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Doing Business in Cambodia

Although it was one of the poorest countries in the world with almost 20% of the population living below the poverty line of US \$1.25 per day,¹ Cambodia's economic growth rate averaged 8% per annum over the past decade, reaching a record high of 13% in 2005 (see **Exhibit 1** for key macroeconomic indicators).² Historically, agriculture had been the backbone of the economy and the sector that employed the majority of the workforce. But, the country's recent growth spurt had been largely driven by the textile and footwear manufacturing sector, a flourishing tourism industry, and robust construction activity. This success led the United Nations Conference on Trade and Development to describe Cambodia as an "emerging bright spot."³ Indeed, the country had come a long way since the end of the oppressive Khmer Rouge regime that terrorized the population almost 40 years ago. Relative political and economic stability was restored under Prime Minister Hun Sen, an autocratic leader and one of the world's longest-serving prime ministers.

Foreign investors had noticed the favorable economic development. In 2013, Cambodia attracted US\$1.4 billion in foreign direct investment (FDI), representing a 3.5% decline from the previous year but about 70% more than the year before.⁴ South Korea, China, and Japan represented the most important group of investors, contributing 33% of the FDI.⁵ Foreigners were drawn to Cambodia's low cost of land and labor, its young population, the lax regulatory environment, and the country's duty-free access to a number of markets such as the European Union.⁶ Major international companies invested hundreds of millions of dollars in labor-intensive garment and manufacturing industries to take advantage of these factors. Significant challenges for investors remained, however. Chief among them was a low-skilled labor pool and an inadequate infrastructure. Whether it was wise to invest in Cambodia remained a hotly debated question. Did Cambodia truly belong to a new group of emerging markets?

Historical Background

With a population of 15 million and a surface area of 181,035 square kilometers (about the size of Florida), Cambodia bordered Thailand on the north and west, Laos on the northeast, and Vietnam on the east and southeast. Tonle Sap (Great Lake) formed the center of wet rice cultivation, which remained one of Cambodia's most important industries (see **Exhibit 2** for a map of the country). 90% of Cambodians were descendants of the Angkor Empire and referred to themselves as Khmers. The Empire existed between the 9th and 15th centuries. At its height, Angkor controlled much of present-

Professor Felix Oberholzer-Gee and Research Associate Dawn H. Lau, Asia Pacific Research Center, prepared this case. This case was developed from published sources. Funding for the development of this case was provided by Harvard Business School. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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day Thailand, Laos, and Vietnam. The ethnicities that made up the remaining population were Chinese, Vietnamese, and the Muslim Cham minority. Buddhism was the country's main religion. The official language was Khmer, which was non-tonal and derived from a South Indian alphabet. 80% of the population lived in the rural areas. The largest city was the capital Phnom Penh with a population of 1.5 million.⁷

A Turbulent 20th Century

Cambodia experienced a tumultuous 20th century. A French protectorate since 1863, the country gained independence in 1954. King Norodom Sihanouk served as the monarchy's first head of state. Sihanouk kept the country officially neutral during the Vietnam War (1955-1975). But, he was sympathetic to the communist cause and allowed the Vietcong to use Cambodia as a safe haven and supply route. In 1970, his generals, with American backing, organized a coup against the king. In response, Sihanouk threw his support behind Cambodia's communists, the Khmer Rouge. A brutal civil war broke out. By 1975, the Khmer Rouge, backed by North Vietnamese forces, had defeated the Cambodian government troops despite their support from South Vietnam and the United States.

The leader of the Khmer Rouge, Pol Pot, was a Paris-educated teacher-turned-revolutionary. He forced a radical form of agrarian socialism on Cambodia. When the Khmer Rouge seized power, they immediately began to evacuate all citizens from cities and towns, coercing everyone to work in the fields. The entire population of Phnom Penh, up to three million people, including children, pregnant women, the old and the sick, were forced to move in a mass exodus. Thousands perished along the way. Those who tried to turn back were shot on the spot.

In one of the worst of the 20th century's totalitarian horrors, Pol Pot killed up to one fifth—some think it is closer to one quarter—of the Cambodian people in less than four years. He declared "Year Zero," heralding the end of all previous traditions and the start of a new revolutionary age. In its quest to build a radical agrarian society, the regime abandoned the use of the riel currency and all markets, confiscated private property, banned books and education, and wiped out familial ties. Each Cambodian had to refer to himself or herself as "we," and was forbidden to use the first person singular. Schools, temples, churches, and shops were closed or turned into prisons, re-education camps, and storehouses. Government institutions such as the National Bank were destroyed. The population was forced to wear black uniforms, live in rural collectives, and survive on rationed food. Up to one million died of starvation. Anyone thought to be an intellectual of any sort was persecuted. Signs of being an intellectual included wearing glasses or knowing a foreign language. The Khmer Rouge tortured and executed more than a million city residents, minority people such as the Cham, Vietnamese, and Chinese, and many of their own soldiers and party members, who were accused of being traitors. A 1984 film, titled *The Killing Fields*, told the story of the Khmer Rouge's infamous death camps. The consequences of the Khmer Rouge's rule were catastrophic, and it would take decades for the country to recover. A significant fraction of the Cambodian people suffered severe psychological trauma.

In 1978, Vietnamese forces invaded Cambodia, driving the Khmer Rouge into the countryside. Pol Pot reportedly died of a heart attack before he could be brought to trial. According to most accounts, he showed no remorse for his actions. Said Ahmad Yahya, a member of Parliament who lost several brothers and cousins to the Khmer Rouge, about Pol Pot's death, "But I lament that he passed away, like I lost something, lost some answers."

Cambodian People's Party (CPP)

In 1979, the Vietnamese established the CPP, the ruling party. In 1985, Hun Sen, a senior CPP leader, became prime minister. Despite its socialist orientation, the CPP operated a fairly open economy, undoing the Khmer Rouge's collectivist system, re-populating the cities, and restoring the use of money and private trade. Politically, there was less openness. Hun Sen was re-elected in 1998, 2003, and 2008, and he planned to remain in power for another 15 years. The government controlled not only the civil service, but also most media outlets, the electoral administration, and the judiciary. Hun Sen did not hesitate to use violence or judiciary measures to crush dissent. Although economic growth picked up in the 2000s, many Cambodians privately criticized the cronyism of Hun Sen's inner circle and his extensive patronage network.

The country's main opposition party was the Cambodian National Rescue Party (CNRP), headed by exiled former finance minister Sam Rainsy. The CNRP achieved its best results—some thought an outright victory—in the July 2013 parliamentary elections. When Hun Sen declared his party the likely winner, violent protests broke out, and the government deployed troops and armored vehicles in the capital as a temporary security measure.⁸ Reflecting the political uncertainty, executives at financial institutions observed a significant withdrawal of deposits. On September 8, the CPP was officially declared the winner. It had won 68 seats, against the CNRP's 55. Rainsy continued to call for an investigation into the alleged vote-rigging.

Economy

The World Bank classified Cambodia as a low-income country with a GDP per capita of US\$1,008 (**Exhibit 3** charts this and other economic indicators).⁹ After the civil war of the 1970s, the government rebuilt the country, focusing on agricultural development. For the manufacturing and services sectors, Cambodia depended heavily on foreign aid from international institutions like the Asian Development Bank and countries such as China, Thailand, the United States, and Japan. Beginning in the 1990s, Cambodia made significant efforts to liberalize its foreign trade, joining the Association of Southeast Asian Nations (ASEAN) in 1999 and the World Trade Organization in 2004, which opened access to overseas markets (**Exhibit 4** shows the country's main trading partners.)

Contributing a good one third to the national income, agriculture remained Cambodia's principle sector even in 2013, followed by industry (24.5% of GDP), and services (40.7% of GDP).¹⁰ (**Exhibit 5** provides a finer breakdown of the previous decade). Most businesses were engaged in trading activities (56% of all companies), and the majority of establishments (70%) employed less than three people (see **Exhibit 6**).¹¹ The post-civil war baby boom in the 1980s and 1990s significantly influenced Cambodia's age distribution (see **Exhibit 7**). A full 20% of the population was between the ages of 22 and 32. Cambodians tended to start working at an early age, taking on informal jobs, traditionally in agricultural activities, but increasingly in manufacturing and the service industries as well. The size of the informal economy was estimated to be greater than 40% of GDP.¹² Although the unemployment rate was low—3.5% in 2012—more than 80% of workers were in “vulnerable employment,” meaning unpaid family work or self-employment.¹³

Agriculture

Although three quarters of the labor force were engaged in forestry, fishing, and agriculture (see **Exhibit 8**), the sector's contribution to GDP was far lower. Most families farmed at a subsistence level, relying on traditional techniques and monocropping. As a result, land and labor productivity remained modest compared to other countries in the region. Rice was the dominant crop, not only as

a staple in the Cambodian diet, but also as the most important agricultural export commodity. More than 80% of Cambodian farmers grew rice, and paddy fields occupied more than 80% of all cultivated land.¹⁴ 88% of Cambodia's annual rice production was harvested during the wet season, which spanned from May to October.¹⁵ When asked why productivity remained low, Cambodian rice farmers cited the lack of high quality seeds, missing access to commercial credit, high interest rates, an inadequate irrigation infrastructure that led to water shortages, as well as the high costs of fertilizers, pesticides, and energy. Cambodian farmers paid US\$0.30 to 0.90 per kWh as compared to the Vietnamese who paid about US\$0.10 per kWh.

Reflecting these difficulties, the country's average yield was among the lowest in Southeast Asia, although it had increased from 1.6 tons/ha in the 1994–97 seasons to 2.3 tons/ha in the 2003–08 seasons. The United Nations estimated that only 30% of the total farming area received any fertilizer use at all.¹⁶ High-yielding rice varieties held substantial promise: experts estimated that better seeds and double-cropping had the potential to double or even triple rice production.¹⁷ Similarly, improved transportation could make a critical difference. To transport one ton of rice, Cambodian farmers spent US\$15 per 100 kilometers, compared to US\$4 and US\$7.50 in Thailand and Vietnam, respectively.¹⁸ Despite these challenges, Cambodia exported almost two thirds of its rice production.¹⁹ The bulk was smuggled out of the country to avoid export fees, import duties, and the value-added tax in Vietnam.²⁰

Garment Manufacturing

Garment and footwear manufacturing were the nation's biggest industry. Forty-five footwear companies and hundreds of garment subcontractors²¹ employed around half a million people. Garments and footwear accounted for 80% of all exports and they earned the country US\$5.5 billion in foreign exchange in 2013 (see also **Exhibit 9a** and **Exhibit 9b**).²² Most of the manufacturing companies were from China, Taiwan, Malaysia, and Korea; less than 5% were owned by Cambodian nationals. Many companies operated as contract manufacturers, managing production and distribution for major brand names such as The Gap, Benetton, Topshop, Zara, Nike, Adidas, and Puma. The garment sector was focused on labor intensive "cut-make-trim" processes at the lower end of the value chain. Out of the total cost of a finished shirt, which was around US\$6.80, cut-make-trim activities contributed about US\$2 (see **Exhibit 10**).²³ A major constraint for garment manufacturers was the lack of talent to fill the positions of factory manager, supervisor, and engineer. Companies often resorted to hiring expatriates for these roles (see **Exhibit 11**).

