

CHAPTER 2

Investment Climate in Cambodian City and Towns

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CHAPTER 2

INVESTMENT CLIMATE

IN CAMBODIAN CITY AND TOWNS

Sau Sisovanna

INTRODUCTION

Cambodia has achieved remarkable macroeconomic stability and economic development, growing at an average of over eight percent per annum between 1994 and 2006 and by double digits from 2004 to 2007. Its growth was driven by four pillars, namely, garment, tourism, construction, and agriculture.

Cambodia's future growth will depend on diversification and the need to develop exports. The country has abundant natural resources and benefits from having a coastline with a deep sea port hence there is great potential for Cambodia to become part of the global supply chain.

Encouraging private sector participation is the most important priority for the Cambodian government. Recognizing the successful development experiences of other countries in the region, where foreign direct investment (FDI) has played an important and crucial role, the Royal Government of Cambodia (RGC) is determined to attract as much FDI as possible for the country. This is a necessary requirement for improving the investment climate in Cambodia.

One of the main obstacles of diversification has been the poor infrastructure, in

particular the high cost of electricity and telecommunications and their unreliable supply. Apart from these issues, roads, railways, and bridges need serious upgrading.

The development of Special Economic Zone (SEZ) through trade facilitation is very important to lay down the foundation for production in regions other than Phnom Penh as well as to build economic linkages between urban and rural areas.

This report consists of four sections: (1) investigation at the national level of macroeconomic performance, labor relation, telecommunication, finance, taxation, and investment regulatory framework; (2) Special Economic Zone; (3) major cities and towns such as Phnom Penh, Bavet town, and Sihanoukville; and (4) ports and airports in Cambodia.

1. NATIONAL LEVEL SURVEY

The Kingdom of Cambodia is a country in South East Asia with a population of 13.4 million people. Agriculture has long been the most important sector of the Cambodian economy, with around 70 percent of the population relying on it for their livelihood. Garments, tourism, and construction are also important. In 2005, oil and natural gas deposits are found beneath Cambodia's territorial waters, and once commercial extraction begins in 2011, the oil revenues could profoundly affect Cambodia's economy.

1.1. Macroeconomic Performance

According to government figures (Table1), Cambodia has achieved an average growth rate of over eight percent per annum between 1994 and 2006 and grew by double digits from 2004 to 2007. Economic growth slowed down to a modest rate of 6.7 percent in 2008,

Table 1: GDP Growth

Year	GDP	Agriculture	Industry	Service Industry
2002	6.2	32.2	24.4	38.1
2003	8.6	32.2	25.6	36.9
2004	10.0	30.9	26.2	37.5
2005	13.4	32.4	25.3	37.0
2006	10.4	27.8	27.1	39.6
2007	10.3	-	-	-
2008	6.7	-	-	-

Source: Supreme Natural Economic Council (SNEC).

with economic activities decelerating in the fourth quarter of 2008 and in December 2008. The Cambodian government projected that GDP in 2009 will grow at six percent, but in July 2009, it revised its prediction to 2.1 percent (UN Cambodia team, 2009).

Economic growth was driven by the high growth in industry, mainly in garment manufacturing. Moreover, tourism services contributed substantially to the service sector, which helped speed up GDP growth. Agriculture, which has been the primary source of revenue for 70 percent of the population in the past decade or so, experienced the least growth and the highest fluctuation.

There is consensus that the garment, tourism, and construction sectors will contract. Agriculture is the only sector that has not declined in 2009 (UN Cambodia team, 2009).

Despite the negative developments, there are a number of positive indicators for the prospective medium-term growth of the Cambodian economy. The banking system has expanded, with considerable investment by a new Korean bank and a Vietnamese bank. Despite the fact that savings are among the lowest in the region, deposits are rising, reflecting increased confidence in Cambodia's banking sector. Banks can make

effective bank supervision more challenging. Infrastructure development, including the expansion of the Siem Reap Airport and large resort projects in the same province, is also expanding and attracting more FDI into the country.

The structure of the Cambodian economy has changed in recent years with the relative decline of agriculture and the growth of the industrial sector. The contribution of agriculture to GDP fell steadily from 45 percent in 1993 to 30 percent in 2007, before it rose slightly to 32.4 percent. The share of the workforce declined from 75 percent to 56 percent in the same period. The industrial sector rose from only 13 percent of GDP in 1993 to 22.4 percent in 2008, while the employment share increased from 5 percent to 15.4 percent. The corresponding figures for the services sector are 39 percent and 38.8 percent, pushing the employment share up from 20 to 28.7 percent.

Impressive economic growth over the past decade was supported by four main pillars: tourism, garment, construction, and agriculture. One of the reasons for this high growth and the structural change was the favorable access to the garment export markets granted by the US and EU, which effectively resulted in the sudden garment factory boom. Growth in the tourism sector is largely attributed to the attraction of ancient temples such as Angkor Wat. Overall growth was made possible due to peace and macroeconomic stability achieved by the RGC in cooperation with numerous development partners.

The private sector is still characterized by the overwhelming presence of microenterprises, most of which are informal in nature. Microenterprises employing one to 10 people accounted for 97 percent of the 63,507 firms counted in the census commissioned by the International Finance Corporation (IFC) and the Asia Foundation in 2008. Of these 63,507 firms, only approximately 20,000 have officially registered with the Ministry of Commerce (MoC), and even fewer firms pay taxes and produce

official annual accounts. Lack of official registration can increase the cost of doing business.

Government revenue, in absolute terms, has improved steadily due to the high growth of GDP and improvements in tax collection mechanisms. Tax revenues, as well as nontax revenues, have been rising overall. Total revenue increased by 19 percent in 2005, 10 percent in 2006, 27 percent in 2007, and 24 percent in 2008. Tax has been the main source of government revenue, accounting for 72 percent to 84 percent of total revenue for the last five years (UN Cambodia team, 2009).

Increased government revenue has enabled an increase in expenditure. Total government expenditure grew substantially by 7 percent in 2005, 22 percent in 2006, 18 percent in 2007, and 20 percent in 2008. Expenditure in 2009 was projected to be 7,259 billion riel (US\$1.8 billion), 28 percent more than the 2008 expenditure.

The budget deficit has expanded in nominal terms from 835 billion riel in 2007 to 1,047 billion riel in 2008. In relative terms, the deficit fell from 28 percent of total expenditure, or four percent of GDP, to 17 percent of total expenditure, or three percent of GDP, from 2005 to 2008. The RGC has acknowledged that due to the global financial and economic crises, and the subsequent revenue shortfalls, achieving the targets set out in the 2009 budget would require considerable effort.

Inflation has been kept below five percent between 1984 and 2006, but it accelerated from 6.4 percent in September 2007 to a peak of 25.7 percent in May 2008, driven largely by the global surge in oil and food prices. In addition, because the economy is heavily dollarized (over 90% of total bank deposits are held in US dollars), a depreciation of the riel and the US dollar against trading partner currencies contributed to imported inflation, while rising domestic demand contributed to

domestically generated pressures. The domestic price of rice doubled between mid-2007 and mid-2008, a result of domestic supply shortages, in turn partly created by increased exports from provinces bordering Thailand and Viet Nam in response to higher prices in those countries. Prices of pork, chicken, and fish also rose steeply. Later in the year, food and fuel prices declined and, combined with an appreciating riel and US dollar plus monetary policy measures taken at midyear, helped bring down inflation to 13.5 percent by December. The year-average of 19.7 percent was three times the rate in 2007 (ADB Outlook 2009).

Cambodia is still heavily dependent on foreign aid in the form of official development assistance (ODA), which comprises both grants and loans. Normally, loans account for 20-30 percent of total disbursements and the remainder comes in the form of grants.

The amount of ODA given to Cambodia has increased steadily over the past decade (from US\$250 million in 1992 to nearly US\$900 million in 2008, although it has remained about 8-9 percent of GDP), and US\$950 million (or about 10 percent of GDP) in grants and loans to the Kingdom for 2009 in the midst of the crisis when ODA was expected to be down sharply.

According to the Council for the Development of Cambodia (CDC), FDI increased from US\$139 million in 2002 to around US\$800 million in 2008, indicating a large increase in willingness to invest in Cambodia over the past few years. Due to the global economic downturn, actual FDI in 2009 is forecast by the World Bank to be US\$390 million. In the first half of 2009, approved FDI decreased to only 11 percent of the total amount approved in the first half of 2008.

The exchange rate between the riel and the US dollar has been relatively stable for 10 years under the managed floating regime. The past few months have seen the riel depreciate somewhat against the US dollar. This is largely due to the reduction in circulation of the US dollar as a result of substantial US dollar earnings' reductions through tourism, garment exports, and FDI receipts

The trade deficit was at its worst in 2008 as imports of goods increased by US\$1,000 million. Exports increased by only UD\$300 million, which created a current account deficit of US\$748 million (UN Cambodia team, 2009).

The overall balance of payments in 2009 is projected to be a US\$118 million deficit, a fall from US\$75 million in 2008. The national reserve accumulated from the overall balance surplus so far stands at around US\$2,000 million and is, therefore, still in a relatively good position.

1.2. Labor Relation

Cambodian labor relations, employment and work terms, and other labor-related matters are basically regulated by the Constitution and the 1997 Labor Law. The 1997 Labor Law, which was enacted in March 1997 and brought significant modification into the socialistic 1992 Labor Law, is quite liberal and considerably protects the rights of laborers and unions. Khmer citizens of either sex enjoy the right to choose any employment according to their ability and to the needs of the society, to receive equal pay for equal work, and to have the right to form and be a member of trade unions. All forms of discrimination against women are abolished. The exploitation of women in employment is also prohibited. A woman should not lose her job because of pregnancy and has the right to take maternity leave with full pay and experience no loss of

seniority or other social benefits. Every employer must make a declaration to the Ministry of Labor each time it hires or dismisses a worker. This declaration must be made in writing within 15 days of the date of hiring or dismissal. Every employer who employs at least eight workers needs to establish internal regulations for the enterprise.

1.2.1. Working Hours:

1) The number of hours worked by workers of either sex cannot exceed eight hours per day, or 48 hours per week.

2) Work Shift:

When the work schedule consists of split shifts, the enterprise's management can normally set up only two shifts, one in the morning and the other in the afternoon.

3) Overtime:

If workers are required to work overtime for exceptional and urgent jobs, the overtime hours shall be paid at a rate of 50 percent higher than normal hours. If the overtime hours are worked at night or during weekly time off, the rate of increase shall be 100 percent.

4) Night Work:

The term "night" represents a period of at least 11 consecutive hours that includes the interval between 2200 and 0500. Besides continuous work that is performed by rotating teams who sometimes work during the day and sometimes at night, the work at the enterprise can always include a portion of night work.

1.2.2. Leave:

1) Weekly Time Off:

It is prohibited to use the same worker for more than six days per week.

Weekly time off shall last for a minimum of 24 consecutive hours and shall, in principle, be given on Sunday.

2) Paid Leave:

All workers are entitled to paid annual leave at the rate of one-and-a-half work days per month of continuous service. As stated above, the length of paid leave increases according to the seniority of workers at the rate of one day per three years of service.

3) Annual Leave:

Annual leave is normally given for the Khmer New Year. In the case of a paid annual leave exceeding 15 days, employers have the right to grant the remaining days-off at another time of the year (Article 170).

4) Special Leave:

The employer has the right to grant his worker special leave during an event directly affecting the worker's immediate family (up to a maximum of seven days during any event directly affecting the worker's immediate family).

5) Maternity Leave:

Women shall be entitled to a maternity leave of 90 days. After the maternity leave and during the first two months after returning to work, they are only expected to perform light work. During the maternity leave, women are entitled to half of their wage (CDC).

