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CHAP SOTHARITH AND CHHEANG VANNARITH

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Abbreviations

ASEAN	Association of South East Asian Nations
ASYCUDA	Automated System of Customs Data
CDC	Council for Development of Cambodia
CIB	Cambodian Investment Board
CSEZB	Cambodia Special Economic Zone Board
FGD	Focus Group Discussion
GDCE	General Department of Customs and Excise
GDP	Gross Domestic Products
G-PSF	Government-Private Sector Forum
ICC	International Chamber of Commerce
IPA	Investment Promotion Agency
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
LDEs	Least Developed Economies
MOC	Ministry of Commerce
NSDP	National Strategic Development Plan
PPCC	Phnom Penh Chamber of Commerce
PSI	Pre-Shipment Inspection
RGC	Royal Government of Cambodia
SAD	Single Administrative Document
SEDP	Socio-Economic Development Plan
SEZ	Special Economic Zone
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Chapter I: Current Economic Status

1.1. Background

After overcoming from many obstacles and calamities resulting from decades of civil war and international isolation, Cambodia has resumed its normalcy and become one of the emerging economies in the region. With promising reforms and aspiration for development, the country has achieved high economic growth rate coupled with new market opportunities and high potential for local economic development and attracting foreign direct investment. Nevertheless, about one third of Cambodian population is living under the poverty line and the country still remains as one of the Least Developed Economies (LDEs) which is requiring further endeavor to get the country out of this LDEs group in the next decade.

Three distinct periods of progress could be seen in Cambodia's recent past. The first was from 1979 when it emerged from almost four years of genocide and mass killing, some people called it year zero. Everything had to start from scratch from 1979. With hope and perseverance, and even in conditions of international isolation, the country was rebuilt and reached a stable stage but scars and legacies still remain including in terms of skilled manpower shortage. The second was from 1993 to 1997, when in mid-1997, the country was suddenly overwhelmed by two unrelated crisis, inter alia, externally the East Asia economic crisis and internally the sudden divisions and disruptions in July political crisis, both events were occurring almost simultaneously. The third started from 1998, with the formation of the second RGC to present, a period of peace, stability and uninterrupted growth and progress. Indeed, while most work up to 1997 were somewhat in the nature of rehabilitation and reconstruction efforts mainly based on international assistance, serious rebuilding work commenced in 1998. While the “hardware” by way of building physical infrastructure has been proceeding, the “software” of changing economic and legal systems, reinforcing social capital and institutional development, is by its very nature time consuming.[1]

Economically speaking, Cambodia has developed her economy and state building with a very ambitious reform agenda. Similar to Vietnam’s Doi Moi, Cambodia launched an aggressive reform program in which private property rights were restored and price control

[1] NSDP (2006-2010), p. 6.

was abolished. Many of State-owned enterprises were privatized and incentives were provided to local and foreign private investment. With the signing of the Paris Peace Accord in 1991, Cambodian warring factions, except the Khmer Rouge, agreed to put an end to the protracted civil war and rehabilitate the economy.[2]

After the 1993 general elections, Cambodia has been transformed completely from centrally planned economy to free market economy and the Royal Government of Cambodia began formulating comprehensive macroeconomic and structural reform and achieved some significant successes in stabilizing the macro-economic foundation. With win-win policy, the country has a full peace and stability after the last Khmer Rouge rebels were completely dismantled and integrated into Cambodian society in 1998. With this foundation, the economy expanded rapidly during the first half of the 1990s and 2000s, while inflation was dramatically reduced.

The Cambodian economy became more resilient and dynamic despite the major challenges faced by the regional and global economy and the natural disasters the country experienced. For the period 2000—2008, Cambodia achieved an average growth of approximately 9 percent per annum. In particular, during the last three years, Cambodia's economic growth reached unprecedented double-digit rates of 11.4 percent per year on average, with 2005 as its peak year when growth reached 13.5 percent. Economic growth was 10.8 percent and 10.2 percent for 2006 and 2007, respectively. Though Cambodia has been affected by the global recession, it posted economic growth of 6.8 percent in 2008 when its economy was expected to grow only 0.1 percent in 2009 and 4.8 percent in 2010.[3] As result, the average per capita income increased remarkably from US$288 in 2000 to US$513 in 2006 and then to US$900 in 2008. Poverty has been reduced by about 1 percent per year.

Cambodia's economy suffered a serious setback in 2009 while GDP is estimated to have contracted by 2 percent, driven by poor exports of garments (volumes down by 16 percent), smaller tourism receipts (down 2 percent with tourist air arrivals reduced by 10 percent), and weak inflows of foreign direct investment (down by 35 percent). These negative factors were compounded by tighter credit and a severe slowdown in construction. The estimated contraction is consistent with results from a survey of 300 formal firms and 100 informal firms indicating a 30 percent decline in sales and profits in the summer of 2009 compared to the year before. In the formal sector, 4 percent of firms went bankrupt, with another 4 percent closing for seasonal or other reasons. New company registrations fell by 27

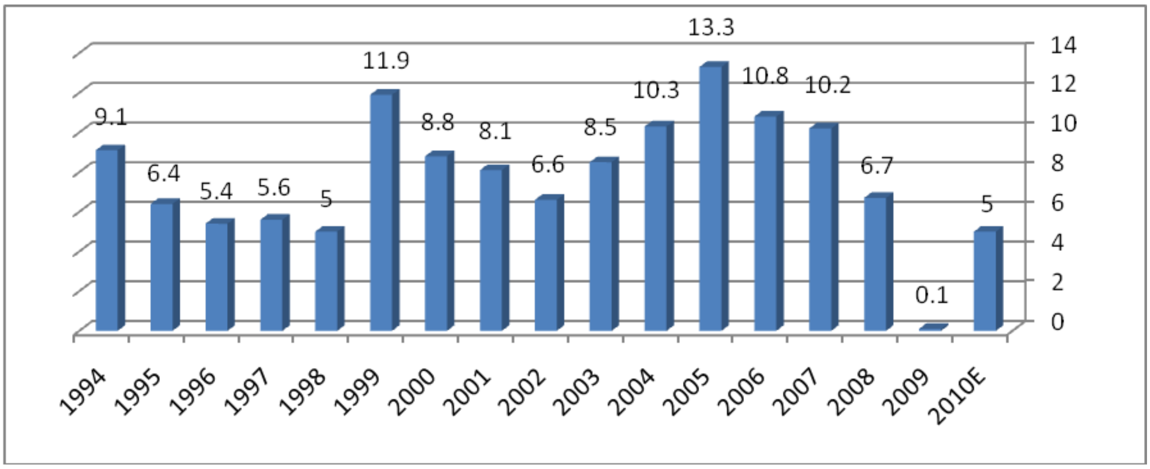
[2] Chap (2009).
[3] ibid.

percent. In the midst of this contraction, agriculture continued to post a healthy growth of around 5 percent and an accommodative policy mix mitigated the slowdown.[4] Recorded agribusiness exports more than doubled (essentially in milled rice and rubber exports), year-on-year air tourist arrivals stopped declining, imports of consumer goods stabilized, and both domestic credit and inflows of foreign direct investment began rebounding. As a result, it is projected that the growth in 2010 is about 4.4 to 5.0 percent. Risks to the forecast include the fragility of the global recovery, the constraint capacity of the economy to diversify, and the limited scope for a stronger recovery in credit.[5]

The current account deficit is expected to fluctuate within the overall macroeconomic framework. The deficit fell to 11.5 percent of GDP in 2009, with the decline in exports to

Figure 1.1: Cambodia Economic Growth Rate (1996-2009)

Unit US$ million



Source: Hang Chuan Naron (2010) and other sources.

both the U.S. and EU markets more than offset by the drop of imports. With imports growing faster than exports in 2010, the current account deficit is projected to increase to 15.3 percent of GDP. Cambodia’s trading pattern remains vulnerable to external shocks as its market segment is narrow. More than 60 percent of exports go to a single country and more than two thirds of imports come from 4 countries in East Asia. On the financing side, FDI inflows shrank by -35 percent, falling to US$515 million or 5.1 percent of GDP from US$795 million or 7.7 percent of GDP in 2008. While external aid was steady, other private flows rebounded after outflows of capital late 2008. As a result, gross reserves continued to accumulate albeit at a lower rate than previous years, expanding by 9.4 percent to US$2.4 billion, representing

[4] World Bank (2010), p. 39

[5] The GDP growth in 2009 is different between sources: Government posed 0.1 percent and World Bank posed minus 2 percent (-2%).

about 4 months of imports. The exchange rate has been relatively stable with year-on-year inflation rate dropping from a two-digit rate last year to 5.3 percent by the end of 2009. The previous years' depreciation in the real effective exchange rate was reversed in 2009.[6]

Apart from advances in peace, stability and social order, Cambodia is now getting increasingly integrated into the region by joining ASEAN and other regional and sub-regional mechanism with active participation in activities and events including successful hosting ASEAN summit in 2002 in Phnom Penh. RGC has signed trade agreements with many countries in Asia to increase easy access to outside markets. Globally, an important milestone was reached with Cambodia being admitted to WTO in October 2004.[7] This has imposed higher responsibilities to adhere to strict protocols, regulations, and standards but has equally opened up tremendous opportunities for trade with the world at large on a competitive basis.

1.2. National Strategic Development Plan

After the first Five Year Plan (1996-2000) and the Second Five Year Plan (2001-2005) has been implemented, Third Five Year Plan called The National Strategic Development Plan (2006-2010), has been formulated using the comprehensive Rectangular Strategy of the Royal Government of Cambodia (see Box 1 and Figure 1.2) and synthesises various policy documents (Cambodia Millennium Development Goals, National Poverty Reduction Strategy, National Population Policy, etc) and through extensive consultations were also held among all stakeholders. It provides the framework and compass for growth, employment, equity, and efficiency to reach CMDGs and well-focused and directed future equitable development, pro-poor and pro-rural. It will take the country on an assured growth path in a sustainable way. It lays out the vision, goals, strategies and priority actions for the next five years. It makes balanced, realistic and feasible allocations to various sectors on a priority basis. Its implementation will be closely and regularly monitored to make annual adjustments.[8]

The NSDP Update 2008-2013 is an important document of the RGC, which will provide details on specific actions, programs, and projects to be carried out by Line

[6] World Bank (2010), p.40.
[7] Cambodia submitted, on 22 July 2003, its acceptance of the terms and conditions of membership set out in the Accession Protocol which was approved by the Ministerial Conference on 11 September 2003 and signed by Cambodia subject to ratification. Cambodia became the 148th member of the WTO on 13 October 2004. Cambodia is the second LDC to join the WTO through the full working party negotiation process.
[8] The Plan can be downloaded from Ministry of Planning Website: www.mop.gov.kh

Ministries and Agencies to achieve the national prioritized goals as stated in the Rectangular strategy for Growth, Employment, Equity and Efficiency - Phase II, constituting the socio-economic policy agenda the “Political Platform” of the RGC of the fourth legislature of the National Assembly.

Through this socio-economic policy agenda, the Royal Government reiterates its mission statement and firm determination in continuing the reforms in order to strengthen good governance and stimulate high economic growth, the most important factors to ensure sustainable development and poverty reduction. In this respect, the Royal Government still regards the National Strategic Development Plan as a crucial tool to implement the prioritized development policies in order to achieve national prioritized goals and targets.

Recently, the government updated its National Strategic Development Plan (NSDP) to extend it in line with the government electoral mandate. The updated plan was adopted in June 2010, setting ambitious 2013 targets of attaining per capita GDP income of nearly $1,000, net primary school enrolment of 99 percent, and rural access to improved drinking water of 67 percent. Beyond macroeconomic management, the government is focusing on the lessons from the crisis. A social protection strategy is in the final stages of preparation. An agreement has been signed to expand the Rural Development Bank’s financial support to the rice sector. The Tourism Law was endorsed and visa waiver programs expanded. And trade facilitation is continuing with the expansion of the customs automation project.

1.3. The Rectangular Strategy

The Rectangular strategy was adopted by Prime Minister Samdech Hun Sen in his first address to the First Cabinet meeting First Cabinet Meeting of the Third Legislature of the National Assembly at the Office of the Council of Ministers on 16 July 2004. The Strategy has been updated to the Phase II from 2008- 2013. The rectangular strategy is an integrated structure of interlocking rectangles, as follows:

First, the core of the rectangular strategy is good governance, focused at four reform areas: (1) anti-corruption, (2) legal and judicial reform, (3) public administration, and (4) reform of the armed forces, especially demobilization;

Second, the overall environment for the implementation of the rectangular strategy consists of four elements: (1) peace, political stability and social order; (2) partnership in development with all stakeholders, including the private sector, donor community and civil society; (3) favorable economic and financial environment; and (4) the integration of Cambodia into the region and the world.

Third, the four strategic "growth rectangles" are: (1) enhancement of agricultural sector; (2) private sector development and employment generation; (3) continued rehabilitation and construction of physical infrastructure, and (4) capacity building and human resource development.

Fourth, each strategic "growth sector" has four sides:

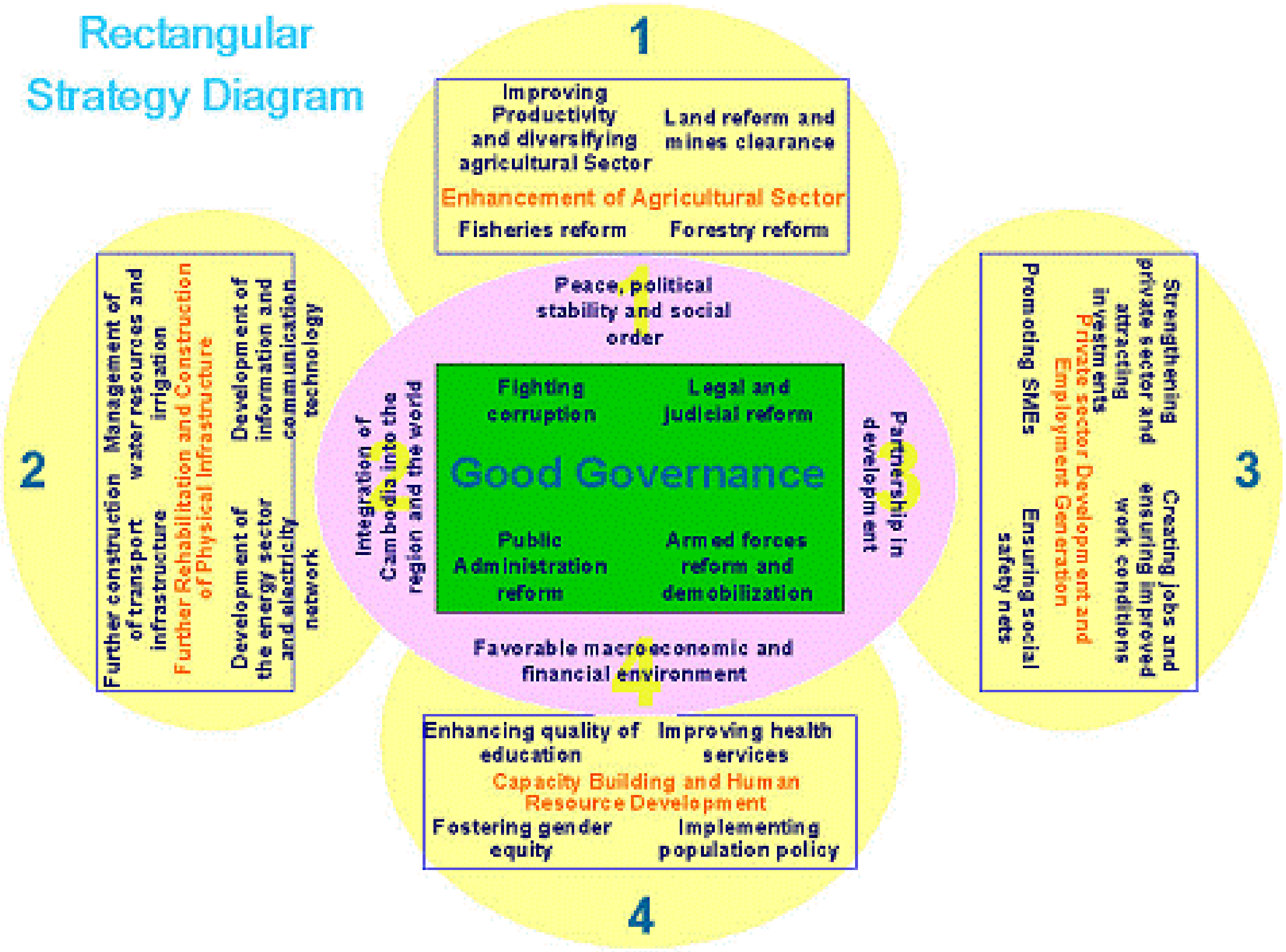
Rectangle 1: Enhancement of Agricultural Sector which covers: (1) improved productivity and diversification of agriculture; (2) land reform and clearing of mines; (3) fisheries reform; and (4) forestry reform.

Rectangle 2: Further Rehabilitation and Construction of Physical Infrastructure, involving: (1) further restoration and construction transport infrastructure (inland, marine and air transport); (2) management of water resources and irrigation; (3) development of energy and power grids, and (4) development of information and communication technology.

Rectangle 3: Private Sector Development and Employment Generation covers (1) strengthened private sector and attraction of investments; (2) promotion of SMEs; (3) creation of jobs and ensuring improved working conditions; and (4) establishment of social safety nets for civil servants, employees and workers; and

Rectangle 4: Capacity Building and Human Resource Development, including: (1) enhanced quality of education; (2) improvement of health services; (3) fostering gender equity, and (4) implementation of population policy.

Figure 1.2: The Flow Chart of Rectangular Strategy



Source: Royal Government of Cambodia

Chapter II: Investment Promotion and Facilitation

2.1. Background

With the 1993 national election, held under the auspices of the United Nations, Cambodia began to emerge from a turbulent period of regime changes and protracted civil war. Cambodia, by itself and small support from international community, has conducted another three elections in 1998, 2003, and 2008, and the outcome can reasonably be expected to be the consolidation of political stability. Over the past 20 years, Cambodian Governments have also made a sustained effort to create a market-friendly environment.

The Law on Investment was adopted on 20 July 1989 and later it was replaced by the new Law on Investment 1994. From 1994- 2003, the CIB developed a matrix for calculating eligibility for the tax holiday incentive based on the following factors: favorable sectors (agriculture, industry, tourism, etc.), capitalization, location (rural and depressed areas), technology transfer, training of local personnel, exports contents, value added, employment of women and vulnerable people such as the handicapped and veterans, and jobs creation (or labor intensive). The precise incentives granted to an applicant depending upon the results of analyses conducted by the CIB of the investment proposals case by case. Therefore, this process is subjective and is not transparent or automatic.

In order to promote private participation in economic development, Cambodia has adopted many laws and regulations, especially those related to trade and investment. In May 2010, a Law on Providing Rights of Ownership to Foreigners to the common property including real estate was adopted. This law and other related regulations allow foreigner to buy up to 70 percent of private-used floor areas in any common properties such as Apartment or buildings. In addition, in June this year, the Government adopted the Law on Anti-Corruption to reduce corruption and punish those who are found corrupt including individuals, corporations, Government officers, the leaders of business and NGOs. These laws and regulations are supporting tools to promote investment in Cambodia.

2.2. FDI in Cambodia

After having an economic reform in 1989 from socialist economy to market economy, Cambodia has privatized its state owned enterprises and liberalized the market and investment. Cambodia introduced the Law on Investment in 1994 and the Law on amendment to the Law on Investment in 2003. These legal instruments pave the way for Cambodia to attract investment from both domestic and foreign investors.

In 1995, one year after the enactment of the Law on Investment, the fixed investment capital and asset, approved by the Cambodian Council of Development, amounted for 2.3 billion US Dollars. From 1994 to 2003, the annual average was 740 million US dollars. From 2004 to 2008, the average amount was 1.8 billion US dollars. From 1994 to June 2009, the accumulative investment approved by CDC was US$25.2 billion. The main investment areas are textile industry, agro-industry, tourism, and construction (see Table 2.1).

