

# Cambodia Development Watch

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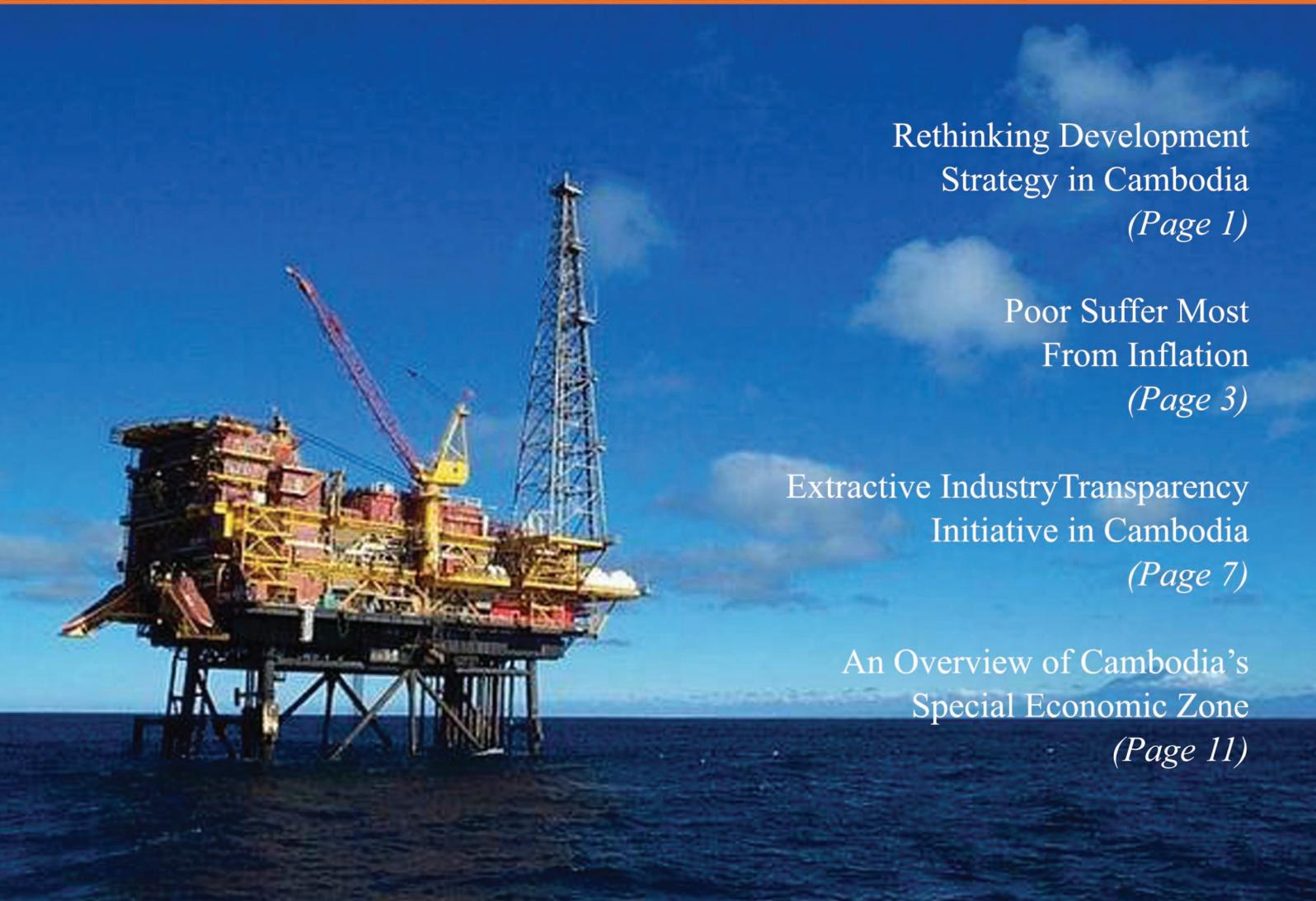


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Phnom Penh, Cambodia

# Rethinking Development Strategy in Cambodia <sup>1</sup>

## INTRODUCTION

The National Strategic Development Plan 2006-10 is a government's policy document which is considered as the national poverty reduction strategy in Cambodia. It is a tool to help guide both the government and the development partners to efficiently and effectively direct their focus at pushing economic growth and alleviating the poverty. Recently, the Cambodia's economic performance has been high. The average growth remains at 11.4 percent per annum<sup>2</sup> over the last three years.

Cambodia is a foreign aid-dependency country, with nearly one third of its national budget coming from official development assistance. Since 1992, donors have provided around US\$6,500 million through development projects for the sake to benefit the poor and bring them out of poverty. Of this development aid, nearly 25 percent was spent in education and health sectors, 21 percent in rural development, 18 percent on governance and administration, and 7 percent in agriculture sector<sup>3</sup>.

With national plan and development aid, it is hoped that the implementation would really help to benefit the poor.