1.2.3. Economic Characteristics of the population

The economically active population or labor force of a nation is its manpower which actually takes part or attempts to take part in the production of economic goods and

services. The economic and social development of a country depends on the number of persons who are economically active, the quality of their work, and regularity of their job. The economically active population includes those who are employed and unemployed.

- **Employment**

Table 2 gives the breakdown of population by usual activity status. The absolute numbers of economically active population by sex and residence for 1998 and 2008 are given in Table 3. Men and women form 48.84 and 51.16 percent, respectively, of the total economically active population in Cambodia. The crude economic activity rate, which indicates the size of the economically active population in proportion to the size

Table 2: Population by Usual Activity Status, Sex and Residence, 2008 and 1998

Activity Status	1998			2008		
	Persons	Males	Females	Persons	Males	Females
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Cambodia Total Population	11,437,656	5,511,408	5,926,248	13,395,682	6,516,054	6,879,628
(i) Employed	4,845,762	2,360,107	2,485,655	6,935,246	3,392,637	3,542,609
(ii) Unemployed	273,183	116,737	156,446	118,152	52,416	65,736
(a) Never employed any time before	209,827	88,097	121,730	92,000	40,266	51,734
(b) Employed any time before	63,356	28,640	34,716	26,152	12,150	14,002
(iii) Not Economically Active	6,318,711	3,034,564	34,716	26,152	12,150	14,002
Urban Population	2,095,074	1,020,264	1,074,810	1,299,677	679,743	619,934
(iv) Employed	761,998	435,569	326,429	1,233,174	651,297	581,877
(v) Unemployed	95,235	37,800	57,435	58,337	24,283	34,054
(c) Never employed any time before	93,816	30,424	50,613	50,171	20,120	30,051
(d) Employed any time before	1,419	7,376	6,822	8,166	4,163	4,003
(vi) Not Economically Active	1,237,841	546,895	690,946	8,166	4,163	4,003
Rural Population	9,342,582	4,491,144	4,851,438	12,096,005	5,836,311	6,259,694
(vii) Employed	4,083,764	1,924,538	2,159,226	5,702,072	2,741,340	2,960,732
(yiii) Unemployed	177,948	78,937	99,011	59,815	28,133	31,682
(e) Never employed any time before	116,011	57,673	71,117	41,829	20,146	21,683
(f) Employed any time before	61,937	21,264	27,894	17,986	7,987	9,999
(viii) Not Economically Active	5,080,870	2,487,669	2,593,201	6,334,118	6,334,118	3,267,280

Source: General Population Census of Cambodia 2008.

Table 3: Economically Active Population by Sex and Residence, 2008 and 1998

Total/Urban/Rural (1)	Year (2)	Economically Active Population		
		BS (3)	M (4)	F (5)
Urban	2008	1,291,511	675,580	615,931
	1998	857,233	473,369	383,864
Rural	2008	5,761,887	2,769,473	2,992,414
	1998	4,261,887	2,003,475	2,258,237
Total	2008	7,053,398	3,445,053	3,608,345
	1998	5,118,945	2,476,844	2,642,101

Source: General Population Census of Cambodia 2008.

of the total population, is equal to 52.65 in 2008 and 44.76 in 1998 (General Population Census of Cambodia 2008 (GPCC)).

- **Unemployment**

The unemployment rate in Cambodia has exhibited a downward trend during the decade. The unemployment rate is lower in the rural areas than in the urban areas owing to the absorption of a large number of workers in the agriculture sector in the countryside (Table 4).

- **Industrial and Occupational Classifications**

The nature of industry and service as well as the occupation reported in the census by employed persons and unemployed persons (employed before) were coded using the latest International Standard Industrial Classification and International Standard Classification of Occupations. Table 5 presents the distribution of employed persons by industrial and occupational classification and by sex (GPCC 2008).

Table 4: Age Specific Unemployment Rates by Sex and Residence, 2008 and 1998

Age group	Year	Unemployment Rates								
		Total			Urban			Rural		
		BS	M	F	BS	M	F	BS	M	F
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
7-9	2008	1.4	1.16	1.78	2.03	1.35	2.91	1.40	1.15	1.69
	1998	4.27	4.32	4.22	3.23	2.30	4.19	4.35	4.49	4.22
10-14	2008	4.08	4.14	4.03	12.47	13.83	11.45	3.30	3.36	3.24
	1998	10.80	11.04	10.64	22.51	21.56	23.12	9.65	10.05	9.38
15-24	2008	3.33	3.40	3.26	7.83	8.05	7.66	2.21	2.38	2.04
	1998	12.18	12.35	12.04	22.40	19.68	24.67	10.24	10.94	9.66
25-34	2008	1.60	1.32	1.89	4.67	3.48	6.09	0.77	0.69	0.85
	1998	3.85	3.17	4.57	9.40	6.63	13.60	2.60	2.23	2.97
35-44	2008	0.76	0.57	0.94	2.13	1.37	3.18	0.46	0.37	0.55
	1998	2.29	1.69	2.84	5.56	3.51	8.34	1.53	1.16	1.84
45-54	2008	0.67	0.49	0.83	1.79	1.08	2.68	0.44	0.33	0.53
	1998	2.06	1.38	2.65	5.52	3.32	8.28	1.35	0.88	1.72
55-64	2008	0.88	0.64	1.09	2.60	1.66	3.81	0.60	0.43	0.73
	1998	2.66	1.77	3.54	8.71	5.62	12.94	1.83	1.13	2.48
65+	2008	1.03	0.76	1.31	3.37	2.25	4.90	0.81	0.60	1.01
	1998	2.865	2.04	3.91	8.95	6.37	13.01	2.26	1.56	3.13
Total 7+	2008	1.68	1.52	1.82	4.52	3.59	5.53	1.04	1.02	1.06
	1998	5.34	4.71	5.92	11.11	7.99	14.96	4.18	3.94	4.39

Source: General Population Census of Cambodia 2008.

• Literacy and Educational Attainment of Employed and Unemployed Population

According to the 2008 Census Priority (Table 6), the number of employed persons aged seven and above in Cambodia and the number of literate persons among them are 6,933,612 and 5,272,299, respectively, which yield a percentage of literate persons of 76.04 (after excluding unreported literacy). The literacy percentages of males and females among this population are calculated as 83.12 and 69.27, respectively. The percentages of literate persons aged seven and above among the unemployed population

Table 5: Percent Distribution of Employed Person by Industrial Composition and Sex, 2008

Industrial Section		Percentage of Employed persons		
Section	Description	Both	Males	Females
(1)	(2)	(3)	(4)	(5)
A	Agriculture, Forestry and Fishing	72.29	69.38	75.11
B	Mining and Quarrying	0.07	0.10	0.05
C	Manufacturing	6.19	4.12	8.20
D	Electricity, Gas, Steam and Air-Con Supply	0.11	0.19	0.03
E	Water supply, Sewage, Waste Management and Remediation Activities	0.12	0.14	0.09
F	Construction	20.04	3.52	0.62
G	Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	7.75	5.81	9.60
H	Transportation and Storage	2.24	4.16	0.40
I	Accommodation and Food Service Activities	0.86	0.66	1.06
J	Information and Communication	0.10	0.14	0.07
K	Financial and Insurance Activities	0.24	0.30	0.19
L	Real Estate	0.01	0.01	0.00
M	Professional, Scientific and Technical Activities	0.20	0.26	0.14
N	Administrative and Support Service Activities	0.79	1.00.	0.58
O	Public Administration and Defense, Social Security	2.73	4.83	0.71
P	Education	1.64	2.07	1.22
Q	Human Health and Social Work Activities	0.47	0.54	0.40
R	Art, Entertainment and Recreation	0.31	0.34	0.27
S	Other Service Activities	1.58	2.12	1.06
T	Use Activities of Household as Employers	0.02	0.01	0.02
U	Activities of Extraterritorial Organizations and Bodies	0.24	0.30	0.18
Number of Employed Persons		6,934,891	3,392,400	3,542,491
Total		100	100	100

Source: General Population Census of Cambodia 2008.

that are calculated from the same census priority are 80.36 for both sexes, or more specifically, 83.73 for males and 77.67 for females. Compared to the general literacy levels in Cambodia of 78.35 percent for both sexes (consisting of 83.99 percent for males and 73.10 percent for females), the literacy level of employed females is lower (by 3.83 percentage points) and that of unemployed females is higher (by 4.57

Table 6: Percent Distribution of Employed Literate Person (in any language) by Level of Education, Sex and Residence, 2008

SEX	Number of Employed Literate Persons											
		none	Primary not Completed	Primary	Lower secondary	Secondary School Baccalaureate	Technical Diploma Pre-sec	Technical Diploma Post – sec	Under Graduate	Graduate Degree Holder	Other	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Urban												
Both	1,126,377	100	2.89	27.03	29.30	30.06	2.91	0.56	1.39	0.92	4.75	0.19
Male	612,635	100	2.66	21.83	27.50	34.48	3.54	0.64	1.66	1.12	6.32	0.25
Female	513,742	100	3.15	33.24	31.44	24.82	2.16	0.46	1.07	0.68	2.87	0.11
Rural												
Both	4,145,505	100	2.62	50.99	30.48	14.54	0.47	0.27	0.34	0.06	0.18	0.05
Males	2,206,194	100	2.16	45.25	32.88	17.82	0.64	0.34	0.46	0.09	0.29	0.07
Female	1,939,311	100	3.14	57.50	27.74	10.81	0.28	0.19	0.21	0.03	0.070	0.03
Total												
Both	5,271,882	100	2.67	45.87	30.22	17.86	0.99	0.33	0.57	0.25	1.16	0.08
Male	2,818,829	100	2.27	40.16	31.71	21.44	1.27	0.41	0.72	0.31	1.60	0.11
Female	2,453,053	100	3.14	52.42	28.52	13.74	0.67	0.25	0.39	0.17	0.65	0.05

Source: General Population Census of Cambodia 2008.

percentage points). It is also observed that among the unemployed literate population, 4.79 percent has no educational qualification, 36.06 percent has not completed primary level of education, 31.08 percent has completed primary level, and 23.48 percent has completed lower secondary level qualification. About 4.59 percent of the unemployed literate persons have a qualification beyond lower secondary level. The level of education among the unemployed literate persons, though generally low, is slightly higher than that among the employed literate persons. However, it has to be noted that at the national level, there is a vast difference between the absolute numbers of the employed (6.9million) and the unemployed population (0.12 million).

Table 6 shows that a little above three-fourths of the employed literate persons in Cambodia has educational level of either primary not completed or primary. Those who have completed lower secondary level account for only about 18 percent of the employed persons who have no educational qualification at all. They can mostly be found in elementary occupations. Thus only about three percent of the literate employed persons have a qualification above lower secondary level, including 1.16 percent who are graduates. In the rural areas, the proportion of those with a qualification higher than lower secondary level is only a little above one percent. The level of education of employed males is higher than that of females in general (GPCC2008).

Based on the figures of the Ministry of Education, Youth and Sport, around 110,000 students were in the higher education in school year 2007-08, compared with around 92,000s who are looking for employment in 2006-07. There were about 4,400 graduates in the technical and vocational education and training (TVET) system in 2007 (Cambodia Outlook Brief, 2009, N0.2).

1.3. Telecommunications

The Ministry of Posts and Telecommunications (MPTC) is a policymaker and regulator in the field of telecommunications in Cambodia. The MPTC also used to be an operator of the fixed line network. However, in January 2006, it separated its telecom operation arm and established a new public enterprise called “Telecom Cambodia” to provide fixed line service with the 023 prefix.

The information and communication technology (ICT) sector in Cambodia has been growing at a rate of 32 percent per annum over the last five years and is now estimated to generate over \$429 million per annum.

Cambodia has one of the lowest numbers of fixed landlines per inhabitant, with 43,000 fixed landlines nationwide, close to 0.28 landlines per 100 inhabitants, the lowest rate among the ASEAN countries.

