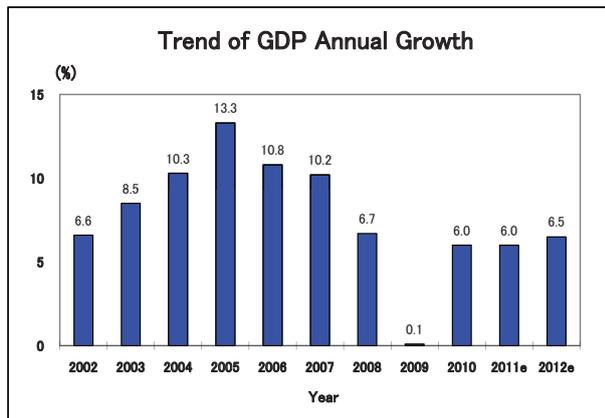


## II ECONOMIC OVERVIEW OF CAMBODIA

### II-1 Economic Situation

#### GDP

Cambodian economy maintained high growth of more than 10% p.a. for four consecutive years between 2004 and 2007. While GDP growth dropped to 0.1% in 2009, having suffered from world economic recession started in the latter half of 2008, GDP growth rate in 2010 recovered up to 6.0%. According to the MEF’s forecast, the growth rates are estimated to persist between 6.0% and 6.5% in 2011 and 2012 (Figure II-1-1).



Source: Ministry of Economy and Finance (MEF), Cambodia

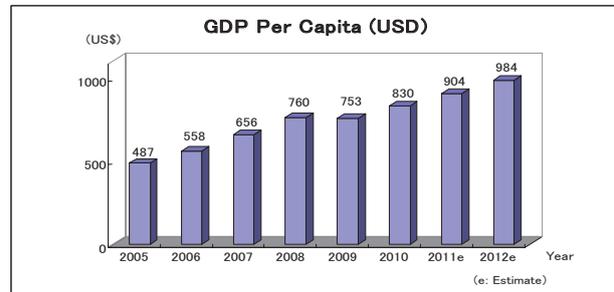
Figure II-1-1 Trend of GDP Annual Growth

GDP amount has been steadily grown with 43,057 billion Riels in 2009 and 47,048 billion Riels in 2010 and is projected to be 52,141 billion Riel in 2011 (approximately USD 12.9 billion) and 57,363 billion Riel in 2012 (approximately USD 14.2 billion).

Per capita GDP has also steadily increased since 1998 when the Riel greatly depreciated against the dollar. Per capita GDP in 2010 reached USD 830, an increase of approximately 70% from 487 US dollars in 2005. It is projected to reach USD 904 in 2011 and USD 984 in 2012 respectively, according to the MEF’s forecast. (Figure II-1-2)

#### GDP composition

The composition of GDP by industrial sectors is as shown in Figure II-1-3.



Source: Ministry of Economy and Finance (MEF), Cambodia

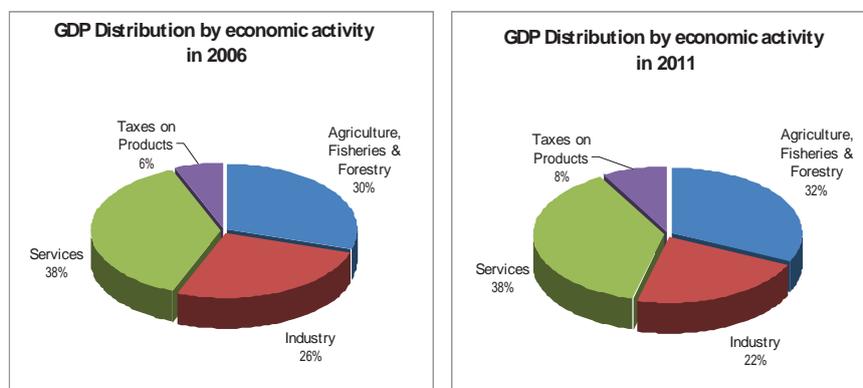
Figure II-1-2 GDP Per Capita

One of the characteristics of changes took place in between 2006 and 2011 is that the ratio of industry dropped from 26% to 22%, while the ratio of Agriculture, Forestry and Fisheries increased from 30% to 32%.

As for “Agriculture”, the crops’ gross value added (GVA) dropped to 3.7% in 2011, although it grew at the highest record of 27.6% in 2005. “Livestock & Poultry” recorded the growth of 5% or more in 2009 and 2010 but growth ratio became lower in 2011. The growth ratio of “Fisheries” and “Forestry & Logging” sharply dropped in 2010, but recovered in 2011 to 3.8% and 1.1% respectively.

Among “Industry”, the “Textile, Apparel & Footwear” and “Construction”, which occupied 76% share in 2007, have been the major players for fast growth of the sector. These subsectors, however, were seriously suffered from the financial crisis of 2008. Industry’s growth decreased to 4.0% in 2008 and -9.5% in 2009 but it recovered to 13.6% in 2010. According to MEF’s forecast, the growth rate of “Industry” will be remained at 8% to 9% in next few years.

