

Research Centre for Sustainable Hong Kong
City University of Hong Kong

TRAINING PACK CAMBODIA



Professional Services Advancement Support Scheme

Economic and Trade Cooperation Zones Along
Belt and Road Workshop Series

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ABOUT THIS TRAINING PACK

This comprehensive training pack is aimed at equipping workshop participants with sufficient institutional background knowledge so as to enhance the quality of their interactions with Speakers and other participants in the workshops. The pack includes the background materials (the essential information such as various political systems, religious inclinations, legal institutions, foreign investment laws, accounting regulations and tax systems) and analysis of an Economic and Trade Cooperation Zone (ETCZ) jurisdiction (based on consolidation of relevant research findings conducted by the Research Centre for Sustainable Hong Kong (CSHK) in the past years).

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EXECUTIVE SUMMARY

Since China put forward the Belt and Road Initiative (BRI) in 2013, many Chinese enterprises began participating in the overseas economic and trade cooperation zones (ETCZs). The governments of the host countries of ETCZs also hope to imitate the successful experience of China's special economic zones to stimulate rapid economic development. In December 2017, the Hong Kong Special Administrative Region (HKSAR) Chief Executive, Mrs. Carrie Lam, and the Chairman of the National Development and Reform Commission, Mr. He Lifeng, signed "the Arrangement for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative" (the Arrangement) to leverage Hong Kong's distinctive role in advancing the BRI. In addition to finance, investment, infrastructure, maritime services, trade, and people-to-people bonding, the Arrangement specifically emphasizes that Hong Kong shall reach to a strategic cooperation and jointly participate in the investment projects and special zones development, to help decrease the risks of investing in foreign countries for these enterprises (HKSAR, 2017).

Despite the expected demand for Hong Kong's inputs in the ETCZs, including entrepreneurial initiatives, commercial investment, and professional services, numerous concerns and uncertainties continue to stand in the way of realizing the Arrangement, such as conflicting labour relations, incompatible community involvements, unclear political and environmental governance, as well as unfamiliar cultural and religious practice. These concerns have fuelled many Hong Kong enterprises' considerations towards exploring the markets in the Belt and Road countries.

To identify the concerns of Hong Kong enterprises, the CSHK research team has conducted extensive desktop research, textual analysis, in-depth interviews, and fieldwork visits to unpack the challenge and scrutinize the pathways whereby Hong Kong businesses may take part for mutual gains and sustainability. This training pack will 1) contextualize the business environment in Cambodia; 2) discuss the ETCZ/Special Economic Zone (SEZ) development in Cambodia; and 3) illuminate the misconceptions about doing business in Cambodia. In addition, a range of critical background materials, including information about the country and economic overview, foreign direct investment, international trade, consumer behaviours, infrastructure, key industries and investment opportunities and a list of SEZs in Cambodia are included in the appendices. We hope these materials will facilitate the further exploration in the PASS program into Hong Kong's niches, including possible roles in investor's projects in Cambodia.

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CHAPTER 1

BUSINESS ENVIRONMENT IN CAMBODIA

Cambodia is located in Southeast Asia, and adjacent to Thailand, Vietnam, and Laos. Cambodia's small size but strategic geographical location, and its emerging market have set a favourable condition for attracting external investment and collaboration. This chapter contextualizes the political orientation and economic trajectory of Cambodia.

FIGURE 1.1 Map of Cambodia



Source: World Atlas, 2020

1.1. Government policies and priorities

Cambodia's Law on Investment offers open and liberal investment environment for foreign investors (CDC, 2011a). Foreign investors are allowed to involve in all sectors, except extra requirements set for them such as local equity participation (HKTDC, 2020). The Cambodian government has prioritized foreign investment in their exports and its policy and legal framework has acquired a reputation of being 'pro-investor' (HKTDC, 2020).

The Industrial Development Policy 2015–2025 (IDP) aims to promote and diversify the domestic industrial development and trade with foreign markets (Sok, 2019). These include improvements to transport and logistics, and to the labor market, for raising labor skills.

The Cambodian Government's 'Rectangular Strategy' (currently in Phase IV) supports and promotes the Belt and Road Initiative (BRI), a global collaboration initiative spearheaded by China since 2013, while prescribes the development priority in its national economic planning. Specifically, the five cooperation priorities set in BRI, namely policy coordination, facility connectivity, unimpeded trade, financial integration, and culture and people bonding, complements well with priorities set in Rectangular Strategy Phase IV, which are human resource development, economic diversifications, private sector and job market development, and sustainable and inclusive development (BRIHK, 2017). For instance, the Rectangular Strategy Phase IV pushes forward the development of special economic zones along the Cambodia-Vietnam border, Cambodia-Thai border, coastal area and Phnom Penh city, which are initiatives and projects that would fit BRI cooperation priorities.

Seven areas have been designated as the priority areas for joint investment and collaboration between China and Cambodia, described as the 'seven core pillars': i./ infrastructure; ii./ agriculture; iii./ capacity building; iv./ special economic zones; v./ cultural and tourism; vi./ financial cooperation, and; vii./ environmental protection. In particular, infrastructure has been the top priority, because deficits in infrastructure are considered the biggest bottleneck affecting trade and industrial development. The Cambodian Government (Ministry of Economy and Finance) has thus introduced the public-private partnership policy (PPP) and welcome investors with relevant expertise and financial capacity to jointly participate in the mega infrastructural projects.

1.2. Regulatory framework

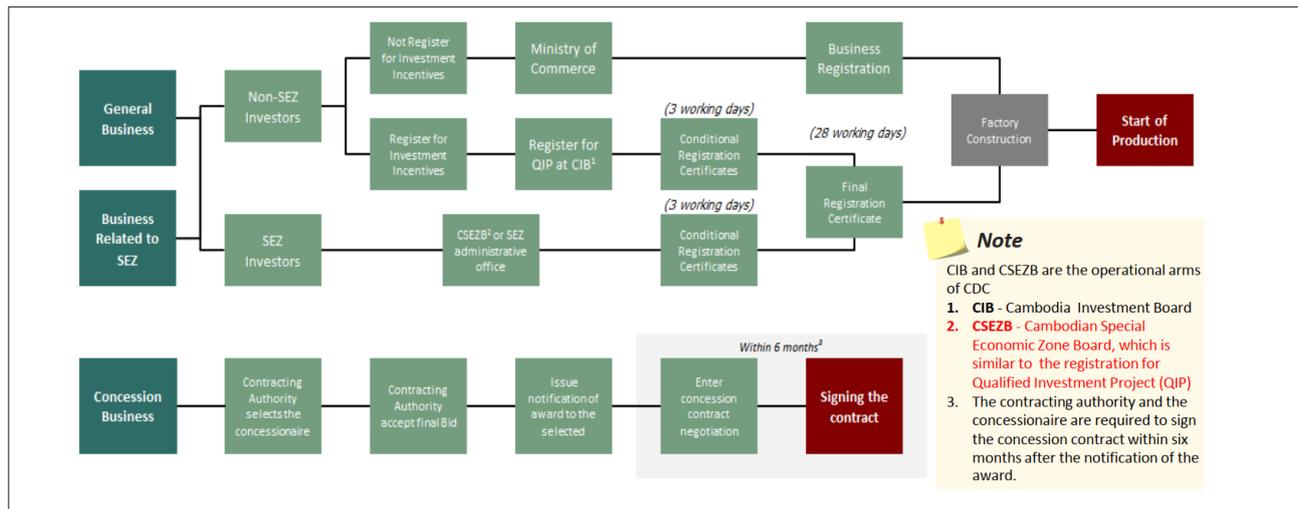
The Council for the Development of Cambodia (CDC) is the highest decision-making body for private and public investment (CDC, 2017a; KASIKORNBANK, 2018). All investor-incentive initiatives and special projects are approved and reviewed by the CDC. Meanwhile, the Ministry of Commerce exercises general policy oversight over all other business activities (KASIKORNBANK, 2018).

CIB and CSEZB are the subsidiary sectors of CDC (CDC, 2016):

1. CIB - Cambodia Investment Board
2. CSEZB - Cambodian Special Economic Zone Board.

CSEZB is similar to the Qualified Investment Project (QIP) registration sector: after being awarded, the contracting authority and the concessionaires should sign the concession contract within 6 months (CDC, 2016; KASIKORNBANK, 2018).

FIGURE 1.2 Investment Process



Source: KASIKORNBANK, 2018

Regarding the arbitration arrangements, the National Commercial Arbitration Center (NCAC) offers institutional arbitration services. Cambodia's Commercial Arbitration Law also provides for ad hoc arbitration as an alternative form of dispute resolution (DFDL, 2017; MOFCOM, 2019). The Law closely mirrors the UNCITRAL model law and makes specific provisions for the enforcement of ad hoc arbitration awards by the courts.

1.3. Types of foreign business ownership

Preferential conditions are offered in investment laws and regulations of Cambodia to attract more foreign direct investments (FDI). Thus, in most sectors, foreigners can hold 100% ownership (KASIKORNBANK, 2018).

TABLE 1.1 Foreign Business: Ownership Types

Forbidden to Foreigners	<ul style="list-style-type: none"> Land ownership Activities harmful to environment, health or national culture, such as agricultural pesticides/insecticides. <p><i>Note:</i> The use of land shall be permitted to investors in various forms: concessions, unlimited long-term leases and limited short-term renewable leases.</p>
Permitted with Special Conditions	<ul style="list-style-type: none"> Controlled business for export only: Tobacco Controlled businesses requiring additional approval from relevant government authority: alcohol, media production and casino.
Only for joint venture (JV) with Cambodia Entity	<ul style="list-style-type: none"> Any business related to land ownership: businesses such as agriculture, mining and construction; businesses must have more than 51% Cambodian shareholding. Tourism Business: foreigners are allowed to hold a maximum of 70% share.
100% Foreign Ownership	<ul style="list-style-type: none"> Sectors that do not fall into the other categories are open to 100% foreign ownership, such as garment, logistics and automotive.

Source: KASIKORNBANK, 2018

1.4. Types of investment

Similar to some other ASEAN countries, there are 3 main categories of investment in Cambodia (KASIKORNBANK, 2018):

TABLE 1.2 Types of Investments

	1. General Business	2. Concession Business	3. Business Related to SEZ
Description	<ul style="list-style-type: none"> An investment in general sectors The business does not require a concession and is not related to land ownership 	<ul style="list-style-type: none"> Investment that requires a concession or permission from the state to use the property or other rights of the state 	<ul style="list-style-type: none"> Special Economic Zone (SEZ) : infrastructure construction. Specific Economic Zones such as industrial zones, dry ports, export zones and tourist development zones.
Requirements	<ul style="list-style-type: none"> Basic information on all registered business entities for example: The certificate of capital deposit issued by banks The minimum registered capital is approximately USD1,000 	<ul style="list-style-type: none"> Concessionaires must be selected through bidding or negotiated proposal. After selection, the contract must be signed within 6 months. The concessionaire must have specific licenses as requested. 	<ul style="list-style-type: none"> Investment / industrial activities in Special Economic Zones and Specific Economic Zones
Example of Business	<ul style="list-style-type: none"> Agriculture Production and processing in sectors such as Electrical and Electronics (E&E), automotive, garment Services industry, hotel and restaurant 	<ul style="list-style-type: none"> Use of state land such as real estate developers, construction Mining Infrastructure, including telecommunications, power generation, and etc. 	<ul style="list-style-type: none"> Similar to general business

Source: KASIKORNBANK, 2018

1.5. Procedures of investment approval

Projects that receive investment incentives will be listed as Qualified Investment Project (QIP). Only projects, rather than investors or enterprises, can be issued an investment approval in Cambodia (KASIKORNBANK, 2018).

TABLE 1.3 Investment Approval Procedures

Projects not Eligible for the Incentives	<ul style="list-style-type: none"> ▪ All kinds of commercial activities, import and export ▪ Any transportation services by waterway, by road, by air, except investment in the railway sector ▪ Tourism services, hotels below 3-star grade ▪ Currency and financial services such as banks, financial institutions, and insurance companies ▪ Activities related to newspaper and media, including radio, television, press, magazine, etc. ▪ Production of tobacco products ▪ Provision of value added services for all kinds of telecommunication services ▪ Real estate development ▪ Production and processing of wood products using wood from natural forest with a legal domestic supply source for raw materials ▪ Complex resorts, including hotels, theme parks, sport facilities, zoos covering grounds below 50 hectares
Projects Eligible for Concession	<ul style="list-style-type: none"> ▪ Power generation, transmission, distribution ▪ Transportation facilities and system such as road, bridges, airports, ports, railways ▪ Water supply and water treatment facilities ▪ Infrastructure for communication and information technology ▪ Infrastructure facilities for tourism projects such as tourism site, museum ▪ Infrastructure for the gas and oil sectors such as oil and gas pipelines ▪ Sewerage, drainage and dredging ▪ Solid waste management and treatment ▪ Public Infrastructure relating to health, education, and sports ▪ Infrastructure relating to SEZ and social housing ▪ Irrigation and agriculture-related infrastructure ▪ Other sectors for which a specific law allows for the granting of concessions

Source: KASIKORNBANK, 2018

Investment law clarifies the investment incentives specifically for each type of investors.

TABLE 1.4 Law and Incentives

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

Source: KASIKORNBANK, 2018

1.6. Investment guarantees

Special Investment Incentives and duties exemptions are granted to Qualified Investment Projects (QIPs) (CDC, 2011a; KASIKORNBANK, 2018):

TABLE 1.5 Investment Incentives and Exemptions

Investment Incentives	
An exemption from minimum tax	An annual tax with a liability equal to 1% of annual turnover inclusive of all taxes, except value-added tax (VAT), is required to be paid on an annual basis (CDC, 2011a).
Corporate Income Tax Exemption	Profit tax exemption (Selective): A tax holiday period is composed of "Trigger period" + 3 years + Priority Period (Maximum total 9 years) (CDC, 2011a).
Special Tax Rate	Special depreciation (Selective): 40% special depreciation allowance on the value of new or used tangible properties used in production or processing (CDC, 2011a).
Exemptions from import duty	
Domestically oriented QIPs	Production equipment, construction materials and production input to be used in the production of exported goods (CDC, 2011a).
Export oriented QIPs	Production equipment, construction materials, raw materials, intermediate goods and accessories (CDC, 2011a)
Supporting Industry QIPs	Production equipment, construction materials, raw materials, intermediate goods and production input accessories (CDC, 2011a).

Source: CDC, 2011a; KASIKORNBANK, 2018

The table above indicates that when the supporting industrial QIP fails to export 100% of its manufactured products or produced for export industries, the project shall be required to pay the customs duties and taxes for all that has been supplied to domestic market (KASIKORNBANK, 2018).

1.7. Banking and finance

There are 24 commercial banks, 6 specialized banks, 18 micro-finance institutions and 60 micro-finance non-governmental organizations (NGOs) in operation in Cambodia. In addition, there are subsidiaries of foreign banks (CDC, 2017b). Capital transfer in and out of the country is allowed, through services such as letter of credit and foreign exchange transactions. Getting loans is difficult, however, without offering an immovable asset collateral. The terms of loans are shorter and rates are generally higher than those outside of Cambodia (CDC, 2017b).

The National Bank of Cambodia acts as the Guardian Authority of the Leasing Institutions, and issues banking licenses to banking and financial institutions (CDC, 2009). The Law on Financial Lease and the banking licenses set the legal foundation for lending institutions to implement financial leasing operation (CDC, 2009).

The Cambodia Securities Exchange (CSX) was incorporated on 23 February 2010 and received its license after a year in February 2011 from Securities and Exchange Commission of Cambodia (SECC) as the market operator, clearing and settlement facility and depository operator (CDC, 2017b). The stock exchange market came into operation in July 2011 (CDC, 2017b).