## POVERTY IN CAMBODIA REDUCES TOO SLOW AND POVERTY INCREASES IN THE PLATEAU/MOUNTAIN REGIONS

While the Poverty Assessment<sup>4</sup> in 2006 notes Cambodia's success in bringing the poverty rate down, it also draws the attention to the fact that poverty has reduced only slowly in Cambodia. Where Cambodia's poverty was reduced by 11 percent in ten years, Vietnam managed to reduce poverty by almost 30 percent during the same amount of time, which is three times as fast!

When focusing on Cambodia, the Poverty Assessment points to the phenomenon that poverty is concentrated in rural areas. It reveals that 91 percent of the poor are living in rural areas. Furthermore, it is shown that while poverty has reduced in most rural areas, the plateau/mountain region experienced a worsening of the situation since the poverty rate has increased from 40% in 1993/4 to 58% in 2004 (though the statistic was not significant). (WB, 2006, p.28)

The recently published Moving Out of Poverty Study (MOPS) by CDRI confirms that, Cambodia's economic growth is not enjoyed by everybody. The MOPS showed that, 22 percent of the surveyed households fell into poverty between 2001 and 2004 and that 26 percent managed to move out of poverty during this period. This poverty dynamic should receive strong attention from politicians and policy-makers to rethink about their strategies

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<sup>2</sup> Cambodia Sharing Growth: Equity and Development Report (World Bank, 2007)

<sup>3</sup> The Cambodia Aid Effectiveness Report 2007 (The Council for Development of Cambodia, 2007)

<sup>4</sup> Cambodia: Halving Poverty by 2015? (World Bank, 2006)

for better poverty reduction effort. The efforts should focus on policies that promote more people to move out of poverty and prevent these people from falling back into poverty. Another important finding of the MOPS is that three of the nine studied villages experienced poverty increase and suffered from reducing food consumption between 2001 and 2004. This phenomenon arises in communities depending substantially on fisheries and forests for their main income sources.

### **INEQUALITY IS INCREASING BETWEEN THE POOR AND THE RICH**

As shown by the recent inequality report by the World Bank<sup>5</sup> the per capita consumption has generally improved over the last ten years for all Cambodians. However, the increase of the poor's consumption is small compared to that of the rich. Between 1994 and 2004, the per capita consumption of the poorest has risen just 8 percent while the richest part of the population increased its consumption by 45 percent. The gap between the haves and the haves-not is widening. While most of the poor are getting richer, their living standards have improved at a much slower rate than those of the rich.

Inequality of income and consumption distribution has been widening in Cambodia. The Gini-coefficient is a measure for this and has noticeably risen from 0.35 in 1993/4 to 0.40 in 2004. This means the fruits of development are generally less accessible to the poor than they are to the rich. It is interesting to see that inequality in the urban areas has remained the same (while Phnom Penh has become more equal), while inequality has risen a lot in the rural areas. In the rural areas, the Gini coefficient rose from 0.27 in 1994 to 0.33 in 2004. This finding supports the idea that the fruit of development growth is not enjoyed by the poor.

The MOPS also looks at inequality and their findings are that both consumption and income of rich households increased more than the poor's between 2001 and 2004.

### **CONCLUSION**

Based on the results from the ground highlighted by the Poverty Assessment and the Moving out of poverty study, it is found that the poverty has been reduced unevenly and that the current pattern of economic growth is benefiting the already rich. This poses a real challenge for the implementation of Government's National Strategic Development Plan which has the objective of reducing poverty in the fastest possible manner. The evidence provided by CDRI's MOPS, and the two recent World Bank studies can be summarized as follows:

- The Government should do more on reducing poverty in the rural areas;
- Policies need to be designed in such a way that they ensure that economic growth starts to benefit those individuals who are currently lagging behind.
- Inequality is rising in rural areas where Government's action is needed to address the issue.

In short, this calls for more well designed interventions that address the issues beyond those currently outlined in the NSDP which contain many broad policy statements without revealing how the issues will be addressed. According to the NSDP, an updated version was expected in June 2006. However the version has not been produced yet. Therefore, we urge the Royal Government to address these issues in the upcoming Mid Term Review.

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<sup>5</sup> Cambodia Sharing Growth: Equity and Development Report (World Bank 2007)

## Poor Suffer Most From Inflation<sup>6</sup>

### Introduction

*Inflation* is the tendency of prices to increase over time. The level of inflation is usually measured by monitoring the prices of a large number of goods that are purchased by a "typical consumer". In Cambodia, the National Institute of Statistics (NIS) publishes on a monthly basis the *consumer price index* (CPI) for Phnom Penh which follows prices of: different foods, drinks, clothing, water, electricity, fuel, oil, medical care, etc. In Cambodia some prices have been rising rapidly in recent years (such as fuel and fish), while others have remained more or less stable (such as tobacco and clothing).

