

# BUSINESS CONFIDENCE

*Members*  
SURVEY 2015



Programme co-funded by the  
EUROPEAN UNION





European Chamber of Commerce in Cambodia

Address

#33 Sothearos (corner of street 178)  
B.P 522 Khan Daun Penh  
Phnom Penh, Cambodia

Telephone

+855 023 964 141

Email

info@eurocham-cambodia.org

Website

www.eurocham-cambodia.org



---

Special thanks to Eelco Dijkhuizen of TNS Cambodia,  
for his support in putting together this survey.

---

Founding associations



# TABLE OF CONTENTS

EXECUTIVE SUMMARY _____	4
Methodology	4
Key findings	5
Part 1:RESPONDENT PROFILE _____	6
1- Areas of activities	6
2- Type of company	7
3- Number of employees	8
4- Presence in Cambodia	8
5- Companies having signed an MoU with ACU	9
Part 2:PERSPECTIVES ON THE CAMBODIAN BUSINESS ENVIRONMENT _____	10
6- Cambodia's regional competitiveness	10
7- Competitive advantages	10
8- Obstacles to doing Business	11
9- Human resources Challenges	12
10- Areas most in need of Government focus	12
11- Profitability and revenue targets	13
Part 3:EXPERIENCE OF REFORM INITIATIVES OVER THE PAST 12 MONTHS _____	14
12- Changes in ease of doing business	14
13- Impact of reforms	15
14- Government support for Foreign Direct Investment	15
15- Improvements in the Business Environment	16
16- Problems in the Business Environment	16
Part 4:BUSINESS OUTLOOK _____	17
17- General Business Forecast for 2016	17
18- Sector Forecast	17
19- Impact of ASEAN Economic Community (AEC)	18
20- Expectations for Ease of Doing Business	18
21- Expansion plans for Cambodia	19
22- Summarizing doing business in Cambodia	20
CONCLUSION _____	21

# EXECUTIVE SUMMARY

This first edition of EuroCham Business Confidence Survey was conducted by the EuroCham Cambodia executive team between 16 September and 18 October 2015. The purpose of the study is to provide an empirical overview of the Cambodian economic environment through quantitative measures of the perceptions of the European and international business communities operating in the Kingdom.

In addition to gathering our members' views on the current business environment and their expectations for the year to come, the survey also takes into account the ongoing reform agenda of the Royal Government of Cambodia and seeks to understand the level of impact that these reforms are having on Cambodia's ease of doing business.

The survey is intended to support current and prospective European investors in Cambodia by providing an overview of the advantages and challenges to doing businesses here (in particular, those applicable to foreign-owned businesses) as well as insights into how the private sector view Cambodia's prospects over the coming years.

## METHODOLOGY

Each of EuroCham's members (over 200) was sent an email requesting that they complete an online form. **We received 72 responses**, representing a relatively high response rate in excess of 35% of those contacted. Compared to our overall membership, the pharmaceutical and transport/logistics sectors are slightly over-represented while companies in the Consumer Goods and Retail sectors are slightly under-represented in this survey.

Respondents were asked to provide answers to 24 questions covering four topic areas:

1. Respondents Profile
2. Overall perception of the Cambodian business environment
3. Experience of reform initiatives over the past 12 months
4. Attitude towards the future within Cambodia

## RESULTS

Our 72 respondents represent a broad range of industries, reflecting the diverse business activities of our membership and the range of opportunities that are to be found in Cambodia. **They are mostly local SMEs with foreign ownership**, plus sizable minorities of Cambodian-owned businesses and international companies with a presence in the Kingdom. Most have been in Cambodia for 15 years or less.

**Almost half of respondents considered Cambodia to be less competitive than other ASEAN countries** at the present time. Despite the low cost of human resources and low levels of taxation, the Kingdom is held back by a 'skills gap' and a perceived lack of transparency. Notwithstanding these challenges, **most respondents were able to achieve their financial targets for the year.**

As to the ongoing reform agenda, **respondents were yet to experience many major improvements upon ease of doing business** within the country over the past twelve months, with the notable exception of infrastructure upgrades. Experience of reforms was varied amongst respondents which we attribute to the variety of different industries that they represent - certain reform initiatives are likely to have an immediate impact on some sectors yet make little difference to others.

**In spite of the challenges raised, a large majority of respondents expect to be able to continue to grow their business within Cambodia over the coming year** and feel optimistic about the prospects for their sector. Few believe that ease of doing business is likely to decline and many expect to expand their activities over the coming year.

# SOME KEY FINDINGS

**79%** of respondents cited the “**low cost of human resources**” as the **main competitive advantage** of Cambodia compared to other ASEAN countries...

....however, **53%** of respondents identified a lack of availability of human resources as the main **obstacle** for doing business.

**64%** of respondents highlighted the need for greater **transparency**

Since the start of the reforms, **69%** of respondents **do not see much change** regarding the ease of doing business.

Indeed, **22%** of them think that the situation **has worsened** over the past 12 months...

...nonetheless, **71%** of them **reached or exceeded** their profitability target.

**45%** of respondents highlighted **infrastructure upgrades** as a major improvement....

....whilst **54%** identified transparency as the area that has least improved...

Strong business confidence is confirmed by the fact that

**81%** of respondents planned to **invest** further in Cambodia within 2016 and **expand** their activities...

...despite **51%** of them thinking that the ease of doing business will remain the same.

**28%** of respondents are more **optimistic**, citing that business will become easier or somewhat **easier in the future**.

The impact of **ASEAN Economic Community** is seen for **53%** of respondents as somewhat **positive** or positive but

**38%** of them do not think that AEC will have much **impact** upon their business.

**58%** of respondents predict a large or **very large growth** in the near future for their company within Cambodia.

A comment by one of our members to summarize doing business in Cambodia:

