



Report on Promoting the Attraction of Japanese Companies to Cambodia

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Executive Summary

Japan has long contributed to Cambodia's peacebuilding, post-conflict recovery, and infrastructure development, fostering a traditionally close bilateral relationship. In 2023, the two governments upgraded their diplomatic ties to a "Comprehensive Strategic Partnership," further signaling a growing momentum toward deepening the bilateral relations. The Cambodian government, aiming to diversify the country's economy and enhance its competitiveness, has placed high expectations on Japanese investment and, at the same time, Japanese businesses have shown growing interest in Cambodia's political stability and high economic growth within the ASEAN region. As a result, although investment in the past was dominated by large manufacturers, a more diverse range of Japanese companies—including SMEs in manufacturing supply chains, non-manufacturing sectors such as retail and finance, and even startups—has recently explored opportunities in expanding into Cambodia. This trend is reflected by their strong participation in investment seminars and collaborations in economic missions related to Cambodia.

However, to ensure this emerging interest evolves into sustained economic engagement, several challenges must be addressed. Japan has a relatively limited track record of investment in Cambodia compared to countries such as Thailand and Vietnam, and with Cambodia's business environment evolving rapidly through a series of recent policy reforms and new initiatives, it is increasingly difficult for Japanese companies to accurately assess the current business environment and related regulatory frameworks. On the Cambodian side, there is still a limited understanding of Japanese corporate decision-making and expectations, and reforms to investment climate have not kept pace with foreign investors' demand due to resource constraints. Against this backdrop of challenges, this study aims to foster a more sustainable environment for Japanese business expansion by identifying priority sectors, analyzing key factors based on patterns of business entry, disseminating accurate information about the Cambodian business landscape, and proposing concrete measures to improve the investment environment.

Launched in July 2024, this study combined macro-level data analysis with first-hand insights collected from over 50 interviews with Japanese companies already operating in Cambodia and other key stakeholders. Additionally, the Cambodia-Japan Public-Private Sector Meeting, where high-level officials from both countries meet regularly, was effectively utilized throughout the study to share interim findings and incorporate valuable feedback. The analysis first sought to understand the "real Cambodia" by comparing it with neighboring countries such as Thailand and Vietnam, identifying the gap between the current state and the "ideal Cambodia" envisioned for investment. Simultaneously, innovative initiatives emerging across different sectors, termed "game changers," were identified and evaluated for their potential to accelerate improvement in the business environment through Japan-Cambodia cooperation.

Based on this analysis, Japanese investment approaches were broadly categorized into two types: the cost-driven "Restructuring Global Supply Chain" and the value-driven "Addressing Social Challenges" models. The former model involves shifting labor-intensive manufacturing processes from countries like Thailand, China, or Vietnam to Cambodia to reduce costs under the so-called "Plus One" strategy. These businesses require long-term stability as a prerequisite and invest gradually after entry, eventually contributing to technology transfer and job creation. The latter model involves businesses that aim to address pressing social challenges in Cambodia, often leveraging disruptive technologies and scalable business models, with the intention of expanding to other markets that face similar issues—referred to as a "Cambodia Plus One" strategy. These two models are expected to create a virtuous cycle, in which solutions to social problems and technology transfer jointly contribute to Cambodia's broader economic growth.

From the perspective of Japanese companies, the study identifies two promising sectors: "automobiles and electronics" under the "Restructuring Global Supply Chain" model, and "agriculture and food processing" under the "Addressing Social Challenges" model. This conclusion is based on three key factors. First, both sectors are explicitly prioritized by the Cambodian government, suggesting the potential for strong long-term policy support. Second, Cambodia holds comparative advantages—competitive human resource and potential access to clean energy supply in the case of automobiles and electronics, and low land prices with opportunities for high value-added agriculture in the case of agribusiness. Finally, Japanese corporate interest in these sectors is high: major component manufacturers have

already established operations in Cambodia, while new entrants are emerging in agribusiness, including firms producing snacks using Cambodian rice and reusing cashew nut residues for energy generation.

The current Cambodian business environment, or the “real Cambodia,” presents a mix of strengths and weaknesses across four key dimensions—human resources, logistics, energy, and governance—each of which also shows potential for breakthrough “game changers.” In terms of human capital, while labor costs remain highly competitive, approximately half those in Thailand, Cambodia’s productivity and the availability of skilled labor remain significant challenges. In response, initiatives like the Cambodia-Japan Digital Manufacturing Center (CJDM), supported by the Japanese government, are providing advanced training to engineers capable of operating state-of-the-art machinery. In logistics, although the country’s infrastructure such as roads and ports is being developed, the absence of electronic customs procedures and the persistence of non-transparent fees undermine performance compared to neighboring countries. However, private-sector-led efforts, such as the placement of licensed customs brokers within special economic zones and the provision of bonded warehouse services, are improving efficiency and reducing costs. In energy sector, Cambodia’s electricity mix, approximately half derived from hydropower and solar, offers a cleaner profile than most neighboring countries. However, electricity prices remain high and institutional frameworks for corporate renewable energy procurement are still underdeveloped. Encouragingly, some pioneering firms have initiated large-scale solar projects to meet their entire power demand, setting a potential precedent for decarbonization. Politically, Cambodia boasts a high degree of stability, which reassures Japanese investors. However, transparency and predictability in law enforcement and administrative procedures, especially in taxation, remain weak and present ongoing challenges for SMEs. In response, the new government under Prime Minister Hun Manet established a Special Tax Audit Unit in 2024 to address these issues by ensuring transparent and efficient audits for compliant businesses, and the effectiveness of this effort will serve as a key indicator of future improvements in the country’s business environment.

Based on the above findings, the report recommends six key actions to promote Japanese investment in Cambodia. First, to provide timely information on the evolving business landscape and investment opportunities, targeted business seminars and economic missions should be organized. These events should feature real-world examples and government speakers, with topics selected based on entry patterns and priority sectors. Second, the establishment of a cross-ministerial support body, tentatively called the “Business Co-Creation Team (BCT),” is proposed to provide end-to-end support for Japanese firms, from entry to expansion, especially for SMEs and emerging sectors. Third, efforts to develop highly skilled industrial talent should be accelerated through collaboration between Japanese firms and local education institutions, leveraging Japanese government support to align training with industry needs. Fourth, further improvements in logistics should be pursued through existing platforms such as JBAC’s logistics committee and JICA’s technical cooperation programs, while also collaborating with neighboring countries to enhance regional connectivity. Fifth, the investment and procurement environment for renewable energy should be strengthened by leveraging multilateral frameworks like Asia Zero Emission Community (AZEC). This includes sharing Cambodia’s advanced initiatives and learning from international best practices (e.g., rooftop solar incentives or green tariff models) in order to create user-friendly rules and regulations for procuring renewable power. Lastly, while nationwide implementation of all measures is ideal, focusing initial efforts on newly developed special economic zones (SEZs) may be effective. Yet, such SEZs should offer not only advanced features but also meet basic expectations in terms of infrastructure, location, and administrative services. Additionally, fairness with existing zones should be carefully taken into consideration.

Through the implementation of these actions, Cambodia can become a more attractive and sustainable destination for Japanese companies, contributing to a deeper, mutually beneficial Japan-Cambodia economic partnership.

1. Background and Objectives of the Study

1-1. Traditional Friendship between Japan and Cambodia and Recent Growing Momentum for Strengthening the Economic Relations

Japan has contributed to Cambodia's peace, reconstruction, and development through various initiatives, including implementing its first-ever Peacekeeping Operation (PKO) under the United Nations. As a result, the two countries have maintained consistently good relations in recent years. Building upon this historical friendship, along with infrastructure developed through Japan's Official Development Assistance (ODA), Japanese companies began expanding into Cambodia in earnest, particularly in the manufacturing sector, in the 2010s. The Cambodian government has also supported this expansion by providing tax incentives and other preferential measures based on its investment laws.

In recent years, both governments have aimed to further strengthen bilateral relations. In 2023, marking the 70th anniversary of diplomatic relations, Japan and Cambodia elevated their relationship to a "Comprehensive Strategic Partnership." Furthermore, during the Japan-Cambodia summit at the end of 2023, Cambodia's newly appointed Prime Minister, Hun Manet, proposed initiatives such as the establishment of a "Special Economic Zone exclusively for Japanese companies" to Prime Minister Kishida. Both leaders agreed on the necessity of enhancing economic cooperation, fueling momentum for deepening economic ties.

Cambodia's expectations of Japan stem from its desire to diversify its economy and enhance competitiveness, as outlined in the Pentagonal Strategy - Phase I, formulated after Prime Minister Hun Manet's inauguration. This strategy reflects Cambodia's intent to attract not only Chinese investments, which have dominated Foreign Direct Investment (FDI), but also a broader range of foreign enterprises. Among them, Japan holds a special position due to its historically strong ties with Cambodia and the trusts in significant contributions of Japanese companies to Cambodia's economic growth and job creation (Figure 1) ¹.

For Japanese companies, Cambodia is also becoming a more attractive investment destination. Amid increasing political instability in other developing countries, Cambodia stands out as a politically stable nation achieving high economic growth within ASEAN. Recently, not only large manufacturing firms but also their small and medium-sized suppliers, as well as non-manufacturing businesses in sectors like retail and finance, have begun expanding into Cambodia. Cambodia Business Seminar, hosted by JETRO (The Japan External Trade Organization) and held in Bangkok in November 2024, saw the participation of approximately 250 Japanese business representatives², including online attendees. Additionally, a Japan-Cambodia Economic Co-Creation Exchange Symposium was held in Phnom Penh as part of an economic mission organized by JETRO and JAXA (The Japan Aerospace Exploration Agency) in August 2024. This mission included 19 Japanese companies³, including startups specializing in satellite technology, AI, green energy, and carbon neutrality. Delegates also made courtesy visits to Prime Minister Hun Manet and other Cambodian officials, reflecting the increasing interest of Japanese companies in Cambodia.

1-2. Challenges for Achieving Sustainable Japanese Business Expansion into Cambodia

Despite the growing interest between the two nations, ensuring the sustainable expansion of Japanese businesses into Cambodia, rather than allowing this momentum to be a temporary trend, requires addressing several challenges.

¹ China continues to actively invest, primarily in the manufacturing sector; however, in certain areas, such as real estate investment in Sihanoukville Province, there has been a decline

² JETRO (2024) Business News Report, <https://www.jetro.go.jp/biznews/2024/11/0379070023629072.html>

³ JETRO (2024) Business News Report, <https://www.jetro.go.jp/biznews/2024/08/56079af540dfc250.html>

From Japan’s perspective, Cambodia has fewer precedents of Japanese corporate expansion compared to Thailand and Vietnam. Furthermore, under the Hun Manet administration, the rapid introduction and implementation of new policies have led to dynamic changes in Cambodia’s business environment. This makes it difficult for Japanese businesses to accurately assess Cambodia’s current status, strengths, and weaknesses in comparison to more familiar investment destinations like Thailand and Vietnam.

From Cambodia’s perspective, despite its strong desire to attract Japanese companies, there is a lack of deep understanding regarding the decision-making principles and key considerations of Japanese businesses. Due to limited resources, adequate measures to improve the business environment have not been fully implemented.

Given these challenges, this project aims to promote a sustainable Japanese business presence in Cambodia through the following initiatives: 1. investigating and analyzing key parameters that influence Japanese businesses’ investment decisions with some focus on different business expansion patterns and promising industries, 2. disseminating information about Cambodia’s business environment to potential investors leading to reducing information asymmetry and more real investment actions, and 3. proposing specific actions to improve key investment parameters through ongoing business environment improvements and regulatory reforms.

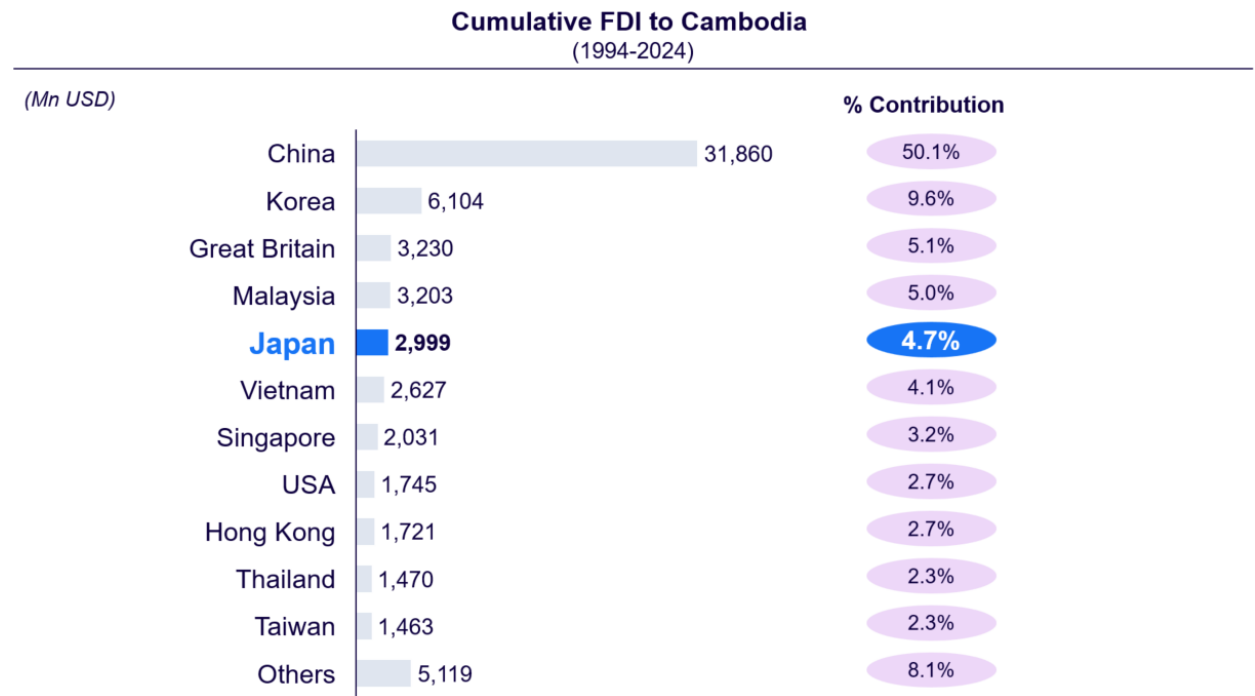


Figure 1: Investment Performance in Cambodia by Country (1994-2024)
(Prepared by the AMEICC Secretariat using data provided by the Embassy of Japan in Cambodia)

2. Research and Analysis Approach

2-1. Key Features of the Research and Utilization of the Cambodia-Japan Public-Private Sector Meeting

This study, launched in July 2024, is characterized by its strong focus on encouraging Japanese companies to take action and expand into Cambodia. To achieve this, the research has placed significant emphasis on analyzing corporate decision-making principles. In addition to collecting and organizing macro-level data, over 50 interviews were conducted with key stakeholders to gather firsthand insights.

Furthermore, this study has made maximum use of the Cambodia-Japan Public-Private Sector Meeting, co-chaired by H.E. Sun Chanthol, Deputy Prime Minister and First Vice Chairman of the Council for the Development of Cambodia (CDC), and H.E. Atsushi Ueno, Japanese Ambassador to Cambodia. This dialogue brings together key stakeholders from both countries, including members of the Japanese Business Association of Cambodia (JBAC) and various Cambodian government ministries, to discuss improvements in the business environment for Japanese companies in Cambodia. Specifically, we have reported on the progress of this study both within the Cambodia-Japan Public-Private Sector Meeting and through individual discussions with members to receive valuable feedback. Moving forward, the framework will also be utilized for following up on the implementation of policy recommendations and tracking Japan-Cambodia-related policy developments arising from these recommendations (Figure 2).