Cambodia was the first country worldwide where the number of mobile phone users surpassed the number of fixed landline users (Figure 1). There are now 3.7 million mobile phone users in the country, representing 26 percent of the population, and about 27 mobile phones per 100 inhabitants.

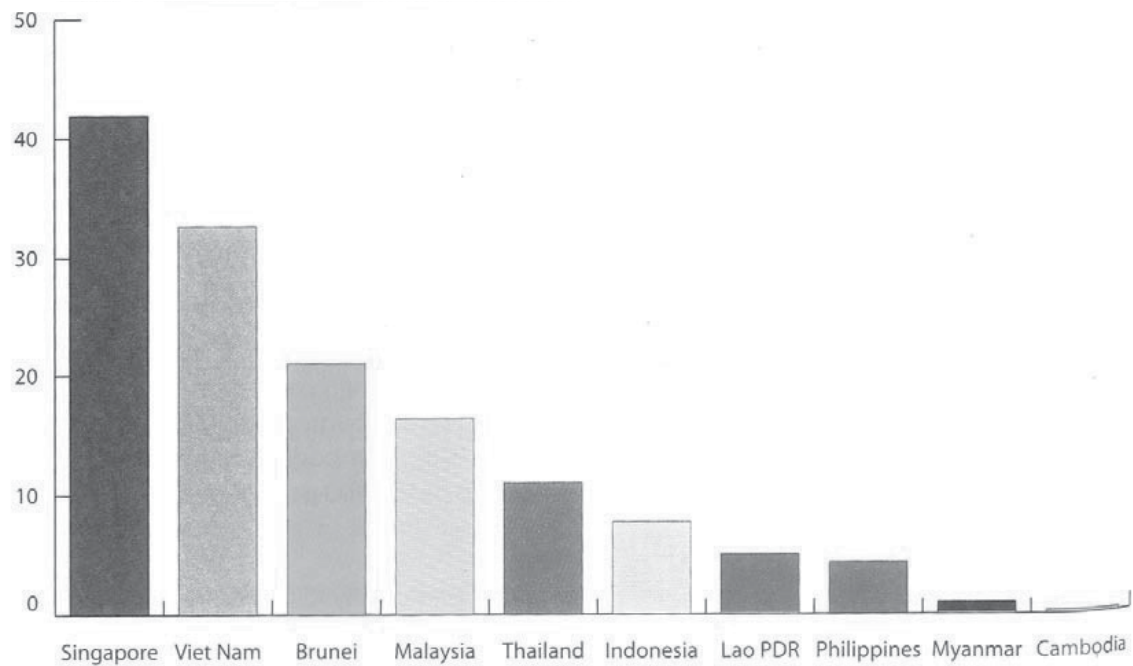
There are eight major mobile phone providers, all of which are foreign owned. Of these, Millicom International (Operator of the Cellcard brand) is the largest. There are 11 major internet service providers (ISPs) and a number of smaller ISPs.

Cambodia has the highest cost of internet connection among the ASEAN countries, with prices up to US\$400 per MB of bandwidth per month (UNDP, 2009) Internet provision is hindered by the lack of fixed telephone lines that in turn increases the investment costs for Cambodian ISPs, which are then passed on to consumers.

The monopoly held by Telecom Cambodia (TC) over the use of international broadband connections also contributes to uncompetitive high prices (Figure 2). These costs are constraining the development of the ICT sector. This has limited the number of internet subscribers within the country. There are currently only 17,000 subscribers, the lowest among the ASEAN countries.

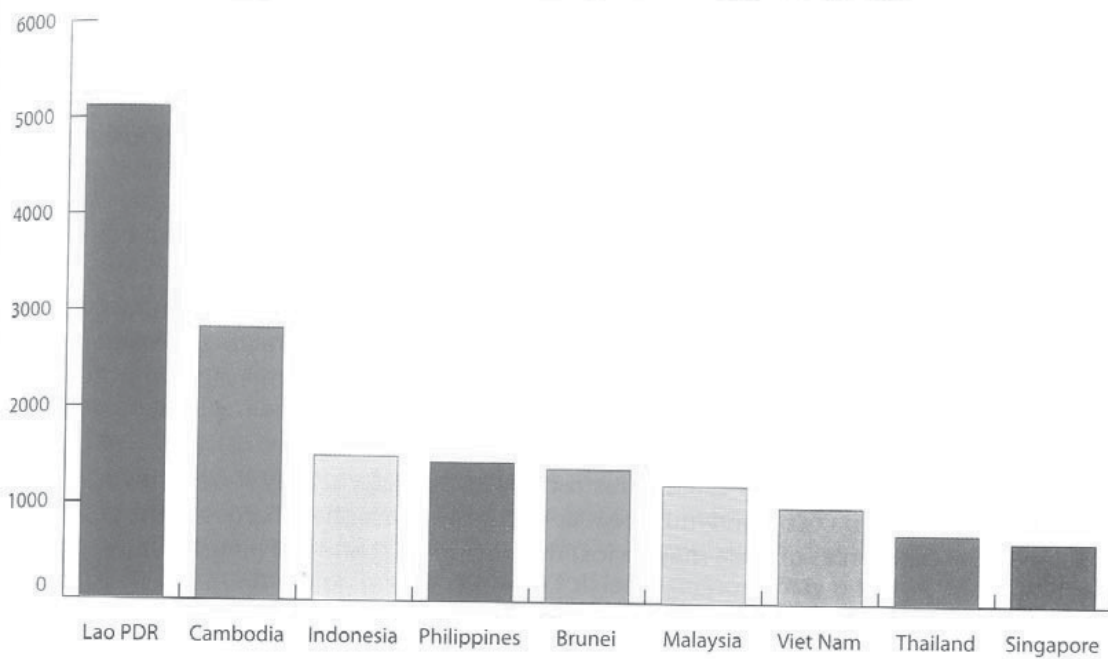
There is currently no clear legal and regulatory framework overseeing the telecommunications market in Cambodia. This leads to considerable policy uncertainty. This is perceived to have led to excess and unregulated entry to the sector. One associated problem is that both the Ministry of Post and Telecommunications and the Ministry of Interior can give out licenses to the same bandwidth. This leads to multiple service

Figure 1 Fixed Telephone Lines in Cambodia



Source: ITU (2008), MPTC (2009)

Figure 2 Monthly Price Basket for ICT (Purchasing Power Parity)



Source: ITU (2008), Data from ISPs and Telephone Providers (2008)

providers using the same bandwidth, which in turn leads to poor service and interference. It has also led to interconnection issues such as reported problems associated with mobile providers blocking incoming calls from other providers to discourage competition.

1.4. Finance

1.4.1. Situation on finance

The “Law on Banking and Financial Institutions” was enacted in 1999. It aims to serve in improving the financial facilities, strengthening the base of financial institutions, and making it easier for investors to get business financing in Cambodia. Article 16.3 of the Law sets the minimum capital of banks at about US\$12.5 million (50 billion Riel), five percent of which has to be maintained with the National Bank of Cambodia (NBC) as guarantee deposit.

There are currently about 26 commercial banks including five foreign banks’ branches, and about six specialized banks in Cambodia (NBC Review 2009) (Table 7). As confidence builds up with bank restructuring, the M2 to GDP ratio has increased to 24 percent as of Aug 2007. Deposits have increased. Loans are also in an upward trend. In term of prudential ratios, banks are involved in single lending exposure and related party lending. Exposure lending was originally quite low but as business boomed and people started to lend more, it went up to 90 percent in 2005. Banks have also started enforcing new regulations that regulate exposure. The challenge for the NBC is to improve confidence in the banking industry, enhance financial intermediation, maintain stability in the financial sector, promote good governance, and enhance efficiency.

Although overseas capital transfer, issuance of letter of credit, and foreign exchange services are available, capital borrowing is generally difficult as loans are not

Table 7: List of Banking and Financial Institutions

No.	Name	No.	Name
1	Cambodian Public Bank Ltd	14	Advanced Bank of Asia Ltd
2	May Bank Phnom Penh Branch	15	ANZ Royal Bank Cambodia Ltd.
3	First Commercial Bank Phnom Penh Branch	16	Camko Bank Ltd.
4	Krung Thai Bank Public Co., Ltd Phnom Penh Branch	17	Sinhan Khmer Bank.
5	Canadia Bank Plc.	18	Prosperity Investment Bank Plc.
6	ACLEDA Bank Plc.	19	Maruhan Japan Bank
7	Cambodian Commercial Bank Ltd.	20	KookMin Bank Cambodia
8	Union Commercial Bank Plc.	21	Booyoung Khmer Bank.
9	Vattanak Bank	22	Phnom Penh Commercial Bank
10	Cambodia Asia Bank Ltd	23	Angkor Capital Bank
11	Foreign Trade Bank of Cambodia	24	OSK Indochina Limited Bank
12	Singapore Banking Corporation Ltd.	25	INDIA Bank Phnom Penh Branch
13	Cambodia Mekong Bank Public Ltd.	26	SACOM BANK Phnom Penh Branch
Specialized Banks			
1	Rural Development Bank		
2	Specialized Bank PENG HENG S.M.E Ltd		
3	First Investment Specialized Bank		
4	ANCO Specialized Bank		
5	Cambodian Development Specialized Bank Ltd		
6	Best Specialized Bank		

Source: National Bank of Cambodia's Review, 2009.

secured by immovable asset collateral, the term of lending is shorter, and the lending rates are higher than those outside of Cambodia. Loans and borrowings, including trade credits, may be freely contracted between residents and nonresidents as long as loans disbursements and repayments are made through authorized banks.

Some improvements were nevertheless made through rapid development of the financial sector. Following some restructuring of the sector in the early 2000s, progress in bank supervision, and strong demand, deposits and loans have increased. Another positive development is the improvement in the quality of service. For instance, delays to clear a check or a wire transfer were significantly reduced.

Nevertheless, firms that have access to loans have drastic conditions to meet. Although the terms improved, collateral requirements became much tighter. The proportion of loans requiring collateral went up as well as the value of the collateral compared to the loan value. The recently approved Secured Transactions Law, which was hailed in the 2009 *Doing Business* report as a world-class framework, should help in expanding the type of collateral that can be used and enable moveable and intangible assets (including equipment, inventories, accounts receivables, and agriculture commodities) to be used as security and registered with minimal formalities (World Bank Cambodia 2009).

1.4.2. Remittance

Article 11 of the Amended Law on Investment of 2003 guarantees that investors can freely remit foreign currencies abroad bought through authorized banks for the discharge of financial obligations incurred in connection with their investment. These obligations include:

- 1) Payment for imports and repayment of principal and interest on international loans;
- 2) Payment of royalties and management fees;
- 3) Remittance of profits; and
- 4) Repatriation of invested capital in case of dissolution. (CDC, 2009).

1.5. Taxation

1.5.1. Taxation system

The assessment of the tax on profit shall be made according to the taxation system of the real regime, simplified regime, or estimated regime. The tax payers' regime shall be

determined according to the form of the company, type of business activities, and level of turnover.

1.5.2. Forms of tax and current tax rate

Table 8 gives the current taxes levied in Cambodia, a brief explanation of them, and their rates.