Increases in prices affect consumers directly, and since different people consume different goods, some will lose more than others. If the changes in prices make the poor lose relative to the rich, then this is a point of concern. This is especially important since inflation is an economic factor that can, at least to some extent, be influenced by government policy. If inflation turns out to affect the poor more than the rich, it is even more important that the government focuses on controlling the inflation, by keeping it low and stable.

This article examines whether the price increases between 2001 and 2007 have affected the poor more than the rich. Data used in the article to determine the consumption patterns of the poor relative to the rich comes from Cambodian Socio Economic Survey (CSES 2003-04), while all price data are taken from the monthly CPI reports.

### Consumption Patterns

In general the poor spend a larger proportion of their expenditure on necessities relative to the rich. This implies that if the prices on necessities increase more than prices on luxuries the poor will lose relative to the rich. However, to investigate if the inflation has actually been worse for the poor in Cambodia over the previous years, consumption patterns for different groups will be examined.

Table 2 at the end of the article shows the expenditure share for the 20 percent poorest Cambodians, the next poorest 20 percent, the middle group, the next richest 20 percent,



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<sup>6</sup>Author: Sara Thea von Zernichow Ullring in cooperation with NGO Forum on Cambodia. Based on dissertation for Master's degree in Development Economics, October 2007, Lancaster University, United Kingdom. For more information, enquiries or the complete dissertation contact: [w9j@storebrand.com](mailto:w9j@storebrand.com)

and the richest 20 percent. Data in table 2 illustrates that the poor spend a larger share of their total expenditure on basic food, and this share decreases nearly proportionally with wealth. Table 1 below confirms this and shows that the poor spend a large share (82.7 percent) of their total expenditure food and beverages, while this share is only 53.5 percent for the richest 20 percent.

**Table 1: Share of total consumption that is spent on food & beverages, by quintile**

Poorest	Next poorest	Middle	Next richest	Richest
82.7 %	79.7 %	73.9 %	66.0 %	53.5 %

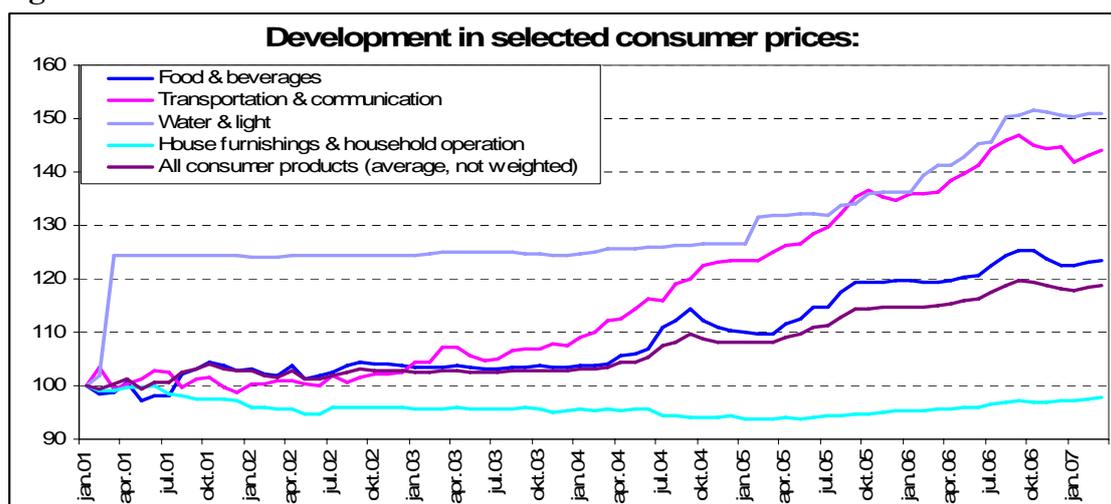
*Source: Cambodia Socio-Economic Survey 2003-2004*

Other significant differences between the poor and the rich, are that while the poor spend a larger proportion of their total expenditure on water & light, the rich spend a larger proportion on house furnishings & household operation and on transportation & communication. For these findings to help us understand which groups that have gained and lost relatively more from inflation in Cambodia, the price increase on these specific categories are analysed below.

### Development in Consumer Prices

Using data from The National Institute of Statistics (NIS) in Cambodia for the period from January 2001 to March 2007, the price increase in some selected categories was analysed. Figure 1 shows the price development on 4 categories of goods where the consumption pattern was most unequal between the poor and the rich, and compares this with the average price increase for all goods:

