

# VISIONS *of* CAMBODIA

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## AN ENERGETIC CHAIR OF A POWERFUL REGIONAL FORUM



ASEAN Regional leaders gathered in Phnom Penh last month for what was an unusually spirited summit of the Association of Southeast Asian Nations.

As press conferences go, this was one of the more emotional in the history of the Association of Southeast Asian Nations, or ASEAN. On Nov. 20, the 45-year-old grouping of 10 countries had completed its summit and related meetings. All that remained was for Prime Minister Hun Sen of Cambodia, ASEAN's current chair, to meet the press and answer questions.

Founded in 1967, ASEAN groups Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Cambodia has served as ASEAN chair once before, 10 years ago. This time, the role was more challenging.

Leaders gathered under the theme "One Community, One Destiny." In his opening address, the Prime Minister acknowledged the great advances made in cooperation over the past 45 years, particularly in community building. He reiterated that realizing an ASEAN Economic Community by 2015 should remain the organi-

zation's top priority, and he outlined enhanced cooperation in addressing collective challenges such as financial and economic crises, climate change, natural resources and health.

He reinforced further that maintaining regional peace and security is indispensable for ASEAN's prosperity and inclusive growth.

Cambodia's year as chair of ASEAN has produced some significant results. Indeed, some milestones and major developments were achieved at this summit.

At his press conference, Prime Minister Hun Sen outlined those accomplishments, which included the establishment of the ASEAN Institute for Peace and Reconciliation, put forward at last year's summit in Bali, to enhance peace and security.

Talks began on an ambitious Regional Comprehensive Economic Partnership (RCEP) aimed at deepening the economic integration of Southeast Asia and six trading partners, China, India, Japan, South Korea, Australia and New Zealand. The group would bring together 3.4 billion people with a combined GDP of some \$17 trillion.

Leaders also signed a region-wide, non-binding declaration on human rights, which ASEAN Secretary General Surin Pitsuwan hailed as a "major, major development." Members had committed to the "highest standards available," he said. "We have come a long way on the human rights agenda."

Cambodia delivered a well-executed summit, says Kok An, a Cambodian entrepreneur and chairman of Anco Brothers. "This was an important opportunity for Cambodia to establish its brand in the international arena. It gave international leaders an opportunity to see for themselves the changes made in Cambodia."

## 2012: A REMARKABLE TRANSFORMATION

The country is invigorated, the chair of ASEAN and recording robust economic growth. Cambodia's image has not kept pace with the scale of its transformation.

Barack Obama's 24-hour stay in Phnom Penh on Nov. 19 to meet leaders attending the 21st Association of Southeast Asian Nations (ASEAN) Summit was the first-ever visit to Cambodia by an incumbent US president. With the newly re-elected American leader and his counterparts from the region in its capital, this nation of 15 million people—the current chair of ASEAN and host of the summit—was in the global spotlight.

Known widely for the "killing fields" and the atrocities of the Khmer Rouge regime in 1975-79, Cambodia has put that dark episode in its history behind it and emerged as one of Asia's fastest growing economies, expanding by about 10% a year from 2005-9 and by almost 7% a year in 2010 and 2011.

The death in Beijing in October of revered former King Norodom Sihanouk, to an outpouring of grief at home, was pause for reflection.

# FOREIGN INVESTMENT GATHERS PACE



Foreign direct investment is on a rising trend, with some \$632 million invested in the year to the end of February, against \$553 million in the year previously. Although China is by far the most dominant investor with more than 50% of FDI, Japanese, South Korean, Vietnamese and Malaysian companies are active. FDI is going into traditional areas like textiles and agriculture, as well as tourism, light manufacturing and construction, particularly evident in Phnom Penh where hotels, office blocks and luxury housing are springing up.

Investors have been encouraged by Cambodia's steady economic growth, strategic location, inexpensive labour and its political stability—Prime Minister Hun Sen is Asia's longest serving leader. Since Cambodia joined the WTO in 2004, exports have increased two and a half times. Membership reinforced the message that Cambodia was serious about large-scale FDI.

So too does the rollout of a raft of Special Economic Zones, most of which are near the country's borders to encourage ready access to external markets and proximity to cheaper electricity. Some 21 SEZs are envisaged, of which eight are operational, encouraging investment in a wide range of industries.

Lim Chhiv Ho, Chairwoman of LCH Investment Group and President of the Phnom Penh SEZ, travelled widely to learn best practice. Chief among those is the ease of business, "a one-stop service centre, with government departments represented, makes for the seamless processing of paperwork." She points, too, to VAT exemptions on raw materials and machinery and world class facilities for the zone's workers.

