

Export of Services and Economic Growth: Needs and Opportunities for Cambodia

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Outline

- Background
- Development of telecom and finance
- Evaluation of telecom and finance liberalization
- Implications for telecom & finance liberalization
- Survey on potential opportunities and needs for liberalization
- Conclusion and recommendations





Background

- Early liberalization process late 1980s
- Deepening liberalization from mid 1990s
- Member of ASEAN (1999), GMS-CBTA (2001), WTO (2004)
- ASEAN Framework (AFTA-CEPT & AFAS)
- WTO Framework (GATT & GATS)

Note: ASEAN: Association of South-East Asian Nations; GMS-CBTA: Greater-Mekong Sub-region – Cross Border Transport Agreement; AFTA: ASEAN Free Trade Agreement; CEPT: Common Effective Preferential Tariff; AFAS: ASEAN Framework Agreement on Services; GATT: General Agreement on Tariffs and Trade; GATS: General Agreement on Trade in Services



Development of telecom sector

- Development by services

Services	Fixed line	Mobile phone	Internet service
No. of operators (2008)	3	6	12
Year of opening	1993	1992	1997
Type of ownership	JV & State	Joint Ventures	JV & State
New licenses last 3yrs	None	3	6

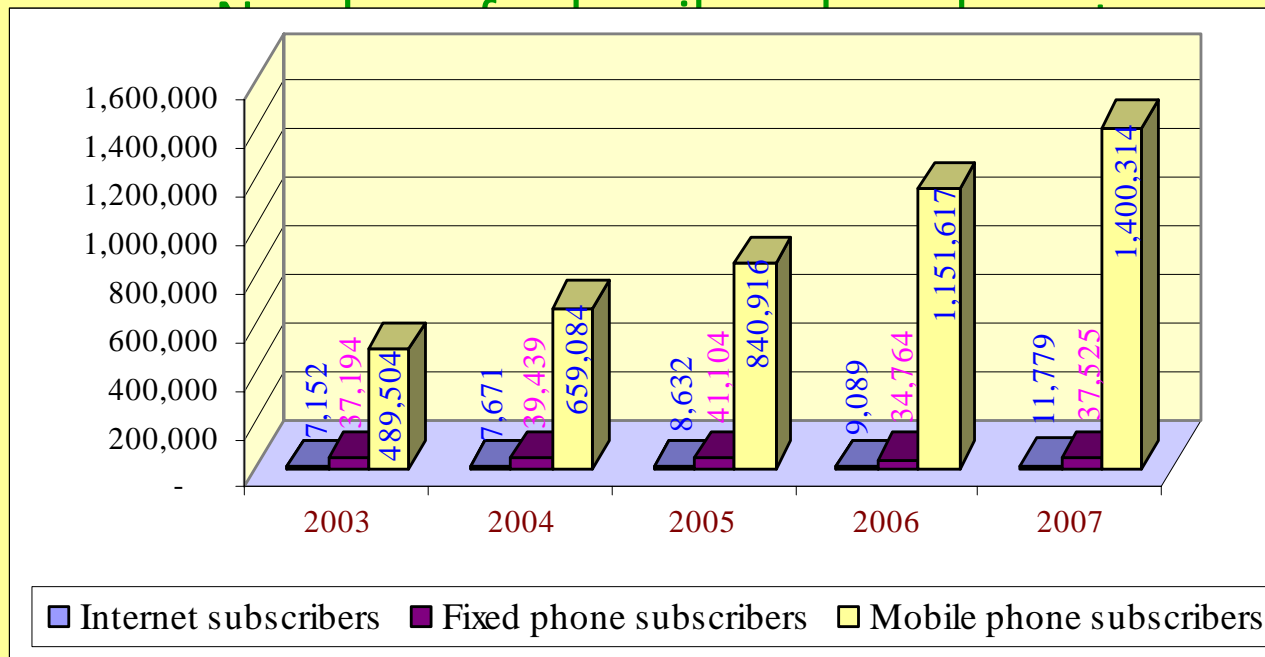
Sources: Ministry of Posts & Telecommunication, 2008

- Separation of Telecom Cambodia (fixed) from MPTC to be independent public enterprise in January 2006
- Two mobile companies opened in 2007 alone
- Remarkable expansion of internet sector





Development of telecom sector



Sources: Ministry of Posts & Telecommunication, 2008

- High cost of infrastructure in fixed line and internet services
- High fixed line and internet tariff charges
- Data as of early 2008: mobile subscribers reach 2.8 million





