Chapter 3

Prospects and Constraints in Cambodia

CHAPTER 3 PROSPECTS AND CONSTRAINTS OF CAMBODIA

3.1 BASIC INDICATORS OF THE CAMBODIAN ECONOMY

The basic indicators of Cambodia and neighboring countries are summarized in **Table 3.1**.

Table 3-1 Basic Indicators of Cambodia and Neighboring Countries

Item	Cambodia		Vietnam	Thailand
	1996	2000	2000	2000
People				
Population, total (millions)	11	12	78.5	60.7
Population growth (annual %)	2.5	2.2	1.3	0.8
National poverty rate (% of population) lateset available	..	36	37	16
Life expectancy at birth (years)	..	53.8	69.1	68.8
Fertility rate, total (births per woman)	..	4	2.2	1.9
Mortality rate, infant (per 1,000 live births)	..	88.4	27.5	27.9
Mortality rate, under-5 (per 1,000 live births)	..	120.4	34.2	33.2
Urban population (% of total)	14.5	15.9	24	21.6
Illiteracy rate, adult male (% of males 15+)	21	20.2	4.5	2.9
Illiteracy rate, adult female (% of females 15+)	47	42.9	8.6	6.1
Environment				
Surface area (000 sq. km)	181	181	331.7	513.1
Population density (persons/ sq km)	..	66	237	118
Forest area (000 sq. km)	..	93	98	148
Annual deforestation (% of change)	..	0.6	-0.5	0.7
Freshwater resources per capita (cubic meters)	0.1	39,613	11,350	6,750
Improved water source (% of total population with access)	..	30	56	80
Improved sanitation facilities, urban (% of urban population with access)	..	58	86	97
Economy				
GDP per capita, Atlas method (current US$)	280	270	400	2,010
GDP (current billion $)	3.1	3.2	31.3	122.2
Agriculture (% of GDP)	51	37	24	11
Industry (% of GDP)	15	21	37	40
Services, etc. (% of GDP)	34	42	39	50
GDP growth (annual %)	7	5	5.5	4.3
Inflation, GDP deflator (annual %)	7.1	1.5	5.3	1.8
Exports of goods and services (% of GDP)	26	40.1	..	67
Imports of goods and services (% of GDP)	41.6	46.9	..	59
Gross capital formation (% of GDP)	25.9	15	27.4	22.7
Current revenue, excluding grants (% of GDP) *	..	11.8	17.7	16
Overall budget balance, including grants (% of GDP) *	..	-3.1	-2.5	-3.1
Technology and infrastructure				
Fixed lines and mobile telephones (per 1,000 people)	4	12.3	41.7	142.6
Telephone average cost of local call (US$ per three minutes)	..	0	0	0.1
Personal computers (per 1,000 people)	0.7	1.1	8.8	24.3
Internet users	..	6,000	200,000	2,300,000
Paved roads (% of total)	7.5	16.2	..	..
Aircraft departures	..	..	28,000	101600
Trade and finance				
Trade in goods as a share of GDP (%)	27	40	96	107
Foreign direct investment, net inflows (current billion US$)	0.29	0.13	1.30	3.40
FDI net inflows per capita (current US$)	27	10	17	56
Present value of debt (current billion US$)	..	2	11.1	76.6
Total debt service (% of exports of goods and services)	1.2	2	7.5	16.3
Short-term debt outstanding (current million US$)	18.6	103.5	924.9	14.9
Aid per capita (current US$)	38.5	33.1	21.6	10.6

Sources: World Bank World Development Indicators database, April 2002. ADB, Key Indicators 2001.
* *Statistical Yearbook of Cambodia 2001* for Cambodia

3.2 GEOGRAPHICAL FEATURES OF CAMBODIA

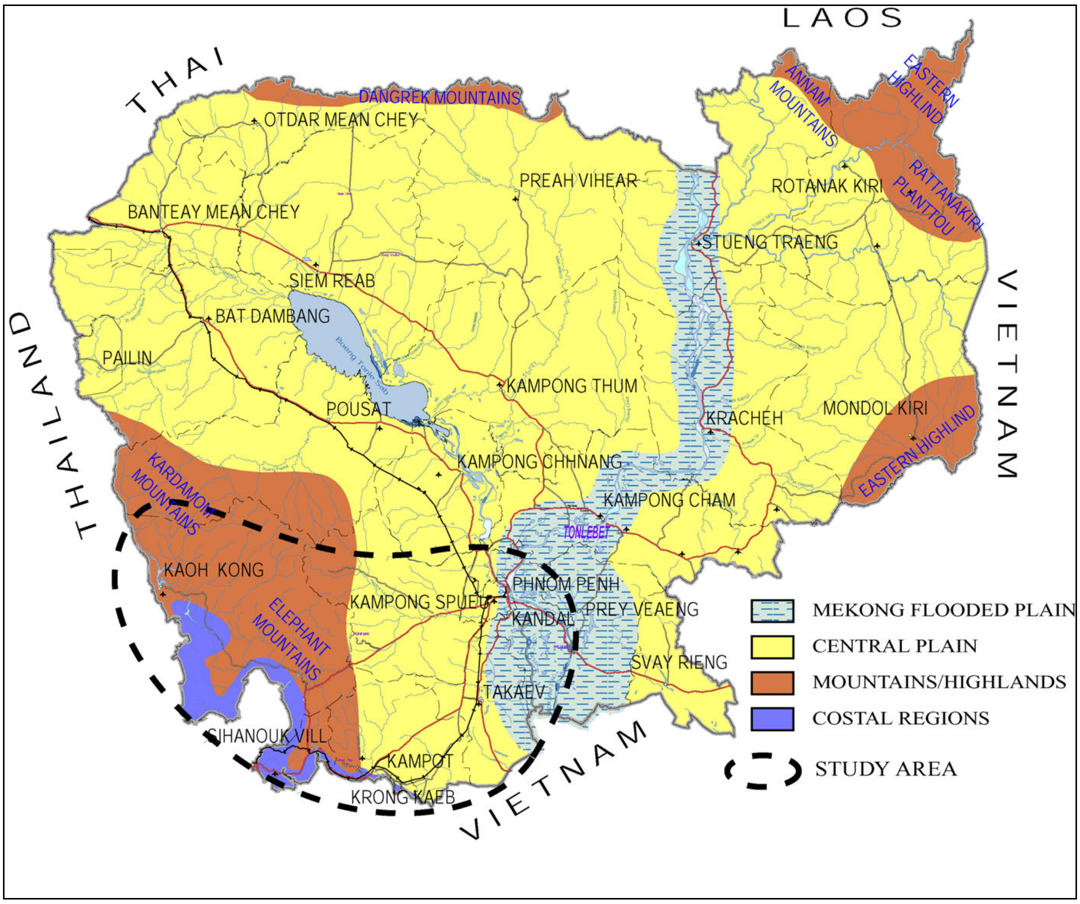
Cambodia covers an area of 181,035 km^2 bordered by Thailand to the west, Lao P.D.R. to the north, Vietnam to the east and the Gulf of Thailand to the west. About 58.6% of the country's land is covered by forests and woodland while 21.5% is agricultural land. As shown in **Figure 3-1**, the country is divided into three main regions topographically:

1) Central Plain: The central plain is low-lying alluvial land that surrounds the Tonle Sap Lake and the Mekong River. The rich sediment deposited during the Mekong River's annual wet season flooding has made the agricultural lands highly fertile. The plain occupies about three quarters of the country and the population concentrates in the flood prone area on the Mekong River basin where rain-fed rice production and truck farms are the dominant land use since the soil is good for cultivation.

2) Mountains and Plateaus: The central plain is surrounded by mountains and plateaus on three sides. The Dangrek Mountains adjoining the Koral Plateau of Thailand lies to the north of the central plain. On the east and northeast of the central plain, hilly plateau regions extend along the border with Laos and Vietnam. Two mountains on the southwest of the plain, the Cardamom Mountains and the Elephant Mountains, cover large part of the area between Tonle Sap Lake and the Gulf of Thailand. Mount Aoral (1,813 m), the highest mountain in Cambodia, rises in the eastern part of these mountain ranges. Forest reserves are rapidly decreasing in the northeastern plateau areas (Rotanak Kiri and Mondol Kiri provinces) and in the Cardamom and the Elephant Mountains in the southwestern areas. The Cardamom Mountains are the remaining great reserve of Indochinese mountain forests with a rich and largely unstudied flora and fauna, much of which is endangered elsewhere in Asia.

3) Coastal Zone on the Gulf of Thailand: The coastline of Cambodia is about 435 km long along the Gulf of Thailand. Four provinces/municipalities have coastline and these provinces/municipalities hold 10% of the national land area and 7% of the national population. The coastal provinces/municipalities are composed of the southwestern mountains and small strips of lowland, and the lowland is densely populated, as is the central plain. The coastal zone is always the first to receive heavy rains due to the mountain ranges rising to the southwest of Tonle Sap Lake, and it is one of the wettest regions in Cambodia (mean annual rainfall is more than 2,000mm). Mangrove forests are the prevailing ecosystem in the coastal zone and some of the best remnant coral reefs in the Gulf can be observed in the coastal waters. However, this valuable marine ecosystem has been degrading by several factors, such as inadequate management of waste and wastewater.

The study area extends over the above-mentioned three different geographical regions. Phnom Penh, Kandal, Takaev, and the eastern halves of Kampong Spueu and Kampot are located in the central plain. Most part of Kaoh Kong and the western halves of Kampong Spueu and Kampot are mountainous area. Sihanoukville, the southern part of Kampot and the western part of Kaoh Kong are facing the Gulf of Thailand. Briefly, the study area has two separated low-lying areas divided by the mountainous area in between. Taking the socio-economic dimension into consideration, the study area is divided into three characteristic sub-areas, the greater capital area (Phnom Penh, Kandal), the port city of Sihanoukville, and the intermediate area (Kampong Spueu, Kampot, Kaoh Kong and Takaev). The detailed geographical feature of each area are described below.



Source: JICA Study Team (Original Source: Review and Assessment of water Resources for Hydropower and Identification of Priority project-Cambodia, Mekong River Commission, June 1995)

Figure 3-1 Geographical Zones in Cambodia

3.3 DEMOGRAPHY

3.3.1 Population Growth

The population of Cambodia is 12.2 million (2000 estimate). Population growth is estimated at 2.2 percent per year, one of the highest rates in Asia. The rate of infant mortality is as high as 88.4 per 1000 live birth.

3.3.2 Population Distribution

The largest population concentration is seen in the heavily cultivated central plain situated at the head of the Mekong River delta, close to the Vietnamese border and low lands surrounding the Tonle Sap. More than 80% of the total population is concentrated in these low lands that account for only around 30% of the total land of Cambodia.

While six provinces in the plain adjacent to Vietnam account for 14% of total land area, they accommodate as much as 52 % of the whole population. The six provinces surrounding Tonle Sap accounts 34% of the land and 30% of the population.

On the other hand, the mountainous regions of the country, where malaria is widespread, are sparsely populated, as are the northern provinces where water is more scarce. While eight provinces in the plateau and mountains account for 42% of total land area, they accommodate only 11 % of the whole population.

The four coastal provinces hold 10% of the land and 7% of the population. The coastal provinces are a mixture of the vast southwestern mountains and relatively small strips of low lands. The low lands are densely populated, as are the central plain provinces. The mountainous parts, however, are as sparsely populated as the other highland provinces.

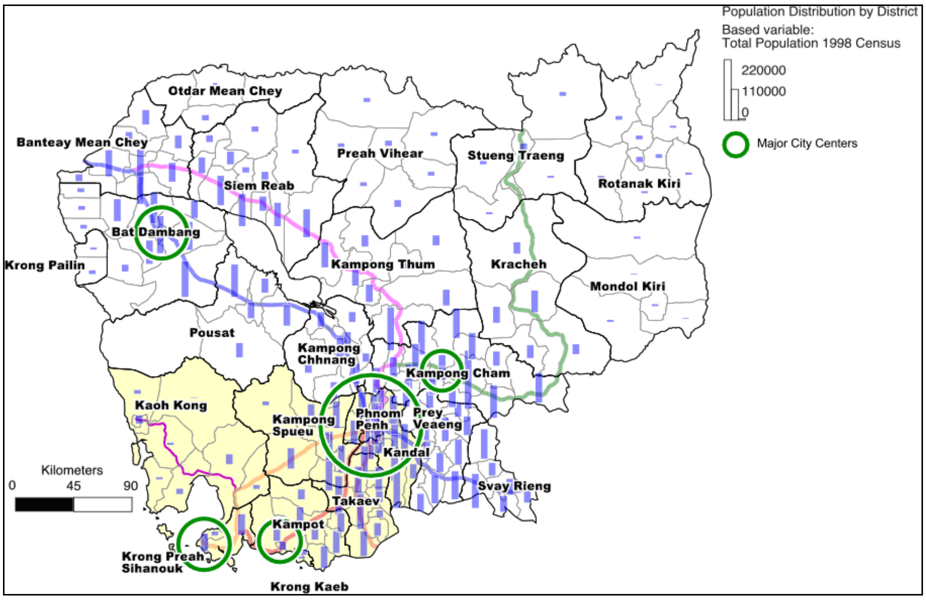


Figure 3-2 Population Distribution by Province

3.3.3 Urban Population Distribution

The largest urban concentration is the city of Phnom Penh, situated at the junction of the Mekong and Tonle Sap rivers. The suburban areas of Phnom Penh also hold a good number of population. Other major cities are Bat Dambang that has traditionally been the economic center of the north, Kampong Cham with a strong agricultural base including the largest upland crop production, Kampot with fruits and other commercial crop production, and Sihanoukville (Krong Preah Sihanouk), Cambodia's only deep-water port located on the Gulf of Thailand.

Table 3-2 Population Distribution by Geographical Category and Province 1998

Geographical Category/ Province Name	Total Population		Land Area		Population Density	Urban Population		Households		Villages		
	(000)	% share	(km2)	% share	Persons /sq km	Number (000)	% Total	Number (000)	Size	Number	HH /Village	Pop /Village
Whole Country	**11,438**	**100**	**178,035**	**100**	**64**	**1,795**	**16**	**2,189**	**5**	**13,716**	**160**	**834**
Plain Region	**5,898**	**52**	**25,069**	**14**	**235**	**788**	**13**	**1,140**	**5**	**6,528**	**175**	**904**
Phnom Penh	1,000	9	290	0	3,448	570	57	174	6	669	260	1,494
Kandal*	1,075	9	3,568	2	301	58	5	206	5	1,113	185	966
Prey Veaeng	946	8	4,883	3	194	55	6	194	5	1,153	168	821
Kampong Cham	1,609	14	9,799	6	164	45	3	313	5	1,778	176	905
Takaev*	790	7	3,563	2	222	40	5	155	5	1,123	138	704
Svay Rieng	478	4	2,966	2	161	21	4	98	5	692	142	691
Tonle Sap Lake Region	**3,414**	**30**	**60,707**	**34**	**56**	**524**	**15**	**645**	**5**	**3,969**	**163**	**860**
Bat Dambang	793	7	11,702	7	68	140	18	148	5	618	240	1,283
Siem Reab	696	6	10,299	6	68	120	17	127	5	919	138	758
Banteay Mean Chey	578	5	6,679	4	87	99	17	112	5	624	179	926
Kampong Thum	569	5	13,814	8	41	66	12	107	5	755	142	754
Pousat	360	3	12,692	7	28	58	16	68	5	490	139	736
Kampong Chhnang	418	4	5,521	3	76	42	10	83	5	563	147	742
Coastal Region	**845**	**7**	**17,237**	**10**	**49**	**247**	**29**	**163**	**5**	**739**	**221**	**1,143**
Krong Preah Sihanouk*	156	1	868	0	179	156	100	28	6	92	305	1,692
Kampot*	528	5	4,873	3	108	33	6	105	5	489	215	1,081
Kaoh Kong	132	1	11,160	6	12	29	22	25	5	139	180	950
Krong Kaeb	29	0	336	0	85	29	100	5	5	19	283	1,508
Plateau and Mountain Region	**1,280**	**11**	**75,022**	**42**	**17**	**236**	**18**	**240**	**5**	**2,480**	**97**	**516**
Kracheh	263	2	11,094	6	24	79	30	49	5	265	186	993
Kampong Spueu*	599	5	7,017	4	85	41	7	116	5	1,346	86	445
Stueng Traeng	81	1	11,092	6	7	24	30	14	6	133	108	610
Krong Pailin	23	0	803	0	29	23	100	4	6	60	69	382
Otdar Mean Chey	68	1	6,158	3	11	22	33	13	5	111	113	615
Preah Vihear	119	1	13,788	8	9	22	18	21	6	219	98	545
Rotanak Kiri	94	1	10,782	6	9	17	18	17	6	244	69	386
Mondol Kiri	32	0	14,288	8	2	7	22	6	6	102	55	318

* Provinces in the Study Area
Source: 1998 Census data

3.4 ECONOMY

Cambodia is one of the low-income countries. In 2000 its total gross domestic product (GDP) was only $3.2 billion, yielding a per capita GDP of just $270, one of the lowest in the world.

The Cambodian economy was virtually destroyed during the civil war from 1970 to 1975, the Khmer Rouge regime from 1975 to 1979, and the Cambodia-Vietnam War from 1978 to 1979. Rice had to be imported by 1974 under wartime conditions, and production of Cambodia's most profitable export items such as rice and rubber plunged sharply. The civil unrest also disrupted Cambodia's fledgling manufacturing industry and severely damaged road and rail networks.

After the Khmer Rouge were dismantled in early 1979, millions of Cambodians began to resume their lives as farmers, though mostly at a subsistence level. By the mid-1990s Cambodia once again achieved self-sufficiency in rice production and began to export small quantities of rice. The country's infrastructure was improved gradually in the 1990s, helped by massive influx of foreign assistance. Other sectors of the economy were less fortunate and the country's economy as a whole in 1995 was performing at only 40 to 50 percent of its pre-1970 capacity.

The current structure of the economy is as summarized in the following **Table 3-3**.

Table 3-3 Gross Domestic Product (GDP) by Economic Activity

Unit: Billion Riels

	Value in Billion Riels								2000 Share
	1993	1994	1995	1996	1997	1998r/	1999r/	2000p/	%
AGRICULTURE, FISHERIES & FORESTRY	**2,440**	**2,591**	**3,507**	**3,471**	**3,857**	**4,414**	**4,704**	**4,241**	**36%**
Crops	1,132	1,132	1,984	1,965	2,063	2,386	2,478	2,327	20%
Livestock & Poultry	484	443	489	551	569	683	836	738	6%
Fisheries	539	494	535	555	592	726	933	878	7%
Forestry & Logging	285	522	500	400	633	619	456	297	2%
INDUSTRY	**756**	**806**	**986**	**1,212**	**1,460**	**1,814**	**2,140**	**2,708**	**23%**
Mining	11	11	12	13	14	15	17	17	0%
Manufacturing	490	522	580	754	989	1,339	1,486	1,997	17%
Food, Beverages & Tobacco	209	220	249	299	330	390	420	399	3%
Textile,Wearing Apparel & Footwear	71	50	69	132	305	507	717	1,251	10%
Wood, Paper & Publishing	58	96	83	113	148	224	93	88	1%
Rubber Manufacturing	24	20	31	45	33	27	33	30	0%
Other Manufacturing	128	135	148	165	174	191	224	228	2%
Electricity, Gas & Water	24	31	40	40	41	47	43	43	0%
Construction	232	242	355	406	416	414	593	651	5%
SERVICES	**2,594**	**2,470**	**2,781**	**3,221**	**3,419**	**3,861**	**4,307**	**4,495**	**38%**
Trade	952	869	973	1,078	1,149	1,241	1,332	1,316	11%
Hotel & Restaurants	195	237	285	350	375	418	525	582	5%
Transport & Communications	367	386	423	510	534	587	712	773	6%
Finance	24	27	77	87	98	100	112	134	1%
Public Administration	142	229	234	296	305	333	370	376	3%
Real Estate & Business	622	452	483	537	601	732	764	822	7%
Other services	291	271	307	362	357	449	493	492	4%
Taxes on Products less Subsidies	195	334	395	483	537	579	638	638	5%
Less: Subsidies	2	4	12	15	6	14	12	31	0%
Less: Imputed Bank Charges	15	17	73	63	123	124	142	159	1%
GROSS DOMESTIC PRODUCT (GDP)	**5,970**	**6,185**	**7,597**	**8,325**	**9,149**	**10,543**	**11,646**	**11,923**	**100%**

Source: NIS, Statistical Yearbook 2001 data, Notes: r/ - revised estimates, p/ - preliminary estimates

3.4.1 Agriculture and Fishing (Primary industry)

Agriculture is one of the largest sector of Cambodia's economy, contributing 36 percent of the GDP in 2000. Rice is Cambodia's most important crop and the staple food of the Khmer diet. More than one-half of the cultivated land, much of which of poor quality, is planted with rice. Rubber is another of Cambodia's important export crop grown in plantations in the eastern part of the country. Rubber is not as productive as it used to be due to inappropriate re-plantation. Corn, cassava, soybeans, palm sugar and pepper are also grown commercially, while cucumbers and fruits, including mangoes, bananas, watermelons and pineapples, are mainly raised for local consumption. Chicken and pigs are widely domesticated, while cattle and water buffalo are used for agricultural work.

Freshwater fish are an important ingredient in the Cambodian diet. Most of the annual catch is consumed locally. Important types of fish caught include perch, carp, lungfish, and smelt. The Tonle Sap is the most productive source of freshwater fish in Southeast Asia. Commercial fishing in the Gulf of Thailand, on the other hand, is relatively undeveloped.

