

Chapter 2

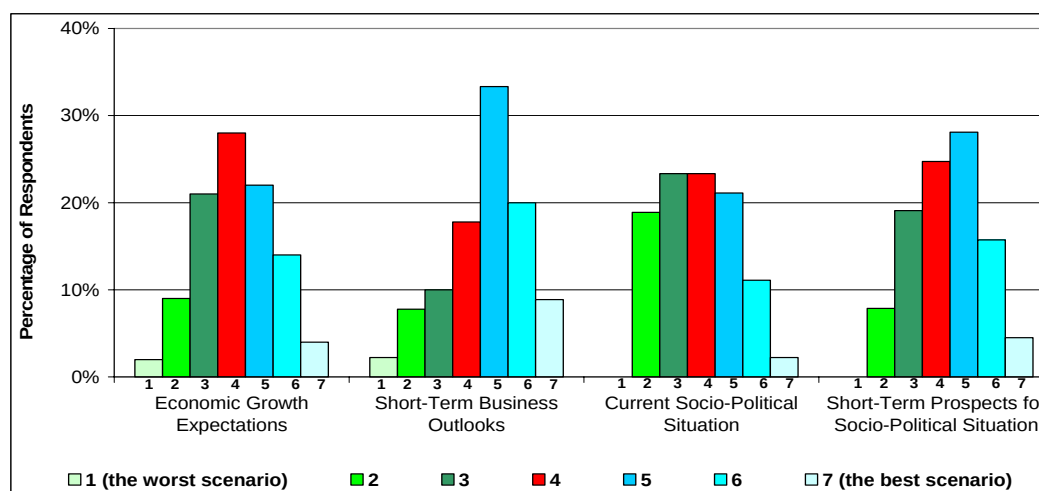
Executive Opinion Survey: Key Findings

The objective of this chapter is to provide a snapshot of key findings from the Executive Opinion Survey 2005 in Cambodia conducted earlier this year by the Economic Institute of Cambodia. Results presented in this chapter are a simple processing of data collected during the field survey representing perceptions and opinions of top business executives in Cambodia. Details of the outcomes are in Appendix 1.

2.1. Economic and Socio-Political Situation

Though they may feel rather indifferent about economic growth and the current socio-political situation, business executives are upbeat about the short term prospect. The distribution of their answers on economic growth expectations is almost a perfect bell shape. For the current socio-political situation, the distribution seems to skew slightly towards pessimism (Table 2.1).

Figure 2.1: Perspective on Economic and Socio-Political Situation



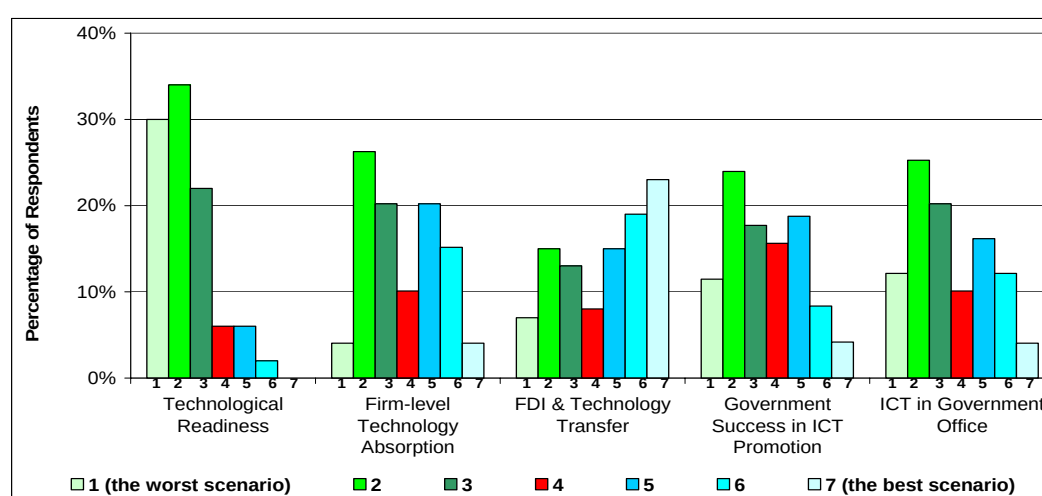
Source: EIC, *Executive Opinion Survey 2005 in Cambodia, February-April 2005*

However, for a short term outlook, the business executives are more positive for both their own business operations and the socio-political situation. This overall optimism may be explained by their recent positive business experience. More than 70 percent of them report normal or good business in 2004, and expect to maintain this trend in 2005. It is interesting that a large proportion of the respondents forecast high growth for their businesses, yet they expect only a modest one for the country's economy.

2.2. Technology

The overall picture is that business in Cambodia is not yet ready for technology (Table 2.2) despite its potential. An overwhelming 86 percent of the survey respondents indicate the country's technological readiness is lagging behind most other countries. More specifically, production processes are reportedly either labour-intensive or based on obsolete technology. However, the respondents seem to have more confidence in their own ability to absorb new technology; 40 percent of them are convinced that Cambodia's private sector is able to utilize new technology.

