

**City University of Hong Kong  
Research Centre for Sustainable Hong Kong<sup>1</sup>**

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**Exploring Cambodia II :  
Ways to develop the ASEAN market**

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## **1 · Introduction**

Amidst the geopolitical tensions between China and the U.S., Hong Kong is facing a host of severe challenges, one of which is the gradual contraction of demands from the Western markets. The Hong Kong government and business community have been stepping up to expand into the Middle Eastern and ASEAN markets to offset these losses.

During our six-day visit to Cambodia in July 2024, we engaged with several Hong Kong-funded enterprises to gain insights into their business operations. We also met with Cambodian government officials, chamber representatives, and academics to understand their perspectives and policies on foreign investment and their latest assessments of Cambodia's economy.

Some senior management of Hong Kong businesses considered Cambodia of 2024 as comparable to Mainland China in the 1980s – both were in an early stage of economic reform. Other similarities were a growing population, a youthful labor force, an open market environment, and business-friendly policies for foreign investment. The future development of

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<sup>1</sup> Established in June 2017 by a cross-disciplinary research team, the Research Centre for Sustainable Hong Kong (CSHK) is an Applied Strategic Development Centre of City University of Hong Kong (CityU). CSHK conducts impactful applied research with the mission to facilitate and enhance collaborations among the academic, industrial and professional service sectors, the community and the government for sustainable development in Hong Kong and the Region.

<sup>2</sup> This policy paper is the second part of the Exploring Cambodia Series. To view the first part, click [here](#). To comment on this policy paper, please email at [sushkhub@cityu.edu.hk](mailto:sushkhub@cityu.edu.hk)

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Cambodia looks promising, but government inefficiency and corruption remains an issue, and geopolitical tensions create policy uncertainties.

## 2. Changes in Hong Kong’s trade landscape

The U.S.-China trade war and geo-political tensions, coupled with a series of social events in Hong Kong in 2019, have soured the relations between Hong Kong and Western countries. The controversies in relation to the status and role of Hong Kong Economic Trade Offices have further strained these connections, impacting bilateral economic and trade activities in a tangible way.

According to government statistics, the number of U.S. companies using Hong Kong as their regional headquarters (RHQs) has dropped from 282 to 214 over the past few years—a decline of over 30%. Companies from European countries, including the U.K., France, and Switzerland, have also seen reductions in their regional headquarters based in Hong Kong, with some downgrading their presence to regional offices.

Table 1 Number of Regional Headquarters with Parent Companies Located Outside Hong Kong

	Year 2020	Year 2023	Change
United States of America	282	214	-68
Japan	226	206	-20
United Kingdom	131	115	-16
Germany	94	96	+2
France	94	81	-7
Switzerland	53	51	-2

Source: Census and Statistics Department, HKSAR Government

Reductions of RHQs are partly due to pandemic-related control measures and weakened economic activity in Hong Kong, with risk mitigation also being a key factor. The Business Confidence Survey released by the American Chamber of Commerce Hong Kong earlier in 2024 highlighted that 26% of respondents were pessimistic about their business prospects in the upcoming 12 months — a 14% increase from the previous year. Many members expressed ongoing concerns about U.S. -- China relations and international perceptions of Hong Kong.

Deteriorating trade relations also impacted Hong Kong's exports. In 2023, the total value of Hong Kong's merchandise exports was \$573.6 billion, a growth of only \$4.4 billion over the past five years, or 0.77%. Regionally, the value of Hong Kong’s exports to the U.S. dropped by 1.8 percentage point (ppt), while exports to the EU declined by 2.3 percentage point, underscoring the challenges in sustaining traditional export markets.

