanded very much and built the second plant. LAURELTON DIAMOND has 1300 workers for diamond polishing. They have expansions these two years as well. Their new production line is under construction. DENSO is also doing automobile parts but more about high-value part. They don't need many employees, only 385 employees. Also, they are extended in last 2 years. And Marvel Garment is the biggest company in the zone, which is doing sports and casual wear and currently has 3,200 workers. The plant is very large and they also plan to build new production plant this year. SVI is doing electrical and electronic parts as well. They are doing the extension as well, and have 560 employees now.

Currently, 357 ha of the zone (i.e. 95% of the total area) has been developed. Right now, many companies are processing the extension. PPSEZ planned to have another 116-ha land to accommodate more companies and investors. Currently, 104 investors have invested in the zone, and overall FDI investment is more than 667 million dollars already. Number of workers working in the zone everyday reaches to 26,444.

Banking:

Mr. John Yung, Board Member, SEVP & CIO, The Shanghai Commercial & Saving Bank (SCSB)

SCSB was established in 1915, Shanghai, China by the renowned banker Mr. KP Chen. SCSB is one of the first banks in China to serve with modern banking services. SCSB introduced innovation products, such as saving services, microfinance, remittances, trade finance etc.

For the Shanghai Banks Alliance, the headquarter of the Shanghai Commercial & Savings Bank is in Taiwan; the headquarter of the Shanghai Commercial Bank is in Hong Kong, and that of the Bank of Shanghai is in Shanghai. The Shanghai Banks Alliance offers service since the opening-up reform of mainland China in 1970s. Today, their offices are expanded globally. Branches are set up in Vietnam, Singapore, Cambodia, Thailand and Indonesia.

Cambodia is a very fascinating country with a long rich history. For the financial institutions, Cambodia allows 100% foreign ownership and the regulator is very efficient and forward looking. Recently they have built up the account payment, for ease of use of different types of businesses and financial services. Another issue that should be mentioned is the national currency. Cambodia right now uses US dollars as the main currency both in business and everyday life but the country is also promoting the use of Riel. Cambodia is also a popular investment destination as a major part of B&R.

SCSB has been in operation for nearly 100 years and AMK is one of its first batch of fully-owned (100%) acquisitions overseas. In the early 1990's, AMK acted as an NGO and over the years successfully transformed into a systemically important financial institution for the rural poor. In 2020, it became a licensed microfinance institution. Managers and employees are very determined to meet the real needs and to help with the economic growth. Lots of missions of AMK are similar with SCSB.

SCSB's social mission is to service the society, support for industry, and promote international trade. The bank's mission is to service the economy, to help it grow, to help people all enjoy a better economic community. The mission of AMK is to help a large number of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services. Definitely, agriculture is an important GDP contributor. Probably the most important part will be the modernization of the agriculture.

In AMK, there is a broad level of social performance committee with international advisors to make sure that AMK continues helping with the real poor, improving and providing right products, and sharing the experience. 91% of villages in Cambodia are covered. AMK has 115 branches, 5,547 agents across the whole country. What AMK could do is not just lending money, but also offering financial education. People have to sit down and go through a lesson every time to understand the loan, terms, interest rates, related responsibilities and protections. It is very important to be a responsible borrower. AMK is also very much helpful to provide education in agriculture. AMK provides information by video, thus farmers could grow crops more efficiently. The type of crop in need and related technical guides are also offered. In addition, AMK offers a platform for villagers to buy agricultural products, including seeds and fertilizers.

What AMK has always done in the past, including in mainland China, is to help people who have interests to learn. Clients are assisted to understand Cambodia's real situation, the culture, policies, current economic trends, tax, audit, legal system, investment advisory, incentives and regulation in different industries, human resources and local culture. AMK also helps appoint qualified people as consultants, including accountant or legal assistants. Local knowledge is shared to help with strategic planning.

Then, definitely, the bank can help through Global Banking Service based on the global network of SCSB. As mentioned before, Cambodia has an open currency environment without exchange control. Clients will also receive help with a more efficient interest rate of loan through SCSB. From the local side, lots of services are offered, such as remittance, payments, payroll, local employee benefits, supply chain finance and banking API. For example, regarding payroll in Cambodia, employees get paid twice a month in cash. A big amount of people staying outside the bank every 2 weeks to collect money and they may stay very late. SCSB extended their payroll services network, thus employees don't have to stay around. People can just go home and visit the local agent, which opens until very late. They can get the money at that point. Secondly, clients can also do many other transactions, such as payments by mobile phones and money transfer to the family. Also, the bank has corporate banking services for governments linking to payment system and for a lot of industries integrating to the service.

