METI
Ministry of Economy, Trade and Industry

AMEICC
SINCE 1998

ARTHUR LITTLE

Key Proposals for “Cambodia-Japan Economic Co-creation through Sustainable Expansion of Japanese Businesses in Cambodia”

March 2025

Chief Representative of AEM-METI Economic and Industrial Cooperation Committee (AMEICC) Secretariat

Ryosuke Fujioka

Background, Argument and Analysis of Real Cambodia and Game Changers

Background of The Project and Collaborative Framework

- In December 2023, both leaders met in Tokyo and Cooperation and **shared the same view to deepen our economic collaboration**.
- This research project started from this July funded by METI, and **the ultimate goal is to create more business opportunities of Japanese firms in Cambodia**.
- The research has been implemented in a comprehensive way, and **Cambodia-Japan Public-Private Sector Meeting plays an important role** for discussions and following up actions **leading to a long-term stability and continuous improvement**

28th C-J Public-Private Sector Meeting (Sep 4, 2024)

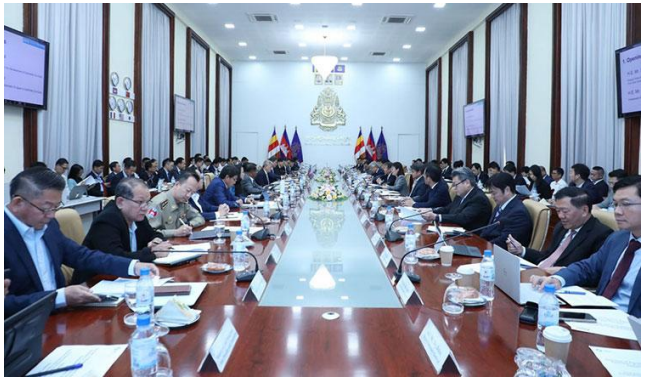
Explain Basic Hypothesis & Get Feedbacks

29th C-J Public-Private Sector Meeting

Comprehensive Analysis & Proposals of Concrete Actions

After

Implementations and Follow-up at the Meeting



Intensive discussion with the meeting member and others

EMBASSY OF JAPAN IN CAMBODIA

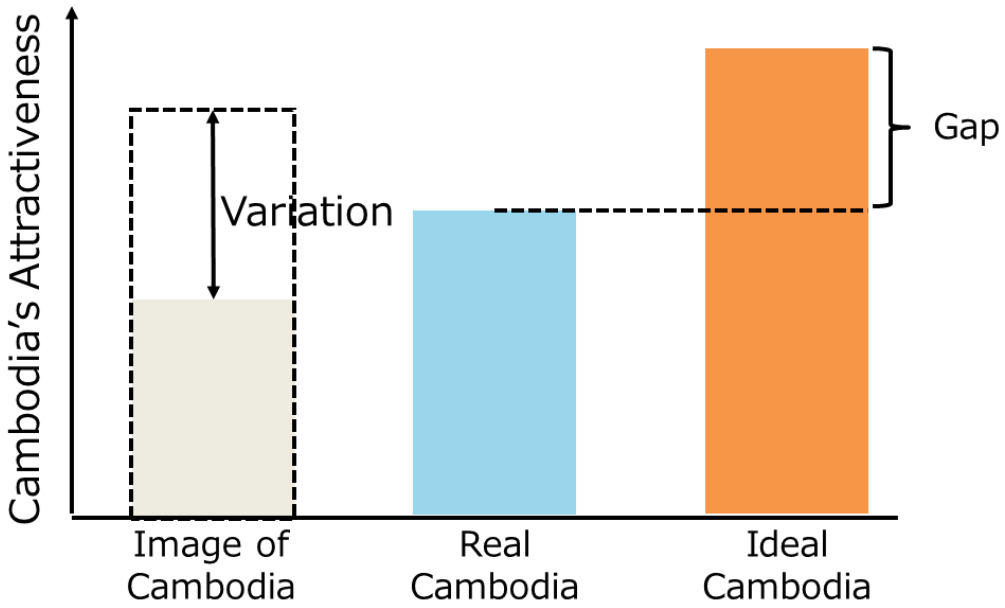
JETRO

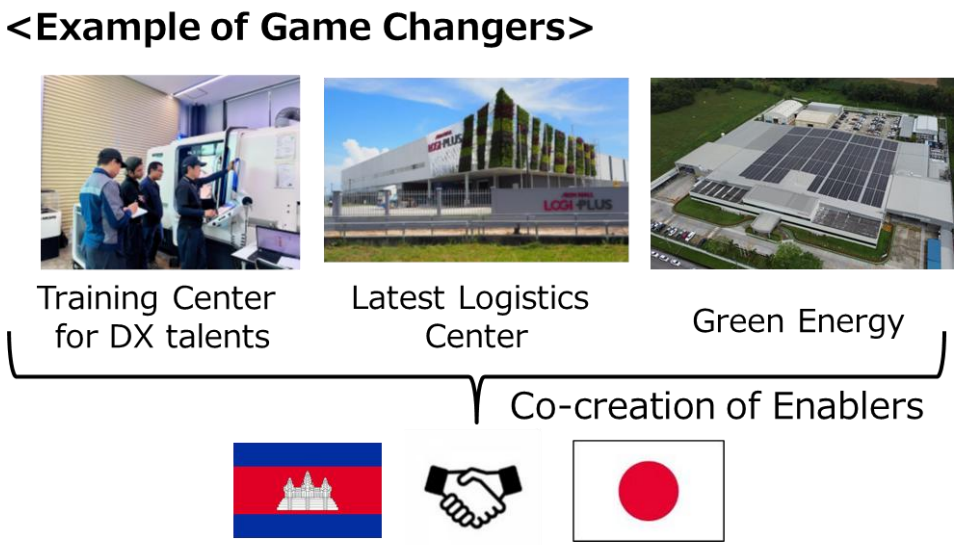
JBAC

Number of Meetings with Key Stakeholders
: More than **50**

Main Argument① （Real Cambodia and Game Changer）

- As Japanese firms have different images about Cambodia, **it is necessary to understand "Real Cambodia"** through getting first-hand information and **comparing its neighboring countries (Thailand, Vietnam etc.)** as a first step.
- However, **identifying "Real Cambodia" is not enough**. It is important to continuously improve business environment and **narrowing the gap with "Ideal Cambodia"**
- When improving main elements of business environment in a timely manner, it is critical to **identify and leverage game changers which is an output of co-creation between Cambodia and Japan**





Main Argument② (Main Patterns of Japanese Firm's Expansion)

- There are **two main patterns of business expansion of Japanese firms to Cambodia**.
- It is important to understand the differences and relationships in order to **create virtuous cycle of Japanese firm's expansion and Cambodia's economic growth**.