Factories in Cambodia operated at an estimated efficiency of 30–40%, far below the productivity of Chinese factories (see **Exhibit 12**).²⁴ Some managers claimed that the productivity of Chinese workers was 2.5 times higher than the productivity of Cambodians (see **Exhibit 14**). The ability of workers to adjust to different styles of clothing was as important as task-specific productivity. Some managers found that Vietnamese workers were far more flexible than Cambodian employees.²⁵ However, Cambodia's labor productivity was still higher than Bangladesh's, a country that had been able to compete due to lower wages, higher capacity for bulk production, and a more integrated textiles chain. The latter was missing in Cambodia. Garment manufacturers had to import most fabrics (see **Exhibit 15**). As in the case of agricultural products, exporting garments and shoes was costly and time-consuming (see **Exhibit 16**).²⁶

The recent growth spurt in the industry had added new concerns. Trade unions grew more assertive, staging strikes over pay and working conditions. The government responded by increasing the minimum monthly wage by US\$19 to US\$80, effective May 1, 2013 (see **Exhibit 17**).²⁷ The government had little experience dealing with these kinds of tensions and violence erupted during

the protests. Then, in December 2014, a nationwide strike was organized to demand that the minimum wage be increased to US\$160, with the government only agreeing to a new level of US\$100 (which included a \$95 basic pay and \$5 food allowance).²⁸ Unsatisfied by this increase, thousands of factory workers went on further strikes, which were subsequently cracked down upon in early January 2014, leading to four deaths and dozens of arrests.²⁹

Tourism

Cambodia was home to one of the most important archaeological sites in Southeast Asia: Angkor Archaeological Park, located in the northern province of Siem Reap. The park contained the magnificent remains of the Khmer Empire, most notably the famous temple of Angkor Wat. The temple complex was originally Hindu and later Buddhist. Built in the early 12th century, Angkor Wat remained the largest religious monument in the world. Over 2 million tourists visited the site each year, contributing to the steady increase in the number of foreign visitors, which rose from 1 million in 2005 to over 4 million in 2013/14. The total contribution of tourism to GDP amounted to around 24%.³⁰ To cater to the increased demand, Cambodia had developed plans to develop the largely untouched Southwestern coast.

Construction

The construction sector benefitted significantly from Cambodia's growth, attracting US\$2.8 billion in investment in 2012.³¹ The projects tended to be large-scale shopping malls, commercial buildings, as well as tourism infrastructure.³² The most important investors hailed from South Korea, China, Britain, Thailand, Russia, Japan, and Malaysia. Chinese infrastructure investments, in particular, reached a new high towards the end of the decade. Cambodia had experienced a property bubble bust in 2008 and some observers, including the International Monetary Fund, feared that the country was headed toward another meltdown. More optimistic analysts pointed out that the sector's growth was stemmed by massive labor shortages. Construction workers had begun leaving the country, lured by higher wages in Thailand and elsewhere.

Banking

Cambodia liberalized its banking system in 1989, allowing competition between private financial institutions supervised by the National Bank of Cambodia (NBC). By end-2013, Cambodia had 35 commercial banks and 36 licensed microfinance institutions.³³ Together, these institutions served about 1.39 million borrowers and 1.43 million depositors.³⁴ Cambodia's first stock exchange opened in April 2012, but the number of listed companies remained very low. The commercial banks lent to a broad set of clients, including the trade sector (32% of loans), agriculture (10%), manufacturing (9%), and even individual homeowners (6% of all loans were mortgages).³⁵

Cambodia's biggest bank was Aceda, which enjoyed about 18% of the market share in terms of assets. It had US\$2.3 billion in assets and operated 238 branches in every province.³⁶ Other significant institutions included Canadia Bank, Campu Bank, and ANZ Royal Bank. Aceda was originally set up by the United Nations and the International Labor Organization as a microfinance organization. It became a fully commercial operation in 2003. By 2012, almost two thirds of the 1.3 million Cambodians with a bank account were ACLEDA clients, and the bank's loan portfolio amounted to 20% of all outstanding credit in the country. While Aceda's ratio of non-performing loans to total loans remained low at 0.57% in 2013, it more than doubled the 2012 figure.³⁷

Despite a growing banking sector, financial inclusion in Cambodia remained low. Chan Sophal, president of the Cambodian Economic Association, explained:

Even in Phnom Penh, many people do not bank, and it's fewer in the provincial towns. Because of the upheaval in history, people did not use banks for many years. It's been changing but it is slow to catch up.³⁸

Independent political analyst Chea Vannath noted, "That means they don't feel secure enough about the social-political situation.... Maybe instead of putting money in the bank, they use the money to buy property or land."³⁹ Bun Mony, chair of the Cambodian Microfinance Association and chief executive at Sethapana Limited microfinance bank, observed: "There is a cultural barrier—Cambodian people have not used bank accounts in their lives."⁴⁰ Indeed, Cambodia remained a largely cash-based economy. Even the large garment factories often paid their employees in cash, resulting in long queues on payday.

Due to the scarcity of branches and ATMs in most areas of the country, mobile financial services had started to emerge. In 2010, ANZ bank launched WING, a phone-based banking and payment system. WING worked on four of the country's major mobile networks—hello, qb, Mfone and Smart Mobile. The service enabled cell phone users to check their balances, pay bills, and send money. ANZ charged about US\$0.50 to send the equivalent of \$20. Observing the popularity of WING, other banks and microfinance institutions also started to offer mobile banking services.⁴¹

Doing Business in Cambodia

Although the situation improved gradually, Cambodia remained a country in which it was challenging to do business. In the World Bank's *Doing Business 2014* Report, Cambodia dropped slightly to the 137th place from the 133rd in the previous year (out of 176 countries, see **Exhibit 18**). The country's performance across most areas of business practices either deteriorated or recorded only minor improvements compared to other nations. One major exception was that it was easier to get loans approved from financial institutions.

Key Obstacles

Many obstacles to running a business in Cambodia endured. Chief among them were high energy costs, a tight market for talent, corruption, weak capital markets, and a volatile macroeconomic situation.

Energy costs Cambodia had one of the highest electricity tariffs in Southeast Asia because investment in the energy sector had not kept up with economic growth. For example, demand in Phnom Penh was about 400 MW per day but the current supply was only 290 MW. Frequent blackouts were the consequence. Large discrepancies in tariffs also existed between urban and rural areas. Diesel was the main source of power generation, supplying 93% of all electricity. Because diesel was imported and subject to rapid global market movements, electricity prices were very volatile.

Talent Longdy Yi, president of the youth leadership organization AIESEC, commented on job market opportunities for young people:

It's not that local companies don't have jobs for youth because they do have a lot of them. It's that they have difficulties finding the right talents to fill their vacancies and their needs.⁴²

Cambodia suffered from a severe shortage of skilled labor. There was a growing mismatch between the skills found in the labor pool and the skills demanded by industry. In a 2007 Investment Climate Survey, 22% of Cambodia's foreign firms said skills represented a "severe" or "very severe" constraint (see **Exhibit 19**).⁴³ At the same time, students who completed their secondary education (about 6% of all students) reported difficulty finding jobs (see **Exhibit 20** and **Exhibit 21**).⁴⁴

Employers also struggled to find employees with even just basic skills such as literacy and numeracy. Indeed, at 73.9%, Cambodia had a relatively low literacy rate.⁴⁵ Finally, employers who wanted to provide training to address these skill gaps complained about the lack of good training programs.

Corruption Corruption remained a major challenge. More than 60% of firms reported having to give gifts to public officials to "get things done," compared to the regional average of 24.7%.⁴⁶ Transparency International's Corruption Perception Index 2013 placed Cambodia at 160 out of 177 countries, making it the most corrupt country in Southeast Asia.⁴⁷ As was typical for many emerging markets, the experience with corruption varied substantially from company to company. Peter Brimble, deputy country director at the Asian Development Bank (ADB) said:

Japanese investors are very sensitive to governance and transparency. In my talks with them, serious concerns have been expressed about transportation and logistics costs, energy costs, and skills shortages, but not that much on corruption.⁴⁸

Financing Small and medium-sized enterprises (SMEs) found it generally difficult to access financing. They faced severe restrictions on the size of loans, high interest rates, and short repayment periods. The situation was especially dire for the vast majority of SMEs that were not registered businesses. An International Finance Corporation (IFC) (2010) study found that 81% of entrepreneurs would expand their business if banks accepted movable assets as collateral. Commercial banks, however, insisted on high-quality collateral such as a hard title to property, which was out of reach for many small businesses. Microfinance institutions were more flexible in their lending criteria, but they charged higher rates. Many SMEs resorted to informal lending, in order to offer rates similar to the ones offered by microfinance banks.

Macroeconomic volatility The Cambodian economy was highly dollarized. The U.S. dollar accounted for 90% of the currency in circulation and 97% of banking deposits (see **Exhibit 22**). Cambodians living in cities had often two bank accounts, one in dollar and one in riel, the local currency. Even Cambodia's Labor Law defined the minimum wage in U.S. dollars. Historically, the riel-dollar exchange rate had been fairly stable, floating in a narrow band. The riel was the principal currency in rural areas.

The global financial crisis in 2007–09 had a surprisingly large effect on Cambodia. Even though the country remained poorly integrated with the world economy and it had no exposure to subprime mortgages, a major reason for the worldwide Great Recession, growth declined from 6.7% in 2008 to 0.1% in 2009 and foreign direct investment plummeted (see **Exhibit 23**).

Business Etiquette

Cambodian culture was strongly influenced by Buddhist principles. The society had an orientation towards the collective, and it easily accepted hierarchical relationships. Cambodians went to great lengths to maintain a sense of harmony. Criticizing or embarrassing someone in public was strongly discouraged; no Cambodian wanted to “lose face.” At the same time, it was quite common for people to ask personal questions in order to determine someone’s status or rank and to figure out the appropriate way of communicating with them.

People greeted each other by putting their hands together at chest height and saying “susaday” (good day) with a bow of the head. A lower bow and higher hands showed greater respect. Men and women generally avoided touching, although Cambodians were now accustomed to handshakes and expected foreigners to reciprocate the greeting they were given.

At the beginning of business meetings, Cambodians exchanged business cards, holding the cards with their right hand. Addressing professionals by their honorific, or by Mr./Ms./Mrs. and last name was common practice, both when exchanging business cards and during professional exchanges. Cambodians also used the terms “Lok” (male) or “Lok Srey” (female), followed by the professional’s first name, or first and last name. Business meetings started on time and often did not have a definite ending time. Referring to the person highest in the hierarchy first was a common way to show respect. Cambodians tended to be indirect communicators, so reading between the lines and picking up subtle non-verbal cues was critical to business success. Even when executives disagreed, they avoided an absolute “no” and preferred to make their arguments in a gentle way.⁴⁹

In large organizations such as banks and government departments, Cambodians dressed quite formally. In smaller firms, dress was more informal. Professional Cambodian women wore long skirts with a blouse, or pants with a matching blazer. In everyday wear, women tended to dress modestly, covering their legs and shoulders, especially when visiting temples, homes, or entering a public office. Men typically wore collared shirts and long pants.

