

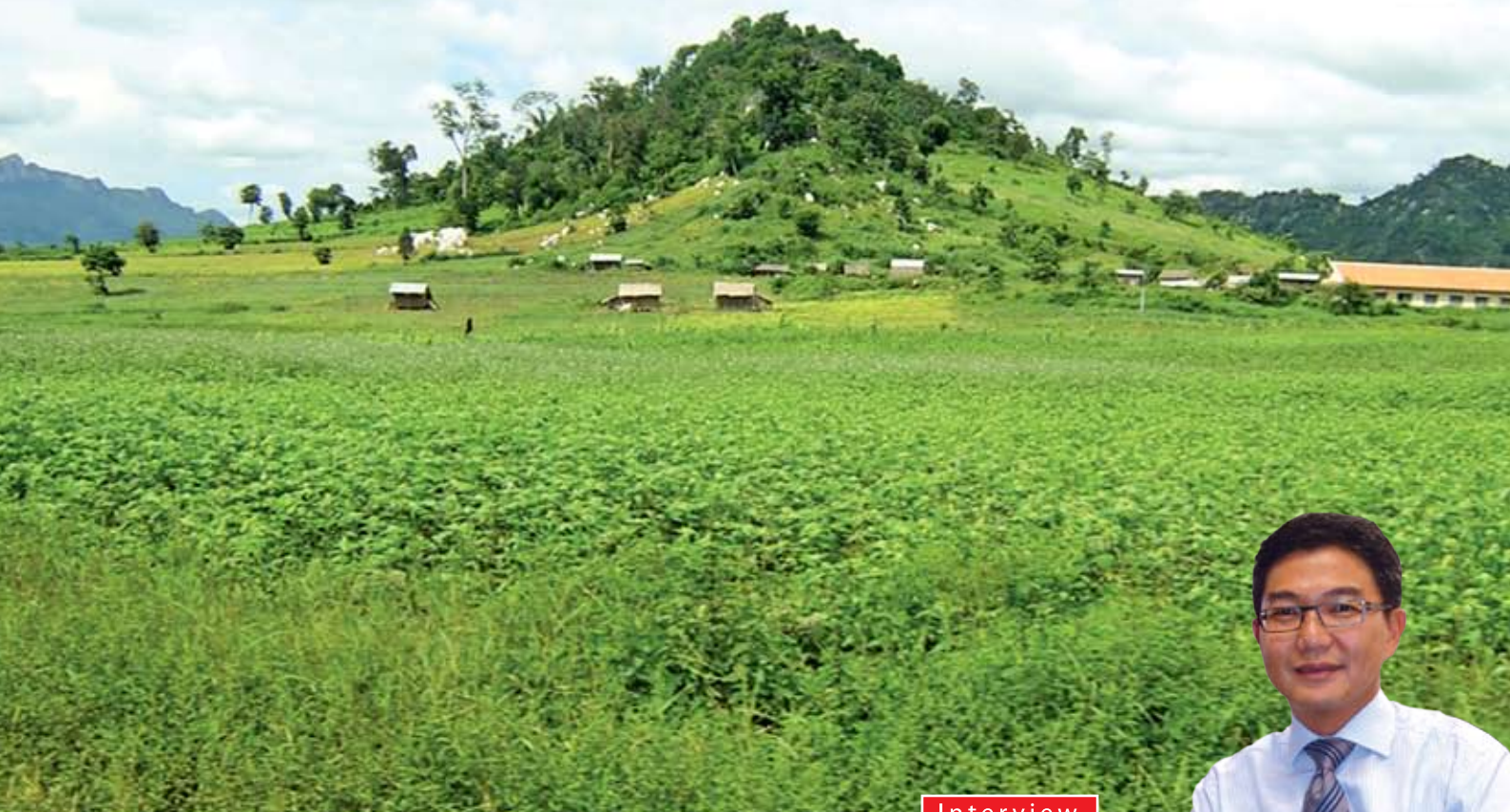
# Economics Today

**Cambodia's Business Magazine**

- Time is Ripe to Invest in Cambodian Agriculture
- Garments, Cars Dominate Cambodia-US Trade
- Natural Resource Management: Local communities do it best, experts say
- Getting Down to Business: It's getting easier in Cambodia, survey says