Pattern①: Restructuring Global Supply Chain

- Shift some parts of global manufacturing processes **from other countries** such as Thailand, Vietnam and China to take advantage of Cambodia's comparative advantage (e.g. **competitive labor** at the beginning).
- Require **Stabilities** due to its long-run operation. **Gradual but steady** process for business expansion leading to more employment and technology transfer.

Change Social Challenge

Good Business Environment

Pattern②: Addressing Social Challenges

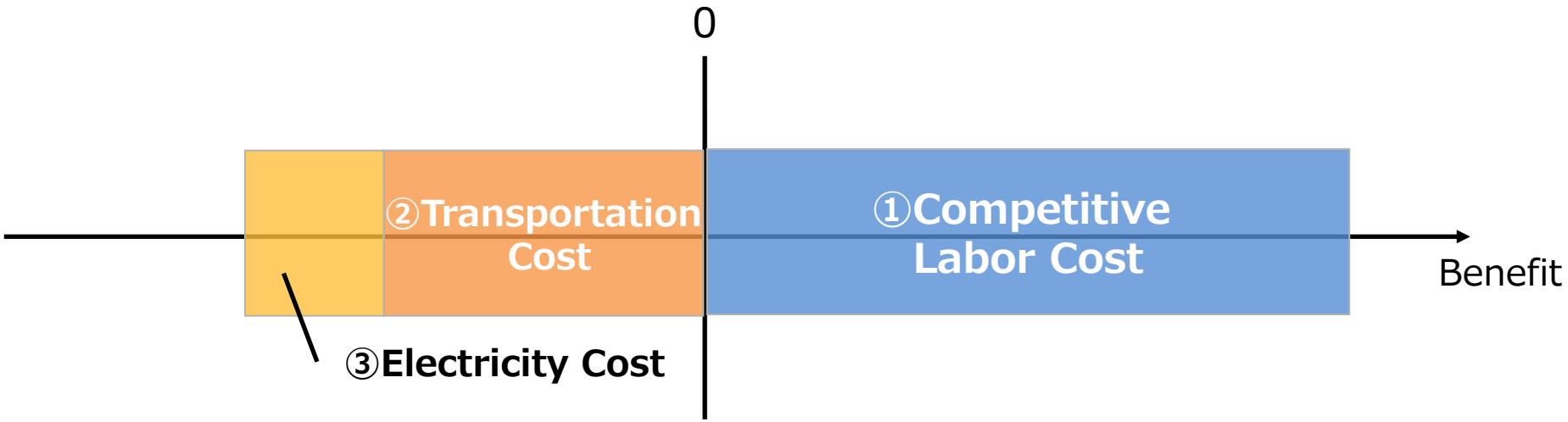
- Provide solutions to **social problems** (e.g. access to finance, low income in agricultural sectors etc.) leading to **more stabilities** in Cambodia
- Critical factor is **size and versatility of challenges** and **collaboration with nimble government to make proper rules** matter. Usually **rapid** process.
- Cambodia can be the first place to create success case and expand other countries (**Cambodia plus one Model**)

Rational of Pattern① Expansion : Shift Global Supply Chain to Cambodia

<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.)



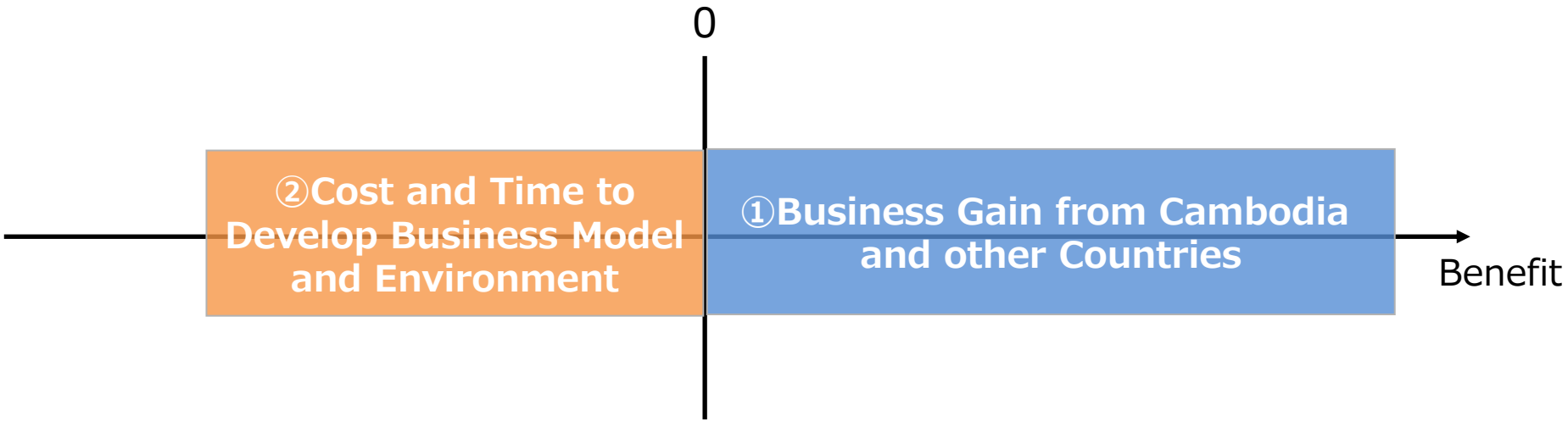
<Hypothesis>

- **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)