Cambodians were very hospitable, and they often presented gifts to their guests. Visitors typically offered a gift of their own. If invited to a home, a fruit basket, food, or flowers were considered appropriate gifts. Gifts were wrapped in colorful paper, not white, and offered with both hands. It was unusual to open gifts immediately.⁵⁰

Investing in Cambodia?

As foreign investors considered investing in Cambodia, they carefully weighed opportunities and challenges. Thaveekij Jaturajaroenkun, the chairman of TK Garment Co., a leading producer of popular lines of clothing in Thailand, was no exception.⁵¹ He had managed to keep his company’s operations in Thailand for the past 32 years thanks to Thailand’s low costs and abundant labor. In the past few years, however, these advantages had been gradually eroding.

Thaveekij started his company with twelve employees and seven sewing machines. By 2012, TK Garment operated factories in Bangkok and in Mae Sot, on the border with Myanmar. He employed 3,700 garment workers, most of whom were migrants. The two plants had a combined production capacity of 500,000 pieces per month, with the Mae Sot plant accounting for 65% of the total. Thaveekij used to export some of his products to Europe, the United States, and Japan, but he lost these markets to Chinese factories in the early 2000s. His current focus was the domestic market, in which TK supplied 80 labels. The products included a variety of clothing for all ages.

Thaveekij kept a close eye on garment bases around the world to make sure he would not experience another “Chinese surprise” (see **Exhibit 24**). He carefully compared the adequacy of hard and soft infrastructure (**Exhibit 25**), labor productivity levels, the cost of inputs, as well as access to foreign markets. He expected Laos, Cambodia, and Vietnam to become attractive destinations for foreign direct investment in the garment sector. Less-obvious choices for a Thai manufacturer included Bangladesh with its low-cost labor base that was well-established in garment manufacturing and China, which had a labor pool that was particularly productive, skillful, and adaptable.

In January 2013, the Thai government announced an increase in the national minimum wage to 300 baht per day (US\$10), which was considerably higher than Cambodia’s. However, Thaveekij knew that the labor situation in Cambodia was far from stable: there had been factory workers going on strike, protesting for higher wages, and army crackdowns had resulted in violence. He also heard that for next year’s minimum wage, the unions were demanding US\$177 a month.⁵² Thaveekij looked at his charts, each of which detailed the pros and cons of investing in a foreign market. Was it time to relocate? Would Cambodia be a more suitable destination?

Suggested materials

Business Books

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Exhibit 1 Country Comparative Data, 2009 and 2013

	Cambodia		Brazil		China		India		Malaysia		Indonesia		Vietnam		United States	
	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013
GDP per head, USD at PPP	2,019	2,617	10,291	12,081	8,355	11,939	4,202	5,463	18,723	23,405	3,971	5,157	3,128	4,011	46,963	53,104
Real GDP growth, % per year	0.1	7.5	-0.3	2.5	9.2	7.7	8.5	5.0	-1.5	4.7	4.6	5.8	5.4	5.4	-2.8	1.9
Labor productivity growth, % per year	N/A	N/A	-1.7	1.1	9.1	7.4	8.0	3.1	-3.7	-1.3	2.3	3.8	3.3	5.0	1.0	0.8
Consumer price inflation, % per year	-0.7	2.9	4.9	6.2	-0.7	2.6	10.9	10.9	0.6	2.1	4.8	6.4	7.1	6.6	-0.4	1.5
Current-account balance, % of GDP	-7.5	-8.6 ^a	-1.5	-2.4 ^a	4.9	2.3 ^a	-1.9	-4.9 ^a	15.7	6.1 ^a	2.0	-2.7 ^a	-6.2	5.8 ^a	-2.6	-2.7 ^a
Total FDI stock, % of GDP	49.8	59.4 ^a	24.7	29.8	9.3	12.1	12.6	11.8	36.9	46.0	20.2	25.9	49.1	50.6	14.4	17.5
Government budget expenditure, % of GDP	20.4	19.7	35.9	36.9	21.9	23.8	15.9	13.8	28.9	25.5	16.7	18.0	31.6	27.7	24.4	20.8
Government budget balance, % of GDP	-4.2	-3.1	-3.2	-3.2	-2.2	-1.8	-6.5	-4.5	-6.7	-3.9	-1.6	-2.3	-6.6	-5.4	-9.8	-4.1
Public debt, % of GDP	28.9	28.2	60.9	56.7	17.3	14.8	56.4	51.2	50.8	54.7	26.4	23.3	46.9	45.0	52.3	72.0
Population, mn	14.1	15.1	193.5	200.4	1331.3	1357.4	1190.1	1252.1	27.8	29.7	237.5	249.9	86	89.7	306.8	316.1
Life expectancy at birth, years	70.1	70.4 ^a	72.8	73.6 ^a	74.7	75.2 ^a	65.4	66.2 ^a	74.3	74.8 ^a	69.9	70.6 ^a	75.2	75.6 ^a	78.1	78.7 ^a
Adult literacy, % of people 15+ ^c	73.9	N/A	90.3	91.3	N/A	95.1	62.8	N/A	N/A	93.1	92.6	92.8	93.5	93.4	99.0	N/A
Gini index ^d	36.0	N/A	54.7	51.9	42.1	47.3	36.8	33.9	46.2	N/A	36.8	38.1	37.6	N/A	45.0	N/A
Lending interest rate (%)	15.8	12.8	44.7	27.4	5.3	6.0	12.2	10.3	5.1	4.8 ^a	14.5	11.7	10.1	10.4	3.3	3.3
Stock of domestic credit to private sector, % of GDP	24.6	38.7 ^a	48.9	68.5 ^a	127.2	133.7 ^a	47.3	51.0 ^a	111.6	117.8 ^a	27.7	35.0 ^a	103.3	94.8 ^a	196.5	183.6 ^a
Market value of publicly traded shares, % of GDP	N/A	N/A	N/A	54.7 ^a	N/A	70.3	N/A	67.9 ^a	N/A	156.1 ^a	N/A	45.3 ^a	N/A	28.2 ^b	N/A	114.9 ^a
Firms using banks to finance investment, % of firms ^e	11.3	N/A	48.4	N/A	28.8	14.7	46.6	N/A	48.6	N/A	11.7	N/A	21.5	N/A	N/A	N/A

Source: Except as noted to the contrary: Compiled by case writers from World DataBank, "World Development Indicators," The World Bank Group, accessed May 2014. GDP per head, labor productivity growth, total FDI stock, government budget balance, lending interest rate (Cambodia), literacy (Vietnam 11, US) and central government debt data from Economist Intelligence Unit, Country Data, accessed May 2014. Market value of publicly traded shares as % of GDP: share value in USD from CIA website, https://www.cia.gov/library/publications/the-world-factbook/fields/print_2200.html, GDP in USD from World DataBank, both accessed June 2014. Gini Index from CIA World Factbook Website, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html>, and World DataBank accessed June 2014. Cambodia FDI stock data from United Nations Conference on Trade and Development Data Center, accessed July 2014. Cambodia public debt data from International Monetary Fund's "World Economic Outlook Database, April 2012," accessed July 2014.

^a2012 data

^b2011 data

^cDue to variability in the availability of data, the corresponding dates for the Adult Literacy information are: Cambodia – 2009, Brazil – 2009, 2012, China – 2010, India – 2006, Malaysia – 2010, Indonesia – 2009, 2011, Vietnam – 2009, 2011, US – 2003, 2007

^dDue to variability in the availability of data, the corresponding dates for the Gini Index information are: Cambodia – 2009, Brazil – 2009, 2013, India – 2004, 2010, Malaysia – 2009, Indonesia – 2009, 2011, Vietnam – 2008, US – 2009

^eDue to variability in the availability of data, the corresponding dates for the Firms Using Banks to Finance Investment information are: Cambodia – 2007, Brazil – 2009, China – 2003, 2012, India – 2006, Malaysia – 2007, Indonesia – 2009, Vietnam – 2009

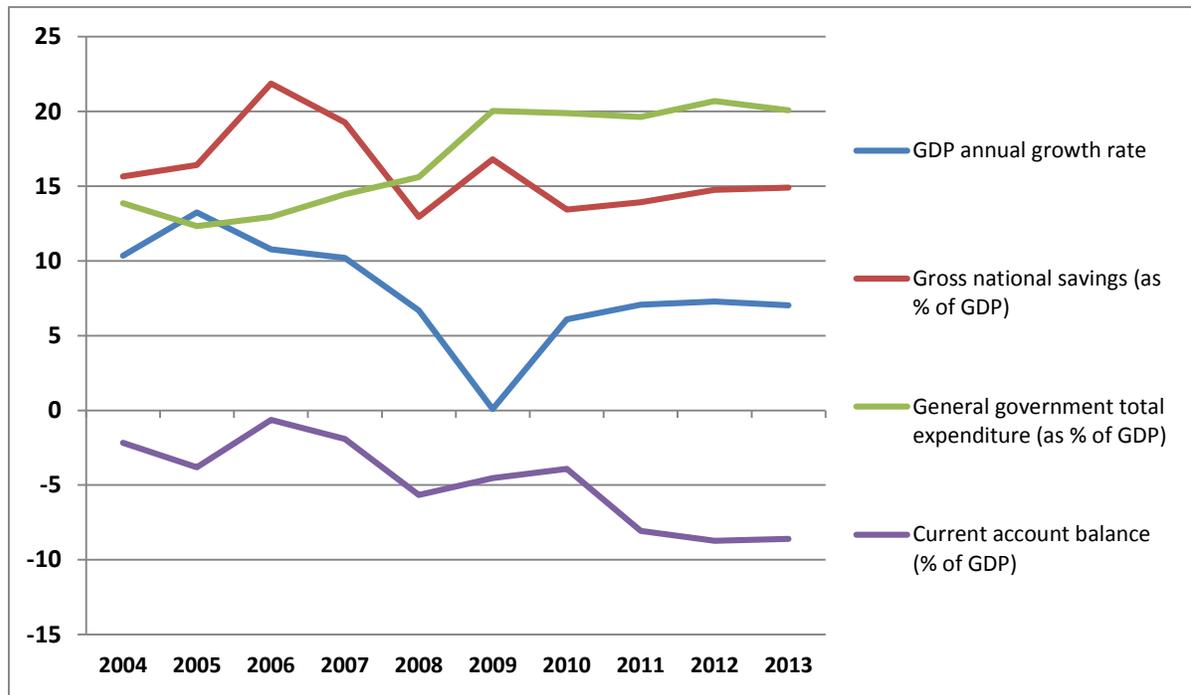
Exhibit 2 Map of Cambodia



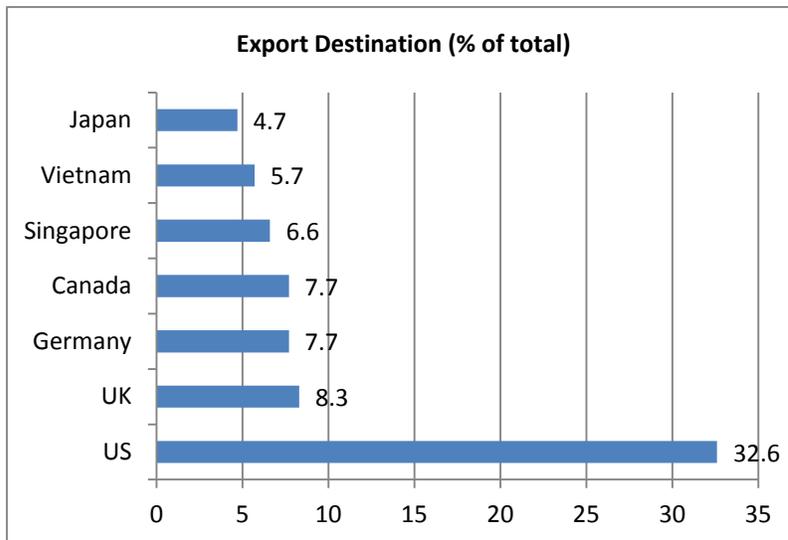
Base 802467 (R02153) 12-97

Source: University of Texas. http://www.lib.utexas.edu/maps/middle_east_and_asia/cambodia_pol_97.jpg, accessed August 14, 2013.

