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AN INVESTMENT GUIDE TO CAMBODIA

Opportunities and conditions
September 2003



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Three good reasons to invest in Cambodia

- **Location, location, location!**

A small country of about 13 million people, Cambodia is located at the heart of what has been the most dynamic region of the world economy for the past several decades: South–East Asia. In 1999, Cambodia became a member of the Association of South-East Asian Nations (ASEAN), which groups 10 countries with a total population of about 550 million and a GDP of something under \$600 billion — at purchasing power parity, \$1.8 trillion. The ASEAN Free Trade Area (AFTA) will reduce most tariffs on Cambodia's exports to its neighbours to between 0 and 5% by 2010 (or earlier) and will abolish them altogether by 2018. The China–ASEAN Free Trade Area (CAFTA), to come into effect in 2010, will create a trading block of 1.7 billion people. Talks under way between India and ASEAN could create *another* one not much smaller. In addition, as an LDC, Cambodia has preferential access to some of the world's richest markets for a number of products.

- **An open economy**

Cambodia has one of the most open economies in what is a fairly open economic region. The *Index of Economic Freedom*, compiled annually by the Heritage Foundation in the United States, ranked Cambodia 35th among 170 countries in 2003. This puts it on a par with Japan, just ahead of Thailand (40th) and *well* ahead of several of its neighbours (Malaysia, 72nd; Indonesia, 99th; Viet Nam, 135th; and Lao People's Democratic Republic, 153rd). Among the factors the *Index* reflects are a good many of considerable interest to potential investors: the fiscal burden, regulatory barriers, labour market restrictions, trade policy. Cambodia is not without the problems of many a poor developing country (e.g. poor infrastructure) but at least where government policy is concerned, it can claim to offer a liberal welcome to investors. Among the world's LDCs covered by the *Index*, Cambodia ranks at the very top in market-friendliness.

- **Specific assets**

Tourism is the area in which Cambodia most wants to attract foreign investment. In this, it is hardly unique. Unlike most other countries, however, Cambodia has an astonishing cultural asset in the temples of the Angkor complex (see box III.2. on p. 37) The country is already poised to reach the 1-million-tourists mark in the next few years and the potential here may be huge.

An entirely different kind of asset is Cambodian labour. While it is recognized by both current investors and the Government that Cambodian workers are poorly trained, this is a remediable shortcoming, and nearly everyone agrees that they are willing and able to learn, and certainly hard-working. When you add that Cambodian wages are *half* of what they are in the lowest-cost parts of Thailand, it is clear that there is a winning combination here, as is evidenced by the extraordinary growth of the garments-for-export industry over the past decade.

The UNCTAD–ICC Series of Investment Guides

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- *An Investment Guide to Ethiopia*
- *Guide d'investissement au Mali*
- *An Investment Guide to Bangladesh*
- *An Investment Guide to Uganda*
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(The guides to Ethiopia and Mali were published in cooperation with PricewaterhouseCoopers. An English version of the Mali guide is available on the Internet.)

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UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body. Its main goals are to maximize the trade, investment and development opportunities of developing countries, to help them face challenges arising from globalization, and to help them integrate into the world economy on an equitable basis. UNCTAD's membership comprises 190 States. Its secretariat is located in Geneva, Switzerland, and forms part of the United Nations Secretariat.

ICC

The International Chamber of Commerce (ICC) is the world business organization. It is the only body that speaks with authority on behalf of enterprises from all sectors in every part of the world, grouping together thousands of members, companies and associations from 130 countries. ICC promotes an open international trade and investment system and the market economy in the context of sustainable growth and development. It makes rules that govern the conduct of business across borders. Within a year of the creation of the United Nations it was granted consultative status at the highest level (category A) with the United Nations Economic and Social Council. This is now known as General Category consultative status.

Note

The term "country" as used in this study also refers, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

References to "dollars" (\$) are to United States dollars, unless otherwise indicated.

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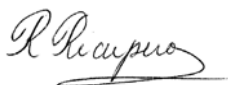
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Preface

Foreign direct investment has come to be widely recognized as a major potential contributor to growth and development. It can bring capital, technology, management know-how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer-term commitment to the host economy.

An Investment Guide to Cambodia is the seventh concrete product of a collaborative venture by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC). Its objective is to bring together two parties with complementary interests: *companies* that seek new locations and *countries* that seek new investors. This is not always a straightforward exercise, for firms are driven by their global strategies as much as lured by specific opportunities, and countries have economic and social objectives that transcend attracting foreign investment.

The UNCTAD–ICC investment guides are thus properly seen as parts of a process, a long-term process at the heart of which is an ongoing *dialogue* between investors and Governments. The guides *themselves* are the product of a dialogue, including that occurring among and between the representatives of business and government during the workshops that precede the completion of the guides. It is our hope that the guides will in turn *contribute* to the dialogue, helping to strengthen and sustain it, for we are convinced that in the long run it is this alone that will create conditions increasingly conducive to greater flows of investment.



Rubens Ricupero
Secretary-General
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ICC

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The cooperation of the Council for the Development of Cambodia (CDC) and in particular its Secretary General, Sok Chenda Sophea, was essential to the success of this project, as was the interest shown by the Ministry of Commerce, specifically Minister Cham Prasidh and Secretary of State Sok Siphana. The International Business Club (IBC) of Cambodia helped ensure private-sector participation in the project, as did the Phnom Penh Chamber of Commerce (PPCC). Our thanks are owed to IBC president Bretton G. Sciaroni and PPCC president Sok Kong.

This guide was prepared, with the assistance of consultants and advisers both external and internal, by an UNCTAD–ICC project team led by Vishwas P. Govitrikar. Valuable input or feedback was provided by Ludger Odenthal, Ray Chew and Christopher Bruton. Administrative support was provided by Katia Vieu and Laura Giardini. The guide was designed and typeset by Nelson Vigneault. Karl P. Sauvant provided overall guidance.

Note to the reader

This booklet is published as part of the UNCTAD–ICC series of investment guides. The publications in this series are intended for the use of foreign investors who are largely unfamiliar with the countries covered. They are thus designed to offer *overviews* of potential locations for investment, rather than constitute exhaustive works of reference or provide detailed practical instruction. They do, however, offer pointers to sources of further information in the private as well as the public sector.

There are two other features of these publications that the reader will find worth noting. One is that they are third-party documents, intended to offer a balanced and objective account of investment conditions. Their principal advantage in drawing the attention of investors to the countries they cover is *credibility*. The other feature is that both their general structure and some of their specific content are the result of consultations with the private sector.

The executive summary is followed by a brief introductory chapter. Then come the three chapters that account for the bulk of the contents. “The operating environment” describes the general conditions in which investors must operate: macroeconomic conditions, infrastructure, taxation, human resources, and so forth. “Areas of opportunity” offers a description of areas of potential interest to foreign investors. “The regulatory framework” focuses on regulations governing investment and foreign direct investment in particular. The fifth and final chapter provides a summary of the perceptions of the private sector in the country, both foreign and domestic.

The primary source of further information for an investor wishing to explore investing in Cambodia is the Council for the Development of Cambodia (CDC) — see box on page 47. Contact details of selected sources of further information, including websites, are provided in appendix 3. Appendix 2 provides a list, including contact details, of some 60 major foreign investors in Cambodia.

Cambodia is a rapidly changing society that presents many opportunities for the prudent investor, tourism being only one of them. Although more progress still needs to be achieved in legal and judicial reform, foreign investors are convinced of the Royal Government's commitment to the reform process itself. The country's commitment to the market economy more broadly is strong enough to be specifically enshrined in the Constitution. We at the IBC look forward to a productive ongoing dialogue with the officials of the Royal Government, aimed at improving the investment climate still further.

Bretton G. Sciaroni
President,
International Business Club (IBC) of Cambodia

Investors are most welcome

With the 1993 national election, held under the auspices of the United Nations, Cambodia began to emerge from a turbulent period of regime change and civil war. The third national election has just been held, in July 2003, and the outcome can reasonably be expected to be the consolidation of political stability. Over the past 10 years, Cambodian Governments have also made a sustained effort to create a market-friendly environment. In March and April 2003, Cambodia passed a revised law on investment and a revised law on taxation which reaffirm its 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 and the International Business Club (IBC).

Why Cambodia?

The short answer is large markets, low wages, a liberal economy and one of the world's great assets for tourism. The large markets are a function of location, not the domestic market of Cambodia but the markets of the Association of South-East Asian Nations (ASEAN). The 10 member countries of ASEAN have a total population of around 550 million and participate in a free-trade area (AFTA) that will become full-fledged by 2010, with tariff rates of 0–5%. ASEAN is also negotiating a free-trade area with China, which might also be in place by 2010, and may be doing so with India soon. Also deserving mention are the rich markets of Europe and North America, to which Cambodia, as a least developed country (LDC), has preferential access. As for the liberal economy, Cambodia has one of the most open economies in Asia, ranking on a par with Japan, and the most open economy among the world's 49 LDCs. Its low-wage, trainable labour force is of course an asset in an

increasingly competitive world economy and, when it comes to tourism, the extraordinary monuments of Angkor near Siem Reap already ensure that Cambodia is attracting tourists with an annual growth rate of 30% plus.

Opportunities

Tourism is, of course, the most attractive area for FDI in Cambodia. While most tourism is understandably focused on the Angkor complex of temples, the country offers other tourism assets as well, for example the beaches at Sihanoukville and the colonial charm of the city of Phnom Penh. Among the opportunities in this field are cultural and eco-tourism, golf courses and hotels. Linked to tourism are opportunities in infrastructure development. Civil war and neglect have destroyed much of the infrastructure in Cambodia — rail, roads, bridges — and much rebuilding and renovation are required. Several build-operate-transfer (BOT) schemes are already in operation, for example at the Phnom Penh international airport. Financing might be available from a variety of sources, including the Asian Development Bank (ADB), the International Finance Corporation (IFC) and donor countries such as Japan. There is also potential for hydropower, although feasibility studies remain to be done. Cambodia's low-cost labour has attracted substantial investment in the garment industry. Although the initial impetus came from unused quotas under the Multi-fibre Arrangement (MFA), investors believe that Cambodia's garment industry will remain competitive even after the MFA disappears at the end of 2004. Agriculture is another area in which there are opportunities, especially in agro-processing. The basic natural requirements — fertile land and plentiful water — are not lacking in Cambodia; what have been lacking are capital and know-how. Although foreign investors cannot own land, they can acquire long-term use of it through 99-year leases, and can also acquire partial ownership by teaming up with a local partner who owns 51% of the equity. Among the opportunities identified by the Government are those in fisheries, sericulture, palm oil refineries, food processing, rubber processing, and jute and sugar processing.

Difficulties facing investors

The problems endemic to countries at an early stage of economic development have been exacerbated in Cambodia by the conflict and instability of the 1970s and 1980s. The bloody rule of the Khmer Rouge (1975–1979) in particular has done much long-term damage. Professional qualifications are a scarce commodity. Literacy rates are low by the standards of most of its neighbours: 68%, as against 94% and 96% for Viet Nam and Thailand. Life expectancy at birth is low as well: 54, as against 69 for Viet Nam and Thailand. In 2001, there was one fixed-line telephone for every 400 Cambodians, as against one for just over 100 Laotians and one for just over 25 Vietnamese. Road infrastructure is both limited and in poor condition, especially in rural areas. Power consumption rates are very low by regional standards and the cost of electricity is high. It needs to be said, however, that in all these areas, the trend is positive. Investors in the country noted that there had been perceptible improvements in telecommunications and the road network, although these were confined to major urban centres such as Phnom Penh, Sihanoukville and Siem Reap.

Investors also note that there are other areas that call for the Government's urgent attention. Administrative weakness is pervasive in Cambodia. Bureaucratic delays are commonplace and corruption is a rampant problem. All of these significantly increase the cost of doing business in the country. The inadequacies of the legal framework for investment are another obstacle and the rapid pace of regulatory change, though essential for building a market-friendly environment, can seem to aggravate matters.

Investment trends

FDI grew from almost nothing in the late 1980s to an annual average of \$61 million in the first half and \$217 million in the second half of the 1990s. This was a tribute to the way in which Cambodia had managed to turn itself around after a prolonged period of instability. Two further points are worth noting. First, this was not FDI going into natural resources, as is often the case in such circumstances. The breakdown of FDI approvals by CDC suggests that it went mainly into tourism and manufacturing, with infrastructure and construction coming a somewhat distant third. Secondly, through much of the last decade of the century, Cambodia attracted proportionately more FDI, given its gross domestic product (GDP), than most of its neighbours and competitors. Even in 2001, it attracted more per \$1,000 in GDP than its neighbours as well as China. When this is taken together with some of the advantages and positive trends mentioned above, it suggests that the country's investment performance is likely to continue being robust in the foreseeable future.

Prospects and challenges

Cambodia has come a long way in a very short period. This is important, for it shows the resilience of this society. It was not so long ago that the Khmer Rouge controlled parts of Cambodian territory, and safety and security were critical issues. Today, security goes unmentioned when the private sector is asked to voice its concerns and the marvels of Angkor are almost fully (and safely) accessible to tourists. Although most formerly closed economies are now increasingly market-oriented, Cambodia has embraced economic reform with an unusual firmness. A business-friendly Government in a country that lies at the heart of the only region in the developing world that has shown clear promise of graduating from the development class has much to offer to investors ready to brave the challenges that an underdeveloped economy invariably offers.

In the case of Cambodia, the major challenges are not hard to identify. Perhaps the most important is human-resource development. The advantage of being located in a dynamic region is counterbalanced by the competition that the neighbourhood offers. The innate capacities of Cambodians have been on display at Angkor for a thousand years. Their development into skills that power a modern economy is something yet to be accomplished. Although investors speak positively about the trainability and capacity for hard work of the country's labour force, they also stress repeatedly that the training it has received is clearly inadequate. Health care is also a priority. Although HIV infection rates are declining, they remain a concern in a poor country with very inadequate health-care services. Beyond education and health (and related to them) is the issue of infrastructure. Although investors note the improvements in and near the urban centres, most of the population is rural and access to rural areas is a serious problem, especially if investment related to agriculture is to be expected.

There are also challenges less daunting but nonetheless fundamental in the inadequacy of the regulatory and institutional framework. Here it must be said that the Government has been making a sustained effort, in particular with a view to the country's accession to the WTO, to fill legal and regulatory gaps. Two other issues requiring attention are "porous borders" and non-transparent governance.

When all is said and done, however, Cambodia offers significant opportunities, and that FDI can be profitable in the country is not a hope but a demonstrated fact.

Cambodia at a glance

Official name	The Kingdom of Cambodia	
Political system	Constitutional monarchy, with executive authority vested in the Head of Government	
Head of State	HM King Norodom Sihanouk	
Head of Government	Prime Minister Samdech Hun Sen	
Political parties in Parliament	Cambodian People's Party (73 seats), FUNCINPEC (26 seats) and Sam Rainsy Party (24 seats)	
Last parliamentary election	July 2003	
Surface area	181 035 sq. km	
Population	13.4 million (in 2002)	
Population density	72 per sq. km	
Official language	Khmer (English is increasingly used in professional and business circles)	
Principal religions	Theravada Buddhism (90%) Islam and Christianity (10%)	
Time zone	GMT + 7 hours	
Climatic conditions	Cambodia has a tropical and monsoon climate, with distinct wet and dry seasons. Temperatures range from 21 to 35 degrees Celsius, with March and April the hottest months of the year and January the coolest.	
GDP per capita	\$297	
Currency	Riel	
Exchange rates (August 2003)	\$1 = 3,995 Riels € 1 = 4,554 Riels ¥100 = 3,329 Riels The Thai Baht and the Vietnamese Dong circulate widely in the border provinces.	
Main cities/towns, with numbers of inhabitants	Phnom Penh (capital)	1 000,000
	Sihanoukville	155 700
	Battambang	140 000
	Siem Reap	119 500

Source: UNCTAD, drawing on various sources.



Source: Map of Cambodia by the United Nations Cartographic Section, 2002.



Source: Map of the Greater Mekong Subregion by the United Nations Cartographic Section, 2000.

Country and people

Lying in peninsular Indochina, Cambodia is a country bordered by Thailand and the Lao People's Democratic Republic in the west and north, the Socialist Republic of Viet Nam in the east and south-east, and the Gulf of Thailand in the south-west. The population was 13.04 million in 2002, with an annual growth rate of 2.4%. The proportion of females is 51.8% and that of children below 15 years old is 42.8%. A large proportion of the population (84.3%) lives in rural areas.

Cambodia is a largely homogeneous nation with a Khmer majority of about 90% and small ethnic minorities of Chinese, Cham and others. About 90% of the population is Buddhist and Buddhism is recognized by the Constitution as the national religion. Followers of other religions, mainly Islam and Christianity, are allowed to practise their faiths without restriction.

The country occupies an area of 181,035 square kilometres, of which 20% is agricultural land and about 61% is covered by forests. The dominant features of the Cambodian landscape are the large Tonle Sap Lake and the Mekong and Bassac river systems. Surrounding the central plains, which cover three quarters of the area, are the more densely forested and sparsely populated highlands: the Elephant mountains and Cardamom mountains of the south-west and western regions; the Dangrek mountains of the north, adjoining the Korat plateau of Thailand; and the Ratanakiri plateau and Chhlong highland in the east, merging with the central highlands of Viet Nam.

History and government

Cambodia has long been a battlefield for regional — and sometimes global — interests. Internal conflicts have led to intervention by outsiders and this has sometimes had devastating political and economic effects.

After a prolonged period as a French protectorate, the country became independent in 1953. It was a neutral country and a part of the Non-Aligned Movement. The economic model of the 1950s and 1960s, under the leadership of then Prince Norodom Sihanouk, was that of a mixed economy: private ownership in agriculture, small-scale industry and commercial services; mixed private and State ownership in larger industries; and State-owned enterprises (SOEs) in large-scale industry and finance.

Box I.1. Of risk and returns: Investing in least developed countries

“Why would anyone invest in a least developed country (LDC)?”, a presumably hard-headed entrepreneur might ask. “Aren’t the risks sky-high and the profits precarious?”

This rather casual dismissal of a quarter of the world’s nations as locations for investment might be widespread but, like much conventional wisdom, it might also be unwise. True, investing in an LDC can be a complicated business, with many bottlenecks and much frustration, but an LDC is not always riskier than other locations and frequently more profitable.

One problem with the association of high risk with LDCs is that it treats 49 countries as though they were all clones of a single national type. In reality, there is much variation. Some LDCs are riven by civil war and some destabilized by coups and counter-coups. There are others, however, that can claim a political continuity of several centuries (Nepal) or a record of great resilience in the face of natural calamities (Bangladesh). When it comes to conventional risk-ratings, LDCs tend to suffer from image problems and a simple lack of information, unlike the industrialized countries in which risk-rating can be founded on a much broader and more reliable information base. “[T]he methodology of rating depends too much on subjective perception and outdated data”, says a recent study. “Together with their limited country coverage, these factors automatically bias [ratings] against most African (and other low-income) countries” (Bhinda et al., 1999). A better way to assess risk and get a feel for the direction of change in a country is to talk to investors already on the ground. The UNCTAD–ICC guides feature summaries of business perceptions and lists of current investors precisely to facilitate this.

When it comes to profits, the evidence is that rates of return on foreign direct investment in LDCs are much higher than on investment in developed, or even other developing, countries. Between 1995 and 1998, US companies registered returns of almost 23% on their investment in African LDCs, while for LDCs in Asia and Oceania the figure was 13% (UNCTAD, 2000). Similar findings for Japanese affiliates abroad confirm that Africa, with 33 LDCs in it, is a very profitable location indeed.

Is there a moral here? Yes, one that can be summed up in a single maxim: *Distinguish*. Investors need to distinguish among the 49 LDCs. Some will confirm their prejudices; others will shake them off. One key advantage of investing in an LDC can be the relative thinness of the competition, unlike locations that everybody wants to be in, but this advantage is unavailable to investors not prepared to do their homework.

Source: UNCTAD.

Unfortunately, Cambodia plunged into civil war and genocide during the 1970s, in addition to the extension of the war in Viet Nam into Cambodia. In April 1975, the Khmer Rouge established the new regime of Democratic Kampuchea (DK) and launched a programme of radical economic and social change that led to disaster (see box I.2).

After the downfall of the Khmer Rouge regime in 1979, a new Government was set up with assistance from Viet Nam and the Soviet-bloc countries which lasted, despite powerful guerrilla movements, until 1989. After a series of negotiations starting in 1987, the warring factions reached a peace agreement — the Paris Accords of October 1991 — with the assistance of the international community. The United Nations Transitional Authority in Cambodia (UNTAC) was set up in 1992 to organize and supervise elections in Cambodia.

The 1993 election led to a coalition Government and the adoption of a new Constitution, under which Cambodia became again a constitutional monarchy, with a market economy and an open society allowing the establishment of political parties and guaranteeing freedom of expression. The King, HM Norodom Sihanouk, does not have executive power but is an important symbol of unity. The country has a bicameral legislature, with a National Assembly and a Senate. It became a full member of the Association of South-East Asian Nations (ASEAN) in April 1999. Cambodia has also received full recognition from the United Nations and the international community, and the flow of external assistance from multilateral and bilateral donors has contributed substantially to rehabilitation and development.

Box 1.2. The Khmer Rouge

Despite the fact that the primary association of Cambodia in the minds of many foreigners is with the Khmer Rouge, the communist regime of Democratic Kampuchea (DK) lasted less than four years, from 17 April 1975, when its troops entered Phnom Penh, to 7 January 1979, when the city was abandoned as Vietnamese forces converged on it.