Figure 2: Utilization of the Cambodia-Japan Public-Private Sector Meeting and Related Approaches (Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)

2-2. Understanding the "Real Cambodia" and Identifying "Game Changers"

As mentioned earlier, many Japanese companies struggle to accurately assess Cambodia's rapidly changing business environment, and their perception of its attractiveness may vary depending on their industry and business needs. Therefore, this study first sought to compare the "Real Cambodia" with neighboring countries such as Thailand and Vietnam to provide a realistic assessment of Cambodia's business environment. However, it is undeniable that there remains a significant gap between the "Real Cambodia" and the "Ideal Cambodia"—a business environment that fully supports the sustainable expansion of Japanese companies. Generally, bridging such gaps and improving the business environment requires a long-term effort. Nevertheless, Cambodia is currently witnessing emerging initiatives aimed at improving the business environment across various sectors. This study identifies these initiatives as "Game Changers" and aims to maximize their impact through Japan-Cambodia cooperation to achieve rapid business environment improvements (Figure 3).

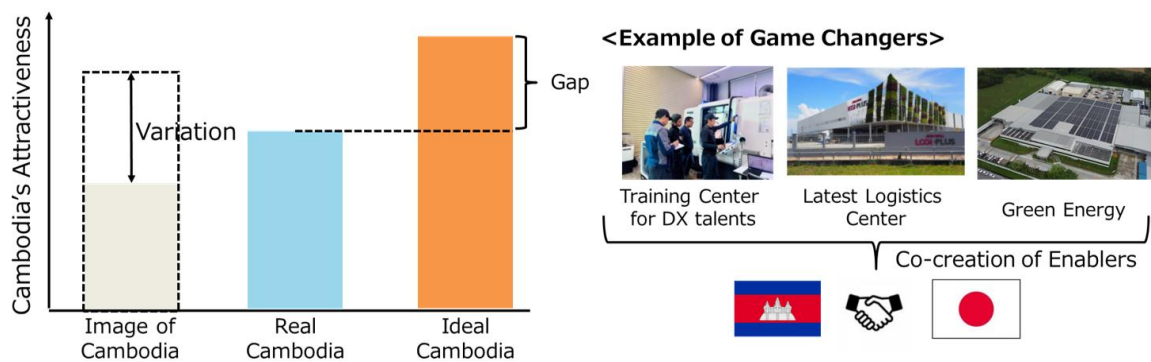


Figure 3: Conceptual Images of "Real Cambodia" and "Game Changers"
(Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)

2-3. Classification of Japanese Companies Expanding into Cambodia

The attractiveness of Cambodia's business environment varies depending on the purpose of expansion. To better understand this, we categorized Japanese companies' expansion patterns into two broad types and examined the characteristics and rational business behaviors of each. Below are our findings.

The first pattern involves Japanese manufacturers optimizing their global supply chains. This approach primarily focuses on relocating labor-intensive processes from other production hubs, such as China, Thailand, and Vietnam, where labor costs have risen, to Cambodia as a cost-reduction strategy. This strategy aligns with the "Thailand Plus One," "Vietnam Plus One," and "China Plus One" models, where companies seek alternative manufacturing locations. Since these companies must recoup their investment over the long term, they prioritize countries with predictable and stable business environments before considering expansion.

For companies under this model, the key decision-making factor is whether the benefits of competitive labor costs outweigh the disadvantages, such as higher logistics costs due to supply chain diversification or higher electricity prices and energy costs in Cambodia. If the long-term profitability outlook remains positive despite these trade-offs, companies proceed with investment (Figure 4) ⁴.

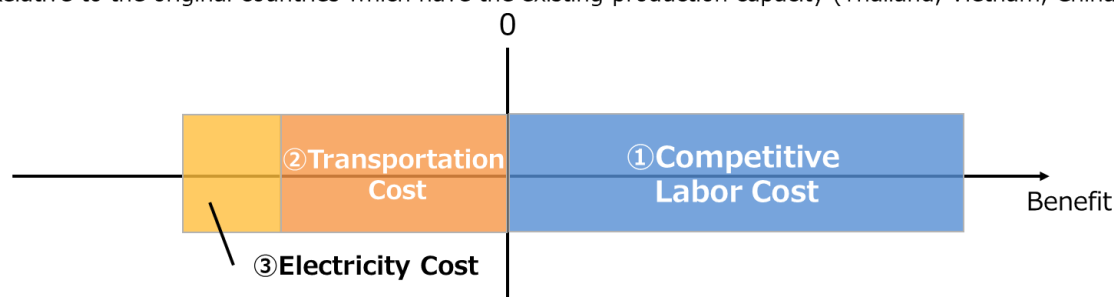
Even after committing to investment, companies gradually scale up their operations to manage risks and adapt to changing conditions. Notably, Japanese manufacturers like MinebeaMitsumi and DENSO initially rented factory spaces before constructing their own facilities. However, once committed, many manufacturers have moved beyond simple assembly operations to incorporate higher-value processes such as cutting machining, contributing to technological transfers, increased local procurement, and job creation—all of which bring long-term benefits to Cambodia (Figure 5).

⁴ Initially, cost-related indicators such as labor expenses are the most critical factors when considering market entry. However, it is important to note that as companies explore production upgrades, other factors, such as the quality of human resources and the availability of green power procurement, may also be taken into consideration.

<Cost-Benefit Analysis of Shifting Global Supply Chain (Image)>

*Assume that there are only three factors (labor, transportation and electricity)

**Relative to the original countries which have the existing production capacity (Thailand, Vietnam, China etc.)



<Hypothesis>

- **If Net Benefit (①-②-③) is more than 0, firms will rationally start/expand the business**
- While maximizing the benefit (①) and minimizing the additional cost (② and ③) is important, **stability is the most important** for manufacturing firms investing in the long run.
- Stability includes not only domestic one such as steady implementation of predictable rules but also **international one (e.g. smooth cross-border transportation)**
- **Cost-Benefit analysis formula will change** as manufacturing process evolves (e.g. high skill workers and green and cost-competitive electricity will gets more important at later phase)



Figure 4: Conceptual Image of Decision-Making Principles for Global Supply Chain Restructuring Companies
(Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)

Business Phase	Entry and Start-up at Rental Factory	Establishment of Own Factory for Full Scale Operation	Expansion for More Competitiveness 1. More Production Volume 2. Start Producing Goods With More Skills 3. Development of Local Supply Chain
Types and Example of Products	Low-complexity product assembly/component processing Product groups using semi-automatic equipment In-house processed components		
Local Procurement Rate			

Figure 5: Conceptual Image of Business Development of Global Manufacturing Companies Expanding into Cambodia
(Prepared by the AMEICC Secretariat based on materials provided by Denso Cambodia and Sumi (Cambodia) Wiring Systems, as well as desk research and interviews with companies/institutions)

The second pattern consists of companies that enter Cambodia to address social issues. Unlike the global supply chain restructuring model, these businesses are not reliant on existing supply chains or technologies, which enables leapfrog-style development.

For instance, Soramitsu, a blockchain technology company, recognized Cambodia’s low bank account penetration rate (around 20%) as a social issue and partnered with the National Bank of Cambodia to launch Bakong, the central bank-operated digital payment system. As a result, by the end of 2024, over 30 million accounts had been opened—exceeding the country’s total population. The total transaction volume rapidly grew to 3.3 times Cambodia’s GDP. Utilizing blockchain technology, Bakong enables secure, real-time, and highly efficient payments⁵. Similarly, AEON Mall, a major Japanese retail chain, identified an opportunity in Phnom Penh’s growing middle class, particularly after per capita GDP exceeded \$5,000. Instead of gradually expanding with small stores, AEON directly launched large-scale malls starting in 2012. This strategy not only transformed Cambodia’s retail landscape and improved consumer convenience but also proved highly successful as a business (Figure 6).

	Soramitsu 	AEON Mall 
Social challenges/opportunities	<ul style="list-style-type: none"> • People lacked access to banking services with a low bank account opening rate (appx. 20%) • The Government also aims to increase the circulation of its national currency and simplify payment method 	<ul style="list-style-type: none"> • Phnom Penh lacked shopping malls, limiting consumer experiences. • The per capita GDP in the Phnom Penh exceeded \$5,000 around 2012.
Initiatives	<ul style="list-style-type: none"> • Project with the National Bank of Cambodia led to the creation of Bakong - Bakong is blockchain based digital payment system using Soramitsu's blockchain tech 	<ul style="list-style-type: none"> • AEON rapidly launched a large-scale mall, instead of a gradual entry with small stores • Cambodian government provides economic incentives to non-manufacturing sector for the first time.
Impacts	<ul style="list-style-type: none"> • During Oct/2020 - Dec/2024, about 30Mn accounts have been created. Payment volumes of \$104.81Bn during 2024 represent 330% of Cambodia’s GDP. 	<ul style="list-style-type: none"> • The entrance of AEON transformed the lifestyle of Cambodian citizens and achieved significant business success.
Expansion	<ul style="list-style-type: none"> • With subsidies from Japanese government, they now expand its collaboration with other countries Lao PDR, Solomon Islands, Papua New Guinea 	<ul style="list-style-type: none"> • With subsidies from Japanese government, AEON mall developed E-commerce platform to serve more customers in Cambodia

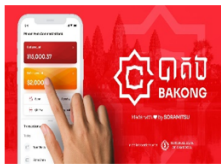


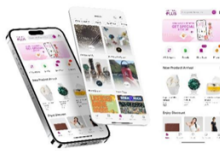





Figure 6: Examples of Companies for Addressing Social Challenges

(Prepared by the AMEICC Secretariat based on interviews with Soramitsu and AEON Mall Cambodia, as well as desk research and publicly available information)

Social challenges vary widely, and the social problem-solving model is not as easily generalizable as the global supply chain restructuring model. However, Japanese companies seeking new business opportunities can aim to refine their business models early in Cambodia and later expand to other countries facing similar challenges. To implement the so-called "Cambodia Plus One" model, companies, when considering expansion, place great importance on factors

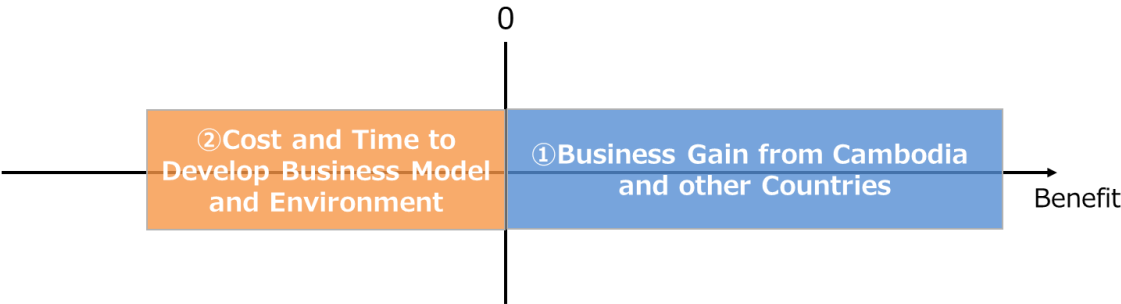
⁵ Ledger Insight(2024) “Cambodia’s Bakong DLT payments volumes reach 3x GDP,” <https://www.ledgerinsights.com/cambodias-bakong-dlt-payments-volumes-reach-3x-gdp/>

such as the magnitude and versatility of social issues proportional to business opportunities, the absence of constraints for introducing new technologies and business model, and, in addition, the early and flexible development of systems and regulatory responses through collaboration with the Cambodian government as a partner in co-creating the business model (Figure 7).

In practice, Soramitsu has developed a digital currency in close collaboration with the central bank and is now aiming to expand its operations to Laos and Papua New Guinea, leveraging its experience in Cambodia. Similarly, AEON Mall, while centering its business around three physical stores in Phnom Penh, has built an e-commerce platform and is attempting to expand its commercial sphere beyond Phnom Penh, including into Laos. The Cambodian government has also actively supported AEON Mall by granting it tax incentives as the first non-manufacturing company to receive Qualified Investment Project (QIP) status.

<Cost-Benefit Analysis of Starting Social Businesses in Cambodia (Image)>

*Assume that firms would like to demonstrate business models for solving social challenges and scale out the business to other countries through Cambodia + 1 Model



<Hypothesis>

- **If Net Benefit (①-②) is more than 0, firms will rationally start the social business**
- Critical factor is **size and versatility of social challenges** which decides the amount of business gain across the globe.
- **Collaboration with competent and nimble government is required** to co-create business model and environment in a timely manner with minimum cost at scalable size.
- Cambodian government can offer **not only incentives (e.g. tax break) but also proper regulations to create health business condition**

Figure 7: Concept of Decision-Making Principles for Social Problem-Solving Companies
(Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)

As a summary, it is important to note that not all industries clearly fall into the two expansion patterns outlined in the previous section. The figure below plots how different industries can be categorized and illustrates the key success factors (KSFs) necessary for companies following each pattern to succeed in Cambodia (Figure 8)⁶.

Furthermore, these two expansion patterns are believed to be interrelated. Specifically, economic growth and increased employment, driven by manufacturing companies engaged in global supply chain restructuring, create new social challenges and demands. In response, companies focused on solving social issues tackle these challenges, contributing to greater social stability and advancement. This, in turn, fosters further expansion of manufacturing

⁶ In evaluating the impact of social issues, the United Nations Sustainable Development Goals (SDGs) serve as a reference framework. By assessing these goals along two axes—the societal impact (with survival-related themes defined as having the greatest impact) and Cambodia's achievement level as evaluated by the UN in 2024—four goals emerge as particularly high priorities for Cambodia: (1) poverty alleviation, (2) economic equality, (3) food supply stability, and (4) health and well-being. Businesses that address these social challenges can generally be classified as social problem-solving enterprises, as they contribute to resolving Cambodia's most pressing societal needs.

companies that prioritize such factors, creating a positive cycle (Figure 9). Therefore, to accelerate this positive cycle, neither pattern should be prioritized over the other. Instead, both types of companies need to be promoted and supported.

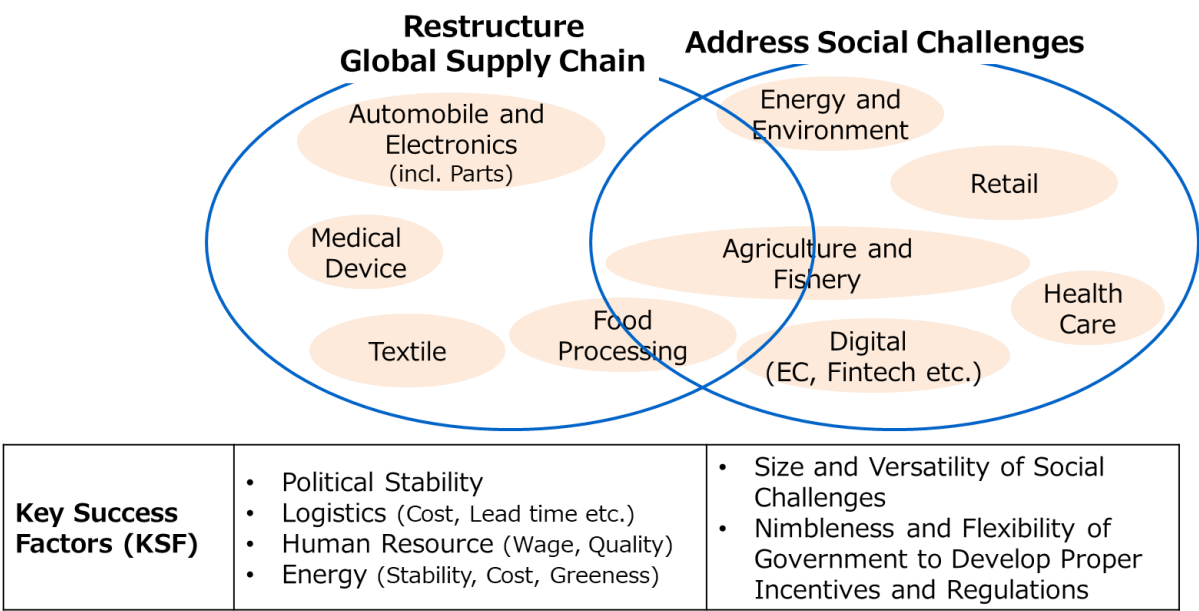


Figure 8: Plot of Industry Groups by Market Entry Pattern and Key Success Factors (KSF) (Conceptual Image)
(Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)



Figure 9: Interrelationship Between Market Entry Patterns
(Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)

2-4. Identification of Promising Industries and the Importance of SMEs

This study has identified two promising industries for Japanese companies in Cambodia: the automobile and electronics industries as part of global supply chain restructuring, and agriculture-related industries, including food processing, as a sector addressing social challenges. The reasons for this selection are outlined below.