Table 2.1: Approved FDI in Cambodia 1994- 2009

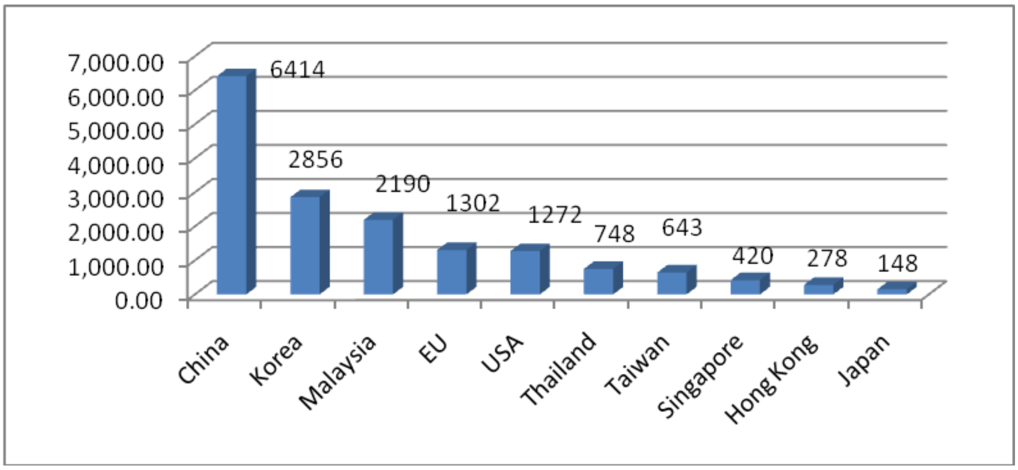
FDI 1994-2009 (April)	Number of Projects	Capital
1994	86	505,698,494
1995	125	2,243,450,373
1996	184	763,062,160
1997	205	744,510,560
1998	144	853,924,698
1999	91	447,921,269
2000	61	218,037,881
2001	39	204,683,613
2002	31	234,552,572
2003	41	224,739,166
2004	52	210,440,247
2005	91	962,378,619
2006	86	3,467,851,383
2007	90	1,925,728,571
2008	121	11,363,211,932
2009 (up to April)	n/a	928,000,000
1994-2009	**1447**	**25,298,191,538**

Source: CDC Database

In general, there is a positive trend of FDI flow to Cambodia. However, FDI ratio among the total investment amount approved by the CDC has been continuously decreasing since 2004. For instance, in 2008 alone there was only 44.5 percent of the total approved investment amount.

Figure 2.1: Approved Investment by Top 10 Countries (1994- 1st Half 2009)

Unit US$ million



Source: CIB

In the context of increasing competition to attract foreign direct investment to the country, Cambodia needs to improve services and reduce costs. There are still many constraints facing by the current and future investors. In order to understand those constraints, field research survey was conducted.

2.3. Reasons to Invest in Cambodia

According to various investment promotion documents and the CIB source and without classifying priority in the list, followings are reasons to invest in Cambodia.

- Political Stability
- Macroeconomic Stability (with high growth rate, low inflation and sound financial sector)
- Pro-business Government (Business friendly government, with One-Stop Service Investment Promotion Agency)
- Competitive Investment Incentives (in Cambodia, corporate income tax is 20 per cent, which is very low in comparison to other countries in the region, projects that are eligible for incentives get a tax holiday of between 6 and 9 years, Foreign investors can own 100 per cent of their business, etc).
- Access to World Market (if manufacturing in Cambodia, you will have 560 million consumers in Asean on your doorstep).
- Investment Protection

- Efficient Infrastructure and Strategic Location
- Abundant Resources, mineral resources, labor and land
- There are no price controls on products and services in Cambodia.
- There are no restrictions placed on the repatriation of funds. If you make a profit in Cambodia you will be able to take your money out
- Cambodia is among the 50 least-developed countries listed by the United Nations and enjoys tariff-free privileges for its exports to the US, Canada, Europe, Japan, Australia and other major international markets.
- A trouble shooting committee for SEZs to oversee any problems that occur with land rights, exports, imports and the labour market.
- Open economy.
- Sound macroeconomic environment.
- Foreigner friendly population.
- A low cost, young and energetic workforce.
- Favourable investment incentives and tax regime.
- Strategic location.
- Abundant natural resources.
- World class tourist sites.
- Vast regional market access

2.4. Investment Promotion Agency

The institutional arrangement for management and promotion of foreign direct investment in Cambodia has changed remarkably following the changes in governments. Immediately after the new law on investment was adapted in August 1994, a new institution, Council for Development of Cambodia (CDC), was set up to replace the old National Committee of Investment (NCI) to be responsible for the development and management of FDI. The CDC consists of two executive boards: the Cambodian Reconstruction and Development Board (CRDB) and the Cambodian Investment Board (CIB). The CRDB is responsible for public investment and coordination of international assistance while the CIB is responsible for managing and evaluation of private investment.

Council for Development of Cambodia (CDC)

The institutional structure of investment policies and strategies in Cambodia is handled by the Council for Development of Cambodia, (CDC), which is the highest decision-making body in defining the framework for investment strategies and accepting or rejecting investment proposals.

The CDC was formed after the new government was setting up in late 1993. It continued to operate without official appointment decree (enabling legislation), until 26 June 1995, when the government adopted an Anu-kret (sub-decree) on organization and functions of the CDC to empower and strengthen this institution. Later, the new Sub-Decree N° 147 ANK.BK on The Organization and Functioning of the Council for the Development of Cambodia dated on December 29, 2005 was adopted and replaced the old one. Later the Sub-Decree was amended and replaced by the new Sub-Decree N° 149 ANK.BK on The Organization and Functioning of the Council for the Development of Cambodia dated October 3, 2008. The CDC is appointed to be an inter-ministerial body under the direct responsibility of the Council of Ministers (the Government).

The composition of the CDC is as follows:

1. Prime Minister as co-Chairman
2. Senior Minister in charge of Rehabilitation and Development as Vice-chairman
3. Minister of Commerce, Vice Chairman
4. State Secretary for Economy and Finance, Vice Chairman
5. Minister of Culture and Fine-Arts, Member
6. Minister of Public Works and Transport, Member
7. Minister of Foreign Affairs and International Cooperation, Member
8. Minister of Economy and Finance, Member
9. Minister of Planning, Member
10. Secretary General of CDC, Member
11. Secretary General of CRDB, Member and
12. Secretary General of CIB as members

The day-to-day operation of the CDC was under the control of the Executive Committee, which comprises the chairman, Vice-chairman, the Secretary General of the CDC, the Secretary General of the CRDB, and the Secretary General of the CIB. The Executive Committee meets every two weeks.

In relation to private investments, the roles and responsibilities of CDC are the followings:[9]

1. to serve as the "One-Stop Service" mechanism and the "Etat-Major" of the Royal Government in the examination and approval of matters pertaining to investments as specified in Article 3 of the Law on the Amendment to the Law on Investment of the Kingdom of Cambodia;
2. to study "the competitive advantage" of Cambodia in the international market, to set the vision of private investments for Cambodia, and to turn Cambodia into "Cambodia, Inc". To cooperate with relevant ministries and institutions in preparing the strategy for private investments and to set up projects for private investment;
3. to promote projects for private investment formulated by the Royal Government and inform the investors of such projects in accordance to the procedures as set in the internal regulations of CDC;
4. to coordinate the management of infrastructure concession projects;
5. to initiate and recommend to the Royal Government on the preparation and the amendment of laws and regulations related to private investment so as to create favorable conditions conducive to private investments;
6. to prepare documentation and regulations pertaining to private investments for domestic and international distribution; and
7. to produce and submit semi-annual and annual reports to the Royal Government for its review and its recommendations on corrective measures concerning private investments.

The CDC can provide approvals to FDI projects including licenses, tax exemptions, and a part or full package of incentives. But the CDC has limited power and is required to submit for the approval of the Council of Ministers, any projects involving the following:

- A capital investment of US$50 million or more;

[9] Article 17 of the Sub-Decree N° 147 ANK.BK on The Organization and Functioning of the Council for the Development of Cambodia.

- Political sensitivity issues; (i.e. a project where the decision has to be made carefully as it would affect the public interest and/ or environment).
- Exploration and the exploitation of mineral and natural resources;
- Long-term strategy; and
- Build-Own-Transfer (BOT) or Build-Own-Operate-Transfer (BOOT), or Built-Own-Operate (BOO) or Build-Lease-Transfer (BLT).

BOT, BOOT, BOO or BLT are project concessions usually involving Government property, which are given to the private sector to build (or repair), operate for profit in a period of time after which they will be transferred back to the government. Examples include toll ways, roads, airport development, hotels, tourist resorts, and ports. Those projects usually involve a large capital investment requiring a decision from the top leader. They often have a large impact on the public as well as the national interest. Therefore, it requires careful consideration and a political commitment from the technocrats and politicians.

The CDC set up a ***"one-stop service"*** within the CIB to facilitate the investment application process. The implementation of the one-stop-service mechanism of CDC for reviewing and approving matters regarding investment has the following principles:

a) The Ministry of Economy and Finance, the Ministry of Commerce, the Ministry of Planning, and the Office of the Council of Ministers, shall appoint one representative from each institution with an equivalent rank of Director or Deputy Director of Department to assist in the CIB.
b) The other ministries and institutions of the Royal Government shall delegate respectively a representative to participate in the "one-stop-service" but on an ad-hoc basis whenever their respective ministry's competence is related to private sector investments, and upon the request of the Secretary General of the CIB.

The Cambodian Investment Board (CIB)

The Cambodian Investment Board (CIB), is directly under the structure of the CDC (see figure 4). According to its mandate, the CIB is in charge of investment promotion at home and abroad. In order to attract foreign investment it has undertaken comprehensive competitive advantages studies and has also launched promotional campaigns in major business centers and worldwide through advertising campaigns. In this sense, the most important function of the Board is that it constitutes a one-stop- service for investors offering them all the necessary information, assistance and guidance for obtaining as quickly as possible the necessary registration, authorizations or tax exemptions. The Board is as well at the investors' disposal, whenever needed, to facilitate the setting up of their businesses.

The CIB has as its mandate the following main tasks:

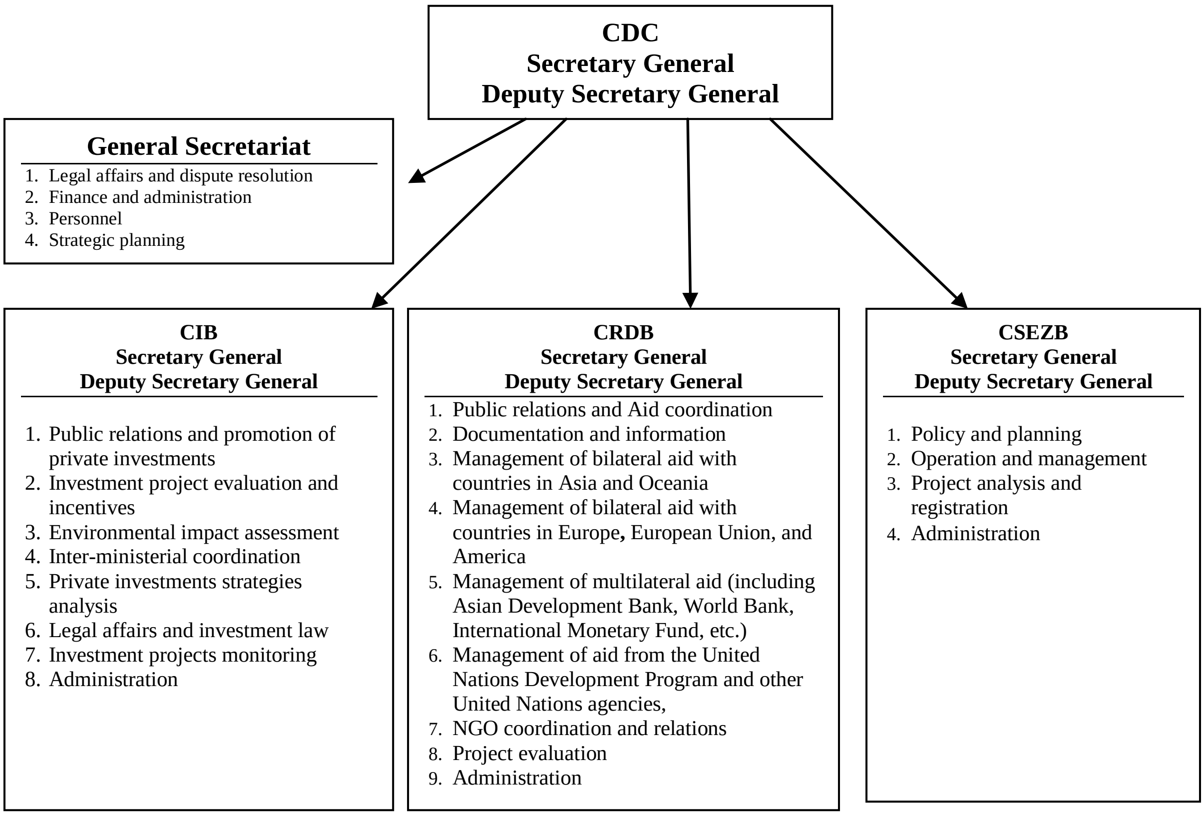
1- To effectively promote and facilitate foreign and local investments through a speedy approval procedure and a very competitive incentive package; and
2- To create employment, increase national productivity and improve the competitiveness of Cambodia in order to achieve sustainable socio-economic development.

The roles and responsibilities of the CIB are as follows:[10]

1. to manage the operation of the CIB;
2. to prepare agendas and necessary documentation for the "One-Stop Service" meetings pertaining to private investments;
3. to assist the CDC Secretary General in preparing necessary documentation pertaining to all matters of private investments for CDC Executive Committee’s meetings and CDC plenary meetings;
4. to monitor the implementation of private investments projects and programs in cooperation with relevant line ministries and institutions, and to submit summary reports and recommendations for CDC Executive Committee’s review and action;
5. to assist the CDC Secretary General in preparing semi-annual and annual reports on all matters pertaining to private investments for the CDC review and approval before final submission to the Royal Government;
6. to participate in the "One-Stop Service" meeting in order to review and approve matters pertaining to private investments; and
7. to execute other tasks pertaining to private investments as delegated by the Chairman and Vice-Chairmen of the CDC.

[10] Article 28 of the Sub-Decree N° 149 ANK.BK on The Organization and Functioning of the Council for the Development of Cambodia.

Figure 2.2. Structure of CDC



Source: Drawn by the Team Leader based on the 2008 Sub-Decree N° 149 ANK.BK on The Organization and Functioning of the Council for the Development of Cambodia

Table 2.2: Changes in the Legal Framework for FDI in Cambodia

	Before 1970	State of Cambodia (1989- 94)	1994- present
Law	-Kram No.221-NS, Law Promulgating The Rules Governing Foreign Capital Invested In Cambodia After 31 May 1956 -Code of Investments	-Law on Foreign Investments (20 July 1989). -Sub-decree for implementation of the Law on Foreign investment (20^{th} May 1991)	-Law on Investments (August 1994) - Law on Investments (Amended 2003) -Sub-degree for implementation of the Law on Investment - the Sub-Decree N° 147 ANK.BK on The Organization and Functioning of the Council for the Development of Cambodia
Institution	- a Bureau of Investment under The Ministry of Planning	-National Committee on Investment (NCI, its secretariat under Ministry of Planning)	Cambodian Investment Board under Council for Development of Cambodia (CDC)
Incentives	a)Fiscal advantage: -Exemption from registry and stamp fees -Exemption from: import tax on equipment and raw materials, the land tax on rural property and farmland, tax on profits, tax on the revenues of stocks and shares for the distributed revenues, -Loans on middle and long term basis by the Caisse Nationale d'Equipement.	-Corporate tax 15-25% -Tax holiday up to 2 years -Custom taxes applied imports - tax 5-10% on transfers of profits or dividend overseas. -Importation of equipment for operation exempted from taxation upon request. -Tax reduction or exemption subject to case by case review, depending on the sector of investment.	-Corporate tax 20 %. -Tax holiday of up to 8 years; -5 year loss carried forward; -100 percent import duties exemption on materials, machinery, intermediate goods, raw materials and spare parts used by incentive projects; -Free repatriation of profits (no restriction on repatriation of profit and no profit remittance tax); -No withholding tax on dividends -No price controls
Guarantee	-Guarantee against nationalization for a period of 10 and 20 years. -Local product protection. -Sufficient supply of raw materials.	-Guaranteed against nationalization.	-Guaranteed against nationalization; -No discrimination between foreign and local investors
Priority areas	-Agriculture -Rural land -Small scale industry -In Sihanoukville, a duty-free zones	-Export oriented goods, Imports substitution goods, Services, generating foreign currency, Construction of infrastructure such as power stations, dams, bridges, roads, airports, etc., Utilization of local raw materials and natural resources and Agriculture	-Pioneer and/or high technology industries, job creation, export oriented, tourism industry, agro-industry and processing industry, physical infrastructure and energy, provincial and rural development, environmental protection, and in Special Promotion Zones.
Restriction areas	-Land may be leased, but not owned by foreign investors.	-Land may be leased, but not owned by foreign investors. -Trading companies (selling and buying) are required to have at least 51 % local Cambodian majority share in the company.	-land may be leased (up to 99 years) but not owned by a foreigner except a joint-ventures in which the Cambodian share is more than 50 percent of the total investment; -Sectors not eligible for incentives are: trading, transport services, duty free shops, tourist related services, shopping malls, media, retail and wholesale, and professional services.

Source: Author's Comparison based on many sources.

Provincial Investment Committee

In order to facilitate investment to provinces, the Royal Government has established Sub-Committee on Investment in all provinces. The Development of Cambodia has worked with the Ministry of Planning (National Institute of Statistics), and related ministries and provincial authorities to collect data concerning the opportunities for investment of each province of Cambodia. These statistics are now available in binding would include: total land areas, non-developed land areas, land characteristics, annual average quantity of rain, temperature, infrastructure, population, labor cost, natural resources, potential for investment, etc... These data and information have been compiled in a book for both domestic and international promotion, through all means including during exhibitions and trade fairs, in embassies and consulates, posting internet and other means.

Cambodia Special Economic Zone Board

The Royal Government has been working hard to create the favorable environment for Special Economic Zones (SEZs) in Cambodia. The legal framework was put in place and the Cambodian Special Economic Zone Board (CSEZB) was established by a sub-decree on the Establishment and Management of Special Economic Zones (to include export processing zones and free trade zones) was adopted in December 2005.

CSEZB operates under the umbrella of the Council for the Development of Cambodia (CDC) – CDC is basically what would be described in other countries as a Board of Investment (BOI) or Investment Promotion Agency (IPA).

A trouble shooting committee for SEZs has also been established in order to oversee any problems that may occur with land rights, exports, imports and the labour market. The prime minister himself is chairman of both CDC and the trouble shooting committee.

According to Sub-Decree No. 148 ANKr.BK on The Establishment and Management of the Special Economic Zone, The Special Economic Zone shall be permitted to be established in the Kingdom of Cambodia at the appropriate and strategic areas according to the decision of the Royal Government of Cambodia and the "One-Stop Service" mechanism of the Council. The Special Economic Zone may be established by the State, private enterprise or joint venture between State and private enterprise.

The Establishment of the Special Economic Zone shall be pursuant to the following conditions:

a) It must have a land of more than 50 hectares with precise location and geographic boundaries;
b) It must have a surrounding fence (for Export Processing Zone, the Free Trade Area and for the premises of each investor in each zone);
c) It must have management office buildings, zone administration offices, large road network, clean water, electricity, and telecommunications networks, fire protection and security system. Based on each situation, the zone may have land reserved for the Residential Area for workers, employees and employers, public parks, infirmary, vocational training school, petroleum station, restaurant, car parking, shopping center or market, etc;

d) It must have water sewage network, waste water treatment network, location for storage and management of solid wastes, environment protection measures and other related infrastructures as deemed necessary; and
e) It must comply with technical requirements, regulations and basic rules on construction, environment and other obligations in the development of Special Economic Zone as defined in the instructions issued by relevant ministries or institutions taking into account the geography and specific size of each zone and pursuant to the existing laws, national and international standards.

Aiming to attract more investors, the SEZs offer a 'One-Stop Service' for imports and exports, with government officials stationed on-site providing administrative services. Applications to establish factories within the SEZs are dealt with on-site as well as all administrative clearances, permits, authorisations, etc.

The Royal Government has since approved a total of 21 Special Economic Zones (SEZs) located along the border with Thailand and Vietnam (Koh Kong, Poipet, Savet, Phnom Den), at Sihanoukville and Phnom Penh. Of the 21 zones, 6 have commenced operations and 4 of them have "One-Stop Service" within the Zones.

The establishment of the SEZs and the creation of an investor-friendly environment is an area where, in its context as an emerging market, Cambodia is recognised as having provided substantive leadership in South East Asia.

2.5. Policies on Investment Promotion and Facilitation

After the Law on Investment was amended in March 2003, the matrix was no longer used. The revised law on investment was accompanied by a revised law on taxation reaffirmed the country's openness to foreign direct investment (FDI). While investors already in the country are by no means delighted with every feature of the new law, especially as regards tax incentives, there is no question that Cambodia remains a fiscally attractive location, with a corporate tax rate of 20% for most activities. The Council for the Development of Cambodia (CDC), which draws on a number of ministries and departments, has been steadily improving its facilitation services for investors. FDI already in the country covers a range of activities from tourism through manufacturing to financial services, and investors have an effective voice in policy-making through the Government–Private Sector

Forum (G-PSF) and the International Business Club (IBC). [11]

Foreign investment policy in Cambodia has been formulated to meet the new changing economic policy from a centrally planned economy to a market oriented one. All sectors are open for investment except for national security purposes. No restriction is put on the foreign share of ownership. Foreigners can hold 100 percent shares in all sectors except for trading (wholesales, retails, supermarket, and export-import businesses). Any incentives package has been put in place to encourage investors from all over the world without discrimination. The minimum wage for local unskilled worker has been fixed at only US$50 and this year it is up to US$60 per month to meet the increase of living expenses and to encourage labor intensive investment projects.[12]

Foreigners are allowed to lease land under long term leases of up to 99 years that are renewable for another 99 years but otherwise may not own land outright. A legal entity in which Cambodians own 51 percent of the shares may, however, acquire land without restriction.

