



SPECIAL ECONOMIC ZONE POLICY IN CAMBODIA

Shanghai, 17-22 October 2016

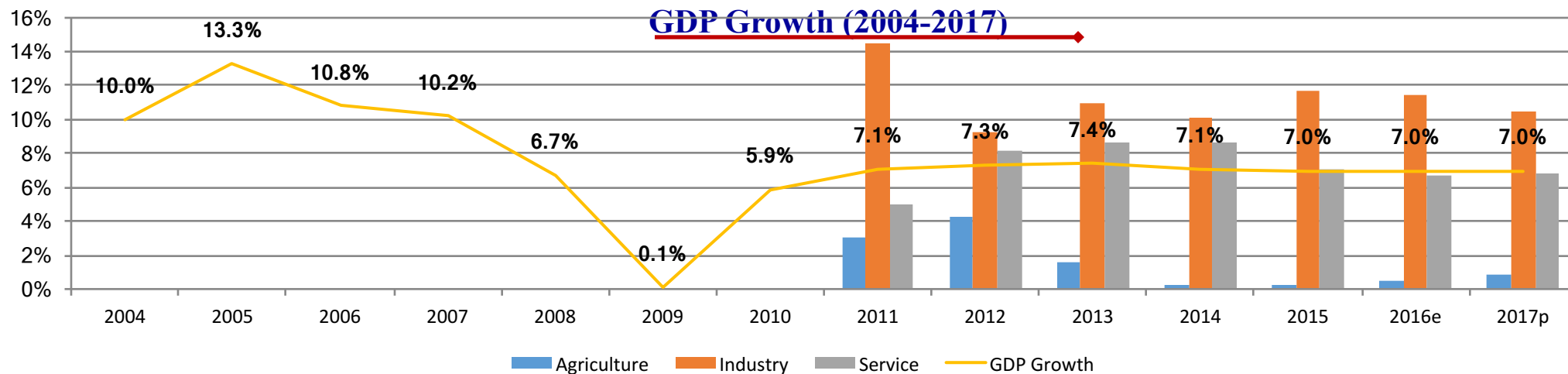
*Council for the Development of Cambodia
Cambodian Special Economic Zone Board*



Investment Environment in Cambodia



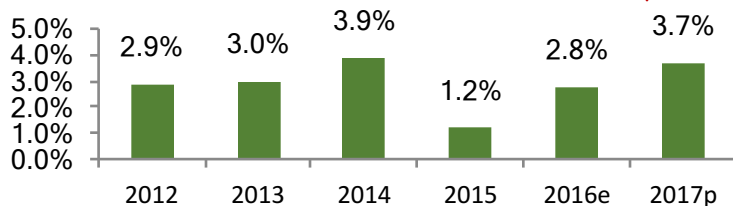
Key indicators



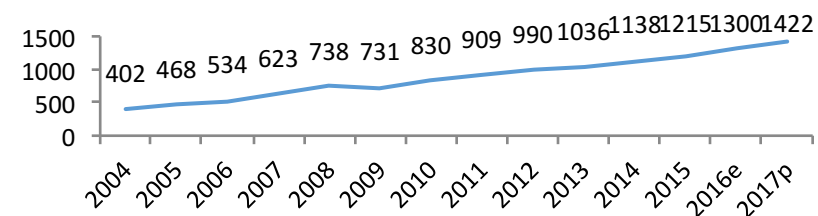
Population & Labor Force

- Population: 15 Million
- Literacy: 92.7% (15-24 years old)
- Young and dynamic labor force: Median age 24 year old
- Population growth rate : 1.54%

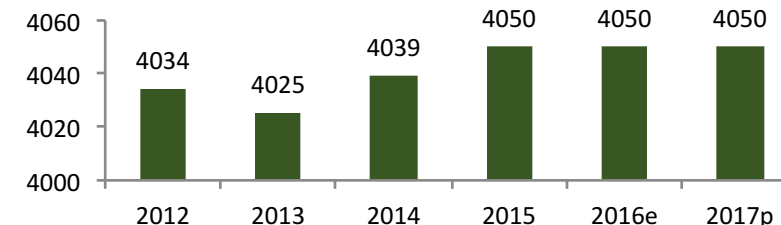
Low & Manageable Inflation



GDP Per Capita (2004-2017)



Stable Exchange Rate (USD-Riel)





Investment Environment

Open Door Policy

100% foreign ownership

No nationalization

No local content requirements

No export requirements

No restriction on foreign exchange
and No capital control

No price controls on products or
services

Tax Incentives

Tax holiday (corporate income tax
exemption) for up to 9 years

or Special Depreciation up to 40%
in first year

20% of corporate income tax

Import duty exemptions for
machinery and equipment

Import duty exemptions for
production inputs/ raw materials

Consider to introduce a SMART
Incentive Scheme

Investment Facilitation

One Stop Services

Customer Approach (assist
investors with various applications)