**“Nothing is easy but everything is possible”**

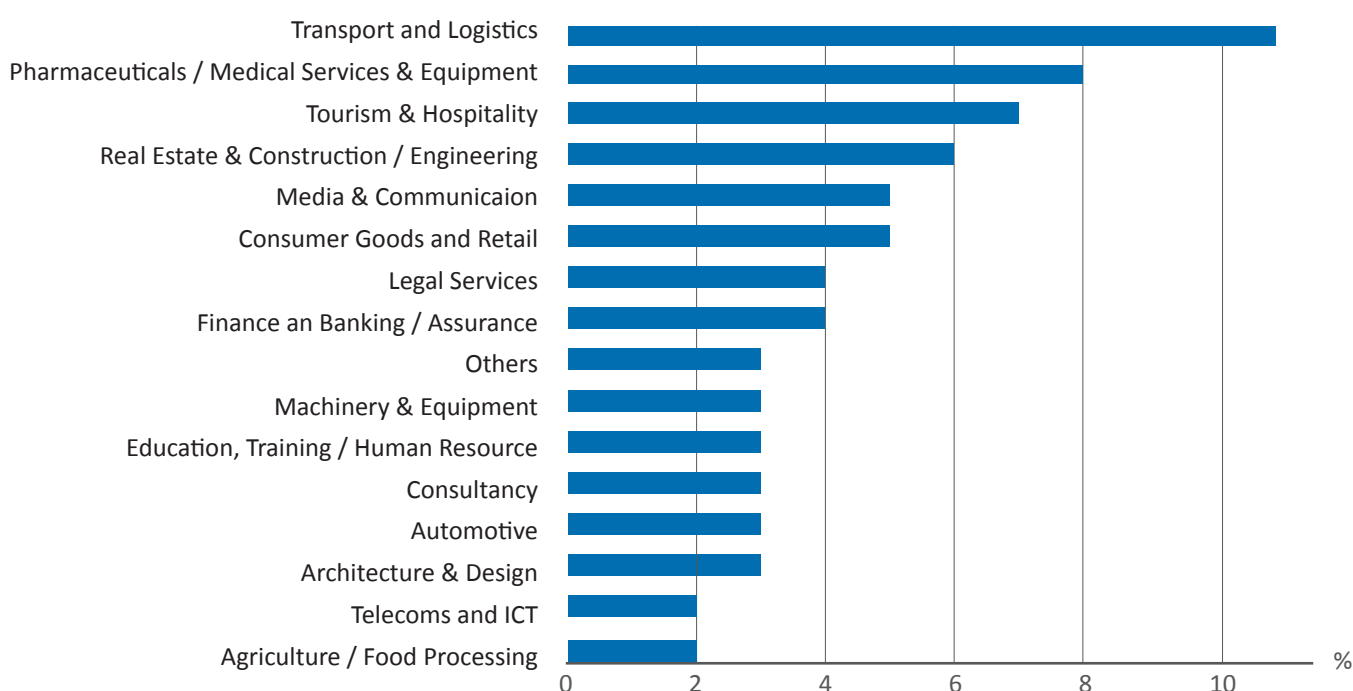
# Respondent Profile

## Q 01 | AREAS OF ACTIVITIES

The respondents to our Business Confidence Survey represent a broad range of industries, reflecting the diverse business activities of our membership and the range of opportunities that are to be found in Cambodia.

### 1. COMPANY DESCRIPTION

*Which of the below categories best describe your company main area of activities ?*



In the survey, our respondents represent a total of 17 distinct sectors. Only 6 sectors are reported by 5 companies or more to be their main line of business - 'Transport and Logistics' companies are the most numerous (11) followed by 'Pharmaceuticals/Medical Services and Equipment' (9), 'Tourism and Hospitality' (7).

There are at present relatively few European companies operating within Cambodia's major export-orientated industries such as garments and agriculture, which are mostly comprised of East Asian investments.

Over the past twenty years, a majority of European investments in Cambodia have tended towards the services industry, including business services and more consumer-focused sectors such as hospitality. European businesses already feature prominently within a number of niche markets such as pharmaceuticals whilst increasing levels of wealth are creating new markets for retailers and specialized service providers to move into.

In future, we expect to see greater levels of European investment within the industrial sector. The Royal Government's Industrial Development Policy aims to facilitate the diversification of Cambodia's industries and increase the sector's contribution to GDP to 30% by 2025.

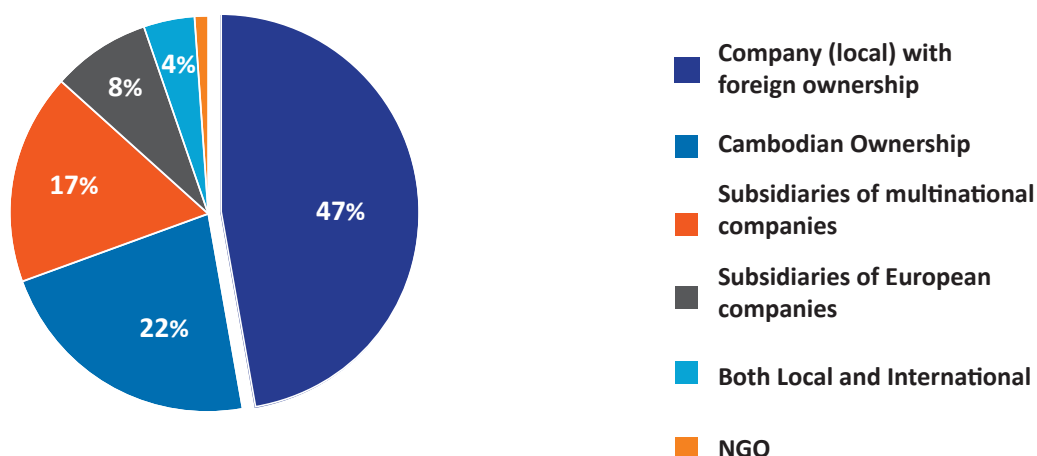
Compliance with business registration processes is a prerequisite for membership of EuroCham Cambodia, and **74% of respondents are locally-registered companies**. Of these, a majority has wholly or mostly foreign ownership, benefiting from the official policy of the Royal Government of non-discrimination against foreign-owned businesses. We also have a number of Cambodian-owned businesses amongst our members who can demonstrate strong links to Europe and the European community.

A smaller percentage of respondents were international companies that have a branch or registered office within Cambodia (17%). Included within this figure, 8% of all respondents were European companies with a branch or registered office within Cambodia. This reflects the current state of European investments in Cambodia – whilst there are multiple local businesses owned by Europeans, relatively few European multinational companies have established a presence here in comparison with the European investments other ASEAN countries.

The presence of an NGO within the results may seem surprising; however this can be explained by the fact that NGOs have in recent history played a big role in Cambodia especially in education, vocational trainings, or in green business. Some NGOs work very closely with the private sector and as such have reason to apply for an associate membership at EuroCham.

### 1. COMPANY OWNERSHIP

*Which of the below profiles best describe your company based in Cambodia ?*



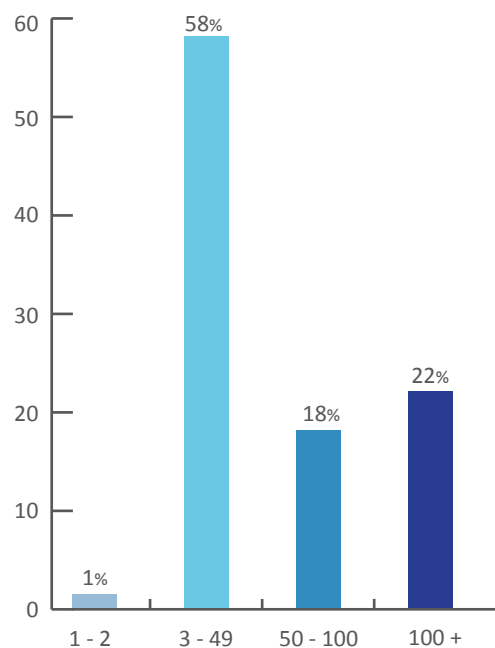
## Q 03 | NUMBER OF EMPLOYEES

Small- and medium- sized enterprises (SMEs) feature heavily within the Cambodian market and provide more than 1.5 million jobs according to the Federation of Association for Small & Medium Enterprises of Cambodia. Accordingly, most of our respondents are SMEs with less than 100 employees in total. **A majority of respondents (58%) employ between 3 and 49 staff** whilst only 22% of respondents can be described as larger companies providing jobs to more than 100 individuals.

To make a regional comparison, the EU-ASEAN Business Confidence survey published in August 2015 by the EU-ASEAN Business Council showed a similar pattern with SMEs employing less than 50 people accounting for nearly half of respondents (48%).

This implies a strong presence of small and medium sized organizations (SMEs) at a regional level, even though they may be part of much larger multinational company structures. The number of companies employing more than 100 employees at the regional level is indeed much higher with nearly 40% of respondents belonging to this category in comparison with 22% only in Cambodia.

### 3. NUMBER OF EMPLOYEES IN CAMBODIA



## Q 04 | PRESENCE IN CAMBODIA

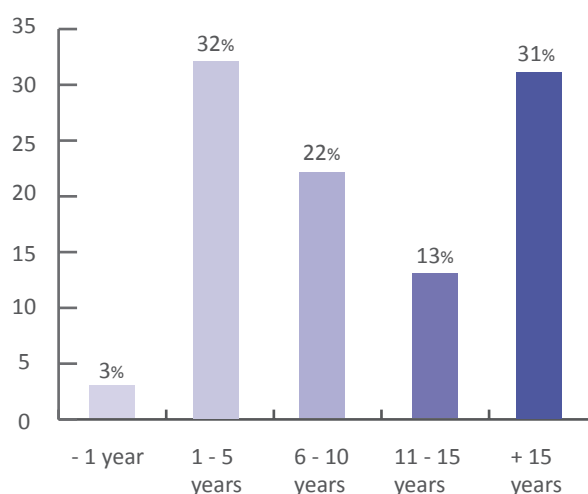
**69% of the companies who responded have been in Cambodia for fifteen years or less.** Only in the past twenty years has there been sufficient political stability to encourage greater numbers of foreign investors, European or otherwise, to consider creating a business in Cambodia. As demonstrated by Figure 4, there was a varied spread between the '1-5 years', '6-10 years' and '11-15 years' categories.

