IV. TRADE POLICIES BY SECTOR

(1) INTRODUCTION

1. Cambodia is a relatively small country with a population of around 14 million people. It has emerged from three decades of turmoil, including civil war and political instability. The country has few economic resources except for its agriculture, fishery and forestry resources. It has limited mineral resources, excluding recent indications of offshore reserves of oil and gas, no major hydropower potential, and only a small industrial base. Even its agricultural resources are limited, consisting primarily of 3.7 million hectares of cultivated land, of which 75% is devoted to rice and 25% to other food and industrial crops, primarily rubber. The fisheries resources comprise the Mekong River and Tonle Sap Great Lake, which is one of the most productive freshwater fisheries in the world. The bulk of the population still consists of rice farmers who supplement their income from fishing, or fishermen who supplement their income from rice farming.

(i) Overview of the economy

2. Agriculture, including forestry and fishing, contributed an estimated 33.5% of GDP at current prices in 2010. In 2007, according to the IMF, the sector engaged an estimated 55.9% of the economically active population, but remained extremely vulnerable to adverse weather conditions. This problem is compounded by inadequate rural infrastructure and a lack of farm inputs such as fertilizers. In 2010, paddy rice production was around 8.2 million tonnes; this crop is a significant source of export revenue. Other important crops include rubber, cassava, maize, sugar cane, bananas, and mango. The fishing sector is adversely affected by land encroachment and the reduction of the flooded forest area. According to IMF data, agricultural GDP increased, in real terms, at an estimated average annual rate of 5.8% during 2004-10 (Table IV.1).

3. Industry, including mining, manufacturing, construction, and utilities contributed an estimated 21% of GDP in 2010, down from 25.6% in 2004. The manufacturing sector contributed between 14% and 19% of GDP during the period, and is dominated by the production of garments, household goods, textiles, tyres, and pharmaceutical products. The manufacture of clothing, mostly for export, grew rapidly from the mid 1990s, and by late 2008 well over 300,000 workers were engaged in garment manufacture. The garment sector accounts for 70% of manufacturing (12% of GDP) and 75% of Cambodia's export revenue. Historically, improving labour standards and working conditions have generally helped garments exporters to maintain export contracts and stave off the competitive threat from other low-cost manufacturers in the region.

4. Construction contributed over 6% of GDP during the review period and has been one of the fastest growing industries in recent years. Large-scale public-sector projects, the need to develop urban infrastructure and national highways, and the rapidly rising demand for residential housing have contributed to a boom in the sector. Cambodia is endowed with a variety of minerals, but exploitation is still on a small scale. The mining sector has contributed only 0.4% to GDP in recent years. However, a number of companies, including foreign companies, have been exploring for oil and gas offshore in the Gulf of Thailand over the past decade, and in 2005 the first significant discovery was announced.

Table IV.1
Growth and share of GDP by economic activities, 2004-10
(%)

	2004	2005	2006	2007	2008	2009	2010[a]
Growth rate at constant 2000 prices							
Agriculture, fisheries and forestry	-0.9	15.7	5.5	5.0	5.7	5.4	4.0
Crops	-2.3	27.6	5.3	8.2	6.6	5.8	4.4
Fisheries	-1.7	5.6	3.8	0.8	6.5	6.0	2.9
Mining and quarrying	24.2	26.3	15.9	7.7	15.8	20.0	5.6
Manufacturing	17.7	9.7	17.4	8.9	3.1	-5.3	1.8
Textile, clothing and footwear	24.9	9.2	20.4	10.0	2.2	-9.0	1.5
Electricity, gas and water	11.2	12.5	31.7	11.5	8.5	8.5	4.6
Construction	13.2	22.1	20.0	6.7	5.8	5.0	2.6
Services	13.2	13.1	10.1	10.1	9.0	2.3	3.3
Wholesale and retail trade	5.8	8.5	7.1	9.5	9.4	4.2	3.3
Restaurants and hotels	23.4	22.3	13.7	10.2	9.8	1.8	4.2
Transport and communication	9.6	14.5	2.1	7.2	7.1	3.9	3.4
Finance	20.5	19.6	24.0	22.2	19.2	8.0	3.3
Public administration	-6.7	5.9	-1.2	0.1	4.5	1.0	3.2
Real estate and business	20.3	7.8	10.9	10.7	5.0	-2.5	3.4
Other services	18.0	18.3	17.2	12.1	12.0	2.9	2.7
Share of GDP at current prices							
Agriculture, fisheries and forestry	29.4	30.7	30.1	29.7	32.8	33.5	33.5
Crops	13.6	15.7	15.1	15.5	17.9	18.4	18.5
Fisheries	8.2	7.3	7.2	6.9	7.4	7.7	7.6
Mining and quarrying	0.3	0.4	0.4	0.4	0.4	0.5	0.5
Manufacturing	18.8	17.8	18.6	17.3	15.3	14.4	13.9
Textile, clothing and footwear	13.3	12.3	13.0	12.1	9.1	8.7	9.0
Electricity, gas and water	0.5	0.5	0.6	0.6	0.5	0.5	0.5
Construction	6.0	6.3	6.7	6.7	6.1	6.3	6.1
Services	39.3	39.1	38.7	38.5	38.8	38.8	38.3
Wholesale and retail trade	9.4	9.2	8.9	8.9	8.9	9.0	8.8
Restaurants and hotels	4.2	4.3	4.4	4.3	4.5	4.5	4.3
Transport and communication	7.1	7.4	7.1	6.9	7.4	7.5	7.5
Finance	1.1	1.1	1.3	1.4	1.3	1.4	1.4
Public administration	2.0	1.8	1.7	1.9	1.8	1.8	1.8
Real estate and business	7.2	6.6	6.5	6.3	6.4	6.1	6.1
Other services	8.5	8.6	8.8	8.8	8.5	8.5	8.4
Other[b]	5.7	5.2	5.0	6.9	6.0	6.2	7.1

.. Not available.

a Estimates.
b Includes taxes on products less subsidies minus Finance Service Charge.

Source: Data provided by the authorities; and IMF (2009), *Country Report No. 09/48*, February.

5. The services sector accounted for an estimated 38-39% of GDP during the review period. Tourism has become increasingly significant since 2000, with receipts reaching US$1.5 billion in 2008, when tourist arrivals exceeded 2 million. The Angkor Wat temple complex in Siem Reap continues to be the main draw, and the beaches around Sihanoukville are being developed.

6. The formal sector encompasses garments, tourism, and public administration, while the vast majority of enterprises (including small and medium-sized enterprises that are household-based)

remain informal because of the burdensome requirements needed to register a business and secure the necessary licenses. Smuggling of goods provides the livelihood for many in the informal economy.

7. The garment and service sectors have attracted significant foreign direct investment in the past, but sizeable FDI has recently moved to the construction sector. This is expected as an economy grows and develops; and resources move to higher-productivity activities in industry and modern services. This process, and the associated rural-urban migration that occurs with the transformation, contributes to a reduction in poverty. Although household incomes in rural areas grew moderately between 2000 and 2007, World Bank studies showed that poverty reduction in Cambodia was slow in comparison with neighbouring countries, and inequality significantly increased.

8. It has become increasingly difficult for new entrants to be absorbed into the labour market. The number of new job-seekers exceeded 250,000 per year by 2010, and prospective new entrants to the labour market are projected to total 400,000 in the near future, as more young people reach working age. Regular data on employment trends are not available. However, according to the National Institute of Statistics 2004 Inter-Censal Population Survey, 7% of the labour force was unemployed, with a slightly higher rate in rural areas than in urban areas. Employment is predominately based on agriculture, with around 73% of workers engaged in agriculture, forestry, and fisheries. Manufacturing accounted for 5.3% of employed workers, according to the 2004 survey, while wholesale and retail trade accounted for 8.9% and public administration and defence for 2.6%. The clothing industry is now the second largest employer in this predominantly agricultural country. Over 85% of workers in the industry are women and over 90% of them come from rural areas. It is estimated that these workers remit about 50% of monthly wages to family in rural provincial areas. In this way, the rapid expansion of FDI-driven clothing exports has become a vehicle for the empowerment of women, improving livelihoods, and poverty alleviation.

(ii) Export potential by sector

9. Building on the 2002 Integrated Framework (IF), the Government completed a Diagnostic Trade Integration Study (DTIS) in 2007, which reviewed developments in key trade-related policies as well as the global environment for Cambodia and concludes that tariff advantages are unlikely to drive future export growth.[1] The DTIS derived from this the need to diversify exports and export markets and identified 19 products and services with potential for export diversification, 12 of which are in the agriculture, forestry, and fisheries sector. The most important is rice, for which the Government has prepared an ambitious plan to make Cambodia the world's third largest exporter of rice (regarded as the country's 'white gold'), behind Thailand and Viet Nam, by 2015. The other products are: rubber, cassava, fishery, fruits and vegetables, wood products, soybeans, silk, livestock, cashew nuts, corn and beer. In the industrial sector, wood products, light manufacturing assembly, footwear, and garments are listed, as well as tourism, labour, transport, business, and web-based services.