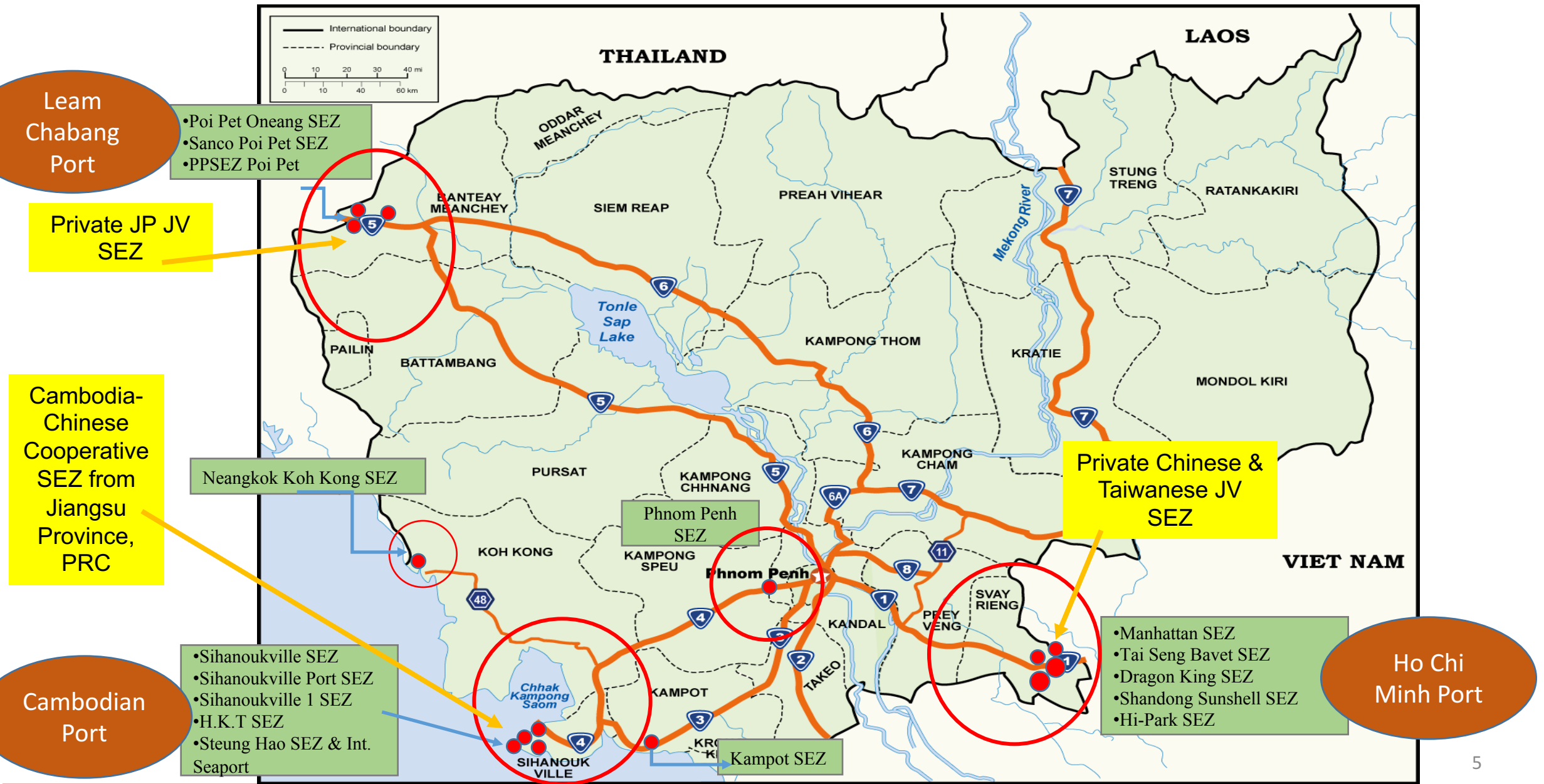
Easing & speeding procedures for
all investors

