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Issue Sheet

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TRADE DEVELOPMENT

Getting things moving! Improving Cambodia's logistics to benefit fully from regional growth

Cambodia has made great strides in promoting trade with its neighbors and raising its annual GDP growth rate to an impressive 7.3 percent in 2012; and this despite joining the ASEAN club relatively late in 1999, and then the World Trade Organization in 2004. However, one fifth of the population remains below the poverty line, and Cambodia still has a long way to go to catch up with its neighbors, Vietnam and Thailand, in terms of export success. In order to accelerate the country's economic leap forward and reduce poverty levels, the Royal Government of Cambodia has decided on a major push for export growth, with ambitious targets for exporting Cambodia's large rice surplus, and for becoming better integrated into regional production networks. These targets make good use of the country's comparative advantages in labor costs and geographical location. However, a major constraint—weak logistics performance—should be urgently addressed if it is not to limit these good intentions.

Although Cambodia lies at the center of a region experiencing high economic growth, it is not yet taking advantage of the export opportunities that do exist and the potential to leverage its low labor costs—all because of a logistics performance that lags relative to its neighbors. Cambodia's Logistics Performance Index (LPI) ranking, as measured by the World Bank, has improved in the past few years, but it still ranks below its neighbors at 101 out of 155 countries, compared with Vietnam (53) and Thailand (38). This means that Cambodia's farmers and manufacturers encounter greater difficulties in moving goods to markets; exporters face challenges in supplying overseas customers and integrating into regional production networks; and the cost of moving cargoes is higher than in neighboring countries. Equally, fast-growing middle-income countries like China, Vietnam and Thailand are constrained in their trade with Cambodia, because of the lack of capacity to handle time-sensitive goods at low risk and competitive prices.

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

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

The other major issue to be addressed is the lack of regional logistics integration that prevents Cambodia from using its central geographic location to offer competitive regional transhipment services. Cambodia and its neighbors are party to two regional agreements governing overland trade routes, but there has been a lack of implementation of those agreements to date. As a result, there has been little progress in liberalizing truck quotas at border crossings; and the small number of trucks allowed to operate inside the country contributes to a lack of competition and higher prices. Other symptoms of this lack of integration include differences between Cambodia, Thailand and Vietnam on axle-load limits, and the non-availability of a regional third-party insurance scheme. As a result, insuring goods that are in international transit by road or rail is costly and complex. The cost of unloading a container and then loading it back onto another truck on the other side of the border can add US$100-300 per container. Meanwhile, Cambodia's truck fleet has low capacity and consists largely of second-hand trucks that are unreliable and prone to break down, reducing the enthusiasm for transport companies to operate across borders.

So, what needs to be done to make Cambodian logistics cheaper, more competitive, and able to offer seamless international transit services? The most important actions would include, first, a concerted drive to eliminate the culture and practice of charging informal fees. This could be helped by developing a trade portal to give stakeholders clear information on all regulations and formal fees; and by fast-tracking the automation of customs and border management using the computerized systems designed by the United Nations Conference on Trade and Development (UNCTAD).

Second, the Government should consider playing a leading role in enhancing transport capacity and logistics services. In this regard, the Phnom Penh to Sihanoukville railway line could be upgraded and prioritized for freight; and the defunct Thai-Cambodian railway line could be reconnected. Also crucial in this regard is a government scheme to encourage truck companies to modernize their fleets by opening the market to increased competition (thereby increasing the pressure on domestic trucking companies to increase their standards), facilitating financing, allowing cheaper importation of trucks, and enforcing quality mechanisms to improve standards in truck fleets.

Third, much more needs to be done towards integrating the regional road transport market, including ratification and implementation of regional trade agreements; standardization of axle and vehicle load limits; and the introduction of a regional third-party liability insurance scheme. A currently unique scheme, which allows Minebea, a Japanese company based in Cambodia, to send trucks to and from its plants in neighboring Thailand without the need to trans-load cargo at the border, could be offered to other companies.

Fourth, a healthy spirit of competition should be encouraged between the ports in Cambodia's main trade corridors, including Sihanoukville and Phnom Penh, and Cai Mep in Vietnam. One way to do this would be to partly or fully privatize Cambodia's ports, and possibly consider listing them on Cambodia's stock exchange.

Finally, as demand grows for a sophisticated logistics sector linking special economic zones in Cambodia with value-added supply chains in neighboring countries, the Government might need to step in to encourage capacity-building for both the private sector and the regulatory authorities, so that both are well versed in the latest freight-forwarding technologies, and so that trucking companies are trained in fleet management and modernization.

The Government realizes the importance of logistics at this stage of Cambodia's development, and has identified logistics as one of the four key pillars of the new 5-year Rectangular Strategy. Once the Government starts to promote a more sophisticated and cost effective logistics system, Cambodia will be much better placed to make the most of the opportunities that now abound in terms of boosting trade, and of joining the ranks of rapidly growing middle-income countries in the region. It's time to get Cambodia's goods really moving!

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