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Foreign Direct Investment in Cambodia: The case of General Electric. A secondary data research study

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Introduction

Cambodia, a country located on the Southern tip of Asia between Vietnam and Thailand, has been subject to incredible controversy and strife in the past century. However, in the past decade the nation has made incredible strides in their efforts to become an attractive option for foreign direct investment.

The political and economic instability that has plagued most of the history of Cambodia has caused most foreign countries to not consider it as an option for investment. Both the legal and the judicial system in Cambodia evolved from customary Asian origins infused with French influence due to their former role of protectorate of the nation. In the 1980's, neighboring communist Vietnam also influenced these systems, but more recently it is the returning expatriates that have had the greatest impression. The world typically accepts and acknowledges the fact that the legal and judicial systems within Cambodia face many challenges and are need of improvement (Invest in Cambodia).

The first step that the country made in order to make the country more attractive to foreign direct investment was their establishment of the Council for the Development of Cambodia (CDC) in 1994. This formal institution is responsible for overseeing the development and management of foreign direct investment. Policies have been adapted in the last ten years in order to allow investment in every sector of the economy excluding those relevant to national security. The council is able to accept or reject various investment proposals in some specific cases because it is an executive agency of the Government. They sanction licenses, tax exemptions, and various incentive packages.

As far as other geographic competitors for FDI, Cambodia proposes a clear advantage as far as corporate tax is concerned. While Indonesia imposes a tax between 15 and 30%, Malaysia 28%, the Philippines 32%, Singapore 22%, Thailand 30%, and Vietnam upwards of 25%, Cambodia on the other hand imposes only a 20% corporate tax. Yet another persuading factor is the country's recent membership into several accredited international organizations. The most notable memberships are to the World Trade Organization (1995), the International Monetary Fund, and Association of South East Asian Nations (1999). All of these associations establish more confidence in investment and in the overall stability of the country. One investor in the country Te Sigh, the Chief Operating Officer of Cambrew, Ltd. said, "Cambodia is a young market with great potential especially with the ASEAN Free Trade Area (AFTA) on its way. But the market needs time to develop and a number of difficulties that increase costs for investors need to be sorted out.

According to the United Nation's Investment Guide to Cambodia, the three most compelling reasons for investing in Cambodia are its location, open economy, and special assets (specifically its growing tourism sector and its labor market). There are still incredibly strong factors that sway investors away from doing business in Cambodia. By its nature as a Lesser Developed Country (LDC), the country does not have the stability that financiers seek. There is a lack of infrastructure, a very limited number of managerially skilled workers, and an epidemic of HIV/AIDs that also impacts the workforce.

Current FDI is largest in the textile market, and the greatest involvement is from China, Korea, Malaysia, and the United States. According to the Investment Information of Cambodia, "In order to attract FDI, the government has strengthened the country's legal framework, bolstered its institutions and liberalized the relevant regulations, in ways that are conducive to private sector investment and business activities in Cambodia". In the past decade the country's staggering growth rates have culminated international interest. It was also notable that the country did not feel immediate effects of the international economic crisis. It took months for the global recession to affect the financial sector of their economy, which is something that cannot be said of many other nations, including those much further developed than Cambodia.

Many sectors of the economy, both private and public, have become locations of recent investments. Most investment has been targeted towards tourism because it is seen as a market that has vast potential. General Electric, on the other hand is one of the first investors in the healthcare sector, and

its ventures have the potential to stimulate immense transformation in the company's structure and also in the entire country of Cambodia.

General Electric. Background

The existence of General Electric Company can be traced back to 1876 when Thomas Edison opened a laboratory in New Jersey and invented the incandescent electric lamp (GE). By 1890, Thomas Edison brought together several of his business interests under one corporation and named it Edison General Company. During that period, a competitor called the Thomas-Houston Electric Company emerged. As both companies expanded at the same time, it was difficult for both companies to dominate the electrical sector with their own patents and technologies. As a result, Thomas Edison brought together the two companies and founded the General Electric Company in 1892 (GE). Since then, General Electric Company has invented products and services such as dynamo (electrical generator), central power station, monogram, locomotives and etc. During the Great Depression, General Electric expanded its market segment and introduced the financial service sector offering its consumers ways to pay off new appliances and houses. Today, the financial services offer customers various approaches to invest, provide loans and financial programs and issue credit cards and consolidate debt. In 1998, General Electric extended its existing market and reached out to the health sector. The innovation of technologies such as Mammography, Fluoroscopy, Digital Radiography and X-rays has changed the healthcare systems in many countries around the world.