The association is nonetheless well grounded, for though its rule of Cambodia was brief, the Communist Party of Cambodia (CPK) attempted to carry out a revolution so sweeping and so brutal that the scars it left on Cambodian society have yet to heal a quarter century later. The regime saw itself as bringing to an end two thousand years of feudal and corrupt history. It opposed the market, of course, but also many other things that stood in the way of revolutionary change: individual freedom, family attachments, religion, education, urban life and private property. One of its first acts after seizing power was to force the residents of cities and towns into the countryside — some two million of them. The results were even worse than might have been expected. According to conservative estimates, one out of every six Cambodians in the mid-1970s population of about nine million (i.e. 1.5 million) perished as a result of starvation, overwork, neglect during illness and, of course, execution. Other estimates put the figure much higher — up to 3.3 million.

The effects of this short-lived but disastrous revolution extend beyond the generations that had the misfortune to live through it (or die in it). The regime targeted the educated and qualified members of society above all, for it saw them as the enemies of the people. As a consequence, Cambodia is still suffering from an acute shortage of professionals. The regime's targeting of judges and lawyers, for instance, has left a huge gap in the legal profession that still remains to be filled.

Although Democratic Kampuchea collapsed as a governing regime in 1979, it did not by any means disappear overnight. Throughout the 1980s, it continued to control parts of the country along the Thai border and became, in 1982, part of a coalition Government in exile recognized by the United Nations. It was only after the elections of 1993, which it boycotted, that the Khmer Rouge entered terminal decline, being outlawed in 1994 and losing massive numbers of its adherents through defections. In 1997, the remainder of the Khmer Rouge themselves tried and jailed their long-serving leader Saloth Sar, the notorious Pol Pot, who died in 1998, and by the end of 1998 a combination of capture, defection and surrender finally put an end to the bloodiest movement in Cambodian history.

In 1997, the Royal Government of Cambodia asked the United Nations to help it bring the perpetrators of the 1970s genocide to justice. In 1999, the Government rejected the UN proposal for an international court and, in early 2002, the UN withdrew its assistance from the Government's process involving a national tribunal. However, on 6 June 2003, the Government and the UN signed an agreement to proceed with the creation of the Khmer Rouge Tribunal.

Source: UNCTAD, based on David Chandler (1998) and other sources.

Market size and access

Cambodia's small and poor population of 13 million gives it a much less attractive market than neighbouring countries such as Viet Nam and Thailand, although the purchasing power of the population is increasing. As table I.1. indicates, GDP per capita was only \$297 in 2000, but purchasing power was about five times as great (\$1,446). Cambodia's upper and middle class, with a purchasing power sufficient to buy sophisticated consumer goods, is to be found mainly in Phnom Penh and other urban areas. While only six in a thousand Cambodians own cars today, car ownership is expanding fairly rapidly, as is the ownership of other durable consumer goods such as personal computers and mobile phones. However, the market of most interest to potential investors is less the domestic than the regional one.

As a member of ASEAN, Cambodia has joined a market of 550 million people from 10 countries. The leaders of ASEAN and China signed a framework agreement at the Phnom Penh ASEAN Summit in November 2002 to establish a China–ASEAN Free Trade Area (CAFTA), to be realized in 2010. This will become the world's biggest trading bloc with a total population of 1.7 billion. Furthermore, India and ASEAN have also started to explore a possible India–ASEAN Free Trade and Investment Area. If these discussions conclude successfully, they will create a potential market of 1.5 billion consumers, second in size only to CAFTA, promoting tourism as well as trade and investment. There have also been discussions on an ASEAN–US Free Trade Area.

COUNTRY	ASEAN MARKET				
	POPULATION	GDP ^a	GDP PPP ^b	GDP PER CAPITA	GDP PER CAPITA PPP
	millions	\$ billions	\$ billions	\$	\$
	2000	2000	2000	2000	2000
Brunei	0.328	8 ^c	8 ^c	24 630 ^c	25 320 ^c
	12		17		1 446
Indonesia	210	153	640	994	3 043
Lao PDR	5	2	8	450	1 575
Malaysia	23	90	211	4 797	9 068
Myanmar	48	..	..	..	..
Philippines	76	75	300	1 167	3 971
Singapore	4	92	94	28 230	23 356
Thailand	61	122	370	2 805	6 402
Viet Nam	79	31	145	356	1 996
ASEAN total	548	576	1 793	-	-

Source: UNCTAD, based on the World Bank, *World Development Indicators, 2002*, <http://publications.worldbank.org/WDI/>, and *World Development Report, 2002*.

^a GDP at market prices (current US\$).

^b GDP at purchasing power parity (current international \$).

^c Figures are for gross national income (GNI) and for years other than 2000.

Within the framework of the Common Effective Preferential Tariff (CEPT) of the Asean Free Trade Area (AFTA), tariffs on most Cambodian exports to ASEAN will be reduced to 0–5% for most products by 2010 and abolished entirely by 2018. (The CEPT scheme works on the principle of reciprocity and Cambodia has until 2010 to reduce most tariffs on its imports to 0–5%.)

Geographically, Cambodia is well placed to be a hub in land, water and air transport. The opening of the new passenger terminal at Phnom Penh International Airport and the expansion of Sihanoukville port can serve the increasing demand for global and regional transport of passengers and cargo.

As for international market access, Cambodia, a least developed country (LDC), offers the prospective investor preferential access to the European Union, Canada and the United States for a number of products, including garments. The country also became a member of the WTO in September 2003.

Government priorities

The overall development priorities of the Royal Government of Cambodia are encompassed in the so-called Development Triangle Strategy: building peace and stability, economic integration, and poverty reduction. The first of these objectives has been accomplished. Progress towards the second is being made. Poverty reduction is the third objective and the tasks here are daunting. In the last few years, the Royal Government has made significant progress implementing reform programmes aimed at accelerating growth and stability and building up a strong foundation for sustainable development. As a result of various reforms, Cambodian civil society and the Cambodian press are more vibrant, and the private sector is increasingly becoming the engine of economic growth (see box I.3. below).

Box.I.3. Governance Action Plan

Cambodia has made substantial progress in implementing key structural reforms, although there have been some delays. The Government is conscious that good governance is a prerequisite for sustainable and equitable development. It has therefore prepared a Governance Action Plan (GAP) and is disseminating it among government agencies and preparing an implementation plan and monitoring mechanisms.

Priority areas for reform are:

- **Legal and judicial system:** improving the legislative process, developing a legal framework for the private sector, meeting private-sector needs for the arbitration of commercial disputes, and enhancing the integrity of the judiciary;
- **Public finance:** improving revenue collection by strengthening the Tax and Customs Departments, undertaking a comprehensive reform of investment incentives, and ensuring the integrity of the budgetary process;
- **Civil administration:** enhancing productivity and motivation, reinforcing transparency and participation, ensuring a close link between administrative and financial decentralization, and developing human resources at the sub-national level;
- **Combating corruption:** setting ethical standards, enacting special anti-corruption legislation, enforcing the sub-decree on public procurement and strengthening enforcement and scrutiny.

The Government recognizes that without credible action in these areas, the basic virtues of good governance will not take hold in Cambodia. Much has been achieved but much still remains to be done.

Source: UNCTAD, drawing on RGC (2002a).

The Council for Social Development, chaired by the Minister of Planning, with the participation of both line agencies and civil society, monitors and coordinates national efforts to fight poverty and ensure equity and social justice. The Government has also set up the Council for the Development of Cambodia as a "one-stop facilitator" for foreign and local investment. The one-stop service is expected to be fully functional soon, now that an amended Law on Investment is in place.

The Government regards itself as a partner of the private sector, not as a competitor. Thus, its general strategy is to support the development of the private sector as the prime motive force for achieving economic growth and providing the underpinning for sustained poverty reduction.

Privatization

The most significant changes in industrial policy since 1988 have been an emphasis on privatization and an openness towards private foreign investment. The process of privatization started in late 1989 and a full-scale privatization programme was put in place in 1991. By the end of 2000, 160 SOEs had been privatized, of which 139 were leased to the private sector, 12 transformed into joint ventures, 8 sold outright and 8 liquidated (appendix 5). Over 15 major SOEs still remain. Many are not attractive for buyers as they carry significant liabilities, owed in particular to their employees. Others are non-performing and in need of substantial capital investment, being burdened with debts, out-of-date machinery and an excess of employees.

Foreign investors have bought or leased most of the privatized enterprises, most of them being medium-scale industrial ventures.

I first came to Cambodia in 1995 because, quite simply, the Government's incentives were so good. The garment sector in Singapore was reaching the end of its natural life span in the early 1990s, as Singapore began to focus on high-tech industries. I looked at Malaysia, India and Indonesia before settling on Cambodia. There are three key factors in the garment business — cheap labour, unused quotas and no exchange controls. Cambodia fulfilled all three. MFA quotas will disappear by early 2005, but the other advantages still promise our industry a bright future.

Roger Tan
Deputy Chairman,
Garment Manufacturers Association in Cambodia (GMAC)

Economic environment

Cambodia is one of the most open economies in the developing world. The Economic Freedom Index of the Heritage Foundation in the United States ranks it at the top of the LDCs it covers. The economy is dominated by agriculture, with rice the main crop. Since the country re-established a constitutional monarchy in 1993, the economy has grown rapidly, except for a period between mid-1997 and late 1998, when it suffered from political instability and the spillover effects of the Asian financial crisis. It began to rebound in late 1998, with the establishment of a coalition Government, but foreign investment in most sectors has lagged. Since early 1999, the Government has intensified its economic reform programme, a process that donors and international financial institutions participate in and monitor closely.

Development assistance to Cambodia from the donor community, including multilateral and bilateral donors and international organizations, has averaged about \$500 million every year since 1993. At the Consultative Group meeting of June 2002 in Phnom Penh, Cambodia secured \$635 million from donors.

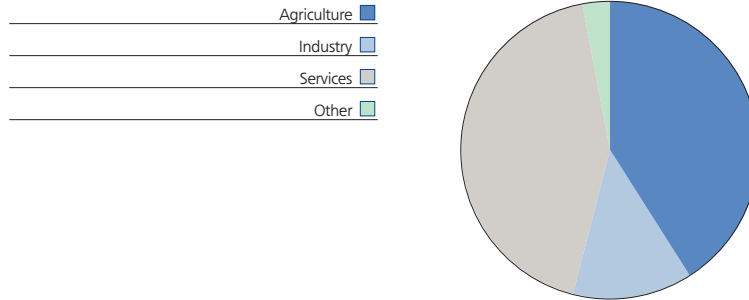
Real GDP grew well in 1995 and 1996 but declined in 1997 and 1998. It has picked up again to grow strongly (table II.1). GDP increased by 6.3% in 2001 and 5.5% in 2002 and is expected to grow by 6% in 2003 (RGC, 2003). The country is undergoing a gradual shift from the agricultural economy of the 1980s towards one emphasizing textiles, tourism and services (figure II.1 and table II.2). Agriculture remains the dominant sector, contributing 28.4% to GDP in 2001 and employing 80% of the working population. Nevertheless, other sectors, for example manufacturing, tourism and services, are growing steadily (figure II.2).

COUNTRY	GDP GROWTH RATES (PERCENTAGES)						
	1995	1996	1997	1998	1999	2000	AVERAGE ANNUAL 1990 – 2000
	7.6		1.0		5.0		4.6
Lao PDR	7.0	6.8	7.0	4.0	7.3	5.7	6.5
Myanmar	6.9	6.4	5.7	5.9	10.9	..	..
Thailand	9.3	5.9	-1.4	-10.8	4.2	4.3	4.2
Viet Nam	9.5	9.3	8.1	5.8	4.8	5.5	7.9
Memorandum							
China	10.5	9.6	8.8	7.8	7.1	7.9	10.3
LDCs	6.1	5.2	4.9	4.5	4.7	4.8	-

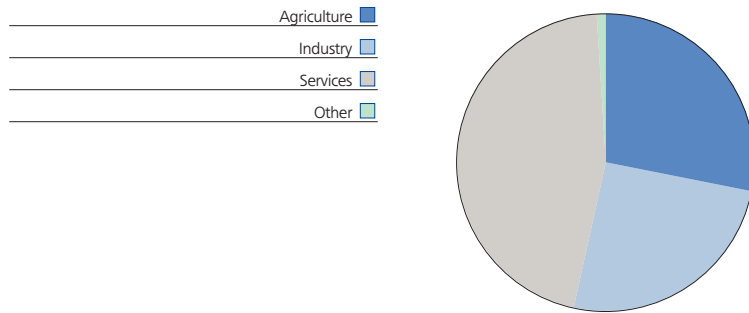
Source: UNCTAD, based on the World Bank, *World Development Indicators, 2002*, <http://publications.worldbank.org/WDI/>, and *World Development Report 2002*.

FIGURE II.1. REAL GDP SHARE (AT CURRENT PRICES)

GDP SHARE IN 1993



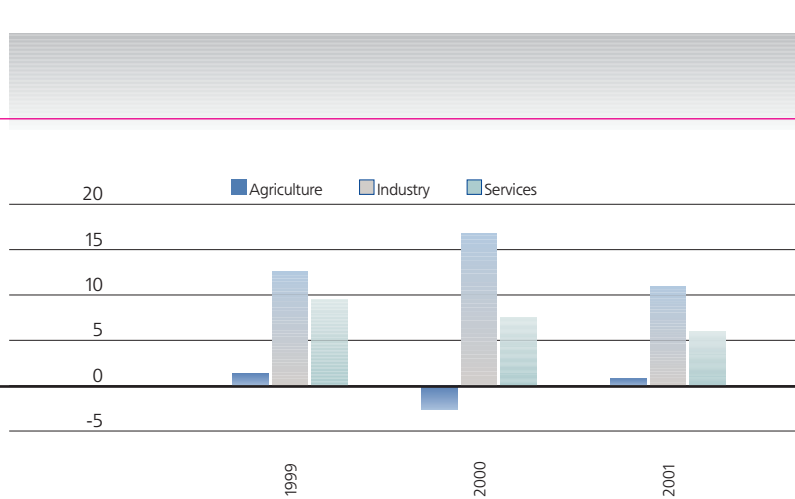
GDP SHARE IN 2000



Source: National Institute of Statistics (2002) and CDRI (2002).

Adhering to the International Monetary Fund's structural adjustment programmes after the new Government was set up in 1993, the country has achieved one of the best macroeconomic records

in its history. Inflation has been scaled down from a level of more than 100% at the end of the 1980s and early 1990s to less than 5% for the last seven years.



Source: CDRI (2002).

Trade and investment

Trade

All quantitative restrictions limiting the ability of firms and individuals to engage in international trade have been largely removed. More recently, the tariff regime has been significantly simplified, with the number of bands falling from 12 to 4 and the top rate reduced to 35%.

The main Cambodian exports are garments, footwear, wood products and rubber. Garment-manufacturing is almost entirely export-oriented. The main markets for garments are the United States and the European Union. In 2000, Cambodia exported 76% of its garment products to the United States and 23% to the EU. Cambodia's footwear is mainly exported to the EU (60%) and to Japan (35%) (Ministry of Commerce, 2002).

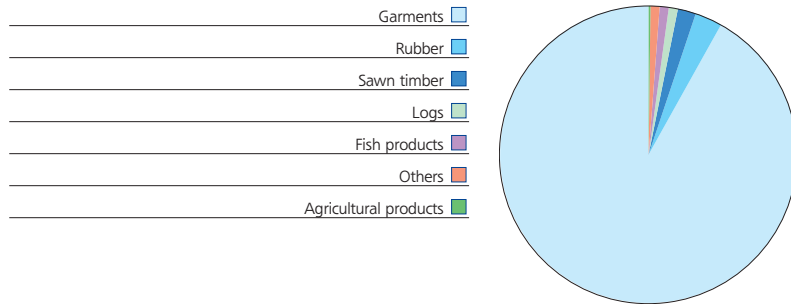
The annual growth of export volumes averaged 19.7% during 1995–2001, in which domestic exports grew by 26.8% and re-exports by 8.8%. Import volumes also grew rapidly, with an annual growth of 13.5% during the same period. Exports under the Generalized System of Preferences (GSP), mainly garments, dominated the export volume, increasing from \$2 million in 1994 to well over \$1,141 million in 2001, with an average growth of about 270% per year.

**FIGURE II.3. GROWTH OF MERCHANDISE TRADE 1994–2001
(\$ MILLIONS)**



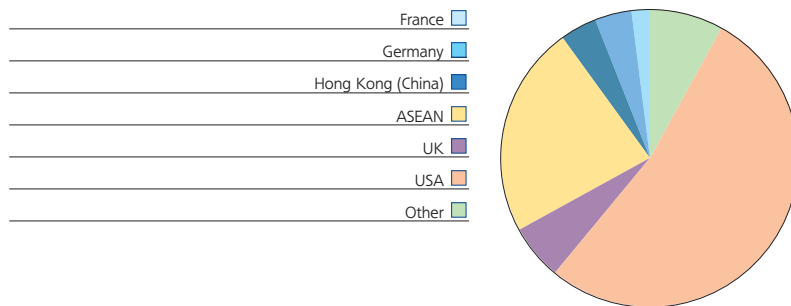
Source: UNCTAD, based on Ministry of Planning (2002).

FIGURE II.4. STRUCTURE OF CAMBODIAN EXPORTS BY SELECTED GOODS, 2000



Source: Ministry of Planning (2002).

FIGURE II.5. DESTINATIONS OF CAMBODIAN EXPORTS, 2000



Source: Ministry of Planning (2002).

Foreign direct investment

Cambodia attracted increasing amounts of FDI in the 1990s (table II.2). As the table makes clear, from the mid-1990s through to 2001, Cambodia attracted *proportionately* more FDI than any other country in the table (columns headed “\$ per \$1,000 GDP”). Even in 2002, when there was a decline, Cambodia attracted more FDI, *relative to the size of its economy*, than all other countries in the table barring China and Viet Nam. The improved political and macroeconomic situation has helped, as has the openness of the economy.

According to the *official* figures supplied by the CDC, Malaysia was the biggest investor during 1994–2001, with 31.2% of all investment and 79% of ASEAN investment over this period. Malaysia was the first country to sign a bilateral visa exemption agreement with Cambodia in 1992 and Malaysian investors were the first to come and thus received a great many investment concessions, including concessions in mining and forestry. Other important sources of FDI were Taiwan Province of China (8.27%), the United States (7.28%) and China (4.47%).

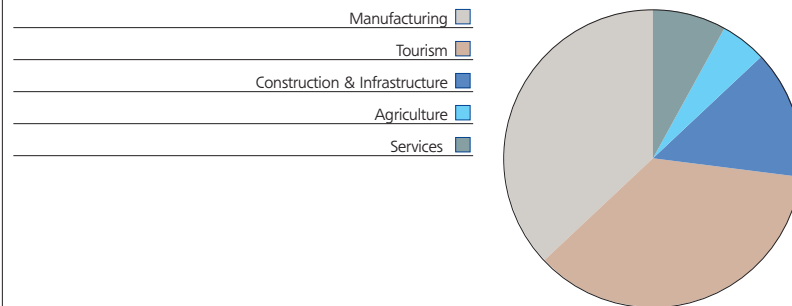
(Official FDI figures, in Cambodia as in many other developing countries and especially LDCs, are for *approved* investment. Actual investment may be only a small percentage of the approved amount. Cambodia’s approved figure for FDI flows in the period 1994–2001 is close to \$6 billion. UNCTAD’s actual figure for the same period is somewhat under \$1.4 billion. While some developing countries realize a higher percentage of approved FDI, there are those that realize less.)

COUNTRY	FDI FLOWS TO SELECTED EAST, SOUTH AND SOUTH-EAST ASIAN COUNTRIES, 1986–2002						2000		2001		2002	
	1986–1990		1991–1995		1996–2000		\$ per \$1,000 of GDP	\$ millions	\$ per \$1,000 of GDP	\$ millions	\$ per \$1,000 of GDP	\$ millions
	\$ per \$1,000 of GDP	\$ millions	\$ per \$1,000 of GDP	\$ millions	\$ per \$1,000 of GDP	\$ millions						
Bangladesh	0.1	2.2	0.2	6.4	3.6	160.6	6.29	280.4	1.7	79.1	1.0	45.2
China	9.0	2 852.6	43.1	22 534.6	44.6	41 851.8	37.8	40 772.0	39.3	46 846.0	42.6	52 700.0
Lao PDR	5.3	2.4	24.9	38.4	41.6	69.0	19.6	34.0	13.7	23.9	12.4	25.4
Myanmar	5.1	33.5	20.3	191.6	44.6	531.1	19.7	208.0	23.2	192.0	14.1	128.7
Thailand	17.2	1 214.6	15.3	1 889.2	36.5	4 630.3	27.3	3 350.3	33.1	3 813.5	8.4	1 067.8
Viet Nam	6.1	39.3	74.5	1 100.0	65.3	1 772.6	41.4	1 289.0	39.5	1 300.3	35.2	1 200.1
Memorandum												
South Asia ¹	1.1	384.6	3.1	1 356.1	6.6	3 650.8	5.1	3 092.1	6.4	3 983.0	7.1	4 581.6
South-East Asia ²	24.1	6 898.5	35.5	18 322.7	43.0	26 073.6	31.9	18 625.4	27.3	15 210.9	22.8	13 957.1

Source: UNCTAD, FDI/TNC database.

¹ South Asia includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

² South-East Asia includes Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

FIGURE II.6. FDI APPROVALS BY SECTORS, 1994–2001

Source: Council for the Development of Cambodia.

Infrastructure and utilities

Many infrastructure facilities are in poor shape after years of civil war, mismanagement and neglect, and investors regard poor infrastructure as a major obstacle. However, there have been some encouraging developments in recent years. Despite persistent problems in some areas, Cambodia has made significant progress in others such as airports, roads and telecommunications.