Rational of Pattern② Expansion : Addressing Social Challenges

<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

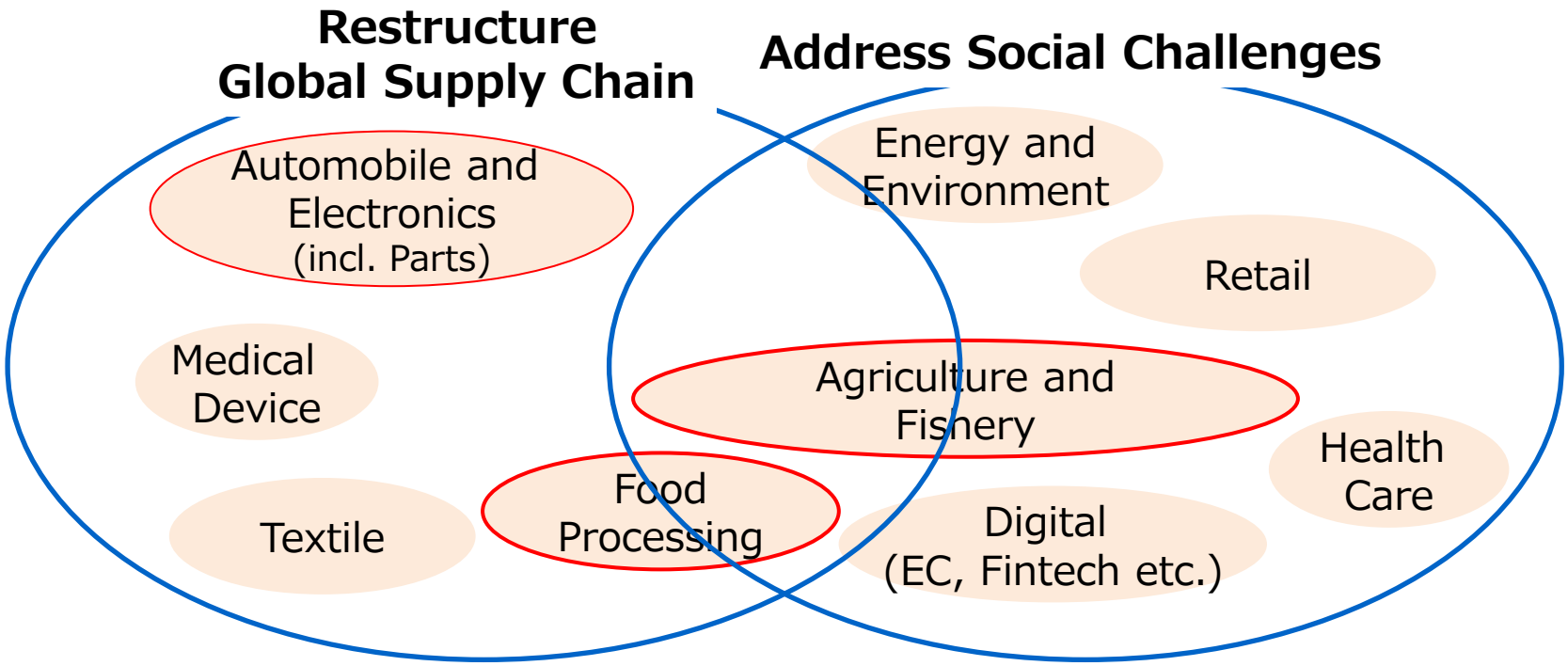


<Hypothesis>

- **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**

Plot Main Industry by Patterns and Key Success Factors

- By considering several factors (e.g. Japanese firm's interests, Cambodia's competitive advantage, national economic policies and global social challenges etc.), we figure out that **①automobile and electronics and ②agriculture, fishery and food processing could be a promising industry sectors**.



Key Success Factors (KSF)	• Political Stability • Logistics (Cost, Lead time etc.) • Human Resource (Wage, Quality) • Energy (Stability, Cost, Greeness)	• Size and Versatility of Social Challenges • Nimbleness and Flexibility of Government to Develop Proper Incentives and Regulations

Observation of Prioritized Industry Sectors

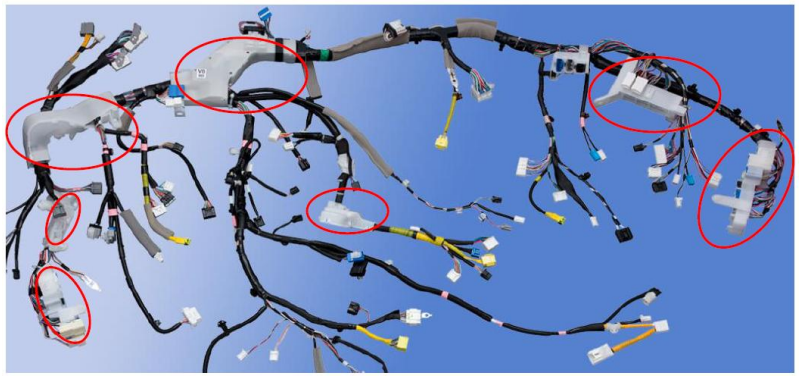
	 	 
Industry Sector	Automobile and Electronics (Including Parts)	Agriculture, Fishery and Food Processing
Pattern of Expansion	**Pattern 1**	Pattern1＋ **2** (Social Issue: Increase Farmers' income etc.)
Cambodian Government Policy	Both Sectors are Promoted under Pentagonal Strategy Phase1 etc.	
Cambodia's Competitive Advantage	• Competitive Labor Force • Abundant Green Power	• Competitive Land Price • High Quality Agricultural Products
JP Firm's Actions in Cambodia	JP Large Firms has started business since 2010s, and more SMEs have been coming recently.	Recently, more and more related firms have started their business and operations.

Ref. Importance of SMEs including Startups

- **SMEs (Small and Medium Enterprises) can play an important role in developing higher value-added industries** with its technologies and knowhows.
- Due to their business sizes, **Cambodian market size is not a huge barrier** from startup's perspective.

Example① : Fineplas Japan

- Manufacturer of plastic parts transferring electricity, signal and energy to other parts in automobile
- Will develop new production base in PPSEZ and provide its parts to Sumi (Cambodia) Wiring System





Example② : Sagri

- Japanese university startup utilizing AI and Satellite technologies to visualize the situation of farmland.
- Started demonstration project in Pursat in last November for creating carbon credit through AWD (Alternate Wetting and Drying) in the rice field, leading to increasing revenues of local farmers





Source: Company website, Interviews with Japanese companies

Key Findings about “Real Cambodia” and “Game Changer”

Labor

- **Still Competitive** compared with surrounding countries **but difficult to find high-skill talents**
- New actions to **develop high-skill talents** (e.g. CJDM and universities)

Logistics

- **Logistics Performance Index is not good*** relative to surrounding countries
- Japanese firm’s new initiatives (custom process and logistics center etc.) to **improve of logistic performance (lead time, cost etc.)**

Energy

- **Grid is greener** than surrounding countries, but price is not cheap and **difficult to procure competitive renewables** such as Roof-Top-Solar
- **MinebeaMitsumi will achieve operations with 100% renewable power**, very progressive case in ASEAN

Government

- **Politically Stable and Government is pro-business**, but **there is lack of transparency and consistency** at implementation phase
- **Stronger commitment to improve business environment under the new leadership**

*Some items such as average dwell time of container are showing higher performance than other ASEAN countries at the latest report which will be published soon.

Concrete Actions through Cambodia-Japan Collaborations

Proposals for Cambodia-Japan Economic Cocreation

- It is important to take a series of actions collectively to **①disseminate more information about Real Cambodia through various channels** and **②accelerate improving business environment through leveraging Game Changers.**
- As Cambodia is located at the center of Mekong sub-region, **it is essential to leverage Mekong-Japan collaboration** as well as the bilateral collaboration.