“Services” occupied 38% share in GDP in 2011 with heavy dependency on the “Trade” and “Transport & Communication”. “Hotel & Restaurant” which have been benefited from tourism and infrastructure development remained high growth ratio constantly until 2011, except for 2009. While the growth rates of “Real Estate and Business” were sharply dropped to -2.5% in 2009 and -15.8% in 2010 due to world economic crisis of 2008, the rate recovered to 5.1% in 2011.



Note: Figures of 2011 are the estimated value.  
Source: Ministry of Economic and Finance, Cambodia

Figure II-1-3 Composition of GDP by Economic Activity

Table II-1-1 GDP Growth Rate by Economic Activity, 2005-2011

Growth Rate of GDP (%)							
	2005	2006	2007	2008	2009	2010	2011e
<b>Agriculture, Fisheries &amp; Forestry</b>	<b>15.7</b>	<b>5.5</b>	<b>5.0</b>	<b>5.7</b>	<b>5.4</b>	<b>4.0</b>	<b>3.6</b>
Crops	27.6	5.3	8.2	6.6	5.8	5.7	3.7
Livestock & Poultry	5.6	8.2	3.7	3.8	5.0	5.6	3.9
Fisheries	5.6	3.8	0.8	6.5	6.0	0.4	3.8
Forestry & Logging	5.1	7.0	1.1	0.9	1.1	0.2	1.1
<b>Industry</b>	<b>12.7</b>	<b>18.3</b>	<b>8.4</b>	<b>4.0</b>	<b>-9.5</b>	<b>13.6</b>	<b>8.5</b>
Manufacturing	9.7	17.4	8.9	3.1	-15.5	29.6	9.0
Textile, Apparel & Footwear	9.2	20.4	10.0	2.2	-9.0	18.5	10.4
Construction	22.1	20.0	6.7	5.8	5.0	-25.5	6.4
<b>Services</b>	<b>13.1</b>	<b>10.1</b>	<b>10.1</b>	<b>9.0</b>	<b>2.3</b>	<b>3.3</b>	<b>6.3</b>
Trade	8.5	7.1	9.5	9.4	4.2	7.5	6.0
Hotel & Restaurant	22.3	13.7	10.2	9.8	1.8	11.2	10.7
Transport & Communication	14.5	2.1	7.2	7.1	3.9	8.0	6.8
Real Estate & Business	7.8	10.9	10.7	5.0	-2.5	-15.8	5.1
Other Services	18.3	17.2	12.1	12.0	2.9	4.2	4.6
<b>Taxes on Products</b>	<b>6.1</b>	<b>7.6</b>	<b>45.7</b>	<b>9.1</b>	<b>6.1</b>	<b>0.1</b>	<b>4.1</b>
<b>GDP</b>	<b>13.3</b>	<b>10.8</b>	<b>10.2</b>	<b>6.7</b>	<b>0.1</b>	<b>6.0</b>	<b>6.0</b>

Note: Figures of 2011 are the estimated value.

Source: Ministry of Economic and Finance, Cambodia

Table II-1-2 Breakdown of Industry in GDP, 2005-2011 (Unit: Billion Riel)

	2005	2006	2007	2008	2009	2010	2011e
<b>Mining</b>	<b>97</b>	<b>115</b>	<b>135</b>	<b>165</b>	<b>196</b>	<b>279</b>	<b>317</b>
<b>Manufacturing</b>	<b>4,584</b>	<b>5,541</b>	<b>6,074</b>	<b>6,441</b>	<b>6,208</b>	<b>6,913</b>	<b>7,742</b>
Food, Beverages & Tobacco	608	664	757	924	978	1,071	1,160
Textile, Apparel & Footwear	3,158	3,869	4,234	4,315	3,938	4,403	4,993
Wood, Paper & Publishing	148	171	203	239	252	273	294
Rubber Manufacturing	126	181	148	153	168	219	248
Other Manufacturing	545	657	732	811	872	947	1,047
<b>Electricity, Gas &amp; Water</b>	<b>124</b>	<b>164</b>	<b>195</b>	<b>212</b>	<b>230</b>	<b>252</b>	<b>280</b>
<b>Construction</b>	<b>1,631</b>	<b>1,995</b>	<b>2,338</b>	<b>2,572</b>	<b>2,694</b>	<b>2,845</b>	<b>3,161</b>
<b>Total Industry</b>	<b>6,436</b>	<b>7,816</b>	<b>8,741</b>	<b>9,389</b>	<b>9,327</b>	<b>10,289</b>	<b>11,501</b>

Note: Figures of 2011 are the estimated value.

