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PAÑÑĀSĀSTRA UNIVERSITY OF CAMBODIA
Social Sciences
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PERSPECTIVE

Recent Trends in Cambodia-Indonesia

Economic Relations

Introduction

The 65th anniversary of Indonesia-Cambodia relations was on February 13, 2023. Indonesia and Cambodia established diplomatic ties on that date in 1959 through the signing of the Treaty of Friendship. However, both countries are still celebrating the strong relationship throughout 2024. Indonesian Ambassador Santo Darmosumarto has expressed the aim of marking 2024 as a year dedicated to fostering cooperation between the two nations. This includes events that promote trade, investment, and tourism throughout the year.

A recent visit by the Indonesian Ambassador to Battambang, Cambodia, reveals a strategic focus on boosting the agricultural partnership between the two nations, particularly in the realm of rice. This visit demonstrates Indonesia's keen interest in the "rice bowl" of Cambodia and paves the way for increased access to Cambodian rice in the Indonesian market. This focus on agriculture sits within the context of a flourishing relationship between the two countries. The 65th anniversary of diplomatic relations which preceded the Ambassador's visit underscores a desire to translate historical ties into tangible economic benefits. The recent surge in bilateral trade, with Indonesia becoming Cambodia's No. 6 trading partner and surpassing \$1 billion in trade volume for the first time, is a testament to the progress made toward this aim. Notably, the first shipment of Cambodian rice to Indonesia in November 2023 marked a significant milestone in their agricultural cooperation.

Beyond government-level interactions, the Ambassador's engagement with local business leaders and young entrepreneurs exemplifies Indonesia's commitment to public diplomacy as a means to solidify relations. The Embassy's focus on promoting bilateral economic interactions in 2024 further highlights its proactive approach to strengthening ties at the grassroots level. By fostering connections beyond government channels and actively promoting interactions at the local level, this visit demonstrates Indonesia's commitment to public diplomacy and paves the way for a robust and mutually beneficial agricultural partnership between the two nations.

Key Developments in Cambodia-Indonesia Relations

The rapid increase in Cambodia-Indonesia trade reflects a dynamic and mutually beneficial relationship. As both countries continue to develop and diversify their trade portfolios, we can expect this upward trend to continue, further strengthening their economic and diplomatic ties. Cambodia and Indonesia have witnessed phenomenal growth in bilateral trade in recent years, driven by a combination of factors and an evolving exchange of goods. Cambodia-Indonesia trade Since 2010, Cambodia-Indonesia trade has demonstrated a high rate of growth continually, except for a decline in 2020 resulting from the pandemic-related economic slowdown. From 2010 to 2019, bilateral trade steadily climbed, averaging a 10.26% annual increase, reaching a peak of USD 661 million in 2019. 2020 saw a 10.96% slump due to the pandemic, dropping trade to USD 588.63 million. 2021-2023 witnessed a remarkable rebound, with trade nearly doubling in just two years. By October 2023, the total trade value reached USD 862.215 million, representing an 11.7% increase year-on-year. Cambodia's exports to Indonesia, historically low, have grown at a faster pace (10.1% annual increase since 1995), but the trade relationship remains heavily reliant on Indonesian imports, mainly coal, tobacco, and machinery.

The first reason for this precipitous increase in trade is the complementarity between the two economies. Specifically, Cambodia's focus on agriculture and light manufacturing complements Indonesia's strengths in heavy industries and processed goods, creating a natural trade synergy. Secondly, regional trade agreements and concordant national-level legislation have eased commerce. Membership in ASEAN and other regional trade agreements has facilitated tariff reductions and streamlined customs procedures, boosting trade flows. Third, there have been

substantial improvements made to infrastructure and increases in lower-cost shipping options. Lastly, FDI has propelled trade forward, as Indonesia's investment diversification has resulted in a growing presence as an investor in Cambodia's agricultural sector and infrastructure projects have further boosted trade volume.

