

# CAMBODIA ECONOMIC UPDATE



## WEATHERING THE OIL PRICE SHOCK



### SPECIAL FOCUS

### POST-PANDEMIC SUPPLY CHAIN DISRUPTIONS: STRATEGIES TO REDUCE LOGISTICS COSTS

JUNE 2022



WORLD BANK GROUP

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# TABLE OF CONTENTS

ACKNOWLEDGMENTS.....	vi
ABBREVIATIONS .....	vii
EXECUTIVE SUMMARY .....	1
Recent Economic Developments and Outlook.....	5
Recent developments .....	5
Coronavirus vaccination program accelerated further.....	5
Economic activity picked up.....	5
Globally, three clouds have gathered over the economic horizon .....	5
Goods exports accelerated and diversified .....	7
Goods exports to the U.S. market continued to surge.....	8
Approvals of FDI projects picked up amid the reopening of the economy.....	9
Sluggish property development project activity continued.....	9
Better weather conditions improved rice production.....	10
Rising ocean freight costs are hitting agricultural exports hard.....	11
The CCFTA is expected to boost agricultural commodity exports.....	12
Tourism activity has gradually recovered.....	13
Domestic consumption recovered.....	13
Inflation reached 7.2 percent, hitting a 13-year high.....	13
The trade balance initially improved.....	15
The oil price shock is worsening the terms of trade .....	18
The exchange rate remained stable .....	18
Monetary conditions continued to be accommodative .....	18
Broad money growth partly recovered.....	19
Domestic credit growth recovered, underpinning economic recovery .....	20
The contribution of construction, real estate to credit growth eased .....	20
The cash transfer program continued to support households amid rising inflation.....	21
Revenue collection increased marginally.....	22
The fiscal deficit is expected to remain relatively large at 6.6 percent of GDP.....	22
Cambodia's public debt-to-GDP ratio reached 35.0 percent of GDP by end-2021 .....	23
Despite rising public debt, risk of debt distress remains low .....	24
Outlook .....	25
Challenges and risks.....	25
Policy options .....	25
Special focus: POST-PANDEMIC SUPPLY CHAIN DISRUPTIONS: STRATEGIES TO REDUCE LOGISTICS COSTS.....	28
EXECUTIVE SUMMARY .....	28
Global Supply Chain Uncertainties in the Wake of the COVID-19 Pandemic .....	31
Trade Flows and Supply Chain Configurations in Cambodia .....	33
Logistics Costs Per GDP in Cambodia.....	42
Drivers of High Costs and Low Reliability .....	46

RECOMMENDATIONS.....	53
Annex S.1: Methodology for the Estimation of National Logistics Costs Per GDP in Cambodia .....	59
References .....	62
Bibliography.....	64
Annex: Cambodia - Selected Indicators .....	65

## Boxes

- Box 1. Global economic developments and outlook
- Box 2. Potential benefits of the Regional Comprehensive Economic Partnership
- Box 3. Potential benefits of the Cambodia-China Free Trade Agreement
- Box S.1. The importance of estimating national logistics costs per GDP
- Box S.A.1. Data Source
- Box S.A.2. Methodology

## Figures

- Figure ES.1. Cambodia's Recent Developments at a Glance
- Figure 1. Vaccinations accelerated
- Figure 2. Cambodia is one of best-performing countries for COVID-19 vaccination
- Figure B1. Global developments
- Figure 3. Goods exports accelerated
- Figure 4. Goods exports were increasingly driven by non-GTF products
- Figure 5. Goods exports to the U.S. market continued to surge
- Figure 6. Garment, travel goods and footwear exports to the U.S. market continued to accelerate
- Figure 7. Approved investment projects financed by FDI recovered
- Figure 8. Approved construction permits and construction material imports contracted
- Figure 9. Paddy rice production surged
- Figure 10. Better wet season rice production boosted total rice production
- Figure B2.1. Real income gains by country: Percentage change relative to business-as-usual scenario, 2035
- Figure B2.2. Impact on trade: Percentage change relative to business-as-usual scenario, 2035e
- Figure 11. Weights of transport and communication component in CPI baskets and road densities
- Figure 12. Inflation of selected goods, labor, and fees accelerated
- Figure 13. The trade balance initially improved
- Figure 14. Cambodia is among the largest importers of refined oils
- Figure 15. Cambodia is among the largest exporters of rice and importers of fertilizers
- Figure 16. Broad money partly recovered
- Figure 17. Foreign direct investment inflows continued to hold up
- Figure 18. Weighted average U.S. dollar lending and deposit interest rates remained stable
- Figure 19. Credit growth recovered, while deposit growth remained eased
- Figure 20. The contribution of construction, real estate to credit growth eased
- Figure 21. Central government revenue marginally improved
- Figure 22. Central government expenditure also accelerated
- Figure 23. General government deficit widened
- Figure 24. Loan disbursements by creditors
- Figure S.1. Supply chain capacity stress (stalled ship capacity, million TEUs) and traffic delays (hours) through April 2022
- Figure S.2. Shanghai Containerized Freight Index, weekly spot rates through March 2022
- Figure S.3. Logistics costs: relative importance of reliability
- Figure S.4. Share of top 3 exporter destinations, US\$ and gross weight, 2018–2021
- Figure S.5. Share of top 3 import origins, US\$ and gross weight, 2018–2021
- Figure S.6. Exports to top destination, by sector, US\$ and gross weight, 2018–2021
- Figure S.7. Imports from top countries of origin, by sector, US\$ and gross weight, 2018–2021
- Figure S.8. Dynamics of total export/import, billion US\$ and tons millions, 2018–2021
- Figure S.9. Dynamics of TCF GRVC exports, quarterly, 2018–2021
- Figure S.10. Dynamics of TCF GRVC Imports, quarterly, 2018–2021
- Figure S.11. PPAP and SAP Cargo Throughput, volume, 2018–2021

Figure 2.12. Main exit offices on export routes, by selected countries, volume and US\$, 2018–2021

Figure S.13. SAP total number of port calls, 2019–April 2022

Figure S.14. SAP distribution of container traffic: arrivals and departures, monthly, 01/2020–04/2022

Figure S. 15. Cambodia’s container shipping connectivity

Figure S.16. SAP port calls by destination country, number (outbound)

Figure S.17. Main export routes by exit office, mode of transport, office of lodgment, and import region, gross weight and value, 2018–2021

Figure S.18. Main import routes by entry office, mode of transport, office of lodgment, and export region, gross weight and value, 2018–2021

Figure S.19. Royal Railways: export loaded and empty containers along Southern Line, quarterly, 2021

Figure S.20. Royal Railways: export loaded and empty containers along Northern Line, quarterly, 2021

Figure S.21. Transit traffic linking Vietnam and Thailand, gross weight, percentage, 2018–2021

Figure S.22. Transit trade fluctuations, gross weight, January 1, 2018–December 1, 2021

Figure S.23. Comparative logistics costs per GDP in selected ASEAN countries, 2020

Figure S.24. Evolution of Cambodia’s logistics costs since 2011 (Logistics costs per GDP)

Figure S.25. Cambodia’s logistics costs and GDP growth rate at current prices (Percentage)

Figure S.26. Cambodia – logistics cost structure

Figure S.27. Cambodia – changes in inventory and household spending

Figure S.28. Cambodia – logistics administration costs (Million riels)

Figure S.29. Import of tractor units into Cambodia, and revenue collection, US\$, 2017–19

Figure S.30. Average time spent at Sihanoukville Port, 2019–April 2022

Figure S.31. Phnom Penh Port Authority, revenue structure, 2020–2021

Figure S.32. Registration of exported goods, distribution across weekdays, volume, 2018–2021

Figure S.33. Sihanoukville Port CEB, registration of exported goods, daily distribution, value, 2021

Figure S.34. Regulatory quality in Cambodia and selected countries, 2010–2020

Figure S.35. Export and import customs clearance – lane treatment, volume, and value, quarterly, 2018–2021

## Tables

Table 1. China’s tariff reduction schedule under CCFTA

Table 2. Cambodia’s main agricultural commodity exports to China

Table B3.1. The Chinese tariff schedule, exports to the Chinese market, and domestic production

Table 3. Macro outlook

Table S.ES.1. Selected policy measure to foster logistics and supply chain reforms

Table S.1. Import duties and fees for trucks

Table S.2. Fuel consumption of tractor units

Table S.3. Freight rates (road and rail) along selected origin-destination, cost/km, 2021

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# ABBREVIATIONS

ABC	activity-based costing
AEO	Authorized Economic Operator
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated System for Customs Data
CBTA	Cross Border Transport Agreement
CCFTA	Cambodia-China Free Trade Agreement
CEB	customs and excises branch
CEO	customs and excises office
CEU	Cambodia Economic Update
COVID-19	coronavirus disease 2019
CPI	Consumer Price Index
CR	Cambodian riel
DPs	development partners
DWT	deadweight tonnage
EAP	East Asia and Pacific region
EMDEs	emerging market and developing economies
EU	European Union
FCDs	foreign currency deposits
FDI	foreign direct investment
FOB	free on board
FTA	free trade agreement
GACC	China's General Administration of Customs (China)
GDCE	General Department of Customs and Excise of <i>Cambodia</i>
GDP	gross domestic product
GMS	Greater Mekong Subregion
GRVC	global and regional value chains
GSP	Generalized System of Preferences
GTF	garment, travel, and footwear
HS	Harmonized System
ICT	information and communications technology
I-O	input and output
LPCO	Liquidity-Providing Collateralized Operation
MAFF	Ministry of Agriculture, Forestry and Fisheries (Cambodia)
MDI	Microfinance Deposit-Taking Institution
MEF	Ministry of Economy and Finance
MLF	Marginal Lending Facility
MoC	Ministry of Commerce
MoI	Ministry of Interior
MoJ	Ministry of Justice
MPTW	Ministry of Public Works and Transport
MSME	micro, small and medium-sized enterprise
NLC	national logistics cost
NPL	nonperforming loan
NTM	non-tariff measures
PAPP	Phnom Penh Autonomous Port
PCR	polymerase chain reaction
PV	photovoltaic

RCEP	Regional Comprehensive Economic Partnership
SAD	Single Administrative Document
SAP	Sihanoukville Autonomous Port
SAR	Special Administrative Region
SEZ	special economic zone
TCF	textile, clothing, and footwear
UK	United Kingdom
U.S.	United States
US\$	United States dollar
YTD	year to date
y/y	year on year





# RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK



## EXECUTIVE SUMMARY

### *Recent developments*

**Cambodia is now weathering an oil price shock, just as the economy had started to recover amid a rollback of COVID-19-related restrictions.** The country imports 100 percent of its oil products, and its terms of trade have worsened quickly as oil prices surged. Unlike last year, when the current account deficit widened significantly because of a surge in gold imports, this year's negative terms of trade shock, caused by oil price increases, is likely dampening consumer confidence and corporate profitability, impacting aggregate demand.

**Negative impacts of the oil price shock are amplified by Cambodia's already large external imbalances.** The country's refined oil imports amounted to 6.2 percent of 2021 GDP – larger than in most other East Asia and Pacific economies – and around 11 percent of total imports. The trade deficit initially narrowed, as gold imports declined. However, higher oil prices partially are offsetting the decline, placing upside risks to the current account deficit. Moreover, financing the deficit by capital inflows is being constrained by the zero-COVID-19 policy in China, which is the largest source of foreign direct investment (FDI) for Cambodia. While Cambodia's international reserves remain relatively high, covering up to about 8 months of prospective imports, external pressures will likely continue.

**Rising food and energy prices have eroded household purchasing power.** International oil price increases are passing directly through to domestic prices. Increases in fertilizer and food prices further stoke inflationary pressures. The relatively high weight of the transport component of 12 percent of the country's Consumer Price Index (CPI) consumption basket exacerbates these negative impacts. Headline inflation quickly accelerated to 7.2 percent year on year (y/y) in May 2022, hitting a 13-year high, up from 3.0 percent during the same period last year. Vulnerable and poor households in Cambodia are bearing the brunt of these increases, with limited recourse to savings. Therefore, the cash transfer program, which has been the largest component of the government's fiscal support package, will continue to be needed. As of February 2022, the program covered 690,000 households (2.7 million individuals) or approximately 19 percent of households. The program has disbursed US\$593

million since the launch in June 2020, thus far helping to mitigate the negative impacts for poor and vulnerable households.

**Higher commodity prices triggered by the war in Ukraine are expected to lead to sizable fiscal impacts.** First, additional budgetary spending may be needed to mitigate the impacts of commodity price movements, particularly on vulnerable households and firms. Second, reduced revenue collections are expected due to the negative growth impacts of high inflation and dampened aggregate demand. Third, while the annual budget for 2022 envisages countercyclical fiscal support with a projected fiscal deficit of 6.6 percent of GDP, achieving the objectives and targets of the budget is increasingly challenging as costs of goods and services increase. Public investment project cost overruns are likely amid surging inflation, and rising costs of inputs such as building materials, labor, and machinery. The higher deficit is expected to be financed by drawdowns of government deposits (fiscal reserves), which stood at 17.0 percent of GDP in February 2022, down from 22.5 percent during the same period last year and additional external borrowing.

**Meanwhile, the “living with COVID-19” strategy has enabled a reopening of the economy since late last year.** International mobility has been further facilitated by the reinstatement of the Visa on Arrival program and the removal, in March 2022, of the requirement for a negative COVID-19 test before arrival in Cambodia. The roll back of restrictions was enabled by the country's successful vaccination program. As of June 17, 2022, about 85 percent of the population have received two doses of coronavirus vaccine. The resurgence of infections caused primarily by the Omicron variant has receded since April 2022.

**The economic recovery remains uneven.** Traditional growth drivers, especially the garment, travel goods, and footwear manufacturing industries, continue to expand. Exports of the top three manufactured products, covering 65.4 percent of total merchandise (excluding gold) exports, grew at 25.1 percent in March 2022. The electrical, electronic, and vehicle parts manufacturing industries are rebounding slowly. Production of rice, Cambodia's main crop, accounting for close to 60 percent of agricultural GDP, rose by 9.3 percent during the 2021–22 rice production year, reaching 12.2 million metric tons. The service sector, especially the travel, tourism, and hospitality industries, is recovering,

underpinned initially by a revival of domestic demand and domestic tourism but remains below per-COVID-19 levels.

**The construction sector, which was one of growth drivers during the pre-pandemic period, also remains under pressures.** In March 2022, the value and area of approved construction permits plummeted, contracting by 66.0 percent and 67.9 percent, respectively. During the same period, cement, and steel imports, mainly used for the construction industry, contracted in volume terms by 71 percent and 15.6 percent, respectively.

**Monetary conditions continued to be accommodative.** Broad money growth eased, growing at 13.8 percent in March 2022, declining from 20.3 percent during the same period last year. Private sector deposit growth continued, expanding at 15.3 percent. Supporting economic recovery, domestic credit growth accelerated to 22.4 percent in March 2022, up from 21.1 percent during the same period last year. Supported by central bank open market operations, the nominal exchange rate continued to be broadly stable, hovering at riel 4,100 per U.S. dollar. Gross international reserves increased marginally, reaching US\$20.3 billion (8 months of imports) in March 2022, down from US\$20.2 billion during the same period last year.

### *Outlook*

**Cambodia's real growth is projected to reach 4.5 percent in 2022.** The relatively subdued growth projection reflects anticipated impacts of the negative terms of trade shock caused by rising oil prices, a cyclical slowdown in the United States and China, Cambodia's main trading partners. In addition, the path of the economy continues to depend on the course of the virus. Thanks to continued progress on vaccinations, further relaxations of travel restrictions support continued gains in economic activity and employment. Domestic economic activity and agricultural commodity exports are expected to remain robust, contributing to economic recovery.

**Over the medium term, the economy is expected to trend back to potential, growing at around 6 percent.** The new Law on Investment, together with the newly ratified Cambodia-China Free Trade Agreement and Regional Comprehensive Economic Partnership, is expected to boost investment and trade in the coming years. Similarly, trade and investment will be further boosted when the Cambodia-Republic

of Korea free trade agreement is ratified. However, the negative impacts of the coronavirus on jobs and welfare are expected to continue as the services sector, especially the travel, tourism, and hospitality industries, continue to face persistent headwinds.

### *Challenges and risks*

**Risks to the forecast are tilted to the downside.**

Despite stronger domestic economic activity supported by the rollback of mobility restrictions, recovery has been held back by deterioration of global demand conditions and the global commodity price shock. An unmanageable resurgence of Omicron or new variants could disrupt economic recovery. While Cambodia maintains policy space that it could deploy should these risks materialize, its fiscal buffers have shrunk, after years of fiscal intervention. In addition, high credit growth and concentration of domestic credit in the construction and real estate sector remain a key risk to Cambodia's financial stability.

### *Policy options*

**To sustain recovery momentum, efforts to contain COVID-19 infections must continue.**

Supported by the World Health Organization, the authorities are building surveillance with community engagement to strengthen early detection. In addition, guidelines on the integration of COVID-19 services into a single healthcare system have been introduced, and all healthcare facilities have been advised to implement the guidelines throughout the country.

**Given that external demand conditions will remain uncertain, the immediate next steps are to further strengthen domestic market confidence.**

It is therefore important to promote investor confidence at home to boost domestic economic activity. Taking advantage of the newly rehabilitated road networks in Siem Reap and Sihanoukville, as well as the Phnom Penh-Sihanoukville Expressway (which is expected to be completed and launched in the second half of 2022), further attracting private investment in the tourism sector, while implementing tourism development strategies such as the Siem Reap Tourism Development Masterplan for 2021–35, will help. As long as the country continues to relax all travel restrictions, including visa facilitation without COVID-19 resurgence, international arrivals should return, contributing to the revival of the tourism and hospitality industry.

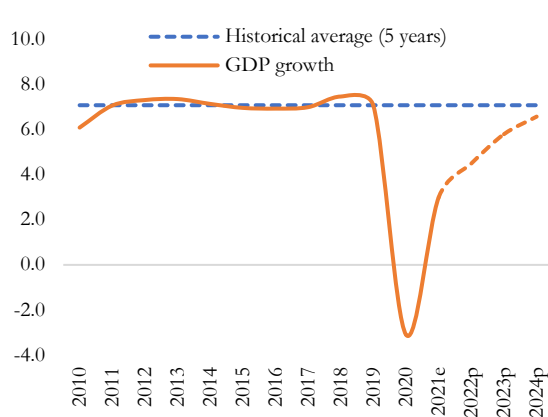
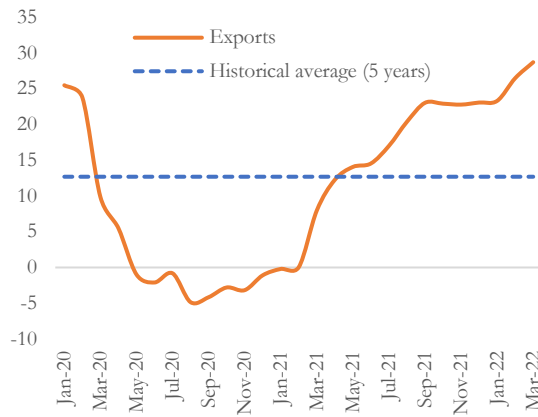
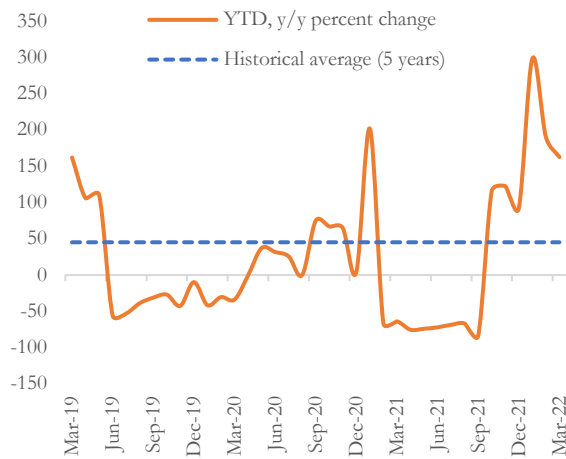
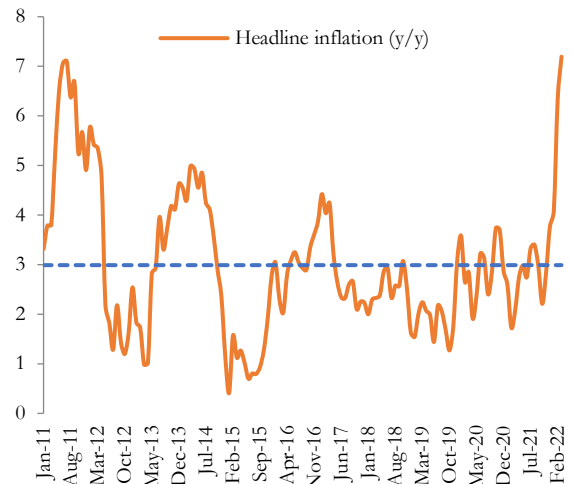
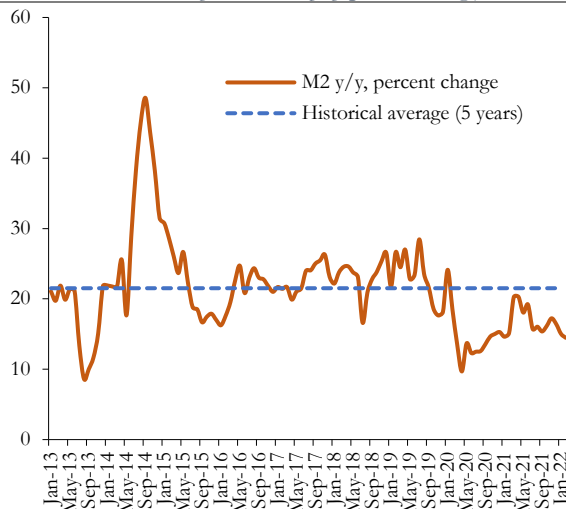
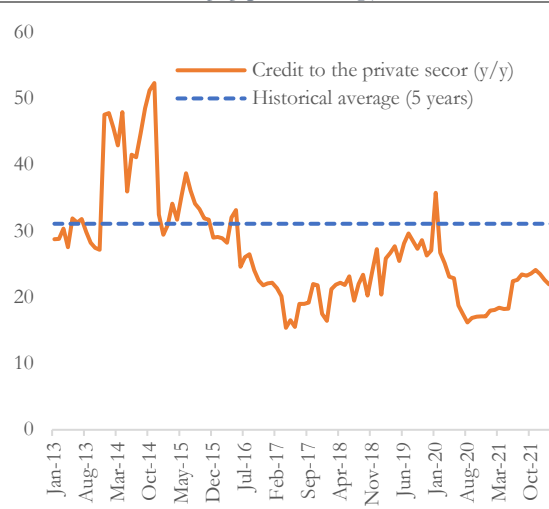
**More efforts are needed to promote agricultural commodity exports to maximize the benefit of the newly ratified bilateral and multilateral free trade agreements,** namely the Cambodia-China Free Trade Agreement (CCFTA) and the Regional Comprehensive Economic Partnership (RCEP). In this regard, incentives currently introduced under the new investment law to support agroprocessing and agricultural value chains could play a key role. While Cambodia's agricultural commodity prices at farmgate remain competitive, interest rates on loans, costs of energy for agroprocessing industries, and logistics and transportation costs for agricultural commodity exports are not. Unlike electronics, equipment, and parts, agricultural commodities are heavy and relatively cheap cargos, which are being affected disproportionately by rising ocean freight costs. Therefore, further efforts must be made to strengthen trade facilitation, while implementing multimodal transport connectivity. This is particularly crucial for Cambodia's agricultural commodity exports if the country is committed to taking full advantage of the CCFTA and RCEP. (See the Special Focus Section on Post-pandemic supply chain disruptions: strategies to reduce logistics costs.)

**At the same time, it is essential to continue addressing supply-side bottlenecks** by reducing the costs of doing business, energy, and licensing, while promoting access to finance, especially for

the export sector to revive external competitiveness. In addition, an important policy consideration is to take advantage of continued FDI inflows. Backward linkages between the FDI sector and the domestic small and medium-sized enterprise (SME) sector must be further fostered to boost job creation and growth.

**Depending on the magnitude of the oil price shock, measures to mitigate its negative impacts may need to be introduced.** Targeted relief and support are likely to be more cost-effective than a blanket and broad-based petroleum tax reduction measure. In this connection, it is important to consider more targeted social assistance measures that directly mitigate the impacts on those most in need, especially vulnerable households, poor farmers, and small and micro household enterprises.

**Rising inflationary pressures are posing serious policy challenges for the Cambodian authorities.** To this end, it is crucial for the central bank to continue to be committed to maintaining exchange rate stability. For the government, it is important to avoid creating excess aggregate demand, which might trigger undue domestic inflationary pressures on top of the imported inflation. The prospect of a protracted period of high inflation and a sharp increase in global interest rates has significant implications for Cambodia, whose economy is highly dollarized.

**FIGURE ES.1. CAMBODIA'S RECENT DEVELOPMENTS AT A GLANCE****Real growth continues to gradually recover...***Real growth (percent)***...As goods exports accelerated, surpassing pre-pandemic levels...***(YTD, y/y, percent change)***Approved FDI project value is rising...***(YTD, y/y percent change)***...But the oil price shock posed a serious challenge, resulting in surging inflation***(y/y percent change)***Broad money (M2) growth remained accommodative...***Broad money liabilities (y/y percent change)***...And credit growth picked up as demand strengthened***(y/y percent change)*

Sources: Cambodian authorities; World Bank staff estimates and projections

Note: e = estimates; p = projection; YTD = year to date; y/y = year on year.

# RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

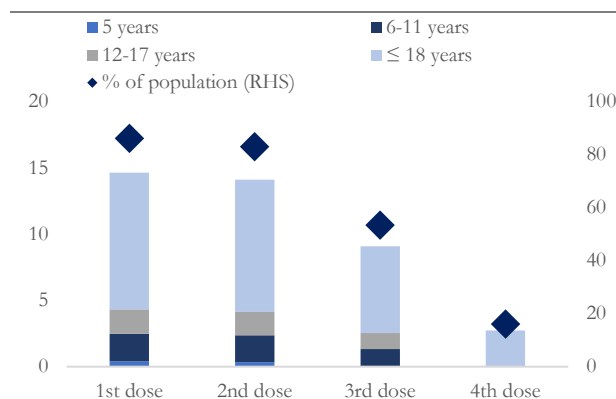
## Recent developments

### Coronavirus vaccination program accelerated further

**Cambodia continues to refine its pandemic control policies to lift restrictions while preserving public health.** As of June 17, 2022, about 85 percent of the Cambodian population had received two doses of coronavirus vaccine (figure 1), and about 53 percent had received a booster. Cambodia is one of best-performing countries for COVID-19 vaccination (figure 2) and ranks third among Association of Southeast Asian Nation (ASEAN) countries. The country continues to rely on testing-tracing-isolation to prevent or detect further outbreaks early enough to control them. Supported by the World Health Organization, the authorities are building surveillance with community engagement to strengthen early detection. In addition, guidelines on the integration of COVID-19 services into a single healthcare system have been introduced, and all healthcare facilities are advised to implement the guidelines throughout the country. In March 2022, Cambodia reinstated the Visa on Arrival program and abolished the need for a negative polymerase chain reaction (PCR) test obtained 72 hours before arrival the country. In April 2022, (outdoor) mandatory mask wearing was lifted.

**Thanks to the country's successful vaccination program, COVID-19 infections have subsided since April 2022.** After a spike in February 2022,

**Figure 1. Vaccinations accelerated**  
(Millions of population, as of June 17, 2022)



Source: Cambodian authorities.

Note: RHS = right-hand scale; total population is approximately 17 million.

caused primarily by the Omicron variant, daily infections receded to zero in June 2022, down from about a dozen cases daily in April 2022, and the peak of 736 cases on February 20, 2022. As of June 17, 2022, there were 136,262 cases and 3,056 deaths.

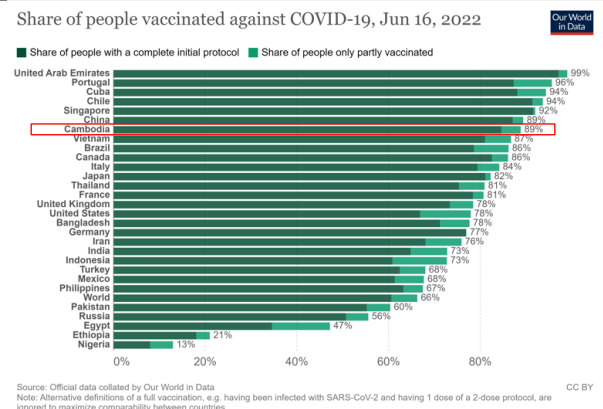
## Economic activity picked up

**Cambodia has shifted to a strategy of “living with COVID-19,” enabling a broad-based economic recovery to take shape.** Thanks to the rollback of mobility restrictions made possible by Cambodia's high vaccination rate, economic recovery picked up pace during the first quarter of 2022, driven by domestic economic activity, especially domestic consumption, and merchandise exports. The economic recovery, however, remains uneven. Despite a general slowdown in global demand, Cambodia's goods exports continue to remain at a sustained robust growth rate. The service sector, especially the travel, tourism, and hospitality industries, is recovering, underpinned initially by a revival of domestic demand and domestic tourism. The construction sector, especially the property market and real estate industry, however, remains sluggish.

## Globally, three clouds have gathered over the economic horizon

**Just as the East Asia and Pacific (EAP) region was weathering the recurrent COVID-19 storms, three clouds have gathered over the economic horizon.<sup>1</sup>** First and most recently,

**Figure 2. Cambodia is one of best-performing countries for COVID-19 vaccination**  
(June 16, 2022)



Source: Official data collated by Our World in Data.  
Note: Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.

Source: Our World in Data.

<sup>1</sup> World Bank 2022b.

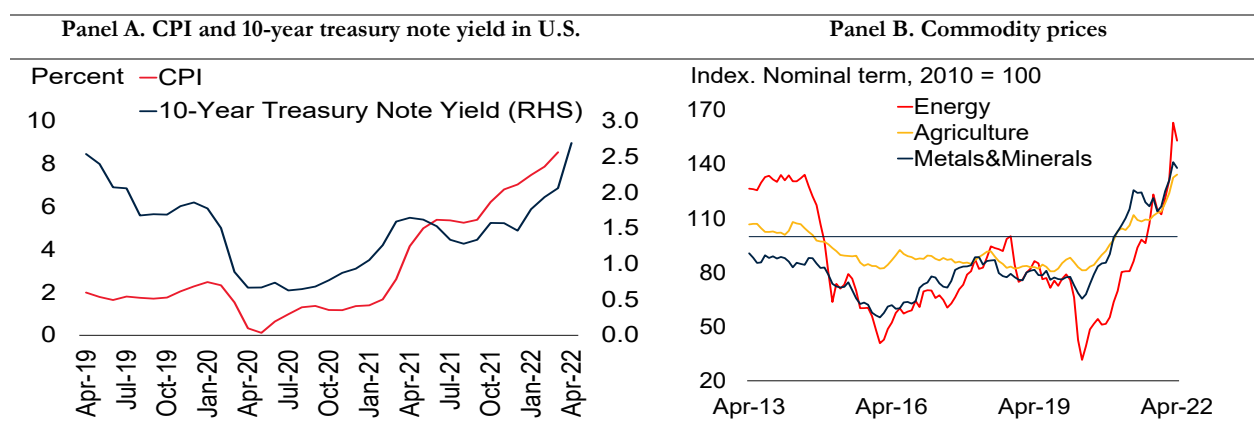


**Box 1. Global economic developments and outlook<sup>1</sup>**

According to the January 2022 edition of the World Bank's *Global Economic Prospects* report, global growth was expected to decelerate markedly, from 5.5 percent last year to 4.1 percent this year, amid lingering supply bottlenecks, the withdrawal of policy support, and rising inflation, particularly for food and energy. The war in Ukraine is expected to accelerate the slowdown and contribute to higher global inflation. The Organisation for Economic Co-operation and Development (OECD), for example, estimates global growth will be more than 1 percentage point lower, and global inflation at least 2.5 percentage points higher, than pre-conflict projections. Financial market volatility has also increased, contributing to a sharp tightening of global financial conditions, as the war in Ukraine soured the appetite for risk. Meanwhile, citing a tight labor market and elevated inflation, the Federal Reserve increased policy rates by 75 basis points in two consecutive hikes. The market, since early April, has been pricing around 30 basis points of additional tightening in 2022 in both the United States and the euro area. Advanced-economy government bond yields have continued to rise rapidly – the U.S. 10-year yield approached 3 percent in early May, a level last seen in 2018 (figure B1.1, panel A).