Table 8: Current Tax Scheme of Cambodia (Continues)

Tax	Rates
Profit Tax (Article 1 – 23, Chapter 1)	
<ul style="list-style-type: none"> For legal person 	20% (unless investment incentive rate of 9% or 0% are applied)
<ul style="list-style-type: none"> Oil and natural gas production sharing contract and the exploitation of natural resource including timber ore, gold, and precious stones. 	30%
Minimum Tax (Article 24, Chapter 1)	
<ul style="list-style-type: none"> To be applied only for the real regime If the profit tax amount exceeds 1% of annual turnover, the taxpayer pays only the tax on profit. 	1% of annual turnover
Withholding Tax (Article 25 – 28, Chapter 1)	
<ul style="list-style-type: none"> Income received by individuals for services such as management, consulting, etc. Payment of royalties for intangibles and interests in mineral resources Payment of interest by a resident taxpayer carrying on business, other than domestic banks or financial institutions 	15%
<ul style="list-style-type: none"> Income from the rental of movable or immovable property 	10%
<ul style="list-style-type: none"> Interest payment by domestic banks to residents with fixed term deposit account 	6%
<ul style="list-style-type: none"> Interest payment by domestic banks to residents with non-fixed term deposit account 	4%
<ul style="list-style-type: none"> Payment to non-residents : Interest, royalties, rent and other income connected with the use of property, dividends, payment for management or technical services 	14%
Tax on Salary	
To be withheld monthly by employers	
<ul style="list-style-type: none"> 0 Riels – 500,000 Riels (Approx. USD 125 or less) 500,001 Riels – 1,250,000 Riels (Over 125 - 312.5) 1,250,001 Riels – 8,500,000 Riels (Over 312.5 - 2,215) 8,500,001 Riels – 12,500,000 Riels (2,215 - 3,125) Over 12,500,000 Riels (Over 3,125) For fringe benefits Non-residents 	0% 5% 10% 15% 20% 20% on market value Flat rate of 20%

Table 8: Current Tax Scheme of Cambodia (Continued)

Tax	Rates
Value Added Tax	
<ul style="list-style-type: none"> • Taxable person: Any person subject to the real regime system • Registration: All companies must complete registration for VAT before commencing business. Others must register within 30 days after their taxable turnover for the preceding consecutive three months exceeds; <ul style="list-style-type: none"> - 125 million Riel for goods - 60 million Riel for services • Taxable supply: <ul style="list-style-type: none"> - Supply of goods or services by a taxable person in Cambodia - Appropriation of goods for his own use by a taxable person - Making of a gift or supply at below cost of goods or services - Import of goods into Cambodia • Standard tax rate • Tax rate for the goods exported from Cambodia and services executed outside of Cambodia • Input tax credit is deductible against the output tax amount. • Monthly filing: The VAT declaration must be submitted on or before the 20th day of the following month. 	<p>10%</p> <p>0%</p>

Source: The National Accounting Council.

1.6. Investment Regulatory Framework

In Cambodia, entry of foreign investors is allowed, except in areas prohibited or restricted to foreigners. They only have to be registered with the Ministry of Commerce and obtain the relevant operating permits. If a foreign investor wishes to obtain investment incentives, he has to apply for investment registration which can be obtained through the CDC or the Provincial-Municipal Investment Sub-Committee (PMIS). The application for investment registration can be made either before or after the incorporation (or a registration within the Ministry of Commerce).

1.6.1. Outline of Investment Licensing Scheme

1) “The Law on the Amendment to the Law on Investment” of 2003 was made to adopt the automatic approval system of the investment projects, which must be completed

within 31 working days after the receipt by the CDC or PMIS of the investment application, unless the project is among the fields prohibited in the negative list or an investment project related to national interest or is environmentally sensitive.

- 2) An investment license or approval will be issued not to an investor or investing enterprise but to a project. A project that receives the investment license is called a Qualified Investment Project (QIP).
- 3) The Law governs all QIPs and defines the procedures by which any person establishes a QIP.
- 4) The investment incentives are granted automatically.
- 5) The CDC is expected to act as a One-Stop Shop and to obtain all necessary licenses required from relevant ministries and entities listed in the conditional registration certificate for investment on behalf of the investment applicant.
- 6) A QIP may be in the form of a joint venture. A joint venture may be formed between Cambodian entities, between Cambodian entities and foreign entities, or between foreign entities. There is no limitation as to nationality or the shareholding proportion of each shareholder, except in the case of a joint venture to own or with the intention to own land or having an interest in a land in Cambodia. In such a case, the maximum combined shareholding of all foreign parties must not exceed 49 percent (CDC 2009).

1.6.2. Responsible Organization

The CDC is the sole and One-Stop Service organization responsible for the rehabilitation, development, and oversight of investment activities. The CDC is responsible for the evaluation and the decision-making on all rehabilitation, development, and investment project activities.

However, the CDC shall submit for the approval of the Council of Ministers any of the following investment projects involving the following:

- 1) Capital investment of US\$50 million and above
- 2) Politically sensitive issues
- 3) Exploration and exploitation of mineral and natural resources
- 4) Possible negative impact on the environment
- 5) Long-term development strategy
- 6) Infrastructure projects such as projects on the basis of Build-Own-Transfer (BOT), Build-Own-Operate-Transfer (BOOT), Build-Own-Operate (BOO) or Build-Lease-Transfer (BLT) (CDC 2009).

1.6.3. Qualified Investment Project

To be admitted as a QIP, the investor has to register the investment project with the CDC or PMIS and receive a Final Registration Certificate (FRC) as stipulated in the Law on Investment (CDC 2009).

1.6.4. Investment Incentive

(1) Incentives for QIP

QIPs are entitled to receive the following investment incentives (CDC 2009):

- 1) QIPs may elect to receive a profit tax exemption or use special depreciation.

Profit tax exemption (Selective): A tax holiday period is composed of “Trigger period” + 3 years + Priority Period.

- Maximum Trigger Period: Designated as the first year of profit or three years after the QIP earns its first revenue, whichever comes sooner

- Priority Period: To be determined by the Financial Management Law.

An annual Certificate of Obligation Satisfaction has to be obtained by the QIP to be entitled to receive a “Profit Tax Exemption”.

- 2) A QIP shall be subject to a profit tax rate after its tax exemption period as determined in the Law on Taxation.
- 3) Special depreciation (Selective): 40 percent special depreciation allowance on the value of new or used tangible properties used in the production or processing.
- 4) Duty free import of production equipment, construction materials, etc. as shown in Table 9.
- 5) A QIP located in a designated SPZ or EPZ: Entitled to the same incentives and privileges as other QIPs as stipulated in the Amendment to the LOI.
- 6) A QIP shall be entitled to 100 percent exemption of export tax, except for activities as stipulated in the laws in effect.
- 7) The rights, privileges, and entitlements of a QIP can be transferred or assigned to a person who has acquired or merged a QIP subject to the approval of the CDC or PMIS.

(2) Projects not eligible for the incentives

Investment projects not eligible for investment incentives include the following:

- 1) All kinds of commercial activity, import, export, wholesale, and retail, including duty free shops
- 2) Any transportation services by waterway, by road, and by air except investment in the railway sector

Table 9: Duty-Free Import for Qualified Investment Projects (QIPs)

Type of QIP	Commodities to be imported free of duty
Domestically oriented QIPs	Production equipment, production input and construction materials
Export oriented QIPs (except those which elect or which have elected to use the Customs Manufacturing Bonded Warehouse mechanism)	Production equipment, construction materials, raw materials, intermediate goods and accessories
Supporting Industry QIPs	Production equipment, construction materials, raw materials, intermediate goods and production input accessories

Source: CDC, Cambodia Investment Guide Book, 20.

- 3) Restaurants, karaoke parlors
- 4) Tourism service
- 5) Casino and gambling business
- 6) Currency and financial business and services such as banks, financial institutions, and insurance companies
- 7) Activities related to newspaper and media, including radio, television, press, magazine, etc.
- 8) Professional services
- 9) Production and processing of wood products using wood from natural forest with a legal domestic supply source for raw materials
- 10) Complex resort, including hotel, theme park, sport facilities, and zoo that are less than 50 hectares
- 11) Hotel below three-star grade
- 12) Real estate development, warehouses facilities

(3) Projects eligible for the incentives

The minimum amount of investment in various fields required for the provision of the incentives is shown in Table 10.

Table 10: Minimum Conditions Required for the Provision of Incentives

Fields of Investment	Requirement for Investment
Supporting industry, which has its entire production (100%) supplying export industry	US\$100,000- or more
Production of animal feed	US\$200,000- or more
Production of leather products and related products Production of all kinds of metal products Production of electrical and electronic appliances and office materials Production of toys and sporting goods Production of motor vehicles, parts and accessories Production of ceramic products	US\$300,000- or more
Production of food products and beverages Production of products for textile industry Production of garments, textiles, footwear and hats Production of furniture and fixtures that do not use natural wood Production of paper and paper products Production of rubber products and plastic product Clean water supplies Production of traditional medicines Freezing and processing of aquatic product for export Processing of any kind of cereals and crop products for export	US\$500, 000- or more
Production of chemicals, cement, agriculture fertilizer and petrochemicals Production of modern medicines	US\$1,000,000- or more
Construction of modern market or trade center	US\$2,000,000- or more More than 10,000 square meters Adequate space for car park
Training and educational institutes that provide training for skill development, technology or poly technology that serves industries, agriculture, tourism, infrastructure, environment, engineering, sciences and other services.	US\$4,000,000- or more
International trade exhibition center and convention halls	US\$8,000,000- or more

Source: CDC, Cambodia Investment Guide Book, 2009.

1.6.5. Investment Guarantee

Although the investment guarantee agreement has not been concluded between Cambodia and Japan, the Law on Investment guarantees the investment as follows (Article 8 to Article 11 of the “Law on Investment” shown in Appendix II):

- 1) A foreign investor shall not be treated in any discriminatory way by reason only of the investor being a foreign investor, except with respect to ownership of land.
- 2) The Royal Government shall not undertake a nationalization policy that would adversely affect the private properties of investors in Cambodia.
- 3) The Royal Government shall not fix the price or fee of the products or services of a QIP.
- 4) The Cambodian Government shall permit investors to purchase foreign currencies through the banking system and to remit abroad these currencies for the following purposes:
 - a) Payment for imports and repayment of principal and interest on international loans
 - b) Payment of royalties and management fees
 - c) Remittance of profits
 - d) Repatriation of invested capital

1.6.6. Limitation on Foreign Investment (“Negative List”)

Although there is no sector that is closed solely to foreign investment, the activities listed in Section 1 of Annex 1 (“Negative List”) of the “The Sub-Decree No. 111 on the Implementation of the Law on the Amendment to the Law on Investment” are prohibited for the investment of both Cambodian and foreign entities. Those investment activities are as follows:

- 1) Production/processing of psychotropic substances and narcotic substances;
- 2) Production of poisonous chemicals, agricultural pesticide/insecticide, and other goods by using chemical substances (prohibited by international regulations or the World Health Organization) that affect public health and environment;
- 3) Processing and production of electrical power by using any waste imported from a foreign country;
- 4) Forestry exploitation business prohibited by the Forestry Law; and
- 5) Investment activities prohibited by law.

1.6.7. Restrictions on Foreign Citizenship

Some restrictions on foreign citizenship in terms of investment activities are described below.

(1) Ownership and use of land

Ownership of land by investors for the purpose of carrying out a QIP shall be vested only to natural persons holding Cambodian citizenship or in Cambodian entities but the use of land shall be permitted to an investor, including concessions, unlimited long-term leases, and limited short-term leases that are renewable. The investor is also given the right to own and pledge as security the real and personal property on the land (Article 16, the Law on Investment).

(2) Employment of foreigners

A QIP is entitled to obtain visas and work permits for the employment in Cambodia of foreign citizens as managers, technicians, and skilled workers, if the qualification and

expertise are not available in Cambodia (Article 18, the Law on Investment).

(3) Foreign employees

Regarding foreign employees, the 1997 Labor Law sets out the following regulations.

No foreigner can work unless he possesses a work permit and an employment card issued by the Ministry of Labor. These foreigners must also meet the following conditions:

- a) Employers must beforehand have a legal work permit to work in the Kingdom of Cambodia;
- b) These foreigners must have legally entered the Kingdom of Cambodia;
- c) These foreigners must possess a valid passport; and
- d) These foreigners must possess a valid residency permit.

In addition, these foreigners must be fit for the job and have no contagious diseases. These conditions must be determined by a Prakas (Ministerial Order) from the Ministry of Health with the approval of the Ministry of Labor.

