

SOUTH KOREAN CONSTRUCTION ON SERVICES AND
INVESTMENT IN CAMBODIA (1994-2010)

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(1994-2010)

นายมัคคะรา ซึย

วิทยานิพนธ์นี้เป็นส่วนหนึ่งของการศึกษาตามหลักสูตรปริญญาศิลปศาสตรมหาบัณฑิต
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งานวิจัยชิ้นนี้มุ่งเน้นศึกษาเกี่ยวกับการลงทุนโดยตรงจากประเทศเกาหลีใต้ในประเทศกัมพูชาในลักษณะบริษัทรับเหมาก่อสร้างภาคเอกชน กรณีศึกษาในกรุงพนมเปญ ซึ่ง มุ่งเน้นวิเคราะห์ผ่านความคิดเห็นของนักธุรกิจชาวเกาหลีใต้และสถานะอุตสาหกรรมก่อสร้างโดยใช้ Nine-Factor Model ของ Dong Sung Cho, Porter's five forces model, และSWOT ในการวิเคราะห์ข้อมูล ข้อมูลปฐมภูมิถูกเก็บรวบรวมผ่านการสัมภาษณ์เชิงลึกจากผู้จัดการหรือผู้บริหารชาวเกาหลีใต้ในกรุงพนมเปญ และข้อมูลทุติยภูมิถูกเก็บรวบรวมจากภาครัฐและสถาบันอื่น ๆ

ผลจากการศึกษาครั้งนี้สามารถสรุปได้ดังนี้ คือ นักลงทุนชาวเกาหลีใต้ส่วนใหญ่เน้นการลงทุนด้านอุตสาหกรรมก่อสร้าง ในประเทศกัมพูชา อันเนื่องมาจากปัจจัยการเจริญเติบโตทางเศรษฐกิจ ในขณะที่ค่านึงถึงปัจจัยด้านค่าจ้างแรงงานเป็นปัจจัยรอง นอกจากนี้งานวิจัยยังพบว่าการคอร์รัปชัน ความประสิทธิภาพของแรงงาน การนำเข้าวัสดุก่อสร้างและโครงสร้างทางเศรษฐกิจของประเทศกัมพูชาก็ยังคงเป็นอุปสรรคอย่างหนึ่งในการลงทุน ทั้งนี้ ผู้วิจัย ยังมีข้อเสนอแนะว่ารัฐบาลกัมพูชาควรจะต้องเพิ่มความรัดกุมในกฎหมาย เพิ่มศักยภาพการพัฒนาฝีมือแรงงานในสาขาอาชีพ รวมถึงลดจำนวนการนำเข้าวัสดุก่อสร้างและเปิดโอกาสช่องทางการผลิตวัสดุดังกล่าวจากอุตสาหกรรมภายในประเทศแทน

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The study focuses on the South Korean Foreign Direct Investment in Cambodia on Private Construction companies in Phnom Penh as case study. This research is analyzed through South Korean businessmen's opinion and the construction industry climate in Cambodia by using the Nine-Factor Model of Dong Sung Cho, Porter's five forces model, and SWOT analysis. Primary data are collected through the in-depth interview with South Korean Director and Manager of construction companies whereas secondary data is collected from government institutions and other institutions.

The key factor for South Korean investors to invest in construction sector is the potential growth of the economic development in Cambodia while cheap labor is not quite important. The obstacles South Korean investors face are corruption, productivity of labor force, importing construction materials, and health of Cambodian economy. Some recommendations to Cambodian government on construction sector are improving rule of law (construction permit procedure and corruption), investing in vocational training, reducing imported construction material and encouraging the local industries in producing construction material.

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CHAPTER I

INTRODUCTION

1.1 Research Background

Foreign direct investment (FDI) has become the means for economic driver across the globe with the flows of foreign capital to domestic countries. Foreign direct investment not only increases productivity levels but also creates advanced technology, information, jobs and skills (Economy Watch, 2010).

The royal government of Cambodia considers foreign direct investment as key policy for driving Cambodian economy. To gain more attention from foreign investors, the government should improve the rule of law and reinforce its institutions to assist and make investment environment better. In 1994, law on investment was amended to give fair treatment to both foreign and domestic investors. By 2010, the cumulative investment approved by Cambodian Investment Board (CIB) was 35,056 billion dollars (The Council for the Development of Cambodia [CDC], 2010).

Ambassador of the Republic of Korea Kim Han Soo explained that relationships between South Korea and Cambodia have been close since it has been resumed in 1997, one year before the representative office of South Korea was open in Phnom Penh (Embassy of the Republic of Korea in the Kingdom of Cambodia, 2011). South Korean investors have been associated with various investments in Cambodia. The major investments of South Korea are real estate, the banking sector, construction, tourism and manufacturing with total projects of 106 by June 2009 (Sotharith, 2010). Furthermore, South Korea has so far invested in Cambodia in the

amount of 4,416 US \$ million by 2010, ranking second just behind China in terms of capital investment (CDC, 2010).

1.2 Research Problem

Competitiveness is the new term for investors to consider how competitive one country is before they come to invest in that country. Cambodia ranked 109th among 139 countries around the world. Compared to ASEAN countries, Cambodia is still much left behind the countries such as Singapore, Malaysia, Thailand, Brunei Darussalam and Indonesia (World Economic Forum, 2011).

Cheap labor cost, good markets, openness of the country, political stability, and attractive location are the potentials for Cambodia to attract foreign direct investment. However, unskillful human resources, poor rule of law and legal framework, non-transparency in government, and poor infrastructure system are the obstacles for foreign investors (Business-in-Asia, 2011).

Phnom Penh, the capital city, located in South-Central region of Cambodia, has many favorable conditions for commercial development, cultural development, economic growth, tourism and international relations. Due to these good conditions, more and more people living in the provinces migrate to Phnom Penh to access the facility, seek good opportunities and good education. Therefore, the number of migrants has increased every year.

To fulfill the migration boom in the capital city, the local investors as well as foreign investors mainly South Korean become more and more interested in construction industry investment. Most of their investments are multi-storey tower building, developing new city, apartment complex, condominium complex, villas, shopping malls, and rental offices.

One example of construction project is Camko City Project, biggest investment in Cambodian history, the new satellite city covering 119-hectare development on the outskirts of Phnom Penh. The project will consist of 827 apartments, 18 villas, 164 townhouses, school, university, hospital, hotels and shopping centers. However, construction industry was affected by global crisis in 2008. It made the construction sector go down in 2009 in the whole country, and some South Korean companies delayed or cancelled their projects such as International Finance Complex (Invest in Cambodia, 2010). Early 2011, although the construction sector cannot be the same trend before the National election in 2008, it goes moderately.

The aim of this study is to investigate the factors motivating South Korean investors in Phnom Penh, the capital city of Cambodia, on private construction sector. The reason for selecting this industry is due to the favorable location and local market demand.

1.3 Hypothesis

- Local market demand and cheap labor cost are the important factors attracting South Korean investors in construction sector.

- Unskillful human resource and poor infrastructure are main obstacles that Cambodia faces in attracting South Korean Foreign Direct Investment in construction sector.

1.4 Research Objectives

This research has following objectives.

- To identify motives of Cambodia in attracting South Korean FDI
- To analyze the obstacles that Korean investors face
- To address Policy implication for Cambodian policy makers in readjusting business environment to attract all foreign investors.

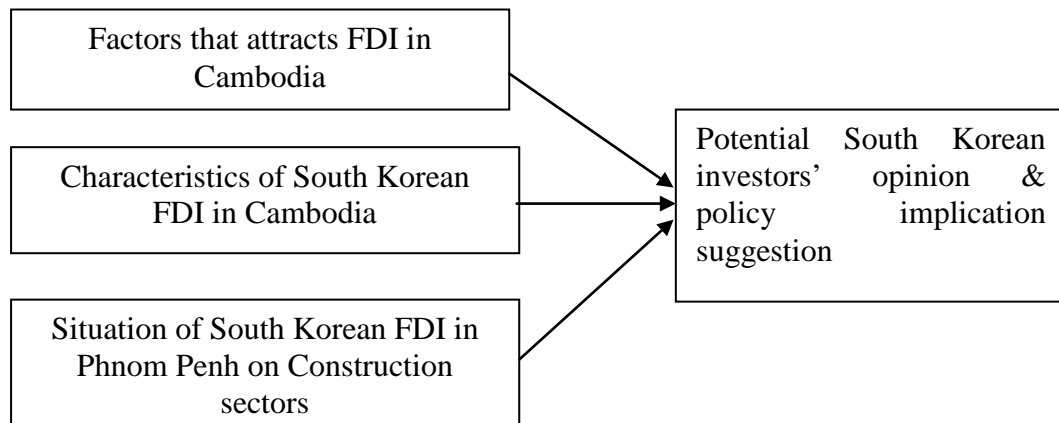
1.5 Scope and Limitation

Case study is located in Phnom Penh. The focused sector is Construction companies. Only few Korean companies will be studied due to time and cost constraint. The workplace of this research is where South Korean construction companies operate their business. The construction sector on the research focuses only on the general construction which is related to residential or commercial real estate assets private property building not roads or bridges. The time frame is 1994-2010.

1.6 Research Questions

1. What are the factors affecting South Korean investors to invest in Cambodia?
2. What are the obstacles Korean investors facing in investing in Cambodia?
3. What are the factors affecting South Korean investors to invest in Construction sector of Cambodia?

1.7 Conceptual Framework



1.8 Research Methodology

1.8.1 Population and Sample Size

Due to time and cost constraint, this research will conduct the in-depth interview with few South Korean businessmen who are currently doing business on construction sector based in Phnom Penh.

1.8.2 Source of Data

1.8.2.1 Documentary research

Secondary data is collected from sources of the Council for development of Cambodia, Ministry of Commerce, Ministry of Economy and Finance Cambodia, Ministry of Land Management, Urban Planning and Construction (Cambodia), Cambodia Development Resource Institute (CDRI), and other documents through internet.

1.8.2.2 Interview

In-depth interview will be done with some South Korean investors in construction industry based in Phnom Penh to find out the actual.

To memorize well, a tape recorder is used to record what the key informants said and a sudden transcription is needed in case of confuse.

1.8.3 Instrument

1.8.3.1 The Nine- Factor Model 1994 by Dong Sung Cho

The Nine-factor Model is divided into 9 to analyze the international competitiveness of Countries. This model consists of Endowed Resources, Business Environment, Related & Supporting Industries, Domestic Demand ,Worker, Politicians and Bureaucrats, Entrepreneurs ,Professional Managers and Engineers and Chance, Events (Moon and Song Cho, 2000). Nine-Factor Model of Dong Sung Cho is used to examine the competitiveness of construction industry as country level.

