

Chapter 5
Regional Development Master Plan

CHAPTER 5 REGIONAL DEVELOPMENT MASTER PLAN

5.1 CENTRAL ISSUES

5.1.1 Problems of the Current Growth Structure

(1) Growth on a Narrow Basis

Cambodia has a very narrow base for growth. **Figure 5-1** shows the GDP structure of the Cambodian economy by different sectors in 1995 and 2000. The expanding secondary industry clearly provided an engine for the recent growth of the economy.

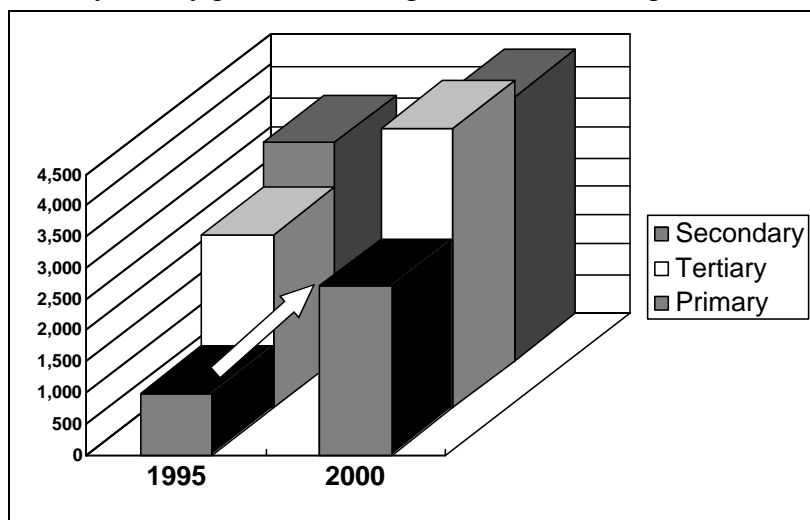


Figure 5-1 GDP by Different Sectors in Billions of Riel

As shown in **Figure 5-2**, the core of growth of the secondary industry was brought by a rapid expansion of the garment and footwear sub-sectors (of which the garment sub-sector accounts for 90%).

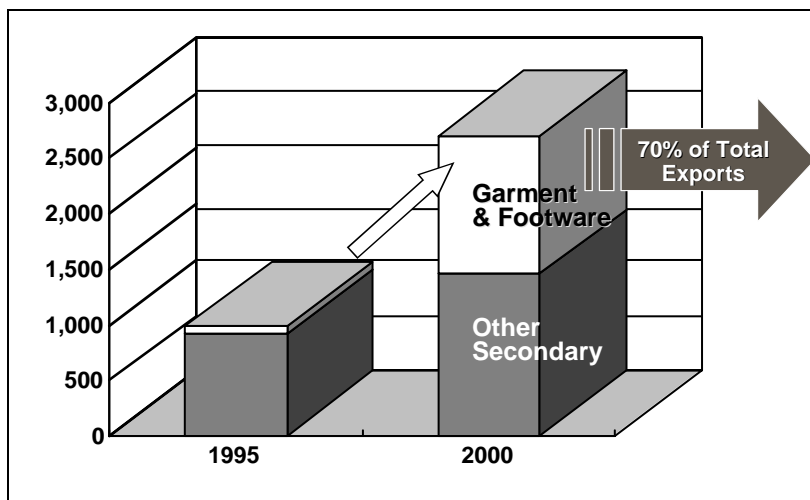


Figure 5-2 Changes in GDP of Secondary Industry 1995-2000, in Billions of Riel

It is also a distinctive feature that almost all of the commodities of these leading sub-sectors are exported to USA and EU markets, accounting for more than 70% of total exports. This means that the recent growth of the economy heavily depends on a very limited number of commodities and export markets. In the case of garment exports the US market takes a dominating share. The US market absorbed 76% (or US\$749 million in the year of 2000) of total garment exports (US\$ 985 million in total) whereas the EU accounted for 22% (or US\$221 million).

(2) Vulnerable to Changes in External Factors

As the Cambodian economy relies heavily on the limited commodities and markets, changes in the external factors, such as the quotas for garments by the U.S. Government for Cambodian products, would impose serious effects on the Cambodian economy as a whole.

Garment exports to US and EU markets have been driven by the agreements with the US and the EU nations that provide preferential access to Cambodia under the GSP or a MFN status. The US market, taking the largest share, is under a different trade arrangement than the one with the EU.

In the case of the US, a surge in garment exports (especially of woven trousers and knitted shirts) to the US market triggered the US government to exclude Cambodia's garments from the GSP system (tariff free) in 1999. Instead, twelve categories of Cambodia's garment products were given MFN (with the lowest levels of tariff) status along with quantity quota restrictions. As a result, 70% of garment exports to the US are now quota items with a total worth US\$520 million or 53% of the total garment export in 2000.

This quota-based preferential access to the US market, however, is likely to be phased out at the end of 2004 when the multinational fiber agreement expires. The Garment Manufacturers Association of Cambodia (GMAC) expressed their concerns that the end of the quota could significantly undermine the advantage that garment exports from Cambodia currently enjoy.

On top of this, AFTA will lower the level of regional tariffs among ASEAN members. It is generally considered to be desirable to accelerate trade within ASEAN. This, however, means that Cambodia will face direct, cut-throat competition with stronger and larger neighbors. Open competition is a new general rule under which Cambodia will have to play.

(3) Weak Links to Local Economy

Another concern is that the existing garment industry is essentially an assembly type of operation and has very little backward-linkage with the local economy. They import almost all the necessary parts and raw materials from other countries,

assemble them into final products, and then export to the target markets. The substantial indigenous input from Cambodia is limited to labor.

This is a result of the fact that these factories were attracted not by the resources available in Cambodia, but by the advantages derived from the garment export quota for the US market and GSP status for the EU market that were given to Cambodia. If the quota or GSP status is to phase out, the garment factories, which are "footloose" or mobile by nature, will easily move to other locations seeking better conditions.

(4) Difficulty in Attracting FDI

As the general level of industrial accumulation in Cambodia is low, the Foreign Direct Investment (FDI) is an essential instrument for Cambodia to advance industrialization. FDI boomed after 1994 with the enactment of the Law on Investment, and peaked in 1998 with the sum of US\$ 389 million invested on 89 projects in Cambodia.

The political unrest in the latter part of 1990s cooled the boom, and the current level of investment is about the half of the peak. With the accession of China to the World Trade Organization (WTO), and funds moving away from most of the ASEAN nations to China, Cambodia is left in an extremely weak position to compete for additional input of FDI.

5.1.2 Create New Basis for Growth

In order to overcome the problems of the narrow-based structure of the present economy, Cambodia will have to overcome a set of challenges to create a more stable basis for economic growth.

(1) Challenges Ahead

In summary, there are two essential challenges to create a new basis for economic growth.

1) Diversification under the Open-market

First, it is needed to diversify the economy under increasingly open and competitive conditions in the international market.

In the immediate term, it is necessary for Cambodia to retain the existing FDIs, mostly garment exporters, by providing new competitive edges under open-market competition without the help of the quota to the US market or by exploring use of GSP to the EU market. Improvement of the investment environment will also be a good starting point for Cambodia to diversify its growth base.

In the medium to long terms, diversification of exports both in terms of directions (markets) and goods to export will be indispensable. Given the fact that Cambodia has little capacity in the secondary sector development at present, FDIs are important

sources of capital. On top of this, they will take important roles in diversification of products and markets. FDIs are expected to act as agents that introduce complete packages of new products, technologies, and markets.

2) *More Links to Local Economies:*

In the long run, the manufacturing sector needs to have more stable links and wider spreading effects over the local economy of Cambodia. In order to realize this, it is needed to have more industries that utilize the local resources as much as the imported resources. The assembly type industries relying only on imported resources are "foot loose" or mobile in nature, and have limited spreading effects on the local economy.

It is also important to recapture the domestic market, especially the supply of agricultural and agro-processed consumer products to the urban centers. Phnom Penh and its suburban areas are the largest and fastest growing urban consumption markets in Cambodia. These markets are currently dominated by imported products.

A need for establishing resource-based industries, however, does not mean that an assembly-type of industry is not important for Cambodia. On the contrary, given the limited capacity of investments within Cambodia, any kind of FDI is an important source of private capital.

Figure 5-3 shows a conceptual image of the diversified economy with enhanced local links.

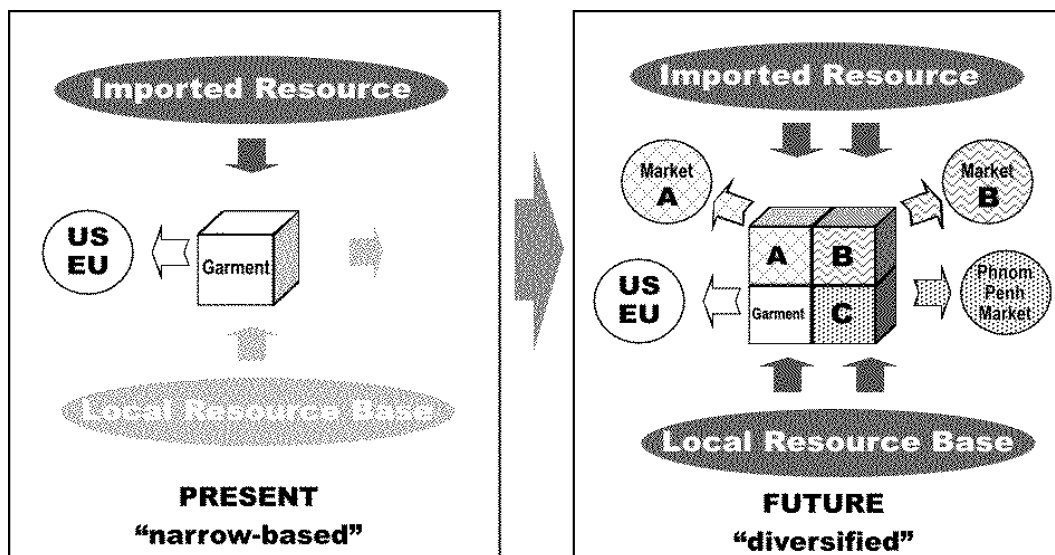


Figure 5-3 Future Image of Diversification and Enhanced Local Links

(2) Prospects for Linkage between FDI and Resource-Based Development

1) Past Experiences:

As discussed in the previous section, one key to establish resource-based industries in Cambodia is to create a good combination of FDI and local resources. The question remains how this could be realized. In this context, it is useful to review the fact that Cambodia already has experience in resource-based industries.