For the most part, Cambodia's exports to Indonesia are constituted by agricultural products, including rice (the first Cambodian rice shipment arrived in Indonesia in November 2023), cashews, cassava, mangoes, and other fruits and vegetables. Moreover, Cambodia's ample rubber supply has provided the raw material demanded by Indonesia's substantial tire production industry. Another key export from Cambodia to Indonesia has been textiles. In the other direction, Cambodia's imports from Indonesia have mostly been in terms of processed goods, including food items, machinery, appliances, chemicals, and pharmaceuticals. Indonesia also exports construction materials demanded by Cambodia's burgeoning infrastructure and housing sectors. Although not one of the primary suppliers, Indonesia also exports motor vehicles (both cars and motorcycles) to Cambodia.

An increase in trade can be expected based on the diversification of goods and services exchanged, the impact of e-commerce, and investment partnerships. While currently focused on agricultural and manufactured goods, the trade mix can be expected to expand to include technology, tourism, and education services. Furthermore, the rise of online platforms could further boost trade and open new avenues for smaller businesses to participate. Joint ventures and collaborations are also likely to increase, initially in agriculture, but then expanding to the manufacturing sector and infrastructure development.

Indonesian capital investment in the agricultural sector is increasing as well. There has been investment in rice mills and joint ventures in cassava and cashew nut farming. Indonesian companies like Japfa Comfeed are investing in building and upgrading rice mills in Cambodia, contributing to improved post-harvest processing and capacity building. Also, Indonesian firms like PT Central Protein Indonesia and Wings Group have partnered with Cambodian counterparts to cultivate and process cassava and cashew nuts, increasing production and exports.

Notably, not all trade is good news. For example, Indonesia is a major exporter of tobacco to Cambodia. In fact, in 2021, Indonesia exported \$195 million worth of rolled tobacco to Cambodia,

constituting nearly 30% of all Indonesian exports to Cambodia for that year. This represented 42.35 million kilograms of tobacco, highlighting the substantial volume involved. To meet domestic demand, Cambodia relies heavily on tobacco imports, with Indonesia being its largest supplier by a significant margin. Between 2010 and 2017, adult tobacco use (aged 15+) in Cambodia dropped from 24.1% to 16.9%, signifying a positive trend. While tobacco consumption in Cambodia has declined over time, as of 2017 adult use was estimated at 1.68 million persons. Effectively, a decline in such trade would likely indicate a gain in terms of public health in Cambodia.

More positively, rice will be playing a significant role in the further rise of Cambodia-Indonesia trade, helping to further improve the quality of life of Cambodian farmers. In 2023, Cambodia exported 3,500 tons of white rice to Indonesia for the first time, marking a significant breakthrough. This followed an agreement between the two governments in August 2023 for Indonesia to purchase 125,000 tons of milled rice from Cambodia annually. Rice exports from Cambodia are expected to significantly increase the overall trade volume between the two countries, going beyond traditional Indonesian exports of coal, tobacco, and machinery. For Cambodia, accessing the large Indonesian rice market reduces dependence on traditional buyers like Vietnam and Thailand, providing diversification and stability. For Indonesia, importing Cambodian rice helps address domestic shortages and stabilize prices, enhancing food security.

Reaching its potential in rice exports and maximizing trade with Indonesia in support of the Cambodian agricultural sector will require an effective policy and practical response in three areas: overcoming logistical challenges, maintaining quality standards, and expanding agricultural cooperation beyond just rice. First, efficient handling and transportation of large quantities of rice require adequate infrastructure and logistics systems. Improvements in this area are crucial to sustain the momentum. Second, phytosanitary regulations must be implemented, as addressing lingering concerns over plant health and complying with regulations are essential for continued smooth trade. Lastly, building a consistent flow of high-quality rice (considering the likely challenges presented by climate change) and exploring further product diversification within the agricultural sector will solidify the role of rice in Cambodia-Indonesia trade.