**Figure 1:**

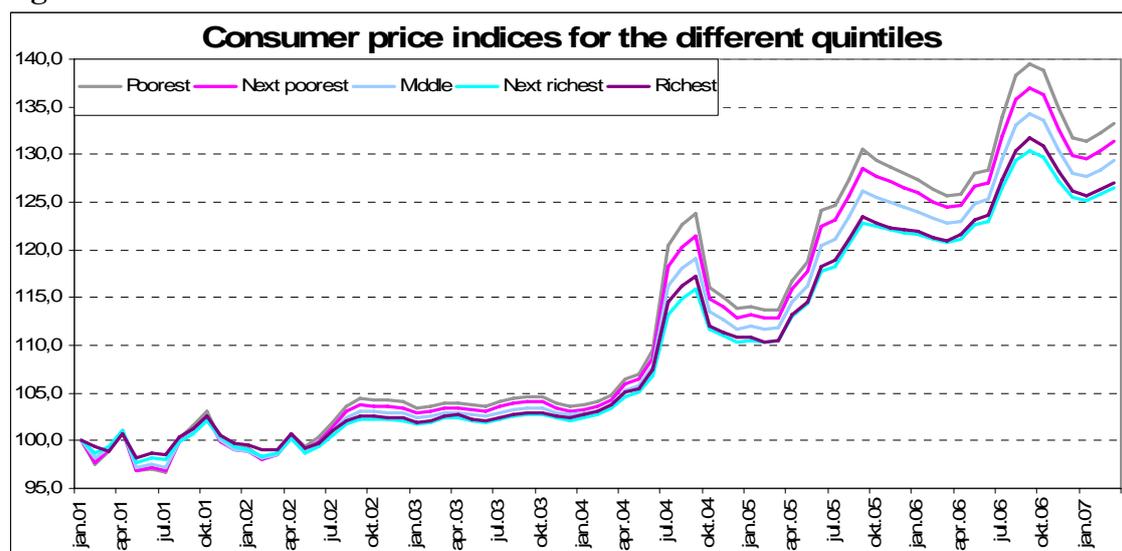


*Source: The National Institute of Statistics (NIS) in Cambodia, and Cambodia Socio-Economic Survey 2003-2004*

The graph tells us that the prices on food & beverages, transportation & communication and water & light have increased more than the average (presented in all consumer products) in the period from 2001 to 2007. Since the poor spend relatively more on food &

beverages and water & light, and these products have increased more than the average, it indicates that the poor have been harder affected by inflation in this period. The richer group has lost from the strong increase in the prices on transportation and communication, but have gained from the decrease in the prices on house furnishing & household operation. However, figure 1 does not prove which group has gained and which group has lost the most over this period. To be able to evaluate this, separate consumer price indices were constructed for each of the quintiles. This was done by weighting the prices for each of the categories of goods with the expenditure weight for each consumer group (from Table 1). Figure 2 presents the result:

**Figure 2:**



**Source:** The National Institute of Statistics (NIS) in Cambodia

Figure 2 presents consumer price indices for the five different groups. The graph implies that the trend over the period is that the poor have been more hurt by inflation than the rich, and this trend looks systematic for all groups. From January 2001 to June 2004 the CPIs for all groups develop equally and inflation was relatively low and stable. In June 2004 the prices started to increase faster. This increase in prices was stronger for the poor than for the rich, and the period from June 2004 to March 2007 was characterised by stronger and more fluctuating price increases. Since the largest difference between the groups is when prices peak, it appears as if in periods with strong inflation, the poor lose more relative to the rich compared to periods with low inflation. This indicates that not only are the poor harder hit by inflation, it is also when the inflation is strongest that they lose the most.

## Conclusions

In this analysis it was found that the poor have been harder affected by inflation. This is a problem since the poor by definition are those that initially have the least and therefore will be most sensitive towards price changes. The majority of the consumption of the poor was on food products, and the majority of the poor in Cambodia are farmers from rural areas. It might therefore be the case that for farmers selling their produce, the higher prices will raise their income, which reduces the impact from inflation. This is an interesting theory that deserves more attention and research. Further, an additional effect from inflation is that it increases uncertainty; since it was found that the poor has experienced more inflation, it might also be the case that inflation has increases uncertainty for the poor.

The poor in Cambodia is a group which is struggling to make ends meet, and are therefore extra sensitive to external factors like inflation that can hurt their vulnerable consumption. Since inflation is, at least partly, a result of government policy, it is important that one understands the consequences of the policy imposed and which effect it potentially can have on the poor. This analysis indicates that decision makers in Cambodia should be cautious with policies that can increase inflation, since it seems like it is the most vulnerable group, the poor, that gets hardest punished when prices do increase. This point deserves serious attention given the expected future inflow of revenues from oil, gas, and mining which tend to increase the overall level of inflation in an economy.

