

Chapter 6

INVESTMENT CLIMATE SURVEY IN CAMBODIA

Sau Sisovanna

Abstract

Most firms in Cambodia have 100 per cent foreign-owned capital, followed by joint ventures and local enterprises. Foreign investors are mostly from Taiwan, China and Hong Kong. The obstacles faced in setting up businesses are the inordinate amount of time spent to prepare the documents and the costs of involved in registering companies. In terms of business operations, the governance was poor due to corruption. Most workers have attended middle high school and elementary school while middle management personnel have attended high school and college or university. Most of engineers have gone to technical/vocational schools and colleges or university. The average wages and salary are US\$79 for workers, US\$209 for middle managers and US\$464 for engineers. Most firms have monthly labor turnover ratios of 1 to 5 per cent.

For current investment incentives, subsidies, rent-free or subsidized land, and access to low-cost financing are rated poor. The main markets for products were the United States, Europe and Canada. China and Taiwan are the main import markets for materials. The total average rating on domestic market size and purchasing power of local consumers was poor due to limited domestic market for distributing products, decreased orders from buyers, and lack of tax controls. Firms mostly used sea/river shipping, followed by land and air transports, for importing raw materials and exporting products. The total average rating for the cost competitiveness of each mode of transportation and communication was poor in Phnom Penh and Sihanouk Ville while the efficiency and reliability of these same factors were found poor in Sihanouk Ville. The average number of days for clearance of export and import goods was two and three, respectively.

Most of firms expressed optimism that investments would develop in the future based on implementation of laws and regulations, increase of market demand, improved government services and cooperation, better quality of workers, quality products, and tax administration.

INTRODUCTION

The Economic Research Institute of ASEAN and East Asia (ERIA) conducts policy analyses, provides policy recommendations for the leaders and ministers in the region and serves as a tripartite-type forum for policy dialogues and interactions among policymakers, researchers, and business/civil community and improve policy research capacities, especially in the less developed countries. In 2008, the Institute conducted several research projects. One of them was titled “Development Strategy for CLVM Countries,” which focused on the development of the manufacturing sector in Cambodia, Laos, Myanmar, and Vietnam (collectively referred to as CLMV). To implement this project in Cambodia, the Cambodian Institute for Cooperation and Peace undertook the Survey of Investment Climate in cooperation with the ERIA.

1. OBJECTIVES

The objectives of the ERIA Investment Climate Questionnaire are: (1) to recommend policy measures that will enable the CLMV to attract foreign direct investment and to participate in production networks in East Asia; (2) to recommend policy measures to utilize economic corridors and Special Economic Zones (SEZs) effectively; and (3) to recommend appropriate time frames and sequence of policy measures to develop industrial clusters. Among ERIA’s research activities, the administration of a questionnaire survey is one of the most important tools for deriving invaluable policy suggestions for CLMV.

2. METHODOLOGY

The survey focused on the business environment for manufacturing industry. The sampling frame of the survey was based on the existing list of firms compiled by the Cambodia Investment Board and the Cambodia Special Economic Zone Board of the Council for the Development of Cambodia. A total of 76 firms were interviewed after being sent a letter explaining the survey’s objectives and requesting an interview. Of

these, 62 firms were located in Phnom Penh, six in Sihanouk Ville and eight in Bavet, Svay Rieng province. (Table 1 shows the detailed sample size of firms by location and type of business.)

Table 1: Number of sampled firms by location and business type

Type of Business	Phnom Penh 62 firms			Sihanouk Ville 6 firms		Bavet 8 firms		Total 76 firms			
	IZ	SEZ	Outside	SEZ	Outside	SEZ	Outside	IZ	SEZ	Outside	Total
Food, beverages and tobacco	0	0	4	0	1	0	0	0	0	5	5
Garments and textiles	15	0	37	2	2	1	1	15	3	40	58
Metal products	1	1	0	1	0	3	0	1	5	0	6
Real estate and construction	0	0	0	0	0	2	0	0	2	0	2
Footwear	1	1	2	0	0	1	0	1	2	2	5
Total	17	2	43	3	3	7	1	17	12	47	76

3. COMPANY PROFILE

Most of the surveyed firms (86.8 percent) had 100 per cent foreign-owned capital (Table2). Table 3 shows that more than 20 per cent of sampled firms in Phnom Penh, the investors came from Taiwan, China and Hong Kong each. Investors in 66.7 per cent of the sampled firms in Sihanouk Ville came from China while 71.4 per cent of sampled firms in Bavet had Taiwanese investors. Table 4 shows the share of firms by the number of full-time employees as of December 2008. The majority of firms (80.3 percent) in Phnom Penh had more than 500 employees. In contrast, the largest proportion of firms in Sihanouk and Bavet had full-time employees numbering 101 to 500 and a maximum of 100, respectively.