Hann Khieng, Executive Director of Muhibbah Engineering, a Cambodian-Malaysian joint venture that has overseen the upgrade of the country's airports, points to Cambodia's strategic

advantage as an export base. Duty-free exports to the EU are a boon to business and Japanese and South Korean investors have been quick to spot the potential, he says.

Ms. Lim Chhiv Ho is keen that companies take pride in the "Made in Cambodia" label.

"I don't know any country that can offer a more liberal investment regime," says Sok Chenda, Secretary General of the Council for the Development of Cambodia. "In Cambodia, a foreigner can own a 100% share in any activity. The only difference between the national and the foreign investor is the ownership of land. It's the only one."

Adds Kok An, a leading entrepreneur: "Government has set up logical and legitimate policies and within those we can move forward as a country. Under these concrete and legitimate policies, trust has been built for foreign investors."

## ROBUST AND RESILIENT GROWTH



Cambodia, like other export-oriented economies, was hit hard by the global downturn: in 2009, growth plunged from above 7% the year before to just 0.1%, essentially a recession. But in 2010, it recovered strongly.

"If the crisis brought one proposition to global attention, it is this: resilient growth is as important as high growth," said Ajay Chhibber, UN Assistant Secretary-General and UNDP's Regional Director for Asia and the Pacific, in February last year at the 4th Cambodia Economic Forum in Phnom Penh. "The crisis marked a watershed moment for Cambodia. It threatened the reversal not just of growth and development, but of a process of structural transformation that had offered enormous potential to accelerate development efforts." But Cambodia pulled through. Its strong rebound—growth last year was about 7%—was evidence that the reforms and restructuring of recent years have paid off.

In their joint statement at the annual meetings of the IMF and the World Bank in Tokyo in October, Governor of the National Bank of Cambodia Chea Chanto and Keat Chhon, Deputy Prime

Minister and Minister of Economy and Finance, forecast that the kingdom's growth in 2012 would again be around 7%, one of the fastest in the region. "All economic indicators show that Cambodia has succeeded in maintaining macroeconomic stability," they reported.

"Agriculture is the next big thing; the government is giving incentives, setting policies and building infrastructure so that we will be able to export at least one million tons of rice by 2015," explains Sam Ang Vattanac, Executive Director of Vattanac Properties, a leading developer. "That would put us on the global map as one of the top five rice exporters." Cambodia is currently seventh, with less than 150,000 tons of rice sent abroad in the first 10 months of this year.

"We aim to diversify the economy within and across sectors, particularly manufacturing, which is growing strongly," Keat Chhon pledges. "We are diversifying beyond the garment sector in light of rising costs in other countries in the region and to build a strong growth foundation. We must broaden our markets and deepen regional economic integration to protect ourselves from vulnerability to future external shocks."

# THE PEARL OF ASIA'S RENAISSANCE



**PHNOM PENH** Cambodia's capital offers a real insight into the country's fascinating past and its promising future.

There was much that was historic about President Barack Obama's visit to Phnom Penh on Nov. 19, not least that he was the first sitting US President to do so. Statistically, however, he formed part of increasing trend—that of western visitors including the Cambodian capital on their itinerary rather than bypassing it for Siem Reap,

gateway to mighty Angkor. Although most foreign visitors are still businessmen rather than tourists, numbers to Phnom Penh were up 19% in the first three quarters of 2012 to just over one million compared to the same period last year.

More manageable in scale than most Asian capitals—with just two million inhabitants compared to Bangkok's 10 million—Phnom Penh retains much of its past including the spectacular Royal Palace, the art deco central market and the French quarter with its old mansions and tree-lined boulevards recalling the colonial era.

A key reason to visit is to bear witness to this city's ongoing cultural and economic renaissance. Although Phnom Penh retains an air of chaos—like in many Asian cities, traffic is challenging—this is a city that has come back from the dead. Between 1975 ("Year Zero") and the end of 1978, the population dropped below 10,000 as the murderous Khmer Rouge regime forced from the city anybody with skills or education. The result was a ghost city whose infrastructure was allowed to fall into total disrepair.

On taking office as Governor of Phnom Penh in 2003, Kep Chuk Tema made delivering basic services his priority. "If you were here in the past 10 years, you would have seen what Phnom Penh looked like, especially the infra-

structure which was very poor. The first thing that we focused on was the improvement of that infrastructure."

Developers and investors have since been changing the face of the city. Plans include a new downtown marina, Cambodia's tallest building and four satellite cities to ease traffic and congestion in the main urban area. The Governor talks of his plan to develop a pedestrian zone around the wonderful Wat Phnom temple, the roll out of a public bus system and the advent of a Phnom Penh tram. International names are establishing a foothold in the city with new hotels, restaurants, upmarket housing developments and even a new international standard golf course, reflecting the view of many investors that this is one of the last frontier markets.