Power supply and energy

The power sector was severely damaged by war and neglect in the period from 1975 to 1995, and is still in the process of recovery. Although Cambodia has some potential for the construction of hydroelectric dams, the country still has a power constraint. Much rehabilitation occurred during 1996–2000, with power supply in Phnom Penh, Sihanoukville and Siem Reap improving substantially. Electricité du Cambodge (EDC) was established as a State-owned limited liability company in 1996 to generate, transmit and distribute electricity throughout the country; and an Electricity Law was adopted as a key element of an improved legal and regulatory framework. Retail energy sales rose from a total of 120,592 MWh in 1995 to 358,220 MWh in 1999 and 474,480 MWh in 2002, which represented an average annual growth rate of almost 27%.

Notwithstanding the progress made in the late 1990s, the Government recognizes that the high cost, unreliability and limited availability of electricity together constitute a major hindrance to the private sector and to rural development. Only 7% of the population has access to a reliable electricity supply. The cost of producing electricity is approximately 11 cents per kilowatt-hour, compared with 7 cents in Viet Nam. The rate charged to commercial and industrial users is 21 cents per kilowatt-hour, and they cross-subsidize consumers (charged about 9 cents). Commercial users thus actually find it cheaper to establish their own generation plants. The high cost of electricity in the country, especially in rural areas, is a function of the high costs of production and distribution, in turn the result of old technology with diesel-power generators, poor management and a weak distribution network.

Telecommunications

Although Cambodia's teledensity continues to be low, Government policies in the form of liberalization of the telecommunication sector, coupled with the advent of private mobile service providers, have led to some dramatic improvements. Between 1996 and 2000, the number of public telephone booths rose from 15,475 (92% of them in Phnom Penh) to 37,700 (79% of them in Phnom Penh). Noticeable progress was made in the extension of services to provincial towns. Mobile phone usage grew from 23,000 in 1996 to 130,547 in 1999, 223,458 in 2000 and 321,621

in 2002, although the service remained relatively expensive and restricted in coverage. Today, four private mobile service providers — Cambodia Shinawatra, Mobitel, CamTel and Samart Communication — are competing in a rapidly expanding and lucrative market. At the beginning of 2001, a second, mostly privately owned, fixed-line international telephone service was introduced alongside the government-owned-and-run Gateway 1, which had recently been transferred from the Australia-based Telstra. Incoming international calls had increased from 15 million minutes in 1994 to 31 million minutes in 2000.

COUNTRY	FIXED TELEPHONE LINES PER 100 INHABITANTS		AVERAGE COST OF TELEPHONE CALL TO USA (\$ per 3 minutes) 2003	CELLULAR MOBILE SUBSCRIBERS		INTERNET	
	1995	2001		Per 100 inhabitants 2001	As % of total telephone subscribers 2001	Users per 10,000 inhab. 2001	Estimated PCs per 100 inhab. 2001
	0.08	0.25		1.66	87.0		
Lao PDR	0.36	0.93	10.35 ^a	0.52	36.0	17.73	0.28
Myanmar	0.36	0.58	13.50 ^a	0.03	4.7	2.07	0.11
Thailand	6.06	9.39	1.60	11.87	55.8	556.11	2.67
Viet Nam	1.05	3.76	3.00	1.54	29.1	49.31	0.99
Memorandum							
China	3.30	13.81	..	11.17	44.7	260.00	1.93

Source: UNCTAD, based on the International Telecommunication Union, http://www.itu.int/ITU-D/ict/publications/wtdr_02/index.html; the World Bank, <http://publications.worldbank.org/WDI/>, *World Development Indicators 2002*; Ministry of Post & Telecommunication, Cambodia; Communications Authority of Thailand (CAT); Viet Nam Post and Telecommunications (VNPT); ASEAN Secretariat, 2001.

^a Figure for 2001.

Water, sewerage and health services

Cambodia has abundant water resources. However, access to potable water and sanitation facilities is very limited, causing ill health and low productivity in both rural and urban areas. During 1996–2000, the percentage of the rural population with access to safe water rose from 26 to just 29 (compared with a target of 65%), while the percentage with sanitation facilities rose from 6 to 8.6 (compared with a target of 22%). In addition, a lack of irrigation facilities has meant low agricultural productivity and thus low rural incomes.

To date, public water supply is only available within Phnom Penh and major provincial towns. The water and sanitation sector is consequently one of the Government's priorities and seen by it as vital for poverty eradication and social welfare.

Ongoing development projects include the rehabilitation of sanitation and sewerage systems in Phnom Penh, including collection and treatment, the introduction of a charging system, and the installation of 12 new pumping stations to reduce flooding in low-lying areas.

Cambodia's health status is among the worst in the region. The public health system has suffered from war and neglect and is having serious difficulties in meeting the health needs of the population. The rehabilitation of some government hospitals and other health units to be autonomous entities, staffed with qualified personnel, has led to a significant increase in the utilization of health services. At the same time, private clinics, including local and foreign service providers, are increasing in number and competing with State-owned hospitals.

Box II.1. HIV/AIDS

According to UNAIDS/WHO, six million people (adults and children) were living with HIV/AIDS in South and South-East Asia at the end of 2002. In this part of the world, the epidemic started in the late 1980s and has spread mainly through heterosexual transmission and injected drug use. The highest adult prevalence rate in the region has been in Cambodia; however, Cambodia is also the country which has most clearly shown that strong political commitment can control the epidemic and reduce infection rates.

HIV prevalence among pregnant women in urban centres declined from 3.2% to 2.8% over the six-year period from 1996 to 2002, a clear but not striking improvement. On the other hand, prevalence among sex workers declined from 42% to 29% over the shorter, four-year period from 1998 to 2002. This was accompanied by behavioural change, namely consistent condom use, which increased among sex workers from 37% in 1997 to 90% in 2001.

Cambodia's efforts to control the epidemic have focused on both the high-risk groups and the wider population. They have included an emphasis on specific measures such as condom use, as well as attention to broader considerations such as reducing the stigma attached to infection. In 2001, the Government put in place a new strategic plan to combat AIDS and mainstreamed these efforts into several ministries. Its educational campaign, undertaken through television broadcasts, has greatly enhanced public awareness of the nature and effects of HIV/AIDS. The threat remains, but sustained and successful efforts to counter it continue as well.

Source: UNCTAD, based on UNAIDS and WHO (2002), and other reports.

TABLE II.4. HEALTH

COUNTRY	LIFE EXPECTANCY AT BIRTH Years 2000	INFANT MORTALITY RATE per 1,000 live births 2000	PHYSICIANS ^a per 100,000 people 1990-1999	PUBLIC EXPENDITURE ON HEALTH % of GDP 1998
Cambodia	54	88	30	0.6
Lao PDR	54	92	24	1.2
Myanmar	56	89	30	0.2
Thailand	69	28	24	1.9
Viet Nam	69	27	48	0.8
Memorandum				
China	70	32	162	2.1 ^b
LDCs	51.9	155	..	..

Source: UNCTAD, based on the UNDP, Human Development Report, 2002, <http://www.undp.org/hdr2002>, and the World Bank, *World Development Indicators 2002*, <http://publications.worldbank.org/WDI/>.

^a Data are for the most recent year available during the period specified.

^b Figure for 1999.

Road transport

The road network is in poor shape, especially feeder roads in rural areas. Agriculture-related activities are the ones most affected by these problems. Road transport is the only mode with nation-wide coverage and it carries about 90% of the domestic freight. The rehabilitation, improvement and inter-connection of the main national roads and of the transport system are also priorities for the Government. The road network consists of 4,165 km of national roads, 3,615 km of provincial roads, and 31,000 km of rural and strategic roads. The main national roads connect most provincial centres and the major border crossings with Phnom Penh. According to the Ministry of Public Works and Transport (MPWT), during the period 1994–2002, the cargo volume transported by road grew at an average annual rate of 18% and passenger traffic more than tripled. During the wet season, many roads are impassable and many areas of the country are isolated. The Government is working with local authorities to ensure the opening and rehabilitation of new rural feeder roads and the maintenance of existing ones.

Air transport

Air transport, like most infrastructure, has suffered from conflict and neglect as well as from the ongoing shortage of financial and human resources. The State Secretariat of Civil Aviation (SSCA) and the Ministry of Public Works and Transport are responsible for air transport and civil aviation.

There has been considerable growth in civil aviation. Royal Air Cambodge, the national flag carrier, was established in December 1995 by the Government in partnership with the Malaysian Helicopter Service (MHS) but is now in liquidation. Four private domestic carriers — President Airlines, Royal Phnom Penh Airways, Siem Reap Airways and Mekong Airlines — are currently operating. International airlines flying into Cambodia include Thai Airways, Bangkok Airways, Viet Nam Airlines, Laos Air, Silk Air, Malaysian Airlines, Dragon Air, China Southern Air, Mandarin Airlines, Eva Airways and Shanghai Airlines. On domestic routes, passenger traffic rose by 23% in 2002 to 250,000. With an open-air policy and the potential of tourism (see chapter III), there is the prospect of healthy growth for air transport.

The country's two international airports, Phnom Penh and Siem Reap, have been contracted out for operation, management and development on a build-operate-transfer (BOT) basis to a French–Malaysian consortium, SCA (Société Concessionnaire de l'Aéroport). International freight services are planned for Kompong Chnang airport under an ongoing BOT/BOO agreement.

Railways

The Cambodian railway system consists of 621 km of track, including a 385 km Northern Line constructed between 1929 and 1942, which runs from Phnom Penh to Poipet in the north–west, and a 236 km Southern Line built in the late 1960s, which runs from Phnom Penh to the seaport at Sihanoukville. A 1997 study of the Royal Cambodia Railways (RCR) established that the condition of the Northern Line was very poor and that the link between Sisophon and Poipet near the Thai border was so damaged as to make it unstable at any speed. The Southern Line was in reasonable condition, but the foundation was not strong enough and 70% of sleepers needed replacing.

Long-term development plans include the construction of a 225 km line from Phnom Penh to Loc Ninh in Viet Nam, a 105 km line from Sisophon to Siem Reap, the installation of modern repair and maintenance equipment, and human-resource development. The Northern Line runs through rich agricultural areas that are poorly served by the road network, and potentially connects with the Thai railway system, becoming a part of the proposed Trans-Asian Railway linking the ASEAN sub-region with China, from Singapore to Kunming. The Government of Cambodia is interested in privatizing its railways; however, the cost of the total upgrade needed has discouraged buyers.

Waterways and ports

Sihanoukville port is the only deep-sea port in the country, and handles almost 70% of imports, which are dominated by building materials. Gross throughput of the port grew from 741,000 tons in 1996 to 1,674,707 tons in 2002 — an average annual increase of 14%. The port was built in 1954, and its facilities include a 290-metre-long jetty that can accommodate vessels with a 7.5–8.5-metre draft and was rehabilitated in 1996; a 350-metre quay built in 1965 that can accommodate vessels with a 10-metre draft; and a warehouse, a container yard and an open-space area for storage. The current capacity is 11,000 GRT break-bulk and 1 million tons of cargo annually. With assistance from Japan, a study for the urgent rehabilitation of the port has been undertaken that proposes an investment package of \$42.6 million, with \$40.8 million allocated during 2000–2003. The package includes the construction of a new 400-metre quay for general cargo and the enlargement of 11 berths in 2001; the preparation of 50 hectares of land for a free-trade zone in accordance with Cambodia's manufacturing development strategy; the development of the road, power and lighting networks; and the construction of a container terminal with three 450-metre berths among other improvements.

The throughput of the Phnom Penh river port declined from 603,000 tons in 1994 to 416,472 tons in 2002 (RGC, 2003). The decline is the result of the complicated checkpoints procedure when crossing Viet Nam along the Mekong river. The trend is now upward with the removal of cumbersome procedures. The port also plays an important role as a hub for inland water transport and the export of rubber and timber products.

A third port at Koh Kong near the Thai border is now handling about 150,000 tons of cargo per year, and may increase in importance, depending on the growth of international trade and the effects of the opening of the Cham Yeam border-crossing point as an international checkpoint, among other developments. The plan for establishing an export-processing zone in Neang Kok offers the prospect of growth in economic activities.

The financial sector and business support services

The financial sector remains a bottleneck for development in Cambodia owing to a lack of public confidence in the banking system and the lack of a proper legal framework to govern deposits and lending. The banking sector provides a wide range of banking services but at a relatively high cost to customers. Following the implementation of the National Bank of Cambodia's bank re-licensing programme in 2000, the financial sector consists of 13 commercial banks, 4 specialized banks (rural development), 10 micro-finance institutions and 4 insurance companies, including the government-owned Cambodian National Insurance Company (CAMINCO).

Cambodia has a relatively low rate of banking intermediation, with bank loans and deposits equivalent to only 8 and 10% of GDP respectively. The percentage of cash to total bank assets is relatively high at 19%, the volume of non-performing loans is high and rising, and lending spreads are also high, with interest rates on commercial loans often in excess of 20%. Furthermore, a considerable amount of currency is held outside the banking sector because banking is concentrated in Phnom Penh.

The Foreign Exchange Law prohibits any restriction on foreign-exchange operations, including transfers and international settlements. However, these transactions must be performed through a local bank. Fees for telegraphic transfers are high: one bank charges 0.15% of the amount transferred in addition to a fixed fee of up to \$35. Traveller's cheques are charged 2%.

There is no formal capital market in the country as yet. In July 2000, a Securities Exchange Regulatory Working Group (SERWG) was established under the Office of the Council of Ministers to establish the foundations of a securities regulatory body and a securities exchange. A capital markets law is being drafted to create a securities exchange commission that would ultimately establish a fully operating capital market. The proposed new law will be drafted in conformity with the Investment Law and the Banking Law. It is recognized that a long-term process is involved, in which the preconditions of an accounting, legal and financial infrastructure have to be met.

COUNTRY	EDUCATION				ADULT LITERACY RATE
	GROSS ENROLMENT RATIO ^a				
	PRIMARY		SECONDARY		
	Total % of relevant age group 1998	Female % of relevant age group 1998	Total % of relevant age group 1998	Female % of relevant age group 1998	% of people 15 and above 2000
	119	110	22.2	15.4	
Lao PDR	110	101	33.3	27.2	48.7
Myanmar	114	113	36.3	36.3	84.7
Thailand	93.8	92.2	88.3	89.4	95.5
Viet Nam	110	107	61.3	58.3	93.4
Memorandum					
China	107	108	61.6	57.9	84.1
LDCs	..	..	..	..	52.8

Source: UNDP, Human Development Report 2002, based on data from UNESCO.

^a Gross enrolment ratio is the number of students enrolled in a level of education, regardless of age, as a percentage of the population of official school age for that level.

Human resources

Cambodia has a population of 13 million people, of whom 51% are in the “working age” group. Although Cambodians have low levels of education, the labour force is traditionally a hardworking and strongly motivated one. (The Angkor complex near Siem Reap offers historical evidence of the skills and patience of the Khmer people.) Labour costs are low compared with those in other Asian countries. The minimum wage in the garment industry is only \$45 per month.

Cambodia is educationally behind other countries in the region, especially its neighbours, Thailand and Viet Nam (table II.5). Only 4% of literate adults (68% of all adults) had completed secondary education in 1998 and only 0.8% had gone beyond it (Ministry of Planning, 2000). By regional standards, the education sector has been under-resourced. Public spending on education has remained roughly constant at between 0.9 and 1.0% of GDP since 1994 (compared with 2.4% in the Lao People’s Democratic Republic).

The 1997 Labour Law is the primary document governing all employment activities in Cambodia. It is enforced and implemented by the Ministry of Social Affairs, Labour, Vocational Training and Youth Rehabilitation. This law replaced the previous 1992 Labour Law and strengthened the rights to bargain collectively, to form unions and to strike.

Disputes arising from an individual employment relationship should be brought before the Labour Inspector before any legal action is taken. The Labour Inspector will act as arbitrator and attempt to reconcile the parties. If a satisfactory solution cannot be found, the dispute can be taken to court.

Expatriates are allowed to work in Cambodia provided that they obtain a work permit. Such permits are usually granted to employees of foreign enterprises authorized to operate in Cambodia so long as the applicants are key personnel. Expatriates may be recruited for non-key positions when Cambodian labour is not available.

The terms of employment, such as compensation, maximum working hours, vacation leave, maternity leave, family leave, employee complaint process, night and holiday work, medical care, and special rules governing child and women employees, are stipulated by law. Maximum working hours are normally eight hours per day and 48 hours per week, with overtime to be compensated at 1.5 to 2.0 times the normal wage. Some variation in the number of hours worked is permitted under certain circumstances.

Annual leave is set at 1.5 days for each month of employment, resulting in 18 days of leave per year, with an additional day for each additional three years of employment. Maternity leave is mandatory for 90 days during which the employee receives half her salary if she has worked for at least one continuous year. Special leave, to meet an employee’s family needs (e.g. weddings and funerals), is set at a maximum of seven days per year. These leave days can be deducted from the employee’s annual leave or can be compensated for through extra hours of work without overtime payment.

Cambodia suffers from an excess of public holidays: in 2003, there are 21 of them (See appendix 4 for details).

Employers with at least 100 women employees must either provide a nursing room and childcare centre, or pay for childcare if such a facility cannot be installed.

TABLE II.6. AVERAGE MONTHLY SALARIES FOR DIFFERENT PROFESSIONAL LEVELS, 2002

POSITION	SALARY IN \$
Manager, senior level	1 000–1 500
Manager, middle level	500–1 000
Manager, entry level	250–400
Accountant	250–400
Secretary	120–150
Office clerk	100–120
Messenger	100–120
Driver	100–120
Janitor	40–80
Labourer	40–80

Source: Media Business Network, 2003, p. 2001.

Taxation

As elsewhere, taxes in Cambodia fall into two broad categories, direct and indirect taxes.

Direct taxes

Corporate profit tax

A profit tax is levied on all businesses and calculated on the basis of either actual profit or estimated profit, depending on the tax regime applicable to the taxpayer. Under the amended Laws on Investment and on Taxation, which were adopted in March 2003, the tax on profits is 20% for all taxpayers, excluding certain natural-resource-development projects, but including all qualified investment projects (QIPs — those registered with the CDC). Only pre-existing QIPs that have already been granted a 9% rate will be eligible for the reduced rate for a transitional period ending in 2008. QIPs granted a profit tax exemption would receive a maximum tax holiday of up to 6 years plus a trigger period, resulting in the possibility of an exemption from profit tax for up to 9 years.

Taxpayers are required to make a prepayment of profit tax on a monthly basis, equivalent to 1% of monthly turnover. However, QIPs registered with the CDC are exempted during the profit tax exemption period. There is also a minimum tax for real regime taxpayers, equivalent to 1% of annual turnover, but QIPs registered with the CDC are exempted from it.

Additional tax on dividend distribution

A new tax that affects investment companies and QIPs was introduced with the Law on Amendment to the Law on Taxation. Companies that enjoy a tax rate of either 0% or 9% are subject to an additional tax on profits that have not been taxed at 20%, upon the distribution of dividends. The additional tax moves the effective tax-on-profit rate up to 20%.

Salary tax

Salary payments to an employee in Cambodia give rise to the salary tax. There is a distinction between residents and non-residents in relation to the calculation of the salary tax. Residents are taxable on their worldwide salary income, irrespective of where paid, whereas non-residents are subject to salary tax only on Cambodian-source salaries.

Employers are required to pay a fringe benefits tax on benefits provided to employees. The rate of the tax is 20% of the market value of the benefit, inclusive of all taxes.

TABLE II.7. DIRECT TAX RATES: GREATER MEKONG SUBREGION

Country	Maximum corporate tax rate		Capital gains tax rate	
	Resident Corporation	Non-resident corporation/branch	Resident corporation	Non-resident corporation
Thailand	30% Dividends paid to non-residents are subject to withholding tax at 10%	30% Profits remitted are subject to withholding tax of 10%	30%	30% in the case of a non-resident company carrying on business in Thailand and if the gain arises from the business carried on in Thailand In other cases, 15% withholding tax on gain if consideration is paid from or within Thailand
Cambodia	20% to 30% depending on the nature of the business, or 0% if in a tax-exemption period.	Withholding tax of 14% on dividends, royalties, rents, interest and management and technical assistance fees Resident branch of overseas company/bank taxed at 20%	Same as corporate tax rate	Same as corporate tax rate.
Viet Nam	10% to 32%, depending on the nature of the business and/or the foreign investment Dividends paid to foreign parties are subject to 3%, 5% or 7%, depending on the legal capital	32% for foreign law firms and foreign tobacco branches Withholding tax for foreign contractors	25% for foreign-invested enterprises, subject to reduction. Not applicable to Vietnamese corporations.	N/A
Lao People's Democratic Republic	35% for local enterprises 20% for foreign-invested enterprises Dividends are subject to tax at 10%	N/A	N/A	N/A
Myanmar	30% Dividends are not subject to withholding tax Withholding tax rates on payments to resident persons are from 2.5% to 15%	The greater of 35% or at graduated rates from 5% to 40% Dividends are not subject to withholding tax Withholding tax rates on payments to non-resident persons are from 3% to 20%	10% if sale proceeds exceed 100,000 Kyats	40% if sale proceeds exceed 100,000 Kyats
China	33%	33%	Taxed at the applicable income tax rate	If the capital gains are attributable to a People's Republic of China business of the non-resident corporation, the gains will generally be taxed at 33% If the capital gains are not attributable to a People Republic of China business, the gains will be subject to withholding tax.

Source: KPMG, Asia Pacific Tax Update 2003.