Table 2: Ownership of firms

Ownership	Total		Phnom Penh		Sihanouk Ville		Bavet	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
100% Local	4	5.3	3	4.8	0	0.0	1	12.5
100% Foreign	66	86.8	53	85.5	6	100.0	7	87.5
Joint venture	6	7.9	6	9.7	0	0.0	0	0.0
Total	76	100.0	62	100.0	6	100.0	8	100.0

Table 3: Share of firms by nationality of foreign investors

Country	Total	Phnom Penh	Sihanouk Ville	Bavet
Hong Kong	16.7	20.3	0.0	0.0
Indonesia	1.4	1.7	0.0	0.0
USA	4.2	3.4	0.0	14.3
Philippines	1.4	0.0	16.7	0.0
Taiwan	29.2	25.4	16.7	71.4
China	26.4	23.7	66.7	14.3
Korea	6.9	8.5	0.0	0.0
Malaysia	6.9	8.5	0.0	0.0
Bangladesh	1.4	1.7	0.0	0.0
Singapore	4.2	5.1	0.0	0.0
Japan	1.4	1.7	0.0	0.0
Total	100.0	100.0	100.0	100.0

**Table 4: Share of firms by number of full-time employees
As of December 2008**

Number of employees	Total	Phnom Penh	Sihanouk Ville	Bavet
Up to 100 persons	9.5	3.3	40.0	37.5
101 to 500 persons	18.9	16.4	60.0	12.5
Above 500 persons	71.6	80.3	0.0	50
Total	9.5	3.3	40.0	37.5

In 2008, nearly 50 per cent of firms in Phnom Penh had annual sales exceeding US\$10 million whereas all firms in Sihanouk Ville had annual sales of US\$1 million to US\$5 million (Table 5). Three-fourths (75 percent) of the companies surveyed in Bavet had US\$1 million or less in annual sales.

**Table 5: Share of firms by annual sales
As of December 2008 (in US\$)**

Total assets	Total	Phnom Penh	Sihanouk Ville	Bavet
Up to 1Million US\$	16.0	11.4	0.0	75.0
1,000,001 to 5,000,000 US\$	32.0	31.8	100.0	0.0
5,000,001 to 10,000,000 US\$	16.0	15.9	0.0	25.0
Above 10,000,000 US\$	36.0	40.9	0.0	0.0
Total	100.0	100.0	100.0	100.0

4. BUSINESS SETUP

The evaluation of the business setup used a five-point scale: 1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good and 5 = Excellent. Table 6 shows a total average rating of fair for the business setup. Bavet obtained the highest average rating (3.8), followed by Phnom Penh (3.5) and Sihanouk Ville (3.3). The factors underlying the lowest average score are (1) unofficial payments (or bribes) and delays in the processing of licenses and permits, and (2) costly legal fees involved in setting up businesses. Other obstacles to setting up businesses are the length of time needed to prepare the necessary documents and exorbitant costs of registering a company.

**Table 6: Average rating on business setup by location
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)**

Evaluation	Total	Phnom Penh	Sihanouk Ville	Bavet
Information necessary to make an objective decision on investment	3.5	3.5	3.2	3.8
Collecting information on the regulatory framework and legal procedures	3.4	3.3	3.2	3.9
Obtaining licenses and permits	3.7	3.7	3.8	3.8
Effectiveness of one-stop service	3.3	3.3	3.0	3.9
Investment regulation	3.6	3.7	3.2	3.8
Total Average	3.5	3.5	3.3	3.8

5. BUSINESS OPERATIONS

5.1 Evaluation of business operations

Firms were asked to evaluate the business environment in which they were operating based on a five-point scale mentioned earlier. Table 7 shows the results by location. Overall business operations were rated fair. Phnom Penh rated it the lowest (3.2) owing to unstable macro economy. This was due to high and unstable inflation rate and adverse impacts of the global financial crisis on the domestic industry.

**Table 7: Average rating on business operation by location
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)**

Evaluation	Total	Phnom Penh	Sihanouk Ville	Bavet
Macro economy				
Macroeconomic stability	3.3	3.2	3.5	3.3
Governance				
Crime, theft and disorder	3.3	3.2	3.5	4.0
Quality of policy formulation and implementation	3.4	3.4	3.2	3.9
Quality of government services	3.1	3.0	3.2	3.3
Quality of the legal system	3.1	3.0	3.2	3.5
Corruption	2.7	2.6	2.8	2.9
Total Average	3.1	3.1	3.2	3.5
Regulatory framework				
Business licensing and operating permits	3.6	3.5	3.3	3.9
Tax rates	3.3	3.2	3.5	3.6
Tax administration	3.3	3.3	3.3	3.5
Labor regulation	3.4	3.4	3.3	4.0
Land regulation	3.4	3.3	3.5	3.9
Finance regulation	3.4	3.3	3.5	3.8
Intellectual property rights protection	3.3	3.2	3.2	3.8
Total Average	3.4	3.3	3.4	3.8
Infrastructure				
Electricity	3.0	3.0	2.8	3.8
Water	3.3	3.4	3.0	3.4
Gas/fuel	3.3	3.3	3.5	3.4
Transportation	3.4	3.3	3.3	3.9
Telecommunications	3.4	3.5	2.8	3.4
Industrial estates	3.5	3.5	3.7	4.1
Accommodation for foreigners	3.7	3.7	4.0	4.0
Total Average	3.4	3.4	3.3	3.7
Labor				
Quality of workers	3.2	3.2	2.8	3.5
Quality of middle management	3.4	3.3	3.3	3.5
Quality of engineers	3.3	3.3	3.5	3.4
Labor costs	3.3	3.3	3.2	3.3
Ease of labor recruitment	3.3	3.2	3.7	3.5
Labor turnover (i.e., frequency of movement of workers in and out of a company)	3.1	3.0	3.2	3.3
Labor relation (labor strikes, etc.)	3.1	3.0	3.5	3.6
Total Average	3.2	3.2	3.3	3.4
Land				
Office rentals/land prices	3.2	3.1	3.3	3.3
Finance				
Access to loans	2.9	2.8	2.8	3.1

