

ERIA Discussion Paper Series**FDI, Services Liberalisation, and Logistics
Development in Cambodia***

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Abstract: *This paper reviews Cambodia's economic development based on flows of foreign direct investment (FDI) and services sector liberalisation. It uses Cambodia's logistics industry as a case study. Services sector liberalisation in Cambodia has been mainly driven by its commitments under the World Trade Organization (WTO) framework and the ASEAN Framework Agreement on Services (AFAS). Logistics is one of the key contributors to economic growth and competitiveness. To improve the logistics sector, Cambodia needs to develop a comprehensive master plan and national council on logistics to overcome the main issues and challenges such as corruption and informal payments, lack of institutional capacity and coordination, low-quality transport infrastructure, weak urban–rural and cross-border transport networks, limited participation of the private sector, lack of skilled human resources, and low public and private investments. Promoting healthy competition in logistics and removing the impediments to investment are vital to improving the quality and coverage of logistics services.*

Keywords: Foreign direct investment, logistics, services, liberalisation, ASEAN, WTO

JEL Classification: F21, L80, L90

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1. Introduction

Over the last 2 decades, the inflow of foreign direct investment (FDI) to Cambodia has increased significantly due to its relatively liberal investment law and the pace of liberalisation of the services sector, including the logistics sector. Liberalisation of the services sector started soon after the country's membership in the World Trade Organization (WTO) in 2004 and in the Association of Southeast Asian Nations (ASEAN) through the ASEAN Framework Agreement on Services (AFAS) in 2007. The services sector, accounting for 42.3% of gross domestic product (GDP) in 2015, plays a critical role in socio-economic development through job creation and productivity improvement. Within it, logistics is regarded as a strategic sector for national and regional connectivity, socio-economic development, and poverty reduction.

This paper reviews Cambodia's economic development and FDI climate, along with its efforts in services sector liberalisation. It also looks at the liberalisation initiatives in logistics services and the current state of logistics development and connectivity in Cambodia. Investment in logistics is one of the key areas of the national development and regional connectivity strategy. National infrastructure and logistics connectivity increase economic performance and competitiveness. Investment and improvement in logistics play a critical role in reducing transaction costs, improving broad investment climate, and promoting international trade.

2. Investment Climate

As a small economy, Cambodia has been performing well in the last 2 decades in terms of sustaining high economic performance and a significant rate of poverty reduction. It has achieved and sustained a high average growth rate of 7.9% between 2000 and 2015, thus making it one of the fastest-growing economies in ASEAN. The poverty rate was reduced from more than 53.2% in 2004 to 13.5% in 2014. Per capita income increased from US\$417 in 2004 to US\$1,215 in 2015, thus making Cambodia a lower-middle-income country according to the classification by the World Bank Group. Cambodia aims to become an upper-middle-income country by

2030 and a high-income country by 2050 if it can sustain an annual growth rate of around 7%.

The GDP growth rate in 2016 was 7.2% and is forecasted to be around 7% for 2017 (ADB, 2016). Attracting FDI has been the main development strategy for the country. Annual average net FDI inflows to Cambodia from 2000 to 2015 were 7.7% of GDP (see Table 1). In terms of trade openness, the total export volume reached US\$9.231 billion (46.3% of GDP) and the total import volume hit US\$12.404 billion (64.2% of GDP) in 2016. Garments and footwear are the main export products. The United States, Europe, ASEAN, and Japan are the main destinations of Cambodia's exports.

Table 1. GDP and FDI Inflows, 2000–2015

| Year | 2000 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| GDP Growth Rate | 8.8 | 10.2 | 6.7 | 0.1 | 6.0 | 7.1 | 7.3 | 7.5 | 7.1 | 7.0 |
| GDP (US\$ billion) | 3.65 | 8.63 | 10.35 | 10.40 | 11.24 | 12.82 | 14.03 | 15.44 | 16.77 | 18.04 |
| FDI (% of GDP) | 3.01 | 9.97 | 7.83 | 4.90 | 6.49 | 6.16 | 10.26 | 8.68 | 10.32 | 9.42 |
| FDI (US\$ billion) | 0.11 | 0.86 | 0.81 | 0.51 | 0.73 | 0.79 | 1.44 | 1.34 | 1.73 | 1.70 |

Note: There are no data for 2001–2006.

FDI = foreign direct investment, GDP = gross domestic product.

Source: World Bank, World Development Indicators.

The laws and regulations governing foreign investment in Cambodia have been developed with the objective of encouraging inward FDI. FDI is treated in a non-discriminatory manner, except for land ownership. Foreign investors are allowed to invest, without discrimination, in many areas with the provision of investment incentives such as the exemption, in whole or in part, of customs duties and taxes.² In return, investors are expected to provide adequate training to Cambodian nationals.

² See the details of investment incentives at CDC, CIB, and CSEZB (2016b) website.

Under the Investment Law of Cambodia of 2003, investors who are given final registration certificates are entitled to various incentives.³ These include profit tax exemption or use of special depreciation and duty free import of production equipment, construction materials, raw materials, intermediate goods, and accessories for export-oriented investment projects. The tax exemption period is composed of a trigger period plus additional 3 years and a priority period (determined by the Financial Management Law).⁴⁵

The investment projects that do not qualify for tax incentives are: (a) all kinds of commercial activity, import, export, wholesale, and retail, including duty free shops; (b) any transportation services by waterway, by road, or by air except investment in the railway sector; (c) restaurants, karaoke parlours, bars, nightclubs, massage parlours, and fitness studios; (d) tourism services; (e) casino and gambling businesses; (f) currency and financial business and services such as banks, financial institutions, and insurance companies; (g) business activities related to newspaper and media, including radio, television, press, magazine, etc.; (h) professional services; (i) production and processing of wood products using wood from natural forests with a legal domestic supply source for raw materials; (j) complex resort, including hotels, theme parks, sports facilities, and zoos with less than 50 hectares; (k) hotels below 3-star grade; and (l) real estate development and warehouses facilities.

Besides the investment incentives provided in the Investment Law, investment facilitation services have gradually improved over time. For example, the Government of Cambodia established the Cambodian Special Economic Zone Board (CSEZB) in 2005 under the Council of Development of Cambodia to promote the special economic zone (SEZ) scheme in Cambodia. The SEZs are expected to provide a one-stop service to investors, i.e. from registration of investment projects

³ These are the investment projects that are qualified and approved by the Council for the Development of Cambodia, a one-stop service organisation responsible for the rehabilitation, development, and oversight of investment activities.

⁴ The priority period is determined by the Financial Management Law within the period of 3 years, according to the type of project and investment capital (for light industries: 0 years in case of investment capital of below US\$5 million, 1 year in case of investment capital between US\$5 million and US\$20 million, and 2 years in case of investment capital over US\$20 million).

⁵ The maximum trigger period is the first year of profit or 3 years after the qualified investment project starts earning its revenue, whichever is sooner.

to routine export–import approvals. It has been observed that the firms located in SEZs are relatively more integrated with the global markets or value chains compared to the local production networks. The main logistics issue facing the SEZ firms is the high cost of getting containers from their factories to and from the port (Warr and Menon, 2015).

There are no sectors in Cambodia that are closed to foreign investment. There are only two restrictions on foreigners: land ownership and work permit requirements. For any approved project, ownership of land is only permitted for Cambodian citizen. The use of land is permitted to foreign investor, including concessions and long-term or short-term leases. Also, a foreign investment project is entitled to obtain visas and work permits for foreign employees as managers, technicians, and skilled workers, if the qualification and expertise are not available in Cambodia.