The relatively **high percentage of companies that settled in Cambodia during the last 5 years (32%) may have been attracted by the strong and consistent economic growth** recorded by the country over the past decade (an average of 7% per annum).

In comparison, at a regional level, only 18% of companies have been present in their host countries for less than 5 years whilst almost half of the respondents have been in the region for 20 years or more. This reflects both the long-term nature of European investment in ASEAN and how Cambodia is still a relatively new market for European investors.

### 4. PRESENCE IN CAMBODIA

*How long has your company been present in Cambodia ?*





## Q 05 | COMPANIES HAVING SIGNED AN MOU WITH THE ACU

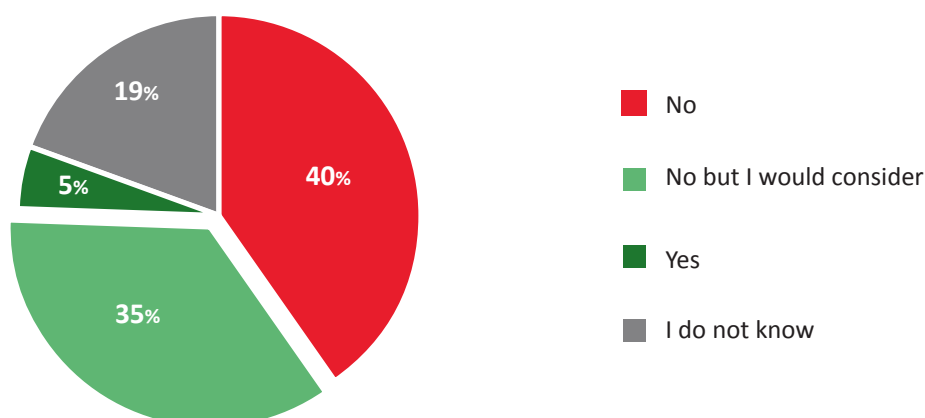
*EuroCham Cambodia has signed a **Memorandum of Understanding (MoU)** with the **Anti-Corruption Unit (ACU)** as of July 2015, becoming the first business association in the Kingdom to do so.*

Whilst EuroCham Cambodia is happy to approach the ACU on behalf of members, we actively encourage our members and other dialogue partners to directly engage the institution.

The signing of MoUs with the ACU is a relatively new concept. Considering the importance of transparency for European companies investing in Cambodia and the fact that corruption is seen as one of the main obstacles to doing business for half of respondents, the attitude of respondents towards a possible collaboration with the Anti-Corruption Unit can provide some insights into their degree of confidence on this important topic. However, one also needs to take the size of the company into account as an SME may perceive less obvious benefit in engaging bilaterally with the ACU.

### 5. COMPANIES HAVING SIGNED AN MoU WITH THE ACU

*Have you signed an agreement with the Cambodian Anti-Corruption Unit ?*



Amongst respondents, only 5% have signed their own agreement with ACU. However, a further 35% report that they would consider doing so, which can be seen as positive considering the fact that only 25% of respondents are international companies with a branch or representative office in Cambodia. In total, 20 companies (including those within our survey) have signed a MoU with the Anti-Corruption Unit.

# Perspectives on the Cambodian business environment

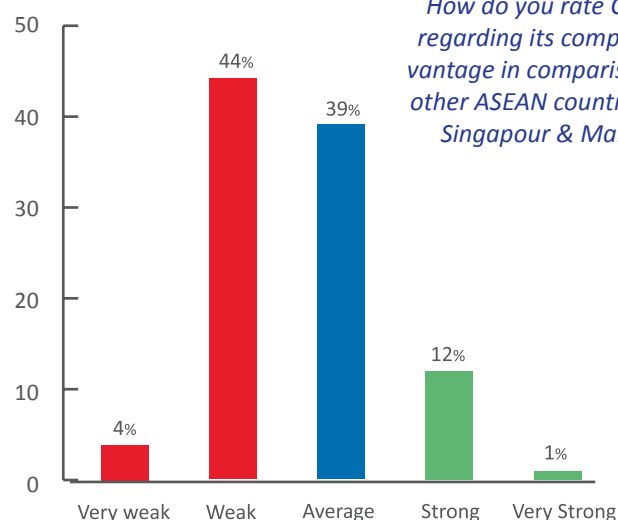
This section of the survey focuses on the respondents' overall perceptions of the business environment in Cambodia, considering the main advantages and challenges of doing business in the Kingdom and comparing to other markets within the ASEAN region.

## Q 06 | CAMBODIA'S REGIONAL COMPETITIVENESS

### 6. RATING OF CAMBODIA'S RELATIVE COMPETITIVE ADVANTAGE

Overall, on a scale of 1 to 5 with 5 being 'Very Strong', our respondents give an average score of 2.6 to Cambodia when comparing its competitive advantages against those of other ASEAN countries excluding the more developed Singapore and Malaysia. Such a score indicates that **a majority of respondents perceive Cambodia to be slightly less competitive than other regional investment destinations.**

Only 12% of respondents give a score of 'Strong' or 'Very Strong', though on the positive side, only 4% report Cambodia's competitiveness as 'Very Weak'.



*How do you rate Cambodia regarding its competitive advantage in comparison with other ASEAN countries (except Singapore & Malaysia) ?*

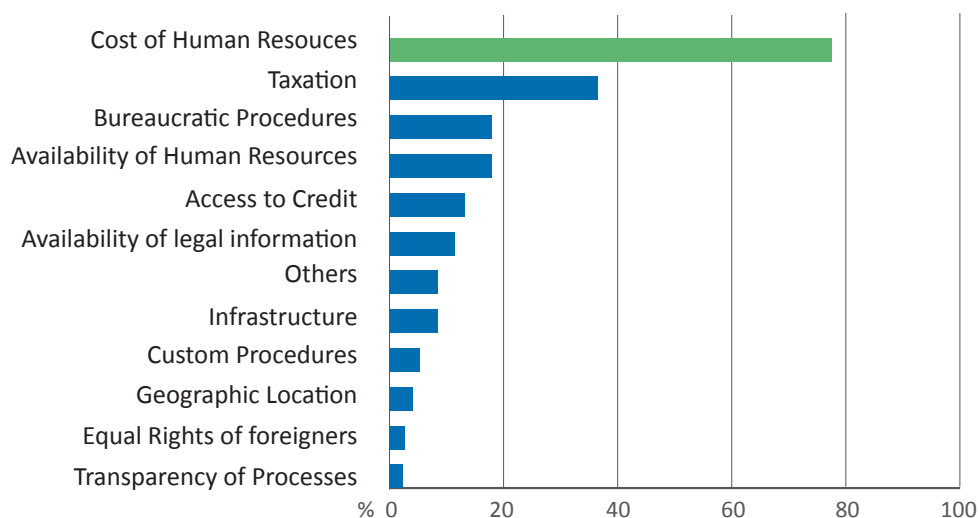
## Q 07 | COMPETITIVE ADVANTAGES

Cambodia is generally considered to have one of the most business-friendly governments in the region and has an established reputation for non-discrimination against foreign-owned businesses. It is interesting to see how these advantages, captured in the "Bureaucratic Procedures" (18%) and the "equal rights for foreigners" (3%) answers, are not fully reflected in the responses of our members.