1.8. Major costs

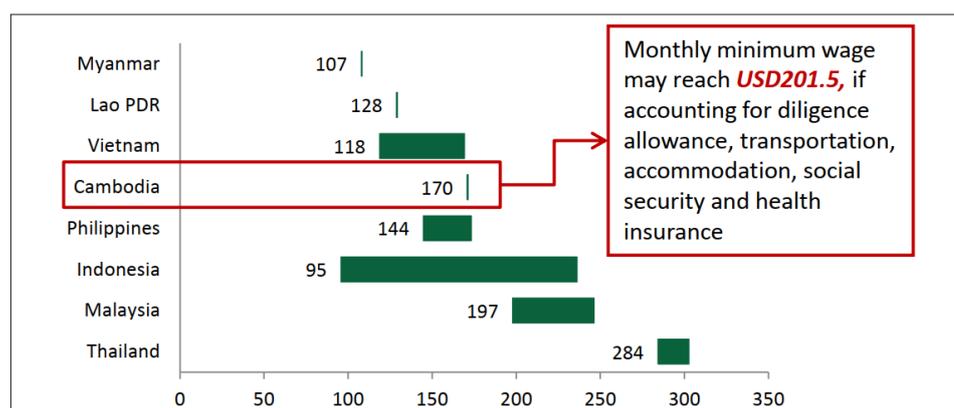
Manpower cost:

FIGURE 1.3 Monthly Wage Levels



Source: Trading Economics, 2019e

FIGURE 1.4 Minimum Monthly Wage Levels in ASEAN (2018, USD)



Source: KASIKORNBANK, 2018

TABLE 1.6 Minimum Monthly Wage Levels in ASEAN (2019/2020)

Country	Last	Previous	Reference	Unit	USD/ Month
Myanmar	4800	4800	Dec/19	MMK/day	109
Vietnam	4420	4180	Dec/20	VND Thousand/Month	191
Cambodia	190	182	Jan/20	USD/Month	190
Thailand	331	325	Dec/19	THB/Day	330
Indonesia	4.28	3.94	Jan/20	IDR Million/Month	304
Malaysia	1200	1100	Feb/20	MYR/Month	297
Philippines	537	537	Dec/19	PHP/day	330

Source: Trading Economics, 2020

TABLE 1.7 Monthly Wages by Job Levels

Job level	Monthly wage
General staff	USD 170–250
Accounting/technical staff	USD 300–400
Supervisor	>USD 500
Manager	>USD 1500

Source: KASIKORN BANK, 2018

Utility Costs:

Electricity Costs

TABLE 1.8 Cost of Electricity

Category	Consumption slab (kWh/month)	Electricity Tariff (Riels/kWh)
Phnom Penh	All kWh, if monthly consumption does not exceed 50 kWh (0-50 kWh)	610 (~0.15 USD)
	All kWh, if monthly consumption is from 51 to 200 kWh (51-200 kWh)	720 (~0.18 USD)
	All kWh, if monthly consumption is more than 200 kWh	820 (~0.21 USD)

Category		Electricity Tariff
Phnom Penh Residence of administration, Commercial and industrial sectors	Small customers	*MA + 0.036 USD/kWh
	Medium customers	MA + 0.028 USD/kWh
	Large customers	MA + 0.024 USD/kWh
	**MV customers	MA + 0.020 USD/kWh

Note: * MA: IPP's monthly average price in the month before last.

**MV: Medium Voltage customers

Source: CDC, cited from MIMÉ as of November, 2011

Water Costs

TABLE 1.9 Water Costs

Category		Water Tariff/m ³	Authority
Phnom Penh City (Business-Industrial)	From 0m ³ to 100m ³	950 Riel/m ³	Phnom Penh Water Supply Authority (PPWSA)
	From 101m ³ to 200m ³	1150 Riel/m ³	
	From 201m ³ to 500m ³	1350 Riel/m ³	
	Over 501 m ³	1450 Riel/m ³	
Sihanoukville (Preah Sihanouk)	From 1m ³ to 7m ³	1500 Riel/m ³	Preah Sihanouk Water supply
	From 8m ³ to 15m ³	1800 Riel/m ³	
	From 16m ³ to 30m ³	2000 Riel/m ³	
Kampong Cham (Business-Industrial- institution)	-	1500 Riel/m ³	Kampong Cham Water Supply

Source: CDC

Gas Tariff

TABLE 1.10 Gas Costs

Category	Tariff
For domestic use	USD 19.00/15kg (small gas cylinder)
	USD 60.00/48kg (large gas cylinder)
For industrial use	USD 17.50/15kg (small gas cylinder)
	USD 56.00-58.00/48kg (large gas cylinder)

Source: CDC

Fuel Costs

TABLE 1.11 Fuel Costs

Category	Cost (per liter)
For transport use	
▪ premium petrol	USD1.34
▪ regular petrol	USD1.27
▪ diesel	USD1.19

Source: CDC

Logistics Costs

TABLE 1.12 Import and Export Costs

Export	
For Export from Sihanoukville Port	<ul style="list-style-type: none"> Phnom Penh to Sihanoukville Port for 20'container: Approximately USD400- (Including Trucking, Documentation Fee, Export Clearance Fee, Loading Charge, Certificate of Origin, Toll Fee, Agency Fee, Miscellaneous Charges and VAT) Charges at Sihanoukville Port: Approximately USD350 Approximately 7 – 8 hours by road
For Export through Bavet and Ho Chi Minh City (HCMC)	<ul style="list-style-type: none"> Phnom Penh to HCMC for 40'container: Approximately USD880- (Including the customs clearance fee in Cambodia but excluding the charges at port in Vietnam) Phnom Penh to HCMC for 20'container: Approximately USD820- (Including the customs clearance fee in Cambodia but excluding the charges at port in Vietnam) Approximately 15 hours by road
For Export through Cai Mep (Vietnam)	<ul style="list-style-type: none"> Phnom Penh Port to Cai Mep: Approximately USD800- to USD850- (Including customs fee in Cambodia and Vietnam side) Approximately 36 hours by river
Import	
For Import through Cai Mep (Vietnam)	<ul style="list-style-type: none"> Cai Mep to Phnom Penh Port: Approximately USD900- to USD950- Including customs fee in Cambodia and Vietnam side)
For Import from Thailand	<ul style="list-style-type: none"> Thailand to Phnom Penh for 40' container: Approximately USD1,500- (Including customs clearance fee in Thailand but excluding customs clearance fee in Cambodia) Approximately 10–15 hours by road

Source: CDC

Real Estate Costs

TABLE 1.13 Cost of Real Estate in Different Places

Location	Land Category	Land Cost (USD/m ²)
Phnom Penh	First Commercial Land	3,500–9,500
	Second Commercial Land	2,000–2,500
	Third Commercial Land	1,000–1,500
	First Residential Land	1,500–2,000
	Second Residential Land	500–1,000
	Third Residential Land	50–300
	Development Land	15–50
	Siem Reap	First Commercial Land
Second Commercial Land		500–800
Third Commercial Land		200–300
First Residential Land		300–500
Second Residential Land		150–200
Third Residential Land		50–100
Development Land		5–20
Sihanoukville		First Commercial Land
	Second Commercial Land	400–600
	Third Commercial Land	200–300
	First Residential Land	300–500
	Second Residential Land	150–200
	Third Residential Land	50–100
	Development Land	5–20

Source: CDC, Sok, 2019

TABLE 1.14 Office Space Costs

Type of office	Average Rental per Month (USD/ m ²)
Prime Areas	15 – 25
Secondary Area	8 – 13

Source: CDC

TABLE 1.15 Factory Rent/Purchasing Costs

Type of Factory	Location	Average Factory Lease Cost (USD/m ² /month)
Ready-built Factory	Prime Areas	1.20 – 1.50
	Other Areas	1.00 – 1.20

Location	Size (m ²)	Factory Rental per month (USD/ m ²)	Factory Sale Cost (USD/ m ²)
National Road No. 2	2,900	1.0 – 1.5	250 – 350
Boeung Tompun St.371	5,000	1.0 – 1.25	150 – 300
Veng Sreng Road Road 4 and 3	Land size: 3,250 Land Building: 2,750	1.0 – 1.5	70 – 150 40 – 120

Source: CDC

TABLE 1.16 Warehouse Costs

Warehouse costs	average Rental (USD/ m ²)
	1.00 – 1.50

Source: CDC

1.9. Tax system

Tax scheme of Cambodia

TABLE 1.17 Tax Scheme

Provisions in Law of Taxation	Rates
Profit Tax (Article 1 – 23, Chapter 1)	
For legal person	20% (unless investment incentive rate of 9% or 0% are applied)
Oil and natural gas production sharing contract and the exploitation of natural resource including timber, ore, gold, and precious stones.	30%
Advance Tax on Dividend Distributions (Additional Profit Tax shall be paid upon the distribution of retained earnings or annual profit after tax if a firm distributes retained earnings or profit the in the amount of:	20/100: Qualified Investment Projects (QIP) of 0% Tax Rate 11/91: QIP of 9% Tax Rate 0: Firms of 20% Tax Rate
Minimum Tax (Article 24, Chapter 1)	
To be applied only for the real regime, except QIP If the profit tax amount exceeds 1% of annual turnover, the taxpayer pays only the tax on profit.	1% of annual turnover
Withholding Tax (Article 25 – 28, Chapter 1)	
Income received by individuals for services such as management, consulting, etc. Payment of royalties for intangibles and interests in mineral resources Payment of interest by a resident taxpayer carrying on business, other than domestic banks or financial institutions	15%

Provisions in Law of Taxation	Rates
Income from the rental of movable or immovable property	10%
Interest payment by domestic banks to residents with fixed term deposit account	6%
Interest payment by domestic banks to residents with non-fixed term deposit account	4%
Payment to non-residents : Interest, royalties, rent and other income connected with the use of property, dividends, payment for management or technical services	14%
Tax on Salary (Article 40 – 54, Chapter 2)	
To be withheld monthly by employers	0%
0 Riels – 500,000 Riels (Approx. USD 125 or less)	5%
500,001 Riels – 1,250,000 Riels (Over 125 – 312.5)	10%
1,250,001 Riels – 8,500,000 Riels (Over 312.5 – 2,215)	
8,500,001 Riels – 12,500,000 Riels (2,215 – 3,125)	15%
Over 12,500,000 Riels (Over 3,125)	20%
For fringe benefits	20% on market value
Non-residents	Flat rate of 20%
Value Added Tax (Article 55 – 84, Chapter 3)	
Taxable person: Any person subject to the real regime system	10%
Registration: All companies must complete registration for VAT before commencing business. Others must register within 30 days after their taxable turnover for the preceding consecutive three months exceeds;	
125 million Riel for goods	
60 million Riel for services	
Taxable supply:	
Supply of goods or services by a taxable person in Cambodia	
Appropriation of goods for his own use by a taxable person	
Making of a gift or supply at below cost of goods or services	
Import of goods into Cambodia	
Standard tax rate	
Tax rate for the goods exported from Cambodia and services executed outside of Cambodia	0%
Input tax credit is deductible against the output tax amount.	
Monthly filing: The VAT declaration must be submitted on or before the 20th day of the following month.	
Other taxes (Article 85, Chapter 4)	
Specific Tax on Certain Merchandise and Services:	10%
Tickets for local and international air transportation	3%
Local and international telecommunication	20%
Beverage	10%
Tobacco, entertainment, large automobile, motorcycles from 125 cc upwards	
Petroleum products, automobile more than 2,000 cc	30%
Property Transfer Tax	4% on transfer value
For the transference of ownership of real property and certain types of vehicles as a result of direct transfer or a contribution of share capital to an enterprise	
Prohibited to issue certificates of ownership of property until the Property Transfer Tax has been paid.	
Tax on Unused Land	2% on the assessed value of unused land
Committee for Evaluation of Undeveloped Land, in cooperation with municipal and provincial authorities, decides whether a plot is “unused” or not and the amount of tax liability.	

Provisions in Law of Taxation	Rates
Patent Tax For annual business registration If the type of business is different or located in different provinces/ municipalities shall be required to pay in accordance with respective type of business and provinces/ municipalities separately (Notice # 002.MEF on Obligation of Patent Tax Payment, January 19, 2007).	Approx. USD300-
Property Tax (Exempt for agricultural land, To be levied on property with value exceeding 100 million Riels)	0.1% of the evaluated value
Import Duty	Varies (4 bands – 0, 7, 15 and 35%)
Export Duty	Varies (Mostly 10%)

Source: CDC

Cambodia signed a Double Taxation Agreement (DTA) with Hong Kong in June 2019, and the DTA came into operation in January 2020 (The Government of HKSAR, 2019). With DTA, the withholding tax rate for Hong Kong residents on interest, dividends, royalties, and fees for technical services would be cut down to 10% (The Government of HKSAR, 2019). Hong Kong airlines operating to and from Cambodia is granted tax exemption in Cambodia. Hong Kong-based international shipping enterprises enjoy a 50% income deduction in Cambodia (The Government of HKSAR, 2019).

In January 2020, Cambodia signed a DTA with South Korea. The DTA is similar to others signed with Singapore, Thailand, Brunei, Mainland China, Vietnam, Indonesia, Hong Kong, and more recently Malaysia (HKTDC, 2020).

Cambodian accounting and auditing standards

TABLE 1.18 Accounting and Auditing Standards

18 Cambodian Accounting Standards (CAS)	10 Cambodian Standards of Auditing (CSA)
<ul style="list-style-type: none"> ▪ Presentation of Financial Statements ▪ Inventories ▪ Cash Flow Statements ▪ Accounting Policies, Changes in Accounting Estimates and Errors ▪ Events After the Balance Sheet Date ▪ Construction Contracts ▪ Income Taxes ▪ Property, Plant and Equipment ▪ Leases ▪ Revenue ▪ The Effects of Changes in Foreign Currency Rates ▪ Borrowing Costs ▪ Related Party Disclosures ▪ Consolidated and Separate Financial Statements ▪ Provisions, Contingent Liabilities and Contingent Asset ▪ Intangible Assets ▪ Investment Property ▪ Agriculture 	<ul style="list-style-type: none"> ▪ Objective and General Principles Governing and Audit of Financial Statements ▪ Term of Audit Engagements ▪ Documentation ▪ Fraud and Error ▪ Planning ▪ Audit Materiality ▪ Audit Evidence ▪ Subsequent Events ▪ Going Concern ▪ The Auditor's Report on Financial Statements

Source: CDC; Ministry of Economy and Finance of Cambodia, 2008

1.10. Foreign worker requirements

Localization requirements

The number of foreign workers in an enterprise should not be more than 10% of all the staff. But this requirement could be exempted if the business calls for specific skills or technologies (HKTDC, 2020). Enterprises could apply to the Ministry of Labor for approval of foreign quota if they will exceed the limitation between September and November in each year (HKTDC, 2020). For any enterprises that fail to follow the requirements, they will be charged up to USD180 as fines, and for people working in Cambodia without a valid permission, fines will be USD100 (HKTDC, 2020).

Obtaining Foreign Worker Permits for Skilled Workers

Two types of work permits are provided in Cambodia: a temporary work permit (which lasts for the duration of the individual's visa) and a permanent work permit (which is reserved for major investors) (HKTDC, 2020). It usually costs USD100 to apply for a work permits. In addition, foreigners must also meet additional conditions if they want to work in Cambodia, such as not having communicable diseases (HKTDC, 2020).

In October 2019, the Cambodian Labour Ministry allowed foreigners working as taxi drivers, street vendors and a handful of other jobs in Cambodia which were forbidden previously in the informal sector (HKTDC, 2020).

Visa/Travel restrictions

Cambodia offers the visa on arrival – except citizens of Brunei Darussalam, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, who do not require a visa before travelling to Cambodia for a stay of between 14 and 30 days (two weeks for citizens from the Seychelles) (Online Visa, 2020). But owing to the situation of Covid-19, the visa-on-arrival arrangement has been suspended.

Restrictions on foreign citizenship

There are limitations for foreign citizenship when investing or working in Cambodia. Foreigners are not permitted to own land but could use land with concessions, unlimited long-term lease, or limited short-term lease, or pledge as security the real and personal property on the land, with Cambodian joint-share at least over 51% of the land-total value.

1.11. Risks

Sovereign credit ratings

TABLE 1.19 Sovereign Credit Ratings

Type of office	Rating (Outlook)	Rating Date
Moody's	B2 (Stable)	04/10/2019
Standard & Poor's	Not rated	Not rated

Source: *The Global Economy, 2020a*

Competitiveness and efficiency indicators

TABLE 1.20 Indicators of Competitiveness and Efficiency

	World Ranking		
	2018	2019	2020
Ease of Doing Business Index	135/190	138/190	144/190
Ease of Paying Taxes Index	136/190	137/190	138/190
Logistics Performance Index	98/160	N/A	N/A
Corruption Perception Index	161/180	162/180	N/A
IMD World Competitiveness	N/A	N/A	N/A

Source: *The Global Economy, 2020b*

Economic risks

Cambodia continues to rely on external financing through robust growth momentum in the tourism and construction sectors. The long term economic risk is weighed down by an undeveloped capital market, concerns over central bank independence and large current account deficits. The currency peg with the US dollar affords some stability in monetary policy but acts as a limitation in terms of policymakers' ability to respond to economic shocks. The risks to economic growth will rise considerably in 2020 as the EU has partially suspended its 'Everything But Arms' trade concessions for Cambodia. In addition, Cambodia's economy is also impacted by the COVID-19 pandemic, and the outbreak has caused a sharp deceleration in most of Cambodia's main industries in 2020, including fewer tourists and construction activities (World Bank, 2020a). The COVID-19 pandemic and slow economic recovery with prolonged financial market turmoil therefore pose more risks to Cambodia's growth outlook (World Bank, 2020b).

Operational risks

Cambodia has experienced substantial economic growth in recent years after decades of political struggle (Nikkei Asia, 2019). The large labour pool, low wages and open investment environment to FDI benefit the investors, which make the country an attractive investment destination (HKTDC, 2020). But, there are still many risks brought by a lack of adequate education, the less developed transport system, weak legal system and limited property rights (Nikkei Asia, 2019).

