

Cambodia: Market Profile

🕒 18 Feb 2021

📝 Fitch Solutions



1. Overview

Cambodia attained lower-middle income status in 2015 and is aspiring to attain upper middle-income status by 2030. The economy has sustained an average growth rate above 7% in the previous decade, mainly driven by garment exports and tourism. Maintaining macroeconomic stability and enhancing economic diversification, export competitiveness and the quality of public service delivery will be key to sustaining growth. That said, low educational attainment levels, the underdeveloped transport network and limited property rights pose significant risks to the country's continued economic development. The global shock triggered by the Covid-19 pandemic has significantly impacted Cambodia's economy in 2020 at a time when Cambodia also faces the partial suspension of preferential access to the EU market under the "Everything but Arms" initiative. The outbreak caused sharp deceleration in most of Cambodia's main engines of growth—tourism, manufacturing exports, and construction—which together account for more than 70% of the country's growth and almost 40% of paid employment. The Covid-19 outbreak and slow recovery in global economic activity, alongside prolonged financial market turmoil, poses risks to Cambodia's growth outlook.

Sources: World Bank, Fitch Solutions

2. Major Economic/Political Events and Upcoming Elections

June 2018

Casino and water park project Wisney World was announced. The estimated USD1.1 billion resort situated in Sihanoukville was expected to be completed in 2022.

July 2018

The Cambodian National Assembly election was held on July 29, 2018. The ruling CPP won all 125 National Assembly seats.

January 2019

During a state visit to Mainland China, Cambodia's Prime Minister Hun Sen urged President Xi Jinping to enter into a free trade agreement (FTA) with Cambodia. Any such relaxation on trade restrictions might help to transition the Cambodian economy away from textiles.

February 2019

The EU announced that it was to start the process for withdrawing Cambodia's 'Everything but Arms' preferential trade scheme. Textile exports remain a vital part of the economy, and because approximately 80% of Cambodian goods exported to the EU are textiles, this development could have a negative impact on the industry in the short term. Although any withdrawal of the scheme would not occur until 2020 at the earliest, EU-based companies may pre-emptively move their textiles manufacturing bases away from Cambodia in the meantime.

March 2019

Cambodia's Ministry of Tourism announced that foreign tourist numbers had increased by 10% for the first two months of 2019 compared with the year before. Although the number of tourists from Mainland China had increased by 31.7%, the Ministry said that Cambodia still attracts fewer Chinese tourists than other countries – 2 million in 2018 out of 125 million Chinese tourists worldwide. Cambodia attracted 6.2 million foreign tourists in 2018, an increase of 10.7% from 2017.

Cambodia's Minister of Economy and Finance announced that the government is developing a strategic framework for developing Cambodia's digital economy. Priority areas include supporting the availability of digital payments and e-commerce in the country.

April 2019

The Cambodian government approved the construction of a hydroelectric dam and supplemental solar power stations with a total electrical capacity of 220MW to try to deal with a national 400MW power shortage. The developments were described as moves towards strengthening energy security. At the same time, a draft of the Law on Oil and Petroleum Products Management, designed to promote the development of a sustainable oil and gas sector, was approved. The first oil extraction in Cambodian history is expected in 2019.

NagaCorp, the owner of NagaWorld, Phnom Penh's only licensed casino, announced the construction of a USD4 billion integrated entertainment complex to be called Naga 3. In 2018, NagaWorld saw its net profit increase by 53% to USD390.6 million.

September 2019

Cambodian developer ING Holdings, Hong Kong-based Causeway Bay Group and SINO BAY Construction Investment signed a deal for the Dragon City project in ING City in Cambodia. The 54,000sq m commercial complex, located in Beong Cheung Ek and Tum Pun ar, would include a commercial complex, apartments and international food courts. It would later be expanded to up to 250,000sq m. The project was started in 2020.

Cambodia announced that it was raising the 2020 legal minimum wage for workers in its crucial textiles and footwear industry to USD190 per month, an increase of 4.4%, amid pressure from the EU.

November 2019

Japan-based power producer Irex Co announced it planned to invest USD23.5 million to acquire a 34% stake in the 80MW The Stung Pursat #1 Hydroelectric Project in the Cambodian province of Pursat, according to a company's press release. Each of Asia Energy Power Co and Singapore-based ISDN Energy would invest USD22.8 million to buy the remaining stakes. The hydropower plant was planned to be operational in February 2023.

December 2019

The Royal Group, in a joint venture with Royal Galaxy Group, announced plans to invest USD285 million for the construction of a resort project on Koh Rong Island in the Cambodian province of Preah Sihanouk. The project involved construction of a five-star hotel, international convention centre, resorts, duty-free shops, supermarkets as well as 600 units of a villa-style resort. The project was part of a concessional contract, which the government of Cambodia awarded Royal Group in 2008 to develop the island.

January 2020

Cambodia Airport Investment, a joint venture between Overseas Cambodia Investment Corporation (OCIC) and State Secretariat of Civil Aviation, shortlisted three Chinese firms for the construction of a USD1.5 billion international airport in Cambodia. The new airport came up in Kandal Steung district of Kandal province, and would be able to handle 27 million passengers by 2030. International banks would provide USD1.1 billion in the form of loans for the project, while USD280 million would come from OCIC. Construction is likely to be approved in July, with completion expected by July 2022.

February 2020

Cambodian and Thai railway authorities planned to start cross-border rail transportation between the two countries in March 2020. Ly Borin, under-secretary of state of the Cambodian Ministry of Public Works and Transport, stated that the flood-damaged tracks have been fixed. The

relevant authorities of the two countries met on February 14 to have a final discussion on the issue. The 386km northern rail link starts from Phnom Penh in Cambodia and goes to Poipet on the Thai border.

Cambodian Ministry of Land Management, Urban Planning and Construction has unveiled plans to transform Ream Bay in Preah Sihanouk province into a tourism destination. The USD16 billion project, proposed by Canopy Sands Development, includes building hotels, restaurants, resorts, residential buildings and a sports centre on 8.34sq km of land. The project would also involve development of two beaches. Phase one of the project was scheduled started in 2020.

The Council for the Development of Cambodia approved six infrastructure development projects totalling USD677 million, according to Khmer Times. The projects would include the construction of a USD478 million 1,500-bed international hospital project in Phnom Penh by Royal Cambodian Hospital Co and a supermarket by Chip Mong Retail at a cost of USD113.9 million. Another scheme involved an investment of USD71.7 million for the construction of a resort in Siem Reap province by Angkor Wildlife & Aquarium Co. Construction of an equipment-assembly factory, a bottled-water plant and a shoe accessories facility will also be carried out.

The European Commission had decided to withdraw part of the tariff preferences granted to Cambodia under the EU's Everything But Arms' trade scheme due to the serious and systematic violations of the human rights principles enshrined in the International Covenant on Civil and Political Rights.

March 2020

The Council for the Development of Cambodia approved a USD61.3 million hotel and commercial centre project in Sihanoukville. To be developed by Won Majestic (Cambodia), the development will have 373 rooms. The hotel is currently under construction and is expected to open in early 2021.

The Cambodian government planned to build a new road across Banteay Meanchey province, which would connect Battambang with Siem Reap, according to Khmer Times. The route, which would also offer connection with Pailin and Pursat provinces, was scheduled for 2021. Additionally, Cambodia was also building National Road 10 from Battambang to Koh Kong province. The 198km route, expected to cost around USD188 million, is backed by Chinese and Cambodian governments. The road is likely to be completed by December 2023.

The Japan International Cooperation Agency (JICA) signed loan agreements with the government of Cambodia to provide up to JPY29.4 billion (USD264.3 million) for two improvement projects on National Road No 5, connecting Phnom Penh with Thailand border. Both the schemes would be executed by the Ministry of Public Works and Transport. A loan amount of JPY11.7 billion (USD105.7 million) would support modernisation of Prek Kdam-Thlea Ma'am section, which is expected to be completed by March 2022. The other JPY17.7 billion (USD159.1 million) loan would be directed towards the overhaul of Thlea Ma'am-Battambang and Sri Sophorn-Poipet sections. The project was expected to be completed in June 2023, according to a press release from JICA.

April 2020

The government announced a package of tax concessions, expenditure support and credit support. Government would support businesses amid the Covid-19 pandemic and would disburse special low-interest loans to specialised banks, in addition to packages issued to small- and medium-sized enterprises and rice producers.

May 2020

The European Investment Bank (EIB) has secured a EUR12.7 million (USD14 million) grant from the EU to support construction of the Bakheng water treatment plant and 500km of water distribution network in Phnom Penh, Cambodia. The project was also backed by a EUR185 million (USD202.7 million) investment from the EIB and the French development agency AFD. Work was already underway on the USD240mn Bakheng I plant, which is due for completion in 2022. Bakheng I plant would have a daily capacity of 195,000 cubic metres. Work on the Bakheng II plant, with similar capacity to plant I, was scheduled to start by 2022 and was planned to be completed by 2024.