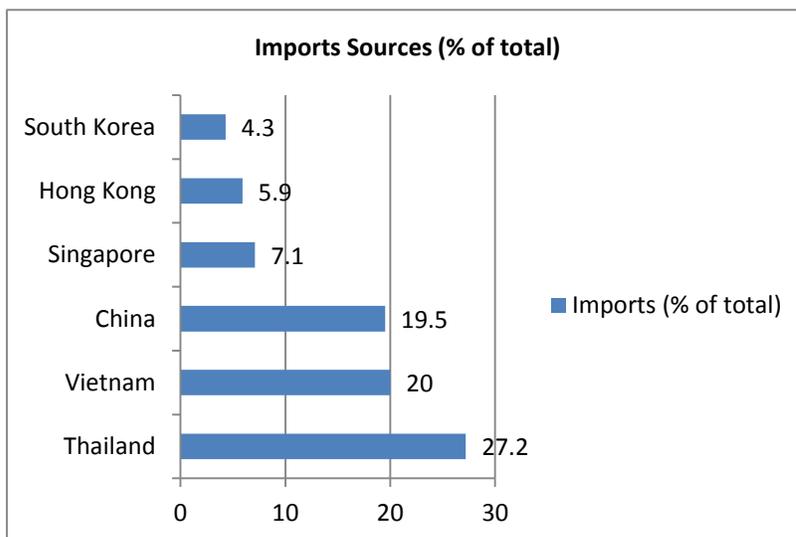
Exhibit 3 Cambodia Various Economic Data, 2002–2013



Source: International Monetary Fund, World Economic Outlook Database, April 2014, http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/weorept.aspx?sy=2004&ey=2015&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=90&pr1.y=15&c=522&s=NGDP_R%2CNGDP_RPCH%2CNGDP_D%2CNID_NGDP%2CNGSD_NGDP%2CGGX%2CGGX_NGDP%2CBCA%2CBCA_NGDPD&grp=0&a=#download, accessed August 2014.

Exhibit 4 Cambodia's Major Export and Import Products and Partners**Major commodities for export:**

Clothing, timber, rubber, rice, fish, tobacco, footwear

**Major commodities from imports:**

Petroleum products, cigarettes, gold, construction materials, machinery, motor vehicles, pharmaceutical products

Source: CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>, accessed August 16, 2013.

Exhibit 5 Share of GDP by Sector

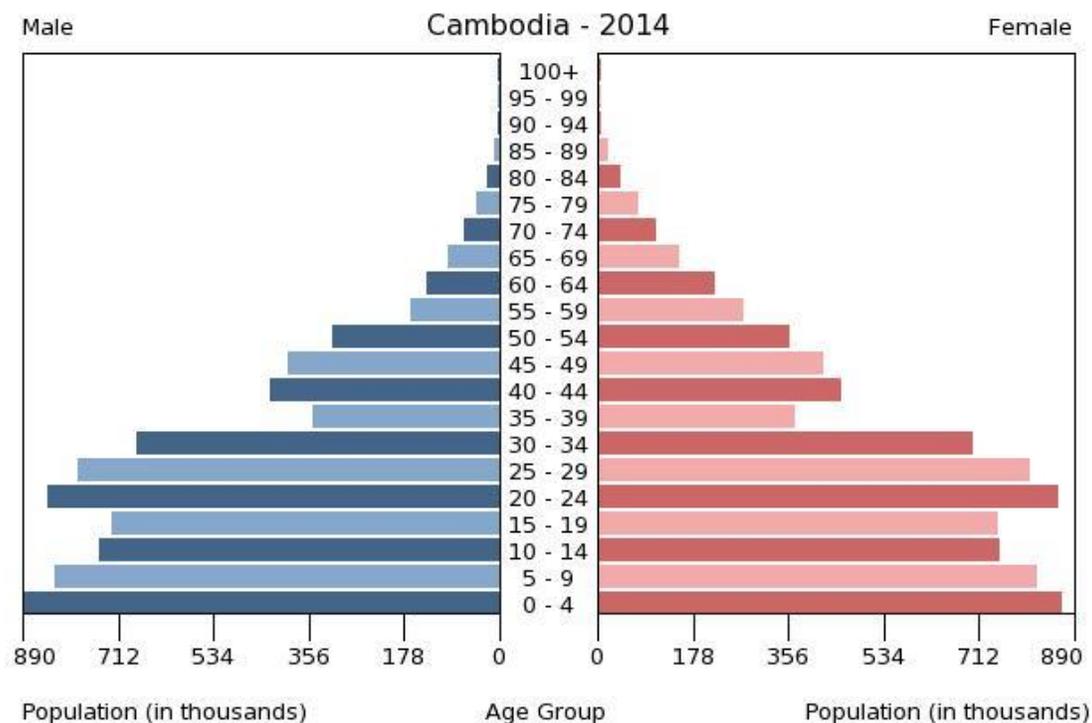
Sector	1993	1997	2001	2005	2008	2009	2010	2011
Agriculture fishery and foster	45.3	44.4	34.3	30.7	32.8	33.5	33.2	32.5
Crops	16.9	20.0	14.5	15.7	17.9	18.4	18.3	18.0
Livestock and poultry	7.3	5.9	5.4	4.7	4.4	4.5	4.6	4.5
Fisheries	16.6	12.1	11.2	7.3	7.4	7.7	7.5	7.3
Forestry and logging	4.5	6.4	3.3	3.0	3.0	2.9	2.8	2.7
Industry	12.6	16.4	22.3	25.0	22.4	21.7	21.2	21.5
Mining	0.2	0.2	0.3	0.4	0.4	0.5	0.5	0.5
Manufacturing	8.6	11.6	16.8	17.8	15.3	14.4	14.0	14.3
Food, beverages and tobacco	4.1	3.7	3.0	2.4	2.2	2.3	2.3	2.3
Textiles, apparel and footwear	1.0	3.7	10.8	12.3	10.3	9.1	8.8	9.0
Wood, paper and publishing	1.2	1.6	0.7	0.6	0.6	0.6	0.6	0.6
Rubber manufacturing	0.3	0.5	0.4	0.5	0.4	0.4	0.4	0.4
Other manufacturing	1.9	2.1	2.0	2.1	1.9	2.0	2.0	2.0
Electricity, gas and water	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6
Construction	3.5	4.1	4.8	6.3	6.1	6.3	6.2	6.2
Services	39.4	35.1	38.4	39.1	38.8	38.8	38.4	39.0
Trade	14.6	12.1	10.3	9.2	8.9	9.0	8.9	8.9
Hotels and restaurants	2.3	2.9	4.4	4.3	4.5	4.5	4.4	4.6
Transport and communications	5.5	5.5	7.0	7.4	7.4	7.5	7.5	7.6
Finance	0.3	1.0	1.0	1.1	1.3	1.4	1.4	1.4
Public administration	2.1	3.0	2.3	1.8	1.8	1.8	1.8	1.8
Real estate and business	9.1	5.9	6.2	6.6	.4	6.1	6.1	6.2
Other services	5.5	4.6	7.3	8.6	8.5	8.5	8.4	8.5
Taxes on products less subsidies	2.9	5.3	5.9	6.2	7.0	7.3	8.3	8.2
Less: Subsidies	.0	0.1	0.2	0.3	0.1	0.1	0.2	0.2
Less: Finance service charge	0.2	1.2	0.9	1.0	1.0	1.1	1.2	1.2

Source: National Institute of Statistics (2012), in Hem Sochet, "Impact of the Global Financial Crisis on Cambodian Economy at Macro and Sectoral Levels," Working Paper Series No. 72, CDRI, April 2013, <http://www.cdri.org.kh/webdata/download/wp/wp72e.pdf>, accessed August 2014.

Exhibit 6 Number of Establishments, as Percentage to Total, and Number of Employees

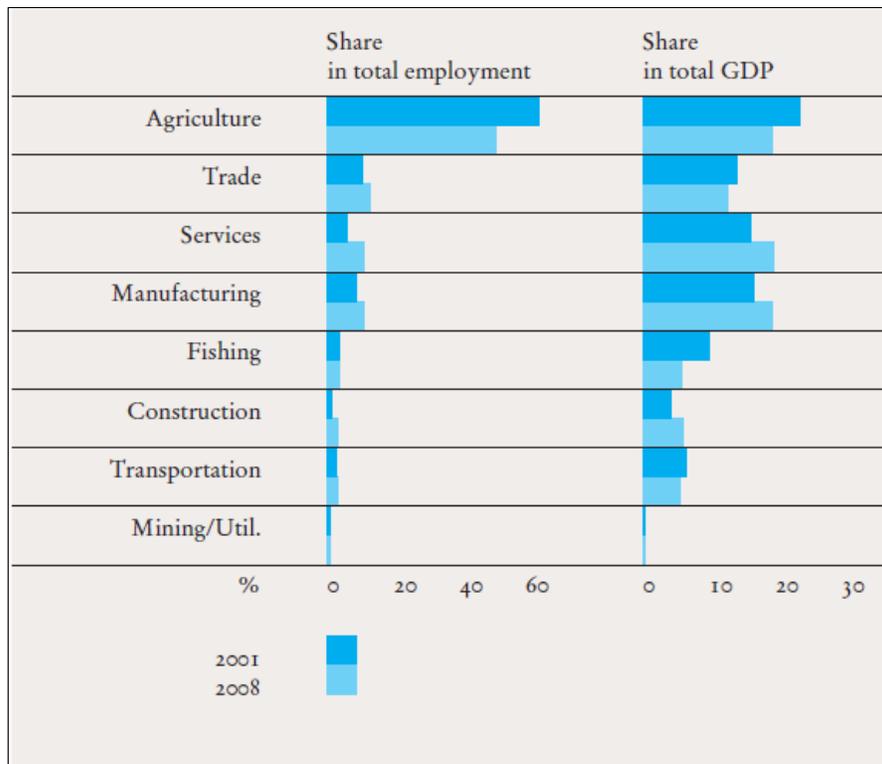
Rank	Province	Establishments in 2011	% to Total Cambodia	Number of Employees			
				1-10	11-50	51-100	>100
	Cambodia Total	503,008	100.0	493,117	8,476	779	636
1	Phnom Penh	95,467	19.0	92,233	2,589	297	348
2	Kampong Cham	55,903	11.1	54,968	833	73	29
3	Kandal	40,359	8.0	69,667	571	72	49
4	Battambang	33,982	6.8	33,424	489	46	23
5	Siem Reap	32,034	6.4	31,304	627	64	39

Source: 2011 Economic Census of Cambodia, National Institute of Statistics, www.cambodiainvestment.gov.kh/content/.../Chapter7.pdf, p.VII-2, accessed August 16, 2013.