<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

Information Dissemination (incl. Word of Mouth)

Business Environment Improvement

Taking advantage of SEZs given limited resource and other factors

Strategically Hold Business Seminar and Dispatch Business Mission

- To increase awareness of Cambodia's potentials among Japanese firms as a first step for creating a business pipeline, **it is important to have business seminar and business mission by taking location and targeting sectors into consideration**.
- It is also **important to deliver real voice** from Japanese firms doing business in Cambodia and Cambodian high ranked officials.

Cambodia Investment Seminar @Bangkok(Nov. 2024)







JETRO-JAXA Business Mission focusing on Green and Space Technologies (Aug. 2024)



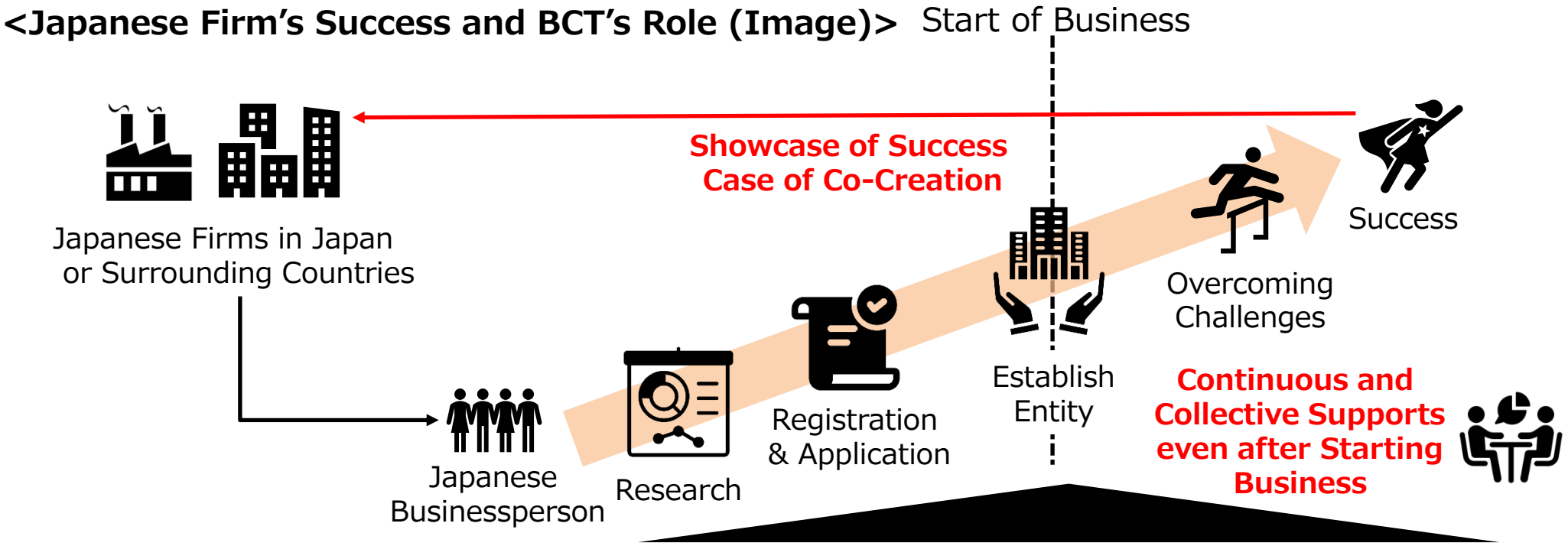


Source :JETRO

Concept of Business Co-Creation Team (BCT)

- BCT is a cross-ministerial team to **systematically support smooth entrances and expansions of Japanese firms in Cambodia**.
- With strong commitment from Cambodian Leaders and inter-governmental coordination, **the team provides public services which are efficient, transparent and flexible**.
- **Japan will support its establishment and operation** and if the team can successfully support front-runners, **it could effectively signal that Cambodian government is truly pro-business**, leading to more followers to come and start business in Cambodia.

<Japanese Firm's Success and BCT's Role (Image)>



EMBASSY OF JAPAN IN CAMBODIA JETRO JBAC

Business Co-Creation Team Composing of Cambodian Ministries and Endorsed by Leaders

Main Functions Necessary for Business Co-Creation Team

Comprehensive Information Provision

- Provide latest and detailed information (statistics, rules and regulations etc.) to **conduct cost-benefit analysis** with more accuracy and to **secure predictability**

Collaboration with Other Public Institutions

- At every business stage (incl. after start businesses), **solve difficulties and challenges Japanese firms are facing in collaboration with other ministries** as a one stop service

Rental Facilities Services

- Offer rental office and other related services **for new-comers, especially SMEs at their early stage**

Although we recognize that there is Japan desk at CDC and its TOR includes these tasks, it is important to develop sufficient capacities to implement those services as one team

Ref. Comprehensive Actions of Other Institutions (JETRO、BOI)

- To attract more foreign investments, JETRO and BOI provide comprehensive supports **before and after starting business in collaboration with other public 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


J-BRIDGE INVEST JAPAN JETRO

Survey on Business Operations of Foreign-affiliated Companies in Japan 2023

Summary of Survey Results

March 2024

Japan External Trade Organization (JETRO)
Innovation Department



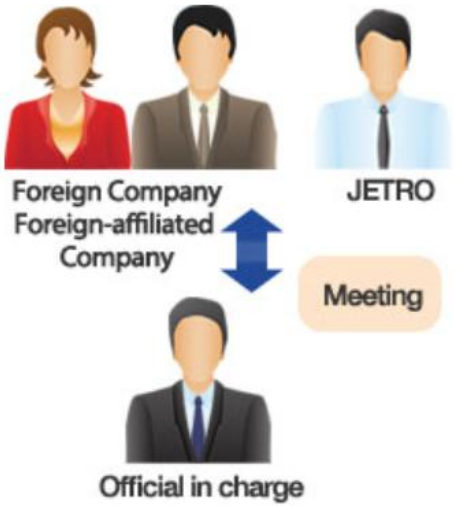


Introduction of Relevant Governments and Experts

- 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

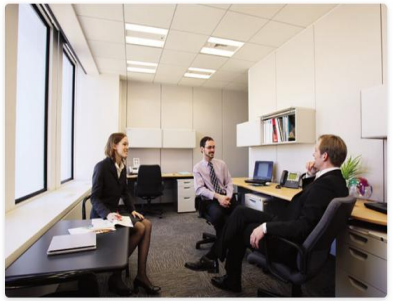


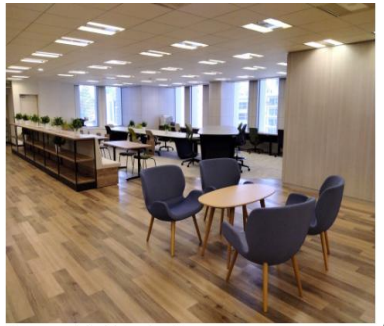
Mr. Uematsu
BOI Advisor



Rental Facilities Services

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





Source: JETRO and BOI

Ref. Collaboration with Cambodia's Initiatives (e.g. CDCIPM)

- Last November, CDC developed online platform (CDCIPM) to **streamline the registration of qualified investment projects (QIP)**
- As the next step will be to integrate the system with five ministries and institutions related to business activities, **we can seek synergies to develop BCT's function**.

