

Workshop and Government-level Consultation on Trade & Investment

(14 September 2006 at CDC, Cambodia)

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Presentation : Overview of the Current Investment Climate in Cambodia.

By : **H.E. Suon Sitthy**, Secretary General of Cambodian
Investment Board.

I- Investment Climate :

- Full peace in the whole country : no more opposition forces.
- Political stability.
- Sound macro economic environment : GDP Growth 6-7% / year;
exchange rate \cong 4,000 \rightarrow 4,100 riels/\$; inflation rate $<$ 5%
- Pro-business Government : 8 WG + GPSF to be held every 6 months
- Member of Asean & of other international organizations.
- Member of WTO : October 2004.
- Access to various international markets.
 - Ex : 38th AEM meeting in KL : To speed up :
 - AEC in 2015, instead of 2020.
 - AFTA + Japan.
 - AFTA + 3 (Japan - China - Korea).
 - AFTA + 6 (Japan - China - Korea - India - Australia - New Zealand).
- Establishment of SEZ.
- Bilateral Agreement on Protection and Encouragement of Investments with different countries :
 - . 18 : already signed
 - . 08 : in process.

II- Investment Priorities :

- 1- Agriculture & Agro-Industry : Industrial product using as raw material for processing industry; Organic product; Bio-fuels as alternative source of energy.
- 2- All kinds of physical Infrastructure : through PPI.
- 3- Power supply : especially Coal Power, Gas Power Hydro-Power etc...
- 4- Labor Intensive and export oriented industries.
- 5- Tourism and all tourism related activities.
- 6- Development of Human Resources.
- 7- Mining.

Ex : For the whole investment activities from 1994 until June 2006 :
Agriculture 21,5%; Industry 34%; Tourism 22,5%;
Infrastructure and Service 22%;

III- Legal Issues :

1- Investment Guarantee :

- No discrimination. Equal treatment of all investors regardless of their nationality (except for land ownership and some investment activities in Negative List).

- No nationalization adversely affecting investors' properties.
- No price control on investors' products or services
- No local participation requirement.

2- Investment Incentive :

- Import and export duty exemption.
- Profit tax exemption or tax holiday through the new formula :
Tax holiday = **Trigger period + 3 years + n**
(**n** to be determined in Yearly Financial Management Law)
- Corporate tax 20% after tax holiday.
- Free repatriation of dividend or other earning through Banking system.

IV- Institutional Issues :

1- Structure of CDC :

- All related Ministries - Institutions are as members. Phnom Penh Chamber of Commerce is also included.
- Chaired by Samdech PM and seconded by 3 vice-chairmen.
- 3 branches :
 - Cambodian Rehabilitation and Development Board "CRDB".
 - Cambodian Investment Board "CIB".
 - Cambodian Special Economic Zone Board "CSEZB".

2- Role of different branches :

- a- CRDB : In charge of Public Investment (All grant Aid coordination basing on both bilateral and multilateral agreement).
- b- CIB : In charge of Private Investment through 2 main mechanisms :
 - One Stop Service : for discussion on all new projects to be approved.
 - Inter ministerial meeting : for discussion on all import duty exemption, requested by companies.
- c- CSEZB : In charge of Special Economic Zone activities.

3- Length of Process :

- 2 steps : Conditional Registration Certificate "CRC" and Final Registration Certificate "FRC".
- "CRC" : Within 3 working days, after receipt of completed documents, as required, in which some conditions and requirements (approval, authorization, Licenses...) should be met.
- "FRC" : Within 28 working days, after the issuance of CRC.

This doesn't release QIPs from obtaining any other approvals specified in CRC. For the remaining, CIB staffs will act on behalf of the company to get it, subsequently.

4- Other legal framework to complete LOI and its regulations such as :

- Civil procedure code (2006)
- Law on Commercial Enterprise (2005)
- Sub Decree on Risk Management (2006)
- Law on Commercial Arbitration (2006)

Besides these above, some related laws have been expected to be promulgated soon, such as :

- Law on Amendment of labor law
- Law on Establishment of Commercial Court
- Law on Commercial contract
- Law on Securities and Exchange
- Law on Rules of Origin

V- Challenges to be faced :

A- At home :

- 1- Too many strikes
- 2- Production & export cost are still not competitive, due to :
 - . High utilities cost
 - . Lacking of local supplies of raw materials and accessories
 - . High shipping cost
 - . High price of electricity
- 3- Misunderstanding between “Night shift” and “Overtime” lead to conflict, often.

B- Abroad :

- 1- Expiration of US quota for Cambodia, after 2004.
- 2- Vietnam Accession to be member of WTO, in late 2006 (Nov. 2006).
- 3- Safeguard Measures by US + EU against China, to be released in 2008.

VI- Trade Facilitation :

- 1- Removal of all unnecessary administrative procedures and all unofficial fees.
 - 2- Investment Approval :
 - a- Routine case such as : Garment - footwear - supporting industries - hotel - projects already approved by the Government and any other investment projects not eligible for incentives but only to get Investment Guarantee will submit to H.E S^r. Minister, Minister of Commerce and V.C of CDC for Final Consideration.
 - b- Projects related to article 11 of sub-Decree 147 should submit to “One Stop Service” and Final Consideration belong to the Chairman of CDC.
 - c- Investment Capital less than 2 million USD → to be decided by competent authorities at provincial and municipal level.
 - 3- Single Administrative Document “SAD” through ASYCUDA :
 - a- Single Inspection : same document, same time and same place through joint inspection.
 - b- Additional appropriate scanners, at all international entry checkpoints : Not yet.
 - c- Random checking basis.
 - d- Risk management strategy.
 - ex : ACMECS :
 - One stop service at border checkpoint.
 - Tourism Cooperation sector.
 - Single Visa for package tourism.
- ✧ Single window can start, at Sihanoukville Port, as Pilot Project, by December 2006.
- ✧ DSS “Duty Suspension Scheme”: to speed up all custom clearance procedures, especially on textile Apparels.

Note : Trade Facilitation aims not only at speeding up the process, but also, at achieving :

- Good quality of product.
- Competitive price.
- Delivery on time.

VII- How to attract Japanese FDIs :

- Impediments : complicated administrative procedure, Overlapping duties,
Slow approval process, custom clearance delay - lack of SEZ.
- Economic Policy Support.

Conclusion : Through the **Goodwill** and very active participation from all stakeholders by phasing out all conditions considered as impediments, strengthening and improving Trade Facilitation, We can reach our goal in attracting Japanese FDI into Cambodia.

Thank you.
