

Issue 21 – Cambodia – December 9, 2011



Picture: Angkor Wat near Siem Reap, Cambodia dates to the 12<sup>th</sup> Century.<sup>1</sup> At its peak, the Khmer Empire encompassed most of modern Cambodia, Laos, and Thailand.

In Observer #20 last month, we wrote about Rwanda’s transition from the greatest human tragedy of the past 20 years to a success story today. Sticking with the theme of recovery from an unbelievably savage genocide, we now profile Cambodia, which from 1975-1979 was literally the worst place on earth.<sup>2</sup> While estimates vary, if you were a Cambodian in 1975, there was about a one in five chance you would suffer a violent death in the four years that followed. If you were an urban inhabitant, as surely most of the people reading this are, your probability of death

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<sup>1</sup> Angkor Wat is the largest and best preserved temple of many in the Siem Reap area, featuring the highest quality workmanship. As the most famous temple, many tourists incorrectly use Angkor Wat as the place name for the entire area. According to author Robert Kaplan in his 1996 book *The Ends of the Earth*, Angkor Wat “is the single largest religious building in the world, built by the Khmer king Suryavarman II between 1113 and 1150 A.D. The compound comprising Angkor Wat is 960 meters—or over ten football fields—long and 800 meters wide. It is completely surrounded by a rectangular moat, nearly a mile long from west to east, and three quarters of a mile from north to south.” According to Kaplan, it covers almost four times the ground space of the Great Pyramid of Cheops, with almost as much stone, and took 37 years to build. Unlike the pyramids, though, all of the stone at Angkor Wat is decorated intricately with carvings.

<sup>2</sup> For those interested, the 1984 film *The Killing Fields*, which won three Academy Awards, occurs during the events of these years. It is based on the story of two journalists, an American working for *The New York Times* and his Cambodian interpreter who endures what we describe.

was higher still. Teachers, writers, businesspeople, and for good measure people who wore glasses—a sign of being an intellectual—were all targets. Even if you lived through this nightmare, you would have been uprooted from your home, and possibly separated from your family. Once separated, you might never see them again, and perhaps you would never know their fate, beyond that they likely died a horrible death. Today, Cambodia is booming and most of its young population has no firsthand memory of these events, as the average age is 23.<sup>3</sup> While officials have delayed the opening of its stock market many times, it will probably begin trading in 2012. We visited Cambodia in May to get a fresh look at the country.<sup>4</sup> We concluded that Cambodia is a place where we could live. Actually, we know a number of finance professionals who do live there. This would have been unimaginable earlier in our lifetime, and it indicates how quickly human progress can occur, for the country is just over 30 years removed from its darkest period, when its cities were depopulated.



Picture: A monk views pictures of those incarcerated at the Tuol Sleng prison from 1975-1979. Wikipedia states that 17,000 people passed through Tuol Sleng. There are seven known survivors, three of whom are still alive today.

## Back to Year 0

A nearby table lists key events in Cambodian history. We begin our narrative here in April 1975. Many of you have probably seen the memorable photograph of the last helicopter on top of the roof of the US embassy in Saigon, Vietnam while embassy

<sup>3</sup> See the CIA World Factbook for average age by country: <https://www.cia.gov/library/publications/the-world-factbook/fields/2177.html>

<sup>4</sup> We had visited Cambodia previously in 2005, but only as a tourist to see Angkor Wat and other temples around Siem Reap. We are indebted to Leopard Capital who runs a Cambodia private equity fund and who organized the May 2011 tour.

personnel are hastily evacuating the country as Saigon fell to the communists.<sup>5</sup> This occurred on April 30, 1975. But a much larger, and at the time underreported, evacuation had occurred less than two weeks earlier in Phnom Penh, the capital of Vietnam's neighbor, Cambodia. On April 17, 1975, Communist Party of Kampuchea (CPK) forces, known along with its followers as the Khmer Rouge<sup>6</sup>, marched into Phnom Penh, ending a five-year struggle against the republican government, led by US ally Lon Nol. The Nol regime was not popular due to corruption and disunity, and Phnom Penh citizens turned out in the streets to welcome the victorious CPK forces. The citizens were not prepared for what followed. Literally within hours of taking the city, the CPK began to enforce a citywide evacuation. Nearly everyone was forced to leave for the countryside, sometimes with only minutes to collect belongings. Thus began the rule of the Khmer Rouge under its leader Pol Pot.