CDCIPM's Main Feature

- Available Cross Platform
- Online Payment
- Anywhere, Anytime
- Application Status Tracking
- Preliminary AI Support etc.

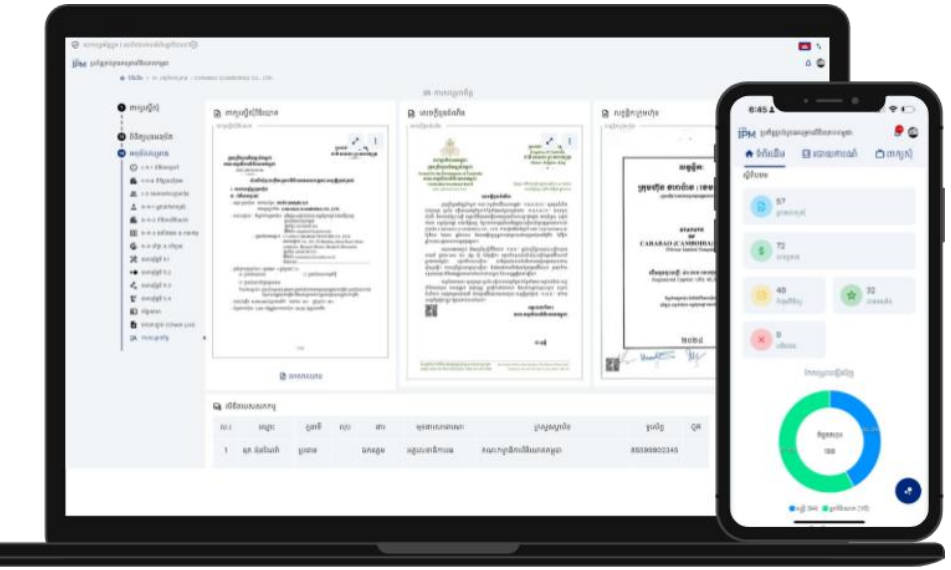
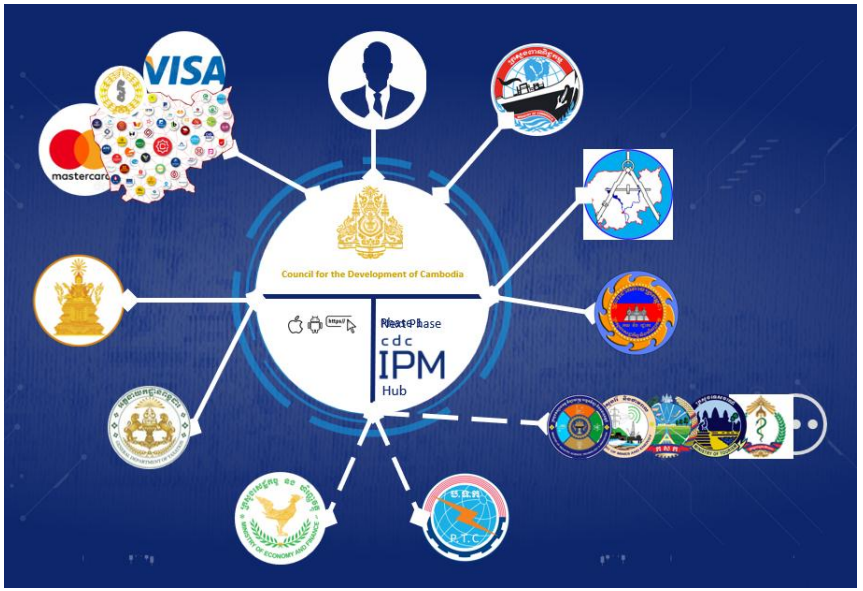


Image of the Ecosystem of CDCIPM

Will connect with ①Ministry of Commerce, ②Ministry of Land Management, Urban Planning and Construction, ③ Ministry of Interior, ④General Department of Taxation (GDT) and ⑤General Department of Customs and Excise (GDCE) as a first step



Accelerate HRD through Leveraging Local Institutions

- Competent local training center such as Cambodia Japan Digital Manufacturing Centre (CJDM) **could function as a hub of developing high-skilled industrial talents.**
- In addition, Japanese firms **have established endowed courses in local universities** to teach their technologies.
- It is essential to **leverage these actions as a game changer** to accelerate human resource development which matches the needs of Japanese firms in Cambodia, and **both governments should keep on supporting the efforts**.