In January 2000, “Prakas on Trading Activities of Commercial Companies” was issued by the Ministry of Commerce, and both Cambodian and foreign companies were allowed to have right to freely engage in trading activities. However, under the Sub-Degree No. 111 on the Implementation of the Law on the Amendment to the Law on Investment, investment activities in all kinds of commercial activity, import, export, wholesale, retails and duty free shops, are not to be eligible for investment incentives.

Private Sector Development and Employment Generation

The four pillars of this rectangle are: (a) strengthening the private sector and attracting investments; (b) promotion of SMEs; (c) job creation and better working conditions; and (d) social safety net for workers.[13]

According to the third five year Plan, The Government considers the private sector as the prime engine of economic growth, while the government plays its role as the strategist, guide and manager of the development process, and the facilitator in creating a wholesome climate conducive to private investment and enterprise.[14] To address critical issues impeding private sector development in Cambodia, a “Twelve Point Plan” has been adopted containing

[11] United Nations (2003), p.1
[12] Chap (2005), p.49 and updated information.
[13] RGC, Rectangular Strategy
[14] NSDP (2006-2010), p. 54.

government commitments to improve the investment climate and trade facilitation.[15]

Creating Favorable Climate for Investment

The RGC will continue to foster, maintain and enhance favourable climate for investment both foreign and local ones by:

- Increasing economic integration of Cambodia into the economies of the region and the world.
- Development of needed infrastructure and availability of a pool of skilled manpower (through technical vocational education and other vocational training).
- Creation and implementation of special economic zones which could attract foreign direct investments and create jobs
- Continuously strengthening the legal framework for enterprises, including laws, regulations and institutional capacity that facilitate business, trade and private investment in a climate of fair competition, transparency, accountability and predictability.
- Effectively and speedily removing the most important factors impeding private sector growth, identified in the recent Investment Climate Survey[16] such as: poor governance; regulatory burdens, and weaknesses in the judicial and legal environment.
- Removing the current uncertainty and unpredictability caused by these factors which make long-term and serious investors shy away from Cambodia, leaving the impression that those who are here are for quick returns and speculation or stay in the informal sector to avoid taxes and thereby maximize returns.
- Operating a “single window” as a speedy facilitating mechanism for trade and all private investor requirements from the government.
- Continued open dialogue with the private sector through the Private Sector Forum and the Steering Committee for Private Sector Development to address concerns of the private sector.

To enhance export-led, pro-poor growth through diversification, RGC will continue to encourage, facilitate and provide support to private sector investment in some specific, priority sectors:

[15] World Bank (2004),
[16] World Bank (2003)

- Agriculture and agro-industry, including irrigation, because of their high potential for immense growth and multiplier effects in the economy by increase in incomes in rural areas and demand for consumption.
- Transport and telecommunications infrastructure.
- Energy and electricity generation and distribution.
- Labour-intensive industries and export-oriented processing and manufacturing.
- Tourism and related spheres.
- Human resource development.

Investment Promotion Tool

Investment Information Toolkit

With assistance from development Partners, the Council for Development of Cambodia has produced many investment promotion tool which include guidebooks on investment, Investment information kits including brochures, booklets, binding documents of Laws and Regulations related to investment, and CD containing most of required information and data for investors to analyses and making decision. The kits are distributed free of charge for those who are seeking opportunities in investing in Cambodia.

Investment Guide Books

With assistance from many stakeholders, such as UNCTAD, ICC and JICA, many Investment Guides were produced to help promote investment through providing information on relevant and important data and information for potential investors. Followings are examples of main Investment Guide Book.

- (2003) An Investment Guide to Cambodia, Opportunities and conditions, which were sponsored by UNCTAD and ICC.
- (2006) Cambodia Investment Guidebook, Council for Development of Cambodia, December 2006, sponsored by Japan International Cooperation Agency (JICA).

The Blue Book on Best Practice in Investment Promotion and Facilitation for Cambodia

The Blue Book on Best Practice in Investment Promotion and Facilitation Cambodia was published in 2004. The Book was sponsored and produced by cooperation between United Nations Conference on Trade and Development (UNCTAD) and Japan Bank for International Cooperation (JBIC). The Blue Book is intended to guide Cambodia in the process of improving the investment climate, in benefiting more from foreign direct investment, and in dealing with a range of investment-impediment related issues and public-business sector dialogue. It was compiled drawing extensively on inputs from all stakeholders, including UNCTAD, JBIC, and the ICC. The Blue Book, therefore, contains concrete and measurable activities for the government in achieving best-practices in the following three broad areas: (1) Regulatory framework for investment and impediments to investment; (2) Investment promotion strategy; and (3) Institutional development.

The selection of topics and action items were guided by the following key criteria: (a) relevance to foreign investment; (b) actionable within one year; (c) not being covered by other players/donors; and (d) with a focus on action and doing – not on planning.

The Blue Book finally proposed 10 Point-Action Plan:

1. Produce timely official translations of business-related laws and decrees into English.
2. Change regulations to allow prices of CDC-approved imported inputs to be calculated at transaction values.
3. Install an investor tracking system.
4. Develop facilitation and aftercare services units within the CIB.
5. Implement a targeted investment promotion strategy: starting with light manufacturing, including agro-processing.
6. Train government institutions in technical dealing with investors (client-orientation)
7. Initiate pilot programme on building supplier relationships between foreign and domestic firms (i.e., business linkages) among CDC/CIB, MAFF, MIME, MOC, and other agencies in the garments and agro- processing sectors, and with affiliates of foreign TNCs in Cambodia.
8. Enhance the monitoring system to track problems raised by the Working Groups of the Government-Private Sector Forum and the progress achieved.
9. Build up the information base and services of the Cambodian Chamber of Commerce to support SMEs and other businesses (utilizing the Internet to achieve this).

10. Support establishment of Provincial Chambers of Commerce.

2.6. Findings

Finding from Private Sector Survey

The survey was conducted based on both face to face interviews and self-completion by the respondents. One hundred questionnaires were distributed to the private companies and 20 completed questions were returned while other 10 were collected from the workshop and other 10 were collected through face to face interviews.

The findings are as follow:

1.Factors Influencing the Decision to Invest: it is found that Low labor cost, robustly growing economy, macroeconomic stability, political stability, investment incentives, equal treatment of investors, and low tax rate are the most significant and necessary factors influencing investors' perceptions (both domestic and foreign investors) to decide to invest in Cambodia. Other factors are slightly less significant than other factors such as large domestic market, available domestic suppliers, low corruption, and government supporting land, strategic location, effective investment promotion agency, and protection of intellectual property. The findings demonstrate that most investors to Cambodia are concentrating on labor incentive industry due to cheap labor cost and they tend to focus on international market not domestic market. Political stability and reliable macroeconomic performance encourage investors to invest in Cambodia. Investment incentives are also attractive to investors. According the Investment Law 2003, it stipulates that: "Article 13: Incentives and privileges shall include the exemption, in whole or in part, of custom duties and taxes".

2.Perception of the above factors: As compared 3 years ago, some factors such as Labor cost, corruption, and time and cost in starting a new business seem to be a bit worse comparing with three years ago. However, other factors including improvement of infrastructure, political stability, and labor strike are better than three years ago.

3.Expectations for the Next 3 years: The survey found that the investors are optimistic about their business expansion in the next three years. They are willing to expand their business in Cambodia.

4.Access to ASEAN market: It is important but not significant. ASEAN market is rather more important for future operations of the companies in Cambodia.

5.Perceptions/experiences regarding IPA's Investment Laws and Policies: Investment Laws and Policies are considered by investors to be clear and understandable, complete, up to date, readily available in print, and accessible online and there are similar perceptions regarding IPA's laws, policies, regulations, rules, and procedures in setting up a business.

6.Perceptions/experiences regarding IPA's website, brochures etc…: IPA's website and brochures include quite adequate information but it is not so substantive and the information on area industry clusters, success stories highlighting key aspect of country competitiveness, and supporting mechanism to help investors in realizing a project are still limited. Some information is outdated and it requires modification and updated.

7.Perceptions/Experiences regarding IPA's support to start up phase of the company: Perceptions towards IPA are quite positive in terms of providing convincing investment case and facilitating contact with government agencies. But regarding the provision of satisfactory information, responding quickly and competently, making follow up on initial inquiries and facilitating contact with domestic private sector are still low.

8.Did you use IPA to set up your firm?: 60 percent of investors use IPA to set up their firms. The rest establishes their firms by themselves or through consulting firms or by themselves. The reasons to use IPA are to get approvals or licenses, tax exemption, fiscal incentives, etc. from government agencies. Some local companies such as trading and logistics do not require IPAs or incentives from CDC.

9.Speed of papers processing and approvals for setting up the business: The speed of papers processing and approvals for firm incorporation, customs duty waivers, work permits for foreigners, social security, utilities connection, local government permits, and environmental impact assessment are found to be quite slow. This can be considered as barriers to the process of setting up the business and increase investment resulting loss in cost and time.

10.Perceptions/Experience regarding IPA's problems solving: Based on the perception of investors, IPA seldom respond to the company's inquiries or request for help in solving problems faced by the companies with other government agencies in a competent, expeditious, and proactive manner.

11.Experiences/perceptions regarding the changes of laws and other rules and regulations: Before making changes to investment laws, regulations and policies, the government agencies should notify stakeholders, consult with the private sector/companies through face to face consultation, and consult with relevant stakeholders. But in Cambodia case, the changes are seldom notified in advance. However, there is a good sign in face to face consultation and consult with stakeholders. It is confirmed with the fact that the Government holds regular Government-Private Sector Forum (G-PSF) every six months for consultation and problem solving.

12.Does government hold regular consultations with stakeholders? With the answer of 80 percent of the respondents, it is found that the government regularly holds consultation with stakeholders. Government-Private Sector Forum (G-PSF) is the most important channel of communication that makes Cambodia to be one of the outstanding examples in public-private sector partnership.

13.Performance of Cambodian economy in the following areas in 2010: The overall economic performance of Cambodia in 2010 is not so much different from last year. Two areas have been slightly improved namely administrative procedures to start a new business and effective system of ownership. The other two areas that are slightly worse than last are the presence of effective mechanism/tools for obtaining public comments on proposed changes to laws, regulations and administrative procedures and the presence of effective mechanism to resolve disputes between investors and domestic authorities.

14.Investment Promotion and Facility: Actually, Cambodia has not specific IPF as a single document. But it already stated in an integrated five year plan, National Strategic Development Plan (2006- 2010) and other promotion document such as Investment Guide. The Plan has been updated to NSDP (2008- 2013). The copy can be downloaded from Ministry of Planning website: www.mop.gov.kh . In order to attract and retain more foreign and domestic investment, the Royal Government of Cambodia has In 2004 Rectangular Strategy, Rectangle 3: Private Sector Development and Employment Generation covers:(1) strengthened private sector and attraction of investments; (2) promotion of SMEs; (3) creation of jobs and ensuring improved working conditions; and (iv) establishment of social safety nets for civil servants, employees and workers. The Royal Government considers the private sector as the engine of economic growth, while the Government plays its role as the strategist in creating an environment conducive to enhanced private enterprise and the manager of development process. A healthy private sector is the key to the promotion of economic development and the Royal Government will continue its efforts to access the international markets through: (i) implementation of policy of economic integration of Cambodia into the regional and world economy; (ii) development of both software and hardware national infrastructure. networks; (iii) strengthening of the legal framework for enterprise, including laws, regulations and institutional capacity that facilitates business, trade and private investment, especially fair competition, transparency/ accountability and fruitful partnership between private and public sectors. A particular priority of the third legislature is the preparation of measures that enable the environment conducive to private sector development through concrete measures which aim at: (i) strengthening both public and corporate governance; (ii) facilitating trade and improving the climate for investment, and (iii) promoting human resource development to effectively respond to market needs.

Findings from Public Sector Survey

1. *Strategy:* The third five year plan, National Strategic Development Plan (2006- 2010) and the Law on Investment and related legal framework are the main foundation for investment promotion and facilitation strategy. The Plan has been updated to NSDP (2008- 2013). The copy can be downloaded from Ministry of Planning website: www.mop.gov.kh . Many supported legal frameworks have been adopted and many investment guide books were published to promote and facilitate FDI to Cambodia.
2. The Royal Government considers *the private sector as the engine of economic growth*, while the Government plays its role as the strategist in creating an environment conducive to enhanced private enterprise and the manager of development process. A healthy private sector is the key to the promotion of economic development and the Royal Government will continue its efforts to access the international markets through: (i) implementation of policy of economic integration of Cambodia into the regional and world economy; (ii) development of both software and hardware national infrastructure. networks; (iii) strengthening of the legal framework for enterprise, including laws, regulations and institutional capacity that facilitates business, trade and private investment, especially fair competition, transparency/accountability and fruitful partnership between private and public sectors. A particular priority of the third legislature is the preparation of measures that enable the environment conducive to private sector development

through concrete measures which aim at: (i) strengthening both public and corporate governance; (ii) facilitating trade and improving the climate for investment, and (iii) promoting human resource development to effectively respond to market needs. In the third legislature, the Royal Government will continue to focus on attracting private sector participation in the six priority sectors, which are:

- Development of agriculture and agro-industry
- Development of transport and telecommunications infrastructure systems;
- Development of the energy and electricity sectors;
- Labor-intensive industries and export-oriented processing and manufacturing;
- Tourism-related industries; and
- Human resource development.

3. *Strength and Weakness:* The main strengths of investment in Cambodia are Political Stability, Macroeconomic Stability and Pro-business Government. The main weaknesses are Shortage of technically and managerially skilled personnel, High costs of electricity, water, telecommunications and transport and Lack of infrastructure such as roads, railways, warehouses etc.
4. *Three top priority industries* or sectors in the IPF are:
   - Agriculture and agro-industry
   - Transport and telecommunications infrastructure.
   - Energy and electricity generation and distribution.
5. Cambodia IPF Strategic Plan has specific strategies to attract FDI in followings:
   a) *Greenfield FDI*. Cambodia welcome the investment in Agriculture as the country has huge potential such as favorable tropical climate, large cultivated land and fertile areas.
   b) The Plan also points out on *Privatization*, “in order to promote FDI, privatization of State Owned Enterprises is permitted for foreign investors. So far, many of SOEs have been privitized by means of selling, leasing and Joint-Venture to Foreign investors including Railways, Cement, Car-tyre, Paper, Textiles, Engineering, Agricultural Tool, Transportation, Airline, etc.
   c) There is no clear indication on *merger and expansion* in the plan.
6. In the IPF Plan, the Government focuses on priority countries in Asia, especially China, Korea and Japan. The other countries for promotion are Malaysia, Singapore,

Vietnam and Thailand. There are regular investment promotion activities in those countries.

7. In terms of *foreign investment attractiveness* in relation to other ASEAN countries, for the whole country and in selected industries / sectors, Cambodia as a whole country more attractive than others due to many reasons such as political stability, cheap and plenty of young labors and abundant natural resources. The most attractive sectors are Tourism related and manufacturing, especially garment.
8. Cambodia's performance of actual FDI inflows relative to what CIB consider the country's inherent investment attractiveness (i.e., *potential FDI inflows*), for the country as a whole as "Satisfactory" and for selected (priority) industries or sectors such as Garment as "Very satisfactory", Tourism as "Satisfactory" and manufacturing as "Low".

B. Investment Promotion and Facilitation Agency (ies)

9. The national IPF Plan is implemented by one IPA i.e. CDC and the sub-committees on Investment at provincial level. Cambodia has CDC working as central IPA and 24 Sub-Commmittee on investment in all 24 provinces and municipalities as Provincial and Municipal IPA. The CDC/CIB is the lead IPA that coordinate all the IPAS. The IPAs has defined area (territorial) or sectoral responsibilities and coordinate effectively. However, those provincial and municipal IPA has competed with one another due to attracting the same investment projects in its territory and wanted its province to be center or regional hubs. All IPAs in provinces and municipalities differ significantly in effectiveness due to limited resources and potential for investment. They hold frequently and regular meetings and has joint setting strategies and targets. But they do not review operational linkages.
10. CDC is the *Autonomous government agency* reporting to higher authority i.e. Prime Minister.
11. The CDC does not offer salaries and bonuses to its staff. Therefore, the salary of the staff is very low compared to the private sector. CDC has no overseas offices in priority country but it has close relation with Japan-ASEAN Center, Korea-ASEAN Center and China-ASEAN Center. It has also uses Cambodia Embassies and Diplomatic Missions abroad to promote investment.

12. For the 4 (four) roles of an IPA below, please provide relative weight to each of them by allocating a total value of 100 among the 4 (four) roles:
    a. Investor servicing or facilitation (actual 30 percent compared to Ideal 35 percent).
    b. Image building and promotion (actual 30 percent compared to ideal 25 percent).
    c. Investor targeting/active seeking out of investors (actual 20 percent compared to ideal 25 percent)
    d. Advocacy within government (20 percent compared to 15 ideal percent).
13. The rate of the actual funding of the IPA in relation to the ideal funding consistent with the mandate and roles of the CDC is considered "low".
14. The rate of the actual size and composition of the staffing of the IPA in relation to the ideal size and staffing consistent with the mandate and roles of the IPA is "Low".
15. CDC has its website which is increasingly used as a potent tool by the best performing IPAs for attracting and interacting with investors. The IPA website www.cdc.org.kh was created with data and downloadable application forms and other information related to investment in Cambodia. However, it provide out-dated and old data and need to improve.
16. There is no information about when the website is updated.

C. <u>One Stop Shop (OSS) and Investor Facilitation / Servicing</u>

17. CDC serves as the "One-Stop Service" mechanism and the "Etat-Major" of the Royal Government in the examination and approval of matters pertaining to investments as specified in Article 3 of the Law on the Amendment to the Law on Investment of the Kingdom of Cambodia. The CDC set up a *"one-stop service"* within the CIB to facilitate the investment application process.
18. The OSS provides service to transmit necessary paperwork from foreign investors to other regulatory bodies.
19. The OSS directly responsible for providing regulatory approvals and registration procedures necessary for establishment of foreign businesses in the host country. Majority of approvals and registration are done within OSS (> 50%).
20. According to the Law on Investment, the IPA implements a customer responsiveness guarantee i.e., providing a response within a 28 working days.
21. The top 3 (three) problematic procedures, permits or licenses that *investors typically face* in establishing a foreign businesses in the country are:
    - Inadequate information required by the CDC

- Lack of local and trustful partners
- Applying through middle person or companies that may create problems.

22. The top 3 (three) problematic procedures, permits or licenses that the *OSS staff faces* in facilitating investors establishing a business in the country are:
    - Time pressure and Workload
    - Limited reward
    - Limited capacity and technical knowledge, especially at Sub-Committee of Investment at provinces and municipalities.

23. The IPA has a hotline for registering complaints by investors.
24. The problematic procedures, permits or licenses being resolved and the complaints handled with following procedures:

    Any complaint should be written to CIB email and a relevant and competent officer is assigned to handle. Not all complaints are successfully solved as some cases involved Courts or higher level to decide. The Government established the National Committee on solving problems of investors outside Special Economic Zones which is chaired by Prime Ministers and a Deputy Prime Minister is the first vice Chairman. The Committee uses the CIB as Secretariat. Many cases, such as conflict between share-holders, conflict between people and concessionaire, have been solved by the Committee.
25. Suggestions to improve further the effectiveness of the IPA and the quality and quantity of its investor facilitation services:
    - IPA should update the website to provide updated information about new Government decision and data related to economic activities, especially trade and investment.
    - IPA should have a package of fund for investment promotion in selected and priority markets.
    - IPA should employ competent staff to analyze and support IPA activities.
    - CDC should formulate the new Investment Promotion and Facilitation Strategy to replace the old one.

2.7. Main Challenges

According to group discussion, and some interviews, investment promotion and facilitation in Cambodia is facing many challenges:

Challenges in Investment Promotion

There are many challenges in investment promotion including:

- Poor investment promotion tool due to lack of updated information such as real investment figures, areas of opportunities and other related data.
- Lack of fund and resources to launch investment promotion to target markets such as European Union and Middle East.
- Shortage of competent staff that can conduct researches and strategy for investment promotion.

Challenges in Investment Facilitation

There are many challenges in investment facilitation including:

- Red tape (complicated) in bureaucracy in Government agencies that create waste in time and costs.
- High cost of investment transaction due to corruption in Government agencies or due to consultancy fees (middle persons).
- Frequent changes in government's laws and regulation without informing the private sector or discussion or seeking any feedback before any changes.

Other Challenges

- Investment capital in applications is very high but actual investment is low due to many fake investments (only middlemen and exaggeration to qualify as QIP to get incentives).
- Lack of public utilities and infrastructure including poor condition in roads, rails, high cost of electricity and water supplies.
- Small local market compared to neighbors Vietnam and Thailand.
- High security risk (political strife, crime, labor strikes, etc.) due to Cambodia's legacy of war and political turmoil in the past.
- Low level of education and shortage of skilled labor for many industries such as electronics and capital intensive industries.
- Land price is too high.
- Restriction on land ownership for foreigners.