To build a mutually beneficial relationship between Japan and Cambodia, various factors must be considered. One key aspect is whether the industry is prioritized by the Cambodian government, because this affects the long-term support that Japanese companies can expect. The Pentagonal Strategy - Phase I, a policy document released after the establishment of the Hun Manet administration, explicitly mentions (1) the development of the automobile and electronics industries, and (2) the modernization of agriculture and agro-industrial sectors, as key strategies to achieve middle-income status by 2030 and high-income status by 2050. These industries are expected to be promoted through cross-ministerial efforts⁷. In particular, the agriculture sector remains a major industry in Cambodia, accounting for approximately 17% of GDP, with 37%⁸ of the workforce engaged in agricultural activities. However, to drive economic growth, it is essential to improve productivity and increase farmers' income. This includes developing food processing facilities, which are currently scarce in Cambodia.

Another key factor is whether Cambodia holds a comparative advantage over neighboring countries. In the automobile and electronics industries, Cambodia not only offers a competitive labor force but also has an advantage in clean energy supply, which will become increasingly important as these industries advance (a detailed discussion will follow). In agriculture, Cambodia has more competitive land prices compared to neighboring countries. Additionally, the combination of low labor costs and organic farming practices presents an opportunity to expand the production of high-value-added agricultural products (Figure 10).

Furthermore, the level of interest from Japanese companies is also a crucial factor. In the automobile and electronics industries, Japanese companies—particularly component manufacturers—have already established a presence in Cambodia. In the agriculture-related industries, Japanese companies are gradually expanding their operations, not only to enhance the value of Cambodian agricultural products but also to support active exports. The examples include Kameda Seika producing snacks using Cambodian rice and MIRARTH Agri Tech working on cashew nut processing and energy generation from cashew residues in Cambodia (Figure 11). Additionally, in the JETRO Cambodia Investment Mission in March 2025, approximately 50% of participants (excluding consulting and media-related companies) are from one of these two industries, further demonstrating the continued high level of interest from Japanese businesses. Therefore, it is crucial to bridge Cambodia's potential with Japanese corporate interest.

Based on the three key perspectives, the expectation of government support, Cambodia's comparative advantages, and the strong interest from Japanese companies, the automobile and electronics industries, as well as

⁷ More specifically, under The Pentagonal Strategy - Phase I, the development of the automotive and electronics industries has been designated as a priority program with the "Automotive and Electronics Sectors Development Roadmap," published in December 2022. Meanwhile, for the modernization of agriculture and agro-industrial sectors, the government aims to continue implementing the "National Development Plan on Agriculture Sector 2022-2030" and accelerate the execution of the "Cambodia Agro-Industrial Development Strategic Plan 2019-2030."

⁸ Proportion of Agriculture Sector in GDP and Workforce Distribution: The World Bank (2024). "World Bank national accounts data," <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=KH>; <https://data.worldbank.org/indicator/SL.AGR.EMPL.MA.ZS?locations=KH&view=chart>, Extracted January/2025

agriculture-related industries, including food processing, appear to be promising sectors for Japanese business expansion in Cambodia.

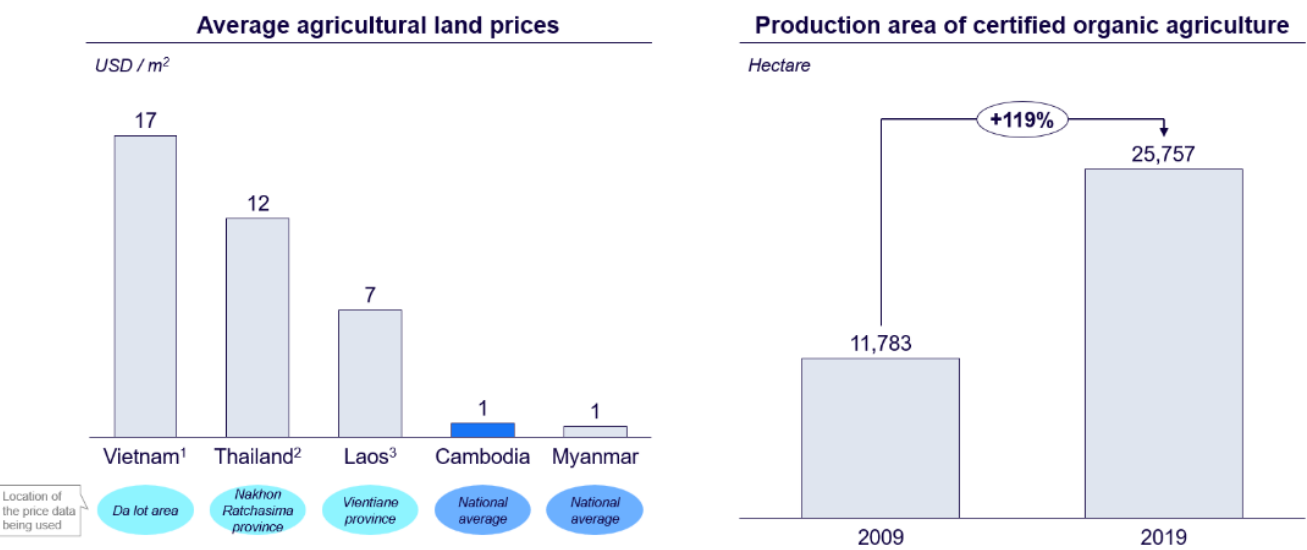


Figure 10: Changes in Agricultural Land Prices and Organic Farming Production in Cambodia
(Source: Government websites of various countries, secondary information, and Business Scouts for Development)

Example① : Lyly Kameda

- Joint Venture between Kameda Seika and LyLy Food Industry has been established in June 2018.
- Since the firm started operations in January 2019, it manufactures and exports rice crackers from Made in Cambodia Rice to the global market

Example② : MIRARTH Agri Tech

- Developed factory in Kampong Thom province to process cashews nuts for exporting overseas market and to use their shells as biomass fuel.
- In 2024, annual processing capacity has increased up to 1,500 tons of cashews nuts through introducing automation machines.

Figure 11: Examples of Japanese Companies Engaged in Agricultural Processing and Product Export
(Prepared by the AMEICC Secretariat based on interviews with Kameda Seika and Mirath Greentech, as well as desk research and publicly available information)

Lastly, it is important to highlight a cross-industry trend: the increasing presence and significance of mid-sized and small enterprises, including startups with advanced technological capabilities. In the manufacturing sector, companies like Fineplas Japan, which produces automotive electronic components, have entered the market as suppliers to major Japanese corporations that previously expanded into Cambodia. This has contributed to higher local procurement rates and the advancement of the supply chain.

In the non-manufacturing sector, beyond the previously mentioned Soramitsu, Japanese startups are also playing a role in addressing social challenges. For example, Sagri, a startup utilizing satellite and AI technologies, has launched pilot projects to analyze farmland and create and sell carbon credits based on land usage (Figure 12)⁹. These initiatives highlight the potential of Japanese startups in contributing to Cambodia’s development.

Unlike large corporations, such companies generally do not perceive Cambodia’s small market size as a significant barrier. However, they may require different types of support compared to large enterprises.

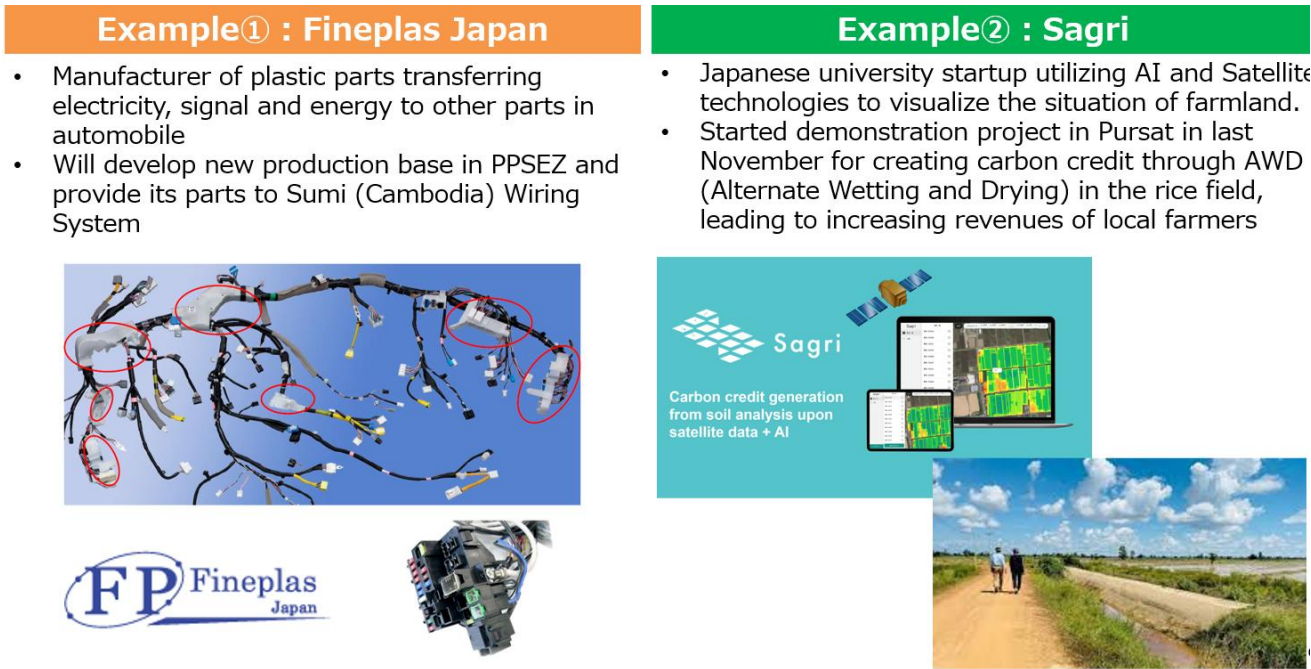


Figure 12: Trends in SME and Startup Expansion into Cambodia
 (Prepared by the AMEICC Secretariat based on interviews with Sagri, as well as desk research and publicly available information)

⁹ JETRO (2024). “Sagri supports the livelihoods of Cambodian farmers by leveraging carbon credits,” <https://www.jetro.go.jp/biz/areareports/2024/fc76a8c180955aa4.html>

3. Understanding the Current State of "Real Cambodia" and "Game Changers"

As discussed in the previous chapters, to sustainably attract Japanese companies to Cambodia, it is essential to develop an accurate understanding of both the “real Cambodia”—which emerges through comparisons with competing neighboring countries like Thailand and Vietnam, as well as through interviews with Japanese companies already operating in the country—and the "game changers" that could contribute to the quick improvement of the business environment.

To achieve this, as illustrated in Figure 8, this study has conducted a detailed analysis of key success factors (KSFs). These factors include: 1) human resources, 2) logistics, 3) energy, and 4) government, evaluated from the perspectives of political stability and administrative capacity. The following sections present the results of our analysis for each of these factors.

3-1. Human Resources (Wages, Productivity, etc.)

One of the key attractive factors for companies expanding into Cambodia is the competitiveness of labor costs. Although government-led minimum wage increases have driven labor costs upward in recent years, making wages higher than in Laos and Myanmar, Cambodia still maintains a competitive advantage over Thailand and Vietnam (Figure 13). In addition, based on the assumption that Cambodian factories operate six days a week, Cambodia's labor costs per hour are about half of Thailand's, making it an even more cost-effective option for companies looking at a Thailand Plus One strategy (Figure 14).

Additionally, according to JETRO's survey on Japanese companies operating in Cambodia, respondents highlighted fewer language (English) and communication barriers compared to neighboring countries. Individual interviews with businesses in Cambodia also confirmed that even at the worker level, a basic understanding of English is common, making on-site operational management easier compared to Thailand and Vietnam (Figure 15).

On the other hand, despite positive feedback on Cambodians' diligence and dexterity, statistical data suggests that productivity remains low relative to wages when compared to neighboring countries. Moreover, Cambodia has fewer highly skilled professionals, such as engineers and scientists, who will be critical for driving future industrial advancement. This shortage of high-skilled talent could become a barrier to the government's goal of industrial upgrading (Figure 16).

To tackle the shortage of high-skilled professionals, initiatives supported by the Japanese government have already begun laying the groundwork. One prominent example is the Cambodia-Japan Digital Manufacturing Center (CJDM), which aims to train engineers equipped with advanced technical knowledge and skills to operate state-of-the-art machinery. Opened in May 2023, the facility was established with the support of Japan's grant aid program and features three advanced CNC (Computer Numerical Control) machine tools from DMG Mori Seiki. Currently, DMG Mori engineers are involved in training instructors and providing advanced manufacturing education to students. Moving forward, closer collaboration with user companies utilizing such machinery is expected to cultivate highly skilled industrial talent, further strengthening Cambodia's capacity for advanced manufacturing (Figure 17).

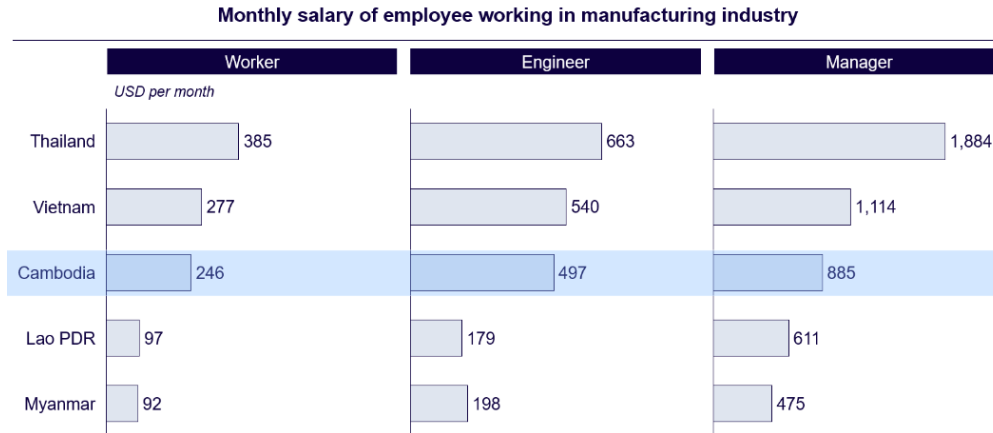


Figure 13: Comparison of Monthly Labor Costs in Neighboring Countries
(Source: JETRO)

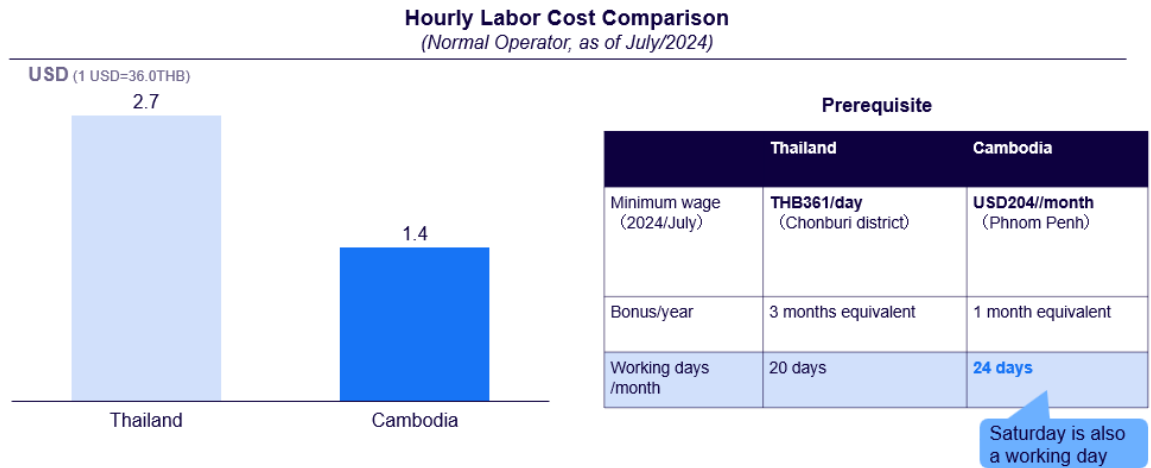


Figure 14: Comparison of Hourly Labor Costs Between Thailand and Cambodia
(Source: JETRO, Secondary sources)