In terms of *governance*, firms across locations (Phnom Penh, Sihanouk Ville, and Bavet) rated it poor due to corruption, as evidenced by high informal charges and unofficial payments. On *regulatory framework*, the average rating for the business environment was fair. Phnom Penh scored 3.3, Sihanouk Ville 3.4, and Bavet 3.8. *Infrastructure* rated fair as well. Overall, the highest average score (3.7) was in Bavet

followed by Phnom Penh (3.4) and Sihanouk Ville (3.3). In Sihanouk Ville, electricity and telecommunication both rated poor, with an average score of 2.8 each. The reasons cited for these scores were frequent power outages and costly and insufficient electricity supply, plus poor and costly Internet access.

In terms of *labor*, the average rating in each location was fair. However, the quality of workers in Sihanouk Ville was rated poor (2.8). This was due to lack of skilled workers and low education. The total average score was fair.

The overall average rating on *land* was fair. Sihanouk Ville in Bavet had the highest average rating at 3.3 while Phnom Penh obtained 3.1. Underlying the lowest average rating was the high cost of land.

Finance got an overall average rating of poor. Bavet rated it fair (3.1) while Phnom Penh (2.8) and Sihanouk Ville (2.8) rated it poor. The poor rating was based on lack of access to financing as well as difficulty in accessing loans and high interest rates.

5.2 Educational background

Table 8 shows the share of respondents by employees' educational background and by location. More than 20 per cent of workers in Phnom Penh, Sihanouk Ville, and Bavet received elementary and middle-high school education. Among the middle management staff, 27.6 per cent in Phnom Penh had attended high school and college/university. Sixty per cent of management in Sihanouk Ville and more than 50 per cent of those in Bavet had attended high school.

Engineers who attended technical or vocational school and college/university comprised 48.4 per cent and 41.9 percent, respectively, of the respondents while only 9.7 per cent attended graduate school. Only one engineer in Bavet had attended college/university and none in Sihanouk Ville.

Table 8: Share of respondents by educational background and type of employees

Educational background	Total		Phnom Penh		Sihanouk Ville		Bavet	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Workers								
No formal schooling	53	21.0	46	21.3	3	25.0	4	16.7
Elementary school	68	27.0	59	27.3	3	25.0	6	25.0
Middle high school	70	27.8	60	27.8	3	25.0	7	29.2
High school	45	17.9	37	17.1	2	16.7	6	25.0
Technical/vocational school	14	5.6	12	5.6	1	8.3	1	4.2
College/university (BA)	2	0.8	2	0.9	0	0.0	0	0.0
Graduate school (MA/PhD)	0	0.0	0	0.0	0	0.0	0	0.0
Total	252	100.0	216	100.0	12	100.0	24	100.0
Middle management								
No formal schooling	3	1.6	3	1.7	0	0.0	0	0.0
Elementary school	7	3.7	7	4.0	0	0.0	0	0.0
Middle high school	25	13.2	23	13.2	1	20.0	1	9.1
High school	57	30.0	48	27.6	3	60.0	6	54.5
Technical/vocational school	34	17.9	32	18.4	0	0.0	2	18.2
College/university (BA)	51	26.8	48	27.6	1	20.0	2	18.2
Graduate school (MA/PhD)	13	6.8	13	7.5	0	0.0	0	0.0
Total	190	100.0	174	100.0	5	100.0	11	100.0
Engineers								
Technical/vocational school	15	48.4	15	50.0	0	0.0	0	0.0
College/university (BA)	13	41.9	12	40.0	0	0.0	1	100.0
Graduate school (MA/PhD)	3	9.7	3	10.0	0	0.0	0	0.0
Total	31	100.0	30	100.0	0	0.0	1	100.0

5.3 Wages and salary

In terms of average wages and salary, which included allowances, workers received US\$79 each, middle managers US\$209 and engineers US\$464. The average monthly wages and salaries of middle managers (US\$217) and engineers (US\$467) in Phnom Penh were higher than their counterparts in Sihanouk Ville and Bavet (Table 9).