Table 3-4 Agricultural and Fisheries Production of Cambodia in 2001

Items	Ton		Items	Ton
Paddy	4,026,092		Fruit and permanent crops	164,159
Maize	156,972		Total cattle	2,992,640
Cassava	147,763		Draught cattle	1,327,976
Sweet potatoes	28,178		Total buffaloes	693,631
Vegetables	195,894		Draught buffaloes	412,628
Mung beans	15,100		Pigs	1,933,930
Peanuts	7,490		Poultry	15,249,201
Soyabeans	28,111		Fresh water fish caught	85,600
Sugar cane	164,176		Aquaculture production	14,431
Sesame	9,855			
Jute	180			
Caster beans	204			
Tobacco	7,665			

Source: MAFF

3.4.2 Industry (Secondary industry)

Cambodia's manufacturing industries were severely damaged during the civil war of the 1970s, and were later mismanaged under the Khmer Rouge regime. Manufacturing activity recovered slowly from the 1980s and up to the mid-1990s. In 1995, industry accounted for only 13 percent of GDP.

In the mid-1990s, the sector showed a quick upturn. In 2000 industry, primarily manufacturing, contributed to 23 percent of Cambodia's GDP, that was ten percentage points higher than in 1995. This increase in the manufacturing sub-sector was due to the rapid expansion of garment and footwear industries. These are the export processing industries operated by FDIs that have come to Cambodia to make use of custom exemptions under the Generalized System of Preferences (GSP) with the EU and MFN status with the US.

Cambodia's garment and footwear sector has very few linkages with other domestic sectors. A system of high import tariffs and deep exemptions, as in the case of present Cambodia's garment and footwear sector, tends to stimulate exports from assembly-type operations, rather than from sectors with strong forward and backward linkages to other domestic sectors.

In addition, these industries are highly concentrated in Phnom Penh and its surrounding areas (including Kandal and Kampong Spueu) and a few other urban centers such as Sihanoukville and Battambang.

Except for the above specific sub-sectors, manufacturing still remains as a relatively minor segment of the national economy. Manufactured products include bricks, tiles, cement, processed rubber and furniture.

Mining is not a major industry. Cambodia produces a limited quantity of zircons, sapphires, and rubies, and exploits commercial deposits of salt, manganese and phosphate. In the early 1990s Cambodia began for exploring petroleum in the Gulf of Thailand, but Thailand and Vietnam contested the projects with a claim over the offshore areas of the gulf.

Table 3-5 Number of Manufacturing Enterprises in Cambodia by Category of Industry

ISIC Category of Industry	Micro	Small	Medium	Large	Total
31 Manufacturing of Food, Beverage and Tobacco	2,123	19,748	5	26	21,902
32 Textile, Wearing Apparel and Leather	799	583	20	220	1,622
33 Wood and Wood Products	98	43	0	7	148
34 Paper and Paper Products, Printing	10	13	2	1	26
35 Chemical and Petroleum, Coal, Rubber Products	195	82	7	9	293
36 Non-metallic Mineral Products	347	374	3	8	732
37 Basic Metal Industries	0	0	0	0	0
38 Fabricated Metal Products and Machinery	1,401	53	8	3	1,465
39 Other Manufacturing Industries	1,284	2	1	0	1,287
Total	6,257	20,898	46	274	27,475

Source: MIME
Note: By definition, micro, small, medium and large enterprises employ less than 10, 10 to 50, 50 to 200 and more than 200 workers, respectively.

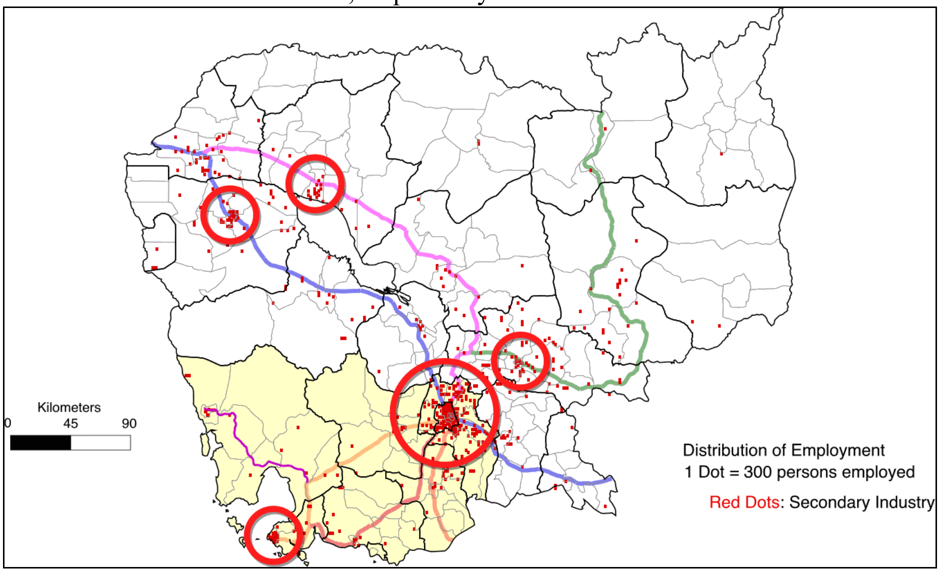


Figure 3-3 Distribution of Secondary Industry Employment

3.4.3 Services (Tertiary industry)

(1) Overview

The tertiary sector by industrial category includes mainly service, commercial and tourism businesses such as transportation, communication, wholesale, retail trade, hotel, restaurant, finance, public administration, real estate, etc. The GDP of the tertiary sector has grown steadily every year. Comparing the GDP by sectors between 1995 and 2000, the GDP of the tertiary sector accounted for 44.9% of GDP among three sectors, while the primary and secondary sectors accounted for 30.9% and 24.3% respectively. The contribution of the tertiary sector to the Cambodian economy is and will be substantial.

Looking at the GDP of the tertiary sector by detailed categories, trade has the largest share of 33.3%, followed by hotel and restaurant of 19.4%, public administration of 14.7% and real estate and business of 9.9%.

Table 3-6 GDP of Tertiary Sectors (1995 - 2000)

(Million US$)

	1995	1996	1997	1998	1999	2000
Transport & Communication	174	183	175	160	178	187
Trade	387	419	392	339	416	422
Hotel & Restaurants	156	233	206	182	231	271
Finance	23	24	22	20	27	37
Public Administration	141	130	129	118	139	134
Real Estate & Business	136	139	138	127	135	138
Other Services	204	208	202	187	201	205
Total	1,220	1,337	1,264	1,133	1,327	1,395

Source: Cambodia's Annual Economic Review 2001, Cambodia Development Resource Institute

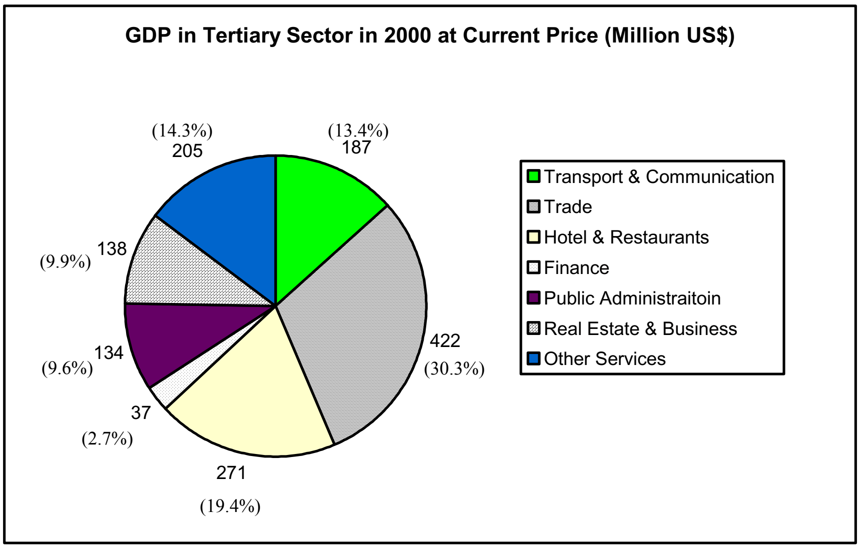
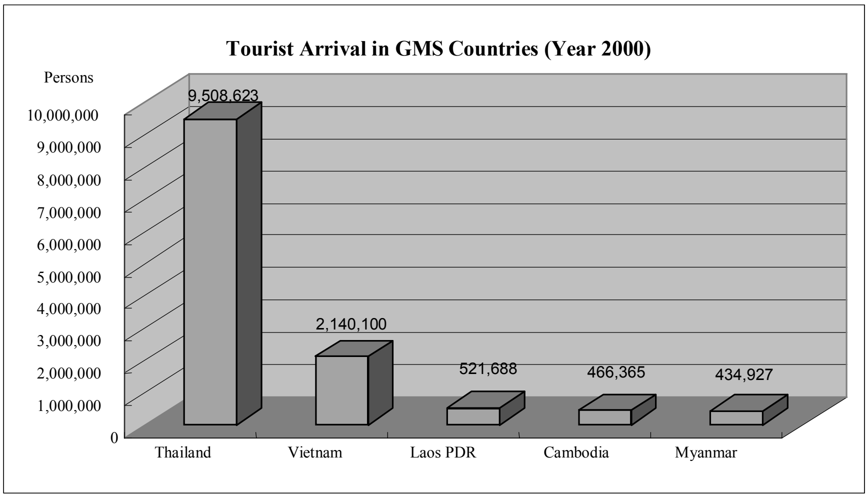


Figure 3-4 GDP in Tertiary Sector in 2000 at Current Price

(2) Present Condition of the Tourism Sector in Cambodia

The tourism sector not only increases foreign currency earnings but also creates jobs and service businesses. For Cambodia, the tourism sector will be one of prospective industry sectors in supporting the Cambodian economy.

Among countries in the Greater Mekong Sub-region (GMS), Thailand is the most popular tourism destination with total tourist arrivals of 9,508,623 in 2000, whereas Cambodia had only 466,365.



Source: Study on Tourism Development along the West-East Corridor (Final Report), Engineering Consulting Firms Association, Japan, March 2002

Figure 3-5 Tourist Arrivals in GMS Countries (2000)

(3) Tourism Resources

Cambodia is rich in excellent tourism resources especially in archeological, historical and cultural heritages and natural beauty. Angkor temple complex and other temples around Siem Reap are some of the world’s most magnificent historical monuments. Other archeological and historical resources can be found around the capital city of Phnom Penh. Located close to the Thailand border, Preah Vihear Temple complex is a famous archeological monument, which can be accessed from Thailand.

Marine and natural resources are mostly found in Sihanoukville, Kaeb, Kampot and Kaoh Kong along the coastal area facing the Gulf of Thailand. Other attractive natural resources are in the area surrounding the Tonle Sap Lake, the area along the Mekong River. Rattanakiri province is known for its isolated hill tribes. The capital of the province, Ban Lung is a place for trekking. Mondulkiri province, located in the lower Mekong River basin, has many waterfalls and four national parks, which have potential for eco-tourism development.

According to the Cambodian National Tourism Development Plan prepared by ADB, major tourist attractions were classified into five categories, summarized in **Table 3-7**. In Cambodia, cultural (85 attractions) and natural (104 attractions) are the major tourist attractions in terms of number.

Table 3-7 Major Tourism Attractions by Province

Province/City	Cultural	Natural	Parks/ Beaches	Recreation	Rural/ Village
Plain Region	**28**	**14**	**1**	**0**	**2**
Phnom Penh	12				
Kandal	8	1			
Prey Veaeng	2	3			1
Kampong Cham	1	4	1		1
Takaev		6			
Svay Rieng	5				
Tonle Sap Lake Region	**44**	**36**			
Bat Dambang	5	7			
Siem Reap	21	6			
Banteay Mean Chey	4	8			
Kampong Thum	5	4			
Pursat	1	4			
Kampong Chhnang	8	7			
Coastal Region	**6**	**18**	**18**		
Krong Preah Sihanouk	3	1	8		
Kampot		8	1		
Kaoh Kong	1	6	7		
Krong Kaeb	2	3	2		
Plateau and Mountain	**7**	**36**	**7**	**1**	
Kracheh	3	6	1		
Kanpong Spueu	1	1	1	1	
Stung Treng	1	4			
Krong Pailin		5			
Otdar Mean Chey		2			
Preah Vihear	2	1			
Rotanak Kiri		10	2		
Mondul Kiri		7	3		1
Cambodia	**85**	**104**	**26**	**1**	**3**

Source: Cambodian National Tourism Development Plan, July 2001, ADB

(4) Tourism Products

Handicraft and souvenir are important tourism products in Cambodia. Cambodia's souvenir industry is mostly undertaken by small family-run businesses except for a few private enterprise specializing in weaving and tailoring (silk sampot and sarongs, the Cambodian national dress). Small manufactures grew more rapidly than public industries. Growth of the handicraft industry should be encouraged because souvenir are an essential part of tourism for domestic and foreign visitors. The handicraft industry is an important source of income for local people, especially in rural villages. Thus, the handicraft industry in Cambodia contributes to support the local economy. Various types of handicrafts can be found at souvenir shops as below;

1) Silk Weaving

The most popular souvenir in Cambodia is krama – a unique checkered silk scarf. It is hand made using traditional ikat methods and styles. The pattern is dyed into the threads before the silk is woven. The products are available at a number of places such as family-run shops in small village to high standard hotels.

2) Silver Craft

Silver boxes, often animal shaped, are popular as traditional souvenirs. These pounded silver containers were once used in ceremonies and everyday life to hold betel leaves. Nowadays the boxes are hand made by local artisans for souvenirs.

3) Carvings and Statues

Carvings and statues are popular though weighty souvenirs in Cambodia. Bronze busts of 'The Leper King' and carved wood Apsara are the most popular items. The quality of carving varies considerably.

4) Gems

Gems are tempting souvenirs. The western part of Cambodia is a fertile source of colored stones, especially rubies, sapphires and emeralds, as these were the main financial source for Khmer Rouge. There are plenty of gem dealers at the Central Market and Russian Market in Phnom Penh. Rotanak Kiri is famous for its "Rotanak Kiri Blue".

3.5 URBAN PLANNING

3.5.1 Overview of the Present and Future Condition of Urbanization in Cambodia

(1) Population Distribution

The largest population concentration is seen in the heavily cultivated central plain situated at the head of the Mekong River delta, close to the Vietnamese border and in the low lands surrounding the Tonle Sap. More than 80% of the total population is concentrated in these low lands that account for only around 30% of the total land of Cambodia.

(2) Overview of Present Urbanization Structure in Cambodia

Urbanization in Cambodia concentrates around the capital city, Phnom Penh and its neighboring provincial capitals chiefly within the central plain area. Medium to minor urban centers chain along the major national roads towards the border with Thailand and Vietnam, and to the seacoast of the Bay of Siam.

The largest urban center in Cambodia is what might be called the Greater Phnom Penh metropolitan area, combining the capital city of Phnom Penh and its outskirts extending to Kadal Province. The areas along National Roads No. 2 towards Takaev and No. 3 towards Kampot are urbanized in a conjunctive manner.

Three arms extend from the Greater Phnom Penh metropolitan area outwards; one along NR No. 4 westwards towards Kampong Spueu, and another southeastwards along NR No. 1 and the Mekong river towards Svay Rieng and the border with

Vietnam, and the third one stretching northwards along NR No. 6 and then No.7 towards Kampong Cham.

Smaller urban centers chain on both sides of the Tonle Sap Lake along NR No.6 towards Siem Reap and along NR No.5 towards Battambang. The two roads cross near the border with Thailand.

There are a few isolated urban centers in Cambodia, most notable of which are Sihanoukville on the shoreline, and another, Kaoh Kong at the coastal border with Thailand.

(3) Present Urban Population Distribution[1]

The largest urban concentration is the city of Phnom Penh, situated at the junction of the Mekong and Tonle Sap rivers. The suburban areas of Phnom Penh also hold a good number of population. Other major cities are Battambang that has traditionally been the economic center of the north, Siem Reab as the gateway to Angkor Wat, Kampong Cham with a strong agricultural base including the largest upland crop production, Kampot with fruits and other commercial crop production, and Sihanoukville (Krong Preah Sihanouk), Cambodia's only deep-water port located on the Gulf of Thailand.

3.5.2 Framework for Urban Planning in Cambodia

(1) Law on Land Use Planning, Urbanization and Construction

The Law on Land Use Planning, Urbanization and Construction (NS/RKM/04/94) was put in effect in August 1994. This law established procedures for formulation of development plans and land use plans on the national and local levels. The contents of the Law are summarized in **Table 3-8.**

The objective of the law is to “promote the organization and embellishment of the urban and rural areas throughout the Kingdom of Cambodia with the purpose of assuring the development of this country” (Article 1), in the spirit of;

- Respecting both common and individual interests, private rights, observing laws and regulations and overseeing construction matters,
- Assuring through the development process an equilibrium between the cities / towns and rural areas based on their geographical conditions and special characteristics, and
- Assuring the value of natural and cultural wealth, ensuring the development of the economic and tourist sectors and maintaining the quality of the

1 In the statistical system of Cambodia, “urban” is not a well-defined terminology. The 1998 Census categorized Districts in to “urban” and “rural” and indicated urban and rural population data, but the definition of the categories was not clear. In Sihanoukville while the Census categorized all three Districts as “urban”, two Districts (Prey Nob and Stueng Huv) has predominantly rural features in terms of employment and residential density. This Study thus adjust the categorization of the two Districts as “rural”, leaving Mittakpheap District as the only “urban” district in Sihanoukville. Meanwhile the Study Team proposes that a clear definition be given to the division in a future Census.

environment.

The law stipulates to establish committees for planning, urbanization and construction at the central and local levels. The local level committees comprise of the committee for the capital city of Phnom Penh and provincial and municipal subcommittees.

The law requires the Phnom Penh and the provincial and municipal subcommittees to formulate development master plans (Article 5), which are subject to approval by the National Committee. In addition, for any special area of importance for the environment or economic development, as determined by the Council of Ministers, the Law enables the National Committee to formulate a specific development master-plan.

The Law also stipulates the formulation of land use master plans (Article 6) under the development master plans for Phnom Penh and at provincial and municipal levels. The land use master plan shall establish a zoning system comprising areas allocated for national defense, agriculture, commerce, industry, handicraft, culture, tourism, religion and administrative and public facilities.

The construction work in theory shall be conducted in obedience with the development plans and land use plans and relevant documents (Article 11, 12 and 13).

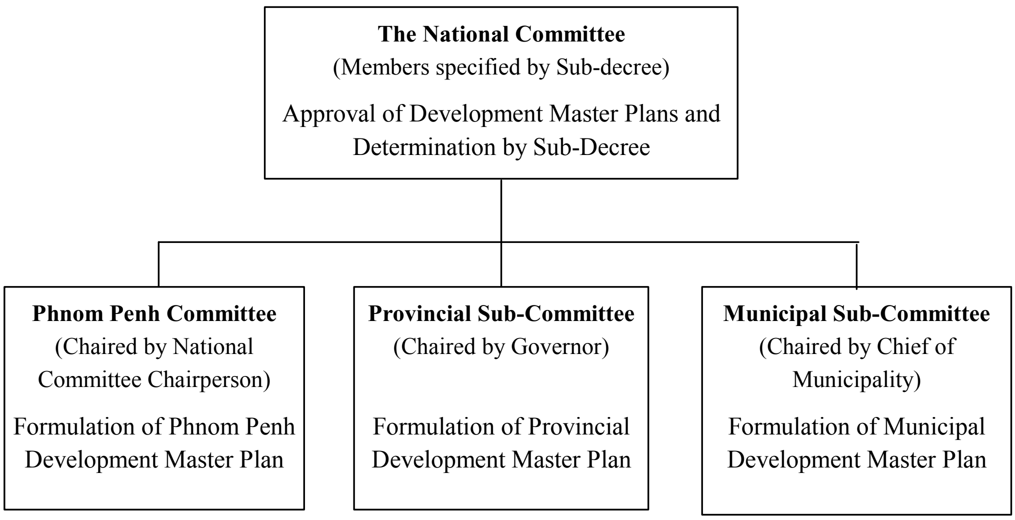


Figure 3-6 Committee Structure for Development Planning

In the implementation of the Law, a sub-decree was issued in 1997 (87/ANK/BK on the Organization and Functioning of the National Committee of Land Management, Urban Planning and Construction). No legal provisions have been made so far on other issues of the implementation of the Law, such as the establishment of Phnom Penh, provincial and municipal committee and subcommittees, specific contents of development master plans and land use plans or procedure for approval of construction.