## Welcome to the Wild Wild East

**Cambodia, a New Frontier Market**



Interview

**Phan Ying Tong**

Country Head, Cambodia Public Bank

# Welcome to the Wild Wild East

**More and more investors consider Cambodia a “frontier market,” a place where taking risks can be rewarded with high returns**



**By Kim Natacha**  
*Economics Today*

Sung Bonna was flipping burgers in a popular Cambodia fast food restaurant when he managed to persuade people he could help them buy land and rent their apartments. At the time 24 years old and a recent nursing school graduate, he was discouraged to earn only US\$10 per month caring for the sick and infirm.

Armed with only mobile phones and determination, he recruited a few colleagues to open Bonna Realty, one of Phnom Penh's first real estate agencies. His first office, located in a narrow street in the Boeung Keng Kang I neighborhood, was not much

to look at, he admits, but it was sufficient to get the job done.

Over the next 10 years Sung Bonna managed to grow his business into one of the most successful real estate agencies in Cambodia. He relocated his agency headquarters to a bigger villa in the same area and diversified into property management by renting out units he owns in three city apartments buildings.

Sung Bonna's story is remarkable in its own right but his success is not completely out of the ordinary for a country like Cambodia, where investment opportunities have attracted Leopard Capital, a private equity fund specializing in so-called “frontier markets.”

The 33-year-old Sung Bonna

has become one of the country's leading authorities on real estate trends in Cambodia. His name is frequently cited in media reports related to land and property prices. He was asked to make a presentation on real estate at Leopard Cambodia's first investment forum held in Phnom Penh Sept. 18-19.

## **Cambodia, a land of opportunity**

With exceptional economic growth over the last five years and tremendous future potential for development, Cambodia is what investors call a “frontier market.” The term evokes images of the 19th-century American “far west” that attracted entrepreneurial pioneers who seized opportunities to strike it rich in the as-yet uncharted territory.

In investment jargon, a frontier market is an equity market that is small and less accessible, but still highly “investable” and tends to be found in the developing world as opposed to emerging markets, which are in the process of rapid industrialization.

Economies of such frontier markets may not yet be mature like the so-called “Asian Tigers,” but opportunities abound for investors who have a vision.

“It is a place where you want to do business,” insisted Dr. Gordian Gaeta, 52, a member of Leopard Capital's investment committee, who opened the two-day investment forum at Le Royal hotel.

“You can be in a five-star hotel and meet a man just outside who earns \$2 a day. But in a few years, he’ll start his own small business. That’s a frontier market,” he explained, his eyes sparkling behind the red frame of his glasses. “And investors want to be a part of it.”

Clearly, the 60 or so investors from more than 15 countries who attended the forum were keen to learn about Cambodia’s potential, which, according to the various speakers, looks to be very promising.

From food processing to sophisticated financial services and luxury property development, Cambodia’s investment opportunities seem endless. Fifteen years ago, the country was basically rebuilding its economy from scratch when it abandoned socialism in favor of a free-market economy.

Today, almost every sector of the economy seems to be taking off: financial services, real estate, construction, tourism, manufacturing, retail commerce, industrial cash crops, mining, and infrastructure.

“In Cambodia, there are too many deals and not enough funds,” said Douglas Clayton, 48, Leopard Cambodia Chief Executive Officer. The investment firm organized its first-ever forum with the hope of putting Cambodia on the radar screens of foreign investors.

A multi-sector private equity fund, Leopard Cambodia currently has an investment portfolio of 10 projects, in six or seven sectors, ranging from US\$ 3 to 15 million each. The fund already has one project in progress, the Angkor Residence—a high-end residential estate in Siem Reap.

With potential in so many sectors seemingly unlimited, it could be a dizzying challenge targeting only one or two for investment.