Table 9: Average monthly wages and salary and type of employees

Employees	Total	Phnom Penh	Sihanouk Ville	Bavet
Workers	US\$ 79	US\$ 80	US\$ 75	US\$ 80
Middle Management	US\$ 209	US\$ 217	US\$ 182	US\$ 144
Engineers	US\$ 464	US\$ 467		US\$ 400

5.4 Monthly labor turnover rate

Table 10 shows that 18.4 per cent of the firms surveyed did not lose any of their workers. Almost half of the firms (47.4 percent) had a monthly labor turnover ratio of 1 to 5 per cent compared to 6 to 10 for 15.8 percent of the companies surveyed. A little more than a

tenth (10.9 percent) and 7.9 per cent of the respondent firms had a monthly labor turnover ratio exceeding 15 per cent and 11 to 15 percent, respectively. Slightly more than half of the firms (53.2 percent) in Phnom Penh and 37.5 percent of those in Bavet had a monthly labor turnover rate of 1 to 5 percent, which could not be said of Sihanouk Ville.

Table 10: Share of firms by monthly labor turnover ratio

Monthly labor turnover rate	Total		Phnom Penh		Sihanouk Ville		Bavet	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
No. of workers who changed their jobs	14	18.4	8.0	12.9	5.0	83.3	1.0	12.5
1% to 5%	36	47.4	33.0	53.2	0.0	0.0	3.0	37.5
6% to 10%	12	15.8	9.0	14.5	0.0	0.0	3.0	37.5
11% to 15%	6	7.9	5.0	8.1	0.0	0.0	1.0	12.5
Above 15%	8	10.5	7.0	11.3	1.0	16.7	0.0	0.0
Total	76	100.0	62.0	100.0	6.0	100.0	8.0	100.0

5.5 Current investment incentives

Respondents were also asked to rate the current investment incentive. Table 11 shows the resulting total average rating. Overall, it was rated fair, with 3.3 in Sihanouk Ville, 3.2 in Phnom Penh, and 3.2 in Bavet. Subsidies, rent-free or subsidized land, and access to low-cost financing were rated poor in Phnom Penh. In Sihanouk Ville, rent-free or subsidized land and access to low-cost financing were also rated poor. In addition, subsidies, rent-free or subsidized land, and exemption from foreign ownership restriction were also rated poor in Bavet. Cited as reasons for the poor rating were the lack of

**Table 11: Average rating on current investment incentives by locations
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)**

Evaluation	Total	Phnom Penh	Sihanouk Ville	Bavet
Tax incentive (e.g., tax holiday)	3.7	3.7	3.5	4.0
Subsidies	2.7	2.7	3.0	2.6
Rent-free or subsidized land	2.8	2.8	2.8	2.7
Access to low-cost financing	2.8	2.8	2.8	3.1
Exemption from trade restrictions	3.6	3.6	3.8	3.4
Exemption from remittance restrictions	3.6	3.6	3.8	3.5
Exemption from foreign ownership restrictions	3.3	3.3	3.5	2.9
Prioritized supply of utility services such as electricity, telecommunications	3.1	3.1	3.0	3.4
Total Average	3.2	3.2	3.3	3.2

subsidies from government, lack of government-provided land, lack of access to or difficulty in accessing financing and high rates on loans, foreigners barred from owning property, and limited ownership.

Measures considered effective in increasing investments were: (1) reducing public holidays; (2) abating bureaucracy and corruption; (3) lowering export management fees; (4) efficiently implementing the laws; (5) reducing transaction time, (6) decreasing taxes such as export and income taxes; and (7) granting property rights to foreigners.

6 LOGISTICS

6.1 Main products and market share distributions

The majority of the respondents (52.9 percent) were manufacturers of food, beverage and tobacco, followed by makers of garments and textiles (17.6 percent), metal products (17.6 percent), and enterprises dealing in real estate and construction (11.8 percent)(Table 12). In Phnom Penh, the percentages of the firms' respondents whose main domestic products were food beverages and tobacco, metal products, and garments and textiles were 64.3 percent, 21.4 percent, and 14.3 percent, respectively. Respondents' main domestic products in Sihanouk Ville were garments and textiles; those based in Bavet were dealing mainly in real estate and construction.

Table 12: Share of respondents sold main products to domestic market

Main products	Total	Phnom Penh	Sihanouk Ville	Bavet
Food, beverages and tobacco	52.9	64.3	0.0	0.0
Garments and textiles	17.6	14.3	100.0	0.0
Metal products	17.6	21.4	0.0	0.0
Real estate and construction	11.8	0.0	0.0	100.0
Total	100.0	100.0	100.0	100.0

Table 13 shows that the major products from Phnom Penh were mainly sold in the United States, followed by Europe and Canada. For Sihanouk Ville and Bavet, the main markets for their products were the United States and Europe, respectively. Most of products sold to those countries were garments and textiles (90.7 per cent of all products) (Table 14).