The war and the associated severe economic sanctions imposed on Russia contributed to a further increase of commodity prices, especially for commodities where Russia and Ukraine are key exporters, including, fertilizers, fuels, metals, and wheat. Natural gas prices in Europe more than doubled in the aftermath of the invasion, amid supply uncertainty, as Europe remains heavily reliant on Russian imports of natural gas. Gas prices have fallen back lately but remain 40 percent higher than in mid-February. Coal prices also rose sharply as several European countries announced plans to increase coal-powered electricity generation and build stockpiles. Several metal prices reached all-time highs in March, including aluminum, nickel, and palladium, due to concerns over metal supply. Wheat prices increased by 40 percent, reaching record highs (figure B1.1, panel B). The war in Ukraine is having a large negative impact on the Europe and Central Asia region due to tight regional economic and financial linkages – Russia alone accounts for about 40 percent of regional GDP. The war is also expected to adversely affect other emerging markets and developing economies (EMDEs), particularly commodity-importing economies, which have experienced a rapid increase in sovereign spreads since the war started. As central banks in advanced economies begin to reduce monetary accommodation, capital flow volatility and currency depreciation may pose additional challenges to EMDE policymakers. Higher prices could weigh on consumer confidence and erode real earnings.

Growth in the EAP region is projected to decelerate from 7.2 percent in 2021 to 5 percent in 2022, which is half a percentage point slower than expected in October 2021. The slowing growth will be mostly due to China, where growth will slow to 5 percent in 2022, after the 8.1 percent rebound in 2021. Even though growth in the rest of the region is projected to rebound to 4.8 percent in 2022 from 2.6 percent growth in 2021, the acceleration will be less than the 5.2 percent expected in October 2021. Risks to the outlook are tilted to the downside. Under the low-case scenario, which assumes more persistent COVID-19 outbreaks, regional growth in 2022 could decline to 4.0 percent. Rising borrowing costs, combined with high debt levels and the rapid rise in non-concessional debt across many EMDEs, increase the risk of financial stress. The pandemic has exacerbated an unprecedented debt boom across EMDEs, with debt of all types rising to multidecade highs. Looking forward, EMDE policymakers will need to balance macroeconomic support with bolstering fiscal sustainability. As EMDEs have limited policy space to provide additional support if needed, these downside risks heighten the possibility of a hard landing – a much sharper slowdown in growth than currently envisioned.

**Figure B1.1. Global developments**

Source: Haver Analytics; World Bank.

Note: 1 This box was prepared by Ekaterine Vashakmadze, Prospects Group.

shocks emanating from the war in Ukraine are disrupting the supply of commodities, increasing financial stress, and dampening global growth. Second, U.S. inflation ignited by the stimulus-led rebound and persistent supply disruptions could provoke faster-than-anticipated financial tightening, perhaps timely in the United States but too early in many EAP countries, where recovery is incomplete. Third, China's cyclical slowdown, deleveraging of the real estate sector, and COVID-19 resurgence amidst zero-COVID policies, could dampen regional exports (see box 1 for more discussion on global and regional economic developments and outlook).

**These global and regional developments are affecting Cambodia.** Negative terms of trade shock, compounding inflationary pressures are dampening domestic economic activity. Continued sluggishness of international tourism, especially from China slows recovery of the services sector, while risks of weakening external demand are rising.

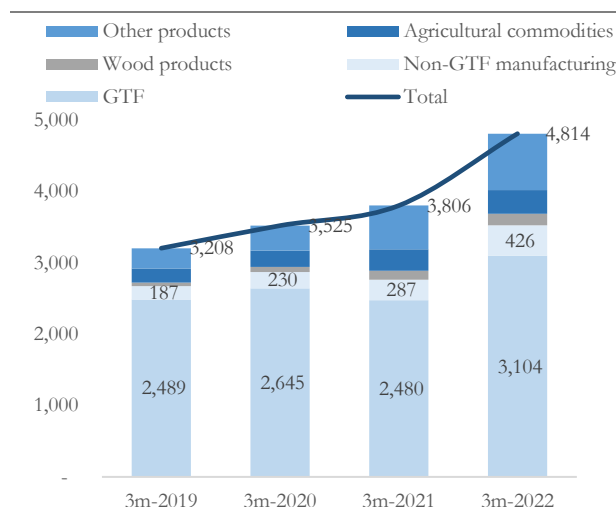
**To mitigate the risks, countries in the region are advised to enhance the efficiency of fiscal policy for recovery and growth** for more efficient and targeted support to households and firms, while creating space for investment in the infrastructure of trade, energy, and technology diffusion. It is crucial to strengthen macroprudential policies to mitigate risks from global financial tightening. Monetary policy must remain alert to new inflationary pressures but at present can continue to support recovery. In

addition, increased domestic and international competition could strengthen incentives for productivity-enhancing technology adoption.

## Goods exports accelerated and diversified

**Despite an anticipated slowdown in global demand, Cambodia's merchandise exports accelerated further.** During the first quarter of 2022, goods (excluding gold) exports rose to US\$4.8 billion (figure 3), growing at 26.5 percent year on year (y/y), surpassing its pre-pandemic growth rate, which peaked at 25.5 percent in January 2020. The manufacturing exports of the top three items, which are garment, travel goods, and footwear (GTF) products, reached US\$3.1 billion, or a 25.2 percent increase y/y. Moreover, the prospects of garment orders remain strong until the end of the year. Reflecting initial success in diversifying product exports, the share of the GTF product exports noticeably declined to 64.5 percent of total merchandise exports in 2022, down from 77.6 percent in 2019 (figure 4). The main policy measures introduced by the authorities to diversify exports are the newly introduced Law on Investment and recently launched Economic Recovery Plan (ERP) for 2021–23. The new Law on Investment may help improve worker productivity, given the incentives it offers on the provision of skills training, housing, nurseries, health facilities, and transportation services to workers. Incentives provided to research, development, innovation, and machinery modernization may also promote new technology

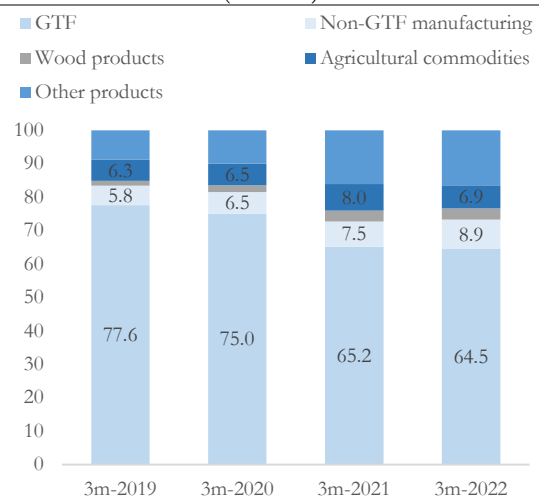
**Figure 3. Goods exports accelerated**  
(US\$ million)



Source: Cambodian authorities.

Note: GTF = Garment, travel goods, and footwear.

**Figure 4. Goods exports were increasingly driven by non-GTF products**  
(% share)



Source: Cambodian authorities.

Note: GTF = Garment, travel goods, and footwear.



adoption and transfers. The ERP aims to build the foundation for economic growth, targets diversification and competitiveness, while further deepening investment climate and doing business reforms.

**Exports of non-GTF manufacturing products, which include bicycles, vehicles, and electrical parts and cables,** also accelerated, reaching US\$426 million, or a 48.4 percent y/y increase. Its share rose to 9 percent of total goods exports in 2022, up from 5.8 percent in 2019. Exports of agricultural commodities, which mainly include rice, rubber, banana, and sugar, accounting another 9 percent of total goods exports, reached US\$331 million (see detailed discussion on agricultural commodity exports in the agriculture section, below).

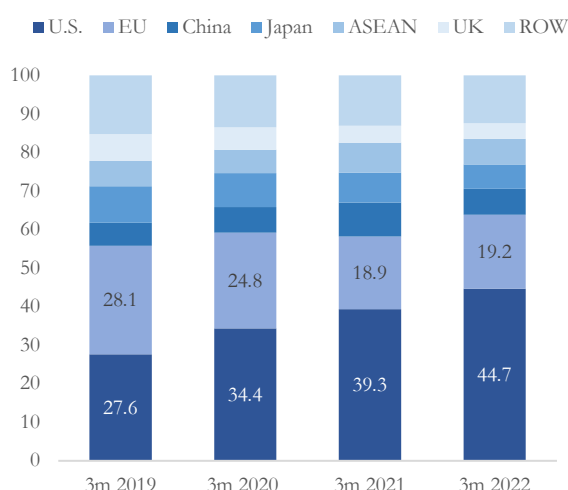
**Garment exports remained Cambodia's largest export item.** Garment exports reached US\$2.1 billion, or a 20.4 percent y/y increase during the first quarter of 2022. Despite its accelerated growth rate, garment exports no longer account for the majority of goods exports. Its share declined from 60 percent in 2019 to 44.4 percent of total goods exports in 2022. Exports of travel goods surpassed those of footwear products and became the second-largest item, accounting for US\$468 million (9.7 percent of total goods exports), with a whopping y/y rise of 46.5 percent, followed by exports of footwear products, which reached

US\$421 million (8.8 percent of total goods exports) or a 33.2 percent y/y increase. There has been only a marginal increase in the minimum wage to US\$194 a month in 2022, up from US\$192 a month in 2021. The marginal increase helps support Cambodia's external competitiveness during the time of COVID-19.

## Goods exports to the U.S. market continued to surge

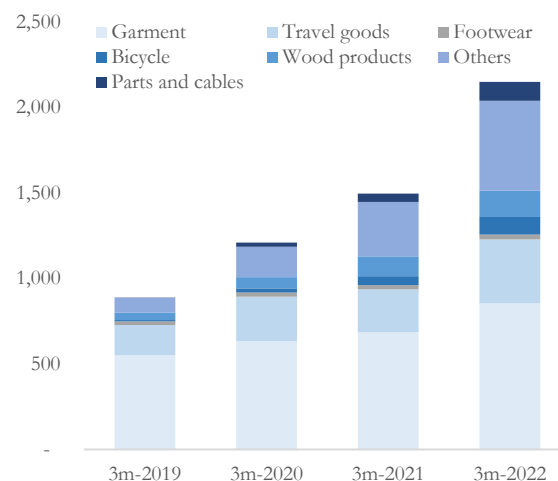
**Cambodia's merchandise exports to the United States continued to surge.** Goods exports destined for the U.S. market reached US\$2.1 billion, with a whopping y/y rise of 43.7 percent during the first three months of 2022, despite expiration of the U.S. Generalized System of Preferences (GSP) program on December 31, 2020, reauthorization of which is pending U.S. congressional approval.<sup>2</sup> Since 2020, the United States has been Cambodia's largest export market (figure 5). The share of the U.S. market in total goods exports rose quickly to 44.7 percent in 2022, from 27.6 percent in 2019 at the expense of that of the European Union (EU) market, which declined to 19.2 percent from 28.1 percent during the same period, partly affected by the partial withdrawal of the EU's Everything But Arms preferential treatment, effective August 12, 2020 (affecting approximately 20 percent of Cambodia's exports to the EU).<sup>3</sup> The third-, fourth-, and fifth-largest Cambodian goods export markets are China, Japan,

**Figure 5. Goods exports to the U.S. market continued to surge**  
(% share)



Source: Cambodian authorities.  
Note: ROW = rest of the world.

**Figure 6. Garment, travel goods and footwear exports to the U.S. market continued to accelerate**  
(US\$ million)



Source: Cambodian authorities.

<sup>2</sup> See <https://www.cbp.gov/trade/priority-issues/trade-agreements/special-trade-legislation/generalized-system-preferences>.

<sup>3</sup> For more details, please see <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2113>.

and the United Kingdom (U.K.), which account for 6.7 percent, 6.3 percent, and 4.1 percent, respectively. Cambodia's goods exports to the rest of the world account for 12.4 percent of the total, of which the majority (7.4 percent) are destined for ASEAN member countries.

**For the U.S. market, garment and travel goods are the two largest export items, accounting for 39.7 percent and 17.4 percent, respectively** (figure 6). While garment exports have been the top export item for decades, travel goods product exports have emerged since the U.S. expanded duty-free access to cover travel goods made in Cambodia under its U.S. GSP scheme in 2016.<sup>4</sup> In 2021, the duty-free access scheme expired, and its renewal is pending U.S. Senate approval. Still, the exports of travel goods products to the U.S. market continued to surge. The third-largest item is wood products, accounting for 7.2 percent of total exports. The exports of combined vehicle and electronic parts and cables are still emerging, accounting for 5.1 percent. Exports of bicycles captured 4.8 percent.

### Approvals of FDI projects picked up amid the reopening of the economy

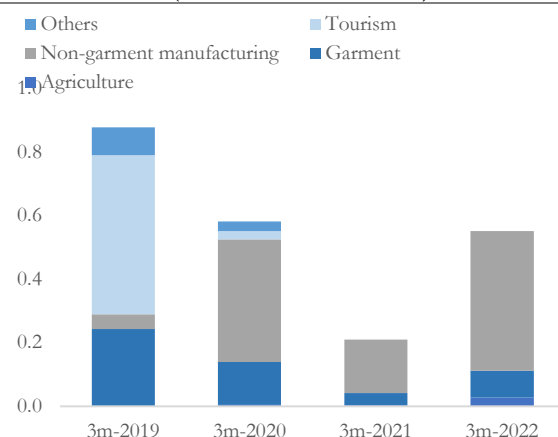
**Approved (fixed asset) FDI project value investing in the real sector accelerated, reaching US\$552 million** or 162.6 percent y/y during the first quarter of 2022, largely financing

non-garment manufacturing industries (figure 7). Of the US\$552 million approved FDI project value, the energy sector received US\$397 million, reflecting rising demand for energy for diversification in manufacturing (beyond garments). The garment and agriculture sectors obtained US\$89 million and US\$28 million, respectively. Agricultural commodity exports are being strengthened by foreign investment in fruit (banana and mango) plantations and packaging to take advantage of the CCFTA. China, which includes mainland China; Hong Kong SAR, China; Macau SAR, China; and Taiwan, China, remains the largest foreign investor in Cambodia, accounting for about 67.6 percent of total approved FDI project value in 2022. Unlike during the pre-pandemic period, foreign investors' appetite for investing in large-scale tourism development projects seem to have virtually ceased.

### Sluggish property development project activity continued

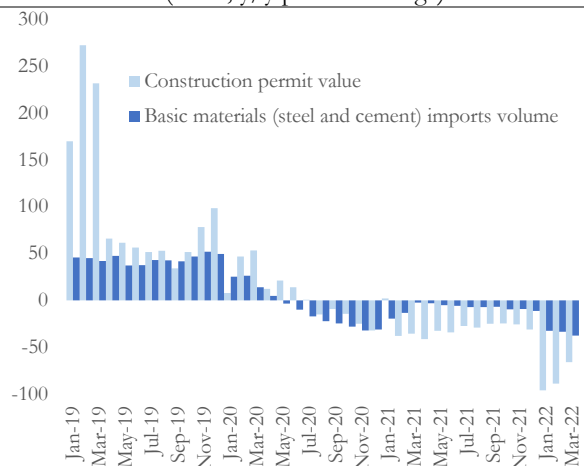
**The pandemic hit residential construction activity hard.** In 2022, only 5 percent of the expected supply of new condominium units were completed in the first quarter.<sup>5</sup> New launches have slowed as the market tries to absorb the remaining stock. Average sale prices of high-end condominiums continued to slide, while the prices of affordable and midrange condominiums stabilized. The condominium market was initially driven by foreign demand, given that locals were

**Figure 7. Approved investment projects financed by FDI recovered**  
(fixed assets, US\$ billion)



Source: Cambodian authorities.

**Figure 8. Approved construction permits and construction material imports contracted**  
(YTD, y/y percent change)



Source: Cambodian authorities.

Note: YTD = year-to-date.

<sup>4</sup> See <https://www.voanews.com/a/us-expands-duty-free-access-travel-goods-cambodia/3406621.html>.

<sup>5</sup> Q1 2022 Market Insight, CBRE Cambodia; <https://images.cbre.com.kh/2021/10/20220407-Presentation-Figures-2022-Q1-For-circulation.pdf>.

relatively new to living in high-rise residential buildings. When the pandemic hit, foreign demand was interrupted. As a result, most FDI-financed property investment, especially in high-rise development projects in the urban centers such as Phnom Penh and Sihanoukville, were suspended. Excess supply may have resulted in reduced foreign investor appetite for investing in property development projects. Approved FDI financing of property and real estate development declined from US\$1.78 billion in 2019 to US\$142 million in 2020. Reflecting sluggish demand in the property and real estate market, approved construction permit value contracted by 66.0 percent (figure 8) during the first three months of 2022. Similarly, approved construction permit area contracted by 67.9 percent y/y. During the same period, the volumes of basic construction material (cement and steel) imports mainly used for the construction industry contracted by 37.5.

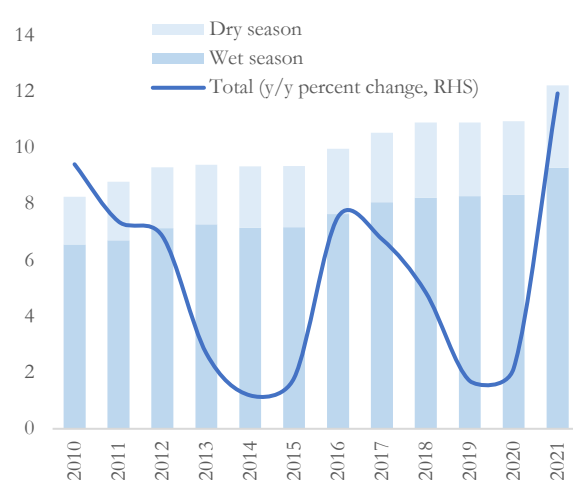
**For several years preceding the crisis, the construction and real estate sector had been the largest engine of growth**, contributing more than a third of GDP growth. Sihanoukville was one of Cambodia's urban centers that experienced the most rapid construction boom during the pre-pandemic period. The seaside provincial capital received US\$5.8 billion of approved construction projects in 2019–20. As a result, it was transformed into an investment boomtown, initially backed by a casino industry. Currently, tourism-dependent cities such as Siem Reap and Sihanoukville continue

to struggle as international arrivals remain nowhere near the pre-pandemic levels. While prospects remain uncertain, property booms, backed by entertainment industries, namely casinos and resorts such as those in Sihanoukville, may occur once the pandemic (and China's zero-COVID-19 policy) is behind us. After the moratorium on new casino permits in 2019, a Law on Management of Commercial Gambling was promulgated in November 2020, the first article of which aims to boost the economy, bolster tourism, collect revenue, and establish social safety and security. In October 2021, the authorities issued a Prakas (regulation) on legal and regulatory requirements for obtaining, transferring, and extending casino and gambling licenses.<sup>6</sup> Several ongoing large infrastructure projects mostly financed by public-private partnerships are being built to support the tourism industry. Those include the new (US\$2.0 billion) Phnom Penh-Sihanoukville Expressway, a new (US\$1.5 billion) Phnom Penh international airport, a new (US\$880 million) Siem Reap international airport, and a new Koh Kong international airport (US\$350 million).

## Better weather conditions improved rice production

**In 2021, total rice production surged, reaching 12.2 metric tons, marking a 11.6 percent y/y increase.** The surge was driven largely by an increase in wet season rice production, thanks to more favorable weather conditions.<sup>7</sup> Of a 12.2

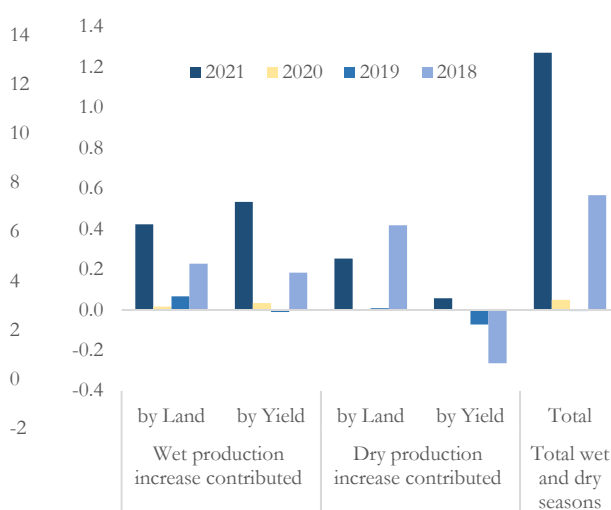
**Figure 9. Paddy rice production surged**  
(In millions of metric tons)



Source: Cambodian authorities.

Note: RHS = Right-hand scale.

**Figure 10. Better wet season rice production boosted total rice production**  
(In millions of metric tons)



Source: Cambodian authorities.

<sup>6</sup> Prakas No. 002, date October 21, 2021.

<sup>7</sup> Annual Report for 2021–22, Ministry of Agriculture, Forestry and Fisheries.

million metric ton rice production, wet season rice contributed 9.26 million metric tons (76 percent) and dry season rice production contributed 2.93 million metric tons (24 percent) (figure 9). According to the U.S. Department of Agriculture Foreign Agriculture Service, the production year 2021–22 was positive for rice farming thanks to better weather conditions coupled with increased adoption of new technologies, such as the use of drones to efficiently spray pesticides.<sup>8</sup>

**Three-quarters of the increase, or about 1 million metric tons, were contributed by wet season rice production expansion,** while a quarter was contributed by dry season rice (figure 10). Better weather conditions allowed for increases in rice cultivated and harvested areas which expanded to 3.6 million hectares and 3.4 million hectares in 2021, respectively, up from 3.4 million hectares and 3.2 million hectares in 2020, respectively. In addition, increased adoption of new technologies and seeds boosted wet and dry season rice yields to 3.5 metric tons per hectare and 4.5 metric tons per hectare in 2021, respectively, up from 3.3 metric tons and 4.4 metric tons in 2020, respectively. The major non-rice agricultural products are rubber and cassava. In 2021, rubber production reached 0.4 million metric tons or an 8.3 percent increase, while cassava production reached 14.7 million metric tons or a 16.1 percent increase. Rubber and cassava ranked second and third in terms of agricultural commodity product value and exports, after rice.

**Production and exports of mangos and bananas are showing promising signs.** Several fresh fruit products, especially mango and yellow banana, are emerging. Yellow banana is now one of the most promising non-rice agricultural products with exports increasing to US\$168 million in 2021, up from US\$112 million in 2020 (and US\$49 million in 2019). In the first three months of 2022, yellow banana exports accelerated further, reaching US\$59 million. Mango products are also slowly emerging. Exports of mangos reached US\$10 million in 2021.

<sup>8</sup>

See <https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Grain%20and%20Feed%20Annual%20Phnom%20Penh%20Cambodia%20CB2022-0001> for details.

## Rising ocean freight costs are hitting agricultural exports hard

**Rising oil prices are hurting exports of agricultural commodities.** Unlike electronics, garments, travel goods, and footwear, agricultural commodities are heavy and relatively cheap cargo, which are being affected disproportionately by rising ocean freight costs due to supply chain disruptions (shortage of empty containers), caused by the pandemic, and the oil price shock, triggered by the war in Ukraine. According to the Cambodia Rice Federation, trucking costs to Cambodia's main ports recently increased by 10 to 20 percent. The freight costs are now unpredictable, depending on the volatility of oil prices. Long-distance freight has been particularly hard hit. Despite the end of the trade safeguard measures imposed by the EU on Cambodian rice in January 2022,<sup>9</sup> saving rice exporters €125 per metric ton, the high ocean freight rates, which have increased several times in the past few years, will continue to dampen Cambodia's rice exports to the EU market. Agricultural commodity exports to long-distance market destinations such as the European market are estimated to have declined by 30 percent. (See the Special Focus Section on Post-pandemic supply chain disruptions: strategies to reduce logistics costs.)

**Similarly, negative impacts of China's zero-COVID-19 policy affect non-rice agricultural commodity exports,** especially banana and mango, which have just emerged as promising products. The policy hits mango and banana products exported inland via Vietnam to China hardest. The policy causes delays and congestion, resulting in spoiled and undelivered products. Direct exports via seaports to China are even tougher. Due to increased freight rates of refrigerated containers, imported fruits from Cambodia become less competitive against domestically produced fruits in China, discouraging Chinese importers from importing fruits from Cambodia.

**The oil price shock has started to affect agricultural production, as the prices of fertilizer and pesticide have increased.** As a result, farmers have to increase prices of their

<sup>9</sup> The European Union imposed safeguard measures on rice from Cambodia. On January 18, 2019, the European Union reinstated the normal customs duty on Cambodia's rice products of €175 per ton in year one, progressively reducing it to €150 per ton in year two, and €125 per ton in year three (<https://trade.ec.europa.eu/doclib/press/index.cfm?id=1970>).

agricultural products, especially paddy rice prices, to compensate for the increases of input costs. To cope with the oil price shock, some farmers are now switching to other crops that are more tolerant to climate change and pests, and to high-value crops, in order to survive.

**Nevertheless, rice exports to China have improved somewhat this year**, thanks to the memorandum of understanding signed between China and Cambodia to purchase around 400,000 metric tons of rice in 2022. The relatively good performance of the Chinese market has helped cushion Cambodia's rice exports. As a result, milled rice exports marginally improved during the first four months in 2022, reaching 0.22 million metric tons, or a 14.8 percent y/y increase. They, however, remain well below the 0.3 million metric tons exported during the same period in 2020.

### The CCFTA is expected to boost agricultural commodity exports

The Cambodia-China Free Trade Agreement (CCFTA) and Regional Comprehensive Economic Partnership (RCEP) went into effect on January 1, 2022. The CCFTA and RCEP aim to increase the trade in goods (and services) by reducing and eliminating tariffs and non-tariff barriers. A study by the World Bank Group<sup>10</sup> found that all participating countries benefit from the RCEP, although gains are not distributed equally.

**Table 1. China's tariff reduction schedule under the CCFTA**  
(percent)

HS code	Agricultural products	Before	Year 1
080131	Cashew nut	12	0
080300	Banana	10	0
080450	Mango	15	0
081003	Longan	12	0
110814	Cassava starch	20	0
121221	Sugarcane	20	0
090411	Pepper	20	18
120110	Soybean	0	0

Source: Chinese authorities.

As discussed in box 2, Vietnam, Malaysia, and Cambodia are among the countries that benefit most under the "full" scenario, with reductions in tariffs, non-tariff measures, trade costs, and productivity increases. In most countries, there is a significant impact when trade costs are reduced. For Japan, most gains are associated to a fall in tariffs, in contrast to the rest of the countries, where the fall in tariffs reports very slight results, or even a negative impact, as is the case of Cambodia. The CCFTA covers more than 10,800 tariff lines for Cambodia and about 8,500 tariff lines for China. The CCFTA goes beyond what was offered under the ASEAN-China FTA, covering an additional 340 tariff lines (4 percent of the total), which includes mostly chapters 1 to 10 of Cambodia's ASEAN Harmonized Tariff Nomenclature, ranging from live animals/animal products to meat, fish, and cereals. Since January 1, 2022, about 98 percent of China's tariff lines have immediately gone to zero tariff rates (see box 3 for more details). Of the 340 commodities, 95 percent are untaxed.

**Cambodia's agricultural commodity exports to the Chinese market are expected to increase further.** Thanks to the CCFTA, the Chinese tariffs on Cambodia's exports of cashew nut, banana, mango, longan, and cassava starch decreased from 20 percent to zero percent (table 1). The Chinese tariff on pepper is reduced from 20 percent to zero

**Table 2. Cambodia's main agricultural commodity exports to China**  
(metric ton)

	2019	2020	2021
<b>Rice</b>	214,381	254,450	312,945
(% share of rice exports)	38.6	39.1	49.2
<b>Cassava</b>	43,744	33,817	103,611
(% share of cassava exports)	52.1	45.1	67.2
<b>Banana</b>	19,150	257,028	354,856
(% share of banana exports)	17.1	92.8	99.7

Source: Cambodian authorities.

<sup>10</sup> World Bank Group 2022. Estimating the Economic and Distributional Impacts of the Regional Comprehensive Economic Partnership. See <https://openknowledge.worldbank.org/handle/10986/37012>.



percent after 10 years. With the zero tariff, exports of these agricultural commodities to the Chinese market will increase. The Chinese tariffs on rice, corn, refined sugar, unmanufactured tobacco, and natural rubber under the CCFTA, however, remain at 65 percent, 20 percent, 50 percent, 10 percent, and 20 percent, respectively. Even before the CCFTA took effect, exports of Cambodia's agricultural commodities – rice, cassava, and banana – increased quickly (table 2).

## Tourism activity has gradually recovered

**The travel and tourism industry has gradually recovered**, underpinned initially by domestic travel and tourism after the relaxation of travel restrictions started in October 2021. With the reinstatement of the Visa on Arrival program, removal in March 2022 of the requirement for a negative PCR test obtained 72 hours before arrival in Cambodia, and elimination of (outdoor) mandatory mask wearing in April 2022, the tourism sector is now wide open for international visitors. Cambodia has prepared for the return of international arrivals, with the introduction of the Siem Reap tourism development masterplan for 2021–35 in October 2021 and completion in March 2022 of a US\$150 million public investment project to develop the physical infrastructure, consisting of 38 roads with a total length of 108 kilometers (80 miles) in Siem Reap. According to the Ministry of Tourism, more than 5 million domestic tourists visited various tourist attraction sites across the country during the Khmer New Year in mid-April 2022. International arrivals have also started to

improve, and reached 95,000 during the first two months of

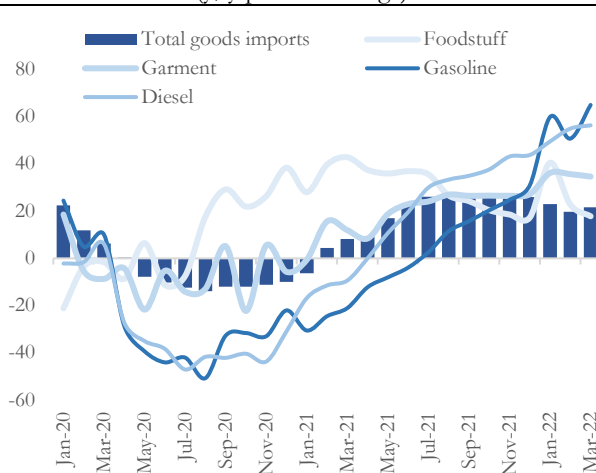
2022, or a 131 percent y/y increase. During the pre-pandemic period, tourism (including hospitality) was the second-largest growth driver, estimated to have contributed about 18.7 percent of real GDP growth in 2019. The tourism sector is an important foreign exchange earner, accounting for more than three-quarters of Cambodia's services exports, and about one-fifth of its total goods and services exports.

## Domestic consumption recovered

**Thanks to the reopening of the economy, domestic consumption, which accounts for about three quarters of GDP, has recovered.** During the first three months of 2022, imports of goods (excluding gold) grew at 21.6 percent y/y. Imports of both consumer goods and durable goods strengthened, reflecting improved consumer confidence, supporting a broad-based economic recovery to take shape. Imports of consumer goods such as foodstuffs and garments rose to 17.8 percent and 34.6 percent, respectively (figure 11). Imports of petroleum products, namely gasoline and diesel products, grew at 64.9 percent and 56.3 percent, respectively. Imports of durables goods such as passenger cars and tractors accelerated further, growing at 14.2 percent and 36.5 percent, respectively.