Figure 2.2: Perspective on Technology



Source: EIC, *Executive Opinion Survey 2005 in Cambodia*, February-April 2005

The Cambodian workforce is indeed young, dynamic, and willing to learn, but still lacking in training. Many respondents (57 percent) see foreign direct investments (FDIs) as an important source of new technology. Furthermore, more than 80 percent of the respondents say that companies in Cambodia can obtain technology exclusively from licensing or imitating foreign companies. Its institutional environment as well as its financing capacity does not yet allow the country to be a pioneer in new technology. FDI is therefore an important source of technology transfer for Cambodia.

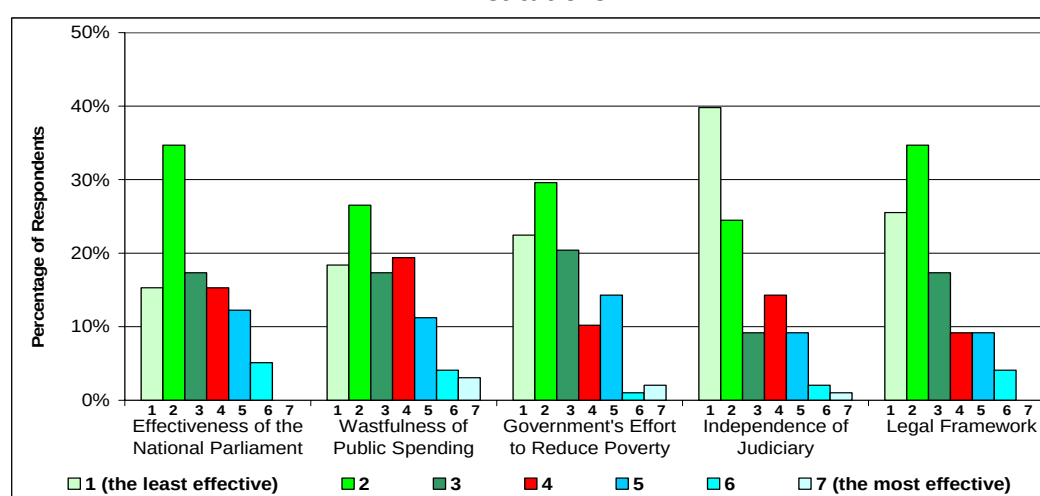
In addition, the government does not seem to be successful in promoting the management of information, communication and technology (ICT). It does not have any clear policy for ICT development, even though there is a high density of internet cafés with high-speed connections in major cities.

2.3. Government and Public Institutions

"One of the key challenges is the establishment of a credible court of law. At least it would give you a venue where you could communicate your concerns."

Cambodia's public institutions are seen on the whole as ineffective (Table 2.3). First, the Parliament is not working efficiently. Two-thirds of the business executives in the survey indicate the Parliament is rather ineffective. Many legislations introduced into the Parliamentary sessions are initiated by the government, and government ministers seldom appear to answer questions from the floor.

Figure 2.3: Perspective on Effectiveness of Government and Public Institutions



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

Second, the government's executive branch is also subject to disapproval. There is an overwhelming agreement among the survey respondents that public spending is wasteful, and yet the government is unable to provide necessary goods and services its citizens are entitled to. Poverty reduction which has been the focal point of the government's national strategy for many years remains a major challenge. Almost three quarters of the business executives in the survey believe the government's effort to reduce poverty and address income inequality is ineffective.

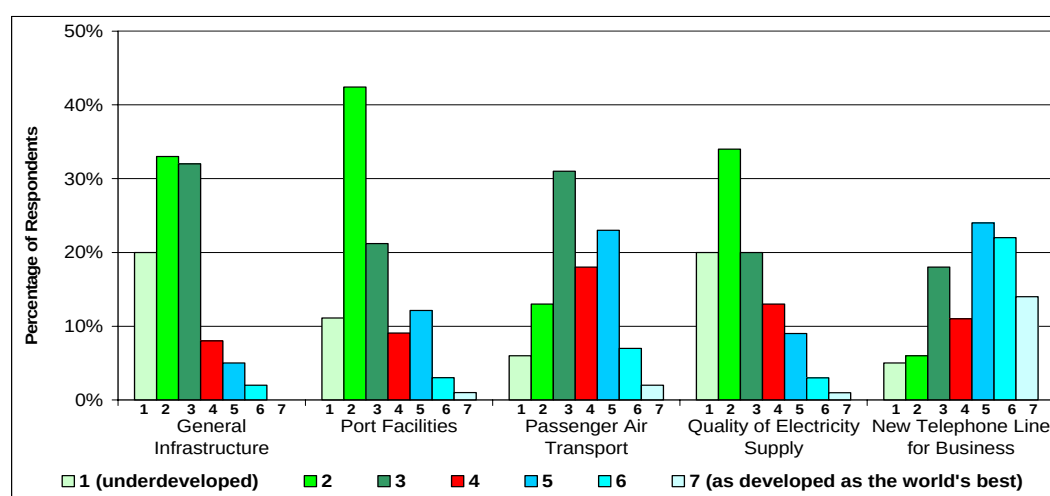
Third, another branch of the public institution that is wide-open to severe criticisms is the judicial system. 73 percent of the survey respondents question the independence and impartiality of the judiciary. They believe the ability of Cambodia's legal framework to settle disputes and challenge the legality of government actions and regulations is ineffective and subject to manipulation. Almost three quarters of the business executives point to political influences that

severely compromise the court of law. The establishment of a legal framework able to effectively settle private business disputes is perceived as a great challenge by the business community.