Top 5 Advantages of the Investment Environment (Multiple Responses)



Figure 15: Perceptions of Japanese Companies on the Advantages of Cambodia's Investment Environment (Source: JETRO)

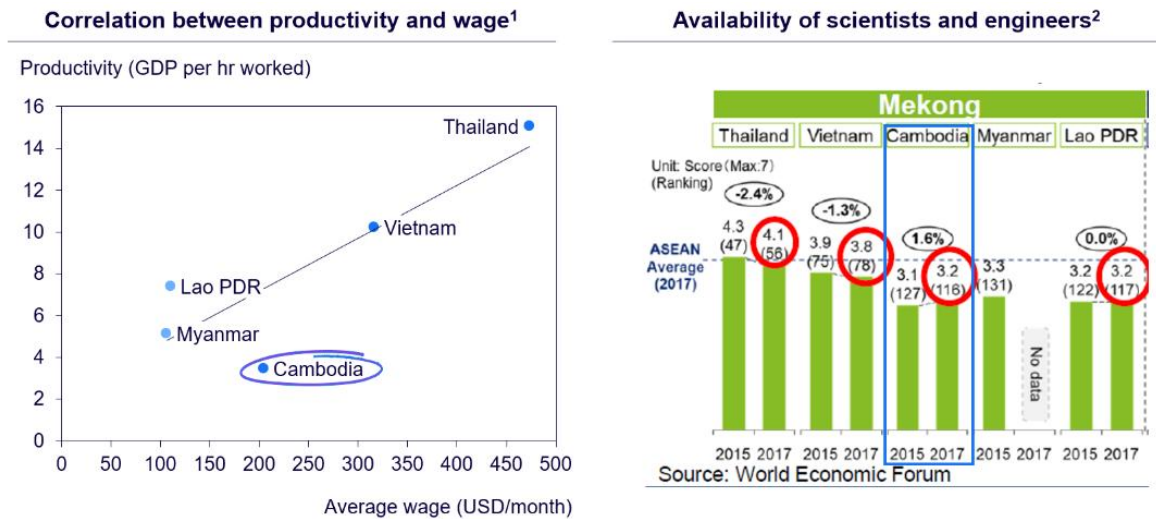


Figure 16: Comparison of Labor Productivity and Availability of Highly Skilled Human Resources Among Mekong Countries
(Source: (Left) ILO, etc.¹⁰; (Right) World Economic Forum)



Figure 17: Exterior View of CJDM and Training of Instructors by DMG Mori Engineers (Source: CJDM)

3-2. Logistics System

While Cambodia has strengths in labor costs, logistics remains a key challenge. Multiple studies, including the United Nations Logistics Performance Index, indicate that Cambodia lags behind neighboring countries like Thailand

¹⁰ The vertical axis (labor productivity) is based on ILO (2024), “Statistics on Labor Productivity.” The horizontal axis (monthly average income) is derived from multiple sources: data for Thailand and Vietnam is based on OECD (2024), “Pensions at a Glance Asia/Pacific 2024”; data for Cambodia is based on the 2024 government-announced minimum wage; data for Myanmar is sourced from WorldData.Info; and data for Lao PDR is based on UNDP (2022), “National Human Development Report LAO PDR 2022.”

and Vietnam in terms of quality, cost, and lead time (QCD) despite its continuous improvement (Figure 18)¹¹. The Cambodian government is aware of these challenges and a 2023 report by the Ministry of Public Works and Transport (MPWT), titled "Assessment Report on Costs, Time, and Reliability of Transport and Logistics Services", revealed that aside from cargo tracking, more than half of surveyed companies rated customs services, logistics infrastructure, and logistics service availability and quality at 3 or below on a 5-point scale¹². These findings align with the issues highlighted in the logistics performance index. Furthermore, the report also found that nearly half or more of the logistics service providers surveyed cited additional costs, customs delays, traffic congestion, and subsequent shipment delays as major challenges (Figure 19).

Among these challenges, additional costs were a common concern. Interviews conducted with Japanese companies operating in Cambodia revealed that non-transparent fees are still sometimes demanded during customs clearance, and delays could occur if companies refuse to pay these fees. Regarding customs delays, challenges include lack of digitalization in customs procedures, insufficient training of customs officers, the high number of required customs clearance steps

In particular, Cambodia lags behind Thailand and Vietnam in customs digitalization, as indicated in the Trade Digitalization Index published by ESCAP (United Nations Economic and Social Commission for Asia and the Pacific). While Cambodia does have an online system for submitting customs-related documents, this system is not integrated with the ASYCUDA (Automated System for Customs Data) used by customs authorities. As a result, customs officers must manually re-enter submitted data, limiting the system's efficiency (Figure 20).

On the other hand, "game changer" initiatives are emerging to address these logistics challenges. Notable examples include: Phnom Penh Special Economic Zone (PPSEZ) launching in-house customs clearance services and AEON Mall (Cambodia) LogiPlus introducing bonded warehouse services (Figure 21).

PPSEZ has hired in-house customs officers and internalized customs clearance services, leading to cost reductions, including the elimination of non-transparent fees. As a result, the company has successfully reduced domestic transportation costs by approximately 60% for overland shipments from Bangkok, Thailand, to the Poipet SEZ, where it operates. Furthermore, the Cambodian government has expressed a commitment to eliminating non-transparent costs, indicating that additional cost reductions may be possible in the future.

Aeon Mall (Cambodia) Logi Plus Co., Ltd. established a logistics center at Sihanoukville Port, Cambodia's only deep-sea port, in 2023. In line with efforts to transform the port into a free port, the company leverages Cambodia's only bonded warehouse to provide international-standard services such as international VMI services¹³ utilizing non-resident inventory¹⁴. These initiatives contribute to reducing procurement lead times with domestic inventory, minimizing factory-side inventory through supplier-held stock, and optimizing purchasing timing on the buyer's side to improve cash flow. Additionally, the company offers a one-stop domestic transportation service that covers everything from handling cargo upon vessel arrival to truck transportation to domestic destinations. Furthermore, Aeon Mall (Cambodia) Logi Plus is engaged in discussions with the government to enhance the

¹¹ The latest LPI is under review by World Bank in collaboration with Cambodian government to reflect the latest performance of Cambodian logistics sector, which seems to show further improvement.

¹² The report was compiled and published by the ministry based on a survey conducted with 32 private companies that are members of the Cambodian Logistics Association (CLA), the Cambodia Trucking Association (CAMTA), the Japanese Business Association of Cambodia (JBAC), and the European Chamber of Commerce in Cambodia (EuroCham).

¹³ Companies can hold inventory in bonded warehouses under their own name without establishing a local business entity in Cambodia

¹⁴ The International VMI (Vendor Managed Inventory) Service is a system in which inventory and shipping information from the buyer side, such as manufacturers, is shared with the supplier side, including parts suppliers and trading companies. This enables suppliers to manage inventory on their end and supply goods to the buyer at the appropriate timing. By combining this system with non-resident inventory schemes, even companies that have not yet established their business entity in Cambodia can store inventory in bonded warehouses and supply it to buyers on a just-in-time basis.

convenience of the bonded warehouse in Sihanoukville¹⁵. By establishing a more efficient and accessible logistics network in Cambodia and its neighboring countries, the company aims to support the expansion of Japanese enterprises in the region.

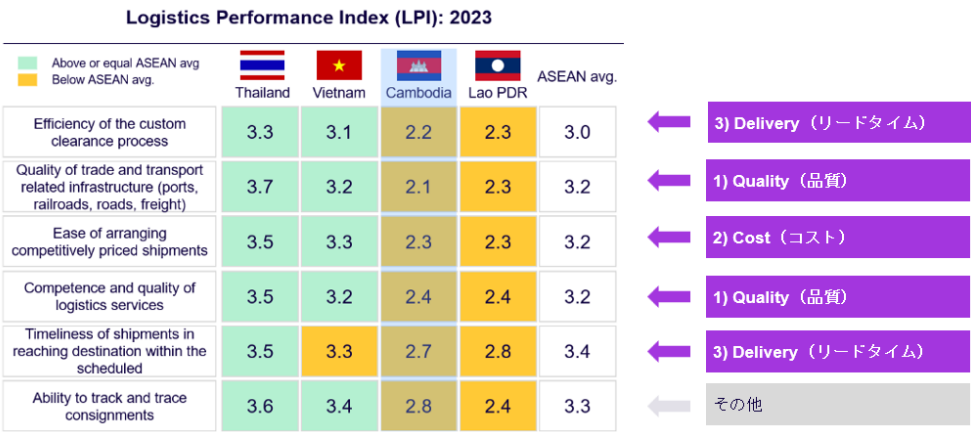


Figure 18: Comparison of Mekong Region Countries Based on the Logistics Index
(Source: The World Bank)

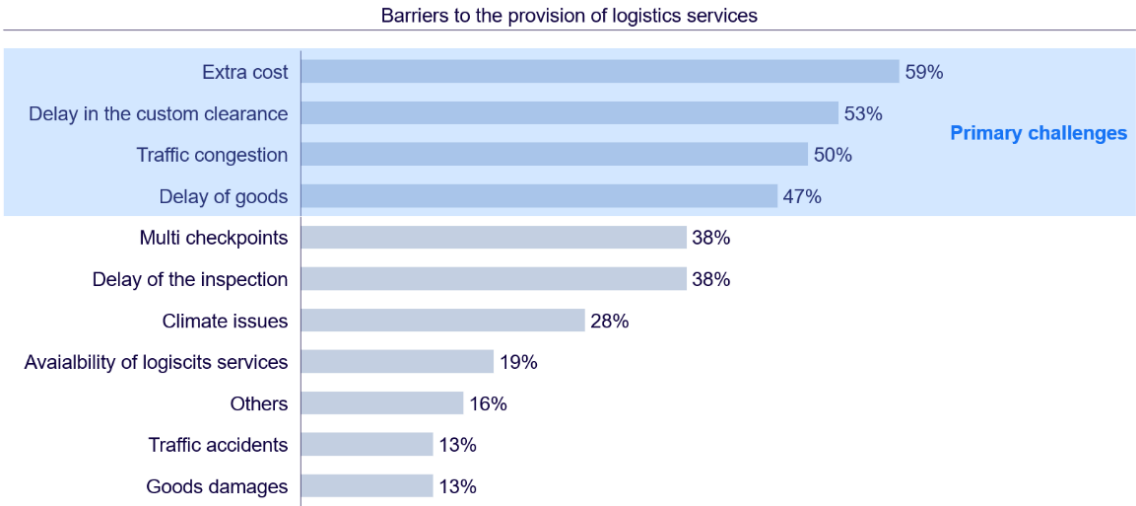
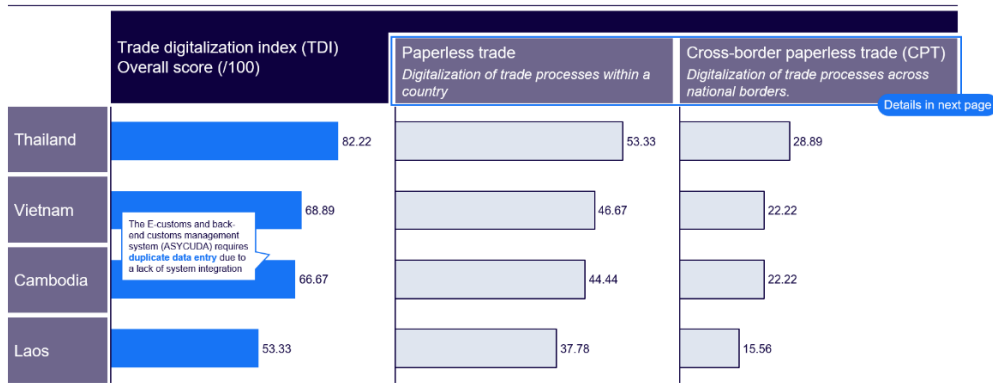


Figure 19: Challenges in Logistics Services in Cambodia
(Source: Ministry of Public Works and Transport of Cambodia)

¹⁵ Efforts are being considered to introduce globally advanced measures, such as allowing non-resident companies to apply Export Buyers’ Consolidation, a method where goods procured from multiple suppliers within Cambodia are consolidated into a single container for export, and enabling non-resident companies to obtain a Back to Back Certificate of Origin, which allows for the reissuance of a certificate of origin in a trade transit country based on the original certificate.

Trade digitalization index 2024 - Assessing progress in digitalizing trade procedures (Score out of /100)



Subcategory of the Paperless trade and Cross-border paperless trade (CPT)

	Paperless trade Digitalization of trade processes within a country	Cross-border paperless trade (CPT) Digitalization of trade processes across national borders.
Measure	Automated Customs System	Laws and regulations for electronic transactions
	Internet connection available to Customs and other trade control agencies	Recognized certification authority
	Electronic Single Window System	Electronic exchange of Customs Declaration
	Electronic submission of Customs Declarations	Electronic exchange of Certificate of Origin
	Electronic application and issuance of import and export permit	Electronic exchange of Sanitary and Phyto-Sanitary Certificate
	Electronic submission of Air Cargo Manifests	Paperless collection of payment from a documentary letter of credit
	Electronic application and issuance of Preferential Certificate of Origin,	
	E-Payment of Customs Duties and Fees	
	Electronic application for Customs refunds	

Figure 20: Comparison of Logistics System Digitalization Among Mekong Region Countries (Source: United Nations Economic and Social Commission for Asia and the Pacific)

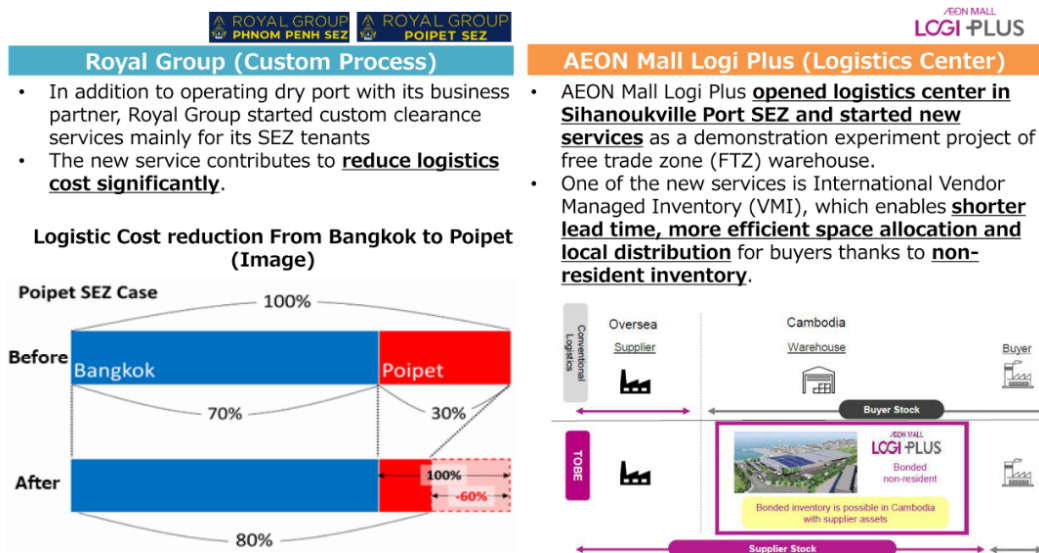


Figure 21: Example of Game-Changing Developments in Logistics (Prepared by the AMEICC Secretariat based on interviews and materials provided by RGPPSEZ and AEON Mall Logi Plus, as well as desk research and publicly available information)

3-3. Energy System

Cambodia’s power system presents both strengths and challenges compared to its neighboring countries. One of its key strengths is its clean energy composition. As of 2020, approximately 45% of Cambodia’s energy mix was sourced from hydropower and about 10% from solar and other renewable sources, making it the second-highest in renewable energy proportion among the Mekong region countries, following Laos. Looking ahead to 2030, the Cambodian government plans to increase the share of renewables—excluding hydropower—to around 23% (Figure 22). This high proportion of clean energy is particularly attractive for companies that face decarbonization requirements from global corporate clients and export destinations implementing policies such as the Carbon Border Adjustment Mechanism (CBAM)¹⁶, as it helps reduce greenhouse gas (GHG) emissions.