**Table 2: Shares per expenditure group, by quintile**

	Quintile				
	Poorest	Next poorest	Middle	Next richest	Richest
Basic food	32.4%	31.2%	26.1%	19.3%	7.1%
Meat and poultry	8.5%	9.7%	10.1%	10.0%	11.2%
Fish	21.6%	18.8%	16.3%	12.3%	13.8%
Eggs	1.5%	1.2%	1.0%	0.9%	0.8%
Dairy products	0.1%	0.1%	0.2%	0.3%	0.3%
Fats	0.7%	0.6%	0.6%	0.6%	0.3%
Fruits	1.9%	2.0%	2.5%	3.4%	3.6%
Vegetables	8.0%	7.2%	6.6%	5.8%	4.6%
Sugar, salt, spices and seasoning	4.7%	4.4%	4.5%	4.6%	5.6%
Coffee, cocoa	0.1%	0.1%	0.1%	0.1%	0.1%
Other food products- Ice	0.1%	0.1%	0.2%	0.6%	0.9%
Food away from home	2.7%	3.6%	4.9%	7.0%	3.7%
Beverages-Non-alcoholic	0.1%	0.1%	0.2%	0.4%	0.5%
Beverages- Alcoholic	0.4%	0.5%	0.7%	0.7%	1.0%
Tobacco	1.6%	1.7%	1.7%	1.5%	2.6%
Clothing	0.4%	0.5%	0.9%	1.1%	2.7%
Footwear	0.1%	0.1%	0.2%	0.2%	1.0%
Rent	0.0%	0.0%	0.1%	0.1%	0.1%
House maintenance and repairs	0.1%	0.2%	0.5%	1.1%	2.9%
Water and light	8.8%	8.1%	7.1%	5.8%	2.2%
House furnishings and household Operation	2.1%	2.8%	4.3%	6.9%	12.6%
Medical care	1.6%	1.8%	2.4%	2.9%	2.3%
Transportation and communication	0.6%	1.7%	3.9%	7.7%	12.4%
Recreation	1.6%	2.7%	4.3%	5.5%	4.4%
Education	0.2%	0.2%	0.4%	0.5%	0.5%
Personal care and effects	0.3%	0.3%	0.4%	0.6%	2.7%
<b><i>TOTAL</i></b>	<b><i>100%</i></b>	<b><i>100%</i></b>	<b><i>100%</i></b>	<b><i>100%</i></b>	<b><i>100%</i></b>

Source: Cambodia Socio-Economic Survey 2003-2004

## Extractive Industry Transparency Initiative in Cambodia<sup>7</sup>

### Resource Revenues: To Manage or not to Manage?

In a recent book ‘The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It’ Paul Collier, a Professor of Economics at Oxford University, writes that one of the binding poverty traps for vulnerable poor countries is the ‘Resource Trap’. This is where natural resources, particularly oil and gas, produce such large amounts of revenue in short periods of time that countries with weak economic management and institutions, inadequate laws and regulations, and corrupt governance are particularly vulnerable to mismanage and squander the revenues from oil, gas and the mining sector. To escape resource dependency, and the subsequent economic and social curse from resource revenues (The Resource Curse / Dutch Disease) Paul Collier suggests the best alternative is to enact support mechanisms for good resource revenue management through Laws and Charters.

Collier suggests five steps in the development process that could benefit greatly from Laws and Charters to help avoid the resource curse.

1. A transparent charter around how contracts are tendered for and awarded by the government to extraction companies.
2. Countries should not only bear the economic risk of poor deals with corporations. Particularly, with fluctuations in resource revenues due to boom-bust cycles. There should be an agreement, or international charter, that insists that corporations undertake to provide a set quantity of resource at the world price averaged over several years, and thus stabilize revenue payments.
3. Make all payments of revenue transparent. This is the focus of the Extractive Industries Transparency Initiative (EITI).
4. Transparency of public expenditure, for which the campaigns such as Publish What You Pay is promoting on top of transparency of revenue payments – they promote mandatory disclosure rather than voluntary such as with EITI.
5. Smoothing out public spending in the face of revenue fluctuations – through such mechanisms as independently managed off-shore development or stabilization funds.

Of these five steps, Cambodia is giving some attention to Step 3, the Extractive Industries Transparency Initiative (EITI).

### What is EITI?

Launched in 2002, the Extractive Industry Transparency Initiative (EITI) aims to improve transparency surrounding revenues generated from extractive industries. Through a multi-stakeholder approach, which includes national governments, companies, civil society, and international organizations, EITI seeks to create a voluntary coalition willing to increase transparency through the disclosure of payments made by companies to government and receipted against revenues received by government.

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So far, fifteen countries have committed to implement EITI, though their level of support and implementation tends to vary. In addition to the fifteen EITI implementing countries, a number of companies, civil society groups, and international organizations have pledged their support to EITI, including groups with interests in Cambodia, such as BHP-Billiton, ChevronTexaco, TOTAL, The World Bank, and The Open Society Institute. <http://www.eitransparency.org/>

### Steps to Implement EITI

Implementation of EITI includes the following steps according to EITI criteria.

- A. A host government *signs up*, issuing a public statement committing to the implementation of EITI, appointing an implementation leader, and creating and distributing a detailed workplan.
- B. In the *preparation* phase, the host government must engage all stakeholders, agree to reporting templates, and ensure the full participation of companies, while both companies and the host government must undertake a proper audit.
- C. Next, companies must *disclose* payments made to the host government and the host government must disclose its revenues to the EITI administrator, who ensures reconciliation of differences between the figures. An independent auditor is often assigned to this task.
- D. After the EITI report is *disseminated* to the public, the host government is eligible to be *validated* as an EITI compliant country.