Mr. Xu Wei, General Manager, Corporate Banking; Ms. Elsie Gung, Deputy Chief Executive Officer, Bank of China (BOC) - Phnom Penh Branch

Mr. Xu mainly introduced some background information about Cambodia while Ms. Gung gave more information about services that BOC offered to customers.

Cambodia is located at the center of Indo-China Peninsula, with an area of 180,000 square kilometers. There are 24 provinces and one municipality. The capital is Phnom Penh, which is also the largest city in Cambodia. The whole year could be divided into rainy and dry seasons, with the rainy season from May to early November every year and the dry season from November to April. The dry season is also the main period for construction. The population is 16 million, mainly constituted by young and middle-aged people. GDP is \$24.6 billion in 2018 and \$26.8 billion in 2019. Inflation rate is low. Overall foreign trade value is \$32.4 billion. The US dollar accounts for 96% of the currency in circulation. The business environment is rated as BB- by Moody's. The overall tax burden of 12.4%.

Cambodia has a fast-growing economy, but there is a single-structured export and a lack of industrial categories. Labor-intensive garments, shoes and hats account for 72% of total exports. The import categories include raw materials for garments, building materials, automobiles, crude oil, machinery, food, beverage, medicine, cosmetics, etc. Most of the industrial products of Cambodia depend on import. Cambodia is fully open to foreign investment, almost setting no restrictions on industry. Foreign investors could enjoy the same treatments as local ones.

Many infrastructures are still under construction in Cambodia and will incur certain investment costs. A good preliminary survey is necessary, such as consulting a professional law firm, and fully understanding the local business environment to integrate into the local market as soon as possible. Encouraged investment directions could be infrastructure, garment and textile, integrated park, tourism and resort, construction materials etc.

Bank of China has been established in Cambodia for ten years, serving more than 4,000 corporate clients, providing settlement, including RMB cross-border settlement, deposit and loan services.

Personal banking, Ms. Gung:

Basically, BOC offers services to all customers in Cambodia, including Chinese businessmen, Chinese immigrants, and also local Cambodian customers who are particularly interested in international services.

Services includes personal saving account, personal checking account, and personal wealth management that BOC is going to start operating later this year in line with the BOC Hong Kong policy. This is a regional brand of BOC wealth management, which offers financial planning services for customers from Hong Kong, Malaysia and Cambodia.

Major services offered to customers are remittance services, a one stop service to remittance, and foreign exchange. BOC also provides mortgage business this year. In the past, BOC focused on companies but starting this year there are a lot of potential in housing. So, BOC just started mortgage loan service in Phnom Penh branches with a preferential rate. Also, BOC operates mobile banking for the young generation, including various payment services.

Mr. Larry Ng, Executing Director & Deputy Secretary General, Hong Kong Business Association of Cambodia (HKBAC)

Mr. Ng's insight sharing has 2 parts: firstly, he acted on behalf of the HKBAC and introduced the business association; secondly, he introduced accounting and tax incentives in Cambodia.

HKBAC is the extension of the Cambodia China Hong Kong and Macau Expatriate and Business Association ("CHKMEBA"-柬埔寨中國港澳僑商總會), which was established in 1998, and has served the Cambodian community for more than 20 years.

In 2016, at the request from the Hong Kong Trade and Development Council (HKTDC), for the association to join the Federation of Hong Kong Business Association Worldwide, a new committee and another association called Hong Kong Business Association of Cambodia were set up. The Federation of Hong Kong Business Association Worldwide is a network that contains 40 Hong Kong Business associations among 35 countries.

HKBAC now has around 100 corporate members, covering various sectors, such as

manufacturing, finance, professional services, insurance, hotel, food and beverage. Over the years, other than the quarterly business luncheons, HKBAC has also organized various important events, as well as co-organize delegation visits with the HKTDC, which contains:

- The 20th Anniversary of the establishment of the HKSAR Gala Dinner
- Belt and Road Investment - Cambodia, round table discussion, Asian Financial Forum 2019
- Hong Kong Business Mission led by SCED to Cambodia, Manufacturing Partnership and Investment Mission to Cambodia
- Hong Kong Business Mission: new business opportunities under the Belt and Road Initiative framework & relocation opportunities for manufacturing industries in Hong Kong and mainland China.

