

Country Commercial Guide for Cambodia FY 2004

This Country Commercial Guide (CCG) for Cambodia is an in-depth report which represents a comprehensive annual look at Cambodia's commercial, economic and investment environment including business opportunities, trade-related regulations, contact lists and financial services. It is prepared and updated every year and disseminated to business communities abroad and in the U.S. The CCG is also available online, or through the National Trade Data Bank.

Copies of this document are available to the public free of charge from:

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**FY 2004 COUNTRY COMMERCIAL GUIDE
CAMBODIA**

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CHAPTER 1 EXECUTIVE SUMMARY

This Country Commercial Guide presents a comprehensive look at Cambodia's commercial, economic, and political environment. The CCG was established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

Cambodia is a developing country with a market economy. The Constitutional Monarchy was re-established in 1993 after more than 20 years of civil war and communist rule. There have been national elections in 1993, 1998 and 2003. Coalition governments between the Cambodian People's Party and the royalist FUNCINPEC party emerged from both the 1993 and 1998 elections. On November 30, 1998 a government with Hun Sen, of the Cambodian People's Party, as Prime Minister was sworn in. The 1998 coalition government pledged to devote its full energies to accelerating economic development in Cambodia through the implementation of an ambitious economic and political reform program.

A third round of national elections took place in July 2003 with three parties, the CPP, FUNCINPEC and the Sam Rainsy Party, winning seats in the National Assembly. Negotiations on the formation of a government continued for approximately a year following the July 2003 elections. As of this writing, the CPP and FUNCINPEC have agreed on the formation of a new government based on the outcome of the 2003 elections. This coalition government plans to return Hun Sen as prime minister and Prince Ranariddh as president of the National Assembly.

Bilateral and multilateral donors support and closely monitor the government's reform program. The IMF, World Bank and Asian Development Bank are all active in Cambodia.

Significant gaps in the nation's legal and institutional frameworks limit business confidence in Cambodia, but there are opportunities for U.S. exporters and investors. The Cambodian government currently offers a generous package of incentives to foreign investors and imposes few restrictions on imports from abroad. Cambodia enjoys Normal Trade Relations and GSP benefits from the United States and many other trading partners. Cambodia is a member of ASEAN.

Cambodia began the process of seeking membership in the World Trade Organization (WTO) in 1994. At the WTO Conference in Cancun in September 2003, Cambodia received an invitation to join the WTO. Due to the yearlong political deadlock beginning in July 2003, the necessary body to ratify the invitation, the National Assembly, has not been seated. Ratification of the WTO invitation will likely be one of the first items of business the new government takes up.

Since 1998, the U.S. has been Cambodia's largest trading partner and one of the

largest donors, albeit through indirect assistance. In 2003, exports to the U.S. constituted at least 80 per cent of Cambodia's total exports, which was made possible by the expansion of garment exports to the U.S. Official U.S. assistance to Cambodia amounted to \$36 million in 2002, up from \$17.5 million in 1999. U.S. official assistance to Cambodia in 2004 will be about \$70 million.

Cambodia offers potential investment opportunities in agriculture and agro-industry, infrastructure, light industries, tourism and hotel development, real estate redevelopment and information technology.

The CCG for Cambodia was written by the Economic and Commercial Section, at U.S. Embassy Phnom Penh. Sources used in writing the CCG include: the Ministry of Economy and Finance, Ministry of Planning, National Bank of Cambodia, Ministry of Commerce, IMF, World Bank and ADB publications, and the political and economic sections of U.S. Embassy Phnom Penh.

Persons seeking additional information about opportunities for U.S. businesses in Cambodia should contact the Economic/Commercial Officer, Michael R. Keller, (KellerMR@state.gov) at the U.S. Embassy in Phnom Penh. The Economic Office telephone is (855) 23-216-436, Ext. 128; the fax number is (855) 23-216-811. The United States mailing address is American Embassy Phnom Penh, Box P, APO, AP 96546; the international address is U.S. Embassy, No. 16, Street 228, Phnom Penh, Cambodia.

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CHAPTER 2 ECONOMIC TRENDS AND OUTLOOK

Economic Trends

Cambodia is a least-developed country with a market economy and a stated policy of integrating itself further into the world economy. Official GDP in 2002 was 15 667 billion Cambodian Riel (about \$3.9 billion), or \$292 per capita, marking Cambodia as one of the poorest countries in the world. In terms of purchasing power parity, this is estimated as equal to the standard of living purchased by \$1500 per year in the United States.

Once one of Southeast Asia's most stable and prosperous countries, Cambodia's social and economic institutions were severely disrupted by the agrarian collectivist policies of the Khmer Rouge regime from 1975-79 and the period of communist central planning that followed under the Vietnamese-backed People's Republic of Kampuchea. The Cambodian government officially adopted market economics in 1989, but it was not until after the 1991 Paris Peace Accords, which led to the re-establishment of the constitutional monarchy in 1993, that the economy began to grow.

From 1993 to 1996 Cambodia's GDP grew at an average rate of 6.1 percent in real terms, climbing from \$2.2 to \$3.1 billion. However, growth slowed substantially in mid-1997 following factional fighting in Phnom Penh in July and the onset of the Asian financial crisis later that same year. GDP increased by just one percent in real terms in 1997 and 1998. The economic slowdown, coupled with continued high population growth, led to a decline in Cambodia's per capita GDP from \$292 in 1996 to \$247 in 1998.

Political stability returned to Cambodia in late 1998 with the establishment of a second coalition government, and real economic growth resumed at a rate of 6.9 percent in 1999, exceeding government expectations. The real growth rate for 2000 was 5.0 percent, while the Ministry of Economy and Finance (MEF) had forecast 5.5 percent growth. Despite the impact of the September 11 terrorist attacks on Cambodia's tourism industry and the worldwide economic slowdown, GDP grew at 6.3 percent in 2001.

In 2002, GDP growth was around 5.0 percent, which fell short of MEF prediction of 5.5 percent. This was due to the global economic slowdown and adverse weather conditions affecting agricultural output. The SARS outbreak in Asia, fears of terrorism and anti-Thai riots in Phnom Penh in January 2003 hurt tourism and slowed economic growth, which stood at 4.8 percent in 2003. The year long protracted political deadlock could deal a blow to economic growth for 2004. In addition, growth prospects could be challenged by the January 2005 scheduled phasing out of the textile and apparel quota.

Since 1993, the Royal Government of Cambodia has undertaken a program of economic reform, aided by the IMF, World Bank, ADB, UNDP and other bilateral and multilateral donors. Even during the period of political disruption and poor economic performance in 1997-98, the government maintained macroeconomic stability through generally tight monetary and fiscal policies. Although inflation increased from its 1995 low of 3.5 percent, it remained under control at 9 percent in 1997 and 13.5 percent in 1998. The MEF reports that there was zero inflation in 1999. In 2000, Cambodia witnessed 0.8 percent deflation, stemming from lower food prices and a stable exchange

rate; deflation in 2001 was 0.6 percent. The low levels of inflation since 1999 were largely attributed to maintenance of fiscal discipline and prudent monetary policy. It should be noted that Cambodia has one of the most heavily dollarized economies in the world, so the government has only limited monetary policy flexibility.

Cambodia's currency has been relatively stable since 1993, with the exception of a sharp depreciation in 1997-98. The annual average exchange rate for 2000 was 3,880 Riels/US\$1; in 2003, the Riel depreciated approximately three percent. Maintaining a stable exchange rate is a priority of Cambodia's current IMF program. The Cambodian government continues to pursue a managed float exchange rate regime. The National Bank of Cambodia has intervened in the exchange regime by auctioning U.S. dollars to stabilize the domestic currency.

As noted above, Cambodia's economy is heavily dollarized, with the U.S. dollar accounting for at least 70 percent of the nation's total liquidity (M2), equivalent to some 15 percent of GDP in 2003. As of December 2003, foreign currency deposits represented some 95.6 percent of the total deposits in Cambodia's commercial banks, excluding provincial branches of the central bank, and these deposits remain the main engine behind broad money growth. Some attention has been paid to the issue of de-dollarization by both the Cambodian government and the international community. That being said, the Cambodian government has said it does not plan an official policy to de-dollarize the economy. Even if it decided to pursue this goal, it is questionable whether the move would be successful.

The Cambodian government's reform program is highly detailed and closely monitored by the donor community. The subject of good governance has been a major theme of the reform process since 1999, and the government has produced a document to improve governance in the country called the Governance Action Plan (GAP). The GAP addresses issues such as civil service, judicial, and legal reform, improving the quality of public services, and attacking corruption. It was disseminated in 2001 and the government continues to implement the GAP. Additional areas under donor scrutiny are forest management, military demobilization and revenue collection.

Reform results have been mixed. Improvements in governance are lagging, with implementation of existing procurement regulations and much needed legal and judicial reform still years away. For example, the government has yet to enact the Anti-Corruption Law promised to international donors at the June 2002 Consultative Group Meeting.

Cambodia has in the past made some progress in its reform efforts. In 1999, it took steps to improve its control over the forestry sector, beginning with a successful crackdown on illegal logging, which was sustained into 2001. The Cambodian government is now in the process of redefining the entire forestry management system, though real progress has been slow. Cambodia has temporarily banned logging until management plans are in place and a new agreement on restructured concessions is approved. Although the government has consistently reaffirmed that it is committed to the sound management of the forestry sector, forest crimes continue, i.e. widespread illegal logging continues. The Cambodian government does retain a forest crimes monitoring unit, which has played an essential role as a watchdog on forestry issues. The NGO Global Witness served as the independent forest monitor until April 2003. Its mandate as a monitoring unit was terminated through a Cambodian government

decision not to renew Global Witness' contract. To ensure the continuity of monitoring as demanded by the international donor community, the government through an open bid process selected the Geneva-based private company Societe Generale de Surveillance (SGS) – which also has a customs inspections contract with the government for preshipment inspection – as the new forestry watchdog.

Cambodia also made significant progress toward reducing the size of its military. A pilot demobilization program in May 2000 was the first step in a three-year effort to reduce the armed forces by over 30,000 soldiers in order to free funds for increased social sector spending. The demobilization and reintegration of 30,000 soldiers was estimated to cost \$42 million, to be financed largely by international donors including the World Bank, ADB and Japan. By the end of 2001, 16,500 troops had been demobilized. This equates to an 11.5 percent reduction of the Cambodian military. For the time being, the demobilization has been suspended for a number of reasons, including misprocurement on the part of the Cambodian government.

The government improved its revenue collections through the successful – though limited - implementation of a value added tax (VAT) starting in early 1999. The new VAT accounted for some 26 percent of total domestic revenue in 2002. Although it fell short of budgetary targets, domestic revenue in 2002 was 12 percent higher than in 2001, but the increase came mainly from textile quotas, custom duties, excise duties and visa fees.

At about 12 percent of GDP, Cambodian government revenues remain low even by developing country standards. As a result, Cambodia remains heavily reliant on foreign assistance.

In October 1999, Cambodia secured the first installment of an \$81.6 million IMF Poverty Reduction and Growth Facility Loan, with the last installment made in 2003. Under this program, the IMF assessed the government's performance as being broadly satisfactory, but it suggested that revenue administration, expenditure management, and forestry and agriculture reforms be strengthened.

The World Bank approved a Structural Adjustment Credit worth \$30 million in February 2000. Disbursement of the final portion of the Structural Adjustment Credit was made in December 2003. As part of the annual donor-Cambodian Consultative Group process, donors pledged \$650 million in June 2002 to support the Cambodian government's reform program for the coming year. Actual disbursements are usually 15-20 percent lower than the amount pledged by donors.

Cambodia's external trade balance has shown improvement in recent years, as the trade deficit declined from \$238 million in 2002 to \$46 million in 2003. The improvement was made possible by the substantial upswing in garment exports. Cambodia's major imports include petroleum products, cement and other construction materials, vehicles, tobacco, and broad ranges of consumer products including agricultural products.

Garments dominate Cambodia's exports, accounting for over \$965 million in 2000 and \$1.3 billion and \$1.5 billion in 2002 and in 2003 respectively, or some 94 percent of total exports. More than 70 percent of Cambodian garment exports go to the U.S. The garment industry has been Cambodia's greatest success, growing from seven

factories exporting \$4 million in textiles in 1994 to over 200 factories in 2004. The industry now employs approximately 250,000 workers, nearly 90 percent of whom are young women, and the sector generates wages of about \$16 million per month.

Other principal Cambodian exports include timber and wood products, latex and rubber, rice and fishery products. Unrecorded exports of these products could be significant.

Cambodia and the U.S. have full and expanding trade relations. The U.S. lifted the embargo on trade with Cambodia on January 2, 1992. After legislative action by Congress in September 1996, Normal Trade Relations (NTR) were established between the U.S. and Cambodia in October 1996 upon the signing of a comprehensive Agreement on Trade Relations and Intellectual Property Rights Protection.

President Clinton subsequently designated Cambodia as a Least Developed Beneficiary Developing Country under the U.S. Generalized System of Preferences (GSP) program on May 30, 1997. Cambodia and the U.S. signed a three-year bilateral textile agreement (BTA) on January 21, 1999. This provided export quotas for 12 categories of textile and apparel products. The BTA included provisions for quota increases based on Cambodian labor conditions meeting international standards; the passage of new labor laws and improvements in working conditions resulted in a quota increase that enhanced the growth of Cambodian apparel exports to the U.S. The agreement was extended in 2001 for a further three years and will conclude when the worldwide quota system is removed at the end of 2004.

It is difficult to predict how Cambodia's garment sector will weather the demise of quotas with the conclusion of the Multifiber Arrangement (MFA) at the end of 2004. Through the BTA, Cambodia has successfully linked the growth of its garment sector with internationally recognized labor standards. As a result, Cambodia enjoys a favourable reputation among socially conscious corporate buyers and consumers.

U.S. exports to Cambodia are likely to remain modest for the near term. The U.S. exported approximately \$20 million worth of goods to Cambodia in 1999, and by 2003, U.S. exports had increased to a still modest but record high of \$58 million. U.S. exports to Cambodia include new and used vehicles, civilian aircraft, cotton, pharmaceutical products, printed materials, spare parts, cigarettes and used clothing.

A key objective of the Cambodian government's reform program is to improve Cambodia's attractiveness as a destination for foreign direct investment (FDI) in order to enhance economic growth. Although Cambodia's current law on Investment establishes an open and liberal foreign investment regime, FDI dropped substantially with the political instability of 1997, and has never fully recovered.

The Council for the Development of Cambodia (CDC), the government's investment agency, approves requests from firms wishing to take advantage of investment incentives. CDC reports that new investment commitments of this type dropped to only \$448 million in 1999 and plummeted to \$235 million in 2002, compared to an average of over \$800 million per year between 1995 and 1998. By 2003, FDI had dropped to under \$100 million with most investment now going exclusively into the garment sector. Official explanations for the decline in project applications range from poor infrastructure and inappropriate allocation of garment quotas to the lingering

regional financial crisis. Corruption, particularly within the judiciary, is the real likely culprit.

The removal of funds tied to inactive projects from investment statistics shows that the level of funds actually entering Cambodia, as opposed to that merely promised, is significantly less than the official FDI figures imply. According to the CDC, fixed asset investments promised from 1994 through 2003 totalled \$6.5 billion; those associated with active companies now reach only some \$1.9 billion. In essence, only a fraction of the value of FDI approved by the Cambodian government was ever actually invested in Cambodia

Investment patterns show that the hotel and entertainment industry accounted for 25 percent of investment from 1994 to 2003. The garment sector accounted for just over 18 percent though that percentage is likely rising. Agricultural investment projects accounted for only two percent of all accepted proposals.

American investment in Cambodia to date has been modest, with the largest investors being ChevronTexaco, which constructed a chain of Caltex service stations, a terminal in Sihanoukville and is proceeding with exploration of oil and gas reserves. Northbridge Associates has established an international school and residential property on the outskirts of Phnom Penh. There are currently some 100 U.S. companies or firms representing U.S. products and services operating in Cambodia.

Cambodia has vigorously pursued economic integration regionally and internationally. It is a member of ASEAN and the ASEAN Free Trade Area (AFTA). It has not yet completed its program to reduce tariffs as required by AFTA. Cambodia has, however, firmly committed to reducing the majority of tariff lines to 5 percent or below by 2010 and other tariff lines of sensitive agricultural products by 2017 within the framework of the Common Effective Preferential Tariff Agreement (CEPT).

Cambodia began the process of accession to World Trade Organization (WTO) in 1994. It received an invitation to join the WTO at the September 2003 Cancun Ministerial, which made Cambodia the first least developed country to receive an invitation to join the WTO since its creation in 1995. Ratification of that invitation awaits the seating of the new National Assembly representing the outcome of the July 2003 national elections.

Principal Growth Sectors

Agriculture: The agricultural sector, including rice farming, livestock, forestry, and cultivation of other cash crops, provides direct employment to about 70 percent of Cambodia's labor force. According to the MEF, in relative terms, agriculture's share of GDP decreased from some 45.2 percent in 1998 to 33.4 percent in 2002. The sector's growth decreased in 2002 as a consequence of droughts and floods and declining forestry production. In 2003, there was a bumper crop due mainly to favourable weather conditions, with yields up by 25 percent over normal.

Excellent rice harvests in 1999 contributed to Cambodia's better-than-expected economic growth in that year as well. Despite floods and droughts in 2000 and 2001, harvests remained relatively steady, though there is evidence that the area under cultivation is declining, partially due to unclear ownership of land. With a large amount

of arable land, ample rainfall, and close proximity to the major ASEAN markets of Thailand and Vietnam, Cambodia has strong growth potential in the agriculture sector.