July 2020

According to the Cambodian Ministry of Commerce, the country had concluded its FTA talks with Mainland China. The announcement was made during a video conference between Minister of Commerce Pan Sorasak and his Chinese counterpart Zhong Shan. According to officials, the deal was expected to propel bilateral trade to USD10 billion by 2023.

July 2020

Cambodia's Sihanoukville Autonomous Port unveiled plans for two expansion phases of the deep-water port terminal. In Phase II, the terminal will be expanded to 410m in length and 16m in depth, and Phase III will increase the length to 440m and the depth to 17.5m. Phase I construction of the deep port is planned to start in 2021 and is scheduled to be completed in 2024. The Phase II and Phase III expansion are scheduled to start in 2027/28. The expansion will help the port in managing increasing container traffic.

September 2020

The Kampot provincial administration in Cambodia unveiled plans for the construction of a USD24.8 million mixed-use development project in the province. Gold Coast International Development would develop the 420,000sq m project which would feature a commercial center, a four-star hotel, a shopping mall, and associated services and infrastructure. A provincial technical and legal committee would review the project before submitting it for approval to the Council for the Development of Cambodia.

October 2020

The Government of Cambodia started the feasibility study for a Cambodia-Vietnam railway link. The line would run from Phnom Penh to Bavet town, which was the Cambodian-Vietnamese international border checkpoint. The Government of Vietnam would build the railway from Ho Chi

Minh City to Bavet. The Cambodian government, through China Railway International Group was also studying the possibility of a high-speed road connecting Phnom Penh to Bavet city.

November 2020

Cambodia and Hungary signed a memorandum of understanding to boost bilateral ties and cooperation in a number of key sectors, including aviation, agriculture and water management.

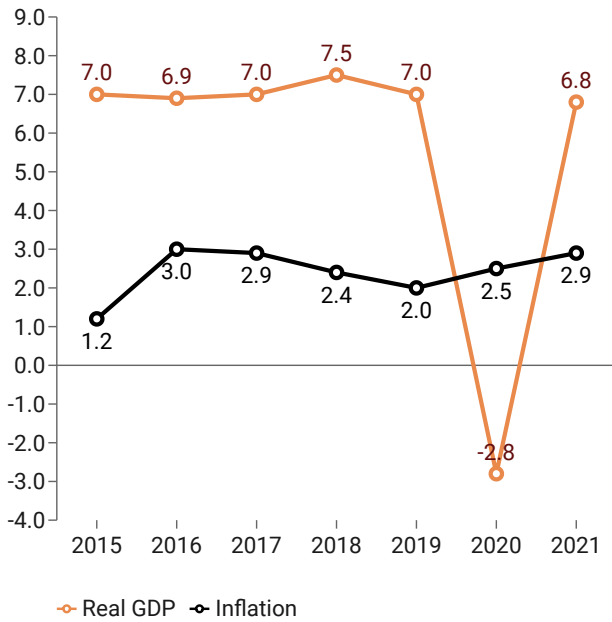
February 2021

Cambodia's vaccination campaign begins.

Source: BBC Country Profile – Timeline, Al Jazeera, Khmer Times, The Guardian, The Phnom Penh Post, IMF, Fitch Solutions

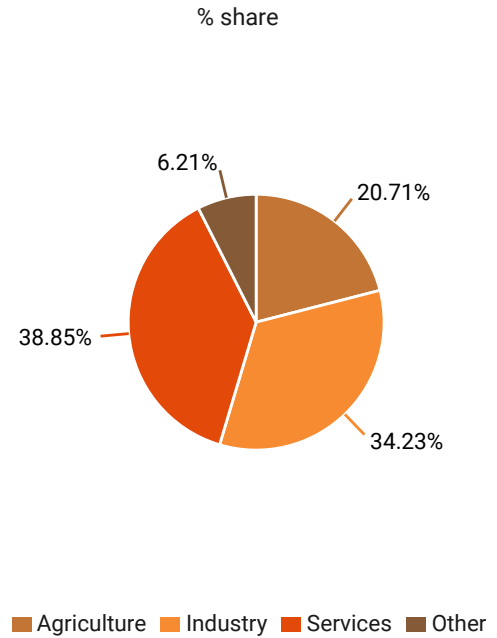
3. Major Economic Indicators

Real GDP and Inflation



2019-2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 26, 2021

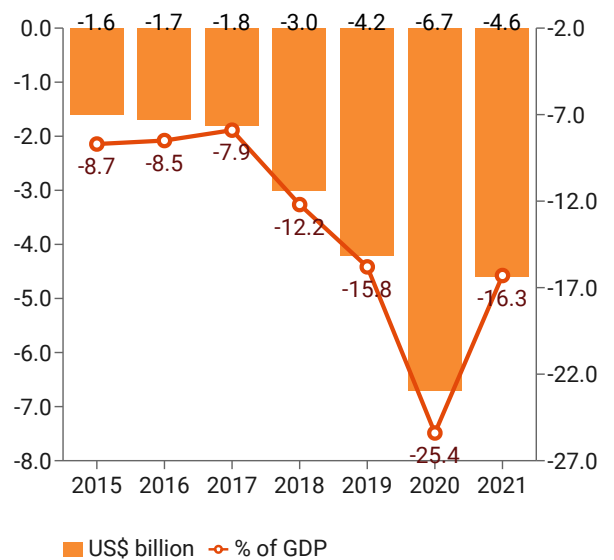
GDP by Sector (2019)



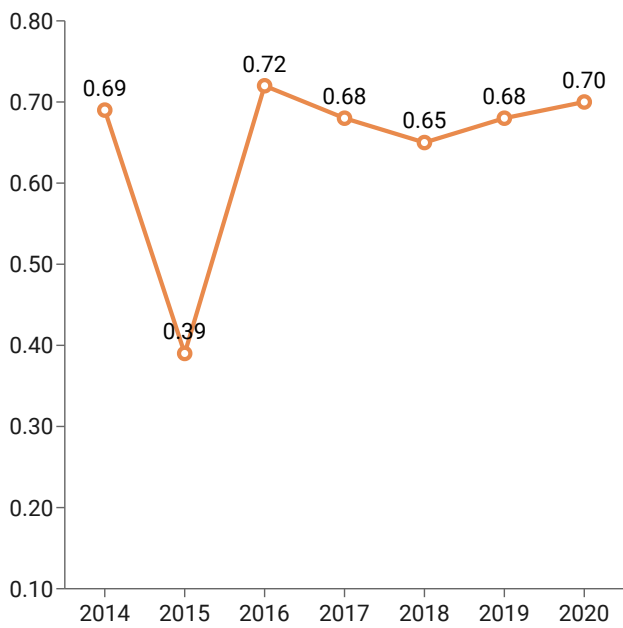
Source: World Bank
Date last reviewed: January 26, 2021