On the other hand, the biggest challenge lies in electricity costs. Historically, Cambodia has relied on neighboring countries for power supply and has had weak infrastructure, leading to high electricity prices. Although the Cambodian government has made efforts to lower electricity costs in recent years, the country still depends on neighboring nations for about 30% of its power supply¹⁷, keeping electricity prices at a relatively high level (Figure 23).

Additionally, the environment for corporate renewable energy procurement remains underdeveloped, meaning Cambodia has yet to fully capitalize on its high renewable energy ratio and solar power potential. For example, the adoption of rooftop solar panels—which could increase companies’ renewable energy procurement while reducing electricity costs—lags behind the more developed regulatory frameworks of countries like Thailand. As a result, widespread adoption has been slow¹⁸. Another method to increase renewable energy procurement, the issuance of renewable energy certificates, is also still in development. While countries like Vietnam and Thailand have rapidly expanded the issuance of International Renewable Energy Certificates (I-REC), Cambodia remains in the early trial stages, with only a limited issuance volume (Figure 24).

However, a potential game-changer in Cambodia’s energy landscape is the pioneering case of a factory achieving 100% renewable energy utilization, an advanced example even within ASEAN. Specifically, MinebeaMitsumi plans to power both its existing factories and future expansions entirely with renewable energy. In collaboration with SchneiTec, a government-certified local power provider, the company is set to launch a 50MW solar power project in Krakor District, Pursat Province, by January 2026 (Figure 25)¹⁹. If such initiatives become institutionalized and more businesses follow suit, Cambodia could become a more attractive investment destination—especially for companies linked to Apple, which has requested that major suppliers manufacture components entirely with renewable energy by 2030.

[Column] Efforts by Neighboring Countries to Promote Rooftop Solar Panel Installation

¹⁶ CBAM is a new environmental policy introduced by the EU that imposes a carbon price on imported goods based on the greenhouse gas emissions emitted during their production.

¹⁷ Knoema. “Cambodia - Total electricity imports,” <https://knoema.com/atlas/Cambodia/topics/Energy/Electricity/Electricity-imports>, extracted in June/2024.

¹⁸ For example, to ensure fairness among electricity users, a system is currently under consideration that would require rooftop solar installations connected to the power grid to pay a compensation cost based on the amount of electricity generated. However, more than a year has passed since the policy framework was announced, and the specific tariff levels have yet to be determined. Given the balance between benefits and costs, it is expected that an appropriate pricing level will be set.

¹⁹ MinebeaMitsumi(2024). “Minebea Mitsumi Announces the Construction of its Second Factory in Cambodia and Solar Power Generation Business in Cambodia,” https://www.minebeamitsumi.com/news/press/2024/1208250_19128.html;
MinebeaMitsumi(2024). “Minebea Mitsumi Announces the Start of Construction of the Pursat Factory” https://www.minebeamitsumi.com/news/press/2024/1209589_19128.html

While Cambodia's regulatory framework for promoting rooftop solar panel installation is still under development, Thailand and Vietnam have already implemented measures such as import tariff exemptions on solar equipment and corporate tax incentives to encourage adoption in addition to installation permits (Figure 26).

For example, in Thailand, import tariffs on solar panels, storage batteries, and other hardware are exempt, and companies can receive a corporate tax reduction of up to 50% for a maximum of three years. Similarly, in Vietnam, import tariffs are exempt under the condition that assembly takes place domestically in the future. Additionally, corporate tax incentives include a reduced tax rate of 10% for up to 30 years or a shortened 13-year period with a full tax exemption for the first four years, followed by a 50% reduction for the next nine years.

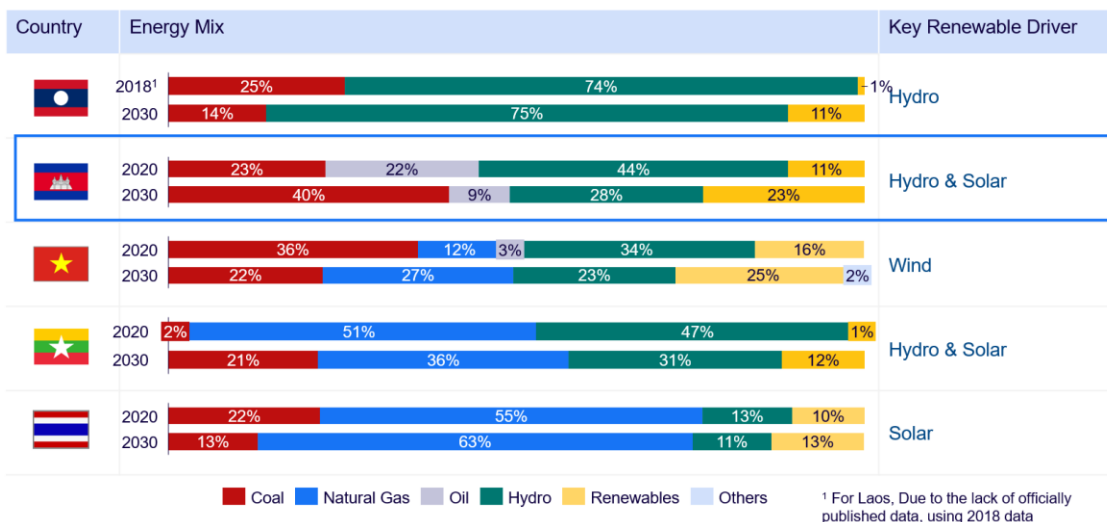


Figure 22: Comparison of Energy Mix in Mekong Region Countries
(Source: Public Data from National Governments, Various Secondary Sources)

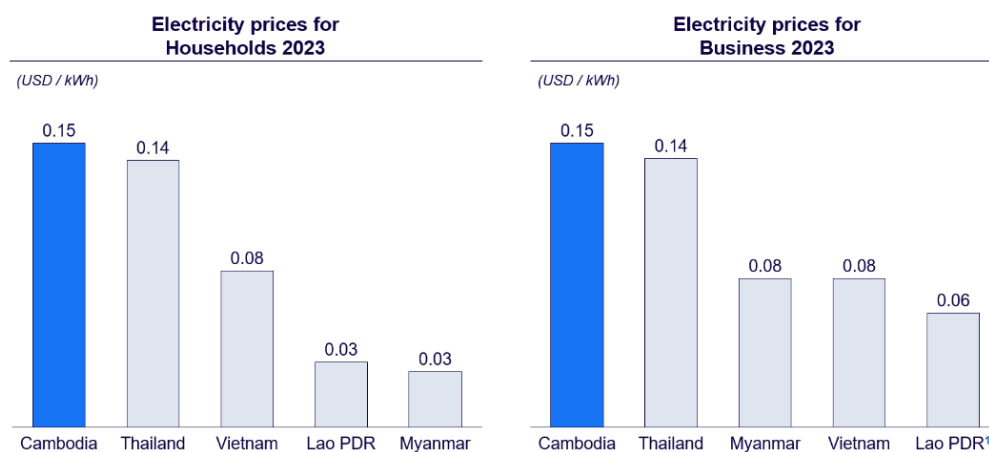


Figure 23: Comparison of Household and Industrial Electricity Prices in Mekong Region Countries
(Source: Global Petrol Price)

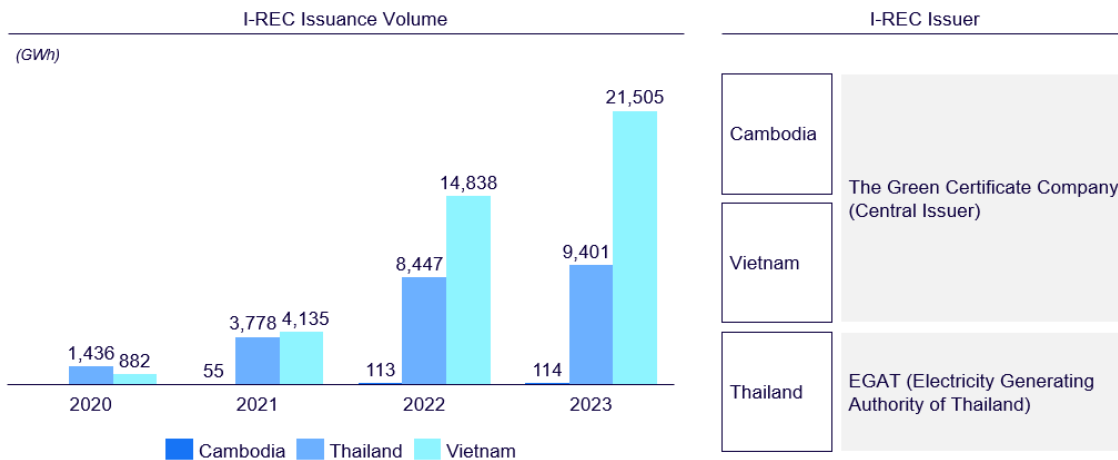


Figure 24: Comparison of I-REC Issuance Volume by Country
(Source: The Evident Registry)

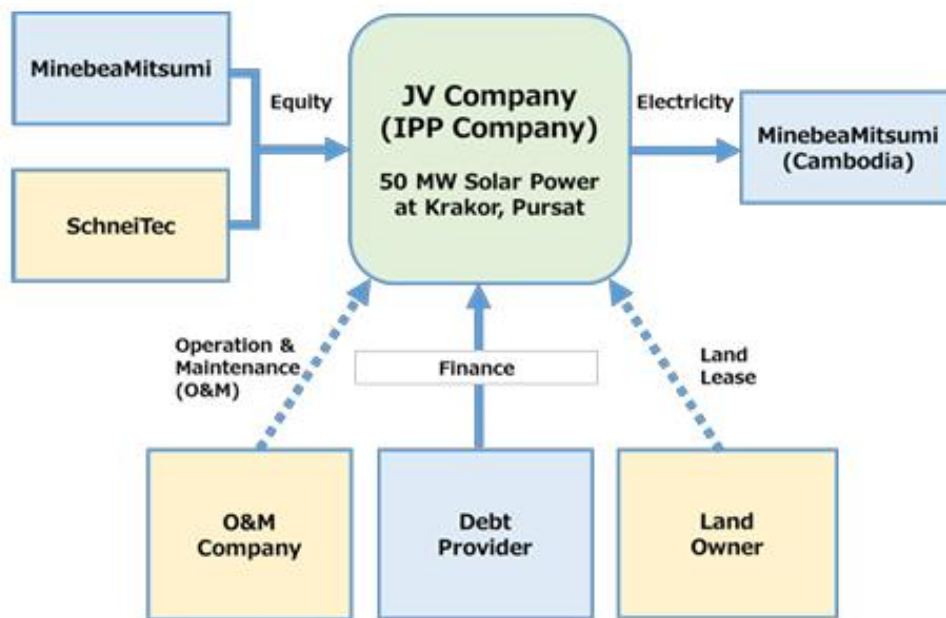


Figure 25: Scheme Image of MinebeaMitsumi's Solar Power Project
(Source: Ministry of Economy, Trade, and Industry, Japan)

Rooftop solar incentive comparison				
		Thailand	Vietnam	Cambodia
Benefits	Import duty exemption	Yes <ul style="list-style-type: none"> • Import duties on machinery/equipment exemption 	Yes <ul style="list-style-type: none"> • Import duty exemption for goods used to create fixed assets • 5-year import duty exemption for raw materials and components unavailable domestically, starting from production commencement 	Not specified
	CIT exemption	Yes <ul style="list-style-type: none"> • 50% of CIT¹ exemption for 3 years 	Yes <ul style="list-style-type: none"> • 10% for 15-30 years or • Full exemption for the first 4 years and 50% reduction of CIT for the subsequent 9 years 	Not specified

Figure 26: Comparison of Incentives for Promoting Rooftop Solar Panel Installation
(Source: Board of Investment Thailand, Ministry of Industry and Trade Vietnam)

3-4. Political Stability and Government Execution Capability

Finally, this study analyzes Cambodia's political stability and policy execution capability, which are both crucial factors influencing the investment decisions of nearly all Japanese companies.

Political stability is essential for ensuring business predictability. Interviews conducted in this study revealed that many companies positively evaluated the smooth transition of power to Prime Minister Hun Manet in 2023. This perception is reflected in global rankings, as Cambodia is rated the second most stable country in the Mekong region (after Laos) by the World Bank's *The Global Economy* report, giving it a comparative advantage over neighboring Thailand and Vietnam (Figure 27).

However, Cambodia receives relatively lower ratings for its policy execution capability. For example, the World Bank's *Index of Regulatory Quality*, which measures governments' ability to enforce laws and regulations, ranks Cambodia below Thailand and Vietnam (Figure 28). Additionally, reports from the World Justice Project, an NPO specializing in judicial system evaluations, identify challenges in areas such as "proper enforcement of laws and regulations" and "respect for fair administrative and legal procedures" (Figure 29).

From the perspective of regulatory enforcement for Japanese companies, progress has been made through constructive dialogues within the Cambodia-Japan Public-Private Sector Meeting framework. There are also examples of collaboration with the Cambodian government on legal frameworks, such as the case of Soramitsu, which assisted in developing a legal system for issuing Cambodia's digital currency. However, our interviews revealed that many SMEs, in particular, perceive challenges in tax enforcement stability and predictability²⁰. To attract more foreign investment, the Cambodian government will need to provide tailored and detailed support for SMEs.

Lastly, the proactive stance and actions to attract foreign investments under the Hun Manet administration can be a game changer. The Cambodian government has consistently demonstrated a pro-business stance at high levels, but

²⁰ As an example of the hearing results, one concern raised was that the tax system is unclear in both its enforcement and structure, leading to low predictability and the risk of unjustifiably high additional tax charges. It was pointed out that "tax audits from 2019 are still ongoing, there are few legal precedents for tax investigations, and companies may be subjected to additional taxation amounting to tens of millions of yen without clear logic or evidence."

the current administration is implementing concrete measures to reinforce this commitment more actively. For instance, in July 2024, Prime Minister Hun Manet announced the establishment of the *Special Tax Audit Unit (STAU)*—a body with authority equivalent to the existing tax authorities—to enhance the investment environment. This unit aims to conduct transparent and efficient tax audits for businesses that maintain proper tax compliance²¹. The effectiveness of such new initiatives will be a key indicator of the future business environment in Cambodia.