Aftercare Services

Investment Tracking System

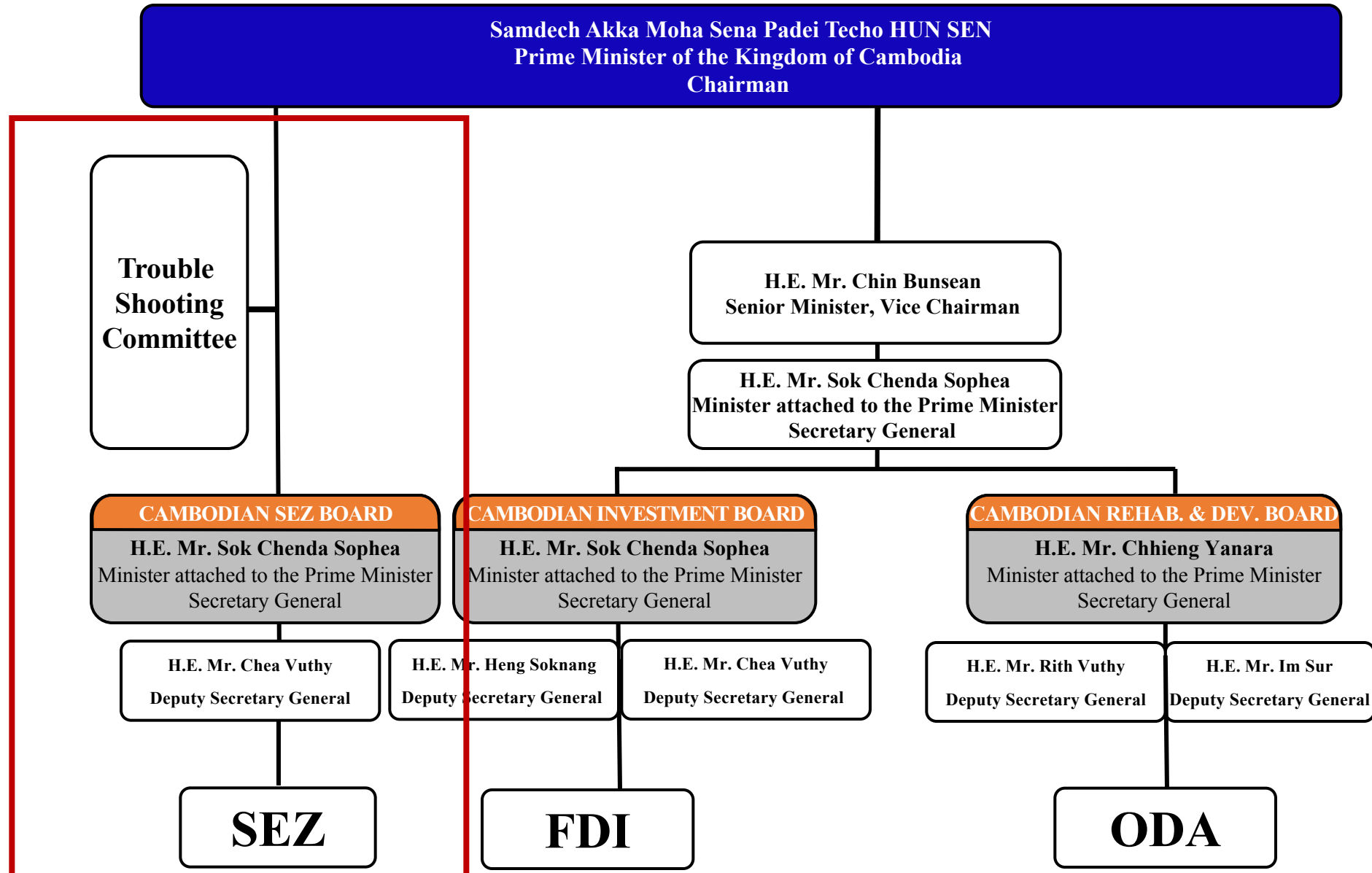
Consider for automated system

Cambodian Special Economic Zone

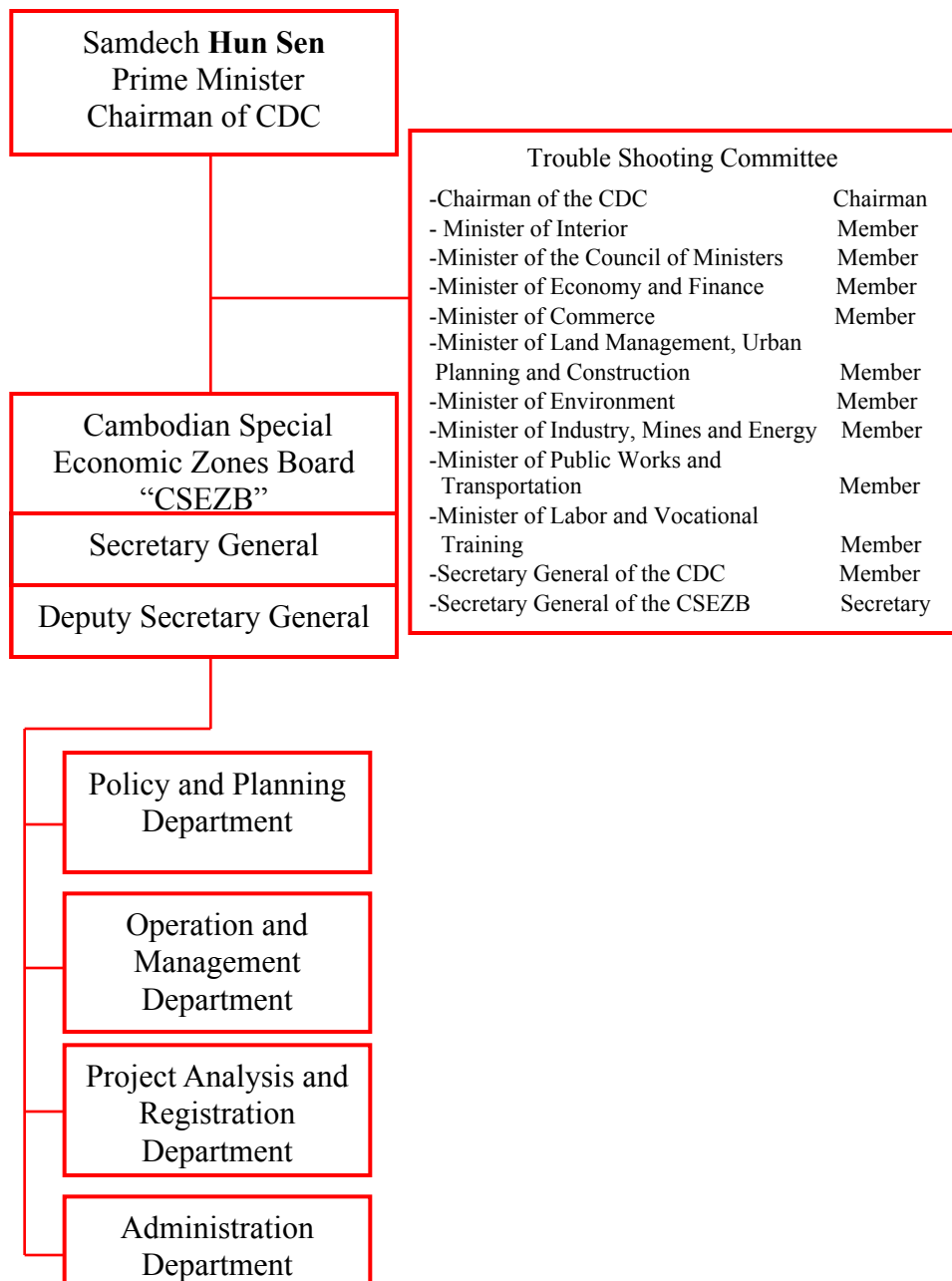


No.	Name	Approved Sub-Decree	Land Size (ha)	Projects in SEZ	Total Investment Capital (US Dollars)	Number of Workers
Svay Rieng Province						
1.	Manhattan Svay Rieng SEZ	No.135 Dated 29 Nov 2006	157	32	405,915,252	26,071
2.	Tai Seng Bavet SEZ	No.29 Dated 04 Apr 2007	99	26	137,369,946	8,561
3.	Shandong Sunshell SEZ	No.462 Dated 01 Jul 2013	96	3	8,300,000	2,700
4.	Dragon King Bavet SEZ	No.190 Dated 25 Oct 2012	106.5	3	9,364,437	581
Phnom Penh						
5.	Phnom Penh SEZ	No.133 Dated 19 Apr 2006	350	85	443,276,610	18,383
Sihanoukville Province						
6.	Sihanoukville SEZ	No.24 Dated 17 Mar 2008	1113	90	245,412,675	11,417
7.	Sihanoukville Port SEZ	No.147 Dated 02 Sept 2009	70	3	22,943,071	532
8.	Sihanoukville 1 st SEZ	No.113 Dated 25 Oct 2006	178	2	738,400,000	310
9.	H.K.T SEZ	No.189 Dated 25 Oct 2012	345	1	1,911,210,000	Under-construction
Koh Kong Province						
10.	Neang Kok Koh Kong SEZ	No.159 Dated 26 Oct 2007	335	5	59,917,153	7500
11.	Choak Kampong Soam SEZ	No.53 Dated 29 Mar 2016	185			Under-construction
Kampot Province						
12.	Kampot SEZ	No.03 Dated 09 Jan 2007	145	1		Under-construction
Banteay Meanchey Province						
13.	Poi Pet O Neang SEZ	No.57 Dated 01 Jun 2006	467	5	7,693,109	1220
14.	Sanco Poi Pet SEZ	No.481 Dated 11 Sept 2013	66.5	5	22,347,782	989

CDC's Structure



Management Structure at CSEZB



One Stop Service Special Economic Zone Administration

- ❖ Company registration and investment license (*Less than 28 working days*)