Source: Ministry of Economic and Finance, Cambodia

Table II-1-3 Composition of GDP of Selected Southeast Asian Countries in 2010, Unit: (%)

Country	Agriculture	Industry	Service
Cambodia	36.0	23.0	41.0
Indonesia	15.3	47.0	37.6
Laos	30.8	27.4	41.8
Malaysia	10.4	43.6	46.0
Myanmar	36.4	26.0	37.6
Philippines	12.3	32.6	55.1
Singapore	0.0	28.3	71.7
Thailand	12.4	44.7	42.9
Vietnam	20.6	41.1	38.3

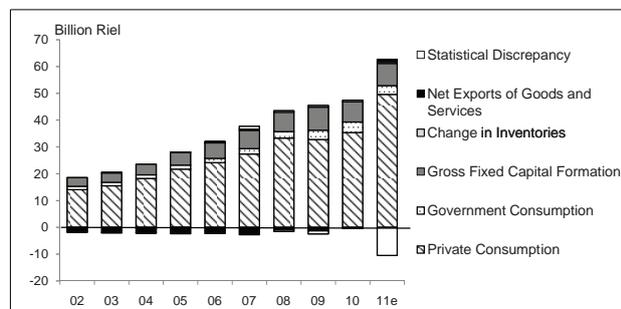
Source: Asian Development Bank (ADB), Key Indicators 2011

The comparison of industrial structure with other Southeast Asian nations, as shown in Table II-1-3, indicates that Cambodia is still at the initial stage of industrialization together with Laos and Myanmar.

**Gross Domestic Expenditures (GDE)**

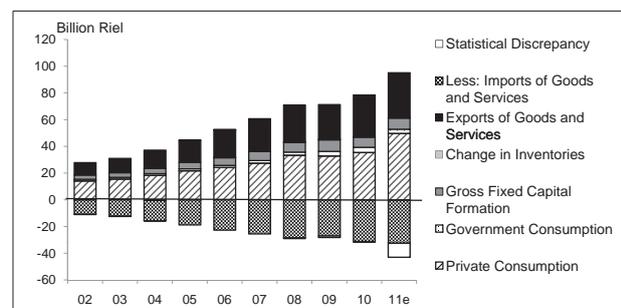
The following figure presents the composition of gross domestic expenditures (GDE) by component for the last ten years (2002-2011). In Cambodia, the private final consumption is the largest component of demand occupying around 80% of GDE. Although the gross fixed capital formation regularly continued to be equivalent to nearly 20% of GDE, it decreased its share to 16% in 2010 and 2011 (estimate).

Cambodian economy heavily depends on exports and imports. The exports and imports were equivalent to around 60% and 70% of GDE respectively in the first half of the 2000s. Although the size of imports to GDE has tended to decrease since 2006, the imports are still equivalent to 62% of GDE. Since the imports usually exceed the exports, net exports (exports minus imports) have continued to have a deficit.



Note: Figures of 2011 are the estimated values.  
Source: Ministry of Economy and Finance (MEF), Cambodia

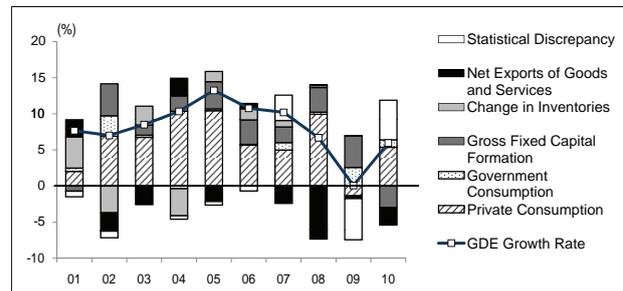
Figure II-1-4: Composition of Gross Domestic Expenditures (Exports and Imports are shown in the form of Net Exports)



Note: Figures of 2011 are the estimated values.  
Source: Ministry of Economy and Finance (MEF), Cambodia

Figure II-1-5: Composition of Gross Domestic Expenditures (Exports and Imports Are Separately Shown)

The major driving force of Cambodia’s economic growth is the private final consumption. At the same time, the gross capital formation also made a significant contribution to the growth during the period from 2002 until 2009. The contribution of net exports is often negative because of negative trade balance.

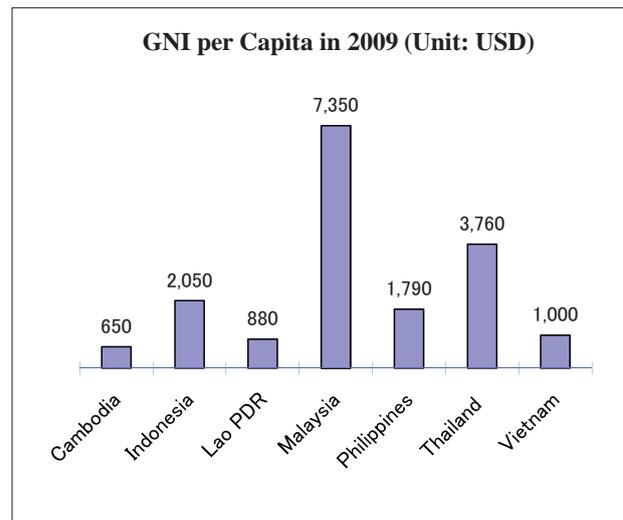


Source: Ministry of Economy and Finance (MEF), Cambodia

Figure II-1-6: Contribution of Components to Changes in Gross Domestic Expenditures at 2000 Market Prices