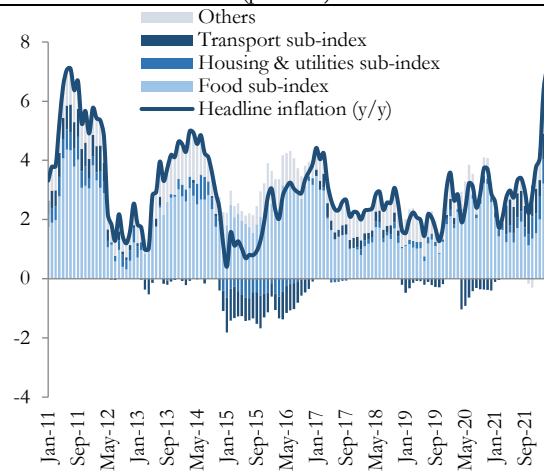
## Inflation reached 7.2 percent, hitting a 13-year high

**Figure 11. Goods imports accelerated as domestic consumption recovered**  
(y/y percent change)



Source: Cambodian authorities.

**Figure 12. Inflation accelerated**  
(Contributions to 12-month inflation)  
(percent)



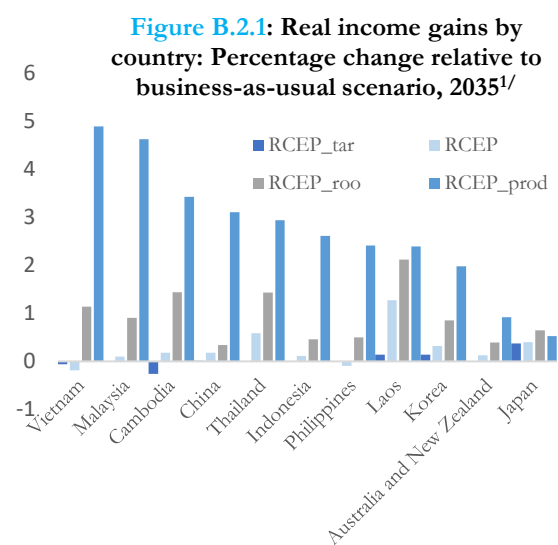
Source: Cambodian authorities.

## Box 2. Potential benefits of the Regional Comprehensive Economic Partnership for Cambodia

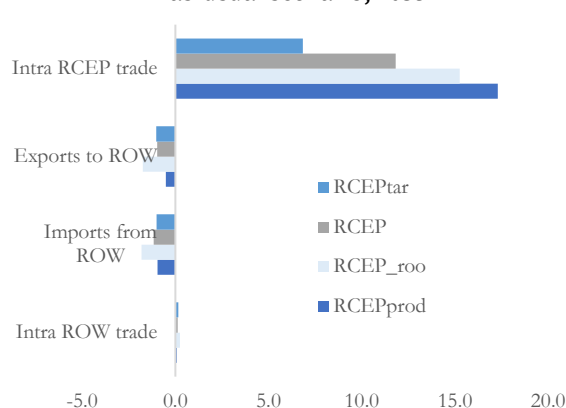
A recent World Bank Group policy research working paper entitled “Estimating the Economic and Distributional Impacts of the RCEP,” shed some light on how Cambodia and other RCEP members can potentially gain from free trade agreements. It found that reductions of tariffs and non-tariff measures, implementation of rules of origin, and trade costs together with productivity gains stemming from trade cost reductions can strengthen regional trade and value chains among RCEP members. At the aggregate bloc level, the study indicates that with more liberal rules of origin, the gains in real income could double compared to tariff liberalization alone. When productivity gains are considered, the real income of the whole trade bloc could be boosted by 2.5 percent compared to the baseline, lifting 27 million additional people to middle-class status by 2035.

The study provides empirical evidence on the impact of the RCEP for Cambodia’s economy, in terms of real income gains and trade. Considering the full scenario, called “RCEP\_pro,” with reductions in tariffs, non-tariff measures, trade costs, and productivity increases, Cambodia is among the countries that benefit the most, with real income increases around 3.5 percent, which are the third-largest income gains after Vietnam (4.9 percent) and Malaysia (4.6 percent) (figure B.2.1). However, the fall in tariffs alone will exert a negative impact on real income in Cambodia (2.6 percent). This is associated to a fall in tariff revenue and negative terms of trade, with prices of exports dropping faster than import prices. However, Cambodia’s real income will significantly increase from a fall in non-tariff measures such as rules of origin liberalization). Due to the RCEP impact on trade, significant gains are expected (figure B.2.2).

The study also found that exports increase for all RCEP member countries under all RCEP scenarios. The increase in trade is higher when the full scenario “RCEP\_pro” with productivity kick is assumed. Under this scenario, Cambodia is among the countries with a higher increase in exports, with a surge of exports around 6.5 percent, after Vietnam (11.4 percent), Japan (8.9 percent), and the Philippines (8.5 percent). For Cambodia, in terms of exports, wood, and paper products (34.8 percent), chemicals, rubber, plastics (25.3 percent), and electrical equipment and machinery (24.2 percent) expand the most, as a result of tariff reductions in the case of chemicals and plastics (a 2 percentage point reduction, between 2035 and 2020), and due to non-tariff measure reductions for wood and paper (a 14.8 percentage points decrease between 2035 and 2020).



**Figure B.2.2: Impact on trade: Percentage change relative to business-as-usual scenario, 2035**



Source: Estrades Pineyrua et al. 2022.

Note: 1. The scenarios include (i) **RCEP\_tar/RCEPtar**, with policy instrument of the RCEP tariff reduction schedule; (ii) **RCEP**, with policy instrument of tariff and non-tariff measures (NTM): RCEP tariff reduction schedule and preferential NTM reduction: -35% agricultural goods, -25% manufacturing goods, -25% on services, 10% non-preferential NTM reduction; (iii) **RCEP\_roo**, with policy instrument of tariffs, NTM, and trade costs: RCEP tariff reduction schedule NTM reduction as in RCEP and 1% reduction in trade costs among RCEP members; and (iv) **RCEP\_pro/RCEPprod**, with policy instrument of tariffs, NTMs, and trade costs: **RCEP\_roo** with productivity increase.

**Inflationary pressures have risen, led by rising food and oil prices triggered by the Russia–Ukraine conflict.** Headline inflation accelerated to 7.2 percent y/y in March 2022, hitting a 13-year high, caused largely by rapidly rising prices of food

and petroleum products (figure 12). The contribution of the food subindex, which accounts for 43.2 percent of Cambodia’s Consumer Price Index (CPI) basket, doubled, reaching 3.1 percentage points in March 2022, up from 1.6

percentage points during the same period last year, driven largely by rising prices of rice, beef, fish, fruits, and vegetables. The contribution of the transport subindex also climbed to 1.3 percentage points, up from zero percentage points during the same period last year as petroleum prices surged. The contribution of the housing (and utilities) subindex also increased, to 1.2 percentage points, up from 0.2 percentage points, as costs of housing maintenance and repair materials soared.

**Rising oil prices have a cascading effect on the costs of essential goods and services.** As reflected in Cambodia's CPI basket, the weighted average inflation of utilities, transport, education, and recreation fees surged, reaching 10.5 percent y/y in March 2022, up from 1.2 percent during the same period last year (figure 13). Similarly, the weighted average inflation of household furnishings, construction materials, medical supplies, and personal appliances goods accelerated to 5.6 percent, up from 0.6 percent. The weighted average inflation of housing maintenance, clothing repair/cleaning, medical care, and personal care wages also rose, reaching 2.9 percent y/y, up from 1.8 percent. Rising oil prices are contributing to the increase in the cost of living, limiting the purchasing power of consumers.

**The negative impact of the oil price shock on inflation is exacerbated by high transport costs.** The relatively high transport costs, as reflected in the weight of the transport and communication component in Cambodia's CPI consumption basket of 12 percent, which is higher than the 9.4 percent in Vietnam (figure 14), can be attributed to a number of factors (see Special Focus Section on Post-pandemic supply chain disruptions: strategies to reduce logistics costs). Among all ASEAN

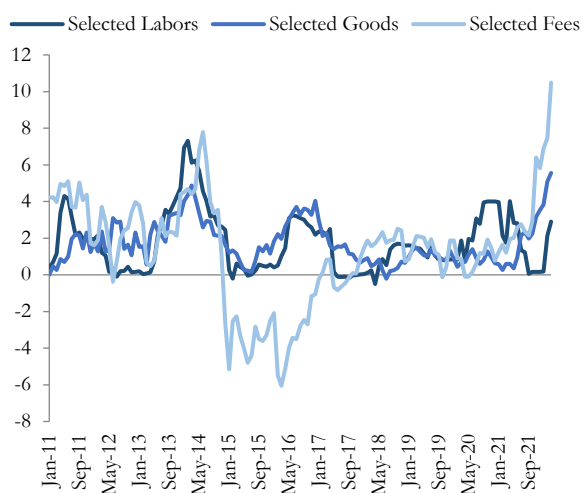
members, Cambodia has a relatively low (paved) road density – that is, the ratio of the length of the country's total road network to its land area. In addition, Cambodia imports 100 percent of its petroleum products. The fuel products it imports also account for a relatively large proportion of GDP (6.2 percent), suggesting that price rises may have a comparatively larger impact on economic activity, weighing on household budgets. The income effects hit consumer demand, and higher input costs constrain production.

**Globally, price pressures also quickly rose, spilling over to Cambodia's dollarized economy.** The rapid stimulus-led rebound in the United States has contributed to higher inflation. The United States recorded a 41-year-high inflation rate of 8.5 percent in March 2022. Given that Cambodia's economy is highly dollarized, and the riel has been pegged to the dollar, rising inflation in the United States leads to rising domestic price pressures, which often results in "imported" inflation.

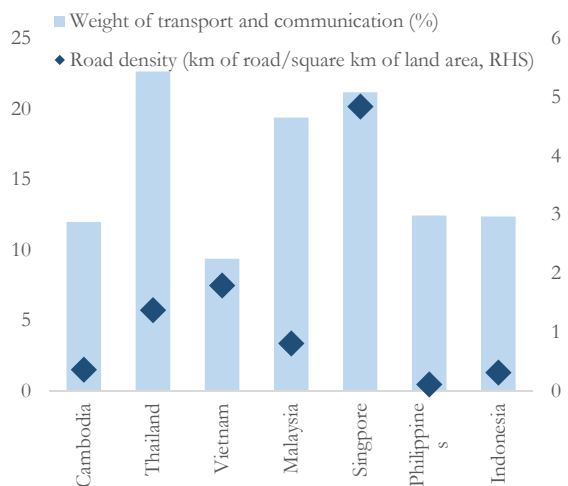
### The trade balance initially improved

**During the first quarter of 2022, the trade deficit is estimated to have narrowed,** while FDI inflows have somewhat improved. Cambodia's goods export growth accelerated, surpassing its pre-pandemic growth rate. In the first quarter of 2022, merchandise exports surged, while merchandise imports eased, leading to temporary improvements in trade and the current account balance. Total goods exports grew by 28.7 percent

**Figure 13. Inflation of selected goods, labor, and fees accelerated**  
(y/y percent change)



**Figure 14. Weights of transport and communication component in CPI baskets and road densities<sup>1</sup>**





**Box 3. Potential benefits of the Cambodia-China Free Trade Agreement<sup>1</sup>**

There are substantial potential economic benefits to be gained from the Cambodia–China Free Trade Agreement (CCFTA), which went into effect on January 1, 2022. This FTA has been widely viewed as a catalyst for economic growth in the post-COVID-19 pandemic era. Based on *Trade Atlas 2022*,<sup>2</sup> Cambodia's exports to China have been expanding rapidly, rising from US\$65 million 2010 to US\$1.5 billion in 2021.

Under the CCFTA, over 90 percent of tariff lines of trade in goods for both sides enjoy zero tariff, and the service market commitments also represent the highest levels among the two sides' agreements with their free trade partners.<sup>3</sup> Policymakers are optimistic about this FTA, arguing that this deal would also increase access to China, which is a huge market for Cambodia, particularly for potential agricultural products such as rice, banana, and mango, among others.<sup>4</sup> According to official sources, this deal is projected to raise Cambodia's annual export growth rate to China by 25 percent.<sup>5</sup> The CCFTA is expected to also attract more foreign investors, especially Chinese ones, to the country.

As summarized in table B3.1, there is substantial potential for Cambodia's agricultural commodities to be exported to the Chinese market under the Chinese zero tariff lines. The tariffs for all agricultural commodities, except those for rice, corn, cane, unmanufactured tobacco, and natural rubber, dropped from 12 to 20 percent to zero percent in year 1.

**Table B3.1. The Chinese tariff schedule, exports to the Chinese market, and domestic production**

HS code	Main products Items	Tariff (%)		Exports to China ('000 ton)			Production ('000 ton)		
		Before	Year 1	2019	2020	2021	2019	2020	2021
				Untapped potential as production is much larger than exports					
0801	Cashew nut	12	0	2	4	2	209	242	473
0803	Banana	10	0	19	257	355	613	478	616
0804	Mango	15	0	0	0	6	1,449	1,382	2,197
1108	Cassava (starch and fresh)	20	0	44	34	104	13,513	12,684	13,233
1212	Sugar	20	0	31	0.0	0.0			
0904	Pepper*	20	18	0.0	0.0	0.0	21	18	18
1201	Soybean	0	0	0.0	0.0	0.0	42	30	16
1006	Rice (paddy)**	65	65	214	254	313	10,886	10,936	12,207
1005	Corn	20	20	0	0	0	985	822	614
1701	Cane sugar	50	50	0	0	0	618	681	2,422
2401	Unmanufactured tobacco	10	10	0	0	0	7	7	0
4001	Natural rubber (rubber)	20	20	18	14	12	288	349	368
4203	Garment (clothing)	24	0	13	11	11			
4202	Travel goods (bags)	24	0	1	1	2			
6401	Footwear (shoes)	24	0	3	4	4			
8711	Bicycle	45	0	2	6	9			
8712	Motorcycle	13	0	0	0	0			

Sources: Ministry of Commerce, People's Republic of China (<http://fta.mofcom.gov.cn/topic/encambodia.shtml>); and the Ministry of Agriculture, Forestry and Fisheries, Royal Government of Cambodia. Annual Reports for 2019–2020, 2020–2021, and 2021–2022.

Note: \*Tariff rate will be reduced to zero at year 10. \*\*Tariff reduction for rice and exports, but paddy figures for production.

To this end, a long list of agricultural commodities, which include cassava, mango, banana, cashew nut, and soybean, could benefit from the Chinese zero tariff lines, as their production is much larger than their exports to the Chinese market. Exports of three key agricultural commodities, namely mango, banana, and cassava, were reported to have increased significantly. Impact of tariff reduction on major non-agricultural products such as garment, travel goods, footwear, bicycles, and motorcycles is unlikely to be substantial due to product specific rules which require that these non-agricultural products undergo sufficient transformation.

(figure 15), driven largely by exports of main manufacturing products, namely garment, travel goods, and footwear, which grew at 20.7 percent.

In contrast, imports growth decelerated. Due to the decline of gold imports, total merchandise imports in the first quarter of 2022 contracted by 0.9

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**Box 3. Potential benefits of the Cambodia-China Free Trade Agreement (cont'd)**


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**However, due to complicated non-tariff measures, exporting agricultural commodities to China is not easy.**<sup>6</sup> Nonetheless, the export of fresh Cambodian agricultural products such as mango and banana was made possible by a protocol for Mango Phytosanitary Requirements, which was signed in June 2020 between Cambodia's Ministry of Agriculture, Forestry and Fisheries (MAFF) and China's General Administration of Customs (GACC) of China.

**The protocol regulates how fresh mango fruits to be exported to China from Cambodia should comply with relevant Chinese laws and regulations** in order to meet the phytosanitary requirements. The protocol allows Chinese regulators to certify that specific Cambodian packing factories and farms meet all quality standards. This was previously not the case, and Cambodian exporters had to ship their produce to Vietnam before entering China.

**The surge in exports of agricultural commodities can also be attributed to the step-by-step export procedure manuals**<sup>7</sup> jointly produced by the MAFF and Germany's main development agency (Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ). Those manuals provide detailed guidelines for Cambodian private enterprises that wish to export their products to China, and can be summarized as follow for the case of mangos.

**First, businesses wishing to export mangos need to register with the MAFF's General Directorate of Agriculture**, which is responsible for sending the list of registered farms and packinghouses to the GACC. The GACC will then send inspectors to Cambodia to verify and evaluate selected registered companies on the management of growing, packaging, storage, and transportation of mangoes. Only companies approved by the MAFF and GACC can export mangoes to China.

**Second, exporters need to obtain certificates and maintain standards including inspection and quarantine by the MAFF.** These include sanitary and phytosanitary certificates, good orchard management, and compliance review. The MAFF is required to conduct a physical inspection that covers at least a 2 percent sample of the total mango quantity packed for export. All export-registered orchards need to establish and implement GAP certification. Before exporting, the GACC sends plant quarantine experts to Cambodia to carry out system compliance review; check and evaluate the management of planting, processing, storage, and transportation of mango; and the effectiveness of the export inspection and quarantine system in Cambodia.

**Third, exporters need to obtain customs declarations and supporting documents.** Exporters must comply with customs procedures and obtain export licenses and certificates of origin. Specifically, exporters must register with the Automated System for Customs Data (ASYCUDA) at the General Department of Customs and Excise before the customs authorities automatically recognize exports, while obtaining certificates of origin from the Ministry of Commerce to certify goods were produced in Cambodia. All packing plants and storehouses must establish a traceability system to ensure that the export fruits can be traced back to the registered orchard. All mango products must be labelled.

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*Note:* 1. This box was prepared by Runsinarith Phim and Sodeth Ly.

2. <https://www.tradeatlas.com/en>.

3. [http://fta.mofcom.gov.cn/enarticle/chinacambodiaen/chinacambodiaennews/202112/46486\\_1.html](http://fta.mofcom.gov.cn/enarticle/chinacambodiaen/chinacambodiaennews/202112/46486_1.html).

4. [http://www.lmcchina.org/eng/2022-03/04/content\\_41903127.html](http://www.lmcchina.org/eng/2022-03/04/content_41903127.html).

5. <https://www.khmertimeskh.com/501062382/rcep-cambodia-china-fta-catalysts-for-economic-growth-in-post-pandemic>.

6. UNCTAD 2020.

7. Ministry of Agriculture, Forestry and Fisheries and GIZ (2020): Guidelines for Exporting Mangoes from Cambodia to China.

percent y/y. Imports of gold, which is used as a savings asset and which surged in 2021, significantly eased, declining by 47.6 percent.

**In 2021, Cambodia's current account deficit deteriorated quickly as the trade deficit widened.** A surge in imports, driven mainly by rising gold imports, which shot up to US\$5.9 billion, a sevenfold increase, as gold traders increasingly hedged against volatility, significantly worsened the trade balance. In addition, the balance of payments was also negatively impacted

by the collapse of tourism receipts. As a result, the exchange rate was under increased pressure, requiring the central bank to intervene in the foreign exchange market by injecting US\$591.2 million, while scaling down its local-currency-denominated Liquidity-Providing Collateralized

Operation (LPCO) (see more discussion on the LPCO in the monetary section below).<sup>11</sup>

## The oil price shock is worsening the terms of trade

Despite an initial improvement in the external balance, the negative terms of trade shock has started to weigh on the current account deficit. In the East Asia and Pacific (EAP) region, Cambodia is among a few countries that are heavily dependent on fuel imports (figure 16). While improving, this year's current account deficit is expected to remain large. To finance this year's continued large current account deficit, strong capital inflows must continue. The new Law on Investment, the CCFTA, and the RCEP are attracting foreign investment and regional trade. However, the zero-COVID policy in China continues to constrain capital inflows from quickly accelerating. Moreover, the U.S. Federal Reserve decided in March 2022 to raise the target range for the federal funds rate by half a percentage point to 3/4 to 1 percent, which may trigger tighter external liquidity conditions including for Cambodia.<sup>12</sup>

While being a rice exporter, the country has not been able to take advantage of agricultural commodity price increases. As discussed in the agricultural commodity exports section above, with further increases in ocean freight, triggered by the oil price shock, Cambodia is struggling to increase exports of rice. Moreover, the country is being

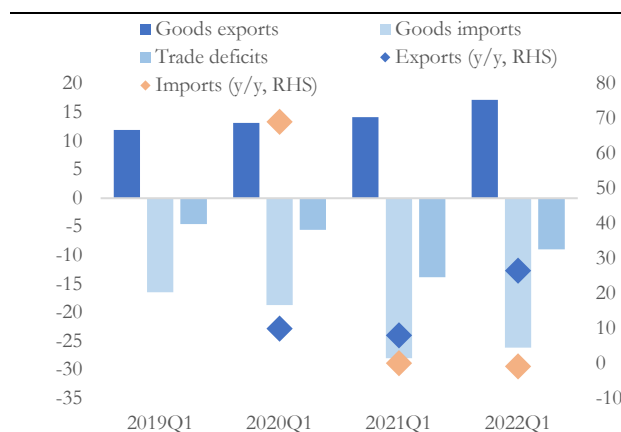
affected by rising prices of fertilizer (and pesticide), because the increase in fuel prices feeds through to increased prices of fertilizer, which is an energy-intensive commodity. Cambodia's imports of fertilizer as a percentage of GDP are among the largest in the EAP region.

## The exchange rate remained stable

In the first quarter of 2022, exchange rate stability returned as external imbalances initially improved. Foreign exchange intervention by the central bank ceased in September 2021, while nominal values of the Cambodian riel vis-à-vis the U.S. dollar remained broadly within the targeted  $\pm 2$  percent range. The exchange rate of the riel was broadly stable, reaching 4,045 riels per U.S. dollar in April 2022, compared to 4,047 riel per U.S. dollar during the same period last year. In the first quarter of 2022, the exchange rates of the riel versus a number of Cambodia's main trading partners in the region remained broadly stable. The riel/Thai baht exchange rate marginally appreciated, reaching 122 riel per baht, down from 130 riel per baht. The riel/Chinese yuan exchange rate, however, depreciated to 639 riel per yuan, up from 625 riel per yuan. The riel/Vietnamese dong exchange rate remained broadly unchanged at 0.17 riel per dong.

## Monetary conditions continued to be accommodative

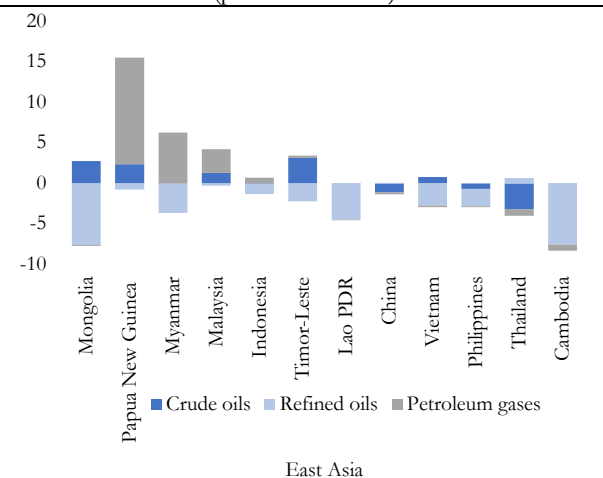
**Figure 15. The trade balance initially improved**  
(percent of GDP)



Source: Cambodian authorities.

Note: Q = quarter; RHS = right-hand scale.

**Figure 16. Cambodia is among the largest exporters of rice and importers of fertilizers**  
(percent of GDP)



Source: World Bank 2022a.

<sup>11</sup> National Bank of Cambodia 2022; [https://www.nbc.org.kh/download\\_files/publication/annual\\_rep\\_kh/Annual%20Report%202021%20Publish.pdf](https://www.nbc.org.kh/download_files/publication/annual_rep_kh/Annual%20Report%202021%20Publish.pdf).

<sup>12</sup> See <https://www.federalreserve.gov/newsevents/pressreleases/monetary/20220504a.htm>.

**Monetary policy easing continued to provide liquidity, underpinning economic recovery.** In addition to its growing operations under the LPCO arrangements, which have helped bring down the interest rates of local currency-denominated loans and establish a benchmark rate, the National Bank of Cambodia, Cambodia's central bank, introduced in September 2021, a Marginal Lending Facility (MLF), offering riel-denominated overnight loans that can be extended up to five days, using negotiable certificates of deposit as collateral.<sup>13</sup> The MLF was established to provide short-term liquidity demanded by the banking sector and to foster the development of the interbank market. The MLF aims to encourage the use of local currency in Cambodia's highly dollarized economy, of which the banking system's foreign currency (mostly U.S. dollar) deposits account for about 82 percent of broad money.

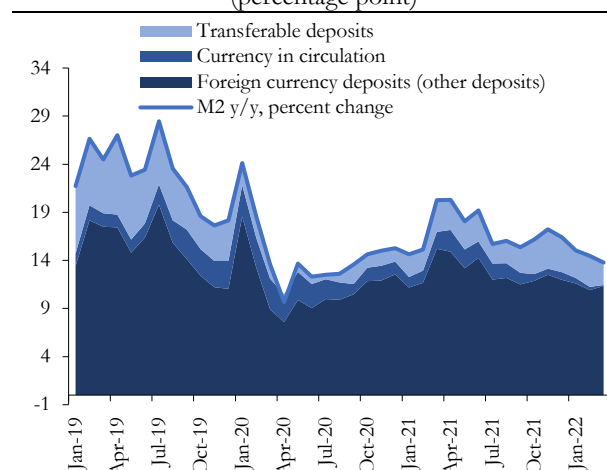
**The central bank also maintained a reserve requirement ratio of 7 percent** for both riel and U.S. dollar deposits and borrowings, and allowed the banking and microfinance sectors to continue to restructure loans until the end of 2021.<sup>14</sup> By end-2021, 370,785 borrower accounts (11.1 percent of total borrower accounts) amounting to US\$5.5 billion (12.1 percent of total outstanding credits provided to the private sector) were restructured. Of the total US\$5.5 billion restructured loans, the tourism, construction, transport and logistics, and garment sectors accounted for US\$0.98 billion (17.8 percent), US\$0.81 billion (14.7 percent), and

US\$0.28 billion (5.1 percent), and US\$0.21 billion (3.8 percent), respectively. The other sectors accounted for the remaining US\$3.2 million.<sup>15</sup>

## Broad money growth partly recovered

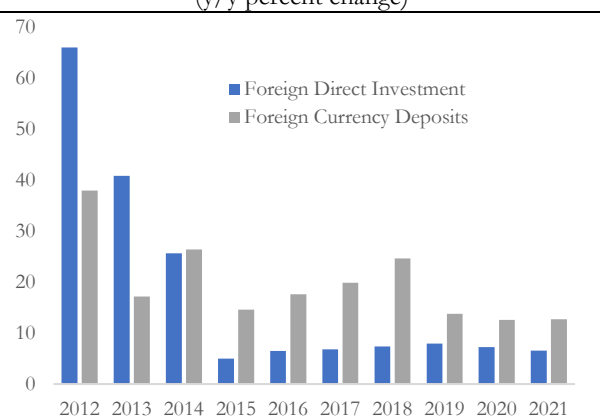
**During the first three months of 2022, broad money (M2) growth eased, thanks mainly to the deceleration of foreign currency deposits (FCDs).** M2 growth reached 13.8 percent y/y in March 2022 (figure 17), down from 20.3 percent during the same period last year. M2 growth decelerated sharply to 9.7 percent y/y in April 2020, when the country was hit hard by local outbreaks, which triggered lockdowns in many urban centers such as the capital city of Phnom Penh and Takhmao. During the pre-pandemic period, the five-year historical average of the M2 growth rate was 21.5 percent. Of the 13.8 percent broad money growth, the contribution of foreign currency deposits (and other deposits) accounted for 11.5 percentage points. The contribution of transferable deposits accounted for 2.3 percentage points. Injection of local currency into circulation continues to be constrained by the highly dollarized economy. Therefore, the contribution of (local) currency in circulation to broad money growth eased further, decelerating 0.1 percentage points in March 2022, down from 1.8 percentage points during the same period last year.

**Figure 17. Broad money partly recovered – Contribution to broad money growth (percentage point)**



Source: Cambodian authorities.

**Figure 18. Foreign direct investment inflows continued to hold up (y/y percent change)**



Source: Cambodian authorities.

<sup>13</sup> See [https://www.nbc.org.kh/download\\_files/news\\_and\\_events/announ\\_kh/IntroducingMLF.pdf](https://www.nbc.org.kh/download_files/news_and_events/announ_kh/IntroducingMLF.pdf).

<sup>14</sup> See May 21, 2021, announcement on policy easing measures (third round) by the National Bank of Cambodia.

<sup>15</sup> National Bank of Cambodia 2022. See [https://www.nbc.org.kh/download\\_files/publication/annual\\_rep\\_kh/Annual%20Report%202021%20Publish.pdf](https://www.nbc.org.kh/download_files/publication/annual_rep_kh/Annual%20Report%202021%20Publish.pdf).

**Foreign currency deposit (FCD) growth eased, expanding at 13.8 percent y/y in March 2022,** down from 19.8 percent during the same period last year. For many years, FCDs have been used as a proxy of capital inflows, mainly in the form of FDI inflows (figure 18). Rising FCDs often reflect improved confidence in the banking system and increased FDI inflows to the economy and vice versa. In addition, FCDs (mostly U.S. dollar deposits) have been attracted by Cambodia's relatively high interest rates of U.S. dollar-denominated lending and deposits. Cambodia's highly dollarized economy eliminates the exchange rate risk. Continued strong demand for credit caused in part by Cambodia's relatively low saving rate has kept domestic interest rates high. While remaining high, domestic interest rates have been declining in the past several years as capital inflows continue.

### Domestic credit growth recovered, underpinning economic recovery

**Likely reflecting an improved demand for credit as economic activity improved, domestic credit growth recovered.** Domestic credit grew at 22.4 percent y/y in March 2022 (figure 19), up from 21.1 percent during the same period last year. While the growth rate of 22.4 percent remained below the five-year average credit growth rate of 31 percent recorded before the pandemic period, it followed a more sustainable path as construction and real estate activity remained sluggish (see below for more discussion on credit to the construction and real estate sector). During the same period, the credit-to-GDP ratio also increased further, to 174

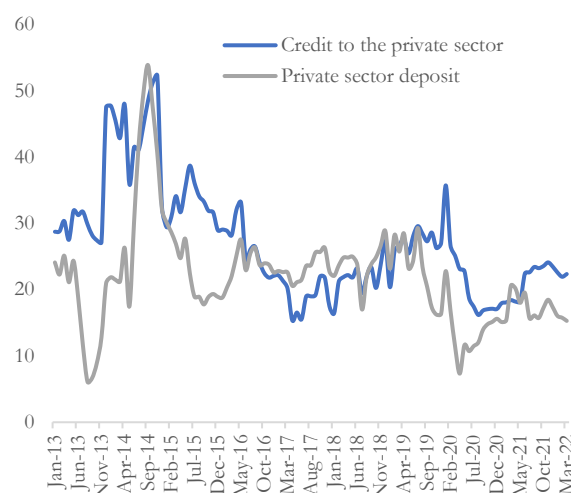
percent in March 2022, up from 142.2 percent during the same period last year.

**Deposit growth remained healthy.** Deposits grew at 15.3 percent y/y in March 2022, compared to 20.6 percent during the same period last year. The loan-to-deposit ratio therefore increased to 129.7 percent, up from 122.3 percent. Deposit growth hit its lowest growth rate of 7.3 percent in April 2020, as the pandemic hit the economy hardest. During the time of COVID-19, the deposit growth rate has been consistently below that of credit growth, and a widening gap between credit and deposit growth may indicate rising imbalances between the demand for domestic credit and the supply of credit (domestic savings). As the demand for credit increased, some banks continued to lend, regardless of the domestic deposits they received, because they obtained funding from their parent banks abroad.