Development of telecom sector

- Market shares by number of subscribers

Fixed phone	Subscribers	Market share
Telecom Cambodia	22,000	54%
Camintel	13,000	32%
Camshin	5,576	14%
Total	40,576	100%

Mobile phone	Subscribers	Market share
CamGSM	2,000,000	69%
Telekom Malaysia	377,072	13%
Camshin	466,000	16%
Applifone	22,000	1%
CADCOMNS	20,597	1%
Total	2,885,669	100%

- Public enterprise, a dominant operator which used to be under control of MPTC before 2006 in fixed line

- A joint venture (private local & foreign) a dominant operator started in April 1997

Sources: Ministry of Posts & Telecommunication, as of early 2008





Development of telecom sector

- **Regulatory environment**
- Absence of independent regulator, MPTC acts as regulator & policymaker and used to be operator as of January 2006
- Absence of telecom law, yet in the process of approval
- Regulatory regime is relatively *ad hoc* as no regulatory framework that binds MPTC's actions
- Lack of information preventing MPTC from regulating efficiently
- No clear set of licensing criteria (all operators are required to enter into a business arrangement with the government, MPTC, under different conditions)
- Anti-competitive practices go unchecked

Note: Status of key regulations & policy: i) Telecom Law (at the parliament); ii) Sub-decrees on standard network and service licenses and sub-decree on interconnection regulation, along with E-commerce law (drafting); iii) Universal service obligation, Universal service fund and sector competition policy (under preparation)



Development of telecom sector

- **Regulatory environment**
- No policy restrictions on new domestic & foreign entry
- Permit of private & foreign ownership; foreign ownership could reach 100 percent in the real practice
- Permit of private negotiation on interconnection between parties in the same network and cross network
- Interconnection agreements are not required to be made public.
- End-user tariffs are allowed to be determined by market forces.
- Refundable deposit of \$US 100,000 to get operating license
- ISPs are allowed to build their own networks and to own or lease their own international data gateways.

Note: Status of key regulations & policy: i) Telecom Law (at the parliament); ii) Sub-decrees on standard network and service licenses and sub-decree on interconnection regulation, along with E-commerce law (drafting); iii) Universal service obligation, Universal service fund and sector competition policy (under preparation)



Development of banking & insurance sectors

- Development by services

Service institutions	Commercial banks	Specialized banks	Insurance
No. of banks/institutions (2007)	17	7	6
Year of opening	early 1990s	early 1990s	1992
Type of ownership	JV & Private	JV & Private & State	JV & Private
New licenses last 3yrs	2	3	2

Sources: National Bank of Cambodia & Ministry of Economy and Finance, 2008

- Bank restructuring in 2001 with the increase in minimum paid-up capital from USD 5 million to USD 13 million (USD 30 million in late 2008)
- Privatization of Foreign Trade Bank on 28 October 2005
- Adoption of law on the establishment of insurance business (1992) and law on insurance (2000)





Development of banking and insurance sectors

- Development of key banking indicators

Indicators	2004	2005	2006	2007
Deposits (million USD)	828.57	953.28	1388.84	2435.80
Loans (million USD)	451.58	569.78	874.14	1555.35
Non-performing loan (mil. USD)	46.65	45.20	82.99	53.52
Non-performing loan to total loa	10.3%	7.9%	9.5%	3.4%
Total assets (million USD)	1171.73	1352.04	1884.34	3300.52
Total asset to GDP (%)	22	22	26	41
Return on assets	1.2	1.8	2.8	2.8
Return on equity	5.7	7.9	14.2	16.3

Sources: National Bank of Cambodia, 2007

- Significant growth of loan and deposit as a result of comprehensive bank restructure in 2001
- Decreasing non performing loan & increasing returns





Development of banking and insurance sectors

- Market structures by loans and deposits

Market for deposits (20 banks)			Market for loans (25 banks)		
Banks	Shares	RoE	Banks	Shares	RoE
1. Canadia	18.9%	15.8%	1. Canadia	49.1%	15.8%
2. Acleda	16.4%	9.9%	2. Cambodia Public	25.1%	8.4%
3. ANZ Royal	13.9%	1.7%	3. Acleda	20.5%	9.9%
4. Cambodia Public	13.3%	8.4%	4. ANZ Royal	9.8%	1.7%
5. Foreign Trade	6.7%	11.9%	5. Vattanac	5.2%	15.1%
6. Cambodia	5.7%	6.6%	6. Foreign Trade	3.7%	11.9%