If implemented fully and effectively EITI can have a definite and positive impact on the host government's transparency and accountability. The successful implementation of EITI can also improve investment climate and encourage additional financial and regulatory reforms.

#### **EITI Principles**

1. *We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.*
2. *We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.*
3. *We recognize that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.*
4. *We recognize that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.*
5. *We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.*
6. *We recognize that achievement of greater transparency must be set in the context of respect for contracts and laws.*
7. *We recognize the enhanced environment for domestic and foreign direct investment that financial transparency may bring.*
8. *We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.*
9. *We are committed to encouraging high standards of transparency and accountability in public life, government operations and in business,*
10. *We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.*
11. *We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.*
12. *In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors, and non-governmental organisations.*

That said, EITI faces significant obstacles if it is implemented in the absence of other safeguards. For example, EITI does not account for either the contracting procedures associated with the extractive industry or the manner in which revenues are used. In addition, because EITI is a voluntary process, effective implementation relies on the existence of political will within the host government, a condition that often does not exist in the nations in which initiatives such as EITI are most needed. Moreover, the voluntary nature of EITI may encourage nations to commit to the EITI process without any intention of actually implementing EITI criteria.

### Cambodia's Interest in EITI

Cambodia is still some time off extracting oil, gas or minerals of any significant scale that will bring in significant revenues. Most conservative estimates suggest that sometime around 2012 there may be oil revenues. Minerals may be added sometime around 2015. Therefore, if Cambodia moves to put into place the right systems and mechanisms to manage these pending revenues then now is a good time.

EITI has already been proposed through the World Bank led Public Finance Reform Program (PFRP). A 15 million USD Poverty Reduction and Growth Operation component was signed with the Ministry of Economy and Finance on June 18, 2007, which includes:

- the setting up of an inter-ministerial EITI working group under the PFMRP which will make a recommendations to the Royal Government of Cambodia (RGC) on the endorsement of EITI;
- the RGC and the World Bank sign an MOU on EITI designed and implemented in context of the PFMRP; and
- the RGC begins implementation of EITI as per the MOU between the RGC and the World Bank

This is a positive initiative for Cambodia. It is hoped by mid-2008 these three steps are fulfilled. At this current time, negotiation for the setting up of the inter-ministerial EITI working group is well underway.

#### ***EITI Criteria***

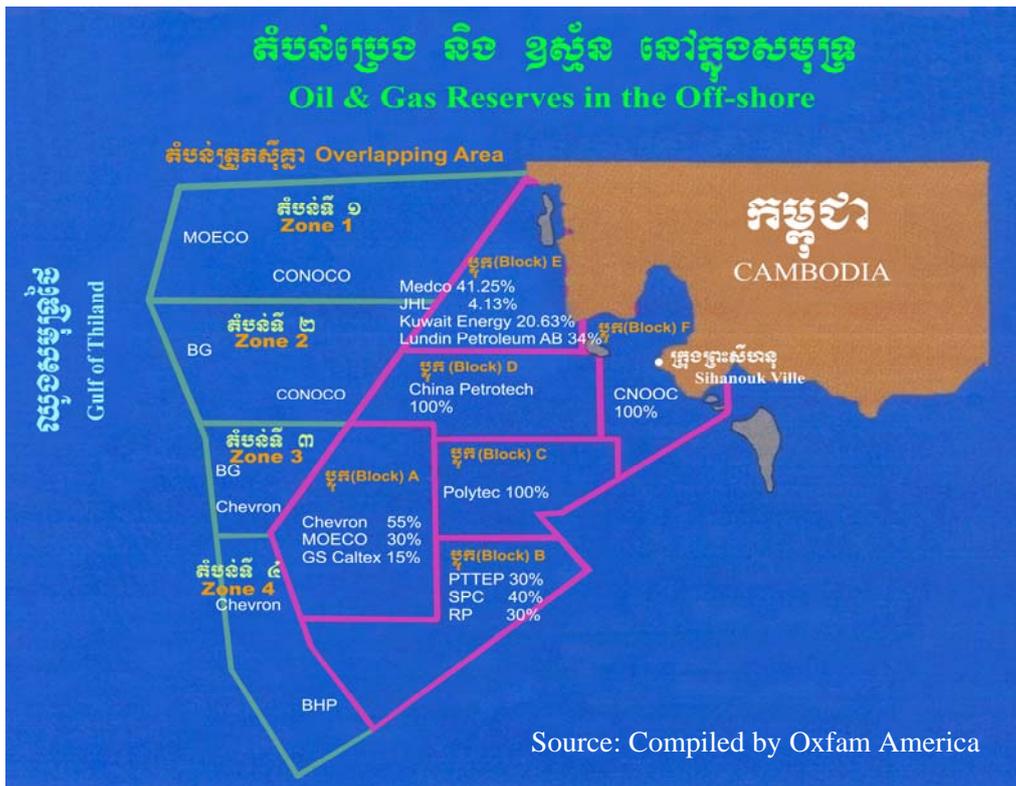
1. *Regular publication of all material oil, gas and mining payments by companies to governments ("payments") and all material revenues received by governments from oil, gas and mining companies ("revenues") to a wide audience in a publicly accessible, comprehensive and comprehensible manner.*
2. *Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.*
3. *Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified.*
4. *This approach is extended to all companies including state-owned enterprises*
5. *Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.*
6. *A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.*