### The contribution of construction, real estate to credit growth eased

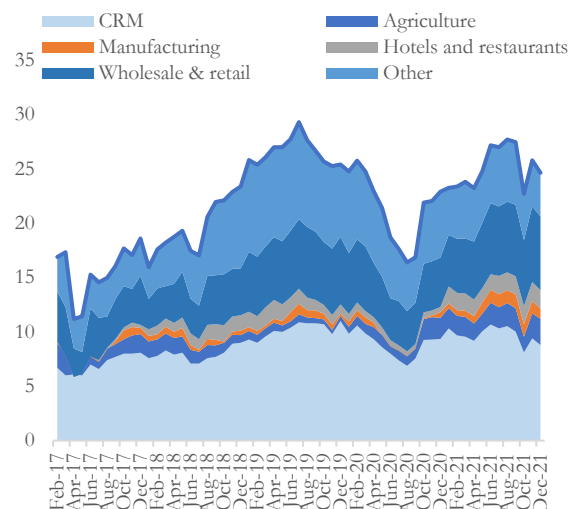
**While the demand for domestic credit remained relatively strong, domestic credit financing the construction and real estate sector eased.** Of the 24.6 percent bank credit growth as of December 2021, the contribution of construction, real estate, and mortgages was 8.8 percentage points, down from 9.4 percentage points during the same period last year (figure 20). In contrast, during the same period, the contributions of lending to wholesale and retail, agriculture, hotels and restaurants, and manufacturing to credit growth rose to 6.8

**Figure 19. Credit growth recovered, while deposit growth remained eased**  
(y/y percent change)



Source: Cambodian authorities.

**Figure 20. The contribution of construction and real estate to credit growth eased**  
(percentage point)



Source: Cambodian authorities.

Note: CRM = construction, real estate, and mortgage.



percentage points, 2.4 percentage points, 1.7 percentage points, and 0.9 percentage points, respectively, up from 4.5 percentage points, 1.9 percentage points, 0.5 percentage points, and 0.6 percentage points, respectively, reflecting an across-the-board expansion of credit financing of all business activities (except construction, real estate, and mortgage lending activity).

**In 2021, the reported overall nonperforming loan ratios remained low at 2.5 percent for the banking and microfinance sectors.**<sup>16</sup> However, given the loan restructuring process offered by banks and microfinance institutions, the reported nonperforming loan ratios may not correctly reflect the level of debt distress facing the banking and microfinance system.

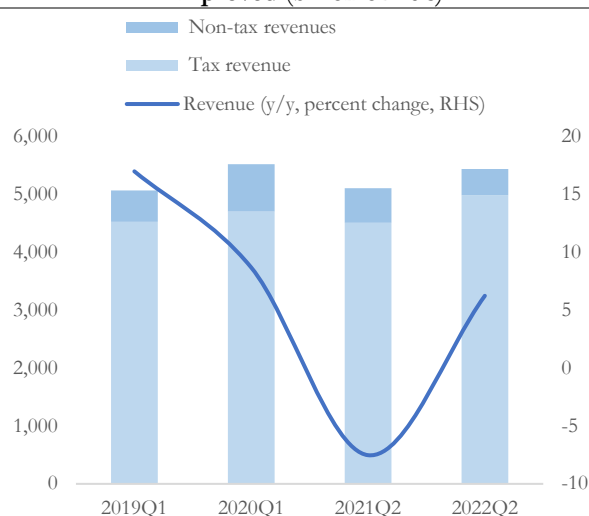
**Financial deepening continued to accelerate, and both the banking and microfinance sectors expanded.** According to the central bank, by the end of 2021, total assets of the banking sector rose by 15.9 percent to US\$58 billion, while those of the microfinance sector rose by 17 percent to US\$9.8 billion. During the same period, domestic credit provided by the banking sector rose by 20.3 percent to US\$36.8 billion, while credit of the microfinance sector rose by 25.6 percent to US\$8.5 billion. The banking sector served 1.2 million borrower accounts or an increase of 34.5 percent, while the microfinance sector lent to 2 million borrower accounts or an increase of 5.2 percent. The banking sector had 9.2 million depositor accounts or a 33.3 percent increase. The microfinance sector

maintained 2.8 million depositor accounts, or a 3.7 percent increase.

### The cash transfer program continued to support households amid rising inflation

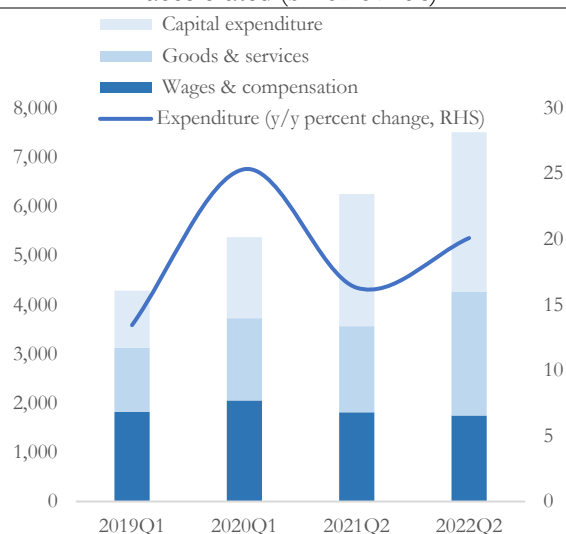
The increases in oil and food prices weighed on household budgets and consumption, but the cash transfer program helped mitigate some of the impacts. The cash transfer program, the largest component of the government's support package, continued to help mitigate negative impacts on poor and vulnerable households. Launched in June 2020, the program has disbursed US\$653 million in cash transfers as of April 2022. The program has reached about 690,000 households (2.7 million individuals) or about 17 percent of the population – a dramatic increase compared to the pre-COVID-19 level of social assistance. The COVID-19 relief cash transfers prevented almost 300,000 people from falling into poverty in 2020. The cash transfers were used to buy food when local markets had sufficient food, but the poor could not afford to purchase it. Even with the cash transfers, per capita consumption of the lowest quintile declined by 25 percent, and the program had no effect on households outside the bottom 20 percent in 2020, which were largely ineligible for the program. In addition, the energy and food price hikes due to the Russia-Ukraine conflict has imposed an additional burden and are expected to slow the pace of poverty reduction further as they weigh on household budgets. Given

**Figure 21. Central government revenue marginally improved (billion of riels)**



Source: Cambodian authorities.

**Figure 22. Central government expenditure also accelerated (billion of riels)**



Source: Cambodian authorities.

Note: CRM = construction, real estate and mortgage.

<sup>16</sup> National Bank of Cambodia 2022.

that the public and private sector wages have been effectively capped, real wages and earnings decline as inflation rises. The official poverty rate measured at the national poverty line declined by 1.6 percentage points per year during 2009–2019/20,

driven substantially by rising labor (especially wage) earnings.

## Revenue collection increased marginally

**Thanks to improved domestic economic activity, domestic revenue marginally picked up.** During the first quarter of 2022, central government revenue collection rose by 6.2 percent y/y, reaching 5,442 billion riels (US\$1.3 billion), driven largely by improved tax revenue (figure 21). Tax revenue increased by 10.5 percent, amounting to 4,980 billion riels (US\$1.2 billion), thanks mainly to better direct revenue (direct tax) collection. Direct revenue improved as impacts of the pandemic on business profit and income eased. In addition, nontax revenue, heavily dependent on tourism receipts, continued to be hard hit by the pandemic, contracting by 24.1 percent, declining to 452 billion riels (US\$110 million).

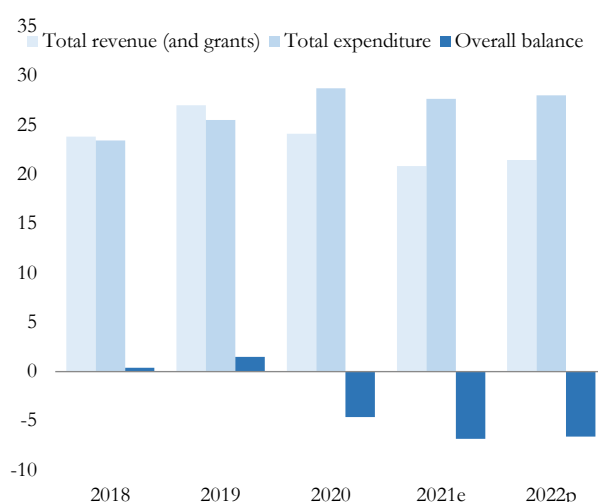
**Budget expenditures also accelerated, thanks to the rising disbursement of goods and services and capital expenditures** (figure 22). During the first quarter of 2022, central government expenditure rose by 20.1 percent, amounting to 7.511 billion riels (US\$1.83 billion), as both current and capital expenditures accelerated. Rising current expenditure was driven largely by a surge in spending on goods and

services, which grew at 43.4 percent, amounting to US\$0.43 billion, while wages and compensation were contained as public sector salaries have been frozen since 2021 to save budgetary funds to mitigate impacts of the pandemic. Capital expenditure also grew, reaching 3,249 billion riels (US\$0.79 billion), thanks to rising loan disbursements (foreign-financed capital spending), which surged by 72.1 percent, amounting to 2.255 billion riel (US\$0.54 billion) (see more discussion on loan disbursements in the public debt section below). As a result, in the first quarter of 2022, the central government budget deficit (excluding grants) of 2,069 billion riel (US\$0.5 billion) was overfinanced by foreign financing, which included both loan and grant disbursements of 2,664 billion riel (US\$0.64 billion).

## The fiscal deficit is expected to remain relatively large at 6.6 percent of GDP

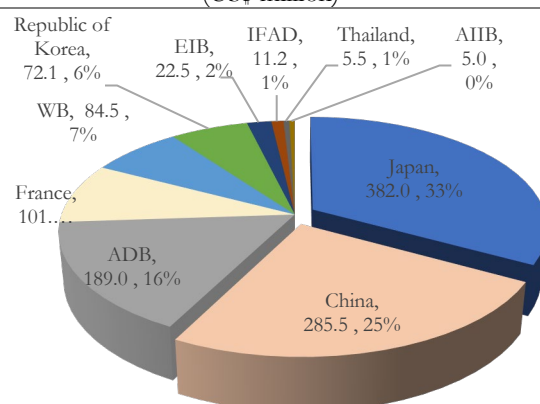
**The annual budget for 2022 is characterized by continued countercyclical fiscal support,** aiming at implementing Cambodia's economic recovery plan, which was introduced late last year. As both revenue and expenditure are expected to increase by about half a percentage point, the fiscal deficit is projected to remain elevated but unchanged at 6.6 percent of GDP in 2022 (figure 23). Revenue, including grants, is marginally improving, and is projected to reach 21.4 percent of GDP, driven largely by better tax revenue performance as economic activity is picking up, while non-tax revenue, which depends mainly on tourism receipts, continues to be subdued.

**Figure 23. The general government deficit widened**  
(percent of GDP)



Source: Cambodian authorities.  
Note: e = estimates; p = projection.

**Figure 24. Loan disbursements by creditors**  
(US\$ million)



Source: Cambodian authorities.

Expenditure is expected to reach 28.0 percent of GDP, driven by expansion of public investment and continued fiscal intervention to mitigate the impacts of the pandemic.

**Fiscal support measures are budgeted to reach 2.8 percent of GDP in 2022, down from an estimated 4.9 percent of GDP disbursed in 2021.** As discussed above, the cash transfer program continues to be the largest component of the government's fiscal support package, accounting for about 0.6 percent of GDP. Domestically financed capital spending continues to account for the majority (55 percent) of development expenditure, which is projected to reach 10.5 percent of GDP in 2022, up from 9 percent in 2021. External borrowing is expected to finance about two-thirds of the deficit, while the rest is to be financed by a drawdown of government deposits (fiscal reserves), which stood at 17.4 percent of GDP in December 2021, down from 23.7 percent at the end of 2020. Due to the oil price shock, achieving the objectives and targets under the 2022 budget are increasingly challenging as costs of goods and services increase. Public investment project cost overruns are likely, as inflation surged, resulting in rising costs of inputs such as building materials, labor, and machinery.

### **Cambodia's public debt-to-GDP ratio reached 35.0 percent of GDP by end-2021**

**Cambodia's public debt-to-GDP ratio reached US\$9.4 billion in outstanding debt by end-2021.**<sup>17</sup> To finance Cambodia's widening financing gap, the country's public debt, which consists solely of external debt, rose quickly during the time of COVID-19 to 35 percent of GDP in 2021, up from 28.2 percent of GDP in 2019. Public debt owed to bilateral and multilateral creditors accounted for 69 percent and 31 percent, respectively. Cambodia's largest official creditor is China. Total debt owed to China reached US\$4.05 billion, or 44.3 percent of total debt stock by end-2021. Cambodia's second-largest creditor is the Asian Development Bank. Total debt owed to the multilateral creditor reached US\$1.94 billion, or 20.5 percent of the total. Cambodia's third-, fourth-, and fifth-largest creditors are Japan, the World Bank, and the Republic of Korea, accounting for 9.1 percent, 7.7 percent, and 5.2 percent of total outstanding debt, respectively. Old debt, which is under negotiation

and being rescheduled, accounted for 6.64 percent of the total.

**U.S. dollar-denominated debt remained the largest, accounting for 43.5 percent of total debt stock,** followed by Special Drawing Right (SDR)-denominated debt, at 22.9 percent. Although China is Cambodia's top creditor, the country's public external debt denominated in Chinese yuan covered only 14.5 percent of total debt stock. Proceeds from external borrowing are largely invested in public infrastructure. Of total debt stock, 82 percent financed public investment in the infrastructure sector and 18 percent in other priority sectors. In 2021, Cambodia made total debt service payments of US\$382.78 million to its official creditors, of which payments of principal and interest (and fees) were US\$285.66 million and US\$97.12 million, respectively.

**Disbursements of loan proceeds by Cambodia's creditors rose during the pandemic period.** Total loan disbursements increased from US\$829.74 million in 2019 to US\$1.213 billion in 2020 to US\$1,158 million in 2021. In 2021, three main creditors, Japan, China, and the Asian Development Bank, disbursed US\$382 million (33 percent of total), US\$285.5 million (25 percent of total), and US\$189 million (16 percent of total), respectively (figure 24). The combined disbursement amount by the three creditors accounted for three-quarters of total loan disbursements in 2021.

**While the country's public debt currently consists solely of external debt, the domestic debt market is being established.** In this regard, an initial policy framework for issuance of the first government securities, newly established domestic debt instruments, was approved in October 2021. In March 2022, a Prakas on the Issuance of Government Securities was signed. The Prakas regulates issuing and trading of riel-denominated government securities in a transparent, accountable, efficient, and effective manner, while ensuring the sustainability of public debt management. Investors targeted under the initial policy framework include commercial banks, microfinance deposit-taking institutions, and other investors. The introduction of government securities will help gradually diversify financing sources with a shift toward public domestic debt,

<sup>17</sup> Cambodia *Public Debt Statistical Bulletin*, Volume 13, February 2022, Ministry of Economy and Finance.



while promoting domestic savings. It also helps de-dollarize the economy.

## Despite rising public debt, risk of debt distress remains low

The Joint Bank/International Monetary Fund Debt Sustainability Analysis (DSA) conducted in 2021 indicated that Cambodia remained at low risk of external and overall debt distress.<sup>18</sup>

The current debt-carrying capacity is consistent

with a medium classification. The baseline macroeconomic scenario reflects fallout from the COVID-19 shock on growth, exports (notably, the tourism sector), and revenues. The total PPG debt-to-GDP ratio is projected to rise by around 5 percentage points during the next decade. Overall, the analysis shows that the overall risk of debt distress is low, but debt sustainability is vulnerable to further shocks to exports and growth. These findings reinforce the importance of implementing reforms to increase the economy's resilience to

**Table 3. Macro outlook**

	2021e	2022p	2023p	2024p
<b>National Accounts and Prices</b>				
GDP at constant market prices (% change)	3.0	4.5	5.8	6.6
Agriculture	1.1	1.3	1.5	1.5
Industry	7.4	8.6	9.1	9.2
Services	-1.0	1.6	4.1	5.6
Consumer Price Index	3.5	7.2	4.5	4.0
<b>General Government (% of GDP)</b>				
Revenue and grants	20.9	21.4	22.6	24.6
Expenditure and net lending	27.7	28.0	28.8	29.2
Overall balance (including grants)	-6.8	-6.6	-6.2	-4.6
Foreign financing	3.6	5.6	4.7	4.0
Net domestic financing (from current savings)	4.4	2.2	2.8	1.9
Amortization	-1.2	-1.2	-1.3	-1.3
<b>Money and Credit</b>				
Broad money (% change)	20.0	21.4	21.0	22.5
Credit to the private sector (% change)	23.2	25.8	28.1	28.5
<b>External Sector (US\$m unless otherwise stated)</b>				
Exports (goods and services)	20,731.2	25,891.4	32,484.2	39,942.6
Imports (goods and services)	28,746.8	31,203.0	36,406.8	42,881.4
Foreign direct investment, net inflows	3,391.0	3,451.3	4,042.3	4,875.9
Gross official reserves	19,917.9	20,810.4	22,049.9	23,532.1
(Months of imports)	9.0	8.1	7.5	7.1
Current account (percent of GDP)	-37.0	-24.7	-18.6	-14.9
Exchange rate (riel per US\$ average)	4,100.0	4,150.0	4,110.0	4,100.0
<b>Debt Stock and Service</b>				
Total public debt (% of GDP)	35.0	35.9	35.6	35.3
<b>Memorandum items:</b>				
Nominal GDP, US\$ million	26,908.6	29,789.9	32,873.7	36,015.1

Sources: Cambodian authorities and World Bank staff estimates and projections.

Note: e = estimate; p = projection.

<sup>18</sup> International Monetary Fund Staff Report for the 2021 Article IV Consultation-Debt sustainability Analysis; <https://www.imf.org/en/Publications/CR/Issues/2021/12/08/Ca>

mbodia-2021-Article-IV-Consultation-Press-Release-and-Staff-Report-510848.

external shocks and encourage export and economic diversification, and efforts to mobilize fiscal revenue and further enhance public financial management.

## Outlook

**Cambodia's real GDP growth is projected to reach 4.5 percent in 2022** (table 3). The relatively subdued growth projection reflects anticipated impacts of the negative terms of trade shock caused by rising oil prices; a cyclical slowdown in the United States, Cambodia's largest exports market; and slower growth in China. In addition, the path of the economy continues to depend on the course of the virus. Thanks to continued progress on vaccinations, further relaxation of travel restrictions supports continued gains in economic activity and employment. Domestic economic activity is expected to remain robust, contributing to economic recovery.

**Over the medium term, the economy is expected to trend back to potential, growing at around 6 percent.** The new Law on Investment, together with the newly ratified Cambodia-China Free Trade Agreement and Regional Comprehensive Economic Partnership, is expected to boost investment and trade in the coming years. Similarly, trade and investment will be further boosted when the Cambodia-Republic of Korea free trade agreement is ratified. However, the negative impacts of the coronavirus on jobs and welfare are expected to continue as the services sectors, especially the travel, tourism, and hospitality industries, continue to face persistent headwinds.

## Challenges and risks

**Risks to the forecast are tilted to the downside.** Despite stronger domestic economic activity supported by the rollback of mobility restrictions, recovery has been held back by the deterioration of global demand conditions and the global commodity price shock. Specifically, Cambodia's export-oriented manufacturing is expected to face headwinds in the coming months, with a less favorable external environment, reshaped by a cyclical slowdown in the United States. The zero-COVID policy and structural slowdown in China, which is the largest source of FDI for Cambodia, is expected to constrain investment. An unmanageable resurgence of Omicron or new variants could disrupt economic recovery. While

Cambodia maintains a policy space that it could deploy should these risks materialize, its fiscal buffer has shrunk after years of fiscal intervention. In addition, high credit growth and concentration of domestic credit in the construction and real estate sectors remain a key risk to Cambodia's financial stability.

**Cambodia is currently weathering the global food and oil price shocks.** Rising energy and food prices have fueled higher inflation. Inflationary pressures are expected to continue due to the Russia-Ukraine conflict, which disrupts oil and wheat supplies. The negative impact of rising petroleum prices on inflation in Cambodia is relatively strong due to its relatively high transport costs, suggesting that price rises may have a comparatively large impact on economic activity, weighing on household budgets. Income effects hit consumer demand, and higher input costs constrain production.

## Policy options

**To sustain recovery momentum, efforts to contain COVID-19 infections must continue.** Supported by the World Health Organization, Cambodian authorities are building surveillance with community engagement to strengthen early detection. In addition, guidelines on the integration of COVID-19 services into a single healthcare system have been introduced, and all healthcare facilities have been advised to implement the guidelines throughout the country.

**Given that external demand conditions will remain uncertain, strengthening domestic market confidence will be crucial.** It is therefore important to promote investor confidence at home to boost domestic economic activity. Taking advantage of the newly rehabilitated road networks in Siem Reap and Sihanoukville, as well as the Phnom Penh-Sihanoukville Expressway (which is expected to be completed and launched in the second half of 2022), further attracting private investment in the tourism sector, while implementing tourism development strategies such as the Siem Reap Tourism Development Masterplan for 2021–35, will help. As the country continues to relax all travel restrictions, international arrivals should return, contributing to the revival of the tourism and hospitality industry.

**More efforts are needed to promote agricultural commodity exports for Cambodia to maximize the benefits of the newly ratified**

**bilateral and multilateral free trade agreements**, namely, the CCFTA and RCEP. In this regard, incentives currently introduced under the new investment law to support agroprocessing and agricultural value chains play a key role. While Cambodia's agricultural commodity prices at the farmgate remain competitive, interest rates on loans, the cost of energy for the agroprocessing industry, and logistics and transportation costs for agricultural commodity exports are not. Unlike electronics, equipment, and parts, agricultural commodities are heavy and relatively cheap cargo, which are being affected disproportionately by rising ocean freight costs.

**Therefore, further efforts must be made to strengthen trade facilitation while implementing multimodal transport connectivity.** This is particularly crucial for Cambodia's agricultural commodity exports if the country is committed to taking full advantage of the CCFTA and RCEP. At the same time, it is essential to continue to address supply-side bottlenecks by reducing the costs of doing business, energy, and licensing, while promoting access to finance, especially for the export sector, to revive external competitiveness. In addition, an important policy consideration is to take advantage of strong FDI inflows. Backward linkages between the FDI sector and the domestic small and medium-sized enterprises sector must be further fostered to boost job creation and growth.

**Depending on the magnitude of the oil price shock, measures to mitigate its negative impacts may need to be introduced.** Targeted relief and support are likely to be more cost-effective than a blanket and broad-based petroleum tax reduction measure. In this connection, consideration should be given to more targeted social assistance measures that directly mitigate the impacts on those most in need, especially vulnerable households, poor farmers, and small and micro household enterprises. Rising inflationary pressures are posing serious policy challenges for Cambodian authorities. To this end, it is crucial for the central bank to continue to be committed to maintaining exchange rate stability. For the government, it is important to avoid creating excess aggregate demand, which may trigger undue domestic inflationary pressures on top of the imported ones. The prospect of a protracted period of high inflation and a sharp increase in global interest rates has significant implications for Cambodia, whose economy is highly dollarized.





SPECIAL FOCUS:  
POST-PANDEMIC SUPPLY CHAIN  
DISRUPTIONS: STRATEGIES TO  
REDUCE LOGISTICS COSTS



# SPECIAL FOCUS: POST-PANDEMIC SUPPLY CHAIN DISRUPTIONS: STRATEGIES TO REDUCE LOGISTICS COSTS<sup>19</sup>

## EXECUTIVE SUMMARY

**This Special Focus assesses the effects of supply chain disruptions on Cambodia's trade and freight flows in the wake of the COVID-19 pandemic and develops recommendations to strengthen Cambodia's competitive advantage for a stronger and faster economic recovery.** Specifically, it sheds lights on the drivers of Cambodia's high logistic costs and presents specific measures that can help the Cambodian government design strategies to address the weak links in the supply chain. The pandemic has resulted in unprecedented global supply chain disruptions, which do not yet show clear signs of waning.<sup>20</sup> Within this context, transformative reforms have become even more pressing, as the Cambodian economy shrunk by about 3.1 percent in 2020, with key economic activities such as exports and tourism severely affected.<sup>21</sup> In early 2020, hundreds of garment factories suspended operations caused by disruptions in the imports of raw materials from China. Cambodia is one of key exporters of agricultural commodities, especially rice, and the temporary container shortage struck the country's rice exports, especially to Europe. Agricultural commodities, especially rice, which is heavier and cheaper cargo, compared to other products such as electronics, were hard hit by rising ocean freight rates. While the economy is projected to recover, growing at 4.5 percent in 2022, long-term growth will depend on public policy choices and reforms to ensure a quick rebound of the country's trade sector.

**Increased integration into regional and global value chains has made efficient logistics and supply chains central to Cambodia's development strategy and an important prerequisite to move to higher-income status.** Cambodia sustained an average annual real growth rate of 7.6 percent between 1995 and 2019, before the pandemic hit, making it one of the fastest-growing economies in the world. The economy reached a lower middle-income status in 2015. Rapid growth was driven by garment manufacturing, tourism and, more recently, construction and real estate. While impressive, the economy lacks a diversified base. For decades, Cambodia's exports have been heavily dependent on only three main products: garment, travel and footwear (GTF), which combined account for 65 percent of total goods exports.

**While Cambodia's slow progress to further diversify can be attributed to many factors, the country's persistently high logistics costs and weak links in the supply chain are a major bottleneck to the country's competitiveness.** With trade and, in particular, exports, being a crucial growth engine of the Cambodian economy, smart logistics solutions and efficient supply chain management are a precondition for ensuring the competitiveness of the Cambodian economy in the long term. By 2030, it is expected that Cambodian firms will move four times more goods through highways, ports, airports, and warehouses than currently.<sup>22</sup> However, the country's logistics costs per GDP is significantly higher than in comparable ASEAN countries and was estimated at 26.43 percent of GDP in 2020. In particular the total cost of holding inventory, referred to as inventory carrying cost is particularly high in Cambodia, with an estimated value equivalent to about 13 percent of GDP (2020), implying high uncertainty in the supply chain.

**Increasing supply chain reliability and service quality is key to improving Cambodia's logistics performance, as predictability is not just a matter of time and cost but also a component of shipment quality.** Several causes of delays or unreliability are amendable to interventions by the Cambodian government

<sup>19</sup> This Special Focus was authored and prepared under the leadership of Cordula Rastogi and Sodeth Ly, with contributions from Professor Ruth Banomyong, Paul Aphthron, Paitoon Varadejsatitwong, Daria Ulybina, Lucie Wuester, Satya Prasad Sahu, and Kimyeon Ky. The authors wish to thank Sadig Aliyev, Chanin Manopiniwes, and Heidi Stensland for their comments and suggestions, and Diane Stamm, who edited the report.

<sup>20</sup> World Bank 2022.

<sup>21</sup> United Nations Industrial Development Organization 2020. Impact assessment of COVID-19 on Cambodia's manufacturing firms. See [https://www.unido.org/sites/default/files/files/2021-03/UNIDO%20COVID19%20Assessment\\_Cambodia\\_FINAL.pdf](https://www.unido.org/sites/default/files/files/2021-03/UNIDO%20COVID19%20Assessment_Cambodia_FINAL.pdf)

<sup>22</sup> World Bank 2018.

such as for example the quality of service or the cost and speed of clearance processes. But others, such as the dependence on indirect maritime shipping routes and transshipment ports in the region lie outside the domestic supply chain and are not under the country's control. Increased reliability of supply chains increases Cambodia's comparative advantage, and in particular in a time of increased uncertainty, many shippers are willing to pay a premium for predictable delivery of shipment.

**This Special Focus concludes that strategies that focus on reducing national logistics costs and addressing weak links in the supply chain in Cambodia are the optimal policy response to shocks,** as they aim to increase efficiencies and contribute to strengthening the resilience of firms. Those supply chains form a complicated system where any disruption, at any possible level, can affect the entire distribution network. As is well known, supply chains can only be as strong as their weakest link, and this is especially important for Cambodia, where the transport and storage sector currently account for about 8 percent of the country's GDP.<sup>23</sup> As presented in the report, drivers of high costs and uncertainty reportedly include

- (i) high transaction and transportation costs, including prevalence of informal payments,
- (ii) fragmented intermodal and logistics planning with railways playing an insignificant role,
- (iii) shipping concentration with cascading effects, and
- (iv) seemingly phasing out of automated customs processing (green lane), triggering additional physical interactions and post-clearance audit impacting productivity.

**Cambodia's infrastructure remains underdeveloped, and the country's performance in logistics has been significantly below other countries in the region, thereby triggering higher costs.** Those costs represent not only monetary expenses, but also lack of reliability (and thus higher lead times), which is the main source of logistics costs. Supply chain management initiatives generally target reliability, with a focus on inventory holding, upgrading services, express delivery, contractual penalties, and visibility. Joint efforts by the Cambodian government, the private sector, and development partners have been deployed to address some of these bottlenecks. Further developments have been taking place to resolve some of the main challenges faced by Cambodian firms. As part of the 18<sup>th</sup> Government-Private Sector Forum, held on March 2019 the government announced several initiatives to reduce logistics costs, including for example the removal of Camcontrol from landborder checkpoints and Camsab from ports. The government's recently launched "The Strategic Framework and Programs for Economic Recovery in the Context of Living with the COVID-19 in a New Normal 2021-2023" also aims to build the foundation for economic growth, targets diversification and competitiveness, and puts improvements of the logistics sector front and center.

**As such, the government puts renewed emphasis on addressing the high logistics costs and is currently preparing a comprehensive Logistics and Intermodal Masterplan for Cambodia (2022–2023).** The objective of the Masterplan is to reduce logistics costs and make cross-border supply chains more transparent and the process seamless. The Masterplan is built around the development of a hub-and-spoke system that services trade and domestic freight movement along three major axes (northwest, southeast, and southwest), with secondary connections (coastal, northern, and northeast), while linking four hubs (Sihanoukville, Phnom Penh, Battambang, and Siem Reap) with two cross-border links (Poipet and Bavet), referred to as the "3342" comprehensive logistics development plan<sup>24</sup>.

**In conjunction with a well-targeted program of investments, policy and institutional reforms are needed to enhance the efficiency of logistics and supply chains.** This can improve Cambodia's competitiveness, facilitate international trade, and enhance its connectivity to better serve consumers and meet the needs of regionally integrated facilities for reliable delivery of inputs and outputs. This Special Focus identifies selected policy measures that could foster logistics and supply chain reforms in the short term and in the medium to longer term, as shown in table S.ES1.

**The remaining sections of the Special Focus review** (i) global supply chain uncertainties in the wake of COVID-19, (ii) trade flows and supply chain configurations in Cambodia, (iii) logistics costs per GDP and (iv) drivers for high costs and unreliability, before describing in detail specific short term and medium-longer term measures that can help the Cambodian government design strategies to address the weak links in the supply chain.

<sup>23</sup> OECD 2022.

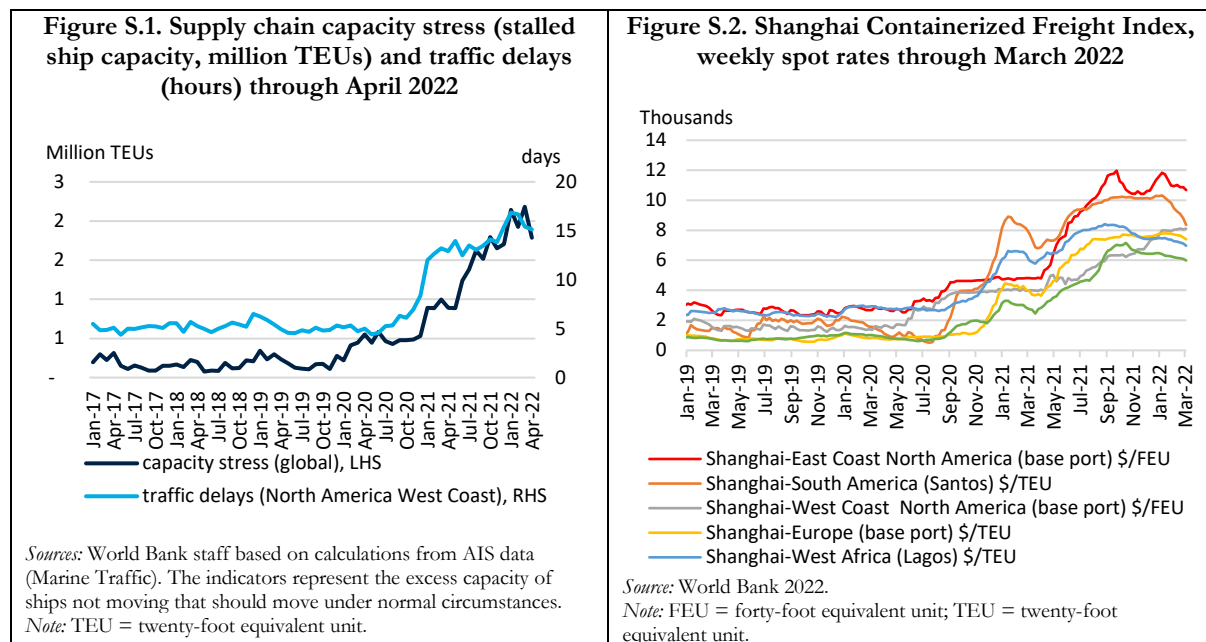
<sup>24</sup> "3343" refers to three major axes (northwest, southeast and southwest corridors), three secondary links (coastal, northern and northeast corridor), 2 cross-border links (Poipet-Sisophon and Bavet-Svay Rieng) and 4 hubs (Siem Reap, Battambang, Phnom Penh, Sihanoukville).