Tourism between Indonesia and Cambodia has witnessed a remarkable upsurge in recent years. From merely 48,988 Indonesian tourists visiting Cambodia in 2018, the number jumped to over 75,000 in 2023, a nearly threefold rise. Indonesia climbed to become the seventh-largest source of tourists for Cambodia in 2023, reflecting its growing importance for the Cambodian tourism industry. The launch of direct flights between the two countries in 2023 contributed significantly to the ease and affordability of travel, further fueling the surge. This increase in tourism is likely the result of various factors. Most importantly, the appeal of Angkor Archeological Park. In addition, cultural ties, resulting from historical links and shared heritage increase the motivation of Indonesian tourists. Third, Cambodia's lower costs relative to other destinations in Southeast Asia make it more attractive to budget-conscious travelers. Because of these aspects, tourism from Indonesia is likely to continue its upward trend, especially as tourists branch out to other destinations in the country such as Battambang and Sihanoukville. While not yet as voluminous as the flow of Indonesian tourists to Cambodia, Cambodian tourism to Indonesia has started to sprout. Indonesian capital investments are helping to fortify the Cambodian tourism industry. Indonesian hotel chains like Archipelago International and Plataran Group have expanded into Cambodia, building resorts and catering to the growing tourism industry. Additionally, Indonesian travel agencies like Panorama Tours and Golden Rama Tours & Travel have forged partnerships with Cambodian businesses, promoting cross-border tourism and travel packages.

Despite increased tourist numbers, challenges remain. The number of Cambodian visitors to Indonesia remains fairly small, estimated to be around 12,000 in 2023. Moreover, Cambodia's tourism offerings haven't yet gained widespread awareness among Indonesian travelers compared to established destinations like Bali or Lombok. Connectivity could also be improved as direct flight options between Cambodia and key Indonesian tourist destinations are still limited, creating travel hurdles for potential visitors. A good start for incentivizing Cambodian travel to Indonesia is the visa-free entry for stays of up to 30 days, as it simplifies travel planning and logistics. Future prospects for building the tourism relationship between the two countries thus depend on supplementing increased media coverage with intensified marketing campaigns and an ample supply of promotions. Tailored tour packages with interest-related themes or focuses could be used to target incentives at specific sectors of the tourist population in both countries. The relevant government agencies and private sector actors in both countries would do well to explore ways to

generate increased information dissemination and word-of-mouth endorsements made possible through social media.

The ASEAN Tourism Strategic Plan 2022-2025 and the Framework for Safe, Responsible, and Resilient Travel and Tourism in ASEAN represent a comprehensive approach to reviving and reshaping the region's tourism industry. By focusing on both short-term recovery and long-term sustainability, these initiatives aim to create a more resilient and responsible tourism sector at the regional level. The ASEAN Tourism Strategic Plan 2022-2025 outlines a roadmap for revitalizing the region's tourism industry post-pandemic. It focuses on five key strategic priorities: competitiveness; inclusiveness; responsible tourism; resilience; and, digital innovation. The plan calls for streamlining travel procedures, improving destination management, and promoting sustainable tourism practices. It also points to the need for creating a tourism industry that benefits all stakeholders, including local communities, indigenous groups, and SMEs. It sets out the aim of minimizing negative impacts on the environment and local cultures while maximizing positive socio-economic benefits. It recognizes the need for preparing for industry-wide shocks, such as pandemics. Finally, it emphasizes the use of technology to facilitate travel, logistics, and service. The plan sets specific targets for each priority, such as increasing tourist arrivals and boosting tourism's contribution to ASEAN's GDP. It also identifies strategic actions for achieving these targets, including developing collaborative marketing campaigns, strengthening regional tourism education and training programs, and promoting responsible tourism certifications. The Tourism Strategic Plan built on the momentum generated by the 2021 Framework for Safe, Responsible, and Resilient Travel and Tourism in ASEAN. That framework indicated the importance of health and safety standards, and regional cooperation and information sharing to address common challenges and promote best practices.

Cambodia and Indonesia demonstrated leadership in materializing the aim set out in these plans and bringing key elements to fruition through their 2023 MoU. Signed in January, this MOU on tourism cooperation established a formal framework for collaboration in terms of joint marketing and promotion; destination management; capacity building; and, MICE (meetings, incentives, conferences, and exhibitions). The two countries committed to developing co-branded campaigns showcasing combined travel itineraries in both countries, sharing best practices for sustainable tourism development, and training workshops for tourism professionals on topics like hospitality

management, marketing, and sustainable practices. They will also cooperate on bidding for and hosting MICE events.