The work permit is valid for one year and may be extended as long as the validity of extension does not exceed the fixed period in the residency permit of the person in question (Article 261). The Ministry of Labor shall issue a Prakas (Ministerial Order) for the issuance of work permits and employment cards to foreign workers.

The maximum percentage of foreigners who can be employed in each of the enterprises shall be determined by a Prakas of the Minister of Labor based on each of the categories of personnel as follows:

- a) Office personnel

- b) Specialized personnel
- c) Non-specialized personnel (CDC 2009).

1.7. Business Cost

Various kinds of business cost such as industrial land cost, office space cost, rent/purchasing cost of factory, warehouse cost, manpower cost, electricity cost, water cost, gas tariff and fuel cost are shown in Table 11 – 21.

Table 11: Industrial Land Cost

Location	Land Sale (per sq.m)
Phnom Penh	
Commercial Land	US\$ 350 - US\$ 700
Other Area	US\$ 30 - US\$ 60
Development Land	US\$ 4 - US\$ 30
Siem Reap	US\$ 60 - US\$ 130
Sihanoukville	US\$ 20 - US\$ 65

Source: CDC, Cambodia Investment Guide Book, 2009.

Table 12: Office Space Cost

Type of Office	Average Rental Cost per Month
Prime Areas	US \$ 9 - US\$11 /sq.m
Secondary Areas	US \$ 6 - US\$ 8 /sq.m

Source: CDC, Cambodia Investment Guide Book, 2009.

Table 13: Factory Rent/Purchasing Cost

Type of Factory	Location	Average Factory Lease Cost	
Ready-built Factory	Prime Areas	US\$ 1.50 - 2.00	
Location	Size	Factory Rental Cost per	Factory Sale Cost
National Road No. 2	2,900m ²	US\$ 1.5 - 2 / sq.m	--
Boeung Tompun	5,000m ²	US\$ 1.2 - 1.8 / sq.m	US\$ 150/m ²
Weng Sreng Road	Land size: 3,250m ²	US\$ 1.5 - 2 / sq.m	--

Source: CDC, Cambodia Investment Guide Book, 2009.

Table 14: Warehouse Cost

Location	Size Available	Average Rental Cost
Industrial zone (Veng Sreng Road)	1000 - 6000 m ²	US\$ 1.5 / m ²
Boeung Tom Pun area	--	US\$ 1 - 2.5 / m ²
Chamkadong area	---	US\$ 1 - 2.5 / m ²
Cham Chao	---	US\$ 1.5 - 1.8 / m ²
Steng Meanchey	---	US\$ 1.5 - 1.8 / m ²

Source: CDC, Cambodia Investment Guide Book, 2009.

Table 15: Manpower Cost

Position	Monthly Median Salary Range (US\$) 2002
Manager Senior Level	1,000 - 1,500
Manager Middle Level	500 - 1,000
Manager Entry Level	240 - 400
Accountant	250 - 400
Secretary	120 - 150
Office Clerk	100 - 120
Messenger	100 - 120
Driver (for corporation)	100 - 120
Janitor	40 - 80
Laborer	40 - 80

Source: CDC, Cambodia Investment Guide Book, 2009.

Table 16: Electricity Cost (In Phnom Penh area)

Category	Tariff	
	Power Usage (KWh/month)	Tariff (Riel/kWh)
Residential	Less than 50	350
	From 51 to 100	550
	Over 100	650
	<45,000	600
	45,000-80,000*	550
	80,000-130,000	550
	>130,000	500
	Medium Voltage	480
Commercial & Service Sectors	<45,000	650
	45,000-80,000*	600
	80,000-130,000	600
	>130,000	500
	Medium Voltage	480
Hotel & Guest Houses	<45,000	650
	45,000-80,000	600
	80,000-130,000	600
	>130,000	500
	Medium Voltage	480
Embassy, Foreigners' House, NGO, International Organization	-	800
Government Institutions	-	700

Source: CDC, Cambodia Investment Guide Book, 2009.

Table 17: Electricity Cost in Kompon Cham, Battambang, Takeo and Bavet

Area	Tariff (per KWh)
Kampon Cham	850 Riels (approx. US\$0.21)
Battambang	US\$0.245
Takeo	900 Riels (approx. US\$0.225)
Memot, Pohnea Krek and Bavet	US\$0.115 - US\$0.16

Source: CDC, Cambodia Investment Guide Book, 2009.

Table 18: Electricity Cost in the Sihanoukville Area

Category	Tariff	
	Power Usage	Tariff
Residential		500 Riels
Industrial & Handicraft Sector	<20,000	US\$0.175
	20,001-50,000	US\$0.16 (Daytime)
		US\$0.175 (Night time)
	50,001-110,000	US\$0.147 (Day time)
		US\$ 0.175 (Night time)
Commercial & Service Sectors	>110,000	US\$0.135 (Day time)
		US\$ 0.175 (Night time)
	<20,000	US\$0.195
	20,001-50,000	US\$0.18
	50,000-110,000	US\$0.164
	>110,000	US\$0.15
Hotel & Guest Houses	<20,000	US\$0.20

Source: CDC, Cambodia Investment Guide Book, 2009.

Table 19: Water Cost

Tariff Category	Tariff
Residential	Riel 250/m ³
Business / Industrial	Riel 500/m ³

Source: CDC, Cambodia Investment Guide Book, 2009.

Table 20: Gas Tariff

Category	Tariff
Domestic	US\$ 0.7667 / kg *
Industrial	US\$ 0.32 / kg **
Industrial	US\$ 0.32 / kg **

Source: CDC, Cambodia Investment Guide Book, 2009

Table 21: Fuel Cost

Category	Cost (per liter)*
For Transport Use	
- Super	US\$ 1.1 - US\$ 1.2
-EA (Regular Petrol)	US\$ 1.0 - US\$ 1.1
- Diesel	US\$ 0.8.5 - US\$ 0.95

Source: CDC, Cambodia Investment Guide Book, 2009.

2. THE SPECIAL ECONOMIC ZONES

2.1. Legal Framework for the Special Economic Zone (SEZ) Scheme

The introduction of the concept of economically promoted zone/area into Cambodia was originally started in the 1960s. The SEZ scheme has been finally introduced to Cambodia for the first time in December 2005. “Sub-Decree No.147 on the Organization and Functioning of the CDC” was issued on 29 December 2005 to restructure the organization of the CDC and a new wing of the CDC called the “Cambodian Special Economic Zone Board (CSEZB)” was set up to manage the SEZ scheme. To govern it, “Sub-Decree No. 148 on the Establishment and Management of the Special Economic Zone” (The SEZ Sub-Decree) was also issued on 29 December 2005 (CDC 2009).

2.2. Basic Concept and Conditions for the SEZ

Regarding the basic concept and conditions for the SEZ, the SEZ Sub-decree defines these as follows (Articles 2 and 3.1.3):

- 1) SEZ refers to a special area for the development of the economic sectors that brings together all industrial and other related activities and may include general industrial

zones and/or export processing zones. Each SEZ shall have a production area that may have a free trade area, service area, residential area, and tourist area.

- 2) It must have a land of more than 50 hectares with precise location and geographic boundaries.
- 3) It must have a surrounding fence (for export processing zone, the free trade area and for the premises of each investor in each zone).
- 4) It must have a management office building and zone administration offices and all necessary infrastructures must be provided.
- 5) It must have water sewage network, waste water treatment network, location for storage and management of solid wastes, environment-protection measures, and other related infrastructures as deemed necessary.

2.3. Approved and Planned SEZs

The Cambodian government has so far officially approved 21 SEZs, of which 14 have been established by the SEZ Sub-Decree of the Royal Government of Cambodia (Table 22, CSEZB).

2.4. Incentive for the Special Economic Zone

2.4.1. Tax Incentives

The Zone Developer shall receive the following incentives for its investment activities:

(a) Tax on Profit

The tax-on-profit exemption period shall be provided for a maximum period of nine

Table 22: Cambodia's Special Economic Zones (SEZs)

No.	Name of SEZ	Status
1	Stung Hao SEZ (Sihanouk Ville)	No operation
2	Phnom Penh SEZ	In operation
3	Doung Chhiv Phnom Den SEZ	Constructing
4	Kampot SEZ	Constructing
5	Poi Pet O' Neang SEZ	Constructing
6	Manhattan SEZ	In operation
7	Sihanouk ville SEZ 1	In operation
8	Tai seng Bavet SEZ	In operation
9	Goldfame Pak Shun SEZ	In operation
10	Sihanouk ville SEZ 2	In operation
11	Thary Kampong Cham SEZ	In operation
12	Neang Kok Koh Kong SEZ	Constructing
13	Kirisakor Koh Kong SEZ	Constructing
14	Sihanoukville SEZ	Constructing

Source: CDC, Cambodia Investment Guide Book, 2009.

years in compliance with Article 14.1 of the Law on the Amendment to the Law on Investment of the Kingdom of Cambodia.

(b) Import Duties and other Taxes

The Zone Investor shall receive the fiscal incentives as provided for in Article 14.9 of the Law on the Amendment to the Law on Investment of the Kingdom of Cambodia and other relevant regulations.

The Zone Investor entitled to the incentive on value added tax (VAT) at the rate of 0 percent shall record the amount of tax exemption for its every import. The said record shall be disregarded if the production outputs are re-exported. In case the production outputs are imported into the domestic market, the Zone Investor shall refund the amount of VAT as recorded in comparison with the quantity of export.

2.4.2. Other Incentives

The Zone Developer shall receive custom duty exemption on the import of machineries, equipment for the construction of the road connecting the town to the zone, and other public service infrastructures for the public interest as well as for the interest of the zone.

The Zone Developer may request, under the form of a temporary admission (AT), the import of means of transport and machineries used for the construction of the infrastructures in accordance with the laws and regulations in force.

The Zone Developer, the Zone Investor, and foreign employees have the right to transfer all their income derived from the investment and salary received in the zone to banks located in other countries after payment of tax.

Apart from the fiscal incentives, the Zone Developer and the Zone Investor are entitled to obtain the investment guarantees as stated in Article 8, Article 9 and Article 10 of the Law on Investment in the Kingdom of Cambodia, and other relevant regulations. The Zone Developer may obtain a land concession from the State for the establishment of an SEZ in areas along the borders or in isolated regions, in accordance with the Land Law, and may lease this land to the Zone Investors (CDC 2009).

3. THE MAJOR CITY AND TOWNS IN CAMBODIA

3.1. Phnom Penh City

Phnom Penh is the capital and center of administration, commerce, industry, tourism, economic activities, and culture of the Kingdom of Cambodia. According to the

General Population Census of Cambodia 2008, it has a total population of 1,327,615 persons, of which 625,540 are males and 702,075 are females.

Most of the industries, manufactures, services, and commerce enterprises are concentrated in Phnom Penh. Almost all garment manufacturers are located in Phnom Penh and in Kandal Province, which surrounds the capital of Phnom Penh. There are many industrial parks, factories, and other business activities that have been developed by investors both domestic and foreign, which contribute to economic and social growth after the general election in 1993. Phnom Penh is the centre of financial institution thus there are numerous commercial banks, foreign bank branches, and specialized banks in the area (Table 7).

There are several SEZs in Phnom Penh and Kandal Province, of which Phnom Penh SEZ was officially approved by the Royal Government of Cambodia and currently is in operation.

3.1.1. Phnom Penh SEZ

Phnom Penh SEZ (PPSEZ) covers an area of 360 hectares and is expected to create 100,000 jobs for Cambodians over the next five years. The US\$85 million project is a joint investment of Attwood Investment Group and Zephyr Co., a Japanese-based company. PPSEZ will produce its own electricity. PPSEZ includes a reliable power supply, a waste water treatment facility, a fast telecommunication network, and a one-stop service for import and export activities. PPSEZ is located 18 km away from Phnom Penh, just 8 km from the international airport, and the deep sea port of Sihanoukville is just 3 hours away by road.