2.4. Infrastructure

Generally, infrastructure is rated inadequate. An overwhelming 85 percent of the business executives in the survey assess the infrastructure of low quality. Public utilities are excessively expensive and subject to frequent supply interruptions. According to almost three quarters of the respondents, electricity supply in Cambodia is one of the worst in the world.

Figure 2.4: Perspective on Infrastructure Quality



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

There are mixed assessments on transport facilities. The railway system is quasi-inexistent and underdeveloped, as perceived by 97 percent of the respondents. Approximately, three-quarters of them, however, consider port facilities and inland waterways as relatively underdeveloped; a new deep sea-port is being planned and constructed for Sihanoukville. Nevertheless, a bright spot is the passenger air transport that attracts a lot of responses at the middle range with 32 percent of the executives considering it more or less acceptable.

Communication facilities are overall rated better, with the exception of the postal system. Only 20 percent of the respondents trust the postal system. However, 60 percent in the survey indicate their satisfaction with regard to the availability and reliability of new telephone lines for business. The mobile and cellular telephones are said to be as accessible and affordable as in the world's most technologically advanced countries by 78 percent of the respondents, a third of which gave the best rating score.

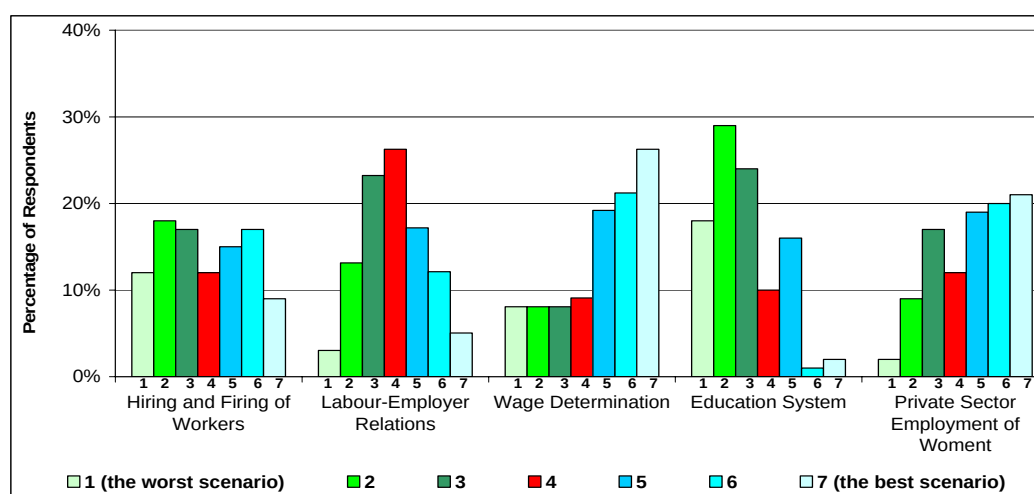
Internet access at school is very limited, according to 79 per cent of the survey respondents, even though they note that private internet cafés are widespread in major cities.

It is remarkable that the access to the mobile telecommunication technology is widely considered as comparable to the world's best, while most public infrastructures are perceived to be underdeveloped. The difference is that private investment has been involved in the development of telecommunication requiring no or little public funding.

2.5. Human Resources: Education and Labour

As far as human resource management is concerned, the overall evaluation is more or less positive and the country has the potential and the framework to be more competitive if only the education system can be geared towards improving skills and education of school graduates. First, the flexibility of hiring and firing workers seems to depend on types of industry. While 47 percent of the business executives find the flexibility is impeded by regulations and laws, 41 percent of them indicate otherwise.

Figure 2.5: Perspective on Human Resource Quality



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

A closer look at various industries in the survey shows that 76 percent of the garment manufacturers have difficulties with the regulations as far as hiring and firing is concerned. On the other hand, hotel executives enjoy more leeway; 65 percent of them claim it is flexibly determined by employers. The nascent garment industry has been particularly regulated and observed in Cambodia, notably through the International Labor Organization (ILO) monitoring in order to ensure decent work for workers. As a result, the industry is quite regulated, but

working conditions are better than those in other countries. Cambodia's positioning is in the "non-sweat shop" niche.