CHAPTER 2 ETCZs IN CAMBODIA

2.1. Overview of SEZ/ETCZ development and policy in Cambodia

Cambodia started its SEZ development policy in 2004, while ETCZ development became a national policy in China officially in 2006. A variety of terms have been applied to highlight the different functions of these development zones, including free-trade zones, export processing zones (EPZs), free ports, enterprise zones, and single-factory EPZs, before the World Bank designated 'special economic zones (SEZ)' as the umbrella term in 2008, to refer to areas demarcated as different from the rest of the geographical area and granted with preferential treatments or tax and duty exemptions (Li and Yao, forthcoming).¹

Why SEZs are important

SEZs provide more opportunities for foreigners to invest in Cambodia, and 68,000 jobs has been created by this investment. Usually, people working in SEZs expect better pay and prospects (Warr and Menon, 2015). SEZ developers can also help with the infrastructure construction in Cambodia.

Number of SEZs in Cambodia

Owing to the application-approval pattern of SEZ development, the number of SEZs in Cambodia could be more than that has been recorded. A total of 46 SEZs (see Appendix 7) are listed in the official website but it has been recently reported in local media that 54 zones are being developed (Cambodia has 54 special economic zones, more to come, 2020).

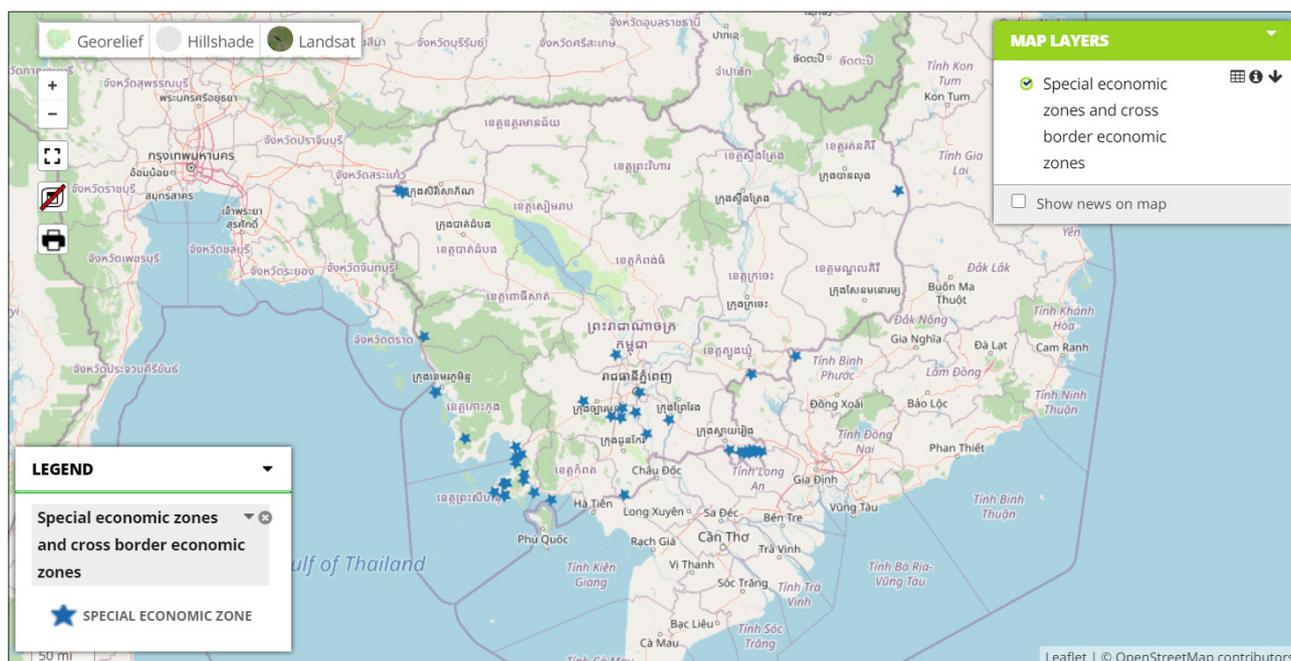
¹ SEZ is the official term used in Cambodia, this training pack will also use SEZ for discussion.

FIGURE 2.1 SEZ Information: a partial picture

SEZ IN CAMBODIA IN 2019	YEAR ESTABLISHED	INVESTOR	TOTAL INVESTMENT (US\$)	TOTAL EMPLOYMENT	2018 EXPORT VALUE (USD)
1. PHNOM PENH SEZ	2006	121	868,139,274	21,595	559,599,865
2. KERRY WORLDBRIDGE SEZ		1	21,000,000	20	39,711,069
3. GOLDFAME PAKSUN SEZ	2007	2	4,294,436	714	
4. SUVANNAPHUM SEZ	2014	1	1,500,000	207	729,035
5. TAI SENG BAVET SEZ	2007	38	179,007,425	9,536	291,932,603
6. DRAGON KING BAVET SEZ	2013	6	29,955,916	1,847	10,419,771
7. SHANDONG SUNSHELL SVAY RIENG SEZ	2013	11	33,683,406	9,143	64,885,049
8. QI LU JIAN PU JAY SEZ	2018	10	39,918,075	3,089	10,155,266
9. HI-PARK SEZ	2016	5	13,212,360	1,510	10,968,509
10. MANHATTAN SVAY RIENG SEZ	2005	33	141,213,296	31,127	438,822,867
11. SVAY RIENG GIGA RESOURCE SEZ	2017	22	128,298,200	8,419	39,343,127
12. INTERVIA AUTOMOBILE INDUSTRY COMPLEX SEZ	2017	3	51,824,000	305	10,911,452
13. DOUNG CHHIV PHNOM DIN SEZ	2006	2	9,800,000		
14. KAMPOT SEZ	2007	1	34,550,200	200	
15. SIHANOUKVILLE SEZ	2008	179	718,398,080	26,451	530,593,663
16. SIHANOUKVILLE PORT SEZ	2009	4	23,321,307	569	14,771,845
17. SIHANOUKVILLE 1ST SEZ	2006	3	998,300,000	600	
18. CAMBODIAN ZHEJIANG GUJI SEZ	2018	12	157,605,353	1,854	-
19. NEANG KOK KOH KONG SEZ	2007	6	67,645,793	10,590	
20. SANCO POI PET SEZ	2013	11	70,108,666	2,067	57,011,975
21. POI PET ONEANG SEZ	2006	6	14,601,411	5,468	46,753,723
22. POI PET PPSEZ	2017	1	-		
23. UBE SNOUL SEZ	2016	2	49,624,793		
GRAND TOTAL		480	3,656,001,991	135,311	2,126,609,819

Source: Mekong Institute, 2019

FIGURE 2.2 Geographical Distribution



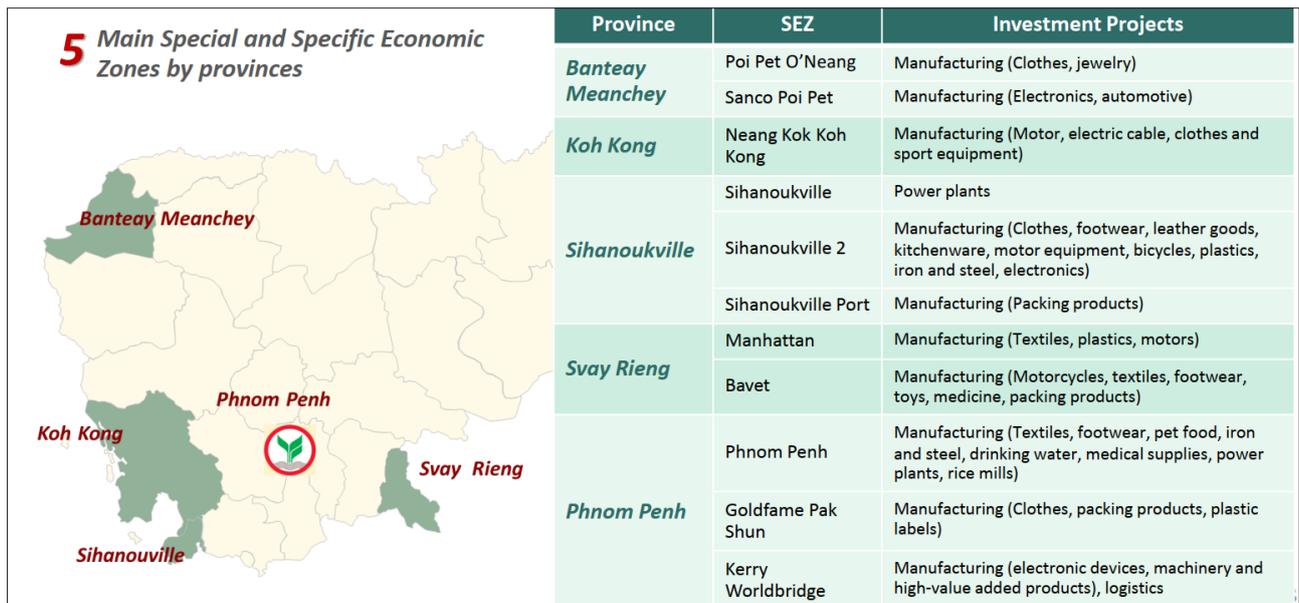
Source: Open Development Cambodia, 2021b

FIGURE 2.3 Selected Main SEZs: Snapshot (1)



Source: Tam, B. T. M., 2019; Mekong Institute, 2019

FIGURE 2.4 Selected Main SEZs: Snapshot (2)



Source: KASIKORN BANK, 2018

Development trajectory

Legal framework for the Special Economic Zone (SEZ) scheme

The concept of economically promoting special zones/areas was introduced to Cambodia in the 1960s. The SEZ scheme was adopted officially in December 2005.

TABLE 2.1 Major laws in SEZ Development

No. of Sub-Decree	Time	Impact
Sub-Decree No.147 on the Organization and Functioning of the CDC	29 December 2005	Created a new wing of the CDC—CSEZB was established to manage the SEZ scheme
Sub-Decree No. 148 on the Establishment and Management of the Special Economic Zone	29 December 2005	Defined the basic concept of the SEZ and conditions, application process, management structure and other related regulations

Source: CDC

These laws seek to increase foreign investment in Cambodia by offering various incentives, raising the operation transparency of the SEZs, and promoting fair competition. They are part of government's plan to improve the business environment in Cambodia (Cambodia has 54 special economic zones, more to come, 2020).

Origin of investors / investments and enterprises in ETCZs

The major countries investing in SEZs in Cambodia include China, Malaysia, Japan, Taiwan, Singapore, British Virgin Islands, United States, Thailand, South Korea, Vietnam and others (Britain, Philippines, Myanmar, Australia, Germany, Switzerland, New Zealand, Netherlands, France, Ireland, and Hungary) (Mekong Institute, 2019).

Sector and industry, percentage of export / GDP

The SEZs have attracted a total of foreign investment of USD 3.66 billion into Cambodia, creating 135,000 jobs as of September 2019 (Mekong Institute 2019). Export of Cambodia's Special Economic Zones in 2019 totalled USD 2,688 million, which is 27% higher than 2018 (Cambodia has 54 special economic zones, more to come, 2020).

TABLE 2.2 Industries in SEZ in Cambodia

▪ Animal Feeds	▪ Dry port	▪ Leather products	▪ Sanitary products
▪ Automobile parts	▪ Electronics and electronic equipment	▪ Machinery parts	▪ Silicone
▪ Beverage & Spare parts	▪ Food & additive products	▪ Medical tools & equipment	▪ Small size motors
▪ Bicycle & spare parts	▪ Food processing	▪ Medical & cosmetic	▪ Solar panels
▪ Car assembly	▪ Footwear	▪ Motor & motor assembly	▪ Sportswear & equipment
▪ Coal power plant	▪ Furniture	▪ Motorcycle & auto parts	▪ Steel & steel processing
▪ Cosmetic tools	▪ Garments	▪ Packaging materials	▪ Steel wire for constructions
▪ Diamond polishing	▪ Home decoration materials	▪ Plastic products	▪ Toy and hobbies products
▪ Dairy products	▪ Household products	▪ Power plants	▪ Wire cables
			▪ Others

Source: Mekong Institute, 2019

FIGURE 2.5 Priority sectors in Cambodia



Source: CDC

TABLE 2.3 Priority Industries

New industries	Supporting industries	Others
<ul style="list-style-type: none"> ▪ Electronic assembly ▪ Natural resources processing ▪ High value-added garment products ▪ Industrial equipment assembly - Small and Medium Enterprises (SMEs) supporting industries 	<ul style="list-style-type: none"> ▪ Light manufacturing ▪ Construction materials ▪ Food and beverage ▪ Packaging equipment for export ▪ Transport and logistics ▪ Agro-Industrial 	<ul style="list-style-type: none"> ▪ Tourism ▪ Human resource development ▪ Information and Communication technology ▪ Energy ▪ Furniture manufacturing ▪ Traditional handicraft

Source: CDC, 2015; Mekong Institute, 2019

2.2. Government policies to attract investments

SEZ projects will be issued as Qualified Investment Projects (QIP). Apart from the same incentives on customs duty and tax granted to other QIP, investors in SEZs have extra access to more preferential conditions (KASIKORNBANK, 2018):

TABLE 2.4 Incentives for SEZ Development

Tax Incentives	<ul style="list-style-type: none"> ▪ Tax on Profit: The tax on profit exemption period shall be provided for a maximum period of 9 (Nine) years in compliance with Article 14.1 of the Law on the Amendment to the Law on Investment of the Kingdom of Cambodia. ▪ Import Duties and other Taxes: The import of equipment and construction materials to be used for infrastructure construction in the zone shall be allowed and exempted of import duties and other taxes. ▪ Incentive on Value Added Tax at the rate of 0%
Other incentives	<ul style="list-style-type: none"> ▪ Duty exemption on the import of machineries, equipment for the construction of the road connecting the town to the zone, and other public services infrastructures for the public interests as well as for the interests of the zone. ▪ Obtain a land concession from the State for the establishment of a Special Economic Zone in areas along the borders or in isolated regions. ▪ Obtain a temporary admission (AT) the import of means of transport and machineries used for the construction of the infrastructures
Investment guarantee	<ul style="list-style-type: none"> ▪ No discriminatory manner as set by law, except for ownership of land. ▪ No nationalization policy which shall adversely affect private properties of investors. ▪ No price control on the products or services of investors who have received prior approval from the Government. ▪ Permission to purchase foreign currencies through the banking system and to remit abroad these currencies for the discharge of financial obligations incurred in connection with their investments. This concerns the following payments: <ol style="list-style-type: none"> 1. Payment for imports and repayment of principal and interest on international loans. 2. Payment of royalties and management fees; 3. Remittance of profits; 4. Repatriation of invested capital in compliance with the investment law.
One Stop Service	<p>Fast-Track Investment Approval Process (28 days):</p> <ul style="list-style-type: none"> ▪ Company registration and investment license ▪ Export/import permit ▪ Work permit and Labour books (both workers and expatriate) ▪ Special Economic Zone Administration (on site immediate legal and administrative assistance)

Source: KASIKORNBANK, 2018

TABLE 2.5 Other Requirements in SEZ Development

Category	Requirements
SEZ	<ul style="list-style-type: none"> Brings together all industrial and other related activities and may include General Industrial Zones and/or Export Processing Zones. Shall have a Production Area which may have a Free Trade Area, Service Area, Residential Area and Tourist Area
Zone developer	<ul style="list-style-type: none"> Have sufficient capital Develop, maintain, and repair the infrastructures in the zone, including human resources to manage the activities Have the legal rights to possess the land Arrange security personnel and ensure good public order in the zone at all time Submit reports to the Cambodian Special Economic Zones Board upon request and perform tax liability obligations by maintaining proper accounting books, as instructed by the Ministry of Economy and Finance; Cooperate with and assist the Special Economic Zone Administration regarding the functioning of the zone and has close relationship with local authorities in order to address issues.

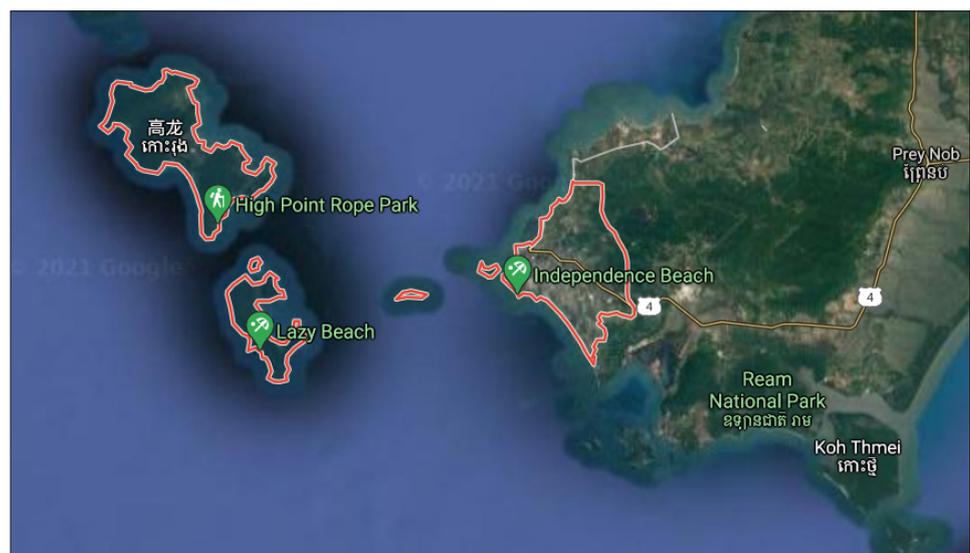
Source: CDC, 2011b

2.3 Case study

Sihanoukville Special Economic Zone (SSEZ)²

Sihanoukville Special Economic Zone (SSEZ) is located about 17 kilometers from Sihanoukville city, 3 kilometers from Sihanoukville International Airport, and 12 kilometers from Sihanoukville International Port. The size is about 11.13 km² (SSEZ, 2012a).