Table S.ES.1. Selected policy measures to foster logistics and supply chain reforms

In the SHORT TERM (1-2 years)	In the MEDIUM TO LONGER TERM (2-5 years)
<p><i>Issues: Excessive margins by shipper nominated and global logistics brands</i>  <b>Measures: Monitor efficiency of main trade gateways with regular progress updates:</b> Establish a comprehensive monitoring system to assess the performance of the ports and benchmark them against similar ports in neighboring countries. Indicators could include operational efficiency, financial performance, dwell time, charges, and handling fees, among others. Effective implementation also includes updates on progress of performance indicators to the government which should be done on a regular basis, at least quarterly.</p>	<p><i>Issue: A very low level of transit of goods</i>  <b>Measures: Facilitate transit of goods:</b> Develop and implement reliable transit solutions, with bonded transport and guarantee systems to take advantage of goods in transit as regional supply chains develop.</p>
<p><i>Issues: Time-consuming control procedures and lack of professionalism path to “a path to Authorised Economic Operators (AEOs) in logistics</i>  <b>Measures: Expand the “Best Trader scheme” to the wider logistics sector:</b> Prioritize the expansion of the Best Trader scheme in the logistics sector and ensure implementation to include for example customs clearance agents (Best Clearance) and possibly trucking companies (Best Trucker), which is expected to be a major step toward the professionalism needed in the sector.</p>	<p><i>Issue: Transport and logistics fragmentation</i>  <b>Measures: Develop the Comprehensive Masterplan for Multimodal Transportation and Logistics (2022-203):</b> Finalize the Comprehensive Masterplan for Multimodal Transportation and Logistics (2022-2030) with sequencing and prioritization and a focus on smart logistics solutions and oversight and strengthening cross-border transport collaboration with Vietnam and Thailand, with a vision for modal development.</p>
<p><i>Issues: Uncoordinated and unpredictable implementation of various rules and regulations</i>  <b>Measures: Institutionalize “ROADWATCH,” supported by a hotline for traders and citizens to report irregularities:</b> Establish a team, and local authorities dedicated to facilitating trade with hotline support, enforcing the famous catchword “ROADWATCH” on facilitation of road transport (earlier introduced by the government).</p>	<p><i>Issues: Sprawling urban centers are creating issues for transport and logistics</i>  <b>Measures: Champion urban logistics initiative and planning:</b> Introduce incentives and measures to take into account commercial freight movements in urban development plans under a public-private dialogue platform.</p>
<p><i>Issues: Railways play an insignificant role</i>  <b>Measures: Assign a review team and confirm a business plan for railways:</b> Develop a reform and business plan for the railway sector with a 10-year time horizon, jointly led by the MEF and MPWT in consultation with the private sector to ensure that railways meet customer demands for efficient and reliable service.</p>	<p><i>Issues: Lack of logistics support for micro-, small and medium sized enterprises and small traders in cold chain and e-commerce</i>  <b>Measures: Promote specialized logistics and e-commerce:</b> Develop and implement a plan with the aim to support small producers getting their produce into a cost-effective cold chain to urban centers, while attracting the private sector to develop a domestic distribution network for fresh produce.</p>
<p><i>Issue: rising inspection requirements</i>  <b>Measures: Promote automation, improve transparency and eliminate human interaction in the customs clearance process:</b> Streamline existing processes By removing “face-vetting” and accepting digital signature, and using full automation of risk-based system to assign lanes (green/ blue/ yellow/ red)</p>	<p><i>Issue: Insufficient transport and logistics standards</i>  <b>Measures: Ensure access to most up-to-date logistics-related legislation:</b> Publish all primary and secondary legislation in a single database. Alternatively, or until this is implemented, each public agency, authority, and/ or ministry operating in the logistics sector should publish a complete list of legislation it administers on its website, along with its status.</p>
<p><i>Issues: Old trucking fleet, causing high operating costs, traffic accidents, and pollution</i>  <b>Measures: Further rationalize duty and special taxes on new truck imports:</b> Rationalize truck import tariffs to encourage the re-equipping of the fleet with larger, modern vehicles appropriate to providing a high level of service. This could be accompanied by a vehicle scrapping program.</p>	<p><i>Issue: Congestion and accidents</i>  <b>Measures: Support real-time visibility and transparency of freight movements:</b> Identify and operationalize a first information exchange that will support a more resilient and fluid supply chain in cooperation with a variety of stakeholders, including commitments by the government to support fluidity, especially linked with the monitoring of efficiency of global trade gateways, building on ongoing achievements.</p>

## Global Supply Chain Uncertainties in the Wake of the COVID-19 Pandemic

The unprecedented disruptions of global supply chains currently being experienced do not yet show clear signs of waning. The container shipping disruptions in the wake of the COVID-19 pandemic have had cascading effects along the entire supply chain network. At the root of the disruptions is a combination of a strong demand for goods after the start of the pandemic and operational disruptions in shipping. These disruptions originated on the land side, with major congestion in the West Coast of the United States, and COVID-19-related lockdowns of key port cities, notably in China. Shipping reliability has dropped to unprecedentedly low levels (Figure S.1), with rates increasing eightfold on certain routes (Figure S.2). Globally, 20 percent of container vessels are waiting outside a congested port; of those, close to 30 percent were in China as of April 2022.<sup>25</sup> Historically high shipping rates declined slightly in January 2022, and at a faster pace in March 2022.



With supply chain uncertainty at the global level prevailing for the unforeseeable future, impacts in the form of shortages, price increases, and long lead times for goods are expected. As a result of the ongoing pandemic and other disruptions, supply chains will be forced to continuously adapt. The massive disruptions of the last 18 months have meant that the availability of goods at the scheduled time can no longer be taken for granted. This has resulted in the relatively low reliability of global supply chains, with only one-third of ships arriving at the scheduled time, and considerably longer lead times (double or more). Change is inevitable in supply chains, and adjustments are ongoing as firms shift their strategies and consumers their spending habits. It appears the crisis is engendering a transformation in supply chain management moving from efficiency to resilience, captured in the *Financial Times* headline, “Supply chains: companies shift from ‘just in time’ to ‘just in case.’”<sup>26</sup>

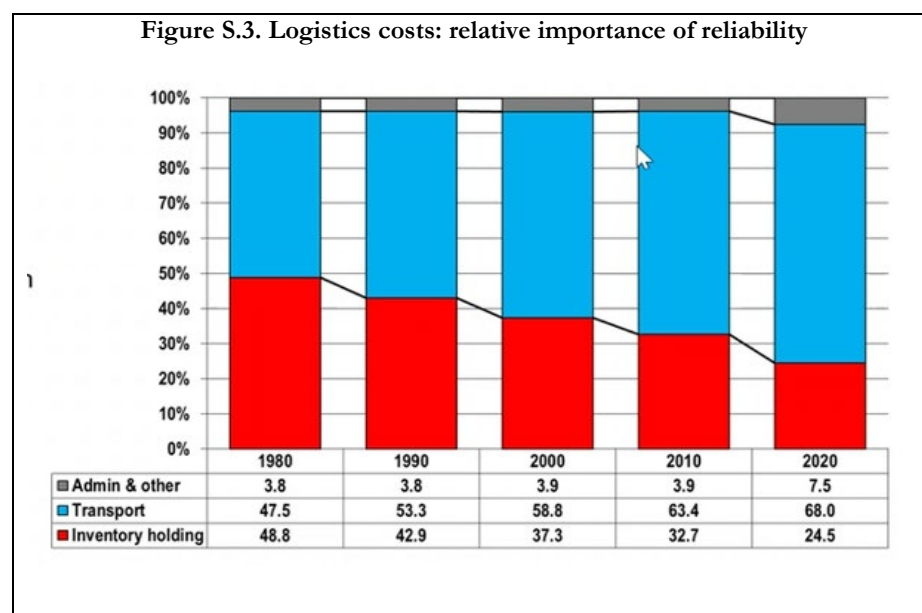
Looking inward to address national logistics inefficiencies appears to be the optimal policy response by fast-growing countries, such as Cambodia. In recent decades, the reduction of logistics costs worldwide has been driven more by a decline in inventory costs than by a decrease in transportation costs. Reduction of inventories has been achieved thanks to the high level of reliability of service delivery, mostly in advanced and emerging economies. In most countries with high logistics costs, such as Cambodia, it is often not the distance between trading partners, but the reliability of the supply chain that is the most important contributor to those costs. As such, logistics performance is associated with the level of service delivery that can typically be achieved in a country. The quality of service and reliability of a supply chain

<sup>25</sup> World Bank 2022.

<sup>26</sup> Masters and Edgecliffe-Johnson 2021.



to a given destination refers to how predictable the end-to-end delivery is, not just the cost (and time) it takes to get there (Figure S.3).<sup>27</sup>

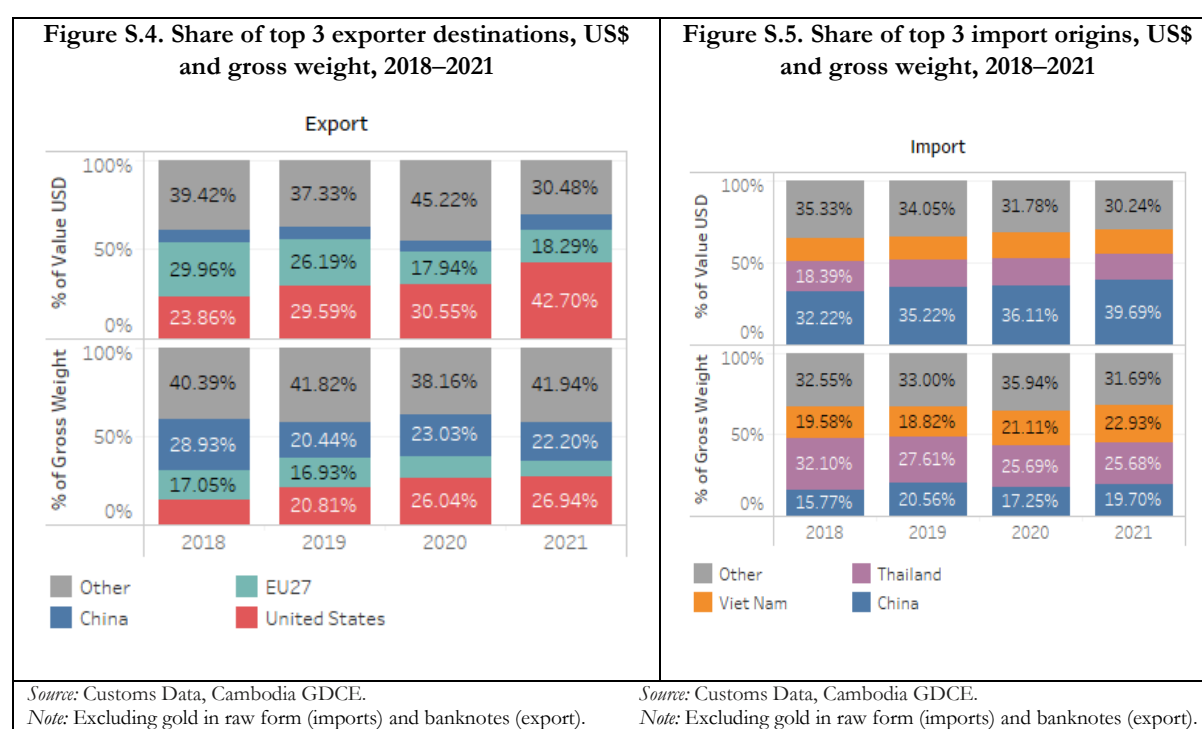


Sources: United Nations Conference on Trade and Development (UNCTAD), based on Council of Supply Chain Management Professionals' "Annual State of Logistics Report" and Kearney Management Consulting Company.

<sup>27</sup> Arvis et al. 2007.

## Trade Flows and Supply Chain Configurations in Cambodia

**Cambodia's trade flows and supply chains are highly concentrated.** Imports come almost entirely from the East Asia and Pacific region, while over a third of exports go to the United States (Figure S.4). Transit trade is almost entirely concentrated between Vietnam and Thailand. Some trends are noteworthy: (a) during 2018–2020, China also accounted for a third of imports, while Thailand and Vietnam accounted for another third; (b) China, Thailand and Vietnam account for over two-thirds of imports in volume terms (Figure S.5). The share of exports to North America has risen especially in 2021 on the back of rising textile exports. In volume terms, exports to the United States, Vietnam, and China all rose during 2019–2021 and account for about a quarter of total exports each, dominated by textiles to the United States and rice and minerals (sand) to Vietnam and China.<sup>28</sup>

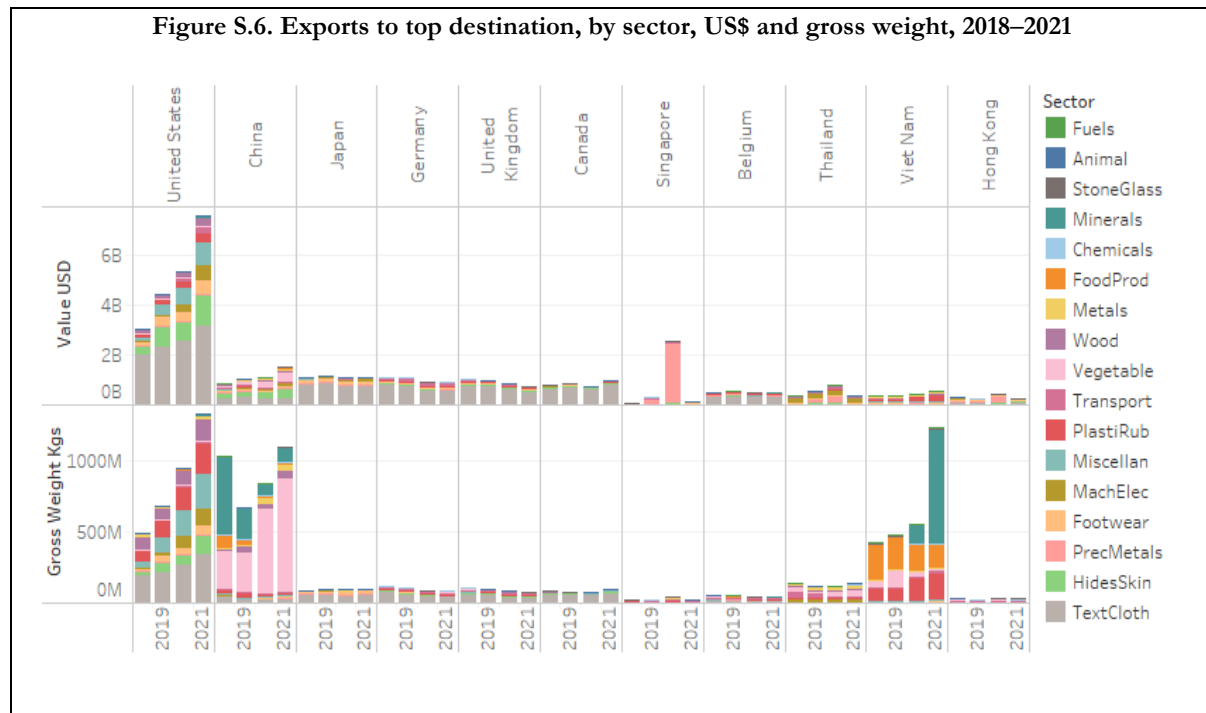


**Cambodia is integrated into global and regional value chains (GRVC) in a few or concentrated sectors with some achievements in trade diversification** (notable in solar photovoltaic (PV) value chain, bicycles, vehicles, and electronical parts and cables). See the section on goods exports under the recent economic developments and outlook part for more details. Textile, clothing, and footwear (TCF) products accounted for over half of export value (Figure S.6) and a fifth of import value in 2021 (Figure S.7), down from almost over two-thirds and a third in 2018, respectively, reflecting initial achievements in product diversification, notably with novel export growth in the solar PV value chain. Imports are dominated by (knitted) fabrics and other inputs into the TCF manufacturing sector, and exports consist of final goods, mostly clothes and shoes, of which almost half goes to the United States and Canada and over a quarter of which goes to the European Union (EU27). This reflects a lack of backward linkages<sup>29</sup>, tied to strongly foreign direct investment-driven export sector growth, but a lagging manufacturing small and medium-sized enterprise sector, which limits potential impacts of global value chain participation on value added and jobs in Cambodia. Cambodia also exports bicycles, notably to the EU, UK, and United States. In 2018,

<sup>28</sup> We exclude exports of banknotes, as we consider solely merchandise trade, which, however, accounted for over one-third of total export value, on average, in 2018–21.

<sup>29</sup> “Typically, a relatively higher share of foreign value-added from foreign input providers (so-called “backward” GVC linkages) can indicate a higher exposure to foreign supply shocks affecting vendors of raw materials and intermediates. Conversely, a higher reliance of exports of a given country on demand from foreign countries (so-called “forward” GVC linkages) can mean higher exposure to demand shocks coming from final consumers or distributive services abroad” (OECD, 2021).

Cambodia began exporting solar PV semiconductors, largely to the United States, the value of which rose sharply, from US\$6.8 million in 2018 to US\$57.5 million in 2021.



Source: Customs Data, Cambodia GDCE.

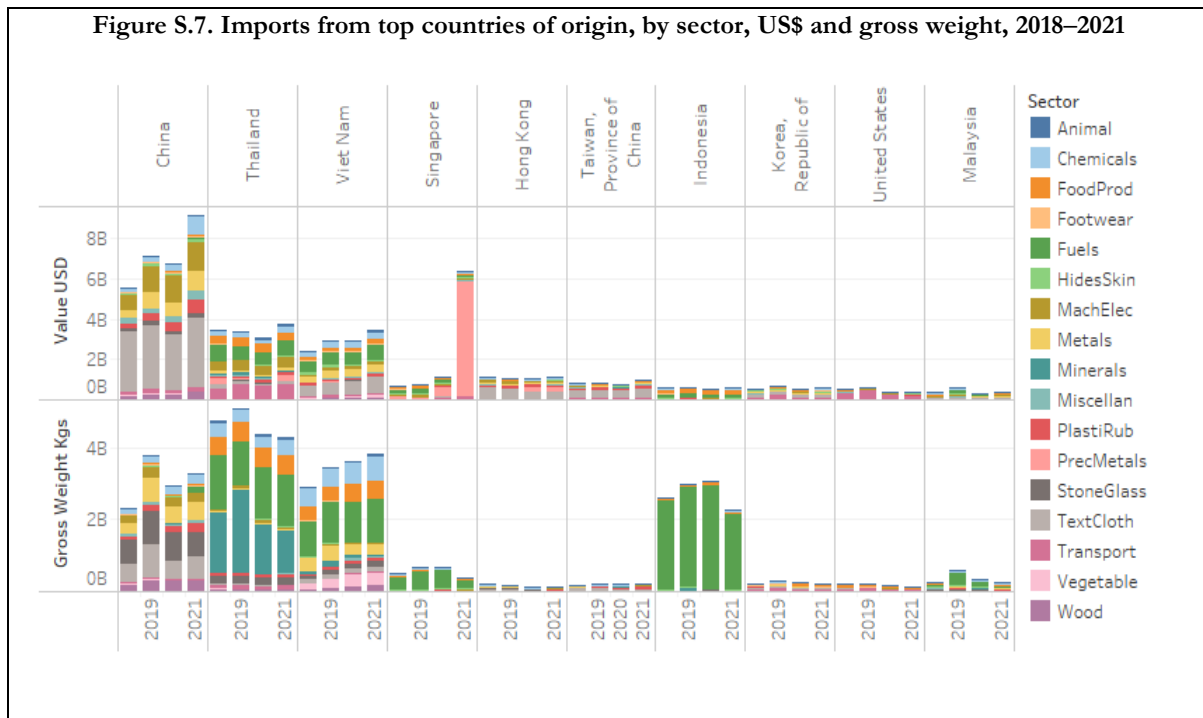
**Cambodia is also an important exporter of rice.** During the pandemic, rice exports dipped in the third quarter of 2020, but recovered in the fourth quarter, following the same trend in value and volume terms<sup>30</sup>. The decline in exports started in June 2020, in line with global shortages and shipping disruptions, bottomed out in August 2020, and recovered thereafter. The rise in the fourth quarter of 2020 largely reflects rising exports to China. The Chinese market now captures almost half of Cambodia's milled rice exports, up from about 30 percent in 2018, due to the Chinese 400,000-ton allowance under its duty-free and quota-free regime, and to its proximity notably as compared to the European market. The European market also had additional safeguards on Cambodian rice until January 2022. It is notable that in April 2020 (and to a lesser extent in May), all rice exports were physically inspected (red lane customs processing), but shifted to the blue lane<sup>31</sup> thereafter<sup>32</sup>, with an overall smaller share of rice exports going through the yellow lane<sup>33</sup> compared to the period before the onset of the pandemic.

<sup>30</sup> Most rice export from Cambodia is milled rice, according to Customs statistics. Any rice other than “semi- or wholly milled” accounts for a small share (no more than US\$1 million per month, with the exception of March 2020, when semi- or wholly milled rice was exported, one-third of which went to China. About two-thirds of Cambodia's rice exports are paddy, not shown in the statistics.

<sup>31</sup> Same treatment as green lane but with specific recommendation to conduct a post-clearance audit.

<sup>32</sup> After acceptance of the Single Administrative Document (SAD), the customs officer shall initiate – through ASYCUDA – an assessment and assign the SAD to one of four lanes according to predetermined risk management criteria: (1) Green lane – SAD is automatically assessed and an assessment notice is used (may be subject to post-clearance audit), (2) Blue lane – the SAD is provided the same treatment as the green lane but with specific recommendation to conduct a post-clearance audit, (3) Yellow lane – the SAD must be checked against the submitted documents before rerouting to the green lane, and (4) Red lane – the SAD must be checked against submitted documents and the goods are subject to physical inspection before rerouting the SAD to the green lane (<https://cambodiantr.gov.kh/index.php?r=searchProcedure/view1&id=61>).

<sup>33</sup> The SAD must be checked against the submitted documents before rerouting to the green lane.

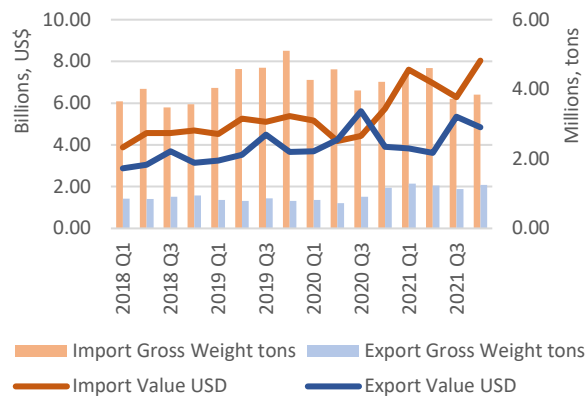


Source: Customs data, Cambodia GDCE.

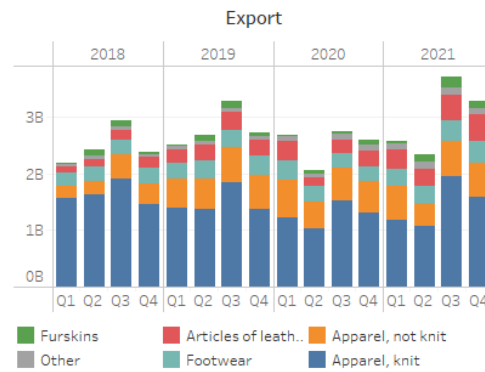
The disruptions associated with the COVID-19 pandemic has had relatively little impact on trade flows, and recovery has been fast, also linked to relatively short backward linkages (or lack thereof). Exports continued to rise year over year throughout 2018–2021 (with a contraction in March–April 2020 but recovery in July 2020). This was mainly due to both supply chain disruptions during April–May 2020 with lockdowns (Figure S.8), and the decline in demand for Cambodia’s exports (consumer goods). Imports contracted very little in 2020 (February–September) and exceeded 2018 levels in 2021, indicating a recovery; however, in volume terms, imports remain slightly subdued (mostly on the back of lower import volumes of some goods, in particular coal and cement)<sup>34</sup>. There has been little impact on imports of manufacturing inputs and exports of GRVC goods (TCF exports contracted in March–May 2020 but recovered, [especially to the United States] beyond pre-pandemic levels) (Figure S.9). In February 2020, there was a lack of inputs for the garment industries due to supply chain disruptions (Figure S.10).<sup>35</sup>

<sup>34</sup> In volume terms, imports of coal and cement declined to 3.17 million metric tons (19.1 percent of total) and 0.67 million metric tons (4.1 percent of total imports) in 2021, respectively, down from 3.59 million metric tons (21.1 percent of total) and 1.02 million metric tons (6.0 percent of total imports) in 2020, respectively.

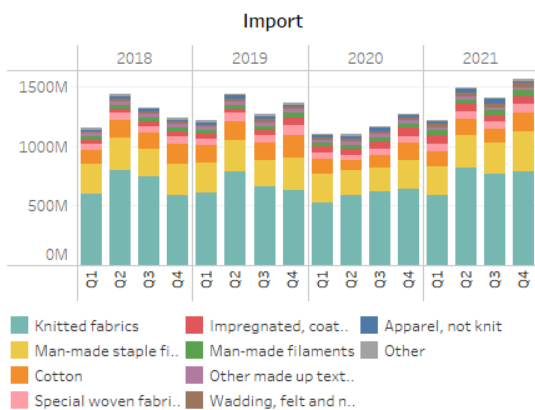
<sup>35</sup> The Cambodian prime minister had to appeal to the Chinese government to send ships loaded with fabric to Cambodia for garment production, and then the decline in global demand hit Cambodia’s exports a few months later.

**Figure S.8. Dynamics of total export/import, billion US\$ and tons millions, 2018–2021**

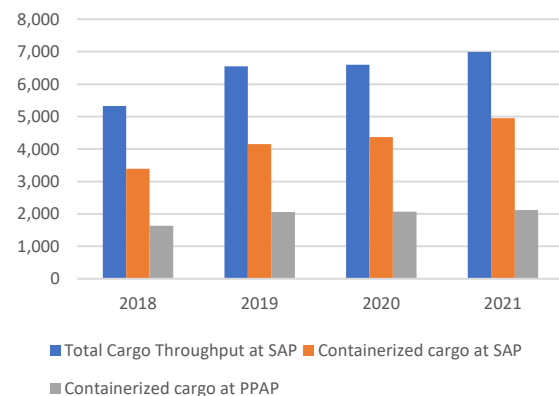
Source: Customs Data, Cambodia GDCE.

**Figure S.9. Dynamics of TCF GRVC exports, quarterly, 2018–2021**

Source: Customs Data, Cambodia GDCE.

**Figure S.10. Dynamics of TCF GRVC Imports, quarterly, 2018–2021**

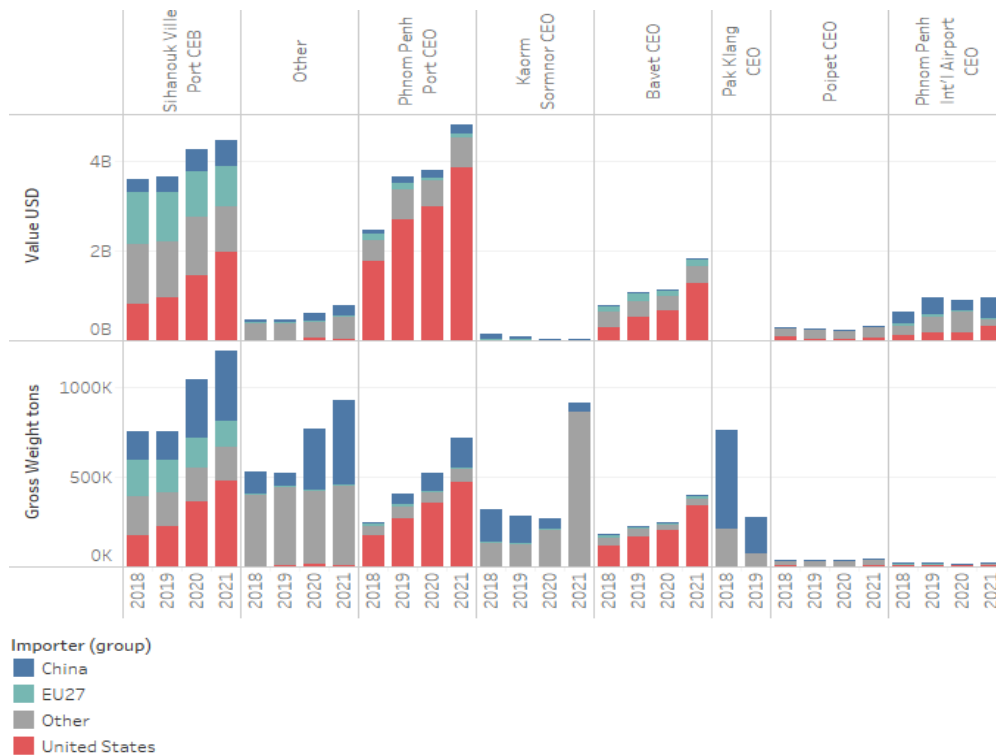
Source: Customs Data, Cambodia GDCE.

**Figure S.11. PPAP and SAP Cargo Throughput, volume, 2018–2021**

Sources: MPWT, SAP, and PPAP.

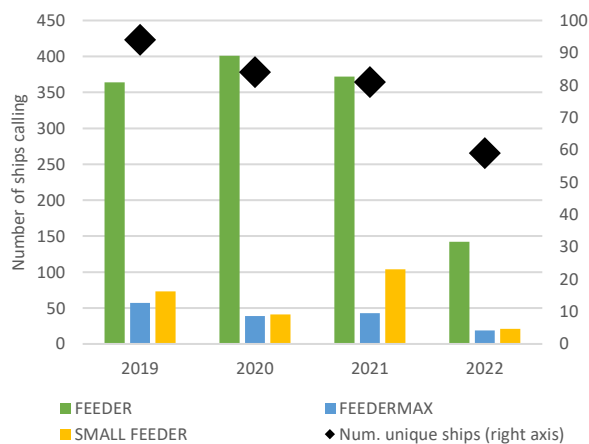
As in many countries, trade in Cambodia is largely transported via sea, inland waterways, and road, with high-value goods shipped by air. In volume terms, exports via sea showed high fluctuation until July 2021, having bottomed out in February 2020, May 2020, and May 2021; imports via sea dipped in February 2020 and recovered in September 2020, in line with supply chain disruptions – rising further thereafter. Export volumes via inland waterways exceeded volumes transported via sea during December–July 2020, on the back of large volumes of natural sand exports to Vietnam. Air cargo accounts for less than 10 percent of exports in all years in value terms, spiking to 20 percent in 2020 on the back of gold exports. It is notable that TCF exports to North America are shipped by sea and inland waterways and recovered by June 2020 in both value and volume terms (Figure S.12).