In addition to the agriculture and tourism sectors, Indonesia-based capital is actively engaged in Cambodia through a range of corporate deals, partnerships, and investments. In the area of infrastructure, Indonesian capital has contributed to port development and construction. For example, Indonesia's Pelindo III has partnered with Cambodia to develop the Preah Sihanouk Autonomous Port, improving logistics and trade flows. Indonesian construction companies like Wijaya Karya and Waskita Karya have secured contracts for building bridges, roads, and power plants in Cambodia, contributing to infrastructure development.

In terms of manufacturing and retail, Indonesian capital has invested in the garment sector and consumer goods. Indonesian textile and garment companies like PT Texmaco are setting up production facilities in Cambodia, taking advantage of lower labor costs and preferential trade agreements. Indonesian consumer goods giants like Indofood and Wings Group have established distribution networks in Cambodia, increasing their market reach and brand recognition. Indonesian capital has also invested in Cambodia in private equity and as venture capital. We can expect increasing interest in Cambodian startups in the areas of technology, e-commerce, and agriculture. Another area of the financial sector that has benefited from injections of Indonesian capital is banking and microfinance, as Indonesian banks and financial institutions are offering microfinance loans and financial services to Cambodian businesses and entrepreneurs, fostering economic inclusion and growth.

Moving forward with a potential MOU related to a Phnom Penh-West Sumatra sister city alliance would be a significant symbolic step with important practical implications. In April 2023, a delegation from West Sumatra Province, led by Governor Mahyeldi Ansharullah, visited Phnom Penh to explore cooperation opportunities and discuss the possibility of a sister-province agreement. In July 2023, a Letter of Intent (LoI) was signed between West Sumatra and Phnom Penh, expressing the intention to cooperate in various areas, including tourism, cultural exchange, and education. Then, in December 2023, Indonesian Ambassador Santo Darmosumarto urged Cambodia to accelerate the MOU process for the Phnom Penh-West Sumatra sister city alliance.

He also proposed naming roads in Phnom Penh after Indonesian dignitaries, like Soekarno and Ali Alatas, to further strengthen the bond.

Once signed, the MOU will serve as a framework for implementing joint projects and initiatives that benefit both Cambodia and West Sumatra. With regard to tourism, West Sumatra sees Cambodia as a promising source of tourists, particularly for cultural and historical destinations like the Pagaruyung Palace. Cambodia, in turn, can benefit from West Sumatra's beautiful natural landscapes and vibrant Minangkabau culture. Moreover, cultural exchange could increase as a result of fomenting collaboration in the arts, music, dance, and traditional weaving. Educational services could benefit from setting a groundwork for exchange programs for both students and educators, joint research projects, and knowledge sharing in areas like agriculture and disaster management could be valuable aspects of the agreement. The MOUs could assist in promoting trade in agricultural products, as well as encourage investment opportunities in various sectors. The relevant authorities in both states would do well to prioritize the drafting of the MOU, ensuring a detailed elaboration of specific areas of cooperation, with feasible but ambitious targets and timelines. The agreement is expected to be signed sometime in 2024, potentially during a high-level official visit between Cambodia and Indonesia.

Conclusion

Ultimately, the strengthening of diplomatic ties between Cambodia and Indonesia, reflected in the emphasis on cooperation made evident in the 65th anniversary of diplomatic relations in 2023 and continuing into 2024, reflects and supports stronger economic links between the two states. This is evident in the substantial increase in trade evidenced in 2023, driven by Indonesia's emergence as a key market for Cambodian rice exports. Based on intensified agricultural trade and imports contributing to Cambodia's growth into a high-skill manufacturing economy, we can expect this relationship to further intensify. This bodes well for the economic growth of both countries and also for the future of ASEAN integration and centrality.