A number of plantation agriculture projects are underway in palm oil, cashew nut, coffee, tea and vegetable production. However, Cambodia's failure to realize its agricultural potential is reflected by the fact that much of the nation's domestic demand for vegetables is currently met by imports from neighboring countries. The Ministry of Commerce attributes this to inadequate production capacity. There are certainly many opportunities for foreign investors in the agricultural sector.

The Government has taken note of the growth potential of agriculture as well as the important role increased agricultural production can play in reducing rural poverty in Cambodia. As a result, it has designated the Ministry of Agriculture, Forestry, and Fisheries as one of four priority ministries to receive expanded budgets.

Factors limiting agricultural production include a lack of investment, unclear land ownership, a lack of irrigation infrastructure, inadequate transportation once crops are harvested, inefficient marketing, poor overall farming practices and inadequate public sector support.

In absolute terms, there has been growth in the agriculture sector, but productivity is far lower than in neighbouring countries. For example, Cambodian rice yields per hectare are about half those in Vietnam and Thailand. One key problem is the lack of adequate irrigation for year-round farming. Throughout Cambodia, agriculture is predominantly rain-fed as irrigation facilities are underdeveloped. Rain-fed rice is the major crop, covering some 93 percent of cultivated areas. In 2002, the average yield paddy recorded at 1.7 tons/ha, which while very low represented an increase from 1.1 tons/ha in 1980.

The total area under cultivation increased from 1.5 million ha in 1980 to 2.2 million ha in 2002, of which rice paddies accounted for the largest share; 95%, other crops 5% such as maize, cassava, sweet potato, vegetable and mung bean. As previously mentioned, there is some evidence that land use is declining though specific data has yet to be developed to support this.

Services: The share of the services sector has fluctuated within a range of 36.3% - 34.3% of GDP since 1996, averaging 35.2 percent of GDP in 1996-2002. Its share in 2002 stood at 34.3 percent. Government forecasts point to continued strong growth in services, especially with the expected upswing in tourism. Key components are trade (9.5%), transport and communications (6.3%), tourism (11.4%) and real estate and business services (5.7%).

The Cambodian tourism industry, which depends heavily on visitors to Angkor Wat, a thousand year-old temple complex at Siem Reap, in the country's northwest, has grown rapidly in recent years and shows further expansion potential. Income generated by the sector was estimated at \$454 million in 2002, a hike of some 20% from 2001. By 2002, tourism accounted for 11.4 percent of GDP.

The service network for tourists has improved and consists primarily of hotels and guesthouses. The Ministry of Tourism stated that tourist arrivals in 2000 increased 26 percent over the previous year and projected - pre-September 11, 2001 - that they

would grow by 35 percent annually from 2001-2002. Actual tourist arrivals in 2001 were 467,000 and it reached all-time high of 790,000 in 2002. 2003 provided a bit of a hiccup in the growth of the sector mainly due to the outbreak of SARS in Asia and the war in Iraq. By 2004, Cambodia hopes to welcome a million visitors for the first time and projects tourist arrivals to hit two million by the end of the decade.

Tourism is deemed one of the most promising sectors of the economy, with great potential to generate both foreign exchange and income and is a preferred sector under Cambodia's foreign investment regulations.

Industry: Up to 1997, growth in the industrial sector was dominated mainly by wood processing. The signing of the U.S.-Cambodia Bilateral Textile Agreement in 1999 has led to a rapid expansion of garment manufacturing, and the textile sector is now by far the main engine of industrial growth. Garment exports to the U.S. market surged by 43 percent from \$515 million in 1999 to \$736 million in 2000; exports to the U.S. reached \$1076 million in 2003. Cambodia's worldwide garment exports amounted to \$1.58 billion in 2003, a 15 per cent increase over 2002, with exports to the European Union increasing by 16 percent.

Construction is now the second largest industrial subsector, accounting for about a third of all industrial activity in 2002. Though official figures are difficult to obtain, there is widespread anecdotal evidence of a construction boom throughout Cambodia. Signs of a building boom are strongest in Siem Reap, around the port at Sihanoukville and in Phnom Penh but can be found in most provincial towns as well.

Government's Role in the Economy

Cambodia has a free market economy. It has eliminated most non-tariff barriers to trade and screens investments only to award investment incentives. Cambodia's legal structure and government policies are intended to promote exports and attract investment. However, there have been cuts in investment incentives under an amended Law on Investment that was adopted by the National Assembly in 2003.

As a legacy of its communist past, the government has had to manage a small state-owned industrial base. The government began to sell and lease government assets as early as 1989. Under the terms of a privatization agreement worked out with the IMF in 1994, a few additional state-owned enterprises were sold and many more were leased. As of October 2002, some 47 state-owned enterprises and assets had been sold and revenue from the sales amounted to about \$35 million. Some 222 enterprises are leased. The role of state-owned enterprises in the economy is not significant today.

With its establishment in 1993, the Royal Government of Cambodia adopted a budget statute and increased the transparency of government budget operations. That being said, off-budget revenues and expenditures are significant, but difficult to measure.

More than 30 years of conflict left Cambodia with a government budget heavily skewed toward defense and security expenditures, which together accounted for 43.2 percent of total current expenditure in 1999. Freeing budget resources for poverty reduction is the goal of the government's reform program, and the Government has

committed to increase spending on priority social sectors of health, education, agriculture, and rural development. However, line ministries (i.e. the ministries actually implementing the budgets) complain that budgetary disbursements in these sectors lagged significantly by 2000, especially at the provincial level. Moreover, according to the government's development blueprint for 1996-2000, the government failed to achieve its objective of allocating 65 percent of its budget to rural areas.

Cambodia is still in the process of developing a regulatory framework that will assure the health and safety of individuals and companies operating in the free market economy. In the health sector, Cambodia has legislation regulating pharmacies and pharmaceuticals. In May 2000, the National Assembly passed a law on quality of goods and services, comprising food safety, consumer protection and product liability.

A new Land Law was passed in July 2001, and a new Forestry Law was passed by the National Assembly in July 2002. A Trademark Law came into effect in February 2002 and a Copyright and Related Law May 2003. A law on Business Organizations (Commercial Enterprises) is still awaiting passage. Other important legislation pertaining to business and investment such as a bankruptcy law and secure transaction law remains under discussion but far from passage.

Balance of Payments

Cambodia's external position has been generally weak with its poor record of exports, except from the garment sector. Trade destination and exported items have been changed significantly over the last decade. In the 1980's, Cambodia exported mostly to the former socialist bloc and sent out primarily natural resources. Forestry products and rubber accounted for at least 80 per cent of total export during that period. The trend changed in the 1990's, as the U.S. and EU became major markets for Cambodian exports. Garments replaced forestry products, accounting for at least 90 per cent of the country's export by 2002.

The garment sector and tourism sector have both played major roles in Cambodia's external transaction. Robust garment export performance has been the story in recent years. In 1999, the EU signed textile and garment trade agreements with Cambodia, under which Cambodian garments are exported to the EU market with no duty and quantity restrictions. The 1999 BTA with the U.S. offered similar access via the quota system to the U.S. market. Garment exports in 2002 accounted for 96.5 per cent of exports. Tourism income has also increased steadily from \$133 million in 1999 to \$380 million in 2001 and \$454 million in 2002.

According to the Cambodian government, Cambodia's 2000 current account deficit, excluding official transfers (grant aid) was estimated to be \$387 million, or 12.5 percent of GDP. The deficit was financed mainly by official development assistance grants (\$211 million), loans (\$97 million), and foreign direct investment (\$130 million). As of the end of 2001, Cambodia's gross official reserves were equivalent to 3 months of imports.

Cambodia's foreign debt is equal to an estimated \$2.4 billion as of 2001, the majority of which is owed to Russia for debts incurred to the countries of the former Council for Mutual Economic Assistance, including the Soviet Union. Cambodia has not yet reached a full agreement with the Russian Federation on repayment of its debt.

Cambodia's second largest creditor is the United States. Cambodia signed Terms of Reference with the Paris Club of creditor nations in 1995 awarding Cambodia's official debt the Club's most favorable terms (Naples terms). Based on these terms, the U.S. Government presented a draft bilateral debt rescheduling to the Cambodian government in 1995, but Cambodia has not yet signed the agreement. Negotiations between the U.S. and Cambodia on bilateral debt continue.

The Cambodian government follows a market-oriented exchange rate policy. The National Bank of Cambodia (NBC) performs periodic foreign exchange auctions. Since the first auction in 1993, the spread between the official and free (parallel) market rates has remained below 2 percent. The exchange rate has been stable within the range of 3800 to 4000 Cambodian Riels per US\$ since 1998. The government plans to maintain a flexible exchange rate arrangement, with the spread limited to 1 percent, and plans to proceed gradually with the goal of achieving full unification of the exchange rate.

Infrastructure

Cambodia's infrastructure, which was almost completely destroyed after more than 20 years of warfare, civil strife and neglect, is slowly being restored. Most of the country's basic transportation system is in poor condition and is being repaired or rehabilitated with assistance from both multilateral and bilateral donors such as the ADB, World Bank and the Government of Japan.

Power supply to the city of Phnom Penh has improved dramatically since 1993, and approximately 50 megawatts of power were added to serve the city during 1995 and 1996. Total power supply capacity in Phnom Penh including that of the Kirirom Hydroelectricity plant currently is 110 megawatts. Another 32 megawatts will be added to the city's power supply by 2005. However, demand in Phnom Penh and throughout the country is growing rapidly and these modest additions to capacity will not meet demand.

According to the Cambodia Power Sector Strategy (1999-2016) developed by the Ministry of Industry, Mines, and Energy (MIME), annual electricity demand in Cambodia is projected to rise from 522GWh in 1998 to 2,634 GWh in 2016. To meet this demand, the government plans to develop \$1 billion worth of hydro, gas turbine thermal, and combined cycle base load thermal generating plants in Phnom Penh, Sihanoukville, Battambang, and other cities from 2000 to 2010.

As access to reliable electricity among rural residents is around 10 percent, the Cambodian government also plans to build a nationwide transmission system during the same period. How Cambodia will finance development in the energy sector remains somewhat of an open question. The ADB has provided \$18.6 million in loans for a provincial power supply project and the World Bank has also approved a \$68 million project to revamp the country's first power grid.

The ADB has approved a \$730,000 technical assistance grant to Cambodia to prepare a power transmission project for the Greater Mekong sub-region and \$240,000 for capacity building at the Electricity Authority of Cambodia (EdC). Under the World Bank Fund, a 115 KW network is being constructed around Phnom Penh and 22 KW distributions are being introduced.

A hydroelectric plant at Kirirom has been rehabilitated by a Chinese company, with an investment of \$26 million, and the construction of Cambodia-Vietnam electricity distribution network is also underway. Of note, prices for power remain three to four times higher in rural areas than in Phnom Penh, even though Phnom Penh rates, at \$0.21 per kilowatt hour (higher for foreigners), are the highest in Asia and among the highest rates in the world.

The Cambodian government has not on its own allocated significant budget resources to repairing the country's roads. Therefore, the highway system is being rehabilitated through bilateral foreign assistance projects and multilateral loans or grants. Completion of the USAID-funded Route 4 rehabilitation project in late 1996 improved links between Phnom Penh and the country's only deepwater port at Sihanoukville.

Japan has rebuilt portions of National Routes 6 and 7 between Phnom Penh and Kampong Cham and funded construction of a \$57 million bridge over the Mekong River at Kampong Cham city was completed in late 2001. This span is the first to connect the east and west banks of the Mekong river in Cambodia and will make possible development of the country's northeastern provinces. Japan plans to build another major bridge at Neak Loeung over the Mekong River linking National Route 1 from Phnom Penh to Vietnam.

Under the GMS initiative, the ADB has provided a \$40 million loan to reconstruct Route 1 from the Neak Loeung Ferry to the Vietnamese border by 2002. Other plans are in the works to rehabilitate portions of Routes 3, 5, 6 and 7 with loans from the ADB and World Bank. The Chinese government has recently announced plans to fund the repair of National Route 4, which runs north-south along the east bank of the Mekong. The Cambodian government also seeks investors to repair other portions of the national highway system under build-operate-transfer (BOT) terms.

In an effort to improve physical infrastructure, Prime Minister Hun Sen has suggested that construction and repair of roads plan be included in the government's Public Investment Program. At the same time, privatization schemes to convert public roads into tollways have begun to emerge, with a 35 year concession being awarded for operation and maintenance of Route 4. Such moves have met with a predictable public outcry.

The Royal Railway of Cambodia is a state-run company. The rail system – still in poor condition - has two lines, one linking Phnom Penh with Sihanoukville (built in the 1960s) via Takeo and Kampot, the other connecting Phnom Penh, Pursat, Battambang, and Sisophon (built in 1931 during the French colonial period). The narrow-gauge track, engines, and rolling stock are quite simply old. The government has sought aid or investors to rebuild the system, but there have been no takers.

A 48-Kilometer rail line from Sisophon to Poipet at the Thai border is expected to be completed in 2005 as part of an ASEAN rail link project stretching from Singapore to Kunming in China. Cambodia needs about \$16.5 million to complete the Poipet-Sisophon line, and Malaysia had agreed to provide \$8 million worth of equipment including rail and track. Cambodia would have to spend an additional \$100 million to upgrade the rest of the 338-km segment from Sisophon to Phnom Penh. The prospects

for such an upgrade in the near future are slim.

Cambodia has two major ports accessible to vessels: a river port at Phnom Penh and a deepwater port at Sihanoukville. Thanks to assistance from donors, the ports have been significantly improved their facilities and capacity in recent years.

The river port of Phnom Penh has been upgraded with Japanese assistance. In 1999, Japan provided a loan of \$40 million for rehabilitation and renovation of the deepwater port of Sihanoukville, including expansion of the container birth and terminal, to be completed by the end 2004. Another major rehabilitation and innovation involving a second \$40 million loan from Japan began in late 2003.

Negotiations between the Cambodian and Vietnamese governments to facilitate use of the Mekong River as a shipping route to Phnom Penh, as was the case pre-1960, are underway. Shipping in and out of Phnom Penh rather than relying on the only deepwater port at Sihanoukville could help reduce shipping costs and times.

Reliable fixed line and mobile telephone services are available in Phnom Penh and most provincial cities, but are expensive compared to other countries in the region. According to International Telecommunication Union (ITU), Cambodia is the first country in the world where mobile phones outnumber landlines. In Phnom Penh, fixed lines are mostly provided by the Ministry of Posts and Telecommunications (MPTC). Cellular phone companies such as Cambodia Smart Communication (prefix 016) (<http://www.hello016-gsm.com/>), Mobitel (prefix 012) (<http://www.mobitel.com.kh/>), and Cambodia Shinawatra (prefix 011) (<http://www.camshin.com>) provide international roaming services. Another mobile phone operating prefix 019 has been approved by the government.

There are two international gateways and one VoIP gateway (008): Tele2 International phone service (prefix 007), operated by Mobitel, and the state-run gateway (001), which was established and initially operated by Telstra of Australia and then transferred to the government. Long distance telephone rates have fallen, with calls to the U.S. now costing approximately \$0.98 per minute during weekdays and \$0.79 on weekends.

Although the use of e-mail started in 1993, the introduction of full internet connectivity came in May 1997 via a link to Singapore, thank to Canadian assistance. The MPTC granted an ISP license to Telstra of Australia to launch its Big Pond Internet service, which was the first commercial ISP in the country. MPTC controls Internet service in Cambodia.

There are currently four ISPs providing Internet services in Cambodia; Camnet, Online, TeleSurf and Camnitel (only in the provinces). In Cambodia, accessing the Internet can be done through dialup, wireless broadband, DSL and satellite broadband or a leased line. A variety of service options are available. Fees for Internet access range from as low as \$10 (3 hours internet access per month) to \$350 per month for an unlimited Internet access via satellite and broadband. An ITU study on Cambodia's Internet access showed that Internet prices in Cambodia are among the highest in the world and the most expensive in Southeast Asia.

As a result of competition, the cost of Internet service has fallen to about \$0.50

per hour at Phnom Penh's nearly 50 Internet cafés; even this modest price is still far beyond the means of most Cambodians. Many of the Internet cafés in town also offer VoIP at low costs, although such informal VoIP connections are illegal.

The potential for e-commerce in Cambodia is further constrained by the relative unreliability of the postal system and the fact that few Cambodians have credit cards. Also, there are no standardised Khmer language computer fonts. This poses interoperability problems for Cambodian use of e-commerce. A framework of e-commerce legislation is in draft form but unlikely to receive much attention soon.

Economic Prospects

Cambodia has yet been unable to use broad based economic expansion to reduce poverty. Economic prospects largely hinge upon the government's ability to institute rule of law to create a more attractive business and investment environment. Ratification of Cambodia's WTO invitation and the implementation of WTO-related reforms would likely help expedite the reform effort.

CHAPTER 3 POLITICAL ENVIRONMENT

The Kingdom of Cambodia is a constitutional monarchy with a market economy. Cambodia's constitution was adopted in 1993 and provides for a parliamentary system of government and for separation of powers between the executive, legislative and judicial branches. King Norodom Sihanouk is Cambodia's constitutional monarch and head of state. According to the Constitution, he reigns, but does not govern. Norodom Sihanouk also acted as Cambodia's Prime Minister for most of the period between Cambodia's independence from France in 1953 and 1970, when he was deposed by constitutional means. Sihanouk was also nominal head of state during the notorious Khmer Rouge regime, 1975-79.