But in the last year, at least three major sectors have emerged in Cambodia as extremely promising.

“It is difficult to say what sector is the most outstanding in Cambodia,” tempered Douglas Clayton, who has 22 years of investment experience in emerging markets. “But agriculture, commodities processing and tourism development have very high potential.”

But as foreign investors take advantage of the pro-investment en-



*Douglas Clayton, Leopard Cambodia Chief Executive Officer*

vironment in Cambodia to generate high returns, what do they expect to give back to the country?

“Jobs,” replies Douglas Clayton without hesitation. “Such investments provide employment. People need jobs to sustain their living.”

Contributing to Cambodia’s growing economic competitiveness in regional markets through the injection of quality human resources is another beneficial outcome of investments, the fund’s CEO added.

Until last year, foreigners usually associated Cambodia with the terms “least developed country, Angkor Wat, or Khmer Rouge.” Now the words “Cambodia” and “high return potential” are being said in the same breath as more and more investors begin to appreciate that there’s money to be made in Cambodia’s frontier market.

“Things can get done here,” summed up Terence Francis Mahony, 65, chairman of Leopard Capital’s investment committee. “There is a lot of openness, political stability, untapped natural resources in Cambodia, people are hard working and good English speakers, which makes it very attractive.”

However, for all its good assets, Cambodia is still considered a risky, unexplored territory by the majority of foreign investors.

## Questions remain about the pro-business environment

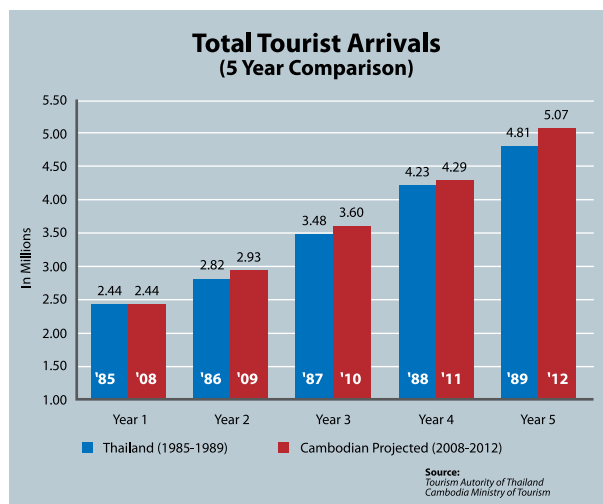
These days, Cambodia is more likely to pop up on international news cycles due to border disputes with Thailand or the long-awaited Khmer Rouge tribunal rather than financial matters. Most foreign investors know very little about Cambodia’s business environment.

Convinced about Cambodia’s high return potential, Leopard Cambodia invited several investors from Asia, North America, and Europe to their forum to extend their awareness about the country beyond the stigma of its Khmer Rouge legacy. Earlier this year, Leopard Cambodia’s Douglas Clayton traveled to the US to meet with US businesspeople to assess their interests.

“Everybody’s interesting in knowing more about Cambodia, but they want to see the country first before they decide to invest,” Douglas Clayton told Economics Today during the forum. “American investors don’t know much about the country’s dynamics, which is precisely why we organized this forum in Phnom Penh and invited them to see it first hand.”

Almost everyone who spoke at the forum pointed to Cambodia’s political stability, as well as natural and human resources, which they are convinced make the country the next hot spot for investment.

Cambodia boasts one of the most stable political regimes in the region headed by Prime Minister Hun Sen, one of the longest serving leaders in Southeast Asia with his Cambodian



People Party sweeping to victory in the most recent election in July.

But it's continuity of policy rather than political longevity that nurtures stability, Stephen Bridges, former UK ambassador to Cambodia, pointed out. The consistency that results from having the same senior officials at the top management makes life and business easier and predictable, he said.

The Government's pragmatism has made Cambodia one of the freest markets in Asia after Singapore, Douglas Clayton said. Because Cambodia needs investment and development in almost all sectors, the Government has embraced a pro-business policy to attract foreign direct investment.