Second, industrial relations in Cambodia are rather neutral and stable. While 39 percent of the executive respondents consider workers too confrontational, 34 percent indicate they are generally cooperative; the rest of them take a neutral stance. Again, the perceptions of the workers seem to vary according to industries in which those executives operate. While more than half (52 percent) of the hotel managers perceive the labor-employer relations to be generally cooperative, only 24 percent of the garment manufacturers share a similar opinion; in fact, 45 percent of them regard the relations as mostly negative. This difference may perhaps be explained by the fact that there were strikes affecting some garment manufactures not long before the survey.

Third, wage determination system in Cambodia seems to be overwhelmingly favorable. On the whole, two-thirds of the business executives are content as wages are largely set by each individual employer. Only around a quarter of the respondents view the system rather negatively. It appears the discontent is, again, in the garment industry where wages are set by a centralized bargaining process. The garment sector is the only industry that has to comply with a minimum wage – US\$ 45 per month.

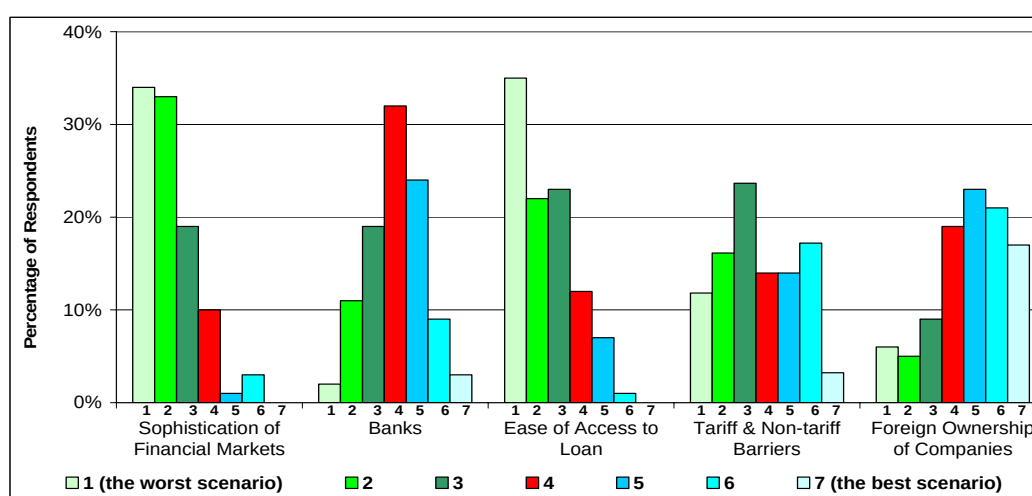
Fourth, there does not seem to be any difference between male and female employment conditions. Indicated by 60 percent of the survey respondents, there is no gender bias in the private sector employment. 64 percent believe wages for women are relatively equal to those of men for similar work. Here as well, it is remarkable that the answers of garment manufacturers are sharply distinct to those of the other respondents, especially in terms of gender equality. Young female workers indeed make up a large proportion of the garment employment. It is said that the discrimination is actually favoring female workers rather than men for factory of garment work.

Perhaps the most clearly deficient area in human resources is the education system that has yet to lift the skills and learning capacity of job seekers. A large 71 percent of the business executives maintain that the education system is far from satisfying the need to achieve a competitive economy. More specifically, public schools are perceived to be of poor quality by 83 percent of the survey respondents. Despite this overall perception, some of the business executives who have notably worked in other countries are of the opinion that Cambodian people are particularly dynamic and willing to learn, which requires an education system that is ready to capitalize on this potential. Some respondents also specify that they are very satisfied with young Cambodian people who have had the opportunity to study abroad for their graduate studies. They suggest more of them be encouraged and supported.

2.6. Finance and openness

Although Cambodia's banking sector is seen as improving, the level of sophistication of the local financial market is still at the infant stage. All bank executives in the survey admit that the local financial institutions fall far behind that of the international banking institutions in terms of banking products and services; the opinion is shared by 86 percent of all survey respondents. To date there is no stock exchange in Cambodia for raising equity capital. According to 80 percent of the respondents, it is rather difficult, if not impossible, to secure a bank loan with only a good business plan and no collateral.

Figure 2.6: Perspective on Finance and Openness



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

There are some barriers to limit the ability to import goods to compete in the domestic market. A bit more than half (52 percent) of the respondents indicate that tariff and non-tariff barriers restrict competition in the domestic market, even though the rating is not extreme and mainly stays close to a neutral position on the scale. Some of the respondents point to smuggling of imported goods in Cambodia as a serious problem as they find it hard to compete against smuggled goods. A respondent suggests lowering tariffs and other administrative costs to remove financial incentives for smuggling.