Figure 5-4 shows the trend of exports from Cambodia between 1994 and 2000. As discussed earlier, garments are the staple export items with a dominant proportion. It is worthwhile to note that the situation was totally different 6 or 7 years ago, when wood products and rubber were the center pieces of trade. It is not the intention that wood products and rubber are necessarily to be the ones to take over the present position of garment exports once again. Rather, this past experience is brought up here to see future prospects of resource-based products as such and potential markets by analogy. In this regard, there are four major points as summarized in the following sections.

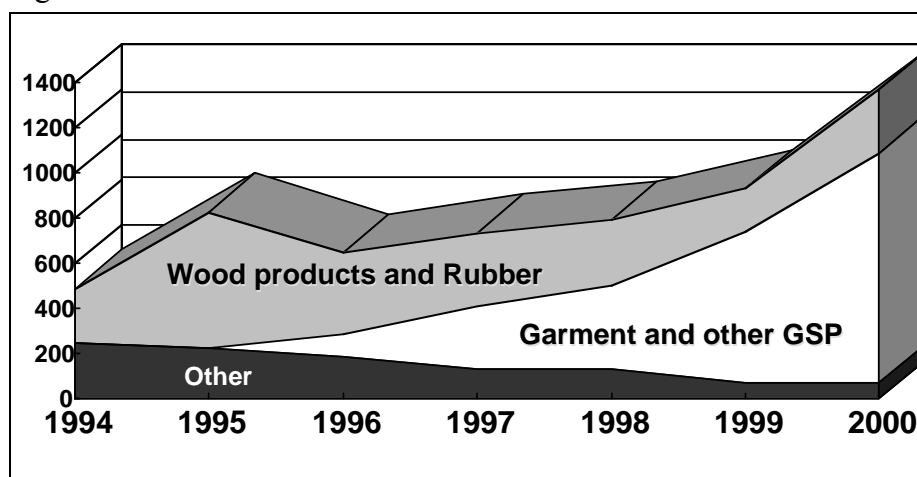


Figure 5-4 Export Structure by Commodities (Millions of US\$)

2) ASEAN Has Closer Links to Resource Based Exports:

Figure 5-5 shows the present export structure from Cambodia to Asia. If you put aside the exports to the USA and the EU, primarily garments, export from Cambodia would bear a totally different picture. It is clearly seen that Asia, or more specifically ASEAN is the existing market for local resource based commodities. Although Asia presently accounts only for 9% of the exports, once the "demand driven growth" is triggered as experienced with garments for USA, this share could be sizably larger than present.

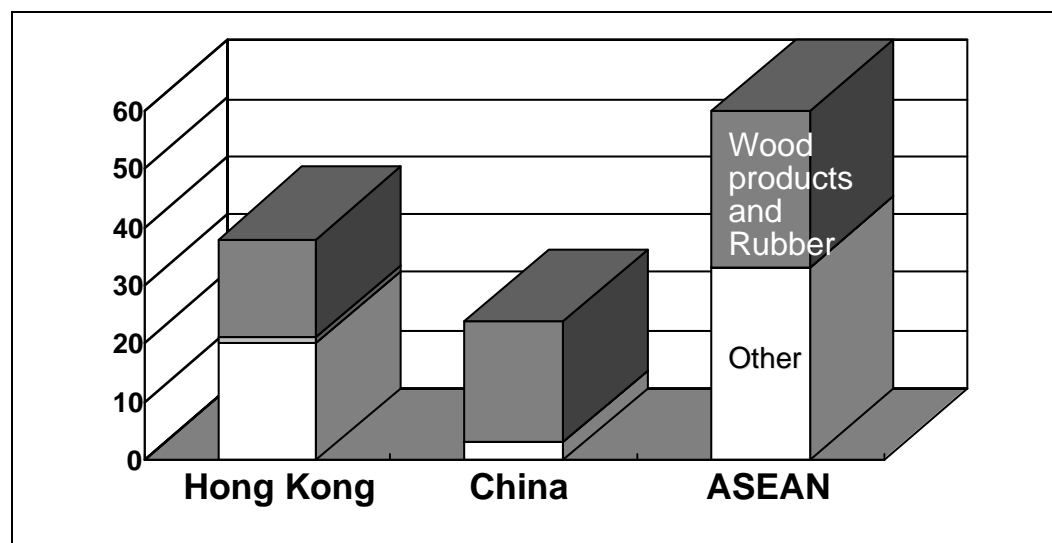


Figure 5-5 Export Structure by Destination within Asia in 2000 (Millions of US\$)

3) *Re-defining Resource Based Exports under a Free Trade Regime:*

As discussed in **Chapter 2**, there are various positive international initiatives for the promotion of free trade such as AFTA (ASEAN Free Trade Area). There are varying views as to what AFTA really would bring to Cambodia. According to a World Bank Discussion Paper¹, the possible impacts of AFTA on Cambodia are as summarized below:

- Lower tariffs...
- More trades within ASEAN...
- Real exchange rates depreciated...then,
- More price advantages...especially for
- *Exports based on local resources*, and
- Perhaps, *labor intensive manufacturing* as well.

AFTA is a promoting factor for exports based on local resources and labor intensive manufacturing in Cambodia.

4) *FDI from Asia Seeking New Locations for Resource Based Products:*

AFTA will also make it easier for investors to mobilize their investments within ASEAN nations. This means that there will be a better chance for ASEAN countries to provide FDI to Cambodia. On top of this, there is a move to relocate resource-based industries within ASEAN.

¹ Fukase and Martin, World Bank Discussion Paper No. 421, February 2001.

Recently, a few ASEAN countries are so-called “graduating” from the GSP status in the EU for a number of resource-based commodities such as wood and furniture, rubber, oil and fats and many more. It will mean that a neighboring country like Thailand, with a long history of very strong resource-based exports, might lose some part of their competitive edge. Then, the resource-based industries located in Thailand, Malaysia, and even those in Vietnam may try to find new places to relocate their bases for production and processing. Cambodia must not overlook these opportunities.

5) *Need to Overcome Resource Disputes*

One of the most important preconditions to link FDI and natural resources in Cambodia is to establish a solid resource management system, including land titles, reliable resource inventory data, and institutional settings for sustainable and fair use of resources among different parties of interest. For example, it is repeatedly pointed out by the steering committee of the present study that "land disputes" are major obstacles to promoting natural resources based industries, such as agro-industry. It is also widely known that forestry resources have aroused much controversy over sustainability and development. In short, monopolistic and unfair arrangements in trading of resources often discourage investment to establish sustainable use of those resources. Finding ways of overcoming resource disputes is a must for Cambodia to attract FDI with links to natural resources.

(3) Improvement of Business Environment

As described in the previous sections, FDI is a vital element to create a new basis for growth in Cambodia. Improvement of the business environment in all aspects is a must.

There is no short cut to becoming a more competitive and thus an attractive destination for FDI. First of all, it is required to reduce all kinds of costs and charges to the internationally competitive level as soon as possible. Uncertainty of delivery of goods such as irregularity in the customs clearance is a major setback to distract FDI producing high-value added commodities.

On top of this, all involved costs must be fully transparent to investors. These are the general principles to make Cambodia a more attractive destination for any kind of FDI. It is very important to note that hidden costs or unexpected charges can make investors lose interest in Cambodia very quickly.

5.2 INDICATIVE TARGETS OF GROWTH CORRIDOR AREA IN CAMBODIA

Two step estimation:

Given the desired role of the Study Area in national economic development of Cambodia, a socio-economic development framework for the Study Area has been formulated to present indicative targets of development. As a first step, a "Baseline Level" of Framework is set to provide a yardstick of working hypotheses. And then, sector scenarios are incorporated to show an integrated image of the future development in the area.

5.2.1 Baseline Level of Framework

(1) Baseline Population

The sets of data from "Population Projections for the period of 2001-2021 (Report 6 of the Census 1998)" are adopted as the baseline level of population in our Framework for the following reasons. Future population is determined by a natural growth rate, age structure, and the size of population net-inflow into the Study Area. All of these factors are incorporated in the Census 98 projections. In addition, these are the only comprehensive population projections with a detailed provincial break down that are needed to highlight spatial characteristics of the Study Area.

Results are summarized as the following tables.

Table 5-1 Baseline Population Projection

	Population in thousand persons				Growth Rates			Net migration	00-15 increase (000)	Share in 00-15 total increase
	1998 adjusted for year end	2000	2008	2015	98-00 Growth Rate	00-08 Growth Rate	08-15 Growth Rate			
Study Area Total	4,511	4,761	5,890	6,950	2.7%	2.7%	2.4%	Inflow	2,189	41.1%
Greater Capital Area (PHN+KDL)	2,178	2,317	2,937	3,511	3.1%	3.0%	2.6%	Inflow	1,194	22.4%
Sihanoukville	165	180	249	318	4.5%	4.2%	3.6%	Inflow	138	2.6%
Intermediate Area	2,169	2,265	2,704	3,121	2.2%	2.2%	2.1%	Outflow	856	16.1%
Other than study area	7,621	8,007	9,630	11,138	2.5%	2.3%	2.1%	Outflow	3,131	58.9%
Cambodia Total	12,132	12,768	15,520	18,088	2.6%	2.5%	2.2%		5,320	100.0%

Data Source: General Population Census of Cambodia 1998, Report 6 - Population Projections 2001-2021

Table 5-2 The Study Area Population Share in the Baseline Population Projection

	Share in total population				% point change 00-15
	1998 adjusted for year end	2000	2008	2015	
Study Area Total	37.2%	37.3%	38.0%	38.4%	1.1
Greater Capital Area (PHN+KDL)	18.0%	18.1%	18.9%	19.4%	1.3
Sihanoukville	1.4%	1.4%	1.6%	1.8%	0.4
Intermediate Area	17.9%	17.7%	17.4%	17.3%	-0.5
Other than study area	62.8%	62.7%	62.0%	61.6%	-1.1
Cambodia Total	100.0%	100.0%	100.0%	100.0%	

Data Source: General Population Census of Cambodia 1998, Report 6 - Population Projections 2001-2021

As shown in the tables, the Study Area as a whole is assumed to have a net in-migrating population over the planning period. Within the Study Area, there are assumed to be two different trends. One trend is that the Capital Area and Sihanoukville will receive in-migrating population continuously. Rapid urbanization in Kandal province will drive expansion of the urban centers to suburban areas. Sihanoukville will be the "boom town". On the other hand, the Intermediate Area will have a net out-migrating population, which are most likely to be absorbed by the Capital area or Sihanoukville.