10. The report points to a number of shared challenges for Cambodian sectors with export potential. Factors that continue to constrain export diversification include: high production and infrastructure costs, low competitiveness and productivity; limited value added in many sectors, due to high import dependency for raw materials and intermediate inputs; poor quality and limited differentiation of products, limited access to technology, and small design and R&D capacity; in many sectors, enterprises have difficulties meeting exacting quality standards of various foreign markets as well as meeting time delivery requirements of foreign buyers; an underdeveloped, albeit improving, legal and institutional framework for business export development.

[1] Ministry of Planning and UNDP (2007).

(2) AGRICULTURE

(i) Sector situation

11. Agriculture remains Cambodia's most important economic sector in terms of its contributions to income and employment for most of the country's rural population, which accounts for about 85% of the total population. Agricultural GDP growth averaged 5.8% per annum in real terms during 2004-10, about twice the rate of growth of the population. Despite this relatively strong performance, agriculture's contribution to GDP has gradually declined, from 40% in the mid 1990s to around 33% in 2010, although it remains the primary source of employment for at least 70% of the population. Most Cambodian farmers are smallholders with less than two hectares per household. Key sub-sectors are crops (dominated by rice), fisheries, forestry, and livestock, which are major sources of livelihood for the poor. About 9% of the population depends on fisheries for primary employment and, besides being a primary source of protein in the domestic diet, fish is exported in significant volumes. The importance of forestry in agricultural GDP has declined in recent years, partly as a result of the Government's forestry reform policy and partly due to resource depletion (exacerbated by illegal commercial logging and poor land-use management), a ban on log exports, and revocation of concessions. Smallholders use livestock as a source of food, income, and drawght power, as well as a form of insurance in times of sickness or other catastrophes.

12. Despite the improved market access for Cambodian products and favourable weather during 2005-09, exports of agricultural products are of little significance according to official figures, accounting for only 8% of total exports, partly due to supply inconsistency, difficulties in meeting SPS requirements, and poor trade-related institutional support. Cambodia has one of the most inefficient export services in the region. However, most exports of Cambodian agricultural products are unofficial and are exported in a non-processed state to neighbouring countries, reflecting the very low value added of the sector.

(ii) Regulatory framework

13. The National Strategic Development Plan (NSDP) 2006-2010 is the Government's overarching framework for reducing poverty through economic growth. It has been extended to 2013 and is based on Cambodia's Rectangular Strategy platform[2], in which a key pillar is enhancing the agriculture sector, through improving productivity and diversification in a market environment conducive to private-sector participation. The Government has been engaged in reforming the agriculture sector since the mid 1990s and has so far achieved food self-sufficiency, price liberalization, and an improved land law. The reform is on-going with the objective of promoting sustainable growth of market-based agriculture, improving productivity, intensifying crop production to increase yields and rural incomes, diversifying crops, improving fisheries and forestry management, carrying out land reforms and divesting state-owned enterprises in the sector.

14. The Ministry of Agriculture, Fisheries and Forestry is the lead agency responsible for development of the agricultural sector. The MAFF, and its various departments, is responsible for monitoring and regulating primary agricultural production quality (crops, fisheries, livestock) and first stage processing[3], and it is the principal regulatory agency of agricultural material and chemicals. The General Directorate of Agriculture is responsible for plant production, the Department of Animal

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[2] Under the 2004 Rectangular Strategy for Growth, Employment, Equity and Efficiency, agricultural productivity, diversification, and competitiveness are the first growth priority along with the rehabilitation and construction of physical infrastructure.

[3] Includes washing, cleaning, husking, peeling, cutting and slicing, threshing and winnowing, and animal and fish slaughter.

Health and Production for animal husbandry, the Fisheries Administration for fisheries and aquaculture, and the Forestry Administration for forestry.

15. The Ministry of Commerce (Camcontrol) is responsible for market surveillance within Cambodia and for food safety, has the legal mandate to inspect food products at the border, and is responsible for export certification. For secondary stage agri-based product processing, the MIME is involved in monitoring production and regulatory oversight.

16. Other institutions that have direct or indirect roles and responsibilities for planning, implementing, and managing agricultural programmes and activities include: the Ministry of Rural Development; the Ministry of Water resources and Meteorology; the Cambodia National Mekong Committee; the Council for Agriculture and Rural Development, which is a high-level policy-making body responsible for formulating the Government's road map for agricultural and rural development; and the Tonle Sap Basin Authority, which promotes sustainable development in the lake basin.

(iii) Agricultural trade policies

17. The simple average MFN tariff on agricultural products is 14.5%, down from 20.6% in 2003. SPS certificates and permits are required for the importation of certain agricultural products. From 1 June 2005, Cambodia has gradually eliminated quantitative restrictions on the importation of fertilizers and other agricultural inputs, except pesticides. Cambodia established a WTO-consistent method of registration and review of imported agricultural chemical requirements, related to safe storage and domestic distribution, applicable to domestic distributors or to importers using bonded storage prior to domestic distribution. Since January 2007, Cambodia has relied on the provisions of TBT Agreement to regulate domestic and international trade in these items.

18. Cambodia does not impose prohibitions or restrictions on exported agricultural products, except for certain narcotic drugs. A 10% tax is levied on exports of pure-bred cattle and swine. Export restrictions on rice were lifted in July 2001, but Cambodia has reserved its right to restrict exports of rice temporarily to prevent or relieve critical shortages of foodstuffs as foreseen under Article XI:2(a) of the GATT 1994. Cambodia has not extended export credit, export credit guarantee or insurance programmes for agricultural products, other than milled rice. Upon Cambodia's accession to the WTO, agricultural export subsidies were bound at zero in its Schedule of Concessions and Commitments on Goods: Cambodia does not maintain or apply any export subsidies for agricultural products.

19. Cambodia does not use either Amber Box or Blue Box measures. Expenditures for Green Box measures for 2007 and 2008 were notified to the WTO in March 2010.[4] According to the data provided, over half of total support in 2007 and 2008 took the form of payments for relief from natural disasters (Table IV.2). For calendar years 2004, 2005, 2006, and 2009 no domestic support was granted for agricultural products.

20. The Cambodian Agricultural Research and Development Institute (CARDI) plays a significant role in agricultural research, supporting research management capacity for farmers, farmers' associations, and agri-businesses. The MAFF provides extension services to farmers and provides seed to farmers affected by natural disasters. In addition to Green Box measures, Cambodian farmers are exempt from the agricultural land tax and income taxes, classified as decoupled income support. VAT exemptions on agricultural inputs are generally available to farmers and the VAT revenue forgone in 2010 is estimated at about US$16 million.

[4] WTO document G/AG/N/KHM/2, 24 March 2010.

Table IV.2
Domestic support measure[a], 2007 and 2008

Measure	Description of measure	Monetary value of measure (million Riels) 2007	2008
Research	Research activities on agricultural productivity, land diversification, plant and animal health, in accordance with Annex 2, para. 2(a) of the Agreement on Agriculture	183	288
Pest and disease control	Expenditures on plant protection and animal quarantine, in accordance with Annex 2, para. 2(b) of the Agreement on Agriculture	1,052	1,406
Training services	Training for farmers and local communities on crop productivity, small-scale agri-processing and contract farming, in accordance with Annex 2, para. 2(c) of the Agreement on Agriculture	943	1,150
Extension and advisory services	Extension and advisory services, including transfer of information and results of research to farmer cooperatives and farmers, in accordance with Annex 2, para. 2(d) of the Agreement on Agriculture	1,370	1,342
Inspection services	Expenditures on inspection services relating to animal health, in accordance with Annex 2, para. 2(e) of the Agreement on Agriculture	157	92
Marketing and promotion services	Marketing and promotion services, including market information and market development, in accordance with Annex 2, para. 2(f) of the Agreement on Agriculture	Nil	Nil
Infrastructural services	Infrastructural services including rehabilitation and maintenance of small-scale irrigation schemes, in accordance with Annex 2, para. 2(g) of the Agreement on Agriculture	Nil	Nil
Payments for relief from natural disasters	Expenditure for relief from natural disaster on the provision of agricultural inputs, equipment and pest and disease control to agricultural production, in accordance with Annex 2, para. 8 of the Agreement on Agriculture	4,920	5,722
Total		**8,625**	**10,000**

a Measures exempt from the reduction commitment ─ Green Box.

Note: Exchange rate: 2007, US$1 = 4,058 Riels; 2008, US$1 = 4,003 Riels.

Source: National Bank of Cambodia; and WTO document G/AG/N/KHM/2.

