

From the Desk of...

Christopher Bruton

Thailand and IndoChina Business Strategist

Issue No.18 - August 2007



© Copyright The Insight Bureau Pte Ltd and Dataconsult Ltd

October 2007: Cambodia's new golden age? Christopher Bruton, commentator on Indochina and Thailand, reviews its recent encouraging development.

Cambodia is renowned for the glories of Angkor Wat and an empire which once stretched far beyond its current boundaries, across Vietnam's Mekong Delta, Southern Laos, and much of what is today central and northeast Thailand. Its more recent history was considerably less glorious, culminating in the civil war of the early 1970's and the infamous Khmer Rouge era, followed by a Vietnamese invasion, and then painful nation rebuilding in the 1980's and 1990's. The vestiges of those traumatic days are still with us, with many war victims, along with the tortuous genocide trials - over 25 years overdue.

Cambodia is steadily recovering its past status as a potentially rich regional bread-basket rather than basket case

But, emerging from a tragic past, still heavily supported by generous multilateral and bilateral aid, Cambodia is steadily recovering its past status as a potentially rich regional bread-basket rather than basket case. Cambodia is coming back onto the corporate radar screen, as a country well worth visiting, investigating, and, for an increasing number of companies, a place for investment, trade or worthwhile infrastructure contract work.

Good news spreads more slowly than bad, and often fails to make headlines in a sensation-hungry press. Accordingly Cambodia tends to feature in the "bad news" columns, while all the steady progressive good news gets hidden away or goes unreported. That's sad, because there is actually plenty of good news in Cambodia today.

Thus, on the political front, Prime Minister Hun Sen has effectively led the country for over a quarter century, yet is still young enough,

energetic enough, and popular enough, to be only half way through his leadership career. While there is much that can be improved, his ministerial team is articulate, accessible, and responsive to constructive proposals and corporate criticisms. The process for public-private sector dialogue in Cambodia is arguably among the best in the world, and fast becoming a model for emulation elsewhere.

Admittedly, there is no lack of corruption, and the rule of law is often honoured in the breach by an inexperienced, and therefore easily influenced, judiciary. However, Cambodia is not alone in respect of those characteristics. Many of the shortcomings among Cambodia's political and bureaucratic establishment seem to have been taught to them by over-hasty multilateral and multinational organizations, who fail to live up to their own much-vaunted codes of ethics and governance. It takes two hands to clap, and the applause often seems deafening.

Cambodia's economy is shining, and the brightness appears sustainable. GDP has run in double-digit growth for several years, close to China and surpassing Vietnam. Exports have been booming, and domestic trade is strong. The garment industry, which employs almost all of Cambodia's organized industrial labour, and produces most of its exports, is thriving, despite dour warnings of collapse after the ending of quota arrangements.

On the contrary, the industry has grown, exports have expanded, and Cambodia is gaining new export orders, thanks to its good labour practices, vouched for by the International

Labour Organisation and Better Factories programme.

Cambodia's combination of good labour practices, increasingly skilled labour force, relatively low wages, easy investment and entry regime, has made the country an interesting relocation destination, especially from neighbouring Thailand, hit by currency strength, higher wages, and loss of competitiveness. New special economic zones, in Phnom Penh and progressively in the vicinity of the main seaport, Sihanoukville, and the Vietnamese and Thailand borders, will make such relocation particularly attractive.

But Cambodia is now developing far beyond basic labour intensive export processing, by exploiting its own natural resource base, hitherto relatively untouched. Oil and gas, still for the time-being impeded by border demarcation issues with its neighbours, appears to be on the brink of becoming an important new resource. Mining, as yet concentrated in Cambodia's northeast, is another latent source of wealth. Both are being evaluated by major foreign companies, with optimistic outlook. Historically a major agro-resource base, Cambodia is now coming back into its own, with longstanding rubber plantations being rehabilitated and extended, along with oil palm, bio-energy crops, and better farming practices in traditional crops. There is still a long way to go, with much criticism of extensive and inadequately controlled deforestation. But, once again, the signs are encouraging for better practices and promising results in the future.

The tourism industry is also booming, with double-digit growth of tourism arrivals, new international-class hotels, and travel facilities creating access nationwide, instead of limited cases of development in Seam Reap, linked to Angkor Wat, the capital Phnom Penh, and a small part of the seacoast around Sihanoukville. Massive developments are at the planning stage, while a

whole new town area is in progress on the outskirts of Phnom Penh.

Meanwhile, what was until recently a rudimentary financial system is blossoming forth into more sophisticated banks, insurance companies, with even a stock market on the drawing board.

No country can emerge from the darkness of the Khmer Rouge, a mere quarter century ago and then pass through an era of largely unregulated growth, without coming off the rails from time to time

Are there no dark clouds in the offing? Of course there are. No country can emerge from the darkness of the Khmer Rouge, a mere quarter century ago, then passing through a "cowboy" era of largely unregulated growth, without coming off the rails from time to time.

Cambodia is small, with 181,000 square kilometers of territory and only 14 million people, half the size of Vietnam, with only a sixth of its population and half of its per capita GDP. But in Cambodia there is no lack of opportunity; unlike in Vietnam or most of the remainder of ASEAN, more pioneering corporate entrants, including some major multinationals, can still be counted as early birds. Time to join them?

About Christopher Bruton

Mr. Bruton is the founder of Dataconsult and has been based in Thailand for over 35 years. He is highly respected for his understanding of Thailand, Vietnam and the Indochina sub-region, providing advice to MNC and Asian businesses on their business strategies. He is a seasoned, insightful presenter who has briefed CEOs and board members of many MNC organisations. Dataconsult runs a Bangkok-based executive programme, *The Thailand Regional Forum* as well as business conferences in Vietnam, Cambodia and Thailand.

www.insightbureau.com/ChristopherBruton.html

About The Insight Bureau

The Insight Bureau represents a number of leading authorities on global economics, world affairs, business strategy, emerging markets, industries and management, injecting insight into conferences, client forums and confidential briefings – helping boards and senior management to make better business decisions. We represent Christopher Bruton on speaking assignments and briefings in Asia and throughout the world

www.insightbureau.com

+65-6300-2495

engage_us@insightbureau.com

Disclaimer: The Insight Bureau Pte Ltd accepts no liability for the content of this document or for the consequences of any actions taken on the basis of the information provided. Any views or opinions presented herein are solely those of the author(s) and do not represent those of The Insight Bureau.