Unemployment Rate

Current Account Balance



2019-2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 26, 2021

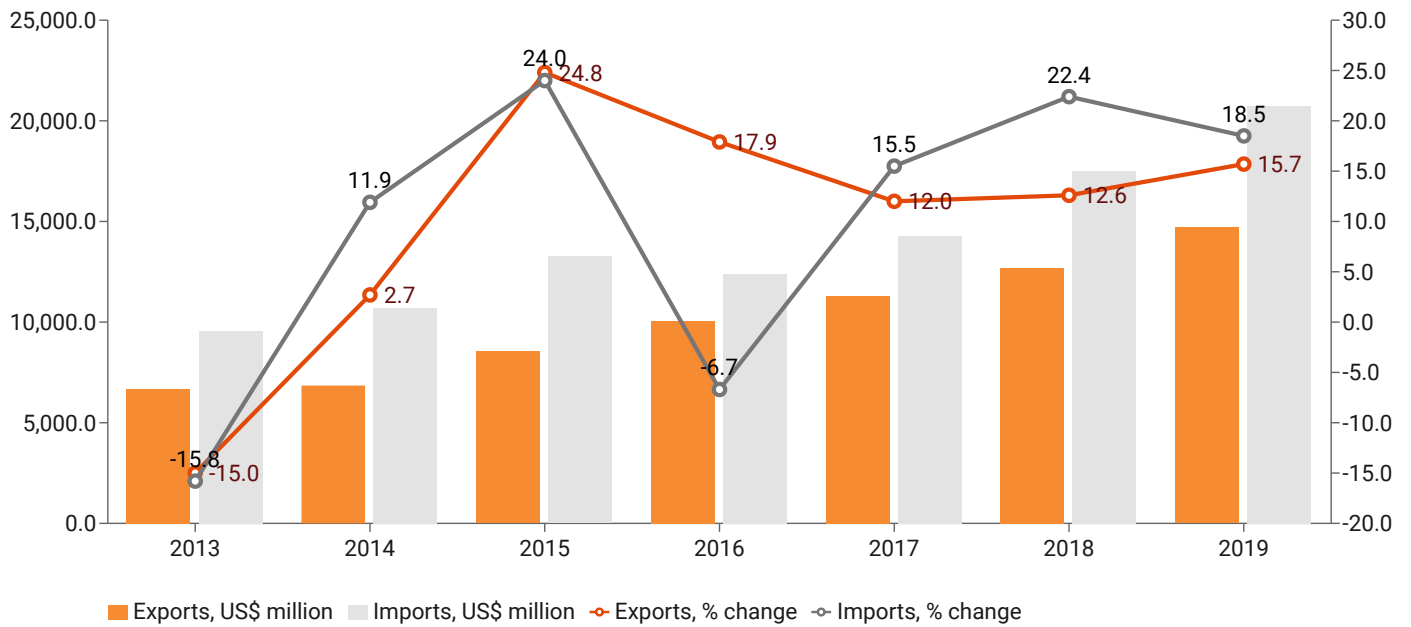


Source: World Bank
Date last reviewed: January 26, 2021

4. External Trade

4.1 Merchandise Trade

Merchandise Trade



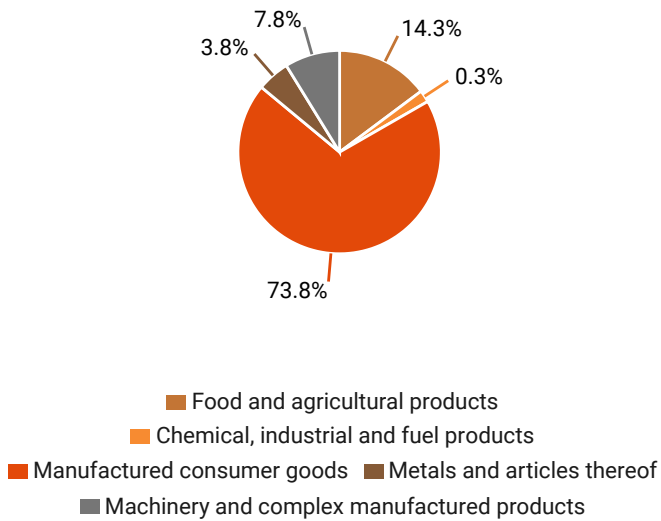
2019 (estimate)
Source: WTO
Date last reviewed: January 26, 2021

Major Export Commodities (2019)

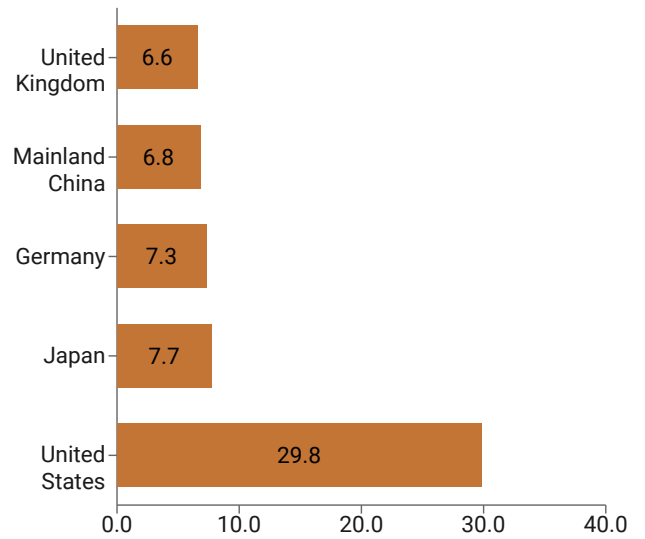
% share

Major Export Markets (2019)

% share



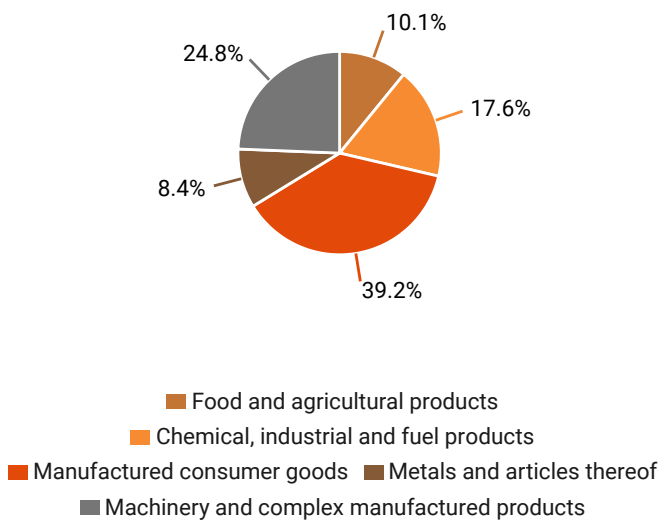
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 26, 2021



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 26, 2021

Major Import Commodities (2019)

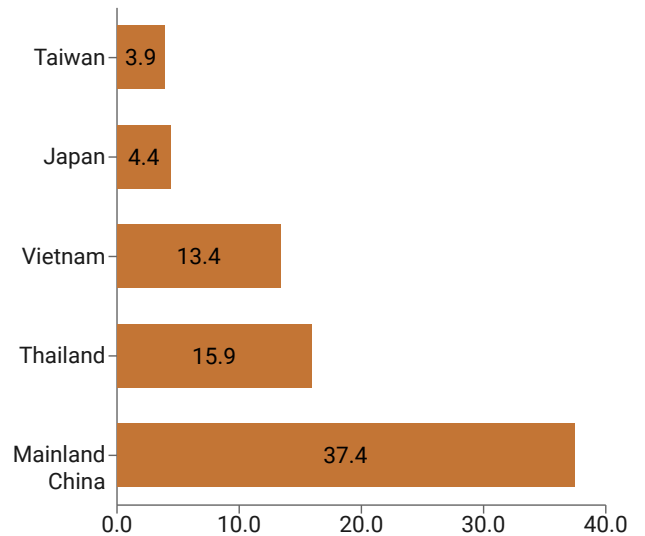
% share



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 26, 2021

Major Import Markets (2019)

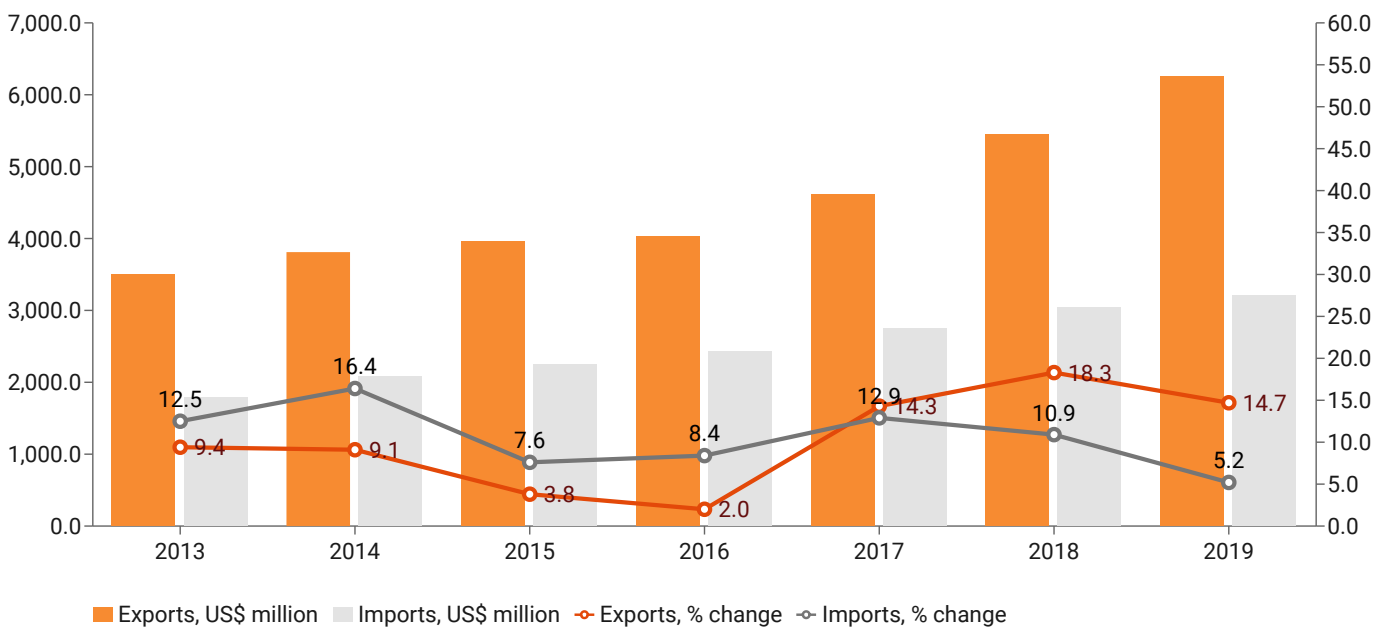
% share



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 26, 2021

4.2 Trade in Services

Trade in Services



2019 (estimate)