**The Role of Civil Society in EITI**

Part of the EITI implementation criteria includes:

- Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate

This means that Civil Society should be involved right from the beginning of the debate through to the implementation and monitoring. Importantly, the participation of civil society representatives is mandatory in the setting up of a multi-stakeholder group to oversee EITI implementation.



Despite these conditions, civil society is often neglected or not regarded as key by EITI governments. They have not had a meaningful role in public debate, they have not been allowed to nominate their representative on the multi-stakeholder group, and they have a limited role in monitoring EITI with most information kept ‘in-house’ with government and companies.

In Cambodia, the initial process for EITI has begun, but with very little civil society input. This is partly due to weak civil society knowledge around resource revenue management, the lack of social movement around these issues, and the belief by multi-lateral and bilateral agencies that EITI is best initiated at ‘higher levels’. However, this may be changing. A civil society movement has started around resource revenue management issues under a discussion title ‘The Extractive Industries Transparency Dialogue Group’. This group has been meeting to try and form a genuine civil society coalition to raise awareness, research, advocate, and monitor around Cambodia’s resource revenues in the future. Part of that is to meaningfully participate in the EITI process which would include the group being the representative on the EITI multi-stakeholder group. The Dialogue Group hopes to sign a working MOU and plan in the near future and launch itself as a genuine civil society representation. Cambodia should look forward to an organized and systematic response to EITI work in the near future!

## An Overview of Cambodia's Special Economic Zone<sup>8</sup>: A preliminary examination by civil society organizations

### Introduction

The notions and objectives concerning the establishment of Export Processing Zones (EPZs) and Special Economic Zone (SEZs)<sup>9</sup> could be traced back to the 1960s and 70s. Historically, several governments of both developed and developing countries started to introduce these economic promotion zones in order to boost export-oriented industrial development and enhance economic growth through attracting foreign direct investment, creating employment, earning foreign exchanges, absorbing new innovative management skills and acquiring advanced technologies embodied in machinery operated by foreign entrepreneurs.

During the past decades, there are mixed stories of success and failure of the establishment and operation of such zones. Despite evidently diverse results, realizing the necessity of broadening its current narrow base economy and enhancing its industrial competitiveness and productivity, the Royal Government of Cambodia (RGC) embarked the first-ever introduction of SEZs in Cambodia through adoption of “Sub-Decree No. 148 on the establishment and Management of the Special Economic Zone” issued on 29 December 2005. Accordingly, six SEZs were officially approved in 2006<sup>10</sup>.

*Sub-Decree on Special Economic Zones (Article 2):*

- **EPZ** refers to the zone of industrial activities and other activities related to the production and transformation of goods only for export.
- **SEZ** refers to the special area for the development of the economic sectors which brings together all industrial and other related activities and may include General Industrial Zones and/or Export Processing Zone. Each SEZ shall have a Production Area which may have a Free Trade Area, Service Area, Residential Area, and Tourist Area.

The introduction of such development policies has cast doubts among civil society organizations (CSO) over distribution of the impact from Special Economic Zones. In line with this, CSOs have been trying to get the answers to questions that address this concern, such as:

- Do the current size and number of SEZs, and the industries that are operating in the Zone, negatively impact on the environment?
- How many SEZs are operational to date? How many more are established but not operational? How many more are planned?

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<sup>9</sup> EPZs are defined as areas involved in the “establishment of modern manufacturing plants inside an industrial estate, by offering a suitable package of investment incentives to both foreign and domestic entrepreneurs; while SEZs, similar to EPZs, offer more comprehensive economic activities, embracing not only manufacturing but also agriculture, tourism, commerce and real estate development (Wong and Chu, 1984).

<sup>10</sup> See *Cambodia Investment Guide Book 2006*, p.35 for detailed list of SEZs or [http://www.cambodiasez.gov.kh/sez\\_lish\\_cambodia.asp?#](http://www.cambodiasez.gov.kh/sez_lish_cambodia.asp?#)

- How many new jobs have been created? How much new foreign exchange is being earned?
- Do SEZs serve as enclaves or are there prospects of creating backward linkages?
- What are the socio-economic costs and benefits of the establishment?
- What regulatory mechanisms should be in place for the effective implementation?
- How can good labour standards be ensured in all factories in the zones?
- What roles should CSO play in ensuring that the benefits trickle down to the common citizens, but not vested interest groups?