**GNI per capita**

According to ADB’s data, Cambodia’s GNI per capita from 2002 to 2008 had increased by 55 US dollars on annual average and reached 650 US dollars in 2009. Although the figure of Cambodia is still among the lowest in the region (Figure II-1-7), people with the purchasing power to buy high-end products are now found in Phnom Penh City. Although for investors the Cambodian market seems to be limited, they can enjoy the ASEAN integrated market once the ten ASEAN member countries reduce all import tariffs, which is scheduled for implementation by 2015.

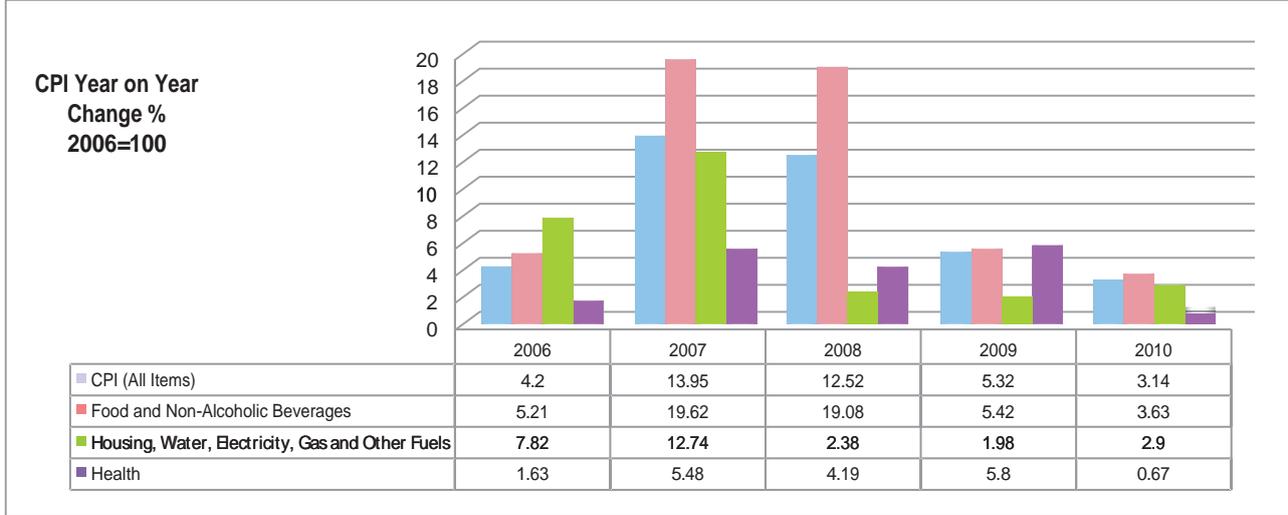


Source: Asian Development Bank (ADB), Key Indicators 2011

Figure II-1-7 GNI Per Capita of ASEAN

**Consumer Price Index (CPI)**

As shown in Figure II-1-8, although the inflation rate jumped up to 14.0% in 2007 and 12.5% in 2008, it dropped to 5.3% in 2009 and 3.1% in 2010. The government claimed that the sudden increase of CPI in 2007 was mostly due to a drastic change in composition of commodity basket for weighing the inflation. In addition, the Government also claimed the sharp hike of foods prices at the rates of 19.6% in 2007 and 19.1% in 2008, which were drawn by the escalation in the price of petroleum products on the world market, which contributed to the rise in transportation costs. “Housing”, which increased by 12.7% in 2007, has been showing modest growth and “Health Care”, which showed increase of 4-5% between 2007 and 2009, decreased its increasing rate to 0.7% in 2010.