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**

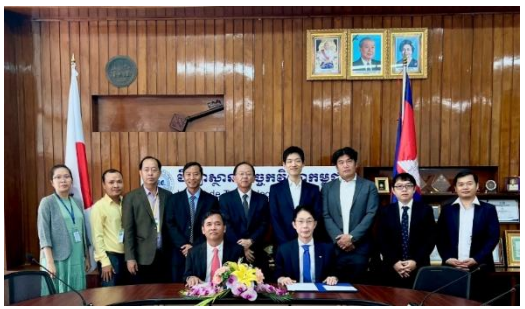




CJDM NPIC

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





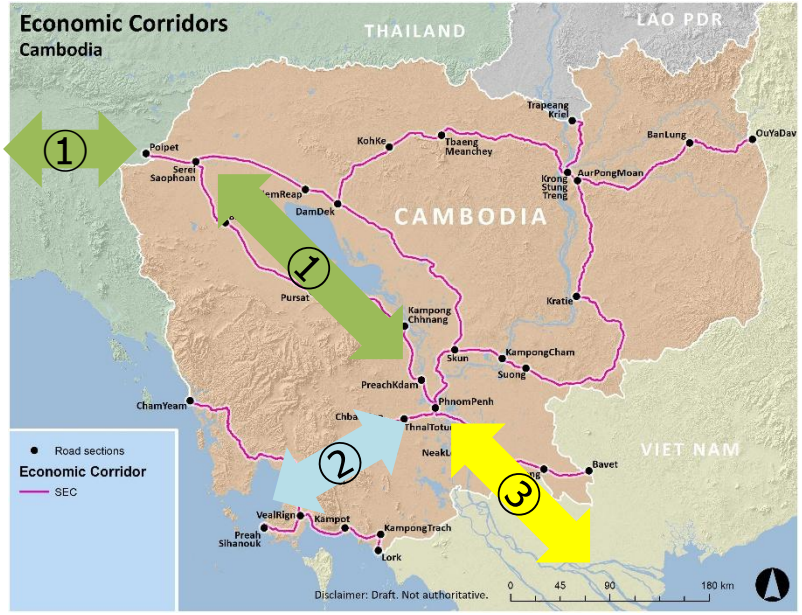
ITC DENSO

Source: Company website, Interviews with Japanese companies

Better Logistics Performance through Continuous Improvement

- Despite the importance of game changers, **sustainable improvements of logistics performance can be achieved only through continuous actions** at every stage.
- Therefore, it is important to utilize initiatives such as C-J Public-Private Sector Meeting and CLIP3* **for grasping the entire situation, identifying priority area and seeking synergies among each actions**. *CLIP3: The Project for Strengthening Facilitation Capacity for Logistics Improvement
- In addition, it is also crucial to leverage **sub-regional collaborative framework such as Mekong-Japan collaboration, as some bottlenecks are international issues.**

Main Routes for Transporting Goods



①Phnom Penh～Poipet～Bangkok
②Phnom Penh～ Sihanoukville Port
③Phnom Penh～(Bavet～)Cat Lai/Cai Mep Port

Example of Sub-Regional Collaboration

- Name: The Project for Strengthening Customs Efficiency for Enhancing Mekong Connectivity
- Implementing Agency: JICA
- Abstracts: Provide training to custom related officials in Cambodia, Laos and Thailand to **improve their performance and facilitate collaborations**



Source: JICA Thailand

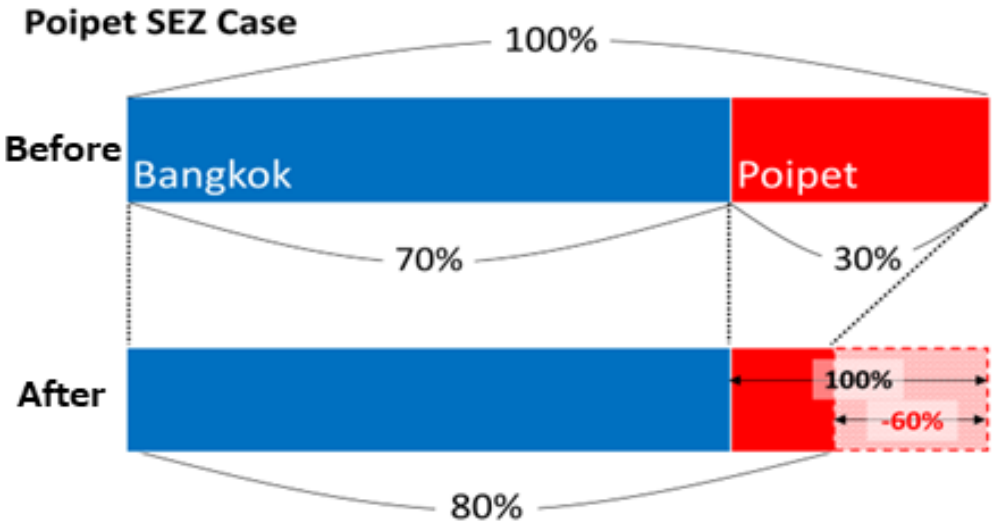
Ref. Leveraging Private-led Initiative as a Gamechanger

- Japanese-affiliated firms started new initiatives to **reduce transportation cost and lead time through more efficient operation and leveraging new rules**.

Royal Group (Custom Process)

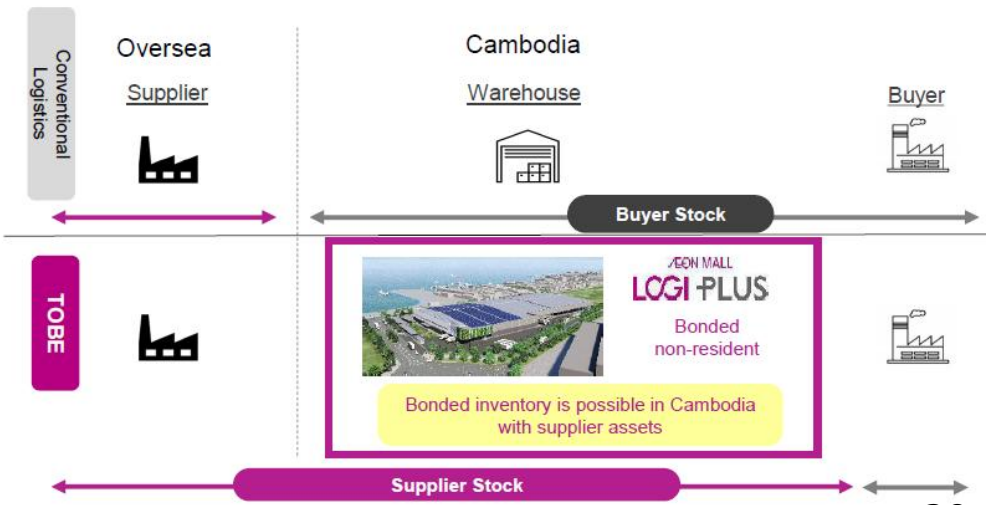
- In addition to operating dry port with its business partner, Royal Group started custom clearance services mainly for its SEZ tenants
- The new service contributes to **reduce logistics cost significantly**.

Logistic Cost reduction From Bangkok to Poipet (Image)



AEON Mall Logi Plus (Logistics Center)

- AEON Mall Logi Plus **opened logistics center in Sihanoukville Port SEZ and started new services** as a demonstration experiment project of free trade zone (FTZ) warehouse.
- One of the new services is International Vendor Managed Inventory (VMI), which enables **shorter lead time, more efficient space allocation and local distribution** for buyers thanks to **non-resident inventory**.