Table 3-8 Law on Land Use Planning, Urbanization and Construction in Brief

Article No.	Key Word	Description
Article 2	Land Law	The Law shall be based on the ownership titles as provided in the present Land Law.
Article 3	National Committee	A National Committee for Country Planning, Urbanization and Construction shall be established
	Phnom Penh Committee	For the Capital City of Phnom Penh, a Committee for Planning, Urbanization and Construction shall be established
	Provincial and Municipal Committees	For the provinces and other municipalities, a Sub-Committee for Planning, Urbanization and Construction shall be established, headed by Governor or Chief of Municipality
Article 5	Development Master-plan	Phnom Penh Committee or Sub-committees shall respectively draw up their own development master-plans Such development master plan shall be approved by the National Committee and determined by a Sub-decree
	Specific Development Master-plan	Any particular region [to protect the patrimony and the environment, and to assure the economic development] as determined by the Council of Ministers, the National Committee shall have the duty to prepare a specific development master-plan
Article 6	Land Use Master-plan	Land use master-plan shall be established for each capital city, province and municipality
Article 7	Land Use Areas	Land use master plans shall clearly indicate the areas to be allocated for national defense, agriculture, commerce, industry, handicraft, culture, tourism, religion and administrative and public facilities
Article 8	Development Master- plan and Land Use Master-plan	Land use master plans shall comply with the development master plans
Article 9	Approval of Land Use Master-plan	Land use master plans shall be first approved by the [relevant] Committee or by the Sub-Committee, and shall be approved subsequently by the National Committee
Article 10	Special Provisions for Resort Places and Immobile Objects	The Royal Government will set up special provisions and the services of urbanization for protecting and promoting the value of resort places of any immobile objects The list of those immobile objects or resort places shall be determined by a Sub-decree
Article 11	Authorization of Explorations or surveys	All the explorations or surveys which produce an effect on archaeology shall be first authorized by the Royal Government
Article 12	Banning of Construction	All individual and private institutions as well as public authority are banned from conducting any constructions on the public yard-fields [in] water reservoir and water dams, the reserved mining fields and the forest zones, the archeological and historical resort sites, the gardens and public parks and development zones and reserved land for the road constructions or reserved land for the road sides, and the reserved land for the construction of rail-roads and airports, or rivers, seas, streams including banks
Article 13	Work of Construction	The work of construction and the settlement shall be conducted in obedience with all [the relevant] documents and to the master plans mentioned in Article 4 and 5 of this Law

(2) Ministry of Land Management, Urban Planning, and Construction

The Ministry of Land Management, Urban Planning, and Construction (abbreviated as MLMUPC) was created based on the Law in 1994[2].

MLMUPC has four internal general departments, regional offices, a training center and a laboratory. Among the four general departments, the General Department of Land Management and Urban Planning is in charge of land management and urban planning regulations.

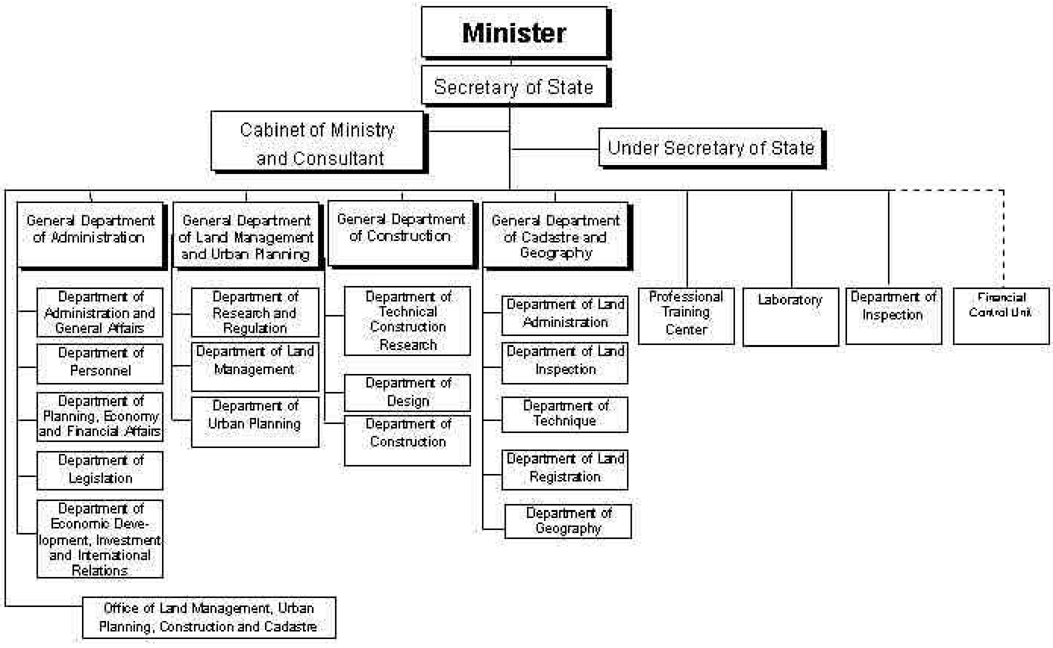


Figure 3-7 Organization of MLMUPC

The Department (sometimes translated "Bureau") of Urban Planning under the General Department is in charge of the following[3];

- To conduct research, to collect information, statistics, and demographic and socio-economic data that relate to urban planning, collaborating with ministries, institutions and provinces/municipalities,
- To formulate legislation regarding dwelling houses
- To formulate regulations regarding social [public] buildings such as meeting halls, hotels, restaurants, schools, pagodas, and sports fields.
- To formulate regulations on trade and industry services such as department stores, warehouses and factories.
- To formulate regulations regarding infrastructure work, including roads inside and outside the cities, clean water supply, sewerage, electricity,

2 Law on the Establishment of the Ministry of Land Management, Urban Planning and Construction (NS/RKM/0699/09), effective May 6, 1999.

3 Proclamation No. 64 Pr.K./DNS of the ministry, defining functions and duties of all departments of the Ministry of Land Management, Urban Planning and Construction.

telecommunication

MLMUPC has regional offices in charge of land management, urban planning, construction and cadastre in cities and provinces. There is one municipal office in Phnom Penh and 23 provincial offices. The roles of municipal and provincial offices in relation to urban planning and land management are essentially equal to the mandate of General Department of Land Management and Urban Planning on a regional extent.

(3) Policy Framework

The urban area is where most of the industrial products are manufactured and goods, both industrial and agricultural, are traded and consumed. Most foreign or domestic investments for development thus head for the urban areas and vicinity. Proper management and regulation of the urban area in essence lead to the enhancement and expansion of the economic activities of Cambodia.

A national Land Policy Workshop (17-18 July 2000) identified some key regulatory and administrative problems in land policy[4], the problems pertaining to urban planning are given below;

- Land use planning and enforcement mechanism remaining weak, and this constrains natural resource management in urban planning
- There is frequent encroachment onto protected areas
- There is ambiguity about the roles of different government agencies in land administration with no appropriate mechanism for coordination

The current policy directives in connection with urban planning address the issues mentioned above[5];

- Development of land use plans for priority areas including tourism and investment zones, key urban areas and major road corridors
- Coordination of land use planning with natural resource management of forests, fisheries, coasts, waterways, and mineral deposits in a harmonized legal framework
- Decentralization of land management and planning authority to local/ provincial authorities, after the establishment of national land use guidelines/supervisory structures

3.6 HUMAN RESOURCES

This Sub-Section first describes recent employment generation. Then it deals with the education and training sector of Cambodia, which supplies human resources required for industrial development.

4 World Bank et al., Cambodia; Integrated and Competitiveness Study, Phnom Penh, 2002.
5 Statement of Royal Government of Land Policy (May 2001)

(1) Employment Generated in the Past 8 Years

In spite of the current economic structure being dominated by the primary sector, the secondary sector created 75% of the new jobs from 1994 to 2001 (**Table 3-9** "Labor Force Created by Newly Approved Investment 1994-2001"). The garment sector created the biggest number of jobs (over 100,000) and shoes, chemical and wood-processing industries followed. Due to the small number of well-educated personnel available in Cambodia, the majority of jobs created are unskilled workers' jobs (51.8%). 85% of jobs created in the last 8 years were for skilled and unskilled workers. It can be summarized that there is only a small pool of well educated human resources, while there are few jobs requiring educated/trained personnel.

Table 3-9 Labor force created by Newly Approved Investment (1994-2001)

Primary Sector	379	425	1,059	815	1,099	11,550	24,095	39,422
Agriculture	50	36	153	120	214	1,253	4,588	6,414
Agro-Industry	93	99	303	286	337	2,430	6,387	9,935
Livestock	1	3	6	2	20	72	66	170
Plantation	235	287	597	407	528	7,795	13,054	22,903
Secondary Sector	2,629	3,218	6,879	8,081	11,885	78,196	110,371	221,259
Animal Meal	5	5	7	1	4	73	10	105
Building materials	45	42	144	178	238	970	1,470	3,087
Cement	41	121	240	169	278	1,682	1,504	4,035
Chemical	358	1,011	1,032	530	1,042	5,097	10,146	19,216
Disc	7	6	6	6	13	21	67	126
Eletronics	16	49	97	55	94	287	2,960	3,558
Energy	15	35	84	28	26	112	19	319
Food Processing	176	87	288	415	561	2,237	6,759	10,523
Garment	1,267	1,086	3,000	4,795	7,030	42,764	45,004	104,946
Hat	0	1	0	8	4	20	230	263
Household goods	17	12	34	29	52	343	282	769
Leather Processing	2	1	2	2	11	32	30	80
Mechanic Assembly	56	52	131	41	85	739	486	1,590
Mechanics	1	0	1	3	2	35	40	82
Medical Chemical	23	39	79	33	96	372	453	1,095
Medical Instrument	0	0	0	0	2	20	20	42
Medical Supplies	4	3	14	10	10	30	249	320
Metal	12	13	38	31	54	214	961	1,323
Mining	22	25	31	21	64	253	530	946
Other Industries	77	112	171	182	257	2,529	2,803	6,131
Other Industry	2	2	2	5	8	90	10	119
Paper	95	77	264	154	327	1,225	1,893	4,035
Petroleum	49	86	107	136	125	343	363	1,209
Petroleum Distribution	8	0	1	3	16	27	98	153
Plastic	31	28	94	71	118	852	818	2,012
Shoes	72	78	245	287	391	9,654	10,679	21,406
Sock	1	4	20	4	17	130	80	256
Textile	57	54	121	146	117	3,959	6,787	11,241
Tobacco	70	44	179	163	240	977	1,787	3,460
Wood Processing	100	145	447	575	603	3,109	13,833	18,812
Tertiary Sector	262	383	797	517	1,324	2,079	8,391	13,753
Construction	41	91	145	153	155	375	5,336	6,296
Education	9	6	8	24	188	206	212	653
Engineering	6	12	46	8	27	44	10	153
Health Services	3	0	5	2	5	10	16	41
Infrastructure	10	18	28	21	36	170	542	825
Media	21	11	36	24	70	75	77	314
Service Energy	1	1	2	1	2	5	2	14
Services	65	80	176	108	232	627	1,704	2,992
Telecommunication	86	154	294	134	473	358	249	1,748
Transportation	19	9	56	41	131	202	234	692
Water Supply	1	1	1	1	5	7	9	25
Tourism	460	204	588	860	1,419	5,158	8,083	16,772
Hotel	343	130	387	706	1,015	3,428	5,507	11,516
Tourism	21	28	104	74	91	463	592	1,373
Torism Centre	96	46	97	80	313	1,267	1,984	3,883
Total	3,730	4,230	9,323	10,273	15,727	96,983	150,940	291,206

Source: Cambodia Investment Board 2002

The impact of the tertiary sector, including tourism, has been modest (10.4%). The **Table** shows how the secondary sector has been important for employment creation in Cambodia. On the other hand, current major export industries including the garment sector have a limited linkage with the local economy. Its local inputs include transportation, freight clearing services and construction of factories. In many cases, enterprises generate their own electricity because the electricity supplied by the Electricity Company is expensive. They dig underground for water they use.

The tourism sector has multiplier impacts. Hotels and restaurants purchase local food, utilities, electricity and telecommunications. Construction services are also required in many instances. It is however essential that those domestic suppliers must meet the demands of the tourism and manufacturing sectors.

It should be noted that the data in **Table 3-9** was taken from investment application documents submitted to the Cambodian Investment Board. Some of the enterprises might have not reached the indicated number of employees.

Table 3-10 "Employment generated in new enterprises established 1994-1999"

ISIC	1994	1995	1996	1997	1998	1999	Total
2 Mining	90	0	118	0	0	0	208
3 Manufacturing	14,387	7,513	11,751	28,336	43,058	32,287	137,332
31 Food, beverages and tobacco	1,258	472	3,564	471	549	20	6,334
32 Textile and wearing apparel	9,109	4,641	5,449	25,781	41,649	30,678	117,307
33 Wood and wood products	20	2,099	1,411	259	27	592	4,408
34 Paper and paper products	387	0	51	44	86	66	634
35 Chemicals, rubber and plastic products	686	113	627	349	532	732	3,039
36 Non-metallic mineral products	2,590	158	349	0	119	0	3,216
37 Basic metals	25	0	20	1,286	0	0	1,331
38 Fabricated metal products	302	30	238	146	96	199	1,011
39 Other manufacturing industries	10	0	42	0	0	0	52
4 Electricity, gas and water	37	0	0	0	0	0	37
Total	14,477	7,513	11,869	28,336	43,058	32,287	137,540

Source: Business Directory of Cambodia 1999, Ministry of Industry, Energy and Mining

Table 3-10 "Employment generated in new enterprises established 1994-1999" presents employment generated from 1994 to 1999 by the mining, industry and electricity, gas and water sector which the Ministry of Industry, Mining and Energy (MIME) is in charge of. Textile and wearing apparel (classified as garment in CIB statistics) created the most jobs. The shoes making industry is classified as ISIC 32 "Textile and wearing apparel". No industry so far has competed with textile and wearing apparel in terms of employment creation.

(2) Education Administration

The Ministry of Education, Youth and Sports (MoEYS) is the ministry responsible for the education sector. MoEYS is at the center of education in Cambodia. Primary, secondary, higher education, technical and vocational education and training, and non-formal education are under the jurisdiction of MoEYS. MoEYS thus has responsibility for quality assurance of newly established private universities as well. MoEYS has education offices in 23 provinces.

The Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation (MoSALVY) provides short-term vocational training courses. The University of Health Sciences is under the supervision of the Ministry of Health. Likewise, the

Royal University of Agriculture is under the supervision of the Ministry of Agriculture.

The Royal Academy of Administration is an institution specializing in multi-disciplinary research and policy studies with particular focus on the Khmer language and public administration (government officials).

(3) Devastated Human Resources and Its Recovery

Cambodia's human resources base has been devastated by two decades of internal strife. Chaos and turmoil destroyed the education system in the 1970s. As shown in **Table 3-11**, considerable efforts are required to catch up with the neighboring countries.

Table 3-11 Regional Comparisons of Educational Profiles

Country	Adult Literacy Rate (% aged 15 and above) 1998	Female Adult Literacy Rate (% aged 15 and above) 1998	Youth Literacy Rate (% age 15-24)	Children Reaching Grade 5 (%)
Thailand	95.0	93.2	98.8	n/a
Philippines	94.8	94.6	98.4	n/a
Vietnam	92.9	90.6	96.7	n/a
Indonesia	85.7	80.5	97.3	88.0
Cambodia	67.3	58.0	56.9	49.0
Laos	46.1	30.2	67.5	55.0

Source: p235 Second Five-Year Socio-Economic Development Plan 2001-2005, Ministry of Planning

Public expenditure on education was low in the 1980s and the 1990s. The cost of education was primarily borne by donor agencies and NGOs. Many donor agencies and NGOs have been involved in the educational sub-sector as shown in the following **Table**.

EU, USAID and UNICEF have specialized in primary education with emphasis on curriculum development and teacher training. NGOs as well have extended assistance to primary education. NGOs have also been involved in non-formal education. The World Bank has assisted with the construction of schools through its Social Fund. ADB has assisted in formulating an education investment plan, a master plan, textbook development and a Basic Skills Project (Technical and Vocational Education and Training "TVET"). ILO and GTZ have been involved in TVET. JICA has dispatched an education adviser to the Ministry of Education, Youth and Sports. The Japanese government has constructed primary schools in Phnom Penh and in rural areas. JICA is currently implementing a "Secondary School Teacher Training Project in Science and Mathematics". JICA has assigned various senior and young volunteers to Preah Kossomak Polytechnic Institute (Computer science, Civil Engineering and Electric and Electronical Engineering) and to the universities (as Japanese language teachers).

Table 3-12 Donor Assistance on Human Resources Development

		Pre-school education	Primary education	Lower secondary education	Upper Secondary education	Higher education	Vocational and technical Education	Non Formal education
Education administration	Education Policy	UNESCO/UNDP/AND/EU/JICA/USAID/DFID/WB						
	Financial Capacity Building	AusAID						
System improvement	Improvement in the quality and quality of educational information	EU/UNICEF/ADB						
	Reform of the exam system	AusAID						
Improvement in education services	Teachers Training	NGOs	USAID/ UNICEF /EU/ NGOs	DFID /NGOs/ France	JICA/ NGOs	NGOs /AusAID /France	ADB/ France/ GTZ/ ILO/ UNDP/ NGOs	NGOs/U NESCO/ ADB /GTZ
	Improvement in curricula		ADB/ NGOs	ADB/ France/ EU/DFID	ADB/ DFIF/ France	NGOs	GTZ/ILO/ UNDP/ NGOs	ILO/UN DP/ UNICEF
	Development of textbooks and teaching materials	NGOs	ADB/ NGOs	ADB/Fran ce/EU/DFI D	ADB/DFI D/France	NGOs	GTZ/ILO/ UNDP/ NGOs	
Educational infrastructure	School Facilities Building	NGOs	WB/Jap an/EU/ NGOs	WB/ADB/ EU/NGOs	ADB	ADB/ France	ADB/Fran ce/GTZ/ ILO/ UNDP/ NGOs	

Source: p251 Part II Chapter 2 Section 5. Human Resources Development, JICA (March 2002) The Kingdom of Cambodia – From Reconstruction to Sustainable Development - Country Study for Japan's Development Assistance to the Kingdom of Cambodia -

Cambodia has made significant progress in expanding access to primary and secondary schooling in the 1990s. The share of government expenditure on education was 10 % in 1999 and is 13% presently. MoEYS has the second biggest government budget next to the Ministry of National Defense though the majority of its budget has been appropriated for teachers' salary. On the other hand, SEDP II noted that government expenditure on education had remained constant at between 0.9 and 1.0% of GDP since 1994, while that of Lao P.D.R is 2.4%, Bangladesh 2.3% and Nepal 2.9%.

Nevertheless primary school enrollments increased from 1.8 million to 2.4 million in the last five years. Some 1,000 primary schools were established in the past five years. Net enrollments for primary and lower secondary schools were 90.0% and 21.9% respectively (2001).

(4) Major Constraints and Prospects on Human Resources Development

While access to primary and secondary education has improved, improvement in quality is still required. MoP (SEDPII), MoEYS, and other donors point out the following issues as the major development agendas.

- Geographical and Gender Disparities in access to secondary school in remote areas because lower and upper secondary schools are concentrated in urban areas,
- High dropout and repetition rates – not all schools provide education up to the sixth grade, some pupils are unable to follow classes, and they tend to repeat grades or dropout
- Teacher training – similar to the issues in geographical disparities, teachers in remote areas are not qualified for teacher training college entry, instructors at teacher training institutions vary widely in their qualifications
- Curriculums and textbooks – Teachers need to identify and meet these diversified needs at school
- Slow development of lower secondary schools – traveling distances of more than 5kms to secondary schools is a significant access barrier in rural areas. The objective of the secondary education system is largely academic and quality is defined as preparing students for further studies
- Institutional status of higher education institutions requires improved definition - the RGC is promoting public/private partnership in higher education. The degree of operational autonomy of public institutions needs legal or regulatory framework, and quality assurances for newly created private universities
- Increased operational autonomy of public Technical and Vocational Education and Training (TVET) institutions - public TVET institutions should learn lessons from private TVET providers including NGOs in order to respond to the market needs

3.7 SOCIAL DIMENSIONS

Eighty percent of Cambodians are living in rural areas. This section describes the current major features of the rural society.

(1) Economic Situation of rural households

The most updated and reliable nationwide data on the socio-economic situation at the household level in Cambodia are *the Cambodia Socio-Economic Survey (CSES)*

1997[6]. The survey classified Cambodians into three groups by the place of living; Phnom Penh Municipality, Other Urban Areas, and Rural Areas. The CSES revealed that 36.1 per cent of the total population in Cambodia lived below the poverty line, of which the Rural Areas the highest percentage at 40.1 per cent followed by the Other Urban Areas, with 29.9 per cent, and Phnom Penh Municipality, with 11.1 percent.

Among those households below the poverty line, farmers' households accounted for 44 per cent, the highest occupational group. Households headed by government officials, on the contrary, accounted only for 18 per cent[7].

Economic disparity between the rural and urban areas was found to be large. The CSES 1997 found that while the lowest per capita expenditure decile in rural areas spent 16,583 Riels monthly, the decile of the same category in Phnom Penh spent 40,638 Riels (**Table 3-12**).

Table 3-13
Average Monthly Expenditure Per Capita
by Deciles and Stratum, Cambodia 1997

Per Capita Expenditure Deciles	Cambodia		Rural		Phnom Penh		Other Urban	
	Value Riels	%	Value Riels	%	Value Riels	%	Value Riels	%
All Deciles	57,944	100.0	45,045	100.0	140,296	100.0	77,432	100.0
1st Deciles	17,243	3.0	16,583	3.7	40,638	2.9	20,632	2.7
2nd Deciles	23,419	4.0	22,308	4.9	56,490	4.1	29,211	3.8
3rd Deciles	27,741	4.8	26,022	5.8	69,272	4.9	34,632	4.5
4th Deciles	31,974	5.5	29,715	6.6	81,482	5.8	40,376	5.3
5th Deciles	36,724	6.3	33,334	7.4	94,161	6.7	46,918	6.0
6th Deciles	43,124	7.4	38,062	8.4	109,510	7.8	53,480	6.8
7th Deciles	51,105	8.8	44,270	9.9	131,183	9.3	62,474	8.2
8th Deciles	62,701	10.8	52,531	11.6	154,635	11.0	77,143	10.0
9th Deciles	83,964	14.5	65,506	14.5	192,862	13.7	111,367	14.6
10th Deciles	201,599	34.8	121,932	27.2	469,292	33.8	299,865	38.3

Source: National Institute of Statistics, Ministry of Planning, Report on the Cambodia Socio-Economic Survey 1997, P.41.