1.8.3.2 Michael Porter's five force model

Five Force Model is the model to analyze the industry and business strategies created by Michael Porter. The model includes Rivalry among competitors, Threat of substitutes, Bargaining power of buyers, Bargaining power of suppliers, and Threat of new entrants (Michael Porter, 1980). Porter's five forces model is used for industry level to examine South Korean construction companies with other companies within Construction sector.

1.8.3.3 SWOT analysis

SWOT stands for Strengths, Weaknesses, Opportunities and Threats. The aim of SWOT analysis is to use for decision making in industry and business organization. There are two factors in SWOT namely internal factors: strengths or weaknesses, and external factors: threat and opportunities (Businessballs, 2011). SWOT analysis is for recommendations on construction industry through South Korean investors 'opinion.

1.9 Organization of the study

The study consists of 6 chapters. Chapter one is the Introduction. Chapter two addresses the Literature review while chapter three is an overview of Cambodia and Relations with ASEAN+3. Chapter four is FDI in Cambodia and Characteristic of South Korean FDI. Chapter five focuses on Competitiveness of Cambodia and Construction industry. Chapter six presents the Result and Conclusion.

CHAPTER II

LITERATURE REVIEW

2.1 Empirical Studies Related to FDI in Cambodia

Due to Dunning (1993) there are 3 kinds of foreign direct investment. First, the market-seeking FDI in which enterprises went out of the country to find or exploit new markets. Second, resource- or asset-seeking FDI occurs when firms go abroad to invest to take resources which are not available in the home country. The last one is efficiency seeking FDI. The purpose is to allocate the activities of firms internationally. In other words, the firms go out of the home country to rationalize the structure of the global activities.

Kimsun and Socheth, (2009) did the research on Chinese investment in Cambodia. The finding is that China invests the most in Cambodia, and those investments are garment factory, agriculture and agro industry sector as well as oil, gas hydropower, and mining. The major reason for Chinese investment in the garment industry is Generalized System of Preferences and Most Favored Nation status. Moreover, Chinese investors are also interested in agriculture and agro-industry since China needs paper and rubber for its domestic demand. Due to Cambodia-China bilateral trade agreement, and the Cambodian agroindustry development strategies, Chinese investments are keen on agriculture and agro-industry sector.

Hong Min & Wen-Jen (2004) studied on the determinant of foreign direct investment in Southeast Asian Transition countries from 1990 to 2001. The research described one-period lagged FDI inflows, GDP per capita, and the degree of openness

are the most significant factors to encourage more foreign investors to invest in CLMV namely Cambodia, Laos, Myanmar and Vietnam.

Due to Kuyly (1998) foreign investors consider overall investment climate in Cambodia is low. Only some investment climate is fairly good if compared to Other Asian countries. The significant factors to attract FDI in the garment industry are incentives given by Cambodian government, enjoying preferential status, gaining benefit from abundant and cheap labor cost, and developing a low cost base for export. For the Hotel industry, getting a high rate return and enjoying incentives given by government are the important factors attracting FDI in Cambodia. Moreover, the effect of FDI IN Cambodia is garment creates jobs for local workers while hotels offer more training.

Hong Hiep (2012) mentioned the major factors that inspire FDI inflow to ASEAN are the market size, openness of the economy, the quality of the infrastructure. Moreover, the real interest rates are closely related to FDI inflows while the inflation rate and the financial development are not associated with FDI inward. Surprisingly, foreign investors address the importance of productivity of labor rather than cheap labor.

According to Sotharith (2010) the main reasons for investors from China, South Korea and Japan to invest in Cambodia are cheap labor, prospect of booming local market, political stability, favorable investment policy, and support from various governments. However, most of Chinese investments in Cambodia are stated-owned companies, and the major projects consist of infrastructure and energy, manufacturing, food processing, textiles and agriculture. Unlike Chinese investments, the leading South Korean investments are the real estate, construction, tourism and

banking sectors. Compared to China and South Korea, Japan does not invest much in Cambodia due to poor infrastructure, and high cost of power supply.

All the studies above have described the FDI motive factors attracting foreign investor in Cambodia. Except Kuyly (1998) & Kimsun and Socheth (2009), their studies have not emphasized the specific industry. Furthermore, they have not investigated the specific industry on specific investors. Therefore, my research has not been studied yet, and this study will give more comprehensive ideas on private construction companies of South Korea to enable readers and researchers understand deeply in that field which is one of the favorable industries existing in Phnom Penh.

2.2 Definition of key words

2.2.1 Foreign Direct Investment

Due to Organization for Economic Co-operation and Development (OECD) Benchmark definition 1996, "Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise").

"A foreign direct investor is an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which has a direct investment enterprise – that is, a subsidiary, associate or branch – operating in a country other than the country or countries of residence of the foreign direct investor or investors (Organization for Economic Co-operation and Development [OECD], 1996).

"Foreign Direct Investment or FDI is a measure of foreign ownership of domestic productive assets such as factories, land and organizations. It is classified into two types: Inward FDI and Outward FDI" (Economy Watch, 2010).

2.2.2 Construction

"Construction enterprises in one economy can undertake the construction of plant, buildings, etc. in another economy through subsidiary and associate companies in that economy, a foreign branch set up for the project, or directly undertake the work themselves".

Construction industry can be classified into three basic categories:

1. Construction involving heavy and civil engineering: The construction of large projects such as bridge, road, and others comes under this category.
2. General construction: The construction works which are related to building of real estate ones such as residential or commercial real estate assets, etc.
3. Construction projects involving specialty trades: Construction works that are associated with building up of specialized items namely, electric related works or works on woods (Economy Watch, 2010).

2.2.3 Competitiveness

-World Economic Forum, WEF (2011): "National competitiveness is the set of factors, policies, and institutions which determine the level of productivity of a country."

-Lall (2001): "National competitiveness does not mean just being a low cost producer, but being competitive in activities that are conducive to income growth

competitiveness in industrial activities means developing relative efficiency along with sustainable growth.

-Porter (1990): “Productivity ultimately depends on the microeconomic capability of the economy, rooted in the sophistication of companies (both local and subsidiaries of multinationals), the quality of the national business environment, and the externalities arising from the presence of clusters of related and supporting industries. Unless microeconomic capabilities improve, sustainable improvements in prosperity will not occur.

CHAPTER III

AN OVERVIEW OF CAMBODIA AND RELATIONS WITH ASEAN+3

3.1 Basic Information of Cambodia

3.1.1 Geography and Climate

Cambodia is located in the southwest corner of the Indochina Peninsula. Cambodia has the border with three countries Laos, Thailand and Vietnam. Cambodia's total area is 181,035 square kilometers. Cambodia has a tropical monsoon climate in which a wet season starts from May to October whereas a dry season begins from November to May. The average temperature in Cambodia is more than 30 degrees centigrade (CDC, 2011).

3.1.2 Social Climate

The total Population in the country is 14,805,358 (Cambodia Information Centre, 2012). Percentage of population by age group is aging people (from 15 to 64) 62%, aged people (65⁺):4.3%, and children (0-14 age): 33.7% (CDC, 2011). Interestingly, Cambodian labor cost is 61 US dollar for monthly minimum wage, and it is relatively low compared to other emerging countries (Table 3.1 below). This shows the great advantage for foreign companies to invest in Cambodia. (Phnom Penh Securities PLC, 2011). The majority of people are Khmer 90%, and the rest are Chinese, Vietnamese and Cham. Buddhism is the national religion while Buddhist holds 90% of total population. There are other religions namely Islam, Christianity and others. Khmer is the only official language. The literacy rates of adult in 2008 were 77.5% whereas literacy rates of males were 85.1% and 70.9% for females. The

education system includes elementary school starting from grade 1 to 6, junior high school beginning from grade 7 to 9, senior high school from grade 10 to 12) and university. The mandatory education is till grade 9. The percentage of people (age 6 and over) in each group who are attending school or education institutes are age (6-14): 80.19%, age (15-19): 51.83% and age (20-24): 37%. Riel is the official currency. However, US dollar are normally used in daily life such as business and commercial transaction (CDC, 2011). Exchange Rate is 1 US Dollar = 4,042 Riel (KHR) in 2008 (Investment in Cambodia, 2010).

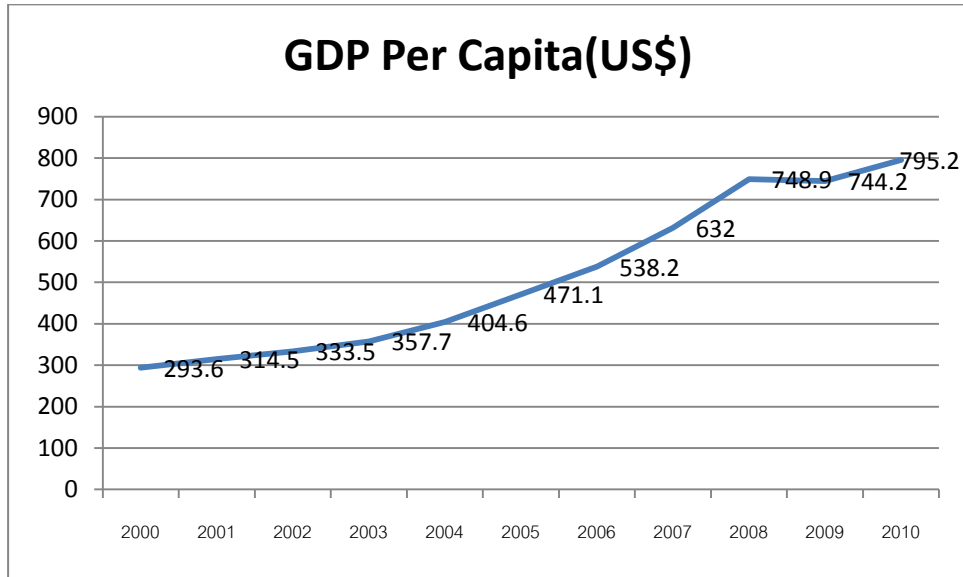
Table 3.1 Comparative Monthly Minimum Wage in 2011 for Selected Countries

Countries	Cambodia	Vietnam	Laos	Philippines *	Indonesia *	Thailand *
Monthly Minimum Wage (Local Currency: in thousands)	250	1,170 - 1,550	500 - 700	7.08 - 12.12	547 - 1,020	4.53 - 6.18
Monthly Minimum Wage (US\$)	61	56 - 74	62 - 87	163 - 279	61 - 115	147 - 200
Exchange Rate Per US\$1	4,103.50	20,865.00	8,024.00	43.3	8,905.00	30.83