(iv) Policy developments in selected sub-sectors

21. In 2010, rice and other crops took the largest share in agricultural output (54%), followed by fishing (27%), livestock and poultry (13%), and forestry and logging (6%). The main agricultural products are paddy (rice in the husk), maize, cassava, soybeans, tobacco, and rubber.

(a) Rice

22. Cambodia has resumed exporting rice following a 25-year hiatus caused by war, political isolation, and a decimated agriculture sector. Only as recently as 2004 has the cultivated national rice area returned to the levels common in the 1960s. Over the past decade, paddy rice production has increased steadily, at a 9% annual growth rate and rice has been in surplus and mainly unofficially exported. Much of this is border trade and is not recorded.

23. As a result of the 'Everything-but-Arms' initiative, exports of milled rice to the EU became exempt from import duties and quotas from 2009. This preferential measure, together with the removal of licence requirements for milled rice exporters and a doubling of the Rural Development Bank capital to US$36 million, has helped increase the level of exports.

24. Given Cambodia's recent success in achieving surplus rice production, including for export, the Government is intent on expanding its production and export capacity and becoming a major export nation. Under the motto "Rice – White Gold", the Government adopted a new rice policy in

2010 based on an ambitious five-year plan aimed at expanding the production and export of rice.[5] Rice accounts for about half of Cambodia's total crop production and around 7-8% of GDP. According to the Government, production could reach 8.7 million tonnes of paddy rice in 2010-11, of which an estimated 3.1 million tonnes is required for local consumption. Factoring in seed and post-harvest losses of around 13%, more than 3.9 million tonnes of paddy would be available for export. However, according to official statistics, only about 30,000 tonnes (less than 1%) are exported, implying that Cambodia's potential to enter world markets remains largely unrealized, because of a lack of processing and warehousing capacity, as well as formal export arrangements.

25. The rice export policy is wide-ranging and aims to: (i) facilitate trade, by reducing informal fees, eliminating illegal checkpoints, quicker customs clearance for imports of inputs, increasing rice milling capacity, and improving export processing, including the certification and grading of products to meet the standards of importing countries; (ii) raise productivity, by increasing paddy rice yields, using higher yield seeds, expanding irrigation systems, and modernizing farming techniques; (iii) deal with land issues (only 10% of farmers have land titles), by improving land titling to enable farmers to use land as collateral for loans to finance necessary investments and working capital; and (iv) improve infrastructure and reduce energy costs, which account for around 25% of total production due to heavy reliance on imported petroleum for electricity generation.

26. Cambodia no longer implements any quantitative restrictions on rice imports and exports. Current import duties on milled rice are 7% plus a 10% VAT. VAT exemptions on agricultural inputs are generally available to farmers, although estimates of revenue forgone by the Government are not available due to lack of statistical data. On the marketing side, Cambodia does not offer any price support or intervention programmes for paddy or milled rice. According to the authorities, the Green Trade Company has responsibility for purchasing rice on behalf of the State, including the purchase and storage of rice reserves required under the ASEAN Food Security Reserve Agreement.

(b) Rubber

27. The rubber sector in Cambodia is strongly export-oriented: almost all rubber is exported due to a lack of manufacturing facilities to produce rubber products, such as tyres and tubes. Until recently, the sector was dominated by state-owned enterprises, which accounted for 48% of total plantation area in 2007, followed by smallholders (44%) and private companies. By late 2008, six of the seven state-run plantations had been privatized and the last state-run rubber estate was divested in early 2009. According to the MAFF, total production of dry rubber was 19,715 tonnes in 2008, 37,380 tonnes in 2009 and 42,250 tonnes in 2010. In 2010, 29,000 tonnes of rubber were exported with an estimated value of US$89.1 million. After the seven state-owned enterprises were divested, the General Directorate of Rubber (GDR) was established under Sub-Decree No. 188. Among its functions, the GDR implements the Government's policies and development programme to ensure rubber development in Cambodia, and prepares the industry's policy goals and strategies.

28. The rubber industry has traditionally been one of the Cambodia's key strategic crops, contributing significantly to employment and national export earnings. In recent years, the share of natural rubber export value in total export earnings is estimated to be of the order of 1%. Cambodia's natural rubber is exported to only a few market destinations, mainly Viet Nam, Malaysia, China, Singapore, and Korea. The Vietnamese market is the leading destination as most Cambodian rubber estates are located close to the border with Viet Nam. Natural rubber is exported through the Sihanoukville seaport or the Vietnamese border.

[5] The plan is contained in the June 2010 Cabinet-approved Policy Document on Promotion of Paddy Rice Production and Export of Milled Rice. Viewed at: http://www.foodsecurity.gov.kh/docs/ENG/Rice-policy-Eng.pdf.

29. The rubber industry was identified by the DTIS 2007 as one of the top five sectors with high export potential and medium-high contribution to human development. A number of factors encouraged the Government to place the rubber sector among its top development priorities, including strong prospects for long-term growth in world demand for natural rubber; an anticipated increase in Cambodian production; improvement in productivity through privatization and the emergence of smallholders; and promising prospects for downstream activities. However, challenges and constraints continue to hinder the sector's development, and could weaken the competitiveness of the Cambodian rubber industry. Problem areas appear to include relatively low rubber yield per hectare, high input and utilities costs, a lack of standard certification for exports to regional and international markets, cash flow constraints among processors and producers, excessive paperwork required for exports, unofficial trading fees, low customs clearance efficiency and high transportation costs and an onerous export tax. The authorities contend, however, that these challenges and constraints have been reduced with the implementation of the Government's trade facilitation policy.

30. One key component that has long exacerbated Cambodia's rubber export prices is the export tax. Every licensed rubber exporter must pay VAT (10%) on domestic sales of natural rubber and an additional export tax ranging from 2% to 10% when natural rubber is exported. When an export transaction is completed, exporters may apply for a VAT refund. As stipulated in Sub-Decree No. 172 (2010), since the beginning of 2011, the Government has imposed a specific export tax of US$300 per tonne if the f.o.b. price exceeds US$4,000 per tonne, US$200 per tonne of the price is between US$3,000 and US$4,000, and US$100 per tonne if the f.o.b. price is under US$3,000 per tonne.

(c) Forestry

31. The Forest Administration is the main government agency in the forestry sector; other actors including forest-dependent rural communities, development partners, investors, and national and international NGOs. The Government initiated the forestry reform process in 1998 and a new Forest Law was promulgated in 2002. The law provides the legal framework for forest-sector policy and applies to all forests, whether natural or planted. The current National Forest Programme, aims to promote the conservation and sustainable management and use of forest resources, and provide strategic orientation for the sector in harmony with other sectors of the economy during 2010-29, aligned with the Government's national strategic development plans.

32. In 1965, 13.2 million ha was under forest cover, accounting for 73% of the national land area. By 2006, however, forest cover had been reduced to about 10.7 million ha, or 59% of total land area. According to the Forestry Administration, the loss of forest cover is consistent with land use and forest definition patterns associated with demographic growth and economic development in most countries.[6] The Government has set the goal of 60% forest cover by 2015. Forests form a crucial part of the survival strategy of the rural poor who depend on forests for food from fruits, nuts and mushrooms; fuel wood; resins and gums; medicines from wild plants; wildlife hunting for food; and artisan use of wood for construction.

33. Illegal logging activities have occurred in some areas despite bans on felling and efforts to centralize revenue collection. During the 1990s, as environmental concerns increased about hardwoods being irreplaceable, and with no reforestation programme in place, various attempts were made to enforce restrictions on logging activities, and a ban on logging took effect in early 2002.

34. The wood products industry has contributed only minimally to GDP and national revenue. One reason is that Cambodian policy has focused on extracting raw wood for foreign exchange earnings, encouraging the export of wood through its system of forest concessions. The forest

[6] Food and Agriculture Organization (2010b), p. 8.

concessionary system emphasized the exploitation of natural resources through large-scale logging, which depleted the natural forest and brought about widespread deforestation. In an effort to stop deforestation and encourage the processing of wood, the Government banned the export of unprocessed logs in 1996. In order to enforce the ban, it established the Forestry Crime Monitoring Unit within the Forestry Administration (the former Department of Forestry and Wildlife). Also, in order to encourage timber processing, all processed wood products were exempted from taxes. The ban on the export of unprocessed logs is generally considered to have been unsuccessful, and deforestation remains a major concern in Cambodia.

35. The decline in forestry stocks has posed serious concerns. Government efforts to halt illegal logging and strengthen forest concession practices have been insufficient. Small-scale, community-based forests with strict adherence to technical standards might be enough to cover demand for domestic wood consumption, but any continuance of large-scale commercial logging would require transparent and credible management, and would need to show compliance with environmental standards, and regard for social impact assessments. As of 2010, there are 16 concessions covering 3.4 million hectares but, according to the authorities, none of them is operational as they do not comply with the required strategic management and logging plan.