The land price and utility cost of PPSEZ are the following (www.ppsez.com):

- 1) Industrial land selling price: US\$50.0/m²
- 2) Guaranteed constant water supply: Estimated at US\$0.30/m³ (+10%VAT)
- 3) Sewage and waste water treatment cost: US\$0.26/m³ (+10% VAT)
- 4) Guaranteed constant electricity: Estimated at US\$0.19326/kwh
- 5) Infrastructure maintenance fee: US\$ 0.06/m² /month (+10% VAT)

The first step of infrastructure construction such as road network, clean water, dry port electricity distribution system, telecommunication, and regional administration office over an area of 141 hectares has been finished.

CSEZB has governed its own SEZ administration at PPSEZ since September 2008. Sixteen staff representing six institutions are currently working, and 15 firms are operating as shown in Table 23, CSEZB).

3.2. Bavet Town

Bavet Town is part of Svay Rieng Province which is located 165 km southeast of Phnom Penh along the ASEAN High Way of National Road No.1. Bavet Town is bordered with Moc Bai International Border Crossing, Vietnam. Bavet is comprised of five Sangkat, namely, Sangkat Bati, Sangkat Bavet, Sangkat Chrak Mtes, Sangkat Prasat, and Sangkat Prey Angkunh. The total population of Bavet is 37,126, consisting of 18,288 males and 18,838 females.

Bavet Town is the commercial, industrial, and tourism development center of Svay rieng Province. Factories, manufacturing plants, casinos, shops, restaurants, business building, and hotels, among others, are on the rise in the area. Basic infrastructure that follows international standard is present.

Table 23: Firms invested in PPSEZ

No.	Company Name	Objective	Labor	Capital (US\$)	Status
1	Bok Seng PPSEZ Dry Port Co., Ltd	Dry Port	153	3,322,700	Operation
2	Tiger Wing Co., Ltd	Footwear Factory	310	1,830,618	Operation
3	Redial Industrial Co., Ltd	Textile Factory	1335	2,291,392	Constructing
		Printing Factory	705	1,233,800	Constructing
4	Evergreen Industrial Co., Ltd	Garment Factory	1,039	7,003,454	Operation
5	Cambodia Success Industries Co., Ltd	Steel Processing Factory (Material for Construction)	15	988,350	Operation
6	Agricom (Cambodia) Co., Ltd	Sugar Packaging Factory	102		No operation
7	Yamaha Motor (Cambodia) Company Limited Co., Ltd	Assemble Automobile and Parts		11,500,000	Will be constructed at beginning of 2010
8	Colben Engineer (Cambodia) PPSEZ	Produce and supply Electricity	61	53,700,000	Operation
8	G. Saint	Catton Boxes and paper	25	413,620	Operation
9	Region Industry Co. Ltd;	Printing		1,233,8000	Constructing
10	CamBox Private Ltd;	Plastic	12	710,000	Operation
11	E. Saint			5,000,000	Constructing
12	Achinomotu Cambodia	Food processing and ingredient		5,470,534	Constructing
13	Sin C.H. In Hong (Cambodia) Plastic Industry	Plastic		2,323,741	Constructing
14	Clean Cycle	Footwear		1,770,368	Constructing
		Food Processing		502,500	Constructing
15	Cambodian Food Processing Industry				
	Total		1	100,062,577	17,378,647

There are several financing institutions located at Bavet Town such as the Cambodian Public Bank Ltd. (Malaysian), ANZ Royal Bank Cambodia Ltd., and ACLEDA Bank Plc.

Besides many manufacturing companies and factories, there are two SEZs in Bavet that have been approved by the Royal Government of Cambodia. These are Manhattan SEZ and Tai Seng Bavet SEZ that are currently both in operation.

3.2.1. Manhattan SEZ (MSEZ)

MSEZ is the first special SEZ that was established under the direction of the Royal Government of Cambodia. Although its establishment had lagged behind compared to that of its neighboring countries, the upside is that MSEZ can learn from the experiences of other SEZs established earlier thus it can make sure it operates under internationally competitive standards.

MSEZ is strategically located 165 km southeast of Phnom Penh, along National Road No 1, 5 km from Moc Bai and the Cambodian-Vietnamese border crossing, 65 km from Ho Chi Minh International Airport, and 80 km from the Saigon Harbor. This location ensures convenient and low-cost access to electricity from Vietnam, and to land and sea transportation as well as raw materials and technical support from Vietnam. Moreover, containers passing through the borders are not subject to customs inspections.

Cambodia is a fast developing country. The population in Svay Rieng has reached 650,000. As the local economy advances, the population near the border will increase exponentially, providing abundant sources of low-cost labor. The minimum wage in Cambodia is US\$50/month.

Businesses will enjoy a tax holiday from six to nine years. With the exception of computers and telecommunications equipment, there are no import or export duties levied on machines, equipment, and raw materials.

The one-stop service office is supported and staffed by the local and central government to process applications of companies, issue licenses and certificates of origins, and process export and import permits for customs clearance. The one-site government authority helps investors cope with difficulties they may encounter and ensures the smooth and efficient business operations of MSEZ's tenant companies.

(1) Public Utility Facilities

a) Sewage Plant

Located on the east side of MSEZ near the main drainage and the existing flood retention basin, the sewage plant covers approximately 17,100 m² and is the lowest elevation in MNSEZ after land preparation and filling.

b) Water Supply System

There will be three lots reserved for water supply system by the north fence and the southernmost fence. Each lot will cover about 3,000 m² of land and will house reservoir tank and water wells.

c) Warehouses

Warehouses will be located near where most imports and exports are being prepared for shipment to provide easy access to tenant companies and convenient monitoring of customs official. The warehouses will cover approximately 5,000 m² of land.

d) Transformer Station

MSEZ now has a 910-m, 22-kv transmission line installed along the west main road. The line is connected to the Economic Dispatch Control(EDC) Bavet local power supply network, and distributes 3 megawatts to MSEZ to temporarily meet the power needs of tenant companies that are engaged in bicycle assembling and manufacturing of footwear and bolt, to name a few. MSEZ expects to apply for a 110-kv high-voltage transmission line from Vietnam's power company, to be installed along the east main road towards the south. A 110 kv/22 kv transformer, a power plant, and an electrical substation will be built 500 m south of National Highway No. 1, outside of the fence of the export processing zone. The entire area will cover 3,000 m².

e) Power Station

In the long run, it is necessary for MSEZ to have its own 12-mw power plant. The location selected for the power plant is 500 m south of the transformer station. The station will take up 43,000 m² of land.

f) Workers' Housing

Outside of the fencing of the export processing zone, there will be two to three units of workers' housing. Only Cambodian workers who live at least 10 km away from the zone can stay in the provided units. The rent will be co-paid by the tenant investors and the workers. The land will cover about 117,400 m².

g) Solid Waste Facility

Located at the south end of MSEZ, it is temporarily reserved to gather non-polluting waste for further disposal outside of MSEZ. The site will take up about 3,000 m².

(2) Main Public Facilities:

a) Hospital

Situated between the administrative building and the export processing zone, it provides medical services to employees and communities nearby. It is a small hospital with approximately 100 beds.

b) Bus Station

It is located where the east side main road meets National Highway No. 1, and can accommodate up to five medium-to-large buses for service workers who commute.

c) Luxury Casino Hotel

A luxury casino-hotel with 400 rooms is located near National Highway No. 1 and the east side entrance of MSEZ. There will be gambling halls, spa facilities, restaurants, retail stores, conference rooms, show rooms, and other recreational amenities inside the hotel.

d) Supermarket

In compliance with MSEZ regulations and to meet the needs of investors, employees, and the local community, a supermarket has been set up to provide recreation, entertainment, fine-dining, and shopping.

e) Condominium

A condominium will be constructed for tenant companies' management, employees, and senior MSEZ officials. There will be townhouse units, 20 villas, and 500 to 1,000 condominium units.

(3) Fee Schedule: see Table 24.

(4) Infrastructure Development of MSEZ

Infrastructure development progress is shown in Table 25.

(5) Investors (Factories) in MSEZ: Currently, there are eight investment companies operating in MSEZ of Bavet Town (Table 26, www.manhattansez.com).

Table 24: Fee Schedule of Manhattan SEZ in Bavet

Projects	Fees (USD)
Land Lease For 99 years	- Over 2 hectares : industrial areas \$22-27/m ²
Electricity	\$0.1265/KWH (since Oct. 1 st , 2007)
Water Supply	\$0.15/T
Sewage Treatment	\$0.25/T
Public Facility Maintenance Fee and Management	0.04/m ² /month(plus VAT) (since Oct. 1 st , 2007)
Construction of Plants	\$95-110/m ² (standard steel-structure plants)
MSEZ-Ho Chi Minh City Transportation Fee	\$200 for 20-foot container; \$235 for 40-foot container
Exports processing fee (per container)	\$159+ approval fee \$10 + certificate of origin \$25
Import Processing Fee (per container)	\$138+ approval fee \$10
6-month-Vietnam visa	\$149/ person
1-year-Cambodia visa	\$290/ person

Source: MSEZ, 2009.

Table 25: Infrastructure Development Progress of MSEZ

Project	Progress
Roads	Completed 1000 meters of the four-lane, 30-meter wide west main road, 400 meters of the 15-meter wide Co-Win secondary road, and 700 meters of the 20-meter wide secondary road.
Landscaping	Planting will begin immediately after completion of roads.
Street Lamps	Street lamps are erected on both sides of the 1000-meter-long west main road.
Well Digging	Each of the four wells can provide 60m ² of water; daily supply exceeds 5000 tons.
Water Supply	Water supply and fire control pipes have been installed.
Land Filling	740,000 m ² of land has been filled with 300,000 m ³ of soil and materials.
Flood Retention Basin	The Basin has 600 meters of drainage channel that is able to retain 600,000 m ³ of water; a bridge was built to lower the flood line by 30cm.
Drainage	Finished the main drainage system running from northwest to southeast.
Sewage System	Completed the layout of sewer lines; construction of sewer lines for the factories within the MSEZ in on-going.
Power Supply	Acquired 2000 KVA of power from Vietnam, built 3500 meters of high-voltage wires to successfully provide current tenant factories with electricity.

Source: MSEZ, 2009.

Table 26: List of Firms in MSEZ

Name of the company	Industry	Condition
S-Y-G Steel	Hardware	Started production in June 2006
King Maker	Shoe manufacturer	Started production in January 2007
Active International	Plastic foam/chair cushions	Begin construction in July, 2008
Header Plan	Hardware	Begin construction in July, 2008
Best Way	Bicycles	Started production since February, 2006; 1 st certificate of origin was issued by the MSEZ
Chian-Huei	Shoe manufacturer	Begin construction in July, 2008
Galaxy Textile Group Corp. Ltd.	Textile	Began construction in August, 2007
Qi Gao	Plastic Cement	Started exporting in September, 2007
		Began construction in April, 2008.

Source: CSEZB, 2010.

3.2.2. Tai Seng Bavet SEZ

Tai Seng Bavet SEZ is located 161 km from Phnom Penh along ASEAN High Way No.1, 5 km from Vietnamese border gateway, 80 km away from the Ho Chi Minh International Port, and 65 km from Ho Chi Minh Airport. It covers an area of 77.1945 hectares.

Currently, Tai Seng Bavet SEZ is being operated by three investment firms (Table 27).