China, Japan, the Republic of Korea, and ASEAN are the main sources of FDI to Cambodia. In 2015, China accounted for 32% (48% of total manufacturing FDI) and ASEAN accounted for 25% of total FDI (30% of investment in finance). The accumulated FDI to Cambodia from 1994 to 2015 reached US\$23.8 billion. In 2015, the approved investment capital hit a record high of US\$4.644 billion. FDI in finance and insurance activities increased from US\$325 million to US\$515 million in 2015, contributing significantly to the services sector (ASEAN Secretariat and UNCTAD, 2016). Services liberalisation including logistics is one of the factors attracting foreign investors.

The main challenges and constraints in attracting FDI are the high uncertainties and costs associated with business operations. The main challenges to Cambodia’s development are weak governance and the rule of law, legislative gaps, high corruption, and instable democratic institutions (ADB, 2012b). Similar constraints have been observed in two important production clusters in the economy: firms in SEZs and firms in the informal sector (World Bank, 2012).

3. Services Sector Liberalisation

Cambodia's Services Sector

The services sector (including tourism, financial services, information and communications technology (ICT), postal services, transport, and logistics) is the biggest contributor to GDP, accounting for 42.3% of GDP in 2015. The agriculture and manufacturing sectors respectively account for 28.2% and 29.4% of GDP. The average annual growth rate of the services sector is 8.3% over the last 15 years (see Table 2). To sustain the dynamics of economic growth, Cambodia has gradually diversified its sources of growth from labour-intensive industry to skills-based economy. Enhanced productivity and innovation are the core elements of the development vision. The services sector is regarded as the main driving force of future growth. Therefore, further liberalisation of the services sector is needed to achieve the economic development vision of becoming an upper-middle-income country by 2030.

Table 2. Structure of Output (% of GDP at current basic prices)

| Sector | 2000 | 2005 | 2010 | 2015 | Average Change Rate (%) |
|-------------|------|------|------|------|-------------------------|
| Agriculture | 37.9 | 32.4 | 36.1 | 28.2 | 3.8 |
| Industry | 23.0 | 26.4 | 23.2 | 29.4 | 12.0 |
| Services | 39.1 | 41.2 | 40.8 | 42.3 | 8.3 |

GDP = gross domestic product.

Source: Asian Development Bank (2016), *Key Indicators for Asia and the Pacific 2016*. Manila: ADB.

However, the development of the services sector is a long and challenging process. Improving the competitiveness and productivity of the services sector requires institutional and legal reforms. Investing in logistics infrastructure is vital for a strong services sector (Noland, Park, and Estrada, 2012). A study by the Asian Development Bank (ADB) shows that the future of the sector will be defined also by dynamic and open competition. The study argues that ‘more competition will raise services sector productivity which can in turn lift productivity in other sectors’ (ADB, 2013b, p. 390).

After 3 decades of civil war and 2 decades of a centrally planned economy, Cambodia embarked on a market economy in the early 1990s with remarkable speed of liberalisation and privatisation. After becoming a full member of WTO in 2004, Cambodia is required to reform and liberalise much of its services sector toward other members of WTO. WTO accession is a ‘positive externality to stimulate and make irreversible substantial trade liberalisation and more broadly based reforms’ (Siphana, 2005, p. x).

Cambodia’s WTO Commitment and Status

In compliance with WTO requirements, Cambodia conducted its first review of trade policies and practices in November 2011. In response to the trade policy review recommendations, many reforms were undertaken. These include the elimination of the Certificate of Origin requirement for exports, enactment of the Law on Telecommunications in December 2015, and enactment of the Law on Animal Health and Production in February 2016.⁶

Moreover, in addition to the above, the ongoing or planned reforms include the following: amendment to the Law on Standards, enacting a competition law, enacting a law on SEZs, enacting a law on food safety, and enacting a law on e-commerce. In January 2016, the Ministry of Commerce launched an online business registration portal that allows all existing and new businesses to register their companies. In the years after joining WTO, economic liberalisation in Cambodia gained momentum to attract FDI (Chea, Sarin, and Sok 2007). However, many barriers remained.

WTO defines trade in services in four modes: Mode 1 on cross-border supply, Mode 2 on consumption abroad, Mode 3 on commercial presence, and Mode 4 on presence of natural persons. Cambodia has largely committed to all three modes of

⁶ Other institutional reforms include the implementation of online business registration; adoption of a competitive hiring process for Ministry of Commerce staff; implementation of risk assessment measures for the Cambodia Import–Export Inspection and Fraud Repression Directorate General (CamControl) and creation of a CamControl risk management unit; enactment of the Law on Public Procurement; enactment of three judicial system laws (the Law on Court Structures, the Law on the Duties and Discipline of Judges and Prosecutors, and the Law on the Organization and Functioning of the Supreme Council of Magistracy); creation of the Commercial Court as a specialised Court of First Instance; the creation of a credit bureau; and establishment of a Telecom Regulator of Cambodia (TRC) (in 2012, the Ministry of Posts and Telecommunication transferred the regulatory role to the TRC).

liberalisation except Mode 4. It is fully in compliance with WTO’s rules on the conditions of ownership, management, operation, judicial form, and scope of activities as set out in a license or other form of approval establishing or authorising the operation or supply of services by foreign service suppliers. Cambodia’s commitments to services liberalisation under the four modes of supply are illustrated in Appendix 1. Notably, Mode 4 remains largely unbound across sub-sectors. Maritime international transport (freight and passengers) is unbound in all four modes.

Cambodia’s AFAS Commitments

In addition to WTO membership, the conclusion of AFAS in 2007 further accelerated the speed of liberalisation of trade in services in Cambodia (see Appendix 2 on Cambodia’s Schedule of Horizontal Commitments under AFAS). The main areas of liberalisation are computer and related services, courier, telecommunications, commission agents, wholesale trade, retailing, franchising, higher education, adult education and other education services, sewage, refuse disposal, sanitation and similar services, environmental services, travel agencies and tour operation, tour guides, and road transport (Ishido, 2011). Under AFAS 8, Cambodia’s overall score is 0.45 out of 5, which is higher than that of the Lao People’s Democratic Republic (0.39) and Viet Nam (0.43). Services liberalisation under Mode 4 is restricted in Cambodia (see Table 3).

Table 3. Services Liberalisation AFAS 8, Simple Average of 154 Sub-sectors

| | Market Access | | | | National Treatment | | | | Average |
|----------|---------------|------|------|------|--------------------|------|------|------|---------|
| | M1 | M2 | M3 | M4 | M1 | M2 | M3 | M4 | |
| Cambodia | 0.56 | 0.64 | 0.59 | 0.00 | 0.59 | 0.64 | 0.61 | 0.00 | 0.45 |
| Lao PDR | 0.53 | 0.55 | 0.37 | 0.07 | 0.53 | 0.55 | 0.43 | 0.07 | 0.39 |
| Viet Nam | 0.47 | 0.68 | 0.52 | 0.03 | 0.48 | 0.68 | 0.56 | 0.00 | 0.43 |

AFAS = Association of Southeast Asian Nations Framework Agreement on Services, Lao PDR = Lao People’s Democratic Republic.

Source: Ikumo Isono and Hikari Ishido (2016), ‘Service Liberalization in Laos’, IDE Discussion Paper No. 559. Chiba, Japan: Institute of Developing Economies (IDE-JETRO).

Issues and Challenges in Services Liberalisation

Although Cambodia has vigorously reformed and liberalised its services sector as well as foreign ownership on a non-discriminatory basis in a wide range of sectors, good governance and implementing capacity are the core issues. Regulatory frameworks on land use are weak and opaque, causing difficulties for foreign investors. Regarding land use, Article 44 of the Constitution provides that only Cambodian citizens and legal entities have the right to own land. Land disputes are the main development issue due to corruption and improper land transactions and registration.