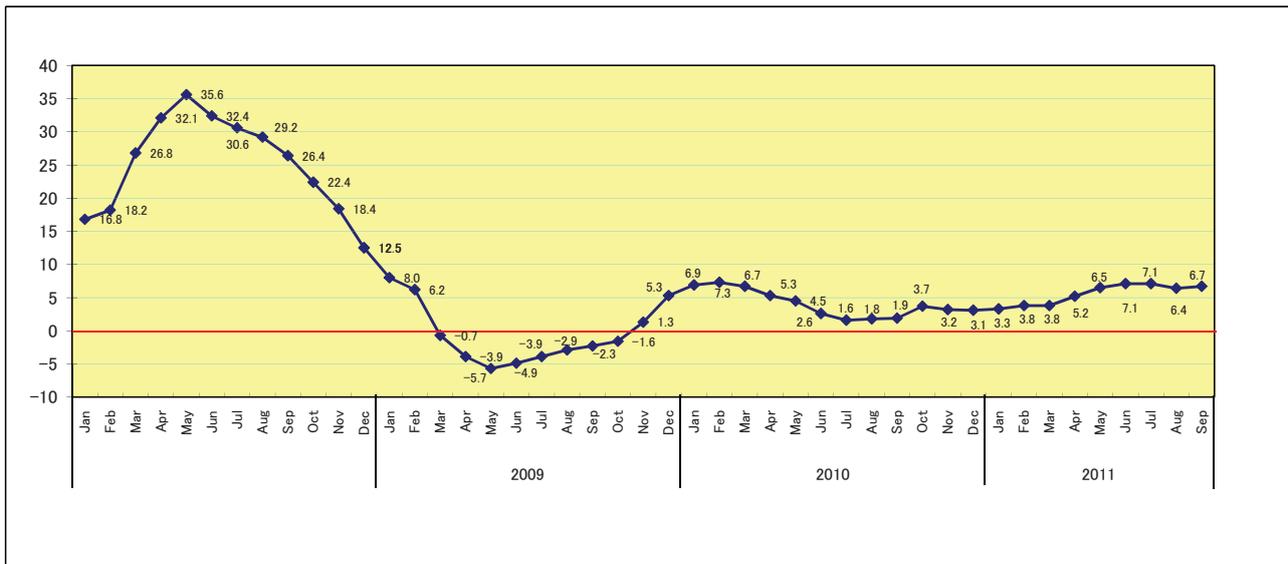
Source: National Bank of Cambodia

Figure II-1-8 CPI Year on Year Change

Figure II-1-9 shows the inflation rate for all items from 2008 to September 2011. After reaching the highest level at 35.6% in May 2008, the inflation rate turned to decrease and started the deflation from March 2009 finally reaching the lowest level at -5.7% in May 2009. After turning to the inflation in November 2009, the inflation rate gradually increased and reached to 7.3% in February 2010. While the inflation rate tended slightly to decrease through 2010, it started to increase again in the first half of 2011 up to around 7%. However, it can be said that the inflation rate remained steadily in 2010 and 2011 comparing to the sudden and sharp fluctuations occurred in 2008 and 2009.

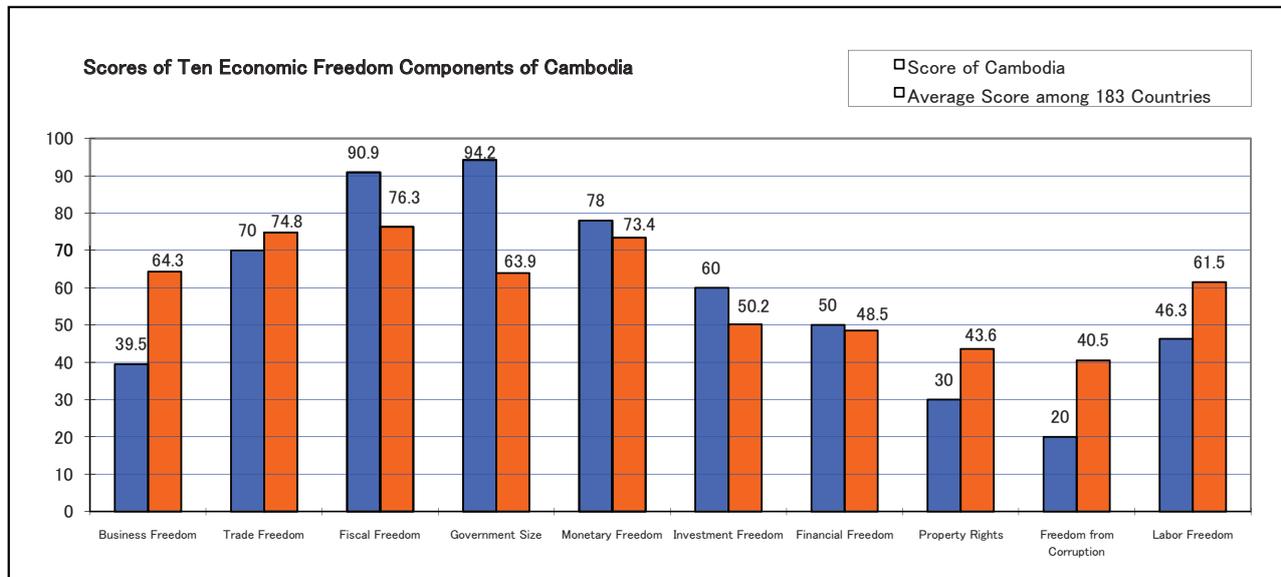
**Indices of economic freedom**

According to “2011 Index of Economic Freedom” by the Heritage Foundation in the US, Cambodia is ranked 17th out of 41 countries in the Asia-Pacific region. As shown in Figure II-1-10, the country scores noticeably well in fiscal freedom, government size and monetary freedom. Low rates for income and corporate tax contribute to a low overall tax burden, giving the country a high fiscal freedom score. Other institutional weakness still holds down Cambodia’s overall economic freedom score, however. Business freedom, trade freedom and labor freedom, property rights, and freedom from corruption all receive notably low scores. Cambodia’s overall economic freedom score is 57.9 and ranked at 102nd out of 183 countries in the 2011 Index.