**Figure S.12. Main exit offices on export routes, by selected countries, volume and US\$, 2018–2021**

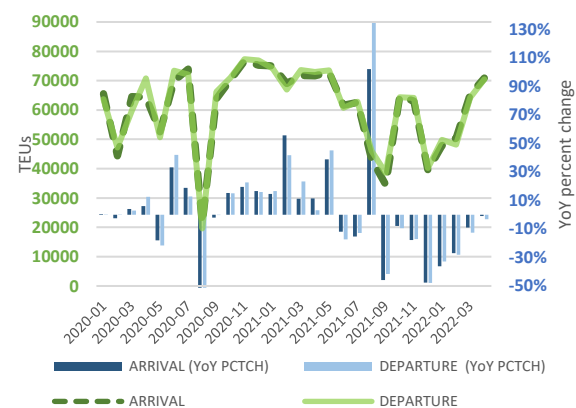
Source: Customs Data, Cambodia GDCE.

The two major trade gateways for the country, Phnom Penh Autonomous Port (PPAP) and Sihanoukville Autonomous Port (SAP), showed “resilience” in the wake of the COVID-19 pandemic (Figure S.11). Handling at both ports remained relatively stable, with small fluctuations, and recovered within the third quarter of 2020. Located along the Mekong River, PPAP’s import-export container volume in 2021 was about half that of SAP; the former handling 348,898 import-export containers (107,911 empty and 240,988 full) in 2021. The average container load in SAP and PPAP was 28

**Figure S.13. SAP total number of port calls, 2019–April 2022**

Source: Marine Traffic data and measurements of ports arrivals and departures.

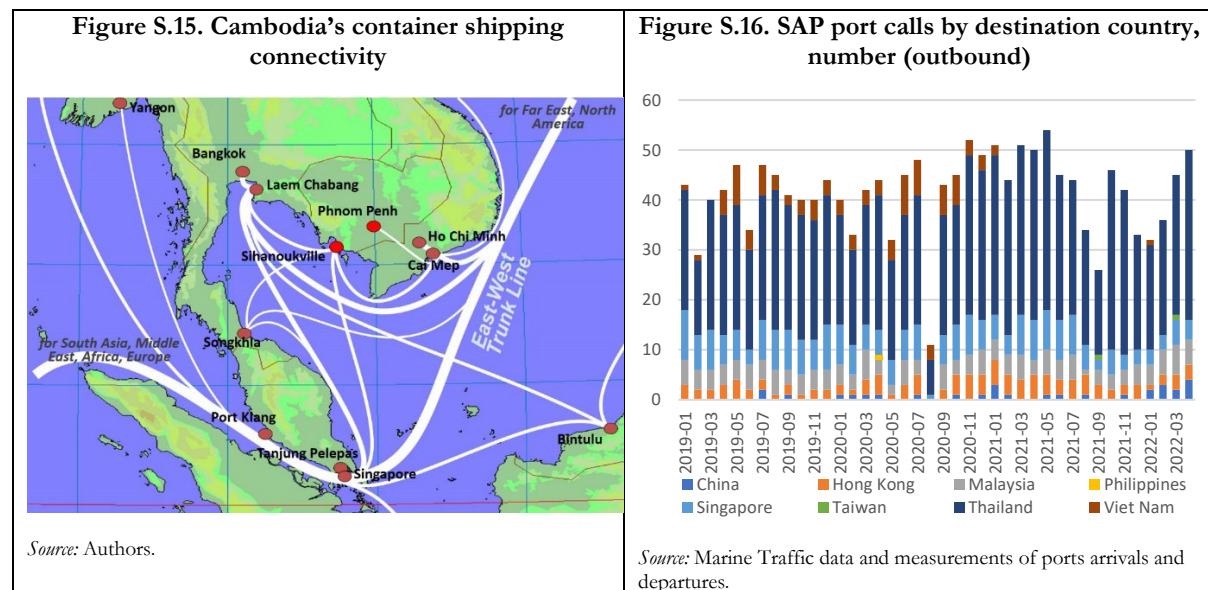
Note: Small feeder (up to 1,000 TEUs), Feeder (around 2,000 TEUs), Feedermax (around 3,000 TEUs).

**Figure S.14. SAP distribution of container traffic: arrivals and departures, monthly, 01/2020–04/2022**

Source: Marine Traffic data and measurements of ports arrivals and departures.

metric tons and 24 metric tons, respectively.<sup>36</sup> Both ports have a containerization rate of about 70 percent, which has been growing significantly over the years.<sup>37</sup> They are operated as commercial state-owned enterprises and are overseen by the Ministry of Public Works and Transport and the Ministry of Economy and Finance. SAP, the country's only seaport, can accommodate general cargo vessels with 50,000 deadweight tonnage (DWT) and container vessels of 20,000 DWT, with a loading capacity of approximately 1,600 twenty-foot equivalent units (TEUs)<sup>38</sup>. In the foreseeable future, SAP is expected to remain a feeder port, relying on ships coming from hub ports, especially for trade with countries outside the East Asia region, adding an extra link to the voyage. To accommodate larger container vessels, SAP with support from the government and financing from the Japan International Cooperation Agency (JICA) is expanding in phases its facilities by increasing the depth of the port to 14.7 meter and building a new container terminal.

**Despite not being able to accommodate larger vessels, over 94 different containerships called at SAP at least once in 2019, indicating port capacity and ability to handle more containerships.** This number dropped slightly in the following two years to 84 ships in 2020 and 81 ships 2021 (Figure S.13). During the same period, the overall number of port calls dropped from over 500 in 2019 to about 480 in 2020. This trend is likely to be attributed to the pandemic. In contrast to the overall trend, in 2021, Sihanoukville Port accepted over twice as many small feeders as it did in 2020 (104 in 2021 compared to 41 in 2020). Large fluctuations of the overall port throughput during 2020–21 also demonstrate effects of COVID-19 resulting in port disruptions and unpredictability of operations (Figure S.14). While outbound trade with the United States and EU-27 are mostly transshipped in Singapore; Hong Kong SAR, China; or Cai Mep,<sup>39</sup> (Figure S.15) maritime connectivity to East Asia is direct. Inbound traffic comes from China, Vietnam, and Singapore, while Malaysian ports started to gain market share starting in late 2020, and now represent about 4 percent of all inbound container traffic in SAP per month (Figure S.16).



**Customs processing of export and import declarations is highly concentrated, with the Export Management Department handling customs clearance of about half of the country's trade.** In volume terms, over a third of exports exit via sea through Sihanoukville Port Customs and Excises Brand (CEB), followed by Phnom Penh Port Customs and Excise Office (CEO) (for shipping via inland waterways largely to North America), Kaorm Sormnor CEO (inland waterway regional), and Bavet CEO (to North America) (which together account for almost half of exports). Just under half of exported goods are lodged at the Export Management Department (notably from 2020–21). For imports, goods mostly

<sup>36</sup> PPAP's gross weight limit is 25 tons/20-foot and 30 tons/40-foot.

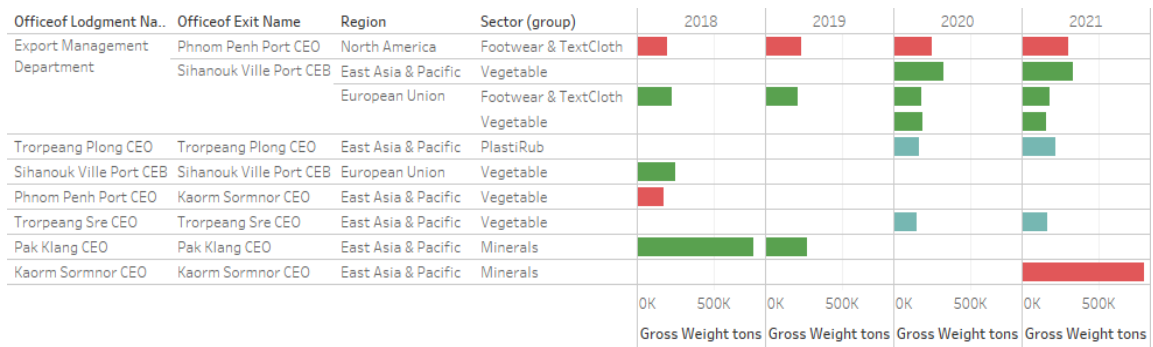
<sup>37</sup> SAP's containerization rate is even higher if liquid bulk is not considered.

<sup>38</sup> OECD 2022.

<sup>39</sup> Cai Mep has become a major transshipment port for freight originating from or destined for Cambodia. This explains the rapid growth in the throughput of the new PPAP container terminal, which is reachable in 36 hours' transit time to and from Cai Mep.

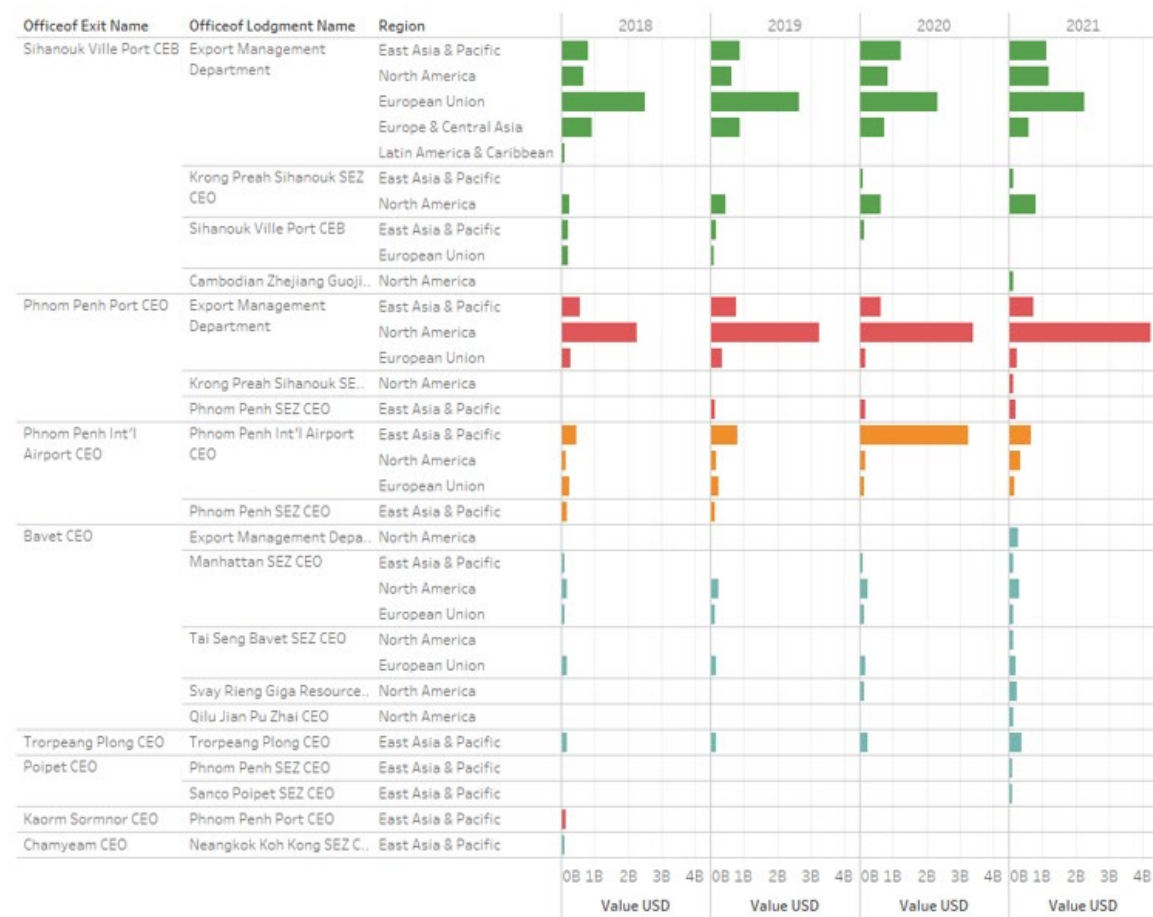
enter through Streung Hao CEO, Sihanoukville Port CEB, and Kaorm Sormnor CEO (about a fifth each) and are mostly lodged at the Export Management Department, Sihanoukville's Special Economic Zone (SEZ) (Krong Preah Sihanouk SEZ CEO), and Sihanoukville Port CEB (between 14 and 17 percent each) (Figure S.17 and Figure S.18).

**Figure S.17. Main export routes by exit office, mode of transport, office of lodgment, and import region, gross weight and value, 2018–2021**



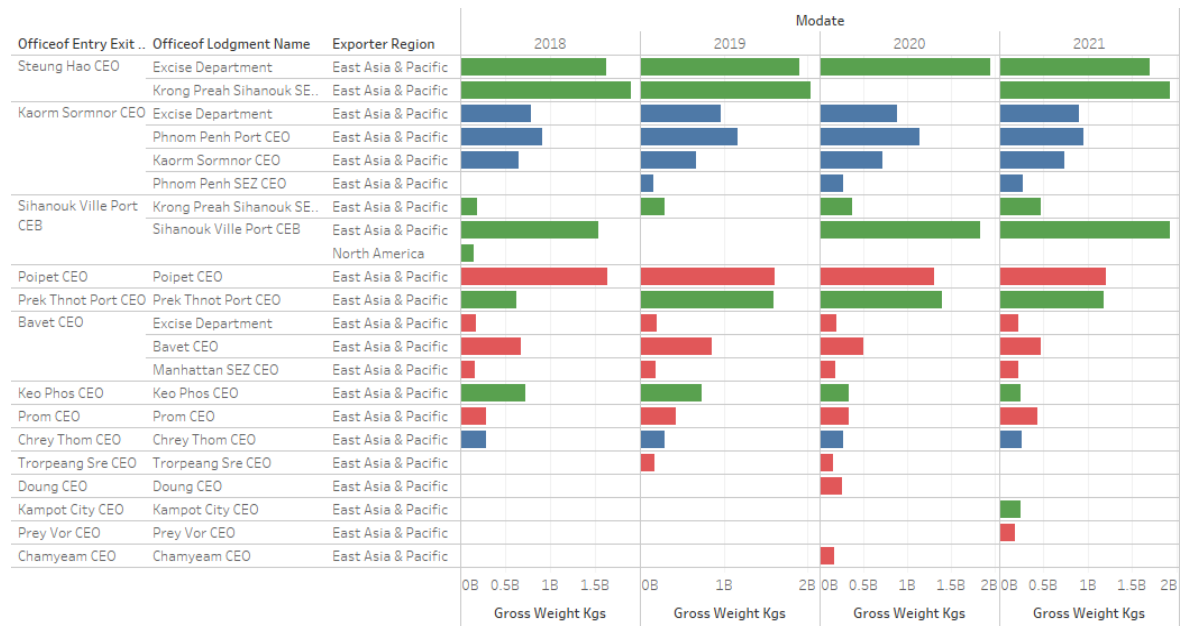
Source: Customs Data, Cambodia GDCE.

Note: Green = sea, red = inland waterway, blue = road, orange = air. Includes routes through which at least 150,000 tons pass in any of the years considered.



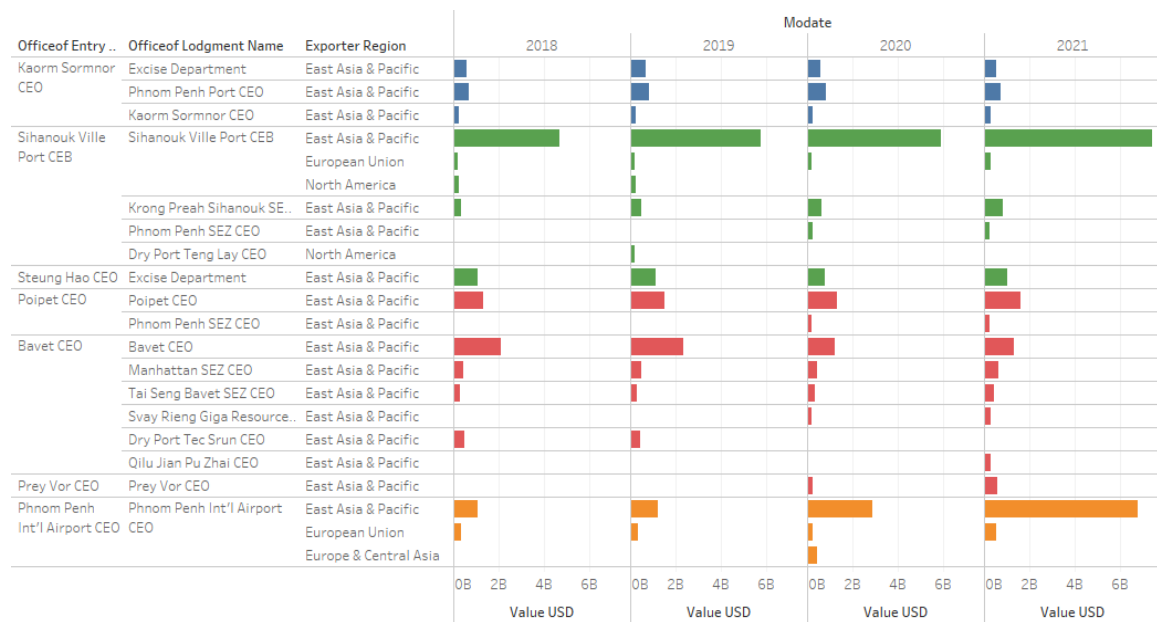
Source: Customs Data, Cambodia GDCE.

Note: Green = sea, red = inland waterway, blue = road, orange = air. Includes routes through which at least US\$100 million pass in any of the years considered.

**Figure S.18. Main import routes by entry office, mode of transport, office of lodgment, and export region, gross weight and value, 2018–2021**

Source: Customs Data, Cambodia GDCE.

Note: Green = sea, red = inland waterway, blue = road, orange = air. Includes routes through which at least 150,000 tons pass in any of the year considered.

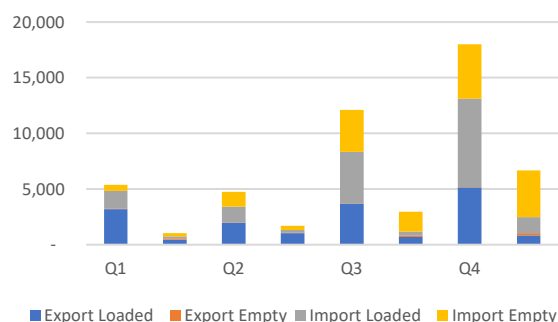


Source: Customs Data, Cambodia GDCE.

Note: Green = sea, red = inland waterway, blue = road, orange = air. Includes routes through which at least US\$100 million pass in any of the years considered.

Inland movement of export-import goods are mainly done by trucking, with Royal Railways playing a negligible role in handling containerized import and export shipments. It is estimated that the share of road transportation for both passenger and freight represent about 90 percent.<sup>42</sup> Rail freight transport was almost nonexistent in 2010 due to serious infrastructure deterioration. To date, railways have

**Figure S.19. Royal Railways: export loaded and empty containers along Southern Line<sup>40</sup>, quarterly, 2021**



Source: Royal Railways 2022.

**Figure S.20. Royal Railways: export loaded and empty containers along Northern Line<sup>41</sup>, quarterly, 2021**



Source: Royal Railways 2022.

a small market share of about 6 to 7 percent (during 2018–2021), carrying about 10 percent of all fully loaded export containers to PPAP along the southern line. In 2021, it also repositioned about 26 percent of empty import containers along the same line (down from 40 percent in 2018) (Figure S.19 and Figure S.20). Given that the railways run six to seven services a day each way, capacity is estimated at about 6,000 to 7,000 containers a month. Monthly figures from Royal Railways show a freight turnover of about 3,000 to 5,000 a month, which indicates that there is sufficient capacity on the railways to take up a larger share of current import-export shipments. The Northern Line, linking Phnom Penh to the bridge at Poi Pet border, which was officially inaugurated in 2019, has negligible traffic, while the line would be a suitable alternative.

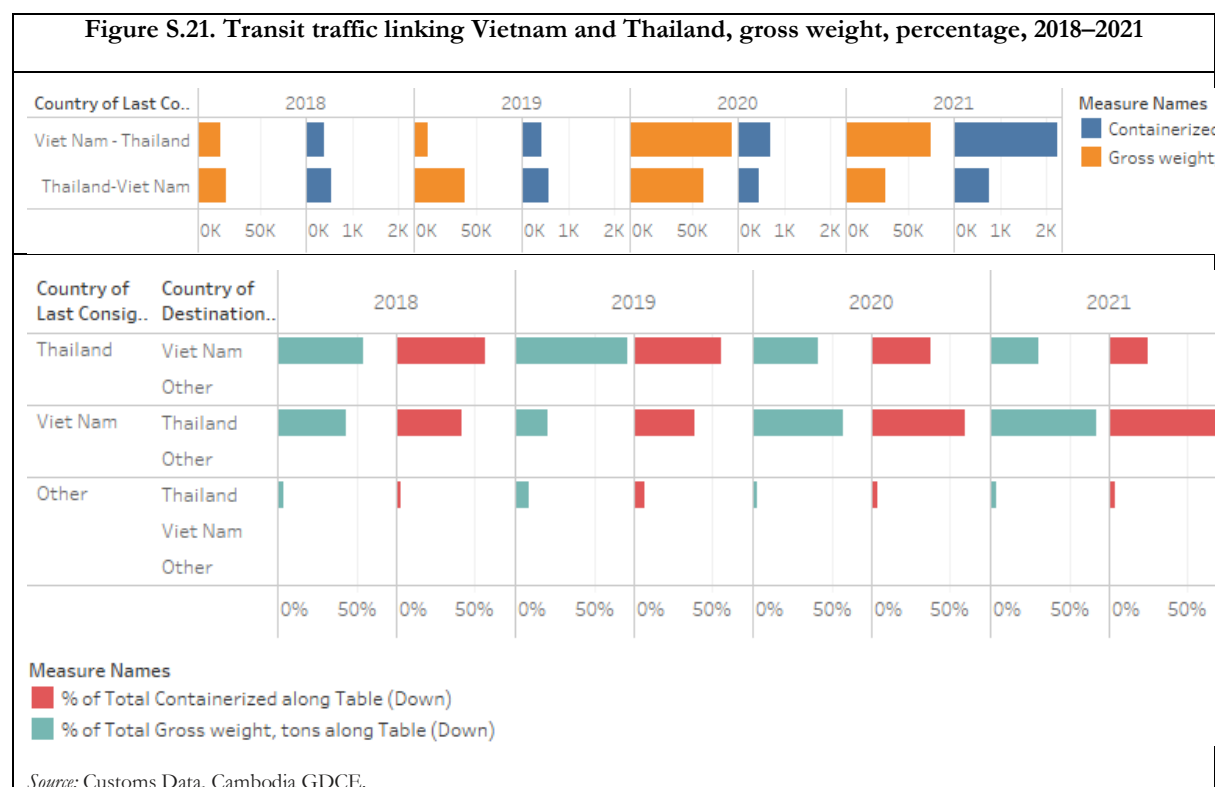
**For international transit, trade through Cambodia is small in volume, although rising, with future potential to grow depending on the regional production network configuration.** Transit trade volumes have risen from 41,000 tons in 2018 to 144,000 tons in 2020 and 102,000 tons in 2021. The spike in 2020 is likely related to shipping and logistics disruptions in the wake of the COVID-19 pandemic. The number of containerized transactions rose threefold in 2021 and stands at almost 90 percent; during 2018–2021, 70 percent of transit volume was containerized. Almost all transit flows (96 percent) are between Thailand and Vietnam (both directions but over half is from Vietnam to Thailand, for which almost all transactions have been containerized since 2019) (Figure S.21).

<sup>40</sup> The Southern Line runs from Phnom Penh to Sihanoukville. <https://www.mpwt.gov.kh/en/public-services/railway-services>

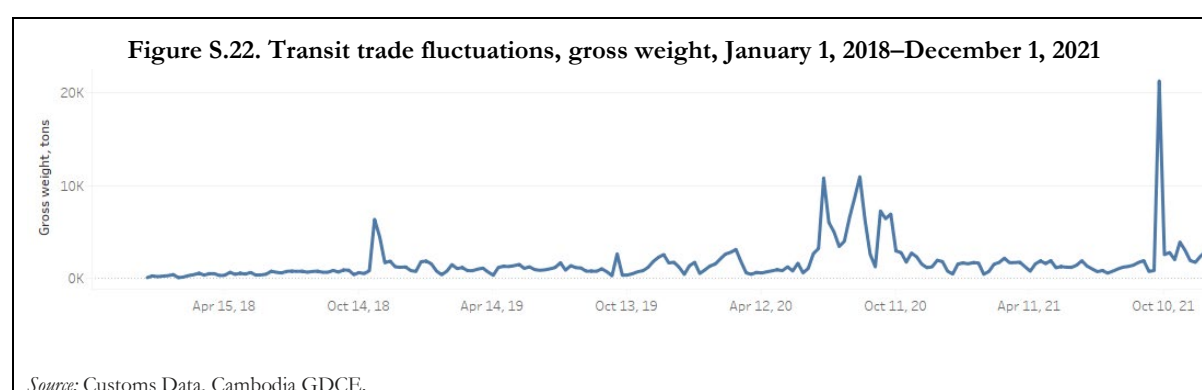
<sup>41</sup> The Northern Line runs from Phnom Penh to Poipet. <https://www.mpwt.gov.kh/en/public-services/railway-services>

<sup>42</sup> ADB 2019.





Despite Cambodia's advantageous geographic location, central to the Greater Mekong Subregion, transit trade is small, routes are highly concentrated, and a quarter of all movements happened on six days (2018–2021), suggesting complicated procedures and forming of convoys (Figure S. 22). From Vietnam to Thailand, most transit was lodged in Chrey Thom CEO and exited through Doung CEO in 2020 (72.2 percent of total transit in this direction in 2020), while in 2021, most transit was lodged in Prey Vor CEO and exited through Poipet CEO (53.6 percent). In the other direction, transit trade routes are more diverse, being mostly lodged in Boeung Trorkuon CEO (exiting mostly through Peam Montea CEO and Torn Horn CEO in 2020–21), Poipet CEO (exiting through Bavet CEO and starting in 2021 also through Prey Vor CEO), O'Anlouk CEO (mostly exiting through Chrey Thom CEO and only important in 2018–19), and Doung CEO (exiting through Chrey Thom CEO and Trorpeang Plong CEO, mostly in 2020–21).

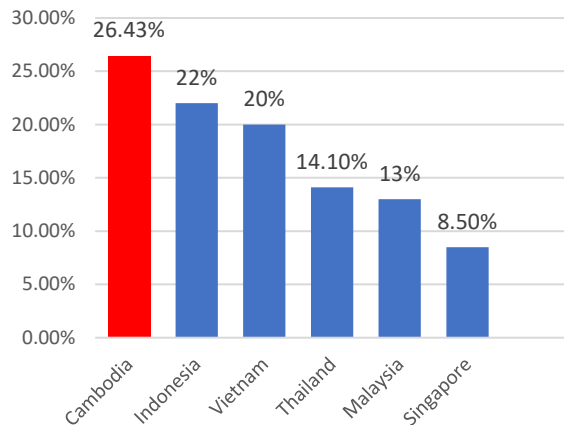


## Logistics Costs Per GDP in Cambodia

Preliminary results of work undertaken as part of this Special Focus suggests that national logistics costs in Cambodia are significantly higher than in comparable Association of Southeast Asian

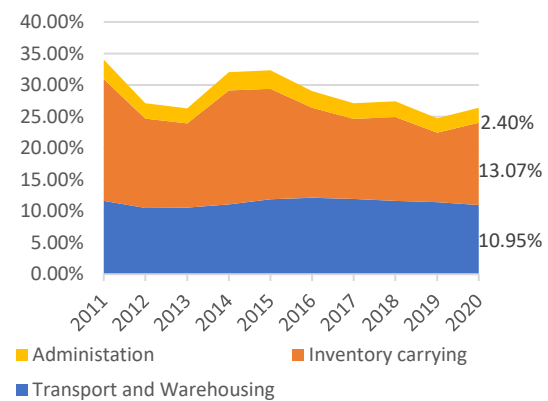
**Nation (ASEAN) countries and estimated at 26.43 percent of GDP in 2020<sup>43</sup>** (Figure S. 23). Differences in methodologies to calculate logistics costs per GDP may provide some explanation of this gap. However, when compared with Thailand, which is based on a similar methodology, several conclusions can be drawn. First, the difference between Thailand and Cambodia relates to inventory carrying cost, with a gap of almost 8 percent, as Thailand's inventory carrying cost is estimated at 5.3 percent compared to 13.07 percent for Cambodia. Higher inventory cost in Cambodia seems to result from higher lending

**Figure S.23. Comparative logistics costs per GDP in selected ASEAN countries, 2020**



Sources: <https://www.3plogistics.com/3pl-market-info-resources/3pl-market-information/global-3pl-market-size-estimates>; NESDC 2021; and Banomyong and Varadejsatitwong, forthcoming.

**Figure S.24. Evolution of Cambodia's logistics costs since 2011 (Logistics costs per GDP)**



Source: Banomyong and Varadejsatitwong, forthcoming.

interest rates, higher inventory, and limited inventory management capabilities. Transport costs and warehousing costs in Cambodia are also 3.25 percent higher than in Thailand.

**Since 2015, logistics costs per GDP in Cambodia - estimated at 27,913 billion riels in 2021 (about US\$6.7 billion)- fell to about 26 percent of GDP in 2020.** As expected, the ratio of logistics costs to GDP in Cambodia increased between 2019 and 2020: logistics expenditures increased while GDP growth slowed in the wake of the COVID-19 pandemic (Figure S.24). Except for 2014 and 2018, when the logistics cost growth rate was higher than the GDP growth rate, the average logistics cost growth rate was less than the GDP growth rate. The GDP growth rate in 2020 was less than the logistics cost growth rate. In 2020, inventory carrying costs became the largest component of logistics costs, beyond transportation and warehousing costs. Inventory carrying costs accounted for 49.47 percent of total logistics costs, followed by transportation costs, representing 41.44 percent of the total logistics cost, while logistics administration costs remained unchanged at 9.09 percent. This may be an effect of the pandemic on inventory levels, as sales of goods were slower and supply chains suffered from limited delivery capability during lockdowns. Box S.1 explains the importance of estimating national logistics costs per GDP.

<sup>43</sup> This is the first time that these numbers have been calculated in the country. The methodology (as described in Annex S.1) is suggested to be adopted by the Ministry of Economy and Finance in their efforts to estimate national logistics expenditure.

**Box S.1. The importance of estimating national logistics costs per GDP**

Logistics at the national level has gained much attention from many countries, and at the global level, there already exist a number of global logistics-related indicators developed by institutions such as the World Economic Forum and the World Bank to broadly measure logistics quality and performance across the board. These macro-level indicators can capture logistics performance and reflect logistics improvements, and can be used as a benchmark for national competitiveness.<sup>a</sup>

However, national logistics efficiency can also be evaluated in terms of trade-offs between a country's economic output, that is, gross domestic product (GDP), and its national logistics cost (NLC), to reflect national competitiveness.<sup>b</sup> Calculating NLC is a complex process, as country-level and firm-level logistics activities are complex and different.<sup>c</sup> From the perspective of policymakers, governments may not be able to deal with such challenges related to national logistics performance if they do not have the ability to measure their respective domestic logistics performance and cost.<sup>d</sup>

The ratio of logistics costs to GDP has been identified as a key indicator in measuring a country's capability in terms of managing its logistics system.<sup>e</sup> This indicator has been widely adopted by many countries to reflect their logistics capability. The Ministry of Economy and Finance of Cambodia has recognized the importance for Cambodia to have such an indicator to assess the country's overall logistics capability.

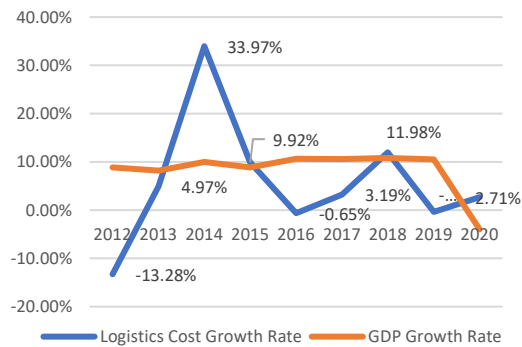
Several countries have published their NLC as a percentage of GDP (NLC/GDP), but the method behind these calculations varies.<sup>f</sup> Different countries also use different data sources and calculation approaches. Comparing the ratio of NLC/GDP among countries is challenging due to the differing methodologies. Nonetheless, it is important to have baseline data for reference purposes as logistics development policies require in-depth data. Cambodia has never published national logistics cost per GDP, but some data exist related to logistics costs over sales in certain sectors. The challenge is that these numbers are sector specific, so they do not reflect the overall situation within the country.