Exhibit 7 Population Pyramid of Cambodia, 2012

Source: The Central Intelligence Agency, The World Factbook: Cambodia, https://www.cia.gov/library/publications/the-world-factbook/graphics/population/CB_popgraph%202014.bmp, accessed August 2014.

Exhibit 8 Share of Employment and GDP by Sector, 2001-08



Source: Labor Force Survey 2001 (NIS, 2001, 2008), in Human Development Department, East Asia and Pacific Region, "Providing Skills for Equity and Employment: Preparing Cambodia's Youth for the Labor Market," 2010, The International Bank, for Reconstruction and Development, The World Bank.

Note: The services sector includes finance, real estate, renting, business, public services, personal and community services. The trade sector includes hotel and restaurant activities.

Exhibit 9a Garment and Textile Exports, in USD Million, From Cambodia to Various Markets, 2001-11

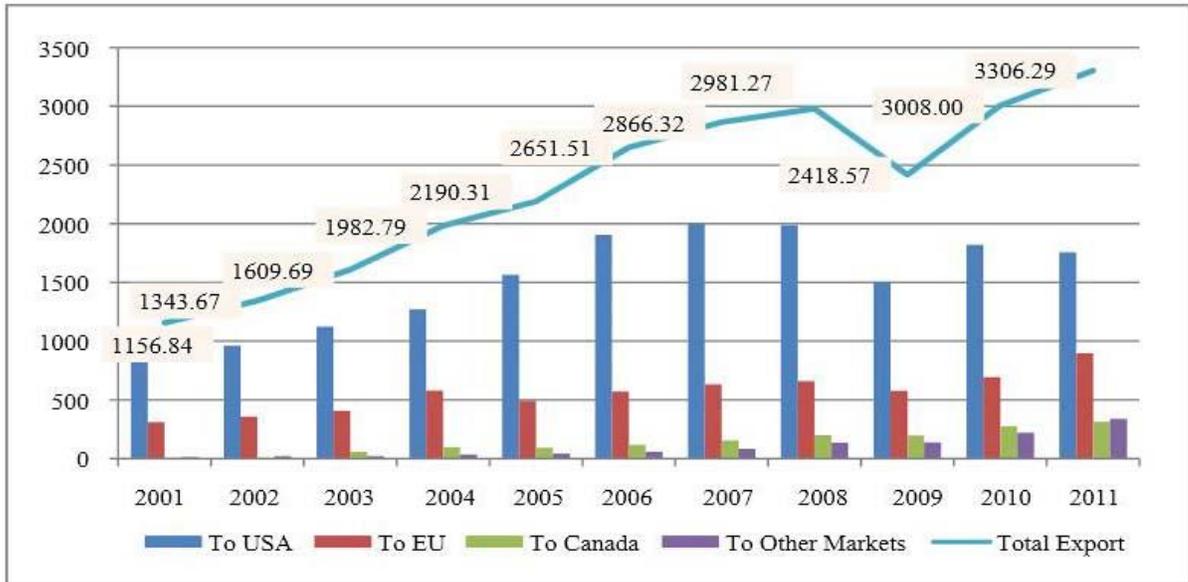
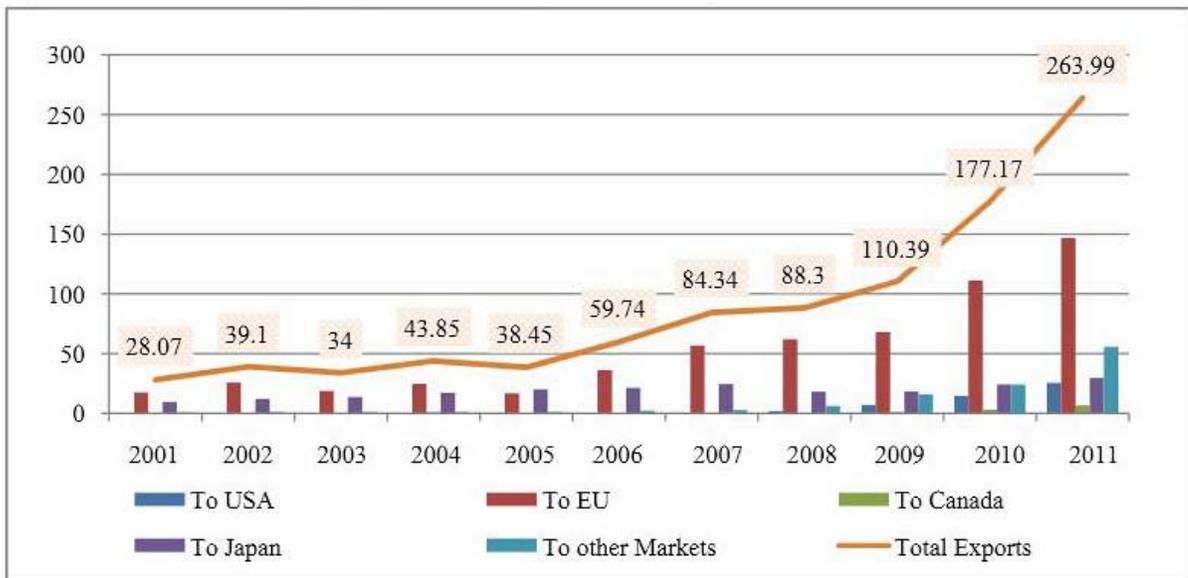
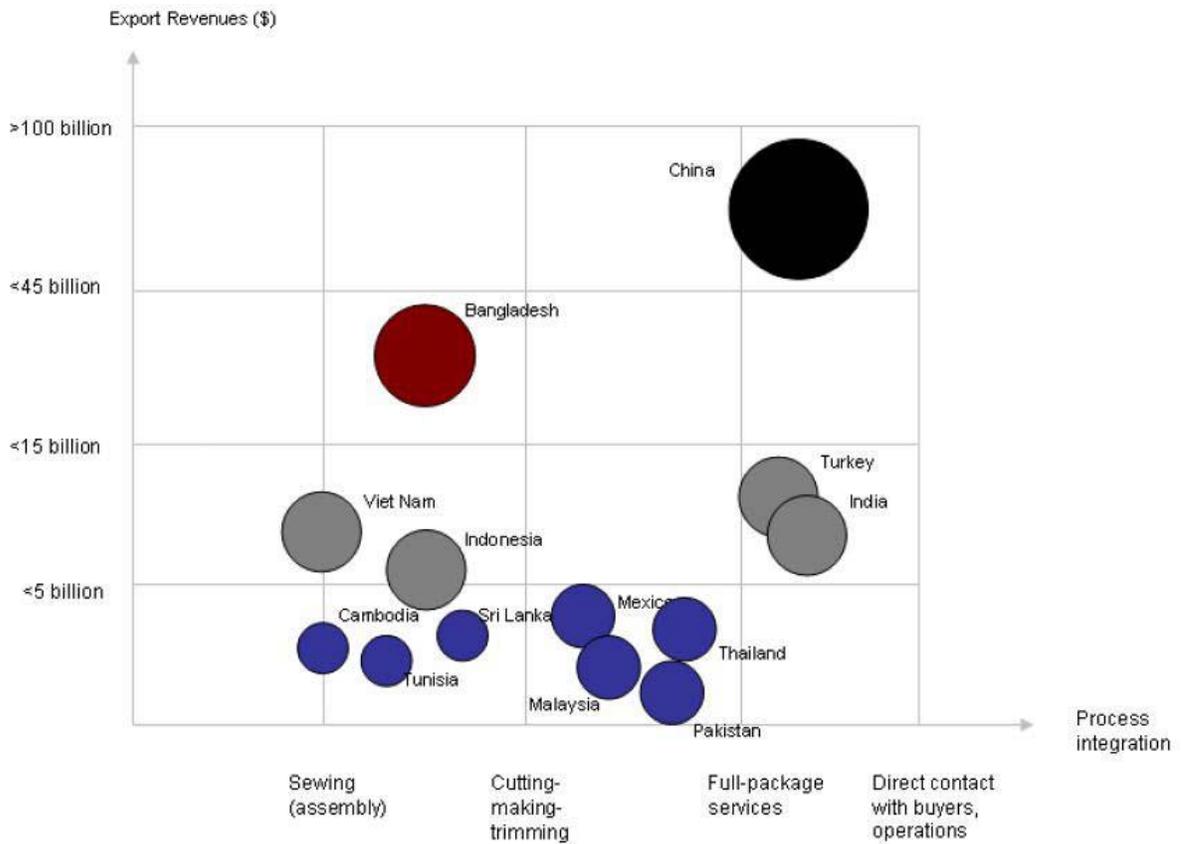


Exhibit 9b Footwear Exports, in USD million, From Cambodia to Various Markets, 2001-11

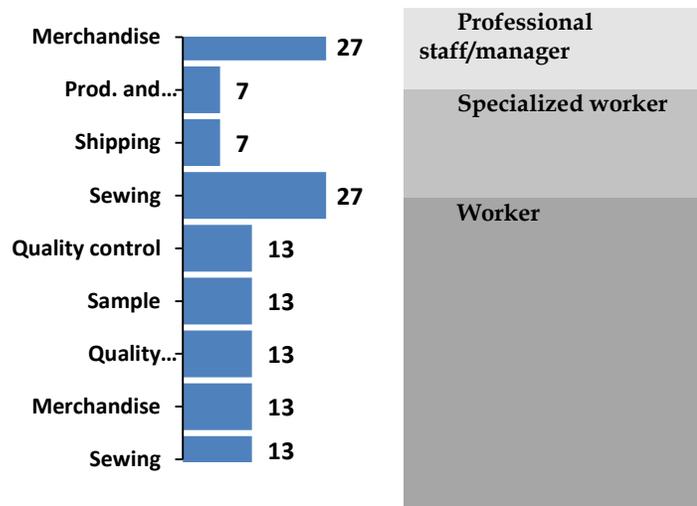
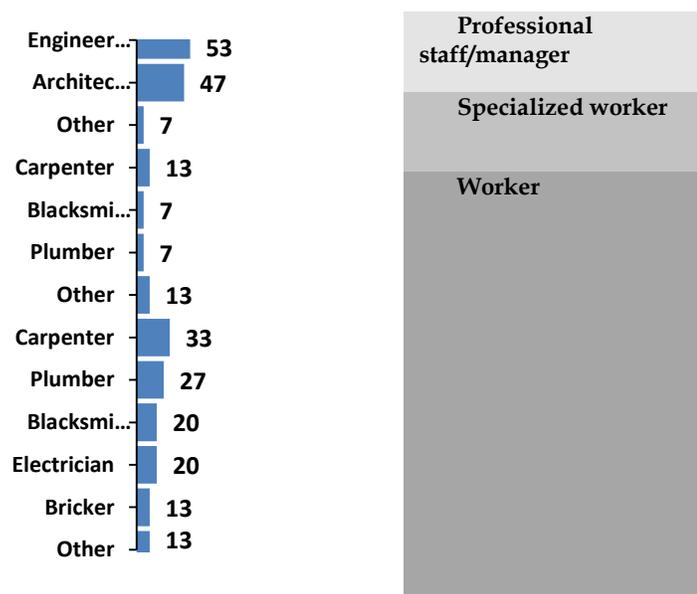


Source: Ministry of Commerce, 2012, in Hem Sochet, "Impact of the Global Financial Crisis on Cambodian Economy at Macro and Sectoral Levels," Working Paper Series No. 72, CDRI, April 2013.