Table 13: Share of respondents sold main products to export country by location

Country	Total	Phnom Penh	Sihanouk Ville	Bavet
USA	51.1	53.0	50.0	25.0
Canada	12.6	12.7	0.0	16.7
Europe	26.4	25.3	25.0	41.7
Japan	5.5	5.4	0.0	8.3
Singapore	0.5	0.6	0.0	0.0
Hong Kong	1.6	1.2	25.0	0.0
Taiwan	1.6	1.2	0.0	8.3
Malaysia	0.5	0.6	0.0	0.0
Total	100.0	100.0	100.0	100.0

Table 14: Share of respondents sold main products to export countries

Main product	Malaysia	Singapore	Hong Kong	Japan	Taiwan	USA	Canada	Europe	Total	Percent
Food, beverages and Tobacco	1	1	1	1	0	0	0	0	4	2.2
Garments and textiles	0	0	2	3	2	93	22	43	165	90.7
Metal products	0	0	0	0	0	0	1	3	4	2.2
Footwear	0	0	0	6	1	0	0	2	9	4.9
Total	1	1	3	10	3	93	23	48	182	100.0
<i>Percent</i>	0.5	0.5	1.6	5.5	1.6	51.1	12.6	26.4	100.0	

6.2 Main materials and sources

Most firms (61.5 percent) source their raw materials, parts and components locally to produce garments and textiles, followed by those that manufacture food, beverage and tobacco and footwear makers who (Table 15). In Phnom Penh, 64.0 percent, 28.0 percent, and 8.0 per cent of the firms surveyed said they imported the main materials for garments and textiles, food beverage and tobacco, and footwear, respectively. For Sihanouk Ville, the materials imported were only for garments and textiles.

Table 15: Share of respondents sourcing locally available materials

Main products	Total	Phnom Penh	Sihanouk Ville	Bavet
Food, beverages and tobacco	30.8	28.0	100.0	0.0
Garments and textiles	61.5	64.0	0.0	0.0
Footwear	7.7	8.0	0.0	0.0
Total	100.0	100.0	100.0	0.0

Table 16 shows the shares of the respondent firms importing main materials from selected countries. The main import markets were China and Taiwan. China was the largest external source of raw materials, with 41.2 per cent of all imported raw materials

coming from this country, followed by Taiwan 16.5 percent, Hong Kong 10.5 percent, and Vietnam 9.0 per cent (Table 17).

Table 16: Share of respondents importing materials by location

Country	Total	Phnom Penh	Sihanouk Ville	Bavet
Indonesia	1.1	0.9	9.1	0.0
Canada	1.1	1.3	0.0	0.0
Europe	3.4	4.0	0.0	0.0
Japan	2.2	1.8	9.1	3.4
Brazil	0.4	0.4	0.0	0.0
China	41.2	44.9	36.4	13.8
Vietnam	9.0	6.6	0.0	31.0
Hong Kong	10.5	12.3	0.0	0.0
Taiwan	16.5	13.7	18.2	37.9
Korea	3.7	4.0	0.0	3.4
Pakistan	1.1	0.9	9.1	0.0
Other Asian countries	1.1	1.3	0.0	0.0
USA	1.9	1.8	9.1	0.0
Thailand	3.0	2.2	0.0	10.3
India	1.5	1.8	0.0	0.0
Malaysia	1.9	1.8	9.1	0.0
Singapore	0.4	0.4	0.0	0.0
Total	100.0	100.0	100.0	100.0

Table 17: Respondents who imported materials by main product and country

Main product	Indonesia	Malaysia	Singapore	Thailand	Vietnam	Brazil	China	India	Hong Kong	Japan
Food, beverages and tobacco	0	0	1	0	0	1	4	1	1	1
Garments and textiles	3	5	0	7	13	0	94	3	23	4
Metal products	0	0	0	0	6	0	5	0	3	1
Footwear	0	0	0	1	5	0	7	0	1	0
Total	3	5	1	8	24	1	110	4	28	6
<i>Percent</i>	<i>1.1</i>	<i>1.9</i>	<i>0.4</i>	<i>3.0</i>	<i>9.0</i>	<i>0.4</i>	<i>41.2</i>	<i>1.5</i>	<i>10.5</i>	<i>2.2</i>

Main product	Korea	Pakistan	Taiwan	Other Asia	Europe	USA	Canada	Total	%
Food, beverages and tobacco	0	0	1	0	7	2	0	19	<i>7.1</i>
Garments and textiles	10	3	31	2	2	3	3	206	<i>77.2</i>
Metal products	0	0	5	0	0	0	0	20	<i>7.5</i>
Footwear	0	0	7	1	0	0	0	22	<i>8.2</i>
Total	10	3	44	3	9	5	3	267	<i>100.0</i>
<i>Percent</i>	<i>3.7</i>	<i>1.1</i>	<i>16.5</i>	<i>1.1</i>	<i>3.4</i>	<i>1.9</i>	<i>1.1</i>	<i>100.0</i>	

6.3 Markets

Table 18 shows the average rating by respondents for the domestic market. Overall, domestic market size and purchasing power of local consumers were rated poor while smuggling control was rated fair in Phnom Penh. In Sihanouk Ville, local consumers' purchasing power received a poor rating. In Bavet, domestic market size and domestic consumers' purchasing power were rated very poor while smuggling control was rated poor. Cambodia concentrates only on exportation while its domestic market was too limited to accommodate all manufactured products. Some industries had to content with decreased purchasing orders from buyers and the lack of tax control. (The average rating for the foreign market is shown in Table 19.)