The association is also actively involved in social work, such as the project of sight restoration for the cataract patients. In October 2019, the HKBAC signed a Memorandum of Understanding with the GX Foundation and the Ministry of Health of the Kingdom of Cambodia to carry out the second phase of "Operation Cataract Eradication". The association is also actively helping the local society in Cambodia, such as the disaster relief in Cambodian society. Moreover, HKBAC worked with groups in Hong Kong in donating over 26 Chinese schools, with a total value of over 1.3 million US dollars, which helps provide language education in Cambodia. Last year, HKBAC participated China-ASEAN Free Trade Expo. The upcoming event for the association is the ASEAN Forum, and HKBAC will be the host here in Cambodia. Thus, the association has a very close relationship with HKTDC, Hong Kong Economic and Trade Office, and other departments in Hong Kong. It also has a very close relationship with Chinese embassy in Cambodia. HKBAC is a very important platform for business related and also for other related matters in Cambodia.

Regarding the accounting practice in Cambodia, the government urges the companies to follow the international financial reporting standards. Investors need to pay attention to five monthly taxes, including the prepayment of profit tax, withholding tax, VAT, tax on salary, fringe benefits tax. The profit tax and minimum tax are annual tax, which is 1% on annual turnover. Investors will subject to the higher one of profit tax and minimum tax.

As to the tax incentives, many kinds of projects could be granted as QIPs, including manufacturing, infrastructures, 4- and 5-star hotels, resorts, shopping malls, agricultural related projects such as fishery. All these projects are encouraged and could apply for a QIP in Cambodia. Tax incentives are offered including profit tax exemption, custom duty exemption etc.

In 2019, the Prime Minister of Cambodia announced a range of new investment incentives:

- New Investment Law, further enhancement on tax incentives and setup on special economic Zones. Some tax incentives are given to SEZ automatically, if your business stays outside the zone, you need to apply the tax exemption separately.
- New tax incentives for SME. SMEs are enterprises annual income is less than 1 million US dollars. Rather than having like 6-9 years tax exemption, SMEs only have 3 years tax exemption,

which could be extended to 5 years if you have made certain requirements.

- Reduction on tax audit and interest rate for tax payer
- Simplify and harmonize the company registration process among government authorities. Cambodia government provides a friendly investment environment. Transactions more than 100,000 dollars will have to be reported to National Bank of Cambodia. Recently, China and Cambodia government signed the Free Trade Agreement, which not only encouraging the B&R sectors, but also trying to simplify and harmonize related sectors, such as medical sectors, sewage sectors, e-commerce sectors.
- Reduction in customs clearance fees and simplify the customs clearance process. Cambodia government tried to lower the operation cost, cancel the registration tax, standardize the wage, shorten the public holidays from 23 days to 21 days.
- Encouragement on The Double Tax Avoidance Agreement

Tax audit is interesting and challenging for investors. Unlike Hong Kong or mainland China, all companies registered in Cambodia will be subject to at least one tax audit. There are 4 types of tax audits, desk audit, limited audit, comprehensive audit, and investigation audit. Penalty tends to be 10% to 40%. Interest rate per month is 1.5%. Cambodia adopts a self-assessment tax regime, basically meaning people can just file their information on monthly basis without being checked. However, tax auditors will request all provided supporting documents. Any incompliance issue will subject to revisions of tax payment and tax assessment. There is no way a company can avoid tax audit. Companies should adopt and practice a good accounting record, also should understand the tax law, and compliance with it. Lots of investors would like to minimize the tax and maximize the profit. This is what they should balance and pay more attention.

Further to the tax audit, there are a lot of varieties when understanding the tax system in Cambodia. For example, conditions are very different from that in Hong Kong. The tax department won't give a very detailed calculation or document in this regard. Many companies fail to understand the permit applications and are not being alert about having a compliance practice in Cambodia because there are many different services offered in Cambodia. Lots of agents just come and said they can help. However, in order to obtain those permits, it refers to lots of professional information, such as lawyer services, professional accounting services. Also, the official language in Cambodia is Khmer, thus it is very important that all major contracts will be prepared in English or Khmer or Chinese.