(2) Baseline Level of GDP by Sector

The baseline level of future GRDP of the Study Area has been estimated in the following two steps.

- Set the GDP level of the whole country based upon target growth rates set by Ministry of Planning of RGC and IMF.
- Set the GDP share of the Study Area in the future.

The estimated present level in 2000 and the baseline level in 2015 are as shown in **Table 5-3 to Table 5-6**. The baseline growth rates of GDP and employment are summarized in **Table 5-7 and 5-8** respectively.

Key assumptions and estimates are summarized in the following sections.

GDP of the whole Country

The major sources of growth are expected to be non-agricultural sectors that are assumed to maintain 8% or higher growth rates. The primary sector is assumed to have a 3.4% growth rate. This is 1.1 percentage points higher than the projected overall population growth rate at 2.3%.

Different target growth rates of the existing plans and studies were reviewed and compared. Regarding the overall GDP growth rates for years 2002 and 2015, it is considered to be appropriate to basically adopt the same assumptions made in the Macroeconomic Framework of SEDP II which is consistent with the most recent "Medium-Term Macroeconomic Framework for 1999-2006" presented as part of the "Fifth Review under the Poverty Reduction and Growth Facility and Requests for Waiver of a Performance Criterion" by IMF on July 5, 2002.

At the same time, the "Review of Progress in the 1990s and Action Programme for 2001-2010 (MOP 2001)" was reviewed. The Programme is found to be relevant in its qualitative discussion of the long-term perspectives. On the other hand, quantitative growth targets of the Programme are found to be inappropriate to our Framework for the following reason. The Programme was prepared before the new series of "National Account for 1993-2001" was introduced in July 2002 estimates that are used in our study. There are differences in baseline assumptions between the GDP estimates in the Programme and the new GDP.

GDP of the Study Area

Future GDP of the Study Area has been estimated by assuming the share of the area in the whole country. In the baseline case, the present structures of distribution patterns of GDP among provinces by different sub-sectors of economic activities are assumed to be the same in 2015.

Assumed levels of employment ratio over the entire population are used as yardstick parameters to examine whether allocated levels of GDP are within a range of the given baseline level of population or not. As a result, the GDP share of the Capital Area is slightly lowered to the extent where the level of employment is balanced with the capacity of labor supply based upon the population projections.

(3) Baseline Level of Employment by Sector

Baseline level of future employment of the study area has been estimated in the following two steps.

- Set employment level of the whole country based upon baseline GDP by sector.
- Set employment level of the Study Area in the future following a set of assumptions.

Key assumptions and estimates are summarized in the following sections.

Employment of the whole Country

Future level of employment in the whole country has been estimated based upon the baseline GDP by sectors with assumed levels of labor productivity by sectors. It is estimated that there will be 300 to 350 thousand additional labor force every year.

For the primary sector, the total volume of employment will remain the same over the period. This implies that the sources of the primary sector growth are to be improvement of land and labor productivities rather than additional inputs of labor.

The secondary and tertiary sectors, on the other hand, are assumed to accommodate the majority of the increased labor force. Non-agricultural employment at the national level is estimated in proportion to the estimated non-agricultural GDP.

Employment of the Study Area

Future level of employment in the Study Area has been estimated by assuming the area's share in the whole country. It is estimated that there will be 130 to 140 thousand additional labor force every year.

For the primary sector, the present structures of distribution patterns of employment among the provinces are assumed to be the same in 2015.

For the secondary and tertiary sectors, on the other hand, it is assumed to accommodate the increased labor force. The level of the non-agricultural sector employment by province is estimated in proportion to the estimated non-agricultural

GDP by province. Thus, employment by province is estimated "at work place" basis rather than "at residence" basis.

It is also assumed that around 300 to 400 thousand people will be commuters or seasonal labor from the surrounding provinces to the Capital Area. About half of them are assumed to be from the Intermediate Area of the Growth Corridor, and the rest from the other provinces.

5.2.2 Indicative Targets with Development Scenarios

By definition, the baseline level of the Framework already incorporates the existing development targets and prospects such as SEDP II. On top of this, development scenarios are incorporated to show indicative development targets for the study area.²

(1) Common Assumptions for Drawing Scenarios

Population by Province

The levels of population of the Study Area are adjusted to match the required size of the labor force for the scenario that assumes the Study Area will take more share of employed population. As a result, the levels of population of the Study Area for the scenario are higher than the ones assumed in the baseline level that follows the pattern of the 1998 Census Projections.

GDP by Province

Regarding GDP of the primary sector and the tertiary sector, the baseline levels are adopted as targets. This means that the study area will take its role and be able to meet national targets by exploiting the potentials of the present and foreseeable comparative advantages in the area as described in the sector wise scenario, including the size of population, the availability of land-based resources, proximity to the major urban markets, and other factors.

The secondary sector, on the other hand, is fine tuned in accordance with the scenario. The scenario assumes that the secondary industry growth will be accelerated even more than the baseline level by strategic development of infrastructure, institutional improvements, and development of SPZs and industrial estates. To be more specific, manufacturing activities in the two urban cores of the Capital Area and Sihanoukville are to be expanded more as front-runners by development of SPZs and industrial estates. For more details of the scenario, see **Sections 5.4.2** (Secondary Industry scenario) and **Chapter 6**.

² By definition, a framework itself should not be considered as a projection independent from sector scenarios. Here, a framework is rather to provide a common platform to integrate various sector development images into one picture. Thus, it is a sector scenario that actually determines a final framework output by providing a concrete basis for the future images and assumptions.

Employment by Province

The levels of employment are set with the same set of assumptions applied for GDP by province. For the primary sector and tertiary sector, the baseline levels are adopted. The secondary sector is adjusted in accordance with the scenario.

(2) Development Scenario

Given those assumptions for the scenario, indicative targets for the most intensive development case are drawn as in **Figures 5-6 to 5-9** and **Table 5-9 to 5-12**. Major differences with the baseline level are as following.

- GDP from the manufacturing sector of the Study Area is set to be 10% higher than the baseline level.
- The Greater Capital Area and Sihanoukville are assumed to be the locations to accommodate more manufacturing activities than the level assumed in the baseline case. The Capital Area will have 5% more manufacturing GDP than the baseline level. Sihanoukville will have more than twice as much manufacturing GDP than the baseline level, which reflects the assumption that establishment of SPZs and industrial estates and improvement of infrastructure is expected to enlarge the capacity of Sihanoukville.
- To meet additional demand for labor force in the Greater Capital Area and Sihanoukville, population levels in these two urban cores are adjusted to be 11% and 24% higher respectively than the ones in baseline case.