Under the Governor's leadership, the city has won several awards for environmental sustainability and cost effectiveness, which is encouraging given how many projects lie ahead.

Observers suggest the authorities face a challenge in balancing their hopes for development and growth with the needs of the city's residents. For the more casual visitor, however, it is a place where one can get a real sense of Cambodia's fascinating, sometimes tragic past and its promising future

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Cambodia is turning the page on its fraught past and pressing ahead with its transformation into a thriving and competitive market in the global economy and a reliable partner for ASEAN.

"The core of this massive economic transformation came from establishing peace and stable management of the government towards handling the country's welfare by implementing a triangular strategy—focusing on strengthening peace and security, integrating Cambodia into the region and the world, and promoting reforms and development," says Pung Kheav Se, Chairman of Canadia Bank, among Cambodia's largest banks.

The investors noted the country's stable government and the significant economic progress and structural improvements that Cambodia has achieved in recent years.

Sustained rapid growth, for example, has led to a sharp drop in poverty (defined as living on less than \$1.25 a day), which fell from 39% of the population in 1994 to the current 20%, according to official statistics. Cambodia is set to exceed its Millennium Development Goal poverty reduction target.

Strong sectors include garment exports, agriculture, tourism and construction. Industrial growth in 2011 was 14.3%, while services increased by 5% and agriculture by 3.3%. Tourist arrivals in the nine months to Oct. 1 were up nearly 24% over the year before. The government has identified agriculture, particularly rice production for export, and tourism as priority sectors.

Foreign direct investment, meanwhile, rose by 14% last year over 2010. China accounts for more than half of total FDI, pumping in more than \$8 billion since 2006. According to the United Nations Conference on Trade and Development, Cambodia was the only economy in Southeast Asia where FDI flows increased in the first half of this year.

In the latest competitiveness rankings published by the World Economic Forum in Geneva, Cambodia ranked 85th out of 144 economies, up from 97th the year before. It performed well in the areas of labour market efficiency, government stability, and crime.

"We have to do more to build our competitiveness—roads, railroads, ports, logistics systems. We need to do more in the energy sector to bring down the cost of electricity," notes Suy Sem, Minister of Industry, Mines and Energy.

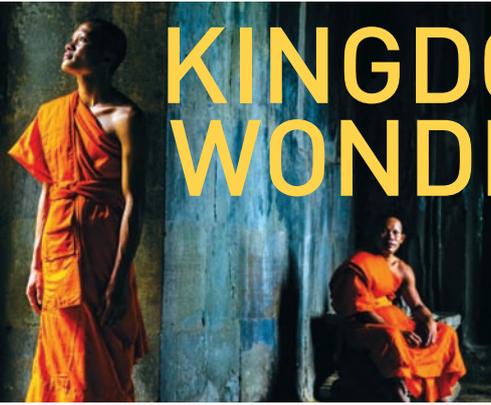
Cambodia recently took a major step to ease access to capital, which is critical to economic development, particularly the construction of infrastructure and the promotion of SMEs. In April, the Cambodia Securities Exchange began trading, with the first issue, the Phnom Penh Water Supply Authority, more than 17 times oversubscribed.

The reform agenda for Cambodia is substantial. Most pressing is education and the development of human resources. "We need all sectors to build capacity and we need the skills to compete with other countries," reckons Minister Suy Sem.



Cambodia's robust growth has been powered by a boom in the production of garments, which make up some three quarters of exports. Cambodia acceded to the World Trade Organization in 2004, becoming the second "less developed country" to join the global trading body. "Thanks to our membership, we are protected by international rules and investors feel more comfortable about coming to Cambodia," observes Dr. Cham Prasidh, Minister of Commerce. In addition, its low wages have allowed Cambodia to offer an alternative to China, where labor costs are rising.

Cheap workers, however, cannot sustain growth over the long term. For this reason, Cambodia is focusing on its youth, which could prove to be a major competitive advantage. Nearly a third of the country's population is under the age of 14. "The youth is a very powerful force for the nation," says Kep Chuk Tema, Governor of Phnom Penh.



# KINGDOM OF WONDER

Ancient pagodas reflected in a tranquil pool; brightly robed Buddhist monks strolling by; temples reclaimed by nature, Cambodia's most famous present day image is pleasingly peaceful.

Most tourists visit that special place, Angkor, in isolation. Some combine it with the bustling capital, Phnom Penh, and fewer still with the country's fledgling beach resorts like luxury Song Saa, or with the wild Cardamom Mountains. But to spend too little time in Cambodia is to miss out. Its history is rich, its landscapes lush and, despite their great suffering, its people warm and welcoming.