REANDA provides numerous one-stop services from audit to tax. It is also a member of Cambodian Charter Accountant Association. As a registered tax agent, recognized by the general tax department of Cambodia, REANDA is the appointed tax firm by HKBAC. All projects REANDA has participated could be checked in their website.

Ms. Catherine Chan, Founder & Executive Director, Urban Village & Factory Phnom Penh

The Goldfame Group is the largest Hong Kong investor in Cambodia. It focuses on manufacturing, forestry, property and financial services. Goldfame is one of the top 4 global sweater manufacturers. It was established in 1992 in Hong Kong and went to Cambodia 25

years ago. Currently, it has more than 100,000 employees. Goldfame offers products to some well-known brands, such as Uniqlo, Zara and M&S. Nearly 80% to 90% sweaters are made by Goldfame if their tags read “Made in Cambodia”. It has international Société Générale de Surveillance (SGS) certified laboratories, the biggest dying factories in South Asia, and printing factories. The company also invested over 1 billion US dollars in Japanese knitting machines.

Cambodia is a country with abundant natural resources. Just in last year, oil companies from Singapore helped with extracting oil in Cambodia. Kampot Province is very famous for growing pepper and durians. With the Chinese policy that encourages SOEs to go global, Goldfame backs these enterprises since many years ago. There are a lot of cooperation with SOEs, including cultivation of bananas, coconuts, rubbery trees and cassavas. In addition, Cambodia is rich in forestry resources and Goldfame is one of the top 10 forestry investors in Cambodia. The forestry concession land (development area) of Goldfame is over 40,000 hectares in Cambodia (while there are also about 12,000 hectares of forests, roads and related buffer zones)³.

China and Cambodia have signed a bilateral FTA recently. Cambodia has also joined RCEP. Over 90% goods exported to China could enjoy tax exemption. Cambodia adopts an open-door policy for investment, such as 100% foreign ownership and low tax rate. Lots of world-class companies have already rushed into Cambodia, such as banks, companies of mobile phones and so on.

Cambodia mainly focused on agriculture in the past but now there are a lot of changes. Cambodia is located in the middle of Southeast Asia and it shares border with Thailand, Laos and Vietnam. There is a deep seaport in Sihanoukville in which investors can ship out goods conveniently to other countries. The GDP in Cambodia in 2019 was 27 billion US dollars and GDP per capita was 1,621 US dollars. The highest percentage of industry is service sector, while the second one is industrial sector and the third is agriculture, which is only 25.3%. In terms of population, there are 16.72 million people in Cambodia. In Phnom Penh, the capital city, it is 2.5 to 3 million. The median age of Cambodian is only around 26 years old. Over 70% of the population are under 30. The entire population structure of Cambodia is a perfect pyramid when compared with Japan and China.

In terms of infrastructure, Cambodia is the first country in ASEAN that uses 5G technology. In 2023, the Southeast Asian Games will be organized in Phnom Penh. Phnom Penh will be equipped with a new international airport, the NagaWorld 3 (a casino invested and operated by Hong Kong-listed NagaCorp), and Aeon 3 (a Japanese mega shopping mall). One of the largest investment groups in Malaysia has also invested in Cambodia.

From Hong Kong to Cambodia, it only takes around two and a half hours by flight, even shorter than the traveling time to Thailand. Hong Kong dollars are pegged with US dollars and this is a favorable factor of investing in Cambodia. Cambodia is the only country in Southeast Asia

³ <https://www.goldfame.com.hk/forestry-business.php>

that uses US dollars as the dominant currency. It has no exchange control and thus people can freely transfer their funds. However, exchange rate fluctuates and one should conduct some research about it before investing in Cambodia.

The tax system is very simple in Cambodia. It has no inheritance tax while China has 20% of inheritance tax. Japan and Korea have over 45% to 50% inheritance tax. All that investors have to pay is the 10% VAT. Only 4% property value is levied on all 'hard title' property transfers. Unlike other emerging countries (such as Vietnam) where foreigners can only own a 50-years leasehold, foreign investors in Cambodia can 100% own a freehold strata-title property. It can be freely bought and sold without restrictions. According to the report of CBRE, the demand in Cambodia is actually very high for condominiums because the country is growing rapidly. The current supply is around 17,500 units and over 150,000 foreigners have already settled in Phnom Penh. The minimum wage is around 200 US dollars in industrial sector. In service sector, the minimum wage is from 600 to 1000 US dollars. If local people can speak English or Chinese, they can easily get a job in Cambodia.