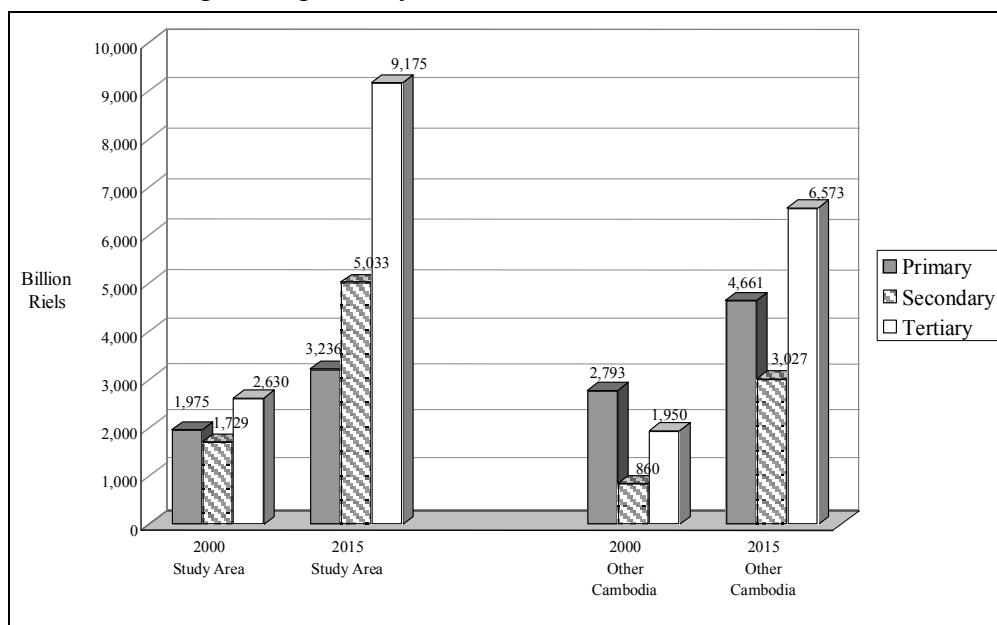


Figure 5-6 GDP Changes 2000-2015 for Intensive Case

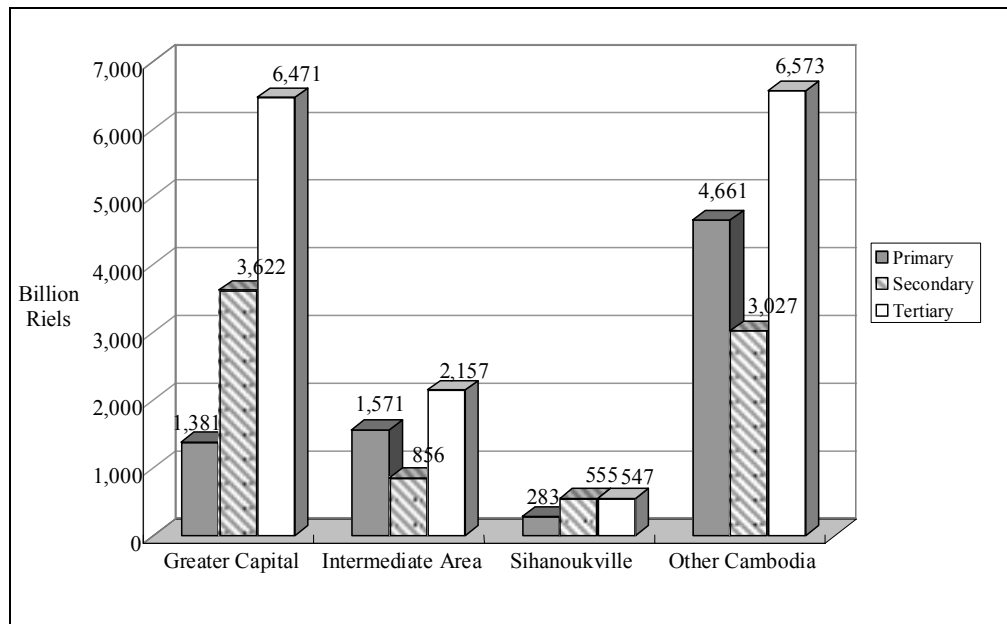


Figure 5-7 Structure of GDP in 2015 for Intensive Case

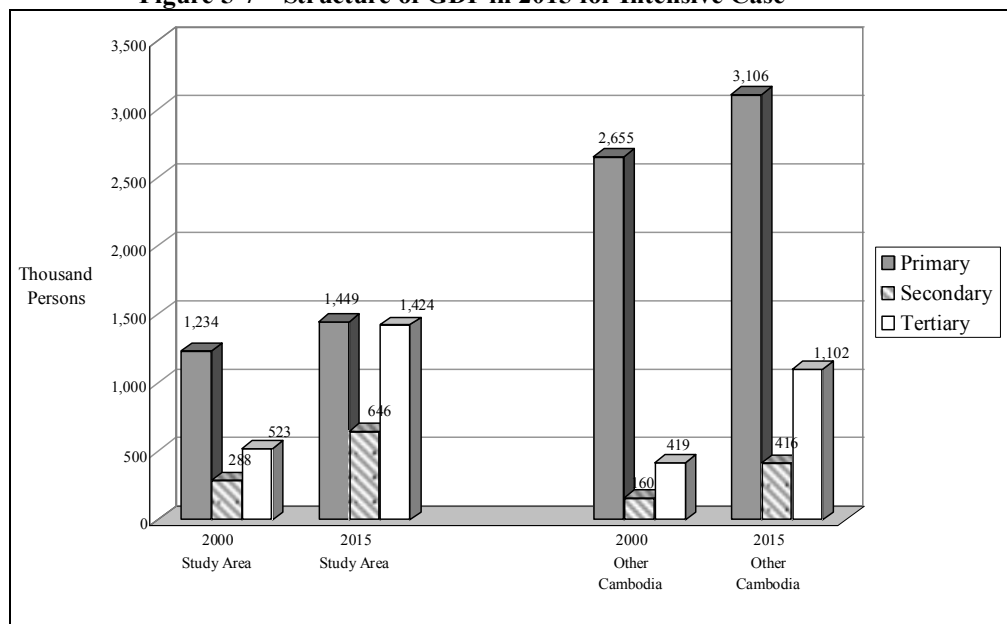


Figure 5-8 Employment Changes 2000-2015 for Intensive Case

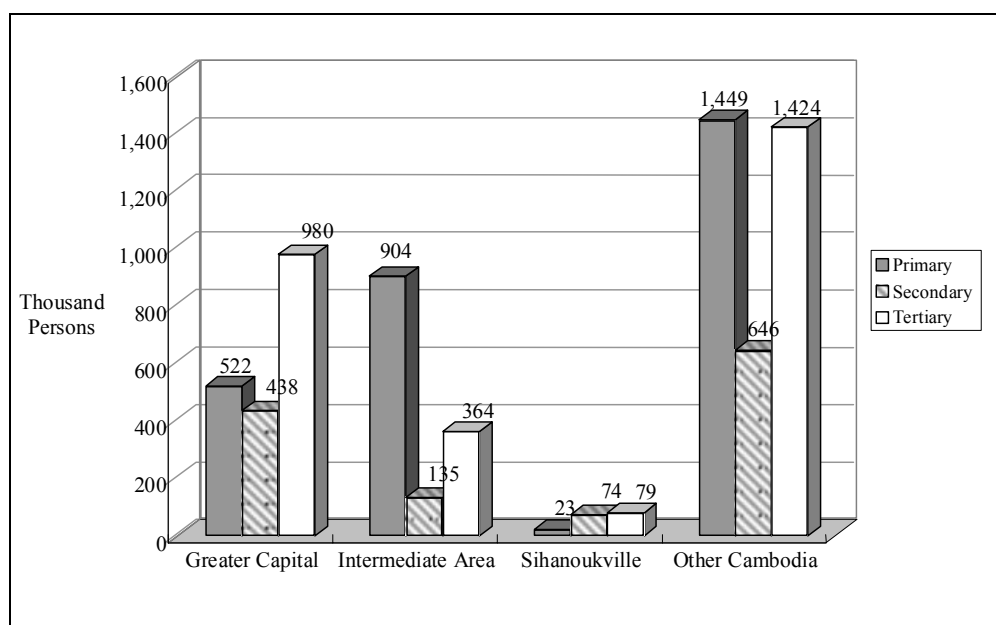


Figure 5-9 Structure of Employment in 2015 for Intensive Case

Table 5-3 Present Level of GDP in 2000

Present Level 2000	Estimated GDP in 2000 in Billion Riels (2001 prices)					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	4,768	2,793	1,975	754	1,025	199
Crops + Livestock & Poultry	3,010	1,928	1,082	441	630	111
Fisheries	1,465	743	721	296	246	179
Forestry & Logging	293	122	171	17	148	6
NON-AGRICULTURE Total	7,170	2,810	4,359	3,268	881	210
INDUSTRY	2,589	860	1,729	1,362	304	63
Mining	22	0	22	0	21	0
Manufacturing	1,833	444	1,390	1,166	169	54
Electricity, Gas & Water	55	12	43	32	9	3
Construction	679	404	275	164	105	6
SERVICES	4,580	1,950	2,630	1,906	577	147
Trade	1,324	595	729	523	167	38
Hotel & Restaurants	488	151	337	268	52	16
Transport & Communications	869	331	538	341	155	42
Finance	169	46	123	116	3	4
Public Administration	368	160	208	137	64	6
Real Estate & Business	827	400	427	343	51	32
Other services	537	267	269	177	84	8
GDP TOTAL at Factor Cost	11,938	5,604	6,334	4,022	1,906	406
Per Capita GDP in 000 Riels	935	700	1,330	1,736	842	2,260
Per Capita GDP in US\$ (\$1=3859 Riels)	242	181	345	450	218	586
Total Population (in 000 persons)	12,769	8,007	4,761	2,317	2,265	180

Table 5-4 Baseline Case of GDP in 2015

Baseline Case	Estimated GDP in 2015 in Billion Riels (2001 prices)					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	7,897	4,661	3,236	1,381	1,571	283
Crops+Livestock & Poultry	5,532	3,483	2,049	939	1,092	18
Fisheries	2,121	1,076	1,044	428	356	260
Forestry & Logging	244	102	142	14	123	5
NON-AGRICULTURE Total	23,508	9,600	13,908	9,983	3,213	794
INDUSTRY	7,760	2,946	4,814	3,512	1,056	246
Mining	57	0	57	1	56	1
Manufacturing	4,211	1,036	3,174	2,550	458	166
Electricity, Gas & Water	355	77	278	203	59	16
Construction	3,137	1,832	1,305	759	483	63
SERVICES	15,748	6,573	9,175	6,471	2,157	547
Trade	4,603	2,070	2,533	1,818	582	134
Hotel & Restaurants	1,831	567	1,264	1,008	197	59
Transport & Communications	4,674	1,780	2,894	1,833	833	228
Finance	264	98	166	153	5	8
Public Administration	1,438	627	812	535	251	25
Real Estate & Business	1,804	872	932	750	112	70
Other services	1,136	560	576	375	178	23
GDP TOTAL at Factor Cost	31,405	14,180	17,224	11,364	4,784	1,077
Per Cpta GDP in 000 Riels	1,736	1,273	2,478	3,237	1,533	3,386
Per Cpta GDP in US\$ (\$1=3924 Riels)	442	324	632	825	391	863
Total Population in 000 persons	18,091	11,141	6,950	3,511	3,121	318

Table 5-5 Present Level of Employment in 2000

Present Level 2000	Employment 2000 in Thousand Persons					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	3,889	2,655	1,234	438	778	19
Crops + Livestock & Poultry	3,697	2,560	1,137	389	736	13
Fisheries	147	76	71	46	20	5
Forestry & Logging	45	19	26	3	23	1
NON-AGRICULTURE Total	1,390	579	811	578	197	36
INDUSTRY	448	160	288	217	61	10
Mining	4	0	5	0	4	0
Manufacturing	370	118	252	198	45	10
Electricity, Gas & Water	4	1	3	2	1	0
Construction	70	42	28	17	11	1
SERVICES	942	419	523	361	136	25
Trade	436	196	240	172	55	13
Hotel & Restaurants	19	6	13	10	2	1
Transport & Communications	120	46	74	47	21	6
Finance	8	2	6	6	0	0
Public Administration	147	64	83	55	26	3
Real Estate & Business	16	8	8	6	1	1
Other services	196	98	99	65	31	3
Total Employment (at work place)	5,279	3,234	2,045	1,015	975	55
Employed population/ Total Population	41%	42%	43%	44%	43%	30%
Total Population (in 000 persons)	12,769	8,007	4,761	2,317	2,265	180