Cambodia needs to address several bottlenecks that hinder the services sector. Based on the reports by ADB (2013a) and the World Bank (2014a), the services sector in Cambodia is mired by inadequate transport and infrastructure in the rural areas, high costs of electricity, transportation and logistics, weak governance and institutional capacity, lack of information relating to regulatory requirement, inconsistent application and interpretation of regulation across agencies, frequent changes in administrative practices, and lack of a skilled workforce.

Corruption and weak logistics are regarded as the main constraints to a smooth operationalisation of trade in services. According to Transparency International's annual corruption perception index (2016), Cambodia was ranked 156 out of 176 countries in 2016. The rule of law is another concern for foreign investors. The courts are perceived as unreliable and susceptible to external political influence or bribery. In the World Justice Project's annual Rule of Law Index in 2016, Cambodia was ranked 112 out of 113 countries surveyed globally.

To effectively implement services liberalisation, Cambodia needs to develop and strengthen logistics governance as well as to promote dialogue and coordination among regulators, trade officials, and other stakeholders (Hoekman and Mattoo, 2012). Good governance and institutional coordination are critical to services sector development.

4. Logistics Development

Cambodia does not have an official definition of logistics. Logistics, regarded as a strategic sub-sector of the services sector, is generally understood as a combination of four main sub-sectors, namely transportation infrastructure (land, rail, maritime, and air), logistics service providers (such as trucking, warehousing, freight forwarding, shipping, materials handling, inventory, packaging, and courier and postal services), institutional framework relating to logistics (such as custom clearances and border reforms), and logistics users (such as traders and manufacturers).

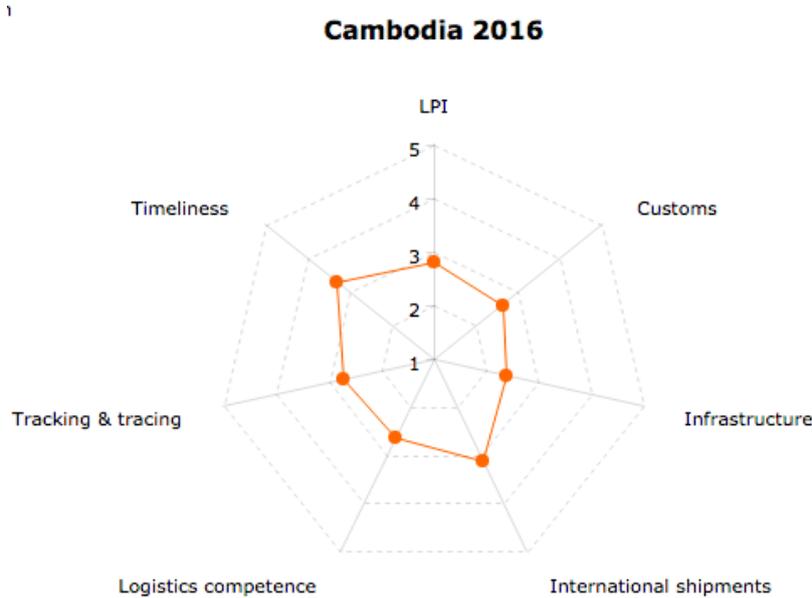
Current State of Logistics

The logistics sector in Cambodia is less developed compared with neighbouring countries due to the lack of a reliable network of transportation, telecommunications, warehousing, trucking services, and related infrastructure. High logistics ‘service-link’ costs have adverse impacts on attracting FDI, slowing down the industrial development and economic integration process in the country (Banomyong, 2010). Based on the assessment by the World Bank in its annual Logistics Performance Index (LPI),⁷ Cambodia ranked 73rd with a score of 2.8 (5 being the perfect score). Infrastructure, logistics competence, and customs have the lowest performance (see Figure 1).

⁷ The index is the weighted average of the country scores on six key dimensions:

- (1) Efficiency of the clearance process (i.e. speed, simplicity, and predictability of formalities) by border control agencies, including customs
- (2) Quality of trade and transport-related infrastructure (e.g. ports, railroads, roads, and information technology)
- (3) Ease of arranging competitively priced shipment
- (4) Competence and quality of logistics services (e.g. transport operators and customs brokers)
- (5) Ability to track and trace consignments
- (6) Timeliness of shipments in reaching destination within the scheduled or expected delivery time.

Figure 1. Logistics Performance Index



LPI = Logistics Performance Index.

Source: World Bank, Logistics Performance Index.

The logistics cost in Cambodia is high relative to other ASEAN Member States. Cambodia's export costs are about 33% higher than those of Thailand and 30% higher than those of Viet Nam (World Bank, 2014b). Cambodia's farmers and manufacturers encounter difficulties in moving goods to markets. Logistics is the main challenge faced by exporters in supplying goods to overseas customers and by producers in integrating themselves into regional production networks (World Bank, 2014b).

For instance, a study by the World Bank on rice monitoring in 2014 shows that the transport costs of rice in Cambodia are higher than in neighbouring Thailand and Viet Nam. The cost of transporting 1 ton of rice from a farmer to a rice miller is US\$247 in Cambodia compared with US\$126 in Thailand and US\$122 in Viet Nam. The transport cost of 1 ton of rice from the miller to the port is US\$43 in Cambodia compared with US\$25 in Thailand and US\$23 in Viet Nam (World Bank, 2014c).

The transportation cost for a 20-foot container from Phnom Penh to Sihanoukville port costs around US\$400 (including trucking, documentation fee, export clearance fee, loading charge, certificate of origin, toll fee, agency fee, value-added tax (VAT), and miscellaneous charges). The charge at the port is around

US\$350 and it takes around 8 hours by road from Phnom Penh to Sihanoukville port. The export cost from Phnom Penh to Ho Chi Minh City in Viet Nam is about US\$880 for a 40-foot container and US\$820 for a 20-foot container. This includes the customs clearance fee in Cambodia, but excludes the charges at Viet Nam's port. It takes around 15 hours by road. Using waterways, the export costs are slightly lower. It costs around US\$800 for a 20-foot container from Phnom Penh Port to Cai Mep, including customs fee in Cambodia and in Viet Nam, though it takes around 36 hours by the Mekong River (CDC, CIB, and CSEZB, 2016c).

Institutional Framework

To develop the logistics sector, the Cambodian government has stressed the following strategies: (a) further expanding and improving national and international highways, and roads linking rural areas to major urban areas and SEZs; (b) enhancing national waterways to promote their use as a major means of transport for goods and people; (c) establishing an efficient national rail system linking major urban areas to neighbouring countries and trading partners such as China, Thailand, and Viet Nam; (d) further developing inland waterways and seaports, particularly those that are linked to major SEZs to reduce shipping and logistics costs; (e) reducing the cost of electricity supply and improving its coverage and reliability; and (f) working to further reduce logistics costs and cross-border transaction costs and efficiency to enhance logistics competitiveness with neighbouring countries and trading partners such as Thailand and Viet Nam where logistics costs are significantly lower (Sen, 2016).

Since logistics is one of the development priority areas in Cambodia, several plans include the development of this sector such as the Rectangular Strategy Phase III (2013–2018), National Strategic Development Plan 2014–2018, Cambodia Trade Integration Strategy 2014–2018, and the Industrial Development Policy 2015–2025. In his key address at the 2016 Cambodia Outlook Conference, Prime Minister Hun Sen (2016) stressed four points in relation to logistics: (a) improving coordination between key agencies, (b) promoting competition in logistics, (c) improving the regulatory framework and support system, and (d) increasing investment in logistics.