The current system of government emerged from the Paris Peace Accords, signed in 1991. In these, four warring factions agreed to put aside hostilities and allow the United Nations to set up a transitional authority in Cambodia (UNTAC) to administer the country until the nation could draft a new constitution and hold democratic elections. The democratic elections took place in 1993, resulting in a coalition government between the royalist FUNCINPEC Party of Prince Norodom Ranariddh and the Cambodian People's Party (CPP) led by Hun Sen, which had ruled Cambodia since the 1979 overthrow of the Khmer Rouge by invading Vietnamese forces.

The 1993 coalition government collapsed during factional fighting in July 1997, during which Second Prime Minister Hun Sen ousted First Prime Minister Norodom Ranariddh. Many FUNCINPEC and opposition party members fled the country or were killed, but many returned to participate in national elections in July 1998. Four months after the election, CPP and FUNCINPEC formed a coalition government with Hun Sen as Prime Minister and Prince Norodom Ranariddh as president of the National Assembly. Cambodia's 24 government ministries were split between the two parties, except for the Ministries of Defense and Interior, which had co-ministers from each party. The CPP had 64 seats in the National Assembly, FUNCINPEC 43 seats, and the opposition Sam Rainsy Party, led by the former Finance Minister of the same name, had 15 seats. In March 1999, Cambodia created a Senate with two members appointed by the King and 59 others appointed by the various parties in proportion to their representation in the National Assembly. The Senate is led by President Chea Sim (CPP), who acts as head of state in the king's absence.

A third round of national elections took place in July 2003 with three parties, the CPP, FUNCINPEC and the Sam Rainsy Party, winning seats in the National Assembly. Negotiations on the formation of a government continued for approximately a year following the July 2003 elections. As of this writing, the CPP and FUNCINPEC have agreed on the formation of a new government based on those elections. This coalition government plans to return Hun Sen as prime minister and Prince Ranariddh as president of the National Assembly.

Cambodia is divided administratively into 20 provinces (Khaet) and four municipalities (Krong). Each province is divided into districts (Srok) and further into communes (Khum), of which there are 1621 nation-wide. Provincial and district leaders are appointed by the central government, and are currently split between the two coalition parties. Commune leaders have been appointed by the CPP. However, in a

step towards democratization at the local level, elections for commune councils and leaders took place on February 3, 2002. The CPP retained control of the vast majority of communes, but more than 90 percent of all communes will have multi-party commune councils.

Since the UNTAC period, Cambodia has undertaken an aggressive economic and political reform program with the assistance of the International Financial Institutions and various multilateral and bilateral donors. Reforms slowed down during the period of instability beginning in mid-1997 but resumed in late 1998 with the formation of a second coalition government. Donors expressed their confidence in the government's commitment to reform at the in February 1999 World Bank-chaired donors' Coordinating Group meeting in Tokyo with pledges of about \$470 million in assistance, but the donors also decided to intensify their monitoring of Cambodia's progress. Donors also instituted regular consultations with the Cambodian government on key reform areas including military demobilization, forestry reform, fiscal reform, administrative reform and other governance issues. Cambodia performed well on its reform program in 1999, and donors pledged a total of \$548 million in assistance at a Coordinating Group meeting in May 2000 and a further \$611 million in June 2001. The most recent donor conference in June 2002 saw pledges of \$635 million. It should be noted that for a variety of reasons donors tend to disburse only about 80 percent of their announced pledges. Due to the ongoing political deadlock, there has not been a donor-pledging meeting since June 2002. In anticipation of the formation of a new government, the Cambodian government in early 2004 announced its intention to ask donors for pledges of roughly \$500 million in each of the next three years.

The United States has full diplomatic relations with Cambodia and normal trade relations. Cambodia received MFN status from the U.S. under the terms of a 1996 agreement on Trade and Intellectual Property Rights, and received GSP benefits from the U.S. in 1997. Cambodia signed its groundbreaking bilateral textile agreement with the U.S. in 1999, which offered increased textile quota if the U.S. determined that Cambodia was in substantial compliance with internationally recognized core labor standards. This agreement was renewed in December 2001, and will continue in effect through the end of 2004.

In sum, the Cambodian government has adopted a free market, pro-investment economic policy. The state role in the economy is minimal and the government offers significant incentives to attract foreign investors. Additionally, the government has made attempts at regular consultations with the business community. However, significant gaps in the legal system, the weakness of key financial institutions such as the banking sector, and problems of non-transparency and corruption continue to deter investment. The one notable exception has been the garment industry, which has attracted some 200 factories since 1994 and now accounts for over 90 percent of Cambodia's exports and 40 percent of Cambodian GDP. This industry was drawn to Cambodia by the availability of textile quota access to the U.S. market.

CHAPTER 4 MARKETING U.S. PRODUCTS AND SERVICES

Direct Marketing

Products from the U.S. are popular in Cambodia; they are often seen as a positive sign of status and quality. As a result, a wide variety of U.S. products, often purchased through U.S. wholesale outlets and shipped for resale in Cambodia, are available in Cambodian markets. There is little direct marketing of U.S. products in Cambodia. E-commerce is relatively undeveloped, although two local banks have begun to issue credit cards in order to facilitate purchases made via the Internet.

With a population of just under 14 million, the Cambodian market is small and the annual per capita GDP of under \$300 is low. Annual per capita income is quite a bit higher in urban areas but still the potential market for imports remains small. Informal estimates of annual per capita GDP in terms of purchasing power in the United States tend to be equivalent to around \$1,500.

Despite Cambodia's low population base, a key investment attraction is Cambodia's strategic regional location within the Mekong region. There is significant cross border trade between Cambodia and its neighbors, Thailand, Vietnam and Laos. Cambodia is a member of ASEAN, which has some 500 million consumers and is a member of the ASEAN Free Trade Area, although it has not yet completed all of the implementing provisions.

Cambodia receives assistance from the international community to help in the rebuilding of its economy. Significant opportunities exist to participate in or to win publicly funded or donor-funded projects, particularly in the effort to rebuild Cambodia's infrastructure.

Distribution and Sales Channels

There are three widely used distribution channels. Wholesalers import goods and then sell the goods to retailers. In some cases, the wholesalers provide delivery service, credit, and warranties to small shops or stands in the local markets. Some sellers reach consumers through their own retail shops or via vans traveling throughout the country. Finally, sellers who have no retail shops sell directly to customers by advertising in newspapers, and on radio and television.

Use of Agents and Distributors -- Finding a Partner

Many Cambodian firms wish to become agents or distributors of U.S. companies, since U.S. goods and services are well received here. The U.S. Embassy in Phnom Penh can help companies identify agents, distributors and partners.

The draft Company Law, known as the Commercial Enterprise Law, is at the National Assembly waiting for approval. A December 1997 circular permits the formation of limited and general partnerships, but the actual registration of partnerships is not possible in the absence of a duly enacted company law.

A sole proprietorship is defined as an enterprise wholly owned by a single natural person. It is possible to register a sole proprietorship at the Ministry of Commerce (which currently acts as a registrar of companies).

Another legal form of business that can be established by eligible investors is a representative office, which is primarily designed to facilitate sourcing local goods and services and collecting local information for the home company. A representative office can also serve as a channel for promoting and marketing products. Thus, such an office can be well suited for American firms wishing to sell products in the country to gain entry to the Cambodian market.

Franchising

Cambodia has currently no special laws regulating franchises. The draft Commercial Enterprise Law pending adoption has a provision to cover the franchises.

Joint Ventures and Licensing

Joint ventures are common, but no special laws apply. Joint ventures with the government exist; the government contributes a majority share, generally in real estate, while the foreign joint venture partner, with a minority share, brings cash or equipment to the deal. The government percentage fluctuates widely.

Establishing an Office

The Council for the Development of Cambodia (CDC) approves applications for investment incentives pursuant to the amended Investment Law adopted on February 4, 2003. The Cambodian Investment Board (CIB), a division of the CDC, is responsible for accepting and reviewing applications for investment incentives.

Investors seeking incentives (see Chapter 7 of this guide) should file an application together with an investment proposal with the CIB. Included should be an application fee (which varies between \$100-\$500 at the time of application and \$200 - \$1000 at the time of approval, the amount depending on the value of the investment project), a feasibility study and the annual report of the shareholder company.

From the date of submission of the application, the CIB has 3 working days to issue a Conditional Registration Certificate or a Letter of Non-Compliance to investors. A Final Registration Certificate must be issued within 28 working days of the issuance of the Conditional Registration Certificate.

Upon receipt of an agreement in principle from the CIB, the investor prepares registration forms for filing with the Ministry of Commerce. The Ministry of Commerce issues the formal business license (legal entity). Twenty-five percent of the company's registered paid-up capital must be deposited in a company bank account 30 days from the date of the agreement in principle and such a deposit is required prior to the Ministry of Commerce issuing a business license.

Investors not seeking incentives or not establishing companies in promoted sectors fall outside of the jurisdiction of the CDC, and must register companies solely with the Ministry of Commerce. The promoted sectors included manufacturing,

infrastructure development, hotels (international standard) and environmental protection activities.

U.S.-trained attorneys who wish to establish offices in Cambodia are required by terms of the bar statute, passed in June 1995, to affiliate with an attorney licensed in Cambodia. The number of attorneys licensed in Cambodia is very small.

Selling Factors/Techniques

The adult literacy rate in Cambodia was 68.2 percent in 1999. Approximately 85 percent of the population lives in rural areas. Print media is unlikely to be the most effective method to reach potential consumers. Broadcast advertising is likely more effective.

Advertising and Trade Promotion Resources

Advertising and trade promotion are important marketing tools in Cambodia. Local vendors use a variety of advertising methods. Special promotional campaigns might be conducted at local markets, shops, restaurants, Internet cafés and movie theaters to reach the public. Giving gifts, discount coupons or lucky draws for items including money, motorcycles, cars or electrical appliances, as part of commercial promotion is a worthwhile selling factor/technique. Cambodian companies themselves often use these methods successfully to introduce a new product to the public.

Although newspaper advertising is often used, radio and television are also effective means of reaching the Cambodian public. Khmer language newspapers are often linked to political parties, and press runs for the smaller publications are very limited. As mentioned above, the ability of the print media to reach the substantial portion of the population living outside urban areas can be quite limited.

Published in the capital, the major dailies are distributed to the larger provincial cities. Ratings and market share of various broadcast outlets and programs are not routinely determined, since no local equivalent of Nielsen or Arbitron exists. Instead, stations commission occasional small surveys to determine audience size and programming preferences, and university students sometimes do similar studies as academic projects.

According to a survey on radio programming conducted by the International Republican Institute (IRI), local FM 105 is the most listened radio station in Cambodia, followed by FM 95, FM 90.5 and FM 90.

Billboards are present on many streets in Phnom Penh and are used in provincial capitals as well. Leaflets and mobile loudspeakers are also popular advertising and campaigning techniques, especially among political parties.

Following is a brief listing of major newspapers, business journals and radio and television stations:

Newspapers:

A) Phnom Penh Post (English language)

Address: 10A, Street 264, Phnom Penh
Mobile: (855) 15-912-480
Fax: (855) 23-426-568
Managing Director: Ms. Kathleen O'Keefe
Email: michael.pppost@bigpond.com.kh
Website: <http://www.phnompenhpost.com>

B) Cambodia Daily (English language)

Address: 50B, Street 240, Phnom Penh
Phone: (855) 23-426-602/490
Fax: (855) 23-426-573
Editor-in-chief: Mr. Matt Reed
Email: aafc@forum.org.kh
Website: <http://www.cambodiadaily.com>

C) Business News (English language)

Address: 12Eo, Street 82, Phnom Penh
Phone: (855) 23-722-332, 12-827-857
Fax: (855) 23-722-332
Managing editor: Mr. William Chan
Email: bizznews@camnet.com.kh

D) Cambodge Soir (French language)

Address: 26, Street 302, Phnom Penh (P.O. Box 627)
Mobile: (855) 15-833-415 or 12-815-990
Phone: (855) 23-362-654
Fax: (855) 23-362-654
Editor: Mr. Pierre Gillette
Email: cambodgesoirpnh@bigpond.com.kh

E) Reasmey Kampuchea (Khmer language)

Address: 476, Preah Monivong Blvd., Phnom Penh
Phone: (855) 23-362-881 or 23-362-472 or 12 992 222
Fax: (855) 23-362-472
Editor: Mr. Pen Pheng
Email: rasmei_kampuchea@yahoo.com

F) Koh Santepheap Daily (Khmer language)

Address: 165E0, Street 169, Phnom Penh
Phone: (855) 23-983-025 or 11-820-800
Fax: (855) 23-983-035
Editor: OknhaThong Upang
Email: kohsantepheap@camnet.com.kh
Website: <http://www.kohsantepheapdaily.com.kh>

Radio Stations:

A) National Radio of Cambodia

Address: #106, Street Preah Kosamak , Phnom Penh

Mobile: (855) 18-810-184 or 16-819-517

Phone: (855) 23-723-369 or 23-368-140

Fax: (855) 23-427-319

General Director: Mr. Vann Seng Ly

B) Radio Station FM 97 Mhz

Address: 69, Street 360, Phnom Penh

Mobile: (855) 17-810-063 or 18-811-979

Fax: (855) 23-427-459

Director General: Mr. Sok Eysan

C) Radio Station FM 98 Mhz

Address: 165, Borey Keyla, Phnom Penh

Phone: (855) 23-366-061 or 062

Fax: (855) 23-366-063 or 064

General Director: H.E Neang Phat

D) Radio Station FM 99 Mhz

Address: 41, Street 360, Phnom Penh, Cambodia

Mobile: (855) 12-813-699

Tel/fax: (855) 23-212-376

General Director: Mr. Kim Boeun

E) Phnom Penh Municipality Radio Station FM 103 Mhz

Address: 2, Russian Federation Blvd., Phnom Penh

Mobile: (855) 12-808-849 (Chan Sarak)

Tel/fax: (855) 23-360-800

General Director: Mr. Khampun Keomany

F) Radio Station FM 105 (Beehive Radio)

Address: 44G, Street 360, Phnom Penh

Mobile: (855) 15-916-502

Tel/fax: (855) 23-210-439

Director General: Mam Sonnando

Email: sbk@online.com.kh

Website: <http://www.sbk.com.kh/index.htm>

G) Radio Station FM 90.5 (Taprom Radio)

Address: # 27B1, Street 472, Phnom Penh

Tel/fax: (855) 12 931 985

Director: Anandyath Noranaridh

H) Love FM English 97.5
Address: # 2, Russian Blvd, PP 12251
Tel: (855) 16 975 975
Fax: (855) 23 360 800
Email: lovefm@everyday.com.kh
Website: <http://www.lovefm.ws/>

Television Stations:

A) National TV (TVK) of Cambodia
Address: Information Ministry Compound, 62 Monivong Blvd., Phnom Penh
Mobile: (855) 12-935-905 (Him Sourng)
Phone: (855) 23-724-149
Fax: (855) 23-426-407
General Director: Mr. Mao Ayuth
Email: tvk@camnet.com.kh
Website: <http://www.tvk.gov.kh>

B) IBC TV Cambodia (Royal Military TV Station)
Address: 165, Borey Keyla, Phnom Penh
Phone: (855) 23-366-061 or 062
Fax: (855) 23-366-063
General Director: H.E. Neang Phat
Email:
Website: <http://www.tv5cambodia.com>

C) TV9 (Khmer Television 9)
Address: 18, Street 562, Phnom Penh
Mobile: (855) 12-858-142
Fax: (855) 23-368-212
General Director: Mr. Phan Tith
Email: tv9cambodia@hotmail.com
Website: <http://www.tv9.com.kh>

D) Apsara Television 11
Address: 69, Street 57, Corner Street 360, Phnom Penh
Mobile: (855) 12-949-414
Tel: (855) 23-303-001/303-002
Fax: (855) 23-214-302
General Director: Mr. Sok Eysan
Email: apsaratv@camnet.com.kh
Website: <http://www.apsaratv.com.kh>

E) Phnom Penh Municipality TV-3 Station
Address: 2, Russian Federation Blvd., Phnom Penh
Mobile: (855) 12-808-849 (Chan Sarak)
Tel/fax: (855) 23-360-800
General Director: Mr. Khampun Keomany
Email: tv3@camnet.com.kh
Website: www.tv3.com.kh

F) Bayon TV 27

Address: Ta Khau, Kandal

Mobile: (855) 15-850-714

Tel: (855) 23- 983-435

Fax: (855) 23-363-795

Director General: Thai Noraksathya

Email: bayontv@camnet.com.kh

Website: <http://www.bayontv.com.kh/>

G) CTN (Cambodian TV Network)

Address: National Road # 2, Khum Prek Ho, Srok Takmao

Tel: (855) 12 800 966

Fax: (855) 12 999 421

Director: Glen Felgate

Email: glenfelgate@camgsm.com.kh

Website: <http://www.ctncambodia.com/>

After-Sales Service and Customer Support

After-sales service and customer support are important to both current and future sales of products in Cambodia. The limited in-country supply of spare parts for some brands of automobiles has contributed to the failure of those makes to increase market share against brands whose parts are more readily available. The arrival of company certified maintenance facilities for specific product lines, particularly for electronic equipment, indicates that the local market is beginning to evolve away from a “fix it shop” approach to a more formal system of repair.

Depending on the products and services to be exported, Cambodian agents, distributors and consumers can expect after-sale services from their U.S. suppliers, including product warranty for a specified period, training, advertising and promotion and availability of spare parts. Providing after-sale service could be an effective method of boosting sales and winning customer loyalty.