*Sources:* Banomyong and Varadejsatitwong, forthcoming. a. Havenga 2018. b. Rantasila and Ojala 2012; Havenga 2018. c. Wajszczuk 2005; Pishvaei et al. 2009. d. Havenga 2010. e. Banomyong et al. 2021. f. Rantasila and Ojala 2012.

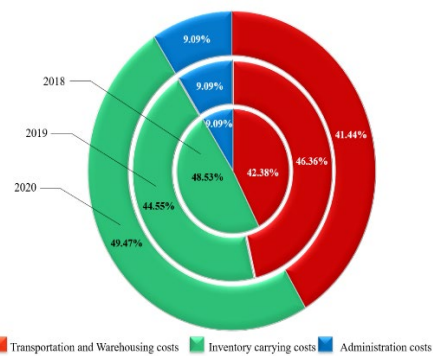
**The reduction in transportation and warehousing cost, representing up to 10 percent of GDP, is derived from the overall freight volume contraction as a result of the COVID-19 pandemic** (Figure S.25). They are, however, substantially higher when compared to Thailand, for example. Warehouses, ranging from less than 1,000 square meters to over 1,000 square meters (considered to be large) tend to be concentrated in the vicinity of Phnom Penh and National Roads No. 3 and No. 4. While some modern warehouses have been built in recent years,<sup>44</sup> mostly by foreign-invested logistics companies, the capability of older facilities remains limited, as there has been no standard developed for either warehouse facilities or the services they offer<sup>45</sup>. The high transportation costs might be attributed to the fact that trucks in Cambodia are older, and the recent increases in energy costs have a direct effect on increasing transportation costs.

<sup>44</sup> COVID-19 vaccination campaigns enabled a positive outlook for the warehouse and storage subsector, and rental prices and demand for warehouse space in Cambodia appeared stable over 2020–2021. Average monthly rent for warehouse space in Phnom Penh is estimated at between US\$2 to US\$5 per square meter, contingent on the location and condition of the facilities, while leasing contracts are averaged at five years (Banomyong and Varadejsatitwong, forthcoming).

<sup>45</sup> [Japan's retail giant Aeon](#) has plans to build a 30,000 square-meter logistics hub in a special economic zone near the port of Sihanoukville, featuring Cambodia's first bonded warehouse and offering services ranging from import storage to customs clearance and customer support.

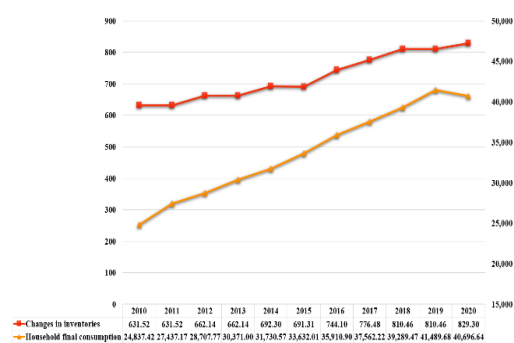
**Figure S.25. Cambodia's logistics costs and GDP growth rate at current prices (Percentage)**

Source: Banomyong and Varadejsatitwong, forthcoming.

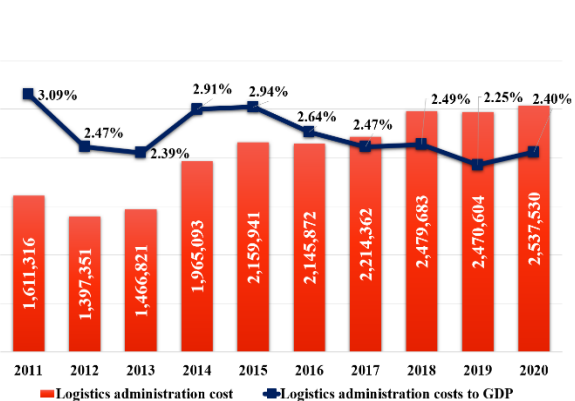
**Figure S.26. Cambodia – logistics cost structure**

Source: Banomyong and Varadejsatitwong, forthcoming.

The total cost of holding inventory (inventory carrying cost) is particularly high in Cambodia, implying high uncertainty in the supply chain. Specifically, firms in Cambodia have higher expenses arising from keeping products shelved at a warehouse, distribution center, or storage facility, resulting in actual expenditures related to storage, labor, transportation, handling, insurance, tax, item replacement, shrinkage, and depreciation, not to mention opportunity costs, which will have an additional impact on firm profitability (Figure S.26). The estimated value of the inventory carrying cost in Cambodia is equivalent to about 13 percent of GDP. Inventory carrying costs are highly related to growth (or slowdown) of household consumption, and to interest rates. With the drop in household consumption in 2020 (almost 2 percent<sup>46</sup>), levels of inventories held in the manufacturing sector increased to an estimated 2.3 percent. Furthermore, the direct relationship between the inventory carrying cost and interest rate levels, with an average loan rate in 2020 of 9.88 percent, was slightly higher than in 2019. While logistics administration costs are not available in the Cambodian national accounts, the related expenditures are imputed and estimated to be around 10 percent of total logistics cost (2,537,530.02 million riels), equivalent to 2.4 percent of GDP (Figure S.27 and 28).

**Figure S.27. Cambodia – changes in inventory and household spending**

Source: Banomyong and Varadejsatitwong, forthcoming.

**Figure S.28. Cambodia – logistics administration costs (Million riels)**

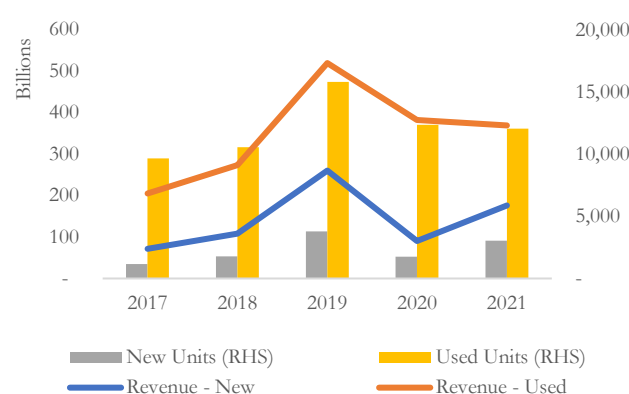
Source: Banomyong and Varadejsatitwong, forthcoming.

<sup>46</sup> ADB 2021.

## Drivers of High Costs and Low Reliability

As presented, transportation costs are particularly high, representing almost 10 percent of logistics costs (alongside warehousing), pointing to significant inefficiencies in the sector. Current trucking services are largely low cost and low quality and are often provided by the informal sector. Such services are unlikely to sustain the growth and development of an increasingly complex, externally oriented manufacturing sector operating at international standards, competing in international markets, and required to meet international delivery times and reliability. A comprehensive trucking sector will normally attempt to accommodate changing customer requirements and preferences, but such adaption can be greatly facilitated by the appropriate policy framework and enabling highway infrastructure. Local trucking operators do not generally work directly for any of the global shippers. They are too small and do not have

**Figure S.29. Import of trucks and tractor (head) units into Cambodia, and revenue collection, billion of riels, 2017–19**



Source: Customs Data, Cambodia GDCE.

Note: RHS = right-hand scale.

**Table S.1. Import duties and fees for trucks**

No.	Tax	Rate (%)			
1	Customs duty	15			
2	Special tax	10	20	30	40
3	VAT	10			
	<b>Cumulative total</b>	39.2	51.8	64.5	77.1

Source: Customs Data, Cambodia GDCE.

the customer service, reporting systems, insurance, or payment terms that the global brands need. Therefore, the local operators work with the global freight brands that have been allocated the routes from that country or region.

**Transport operating costs are currently under severe upward pressure due to the high price of diesel, exacerbated by the characteristics of the operators' fleet.** Many trucks operating container drayage date back to the last century, as Cambodia has one of the oldest trucking fleets in Asia, and many of the trucks are imported second hand from the Republic of Korea, third hand from Vietnam or other countries where they are long past their useful and economic life. Poor maintenance is made worse by the facilitation culture, which enables operators to get around inspections and roadworthiness checks by making “informal” payments. Upgrading the goods vehicle fleet should be seen as a priority from both a logistics cost perspective and an environmental perspective, as there is an urgent need to burn less and cleaner fuel of a higher grade than at present.

**There are currently no incentives for trucking operators to invest in newer equipment.** According to interviews undertaken as part of this work, operators point to low freight rates and high import duties and taxes for new trucks (figure S.29). The import duties and fees for trucks, which includes the customs, special tax, and value-added tax in Cambodia, ranges from 35 percent to 65 percent, (Table S.1) which is far higher than in neighboring countries, where it can be as low as 1.5 percent. Combined with relatively high interest rates, operators are borrowing money to pay the duty rather than buying newer, cleaner trucks that burn far less fuel. The fuel consumption of new tractor units ranges from 3.2 to 3.5 kilometers per liter for a 400-horsepower tractor. This compares to 2.5 kilometers per liter for a 10-year-old tractor dropping to around 2.2 kilometers per liter for a 20-year-old tractor. This is a saving of 30 to 40 percent on fuel in addition to the benefits of reduced emissions (Table S.2). Since Cambodia imports all its fuel, savings also have effects on the country's balance of payments.



Table S.2. Fuel consumption of tractor units

Age		Capacity ton	Annual ton km per truck	Fuel burned in 50,000 km	Fuel burned km/litre	Fuel burned ton/km	Horse-power
15	12-wheeler	15	750,000	25,000	2	0.033	320
10	12-wheeler	15	750,000	22,727	2.2	0.030	360
20	Semi-trailer 22 wheels	20	1,000,000	22,727	2.2	0.022	360
10	Semi-trailer 22wheels	20	1,000,000	20,000	2.5	0.20	360
0	Semi-trailer 22 wheels	20	1,000,000	15625	3.2	0.016	400
0	Semi-trailer	25	1,250,000	16,666	3.0	0.013	420
0	Semi-trailer	30	1,500,000	20000	2.5	0.013	420

Source: GIZ 2018.

The relatively short contraction in trade experienced in Cambodia seems to have had some impact

Table S.3. Freight rates (road and rail) along selected origin-destination, cost/km, 2021

Origin-destination	Mode	Distance (km)	Average time (hours)	20-foot container (TEU)	40-foot container (FEU)	Cost/km (TEU)
Phnom Penh – Sihanoukville	Road	230	7	US\$218	US\$253	US\$0.95
	Rail	264	10	US\$136	US\$157	US\$0.59
Phnom Penh – Poi Pet	Road	348	10	US\$556	US\$686	US\$1.60
Phnom Penh – Bavet	Road	178	5	US\$321	US\$371	US\$1.80
Phnom Penh – Prey Vor	Road	124	6	US\$304	US\$349	US\$2.45

Source: Ministry of Public Works and Transport 2021.

Note: FEU = forty-foot equivalent unit; km = kilometer; TEU = twenty-foot equivalent unit.

**on trucking costs, which are very high on selected routes.** According to focus group discussions undertaken as part of this special report, revenue (for the trucking company) for moving a 40-foot container from Phnom Penh to Sihanoukville Port has dropped from US\$250/US\$270 to US\$170/US\$180. Shippers, however, noted that trucking costs charges remained at US\$270/US\$300 for a 40-foot container on the same route (Table S.3). It appears that intermediaries arranging the service have not passed down the extra savings. A similar phenomenon has been pointed out by work done by the Ministry of Public Works and Transport as part of the “Interim Master Plan on Intermodal Transport Connectivity and Logistics System,” which collected freight rates by transportation route. Accordingly, the freight rates charged by trucking companies depend on the route. It appears that the Royal Railway Northern Line would be a suitable alternative to the currently high freight rates charged by trucking for this segment, subject to capacity and reliability.

**The geographical configuration of trade flows and freight demand (medium distance concentrated on a few origin/destination points) should mean that rail has the potential to be an important player in the freight market, which is largely ceded to road transport.** Investments are required, mainly in equipment. Investments will, however, have a limited impact unless an underlying business and management environment with operating priorities is developed. If Royal Railways is to compete effectively and the railways to regain its role as one of the transport modes for freight, substantial changes will be required in its governance, finances, and operation management and priorities. With PPAP’s increasing demand, a rail connection to the PPAP container terminal might be considered.

**The costs of crossing borders are high, including customs fees, immigration, and other costs not related to transport costs and bilateral agreements yet to be implemented,** according to the Interim Master Plan on Intermodal Transport Connectivity and Logistics System. While the actual costs vary for

different border crossings, the average cost for Bavet Border Crossing is estimated at US\$410 per container (general cargo, 40 feet), US\$307 per container at Prey Vor Border, and US\$311 per container at Poi Pet Border. The costs for a 40-foot container crossing the border at Bavet (garments) is US\$248, at Prey Vor Border it is US\$217, and at Poi Pet Border it is US\$337. In addition, the cost of one 20-foot container is US\$225 at Bavet Border, US\$188 at Prey Vor Border, and US\$255 at Poi Pet Border.<sup>47</sup> The lack of implementation of the Greater Mekong Subregion Cross-border Transport Agreement for the past five years, including bilateral agreements with Thailand and Vietnam, is leaving Cambodia behind in taking on a significant share of the cross-border trade with its neighbors.

**Earlier reports also described the high cost of port services and terminal handling charges in Cambodia compared to Vietnam and Thailand.** The reports noted that “the provision of important maritime auxiliary services is currently monopolized by state-owned enterprises, leaving a large gap for competition to improve services’ quality and delivery.”<sup>48</sup> According to the OECD *Investment Policy Review* (2018), “a recent cost benchmarking exercise carried out by members of EuroCham Cambodia (2016) suggest that port dues and charges relating to comparable vessels are 3.7 times higher at Sihanoukville than at Cai Mep, Viet Nam.”<sup>49</sup> According to discussions with export associations, terminal handling charges were about US\$1,000 for a 40-foot container before the COVID-19 pandemic hit, while the charges have increased to about US\$1,200 (free on board, FOB).<sup>50</sup> This is double the charges levied by other ports in the region, such as Bangkok or Cai Mep. A similar situation is reported with respect to the normal clearance price for an export container, which is reported to be around US\$220 to US\$250, including a significant profit (more than 100 percent) by the clearing agent/broker. Customs clearance costs are about US\$50 in Japan and US\$60 in Thailand and Vietnam.

**Improvements in SAP’s efficiency can, however, be observed, but standards are not at levels comparable to ports in the region.** Measured as the length of port stay, a general reduction in the average number of days a containership is spending in SAP can be observed: from an average of 1.36 days in 2019 to less than a full day in 2020, followed by a slight increase of up to 1.13 days in 2021, mostly attributed to the pandemic’s effects resulting in smaller containerships’ port stay. The reduction of port time is observed in feeders’ data, from an average of 26 hours in 2019 down to 19 hours in 2021. In the same fashion, the average time in port of feedermax ships has dropped from 49 hours in 2019 to 40 hours in 2021; small feeders tend to spend less time at port facilities, as well, from 30 hours average during the pre-pandemic year down to slightly over 21 hours in 2021 (Figure S.30).

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<sup>47</sup> Ministry of Public Works and Transport 2021.

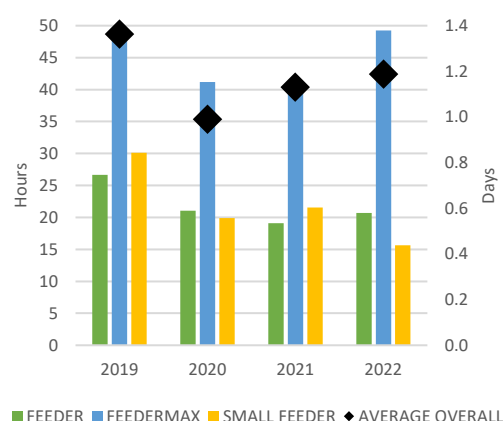
<sup>48</sup> World Bank 2018, p. 48.

<sup>49</sup> OECD 2018.

<sup>50</sup> The normal terms of trade are FOB Sihanoukville. This means that the FOB costs are paid by the shipper, which means that the shipper is generally free to shop around and choose whom they want. However, this is usually not the case in Cambodia, where the agent handling the FOBs is often buyer nominated. This means that the shipper will have to use the one the buyer wants the shipper to use.

**PPAP and SAP recorded substantial revenues and profits in 2021.** Competition between PPAP and SAP should improve efficiency. In 2021, PPAP and PAS collected US\$33.7 million in revenues (up by about 20 percent from 2018, at US\$20.722 million) and US\$83.11 million (compared to US\$82.22 million in 2018), respectively (Figure S.31). Lift-on-lift-off charges and stevedoring revenue seem to account for

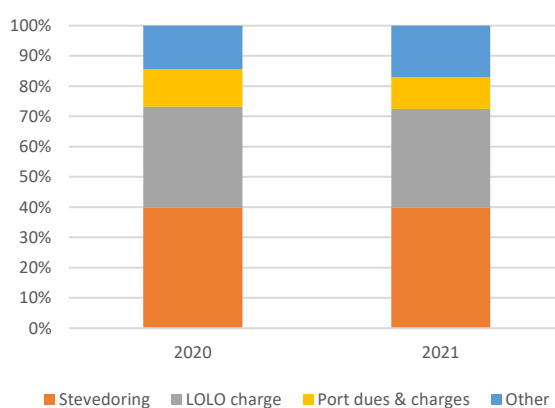
**Figure S.30. Average time spent at Sihanoukville Port, 2019–April 2022**



Source: Marine Traffic data and measurements of ports arrivals and departures.

Note: Small feeder (up to 1,000 TEUs), feeder (around 2,000 TEUs), feedermax (around 3,000 TEUs).

**Figure S.31. Phnom Penh Port Authority, revenue structure, 2020–2021**



Source: MPWT 2022.

Note: Lift-on/lift-off.

over 70 percent of total revenue of each port. Being port authority and operator at the same time, both ports are listed on the Cambodian Securities Exchange (since 2015), with majority shares (75 to 80 percent) owned by the Ministry of Economy and Finance.

**Similar to other countries, informal payments to speed up processes or evade standards, procedures, and rules all together are also prevalent in Cambodia.** For many years, transport companies and logistics operators have charged over the odds – that is, more than the usual or expected amount – in Cambodia to cover unforeseen costs. They included unofficial payments to get documents out in time for shipment, to get stamps before the office closed, and to move trucks in transit to or from the ports and borders. They were known as just-in-case (JIC) and have been accepted as part of the cost of moving export, import, and transit goods through and out of or into the country. While business was in ascendency and it was a sellers' market, buyers were prepared to pay, as they had no easy way of dealing with the local service providers unless they set up an office in Cambodia. This situation is not unique to Cambodia, although it is more prevalent than in most other exporting countries. The requirements of the U.S. Corrupt Practices Act and similar laws in other countries mean that global buyers and logistics brands want to distance themselves from being involved in paying for facilitation, so, they employ others that will do it and invoice it as handling or processing fees. These charges are not queried and are referred to as “the cost of doing business in Cambodia.”

**While shipping lines are characterized by a service model with a relatively high level of predictability, SAP and PPAP experience a concentration of registration of customs declarations on Fridays, most likely related to meeting cutoff times for shipping schedules, with cascading effects.** A large volume of exported goods is registered in exit offices on Fridays, creating significant congestion in already crowded urban environments, such as Phnom Penh and Sihanoukville (Figures S.32 and S.33). It is a testament to “the way logistics operators are doing business in Cambodia.” Such patterns of increased concentrated demand are yet to be integrated into central and urban planning initiatives for major cities in Cambodia to regulate and/or accommodate freight movements, in particular, trucking. At present, several restrictions are in place on access of heavy goods vehicles in urban areas, such as bans and curfews. The result may be that the same amount of cargo will be delivered by many smaller vehicles, creating unprecedented congestion.

Figure S.32. Registration of exported goods, distribution across weekdays, volume, 2018–2021

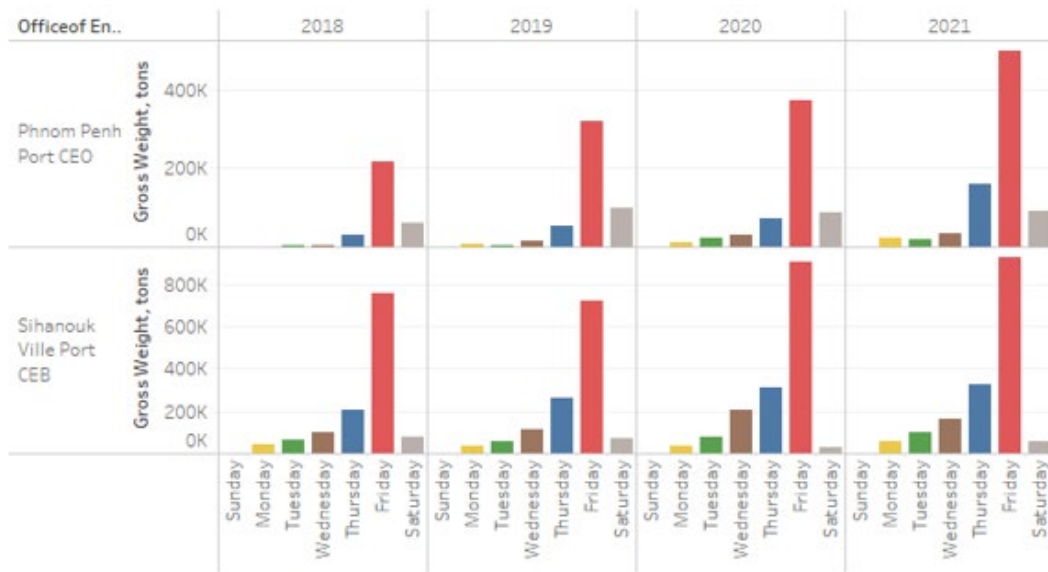
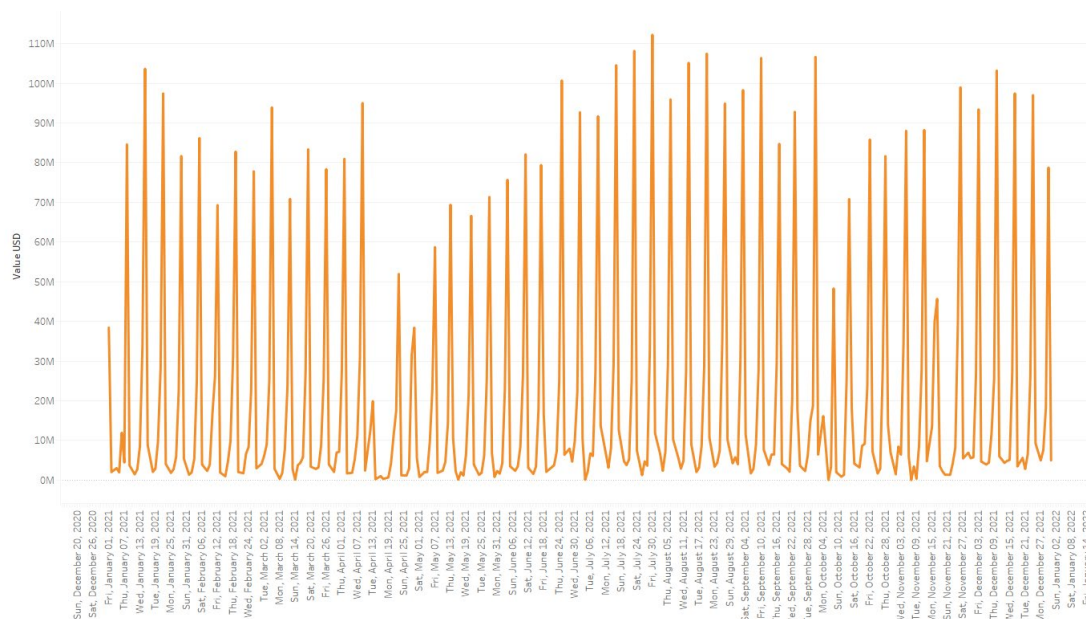


Figure S.33. Sihanoukville Port CEB, registration of exported goods, daily distribution, value, 2021



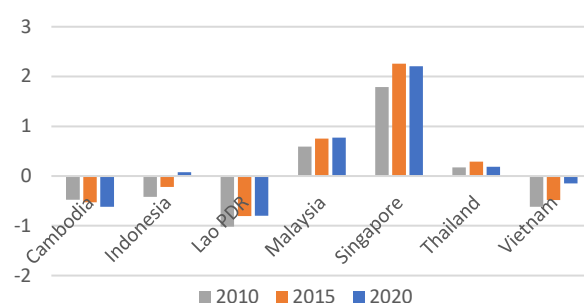
Source: Customs Data, Cambodia GDCE.

**Raising service level and standards as well as improving the quality of the regulatory framework is at the core of the government's reform agenda;** while service level and standards are generally driven by the private sector, especially as per global customers' requirements. A Best Trader Program has been introduced for selected traders who are exempt from having to advance verification of customs valuation procedure and rule of origin at headquarters, are trusted to have the correct documentation, and are not inspected or stopped as others. While initially focused on traders involved in import-export operation, the program has great potential for the logistics sector as it can help raise transport and logistics standards

alongside other measures. Currently, 46 companies are participating in the scheme,<sup>51</sup> and there are plans to roll it out to other participants of the international trading sector, including to customs brokers and logistics companies. It is seen as a step toward an Authorized Economic Operator (AEO) program. Customs reported that the program was working well, that there was less checking, and the compliance of documents was greater. This is a breakthrough that could have far-reaching benefits in terms of raising professional standards, as well as offering a pathway toward an AEO system. Most customs programs are built on AEO responsibility, including for ASEAN and the ASEAN Customs Transit System (ACTS). There are plans to expand the qualification criteria and include customs brokers<sup>52</sup> and transport and logistics operators.

**To improve regulatory compliance and increase automatization of the process through information and communications technology (ICT), Cambodia has initiated reforms in logistics to reduce administrative burden, lower compliance costs, and simplify procedures.** Some of the logistics-related licenses can be applied for online in Cambodia; for example, road freight operators can apply for their license and certificate of business registration on the Ministry of Public Works and Transport website. However, not all licenses and accreditations necessary for logistics providers can be applied for online, as certain authorizations require applicants to submit hard-copy applications with the relevant agency. Applicants for international express mail service licenses, for example, must submit a hard-copy application to the Ministry of Posts and Telecommunications.<sup>53</sup> Not only does the handling of hard copies slow the processing of applications, but it also increases the likelihood of irregularities. Shortcomings in regulatory quality are frequent, and the most up-to-date rules and regulations are not always accessible.<sup>54</sup> There is no lack of ICT systems under development or developed, especially in port or customs clearance, but connections among the different systems are far from complete (Figure S.34) and inter-ministerial coordination yet to be fully exploited.

**Figure S.34. Regulatory quality in Cambodia and selected countries, 2010–2020**



Source: World Bank's Worldwide Governance Indicators, <http://info.worldbank.org/governance/wgi>.

Note: Lowest: -2.5; Highest: 2.5; The regulatory quality estimate indicator captures the perception of a government's ability to formulate and implement sound policies and regulations that permit and promote private sector development.

**In the wake of the COVID-19 pandemic, assessment of customs declarations and supporting documents for import and export through the treatment channel “green lane” has been almost entirely phased out, with lasting impact** (Figure S.35). In terms of imports (in both value and volume terms), the green lane accounted for a minor part of trade before the start of the COVID-19 pandemic and

<sup>51</sup> To participate, approval by the GDCE is required, as is a US\$250,000 register capital and annual turnover of US\$2 million, which excludes many small and medium-sized enterprise operators.

<sup>52</sup> While customs brokers must be licensed, the training takes only one month and is done by Customs to ensure that the broker knows the clearance process and what is required. In other countries, a customs accreditation course is part of a wider licensing process that can take up to two years. This includes comprehensive training on Harmonized System (HS) codes and international commercial terms (Incoterms, which are a set of 11 internationally recognized rules that define the responsibilities of sellers and buyers), to fully understand how customs codes are used and how the terms of trade affect the value of the cargo.

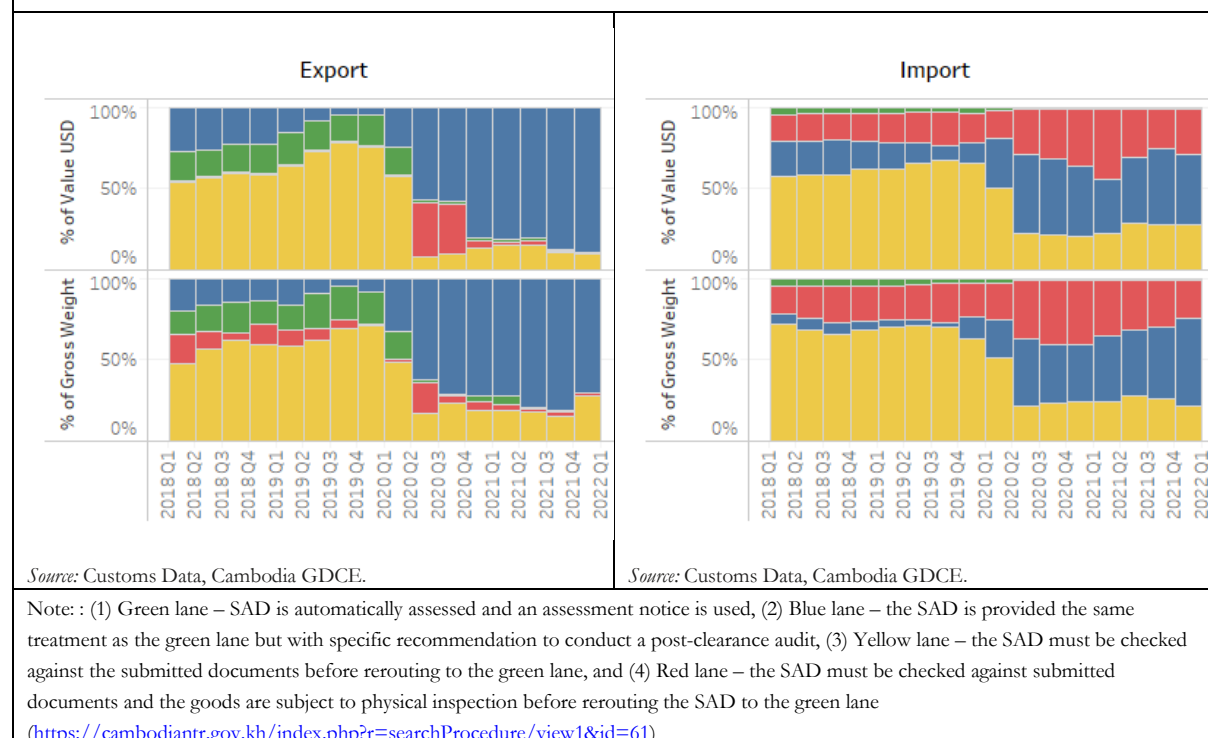
<sup>53</sup> OECD 2022.

<sup>54</sup> A good example of a compilation of all laws and regulations related to the maritime and ports sectors in Cambodia was prepared with support from the Japan International Cooperation Agency (JICA); see [https://openjicareport.jica.go.jp/pdf/11861986\\_01.pdf](https://openjicareport.jica.go.jp/pdf/11861986_01.pdf).



was phased out completely in March 2020. The use of the yellow lane, which requires physical verification by a customs officer of the information provided online against a hard copy (to be provided by the customs broker or declarant in person) before rerouting to the green lane, decreased. Until the end of 2021, the blue lane, and to a much lesser extent, the red lane, (mostly for minerals and precious metals) treatment prevails, which requires specific recommendation for a post-clearance audit or are subject to physical inspections. This trend may need to be reversed as the pandemic subsides. The trend is similar for exports, although exports processed through the green lane previously accounted for a larger share (almost one-fifth), which has largely been transferred to the blue lane (notably for textile, clothing, and footwear goods). According to a recent assessment done by the World Bank, post-audit productivity as required under the “blue lane” is very low when measured in terms of detection (0.01 percent).