Institutional and legal reforms have been under way to develop the logistics sector. Various laws have been adopted to facilitate investment in the logistics sector such as the Law on Concessions, adopted in 2007, which aims to promote and facilitate the implementation of private financing for infrastructure development.⁸ A concession contract is granted through the following means: (a) build, operate, and transfer; (b) build, lease, and transfer; (c) build, transfer, and operate; (d) build, own, and operate; (e) build, own, operate, and transfer; (f) build, cooperate, and transfer; (g) expand, operate, and transfer; (h) modernise, operate, and transfer; (i) modernise, own, and operate; and (j) lease and operate or management arrangements including joint public–private implementation of infrastructure facilities.

Other laws related to the logistics sector are the Law on Electricity of 2001 to govern and to prepare a framework for the electric power supply and services throughout the country, Law on Civil Aviation of 2008, Law on Road of 2014, Law on Water Resources Management of 2007, Law on Telecommunications of 2015, and the Sub-Decree on the Establishment and Management of Special Economic Zones of 2005.

With support from the World Bank, trade facilitation reforms have gone quite well, leading to the improvement of the country’s logistics performance. Procedures for issuing and applying Certificates of Origin have been abolished where unnecessary, and, when needed, simplified through an automated system. An automated customs system has been rolled out at 21 border checkpoints. The duration of customs clearance fell from 5.9 days (2010) to 1.4 days (2014) and of the physical inspection of containers at the border checkpoints from 29% (2010) to 17% (2014) of the total time of customs clearance (World Bank, 2014b). In 2016, Cambodia ranked 73rd with a Logistics Performance Index score of 2.80, customs score of 2.62, infrastructure score of 2.36, international shipment score of 3.11, logistics competence score of 2.60, tracking and tracing score of 2.70, and timeliness score of 3.30 (5 being the perfect score) (World Bank, 2016).

⁸ ‘Concession’ means any attribute to the state whereby a competent institution entrusts to a private third party the total or partial implementation of an infrastructure project for which that institution would normally be responsible and for which the third party assumes a major part of the construction and/or operating risks or receives a benefit by way of compensation from government revenue or from fees and charges collected from users or customers.

The National Single Window (NSW), developed in line with the ASEAN Single Window project to promote ASEAN connectivity through trade and investment, was created to serve as a one-stop service to allow parties involved in trade and transport to lodge standardised information and documents with a single-entry point to fulfil all import, export, and transit-related regulatory requirements. The objective of the NSW is to strengthen the coordination and relationship between government agencies, between enterprises, and between the government and private sector (General Department of Customs and Excise of Cambodia, 2016c). The NSW Blueprint has been developed with financial support from the World Bank, incorporating technical and functional specifications for the system, governance and operational model, procurement strategy, and a project implementation plan.

In addition, with financial and technical support from development partners, especially the World Bank under the Trade Facilitation and Competitiveness Project (TFCP) and Trade Development Support Program (TDSP), the ASYCUDA WORLD system, which is a system to expedite customs clearance through an electronic system, has been implemented at 54 major customs branches and offices, which covered almost 99% of the Single Administrative Declaration (SAD) and approximately 87% of trade volume (General Department of Customs and Excise of Cambodia, 2016a).

The Customs–Private Sector Partnership Mechanism (CPPM), launched in January 2010, aims to further enhance fair business and the investment climate. The CPPM is responsible for coordinating cooperation and mutual understanding between the customs administration and the private sector, as well as for resolving all customs-related matters to the greatest possible extent before moving to other dispute settlement bodies, or to the Government–Private Sector Forum. This is also an important factor to ensure the effectiveness of the implementation of the government’s Trade Facilitation Policy (General Department of Customs and Excise of Cambodia, 2016b).

Transport Infrastructure

The transport infrastructure mainly includes the road network, railway, waterway, and air transport. Development projects in the sector have been primarily funded by ADB, China, Japan, and the World Bank. The movement of goods within

the country is heavily based on the road network. Inland waterways have been improved remarkably in the last 5 years, while railway and airports are slowly being rehabilitated and expanded. Seven dry ports have been developed by domestic investors to serve as an inland intermodal terminal.

There are three main cross-border transport networks under the regional connectivity projects of the Greater Mekong Subregion Southern Corridor and the ASEAN Highway System, linking Cambodia with neighbouring countries. Cambodia is developing a master plan to develop its expressways. Based on a study by an expert group from China, Cambodia needs to develop 2,230 kilometres of its national expressway network by 2040 with an investment amount of approximately US\$26 billion (AKP, 2014). The first expressway connecting Sihanoukville and Phnom Penh will be built by China under the Belt and Road Initiative (Khmer Times, 2016).

There are two single-track railways: the Northern Line and the Southern Line. The container train service restarted its operation in 2014 between Phnom Penh and Sihanoukville (three times a week) with a total container volume of 17,836 twenty-foot equivalent units (TEU). The railway was privatised in 2009 with a 30-year concession. The Railway Master Plan is being developed in cooperation with the Korea International Cooperation Agency.

There are seven seaports in Cambodia: Sihanoukville port, Koh Kong port, Sre Ambel port, Oknha Mong port, Stunglav port and oil terminal, Kampot port, and Kaeb port. Sihanoukville port is the largest international deep seaport. There is a plan to build a multipurpose terminal to accommodate larger vessels with a loading capacity of between 30,000 and 40,000 deadweight tonnage (DWT), a new container terminal, and a tourism terminal. The container volume is estimated to increase up to 450,000 TEU by 2018. The development project, to cost approximately US\$71.7 million, is expected to be completed by May 2017.⁹

A dry port is an inland intermodal terminal directly connected by road or rail to a seaport and operates as a centre for the transshipment of sea cargo to inland destinations. There are currently seven dry ports in Cambodia, located in three main

⁹ For more details, visit the website of Sihanoukville Autonomous Port at <http://www.pas.gov.kh/en/page-category/sihanoukville-autonomous-port>.

areas: Bavet (Cambodia–Viet Nam border), Poi Pet (Cambodia–Thailand Border), and around the capital city Phnom Penh. Investments for the dry ports come from the private sector under the build–own–operate (BOO) scheme in partnership with the Ministry of Economy and Finance. Dry ports are developed to process goods from the point of entry. For instance, containers arriving at Sihanoukville could be transported by road to the dry ports near Phnom Penh for customs clearance to save time and reduce inconvenience for customers based in Phnom Penh.

Cambodia’s navigable inland waterway has a total length of 1,750 km, with the Mekong mainstream accounting for 30% of the total, the Tonle Sap River 15%, the Bassac River 5%, and other tributaries 50%. There are six major river ports, of which Phnom Penh river port is the international gateway to Viet Nam and beyond. The Agreement on Waterway Transportation between Cambodia and Viet Nam in 2009 establishes a legal framework for the effective implementation of freedom of navigation in the Mekong river system.¹⁰

The overall condition of the transport infrastructure and the infrastructure connectivity between the urban and rural areas are not good. A strategy on multimodal transport connecting these transport infrastructures has not yet been developed. A study by the ADB argues that ‘the strategic challenges facing the transport sector are lack of connectivity to services and markets, resulting in lost economic opportunity; high operating, maintenance, and logistics costs; lack of competitiveness; and unsafe and unsustainable infrastructure’ (ADB, 2011, p. 6).