Source: WTO

Date last reviewed: January 26, 2021

5. Trade Policies

- In April 2001, Cambodia joined the World Customs Organization and in October 2004 it became a member of the World Trade Organization (WTO). In February 2016, Cambodia ratified the WTO Trade Facilitation Agreement. Cambodia has been awarded preferential most favoured nation status by Mainland China, France, Germany, the United Kingdom and the United States.
- Cambodia joined the ASEAN in April 1999 and served as the ASEAN chair in 2012. The ASEAN members have agreed to lower intra-regional trade tariffs through the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area. New members, such as Cambodia, have already gone a long way towards removing such tariffs, with almost 80% of their products being tariff-free, helping drive trade with Cambodia and the rest of the region.
- Since 2015, many tariffs between the ASEAN member states have been removed. The ASEAN is aiming for eventual customs unification. The rewards of lower tariffs within the area have been seen, with regional trade booming in recent years, especially as Singapore is a major exporting partner. The import tariff rates, however, are high in Cambodia. The country's average import tariff rate of 4.85% is the second highest in the East and South East Asia region.
- Cambodia imposes the most tariffs on transport equipment and vehicles, agricultural machinery or parts, petroleum and oils (other than crude), and pulp, paper and paperboard. Mainland China has the most Cambodian tariffs applied to its goods, followed by Malaysia, Japan, Vietnam, South Korea and Thailand, representing three out of five of Cambodia's largest import destinations.
- Cambodia imposes tax, such as value added tax (VAT) and special tax on certain imports (among which include gasoline and diesel). The highest ad valorem rate of 35% applies to finished agricultural products (including processed meat, processed fruit and vegetables and dairy products), finished industrial products and petroleum products.
- In addition to customs duties, Cambodia prohibits or restricts the importation of certain goods for a number of reasons, such as national security, public order, cultural, environmental, health and safety. Over 1,500 tariff lines are subject to import prohibition or licensing.
- There are Bilateral Investment Treaties (BITs) between Cambodia and the following 14 countries: Mainland China, Croatia, the Czech Republic, France, Germany, Japan, South Korea, Malaysia, the Netherlands, the Russia, Singapore, Switzerland, Thailand and Vietnam. Twelve others are signed but not yet in force.
- In January 2020, Cambodia signed a Double Taxation Agreement (DTA) with South Korea. The DTA is similar to those Cambodia has already signed with other countries, which include Singapore, Thailand, Brunei, Mainland China, Vietnam, Indonesia, Hong Kong and Malaysia. The DTAs are for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

Sources: WTO – Trade Policy Review, UNCTAD, General Department of Taxation of Cambodia, Fitch Solutions

6. Trade Agreements

6.1 Trade Updates

Effective August 12, 2020, the EU suspended some of the trade preferences Cambodia enjoys with the EU under the Everything But Arms (EBA) programme. Cambodia will lose trade totalling about USD1.1 billion of its preferential trade rights, about 20% of the total trade value between the EU and Cambodia. According to the European Commission, standard tariffs for certain garments and footwear, sugar and all travel goods will replace zero duties that were in place. The suspension remains in place as at January 2021.

6.2 Multinational Trade Agreements

Active

1. ASEAN: Cambodia is a member of ASEAN, alongside Brunei Darussalam, Indonesia, Laos, Myanmar, the Philippines, Singapore, Malaysia, Thailand and Vietnam. The ASEAN Free Trade Area was signed on January 28, 1992, and entered into force on January 1, 1993. In 2018, the ASEAN accounted for 39.4% of Cambodia's imports and 7.5% of Cambodia's exports (latest data available), making the group Cambodia's key trading partner. A number of FTAs have been signed by the ASEAN.
2. ASEAN-Mainland China: The ASEAN-Mainland China FTA covers goods and services. The FTA for goods came into force on January 1, 2005, and the FTA for services came into force on July 1, 2007. The agreement aims to eliminate tariffs, encourage investment and address the barriers that impede the flow of goods and services. The ASEAN-Mainland China FTA was amended in August 2019, simplifying trade and investment. In 2018, the ASEAN was the recipient of 12.9% of Mainland China's exports and the source of 12.3% of imports. Total merchandise trade between the ASEAN and Mainland China hit a record high of USD587.9 billion in 2018.
3. ASEAN-India: The ASEAN-India FTA came into force on January 1, 2010 for goods and on July 1, 2015 for services, with the aim of minimising barriers and deepening the economic links between the parties. Cambodia joined the agreement in July 2011. The agreement will lead to the progressive elimination of tariffs on all goods. The ASEAN accounted for 12% of India's imports and 10.6% of India's total exports in 2019.
4. ASEAN-South Korea: The ASEAN-South Korea FTA came into force in January and October 2010 for goods and services respectively. The investment agreement entered into force on September 1, 2009. The agreements aim to create more liberal, facilitative market access and investment regimes between South Korea and the ASEAN. A business council was set up in December 2014 to enhance economic cooperation between the parties and boost total trade to USD200 billion by 2020. ASEAN was the recipient of 17.5% of South Korea's exports in 2019 and the source for 11.2% of imports. Total trade between the ASEAN and South Korea has more than doubled between 2007 and 2019.
5. ASEAN-Japan: The ASEAN-Japan FTA is for goods only and came into force on December 1, 2008. Cambodia joined the agreement in December 2009. This will lead to the progressive elimination of tariffs on all goods.
6. ASEAN-Australia-New Zealand: The ASEAN-Australia-New Zealand FTA and Economic Integration Agreement for goods and services came into force on January 1, 2010. Cambodia joined the agreement on January 4, 2011.
7. United States-Cambodia: A bilateral Trade and Investment Framework Agreement (TIFA) between the United States and Cambodia was signed and entered into force on July 14, 2006. The TIFA allows favourable trade terms with the United States, which is Cambodia's largest exporting partner, accounting for 21.3% of Cambodia's exports in 2016 (latest data available). The TIFA provides a forum to address bilateral trade issues and allows Cambodia and the United States to coordinate on regional and multilateral issues. As Cambodia forms part of the United States's Generalized System of Preferences (GSP), many of its exports to the US are exempt from tariffs.
8. Cambodia-Mainland China FTA: Cambodia signed an FTA with Mainland China in October 2020. According to the Cambodian Ministry of Commerce, the deal is expected to propel bilateral trade to USD10 billion by 2023. The deal will enable the liberalisation of trade in goods and services and provide greater market access for the kingdom's products.
9. EU-Cambodia: Cambodia was a major beneficiary of the EU's GSP, which granted virtually all products – except arms and ammunition from less-developed countries – duty- and quota-free access to the EU market. EU trade accounts for approximately 42% overall of Cambodia's footwear and garments exports. However, effective August 12, 2020, the EU suspended some of the trade preferences Cambodia enjoys with the EU under the EBA programme. Cambodia will lose trade totalling about USD1.1 billion of its preferential trade rights, about 20% of the total trade value between the EU and Cambodia. According to the European Commission, standard tariffs for certain garments and footwear, sugar, and all travel goods will replace zero duties that were in place.
10. ASEAN-Hong Kong FTA (AHKFTA): Hong Kong and the ASEAN began negotiating an FTA and an Investment Agreement in July 2014. After 10 rounds of negotiations, Hong Kong and the ASEAN announced the conclusion of the negotiations in September 2017 and forged the agreements on November 12, 2017. The agreements are comprehensive in scope, encompassing trade in goods, trade in services, investment, economic and technical cooperation, a dispute-settlement mechanism and other related areas. The agreements will bring legal certainty, better market access and fair and equitable treatment in trade and investment, thus creating new business opportunities and further enhancing trade and investment flows between Hong Kong and ASEAN. The agreements will also extend Hong Kong's FTA and Investment Agreement network to cover all major economies in South East Asia. The agreement came into force on January 1, 2019, but will take time for all members of ASEAN to comply because implementation is subject to completion of the necessary procedures. Hong Kong is

a key export market and the reduction of tariffs will ease the trading process; Hong Kong's potential as a key export market increases the importance of AHKFTA.

Ratification Pending

Regional Comprehensive Economic Partnership (RCEP): This is a regional economic agreement that involves the 10-member ASEAN bloc and their FTA partners – Australia, Mainland China, Japan, New Zealand and South Korea. As at February 7, 2020, India is not party to the agreement. The RCEP is envisioned to be a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement that aims to advance economic cooperation, and broaden and deepen integration in the region. The RCEP will lower tariffs and other barriers to the trade of goods among the 15 countries that are in the agreement or have existing trade deals with ASEAN. The agreement was finalised in November 2019 and signed in November 2020. RCEP is expected to become active in 2022.

Under Negotiation

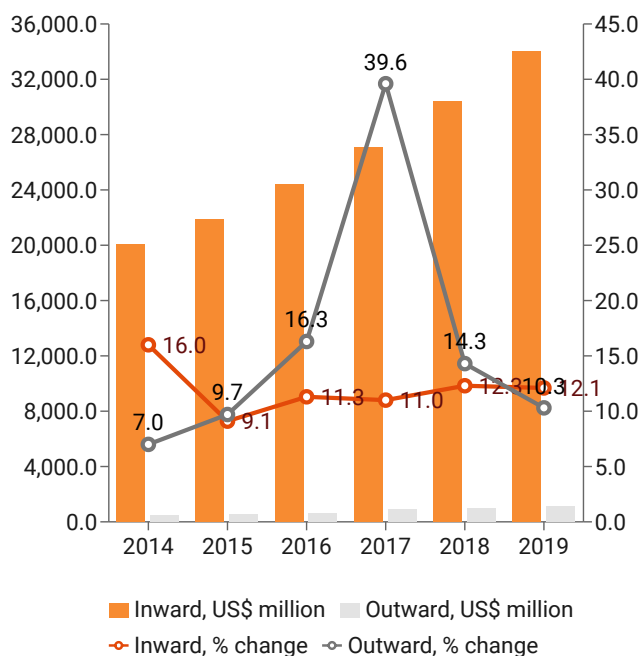
EU-ASEAN FTA: Negotiations for an EU-ASEAN region-to-region FTA were launched in 2007. Talks were put on hold in 2009 to allow for bilateral FTA negotiations as building blocks towards a region-to-region agreement. ASEAN represents the EU's third-largest trading partner outside Europe.