Source: extracted from presentation by H.E. Sok Chenda (November 2006)

This article is a sort of thought-provoking text, which endeavors to seek answers to some of the above questions and leaves the rest as direction for civil society organizations to take on. It will firstly reveal current development of SEZs in Cambodia. Then, a preliminary survey of Manhattan SEZ in Svay Rieng province will be discussed and followed by some conclusions.

## Current Development of SEZs in Cambodia

Since the onset of the endorsement of the Sub-Decree, the RGC has approved thirteen SEZs<sup>11</sup>, the locations of which could clearly be seen on the map above. By far among the 13 SEZs, only Manhattan SEZ approximately 5 kilometers from the Vietnamese border has been in operation since late 2006, while Phnom Penh SEZ has partially completed the construction of its industrial complexes and started appealing for both domestic and foreign investors. Another zone situated close to the sea port, Sihanoukville Port SEZ, is still at its design stage, while the remaining ones have not been operational yet.

### Manhattan SEZ Benefits Realization and Challenges

Even though it is too early to evaluate the overall social and economic impact of SEZs in Cambodia, it is worth examining what is happening in the zones and whether the common citizens, particularly the workers and Cambodian businesses outside the Zones, do benefit from the establishment. Accordingly, Manhattan SEZ is selected as a case study for raising awareness among CSOs.

<sup>11</sup> invest in Cambodia 2007, p.34

**Manhattan SEZ: Number of factories and workers**

Factory	Type of Industry	Female workers	Male workers	Total
Bestway Industrial Co.Ltd	Bicycle assembling	211	374	585
S-Y-G Steel International Co, Ltd	Screw & Bolt production	-	-	85
Kingmaker Footwear Co, Ltd	Shoe-making	954	102	1056
Galaxy Textile Co, Ltd	Jean production	223	36	259
ARC CORP (under construction)	Electronic appliance	-	-	-
Total		1388	512	1985

Source: Interview with assistant to the chief of Manhattan SEZ administrative office

It is really intriguing to witness the quick development of this Manhattan SEZ. Since early 2007 three factories have been constructed. The zone is now hosting five manufacturing factories one of which is under construction and is expected to operate early next year. For the time being, the four factories employ 1985 personnel, most of whom are female workers. This clearly shows that the zone has to a certain extent made significant foreign exchange earnings<sup>12</sup>. However, it is questionable whether those factories in the Manhattan SEZ are first-time-to-arrive foreign investors or they used to exist outside the zone in Cambodia. If it is the case, the net effect/gain, i.e. job creation and corporate income tax, tends to be either less, negligible, or even negative. Further, on the provision of one-stop service, time for import/export procedures has been noticeably reduced compared with those outside Manhattan SEZs. Overall, this indicates a positive sign of progress and offers optimism for future development of other SEZs despite the aforementioned doubt.

On the backward linkages to the national economy, it appears to be uncertain. Since the early operation of the factories, no sub-contracting arrangement has been made to the local enterprises, which is due to lack of supporting enterprises to meet the needs of the factories. However, it is too early to conclude whether the Manhattan SEZ is a real enclave. The arrangement could be made possible through temporary government subsidies to local support industries. Accordingly, skill transfer could also materialize through the establishment of local support industries by engineers or foremen who used to work for factories in the zone. Such benefits could only be realized in the long term but should urgently be promoted.

Nonetheless, there are also immediate challenges that need to be addressed. During interviews with a number of workers from the four factories operating in the Manhattan SEZ, the workers revealed their dissatisfaction with the existing working environment in the factories. First aid is not provided, and workers have to take matter at their own hands when sick or faint. Formation of free trade union is allowed; yet, the leader is selected by the factory owners. Likewise, workers are afraid of taking the position as union leader due to being subject to expulsion when problem, i.e. protest or demonstration, arises. There is also workers' distrust of provincial labour officer. Therefore, good labour standards should be assured by the investors with the coordination of labour department of the SEZ administration. Additionally, cost of living in the areas close to the zone is quite high. The cost of transportation, room rent<sup>13</sup>, and other consumption expenses, for instance, take a large proportion of the wages of the workers resulting in meager remittance to their hometown.

<sup>12</sup> Data on export earning was not accessible as officials of CAMCONTROL and CED were off duties during our visit.

<sup>13</sup> Room rent alone costs \$20USD which is almost 50percent of the total wage, according to interview with workers.

## **Conclusion**

Diversifying the current narrow base economy is indeed important as depending on limited sectors makes the current economy susceptible to domestic and regional shocks. Therefore, establishment of SEZs aiming to absorb more foreign capital into other agro-industry and manufacturing sectors may broaden the base, if implemented successfully. However, at the same time social cost must be seriously taken into consideration through meaningful consultations with parties/stakeholders involved and serious actions such as ensuring good working environment for the workers should be taken. Furthermore, the benefits of SEZs to Cambodia should be maximized by seriously promoting sub-contracting arrangement between companies in the SEZs and local enterprises outside the zone as this will create jobs and generate much needed income to local entrepreneurs.