Table 5-6 Baseline Case of Employment in 2015

Baseline Case	Employment at Work Place in 2015 in Thousand Persons					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	4,555	3,106	1,449	522	904	23
Crops + Livestock & Poultry	4,305	2,981	1,324	453	857	15
Fisheries	213	110	103	67	29	7
Forestry & Logging	37	16	22	2	19	1
NON-AGRICULTURE Total	3,580	1,517	2,063	1,441	517	111
INDUSTRY	1,055	415	639	461	152	32
Mining	10	0	10	0	10	0
Manufacturing	746	249	497	381	96	25
Electricity, Gas & Water	21	5	16	12	3	1
Construction	278	162	115	67	43	6
SERVICES	2,525	1,102	1,424	980	364	79
Trade	1,306	587	719	516	165	38
Hotel & Restaurants	61	19	42	33	7	2
Transport & Communications	554	211	343	217	99	27
Finance	11	4	7	6	0	0
Public Administration	205	90	116	76	36	4
Real Estate & Business	29	14	15	12	2	1
Other services	358	176	181	118	56	7
Total Employment (at work place)	8,135	4,623	3,512	1,962	1,421	134
Employed population/ Total Population	45%	44%	51%	56%	46%	42%
Total Population (in 000 persons)	18,091	11,141	6,950	3,511	3,121	318

Table 5-7 Baseline Level of GDP Growth Rates 2000-2015

Baseline Level	GDP Growth Rates 2000-2015 in Constant 2001 Prices					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	3.4%	3.5%	3.3%	4.1%	2.9%	2.5%
Crops + Livestock & Poultry	4.1%	4.0%	4.3%	5.2%	3.7%	3.8%
Fisheries	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Forestry & Logging	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
NON-AGRICULTURE Total	8.2%	8.5%	8.0%	7.7%	9.0%	9.3%
INDUSTRY	7.6%	8.8%	6.9%	6.5%	8.6%	9.5%
Mining	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%
Manufacturing	5.7%	6.4%	5.5%	5.4%	6.9%	7.7%
Electricity, Gas & Water	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%
Construction	10.7%	10.6%	10.9%	10.7%	10.7%	17.2%
SERVICES	8.6%	8.4%	8.7%	8.5%	9.2%	9.2%
Trade	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
Hotel & Restaurants	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
Transport & Communications	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%
Finance	3.0%	5.2%	2.0%	1.8%	3.0%	5.4%
Public Administration	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Real Estate & Business	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Other services	5.1%	5.0%	5.2%	5.1%	5.1%	7.2%
GDP TOTAL at Factor Cost	6.7%	6.4%	6.9%	7.2%	6.3%	6.7%
Per Capita GDP in 000 Riels	4.2%	4.1%	4.2%	4.2%	4.1%	2.7%
Per Capita GDP in US\$ (\$1=3859 Riels)	4.1%	4.1%	4.2%	4.2%	4.1%	2.7%
Total Population in 000 persons	2.3%	2.2%	2.6%	2.8%	2.2%	3.9%

Table 5-8 Baseline Level of Employment Growth Rates 2000-2015

Baseline Level	Growth Rates of Employment at Work Place 2000-2015					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	1.1%	1.1%	1.1%	1.2%	1.0%	1.4%
Crops + Livestock & Poultry	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Fisheries	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Forestry & Logging	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
NON-AGRICULTURE Total	6.5%	6.6%	6.4%	6.3%	6.6%	7.8%
INDUSTRY	5.9%	6.6%	5.5%	5.2%	6.3%	7.7%
Mining	5.8%	-	5.6%	5.6%	5.6%	5.6%
Manufacturing	4.8%	5.1%	4.6%	4.5%	5.2%	6.6%
Electricity, Gas & Water	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%
Construction	9.6%	9.5%	9.8%	9.6%	9.6%	16.0%
SERVICES	6.8%	6.7%	6.9%	6.9%	6.8%	7.9%
Trade	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%
Hotel & Restaurants	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
Transport & Communications	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Finance	2.0%	4.2%	1.0%	0.8%	2.0%	4.4%
Public Administration	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Real Estate & Business	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Other services	4.1%	4.0%	4.2%	4.1%	4.1%	6.2%
Total Employment (at work place)	2.9%	2.4%	3.7%	4.5%	2.5%	6.2%
Employed population/ Total Population	45%	44%	50%	55%	45%	45%
Total Population (in 000 persons)	18,091	16,159	6,950	3,511	3,121	318

Table 5-9 Intensive Case of GDP in 2015

Intensive Case	Estimated GDP in Constant 2001 Prices in Billion Riels					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	7,897	4,661	3,236	1,381	1,571	283
Crops+Livestock & Poultry	5,532	3,483	2,049	939	1,092	18
Fisheries	2,121	1,076	1,044	428	356	260
Forestry & Logging	244	102	142	14	123	5
NON-AGRICULTURE Total	23,508	9,600	13,908	9,983	3,213	794
INDUSTRY	8,060	3,027	5,033	3,622	856	555
Mining	58	0	57	1	56	1
Manufacturing	4,517	1,118	3,400	2,664	374	361
Electricity, Gas & Water	355	77	278	203	59	16
Construction	3,130	1,832	1,298	754	367	176
SERVICES	15,748	6,573	9,175	6,471	2,157	547
Trade	4,603	2,070	2,533	1,818	582	134
Hotel & Restaurants	1,831	567	1,264	1,008	197	59
Transport & Communications	4,674	1,780	2,894	1,833	833	228
Finance	264	98	166	153	5	8
Public Administration	1,438	627	812	535	251	25
Real Estate & Business	1,804	872	932	750	112	70
Other services	1,136	560	576	375	178	23
GDP TOTAL at Factor Cost	31,705	14,261	17,444	11,474	4,584	1,385
Per Capita GDP in 000 Riels	1,753	1,380	2,249	2,944	1,323	3,514
Per Capita GDP in US\$ (\$1=3924 Riels)	447	352	573	750	337	895
Total Population in 000 persons	18,091	10,335	7,756	3,897	3,464	394

Table 5-10 Intensive Case of Employment in 2015

Intensive Case	Employment at Work Place in 2015 in Thousand					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	4,555	3,106	1,449	522	904	23
Crops + Livestock & Poultry	4,305	2,981	1,324	453	857	15
Fisheries	213	110	103	67	29	7
Forestry & Logging	37	16	22	2	19	1
NON-AGRICULTURE Total	3,587	1,517	2,070	1,418	499	153
INDUSTRY	1,062	415	646	438	135	74
Mining	10	0	10	0	10	0
Manufacturing	753	249	505	359	89	57
Electricity, Gas & Water	21	5	16	12	3	1
Construction	277	162	115	67	33	16
SERVICES	2,525	1,102	1,424	980	364	79
Trade	1,306	587	719	516	165	38
Hotel & Restaurants	61	19	42	33	7	2
Transport & Communications	554	211	343	217	99	27
Finance	11	4	7	6	0	0
Public Administration	205	90	116	76	36	4
Real Estate & Business	29	14	15	12	2	1
Other services	358	176	181	118	56	7
Total Employment (at work place)	8,142	4,623	3,519	1,940	1,403	176
Employed population/ Total Population	45%	45%	45%	50%	40%	45%
Total Population (in 000 persons)	18,091	10,335	7,756	3,897	3,464	394

Table 5-11 Intensive Case of GDP Growth Rates 2000-2015

Intensive Development	GDP Growth Rates 2000-2015 in Constant 2001 Prices					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	3.4%	3.5%	3.3%	4.1%	2.9%	2.5%
Crops + Livestock & Poultry	4.1%	4.0%	4.3%	5.2%	3.7%	3.8%
Fisheries	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Forestry & Logging	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
NON-AGRICULTURE Total	8.2%	8.5%	8.0%	7.7%	9.0%	9.3%
INDUSTRY	7.9%	8.8%	7.4%	6.7%	7.1%	15.6%
Mining	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%
Manufacturing	6.2%	6.4%	6.1%	5.7%	5.4%	13.5%
Electricity, Gas & Water	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%
Construction	10.7%	10.6%	10.9%	10.7%	10.7%	17.2%
SERVICES	8.6%	8.4%	8.7%	8.5%	9.2%	9.2%
Trade	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
Hotel & Restaurants	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
Transport & Communications	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%
Finance	3.0%	5.2%	2.0%	1.8%	3.0%	5.4%
Public Administration	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Real Estate & Business	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Other services	5.1%	5.0%	5.2%	5.1%	5.1%	7.2%
GDP TOTAL at Factor Cost	6.7%	6.4%	7.0%	7.2%	6.0%	8.5%
Per Capita GDP in 000 Riels	4.3%	4.6%	3.6%	3.6%	3.1%	3.0%
Per Capita GDP in US\$ (\$1=3859 Riels)	4.3%	4.6%	3.6%	3.6%	3.1%	3.0%
Total Population in 000 persons	2.3%	1.7%	3.3%	3.5%	2.9%	5.4%

Table 5-12 Intensive Case of Employment Growth Rates 2000-2015

<i>Intensive Development</i>	<i>Growth Rates of Employment at Work Place 2000-2015</i>					
	Whole Country	Other than Study Area	Study Area	Greater Capital	Inter-mediate Area	Sihanouk Ville
AGRICULTURE, FISHERIES & FORESTRY	1.1%	1.1%	1.1%	1.2%	1.0%	1.4%
Crops + Livestock & Poultry	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Fisheries	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Forestry & Logging	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
NON-AGRICULTURE Total	6.5%	6.6%	6.4%	6.2%	6.4%	10.1%
INDUSTRY	5.9%	6.6%	5.5%	4.8%	5.4%	13.9%
Mining	5.8%	-	5.6%	5.6%	5.6%	5.6%
Manufacturing	4.8%	5.1%	4.7%	4.1%	4.6%	12.6%
Electricity, Gas & Water	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%
Construction	9.6%	9.5%	9.8%	9.6%	7.7%	24.3%
SERVICES	6.8%	6.7%	6.9%	6.9%	6.8%	7.9%
Trade	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%
Hotel & Restaurants	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
Transport & Communications	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Finance	2.0%	4.2%	1.0%	0.8%	2.0%	4.4%
Public Administration	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Real Estate & Business	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Other services	4.1%	4.0%	4.2%	4.1%	4.1%	6.2%
Total Employment (at work place)	2.9%	2.4%	3.7%	4.4%	2.5%	8.1%
Employed population/ Total Population	45%	45%	45%	50%	40%	45%
Total Population (in 000 persons)	18,091	10,335	7,756	3,897	3,464	394

5.3 DEVELOPMENT SCENARIOS

5.3.1 Overall Goal for Growth Corridor Regional Development

In the previous chapters, various issues related to the Growth Corridor were analyzed. The overall structure of the problems and necessary considerations for the development can be summarized as the following figure.

