## SUMMARY

1. Since 2011, Cambodia's real GDP growth has been strong, averaging over 7% annually. Construction, manufacturing (mainly garments exports) and, to a lesser extent, tourism-related services, have been the drivers of growth. Economic growth has been inclusive and widespread, resulting in declining inequality and poverty levels. Prudent macroeconomic management has resulted in moderate inflation, a stable exchange rate, relatively low unemployment, and manageable external debt levels. However, the informal nature of a large portion of the Cambodian economy, which is largely based on services followed by agriculture, implies that GDP is significantly underestimated, and that it undermines the effectiveness of government policy.

2. Cambodia is faced with a number of structural constraints and vulnerabilities, which affect economic growth and render the economy and financial system vulnerable to shocks. These include: a narrow economic base, high cost of doing business, and high dollarization coupled with underdeveloped financial markets. Measures undertaken to address some of these issues include the launching of the Industrial Development Policy (IDP) in 2015, the simplification and automation of companies' registration, and increasing the depth of the financial sector and the foreign exchange market. In addition, the adoption in 2014 of the "Revenue Mobilization Strategy" (RMS) has significantly increased government revenue and helped fiscal consolidation.

3. The objective of both monetary policy and exchange rate policy is price stability. However, the shallowness of the banking sector and the high level of dollarization in the economy reduce the effectiveness of monetary policy. On the other hand, a steady exchange rate against the US dollar serves as an important nominal anchor to help keep inflation low. Maintaining a stable exchange rate against the US dollar has resulted in an appreciation of the real effective exchange rate. The REER is estimated to be overvalued by 5-10% currently, which would imply sluggish exports and a rising trade deficit in the future.

4. The current account deficit peaked at nearly US$2.0 billion (13% of GDP) in 2013. Since then, it has been on a downward trajectory due to slow import growth and robust export expansion (particularly of garments). The current account deficit has been covered by the financial account, mainly by steady FDI inflows throughout the review period. Consequently, foreign exchange reserves have more than doubled since 2011 to reach approximately US$8.3 billion in 2016, providing nearly eight months of import cover.

5. Cambodia ran persistent fiscal deficits during the review period, albeit at a declining rate on account of revenue growth. The stock of external debt remains at around 30% of GDP.

6. Trade and investment are fundamental for Cambodia to achieve its economic and social objectives. The ratio of trade in goods and services to GDP increased to around 140% in 2016 (compared with 127% in 2011). Cambodia's exports continue to be heavily concentrated in clothing, which accounted for around 65% of total exports in 2016. The largest single import category is textiles, which are used as inputs for the garments industry. The main export destination is the EU-28. Cambodia's imports originate mainly from Asia, whose share is around 90% and continues to rise.

7. During the review period, FDI inflows rose to US$2.3 billion, helped by Cambodia's liberal and investor-friendly regime. FDI is concentrated in the garment, agriculture and financial sectors. Most of the FDI in Cambodia comes from Asia, mainly China; Viet Nam; Hong Kong, China; Malaysia; the Republic of Korea; and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei).

8. Since its first TPR in 2011, Cambodia has adopted new trade-related and investment policies, and undertaken some institutional and regulatory reform initiatives in areas including the legislative and judiciary branches, the Ministry of Commerce's (MoC) role, the establishment of a Permanent Mission to the WTO, access to information, and anti-corruption. Whereas its policy formulation and objectives remain shaped by relatively long and wide-ranging strategies and plans, concrete strategic action areas for improving trade competitiveness were identified and initiatives aimed at coordinating the efforts and resources of all stakeholders were continued.

9. Cambodia remains committed to the multilateral trading system and is a voice for the least developed countries (LDCs). During the review period, it improved its WTO commitments by ratifying the Trade Facilitation Agreement (TFA). At the same time, it continued to focus on strengthening regional economic integration ties through the implementation and/or negotiation of several ASEAN agreements, including the negotiation of the Regional Comprehensive Economic Partnership (RCEP). Cambodia continues to be a beneficiary of the Generalized System of Preferences schemes of a number of countries and is entitled to additional LDC-specific preferences under certain schemes. Furthermore, it continued to receive assistance for reaching economic development objectives, including export diversification, and combating poverty under Enhanced Integrated Framework (EIF) projects and the Trade Development Support Programme (TDSP). During the review period, Cambodia has submitted few notifications to the WTO (e.g. tariffs, import licensing requirements, and agriculture) and had no involvement in trade disputes in the WTO.