FIGURE 2.6 Location of Sihanoukville City



Source: King, A & Cole, B, 2008

² The following text in this section draws heavily from the SSEZ website (see reference SSEZ, 2012a) and discussions with zone operators and enterprises in a research visit in 2019.

FIGURE 2.7 Location of SSEZ



Source: SSEZ, 2012a

Siem Reap Special Economic Zone (SSEZ) is co-developed by Cambodian and Chinese private companies, with the foundation stone laid by Prime Minister Hun Sen in February 2008. The SSEZ management stresses its international orientation and commitment to developing a multinational investment platform for companies around the world.

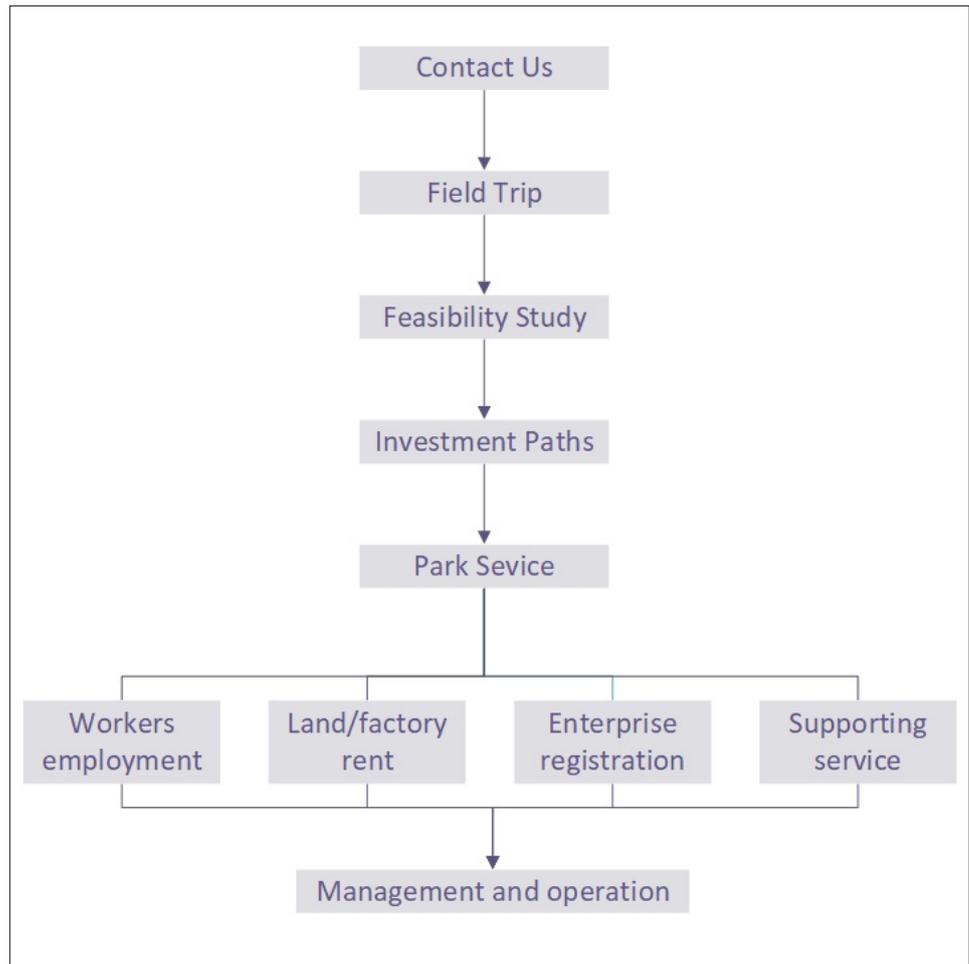
SSEZ has a total planning area of 11.13 square kilometres. Major industries attracted during its first phase of development include textile and garment, bags and leather, and wood products. In the second phase, SSEZ will give full play to the advantage of port-vicinity and will bring in more industries, such as hardware machinery, building materials and household appliances, auto parts and tires, new photovoltaic materials, fine chemicals and others. SSEZ seeks to become a well-facilitated, fully-functional, ecological model industrial zone with 300 enterprises with 80,000 to 100,000 industrial workers.

Since development and construction started over a decade ago, SSEZ has become one of the integrated industrial zones with developed producing & living facilities in Cambodia, and completed all the major infrastructure projects such as roads, water support, electricity provision and drain contamination systems, as well as living and manufacturing supporting facilities. A comprehensive service building integrated with offices, conference and other multi-functional facilities has been completed.

Industries and enterprises

1. Export manufacturing companies that could enjoy preferential policy from Europe, USA, Japan and other regions, such as garment & textiles, luggage, electronics, household appliances, hardware & machinery, auto parts and other industries;
2. Supporting industries that intend to support other manufacturing factories and explore the international market, such as textiles, cartons, construction materials, etc.;
3. Enterprises that are willing to go out to be a secondary developer and build a "Sub Zones in the zone" to provide factory building and construction engineering company;
4. Equipment manufacturing industry, new energy industry, infrastructure construction industry, and port industry are encouraged to settle in the zone.

FIGURE 2. Procedures to Invest in SSEZ



Source: SSEZ, 2012b

Currently, according to the zone manager, there are 166 enterprises resident in the SSEZ, which come from different countries, such as Cambodia, mainland China, America, Ireland, France, South Korea, Laos, and Myanmar. SSEZ welcome investors from foreign countries to participate for more collaborations.

Opportunities and challenges:

In 2018, about 230,000 tourists were recorded to have arrived in Sihanoukville International Airport (KOS). By Q3 2019, this number jumped to almost 550,000 arrivals according to data from the Ministry of Tourism. The increase in direct flights to the Sihanoukville International Airport has directly contributed to the steep rise in tourist arrivals to the province, including flights from Vietnam, the Philippines, Malaysia, and, most markedly, China.

Sihanoukville serves as a major trade hub, connecting Cambodia-based manufacturers to the world. The Sihanoukville Autonomous Port (PAS) is set to build a new \$200 million container terminal as part of an expansion project which is due to be completed by 2022.

This multipurpose port will serve imports and exports of garments, coal, steel, fertilizers, rice and oil, and will improve the efficiency of cargo shipments and larger passenger vessels entering and exiting Sihanoukville. This will lower costs of logistics

for Cambodia-based traders. The Sihanoukville Autonomous Port (PAS) is also expected to play an important role in expanding China's access to the busy Strait of Malacca.

The government announced in August 2019 that it would halt the renewal of online casino licenses in Cambodia. The decree specifies that currently registered online casino operators will be allowed to operate until their licenses expire in 2020. The announcement has already prompted most online casinos to move their operations elsewhere, with over 400,000 Chinese workers leaving the province by December 2019, according to the General Department of Immigration.

Property and rental prices have been skyrocketing prior to the announcement. At its height, it was reported that bare plots of land cost as much as \$4,000 per sqm. While rental prices skyrocketed from \$100 per month to \$350 per month. After the announcement of the ban, the same plots of land slid down to \$2,500 per sqm in the following weeks.

Most Chinese renters have also left, forcing landlords to severely slash rental prices to attract new tenants. While it is widely expected that further drops in prices and transactions will result in a slowdown in Sihanoukville's property market, industry experts agree that its effects will not spillover in adjacent provinces considering the relative amount of Chinese investment in these areas.

Government agencies and real estate experts have already alluded to the interest of other foreign investors in the province. It can be safe to assume that the slashed property prices in a booming town is helping to attract a more diverse set of investments.

In addition, The European Commission has decided to withdraw part of the tariff preferences granted to Cambodia under the European Union's 'Everything But Arms' (EBA) trade scheme in Aug 2020 (EU Commission, 2020). The withdrawal affects industries including garments and footwear products, all travel goods and sugar sectors, relating to \$1.08 billion with 40 products, approximately 20 percent of Cambodia's annual exports to the EU (Uch L. 2020). The termination could increase the price of Cambodia's exports and weaken their competitiveness.

CHAPTER 3

MISCONCEPTIONS OF DOING BUSINESS IN CAMBODIA

A CSHK research team conducted a 7-day research trip to Cambodia in early 2019 to understand how different stakeholders observed China's BRI projects and their perception of Hong Kong's role and opportunities in Cambodia. This chapter draws upon findings from the research trip.

3.1. Fieldwork and discussions

The team conducted interviews, meetings, seminars, and site visits with the local government, business and finance practitioners, special economic zones (SEZs) management, and academia. We visited ministries involved in BRI-related policymaking and implementation and held meetings with senior government officials. We interviewed business practitioners from Cambodia, China, and Hong Kong, and in different industries including banking, manufacturing and property development. During site visits to two SEZs in Phnom Penh and Sihanoukville, the team interviewed the SEZ management and several enterprise managers. The research team also met and discussed with more than 30 Hong Kong-related key business actors who have worked in Cambodia for more than ten years and possessed in-depth knowledge of and extensive business networks in Cambodia.

Table 3.1 summarizes the major themes discussed in the meetings:

TABLE 3.1 Major Themes Discussed in Interviews

Themes	Sub-themes
1. Economic development in Cambodia	Open-door policy, investment facilitating mechanisms and future development
2. Cambodian perspectives on BRI	A. Nature: cooperation and connectivity B. Challenges: uncertainty; lack of patience; mixed community receptions; geo-political power struggle
3. Assessment of Chinese investment	A. Conducive to Cambodia development B. Precede BRI C. Project financing D. Investment impacts on Cambodia E. Comparison with Japanese investment
4. BRI risks towards Cambodia and Cambodian strategies	A. Alignment of goals B. Public debt management C. Social risks D. Lack of internationalization
5. Roles of and Opportunities for Hong Kong in BRI and Cambodia development	A. Investment and project financing B. Professional service C. Capacity building: education and vocational training D. Promotion of Cambodia and BRI projects

3.2. Misconceptions about Doing Business in Cambodia

Cambodia adopts an open-door policy to facilitate investment and business. As a latecomer, Cambodia followed Hong Kong and Singapore in adopting the open-door policy and has rapidly transformed from a central planning model to a full-fledged market model. In general, BRI is perceived as mostly about multilateral cooperation and regional connectivity with considerable challenges ahead.

Seeing BRI as a means to match Cambodia's development needs, the Cambodian government has been enthusiastic about BRI for the opportunities it offered, including multilateral cooperation, new international market, new SEZs and opportunities under the Mekong-Lancang Cooperation framework.

While the government respondents generally welcome Chinese investment, the private sector is concerned with the negative, risk-creating impacts of the influx of Chinese investment. The high-profile criticisms from the Western-led international media on the BRI projects have raised geopolitical tension. The local association of Chinese investment with crime-related activities, such as the reported criminal activities and gangsters from China in Sihanoukville in recent years also generated domestic skepticisms towards the negative social impacts of Chinese capital (Nachemson and Meta, 2019). Consequently, sweeping misconceptions about China's projects in Cambodia become widely accepted as: 1) too massive to manage; 2) too complicated to comprehend; and 3) too delicate to deal with.

Too massive to manage

There is a recent surge in influx of Chinese investments (almost doubled from 2014 to 2018 according to figures released by Ministry of Commerce in China, or even almost tripled from 2014 to 2019 according to Cambodia and other international sources) and companies into Cambodia. The uniqueness and importance of Chinese investment are reflected from their large and syndicated loans (NDRC & HKSARG, 2017). Most syndicated loans are organized by Chinese banks. These commercial banks always work hand in hand with the policy banks. Furthermore, the same regulation stipulates that if the lending institute would like to lend out an amount exceeding 20% of its net worth, they can seek special approval from National Bank of Cambodia (NBC). NBC officers are usually supportive because they know only Chinese banks can support those big projects. If they don't issue the special approval, those big projects would not get the fund smoothly, resulting in project delay.

The recent influx of Chinese investments into Cambodia and the rapid growth resulted from it have adverse impacts (Hin, 2019). First, the huge supply of new condominiums constructed by Chinese property developers is mainly (over 80%) bought by Chinese buyers, implying that the property market in Cambodia might risk creating a housing bubble. Cambodia lacks the absorbing capacity for such rapid investment in the property development sector.

Second, the western media and local community have great concerns about the public debt and project sustainability. The Cambodian government has been highly aware of the importance of being prudent in borrowing, including stringent public debt management and detailed feasibility study. As a result, borrowing is bounded by conservative public debt management strategies. Huge amount of feasibility studies involving years of investigation and thousand pages of technical details are required before the Ministry comes up with the master plan of a project and makes decisions.

Our respondents from the SEZ Sihanoukville suggests that Chinese investment has contributed to the significant improvement of infrastructure development in Cambodia by bringing in much needed capital. For instance, SSEZ has operated for over a decade in Sihanoukville and substantially contributes to the local economic development. The total industrial value has increased by 4-fold in 10 years in Sihanoukville, reaching 350 Million USD in 2018. The average annual income per capita in Sihanoukville has also reached USD 3,358, ranking it one of the top 5 provinces in Cambodia. Since loans provided by the Asian Development Bank (ADB) or International Financial Corporation (IFC) are very limited, investment and loans provided by Chinese policy banks, major commercial banks and development funds are very important resources for Cambodia especially for 'projects that are win-win and drawing public support' ('共贏的、民心的工程')

The Chinese investment also brings in technology and technical know-how, contributing to capacity building and economic transformation in Cambodia. For example, the training centre in SSEZ 'Preah Sihanouk Cambodia-China Friendship Polytechnic Institute' ('中柬友誼理工學院') was constructed by the Chinese government (via aid) and started operation in 2018. Investment in education helps Cambodia reduce reliance on low labour cost and thus transform its economy in the longer run. However, the general public may not be patient enough to see the long-term benefits of large-scale infrastructure projects under BRI. As such, more humbly sized, 'soft' projects under existing regional cooperation frameworks could be incorporated into the BRI framework and enjoy policies similar to those applicable to the large-scale projects.

Too complicated to comprehend

Since many BRI projects are still in its initial stage of development, there is a high level of uncertainty in its definition and scope. As a result, negative reception of BRI projects in local communities persist. For example, there are considerable criticisms about the lack of transparency of BRI project financing in terms of the underlying political imperatives, unclear bidding process, unresolved land compensation disputes and undesirable social impacts associated with BRI projects. In view of the complications and lack of communications, Chinese investments and projects were seen as the only reasons for the rapid growth of gambling and criminal activities in Sihanoukville, the displacement of local communities and families, uneven distribution of economic benefits, cultural conflicts, threats towards community safety and deterioration of living environment.

The complications of such national development plan can be attributed to the alignment of economic and social development priorities of the two countries. The Cambodian government implements the 'Rectangular Strategy' (currently in Phase IV) to support and promote BRI while setting priority of development in its national economic planning. Specifically, the five cooperation priorities set in BRI, namely policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-people bond complement well with the national priorities in Rectangular Strategy Phase IV, which are human resource development, economic diversifications, private sector and job market development, and sustainable and inclusive development.

Despite the benefits of cooperation and connectivity highlighted by a Hong Kong-based enterprise in Cambodia, the senior management for a major Chinese commercial bank in Cambodia believed that social and environmental assessment from lending institutes would help encourage the borrowing Chinese enterprises to pay more attention to their social and environmental impacts and improve public perception. There are also increasing awareness in incorporating relevant corporate social responsibility (CSR) campaigns and activities by Chinese enterprises to improve the projects' performance in social and environmental aspects. The gradual co-evolving communications strategies and business practices adopted by Chinese enterprises in Cambodia are aimed at being more transparent and inclusive.

Too sensitive to deal with

Finally, the competition for world leadership between US and China has intensified, affecting the implementation of BRI itself as well as the diplomatic relationships between BRI-participating countries and US (and its alliance). The partial withdrawal of 'EBA' ('Everything But Arms') by EU and overt support for the biggest opposition party in Cambodia from US are seen as political pressure exerted onto Cambodia for its close relationship with China and BRI. The delicate diplomatic situation has led to the misconception that doing business in Cambodia is like walking on thin ice.

Our respondents from the local government, however, assures that Cambodia has put in place multiple mechanisms to facilitate foreign investors. For instance, the Government-Private Sector Forum is a platform through which the government works together with the private sector to address challenges faced by the investors. The Cambodian government also plans to focus on the digital economy and develop technology such as FinTech which will require foreign partnership.

The real international issue faced by Chinese enterprises participating in BRI projects in Cambodia is actually their lack of internationalization in their business, including ownership, management, standard of service, tenant composition (for SEZs) and talent acquisition. Apart from the project owner's determination and commitment to internationalize, the risk could also be possibly mitigated by more connections and consultations of third-party professional services, such as accounting, law, project consultancy and engineering, so as to learn through co-working with the professionals and progressively enhance their ownership diversity, corporate governance, quality of products and standards of services, and thereby internationalize and boost their competitiveness in the regional and global market.