36. According to the forestry authorities, exports of round logs have been officially banned since 1997. Besides timber exports, non-timber forest products (notably rattan and bamboo) as well as wildlife are harvested for domestic use and export. The 2006 Sub-Decree (No. 131) on Timber and Non-Timber Forest Products allowed for Export and Import, which superseded the 1997 ban, stipulates that logs or rough sawn timber are prohibited from export in order to enhance incentives for the local timber industry to produce high-quality, value-added products of a competitive standard. Most forestry products, however, appear to have been exported without significant value-added.

(d) Fisheries

37. Together with forestry and livestock, fisheries are major sources of livelihood for the poor, with around 9% of the population depending on fisheries for primary employment. Besides being the primary source of protein in the national diet, fish is also exported in significant volumes. The fisheries sub-sector has been undergoing important reforms towards a more poverty-focused approach whereby local fishery communities play a bigger role in managing local fishing grounds. The subsector is governed by the Law on Fisheries (promulgated by royal decree in 2006), which aims, *inter alia*, to ensure fisheries and fishery resource management, and enhance aquaculture development and the management of production and processing.

38. The fishery sector contributed about 7.6% of total GDP in 2010, down from 16.7% in 1993. The sector's sustainability has become a matter of debate due to ecological changes, such as falling water levels, heavy and rapid flooding, and loss of the forested regions once completely inundated by seasonal flooding in the Tonlé Sap, which have disrupted fish migration, breeding, and feeding patterns. The inundated forest area around the Tonlé Sap was the main breeding ground for the lake's fish but the repercussions of inundated forest land encroachment present a serious challenge to inland fishing, with the Tonlé Sap at risk of ultimately being silted over, as the mean depth of the lake continues to decline. As the available fish supply has become scarcer, prices have risen sharply. Fisheries management practices are challenged by limited inputs for law enforcement and for implementation of the fisheries development plan at the central and community government levels. Insufficient regulations and enforcement of those in place, have led to high levels of inefficiency. Although, ideally, individual fishermen and farmers could be educated on resource management, on a practical level they would likely find that their own poverty leaves them no alternative but to fish illegally during the banned season or to clear inundated forests for cultivation in order to survive.

39. Cambodia is one of the world's largest producers of freshwater fish, which is harvested on a much larger scale than marine fishery and aquaculture (Table IV.3). Fishing was transferred to the private sector in late 1993. Leases (or 'concessions') for lots on the Tonlé Sap and inland rivers are granted, following a public bidding process, to the highest bidder (Sub-Decree No. 18). Inland fishing is both small and large-scale. Under a licensing scheme for fishing lot holders, the Government regulates large-scale fishing; small-scale fishing is widespread and accounts for about a third of the total catch.

Table IV.3
Fisheries production, 2005-09
('000 tonnes)

	2005	2006	2007	2008	2009
Production					
Inland	324	422	395	365	390
Marine	60	60	63	66	75
Aquaculture	26	34	35	40	50

Source: Cambodian authorities.

40. Annual exports were around 35,000 tonnes in 2010. The major export markets for freshwater fish are Thailand and Viet Nam, meaning that Cambodia relies on demand from only two countries. Diversification of the export destinations for freshwater fish would provide a significant opportunity to increase exports. According to the DTIS 2007, exports to Thailand and Viet Nam are generally informal but still subject to several formal and informal fees. Furthermore, Cambodia's ability to meet relatively high SPS standards almost everywhere is limited.

(3) MINING AND ENERGY

41. Mining and quarrying contributed an estimated 0.5% of GDP in 2010; mining sector GDP increased, in real terms, at an annual average of 18.0% during 2000-08. Cambodia's mineral resources include phosphates, gemstones, iron ore, bauxite, silica sand, manganese ore, and gold.

(i) Mining

42. In 2008, Cambodia produced mainly industrial minerals, including limestone for cement, construction sand and gravel, and crushed stone for domestic consumption by the construction industry. Production of construction sand increased to 6.5 million tonnes in 2008 from about 809,000 tonnes in 2007. The sand is exported to Singapore for land reclamation and construction projects. Singapore has sought new supply sources following a ban on sand exports by the Indonesian Government in 2007, as a result of serious environmental degradation. Other important minerals that have been discovered include bauxite, copper, zinc, gold, iron ore, gemstones coal, lignite, and silica sand. Phosphate deposits are processed for use as fertilizer. Industrial production has increased over recent years as have the number of exploration licences granted to both foreign and local companies. The mining sector in Cambodia is generally considered to be at an early stage of development.

43. The Ministry of Industry, Mines and Energy, which implements Cambodia's policy and the Law on the Management and Exploitation of Mineral Resources, leads the effort in promoting and developing the mining sector. The General Department of Mineral Resources in MIME is responsible for the management of the mining sector. The MIME grants exploration and mining licences to investors. The mining licences are granted upon approval of a final feasibility study by the Council for the Development of Cambodia.

(ii) Oil and gas

44. For a number of years, the Government has been seeking to promote the development of the country's petroleum resources, with the objective of enhancing economic growth and providing opportunities for employment and participation in petroleum operations for Cambodian nationals and companies. The development and production of petroleum resources could be expected to generate significant revenue for Cambodia and allow the country to continue to develop its infrastructure. In recent years, significant exploration activity has been undertaken in Cambodia's petroleum sector, although oil and gas production has not yet stated.

45. The Cambodian National Petroleum Authority (CNPA), which is under the authority of the Prime Minister's office, was set up in 1998 as the key governmental agency to oversee upstream and downstream petroleum activities in Cambodia. The Petroleum Regulations of 1991 (as amended in 1998 and 1999) is the principal law for the upstream oil and gas industry.

46. The Petroleum Regulations prescribe the process for awarding contract areas in the form of petroleum agreements, entered into by the CNPA and a petroleum company and its partners. Under the Petroleum Regulations, exploration periods are granted for four years, and may be extended twice for two years each time. Royalties payable to the Government are at least 12.5% of the value of petroleum sold or disposed of.

47. The Government and the CNPA are working to develop and enhance the regulatory framework for petroleum exploration and exploitation, having regard to the current stage of development of Cambodia's petroleum industry and other regulatory developments that have occurred since the initial introduction of the Petroleum Regulations in 1991. The centrepiece of the new regulatory framework is expected to be a Petroleum Law, supported by appropriate implementing regulations. All existing petroleum agreements will be protected for economic stability of the Petroleum Regulations of 1991 (as amended in 1998 and 1999) investment. The Government is keen to promote domestic refining of any commercial quantities of oil that may be discovered in Cambodia, and of imported crude oil, and has stated its desire for the development of an oil refinery. The authorities consider it premature to address the question of Cambodia joining the Extractive Industries Transparency Initiative (EITI).

(4) UTILITIES

48. Commercial fuels used in Cambodia are imported, and domestic energy is principally derived from wood for household cooking. In 2003, electrification rates in Cambodia were among the lowest in the region: only 17% of Cambodian households had access to electricity, compared with 84% in Thailand, 81% in Viet Nam, and 41% in Laos. By 2009, Cambodia's electrification rate had increased to 26%, with about 75% of the urban population in Cambodia having access to electricity but only 13% of the rural population. To address this imbalance, the RGC has set the goal that all villages should have electricity by the year 2020. Since about 80% of Cambodians live in rural areas, providing access to electricity to rural households remains a major development challenge.

49. The Ministry of Industry, Mines and Energy (MIME) is responsible for energy policy and planning, including overall guidelines and policies, relating to investment, restructuring, private sector participation, and privatization, agreements on electricity import and export, and subsidies. The Electricity Authority of Cambodia (EAC), established in 2001 by the Electricity Law, as an independent entity, is responsible for the sector's regulation, tariff setting, licensing, and standards supervision.

50. Electricity generation and distribution is mainly undertaken by Electricité du Cambodge (EDC), a Government utility. Most generation is supplied by independent power producers (IPPs) licensed by EAC, through power purchase agreements. They mainly use fuel oil, which results in high electricity generation costs. This should change with hydro-electricity generation scheduled to come online progressively from 2011, and should reduce electricity prices particularly for rural consumers in the future. Some rural customers in remote regions of Cambodia are supplied by private sector rural electricity enterprises (REEs), a few of which receive supplies from connection to the EDC grid, but most use diesel, which result in high tariffs.

51. EDC is implementing a major rural electrification programme, with donor support, to accelerate the rate of rural electrification. This will also result in reduction in rural tariffs and make them more affordable to rural households and businesses. This plan includes the extending EDC's grid to connect the rural electricity enterprises so that their customers can benefit from more affordable and reliable electricity supplies. EDC's imports some of its electricity supply from Thailand and Viet Nam and a supply line is been built from Laos. Increased imported supplies are planned, through high voltage connections, which will progressively reduce electricity prices.