2.8. Recommendations

Improving Service Delivery in the CDC

Iimprovement in the administration and implementation of the Law on Investment will create a more direct way to improve the climate of attracting FDI and technology transfer. To be more effective in attraction investors, it requires strengthening service delivery through more simplification of approval procedures and elimination of unnecessary steps for applying investment licenses. The CDC's service and procedures should be more transparent and more responsive to manage investment. Service delivery including provision of information and necessary data on investment opportunity, country's potentials for investment, legal and institutional arrangements should be strengthened and regularly updated. One-stop service in the CIB should be improved through appointment of more capable staff in the CIB as well as from line ministries, who have adequate knowledge and can decide on behalf of their own ministries. Timely service with clear procedures should be well in place.

Transparency in Law related to Investment

At present, lack of information and knowledge of laws and regulations are the bottleneck in attracting FDI. More relevant laws and regulations have to be adopted with details to facilitate and increase the transparency supporting a fair business environment in the country. Though many laws and regulations have been adopted so far, many more should be adopted such as contract law, company laws, real estate law, mortgage law, petroleum law, industry laws, etc. The Government in cooperation with private sector or law firms should produce timely official translations of business-related laws and decrees into English or other languages. The translation should be bonded into volumes of Compendium and posted in the website of the CDC, which is now very outdated.

Transparency in Licensing

In order to reduce corruption, the process of privatization and licensing of FDI project should be done in a careful manner with transparency providing that it will create huge impact to economic and social aspect. The Concession Law should be enforced to avoid granting licenses especially in forestry and mineral concession and BOT projects without a proper bidding. The CIB should list Government's initiated projects, especially mega projects such as infrastructure, energy generated plants and new satellite towns to invite potential investors to bid and develop the projects.

Building Confidence

Building confidence to investors is very important. Some countries such as several African countries, have suffered fickle policies, internal unrest, programs called into question or canceled, and a certain distrust of the private sector in general and of foreign investors in particular. This has greatly reduced their credibility and complicated and slowed the implementation of their privatization programs. In a country with a weak or otherwise unattractive political, economic, social, and institutional environment, the government, in role of seller, will have to develop a long-term strategy to reduce the risks in doing business. The higher the perceived risk, the more difficult it will be to implement the program. The longer-run objectives of the strategy will be to reduce uncertainty and risk levels, eliminate the main obstacles to the development of a market economy, and create an environment conducive to private sector investment. The government's credibility is vital to the successful transaction contributes to a positive image. Country credit rating by a credible rating agency is also important factor for accessible loan at the regional and global financial market and builds confidence to investors.

Cambodia should develop a climate of business confidence as a first step toward an effective strategy for promoting investment. This can be done by adopting new investment promotion strategy, instituting sustainable economic policies and eliminating tax and non-tax disincentives. Frequent tax changes should be avoided. Once business confidence is established and the credibility of the regime is no longer in question, the country should consider will-targeted tax policy interventions, such as fast write-offs, investment allowances, and investment tax credits, to stimulate new investment in machinery and equipment and in research and development. Tax holidays and reductions of general corporate tax rates to levels below those in capital-exporting countries have been shown to be less effective in promoting new investment.

To eliminate the fear of security as found out in the survey, military police (MP), police and other related Cambodia's security authorities should strengthen public security in the country and ensure that anybody, who comes to Cambodia, is safe and enjoys a memorable souvenir. For investors, who already operate their investment projects, aftercare services provided by the CIB, CSEZB and CDC would be very important such as providing advices and help in trouble shooting when they face problems.

Capacity Building

The staff at the CDC, especially in the CIB need continuous training in management of FDI dealing with computers, compiling data, analyzing data, international law, contracts formulation, investment promotion skill, negation skill, dispute settlement skill, etc. On-job training should be done at other countries with best practices in the region such as Thailand, Malaysia, Singapore, Hong Kong and China to learn day-to-day operation in the investment management agencies.

The CIB staff should participate in country and regional seminars, workshops, study tours abroad for building capacity in management of FDI and technology transfer and exchanging experience with the countries in the region.

The CDC, especially the information department should create a database for most of information required by the investors in all sectors, potentials for investment, trade data, the trend of investment, market access and so on. Information on comparative and competitive advantage between Cambodia and other countries is also very important.

The CDC website should be updated regularly, using BOI in Thailand as example, to store all important information related to laws and regulations, fact sheets, newsletters with updated information. Other important website links should be created so that the interested investors can find required information on investment opportunities and related data in various provinces or SEZs in Cambodia.

An investment project tracking system should be established to ensure that the projects are closely monitored and the investors are well taken care throughout the investment cycle starting from contacting, applying to licensing and operation. This will facilitate the CDC to know the status of all investment projects.

Chapter III: Trade Facilitation and National Single Window

3.1. Background

Cambodian foreign trade was preoccupied by the Government during 1950s to 1970s. Most of export and import activities were conducted through State-Owned Enterprise of Société Nationale d'Export and Import, (SONEXIM) and absent during the war in 1970s. During the Khmer Rough time (1975- 1979) Cambodia had no foreign trade at all due to the Regime's self-sufficient policy. After the new Government of People's Republic of Kampuchear was established in 1975, the government controlled all official foreign trade. In July 1979, the Ministry of Local and Foreign Trade set up the Kampuchean Export and Import Corporation (KAMPEXIM, the state trading agency) to handle exports, imports, and foreign aid. In addition, the National Trade Commission was created to be in charge of both internal and external economic coordination. In March 1980, the Foreign Trade Bank was formed to deal with international payments, to expand trade, to provide international loans, and to control foreign exchange. There were reports of special clearing arrangements for trade among the Indochinese countries and with some members of the Council for Mutual Economic Assistance (CMEA, CEMA, or Comecon).

Starting from 1982, the government made serious efforts to promote foreign trade as a means of accelerating national reconstruction and development. The First Plan emphasized exports as a way to correct imbalances in the national economy, but it did not provide any commodity export target figures. In the late 1980s, Cambodian officials released information revealing the direction and the patterns of trade rather than specific numbers. Most official trade was being conducted with Comecon countries in the form of exchanges of commercial goods. In the absence of authoritative data, unofficial Western sources placed Cambodia's trade deficit at US$100 million to US$200 million annually from 1981 to 1987. According to the Asian Development Bank, the country's total external debt in 1984 was US$491 million, up from US$426 million in 1983 and US$368 million in 1982.[17]

With strong political commitment, Cambodia has integrated its economy with the regional and global markets. It became a full member of the Association of Southeast Asian Nations (ASEAN) in 1999 and the World Trade Organization (WTO) in 2004. Through its membership in these organizations, Cambodia boosted its trade, thereby contributing to its own economic development and poverty reduction. Its trade activities have been robust, especially with neighboring countries.

Cambodia has enjoyed Generalized System of Preferences (GSP) and the status as a Least Developed Country (LDC). Under the GSP Schemes, import tariffs on many products from the beneficiaries are exempted or reduced if requirements such as rules of origin are fulfilled. Under the framework of LDC, Cambodia can enjoy duty-free or tariff reductions. For example, Japan gives Cambodia tariff preferences on imports of 3,540 articles plus an additional 2,200 articles including apparel and footwear.

3.2. Trade Structure

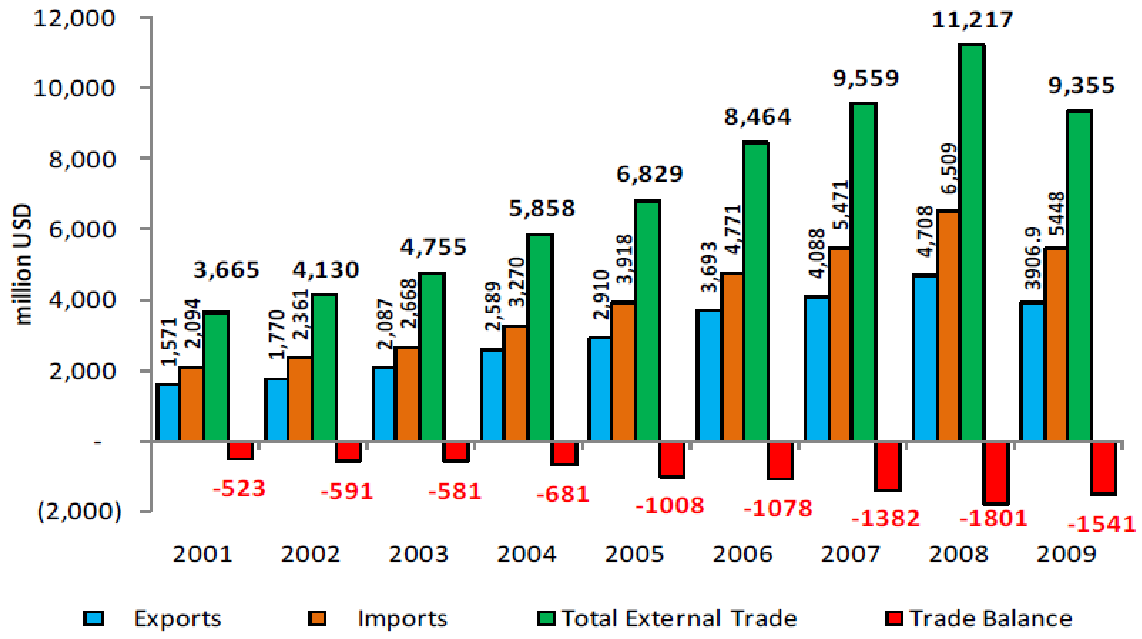
Based on official data by General Department of Customs and Excise of the Ministry of Economy and Finance, Cambodia trade volume presented an increase by about two folds from US$ 5,858 million in 2004 to US$ 11,217 million in 2008. At the same period, Cambodia has a huge trade deficit which was widened about three folds from US$681 million in 2004 to US$ 1.80 billion in 2008 (see figure 3.1). However, Cambodia's trading pattern remains vulnerable to external shocks as its market segment is narrow. More than 60 percent of exports go to a single country and more than two thirds of imports come from 4 countries in East Asia. [18]

Nevertheless, Cambodia's trade volume of US$11,217 million in 2008 is still small compared to trade in her neighbors and some other countries in the ASEAN such as Singapore, Thailand and Vietnam (see table 3.1) with its imports outpacing exports. Cambodia's imports in 2007 amounted to about US$6 billion worth while it exported only US$4.48 billion worth. The economic downturn resulted in a further decrease in trade in 2008 when Cambodia imported only US$5.72 billion worth and exported only US$3.25 billion

[17] Russell R. Ross, ed. Cambodia: A Country Study. Washington: GPO for the Library of Congress, 1987. at http://countrystudies.us/cambodia/68.htm accessed on 17 April, 2010
[18] World Bank (2010) World Bank East Asia and Pacific Economic Update 2010, vol. I, p. 39

worth of goods. [19]

Figure 3.1: Trade from 2000- 2009



Source: Hang (2010)

Table 3.1: Trade in ASEAN Countries

Country	2008			2009 [1/]			Year-on-year change		
	Exports	Imports	Total trade	Exports	Imports	Total trade	Exports	Imports	Total trade
Brunei Darussalam	10,268.0	2,506.7	12,774.7	7,168.6	2,399.6	9,568.2	(30.2)	(4.3)	(25.1)
Cambodia	4,358.5	4,417.0	8,775.6	3,906.9	5,448.0	9,354.9	(451.6)	1,031.0	579.3
Indonesia	137,020.4	129,197.3	266,217.7	116,508.8	96,829.2	213,338.0	(15.0)	(25.1)	(19.9)
Lao PDR	827.7	1,803.2	2,630.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Malaysia	194,495.9	144,298.8	338,794.7	156,704.3	123,183.8	279,888.1	(19.4)	(14.6)	(17.4)
Myanmar	6,620.6	3,794.9	10,415.4	6,341.5	3,849.9	10,191.3	(4.2)	1.4	(2.2)
The Philippines	49,025.4	56,645.6	105,671.0	38,334.7	43,008.3	81,343.0	(21.8)	(24.1)	(23.0)
Singapore	241,404.7	230,760.3	472,165.0	269,191.1	245,226.5	514,417.6	11.5	6.3	8.9
Thailand	174,966.7	177,567.5	352,534.2	151,364.7	134,124.6	285,489.3	(13.5)	(24.5)	(19.0)
Viet Nam	61,777.8	79,579.2	141,357.0	57,096.0	69,949.2	127,045.2	(7.6)	(12.1)	(10.1)
ASEAN	880,765.7	830,570.5	1,711,336.2	802,709.6	718,571.2	1,521,280.8	(8.3)	(12.8)	(10.5)

Source: ASEAN Secretariat and updated data for Cambodia in 2009 using official data (Hang 2010).

[19] Data is different if compared between Figure 2 and Table 3 and Table 4. Data in Figure 2 can be considered as or accurate as it is presented by H.E.Mr. Hang Chuan Narong, Secretary of State, Ministry of Economy and Finance during 3rd CDCF on 2 June 2010. Those data is calculated by General Department of Customs and Excise while the Data which are later used by the Authors to analyze in 2008 is based on MOC's data which compiled by CAMCONTROL in 8 digits.

Table 3.2: Cambodia Export by Country 2008

Country Name	Custom Value of Export US$	% of Total
United States of America	1,970,696,220.65	45.21%
Hong Kong	840,994,262.83	19.29%
Canada	291,515,434.26	6.69%
Vietnam	170,825,056.53	3.92%
United Kingdom	155,949,804.33	3.58%
Holland	152,138,918.82	3.49%
Germany	138,220,032.04	3.17%
Spain	123,780,462.21	2.84%
Singapore	113,586,340.66	2.61%
Belgium	50,983,938.39	1.17%
France	34,184,171.86	0.78%
Japan	32,144,805.72	0.74%
Italy	26,608,860.20	0.61%
Mexico	21,199,754.91	0.49%
Sweden	16,017,850.82	0.37%
Ireland	15,421,234.92	0.35%
Thailand	13,533,984.90	0.31%
China	12,932,592.90	0.30%
Austria	12,443,061.11	0.29%
Russia	11,810,197.37	0.27%
Australia	10,870,424.82	0.25%
Luxemburg	9,713,817.44	0.22%
Switzerland	9,508,557.69	0.22%
Malaysia	8,976,662.73	0.21%
Denmark	8,742,946.92	0.20%
Norway	8,731,210.79	0.20%
Turkey	7,442,303.68	0.17%
South Korea	7,398,820.32	0.17%
United Arab Emirates	5,694,325.38	0.13%
Greece	5,609,584.53	0.13%
Brazil	5,562,521.78	0.13%
Nigeria	5,342,506.06	0.12%
Argentina	5,308,495.56	0.12%
Taiwan	5,059,632.57	0.12%
Others	50,141,405.79	1.15%
Total	4,359,090,201.48	100%

Source: Author computing based on Ministry of Commerce Database 2008

In 2008, Cambodia's biggest export markets are the United States of America, Hong Kong, Canada, Vietnam, United Kingdom, Holland, Germany, Spain and Singapore (see Table 3.2). As seen in Table 3,3, at the same year, Cambodia imported most from China (US$933.55 million representing 21.13 percent), Thailand (US$696.73 million representing 15.77 percent), Hong Kong (US$588.51 million), Vietnam (US$471.68 million), Taiwan (US$365.84 million) and Singapore (US$303.70 million).

Table 3.3: Cambodia Import by Country 2008

Country Names	Customs Value of Import (US$)	% of Total
China	933,553,096.27	21.13%
Thailand	696,739,334.98	15.77%
Hong Kong	588,517,318.41	13.32%
Vietnam	471,688,996.18	10.68%
Taiwan	365,840,756.81	8.28%
Singapore	303,701,806.84	6.87%
South Korea	229,263,625.72	5.19%
United States	220,199,977.19	4.98%
Malaysia	122,465,933.79	2.77%
Japan	114,146,309.67	2.58%
Indonesia	96,422,140.00	2.18%
India	88,675,483.99	2.01%
France	33,802,803.75	0.77%
Australia	17,027,913.67	0.39%
Pakistan	16,543,215.67	0.37%
Switzerland	16,467,218.38	0.37%
Germany	15,931,314.83	0.36%
Luxemburg	8,327,269.46	0.19%
Russia	7,223,924.03	0.16%
Italy	6,104,100.57	0.14%
United Kingdom	5,598,006.34	0.13%
Holland	5,232,802.53	0.12%
Belgium	5,151,295.12	0.12%
Philippines	4,754,810.26	0.11%
Sweden	4,320,352.27	0.10%
Ireland	3,422,630.35	0.08%
New Zealand	2,528,139.71	0.06%
Bangladesh	2,523,986.79	0.06%
Finland	2,405,247.88	0.05%
Canada	1,952,079.27	0.04%
Denmark	1,921,825.94	0.04%
Saudi Arabia	1,824,847.96	0.04%
Brazil	1,679,819.46	0.04%
Sri Langka	1,675,051.23	0.04%
Turkey	1,597,753.43	0.04%
Macao	1,491,437.94	0.03%
United Arab Emirates	1,400,731.30	0.03%
Spain	1,350,923.17	0.03%
Argentina	1,139,010.26	0.03%
Swaziland	1,111,421.34	0.03%
Nicaragua	1,092,584.56	0.02%
Others	10,750,035.56	0.24%
Total	4,417,567,332.90	100.00%

Source: Author computing based on Ministry of Commerce Database 2008

As shown in Table 3.4, Cambodia’s export depends completely on textile, garment and apparel products which cover about 70 percent of total export. Pulp and paper stands number 2 in exports covering about 20 percent of total export. Though Cambodia is based on agriculture where about 85 percent of population is living with agriculture in rural areas, Cambodia has limited export of her agro-products as shown in the same table. Agro-products (sector 01-16 in Harmonized System) covered only about 0.3 percent of total export. This can be interpreted that the country has not used her full potential for agricultural development for export. It can be explained in another way that agricultural products, especially rice, rubber and other products were traded across border to neighboring countries without recording through customs or with poor data entry.

Table 3.4: Trade Export by Products in 2008

Chapter	Section	Export Value US$	% of Total
1-5	Live Animal	2,426,563.62	0.06
6-14	Vegetable Products	9,648,310.68	0.22
15	Fats and Oils	8,951,496.67	0.21
16-24	Prepared Foodstuffs	9,458,443.41	0.22
25-27	Mineral Products	117,687,756.88	2.70
28-38	Chemicals	968,564.99	0.02
39-40	Plastics	34,398,196.80	0.79
41-43	Hides and Leather	863,504.14	0.02
44-46	Wood and Wood articles	3,558,391.53	0.08
47-49	Pulp and paper	903,851,658.00	20.74
50-63	Textiles and apparel	3,025,351,504.39	69.40
64-67	Footwear	93,912,377.29	2.15
68-70	Stone/Cement/Ceramics	1,295,743.88	0.03
71	Gems	11,239,364.59	0.26
72-83	Base metal and Metal articles	16,509,529.97	0.38
84-85	Machinery and Electrical Appliances	6,978,053.91	0.16
86-89	Vehicles	97,946,760.38	2.25
90-92	Optical, precision & musical instruments	2,950,386.65	0.07
93	Arms	83,462.41	0.00
94-96	Miscellaneous Manufactured articles	6,805,703.19	0.16
97-98	Antiques and works of art	4,130,390.62	0.09
	Total	4,359,016,164.00	

Source: Author computing based on Ministry of Commerce Database 2008

Due to the urgent need for reconstruction of her economy and the booming in private sector, Cambodia imported more in raw materials such as cloth and related unfinished products of textile which covered about 35 percent of import. Other main import items include vehicles (both new and second hand ones in chapter 86-89), Machinery and Electrical Appliances (chapter 84-85) and mineral resources including oil and gas (chapter 25-27) which covered 13 percent, 11 percent and 10 percent of imports respectively (see Table 3.5).

Table 3.5: Cambodian Import by Products in 2008

Chapter	Section	Import Value US$	%
1-5	Live Animal	6,127,890.60	0.14%
6-14	Vegetable Products	37,366,927.06	0.84%
15	Fats and Oils	6,895,474.83	0.16%
16-24	Prepared Foodstuffs	258,217,650.37	5.83%
25-27	Mineral Products	454,908,915.03	10.26%
28-38	Chemicals	202,128,457.20	4.56%
39-40	Plastics and Rubber	124,380,959.45	2.81%
41-43	Hides and Leather	29,927,420.17	0.68%
44-46	Wood and Wood articles	2,427,069.93	0.05%
47-49	Pulp and paper	214,470,780.57	4.84%
50-63	Textiles and apparel	1,563,560,144.57	35.28%
64-67	Footwear and Headgear	26,430,183.24	0.60%
68-70	Stone/Cement/Ceramics	59,569,529.19	1.34%
71	Gems	35,952,583.94	0.81%
72-83	Base metal and Metal articles	216,507,025.76	4.88%
84-85	Machinery and Electrical Appliances	505,134,534.47	11.40%
86-89	Vehicles	577,765,817.84	13.04%
90-92	Optical, precision & musical instruments	42,536,254.53	0.96%
93	Arms	66,655.97	0.00%
94-96	Miscellaneous Manufactured articles	66,010,491.78	1.49%
97-98	Antiques and works of art	1,720,125.16	0.04%
	Total	4,432,104,891.65	100.00%

Source: Author computing based on Ministry of Commerce Database 2008

3.2. Trade Facilitation Strategy

Linking production to consumption or producers to consumers, trade is a powerful and important catalyst for socio-economic development. Promotion of trade for Cambodian products has been among top priorities. If market outlets are available, investments would flow to encourage and enhance production of goods and services using the country's natural advantages as has happened in the garment industry, and as could be achieved in agriculture, agro-processing, handicraft and other areas.[20]

Since 2001, a trade policy framework for promoting local and external trade is in place as a means to promote growth and contribute to poverty reduction. Various initiatives and reform measures taken to implement it culminated in dynamic export performance and integration of the country in numerous regional bodies and accession to WTO in 2004. RGC has also successfully negotiated free and/or favourable trade agreements with many countries. However, there are still many bottlenecks similar to those in private investment in industries which inhibit growth in this sector. A Sector Wide Approach Programme for the Trade sector

[20] RGC (2005) NSDP, p. 56

is under preparation. The immediate challenges are to ensure that favourable trade agreements already reached are taken advantage of by private trade to send Cambodian products to market overseas so that exports become diversified and broaden away from dependency on garment industry alone.