**Figure S.35. Export and import customs clearance – lane treatment, volume, and value, quarterly, 2018–2021**



**Simplified clearance and fast turnaround are particularly important for agricultural products and e-commerce, the former lacking cost-effective cold chain solutions to urban centers within Cambodia and to neighboring countries.** Cambodian exporters of fruits and vegetables require guaranteed cold chains to be able to ship their products out of Cambodia by air or road. Meanwhile, fruits and vegetables sold in rural areas seem to originate to a large extent from Thailand and Vietnam. The issue for small producers is achieving economy of scale in transport so that their costs are kilo based, which means filling large trucks and reducing waste, which can run up to 30 percent, if there are no suitable cold chains. Adding value at origin also requires cold chain protection, as produce has a short life. Given existing constraints to selling these products in the local market, initiatives are needed to integrate “first mile” from farm gate to collection, consolidation, and packaging to enable rural producers to get their products to market with minimal losses as part of an import substitution scheme before expanding to links with neighboring countries.

**The lack of simplified clearance procedures for low-value shipments is not conducive to the promotion of cross-border e-commerce.** Particularly, this restricts economic participation of micro, small and medium-sized enterprises. The administrative cost related to collecting relatively small amounts of duties and taxes generally outweighs the actual revenues collected. The World Trade Organization,

International Chamber of Commerce, and Asia-Pacific Economic Cooperation generally recommend a higher de minimis value threshold, which is currently set at US\$50 in Cambodia. The country also lacks an express clearance model. There are several initiatives and proposals, including from DHL and the European Chamber of Commerce (since 2019) on raising the de minimis threshold and introducing simplified clearance for low-value shipments. The proposals seem to follow the guidelines agreed between the World Customs Organization and the Global Express Association. While work is ongoing in several related areas<sup>55</sup>, GDCE is currently preparing draft procedures for express assignments (expected to be consulted with relevant stakeholders), which are yet to be implemented.

## RECOMMENDATIONS

**In some areas of logistics in Cambodia, change is already taking place, and the momentum of change needs to be maintained and possibly increased and extended to cover all links of the supply chain to improve reliability and reduce logistics costs.** In other areas, the Government of Cambodia has announced its intentions to introduce major changes but has yet to implement them<sup>56</sup>. There are also aspects where changes have yet to be agreed, let alone implemented. Efforts to increase Cambodia's competitiveness, facilitate international trade, and enhance its connectivity to better serve consumers and meet the needs of regionally integrated facilities for reliable delivery of inputs and outputs require a systematic approach.

**The effectiveness and sustainability of the reform agenda to improve Cambodia's trade competitiveness largely depends on strong leadership by the government and positive outcomes.** While the establishment of performance indicators to monitor and measure the progress in the work program (ideally to be endorsed bi-yearly) is critical to provide the basis for continuing support by the government and international development partners, a lead "agency" in the government with clear mandate and terms of reference at the national and border/gateway level must be identified. Given that logistics and supply chain connectivity spans over several technical ministries and agencies with different responsibilities and facilitation/ control functions, it would be advisable to identify an institutional arrangement that would be most suitable and inclusive to advance the reform agenda and implement agreed measures. At the national level, the experience of other countries shows that the lead "agency" is often headed by a high-level government official (e.g., President or Prime Minister/ Deputy Prime Minister) supported by a Secretariat and representatives from all responsible ministries/ agencies. At the border/gateway level, a lead agency as "gatekeeper" with responsibility to coordinate between the different technical agencies represented at the border/gateway should also be assigned. In most countries in the world, customs authorities often take the coordination role at major gateways/ border crossings given their dual function of control and facilitation<sup>57</sup>.

<sup>55</sup> The Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) is providing support to GDCE through its ARISE Plus program to implement projects on digitalizing global maritime trade (DGMT) and digitalizing global trade (DGT) for pre-arrival processing, including a review of workflow and gap analysis of the legal framework and IT infrastructure.

<sup>56</sup> Since 2015, with the adoption of the Cambodia Industrial Development Plan 2015–2025, the government identified the improvement of logistics and supply chain connectivity as essential to the country's economic growth. In October 2016, the General Department of Logistics was established within the Ministry of Public Works and Transport. In recognizing the necessity of the logistics sector, the National Logistics Council and the National Logistics Steering Committee were also established by Royal Decree in November 2017. The "Interim Master Plan on Intermodal Transport Connectivity and Logistics System" was completed and approved by the National Logistics Council in January 2020 to promote the implementation of relevant essential projects for the short, medium, and long term.

<sup>57</sup> A similar measure was introduced in "The Strategic Framework and Programs for Economic Recovery in the Context of Living with the COVID-19 in a New Normal 2021-2023" adopted in December 2021 concerning the amendment of Sub decree 64 on "Determining and Operating of Checkpoints at International Gates, International Border, Bilateral International Gates, Border Area and Seaport Throughout the Kingdom of Cambodia".

Reform efforts must look beyond improvements of physical assets toward strengthening the entire supply chain, incorporating the following elements:

***In the short term:***

**1. Monitor efficiency of main trade gateways with regular progress updates**

The importance of the gateway ports for the competitiveness of Cambodia's trade and further global value chain integration cannot be overstated. Cambodia's main exports are trading in an increasingly competitive market, and the government needs to ensure that its main trade gateways fully support its external trade position with the highest efficiency at the lowest cost. The basic decision to make the port authorities landlords rather than service operators has already been taken. But a review of the reportedly high costs is needed. The government also needs to assess whether financial transfers from users to the ports are in the best interest of development, or whether lower charges and lower port profits would have a more positive impact on trade and development. Effective implementation also includes updates on progress of performance indicators to the government which should be done on a regular basis, at least quarterly. The coverage of the monitoring system could also be extended at a later stage to include trade routes and corridors, e.g., for exports from clearance at factory to exit gateway.

***Establish a comprehensive monitoring system with regular updates to assess the performance of the ports and benchmark them against similar ports in neighboring countries. Indicators could include operational efficiency, financial performance, dwell time, charges, and handling fees.***

Responsible agency: Ministry of Economy and Finance (MEF) (GDCE) (with assistance of DPs and logistics industry specialists)

Ministry oversight/lead: MEF.

**2. Expand the “Best Trader scheme” to the wider logistics sector**

Creating the right incentive schemes for upgrading standards in the logistics profession is paramount. While there are plans to expand the Best Trader scheme to include customs brokers, forwarding agents, carriers, and shipping lines, there seems to be no mechanism for qualification. The international standard would be to have licensed persons in place as part of the qualification process. This is already covered under Annex 9 of the Greater Mekong Subregion Cross Border Transport Agreement, to which Cambodia is a signatory. Therefore, there is already a provision on the criteria for licensed persons and guidance on good standing in existing regulations that could be implemented or expanded as necessary to support the extension of the Best Trader program to the logistics sector. For example, formal registration and the use of newer trucks could be used as incentives and criteria for a “Best Trucker” scheme.

***Prioritize the expansion of the Best Trader scheme in the logistics sector and ensure implementation to include trucking companies (Best Trucker) and customs clearance agents (Best Clearance), which is expected to be a major step toward the professionalism needed in the sector.***

Responsible agency: MEF ,GDCE) (with assistance of DPs and logistics industry specialists), MPWT

Ministry oversight/lead: MEF.

**3. Institutionalize “ROADWATCH,” supported by a hotline for traders and citizens to report irregularities (if it is not in place yet)**

Opaque enforcement and implementation of relevant rules and regulations (including traffic laws, drug and illegal firearm inspections, sanitary and phytosanitary inspections, customs inspections) and informal payments to circumvent or speed up inspections undermine the perception about regulatory quality and

rule of law. This is particularly relevant for import-export businesses and related logistics as they can be confronted with many agencies across several sectors.

*Establish a team led by a top-ranking official, comprising competent officials from the Ministry of Public Works and Transport (MPWT), Ministry of Interior (MoI), Ministry of Economy and Finance (MEF), General Department of Customs and Excise of Cambodia (GDCE), and local authorities dedicated to facilitating trade with hotline support, enforcing the famous catchword “ROADWATCH” on facilitation of road transport (earlier introduced by the government).*

Responsible agencies: MEF, MoI, MPWT, Ministry of Commerce (MoC), Ministry of Justice (MoJ)  
(in consultation with the private sector)

Ministry oversight/lead: MEF.

#### **4. Assign a review team and confirm a business plan for railways**

The quality of its mainline infrastructure and the geographical configuration should mean that rail has the potential to become an important player in the freight market, which it has largely ceded to road transport. Some investments are required, most likely in equipment, beyond the second-hand locomotives and rolling stock sources from as far afield as South Africa. The business plan should also include the underlying business and management environment within the railway sector, including priorities on linking the network with neighboring countries and main gateway ports in Cambodia and abroad.

*Develop a reform and business plan for the railway sector with a 10-year time horizon, jointly led by the MEF and MPWT in consultation with the private sector to ensure that railways meet customer demands for efficient and reliable service.*

Responsible agency: MPWT (with assistance of DPs and in consultation with the private sector)  
Ministry oversight/lead: MEF.

#### **5. Promote automation, improve transparency, and eliminate human interaction in the customs clearance process**

The customs clearance process remains to be heavily reliant on human interactions and paper-based transactions. IT tools, such as ASYCUDA could be further used in the decision-making process. At present, once information is registered electronically in ASYCUDA, the customs broker/declarant is required to print and sign two copies of the Single Administrative Document and deliver hard copies of all documents for further processing. Accordingly, a customs officer “face-vets” that the hard copy is properly filled, and is in clear language, is readable, and is signed by the respective customs broker/declarant. Subsequently, the customs officer relies on ASYCUDA to assign the predetermined risk management category. To increase automation and use of digital signatures, the new Law on E-commerce has already enabled the use of digital signatures. At the same time, reinstating the green lane and reviewing productivity of post audits is of paramount importance.

*Promote automation, improve transparency and eliminate human interaction in the customs clearance process (as much as possible) by streamlining existing processes, removing “face-vetting”, accepting digital signatures and using full automation of risk-based system to assign lanes (green/blue/yellow/red).*

Responsible agency: MEF (GDCE) (with assistance of DPs and logistics industry specialists)  
Ministry oversight/lead: MEF.

#### **6. Further rationalize duty and special tax on new truck imports**

Current trucking services in Cambodia are largely low cost and low quality, and often provided by the informal sector. Such services are unlikely to sustain the growth and development of an increasingly complex export-oriented manufacturing sector operating at international standards, competing in competitive markets, and required to meet international delivery times and reliability. Policies are required to encourage the growth of a modern trucking sector, enhance service speed and delivery, and reduce the high external costs of the present trucking sector. This could build on the “tax policy on eco-friendly vehicles” which is under preparation by the MEF.

***Further rationalize truck import tariffs to encourage the re-equipping of the fleet with larger, modern vehicles appropriate to providing a high level of service. This could be accompanied by a vehicle scrapping program.***

Responsible agency: MPWT (with assistance of DPs and logistics industry specialists)

Ministry oversight/lead: MEF.

***In the medium-to-longer term:***

### **1. Facilitate transit of goods**

According to UN Comtrade data, trade between Thailand and Vietnam has grown rapidly. Thailand’s imports from Vietnam rose from US\$1.3 billion in 2010 to US\$7.0 billion in 2021, while Thai exports to Vietnam increased from US\$5.8 billion to US\$12.3 billion. International transit trade through Cambodia continues to remain small, totaling 102,000 tons in 2021. This transit volume captures less than 5 percent of trade between Thailand and Vietnam. While transit heavily depends on regional production network configuration, it would be advisable to introduce measures to make transit and border regulations more transparent, streamline administrative procedures, and further simplify border control and procedures. This also underscores the importance of regional and subregional collaborative efforts in developing efficient transit transport systems,<sup>58,59</sup> based on existing institutional frameworks (e.g., ASEAN, GMS CBTA).

***Further develop and implement reliable transit solutions, with bonded transport and guarantee systems to take advantage of goods in transit as regional supply chains develop.***

Responsible agency: MEF (GDCE) (with assistance of DPs and logistics industry specialists)

Ministry oversight/lead: MEF.

### **2. Develop a ‘Comprehensive Master Plan on Multimodal Transportation and Logistics’ (2022-2030)**

A comprehensive Comprehensive Masterplan on Multimodal Transportation and Logistics is paramount to increase efficiencies for internal distribution and to strengthen cross-border transport collaboration, especially with neighboring countries Vietnam and Thailand. Heavy agricultural commodities are most suitable to be shifted by rail and river transport, which have not taken up their share. The target should include but be linked to, among others, (i) the development of the Business Plan for Railways Development, and (ii) a plan to further develop river transport with links to existing port infrastructure.

***Finalize the Comprehensive Masterplan on Multimodal Transportation and Logistics (2022-2030) with sequencing and prioritization, with a focus on smart logistics solutions land oversight and strengthening cross-border transport collaboration with Vietnam and Thailand, with a vision for modal development.***

Responsible agency: MEF/MPWT (with assistance of DPs and logistics industry specialists)

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<sup>58</sup> World Bank 2012, 2018.

<sup>59</sup> A 2008 World Bank study found that the average transit time of wheat from its main source markets to its target markets in Arab countries was 78 days, and the trip costs about US\$40 per metric ton. By contrast, the average transit time to target markets in the Netherlands was just 18 days, and the trip costs US\$11 per metric ton. (In the Republic of Korea, the average transit time was 47 days, and the trip costs US\$17 per metric ton.)



Ministry oversight/lead: MEF.

### 3. Champion Urban Logistics Initiative and Planning

Sprawling urban centers such as Phnom Penh and Sihanoukville are creating issues for transport planning and logistics. Traffic concentration due to the rush of operators to not miss the ship are also contributing to additional stress to urban centers. The ongoing preparation of the Sihanoukville masterplan is a step in the right direction. Transport services such as trucking are prohibited from entering urban centers during working hours, creating delays and congestion. Linking logistics and transport planning in urban development plans, especially first- and last-mile delivery, will help prepare the country's logistics and connectivity, as by 2030, it is expected that Cambodian firms will move four times more goods through highways, ports, airports, and warehouses.<sup>60</sup>

***Introduce incentives and measures to take into account commercial freight movements in urban development plans under a public-private dialogue platform.***

Responsible agency: MEF/MPWT/Ministry of Land Management Urban Planning and Construction (MLMUPC) (with assistance of DPs and logistics industry specialists)

Ministry oversight/lead: MEF.

### 4. Promote specialized logistics and e-commerce

E-commerce is rapidly growing, supporting the domestic micro, small and medium-sized enterprise (MSME) sector, which boosts job creation and growth. E-commerce potentially helps the MSME sector to export and integrate in regional supply chains. Developing specialized logistics and e-commerce is an important prerequisite, as is promoting retail businesses to invest in distribution centers and warehouses to cope with the growing demand for small-scale and specialized delivery. In this regard, it is important to engage with the Global Express Association (GEA) and World Customs Organization (WCO) to adopt low-value express clearance best practice guidelines to enable clearance exemption for less than the de minimis threshold, and to adopt the GEA simplified clearance process presented by DHL.

***Develop and implement a plan with the aim to support small producers getting their produce into a cost-effective cold chain to urban centers, while attracting the private sector to develop a domestic distribution network for fresh produce. In this regard, it is necessary to review the de minimis threshold<sup>61</sup> for individuals and MSMEs aimed at boosting economic participation.***

Responsible agency: MEF (GDCE)/MoC/MAFF

Ministry oversight/lead: MEF.

### 5. Ensure access to the most up-to-date logistics-related legislation

Making legislation accessible and organized in a user-friendly manner is a prerequisite for improving the quality of the regulatory framework. This will allow participants of the international trading system to have full transparency of rules and regulations applicable to them. The government should ensure that there is an up-to-date version of the primary and secondary legislation, including guidelines available on agencies' websites and/or on the official legal database. Obsolete legislation should be marked as such.

***Publish all primary and secondary legislation in a single database. Alternatively, or until this is implemented, each public agency, authority, and/or ministry operating in the***

<sup>60</sup> World Bank 2018.

<sup>61</sup> A valuation ceiling for imports below which no duty or tax is charged and the clearance procedures are minimal. This is US\$300 in Singapore and US\$200 in the Philippines.

*logistics sector should publish a complete list of legislation it administers on its website, along with its status.*

Responsible agency: MPWT

Ministry oversight/lead: MPWT with support from the MEF.

## **6. Support real-time visibility and transparency of freight movements**

Visibility with the ability to track and trace freight movements will provide insights on how supply chains work. Accurate information is important to help address bottlenecks (especially in times of crisis) and determine their causes. Resilience – the ability to recover from unexpected shocks – requires visibility, agility, and redundancy. The movement of goods is almost entirely privately operated in Cambodia and spans shipping lines, ports, terminal operators, truckers, railways, warehouses, and cargo owners. While some of the actors have made strides in digitizing their own internal operation, they do not always exchange information with each other. An example of such initiative is the Freight Logistics Optimization Works (FLOW) initiative, recently launched by the U.S. government, with increased data sharing.

*Identify and operationalize a first information exchange that will support a more resilient and fluid supply chain in cooperation with a variety of stakeholders, including commitments by the government to support fluidity, especially linked with the monitoring of efficiency of global trade gateways, building on ongoing achievements.*

Responsible agency: MEF/MPWT (with assistance of DPs and logistics industry specialists)

Ministry oversight/lead: MEF.

**Although major investment in Cambodia's main logistics arteries is still required, much of the essential capital assets exist.** Policy and institutional changes in the way that the logistics sector is organized and managed would result in substantial gains in productivity and cost reductions, and in establishing the basis for increased private sector investment. Introducing such changes may not be easy as some may be at variance with entrenched interests, but they are needed to provide the logistics industry necessary to support a rapidly growing economy competing in the global market.

## Annex S.1: Methodology for the Estimation of National Logistics Costs Per GDP in Cambodia

### The importance of estimating national logistics cost per GDP

Logistics at the national level has gained much attention in many countries and at the global level, and there already exist a number of global logistics-related indicators developed by institutions such as the World Economic Forum and the World Bank to broadly measure logistics quality and performance across the board. These macro-level indicators can capture logistics performance, reflect logistics improvements, and be used as a benchmark for national competitiveness.<sup>62</sup>

However, national logistics efficiency can also be evaluated in terms of trade-offs between a country's economic output, that is, its gross domestic product (GDP), and its national logistics cost (NLC), to reflect national competitiveness.<sup>63</sup> Calculating NLC is a complex process as country-level and firm-level logistics activities are different and complex.<sup>64</sup> From the perspective of policymakers, governments may not be able to deal with such challenges related to national logistics performance if they do not have the ability to measure their respective domestic logistics performance and cost.<sup>65</sup>

The ratio of logistics costs to GDP has been identified as a key indicator in measuring a country's capability in terms of managing its logistics system.<sup>66</sup> Such indicator has been widely adopted by many countries to reflect its logistics capability. Cambodia's Ministry of Economy and Finance (MEF) has recognized the importance for Cambodia to have such an indicator to assess the country's overall logistics capability.

Several countries have published their NLC as a percentage of GDP (NLC/GDP), but the method behind these calculations varies.<sup>67</sup> Different countries also use different data sources and calculation approaches. Comparing the ratio of NLC/GDP among countries is challenging due to the differing methodologies. Nonetheless, it is important to have baseline data for reference purposes as logistics development policies require in-depth data. Cambodia has never published its national logistics cost per GDP, but there exist some data related to logistics costs over sales in certain sectors. The challenge is that these numbers do not reflect the overall situation within the country, as they are sector specific.

### Concepts of national logistics cost per GDP

Cambodia's NLC percentage can be obtained by employing data from the national input and output (I-O) and GDP tables. The primary reason for using the I-O table is that it is one of the ways in which Cambodia's economy can be represented by grouping activities into branches of industry. For simplicity, each industry is assumed to produce only one good with only one process of production. An industry buys raw materials from other industries and uses their "primary inputs" (for example, labour and capital) to produce goods/services. The produced goods/services may be sold to other industries, households, governments, and foreign countries. Sales to other industries are called "intermediate demand," while sales to consumers are called "final demand."

The cost accounting approach used to calculate NLC/GDP is inspired by activity-based costing (ABC), where the unit of analysis is the national economy and not the firm, as is traditionally done. The ABC principle is used to identify logistics activities represented at the national level in the national I-O table. Using ABC can provide better costing information and help policymakers monitor more efficiently and

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<sup>62</sup> Havenga 2018.

<sup>63</sup> Rantasila and Ojala 2012; Havenga 2018.

<sup>64</sup> Wajszczuk 2005; Pishvaei et al. 2009.

<sup>65</sup> Havenga 2010.

<sup>66</sup> Banomyong and Varadejsatitwong, forthcoming.

<sup>67</sup> Rantasila and Ojala 2012.

gain a better understanding of the country's competitive advantages, strengths, and weaknesses.<sup>68</sup> ABC uses multiple cost drivers, many of which are transaction based rather than based on freight volume.

#### Box S.A.1. Data Source

The published Cambodia I-O tables are also known as “The Supply and Use Tables, Cambodia, USE Table” and “Supply and Use Tables, Cambodia, SUPPLY Table.”

- The USE Table is used for calculating transport and warehousing cost, as it is based on purchaser's price.
- The SUPPLY Table is used for calculating inventory carrying cost, as it is based on producer's price.
- The Cambodian economy is classified into a 60x60 sector matrix at the current price basis.
- In terms of available data, there are only data for 2011–2014.
- 2014 is chosen as the reference year in estimating Cambodia's NLC.

There are four national logistics cost components identified in the literature: (1) transportation cost, (2) warehousing cost, (3) inventory carrying cost, and (4) logistics administration cost.<sup>69</sup> To obtain the NLC, each logistics cost component needs to be summated. The obtained value is then divided by Cambodia's national GDP to obtain the NLC/GDP. In the national Cambodian I-O tables, the transportation and warehousing costs are combined in the USE table, inventory carrying cost is found in the SUPPLY table, and logistics administration cost is based on a proxy of 10 percent of the sum of transport, warehousing, and inventory carrying cost.

#### Box S.A.2. Methodology

##### Transport and warehousing cost

In the USE Table, the value of the “Total Output” of two codes related to Transportation and Warehousing activities are used:

- c29: Freight transport services
- c29: Rental services of transport vehicles with operators
- c29: Supporting transport services
- c30: Postal and courier services.

##### Inventory carrying cost

In the SUPPLY Table, the value of the “Total Supply At Basic Prices” of I-O code c2-c23 (manufacturing sector) is used to calculate the value of inventory. That value of inventory is then multiplied by the average lending rate for that year. This is similar to calculating opportunity cost.

The agriculture and services sectors are not included as it is assumed that these two sectors do not have inventory. In the case of the agriculture sector, it is assumed that all that is produced is immediately consumed or processed by the manufacturing sector.

##### Logistics administration cost

The logistics administration cost is equivalent to 10 percent of the sum of transportation, warehousing, and inventory carrying cost. This is a proxy used until the actual logistics administration cost in Cambodia is surveyed.

The challenge in this exercise was that the latest publication year of the Cambodian I-O was 2014. To update the NLC/GDP, there was a need to impute the GDP growth rate for each sector and to use the

<sup>68</sup> Grant et al. 2007.

<sup>69</sup> Banomyong et al. 2021.

GDP numbers for all subsequent years. These data are published by the Asian Development Bank in their basic statistics' annual reports.<sup>70</sup>

A limitation of the methodology relates to the data source, as the I-O and GDP tables were never designed for estimating national logistics cost. The data in the I-O table are easily obtainable but they are not available yearly.

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<sup>70</sup><https://www.adb.org/publications/series/basic-statistics>.



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## Annex: Cambodia - Selected Indicators

SELECTED INDICATORS*	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 E	2022 F
<b>INCOME AND ECONOMIC GROWTH</b>															
GDP growth (annual %)	6.7	0.1	6.1	7.1	7.3	7.4	7.1	7.0	6.9	7.0	7.5	7.1	-3.1	3.0	4.5
GDP per capita growth (annual %, real)	5.1	-1.4	4.5	5.4	5.6	5.6	5.4	5.3	5.3	5.4	5.9	5.5	-4.4	1.6	3.2
GDP per capita (US\$, nominal)	744.5	737.9	812.9	891.6	949.8	1028.2	1100.5	1175.3	1269.8	1381.4	1506.2	1638.1	1552.2	1587.9	1735.1
Private Consumption growth (annual %)	12.7	-0.2	8.8	10.4	4.7	5.6	4.6	9.4	5.8	3.7	3.0	7.0	-0.8	1.3	1.3
Gross Investment ( % of nominal GDP)	17.3	20.1	16.2	16.0	17.4	18.7	20.9	21.4	21.7	21.9	22.6	23.4	23.6	51.1	26.9
Gross Investment - Public ( % of nominal GDP)	6.3	8.8	9.6	10.7	9.1	9.1	8.2	6.9	6.7	6.8	6.7	7.7	8.6	7.1	8.8
<b>MONEY AND PRICES</b>															
Inflation, consumer prices (annual %, period average) <sup>1/</sup>	12.3	3.1	2.6	3.4	1.4	2.2	1.2	1.8	3.5	3.3	3.1	3.2	2.9	3.5	7.2
Broad Money (% of GDP) <sup>2/</sup>	28.3	37.7	41.6	39.1	50.1	55.5	67.1	72.4	79.2	88.2	100.7	116.4	139.4	172.7	185.8
Domestic Credit to the Private Sector ( % of GDP) <sup>3/</sup>	23.5	24.6	27.6	28.3	38.7	52.0	62.7	74.3	81.7	86.7	99.6	114.2	139.9	..	..
10 year interest rate (annual average)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nominal Exchange Rate (local currency per USD)	4060.0	4140.0	4044.0	4016.0	4033.0	4027.0	4030.0	4025.0	4058.0	4062.0	4067.0	4070.0	4077.4	4100.0	4150.0
Real Exchange Rate Index (2015=100)	..	91.0	98.2	94.4	93.3	92.6	94.7	100.0	101.9	103.1	99.5	109.0	104.5	126.9	122.0
<b>FISCAL</b>															
Revenue (% of GDP)	16.4	15.9	17.7	17.6	17.7	18.2	20.0	19.7	20.9	21.9	23.8	27.0	24.1	20.9	21.4
Expenditure (% of GDP)	16.1	20.5	21.0	23.0	21.9	21.4	21.9	20.2	21.1	22.7	23.4	25.5	28.7	27.7	28.0
Interest Payments (% of GDP)	0.2	0.2	0.3	0.3	0.5	0.7	0.7	0.3	0.4	0.4	0.4	0.4	0.5	0.6	0.6
Non-interest Expenditure (% of GDP)	15.9	20.3	20.7	22.7	21.4	20.7	21.2	19.9	20.7	22.3	23.0	25.1	28.3	27.1	27.5
Overall Fiscal Balance (% of GDP)	0.3	-4.6	-3.3	-5.4	-4.2	-3.2	-1.9	-0.5	-0.2	-0.8	0.4	1.5	-4.6	-6.8	-6.6
Primary Fiscal Balance (% of GDP)	0.5	-4.4	-3.0	-5.1	-4.4	-3.7	-1.2	-0.2	0.2	-0.4	0.8	1.9	-4.2	-6.2	-6.2
General Government Debt (% of GDP)	27.8	29.1	28.7	29.7	31.6	31.3	31.8	31.2	29.1	30.3	28.3	28.2	34.4	34.8	35.6
<b>EXTERNAL ACCOUNTS</b>															
Export growth, G&S (nominal US\$, annual %)	20.2	-24.4	22.9	11.4	16.0	16.8	10.3	7.5	9.0	9.4	12.3	8.5	2.1	24.2	24.9
Import growth, G&S (nominal US\$, annual %)	11.3	-17.0	19.1	11.4	14.2	16.9	8.8	7.6	9.0	7.8	9.3	17.4	5.7	49.4	8.5
Merchandise exports (% of GDP)	49.4	33.9	38.3	38.8	41.6	44.6	45.4	45.4	45.5	45.2	46.0	46.0	51.9	62.9	69.9
Merchandise imports (% of GDP)	58.2	46.8	50.4	50.5	53.7	57.5	57.5	57.3	56.9	55.6	55.1	54.6	65.8	92.6	91.0
Services, net (% of GDP)	6.5	6.2	6.8	6.3	7.3	7.8	7.7	7.5	7.0	7.0	7.4	1.8	4.0	6.1	10.7
Current account balance (current US\$ millions)	-622.3	-1120.4	-1165.3	-1309.3	-1390.7	-1489.3	-1899.7	-1680.6	-1756.6	-2140.5	-2180.1	-4107.7	-3221.0	-9953.7	-7360.6
Current account balance (% of GDP)	-6.0	-10.8	-10.0	-10.1	-9.9	-9.6	-11.3	-9.2	-8.8	-9.7	-8.9	-15.2	-12.0	-37.0	-24.7
Foreign Direct Investment, net inflows (% of GDP)	7.6	8.8	11.8	11.8	14.0	13.0	10.6	9.5	12.0	12.1	12.6	13.2	13.5	12.6	11.6
External debt, total (% of GDP) <sup>4/</sup>	25.6	31.8	35.7	36.3	48.0	50.0	49.8	52.3	50.3	51.5	55.1	56.6	68.0	..	..
Multilateral debt (% of total external debt) <sup>5/</sup>	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Debt service ratio (% of exports goods and non-factor services) <sup>6/</sup>	0.8	1.0	1.1	4.0	6.0	5.7	5.4	5.1	5.1	6.2	6.7	6.9	7.1	..	..
<b>POPULATION, EMPLOYMENT AND POVERTY</b>															
Population, total (millions)	13.9	14.1	14.3	14.5	14.8	15.0	15.3	15.5	15.8	16.0	16.2	16.5	16.7	16.9	17.2
Population Growth (annual %)	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.3
Unemployment Rate <sup>7/</sup>	0.8	0.6	0.8	0.6	0.5	0.4	0.7	0.4	0.7	0.1	0.1	0.1	0.3	..	..
Inequality - Gini Coefficient <sup>8/</sup>	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Life Expectancy <sup>9/</sup>	65.4	66.0	66.6	67.0	67.5	67.9	68.3	68.6	69.0	69.3	69.6	69.8	..	..	..
<b>OTHER</b>															
GDP (current LCU, millions)	41968385	43056732	47047985	52068693	56616800	62219524	67740436	73422702	81241866	89830525	99544275	109916799	105811280	110325159	123628246
GDP (current US\$, millions)	10337.0	10400.2	11634.0	12965.3	14038.4	15450.6	16809.0	18241.7	20020.2	22114.9	24476.1	27007	25950	26909	29790
GDP per capita LCU (real)	2062211.4	2033232.2	2124293.2	2238619.2	2363486.0	2495840.9	2650659.9	2769140.2	2915146.1	3071748.4	3252348.4	3431774	3279159	3332285	3437765
Human Development Index Ranking <sup>10/</sup>	142	142	143	143	145	144	144	146	146	145	144	144	..	..	..
CPIA (overall rating) <sup>11/</sup>	3.3	3.3	3.4	3.4	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	..	..
Economic Management <sup>12/</sup>	3.8	3.8	4.0	3.8	3.8	3.8	3.8	4.0	4.0	4.0	4.2	4.2	4.2	..	..
Structural Policies <sup>13/</sup>	3.3	3.3	3.3	3.5	3.7	3.7	3.7	3.5	3.5	3.3	3.3	3.3	3.3	..	..
Policies for Social Inclusion and Equity <sup>14/</sup>	3.3	3.3	3.4	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.4	..
Public Sector Management and Institutions <sup>15/</sup>	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.7	2.7	2.7	2.6	2.6	2.7	..	..

Notes: .., indicates not available. E = estimate, F = forecast. Data from MFMOOD unless otherwise noted

1/ Used latest month available.

2/ World Development Indicators Database and World Bank Staff Estimates

3/ World Bank GEM database; MVR = Most recent value

4/ The HDI ranking in 2001 is in relation to 175 countries and in 2010 in relation to 169 countries. Methodological enhancements in HDI calculations have resulted in notable improvements in the countries' rankings.

Sources: MFMOOD Database, World Bank WDI and GEM databases, IMF.



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