The transport sector is facing four main issues: lack of laws and formalities, lack of transport infrastructure and efficiency in roads and railways, lack of sustainability through low maintenance capability, and low participation of the private sector. Further regulation and transparency are required to attract private investment in transport infrastructure (ADB, 2011, p. 8–13). Urban transport is faced with lack of consultation and consensus among the related government ministries and agencies on the responsibilities and measures to tackle urban transport issues; ineffective implementation of policies to manage urban traffic; and insufficient dialogue

¹⁰ For more details, visit the website of Cambodia Inland Waterway Navigation <http://www.ciwn.mpwt.gov.kh/>.

between transport regulators, operators, and enterprises (Expert Group Meeting on Planning and Assessment of Urban Transportation Systems, 2016).

Logistics Service Providers

Logistics service providers (LSP) are private agencies or professionals that ‘serve clients like manufacturers, raw materials suppliers, distributors, retailers, and shippers within the supply chain’ (Chow et al., 2005, p. 272). They are involved in almost all sectors with a wide variety of services such as transport, storage, packaging, and many others, adding more value to products and services (Kovacs, Szabo, and Pato, 2016, p. 62). The logistics process is to ‘merge and organize all activities involved in acquiring, converting and distributing goods from raw materials to finished goods to the customers to achieve customer service objectives in an efficient cost effective manner’ (Sheik and Rana, 2014, p. 1).

Cambodia’s national logistics providers mainly offer domestic services, with a limited service range and low service quality. Local companies are dominant in dry port operations and trucking. Kampuchea Shipping Agency and Brokers (KAMSAB) is the largest domestic freight forwarding company that offers a wide range of logistics services including transport, brokerage, and warehousing. Therefore, it is challenging for Cambodian LSPs to provide competitive logistics services even within the domestic market, let alone international or global markets. Knowledge and technology transfer as well as capital injection will be required to improve the quality and competitiveness of the LSPs in Cambodia.

The logistics sector is heavily run by several multinational companies, most of whom are also customs brokers and airfreight general sales agents (GSAs). Global logistics operators in Cambodia significantly contribute to trade facilitation and help strengthen the capacity of the local operators either through partnerships and joint ventures. However, these global operators face the problems of a lack of adequately trained human resources that would be required to ensure efficient operations.

The findings from field interviews with the management staff at Phnom Penh Autonomous Port (PPAP), the largest river port operator and the second largest international container terminal port after Sihanoukville port, illustrate that container congestion due to the delay in custom clearance and unofficial fees paid to customs officers are the main issues. Specific problems of border crossings faced by the

company are that there are no official fee tariffs nor exact time frame (documents can be delayed by customs officers who are waiting for more unofficial fees).

Another challenge for the PPAP is the adverse effect of the construction of the Don Sahong hydropower dam to be completed in 2018. The water level in the lower stream countries may drop and accentuate the effects of seasonality of the Mekong River, which will in turn affect the waterway shipment in Cambodia and Viet Nam. The PPAP has yet to conduct a thorough analysis of the impact of the hydropower dams along the mainstream of the Mekong River on waterway navigation and transport.

The main constraints for the logistics providers are weak governance (corruption or unofficial fees, lack of transparency, poor coordination among government agencies, etc.), low quality and connectivity of transport infrastructure, and insufficient qualified human resources. Hun Sakhalay, manager of sales/marketing office at the PPAP, said ‘good governance, quality infrastructure development, institutional harmonization, and regional economic integration are vital to logistics development and economic competitiveness’.¹¹

Logistics Service Users

Traders and manufacturers are the main users of logistics services. The Cambodian traders and manufacturers are generally not aware of the importance of managing logistics and the supply chain as well as the potential associated benefits. Thus, logistics is often equated with transport. Another issue is the outsourcing of logistics services excluding transportation to foreign LSPs because there is a lack of confidence in the quality of the services of domestic logistics providers.

Investment in Logistics Infrastructure

Investment in the logistics sector is in high demand (currently there are no statistics on FDI in logistics in Cambodia). Cambodia would need about US\$15 billion in infrastructure development from 2013 to 2020 to keep up with its economic growth rate of around 7% (ADB, 2012a, p. viii). The infrastructure investment projects need to focus on the development of multimodal and cross-border transport systems as well as improvement and expansion of inland waterway transport

¹¹ Interview on 23 August 2016 at the office of the PPAP.

systems, thereby linking SEZs with strategic industrial areas, electricity supply, postal and courier services, and telecommunications.

A study by the Cambodia Development Resource Institute indicates that ‘1 per cent increase in the stock of infrastructure directly contributes to a 0.8 per cent increase in GDP’ (CDRI, 2016). The amount of committed investment capital to Cambodia hit US\$4.5 billion in 2015, of which investment in infrastructure was US\$3.1 billion (see Table 5). The investment projects from 2011 to 2015 concentrated on infrastructure (41%), industries (35%), agriculture (14%), and tourism (10%) (see Table 6). Local investments account for two-thirds of the total investment capital. The largest foreign investment is from China, accounting for almost 90% of total foreign investment capital (CDC, CIB, and CSEZB, 2016a).

Table 5. Investments by Sector, 2011–2015 (US\$ million)

| Sector | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------|-------------|-------------|-------------|-------------|-------------|
| Agriculture | 794.5 | 556.6 | 1,128.8 | 264.7 | 482.6 |
| Industries | 1,340.8 | 1,489.7 | 1,106.7 | 2,835.6 | 919.3 |
| Infrastructure | 2,782.3 | 227.8 | 2,620.8 | 353.5 | 3,129.8 |
| Tourism | 845.6 | 691.5 | 106.0 | 479.6 | 111.9 |

Source: Council for the Development of Cambodia.

Table 6. Investment Capital, 2011–2015 (total of US\$22.3 billion)

| Infrastructure | Industries | Agriculture | Tourism |
|-----------------------|-------------------|--------------------|----------------|
| 41% | 35% | 14% | 10% |

Source: Council for the Development of Cambodia.

Dry ports are the main transport sub-sector to mostly attract private investment. Other potential infrastructure that is attractive to investors is river ports development and waterway transport services. Transport by the inland waterway from Phnom Penh port to Cai Mep (Viet Nam) is more efficient and costs less than overland transport (Ministry of Commerce, 2014, p. 85).

After implementing the ‘open sky’ policy, following the adoption of the ASEAN Open Sky Agreement in 2008, Cambodia has concluded 14 air service agreements, 7 of which are with ASEAN Member States. Vietnamese carriers are granted fifth freedom rights for the Ho Chi Minh–Phnom Penh–Vientiane route. Three

international airports (Phnom Penh, Siem Reap, and Sihanouk) are run by the French company SCA under the BOT investment scheme.

Public–private partnership (PPP) investment in logistics remains limited. Financing infrastructure development mainly comes from the government, multilateral development agencies (especially ADB and the World Bank), and bilateral donors (especially China, Japan, the Republic of Korea, and Australia). Cambodia needs to develop a regulatory framework to promote and facilitate PPP investment projects in the logistics sector (Sotharith, 2014). Transparency, investment protection, market opportunities, and risk mitigation measures are required to attract private investment in logistics.

To promote PPP investments in the logistics sector, the government should consider establishing a PPP unit with responsibilities to manage the government’s PPP policy and strategy, identify and coordinate projects, provide advice and coordination services, ensure oversight and approve projects, and build the capacity of government employees (Zen and Regan, 2014, p. 12).

4. Issues and Challenges in Logistics Development

The main issues and challenges in developing seamless logistics in Cambodia, as pointed out by Prime Minister Hun Sen (2016), are low public and private investment in transport infrastructure; limited number of domestic LSPs; a poorly integrated multimodal transport system; lack of healthy competition in trucking, port, and freight services; poor rural road connections; little investment in inland waterways; weak links of the rail network; port inefficiency; and limited electricity supply with high unit costs (US\$0.177 per kilowatt-hour).