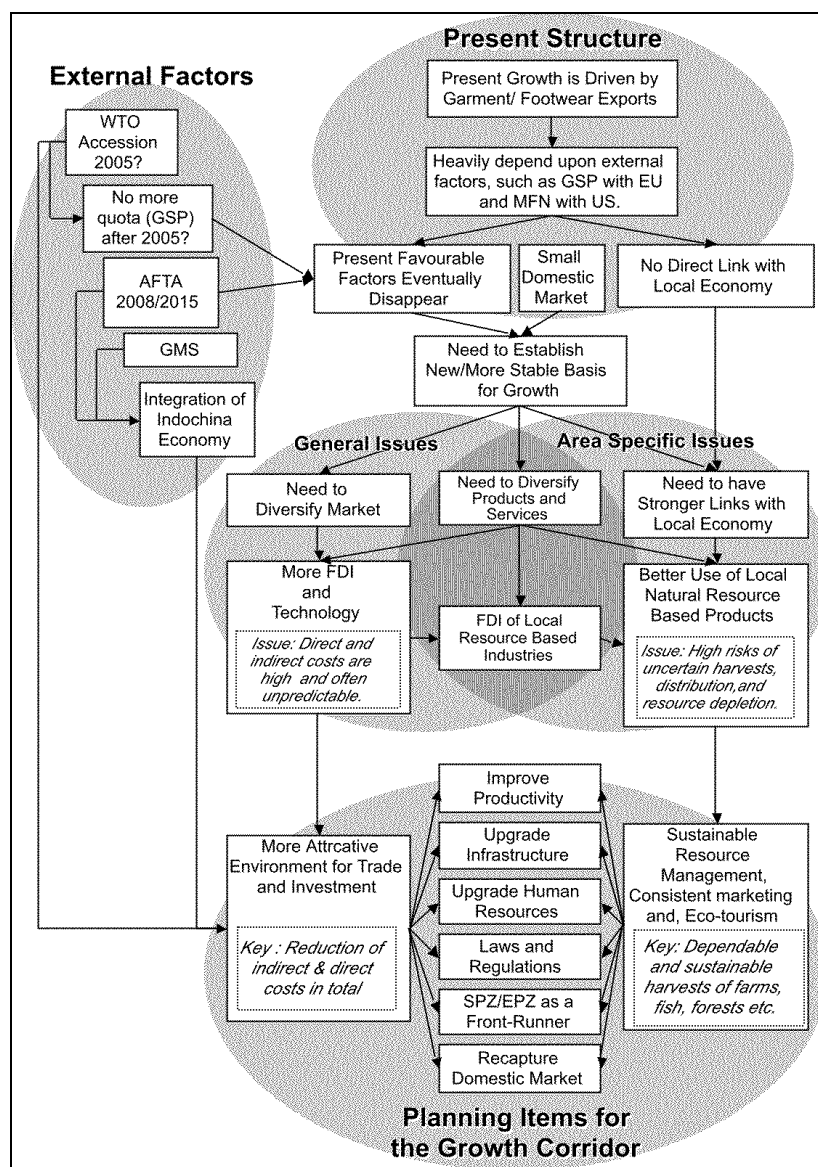


Figure 5-10 Structure of the Problem and Necessary Considerations

With the ongoing trends for a free economy in ASEAN and possible removal of the export quota on garment in the U.S. market in near future, most of the favorable conditions for Cambodian industries may dissipate entirely. While the domestic market is relatively small and current export manufactures have little linkage with the local economy as is the case of most of the garment production, changes in the

external factors may impair the industrial system of Cambodia fatally. Under such circumstances, diversification of export commodities and cultivation of diverse export markets will be imperative for Cambodia.

The Growth Corridor Area has indeed played a leading role of the engine of development for Cambodia. This role of Growth Corridor Area needs to be maintained and strengthened in the future. The major issues of regional development for the Growth Corridor area thus rest in its continuous contribution to the sustainable and continued economic development. Successful implementation of export oriented industries will be necessary to cope with the diminishing advantage of GSP items for export, such as garment and footwear, that would facilitate a sustainable economic growth to cater for the nation.

In order to respond to those dynamic changes in the Cambodian economy and in the surrounding regional framework as described in the previous sections, the Study Area should take leading and active roles in economic development of Cambodia.

In this regard, the overall goal for the regional development is simply stated as;

Overall Goal of Growth Corridor Development

- Formulation of an alternative economic axis for industrial development of Cambodia, focusing on diversification of export industries

5.3.2 Desired Roles of the Study Area

The Growth Corridor area is not a monolithic entity. The Corridor is composed of three distinctive areas, namely the port city of Sihanoukville, Greater Capital Area of Phnom Penh and Kandal and agro-based "Intermediate area". Naturally, these areas are expected to have different roles in the future growth.

The development goals of the sub-areas are summarized below, and described subsequently.

Sub-Area Development Goals

Sihanoukville Area:

- Promotion of strategic development of new export industries and promotion of domestic enterprises to create backward linkage

Greater Phnom Penh Area:

- Promotion of high-tech and new export industries within economically active suburbs with sustainable environment

Intermediate Area:

- Establishment of stable and sustainable rural societies for where locally available resources contribute to economic development

(1) The Role of Sihanoukville

To capture opportunities from dynamic changes of ASEAN economy, Cambodia must prepare itself quickly to make the future investors believe that Cambodia is the right place to come. Sihanoukville is one of the most strategically important locations to accommodate such FDI.

Geo-economic Position of Sihanoukville:

Non-agricultural activities within the Study Area are highly concentrated in a limited number of urban centers. Employment of the secondary industry is even more concentrated in a few (or isolated) places as shown in **Figure 5-11**. In Cambodia, urban centers with sizable concentration of secondary industry are limited to Phnom Penh, Kampong Cham, Bat Dambang, Siam Reab, and Sihanoukville.

These urban centers can be grouped into three clusters. The eastern cluster, the largest with Phnom Penh, has close relation to Ho Chi Minh City through NR1 or NR7. The western cluster including Battambang and Siam Reab has a tie with Bangkok through the Thai border gateway city of Poipet at the far northwest end of NR5 and NR6. The eastern and western clusters are connected with inland roads of NR5 and NR6 although road condition is not so good as National Road 4. Thus distance between eastern and western clusters in terms of travel time is much longer than the time-distance between Phnom Penh and Sihanoukville.

The Seaside cluster is somewhat isolated as an enclave, but it is connected with Phnom Penh by National Road 4 that is in the best condition among the National Roads, and functioning as an international gateway to Singapore through sea lanes.

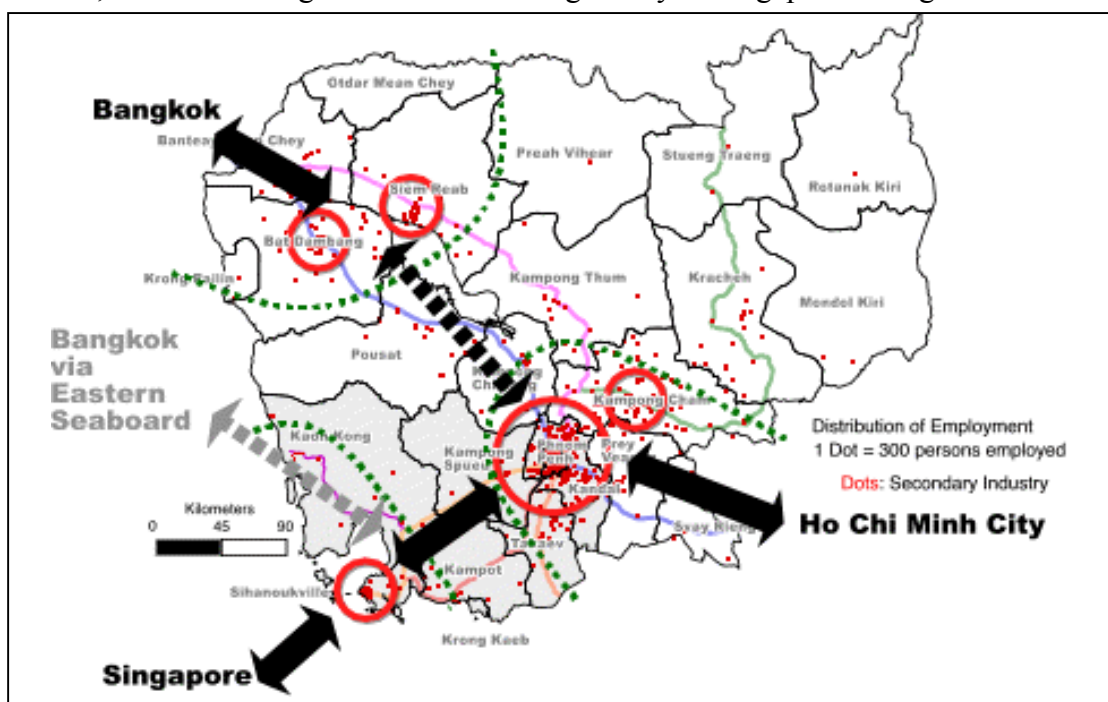


Figure 5-11 Present Economic Network

Four out of these five centers belong to the central belt combining the east and west clusters with National Roads 5 or 6. This belt is the most populous areas that have inland links to the neighboring countries and forms the main domestic axis along the Tonle Sap-Phnom Penh-Mekong corridor.