TABLE II.8. INDIRECT TAX RATES: GREATER MEKONG SUBREGION

COUNTRY	VAT-TYPE TAX		WHOLESALE/RETAIL TAX	
	Goods standard rates	Services standard rates	Goods standard amount or range	Services standard amount or range
Thailand	<ul style="list-style-type: none"> • 0% for exports • 7% 	<ul style="list-style-type: none"> • 0% for exported services, provided that certain conditions are met • Otherwise, 7% 	No	No
Viet Nam	10% (from 1 January 2000)	10%	No	No
Cambodia	<ul style="list-style-type: none"> • 0% for exports • 10% 	Same as for goods standard rates	No	No
Lao	N/A	N/A	Turnover tax 5% or 10% on sale of goods	Turnover tax 5% or 10% on provision of services
Myanmar	N/A	N/A	Commercial tax 5% to 30%. Specific commercial tax from 30% to 200% on certain commodities	Commercial tax 5% to 30%

Source: KPMG, Asia Pacific Tax Update 2003.

TABLE II.9. SALARY TAX RATES FOR RESIDENTS

MONTHLY SALARY IN RIELS (3,900 RIEL = \$1)	RATE
0 to 500,000 (\$128)	0%
500,001 (\$128) to 1,250,000 (\$320)	5%
1,250,001 (\$320) to 8,500,000 (\$2,179)	10%
8,500,001 (\$2,179) to 12,500,000 (\$3,205)	15%
Over 12,500,000	20%

The salary tax rate for non-resident employees is a flat 20%.

Withholding tax

A series of withholding taxes were introduced by the 1997 Law on Taxation.

Withholding taxes are the responsibility of the payer and are applicable to the following payments to residents of Cambodia:

- 15% on payments made to individuals for the provision of services (this covers most services, including commission, brokerage, transportation, repair, construction, management, consultancy and professions);
- 15% on the payment of royalties for intangibles, interest in minerals and interest (except interest paid to domestic banks or savings institutions);
- 10% on the rental of movable or immovable property;
- 6% on interest paid by a domestic bank or savings institution to a resident taxpayer having a fixed-term deposit account; and
- 4% on the interest paid by a local bank to a resident taxpayer with a non-fixed-term savings account.

No withholding tax is levied on payments of tax-exempt income, which may include payments to non-profit organizations approved by the Ministry of Economy and Finance.

There is also a withholding tax of 14% on the following payments to non-residents:

- Interest;
- Royalties, rent and other income connected with the use of property;
- Compensation for management or technical services; and
- Dividends.

Indirect taxes

Import and excise duties and the value-added tax (VAT) are the most important indirect taxes in Cambodia. Import duties come in four bands: 0%, 7%, 15% and 35%. Export duties are levied on only a limited number of items, such as timber and certain animal products (including most seafood).

Excise duty is called "tax on specific goods and services", and applies to a wide range of imported or domestically produced goods and services, including petroleum products, tobacco products, beer, soft drinks, vehicles and entertainment.

**TABLE II.10. RATES OF EXCISE DUTY
(SPECIFIC TAX ON CERTAIN GOODS AND SERVICES)**

GOODS/SERVICES	RATE
Most automobiles and parts > 2000cc	80–110%
Most automobiles and parts < 2000cc	15–45%
Most large automobiles (e.g. buses, trucks)	10%
Motorcycles > 124 cc	45%
Certain petroleum products	33–33%
Certain carbonated and similar non-alcoholic beverages	10%
Beer, wine and most other alcoholic beverages	20%
Cigarettes	10%
Cigars	25%
Hotel accommodation and entertainment charges	10%
International air tickets, with travel beginning in Cambodia	2%
Certain international telecommunication activities	2%

The excise tax on hotel accommodation was suspended in October 1997.

Value-added tax

VAT was introduced on 1 January 1999. It is chargeable on a wide range of goods and services supplied in Cambodia and on the import of goods. The basic principle of VAT is to tax each stage of production, allowing each supplier credit for the tax paid, so that the ultimate impact is on the final consumer. Taxable items attract VAT either at the standard rate of 10% or at the zero rate. Zero-rating applies to the export of goods and services, and certain charges related to international transport. On imports, VAT is payable at 10% of the value of the import, including any customs duty, insurance and freight charges.

Double taxation treaties

At present, Cambodia has no double taxation treaties.

Accounting requirements

The Law on Corporate Accounts, their Audit, and the Accounting Profession, passed in July 2002, requires that books and records be kept in Riels and in the Khmer language.

Box II.2. The private sector forum and good governance

The Private Sector Forum (PSF), functioning in its current form since December 1999, is a good example of the Government's recognition that transparency matters. Seven sector-specific Working Groups, consisting of government and business counterparts and co-chaired by one minister and one business representative, meet regularly to address investor concerns. The Minister of Economy and Finance is the coordinator of the Working Group process and co-chairs the Working Group on Law, Tax and Governance with the President of the International Business Club (IBC). (The other working groups are: agriculture and agro industries; banking, financial services and insurance; energy and infrastructure; export-processing and trade facilitation; manufacturing and small and medium-sized enterprises (SMEs) and tourism.)

The Council for the Development of Cambodia (CDC) serves as the PSF's secretariat, while the International Finance Corporation (IFC) acts as its coordinating bureau. In the monthly meetings, the exchanges between government and business are often disarmingly candid. Summaries of these meetings are distributed to the private sector, the Government and the donor community in Khmer and English. A progress report is presented at the biannual PSF chaired by the Prime Minister.

The sixth PSF, with the entire cabinet and more than three hundred domestic and foreign investors in attendance, was broadcast live on Cambodian television. Among the issues raised were smuggling, unofficial payments at Sihanoukville Port, the toll fee structure on National Road Number Four, and the absence of a comprehensive Official Gazette. The acknowledgement of corruption as a basic impediment to private-sector growth has focused the national dialogue on the need for public-private partnership, exemplified by the PSF.

The PSF was the brainchild of the Prime Minister, Samdech Hun Sen, and private-sector sources say it only works because of his personal participation. It is significant too that the entire cabinet is invited to every biannual PSF and that the Prime Minister regards the meeting as comparable to a meeting of the Council of Ministers — which means that decisions taken at a PSF meeting can be immediately implemented.

Source: UNCTAD, based on information supplied by the CDC and the IBC.

The private sector in Cambodia

The private sector in Cambodia enjoys a healthy dialogue with the Government about policy through such organizations as the Bankers Association, the Garment Manufacturers' Association of Cambodia, the International Business Club and the Phnom Penh Chamber of Commerce. With the support and cooperation of foreign embassies and missions in Cambodia, many foreign investors' associations (the Malaysian Business Club, the American Business Association, the Chinese Business Association, the Chambre de Commerce Franco-Cambodgienne, etc.) have also been established.

The Phnom Penh Chamber of Commerce had on its inauguration a membership of 600. The functions of the Chamber include promoting Cambodia to foreign investors; providing services to members, such as information on export markets and international laws and regulations; and representing the interests of members in matters of public policy.

The International Business Club (IBC) was established in 1993 and has 38 foreign investors as members. The members represent the major sectors of the economy: manufacturing (including textiles and garments), telecommunications, transport, agriculture, hospitality, and legal and accounting services. The IBC's objective is to be the voice of the foreign investor in Cambodia and to work closely with the Government to improve the investment climate.

Box II.3. Tracking the files: Business monitors the bureaucracy

Exporting ready-made garments (RMG) is big business in Cambodia. In 2002, RMG exports totalled \$1,350 million, well over 90% of all exports, and almost all of them went to the United States and the European Union. The industry has long suffered from processing delays, particularly with regard to time-sensitive post-export documents such as certificates of origin and export licences. As the complaints mounted, becoming more frequent and sometimes turning into accusations that the delays were intentional (in the hope of personal gain), the Minister of Commerce decided on an unorthodox move. He invited the Garment Manufacturers' Association in Cambodia (GMAC) to station "monitors" at the Foreign Trade and GSP Departments. The monitors would record the flow of document applications in each department and compile weekly reports to be submitted to the Chairman of GMAC and the Minister of Commerce.

The Ministry also issued a ruling that all post-export documents applied for must be issued within a two-day period. The weekly reports highlight, in percentage terms, the extent to which each of these two departments has reached this performance benchmark. When a document fails to meet the two-day deadline, the monitoring identifies the exact point in the issuance flow that constituted the bottleneck. The monitoring reports also analyse the pattern of delay: in mid-2003, *more than 95%* of all documents applied for were issued within a period of *four* working days.

Since the introduction of the monitoring scheme in June 2002, on-time delivery has improved substantially and has stabilized at around the 70% level — that is, 70% of all post-export documents are now issued within *two* days. While there is certainly room for improvement, significant improvement now depends on a broader change: a thorough streamlining of the entire application, approval and issuance process.

Source: UNCTAD, based on information supplied by GMAC.

Investment climate: Key factors for foreign investors**Strengths**

- Access to the dynamic ASEAN market, as well as preferential access to the European Union and other developed regions as an LDC
- WTO membership
- Strong and stable government commitment to create a business-friendly environment
- Considerable natural and cultural assets for agriculture and tourism

Weaknesses

- Shortage of technically and managerially skilled personnel
- High costs of electricity, water, telecommunications and transport
- Weak administration and persistent corruption

Source: UNCTAD.

Opportunities

- Tourism
- Commercial agriculture and agro-processing
- Garments and other light manufacturing
- Infrastructure development (with loans and other resources) and services such as education (technical skills) and health

Threats

- HIV/AIDS epidemic and its impact on the workforce

With its open-skies policy, Cambodia has shown its determination to become one of the main tourism destinations in South-East Asia. CAMS is proud to participate in this development by operating both the Phnom Penh and Siem Reap airports. Our great asset has been our Cambodian workers, whose willingness to learn has made the success of the airports possible. With the training and experience they now have, we fully expect them to catch up with their competitors in the region. They have already proved their capacity in the computerization of the airports and have lately helped us obtain the ISO 9001-2000 certification.

Denis Leluc
General Manager,
Cambodia Airport Management Services (CAMS) Ltd

Cambodia's open economy, plentiful natural resources and low-cost workforce offer many opportunities to investors. One of the most important factors to consider when comparing Cambodia's investment climate with that of neighbouring countries is Cambodia's free-market orientation. It is the first country in the Mekong Region, excluding Thailand, truly to embrace and implement a free-market economy. Cambodia is also the most open to foreign investment of any country in the region: 100% foreign-owned investments are welcome in nearly every sector and type of business (the main exclusion being the ownership of land). Furthermore, Cambodia is located in the fastest-growing economic region in the world and is relatively richly endowed with agricultural, forest and marine resources. It thus possesses a good foundation for a range of natural-resource-based industrial activities. This chapter describes the main areas of opportunity for investment in the country.

Priority sectors

The priority sectors for FDI are agriculture and agro-processing, tourism and infrastructure, including in particular hydropower.

Incentives are granted in the following fields:

- Agriculture and agro-processing industries;
- Environmental protection;
- Export-oriented industries;
- Industries that create substantial employment;
- Investments in special promotion zones (SPZs);
- Physical infrastructure and energy;
- Pioneer and/or high-technology industries;
- Provincial and rural development;
- Tourism and related industries.

Agriculture and fisheries

Agriculture, forestry and fisheries contribute about 43% of GDP and provide direct employment to nearly 80% of the labour force. Since 85% of the population lives in rural communities and 75% of the poor are farmers, the performance of the agriculture sector remains critical for achieving sustained growth, poverty reduction and rural development.

So far, the flow of FDI in agriculture is small compared with that in the other sectors, only 5% of the total. Thus agricultural development has substantial potential for more FDI.

COUNTRY	AGRICULTURE			
	AGRICULTURAL VALUE ADDED			
	PER WORKER		AS PERCENTAGE OF GDP	
	Constant 1995 \$			
	1990	1999	1990	2000
	400	402		
Lao PDR	488	595	61	53
Myanmar	..	..	57	60 ^a
Thailand	767	920	12	10
Viet Nam	186	244	37	24
Memorandum				
China	236	325	27	16
LDCs	246	247	38	32

Source: UNCTAD, based on the World Bank, *World Development Indicators 2002*, <http://publications.worldbank.org/WDI/>.

^a Figure for 1999.

Fisheries

Cambodia abounds in fish, both inland and marine. Captures have stagnated since 1992. In 2002, the inland freshwater fish catch was 110,300 tons and the marine fish catch was 45,850 tons. Cambodia also processed 50,000 tons of freshwater fish and 2,900 tons of marine fish. The decline in inland capture has been blamed on the high level of exploitation, the conversion of inundation forests into flood-recession rice areas, poor management and continuing environmental degradation. Significant growth in inland fishery production in the future will have to come through the expansion and improvement of rice-fish farming in lowland rice areas and via aquaculture. Fish-processing is one of the priority areas for FDI.

Rice farming

Paddy production accounts for about 90% of the area cultivated for annual crops each year and for 29% of the value added in the agriculture sector. Most households are engaged in paddy production and rice represents the major staple in household consumption. There have been gradual improvements in productivity and increases in the cultivated area over the last decade, and Cambodia has moved from being a net rice importer to being a net rice exporter over the period (JICA, 2001), although the exports are unofficial and unrecorded along the border with neighbouring Viet Nam and Thailand. A recent JICA (Japan International Cooperation Agency) study presented a wide range of scenarios for future rice exports, from negligible levels to 750,000 tons by 2010 (JICA, 2001).

Cambodia produces about 4 million tons of rice a year. There is good short- and medium-term potential for increasing yield levels, cropping intensity and unit-area productivity in the different rice ecosystems. Maximum productivity potential can be achieved by developing appropriate irrigation facilities for double cropping in lowland areas, injecting good-quality seeds on a timely basis into farming communities, and developing markets for rice exports.

Agro-industry

Cambodia offers a favourable environment for agro-based industry, especially food-processing. Kompong Cham province, the most populous province along the Mekong River, has fertile land on which all food crops can potentially be grown all year round. Battambang, Kampong Speu and Kampong Chhnang provinces are also suitable for agro-processing industries.

The Government's core strategy for agro-industry development is to grant concessional land plots to both domestic and foreign companies on a long-term basis, and to encourage contract growing by smallholders, who supply raw materials to a processing factory constructed in the area. The main opportunities identified include:

- Textile factories and related activities such as dyeing, silk production and diversification, to increase the multiplier effect of garment production;
- Jute factories based on jute-growing near the Tonle Sap river;
- Sugar factories based on two or three sugarcane harvests annually in Battambang and Kampong Speu, and also the use of the waste products of sugar milling for power generation, paper manufacture, fertilizer production, and molasses and alcohol production;
- Palm oil refineries;
- Cashew-nut-processing factories drawing supplies from concessional and other land;
- Rubber-processing factories, including the corporatization and privatization of State-owned rubber farms and processing factories;
- Other factories producing tapioca starch, flour and fruit products (juice, canned fruit, dried fruits).

It may also be possible to encourage the expansion of small-scale tobacco producers and thereby to increase the supply of raw materials to the larger manufacturers (see box III.1).

Box III.1. FDI story: Investing in agro-business

British-American Tobacco Cambodia (BATC) is a tripartite joint venture formed by British American Tobacco (Investment) Limited (BAT) (51%), Oknha Kong Triv, a local investor, (29 %) and Singapura United Tobacco Limited (20%). With total investment of \$25 million and a turnover of approximately \$20 million, the company is in a stable position in sales and production.

BATC is a subsidiary of BAT, a multinational corporation conducting business in 180 countries worldwide. BATC is a vertically integrated company, right from the growing of tobacco leaf to the manufacture of cigarettes. It is also one of only two local companies that use locally grown tobacco. 80% of its raw material is local leaf.

The company employs up to 485 full-time workers, mainly in Phnom Penh; seasonal employment is a further 1200 workers, mainly in Kompong Cham. Three Cambodians have been promoted to senior positions in the company: Director of Leaf, Director of Operations and Director of Human Resource Development. At present, Cambodian nationals account for 95% of the staff. As in any developing country, there is competition for high-quality employees; however, according to John Nelson, General Manager of the company, BATC has been very successful in attracting high-quality staff. "With our reputation, we can recruit Cambodians of high calibre, most of them young and energetic, and willing to learn and work hard."

BATC has established modern plants in Phnom Penh and Takmao, a new tobacco tipping and stemming centre at Kompong Cham, as well as a reforestation nursery producing over a million saplings a year. (Varieties include Eucalyptus, Ipil Ipil, Acacia, Flamboyant and Neem.) The company has also contributed to the development of domestic tobacco by investing heavily in improving quality and yield. This has been achieved by helping local farmers (833 families with 1,200 hectares contracted to BATC), who have been introduced to new agronomic techniques and practices and supplied with free seed and curing barns.

As a consequence, there has been a marked increase in the farmers' standard of living, their income having increased some 500% to 3.7 million Cambodian Riels per hectare. There has also been a substantial improvement in the attractiveness of Cambodian tobacco, which is now interesting international buyers. In the last four years, the company has been able to export up to 1140 tons of tobacco. It has reduced its own reliance on imported tobacco from 55% in 2000 to less than 20% in 2002, as the locally grown tobacco is now of sufficiently high quality. Cigarette sales and manufacturing have in recent years supplied up to 18% of state revenue, generating \$6.5 million in taxes in 2000. The company has a local market share of over 40%, including both its premium and local brands.

BAT is confident that the business environment remains promising, as the Government is keen to address issues raised by investors in the Government-Private Sector Forum, held every six months, and to move things forward.

Source: UNCTAD, based on information supplied by BATC.

(thousand tons)	PRODUCTION C				AGRICULTURAL P				- 1999	
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Rice (paddy)	2 500	2 400	2 221	2 383	2 230	3 448	3 458	3 415	3 510	4 041
Maize	88	60	60	45	45	55	65	42	49	95
Cassava	60	56	80	51	65	82	70	77	67	229
Sweet potato	31	39	60	48	36	39	38	29	30	33
Vegetables	170	249	210	221	197	193	250	177	128	182
Mung beans	12	13	14	11	17	20	14	15	9	16
Sugar cane	258	145	142	145	219	202	171	188	133	160
Soybeans	22	35	40	39	23	17	28	56	28	35
Peanuts	7	8	8	5	5	7	6	7	7	9
Sesame	5	8	6	5	4	4	5	3	5	7
Tobacco	8	9	9	5	12	11	10	10	10	6
Jute	2	1	2	2	2	1	2	2	1	0
Rubber	35	35	28	22	221	35	42	38	41	46

Source: Ministry of Agriculture, Forestry and Fisheries, 1990 to 2000.

Livestock

Cambodia had 2,924,000 cows, 626,000 water buffaloes, 2,110,000 pigs and 16,678,000 chickens in 2002. There are clear opportunities to be found in increasing the efficiency of backyard livestock production with an emphasis on animal health and nutrition. In the long term, the prospects for contract livestock farming with food conglomerates and agribusiness corporations as investors are particularly bright, given the entry of the country into the Asean Free Trade Area (AFTA). ASEAN entrepreneurs and multinational corporations can provide the capital, technology and management inputs as well as the potential export market, while their rural partners in Cambodia can provide land and labour. At present, a joint venture between the Monrithy Group and a Malaysian company has collectively purchased cows from most parts of Cambodia to provide more nutrition to the cows and export them to Malaysia.

Tourism

Given its location in South-East Asia, where tourism is booming, especially in its neighbour Thailand, Cambodia has a considerable advantage in tourism development. In addition, it has a unique historical heritage and an unpolluted natural setting. The Angkor Temple complex is one of the most significant heritage sites in the world (see box III.2) and can be developed further as an international tourist destination.

Other than the cultural heritage, the rural landscape is also an important attraction, particularly the Mekong River, the Tonle Sap Lake and the beaches in Sihanoukville and Kompot provinces. Phnom Penh, with its French-influenced atmosphere, has its own charm, which can be enhanced by renovating buildings and streets. Major tourist attractions in the city are the Royal Palace, the National Museum, the view of the Mekong river, and the surrounding area with its mountains, forests, lakes and streams.

The Government has concentrated on three poles of tourism development (Phnom Penh, Siem Reap and Sihanoukville) by inviting national and international companies to develop tourism through the construction of hotels, tourist sites, restaurants and other facilities of an international standard.

As noted earlier, tourism has already attracted substantial FDI — 32.47% of *approved* FDI from 1994 to 1999 — which suggests that it can potentially replace agriculture as the backbone of the economy. Cambodia is one of only four LDCs in the world with tourism income exceeding \$100 million per year. This is a re-emerging industry rather than a new one for Cambodia. During the 1950s and 1960s, along the southern shoreline near Kompong Som and Kampot, Cambodia was a popular year-round tourist destination. Thirty years of civil war destroyed most of the infrastructure connecting tourist destinations and all but eliminated the social capital and hospitality skills required by this industry. On a positive note, the closed borders resulted in the preservation of much of Cambodia's natural beauty. Dozens of Khmer temples still remain hidden in the jungles, untouched for centuries, and Cambodia's vast forests are among the richest in South-East Asia, even after some depletion.

Box.III.2. Angkor Wat

Although Phnom Penh and Sihanoukville offer their own attractions (and may do so increasingly in the future), there is no question that the focus of tourism in Cambodia is what is somewhat erroneously known as Angkor Wat.

A few kilometres northwest of Siem Reap, a provincial capital in the north–western quarter of Cambodia, close to the great lake of Tonle Sap, lie the glorious semi-ruins of the Angkor complex of temples. Angkor Wat is only one of these temples, perhaps the grandest and certainly among the best preserved, but only one among a number still not definitely known, covering an area of 400 square kilometres.

A very thorough recent guide (Rooney, 2002) describes about 40 accessible sites. With the rest, in some cases there is still a lingering problem with landmines, left over from the country's long period of civil conflict, while in others the sites may be hidden in the jungle or collapsed too thoroughly to be worth a visit.

