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AN INVESTMENT GUIDE TO CAMBODIA

Opportunities and conditions
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Three good reasons to invest in Cambodia

- **Location, location, location!**

A small country of about 13 million people, Cambodia is located at the heart of what has been the most dynamic region of the world economy for the past several decades: South–East Asia. In 1999, Cambodia became a member of the Association of South-East Asian Nations (ASEAN), which groups 10 countries with a total population of about 550 million and a GDP of something under \$600 billion — at purchasing power parity, \$1.8 trillion. The ASEAN Free Trade Area (AFTA) will reduce most tariffs on Cambodia's exports to its neighbours to between 0 and 5% by 2010 (or earlier) and will abolish them altogether by 2018. The China–ASEAN Free Trade Area (CAFTA), to come into effect in 2010, will create a trading block of 1.7 billion people. Talks under way between India and ASEAN could create *another* one not much smaller. In addition, as an LDC, Cambodia has preferential access to some of the world's richest markets for a number of products.

- **An open economy**

Cambodia has one of the most open economies in what is a fairly open economic region. The *Index of Economic Freedom*, compiled annually by the Heritage Foundation in the United States, ranked Cambodia 35th among 170 countries in 2003. This puts it on a par with Japan, just ahead of Thailand (40th) and *well* ahead of several of its neighbours (Malaysia, 72nd; Indonesia, 99th; Viet Nam, 135th; and Lao People's Democratic Republic, 153rd). Among the factors the *Index* reflects are a good many of considerable interest to potential investors: the fiscal burden, regulatory barriers, labour market restrictions, trade policy. Cambodia is not without the problems of many a poor developing country (e.g. poor infrastructure) but at least where government policy is concerned, it can claim to offer a liberal welcome to investors. Among the world's LDCs covered by the *Index*, Cambodia ranks at the very top in market-friendliness.

- **Specific assets**

Tourism is the area in which Cambodia most wants to attract foreign investment. In this, it is hardly unique. Unlike most other countries, however, Cambodia has an astonishing cultural asset in the temples of the Angkor complex (see box III.2. on p. 37) The country is already poised to reach the 1-million-tourists mark in the next few years and the potential here may be huge.

An entirely different kind of asset is Cambodian labour. While it is recognized by both current investors and the Government that Cambodian workers are poorly trained, this is a remediable shortcoming, and nearly everyone agrees that they are willing and able to learn, and certainly hard-working. When you add that Cambodian wages are *half* of what they are in the lowest-cost parts of Thailand, it is clear that there is a winning combination here, as is evidenced by the extraordinary growth of the garments-for-export industry over the past decade.

The UNCTAD–ICC Series of Investment Guides

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- *An Investment Guide to Ethiopia*
- *Guide d'investissement au Mali*
- *An Investment Guide to Bangladesh*
- *An Investment Guide to Uganda*
- *An Investment Guide to Mozambique*
- *An Investment Guide to Nepal*
- *An Investment Guide to Cambodia*

*(The guides to Ethiopia and Mali were published in cooperation with PricewaterhouseCoopers.
An English version of the Mali guide is available on the Internet.)*

FORTHCOMING

- *An Investment Guide to Uganda (revised edition)*
- *Guide de l'investissement en Mauritanie*
- *An Investment Guide to Ethiopia (revised edition in new format)*
- *Guide de l'investissement au Mali (revised edition in new format)*

UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body. Its main goals are to maximize the trade, investment and development opportunities of developing countries, to help them face challenges arising from globalization, and to help them integrate into the world economy on an equitable basis. UNCTAD's membership comprises 190 States. Its secretariat is located in Geneva, Switzerland, and forms part of the United Nations Secretariat.

ICC

The International Chamber of Commerce (ICC) is the world business organization. It is the only body that speaks with authority on behalf of enterprises from all sectors in every part of the world, grouping together thousands of members, companies and associations from 130 countries. ICC promotes an open international trade and investment system and the market economy in the context of sustainable growth and development. It makes rules that govern the conduct of business across borders. Within a year of the creation of the United Nations it was granted consultative status at the highest level (category A) with the United Nations Economic and Social Council. This is now known as General Category consultative status.

Note

The term "country" as used in this study also refers, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

References to "dollars" (\$) are to United States dollars, unless otherwise indicated.