Source: National Institute of Statistics

Figure II-1-9 CPI All Items from 2008 to 2011(Index: 2006=100)



Note: The larger the number, the freer the business climate in a country.  
 Source: Heritage Foundation

Figure : II-1-10 Scores of Ten Economic Freedom Components of Cambodia

**II-2 Investment Trend**

**FDI trend**

Investment projects, which are approved by the Council for the Development of Cambodia (CDC) to grant investment incentives and guarantee, consist of Cambodian and foreign capital. Those projects were called “Investment Projects” under the Law on Investment of 1994 and are now called “Qualified Investment Projects (QIPs)” under the Law on Amendment to the Law on Investment of 2003.

In 1995, one year after the enactment of the Law on Investment, the fixed asset investment amount approved by the CIB (CDC) totaled 2.3 billion dollars. From 1994 to 2005, the annual average of twelve years was 640 million dollars, and during the following five years (2006 to 2010), the average amount became approximately 8.3 times larger as 5.3 billion dollars. In 2011, the fix asset investment amount approved by the CIB (CDC) reached 5.7 billion dollars until September 2011. From 1994 to

September 2011, the cumulative investment approved by CIB (CDC) is 39.9 billion dollars. Table II-2-1 shows such overall investment approval trend in Cambodia.

As shown in Table II-2-2, the FDI ratio among the total investment amount approved by the CIB (CDC) between 1994 and 2005 was approximately 71%. Such FDI ratio dropped to approximately 36% in 2009 and increased to 85% in 2010. Consequently, overall FDI ratio was approximately 62% of the total approved investment amount from 1994 to September 2011.

In terms of the cumulative FDI approved in the period of around 18 years ending at September 2011, the largest amount of 8.9 billion US dollars came from China. The second biggest FDI provider is Korea followed by Malaysia. The other major sources of FDI are UK, USA, Taiwan, Vietnam, Russia and Singapore. Figure II-2-1 shows the investment approval trend by five leading countries.

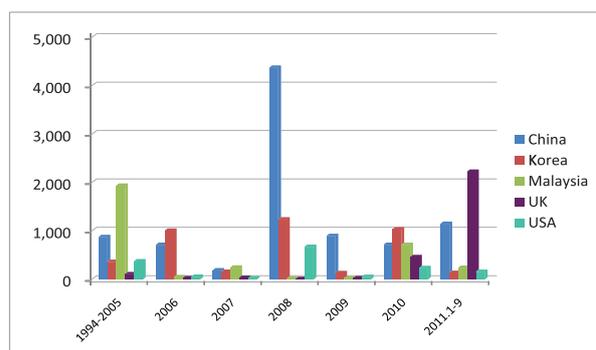
Table II-2-1 Investments Approved by CDC by Major Countries (1994 – September 2011)

Country	1994-2005 Total		2006	2007	2008	2009	2010	2011 1-9	1994-2011.9 Total	
		Rank								Rank
Cambodia	2,260	-	2,081	1,323	3,932	3,753	391	1,367	15,107	-
China	864	2	717	180	4,371	893	694	1,147	8,866	1
Korea	351	5	1,010	148	1,238	120	1,026	134	4,027	2
Malaysia	1,932	1	28	241	3	7	167	231	2,609	3
UK	103	10	4	26	6	6	11	2,222	2,378	4
USA	366	4	62	3	672	2	36	144	1,285	5
Taiwan	529	3	48	40	22	27	92	69	827	6
Vietnam	25	11	56	139	21	210	115	246	812	7
Thailand	284	6	100	108	74	178	2	0	746	8
Singapore	260	7	12	2	52	273	37	0	636	9
Russia	2	13	278	0	103	235	0	0	618	10
HKG	244	8	4	26	0	7	30	68	379	11
Israel	-	14	0	2	300	0	2	0	304	12
France	208	9	0	35	6	50	0	0	299	13
Japan	20	12	2	113	8	5	0	4	152	14
Others	229	-	38	270	81	93	88	42	841	-
Total	7,677	-	4,440	2,656	10,889	5,859	2,691	5,674	39,886	-

Source: CIB (CDC)

Table II-2-2 Investment Fixed Assets by Source of Investment:  
1994-September 2011

Million USD				
	Foreign (a)	Cambodia	Total (b)	FDI ratio (a)/(b) %
1994 – 2005	5,417	2,260	7,677	71%
2006	2,359	2,081	4,440	53%
2007	1,333	1,323	2,656	50%
2008	6,957	3,932	10,889	64%
2009	2,106	3,753	5,859	36%
2010	2,300	391	2,691	85%
2011 (1-9)	4,307	1,367	5,674	76%
Total	24,779	15,107	39,886	62%