Angkor is, of course, a worthy wonder, embracing more than 100 ancient temples reclaimed from the jungle in the 1800s. Among tourist darlings is Ta Prohm where the encroaching trees were left, their thick roots oozing like the tentacles of movie monsters through ornate walls. Break Indiana Jones-style from the coach tour circuit and details like a carved frieze depicting the jugglers of a bygone royal court can prove just as rewarding.

Siem Reap, Angkor's booming gateway, retains a surprising charm. This riverside town has an old French quarter around a handicraft market and a contained nightlife on pedestrianised Bar Street. There's an international airport and a concentration of branded hotels, including a recently renovated Raffles, though it's worth

seeking out smaller properties like Shinta Mani and Soria Moria which support community development.

Excursions also run from Siem Reap to silk farms and the bird sanctuary and floating villages of Tonle Sap lake, a UNESCO-listed biosphere. Tour operators can organize road or river tours on to elegant Battambang to see Cambodia's second largest city and the country's best-preserved French architecture. Battambang is a perfect base for exploring the hilltop temples and scenic villages nearby.

Though many visit Cambodia via a short flight from Bangkok it is also easily combined with Laos and Vietnam on a wider Indochina tour, helped by new direct flights between Vietnam and the UK. Enticing Mekong river cruises from Avalon Waterways and others also link Ho Chi Minh City with Phnom Penh and Siem Reap.

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Those who forgo internal air hops to tour at ground level are rewarded not only with the dubious pleasure of eating deep fried spiders at popular Siem Reap to Phnom Penh stop-off Skuon, but with an undisturbed rural landscape of paddy fields and swaying sugar palms.

Ecotourism may be the next big thing for Cambodia with the fledgling development of national parks, and the promise of tigers, bears and elephants lurking within the extensive virgin rainforest around the south-westerly Cardamom Mountains.

Already, Indus Experiences offers mangrove kayaking and a stay at a floating lodge in the Cardamom foothills while Buffalo Tours suggests a rare foray into Cambodia's mountainous and ethnically diverse northeast Ratanakiri province, including a swim in a volcanic lake.

A more readily accessible natural highlight is the Irrawaddy or river dolphin which pokes its snub nose out of the waters at Kratie on the Cambodia to Laos stretch of the mighty Mekong. An endangered species, its presence is just one more of the country's uplifting stories of survival.

## LUXURY RETREATS AND FEET-IN-THE-SAND CHIC

White sand beaches, overwater bungalows, sea-side massage salas: not a holiday wish list which makes Cambodia spring to mind. No wonder most tourists visiting Angkor Wat and Phnom Penh combine their cultural tour with a flop on the shores of neighbouring Thailand.

Yet that may be set to change, with Cambodia's little-known coast, which overlooks the Gulf of Thailand, spotlighted in the likes of Tatler this year. The opening of **Song Saa**—'the Sweethearts' in Khmer—a stylish eco-retreat of thatched overwater bungalows set on twin islands in its own marine reserve.

Song Saa private island may be the most exclusive hideaway but it's not the only act in town. Its boat transfers depart from Sihanoukville, a city port that has long been home to Cambodia's main beach scene, a relatively low-key place with white sand and the sort of fairylights-and-feet-in-the-sand restaurants popularised by Thailand.

A lack of internal flights and international standard hotels has kept Sihanoukville mainly the preserve of backpackers and weekend Phnom Penh residents. That balance is shifting: a new flight from Cambodia Angkor Air links Sihanoukville to the temple gateway of Siem Reap.

In recent times the guesthouses run by locals and ex-pats have been joined by a couple of four-star hotels—the renovated 1960s-built **Independence**, which once host-ed Jackie Kennedy, and the more sprawling **Sokha Beach**.

Sihanoukville's better hotels have their own stretches of beach which limits the friendly but ever-present hawkers offering massages, barbecued squid and giant prawns grilled to order over portable charcoal pots.

Beyond the buzz of the beach and city nightlife haunts reached by motorbike taxi, Sihanoukville has some rewarding excursions. **Ream National Park** is a nearby bird-rich reserve encompassing

mangroves, mountains and miles of unspoilt beaches. Boats take day trippers into the park for fish barbecues on stretches of white sand backed by jungle.

To the east is the sleepier resort of **Kep**. Dubbed the Khmer Riviera, it was once a thriving retreat for Cambodia's jet set who stayed in a collection of Le Corbusier-in-spired modernist villas. Rescued from the jungle two renovated survivors take guests today: **Villa Romonea** and **Knai Bang Chatt**, designed by protégés of celebrated Cambodian architect, Vann Molyvann.



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