

## Section 2. Economy

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### 1. Economy of Cambodia

#### 1-1 Transition to market economy

Cambodia's civil war came to an end when the Paris Peace Accord was signed in October 1991. Elections were held in May 1993 under the auspices of the United Nations Transitional Authority in Cambodia (UNTAC), after which Cambodia seemed to enjoy relative political stability. After the election, the Constitution of the Kingdom of Cambodia was promulgated in September 1993, according to the statement of which Cambodia proceeded with economic institutional changeover from a centrally planned economy to a market economy.

Manufacturing in Cambodia in the past was conducted mostly on a very small-scale, informal basis where food processing, brick making and timber processing played leading roles. Cambodia, nevertheless, went through a great deal of structural changes in the past decade or so after declaring a market economy. The following is an outline, as seen in a historical order, of the changes in Cambodia's economic structures.

- (i) Starting from 1993 on: A changeover from a centrally planned economy to a market economy.
- (ii) After 1994: The economy became highly dependent on the external assistance provided by international aid agencies.
- (iii) After 1995: The economy showed steep growth led by labor-intensive industries, especially garment manufacturing.
- (iv) After 1997: The economy was daunted by political unrest and the fallout from the Asian financial crisis.
- (v) After 1999: Integration into the regional economy by seeking membership in various economic associations such as the ASEAN.

At the time of the initial attempt of a changeover from a centrally planned economy to a market economy, foreign residents who came to Cambodia taking part in such missions as the UNTAC generated the demand for the everyday commodities. After that, Cambodia's economy became heavily dependent on external assistance that it received from international aid agencies and

other donors. And from then on, Cambodia's currency system became highly affected by the U.S. currency.

In Cambodia, a full-scale transition of a centrally planned economy to a market economy started after August 1994 when the *Law on Investment* was promulgated, with which the Royal Government intended to induce foreign companies to invest in Cambodia. Foreign companies, as a result, increased investments in garment manufacturing and such industries that were labor-intensive. Major investors at this time were overseas Chinese living in Taiwan, Hong Kong and other ASEAN countries that saw a comparative advantage in Cambodia's low land prices and low labor costs. Especially after 1997 when Cambodia obtained the most favored nation (MFN) status from the United States and, thus, obtained the General System of Preference for its export products, Cambodia's garment export to the States leapt high, which contributed to its high economic growth.

Cambodia's economic development came to a temporary halt in July 1997 when both internal and external factors hit the economy hard. Political uncertainties and the Asian Financial Crisis daunted the country. This was the period when international aid agencies temporarily suspended their aid programs, private companies slacked off their production and sales activities, and foreign investors refrained from committing new investments.

After 1999, Cambodia's economy regained its stability and now is showing healthy growth. And it seems obvious that membership in ASEAN (in April 1999) and the ASEAN Free Trade Area (AFTA) have integrated Cambodia's economy globally and regionally. In order to strengthen the regulatory framework for business organizations in a free market, the Royal Government of Cambodia enacted the Law bearing upon commercial regulations and the commercial register and the Law of chamber of commerce as well as prepared the economic plans. Along the same lines, the Royal Government also aims to privatize the existing state owned enterprises (SOEs) by means of disposal, either by sales or lease.

**Table 2-1 Cambodia's Main Macro-economic Indicators**

	1994	1995	1996	1997	1998	1999
Real GNP growth rates (%)	5.7	7.6	7.0	1.0	1.0	4.3
GDP (billion riels)	6,131	7,200	8,250	9,100	10,900	11,960
GDP (US\$ millions)	2,387	2,924	3,124	3,033	2,868	3,132
GDP p.c. (US dollars)	241	284	292	276	252	268
Consumer price inflation rates (%)	-	9.1	7.1	9.2	18.6	5.2
Exchange rate (riels per dollar)	2,569	2,462	2,644	3,000	3,800	3,819

Source: Ministry of Economy and Finance (2000)

## 1-2 The present state of the economy

After Cambodia began its attempt for a changeover to a market economy, there was relatively high economic growth in which real GDP growth rates reached 5.7%, 7.6% and 7.0% in 1994, 1995 and 1996 respectively.

Several factors contributed to this economic success such as i) a rapid increase, in 1995, in rice production, which was the main product that supported this agricultural country, ii) increased amounts of foreign direct investment to Cambodia's labor-intensive industries such as garment manufacturing, and the fact that it, more or less, set Cambodia's industrialization process on its way, and iii) a constant inflow of external assistance provided by international aid agencies, which has been contributing to the economy both directly and indirectly. Cambodia, nevertheless, is listed among the least developed countries, with its GDP per capita still under US\$300, which is far below the level of fast-developing fellow ASEAN countries.

As for the more recent state of Cambodia's economy, it slowed in 1997 and 1998 when the GDP growth rates touched bottom, at 1.0%. The cause of this economic slowdown can be attributed to i) political unrest within the Kingdom, ii) temporary suspension of external assistance due to the political instability, and iii) the impact of the Asian Financial Crisis. Cambodia, nevertheless, resumed its economic growth in 1999 at 4% and was projected to reach 5.5% in 2000. Inflation has been brought down and the national currency enjoys a relatively stable exchange rate with the US dollar (see table 2-1).

## 1-3 The features of Cambodia's economy

Cambodia's economy used to center around such industries as traditional farming, timber processing, and handicrafts. Present day Cambodia, in contrast, has come to be known as an economy of its own structures,

induced by the impact of such factors as external assistance and foreign direct investment. Some of the features that shape Cambodia's unique economic structures are as follows:

- (i) Two-tier system, where both traditional and modern ways of industry exist hand in hand
- (ii) Agricultural products with comparative advantage; Angkor temple complex as an asset to Cambodia's tourism
- (iii) Garment industry leading export-oriented labor intensive industry
- (iv) High dependency on the external assistance provided by international aid agencies
- (v) Rapid progress in terms of liberalization, deregulation and globalization of the economy

The most peculiar aspect of Cambodia's economic structure is the existence of a two-tier system in which both the traditional ways of industry, led by the indigenous people, and the modern ways of industry, led mostly by overseas Chinese, function hand in hand. Cambodia is blessed with its most outstanding historical resources, namely the Angkor temple complex, as well as its agricultural products that have comparative advantages. As for the latter, garment manufacturing, being an export oriented labor-intensive industry, became a leading industry. International aid agencies, in addition, had great impact on Cambodia's economy, not only by implementing assistance programs but also by taking up residence in the country. Staffs and families of these agencies, in fact, contribute greatly to the increasing demand for Cambodia's everyday commodities. These international aid agencies, as well, supervised Cambodia's transition to a market economy, as a result of which Cambodia made great progress in liberalization, deregulation and globalization of its economy.