Various reforms that RGC will pursue in governance, legal and judicial sector and in public administration, as well as rehabilitation of basic infrastructure, would no doubt contribute to a better climate for Trade and Investment by private sector. In addition to addressing all the constraints in industrial, manufacturing and processing as well as trade, RGC will:

- Actively promote access to various external markets for unique and high quality Cambodian products, including agricultural products (particularly processed ones), fisheries products, and labour services.
- Promote Cambodian products abroad.
- Promote business membership organizations and strengthen their advocacy capacity.
- Reduce policy-based impediments to efficient transactions.
- Streamline customs inspections to make it more user friendly and free of delays and inherent costs, including formulating and implementing a revised Customs law.
- Reduce entry barriers such as high cost of registration and license fees.
- Help establish Export Processing Zones (EPZs) to promote export-oriented processing and manufacturing.

In its growth since 1993, Cambodia has received immense financial, technical and advisory support from External Development Partners (EDPs). Private sector investment, domestic and foreign, has been a driving force for strong growth in GDP. RGC has paid particular attention to further strengthen, deepen and broaden the Partnership in Development with EDPs, private sector and the civil society. In terms of cooperation with private sector, a high level "Government - Private Sector Forum" has been set up and meets regularly. For further strengthening cooperation with EDPs, RGC has set up 18 Joint Technical Working Groups (TWGs) to bring about close coordination among EDPs together with the government. A high level Government Donor Coordination Committee (GDCC) has also been set up to guide the TWGs and review progress on various fronts.

Over the last several years the RGC has embarked on a comprehensive program of economic and trade policy reforms. Key areas include fiscal reform, banking sector restructuring, civil service reform and improved governance. On the trade side, all quantitative restrictions on trade were eliminated in 1994. More recently, the tariff regime has been significantly simplified with the number of rates falling from 12 bans to 4 in April 2001 and the top rate reduced to 35 per cent. The currency is convertible with dollarization pervasive. Thus in many respects the trade regime is relatively open.[21]

The market system and the private sector are affirmed to be engines of growth by the Royal government of Cambodia. The government seeks to institute reforms in order to eliminate the bottlenecks before the private sector, especially in promoting a favorable environment for free and fair trade.

Cambodia has put in place a trade policy framework in 2001 to promote growth and contribute to poverty reduction. The Royal Government is preparing a Sector Wide Programme Approach for this sector. The government has overhauled the legal framework, procedures and institutional structures in line with international standards including the implementation of harmonized customs nomenclature.

A comprehensive customs Code is being devised to conform to the WTO standards. The government is also implementing a reform agenda covering 2004-2008 that includes a trade facilitation programme and a single window for customs. Policy and legal reforms are also being carried out to unleash the potential of the private sector, safeguard commercial activity, and promote foreign direct investment into Cambodia.

The trade policy framework has resulted in dynamic export performance and integration of the country into numerous regional bodies, as well as Cambodia's accession to the WTO in 2003.

Government's Trade Reform Initiatives

Endorsing with government policies, over the years Cambodia have received considerable supports from various donors such as World Bank, IMF, UNDP, ADB, JICA, IFC, AusAID, EU and other development agencies. Those organizations have combined their efforts to fund and resource the expertise needed to restore confidence and raising productivity for foreign or domestic investment with a view to increase competitiveness of trade sector and improve investment climate in Cambodia. With strong commitment and fully support by many governmental agencies and after conducting several consultations with the stakeholders, eight reforms initiatives have emerged:

[21] Ministry of Commerce (2001) p.vii

1) **Trade Facilitation** including the elimination of overlapping and obsolete roles and responsibility, reducing number of documentary requirements, and streamlining and automating the process by removing non-value adding steps, introducing comprehensive automation and flat fee for service, and utilizing risk management principles in inspection process;
2) **Removing Impediments to diversification** including the facilitation of business registration process, licensing and inspection;
3) **Strengthening the rule of law** namely contract law, commercial code and other laws and regulations to honor WTO commitments as well as other related activities such as the establishment of commercial court;
4) **Leveraging private sector value chain** by encouraging both FDI and supplier development program to remove impediments, attract investment, and building capacity of suppliers;
5) Review the role of Camcontrol by strengthening its capacity and efficiency to ensure public safety;
6) Strengthening governance for increased Private Participation in Infrastructure;
7) Strengthening institutional learning through business association in order to increase market opportunity through sharing of market information; and
8) Accelerate leasing and access to finance through the establishment of related laws such as Secured Transaction Law, Leasing Law, and Insolvency Law.22

Twelve Points Plan of Actions

The government in discussion with the World Bank has committed to implement the following **12- points plan of actions**:

1) Establishing a cross-agency Trade Facilitation/Investment Climate Reform Team,
2) Establish a system of Transparent Performance Measurement including Private Sector Monitoring,
3) Implementing trade facilitation process by removing overlapped and unnecessary approvals following by the reengineering of a single administrative document,
4) Introducing Risk management Strategy to consolidate and rationalize all examination requirements of the different control agencies,

[22] Penn (2006) Country Paper on Trade Facilitation, Trade Facilitation and Competitiveness in Cambodia for (Consultative Meeting on Trade Facilitation and Regional Integration, August 17-18, 2006 - Bangkok, Thailand at http://www.unescap.org/tid/artnet/mtg/tfri_cam.pdf accessed on 7 July 2010

5) Launching a strategic review of Camcontrol,
6) Implementing a single window process to manage trade facilitation by using automation system,
7) Introducing a WTO compatible flat fee for service,
8) Streamlining the cost of business registration/incorporating,
9) Streamlining the process of notifying the Ministry of Labor and Vocational Training on hiring employee,
10) Harmonizing registration for VAT, income tax and company registration by using the same form and resulting in the same number,
11) Implementing a national award to promote good corporate citizenship and governance in the private sector, and
12) Monitoring and evaluating the progress of reform objectives and reporting these progresses to the government-Private Sector Forum.

Dynamic Private Sector

In Cambodia, the private sector is very active in trade promotion. There are Phnom Penh Chamber of Commerce, Provincial Chambers of Commerce and many business communities such as Business Associations and Business Clubs.

Phnom Penh Chamber of Commerce was established in 1995 to be responsible for providing support for commercial enterprises; advices to government and local authorities on economic and commercial regulations; and professional training and business education. The Chamber, with a membership of about 2,100 companies and a staff of 17 should be well placed to provide information and advice to export enterprises in Phnom Penh, but seems to be unable to reach out to smaller enterprises, whether in the Capital or the provincial towns.

Provincial Chambers of Commerce have been created in many provinces by Government decrees and the processes of election of their governance structure have just been completed. The Chamber aims to represent business communities in their respective province in response to the increasing demands of provincial businesses who felt that their interests were not well represented by the PPCC.

There are a number of private sector representative bodies (e.g. GMAC – Garment Manufacturers Association in Cambodia, International Business Club, Federation of Rice Millers Associations), which are able to present the common position and interest of their members to deal with government. But these representatives mainly, big businesses, are fragmented and it appears to be in lack of any overall coordinated private sector position on critical trade issues.

Government Private Sector Forums

The Government Private Sector Forum (G-PSF), was established in 1999 at the initiative of the Prime Minister of the Royal Government of Cambodia to provide a reliable dialogue mechanism for consultation between the government and the private sector on investment climate issues ranging from long range policy to day-to-day operations to encourage private sector initiatives. The G-PSF provides a reliable platform for the business community to raise and resolve problems with the Government of Cambodia. The Council of Development of Cambodia acts as the secretariat of the G-PSF. CDC facilitates dialogue within and among the joint government/private sector Working Groups, and broadly, between the Government and the business community.[23]

Throughout the year, eight private sector working groups (PSWGs) meet regularly to identify and prioritize common problems, and negotiate solutions with Government counterparts. These groups are currently as follows:

1. Agriculture & Agro-industry
2. Tourism
3. Manufacturing and Small and Medium Enterprises
4. Law, Tax and Governance
5. Banking and Financial Services
6. Export Processing and Trade Facilitation
7. Energy, Transport and Infrastructure
8. Industrial relations

The private sector and Government meet as often as necessary, and at two levels:

1) Private sector-only working group (PSWG) meetings, which are open to business associations and company representatives, allow members to discuss and agree internally on issues to raise with their Government counterparts. These PSWGs meet every month or so. The agenda of issues to discuss with Government is prepared following broad consultation. IFC organizes and hosts many of these PSWG meetings, coordinates the nominations and elections of the Private Co-Chair for each

[23] Cambodian Government Website for the G-PSF at http://www.cambodia-gpsf.org/about.aspx?x=1&c=1 accessed on 28 June 2010.

working group, and encourages inputs from national and international private sector members.

2) Joint Government-Private Sector Working Group (WG) meetings take place at the request of the private sector or the Royal Government of Cambodia to discuss problems, find solutions, and share information raised by the parties. Each Government-Private Sector Working Group is co-chaired by a Minister of the Royal Government of Cambodia (the Government Co-chair) and a representative from the private sector (the Private Sector Co-chair). These WG meetings are inter-ministerial meeting as they are attended by representatives of the line ministries who have been invited by the Government co-chair so that these Government officials can provide solutions to the problems raised by the private sector and report progress back to their senior management.

With its enlarged cabinet meeting status and being chaired by the Prime Minister, the biannual G-PSF has been a valuable platform for the business community to raise important problems which have not been settled at the working group level to be resolved in the context of a *"full cabinet style meeting"*. For about a decade of its existence, many issues ranging from long-term policies to day-to-day operations have been raised and resolved satisfactorily.

In particular, during the most recent forum, the 15th G-PSF held on April 27, 2010, 11 of 20 key issues raised by the private sector were solved. These include elimination of rice export licensing requirements, administrative process improvements and tax incentives for small and medium enterprises, reduction of export processing fees, and possible betterments in the industrial relations environment.[24]

Trade Infrastructure

Convention Centers: Cambodia has recently two main Convention Centers operated by private sectors: Diamond Center and Koh Pech Center in Phnom Penh. The two convention centers have been frequently used to exhibit Cambodia products and foreign products which can promote trade.

Special Economic Zone (SEZ): As described in Chapter 2, the Royal Government of Cambodia recognises that Special Economic Zones (SEZs) are an important part of the country's economic development because they bring infrastructure, jobs, skills, enhanced productivity and not least the prospect of poverty reduction in rural areas. Location of the

[24] Bretton G. Sciaroni (2010), Senior Partner, Sciaroni & Associates, Co-Chair, Working Group on Law, Tax, and Good Governance, in his presentation in 3rd CDCF June 2, 2010

SEZs is vitally important so that the benefits in terms of increased employment and poverty reduction can be shared throughout Cambodia. It is the policy of the Royal Government to lay production foundations in regions other than Phnom Penh in order to build economic linkages between urban and rural areas. Cambodia is not an urbanised society and so the SEZs will provide employment for the country's labour force which is predominantly from the provinces and mainly women. Fulfilling issues of corporate social responsibility, SEZs will also be able to provide accommodation, education and healthcare services for the workforce, something not generally provided by stand-alone factories.

The Royal Government has since approved a total of 21 Special Economic Zones (SEZs) located along the border with Thailand and Vietnam (Koh Kong, Poipet, Savet, Phnom Den), at Sihanoukville and Phnom Penh. Of the 21, 6 have commenced operations.
Aiming to attract more investors, the SEZs offer a 'One-Stop Service' for imports and exports, with government officials stationed on-site providing administrative services. Applications to establish factories within the SEZs are dealt with on-site as well as all administrative clearances, permits, authorisations, etc.

SEZs located at the border not only benefit from the cheaper cost of electricity, but also attract investors from the other side of the border. Investors from Thailand and Vietnam operating within these SEZs are able to manufacture in Cambodia at a lower price and export directly to Thailand and Vietnam, or further afield within Asean and the rest of the world.

When considering Cambodia as a manufacturing base, it is worth remembering that by 2012 Cambodia will be linked to the region by first-class road networks, telecom networks and the power grid. As a member of the Greater Mekong Sub-region (GMS), Cambodia is poised to benefit from the development of economic corridors.

The prospect of regional connectivity among countries in ASEAN and GMS will put Cambodia in a better position in trade development. As example, GMS Infrastructure projects which worth around US$10 billion, have either been completed or are being implemented. Among these are the upgrading of the Phnom Penh-Ho Chi Minh City (Vietnam) highway and the East-West Economic Corridor that will eventually extend from the Andaman Sea (part of the Indian Ocean west of Thailand) to Danang (Vietnam).

Table 3.6: List of Special Economic Zones in Cambodia

	Name	Locations	Area (ha)	Ownership	Capital ($ mil)	Status
1	Koh Kong SEZ	Koh Kong	336	Mr. Ly Yong Phat (Cambodian)	n/a	Licensed in 2002, Operational
2	Suoy Chheng SEZ	Koh Kong	100	Mrs. Kao Suoy Chheng (Cambodian)	14	Licensed in 2002. Not yet operational
3	N.C SEZ	Koh Kong	150	Mr.Kong Triv (Cambodian)	14	Licensed in 2002. Not yet operational
4	Stung Hav SEZ	Sihanoukville	192	Ms. Lim Chhiv Ho (Cambodian)	14	Licensed in 2002. Not yet operational
5	N.L.C SEZ	Sray Rieng	105	Ms. Leang Vouch Chheng (Cambodian)	13	Licensed in 2005. Not yet operational
6	Manhattan (Svay Rieng) SEZ	Sray Rieng	571	Mr. Clement Yang (Taiwan)	15	Licensed in 2005. Operational
7	Poipet O'Neang SEZ	Banteay Meanchey	467	Mrs. Van Ny (Cambodian)	15	Licensed in 2005. Operational
8	Doung Chhiv Phnom Den SEZ	Takeo	79	Mr. Doung Chhiv (Cambodian)	28	Licensed in 2006. Not yet operational
9	Phnom Penh SEZ	Phnom Penh	350	Ms. Lim Chhiv Ho (Cambodian)	68	Licensed in 2006. Operational
10	Kampot SEZ	Kampot	145	Mr. Vinh Huor (Cambodian)	15	Licensed in 2006. Not yet operational
11	Sihanoukville SEZ 1	Sihanoukville	178	Mr. Lav Meng Khin (Cambodia)	100	Licensed in 2006. Not yet operational
12	Tai Seng Bavet SEZ	Svay Rieng	99	Mr. Ly Hong Shin (Cambodian)	37	Licensed in 2007. Operational
13	Oknha Mong SEZ	Koh Kong	100	Mr. Mong Rithy (Cambodian)	40	Licensed in 2007. Not yet operational
14	Goldfame Pak Shun SEZ	Kandal	80	Mr. Chan Ji Kvong (Korean)	34	Licensed in 2007. Operational
15	Thary Kampong Cham SEZ	Kompong Cham	142	Chhorn Thary (Cambodian)	69	Licensed in 2007. Operational
16	Sihanoukville SEZ 2	Sihanoukville	1688	Mr. Lav Meng Khin (Cambodian)	n/a	Licensed in 2007. Operational
17	D&M Bavet SEZ	Svay Rieng	117	Ms. Men Pheakdey (Cambodian)	52	Licensed in 2007. Not yet operational
18	Kiri Sakor Koh Kong SEZ	Koh Kong	1750	Mr. Ly Yong Phat (Cambodia)	110	Licensed in 2008. Not yet operational
19	Sihanoukville Port SEZ	Sihanoukville	70	Mr. Lu Kim Chhun (Cambodian)	34	Government owned. Licensed in 2008. Not yet operational
20	Kampong Saom SEZ	Sihanoukville	255	Mr. Kith Meng (Cambodian)	190	Licensed in 2009. Not yet operational
21	Pacific SEZ	Svay Rieng	107	Mr. Chea Eavmeng, Mr. Gau Hieckhuor, Mrs. Yin Phanny	70	Licensed in 2009. Not yet operational

Source: *http://www.investincambodia.com/economic_zones/sezs.htm* ***accessed on 07 July 2010***

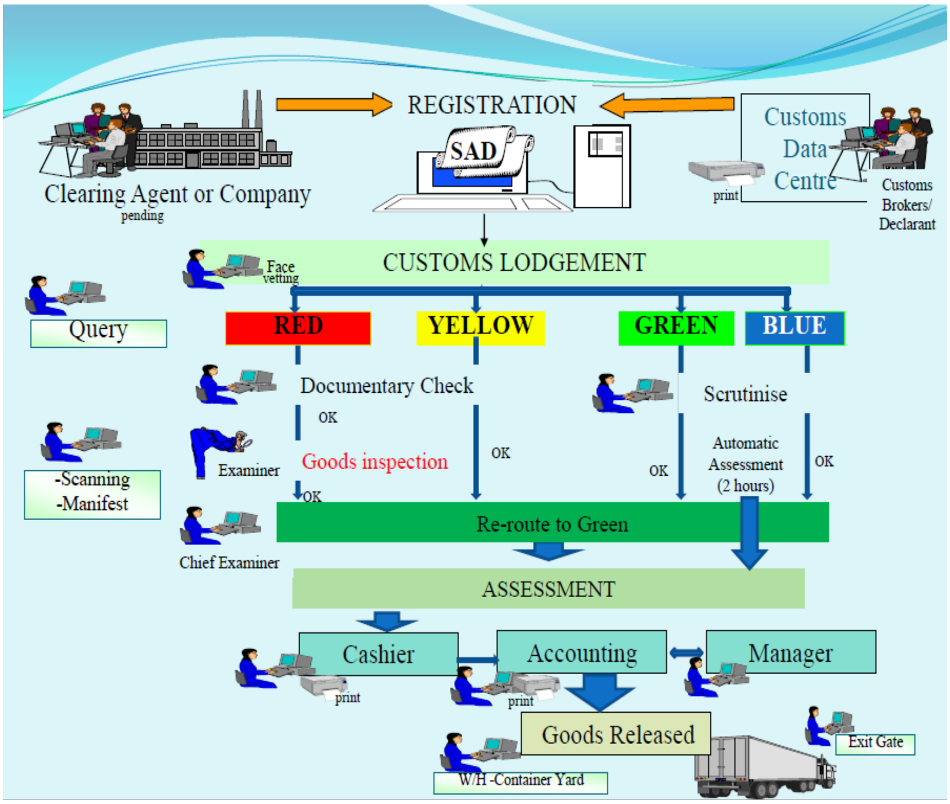
So, in 2012, not only will investors have the market of Cambodia's 14 million domestic consumers, but fast overland access to 310 million consumers in the Greater Mekong Sub-region too.

3.3. National Single Window and ASYCUDA

In order to simplify and improve the trade-related procedures, the Trade Facilitation Program has been implemented. The core of the Program is the implementation of the Single Administrative Document (SAD), a new Customs Declaration, based on "ASYCUDA", a new comprehensive electronic customs clearance system, and the Risk Management System for trade-related applications, customs clearance and audits.

To implement the Customs Modernization Strategy Reform 2009Strategy 2009-2013, General Department of Customs and Excise (GDCE) has selected the ASYCUDA World system as the basic tool for the computerization of customs procedures and data.

Figure 3.2: Proposed Procedure through National Single Window



Source: General department of Customs and Excite

Source: General Department of Customs and Excise

The ASYCUDA Project Document was signed on 18 April 2006 between GDCE and UNCTAD for duration: 42 months (July 2006-December 2010). With the budget of USD 2,137, 509 funded by World Bank, project has 3 phases:

- “Prototype” took11months (July 2006 –May 2007) /7months (plan) Mainly work on prototype, studying of the current customs procedures, SAD form, SAD explanatory notes, and reference coding tables. SAD manual implementation 1stJanuary 2008
- “Pilot Site” took 15months (June 2007 to May 2008) / 8months (plan): Worked on training, translating, configuration, regulations and instructions at Sihanoukville Port live pilot site (2nd May 2008).
- “Rolled out” took 16months (August 2008 to Dec 2009)/ 9months (plan). PPIA and Dry Port Office (Tec Srun and Teng Lay) live implementation (1st January 2010).