10. Cambodia remains largely open to and encourages foreign direct investment (FDI) despite the prohibition of foreign ownership of land and involvement in some activities for health or environmental purposes, as well as local equity or workforce participation requirements, or prior authorization for certain activities (e.g. certain telecommunications services, radio and television broadcasting, and certain tourism services). In other activities, it continues to ensure national treatment and 100% foreign ownership, except for divested state enterprises; emphasis was put on public-private partnerships as from 2016. A 2012 moratorium on Economic Land Concessions (ELCs) allowing long-term leases of state-owned land was reviewed reducing their term and cancelling some of them. During the review period, Cambodia signed three new bilateral investment promotion and protection agreements and its first double taxation agreements.

11. The tariff is the main trade policy instrument, and collected customs duties are an important source of government revenue. Nearly all tariffs are applied on an *ad valorem* basis, with just 14 tariff lines being subject to specific rates. The simple average applied MFN tariff in 2017 was 12.3%, a slight increase from 11.7% in 2011. Average tariffs on agricultural products (14.6%) are higher than those on non-agricultural products (11.9%). The highest *ad valorem* rate of 35% applies to finished agricultural products (processed meat, processed fruit and vegetables, and dairy products), finished industrial products, and petroleum products. Nearly 14% of tariff lines are duty-free. Cambodia has bound its entire tariff at the HS eight-digit level. The average bound tariff is 20.9%. The relatively small difference (8.6 percentage points) between the simple average applied MFN tariff and the average bound rate, and the fact that the entire tariff is bound, renders the import regime predictable. In 2017, the applied MFN rate exceeded the bound rate totally for 60 lines, partially for 29 lines and possibly for 14 lines; the products affected include: machinery and parts, fireworks, live animals, gasoline and diesel.

12. Since its last TPR, Cambodia has made significant strides in improving its customs procedures. Measures have included the use of the Single Administrative Document, the one-stop mechanism, and the use of ASYCUDA at all border posts. Cambodia has also implemented the "Best Trader Programme", to be used as a stepping stone towards implementing the Authorized Economic Operator Programme as envisaged in the Customs Strategy and Work Programme on Reforms (2014-18). With a view to enhancing trade facilitation and ensuring the accuracy of the customs declaration, Cambodia initiated procedures for advance ruling, and also ratified the WTO Agreement on Trade Facilitation. These measures have improved customs clearance times significantly; however, there continues to be room for improvement.

13. In addition to customs duties, Cambodia imposes a VAT, a special tax on certain imports, as well as taxes on gasoline and diesel imports.

14. Cambodia prohibits or restricts the import of certain goods on the grounds of: protection of national security; protection of public order and standards of decency and morality; protection of human, animal or plant life or health; protection of national treasures of artistic, historic or archaeological value; conservation of natural resources; compliance with the provisions of any legislation of the Kingdom of Cambodia; and the fulfilment of obligations under the UN Charter. Currently, over 1,500 tariff lines are subject to import prohibition or licensing. Prohibited imports include, *inter alia*: narcotics; psychotropic substances and their precursors, ODS (except HCFCs), toxic waste and poisonous chemicals, certain pesticides, used computers and spare parts, household waste, right-hand drive vehicles and goods that infringe intellectual property rights. Import licences or permits are required for chemicals, pharmaceuticals and narcotic drugs for

medicinal purposes, forestry products, fish and fishery products, live animals, animal products and agricultural materials.

15. A common theme that pervades most aspects of Cambodia's economy is the delay in drafting and implementing new legislation. As such, a draft law, which addresses anti-dumping and safeguard measures is currently being reviewed by the National Assembly and is expected to be in force by the end of the year. Furthermore, a draft competition law is expected to be submitted to the National Assembly for approval in 2018 and it is not yet clear when this legislation would come into force. There is also a working group to monitor prices of essential commodities, which include rice, fish, chicken, pork, regular gasoline and diesel, and cassava.

16. There have been no significant changes to Cambodia's export procedures. Certain products (mainly rubber, processed timber, jewellery, silverware and uncut or unprocessed precious stones, fish and other aquatic products, art and cultural products, raw fruit and vegetables, live animals, garments, drugs and medicines and certain agricultural materials) require export licences, certificates and permission letters. Export taxes apply to timber, unprocessed rubber, uncut precious stones and fish and crustaceans, molluscs and other aquatic products and certain manufactured products. Cambodia does not provide any export subsidies. Support is given for initiating, organizing, and participating in domestic and overseas trade fairs, and providing assistance to local companies wishing to organize and/or participate in such fairs.

17. Incentives are offered under the QIP (qualified investment projects) and the SEZ (special economic zones) schemes; these include profit tax holidays and rebates, special deprecation, exemption from import duties and taxes, zero-rated VAT on imports, and special customs procedures. Incentives are accorded to specific sectors and activities, including the garment sector, companies listed on the Cambodian Stock Exchange and investors who hold and/or trade government securities, equity and/or debt securities on the securities market, and for rice farming, paddy rice purchase and the export of milled rice.