- ❖ Export/import permit (*fast tracking system, single and minimum inspection, and risk management*)
- ❖ Work permit and Labor books (*both workers and expatriate*)
- ❖ SEZA provides on site immediate legal and administrative assistance (*Trouble Shooting Committee*)

Cambodian SEZ Current Framework

3 Important Business Trends

- The change of regional cost structure – rising labor cost in the region, China
- Favorable location between the 2 industrial hubs
- The progress of Industrial relation in the region and the regional economic liberalization (AEC, RCEP, GMS and Bilateral Cooperation)

PLUS : *Industrial Diversification Such as new source of FDI, new activities, and new clusters.*

Regulation & Nature

- Sub-Decree No.148 on the Establishment and Management of SEZ on 29 Dec 2005.
- Lawful rights of use of a site at least 50ha.
- Rational of SEZ: diversify industrial bases; promote economic linkage (urban-rural), and create enabling environment → release cost and time.
- Export oriented industry, which is flexible to locate at the border or along economic corridor, depend on the private sectors.

Evolution!!

- Inception year: 2006
- **Industrial Regime:** SEZ (exported oriented)
- **Main Objective:** FDI, trade, employment, domestic SMEs
- **Type:** small enclave (50ha up)
- **Administrative Framework:** CSEZB
- **Institution:** Public
- **Location:** Southern Economic Corridor (GMS), border, seaport
- **Industries:** Agro-industry, electronic appliance, automobile parts
- **Tenants:** Mainly foreign
- **Linkage:** Limited spillover
- **Performance:** 6 SEZs fully operation
- **Reason:** high cost of electricity, transportation, infrastructure.