The project was supervised by UNCTAD experts who were ended at the end of December 2009. As planned, Customs automation project started its pilot testing by the beginning of 2007 at Sihanoukville Customs Branch. After it proved successful and making necessary adjustments, this project would be gradually rolled out to other major customs offices/branches by the end of 2007. However, the Implementation of the ASYCUDA was delayed due to many reasons including bureaucracy, human resources and training:

Followings are major steps to fully implement the system:

- Centralization of ASYCUDA Server Operations
- Functional Expansion of ASYCUDA
- Automated Manifest Operations
- Automated Transit Operations
- Automated Warehousing Operations
- Geographic Expansion of ASYCUDA
- Export, Excise, PNH Port, Poi Pet, Bavet, etc.
- Introduction of Direct Trader Input (DTI) Facilities
- National Single Window.
- ASEAN Single Window.

3.4. Customs and Export and import Procedures

In order to liberalize and facilitate trade and to control the customs operation, “The Law on Customs” was promulgated on 25 July 2007 for the following purposes (Article 1):

- To provide the right for the administration, control and collection of duties, taxes and fees on imported and exported goods;

- To provide for the control and regulation of the movement, storage and transit of such goods;
- To promote the prevention and suppression of fraud and smuggling;
- To participate in implementing the international trade policy of the Royal Government of Cambodia; and
- To promote the application of international standards and best practices regarding customs control and trade facilitation.

Import

All imported goods must be reported at a customs office or other location as determined by the General Director of Customs. The Minister of Economy and Finance may, by Ministry's Notification (Prakas), determine the time, manner, documentation requirements, circumstances and exceptions with respect to the reporting of imported goods.

No person shall unload goods from a conveyance arriving in Cambodia until the goods have been reported to Customs. Customs may authorize the removal of the goods referred to in Article 10 from the customs clearance area prior to the payment of duties and taxes and fees, under customs control and after the fulfillment of customs formalities, for the purpose of:

- Placing in customs temporary storage;
- Placing in customs bonded warehouse;
- Further transportation within or through the Customs Territory to a destination.

Imported goods may be released by Customs for temporary admission if at the time of importation it can be demonstrated that these goods will be re-exported. Temporarily imported goods shall be under customs control until such time as the conditions of their temporary admission have been fulfilled.

Export

All goods to be exported must be reported at a customs office or other location as determined by the Director General of Customs. The Minister of Economy and Finance may by Prakas determine the time, manner, documentation requirements, circumstances and exceptions with respect to the reporting, movement, storage and transportation of goods to be exported.

According to the website of the general department of customs and excise, the import procedures at the Sihanoukville Port are as follows: [25]

[25] http://www.customs.gov.kh/ProImports.html

Sihanoukville Port Procedures

At Sihanoukville seaport, there are 5 teams that handle reporting and control of cargo, declaration processing, transit operations, accounting and administration, i.e. the Customs Formality, Active, Warehouse, Examination, and Entrance/ Exit Teams. Import procedures are as follows:

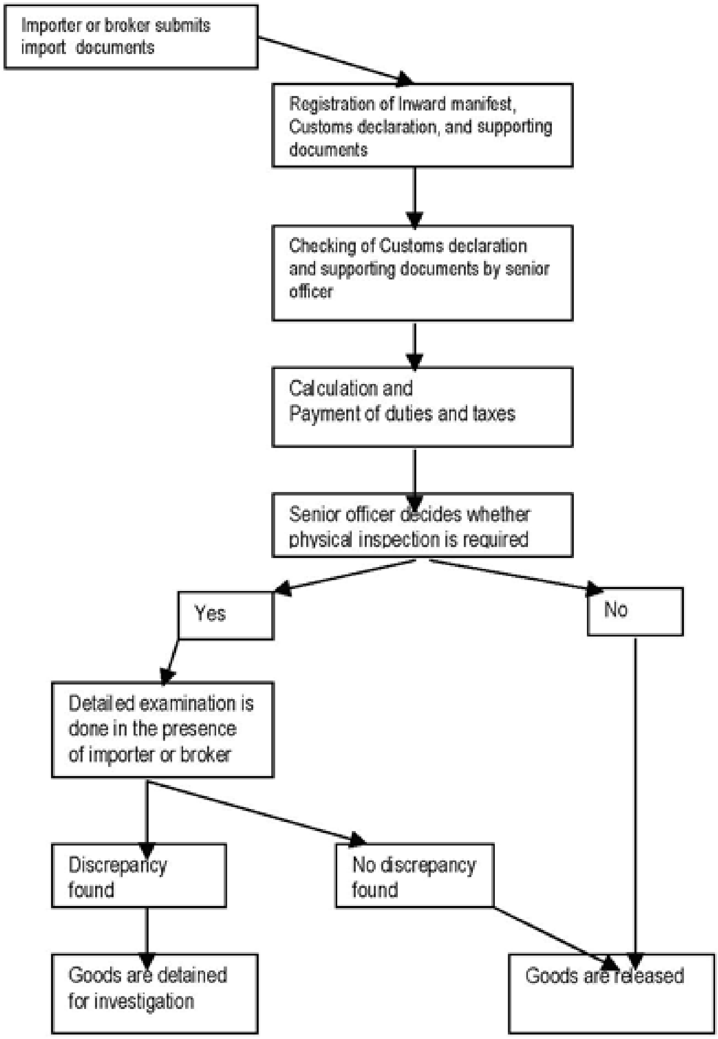
1. Upon arrival of the vessel at the port, KAMSAB (the government-owned shipping agent for marine cargo) informs Customs, Camcontrol, and Immigration Police.
2. The Customs Chief assigns 2 officers to the boarding committee or Formality Team, which includes KAMSAB, Camcontrol, Port Authority, Immigration Police, and Quarantine. KAMSAB provides a total of 9 copies of the manifest and related documents to the Team members, which boards the vessel. The Team breaks up to carry out their respective functions in formal clearance of the vessel and crew. The ship captain provides the manifest and bills of lading to Customs, which stamps them received. Crew lists and declarations are examined by Customs and the vessel's stores are sealed.
3. After vessel formalities, Customs authorizes unloading of cargo. The Active Team that includes KAMSAB and Port Authority, monitors unloading, checks cargo against the manifest, and verifies the condition of seals.
4. Cargo is stored in the warehouse and received by the operator. While awaiting their importer they are under the responsibility of the warehouse operator and Warehouse Team, which also controls cargo in the yard. A computer register of all cargo is maintained by both the operator and Customs. Goods are allowed 45 days storage, beyond which a daily penalty of 1% of the value is exacted. Goods stored beyond 3 months are transferred to the Customs warehouse.
5. Importers lodge three copies of the declaration with supporting documents such as commercial invoice, packing list, bill of lading, Import license (if required), Report of Finding (ROF) if an import FOB value greater than USD 4,000.00 and other documents if any.
6. At the clearance point, the declaration is registered with a sequential number that is unique to an individual entry processing unit. 3 copies of the entry are submitted to the clearance point with invoice, bill of lading, packing list; one copy is kept at clearance point, one goes to audit team at headquarters, one to the importer.

Declaration information is validated and scrutinized. (CED Annex 9 2003) The Camcontrol form is also attached to the declaration.

7. After assessment, importers pay duties in cash or bank guarantee either at the accounts section, or treasury in Phnom Penh which issues a receipt. Storage fees are also paid for.
8. The Customs Examination Team inspects the goods simultaneously with Camcontrol. Cargo is classified into 3 categories based on risk assessment: (a) Sealed PSI containers are not examined unless there is reason to suspect irregularities. On a selective basis, a maximum of 5% of containers is to be checked in detail. This was implemented since August 2002. (b) 100% of containers that bypass PSI are subject to detailed inspection. (c) 80% of investment company goods are inspected. In June 2002 a TC-Scan machine was installed to reduce physical inspection.
9. Goods are released. Containers are loaded on trucks for transport to Phnom Penh. Customs Entrance/Exit Team checks documents and receipts to verify payment, and matches container numbers against ship manifests.

Copies of the entry are dispatched to the headquarters Control Office which is responsible for post-entry audit. (CED 2003)

Figure 3.3: Import Procedures



Tomnop Rolork Port Procedures

Most of cargo arrive at the Tomnop Rolork Port are small cargo boats from Thailand and Viet Nam, so cargo manifest is not required. Normally, each vessel carries shipments for numerous importers. Main imported merchandises is sugar (most of which is for re-exporting to third countries). Shipments are all under the US$ 4000,00 PSI threshold, thus SGS's ROF is not required. Approximately eighty percent of shipments subject to duty and tax payable of less than US$ 300, therefore customs valuation is done at the local customs office and a brief-declaration is used.

- Importers inform customs the arrival of cargo and submit the required documents (declaration, invoice, packing list, and others if any).

- In the case that documents are not presented upon cargo arrival, goods will be unloaded and temporarily stored on the dock under the control of both warehouse operators and customs.
- After the document submission, chief of customs assigns an examination team to inspect the goods. 100% of all shipments are inspected by customs and camcontrol.
- Importers bring the examination results to accounting team where the customs tariff classification is determined and duty and taxes are calculated.
- Duty and tax payments are made at the customs branch office of Sihanoukville port.
- The accountants at Tomnop Rolork issue tax receipts to importers after they pay cash at Sihanoukville port's cashier. Importers are not allowed to pay duties at Tomnop Rolork.
- Goods are released.

Dry port Procedures

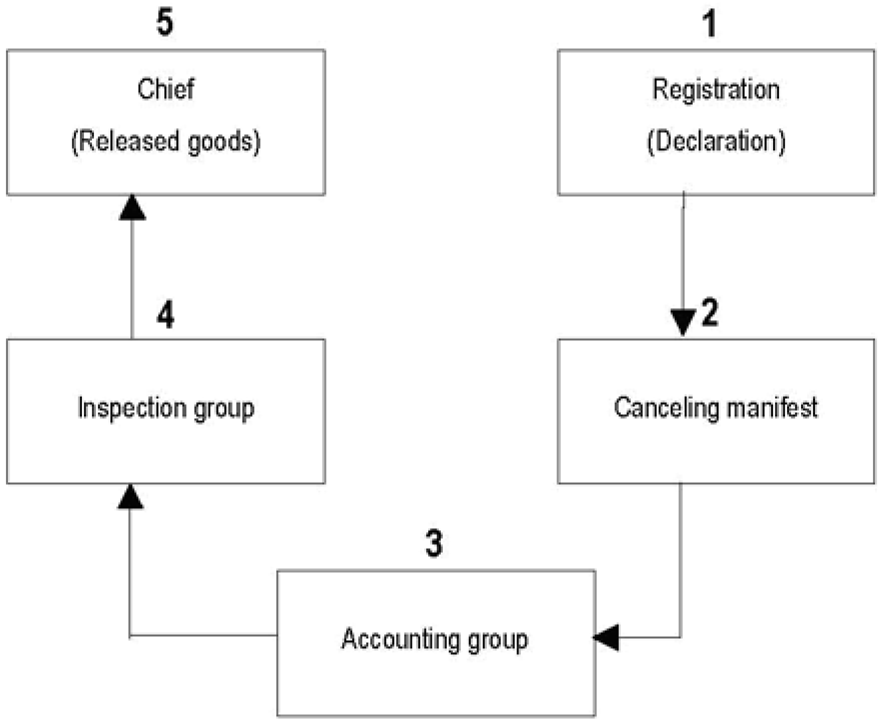
About 15% of cargos that arrive at Sihanoukville are cleared at Dry ports as follows:

1. Importer brings invoice for certification to GDCE headquarters, attaching the PSI-ROF, packing list, Bill of Lading, VAT registration, relevant license or exemption permit, and then to the Dry port Customs Chief for verification, upon which they are sent to any of the 3 Station Chiefs. Authorization is obtained by Dry port operator from GDCE headquarters to transport the cargo to the Dry port. Four copies of the approved transit declaration are sent to Sihanoukville Customs, which registers and seals it, specifies departure time and date, and returns 3 copies to Dry port operator.
2. Upon arrival of cargo, carrier submits manifest and bill of lading to Customs and warehouse operator. Carrier or importer posts a surety/guaranteee with Sihanoukville Customs, which may also escort the cargo or apply other controls depending on risk. It faxes information about the cargo to GDCE headquarters.
3. Cargo is transported to the Dry port. Upon arrival, the Dry port operator submits the 3 copies of the transit declaration to Dry port Customs, which returns an endorsed copy to the carrier in order to cancel it at the entry checkpoint register. The 2 remaining copies automatically become the summary declaration.
4. After declaration is registered, duties are assessed and collected at accounting.
5. Cross-checking and physical inspection is done, after which goods are released if they match documents, or seized if not;

6. Documents are compiled under a single registration and sent back to Dry Port Chief. For seized goods, a report is written and sent to the Chief for decision.

Using risk assessment, generally only a random 10-15% of containers are physically inspected.

Figure 3.4: Dry Port Cargo Clearance Flowchart



Airport Procedures

At the Phnom Penh International Airport, procedures are the reverse of those at the Dry port: (1) importer submits documents, (2) assessment and payment are done, (3) Customs verifies documents, (4) entry declaration is registered; (5) documents are given to Deputy Chief and Chief.

In order to facilitate the bona fide travelers and tourists, who come into Cambodia bringing along non-dutiable, non-prohibited and non-restricted goods, the Customs Administration established the Green Lane channel for them. By passing through the Customs counter on the Green Channel, the travelers' belongings will not be checked only if they declare to the Customs that there are no dutiable, prohibited and restricted goods accompanied with them. The Green Channel can be noticed by having the panel with words "NOTHING TO DECLARE" on it.

Travelers or passengers who bring along dutiable goods have to go into the Red Channel and pay duties and tax applicable. The Red Channel is noticed by having the panel with words "GOODS TO DECLARE" on it.

Travelers or passengers bringing along dutiable, restricted and prohibited goods, and found using the Green Channel shall be imposed a penalty and/or a fine. Travelers and tourists may bring personal belongings in reasonable quantity. Conditions under which travelers and tourists should enjoy concession are stated in Customs Passenger Forms which are available at entry checkpoints and/or air carriers.

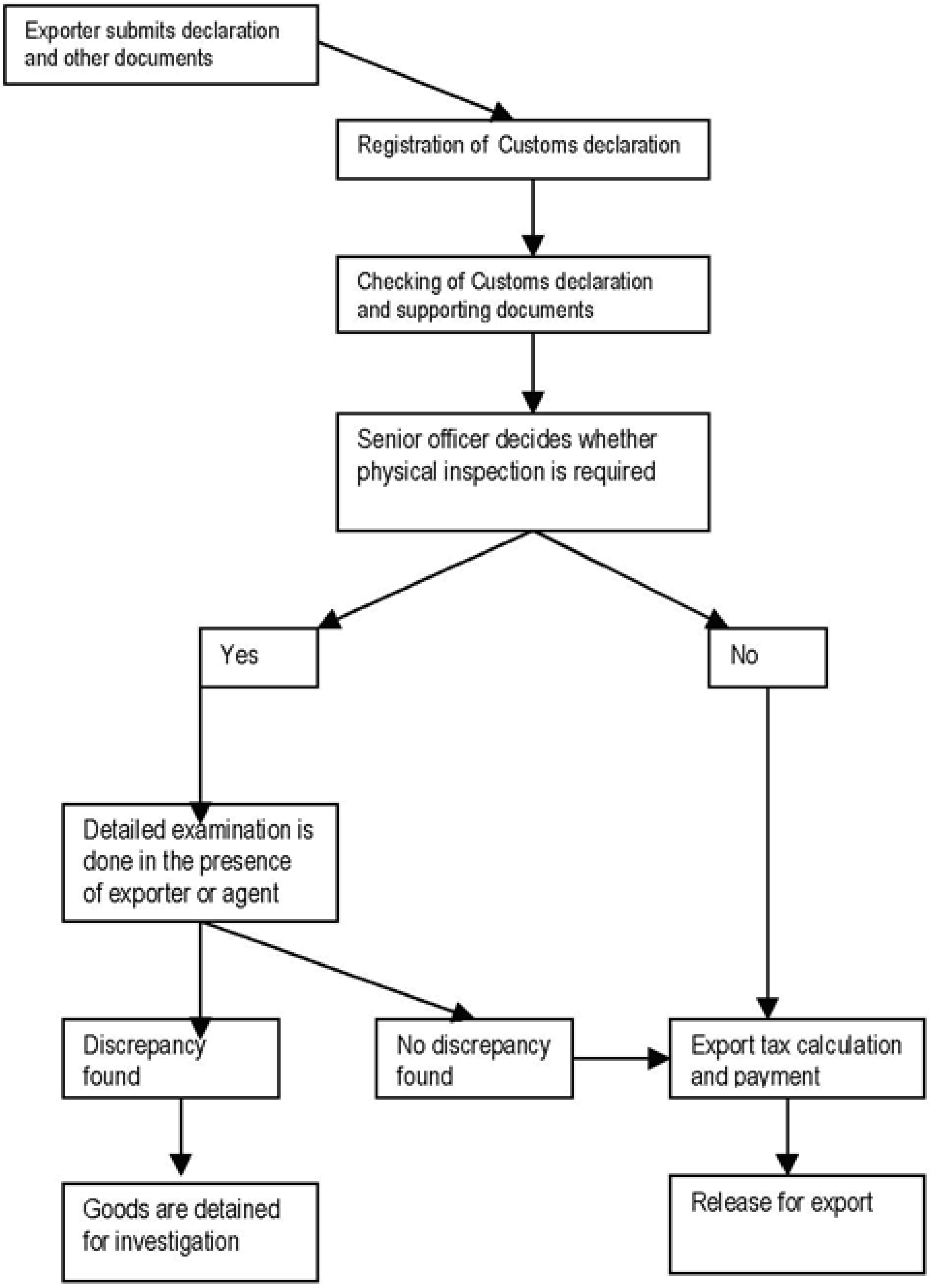
Export Procedures

The majority of goods exported through Sihanukville Port are garment exports. Most of these exported goods are examined by the Export Office in Phnom Penh, and the containers are sealed there. Customs at Sihanoukville port do not reopen the containers. They generally check the related documents and verify the seals on the containers. If everything is in order, containers are loaded on the vessels for export.

There are some goods cleared for export at Sihanukville such as wood products and garments form factories located in the Sihanukville area. The chief of customs of Sihanukville port sends staff to carry out the customs formality and examination at the investors' premises. [26]

[26] http://www.customs.gov.kh/ProExports.html

Figure 3.5: Export Procedure



Source: DG Customs and Excise

<u>*Documentary Requirements*</u>

Export declaration has to be made triplicate and be submitted to the Customs Office, accompanied with the following documents:

- Customs declaration,
- Commercial invoice,
- Packing list,

- Export license (if any),
- Certificate of origin (if any), and other documents.

Cargo Examination

All exports must be examined by GDCE as a spot check, primary or in detail. Goods are released when documents are approved, the export tax if any is paid for, and examination is completed.

An Export Office at GDCE headquarters takes charge of garments exports, which examines and seals cargo with a container bolt seal (in factory premises) that conforms to international standards. Once they reach Sihanoukville seaport their documents and container seal are checked by GDCE, and they are loaded on vessels.

Other goods cleared at Sihanoukville seaport such as wood products undergo Customs formality and examination on company premises in the Sihanoukville area by GDCE staff that is sent by their Chief.

Declaration and Lodgment

Declarations must be lodged in the prescribed forms at the entry point, accompanied by the bill of lading, commercial invoice, packing list, insurance, SGS Report of Findings where applicable, and other documents if required, e.g. licenses, certificate of origin, etc. Lodgment fees for imports or exports are $40. [27]

The full declaration has 46 data fields but only 27 are used for keying national statistics. The approval flow is as follows: (1) approval document accompanied by a set of original supporting documents is submitted to Control Office at headquarters, (2) all documents are registered and given a rotation number, (3) documents are submitted to Director, (4) Director signs 3 copies of approval, (5) one copy stays at Control Office and two go to entry checkpoint, (6) regional office receives approval documents and photocopies them for its records, (7) two original copies go to checkpoint, (8) checkpoint photocopies and keeps for local records, and one copy goes to importer, (9) one copy is attached to the entry and returned to Control Office.

Payment and Collection of Customs Duty

Custom clearance and cost have still the problem of trading in Cambodia. The survey was conducted to understand the cost of custom clearances and find ways to overcome these

[27] http://www.customs.gov.kh/declarationandlogment.html

issues. 30 questionnaires were distributed to logistics, transport, and freight forwarder companies in Phnom Penh in order to understand the process and cost of customs and cargo clearance. As a result, 6 completed questionnaires were received. [28]

3.4. Findings

Customs and Cargo Clearance (private sector)

The findings through survey demonstrate that it takes about an average of 20 days from filing to release of import clearance for agricultural and fishery products, it takes about 10 days for processed food products, 10 days for garment and textiles, 7 days for pharmaceuticals, 7 days for automotive products, and 5 days for sanitary and phyto-sanitary products.

Regarding the process to get papers, in average it takes 9 days to get a certificate of origin for tariff preferences, 2 days for export permits, 5 days from lodgment declaration then through customs and release for loading to ship, it takes 2 hours from custom release to actual loading onto ship. There is a big gap in time through the survey because it depends to how skillful the company can arrange the approvals or permits. Unofficial fees could make the process faster than usual.