<b>Modern Cambodia Timeline</b>	
1863	King Norodom of Cambodia places country under French protection. Later Cambodia formally becomes part of French Indochina.
1941-1945	Japan occupies Cambodia during World War II. Japan allows Vichy France to administer the country until Japan assumes direct control in 1945. After the war ends, French colonial rule resumes.
1953	Cambodia gains full independence from France under rule of King Sihanouk.
1970	Prime Minister Lon Nol becomes effective head of state, after military coup ousts Prince Sihanouk. Civil war between Lon Nol-led Khmer Republic forces and Khmer Rouge forces, which began on a small scale in the 1960s, now intensifies. US provides military support to Khmer Republic.
April 1975	Khmer Rouge defeats Lon Nol's Khmer Republic, occupies Phnom Penh, and establishes the state of Democratic Kampuchea, under rule of Pol Pot.
1975-1979	Wide-scale, state-sponsored systematic killings of ethnic minorities, political rivals, and perceived "capitalists" occur. Murder, malnutrition, and disease account for approximately 1.7 million deaths, about one-fifth of the Cambodian population.
December 1978 - January 1979	In retaliation for border raids, Vietnamese forces invade and oust Khmer Rouge from Phnom Penh. Khmer Rouge leadership takes refuge along the Thai border. Vietnamese forces establish the People's Republic of Kampuchea in Cambodia with backing from USSR. China, the US, and the UN continue to recognize the Khmer Rouge as Cambodia's legitimate government, and provide it with military support. Conflict between People's Republic of Kampuchea and rebel groups including the Khmer Rouge continue until 1991.
1989 - 1993	With communism collapsing worldwide, the People's Republic of Kampuchea with a communist system under Vietnamese control transitions to the present state of Cambodia. Vietnam withdraws 1989. The Paris Agreements in 1991 establishes a cease-fire and leads to UN-sanctioned multi-party elections in 1993, without participation of the Khmer Rouge, which continued to occupy rural territory near the Thai border. A coalition government forms with Prince Norodom Ranariddh of FUNCINPEC, a royalist political party, as First Prime Minister, and Hun Sen of the Cambodia People's Party (CPP), a successor to the Vietnamese-controlled government of the 1980s, as Second Prime Minister.
1997	Factional fighting between supporters of Prince Ranariddh and Hun Sen results in Hun Sen ousting Prince Ranariddh from post. Hun Sen consolidates power in flawed elections the following year, winning a plurality of votes, elevating the CPP to the senior position in the coalition government. The CPP wins another plurality in 2003 and then an overwhelming majority in 2008. Hun Sen has served as sole prime minister from 1997 through today.
1998	Pol Pot dies while under house arrest by rival Khmer Rouge leaders. Two years earlier, in 1996, about half of the remaining Khmer Rouge fighters defected to the government side. In 1999, the Khmer Rouge ceases to exist as most of its members by then have surrendered or were killed or captured.
1999	Cambodia joins ASEAN free trade area.
2007	The Khmer Rouge Tribunal begins indicting Khmer Rouge leaders for crimes against humanity. These trials are ongoing.

Table: Key events in modern Cambodia history.

<sup>5</sup> See the photo at <http://en.wikipedia.org/wiki/File:Saigon-hubert-van-es.jpg>. Recall that the last US troops departed Vietnam in March 1973. North Vietnam completed its conquest of the entire country in April 1975.

<sup>6</sup> Khmer Rouge literally means Red Cambodians. Rouge is the French word for red, and Khmer is the ethnic group of most Cambodians. Red, of course, is the color symbolic of communism.





Picture: Bou Meng, one of three living survivors of Tuol Sleng.

Pol Pot intended a break with all former Cambodian traditions, literally rebooting the country into a peasant communist agrarian society, with 1975 as Year Zero. Cambodia's rich Khmer history no longer mattered. The regime eliminated education, money, mail service, and newspapers. The Khmer Rouge forced citizens into the countryside, making them labor manually for 12-hour or longer days. The Khmer Rouge often killed dissenters on the spot, while others died of malnutrition or disease. Even Khmer Rouge members were not safe, as Pol Pot's purges to achieve ideological purity resulted in the execution of large sections of his followers. Relations with Vietnam soured, as Pol Pot persecuted ethnic Vietnamese, and as each country launched border raids against the other. Finally, Vietnam had enough, invading Cambodia on Christmas Day, 1978, and toppling the Cambodian government only two weeks later, on January 7, 1979.