Regarding the property development in Cambodia, according to the Hurun Global House Price Index in 2018, Phnom Penh in Cambodia grows rapidly in property capital gain among all countries. Just within one year, its gain reached 29.4%, including 16.4% of capital gain, and 6% to 8% rental return. It ranked at the top of property capital gain. Regarding the per sqm price in Cambodia, it is around one third of that in Vietnam and Thailand. Compared with Hong Kong, the data is one-tenth of that in Hong Kong. Therefore, the property growth rate is very high in Cambodia because of its strong economic growth.

Mr. Ky Sereyvath, Director General, The Institute of China Studies, Royal Academy of Cambodia

Mr. Sereyvath mainly introduced Chinese investments in Cambodia. Since many Chinese investors come to Cambodia, Cambodia government tried their best to adapt to the situation and improve the business environment. Investors also have to understand rules for tax and audit. But now, Cambodia still faces many problems, such as the high price of housing, especially in COVID-19 pandemic.

The growth of Chinese tourists to Cambodia is higher than expectation. In 2018, the expected number was 2 million but there were 5 million tourists in total. However, the number decreased to only half a million in 2020 because of COVID-19.

In 2019, the trade between Cambodia and China increased. The average growth of import was 15.49% and the export was 27.18%. Five-year data shows that there was an obvious growth after Cambodia joined BRI and expanded import and export with China. For FDI, 41% of the investments came from China. More capital flew into the service sector than the manufacturing sector. However, other risks still exist, including the partial suspension of EBA and the rising tariff on rice export to EU.

There are 5 Chinese SEZs but only a few firms have joined them (even with one-stop services).

Local governments expected that more companies could invest in these SEZs. Cambodia also received many aids and concessional loans from China. Now, the expressway from Phnom Penh to the port of Sihanoukville is under construction. That is a great progress because logistics is also a main problem for trade. China also helped with the hydropower plants, solar plants, wind power and coal power plants, which contribute to the electricity production. US dollars are widely used but the National Bank of Cambodia also allows Chinese RMB to be used in Cambodia.

Regarding environmental and social issues, hydropower facilities are not only built in Cambodia but also along the Mekong-Lancang River. It is necessary to keep a good environment for living but hydropower is considered not a good choice. As to Chinese investments on mineral exploration, the number of concession sites reaches 62 and is considered as 'too many'. In terms of social issues, sometimes there are conflicts between the Cambodian and the Chinese, especially for cultural issues. Communication should be improved.

In conclusion, China is a big partner for Cambodia but there are challenges in environment and resources. Cambodia should strengthen its education, improve the rule of law and pay attention to environmental protection. More emphasis should be put on agricultural sectors since the China-Cambodia Free Trade Agreement (CCFTA) has been signed but specific items are still unsettled. Eventually, Mr. Sereyvath suggested to create an economic corridor between China and Cambodia. Situated in a strategic location in Asia, Cambodia has full potential to become an economic hub.

Q&A Session:

Mr. Ratana Y., Emeritus Professor, University of Cambodia:

The Cambodian government has taken a lot of actions to attract foreign investments and to enhance human capital in Cambodia through the Economic Diplomacy Strategy. As a Cambodian, Mr. Ratana looked forward to seeing how the main actors will work with each other, like Ministry of Education, Ministry of Economy and Finance, and Cambodia Chamber of Commerce, and how to realize the Strategy.

Another issue is about SEZ. Cambodia has received many investments. Royal Government of Cambodia is one of stakeholders. Also, Cambodia Chamber of Commerce tried to expand the SEZs. However, SEZ should not just benefit the government and the company. People living around the area should also get the benefit. There are still many problems waiting to be solved, such as environment, natural resource and education.

In addition, maybe the government could do more for infrastructure constructions. It is inconvenient if transportation takes too much time or money. Much effort has been made to simplify the operation procedure. However, in COVID-19 pandemic, it is necessary to establish a new model to help SMEs and business people to cope with the challenges, such as improving working environment and learning from the digital platform for business in Hong Kong.