1. <u>Lodgment of import entries:</u> The average time per transaction spent last month was 3 days for preparation of required document and 2 days for paying duties and taxes. Therefore it takes 5 days for the task. The import entries were lodged by Direct Traders Input. Percentage of import transactions last month is as follows: Green lane: 71%, Yellow lane: 20% and Red lane: 9%. The Green lane import transactions were mainly Import of multinational corporations. For Green lane import transactions, the average length of time from the lodgment of the import manifest details with customs and the payment of the estimated duties and taxes to the release of cargo: 2.75 days. In the case of Yellow and Red Lane, most problems encountered are lack of clear and complete documents.
2. <u>*The Average length of time from the lodgment*</u> of the import manifest details with customs and the payment of the estimated duties and taxes to the release of cargo, for the following: import transactions with valuation issues took 2 hours, Import with classification took half hour, Imports with valuation and classification issues took 1.5

[28] http://www.customs.gov.kh/paymentandcollectionduties.html

hours, regulated import took 1 hours and import with inconsistent document took 1 hour.

3. Average Length of Time from the filing of the request for the licenses, certificates, import permits, etc to the release of such papers is different according to type of commodities as shown in table below:

Type of commodities or service	Number of agencies involved	Average length of time from filing to release of import clearance
Agricultural products	3 (ministry of agriculture, camcontrol, customs)	20 days
Fishery products	3 (ministry of agriculture, camcontrol, customs)	20 days
Processed food products	5 (ministry of health, ministry of industry, ministry of environment, camcontrol, customs)	10 days
Garment and textiles	2 (camcontrol, customs)	10 days
Pharmaceuticals	4 (ministry of health, camcontrol, customs, ministry of interior or ministry of industry)	7 days
Automotive products	1 (customs)	7 days
Sanitary and phyto-sanitary	3 (ministry of health, custom, camcontrol)	10 days
Import Quota (garment)	2 (custom, camcontrol)	5 days

4. *Average Length of Time:* to undertake the followings: to get the certificates of origin takes longest time (9 days) comparing with to get export permits (2 days), from lodgment declaration to customs and release for loading to ship (5 days) and from customs release to actual loading onto ship (2 hours).
5. *Probability of occurrence* of the followings: pre-shipment inspection of export ranges from 20 to 50 percent and there is no case for the surveyed export companies in terms of stolen cargo.

National Single Windows (Government Officials)

1. The government agencies that are involved in export and import of goods in Cambodia are General Department of Customs and Excise, Autonomous Ports (Sihanoukville and Phnom Penh) of Ministry of Public Work and Transport, Dry Ports, The Plant Quarantine Office, (Ministry of Agriculture), The Animal Health and Production Department of Ministry of Agriculture and Camcontrol of Ministry of Commerce) and Special Economic Zones in many locations.
2. Cambodia has already started to develop a Single Window but at the pilot stage starting from ASYCUDA.

3. There is a committee (Project Steering Committee) that coordinates the planning and implementation of NSW in Cambodia with General Department of Customs and Excise as lead agency. Its members are ministry of Commerce, Ministry of Transports and Public Works, Ministry of Agriculture. The Committee is assisted by experts from UNCTAD.
4. The political mandate of NSW is at ministerial level.
5. There are strong supports from various Government agencies in agencies listed in item 1 above.
6. There are also strong supports from various business communities such as Foreign Chamber of Commerce, exporters, importers, Transport Industry Association, Logistics Association.
7. All of the agencies listed in item 1 will be connected to the NSW. But at present, only ASYCUDA is used as a pilot stage. However, some agencies such as Plant Quarantine and Animal Health and Production (Veterinary) Department and Camcontrol of the Ministry of Commerce are not sure when NSW is established.
8. The development of NSW has been and will be funded by loan or Official Development Assistance from development partners such as World Bank, UNCTAD and others. The Government will partly finance as counterpart fund for maintenance and operation.
9. NSW has been initiated since 2006 and now it is well underway and expected to be delay due to technical problem and complexity. Preparatory Stage (e.g. stakeholders engagement, legal analysis) Process Analysis, Process Simplification & Harmonization, Document Simplification and Standardization, Cross Border Data Exchange and Single Window Implementation have been well underway. National Data Harmonization has been completed.
10. The outcome from process of simplification and harmonization are as follows: General Department of Customs and Excise, Autonomous Ports (Sihanoukville and Phnom Penh) of Ministry of Public Work and Transport, Dry Ports, The Plant Quarantine Office, (Ministry of Agriculture), The Animal Health and Production Department of Ministry of Agriculture and Camcontrol of Ministry of Commerce) and Special Economic Zones as project team has simplified many processed and eliminated many unnecessary processes (unspecified numbers).
11. The level of data harmonization has been completed by the project team of ASYCUDA. Automated System for Customs Data was designed and developed by

UNCTAD for simplification of procedures, trade facilitation, and improvement of Trade statistics. The system uses all international standards for trade data under WCO and ISO conventions (SAD Forms, SAD Explanatory Note, RFDs).

12. The status of readiness to NSW of all agencies is as follows: The GDCE and International Ports already have they adequate facilities system and ready to implement NSW. However, they are still in lack of personnel.
13. NSW will be operationalized at both international ports Sihanoukville and Phnom Penh, dry ports and selected SEZs, especially near International Border Checkpoints.
14. As NSW in the country is not ready, no company utilizes NSW.
15. There are some suggestions: 1) NSW should be accelarated to implement according to ASEAN Agreement which require Cambodia to start in 2012. Trade infrastucture such as Convention centers, warehouse, border transit facilities should be established.

3.5. Main Issues and Challenges

High Cost in Trade Clearance

Due to complicated procedure, some traders have to clear the cargo by hiring the logistics companies to do for their behalves. This may add cost to the operation of the company. Paying the logistics company is one problem but paying extra and unofficial fee for working government officers in many level and control desks put more burdens to business cost. With present operation system, the cost of cargo clearance is still very high compared with other countries in region. This problem can create a barrier to trade development in Cambodia.

Long Time for Approval Processing

It took about 20 days from the filing of the request for the licenses, certificates, import permits, etc. to the release of such papers for both export and import of goods, especially the goods involved multiple roles of different agencies. It is considered long that may cause spoiling of some perishable products and create a barrier to trade development. For business, time is money.

Complicated Procedures

There are many Government agencies involved in the process that could create delay and could hamper trade activities. Many Government officers at many desks of the same agencies just check and verified the documents. If some responsible officers are absent with personal reasons (as wedding of relatives, or religious ceremonies) or official reasons (such as meeting, or travels), the process will delay further. A respondent importing food products informed the research team that in order to import meat at least 13 Government agencies or places are involved such as license of import from Ministry of Agriculture, Forestry and Fisheries, license of transport from Ministry of Transports and Public Works, approval of quality control from Camcontrol (Ministry of Commerce), veterinary inspection (meat quality) by Production and Animal Health Department (MAFF), and so on until goods arrived at his warehouse in Phnom Penh. Though all inspections are completed, still most of the officers demanded "tea money" for their work without exception counting on every container before transporting out of the port warehouses. In some case the delay may spoil or perish his meat. Without paying, traders may face

Export Constraints

Cambodia trade deficit is still high with about US$ 1 billion every year. Majority of Cambodian export is garment and apparel products. Many export constraints include lack of trade promotion, and poor trade facilitation. Though the Government has adequate trade facilitation strategy, real actions at the grass root level to improve speed of handling import export procedures and good governance are very important.

3.6. Recommendations

Procedures to be as simple as possible

All export and import procedures including various inspections should be as simple as possible to simplify and facilitate the trade development in the country. The Government should implement the WTO, General Agreement on Tariffs and Trade, Article VIII (1) (c) which states that "The Contracting Parties also recognize the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements."[29]

[29] UN (2001) p.18

Co-ordination and harmonization of controls

National Single Window should be installed as stated in ASEAN Agreement on National Window. Other conventions in which Cambodia is one of the signatories such as ICAO, Convention on International Civil Aviation, Annex 9 (4.30) Recommended Practice stating that "Where the nature of the consignment could attract the attention of different clearance agencies, e.g. Customs and veterinary or sanitary controllers, Contracting States should endeavour to delegate authority for clearance to customs or one of the agencies, or where not feasible, take all necessary steps to ensure that clearance is carried out simultaneously, at one point and with a minimum of delay."

The Government should implement UN/ECE, International Convention on the Harmonization of Frontier Control of Goods, 1982, Article 4 which states that "The Contracting Parties shall undertake, to the extent possible, to organize in a harmonized manner the intervention of the Customs services and the other control services." The WCO, Revised Kyoto Convention, General Annex, Chapter 3 Transitional Standard 35 which states that "If the goods must be inspected by other competent authorities and the Customs also schedules an examination, the Customs shall ensure that the inspections are coordinated and, if possible, carried out at the same time" should be enforced as well.

Reducing unofficial fee

In the area of trade facilitation, the main problem that persists for many developing countries including Cambodia is high unofficial fees (corruption) in many points of clearance and inspections. If the Government is committed to promote and facilitate trade, one priority action is to eliminate unofficial fees such as security charge, tea money and charity for different purposes and so on.

Chapter IV. Transport and Logistics Services

4.1. Background

As the result of decades of conflict and civil war, Cambodia’s transport infrastructure is extremely weak. The backbone to any sustainable development is physical infrastructure including roads and bridges, railways, ports, electricity generation and network, irrigation, telecommunications, and so on. Cambodia's transport modes comprise road and rail, ports and harbors, inland waterways, and civil aviation. Road transport is the dominant mode. Its share in total transport output is frequently stated as 65% for passengers and 70% for freight. However, these figures seem to be understated and date back to a time when both inland waterways and the Royal Railway of Cambodia (RRC) played a greater role in moving passengers and freight. Over the last two decades, both modes have lost significance, with both passenger and freight traffic on a steady decline. Although domestic civil aviation is important for the growing tourism industry, its contribution to overall transport output is minimal. There are no official sources, but, it is highly likely that the share of road transport in both passengers and freight is currently about 95%.[30]

4.2. Transports Infrastructure

Roads

The responsibility for managing the transport sector is divided among various government agencies. The Cambodian road network covers about 39,500 kilometers (km) and includes seven national roads (NRs 1–7) or primary highways with a combined length of about 4,800 km. The management of the road network is split between the Ministry of Public Works and Transport (MPWT), which is responsible for about 11,500 km of national (primary) and provincial (secondary) roads; and the Ministry for Rural Development (MRD), which oversees about 28,000 km of rural (tertiary) roads. Strategic National Road No. 4 from Phnom Penh to Sihanoukville International Port has been

[30] ADB (2009), p.3.

adopted in Public Private Partnership (PPP) approaches as BOT to a private company AZ Group for the operation and maintenance.

International Ports

Cambodia has two international Ports, Sihanoukville Autonomous Port and Phnom Penh Autonomous Port. The Sihanoukville Autonomous Port (PAS) is the sole international and commercial deep seaport of the Kingdom of Cambodia. At present, the total operational land area of the Sihanoukville Autonomous Port is around 124.76 ha. The Old Jetty was constructed in 1956 and became operational in 1960. This jetty is 290m long by 28m wide and can accommodate 4 vessels with medium GRT at both sides. The exterior berth is -8.50m-13m depth, while the interior berth is -7.50m -8.50m depth. In order to cope with the increasing rates of cargo throughput the Royal Government of Cambodia had constructed another 350m long new quay with -10.50m maximum draft in 1966. At present, this new quay can accommodate 3 vessels with -7.00m draft medium GRT. The construction of Container Terminal with 400m long by -10.50m depth and 6.5 ha of container yard was fully completed on March 2007. In 2008, the Port handled more than 2 million tons of cargo (see Table 4.1).[31] Phnom Penh Autonomous Port is located at the junction of the Bassac, the Mekong, and the Tonle Sab rivers. The Port is the only river port capable of receiving nearly 800,000-ton ships during the wet season and 500,000-ton ships during the dry season. The floating terminals server passenger and tourism boat and the concrete piers also rehabilitated by constructing new terminal with the 300m length and 20m width. The new terminal is able to berth up to 4 vessels at the same time.[32]

Table 4.1: Sihanoukville Port Traffic

Item	2003	2004	2005	2006	2007	2008	2009(9m)
- Gross Throughput (Tons)	1,772,361	1,503,050	1,380,847	1,586,791	1,818,877	2,057,967	1,405,338
- Not Include Fuel	1,454,856	1,242,011	1,131,699	1,320,102	1,428,992	1,605,672	958,279
- Not Include Fuel &Cont.	650,329	308,153	107,929	197,573	193,573	291,114	162,520
- Cargo Containerized	804,527	933,858	1,023,770	1,122,529	1,235,419	1,314,559	795,759
- Container Throughput (TEUs)	181,286	213,916	211,141	231,036	253,271	258,775	157,639
- Vessel Calling (Units)	878	730	686	912	876	954	642

Note: -Max Vessel Dimensions: At berth 10 000 DWT, -8.50m Draft.
-Principal Imports: Container Cargo, Cement, Oil Products, Steel, Rice & General Cargo.
-Principal Exports : Container Cargo, Processed Wood and Agricultural Products.

Source: Port Website: http://www.pas.gov.kh/traffic-handling.html

31 Port website: http://www.pas.gov.kh/introduction.html
32 Phnom Penh Port Website: http://www.ppap.com.kh/ppap/sub04.asp

Railways

The railway network of about 640 km of track is currently operated by RRC, a state-owned enterprise reporting to MPWT. The railway system consists of two lines: (i) the 388-km- long Northern Line connecting Phnom Penh to Poipet on the border with Thailand, and (ii) the 254-km-long Southern Line connecting Phnom Penh to Cambodia's main seaport in Sihanoukville. There is a limited train system which runs to the southern seaport of Sihanoukville and to the northwest (Poipet) on the Thai border. There are plans to rehabilitate the railway to Poipet and to build a new railway linking Phnom Penh and Ho Chi Minh City in Vietnam as part of the trans-Asia railway. These railways cover a total of 603 kilometers (375 miles). The Royal Government of Cambodia has granted the license to the Australian Company, Toll (Cambodia), to invest in the country's two railways. Deputy Prime Minister and Minister of Economy and Finance Keat Chhon, Public Works and Transportation Minister Tram Iv Tek and Toll Representative Charles Thompson on June 12 signed a 30-year concession agreement on the development and exploitation of the two railway lines – from Phnom Penh to Poipet of Banteay Meanchey province and from Phnom Penh to Preah Sihanouk province. In March 2010, Cambodia received assistance from Asian Development Bank (ADB) and Australia Government to rebuild its entire railway system by 2013. The country received an additional $42 million loan from the ADB and a $21.5 million grant from the Australian government. The ADB had already provided a total of $84 million in loans to help revive the 600 km (370 mile) network. Another $13 million had come from the OPEC Fund for International Development and Malaysia had contributed 106 km (66 miles) of track worth $2.8 million. The railway has played a central role in Cambodia for more than 75 years and many Cambodians see it rightly as a symbol of development and a means of integration with Cambodia's neighbors in the Greater Mekong Sub region and the world beyond. The Railways, when completed, will help promote trade with reduced cost of transportation. The railways would connect with the railway in Thailand, and through it with Malaysia and Singapore.[33]

[33] Source: Agence Khmer Press (AKP) June 15, 2009 and Reuters, "Cambodia rebuilds railway with Australian, ADB aid" March 2, 2010.

Airports

The State Secretariat for Civil Aviation is responsible for the control, regulation, and orderly development of the civil aviation sector as well as the operation of domestic airports. At present, Cambodia has 10 airports, including international airports in Phnom Penh, Siem Reap, and Sihanoukville. The Phnom Penh and Siem Reap airports each handle about 1.4 million passengers per year. Domestic freight traffic is insignificant. The civil aviation sector has undergone major changes to improve its compliance with international safety and security standards and to encourage private sector participation in operating the terminals.

Before the war time (1970-1975) Cambodia has 19 airports 18 of which served domestic air transportation. But so far, due to lack of maintenance and investment, most airports were abandoned. Only three international airports, Phnom Penh, Siem Reap and Sihanoukville are operational. All of the three airports are operated by private sector in form of Build-Operate- Transfer (BOT) for operation, management, and development and improvement of airport facilities. The BOT is granted to a joint enterprise between French and Malaysian corporations. Phnom Penh and Siem Reap have already fully operated with passengers and cargo transportation by international air transportation. Phnom Penh International Airport has a 3,000-meter runway and is linked with many parts of Asian regional hubs and by direct services. Siem Reap Airport has a 2,500-meter runway, and is used both by domestic and international flights with more tourists than cargo. Sihanoukville airport has just finished its upgrading from domestic to international airport. After renovation and upgrading, it will be the biggest airport in the country to transport air cargo and passengers for future development of industrialized zones in the coastal areas. With increasing cargo and passenger flights, international airports and warehouses will facilitate transports and trade.

Waterways

The country also has 3,700 kilometers (2,299 miles) of navigable waterways, and it is possible to travel to the famous Angkor Wat complex by jetboats using the Tonle Sap River and the great Tonle Sap Lake. Regarding inland waterways, there are some important centers in Cambodia. Kampong Cham is one of the most important centers in Cambodia, situated on a cross-road of two main trading routes: north-south along the Mekong from Laos to the sea, and east-west between Thailand and Vietnam along the historic route via Siem Reap. It is growing quickly and is an important center for the rubber plantations. Much of the transport to and from Phnom Penh is by river. Apart from the road 7 ferry, there is a passenger landing and a 10-meter long pontoon for barges up to about 400-ton capacity. During the dry season, the pontoon is grounded and the river-bank is used. There is also a warehouse with a covered area of 550 square meters, which contains a capacity of about 600 tons. Kratie is a provincial capital and another important center for the rubber trade. It has a 35-meter long pontoon, used only in the rainy season, and a 1,000-square meter warehouse that has a capacity up to 5,000 tons. Stung Treng is an important regional center, located where the Sekong joins the Mekong and also with road access to both Laos (NR 7) and Vietnam (NR 78). A ferry brings the traffic along NR 7 across the Sekong, but is not much used in the present security situation. The Sekong and its tributaries, San and Srepok, provide the only means of access to large parts of Stung Treng and Ratanakiri. However, there are no dedicated port facilities. The river-banks have to be usually used, or during the low water season, the temporary jetty provides for the ferry. For the port facilities of Kampong Chhnang, they are congested with a large adjacent market area, and the whole area needs improvement and paving. Nowadays, however, the function of the port is more provincial than national since larger vessels cannot enter the lake at low water. The port for Siem Reap is situated 5 kilometers from the city and can only be used at high water. A temporary wooden part is constructed at the beginning of each dry season but is destroyed together with any improvements of the access road as the water arises. There are also various mooring places along the access road for intermediate water levels. Therefore, the port condition is still poor. The port is mainly used for goods traffic to and from Phnom Penh. Some passenger vessels also ply the route and there are some new express services for tourists to Angkor Wat.

Inland waterways were important historically in domestic trade in Cambodia. The Mekong and the Tonle Sab rivers, their numerous tributaries, and the Tonle Sab provided avenues of considerable length, including 3,700 kilometers navigable all year by craft drawing 0.6 meters and another 282 kilometers navigable to craft drawing 1.8 meters. In some areas, especially west of the Mekong River and north of the Tonle Sab River, the villages were completely dependent on waterways for communications. Launches, junks, or barges transported passengers, rice, and other food in the absence of roads and railways. Based on the Annual Progress Report 2006 on NSDP (2006-2010), waterway transport accounted for only 15 percent of passengers (persons/km) and 20 percent of goods (tons/km), though the total goods volume handled at the two international ports was 2.6 million tons in 2006, increasing by 15 percent compared to that in 2005.

Although there has been a shift from river to road transport, the four main navigable waterways converging in Phnom Penh remain important means of moving cargoes and people. The lower reach of the Mekong can accommodate vessels of up to 2,000 dead weight tons all year round, provided dredging is undertaken. The upper reach of the Mekong between Phnom Penh and Kratie and onward to Stung Treng can only accommodate much smaller vessels because of a lack of dredging. The Tonle Sap also takes smaller vessels, with a particular concern over silt of the entrance to the Great Lake. The Bassac river is usable by vessels under 100 tons and services trade with the delta area in Vietnam.

According to the Ministry of Public Works and Transport, Cambodia's main ferry services crossing the Bassac River and the middle Mekong River at Neak Luong (Phumi Prek Khsay), Sre Ambel, and Stung Treng have been restored. The major Mekong River navigation routes were also cleared for traffic.

Logistics

Compared to other countries in ASEAN, logistics infrastructure in the country is still weak due to lack of expertise and legal framework (see table 4.2). In absence of laws and regulations to manage the logistics services, the sector still grows according to increasing demand in trade and transport services. There are about 50 logistic companies operating in the country serving Courier Services, Customs House Brokers, Customs Clearance, Freight Forwarding, Cargo, Transport, Logistics Support, and Shipping Line Services & Agencies.