Protecting Your Product From IPR Infringement

Cambodia has passed a trademark law and patent and copyright legislation. The Ministry of Commerce registers trademarks. The Ministry requires appropriate documentation for registration of a trademark. The Ministry of Industry, Mines, and Energy registers patents and trademarks for locally manufactured goods (thus duplicating the Ministry of Commerce in this regard). The Ministry of Culture and Fine Arts controls copyrights for printed material, music, motion pictures, and videos; the Ministry’s approval is required for production and sale of movies and videos. Enforcement of existing legislation is still weak, although some action has been taken against attempts to import counterfeit goods.

Some effort to combat the availability of illegal optical media has been made, but it has been largely limited to locally produced products. The Cambodian system is designed to wait for victims to ask for assistance. In essence, foreign producers will have to ask for and largely fund themselves a sustained effort by Cambodian authorities for stop the distribution and sale of bootleg materials. Local producers often complain about the difficulty in obtaining cooperation from the authorities without paying money.

Corruption and a weak judicial system have made enforcing IPR regulations inconsistent at best.

Local Attorneys

U.S. attorneys affiliated with Cambodian attorneys as required by the bar statute can be contacted through the following entities (listed alphabetically):

A) Allens Arthur Robinson Group

Contact Person: Ms. Lisa Button

Level 2

11 , Street 278 Boeng Keng Kang,

Chamcar Mon, Phnom Penh

Tel: (855) 23-215-664

Fax: (855) 23-215-637

B) Dirksen Flipse Doran & Le (DFDL)

Contact Person: Mr. Martin DeSautels

Address: #45, Preah Suramarith Blvd., Phnom Penh

Mobile: (855) 12-815-274

Tel: (855) 23-360-545 or 23-428-726

Fax: (855) 23-428-227

Email: info@dfdl.com.kh

Website: www.dfdl.com.kh

C) KPMG Cambodia Limited

Contact person: David King, Director

2, Street 208, Sangkat Boeung Prohit

Tel: (855) 23 216 899

Fax: (855) 23 216 405

Email: davidking@kpmg.com.kh

E) PriceWaterhouseCoopers Ernst & Young

#124, Norodom Blvd.

Tel: (855-23) 218-086

Fax: (855-23) 428-076

Contact: Mr. Senaka Fernando and Mrs. Sally Relph

Email: senaka.fernando@kh.pwc.com

F) Sarin & Associates

Contact Person: Mr. Denora Sarin

Address: #3, Street 334, Phnom Penh, Cambodia

Mobile: (855) 12 828 007/ 12 804 501

Fax & Phone: (855) 23-882-943

Email: sarin-associates@camnet.com.kh

G) Sciaroni and Associates, Ltd.
Contact Person: Mr. Bretton G. Sciaroni
Address: #56, Sothearos Blvd., Phnom Penh
Mobile: (855) 12-802-274
Tel: (855) 23-362-670
Fax: (855) 23-362-671
Email: info@sa-cambodia.com

CHAPTER 5 LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

With its badly deteriorated infrastructure and a small industrial base, the Cambodian economy relies heavily on imported goods and services. Imports, which exceeded U.S.\$1.7 billion in 2003, are a major factor in consumer spending as the ability of local manufacturing to serve the domestic market is minimal. While most imports come from low-cost, neighboring countries, and smuggling is significant, American companies enjoy a reputation for quality and reliability in Cambodia, giving them a distinct advantage. Cambodian merchants and consumers proudly display U.S. brand names, and a surprising variety of U.S. products are available in Cambodian markets.

Cambodia is a very poor country with an underdeveloped private sector. There is significant market potential in a number of sectors, but low levels of domestic and foreign investment, as well as the unavailability of local credit have been restraining factors. Cambodia is still heavily dependent on foreign assistance to fund public investment; with aid totals around 14 percent of GDP as of 2003. Cambodian households that can afford western-style goods number only in the tens of thousands. The most profitable area for U.S. companies to operate in Cambodia is in the services sector. The areas listed below represent the U.S. Embassy's current assessment of the best potential prospects for U.S. exports and investment in the near to medium term. These areas are not rank-ordered.

Architecture, Construction, and Engineering Services

After over 25 years of war, Cambodia is beginning to reconstruct its devastated infrastructure, principally with assistance from international donors. Given the extent of the collapse of infrastructure elements such as the road network, construction and engineering services will be in great demand for the foreseeable future. Public works and transportation are a high priority for the Cambodian government and donors alike.

The Japanese government, World Bank, and Asian Development Bank are especially active in road construction in Cambodia. The Cambodian government has also offered Build-Operate-Transfer (BOT) concessions to several companies to rehabilitate portions of Cambodia's badly degraded national highway system. Cambodia is also eager to upgrade its provincial airports. Because there is no money in the national budget to perform these activities, Cambodia has offered BOT concessions for the provincial airports as well.

The government has shown a willingness to grant rights of operation and maintenance of already paved roads to private sector companies due to a shortage of public funding. A local company, AZ distribution, has been awarded a contract by the government to maintain and operate the U.S.-built National Route 4.

Cambodia has witnessed a major boom in construction over the last few years. Indications are that the residential and commercial construction industry will continue to experience rapid growth in the coming years. Imported equipment and materials amount to roughly \$60 million in 2002. This figure may be understated as a result of significant smuggling of construction materials. The main sources of construction materials are Thailand, Vietnam and China, but high quality American materials and fixtures, such as

ceramic sanitary ware, enjoy a market with Cambodia's urban elite and foreign residents.

Household Goods and Appliances

Although few in number, Cambodia's urban elite are willing to pay for quality. Numerous American food and consumer products, from condiments to cleansers, are available in Phnom Penh's expanding number of supermarkets. U.S. appliances such as refrigerators and washing machines are sold as well. They sell well against the poor quality goods now sold in Cambodia, but they still have not achieved a large market share. As the economy grows and families in urban areas enjoy more disposable income, there is also potential for items such as domestic water purification equipment.

Because of Cambodia's tropical climate, there is significant demand for air conditioning equipment, and several U.S. brands are available in Cambodian markets. The most popular models are split units with remote control features. Very few buildings have central air conditioning, but there is a market for industrial scale equipment in Cambodia's garment and footwear industries. High electricity and fuel costs mean that energy efficiency is a strong selling point for any type of appliance in Cambodia.

Agribusiness and Food Processing

With a low population density and abundant arable land, conventional wisdom is that Cambodia's comparative advantage is in the agricultural sector. As of 2003, some 70 percent of Cambodia's population was engaged in agriculture. As a matter of policy, the Cambodian government encourages investment in agriculture, diversification of agricultural products and investment in improved irrigation and water control, but the government lacks funds to promote such activities on a large scale. Most of the demand for water pumps, well-drilling machines, tractors, tilling equipment, rice milling, drying, and packaging equipment, fertilizers, insecticides, and seed currently comes from NGOs and private agribusiness investors.

There is significant potential to expand the production of high yield varieties of rice and other crops, and several investment projects in oil palm, tapioca, rubber, cotton and cashew plantations are underway. The presence of an increasing number of plantations creates growing opportunities for the establishment of processing plants to add value to basic products for export and domestic consumption.

Used Cars and Automotive Parts

Automobile ownership is rapidly increasing in Cambodia, almost entirely in urban areas. Of the estimated 150,000 passenger cars now on the road, the vast majority are imported second-hand vehicles. The most popular models are 4-wheel drive vehicles and mid-sized Japanese sedans; the latter are usually U.S.-made models. Right-hand drive vehicles from Thailand and Japan are becoming less popular due to sporadic government attempts to ban them.

The value of cars imported was officially estimated at \$23 million for the first 11 months of 2001. However, the actual size of the automobile market is difficult to estimate due the routine occurrence of smuggling and theft from Thailand; the latter is reported as being as high as 6,000 cars and motorcycles valued at \$2.3 million annually.

The U.S. appears to be the second largest supplier of used vehicles after South Korea, the source of a significant percentage of Cambodia's light and medium trucks. A number of companies sell new cars in Phnom Penh. Ford has a local dealership, and the market also supports a Peugeot dealer as well as representatives of all major Japanese companies.

Automobile parts and accessories from the U.S. are available in Cambodian markets, particularly for Toyota vehicles. Limited availability of parts for other companies' models has created a market logic in which customers often choose Toyotas because parts are available and affordable. This further reduces the incentive for companies to stock non-Toyota components. As with other products, U.S. auto parts have a reputation for quality and attract a higher price than parts produced in Thailand, Taiwan or other Asian countries.

Power Generation Equipment

Cambodia's public utilities are unreliable, expensive and cover only the major cities. Power in provincial cities is priced even higher than the \$0.21 per kilowatt-hour in Phnom Penh. In rural areas, the only source of electricity is often an automobile battery charged by an entrepreneur with a small portable generator. There is tremendous demand in Cambodia for diesel generators for use as back up power, on-site industrial power plants, and power generation in rural areas not served by public utilities. One Cambodian government source estimates that there are 25,000 privately owned generators in Phnom Penh alone. Power generation capacity in Phnom Penh was 93 MW in 2000, and has only reached 110 MW as of 2003. A new power plant to be completed in 2005 will add another 32 MW to the Phnom Penh area but will still not be able to meet rapidly growing demand.

The Ministry of Industry, Mines and Energy has also prepared a detailed energy development plan involving the proposed construction of several thermal power plants. As with other types of infrastructure development, the government does not have funding for such facilities, but U.S. suppliers should check World Bank and ADB web sites regularly for potential new projects in the energy sector. The Cambodian government has stated that it is amenable to private ownership and private financing of power plants, however, one such facility currently under development has experienced difficulty in gaining government sanction. In short, there are many competing actors in the power generation field in Cambodia with the WB and ADB pursuing their own agenda to increase the power supply. There may not be as much room for private investors in this sector as the Cambodian government and the international financial institutions will likely dominate the sector for some years to come. If there are major discoveries of natural gas in Cambodian waters in the Gulf of Thailand, then this equation might quickly change. The Cambodian government would likely need private investors to help commercialise and monetize any such major find. The Ministry's master plan projects investment potential in the power sector at \$150 million for 1999-2003, and up to another \$1 billion between 2004 and 2016.

Fast Food and Beverage Franchises

Fast food and beverage franchises are conspicuously absent from Cambodia. Despite Cambodia's poverty, there may be a sufficiently large urban middle class in

Phnom Penh, at least, to support such businesses. The few local enterprises emulating U.S.-style fast food restaurants are popular and busy. The U.S. Embassy has received numerous inquiries from local businesses about joint-venture possibilities with well-known U.S. franchises. Both major American soft-drink companies have bottling plants in Phnom Penh. Cambodia's air and land links to Thailand and Vietnam make it easy for local restaurants to secure adequate supplies of fresh ingredients which meet western standards, and the government offers generous investment incentives in the agricultural sector, which would potentially be available to any franchise interested in local production.

Drugs, Medical Supplies and Medical Equipment

The U.S. is the second largest supplier (after France) of drugs, medical supplies and medical equipment to Cambodia. The Ministry of Health is the single largest purchaser of drugs, medical supplies and medical equipment, but the proportion of health care provided by the private sector is increasing. Only companies licensed by the Ministry of Health may import drugs, medical supplies or medical equipment.

U.S. products only account for about \$2-3 million of Cambodia's \$40 million pharmaceutical market. Oral and injectable drugs account for 70 percent of pharmaceutical sales. In addition to the formal market, there is a large parallel market of smuggled (and often counterfeit) pharmaceuticals.

Banking

In the future, there may be limited opportunities for U.S. commercial banks to operate in Cambodia, particularly in partnership with local banks. There is no U.S. presence in the industry now. Banking activity in Cambodia is minimal (bank lending to the private sector is less than 8 percent of GDP) and public confidence in local banks is low. High reserve requirements limit the availability of funds for disbursement as loans. However, efforts to reform the banking sector may present opportunities. With assistance from the IMF, Cambodia drafted and passed a new "Law on Banking and Financial Institutions" in late 1999.

The National Bank of Cambodia has liquidated banks unable to meet the new law's requirements and re-licensed those banks that are in compliance. As a result, the number of banks in Cambodia was reduced from 31 to 17. Some relatively strong domestic banks are likely to seek foreign partners who can bring capital and expertise to their operations.

Most Cambodian banks engage principally in trade finance, but there will hopefully be an expansion of domestic lending as confidence in the banking sector and economy increases. There is a market for money transfer services in Cambodia to meet the needs of foreign investors, expatriates and Cambodian families receiving remittances from abroad; the large Cambodian community in the United States may provide a source of the latter form of business.

CHAPTER 6 TRADE REGULATIONS AND STANDARDS

Trade Barriers

Cambodia has been invited to join the WTO and has begun work to bring its trade-related laws and regulations in compliance with the WTO principles. The Cambodian government has, so far, eliminated most non-tariff barriers to trade. Import licenses are required for firearms and pharmaceuticals. Export licenses are required for antiquities, rubber, and timber. Garment exports require certificates of origin (CO) from the Ministry of Commerce.

As of January 2000, Cambodia amended its regulations to allow foreign investors to own import and export businesses,

Customs Duties

Under the ASEAN Free Trade Area (AFTA), Cambodia is obligated to reduce tariffs each year and by 2010 the country's duty rates will need to be between 0% to 5% depending on the goods being imported. In the meantime, customs duties have been simplified to a four-band system, with rates ranging from 0 to 35 percent, as follows:

- 0% duty rate is for goods that government policy provides as exempt from duty.
- Raw materials, such as cement, iron, tile and brick, and items considered essential to daily life, including meats, fruits, tea, vegetable oil, sugar, soap, shoes, eye glasses, clothing and bicycles, carry a tariff of 7 percent.
- Machinery and equipment carry tariffs of 15 percent.
- Finished products, including televisions, radios, cassette players, paints and household furnishings carry a tariff of 35 percent.
- Luxury goods and government-protected goods, including automobiles, wine, cigarettes, perfume, weapons and cosmetics, carry a tariff of 35 percent. Note that automobiles are subject to an additional excise tax, based on engine displacement.

The following items are exempt from import duties: Agricultural equipment and inputs, school materials and equipment, pharmaceutical products and sporting goods, but importers of these products must still pay value-added tax (VAT) of 10 percent.

Duties are generally not levied on exports except for the following restricted export products: natural rubber, unprocessed or uncut precious stones, processed wood and fish and crustaceans, mollusks and other aquatic products. Taxes to be paid for by the exporter are as follows:

- Duty rates of 2%, 5% and 10% for natural rubber (Cambodia temporary uses cascade rates for this product)

- Duty rates of 5% and 10% for processed wood (depending on level and type of processing)
- Duty rate of 10% for fish and other aquatic products and uncut stones.

For complete listings of taxes of all items, please consult the Customs Tariff of Cambodia 2004, which is available for sale at the Department of Customs and Excise. The new tariff schedule for 2004 is based on WCO-HS version 2002 and is fully consistent with ASEAN Harmonized Tariff Nomenclature (AHTN).

Customs Valuation: Cambodia signed an agreement on August 14, 2000 with the Societe Generale de Surveillance (SGS) for pre-shipment inspection (PSI) under a Comprehensive Import Supervision Scheme (CISS) program. Under the program, importers will have to pay an intervention fee for PSI service. The charge schedule is:

- A fee of 0.8 percent ad valorem of the FOB value of the goods inspected as declared in the exporter's final or pro-forma invoice and indicated in the report of findings. This applies to all goods except for bulk petroleum products.
- A fee of \$0.30 per metric ton for bulk petroleum products only, or as declared in the exporter's final or pro-forma invoice and indicated in the report of findings.
- A minimum fee of \$210 per intervention will be applied if the ad-valorem rate or the tonnage rate would produce a lesser amount.

Any exported goods shipped in a container and which cost over \$4,000 must undergo pre-shipment inspection.

The following is a list of goods generally exempted from pre-shipment Inspection (PSI). Please note that the categories listed here are examples only. For detailed information on the latest changes or the whole list, please contact SGS Cambodia (see below for contact information).

- 1 – Imports with a FOB value below \$4,000
- 2 – Precious stones and metals
- 3 – Objects of arts
- 4 – Explosives and pyrotechnic products
- 5 – Ammunition, weapons implements of war
- 6 – Live animals
- 7 – Parcel post or commercial samples
- 8 – Household and personal effects
- 9 – Grants in kind
- 10 – Goods shipped for government use under government order
- 11 – Gifts and supplies to diplomatic and consular missions

Point of Contact:

- SGS Cambodia liaison office
Address: #368, Street 163, Chamkarmon District, Phnom Penh
Contact person: Ms. Hou Rattanak Bopha, local representative
Tel: (855) 23-210-730~6
Fax: (855) 23-210-737

Import Licenses

Import licenses have been abolished, with the exception of those required for firearms and pharmaceuticals. Permission to import is required from relevant government agencies depending on the nature of the commodity. For example, firearm licenses may be obtained from the Ministry of Interior and pharmaceutical licenses from the Ministry of Health.

Points of Contact:

- Ministry of Interior
Address: #275, Preah Norodom Blvd., Phnom Penh, Cambodia
Tel: (855) 23-214-682
Fax: (855) 23-214-683
- National Laboratory for Drug Quality Control, Ministry of Health
Address: #36, Jok Dimitrov, Phnom Penh
Contact Person: Mrs. Nam Nivanna, director
Tel/Fax: (855) 23-880-732 or Tel: 23-882-945

Among other special requirements are: food and pharmaceuticals shall have a 50 percent minimum remaining shelf life at the time of inspection. In addition, pharmaceuticals shall have a minimum 18 months remaining shelf life.