Professor. Linda Chelan Li, Director, CSHK, City University of Hong Kong:

Professor Ratana raised a question on diplomacy, economic zones, and geopolitical tensions. Dr William Yu from Shenzhen University asked that the Biden administration seems to regard Chinese participations in overseas especially economic zones with suspicions and would like to know how the government of Cambodia will respond to it. Other questions pointed to SEZs and Mr. Chang from Phnom Penh SEZ may introduce more about the normal manufacturing business and research center to facilitate the business. For broad policies, some participants ask about restrictions and requirements on local director in companies or all foreign directorship. Question to Catherine, as an active developer, many projects seem to be over-supplied, what is the observation of this supply-demand situation?

Ms. Catherine Chan:

In property development, condominiums could be divided into high-end and medium-end affordable ones. At some points, it is true that very high-end condominium is a little over supplied but the affordable medium home condominium is actually not over-supplied. They are still in demand in Cambodia because of the fast economic growth. Secondly, according to the report, for the last two years, the prediction of built condominiums was around 20,000 to 30,000 units per year. But at the end of the day, there were only 17,000 units constructed in practice. Therefore, the supply is not that much and some of them is not completed in time.

Professor Li:

Another question asked about Cambodia's infrastructure and energy strategy: while environment protection is highly emphasized; however, investors need to take additional costs into account. What is the impact for investments?

Mr. Socheat Oum:

For the Economic Diplomacy, the risks and challenges have been fully understood. Without an institutional network, a single actor is insufficient to realize qualified human resources, financial resources, information sharing platform, and also the branding marketing campaign. But those could be worked through by inter-administration collaborations, public and private coordination. That is the main theme of the Economic Diplomacy.

Regarding the efficiency of implementation of Economic Diplomacy (2021-2023), the Ministry of Foreign Affairs and International Cooperation will play a key role to assure the coordination and implementation of activities, including budget allocation, benchmarking, working out reports about relevant parties with a comprehensive detailed analysis and issuing the evaluation reports.

Mr. Sophal Suon:

Two points need to be emphasized as part of clarification. When talking about investment, try not to involve it with politics. The Cambodian government, under the leadership of the prime minister, also the chairman of CDC, who introduced the open-door policy in 1994, welcomes all investments, in every economic sector, from every corner of the world. That will also help the implementation of the Economic Diplomacy, and help work effectively in sending the right

message to the business community. Secondly, the SEZ is the initiative taken by the prime minister. He leads personally, also strategically, and approves the investment in SEZs. As part of diversification policy, he expects SEZs could attract more investments in all sectors and benefit the economy of Cambodia. Not only manufacturing sectors are addressed in SEZ, SEZs should act as platforms for private sectors to enter into Cambodian market. That's why the concept of SEZ is that the company could link their production with other regional and global value chains. SEZs are established along the coastal area, close to the Cambodia-Thai border and the Cambodia-Vietnam border because Cambodia should be part of the supply chain and regional production network.

Regarding Professor Ratana's concern about building better infrastructure and attracting better investment, SEZ is an instrument to link Cambodia with neighboring countries. They invest in the border and use infrastructure inside Cambodia, or in Vietnam or Thailand, which improves the efficiency of doing business. In PPSEZ, there are electronic companies and automobile industries. They can share experiences. CDC really hopes that more investments would come to various sectors, and help Cambodia link with the regional production network.

In terms of what Cambodia government could do more on the ICT, the government also needs more collaboration not only just from other governmental sectors. The private sectors could also join and show what they could contribute and do better. That is why the prime minister introduced the government private sector forum in 1999. They have to make their voice heard by the government. Like Japan, after the bilateral investment agreements were achieved with Cambodia, they brought the same forum (but much smaller in size) so that they can discuss all matters related to their investments. Then, they proposed a lot of issues to discuss with the CDC. For instance, they recently proposed the idea of digitalization.

It is necessary to make it more user-friendly that investors could get approvals online easier. CDC also hopes that the government will adopt policies related to digital economy development as soon as possible so as to offer better services in the future.

Professor Li:

We received some questions on banking about pegging Riel with US dollars and how long it would take for opening a bank account.

Mr. James Chang:

Mr. Chang further introduced the visions and challenges of PPSEZ. The supply chain is going to shift under the COVID-19 pandemic. The Zone authority will support the enterprises like the Cambodian government does. A lot of experiences are also learned from the Chinese government and other neighboring countries to attract more high value-added supply chain or industries transferred into Cambodia. One of the purposes is to grow the supply chain system, while another is to better supply the industry in Cambodia. Cambodia is going to upgrade industries with the increasing labor wage to become capable of developing electrical and electronics products, and automobile parts. Industrial cluster is also important. To reach the goal of transferring more production lines into Cambodia, it is necessary to reduce cost

and improve convenience of logistics.