## 1-4 Dependence on foreign capital inflows

The Royal Government of Cambodia, like govern-

**Table 2-2 National Savings and Investments**  
(percentage ratio to GDP)

(Unit: %)

	1996	1997	1998	1999
National Investments	13.5	13.0	12.9	15.8
Public sector	5.9	4.8	5.7	6.2
Private sector	7.6	8.2	7.3	9.6
National Savings	7.4	11.7	11.6	11.7
Public sector	-1.2	0.7	-0.3	1.8
Private sector	8.7	11.0	11.9	9.9

Source: IMF (2000)

**Table 2-3 International Assistance**  
(officially announced)

(Unit: billions of riels)

	1995	1996	1997	1998
Budgetary support	81.8	150.0	95.9	0.8
Grants	42.1	50.0	46.2	0.8
Credits	39.7	100.0	49.7	0.0
Project assistance	450.7	467.0	350.8	234.8
Grants	345.7	406.7	244.6	71.9
Credits	105.0	160.3	106.2	162.9

Source: IMF (1999)

**Figure 2-1 Cambodia's Industrial Structure**

Primary sector (43%)			Secondary sector (17%)		Tertiary sector (40%)	
Rice (12%)	Livestock (12%)	Other (19%)	Manufacturing (7%)	Other (10%)	Commerce (13%)	Other (27%)

Source: Ministry of Economy and Finance (1999)

ments of other developing countries, needs to solve the large gap in capital resources, in which Cambodia's total amount of investments and public expenditures overrides that of the private savings and tax revenues (see table 2-2). National savings of Cambodia, as seen as a percentage of GDP, is still hovering around the lower level compared with those of surrounding countries such as Vietnam, the cause of which can be attributed to Cambodia's low levels of per capita income as well as the fact that its financial institutions are still at an early stage of development. Most of the people who have money to save are apt to hold them in US dollars and gold at home rather than deposit them in less reliable banks. It is usually said that the rate of national savings to GDP grows hand in hand with both the increase in GDP growth rates and the drop in inflation rates, and Cambodia as observed in 1996, was no exception to this rule. In 1997, however, it witnessed a drop in its national savings, due to the impacts of political unrest and other unexpected incidents, which inevitably pulled Cambodia's national savings rate down to its lowest.

The scale of Cambodia's national investments, seen as a rate to its GDP, is constantly larger than that of its national savings, leaving permanently behind a great gap between the savings and investments.

In addition to the gap existing between private sector savings and investments, Cambodia faces a consistent current account deficit as an inevitable result of the national budget deficits (see sub-section 3 National Budget for more details). Accordingly, the foreign currency deficit must be financed by external monetary sources.

Cambodia, similar to most other developing countries, depends on external assistance in the form of budgetary support and direct project assistance in order to finance these deficits-through international aid agencies and bilateral donors, the scale of which amounts to about 40% of Cambodia's national revenue (see table 2-3). As for the lack of capital resources in the private sector, recent increases in the influx of foreign direct investment are filling the financial gap.

At least for some years to come, it seems Cambodia's financial structure will maintain the status quo, in which it continues to finance the gap between national savings and national investments by external assistances and foreign direct investments.

## 2. Industry

### 2-1 Industrial structure

Cambodia's industrial structure can be grasped by figure 2-1, according to which the GDP ratio of primary, secondary and tertiary sectors in 1998 were 43%, 17% and 40% respectively.

Industry breakdowns (see table 2-4) indicate that, among the primary industries, the GDP ratios of rice, livestock, and other agricultural products were 12.4%, 11.7%, and 7.9% respectively. In the secondary sector, manufacturing constituted 6.9% and construction 7.6% of GDP. As for the tertiary sector, the GDP ratios of wholesale and retail, transportation and telecommunications, and real estate were 12.7%, 7.4%, and 5.5% re-

**Table 2-4 GDP by Industry**

(Unit: billions of riels)

Sector	1994	1995	1996	1997	1998	Ratio
Primary Sector	2,640	3,131	3,491	3,880	4,606	42.8%
Rice	797	1,033	1,129	1,188	1,331	12.4%
Other Crops	466	552	635	712	848	7.9%
Rubber	74	79	89	112	169	1.6%
Livestock	675	797	920	1,043	1,259	11.7%
Fisheries	207	242	271	289	338	3.1%
Forestry	421	428	447	536	661	6.1%
Secondary Sector	997	1,195	1,510	1,585	1,840	17.1%
Mining	106	127	161	164	187	1.7%
Manufacturing	356	406	488	579	739	6.9%
Electricity and Water	44	51	65	79	97	0.9%
Constructions	491	612	797	762	817	7.6%
Tertiary Sector	2,494	2,874	3,249	3,636	4,304	40.0%
Transportation & Telecommunications	393	444	524	616	792	7.4%
Wholesale & Retail	779	914	1,048	1,167	1,366	12.7%
Hotels & Tourism	113	140	183	200	218	2.0%
Banks & Insurance, etc.	50	56	63	71	80	0.7%
Education & Health Services	307	365	361	402	464	4.3%
Real Estate	369	408	460	508	596	5.5%
Other	483	547	610	671	787	7.3%
GDP	6,131	7,200	8,200	9,100	10,750	100.0%

Source: Ministry of Economy and Finance (1999)

spectively.

## 2-2 Primary sector

Rice production has traditionally been the industry that contributed the most to Cambodia's agriculture. Rice was exported during the 1960s-before its production dropped dramatically in 1970 when General Lon Nol assumed power and civil war started, after which, for a quarter of a century, annual rice production hovered around the level between 220 and 230 tons. After 1995, however, Cambodia's annual rice production recovered to the 340 ton level. This scale was outstanding but per hectare productivity was not even close to the level of other ASEAN countries, which were producing between 2.5 and 3.5 tons per hectare at the time.

Agricultural products other than rice include soybeans, corn, cassava, and palm sugar. Plantations of rubber and other products were established under the French colonial rule. Livestock such as beef cattle, pigs and poultry are raised for food, and oxen and water buffalo are raised for farming.

The gross output of agriculture, forestry and fisheries grew by 6.4% in 1995, after which its growth remained in a range of 1 to 2%. Rice production was the sole

cause of this fluctuation, ; both the quantity and price of rice increased rapidly in 1995 and dropped thereafter, when the growth of output and prices of other agricultural products and livestock continued to show high growth rates (around 5% per annum).

Major fishing grounds in Cambodia are the delta of the Mekong River, Tonle Sap (Great Lake) and Kampot province (at the Gulf of Thailand). The annual catch hovers around 100,000 tons, which indicates a slight but continuous decrease in terms of real GDP.

As for forestry, private enterprises run raw timber felling businesses at the border of Thailand, the products of which are exported to Thailand, et al. Timber felling, however, is becoming the target of criticism, from the point of view of environmental protection, by international aid agencies, et al. Forestry, as a consequence, has been declining in terms of real GDP since 1995.