Where respondents were asked to identify the areas for which Cambodia compares most favorably against other ASEAN countries, except for Singapore and Malaysia, **79% gave priority to the low cost of human resources.** Cambodia does not have a national minimum wage. However, the minimum wage for the garments sector tends to be used as a benchmark for other industries.

### 7. CAMBODIA'S COMPETITIVE ADVANTAGES

*Which of the below do you believe are the main competitive advantages of Cambodia as compared to other ASEAN countries (except Singapore & Malaysia) ?*



In 2015 the garments sector minimum wage was 128USD per month and this will rise to 140 USD in 2016. There is an annual review mechanism in place to consider further minimum wage increases, which would be likely to have a material impact given the very large majority of respondents identifying labor costs as one of Cambodia's key competitive advantages.

**The Kingdom's business-friendly taxation system**, which has the lowest tax rate amongst the remaining 8 ASEAN countries, **also scores highly with 33% of respondents** identifying it as a key advantage.

## Q 08 | OBSTACLES TO DOING BUSINESS

Where respondents were asked to select from a list of options the greatest obstacles to doing business in Cambodia, results obtained were somewhat more diverse.

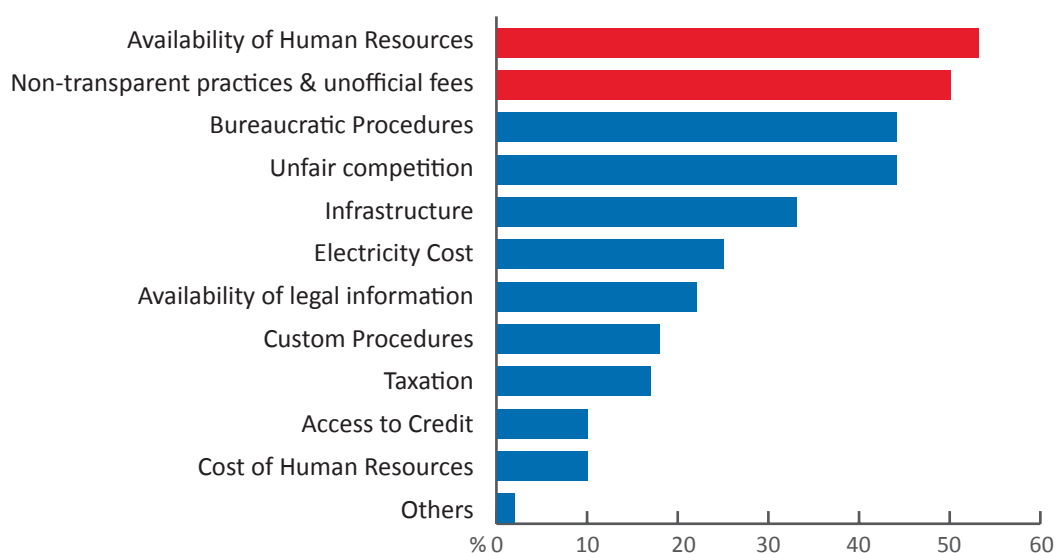
Human resources again features prominently with **53% of respondents perceiving the lack of availability of human resources as a significant** challenge. Given the profiles of our respondents, few of whom are reliant on low-cost and low-skilled labor, this feedback should be understood as a reference to the Kingdom's 'skills gap' in which employers can at times find it difficult to identify adequate candidates with the necessary skills to fulfill what is required of the role.

**Non-transparent practices and unofficial fees follow closely behind** availability of human resources as a key challenge identified by the respondents (50%)

**Challenges in navigating bureaucratic procedures and facing unfair competition** (whereby tax-compliant businesses struggle to be competitive against non-compliant businesses) are identified almost as many times (44% of respondents).

### 8. OBSTACLES FOR BUSINESSES

*What have been the main obstacles which your company has encountered in general during the past 12 months while doing the business in Cambodia ?*



## Q 09 | HUMAN RESOURCES CHALLENGES

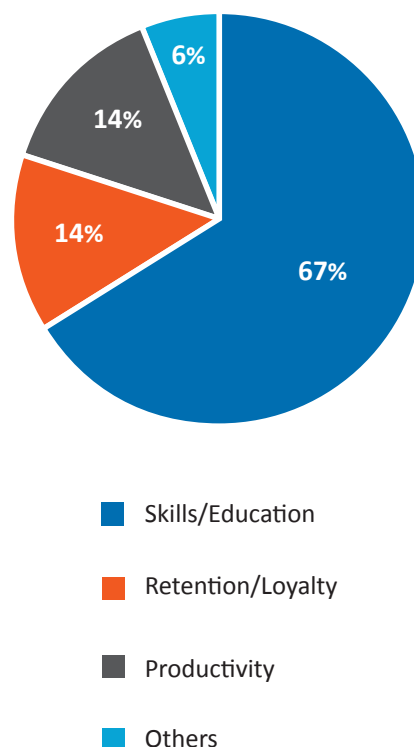
Having foreseen that human resources would be one of the major obstacles to doing business that were raised by respondents, we also asked them to specify which particular issues relating to human resources proved challenging for their company.

**Lack of skills and education is the most common answer for two thirds of respondents.** Education has been indeed identified as one of the main priorities of the Royal Government of Cambodia and the Ministry of Education has embarked upon an ambitious series of reforms, though naturally the results of these reforms will take time to bear fruit. Improving soft skills is generally one of the key priorities of employers. Many employers feel a need to provide their own in-house training to employees as skills provided by public and private universities often do not match the requirements of the private sector. However, most businesses report that Cambodians are generally eager to learn and receptive to skills training.

**Productivity and retention are also highlighted but to a lesser extent (14% of respondents for each subject).** However, this should be viewed in the light of the profile of our respondents: here again, few of them are present in labor-intensive industries where productivity is a key. Regarding retention, it is a real issue faced by employers in Cambodia but mostly for skilled labor and senior managers, therefore a smaller portion of the workforce.

### 9. HUMAN RESSOURCES CHALLENGES

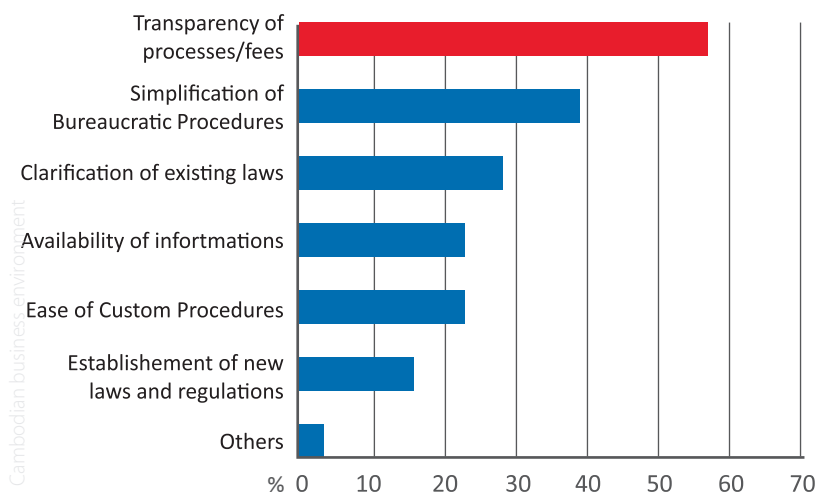
*What is the main challenge that your company faces in regards to human ressources ?*



## Q 10 | AREAS MOST IN NEED OF GOVERNMENT FOCUS

### 10. NEEDS FROM THE ROYAL GOVERNMENT

*In your main sector, what do you need the most from the government ?*



Asked to specify what they would like to see more of from the Royal Government of Cambodia to increase ease of doing business within their particular industry, **64% of respondents highlight a need for greater transparency.** This is an area that the Royal Government has acknowledged as a priority and that EuroCham is working on closely with the Anti-Corruption Unit, other public institutions, and the private sector.