Today, General Electric Company continues to advance its technology and inventions in treating major diseases and problems such as breast cancer, heart diseases and stroke across the world. After more than 120 years, the inventive minds of General Electric Company continue to make great discoveries. Diagnosis of cancer, space station and LED lights are just a few that the company has been working on for the past few years. Today, the company carries on the idea of Thomas Edison as he once said, "I never perfected an invention that I did not think about in terms of the service it might give others...I find out what the world needs, then I proceed to invent"(GE). Continuously, General Electric astounds the world by putting imagination to work and determines to create a better future for everyone.

General Electric Company is an American multinational company that operates through four segments—Energy, Technology Infrastructure, Capital Finance, and the Consumer and Industrial segment—in more than 100 countries. One of which is Cambodia, a dynamic country that is situated in the Lower Mekong Region. Its neighboring countries, Vietnam in the East, Laos in the North and Thailand in the West, give Cambodia a lead in the cross-border trade. General Electric Company oversaw the advantage of the location and the country's rapid growth rate and rich natural resources and thus decided to establish its existence in the country. The company first launched its presence in Cambodia in July 2007 in the Healthcare, Industrial Solutions and Home and Business Solutions sectors. Today, the company has continued growing rapidly at a rate of 20% annually in the ASEAN region.

International Ventures

Since General Electric has launched its first presence in Cambodia, the company has worked closely in both private and public sectors in Cambodia: Finance, Healthcare, Water, Consumer Electronics, Oil and Gas and so on. However, the company has placed most of its focus in the Healthcare area. In October 2010, General Electric established a partnership with the Cambodian Ministry of Health and announced the official contracting of medical equipment in two public hospitals in Cambodia. In addition, General Electric introduced a citizenship program, which aims to improve access to quality healthcare facilities. In addition to the program, General Electric also implemented a business strategy called the Healthmagination, which offers Cambodia an opportunity to move towards achieving sustainable health and at the same time the venture benefits the growth of General Electric company itself (General). Under this strategy, General Electric aims to significantly reduce the cost of procedures

and processes with GE technology and services, increase access to services, technologies and health education and improve quality of care for patients by focusing on innovation that simplify and refine healthcare procedures and accelerate standards of care. Most recently, General Electric had installed new technologies such as X-ray, ultrasound and monitoring equipment in multiple hospitals across Cambodia. In addition to the projects that General Electric had implemented in the health sector, the company is also interested in the industrial sector.

During a recent visit in Cambodia, John Rice, the Vice Chairman of GE Corporation, signed a memorandum of understanding (MOU) with Mines and Energy (MIME) in the Royal Kingdom of Cambodia for a joint development to look into renewable energy utilization with biomass and wind energy (General). In addition, the two companies will work together to initiate the use of clean energy involving advanced gas turbine technology. This combustion turbine allows the power plant to reduce fuel use and emission and increase flexibility and efficiency. At the same time, MOU coincides with Cambodia's rural electrification program and aims to provide electricity to 70% of the country's household by 2013 (General). Since 2007, General Electric has worked closely with the Cambodia government to provide better products and services to the country. Today, the company continues to build a strong relationship with both the private and public sectors in Cambodia to help the growth and development of the country and the company itself.

General Electric's Process of Foreign Direct Investment

In order to remain profitable and competitive in the far future, GE has recognized the need to invest in initiatives that will give them this solid and enduring competitive advantage. So in July 2007, GE launched its presence in Cambodia. Since then, GE has expanded its business in Cambodia continuously by building its network base while developing partnerships with private and public sectors. GE businesses that have started to become active in Cambodia are GE Healthcare, GE Industrial Solutions, and GE Home and Business Solutions.