## 2-3 Secondary sector

After enjoying two-digit growth for three consecutive years between 1994 and 1996, GDP growth rates of Cambodia's secondary sector dropped to a negative 2.9% in 1997, and remained stagnant in the following year, marking only 0.2% growth in 1998. First of all,

one of the main factors that contributed to Cambodia's rapid growth rates during the three years after 1994 was the fact that large numbers of foreign capital firms, especially in garment manufacturing, made inroads into Cambodia during the period. Secondly, construction orders leapt high in these three years as the result of growing orders both from the above mentioned foreign firms that needed to build their manufacturing bases in Cambodia and from external aid agencies in the field of infrastructure development. Thirdly, construction demand for hotels also increased during the period. In 1997, in contrast, economic activities came to a standstill as a result of the political unrest in Cambodia and the freeze of the influx of foreign assistance. Although the manufacturing sector has so far enjoyed high growth, the quotas imposed by the U.S. in January 1999 on Cambodia's textiles, which had enjoyed preferential duties, will inevitably limit the potential growth of the leading garment industry.

Manufacturing in Cambodia, traditionally, was conducted mostly on a very small-scale informal basis, which was centered on such industries as food processing, brick making and timber processing. After 1994, in contrast, large-scale plants also began increasing in numbers as a consequence of increased influx of foreign investment, especially in the area of garment manufacturing. In fact, the statistics, provided by Cambodia's Ministry of Industry, Mines and Energy, show that a total of 790 manufacturers with ten workers or more are already registered as corporate entities. Changes in the number of registered companies indicate that, over the past five years, an average of more than eighty companies have been registered every year. According to the breakdowns of these 790 registered companies into nine different industries, food processing (213 companies), nonferrous metals such as brick-making (202 companies), and garment (198 companies), with the component ratio of 27%, 26%, and 25% respectively, are the major three industries (78% in total). Among the three dominant industries, garment manufacturing is the fastest growing in terms of its company numbers.

Breakdowns by the size of business indicates that the size of 522 registered companies is in the range of ten to forty-nine workers, which implies a component ratio of 66% of the total 790 companies. Such small-scale companies are especially evident in food processing and nonferrous metals, with 181 out of 213 (i.e. 85%) and 187 out of 202 (i.e. 93%) respectively falling into this

category. On the other hand, there are seventeen large-scale business entities (fifteen garment related) with more than 1,000 workers and sixty-one (53 garment related) with over 500 workers. The companies that made inroads to Cambodia during the said period are mostly overseas Chinese living in Taiwan, Hong Kong and other ASEAN countries that saw a comparative advantage in Cambodia's low land prices and low labor costs, motivated, as well, by the fact that Cambodia's exporting products were granted preferential duties after obtaining a most favored nation status from the United States in 1997.

June Textile Co., LTD, a Singapore company and the biggest among the garment manufacturers in Cambodia, has seen its sales figures soar up to an annual total of around US\$27 million, to which the sales of low priced knitwear in the domestic market contributed the most. Jun Textiles is one of the typical labor-intensive enterprises; 3,560 workers, in two shifts, sew garments using 1,070 machines. Perusahaan Chan Shoo Sing Sdn. Bhd. (PCCS), second largest and also in the knitwear business, is of Malaysian capital, established in 1994. PCCS, with 2,560 workers, sells its low priced knitwear especially in the U.S. market, annual sales of which is US\$23 million. Aside from garments, there are fifteen shoe manufacturers located in Cambodia. Each of these shoe companies has at least a hundred workers, and two of them have more than a thousand workers. The Great Dragon Shoes (400 workers), established in 1997 by Taiwan capital, exports low priced women's shoes to those countries that ensure preferential treatment such as the EU countries.

In industries other than garments, there are several large-scale manufacturers such as Kamsa Tobacco (1,200 workers) and British American Tobacco (770 workers) in tobacco business, Cambodian Brewery (800 workers) in beer brewing, SL International (1,120 workers) in timber processing, Modern Plastic Packing (570 workers) in plastic processing, and Thai Boon Rong Cement (650 workers) and Naga Cement (510 workers) in cement processing. Only two (British American Tobacco and Thai Boon Rong Cement) are of indigenous capital.

Location wise, slightly over half of the companies, 398 out of 790 registered companies, are located in Phnom Penh. Outside of Phnom Penh, 112 companies are located in Kandal province. An additional thirty-one companies are located in Sihanoukville, and the rest are

located in various other places. Most of these companies are very small-scale manufacturers in such businesses as food processing and brick-making. As a matter of fact, in areas other than these three major locations, only fifteen companies have over a hundred workers. There are only six companies with over five hundred workers among those located in areas other than the above three: Chung Shing in Kompong Cham province, Jute in Battambang province, and Angkor Garment in Svay Rieng province (all in garments manufacturing), Thai Boon Rong Cement and Naga Cement in Kampot province (both in cement processing), and Mien Lee Heng in Kompong Cham province (which is in timber processing). As for companies with over a thousand workers, there are none.

Mining in Cambodia is carried out on the Thai borders where precious stones such as rubies and sapphires are extracted. An oil field development is also underway through joint venture with foreign companies.

## 2-4 Tertiary sector

Along with the political stability regained after 1994, commercial activities in Cambodia were activated. Distribution, in particular, is booming due to the increased handling of raw materials, intermediate goods and finished products in such market as garments where increasing numbers of foreign investors made inroads.

External assistance in Cambodia is very influential, which is an aspect distinctive to Cambodia's economy. At the time of the 1993 election and in the leading year, as a matter of fact, commercial and service related businesses were in great demand since over ten thousand people related to the UNCTAD mission came to live in Cambodia for more than a year. As a consequence, dollarization of the economy was facilitated by the big influx of US dollars. Even after the election and in the following years, thousands of people working for international aid agencies and NGOs continued to reside in the country, and contributed to the strong demand in merchandise and services.

The tertiary sector, after 1994, witnessed rapid GDP growth for three consecutive years, after which it slowed down to 2.5% in 1997 and recorded negative growth in 1998 at -1.0%. The main factors that caused this decline were political uncertainty, as an internal factor, and the fallout from the Asian Financial Crisis, as an external factor. After Cambodia regained its political

stability from 1999 on, however, tertiary sector businesses started to pick up.

## 2-5 Industrial structure: changes and prospects

Cambodia's GDP growth rates by industry are presented in table 2-5, according to which the average growth rate of the past five years is 2.3% for the primary sector, 7.8% for the secondary sector, and 5.6% for the tertiary sector. The GDP ratio of the primary sector, as a result of this, dropped from about 46% in 1993 to about 43% in 1998, whereas the secondary and tertiary sectors rose from about 15% and 39% respectively in 1993 up to about 17% and 40% respectively in 1998.