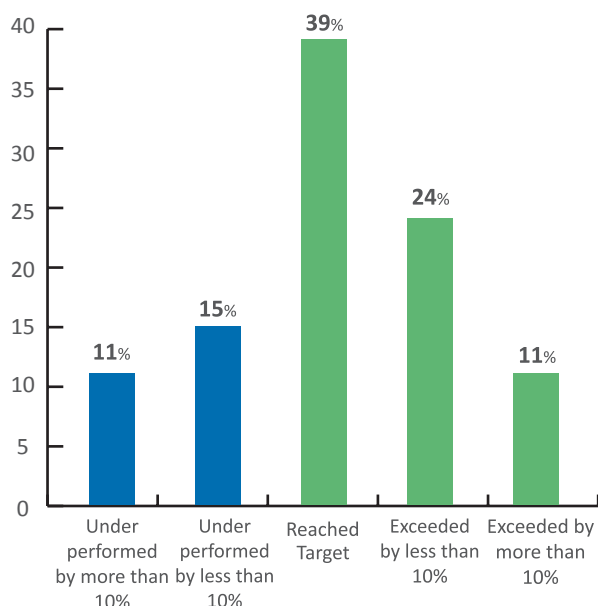
**Simplification of bureaucratic procedures and clarification of existing laws also features frequently,** being mentioned by 44% and 32% of respondents transparency because ambiguity over laws and processes and a lack of knowledge of these regulations amongst the private sector can create room for non-transparent practices.

## Q 11 | PROFITABILITY AND REVENUE TARGETS

Despite having highlighted more obstacles to doing business in Cambodia than advantages, **74% of respondents report reaching or exceeding their revenues** and similarly **71% reached or exceeded their profitability targets** within Cambodia over the past year. Respondents are asked to consider their financial performance as a percentage of their targets rather than to provide net figures as the different sizes of the companies responding to their questionnaire would make this a less useful comparison.

### 11a. TURNOVER ACHIEVEMENTS

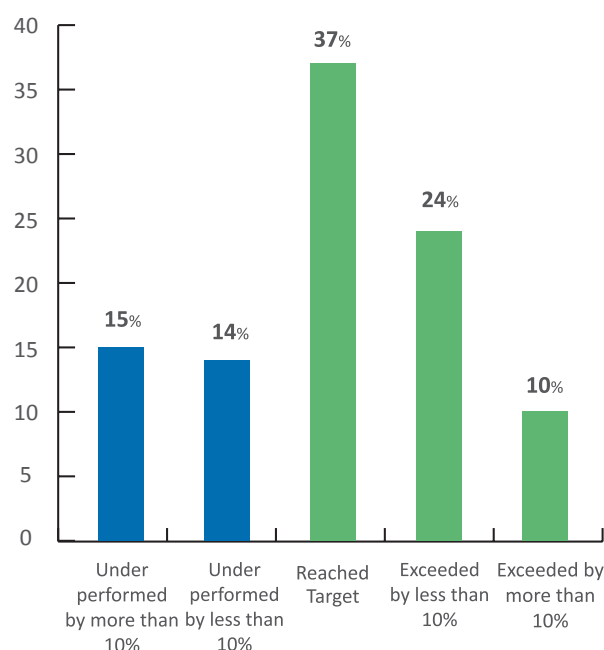
*How does your company's turnover over the past 12 months compare to your turnover targets ?*



Results regarding revenues and profitability are very similar with a large proportion of respondents declaring that they reached their targets (39% and 37% respectively for turnover and profit). Only 10% succeeded to exceed by more than 10% their targets in revenues and profit.

### 11b. PROFITABILITY ACHIEVEMENTS

*How does your company's overall profitability over the past 12 months compare to your profitability targets ?*



**With only 26% and 29% of companies reporting under-performance in revenue and profit targets** respectively, this would suggest that Cambodia's obstacles are manageable or, at the very least, that most businesses are realistic about the challenges of working here and adjust their targets accordingly.

# Experience of reform initiatives over the past twelve months

As part of an ongoing modernization strategy designed to lay the foundations for long-term sustainable economic growth, the Royal Government of Cambodia has in recent years been implementing a number of reforms designed to improve the Kingdom's traditionally low scores in Ease of Doing Business rankings and other international comparisons.

Besides its ongoing efforts to develop the country's physical infrastructure, the Royal Government has designed an ambitious reform agenda aimed at formalizing a still predominantly grey economy. Over the past two years, various improvements have thus been introduced to promote increased transparency in the public service, mainly through measures such as online registration, official publication of fee schedules or the systematic use of official receipts. At the same time, authorities have also pushed to improve implementation of existing regulations, including a push to increase tax revenue collection and enforce laws relating to work permits. As a result, the Royal Government has been able to report a more than 20% increase in tax and tariffs collection over the past year, a strong testimony to its efforts at reigning in non-transparent practices and tax evasion.

However, one of the short-term side effects of this proactive policy, especially with regard to tax collection, is the resulting increase in "unfair competition" between compliant businesses – which mostly comprise foreign investors – and non-compliant businesses. Unsurprisingly, unfair competition is thus cited in our survey as one of the main obstacles to the ease of doing business in Cambodia, along with bureaucratic practices and persistent non-transparent practices, often coupled with heavy enforcement or inspections by overzealous officials.

These short-term negative side effects induced by otherwise well-intended policies may therefore help to explain why our members remain cautious in their appreciation of the Royal Government's reforms while at the same time maintaining a positive outlook for the future of their investment in Cambodia.

## Q 12 | CHANGES IN EASE OF DOING BUSINESS

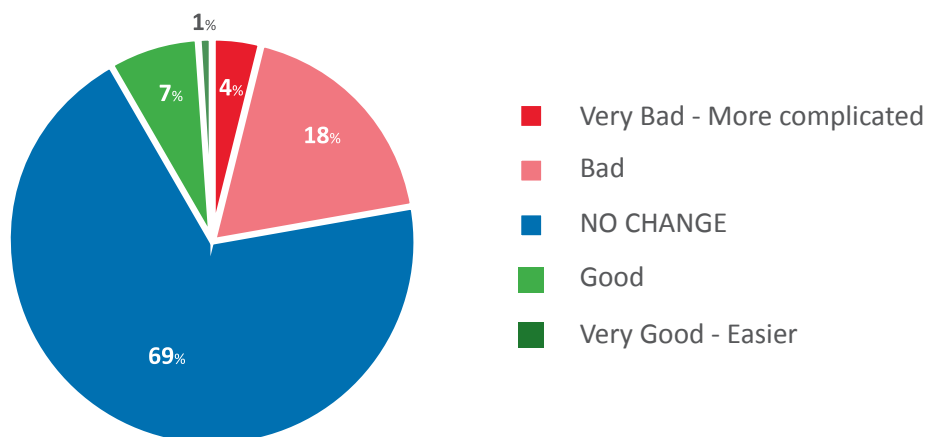
When asked to rate the overall changes to the ease of doing business in Cambodia over the past 12 months, **69% of respondents provide a score of 3 on a 1-5 scale, indicating a low level of change in either direction.**

22% consider it to have become more complicated to do business in Cambodia whilst **only 8% see the situation as improving.**

This underwhelming feedback does not necessarily suggest that respondents are not supportive of existing efforts to improve the Cambodian business environment – reform initiatives and their implementation can be expected to encounter some hurdles during their early stages and it takes some time before their possible benefits are likely to be realized

### 12. CHANGES OF DOING BUSINESS

How would you rate the changes regarding the ease to do business in Cambodia ?