**Table 2 Export Share of Hong Kong (Breakdown by region)**

	<b>Year 2018</b>	<b>Year 2023</b>	<b>Change</b>
Mainland China	54.5%	55.5%	+1 ppt
ASEAN	7.3%	7.9%	+0.6 ppt
United States of America	8.4%	6.6%	-1.8 ppt
European Union	8.8%	6.5%	-2.3 ppt
Others	21.0%	24.5%	+3.5ppt
	569.2 Billion USD	573. 6 Billion USD	+0.77 ppt

*Source: Census and Statistics Department, HKSAR Government & Hong Kong Trade Development Council*

### **3. Opportunities and Challenges in Cambodia**

During our July 2024 visit to Cambodia, we visited two Hong Kong-invested companies, Group G and Group S. Group G entered Cambodia in the 1990s and has since grown to become the largest Hong Kong-owned garment manufacturer in the country and diversified into real estate, finance, and agroforestry management. Group S, with projects in Cambodia for about 20 years, focuses on agroforestry, aquaculture, and real estate. We also held in-depth discussions with representatives from the China Hong Kong Macao Expatriate & Business Association of Cambodia and the Chinese Chamber of Commerce in Cambodia about the investment opportunities and challenges in the region.

Garment manufacturing and agroforestry are labour intensive so that ample labor supply is critical. Cambodia's population was 17.4 million in 2023, with a median age of 25.8 years. By 2029, the median age in Cambodia is projected to rise to 27 years. A director from Group G revealed their industrial park once employed about 100,000 workers. After recent automation efforts, the current number still exceeds 30,000. Cambodia’s large youthful workforce is essential to the company's business growth.

**Table 3 Population Characteristics of Cambodia**

	<b>Year 2023</b>	<b>Year 2029 (estimated)</b>
Population	17.4 million	18.06 million
Median Age	25.8	27
GDP	41.9 billion USD	65.61 billion USD
GDP per capita	2,460 USD	3,633 USD

*Source: Hong Kong Trade Development Council; Statista*

Foreign investment, including from Hong Kong, has spurred rapid industrial growth in Cambodia. The industrial added value surged from approximately \$3.2 billion in 2012 to \$12.22 billion in 2023. As a result, the industrial sector's contribution to Cambodia's economy in terms of GDP has grown significantly from 22.98% in 2012 to 37.9% in 2022. This is

especially notable given the impact of the pandemic and negative publicity surrounding online scams affecting the tourism industry.

Table 4 Composition of Industry Sector in Cambodia

	<b>Year 2012</b>	<b>Year 2022</b>	<b>Change</b>
Primary Sector	33.52%	22.23%	-11.29 ppt
Secondary Sector	22.98%	37.90%	+14.92 ppt
Tertiary Sector	37.77%	33.85%	-3.92 ppt

*Source: Hong Kong Trade Development Council; Statista*

Similar to the developments in China, the urge amongst the local population to improve their standard of living rises as the economy develops. In response, Group G and Group S have launched residential projects to meet the housing needs of local residents and foreign investors. Local business chambers expect that the growing consumption demands of Cambodia’s middle class will fuel an expanding market.

Another major factor is the free flow of capital in Cambodia. The management of a Cambodian-Chinese bank explained that as Cambodia does not impose foreign currency controls, foreign currencies including US dollars can flow freely in and out of the country. About 80% of the total transactions in Cambodia are transacted using US dollars, while the remaining 20% are Cambodian riel and Chinese yuan. The exchange rate of Cambodian riel with the US dollar is also relatively stable. Therefore, investing in Cambodia allows conversion of currencies with limited exchange rate risks.

The lack of clarity and transparency in government regulations has posed challenges for foreign investors, however. For example, a Chinese manufacturing business owner shared that they were once required by local governments to pay an additional USD\$20 ‘labor card fee’ per worker per year. Nonetheless, the owner suggested that things have been gradually improving, given ongoing reforms and improving economic performance.

Table 5 summarises the views about the opportunities and challenges of investing in Cambodia we observed during our field discussions.