Phan Phalla, deputy secretary general of the Supreme National Economic Council, highlighted the government's Export Processing Zones as a one-stop service area for export approval, duties proceedings and administrative stamps.

The rapid development of the banking sector has also helped Cambodia emerge as an investment-worthy country. The volume of deposits and credit took off in 2005 and more than doubled in three years. Deposits are expected to grow 36 percent and credit by 59 percent in 2008, according to a presentation on the banking sector by Stephen Higgins, chief executive officer of ANZ Royal.

The forum's presentations achieved their goals, as some investors expressed their interest in Cambodia, although they acknowledged that they still see risks.

"I've been very impressed by Cambodia's achievements because it changed very fast," said Ahn Ki-Tae, assistant manager of Hana Financial Group's global business strategy

team in South Korea. "But there is still the problem of corruption. And although the country is said to be politically stable, some analysts said it is not that stable yet. I will have to do my own research too," he said between forum sessions.

It was the young man's first visit to Cambodia and he found the forum to be a mine of information as it can be difficult to access reliable information about Cambodia in English back in South Korea, he said.

### Challenges inherent to frontier markets persist

Although political stability is a key factor in economic growth and improving the business environment, on its own it is not enough of an assurance to foreign businesspeople that their investments will yield the promised returns.

Corruption and poor dispute resolution through the courts are the two main hindrances that both businesspeople and legal experts pointed out.

"Dispute resolution is one of the weak points in Cambodia," Douglas Clayton admitted. "If you go to court, you can't predict what the outcome would be," he warned, advising the audience to choose a good local partner and include in all their contracts a clause stipulating that disputes be resolved through arbitration.

Bretton Sciaroni, managing partner of the Phnom Penh-based law firm Sciaroni & Associates, also recommended taking disputes to the Arbitration Council.

Corruption is a common concern everywhere in the world, Douglas Clayton said, and Cambodia is no exception. Choosing a trustworthy and knowledgeable local partner is

essential to minimizing risks associated with corruption. Targeting medium-sized projects in favor of making huge investments also helps.

The long-awaited anti-corruption draft law is still in progress and the hope is the new Government will submit it to the



National Assembly for adoption as soon as it is formally endorsed.

That said, most obstacles to doing business are due to a lack of enforcement of existing legal instruments.

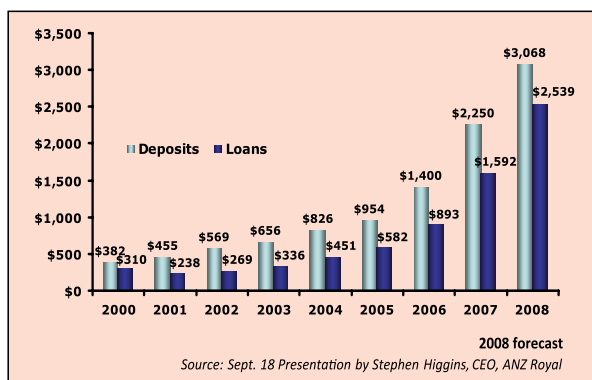
"You've got pretty good laws here, since Cambodia was ranked fourth among the East Asia and Pacific countries by the World Bank in terms of strength of legal rights," noted ANZ Royal's Stephen Higgins. "But the problem really is enforcement."

That hasn't dampened the enthusiasm of Leopard Cambodia's private equity fund managers.

Comparing the latest tourist arrivals in Cambodia with Thailand some 23 years ago, Douglas Clayton imagines 30 years from now Cambodia will be among Asia's elite tourist destinations, the region's breadbasket exporter, the second richest per capita country in ASEAN, and basking in the glow of huge trade surpluses and foreign reserves.

Such a vision—that perhaps only investors of frontier markets are able to foresee—may be possible only if the rule of law and governance is strengthened in Cambodia, which would persuade foreigners to respond to real estate tycoon Sung Bonna's call.