Source: National Wages and Productivity Commission of the Philippines and Wage Indicator in 2011 *Data in 2010

3.2 An Overview of Cambodia economy

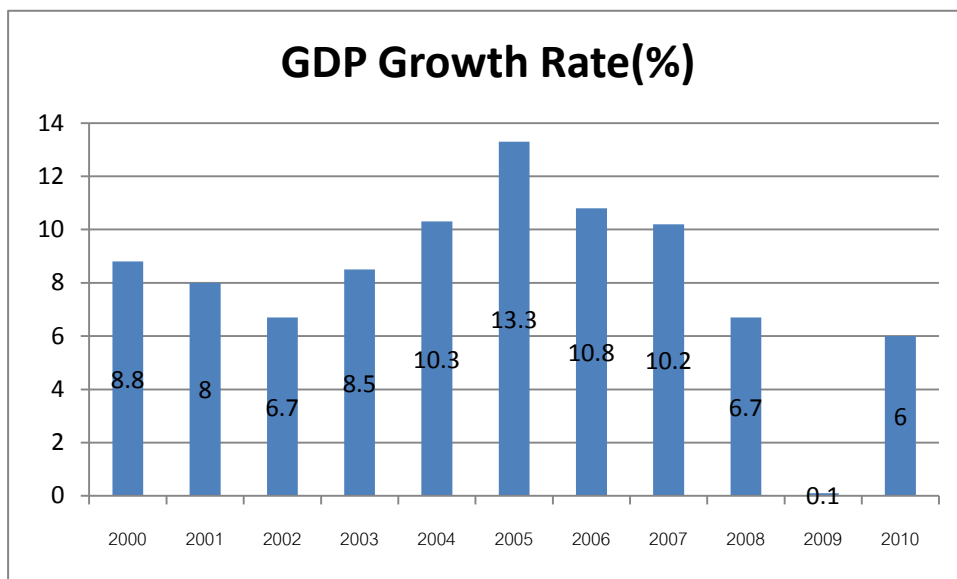
Figure 3.1 GDP per Capita of Cambodia form 2000-2010



Source: Modified by Author based on World Bank, 2012

GDP per capita in US dollar has steadily increased from 2000 to 2008. However, it decreased slightly in 2009 but went up gradually in 2010. GDP per capita in 2010 grows up to 26% from 632 US dollars in 2007.

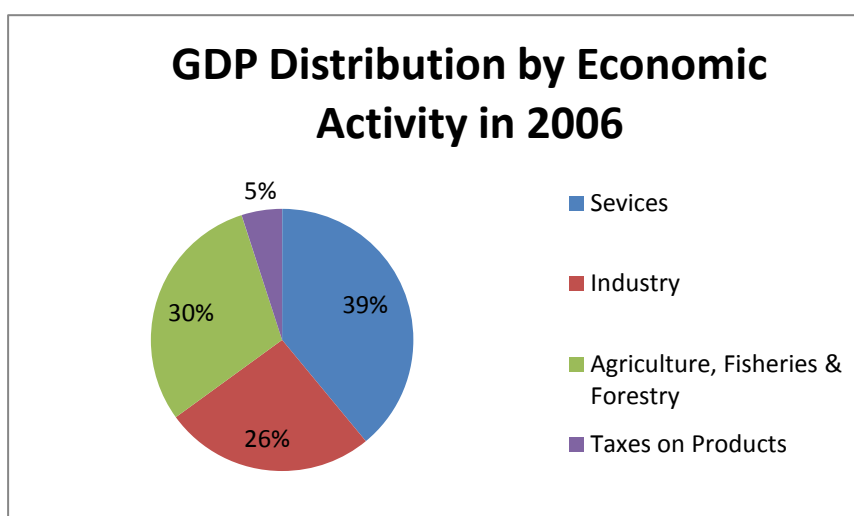
Figure 3.2 GDP Growth of Cambodia from 2000-2010



Source: Modified by Author based on World Bank, 2012

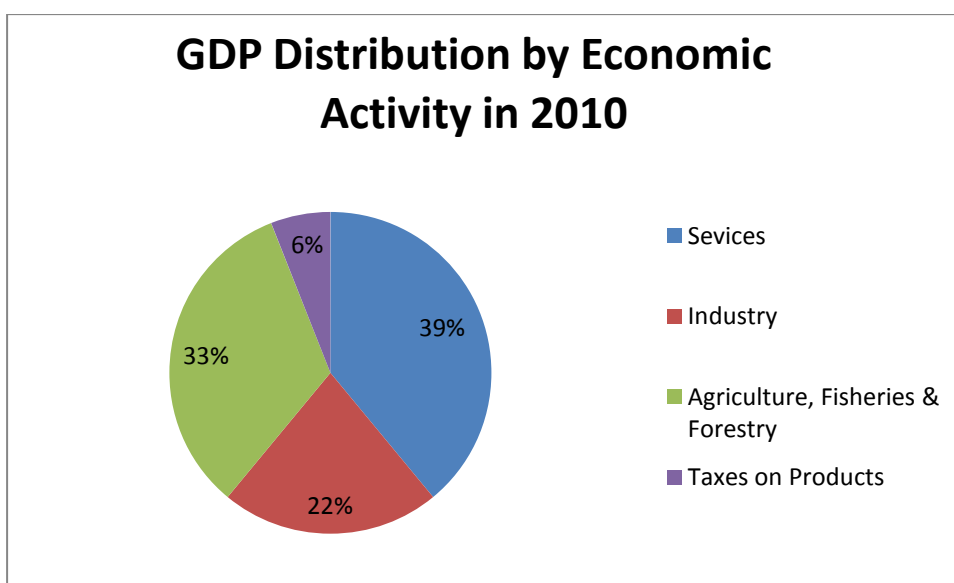
GDP growth from 2004 to 2008 in average is 10.3%. The GDP growth in 2005 has the highest peak rate with growth of 13.3% (See Figure 3.2). According to Peter Brimble, deputy Director of ADB, Cambodian GDP growth rate can increase from 6% to 7% for the next five years (Radio Free Asia, 2012).

Figure 3.3 GDP Distribution by economic activity 2006



Source: CDC, 2010

Figure 3.4 GDP Distribution by economic activity 2010



Source: CDC, 2010

The composition of GDP by industries shows between 2006 and 2010 the ratio of industry dropped from 26% to 22% while the ratio of Agriculture, Forestry and Fisheries increased from 30% to 33%. Furthermore, Agriculture, fisheries and forestry remain the biggest economic activities in the country while the services have grown slightly.

3.3 Relations with ASEAN+3

3.3.1 Cambodia and ASEAN+3

The Association of Southeast Asian Nations (ASEAN) was created on 8 August 1967. There are 10 countries including Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam. The Secretariat of ASEAN is based in Jakarta, Indonesia. Cambodia became the member of ASEAN in 1999. In 2012, Cambodia is the Chairman of ASEAN (Aseansec.org, 2009).

TABLE 3.2 ASEAN Trade by Cambodia, 2009

	Value of Trade(in US\$ Thousand)		
	Export from ASEAN	Import by ASEAN	Total Trade
Cambodia	3,803,246.70	714,968.10	4,518,214.80

Source: Modified by Author based Aseansec.org

The table shows that Cambodia imported more than export, and the total trade is US \$ 4,518,214,800 in 2009. Cambodia exported to ASEAN in the amount of US \$ 714,968,100 while Cambodia imported from ASEAN about US \$ 3,803,246,700.

Due to Dr. CHAM Prasidh, Minister of Commerce, trade between Cambodia and ASEAN is very strong with the account of approximately 75% of total Cambodian foreign trade. The members of ASEAN namely Malaysia, Singapore, Thailand and Vietnam have the bigger trade with Cambodia (Ministry of Commerce, 2012). The major importing partners of Cambodia in ASEAN are Thailand 26.8%, Vietnam 19% and Singapore 6.9% (Invest in Cambodia, 2010) According to China Daily, 2011, trade between Cambodia and Thailand went up 8 percent in the first eight months of 2011 to \$1.93 billion. In 2010, trade between Cambodia and Vietnam increased up to 130% just the first quarter of the year with the value of US\$432 million (Vietnam Briefing, 2010).

3.3.2 Cambodia and East Asian Countries

3.3.2.1 Cambodia and South Korea

Relations

South Korea-Cambodia has had the diplomatic relations since July 1970. However, the relation was broken due to the political and security reason. In 1997, diplomatic relations have been reestablished. Cambodia and South Korea have cooperated in many fields such as FDI, Information communication technology, tourism, Cultural exchange, financial service, air service and vocational training (Sotharith, 2010). In 2006, President of the Republic of Korea, visited Cambodia and held Summit Meeting with Cambodian Prime Minister, Hun Sen and met some senior leaders of Cambodia. Besides, President Roh Moo-hyun and his wife presided over the Inauguration Ceremony of Angkor-Geongju World Culture Expo 2006 in Siem

Reap, and attended the Cambodia-ROK Business Luncheon, and visited the National Information Technology Development Authority (NIDA) (Ministry of Foreign Affairs and International Cooperation, 2006).

Trade

The bilateral relations have increased the volume of trade up to US \$ 236 million in 2008 while just US \$ 77 million in 2000. However, Cambodia exported only US \$ 7.3 million to South Korea while South Korea exported back to Cambodia with the amount of US \$ 229million in 2008. The main products Cambodia imported from South Korea were electronics, machinery, used car and household utensils (Sotharith, 2010)

The table below present the current trade volume between Cambodia and South Korea from 2010-2012.

Table 3.3 Trade Statistics between Cambodia and South Korea: Unit in USD Million

	2010	2011	2012(Jan-FEB)
Export	43	87	19
Import	333	451	82
Total trade	376	538	101

Source: Modified by Author based on ASEANKOREA, 2012

Due to the table, the trade between two countries keeps increasing from 2010-2011. By February 2012, total trade volume is US 101million dollars and Cambodia remains to have the huge trade deficit with South Korea.

Official Development Assistance

ASEAN received about 25 percent of Korea's total ODA disbursement (Hyunsuk and Hyuk-Sang, 2010). In 2008, Cambodia was Korea's the second biggest recipient who received \$ 1.3 million of grant. ODA from South Korea to Cambodia started in 2001 and the main projects are road constructions, irrigation dams, a wastewater treatment plant and construction of Cambodia-South Korea cooperation center. In June, 2009 Cambodian Premier Hun Sen and President Lee Myung-Bak agreed on signings their economic ties following the number of deals on aid and joint economic projects (Sotharith, 2010). In addition, South Korea has provided aid and loans about US\$265 million from 2001 to 2009 (China Daily, 2010).