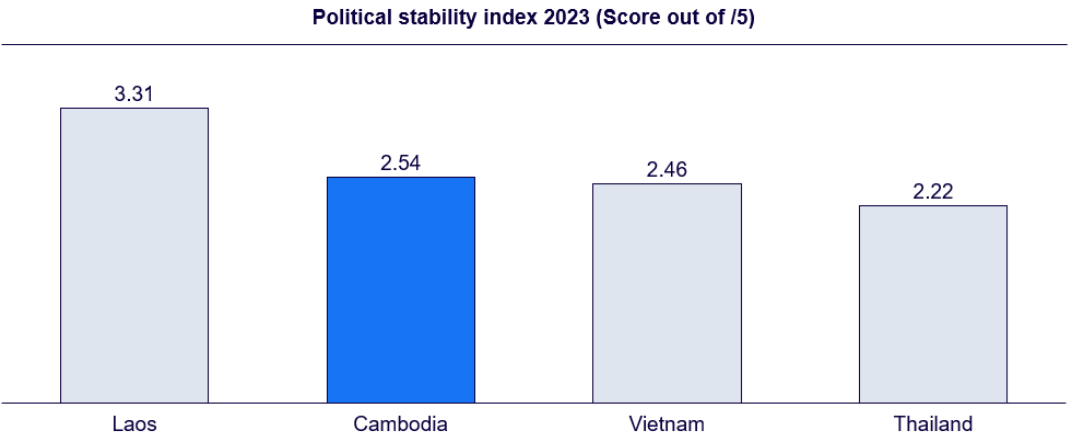


Figure 27: Comparison of Political Stability in Mekong Region Countries
(Source: The Global Economy)

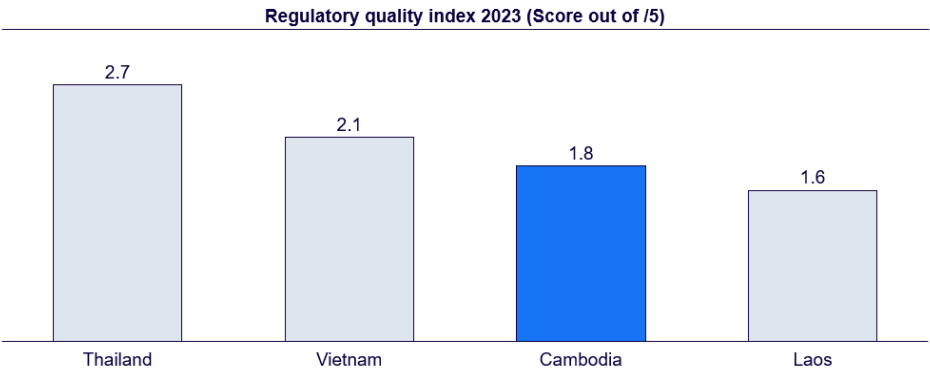


Figure 28: Comparison of Law Enforcement in Neighboring Countries
(Source: The Global Economy)

²¹ KPMG(2024), “The Establishment of a Special Tax Audit Unit.” <https://assets.kpmg.com/content/dam/kpmg/kh/pdf/technical-update/2024-/eng/sub-decree-160-and-prakas-360-re.pdf>

Regulatory enforcement index 2024 - WJP Rule of Law Index (Score out of /1)

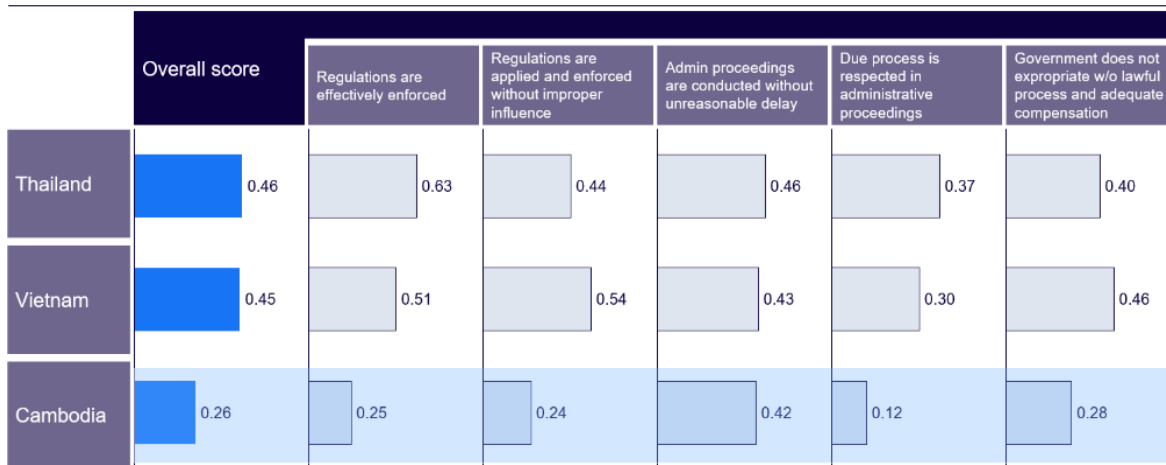


Figure 29: Comparison of Law Enforcement in Neighboring Countries
(Source: World Justice Project)

4. Key Actions for Attracting Japanese Companies

In the previous chapter, this study analyzed the key factors that shape the business environment in Cambodia from the perspective of Japanese companies—namely, human resources, logistics, energy, and government. This analysis covered both the current state of these factors ("Real Cambodia") and the initiatives that could improve these indicators ("Game Changers"). In this chapter, to ensure the sustainable expansion of Japanese companies in Cambodia, this study outlines specific short-term actions (approximately three years) that Japan and Cambodia should undertake in cooperation. These actions are based on two fundamental policies: 1) Expanding information dissemination about Cambodia through multiple channels, including word-of-mouth from existing Japanese companies; 2) Continuously improving the business environment by leveraging "Game Changers." Furthermore, considering Cambodia's central position in the Mekong region, we have also explored ways to maximize the use of multilateral frameworks, such as Mekong-Japan cooperation, to support these initiatives (Figure 30).

<List of Proposal Actions>

-
- 1. Strategically hold business seminar in Japan and surrounding countries and dispatch business mission to Cambodia
 - 2. Develop Business Co-creation Team (BCT) across ministries for more transparent and consistent implementation of public policies
 - 3. More collaboration with local institutions for more HRD
 - 4. Improve logistics performance at national and sub-regional level through hardware and software infrastructure development
 - 5. Knowledge sharing and capacity building for more smooth procurement of renewable energy by leveraging AZEC initiative
- The diagram uses blue brackets on the right side to group the actions. The first two actions (1 and 2) are grouped under the label "Information Dissemination (incl. Word of Mouth)". The remaining three actions (3, 4, and 5) are grouped under the label "Business Environment Improvement".

Taking advantage of SEZs given limited resource and other factors

12

Figure 30: Two Fundamental Policies and List of Proposal Actions
(Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)

4-1. Organizing Strategic Business Seminars and Corporate Missions

As repeatedly emphasized, Cambodia's business environment has been evolved more dynamically and rapidly in recent years. Given this, it is essential to provide timely and relevant information about the business environment and opportunities to companies that are either planning to enter or already operating in Cambodia. To achieve this, it is crucial to maximize the use of business seminars and economic missions, where participants can obtain first-hand information not only from statistical data but also directly from Japanese companies already operating in Cambodia, senior officials of the Cambodian government, and on-site visits to actual business locations. Additionally, to enhance effectiveness, the locations and targeted industries of these initiatives should be strategically selected based on the expansion patterns of Japanese companies (e.g., Thailand, Vietnam, and China +1 strategies), and promising industry sectors (e.g., automotive, electronics, and agriculture-related industries). By conducting these activities in a strategic and targeted manner, their impact can be maximized (Figure 31).



Figure 31: Cambodia Investment Seminar in Thailand in November/2024
(Featuring a speech by Deputy Prime Minister Sun Chanthol and a panel discussion with existing investors)
(Source: JETRO)

4-2. Formation and Operation of the Business Co-Creation Team (BCT)

The Cambodian government offers strong cooperation and flexibility to foreign businesses and maintains a stable political environment. As a result of discussions within the Cambodia-Japan Public-Private Sector Meeting, the business environment for Japanese companies has been steadily improving. However, it is indicated that challenges remain in the enforcement of regulations, and companies seeking to develop new industries or small and medium-sized enterprises (SMEs) often require more tailored support due to the novelty of the challenges they face and their limited resources.

To address this, we propose the establishment of a Business Co-Creation Team (BCT) (tentative name) to provide targeted support. Business operations involve not only the initial stages of market research and licensing but also continuous challenges even after the business has been launched. Thus, BCT will be defined as a cross-ministerial organization that provides ongoing support for Japanese companies at all stages of development. By ensuring Japanese businesses achieve significant success in Cambodia with the support of such a team, we can actively promote these success stories as economic co-creation models, further encouraging more Japanese companies to enter the Cambodian market (Figure 32).

This study examines the specific functions required for the Business Co-Creation Team (BCT) by benchmarking similar organizations, such as JETRO and BOI (The Board of Investment of Thailand), which serve as overseas investment promotion agencies.

The first function is comprehensive information provision. JETRO and BOI not only provide fundamental data annually on the business environment and cost structures for foreign investors but also disclose detailed information on investment incentives, including estimated processing times for each stage of the investment process. These efforts contribute significantly to improving the predictability of business operations and administrative procedures.

The second function is cross-ministerial coordination to address business challenges. JETRO arranges meetings with relevant government agencies and experts when foreign companies operating in Japan encounter difficulties. Similarly, BOI has resident Japanese investment specialists dispatched from Shoko Chukin Bank, Japanese financial institution that supports SMEs, who serve as direct consultation points for Japanese companies. Also, currently, CDC launched the CDC Invest Project Management System (CDCIPM) in November of 2024. This platform digitizes the application process for Qualified Investment Projects (QIP) and aims to extend its functions to include electronic licensing applications for other ministries in the future. It is crucial for BCT to collaborate with these cross-ministerial initiatives led by Cambodian government to solve all business-related challenges in more efficient way.

The third function is facilities and services that lower barriers to market entry. JETRO provides rental office spaces free of charge for up to 50 days to foreign companies entering the Japanese market. CDC also intends to benchmark this initiative and implement similar measures. If such hard infrastructure solutions (e.g., rental offices) are integrated with soft infrastructure improvements (e.g., regulatory support and information provision), it will enable simultaneous enhancement of the business environment and information dissemination (Figure 33).

Japan can provide support primarily on the soft infrastructure side, such as capacity building for government officials involved in BCT operations. However, for BCT to function effectively and sustainably, it is essential that its personnel selection and actual activities receive endorsement from Cambodia’s top leadership. Therefore, we strongly encourage active involvement from Cambodia’s leadership to ensure the successful implementation of BCT.

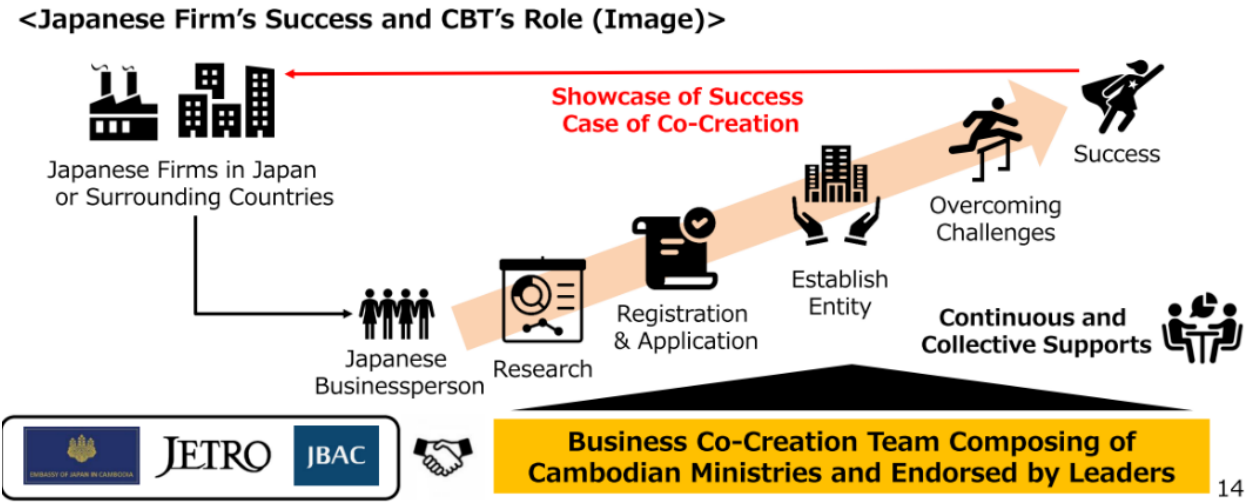
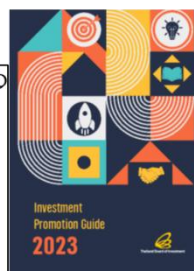


Figure 32: Concept of the Business Co-Creation Team (BCT) and Its Relationship with Japanese Companies' Expansion into Cambodia (Illustrative Image)
 (Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)

Comprehensive Information Provision

- Provide the latest and comprehensive information **on the investment environment and steps to start business in Japan/Thailand**
- The information is **collecting from multiple ministries and very detailed** to provide clearer image to the potential investors



Introduction of Relevant Governments and Experts

- JETRO's Invest Japan Hotline **arranges meetings with relevant public institutions** in addition to its **consultation services**
- BOI has a **Japanese advisor** for supporting Japanese firms



Mr. Uematsu
BOI Advisor



Rental Facilities Services

- JETRO **offers temporary office space free of charge for up to 50 days** to companies planning to enter the Japanese market

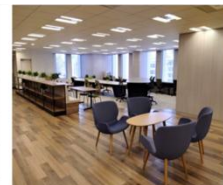
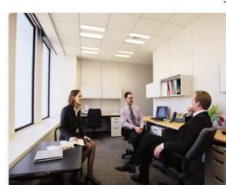


Figure 33: Conceptual Image of Specific Functions Provided by BCT and Examples of Activities by Similar Organizations (JETRO, BOI)

(Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)

4-3. Development of Highly Skilled Industrial Human Resources in Collaboration with Local Training Facilities

Regarding the human resources sector, while Cambodia maintains cost competitiveness in terms of labor costs compared to neighboring countries, challenges remain in productivity levels and securing highly skilled talent, as indicated in the previous chapter. To address these challenges, it is crucial to accelerate initiatives for developing highly skilled industrial human resources by leveraging collaboration between Japanese companies and local training facilities, utilizing support from the Japanese government and other funding sources.

For instance, the previously mentioned CJDM is utilizing subsidies from AMEICC's GXDX Human Resource Development Support Program to train instructors specialized in handling machine tools. Additionally, CJDM plans to strengthen collaboration with Technical and Vocational Education and Training (T-VET) institutions, which are prioritized by the Cambodian government and have received technical cooperation support from Japan over the years²².

Moreover, DENSO, building on its long-standing partnership with the Institute of Technology of Cambodia, has launched new initiatives in 2024. With support from AOTS's Industry-Academia collaborative program, DENSO is providing new specialized courses and internship programs focused on mechanical design, data analysis, and quality control techniques. These initiatives serve not only as technology transfer efforts but also as a talent pipeline for DENSO's recruitment needs (Figure 35).

Expanding such initiatives will ensure a continuous supply of highly skilled talents that align with the needs of Japanese companies, ultimately encouraging further expansion of Japanese business operations in Cambodia.

²² In 2023, Prime Minister Hun Manet launched the TVET 1.5M Program, which aims to provide free education at T-VET institutions to equip 1.5 million young people from low-income families with the necessary skills for employment. The program is currently being implemented.

Extend Partnerships of CJDM and Supports from DMG Mori

- CJDM is now **signing MOUs with local education center** to co-create high skilled industrial talents
- DMG Mori is supporting CJDM not only through introduction of machines **but also through dispatching an expert to train local trainers**



CJDM

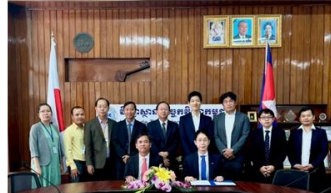


Source: Company website, Interviews with Japanese companies



Endowed Course at the Institute of Technology of Cambodia (ITC) by DENSO

- Since its establishment in 2013, DENSO has collaborated with Institute of Technology of Cambodia (ITC) for HRD in Cambodia.
- The new program started 2024 teaches **mechanical design, data analysis and quality control technology** to the engineering students



DENSO



Figure 35: Key Examples of High-Skilled Industrial Human Resource Development Through Collaboration Between Japanese Companies and Local Training Institutions

(Source: CJDM and DENSO)

4-4. Various Cooperation Efforts to Improve the Logistics Environment with a Focus on Cross-Border Logistics

Regarding logistics, while progress has been made in the development of hard infrastructure, such as National Road No. 5 and Sihanoukville Port, and some indicators are now receiving higher evaluations compared to neighboring countries, challenges remain in QCD (Quality, Cost, and Lead Time). In particular, there is significant room for improvement in soft infrastructure, such as streamlining customs procedures through digital technology.