Since 1999, Cambodia's industry has been continuously growing and the GDP weight is shifting from the primary sector to the secondary and tertiary sectors, which is a trend that seems will continue in future. Rice and other crops and livestock in the primary sector, manufacturing in the secondary sector, and wholesale & retail, transportation & telecommunications, and hotels & tourism in the tertiary sector are all expected to remain successful and enjoy steady growth in the future.

Cambodia, from the point of view of industrial promotion, must thrust forward with an industrial changeover. In the primary sector, for example, high value added crops such as fruits and vegetables must be promoted in addition to rice production and livestock. In the secondary sector, promoting the local industries of provincial cities and farming villages is of utmost importance as well as accelerating the growth in such labor-intensive industries as garment and shoe manufacturing, food processing, and assembly & processing industries. As for the tertiary sector, in addition to commercial (wholesale & retail) industries, it is crucial to promote hotels and tourism using the Angkor temple complex as a central attraction, and to foster small-scale businesses in cities.

## 2-6 Employment structure

The component ratio, by industry, of Cambodia's employed persons in 1997 (see figure 2-2), indicates that primary, secondary and tertiary sectors contributed 77%, 5% and 18% of the total employment.

Cambodia's total population in 1997, according to the

**Table 2-5 Real GDP Growth Rates by Industry**

(Unit: %)

Sector	1994	1995	1996	1997	1998
Primary Sector	0.5	6.4	2.3	1.2	1.0
Rice	-11.8	18.8	0.2	-2.5	-3.0
Other Crops	-11.8	12.0	6.2	3.8	5.0
Rubber	15.4	6.7	6.2	1.9	3.8
Livestock	-2.6	6.2	7.4	5.1	4.9
Fisheries	4.4	2.6	-1.0	-2.0	-1.6
Forestry	91.0	-24.5	-6.5	1.0	-2.2
Secondary Sector	15.0	10.1	18.2	-2.9	0.2
Mining	14.3	7.3	19.4	-5.7	-0.8
Manufacturing	14.8	8.3	12.7	7.8	6.7
Electricity and Water	17.2	12.2	21.7	16.0	13.8
Construction	14.6	11.9	21.8	-11.3	-6.8
Tertiary Sector	11.6	8.0	7.3	2.0	-1.0
Transportation & Telecommunications	8.2	8.4	10.4	5.2	5.2
Wholesale a& Retail	18.1	10.3	9.2	2.8	-6.0
Hotels & Tourism	45.6	17.4	19.3	-2.5	-5.7
Banks & Insurance, et al.	26.2	7.5	5.3	0.1	3.2
Education & Health Services	14.0	7.9	-1.6	0.8	-4.5
Real Estate	2.8	4.0	5.9	2.2	1.9
Other	4.0	5.2	4.1	1.9	2.0
GDP	4.0	7.6	7.0	1.0	0.0

Source: Ministry of Economy and Finance (1999)

**Figure 2-2 Cambodia's Employment Structure**

Primary Sector 77%	Secondary 5%	Tertiary Sector 18%
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Source: Ministry of Planning (1998)

statistics provided by the Ministry of Planning, was estimated as 10.37 million. Out of the total population of 9.35 million in areas where accumulation of data was possible, 6.93 million who are 10 years old and over were considered as economically active, among which 4.56 million persons (i.e. an employment rate of 65.8%) were employed.

The primary and secondary sectors contributed to total employment by 77.1% (i.e. 3.52 million employed persons) and 4.7% (i.e. 0.21 million) respectively. Among manufacturing companies, which contributed to the total employment by 3.2% (i.e. 0.15 million), companies with ten or more workers employed a total of 0.12 million workers, 78% (i.e. about 0.09 million) of which were engaged in garments industry, and 85% (i.e. about 0.1 million) of which were employed either in Phnom Penh or in Kandal province. The tertiary sector contributed to the total employment by 18.2% (i.e. 0.83 million employed persons), 7.7% (0.35 million) of which were in commercial related businesses and 4.7% (i.e. 0.21 mil-

lion) of which were in the civil service (see table 2-6).

### 3. National budget

Cambodia's national budget, due to the shortage of domestic revenue and the need for more public expenditure, has been in a state of permanent deficit. It is, therefore, of utmost importance for the Royal Government to undertake fiscal reform measures to improve the means of tax revenue (by introducing value added tax, etc.) and to contain public expenditure (by reducing the numbers of both military servicemen and civil servants) (see table 2-7).

#### 3-1 National revenue

Insufficient collection of domestic taxes keeps Cambodia's tax revenue at a low level. In addition, customs duties, which contribute about 40% of domestic revenues and about 60% of tax revenue, cannot be de-

**Table 2-6 Employment by Industry**

(Unit: thousand persons; % for ratios)

Sector	Cambodia		Phnom Penh		Other Cities		Farming Villages	
	Employ.	Ratio	Employ.	Ratio	Employ.	Ratio	Employ.	Ratio
Primary Sector	3,490	77.1	28	7.9	217	49.2	3,245	86.9
Agriculture, Mining, and Forestry	3,413	75.4	21	6.1	194	44.1	3,196	85.6
Fisheries	77	1.7	6	1.8	22	5.1	49	1.3
Secondary Sector	213	4.7	54	15.4	34	7.7	358	9.6
Manufacturing	145	3.2	33	9.4	23	5.2	90	2.4
Construction, Electricity, Water, and Mining	68	1.5	21	6.0	11	2.4	156	4.2
Tertiary Sector	720	15.9	138	39.2	178	40.4	288	7.7
Wholesale & Retail, and Repair	349	7.7	123	35.1	91	20.7	134	3.6
Telecom. & Trans. and Warehousing	81	1.8	27	7.6	26	6.0	26	0.7
Administration, National Defense, Social Welfare	140	3.1	65	18.4	30	6.9	45	1.2
Education, Health, Sanitation	72	1.6	17	4.8	12	2.6	41	1.1
Other	78	1.7	29	8.4	19	1.3	41	1.1
Total	4,526	100.0	351	100.0	441	100.0	3,734	100.0

Source: Ministry of Planning (1998)

**Table 2-7 Balance of the National Budget**

(Unit: billions of riels)

	1994	1995	1996	1997	1998	1998 GDP Ratio (%)
National Revenue	590	643	749	881	918	8.5
Tax Revenue	365	446	534	597	679	6.3
Direct Tax	6	20	21	41	56	0.5
Indirect Tax	77	106	169	209	248	2.3
Duties	281	321	344	347	376	3.5
Non-Tax Revenue	225	190	176	271	205	1.9
Capital Receipt	1	8	39	12	33	0.3
Expenditure	998	1,248	1,320	1,268	1,342	12.5
Current Expenditure	662	737	790	816	960	8.9
Defense Costs	392	430	403	419	458	4.3
(Salaries)	189	230	222	252	298	2.8
Administration Costs	256	270	336	360	421	3.9
(Salaries)	100	117	122	134	161	1.5
(Mngm. & Admin.)	120	111	161	165	195	1.8
Other	14	37	51	37	81	0.7
Capital Expenditure	335	511	530	452	382	3.6
Overall Balance	-407	-605	-570	-387	-424	-3.9

Sources: Ministry of Economy and Finance (1999), and IMF (1999)

pended upon as much in the future because tariff rates are scheduled to decrease as a consequence of Cambodia's joining AFTA.