18. The legislative or regulatory framework governing technical regulations and standards remains unchanged. Cambodia mainly uses the ISO/IEC as a national guide to adopt international standards as national standards or technical regulations. Currently, there are 804 Cambodian standards, mainly on foods, electrical appliances, and test methods, of which 151 are technical regulations. According to the authorities, nearly 83% of Cambodian standards are aligned with international standards.

19. During the period under review, changes to the regime governing standards and technical regulations have included a new Law on Animal Health and Production, which came into force in 2016. A draft law on food safety was also issued in 2015. In both cases, the authorities want to bring existing regulations up to international standards and implement global best practices. However, the SPS regime is faced with difficulties, including: problems in the definition of responsibilities between the various agencies, overall fragmentation of responsibilities between, and even within, ministries as well as limited capacity to discharge those responsibilities; lack of systematic inspection or monitoring in all key areas of production and processing, with an impact on product quality and safety; an absence of systematic laboratory testing to support inspection, due to limited human and financial resources; and a certification system that is not backed by testing, and therefore not necessarily recognized in export markets.

20. Government procurement amounts to 3% of GDP. Competitive bidding is the most commonly used method of procurement. A new Law on Public Procurement, enacted in 2012, aims to ensure that the procurement process is transparent, fair, effective, and accountable, and the procurement system uniform.

21. State involvement in the economy is limited, with SOEs accounting for less than 8% of employment and around 3% of the number of economic establishments in the country. Private and public enterprises compete under the same terms and conditions. Public enterprises are not entitled to special trading rights or privileges. Cambodia has never notified any state trading enterprises to the WTO as defined under Article XVII of the GATT.

22. Other than the enactment of the Law on Geographical Indication in 2014, there has been no substantial change to Cambodia's IPR regime/legislation during the review period. Cambodia

acceded in 2015 to the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks. In 2016, it became a member of the Patent Cooperation Treaty and the Hague Agreement concerning the International Registration of Industrial Designs. Cambodia grants national and MFN treatment to all foreign nationals under existing Cambodian intellectual property legislation. During the period under review, there has been a marked improvement in IPR enforcement, with an increase in seizures and prosecutions. However, IPR infringement continues to be widespread, ranging from software, compact discs, and music, to photocopied books and the sale of counterfeit products, including cigarettes, alcohol, and pharmaceuticals.

23. Despite a major decline due to irrigation and commodity price developments, agriculture, centred on paddy rice production, continues to play an important role in supporting economic growth (accounting for 25.7% of gross value added in 2016). Cambodia's agricultural price competitiveness remains lower than its regional neighbours. During the review period, several plans aimed to transform the sector into one driven by new technologies, mechanization and irrigation to improve the yield rate and diversify activities into high value crops, livestock, and aquaculture in an environmentally sustainable manner. Illegal trade of fisheries and forestry items persists.

24. Tariff protection for agriculture (16.1% in 2017) was slightly increased and remains higher than the overall applied MFN average (12.3%); export taxes affect several items at rates of 10% and 50%, and the tax on natural rubber, the second largest commodity crop after rice, was transformed from *ad valorem* to specific with its rate most recently revised in 2017. A 1% services charge on the f.o.b. value of exported forest and forestry products is in place. Most Green Box domestic support expenditure was channelled into extension and advisory services provided to the farmers. Tax and non-tax incentives in the form of exemption from the payment of the property tax for worked/exploited land, duty-free imports of farm machinery and equipment, and whenever available, subsidized loans, are limited and, *inter alia*, directed to agricultural mechanization. Since 2012, a food reserve system has been implemented to ensure food and seeds supplies during disasters and emergency situations. Despite missed policy targets and productivity and competitiveness constraints, the share of rice in total merchandise exports doubled; in response to a 2016 rice price reduction, measures were taken to stabilize the rice price and promote local trade. State-trading activities by one enterprise remain in place in rice. Forest and fishery management appears to be relatively inefficient. Despite a 1996 log export ban, the cross-border trade continues to grow. Fish and fishery products remain subject to relatively high tariff protection and import quotas; in 2014, the European Union enforced a ban on fish imports from Cambodia due to a perceived lack of action against illegal fishing.