The features of Tai Seng Bavet SEZ are the following:

- 1) Public facilities and infrastructure maintenance
- 2) Operation and maintenance of public facilities including a road network system, rainwater drainage canals, fire hydrants, gates, fences, signboards, and bridges.
- 3) Operation and maintenance of public facilities for power supply, water supply, waste water treatment, and hygienic services.
- 4) Cleaning of public areas including all greenery areas, building, elevator, packing area, maintenance, and non-industrial waste disposal.
- 5) Land lease price and labor wage for investment:

Table 27: List of Firms in Tai Seng Bavet SEZ

No.	Name of companies	Objective	Area	Labor (persons)	Capital (US\$)
1	Atlantic Cycle Co., Ltd	Bicycle Manufacturing			
2	La More (Cambodia) Ltd.	Footwear Factory			
3	D K Inc	Garment Factory	3.3000 ha	735	6,641,469
Total			49.3662 ha	11,997	58,622,535

Source: CSEZB, 2010.

- a) Land lease: US\$28/m² for 70 years
- b) Unskilled worker: US\$50-60/month
- c) Administrative staff/skilled worker: US\$90-160/month
- e) Technician/Engineer: US\$100-250/month
- f) Water: US\$0.25/m³
- g) Electrical power: US\$0.15/kwh (www.taisengsez.com.kh).

3.3. Preah Sihanouk Province

Founded as a sea port half a century ago, Sihanoukville has been renamed recently as Preah Sihanouk Province. It is located 235 km southwest of Phnom Penh at the highland and coast of Siam Gulf, a little bit far from the plain areas of Cambodia. It can be reached by National Road No. 4. According to the 2008 Census, the total population of Preah Sihanouk Province is 221,396, consisting of 110,777 males and 110,619 females. It consists of four districts, namely, Krong Preah Sihanouk, Prey Nob, Steung Hav, and Kampong Seila.

The Sihanoukville town area is spread thinly across a peninsula, surrounded on three sides by beaches, with the downtown area near the center of the peninsula a couple of kilometers from the beach.

Sihanoukville is one of the most famous provinces in term of economic and commercial development of the Kingdom of Cambodia. The commercial success of the port in Sihanoukville led to a flurry of construction including hotel, banks, shops, restaurants, a brewery, an oil depot, factories, manufacturing, SEZs, and so on. There is a Chamber of Commerce, and other business and administrative institutions.

There are several bank branches located in Sihanoukville such as The Cambodian Public Bank Ltd, ACLEDA Bank Plc., Cambodian Commercial Bank Ltd., Singapore Banking Corporation Ltd., Cambodia Mekong Bank Public Limited., and ANZ Royal Bank Cambodia Ltd. There are plenty of hotels, guest houses, telecommunication services, transportation, and other facilities for tourists and foreigners wishing to stay and work.

Four SEZs in Sihanoukville have officially been approved by sub-decree of the Royal Government of Cambodia. Only two of them have started operation (Table 28) (CSEZB).

3.3.1. Sihanoukville SEZ 2

Sihanoukville Special Economic Zone 2 (SSEZ 2), one of the first overseas economic and trade cooperation zones approved by the Ministry of Commerce of the People's Republic of China, is co-developed by Taihu Cambodia International Economic Cooperation Zone Investment Co. Ltd, Jiangsu with Cambodia International Investment Group Co. Ltd. as a response to China's "going global" strategy. SSEZ 2 has a total planned area of 11.13 km² and a total investment of US\$3 billion of which an initial investment of US\$320 million

Table 28: List of Firms in Sihanoukville

Name of SEZ	Developer 's name	Status
1. Stung Hav SEZ	Attwood Investment Group Co., Ltd	No operation
2. Sihanoukville SEZ 1	Cambodia International Investment Development Group Co., Ltd	In operation
3. Sihanoukville SEZ 2	Cambodia International Investment Development Group	In operation
4.Sihanoukville Port SEZ	Sihanoukville Port SEZ	Constructing

Source: CSEZB, 2010.

will go to textile and clothing, machinery and electronics, and high-tech products as the leading industries. This project receives high attention from top leaders including the prime ministers of both countries.

This economic zone is located in the sole international port city of Sihanoukville. It has a planned development area of 5.28 km² in the preliminary stage. It is 3 km from Sihanoukville Airport and 12 km from Sihanoukville deep water port, close to National Highway No. 4 and only 210 km away from Phnom Penh, the capital city of Cambodia. It has easy access to fresh water resources and good location and convenient transportation.

There are six companies that participated in the signing ceremony to build factories in SSEZ 2. For the second stage that will be completed in 2011, there will be 150 companies requiring 49,000 workers. Once the final stage is completed in 2015, there will be 300 companies requiring 80,000 workers.

At present, some infrastructure work has been completed in SSEZ 2 including a road system of about 11.3 km, a concrete road of 1,300 m, a sewage system at 44 sites of 3,700 m, a waste sewage system of 3,100 m, a cable underground system of 2,000 m, a landfill of 160 hectares, and 9 buildings.

Currently, SSEZ 2 consists of six investment companies that are mostly under the process of equipment installation (Table 29) (CSEZB).

(1) Preferential tax policy in Sihanoukville SEZ 2

- a) Production equipment, construction materials, parts for plant building, and raw material for production purchased by enterprises are exempted from import tariff.

Table 29: List of Firms in SSEZ 2

No.	Name of Companies	Objective	Labor	Capital	Status
1	Nankuo Co.Ltd	Garment	300	2,042,837	Operation
2	Chhean Ly Ma Vehicle	Garment	741	2,500.000	Equipment install.
3	Hondo Internatl. Garment Co. Ltd	Motor cycle assembly	200	2,00,000	Equipment install.
4	Tayhu Pastic Product	Plastic	451	1,676,294	Equipment install.
5	Huong Chea Art Craft		296	1,218,630	Equipment install.
6	Well Cambodia Steel Industry Engineering	Steel processing	199	1,881,975	Equipment install.
TOTAL			2,187	11,319,736	

Source: CSEZB, 2010.

- b) After investment, enterprises are entitled to a tax-free period of 6-9 years in Cambodia depending on the categories of products.
- c) Profits for re-investment are exempted from duties and taxes.
- d) No tax is levied on dividends.
- e) Exported products are exempted from export tax.
- f) No foreign exchange restrictions; foreign exchange capital can flow in and out freely.

(2) Relevant expenses set-up for Sihanoukville SEZ 2

a) Electricity: US\$0.15/kWh.

b) Plant building renting expense.

Option 1: US\$0.8/m²/month

Option 2: US\$2.5/m²/month, the plant can be used for free for 30 years after successive payments for eight years.

For both the above options, the plant is used free of charge for the first year.

- c) “One-stop” management service: project approval, planning management, building management, labor, and human resources.

- d) “Package service” support : registration, visa application, product and equipment export and import customs declaration, commodity inspection, recruitment and training assistance, and service of Cambodian-speaking personnel.
- e) “All-round” service: the plant and associated facilities are tailored after the needs of the investor; basic facilities for production and living accommodation; assistance in financing; economic and trade information as well as referral to prospective business partners (www.ssez.com).

3.3.2 Water Supply

For industrial use in Sihanoukville, there is a stable supply of groundwater although the water quality may not meet requirements because of salt content. Both Pailin and Koh Kong are in a better condition because they have supply of surface water.

4. PORTS AND AIRPORTS

4.1. Present State of Ports

Among the ports in Cambodia, only Sihanoukville Port and Phnom Penh Port handle international containers. These two ports are controlled by the central government, but are financially independent and autonomously managed. Sihanoukville Port was constructed in 1961 with French assistance. Today, Japan is aiding the development of a 400-m-long and 10-m-deep container terminal along the quay, slated for completion in 2009. Phnom Penh Port has a 300-m-long pier where container cargo is handled. It also handles cargo using a passenger pontoon and private petroleum jetty. Other ports besides the two autonomous ports are extremely small ports, such as Sre Ambel Port

and Kampot Port, with the exclusion of petroleum jetty in Sihanoukville city and Oknha Mong Port (private). The Ministry of Public Works and Transport is considering the establishment of a Port Administration office to regulate all ports in Cambodia.

4.2. Status of Port Usage

Sihanoukville Port has a cargo handling volume of approximately 1.6 million tons, while Phnom Penh Port has approximately 740,000 tons. Both ports have been steadily expanding their handling volume, and have shown particularly remarkable increase in the handling volume of containers. Sihanoukville Port accommodated approximately 700 vessels in 2005, and Phnom Penh Port, 1,070 vessels (mostly small barges). Container vessels account for 60 percent of vessels entering Sihanoukville Port. On the other hand, tanker barges account for 65 percent of vessels in Phnom Penh Port. At Sihanoukville Port, the development of a special economic zone of 70 hectares that is integral with the port is underway with Japanese aid, in conjunction with the development of a container terminal. Six offshore oil fields are being developed off the coast of Sihanoukville Port. As a supply base for the development of these oil fields, materials and equipment for trial exploration and drilling are stored and supplied at Sihanoukville Port.

4.3. Sihanoukville Port

Sihanoukville Autonomous Port is the international gateway serving a vitally important role in the economic and commercial development of the Kingdom of Cambodia (Table 30). It is located in the southwestern part of the country between the Bay of Kampong Som and connected to Phnom Penh by National Road No.4, No.3. Rail Road, and

Table 30: Freights from Sihanoukville to Main Ports of the World

(Unit: \$US)

Destination: county/port	Freights	
	20'FCL	40'FCL
China (Shanghai)	650	1,050
Singapore	200	400
USA (Los Angeles)	3,500	4,600
Japan (Tokyo)	800	1,600
European port (Felixstowe)	1,806	3,512

Source: Sihanoukville Autonomous Port, 2009.

airway.

The Old Wharf was constructed in 1956 and became operational in 1960. This wharf, which is 290 m long and 28 m wide with a present depth of the outer berth and inner berth of 9.00 m draft and 8.00 m draft, respectively, can accommodate four vessels for cargo handling operations. It has two warehouses, each measuring 6,000 m², and both are capable of storing 14,000 tons of cargo. At present, this wharf is being used for accommodating general cargo and passenger vessels.

The New Quay was constructed in 1966 and became operational in 1969. This quay is 350 m long and has a draft of 10.5 m and can accommodate three vessels. This quay has three warehouses with a total area of 24,000 m², which are capable of storing 56,000 tons of cargo. At present, this quay is being used for accommodating cargo vessels.

The Royal Government of Cambodia, in cooperation with the Government of Japan, constructed a 400-m-long new container terminal in 2002. It was completed in 2007. This new container terminal, which was designed for 11.50-m depth and linked to

a 6.4-ha container yard area, is primarily involved in container cargo handling operation.

The Sihanoukville Autonomous Port (PAS) is a service and trade center that has been playing a significant role in serving the development needs of the national economy within the region and the world as a whole. PAS has adhered to cooperate with all local experienced departments concerned, namely The Port Community. The Port Community is composed of governmental local authority, competent authority, and private business entity. The presence of this group renders further confidence in the day-to-day operation as the effort to improve service productivity of the respective departments has greatly contributed to the improvement of services to the community.

The main services of the PAS are the following:

4.3.1. Navigational Aids and Pilotage

The PAS is located right in the center of the ASEAN member countries where there are no impacts that may be caused by natural disasters such as storm, earthquake, and tsunami.

A pilot is compulsory for all commercial vessels coming into and going out of the PAS's water area. To be convenient for navigational aids and pilotage duties, PAS has developed two types of approach channels where international vessels can proceed for berthing with safety:

- 1) Southern channel is preserved for vessel not exceeding – 8.50 m draft
- 2) Northern channel is preserved for vessel not exceeding – 10.00 m draft
- 3) Weather Conditions:

Southwest monsoon blows from June to October and northeast monsoon blows from November to February. The average deviation of high tide and low tide of sea weather is 1.2 m.