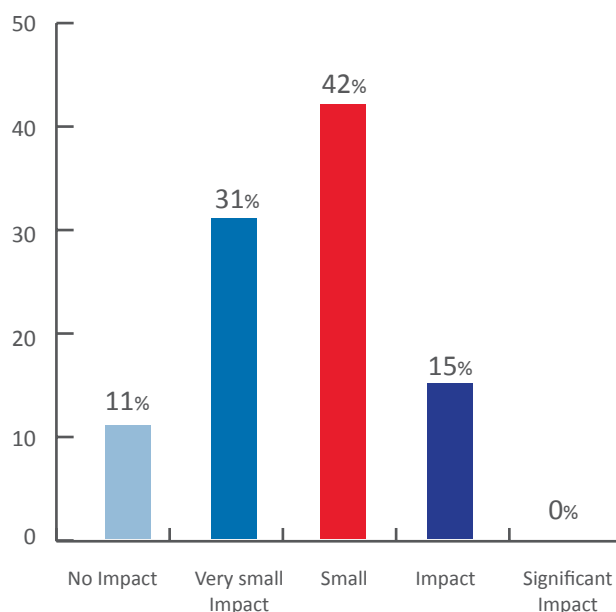
## Q 13 | IMPACT OF REFORMS

When asked the more specific question of the impact that the Royal Government's reform agenda had over the past 12 months, answers correlate with the trends in answers given to the question above concerning the overall improvement or deterioration in ease of doing business. However, on this question, opinions are more sharply defined with less respondents giving an answer of 'no change' – **42% feel that the reforms are having little or no impact whilst 15% feel they are having a somewhat significant impact.**

Considering Figures 12 and 13 together, there are a higher proportion of respondents reporting that the reforms are having little impact than there are respondents claiming that the overall business environment is becoming more complicated. This would suggest frustration at the pace of reform and/or hurdles in their implementation – they have not necessarily made things more complicated yet equally their benefits are not yet being realized.

### 13. IMPACT OF REFORMS

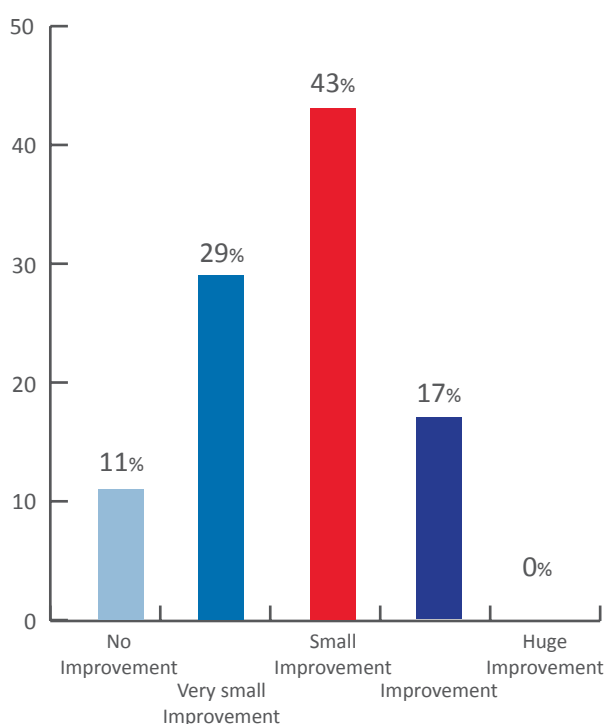
*What is the impact on the business environment of the reforms made in the past 12 months ?*



## Q 14 | GOVERNMENT SUPPORT FOR FOREIGN DIRECT INVESTMENT

### 14. IMPROVEMENT IN GOVERNMENT INITIATIVES

*Have you seen an improvement regarding the Government's initiatives to support foreign direct investment (FDI) in the past 12 months ?*



Similar trends emerge when respondents were asked whether or not they have seen any improvement in the Royal Government's initiatives to support Foreign Direct Investment (FDI) over the past 12 months.

**Again, 40% feel that there has been little to no improvement whilst 17% feel that such initiatives are having a significant impact.** The similarities found in answers to Question 13 and Question 14 therefore seem to indicate a correlation between the respondents' assessment of the Royal Government's reform agenda and their perception of the Kingdom's attractiveness to Foreign Direct Investment.

Recent FDI figures[1] tend to indicate that Cambodia is increasingly considered as a potential investment destination by overseas investors, as also illustrated by the growing number of European SMEs and MNCs who have enquired this year with EuroCham about the Kingdom's potential.



## Q 15 | IMPROVEMENTS IN THE BUSINESS ENVIRONMENT

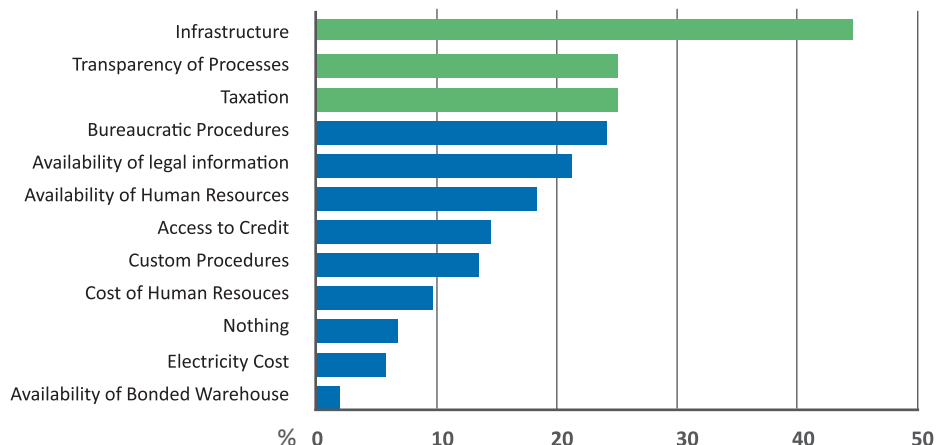
Asked to highlight **which areas have most improved** over the past 12 months, **45% highlight physical infrastructure** which was mentioned more than any other factor. The Royal Government allocates a major portion of the national budget (35% for 2016) to 'national capital expenditure' focusing on infrastructure upgrades which are also supported financially and otherwise by international donors.

Other areas considered to be improving are the taxation system and transparency of procedures which are each mentioned by more than 25% of respondents.

Whilst in Figure 13 only 15% of respondents report that reform initiatives are having a strong impact, on this question there are six categories mentioned by more than 15% of respondents. This suggests that, whilst respondents may not be completely satisfied with the rate of change, process is indeed being recognized by some businesses in several key areas.

### 15. IMPROVEMENT IN THE BUSINESS ENVIRONMENT

*Which of the below areas would you consider to have improved the most in the past 12 months ?*



## Q 16 | PROBLEMS IN THE BUSINESS ENVIRONMENT

When asked the inverse question – **which areas have deteriorated or not improved over the past year – the majority of respondents (54%) identify non-transparency of processes and unofficial fees.**

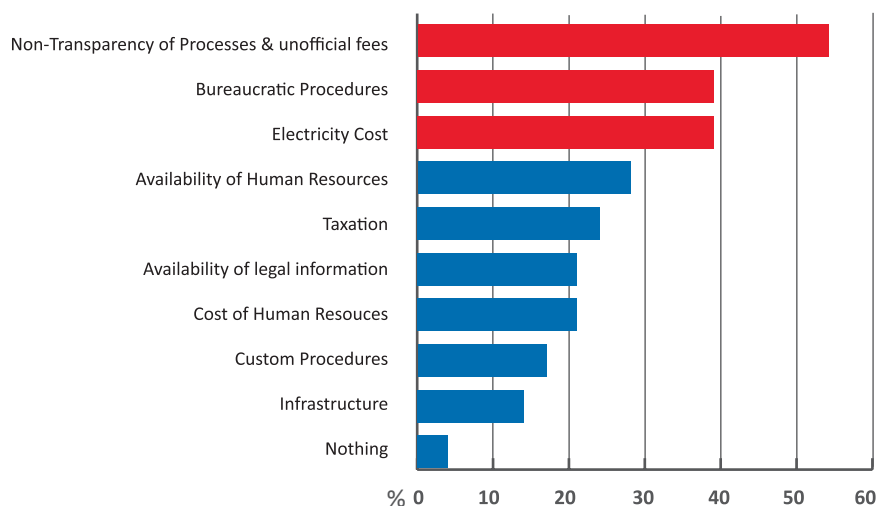
**Bureaucratic procedures are also mentioned by 39% of respondents.** Given that both of these areas also featured amongst those most frequently identified as improving in Figure 15, it can be said that opinions on these subject areas and whether they are improving or not are very variable.