Since General Electric's launch in Cambodia in July of 2007, it has partnered with many other companies and parties to ensure the best quality products and services for its customers in Cambodia and throughout the world. Strategic alliances allow two or more businesses or parties to combine in certain aspects to pursue goals, while still maintaining their independence as different organizations. The strategic alliances that GE has maintained between various partners create synergy and a higher degree of competence and success than GE would have obtained solely on its own. GE operates in six other ASEAN countries as well including Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam as these ASEAN countries seem promising for market growth and new opportunities for GE consumers, partners, and customers. As early as the 1960's, the company distinguished this region as a key driver for growth and success. GE is a huge corporation and the ASEAN companies provide \$4 billion of the \$183 billion in revenue GE accumulates annually. The strategic alliances between the ASEAN countries have proved to be extremely beneficial and profitable for GE who employs nearly 9,500 people throughout these seven countries.

One of the most recent strategic alliances GE has made was with the M+W group, a global engineering and construction company, to overcome the lack of key biopharmaceuticals, especially in emerging nations. This alliance "combines GE Healthcare's expertise in technologies for biopharmaceutical manufacture with M+W Group's global capabilities in bio-engineering and construction, and assists countries worldwide in becoming self-sufficient in the manufacture of vital biopharmaceuticals such as vaccines, insulin and biosimilars"(General Electric). This alliance greatly helps consumers in countries around the world, but especially in emerging nations such as Cambodia because these potentially life-saving drugs are now more affordable, readily available, and locally produced. "Olivier Loeillot, General Manager of Enterprise Solutions, GE Healthcare Life Sciences said, "We're delighted to form

this alliance with M+W Group, who share our vision of bringing affordable and flexible manufacturing capabilities to countries worldwide, especially the emerging nations” (General Electric).

Another vital link to the creation of GE’s strategic alliance creations is Nguyen My Lan. My Lan is the CEO responsible for GE’s presence in Vietnam and Cambodia, and is responsible for driving GE’s growth and enhancing GE’s image in the two countries. She is also responsible for creating strategic alliances between GE and other players in the Cambodian market, including working closely with Vietnamese and Cambodian Government officials to maintain a clear focus and positive image. A favorable relationship with government officials also proves to be a key strategic alliance for GE in Cambodia. The Cambodian Prime Minister Hun Sen has brought great stability to the Cambodian economy and with his help has allowed companies such as GE to thrive and maintain business in Cambodia. His dedication and commitment to GE allowed the company to more easily set up business there and this alliance helped facilitate the swift start up of the Cambodian branch. Hun Sen has also contributed to the passage of key laws facilitating foreign direct investment. In 1994 he passed the law to, “open Cambodia to foreign investors [which] has encouraged Foreign Direct Investment in Cambodia and has allowed companies such as GE to own 100 percent of a company and face no restrictions on taking money in and out of the country”(General Electric Company).

General Electric also partnered with the Ministry of Industry, Mines and Energy in 2011 with the combined goal of enhancing industrial infrastructure and research alternative energy use in Cambodia. “GE and MIME entered into this strategic alliance to promote energy initiatives involving gas turbine technology and efficient smart grid technology,” said GE Vice Chairman John Rice (Royal Embassy of Cambodia). This alliance will aim to aid in providing electricity for the households in and throughout Cambodia and 70% of households are predicted to receive electricity via the newly implemented power grids by the year 2030. The companies are trying to take advantage of the natural energy resources located in Cambodia in order to finally supply all of the villages with electricity. The partnerships and alliances created by private companies such as MIME and GE is the only way to get a program like this underway and to ensure the success of such a great undertaking. The investment that GE is making into this sector of the market will also lead to vast improvements in the infrastructure of the country and allow for much further economic and societal development.

The strategic alliances GE has made and continues to make within Cambodia and the world are aimed at creating better lives for GE customers and employees. By receiving help and creating partnerships GE does not have to face this hefty challenge alone and may more easily, inexpensively, and efficiently turn their goals into realities. By maintaining positive relationships with all of their allies, suppliers, customers, and local officials, GE will continue to do great things for the local economies and world itself.