APPENDICES

Appendix 1. Country and Economic Overview

1.1. Geographical location

Cambodia is located at Southeastern Asia, bordering the Gulf of Thailand, between Thailand, Vietnam, and Laos (King & Cole, 2008).

FIGURE a1-1 Map of Cambodia (2020)



1.2. Country overview

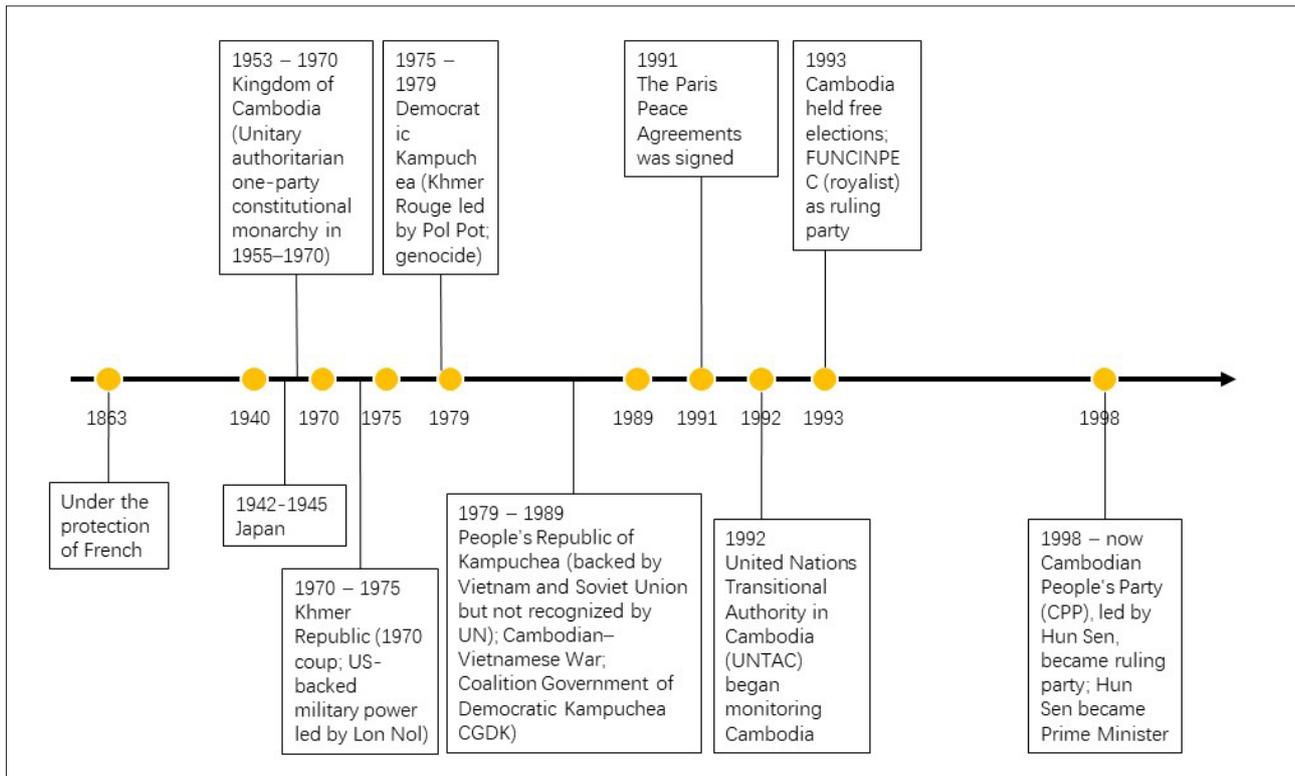
TABLE a1-1 Country Overview

Official name	Kingdom of Cambodia
Capital	Phnom Penh
Total area	181,035 km ² (similar to that of Guangdong province)
Landscape	Mostly low, flat plains; mountains in southwest and north
Climate	Tropical; rainy, monsoon season (May to November); dry season (December to April); little seasonal temperature variation
Population	Total: 16,926,984 (Indexmundi, 2020) The total de facto population of Cambodia on March 3, 2019 stood at 15,288,489 . Migrants working abroad: 1,235,9932.
Median age	26.42
Language	Khmer is the official language, while French and English are also widely used.
Ethnicity	Khmer 97.6%, Cham 1.2%, Chinese 0.1%, Vietnamese 0.1%, other 0.9% (2013 est.)
Religion	Buddhist (official) 97.9%, Muslim 1.1%, Christian 0.5%, other 0.6% (2013 est.)
Government	<ul style="list-style-type: none"> ▪ Government type: Parliamentary constitutional monarchy ▪ Government head: Hun Sen (Prime Minister) ▪ Ruling political party: Cambodian People's Party ▪ King: Norodom Sihamoni
Education	Adult literacy rate: 80.5% (2015) Net Enrolment Rate: ◇ Primary: 90% (2018) ◇ Secondary: 57% (2017) Gross Enrolment Rate: ◇ Tertiary: 14% (2018)
Health infrastructure	<ul style="list-style-type: none"> ▪ Current health expenditure: 5.9% (2017) ▪ Physicians density: 0.17 physicians/1,000 population (2014) ▪ Hospital bed density: 0.8 beds/1,000 population (2015)
International organization participation	ADB, ARF, ASEAN, CICA, EAS, FAO, G-77, IAEA, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO (correspondent), ITU, MINUSMA, MIGA, NAM, OIF, OPCW, PCA, UN, UNAMID, UNCTAD, UNESCO, UNIDO, UNIFIL, UNISFA, UNMISS, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Sources: United Nations Conference on Trade and Development (UNCTAD), 2019; Reilly, 2015 , World Bank, 2020

1.3. Major political/economic events in history in Cambodia:

FIGURE a1-2 Timeline and Milestone



Source: Overton, 2019

1.4. Economic overview

TABLE a1-2 Economic Overview

Country economic status	Lower middle-income (Since 2015) Least Developed Country until 2025 (UN)																								
Currency	Cambodian riel (KHR) (American dollar is widely used)																								
GDP (current US\$)	USD 271 billion (2019)																								
GDP per capita (current US\$)	USD 1643.1 (2019)																								
GDP Growth	7.1% (2019)																								
GDP, PPP (current international \$)	75.35 billion (2019)																								
GDP per capita, PPP (current international \$)	4570.7 (2019)																								
Unemployment rate	0.7% (2019)																								
Inflation, consumer prices (annual %)	2.5% (2018)																								
Growth outlook	<p>GDP by sector (2019):</p> <ul style="list-style-type: none"> • Agriculture: 20.71% • Industry: 34.23% • Service: 38.85% <p>In light of the recent global outbreak of Covid-19 pandemic, the World Bank expected GDP growth to drop dramatically to 2.5% in 2020 and IMF projected an even pessimistic outlook at -1.6%</p> <p>Key drivers: increase in exports, tourism, garments, constructions and real estates, agriculture sectors and continuing strong FDI inflows accounted for the bulk of economic growth in 2019</p>																								
Changes in economic composition (industry drivers) (see Figure 1.3)	<p>Drivers for increase in Industry:</p> <ul style="list-style-type: none"> • Construction (infrastructure and real estate) • Garment (for export) 																								
GDP by sector	<table border="1"> <caption>Share in GDP (Estimated from Chart)</caption> <thead> <tr> <th>Year</th> <th>Agriculture (%)</th> <th>Industry (%)</th> <th>Services (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>25.00</td> <td>28.00</td> <td>47.00</td> </tr> <tr> <td>2016</td> <td>24.00</td> <td>29.00</td> <td>47.00</td> </tr> <tr> <td>2017</td> <td>23.00</td> <td>30.00</td> <td>47.00</td> </tr> <tr> <td>2018</td> <td>22.00</td> <td>31.00</td> <td>47.00</td> </tr> <tr> <td>2019</td> <td>20.71</td> <td>34.23</td> <td>38.85</td> </tr> </tbody> </table>	Year	Agriculture (%)	Industry (%)	Services (%)	2015	25.00	28.00	47.00	2016	24.00	29.00	47.00	2017	23.00	30.00	47.00	2018	22.00	31.00	47.00	2019	20.71	34.23	38.85
Year	Agriculture (%)	Industry (%)	Services (%)																						
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2016	24.00	29.00	47.00																						
2017	23.00	30.00	47.00																						
2018	22.00	31.00	47.00																						
2019	20.71	34.23	38.85																						

Sources: World Bank, 2021; Plecher eds., 202

Appendix 2. Foreign Direct Investments (FDI)

2.1. FDI flow

TABLE a2-1 FDI Flow

Inflow volume	US\$3.7 billion (2019)
Sources of FDI	See Figure 2-1
FDI flows by economic sector and industry	See Figure 2-2

Sources: World Bank, 2020; UNCTAD, 2019

2.2. List of business activities that foreign participation may be prohibited or restricted from

The lists of business activities that foreign investors are prohibited from, and activities that are not eligible for incentives are provided in the Negative List in Annex 1 of the Sub-decree on the Implementation of the Law on the Amendment to the Law on Investment of the Kingdom of Cambodia.

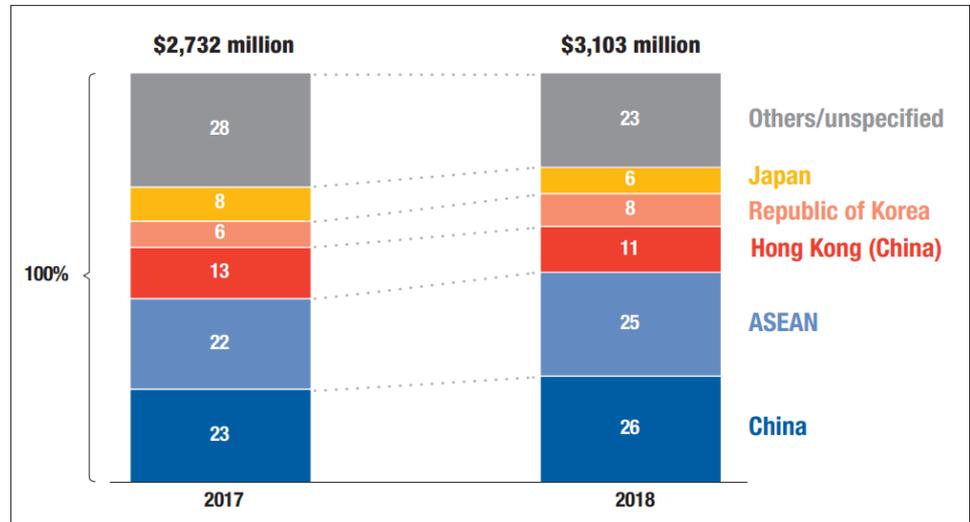
TABLE a2-2 Limited Activities (Hong Kong Productivity Council, 2019)

Section	List of Prohibited or Restricted Industries
Section One	<p>Prohibited by Law and Sub-decrees</p> <ul style="list-style-type: none"> ▪ Production or processing of psychotropic and narcotic substances; ▪ Production of poisonous chemicals, and other goods using chemical substances prohibited by international regulations or the World Health Organization, negatively affecting public health or the environment; ▪ Processing and production of electrical power by using any waste imported from a foreign country; and ▪ Forestry exploitation business prohibited by the Forestry Law.
Section Two	<p>Not eligible for incentives</p> <p>46 industries and sectors listed in Section Two of Annex 1 of the Sub-decree including, but not limited to:</p> <ul style="list-style-type: none"> ▪ Currency and financial businesses and services, including banks, insurance, financial intermediation, etc.; ▪ Professional services; ▪ Tourism; ▪ Production of tobacco products; ▪ Casino or gambling businesses; and ▪ Investments not meeting the required minimum capital of the relevant industry.
Section Three	<p>Eligible for customs duty exemption, but not for profit tax exemption</p> <ul style="list-style-type: none"> ▪ Basic telecommunications services; and ▪ Exploration of gas, oil and all kinds of mining, including supply bases for gas and oil activities

Note. For a detailed list of industries and sectors that are prohibited or not eligible for incentives, please refer to the Negative List (www.cambodiainvestment.gov.kh/wp-content/uploads/2011/10/Sub-Decree-111-on-Implementation-LOI_050927.pdf)

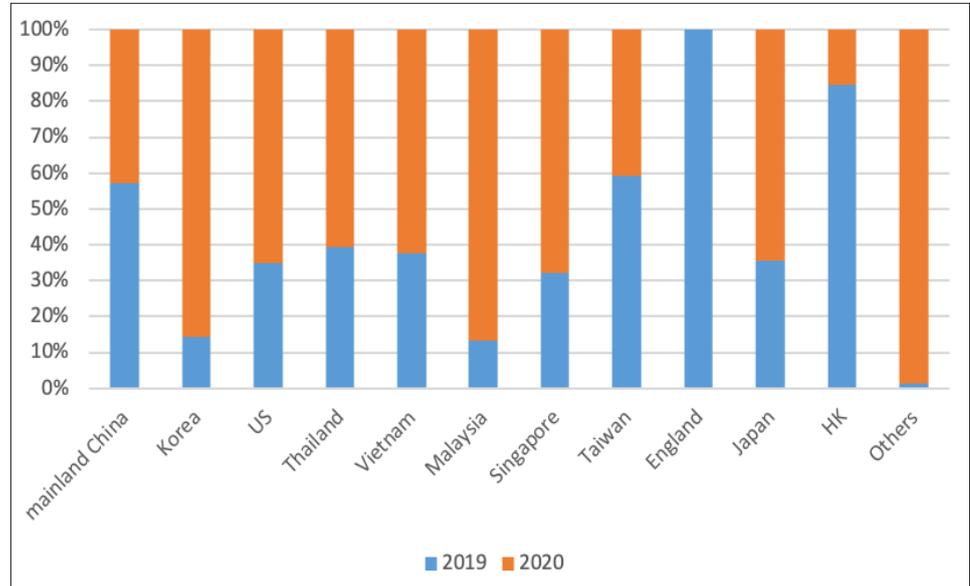
2.3. The five largest investor economies, 2017-2018 (%)

FIGURE a2-1 Sources of FDI



Source: ASEAN Secretariat, ASEAN, 2016; UNCTAD, 2019

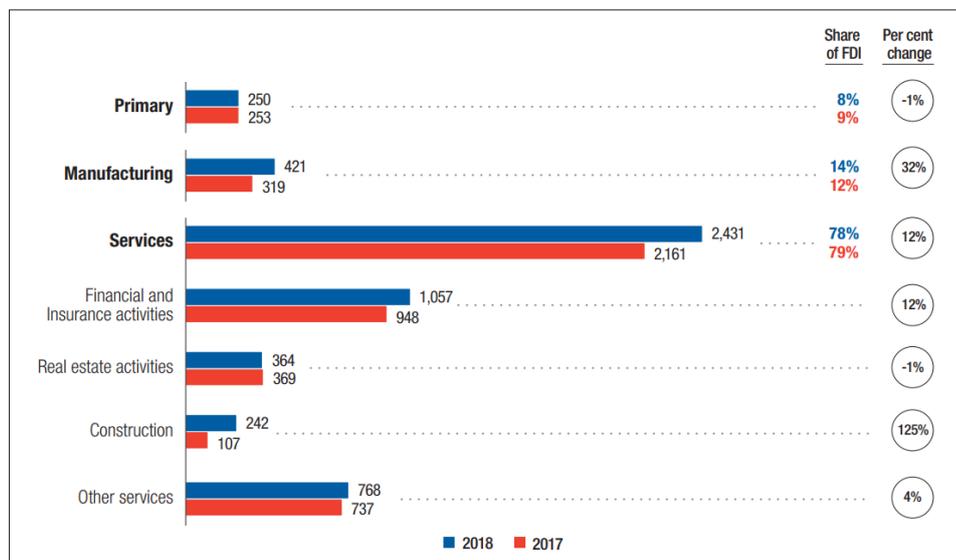
FIGURE a2-2 Investment Projects Approved by Major Countries (2019-2020) (Fixed Assets)