Sources: National Bank of Cambodia, 2008

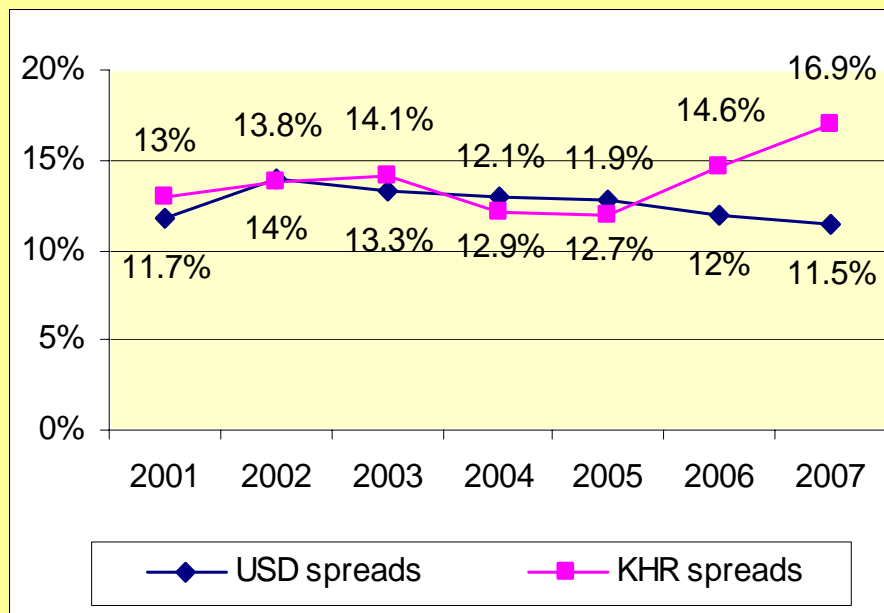
- Deposits are concentrated in four large banks, and loans in three large banks
- Bank risk/failure depends on performance of the big four
- Best performer (Canadia) in terms of RoE is a 100% local private, followed by a Malaysian bank (Cambodia Public)





Development of banking and insurance sectors

- Spreads of 12-month interest rates on loan & deposit



- Loan and deposit spreads of both local and US currencies remain high, reflecting expensive cost of borrowing

Sources: National Bank of Cambodia, 2008





Development of Banking Sector

- **Banking regulatory environment**
- Two-tier banking system, National Bank of Cambodia acts as a regulator and used to involve in commercial bank service before 2000 the time when Foreign Trade Bank was separated from NBC
- Limited bank supervisory capacities & undesired level of enforcement of prudential regulations
- Gradual development of regulatory infrastructures, drafting and approving relevant and necessary regulations
- Responsive to commercial and specialized banks through frequent consultations, i.e. doubling reserve requirement from 8 to 16% in July 2008 tackling the fear of real estate price bubble
- Sector competition appears to be strong in terms of product diversification.





Development of Banking Sector

- **Banking regulatory environment**
- No restrictions on capital inflow both short- and long-term
- No restrictions on new entry of banks, domestic & foreign ones
- Permit of legal form of establishments: subsidiaries, branches, representative offices
- Wide range of services are allowed, except for insurance service
- Permit of cross-border lending & deposit with foreign banks
- Permit of private and foreign ownership, foreign ownership could reach 100 percent
- Minimum capital requirement and business plan required to obtain license





Development of banking and insurance sectors

- Market structures by net premium incomes in USD

Year	Categories	ASIA	CAMINCO	FORTE	CAMPU	INFINITY
2007	Auto	180,603.32	901,150.29	775,370.53	89,693.90	55,334.34
	Fire	71,630.49	24,144.30	1,138,920.00	54,698.52	11,989.33
	Marine	15,053.37	5,695.52	149,444.23	2,784.03	635.51
	Engineering	71,226.45	4,289.69	143,251.49	5,841.53	1,125.20
	Others	144,851.01	100,650.04	2,138,873.78	85,294.13	80,792.63
	Total	483,364.64	1,035,929.84	4,345,860.03	238,312.11	149,877.01
	Market share	7.73%	16.57%	69.50%	3.81%	2.40%
2006	Auto	137,469.66	721,853.80	637,413.52	-	-
	Fire	56,935	20,203.53	734,932	-	-
	Marine	21,463.90	7,772.88	122,999.81	-	-
	Engineering	57,486.53	-6,368.48	-2,276.67	-	-
	Others	-273,355.00	-743,461.54	-1,493,067.94	-	-
	Total	394,647.72	803,906.47	2,989,967.43		
	Market share	9%	19%	72%	-	-

- The sector is still at its embryonic stage with limited non-life insurance products.
- The market is concentrated in auto, fire and marine insurance.