Industrial Development Policy (IDP 2015-2025)

The Government of Cambodia has determined 4 key priorities to be achieved by 2018 in order to promote and sustain the momentum of Industrial Development as following:

- Improving electricity supply to key industrial areas: reduce the electricity tariff from 18.8 cents/kwh in 2014 to 12 cents/kwh.
- Building multi-modal transport and logistic system to connect to 3 keys industrial corridors (Phnom Penh- Sihanoukville, Phnom Penh- Bavet, and Phnom Penh- Poi Pet.
- Building modern institutions for vocational and technical training / human resources development needed by industries.
- Develop and transform **Sihanoukville Province** into a multi-purpose Special Economic Zone.



Review &
Amend the
Investment
Law



Law on
Special
Economic
Zone

Benefits

	Inside SEZ	Outside SEZ
Fiscal Incentives	Same regime: Corporate tax rate, tax holidays, duty exemptions.	Same regime: Corporate tax rate, tax holidays, duty exemptions.
VAT (10%)	VAT suspension for all exported oriented activities.	VAT suspension ONLY for garments and footwear production.
Non Fiscal Incentives	<p>One Stop Shop at each SEZ :</p> <ul style="list-style-type: none"> -Investment approvals -Minimum inspections (Customs, CAMCONTROL) -Speedy import-export procedures: <ul style="list-style-type: none"> • duty exemptions • customs clearance • certificate of origin • CAMCONTROL -Lower electricity cost -Better security -Low insurance fees -Less labor disputes 	<p>-One Stop Shop at the CDC : investment approvals, duty exemptions.</p> <p>-At different Ministries/Agencies for others administrative procedures</p>

Best Practices

POLICY	BEST PRACTICE	CAMBODIA SEZs
Extra-territoriality	<ul style="list-style-type: none"> • Outside domestic customs territory 	NO
Private Sector Development	<ul style="list-style-type: none"> • Private sector can develop and operate zones 	Yes
Linkages with Domestic Economy	<ul style="list-style-type: none"> • Sales from SEZ to domestic market subject to payment of import duties and taxes 	Yes
	<ul style="list-style-type: none"> • Purchase from domestic market treated as exports 	Yes
Eligibility for Benefits	<ul style="list-style-type: none"> • No minimum export requirement 	Yes
	<ul style="list-style-type: none"> • Foreign and local firms 	Yes
	<ul style="list-style-type: none"> • Eligible for national certificates of origin 	Yes
Fiscal and Non-fiscal benefits	<ul style="list-style-type: none"> • Duty and tax free privilege on construction materials and construction equipment 	Yes
	<ul style="list-style-type: none"> • Tax benefits to developers and investors 	Yes
	<ul style="list-style-type: none"> • Non-fiscal benefits 	Yes

Best Practices (Continued)

POLICY	BEST PRACTICE	CAMBODIA SEZS
Licensing and Permitting	<ul style="list-style-type: none"> • Transparent criteria • One Stop Shops and streamlined approvals 	Yes Yes
	<ul style="list-style-type: none"> • Automaticity 	No
	<ul style="list-style-type: none"> • Implementation of Revised Kyoto Convention provisions 	No
	<ul style="list-style-type: none"> • Minimum controls, primarily at perimeter 	Yes
Customs Controls	<ul style="list-style-type: none"> • Use of ICT and risk management • Guarantees (insurance or bank) required 	No No
Labor Policies	<ul style="list-style-type: none"> • Full consistency with ILO standards • Special dispute settlement process 	Yes Yes
Environmental Policies	<ul style="list-style-type: none"> • Applies national regulations • Promotes good environmental practices 	Yes Yes



SEZ Fact Finding / Survey

SEZ firm tend to be younger (SEZ 2.3, Non SEZ 13.2 years) and larger (SEZ 616, Non SEZ 430 employees)

NO significant different in labor productivity BUT the value added per unit of output is slightly higher in SEZ.

SEZ firm are more export oriented (70.3% , 25.5% of total sale)

SEZ firms purchase their technology under license, NOT invest in R&D which lower than Non SEZ firms

SEZ firms are more foreign-controlled (93.8% , 38.4% of foreign ownership)

SEZ firms use less domestic input (12% , 62%) and sell a small portion of output to local market (27% , 63%)

SEZ firms mostly use technology license from foreign own firm (40% , 14%) and more likely to have international recognized certificate (25% , 8%)

Backward and forward linkage still less effective and less spillover to domestic economy

SEZ firms invest more on training their worker (36% , 9%)

Working environment in SEZ is better than outside, employee and employer is better understanding → Less union and less strike.