Exhibit 10 Cambodia’s Position in Global Competition



Source: UNCTAD (2011) and WTO International Trade Statistics (2011) in UNCTAD, “Cambodia, Sector-Specific Investment Strategy and Action Plan, G20 Indicators for Measuring and Maximizing Economic Value Added and Job, Creation from Private Investment in Specific Value Chains,” Pilot Study Results, UNCTAD, February 2013. The size of the circles represent the size of the industry: so the size of the garments industry in Cambodia is similar to those of Sri Lanka and Mexico, while India and Viet Nam have almost 3–4 times as large an export market as Cambodia

Exhibit 11 Employers' Survey about Jobs Most Difficult to Fill, 2009 (%)**Garments****Construction**

Source: HR Inc Cambodia (2009), in Human Development Department, East Asia and Pacific Region, "Providing Skills for Equity and Employment: Preparing Cambodia's Youth for the Labor Market," 2010, The International Bank, for Reconstruction and Development, The World Bank.

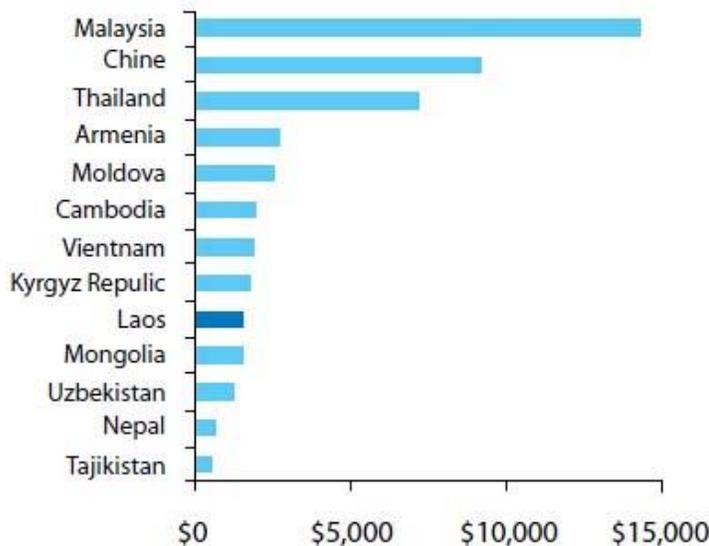
Note: The percentage numbers refer to the percentage of employers surveyed who said these jobs were most difficult to fill. From a commissioned survey by HR Inc. Cambodia, conducted from December 2008 through March 2009 and covering 48 employers (18 in tourism, 15 in garments, and 15 in construction) operating in Phnom Penh and Siem Reap, as well as 21 training providers (9 vocational training institutes and 12 higher education ones). In the sample, 31% of firms had more than 400 employees; 29% had between 100 and 400; and the remaining 40% employed fewer than 100; 54% of the firms were foreign and 46% local.

Exhibit 12 Garment Manufacturing Labor Costs by Region (US\$/hour)

Countries			
Asian Competitors		U.S. Regional Suppliers	
Bangladesh	0.22	Mexico	2.54
Cambodia	0.33	Honduras	1.72–1.82
Pakistan	0.37	Dominican Republic	1.55–1.95
Vietnam	0.38	Nicaragua	0.97–1.03
Sri Lanka	0.43	Haiti	0.49–0.55
Indonesia	0.44		
India	0.51	EU Regional Suppliers	
China (remote/inland areas)	0.55–0.80	Turkey	2.44
China (other coastal/core areas)	0.86–0.94	Morocco	2.24
China (prime coastal areas)	1.08	Russia	1.97
Malaysia	1.18	Tunisia	1.68
Thailand	1.29–1.36	Bulgaria	1.53
		Jordan	1.01
		Egypt	0.83

Source: International Labor Organization (ILO) (2011), in UNCTAD, “Cambodia, Sector-Specific Investment Strategy and Action Plan, G20 Indicators for Measuring and Maximizing Economic Value Added and Job, Creation from Private Investment in Specific Value Chains,” Pilot Study Results, February 2013.

Exhibit 13 Value Added per Worker, 2004 (US\$)

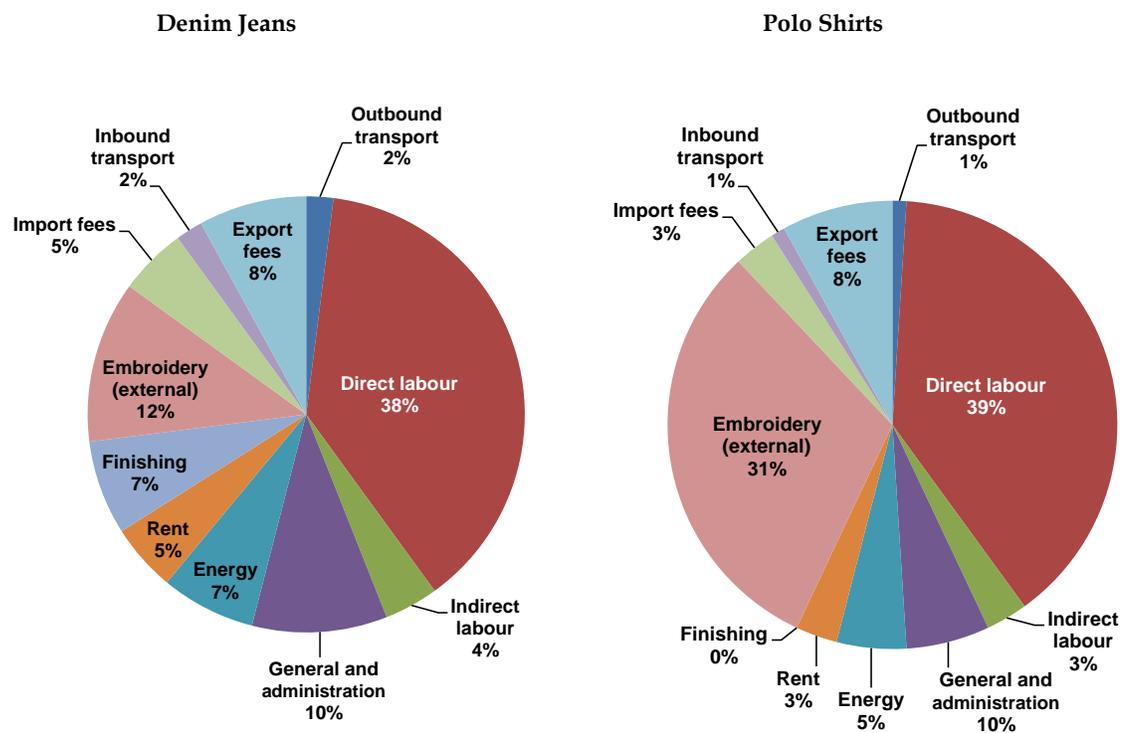


Source: World Bank Enterprise Surveys (2009), in Poverty Reduction and Economic Management Sector Department East Asia and Pacific Region, “Lao PDR: Labour Standards and Productivity in the Garments Export Sector. A Survey of Managers and Workers,” The World Bank, July 2012.

Exhibit 14 Lead Time for Knit and Woven Clothing, 2008

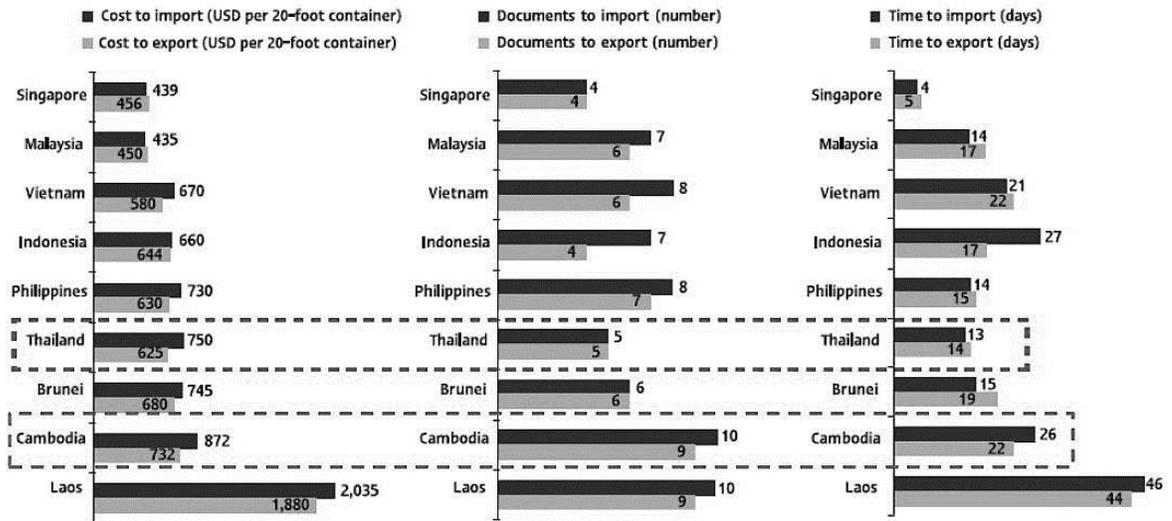
Countries	Woven	Knit
China	40–60	50–60
India	50–70	60–70
Thailand	60–90	50–60
Malaysia	60–90	50–60
Sri Lanka	60–90	60–70
Vietnam	60–90	60–70
Indonesia	60–90	60–70
Bangladesh	90–120	60–80
Cambodia	80–110	80–110

Source: World Bank, 2010, in Sukti Dasgupta, Tuomo Poutiainen, and David Williams, "From Downturn to Recovery: Cambodia's Garment Sector in Transition," World Bank, 2010.