We attribute this to the variety of different industries that our respondents represent, as certain reform initiatives are likely to have an immediate impact on some sectors yet make little difference to others.

**The cost of electricity**, a longstanding problem for Cambodia which has the highest electricity costs within Southeast Asia, **is also mentioned by 39% of respondents** as a matter that had not improved. Lowering electricity tariffs has been publically identified as one of four key 'concrete measures' that the Royal Government intends to achieve by the end of 2018.

### 16. PROBLEMS IN BUSINESS ENVIRONMENT

*Which of the below areas do you think has deteriorated or not improved in the past 12 months ?*





# Business outlook

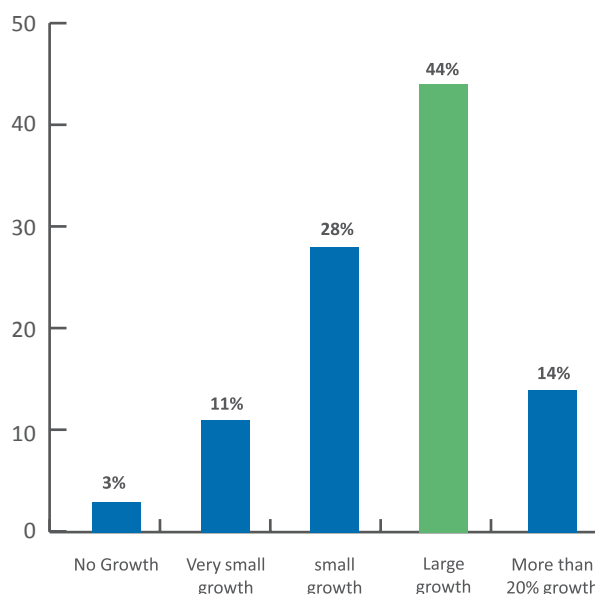
Finally, respondents were asked a series of questions aimed at better understanding their perception of their companies' fortunes within Cambodia over the near-to-medium future.

## Q 17 | GENERAL BUSINESS FORECAST FOR 2016

### 17. BUSINESS FORECAST

Asked what their expectations are for the growth of their company within Cambodia over the next 12 months, **a full 86% expect growth of 10% more. Only 3% report an expectation of no growth**, which indicates that despite the challenges raised within the survey, a large majority of respondents have a positive outlook for doing business in Cambodia and expect to be able to continue to grow their business over the coming year.

*What is your forecast regarding the growth of your company for the next 12 months ?*

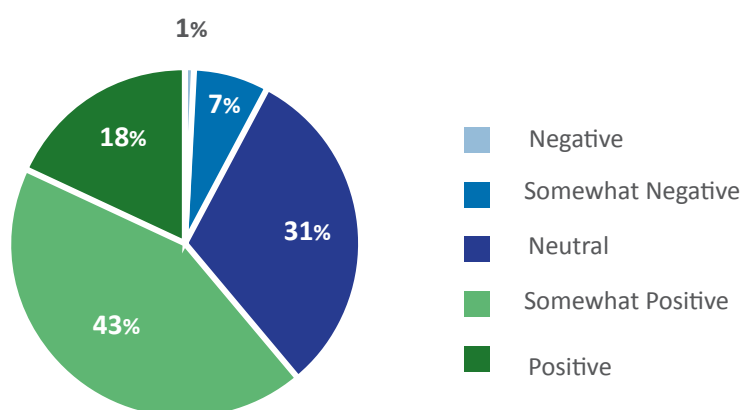


## Q 18 | SECTOR FORECAST

When asked to comment on the prospects for future growth in Cambodia within their particular sector (over an unspecified duration), **there is a similarly positive response with 61% expecting strong or very strong growth and only 8% reporting a negative expectation**. Considering these results in conjunction with Figure 17, these would suggest that most respondents expect the growth of their own business to be supported by overall growth within their business sector.

### 18. SECTOR FORECAST

*What is your forecast regarding the evolution of your sector of activities in Cambodia ?*



This positive stance towards the future is shared by an overwhelming majority of respondents at regional level in the EU-ASEAN Business Confidence survey: **70% expected their profits in ASEAN to increase in 2015** (the survey was done mid-June) with Myanmar being the most positive (84%) and Thailand being the least positive (45%).

## Q 19 | IMPACT OF ASEAN ECONOMIC COMMUNITY

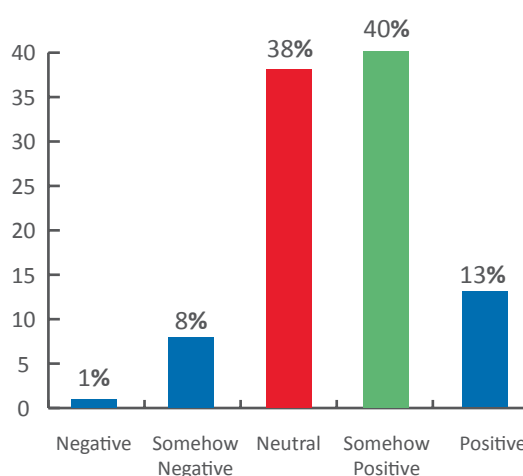
On the impact of ASEAN Economic Community (AEC), which will come into full effect at the end of this year, **a slim majority of respondents (53%) have a positive or very positive perception** whilst only 9% expect AEC to have a negative impact on their business.

A quite similar question asked by the EU-ASEAN Business Confidence Survey found that 58% of respondents see further economic integration within ASEAN as important to their business success in the region. However, within that survey there remained a degree of uncertainty concerning the benefits of such economic integration (30%). In comparison with the other countries, **Cambodia has a particularly high score of “not sure” at 41%**. Laos and the Philippines (35%) share similar levels of uncertainty whilst Vietnam (14%) and Myanmar (17%) are far more positive.

This is consistent with the results of our survey in which **38% of our respondents report expecting no significant impact in either direction**. For this there are several plausible explanations. A relatively high number of indifferent responses may be because these respondents are less affected by regional trade opportunities (eg. a company sourcing from China and exporting directly to Europe, or a services provider hiring mostly Cambodian staff). Alternatively, a lack of understanding of AEC and its consequences could be a factor, as could knowledge of the longer timeframe given to Cambodia in terms of its commitments on regional integration.