Throughout this newsletter are pictures from Tuol Sleng, a school the Khmer Rouge converted to a prison to incarcerate and torture its political prisoners. Once the Khmer Rouge obtained the desired "confession," they would ship the captive to a nearby killing field such as Choeung Ek, where they would kill and bury the victim. These sites are in and around Phnom Penh and you can visit both in a few hours, but the memory will linger with you much longer.

### **Tour Guide Memories**

Our guide at Tuol Sleng was himself a teenager during the Khmer Rouge period. Forced from Phnom Penh to the countryside, and separated from his family, his anger understandably built up. He told us how his village camp leader was cruel and at times singled him out for punishment. Once the Vietnamese toppled the Khmer Rouge, the village dispersed, but our guide tracked down the former village leader. He laid waiting for him outside of his home, planning to kill him out of revenge and anger. But just as our guide was about to carry out his reprisal, he saw the former leader saying goodbye to his small children. He backed down from his premeditated attack, for he could not tear apart a family, as the Khmer Rouge had done to him and so many other families.

On our prior Cambodia trip in 2005, our Siem Reap guide was Chen Sekhoeun, or Hoeun for short. He was 37 years old then. In 1975, at the age of 7, the Khmer Rouge separated his family, sending his mother, father, brother, and him to four different work camps. He worked all day long for three years and eight months, until the Vietnamese drove the Khmer Rouge back to the jungle. Hoeun described the Cambodians' love/hate relationship with the Vietnamese, "Helping is helping, but invading is still invading."



Picture: Signs of genocide at the Choeng Ek, the best known of the Killing Fields sites where the Khmer Rouge systematically committed mass murder. The sign in the lower right lists rules at Tuol Sleng, where the Khmer Rouge tortured political prisoners before sending them to a site such as Choeng Ek.

Fortunately, Hoenu's family reunited, although the Khmer Rouge had killed his grandfather and uncle. Hoenu went back to school through junior high, which was all that was available to him since all of the teachers were dead. He himself became a teacher, eventually teaching physics and math. He learned English in a "street

school" where for a few dollars you could get four hours of instruction at a time. He quit teaching in 2000 for the more lucrative profession of tourism.<sup>7</sup>

## Two More Tough Decades

Estimates vary widely, but we believe roughly 1.7 million Cambodians out of a 1975-population of around 8 million died during Pol Pot's maniacal reign.<sup>8</sup> The genocide ended in 1979, but difficult times continued for much of the next two decades. In hindsight, the world should have been grateful for Vietnam's intervention, but it did not react that way at the time, in part, because it did not know the scale of the genocide, as Cambodia had sealed itself off from the rest of the world. Moreover, the Cold War was escalating, so much of the West did not welcome Vietnam, a recent enemy on the battlefield, extending its reach to a neighboring country. Further, Vietnam's invasion heightened tensions within the communist world. China, who backed the Khmer Rouge, briefly attempted to punish Vietnam by invading the country in 1979, which angered the Soviet Union who backed Vietnam. Cambodia remained isolated throughout the 1980s as a poor, communist country. In September 1989, with the Cold War winding down, Vietnam withdrew from Cambodia, replaced by a UN-brokered coalition government, including elements of the Khmer Rouge.



Map: Cambodia in Southeast Asia.<sup>9</sup>

Item	Cambodia
GDP (\$billions)	13
GDP per capita (\$)	912
GDP PPP per capita (\$)	2,286
GDP % change	6.7%
Inflation, average annual	5.7%
Unemployment	na
Exchange rate (local currency per dollar)	4,028
Population (millions)	14.4
Annual population % change	1.0%
Market capitalization (\$billions)	-
Market cap / GDP	0%
Fiscal balance / GDP	-2.2%
Current account balance / GDP	-9.3%
Local currency public debt / GDP	n/a
External public and private debt / GDP	38%
International reserves in months of imports	4.2
Net food exporter	Yes
Oil and gas production >	No

Table: Economic statistics for Cambodia.<sup>10</sup>

<sup>7</sup> This is a common theme throughout developing countries. Because of the hard currency tips from Western travelers, many professionals in poor countries go into tourism, as it among the highest paying jobs available. In Cuba, for example, many former medical doctors are now tour guides.