In 2003, Korea international Cooperation Agency office was created. KOICA objectives are to support sustainable economic and social development in partner countries to achieve the Millennium Development Goals, and strengthen humanitarian relief and human security- Korean Government's Official Organization for the Grant Aid and Technical Cooperation Programs. By 2009, total South Korean assistance to Cambodia is 52.7 US \$ million (KOICA Cambodia Office, 2009).

Table3.4 South Korea Assistance to Cambodia

Year	1991-2004	2005	2006	2007	2008	2009	Total
Budget(Million)	11.9	5.8	6.8	9.6	12.6	6.2(plan)	52.7

Source: KOICA Cambodia, 2009

3.3.2.2 Cambodia and China

Relations

Sino-Cambodia has had the diplomatic relations since July 19, 1958. The bilateral relations have become closer due to the frequent exchange of visits between the leaders of two countries. In 2000, the first Chinese head of state, President Jiang Zemin visited Cambodia following the National People's Congress chairman Li in 2001 and Prime Minister Zhu Rongji in 2002. Meanwhile, Cambodian Premier Hun Sen has made frequent visit to China since 1997 and got many bilateral agreements and huge amount of aid and investment (Sotharith, 2010). Furthermore, the two countries also promoted young generation leaders in bringing friendship and bilateral cooperation between China and Cambodia during the 50th anniversary diplomatic ties. Moreover, they also have good cooperation in military forces (Vannarith, 2009).

Trade

The volume of trade between two countries has improved from US \$ 223million in 2000 to US \$ 946 million in 2008. However, in 2008, Cambodia exported only US \$ 12.9 million to China while China exported to Cambodia US \$933.4million.

Table 3.5 Cambodia-China Trade Statistics: Unit US \$

	2000	2008
Export	59,490,000	12,930,968
Import	164,060,000	933,435,813
Total trade	223,550,000	946,366,781

Source: Sotharith, 2010

Products that China exports to Cambodia the most are machinery, garment raw materials, foodstuff, electronics, furniture, light products, medicines and cosmetics while products Cambodia imports to China are agricultural rubbers, fish, timbers, products, some garments and textiles (People Daily, 2011).

Official Development Assistance

According to Chanboreth & Hach (2008) China provided aid to Cambodia mainly the energy sector and transportation. In other words, those developments are government-related activities. The significant assistance projects are rehabilitation of national road number 8, the design of construction of national road 62, the construction of building for the councils of Ministers, the repair and construction of the library of the Senate, conduct of a new study of railway line, and provision of computer and other equipment for electric library of royal academy of Cambodia. From 2000 to 2009, China has provided the grant to Cambodia in the amount of US \$ 204.4 million. In additions, China gave the free interest loan of US \$74.8 million to finance the construction of road number 78 (Sotharith, 2010).

3.3.2.3 Cambodia and Japan

Relations

The relations between two countries began in 1953. Since 1990s, the diplomatic ties have been stronger. The policy of Japan to Cambodia is peace and happiness through economic prosperity and democracy. In addition, Japan has supported Cambodia in various areas especially peace building, conflict resolution, and national reconstruction. The leaders of the two countries often made official visits in which they call relation ties as “heart to heart” relations based on trust and sincerity of the two countries (Vannarith, 2009).

Trade

Table 3.6 Cambodia-Japan Trade Statistics: Unit US \$

	2000	2008
Export	10,731,160	32,140,767
Import	58,273,983	114,131,969
Total trade	69,005,143	146,272,736

Source: Sotharith, 2010

The volume of trade between two countries has improved from US \$ 69million in 2000 to US \$ 146 million in 2008. However, Cambodia exported only US \$ 32.1 million to Japan while Japan exported back to Cambodia with the amount of US \$ 114.million in 2008. Due to Ministry of Foreign Affairs of Japan, total trade

between Japan and Cambodia is 28.8 Billion Yen in 2009. Cambodia keeps having the huge trade deficit with Japan.

Official Development Assistance

The value of aid amount of Japan is the biggest compared to other donor countries. Japanese ODA to Cambodia focuses mainly on infrastructure development demining, peace building, public institutional strengthening, and human resources development (Vannarith, 2009). Japan provided the assistance from 1992 to 2010 about 1,760.22 million US. Moreover, the number of grant aids has been more than 30 projects (Embassy of Japan in Cambodia, 2011).

CHAPTER IV

FDI IN CAMBODIA AND CHARACTERISTICS OF SOUTH KOREAN FDI

4.1 FDI in Cambodia

4.1.1 Overview of FDI before 1994

Table 4.1 Investment by Country 1989-1993

Country	Total(1989-93)	
	Company	Project
Local Investors	98	111
Thailand	88	125
Hong Kong	55	75
Singapore	66	76
France	53	62
Malaysia	43	43
USA	23	29
Taiwan	16	22
Australia	17	18
Hungary	5	8
China	8	9
Others	66	81
Total	538	659

Source: Modified by Author based on Kuyly, 1998 page 65

From 1989 to 1993, the total number of companies invested in Cambodia was 538 with 659 projects. The leading investors were from Thailand, Hong Kong and Singapore; 88 companies and 125 projects; 55 companies and 75 projects; and 66 companies and 76 projects respectively. In terms of number of projects, Thailand was the biggest one with about 19% of total projects and overtook even the local investors in Cambodia.

Table 4.2 Foreign Investment Projects and Registered Capital by Sector (1989-1993)

Sector	Total(1989-93)		
	Company	Project	Capital(US \$ 1,000)
Industry	117	204	60,479
Agriculture	29	29	4,100
Commerce	13	17	10,000
Banking	47	49	85,000
Finance	6	6	-
Tourism and Aviation	96	110	91,300
Construction & Pub. Work	110	110	40,810
Real Estate	11	12	8,000
Health	6	6	50
Culture & Information	16	17	2,170
Other Services	25	27	8,900
Register Office	72	72	118,936
Total	548	659	429,745

Source: Modified by Author based on Kuyly, 1998 page 66

The table shows that industry had the most projects, 204 of 659 projects compared to other sectors from 1989-1993 followed by tourism & Aviation, and Construction & Public work with 110 projects each.

The industrial projects together with tourism & Aviation, and Construction & Public work account for more than 50 % of total projects. Finance and Health had fewer projects if compared to other projects. Total registered capital was US\$ 429.745 million. Register office had the biggest capital of US \$118.936 million followed by Commerce, and Construction & Public work.

4.1.2 Overview of FDI after 1993

4.1.2.1 FDI Capital from 1994-2010

The leading foreign investors in Cambodia are China, South Korea, Malaysia, USA and Thailand. From 1994-2005, Malaysia was the biggest investment source in Cambodia with 1.929 billion US dollar about 22% of total capital investment followed by China and South Korea. According to CDC 2010, China is the largest investor with total capital of 8.216 billion US dollars followed by South Korea with a cumulative total of 4.416 billion US dollars in investment from 1994-2010. Total capital investment from China and South Korea accounts for 36% of total capital investment in Cambodia.

Table 4.3 Trend of Approved Investment by Country (1994 – 2010)

Country	1994-2005		1994-2010	
	Million USD	Rank	Million USD	Rank
Cambodia	2,367		13,789	
China	1,267	2	8,246	1
South Korea	832	3	4,416	2
Malaysia	1,929	1	2,300	3
USA	460	5	1,196	4
Thailand	299	6	798	5
Vietnam	38	11	746	6
Russia	2	13	622	7
Singapore	260	7	621	8
Taiwan	539	4	580	9
Japan	22	12	117	14
Others	557		1,625	
Total	8,572		35,056	

Source: Modified by Author based on CDC, 2010

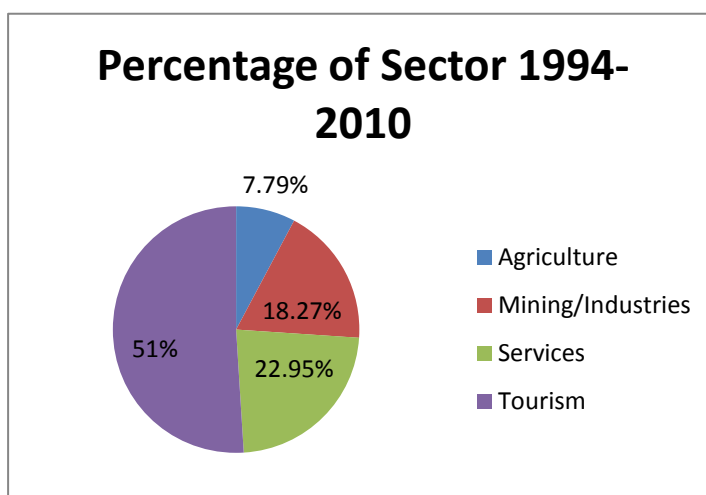
Note: official FDI figures are based on approved investment. Actual investment may be only a small part of the approved amount. QIPs: Qualified Investment Projects,

PMIS: Provincial-Municipal Investment Sub-Committee, CIB: Cambodian Investment Board

The annual average of the fixed asset investment amount approved by the CIB in twelve years from 1994 to 2005 was 710 million dollars and, compared to five years (2006 to 2010), such average amount is about 7.5 times larger as 5.3 billion dollars. From 1994 to the end of 2010, the cumulative investment approved by CIB is 35.056 billion dollars. However the quoted figures do not include QIPs locating in the SEZ, including the SEZ development projects, QIPs that the PMIS approved (Less than 2 million USD) and Non-QIPs that have been registered with Ministry of Commerce. Due to Phnom Penh Securities PLC 2011, the total projects are 1,649 from 1994-210.

4.1.2.2 FDI by sector from 1994-2010

Figure4.1 Percentage of Sector 1994-2010



Source: CDC, 2010

Tourism attracts the most FDI investment with more than 50% followed by Services, Mining/Industries, and Agriculture. Therefore, Tourism plays a significant

role in Cambodian investment. Furthermore, Services are smaller than 2 times as Tourism while Mining/Industries are about fewer 3 times as Tourism.

4.1.3 Summary of Foreign investment from 1989-2010

Due to table 4.4, the leading investors in Cambodia has shifted from time to time. Thailand was the dominant foreign investors from 1989-1993 whereas Malaysia was the investor leader between 1994-2005. However, China has overtaken Thailand and Malaysia from 2006-2010.

