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Global Risk Watch Newsletter

Narrower Paths for Major Central Banks Now Face the Risk of Being Clogged by Another European Shock, etc.

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Emerging Countries Business Risk Series -Cambodia- (Hitoshi Motegi, Director, Risk Advisory at Deloitte Touche Tohmatsu LLC)

The British movie "The Killing Fields", produced in 1984, which was based on a true story, portrayed the tragedy of genocide under pro-Chinese Communist Party Khmer Rouge regime (KR: Pol Pot faction), and shocked many people around the world. (Received three 1985 Academy Awards on Best Supporting Actor, Best Film Editing, and Best Cinematography) Currently in Cambodia, where it was called the Killing Fields, 224 Japanese companies hold offices (as of October 2015), and the number is expected to significantly grow in the future.

In Cambodia, ruling by the United Nations Transitional Authority in Cambodia (UNTAC) has started from March 1992 to help reconstruct from the long lasted chaos between the Pol Pot era (1975~1979) to the end of civil war period (1979~1991). The investment environment has relatively improved from the achievement of public order and political stability, and also the infrastructure development by the Official Development Assistance (ODA) by the Japanese government have progressed. In terms of regulations, Cambodia is categorized in the higher end on infrastructures within the Southeast Asian countries, and, with respect to foreign investments, have low barriers on entry into the market (Investment Promotion Act) making the investment in Cambodia very attractive. Especially in service industries such as the retail industry, there are usually many regulations setting an upper limit on the stake of foreign companies in other Southeast Asian countries, but in Cambodia, there are no such restrictions on foreign

investment in the service industry. Additionally, since it is located between Vietnam, Thailand, and Laos, it has a high geographical advantage as a production base, and other advantages such as political stability attracts the interest of Japanese companies.

However, there are also lots of issues in Cambodia. For example, in the Global Competitiveness Report, Cambodia ranked 102th out of 140 countries in world's appropriate infrastructure ranking (World Economic Forum "Global Competitiveness Report 2015-16), and was ranked relatively on the lower end amongst the emerging countries. For example, Route 1 and Route 5 are important routes of the South Economic Corridors, which connects Ho Chi Minh City, Vietnam and Bangkok, Thailand via Phnom Penh, but the section where the section with two or more lanes are limited and areas without street lights could be found in many places. The traffic jam in central Phnom Penh city is severe, and large-scale traffic jams often occur in the main road connecting the city to the industrial estates located southwest of city center. Railways are also not well established. Currently, there are only two railways, one connecting Phnom Penh and southern city of Sihanoukville and the other connects Phnom Penh and northern border city of Poipet. There are only 3 international airports (Phnom Penh, Siem Reap, and Sihanoukville), but only Phnom Penh and Siem Reap holds "Instrument Landing System" (ILS). Both airports are going through rapid expansion in recent years, and is being said that both are reaching to its capability. The supply of electricity is unstable, and the electric bills are expensive compared to neighbouring countries, which are raised as a problem.

On social issues, due to the genocide under Pol Pot regime, the population age structure has become distorted. For example, the population pyramid released by the Cambodian government in 2005 displayed a gourd-shaped graph. The pyramid is showing regular curve from the elderly to the 30s, but the shape the population is very low in 20s, especially in high 20s, and is creating narrow part in the middle of the pyramid. (This is due to the very low birth rate and very high infant mortality rate during the Pol Pot regime) After the collapse of Pol Pot regime, the birth rate increased sharply resulting in the current population age structure, where the population of age 24 and below consists more than 50% of the population. (Median age of the population is 23.9 years old)

As we can see, in reality there are lots of business risks involved in expanding business into Cambodia, but Cambodian people hold very favourable impression of Japan, and if taking the advantages into consideration, such as geographical advantage, Cambodia is most favourable in investment environment and effective investment amongst the late emerging countries in Asia CLM (Cambodia, Laos, and Myanmar).

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