<sup>8</sup> Genocide death estimates vary widely, from less than 1 million to over 3 million. Previously, in our May 2011 monthly comment we stated 1.5 million as an approximate single-point estimate, after we surveyed the range of estimates. During further research while writing this Observer, it appears one of the most widely cited single-point estimates is from Yale University's Cambodia Genocide Program. They state that 1.7 million people, or 21% of the population, died in the genocide. See <http://www.yale.edu/cgp/>. Having cited them, though, we would add that there is not general agreement on the final death number and there may never be.

<sup>9</sup> Map source: [http://www.lib.utexas.edu/maps/cia11/cambodia\\_sm\\_2011.qif](http://www.lib.utexas.edu/maps/cia11/cambodia_sm_2011.qif).

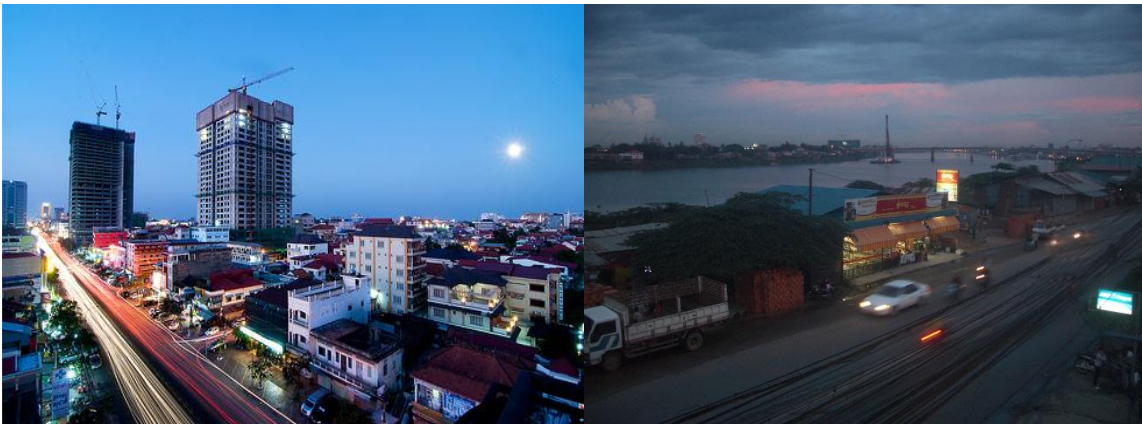
<sup>10</sup> Gross domestic product, unemployment, population, fiscal balance, and current account balance data are 2011 values from *International Monetary Fund (IMF) World Economic Outlook*, September 2011.



The Khmer Rouge withered away throughout the 1990s. The government outlawed it in 1994, the same year the Khmer Rouge engaged in several prominent slayings of foreign tourists. Defections, death, capture, and infighting among its remaining leaders followed, with Pol Pot dying in 1998. The organization ceased to exist in 1999. Indictments of surviving Khmer Rouge leaders began in 2007 and trials continue to this day.

### All of the Pieces in Place

Looking at Cambodia's economic data, it appears to us that 1999 is the key year when the country's economic fortunes embarked upon a more prosperous path. In the ten years ending in 1998, Cambodia grew at what first appears to be a decent average rate of 5.4% per annum. But considering how dirt-poor Cambodia was in the late 1980s, this figure is actually somewhat unimpressive. For example, the IMF estimates Cambodia's GDP per person in 1987 was only \$18, or five cents per day. From that low level, one might expect more rapid growth. Beginning in 1999 and continuing through 2007, growth finally exploded, with Cambodia's growth rate averaging 9.8%, nearly the same as China. The Asian growth story that played out in so many different countries after World War II had at last arrived in Cambodia.



Pictures: Phnom Penh at night.<sup>11</sup> Traditionally, a low-rise city, skyscrapers are now beginning to dot the skyline. On the other hand, the picture on the right shows underdeveloped land along the riverfront.

What changed? We can think of four reasons why in 1999 Cambodia's development was no longer constrained. First, the country had finally settled its politics. While a coalition government remained in place, in 1998 voters chose Hun Sen and the Cambodian People's Party (CPP) as the senior coalition member. In other words, voters affirmed at the ballot box what had occurred in street fighting in 1997 (see timeline). Hun Sen and the CPP remain in power in 2011. Second, security had improved. Pol Pot was dead and the Khmer Rouge ceased to exist. Third, Cambodia joined the Association of Southeast Asian Nations (ASEAN<sup>12</sup>), a regional trade group,

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Inflation and international reserves data are 2011 values from IMF press release 11/447, December 7, 2011. Exchange rate is as of December 7, 2011 from Bloomberg. Food export information from "Food Price and Inflation in Developing Asia," Asian Development Bank, 2008. Other numerical data are actual figures or estimates for 2010 or latest available year from CIA World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/index.html>.