The temples are the legacy of a period extending over six centuries (circa AD 800–1400) when Cambodia was ruled from this part of the country. The structures themselves were mostly built in the tenth through twelfth centuries (AD 900–1200). The best known are Banteay Srei built in the late tenth century, Angkor Wat in the early twelfth century and Bayon in the late twelfth century. The earlier monuments tend to feature predominantly Hindu motifs (scenes, stories, gods) while the later ones are mainly Buddhist (Cambodia is today an overwhelmingly Buddhist country).

The features that distinguish the monuments of Angkor are numerous. Here are just three of them. One is the size and proportion of the grandest of them: Angkor Wat occupies over 200 hectares, is surrounded by a moat 200 metres wide, and the western approach is over a sandstone causeway 250 metres long and 12 metres wide. Another is the extraordinary detail of the bas-reliefs (shallow carvings) that abound in nearly every temple or terrace — 1,200 square metres of them on the first level of Angkor Wat alone. The third feature is the statuary. Many of the great sculptures have been stolen; some have been removed for safekeeping. However, many remain, especially the guardians at the various temples: lions, elephants, mythical birds and snakes, gods and demons.

After the Khmer capital moved to Phnom Penh in the fifteenth century, the temples of Angkor entered a phase of progressive neglect that lasted until the end of the 19th century, when the Ecole française d'extrême-orient began surveying, documenting and restoring the sites. Angkor is now on UNESCO's list of World Heritage Sites. The preservation and restoration work is being coordinated by an international coordinating committee co-chaired by France and Japan, with the Cambodian counterpart being the Apsara Authority.

Tourism focusing on Angkor picked up in the mid-1990s and has increased steadily since: 192,031 in 2000; 264,059 in 2001; and 453,148 in 2002. One facilitating factor is the number of non-stop flights to Siem Reap from a number of locations in South-East Asia (e.g. Bangkok, Hanoi and Singapore), including three a day from Bangkok alone. Opportunities for investment include those related to MICE (motivation/incentives/conventions/exhibitions) and various recreational facilities, including golf courses.

Source: UNCTAD, based on Rooney (2002), the CDC and other sources.

COUNTRY	INTERNATIONAL TOURISM, NUMBER OF ARRIVALS		INTERNATIONAL TOURISM, RECEIPTS			
	Thousands		Percentage of total exports		Millions of current \$	
	1990	2000	1990	2000	1990	2000
	17	466				
Lao PDR	14	300	3	23	3	114
Myanmar	21	208	1	2 ^b	9	35 ^b
Thailand	5 299	9 509	15	9	4 326	7 119
Viet Nam	250	2 140	4	1 ^c	85	86 ^c
Memorandum						
China	10 484	31 229	4	6	2 218	16 231
LDCs	3 253	6 362	4	7	1 142	2 882 ^b

Source: UNCTAD, based on the World Bank, *World Development Indicators, 2002*, <http://publications.worldbank.org/WDI/>.

^a Figure for 1992.

^b Figure for 1999.

^c Figure for 1998.

Most recently, Cambodia has experienced tourist growth rates averaging nearly 30% for each of the past two years. While most of this sudden growth can be attributed to the release of pent-up demand, Cambodia's innovative private–public partnerships have facilitated an effective supply response. Recent decisions by the Government, with the support of airlines and tourism-related businesses, have created economic incentives for local and foreign investors to build hotels, establish

tour and travel agencies, open a variety of restaurants, and bring modern transport to Cambodia. The open-skies policy has encouraged regional airlines to fly directly to Siem Reap and allowed the magnificent temples of Angkor Wat to become accessible to a much broader range of tourists. According to the Ministry of Tourism, Cambodia can expect tourist arrivals to go up to 1 million in 2003.

Box III.3. FDI story: Investing in tourism

With its 140 rooms and an occupancy rate of 75%, the Sunway Hotel is one of the best-known hotels in Phnom Penh. After exploring the market in 1997, the owner of the Sunway Lagoon Hotel in Malaysia decided to join forces with a local businessman to start a joint venture with an investment of \$12 million, with the Malaysian share being 75%. The hotel commenced operations on 24 February 1998. It is now well recognized as one of country's best providers of food and accommodation, and also provides a number of conference rooms for private and public functions.

Manfred Hager, the German General Manager of the hotel, started his career in hotel management and has worked mostly in Asia — Singapore, Malaysia and Indonesia. "Cambodia", he says, "is a good place for future investment, especially in the hotel and tourism business, because the country has great tourism potential".

The hotel's customers are a mix of tourists, business people, government delegations and others. The Sunway has 185 regular employees, 60 of them female. The staff structure includes 1 general manager, 4 executive managers, 7 department heads, 6 assistant managers, 12 senior supervisors, 31 supervisors, 42 assistant supervisors and 82 junior staff.

The company thinks highly of its staff but finds their language skills and general knowledge of hotel management often inadequate. Sunway has a promotion programme designed to recognize an outstanding employee; it is intended to provide a good example to others and motivate them to a higher-level performance. To senior staff, the company offers the opportunity to participate in regional and international conferences related to hotel business strategy, business planning and so on.

The hotel is a member of the International Business Club (IBC) in Cambodia and does its part in strengthening the voice of the private sector in its dealings with the Government. In the near future, Sunway expects to build other hotels in Siem Reap and Sihanoukville as the tourism market in the country expands.

Source: UNCTAD, based on information provided by the Sunway Hotel.

Export-oriented industries

Through the General System of Preferences (GSP) and most favoured nation (MFN) status, Cambodia has preferential access to such international markets as those of the European Community, the United States, Japan, Canada and Australia. Cambodia's membership of ASEAN also offers substantial potential for exports to ASEAN countries in the framework of AFTA.

Thus far, the single most important exporting industry has been ready-made garments. Cambodian textile products have been exported to 27 countries, including Japan, the United States and the countries of the European Union. In 1997, the

industry earned \$134 million in exports and employed 33,853 Cambodian workers. It now employs about 250,000 Cambodian workers and, in 2001, exported products worth \$1,270 million (OCM, 2002).

With Cambodia acceding to the WTO in September 2003, the forthcoming end of the Multifibre Arrangement (MFA) at the end of 2004 will not necessarily hurt the industry, as its long experience and low wages can keep it competitive.

Box.III.4. FDI story: Investing in garment manufacturing

Garments are the fastest growing business for FDI in Cambodia. In 2002, there were 255 factories producing garments and apparel products, almost all for export.

The Zheng Yong Garment Factory, situated along Road Number 5, Khan Reusey Keo, Phnom Penh, is a joint venture between investors from Taiwan Province of China (90%) and China (10%). The company was established in December 1996 and started operations in March 1997, producing jeans and other garments. The parent Taiwanese company is also investing in the garment industry in South Africa and expects to invest in China. Its main motivations for investing in Cambodia are the country's liberal trade and investment policy and its MFN and GSP status with 30 countries in the world.

From 641 workers in 1997, the company's employment had more than doubled to 1,500 workers by 2002. Most of the workers are young women of about 20 years of age with relatively low levels of education, and 87% of the workers are from the provinces around Phnom Penh, especially from Kompong Cham. Only about 200 workers live in Phnom Penh.

The company also employs 10 Chinese staff, who are among its 25 supervisors. Judy Kwok, operation manager of the factory from China, said that Cambodian workers are eager to learn and learn very fast. "We don't really have much time to train them; we just show them what to do and they catch up", said Ms Kwok. Having lived in Cambodia for more than six years, Ms Kwok feels at home. "I like Cambodian people and have no problem with communication, as more and more Cambodians speak Chinese and English. I am also learning to speak Khmer. I think I am very lucky to have this job in Cambodia."

All of the company's products are exported to the United States, the European Union and Japan.

The company has had no problems (strikes or the like) with the workers, who are unionized. The company respects the law and provides proper holidays. Most of the second-hand machinery imported from Japan and Taiwan Province of China has now been replaced with new machinery. According to Ms. Kwok, there are about 30 Taiwanese factories in Cambodia and there is also a Taiwan Business Association.

The company strongly believes that its investment in Cambodia will be a long-term one. Zheng Yong Garment is not much concerned about the end of the MFA in December 2004, being convinced that Cambodia will be admitted to the WTO in 2003 and that its low-cost labour will continue to keep it competitive with other countries in the region.

Source: UNCTAD, based on information supplied by the Zheng Yong Garment Factory.

Infrastructure and construction

Infrastructure and construction are very promising business opportunities in Cambodia after decades of war and political strife. During the past two years, 2000–2002, the construction sector has grown by 83% per year. Roads, ports, irrigation systems, hydro dams, hotels and housing are in great demand. Build-operate-transfer (BOT) projects have been approved for the Phnom Penh international airport and a new power generation plant to serve Phnom Penh. The telecommunication network is being upgraded to meet international standards (although success in contacting Cambodia from abroad remains erratic at best). Road networks have been improved. The bridge connecting the capital with Highway Number 6 and the road that leads to the Thai border have been rebuilt. Highway Number 4 connecting Phnom Penh with the main seaport of Sihanoukville has been completely repaired. A bridge funded by the Japanese Government across the Mekong River in Kompong Cham province has been recently completed and connects the north-eastern provinces, including Kompong Cham, Kratie, Stung-Treng, Ratanakiri, and Mondulkiri, to Phnom Penh.

Within the framework of the Greater Mekong Subregion (GMS), huge infrastructure projects with a total cost of about \$2 billion among the six countries that share the Mekong river — Cambodia, (the Yunnan province of) China, the Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam — were endorsed by the countries' leaders in their first summit in Phnom Penh in November 2002. For its part, Cambodia has proposed many projects related to railways, roads, bridges, telecommunications and energy with a total cost of about \$700 million. Though some of the projects could be funded by loans from the ADB or donor countries such as Japan, private-sector funding is also welcome.

Hydropower

It has been estimated that there is an exploitable hydropower capability of upwards of 8,000 MW in Cambodia, distributed among 43 sites. However, this assumes substantial damming of the Mekong, notably at Sambor in Kratie Province (3,300 MW), and feasibility studies that encompass the ecological and social implications are needed before a proper assessment can be made. One hydropower plant at Kirirum (10 MW) in Kompong Speu province has been rebuilt by the China Electric Power Technology Import and Export Corporation at a cost of \$26 million. The Government is responsible for purchasing all power from this plant and distributing it (National Institute of Statistics, 2002). The Government is interested in privatizing distribution as well.

So far, no large hydropower plant has been built owing to a lack of financial resources. Electricity thus remains very expensive, especially in the provinces. Most of the electricity in the country is generated by diesel power plants. The provinces other than Phnom Penh, Sihanoukville and Siem Reap are badly in need of electricity. Private investment in the sector is entitled to receive tax holidays of up to nine years and a tax exemption on the import of machinery.

Box.III.5. FDI story: Investing in infrastructure

Established in 1995, the Cambodia Airport Management Services Ltd (CAMS) undertakes airport operation and management. CAMS was established as a joint-venture between Aéroports de Paris Management (ADPM) and Malaysia Airport Holding Berhad (MAHB) and manages the Phnom Penh International Airport and the Siem Reap International Airport on behalf of the concessionaire company (SCA). The main functions of CAMS are providing commercial and non-commercial services including maintenance and staff management.

SCA has invested in a BOT (Build, Operate and Transfer) project to rebuild and upgrade the Phnom Penh Airport to international standards. The company is a consortium of French (70%) and Malaysian (30%) partners which has made a total investment of about \$100 million. The BOT period is 25 years.

(SCA invests and develops; CAMS manages and operates.)

SCA selected Cambodia for investment because the company found a good business opportunity in infrastructure development. The Government has a shortage of financial capital and human resources to operate and manage the airport, and the company can help by providing investment, technical know-how, and employment for Cambodian workers. The Phnom Penh International Airport has already acquired an additional passenger terminal, a new VIP lounge and additional parking stands.

Before returning the project to the Government in 2020, the company is committed to training and promoting Cambodian staff to manage the airport on their own. CAMS employs a total of 830 staff: 631 in Phnom Penh and 199 in Siem Reap. About 90% of the company's personnel is Cambodian. 8 female employees have been promoted to the senior level. According to Denis Leluc, General manager of CAMS, "Cambodian human resources are not scarce. They simply require training. They are very hard-working and very keen on learning."

CAMS has recruited former Government employees as well as young graduates with no experience. The company has a preference for candidates who speak both English and Chinese because many tourists from China cannot speak English. It also prefers those who are flexible, creative, independent and responsible. Cambodian staff have shown that, after training, they can be competent supervisors and managers.

The company has sent some office staff for training to other countries, specifically Singapore, Thailand and France, for training in such areas as financial management and airport security. The company also recruits experts from France and Malaysia to train Cambodian staff. Although a lack of management skills is a problem in Cambodia, CAMS has increasingly found it easier to recruit senior and mid-level staff from among those returning to the country with skills and qualifications acquired abroad.

Mr. Leluc thinks the Government needs to invest more in education, which will bring a long-term benefit to Cambodia by making its workers more competitive in the world market. The strength of the country is the pro-business government and a dynamic new market. The weakness is a lack of infrastructure and human capital.

Source: UNCTAD, based on information provided by CAMS.

Mining

Cambodia can build on its comparative advantage by developing natural-resource-based industries of many kinds, including those based on non-metallic mineral resources.

Oil and gas exploration recommenced in Cambodia in 1991, following earlier efforts of the late 1960s and early 1970s, and has already produced promising results. Altogether, 16,000 line kilometres of high-quality seismic data have been obtained, indicating a potential for substantial oil and gas generation.

For the purpose of exploration, both land and sea areas of the Cambodian territory have been divided into blocks, 32 altogether, of which the offshore blocks I to IV have so far been explored. Three major oil companies — Enterprise Oil Exploration Ltd, Premier Oil Petroleum Cambodia Ltd. and Campex — have engaged in drilling with 30-year contracts. Positive results from drilling in Block III in late 1993 were followed by the most successful test so far, carried out in Blocks I and II in the first part of 1994, which produced a maximum flow rate of 4.7 m cubic feet of gas and 180 barrels of condensate per day. Another company testing in Block IV in the same year produced a maximum flow rate of 1.3 m cubic feet of gas and 1,180 barrels of oil per day.

The Government now plans to offer further acreage for licensing. The licensing regime embraces royalties and a tax system, controlled by production-sharing contracts, which provide attractive terms for exploration and production projects.

Although Cambodia has good mineral resources, events of the last two decades have prevented the development of the mineral sector.

Potential exists in respect of gold, gemstones (ruby, sapphire and zircon), phosphates (for fertilizer), limestone (for cement and building stone), bauxite, clay, sand/gravel and granite, with the first two commercially the most promising. Copper and zinc also exist but require more exploration. Exploration for gold has already been carried out by two companies, Sun Trading Co Ltd and Delcom Cambodia.

Special promotion zones

The Government has been considering establishing one or more special promotion zones (SPZs) in Cambodia and attracting domestic and foreign investment into these zones. Industrial zones are to be developed at Phnom Penh, Sihanoukville, Koh Kong, Poipet and Pailin which will include export-processing zones and free-trade zones. At Sihanoukville, an area of 50 ha has already been designated for this purpose and will become available for private investment in due course. Harbour facilities have also been developed at Sihanoukville and “dry ports” (warehouses with customs inspection facilities in which cargo can be stored before paying tax) in Phnom Penh.

One issue affecting the development of industrial land is the inability to secure loan capital using real estate as collateral. Financial institutions are reluctant to finance property development using real property as collateral because the legal and institutional framework governing land registration and the enforcement of collateral is not satisfactory. A mortgage law has not been put in place and neither has a law on bankruptcy. The recovery of defaulted loans is the main issue for investors.

Box III.6. Thai–Cambodian cooperation

In June 2000, the Prime Ministers of Thailand and Cambodia agreed to formulate an integrated plan for economic cooperation. A centrepiece of the plan is the development of industrial zones in Cambodia along the Thai border. In 2002, Thailand graduated from receiving GSP market access for a number of labour-intensive products. Thai manufacturers of these products are interested in relocating their operations to Cambodia to profit from Cambodia’s continuing GSP market access. The zones would be located close to Thailand in order to take advantage of the superior Thai infrastructure, in particular road and rail links to Thai ports. Thai manufacturers would also benefit from Cambodian labour costs that are approximately *half* the level of Thai labour costs in Zone 3, where Thai costs are lowest.

A site of 336 ha at Neang Kok, Koh Kong, two kilometres from the Thai border on Cambodia’s coastline, has been designated for the development of an industrial zone. A number of Thai manufacturers are interested. The zone is three hours by road from Laem Chabang port. Considerable progress has been made with the zone: land has been purchased, roads have been built to the Thai border, electricity is being supplied from Thailand, and a water reservoir has been completed.

Another site being considered is at Poipet on the Thai border. Poipet is close to Battambang (population 100,000) and has good road access to both Bangkok and Phnom Penh. The rail access requires upgrading. The development of this site depends upon the consolidation of a large number of small, privately owned land holdings.

In January 2003, there was rioting in Phnom Penh, focused exclusively on the Thai presence in the capital. In the riots, the Thai Embassy building (among other properties) suffered extensive damage. The cost of the total damage to property was assessed at \$50 million, an amount the Government of Cambodia offered in compensation. Thus far, the Government of Thailand and some major Thai investors have been compensated; others, mainly smaller Thai businesses, are waiting their turn. Good relations at the official level have been re-established through several meetings at the Prime Ministerial level. A Cambodia–Thailand joint Cabinet meeting held in Siem Reap (Cambodia) and Ubon Ratchathani (Thailand) on 31 May 2003 has further helped ease the tension and restore normal relations.

Source: UNCTAD, based on information provided by government agencies and other sources.

Cambodia is a young market with great potential, especially with the ASEAN Free Trade Area (AFTA) on its way. But the market needs time to develop and a number of difficulties that increase costs for investors need to be sorted out. So I would urge foreign investors to come to Cambodia, but they should come with deep pockets and be in for a long haul.

Teh Sing
Chief Operating Officer,
Cambrew Ltd

Legal and judicial system

History and basis

The legal and judicial system in Cambodia has evolved from a surprising variety of origins. These include customary rules of Asian origins, the French civil law tradition introduced during the period of the French protectorate, the communist system with a Vietnamese influence in the 1980s, the period of the United Nations Transitional Authority of Cambodia (UNTAC) in the early 1990s and finally the new Constitution of the Kingdom of Cambodia adopted in 1993. Other recent influences include various bilateral and multilateral donors, and Cambodian expatriates returning from many countries. In consequence, no particular legal tradition (e.g. common law) can be said to dominate the legal system in Cambodia.

According to the Constitution, all previously passed legislation remains in force unless annulled or contradicted by subsequent legislation. In practice, the Government does not enforce legislation (especially that predating 1979) if it is incompatible with current policy or the spirit of the market economy (DFDL/Mekong Law Group, 2002).

Judicial aspects

Since 1979, when the Khmer Rouge regime fell, the Cambodian court system has experienced many changes. From 1979 to 1985, there was only one level of court, at the provincial/municipal level, which covered the territorial jurisdiction of the province or the municipality and the judgments of which were normally final and binding. Now there is a three-tiered system: the Municipal and Provincial Court (jurisdiction of first instance), the Appellate Court and the Supreme Court. The Military Court is another, exceptional, jurisdiction that handles cases related to military offences.

The official language of the courts is Khmer. The written submission of the case and the argument have to be in Khmer, although the courts do occasionally accept documents in other languages, provided that a translation into Khmer is attached.

Under the Khmer Rouge (1975–1979), the judiciary was effectively destroyed. Many judges were systematically killed and the legal profession was abolished. There are now nearly 200 judges and public prosecutors in the country, most of whom have been trained for a short period in Cambodia or trained under the communist legal system. Cambodian judges are inexperienced and courts are understaffed. There are frequent problems with inconsistent judicial rulings as well as outright corruption.

There are a little over 200 lawyers registered with the Cambodian Bar Association. The Bar Association is an independent professional association of all lawyers practising in Cambodia and the Bar Council, established in 1995, is its governing body.

The Supreme Council of the Magistracy, which is chaired by the King, plays an important role in overseeing the organization and functioning of the judiciary. It proposes candidates for appointment as judges and prosecutors, decides on their transfers and takes disciplinary action against them if needed.

According to the Law on the Bar, 1995, only a Cambodian citizen can obtain a licence to practise law in Cambodia. However, foreign lawyers can assist Cambodian lawyers in court in specific cases with the permission of the Bar Association and the court in question. There have been a few instances in which foreign lawyers have been allowed to argue a case alongside a Cambodian lawyer.

Cambodia does not recognize foreign judgements. However, in 2001, a law was passed implementing the New York Convention on the Recognition and Enforcement of Foreign Arbitration Awards, which Cambodia had signed in 1960. Regardless of the legal basis for implementing foreign or domestic arbitration awards, however, the ability of Cambodian courts to enforce decrees, even their own, remains limited.

Legislative aspects

A draft law initiated by the Government starts from a ministerial draft, goes through modifications and approval by the Council of Ministers, and is then forwarded to the National Assembly for review and debate. If passed, it then goes to the Senate for ratification and, if ratified, to the King for the royal assent.

Cambodia mostly lacks the proper legal infrastructure in the commercial field. There are many gaps in key areas such as company law and commercial arbitration law. The Law on Investment, however, has recently been amended, as has the Law on Taxation (chiefly, according to the private sector, with a view to increasing government revenue). Laws are also being drafted on such topics as bankruptcy and secured transactions.

Administrative aspects

It has generally been recognized that the legal and judicial system in Cambodia faces many challenges in reforming itself. Among the key issues are professional training for judges, prosecutors and other officials, and the provision of suitable salaries for qualified professionals. Efforts by both the Government and donors are underway to ensure that at least a minimal number of judges and lawyers are admitted each year to the newly created Royal School of Judges and the School for Training Lawyers.