Export Controls

No license or permission is required to export goods out of Cambodia with the exception of logs, sawn timber, precious metals and stones, cultural properties and antiquities that all require special export licenses or authorization from the relevant government offices.

Import/Export Documentation

Cambodian customs requires importers and exporters to provide a bill of lading/airway bill, packing list, or invoice for all shipments.

For imports, a report of finding (ROF) is required if an import FOB has a value up to \$4,000. Customs reserves the right to determine whether prices stated in the ROF correspond to the likely market price of the goods. The value used is the notional open market wholesale price of identical or similar goods (excluding taxes and duties payable), which is akin to the Brussels definition of Value. Goods shipped through Vietnam via the Mekong River must also have a transit license.

As part of WTO accession, Cambodia has drafted a revised Customs Law to

bring the country into conformity with the terms of GATT/WTO Codes on Customs Valuation.

Temporary Entry

Cambodia has established temporary entry procedures for a certain number of goods. In general, certain commodities can be temporarily imported and re-exported within certain periods as specified by Customs. Commodities can be granted exemption from payment of import duty and/or taxes, but importers should contact Customs to ensure re-export within the fixed period.

Standards

Camcontrol (the Cambodia Import Export Inspection and Fraud Repression Department), a unit of the Ministry of Commerce, is charged with standards setting. Camcontrol does not currently have a mechanism for industry participation in this process. Cambodia passed a law on product quality in May 2000. The Ministry of Commerce requires foodstuffs to have a label including the following information: name of the goods, producer name and address, source, quantity, batch number and production date, expiration date, ingredients, directions for use (if necessary) and the license provided by any authorizing institution (if required for local products).

Cambodia has created a National Codex Committee to set industrial standards. It is now in the process of preparing national standards for a number of important commodity items including rice, corn and soya beans. The Committee is under the Ministry of Commerce.

Camcontrol has in the past confiscated shipments of items deemed not in compliance with the above standards. Camcontrol does run some programs to educate both vendors and consumers about hazardous products and the danger of harmful chemical substances in foodstuffs.

Point Of Contact:

- Camcontrol
Ministry of Commerce
Address: #50, Street 144, Phnom Penh, Cambodia
Contact Person: Mr. Suth Dara, Director
Tel/Fax: (855) 23-426-166
Tel: (855) 12 845-610

Prohibited Imports

Narcotics, explosives, and poisonous chemicals and substances are prohibited imports. Government regulations also prohibit the importation of used computers and spare parts, household waste (discarded from dwellings, public buildings, factory, market, hotel, business building, restaurant, transport facilities, recreation sites etc.) and hazardous waste (for example PCB waste from discarded air conditioners).

CHAPTER 7 INVESTMENT CLIMATE STATEMENT

Cambodia is a developing country with a market economy. It began the shift from a control economy to the free market in the late 1980s. Since the re-establishment of a constitutional monarch in 1993, the economy has grown relatively rapidly, except for a period between mid-1997 and late 1998, when Cambodia suffered political instability and the Asian financial crisis occurred. The economy began to rebound in late 1998, with the establishment of a new coalition government. Real GDP growth during 2002 was estimated as 5.5 percent. In 2003, it was about 5 percent and averaged about that in the 1999-2003 period. However, foreign direct investment in most sectors has lagged, and Cambodia depends heavily on foreign donor assistance to meet its investment needs. Since early 1999, the Cambodian government has intensified its economic reform program, a process the international financial institutions and donors participate in and monitor closely.

Openness to Foreign Investment

Cambodia's 1994 law on investment established an open and liberal foreign investment regime. The Council for the Development of Cambodia (CDC), Cambodia's foreign investment approval body, administers a package of investment incentives, discussed in detail in below. All sectors of the economy are open to foreign investment. There are no performance requirements and no sectors in which foreign investors are denied national treatment.

An August 1999 sub-decree created some restrictions on foreign investment: publishing, printing, and broadcasting activities are limited to 49% foreign equity, and there must be an unspecified amount of local equity in gemstone exploitation, brick making, rice mills, wood and stone carving manufacture, and silk weaving.

The government recently issued a sub-decree restricting foreign ownership of hospitals and clinics and forbidding the employment of non-Cambodian doctors in any speciality in which the Ministry of Health considers there to be an adequate number of Cambodian practitioners. While other sectors are eligible for 100% foreign investment, investment incentives vary according to the nature of the investment project.

Seeking to increase government revenue, the international financial institutions recommended that the Cambodian government scale back its investment incentives. The government amended the Law on Investment in February 2003.

The amendments to the law eliminated the special 9 percent corporate tax rate for all new investments and began the phasing out the standard 20 percent under the Taxation Law for the next 5 years after the effective date of the law for existing, approved and operational projects. After this 5-year period, such investment will also be subject to the standard 20 percent rate. The amendments brought to an end the tax-free reinvestment of profits and the rights to tax-free repatriation of earnings and other incomes by approved enterprises.

While some incentives are eliminated, the law provides a simplified and transparent mechanism for investment approval and thereby shortens the approval

process for new investments.

Article 44 of the constitution provides that only Khmer legal entities and citizens of Khmer nationality have the right to own land. Aside from this, there is little or no discrimination against foreign investors either at the time of initial investment or after investment. Some foreign businesses have reported, however, that they are at a disadvantage vis-à-vis Cambodian or other foreign rivals, who engage in acts of corruption or tax evasion, or take advantage of Cambodia's poorly enforced legal regulations.

The privatization of state enterprises has not always been carried out in a transparent manner. In several instances, the public learned that enterprises were for sale only after the government announced a sale to a particular buyer.

Investor rights (investment guarantees) provided for in the Law on Investment include:

- Foreign investors shall not be treated in a discriminatory manner by reason of investor being a foreign investor, except in respect to land ownership as provided for in the Constitution of the Kingdom of Cambodia.
- The Royal Government of Cambodia shall not undertake a nationalization policy that adversely affects the private property of investors.
- The Royal Government of Cambodia shall not fix the price of products or fees for services.
- The Royal Government of Cambodia, in accordance with relevant laws and regulations, shall permit investors to purchase foreign currencies through the banking system and to remit abroad those currencies as payments for imports, repayments on loans, payments of royalties and management fees, profit remittances and repatriation of capital.

Conversion and Transfer Policies

There are no restrictions on the conversion of capital for investors, as noted above. The Foreign Exchange Law does allow the National Bank of Cambodia (the central bank) to implement exchange controls in the event of a crisis; the law does not define what would constitute a crisis. The U.S. Embassy is not aware of any cases in which investors have encountered obstacles in converting local to foreign currency or in sending capital out of the country.

Expropriation and Compensation

Article 44 of the Cambodian constitution, which restricts land ownership to Cambodian nationals, also states that "the (state's) right to confiscate properties from any person shall be exercised only in the public interest as provided for under the law and shall require fair and just compensation in advance." Article 58 states that "the control and use of state properties shall be determined by law." Under the existing land law, all land is considered state property. The Law on Investment provides that "the Royal Government of Cambodia shall not undertake a nationalization policy which

adversely affects the private property of investors.”

A recent Cambodian government sub-decree abrogated certificates for possession and use of land and rights to immovable property in the newly created Koh Kong Industrial Zone. The document, which declares that the land is State property, makes no mention of compensation. There are currently no known investment disputes involving expropriation of property belonging to U.S. citizens. There are indications that the government was considering a program to compensate businesses for damages sustained from gunfire and looting troops during the 1997 factional fighting, but no plan ever came to realization.

Up to 17 Thai businesses sustained varying degrees of damage during anti-Thai rioting in Phnom Penh on January 29, 2003. The Cambodian government has pledged to compensate unconditionally all the damages. Some compensation has been paid to the Thai government and Thai businesses but the two countries to continue to work on the final details of a payment package.

Dispute Settlement

Cambodia's legal system is a mosaic of pre-1975 statutes modelled on French law, communist-era legislation dating from 1979-1991, statutes put in place by the UN Transitional Authority in Cambodia (UNTAC) during the period 1991-93, and legislation passed by the Royal Government of Cambodia since 1993. The legal system contains many gaps in key areas such as company law, bankruptcy and commercial arbitration.

The Cambodian legal system has also traditionally favoured mediation over adversarial conflict and adjudication. Thus, compromise solutions are the norm, even in cases where the law clearly favours one party in a dispute. The government is currently working on draft legislation to create a Commercial Court that might include an arbitration or mediation component.

Cambodia's court system is generally seen as non-transparent and subject to outside influence. Judges, who have been trained either for a short period in Cambodia or under other systems of law, have little access to published Cambodian statutes. Judges can be inexperienced and courts are often understaffed with little experience in adjudicating commercial disputes. The local and foreign business community reports frequent problems with inconsistent judicial rulings as well as outright corruption. Cambodian judges are paid minimal salaries.

Cambodia has no commercial arbitration code. However, in 2001, Cambodia passed a law implementing the New York Convention on the Recognition and Enforcement of Foreign Arbitration Awards, which Cambodia signed in 1960. Regardless of the legal basis for implementing arbitration awards, foreign or domestic, the ability of Cambodian courts to enforce decrees can be quite limited.

To handle specific disputes with regard to labor, the Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation established a Labor Arbitration Council in May 2003. Basing its decision on the provisions of the Labor Law, the Council has 21 arbitrators. The Council is an independent body whose function is to resolve collective labor disputes that the Ministry is unable to solve by conciliation. The Council's decisions are non-binding but are largely respected. In just one year's time,

the Council has been able to reduce the number of industrial actions in the garment sector by more than 40 percent.

Performance Requirements and Incentives

Under the amended Law on Investment, the profit tax exemption is allocated automatically, on the basis of activity and minimum investment amounts as set out in the sub-decree. To maintain the incentives under the law, qualified investment projects (QIP) are required to obtain an annual Certificate of Compliance from the CDC and file this with the annual tax return.

Investment incentives are administered by the Council for the Development of Cambodia (CDC), which was created as a one-stop shop to facilitate foreign investment.

The amended Law on Investment includes the following provisions, which include the exemption, in whole or in part, of customs duties and taxes, for QIPs:

- An exemption from the tax on profit imposed under the Law on Taxation for a set period. The tax exemption period is composed of a trigger period + 3 years + n year (n be determined). The minimum allowable trigger period is to be first year of profit or 3 years after the QIP earns its first revenue, whichever is sooner.
- 100% exemption from import duties for construction material, production equipment and production input materials for export QIPs and supporting industry QIPs in accordance with the provisions of sub-decree.
- Transfer of incentives by merger or acquisition.
- Guarantee against nationalization.
- Renewable land leases of up to 99 years on concession land for agricultural purposes and land ownership permitted to join ventures with over 50% equity owned by Cambodians.
- No Price Control.
- No discrimination between foreign and local investors.
- 100 percent exemption from export tax or duty, except for activities specifically mentioned in the Law in Customs.
- Employment of foreign expatriates where no qualified Cambodians are available. QIPs are entitled to obtain visas and work permits.
- A QIP which is located in a designated special economic zone (SEZ) is entitled to the same incentives and privileges as other QIPs as stipulated in the law.

The list of sectors to which investment incentives apply could be changed when a sub-decree is replaced or amended.

The current list of incentive sectors, without regard to the amount of investment capital includes: crop production, livestock production, fisheries, manufacture of transportation equipment, highway and street construction, exploitation of minerals, ore, coal, oil, and natural gas, production of consumption goods, hotel construction (three stars or higher), medical and education facilities meeting international standards, vocational training centers, physical infrastructure to support the tourism and cultural sectors, and production and exploitation activities to protect the environment.

Investment incentives are available for manufacturing projects in the following sectors when investment capital exceeds \$500,000: rubber and miscellaneous plastics, leather and other products, electrical and electronic equipment, and manufacturing and processing of food and related products. A minimum investment of \$1,000,000 applies when seeking incentives in the following sectors: apparel and other textiles, furniture and fixtures, chemicals and allied products, textile mills, paper and allied products, fabricated metal products, and production of machinery and industrial equipment.

The following sectors are not eligible for investment incentives, although investment is permitted: all types of trading activities, all forms of transportation services, duty-free shops, restaurants, karaoke and night clubs (now banned), business centers, press related activities and media networks, retail and wholesale operations, and professional services. According to Cambodia's 1995 law on The Establishment of the Bar, foreign business firms which wish to offer legal services in Cambodia must affiliate with a Cambodian attorney.

Investors who wish to take advantage of investment incentives must submit an application to the Cambodian Investment Board (CIB), the division of the CDC charged with reviewing investment applications. Investors not wishing to apply for investment incentives may establish their investment simply by registering corporate documents with the Ministry of Commerce.

Once an investor's application is submitted, the CDC will issue to the applicant either a Conditional Registration Certificate or a Letter of Non-Compliance within 3 working days. The Conditional Registration Certificate will set out the terms such as authorization, clearances, permits or registrations required. These relevant government agencies must issue the required documents no later than 28 working days from the date of the Conditional Registration Certificate. At the end of the 28 days, the CDC will issue a Final Registration Certificate.

Once the CDC approves the project in principle, the investor must pay a second application fee, depositing a performance guarantee of between 1.5 and 2 percent of the total investment capital at the National Bank of Cambodia, and register the corporate entity at the Ministry of Commerce. Once these steps have been taken, the investor will receive a formal investment license from the CDC requiring the investment to proceed within six months. Once the project is 30 percent complete, the investor is eligible for a refund of the performance guarantee.

Right to Private Ownership and Establishment

There are no limits on the rights of foreign and domestic entities to establish and own business enterprises or to compete with public enterprises. However, the constitution provides that only Khmer citizens or legal entities have the right to own land.

A legal entity is considered to be a Cambodian when at least 51% of its shares are owned by Cambodian citizen(s) or by Cambodian legal entities. As noted above, there are several investment sectors in which certain levels of local equity are required. Investment incentives vary depending on the nature of the investment project.

Foreign investors may secure control over land through a long-term lease (at least 15 years), made possible by the new 2001 Land Law. If investors intend to take a long-term lease interest in land or ownership interest through a 51% Cambodian company, it is essential that caution be exercised to ensure that clear and unencumbered ownership of the land owned is verified.

The new Land Law establishes a comprehensive legal framework for long-term leasing. The leaseholder has a contractual interest in the land, which means the lease can be sold or transferred through succession and can be pledged as security in order to raise financing. It is important to make sure that the land ownership is clearly and legally established before any leasing agreement is entered into.

Protection of Property Rights

Cambodia has adopted legislation concerning the protection of property rights including the Land Law and the Copyrights and Patent and Industrial Design Law. Cambodia is a member of the World Intellectual Property Organization (WIPO) and the Paris Convention for the Protection of Industrial Property.

Chattel and real property: A revised Land Law, passed in 2001, provides a framework for real property security and a system for recording titles and ownership. In practice, the titling system is not fully functional in Cambodia, and the majority of property owners lack documentation proving ownership. Even where title records exist, recognition of legal title to land has been a problem in some court cases where judges have sought additional proof of ownership. Although foreigners are constitutionally forbidden to own land, the new law allows them a long-term lease (15 or more years). Foreigners may also convey buildings and improvements on the land that they lease. Title or ownership of land dating from before 1979 is not recognized.

Intellectual property rights (IPR): Cambodia has been invited to join WTO and its IPR laws and regulations are in compliance with its WTO commitments. Comprehensive enforcement is another issue. The 1996 U.S. - Cambodia Trade Agreement contained a broad range of IPR protections, but given Cambodia's very limited experience with IPR, the agreement granted phase-in periods for the Cambodian government to fully implement these provisions

Trademarks: The Cambodian National Assembly passed a trademark law that complies with Cambodia's WTO obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Signed in February 2002, the law outlines specific penalties for trademark violations, including jail sentences and fines for counterfeiting registered marks. It also contains detailed procedures for registering trademarks, invalidation and removal, licensing of marks, and infringement and remedies.

Before a trademark law was in force in Cambodia, owners of trademarks were unable to seek relief from infringement in court. The relatively few complaints received

were directed to the Ministry of Commerce, which has responsibility for registering trademarks but does not have clear legal authority to conduct enforcement activities. Still, the Ministry took effective action against trademark infringement in several cases since 1998. The ministry has ordered local firms to stop using well-known U.S. marks, including Pizza Hut, Nike, Scotties, Marlboro, and Pringles. Since 1991, the Ministry of Commerce has maintained an effective trademark registration system, registering more than 10,000 trademarks (over 2,900 for U.S. companies) under the terms of a 1991 sub-decree, and has proven cooperative in preventing unauthorized individuals from registering U.S. trademarks in Cambodia.

Copyrights: Responsibility for copyrights is split between the Ministry of Culture, which handles phonograms, CDs, and other recordings, and the Ministry of Information, which deals with printed materials. The Ministry of Culture prepared a draft copyright law in 1998 with the help of WIPO and IFPI and it was enacted in January 2003. The Ministry has also sought comments on the law from the U.S. Asia-Pacific Motion Picture Association. Before the adoption of the law, there had been no enforcement of copyright provisions

Although Cambodia is not a major center for the production and export of pirated CDs, videos, and other copyrighted materials, these products are widely available in Cambodian markets. Pirated computer programs, VCDs, and music CDs are widely used throughout the country

Patents and industrial designs: Cambodia has a very small industrial base, and infringement on patents and industrial designs is not yet commercially significant. With assistance from WIPO, the Ministry of Industry, Mines and Energy (MIME) prepared a draft of a comprehensive law on the protection of patents and industrial designs in April 1999. It was adopted and in force as of January 2003. The law provides for the filing, registration, and protection of patents, utility model certificate and industrial design. The MIME has also issued a sub-decree on granting patents and registering industrial designs.