Since GE is such an enormous company with plants in nearly 100 countries, each plant and product cannot be homogeneous throughout the world and there is a need for product adaptation in the various countries GE carries out business in. This is no different in Cambodia where environmental factors, government regulations, and other cultural influences all contribute to the needed adaptations of products produced in Cambodia. Cambodia is an underdeveloped country in great need of GE expertise and engagement in order to aid in solutions that close the gap between rural health care facilities and more sophisticated health facilities in western countries. GE had to take all of these things into consideration in implementing their plants and companies. The lack of electricity and immense level of poverty also had to be taken into consideration and is one of the aspects that GE is trying to improve by setting up business in Cambodia.

Cambodia was a hidden kingdom but the sudden burst of interest from the company is rapidly changing the society since its first ventures in 2007. The sudden burst of interest is due to the establishment of a track record, which did not exist until after the 1993 UNTAC election. In fact, there are multiple track records, which have attracted the attention of worldwide business. As far as the country’s diplomatic track record is concerned, Cambodia has methodically reintegrated into the region

and the world. It has joined a number of international organizations and adopted a number of international conventions to join the community of nations. ASEAN (30 April 1999), WTO (13 October 2004), WIPO (July 1995).

Secondly, for Legal and Regulatory Track Record, even before accession to WTO, the Royal Government set about to enact the necessary laws and regulations that are the building blocks of a modern economy. Now the legal structure that supports commercial activities is being modernized. Even before accession to WTO, there were important commercial laws being enacted like Law on Investment (1994), Labour Law (1997), Banking Law (1999) and Property Law (2001). However, the drive to be acceded into the WTO and to become WTO-compliant provided the Royal Government with a checklist of important commercial laws and regulations to enact including Trademarks, copyrights, and patent laws (2001-2003), Law on Commercial Enterprises (2005), Law on Government Bonds (2006) and Law on Secured Transactions (2007).

Under Cambodian Laws, the proposed Investment Enterprise may be in the form of an incorporated joint venture. Irrespective of the nationality of the shareholders of a joint venture, there shall be no limit on the permitted share holding proportions of each shareholder unless the joint venture owns or intends to own land, or holds or intends to hold an interest in land in the Kingdom, in which case the foreign shareholding in the joint venture shall not exceed forty nine percent (49%).

To date, the number of GE businesses penetrating the local market is gaining. GE Healthcare and GE Consumer and Industrial have already appointed local distributors. NBC Universal, another investor in the nation, on the other hand, have only recently acquired licensing rights to local TV cable distributors while GE Security has begun collaborations with potential local partners.

GE's interest in Cambodia is mostly focused on health sector equipment and machinery. When GE Healthcare decided to do business in Cambodia, it chose to have partnerships with local hospitals in Cambodia for strategic reasons. By having partnerships with local hospitals, GE Healthcare could reduce their risk of failure and several of their costs of establishment. Local hospitals in Cambodia have previously conceived knowledge of the local patients who would effectively be the main customer base of the efforts of GE investment. The venture however was also advantageous for the hospitals many of which needed further advanced health facilities since they were still lacking such equipment at the time. So GE Healthcare and local hospitals in Cambodia formed strategic partnerships; local information from the hospitals was exchanged with diagnostic machinery and materials from General Electric Healthcare.

Recently GE has commissioned \$4.5M worth of medical equipment in 24 provinces in line with its Developing Health Globally initiative, and this has been in partnership with the Ministry of Health in Cambodia. His Excellency, Minister Mam Bun Heng had graciously attended the commissioning held recently in three different hospitals – Kossamak National Hospital, Kampong Speu Referral Hospital and Phnom Penh Municipal Referral Hospital – in the Phnom Penh area of Cambodia. Each commissioning marks the completion of the product installation and training and provides each hospital the opportunity to share the news of the upgraded facility to the community.