25. The mining sector remains at an early stage of development despite the country's mineral potential. Regulatory changes in 2016 introduced procedures, processes and conditions for the issuance of exploration and industrial mining licences; as from 2016, extracted minerals must be domestically processed to be exported. Cambodia's energy structure remains simple and the country is becoming less dependent on energy imports from neighbouring countries as a result of its great potential for power production. As from 2016, a ceiling has applied on the retail sale price of fuel. The state company, Electricité du Cambodge, dominates the electricity transmission market; the high electricity cost, a constraint for manufacturing development, is being addressed through staged reduction of tariffs that continue to be characterized by cross-subsidization mainly borne by residential consumers.

26. Manufacturing (16.1% of gross value added in 2016), a priority activity for Cambodia, remains heavily dependent on foreign-invested garment companies and informal enterprises. During the review period, government policy was aimed at transforming the industrial structure from a labour-intensive industry to a skill-driven one through connecting to regional and global value chains. Tariff escalation remains pronounced in garments with the average MFN applied tariff on textiles at 5.7% against 15% on clothing. Export tax rates affecting several manufactures are set at 5%, 10%, 15%, 20%, or 50%. Manufacturing continued to benefit from tax incentives, including corporate tax holidays, a special depreciation allowance, import taxes exemptions, and qualified investment project and special economic zones advantages.

27. During the review period, the services sector continued to play a significant role in supporting economic growth (39.2% of gross value added in 2016). Cambodia's commitments under the GATS, reflecting its aim to attract FDI, remained unchanged; its five RTAs involve commitments on trade in services.

28. Banking and insurance activities continued to expand with bank assets having grown almost threefold. Regulatory improvements in banking, *inter alia*, covered the strengthening of the capital base, the provision of credit and micro-finance as well as the introduction of pre-emptive regulatory measures against potential default risk. High, albeit declining, interest spreads between lending rates and the remuneration of deposits remain in place. The non-performing-loans ratio remained largely sound. Tax incentives were introduced in the securities exchange field. The legal framework of the highly concentrated and rather small insurance sector has undergone some changes aimed at strengthening the sector, combating illegal activities and regulating micro-insurance; nevertheless, insurance taxation remains a relatively complex issue.

29. The telecommunications sector remains open and continued to expand, although mobile telephony penetration and nominal tariffs continue to be relatively low at regional level. A new policy was passed to, *inter alia*, support infrastructure connectivity. In addition to institutional developments, new legislation on numerous telecommunications areas, including operators' revenue sharing (i.e. licence fee), tariffs, number portability and a universal service obligation programme, was passed but a large part of it remains to be enforced. To promote Khmer culture and support local industry, restrictions on the broadcasting of foreign dramas are in place and more are envisaged.

30. Cambodia remains characterized by low road and water connectivity as its transport industry continues to face challenges including high merchandise transportation costs (in particular, shipping) and inadequate infrastructure despite an increase in ports capacity; railway transport remained of limited availability and performance due to slow progress in rehabilitation projects. Direct vessel calls serving Cambodian ports have been in place since 2016 and its two main ports are state-owned; cabotage is allowed and open to all vessels. The entirely state-owned Kampuchea Shipping Agency and Brokers (KAMSAB), is the only entity to provide multi-modal water transport services. Air transport continued to expand and support rising levels of tourism largely due to foreign investment in Cambodia's international airports; at the same time, greater insertion of its aviation sector into international markets was pursued through participation in more air services agreements. Foreign commercial presence in distribution is unlimited and investment is picking up, whereas e-commerce remains underdeveloped.

31. Tourism, the largest activity and largest source of government revenue as well as the driving force for several other economic activities, continued to expand largely due to improved stability in neighbouring countries; several tourism-related policies remain in place. Professional services remain relatively open to foreign investment as long as domestic registration and other requirements are met. The requirements and procedures for the registration and practice of foreign lawyers in Cambodia were established in 2016. The health market has a wide variety of health-care providers, but the budget for implementing health programmes depends on foreign donors; universal health coverage remains to be addressed.

32. In 2017, growth is expected to be around the same level as in 2016. The expanding economy and the credit growth have given rise to an asset price bubble in the real estate sector. Any large disorderly adjustment in real estate prices is likely to have an adverse impact on the banking sector and economic activity in general. A slowdown in China's economic growth would also potentially impact growth through the FDI, banking and tourism channels. Garments' exports could also be adversely impacted by an appreciation of the U.S. dollar vis-à-vis other major currencies and/or weaker growth in Europe. Risks on the domestic front include fiscal pressures and erosion of competitiveness from wage hikes potentially outstripping productivity gains. In addition to the reforms which address diversification and competiveness, improvement of the business climate and fiscal reform, the authorities recognize the need to undertake further reforms, including infrastructure development promoting rural growth and technical/vocational training, to sustain the inclusive and widespread growth that has been achieved. These reforms would help Cambodia attain its economic and welfare policy objectives and further integrate into the world trading system.