<sup>11</sup> Left photo by Chea Phal, <http://freeimagefinder.com/detail/6333980116.html>.

<sup>12</sup> There are 10 ASEAN members: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

in 1999 after two years of delays due to the internal political issues. Fourth, economic growth within Asia itself rebounded after the 1997-1998 Asian Crisis.

The more recent global financial crisis has affected Cambodia due to slowing exports and less financing availability for construction. GDP growth decelerated to 6.7% in 2008, then GDP actually shrank by 2.0% in 2009. Growth resumed in 2010 at a 6.0% pace and this year's rate should be similar or higher. For 2012 through 2016, the IMF calls for growth of 7%-8% per year, although a European recession could dampen those projections.

### **Feels Like Asia**

Not only does it have growth numbers similar to other Asian success stories, Cambodia evokes the feel of Asia of several decades ago, albeit on a smaller scale and at an earlier stage. This is evident as you visit Phnom Pehn, now a thriving economic and political capital city. Most of its fellow ASEAN members, however, have multiples of Cambodia's 14-million population, so while Phnom Pehn has energy, with two million inhabitants, it may not match the pace of Asia's 10-million plus megalopolises anytime soon. Having said that, Phnom Pehn is more advanced and less laid back than smaller Vientiane, the capital of neighboring Laos. Phnom Pehn's city center is surprisingly modern, but there are still plenty of empty lots around the city and much of the riverfront is undeveloped.

Cambodia inaugurated its securities exchange on the auspicious date of July 11, 2011 (7/11/11 or 11/7/11, depending on your date format preference), but no actual stocks began trading<sup>13</sup> then. The even more auspicious date of November 11, 2011 (11/11/11) has also passed. Given the repeated delays in trading, we now don't expect any IPOs until February 2012 at the earliest, with government privatizations such as Phnom Pehn Water, Sihanoukville Port, and Telecom Cambodia likely to be among the first listings. We expect at most only a handful of stocks to list over the next year. Similar to Laos, where stock trading began in January 2011, Cambodia's exchange is a joint venture with the Cambodian government owning 55% and the Korea Exchange owning 45% and providing software and technical expertise.



Pictures: The atrium lobby of ACLEDA Bank's main branch. Kingdom Breweries logo sign. Workers processing shrimp at Nautisco Seafood.

The emergence of private equity firms in Cambodia, such as Leopard Capital and others should also help to promote capital market development. While in Cambodia, we visited several companies in which Leopard has invested, including ACLEDA Bank, Cambodia's largest bank; Kingdom Breweries, a start-up microbrewer; and Nautisco

<sup>13</sup> There is a Cambodian company listed outside of the country. Nagacorp, a Cambodian casino operator, trades in Hong Kong. Its Bloomberg ticker is 3918 HK.



Seafood, Cambodia's largest processor of shrimp and other seafood. ACLEDA told us they were targeting a 2013 IPO.

Although we covered both, this newsletter devoted more space to the negatives of Cambodia's past than the positives of its future. For us, understanding how bad things were, and how much they have changed since then, helps us appreciate how much further the country can advance going forward. Consider Cambodia's history from 1863 through a dozen years ago: controlled by the French; occupied by Japan; controlled by the French again; bombed heavily by the US during a war it was not a party to; controlled by a corrupt general who deposed the king; controlled by a maniac who depopulated the cities and killed one-fifth of the population; invaded and controlled by Vietnam; and finally governed by a shaky coalition that fought battles against each other in the streets of the capital city. Now these impediments are gone, and Cambodia is thriving. This is not to say that Cambodia no longer has problems. To name only a few obvious challenges: its current account deficit, at 9% of GDP is high, although healthy foreign direct investment both fosters and funds part of this deficit; corruption is an issue; energy costs are too high and the energy supply is too low; and eventually there will be a transition necessary from Cambodia's long standing prime minister, Hun Sen. These are not trivial issues, but compared to what the country has gone through, they are more manageable. We are optimistic about Cambodia's future in the coming decades.

Regards,

Nick Padgett, CFA  
Stephen Mack  
Managing Directors  
Frontaura Capital LLC  
180 North Stetson Avenue, Suite 1935  
Chicago, Illinois 60601 USA  
+1 312 265 6882  
[info@frontauracapital.com](mailto:info@frontauracapital.com)

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