**Table 18: Average rating on domestic market by locations
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)**

Evaluation	Total	Phnom Penh	Sihanouk Ville	Bavet
Domestic market size	2.0	2.0	3.0	1.9
Purchasing power of local consumers	2.0	2.0	2.8	1.7
Smuggling control	3.1	3.2	3.0	2.3
Total Average	2.4	2.4	2.9	2.0

**Table 19: Average rating on foreign market by location
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)**

Evaluation	Total	Phnom Penh	Sihanouk Ville	Bavet
Procedures for export	3.4	3.4	3.3	4.0
Export tax	3.5	3.5	3.2	4.5
Rules of origin for GSP	3.5	3.4	3.8	4.2
Uncertainty of the GSP status	3.1	3.0	3.5	3.8
Total Average	3.4	3.3	3.5	4.1

6.4 Procurement

In Phnom Penh and Bavet, collecting information about local suppliers and quality of local supplier base was rated poor. These were due to the perceived difficulty in locating local suppliers, who were also noted for their slow turnaround time and high rates. The total average rating on procurement was fair in Phnom Penh and Sihanouk Ville and poor in Bavet (Table 20). The total average rating on foreign procurement in Phnom Penh, Sihanouk Ville, and Bavet was fair (Table 21).

**Table 20: Average rating on domestic procurement by locations
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)**

Evaluation	Total	Phnom Penh	Sihanouk Ville	Bavet
Collecting information about local suppliers	2.8	2.8	3.0	2.0
Quality of local supplier base	2.7	2.8	3.2	1.8
Access to capable international suppliers	3.4	3.4	3.3	3.7
Total Average	3.0	3.0	3.2	2.5

**Table 21: Average rating on foreign procurement by location
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)**

Evaluation	Total	Phnom Penh	Sihanouk Ville	Bavet
Procedures for importation of raw materials/parts	3.5	3.5	3.7	4.2
Customs clearance	3.3	3.3	3.3	3.7
Tariff barrier	3.3	3.3	3.3	3.3
Non-tariff barrier	3.1	3.1	3.2	2.8
Drawbacks of import duty and value-added tax	3.2	3.2	3.2	3.2
Trade regulations	3.3	3.3	3.3	3.5
Foreign exchange regulations	3.4	3.4	3.5	3.3
Total Average	3.3	3.3	3.4	3.4

6.5 Mode of transport

As shown in Table 22 most of the firms in Phnom Penh and Sihanouk Ville utilized sea/river shipping services (Sihanouk port), followed by enterprises that relied on land transport (National Road No. 4 and No. 3), for importing their materials. On the other hand, more than 70 per cent of firms in Bavet used land transport (National Road No. 1) for their imported materials. About 67.7 per cent of firms in Phnom Penh, 16.7 per cent of those in Sihanouk Ville, and 12.5 per cent of those in Bavet used Phnom Penh International Airport for importing raw materials.

Table 22: Share of firms by mode of transport and location

Transport Used	Total	Phnom Penh	Sihanouk Ville	Bavet
Import materials				
Land	94.7	98.4	83.3	75.0
Sea/waterway	90.8	100.0	100.0	12.5
Air	57.9	67.7	16.7	12.5
Export products				
Land	92.1	95.2	83.3	75.0
Sea/waterway	85.5	95.2	83.3	12.5
Air	56.6	64.5	33.3	12.5

To export their products, most firms in Phnom Penh and Sihanouk Ville also used sea/river shipping services (Sihanouk port), followed by land transport (National Road No. 4). In contrast, the majority of firms in Bavet used land transport (National Road No. 1) for their export products. About 64.5 per cent of firms in Phnom Penh, 33.3 per cent in Sihanouk Ville, and 12.5 per cent in Bavet used Phnom Penh International Airport to export their products.

6.6 Evaluation of transportation and communication

The firms were asked to evaluate the cost competitiveness, efficiency and reliability of each mode of transportation and communication. Table 23 indicates that the total average score rating for the cost competitiveness was poor in Phnom Penh and Sihanouk Ville.

**Table 23: Average rating on transportation and communication by location
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)**

Evaluation	Total	Phnom Penh	Sihanouk Ville	Bavet
Cost competitiveness				
Land transport	2.9	2.9	2.6	3.5
Sea/waterway transport	3.2	3.2	3.0	3.5
Air transport	2.6	2.6	2.3	2.8
Communication	2.9	2.9	3.0	3.2
Total Average	2.9	2.9	2.7	3.3
Efficiency				
Land transport	3.3	3.3	2.8	3.8
Sea/waterway transport	3.4	3.5	3.5	3.3
Air transport	3.2	3.3	2.3	2.7
Communication	3.2	3.1	3.0	3.3
Total Average	3.3	3.3	2.9	3.3
Reliability				
	3.5	3.5	2.8	3.8
Sea/waterway transport	3.6	3.6	3.5	3.7
Air transport	3.4	3.6	2.3	2.5
Communication	3.3	3.3	3.0	3.0
Total Average	3.4	3.5	2.9	3.3

The total average rating on efficiency of each mode of transportation and communication was poor in Sihanouk Ville and fair in Phnom Penh and Bavet. Similarly, the total average rating on reliability of each mode of transportation and communication was poor in Sihanouk Ville but fair in Phnom Penh and Bavet.