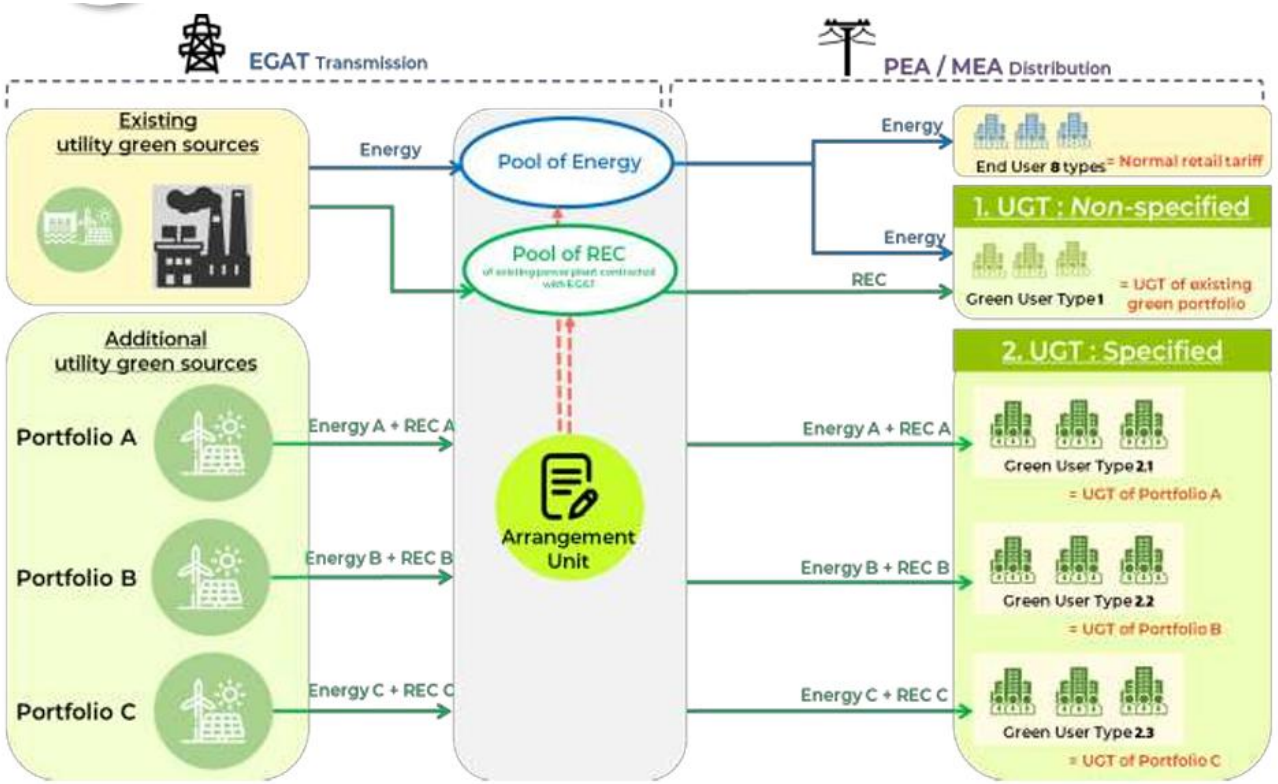
Source: Company website, Interviews with Japanese companies

Achieve Stable, Competitive and Clean Energy Supply

- **Sound rules and regulations are necessary** to achieve stable, competitive and clean electricity supplies in a sustainable way, which many global firms are now requesting.
- As Cambodia **can learn from not only Japan but also from surrounding countries**, it is important to take advantage of AZEC framework providing **training about green electricity procurement methods in member countries**. Also, AZEC is a good framework to **showcase the success case in Cambodia**.

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

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



Utility Green Tariff Type 1 (UGT1) – Non specified green energy sources
Rate = Normal Tariff + **0.0594THB/kWh**

Utility Green Tariff Type 2 (UGT1) – Specified green energy sources
Rate = **4.5622THB/kWh** (Portfolio A)
= **4.5475THB/kWh** (Portfolio B)

Note: Thailand allows energy users for introducing Roof-top-solar for their own use with incentives from BOI

Source: BOI

Further Analysis for Tapping into SEZ's Potentials

- Given the limited resources, **SEZ could be useful policy measures** to attract foreign firms to Cambodia through **introducing progressive incentives in the area**.
- Yet, we should note **firms evaluate SEZs not only by not only progressive incentives but also location and its basic services** and the **fairness (avoid discrimination deriving from its location) is critical** to attain sustainable expansion of Japanese business.
- As ERIA will start detailed analysis about SEZ based on our research, we will **seek concrete SEZ project simultaneously to invite Japanese firms in a timely manner**

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.)

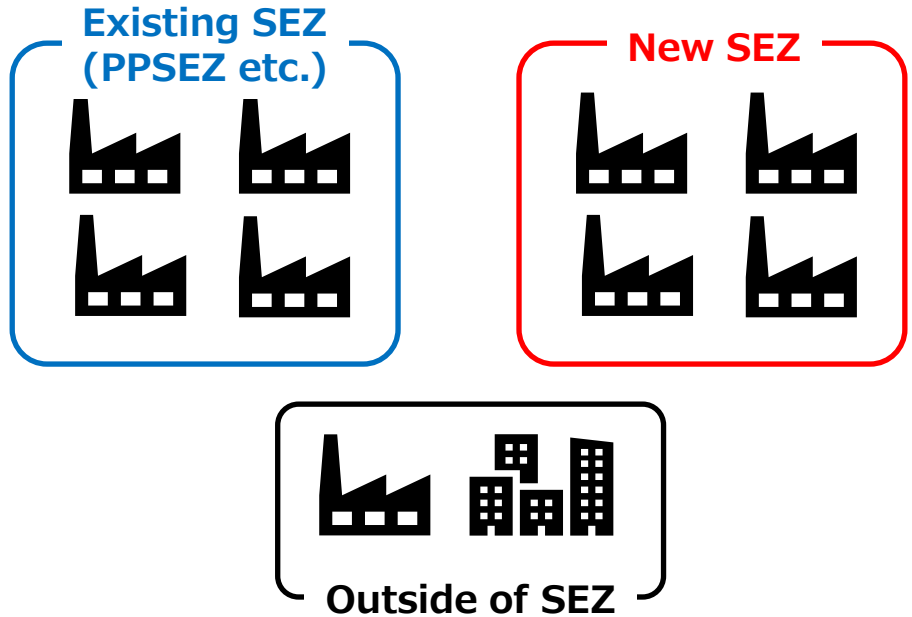
Basic Services Available in SEZ
(Power, Water, One-Stop Public Service etc.)

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

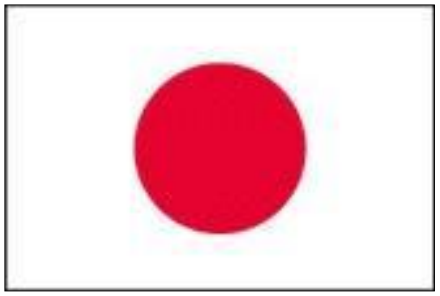
- Basic Public services should be provided equally to all JP Firms no matter where they are located



Thank you for your attention!