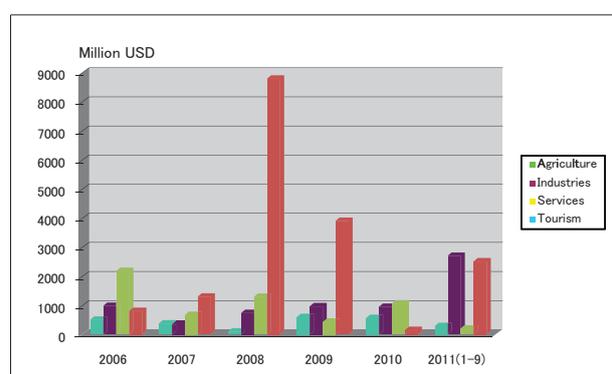


Source: CIB (CDC)

Figure II-2-1 Investment by Leading Countries

### Industrial Sub-sector

As for the composition by industrial sector, tourism accounts for 50% of the cumulative investment amount at September of 2011, while investment amount in tourism has been changing rapidly every year owing to extensive investment in the initiative days and high amount approved in 2008 and 2009. Investment in industries has been increasing gradually from 2006 to 2011. Investment amount in agriculture sector has remained stably except for 2008. Investment in service sector was dropped in 2009 due to decrease of investment in construction sector damaged by the economic crisis, but recovered in 2010. (Table II-2-3, II-2-4, II-2-5 and Figure II-2-2)



Source: CIB (CDC)

Figure II-2-2 Investment Trend by Sector (2006-2011.9)

Table II-2-3 Investment Approved by CIB by Sector: 1994 – September 2011

	Agriculture	Industries	Services	Tourism	Total
1994-2005	344	3,147	1,800	2,386	7,677
2006	505	987	2,171	777	4,440
2007	371	338	653	1,294	2,656
2008	95	726	1,292	8,776	10,889
2009	590	958	410	3,901	5,859
2010	554	946	1,059	132	2,691
2011(1-9)	284	2,695	192	2,503	5,674
2006-2011(9)	2,399	6,650	5,777	17,383	32,209
Total (1994-2011.9)	2,743	9,797	7,577	19,769	39,886
Percentage	6.88%	24.56%	19.00%	49.56%	100.00%

Source: CIB (CDC)

Table II-2-4 CIB-Approved QIPs by Sector in Cambodia (1994-2011.9)

SECTOR	2006	2007	2008	2009	2010	2011 (Jan-Sep)
1. Agriculture	20	9	5	19	23	12
2. Industries	64	93	66	65	74	82
Energy	5	2	6	5	4	0
Food Processing	1	2	1	2	5	1
Garment/Textile	44	45	37	24	41	62
Machine/ Metal/ Electronics	2	2	1	1	2	2
Mining	1	19	4	7	2	3
Petroleum	0	0	0	1	0	0
Plastic	0	2	2	1	2	0
Shoes	7	7	2	7	8	4
Wood Processing	0	4	0	4	1	0
Others	4	10	13	13	9	10
3. Services	8	13	9	4	2	2
Construction/ Infrastructure	6	12	6	4	2	1
Services	2	1	3	0	0	1
4. Tourism	9	14	20	12	3	5
Hotel	4	5	6	1	1	1
Tourism	5	9	14	11	2	4
Total	101	129	100	100	102	101

Source: CIB (CDC)

Table II-2-5 CIB-Approved Investment Trend by Sector in Cambodia (1994-2011.9)

Unit: Million USD

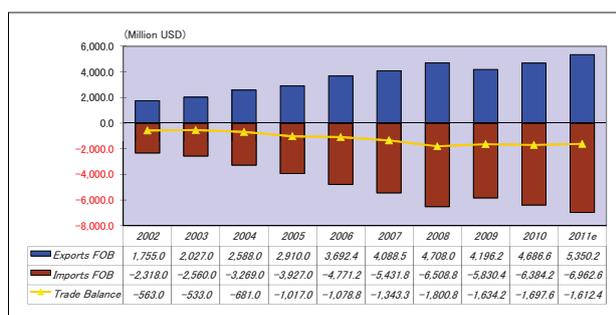
SECTOR	2006	2007	2008	2009	2010	2011 (Jan-Sep)
1.Agriculture	505	371	95	590	554	284
2.Industries	987	337	726	958	946	2,695
Energy	596	11	494	665	589	0
Food Processing	4	21	4	12	40	7
Garment/Textile	149	205	147	93	134	280
Machine/ Metal/ Electronics	4	4	12	2	8	6
Mining	3	31	5	15	92	31
Petroleum	0	0	0	3	0	0
Plastic	0	5	6	2	6	0
Shoes	31	26	12	28	48	17
Wood Processing	0	7	0	16	2	0
Others	200	27	46	122	27	2,354
3. Services	2,171	653	1,292	410	1,059	192
Construction/ Infrastructure	2,156	640	260	410	1,059	101
Services	15	13	1,032	0	0	91
4.Tourism	777	1,295	8,776	3,901	132	2,503
Hotel	21	113	1,189	17	4	58
Tourism	756	1,182	7,587	3,884	128	2,445
Total	4,440	2,656	10,889	5,859	2,691	5,674

Source: CIB (CDC)

### II-3 Trade

#### Trade balance

As shown in Figure II-3-1, the trade performance of Cambodia has been active. The amount of export in 2011 is estimated to have grown by 3.1 times as much as that of 2002. However, since the imports have also kept growing, the balance of trade has remained in the red, quickly widening its gap since 2003. After the exports dropped sharply being affected by the world economic recession, the imports of production and construction materials also drastically decreased. In the last three years, the trade deficit has remained at moderate level.