Table 4.4 List of Top foreign investment source 1989-2010

Year	Top Foreign Investment source
1989-1993	Thailand
1994-2005	Malaysia
2006-2010	China

Source: Modified by Author based on Keo, 1998 & CDC, 2010

Table 4.5 List of total Capital investment from 1989-2010

Year	Total capital investment (Million)
1989-1993	429.7
1994-2005	8,572
2006-2010	26,484

Source: Modified by Author based on Keo, 1998 & CDC, 2010

The table 4.5 presents the overall capital investment from time series. It shows that total capital investment between 1994 and 2005 increased up to 20 times

compared to that from 1989-1993. Meanwhile, the total capital investment between 2006 and 2010 is about as 3 times larger as that from 1994-2005.

4.1.4 FDI from East Asia

4.1.4.1 Number of projects

Table4.6 Number of projects of China, South Korea and Japan FDI by June 2009

Country	Year	Number of Projects
China	1994-June 2009	326
South Korea	1994-June 2009	106
Japan	1995-June 2009	22

Source: Modified by Author based on Sothairth, 2010

China had the most projects with 326 compared to South Korea just 106 and Japan 22, about 3 times and 15 times respectively fewer as China.

Table4.7 The capital investment of East Asian countries from1994-2010.Unit:\$

Million

Year	1994-2005	2006	2007	2008	2009	2010	1994-2010
China	1,262	274	462	4,484	930	829	8,246
South Korea	832	1,010	153	1,238	120	1,063	4,426
Japan	22	0	82	8	5	0	117

Source: Modified by Author based on CDC, 2010

The overall Capital Investment of China from 1994-2010 is US \$ 8,246 million, about twice bigger than South Korea while Japan capital investment is just 117 US \$ Million, about 40 times fewer as South Korea.

Due to Kimsun and Socheth (2009) China is the biggest investor in Cambodia. The top Chinese investments in Cambodia are Garment, Agriculture and Agro Industry, Hydropower, and Mining, Oil and Gas.

According to Mr. Lee Gwang-Ho, Director of Korea Trade-Investment Promotion Agency(KOTRA), South Korean investors invest in real estate(52%), construction(21%), the production sector(7%), the mineral sector(3%), tourism(3%), banking(3%), services(3%), agriculture(3%), technical services(2%), and telecommunication(1%) (The Mirror, 2010).

Surprisingly, Japan is the biggest donor in Cambodia. However, Japan FDI in Cambodia is relatively small compared to China and South Korea. According to Sotharith (2010) the reasons that Japan does not invest much in Cambodia are lack of public utilities and infrastructure, and the market demand. Due to Dr. Sok Touch, Independent economist said that the rule of law and management system are the main concerned problem for Japanese FDI to invest in Cambodia and Cambodia should create the court of commerce as well to comfort and attract more foreign investors (Radio Free Asia, 2012.). According to Director of Amco Hyundai based in Cambodia, Kim Song Soo explained that Japanese want to invest in the country where the invest climate is good and more protective regardless of the expectation of high return but in a secure way. Unlike Japan, South Korea and China like to invest the country where they can get high return even though they may face the high risk during the investment. Director Kim also believes that the next 5 years more Japanese

investors will be keen on investing in Cambodia (Director Kim Song Soo, Interview, December 14, 2011 by Author).

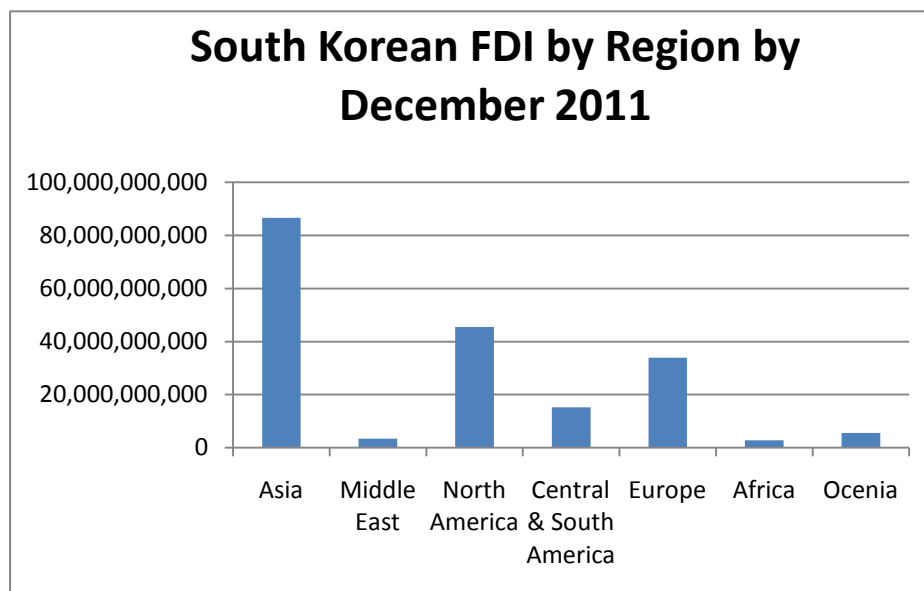
4.2 Characteristics of South Korean FDI in the world

4.2.1 Introduction

South Korea has been one of the biggest FDI resources in Asia. However, the Asia crisis 1997 affected the trends of South Korean FDI outward. As a result, South Korean investors decided to withdraw their investments abroad which results from the devaluation and falling price of currency won in South Korea. In spite of the effect of this crisis, South Korean outflow FDI started to bounce back in 2002 again (Ryong Y., 2007).

4.2.2 South Korean FDI by region

Figure 4.2: South Korean FDI by region



Source: Modified by Author based on Korea Export-Import Bank, 2012

In 2011, South Korea has so far invested in Asia \$86.5 billion, North America \$45.5 billion, and Europe \$33.9 billion followed by Middle East \$3.3 billion, Central & South America \$15.1 billion, Africa \$2.7 billion and Oceania \$5.6 billion. Three regions

(Asia, North America and Europe) accounted for 86.03 % of the total investment in 2011. Asia alone occupied about 44.8 %, nearly half of the total investment (see figure 4.2).

4.2.3 South Korean FDI in Asia

Table4.8 Major Destination of South Korean FDI in Asia by December 2011

Country	Amount(\$ thousand)
China	36,793,637
Hong Kong	12,483,143
Vietnam	7,517,050
Indonesia	5,705,536
Singapore	4,348,810
Japan	3,726,287
Malaysia	3,072,304
India	2,443,433
Cambodia	1,789,516
Thailand	1,765,328

Source: Modified by Author based on Korea Export-Import Bank, 2012

Note: The investment amount here is Actual investment amount.

By 2011, the total investment of South Korea in Asia amounted to \$86.5 billion. China is the biggest South Korean investment partner in Asia followed by Hong Kong and Vietnam. In addition, South Korean FDI outflow to Vietnam more than any other counties in Southeast Asia with 7.51 billion followed by Indonesia US\$ 5.70 billion ; Singapore \$4.34 billion; Malaysia, \$3.07 billion; Cambodia \$1.78 billion; and Thailand\$ 1.76 billion.

4.2.4 Motivation of South Korean FDI

Table 4.9 Motivation of South Korean FDI by period (percent)

Year	1968- 1993	1994- 1996	1997- 2001	After 2002
Securing or developing local or third- country markets	28.9	50.2	52.4	47.1
Utilizing local labor costs	14.7	37.2	30.3	38.5
Avoiding trade barriers	1.7	2.5	2.3	3.1
Securing raw materials	3.8	4.8	3.9	4.4
Acquiring advanced technology or management know-how	1.1	2.6	7.7	4.1
Developing natural resources	49.9	2.7	3.3	2.8

Source: The Export-Import Bank of Korea (2004). Lee, S-B. (2006) cited in (Deok, 2007) (the research of the Korea Export-Import Bank (2004) analyzing 318 Korean FDI projects of large companies)

According to table 4.9, securing or developing local market or third country markets is the main motivation for South Korean outward FDI after 2002 followed by the labor cost. However, the motivation for investment is various due to the different industries. South Korea may favor some Southeast Asian countries and China in manufacturing sector such as clothing and textile industries (Ryong Y., 2007).

Moon (2007) cited in KEE, R. & Min, K., 2009 finds out that factors affecting South Korean outflow FDI have been market saturation, cost of labor, cost

disadvantage and challenges. South Korean firms come to invest in Asia to seek for cheap labor cost to make less production cost (MOCIE 2002 cited in KEE, R. and Min, K., 2009). Differently, South Korean firms go to Europe and North America to get either market or asset strategies.

CHAPTER V

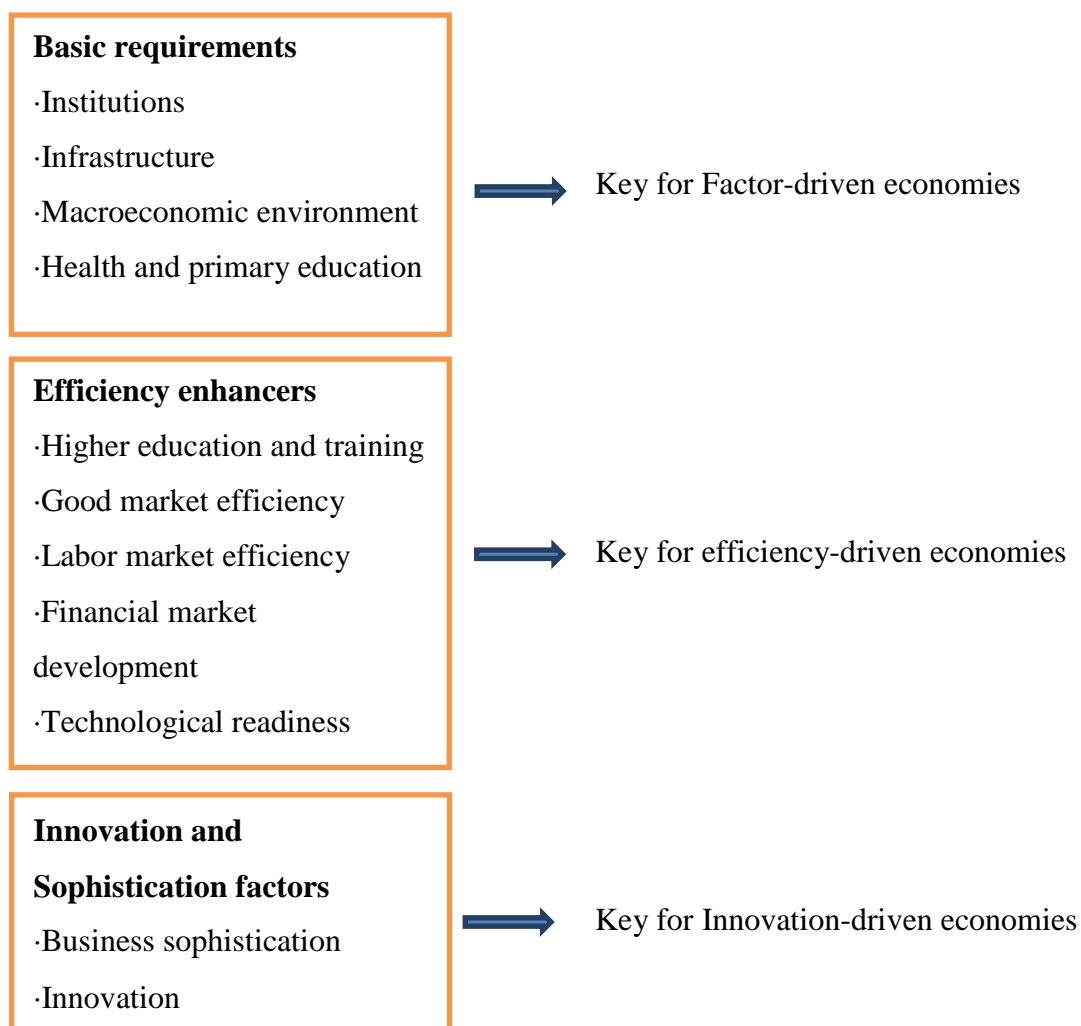
COMPETITIVENESS OF CAMBODIA AND CONSTRUCTION INDUSTRY