52. The Ministry of Water Resources and Meteorology is responsible for developing and managing water resources, and the Ministry of Rural Development is responsible specifically for rural water supply and sanitation. The MIME is also involved in supplying water for provincial capitals and small and medium-size towns, and of regulating the private sector involved in piped water systems. Phnom Penh is the only place that can supply water to the majority of its residents, reaching about 90% of the inhabitants of the city. The Phnom Penh Water Supply Authority provides clean water within the municipality. Solid waste management systems exist only in certain urban areas in Cambodia.

(5) MANUFACTURING SECTOR

(i) Overview

53. The manufacturing sector in Cambodia consists mostly of small and medium-size businesses. There were approximately 37,000 registered and unregistered enterprises in 2010. According to the authorities, about 18,000 are licensed establishments (mainly engaged in food processing) and 19,000 do not require a licence as they are small with capital investment of less than US$3,000. There are around 600 large enterprises (with capital investment of more than US$500,000); the garment sector accounts for 75% registered industrial establishments.

54. Cambodia's industrial policy has aimed to focus resources and provide incentives to attract investment in sectors where Cambodia has comparative advantage and export potential. Industrial policy consists of several elements: developing labour-intensive industries, such as garments and footwear; developing the agri-processing sector and industries involved in processing other natural resources such as fish, paper, cement and fertilizer production; promoting SMEs, micro-enterprises and handicrafts by providing micro-finance, streamlining procedures, and providing marketing services; promoting and facilitating exports in particular through the establishment of export processing zones by developing infrastructure, improving service quality, streamlining trade procedures and encouraging investments. These policies, coupled with an escalating tariff structure, have sought to protect domestic industries from import competition and to intensify export promotion efforts.

(ii) Garment industry

(a) Main features

55. The garment industry is by far the most important exporting industry in Cambodia, generating over 69% of export earnings in 2008 (around 70% destined for the U.S. market), accounting for about 15% of GDP, with total employment in the formal sector of about 320,000, the bulk of the manufacturing workforce (Table IV.4). Volume growth averaged 11% per year over 2005-08. Subsequently, the severe impact of the global slowdown on Cambodia's garment industry was a major cause of the contraction in economic activity. Over the first nine months of 2009, export volumes were down about 16% compared with the same period in 2008. Around 40 factories (net) closed and as of June 2009, some 40,000 jobs had been lost, and retained workers earned about 20% less than in 2008 as a result of reduced overtime. To help keep jobs and exports steady, the Government suspended a 1% Advance Profit Tax and announced temporary assistance of 0.3% of net wages for factories' payments to the National Social Security Fund. Both measures are in force until the end of 2012.

Table IV.4
The garment sector, 2004-10

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Exports (US$ million)	1,958	2,167	2,626	2,840	2,942	**2,388**	**2,994**
U.S. share of exports (%)	64	71	72	70	67	62	60
EU share of exports (%)	29	22	22	22	22	24	23
Factories in operation	219	247	290	292	284	243	262
Employees ('000)	270	284	334	353	325	282	319

Source: MOC/TPD.

56. The outlook for Cambodian garment exports is clouded by structural changes in the market as well as lagging competitiveness. The long anticipated consolidation of the garment industry as a result of the expiry of quotas and safeguards under China's WTO accession agreement appears to be in progress, while FTAs between other low-income country (LIC) producers and the United States are increasingly putting Cambodia at a disadvantage. Unit prices for Cambodian garments continue to decrease (by more than 7.0% in 2008 and 2009), as a result of aggressive competition, particularly from China, Viet Nam, and Bangladesh. Furthermore, growth margins in the garment industry were expected to become even narrower as a result of the expiry, at the end of 2008, of safeguard measures imposed on China by the United States and the EU, as Cambodia was not regarded as internationally competitive. The United States has granted quota-free, duty-free access through various trade agreements to 30 (of 49) non-Asian LICs, whereas Cambodia is subject to an average 16% tariff on garment imports. Cambodia is urging the United States to grant it preferential access.

57. The ability of the Cambodian garment sector to respond to changes in the trade environment and policy initiatives will be influenced by a number of key features, including: manufacturing being limited primarily to cut-and-assemble; lack of domestically produced textiles for use in garment factories; low productivity compared with competitors; importance of the United States as a final destination and concentration on a few buyers; garment export firms almost exclusively foreign-owned; and the ILO Better Factories Cambodia branding. Partially due to stagnant wages, frequent strikes and low worker productivity constrain the industry.

58. Competitiveness in Cambodia is hampered by lower productivity, the unreliable supply and high cost of electricity (about 15% of total cost), high transport costs, and protracted transport time to market. According to the Garment Manufacturers Association of Cambodia (GMAC), total

manufacturing cost is about 20% higher than in neighbouring Viet Nam, despite lower hourly wages, with key factors being lower productivity, higher electricity costs (22 cents per KWh versus 7 cents in Viet Nam), and less developed infrastructure such as ports and roads (getting a container to port reportedly costs about five times that of Viet Nam). Added to this is the high cost of export due to charges related to trucking goods to port and formal and informal charges demanded by customs.

59. More than 90% of garment factories are foreign-owned; Chinese Taipei owns around 35% of the capital of the garment industry, China and Hong Kong, China each own about 20%, and the Republic of Korea owns 12%. A significant share of the profits are repatriated. Direct contributions to the Budget have been limited as the sector enjoys import tax exemptions as well as tax holidays.

(b) Cambodia's trade in garments

60. The garment industry developed rapidly after Cambodia was granted MFN status by the United States in 1996. At the same time, Cambodia benefited from the development of the Multi-Fibre Arrangement (MFA), which imposed a quota system on most large garment-exporting countries, and attracted foreign investors from Hong Kong, China, Chinese Taipei, Malaysia, and Korea, taking advantage of Cambodia's original quota-free status. Exports grew rapidly, and by 1998 the United States started negotiations to bring Cambodia into the quota system. In 1999, Cambodia and the United States concluded a bilateral trade agreement on textiles and apparel, which linked market access (export quotas) to labour standards in Cambodia.

61. Cambodia is the only country with such a trade-labour arrangement, securing it a quota for exports to the United States. Monitored by the International Labour Organization, the programme was regarded as a major advantage in the sourcing strategies of foreign buyers and assisted Cambodia in creating a niche market for its garments. According to Better Factories, around three quarters of the garment workforce are employed in large factories of 1,000 workers or more, and over 90% of workers in these factories are women. Apart from benefiting workers, the Cambodian system appealed to brands embracing ethical approaches to manufacturing and corporate social responsibility. Parallel to this has been the growth in the EU market, which accounts for around 22% of Cambodian exports with the remainder going to Canada, South Korea and Japan.

62. The expiry of global quotas under the ATC on 1 January 2005 resulted in significantly increased competition among individual ASEAN countries as well as among global competitors who supply the U.S. and EU markets. Large U.S. and EU retailers consolidated their supply bases because the availability of quotas was no longer a significant factor in deciding where to have their goods produced. Due to the intense retail competition, it appears that quick turnaround and delivery times have become an important factor in choosing suppliers. For Cambodia, competition among the ASEAN countries increased as Viet Nam, an efficient and low-cost apparel producer gained full access to the U.S. market in 2006 and became a member of the WTO in 2007.

63. During the quota era, exporting firms were effectively taxed through the prices they had to pay for licences to export to the United States; the Export Tax Equivalent has been estimated at 8% on average and up to 29% of f.o.b. values on some successful items. Cambodia's quota amount was allocated among producers by auction. Currently, there are no export licences or export taxes on garments.

(c) Value chain

64. Cambodia captures only a relatively limited share of the value chain and the value added, as it is only involved in the "cut, make and trim" (CMT) phase, meaning that the supplier controls the designs and fabrics used but outsources the labour-intensive jobs. Almost all inputs for the sector are

imported (around two thirds of garment raw materials imported in 2008 came from China) and Cambodia does not have a textiles industry. In order to provide the necessary support to attract domestic fabric production, Cambodia provides attractive investment incentives.

(6) POLICIES AFFECTING TRADE IN SERVICES

(i) Introduction

65. Services comprise nearly 40% of the Cambodian economy; their importance should increase as Cambodia develops, although the share of services in total output has remained stagnant in recent years. Because of the importance of tourism, one of the four principal drivers of Cambodian growth in the past decade, Cambodia is a net exporter of services. Tourism's revenue contributes around 10% of GDP. Cambodia is also keen to develop crucial infrastructure services, including financial services, telecommunications, and transport, although many challenges constrain the availability of high quality services at reasonable cost. In this respect, Cambodia adopted a relatively liberal regime for trade in services as part of its accession to the WTO.