The Royal Government of Cambodia, in January 1999, introduced a value added tax system in order to reduce its financial deficits, and as a result, tax revenue of the year is expected to amount to 167 billion riels.

### 3-2 National expenditure

Among public expenditures, the defense budget has been a great burden accounting for almost 40% of the total, about 70% of which is the salary payment for career officers.

Cambodia Veterans Assistance Program, in order to



**Table 2-8 Cambodia's Balance of International Payments**

(Unit: millions of US dollars)

	1994	1995	1996	1997	1998
Current Balance	-94	-149	-180	-53	-22
Trade Balance	-275	-424	-459	-269	-228
Exports	462	798	650	874	999
Export of domestic goods	234	269	328	535	603
Reexport	228	530	322	338	396
Imports	-737	-1,223	-1,109	-1,142	-1,227
Imports for domestic consumption	-509	-693	-787	-804	-831
Imports for reexports	-223	-530	-322	-338	-396
Service Balance	-75	-101	-66	-54	-101
Receipt	60	129	198	205	171
Tourism	-	53	82	68	45
Other	60	76	116	137	126
Payment	-135	-230	-264	-260	-271
Interest	-10	-15	-18	-22	-24
Other	-125	-215	-246	-238	-247
Private Transfers	20	31	46	60	66
Public Transfers	235	346	299	210	240
Project assistance	201	154	156	110	143
Other	34	192	143	100	97
Capital Balance	136	188	223	75	30
Public Medium- to Long-term Loans	54	71	59	31	41
Foreign Direct Investments	80	151	240	150	120
Short-term Capital Inflow	2	-34	-76	-5	-131
Overall Balance	41	40	42	22	8

Source: IMF (1999)

curtail public expenditures, is underway, in which retirement allowance is to be provided for early retirement. The Royal Government, in addition, is considering a plan to reduce the numbers of both civil servants and servicemen.

#### 4. Balance of international payments

##### 4-1 Balance of international payments

Cambodia's balance of trade (see table 2-8) is constantly in a state of import surplus (-9.2% of GDP in 1998), which was the net result of accelerated importing exceeding the rapid increase in exports. The current balance of payments, including the public transfers, was also constantly in red, the GDP ratio of which was -0.8% in 1998. The balance of the capital account, as a result, is constantly in surplus in order to finance the current balance deficits, to which public medium- to long-term loans as well as foreign direct investments contributed considerably. Foreign currency reserves are at a level equivalent to three months of imports cover-

age.

##### 4-2 External debt

Cambodia's external debt burden has continuously been growing (see table 2-9) due largely to the increasing volume of loans provided by international aid agencies.

The balance of bilateral deficits existing before 1985, according to the consent of Paris Club in January 1995, is to be rescheduled. In contrast, the management of Cambodia's external debt in Russian rubles, which is the largest in volume among the debt it owes to the former socialist countries, is far from settled, and is remains for future negotiations.

##### 4-3 Exchange rates

Cambodia's riel was relatively stable against the US dollar after 1993, the exchange rate of which had been in the range between 2,400 and 2,700 riels per dollar. The riel, however, depreciated rapidly against the dollar

**Table 2-9 External Debt Burden**

(Unit: millions of US dollars)

	1994	1995	1996
Medium- to Long-term debts	1,745	1,952	2,023
Public	1,745	1,952	2,023
Bilateral	1,687	1,822	1,821
International agencies	58	118	193
Short-term debts	140	17	16
IMF	30	72	69
Total	1,915	2,041	2,111

Source: World Bank (1998)

**Table 2-10 Exchange Rate of the Riel to the U.S. Dollar**

(Unit: riel per dollar)

Year	Month	Exchange Rate
1993	December	2,450
1994	December	2,601
1995	December	2,560
1996	December	2,728
1997	December	3,460
1998	December	3,780
1999	March	3,790
	June	3,805
	September	3,900
	December	3,775

Source: National Bank of Cambodia (2000)

**Table 2-11 Trade Balance**

(Unit: millions of US dollars)

	1994	1995	1996	1997	1998
Amount of Exports	262	268	295	416	492
Amount of Imports	517	601	723	784	700
Trade Balance	-255	-333	-428	-368	-208

Source: Ministry of Economy and Commerce (1999)

after July 1997, and it dropped by December 1997 to as low as 3,468 riels per dollar, and by June 1998, to 4,000 riels per dollar. The riel appreciated a little against the dollar, thereafter, and, since July 1998, it has been hovering around the range between 3,700 and 3,900 riels per dollar (see table 2-10).

The current exchange rate of Cambodia's riel to the dollar compared to that in 1993 indicates that the dollar appreciated against the riel by about 50%, the causes of which are as follows. Cambodia's currency rate has been affected first by the political unrest that occurred in July 1997, second, from the fall out of the Asian Financial Crisis after July 1997, and third, from the high price inflation. Real effective rates of riel, according to IMF estimates, are higher against the dollar by about 20%.

The Royal Bank of Cambodia, which is the central bank and in charge of exchange controls, gives top priority to the stabilization of the riel exchange rates to the dollar and often intervenes in the foreign exchange market in order to contain sharp currency fluctuations. In 1998, the central bank was successful in stabilizing its currency rates around U.S.\$1=3,800 riels by selling US dollars in the foreign exchange market (twenty-three times in 1998 alone).

#### 4-4 Trade

Cambodia's total amount of trade has been showing an upward trend (see table 2-11), in which both exports and imports are expanding due to Cambodia's economic growth as well as to the increasing amount of foreign direct investment. The trade balance, nevertheless, is in a constant deficit. The amount of import surplus in 1998 was valued at U.S.\$208 million dollars.

##### 4-4-1 Exports

Cambodia's export products have traditionally been primary products such as timber, rubber, and rice. In recent years, the export of the GSP granted goods such as garments have been expanding rapidly to the European countries and the United States (see table 2-12), which is a consequence of increases in foreign direct investment in such export oriented processing industries as garments.

Among Cambodia's primary products, timber export has been great in relative importance. Basically, logs are cut out from Cambodia's western regions and exported to Thailand, the amount of which has been decreasing in recent years due to political factors as well as to forest resource conservation. The export of rub-

**Table 2-12 Exports by Product**

(Unit: millions of US dollars)

	1994	1995	1996	1997	1998
Timber	224	185	149	105	75
Processed Marine Products	2	2	3	3	3
Rubber	26	41	32	23	13
GSP-Granted Goods	2	28	101	279	392
Garments	-	-	80	227	378
Other	-	-	22	51	14
Other	9	13	10	6	9
Amount of Exports	262	268	295	416	492
Reexports	228	586	348	319	200
Total Amount of Exports	490	854	644	734	692

Source: Ministry of Economy and Commerce (1999)

ber, which was started under the French colonial rule, has also been decreasing in recent years due to declining rubber output as a result of inefficiency in the state-owned rubber plantations and the problem of overage gum trees.