Strategic location:

Sihanoukville is located in the coastal strip, and is the only urban core separated geo-economically from the axis of Tonle Sap-Phnom Penh by a mountainous region. Nonetheless, Sihanoukville has a distinctive role that deserves continuous support.

Given the limited size of the Cambodian economy, Cambodia's domestic market alone is not attractive enough for foreign direct investors. In order to attract such investors, it is important to create a gateway, through which potential investors have good access to the market of Cambodia together with the neighboring countries. With improvement of international links, Cambodia will appear to be a more attractive platform for investment to reach the Indochina, ASEAN and further to the world as a whole.

The Sihanoukville port is strategically important for Cambodia on this token. To enhance the function of the gateway, Sihanoukville is the place where development efforts by Cambodia are most needed.

Future Network - Sihanoukville on Coastal Route of Southern Corridor:

On top of that, Sihanoukville will be one of the core cities to support international corridor. There is a prospect of upgrading coastal road of NR48 between National Road 4 and Kaoh Kong on the Thai border. Once this is realized, Sihanoukville port and the Study Area will be part of the new corridor connecting Bangkok-Phnom Penh-Ho Chi Minh City, as shown in **Figure 5-12**. The geo-economic position of the coastal area of Cambodia will be totally changed from an isolated strip of land to a crossroad of the Indochina peninsula. This will make Sihanoukville quite appealing to the investors who appreciate good access to the entire region, two largest cities of Bangkok and Ho Chi Minh City, and the Eastern Seaboard either by sea or by land.

Rapidly Growing City:

Sihanoukville is, and will be the "boom town" of Cambodia throughout the planning period. The urban population in Sihanoukville grows rapidly at a rate much higher than the national average, expanding urban areas near the Port into the hinterland plateau onto surrounding the hills. Sihanoukville has a population of 180,000 in 2000, and will reach 318,000 in 2015, with annual growth rate of 4%.

Greater Capital Area will continue to provide locations for various types of industries of the nation seeking operation in Cambodia

Within the Corridor, there is a large disparity between advanced and underdeveloped parts. Improvement of rural household income is essential to bring up the level of the regional economies. In this regard, the urban sector development is important not only to the Capital Area itself, but also to the underdeveloped parts surrounding the urban centers. The expected roles are summarized as follows.

- National Urban Center: The capital area continues to accommodate largest portion of non-agricultural activities. Negative impacts of over-concentration could be issues in the future.
- Providing diversified urban market for the agricultural sector: Urbanization is an important factor to promote diversification of agricultural production in the surrounding areas. As an urban economy grows, it generally expands and diversifies its demand for food, such fresh vegetable and livestock products.

As the urbanized area of the Greater Capital Phnom Penh is close to saturation, expansion of the city outwards will be inevitable. The suburban areas around Phnom Penh have latent potential for industrial as well as residential development. Maintaining well balanced suburban areas for both accommodating the growing population of the Capital area and providing sites for new industrial facilities will be important for the region.

(3) The Role of Intermediate Area

It should be born in mind that the Intermediate Area has a large population in total in the hinterland rural areas, with the total population of 2 million in 1998, which will reach in excess of 3 million in 2015. Intermediate Areas only has small urban centers with the urban population of about 30,000 to 40,000.

The basic nature of the Intermediate Area as an agrarian zone will remain. With growing urban centers in Greater Capital and Sihanoukville areas, the role of the Intermediate Area for providing food for urban residents and ingredients for local resource based industries will be ever more important in the future. Improvement of rural infrastructure will be essential in enhancing the roles of the Intermediate Area.

In the short-run, *recapturing urban markets in two urban cores* is the role of Intermediate Area. Growing urban consumption markets in the Capital Area and Sihanoukville will be the immediate target of commercial agriculture in the area. For the remote areas, however, food security shall be the issue. Two urban centers are expected to absorb surplus labor to lower the population pressure in these areas where soil conditions are not so favorable to intensive cultivation.

In the medium to long terms, steady supply of natural resources to the processing industries will be a key factor to attract investments to the area. As already mentioned, it is quite important for Cambodia to have more open and efficient move of resources and products. "Open economy", however, is not equal to allowing over-exploitation of resources. Rather, it is important to enact close and control for use of natural resources when they are traded under a market mechanism.

The expected roles are summarized as follows.

- To bring more-value added within the area: It is particularly important to bring more downstream portion of "value-added chain" of agricultural production into the rural economy. Peri-urban areas have better prospects in this regard. For example, activities related to simple agricultural processing that brings in more value-added to the agricultural sector tend to concentrate in the vicinities of urban economies.
- To insure steady supply of natural resources to the processing industries: To do so, it is important to install sound control measures to prevent over use of natural resources, such as in forms of solid conditions with concessions of forest resources that insure both sustainable use of local community and commercial logging.

5.3.3 Approaches for Development

(1) Development Approaches

Local Resource-Based Growth Approach

In the Growth Corridor, there are two urban centers at each end, Phnom Penh and Sihanoukville, and NR4 and 3 provide the connection. The areas between these two urban centers have a very low density of supply capacity.

In general, the resource base in the Intermediate Area is not strong enough to expect "Local resource-based" export development in the near future. There are a limited number of resources that might presume good potential, such as forests, mangroves, and marine products. It is, however, needed to establish a good resource management system first.

There are a number of other resource-based products, such as pineapples and cashew nuts along route 4, and peppers, fruit trees and other processed foods in Kampot, but they are still generally small in scale and scattered spatially. On top of that, land disputes are a serious obstacle to diversification of products. It will take some time to solve this problem entirely.

Given this present structure in the Study Area, it is quite unreasonable to expect immediate forward and backward linkage between the local economies in the rural areas and export industries in the Capital Area and the port city of Sihanoukville.

Thus in the short-term, it is difficult to initiate a Local resource-based growth strategy.

Demand Driven Growth Approach

An alternative strategy is to expect urban demand to grow first and the rural economy will respond to this: namely a “Demand Driven Scenario”. Recapturing the growing urban demand for food and raw materials, as discussed earlier, is a typical demand-driven scenario that is effective. Export processing is another type of demand-driven scenario.

With this scenario, more urban activities need to grow. Sihanoukville should take this role as a regional growth core of the urban economy in the coastal area. Phnom Penh will take the same role in the inland belt zone. As the Study area stretches over more than 200 km of length, Sihanoukville is further critical to the rural economies in the western part of the Study Area. Given the much larger urban consumption market, scattered supply sides in the rural areas will have a much better chance to emerge. In mid to long terms, the local resource-based industry that is incubated by the domestic urban demand could emerge as an export industry.

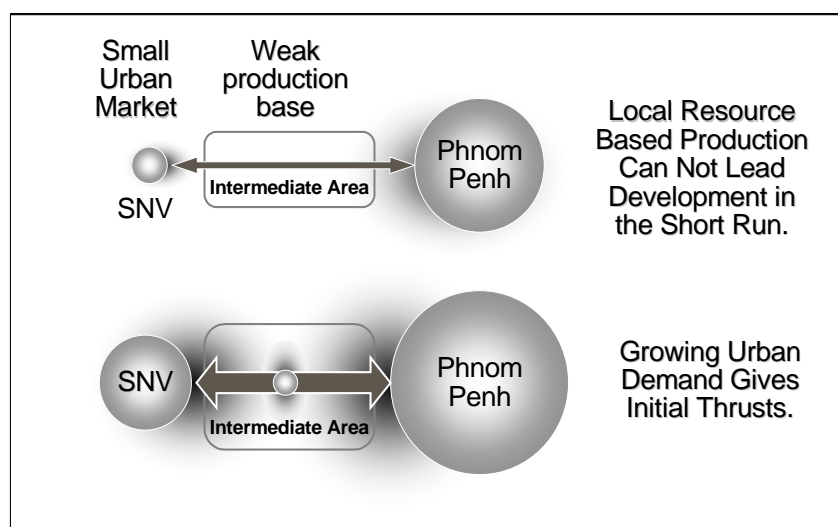


Figure 5-13 Overall Development Scenario

(2) Medium-Term Scenario

The overall development scenario for the Growth Corridor shall be a combination of "Demand Driven" for short-term export promotion and "Supply Driven" for mid to long-term local linkage enhancement, as summarized below.

Sihanoukville Area

For the target year of 2008, it is imperative to focus on the enhancement of Sihanoukville as the direct international gateway. The most important step is to

realize a Special Promotion Zone (SPZ) framework to attract FDI to Sihanoukville by all feasible means to widen the range of export industries. To achieve this, a comprehensive law and the appropriate managing organization need to be established for Sihanoukville SPZ as a model to display a success within a limited spatial extent. Improvement of the port that is currently in progress is an important element to enhance the competitive edge of Sihanoukville as the gateway to Cambodia.

The improvement of connecting roads, particularly of National Route No. 48, will be essential for providing Sihanoukville with a relative advantage for growth, strengthening the linkage with Thailand and giving impetus for future coastal zone development. The SPZ framework could then be used to induce FDI enterprises in the sphere where greater use of the local resources could be secured, such as processing of locally available fruits and seafood.

The Greater Capital Area

In the Greater Capital Area, efforts need to be made to prepare industrial estates to accommodate new FDI export processing firms in the suburbs of Phnom Penh. As the western suburbs of Phnom Penh are faced with strong pressure for development, planning of infrastructure such as arterial roads, water and electricity will be essential. Human resources development will be the most effective in the Greater Capital Area, and emphasis will be placed on vocational and managerial training to foster middle management level Cambodian workers to replace expatriates, and broadening of vocational training into more high-tech, information related area.

The Intermediate Area

It will be important to prioritize the necessary infrastructure development in the Intermediate Area. Rural roads and small scale ports directly affect the livelihood in the rural area, and need to be given attention. As the area is predominantly rural, planning of water resources development to rationalize the water sources and uses will be necessary. Sites for locating local resources based industries such as agro-fishery processing needs to be selected. In parallel, plans need to be formulated for assessment and sustainable use of natural resources, such as marine, forestry, mining resources including.