Protection of the person and property

The Constitution is the fundamental law in Cambodia and overrides all other legislation. Chapter 3 of the Constitution guarantees a number of personal rights, including the right to life, freedom and safety. Article 35 guarantees freedom of expression and freedom to participate in political, economic, social and cultural life; Article 38, paragraph 2, provides for the protection of the life, honour and dignity of citizens; and Article 44 guarantees the right to property and prohibits any seizure of private property, except in the public interest and on the payment of compensation at market value.

Dispute resolution

The legal system in Cambodia has traditionally favoured mediation over adversarial conflict and adjudication. Although there are plans to create a commercial tribunal and an arbitration and mediation body, courts are currently the only judicial forum in which commercial disputes can be settled (some government ministries can act as mediators in certain cases, but their legal authority is limited). As things stand, dispute resolution through arbitration is not expressly provided for in Cambodian law. However, Article 20 of the Law on Investment in Cambodia, which states that "any dispute relating to investment affairs...may be resolved through reconciliation...or through any international proceeding agreed upon by parties," may be taken to imply that arbitration is allowed.

Furthermore, with regard specifically to labour disputes, the Ministry of Social Affairs, Labour, Vocational Training and Youth Rehabilitation (MOSALVY) has recently set up an Arbitration Council and appointed 21 arbitrators. The Council is a mechanism for resolving industrial disputes when they cannot be settled through conciliation.

Institutional framework

The Council for the Development of Cambodia (CDC) was set up in 1994 to be responsible for the development and management of FDI (see box IV.1). In March 2003, the Law on the Amendment of the Law on Investment, which simplifies the FDI implementation process, was adopted by the National Assembly.

Current foreign investment policy

Foreign investment policy in Cambodia has been formulated to meet the challenges of the broad shift from a centrally planned to a market-oriented economy. All sectors are open to foreign investment except those related to national security. No restriction is generally placed on the foreign share of ownership, although there are specific restrictions (see appendix 1).

Box IV.1. The Council for the Development of Cambodia

The Council for the Development of Cambodia (CDC) is the body responsible for defining the framework for investment strategies and accepting or rejecting investment proposals in specific cases. It is an executive agency of the Government, with a governing body drawn from the Cabinet. It consists of two executive boards: the Cambodian Rehabilitation and Development Board (CRDB) and the Cambodian Investment Board (CIB). The CRDB is responsible for public investment and the coordination of international assistance, while the CIB is responsible for dealing with private investment. The day-to-day operation of the CDC is under the control of the Executive Committee, which comprises the Chairman (the Prime Minister), three Vice-Chairmen (Minister of Economy and Finance, Minister of Commerce, and Secretary of State of Economy and Finance), the Secretary General of the CDC, the Secretary General of the CRDB and the Secretary General of the CIB.

Upon registration at the CDC, qualified investment projects (QIPs) will receive licences, tax exemptions, and a partial or full package of incentives. The CDC is required to submit to the Council of Ministers for approval any projects involving the following:

- A capital investment of \$50 million or more;
- Politically sensitive investment, i.e. projects which have significant impacts on the public interest or the environment;
- Exploration and exploitation of mineral and natural resources;
- Long-term development strategy; and
- Build-own-transfer (BOT) or Build-own-operate-transfer (BOOT), or build-own-operate (BOO) or build-lease-transfer (BLT) schemes.

For contact details, see appendix 3.

Source: Sub-Decree on the Organization and Functioning of the Council for the Development of Cambodia, July 2001.

The Law on Amendment to the Law on Investment

The Law on Investment of the Kingdom of Cambodia was adopted in August 1994. In March 2003, the Law on Amendment to the Law On Investment was adopted to encourage investment and to create a fair trade and investment regime in the country. Major advantages potentially available to eligible investors include the following:

- An automatic tax holiday of three years, with up to three additional years depending on the activity or sector, the tax holiday to commence with the first year in which profit is made but no later than the fourth year of operation;
- 100% exemption from import duties on construction materials, production equipment, machinery, intermediate goods, raw materials and spare parts used by export QIPs;
- Guarantee against nationalization;
- Renewable land leases of up to 99 years on concession land for agricultural purposes and land ownership permitted to joint ventures with over 50% equity in Cambodian hands;

- No price controls;
- No discrimination between foreign and local investors;
- A one-stop service in the CDC to facilitate and speed up the investment process and to provide a Conditional Registration Certificate (CRC) or Letter of Non-Compliance within three working days and a Final Registration Certificate within 28 working days from the date of issuance of the CRC.

Cambodia offers the most competitive investment package available in the region today. To take just one example, while Cambodia imposes a corporate tax of only 20% (except on the exploitation of natural resources), Indonesia imposes between 15 and 30%, Malaysia 28%, the Philippines 32%, Singapore 22%, Thailand 30%, and Viet Nam between 25% and 32%.

Investment-related laws

Current Cambodian laws and regulations have been developed to create a legal framework suitable for the market economy and consistent with experience and practice in developing countries, especially ASEAN member countries. Land ownership provisions are similar to those in Viet Nam, Indonesia and the Lao People's Democratic Republic, where foreigners cannot own land. Tax nomenclature has been reformed in accordance with the Harmonized System (HS) tariff codes of ASEAN. For a list of relevant laws, see appendix 6.

However, some critical laws and regulations have not been adopted to meet market demands. These include such laws as those dealing with mortgages, securities, bankruptcy, financial markets, real estate and commercial contracts. Some of these have been drafted but not finalized or adopted. It will take time for Cambodia to develop all these laws and regulations as the country lacks qualified personnel and relevant experience. However, the country has received and will receive technical assistance for this legal undertaking in the context of its WTO membership.

Membership of international organizations

Cambodia is a member of a number of regional and global organizations:

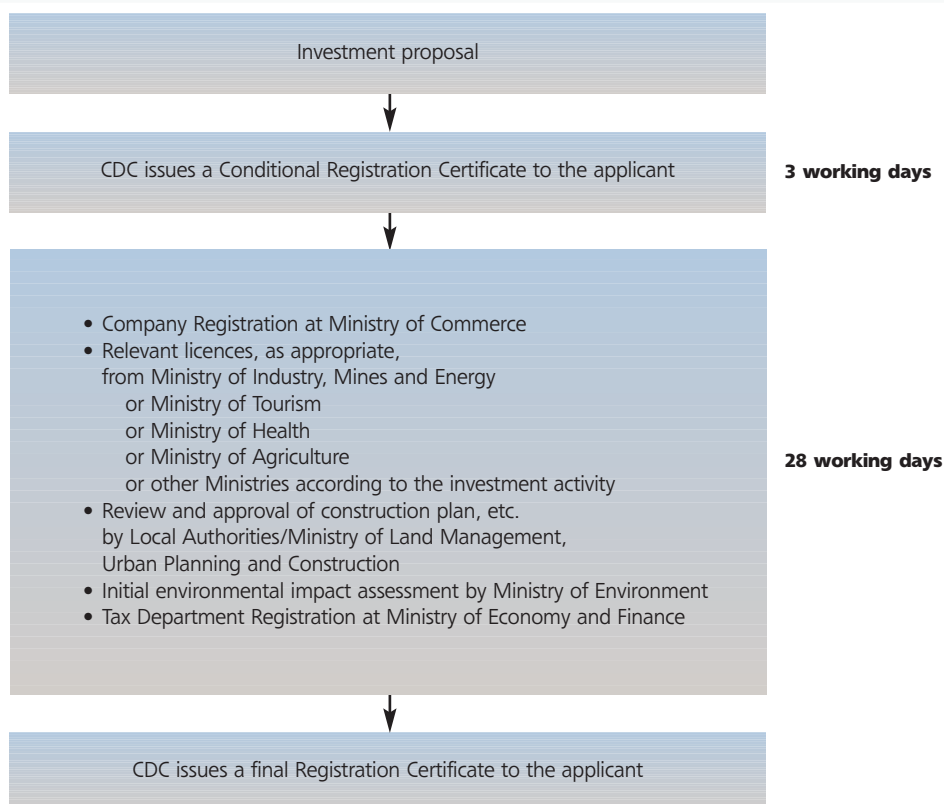
- Asian Development Bank (ADB);
- International Monetary Fund (IMF);
- United Nations Economic and Social Commission of the Asia Pacific (ESCAP);
- Association of South-East Asian Nations (ASEAN);
- International Finance Corporation (IFC);
- World Intellectual Property Organization (WIPO);
- World Trade Organization.

Various international capital sources are available for private investment. Given the Agreement between the Government and the Asian Development Bank (ADB), and the Agreement Framework between the Government and the European Community, the private sector can contact the ADB and the European Bank for Investment to request financing for investment projects. Recently, Cambodia also became a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, which offers political-risk insurance to foreign investors.

TABLE IV.1. BILATERAL INVESTMENT TREATIES, WITH SIGNING DATES

China	19 July 1996
Croatia	18 May 2001
Cuba	28 May 2001
France	13 July 2000
Germany	15 February 1999
Indonesia	16 March 1999
Malaysia	17 August 1994
Organization of the Petroleum Exporting Countries	10 November 2000
Philippines	16 August 2000
Republic of Korea	10 February 1997
Singapore	4 November 1996
Switzerland	12 October 1996
Thailand	29 March 1995
Netherlands	23 June 2003
Viet Nam	26 November 2001

Cambodia has signed bilateral investment agreements (BITs) with a number of countries (table IV.1). The agreements provide reciprocal national treatment to investors, excluding benefits deriving from membership of future customs unions or free-trade areas and agreements relating to taxation. The agreements preclude expropriations except those undertaken for a lawful purpose, are non-discriminatory and are accompanied by prompt, adequate and effective compensation at the fair market value of the property prior to expropriation. They also guarantee the repatriation of investments and provide for the settlement of investment disputes through arbitration.

FIGURE IV.1. STAGES OF IMPLEMENTATION OF FDI PROJECTS**Notes**

- Provided that the project is not in areas in which investment is prohibited, CDC will accept the investment proposal and proceed as above.
- Projects with certain attributes need to be submitted to the Council of Ministers for approval (see box IV.1).
- The CDC will obtain all the licences from relevant ministries or other entities listed in the Conditional Registration Certificate on behalf of the applicant. All government entities responsible for issuing authorizations, clearances, licences, permits or registrations listed on the Conditional Registration Certificate will issue such documents no later than the 28th working day from the date of the Conditional Registration Certificate.

Source: CDC.

Entry and exit

Screening, registration and authorization

To start a business in Cambodia, investors have to follow administrative procedures (summarized in figure IV.1). The time needed to get started depends on the nature of the planned operation and the complexity of the project. In certain circumstances, an investor can start operations within a month of setting foot on Cambodian soil. However, if the investment requires the installation of additional utilities or if it is to be in a restricted area such as mining, forestry or construction that involves the authority of many government agencies, the process can take more time — six months or longer (Chap, 2001). However, the institutions involved are helpful and try to facilitate investment as much as possible. The CDC endeavours to assist investors in obtaining permits, but more improvement in service delivery is still needed in order to reduce the time it takes investors to get their business going.

Every business in Cambodia must register with the Ministry of Commerce. An investment project must also register with the CDC before commencing operations if it wants to benefit from incentives. The registration process is fairly straightforward; however, a large volume of documentation needs to be prepared (for example, the Memorandum and Articles of Association) in the Khmer language and submitted with the application form to register a business. The business also needs to register its address with City Hall. Once this is done, the business will receive a registration certificate indicating a company identification number. The process usually takes three weeks (KPMG, 2002).

Incorporation and related requirements

As noted above, the Government is still in the process of drafting laws and regulations that establish an adequate framework for a market economy. Commercial laws and a law on commercial enterprises (or company law), based on the Anglo-Saxon model to ensure conformity with the laws of other ASEAN countries, have been proposed by the Government but are awaiting debate and adoption by the National Assembly. When adopted, they will specify the various forms of legal incorporation.

According to the proposed company law, these legal entities can take one of five main forms: limited liability company, branch office, representative office, partnership or sole proprietorship. There are three types of limited liability companies allowable: single-member limited company, private limited company and public limited company. Limited liability companies are the entities preferred by most foreign investors setting up business in Cambodia. These companies offer the same advantages to investors as corresponding corporate bodies do in other countries. A shareholder's liability for any deficiency on winding up is usually limited to the amount unpaid for the issued and called-up shares. Shares in any company may be transferred without affecting the continuity of the business.

Establishing a limited liability company

Company formation need not be initiated by a lawyer and is normally a simple procedure. To form a company, the founder members (subscribers) must sign the statutory documents — the Memorandum and Articles of Association — together with various other statutory forms and submit them to the Ministry of Commerce in Phnom Penh to obtain a certificate of incorporation.

A limited liability company has a minimum of 2 and a maximum of 30 shareholders. The minimum issued and paid-up capital is 20 million Riels (approximately \$5,100) at a par value per share of at least 20,000 Riels. Issued capital can be either in the form of fully paid-in cash or in the form of non-cash items; however, the capital must be in place before the company can be incorporated. There is no restriction on the appointment of directors. A limited liability company is considered to have Cambodian nationality and is referred to as a "local company" if it has a registered office in Cambodia and at least 51% of its shares are owned by Cambodian nationals. The chairman of the board of directors of a local company (which can own land) must be a Cambodian national; other directors need not be.

Exit

A foreign investor is free to exit from a venture in accordance with the law. In practice, a company faces no obstacles when divesting in Cambodia and returning to its home country. When a company intends to end its activities in Cambodia, it is required to inform CDC by a registered or hand-delivered letter, stating the reasons for such a decision and signed by the investor or the investor's proxy.

In the case of a proposal for the dissolution of a company without judicial procedures, the investor must provide proof to the CDC that the company has properly settled its obligations to potential creditors and complainants, as well as claims by the Ministry of Economy and Finance, before the investor is officially allowed to dissolve the enterprise. It is necessary to obtain a tax clearance certificate issued by the Tax Department.

Once the investor has been officially allowed to dissolve the enterprise, the investor can transfer the remaining assets overseas or use them in the Kingdom of Cambodia. However, in the event that the dissolving company has used machinery and equipment imported duty-free for less than five years, the company must pay the duties applicable on such machinery and equipment.

Ownership and property

In general, there are no restrictions on the percentage of equity that foreign nationals may hold in a locally incorporated company. Similarly, there are no rules or regulations restricting joint-venture arrangements between locals and foreigners or prohibiting the acquisition of Cambodian firms by foreign-owned firms, except for those related to the ownership of land. These matters are subject to a mutual agreement between partners. It should be noted that the Government is working on enacting a new law on contracts and especially contract enforcement.

Each investor has the right to transfer its shares in the enterprise to other investors in the enterprise. If the other shareholders do not wish to purchase these shares, the transferring investors have the right to transfer the shares to a third party. The transferring investor must receive a prior written

authorization from the CDC at least 30 days before transferring the shares.

Investing members of a Cambodian legal entity which owns land are prohibited from transferring their shares in the entity if the effect of such a transfer would cause the enterprise to become a foreign legal entity.

Intellectual property rights (IPR)

The 1996 trade agreement with the United States contained a broad range of IPR protections but, given Cambodia's very limited experience with IPR, the agreement granted phase-in periods to fully implement these provisions, including the enactment of new legislation. Cambodia is not currently in compliance with the terms of this agreement.

The currently available IPR protection is based on several brief articles (Article 47 and 48) contained in the 1992 United Nations Transitional Authority in Cambodia (UNTAC) Criminal Code and on the Ministry of Commerce Prakas No.368 dated 15 December 1997 on the Procedure of the Intellectual Property Department. Cambodia became a member of the World Intellectual Property Organization (WIPO) in 1995, acceded to the Paris Convention in September 1998, and has indicated its intention to join the Bern and UPOV Conventions as well as the Patent Cooperation Treaty. Progress is being made on IPR legislation. The Government has passed trademark legislation and drafted copyright and patent laws with assistance from WIPO.

Performance requirements

All local and foreign investors eligible for incentives used to be equally subject to a number of performance obligations. Under the amended Law on Investment, the profit tax exemption will be allocated automatically, on the basis of the activity and the minimum investment amounts set out in the sub-decree.

In order to maintain tax incentives offered under the amended Law On Investment, Qualified Investment Projects (QIPs) must obtain an annual Certificate of Compliance from the CDC and lodge this with the annual tax return.

Local content

Investors are encouraged to make use of local materials wherever possible, but there is no restriction on the use of imported materials. The Government does not get involved in assessing what raw materials investors are using as long as they are not a threat to the environment. It is also important to note that most Cambodian industries are heavily dependent on imported inputs, and concessions on duties and taxes on imported raw materials are therefore available.

Technology transfer

Incentives are offered to investors who provide training and development of human resources and the transfer of technology and expertise to local staff. There is no other provision related to technology transfer.

The environment

Investors in Cambodia are required to comply with environmental standards. An Environmental Protection and Resource Management Law was enacted in 1997. The Ministry of Environment is a fairly new ministry, having been established by Royal Decree in October 1994 and having received its legislative mandate in January 1996. The Environmental Protection and Resource Management Law of 1996, intended to clarify the Ministry of Environment's role in protecting the environment, also gives other ministries a role in monitoring an enterprise's environmental impact.

Environmental impact assessments are required of selected public and private enterprises, including businesses already established. A Sub-Decree on the Implementation of Environmental Impact Assessment, passed in August 1999, describes the exact nature and format of these assessments, as well as the projects, required for preparing such an assessment.

Expatriate employees

The law allows expatriate employers and employees and their dependants to work and live in Cambodia provided that they obtain a work permit. Such permits are usually granted to key personnel. Any enterprise, whether local or foreign, can recruit expatriates for any category of skilled manpower when Cambodian workers are not available. It is not difficult to recruit expatriates for non-key positions, although the investor has to demonstrate the need for such employees. The CDC facilitates the acquisition of work permits for expatriates. In this context, it should also be noted that foreigners can obtain visas on arrival at Phnom Penh if they have not already secured them.

Privatization, limitation and exclusion

Privatization

Foreign as well as local investors may participate in the privatization process without discrimination. Foreign investors have bought or leased most privatized enterprises.

Regional or zonal restrictions

Regional or zonal restrictions do not exist. Investors are free to invest in any part of the country. They are, however, required to observe environmental laws and not construct factories in protected areas.

The Law on Land Management, Urban Planning and Construction regulates both local and national land use. The objectives of the law are to establish a national framework for the development, administration and implementation of land-use policies and regulations. The Government has focused its efforts on three areas — Siem Reap Province, Sihanoukville and the Greater Phnom Penh region — in an attempt to create a comprehensive land-use plan. However, these plans are general in nature and require detailed sub-decrees in order to be fully implemented. Investors intending to undertake projects in any of these three areas should familiarize themselves with the various land-use permits and committees at both the local and the national level. For example, in Siem Reap, the Apsara Authority has been established by law to regulate the use of land and related matters in the whole of the province.

Investment protection and standards of treatment

Expropriation

The Law on Investment provides that the interests of a licensed investor may not be expropriated, except in accordance with the Constitution of Cambodia, and that compensation at appropriate and fair market value must be paid in advance of any expropriation (Article 44). To protect foreign investment further, Cambodia has signed the various bilateral agreements mentioned above.

Since the promulgation of the new Constitution in 1993, there has been no instance of expropriation.

Revocation of licence

An investment licence may be revoked if an untrue statement is made in the application for it, if the provisions of the Law on Investment and the Sub-Decree on the Implementation of the Law are breached, or if there is a breach of the terms and conditions of the licence. The CDC revokes licences only after warning investors to take action to comply with the terms and conditions of the projects and offering counselling to ensure corrective action. Between 1994 and 1997, the CDC revoked the licences of 120 investment projects, most of which were inactive.

Dispute settlement

See the section on the legal and judicial system at the beginning of this chapter.

National treatment

In law, no distinction is made between foreign and local companies.

Exchanging and remitting funds

All matters relating to the management of foreign exchange are governed by the National Bank of Cambodia. Although the Khmer Riel is the official currency of Cambodia, the dollar is in common circulation and most commercial transactions are dollar-denominated. There are no foreign-exchange controls currently in place. Under the Foreign Exchange Law of 1997, foreign currency may be freely purchased through the banking system. The law specifically states that there shall be no restrictions on foreign-exchange operations, including the purchase and sale of foreign currency, transfers and all types of international settlements. However, it does require that these transactions be performed by authorized intermediaries. These intermediaries are lawfully established banks in Cambodia, which are required to report to the National Bank of Cambodia transactions in excess of \$10,000.

Investors may purchase foreign currencies through the banking system and remit these funds abroad for the discharge of financial obligations such as:

- Payments for imports and repayment of principal and interest on international loans;
- Payment of royalties and management fees;
- Remittance of profits;
- Repatriation of invested capital on the dissolution of an investment project.

Competition and price policies

Cambodia takes a liberal stance with respect to competition and price setting. Open competition is generally encouraged and market forces are allowed to determine who enters or exits a given business and what prices are charged. There are hardly any government monopolies, and the Government does not interfere directly with the prices of commercial goods or services. A new law on unfair trade practices came into force in early 2002. Under this law (which also covers trademarks), acts of unfair competition include acts which cause consumers to confuse competing products, false statements that discredit a competitor, and the dissemination of information that misleads the public regarding a competitor. There is no antitrust legislation.

Fiscal and financial incentives

Tax incentives

The Law on Investment provides the following tax incentives to eligible investors:

- A corporate tax exemption of up to six years, depending on the characteristics of the project and the priority of the Government, as mentioned in a sub-decree. Corporate tax exemption takes effect from the year the project derives its first profit or after three years of operation, whichever occurs first;

or

A special depreciation equal to 40% of the capital cost of new and/or used tangible property used in manufacturing and processing by the qualified investment project (QIP) if the QIP elects not to use the corporate tax exemption above.

- 100% import-duty exemption on construction materials, production equipment, intermediate

goods, raw materials and spare parts used by

- Export-oriented QIPs; and
- Supporting-industry QIPs; and
- 100% exemption of export tax, if any.