Cash income is essential even in rural communities, to allow for payments for medical and educational expenses. As a result, poor rural households are faced with difficulty in leading a decent life. The Human Development Index (HDI) reflects not only economic situations but also other conditions of human development such as health and education. The HDI was 0.517[8] for Cambodia in 2000 and this figure was the third lowest among 12 Asian countries. Further, the HDI for Cambodians living in rural areas was 0.500, which was lower than those in urban areas with an HDI of 0.604.[9]

6 The number of villages surveyed by the CSES 1997 was 424, whereas approximately 13,000 villages existed at the time of the CSES. After the CSES 1997, another socio-economic survey was conducted by the government and the results were published in 1999,

7 World Bank, South Asia and Mongolia Country Unit, East Asia and Pacific Regional Office, Cambodia Country Assistance Strategy, 2000, P.72.

8 Ministry of Planning, Cambodia, CAMBODIAN HUMAN DEVELOPMENT REPORT 1999: Children and Employment, 2000, P.3.

9 Ministry of Planning, Cambodia, Ibid., P.6.

The World Food Program, which conducts food security projects for the poor in Cambodia, identified Seim Reap, Preah Vihear, Kampong Thom, Pursat, Kampong Chhnang, Ratanakiri, and Mondokiri provinces as the provinces in a severe poverty state[10], in an attempt to set their target areas for 2001[11].

(2) Main economic activities

Economic activities in the rural area are not diverse. People in the rural area largely depend on agriculture. Based on the estimation of GRDP in the rural area in 2000 by the Growth Corridor Study Team, the staple industry in the rural area is primary industry, producing 48 per cent of the GRDP of the rural area[12]. Within the primary industry, cropping and raising of livestock and poultry produced the largest value, although the income generated from these activities is generally low. Thus, poverty in the rural area is pervasive.

The agricultural productivity is generally low. For example, the average amount of rain-fed rice production per hectare is only about 2 tons. This is due to a combination of reasons such as lack/inadequacy of irrigation systems, low agriculture technologies, low soil fertility and scare inputs, general shortage of land, and weather changing year by year.

(3) Food Security

Many rural households are said to be on or below the subsistence level in terms of rice. After consuming the rice produced by their own household, farmers sell animals to earn cash to buy additional rice, or sometimes borrow rice or cash from their neighbors, relatives, money-lenders and NGOs.

(4) Rural Credit

In order to respond to the needs for cash of people in the rural area, rural credit facilities by NGOs and the government are imperative in Cambodia, as credit from private money lenders bears high interest rate from 20 to 30 per cent monthly, and often requires farmers to mortgage their land. The NGOs have provided credit services in the rural areas amounting to US$ 15 million for 200,000 borrowers (11 percent of the households) by June 1998[13]. The number of the NGOs conducting rural credit activities reached approximately 90[14]. It should be noted that although the micro rural credit contributes to meet the urgent needs of rural residents, it does not bring about substantial improvement in the rural life. Credit in the form of lending rice, animals such as pigs and chickens to farmers has a tendency to fail due

10 A poverty profile conducted by JBIC identified from CSES 1997 that Siem Reap, Prey Veng, Banteay Meanchey, Kampong Thom, Kampong Chhnang province had higher ratio of the poor people to the total population.
11 The target was set through using their field staff knowledge, CSES 1997, and the national census 1998, mainly.
12 The Study Team estimated the GRDP of the staple industry in the rural area at 4,414,599 million Riels and the total GRDP in the same area at 9,120,151 million Riels (at factor cost).
13 Ministry of Planning, Review of Progress in the 1990s and Action Programme for 2001 – 2010, P. 50.
14 ADB, Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Cambodia for the Rural Credit and Saving Project, 2000, P.6.

to a chronic shortage of rice production and inappropriate levels of production skills such as in prevention of animal sickness. The borrowers are often unable to pay even the interest.

(5) Group activities relating to production

Producer organizations such as cooperatives are normally regarded as beneficial to individual producers including poor rural farmers. In Cambodia, however, due to harsh and destructive experiences and memories of collective agricultural production activities under the Pol Pot regime, a number of Cambodians are reluctant to formulate cooperatives, as widely recognized and described by academics [15]. Farmers and craftsmen, therefore, deal with middlemen. Difficulty in formulating cooperatives of farmers, fishermen, and craftsmen are persistent. Formulation of villagers' groups for maintenance and operation for rural communal infrastructure is similarly difficult for the same reason.

(6) Rural infrastructure[16]

The existing infrastructure requires urgent development. Only 23.7 per cent of the people in rural areas had access to safe drinking water in Cambodia according to the national census in 1998. Access to sanitation facilities, i.e., toilets, was even at 8.6 per cent. The main fuel for lighting in the rural areas in Cambodia was kerosene, while only 6.3 per cent were connected to electricity. The CSES 1997 revealed that 81 per cent of the villages had access to a road adequate for motorized vehicles.

Recognizing the urgent need for rural infrastructure development, the RGC, international donors, and NGOs have initiated a number of programs and projects. The infrastructure development realized significant effects through increasing access to economic activities, health services, and education of the rural resident[17].

(7) Social services

Inadequate access to essential social services is a cause of poverty that keeps the poor being poor in Cambodia.

15 Similar attitudes have been found among farmers and different social groups and activities.

16 Figures in this section were extracted from the General Population Census of Cambodia, Rerport 4, P.32, published by National Institute of Statistics, Ministry of Planning in 1998.

17 Chim Charya, Srun Pithou, So Sovannarith, John MacAndrew, Nguon Sokuhthea, Pon Dorina and Robin Biddulph, Cambodia Development Resource Institute in collaboration with the Ministry of Rural Development, Learning form Rural Development Programmes in Cambodia, Working Paper No.4, 1998, Teng You Ky, Pon Dorina, So Sovannarith, and John MacAndrew, Cambodia Development Resource Institute in collaboration with the Ministry of Rural Development with funds from the United Nations Children's Fund, The UNICEF/Community Action for Social Development Experience: Learning from Rural Development Programms in Cambodia, Working Paper 9, 1999, John Tracey-White and Robert Petts, Intech Associates in association with the Center for Advanced Study, STUDY INTO THE SOCIO-ECONOMIC IMPACT OF THE LOCAL DEVELOPMENT FUND/LOCAL PLANNING PROCESS 1996-2000, 2001.

1) Education[18]

A higher poverty rate was found among the households whose heads have had no formal education or had only a primary education. This group with restricted educational attainment accounted for four-fifths of the poor.[19]

2) Health

Most of the basic health indicators for Cambodians such as infant mortality and maternal mortality are among the highest in South East Asia. The main causes of deaths and illness of Cambodians are infectious diseases. HIV/AIDS is also a serious national threat. Access to health services is hindered by scarcity of health facilities and the insufficient quality of health staff in rural area aggravates the low quality of the health services.

The health status of the people in the rural areas is significantly worse than the urban areas. Cost of the health service adds a heavy burden to the people in the rural areas. Lack of basic knowledge about health, nutrition, and sanitation discourages them from taking preventive measures, thus, they continue to revert back to the current condition.[20.]

3.7.1 Cross-cutting issues

(1) Gender

In Cambodia, access to and control over assets and resources does not differ much between women and men. Work division in agriculture, which is a main *productive activity* in the gender analysis termiminology, is not largely decided by gender. In contrast, division of *reproductive activities* are decided by gender and the reproductive activities are regarded as women's work.

A substantial gender disparity exists in education and reproductive health.1) Education

Women's access to education is largely restricted in Cambodia. A survey for the people[21] conducted by the Ministry of Education, Youth and Sport in cooperation with the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 1999 revealed that 45.1 per cent of the female respondents who were 15 years or older were "completely illiterate", while the rate was 24.7 per cent for the male respondents.[22]

18 For further detailed information on education in the Growth Corridor Study Area, please refer to the section for the Human Resource Development in this report.
19 Ministry of Planning, Cambodia, CAMBODIAN HUMAN DEVELOPMENT REPORT 1999: Children and Employment.
20 Royal Government of Cambodia and UNICEF, Ibid., P.39.
21 The number of respondents was 6,548. Cambodia Resources Institutes, "Cambodia Development Review".
22 Cambodia Resources Institutes, "Cambodia Development Review".

The difference in school enrolment of male and female students becomes larger in the lower secondary education than in the primary. The shortage of number of lower secondary schools, particularly in rural areas, and security problems against female students hinder women's access to the secondary education.

2) Reproductive Health

Women's reproductive health is under threat in Cambodia. The maternal mortality rate in Cambodia of 470 per 100,000 was one of the highest in Asia, and so is the total fertility rate of 4.6.[23] Infection with HIV, which had once been rampant only among commercial sex workers and their male clients, is increasingly occurring from husband to the wife due to the low level of condom use in families and the weak negotiation power of wives.

(2) Migration

Large scale of population movement have occurred in entire Cambodia for these three decades due to conflicts, resettlement of refugees after the conflicts, and other reasons. The large-scale migration is one of the causes of disintegration of communities in the country, also. The National Census 1988 indicated that more than one quarter of the population had changed the place of residence. Fifty-nine per cent of the urban population and 26 percent of rural population had migrated[24].

Under the conflicts, very often migration coincided with lose of their assets. However, at the time of the census in 1998, the largest reason for migration at the time of the census in 1998 was search for employment. Inflows of people in urban areas for searching for employment have been increasing recently, particularly in Phnom Penh City and Sihanoukville and suburbs of these two cities. Some of these people have ended up working as poorly paid daily-wage workers, or living in squatter areas without having job. Another reason for the migration has been attributed to farmers' losing their land[25]

(3) Vulnerable groups

Cambodian people suffered from warfare and conflicts and experienced three decades of social turmoil that persisted until the 1990s resulting in the return of refugees and an internal displaced population. In addition, economic and social changes have occurred as a result of the economic liberalization. On-going demobilization is another factor to facilitate social changes.

23 Demographic and Health Survey.

24 Ministry of Planning, General Population Census of Cambodia 1998, P. 9.

25 Reasons for farmers' losing their land include the traditional land inheritance system, urgent needs for cash for medical costs, default of repayment to moneylenders, etc. According to the traditional land inheritance system, all children of the family inherit the equal size of land. Therefore, if the number of children is large, or their parent's/parents' land is small, the inherited individual land becomes too small for agriculture to maintain their livelihood. As a result, they need to give up agriculture and sell the land.

Under these circumstances, the poor, people with disabilities, female household heads, together with landless farmers are generally regarded as vulnerable. They easily fall into poverty, and are marginalized or exploited, while public support for the vulnerable is limited. Estimation of the vulnerable population by the government is shown in the following table (**Table 3-14**).

Table 3-14 Estimated Numbers in Various Vulnerable Groups

Group	Number (1999)
Child Workers	673,083
Disabled People	169,000
Commercial Sex Workers	Unknown
Child Commercial Sex Workers Phnom Penh	5,000
Child 5-13 working +25 hours /week and not at school	65,000
Child soldiers	5,000
Child without carers	2,500
Street children Phnom Penh	1,000
Children in coflict with the law	178
Drug addicts	80

Source: SEDP II, P.108

Landless farmers in Cambodia were estimated by the Mekong River Commission to account for 24 per cent of the rural households.[26] As most of the farmers conduct subsistence agriculture in rural Cambodia, their food-security would be threatened and their poverty aggravated if they lost their lands.

Reasons cited for farmers' losing their land include their urgent need for cash for medical costs, default of repayment to money-lenders, forced move by officials and the rich, and encroachments due to uncertainty of land titles.[27] Complicated and very costly land titling procedures combined with a high population growth rate, and internal displacement often cause farmers to lose their land.

(4) Land Issues

The magnitude of issues relating to land title in Cambodia is very large. Disputes over land titles, encroachment and the forced movement of people are not uncommon.

Conflicting interests are often seen among farmers, the urban poor, varying levels of government officials, businessmen, and so forth. These issues involving land title are some of the major problems facing the current Cambodian society. They tend to intensify when plans or rumors of development involving land occur. They have delayed the progress of development plans and affected the life of people involved, causing losses in time and finance for developers as well as hardship and the involuntary relocation of local people. The numbers of landless farmers has been increasing due to land disputes.

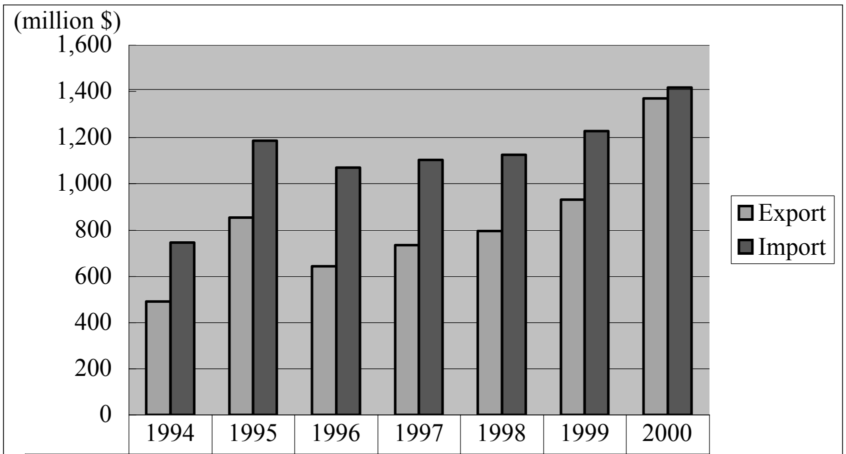
26 Cambodia Development Institute, Working Paper No.20, P. 12.
27 Please refer the section for land issues.

The government, donors, research institutes, and NGOs have recognized the seriousness of the problem and urged urgent responses[28]. Some of donors and the Cambodian government have been trying to address these problems by implementing measures, but the complexity of the issues makes the problem difficult to solve quickly and completely. For example, more than four million applications for title of ownership for land have been received officially by the General Department of Cadastre and Geography of the Ministry of Land Management, Urban Planning and Construction.[29] A small fraction of them have actually led to the certificates[30]. Under such circumstances, land is being marketed without official land ownership.

3.8 FOREIGN TRADE

3.8.1 Overview

The foreign trade of Cambodia in 2000 amounted to US$ 1,370 million for export and US$ 1,420 million for import for a trade deficit of US$ 49 million. Annual trade increased as much as 2.8 times for export and 1.9 times for import between 1995 and 2000.



	1994	1995	1996	1997	1998	1999	2000
Export	490	854	644	734	795	933	1,369
Import	745	1,187	1,071	1,103	1,127	1,228	1,418

Source: Cambodia Import-Export Statistics, MOC

Figure 3-8 Import and Export Amounts for Cambodia

The worldwide trend towards free trade, possible cancellation of GSP status and the flood of exports of cheap manufactured products from China are all potential threats to the Cambodian exports. Shifting away from the garment dependent export of Cambodia is imperative in surviving through the progress of the free trade trends in the world.

28 The Ministry of Planning, Cambodia Human Development Report, 1999, The World Bank, Cambodia Poverty Analysis, 1999, Sik Boreak, Cambodia Development Resource Institute, Land Ownership, Sales and Concentration in Cambodia, Working Paper 16, 2000, etc.

29 Sik Boreak, Cambodia Development Resource Institute, Ibid., P.37.

30 The Ministry of Planning, Cambodia Human Development Report, 1999, Executive Summary.

3.8.2 Export

Table 3-15 shows the export amount of Cambodia by commodity. After receiving the Generalized System of Preferences (GSP) of the USA and EU countries in 1996, the amount of garment products exported from Cambodia increased drastically to reach US$ 985 million or 72% of total exports in 2000. US$ 723 million or 73% of the garment export amount is shipped to the USA, which is equivalent to 98% of the total export amount to USA of US$ 739 million as shown in **Table 3-16** and **Figure 3-9**.

Table 3-15 Details of Cambodian Export by Product Category (2000)

(unit: US$ million)

Product	1994	1995	1996	1997	1998	1999	2000	
							amount	ratio
Processed wood	224	185	149	105	102	39	34	2%
Fishing products	2	2	3	3	4	5	6	0%
Natural rubber	26	41	32	23	25	29	32	2%
GSP products	2	28	102	278	377	673	1,025	
Garment			80	227	360	654	985	72%
Others			22	51	17	19	40	3%
Others	237	599	358	325	287	187	272	20%
Export total	491	855	644	734	795	933	1,369	100%

Note: GSP stands for Generalized System of Preferences

Source: Cambodia Import-Export statistics, MOC

Table 3-16 Cambodian Export Details by Country of Destination

(unit: US$ million)

Product	USA	UK	Germany	HK	China	Thailand	Vietnam	Singapore
Processed wood				17	21		4	
Fishing products				2	1			1
Natural rubber							14	9
Garment	723	80	54	1				
Printed products				16		13		
Footwear			10					
Others	16	2	2	2	2	10	1	8
Export total	739	82	66	38	24	23	19	18

Source: Cambodia Import-Export Statistics, 2000, MOC

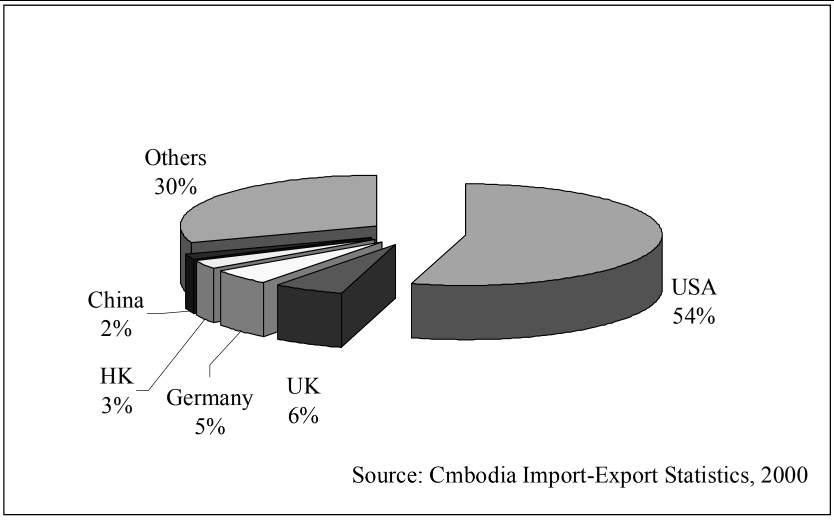


Figure 3-9 Destination of Cambodian Exports

3.8.3 Imports

The major import commodities of Cambodia are (1) textiles of US$ 492 million, (2) oil products of US$ 180 million, (3) machinery of US$ 239 million (boilers, automobiles and parts, electric devices, etc.) as shown in **Table 3-17**. Those are the materials for garments, construction materials for factories and power plants, and parts for motorized bicycles for the domestic market. The staple fiber of US$ 225 million and tobacco of US$ 77 million are imported for re-export.

Table 3-17 Import Goods in Cambodia (2000)

Category	Import amount (million $)
Food, agriculture products	99.8
Cereals	11.1
Sugar and sugar confectionery	12.3
Tobacco	76.5
Minerals	210.8
Salt, sulphur	30.8
Fuel, oil	180.0
Textile, apparel	491.7
Cotton	19.6
Filaments	16.9
Staple fiber	225.1
Wadding, felt	13.5
Woven fabrics	18.8
Knitted or crocheted fabrics	129.5
Apparel accessories	21.5
Textile articles	47.0

Category	Import amount (million $)
Paper and paperboard	36.3
Printed books, newspaper, picture	11.8
Chemical products	101.5
Organic chemicals	24.5
Pharmaceutical products	40.1
Plastics	25.1
Raw hides & skins	11.8
Metal	59.5
Ceramic products	10.6
Pearls, precious stones	24.1
Iron and steel	13.6
Aluminum and articles	11.2
Machinery	238.8
Boiler	103.0
Electric machinery	51.5
Vehicle and parts	72.7
Optical, photographic instrument	11.6
Others	167.7
Total	1,417.8

Source: Cambodia Import Statistics 2000, MOC

Table 3-18 shows the import amount by countries of origin. Textile materials from Hong Kong, Taiwan, China, South Korea, and China, oil products from Vietnam and Singapore, automobile parts form Japan, Thailand, and South Korea, tobacco and fertilizer form Indonesia, machinery from Japan, Taiwan, and Singapore, medicine from the EU represent the major import structure. The import amount from ASEAN and the East Asian countries reached US$ 1,235 million or 90% of the total import amount of US$ 1,418 million.

Since 60 % of the export amount is sent to the USA and theEU, it is clearly understood that the manufactured goods produced from materials imported from Asian countries are exported to the USA and the EU.