6.7 Length of time for clearance/claims at Customs

Firms exporting or importing directly were asked about the average and the longest number of days it took them in 2008 to clear or claim their goods, that is, from the time of entry or exit (e.g. port, airport) of their goods at Customs.

In Phnom Penh, 60 per cent of firms in Phnom Penh said the average length of time they spent to clear their exported goods was one day, 28.3 per cent indicated two days on average, and 6.7 percent, three days (Table 24). The total average number of days for clearance of exported goods was approximately two days. In Phnom Penh, the longest number of days to clear or claim goods was seven.

In terms of the average number of days it took the respondents to claim import goods, Table 24 shows that 40.3 per cent of those in Phnom Penh spent two days; 21.0 percent, three days, and 19.4 percent, only one day for this purpose. The total average number of days to clear imported goods was approximately three days. The longest length of time respondents in Phnom Penh said it took them to clear their goods was seven days.

Table 24: Share of firms by number of days for clearance/claim at Customs

Number of days	Total	Phnom Penh	Sihanouk Ville	Bavet
Days on average by export				
1	64.8	60.0	80.0	100.0
2	23.9	28.3	0.0	0.0
3	7.0	6.7	20.0	0.0
4	1.4	1.7	0.0	0.0
5	1.4	1.7	0.0	0.0
7	1.4	1.7	0.0	0.0
Total	100.0	100.0	100.0	100.0
Total Average	1.6	1.6	1.4	1.0
Days on average by import				
1	24.3	19.4	50.0	50.0
1.5	1.4	1.6	0.0	0.0
2	39.2	40.3	33.3	33.3
3	20.3	21.0	16.7	16.7
4	2.7	3.2	0.0	0.0
5	8.1	9.7	0.0	0.0
6	1.4	1.6	0.0	0.0
7	2.7	3.2	0.0	0.0
Total	100.0	100.0	100.0	100.0
Total Average	2.4	2.6	1.7	1.7

7 FUTURE DEVELOPMENT

7.1 Improving the investment environment

Managers of the respondent firms were also asked managers whether the establishment or improvement of the SEZ/industrial zone would be effective or necessary to improve the investment environment in Cambodia. Table 25 shows that most firms in Phnom Penh (66.1 percent), Sihanouk Ville (83.3 percent) and all firms in Bavet said yes.

Table 25: Share of firms by awareness of improving investment

Awareness of Improving Investment	Total		Phnom Penh		Sihanouk Ville		Bavet	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Yes	54	71.1	41	66.1	5	83.3	8	100.0
No idea/ Don't know	22	28.9	21	33.9	1	16.7	0	0.0
Total	76	100.0	62	100.0	6	100.0	8	100.0

When the respondents were asked about specific measures that would improve Cambodia's investment climate in the future, 27.0 cited one-stop service; 26.4 percent; better custom clearance; 23.6 percent, faster procedures for starting a business; and 23.0 percent, better infrastructure (Table 26). In Bavet, 33.3 per cent of the respondents expressed belief that improved customs clearance and infrastructure were vital to boosting the business environment.

Table 26: Share of respondents by reason for improved investment

Reasons of improvement	Total		Phnom Penh		Sihanouk Ville		Bavet	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
One-stop service	40	27.0	31	27.0	2	22.2	7	29.2
Faster procedures for starting a business	35	23.6	28	24.3	1	11.1	6	25.0
Better custom clearance	39	26.4	29	25.2	3	33.3	7	29.2
Better infrastructure	34	23.0	27	23.5	3	33.3	4	16.7
Total	148	100.0	115	100.0	9	100.0	24	100.0

7.2 Industry prospects

Firms were likewise asked about what they thought of the future of Cambodia's industrial sector. Most firms in Phnom Penh (58.1 percent) and Bavet rated it fair while half of those

in Sihanouk Ville evaluated it as good. The total average rating on the industry's prospects was fair, with Sihanouk Ville registering the highest score (3.8), followed by Bavet (3.5) and Phnom Penh (3.2) (Table 27).

Table 28 shows the perceptions of respondents for developing the future industrial sector in Cambodia. Cited as factors for future industry development are efficient implementation of laws and regulations, increased market demand, improved government services and cooperation, quality of workers, quality products, and better tax administration.