66. Cambodia undertook market access commitments across the full range of services sectors. Cambodia included 74 subsectors in its GATS Schedule, some with full subsector commitments, and others with partial commitments and transition periods (for example, up to 1 January 2009 for the telecommunications sector). In its horizontal commitments, foreigners may lease but not own land in Cambodia, and foreign investors must take on the obligation of training Cambodian staff. Mode 4 is restricted to business-related visitors, persons responsible for setting up a commercial presence, and for intra-corporate transferees.[7]

67. Cambodia's commitments reflect its development policies, aimed in particular at attracting foreign investment. In line with its strategy for services, Cambodia focused on areas that would contribute to improving services required by businesses to enhance the environment for investment. For example, Cambodia committed itself to allowing foreign firms to operate legal services (with some exceptions), accounting, auditing, bookkeeping, banking, management consulting, telecommunications, and transport. In these areas, Cambodia took on commitments in sectors where it had long had an open policy regarding foreign participation and where that policy has served the country well. However, where Cambodia saw an advantage in reserving part of a market for domestic small and medium enterprises, it did so. For example, it committed to opening its hotel market only for hotels of three stars or higher, and allowing foreign supply of retailing services only for a small number of specific items or for very large supermarkets or department stores.

68. At the regional level, ASEAN leaders have committed to achieving free and open trade, including trade in services, by 2015. The ASEAN Framework Agreement in Trade in Services (AFAS) was initiated in 1995. So far, seven packages of regional services trade liberalization have been endorsed.

69. Generally, services markets are quite open.

Accounting, consulting and tax services

70. Cambodia provides market access and national treatment to foreign firms providing accounting, auditing, and taxation services. Major international accounting and consulting firms operate in Cambodia.

[7] WTO document GATS/SC/140, 25 October 2005.

Legal services

71. Cambodia agreed to allow foreign lawyers to supply legal services with regard to foreign law and international law. It also agreed to allow them to supply certain legal services with regard to Cambodian law in "commercial association" with Cambodian law firms. The commitment defines "commercial association" as any type of commercial arrangement, without any requirement as to corporate form. Efforts by Cambodian law firms to propose a 49% equity limitation on foreign firms and restrictions on their forms of commercial arrangement, although unsuccessful, have exposed ambiguity in Cambodia's regulatory regime and introduced a measure of legal uncertainty for firms in this sector.

Architectural and engineering services

72. Cross-border supply for architectural services is not restricted, and national treatment is granted. Foreign citizens may provide engineering and integrated engineering services.

Audiovisual services

73. Cambodia does not prohibit foreign firms from distributing foreign films and videotapes. However, despite recent improvements, difficulties in the enforcement of the IPR regime persist, and legitimate foreign and domestic products are scarce and expensive whereas pirated products are abundant and cheap.

Distribution services

74. No limitation on market access or national treatment is imposed on foreign firms wishing to engage in distribution services, i.e., wholesale trade and retailing services. Like other business activity, foreign firms are required to register with the Ministry of Commerce to obtain a business license.

Educational services

75. Cambodia faces a shortage of qualified teachers and is in need of international-quality educators and education. Foreign participation in higher and adult educational services is not restricted. There are several foreign-owned schools in Phnom Penh.

Health-related services

76. Cambodia permits cross-border supply of hospital services. For commercial presence, foreign ownership and management of private hospitals and clinics is permitted as long as at least one director for technical matters is Cambodian. Firms from ASEAN countries are allowed to provide dental services through joint ventures with Cambodian legal entities.

E-commerce

77. Electronic commerce is a new concept in Cambodia. Online commercial transactions are extremely limited, and Internet access is still in its infancy, in particular outside the major cities. The Government has not imposed any specific restrictions on products or services traded via electronic commerce and no existing legislation governs this sector. The Government is drafting electronic commerce legislation.

(ii) Tourism

(a) Main features

78. Tourism has emerged as a major source of foreign exchange earnings since stability returned to Cambodia. The main attraction is the Khmer archeological treasures in the Siem Reap region, beginning at Angkor Wat. Foreign visitors now number over 2.5 million per year, more than ten-fold the number of international arrivals reported in 1995 (Table IV.5). Tourism is regarded as one of the most important immediate and long-term sources of foreign exchange, bringing in over US$1.7 billion per year and generating direct and indirect employment opportunities for an estimated 300,000 people.

Table IV.5
Tourism sector, selected years

	1995	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010
Visitor arrivals ('000)	220	466	787	701	1,055	1,422	1,700	2,015	2,125	2,162	2,508
Annual % change	24.3	26.8	30.0	-10.9	50.5	34.7	19.6	18.5	5.5	1.7	16
Tourism receipts (million US$)	100	228	379	347	578	832	1,049	1,400	1,595	1,561	1,786
Average length of stay (days)	8.0	5.5	5.8	5.5	6.3	6.3	6.5	6.5	6.6	6.5	6.45
Number of rooms	..	9,673	11,426	13,201	14,271	15,465	17,914	20,470	20,678	23,010	24,393
Hotel occupancy (%)	37	45	50	50	52	52	55	55	63	63	65.7

.. Not available.

Source: Ministry of Tourism

79. The outbreak of Severe Acute Respiratory Syndrome (SARS) in the region in 2003 contributed to a decline in foreign tourist arrivals in that year. The number of tourist arrivals increased sharply in 2004, reached 2 million in 2007, and exceeded 2.1 million in 2008, when receipts increased to more than US$1.5 billion. While the tourism sector had become one of the main sources of economic growth and had attracted a high proportion of foreign capital investment, the global financial crisis of 2008/09 resulted in a decrease in tourism income in 2009. Since 2007, tourism in Cambodia has decelerated, suspending its double-digit average growth of the previous decade, but a significant recovery was recorded during the first half of 2010. The number of hotel rooms of sufficiently high international class in Seam Reap trebled from 3,000 in 2002 to over 9,400 in 2010.

80. During the review period, around two thirds of visitors, mainly from the Asia-Pacific region, arrived by air, most at Siem Reap airport (Table IV.6). The decline in the number of visitors to Cambodia in 1997 prompted the Government to initiate what the authorities call an 'open skies' policy, in accordance with which direct flights from overseas would be permitted to land in Siem Reap. The authorities note that this has contributed to the rapid growth of tourist arrivals over the past decade. They also recognize that the value added in tourism is low and are seeking to ensure that most of the benefits of tourism remain in the country.

81. The Government expects tourist numbers to continue increasing as it opens up new attractions throughout Cambodia. The airport in the southern beach town of Sihanoukville was recently expanded and upgraded to accommodate large aircraft and the Government has approved many resort development projects by international and local developers for local islands, the southern coastline, and mountain properties. Cambodia is also looking to open up the country's ample forested areas to ecotourism. Tourism development, based on sustainability and the natural environment, is focused mainly in Siem Reap and its surroundings; Phnom Penh; the coastal zones; and the ecotourism area in the northeast.

Table IV.6
International visitor arrivals by mode of transport and country of residence, 2003, 2007, and 2010
(% of total)

	2003	2007	2010
Total visitor arrivals	701,014	2,015,128	2,508,289
Arrivals by airplane	65.0	64.3	52
Phnom Penh airport	38.5	26.6	23.6
Siem Reap airport	26.6	37.8	28.4
Other types of arrivals[a]	35.0	35.7	48.06
Arrivals to Phnom Penh airport by country of residence[b]			
Asia and Pacific	62.2	64.3	67.7
Europe	22.6	20.6	19.5
North, South, and Central America	14.7	14.7	7.9
Africa and Middle East	0.5	0.4	0.49

a Arrivals by land and boat.
b Arrivals at Pochentong (Phnom Penh) airport only.

Source: Ministry of Tourism.

82. Large-scale international tourism in Cambodia is a relatively recent development, dating from the country's return to stability. Although Cambodia has important attractions its own right – primarily because of Angkor's status as a world heritage site, the in-bound tourism business is closely linked to the Southeast Asian region. While many travel directly to Siem Reap, notably Koreans and Japanese, many other visitors travel as part of a larger tour of Southeast Asia, and while Cambodia's air transport infrastructure is developing (with several daily flights from Viet Nam and Bangkok), the major regional air hubs lie elsewhere, notably in Thailand. The growth of tourism has also attracted increasing foreign investment in hotels and ancillary services like travel agencies and tour operators, many of which have foreign ownership.

(b) GATS commitments

83. The sector is fully liberalized except for a restriction for mode 3. Cambodia intends to provide the opportunity for any Cambodian who has a small amount of capital to find their own partners to build 1- or 2-star accommodation or guest houses. The limitation in the Schedule is to preserve business opportunities for Cambodians, but it appears that current practice is more liberal than the scheduled commitment. Foreign companies may establish a commercial presence to operate hotels, restaurants, and tour operator services, provided that they register with the MoC.

84. Cambodia has no restriction on travel agencies, but tour guides must be Cambodian. At present, 100% ownership of travel agencies and tour operator services is allowed. Tourist guide services are sensitive as they provide employment for lesser-skilled individuals, including women and young people. This limitation is in line with the development goals and objectives of Cambodia and with provisions of GATS Article XIX.2 and the Decision on Accession of LDCs.