In this context, game-changing initiatives by private-sector players, such as PPSEZ (Phnom Penh Special Economic Zone) and AEON Mall LogiPlus, have the potential to greatly enhance the efficiency of the related logistics network. However, given that many logistics processes are closely interconnected, achieving sustained improvements in the logistics environment requires not only accelerating individual initiatives but also maintaining a comprehensive understanding of the overall system.

To address this, it is crucial to leverage existing frameworks such as Policy recommendations from the JBAC Tariff and Logistics Committee within the Cambodia-Japan Public-Private Sector Meeting, and JICA's technical cooperation project, CLIP3 (The Project for Strengthening Facilitation Capacity for Logistics Improvement). By using these frameworks, efforts should focus on quantifying and visualizing the overall logistics landscape, identifying priority areas for improvement, and enhancing the synergies between different initiatives.

In addition to domestic logistics, cross-border logistics challenges must also be addressed. This requires close cooperation with neighboring countries such as Thailand and Vietnam. In this regard, actively utilizing regional cooperation frameworks can be an effective approach. From Japan's perspective, it is essential to actively support the strengthening of regional connectivity, with Cambodia—centrally located in the Mekong region—as the focal point. This can be achieved through facilitating dialogue within the Mekong-Japan Cooperation framework and organizing training programs involving multiple Mekong countries. Such efforts will contribute to enhancing regional connectivity and strengthening the overall logistics environment (Figure 36).

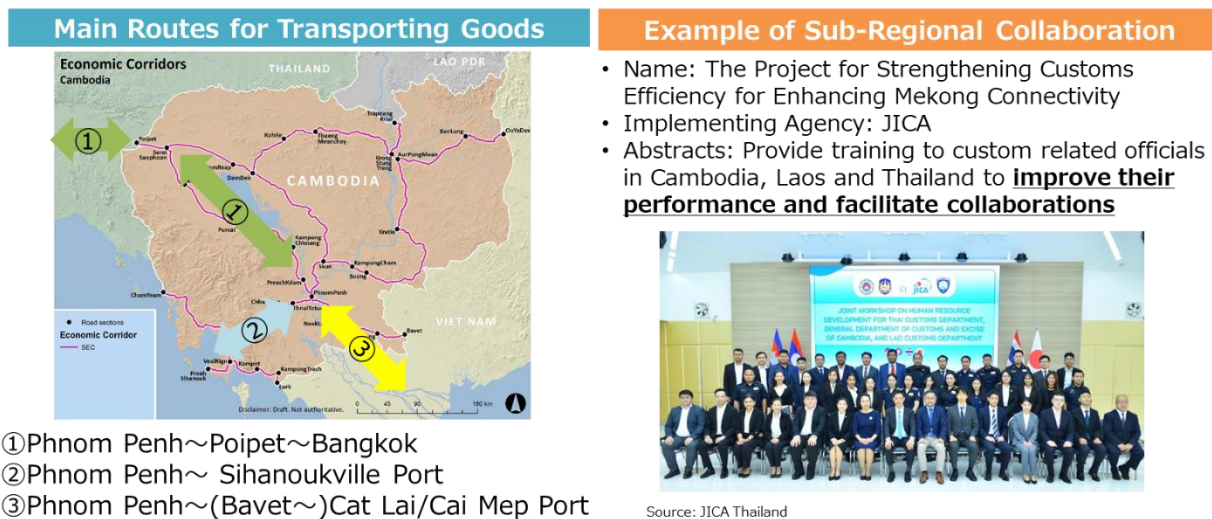


Figure 36: Cross-Border Logistics Patterns from Cambodia (Left) and Overview of Cooperation Initiatives to Strengthen Regional Connectivity (Right)
(Source: JICA)

4-5. Enhancing Investment and Procurement Environment for Green Power by Leveraging Cooperation Frameworks such as AZEC

As a country, Cambodia has a relatively clean energy mix compared to other countries in the region. Notably, game-changing initiatives by global companies—such as MinebeaMitsumi's advanced approach to fully powering its factories with renewable energy—demonstrate the country's potential. However, electricity costs remain relatively high compared to neighboring countries, and options for procuring certified green power are still limited. Addressing these challenges requires the establishment of appropriate rules and regulatory frameworks.

In this context, in addition to existing bilateral technical cooperation initiatives, utilizing the Asia Zero Emission Community (AZEC)—a framework led by Japan in collaboration with Southeast Asian countries to promote carbon neutrality—would be highly beneficial. Given the concentration of Japanese manufacturing industries in ASEAN, AZEC places strong emphasis on decarbonizing manufacturing and supply chains. Moving forward, regular forums will be held to share updates on renewable energy initiatives across participating countries.

Therefore, actively engaging in these forums will enable Cambodia to showcase its advanced initiatives, raising awareness among Japanese companies involved in AZEC about Cambodia's strengths. At the same time, Cambodia can learn from other countries' advanced case studies to refine its domestic policy frameworks effectively.

For example, Thailand has established a well-developed system of rooftop solar incentives and renewable energy certificates (RECs), as previously discussed. Furthermore, Thailand has introduced the Utility Green Tariff (UGT), allowing companies to purchase renewable energy from specific power sources at a fixed rate through the national grid. Such initiatives can serve as a valuable reference for Cambodia's policy design, providing a benchmark for green power pricing²³. By aiming to supply green power at a stable rate below these benchmark prices, Cambodia can enhance its attractiveness as an investment destination. Thus, actively studying these best practices would be highly beneficial.

²³ Thailand Board of Investment (2024). "Go Green 2024: The Ambition of Thailand," p.9, <https://www.krungsribusinesslink.com/cms/v2.0/asset/image/czFD4e8f1c9586251c2673f7ab0b2ac8387b3d8f5ecba4a35bd6fd41df38f6ab4da2.pdf>

Example of New Green Electricity Procurement Rule: Utility Green Tariff (UGT) in Thailand

- UGT has several menus and firms choose the most suitable ones

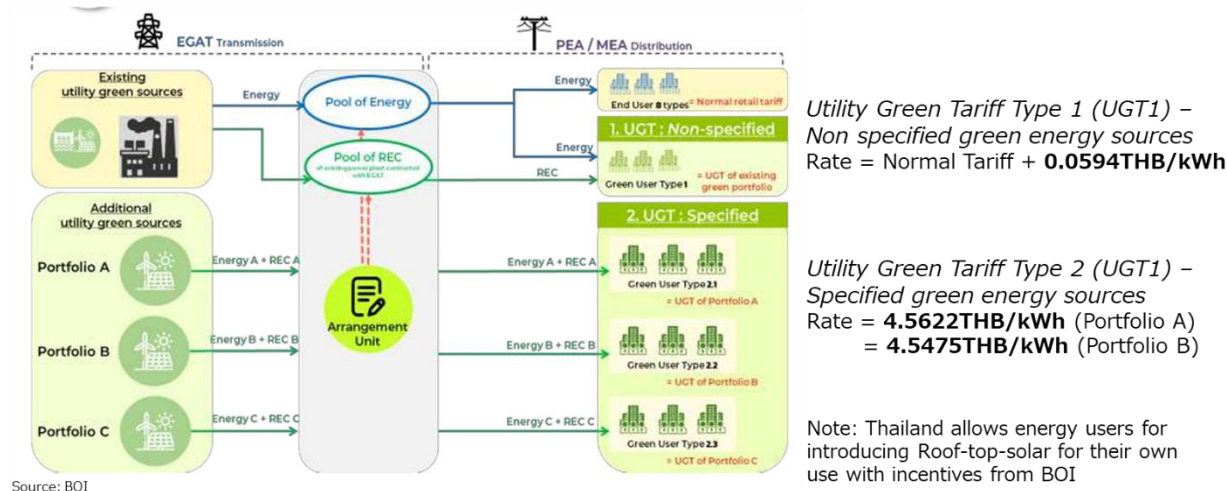


Figure 37: Overview of Thailand's Utility Green Tariff (UGT)
 (Source: Thailand Board of Investment)

4-6. Development of New SEZs and Implementation of Advanced Initiatives in These Areas

While the five initiatives discussed so far would ideally be implemented nationwide in Cambodia as early as possible, given resource constraints and the risks associated with immediately rolling out advanced initiatives on a national scale, it is more practical to first implement them in specific areas, such as newly developed Special Economic Zones (SEZs).

However, it is also important to recognize that implementing advanced initiatives, such as systems to facilitate the procurement of renewable energy, in new SEZs does not automatically lead to an increase in Japanese company investments in those areas. The attractiveness of an SEZ is evaluated comprehensively, including factors such as location, basic infrastructure (electricity, water, etc.), and one-stop administrative services for permits and approvals. Additionally, if Japanese companies already operating in existing SEZs are unfairly excluded from the benefits of newly introduced advanced initiatives, it could negatively impact their business expansion. Therefore, in the medium to long term, it is crucial to ensure fairness among businesses and maintain a level playing field (Figure 38).

Moving forward, requirements for SEZs to attract Japanese and other global companies will be comprehensively studied by the Economic Research Institute for ASEAN and East Asia (ERIA), an international organization in the region, incorporating the findings of this study. At the same time, alongside such research efforts, it is equally important to actively consider concrete development projects for new SEZs.

Parameter to Evaluate SEZ's Attractiveness

- SEZs are generally evaluated from multiple perspectives

Additional Incentives for investing in SEZ
(e.g. More Tax Exemption, Sandbox etc.)

Basic Services Available in SEZ
(Power, Water, One-Stop Public Service etc.)

Fundamental Characteristics
(Location, Surrounded Infrastructure etc.)

Selecting a good location and providing sound basic services is as important as coming up with an innovative incentive

Fairness among Firms to Get Benefits

- Basic Public services should be provided equally to all JP Firms no matter where they are located

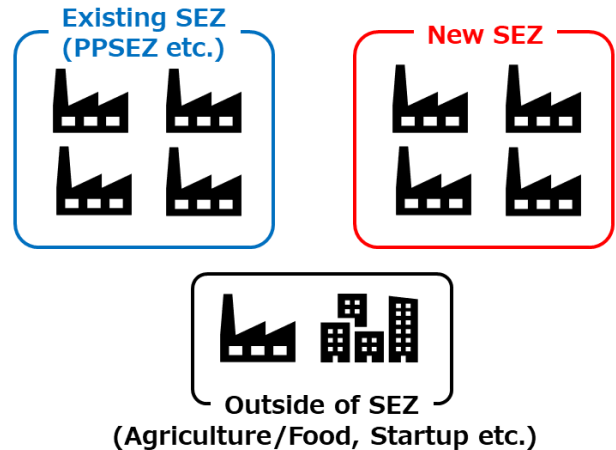


Figure 38: Evaluation Criteria for SEZs (Left) and the Necessity of Ensuring Fairness Among Businesses When Implementing Advanced Initiatives (Right)

(Prepared by the AMEICC Secretariat based on desk research and interviews with companies/institutions)

Appendix: Country Overview of Cambodia

A. Geography and Demographics

Cambodia is located on the Indochina Peninsula, sharing borders with Vietnam to the east, Thailand to the west, and Laos to the north, while its southern coast faces the Gulf of Thailand. The country covers approximately 180,000 km², which is about half the size of Japan and one-third the size of Thailand. Cambodia has a population of approximately 17 million people. Over 97% of the population consists of Khmer people, and the official language is Khmer. Additionally, Buddhism (Theravāda Buddhism) is designated as the state religion by the constitution. Politically, Cambodia is a constitutional monarchy and a capitalist country, with King Norodom Sihamoni as the head of state. Currently, Prime Minister Hun Manet, backed by the ruling Cambodian People's Party (CPP), leads the government.

As mentioned earlier, Cambodia's population was approximately 17 million as of 2022 and is projected to grow to around 21 million by 2040²⁴ (Figure 39). A key demographic characteristic is a youthful population, with over 50% of the population under 30 years old and an average age of 26.5 years (Figure 40). Furthermore, the upper-middle-income class and above are expected to expand significantly in the coming years. This, combined with population growth, suggests a considerable increase in domestic demand. Additionally, literacy rates have improved significantly in recent years, reaching approximately 88% in 2020. This improvement is expected to further contribute to the expansion of the middle class in the future.

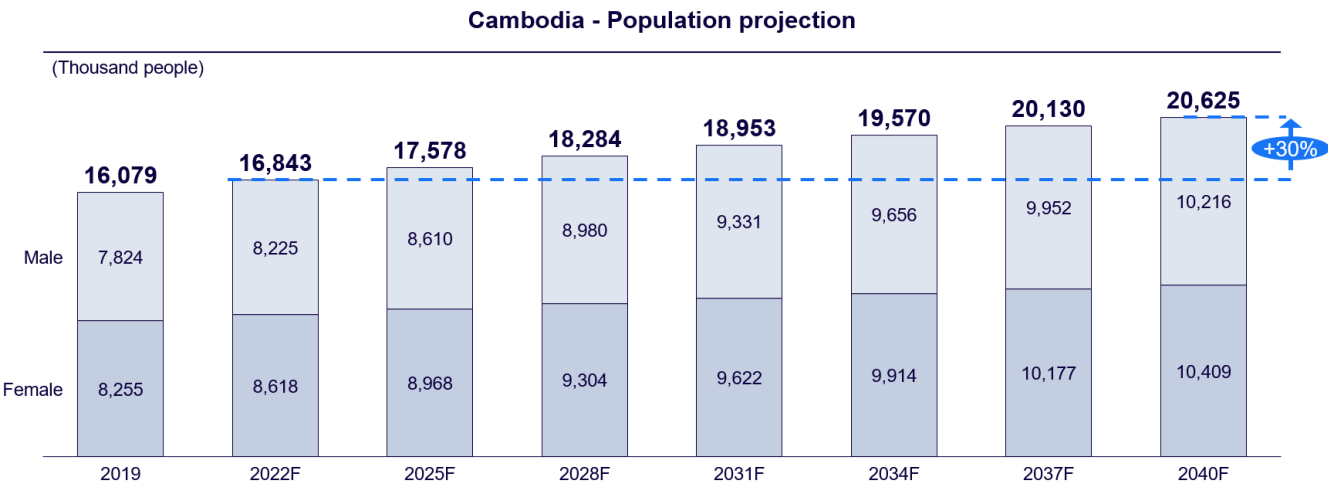


Figure 39: Cambodia's Total Population: Actual and Projected Figures
(Source: Kingdom of Cambodia)

²⁴ The National Population Policy 2016-2030 (2016) and the Pentagonal Strategy - Phase I (2023) both emphasize stable population trends rather than rapid population growth. The government's focus is primarily on increasing average income levels and expanding the middle-class population, rather than achieving a significant rise in total population.