Table 3-18 Cambodian Imports by Country (2000)

Country	Import amount (million $)	Major import goods (million US$)
Asean countries	554.4	
Indonesia	68.4	Tobacco(36.0), organic chemicals(10.6)
Malaysia	64.2	Stable fiber(12.4), Knitted fiber(14.4)
Singapore	106.0	Fuel(10.9), pearl(14.8), machine(19.2)
Thailand	221.8	Sugar(10.3), Salt(27.5), Fuel(91.9), Vehicle parts(14.6)
Vietnam	91.5	Fuel(76.7)
East Asia	680.7	
Japan	53.4	Vehicle parts(26.9), machinery(11.1)
HK	254.3	Staple fiber(112.1), knitted fiber(38.6), apparel accessories(13.6)
Taiwan	174.8	Staple fiber(37.1), knitted fiber(49.9), machinery(14.9)
China	112.9	Staple fiber(29.2), knitted fiber(13.6), iron/steel(10.7)
ROK	76.9	Textile article(30), staple fiber(11.9), Vehicle parts(13.7)
Europe	116.0	
France	39.0	Pharmaceutical products(14.8)
UK	19.1	Tobacco(15.7)
Switzerland	21.0	Precious stones(18.7)
America	41.2	
USA	32.8	Printed books(10), textile articles(5.6)
Others	25.5	
Total	1,417.8	

Note: ROK accounts for the Republic of Korea
Source: Cambodia Import Statistics 2000, MOC

3.9 INVESTMENT

Foreign direct investment (FDI) and domestic investment, mostly for industrial development projects, started to increase in 1994 and reached a peak in 1998, when, a total capital of US$ 388 million was invested on 89 projects, as shown in **Table 3-19**. The number of investment projects has since been decreasing to merely 39 projects with a value of US$ 198 million in 2001, or 45% and 50% respectively, of the peak year.

Table 3-19 Industrial Investment in Cambodia

Year	Approved Project					Implemented Project		
	Number of Project	Capital		Num of Employee		Number of Project	Capital	
		(US$ million)	per project	persons	per project		(US$ million)	per project
1994	26	158.1	6.1	13,261	510	10	219.1	21.9
1995	124	1,894.4	15.3	36,392	293	51	546.1	10.7
1996	189	483.5	2.6	70,265	372	70	257.3	3.7
1997	205	369.6	1.8	128,457	627	84	168.7	2.0
1998	143	417.2	2.9	116,235	813	89	387.9	4.4
1999	91	233.1	2.6	77,171	848	59	307.0	5.2
2000	62	103.9	1.7	33,112	534	46	154.1	3.4
2001	39	128.9	3.3	16,408	421	39	197.7	5.1
Total	879	3,788.7	4.3	491,301	559	448	2,237.9	5.0

Source: CDC

Table 3-19 shows the industrial investment by industrial category in Cambodia. In total 347 projects or 40 % were in the garment industry during the 8 years from 1994 till 2001. The hotel and tourist industry invested in 63 projects or 8% of the total projects.

In the capital amount, the largest investments went to the hotel and tourist industry with US$ 1.7 billion. The garment industry was the second largest with US$ 377 million. The wood manufacture and cement manufacturing also received substantial amounts of investment.

The plunging of investments in Cambodia was mainly caused by a declining number of investment projects in the garment industry. In 2001, only 14 projects or one eighth of the 105 projects in 1997 were implemented in the garment industry. Similarly, the number of projects in the hotel and tourist industry decreased to 8 and 6 projects in 2000 and 2001 respectively, from 16 in 1996.

Table 3-20 and **Figure 3-10** show the applied capital by country. Malaysians and Cambodians invested the capital sum of US$ 1,530 million and US$ 866 million respectively, during 8 years from 1994 till 2001. The investments from the two countries account for approximately 65% of the total investments. Other investors are Taiwan with US$ 345 million, China with US$ 178 million, Singapore with US$ 156 million, Thailand with US$ 131 million, the UK with US$ 121 million, and Hong Kong with US$ 113 million.

In recent years the total investment into Cambodia has been approximately one quarter of the peak years of 1996-1998. The momentum is being lost by most of the foreign investors except for Taiwan and Malaysia. Malaysia has an acute interest in tourism development. The share of the local investment from within Cambodia, as a result, is on the rise to partially offset the declining FDI.

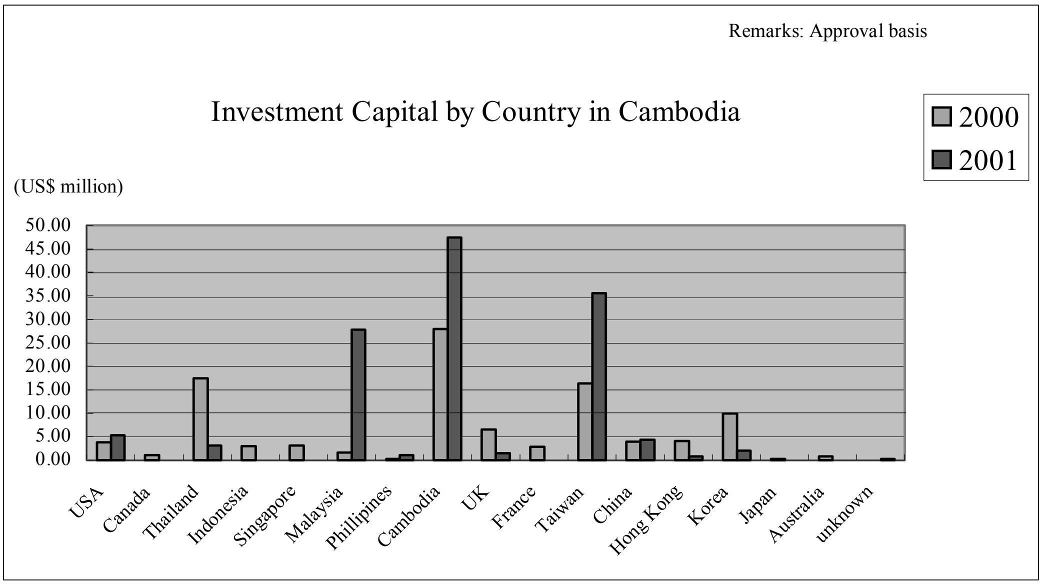


Figure 3-10 Investment Capital into Cambodia by Country (2000, 2001)

Table 3-20 Investment Capital into Cambodia by Country

(unit:US$1,000)

Country	1,994	1,995	1,996	1,997	1,998	1,999	2,000	2,001	1994-2001
USA	1,229	5,525	6,400	13,872	2,300	4,445	3,750	5,250	42,771
Canada		39,200	7,650	1,805	2,130	240	1,000		52,025
Argentine					300				300
Thailand	1,536	22,048	10,139	7,460	53,160	15,934	17,425	3,150	130,852
Indonesia	35,000	1,600	2,545	2,250	3,100	400	3,000		47,895
Singapore	52,650	41,329	32,081	12,577	12,360	2,310	3,130		156,437
Malaysia	1,000	1,351,760	55,263	52,930	22,690	17,000	1,600	27,890	1,530,133
Phillipines							300	1,000	1,300
Vietnam		196			440	490			1,126
Cambodia	43,423	341,771	131,594	72,694	103,457	97,610	29,005	47,450	867,004
Swizerland			3,400		4,000	600			8,000
Russia					1,500				1,500
Sweden				3,000					3,000
Portugal		1,800	40	2,300	1,050	360			5,550
UK	8,245	44,940	50,817	6,975	493	1,500	6,500	1,510	120,980
France		18,885	9,956	1,148	600	625	2,901		34,115
Bulgaria					250				250
Norway					350				350
Israel				500					500
Germany			60	59					119
Netherlands			3,100						3,100
Taiwan	650	11,916	124,878	47,679	78,946	29,440	16,390	35,460	345,359
China	10,000	4,565	23,051	21,862	74,824	36,427	3,950	4,280	178,959
Hong Kong	3,920	5,493	10,135	18,012	47,920	22,434	4,000	750	112,664
Korea		714	4,905	70,539	3,860		9,950	2,000	91,968
Japan		870	3,024	315	2,000	2,105	200		8,514
Australia	490	1,353	4,204	32,970	1,470	20	800		41,307
Macau				670		1,160			1,830
Sri Lanka			250						250
India		400							400
New Zealand		10							10
unknown								200	200
Total	158,143	1,894,375	483,492	369,617	417,200	233,100	103,901	128,940	3,788,768
FDI Total	114,720	1,552,604	351,898	296,923	313,743	135,490	74,896	81,490	2,921,764

Note: approval basis

Cambodia is now facing the difficult task of establishing the methods and rules to stimulate and drastically promote the currently stagnant flow of FDI into Cambodia. FDI should be thought of as an external drive for industrial development, if matched with the internal strategy for industrial development.

Table 3-21 Number of Projects, Capital, Employees of Investment Projects in Cambodia by ISIC Category

	ISIC	1994 - 2001				Average Size of a Project		
		Num of project	Capital (1,000$)	Fixed Assets (1,000$)	Employee	Capital (1,000$)	Fixed Assets (1,000$)	Employee
Agriculture	11 Agriculture							
	Agriculture	25	26,860	67,080	6,414	1,074	2,683	257
	Plantation	28	73,717	184,686	22,903	2,633	6,596	818
	Cattle breeding	2	30,396	2,922	170	15,198	1,461	85
	29 Mining	5	27,000	20,095	946	5,400	4,019	189
Manufacture	31 Food, beverage, tobacco							
	Agro-industry	25	41,295	61,639	9,935	1,652	2,466	397
	Food processing	44	127,483	108,757	10,523	2,897	2,472	239
	Animal feed	2	1,200	842	105	600	421	53
	Tobacco	18	105,400	75,556	3,555	5,856	4,198	198
	32 Textile, weraing. Apparel, leather							
	Textile	9	35,010	70,591	11,241	3,890	7,843	1,249
	Garment	347	377,015	439,691	304,946	1,086	1,267	879
	Hat	1	980	884	263	980	884	263
	Leather products	1	1,000	1,116	80	1,000	1,116	80
	Shoes	23	36,950	43,135	21,406	1,607	1,875	931
	Socks	1	200	120	256	200	120	256
	33 Wood incl. Furniture	36	251,660	439,564	18,812	6,991	12,210	523
	34 Paper	23	28,210	32,680	4,035	1,227	1,421	175
	35 Chemical, rubber, plastic products							
	Petroleum	15	64,590	86,911	1,362	4,306	5,794	91
	Plastic	20	15,904	15,153	2,012	795	758	101
	Chemical	7	7,180	7,855	19,216	1,026	1,122	2,745
	Householdgoods	9	4,090	5,888	769	454	654	85
	Medical chemical	5	4,683	8,746	1,095	937	1,749	219
	Medical supplies	2	1,020	1,926	320	510	963	160
	36 Non-metalic, mineral products							
	Cement	7	259,200	408,497	4,035	37,029	58,357	576
	Structure clay	24	28,035	33,232	3,087	1,168	1,385	129
	37 Basic metal	6	5,400	8,076	1,323	900	1,346	221
	38 Machinery							
	Mechanical assembly	11	10,700	11,254	1,672	973	1,023	152
	Disc	2	2,000	2,879	126	1,000	1,440	63
	Medical instrument	1	100	85	42	100	85	42
	Electronics	6	6,000	12,760	3,558	1,000	2,127	593
	39 Other manufacture	28	84,008	239,581	6,250	3,000	8,556	223
Others	41 Electric, gas	7	55,429	188,792	319	7,918	26,970	46
	42 Infrastructure	6	8,050	171,940	850	1,342	28,657	142
	50 Construction	13	121,292	637,628	6,296	9,330	49,048	484
	63 Hotel	45	301,412	576,987	11,516	6,698	12,822	256
	63 Tourism services	18	1,473,790	1,557,233	5,256	81,877	86,513	292
	71 Transportation	9	38,550	29,562	692	4,283	3,285	77
	72 Communication	14	96,780	116,556	2,062	6,913	8,325	147
	90 Services	34	36,180	300,058	3,853	1,064	8,825	113
	Total	879	3,788,769	5,970,957	491,301	4,310	6,793	559

Note: /1Approval project basis /2Average size of project is basis of cumulative of 1994-2001
Source: CDC

3.10 LEGAL AND INSTITUTIONAL FRAMEWORK

3.10.1 Recent Transition of Institutional Framework Reform and its Vulnerability

The Royal Government of Cambodia has been putting emphases on the reform and improvement of the legal framework for business and investment, especially after 1997's political unrest. The main targets were:

- To ensure transparency in laws, regulations and procedures
- To encourage private sector involvement
- To promote trading through internationally recognized and accepted principles of laws

In line with such principles, a series of laws and regulations have been promulgated or prepared in recent years. Among them there are;

- Investment: 1999 Sub-Decree No.048 on the amendment of the Sub-Decree on the Organization and Functioning of the Council for the development of Cambodia
- Infrastructures: 2001 Law on Electricity, 2001 Law on Land
- Banking: 1999 Law on Banking and Financial Institutions
- Trading: 1999 Law on the Amendments of the Law on the Commercial Regulations and Commerce Register, 2000 Ministerial Order on Trading Activities of Commercial Companies, 2000 Law on Commercial Enterprises, 2002 Law on Marks, Trade Names and Acts of Unfair Competition, 2001 Law on the Adoption of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards
- Finance: 2000 Law on Insurance
- Tax: 2002 Law on Corporate Accounting, Audits and the Accounting Profession
- On the other hand, the following laws, vital and critical for investment and trading, have yet been promulgated.
- Civil Law
- Law on Commercial Contract, Law on Insolvency (Bankruptcy)
- Amendment of the Law on Investment, Amendment of the Law on Taxation, Amendment of the Law on Labor
- Law on Factories
- Customs Code, Law on the Protection of Patents and Industrial Designs, Law on Copyright and Related Rights, Law on Rules of Origin, Law on Anti-dumping, Countervailing duty and Safeguard

There are two aspects to the vulnerability of the Cambodian legal frameworks. One that relates to the frameworks themselves and the other is the enforcement power of the legal frameworks.

Although the Cambodian legal system still lacks various important laws and regulations for investment and business as reviewed above, the more critical problems that the Cambodian government confronts seem to rest in its enforcement power of the existing laws and regulations. Due to the rather weak administrative strength and overlapped distribution of powers, different and discretionary interpretation prevails among the governmental organizations, which tends to create confusion in private sector. The judiciary system is also rather weak so that dispute settlement needs time and, as the judiciary judgments are sometimes discretionary, enforcement of court judgment is vulnerable. There are many people to point out that many of the governmental officials try to make use of their enforcement authority of the laws and regulations for their own private interests by charging unofficial fees and charges.

For attracting FDI and promoting private sector investments and business, the legislation of key laws has to be expedited and, at the same time, law enforcement practice has to become transparent, non-discretionary and fair so that the image of the country as a whole may be improved.

3.10.2 Private Sector Investment and FDI

(1) Current Tendency of Private Investment and FDI

"Semestral Report: 1994-2002" issued on July 30, 2002 by the Project Monitoring Department of the CIB shows that the total number of all investment companies approved between 1994-2002 is 811, 40% of which were in a garment industry. Although the RGC has been trying to improve the legal framework for business and investment especially after 1997, the total number of the investment approved and realized and the asset amount owned by the investors kept decreasing. "Socio-Economic Development Priorities and the Official Development Assistance Needs" dated May 2002 reports that the CIB approved a total of 51 new investment projects in 2001, which had declined by 14% from the figures in 2000. The approved projects, which include those with no incentives, fall mostly in the garment sector, tourism, infrastructure and agriculture/agro-industry.

(2) Basic Legal Framework Regulating Investment

There is no law or regulation in Cambodia targeting only FDI. The 1994 Law on Investment (1994 LOI) covers all private sector investment projects, applied and made by both the domestic private sector and FDI, who seek investment incentives provided under the Law. There is no other comprehensive investment law with the purpose of promoting investments in general.

Contrary to the written stipulations of the 1994 LOI, it is pointed out in the ICS Report that the "vast majority of LOI-approved firms failed to be granted tax holidays, domestically oriented LOI-approved firms failed to get the CDC approval for import duty exemption in the first year of operation, decision-making on the investment approval and granting incentives tend to be discretionary and it contributes to 'hidden' transaction costs, and the government alters the 'rule of the game' and imposes additional costs on business through issuing Prakas". .

In view of such vulnerability and constraints of the 1994 LOI, a Draft Amendment to the Law on Investment (hereinafter referred to as "Draft LOI") has been drafted with the aim of introducing the principles of "Simplicity, Predictability and Non-discretion" into the process of investment licensing and incentives approvals.

The Draft LOI proposes to adopt an automatic approval system for the investment projects unless they are among the fields prohibited or limited to private or foreign capitals. Such approval procedures shall be completed within 28 days. During the course of authorizations, the approvals, clearances, licenses, permits or registration necessary for the investors to operate shall be specified and the relevant governmental offices will be notified. The incentives to be provided to the investors will also be confirmed in the investment approval. The CDC is expected to act as a One-Stop Shop and obtain all of the necessary licenses required for investment on behalf of the investment applicant. There is no requirement for a minimum investment amount, either. This predictable, non-discretionary and transparent way will certainly work to limit the existing bureaucratic interference by government officials and to reduce the opportunities for creating the so-called "unofficial costs".

An investment license or approval will be issued not to an investor or investing enterprise but to a project. Unlimited tenancy of land is approved and the investor is admitted to have the right to own and pledge as security the real and personal property on the land. The transfer of the rights, privileges and entitlements of a QIP (Qualified Investment Project) to a third party is approved in case of acquisition or merger. In dispute settlement, the CDC's role as a mediator is clearly stated and the resolution by arbitration in or outside of Cambodia under international rules is introduced as a final settlement measure. All of these will make the investment climate of Cambodia more favorable to the international standard of business practices and serve as advantages in attracting FDI.

The Draft LOI, at the same time, proposes to introduce new provisions considerably limiting the fiscal incentives entitled to a QIP. It is said that, during the course of drafting the Law, two different opinions appeared among the government officials. The one was for limiting the fiscal incentives because they thought, comparing those in the neighboring countries, the current incentive scheme was too generous to the investors and the country had been loosing the opportunities to raise the tax revenue. The other was against reducing the fiscal incentives because they thought that the country might not only fail to attract new prospective FDI providers but also loose the existing investors and force them to relocate their investments.

The Draft LOI intends to introduce such modified or new fiscal incentive schemes to be provided to the QIPs as:

- Unified rate of 20% tax on profit, applicable at national level to most of private firms regardless whether they are the QIPs or not.
- Automatic provision of corporate tax exemption, of which period is currently decided according to the Criteria Matrix for Incentives, with a minimum of 3 years or a special depreciation under the Law on Tax (40% depreciation of tangible assets in the first year of operation is being proposed under the Amendment Draft Law on Taxation.).
- Import duty exemption and export tax exemption remain almost the same as in the stipulations of the LOI.

On the other hand, it aims to abolish such fiscal incentives currently being given to the investment enterprises under LOI as:

- Tax exemption for reinvestment of profit
- Tax exemption on the distribution of dividend, profits or proceeds of investments, whether transferred abroad or distributed in the country
- Accelerated depreciation except in the case described above.
- Special treatment of the incentives to apply to the SPZ

Regarding the incentives, some say that the international investors put more emphasis on the non-fiscal aspects of the total investment climate and incentives when they choose investment locations. The non-fiscal incentives are said to include simple, predictable and non-discretionary process of investment approval, incentive provision, transparent practice of various licensing procedures, taxation or customs clearance. Others say that the fiscal incentives are more important factors for attracting FDI. They have to be at least on a level equal to, or preferably, more generous than those offered by the neighboring countries. The answer to the arguments seems to be that it is not a matter of straight choice of policy but that both non-fiscal and fiscal incentives are urgently needed.

According to the recent movements of markets and trade integration such as AFTA, FTA between ASEAN and China, Japan or the Republic of Korea, Cambodia seems to have not much time left to become an independent commodities producing country. In order for Cambodia to avoid becoming a market for other countries and to allow it to remain an exporting country, all possible measures to attract FDI have to be urgently adopted. For all of these reasons, the best of both fiscal incentives and non-fiscal incentives have to be offered.

(The National Assembly passed The Draft LOI on February 3, 2003.)

(3) The CIB

The CDC is the sole agent of the RGC responsible for guiding and regulating rehabilitation, development and investment activities. It has two departments besides the General Secretariat, namely, the Cambodian Rehabilitation and Development Board (CRDB) and the Cambodian Investment Board (CIB). The latter is responsible for dealing with private investments in Cambodia.

In 2001, the Minister of Commerce was appointed as a Vice Chairman of the CDC, who would be in charge of private investment, and industrial and commercial development policies and strategies. The first Vice Chairman, a position to be assigned to the Minister of Economy and Finance, would be in charge of overall development planning, public investment and foreign assistance policies. The organization of the CDC is currently as follows:

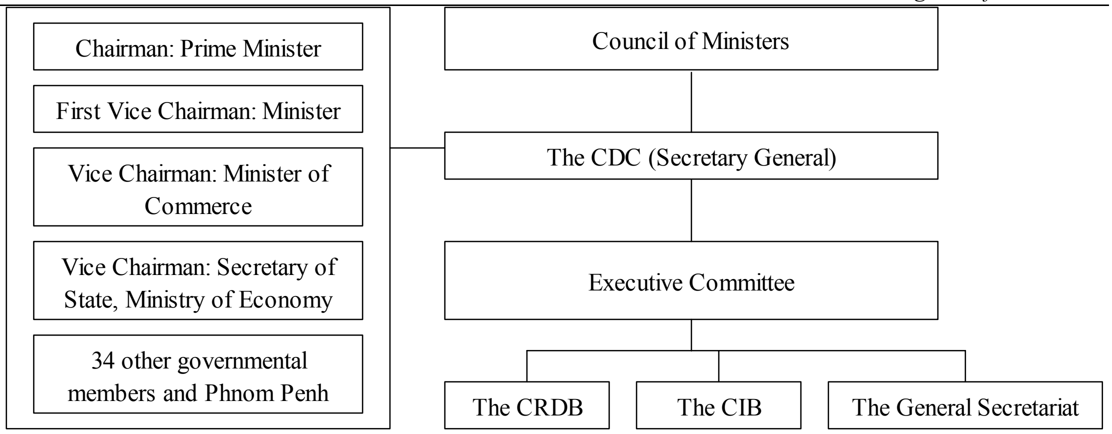


Figure 3.11 The Current Organization of the CDC

The CIB has 8 Departments. The Environmental Impact Assessment Department has been abolished. As of October 2002, there were 7 Directors, 11 Deputy Directors, 26 staff and 14 temporary/floating staff in the 8 departments.