Source: National Bank of Cambodia (NBC), 2020

2.4. FDI flows by economic sector and industry, 2017-2018 (millions of dollars and per cent)

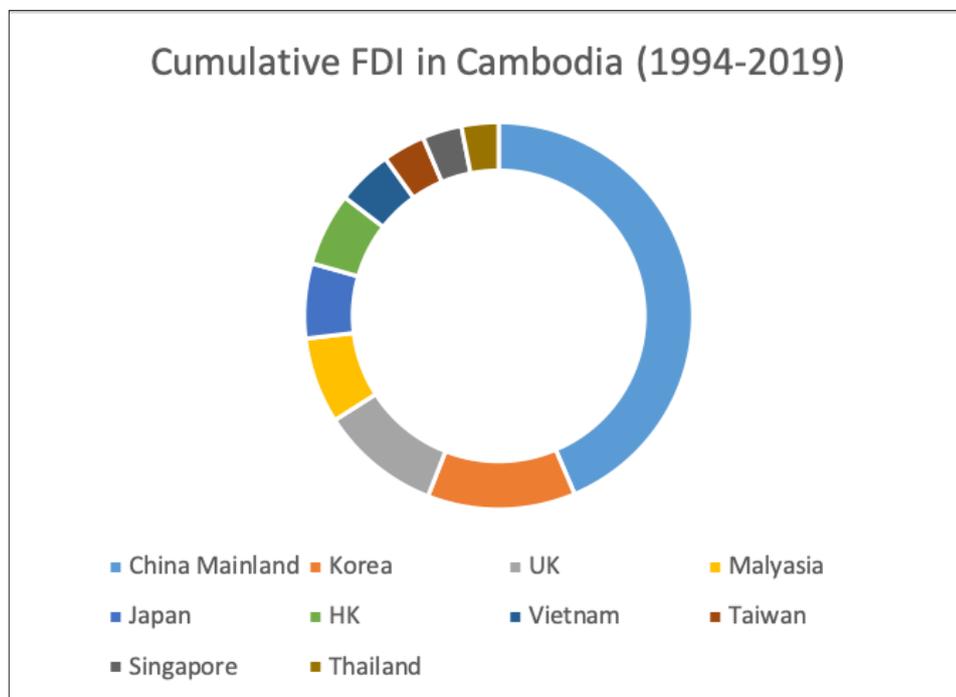
FIGURE a2-3 FDI Flows by sector and industry



Source: ASEAN Secretariat, ASEAN, 2016; UNCTAD, 2019

2.5. Cumulative FDI, 1994-2019

FIGURE a2-4 Cumulative FDI



Source: CDC

Appendix 3. International trade

3.1. Trade of goods and services

TABLE a3-1 Trade of Goods and Services

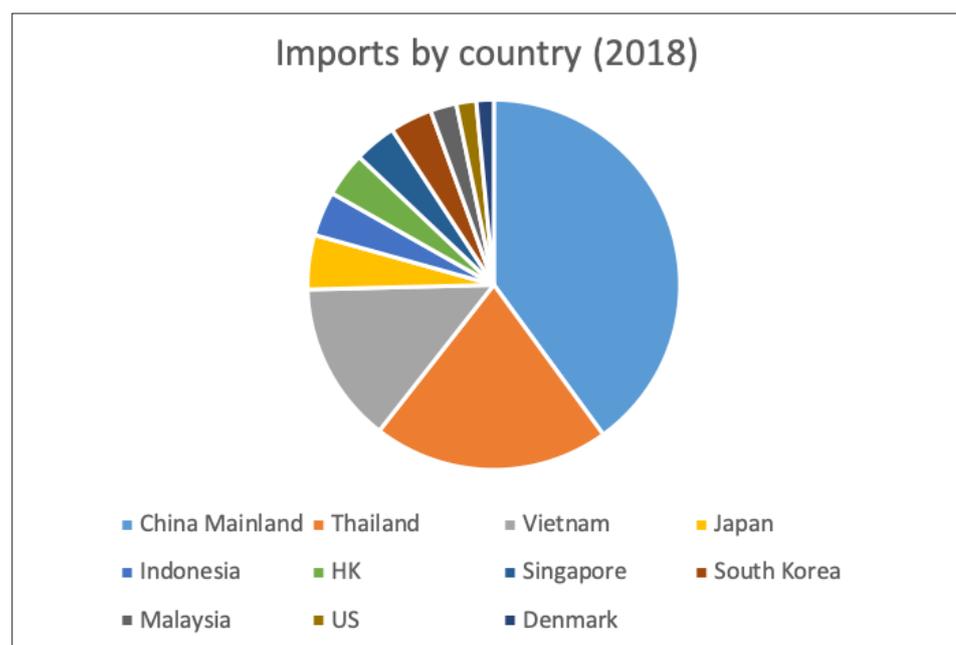
Imports of Goods and Services (BoP, current US\$)	25.4 billion (2019)
Exports of Goods and Services (BoP, current US\$)	21.1 billion (2019)

For exports, the dollar value of all goods and services rose from 10.7% in 2017 to an estimated 18.3% in 2018. The value of merchandise exports also expanded by 18.3%, almost double the 9.3% growth in 2017.

Source: World Bank, 2021

3.2. Imports and exports by country, 2018

FIGURE a3-1 Imports by Country (2018)



Source: Trading Economics, 2019a

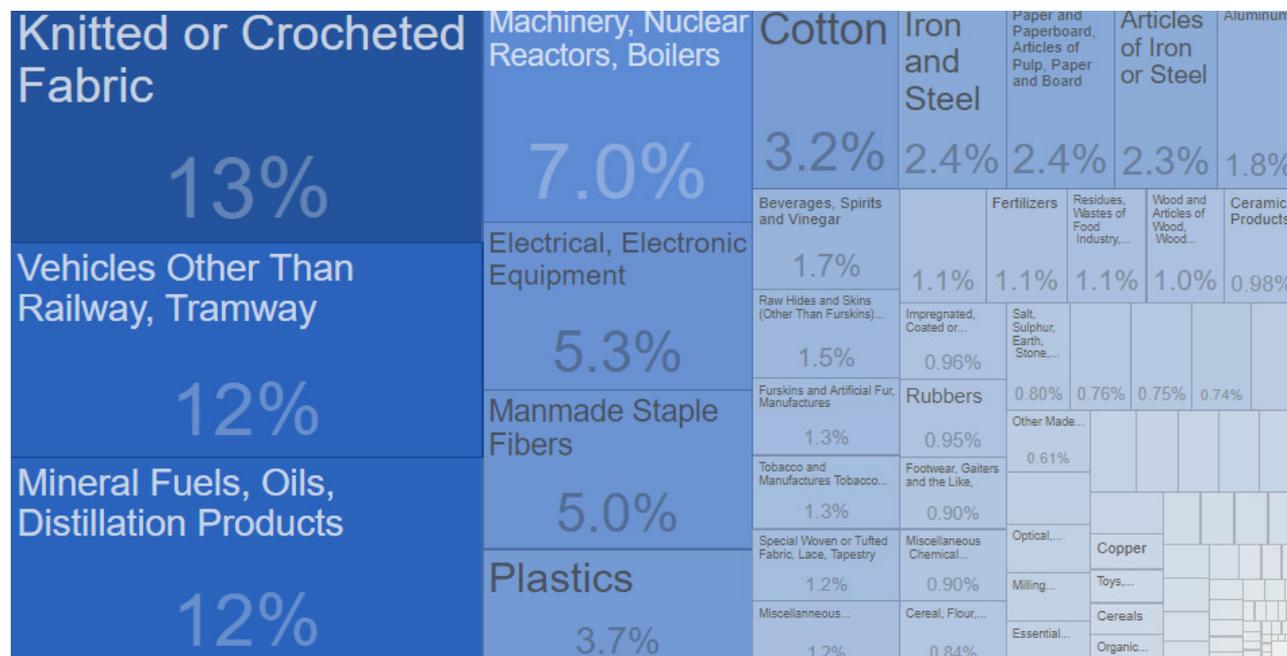
FIGURE a3-2 Exports by Country (2018)



Source: Trading Economics, 2019b

3.3. Imports by category, 2019

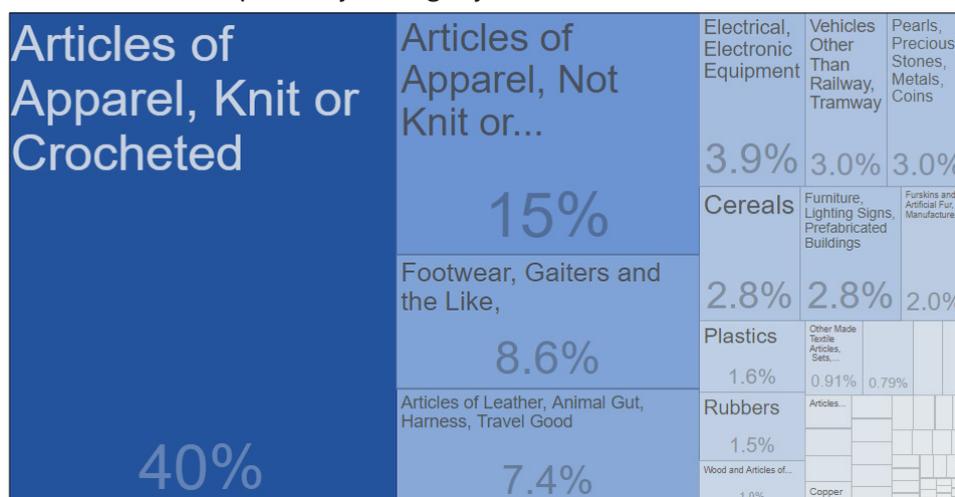
FIGURE a3-3 Imports by Category (2019)



Source: Trading Economics, 2019c

3.4. Exports by category, 2019

FIGURE a3-4 Exports by Category (2019)



Source: Trading Economics, 2019d

3.5. Trade policies in Cambodia

TABLE a3-2 Trade Policies

Trade policies	<ul style="list-style-type: none"> ▪ Became WTO member since 2004; awarded preferential most favoured nation status by mainland China, France, Germany, the United Kingdom and the United States ▪ Became ASEAN member since 1999; almost 80% of Cambodian products are intra-regional tariff-free ▪ Impose tax such as VAT and special tax on certain imports ▪ Most tariffs are on transport equipment and vehicles, agricultural machinery or parts etc. ▪ Over 1500 tariff lines are subject to import prohibition or licensing ▪ Bilateral Investment Treaties were signed with 14 countries ▪ Double taxation agreement (DTAs) were signed with 6 countries
Trade agreements	<ul style="list-style-type: none"> ▪ ASEAN-Mainland China FTA ▪ ASEAN-India FTA ▪ ASEAN-South Korea FTA ▪ ASEAN-Japan FTA ▪ ASEAN-Australian-New Zealand FTA ▪ US-Cambodia Trade and Investment Framework Agreement (TIFA) ▪ EU-Cambodia Everything but Arms (EBA) preferential trade scheme. ▪ ASEAN-Hong Kong FTA (AHKFTA) (encompassing trade in goods, services, investment, economic and technical cooperation, a dispute-settlement mechanism and other related areas; Hong Kong is a key export market) ▪ EU-ASEAN FTA (under negotiation) ▪ Eurasian Economic Union (EAEU)-Cambodia FTA (under negotiation) ▪ Cambodia-China FTA (to sign in August 2020) ▪ Cambodia-South Korea FTA (ongoing)
Impacts of other countries FTAs (esp. neighboring countries)	Need further observation and study, such as that of EU-Vietnam FTA (EVFTA)

Source: HKTDC, 2019

Appendix 4. Consumer Behaviors

Cambodians share similar dietary habits with Thai, with rice as the basic food. Families and friends prefer to gather in coffee shops, thus coffee shops are prevalent in Cambodia. Each meal will cost USD5-8 for medium income people but most people visit local market and cook themselves.

TABLE a4-1 Consumer Behaviors

Food	<ul style="list-style-type: none"> Urban – people dine out and hang out more frequently with families and friends. Rural – cook meals at home, with ingredients from their own farms and livestock. Similar taste to Thai food but tends to be sweeter.
Fashion	<ul style="list-style-type: none"> The young generation in urban cities are familiar with foreign dressing styles because of the influence of TV series and the internet. Accessories used and hair style are an also mix of local and western cultures.
Where to buy	<ul style="list-style-type: none"> Middle to high income people are turning to shop at modern outlets because it is cleaner and more comfortable Lower income groups still prefer traditional markets because of its lower price level.
Shopping	<ul style="list-style-type: none"> Thai brands are perceived as having higher quality with more reasonable prices, compared to Chinese and Vietnam products. Higher income groups visit Thailand occasionally for shopping activities.

Source: KASIKORNBANK, 2018

Appendix 5. Infrastructure Overview

5.1. Infrastructure development in Cambodia

TABLE a5-1 Infrastructure Development

Overview	Cambodia's transportation system are constituted by roads, railways, inland waterways and aviation. And most of transportation depends on the road networks.
Road	Passenger transport in Cambodia largely relies on the road system. Now, many national road networks are under repair and construction. The road network currently extends approximately 44,709 km, containing national roads (5263km) and provincial roads (6441km), which are under management of the Ministry of Public Works and Transport (MPWT), and 33,005 km of tertiary roads are under the responsibility of the Ministry of Rural Development (MRD).
Railway	Railway transport is relatively weak due to years of neglect, limited repairment, inadequate maintenance, and wartime damage ²⁰ . Thus, this makes railway transport unattractive because of its low capacity and long transit time. The existing railway system in Cambodia contains two lines: the 264 km Southern Line (SL) from Phnom Penh to Sihanoukville City and the 336 km Northern Line (NL) from Phnom Penh to Poipet on the Thai border. However, the last 48 km of the NL from Sisophon to Poipet was entirely missing.
Water Transport	There are 2 major ports in Cambodia. Port in Sihanoukville is the only deep seaport. The port in Phnom Penh is Cambodia's important river port.
Aviation	There are 3 international airports in Cambodia, located in Phnom Penh, Siem Reap and Sihanoukville respectively. Only Phnom Penh airport can accommodate air cargoes. The government has initiated several plans for more airports and improving their capabilities.

Source: CDC; KASIKORNBANK, 2018

Appendix 6. Key Industries and Investment Opportunities

The Royal Government treats the industrial sector as a growth strategy priority to promote economic diversification, and effectuate profound structural transformation and improve competitiveness in the National Industrial Development Policy 2015-2025 (RGC, 2015). Cambodia's economic growth depends largely on the garment, tourism, construction and rice sectors, implying there is a need for industries' diversification and to encourage new sectors (RGC, 2015). The government offers attractive investment opportunities in the following 5 industries: Agriculture, Garment, Tourism, Construction and Logistics (KASIKORNBANK, 2018).

6.1. Agriculture

The agricultural sector is the foundation of Cambodia economy. Despite its declining importance relative to manufacturing and services, agriculture still employs around 40% of the workforce, and remains the heart of the Cambodian economy.

Agricultural products trade – especially with China that accounts for 27% of the total exports in 2018 - is supporting the local production. New agreements for the promotion of organic food and the rising demand for such products in ASEAN are expected to lead to further growth in the local food industry (ASEAN Briefing, 2019). The agriculture sector will be emerging for Chinese investments due to the Cambodia-China Free Trade Agreements (FTA) and the promotion of agricultural sector by the Cambodia government as elaborated in the National Strategic Development Plan 2019-2023 (RGC, 2019).

TABLE a6-1 Trade of Rice in Cambodia, 2015-2019

Rice Production and Exports/tons	2015	2016	2017	2018	2019
Total Paddy Rice	4,649,702	5,110,000	5,560,000	5,772,760	5,992,125
Surplus for Export					
Total Rice Surplus for Export	2,975,809	3,270,400	3,560,000	3,752,294	3,954,918
Total Export of Milled Rice	538,396	542,144	635,679	626,225	650,000

Unit: In Tons

Sources: Mekong Oryza, 2021

TABLE a6-2 Top countries Imported Cambodian Rice, 2017-2019

Year/tons	CHINA	FRA	NET	MAL	POL	UK
2017	199,857	77,363	27,175	38,360	44,023	26,775
2018	170,154	86,050	26,714	40,861	23,142	18,178
2019	232,593	81,905	21,390	36,397	13,871	12,701

Source: Mekong Oryza, 2021

FIGURE a6-1 Agricultural Clusters



Source: KASIKORNBANK, 2018

TABLE a6-3 Rationale and opportunities of agriculture

	Agricultural Inputs and Machinery	Mid-Downstream Supply Chain Process	Contract Farming
Rationale	<ul style="list-style-type: none"> Local farmers lack technology and equipment Efficiency and quality of harvest needed to be enhanced 	<ul style="list-style-type: none"> Most local agricultural activities are upstream in the supply chain. Mid-downstream processing is encouraged by the government. Export advantages (e.g. MFN and GSP) 	<ul style="list-style-type: none"> Local farmers have limited access to capital and market exposure, and are in need of technological upgrade. Availability of arable land
Opportunities	<ul style="list-style-type: none"> Market opportunities in: Advanced or second-hand machinery Equipments and tools Fertilizers and insecticides Seeds 	<ul style="list-style-type: none"> Investment opportunities in mid-downstream processing plants: <ul style="list-style-type: none"> ◇ rice milling ◇ food processing and packaging 	<ul style="list-style-type: none"> 2+3 contract farming: <ul style="list-style-type: none"> Investors supply capital, technology and market Farmers supply labor and land

Source: KASIKORNBANK, 2018

6.2. Garment

Garment is a major industry, accounting for 16% of the GDP and 80% of the total exports (ASEAN Briefing, 2019). The sector is granted with the preferential access to major foreign markets like the EU and US (ASEAN Briefing, 2019).