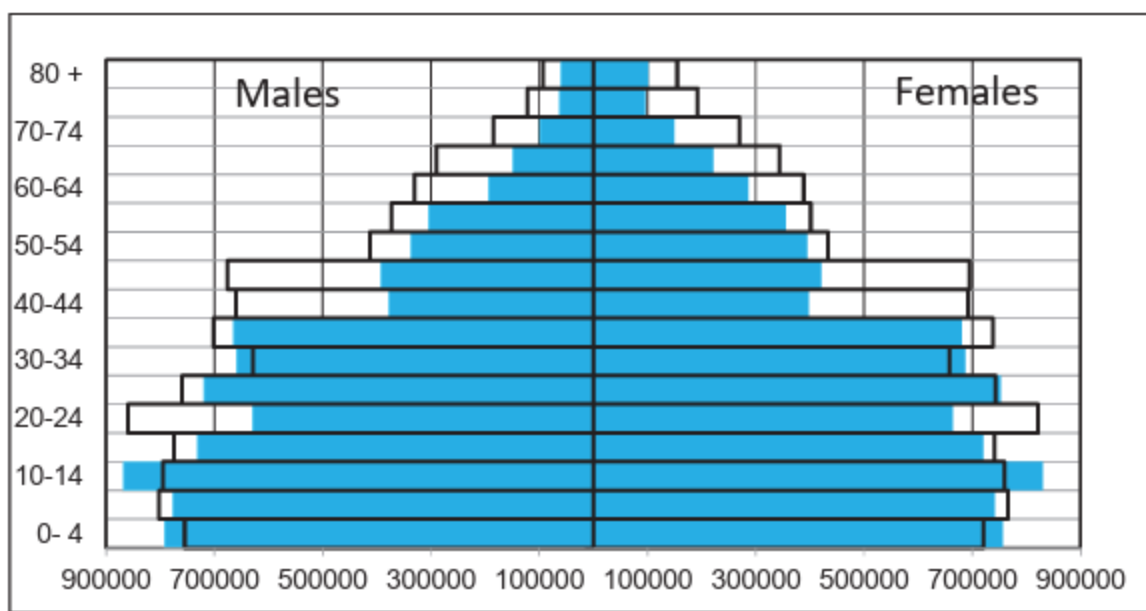


Figure 40: Population Distribution of Cambodia
(Source: Kingdom of Cambodia, Shaded - 2019 & Clear - 2030)

B. Economy and Trade

Regarding the economy, Cambodia's GDP recorded an average annual growth rate of 11% from 2016 to 2019, before the COVID-19 pandemic, and 7% annually after the pandemic. Moving forward, due to the expansion of domestic demand, trade growth, and rising prices, GDP is projected to grow at an average rate of 8% per year (Figure 41). As of 2021, agriculture accounted for 17% of GDP, manufacturing for 40%, and services for 36%. However, the employment distribution shows a different structure, with 37% of workers in agriculture, 27% in manufacturing, and 36% in services. As mentioned in the main report, low productivity in the agricultural sector remains a significant challenge (Figure 42).

Regarding international trade, the textile industry dominates Cambodia's exports, accounting for 55% of total exports. Among the top ten export items, eight are textile-related products (Figure 43). On the import side, the largest category is gold for investment and asset management purposes, accounting for 24%, followed by imported fabrics for the textile industry. This indicates that Cambodia primarily relies on importing raw fabrics, processing them domestically, and exporting finished products abroad (Figure 44). Meanwhile, Cambodia has consistently maintained a trade deficit. The primary reason behind this structural trade imbalance is assumed to be the country's heavy dependence on imports of raw materials such as textiles, machinery used for processing and manufacturing, and energy resources such as petroleum. As foreign companies expand their economic activities in Cambodia, both exports and imports continue to increase simultaneously, making it difficult to narrow the trade deficit (Figure 45).

Cambodia – Historical and forecasted GDP⁽¹⁾ growth

Unit: billion US\$⁽²⁾

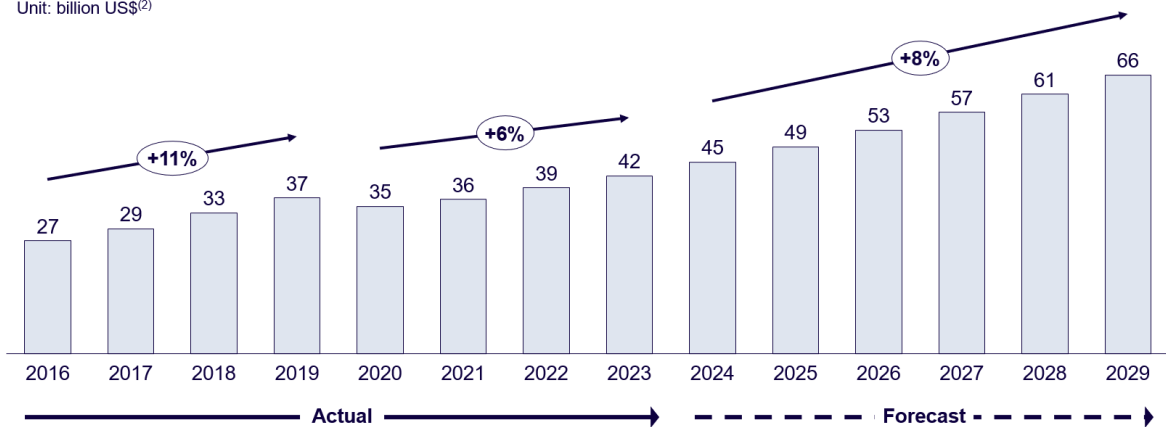


Figure 41: Cambodia's GDP Growth Performance and Projections (Source: IMF)

Distribution by Sector

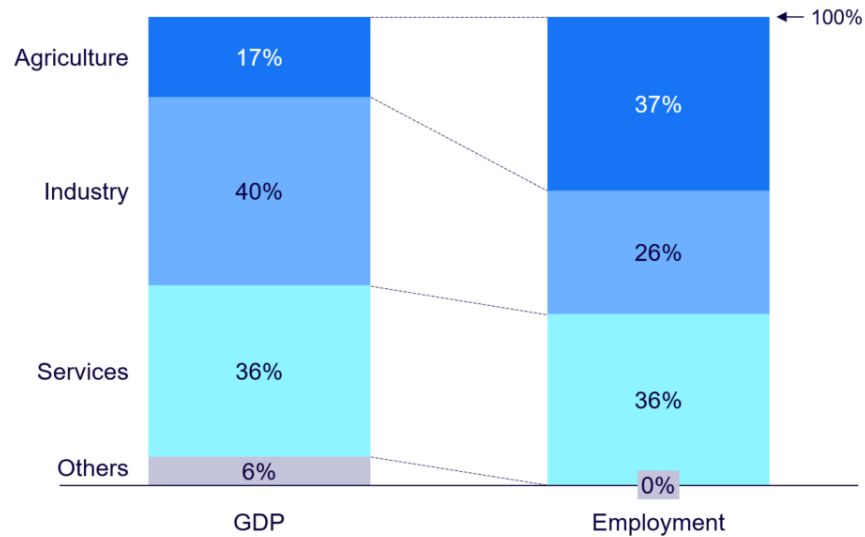


Figure 42: Breakdown of Cambodia's GDP by Industry Sector (Source: ILO, The World Bank)

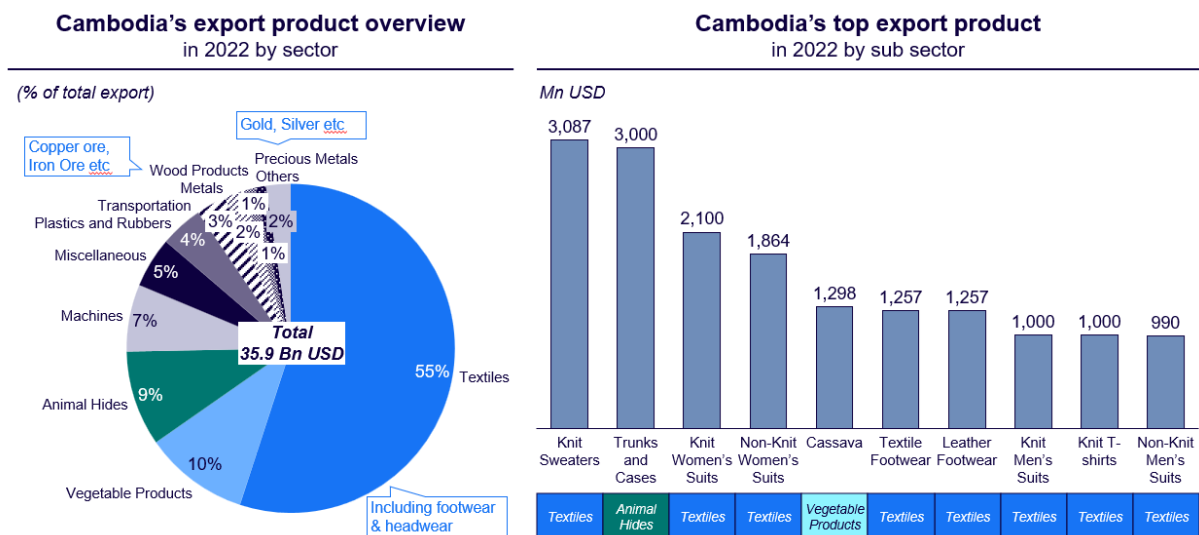


Figure 43: Major Export Items of Cambodia (Source: DataWheel)

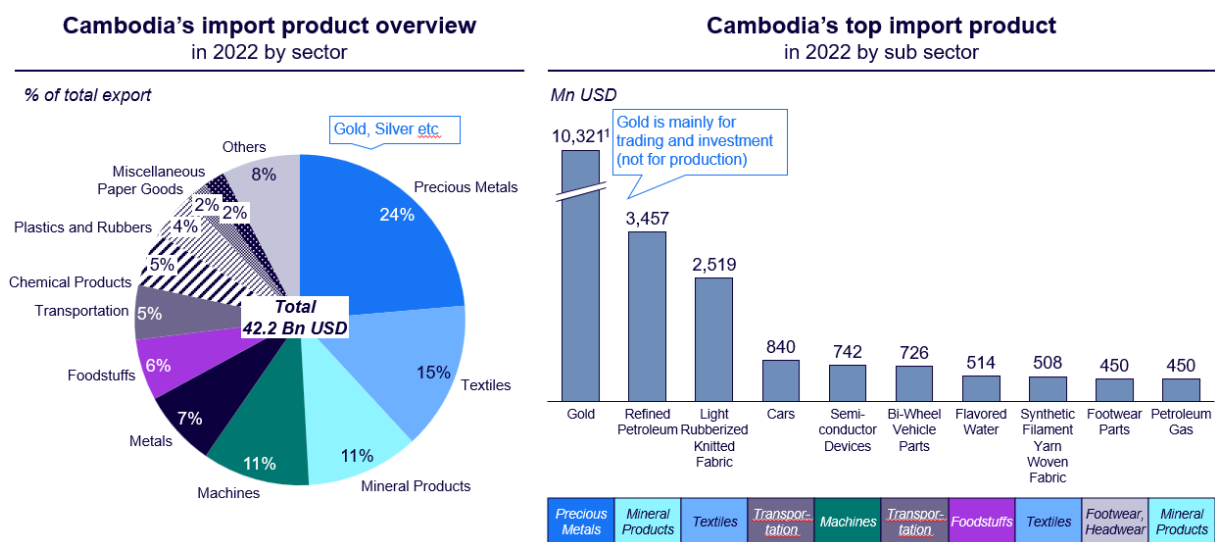


Figure 44: Major Import Items of Cambodia (Source: DataWheel)

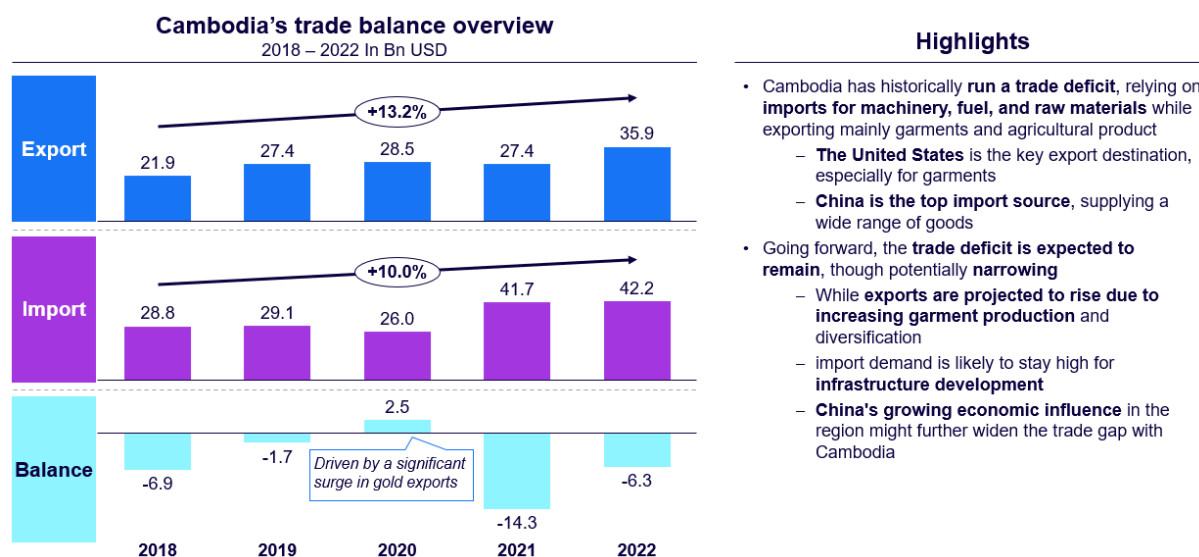


Figure 45: Trends in Cambodia's Trade Balance (Source: DataWheel)

C. Cambodia's National Strategy for Industrial Promotion

As mentioned in the main report, the Pentagonal Strategy - Phase I, announced by the Hun Manet administration in August 2023, serves as Cambodia's new national growth strategy for the period from 2024 to 2028. This strategy sets ambitious goals, aiming for Cambodia to achieve middle-income status by 2030 and high-income status by 2050. The strategy defines five key focus areas (Pentagon): A. human capital development, B. economic diversification and competitiveness enhancement, C. development of private sector and employment, D. resilient, sustainable, and inclusive development, and E. development of digital economy and society.

In particular, economic diversification and competitiveness enhancement (focus area 2) emphasizes expanding the economic and industrial base beyond traditional sectors, such as the textile industry, tourism, construction, and conventional agriculture. The strategy highlights (1) the development of the automotive and electrical/electronics industries and (2) the modernization of agriculture and agro-industrial sectors as priority areas.

Regarding (1) the development of the automotive and electronics industries, the Automotive and Electronics Sectors Development Roadmap, published in December 2022, has been positioned as a priority program under the Pentagonal Strategy. This roadmap aims to transform Cambodia into a core ASEAN production hub for automotive parts manufacturing and electronics. The country seeks to transition from simple component manufacturing and sub-assembly (least complex components & sub-assembly)²⁵, which currently dominates the sector, to moderately complex component manufacturing and sub-assembly, as well as higher-value assembly and design (moderately complex components & sub-assembly / higher value assembly/design)²⁶. To achieve this goal, Cambodia is committed to actively working on a cross-ministerial mid-to-long-term execution plan, human resource development, infrastructure improvements, trade facilitation, and business and investor support in SEZs.

²⁵ For automotive products, specific examples include wire harnesses, seats, sensors/switches, and ball bearings. For electronic devices and products, examples include cables, connectors, and PCB assembly (component placement on circuit boards).

²⁶ In the automotive sector, additional examples include motors (casing and assembly), converters/inverters, battery packs (casing and assembly), thermal systems, safety-related electronics, and control units. In the electronics sector, examples include smart mobile devices for consumer and industrial use, components for 5G applications, and parts for medical devices.

Regarding (2) the modernization of agriculture and agro-industrial sectors, Cambodia is set to continue implementing the National Development Plan on Agriculture Sector 2022-2030 and accelerate the execution of the Cambodia Agro-Industrial Development Strategic Plan 2019-2030. The National Development Plan on Agriculture Sector 2022-2030 aims to improve productivity, diversification, and international competitiveness in the domestic agriculture, forestry, and fisheries industries. It focuses on modernizing and commercializing the agricultural value chain, promoting public and private investment, ensuring sustainable growth and climate resilience, and implementing institutional reforms to address cross-sectoral issues. The government has outlined the necessary measures to achieve these strategic goals.

The Cambodia Agro-Industrial Development Strategic Plan 2019-2030 is structured into three phases. Stage 1, from 2019 to 2022, focused on building food safety capabilities, establishing a legal framework, improving inspection facilities, developing databases, and facilitating technology transfer. Stage 2, from 2023 to 2026, emphasizes enhancing food safety skills, commercializing agricultural technologies, and expanding export markets. Stage 3, from 2027 to 2030, aims to develop innovative human resources, implement policy reforms, and drive process and technological innovation.

(End of Document)

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Figure 40: Population Distribution of Cambodia

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Figure 41: Cambodia's GDP Growth Performance and Projections

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Figure 42: Breakdown of Cambodia's GDP by Industry Sector

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Figure 43: Major Export Items of Cambodia

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Figure 44: Major Import Items of Cambodia

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Figure 45: Trends in Cambodia's Trade Balance

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