The main jobs of the "Evaluation and Incentive Project Department" are to examine investment proposals submitted by applicants, study and evaluate feasibility studies of the projects, arrange and submit investment proposal documents to the One-Stop service meetings and examine application proposals from private companies for customs duty exemption in cooperation with the Monitoring Department

By the Draft LOI, the investment project approval will be issued automatically within 28 days unless the project falls in the Negative List category or the application documents are not complete. The investment incentives will be provided automatically according to predetermined conditions. In this context, the future job of the Department will be limited more or less to handling the application documents. The whole process of the investment project approval is expected to become more transparent and non-discretionary without any evaluation involved for approving the investment project and providing the incentives. Many problems pointed out by the existing investors, relating to the current procedures for its unpredictability, non-transparency and discretionary character, may be solved when the Draft LOI comes into practice.

The major job of the "Inter-ministerial Coordination Department" is facilitating the "One-Stop Shop" function of the CIB under the 1994 LOI and the role of this department will become even more important because the Draft LOI also expects the CIB to function as a "One-Stop Service Shop" in terms of obtaining all the relevant and necessary licenses, approvals and/or permits on behalf of the investors. Therefore, the reshuffle of the manpower distribution between the Evaluation and Incentive Project Department and this Department will be inevitable. Two departments may be integrated into one new department as a customer service window to the investors.

The "Legal Procedure and Investment Law Department" mainly acts as the CIB's legal advisor and deals with legal matters relating to the CIB's activities. It is also in charge of initializing the strategy for private investment, in order to readjust laws and regulations for improving private investment opportunities in Cambodia. For enactment of the SPZ Law, this Department may be suitable to become an administrative section for preparation of such enactment. Their jobs include:

- Along with the relevant authority, coordinate conciliation for proper settlement of all disputes regarding the investment companies
- Verify and approve the company memorandum, the articles of association and enter the details of the Investment Company in the CDC's registered book and then deliver the investment license certificates to the potential and active investors
- Follow-up with the Monitoring Dept. on the non-active companies and administer the notices for cancellation or deletion from the CDC's list of registered companies

Conciliation of the disputes relating to the FDI is a very important part of the investment climate. A full time conciliation board shall be arranged under the CDC, being independent from the CIB. This Department can participate in such a conciliation board as a member. Approval of the company's memorandums and the articles of association by this department does not seem to be appropriate either. If the company registration has to be made with MOC under the current regulations, it would be more appropriate for MOC to be in charge of approval of the company's memorandums and the articles of association. To secure neutrality, the setting-up of an independent organization for registering the companies, trademarks and other intellectual rights is recommendable.

After the investment is approved and operation starts, the "Project Monitoring Department" will become the most familiar department with the FDI providers. The department will:

- Monitor and follow up the investment projects after approval for the full-term of the incentives given
- Check the compliance of the actual investment activities with the investment applications and tax exemption scheme as granted in the Master List issued by the CIB. This assignment is preceded by on site verification at a time of approving the investment project, applying the incentives for the first time and granting the successive incentives.
- Monitor the implementation of project approval and gather feedback on problems encountered during implementation
- Follow-up with Legal Procedures Dept. regarding the non-active companies and administer the notices to process their cancellation or deletion from CDC's list of registered companies

As shown above, under current regulations, the Project Monitoring Department is responsible for monitoring the execution of the duty-free import of the investors. For this purpose, the Department asks the investors to submit a Master List, which shows the 12-month import plan of production materials, machinery and equipment to be used in the operation. The investors, thereafter, will submit the quarter-year execution reports of the planned importation. The Department monitors the executing situations of the planned import volume and assesses whether such import execution is appropriate or not, by estimating the materials consumption basing on the production capacities of the investors. The Department reserves the right to ask the investors to modify the applied import plans if it thinks the applied plans are not appropriate. This is one of the measures to prevent the leakage of the collection of duties and taxes on the excess volumes, which may be resold to the domestic market.

When the investors need an amendment to the initial import plans, which may be required due to changes in particular orders or markets in general, they are able to do so when they submit the quarter-year report. Then again, the Department will judge whether such amendment application is appropriate or not, based on the assumption of the investors' production capacities, and gives approvals to the investors on the amendment of duty-exempted import for such designated period when the application is deemed appropriate. The whole process of such assessment and approval, in both cases, is expected to be completed within 3 working days.

It may not be workable to try to prevent the leakage of import duties by estimating the possible excess based on the production capacities of the investors. The real excess may be calculable only if the details of orders are clear so that the details of the required materials also become clear. Unless the orders and the required inputs are matched up, precise control of possible leakage of import duties cannot be achieved. Regarding the materials that will be input into a rather simple process like the garment industry, it may be possible to make a close estimation of the possible excess by applying the current method. But regarding products such as chemicals or machinery, which require more complicated processes, it may not be realistic to estimate the possible excess amount of the materials based on the capacities of the production facilities. There are such variable factors as fluctuations in the consumption of the materials, the production efficiency, and the kind of auxiliaries needed, etc., according to the type and kind of the products.

These procedures seem to be unrealistic from the viewpoint of the actual business situation of the garment industry as well, which face frequent changes in the consumers' preferences. The markets trend changes often, in every season and every year, and missed orders or order rejections happen occasionally so that correction is inevitable. As most of these garment factories locating in Cambodia currently engage in the sewing of the garments with rather longer lead-times, the application of such complicated import approval procedures have not been decisive obstacles for the industries.

The more serious problem of this regulation is that the recent trend in the field of more fashionable garments, which consequently brings more value added, requires a Quick Response System (QR). The QR system can be realized only when the flexible and quick procurement of the main materials and such auxiliaries as sewing thread, buttons, zippers, ribbons, etc., shorter lead-times, flexible working conditions and quicker delivery systems are secured. If Cambodia hopes to promote and improve its garment industry and to maintain its competitiveness in the global garment market even after 2005, the introduction of such a QR system would be a minimum condition. For this purpose, this control method on the duty-free import based on the pre-applied volume seems to have to be altered.

The Project Monitoring Department lacks sufficient capacity to monitor all the investment projects so that there are a considerable number of non-monitored companies. It is said that only 60% of the investment enterprises are being monitored by the Department. While those companies may keep enjoying the advantage as the CDC's registered companies, there may be leakage of tax collection or non-compliant practice in duty-free import. Among the non-monitored companies, there may exist many non-active companies, which have to be cancelled or deleted from the CDC registration. In order to strengthen the power to enforce the laws and regulations and the monitoring ability and capacity for the post-approved situations of the investment projects, the scope of the department's jobs has to be streamlined and the number of facilities, especially computer systems, and the number of officials may have to be increased.

(4) Current Process of Investment Project Approval

1994 LOI originally stipulated the investment approval process, when the investor seeks the incentives provided by the CDC, as follows:

a) Incorporation of a company: To be done either before or after the issuance of an investment license. The corporation registration with the Ministry of Commerce and may take about three weeks.

b) Prior Approval: To be obtained from the CDC.

c) Application Submission: To submit a complete set of application documents and makes the first application fee payment of US$100 or US$200.

d) Q & A with the CDC (CIB) on the proposed investment

e) Provision of additional documents required by the CDC

f) Provision of a One-stop service by the CDC: The CDC will be in charge of the necessary talks with other ministries and obtain approvals from them.

g) Period for Application Consideration: The 1994 LOI allows the CDC to consider the application for 45 working days.

h) Issuance of Approval in Principle: The second application fee payment shall be made: US$500 or US$1,000.

i) Appeal: The applicant can file an appeal to the CDC within 25 working days.

j) Payment of Investment Guarantee Deposit: 1.5% or 2.0% of the total investment capital.

k) Issuance of Formal Approval

l) Paid-up capital: At least 25% of the capital or equivalent capital assets have to be paid within 30 days after the investment approval.

m) Implementation of the Investment Project: To be commenced within 6 months after the issuance of formal investment approval

n) Refund of Investment Guarantee: To be made after 30% of the project has been completed

In spite of the stipulations of the 1994 LOI, the CDC has long been unable to offer the "One-stop" service to its full extent. Following the Private Sector Forum of December 1999, however, the CDC began to offer a full "One-stop" shop service by the Prime Minister's instruction. Relevant ministries now maintain offices in the CDC premises for facilitating the investment approvals and business activities.

By a ministerial order followed by the above-mentioned Forum, the investment project approval process was modified. Since December 1999, the whole process must be completed within 28 working days, compared to the former regulation of 45 working days. The average decision making time in the last two years is said to have been 23 days per project.

However, new procedural guidelines were issued recently and such decision shall be made within an even shorter period:

- 7 days for "routine" projects (Garments and footwear)
- 14 days for all other projects

The investment enterprise is required to give notice to the CDC within 10 working days when it changes its name and/or address.

(5) Draft Amendment to the 1994 Law on Investment

1) Background

On March 29, 2002, the Council of Ministers approved the Draft Amendment to the 1994 LOI, on which work had started in 1997. The objectives for reform of the 1994 LOI are:

a) To raise tax revenues, to cope with a possible decrease in import duties due to the application of AFTA's CEPT (Common Effective Preferential Tariff) and Cambodia's possible accession to WTO. Besides, Cambodia committed to the IMF recommendation of increasing Cambodia's tax revenue from 8.6 percent of GDP in 2000 to 9.7 percent in 2002 so that Cambodian tax revenue can cover the current expenditure.

b) To streamline the investment approval process and incentive scheme, by limiting discretion, improving transparency and reducing the administration cost.

According to "Cambodia: Integration and Competitiveness Study (ICS)", made under the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries ("IF"), the reform of the 1994 LOI aimed to assist in creating a regime more conductive to the encouragement of private investment in Cambodia through:

a) Transparency, simplicity and predictability in both the approval process for private investment and the provision of fiscal incentives to such private investments; and

b) The provision of investment guarantees

2) Approval of Investment Projects

An Investment Proposal is automatically approved by issuing a Conditional Registration Certificate within 3 working days after submission of an Investment Proposal and issuance of a Final Registration Certificate within the successive 28 working days. The approved investment project is called a "Qualified Investment Project (QIP)".

3) Adoption of Unified Corporate Profit Tax Rate

A single standard tax on corporate profits will be levied against all QIPs at the unified rate of 20%, except that a grandfather clause allows for previously existing organizations that have, in the past, been taxed at the preferential rate of 9% to continue to enjoy that same rate for the five years immediately following the promulgation of the Amended LOI.

4) Investment Incentives

Exemption of Tax on Profit = Trigger period + 3 years + n years (Maximum 9 years and minimum 3 years)

Trigger period: To be the first year of profit or 3 years after the start of operation, whichever is earlier.

n years: To be determined by the Budget Management Law (0 year for all light manufacturing industry: 1 year for tourism: 2 years for agriculture and heavy industries: 3 years for infrastructure projects and plantation agriculture)

A grandfather clause allows organizations that are currently enjoying existing tax holidays to continue to do so for 5 years.

Special depreciation: 40 % of the value of tangible assets used in production can be depreciated in the first year of operation as stipulated in the Draft Amendment to the Law on Taxation. Any QIP that uses the tax holiday scheme, shall not be entitled to claim a special depreciation.

Duties-exempt imports

Organizations shall be exempt from import duties as follows:

a) Export QIP and Supporting QIP: Production equipment, construction materials, and production input materials

b) Domestically oriented QIP: Production equipment and construction materials

5) Abolition of Various Tax Exemption Scheme

Tax exemption on the distribution of dividends, profits or re-investment shall be abolished.

6) Transfer of Incentives

Through merger or acquisition of a project, an investor may inherit the rights, privileges, guarantees and obligations.

7) Use of Land

Use of land shall be permitted to an investor, including concessions, unlimited long-term leases and limited short-term leases, which are renewable upon request.

The concession of the public owned land is permitted according to the provisions of the Law on Land.

The real property that a QIP uses can be used for mortgage security.

3.10.3 Special Promotion Zone (SPZ)

The establishment of an SPZ has been an issue for Cambodia since the 1960's. The earlier concept is said to have aimed at designating all the area of Sihanoukville as a special zone and tried to attract FID. This plan was not realized because the government was split into two groups: one pro and the other con. The group against the plan was afraid that the special zone in Sihanoukville might become a separate nation, like what happened to Singapore.

The transition of the issue thereafter is as follows:

(1) 1994 LOI

The Law anticipated the establishment of an SPZ and provided full incentives to the export investment enterprises and any investment enterprise locating in the SPZ under Articles 12, 13 and 14. Nevertheless, as described before, no SPZ has ever been established in Cambodia.

(2) Sub-Decree of October 5, 1995 on the Establishment of the Sihanoukville Industrial Zone

This Sub-Decree was dispatched to create "Stung Hav Industrial Zone of Preah Sihanoukville", which is a special industrial development zone to promote and exploit activities of general industry, export industry, free trade industry and other services. The industrial zone was proposed to contain the general industrial area, the export industrial area and the industrial service area.

(3) Sub-Decree of April 2000 on the Development of Sihanoukville Autonomous Port

This authorizes the development of an autonomous port of Sihanoukville located at Tumnup Rolork (Approx. 40 ha) and is understood to aim for the future development of a special zone at the nearby port area.

(4) Draft Law of February 2000 on an Export Processing Zone

The Law on an Export Processing Zone (EPZ) was drafted by the Ministry of Commerce in February 2000 as the first comprehensive draft law aiming at the implementation of an EPZ in Cambodia. It offered the framework for establishing, managing and operating an EPZ in Cambodia.

(5) The Third Government

The Private Sector Forum of February 7, 2001 decided that, while some countries in the region have lost their MFN and GSP status, the competent ministries/institutions should cooperate in promoting the establishment of export processing zones along the border in areas such as Poipet and Koh Kong with the aim of attracting investors from the neighboring countries.

(6) "Socio-Economic Development Requirements and Proposals" dated May 2001

The RGC's government papers titled "Socio-Economic Development Requirements and Proposals" dated May 2001 say that:

- The policy objective is to provide a consistent incentive-based framework for the private sector supported by public investment measures to take the lead role in the establishment of a competitive and outward oriented industrial sector. (119. Internationally Competitive Industry, Page 34)
- With appropriate private sector involvement, the planned establishment of export processing zones in Sihanoukville, Koh Kong and Poipet and serviced industrial estates in other strategic areas will be important in establishing export growth centers and in stimulating further private investment. (Ditto)
- Specific laws governing EPZs, industrial zones and a factory law will be prepared and implemented to support and improve all industrial establishments. (120. Legal and Regulatory Framework, Page 34)

(7) Prime Minister's Sub-Decree No. 33 of April 6, 2001 on the Creation of Development Zones

Prime Minister's Sub-Decree No. 33 of April 6, 2001 on the Creation of Development Zones designated the area of the proposed Chrouy Chang Va Development Zone, which will be located between Route No.6A and the Tonle Sap River. Nothing of the concept of development zone, however, is described in the Sub-Decree.

(8) The Draft LIZ of July 6, 2002

The Draft LIZ was prepared by the MIME with a concept similar to that of the "Stung Hav Industrial Zone of Preah Sihanoukville". While the Draft Amendment to 1994 LOI is proposing the abolishment of imitation of investment incentives provided under 1994 LOI, this Draft aims to grant a similar range of incentives as under 1994 LOI.

The LOI deals with private investments that seek investment incentives at the national level while the Draft LIZ regulates private investments only in designated areas as IZ. The compatibility of the two laws has to be secured by clearly so stating in either law. The desirable method may be that LOI will have a stipulation saying, "The investments to be made in Industrial Zones (or SPZ) shall be regulated by a separate law".

(9) "Socio-Economic Development Priorities and the Official Development Assistance Needs" dated May 2002 reports:

"259. The creation of industrial zones is aimed at facilitating export development and creating employment by providing high-quality infrastructure and utilities needed to encourage investment. Zones in suburban Phnom Penh and Sihanoukville would provide transport and communications, power and water, waste management, education and health facilities, and shopping complexes, along with minimal customs formalities and duty-free importation of business inputs. The spatial concentration of export-oriented enterprises would provide a business incubator environment in which ideas and experiences could be exchanged. Other possible regions for industrial/export processing zones include Koh Kong, Battambang and Banteay Meanchey. The Government will conduct feasibility studies during SEDP II and, where feasibility is established, proceed to full project formation and implementation." (Page 74)

(10) The Amended Draft of LIZ of July 6, 2002

The Amended Draft of LIZ dated October 2002 was drafted by the CDC, in which profound modification was made to the original draft LIZ of July 6, 2002, with respect to the management structure of IZ and investment incentives to be granted to the IZ developers and investors in IZ.

1) Management structure of the industrial zones

While the Draft LIZ of July 2002 proposed the establishment of a new organization under CDC, called as the Council for Industrial Zones of Cambodia (CIZ), this amended draft intends to appoint the CIB as a responsible regulating organization of IZ. It is proposed that the Industrial Zone Administration (IZ Administration) will be set up as a department under the CIB, the head of IZ Administration will have a status equal to a Department Director of the CIB and other administration appointments will be selected by relevant ministries based upon the request of the CIB.

2) Incentives

The investment incentives proposed by the amended draft are equivalent to those being proposed by the Draft LOI, except that this amended draft allows the 0% Tax on Profit only to the developers of IZ.

In the several provisions of the Draft, no clear differentiation is stated on its application between General Industrial Zones, which seem to be the same customs territories as the other areas of the country, and Export Industrial Zones and Free Trade Areas, which seem to be different customs territories. Furthermore, except for the routines, the existing laws and regulations seem to supersede the decisions of the IZ Administration even in the Export Industrial Zones or Free Trade Areas.

If this Draft LIZ is to be applied for establishing a so-called SPZ in Cambodia, there shall be some discussions and decisions needed.

- First, whether the fiscal incentives, which are proposed to entitle to all the QIPs locating in the SPZ under the Draft LOI, will be attractive enough to FDI and be competitive with those of other developing countries?
- Second, is it the only possible and/or best alternative to set up IZ Administration (or “SPZ Authority” in the context of this Report) as a department of the CIB? One possible interpretation of the Anu-Kret (Sub-Decree) of June 26, 1995 on the Organization and Function of the CDC would be that it expects only the CIB to make plans for the SPZ and coordinate the relevant ministries and government institutions for implementing the SPZ, alternately, it may be more appropriate to interpret that the Sub-Decree does not expect the CIB will take up any practical business operations such as the operation of SPZ.
- Third, can the management of the SPZ become efficient, transparent and autonomous enough if the CIB sets out the basic rules, tries to manage the operation of the SPZ, and the IZ Administration deals only with routine matters in the SPZ? In this way, it may not be possible to abolish the bureaucratic approaches for FDI, which, for a long time, have been a target of complaints from FDI, and may invite too much interference from the government over the operation of the SPZ.

- Fourth, if the existing laws and regulations have to be applied, as they are, to the business activities even in the SPZ, what would make the SPZ special? It has been pointed out many times by the private FDI companies that have already located in the country that the bureaucratic layers are too many, the hidden official costs are too high, and the discretionary decisions and treatment by the government officials are big obstacles to freer and more efficient business operations in Cambodia. The SPZ scheme has to be geared to overcome these problems.
- Fifth, is it appropriate and sufficient that the Draft LIZ seems only to anticipate the creation of traditional Export Industrial Zones and Free Trade Areas? There have been many arguments about the effectiveness of enclosed special zones such as the EPZ or FTZ as a tool for promoting domestic industries. Considering the current situations in Cambodia and learning from the past experiences in other countries, to adopt a non-traditional or a new concept for the SPZ in Cambodia may be advisable.

The current trial of the RGC to set up the special zones could be the first and the last of its kind. Because of this, wider, more careful and integrated discussions are urgently called for.

3.10.4 Foreign Trade

(1) Market Access Arrangement

1) Bilateral arrangement

10 Countries: the U.S.A., EU, China, Thailand, The Philippines, Vietnam, Malaysia, Indonesia, Lao PDR and Russia

2) MFN/GSP

28 countries including the U.S.A., EU, Japan, UK, ROK, Czech, Australia, Austria, Sweden, Denmark, and others.

3) ASEAN/AFTA

Cambodia became a full member of ASEAN on 30 April 1999 and is expected to reduce the tariff rate to 0-5% for 85% of all commodities and services on the Inclusion List by 2007 and for 100% by 2009. By 2015, 0% tariff rate has to be applied to 100% of the commodities and services from ASEAN.

4) WTO

Cambodia completed its Memorandum of Foreign Trade Regime for the WTO in mid-1999 and has already filed its official reply to the questions raised by WTO in late 2000 and attended at the First Working Party Meeting held in Geneva in May 2001, where it was questioned regarding the preparation process for joining the WTO. For its accession to the WTO, Cambodia will have to go through the process of preparing and/or reforming various laws and regulations required by the WTO Agreements and the bilateral negotiations with individual member countries of the WTO.