Mr. John Yung & Ms. Elsie Gung:

The government policy encourages more usage of Riel, especially in consumer side and retail side. The government has promoted that salary should be paid by Riel, and certain portion of lending from financial institutions should also be in Riel. However, it takes time because over 90% transactions are still conducted in US dollars.

The time of opening a bank account depends on documentation preparation. It would take longer (usually from 1 or 2 weeks to a month) for opening a company account. For opening a personal account, it would be quicker if the supporting documents of customer were well-prepared.

Appendix

**Research Centre for Sustainable Hong Kong (CSHK),
City University of Hong Kong
“Professional Services Advancement Support Scheme” (PASS)**

**Advancing Professional Development
on Economic and Trade Cooperation Zones
Along Belt and Road**

Project Brief

The Research Centre for Sustainable Hong Kong (CSHK) of City University of Hong Kong is funded by the ‘Professional Services Advancement Support Scheme’ (PASS)⁴ of the Commerce and Economic Development Bureau, HKSAR Government to conduct a Project entitled ‘Advancing Professional Development on Economic and Trade Cooperation Zones Along Belt and Road’, with the objectives to enhance the understanding of Hong Kong professional services on Economic and Trade Cooperation Zones (ETCZs) along the Belt and Road countries, deepen the understanding of key stakeholders of ETCZs on the competitive edges of Hong Kong professional services and business sectors; and explore potential development opportunities via exchange of ideas and sharing of analyses.

From January 2021 to March 2022, the Project will organize 6 professional workshops and 2 symposia (opening and closing), inviting zone operators, local enterprises, professional service leaders, expert scholars and government officials as speakers to conduct comprehensive and in-depth sharing on opportunities, challenges and experiences of overseas development in 7 countries (Cambodia, Sri Lanka, Vietnam, Myanmar, Malaysia, Djibouti and Belarus) and their respective ETCZs. A tentative schedule is as follows:

Date	Programme
7 January 2021	Opening Symposium
8 February 2021	Professional Training Workshop 1 – Cambodia
27 April 2021	Professional Training Workshop 2 – Sri Lanka
11 June 2021	Professional Training Workshop 3 – Vietnam
August 2021	Professional Training Workshop 4 – Malaysia
October 2021	Professional Training Workshop 5 – Belarus & Djibouti
December 2021	Professional Training Workshop 6 – Myanmar
March 2022	Closing Forum

⁴ Professional Services Advancement Support Scheme (“PASS”) is set up to support Hong Kong’s professional services sector to carry out worthwhile projects to spearhead pro-active outreaching promotion efforts and to improve service offerings. For more information about PASS, please refer to PASS website at: <https://www.pass.gov.hk/en/home/index.html>

The activities are all free-of-charge, and they will mainly be conducted in English⁵ to project a global orientation and facilitate participation of overseas stakeholders. Each participant will get a training pack containing country information and analysis for each professional training workshop. Investment / enterprises representatives, representatives from professional service sector, scholars and students who are interested in understanding more about ETCZs are welcome to participate and interact to discover more opportunities for collaboration.

The Project is supported and collaborated by a number of professional bodies and business chambers in Hong Kong, including Certified Management Accountants, Australia (Hong Kong Branch), Hong Kong Chinese General Chamber of Commerce (CGCC), Hong Kong General Chamber of Commerce (HKGCC), Hong Kong Institute of Certified Public Accountants (HKICPA), Law Society of Hong Kong and The Society of Chinese Accountants and Auditors (SCAA) (names listed in alphabetical order). We thank Golden Resources Group and Red Circle Company Limited for sponsoring the Project generously.

Prof Linda Chelan Li, Professor at Department of Public Policy and Director of CSHK, is Project Co-ordinator and Prof Phyllis Lai Lan Mo, Professor at Department of Accountancy, is Deputy Project Co-ordinator. Project team members include Dr Linda Yin-nor Tjia, Assistant Professor at Department of Asian and International Studies and Dr Wilson Chan, Adjunct Professor at College of Business.

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