Table 4.2: Comparison: Logistics Infrastructure of Countries in ASEAN

	Port	Airport	Railway	Road
Cambodia	Poor	Fair	Poor	Poor
Indonesia	Poor	Fair	Good	Fair
Laos	Not applicable	Poor	Not applicable	Fair
Malaysia	Good	Good	Good	Good
Philliphines	Fair	Fair	Poor	Fair
Singapore	Good	Good	Good	Good
Thailand	Good	Good	Good	Good
Vietnam	Fair	Fair	Fair	Fair
Burma	Poor	Poor	Poor	Fair

Source: http://www.business-in-asia.com/infrastructure_asean.html

4.3. Regional Connectivity

Cambodia signed many agreements in regional mechanism for transport and logistics supports such as GMS Cross-border Transport Agreement, ASEAN related agreements, etc. The most famous projects are ADB initiated GMS Economic Corridors in the GMS framework, ASEAN Highways in ASEAN framework and Singapore-Kunming Rail Link (SKRL) under AMBDC (ASEAN Mekong Basin Development Cooperation scheme.

The GMS Cross-Border Transport Agreement (GMS Agreement) is a multilateral instrument for the facilitation of cross-border transport of goods and people.

Formulated under the auspices of an ADB technical assistance, the GMS Agreement provides a practical approach to streamline regulations and reduce nonphysical barriers in the GMS. It incorporates the principles of bilateral or multilateral action, and flexibility in recognition of differences in procedures in each of the GMS countries.

The GMS Agreement includes references to existing international conventions that have demonstrated their usefulness in a broad range of countries. It also takes into account, and is consistent with, similar initiatives being undertaken by ASEAN.

The GMS Agreement is a compact and comprehensive multilateral instrument, which covers in 1 document all the relevant aspects of cross-border transport facilitation.[34] These include:

- single-stop/single-window customs inspection
- cross-border movement of persons (i.e., visas for persons engaged in transport operations)
- transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort, and phytosanitary and veterinary inspection
- requirements that road vehicles will have to meet to be eligible for cross-border traffic
- exchange of commercial traffic rights
- infrastructure, including road and bridge design standards, road signs and signals.
- The GMS Agreement will apply to selected and mutually agreed upon routes and points of entry and exit in the signatory countries.
- The CBTA has entered into force with its ratification by all six GMS member countries in December 2003. Full implementation of the Agreement and its annexes and protocols is expected by 2008/2009.

The Singapore-Kunming Rail Link (SKRL) aims in connecting domestic rail networks to form a continuous link from Singapore to Kunming in China, easing travel between various Southeast Asian countries and China. Cambodia’s construction of the missing links, guided by the Inter-Ministerial Committee for SKRL, has been delayed behind

[34]Source: http://www.gmsbizforum.com/index.php?option=com_content&task=section&id=15&Itemid=71

schedule due to lack of fund and restructuring of Cambodia Royal Railways. Cambodia would start its rail rehabilitation project on its existing rail system, partially funded by the Asian Development Bank (ADB) and Australia. The rail link between Poipet and Sisophon was expected to be completed by the end of 2007 or early 2008.[35] For the 225-kilometer missing link between Phnom Penh and Loc Ninh, a border town between Cambodia and Vietnam, Pheakavanmony said a feasibility study on the missing link, funded and conducted by China, has been completed.

Route 1, which connects Cambodia, Lao PDR, Viet Nam and China, was selected by the ASEAN Transport Ministers for its high social and economic impact. It will cost an estimated US$1.8 billion to construct. Its 5,382 km length includes the missing links from Poipet to Sisophon, and from Phnom Penh to Loc Ninh and Ho Chi Minh City, as well as the spur lines from Ho Chi Minh City to Vung Tau and from Vientiane to Vung Anh. Routes 2 to 6 will be considered for implementation in national rail plans or other railway network projects, such as the Trans-Asian Railway.

Table 4.3: Proposed Singapore Kun Ming Rail Link (SKRL) Route Alternatives

Study Route	Cost (US$ bn)	Length (km)	Missing Links	Countries involved
1	1.8	3,382	431	Cambodia, Lao PDR Vietnam
2	6.0	4,559	1,127	Myanmar, Thailand China
3	1.1	4,259	531	Lao PDR, China
4	5.7	4,164	1,300	Lao PDR, China
5	1.1	4,481	616	Lao PDR, Thailand Vietnam
6	1.1	4,225	589	Lao PDR, Thailand Vietnam

Source: *Source: Association of Southeast Asian Nations's Fact Sheet* - *www.aseansec.org*

For GMS Economic Corridors, Cambodia is a part of The **Southern Economic Corridor (SEC)** runs through southern Thailand, Cambodia, and southern Viet Nam. Originally, the SEC consisted only of one route—the Bangkok-Phnom Penh-Ho Chi Minh City-Vung Tau corridor (see Figure 4.3). Other routes were included under the SEC, at the request of member countries.[36]

SEC branches:

- The Central Sub-Corridor. Bangkok (Thailand)-Phnom-Penh (Cambodia)-Ho

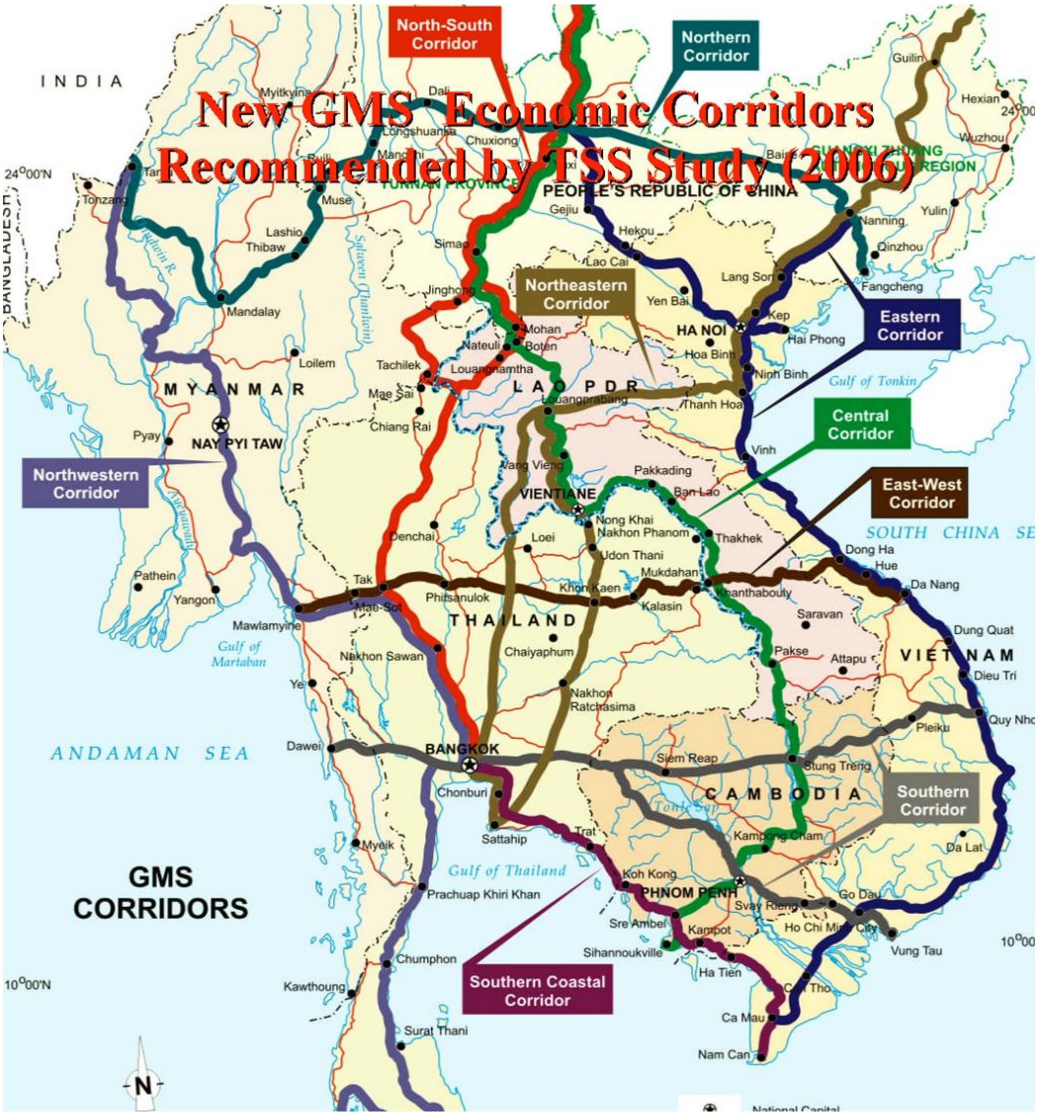
[35] http://www.business-in-asia.com/asia/SKRL_railway.html
[36] Source: http://www.adb.org/GMS/Economic-Corridors/sec-background.asp accessed on 27 July 2010.

Chi Minh City (Viet Nam)-Vung Tau (Viet Nam);

- The Northern Sub-Corridor. Bangkok-Siem Reap-Stung Treng-Rattanakiri-O Yadov-Pleiku-Quy Nhon Northern Sub-corridor; and
- The Southern Coastal Sub-Corridor. Bangkok-Trat (Thailand)-Koh Kong-Kampot (Cambodia)-Ha Tien-Ca Mau-Nam Can (Viet Nam).

An important inter-corridor link is the Southern Lao PDR-Sihanoukville Subcorridor: Dong Kralor - Stung Treng-Kratie-Phnom Penh-Sihanoukville (Cambodia).

Figure 4.1: GMS Economic Corridors



Source: Ministry of Public Work and Transport

4.4. Findings from Survey

Logistics Cost and Time

Cambodia's trade is still facing huge problems in terms of logistics services and cost. In comparison with other countries in the region, Cambodia is less competitive and attractive to traders. In order to determine the challenges facing by traders in Cambodia, a survey was conducted.

In the process of the survey, one hundred questionnaires were sent to exporting firms and 15 were collected (but most of the answers were incomplete) another 5 were collected from the focus group workshop and other four from face to face interviews.

The findings show that the logistics cost and time in Cambodia is still very high. It takes average five hours from Phnom Penh to Sihanouk Ville Port by truck; it takes 35 hours for examination, 79 hours for packaging, 5 hours for loading, it takes 5 hours for custom formality, it takes 4 hours for port and shipping activities, 12 hours from cargo arrival in port to ship departure. It costs about 1200 US Dollars per one 20 FT container.

Unofficial fee is still very high. It shares about 16 percent of the total transport cost. Most of the interviewed exporting firms requested the government to reduce facilitation fee. They are willing to pay small amount of facilitation fee as long as the export process goes smoothly.

1. The packing and examination are considered to be the most time consuming for exporters.
2. Total cost from factory to ship is about 1,100 US dollars per 20 foot container in which US$ 80 for examination or inspection, US$229 for packing, US$490 for loading, US$200 for transportation to Part, US$399 for customs clearance and Port and US$184 for cargo handling, warehousing, and, related activities.
3. The rates from the transport and shipping company are different according to the kinds of products to transport and quality and speed of the services to provide. The rate from SHA Transport Express Co., Ltd) Port and cargo handling, warehousing, and, related activities is US$1,305 while the EP Logistics Co, Ltd pays US$739 plus 0.1% of total fee to Camcontrol, and 10% Value Added Tax (VAT). The rate from transporting rice by SHA Transport Express Co., Ltd is US$1,085 and US$1,485 for Loran Import Export Co.ltd. All the rate does not included the Shipping charge & ocean freight, VAT 10% on local charge, charge for a letter from Ministry of

Agriculture forestry and Fisheries (If any) Veterinary Certificate or Phytosanitary Certificate, charge for Certificate of Original (If any).

4. Average Length of Time (Hours) Spent on the following process (20 Ft Container) is 40 hours for examination, 60 hours for packing, 2 hours for loading, 6 hours for transport to ports (Sihanoukville Port),5 hours for export customs formalities, 3 hours for Port and Shipping Related Activities in Export Gate Way, and total Time From Cargo Arrival in Domestic Port to Ship Departure in Export Gateway is 10 hours.
5. 95 percent of respondents indicate that there are unofficial solicitation fees along the way from the factory to the port.

4.5. Challenges

Weak infrastructure

Cambodia is still in early stage of transport infrastructure development due poor strategic plan, lack of maintenance and shortage of financial resources. Main roads in Cambodian sections of the proposed corridors are in sub-standard only in two-lane, while 97% in Thailand and 50% in Vietnam either have been upgraded or are being upgraded to four-lane as high way standard. Railways will need more time and fund to be upgraded.

Subordinate infrastructure including rural roads and rural market places are in poor condition. Electricity supplies in most parts of the country are still very expensive that caused difficult in production for import substitution and export. With weak infrastructure, Cambodia finds it difficult in the process of economic integration to the region and to the sub-region. Poor conditions of roads and lack of traffic signs create very high fatality in road accidents.

High Cost in Transportation

Due to many reasons, Cambodia transport is high compared with countries in region. The main reasons are poor road condition and complicated traffic and port management. While the road quality is poor, the bulk transpiration such as container transport by road is restricted with limit weight and size of trucks. It causes difficult in transportation. The absence of railways, at least for the time being, make per unit transport expensive because there is no alternative. The private operated strategic Road No.4, also causes high cost as the truck drivers have to pay 3 times at tolls from Phnom Penh to Sihanoukville.

Inadequate transport logistics

Based on findings, Cambodia has not yet developed strategy for logistics and transports sector. There is no master plan for future development in the sector. Cambodia also needs to draft many laws and regulations to

4.6. Recommendations

Regional Development

In order to make Cambodia more competitive in transport and logistics, Government should identify a long term strategy in developing economic growth corridors for transports and logistics, especially along the lime of regional Economic Corridors.

The Government should take special consideration in coastal development by investing in building main highways and other supporting infrastructures such as water and electricity to the coastal provinces which are now neglected for development such as Kep, Kompot, Koh Kong and Sihanouk Province. Special Economic Zones should be encouraged to develop in those coastal provinces, especially in Sihanouk Province to bring production base nearer to the deep water port and the new International Airport.

Regional development may reduce population pressure to Phnom Penh and can reduce development gap between urban and rural areas, especially Phnom Penh and coastal provinces.

National Transport and Logistics Development Policy

Though the Royal Government has made many outstanding progresses in building and upgrading quality of transport and logistics infrastructure, many rooms requires improvement, including developing national transport and logistics development policy.

Logistics policy should be clearly defined by the Government(s) with consultation with shippers, consignees, logistics providers and other involved profession associations, especially Cambodia Freight Forwarder Association. The Government should give priority in logistics and transport infrastructure development plan and investments with encouragement of Public Private Partnership for investment in logistics and transport corridors because the projects require big investment.

Human Resources Development

The Government and privates sector with cooperation with development partners should work together in capacity building in various forms such as study tours and training for the staff in Ministry of Public Work and Transports (MPWT) in public transport and logistics management, mass transit planning, and infrastructure planning, etc.

The logistics service providers and other involving agencies should be well equipped with knowledge and experience in ICT Application on freight forwarding, customs clearance and other logistics Services. Those staff in private sector should learn and exchange of information and sharing of best practices on logistics services.

Some courses related to logistics and transport and international trade should be encouraged to include in curriculum of state and private universities.

Chapter V: Summary

5.1. General Summary

After the 1993 general elections, Cambodia has been transformed completely from centrally planned economy to free market economy and the Royal Government of Cambodia began formulating comprehensive macroeconomic and structural reform and achieved some significant successes in stabilizing the macro-economic foundation. With win-win policy, the country has a full peace and stability after the last Khmer Rouge rebels were completely dismantled and integrated into Cambodian society in 1998. With this foundation, the economy expanded rapidly during the first half of the 1990s and 2000s, while inflation was dramatically reduced.

With the Rectangular Strategy and National Strategic Development Plan, Cambodia has recognized private sector as engine of growth and partner with Government. The Cambodian economy became more resilient and dynamic despite the major challenges faced by the regional and global economy and the natural disasters the country experienced. For the period 2000—2008, Cambodia achieved an average growth of approximately 9 percent per annum. In particular, during the last three years, Cambodia's economic growth reached unprecedented double-digit rates of 11.4 percent per year on average, with 2005 as its peak year when growth reached 13.5 percent. Economic growth was 10.8 percent and 10.2 percent for 2006 and 2007, respectively. Though Cambodia has been affected by the global recession, it posted economic growth of 6.8 percent in 2008 when its economy was expected to grow only 0.1 percent in 2009 and 4.8 percent in 2010

5.2. Investment Promotion and Facilitation

Foreign investment policy in Cambodia has been formulated to meet the new changing economic policy from a centrally planned economy to a market oriented one. All sectors are open for investment except for national security purposes. No restriction is put on the foreign share of ownership. Foreigners can hold 100 percent shares in all sectors except for trading (wholesales, retails, supermarket, and export-import businesses). Any incentives package has been put in place to encourage investors from all over the world without discrimination. The minimum wage for local unskilled worker has been fixed at only US$50 and this year it is up to US$60 per month to encourage labor intensive investment projects.

The survey was conducted based on both face to face interviews and self-completion by the respondents. One hundred questionnaires were distributed to the private companies and 20 completed questions were returned while other 10 were collected from the workshop and other 10 were collected through face to face interviews.

The findings of survey from private sector reveal that low labor cost, robustly growing economy, macroeconomic stability, political stability, investment incentives, equal treatment of investors, and low tax rate are the most significant and necessary factors influencing investors' perceptions (both domestic and foreign investors) to decide to invest in Cambodia. There is positive sign that the investors are optimistic about their business expansion in the next three years. They are willing to expand their business in Cambodia. A*ccess to ASEAN market* is important but not significant. ASEAN market is rather more important for future operations of the companies in Cambodia.

Investment laws and policies are considered by investors to be clear and understandable, complete, up to date, readily available in print, and accessible online and there are similar perceptions regarding IPA's laws, policies, regulations, rules, and procedures in setting up a business. However, IPA's website and brochures include quite adequate information but it is not so substantive and the information on area industry clusters, success stories highlighting key aspect of country competitiveness, and supporting mechanism to help investors in realizing a project are still limited. Some information is outdated and it requires modification and updated.

Actually, Cambodia has not specific Investment Promotion and Facilitation (IPF) as a single document. But it already stated in an integrated five year plan, National Strategic Development Plan (2006- 2010) and other promotion document such as Investment Guide. The Plan has been updated to NSDP (2008- 2013). Other legal framework such as Law on Investment related sub-decrees can form a solid foundation for IPF.

5.3. Trade Facilitation and National Single Windows

With strong political commitment, Cambodia has integrated its economy with the regional and global markets. It became a full member of the Association of Southeast Asian Nations (ASEAN) in 1999 and the World Trade Organization (WTO) in 2004. Through its membership in these organizations, Cambodia boosted its trade, thereby contributing to its own economic development and poverty reduction. Its trade activities have been robust, especially with neighboring countries.

In Cambodia, the private sector is very active in trade promotion. There are Phnom Penh Chamber of Commerce, Provincial Chambers of Commerce and many business communities such as Business Associations and Business Clubs. The private sector work closely with the Government through a bi-annually consultative forum called “Government-Private Sector Forum.

For National Single Window, the government agencies that are involved in export and import of goods in Cambodia are General Department of Customs and Excise, Autonomous Ports (Sihanoukville and Phnom Penh) of Ministry of Public Work and Transport, Dry Ports, The Plant Quarantine Office, (Ministry of Agriculture), The Animal Health and Production Department of Ministry of Agriculture and Camcontrol of Ministry of Commerce) and Special Economic Zones in many locations. Cambodia has already started to develop a Single Window but at the pilot stage starting from ASYCUDA. There is a ministerial level committee (Project Steering Committee) that coordinates the planning and implementation of NSW in Cambodia with General Department of Customs and Excise as lead agency. Its members are ministry of Commerce, Ministry of Transports and Public Works, Ministry of Agriculture. The Committee is assisted by experts from UNCTAD.

5.4. Transport and Logistics Facilitation

As the result of decades of conflict and civil war, Cambodia’s transport infrastructure is extremely weak. The backbone to any sustainable development is physical infrastructure including roads and bridges, railways, ports, electricity generation and network, irrigation, telecommunications, and so on. Cambodia's transport modes comprise road and rail, ports and harbors, inland waterways, and civil aviation. Road transport is the dominant mode. Its share in total transport output is frequently stated as 65% for passengers and 70% for freight.

Cambodia’s trade is still facing huge problems in terms of logistics services and cost. In comparison with other countries in the region, Cambodia is less competitive and attractive to traders. In order to determine the challenges facing by traders in Cambodia, a survey was conducted.

The findings show that the logistics cost and time in Cambodia is still very high. It takes average five hours from Phnom Penh to Sihanouk Ville Port by truck; it takes 35 hours for examination, 79 hours for packaging, 5 hours for loading, it takes 5 hours for custom formality, it takes 4 hours for port and shipping activities, 12 hours from cargo arrival in port to ship departure. It costs about 1200 US Dollars per one 20 FT container.

The rate from SHA Transport Express Co., Ltd) Port and cargo handling, warehousing, and, related activities is US$1,305 while the EP Logistics Co, Ltd pays US$739 plus 0.1% of total fee to Camcontrol, and 10% Value Added Tax (VAT). The rate from transporting rice by SHA Transport Express Co., Ltd is US$1,085 and US$1,485 for Loran Import Export Co.ltd. All the rate does not included the Shipping charge & ocean freight, VAT 10% on local charge, charge for receiving a letter from Ministry of Agriculture, Forestry and Fisheries (If any), Veterinary Certificate or Phytosanitary Certificate, charge for Certificate of Rules of Origin (If any).

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