85. Cambodia made a commitment in restaurant services where permits are granted taking into account the characteristics of the area, such as the number of and impact on existing restaurants, historical and artistic characteristics of the location, geographical spread, impact on traffic conditions, and creation of new employment.

(c) Regulatory framework

86. While tourism has been one of the four pillars of Cambodia's strong economic growth in recent year, regulatory uncertainty appears to have been a key constraint to even stronger growth.

Unclear delineation of responsibilities among government agencies led to the tourism sector being governed by multiple, and sometimes conflicting, prakas and sub-decrees of different ministries and agencies.[8] The 2009 Tourism Law addresses these issues and has the dual objective of promoting growth in the sector and meeting the private sector's demands for a simpler and more predictable legal framework to reduce business risk and encourage greater investment. Significantly, the law recognizes the importance of private-sector consultation in developing the regulatory environment, relating, *inter alia*, to the prakas and sub-decrees governing the sector, the establishment of the Cambodia Tourism Marketing Promotion Board, and the determination of criteria for tourism licences and of standards and requirements for quality assurance.

87. The law also better defines the role of the Tourism Ministry in facilitating the development of the sector and in dispute resolution. It defines areas in which the Ministry has primary responsibility (including ensuring the quality of the tourism sector, standards, licensing, management and monitoring of tourism information), and where the Ministry has shared responsibilities with other relevant agencies (environmental protection, tourism investment and incentives, privatization of SOEs, eco-tourism, food hygiene and sanitation, tourist safety and security, and prevention of sexual exploitation). The tourism development plan is contained in the Tourism Development Strategy 2011-2020 and the National Ecotourism Policy and Strategy.

(iii) Transport services

88. An evaluation of trade-related policies and developments in the transport sector must consider the state of the transport infrastructure around the time of the Paris Peace Accords, which reflected the damage inflicted by two decades of hostilities, wanton destruction and subsequent neglect. Over half the road network was in disrepair, many of the country's bridges destroyed, the railway network could not maintain regular services and the two ports lacked essential equipment. Following the difficult and lengthy recovery process, the Government initiated a large reform agenda. It has enacted a Road Traffic Law and seeks to rehabilitate and reconstruct as many roads as possible, involve the private sector in road construction and maintenance; and in the civil aviation sector, improve Cambodia's international airports and raise the standards of selected airports with high tourism potential. However, market failure is still common in the domestic transport system and, as a result, the international competitiveness of Cambodia's main export industries (garments and tourism) is undermined by high transaction costs; the potential for diversifying the economy into other sectors such as agri-industry and assembly is correspondingly limited.

(a) Overview

89. Cambodia's transport system comprises road and rail, ports and harbours, inland waterways, and civil aviation. Road transport is the dominant mode, with a share in total transport output estimated at 65% for passengers and 70% for freight. The ongoing rehabilitation of Cambodia's rail network will allow rail transportation to play a more important role in the near future. The mainly private road trucking industry is competitive and growing, and internal competition means that road freight tariffs are market-driven. International shipping is also competitive, with shippers having ready access to Viet Nam's new deep water ports, and five different feeder lines competing for containers on the Singapore-Sihanoukville route. There is also competition between regional shipping lines for petroleum products and general cargo delivered to Sihanoukville. Domestic civil aviation is important for the growing tourism industry but its contribution to overall transport output is very limited.

[8] International Finance Corporation (2008).

90. Responsibility for managing the transport sector is divided among various government agencies. The Ministry of Public Works and Transport (MPWT) is responsible for planning, developing and, to some extent, managing the sector. It has oversight functions for national roads, road transport, railways, ports, inland water transport, coastal and international shipping, and airport construction. The Department of Transport, within the Ministry, is responsible for vehicle registration, inspection, and road safety, and the Ministry of Rural Development is in charge of the development and maintenance of rural roads. The railway network is currently operated by a private company and owned by the Royal Railway of Cambodia.

91. Cambodia has two major ports, Phnom Penh (the major river port) and Sihanoukville, situated in the Gulf of Thailand, which is Cambodia's only major deep-sea port. Sihanoukville's total throughput in 2010 was about 2.2 million tonnes. Previously operated as government departments, the ports of Phnom Penh and Sihanoukville became autonomous port authorities in 1998. Their governing boards report to the Council of Ministers, MEF, and MPWT. The Minister has veto rights over port tariffs and other policy matters but there is no other form of economic regulation.

92. The State Secretariat for Civil Aviation (SSCA) is responsible for the control, regulation, and development of the civil aviation sector and the operation of domestic airports. The main legislative instruments governing the SSCA are the 1996 Royal Decree on the formation of the SSCA, Sub-Decree No.12 on its functioning, the 2008 Civil Aviation Law, and the civil aviation regulations.

93. Cambodia has ten airports, including international airports in Phnom Penh, Siem Reap (each handling about 1.4 million passengers per year), and Sihanoukville. Domestic freight traffic is insignificant. The civil aviation industry has undergone major changes to improve its compliance with international safety and security standards and to encourage private-sector participation in operating the terminals. In this regard, concessions have been awarded to operate Cambodia's main international airports. Upon the financial bankruptcy of Royale Air Cambodge, the Government introduced its "open-sky policy", allowing foreign carriers to operate in Cambodia. In 2010, Cambodia Angkor Air was created as the new national carrier as a joint venture with Vietnam Airlines.

(b) Transport as an export sector

94. Cambodia has a relatively small international freight market with no major bulk commodity flows. The export of transportation services plays only a limited role in the country's export portfolio. Cambodia is a net importer of maritime transport services, in particular sea freight services, as it owns few vessels.

95. In its initial GATS offer, Cambodia limited the ownership participation of foreign service suppliers in road transport services to 49%. For transport and related services, the requirement of commercial presence of 49% equity is based on the rationale of fostering infant industry or giving a chance to small local operators. Some WTO Members asked Cambodia to remove the foreign equity limitation for commercial presence for passenger transportation, freight transportation, and rental of commercial vehicles with an operator. Cambodia agreed to remove the 49% foreign equity limitation for commercial presence on road transport services and to make a commitment in maritime services for non-discrimination on access to port facilities (under additional commitments).

96. Cambodia opened market access for aircraft repair and maintenance, the selling and marketing of air transport services, and computer reservation systems. This has been extended to all ASEAN members under the AFAS. Generally, Cambodia has an interest in supporting air transport liberalization in the ASEAN region to help the growth of tourist traffic, increase the choice of flights serving the country, and keep costs down.

(iv) Financial services

97. A significant contributor to economic development and trade is the availability of credit. However, in the wake of the civil strife and demonetization under the Khmer Rouge (1975-79), bank credit to the private sector in Cambodia has improved but remains low, at about 26% of GDP. The World Bank described Cambodia as top reformer in terms of easing access to credit through the recently approved Secured Transactions Law, which made it easier for businesses to qualify for loans.[9] Over 95% of banking system deposits are denominated in U.S. dollars, and rural areas are primarily served by micro-finance institutions (MFIs), accounting for less than 10% of financial system assets.

98. Nevertheless, the financial sector underwent impressive expansion during the review period, from a very small base. Total banking assets, for example, rose from 26% of GDP in 2006 to over 54% in 2010, a significant improvement but still well below the average of 90% in other emerging Asian markets. In 2010, the formal financial system comprised the National Bank of Cambodia (NBC), 35 banks, 20 licensed MFIs, and 6 insurance companies. Regarding the sector's overall policy and planning framework, the Government's Vision and Financial Sector Development Plan (2001-2010) delineates a framework of reforms. It was updated to take into account the acceleration of Cambodia's economic development, and became the Financial Sector Development Strategy 2006-2015 (FSDS), which aims to achieve a sustainable approach to financial sector development.

99. In accordance with the FSDS, the Government hopes to establish a stock exchange by 2012 as joint venture with the Korea exchange, which requires, *inter alia*, a new securities law and the strengthening of public auditing capacity. It seems that financial markets are developing more slowly than either banking or insurance.

(a) Banking

100. After expansion in 2007 and 2008, 35 banks are in operation (Table IV.7); just six banks accounted for 75% of all assets in 2010, making the banking system highly concentrated. From a capital perspective, Cambodian banks look healthy. Official capital adequacy ratios were 31% at end 2010, and non-performing loans (NPLs) have remained manageable in 2010 at 2.3% of the total, down from 19.4% at end 2006. However, according to the IMF, the core financial soundness indicators compiled by the NBC are based on unreliable data reported by the banks, and the credit and solvency risks, as represented by their NPL and capital adequacy ratios, may be substantially underestimated.[10]

101. Regulation of banks is improving but remains weak. The NBC is responsible for monetary policy and prudential oversight of the banking system and MFIs. The IMF notes that the responsibilities of the NBC's Banking Supervision Department outstrip its capacity and resources. The NBC has limited regulatory capacity, which appears to have been strained by recent expansion in the sector. The bank has announced that it will increase the frequency of its bank audits but actual enforcement of regulations remains limited, in particular with regard to capital adequacy and loan provisioning.