Table 27: Share of firms evaluating the future of industry

Evaluation of future investment	Total		Phnom Penh		Sihanouk Ville		Bavet	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Very poor	1	1.3	1	1.6	0	0.0	0	0.0
Poor	6	7.9	6	9.7	0	0.0	0	0.0
Fair	43	56.6	36	58.1	2	33.3	5	62.5
Good	24	31.6	19	30.6	3	50.0	2	25.0
Excellent	2	2.6	0	0.0	1	16.7	1	12.5
Total	76	100.0	62	100.0	6	100.0	8	100.0
1= Very Poor, 2 = Poor, 3 = Fair, 3 = Good, 5 = Excellent		3.3		3.2		3.8		3.5

Table 28: Perceptions of respondents on the future industry

Future development of industry	Total	Phnom Penh	Sihanouk Ville	Bavet
Implementation of laws and regulations	29.3	29.8	50.0	12.5
Market demand	18.5	19.1	0.0	25.0
Government services and cooperation	10.8	11.5	20.0	0.0
Quality of workers	12.7	12.2	20.0	12.5
Quality of products	4.5	3.1	10.0	12.5
Economic stability	4.5	5.3	0.0	0.0
Global financial crisis	6.4	6.9	0.0	6.3
Access to loan	1.3	1.5	0.0	0.0
Political stability	3.8	4.6	0.0	0.0
Tax administration	4.5	3.8	0.0	12.5
Technology and equipment	1.3	0.8	0.0	6.3
Transportation and communications	1.3	1.5	0.0	0.0
Raw materials	0.6	0.0	0.0	6.3
SEZs expansion	0.6	0.0	0.0	6.3
Total	100.0	100.0	100.0	100.0

CONCLUSION

The survey found that most firms were 100 per cent foreign-owned, specifically Taiwan, China and Hong Kong. The majority of firms had over 500 employees with annual sales above US\$10 Million. The total average rating for the business setup was fair. The obstacles faced in setting up the business are lengthy processing time for the requisite documents and the costs of registering new businesses.

In terms of business operations, the total average rating for governance was poor due to corruption, as evidenced by payment of unofficial fees, or bribes. The infrastructure in Sihanouk Ville was rated poor, particularly electricity and telecommunications, owing to insufficient power supply and poor Internet network. Additionally, in Sihanouk Ville, the quality of workers was rated poor for lack of skills and low education. Financing also rated poor due to either difficulty of accessing, or outright inaccessibility of, needed funds, and high interest rates on loans.

Most workers had middle high school and elementary education while most middle management staff had attended high school and college or university. The largest proportion of engineers had attended technical or vocational schools and college or university. The average wages and salary were US\$79 for workers, US\$209 for middle managers and US\$464 for engineers. Most firms had a monthly labor turnover ratio of 1 to 5 percent.

On the current investment incentives, respondents rated the following poor: subsidies, rent-free or subsidized land, and access to low-cost financing. Lack of government-provided land, lack of access to or difficulty in accessing financing and high rates on loans, foreigners barred from owning property, and limited ownership all accounted for this low rating.

Other incentives measures deemed effective to increase investments were: (1) reducing public holidays; (2) abating bureaucracy and corruption; (3) lowering export management fees; (4) efficiently implementing the laws; (5) reducing transaction time, (6) decreasing taxes such as export and income taxes; and (7) granting property rights to foreigners.

The main markets where major products were sold were the United States, followed by Europe and Canada. These products consisted mainly of garments and textiles. Raw materials were sourced mainly from China and Taiwan.

The total average rating on domestic market size and purchasing power of local consumers was poor, because Cambodia concentrated only on exportation while the domestic market was too narrow to accommodate the manufacturers' goods. Some industries had been faced with decreased orders from buyers and high tax rates. Information on local suppliers and quality of local supplier base was rated poor, as respondents cited the difficulty of locating them, and that some supplies were slow to deliver and charged high fees.

Most firms used sea or waterway, and others land and air, transport for importing raw materials and exporting products.

The total average rating on the cost competitiveness of each mode of transport and communication was poor in Phnom Penh and Sihanouk Ville. Rating on efficiency and reliability of transport and communication was poor in Sihanouk Ville.

Clearance for exporting and importing goods took two and three days, respectively. The longest number of days respondents said it took them to clear or claim their goods was seven.

Most of firms expressed optimism that the investment climate would improve in the future. The total average rating on the future of industry was fair. Measures believed to boost future industry development were better enforcement of laws and regulations, increased market demand, better government services and cooperation, improved quality of workers and products, and enhanced tax administration.

Recommendations

To hasten industrial development, the following measures are recommended:

- Maintain macroeconomic stability and social security.
- Improve governance through enhanced efforts to fight corruption, pursuit of legal and judiciary reforms, streamlined public administration reforms that will facilitate the provision of highly qualified support services that will in turn enhance the investment

climate; promotion of technology transfer, increased professional training, and setting up of industrial zones.

- Improve physical infrastructure in both quantity and quality in all sectors to ensure ease of transport and affordable and reliable electricity.
- Boost human resource development and develop vocational or technical training to bring about an increase in the number and quality of professional and skilled workers, such as architects, engineers and IT specialists. These are vital to increasing productivity and attracting other types manufacturing investors from the region.
- Open up access to the entire domestic market, so that private enterprises will be encouraged to locate even in the more remote areas of the country.
- Lastly, supplement long-term resources of domestic banks through direct loans so short- and long-term capital could be made available to private firms.

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