"Welcome to Cambodia," Sung Bonna told a room packed full of would-be investors, "You are welcome to invest here." ■





# The Time is Ripe to Invest in Cambodian Agriculture

## Just don't expect instant gratification

By Alanna Jorde  
*Economics Today*

Ten years of research, including a recent survey of 3,000 households, has economist Chan Sophal convinced that Cambodia's top five cash crops—rice, maize, soybean, cassava and rubber—will prove very profitable in the years ahead.

According to his projections, revenue generated from the crops should increase at least 50 percent, he told prospective investors at a Leopard Cambodia forum last month.

Prices for food have soared in the past year and most analysts believe that they will remain high due to a combination of factors; most notably, sustained steep fuel costs and rising world demand for crops that can be eaten or converted into biofuels.

What's more, tens of thousands of hectares of arable land that could be purchased on the cheap are sitting idle, the Cambodia Development Research Institute's senior researcher manager pointed out.

When Central Asia Development Group (CADG) was looking to expand its agricultural operations into Southeast Asia to cash in on Asia's surging food needs, it studied Vietnam, Laos and Indonesia before deciding to target Cambodia first, said business development manager Michael Lambert.

Qatar and Kuwait have recently visited Cambodia to explore opportunities for securing long-term food supplies for their countries. "The time is ideal for investment in Cambodia's agricultural space," he insisted.

Not only does Cambodia have adequate transport links to regional markets and is integrating quickly into the regional and global economy, it is one of the few places left on Earth where "people are willing to sell arable land," he said.

Prices for Cambodian farmland and labor costs may be among the lowest in the region, but making money from farming still requires significant investment.

Initially, CADG expects to invest about US\$12-15 million to acquire more than 6,000 hectares of land near Phnom Penh to grow cassava, rice and vegetables as part of a joint venture with Paragon Corp dubbed Paragon CADG Agro, said Michael Lambert. The first crop should be in the ground by the end of 2009.

By 2010, Paragon CADG Agro's goal is to own and operate 30,000-50,000 hectares of Cambodian farmland.

Besides state-of-the-art sustainable water management, funds will be used to "implement best practices in farming and management techniques, and transferring modern farming skills, he said. To that aim, CADG managed to capitalize on controversial farm seizures in Zimbabwe by "poaching 50 of the world's best farmers (from the African nation) until they work themselves out of a job."

But while Cambodia lacks senior managers, the country has a bounty of "young, hungry and highly trainable" people, added Michael Lambert.

In a nutshell, those investing in the agricultural sector must be prepared "to get your hands dirty and

change the way people farm," he said. Since "agriculture is a five- to 25-year investment," a little patience wouldn't hurt either.

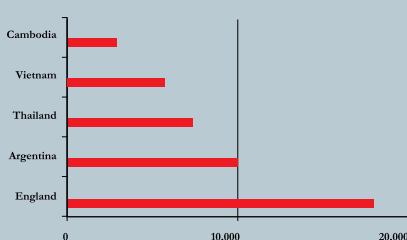
But the former hedge fund manager doesn't seem to be worried about delaying gratification. With stock markets around the globe in crisis, many of his former colleagues "are envious I'm a farmer now and not a hedge fund manager," he quipped at the forum, which was held around the time Lehman Brothers collapsed and the US government was hatching a US\$700 billion bailout of insurer American International Group. ■

### Investing in Agriculture

- Plenty of opportunities exist at the low, medium and high end of capital funds.
- Industry Intelligence is essential
  - Good returns for US\$100,000 investment
  - Great returns for US\$500 million investment
  - Bad returns at all levels if poor decisions are made
- No single magic dollar amount will ensure a return on investment and all crops have their pros and cons.
  - Some industries such as rubber and cassava need minimum investment of US\$20 million, and this is closely tied up with land prices and processing equipment.
  - Working capital to acquire raw product and then process it for export requires the bulk of investment.

Source: Agricultural Development International

Farm Land Prices - A Comparison  
Arable Land Prices US\$/ha



Note: Estimates based from numerous sources

Source: Paragon CADG Agro (Singapore)