Contents

Three good reasons to invest in Cambodia	i
Preface	vi
Acknowledgements	vii
Note to the reader	vii
Executive summary	1
I. Introducing Cambodia	6
Country and people	6
History and government	6
Market size and access	9
Government priorities	10
II. The operating environment	13
Economic environment	13
Trade and investment	15
Infrastructure and utilities	18
The financial sector and business support services	23
Human resources	24
Taxation	25
The private sector in Cambodia	30
Investment climate: Key factors for foreign investors	31
III. Areas of opportunity	33
Priority sectors	33
IV. The regulatory framework	45
Legal and judicial system	45
Institutional framework	46
Entry and exit	50
Ownership and property	51
Performance requirements	51
Privatization, limitation and exclusion	53
Investment protection and standards of treatment	53
Exchanging and remitting funds	53
Competition and price policies	54
Fiscal and financial incentives	54
Trade	54
Real estate	55
V. Private-sector perceptions	57
Appendices	60
1. Priorities and restrictions	60
2. Major foreign investors	62
3. Sources of further information	68
4. List of public holidays in 2003	73
5. Privatization	74
6. Major laws and regulations affecting foreign investment	75
References	77

Preface

Foreign direct investment has come to be widely recognized as a major potential contributor to growth and development. It can bring capital, technology, management know-how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer-term commitment to the host economy.

An Investment Guide to Cambodia is the seventh concrete product of a collaborative venture by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC). Its objective is to bring together two parties with complementary interests: *companies* that seek new locations and *countries* that seek new investors. This is not always a straightforward exercise, for firms are driven by their global strategies as much as lured by specific opportunities, and countries have economic and social objectives that transcend attracting foreign investment.

The UNCTAD–ICC investment guides are thus properly seen as parts of a process, a long-term process at the heart of which is an ongoing *dialogue* between investors and Governments. The guides *themselves* are the product of a dialogue, including that occurring among and between the representatives of business and government during the workshops that precede the completion of the guides. It is our hope that the guides will in turn *contribute* to the dialogue, helping to strengthen and sustain it, for we are convinced that in the long run it is this alone that will create conditions increasingly conducive to greater flows of investment.



Rubens Ricupero
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Secretary-General
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The cooperation of the Council for the Development of Cambodia (CDC) and in particular its Secretary General, Sok Chenda Sophea, was essential to the success of this project, as was the interest shown by the Ministry of Commerce, specifically Minister Cham Prasidh and Secretary of State Sok Siphana. The International Business Club (IBC) of Cambodia helped ensure private-sector participation in the project, as did the Phnom Penh Chamber of Commerce (PPCC). Our thanks are owed to IBC president Bretton G. Sciaroni and PPCC president Sok Kong.

This guide was prepared, with the assistance of consultants and advisers both external and internal, by an UNCTAD–ICC project team led by Vishwas P. Govitrikar. Valuable input or feedback was provided by Ludger Odenthal, Ray Chew and Christopher Bruton. Administrative support was provided by Katia Vieu and Laura Giardini. The guide was designed and typeset by Nelson Vigneault. Karl P. Sauvant provided overall guidance.

Note to the reader

This booklet is published as part of the UNCTAD–ICC series of investment guides. The publications in this series are intended for the use of foreign investors who are largely unfamiliar with the countries covered. They are thus designed to offer *overviews* of potential locations for investment, rather than constitute exhaustive works of reference or provide detailed practical instruction. They do, however, offer pointers to sources of further information in the private as well as the public sector.

There are two other features of these publications that the reader will find worth noting. One is that they are third-party documents, intended to offer a balanced and objective account of investment conditions. Their principal advantage in drawing the attention of investors to the countries they cover is *credibility*. The other feature is that both their general structure and some of their specific content are the result of consultations with the private sector.

The executive summary is followed by a brief introductory chapter. Then come the three chapters that account for the bulk of the contents. “The operating environment” describes the general conditions in which investors must operate: macroeconomic conditions, infrastructure, taxation, human resources, and so forth. “Areas of opportunity” offers a description of areas of potential interest to foreign investors. “The regulatory framework” focuses on regulations governing investment and foreign direct investment in particular. The fifth and final chapter provides a summary of the perceptions of the private sector in the country, both foreign and domestic.

The primary source of further information for an investor wishing to explore investing in Cambodia is the Council for the Development of Cambodia (CDC) — see box on page 47. Contact details of selected sources of further information, including websites, are provided in appendix 3. Appendix 2 provides a list, including contact details, of some 60 major foreign investors in Cambodia.

Cambodia is a rapidly changing society that presents many opportunities for the prudent investor, tourism being only one of them. Although more progress still needs to be achieved in legal and judicial reform, foreign investors are convinced of the Royal Government's commitment to the reform process itself. The country's commitment to the market economy more broadly is strong enough to be specifically enshrined in the Constitution. We at the IBC look forward to a productive ongoing dialogue with the officials of the Royal Government, aimed at improving the investment climate still further.

Bretton G. Sciaroni
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