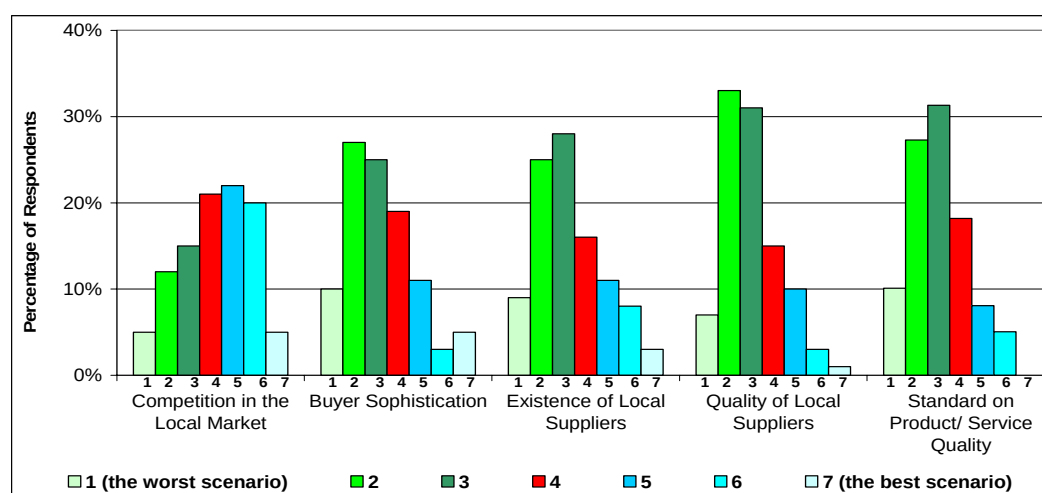
Overall, foreign ownership of companies operating in Cambodia is welcome. 61 percent of the business executives encourage foreign ownership. Interestingly, the opinion is shared by 90 per cent of the financial institution managers, while less than half of the hotel executives in the survey warm to this idea.

2.7. Domestic competition

“The guidelines are there, but there is no enforcement”

Cambodia’s local competition is concentrated overall among a small number of companies, but the dynamism of the competition depends on the type of industry. While 74 percent of the hotel managers considered local competition as quite intense with market leadership changing over time, only 9 percent of the garment manufacturers share this view. Many garment manufacturers answers are rather neutral, with a middle rating by 38 percent of the respondents. Over half (52 percent) of the garment manufacturers see only a limited competition in the local market.

Figure 2.7: Perspective on Local Competition



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

Buyers in Cambodia are generally unsophisticated. According to 62 percent of the survey respondents, the local consumers base their buying decisions simply on the lowest price. Garment manufacturers, however, are not so sure with only 45 percent of them agreeing with the overall assessment. In fact, 31 percent of them perceive the buyers to be knowledgeable, demanding, and buying based on superior performance attributes of the products. Perhaps it is just a reflection of their business operation and positioning as a “non-sweat shop” which tends to attract some sophisticated buyers from abroad.

For the other side of business operations, local suppliers are not prevalent. They are perceived to be relatively rare by 62 percent of all the respondents, and 73 percent among garment manufacturers. Besides the quantity, 71 percent of the respondents indicate that the quality of local supplies is rather limited, with little technology. Furthermore, when asked about their own situation, 88 percent of

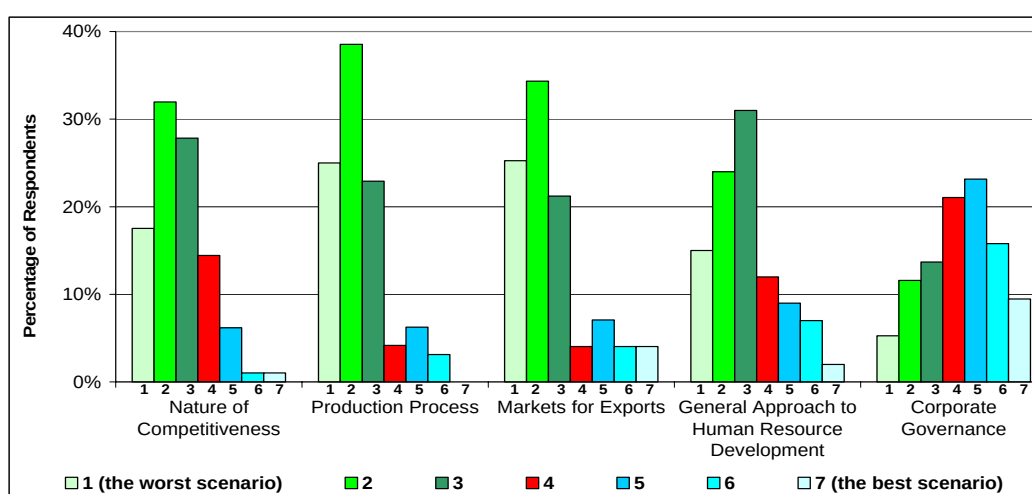
business executives claim they mostly import processing equipment and machineries they require.

In general, product and service quality in the local market is not up to par. According to 68 percent of the respondents, regulations controlling standards on products and services quality are lax or inexistent. Some of the respondents are hopeful for some change with the country's accession to the WTO. They also stress the importance of implementation of such standard quality regulations.

2.8. Company operations & strategy

Though companies in Cambodia that compete internationally seem to enjoy high corporate governance, other aspects of the company operations and strategy bear some interesting characteristics. Their competitiveness in the international market does not depend on uniqueness of their products and processes.