Encrypted satellite signals, semiconductor layout designs, and trade secrets: Cambodia has not yet made significant progress toward enacting required legislation in these areas, although it obtained a model law on encrypted satellite signals and semiconductor layout designs from WIPO in March 1999.

IPR enforcement: With the exception of the trademark enforcement actions described above, the Cambodian government has taken few significant actions to enforce its IPR obligations. Infringements on IPR are pervasive ranging from software, compact disk, music to photocopied books and the sale of counterfeit products including drugs.

Transparency of the Regulatory System

There is no pattern of discrimination against foreign investors in Cambodia through the regulatory regime. Numerous issues of transparency in the regulatory regime arise, however, from the lack of legislation and the weakness of key institutions. Investors often complain that the decisions of Cambodian regulatory agencies are inconsistent, irrational, or corrupt.

The Cambodian government is still in the process of drafting laws and regulations that establish the framework for the market economy. A Company Law and commercial arbitration law have yet to be approved by the National Assembly. Other important business-related laws such as bankruptcy, arbitration, e-commerce and personal property leasing laws are in draft only.

Cambodia currently has no anti-monopoly or anti-trust statutes. Cambodia allows monopolies on certain products.

As previously mentioned, the tax system has been amended. The amendments brought substantial changes to the taxation regime applicable to business operating in Cambodia. The tax system currently includes a profit tax (20%), excluding certain natural-resource development projects and including all QIPs registered with the CDC, a withholding tax (usually 20%), a salary or personal income tax (5-20%), a value added tax (10%), and specific excise taxes on certain merchandise (rates vary). There is a minimum turnover tax (1%); some foreign inputs are exempt from this levy, but have to pay a 1% advanced profits tax instead. There are also import and export duties (rates vary). The U.S. and Cambodia have not signed a Double Taxation Treaty.

The Cambodian Constitution and the 1997 Labor Code provide for compliance with internationally recognized core labor standards, and allows the Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation to set health, safety and other conditions for the workplace. (Section D of this report discusses the labor situation in more detail.)

The National Assembly passed a law and associated decree regulating pharmaceuticals in June 1996, giving administrative authority to the Ministry of Health. In May 2000, the National Assembly passed a law on quality of goods and services, comprising food safety, consumer protection and product liability. Food and product safety issues fall under the jurisdiction of the Cambodian standards authority, Camcontrol, which is under the Ministry of Commerce.

Camcontrol, the government's standards-setting arm, does not currently have a mechanism for industry participation in standards setting. There are currently no industry standards-setting organizations operating in Cambodia. Cambodia is a member of the Codex Alimentarius Commission created by FAO and WHO in 1963 to develop food standards, guidelines and related texts such as codes of practice under the Joint FAO/WHO Food Standards Program. The Ministry of Commerce is a focal point for Codex and created a National Codex Committee.

Cambodia's banks and financial institutions fall under the supervision of the National Bank of Cambodia (NBC). In November 1999, Cambodia passed a new law on banking and financial institutions. In July 2000, Cambodia enacted an insurance law that gives the Ministry of Economy and Finance regulatory authority over the insurance industry. The insurance market in Cambodia is relatively new. Currently there are a few major insurance companies operating here such as Indochine Insurance, the state-owned insurance company Caminco and Forte Insurance.

Capital Markets and Portfolio Investment

Cambodia currently has no capital markets. There is no stock or bond market,

and no means by which to purchase equity in a company except by agreement with the existing owners. Most companies are privately held.

The Cambodian government does not use regulation of capital markets to restrict foreign investment. Domestic financing is difficult to obtain at competitive interest rates. There is currently no law addressing secured transactions or a system for registering such secured interests. The secured transaction law is currently in draft form pending approval from the National Assembly. Most loans are secured by real property mortgages or deposits of cash or other liquid assets, as provided for in the existing contract law and land law.

Export/import financing is available from multinational banks through a variety of credit instruments. The U.S. Overseas Private Investment Corporation (OPIC), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) offer both investment guarantees and loans in Cambodia. Eximbank does not operate in Cambodia.

The total assets of Cambodia's banking system as of December 2003 were approximately 3,878 billion Riel (\$970 million). Loans account for only about one third of the banking system's assets, and it is impossible to estimate the percentage of loans, which are non-performing. As of December 2003, credit granted by the commercial banks amounted to 1,420 billion Riels (\$355 million).

Under the amended Law on Banking and Financial Institutions, all of Cambodia's commercial banks had to reapply for licenses from the NBC, and meet new, stricter capital and prudential requirements. As a result, there was a significant amount of shakeout and consolidation within the banking sector. All banks were required to meet new capitalization requirements by the end of 2001. As a result, the number of commercial banks was reduced from 31 to 17 by December 2003.

Political Violence

Until the end of 1998, there was a diminishing but real threat of sporadic violence from remnant Khmer Rouge units. There were large-scale defections of the Khmer Rouge in late 1998, and the Cambodian government arrested Ta Mok, the last remaining Khmer Rouge leader, in early 1999.

Corruption

Local and foreign business people have identified corruption, particularly within the judiciary, as the single biggest deterrent to investment in Cambodia. Public sector salaries range from \$15-30 per month for working level officials, and less than \$300 per month for high-ranking officials. These wages are far below the level required to survive in Cambodia, and as a result, public employees are susceptible to corruption and conflicts of interest.

Current Cambodian laws and regulations and their application do not seem sufficient to address the problem of corruption. Laws dating from the UNTAC period (1991-93) against embezzlement, extortion, and bribing public officials exist, but have never been enforced. After a draft national anti-corruption law failed to win National Assembly approval in 1999, the Cambodian government undertook to revise the draft

with cooperation from local and international NGOs, the World Bank, and bilateral donors. The draft applies only to acts of corruption within Cambodia, and includes provisions to establish an anti-corruption commission, declaration of assets and criminal penalties for payment or acceptance of bribes to or by public officials. Cambodia is not a signatory to the OECD Anti-Bribery Convention or any regional anti-corruption initiative. Cambodia is under increasing pressure from donors to address the issue of good governance in general, and corruption in particular.

In a draft action plan on good governance, which the government presented to donors in May 2000, Cambodia indicated its intent to pass anti-corruption legislation by late 2001 and by July 2003. However to date, no new legislation has been adopted.

The Ministry of Parliamentary Relations and Inspections has an anti-corruption mandate, but is largely inactive. The government also created an anti-corruption commission within the cabinet in late 1999, which has undertaken a few investigations, one of which resulted in the dismissal of a mid-level official in late 2001. Also in 2001, the government established a National Audit Authority.

Fighting corruption is one of the most important components of Cambodia's Governance Action Plan (GAP). The government recognizes the importance of taking action against corruption, but the challenge remains a daunting and long-term one.

Bilateral Investment and Agreements

Cambodia has signed bilateral investment agreements with Croatia, Cuba, Malaysia, Indonesia, Thailand, France, Switzerland, South Korea, Germany, Singapore, the People's Republic of China, the Netherlands, the Philippines, Vietnam, and the Organization of the Petroleum Exporting Countries (OPEC). The agreements provide reciprocal national treatment to investors, excluding benefits deriving from membership in future customs unions or free trade areas and agreements relating to taxation. The agreements preclude expropriations except those, which are undertaken for a lawful or public purpose, non-discriminatory, accompanied by prompt, adequate and effective compensation at the fair market value of the property prior to expropriation. They also guarantee repatriation of investments and provide for settlement of investment disputes via arbitration.

OPIC and Other Investment Insurance Programs

Under the Quick Cover Program, the Overseas Private Investment Corporation (OPIC) currently offers financing and political risk insurance coverage for projects on an expedited basis. Cambodia is eligible for this program, although no U.S. investor has taken advantage of it. With most investment contracts written in U.S. dollars, there is little exchange risk. Even for Riel-denominated transactions, there is only one exchange rate, which is fairly stable.

- Point of contact: Overseas Private Investment Corporation; contact person: Mr. Bruce Cameron, Business development officer; address: 1100 New York Avenue NW, Washington, DC 20527, USA; phone: 202-336-8745; fax: 202-408-5145; email: bcame@opic.gov. Website: <http://www.opic.gov/>

Cambodia is a member of the Multilateral Investment Guarantee Agency of the

World Bank, which offers political-risk insurance to foreign investors.

- Point of contact: Multilateral Investment Guarantee Agency (MIGA), 1818 H St. NW, Washington, DC 20433, USA, Tel: (001) 202-477-1234; fax: (001) 202-522-2630. Website: <http://www.miga.org/>

Labor

Cambodia has an estimated population of 13.4 million (2002 estimate), with a labor participation rate of 72 percent. The country has a labor force population (defined as being 10 years old and older) of some 6.3 million people in 2001, an increase from 5.4 million in 2000. The labor force grows at a rate of 3.4 percent annually; with over 150,000 people entering the work force every year.

Of the labor force, approximately 70 percent are engaged in subsistence agriculture. About 250,000 people are employed in the garment sector.

The economy is not able to generate enough jobs in the formal sector to handle the large number of entrants to the job market. This dilemma is likely to become more pronounced over the next decade. Cambodia suffers from a large demographic imbalance. Most estimates based on the 1998 census place fully 60 percent of the population at 20 years of age or younger. As a result, over the next decade several hundred thousand new job seekers are poised to enter the labor market each year.

Given the severe disruption to the Cambodian education system and loss of skilled Cambodians during the 1975-79 Khmer Rouge period, workers with higher education or specialised skills are few and in high demand. According to the survey in 1999, one in five persons had a secondary or higher education. An estimated 17,750 persons in the country had technical or vocational qualifications. There are also some 10,000 graduates and post-graduates in the labor force.

Although overall literacy is 72 percent, the adult literacy rate is about 35 percent, with literacy rates lower for women than for men. Many adults and children enroll in supplementary educational programs, including English and computer training. Employers report that Cambodian workers are eager to learn and, when trained, are excellent, hardworking employees.

Cambodia's 1997 labor code protects the right of association, the rights to organize and bargain collectively. The code prohibits forced or compulsory labor, establishes 15 as the minimum allowable age for a salary position, and 18 as the minimum age for anyone engaged in work, which may be hazardous, unhealthy or unsafe. The statute also guarantees an 8-hour workday and 48-hour work week, provides for time-and-a-half overtime pay, with double overtime for night work or work on the employee's day off. The law gives the Ministry of Social Affairs, Labor, Vocational Training, and Youth Rehabilitation (MOSALVY) a legal mandate to set minimum wages after consultation with the tripartite Labor Advisory Committee. MOSALVY set the minimum wage for the garment and footwear industries at \$45 per month in August 2000. There is no minimum wage for any other industry.

Cambodia does not currently have legislation governing worker health and safety, but there are various detailed ministerial regulations regarding payments in the

event of on-the-job accidents. In labor disputes in which workers complain of poor or unhealthy conditions, MOSALVY and the Ministry of Commerce have ordered the employer to take corrective measures.

Enforcement of many aspects of the labor code is poor, and the majority of labor disputes involve workers simply demanding conditions to which they are legally entitled. The U.S. Government, the ILO, and others are working closely with Cambodia to improve enforcement of the labor code, and workers' rights in general. The U.S.-Cambodia Bilateral Textile Agreement links Cambodian compliance with internationally recognized core labor standards with the level of textile quota the U.S. grants to Cambodia.

Cambodia has maintained reasonably low inflation and stable if not exactly spectacular economic growth during the past few years, which has kept inflation-driven wage increases in check.

Foreign Trade Zones and Free Ports

As a part of country's development, the Cambodian government has shown great interest in increasing exports via geographically defined special economic zones (SEZ), with the goal obviously being to attract much-needed foreign direct investment.

Cambodia plans to establish three SEZs, one is to be located at Koh Kong in the southwest, another at Poipet in the northwest and a third at the deepwater port at Sihanoukville.

The law on investment provides for incentives to encourage investments in SEZs. However, the legislation defining SEZs and establishing the rules under which they will operate is still in draft form.

Foreign Investment Statistics

Total foreign direct investment (FDI) flows into Cambodia for the years 1995-2002 are presented in the table below.

Total annual FDI flows into Cambodia, in US\$ millions. (source: MEF)

1995	1996	1997	1998	1999	2000	2001	2002
151	240	168	121	129	136	95	98

Figures from the CDC for registered capital of approved projects as of December 31, 2002, including domestic investment, and broken down by country of origin and economic sector, are provided below. These figures probably overstate actual investment, since figures are included for some projects that have not yet been, or may never be, fully implemented; retention of dormant or defunct projects from earlier years makes the investment figures higher.

Total cumulative registered investment projects approved, by country of origin, August 1994 to December 31, 2002. (Source: CDC)

Country	US\$ millions	pct.
Malaysia	1,530	40
Cambodia	893	23
Taiwan	349	9
P.R.China	186	5
Singapore	166	4.2
Thailand	131	3.3
U.K.	121	3.1
Hong Kong	113	3
R.O.Korea	98	2.5
Canada	54	1.3
Indonesia	54	1.3
Australia	41	1.0
USA	43	1.1
France	34	0.8
Japan	10	0.2
Other	44	1.1
Total	3,867	100%

Total cumulative registered investment capital by sector, from August 1994 to December 31, 2002 (source: CDC).

Sector	US\$ millions	No. of Projects
Industry	1,561	675
-- Food Processing	127	44
-- Garments	388	357
-- Petroleum	63	13
-- Wood Processing	252	37
-- Footwear	37	23
Agriculture	178	86
Services	332	83
-- Construction	121	13
-- Telecommunications	111	13
Tourism	1,797	66
Total	3,867	910

New investment projects in US\$ millions, by country of origin, 1995-02 (source: CDC).

Country	1995	1996	1997	1998	1999	2000	2001	2002
Malaysia	1,351	55	52.9	22.6	17	1.6	28	na
Cambodia	341	131	72.6	110.3	97.6	28	47	20.6
USA	5.5	6.4	13.8	2.3	4.4	3.7	5.2	na
Taiwan	11.9	124.8	47.6	78.9	29.4	16	35.6	5
Singapore	41	32	12.5	12.3	2.3	3.1	na	10
P.R.China	4.5	23	21.8	74.8	36.4	3.9	4.2	7.8
R.O.Korea	0.7	5	69.5	3.8	0	10	2	7.6
Hong Kong	5.4	10	17.8	47.9	22.4	4	0.7	1
France	18.8	10	1.1	0.6	0.6	3	na	na
Thailand	22	10	7.4	53	15.9	17	3.1	na
U.K.	44.9	50	7.1	0.4	1.5	6.5	1.5	0.4
Canada	39.2	7.6	1.8	2.1	0.2	1	na	2.2
Indonesia	1.6	2.5	2.2	9.6	0.4	3	na	na
Australia	1.3	4.2	32.9	1.4	0.02	0.8	na	na
Japan	0.8	3	0.3	2	2	0.2	na	1.2
Other	4.1	9.1	7.3	8.3	2.8	1.3	1.7	13.6
Total	1,894	483.4	367.6	430.6	233	102.9	129	69

New investment projects in US\$ millions, by sector, 1995 - 02 (source: CDC).

Sector	1995	1996	1997	1998	1999	2000	2001	2002
Industry	285	315	276.4	297.7	101.3	48	61	22.5
- Food Processing	44	5	6.6	8	2.4	27.4	1.5	...
- Garments	16	40	101.6	91.6	49.5	28.4	16.7	12.6
- Petroleum	24	31	4.7	1	1	...	...	...
- Wood Processing	8	137	13.3	91.5	...	...	1	1
Agriculture	13	56	15	44	31.3	8.5	1	6.2
Services	111	53	57	22.1	55	10	5.2	18
- Construction	80	22	1	1.2	16.4	...	...	...
- Telecom	4	13	55	13.4	22	...	...	2.9
Tourism	1,485	59	21	67	45.5	36.5	61.4	22.2
Total	1,894	483	369.6	430.6	233	103	129	69

The CDC has registered approximately \$43 million in U.S. investment since August 1994. Among the largest investors are Beacon Hill Associates with a proposed 60-megawatt independent power production project, Caltex with a chain of service stations and a petroleum holding facility in Sihanoukville, Northbridge associates with an international school, and Shelby corporation with a glove manufacturing facility. There are U.S. investors in several of Cambodia's garment factories

In March 2002, ChevronTexaco was awarded rights to a portion of Cambodian territorial waters in the Gulf of Thailand for the exploration and production of oil and gas. ChevronTexaco also has exploration rights of Blocks 7,8 and 9, which are presently in force majeure in the overlapping claims area between Cambodia and Thailand.

Major non-U.S. foreign investors include Asia Pacific Breweries (Singapore), Raffles International (Singapore), Shell (France), Total (France), Samart Mobil Phone (Thailand, Malaysia), Shinawatra Mobile Phone (Thailand), Thakral Cambodia Industries (Singapore), Petronas Cambodia (Malaysia), Chamroeun Pokphand (Thailand), and YTL (Malaysia).

Some major local companies and their sectors are: Sokimex (petroleum, tourism), Royal Group of Companies (Mobile Phone, Telecommunication), AZ Distribution (Construction), Mong Reththy Groups (Construction, rubber and oil palm plantation), KT Pacific Group, Hero King (Cigarettes), and Canadia Bank (Banking and real estate).

Statistics on Cambodian investment overseas are not available.