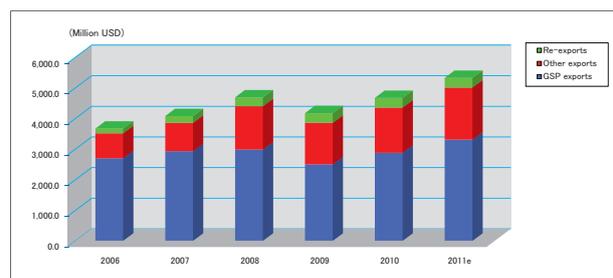
Note: "e" stands for "Estimate"

Source: Ministry of Economic and Finance, Cambodia

Figure II-3-1 Trade Balance: 2002 – 2011

#### Export trend

Cambodia's exports have shown continuous growth throughout the recovery period. According to Ministry of Economic and Finance statistics, exports reached approximately 5.4 billion US dollars in 2011 (Figure II-3-1). As shown in Figure II-3-2, GSP exports products such as garment and shoes have increase steadily from 2006 until 2008, decreased in 2009 and recovered in 2010 and 2011. Exports of other products also showed the similar trend. On the other hand, re-export products have continuously increased from 2006 until 2011.

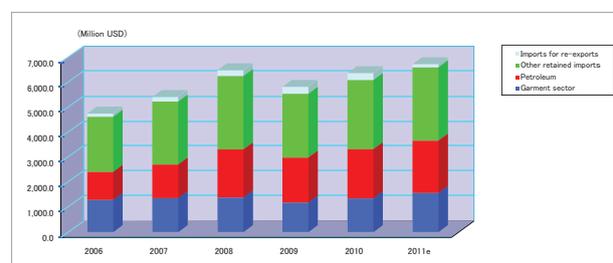


Source: Ministry of Economic and Finance, Cambodia

Figure II-3-2 Exports 2006 - 2011

#### Import trend

Growth of Cambodian imports is much higher than growth in Cambodian exports, reaching approximately 7.0 billion US dollars in 2011 (Table II-3-3). The imports showed the steady growth from 2006 to 2008, dropped in 2009 and recovered in 2010 and 2011. Main imported products in 2011 were "garment sector" and "petroleum" by occupying the share of 22.6% and 30.2% respectively.



Source: Ministry of Economic and Finance

Figure II-3-3 Imports 2006 - 2011

## GSP

Cambodia is one of the beneficiaries of the Generalized System of Preferences (GSP) schemes operated by developed countries. Under these schemes, import tariffs on many products from the beneficiaries are exempted or reduced if requirements such as rules of origin are fulfilled. Table II-3-1 shows the relations between the beneficiaries in Asia and three major markets: Japan, the US and the EU.

Since Cambodia is categorized as a least developed country (LDC), it is entitled to additional preferences, under which more of its products are subject to duty-free or tariff reductions. For example, Japan gives Cambodia tariff preferences on imports of 3,490 articles plus an additional 2,200 articles including apparel and footwear as shown in Table II-3-2.

Table II-3-1 Matrix of GSP Beneficiaries and Major Markets

Beneficiaries in Asia	Preference-giving countries (three major markets)		
	Japan	The US	The EU (Until 2013)
Bangladesh	X (LDC)	X (LDC)	X (LDC)
Cambodia	X (LDC)	X (LDC)	X (LDC)
China	X		X
Indonesia	X	X	X
Lao PDR	X (LDC)		X (LDC)
Malaysia	X		X
Myanmar	X (LDC)		(Withdrawn from the GSP list in 1997)
Philippines	X	X	X
Thailand	X	X	X
Vietnam	X		X

Note : "LDC" indicates the least developed countries benefiting from additional preferences compared with other developing countries.

Source : GSP List of Beneficiaries (MOFA of Japan, July 2011), GSP Guidebook (USTR, May 2011), Information Notice (on Amendment made by Regulation (EU) No 512/2011 of the European Parliament and of the EU Council dated on 11 May 2011)

Table II-3-2 Number of Articles Subject to Preferences under GSP schemes

	Japan	The US	The EU
For all developing countries	3,490	3,400	6,300
Additional only for LDCs including Cambodia	2,200	1,400	All other articles, except arms and ammunition (EBA), with few exceptions

Source: MOFA of Japan, USTR and EU