Sources: Ministry of Economy and Finance, 2007





Development of insurance sector

- **Insurance regulatory environment**
- Ministry of Economy and Finance is a regulator after 2000, and it is unlikely that the regulator is independent from the executive branch.
- Prior to 2000, a state-owned CAMINCO was a regulator, operator and re-insurer and is now a public enterprise.
- Cambodia Re., a public-private enterprise, acts as re-insurer from early 2002 taking 20% of insurance firm's premium writing.
- It has been claimed that the industry has weak insurance supervisory framework, substandard prudential regulations and low capacity of insurance supervisory staff.
- There has been gradual development of legal infrastructures and insurance professionals.





Development of insurance sector

- **Insurance regulatory environment**
- No policy restrictions on new entry of insurance providers, both private and foreign
- Permit of legal forms establishment, subsidiaries, branches and representative offices
- Permit of a range of insurance services, except for life insurance
- Foreign insurance companies are given memberships in domestic underwriting associations.
- Residents cannot purchase cross-border insurance services, such as life, medical, property and cargo insurance
- Permit of private and foreign ownership (49%)
- Minimum capital and documents required to obtain license



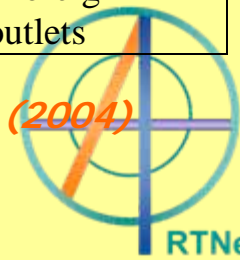


Evaluation of telecom & finance openness

- Components of TRI for telecom and finance sectors

Telecommunications	Finance
<ol style="list-style-type: none"> 1. Fixed line services 2. Mobile operation services 3. Internet services <ol style="list-style-type: none"> a. licensing of fixed, mobile and internet services b. form of commercial presence c. foreign equity participation permitted d. joint venture arrangements e. third party resale of leased line f. end user tariff g. regulation on network interconnection h. market structure i. temporary movement of people 	<ol style="list-style-type: none"> 1. Banking services <ol style="list-style-type: none"> a. licensing of banks b. form of commercial presence c. foreign equity participation permitted d. restriction on certain types of services by foreign e. joint venture arrangement f.. permanent movement of foreign executives g. raising & lending funds by foreign banks h. other restrictions 2. Insurance services <ol style="list-style-type: none"> a. licensing of insurance companies b, c, d, e as above f.. cross border supply by insurance companies g. limitation on foreign suppliers h. scope of raising fund by domestic & foreign i. expanding the number of insurance outlets

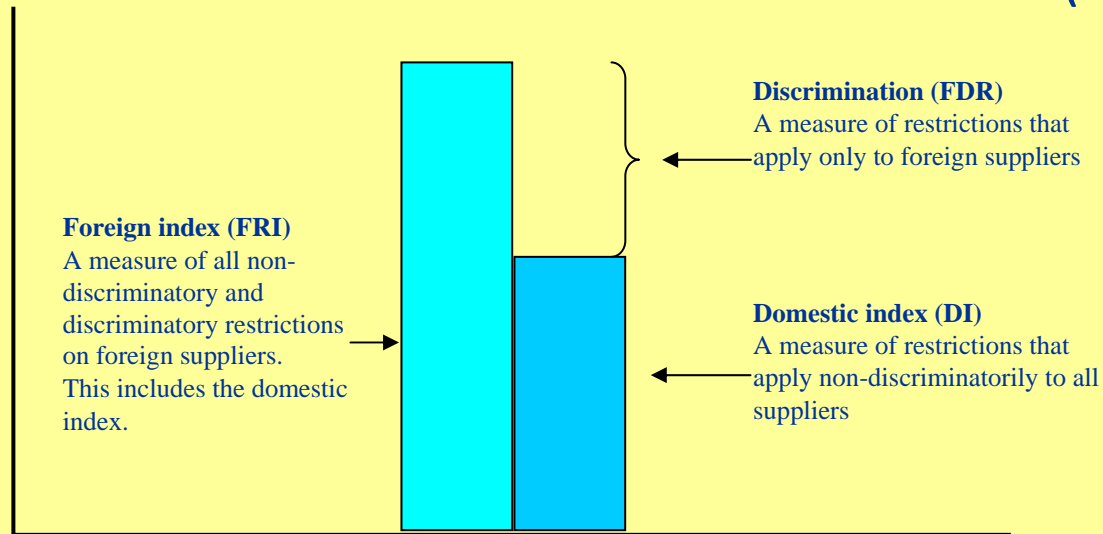
Source: Kimura et al. (2003), Findlay and Warren (2002) and Deardorff and Stern (2004)