CHAPTER 8 TRADE AND PROJECT FINANCING

Brief Description of the Banking System:

Cambodia's banking sector is composed of the nation's central bank (the National Bank of Cambodia), the state-owned Foreign Trade Bank, 10 private banks, 2 foreign bank branches, 3 specialised banks and 5 micro finance institutions. As of November 2001, commercial bank loans totalled \$254 million. Of this total, 26 percent were for services and personal consumption, 25 percent for manufacturing, and 22 percent for wholesale and retail activities. Only 3.6 percent of commercial bank loans were for agricultural purposes.

Commercial bank regulation is weak, but improving. The Cambodian government has strengthened its system of bank supervision by creating a banking supervision division within the central bank, the National Bank of Cambodia (NBC), and by passing financial institutions regulatory laws. A strong money laundering provision is contained in the counter-narcotics law passed by the National Assembly in December 1996. There is further legislation under draft to criminalize money laundering and terrorism financing.

The Financial Institutions Law adopted in November 1999 strengthened the NBC's supervisory authority, enabling it to relicense all existing banks. As a first step, the NBC evaluated bank viability and classified them into three categories: those relicensed unconditionally (four branches of foreign banks), relicensed with corrective measures (14 banks), and nonviable banks (eight banks). Three insolvent banks were closed in July 2000. In December 2000, the NBC publicly announced that at least ten nonviable banks had been liquidated.

As a result of the recent banking restructuring process, as of April 2004, the number of banks was reduced from 31 to 17.

The Foreign Trade Bank (FTB), presently government owned, has also undergone restructuring. It has been separated from the NBC to operate as an independent entity and is being developed as a market-oriented commercial bank. In December 2000, the NBC issued a banking license to the FTB and it officially assumed it separate status.

The definition of specialized banks is not clearly established under current legislation. Pending clarification and review of associated regulations, as requested by the IMF, the National Bank of Cambodia will not issue further licenses for specialized banks.

Of particular note, the banking system in Cambodia continues to be highly dollarized, with at least 90 percent of total deposits and 96 percent of loans denominated in dollars. Only a few banks takes Riel deposits. Banks tend to maintain high levels of liquidity as there are not many projects they are willing to finance.

Foreign Exchange Controls Affecting Trade

Under the Foreign Exchange Law of 1997, there are no restrictions on foreign exchange operations, specifically including the purchase and sale of foreign exchange, and the transfer of all types of international settlements. However, the law stipulates that only authorized intermediaries perform these transactions. These intermediaries are the lawfully established banks in Cambodia, which are required to report to the National Bank of Cambodia on the types of transfers and outflow or inflow of capital. Investors are not required to make a report on the transactions of fund. The burden rests solely on the bank as the authorized intermediary.

The law also requires that the export or import of the means of payment equaling or exceeding \$10,000 in foreign exchange or the equivalent amount in domestic currency be declared.

It is important to note that while foreign exchange transfers are not currently restricted, the law does allow the National Bank to implement exchange controls in case of a foreign exchange crisis.

There are currently no restrictions on the repatriation of profits or capital derived from investments neither in Cambodia nor on most transfers of funds abroad. The 1994 Investment Law guarantees that investors may freely remit foreign currencies abroad for the purpose of the following payments:

- Payment for imports and repayment of principal and interest on international loans;
- Payment of royalties and management fees;
- Remittance of profits; and
- Repatriation of invested capital on dissolution of an investment project.

General Financing Availability

Trade and investment financing is available through most foreign bank branches local banks, although bank credit to a single client is limited by statute to 20 percent of net worth. Lending in the banking system has been limited and restricted by lack of trustworthy investors and uncertainty about economic conditions. There is large but unmet demand for loans from local small and medium enterprises.

Most loans are short term and provide working capital to traders. Interest rates are high, averaging 13 per cent over the interest rates paid on deposits. Additionally, repayment terms are short. In short, access to affordable capital remains limited and a major hurdle in the economy.

Only a few banks have braches outside Phnom Penh. Access to financial services in rural areas is almost non-existent, though there are some micro credit organizations, which target rural areas. One of the large non-profit micro credit financial institutions, ALCLEDA, recently converted to becoming a full-fledged commercial bank. It plans to retain its presence in the provinces and its history of lending in rural areas.

Canadia Bank Tel: (855) 23-215-286
Email: canadia@online.com.kh
Website: <http://www.canadiabank.com>

Singapore Banking Corp. Tel: (855) 23-211-211
Email: info@sbc-bank.com Website: www.sbc-bank.com

Union Commercial Bank Tel: (855) 23-427-995
Email: ucb@online.com.kh
Website: www.ucb.com.kh

Advanced Bank of Asia Ltd. Tel: (855) 23-720-434
Email: aba@ababank.com.kh

ACLEDA Bank Plc Tel: (855) 23-210-812
General Manager: Mr. In Channy
Email: channy@acledabank.com.kh
Website: <http://www.acledabank.com.kh>

Vattanac Bank Tel: (855) 23-212-727
Email: CSC@vattanacbank.com
Website: <http://www.vattanacbank.com/>

Specialised Banks:

Rural Development Bank Tel: (855) 23-220-810

Peng Heng S.M.I. Bank Ltd Tel: (855) 23-219-243

Cambodian Agriculture, Industry
Specialized Bank Tel: (855) 23-217-750

Micro Finance Institutions

Ennatien Moulethan Tel: (855) 23 362 913/880 942
Tchonnebat "EMT"
Email: emt@online.com.kh

Hatthakasekar Tel: (855) 52-951-404
Email: kaksekar@camitel.com

Tong Fang Micro Finance Limited Tel: (855) 23-362-885

Thaneakea Phum Cambodia Tel: (855) 23-211-165
Email: dml@online.com.kh

Cambodian Entrepreneur Building Tel: (855) 23-217-749
Email: ccbpp@forum.org.kh

Multilateral Development Banks

Cambodia became a member of the World Bank on July 22, 1970. However, it did not borrow from the Bank until 1993. The World Bank has a country office in Phnom Penh led by Ms. Nisha Agrawal. The World Bank has provided at least \$430 million in loans since 1994 in a variety of sectors with energy, road rehabilitation, education, governance, disease control and health, and social fund projects constituting the largest shares.

The Asian Development Bank (ADB), of which Cambodia has been a member since 1966, has approved \$775 million in loans as of January 2004, also in a variety of sectors, but with emphasis on infrastructure rehabilitation in road, the energy and power sectors, health and education.

The U.S. Government maintains a commercial liaison office at ADB headquarter in Manila, which reports directly to the Office of Multilateral Development Banks at the Commerce Department in Washington. It assists U.S. companies in bidding on contracts and activities funded by the ADB. Interested U.S. companies should contact Mr. Frank Foster, U.S. liaison to the ADB, tel: (001) 632 887-1345 or 1346, fax: (001) 632 887-1164, Email: frank.foster@mail.doc.gov, manila.adb.office.box@mail.doc.gov or Cecile Santos at Cecile.Santos@mail.doc.gov

CHAPTER 9 BUSINESS TRAVEL

Business Customs and Etiquette:

Many business relationships in Cambodia have their foundations in personal relationships. Connections are important in making contacts and establishing trust.

Cambodians are open, approachable and friendly. It is recommended that you approach potential business contacts with a prior introduction or personal reference. Cambodians are more receptive if you arrive with an introduction or letter from a known government official or business contact.

Although not absolutely required, small gifts with a company logo are appreciated, as are luncheon or dinner invitations.

Business travelers to Cambodia should have business cards. As in many countries, the cards are exchanged to formalize the introduction process. Always distribute and receive business cards with both hands as a sign of respect to the person you are dealing with and always take a few seconds to study a person's card after it has been handed to you. This is particularly important when dealing with Cambodia's ethnic Chinese minority, many of whom hold influential positions in the country's business community.

Cambodian names are in most cases not anglicised. It is customary for Cambodians to address each other by their given names rather than their family names. Addressing people by their family name is considered rude.

The “Sampeah” – placing your palm together in a prayer-like position – remains a traditional gesture of greeting particularly for women although it is becoming more popular to shake hands. Foreigners may shake hands with men and women, but should wait until the women offers her hand, otherwise you should go with the traditional greeting Sampeah.

Touching someone on the head, pointing with your feet or pointing in someone's face are deemed extremely rude. Wearing hats in houses, buildings, and particularly in temples is also considered rude.

Even with the increasing use of English, it is advisable to hire a reliable interpreter, as most business and official meetings are conducted in Khmer. Chinese, French, Thai and Vietnamese are also widely spoken.

Business Attire:

Cambodia is a tropical hot country, which is not suitable for formal western business attire. But in a strictly formal meeting, it is advisable that you wear a suit and tie for men and dress for women. In a less formal setting, a formal dress, or shirt and tie would be suitable.

Business Hours

Business hours for commercial offices are usually from 0730 to 1200 in the morning and from 1330 to 1700 in the afternoon Monday through Saturday morning. Government offices are officially open from 0730 to 1130 and from 1400 to 1730.

Time Differences

During Daylight Savings Time, Cambodia is twelve hours ahead of the U.S. East Coast. Cambodia consists of a single time zone and is GMT + 7.

Travel Advisory and Visas:

A – Entry Requirements:

Visitor visas valid for one month are issued at Phnom Penh International Airport (formerly known as Pochentong International Airport). The fee is \$20 for tourists and \$25 for business visas. Travelers should bring with them two passport-sized photos for the visa application, although visas will be issued without them for an additional fee of \$2. For individuals who need to stay longer than the standard one month, a three-month visa will be granted upon application to the Ministry of Interior; the fee for this visa is \$60. Business visas can be extended for \$45 for one month, \$75 for three months, \$155 for six months, and \$285 for one year. These fees are for fast track processing (two working days). Fees for normal processing are lower. Individuals with a business license issued by the Council for the Development of Cambodia (CDC) may apply for a business visa valid for a year. The fee is \$180. The Ministry of Interior has a team at the CDC to assist investors in obtaining long-term business visas.

B – Traveling Security:

Travel within cities and provincial towns is generally safe, but business travelers should consult with U.S. Department of State prior to arrival in Cambodia for a current travel advisory (this information is available on the web at <http://travel.state.gov>). Once in Cambodia, business travelers should remain alert and take normal personal security precautions. A taxi from Phnom Penh International Airport to virtually any location in Phnom Penh will cost \$7. If contracting with an independent taxi service, visitors should agree on the price with the driver before embarking. In Phnom Penh, travel after nightfall on foot or motorbike is not recommended.

Travelers to remote areas of the country should consult the U.S. Embassy's current consular information sheet. Domestic air service links Phnom Penh with Siem Reap, Battambang, and Rattanakiri. Private cars are available for rental in most cities upon arrival. The safety of road travel outside urban areas varies; traveling only during daylight hours can reduce the potential risk. During the rainy season, some locations cannot be reached by road. Persons planning a lengthy visit to Cambodia should register with the U.S. Embassy Consular Section upon arrival in Cambodia.

Holidays:

Cambodia celebrates 17 national holidays totalling 25 days in duration. Most businesses and government offices observe these holidays. Although some foreign holidays such as Chinese New Year are not officially approved and are not listed below, Cambodians tend to observe these days as well.

Listed below are the national public holidays observed in Cambodia for 2004. The Cambodian government will likely publish the list of holidays for 2005 by September 2004.

Holidays for 2004:

January 1, 2004	International New Year's Day
January 7, 2004	National Liberation Day
February 5, 2004	Meak Bochea Day
March 8, 2004	International Women's Day
April 13-15, 2004	Khmer New Year
May 1, 2004	International Labor Day
May 3, 2004	Visak Bochea Day
May 7, 2004	Royal Ploughing Ceremony
June 1, 2004	International Children's Day
June 18, 2004	Queen's Birthday
September 24, 2004	Constitution Day and Anniversary of the King's Re-coronation
October 12-14, 2004	Phchum Ben
October 23, 2004	Paris Peace Agreement on Cambodia
October 30-November 1, 2004	King's Birthday
November 9, 2004	National Independence Day
November 25-27, 2004	Water Festival-Moon Festival
December 10, 2004	Human Rights Day

The U.S. Embassy will also observe in 2004 the following U.S. holidays:

January 19, 2004	Martin Luther King, Jr's Birthday
February 16, 2004	George Washington's Birthday
May 31, 2004	Memorial Day
July 5, 2004	Independence Day
September 6, 2004	Labor Day
October 11, 2004	Columbus Day
November 11, 2004	Veterans Day
November 25, 2004	Thanksgiving Day
December 24, 2004	Christmas
December 31, 2004	New Year's

Business infrastructure:

A – Transportation:

There have been great improvements to the Cambodian road network over the last several years. While connections are not perfect, it is far easier to move around the country than even just a few years ago. Travel to some of the more remote provinces like Rattanakiri and Mondulakiri can be difficult even in the dry season and at times impossible during the rainy season. However, further improvements over the next few years are planned.

Cambodia currently has two international airports: Phnom Penh International Airport and Siem Reap International Airport. These two airports have been dramatically upgraded over the last two years with modern terminals.

Cambodia has an international and commercial deepwater port at Sihanoukville with a handling capacity of up to 1.2 million tones and its volume capacity is expected to increase to over 2 million tones in 2005. The Japanese government has funded major upgrade projects to the port to expand its size, container storage and number of berths significantly.

There are a number of shipping agents operating in Phnom Penh and Sihanoukville who can handle airfreight, sea freight, and overland shipping; several are listed on the U.S. companies list issued by the Embassy.

Cars and buses offer a cheap way to travel to most provincial capitals. Phnom Penh does not have bus system or metered taxis, however. Mototaxi (locally known as motodup) and cyclos are popular forms of transportation. The U.S. Embassy does not recommend using motodup or cyclos mainly because they are very prone to accidents. Hiring a car and driver is an option in major cities like Phnom Penh. Rental fees run between \$25 and \$50 per day.

B – Telecommunications:

Telephone (landlines as well as cell phones), fax, Internet, and telegram services are available. Telephone service may be unreliable (more so for landlines than cell phones), especially for calls coming into Cambodia, or in remote areas. International telephone charges are relatively expensive compared to other countries in the region although phone tariffs are trending downward. The cost of a call to the U.S. is approximately \$0.98 per minute, to the rest of Asia \$0.90 and to Laos, Thailand and Vietnam \$0.82.

Installation of state-owned telephone landlines is \$70. Monthly rental fees of such lines are \$8 in Phnom Penh and \$6 in provinces. However, there are often long delays in installation and telephone exchanges and cables are subject to problems; most people opt to use cell phones exclusively, which are inexpensive and readily available. Cell phone service covers most urban areas throughout the country and is provided by several companies, including Shinawatra, Mobitel and Samart companies. International roaming service for mobile phones is available.

Cambodia currently has four Internet providers:

1 – Camnet

Address: #95-96, Sihanouk Blvd, Corner Street 105

Phnom Penh, Cambodia

Tel: (855) 23 720 054/ 720 708

Fax: (855) 23 724 540

Email: Sales@camnet.com.kh

Website: www.camnet.com.kh

2 – Camintel

Address: # 1, Corner of Therak Vithei Sisowath & Vithei Phsar Dek

Tel: 855 23 986 789

Fax: 855 23 986 277

Email: sales@camintel.com

Website: www.camintel.com.kh

3 – Online

Address: # 15, Norodom Blvd, Phnom Penh

Tel: (855) 23 430 000

Fax: (855) 23 430 001

Email: Sales@online.com.kh

Website: www.online.com.kh

4 – Telesurf (wireless broadband)

Address: # 33, Sihanouk Blvd, Phnom Penh

Tel: (855) 12 800 800

Fax: (855) 12 801 801

Email: Sales@telesurf.com.kh

Website: <http://www.telesurf.com.kh/>

Since introduction of the new wireless broadband system, Internet service in general has become cheaper and faster. Internet access is provided in high-end hotels catering to business travelers, but there is also a plethora of internet cafés in Phnom Penh, Battambang and Sihanoukville.

C – Accommodations:

International standard hotels are limited to major cities such as Phnom Penh and Siem Reap. Hotel accommodations range in price from \$5 per night at guesthouses to \$1,000 per night at the Royal Suite in the Hotel Inter-Continental, but clean modern accommodations are readily available for between \$60 and \$100 per night. A few major hotels offer up-to-date business center services at reasonable. Reservations are recommended but not essential in Phnom Penh. Reservations are more necessary in Siem Reap due to the heavy tourist demand for rooms. November through April is the high season for tourism, so travelers may wish to pay particular attention to reserving a room before traveling during that timeframe.

Medical Services:

Cambodian medical facilities are not up to western standards. There are private clinics in Phnom Penh with either western or western-trained doctors on staff. That being said, the health infrastructure of Cambodia remains inadequate. Treatment for serious medical conditions/accidents is available in Bangkok but medical evacuations can be time-consuming and costly. Anyone planning a trip to Cambodia should seriously consider the level of health care available here.

A current list of clinics/hospitals with names, addresses and telephone numbers may be obtained from the U.S. Embassy consular section. In addition, there are three pharmacies, which provide a range of U.S. and European products.