Moreover, the draft action plan on logistics development prepared by the Ministry of Commerce in 2010 identifies several issues and challenges facing the logistics sector. These include complex and overlapping institutional arrangements, lack of coordination among related government agencies, lack of a single state agency responsible for logistics, lack of government officials with expertise on logistics, lack of logistics statistical indicators, lack of operational standards for logistics service, weak professional associations or organisations, limited ICT usage,

low quality level of logistics service, lack of skilled human resources, and limited international coverage (Ministry of Commerce, 2010).

According to a former coordinator of the Cambodia Freight Forwarders Association (CAMFFA),¹² the main issues in logistics development are lack of quality and safety of transport infrastructures and connectivity (although the situation is improving), lack of understanding among key stakeholders of the importance of the logistics sector, lack of transparency, high cost of red tape and unofficial fees for custom clearances, the credibility of the automation system of the NSW, and the lack of qualified or adequately trained human resources in logistics. There is currently no container repair service, education for truck drivers, nor proper inspection of vehicles.¹³

The report on the Cambodia Trade Integration Strategy 2014–2018 highlights corruption and informal fees as the main challenges in developing logistics. It observes that, ‘A fundamental problem underlying the logistics market in Cambodia is the opacity of the cost elements that determine the final price for shipments. This is one of the reasons manufacturing firms do not invest in in-house logistics capability – because they wish to avoid having to deal with some of the informal practices that are encountered along the trade corridors’ (Ministry of Commerce, 2014, p. 85). The report continues:

Informal payments are reported to take place at weighbridges, en-route checkpoints, and customs [...] The informal fees are also levied at border crossing and during customs clearance. Most operators are reluctant to even discuss informal fees [...] There are also high levels of informal payments to clear cargo. Typically, agents pay \$180 to \$210 to clear each twenty-foot container. The payments are shared between the clearing agent and border officials. Stakeholders view the border processes as the main contributor to high trade costs in the country [...] The informal costs are passed on to shippers, but without

¹² CAMFFA currently has 67 members.

¹³ Based on an interview with a former coordinator of the Freight Forwarders Association in Cambodia on 27 July 2016.

supporting receipts, leading to opacity about the real rate of informal payments that are truly required for clearance of each shipment and exacerbating the distrust between agents and shippers (Ministry of Commerce, 2014, p. 86).

Specific problems of border crossing encountered by traders and freight forwarders are those relating to border agencies, more particularly Customs and Camcontrol. The following issues relating to the General Department of Customs and Excise (GDCE) are:

- (a) No official fee tariff: all fees paid to Customs are considered ‘non-official handling fees’, and vary according to weight, volume of cargo, and nature of commodity.
- (b) No official time frame: documents can be delayed by Customs awaiting more fees or there is no backup for persons in charge at Customs.
- (c) No clear process mapping for Customs formalities: documents and processes all depend and vary by commodity.
- (d) Lack of information flows from Customs to traders: Customs often applies new regulations without considering whether information reaches traders. There is no grace period or transition period left before applying new regulations.
- (e) Risk management targets physical inspection at 20%, but in practice there is no exception for an inspection and an ‘un-official’ handling fee for all Customs cleared shipment even though there is no requirement for physical inspection of cargo (Ministry of Commerce, 2010).

Similarly, procedures established and followed by Camcontrol still cause some problems, despite considerable operational improvements. These problems include that a Camcontrol permit is required for nearly all export commodities and some import commodities. Camcontrol officers are present at all checkpoints and clearance places. Inspection fees and service fees are charged for nearly all operations. Moreover, the service provided is relatively time consuming (Ministry of Commerce, 2010).

Logistics is a ‘strategic subject’ and a ‘political fight’ among government ministries (i.e. Ministry of Public Works and Transport, Ministry of Economy and Finance, Ministry of Commerce, Ministry of Land Management, and the Council for the Development of Cambodia). The government ministries are competing for a higher stake and more dominant role in regulating the logistics sector, an emerging industry with high material returns and financial interests. There is currently no clear division of responsibilities among the government ministries and agencies regarding logistics development. Therefore, to avoid the competition for power among the agencies, it is necessary to establish a national logistics council to coordinate the logistics industry.

With regard to private investment in logistics infrastructure, the private sector is reluctant to invest in hard infrastructure such as road and rail given the high risks and low returns. The land issue and the resettlement of local people are sensitive political issues.¹⁴ Logistics services are provided by numerous brokers, each contributing one activity to the final clearance of the goods. The multiplicity of actors makes it more difficult for traders to track payments (Ministry of Commerce, 2014, p. 85).

For the logistics sector to be more competitive, Cambodia needs to get access to the transport networks in neighbouring countries, particularly for the border provinces located in proximity to Thai and Vietnamese seaports. For instance, Cambodia uses its Mekong waterway to ship export products via the ports in Viet Nam. In 1998, Cambodia and Viet Nam signed an agreement on waterway transportation to provide a legal framework to facilitate cross-border waterway transportation and create a favourable condition for transit transportation.

In July 2016, the Cambodian government approached its Thai counterpart to discuss the possibility of allowing Cambodia to use Laem Chabang port to export its agricultural products to a third country in order to reduce transportation costs. However, the differences in traffic rules and transport regulations between the two countries are the main challenges in promoting cross-border land transport. Both countries agreed to increase the quota of vehicles from 150 per day in 2016 to 500 per day in 2018 as part of implementing the ASEAN Framework Agreement on

¹⁴ Based on an interview with a former coordinator of the Freight Forwarding Association in Cambodia on 27 July 2016

Facilitation of Inter-State Transport and the Greater Mekong Subregion Cooperation Framework (400 for trucks and 100 for buses) (Phnom Penh Post, 2015a).

Cambodia acceded to the Greater Mekong Subregion Cross-Border Transport Facilitation Agreement (CBTA) in 2001 to improve its regional logistics connectivity. The agreement aims *(a)* to facilitate the cross-border transport of goods and people between and among the contracting parties; *(b)* to simplify and harmonise legislation, regulations, procedures, and requirements relating to the cross-border transport of goods and people; and *(c)* to promote multimodal transport.

The private sector plays a critical role in delivering logistics services. There are more than 600 companies providing logistics-related services in Cambodia. However, the lack of management capacity and professionalism is the main issue in their operations. Rithy Sear, chairman of the WorldBridge International Group, said: ‘Logistics is the way of the future, and in Cambodia many companies don’t understand the market or the value of managing the whole supply chain... In terms of the supply chain, it is very important to operate the whole thing. However, most logistics companies in Cambodia lack that [ability] of professionalism. Only a few companies have been able to operate well’ (Phnom Penh Post, 2016).

Another issue in logistics development is the price of electricity, which is much higher in Cambodia than in neighbouring countries. The electricity price is around US\$0.8 per kilowatt-hour in Phnom Penh,¹⁵ higher than in Ho Chi Minh City at US\$0.11 per kilowatt-hour and Bangkok at US\$0.15 per kilowatt-hour (World Bank, 2015). Cambodia is importing electricity from its neighbours to supply its domestic needs. In 2013, it imported 1,691 megawatts from Viet Nam, 579 megawatts from Thailand, and 10.73 megawatts from the Lao People’s Democratic Republic (Phnom Penh Post, 2015b).

¹⁵ The price is in Phnom Penh, the capital city. The electricity price is higher in the provinces and rural areas.

Conclusion

FDI plays a critical role in socio-economic development. Services sector liberalisation under the framework of WTO and AFAS is the main strategy to attract FDI to Cambodia. FDI in the services sector has grown remarkably in Cambodia due to a conducive investment environment such as a liberal and open services sector, a favourable investment law and other related laws and regulations, and various investment incentives. However, weak governance and corruption are the core constraints in attracting FDI.