Sources: WTO Regional Trade Agreements database, ASEAN, UNCTAD, ASEAN, European Commission, Fitch Solutions

7. Investment Policy

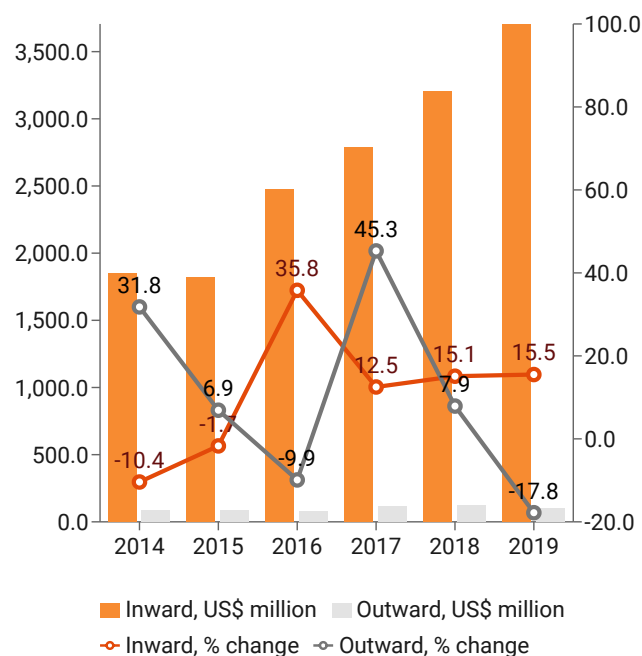
7.1 Foreign Direct Investment

Foreign Direct Investment Stock



Source: UNCTAD
Date last reviewed: January 26, 2021

Foreign Direct Investment Flow



Source: UNCTAD
Date last reviewed: January 26, 2021

7.2 Foreign Direct Investment Policy

1. Cambodia's Law on Investment (1994) established an open and liberal foreign investment regime. All sectors of the economy are open to foreign investment and 100% foreign ownership is permitted in most sectors. In a few sectors, foreign investment is subject to conditions, local equity participation, or prior authorisation from authorities. The Cambodian government has prioritised foreign investment in the export sector and has a relatively pro-investor policy and legal framework.
2. Cambodia has no restriction on foreign ownership of companies and boasts a number of incentives such as a corporate tax holiday of up to eight years, a 20% corporate tax rate after the incentive period ends, duty-free imports of capital goods and no restrictions on capital repatriation.
3. Under the Law on Investment (1994), foreigners are restricted from owning land, but are allowed to hold long-term leases for up to 50 years, renewable for another 50 years, as well as freehold ownership of specified condominiums.

4. The most popular sectors for foreign investment include garment manufacturing, agriculture, the services industry and tourism (which is one of Cambodia's key growth areas). The country's biggest investors tend to come from within the Asia region, with Mainland China, Malaysia, Vietnam and Thailand being major sources of foreign investment, together with the United States.
5. Cigarette manufacturing, movie production, rice milling, gemstone mining and processing, publishing and printing, radio and television, wood and stone-carving production and silk-weaving are some of the sectors that are subject to conditions such as local equity participation, or prior authorisation from authorities.
6. FDI plays a critical role in the Cambodian economy. Based on 2018 data (the latest available), FDI stocks are equivalent to 96.6% of the country's GDP, with only three other countries in the region having higher ratios.

Sources: WTO – Trade Policy Review, Council for the Development of Cambodia, United States Department of Commerce, Fitch Solutions

7.3 Free Trade Zones and Investment Incentives

Free Trade Zone/Incentive Programme	Main Incentives Available
<p>The Council for the Development of Cambodia (CDC) is the main authority on all strategic and regulatory aspects of stimulating investment in Cambodia. A company registered as a Qualified Investment Project (QIP) is entitled to certain incentives. The CDC requires a QIP to apply annually for a Certificate of Compliance to enable it to continue to receive the investment incentive granted under its investment licence.</p>	<ul style="list-style-type: none"> - An exemption from corporate income tax (CIT) on profit, which could be for a maximum of up to nine years (provided each of the three three-year increments is approved). - Instead of the exemption from tax on profit, the QIP could elect to benefit from special depreciation allowances. - Any disputes are handled by the CDC's Special Economic Zone's (SEZ's) Trouble Shooting Committee.
<p>The Cambodia SEZ Board has approved 25 SEZs, of which nine are in operation. These SEZs are located near the borders of Thailand and Vietnam, as well as in Phnom Penh, Kampot and Sihanoukville, facilitating regional trade. Others are still at different stages of development and some remain undeveloped.</p> <p>The government's purpose in establishing SEZs is to promote diversification of the industrial base beyond electronics, to establish economic linkages between urban and rural areas and to promote industrial investment outside Phnom Penh. The manufacturing industries attracted into the SEZs include secondary sectors producing garments, shoes, bicycles, food processing, vehicle and motorcycle assembly.</p> <p>With the exception of the Sihanoukville Port SEZ, which is a public-private joint venture, Cambodia's SEZs are almost entirely privately owned and managed.</p>	<ul style="list-style-type: none"> - As with QIPs, companies located in SEZs can be exempt from taxes on their profits for a maximum period of nine years. - The importation of equipment and construction materials to be used for infrastructure construction in the zone is permitted and exempt from import duties and other taxes. - The SEZ developer is responsible for the construction of all necessary infrastructure, including roads connecting the zone to the town and other public service infrastructure for the public interest, and shall receive custom duty exemption on the import of machinery and equipment for those purposes. - The SEZ developer may obtain a land concession from the state to establish an SEZ in a border area or isolated region, and may lease this land to the SEZ industry investors. - Foreign managers, technicians or experts may be employed, provided that the number of foreign staff does not exceed 10% of the total number of its personnel (Article 11, The SEZ Sub-Decree).

Zone investors and developers	<ul style="list-style-type: none"> - SEZ developers, investors or foreign employees have the right to transfer all the income derived from investments and salaries received in the zone to banks located in other countries after the payment of any tax due. - The SEZ developer and investor are entitled to obtain the investment guarantees as stated in Article 8, Article 9 and Article 10 of the Law on Investment in Cambodia and other relevant regulations: non-discriminatory treatment as foreigners, non-nationalisation and no price fixing. - The same incentives on customs duty and tax as other QIPs shall be available. - The SEZ investor entitled to the incentive of zero-rated VAT will record the amount of tax exemption for every import. The record will be disregarded if the production outputs are re-exported. - If the production inputs are imported into the domestic market, the SEZ investor will refund the amount of VAT recorded in comparison with the quantity of export. - The Zone Developer has a duty to cooperate with the Ministry of Labour and Vocational Training to facilitate the training of Cambodian workers and employees and to promote new knowledge and skills for them with specific and effective programs (Article 12, The SEZ Sub-Decree).
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Source: Council for the Development of Cambodia

8. Taxation – 2021

- Value Added Tax: 10%
- Corporate Income Tax: 20%

Sources: [General Department of Taxation of Ministry of Economy and Finance](#), Fitch Solutions

8.1 Important Updates to Taxation Information

- The Ministry of Economy and Finance (MEF) issued a temporary measure to support local banks and financial institutions by reducing WHT rates on interest payments to resident and non-residents.

For existing loans, the rate of 10% will apply starting from April 2020 to the end of December 2020.

For new loans, the rate of 5% will apply starting from April 2020 to the end of December 2020, then at the rate of 10% from January 2021 to the end of December 2021. Any enterprise that terminates the existing loan before the maturity date in order to enter into a new loan agreement is not entitled to the incentive.

- The MEF issued Prakas No. 346 to implement capital gain tax on sale or transfer of immovable property, leases, investment assets, goodwill, intellectual property and foreign currencies. The tax rate on capital gain is flat at 20%.

The capital gains tax would have been effective from 1 July 2020. However, the MEF announced the delay of implementation of the tax until the end of 2021.