- 1 – Naga Pharmacy Center
108 Sothearos, Hong Kong Center
Tel/Fax: 023 212 324
Open 24 Hours, Daily
- 2 – Pharmacie De La Gare
81 Monivong Blvd.
Tel/Fax: 023 426 855
- 3 – Pharmacies Penh Vong
352 Sihanouk Blvd., Phnom Penh
Tel: 023 213 043

Medical evacuation insurance (medevac) is advisable, and may be obtained through:

AEA International SOS Clinic – Phnom Penh
#161, St. 51, Khan Doun Penh, Phnom Penh, Cambodia
Tel: [855] (23) 216-911
Fax: [855] (23) 215-811

Public Utilities:

Electrical power service in Phnom Penh has improved significantly over the past two years, although there are still outages. Many companies have their own generators, either as back-ups to assure reliability or as prime power generators due to the high cost of city power. Foreigners are charged \$0.21 per kilowatt-hour. Cambodia's electrical service is 220 volts, 50 cycles (Hertz). The city draws water from the Mekong and Tonle Sap rivers; although it is treated, it is not potable.

The city provides garbage collection, but solid waste disposal is not reliable in some neighborhoods. Bottled propane gas is available. There are two cable television companies in Phnom Penh providing major international cable television companies providing access to CNN, BBC, CNBC, Star TV and NHK.

The U.S. Embassy:

The U.S. Embassy can provide consular and business advisory services for U.S. travelers in Cambodia. Business travelers wishing to visit the Commercial Section are asked to contact us prior to arrival in Cambodia:

Michael R. Keller
Economic/Commercial Officer
U.S. Embassy Phnom Penh
Tel: [855] (23) 216-436
Fax:[855] (23) 216-811
E-mail: KellerMR@state.gov

Ly Kimchhay
Economic/Commercial Assistant
U.S. Embassy Phnom Penh
Tel: [855] (23) 216-436
Fax:[855] (23) 216-811
E-mail: LyKC@state.gov

CHAPTER 10 ECONOMIC AND TRADE STATISTICS

Cambodian Country Data

Population:	13.1 million (85% rural - female: 51.6%)
Growth rate:	2.5% (2003 est.)
Population Composition:	Women (52%), about 42% under the age of 15
Rural Population:	85%
Phnom Penh Population:	1.2 million, (with a growth rate of 3.2%)
Labor force:	6.4 million (Agri: ≈70%, Industry: 10.5% & Service: 20%)
Life expectancy:	Men – 53.3 years, Women – 59 years
Adult literacy rate:	71.2%
Religion:	Theravada Buddhist (96.3%), Islam (2.1%), Christianity (0.4) (1998 census)
Ethnic group:	Khmer (90%), Vietnamese, Chinese and a small number of Chams, Laotian, Burmese and hill tribes.
Languages:	Khmer; English is widely spoken in urban areas as a second language, French (older-generation Cambodians), variety of Chinese dialects (ethnic Chinese) and Vietnamese (ethnic Vietnamese), Laotian (Ethnic Laotians), mix of hill tribe languages.
Government:	Constitutional Monarchy with king as head of state. Legislative national assembly has 123 members elected for five-year terms. 61-member Senate. Executive power is in the hands of the cabinet headed by the Prime Minister.

Domestic Economy

(Source: Ministry of Economy and Finance)

	1998	1999	2000	2001	2002*
Nominal GDP (US\$ million)	3,011	3,300	3,351	3,404	3,663
GDP Growth Rate (% , 1993 prices)	2.1	6.9	7.7	6.3	4.5
GDP per Capita	252	268	253	257	273
Government Spending (%GDP)	14.35	11.03	17.7	17.8	18.9
Inflation (CPI, %)	12.6	0.0	(0.8)	(0.6)	3.2
Average Exchange Rate (Riel/US\$)	3,800	3,813	3,859	3,924	3,925
Foreign Reserves (months of imports)	3.6	3.2	2.8	2.9	3.3
Net International Reserve (million \$)**	323	349	411	470	549
Total National Saving (% of GDP)	9.1	13.6	9.2	12.7	13.7
Total Investments (% of GDP)	11.3	15.9	13.5	17.9	16.6

* Estimate, ** Including gold holdings

Trade Statistics

(Source: Ministry of Commerce, Customs and Excise Dept. and the U.S. Government).
In US\$ Million

	1998	1999	2000	2001*	2002	2003
Total Export	795	933	1369	1,268	1412	1687
Total Import	1,127	1,227	1418	1,422	1650	1733
Export to USA **	365	592.6	825.6	962.5	1071	1263
Import from USA **	10.7	20	31.7	29.6	29.3	58

* Source: Customs and Excise Dept. ** U.S. Government

External Assistance Disbursement by Donors (Source: Council for the Development of Cambodia. All figures are in US\$ million unless indicated otherwise)

	1998	1999	2000	2001	2002	1992-2002
Total disbursement	433	400	467	472	500	4,616
of which						
Multi-lateral agencies	165	156	172	182	194	1,571
-- IBRD/World Bank	29	35	32	43	43	313
-- IMF	0	11.5	11.4	23	23.5	142
-- ADB	36	27	51	48.6	58	351
Bilateral donors	212.5	206	242	246	263	2,664
-- Japan	71	88	106	100	105	1,018
-- United States	30	23	20	23.8	22	322
-- France	23	18	28	36	28	339
-- Sweden	13	11	14	13	13.5	162
-- U.K.	10	9	13	8	11	88
-- Germany	10	12	12	10	17	103
-- China	14	3	2.6	16	5.7	74
NGOs	56	55	52	43.5	42.6	380

* Provisional

FY 2004 United States Government Assistance to Cambodia

Recipient Programs	US\$
Fiscal year 2004 Total	71,726,430
Health	31,560,000
Democracy/Governance Programs	21,010,000
Labor	9,982,129
Humanitarian Assistance	5,053,000
Basic Education	2,000,000
Environment	811,142
Narcotics	510,000
Cultural Preservation	37,159
Fighting Terrorism	263,000
Other	500,000

CHAPTER 11
U.S. AND CAMBODIAN CONTACTS

A – Royal Government of Cambodia

1 - Key Cambodian Government Agencies

Council for the Development of Cambodia (CDC)
Wat Phnom District
Phnom Penh, Cambodia
Contacts: H.E. Mr. Sok Chenda Sophea, Secretary General
Tel: (885-23) 981-183 or 981-162
Fax: (855-23) 360-636
Website: www.cambodiainvestment.gov.kh

Ministry of Commerce
No. 22, Preah Norodom Blvd.
Phnom Penh, Cambodia
Contacts: H.E. Cham Prasidh, Minister
H.E. Sok Siphana, Secretary of State
H.E. Khek Ravy, Secretary of State
Tel: (855-23) 366-871
Fax: (855-23) 426-396
Website: www.moc.gov.kh

Ministry of Industry, Energy and Mines
No. 45, Preah Norodom Blvd.
Phnom Penh, Cambodia
Contacts: H.E. Suy Sem, Minister
H.E. Ith Prang, Secretary Of State
H.E. Nheb Bounchhin, Secretary Of State
Tel: (855-23) 723-077/428-263/427-852
Fax: (855-23) 428-263
Email: mine@cambodia.gov.kh
Website: www.mine.gov.kh

Ministry of Public Works and Transport
Preah Norodom Blvd
Phnom Penh, Cambodia
Contacts: H.E. Khy Taing Lim, Minister
H.E. Ahmad Yahya, Secretary of State
H.E. Tram Iv Tek, Secretary of State
Tel: (855-23) 722-615
Fax: (855-23) 723-708
Email: mpwt@mpwt.gov.kh
Website: <http://www.mpwt.gov.kh/>

Ministry of Agriculture, Forestry and Fisheries
200 Preah Norodom Blvd
Phnom Penh, Cambodia
Contacts: H.E. Chan Sarun, Minister
H.E. Chan Tong-Iv, Secretary of State
H.E. May Sam Oeun, Secretary of State
Tel: (855-23) 211-051/322-893
Fax: (855-23) 217-320
Email: icomaff@camnet.com.kh
Website: <http://www.maff.gov.kh/>

Ministry of Posts and Telecommunications
Corner Street 13 and 102, Sangkat Wat Phnom,
Phnom Penh, Cambodia
Contacts: H.E. So Khun, Minister
H.E Lam Pouan, Secretary of State
H.E. Phan Pin, Secretary of State
Tel: (855-23) 426-993/426-510
Fax: (855-23) 426-992
Email: mptc@cambodia.gov.kh
Website: <http://www.mptc.gov.kh/>

Ministry of Tourism
No. 3, Preah Monivong Blvd.
Phnom Penh, Cambodia
Contacts: H.E. Veng Sereivuth, Minister
H.E. Thong Khon, Secretary of State
H.E. Nuth Nin Doeun, Secretary of State
Tel: (855-23) 427-130
Fax: (855-23) 426-877
Email: Tourism@Camnet.Com.Kh
Website: <http://www.mot.gov.kh/>
www.cambodia-web.net/camtourist/index.htm

Ministry of Economy and Finance
60 Street 92, Phnom Penh, Cambodia
Contacts: H.E. Keat Chhon, Minister
H.E. Kong Vibol, Secretary of State
H.E. Ouk Rabun, Secretary of State
Tel: (855-23) 428-634
Fax: (855-23) 427-798
Email: mefcg@hotmail.com
Website: <http://www.mef.gov.kh/>

Customs and Excise Department
Preah Norodom Blvd, Phnom Penh
Contacts: H.E. Pen Siman, Customs Chief
Mr. Kun Nhem, Deputy Director
Tel: (855-23) 214 065
Fax: (855-23) 214 065
Email: customs@camnet.com.kh
Website: <http://www.camnet.com.kh/customs/>

Municipality of Phnom Penh
#69, Preah Monivong Boulevard, Phnom Penh
Contacts: H.E. Kep Chuktema, Governor
Tel: (855-23) 428-627
Fax: (855-23) 724-156
Email: phnompenh@phnompenh.gov.kh
Website: www.phnompenh.gov.kh

The National Bank of Cambodia (NBC)
No 22-24, Preah Norodom Blvd
Phnom Penh, Cambodia
Contacts: H.E. Chea Chanto, Governor
Ms. Sun Siphil, Deputy Governor
Mr. Phan Ho, Director of Bank Supervision
Tel: (855-23) 722-221/275-063/724-866
Fax: (855-23) 426-117

2 – Cambodian Government Offices in the United States

Cambodian Embassy in the USA
4500 16th St. NW
Washington DC, 20011
Tel: (202) 726 7742
Fax: (202) 726 8381
Contact: H.E. Mr. Roland Eng, Ambassador
Email: cambodia@embassy.org
Website: www.embassy.org/cambodia/

Permanent Mission of the Kingdom of Cambodia to the United Nations
866 U.N. Plaza, Suite 420, 4th Floor
New York, N.Y. 10017
Tel: (212) 223-0676
Fax: (212) 223-0425
Email: cambodia@un.int
Website: <http://www.un.int/cambodia/>

B – U.S. Government Contacts

United States Commercial Service
(Washington, DC)
Trade Information Center
Tel: (800) USA-TRADE
Fax: (202) 482-4473
Website: www.ita.doc.gov/uscs

United States Commercial Service
U.S. Embassy Bangkok
Diethelm Tower A, 304
93/1 Wireless Rd.
Bangkok 10330, Thailand
Commercial Counselor: Judy Reinke
Tel: [66](2) 205-5090
Fax: [66](2) 255-2915
E-Mail: Jody.Reinke@Mail.Doc.Gov
Website: <http://www.buyusa.gov/thailand/en/>

United States Embassy Phnom Penh
Cambodian Mailing Address: 27 St. 240, Phnom Penh, Cambodia
U.S. Mailing Address: Box P, APO AP 96546
Ambassador: Charles A. Ray
Economic/Commercial Officer: Mr. Michael R. Keller
Economic/Commercial Assistant: Mr. Ly Kim Chhay
Tel: [855](23)216-436
Fax: [855](23)216-811
e-mail: KellerMR@state.gov
e-mail: LyKC@state.gov
Website: <http://usembassy.state.gov/cambodia/>

Export-Import Bank Of The United States (Eximbank)
811 Vermont Ave. NW
Washington, DC 20571
Tel: 202-565-3510
Fax: 202-565-3380
Website: www.exim.gov

Overseas Private Investment Corporation (OPIC)
Mr. Bruce Cameron, Business Development Officer
1100 New York Avenue NW
Washington, DC 20527, USA
Tel: (202) 336-8745
Fax: (202) 408-5154
E-Mail: Bcame@opic.gov
Website: www.opic.gov

C – Multilateral Contacts:

Asian Development Bank (ADB)
Box 789
0890 Manila, Philippines
U.S. Executive Director: Amb. Paul Speltz
Tel: [63](2)632-6050
Fax: [63](2)632-4003
U.S. Commercial Liaison: Mr. Frank Foster
Tel: [63](2)890-9364
Fax: [63](2)890-9713
E-Mail: frank.foster@mail.doc.gov
Website: www.adb.org

International Finance Corp. (IFC)
1850 I (Eye) St. NW
Room I-11-063
Washington, DC 20433, USA
Cambodia Investment Officer: Mr. Morgan Landy
Tel: 202-473-9350
Fax: 202-676-0820
Website: www.ifc.org

Multilateral Investment Guarantee Agency (MIGA)
1818 H St. NW
Washington, DC 20433
Tel: 202-477-1234
Fax: 202-522-2630
Website: www.miga.org

D – Trade Associations

U.S.-ASEAN Business Council
1101 17th Street NW, Suite 411
Washington, DC 20036
Tel: 202 289-1911
Fax 202 289-0519
email: mail@usasean.org
Website: <http://www.us-asean.org/>

Description: The U.S.-ASEAN Business Council is a private organization in the United States representing private sector interests in ASEAN, the Association of Southeast Asian Nations.

American Cambodian Business Council (AmCam)
56, Samdech Sothearos Blvd., Phnom Penh
Tel: (855-23) 362-670
Fax: (855-23) 362-671
Contact: Mr. Bretton Sciaroni (President)
Note: AmCam represents U.S. Business interests in Cambodia

International Business Club
56, Samdech Sothearos Blvd, Phnom Penh
Tel: (855-23) 362-670
Fax: (855-23) 362-671
Email: info@sa-cambodia.com
Contact: Mr. Bretton Sciaroni (President)

Phnom Penh Chamber of Commerce
7B Street 81 corner Street 109,
Sangkat Beung Raing, Khan Daun Penh,
Phnom Penh, Cambodia Contact: Okhna Sok Kong, President
Vice President – Okhna Sorn Sokna
Director General – Mr. Sam Bun Heng
Tel: (855-23) 212265
Fax: (855-23) 212270
Email: ppcc@camnet.com.kh
Website: <http://www.ppcc.org.kh>

Cambodia Federation of Employers and Business Associations (CAMFEBA)
#56, Sothearos Blvd., Phnom Penh, Cambodia
President – Mr. Van Sou leng
Tel: (855-23) 218 858
Fax: (855-23) 311 181
E-mail: camfeba@bigpond.com.kh

The Garment Manufacturers Association in Cambodia (GMAC)
175, Jawaharlal Nehru Blvd (St. 125)
Phnom Penh, Cambodia
Chairman – Mr. Van Sou leng
Tel: (855-23) 301 180
Fax: (855-23) 311 181
Contact person: Dr. Ken Loo
Email: ray@online.com.kh
Website: <http://www.gmac-cambodia.org>

Phnom Penh Hotel Association (PPHA)
Hotel Cambodiana
313, Sisowath Quay Phnom Penh
Tel: (855) 23 990 577
Email: info@phnompenh-hotels.org
Website: <http://www.phnompenh-hotels.org>

CHAPTER 12 MARKET RESEARCH AND INVESTMENT ADVICE

(LISTED ALPHABETICALLY):

Dirksen, Flipse, Doran & Le (Legal Advisors)

Tel: (855-23) 428-726

Fax: (855-23) 428-227

Contact: Mr. Martin DeSautels

Email: info@dfdl.com.kh

Website: www.dfdl.com.kh

Indochina Research Limited

No. 216 Norodom Blvd.

Phnom Penh, Cambodia

Tel: (855-23) 215-184/362 753

Fax: (855-23) 215-190

Contact: Mr. Tim Smyth

Email: research@irl.com.kh

Website: <http://www.irl.com.kh>

Pricewaterhousecoopers Ernst & Young

#124, Norodom Blvd.

Tel: (855-23) 218-086

Fax: (855-23) 428-076

Contact: Mr. Senaka Fernando

Email: senaka.fernando@kh.pwc.com

Website: www.pwcglobal.com

Sciaroni and Associates (Legal Advisors)

56, Samdech Sothearos Blvd, Phnom Penh

Tel: (855-23) 362-670

Fax: (855-23) 362-671

Contact: Mr. Bretton Sciaroni

Website: www.sa-cambodia.com

MARKET RESEARCH AVAILABLE FROM THE U.S. EMBASSY

Interested readers should periodically check the National Trade Data Bank for new reports. Up to date versions of this Country Commercial Guide can be accessed via the internet at www.stat-usa.gov, www.state.gov, and www.mac.doc.gov, or through the National Trade Data Bank. Other Embassy publications are available at the Embassy's website at <http://usembassy.state.gov/cambodia/>. The Embassy can also assist U.S. businesses in locating qualified local consultants to perform market research on a contract basis. The U.S. Government Export Portal can be accessed via the internet at <http://www.export.gov/OneStopConsumer/OneStop/mrlogin.jsp>

CHAPTER 13 TRADE EVENT SCHEDULE

Featured trade events are listed on the following page of the U.S. Export Portal website: http://www.export.gov/comm_svc/tradeevents.html Readers may also contact the U.S.-ASEAN Business Council for information on possible events:

Ms. Frances Zwenig
Senior Country Director
U.S. ASEAN Business Council
1400 L St. NW
Suite 375
Washington, DC 20005-3509
Tel: (202) 289-1911
Fax: (202) 289-0519
Website: www.us-asean.org