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TRADE DEVELOPMENT

# Getting the Show on the Road: Improving Cambodia's Logistics



Despite joining the ASEAN club relatively late in 1999, and then the World Trade Organization in 2004, Cambodia has made great strides since then in promoting trade with its neighbours and raising its economic growth rate, estimated to come in this year at a healthy 7.2 percent. However, over a quarter of the population remains below the poverty line, and Cambodia still has a long way to go to catch up with its main trading neighbours, Vietnam and Thailand. In order to accelerate the country's economic leap forward, and reduce poverty levels, the Royal Government of Cambodia has decided on a major push for export growth, with ambitious targets for exporting Cambodia's large rice surplus, and for becoming better integrated into value-added regional supply chains. These are excellent objectives that make good use of the country's comparative advantages in labor costs and geographical location. However, a major constraint – weak logistics performance - must be urgently addressed if it is not to scupper these best of intentions.

Although Cambodia lies at the centre of a region experiencing high economic growth, it is struggling to take advantage of the export opportunities that do exist, and the potential to leverage its low labour costs, because of its weak logistics performance relative to its neighbours. Cambodia's Logistics Performance Index (LPI) ranking, as measured by the World Bank, has improved in the past few years, but it still ranks a lowly 101 out of 155 countries, compared to Vietnam (53) and Thailand (38). This means that Cambodia's farmers and manufacturers encounter greater difficulties moving goods to markets; exporters face challenges in supplying overseas customers and integrating into regional supply chains; and the cost of moving cargoes is higher than in neighbouring countries. Equally, fast-growing middle-income countries like China, Vietnam and Thailand are constrained in their trade with Cambodia, because of the lack of capacity to handle time-sensitive goods at low risk and competitive prices.

There are numerous reasons for Cambodia's poor logistics performance, but the main challenges lie in two main areas: first, in a lack of transparency in fees, often informal, that serve to hide the true costs, making logistics expensive and transported goods less competitive; and second, a lack of integration of logistics services with neighbouring countries, also leading to higher costs, lack of capacity and delays.

According to a recent World Bank assessment of Cambodia's main logistics corridors, an important issue that needs to be addressed is how to tackle the informal payments in logistics that are commonplace in Cambodia. Most shippers try to avoid being involved in making informal payments that are encountered along the trade corridors, and opt instead to use the services of agents or brokers. As a result, the power of these intermediaries to increase prices for shipments into or out of the country is strengthened. The ability of logistics agents and brokers to claim the existence of high informal fees, and to use this as justification for charging high shipment prices, appears to be one of the main reasons behind the high and uncompetitive level of logistics costs in Cambodia. This situation also encourages logistics intermediaries to perpetuate an opaque regulatory environment to enable them to continue making abnormally high and undeserved profit margins. In addition, rent-seeking activities appear to be widespread, both at checkpoints and weighbridges for trucks, and also at port and land border crossings for all modes of shipment.

The other major issue to be addressed is the lack of regional logistics integration that prevents Cambodia from using its central geographic location to offer competitive regional transshipment services. Cambodia and its neighbours are party to two regional agreements governing overland trade routes, but there has been a lack of implementation to date, with the result that implementation has largely been left to bilateral agreements. As a result, for example, there has been little progress in liberalizing the quotas that restrict the number of trucks that can operate in neighbouring countries; and the small number of trucks allowed to operate contributes to a lack of competition and resulting higher prices. At

present, a mere 40 trucks from Cambodia are permitted to operate in Thailand, and visa-versa. Other examples of this lack of integration include differences between Cambodia, Thailand and Vietnam on axle-load limits, and the non-availability of a regional third-party insurance scheme. As a result, insuring goods that are in international transit by road or rail is costly and complex. Meanwhile, Cambodia's truck fleet has low capacity and consists largely of second-hand trucks that are unreliable and prone to break down, reducing the enthusiasm for transport companies to operate across borders.

So, what needs to be done to make Cambodian logistics cheaper, more competitive, and able to offer seamless international transit services? There is a long list of actions that should be taken simultaneously to fully address the logistics problems. The most important actions would include, first, a concerted drive to eliminate the culture and practice of charging informal fees. This could be helped by developing a trade portal to give stakeholders clear information on all regulations and formal fees; and by fast-tracking the automation of customs and border management using the computerized systems designed by the United Nations Conference on Trade and Development (UNCTAD). Second, the Government needs to play a leading role in enhancing transport capacity and logistics services. In this regard, the Phnom Penh to Sihanoukville railway line should be upgraded and prioritized for freight; and the defunct Thai-Cambodian railway line should be reconnected. Also crucial in this regard is a government scheme to encourage truck companies to modernize their fleets by providing financing, allowing cheaper importation of trucks, and enforcing quality mechanisms to improve standards.

Third, much more needs to be done towards integrating the regional road transport market. Actions here would include the ratification and implementation of regional logistics agreements; the standardization of axle and vehicle load limits; and the introduction of a regional third-party liability insurance scheme. A currently unique scheme that allows Minebea, a Japanese company based in Cambodia, to send trucks to and from its plants in neighbouring Thailand without the need to trans-load cargo at the border, should be offered to other companies. Fourth, a healthy spirit of competition should be encouraged between the ports in Cambodia's main trade corridors, including Sihanoukville and Phnom Penh, and Cai Mep in Vietnam. Finally, as demands grow for a sophisticated logistics sector linking special economic zones in Cambodia with value-added supply chains in neighbouring countries, the government needs to step in to encourage capacity building for both the private sector and the regulatory authorities, so that both are well versed in the latest freight forwarding technologies, and so that trucking companies are trained in fleet management and modernization.

If the Government shows courage and urgency in promoting a more sophisticated and cost effective logistics system, Cambodia will be much better placed to make the most of the opportunities that now abound in terms of boosting trade, and of joining the ranks of rapidly growing middle income countries in the region. It's time to get Cambodia moving.

*Julian Latimer Clark is a Senior Trade Economist and Head of the Cambodia Trade Section at the World Bank's office in Phnom Penh.*

**The World Bank Office**



No. 113 Norodom Blvd. Phnom Penh - Cambodia  
Tel: (855 23) 861 300  
Fax: (855 23) 861 301/302

Visit our website:  
<http://www.worldbank.org/cambodia>

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**For further information, please contact:**

**Julian Clarke**  
Senior Trade Economist  
(jclarke1@worldbank.org)

**Vannara Sok**  
Operations Officer  
(vsok@worldbank.org)

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