- In January 2020, Cambodia signed a double taxation agreement (DTA) with South Korea. The DTA is similar to those Cambodia has already signed with other countries, including Singapore, Thailand, Brunei, Mainland China, Vietnam, Indonesia, Hong Kong and Malaysia. The DTAs are for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

8.2 Business Taxes

Type of Tax	Tax Rate and Base
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CIT	<ul style="list-style-type: none"> - The standard rate of CIT is 20%. - Small taxpayers pay a progressive rate up to 20%. - Companies deriving their income from the exploitation of natural resources (such as timber, ore, precious metals/stones), oil or natural gas, or production-sharing contracts relating to these, pay a rate of tax of 30%. - Insurance companies specifically insuring or reinsuring property or other risks – rather than life assurance/savings products – pay a tax rate of 5% on gross premium income. - A separate minimum tax is imposed annually at a rate of 1% on annual turnover inclusive of all taxes except VAT. If the income tax liability exceeds the amount of the minimum tax, the latter is not payable. Prepayments of tax must be made monthly, equivalent to 1% of monthly turnover inclusive of all taxes except VAT. - An enterprise planting rice, buying rice or producing rice for export is exempt from the 1% minimum tax.
Capital Gains Tax	- Taxed as part of business income; capital gains derived from the disposal of fixed assets are treated as ordinary income and generally taxed at the standard tax on income rate of 20%.
VAT	- Taxable supplies attract VAT at either the standard rate of 10% or the zero rate. Exempt supplies not subject to VAT include: medical services and goods; primary financial services; supply of unprocessed agricultural products; supply of electricity; and the exports of goods and services and the international transportation of passengers and goods.
Registration Tax	- Levied at a rate of 4% on the transfer of ownership of property or the transfer of occupancy right of land without buildings in the form of a sale, exchange, receiving of a gift or putting capital into a company. It is also levied at 4% on the transfer of ownership of all kinds of means of transportation, such as trucks, vehicles and motorcycles, boats, ferries and ships.
Accommodation Tax	- An indirect tax at a rate of 2% levied on accommodation in hotels and guest houses. The person supplying accommodation services is responsible for payment of the tax.
Property Tax	- Tax levied annually at a rate of 0.1% applies to immovable property valued in excess of 100 million riels. Property refers to land, houses, buildings and other constructions built on the land. The tax base is the value of the property after deducting CHR100 million, based on market prices set by the property evaluation committee established by the Prakas of the Minister of Economy and Finance.
Property Rental Tax	- The tax rate is 10% of the gross rental and should be written in a contract or an agreement with lessees. The tax is collected from proprietors or assignees and applies to buildings such as houses, factories, warehouses, offices, floating houses, ships used as accommodation or miscellaneous business services, and free land (land without buildings) with areas of stone, mine and coal extraction, lakes and salt pan fields.
Withholding Tax	- The rate for non-residents is 14% each on dividend income, royalties, interest and property rental income unless modified by the existence of a treaty: for example, for corporations and individuals from Hong Kong, the rate is 10% for each (15% on dividends if the equity ownership is less than 25%).

Sources: [General Department of Taxation of Ministry of Economy and Finance](#), Fitch Solutions

Date last reviewed: January 26, 2021

9. Foreign Worker Requirements

9.1 Localisation Requirements

The percentage of foreign workers is capped at 10% of all the staff working for an enterprise. The Ministry of Labour may approve a request for an exemption to the 10% limit, particularly if the business is in need of specific skills currently unavailable in Cambodia.

The application for a 'foreign quota approval' from the Ministry of Labour must be submitted between September 1 and November 30 every year if the 10% limit is exceeded.

Failure to comply with the foreign employee quota and work permit requirements could (among other things) result in the imposition of fines of up to USD180 and retroactive penalties in the amount of USD100 for each year that a foreigner has worked in Cambodia without a valid work permit.

9.2 Obtaining Foreign Worker Permits for Skilled Workers

No foreigner is allowed to work in Cambodia without a valid work permit and an employment card issued by the Ministry of Labour. Under current practice, foreign nationals working or doing business in Cambodia and holding either an e-Visa (also known as a 'business visa' or 'ordinary visa') or a K visa (also known as a 'permanent visa') are required to have a work permit and an employment card.

There are two types of work permits in Cambodia: a temporary work permit (which lasts for the duration of the individual's visa) and a permanent work permit (which is reserved for major investors). A work permit usually costs USD100.

Foreign nationals wishing to work in Cambodia must also meet additional conditions, such as not having communicable diseases.

In October 2019, the Cambodian Labour Ministry reversed its previous ban on foreign nationals working as taxi drivers, street vendors and a handful of other jobs in the informal sector.

9.3 Visa/Travel Restrictions

Nationals of most countries can be issued with a visa on arrival – except citizens of Brunei Darussalam, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, who do not require a visa before travelling to Cambodia for a stay of between 14 and 30 days (two weeks for citizens from the Seychelles). All foreign nationals are legally required to have a work permit if intending to work in Cambodia.

Sources: Council for the Development of Cambodia, Kingdom of Cambodia Ministry of Foreign Affairs and International Cooperation, Fitch Solutions

10. Risks

10.1 Sovereign Credit Ratings

	Rating (Outlook)	Rating Date
Moody's	B2 (Stable)	04/10/2019
Standard & Poor's	N/A	N/A
Fitch Ratings	N/A	N/A

Sources: Moody's, Standard & Poor's, Fitch Ratings

10.2 Competitiveness and Efficiency Indicators

	World Ranking		
	2018	2019	2020
Ease of Doing Business Index	135/190	138/190	144/190
Ease of Paying Taxes Index	136/190	137/190	138/190
Logistics Performance Index	98/160	N/A	N/A
Corruption Perception Index	161/180	162/180	160/180
IMD World Competitiveness	N/A	N/A	N/A

Sources: World Bank, IMD, Transparency International

10.3 Fitch Solutions Risk Indices

	World Ranking		
	2019	2020	2021
Economic Risk Index Rank	127/201	131/201	141/201
Short-Term Economic Risk Score	45.6	45.2	46.7
Long-Term Economic Risk Score	48.2	44.5	43.4
Political Risk Index Rank	120/201	112/201	112/201
Short-Term Political Risk Score	62.1	64.4	64.4
Long-Term Political Risk Score	57.4	59.5	59.5
Operational Risk Index Rank	135/201	131/201	134/201
Operational Risk Score	40.8	42.2	42.1

Source: Fitch Solutions

Date last reviewed: January 26, 2021

10.4 Fitch Solutions Risk Summary

ECONOMIC RISK

Cambodia continues to rely on external financing through robust growth momentum in the tourism and construction sectors. The long-term economic risk is weighed down by an undeveloped capital market, concerns over central bank independence and wide current account deficits. The currency peg with the US dollar affords some stability in monetary policy but acts as a restriction in terms of policymakers' ability to respond to economic shocks. The country will see more moderate economic activity over the coming years amid rising headwinds to trade and investment. The European Union's partial removal of Cambodia's Everything But Arms trade privilege to the bloc will push the country further into Mainland China's sphere of influence. After contracting in 2020 due to the Covid-19 pandemic, Cambodia's economy is set to recover in 2021, supported by tourism and trade, alongside a global economic recovery as countries reopen and also cautiously attempt to resume cross border leisure travel. Construction and real estate activity should also recover in 2021 as delayed public projects resume. That said, the recovery will depend on the timeline of the distribution of Covid-19 vaccines, and an associated recovery in air travel.

OPERATIONAL RISK

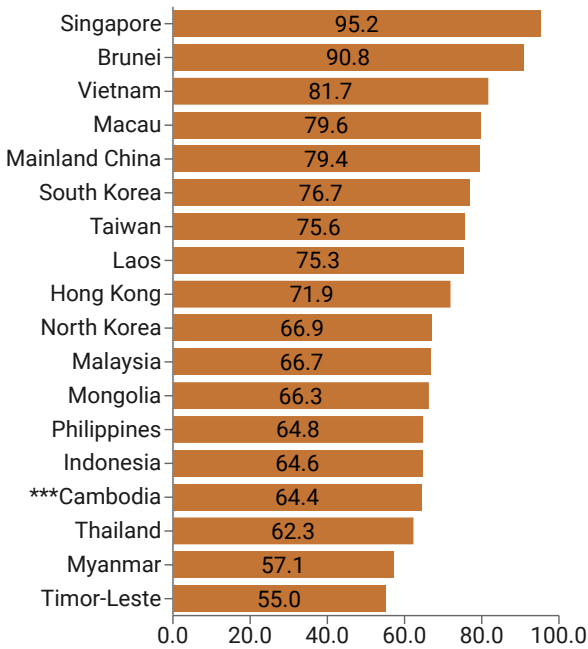
Cambodia has become one of the fastest-growing markets in the East and South East Asia region following its emergence from decades of internal conflict and international isolation. Its positive characteristics, such as low wages, a large labour pool and openness to foreign direct investment, will benefit businesses operating in the country. Nevertheless, firms in Cambodia face challenges stemming from the lack of an adequately educated labour force, an underdeveloped transport network and weak protection of property rights, which all increase the risks and costs of doing business in the country.