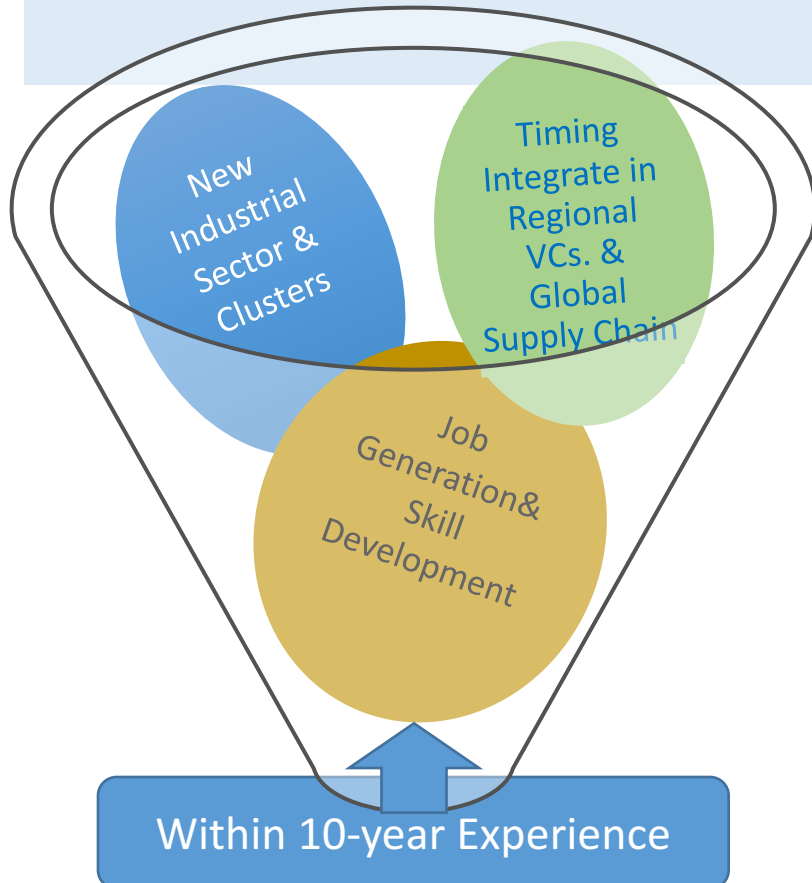
OSS is fully implemented at the site → reduce cost / time, less required document → higher satisfaction



Successes & Challenges

The 4 keys success factors:

- (1). Strategic location in ASEAN and middle of 2 industrial hubs
- (2). Market access: AEC (630m); (RCEP-3.3b); MFN/GSP 32 Countries; and EU (Everything But Arm).
- (3). Young and Dynamic Labor Resource with reasonable wage and progressive productivity.
- (4). Smoothly of One Stop Administrative Service at SEZs



4 Critical Challenges:

- 1- Infrastructure (Hard and Soft)
- 2- Limited economic spillover / Gap of industrial linkage between new industries vs local economic activities
- 3- The nature of SEZ approach is “Enclave Approach”
PLUS
Limited Micro Enabling Conditions & Weakness Meso Conditions
- 4- Insufficient incentive package to be as “SPECIAL”



Recommendation

- ❖ The inefficiency economic spillover effects through backward & forward linkage is one of the key constraint
 - ➔ The Government should pay strongly attention on the development of domestic industrial capacity, SMEs, ➔ **by putting more incentives, enlarging the market, and providing favorable policies.** ➔ **economic restructure & industrial diversification.**
- ❖ To further **improve streamlining administrative procedure (Micro):**
 - Custom extra territory status
 - Incentive
 - Environment requirement (EIA)
 - Factory licensing & construction permit
 - Import-Export procedure (ICT, automation, and Risk management)
 - Labor supporting services

Meanwhile, some alternative measures need to be improved such as the skilled labor, supporting institutions, transport/logistic system, and export infrastructure.
- ❖ Preparation the industries for further and deeper integrating in regional and global value chains by well-understanding the demand and trend.