Exhibit 15 Trade and Transport Costs for Two Types of Standard Cut-Make-Trim Garments

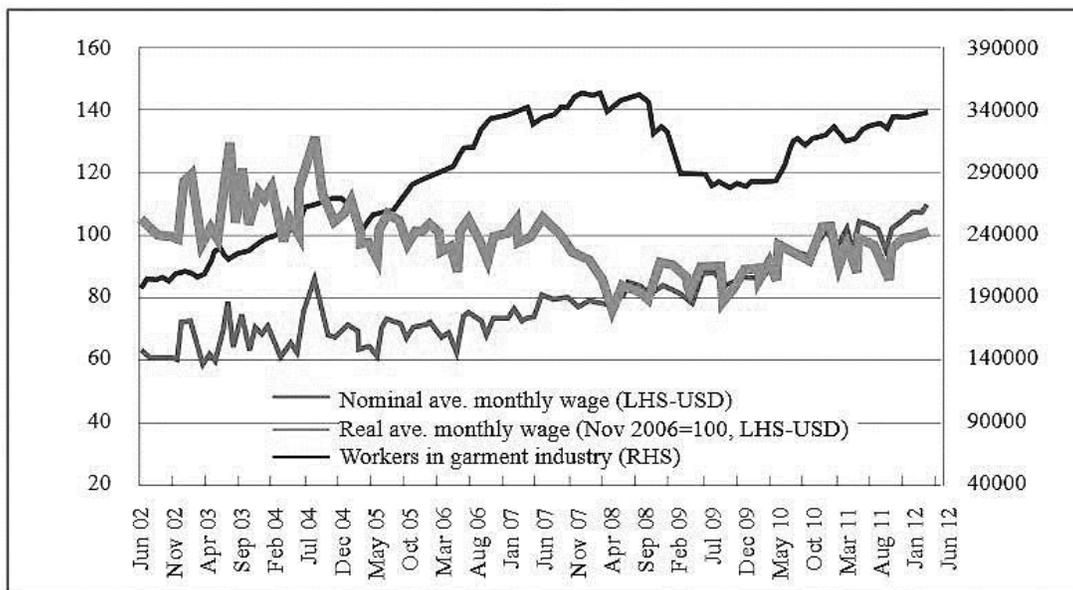
Source: USAID, 2007, in Sukti Dasgupta, Tuomo Poutiainen, and David Williams, "From Downturn to Recovery: Cambodia's Garment Sector in Transition," World Bank, 2010.

Exhibit 16 A Comparison of Cost, Number of Documents, and Time to Import and Export of ASEAN



Source: The Thai Business Council of Cambodia, “Thai-Cambodia Trade and Logistics Cooperation for AEC,” January 25, 2013.

Exhibit 17 Number of Garment Workers and Wages, June 2002–June 2012



Source: Dr. Hout Pum’s Presentation at Royal School of Administration, August 10, 2012, Phnom Penh, in Hem Sochet, “Impact of the Global Financial Crisis on Cambodian Economy at Macro and Sectoral Levels,” Working Paper Series No. 72, CDRI, April 2013.

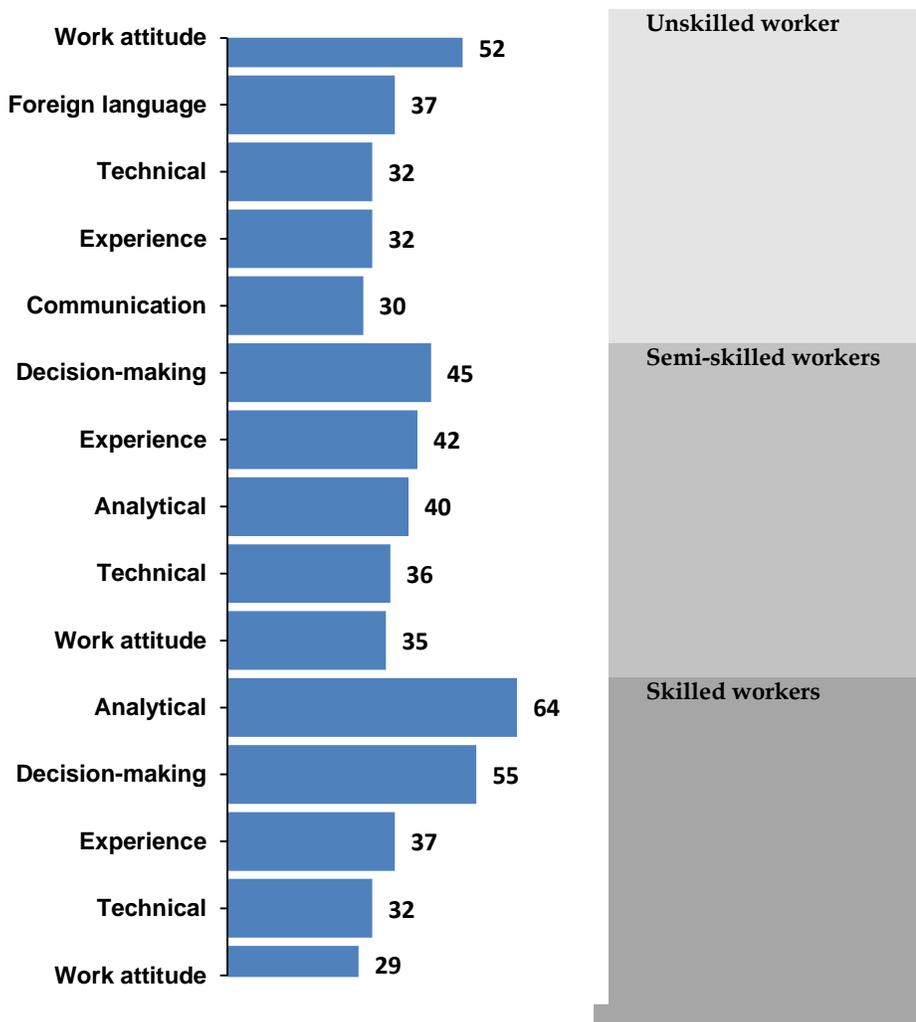
Exhibit 18 General Business Climate Ranking by Country (Out of 189 nations; 1 = Best)

	Cambodia	Brazil	China	India	Malaysia	Indonesia	Vietnam	United States
Ease of doing business	137	116	96	134	6	120	99	4
Starting a business	184	123	158	179	16	175	109	20
Obtaining construction permits	161	130	185	182	43	88	29	34
Getting electric services	134	14	119	111	21	121	156	13
Buying and securing title to properties	118	107	48	92	35	101	51	25
Getting a loan	42	109	73	28	1	86	42	3
Protecting stockholders' interests	80	80	98	34	4	52	157	6
Paying taxes	65	159	120	158	36	137	149	64
Trading across borders	114	124	74	132	5	54	65	22
Enforcing contracts	162	121	19	186	30	147	46	11
Recovering money owed by insolvent debtors	163	135	78	121	42	144	149	17
Perceived public corruption	160	72	80	94	53	114	116	19

Source: Compiled by case writers. Except as noted to the contrary: Doing Business Project, "Economy Rankings," <http://www.doingbusiness.org/rankings/>, accessed June 2014.
 Perceived public sector corruption: Transparency International, "Corruption Perceptions Index 2013," <http://cpi.transparency.org/cpi2013/results/>, accessed June 2014.

Note: Ranking for perceived public corruption out of 177 nations.

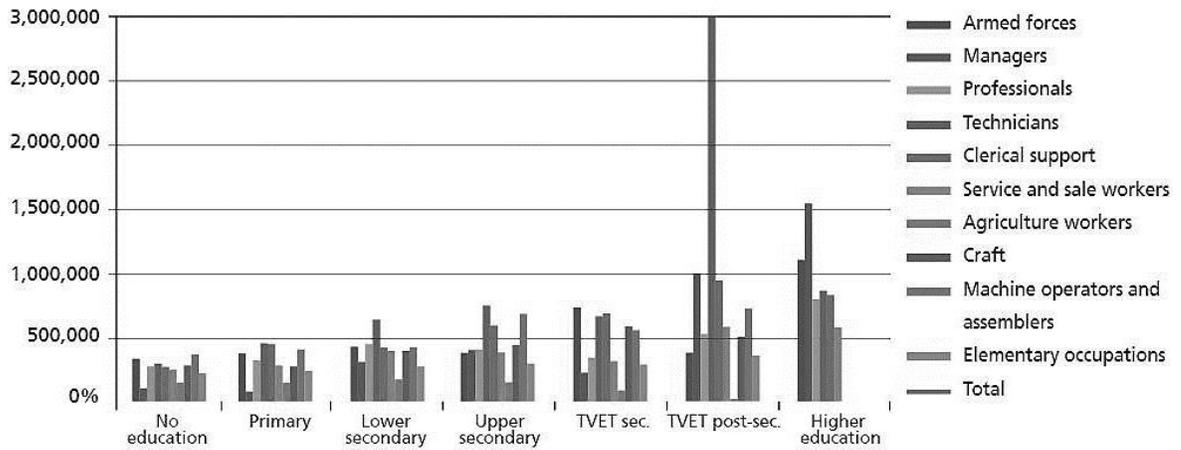
Exhibit 19 Skills Identified as the Most Difficult to Find among Workers, 2008 (%)



Source: CAMFEBA, 2008, in Human Development Department, East Asia and Pacific Region, “Providing Skills for Equity and Employment: Preparing Cambodia’s Youth for the Labor Market,” The International Bank, for Reconstruction and Development, The World Bank, 2010.

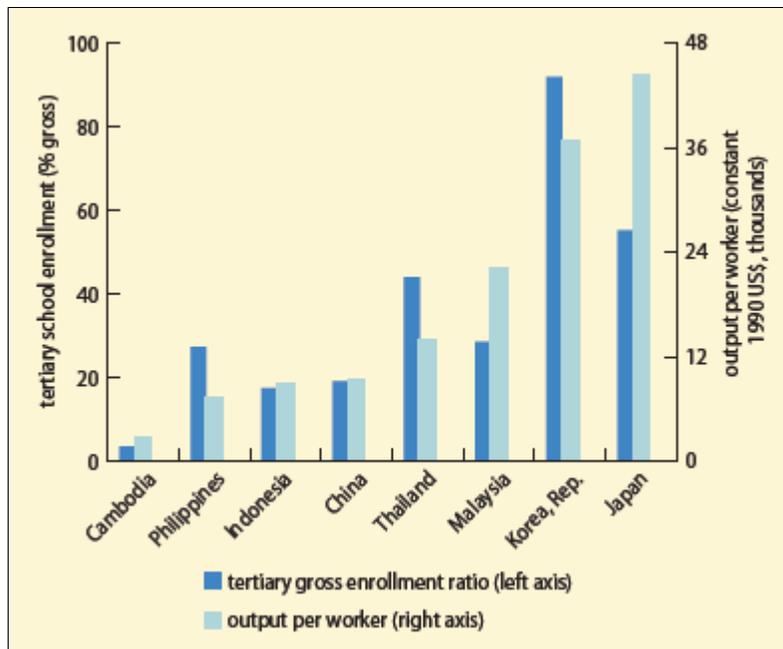
Note: “Unskilled” means mostly manual or repetitive work; “semi-skilled” requires some level of skill or understanding but still mostly repetitive work; “skilled” refers to a variety of tasks that requires a high level of skills or understanding and carried out with some degree of independence.