Financial incentives

Cambodia does not offer financial incentives to investors.

Trade

There are no foreign-trade zones or free ports operating in Cambodia at present, although some proposals have been reviewed by the Government. The Law on Amendment of the Law on Investment provides for incentives to encourage investment in Special Promotion Zones (SPZs). However, as noted earlier, the legislation defining SPZs is not yet in place.

Duty exemptions

Cambodia offers an exemption of import duty on construction materials, raw materials, intermediate goods and machinery to export QIPs, as mentioned above. More detailed information can be obtained from the CDC.

Tariffs and quantitative restrictions on imports

Cambodia pursues an open-door policy with respect to imports. Most goods are importable into Cambodia from any country in the world. The only restrictions apply to narcotic drugs, arms and ammunitions, and other dangerous products. Cambodia's general tariff is simple. Only four tariff bands are levied, with duties of 0%, 7%, 15% and 35%. Imports from ASEAN countries in the framework of AFTA will be charged a duty of between 0 and 5% only, beginning in 2010.

Real estate

The new 2001 Land Law was adopted to improve the legal framework for land-related investment in Cambodia. The law clarifies various types of rights relating to land, including ownership, easement, usufruct, security interest, concession of State land and lease. It also clarifies the process by which land is transferred by sale or succession and the transfer registered.

As already noted, foreigners may not purchase land but may acquire it in cooperation with a Cambodian partner. On concession land for agricultural purposes, foreign investors can secure leases of up to 99 years.

Land available to investors falls into three categories:

- *Public land*: Available through the State Property Department of the Ministry of Economy and Finance. This may be leased by both locals and foreigners. All municipalities and provinces have land available for leasing.
- *Leased land*: Available from the Government, from companies and from individual landlords.
- *Freehold land*: Available from private individuals for sale.

Before the investor pays out any money towards the purchase of land, he/she should ensure that the landowner has a valid title certificate registered with the relevant authorities. If there is no title certificate, the buyer should confirm that the putative owner of the land is the true owner by investigation at the relevant local land office and a review of the supporting documents.

The construction permit may take some time, as the urbanization and construction authorities have to inspect and verify various things. For a building of less than 3,000 square metres in size, the permit is issued by the Governor of the municipality or the province. For a building of more than 3,000 square metres in size, the permit is issued by the Ministry of Land Management, Urbanization and Construction.

The Accor Group has been managing the Sofitel Royal Angkor in Siem Reap since 2000. Our entry into the hospitality business in Cambodia was prompted by the impressive growth in tourism in the 1990s. This growth has continued over the past several years, justifying our decision to invest, and Accor now fully expects to be managing a number of other properties in the Kingdom very soon. Cambodia is a new destination for us, but we are looking at developing a long-term relationship with it.

Marc Begassat
General Manager,
Sofitel Royal Angkor



This chapter summarizes the results of consultations with the private sector in Cambodia (both foreign and domestic) carried out at various times, including in particular at a closed session with investors during a workshop in Phnom Penh held in October 2002, and guided by a brief questionnaire. Some 35 persons participated in the business session, most representing foreign firms. The summary presented below is based on questionnaire responses, general discussion and informal interviews with individual investors. *It should be regarded as no more than suggestive of private-sector opinion in Cambodia.*

General observations

When investors were asked to name the most attractive features of Cambodia as an investment location, the following were mentioned most frequently: political and economic stability; the Government's pro-business stance, as reflected for instance in the openness of the economy; and a young workforce easy to train and eager to learn. Other assets of the country mentioned included the liberal foreign-exchange regime and recent improvements in infrastructure facilities, especially in telecommunications and the road network in and around major centres such as Phnom Penh and Siem Reap. Ample unexplored investment opportunities in the tourism sector, based on Cambodia's unique cultural and natural heritage, were also mentioned.

When investors were asked to name the items that most needed the Government's attention, the following were mentioned most often: bureaucratic delays, corruption, and an unreliable and inadequate legal and judicial framework combined with poor enforcement of laws. Less frequently mentioned were problems with infrastructure such as power supply and road transport in rural areas. Interestingly, security — often an issue in other LDCs — was **not** mentioned as a problem.

On the whole, investors felt that despite these and other difficulties the Government was generally moving in the right direction.

Specific points

Political and economic climate

Many foreign firms noted that Cambodia offered a stable economic and political environment. Firms stressed in particular the pro-business attitude of the Government. This was reflected mainly at senior levels of the administration; cooperation at lower levels was sometimes wanting. Despite claims that the Government sometimes lacked political will and would not act decisively enough, there was a consensus that it was committed to helping investors, domestic as well as foreign, make their businesses work. The Government was also open to dialogue with investors.

On the negative side, some investors felt that the pace at which the Government was introducing new laws — partly to fulfil obligations arising from the planned accession to the WTO — created an atmosphere of uncertainty. It was not always clear which law was actually in place. In some cases, in its efforts to provide a sound legal basis, the Government introduced laws that seemed to be contradictory and new regulations were often poorly communicated to the private sector, which led to problems. There was widespread agreement, however, that the effort to create a more comprehensive legal basis was in the long run a necessity. As things stood, gaps in the current framework meant that many decisions were taken by public administrators on an ad hoc and subjective basis.

The high level of security in the country was widely acknowledged. Although some participants were not sure whether the forthcoming electoral process would lead to renewed unrest, the environment was generally seen as stable.

Taxation

Investors mentioned three key problems in the area of taxation. First, enforcement was uneven. While most foreign investors paid their taxes, some local firms often did not. A second problem was the often vague and frequently changing regulations. Third, the application of tax laws was not notably consistent or transparent, and this was aggravated by the lack of official translations for many regulations. Investors already established in the country complained of a sudden increase in

the tax rate that they had initially agreed upon with the Government when they entered the country. On the positive side, it was noted that in recent years the relations between the Tax Department and the private sector, including the accounting sector, had substantially improved. Also, the general level of taxation, even in view of the foreseen increase in the tax rate to 20% for qualified investment projects, was in itself perceived as reasonable, even if taxation was undertaken without adequate consultations with the private sector.

Workforce

Investors generally found the Cambodian workforce trainable and motivated. Shortage of skilled employees was seen as a problem, although some investors acknowledged a modest positive trend in skill levels. In recent years, a number of mostly private training institutes (in particular for languages, computer skills and technical training) had sprung up, particularly in major cities, responding to the rapidly increasing demand. While investors welcomed this development and saw it as further evidence of the willingness of Cambodians to learn, they nonetheless pointed to the problem of insufficient regulation of such institutions. The degrees and certificates issued by many of these schools did not correspond to the quality expectations of most companies. Other issues less frequently mentioned were the large number of public holidays and employees without the right attitude. Wage levels were competitive.

Infrastructure and utilities

Progress in certain infrastructure services and utilities was widely acknowledged, while in some areas the private sector saw little change over the past five years. Telecommunications were seen to have advanced most in recent years. Although network disruptions had not been eradicated, the majority of private-sector participants did not feel that this area constituted a problem for their business activities. The improvement of the road transport network in the major cities and business centres was mentioned as another area of significant improvement. On the other hand, road transport in rural areas was still hampered by poor maintenance. One area identified as a particular problem for the private sector was power supply.

The problem was mainly cost, which was significantly higher than in neighbouring countries. In fact, the costs were so high that even the rather expensive operation of individual power generators was cheaper than relying on supply from public operators.

Red tape and corruption

Corruption was seen as a widespread phenomenon. The complaints referred both to petty corruption at lower administrative levels and, in some cases, to problems at higher levels. One frequently made complaint was about illegal imports, which exposed domestically manufactured products to unfair competition. The private sector acknowledged that the Government had taken some steps to deal with this problem, but so far it had shown limited success. As for red tape, private-sector participants complained about this as a key problem and saw it as a priority area for government action. On the positive side, business recognized the recent efforts that the Government had put into making its administration work more efficiently, such as giving private-sector monitors access to the Ministry of Commerce to ensure the timely processing of export permits (see also box II.2).

Other

As for the investment climate generally, investors were satisfied with its business-friendliness, as illustrated, for example, by the liberal foreign-exchange regulations. It was also acknowledged that there were hardly any specific constraints on foreign investors. One of the few areas in which foreign investors were treated differently from local investors was the acquisition of land. Some investors, although a minority, saw this as a problem, while the majority seemed to be satisfied with the option of a long-term lease.

Insufficient protection of intellectual property rights was seen as a serious problem by a number of investors. In addition to gaps in the legislation, enforcement was very weak and provided little protection for products such as software and videotapes.

Issues not mentioned

Although some observers speak of street crime as being commonplace in Phnom Penh, security was not mentioned as an issue in UNCTAD's consultations with the private sector. This is worth noting, given that security is often an issue in LDCs and given, in particular, Cambodia's recent history. Also not mentioned were natural calamities such as floods.

Priorities and restrictions

Priorities

FDI is particularly welcomed and promoted by the Government of Cambodia in the following areas:

- Agriculture and agro-processing industries;
- Environmental protection;
- Export-oriented industries;
- Industries that create substantial employment;
- Special Promotion Zones;
- Physical infrastructure and energy;
- Pioneer and/or high-technology industries
- Provincial and rural development;
- Tourism and related industries.

Restrictions and prohibitions

(This list is taken from Sub-Decree No. 80, ANKR-BK, on Restrictions on Some Sectors of Investment, dated 30 August 1999.)

ISIC Code	Industry/activity	Remark (Restriction/requirement)
<i>1. Industries closed to both national and foreign investors</i>		
3698	Manufacture/processing of cultural items	Subject to prior approval from relevant ministries
2021	Sawn timber, veneer, plywood, wood-based products utilizing local logs as raw materials	No new licence will be issued
2411	DBSA production. Toxic chemicals affecting community health or the environment. Production of toxic chemicals or utilization of toxic agents	Subject to prior approval from the Ministry of Health and other relevant ministries
2429	Manufacture of psychotropic substances	Subject to approval from Ministry of Health
2429	Manufacture/processing of narcotic drugs	Prohibited
2927	Manufacture of weapons and ammunition	Prohibited

2. Industries open to foreign investors with restrictions

1600	Manufacture of cigarettes	Only for 100% export
1551	Alcohol Industry and the Ministry of Health	Subject to prior approval from the Ministry of
2230	Movie production	Subject to prior approval from relevant ministries
1320	Exploitation of gemstones	Subject to local equity participation
2691	Tiles and bricks made of clay (hollow or solid)	
1531	Rice mills	
2029	Wood and stone carving	
1711	Silk weaving	

3. Service activities with restrictions specifically on foreign investment

2210	Publishing	Subject to prior approval from the Ministry of Information and the Ministry of Culture and Fine Arts
2212	Publishing of newspapers, journals and periodicals	
2213	Publishing of recorded media (CDs, etc.)	Foreign equity is restricted to a maximum of 49%
2219	Other publishing	
2221	Printing	
2222	Service activities related to printing	
9213	Radio and television activities	

Appendix 2

Major foreign investors ¹

	Name of company	Ownership	Business	Address
1.	Asia Insurance Mr. Pascal Brandt-Gagnon General Manager	Hong Kong (China), Thailand and Cambodia	Insurance	No. 91 Norodom Boulevard, Phnom Penh Tel: 855 23 – 427 981 H/p: 855 12 – 812 090 Fax: 855 23 – 216 969 E-mail: gmo@asiainsurance.com.kh
2.	British American Tobacco Cambodia (BAT) Mr. John Nelson General Manager	United Kingdom, Singapore and Cambodia	Cigarettes	No. 1121 National Road 2, Phnom Penh Tel: 855 23 – 430 011/360 691 H/p: 855 12 – 773 355 Fax: 855 23 – 360 692 E-mail: john_nelson@bat.com
3.	Caltex Cambodia Limited Mr. Edgar C. Mondigo Acting General Manager	United States	Petroleum distribution and marketing	Olympic Motor Building 173 Nehru Boulevard, Phnom Penh Tel: 855 23 – 880 570/3 H/p: 855 12 – 803 852 Fax: 855 23 – 880 691 E-mail: caltex@bigpond.com.kh
4.	Cambodia Beverage Company (Coca-Cola) Ms. Denise Lauwens General Manager	Singapore	Soft drinks	No. 278 Road National 5 Khum Russey Keo, Phnom Penh Tel: 55 23 – 428 995/6 Fax: 855 23 – 428 992 E-mail: dlauwens@apac.ko.com
5.	Cambodia Brewery Ltd Mr. Koh Tai Hong General Manager	Singapore and Cambodia	Beer and soft drinks	Village Robos Angkagne, District Kien Svay, Kandal Province Tel: 855 23 – 722 683 M/p: 855 12 – 888 898 Fax: 855 23 – 723 104 E-mail: taihong.koh@cbl.com.kh
6.	Cambodia Haining Group Co., Ltd. Mr. Xiao Wen Hui Office Supervisor	China	Agriculture	# 20, Street 47, Phnom Penh Tel: 855 23 – 428 068 855 12 – 837 618 Fax: 855 23 – 428 068 E-mail: haining@bigpond.com.kh
7.	Cambodia Mekong Bank Public Limited Mr. Khov Boun Chhay President&CEO	Singapore, United Kingdom and Cambodia	Banking service	1 Kramuon Sar Street, Khan Daun Penh, Phnom Penh Tel: 855 23 – 217 112/424 980 Fax: 855 23 – 217 122/424 326 DID: 855 23 – 424 323 Direct Fax: 855 23 – 424 990 E-mail: khov.bc@mekongbank.com
8.	Cambodia Pharmaceutical Enterprise Mrs. Wong Swie Hwa General Manager	China and Cambodia	Medical production	#36 Geordimitrov, Sangkat Mittapheap, Khan 7 Makara, Phnom Penh Tel: 855 23 – 880 112/880 496 Fax: 855 23 – 880 296 E-mail: cpe@online.com.kh
9.	Cambodia Samart Communication Mr. Somchai Lertwiset-Theerakul Chief Executive Officer	Malaysia and Thailand	Telecommunications	#56, Preah Norodom Boulevard, Sangkat Chhey Chomneas, Khan Daun Penh Phnom Penh Tel: 855 16 – 810 001/3 Fax: 855 16 – 810 006 Web: hello016-gsm.com/
10.	Cambodia Utilities Pvt, Ltd. Mr. Lim Teow Hin General manager	Malaysia	Electricity generation	National Road No.2 Sangkat Chak Ang Re, Khan Mean Chhey, Phnom Penh Tel: 855 23 – 425 592 Fax: 855 23 – 425 050 E-mail: limth@cupl.com.kh

¹ This list has been compiled by UNCTAD on the basis of information collected from the International Business Club (IBC), the Council for the Development of Cambodia (CDC), the Ministry of Commerce, the Garment Manufacturers' Association of Cambodia (GMAC) and other sources.

11.	Cambrew Ltd. Mr. Teh Sing Chief Operating Officer	Malaysia	Beer and soft drinks	No. 215 Norodom Boulevard, Sangkat Tonle Bassac, Khan Chamcarmon, Phnom Penh Tel: 855 23 – 987 663 H/p: 855 16 – 888 028 Fax: 855 23 – 360 668 E-mail: tehsing@online.com.kh cambrew@online.com.kh
12.	CamGSM/Mobitel Mr. David Spriggs General Manager	Sweden and Cambodia	Telecommunications	No. 33, Sihanouk Boulevard Phnom Penh Tel: 855 12 – 800 800 855 12 – 812 812 Fax: 855 23 – 801 801 E-mail: david.spriggs@camgsm.com.kh
13.	CCB-Cambodia Commercial Bank Ltd. Mr. Sahasin Yuttarat General Manager	Thailand and Cambodia	Banking	No. 26, Monivong Boulevard, Phnom Penh Tel: 855 23 – 426 145 / 213 601 855 23 – 213 602 Fax: 855 23 – 426 116 E-mail: ccbpp@online.com.kh Web: www.ccb-cambodia.com/ Swift code: SICOKHPP
14.	Dah Tai Paper (Cambodia) Co., Ltd. Lu Wen Cheng General Manager	China and Cambodia	Cardboard boxes	National Road No 4, Phum Kroland Village Khum Lom Hach, Srok Ang Snoul, Kandal Province Tel: 855 23 – 369 935 / 6 Fax: 855 23 – 369 937 E-mail: N/A
15.	DFDL Mr. L. Martin Desautels Managing Director	United States	Legal and tax advisers	No. 45, Preah Suramarith Boulevard Phnom Penh Tel: 855 23 – 210 400 855 12 – 805 552 Fax: 855 23 – 428 227 E-mail: info@dfd.com.kh Web: www.dfd.com.kh
16.	Diethelm Travel Mr. Pierre Jungo General Manager	Switzerland	Travel and tours	No. 65, Street 240, Phnom Penh Tel: 855 23 – 219 151 Fax: 855 23 – 219 150 E-mail: dtc@dtc.com.kh
17.	Eastern Steel Industry Corp Oknha Kong Triv President	Japan and Cambodia	Galvanized iron sheets	No. 1157, National Road No.2 Chak Angre Leu, Srok Meanchhey Phnom Penh Tel: 855 23 – 721 880 Fax: 855 23 – 425 037 E-mail: tairaku@online.com.kh
18.	Gennon Garment MFG Ltd Mr. Jacky Y.K. Mau General Manager	Hong Kong (China)	Garments	Phum Chong Thnol, Khum Tek Thlar Kussey Keo District, Phnom Penh Tel: 855 23 – 368 388 / 368 389 Fax: 855 23 – 368 398 E-mail: gennon_cbd@online.com.kh
19.	Hotel Cambodiana Mr. Michel Horn Managing Director	Singapore	Hotel	313 Sisowath Quay, Phnom Penh Tel: 855 23 – 426 288 855 23 – 218 189 Fax: 23 – 426 290/426 392 E-mail: luxury@hotelcambodiana.com.kh marketing@hotelcambodiana.com.kh Web: www.hotelcambodiana.com
20.	Hotel Intercontinental Phnom Penh Mr. Edwin Bucher General Manager	Thailand and Cambodia	Hotel	No. 296 Mao Tse Tong Boulevard Phnom Penh Tel: 855 23 – 424 888 855 16 – 924 888 Fax: 855 23 – 424 910 E-mail: edwin_bucher@interconti.com phnompenh@interconti.com

21.	Hotel Le Royal Mr. Stephan Gnaegi General Manager	Singapore	Hotel	# 92, Phnom Penh Tel: 855 23 – 981 888 855 12 – 931 271 Fax: 855 23 – 981 168 E-mail: emailus.leroyal@affles.com
22.	Indochina Research Limited Mr. Tim Smyth Managing Director	Australia	Marketing research & consultant services	No. 9 Mao Tse Tung Boulevard Phnom Penh Tel: 855 23 – 215 184 / 362 753 855 12 – 810 594 Fax: 855 23 – 215 190 E-mail: tsmyth@irl.com.kh
23.	Indochine Insurance Mr. Philippe Lenain Managing Director	France	Insurance	No. 55 Street 178, Phnom Penh Tel: 855 23 – 210 622 855 12 – 821 320 Fax: 855 23 – 210 501 E-mail: plenain@indochine.com.kh Web: www.indochine.net
24.	June Textiles Co., Ltd Mr. Lee Thai Khit Managing Director	Malaysia	Garments	Russian Boulevard, Borei 100 Khnong, Sangkat Tek Thla, Khan Russey Keo, Phnom Penh Tel: 855 23 – 365 288 / 883 338 H/p: 855 12 – 833 338 Fax: 855 23 – 363 398 / 881 238 E-mail: junetex@camnet.com.kh tklee@everyday.com.kh
25.	Jupiter Power Asia Co., Ltd Mr. Sok Seila President	United States and Cambodia	Power plant	#777Eo, Kampuchea Krom Boulevard Phnom Penh Tel: 855 23 – 884 777/881 891 Fax: 855 23 – 881 892 E-mail: JUPITER@online.com.kh
26.	King First Industrial Co., Ltd Mr. Thomas Lo General Manager	Taiwan Province of China	Garments	B Seat, Group 3, Road 15, Sangkat Toul Sang Ke, Khan Russey Keo, Phnom Penh Tel: 855 23 – 725 791 855 12 – 932 166 Fax: 855 23 – 723 266 / 890 310 E-mail: king1st@online.com.kh
27.	KPMG Mr. David King Director	United States	Accounting, taxation and auditing services	No. 2 Street 208, Phnom Penh Tel: 855 23 – 216 899 Fax: 855 23 – 216 405 / 217 279 E-mail: kpmg@bigpond.com.kh
28.	Kuehne & Nagel (Cambodia) Mr. Ngjin Monidera General Manager	Switzerland	Logistics	Olympic Motor Bldg, 173 Nehru Boulevard Tel: 855 23 – 881 654 / 884 875/6 855 12 – 820 205 Fax: 855 23 – 881 656 E-mail: ngjin.monidera@kuehne-nagel.com
29.	M&V International Manufacturing Ltd. Mr. Thomas Keong Managing Director	Macao (China)	Garments	#754, Sangkat Chak Angre Krom, Khan Meanchhey, Phnom Penh Tel: 855 23 – 425 043 / 425 041/425 010 Fax: 855 23 – 425 001 E-mail: info_camb@mvtintl.com
30.	Manhattan Textile and Garment Corp Mr. Larry Kao General Manager	United States	Garments and textiles	# 62, Street 348, Sangkat Toul Svay Prey II Khan Chamkarmon, Phnom Penh Tel: 855 23 – 721 000 855 12 – 903 399 Fax: 855 23 – 721 198 E-mail: larrykao@medtecs.com.kh
31.	MCC Transport Singapore Pte. Ltd. Mr. Preben Hartvig Andersen Senior owner's representative	Singapore	Shipping and transport	No. 26, Hotel Cambodiana Phnom Penh Tel: 855 23 – 216 744 / 216 745 Fax: 855 23 – 217 843 / 213 843 E-mail: pnhtsmng@mc.com.sg