**CAMBODIA-THAILAND
JOINT BORDER SEZs DEVELOPMENT
PROGRAM**

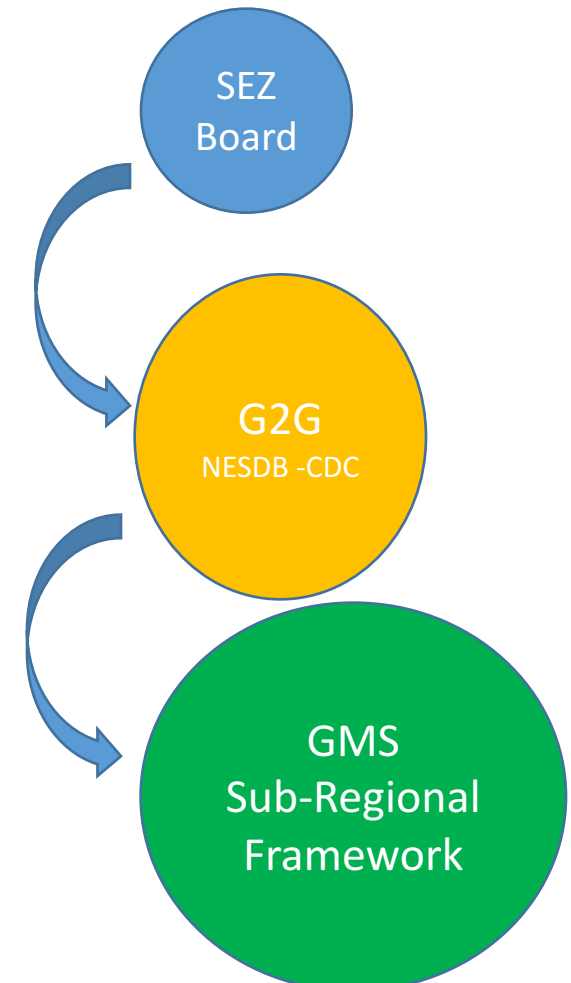
GMS Connectivity Infrastructure

GMS Connectivity Infrastructure in 2015-2020

- Roads
- Telecommunications
- Power Transmission Line



Joint Development of SEZs Structure & Mechanism





Joint SEZs Development between Cambodia-Thailand

Two Joint Working Group Meetings on the Development of SEZs along Cambodia-Thai border between NESDB and CDC have been made in 2015 with the results as follow:

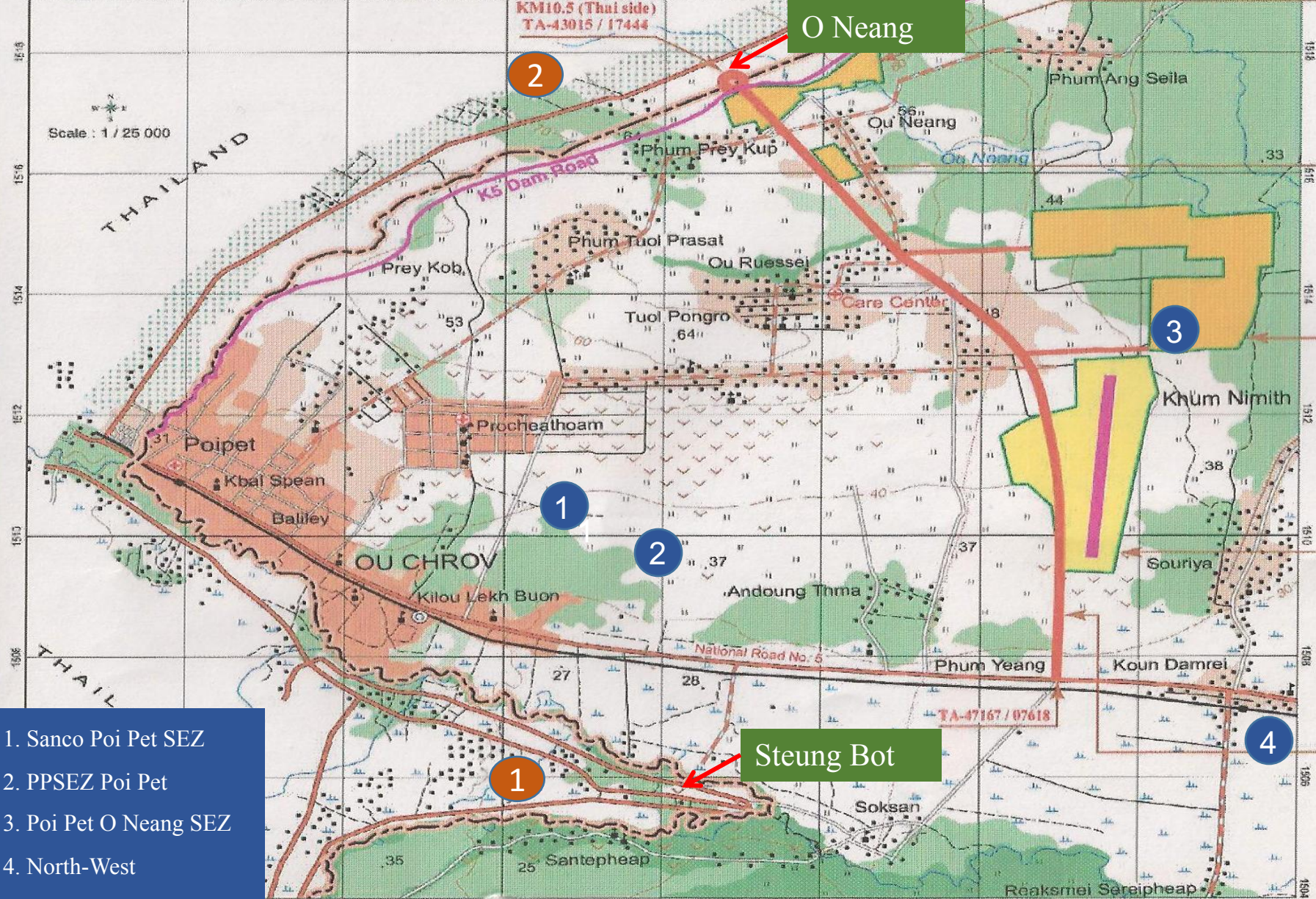
- ❖ Develop the border area “(1) Poi Pet – Sa Keo and (2) Koh Kong – Trat”
- ❖ Facilitate and formalize cross border activities and simplified custom procedure
- ❖ Jointly promote co-production and supply chain linkage between SEZs in both countries
- ❖ Both sides agrees on the need to open a new international point of entry
“Nong Ian-Stung Bot for cargo.
- ❖ Explore possibilities to develop and promote investment in finance, banking, social facilities such as hospital, school, and health care in SEZs area.