Source: Fitch Solutions

Date last reviewed: January 27, 2021

10.5 Fitch Solutions Political and Economic Risk Indices

Short Term Political Risk Index

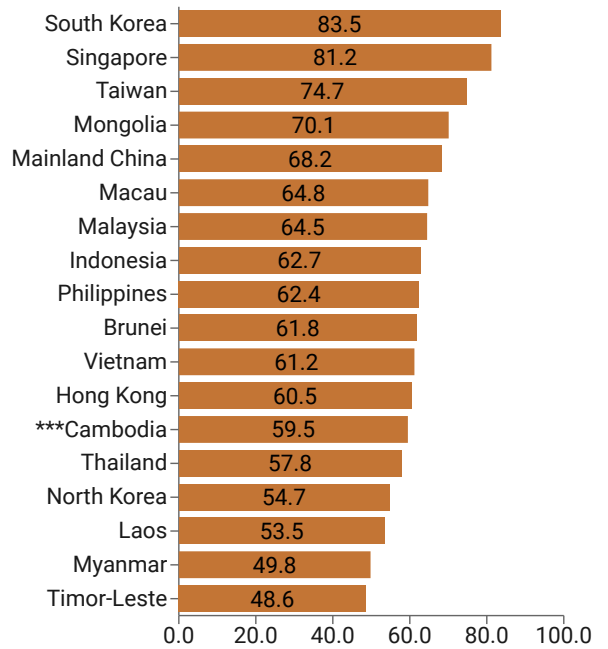


100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: January 26, 2021

Long Term Political Risk Index



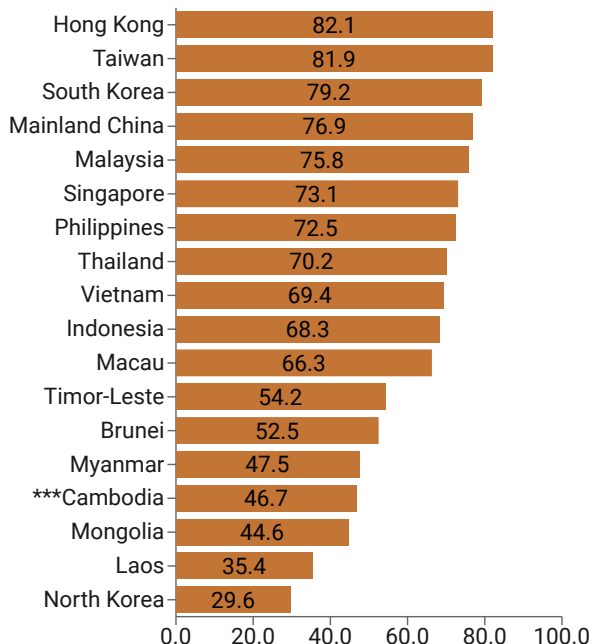
100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

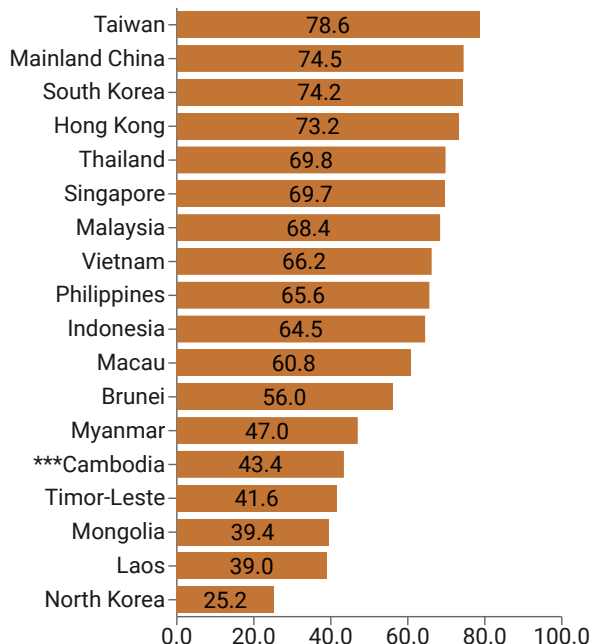
Date last reviewed: January 26, 2021

Short Term Economic Risk Index

Long Term Economic Risk Index



100 = Lowest risk; 0 = Highest risk
 Source: Fitch Solutions Political and Economic Risk Indices
 Date last reviewed: January 26, 2021



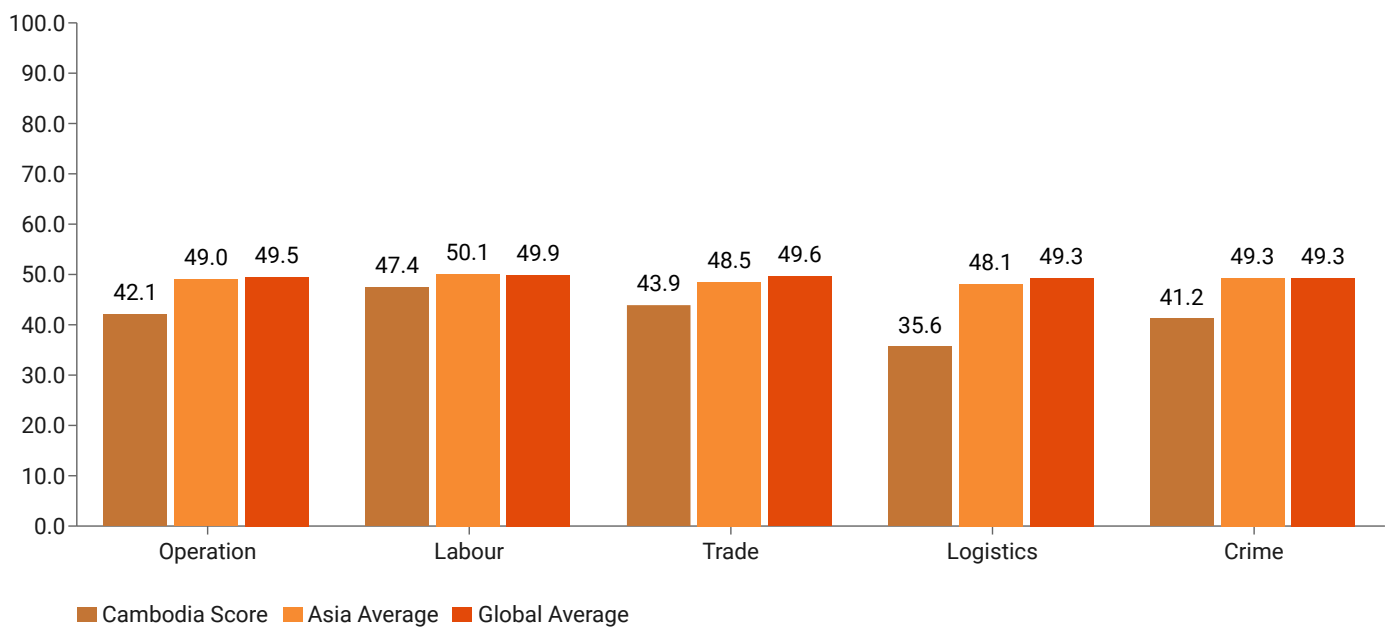
100 = Lowest risk; 0 = Highest risk
 Source: Fitch Solutions Political and Economic Risk Indices
 Date last reviewed: January 26, 2021

10.6 Fitch Solutions Operational Risk Index

	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
Cambodia Score	42.1	47.4	43.9	35.6	41.2
East and Southeast Asia Average	56.5	57.5	57.6	57.3	53.5
East and Southeast Asia Position (out of 18)	14	15	14	15	13
Asia Average	49.0	50.1	48.5	48.1	49.3
Asia Position (out of 35)	22	18	20	25	25
Global Average	49.5	49.9	49.6	49.3	49.3
Global Position (out of 201)	134	113	125	144	132

100 = Lowest risk, 0 = Highest risk
 Source: Fitch Solutions Operational Risk Index

Cambodia vs Global and Regional Operational Risk Averages



Note: 100 = Lowest Risk, 0 = Highest Risk

Source: Fitch Solutions Operational Risk Index

Date last reviewed: January 26, 2021

Country/Region	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
Singapore	84.8	79.4	91.3	81.5	87.0
Hong Kong	81.1	72.6	89.0	81.2	81.5
Taiwan	74.6	71.4	76.7	77.3	73.1
South Korea	71.7	62.1	71.1	80.6	72.8
Malaysia	70.4	62.0	76.1	76.5	66.8
Macao	64.9	62.0	65.5	64.5	67.8
Brunei	62.8	62.4	58.8	63.8	66.2
Thailand	61.0	56.6	68.3	70.1	48.8
Mainland China	59.4	55.8	61.8	73.3	46.8
Indonesia	56.0	54.9	55.5	60.9	52.8
Vietnam	54.6	51.9	57.4	61.1	48.2
Mongolia	50.1	54.7	52.7	37.6	55.3
Philippines	47.6	54.8	51.0	47.0	37.6
Cambodia	42.1	47.4	43.9	35.6	41.2
Laos	37.1	40.5	34.3	39.3	34.2
North Korea	35.3	54.8	24.7	29.3	32.3
Myanmar	32.3	46.8	32.8	31.4	18.2
Timor-Leste	31.2	44.8	26.5	21.0	32.4
Regional Averages	56.5	57.5	57.6	57.3	53.5

Emerging Markets Averages	46.1	47.9	46.2	45.3	45.0
Global Markets Averages	49.5	49.9	49.6	49.3	49.3