Table 5 Cambodia’s Opportunities and Challenges

Opportunities	Challenges
a.) Demographic dividend b.) Free flow of capital c.) Rich natural resources, and immense development potential for Agricultural industry d.) Stable political environment e.) Aggressive infrastructure development f.) Good relationship with China g.) Citizens have a good level of English	a.) Low average level of education b.) Low productivity in comparison to Mainland China and Vietnam c.) Underdeveloped infrastructures d.) Poor international image due to frequent online scam operations e.) Poor government efficiency f.) Heightened geo-political tension

Source: Summary of field responses by authors

## 4. Suggestions for developing the Cambodian market

### 4.1 Conduct field trips to gain first-hand knowledge

A common perception amongst business --- in particular who have not visited Cambodia before --- is that whilst Cambodia is an emerging market, it is difficult to evaluate investment opportunities systematically given the opaqueness of the situation and lack of local knowledge. Costs for investment are also considered high. At the same time, Hong Kong business in Cambodia acknowledged that there are many misconceptions about Cambodia. For example, security risks are often badly assessed, and reported cases of online scams and kidnapping could lead to sweeping generalizations and over-reactions, rather than targeted mitigating responses. For some, the scars of wars and historical traumas in the 1970s have stuck and overwhelmed the impact of progress in more recent years in political stability and impressive economic development. Potential investors should visit Cambodia to better understand and assess the contemporary situation with research and direct communications. For example, some Hong Kong business has joined our July 2023 trip and visited Cambodia for the first time.

### 4.2 Seek collaborations with established business in Cambodia

Starting a business in a foreign country is not easy, Entrepreneurs from Hong Kong have openly acknowledged the difficulties involved during their ventures in Cambodia. **Potential investors should reach out to these ‘old hands’ as a step in their learning journey.** Some business has had roots in Cambodia for more than a generation.

In addition to the assistance from business chambers and professionals, Hong Kong Economic and Trade Offices (ETOs) are an important resource for Hong Kong business. The Hong Kong government plans to establish a fourth trade office in ASEAN in Kuala Lumpur, the capital of Malaysia, in addition to current ETOs in Singapore, Bangkok and Jakarta. **The government**

**should allocate more resources to expedite the establishment of economic and trade offices in other ASEAN countries to improve support to Hong Kong business.**

#### *4.3 Nurturing talents*

Due to the underdeveloped higher education system, middle-class families in Cambodia often send their children abroad for education. **We recommend higher education institutions in Hong Kong to increase the intake of students from Cambodia (as well as from other ASEAN countries).** If students from ASEAN countries choose to work in Hong Kong after they graduate, they will provide a new source of critical support to Hong Kong business enterprises expanding into the ASEAN market.

#### *4.4 Expand professional services*

Southeast Asia remains an emerging market so that a comprehensive risk assessment is needed before entering the market. We have proposed in an earlier policy paper that the Hong Kong government negotiates with ASEAN countries to lower the threshold for Hong Kong professionals to practice there.<sup>4</sup> The export of Hong Kong professional services will not only expand our services to serve overseas clients, it will also facilitate the investment and business decisions of other Hong Kong business seeking opportunities overseas.

### **5. Conclusion**

While Hong Kong is committed to developing its economic and trade relations with traditional markets in Europe and North America, developing new markets has become more urgent than ever given the heightened global geo-political tensions and big power rivalry between China and the United States. As one of the rapidly developing economies in ASEAN, Cambodia offers untapped potentials.

However, venturing and investing in foreign countries is a complex task and involves foreseeable and unforeseeable risks. It is essential to understand and mitigate better these risks, which require a multi-pronged approach and inputs from the business, professional services, academia and the Government.

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<sup>4</sup> Phyllis Lai Lan Mo, Linda Chelan Li, Kin On Li (2024) Exploring Cambodia: How accounting professionals in Hong Kong can seize opportunities in ASEAN countries. [CSHK Policy Paper 32](#)

In our next policy paper, we will share our observations from discussions with Cambodian scholars and government officials regarding social development (in particular the development of middle class and education) and government reforms in Cambodia, as part of this attempt to improve local knowledge and understanding.