5.1 Competitiveness of Cambodia compared to ASEAN members

5.1.1 Introduction

Global Competitiveness index is the measurement of competitiveness. There are 12 pillars of economic competitiveness. There are three stages of development, and each stage determines the level of competitiveness of those countries.

Figure 5.1: The 12 pillars of competitiveness



Source: World Economic Forum, 2011

5.1.2 Competitiveness and Stage of Development

Table 5.1 Competitiveness of Cambodia compared to ASEAN nations.

Country	Rank	Basic Requirements	Efficiency Enforcers	Innovation and Sophistication factors
Brunei Darussalam	28	20	67	72
Cambodia	109	113	103	106
Indonesia	44	60	51	37
Malaysia	26	33	24	25
Philippines	85	99	78	75
Singapore	3	3	1	10
Thailand	38	48	39	49
Vietnam	59	74	57	53

Source: Modified by Author based on World Economic Forum, 2011

Cambodia ranked 109th among 139 countries around the world. Compared to ASEAN countries, Cambodia is still much left behind the countries such as Singapore, Malaysia, Thailand, Brunei Darussalam and Indonesia. Singapore ranked higher than all the countries in South East Asia in terms of pillars of competitiveness while Cambodia ranked lower than those in ASEAN. Moreover, Singapore ranked number 1 for efficiency enforcers. This implies that Singapore has the best higher education, market efficiency and financial development. Although Brunei Darussalam ranked 28th but their business sophistication and innovation are less competitive than those of Indonesia, Thailand, and Vietnam which has the lower rank than Brunei Darussalam in terms of overall competitiveness.

Table 5.2 List of ASEAN countries at each stage of development.

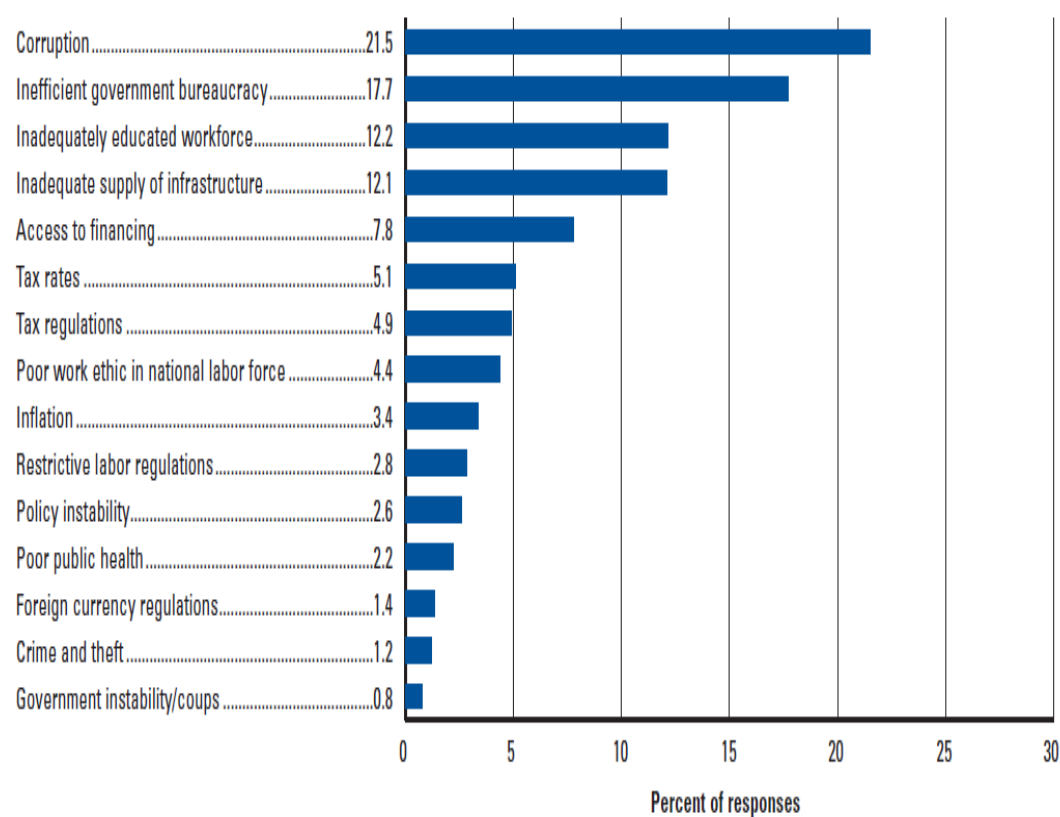
Stage 1	Transition from 1 -2	Stage 2	Transition from 2-3	Stage 3
Cambodia	Brunei Darussalam	Thailand		Singapore
Philippines	Indonesia	Malaysia		
Vietnam				

Source: Modified by Author World Economic Forum, 2011

Cambodia, Philippines and Vietnam are in the first stage of development. This means these three countries are factor driven economies while Brunei Darussalam and Indonesia are in the transition from 1 to 2. In stage 2, there are Thailand and Malaysia. Therefore these two countries are efficiency driven. In addition, there are no countries in ASEAN in the transition from 2-3. Unlike other countries in ASEAN, Singapore is the only country in the stage 3 which is Innovation driven. This means Singapore is more advanced than any countries in ASEAN.

Figure 5.2: Problematic factors for doing business in Cambodia

The most problematic factors for doing business



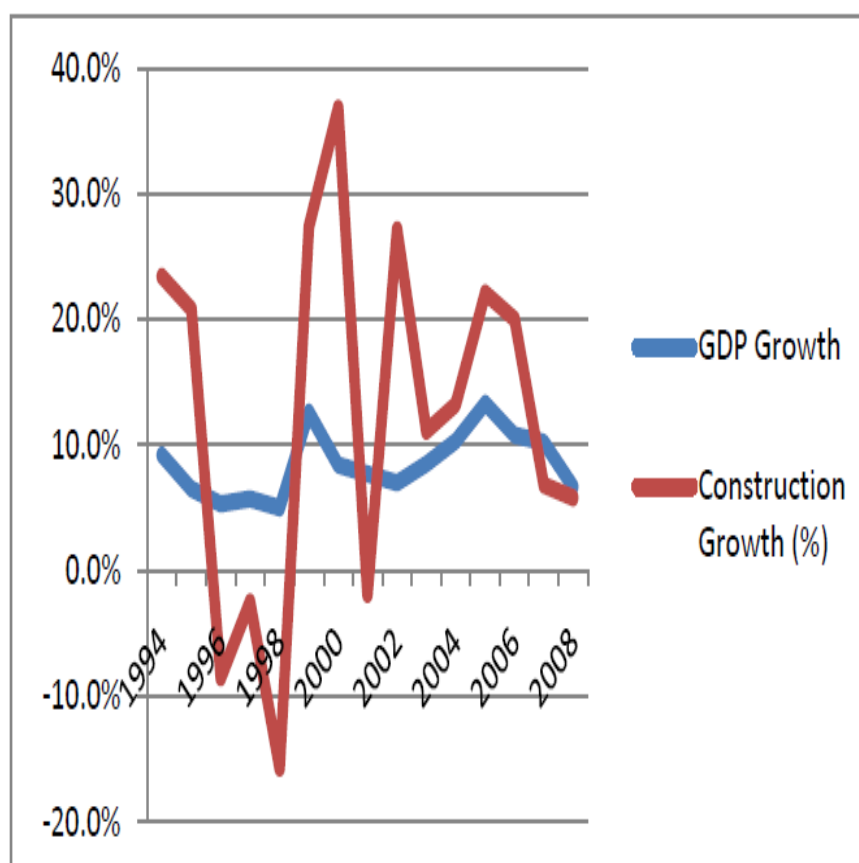
Source: World Economic Forum, 2011

The figure shows that the most problematic for doing business are corruption followed by inefficiency government bureaucracy, inadequately educated workforce, and inadequate supply of infrastructure while government instability was least problematic for doing business as well as crime and theft, and foreign currency regulation.

5.2 Cambodian Construction industry

5.2.1 Overview of Construction industry in Cambodia

Figure 5.3 CAMBODIA: Construction and GDP (1994-2008)



Source: Carmel V. Abao, 2009

Table 5.6 GDP Growth Rate Construction, 2005-2010(%)

Year	2005	2006	2007	2008	2009	2010
Construction	22.1	20	6.7	5.8	3.7	0.1

Source: Modified by Author based on Council for Development of Cambodia, 2010

Cambodia has enjoyed the high economic growth rate from 1994-2008. In spite of 1997 Asian financial crisis, Cambodian growth rate in 1999 was 12.6% which was even higher than the pre-crisis high of 9.2% in 1994. Over the past decade, the country's growth rate remained very steady ranging from 7% to 13.3 %. However, in 2008, the country's growth rate dipped to 6.5 % from 10.2% in 2007 due to by global downtown, the political issues of neighboring Thailand, and the upsurge in food and oil prices(Carmel V. Abao,2009). In addition, the World bank and IMF is now predicting that Cambodia's growth rate will grow the average of 6.6% from 2011-2015(Phnom Penh Securities PLC, 2011).