Cambodia's reexport is high in proportion to the entire export amount. In 1998, for example, reexports amounted to about US\$200 million out of the total US\$692 million. Cambodia's reexport products are mostly directed to Vietnam, product breakdowns of which indicate that tobacco contributed to the total by more than 50%, followed by beer, motorcycles, and electrical products (such as televisions, videos, and radios). Gold, which is mainly exported to Thailand, is also contributing a great deal to Cambodia's reexports.

#### 4-4-2 GSP granted exports

The exports of goods under the GSP trade preferences, after 1995, have been growing rapidly compared to Cambodia's other export goods. Especially after 1997 when Cambodia obtained the MFN status from the United States, and accordingly was granted preferential duties, domestic production of those goods have been expanded by the increase in foreign direct investment. As a consequence, Cambodia's exports increased rapidly in line with increase in the number of new plants constructed. The GSP-granted products, currently, contribute to Cambodia's total exports by 80% and in 1998, the amount reached US\$392 million.

Garments, according to product breakdowns, is the single largest product group, amounting to 96.4% of the total GSP-granted exports, which was valued at US\$378 millions in 1998. The export of T-shirts, in particular,

accounts for about half of the total garment exports, which is followed by that of jersey knitwear and underwear. These products, targeting lower income groups as customers, are mostly sold at low prices to urbanites in the European countries and the United States.

Besides garments, shoes amount to US\$8 millions among the GSP-granted exports. Shoes, similar to garments, are low-priced goods, key commodities of which are priced as low as US\$1~2 per pair (producer's sales price) and US\$2~4 per pair (consumer's retail price). There are, in addition, timber products, vinyl products, etc. among the GSP-granted products, which, in all, amount to US\$6 million.

According to the by-company breakdowns of the GSP-granted exports, the biggest company is Malaysia's June Textile Co., Ltd, which exports an average of US\$25 million a year, especially sales of T-shirts and knitwear. The top ten companies are all in garment manufacturing-mostly from Malaysia, Hong Kong, Taiwan and Macaw.

With regard to the GSP-granted exports to the US market, in 1999, some garment products, such as T-shirts, reached the upper limit that defines the tax-free volume of exports. As a result, export quotas for certain items were imposed on the companies concerned under the supervision of the US Department of Commerce.

Country breakdowns of the GSP-granted exports (see table 2-13) indicate that in 1996 the largest amount of exports (US\$37 million) was directed to the United Kingdom. This was followed by Germany's US\$17 million and France's US\$7 million. After 1998, however, the exports to the United States became overwhelmingly large, amounting to US\$296 million, fol-

**Table 2-13 GSP Granted Exports: Trade Partners**

(Unit: millions of US dollars)

Country	1996	1997	1998	1999
US	2	107	296	405
UK	37	41	27	105
Germany	17	32	19	68
France	7	15	12	34
Other	39	84	38	16
Total	102	279	392	773

Source: Ministry of Economy and Commerce (1999)

lowed by exports to the United Kingdom, Germany and France in the amounts of US\$27 million, 19 million and 12 million respectively.

Cambodia's export is currently under various challenges such as i) how to tackle the problem of the GSP ceiling on garment exports to the United States, and, at the same time, enlarge the market for garments, ii) how to increase exports of products other than garments, and iii) how to cope with the lowering of tariff rates within the ASEAN region after joining AFTA. The Royal Government of Cambodia, in the years ahead, will need to tackle these problems and promote export expansion by drawing up aggressive measures for export furtherance.

#### 4-4-3 Imports

Tobacco imports (at US\$162 million), according to the product breakdowns of Cambodia's imports in 1998 (see table 2-14), was the largest in ratio to the total amount of exports (at US\$976 million), followed by petroleum products (US\$108 million), gold (US\$30 million), vehicles (US\$22 million) and motorcycles (US\$16 million).

Recently in Cambodia's urban areas such as Phnom Penh, cyclo, which has been Cambodia's traditional means of transportation, is vanishing from sight. Motorcycles, instead, are becoming the most popular means of transportation. Imports in connection with Cambodia's motorization are also growing, in which automobile are gaining popularity, and, accordingly, contributing to the rapid increase in demand for gasoline. As for the imports of tobacco and gold, the smaller part of them is for domestic consumption, and the greater part is for re-exports.

### 5. Finance

In Cambodia, the banking system or indirect financ-

ing is still the major source of financing. Since a securities market or direct financing is yet to be developed, the financial market consists solely of indirect financing by small-scale private commercial banks, the financial basis of which is still very weak. Therefore, fostering Cambodia's financial market and, thus, mobilizing savings is of utmost importance in the years to come, for which the improvement of the banking system etc. is indispensable.

#### 5-1 Financial institutions

Under the supervision of the National Bank of Cambodia (NBC), which is the central bank, there are i) two state-owned banks, ii) thirty private commercial banks, and iii) around eighty micro-finance institutions performing banking functions in Cambodia.

The two state-owned banks are the Foreign Trade Bank of Cambodia (FTBC) and the Rural Development Bank (RDB). The FTBC is now providing loans to private companies as a bureau of the NBC, but is scheduled to become an independent private commercial bank in the future. The RDB was created from the Rural Development Bureau of the NBC, and now, under the supervision of the Ministry of Economy and Finance, is in charge of the loans to micro-finance institutions such as NGOs. Of the thirty private commercial banks, eight are owned by foreign capital firms, and the remaining twenty-two are Cambodian. As for the micro-finance institutions, around eighty local and foreign NGOs and other such organizations are providing loans to farmers and small-scale entrepreneurs.

#### 5-2 National Bank of Cambodia and its financial policy

The National Bank of Cambodia (NBC) is defined, in the Law on the Organization and Conduct of the National Bank of Cambodia enforced in 1996, as an autonomous central bank that executes financial policies independent from government ministries. A total of 1,075 workers are operating under the NBC, 425 of which are working at forty-two branch offices dispersed all over the country.