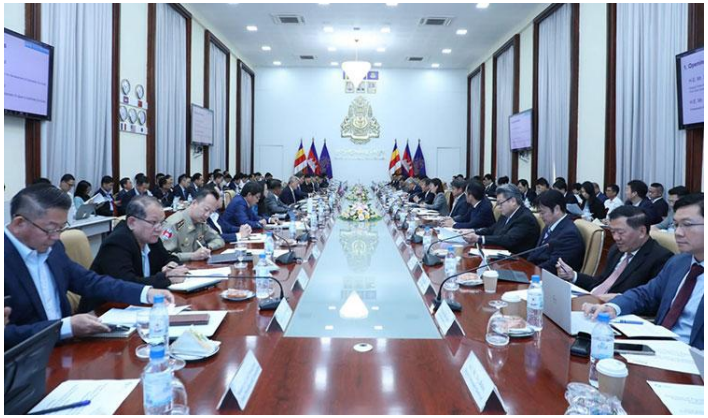






Ref. Multiple Dialogue Channels with Cambodian Government

- In addition to the big and open discussion such as Cambodia-Japan Public-Private Dialogue, the daily consultation opportunity with Cambodian government is important **<u>especially for new-comers to smoothly start and expand its business through clarifying/solving specific and practical issues</u>**

		
Dialogue Type	Type① (ex. C-J Public Private Dialogue)	Type② (ex. Daily Meeting in each ministry)
Topic	General across Japanese firms and/or Conceptual	Specific and/or Practical
Dialogue Style	Open and/or Formal	Close and/or Casual
Participants	Likely to require High Level	Likely to require persons with expertise for each topic

Ref. Four Main Methods to Procure Clean Electricity

- On-site Generation and Off-site PPA with investments in new renewables gets more favorable options as they **can more easily claim the contribution to direct CO2 reduction**, which will be required in some global standards such as RE100.

On-site or behind-the-meter (BTM) generation

Ex : Introduction of Rooftop Solar



Off-site Power Purchase Agreements (PPA)

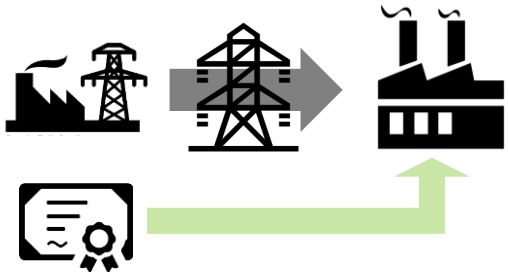
Ex : Procure New Renewables



Easily claim the contribution to direct CO2 reduction

Energy Attribute Certificates (EACs)

Ex : Grid Power + Certificate



Green Power Products /Tariffs

Ex : Select Renewable Retail Tariff

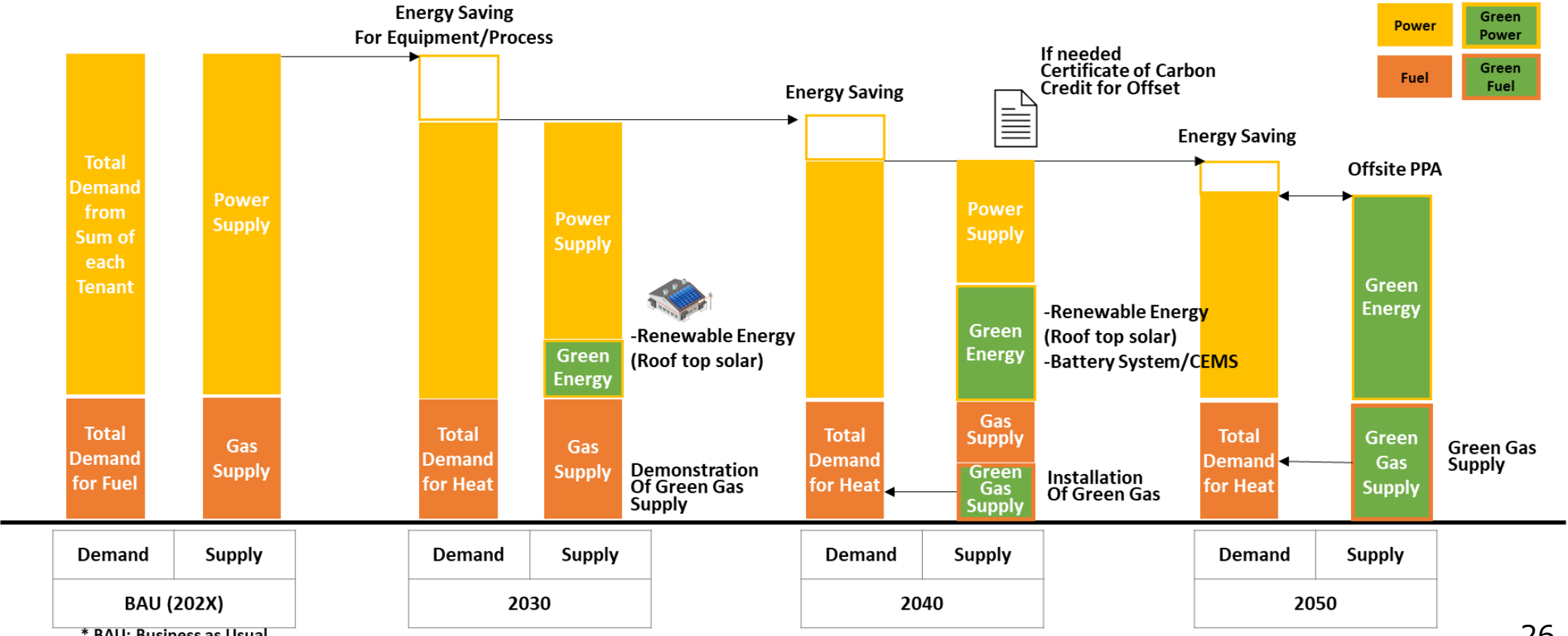


Source: IEA, Advancing Decarbonisation Through Clean Electricity Procurement and RE100 Technical Criteria

Ref. Research about Carbon Neutral SEZ

- Under AZEC framework, METI/AMEICC is now conducting a research to understand **what Carbon Neutral (CN) Industrial Park looks like** and what the technical, institutional and commercial challenges in ASEAN
- After the desktop research and interviews, **we will reflect the result in the ERIA's study to consider what kind of rules and incentives are necessary to achieve CN SEZ**, good appealing point to Japan and global firms.

Pathway to Carbon Neutral Industrial Park (Image)



* BAU: Business as Usual