4) Water depth of ship's berth (Table 31):

- a) Old Jetty: -9.00 m depth
- b) New Quay: -9.00 m depth
- c) Container terminal: -10.00 m depth
- d) Oil terminal: -9.20 m depth (Sokimex jetty)
- e) Stone wharf: -4.20 m depth (oil jetty)

4.3.2. Cargo Offloading – Loading and Transport

In 2009, PAS has a major development. Cargo handling operation and transport within its domain are performed in accordance with recognized standards in global port operation throughout the world. This innovative change came with the installation of a new container terminal that has modern container handling facilities. The new terminal was completed simultaneously with the operation of the automation system.

Table 31: Berthing Facilities

TERMINAL		LENGTH (m)	DEPTH (m)	BERTHS	OTHER
-	Container Terminal	750	-10.00	05	Medium size Vessel
-	General Cargo	290	-8.00	02	Inner Berth of Old Jetty
-	Passenger Terminal	290	-9.00	02	Outer Berth of Old jetty
-	Sokimex	200	-9.20	01	Oil Jetty
-	Pontoon		-6.50	01	Oil Jetty
-	Stone Wharf	53	-4.20	01	Oil Jetty

Source: Sihanoukville Autonomous Port, 2009.

4.3.3. Container Terminal and Storage Services

The construction of a new container terminal, which consists of a 400-m-long berth with 11.50-m draft, 6.4-ha container yard, and the installation of the following modern container handling facilities, was completed in March 2007:

- 1) Gantry crane: 2 units
- 2) Transfer crane: 5 units
- 3) Tractor and chassis: 8 units
- 4) Computer system: 1 set

These are physical infrastructures that PAS has recently developed in addition to other facilities that were previously built (Table 32 and Table 33). The container yard is capable of storing 7,900 TEUs, while the container terminal has a capacity of 350,000 TEUs/year.

Table 32: Cargo Handling Facilities

Type	Capacity	Quantity (Unit)
Mobile Harbour Cranes	60t	02
Quay Gantry Cranes	30,5t	02
Rubber Tyred Gantry Cranes	35.5t	05
Transtainer Cranes	40,6t	02
Super Stackers	45t	08
Empty Stackers	7.5t	02
Trailers	20'- 40'	34
Shore cranes	10t-50t	07
Forklifts	3t- 25t	21
Trucks for General Cargo	10t-20t	10

Source: Sihanoukville Autonomous Port, 2009.

Table 33: Storage Facilities

TERMINAL	SIZE (m2)	CAPACITY	QUANTITY
New Container terminal	64,000	177,800 (TEUS)	01
Laden Container Yard	35,000	72,2000 (TEUS)	01
Empty Container Yard	75,000	205,000 (TEUS)	01
Warehouse	36,000	84,000t	05
Reefer Container		54 Boxes	9 Socket

Source: Sihanoukville Autonomous Port, 2009.

Although the presence of a deep sea port is a major asset for Cambodia, despite recent progress and ongoing reforms (such as computerization), the efficiency of Sihanoukville Port is still low. UNCTAD's line shipping connectivity index is only 3 for Cambodia, against 18 for Vietnam and 35 for Thailand. It costs US\$600 to ship a dry, 40-foot container from Sihanoukville to Singapore, against US\$220 from Ho Chi Minh City to Singapore.

Tariff, and port dues and charges are shown in Table 34, Table 35 and Table 36.

4.4. Inland water transportation

The Cambodian inland water network mainly consists of the Mekong River, Tonle Sap River, and Bassac River, of which the total length is approximately 1,750 km in the rainy season and may decrease to 580 km in the dry season when navigation is limited. The Mekong mainstream accounts for 30 percent of the total, the Tonle Sap River 15 percent, the Bassac River 5 percent, and other tributaries 50 percent. There are seven major river ports in Cambodia as follows:

1) Phnom Penh Port

Table 34: Tariff for Stevedoring Charges (Continues)

No.	Category of Cargo	Base cost	From ship to		Warehouse to		From ship to barge	charged at anchor	Remarks
			Jetty	Wear H	Truck	Wagon			
1	-Bulk cargoes, metal, cress, gravel, block food, fertilizer, salt, raw sugar	1.46	2.48	2.77	1.83	2.04	2.56	2.92	<u>For cargo in category 11</u> -from 5 to 10t increase 50% -from 11 to 15t increase 100%
2	-cargoes in bags, packed in cotton, jute, paper, rad-nylon, rash-bags	1.58	2.68	3.00	1.98	2.21	2.77	3.16	-over 16t. increase 200% <u>Increase rate for general cargos</u> -length from 12 to 16m or weight 10 to 15t. increase 50%
-	-cargo in bags cement, fertilizer, salts (30%)	1.58	3.16	3.50	2.45	2.68	3.24	4.00	-length from 17 to 20m. or weight 16t to 20t increase 70% -length over 20m and weight over 20t increase 100%
3	-Spare part, empty cases, empty drums, log woods	2.12	3.60	4.03	2.65	2.97	3.71	4.24	-dangerous and poisonous cargo increase 50%
4	-cargoes in drums, cases, cartons, toles plates, coins bars	2.32	3.94	4.41	2.90	3.25	4.06	4.64	-holiday increase 30% -hold which depth over 3m or hatch cover less than 3m increase 100% -for cargo cashed or hardened increase 40%
5	-cargoes in bales, raw cotton, raw jute hums, rush paper, household, textile, furniture	2.45	4.23	4.66	3.06	3.43	4.29	4.90	-for cargo in small packed below 10kgs increase 50% -hold colder than 10°C to 0°C increase 50% -frozen cargo or refrigerator increase 100%
6	-sawn timber, flooring strips, wooden or bamboo, rubber	2.52	4.28	4.79	3.15	3.53	4.41	5.04	-cargo run through scale to be added US\$.050/t <u>Delivery Charges</u> -cargo in bags US\$.050/ton -general cargo US\$.070/ton -all kind of vehicle US\$.500/unit -container US\$.100/box
7	-cargoes in baskets, raw tobacco, cigarette, soft drink, wine, beer, provisions	2.65	4.50	5.04	3.31	3.71	4.64	5.30	<u>Refer Container</u> <u>20' refer 40' & 45'</u> Below 6.00hrs US\$10.00 US\$20.00 -06.00 to 12.00hrs US\$20.00 US\$38.00 -12.00 to 23.00hrs US\$40.00 US\$75.00
8	-fragile material cargoes bottles, glass ceramic pots TV	2.81	4.77	5.34	3.51	3.93	4.92	5.62	
9	-fresh fruits, vegetables, livestock, frozen product	2.92	4.96	5.55	3.65	4.09	5.11	5.84	

Table 35: Tariff for Stevedoring Charges (Continued)

No.	Category of Cargo	Base cost	From ship to		Warehouse to		From ship to barge	charged at anchor	Remarks
10	-special & valuable cargoes, golds, silvers, diamond	4.97	8.44	9.44	6.21	6.96	8.70	9.94	<u>S</u>
11	All kinds of vehicle	20.00	34.00	40.00	28.00	35.00	36.00	60.00	
		Container full 20'		57.00	46.00	57.00			<u>tonnage charges</u> Warehouse US\$.0.20/ton/day or US\$.0.25.m ² /day Open space US\$.0.10/ton/day or US\$.0.125/m ² /day
		Container empty 20'		30.00	23.00	28.00			
		Container full 40'		85.00	62.00	78.00			
		Container empty 40'		45.00	44.00	55.00			

Source: Sihanoukville Autonomous Port, 2009.

Table 36: Port Dues and Charges

- 1 Tonnage dues.....US\$ 0.25* GRT
Anchorage dues.....US\$ 0.0005* GRT* hour
- 2 Berthage dues.....US\$ 0.23* GRT and US\$ 0.05 GRT for Anchorage
Berthage over 5 days to be added UD\$ 0.003* GRT* hour (including Saturday, Sunday & Holiday)
- 3 Channel dues..... US\$ (0.50*GRT*)-(GRT*GRT/200.000) and 50% of Cambodian vessel operation in the country)
- 4 Pilotage charges..... US\$. 0.03* GRT (for commercial sea port) and for shifting in port's area UD\$ 0.22*GRT
0.035* GRT (for oil jetty \$ tank's terminal \$ and sea light)
(minimum charge US\$ 125.00 for in & out port)
(Saturday \$ Sunday \$ Holiday increases 50%, Night shift from 17:30hrs to 07:30hrs the following days increases 25%)
For each shifting US\$ 0.022* GRT
Shifting by rope charges US\$ 114.00/times.

Source: Sihanoukville Autonomous Port, 2009.

- 2) Kampong Cham Port: on the mainstream of the Mekong River 105 km up from Phnom Penh
- 3) Kratie Port: on the mainstream of the Mekong River 115 km up from Kampong Chham Port
- 4) Stung Treng Port: on the mainstream of the Mekong River 150 km up from Kratie Port
- 5) Neak Loeung Port: on the mainstream of the Mekong River 60 km down from Phnom Penh Port
- 6) Kampong Chhnang Port: On the Tonle Sap River 90 km up from Phnom Penh
- 7) Chong Khneas (Siem Reap) Port: On the Tonle Sap River 190 km up from Kampong Chhnang Port

Container freight is available only for the rubber plants between Phnom Penh and Kampong Chham. During the dry season, the upper stream of the Mekong from Kampong Chham and Tonle Sap will not be available for navigation because of the low level of water. The water level difference between the dry and rainy seasons sometimes reaches 10 m. Thus, inland water transportation in Cambodia has an inevitable limitation (www.pas.gov.kh).

4.5. Air Transportation

There are 11 airports in Cambodia, but regular flights are only available at two airports: Phnom Penh Airport and Siem Reap International Airport. The Societe Concessionnaire de l' Aeroport (SCA) has been undertaking the operational management of Phnom Penh International Airport since 1995, Siem Reap International Airport since 2001, and

Sihanoukville Airport since 2006. These are under BOT agreement between the Royal Government of Cambodia and SCA. All other airport are managed by the State Secretariat of Civil Aviation except for Kampong Chhnang Airport.

The usage of international airports has been increasing yearly owing to the increase of tourists. The number of international flights per year varies from year to year, and between 2003 and 2008, it has increased approximately by 1.4-fold at Phnom Penh International Airport. The number of domestic flights, on the other hand, has been decreasing on the whole. The number of international flight passengers has been increasing yearly at Phnom Penh International Airport, and has reached 1.53 million in 2008.

At Siem Reap International Airport, the number of international flight passengers has been rapidly increasing in the last five years. In 2007, it accommodated the largest number of passengers of all airports in Cambodia, exceeding even Phnom Penh International Airport. However, in 2008, Siem Reap International Airport was surpassed by Phnom Penh Airport, in term of number of passengers. The airfreight cost of a shipment from the US is 21 percent of the import value, against 15 percent in Vietnam, 12 percent in Lao PDR, and 3 percent in Thailand (World Trade Indicators, 2008) (MPTWT).

CONCLUSION

Macroeconomic stability and GDP growth in Cambodia before the impact of the global financial and economic downturn was felt have been very favorable for investors.

Cambodia is located in a dynamic region. It has a young population, with 60 percent of the total under 20 years old. It has low-cost competitive labor. Unlike other countries in the region, 100-percent foreign ownership of companies is allowed in all sectors. To promote agro-industry in Cambodia, the government allows 99-year land concessions. Foreign investors can also enjoy good incentives with no restrictions of repatriation of fund, no foreign exchange controls, and no price controls. There is a fairly simple corporate income tax rate of 20 percent and simplified customs tariffs.

In the finance sector, domestic lending is still fairly low but Cambodia has plenty of room for improvement. Good governance and improvement of the enabling environment for business, especially for small and medium enterprises, are critical for achieving economic development.

The prospects for an integrated Greater Mekong Subregional Production Network and Market, extending from Southern China through the Greater Mekong Subregion countries to the rest of Southeast Asia and beyond, provide great opportunities for Cambodia in terms of infrastructure development, private sector development, trade and investment flows, and more integrated production and marketing network. This is anticipated to bring about significant benefits for Cambodian businesses, future growth prosperity, and poverty reduction.

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