Main functions of the NBC are: i) execution of financial policies; ii) money supply control; iii) paper money issuance; iv) exchange control; and v) authorization and supervision of commercial banks. Execution of finan-

**Table 2-14 Imports by Product**

(Unit: millions of US dollars)

	1994	1995	1996	1997	1998
Taxable Article	553	930	722	764	562
Tobacco	96	193	220	188	162
Petroleum	29	58	47	136	108
Motorcycle	29	36	19	17	16
Light oil	30	51	70	-	-
Automobiles	12	22	26	26	22
Beer	15	15	14	5	4
Videos	23	15	6	1	3
Televisions	21	17	14	6	3
Building materials	21	19	21	19	16
Textiles	36	13	11	-	-
Foodstuffs	12	18	26	-	-
Radio-cassette recorders	4	4	3	2	1
Automobile parts	3	7	7	-	-
Clothes	12	17	22	4	16
Generators	3	3	2	-	-
Gold	78	305	43	136	30
Sugar	14	6	14	15	14
Cement	12	12	16	16	14
Iron & Steel	8	4	5	1	1
Other	39	44	139	176	149
Tax-free articles	165	341	443	413	414
Government imports	39	40	70	75	40
Int'l assistance related imports	96	100	100	82	122
Other	31	202	272	256	252
Total Imports (C.I.F.)	809	1,264	1,161	1,186	976
Insurance, et al.	65	77	8	83	76
Total Imports (F.O.B.)	744	1,187	1,072	1,103	900
For re-exports	228	586	348	319	200
For domestic consumption	517	601	723	784	700

Source: National Bank of Cambodia (2000)

cial policies, in general, implies i) bank reserve ratio control, ii) official discount rate control, and iii) open market operations. The NBC, however, seems unable to take up such roles at its own discretion due to the fact that i) the minimum bank reserve ratio is fixed at 8% by the *Law on the Organization of the National Bank of Cambodia*, ii) official discount rate controls have no influence in the current state where the central bank has not provided much credit to commercial banks yet, and iii) open market operation has to await the creation of a bond market.

As for money supply control, Cambodia's money liquidity (M2) grew by 15.7% in 1998 compared to the previous year. With regard to the currencies in circulation, there is a huge amount of U.S. dollars in circulation in addition to Cambodia's riel, which puts the NBC in a difficult position in controlling the money supply.

Since the de-dollarization of the national economy within a short period seems difficult, the Royal Government, for the time being, shall first tackle the problem by collecting public utility charges and tax payments in riel instead of in dollars.

With regard to exchange control, the NBC aims to maintain a stable exchange rate with the US dollar, and intervenes in the foreign exchange market in cases of sharp fluctuation. In 1998 alone, the NBC sold its dollar holdings at the market twenty-three times (a total of US\$81 million), which contributed to stabilize the riel exchange rate with the US dollar at around 1 dollar=3,800 riels.

Government lending, due to the decline in the amount of foreign assistance in 1998, has increased rapidly from 53.8 billion riels (i.e., about US\$14 million) to 178 billion riels (i.e., US\$47 million). The Royal Government,

**Table 2-15 Lending Conditions of Commercial Banks**

	FTBC	Cambodia Public Bank	Canadian Bank
Lending period	short-term (within a year)	short-term (within a year)	short-term (within a year)
Interest rates (per month)	1.5% for dollars 1.4% for riels	0.75~1.5% for dollars	1~1.5% for dollars
Collateral	up to the max. of 30~40% of the assessed value	required	required

Source: Cambodia Investment Board

**Table 2-16 Foreign Direct Investment Approved by CIB**

(FDI amount unit: million U.S. dollars)

	1994	1995	1996	1997	1998	Total
Numbers of projects	37	164	182	206	143	732
Total amount	594	2,379	803	759	855	5,391
Average amount (per project)	16.1	14.5	4.4	3.7	6.0	7.4

Source: Cambodian Investment Board (1999)

nevertheless, decided to cease fundamentally from providing government loans in the years ahead. The current balance of government lending at the NBC amounts to around 5.8 million riels (i.e., about US\$15 million) in total.

### 5-3 The Foreign Trade Bank of Cambodia

The Foreign Trade Bank of Cambodia (FTBC) since 1980 has functioned practically as a section of the NBC. The FTBC accepts deposits, provides loans, and deals with foreign exchanges, which are the kinds of jobs typically provided by private commercial banks. The number of workers amounts to about 120, who will all be affected by privatization in the future.

As for the acceptance of deposits, the FTBC has just over ten thousand accounts. Its lending operations are carried out independent of the Royal Government, and it has a wide range of clients—from big companies to individuals. The number of loans amounts to over a thousand in total. The FTBC does not provide loans to private banks.

### 5-4 The Rural Development Bank

The Rural Development Bank (RDB), under the supervision of the NBC and having the Ministry of Economy and Finance as a backup, was established in

January 1998. From June the same year, the RBC started providing micro-finance to NGOs, et al.

### 5-5 Private commercial banks

Among the private commercial banks operating in Cambodia, nine are foreign owned (such as Thailand, Malaysia, and Singapore corporations) and the remaining twenty-one are owned by indigenous firms.

As for the domestic financial operations, foreign firms are allowed to enter the market without any restrictions, and the determinations of interest rates are left to the market force. Typical lending conditions provided by major banks to private companies are listed in table 2-15.

## 6. Foreign Direct Investment

### 6-1 Approved amount of foreign direct investment

Total value of foreign direct investment approved by the Cambodian Investment Board (CIB) amounted to US\$594 million (the total value of thirty-seven projects) in 1994, US\$2,379 million (164 projects) in 1995, US\$803 million (182 projects) in 1996, US\$759 million (206 projects) in 1997, and US\$855 million (143 projects) in 1998<sup>1</sup> (see table 2-16). The scale of foreign

<sup>1</sup> Note that numbers of projects and amounts of investment are based on the project applications received initially by the CIB, and are not compatible with those investments actually made. None of the figures, therefore, neither reflect partial changes in original plans that were made after the CIB approvals nor exclude those projects that are currently on hold. There is no data that reflect actual performance of investment.

**Table 2-17 Foreign Direct Investment Approved by CIB: Industry Breakdowns**

(Unit: millions of US dollars)

Industry	1994	1995	1996	1997	1998	Total
Primary industries	52	19	95	62	49	277
Agriculture	-	5	25	6	9	45
Livestock	0	1	3	-	-	4
Plantation	52	13	67	56	40	228
Secondary industries	95	357	481	530	689	2,152
Timber processing	-	5	203	47	179	435
Cement	-	136	61	205	-	402
Garment	29	36	47	100	127	338
Energy generation	0	40	1	80	17	139
Mining	1	27	5	-	100	132
Food processing	21	57	21	6	8	114
Petroleum	4	25	20	32	1	82
Cigarettes	38	4	21	2	7	72
Farm product processing	0	3	29	16	2	50
Shoes manufacturing	-	0	9	15	8	32
Building materials	-	7	13	5	0	25
Plastics	-	0	13	4	1	18
Paper	-	2	3	0	9	14
Electric machinery	-	4	9	-	-	13
Textiles	-	-	9	-	-	9
Others	2	11	17	18	230	277
Tertiary Industries	446	2,005	233	166	206	3,057
Tourism	-	1,372	7	1	61	1,441
Construction	396	198	24	1	3	621
Hotels	24	200	97	40	106	466
Infrastructure	1	117	-	-	10	128
Services	20	1	41	50	14	126
Education	-	98	0	-	2	100
Telecommunications	-	6	33	53	-	92
Mass media	4	1	-	21	-	26
Transportation	1	0	10	-	10	22
Others	0	12	21	-	-	32
Total	594	2,379	803	759	855	5,391

Source: Cambodia Investment Board (1999)

direct investment for the five years of 1994 through 1998, therefore, was 732 projects valued at US\$5,391 million in total, which is an average of US\$7.4 million per project. The average, however, drops to US\$5 million per project when some of the large-scale tourism related projects of 1994 and 1995 are excluded.