(2) Restrictions on Imports

1) General Import Customs Clearance Procedures

According to the information provided by the Customs and Excise Department (CED), the standard import procedure is as follows:

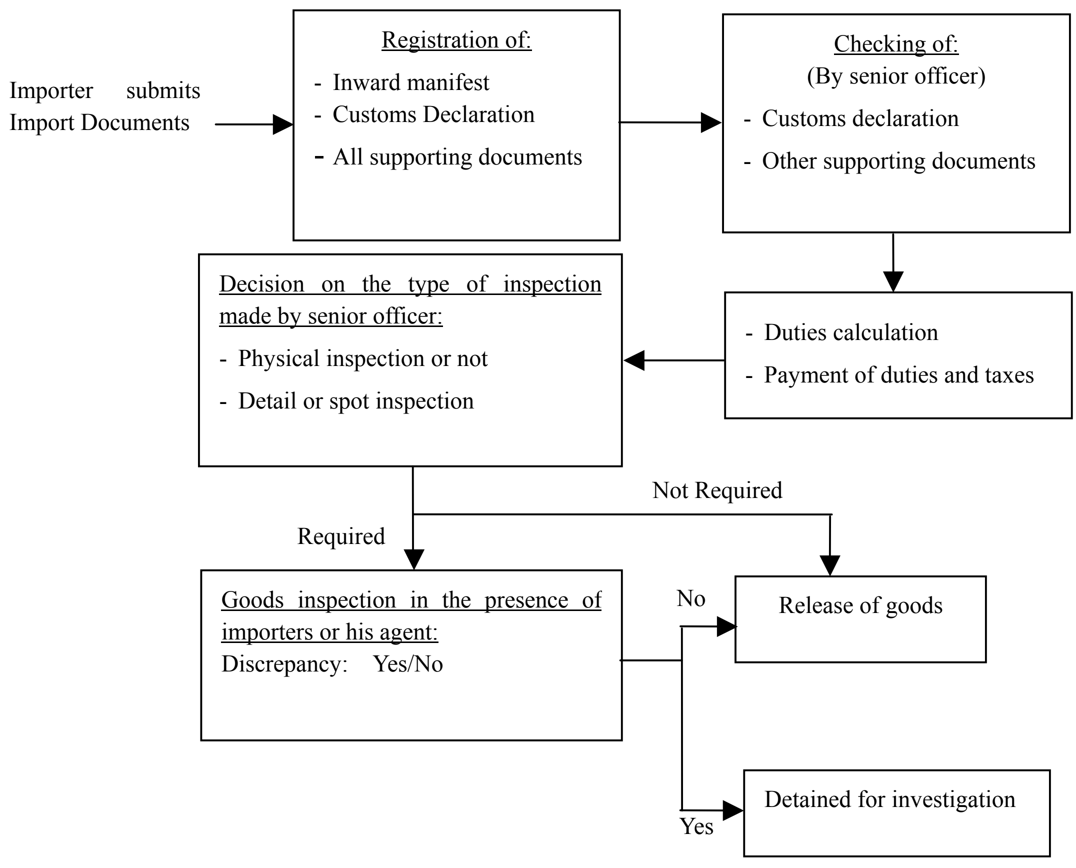


Figure 3.12 Flow Chart of Import Customs Clearance Procedure

2) Pre-shipment Inspection (PSI)

The RGC entered into a contract in October 2000 with SGS (Societe Generale de Surveillance SA, a private company) on the implementation of Pre-shipment Inspections (PSI) and the contract was extended in October 2002 for another one year.

PSI is carried out, upon request of the importers and for goods valued over US$5,000, by SGS staff (or their agents) at the exporter's site before shipping to Cambodia.

SGS will issue a "Report of Finding" to the importers and, upon the arrival of the goods, they submit the Report to customs. The importers pay to the SGS a charge of 0.8% of the FOB price of the goods (minimum US$210 per shipment).

Although PSI is a time-consuming and costly procedure, the importers say that it contributes to facilitate the flow of goods through the Cambodian ports. It is said that the IMF is backing the implementation of PSI for revenue rising purposes because it was originally aimed to implement the rational valuation of duties and taxes on the imported commodities. The introduction of such a system shows the CED's weakness in capabilities and abilities to handle the import and export procedures properly.

The problems in which the CED are involved include the non-transparent and discretional treatment of customs clearance works. PSI was expected to help prevent or solve those problems as well. Although PSI has been proved to lessen the problems at the import gateway and to smooth the flow of goods, it is, after all, a time-consuming and costly procedure. In order to eliminate PSI and return to an autonomous customs, capacity building and reform of the CED is compulsory.

3) Duty-exempt Import (a Master List)

Investment enterprises registered with the CDC have to submit a list (Master List) of their duty-exempt import plan for the next 12 months to the Project Monitoring Department of the CIB. The Master List contains detailed information on the type (production equipment, materials, etc.), volume, and value of the goods to be imported. Thereafter, the investors must make quarterly report to the CED and Tax Department of the goods and volume of planned imports that have actually been imported. The CDC will check the Master List and quarter report to ensure that the investor imports the goods as described in the List.

After submission of the Master List, the investors must obtain an approval for amendment when necessary. The investors often complained the amendment procedures were time-consuming and it was not pragmatic to be asked to provide the import plan for coming 12 months because the business circumstances (especially, those of the garment or footwear industries) were so changeable.

For tackling these complaints, the CDC has introduced new procedures, which allow 3 days for approval of customs duty-exempt imports. Instead, the CIB/CDC will strengthen monitoring and post-audit activities to enforce compliance with stated intention on the use of imports and to avoid leakage. This new procedure is schematized in **Figure 3.13** "Proposal Settlement Procedure for Customs Duty-Exempt Import".

For duty and tax-exempt imports, the investors are requested to submit the related export record. Submission of this certificate allows the concerned import to obtain "Government-paid VAT" status so that it will be exempted from VAT. The investors claim that to obtain the export record certificate is also costly.

Thus, the method of control for the duty-exempt import using a Master List is inflexible and, in many cases, unpractical. Facing changeable markets, it is extremely difficult (almost impossible) for the importers to prepare an accurate detailed import plan for 12 months, or even three months, in advance. Although the processing time for the import application or the amendment of a plan has been shortened to 3 working days, the current system remains as an obstacle to freer business and export activities.

If this regulation has to continue, there will be always "negotiations" involved to get the import permits from the Department because the investors or exporters will have to anticipate and prepare for possible changes in the markets and, consequently, inflate the List.

(3) Restrictions on Exports

1) General Export Customs Clearance Procedures

The CED's standard procedures for exports customs clearance is explained as follows:

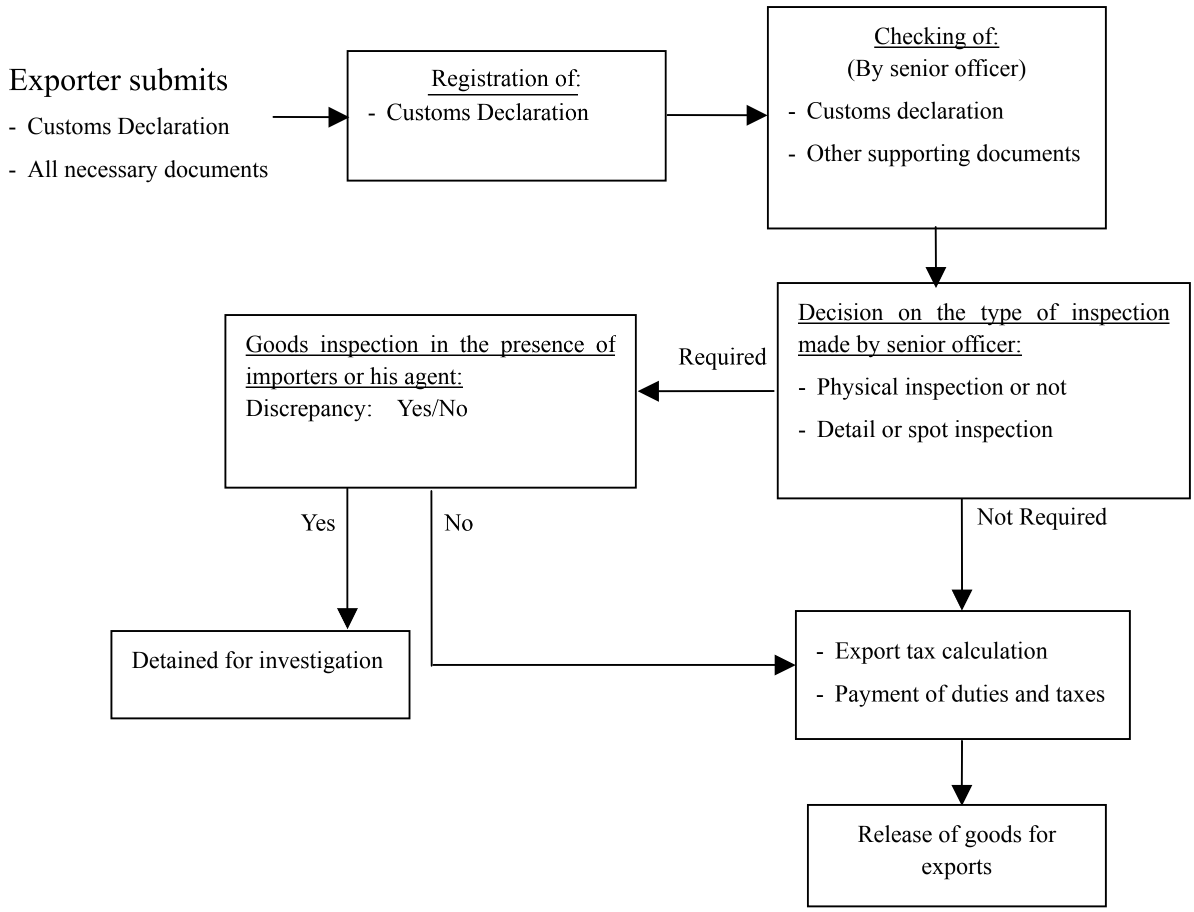


Figure 3.13 Flow Chart of Export Customs Clearance Procedure

2) *Garment Export Licensing Procedures (GSP and Quota System for the Garment Exports)*

The current licensing conditions and procedures for garment exports is shown below as an example describing the situation of bureaucratic bindings on Cambodian exports. Such procedures are regulated by the Ministerial Order on the Issuance of Certificates of Origin, Commercial Invoice and Export License for Garments June 21, 1999, which was issued by the Minister of Commerce.

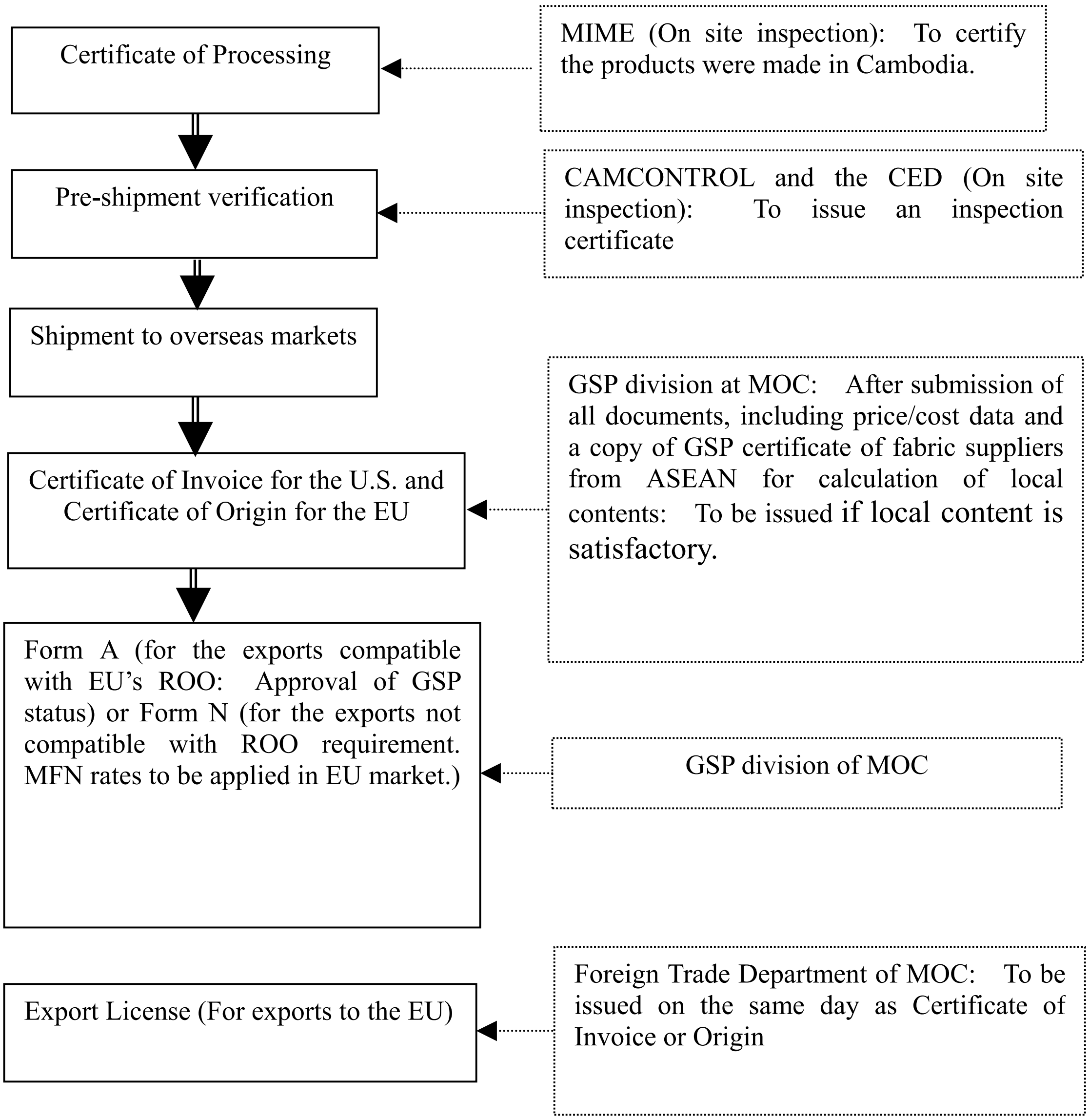


Figure 3.14 Export Licensing Procedures for Garments

The garment exports from Cambodia to the U.S.A. have been excluded from the GSP because they were deemed sensitive items. Under a bilateral agreement, twelve categories of garments made in Cambodia are currently subject to export quantity control (export quota).

In the EU market, on the other hand, Cambodia is approved tariff and quota free access under the Everything-But-Arms Initiative (EBA), which is part of the GSP program of the EU to LDC and was put in effect and applied to Cambodia in February 2001.

In order to enjoy this privilege, Cambodia must satisfy the rules of origin (ROO) requirement. The ROO requires local contents of 40% but certain textile products from Cambodia are allowed to have cumulative origin with ASEAN countries or the EU. In order to document that the fabric originates from another ASEAN member states, the garment exporters in Cambodia are required to show the ASEAN fabric suppliers' GSP certificates. Since the Cambodian garment industries use more fabric and accessories from other countries than ASEAN members, the utilization rate of GSP scheme to the EU market remains very low (only a little bit of over 10% of the total garment exports to the EU).

If the fabric is imported from non-ASEAN or non-EU suppliers, the garment producer must keep the 'full makeup' rule. For this, the Cambodian government requires exporters to show the evidence that local input is greater than the imported fabric or yarn cost.

Although approximately 60% of Cambodian garment exports were made under the Quota or GSP schemes in 2000, the process of getting export permits remained complicated and time-consuming as shown below.

Although the problems of faked Cambodian labels made by other countries, which intended to make use of the Cambodian GSP status, have largely been solved by introducing the electronic visa identification system to the US (ELVIS) and EU, MIME and MOC (GSP and export license related divisions and CAMCONTROL), the customs still insist to continue implementing separate physical inspections at factories before shipment. It is explained that MIME does so in order to verify that the garments have been made in Cambodia and CAMCONTROL to monitor the quality and quantity and assure the reliability of products. This may be a typical case of unnecessary and duplicated commitment or interference of the governmental agencies. Such separate physical inspection by five agencies may be simply understood to create more opportunities to force the exporters to pay unofficial fees.

The quota distribution system of the RGC is said to be rather fair with 80 per cent of the quota to be allocated, according to the export records and production capacity, to the garment manufacturers that have been operating in Cambodia since 1998, 10 per cent can to the exporters as a reward for current export achievement and the remaining 10 per cent to be auctioned to all the garment producers through bids.

The garment export industry in Cambodia, most of which are FDI providers, is suffering from the unofficial charges or hidden costs. It takes place almost every time the exporters seek approvals or permits such as the approvals for duty-free import of materials and equipment, import customs clearance, labor inspection, acquisition of export licenses and approvals and export customs clearance, etc. At an interview with a private business association, it was pointed out that 10 to 15% of the total production cost of garments are occupied by such unofficial charges and fees or hidden costs.

On top of these, the government levies three different taxes and fees on garment exports. The first is a "visa" fee, which started when the government introduced ELVIS for its garment exports under the U.S. export quota and the exports to the EU. The Visa fee amounts to the most among the three fees and taxes. The second is the minimum turnover tax on the quota exports to the U.S. and the third fee is the 0.1% inspection fee of CAMCONTROL on the imported fabrics and exported garments. Although they have different names, they seem to be a kind of export tax, which put obstacles on the export activities. This complicated and duplicated system of charging various fees has to be streamlined to achieve smooth and less-costly exports.

3) Restrictions on Fish Exports

According to the ICS Report, the former process for fish exports in Cambodia was as follows:

- Fishermen deliver the fish to the landing sites and sell to traders
- Traders transport the fish to one of 5 Export Distributors
- Export Distributors collect 4% commission with no service
- Export Distributors sell to KAMFIMEX for export without physical delivery
- KAMFIMEX sells to Export Distributors and gives license to export
- Export Distributors sell to Thai wholesalers who deliver to Bangkok for re-export or the Thai domestic market
- Export Distributors transport fishes across Thai border and pay fee of $25 per ton to KAMFIMEX

Exporter Distributors pay 10% export tax to the CED of the RGC

The Ministry of Agriculture, Forestry and Fisheries (MAFF) had been granting a monopoly right for exports of fish to a state owned company called KAMFIMEX so that there was only one official export channel and the fish exports had to follow the above process. The same report indicates the export price of fish remained about 35% of the retail price of fish sold in Phnom Penh, which implied the return to the fishermen was very limited and low. This low return on the labor of fishermen expedited unofficial direct export on the open waters. Shrimp export of 1,200 tons per year to Hong Kong was also said to be managed in KAMFIMEX leased factories.

The KAMFIMEX's monopoly status was cancelled in September 2002 and anybody can export fishes as long as he holds an export license issued by the MAFF. KAMFIMEX became a non-state owned enterprise and is still engaging in fish exports. Two other companies work with KAMFIMEX but on a voluntary basis not on the compulsory basis.

The problem of restriction on fish exports has now become almost non-institutional and the remaining bottleneck for promoting fish exports from Cambodia may remain in its distribution system and supply problems. As an export license is still required, some informal charges or hidden costs may remain. Together with the 10% export tax payable to the CED, these hidden costs may push up the intermediate margins and push down the real income of fishermen and, therefore, fishermen prefer to sell the fish directly to Thai or Vietnamese merchants through informal channels. This deems to be a real reason for the shortage in supply of raw fish, by which causes the fish processing or packing industries to be difficult to promot in Cambodia.

4) Other Export Restrictions

Although the prohibition on rice exports was abolished in 1995, an export quota has been applied as a measure for security of food. The MAFF issues approvals, reviewing the maximum export amount limitation set by the RGC and the MOC provides export licenses. Besides this, logs have also been prohibited for export since 1995 and an export tax is levied on the exports of semi-processed woods.

The exports procedure for rice, in which MAFF approves and MOC provides export licenses, is one more of the typical examples of duplication of the authority of government organizations.

5) Summary of Export Restrictions

As the measures to restrict exports, the licensing requirements are currently applied to the following products.

- Garment (By quota to the US, Conditional upon obtaining an Export Visa)
- Footwear (By license to the EU)
- Processed wood products (By license for furniture, wooden handicrafts etc. Logs and unprocessed timber exports are prohibited.)
- Rice (By quota), Live animals (By license)
- Fish (By license)
- Pharmaceuticals and medical materials

An Export tax of 10% is required for such products as Live Animals, Fish (Fresh, chilled or fillet), Raw or Processed Leather and Semi- or Processed Woods.

(4) CAMCONTROL's Inspection for Exports/Imports

CAMCONTROL was established in 1983 with reference to a similar organization in Vietnam and the Sub-Decree regulating the roles of CAMCONTROL was issued in 1986.

CAMCONTROL, which is the Cambodian Import-Export Inspection and Fraud Repression Department of the MOC, has 430 staff, 5 offices, 13 branches and 56 posts (check-points) and maintains four sections, namely, inspection, technical, laboratory and administration.

According to a senior officer of CAMCONTROL, its main functions are as follows:

- Authority on food safety: To check the safety, labels (expiry date, etc.) and other relevant matters of foods and related products, excluding drugs, which are imported, exported or sold domestically.
- Commercial inspection service: To check, as a third party, any damage to the imported goods and issue certificates for insurance claims. This service is subject to fees.
- Enforcement of compliance to the requirements: To check for compliance to the requirement, which are assigned by the Ministry, such as for garment exports to the GPS requirements and of duty-free import of fabrics to the CIB approval requirements. They say this is partly within the legal control work and, at the same time, partly within the service work. Consequently, they claim to be naturally entitled for some charges.

To enforce CAMCONTROL's activities, there is the "Circular of October 14, 1994 on The Adoption of the Market Economy", which guarantees free movement of goods in Cambodia and, at the same time, stipulates that the Sate should regulate and monitor the quality of goods and assure the reliability of measurements. The "Law on the Management of Quality and Safety of Products and Services", which was promulgated in May 2000, also helps to strengthen the CAMCONTROL position.