102. Legislation and regulations related to banking have been developed and/or updated during the review period. The 1999 Law on Banking and Financial Institutions, which created the framework for licensing institutions and for their supervision, has undergone a comprehensive review to update and improve prudential and supervisory practices in compliance with international standards and best

[9] World Bank (2008).
[10] IMF (2010), p. 17.

practices. The framework for the creation of a payments and settlement system was established in the 2005 Law on Negotiable Instruments and Payments Transactions, while a Law on Anti-Money Laundering and Combating Financing of Terrorism was passed in 2007. The Law on Financial Leasing, designed to facilitate and determine the rights and duties of all parties involved in financial lease operations, was promulgated in 2009. However, according to the authorities, it has not been widely used under prevailing market conditions.

Table IV.7
Financial soundness indicators, 2006-10

	2006	2007	2008	2009	2010
Number of banks	20	24	30	33	35
Commercial banks	15	17	24	27	29
of which: state-owned banks	1	1	1	1	1
Specialized banks[a]	5	7	6	6	6
Bank concentration – number of banks accounting for:					
25% of banks' total assets	2	2	2	2	1
75% of banks' total assets	7	6	6	7	6
Capital adequacy (%)					
Regulatory capital to risk-weighted assets	26.5	23.6	27.8	31.1	31.4
Capital to assets	20.0	17.0	22.0	22.1	22.9
Non-performing loans net of provisions to capital	19.4	8.2	7.5	8.7	2.3
Asset quality (%)					
Non-performing loans to regulatory total loans	9.5	3.4	3.7	4.4	3.1
Sectoral distribution of loans (% of total loans)					
Real estate	8.6	7.9	7.5	6.3	4.6
Construction	7.7	10.2	7.9	8.6	7
Consumer	10.2	19.7	21.8	19.8	16.8
Earnings and profitability (%)					
Return on assets	2.8	2.8	2.9	1.3	1.44
Return on equity	14.2	16.6	13.1	5.6	6.63
Memorandum items:					
Banks' assets (% of GDP)	26.0	38.4	37.3	47.0	54.6

a Specialized banks are lending institutions that do not take deposits and are subject to lower capital requirements than commercial banks.

Note: Figures are for December.

Source: National Bank of Cambodia; and IMF (2008) – Cambodia, Statistical Appendix, December (staff estimates).

103. Cambodia allows foreign banks to operate as either 99% foreign-owned subsidiaries or as branches. The 1999 Law on Banking and Financial Institutions and subsequent regulations guarantee foreign banks' rights and obligations equal to local banks, and the law imposes no restrictions on foreign ownership of banks. Upon acceding to the WTO, Cambodia undertook commitments to liberalize market access for most commercial banking activities, subject to the requirement that deposits received by foreign banks be reinvested in Cambodia and that commercial presence be through authorized banks. Under the ASEAN process for liberalization of financial services, Cambodia has not made any further commitments beyond its GATS schedule.[11]

[11] Cambodia initially put forward a limited services offer under commercial banking services, comprising (i) acceptance of deposits and other repayable funds from the public, and (ii) lending for financing of commercial transaction and productive investment. According to the authorities, Cambodia took the position that it could not commit to market access in sub-sectors for which it was unable to provide appropriate prudential regulation.

(b) Insurance

104. Cambodia's insurance market is small but has grown rapidly since the implementation of insurance legislation in 2001, and much of the business that had been written off-shore is now being placed in the local market. The insurance industry comprises six direct writing companies (mainly joint-venture companies with varying amounts of foreign capital) and one reinsurance company. The state-owned company, Cambodia National Insurance Company (Caminco), has been privatized. The main lines of business underwritten are fire, automobile, and engineering insurance. The share of insurance premiums in GDP is small, at only 0.22% in 2010 (compared with 1.6% in Viet Nam and 3.5% in Thailand).

105. The Ministry of Economy and Finance has responsibility for insurance as well as for financial markets. A regulatory framework is under development, based on the Law on Insurance, which was introduced in 2000. The law has been amended and detailed regulations are being drafted on the supervision of life insurance companies. In addition, Cambodia has introduced compulsory third-party liability insurance for commercial motor vehicles, public transport, and for workers' compensation on construction sites.

106. There are no legal barriers to entry of foreign insurance providers, which are allowed to establish a commercial presence through a branch. Natural or juridical persons of Cambodia may enter into contracts only with insurance companies licensed to carry out insurance business in Cambodia. Under the GATS, Cambodia undertook to open its market for insurance (life, non-life, reinsurance, and ancillary services) with one important limitation: until 31 December 2008, companies had to reinsure 20% of their risks with Cambodia Re, as stipulated in the sub-decree on insurance that requires all licensed insurers in Cambodia to cede at least 20% of their insurance premium to Cambodia Re. Cambodia Re is 80% owned by the Government with the balance owned by a consortium of foreign insurers in the region.

107. According to the authorities, since its inception in 2003, Cambodia Re has made significant contributions to the national economy by retaining premiums that can be used for productive investments in the country. In addition, it is building capacity among the insurance companies to make the industry more resilient and self reliant. The Government is of the view that Cambodia Re needs more time to strengthen its competitiveness both financially and technically before it can fully face overseas competition.

(v) Telecommunications

(a) Overview

108. Development of effective, modern telecommunications was constrained by confict, and the sector's infrastructure is limited in scope, in particular fixed-line networks to deliver the bulk of industrial-grade data demands. Further, there is an acute development imbalance between the public and private sectors. Between 2001 and 2009, mobile subscribers increased from 150,000 to 6.3 million, while fixed-line subscribers rose from 23,000 to barely 101,000. By 2012, it is estimated that there will be 12 million mobile subscribers and only 50,000 fixed-line subscribers. In the important Internet sector, Cambodia had only 8,000 broadband subscribers in 2008**,** perhaps due to the high price of access. An improvement in affordability should increase the uptake of fixed-line connections, for Internet as well as voice, and drive an increase in the volume of total traffic.

109. The most widespread infrastructure is currently the mobile companies' networks with more than 80% coverage and the progressive rollout of 3G services available in the cities. Before 2010, Mobitel, jointly owned by the Royal Group (Cambodia) and the Millicom Group (Luxembourg), had

an estimated 60% of the market. Other important providers of mobile services are Camshin (Thailand), TMIC (a joint venture between Telecom Malaysia and Samart of Thailand), and Viettel (with 5 million subscribers since 2009). While the mobile market is strong, the demand for bulk data services will require cable connections and a comprehensive broadband network. There are currently eight mobile phone companies operating in Cambodia.

(b) Regulatory framework

110. The Ministry of Posts and Telecommunications (MPTC) is the telecoms policymaker and regulator. It was also operator of the fixed-line network but in January 2006 separated its telecom operation arm and established Telecom Cambodia (TC) to provide fixed-line services. As the law on telecommunications is yet to be approved by the National Assembly, and the telecom regulatory body has not yet been established, the MPTC still acts as policymaker and regulator. The policy objectives of the draft law, as adopted by the Council of Ministers in 2006, are to ensure cost-efficient, timely, and innovative telecommunication services for existing and potential users through the promotion of fair competition and efficient investment. According to the authorities, the draft law is based on the principles of: competitive safeguards; interconnection; public availability of the procedures for interconnection negotiations; transparency of interconnection arrangements; interconnection dispute settlement; universal service; public availability of licensing criteria; independent regulator; and allocation and use of scarce resources.[12]

111. For the most part, access to Cambodia's telecoms market is not restricted. Private participation in mobile services, e-mail, electronic data interchange, and code and protocol conversion are allowed and national treatment is accorded. In addition, Cambodia is committed to permitting licensed suppliers of mobile communications services to choose which technology to use. The restriction that cross-border supply for voice telephone services, circuits-switched data transmission, and private leased circuit services was allowed only over circuits leased from Telecom Cambodia was eliminated in January 2009, and foreign participation of up to 51% equity is allowed. Under the GATS, Cambodia agreed to open fully some sub-sectors immediately upon accession; for other subsectors the commitment was to give full market access no later than 1 January 2009 with foreign ownership allowed up to 51% of the capital of joint-ventures.

[12] The draft law has been drawn up to comply with the Telecommunications Reference Paper, which contains the principles of inter-connection; spectrum management (issue of licence, or auction, acquittal of accounting rate on MFN and national treatment basis); safeguards; and the regulatory side separated from the supply side. It also requires Members to provide for competitive safeguards designed to prevent anti-competitive practices.