In order to improve the livelihood in the rural area, efforts need to be made to commence projects geared to income generation at villages, utilizing the locally available resources. The potential area for such endeavors will include agro-fishery processing, handicraft catering to the tastes of international tourists, promotion of village and natural tourisms.

(3) Long-Term Scenario

The mid- and long-term development of Cambodia up to the year 2015 will depend naturally on what could be achieved in the short-term period. Growth of urban

centers in the Greater Capital and Sihanoukville areas will induce demands for local products, which ought to be catered for chiefly by Cambodian manufacturers and service providers. The basis of secondary industry needs to be widened, with export commodities and target markets diversified. The SPZ framework established firmly for Sihanoukville will serve as the basis to further accommodate FDI in a variety of goods production.

The long-term development scenario of Cambodia up to the year 2015 will depend naturally on what could be achieved in the medium-term period. Growth of urban centers in the Greater Capital and Sihanoukville areas will induce further demands for consumer products and services, which ought to be catered for chiefly by Cambodian manufactures and service providers. The bases of secondary industry need to be widened, with export commodities and target markets diversified. The SPZ established firmly for Sihanoukville will serve as the basis to further expansion in other sites in provinces to accommodate FDI in a variety of goods production, particularly those utilizing locally available resources.

The effects of SPZ will be expected in two essential aspects of the Cambodian economy. The first is the creation of employment at new factories and service providers, most of which are operated by FDI. The other will pertain to the promotion and development of Cambodian receptor firms to interact with FDI in various forms such as related manufacturing and service provision. The latter will enhance the backward linkage of FDI to the Cambodian economy, which is important task in the long-term scenario.

Regulatory measures for the urban planning and preservation of the environment will have increased importance for the sustainability of the Growth Corridor area. Urban and rural master plans stipulating balanced land use and sustainable use of natural resources, such as forestry and fishery, need to be formulated extensively. Basic initiatives for these measures, such as providing guidelines for implementation, carrying out a pilot project and enhancing systems for enforcement, need to be advocated in the medium-term phase, so that these measures could take full effect in the long-term phase.

Even though it is proposed to take "Demand-driven growth" for the short-term scenario, for the mid-to-longer term scenario the center piece idea is to realize *diversified growth with stronger links to the local resource base*.

Preservation of the environment and regulatory measures thereof will have increased importance for the sustainability, the basic systems for which need to be established in the short-term period. Efforts need to be made to insure sustainable use of local resources such as forests and marine resources.

Major conceptions of the mid to long-term scenario are as summarized in the following.

- (a) **More urban demand of the Capital Area and Sihanoukville for local products:** Urban growth of Sihanoukville and the Capital Area is an essential. As urbanization involves a lot of issues by itself, it is necessary to have long-term concepts and plans for urban development.
- (b) **Sustainable resource use and management:** It is needed to realize long-term sustainable use of resource and management system for forests, mangroves, fishery and other resources.
- (c) **Stable production base for commercial crops:** It is important to secure a stable production base for commercial crops especially by resolving land disputes, fishing right disputes, and other resource use related conflicts. Improvement of overall water resources management will be considered.
- (d) **Establish well a structured market system for agricultural products:** One option for this is to support forms of contract farming, though this may take some time to proliferate. Contract farming needs good business relationships between traders and farmers. Many Cambodian farmers are not yet familiar with contract farming practices, so traders may not have a consistent supply of products. On the other hand, free competition among traders is important. If competition on the buyer's side of a resource is limited by monopoly, farmers could not take fair return from contract farming.

5.4 BASIC STRATEGIES FOR ECONOMIC DEVELOPMENT

The sectors related to economic development are the three industrial development sectors: *Primary Industry* mainly composed of agriculture, fishery and forestry; *Secondary Industry* or manufacturing of various goods; and *Tertiary Industry* composed of various services including tourism.

In addition, there are two more sectors related closely to economic development, *Investment Promotion*, which relates promotion chiefly to FDI in Cambodia; and *Legal and Institutional Framework*, which pertains to the necessary improvement in legal and institutional issues.

The strategies for the 5 sectors related to economic development are shown in **Table 5-13** and **Figure 5-14**.

Table 5-13 Development Strategies for Economic Development of the Growth Corridor

Basic Strategy		Formulation of Axis Development for Cambodia	Promotion of Strategic Development of Industries	Creation of Economically Active Suburbs with Sustainable Environment	Establishment of Stable and Sustainable Rural Society
Economic Development	A. Primary Industry	Raising of Rural Communities above Subsistence Level Ensuring Food Security	Improvement of Fisheries Promotion of Sustainable Use of Ocean Fishery Resources	Accommodation of Changes in Agricultural Sector Enhancement of Value of Agriculture	Ensuring Food Security Improved Access of Rural Areas to Market Economy
	B. Secondary Industry	Resumption of Leading Role in Overall Development of Growth Corridor as the Driving Force	Preservation and future enhancement of Competitiveness of Apparel Industry Export Promotion of Other Labor Intensive Industries Promotion of Local-Resource Based Industries for Import Substitution	Upgrading of roles and activities of SME	
	C. Tertiary Industry	Development and enhancement of tourism and service sector for supporting regional economy	Improvement and development of marine/beach area for tourism and promotion of eco-tourism Development and improvement of service industry and business to support urban sector Support of service and commercial industry for SPZ	Improvement of tourist destinations in and around Phnom Penh Enhancement of Information Technology (IT) for tourism and related activities	Enhancement of existing tourist destinations Introduction of village tourism
	D. Investment Promotion	Development of Special Promotion Zone as a model for FDI promotion and export processing	Development of Special promotion Zone as a model for FDI promotion and export processing		Development of industrial estates for investments capitalizing on locally available resources such as fish, fruits and textiles
	E. Legal and Institutional Framework	Establishment of a legal and institutional framework and improvement and eradication of current problems	Enactment of the SPZ Law The reform of the CDC Establishment of the Garment Exports Union Elimination of export Restrictions Improvement of Customs Clearance Procedures Improvement of Taxation Scheme Improvement of Labor-related Regulations		

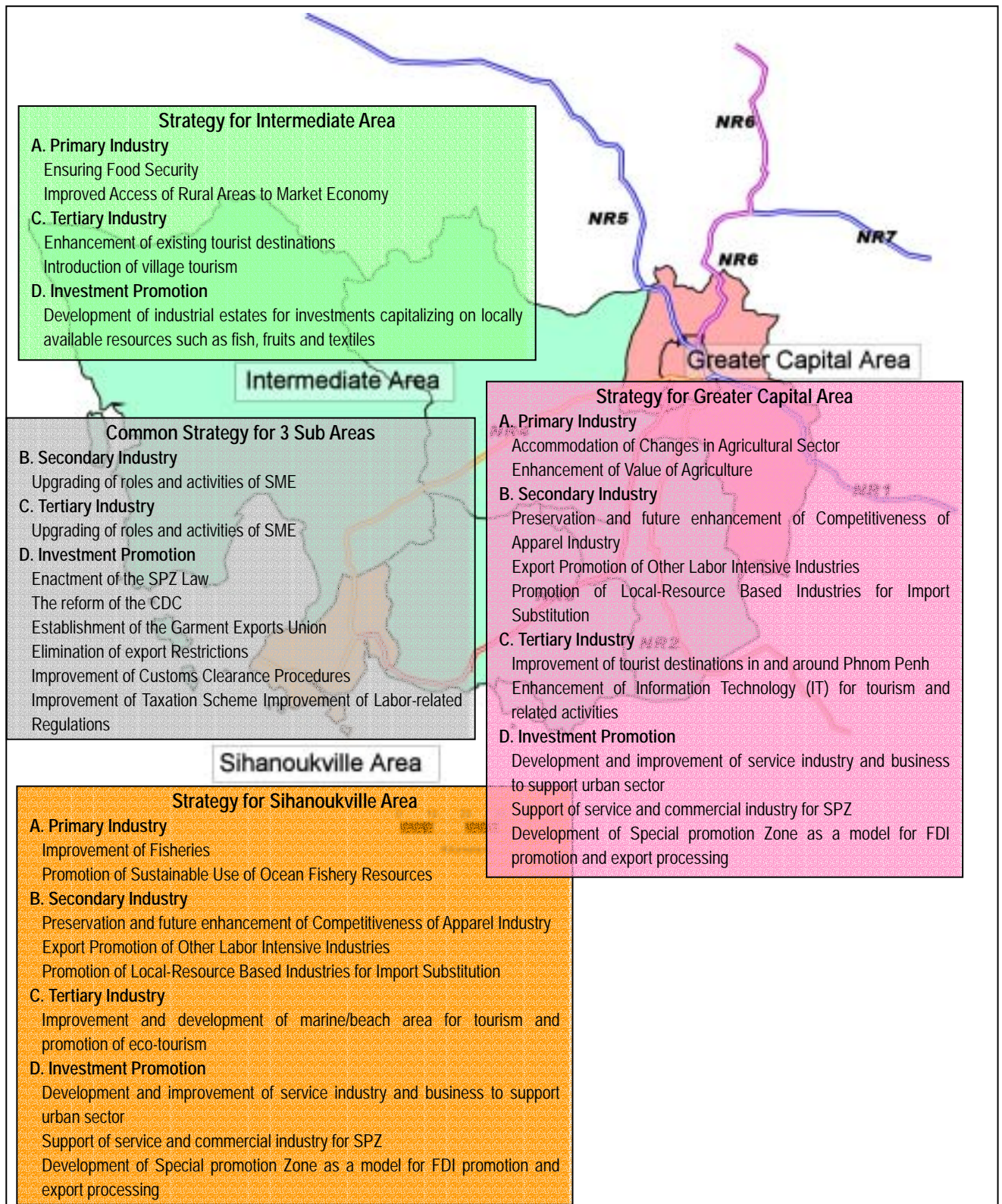


Figure 5-14 Development Strategy for Economic Development of Growth Corridor