



Cambodia on the way to the breakthrough?

An interview from 11th November 2008 by Gunter Denk (Sanet) with Paul Thomas, a successful entrepreneur for the last ten years in Cambodia and president of the ADW (Arbeitskreis Deutsche Wirtschaft - German Business Group Cambodia) in the country.

Sanet: Mr. Thomas, how in God's name did someone from the German middle class end up settling down in Cambodia?

Paul Thomas: The answer is quite simple: an entrepreneur must go where his market is.

Sanet: And even in 1996 the market for your company was already Cambodia? That is a surprise!

Paul Thomas: Yes, it surprised us too at the time! We were a logistics company that had concentrated on textiles in particular in China and in Singapore. And all of a sudden two important German customers withdrew their sourcing from China and moved to countries where manufacturing was even cheaper. At the same time the Chinese textile factories with which we had very close relations also began to make use of an 'extended workbench' in especially cheap countries. Cambodia was one of them.

Sanet: Did Cambodia then become something like the big competitor to China in the textile business?

Paul Thomas: No, that would certainly be the wrong interpretation. The textile industry in Cambodia is controlled quite predominantly by those Chinese factories that were simply looking for cheaper manufacturing plants. There are no showrooms, no purchasing offices and seldom anything that leads even to purchasing negotiations. For the most part this all happens at the Chinese parent companies in Hong Kong or China. In Cambodia it is only production that counts for at least 99% of these factories.

Sanet: What this means, then, is that you did not so much as follow your customers, but rather your suppliers!

Paul Thomas: That's correct, even though only conditionally, since at least 70% of the 3.3 billions dollars of textile goods from Cambodia ultimately end up in the USA and 25% in the EU. The logistics that are required have already essentially been determined by the outlets, i.e. the customers.



Paul Thomas (left) is President of the ADW representing the German Business Community in Cambodia.

Sanet: You are, therefore, something of a pioneer or an entrepreneurial special case! Isn't it true, that as a rule Cambodia is not of much interest to foreign enterprises?

Paul Thomas: Not at all. At that time it was naturally still like a 'big game safari' when venturing on the first fact-finding trip to Cambodia and, also by the way, to Vietnam. The countries had suffered dreadful wars or - in the case of Cambodia – gone through even worse sufferings under bloody dictatorships. Still we believe that even with our entry into the Cambodian market in 1999 we were already a little bit late. The short, but violent flaring up of the internal struggles in 1997 made us temporarily back down from the decision once again. Today I would advise the European middle class to take the plunge in Cambodia.

Sanet: Well, in fact you also love Cambodia. Sometimes you just like the country. However, are there also logical reasons for setting up an enterprise there even now?

Paul Thomas: A whole gamut of reasons, but not necessarily in textiles or shoes that are the items predominantly manufactured in Cambodia. There are, however, a number of other arguments for Cambodia. Labour costs, for example, are still a third of the costs in Thailand and around a tenth of the labour costs in the

Shanghai or Shenzhen metropolitan areas in China. The country is absolutely to be recommended for low wage manufacturing, for example, cable manufacture, but also for agricultural products.

Sanet: But, you could also go to Indonesia or Vietnam as well!

Paul Thomas: Yes, they are, of course, alternatives. Nevertheless, Cambodia in many respects is more open to investors than these countries: it is possible to get involved in almost any field as a 100% foreign-owned enterprise. Money, thus your profits too, can be transferred absolutely freely in and out of the country. There are also now well-developed industrial parks where the logistical weaknesses that exist elsewhere in the country have been improved.

Sanet: That sounds really good, but why then aren't more businesses coming to Cambodia?

Paul Thomas: One of the major problems is definitely still the industrial infrastructure. There are very few ancillary industries and when these are absent, manufacturers of technically high-quality products are reluctant to set up business. This is definitely one of the biggest obstacles. The CDC (Council for the Development of Cambodia) is trying to improve this, by granting foreign investors in general five years of duty-free importation of spare parts. But also the further integration of the ASEAN Union, to which Cambodia belongs, will help in this regard. If it is possible to import these raw materials duty-free from close neighbouring countries such as Thailand, Vietnam or even Malaysia, the problem is already almost solved.

Sanet: So how are things going to go with Cambodia and with Paul Thomas' company Flow Forwarding?

Paul Thomas: The way forward for Flow Forwarding in the future has been planned rather well: In the next few days my son will take over the general agency of Lufthansa for aerial freight to Cambodia. This will definitely strengthen our core business - the freight forwarding agency and logistics area - even more.

We also want to strengthen the service area, which means quality assurance and quality audits for our customers. We are concentrating upon inspections of manufacturers with regard to elimination of child labour, promotion of socially acceptable employer-employee relationships and quality assurance as far as laboratory inspection or GS certification. This provides the basis for a portfolio of services that is concise and that fits seamlessly into our core business.

Sanet: But, nevertheless, you can only grow if the economy in Cambodia grows. What is happening there?

Paul Thomas: Firstly it is important to note that since the election in July 2008 there is obviously a clear stabilisation of the political situation. Of course not everything in government policy correlates with the ideas of a western entrepreneur and many things happen too slowly. But things are moving ahead. In addition Cambodia also has its own raw materials like oil and gas and their economic utilisation is getting closer. This will have a huge impact on the country. And in addition, once again, the successful integration of ASEAN

as a form of counterpart of the EU in South-East Asia will definitely improve the economy and the living conditions, even in those countries that have been weaker until now.

Sanet: And when everything is running better, will foreigners still be tolerated in the country in the important industries?

Paul Thomas: Cambodia knows very well that foreign capital and also foreign know-how are crucial for its further development. Somewhat disturbing the image of the foreigner are the more than 1,500 NGOs (Non-Governmental Organizations) that are uncoordinated and often created in their own image. They start projects all over the country that are well intentioned, but often confusing and ineffective. Nowadays for a lot of NGOs it is a must to also be able to include Cambodia as a recipient country in their prospectuses. This ineffective 'bumbling about' does not improve the reputation of western countries.

Sanet: And for Germans in particular, how does it look?

Paul Thomas: Now you will get an honest rather than a polite answer. Over and over again there is astonishment, but also disappointment from the Cambodian side as to how little comes from Germany.

It's true, there are numerous and multi-headed delegations visiting the country from politics, organisations and the economy. However, mostly they are to do with 'fact-finding tours' with often little in terms of investment in Asia for qualified entrepreneurs following behind. The delegations are received at a high level, informed very well - and then nothing more is heard from them. This is very noticeable.

With the Japanese, Koreans, Americans or even French things happen differently. A well-prepared delegation of serious prospective customers arrives. They are looking to get reacquainted with the country; form their own impressions and make a decision on their already prepared investment proposal. A few months after the delegation is in the country the actual investments begin. If Germany does not change something here and get out of the 'starting blocks' sooner, yet another Asian country will be lost to the leadership role of our competitor economies in Asia and also in the EU. Then in the long term this will also have a definite influence on Germany's general economic position in the world.

Sanet: Interesting, Mr. Thomas. Many thanks. It is always a pleasure to speak with real entrepreneurs about the economy and not only with government officials. We look forward to speaking with you again.