The performance of the construction industry of Cambodia has been highly erratic. In 1998, one year after Asian financial crisis, the industry made a very low negative growth rate of 15.7 %. Amazingly, it recovered quickly to 36.8 percent in 2000. Again, the trend went down again to -1.9 % in 2001. In 2002, the construction industry increased sharply again with a 27.1 %. From 2002 upwards the performance of construction industry has been positive growth (Carmel V. Abao, 2009).Nevertheless, the industry dropped again in 2008 when growth fell to 5.8 % from 6.8 % in 2007. In 2010, the industry decreased sharply just 0.1% while 3.7% in 2009(see table 5.6).However, between 2012 and 2015 the construction industry will increase at the average growth rate of 11.3% per year(Cambodia Business Review, 2012). The growth of the construction industry come from the ongoing construction projects namely statelite city construction, tourism development site, and public construction site (Ministry of Economic and Finance, 2010).

5.2.2 Construction Industry in detail

South Korea is the leader in construction industry for foreign investor in terms of number of companies followed by China, Thailand and Malaysia. South Korean Companies alone account for 40.86% (see table 5.7). Nevertheless, competitors in construction industry can be categorized by country or by firm in specific investment.

Table 5.4 Ranks of Foreign registered Design Companies and Construction Companies from 2000-2011 in Cambodia

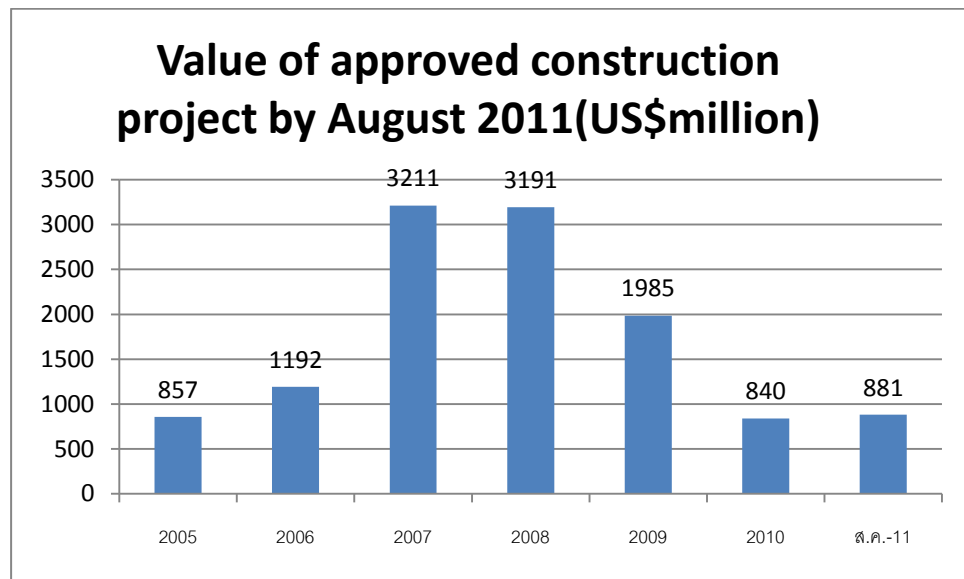
Country	Rank	Number of companies
South Korea	1	94
China	2	48
Thailand	3	19
Malaysia	4	15
Japan	5	14
Vietnam	6	9
Singapore	7	7
USA	7	7
UK	8	6
France	9	4
Indonesia	10	3
Others		4
Total		230

Source: Ministry of Land Management Urban Planning and construction, 2011

In order to look deeply into the construction industry in Cambodia, the detailed description should be addressed on Public Investment in Infrastructure, Cambodia Special Economic Zones, Significant Investment in developing new city, , House Builders and Import of Construction Materials (Phnom Penh Securities Plc, 2011).

Construction industry in Cambodia has closely associated with real estate development. In mid-2008, property prices skyrocketed by as much as 100% on prices the year before. The price resulted in increased input costs and labor cost. Due to global recession later, prices finally went down by as much as 25%, other estimate put it between 30% and 40% (Invest in Cambodia, 2010), and sales have reportedly gone down between 50% and 80%. In addition, construction projects in the country have also been connected by foreign finance which led the construction sector to the crisis. Moreover, foreign investors decided to delay or cancel their investments in the country. Consequently, some mega projects have been cancelled, notable among which were Korean-financed projects because of the depreciation of the Korean won and the liquidity crunch in parent companies (Chan Hang et al., 2009).

Figure 5.4 Value of approved construction project by August 2011 (US\$ million)



Source: Phnom Penh post, January 26, 2011 & Xinhua, October 6, 2011

The largest project in the Cambodian construction industry was between 2007 and 2008 before the global recession. In 2009, the trend still dropped dramatically till 2010. However, by August 2011, the first 8 months the value of approved construction has surpassed that in 2010.

CHAPTER VI

RESULT AND CONCLUSION

6.1 South Korean Construction Companies on Services and Property Investment (Nine- Factor Model 1994 by Dong Sung Cho as country level)

Since Vietnam is the biggest investment destination of South Korean investors in South East Asia, and the labor cost is cheap, it is fit to compare to Cambodia.

1. Endowed Resources

Cambodia

Cambodia has diverse natural resources including iron, timber ore, gas, manganese, oil, phosphates, hydropower Potential. Minerals recently extracted in Cambodia are gemstones, goal, marble, granite, sand, limestone and salt. The availability of coal reserves in Cambodia has become the subject of speculation. Coal has been explored at two sites in northern Cambodia, with estimated resources of 34 million tonnes and 120 million tonnes respectively. The coal in Cambodia is similar to that mined in Thailand, which is 3,000Kcal and suitable for boiler or klin fuel(Invest in Cambodia, 2010).

Vietnam

Based on the exploration, Vietnam may contain crude oil reserves about 270 million tons in the southern offshore, and it seem to increase dramatically. For non-associated gas reserves, Vietnam consists of more than 360 billion cubic meters while 57 billion cubic meters of associated gas reserves is ordered. The primary coal resource in Vietnam is anthracite located in Quang Ninh where it can recover the reserves of 7-8 billion tons. Furthermore, Vietnam also has plenty minerals including

ore, copper, bauxite, tin, chromate, iron, gold, precious stones, apatite, and building materials (Vietnam-ustrade, 2008)

2. Business Environment

Cambodia

Cambodia's Openness of the economy ranks 102nd in the world and 17th in 41 countries in the Asia–Pacific region (Heritage Foundation Index of Economic Freedom, 2012). In terms of the ease of doing business, Cambodia also ranked 138th among 183 countries in the world (The World Bank and International Finance Corporation, 2012). In Cambodia, long construction permits need 710 days to complete, while Thailand 15 days and Laos just 7 days). Therefore, it is very long compared to the neighboring countries (UNDP).

Cambodia is not a member of ASEAN Construction Federation.

Vietnam

Vietnam's Openness of the economy ranks 136th in the world and 29th in 41 countries in the Asia–Pacific region (Heritage Foundation Index of Economic Freedom, 2012). Of 183 countries Vietnam also ranks 98th on the ease of doing business (The World Bank and International Finance Corporation, 2012). In addition, long construction permits in Vietnam need 200 days to complete (UNDP).

Vietnam is one member of ASEAN Construction Federation (ACF). Members of ACF consist of Malaysia, Indonesia, the Philippines, Singapore, Thailand and Vietnam.

3. Related & Supporting Industries

Cambodia

Tourism is the major sector which increases investment in infrastructure. Moreover, royal government announced its plans to improve the development of the tourism industry with ambition of 6 million foreign visitors by 2020. Recently, Cambodia offers investors one of the most liberal investments regime and tax incentive scheme in Southeast Asia (Phnom Penh Securities PLC, 2011). Moreover, the introduction of the lease certificate has been remedied and the long term leases of up to 99 years. Interestingly, leases can be 100% held by foreigners (Invest in Cambodia, 2010). This makes the construction industry as well as the real estate more wide open to attract more foreign investments. Most Construction materials such as steel, cement, construction equipment imported (UNDP). Although Cambodia have cement factory, cement is still imported from neighboring countries. Due to flood crisis in Thailand, the cement price as well as the construction material has increased dramatically.

Vietnam

Large population in Vietnam makes the household demand in the country grow very high. According to Economy Watch (2010) by 2020 the construction plans in Vietnam will enlarge up to 30-32 million square meters of construction area in the whole country.

Most Construction materials are still imported outside the country. Due to Global Trade (2011), local products are used about 20 percent of the total building and construction market while imported products serve 80 percent. Because of the lack of advanced technology equipment to manufacture high end products, local

construction materials in Vietnam are not satisfied by local demand (Global Trade, 2011).

4. Domestic Demand

Cambodia

Market demand is fairly good due to immigration boom to the city. There are about 10,000 new families moving to capital city, Phnom Penh, every year in which the housing investments need to be created to fulfill this demand, according to Lao Tip Seiha, the director of the construction department (The Phnom Penh Post, 2011). However, the suppliers are more than demanders recently. Before mid-2008, the market demand is very good. Due to the effect of global crisis in 2008, some foreign investors decided to delay some projects, some companies went bankrupt, and the property price also dropped dramatically (Invest in 2010). Presently, the situation turns to be usual although it is still not as same as before. Between 2012 and 2015, The construction industry are predicted to increase at the average growth rate of 11.3% per year (Cambodia Business Review, 2012).

Vietnam

Market demand is good because the population continues to grow rapidly. Due to the census in 2009, housing demand was very high whereas 86.3 percent of the household was not permanent. Therefore, there will be more investors in construction industry in next five to ten years. Although the trend of households and offices increase sharply, the supply of houses is still more than the demands. Due to Vinaconex Xuan Mai Concrete and Construction JSC) there are only 325 houses having sold out while more than 2000 people coming to register for their investment. (VOV, 2011).

5. Worker

Cambodia

Cambodia has lowest Construction workers 'wages in ASEAN (\$4.5 per day) Compared to Thailand \$7 (UNDP). Moreover, aging people (15-64) is 62% of total population (CDC, 2011). Nevertheless, about 1.2 percent of the labor force had further their education after finish secondary education (U.S. Department of State, 2011). This shows the lack of qualified and skillful human resources.