Project approvals by the CIB in 1999 and 2000 were significantly fewer (around one hundred), which inevitably suppressed the total amount of investment to approximately US\$500 million.

Since the promulgation of Cambodia's *Investment Law* in August 1994, foreign direct investment projects approved by the CIB showed a definite increase. Cambodia, from 1998 on, however, failed to attract as much foreign investment as expected due to political chal-

lenges in 1997 and the fallow from the Asian Financial Crisis. In order to cope with the situation, it is indispensable to facilitate investment and to create new investment opportunities by strengthening the CIB function, offering companies more attractive and competitive incentives, and focusing foreign investors' attention on Cambodia's prospective leading industries.

## 6-2 Investment trends by industry

Industry breakdowns of the total amount of foreign direct investment approved by the CIB during the past five years (see table 2-17) shows that Cambodia's primary, secondary and tertiary industries attracted US\$277 million, US\$2,152 million and US\$3,057 mil-

**Table 2-18 Project Approvals by CIB between 1994 and 1998**

Industry	Project Numbers (A)	New Employment (B)	Average (B)/(A)
Primary Industries	57	30,487	535
Secondary Industries	566	331,164	585
Garments	277	229,713	829
Food processing	43	9,890	230
Timber processing	35	18,744	536
Farm product processing	24	7,815	326
Building materials	21	2,748	131
Cigarettes	15	3,266	218
Plastics	15	2,033	136
Shoes	19	15,879	836
Others	117	41,076	351
Tertiary Industries	109	25,344	233
Hotels	33	8,413	255
Services	18	3,791	211
Construction	13	6,226	479
Tourism	11	2,118	193
Others	34	4,796	141
Total	732	386,995	529

Note: Numbers of projects and new employment are based on the figures initially provided in the applications received and approved by the CIB.

Source: Cambodia Investment Board (1999)

lion respectively. Among the primary industries, foreign investment in plantations (rubber, etc.) amounted to US\$228 million, agriculture US\$45 million and live-stock US\$4 million. As for the secondary industries, timber processing (US\$435 million), cement (US\$402 million) and garments (US\$338 million) attracted the most foreign investment, followed by energy generation (US\$139 million), mining (US\$132 million) and food processing (US\$114 million). Tourism related industries (US\$1,441 million), construction (US\$621 million) and hotel related service industries (US\$466 million) are the three major tertiary industries that have attracted the most foreign investment, followed by infrastructure (US\$128 million), services (US\$126 million), education related industries (US\$100 million), and telecommunications (US\$92 million).

According to the industry breakdowns of the number of foreign investment projects approved by the CIB (see table 2-18) within the past five years, the garment industry has attracted the most (277), which represents about 38% of the 732 total projects in Cambodia, followed by 43 projects in food processing (about 6%), 35 projects in timber processing (about 5%) and 19 projects in shoe manufacturing (about 3%).

Most of the above-mentioned industries are labor-intensive industries employing large numbers of young female workers, which enables low-cost mass produc-

tion. This signifies that foreign companies, apparently induced by Cambodia's comparative advantage in low labor costs, are seeking manufacturing bases in the country.

Total employment that foreign investment projects were expected to generate (at the time of their approval) was approximately 387,000 for the past five years, of which garment industry (about 230,000), food processing (about 10,000), timber processing (about 18,000) and shoe manufacturing (about 16,000) constituted about 59%, 3%, 5% and 4% respectively. As for the non-manufacturing sector, hotels (33 projects, about 8,000 jobs), services (18 projects, about 4,000) and construction (13 projects, about 6,000) are among the largest in terms of numbers of projects and new employment.

Cambodia experienced a sharp increase in the influx of foreign investment in the area of labor-intensive industries, such as garments, in the past few years, which is attributed to the most favored nation status obtained from the United States in 1997. The United States granted the Generalized System of Preference status to Cambodia, ensuring duty exemptions on all products with value added of 35% or more originating in Cambodia. With this, Cambodian exports such as garments gained ready access to the US market, which induced many companies to invest in such growing export indus-



**Table 2-19 Foreign Direct Investment Approved by CIB: Country Breakdowns**

(Unit: millions of US dollars)

Country	1994	1995	1996	1997	1998	Total
United States	193	110	5	86	0	394
Canada	-	39	3	11	6	59
France	-	187	3	1	1	192
United Kingdom	4	23	39	6	0	73
Netherlands	-	-	13	-	-	13
Sweden	-	-	-	12	-	12
Switzerland	-	-	6	-	5	11
Portugal	-	1	-	1	1	4
Belgium	-	2	-	-	-	2
Australia	0	1	8	22	1	33
Singapore	43	108	30	15	49	245
Thailand	6	36	54	27	33	157
Malaysia	42	1,418	194	66	147	1,867
Indonesia	26	1	13	1	6	47
China	26	6	37	36	113	218
Hong Kong	3	13	21	72	91	200
Korea	2	1	5	189	5	201
Taiwan	1	14	164	44	144	367
Japan	-	1	11	0	1	13
Cambodia	249	417	196	167	248	1,276
Others	0	1	1	3	4	7
Total	594	2,379	803	759	855	5,391

Source: Cambodia Investment Board (1999)

tries in Cambodia.

from the United Kingdom, Australia, the Netherlands, Sweden and Switzerland.

### 6-3 Investment trends by country

Over thirty countries committed investment in Cambodia in the past five years (see table 2-19). Among the total amount of investment approved by the CIB during this period, the largest was from Malaysia (US\$1,867 million), followed by that of Cambodia (US\$1,276 million, including those from overseas nationals), Taiwan (US\$367 million), Singapore (US\$245 million), China (US\$218 million), Korea (US\$201 million) and Hong Kong (US\$200 million).

Investment commitments by Asian companies were mostly in labor-intensive industries such as the construction of garment and shoe manufacturing plants. Among the countries that invested in Cambodia during this period, Malaysia and Singapore started large investment in 1995, Taiwan in 1996, Hong Kong and Korea in 1997 and China in 1998.

Among the non-Asian companies, those from countries of strong influence in Cambodia's recent history, past influence namely France, and the United States, invested the most in Cambodia, followed by companies

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