In case of GE Capital, it is also concentrating on the strategic partnerships and joint ventures that help GE as a whole capitalize on market-specific opportunities. With a smaller, more focused structure, GE Capital offers an array of products and services aimed at enabling commercial businesses, consumers, and markets worldwide to build a stronger, better future.

It is not to say, however, that Cambodia is not faced with needs or areas of improvements similar to many other poor, less developed countries (LDCs), such as poor healthcare, limited infrastructure, low government salaries, etc. The main challenge the country will face over the next 10 years is the

reduction of corruption and the strengthening of good governance at central and provincial levels. Although legal and judicial reform and rule of law and transparency have been improved upon in recent years, both still require substantial development. Corruption tops the list of obstacles for doing business in Cambodia. According to estimates, 10% of Cambodia's annual GDP is lost to corruption, signifying pervasive and large-scale corruption. Cambodia is a cash-based economy, which strongly facilitates corruption because many business transactions do not necessarily have “paper trails”. Only 1% of working capital comes from commercial banks.

In order to start a business in Cambodia, business owner needs to have licenses from different governmental organizations and local authority. Every place where they ask for the services usually takes long time to process the request. The total cost of this process if carried out by an entrepreneur acting alone is about \$1500 (USD), and the total time required is around 94 days. The cost which, includes unofficial fees, is very high. Unfortunately, the registered firms in urban areas paid three times more informal fees upon establishment than their unregistered equivalents. Formal registered firms spend more time dealing with public officials.

Limited infrastructure is another obstacles to doing business in Cambodia. For example, business experts say Sihanoukville Autonomous Port's relatively low capacity and modest plans for expansion put Cambodia at a competitive disadvantage regionally. Currently, Sihanoukville Autonomous Port can accept only vessels carrying no more than 10,000 tons, and companies exporting from the port must pay to unload and reload goods onto larger ships at regional ports such Cai Mep in Vietnam, which can accept vessels carrying 75,000 tons, or the Port of Singapore, which can accept boats carrying 150,000 tons. Some goods are shipped directly from the Phnom Penh to Vietnam.

Conclusion

Both General Electric and Cambodia remain strong and clear in their intentions to continue their efforts into the future. For General Electric, it is an opportunity for access into a huge commercial market they have yet to fully tap into. While the ASEAN countries do account for millions of their revenue annually, the potential for the market is far more than that. The populous ASEAN region could potentially bring in dramatic percentages of the firm's revenue, and Cambodian investment could play a pivotal role in the company's ability to commence further business efforts in this commercial market.

The Cambodian government, on the other hand is striving to increase further investment into their country. They understand that their history does not stimulate great confidence in many prospective investors, but they are making the proper efforts to compensate for this. When asked about the future of foreign direct investment in his country, Prime Minister Samdech Hun Sen said:

“Firstly, let me emphasize that the foundation of our economy remains strong, that will help us to overcome the negative impacts of this global financial and economic crisis. Much untapped potential remains and it is our real economy that is the target for investment while the global financial sector suffers. We have worked hard to secure peace, political stability, security and social order, while maintaining macro-economic stability and international integration. The series of reforms that the government has undertaken is to improve the business climate and good governance. On behalf of the Royal Government of Cambodia, I can assure everyone of our commitment to ensure long term stability and improve the business climate.”

Though currently according to Global Edge the country receives a grade D in terms of both “Country Rating” and “Business Climate Rating”, the government of Cambodia is aware that they have a lot of improvements that are necessary before they will fully emerge as an attractive and viable option for foreign direct investment. They are making the efforts and showing commitment to the stabilization of their government, economy, and overall business climate.

Considering the mutual benefit, to both General Electric and the country of Cambodia, these investment ventures and their relationship will continue. General Electric will expand upon their establishment in the ASEAN region but also more specifically in Cambodia. The company is beginning to prove to the world that Cambodia is a nation that holds vast opportunities for extended global success and competitive position. They are interested in doing business and operating in this market for the long haul. Cambodia and its government will also continue to strive to create a better investment environment for companies like GE and other various prospects. This only marks the beginning of a venture that could change the future of the General Electric Company and the future of Cambodia.

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