Evaluation of telecom & finance openness

- Measurement of trade restriction index (TRI/FRI)



Source: Kimura et al. (2003), Findlay and Warren (2002) and Deardorff and Stern (2004)

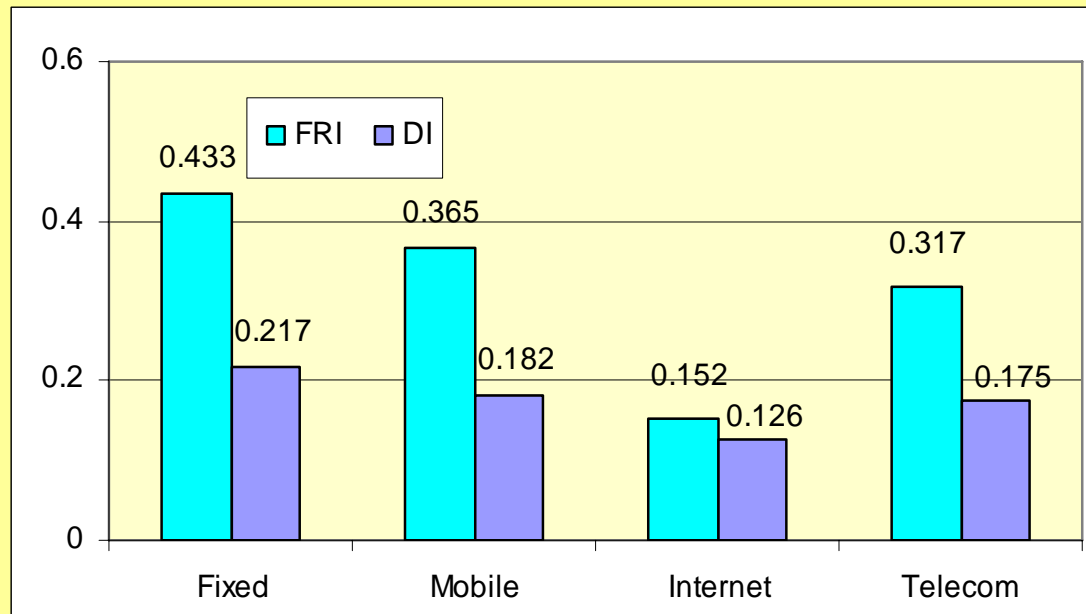
- FRI, a measure of all non-discriminatory and discriminatory restriction on foreign suppliers
- DI, a difference between foreign restriction index (FRI) and foreign discriminatory index (FDR)





Evaluation of telecom & finance openness

- Telecom trade restrictiveness index in 2008



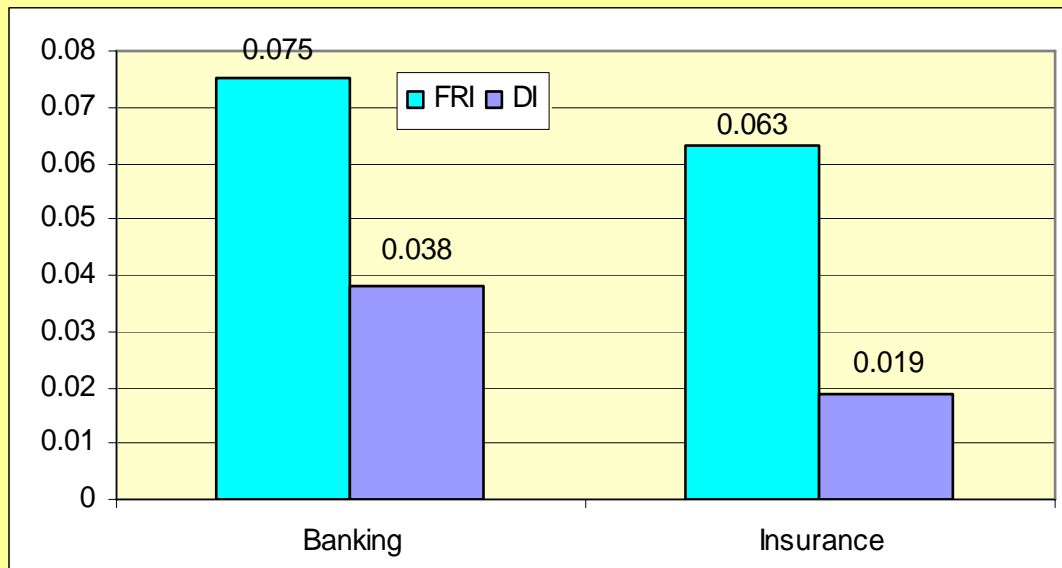
- Sector discrimination between domestic and foreign operators appears significant, particularly in fixed line & mobile services.
- Despite almost a decade of liberalization, the sector openness remains relatively restrictive.