Joint SEZs Development
Between Cambodia-Thailand

- (1)
Infrastructure
Development
- (2)
Rules &
Regulations
- (3)
Target
Activities



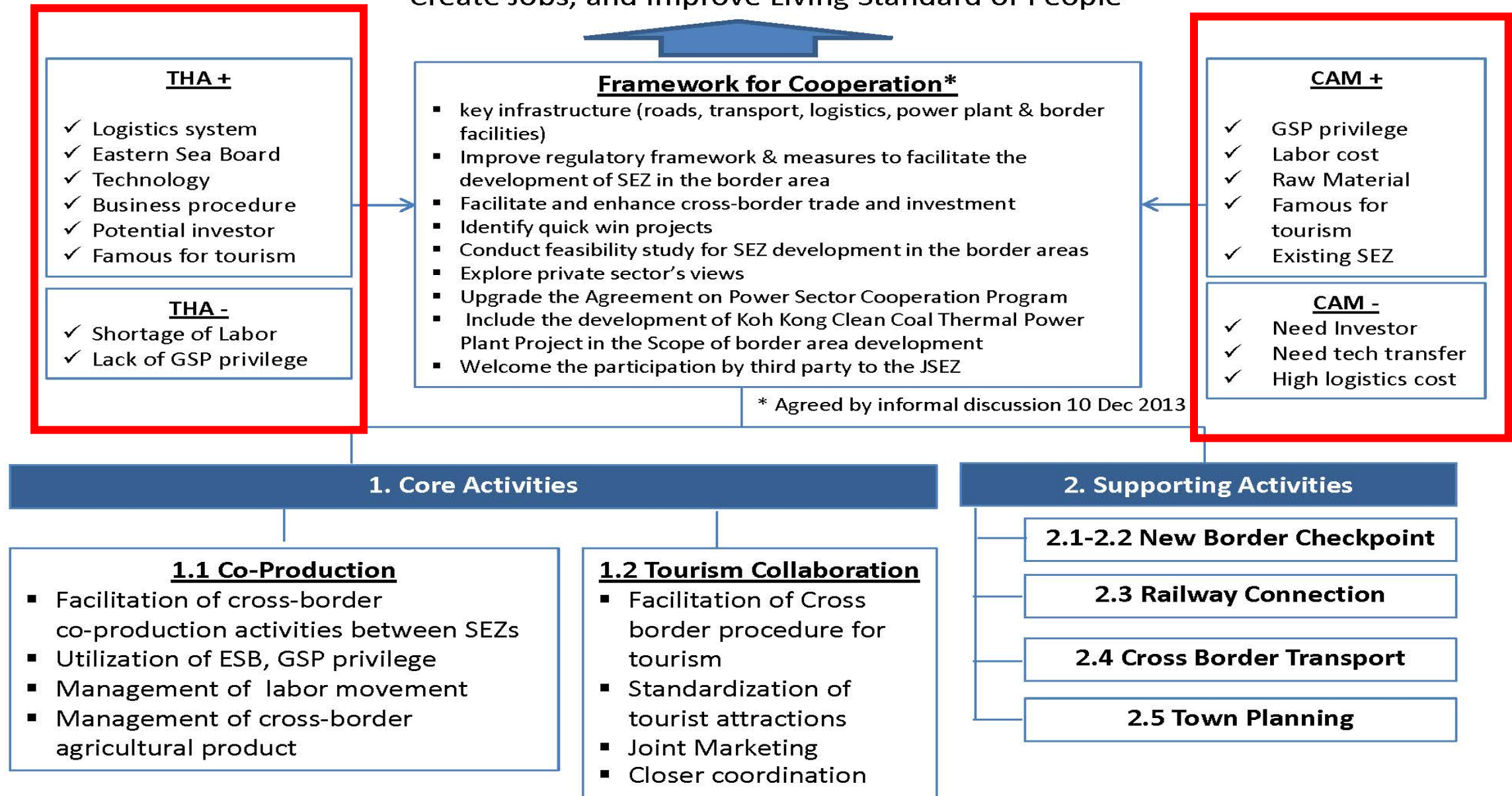
POIPET . COMMERCIAL & INDUSTRIAL ESTATE DEVELOPMENT ZONE



- 1. Sanco Poi Pet SEZ
- 2. PPSEZ Poi Pet
- 3. Poi Pet O Neang SEZ
- 4. North-West Development SEZ

Concept, Framework, and Possible Activities for CAM-THA Joint Development of SEZs

Objective : Wider Border Development Cooperation, Promote Cross Border Trade & Investment, Create Jobs, and Improve Living Standard of People





Thank you!

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