### 19. IMPACT OF AEC

*What impact do you think the AEC (ASEAN Economic Community) will have on your business ?*

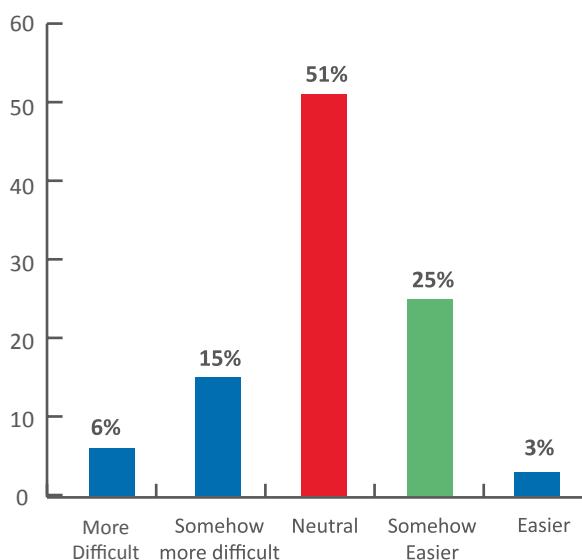


## Q 20 | EXPECTATIONS FOR EASE OF DOING BUSINESS

### 20. EXPECTATIONS

Asked whether they expected doing business to become easier in Cambodia over the next 12 months, 28% give a positive response and only 21% expect things to become more difficult. This is a considerably more positive position than in Figure 12 where only 8% reported seeing the situation improve over the past 12 months. As such, it would seem that **whilst respondents have not yet seen much benefit from the Royal Government's ongoing reform agenda, many of them do have a more positive outlook in terms of future advantages**.

*Do you think that doing business in Cambodia will become easier in the next 12 months ?*

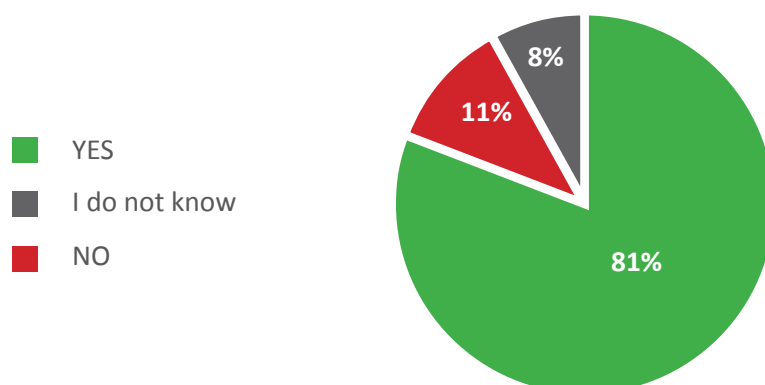


## Q 21 | EXPANSION PLANS WITHIN CAMBODIA

Reflecting the positive attitude towards future growth within Cambodia, **81% of respondents expect to continue investing over the coming 12 months, including a full 61% who expect to be expanding their business activities.** Here again, perceived obstacles to businesses and the very moderate appreciation of the Royal Government's efforts at reforming do not seem to affect the overall positive outlook of respondents regarding their business prospects in Cambodia.

### 21a. EXPANSION PLAN

*Does your company plan to invest further in Cambodia in the coming 12 months ?*

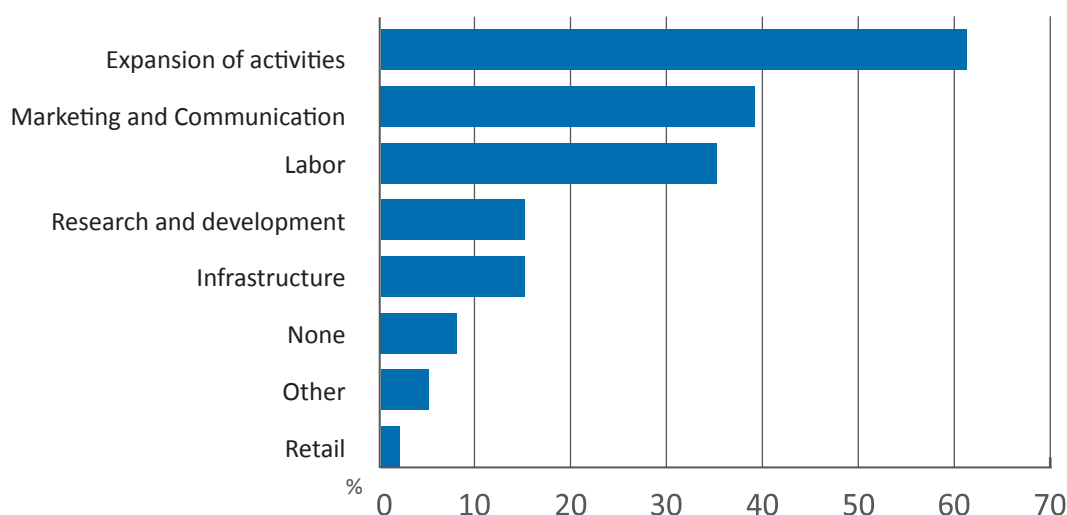


**Correspondingly, 39% expect to be investing a lot in marketing and communication whilst 35% expect to be investing** in labor (hiring of more employees). In this context, the efforts undertaken by the Royal Government to fill the 'skills gap' will be crucial, as will be the decision by investors to provide training to their work force. Intention to invest in research and development remains low at about 15%, a possible indication of current practices whereby most investors remain focused on labor intensive, low added-value industries.

As stressed by the newly-adopted Industrial Development Policy (IDP), the challenge for the Kingdom will now be to invest more in skills and human capacity in order to move up the value-added chain. Future surveys may tell if the new incentives announced in the IDP, and which should be found in the soon-to-be amended Investment Law, will be efficient in this regard.

### 21b. AREAS OF INTEREST

*In which areas/activities does your company expect to invest in the coming 12 months ?*



This final question aims to capture the overall feelings that our respondents have towards the Cambodian investment environment and how they would describe doing business in the Kingdom. The comments received reflect quite well the findings of the survey

When asked to summarize doing business in Cambodia in one sentence, **more than 42% of the companies respond with sentences** highlighting both positive and negative aspects of the Cambodian business environment.

In total around 37% of the comments are primarily negative. Of the negative elements mentioned, unfair competition (27% of the respondents) is most commonly mentioned, followed by issues with Cambodian legislation and lack of enforcement. Areas such as corruption, lack of transparency, and unclear regulations are also highlighted.

Out of all of the comments, 23% are purely positive about business in Cambodia, with these respondents perceiving Cambodia as a land of opportunity.

Some of the most indicative responses can be read here:

***“Nothing is easy but everything is possible”***

***“There is a great potential but need for more transparency”***

***“Complicated but taking a right direction”***

***“Unfair competition is the main obstacle”***

***“Good business environment with a lot of opportunities that does need some improvement in rule of law and quality of education”***

***“There is a big opportunity for all sectors of business in Cambodia as its market is emerging with consumers in need for many new products”***

# CONCLUSION

EuroCham believes that this business confidence survey provides a fair reflection of the current investment environment within the Kingdom. While most of our respondents give a slightly unfavorable account of the current-day ease of doing business, they also remain highly optimistic about their prospects within Cambodia. Such optimism may be attributed to a belief in the longer-term benefits of the Royal Government's ongoing reform agenda or, where such faith is lacking on the part of some respondents, an assessment that the advantages and opportunities that Cambodia can offer are likely to outweigh the challenges of operating here.

It is our hope that the results of this survey will prove encouragement for the Royal Government, which is already well aware of the Kingdom's challenges and putting strategies in place to address them. EuroCham remains determined to stand as a constructive partner to the Royal Government in the achievement of their economic objectives.

Furthermore, we believe that this survey's results should encourage companies not currently doing business in Cambodia to consider exploring an investment here. Our respondents, from a broad range of industries, clearly indicate that Cambodia is an unsaturated market with plenty of opportunities for future growth.

EuroCham intends to conduct this business confidence survey annually so as to continuously track perceptions of business confidence amongst our membership. Having faith in Cambodia's future and being supportive of the reform agenda, we are looking forward to seeing how the business community's assessment will evolve over the coming years.

---