The garment industry further promoted in 2018 because of relocation of companies to Cambodia due to rising wages in China and several factory incidents in Bangladesh (ASEAN Briefing, 2019). In the first half of 2018, garment exports increased by 11%

(ASEAN Briefing, 2019). The EU is the largest importer of Cambodian garment products which accounts for 40% (ASEAN Briefing, 2019). Despite the challenge of upcoming partial termination of the country from the "Everything but Arms" (EBA) policy of the EU (the European Commission voted in early February 2020 to partially withdraw Cambodia's EBA access to EU because of human rights concern (in which Cambodia denied). The enforcement deadline is in August 2020, which represents about €1.1 billion (20 percent) of Cambodia's annual exports to the EU.

The garment sector remained an important driver of the economy in 2019. Despite the possible trade barriers of the EU market, the US market still account for 30 percent and the rising Chinese demand can still support the garment industry in Cambodia (ASEAN Briefing, 2019).

In 2019, a report from General Department of Customs and Excise of the Ministry of Economy and Finance said, Cambodia exported more than \$7.97 billion worth of garment, textile and footwear (GTF) products in the first nine months of the year (ODC, 2016). The US occupied \$2.5 billion of the exports and the EU \$2.4 billion – with UK's data is USD670 million, and Japan USD711 million, ASEAN member states USD121 million and other countries USD1.5 billion (ODC, 2016).

6.2.1. Rationale and opportunities of garment industry

TABLE a6-4 Rationale and Opportunities of Garment Industry

	Manufacturing Base	Raw Material Export Destination
Rationale	<ul style="list-style-type: none"> ▪ Youthful labor force with experience in apparel industry ▪ Export opportunities with trade incentives (MFN, GSP) 	<ul style="list-style-type: none"> ▪ Continuous growth in garment production and exports -> increasing demand for raw materials
Opportunities	<ul style="list-style-type: none"> ▪ Production of export-oriented garments and textile products 	<ul style="list-style-type: none"> ▪ Market opportunities for raw materials for garments

Source: KASIKORNBANK, 2018

6.2.2. Potential Challenges

Cambodia has a really limited pool of labor and lower production outputs but the government aims to change the situation all the time. Among 4 countries including Cambodia, Malaysia, Vietnam and Laos, the wage level in Cambodia is relatively high, which is USD190 in 2020, the same with Vietnam. The competitions among neighboring countries are still tense.

6.3. Tourism

Tourism has become one of the fastest growing sectors in Cambodia. In 2018 international tourist arrivals rose by 10.7% as visitors from China surging 70.0% after a 45.9% increase in 2017.

International tourist arrivals could be 8 million in 2027 from a forecast, promoting nearly USD7 billion consumption in Cambodia (KASIKORNBANK, 2018). Most popular destination for tourists are Phnom Penh, Siem Reap and Sihanoukville (KASIKORNBANK, 2018).

6.3.1. Tourist arrivals

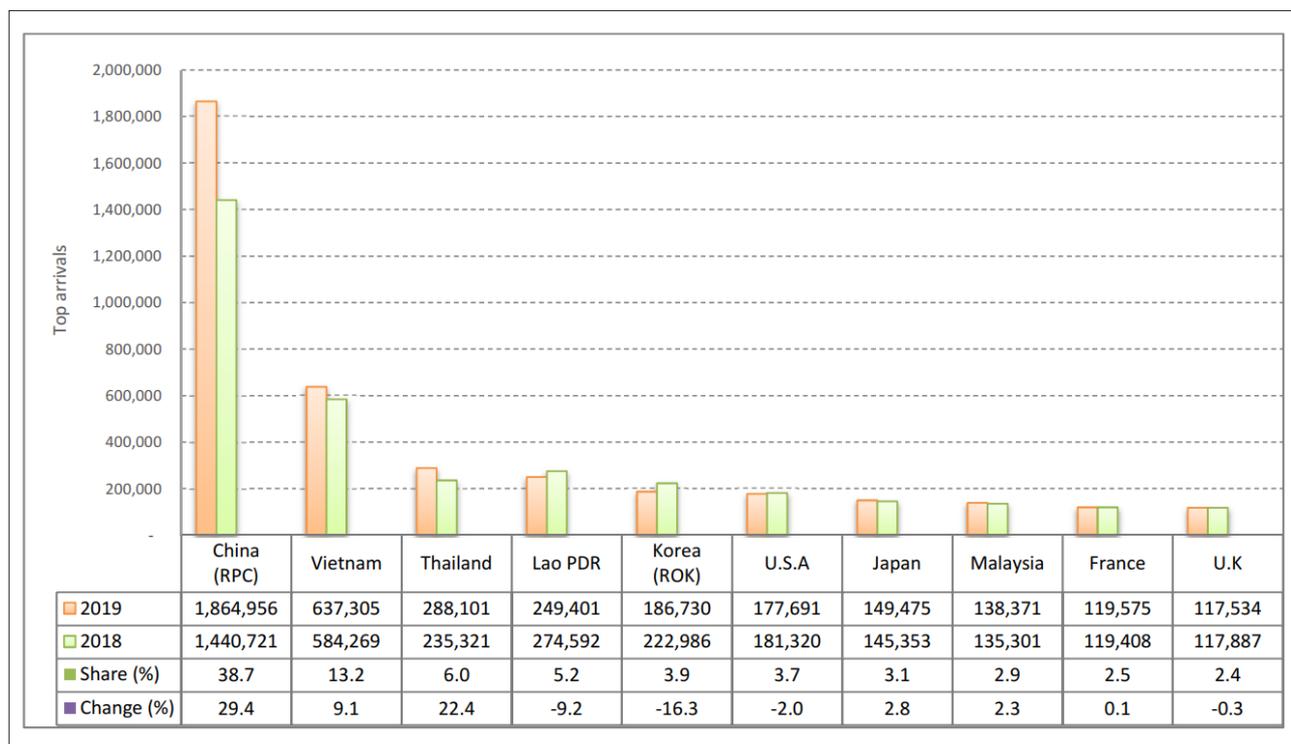
FIGURE a6-2 Tourist Arrivals to Cambodia

Months	2014	2015	2016	2017	2018	2019	Change (%)				
							15/14	16/15	17/16	18/17	2019*/18
Q1	1,267,922	1,307,836	1,342,477	1,502,896	1,711,253	1,877,853	3.1	2.6	11.9	13.9	9.7
Jan	442,045	460,577	466,086	532,206	596,241	647,206	4.2	1.2	14.2	12.0	8.5
Feb	425,801	430,207	448,468	493,316	542,937	597,483	1.0	4.2	10.0	10.1	10.0
Mar	400,076	417,052	427,923	477,374	572,075	633,164	4.2	2.6	11.6	19.8	10.7
Q2	933,446	994,154	1,018,455	1,159,783	1,290,407	1,460,621	6.5	2.4	13.9	11.3	13.2
Apr	332,690	361,139	367,684	412,925	463,423	537,656	8.6	1.8	12.3	12.2	16.0
May	300,302	314,748	320,601	368,809	419,171	472,952	4.8	1.9	15.0	13.7	12.8
Jun	300,454	318,267	330,170	378,049	407,813	450,013	5.9	3.7	14.5	7.9	10.3
Q3	998,690	1,044,880	1,147,483	1,250,082	1,374,373	1,475,832	4.6	9.8	8.9	9.9	7.4
Jul	340,091	364,325	395,761	446,627	454,056	502,421	7.1	8.6	12.9	1.7	10.7
Aug	347,211	366,096	406,214	427,224	494,043	519,502	5.4	11.0	5.2	15.6	5.2
Sep	311,388	314,459	345,508	376,231	426,274	453,909	1.0	9.9	8.9	13.3	6.5
Q4	1,302,717	1,428,361	1,503,297	1,689,396	1,825,044	0	9.6	5.2	12.4	8.0	8.0
Oct	390,637	408,922	414,077	417,039	453,370		4.7	1.3	0.7	8.7	
Nov	411,501	444,640	477,686	570,471	616,549		8.1	7.4	19.4	8.1	
Dec	500,579	574,799	611,534	701,886	755,125		14.8	6.4	14.8	7.6	
Total	4,502,775	4,775,231	5,011,712	5,602,157	6,201,077	4,814,306	6.1	5.0	11.8	10.7	10.0

Source: Ministry of Tourism of Cambodia, 2019.

6.3.2. Top source countries of tourists

FIGURE a6-3 Source Countries of Tourists



Source: Ministry of Tourism of Cambodia, 2019.

6.3.3. Rationale and opportunities of tourism industry

TABLE a6-5 Rationale and Opportunities of Tourism Industry

	Accommodation, Hotel, Resort, Restaurant	Tour Company, Holiday Package	Souvenirs	Training
Rationale	<ul style="list-style-type: none"> At present, Cambodia's average hotel occupancy rate is 68.9%, indicating that there is still room for growth Increasing tourist arrivals and spending 	<ul style="list-style-type: none"> Cambodia has rich cultural, historical and natural resources which are still unknown and unexplored 	<ul style="list-style-type: none"> Cambodia possesses a wide range of ancient arts, such as textiles, which have recently experienced revival thanks to tourists' attention. 	<ul style="list-style-type: none"> Still in lack of human resource with professional service experience and skills that meet international standards
Opportunities	<ul style="list-style-type: none"> Invest in hotels, resorts and guest houses or equivalent Operate medium to high end restaurants in potential tourist destinations 	<ul style="list-style-type: none"> Develop attractive ecotourism or cultural tourism packages Link tour packages with Hong Kong or other ASEAN tourist attractions 	<ul style="list-style-type: none"> Produce and market souvenirs made with local arts/ designs and materials 	<ul style="list-style-type: none"> Provide training services such as foreign languages (English and Chinese), hospitality and hotel management skills.

Source: KASIKORN BANK, 2018

6.4. Construction

Lots of foreign investors take part in construction projects in Cambodia, especially infrastructure construction. Currently, Cambodia repaired and extend the railway system, which ranges from Phnom Penh to Siem Reap all the way to the Vietnamese border in the other direction with Chinese financial support (Nordea Trade, 2020). Additional agreements with China contains an economic and technical cooperation pledge and a USD 65 million grant to improve the capacity of Preah Ket Mealea military hospital in Phnom Penh (Nordea Trade, 2020). The China National Heavy Machinery Corporation has also invested USD 1.4 billion in the Koh Kong province; which is expected to supply 30% of Cambodia's national power grid.

6.4.1. Construction projects in Cambodia

TABLE a6-6 Construction Projects

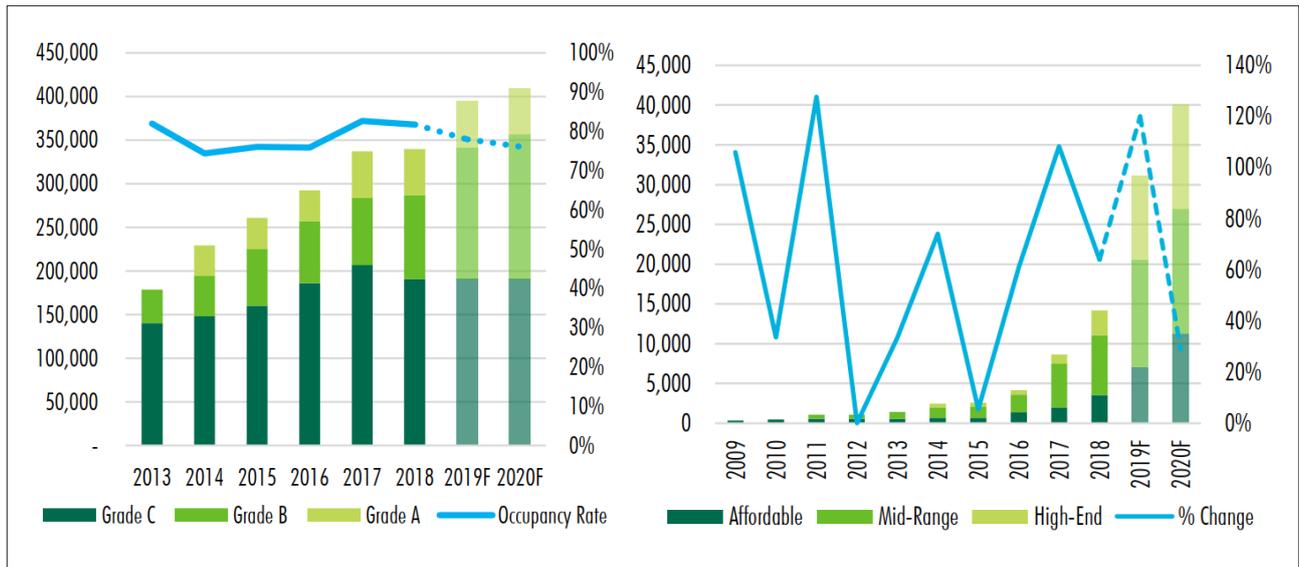
Construction projects	2016	2017	2018
Total value of approved construction projects	5,256,120	6,798,663	5,755,070
Construction materials imported	548,000	621,000	954,000

Unit: USD thousands

Source: Privacy Shield Framework, 2018

6.4.2. Phnom Penh centrally owned office/condominium supply

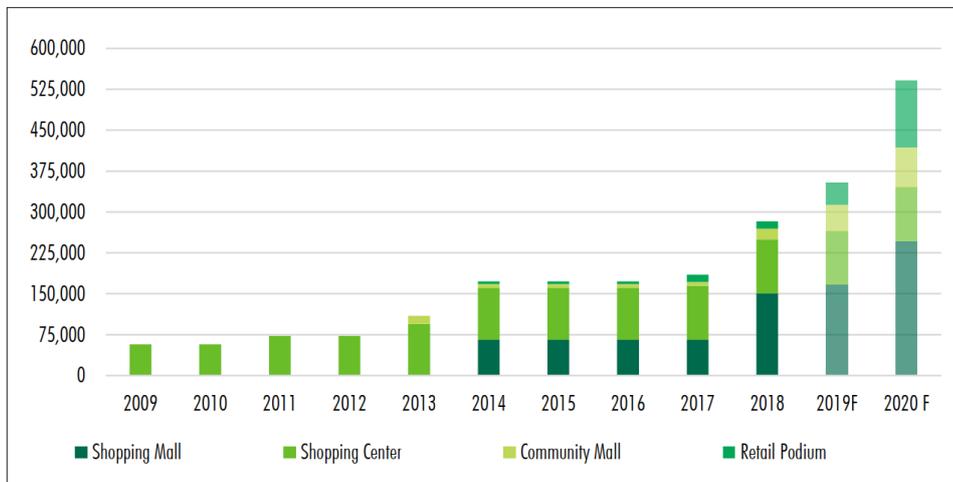
FIGURE a6-4 Centrally Owned Office/Condominium Supply



Source: CBRE Cambodia, 2019

6.4.3. Phnom Penh retail supply

FIGURE a6-5 Retail Supply



Source: CBRE Cambodia, 2019

6.4.4. Rationale and opportunities of construction

TABLE a6-7 Rationale and Opportunities of Construction

	Export Construction Materials and Furniture Products	Construction of Residential Apartments and Retail Outlets	Construction of Infrastructures
Rationale	<ul style="list-style-type: none"> Expansion of urban and sub-urban cities such as Phnom Penh, Siem Reap and Sihanoukville Demand for mid-to-high quality products 	<ul style="list-style-type: none"> Growth of real estate and retail sector owing to expanding middle class and number of foreign expats 	<ul style="list-style-type: none"> Cambodia is in the stage to improve its infrastructure such as roads, ports and airports, to sustain economic growth
Opportunities	<ul style="list-style-type: none"> Export construction materials such as articles of iron, steel and base metals, and cement Export fine-quality furnitures 	<ul style="list-style-type: none"> Develop real estate / property for sales Outsource contract from real estate developers Retail outlets 	<ul style="list-style-type: none"> Invest in infrastructure projects, such as roads, power plants and other facilities Consider adopting Public Private Partnership (PPP) model

Source: KASIKORNBANK, 2018

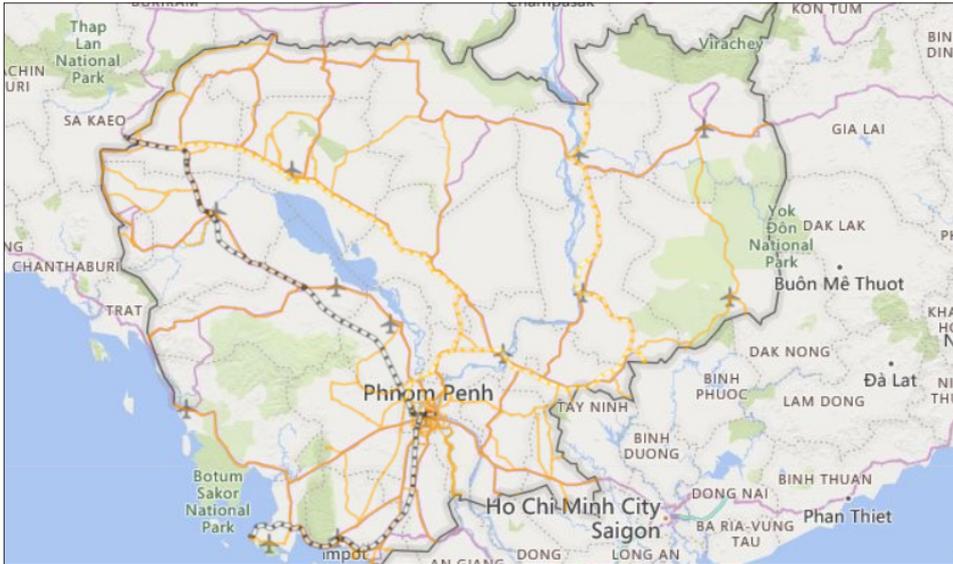
6.4.5. Potential challenges

The competition in construction industry became more tense because of large number of Chinese investors coming to Cambodia, especially in service sector and some mid-to-high value projects (KASIKORNBANK, 2018). Owing to the weak regulation system, and underdeveloped infrastructure network, investors may spend more in doing business. Last, there is a lack of skilled of labor in Cambodia (KASIKORNBANK, 2018).