Figure 2.8: Perspective on Company Operation and Strategy



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

Over three quarters of the survey respondents indicate that low costs or local natural resources give their companies an advantage. More than two-thirds (70 percent) of them say exporting companies are primarily involved in natural resource extraction or production; value added activities such as product design, logistics, and after-sales services are rather limited. 80 percent of the business executives indicate their exports are limited to a small number of foreign markets, and 60 percent of them point to a relatively small export quantity that goes to neighbouring countries. The bulk of their exports are garments which amount to 85 percent of the country's total export heads for the US and European markets.

Their production process is mainly based on labour intensive methods. An overwhelming majority of the business executives admit they rely on previous

generations of process technology; they are far from conducting formal research and pioneering their own new products and processes.

The extent of marketing is limited. 70 percent of the survey participants regard marketing in the country as primitive in terms of the local companies' ability to employ advanced marketing tools and techniques of world standard. Furthermore, about two-thirds of the respondents maintain that international distribution and marketing from Cambodia takes place through foreign companies. However, almost half of the business executives believe Cambodia's firms are responsive to customers and enjoy low customer turnover. Only 26 percent think otherwise.

It seems the general approach by the companies toward development of human resources is at best lax. More than two-thirds (70 percent) in the sample see only little investment in staff training and development; they say incentives for managers are restricted to salaries without any provisions for bonuses or share options.

Otherwise, corporate governance of companies in Cambodia appears to be more positive. Half of the business executives claim investors and boards of directors exert supervision over management decisions, though 31 percent think that management has little accountability.

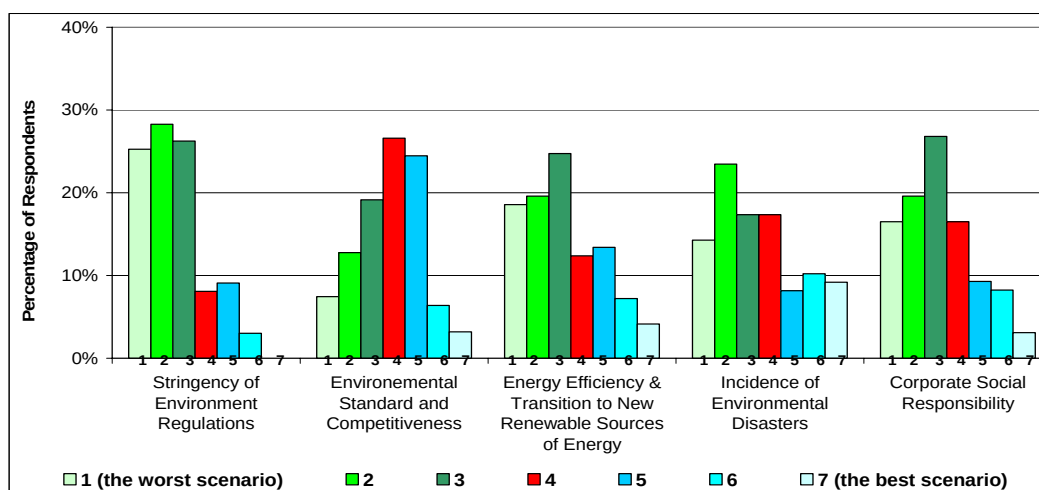
2.9. Environmental & Social Responsibility

"I have no idea if environmental standards do exist here in Cambodia, but we have our own."

Cambodia does not seem to be too environmentally and socially responsible. Its environmental regulation is loose and unpredictable. Compared to most countries, 79 percent of the respondents maintain that local regulation is lenient. And according to 63 percent of them, it is confusing and the enforcement is erratic. The compliance therefore is seen by 39 percent of the business executives as a hindrance to competitiveness, rather than a factor to improve products and processes for long term comparative advantage.

Even though Cambodia imports all the petrol and oil it needs, renewable sources of energy are not high on the priority list. Almost two-thirds of the business executives in the survey indicate energy efficiency and a transition to new and renewable sources are a low priority.

Figure 2.9: Perspective on Environmental and Social Responsibility



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

When it comes to the issue of environment, there seems to be some confusion among business operators in the country. More than half of the survey respondents maintain that incidence of environmental disasters such as floods, droughts, or severe storms severely impact their company's operations or decisions on expanding local business activities.

However, according to 69 percent of them, companies that harvest or process natural resources such as food, forest or fishery products are rarely concerned with the degradation of ecosystems. When asked about their specific industry sector, more than half of the respondents consider cleaner production, material flow management, and life cycle management of products to be quite important for their industry. In fact, more than two-thirds of garment manufacturers shared this opinion.

Corporate codes of conduct and corporate responsibility are considered rare or non-existent by 63 per cent of the respondents. Similarly, corporate environmental reporting in Cambodia is perceived as non-existent by 73 percent of the interviewees.