Exhibit 20 Monthly Wages by Level of Education and Occupational Groups, in Riels, 2009



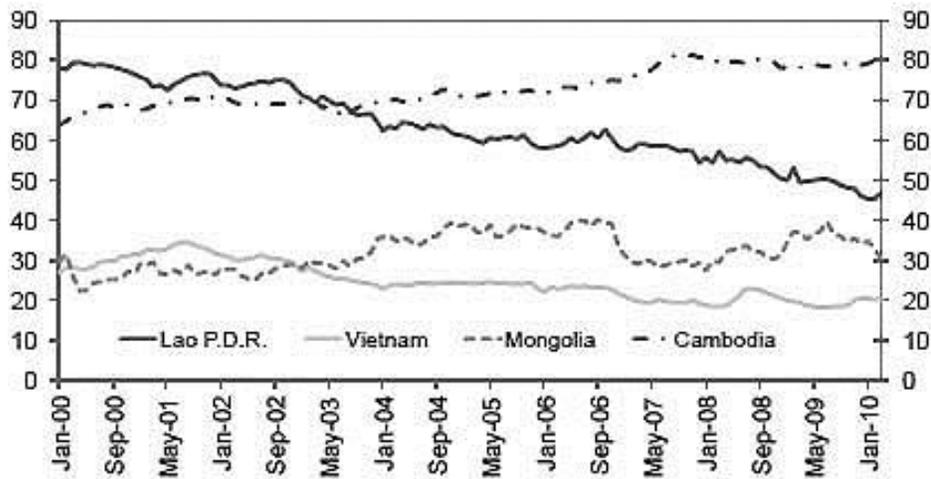
Source: Calculations based on CSES 2009, from World Bank, “Matching Aspirations, Skills for Implementing, Cambodia’s Growth Strategy,” 2012.

Exhibit 21 Tertiary Enrolment and Labor Productivity, 2005



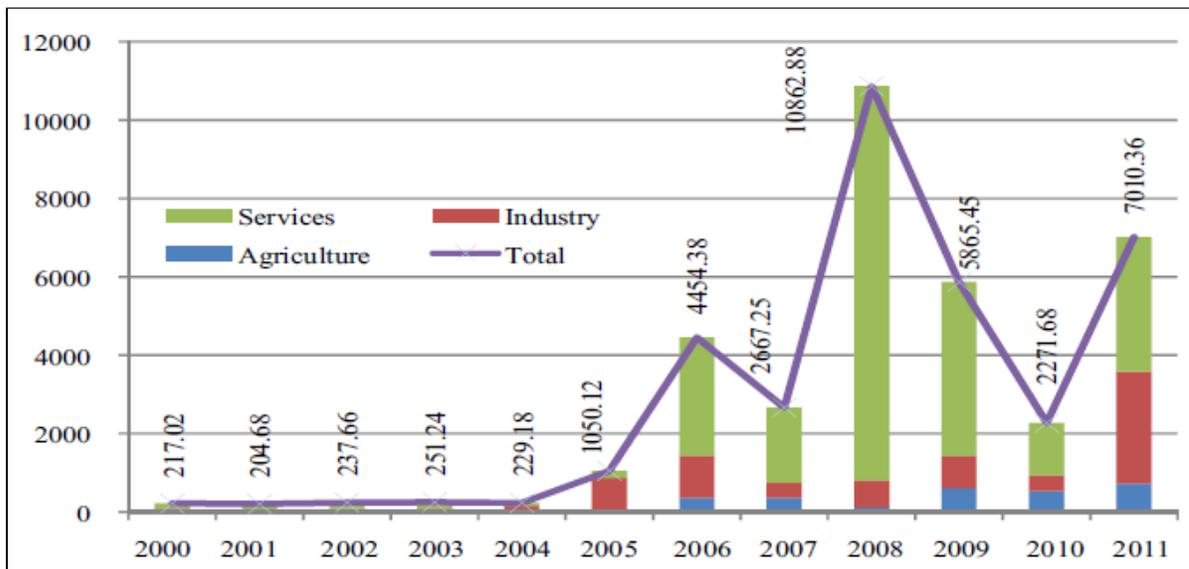
Source: International Labour Organization data; WDI database, from World Bank East Asia and Pacific Regional Report, “Putting Higher Education to Work Skills and Research for Growth in East Asia,” 2012.

Exhibit 22 Cambodia Foreign Currency Deposits to Broad Money, 2000-10 (in percentage)

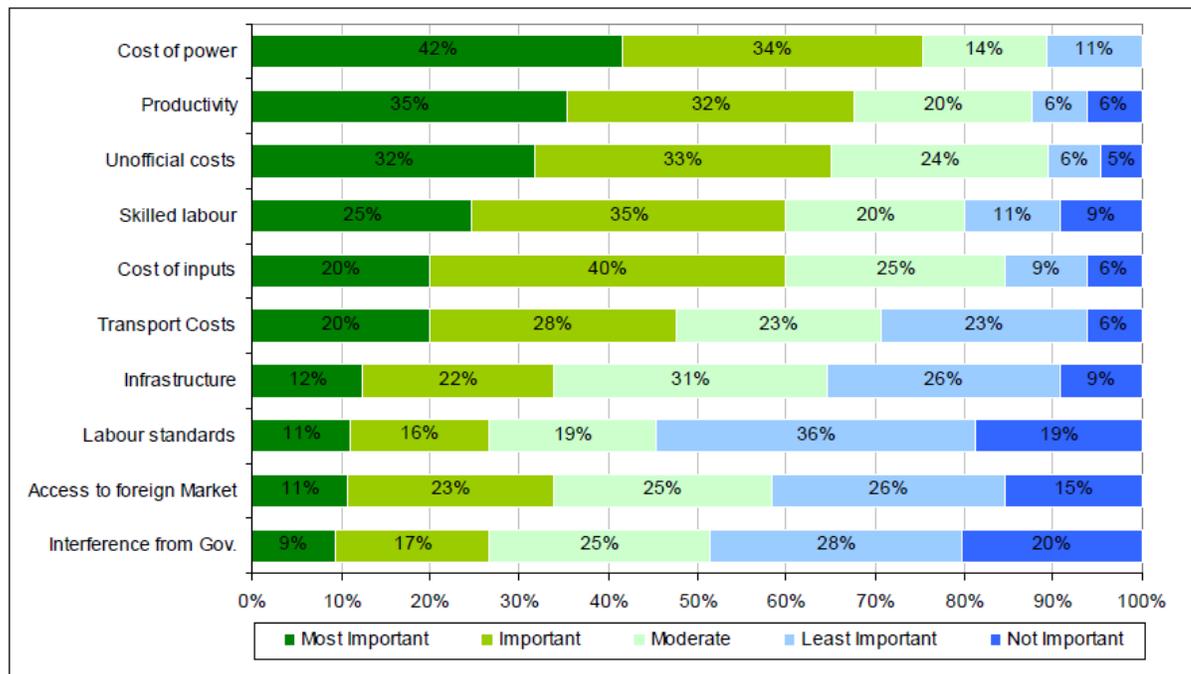


Source: IMF staff estimates, from Nombulelo Duma, "Dollarization in Cambodia: Causes and Policy, Implications," WP/11/49, IMF Working Paper, Asia and Pacific Department, March 2011, International Monetary Fund.

Exhibit 23 Foreign Direct Investment by Sector 2000-11, USD million



Source: Council for the Development of Cambodia, 2012, in Hem Sochet, "Impact of the Global Financial Crisis on Cambodian Economy at Macro and Sectoral Levels," Working Paper Series No. 72, CDRI, April 2013.

Exhibit 24 Critical Constraints to the Success of the Garment Sector

Source: International Labour Organization (ILK), "Economic Crisis on the Cambodian Garment Sector: A Survey Conducted by CAMFEBA and BDLINK (Cambodia) Co., Ltd, Final Report, April 2010.

Note: The survey reflects information collected at the end of 2009. Factories participating in the survey had a median workforce size of 700 per factory; average number of workers per factory was 920. A total of approximately 59,781 workers were employed in the surveyed factories, 90% of whom were women.

Exhibit 25 Level of Hard and Soft Infrastructures in Selected Asian Countries

	Railroad Infrastructure ^a	Port Infrastructure ^a	Electricity Supply ^a	Telecom Infrastructure ^b	Secondary Enrolment ^c	Education System ^a
Cambodia	1.6	3.4	2.5	0.2	38.2	2.7
Vietnam	2.4	2.8	3.2	32.2	64.5	2.6
China	4.1	4.3	4.7	27.8	75.5	3.8
Bangladesh	2.3	2.6	1.9	0.8	43.8	2.9
India	4.4	3.3	3.2	3.6	54.0	4.3

Source: Adopted from World Economic Forum, 2008, in Kaoru Natsuda, Kenta Goto, and John Thoburn, "Challenges to the Cambodian Garment Industry in the Global Garment Value Chain," UK Ritsumeikan Center for Asia Pacific Studies (RCAPS) Working Paper No. 09-3 July 2009, Ritsumeikan Asia Pacific University.

^a Scale 1 (of underdeveloped)—7 (of extensive and efficient by international standards). Source: World Economic Forum, Executive Opinion Survey 2007 and 2008.

^b Main telephone lines per 100 population. Source: International Telecommunication Union (2008) World Telecommunication Indicators.

^c Gross secondary education enrolment rate. Source: World Bank (2008) World Development Indicators.

Endnotes

- ¹ The World Bank, Poverty Data, <http://data.worldbank.org/topic/poverty>, accessed August 9, 2013.
- ² The World Bank, World DataBank: World Development Indicators, <http://databank.worldbank.org/data/views/reports/tableview.aspx?isshared=true>, accessed August 2014.
- ³ United Nations Conference on Trade and Development, “World Investment Report 2013: Global Value Chains: Investment and Trade for Development,” p. 45.
- ⁴ United Nations Conference on Trade and Development, *World Investment Report 2014: Investing in the SDGs: An Action Plan*, p.206, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf, accessed August 2014.
- ⁵ Ben Yue, “Ripe for Growth,” *China Daily*, June 21, 2013, http://www.chinadailyasia.com/business/2013-06/21/content_15076373.html, accessed August 14, 2013.
- ⁶ Trade Promotion Unit, Government website, Cambodia, <http://tpd.gov.kh/vciu/index.php/cambodias-exports/cambodias-market-access-conditions/item/cambodia-s-market-access-conditions>, accessed August 14, 2013
- ⁷ Phnom Penh City Government website, <http://www.phnompenh.gov.kh/phnom-penh-city-facts-99.html>, accessed August 13, 2013.
- ⁸ Chun Han Wong and Sun Narin, “World News: Asia: Cambodia Deploys Troops amid Election Dispute,” *Wall Street Journal Asia*, August 12, 2013.
- ⁹ The World Bank, World DataBank: World Development Indicators, http://data.worldbank.org/country/cambodia#cp_wdi, accessed August 2014.
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- ¹² Andreas Buehn and Friedrich Schneider, “Shadow Economies around the World: Novel Insights, Accepted Knowledge, and New Estimates” (2011).
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- ¹⁴ Bingxin Yu and Xinshen Diao, “Cambodia’s Agricultural Strategy: Future Development Options for the Rice Sector: A Policy Discussion Paper,” International Food Policy Research Institute, Washington, D.C. and CDRI, 2011.
- ¹⁵ M. Sarom, “Crop Management Research and Recommendations for Rainfed Lowland Rice Production in Cambodia,” Cambodian Agricultural Research and Development Institute, Phnom Penh, Cambodia.
- ¹⁶ United States Department of Agriculture, Foreign Agricultural Service, Commodity Intelligence Report, January 26, 2010, <http://www.pecad.fas.usda.gov/highlights/2010/01/cambodia/>, accessed September 12, 2013.
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