6.5. Logistics

6.5.1. Logistics network in Cambodia

FIGURE a6-6 Logistics Network

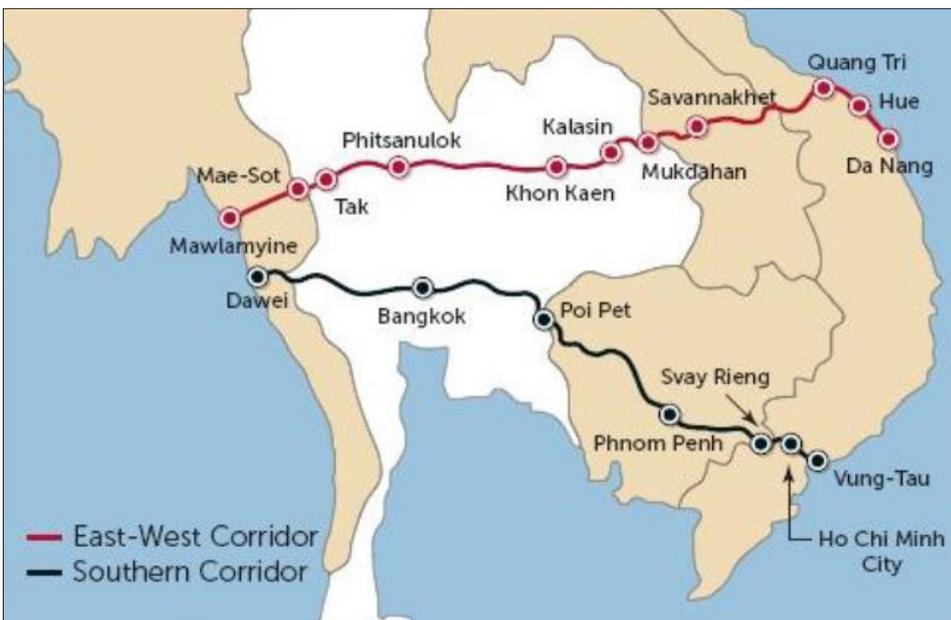


Source: Open Development Cambodia, 2021

Cambodia is potentially to be a supplier for two major economies in the Greater Mekong Subregion (GMS), Thailand and Vietnam, due to its strategic location (KASIKORNBANK, 2018).

6.5.2. Future GMS East-West and Southern Economic Corridors

FIGURE a6-7 Economic Corridors



Source: KASIKORNBANK, 2018

Cambodia's strategic location is important for regional trade and transportation. It is located between the two largest Greater Mekong Subregion economies, Thailand and Vietnam (KASIKORNBANK, 2018). Also, the road network in Cambodia is a part of, potentially, the most lucrative route in ASEAN - the Southern Economic Corridor (SEC). SEC links three key ASEAN cities (Bangkok, Phnom Penh and Ho Chi Minh City) and connects two international deep seaports - Saigon Port and Dawei deep seaport (KASIKORNBANK, 2018). The route would also significantly reduce the logistic cost as it cuts through the Malacca Strait. With young workforce and favourable investment incentives or duties' exemption, Cambodia is competitive to be the supplier for more developed countries (KASIKORNBANK, 2018).

6.5.3. Rationale and opportunities of logistics

TABLE a6-8 Rationale and Opportunities of Logistics

	Logistics Consultant	International and Regional Logistics Services	Warehouses and Distribution Centres
Rationale	<ul style="list-style-type: none"> Still in lack of professionals in logistics sectors Inadequate education / training in this area in Cambodia 	<ul style="list-style-type: none"> Limited infrastructures but considerable growth in containerized exports especially between Cambodia's neighboring countries 	<ul style="list-style-type: none"> Warehouse demand would increase in tandem with expanding trade volume
Opportunities	<ul style="list-style-type: none"> Bring knowhow in logistics management 	<ul style="list-style-type: none"> Explore opportunities to provide efficient and effective logistics services for regional and international trade activities 	<ul style="list-style-type: none"> Investment in warehouses / distribution centers, especially in main roads between Thailand and Vietnam

Source: KASIKORNBANK, 2018

Appendix 7. List of SEZs

TABLE a7-1 List of SEZs in Cambodia

Name	Land area in hectare	Capital	Company investor	Sub-decree No.	Date of sub-decree
Thary Kampong Cham SEZ	142.14	69,000,000	-	74	16 Jul 2007
Tai Seng Bavet SEZ	99	37,000,000	11	29	04 Apr 2007
Manhattan (Svay Reing) SEZ	157	15,000,000	18	135	29 Nov 2006
Goldfame Pak Shun SEZ	80	34,462,500	3	30	04 Apr 2007
Doung Chhiv Phnom Den SEZ	79	28,000,000	-	140	08 Dec 2006
D&M Bavet SEZ	117.95	52,266,800	-	-	-
Kampot SEZ	145	15,000,000	-	3	09 Jan 2007
Phnom Penh SEZ	350	68,000,000	37	33	19 Apr 2006

Name	Land area in hectare	Capital	Company investor	Sub-decree No.	Date of sub-decree
Poi Pet O'Neang SEZ	467	15,000,000	1	57	01 Jun 2006
Neang Kok Koh Kong SEZ	335.43	Unknown	2	159	26 Oct 2007
Suoy Chheng SEZ	100	14,000,000	-	-	-
Oknha Mong SEZ	100	40,107,100	-	-	-
Kampong Saom SEZ	255	190,000,000	-	-	-
P (SEZ) I C	107.55	70,000,000	-	-	-
Kiri Sakor Koh Kong SEZ	-	110,819,000	-	125	05 Sep 2008
S.N.C SEZ	150	14,000,000	-	-	-
Stung Hav SEZ	192	14,000,000	-	50	25 Mar 2005
Sihanoukville SEZ 1	178	100,000,000	2	113	25 Oct 2006
Sihanoukville SEZ 2	1113	320,000,000	18	166	17 Mar 2008
					<i>(updated to Jan 2021)</i>
Sihanoukville Port SEZ	70	34,000,000	1	147	02 Sep 2009
MDS Thmorda SEZ	2265	30,392,000	-	-	-
N.L.C SEZ	105	13,000,000	-	-	-
Try Pheap Ou Ya Dav SEZ	136	44,994,400	-	219	07 May 2013
Hi-Park SEZ	263.13	62,784,800	-	285	30 May 2013
Shandong Sunshell Svay Rieng SEZ	96.14	36,709,800	-	462	01 Jul 2013
Zhong Jian Jin Bian Jing Ji Te Qu SEZ	470.28	90,706,000	-	466	22 Jul 2013
Sanco Cambo SEZ	66.50	38,613,500	-	481	11 Sep 2013
Dragon King Bavet SEZ	106.50	40,488,000	1	190	25 Oct 2012
Sovannaphum SEZ	204.58	55,792,000	-	60	11 Feb 2014
Svay Rieng GIGA Resource SEZ	126.90	-	-	219	24 Jul 2014
KANDAL S.E.Z	105	84,739,200	-	-	-
H.K.T S.E.Z	345.20	48,358,800	-	189	25 Oct 2012
RATANA SEZ	615.62	172,867,000	-	-	-
Chhak Kampongsaom SEZ	185.66	-	-	53	29 Mar 2016
UBE Snoul SEZ	817.80	-	-	131	24 June 2016
Tian Rui Agricultural Trade SEZ	101.36	-	-	132	24 June 2016
Poipet PP SEZ	53.39	-	-	92	29 May 2017
Intervia Automobile Industry Complex SEZ	111.21	-	-	103	27 June 2017
Cambodia-Sino Metallic Material SEZ	55	-	-	145	01 Nov 2018
Cambodian Zhejiang Guoji SEZ	-	-	-	-	-
Sisit SEZ	2142.07	-	-	122	27 Aug 2019
CAM MJ Agricultural Park SEZ	99.31	-	-	159	25 Oct 2019
Ultrapower Technology SEZ	67.39	-	-	200	06 Dec 2019
Songoun Kandal Stung	50.16	-	-	47	03 April 2020
Kerry Worldbridge SEZ	63	100,000,000	-	-	-
Qi Lu Jian Pu Jay SEZ	178	1,000,000	-	-	-

Source: Open Development Cambodia, 2021b

Appendix 8. COVID-19 in Cambodia³

By Socheat Oum

Key figures (as of 21 January 2021)

- Cases: 453
- Death: 0
- Recovered: 396

(Source: Johns Hopkins University COVID-19 Data Repository)

Summary

Cambodia's responses to the COVID-19 pandemic have been well-informed, swift and decisive. Applauded by the WHO, the multiple strategies including cooperation with neighboring countries, travel restrictions, lockdown, legislative initiatives, financial subsidies to individuals, healthcare budget measures, and post-pandemic economic recovery plans have provided opportunities for strengthening community solidarity and mutual trust. The concerted efforts of individuals and their local communities are the keys to successful response to COVID-19.

Community leadership, with clearly defined goals and high public trust, represents the most significant cultural advantage of Cambodia over other countries in combating the pandemic. The spirits of self-reliance and mutual help were deeply instilled into the Cambodians by the traumatic, decade-long wars in the modern history of Cambodia. When it comes to responding to public health crises like COVID-19, cooperation among citizens, medical personnel and government is naturally and effectively formed. For instance, in April 2020, 90,000 Cambodian migrant workers returned home from Thailand where they had either lost their jobs, were fearful of the virus, or both. The threat of community infections, however, did not loom large because proactive measures were adopted to keep both communities and returning workers safe, such as recruitment of local community members to constantly check the health of their returned fellows. As a result, large-scale outbreaks were successfully prevented.

Another distinctive factor of low infection rate is the Cambodian living environment and mode of transportation. In urban areas, residents are scattered in small communities across the country. Private cars are the major means of transportation, lowering the chance of getting infected by public transportation. In rural areas, transportation is usually carried out by carts or bicycles without much need of inter-personal contacts.

Policies made by Prime Minister Hun Sen and the Ministry of Health based on professional medical advice served as the keys to curb COVID-19. Over US\$100 million was gathered for a super fund for hospital upgrade, equipment, drugs, and other benefits for frontline medical staff. Before June 2020, all COVID-19- positive patients, including foreigners, were offered with standard treatment free of charge. Though under tremendous pressure, the public health system did not only perform remarkably (low number of cases), but also it earned much praise and reputation, both locally and globally.

³ For full version, please refer to: Oum S., forthcoming, 'COVID-19 in Cambodia: Managing a Crisis with Limited Resources' in Li, C.L. (ed) *Facts and Analysis: Canvassing Covid-19 Responses*, City University of Hong Kong Press

Cambodia has shown resilience by utilizing support and voluntary donations from civil servants, private sectors, and international communities to stop the spread of the virus. The collective response of both the community and the government effectively safeguarded Cambodian's lives and made Cambodia stand out as one of the role models to the world.

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ABOUT CSHK PASS WORKSHOP SERIES AND CSHK

About CSHK PASS Workshop Series

The Research Centre for Sustainable Hong Kong (CSHK) of City University of Hong Kong is funded by the 'Professional Services Advancement Support Scheme' (PASS)⁴ of the Commerce and Economic Development Bureau, HKSAR Government to conduct a Project entitled 'Advancing Professional Development on Economic and Trade Cooperation Zones Along Belt and Road', with the objectives to enhance the understanding of Hong Kong professional services on Economic and Trade Cooperation Zones (ETCZs) along the Belt and Road countries, deepen the understanding of key stakeholders of ETCZs on the competitive edges of Hong Kong professional services and business sectors; and explore potential development opportunities via exchange of ideas and sharing of analyses.

From January 2021 to March 2022, the Project will organize 6 professional workshops and 2 symposia (opening and closing), inviting zone operators, local enterprises, professional service leaders, expert scholars and government officials as speakers to conduct comprehensive and in-depth sharing on opportunities, challenges and experiences of overseas development in 7 countries (Cambodia, Sri Lanka, Vietnam, Myanmar, Malaysia, Djibouti and Belarus) and their respective ETCZs. A tentative schedule is as follows:

Date (tentative)	Programme
January 2021	Opening Symposium
February 2021	Professional Training Workshop 1 – Cambodia
April 2021	Professional Training Workshop 2 – Sri Lanka
June 2021	Professional Training Workshop 3 – Vietnam
August 2021	Professional Training Workshop 4 – Myanmar
October 2021	Professional Training Workshop 5 – Malaysia
December 2021	Professional Training Workshop 6 – Belarus & Djibouti
March 2022	Closing Forum

Activities are all free-of-charge, and they will mainly be conducted in English⁵ to project a global orientation and facilitate participation of overseas stakeholders. Each participant will get a training pack containing country information and analysis for each professional training workshop. Investment / enterprises representatives,

4 Professional Services Advancement Support Scheme ("PASS") is set up to support Hong Kong's professional services sector to carry out worthwhile projects to spearhead pro-active outreaching promotion efforts and to improve service offerings. For more information about PASS, please refer to PASS website at: <https://www.pass.gov.hk/en/home/index.html>

5 In view of the COVID-19 pandemic, events would potentially be conducted online in webinar format.

representatives from professional service sector, scholars and students who are interested in understanding more about ETCZs are welcome to participate and interact to discover more opportunities for collaboration.

The Project is supported and collaborated by a number of professional bodies and business chambers in Hong Kong, including Certified Management Accountants, Australia (Hong Kong Branch), Hong Kong Chinese General Chamber of Commerce (CGCC), Hong Kong General Chamber of Commerce (HKGCC), Hong Kong Institute of Certified Public Accountants (HKICPA), Law Society of Hong Kong and The Society of Chinese Accountants and Auditors (SCAA) (names listed in alphabetical order). We thank Golden Resources Group and Red Circle Company Limited for sponsoring the Project generously. Our Supporting Organizations include Association of Women Accountants HK, Hong Kong Financial Services Development Council, Hong Kong Electronic Industries Association, Hong Kong Trade Development Council, Institute of China Studies of the Royal Academy of Cambodia (for Workshop 1 - Cambodia) and Supporting Units from City University of Hong Kong, including CityU Eminence Society, College of Business, CityU-TsinghuaU EMBA+MPA Programme, College of Engineering, College of Liberal Arts and Social Sciences, College of Science and School of Law.

Prof Linda Chelan Li, Professor at Department of Public Policy and Director of CSHK, is Project Co-Ordinator and Prof Phyllis Lai Lan Mo, Professor at Department of Accountancy, is Deputy Project Co-Ordinator. Project team members include Dr Linda Yin-nor Tjia, Assistant Professor at Department of Asian and International Studies and Dr Wilson Chan, Adjunct Professor at College of Business.

About Research Centre for Sustainable Hong Kong (CSHK)

The Research Centre for Sustainable Hong Kong (CSHK), established in June 2017, is an Applied Strategic Development Centre of City University of Hong Kong (CityU). Professor Linda Chelan Li, Professor of Political Science at Department of Public Policy, CityU, is the Director of CSHK. The mission of CSHK is to analyze and develop solutions to meet critical sustainability issues in Hong Kong from a multi-disciplinary perspective. Members of CSHK are from a wide range of disciplines, including public policy, philosophy, international relations, applied social studies, communication, law, economics and finance, accountancy, management science, civil engineering, biological engineering and environmental science.

CSHK houses the Sustainable Hong Kong Research Hub (SusHK Hub) and supports all the research and collaborative activities with stakeholders from different sectors and regions. Established by a multi-disciplinary research team based in CityU in November 2016, SusHK Hub is an open platform and network for facilitating synergies and collaborations of our members from the academia, industry, professional services and business sectors, as well as government. Currently, it has over 2,000 local and overseas hub members, and has been supporting our research work and events closely.

CSHK has recently completed a 3-year Special Public Policy Research (SPPR) project entitled "Hong Kong Professional Services in the Co-evolving Belt-Road Initiative: Innovative Agency for Sustainable Development" Project funded by Policy Innovation and Coordination Office (PICO), HKSARG [S2016.A1.009.16S]. In recognition of CSHK's research in B&R, CSHK is also awarded the Humanities and Social Sciences Prestigious Fellowship Scheme (HSSPFS) by UGC in 2019. A Chinese book entitled 《解構•倡議——專業服務與一帶一路》(Co-evolution of Hong Kong's Professional Services and the Belt and Road Initiative) was published in July 2019 by City University of Hong Kong Press, and *Facts and Analysis: Canvassing Covid-19 Responses*, is forthcoming in 2021.



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