In practice, CAMCONTROL becomes involved in various trading activity scenes for executing so-called "inspecting and monitoring" work and it causes repeated complaints by the private sector such as raising the hidden costs or unofficial government charges. For example, subject to "fees", CAMCONTROL officials visit garment factories before shipment for physical inspection on the "quantity and specification" of export garments, by which they say they could provide satisfactory data on products' origin without obstructing the smooth flow of goods. They also check the labels for counterfeit products. However, there is no persuasive explanation given on how they could assure the quantity and specifications of garment products in such a short time, why physical inspection is the only method of achieving that purpose, or why the officers of MIME and CAMCONTROL have to visit the factories together.

On top of this pre-shipment inspection, another cargoe inspections will be carried out at the shipping ports, subject to charges equivalent to 0.1% of export and import value and, again, the payment of other unofficial charges is said to be required for expediting such inspections.

In any case, it would not be possible for merely one individual organization to assure the quality or measurements of all sorts of goods. To improve such product assurance systems and provide meaningful roles to the system, several organizations specialized in each field may have to be set up. An advanced-approval system by examination of samples may be an effective and practical way to secure smooth commodity flow and reduce the unofficial costs.

(5) The CED and Customs Clearance Procedures

There have been continuing complaints about the Cambodian customs that its customs clearance procedures were too bureaucratic and time consuming. It is said that to clear a 40 ft container from the customs would take approximately one week for imports and more than 10 days for exports. This is said partly because of the limited manpower of the CED and partly because of the unclear and duplicate job assignments among several border control agencies. Even so, the reality is that the customs clearance time is unpredictable unless negotiation is involved.

The CED has been working on the drawing up of its reform programs for 2002-2008 and is currently implementing them. For these reform programs, various donors such as IMF and UNDP are subsidizing or closely assisting under the TCAP ("Technical Cooperation Action Plan", which started in October 2001) scheme. The reform programs include:

- Enhancement of revenue collection: preventing smuggling, utilizing electronic means to observe the tax obligation of large companies, etc.
- Implementation of the New Law on Customs (by the end 0f 2002)
- Improvement of the trade statistics collection system and revenue analysis: acquiring the necessary computer hardware and software (by May 2002, delayed) and capacity building training to the customs officers
- Restructuring the customs tariff and adoption of AHTN (ASEAN Harmonized Tariff Nomenclature): Conversion of national tariff nomenclature to AHTN and reduction of the unweighted average tariff rate to 15% (by the end of 2003)
- Modernization and simplification of customs procedures: Adoption of new simplified customs procedures, improvement and expansion of the Green Lanes (by the end of 2003)
- Implementation of the Post Clearance Audit (PCA) practice: (by the end 2003)
- Strengthening enforcement capacity to combat smuggling and customs frauds: restructuring of the Anti-smuggling Office, establishing a Customs Marine

Team, strengthening the enforcement teams of the operational offices (by the end of 2003, with more emphases on the hardware)

- Implementation of information technologies (IT) and customs automation:
  a) Developing an IT framework
  b) Assessing the customs automation system
  c) Preparing the legal basis for IT application
  d) Implementing the pilot automation project at Head Quarters, Sihanoukville Port and Dry Ports (by the end of 2003)
  e) Expanding the customs automation to cover Pochentong Airport, Export and Excise (petroleum) (by 2006)
  f) Introducing TC scan at Sihanoukville (1st quarter of 2002)
  g) X-ray devices at Pochentong Airport (2002-2003)
- Restructuring departmental organization and human resources development (HRD): 2002-2003

Among the above programs, the implementation of the new Law on Customs, a reduction of the unweighted average tariff rate to 15%, modernization and simplification of customs procedures (adoption of new simplified customs procedures, improvement and expansion of the Green Lanes) and the implementation of PCA practice and IT systems are more important for promoting the trading activities.

As stated before, to supplement and improve provisions of the current Law on Import and Export Duties of 1989, the Draft Law on Customs was first written in 1997. It is said that the Draft Law aims at providing the legislative base for the modern customs operation and meeting the international commitments and standards, and strengthening the CED powers for inspection and seizure of goods. As it is said, if a new Law puts more emphases on the provision of more power to the CED for inspection and seizure of the goods, it may work out to disturb the goods flow in routine and normal trading. It has to be coupled with the modernization and simplification of customs procedures, including the adoption of the PCA scheme, and the introduction of IT systems, which enables the simplification of customs clearance procedures.

In the computerized customs clearance procedures, the following improvements can be expected.

- Accumulation of efficient and sufficient profiles of importers and exporters can be made.
- By utilizing such profiles, the expansion of Green Lanes and the adoption of PCA will become possible.

- By reducing the number of physical inspections, the investors may be able to expect the faster flow of cargoes and less financial load.
- A data pass between the CED and other governmental offices such as Tax Department and the CDC will become easier, transparent and non-discretional, which enables the elimination of duplicate reporting by the investors and document handling by the governmental officers, and, consequently, it may lead to automatic approvals on duty-free import of materials and automatic refund of VAT to the exporters.

Although the computerized customs clearance procedures may produce such improvement and advantages, it will be more important for HRD programs to the CED personnel to be carried out as programmed. The Indonesian government introduced the computerized customs clearance system in 2000 with the expectation of solving the corruption problems committed by the customs officers. The computerization was expected to work as a system to intercede between the customs officers and the traders and avoiding human and personal contacts. As a result, the Indonesian government acknowledged that the mere introduction of computerized system was unable to solve the problems and started to examine the establishment of a surveillance committee over the customs activities. Thus, it is vital that the introduction of the automatic systems and the human training has to be carried out simultaneously.

A large discrepancy between the indicated exported amount or value on Cambodian trade statistics and those of the ITC statistics of the United Nations, which is made based on the importing countries statistics, can be often found. This kind of discrepancy is believed to have occurred because of under-value or under volume reporting in the customs declarations of the exporters. This kind of problem cannot be taken care by the computerized system either. The profound reasons for the under-volume or under-value declarations, which can be to try to avoid the unofficial costs or charges, would be the target to be solved.

Despite reforming the institutional frameworks of the CED and strengthening the CED capacities, there would be problems left, regarding the time-consuming customs clearance procedures. The Prime Minister's Sub-Decree of July 2001 regulates the way that the CED, CAMCONTROL and the Border Police are to take part in the customs clearance works. Accordingly, each of them has been placing their own separate inspection and levying their own service fees, official or unofficial, to the importers/exporters. This duplicate structure in the customs clearance process causes high charges and unpredictability in customs clearance times. According to a port authority source, customs' documentation fees amount to $150 per container, while the port charge remains at $87. By the time the fees levied by CAMCONTROL and the Border Police are added, the customs clearance fees in Sihanoukville become almost two times higher than other major ports in the region. The Port Authority of Sihanoukville (PAS) indicates that the transportation fee for one 40ft container from Sihanoukville to Phnom Penh may cost $500, while those from Singapore to Sihanoukville costs only $350. For exports, it is said that the costs to transport one 40ft container from Phnom Penh to Sihanoukville and load it on a ship would be approximately $850 and other hidden costs of $150-200 would be needed.

The ICS Report indicates, "The pratique committee that greets each vessel is comprised of about 10 people, representing the port, CED, Immigration, Police and KAMSAB (Kampuchea Shipping Agency and Broker: a public company authorised to handle shipping and customs brokerage within Sihanoukville and Phnom Penh Ports). The size of the pratique committee appears to be unnecessarily large and involves agencies with little interest in the cargo carried or health conditions on board. The size could be explained by the reported practice of each member of the committee receiving an informal payment of $20. Although the port is able to handle vessels 24 hours a day, informal payments are necessary to encourage customs and immigration services to operate beyond 5pm (suggested to be $200–$300 per vessel)."

Although an Inspection Committee exists in Sihanoukville Port, PAS has been a mere chair-organization with no practical authority and the other four members, the CED, CAMCONTROL, Border Police and KAMSAB, have been consulting with each other and deciding the customs clearance procedures to be put into practice.

In the fifth Government-Private Partnership Forum in August 2001 and the sixth Forum in August 2002, such a situation of customs clearance process at major ports became the target of complaints by the private sector. As a countermeasure to tackle this problem, the MEF and the CDC agreed on August 14, 2002, to give PAS the authority for monitoring the actual situation and proposing improvement measures. PAS has been implementing the monitoring work and trying to solve the problems through meetings with the Customs Clearance Committee, which consists of the CED, CAMCONTROL, Border Police and KAMSAB. PAS also expressed its intension to gather wide opinions from the users of the Port, the majority of which are private importers and exporters.

A single-stop customs inspection among the GMS (Great Mekong Subregion) countries is now under study. GMC countries are trying to unify the customs declaration forms and procedures for inspection. A pilot-test single-stop inspection will soon be implemented among Cambodia, Laos, Thailand and Viet Nam. The real problem here would be the distribution of powers among the different organizations in the same country. One ministry may find it difficult to consign their authority to another ministry. It may take time to realize the integrated and smooth single-stop inspection system among the GMC countries.

(6) The Law on Customs

The current Law Regulating Duties on Exports and Imports was enacted in 1989 and the amendment to the Law was drafted in 1997. Although the English version has not been available to date, it is said that the draft Law on Customs has already been sent to the Council of Ministers for its review. It aims to provide the legislative base for the modern customs operation and meet the international commitments and standards. It also strengthens the CED powers for inspection and seizure of goods.

3.10.5 Business Environment

(1) Company-related Laws

1) Law on Commercial Enterprises

The Law on Commercial Regulations and the Commercial Register of 1995 deals only with the registration procedures of the merchants or other forms of commercial entities, mainly of small scale. The Law on Commercial Enterprises of 2000 covers a much wider area regarding the rights, obligations and activities of business firms.

2) Law on Corporate Accounting, Audits and the Accounting Profession

This Law has just been adopted in July 2002, aiming at the introduction of international accounting practice into Cambodia. The former accounting regulation was vague and unclear so that it had been difficult for the tax office to precisely audit the tax statements submitted by the enterprises.

(2) Restriction on Businesses

Cambodia declared its intent to establish a market-oriented economy at an early stage of its recovery process following the Paris Treaty and there is no legal or institutional restriction in Cambodia with regard to competition and price setting in business. Due to the recent modification of a regulation regarding trading activities, limitations were eliminated for anybody to start, engage or cease a business operation in any business area, including export-import except in those areas in which activities by the private sector or foreign investors were prohibited or restricted .

The relevant regulations are as follows

1) Circular of October 14, 1994 on The Adoption of a Market Economy:

- No governmental restriction on the price of goods sold
- Admittance of free competition among traders
- Guarantee of free movement of goods

2) Prakas (Ministerial Order) of MOC on The Trading Activities of Commercial Companies (January 25, 2000):

- To liberate trading activities for foreign companies
- Trading activities shall not be entitled to investment incentives.

(3) Taxation System

1) Taxation system of Cambodia

The taxation system varies according to the regime, namely, the "real regime", "simplified regime" and "estimated regime". Although they are decided by the form of the company, type of business activities and the level of sales, most of the liability companies will be defined as "real regime".

One of the profound defects in Cambodia's tax scheme is that it lacks any double taxation prevention agreement. Without such agreement, the FDI may have to pay taxes in their mother countries on the profit distributed on a tax exempt base in Cambodia or may not be able to deduct the taxes paid in Cambodia from the tax amount payable in their home countries.

The second problem is in the VAT reimbursement procedures for exporters. The exporters are not supposed to bear VAT on their imported materials and other materials to be purchased from domestic markets to be used in their production of export commodities, exporting products. According to the regulations of the RGC, VAT, once paid upon purchasing domestic products, is to be refunded when the final products, which contain such domestic products, are exported. In practice, to get a refund of that VAT is a time consuming process waiting for the decision of Tax Department, which may never come. This can be a serious obstacle when the RGC intends to promote the regional economies by introducing the SPZ scheme, a part of which will be a different customs territory. Every time the goods cross the border of the FZ, except for direct exports, payment of VAT would be required under promises of refunding upon the export of final products. If the goods have to come in and out of the FZ several times for processing to final products, the whole process would become very complicated and there might occur the problem of double taxation and, in any case, the refund would be requested at the earliest convenience for lessening the capital loads.

The third problem arises from taxation on the large companies. The tax relevant sections of the RGC have formed the Large Taxpayer Unit (LTU) and are trying to strengthen the tax collection from the large companies. This is partly because the tax collecting abilities and capacities of the RGC are limited and not strong enough so that the tax collection efforts tend to concentrate on the easier targets, which are larger companies. Heavily depending on the import duties revenue, which may be reduced due to the adoption of AFTA scheme, it is inevitable for the RGC to widen the taxation base to other taxable areas for increasing its revenue so that they can meet the conditions for expenditure/revenue ratio set by the IMF. Nevertheless, it would not be fair if only the larger firms were targets for tight tax collection, while the middle and small scale firms escape from such tax obligations and most of the individual persons also will not bear taxes. This trial of strengthening the LTU may produce negative effects to FDI promotion.

Under the Article 28 of the currently effective Law on Tax, the real regime taxpayers have an obligation to make prepayment of the Tax on Profit. Most of the Investment Enterprises, who have been registered and granted investment incentives with and by the CDC, are FDI providers and they fall in this regime. On the other hand, even if they are entitled to a tax exemption period, it only starts from the first year when they record profits from their operation. Hence, Investment Enterprises would be subject to the prepayment of Tax on Profit until such tax exemption period commences. Besides the prepayment of Tax on Profit, there is Minimum Tax of 1% on turnover amount, of which the rate of tax is same as the prepayment of Tax on Profit, to be levied on the real regime firms. As a consequence, Investment Enterprises have to pay monthly an amount equal to 1% of the previous month's turnover as prepayment of Tax on Profit and, at the end of a year, such paid amount will be converted to Minimum Tax and goes into the national treasury. Many have been pointing out that this practice was quite contradictory to the principles of the LOI but, to date, the Tax Department has not changed their idea and kept collecting prepayment of Tax on Profit. If Investment Enterprises refuse the prepayment, the Tax department would claim that such Investment Enterprises are not compliant with the investment license and may appeal to cancel the privileges previously provided.

Under the Draft LOI and Draft amendment of the Law on Tax, the tax obligations of QIPs for Minimum Tax and Prepayment of Tax on Profit are proposed to be abolished.

2) Current Tax Scheme

Table 3.22 Current Tax Scheme of Cambodia

Tax	Rate
Profit Tax	20% (unless investment incentive rate of 9% or 0%)
Minimum Tax	1% of turnover
Withholding Tax	15% (5-10% for certain activities) of payment
VAT	10%
Turnover Tax	2% of the turnover (Only for non-real regime taxpayers)
Import Duty	Varies (4 bands – 0,7,15,35%)
Export Duty	Varies (Mostly 10%)
Salary Tax	5% to 20% of salary, 20% of fringe benefits A flat rate of 15% for non-residents.
Specific Tax on Certain Merchandise and Services	2%: Air transportation to abroad, telecommunication to abroad 10%: Beverage, tobacco, hotel, entertainment, large automobiles, motorcycles from 125 cc upwards 20%: Petroleum products, automobile up to 2,000 cc 30%: Automobiles and parts more than 2,000 cc
Tax on House and Land Rent	10% of the relevant rental fees
Registration Tax on Land and Vehicles	4% on the registration of ownership of real property, either as a result of direct transfer or a contribution of share capital to an enterprise (The purchaser or transferee) Prohibited to issue certificates of ownership of land until the registration tax has been paid.
Tax on Unused Land	2% on the assessed value of unused Committee for Evaluation of Undeveloped Land, in cooperation with municipal and provincial authorities, decides whether a plot is "unused" and the amount of tax liability.
Fiscal Stamp Tax	Varies (For official document, certain advertising postings and signage)
Patent Tax	Nominal (For initial business registration)

3) Import Duties

The number of tariff bands was reduced from 12 to 4 in April 2001 and the import duties currently being applied are now 0, 7, 15 and 35%.

Table 3.23 Cambodia's Tariff Rate in 2002

Tariff Rate (%)	Number of Item	Share (%)
0	297	4.4
7	2,758	40.4
15	1,936	28.4
35	1,832	26.9

The highest 35% rate is applied to the excisable consumer goods and inputs for infant industries, 15% to capital goods and 7% mainly to inputs for domestic production. The materials for the garment industry fall in this category. As the result of the tariff bands reshuffling, the import weighted average rate fell from 15.4% in 2000 to 14.2% in 2001.

According to the ICS Report under IF, there are two valuation schemes for calculating dutiable values for imports and exports of goods. One is on the fair market value (FMV), whereby the valuator (SGS) uses international prices to determine the dutiable value. The other is based on a pre-determined, minimum or fixed dutiable values set by MIME for certain goods. For these goods, the customs duties, excise tax and VAT are calculated based on administered prices. When these pre-determined values are higher than the SGS evaluation value based on FMV or CIF value, SGS is required to use the pre-determined minimum values. Commodities that pre-determined values are applied to include: Automobiles, motorcycles, cooking oil, cement and petroleum products including gasoline of which the administered price was fixed at $320/ton at the time of ICS.

As reviewed before, Cambodia reduced tariff bands down to four, namely 0%, 7%, 15% and 35%, and the weighted average rate fell to 14.2% in 2001. Among them, the rate of 7% is being applied to the inputs for domestic production including the materials for the garment industry. In 2000, duty-exempted and dutiable imports of textiles were about 280 million U.S. dollars and less than 8 million U.S. dollars respectively and the collected import duty from textile imports was only slightly over half a million U.S. dollars. It does not seem reasonable or appropriate to maintain such intricate bureaucratic procedures in order to collect such a small amount of import duty. The monitoring and control system on duty-exempt import of textiles starts from the import approvals by the Monitoring Department to complicated and time-consuming customs clearance. All of them work to raise the institutional costs of the government and to weaken the competitiveness of the Cambodian garment industry by forcing them to bear institutional costs such as paying formal or unofficial fees and charges.

The other problem with the import duty scheme in Cambodia is that the RGC puts priority on use of pre-determined dutiable values, which tend to be higher than market values, for calculating import duties, excise taxes and VAT. To apply the higher pre-determined value to gasoline pushes up the retail price of gasoline through inflating the values of customs duty and VAT. This encourages the smuggling of gasoline and it is estimated that around 70% of the gasoline consumed in Cambodia is smuggled in from Thailand. Use of such pre-determined values for calculating duties and taxes is not consistent with WTO rules, which require the use of invoice values or actual paid-values as the basis for such calculations.

(4) Banking

The Law on Banking and Financial Institutions was enacted in 1999 to improve the financial facilities, strengthening the base of financial institutions and making it easier for investors to get business finance in Cambodia. The minimum capital of banks is currently set as about $12.5 million (Riel 50 billion) by Article 16.3 of the Law, 5% of which has to be maintained with the National Bank of Cambodia as guarantee deposit. Due to this regulation, an article in the Cambodian Daily of December 19, 2002 says that the capital of Cambodian banks increased approximately $128 million in the last two years and they now hold assets of $575 million, together with deposits in customer accounts.

(5) Intellectual Property

The Law concerning Marks, Trade Names and Acts of Unfair Competition (“Law on Trademarks”) was enacted in February 2002. The Law is said to be quite comprehensive and include the procedures for registering trademarks, the rights provided, licensing, infringement, etc.

The Law on Patents has not yet been enacted although it was expected to pass the National Assembly by the end of 2002.

(6) Labor Law

The currently effective Labor Law was enacted in March 1997. It has 396 Articles and is deemed to be very comprehensive in its scope. The Law provides wide protection for laborers’ rights and offers generous working conditions. The major regulations of the Law include the prohibition of forced labor, provision of internal regulation, limitation of working hours and work shifts, overtime allowances, stipulations about various leaves, restrictions on children labor, freedom of organizing unions, rights to strike, etc.

Although Cambodian Labor Law is very generous to workers and complies with international standards on the limitation of child labor, one of the problems is that the Law requires time-consuming administrative procedures, which may not have meaningful effects.

Under the quota agreement, Cambodia is expected to comply with labor standards in order to be approved for a higher quota in the garment exports to the U.S. The U.S.A. will decide at its discretion whether or not to allow an increase, following the assessment of Cambodian labor conditions. Such assessment is carried forward by on-site inspection in Cambodia. European GSP also requires similar conditions for admitting the GSP status. To clear such assessment, the RGC set a relatively higher minimum wage, compared to the neighboring countries, for the workers in the garment and footwear factories and offered generous working conditions as seen above.

The governmental actions conformable to such a preferential scheme of trade as the US Quota or EC GSP may work to improve the trading environment of Cambodia in the short term but may, in the longer term, create negative results because of its higher manpower costs.

According to the Synthesis Reports on the Working Conditions Situation in Cambodia's Garment Sector, prepared by ILO upon request from the Governments of Cambodia and the United States of America, although the enterprises' compliance with the labor code of Cambodia has been constantly improved, misunderstanding or ignorance of the provisions of the labor code on both sides of employers and employees sometimes cause labor disputes and would lead to illegal strikes.

(7) Land-related Laws

The Law on Land was first promulgated in 1992 and was amended in August 2001 (2001 Land Law). The 2001 Land Law especially aims to determine the regime of ownership for immovable properties in Cambodia for guaranteeing the rights of ownership and other rights related to immovable properties. It also intends to establish a modern system of land registration that guarantees the rights of people to own land. Some of the major clauses of the Amendment Land Law are described in the "Sector Report-Law".

The 2001 Land Law appointed the Ministry of Land Management, Urban Planning and Construction to be responsible for issuing titles related to immovable properties and managing the cadastral administration of immovable properties that belong to the State.