

The CAMBODIA DAILY

News Analysis - Uncompetitive Cambodia Still Has Charm

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A survey of Cambodia's businessmen has renewed Cambodia's standing as among the least competitive economies in the region, served by an undereducated workforce, powered by flagging electrical supplies, with sluggish business registration and telephone connectivity among the poorest in the world.

According to results released in Geneva on Wednesday, answers provided by 79 local business executives for the World Economic Forum's 2008 Global Competitiveness Index ranked Cambodia 109th of 134 nations, far below neighbors Vietnam (70th) and Thailand (34th), and nearest Asian nations Bangladesh (111th), Nepal (126th) and Timor-Leste (129th).

Three quarters of those surveyed here said corruption was among the top five obstacles to doing business and 34 percent, or 27 of the 79 executives, said it was their most serious concern. The results were nearly identical to those in 2007, when Cambodia stood 110th of 131 nations on the WEF's index.

Unique among the disadvantages of uncompetitive Asian economies were Cambodia's underdeveloped financial markets (ranked 130th) and the low level of vocational training and higher education among the workforce (127th), the report's authors said.

Billed as an attempt to identify the barriers to improving economic efficiency in Cambodia, the report measured perceived performance in 15 regulatory "pillars" such as government institutions, infrastructure, economic stability, health and education and financial market sophistication.

However if Cambodia's business community are consistently giving poor marks to their environment, they have so far not discouraged investment.

According to figures released last month by the UN Conference on Trade and Development, inbound flows of foreign direct investment in Cambodia rose 80 percent in 2007 to \$867 million. WEF economist Thierry Geiger said Thursday that the index is an attempt to measure Cambodia's ability to grow in a sustainable manner.

"Foreign investment doesn't necessarily correlate with the quality of institutions," he said by

telephone from Geneva, noting that as the Cambodian economy grows, its few competitive advantages may be erased.

On the positive side, Cambodia was ranked 6th from the top for female participation in the labor force and 47th for the ease of hiring and firing practices and 64th for pay and productivity. "As money pours in and Cambodia gets richer, wages are going to rise and that competitive advantage will disappear. So is Cambodia ready for the next stage? That's what we're trying to measure," Geiger said of the index.

However, Gordian Gaeta, a member of the investment committee of the Hong Kong private equity fund Leopard Capital, which last year began soliciting contributions toward a \$100 million investment fund in Cambodia, said that calamities of the current global financial crisis could help turn the investment climate in favor of economies like Cambodia's.

Businessweek reported Thursday that venture capital investments in 2008 were likely to record a drop for the first time in five years as a result of paralyzed credit markets.

However, according to Gaeta, investors' distaste for the complex financial instruments at the center of the current crisis is making "real economy" investments, such as agriculture and natural resources, seem less risky and more attractive, even in emerging markets like Cambodia.

The first half of this year saw a record \$38.4 billion in private equity investments in emerging markets, he said, citing figures from the Emerging Markets Private Equity Association.

"At the end of the day, only the real economy can ever be able to turn the corner if we are in a crisis," Gaeta said by telephone from Dubai.

"In ten years time, when we look back, people will say it was pretty clear that this market would develop," he said.