100 = Lowest risk, 0 = Highest risk

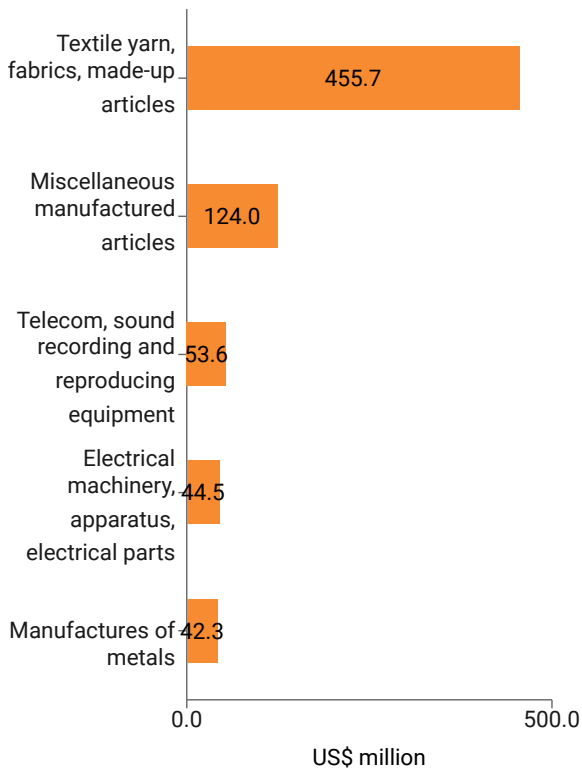
Source: Fitch Solutions Operational Risk Index

Date last reviewed: January 26, 2021

11. Hong Kong Connection

11.1 Hong Kong's Trade with Cambodia

Major Export Commodities to Cambodia (2019)



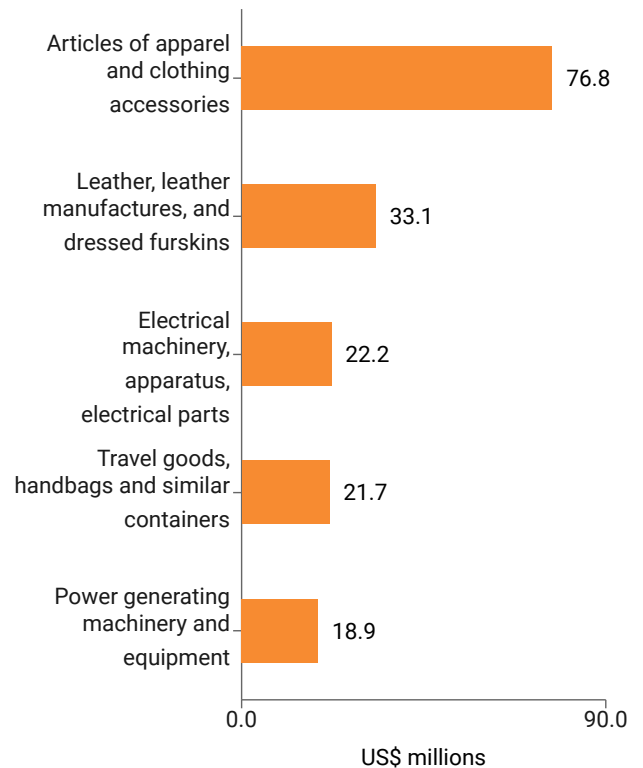
Note: Graph shows the main Hong Kong exports to Cambodia (by consignment)

Sources: Hong Kong Census and Statistics Department, Fitch Solutions

Date last reviewed: January 26, 2021

Merchandise Exports to Cambodia

Major Import Commodities from Cambodia (2019)

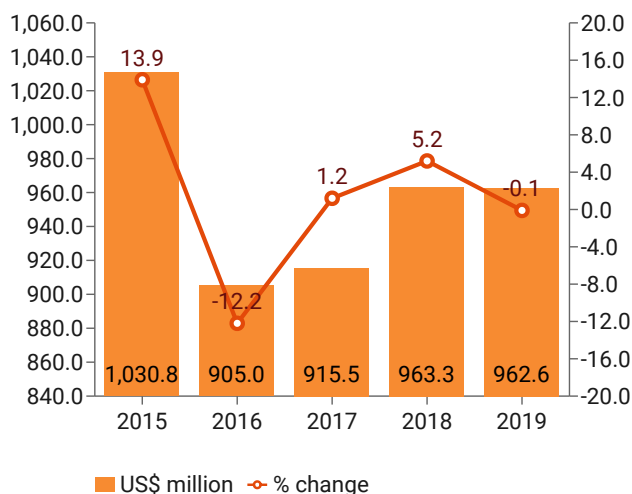


Note: Graph shows the main Hong Kong imports from Cambodia (by consignment)

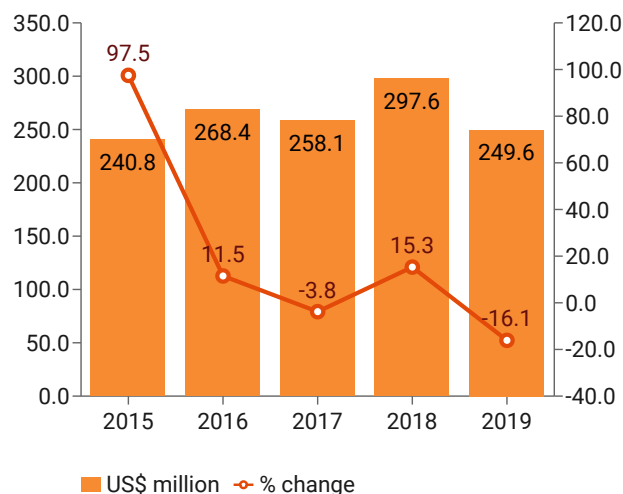
Sources: Hong Kong Census and Statistics Department, Fitch Solutions

Date last reviewed: January 26, 2021

Merchandise Imports from Cambodia



Note: Graph shows Hong Kong exports to Cambodia (by consignment)
 Source: Hong Kong Trade Statistics, Census & Statistics Department
 Date last reviewed: January 26, 2021



Note: Graph shows Hong Kong imports from Cambodia (by consignment)
 Sources: Hong Kong Census and Statistics Department, Fitch Solutions
 Date last reviewed: January 26, 2021

Exchange rate HK\$/US\$, average

7.75 (2015)
 7.76 (2016)
 7.79 (2017)
 7.84 (2018)
 7.84 (2019)

	2019	Growth rate (%)
Number of Asia Pacific residents visiting Hong Kong	52,326,248	-14.3
Number of Cambodian residents visiting Hong Kong	25,650	-36.1

Sources: Hong Kong Tourism Board

	2019	Growth rate (%)
Number of East Asian citizens residing in Hong Kong	2,788,077	3.0

Note: Growth rate for resident data is from 2015 to 2019. No UN data available for intermediate years.

Source: United Nations Department of Economic and Social Affairs – Population Division

Date last reviewed: January 26, 2021

11.2 Commercial Presence in Hong Kong

	2021	Growth rate (%)
Number of Cambodian companies in Hong Kong	N/A	N/A
- Regional headquarters		
- Regional offices		
- Local offices		

11.3 Treaties and Agreements between Hong Kong and Cambodia

- On January 1, 2020, the DTA agreement between Cambodia and Hong Kong came into force, promoting further bilateral investment and trade between the two jurisdictions.
- Hong Kong and ASEAN signed a FTA and an investment agreement on November 12, 2017.
- Mainland China and Cambodia signed an Agreement for the DTA on October 13, 2016, and Investment Promotion and Protection Agreements which came into effect on February 12, 2000.

Sources: [Hong Kong Trade and Industry Department](#), State Administration of Taxation of the People's Republic of China

11.4 Chamber of Commerce or Related Organisations

[Hong Kong-ASEAN Economic Cooperation Foundation Limited](#)

The main activities of HKAECF are to contribute to the fostering, promoting and facilitating of economic cooperation between Hong Kong and the 10 member countries of ASEAN ('1+10'), and between the ASEAN region and mainland China ('10+1') with Hong Kong serving as a high value-adding and facilitating key international hub, bridge, connector, promotor and investor.

Address: Hong Kong-ASEAN Economic Cooperation Foundation Limited, G.P.O. Box 12779, Hong Kong

Email: secretariat@hk-asean.com

Source: [Hong Kong-ASEAN Economic Cooperation Foundation](#)

[Hong Kong Business Association of Cambodia](#)

Email: info@hkbac.org

Tel: (855) 12 888 855

Fax: (855) 23 216 880

Website: www.hkbac.org

Please click to view [more information](#).

Source: [Federation of Hong Kong Business Associations Worldwide](#)

[Royal Consulate General of Cambodia in Hong Kong SAR and Macao SAR](#)

Address: Unit 1218, 12/F, Star House, 3 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong

Email: cacghk@netvigator.com

Tel: (852) 2546 0718

Fax: (852) 2803 0570

Source: [Visa on Demand](#)

11.5 Visa Requirements for Hong Kong Residents

HKSAR passport holders need a visa to visit Cambodia.

Source: [Visa on Demand](#)

Date last reviewed: January 26, 2021

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