2.10. Impediments and Critical Reforms for Doing Business

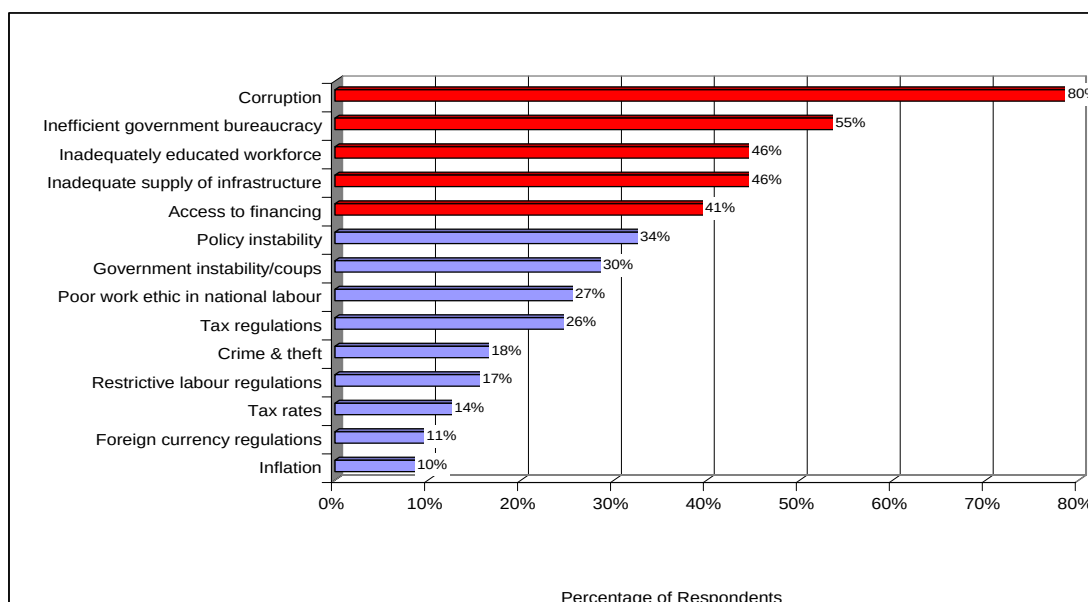
"Corruption is the most problematic issue that we face, because it really diminishes one's willingness to invest. It also adds a lot of hidden costs. It is one of the biggest, if not the biggest challenge that we face."

"The government has to curb corruption, and the rest will follow!"

Corruption has been identified as the leading constraint for doing business in Cambodia. An overwhelming 80 percent of the business executives agree with

the statement. It is followed by insufficient government bureaucracy, inadequately educated workforce, poor infrastructure and poor access to financing.

Figure 2.10: The Most Problematic Factors for Doing Business in Cambodia



Note: From a list of 14 factors, respondents were asked to select the five most problematic factors for doing business in Cambodia

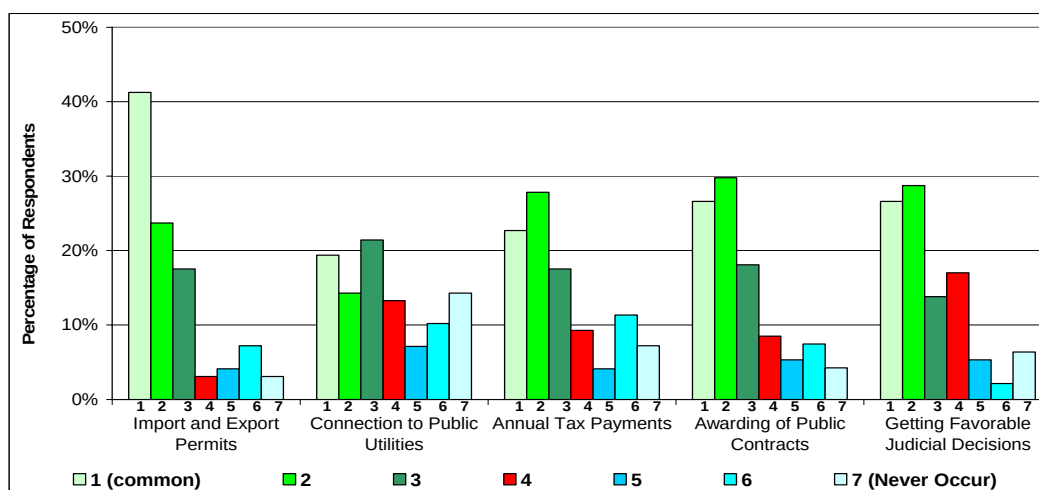
Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

Corruption appears as the greatest challenge and imposes significant costs for businesses in Cambodia. It has been strongly agreed by all the business executives in all the sector activities. If we split the sample by sectors, corruption has been cited as a most problematic factor by 73 percent of the respondents in the hotel industry to 90 percent of the respondents in the financial intermediations sector, and is the factor the most cited by all sectors. Two-thirds of the respondents have confirmed that other firms' illegal payments to influence government policies, laws or regulations impose costs and negatively affect their business.

Corrupt practices have been noted pervasive in Cambodia, more particularly in connection to receiving import and export permits and getting favorable judicial decisions and the awarding of public contracts. It is also found to be common in other business activities within the country, such as the connection to public utilities, annual tax payments.