Vietnam

The construction workers' wage in Vietnam is \$4.7 per day (UNDP, 2009). Also, the total labor force is 47.37 million in 2010 (Index Mundi). However, Shortage of skilled labor force is one of the obstacles for South Korean FDI outflows in Vietnam. In Vietnam, the labor getting trained consist of about 40 percent of total labor force whereas productivity of labor is about 42.2 percent of Thai labor and 17 percent of Malaysian workforce (Vietnam Chamber of Commerce and Industry, 2011)

6. Politicians and Bureaucrats

Cambodia

Political Stability is one of the main motivations for investors to invest in Cambodia (Sotharith, 2010). In addition, Cambodia is democratic country which is wide open to foreign investors. Furthermore, good diplomatic relationship between South Korea and Cambodia gives the positive symbol to South Korean Investment. However, rule of law and regulatory efficiency is not good (Heritage Economic Freedom, 2012).

Vietnam

Although Vietnam is a member of the World Trade Organization, the economy is centrally planned. In other words, government is fully associated with the activities of doing business, and most companies are run by the government with the support of government (Department of foreign Affair and International Trade in Canada, 2001). Nevertheless, the diplomatic relationship between South Korea and Vietnam become closer and better, and Vietnam is the biggest investment destination for South Korean investors in terms of Capital investment.

7. Entrepreneurs

Most South Korean investors face high risk by venturing the new business such as the satellite city, Finance complex, and skyscraper in both Cambodia and Vietnam. Moreover, most of their investments are associated with large capital investment.

8. Professional Managers and Engineers

In most South Korean companies, their professional managers are South Korean. Generally, they work hard and spend more time working in office. Since South Korean construction companies operate in Cambodia and Vietnam, those companies employ some engineers of the host countries. The highly skilled engineers, architects, electricians, welders, and carpenters in both Cambodia and Vietnam are still not skillful enough compared to those in South Korea. However, highly skillful labor in Cambodia is not as good as that in Vietnam. Most engineers and architects in Cambodia are foreigners from South Korea, Thailand or Viet Nam. (UNDP, 2009).

9. Chance, Events

Cambodia

Construction industry was severely affected by global crisis in 2008. In mid-2008, property prices skyrocketed by as much as 100% on prices the year before. The price resulted in increased input costs and labor cost. Due to global recession later, prices finally went down by as much as 25%, other estimate put it between 30% and 40% (Invest in Cambodia, 2010). Recently, the situation becomes normal even though it is not as good as before.

Vietnam

The construction industry was severely affected by the global crisis. To handle this effect, the government of Vietnam introduced a large project of US \$1 billion to improve the property market in 2009. The household in urban areas has dropped down by 30% and high buildings decreased by 20 to 30%, as same as the price of land plots and villas (Property Wire, 2008). However, the real estate market became stable and transparent for 2011 (VOV, 2011).

6.2 Porter's Five Forces Model as industry Level

The case study focuses private South Korean construction industry which is associated with general construction on developing new city, multi-storey tower, condominium, apartment complex, and rental offices based in Phnom Penh.

Rivalry within Construction industry

The competition in construction industry is challenging since there are several players in the industry. However, each company specializes in various investments. The leaders of South Korean Construction companies are Camko City, Phnom Penh Tower, Decastle, Gold Tower 42 and Posco E&C.

Threat of new entrants

There are high entry barriers for multi-storey builders and new city developers as South Korean companies since it needs a lot of capital investment while there are low entry barriers for house builders although the construction materials and labor cost get higher. Therefore, the thread of new entrants of South Korean companies is fairly moderate. However, more companies will enter construction industry because the new law regulation to foreign investors for leasing the property up to 99 years.

Bargaining Power of buyers

The power of buyers is strong because the supply is more than demand. Moreover, people in Cambodia cannot afford to buy the products of South Korean companies due to large capital investment. Before mid- 2008, the power of buyers was moderate because the demand had been on the rise. Recently, the products of South Korean companies is not so important as before since the buyers tend to compare as many products as possible before they invest.

Bargaining power of suppliers

The power of suppliers is weak because there are more suppliers than demanders. Moreover, the suppliers get few profits since labor cost and construction materials are higher. Although the land price is not as expensive as before, it remains high.

Threat of substitutes

The threat of substitutes to South Korean construction companies is strong. The substitutes are households provided by house builders namely Peng Hout and New world. Most customers tend to buy the flat or villa from those companies due to the low price compared to product price of South Korean companies. Moreover, more and more entrants in house builders since there are low entry barriers.

6.3 Opinion of South Korean Investors on Construction Sector

SWOT Analysis

Strength

Potential growth is the driving force to South Korean investors in Construction industry. South Korean investors expect that the positive growth in the country will make the performance of construction industry better because the construction sector depends on the health of economy. Moreover, they believe that in the next 5 to 10 years, the construction industry investment will develop and get bigger due to the economic development in the whole country. Meanwhile, Tourism is main actor in construction industry. The increase of number of tourists will make the hotel industry grow fast. When the hotel industry works well, the construction sector does well as well.

Cheap labor cost is good but not so important for South Korean investors due to the productivity of labor force. According to Director Kim Song Soo, labor force in Cambodia is about \$4 per day while South Korean labor cost is \$50 to \$60 per day. However, the productivity of Cambodian labor force is just 10% of that of South Korean.

Foreign Exchange rate is good compared to other countries. This is another positive factor for South Korean investors. In addition, there are no restrictions on the conversion of capital for foreign investors.

Incentive given by government is quite useful for South Korean construction companies although the foreign investors are allowed to control 100% of the shareholding without local participation requirement.

Weaknesses

Corruption is main obstacle for South Korean investors because they have to spend some money which is more than money approved in the law. Therefore, regulatory system in Cambodia is not good enough. Furthermore, unskillful Human resource is another obstacle for South Korean investment. South Korean investors address on productivity rather than labor cost. In additions, high electricity cost as well as oil price is relatively high compared to neighboring countries. Therefore, the production cost gets higher. This is the disadvantage for South Korean investors since they want to reduce the production cost. Although Cambodia has diverse natural resources, they are not yet to be able to use for construction materials. All construction materials need to import from neighboring countries and other countries.

Opportunity

Cambodia is more potential than neighboring countries due to the investment period. South Korean investors explained that stage of economic development in Cambodia has just started. Compared to Thailand and Vietnam, Cambodia still needs more development in the country. This is a good symbol for South Korean investors in Cambodia because they can access to the first market and their companies will be more competitive than the ones who have come to invest in Cambodia later. Moreover, high cheap labor cost in China in the future will shift the investments in China to the Southeast Asia. Since Cambodia is one of ASEAN nation members and the availability of cheap labor cost in the country, Cambodia will be the one of the best destination for South Korean investors as well as other foreign investors.

Threat

Global crisis in 2008 negatively affected Cambodia especially the construction sector because construction industry is closely related to economic growth in the

country. Therefore, economic growth plays an important role in construction industry performance. Due to the global economic downturn, some South Korean companies in the construction industry had to postpone their project, and some companies closed their business operation due to the financial problems. In other words, foreign finance liquidity from the bank abroad in which some South Korean companies need this capital investments for their business operation.

6.4 Conclusion

In conclusion, the major reasons that South Korean investors come to invest on construction sector are as follows:

First, South Korean investors are expected to economic growth of Cambodia in the next 5 to 10 years. When the economic growth is good, more and more investment will be created. This is a positive symbol for the construction industry. Second, South Korean investors give the priority to the first market to get the first market access to be more competitive than the rivalry. Third, South Korean investors are interested in the stage of economic development since Cambodia is in the Factor driven. This mean Cambodia needs more investment and development to be done compared to other countries. This is the golden chance to come to invest where the country have not been invested much. Lastly, cheap labor is quite important but not the main point for South Korean investment in the industry due to the productivity of the labor force.

Obstacles that South Korean investors face in construction industry are corruption unskillful human resources, health of Cambodian economy and imported construction material.

The Cambodian government should pay attention to the various factors to attract more foreign investors on construction sector. First, regulatory efficiency is not good enough to comfort the foreign investors. Construction permit procedure in Cambodia takes longer than neighboring countries. Therefore, the permit procedure needs to improve for construction sector investment. Furthermore, corruption is the main concerned problem for South Korean investors. The royal government of Cambodia should take action on the legal system to serve the better interest for both local and foreign investors. Without vocational training, the construction industry cannot improve the productivity of labor force. Consequently, Cambodia needs to be aware of quality of labor force. In spite of having cheap labor, most Cambodian workers in construction sector lack of skill and knowledge. The vocational training is needed to fulfill the productivity of workforce. Furthermore, nearly all construction materials and equipment are imported except the sand. Despite of having cement factory in Kompot, the supply volume is less than the demands. Therefore, the existence of having more cement factories is the most significant factor for Cambodian construction industry. The government should encourage more local industry as well as foreign investment on cement factory and construction materials by reducing imported construction materials.

Last but not least, the government needs to reform their economic policy to make the economy better to be away from the global crisis. The positive economic growth is the most important factors to drive the performance of construction industry since the construction sector is closely related to the growth of economy and the government's public spending

Cambodia will remain the good direction for South Korean investment in the future due to four reasons. Cheap labor cost in China will shift investments to

Southeast Asia. ASEAN will be more comparative advantages in term of labor cost as well as preferred location for foreign investments. Good economic and political relationship between two countries. Although Cambodia relations in the past was closer to North Korea than South Korea, the diplomatic relations between South Korea and Cambodia since late 1990s have remarkably increased in terms of diplomatic, economic and cultural relations. The Kingdom of Cambodia will be more attractive to foreign investors due to the period of development and the stage of development in which Cambodia needs a lot of investments to fill the economic growth. The market and the economy will be more wide open and more competitive when ASEAN Economic Community in 2015 exists.

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Appendix

(Law on Investment in 1994 of Cambodia)

-(Please see the attached file in CD-Rom)

Information on South Korean construction companies in Cambodia

- Camko City, the new satellite city covering 119-hectare development on the outskirts of Phnom Penh. The project capital is considered the biggest investment in Cambodia.

-Posco Star River: The US \$ 300 million project by Posco E &C began in 2009. The development consists of 1000 apartments in 3 apartment blocks. The project is expected to be completed in October 2013.

-Gold Tower 42 project. The project costs US\$240 million and is set to dominate the city skyline.

-Phnom Penh Tower: the 22-storey office development of Hyundai Amco Construction. The US \$34 million tower finished in 2011.

-Decastle Diamond: The De Castle Diamond condominium complex is open at the beginning of 2010. The project consists of 78 units and is the third project of De castle in Cambodia.

-PGCT center: the US\$ 9 million project in 2009, Cambodia Korea Phnom Penh Gyeongbuk culture, Tourist and Trade Promotion Center offering office space at 25\$ per square meter.

-International Finance Complex: South Korea's GS Engineering and Construction Co

Was planning to build 53-story international finance complex on 7-hectare of land next to Tonle bassac river. However, the project has been postponed

(Invest In Cambodia, 2010)

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