32.	Micasa Hotel Mr. Mike Lee General Manager	Singapore	Hotel	# 313, Sisowath Quay, Phnom Penh Tel: 855 23 – 214 555 Fax: 855 23 – 213 071 / 217 111 E-mail: reservation@micasa.com.kh Web: www.cambodia.micasahotel.com
33.	Mighti-Spectra knitting Factory Co., Ltd Mr. Wong Man Sang Director	United Kingdom	Knitting	National Road No 6A, Phum Bakheng Khum Prelab, Srok Russey Keo, Phnom Penh Tel: 855 23 – 219 666 Fax: 855 23 – 219 658 E-mail: mighti@bigpond.com.kh
34.	Mong Reththy Investment Cambodia Oil Palm Co., Ltd. Oknha Mong Reththy General Director	Republic of Korea and Cambodia	Palm oil plantation	No 1525, Preah Norodom Boulevard Phnom Penh, Cambodia Tel: 855 23 – 211 065 / 211 117 Fax: 855 23 – 216 496 E-mail: mrtgroup@bigpond.com.kh Web: http://www.mongreththy.com
35.	Muhibbah Engineering (Cambodia) Co. Ltd Oknha Khieng Hann Senior Director	Malaysia and Cambodia	Construction engineering	# 315, Mao Tse Tung Boulevard Phnom Penh Tel: 855 23 – 367 988 / 883 366 Fax: 855 23 – 366 888 E-mail: mec@muhibbah.com.kh Web: www.muhibbah.com
36.	Nestlé Dairy (Cambodia) Ltd Mr. Bertrand J. Sigwalt General Manager	Switzerland	Food and beverage products	# 1748, Road National 5, Phnom Penh Tel: 855 23 – 430 180/ 1 855 12 – 820 720 Fax: 855 23 – 430 171 E-mail: Bertrand.Sigwalt@nestle.com.kh
37.	Pak Shun Knitting Factory Co., Ltd Mrs. Sam Yu General Manager	Hong Kong (China)	Knitting	National Road No 2, Sangkat ChakAng Re Krom, Khan Mean Chey Phnom Penh Tel: 855 23 – 425 688 / 366 366 Fax: 855 23 – 425 000 / 363 515 E-mail: pakshun@online.com.kh
38.	PCCS Garment Ltd Mr. Tan Keat Chong General Manager	Malaysia	Garments	Federation of Russia Boulevard Sangkat Tek Thla, Khan Russey Keo Phnom Penh Tel: 855 23 – 882 138/982 422 855 12 – 908 168 Fax: 855 23 – 982 477 E-mail: pccsgl@bigpond.com.kh kctan@pccsgroup.net
39.	President Foods (Cambodia) Co., Ltd Oknha Kong Triv Mr. Su Chai Ratanajajaroen Director	Cambodia and Thailand	Instant noodles	Phum Mor, Road Chamkar Doung, Sangkat Dangkor, Phnom Penh Tel: 855 23 – 363 987 Fax: 855 23 – 364 688 E-mail: N/A
40.	Q.M.I. Industrial Co., Ltd Mr. Kong Sang General Manager	Taiwan Province of China and Cambodia	Garments	Phum Trapang Pout, Sangkat Chom Chao Khan Dangkor, Phnom Penh Tel: 855 12 – 829 888 Fax: 855 23 – 890 309 / 890 310 E-mail: qmi_daisy@online.com.kh
41.	Roo Hsing Garment Co. Ltd Mr. Kan Chin Chen Manager	Taiwan Province of China	Garments	New Road, Sangkat Toul Sangke, Khan Russey Keo, Phnom Penh Tel: 855 23 – 430 152 855 23 – 367 701/2 Fax: 855 23 – 430 153 E-mail: jackychen@rooshing.com

42.	Sabrina Garment Manufacturing Corp. Mr. Steed Cheung General Manager	China	Garments	Phum Trapeang Russey, Khum Sambo, Srok SamrongTong, Kompong Speu Tel: 855 23 – 367 785/6 855 16 – 991 209 Fax: 855 12 – 844 420 E-mail: sabrina@mobitel.com.kh
43.	Sam Han Cambodia Fabric Co., Ltd. Mr. Kim Do Sam President	Republic of Korea	Knitting	#68Eo, Phum Toul Sang Ke, Sangkat Toul Sang Ke, Khan Russey Keo Phnom Penh Tel: 855 23 – 368 287 Fax: 855 23 – 368 297 E-mail: samhan@everyday.com.kh
44.	SBC- Singapore Banking Corporation Ltd Mr. Kun Swee Tiong Andy Chief Executive Officer	Singapore	Banking	No. 68, Samdech Pan, Street 214 Phnom Penh Tel: 855 23 – 217 771/2 217 737/377 Fax: 855 23 – 212 121 E-mail: info@sbc-bank.com Web: www.sbc-bank.com
45.	SCA (Société Concessionnaire de l'Aéroport) Mr. Bruno Blanc-Fontenille General Manager	France, Malaysia and Cambodia	Phnom Penh and Siem Reap International Airports Concession	Phnom Penh International Airport P.O.Box 1256, Phnom Penh Tel: 855 23 – 890 022 855 23 – 890 523/4 Fax: 855 23 – 890 395 E-mail: bruno.blanc-fontenille@sca.com.kh Web: www.cambodia-airports.com/
46.	SGS Cambodia Liaison Office Mr. Malcolm Reid Managing Director	Switzerland	Customs inspection services	No. 368, E0 Street 163, ChamkarmonOlympic, Phnom Penh Tel: 855 23 – 210 730 to 210 736 Fax: 855 23 – 210 737 E-mail: sgs.cambodia_lo@sgs.com
47.	Shandong Demian group (Cambodia) Textile Co., Ltd. Mr. Zhou Rong Shui General Manager	China	Textile	# 168, Street 41, Sangkat 1, Khan Mittapeap Sihanoukville Tel: 855 23 – 884 806 855 34 – 939 650 Fax: 855 34 – 939 652 E-mail: rongsh-3@163.com
48.	Shell Company of Cambodia Ltd Mr. Nestor Tan Country Manager	Netherlands	Petroleum distribution	# 216, Norodom Boulevard, Sangkat Tonle Bassac, Khan Chamcarmon Phnom Penh Tel: 855 23 – 215 180 855 12 – 813 228 Fax: 855 23 – 215 170 P.O.Box 49 E-mail: nestor.tan@shell.com.kh
49.	Shoe premier (Cambodia) Co., Ltd Mr. Zheng Xian Jiang General Manager	Australia, Hong Kong (China) and Portugal	Footwear	Phum Toul Sang Ke, Sangkat Toul Sang Ke Khan Russey Keo Phnom Penh Tel: 855 23 – 982 212 Fax: 855 23 – 982 313 E-mail: shoepremier@bigpond.com.kh
50.	Siemens AG Rep. Cambodia Mr. Wolfgang Kitz Managing Director	Germany	Telecommunications	1st Floor, # 15, Street 214, Sangkat Boeung Reang, Khan Daun Penh Phnom Penh Tel: 855 23 – 216 990 M/p: 855 12 – 806 777 Fax: 855 23 – 216 991 E-mail: siemens.cambodia@siemens.com.kh

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52.	Suntex Pte Ltd Mr. Chen Wai Pan General Manager	Singapore	Garments	No. 8, Street Veng Sreng, Tel: 855 23 – 424 778 / 985 688 Fax: 855 23 – 424 777 / 424 799 E-mail: suntexat@online.com.kh wilson@oceanskyintl.com
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54.	Tack Fat Garment Cambodia Ltd Mr. Francis So Managing Director	Hong Kong (China)	Garments	#1159, National Road No 2, Chak Angre Leu Khan Meanchhey, Phnom Penh Tel: 855 23 – 367 888 / 300 682 / 300 650 / 300 681 Fax: 855 23 – 362 828 E-mail: francis@tackfat.com.kh tfcam@bigpond.com.kh
55.	Tai Yang Enterprises Co., Ltd Ms. Kiki Wang Director	Taiwan Province of China	Garments	National Road No 4, Phum BekChan, Khum BekChan, Srok Ang Snoul, Kandal Province Tel: 855 23 – 367 897 855 23 – 367 894/5 Fax: 855 23 – 367 897 E-mail: kiki@tai-nan.tw
56.	Tilleke & Gibbins and Associates Mr. Bretton G. Sciaroni President Partner	United States	Law firm	No. 56 Sotheaeros Boulevard Phnom Penh Tel: 855 23 – 362 670 855 12 – 802 274 Fax: 855 23 – 362 671 E-mail: zirconium@bigpond.com.kh tga@bigpond.com.kh
57.	TOTAL Cambodge Mr. Alexander Kislanski General Manager	France	Petroleum distribution	2 nd Fl, Hong Kong Centre Phnom Penh Tel: 855 23 – 218 630 855 12 – 813 454 Fax: 855 23 – 217 662 E-mail: alexandre.Kislanski@total.com.kh
58.	Victory Long Age Cambodia Ltd. Mr. Tsen Wen Pin General Manager	Taiwan Province of China	Footwear	New Road, Sangkat Kakab, Khan DangKor Phnom Penh Tel: 855 23 – 890 077 Fax: 855 23 – 890 055 E-mail: longage@online.com.kh
59.	Wing Tai Apparel (Cambodia) Ltd Mr. Wan Kwok Ming General Manager	United Kingdom	Garments	National Road No 5, Phum Samaki, Khum Russey Keo, Srok Russey Keo Phnom Penh Tel: 855 23 – 428 534 / 428 669 Fax: 855 23 – 368 199 E-mail: alanwan@online.com.kh
60.	YGM Ltd Ms.K.Y. Ling General Manager	Hong Kong (China)	Garments	National Road No 4, Phum Tek Thlar Sangkat Tek Thlar, Khan Russey Keo Phnom Penh, Tel: 855 23 – 883 183 855 12 – 980 168 Fax: 855 23 – 890 393 E-mail: ky.ling@ygm.com.hk

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 Council for the Development of Cambodia (CDC)
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 Wat Phnom, Phnom Penh
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 Fax: 855 23 – 428 426/428 953/4
 E-Mail: cdc.cib@bigpond.com.kh
 Website: www.cambodiainvestment.gov.kh

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 Forestry and Fisheries
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 Tel: 855 23 – 211 351/2
 855 23 – 361 933
 Fax: 855 23 – 217 320/215 982
 – 362 898
 E-mail: icomaff@camnet.com.kh

Ministry of Commerce
 No. 20A-B Norodom Boulevard Phnom Penh
 Tel: 855 23 – 725 585/211 029/
 – 426 024
 Fax: 855 23 – 426 396/426 396
 E-mail: siphana@moc.gov.kh
 Web: www.moc.gov.kh

Ministry of Economy & Finance
 No. 60 Street 92
 Phnom Penh
 Tel: 855 23 – 428 960 / 428 634/5
 – 428 960/430 169
 Fax: 855 23 – 427 798
 E-mail: mfc@hotmail.com

Ministry of Environment
 No. 48 Sihanouk Boulevard
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 Tel: 855 23 – 427 844/213 908
 H/P: 855 16 – 821 180
 855 12 – 885 797
 Fax: 855 23 – 122 540
 Email: moecabinet@camnet.com.kh
 Website: www.camnet/moe.kh

Ministry of Foreign Affairs and
 International Cooperation
 Sisowath Quay, Corner Street 240
 Phnom Penh
 Tel: 855 23 – 212 442 / 216 146/
 – 214 441
 Fax: 855 23 – 216 144
 E-mail: mfaicasean@bigpond.com.kh
 Website: www.mfaic.gov.kh

Ministry of Industry, Mines and Energy
 No. 45 Norodom Boulevard
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 Tel: 855 23 – 723 077/724 477
 Fax: 855 23 – 428 263
 Email: industry@camnet.com.kh

Ministry of Land Management,
 Urban Planning and Construction
 No. 771 773, Monivong
 Phnom Penh
 Tel: 855 23 – 215 660 / 215 659
 – 215 278
 Tel & Fax: 855 23 – 426 059
 855 23 – 723 389
 Fax: 855 23 – 215 277/217 035
 Email: im.c.lim@camnet.com.kh

Ministry of Planning
 No. 386 Monivong Boulevard
 Phnom Penh
 Tel: 855 23 – 720 901/2
 – 212 050/205 073
 Fax: 855 23 – 210 944
 – 210 698

Ministry of Public Works and Transport
 No. 106 Norodom Boulevard
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 Tel: 855 23 – 427 845 / 724 213
 – 427 397
 Fax: 855 23 – 723 093
 E-mail: slot@camnet.com.kh

Ministry of Social Affairs, Labour,
Vocational Training & Youth
No. 68 Norodom Boulevard
Phnom Penh
Tel: 855 23 – 725 191/724 091
Fax: 855 23 – 724 091/726 086
– 427 322/217 322
E-mail: sakannkeo@yahoo.com

Ministry of Tourism
No. 3 Monivong Boulevard
Phnom Penh
Tel: 855 23 – 212 837
Fax: 855 23 – 213 911 / 213 911
– 427 130/426 877
Email: tourism@camnet.com.kh
Website: www.mot.gov.kh

Ministry of Water Resources and Meteorology
No. 47, Norodom Boulevard
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Tel: 855 23 – 724 289 / 724 327
Fax: 855 23 – 426 345
E-mail: planning@cttnet.com.kh

Office of Council of Ministers
No. 38 Russian Federation Boulevard,
Phnom Penh
Tel: 855 23 – 212 708 / 725 103
– 427 935
Fax: 855 23 – 726 127
Web: www.bigpond.com.kh/council-of-jurists

Other public institutions

APSARA Authority
187, Street Pasteur
Sangkat Chaktomok,
Khan Daunpenh, Phnom Penh
Tel: 855 23 – 720 315
– 990 185

Department of Customs and Excise
Norodom Boulevard
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Tel: 855 23 – 214 065 / 725187 /
– 725 157
E-mail: kunnhem@yahoo.com

Municipality of Phnom Penh
No. 69, Phreah Monivong Boulevard Phnom Penh
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– 428 627
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E-mail: phnompenhcity@gov.com
Web: www.phnompenh.gov.kh

National Bank of Cambodia
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Tel: 855 23 – 722 221 / 725 063
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Australian Business Association of Cambodia
No. 9, Mao Setong Boulevard
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British Association of Cambodia
Pricewaterhousecoopers
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Malaysia Business Council
C/o Embassy of Malaysia, Villa 5 Street 242,
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Tel: 855 23 – 216 176 / 177
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National Association of Tourism Enterprises
No.86Eo, Street 51
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 Cambodia Resident Mission
 No. 93, Norodom Boulevard Phnom Penh
 Tel: 855 23 – 215 805-6
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Multilateral Investment Guarantee Agency (MIGA)
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The World Bank
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Relevant websites

Council for the Development of Cambodia (CDC),
www.cambodiainvestment.gov.kh

Council of Ministers,
www.bigpond.com.kh/council-of-jurists

Ministry of Commerce,
www.moc.gov.kh

Ministry of Foreign Affairs and International Cooperation,
www.mfaic.gov.kh

Ministry of Tourism,
www.mot.gov.kh

National Institute of Statistics,
www.nis.gov.kh

The Cambodia Yellow Pages,
www.yellowpages.com.kh

Embassy of Australia in Cambodia,
www.dfat.gov.au

Embassy of Germany in Cambodia,
www.germanembassy-cambodia.org

Embassy of Japan in Cambodia,
www.kh.emb-japan.go.jp

Embassy of France in Cambodia,
www.diplomaties.gouv.fr

Embassy of the Republic of Korea in Cambodia,
www.korea.net

Embassy of Singapore in Cambodia,
www.mfa.gov.sg/phnompenh

Embassy of the United States in Cambodia,
www.usembassy.state.gov/posts/cb1

Embassy of Cambodia in the United States,
www.embassy.org/cambodia/

List of public holidays in 2003

The official Cambodian holidays for 2003 are as follows:

Dates	Public holidays ¹
1 January	International New Year
7 January	Victory Day on the Genocidal Regime
8 March	International Women's Day
14–16 April ²	Khmer New Year
1 May	International Labour Day
15 May ²	Buddha's Birth Day
19 May ²	Royal Ploughing Day
1 June	International Children's Day
18 June	Queen's Birthday
24 September	Constitution Day and Coronation Day
25 September ²	Pchum Ben (Offering to monks)
23 October	Paris Peace Accord Day
30 October–1 November	King's Birthday
7–8 November ²	Water Festival
9 November	Independence Day
10 December	International Human Rights Day

¹ If a holiday falls on a Saturday or a Sunday, the Government allows its employees to take a holiday on the following day.

² The dates of these public holidays vary from year to year according to the lunar calendar.

Business hours

Government working hours: 7:30 a.m. to 12:00 p.m. and 2:00 p.m. to 5:00 p.m., Monday to Friday

Private-sector working hours: 8:00 a.m. to 5:00 p.m., Monday to Saturday

Banking hours: 8:00 a.m. to 3:30 p.m., Monday to Friday 8:00 a.m. to 12:00 p.m., Saturday

Shopping hours: Most shops open from 7:00 a.m. to 7:00 p.m., some up to 10 p.m.;

supermarkets open from 9:00 a.m. to 9:00 p.m., 7 days a week

Source: UNCTAD.

Appendix 5

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Privatization

Overview of current status of State-owned enterprises

Controlling ministry	SOEs to be retained	SOEs to be privatized	SOEs already privatized or liquidated				
			Leased	Joint venture	Sold	Closed	Total
Agriculture	0	13	22	2	0	0	24
Commerce	0	3	20	3	1	1	24
Culture	1	0	4	0	2	2	6
Health	1	0	2	0	0	0	2
Industry	1	2	68	5	0	0	73
Public works and transport	8	6	15	1	4	4	21
Post and telecommunications	0	0	2	0	0	0	2
Council of Ministers	1	0	0	1	1	1	2
Other	0	0	6	0	0	0	6
Total	12	24	139	12	8	8	160

Source: IMF (1999), table 29, p. 32.

Public enterprises not yet privatized (as of May 2003)

Name of company	Sector/production
1. Agriculture Input Company	Trading of agricultural inputs
2. Calmette Hospital	Health services
3. Cambodia Post	Postal services
4. Cambodia Telecommunication	Telecommunications
5. Electricité du Cambodge (EDC)	Electricity generation and utility services
6. Green Trade Co. Ltd	Trading
7. National Institute of Management (NIM)	Education
8. National Radio of Cambodia	Media
9. Phnom Penh Autonomous Port	Port services
10. Phnom Penh Water Supply	Drinking water
11. Royal Cambodia Railway	Railway transport
12. Royal University of Agriculture	Education
13. Rubber Plantation Companies	Rubber plantations
14. Sihanoukville Autonomous Port	Port services
15. Television of Kampuchea (TVK)	Television and media services
16. University of Phnom Penh	Education
17. University of Fine Arts	Education

Source: UNCTAD, based on various sources.

Appendix 6

Major laws and regulations affecting foreign investment

(a) Investment

Name	Area
Law on Amendment of the Law on Investment of the Kingdom of Cambodia (2003) (revision of the Investment Law of 1994)	Law governing investment
Sub-Decree No. 053 ANK-BK on the Amendment of Sub-Decree No.88 ANK-BK dated 29 December 1997 on the Implementation of the Law on Investment of the Kingdom of Cambodia (1999)	Revised general rules governing the implementation of the Law on Investment
Sub-Decree No.70 ANK-BK on the Amendment of the Sub-Decree No.51 on the Organization and Functioning of the Council for the Development of Cambodia (CDC) (2001)	Revised rules on the organization and functioning of the CDC

(b) Trade, taxation, finance, insurance and audit

Law on the Commercial Code and Commercial Registration (1995)	Law governing the registration of commercial activities
Law on Chambers of Commerce (1995)	Law governing the function and activities of chambers of commerce
Law on Amendment of the Law on Taxation (2003) (revision of the Taxation Law of 1997)	Law governing taxation, including the functions and management of taxation activities
Law on Currency Exchange Control (1996)	Law governing foreign exchange
Law on Amendment of the Law on the Commercial Code and Commercial Registration (1999)	Amended law governing the commercial code and commercial registration activities
Law on Banking and Financial Institutions (1999)	Law governing banking and other financial institutions
Law on Insurance (2000)	Law governing insurance
Law on Corporate Accounts, their Audit and the Accounting Profession (2002)	Law governing audit and accounting

(c) Labour, immigration and citizenship

Labour Law (1997)	Law governing labour-related issues, including work permits for both foreigners and locals, terms and conditions for employing apprentices, labour disputes, labour unions and worker representation
Law on Immigration (1994)	Law governing immigration
Nationality Law (1996)	Law governing citizenship

(d) The environment, forestry, construction and land

Law on Environmental Protection and Natural Resources Management (1996)	Law governing environmental protection and natural resources
Forestry Law (2002)	Law governing forestry management, including monitoring and regulatory compliance
Law on Urbanization and Construction (1994)	Law governing urbanization and construction, including regulatory compliance
Land Law (2001)	Law governing the use of land, including ownership, and land concessions

(e) Trademarks

Law on Trademarks and Acts of Unfair Competition (2002)	Law governing trademark protection and regulation related to unfair business competition
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(f) Contracts and arbitration

Decree Number 38 (Referring to Contracts and Other Liabilities) (1988)	Contract law, covering the validity and forms of contracts, effects and interpretation of contracts, and the statute of limitation
Law on the Implementation of the New York Convention on the Recognition and Enforcement of Foreign Arbitration Award (2001)	Law on ratification, recognition and enforcement of the convention, which Cambodia signed in 1960

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