As part of the strategy to further attract FDI and facilitate trade (export-led growth), the Cambodian government has started, at a preliminary stage, to promote logistics development in its industrial development strategy and trade promotion policies. However, logistics performance and investments in logistics remain low. The government does not have a clear and comprehensive policy on logistics and corruption has hindered logistics development. Attracting foreign investment in the logistics sector is critical to strengthening national logistics performance and competitiveness.

Liberalisation in the logistics sector is not sufficient for logistics sector development. Good governance, political leadership, institutional reforms, capacity building, and regional connectivity are required to develop a competitive and seamless logistics sector. The main bottlenecks in logistics in Cambodia are corruption, lack of quality and reliability of transport systems, lack of integrated multimodal transport networks, poor coordination between government agencies or institutions, informal fees occurring especially at the border checkpoints and customs clearance, lack of integrated logistics service providers, and not-yet-robust logistics users.

Policy Recommendations

Cambodia needs to develop a comprehensive master plan on logistics and establish a national council on logistics to strategically connect logistics to the national development strategy and trade facilitation policy, coordinate line ministries

and agencies to reduce corruption and informal fees, develop a multimodal logistics approach, and strengthen PPPs. Customs reform is critical to reducing the cost of logistics. Human resources development and capacity building in logistics are also critical for effective implementation of the logistics policy.

Domestic infrastructure connectivity, especially linking urban and rural transport and logistics, is necessary to reduce development gaps between the rural and urban areas as well as to realise inclusive growth. Integrating multimodal transport systems, such as connecting the land (rail and roads) and waterway (inland and maritime) transport networks, is needed to enhance domestic connectivity.

The government also needs to further reduce customs formalities – although some progress has been made – to further expedite the implementation of the NSW in compliance with the ASEAN Single Window by improving the credibility of the automation system and promoting electronic exchange of customs data with the ASEAN Member States. Administrative and regulatory reforms to reduce corruption or informal fees are urgently needed. Competition among LSPs such as in trucking, port, and freight services should be promoted to reduce logistics costs while promoting innovation and competitiveness in the sector.

Moreover, the country needs to improve transport regulations to ensure the quality and safety of transport systems and remove impediments to FDI in logistics to improve the sector's competitiveness and lower the cost of services to traders. At the international level, Cambodia needs to negotiate with Thailand and Viet Nam to promote integrated road transport and cross-border shipments.

ASEAN should promote regional cooperation on capacity building in the logistics sector. The more developed ASEAN Member States need to assist the less developed ones to narrow the logistics performance gap through human resources development and institutional improvement. To effectively implement the ASEAN Master Plan on Connectivity, the ASEAN Member States need to assist each other in logistics performance.

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Appendix 1: Cambodian Commitments to Services Liberalisation in GATS

Modes of supply: (1) cross-border supply, (2) consumption abroad, (3) commercial presence, and (4) presence of natural presence.

| <i>Sector and Sub-sector</i> | <i>Limitations on Market Access</i> | <i>Limitations on National Treatment</i> | <i>Additional Comments</i> |
|---------------------------------------|---|---|---|
| Horizontal Commitments | | | |
| Subsidies | | (3), (4) Unbound for subsidies, including for research and development | |
| Tax measures | | (1), (2), (3) None with respect to direct taxes | |
| Land | | (3) Non-Cambodian natural and juridical persons may lease but not own land. | |
| Commercial presence | (3) Investors shall have the obligation to provide adequate and consistent training to Cambodian staff, including for promotion to senior positions. | (3) None | |
| Professional Services | | | |
| Legal services | (1) None (2) None (3) Following Cambodian law firms; not able to directly represent clients in courts. (4) Unbound, except as indicated in the horizontal section. | (1) None (2) None (3) None (4) Unbound | The only requirement is commercial association with a Cambodian lawyer and the restriction on directly representing clients in court. |
| Accounting, auditing, and bookkeeping | (1) None, except must have | (1) None (2) None | Law on Corporate Accounts, their |

| | | | |
|---|---|--|--|
| | commercial presence in Cambodia for auditing services. (2) None (3) None (4) Unbound | (3) None (4) Unbound | Audits and Accounting Profession was adopted in 2002. |
| Taxation services | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | |
| Architectural services (consulting, planning, or design services) | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | |
| Specialised medical services <i>Dental services</i> | (1) Unbound (2) None (3) Provision of services is permitted through a joint venture with a Cambodian juridical person. (4) Unbound | (1) Unbound (2) None (3) Unbound (4) Unbound | |
| Computer and Related Services | | | |
| (a) Consultancy services related to the installation of computer hardware (b) Software implementation services (c) Data processing services (d) Database services (e) Other | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | There is no restriction in this sub-sector, except Mode 4 that requires foreign workers to respect Cambodian Labour Law. |
| Rental/Leasing Services with Operators | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | |
| Other Business Services | | | |
| (a) Advertising services | (1), (2), (3) Unbound, but subject to the regulations on advertising in Cambodia. (4) Unbound | (1), (2), (3) Unbound, but subject to the regulations on advertising in Cambodia. (4) Unbound | |

| | | | |
|---|--|--|---|
| (b) Market research services | (1) None (2) None | (1) None (2) None | |
| (c) Management consulting | (3) None | (3) None | |
| (d) Services related to management consulting | (4) Unbound | (4) Unbound | |
| (e) Technical testing and analysis services | | | |
| (f) Services incidental to mining | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | |
| Exclusively covers consultancy on a fee or contract basis relating to mining and oil field development | | | |
| (g) Services incidental to energy distribution | | | |
| Communication Services | | | |
| Courier Services | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | |
| These services are limited to the provision of services on a contract basis for the delivery of letters, packages, and parcels. | | | |
| Telecommunication Services | | | |
| (a) Voice telephone services | (1) Services provided only over the circuits leased from Telecom Cambodia. | (1) Services provided only over the circuits leased from Telecom Cambodia. | |
| (b) Packet-switched data transmission services | Starting no later than 1 January 2009: None | Starting no later than 1 January 2009: None | |
| (c) Circuit-switched data transmission services | None | None | |
| (d) Telex services | (2) None | (2) None | |
| (e) Telegraph services | (3) None | (3) Provided exclusively by Telecom Cambodia. | |
| (f) Facsimile services | (4) Unbound | Starting no later than 1 January 2009: None | |
| (g) Private leased circuit services | | (4) Unbound | |
| (h) E-mail | (1) None | (1) None | Cambodia has committed to open its market for fixed lines |
| (i) Voice-mail | (2) None | (2) None | |
| (j) On-line information and data base- | (3) None (4) Unbound | (3) None (4) Unbound | |

| | | | |
|---|--|--|--|
| retrieval (k) Electronic data interchange (l) Enhanced/value added facsimile services, including store and forward, store and retrieve (m) Code and protocol conversion (n) On-line information and/or data processing (including transaction processing) | | | telephony services starting no later than 1 January 2009 subject to requirement for local shareholding of up to 4%. |
| (o) Mobile services | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | The market for mobile telephony has undergone a rapid transformation, leading to growing selection of services and products for businesses and the population. |
| Construction and Related Engineering Services | | | |
| (a) General construction work for buildings (b) General construction work for civil engineering (c) Installation and assembly work (d) Building completion and finishing work | (1) Unbound (2) None (3) None (4) Unbound | (1) Unbound (2) None (3) None (4) Unbound | |
| Distribution Services | | | |
| (a) Commission agents' services | (1), (2), (3), (4) Unbound | (1), (2), (3), (4) Unbound | |
| (b) Whole trade services | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | Cambodia's market is de facto open. |
| (c) Retailing services <ul style="list-style-type: none"> • Wholesale and retail sales of motor vehicles • Sales of parts of motor vehicles • Sales of motorcycles and related parts | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | |

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| <p>For supermarkets and large department stores only.</p> <ul style="list-style-type: none"> • Food retailing services • Non-food retailing services, excluding sales of pharmaceutical, medical, and orthopaedic goods. • Retailing services of radio and television equipment, music instruments, music scores, and audio and video records and tapes. | | | |
| (d) Franchising services | (1), (2), (3), (4) Unbound | (1), (2), (3), (4) Unbound | |
| Financial Services | | | |
| All insurance and insurance-related services | | | |
| <p>(a) Life insurance services</p> <p>(b) Non-life insurance services</p> | <p>(1) Natural and juridical person can enter into contract only with the insurance companies licensed to carry out insurance business in Cambodia.</p> <p>(2) None</p> <p>(3) None</p> <p>(4) Unbound</p> | <p>(1) None</p> <p>(2) None</p> <p>(3) None</p> <p>(4) Unbound</p> | |
| Financial Services and Other Related Services | | | |
| (a) Acceptance of deposits and other repayable funds from the public | <p>(1) None, except deposits from the public must be reinvested in Cambodia.</p> <p>(2) None</p> <p>(3) Only permitted through authorised financial institutions as banks.</p> <p>(4) Unbound,</p> | <p>(1) None</p> <p>(2) None</p> <p>(3) None</p> <p>(4) Unbound</p> | |

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| | except as indicated in the horizontal section. | | |
| Tourism and Travel Industry | | | |
| Hotels | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | |
| Restaurants | (1) Unbound (2) None (3) Permit is granted taking into account characteristics of the area. (4) Unbound | (1) Unbound (2) None (3) Unbound (4) Unbound | |
| Travel agencies and tour operation services | (1) None (2) None (3) None, except foreign equity participation limited to 49% for travel agencies (4) Unbound | (1) None (2) None (3) None (4) Unbound | |
| Tourist guide services | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | |
| Transport Services | | | |
| Maritime Services | | | |
| International transport (freight and passengers), excluding cabotage. | (1), (2), (3), (4) Unbound | (1), (2), (3), (4) Unbound | |
| Air Transport Services | | | |
| Aircraft repair and maintenance services | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | Cambodia applies only one restriction in these sub-sectors: only 49% of capital can be owned by foreigners. |
| Selling and marketing of air transport services | | | |
| Computer reservation system services | | | |
| Road Transport Services | | | |
| (a) Passengers transportation (b) Freight transportation (c) Rental of commercial vehicles with operator | (1) None (2) None (3) None (4) Unbound | (1) None (2) None (3) None (4) Unbound | Cambodia applies only one restriction on cross-border supply which requires a commercial |

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| | | | presence. |
| (d) Maintenance and repair of road transport equipment | (1) None (2) None (3) None | (1) None (2) None (3) None | |
| (e) Supporting services for road transport services | (4) Unbound | (4) Unbound | |
| Pipeline Transport Services | | | |
| (a) Transport of fuels | (1) Services to be provided through a contract of concession granted by the state on case-by-case basis. | (1) Unbound | |
| (b) Transport of other goods | (2) None (3) Services must be provided through a contract of concession granted by the state on case-by-case basis. (4) Unbound | (2) None (3) Unbound (4) Unbound | |

GATS = General Agreement on Trade in Services.

Source: Samnang Chea, Denora Sarin, and Hach Sok. 2007. *ASEAN Economic Forum: Trade in Services in Cambodia*. Washington, DC: World Bank. Available at: http://siteresources.worldbank.org/INTRANETTRADE/Resources/Topics/Services/Cambodia-Asean_services.pdf

Appendix 2: Cambodia's Schedule of Horizontal Commitments under AFAS

Modes of supply: (1) cross-border supply, (2) consumption abroad, (3) commercial presence, and (4) presence of natural persons.

| <i>Sector or Sub-sector</i> | <i>Limitation on Market Access</i> | <i>Limitation National Treatment</i> | <i>Additional Comments</i> |
|----------------------------------|--|--|----------------------------|
| I. Horizontal Commitments | | | |
| Subsidies | | (3), (4) Unbound for subsidies, including for research and development. | |
| Tax measures | | (1), (2), (3) None with respect to taxes. | |
| Land | | (3) Non-Cambodian natural and juridical persons may lease but not own land. | |
| Acquired rights | The conditions of ownership, management, operation, judicial form, and scope of activities as set out in a license or other form of approval establishing or authorising the operation of supply of services by an existing foreign service supplier will not be made more restrictive than those in existence as of the date of Cambodia's accession to WTO. | | |
| Investment Incentives | (3) Investors seeking incentives under the provisions of the Law on Investment shall have the obligation to provide adequate and consistent training to Cambodian staff, including for promotion to senior positions. | (3) None | |
| Presence of natural persons | (4) Unbound except for measures concerning the entry and temporary stay of a natural person who falls in one of the following categories: <u>Business visitors:</u> A natural person who: - enters Cambodia for the purposes of participating in business meetings, establishing business contacts including negotiations for the sale of services and/or other similar activities; | (4) Unbound, except for measures affecting the categories referred to under market access. | |

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| | <p>- stays in Cambodia without receiving income from within Cambodian sources; - does not engage in making direct sales to the general public or supplying services. Entry visa for business visitors shall be valid of a period of 90 days for an initial stay of 30 days, which may be extended.</p> <p><u>Persons responsible for setting up of a commercial establishment:</u> Persons working in an executive or management position, receiving remuneration from an entity as defined below, who are responsible for the setting up, in Cambodia, of a commercial presence of a service provider of a member, that will support employment of persons described in a), b), and c) below. The subject persons are not subject to a maximum duration of stay.</p> <p><u>Intra-Corporate Transferees:</u> Natural persons who have been employed by a juridical person of another member for a period of not less than 1 year and who seek temporary entry to provide services through a branch, subsidiary and affiliate in Cambodia and who are:</p> <p>a) Executives: without requiring compliance with labour market tests, persons within an organisation who primarily direct the management of the organisation, exercise wide latitude in decision making, and receive only general supervision or direction from higher-level executives, the board of directors, or shareholders of the business. Executives would not directly perform tasks related to the actual supply of a service or services of the organisation.</p> <p>b) Managers: without requiring</p> | | |
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| | <p>compliance with labour market tests, natural persons employed by a juridical entity and who possess knowledge at an advanced level of expertise or proprietary knowledge of a juridical entity product, service, research, equipment, techniques, or management, and who primarily direct the organisation or a department of the organisation; supervise and control the work of other supervisory, professional or managerial employees; have the authority to hire and fire or recommend hiring, firing, or other personnel actions; and exercise discretionary authority over day-to-day operations. They do not include first-line supervisors, unless the employees supervised are professionals, nor do they include employees who primarily perform tasks necessary for the supply of the service.</p> <p>c) Specialists: Natural persons, within an organisation who possess knowledge at an advanced level of continued expertise and who possess proprietary knowledge of the organisation's services, research equipment, techniques, or management.</p> <p>Temporary residency and work permit is required for the natural persons in the categories defined under intra-corporate transferees. Such permits are issued for 2 years and may be renewed annually up to maximum of total 5 years.</p> | | |
|--|---|--|--|

AFAS = Association of Southeast Asian Nations Framework Agreement on Services, WTO = World Trade Organization.

Source: ASEAN Secretariat. 2016. *AFAS Horizontal Commitments*. Available at: <http://investasean.asean.org/files/upload/01%20KH%20AFAS%205%20FS%20HC.pdf> (accessed 2 November 2016).

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