Interestingly, government bureaucracy has been cited by all sectors. It is also remarkable that almost all of the interviewed financial institutions and banks cited insufficient government bureaucracy as a major impediment to do business in Cambodia (90 percent).

Figure 2.11: How often do corrupt practices occur?



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

Similarly, an inadequately educated workforce appears as one of the five most problematic issues in all sectors of the sample. It is the second most recurrent factor cited by the garment industry after corruption.

The lack of proper infrastructure appears as one of the five most problematic issues in all sectors of the sample. Unsurprisingly, among the survey sample, hotel managers were those who cited this factor the most frequently being one of the main impediments for doing business in Cambodia.

Access to financing appeared as a major problematic issue for all sectors. The aggregated results of the garment industry however rank this issue as the seventh most cited issue, while it appears in the top five impediments in all other sectors.

"We hope that it will change with the reforms; there should be more laws, with the WTO accession. The government knows what they have to do. The question is: will they know how to implement this?"

As an echo of business people's perception of the socio-political environment, the majority of the respondents (48 percent) considered the government's reforms as rather unsuccessful during the past 12 months, considering the political impasse following the national elections, while 20 percent perceived them as neither successful nor unsuccessful, and one third as rather successful.

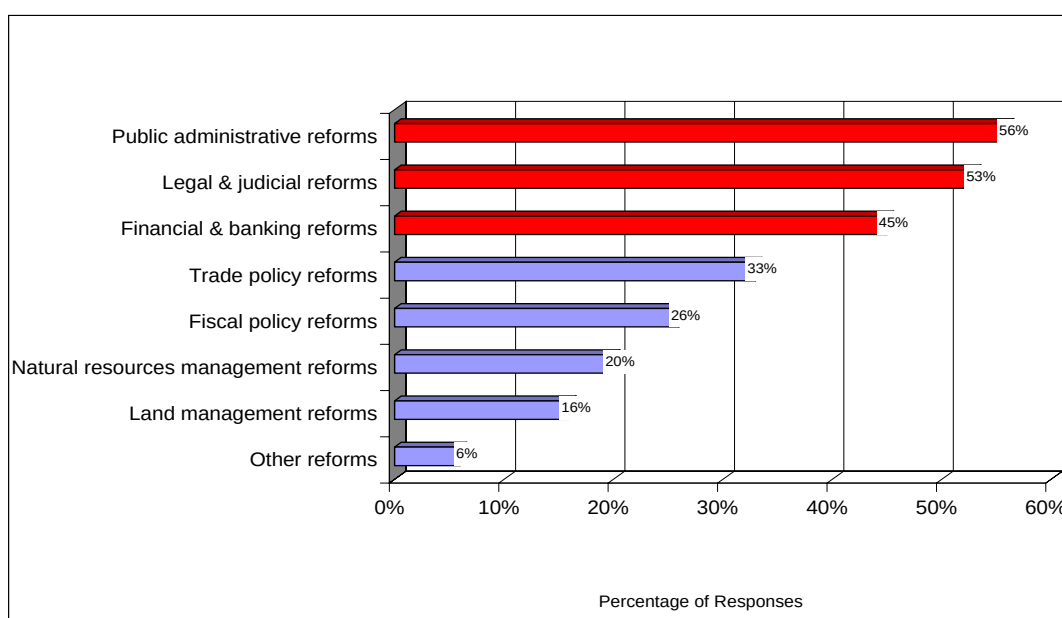
In terms of prospects for the next 12 months, the reforms were also perceived slightly more positively than when considering the past situation, considering it relatively better since the end of 2004. The business community's perceptions concerning the prospect of reforms are however sensibly more

mitigated than when considering the overall socio-political situation. Almost as many respondents had rather optimistic prospects (40 percent) as rather pessimistic ones (37 percent). The remaining 20 percent were neither optimist nor pessimistic.

The business community perceived reforms as a need that the government had integrated well in its overall strategy. The accession to the WTO was considered a positive decision that could be a momentum for reforms. Those who responded rather pessimistically or remained ambivalent shared some doubts about the effective implementation of such reforms.

"Certain reforms have to be done. But, really, it is a question of implementation. It depends on how the government is committed to execute the reforms. I believe that there is an effort. But the question is of following it through."

Figure 2.12: Critical Reforms for Business in Cambodia



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

According to the survey, the three reforms viewed as the most critical for businesses in Cambodia by the largest number of respondents are: public administrative reforms, as said by 56 percent of the interviewees; legal & judicial reforms (53 percent); financial & banking reforms (45 percent).

Interestingly, public administrative reforms and legal & judicial reforms appear to be in the top-three most critical reforms of all sectors in the sample. Financial and banking reforms are viewed as one of the three most critical reforms by all sectors but the garment industry.

Most of the garment manufacturers put trade policy reforms as one of the three most critical reforms. As an exporting industry, the garment industry has notably high expectations linked to the WTO commitments in terms of trade policy reforms. When aggregating all respondents, trade policy reforms is the fourth most cited area to be reformed.