Sources: Author's calculation based on interview with regulator





Evaluation of telecom & finance openness



Sources: Author's calculation based on interview with regulators

- Restriction against foreign participation in both banking and insurance sector is extremely low.
- This reflects significant improvement of existing rules and the introduction outward-oriented regulations and the practices of free market economy.





Implications for telecom & finance liberalization

- **Telecom liberalization**
- Drawing significant amount of foreign investment
- Increasing number of service suppliers
- Significant decline in costs of international call (USD 3.8/mn in 1997 to USD 0.30/mn in 2008), fixed phone installation, mobile domestic cross-network
- Decline in cost of internet access, albeit still high
- **Finance liberalization**
- Attracting significant amount of foreign investment
- Increasing number of service suppliers
- Product diversification in the banking sector
- Increased competition among domestic and new/existing foreign banks improves service quality although high borrowing cost remains





Potential opportunities & needs for liberalization

- **Sample selection**
- 66 firms from such services as fixed & mobile phone, internet, banking and insurance and commodity importers/exporters were selected from Yellow Page.
- Populations of fixed, mobile phone, internet, banking and insurance were selected because of their small population.
- 30 percent of the 100 import-export firms in Phnom Penh, compiled from Yellow Page, was randomly selected.
- Face-to-face interview & questionnaire completion by interviewees
- Low responding rate at 28 percent (17 firms)





Potential opportunities & needs for liberalization

- First priority for liberalization under GATS

Services	First priority for privatization
Telecom	On-line info. & data transfer
	Electronic mail
	Voice telephone
	Facsimile services
Communication	Radio & television service
	Radio & television transmission
	Sound recording
Financial services	life, accident, health insurance
	Lending of all types
	Financial leasing
	Non-life insurance

Sources: CDRI survey of 17 firms, August 2008





Potential opportunities & needs for liberalization

- Transparency in governance procedures and regulations

Sectors	Availability & Access to regulations	Info. changes of regulations	Private consultation
Telecom: Fixed line	4	2	4
Telecom: Mobile	4	2	4
Telecom: Internet	4	2	2
Banking services	4	4	4
Insurance services	4	3	4

Sources: CDRI survey of 17 firms, August 2008

- Fees, charges and irregular payments

Sectors	Fees & charges reasonable	Irregular payments required
Telecom: Fixed line	4	3
Telecom: Mobile	4	3
Telecom: Internet	2	3
Banking services	4	3
Insurance services	4	3

Sources: CDRI survey of 17 firms, August 2008

Note: 1: strongly disagree; 3: no opinion; 5: strongly agree





Potential opportunities & needs for liberalization

- Level of competence of professionals in the sectors

Services	Level of competence
Fixed line engineers/Technicians	Average
Mobile servic technicians	Low
Internet service technicians	Average
Banking professionals	Average
Insurance professionals	Low
Trade-related association professionals	Average
Government agencies: Telecom	Average
Government agencies: Banking	Average
Government agencies: Insurance	Low

Sources: CDRI survey of 17 firms, August 2008





Potential opportunities & needs for liberalization

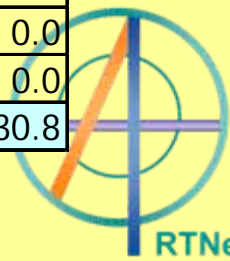
Categories	About the same %	Better %	Much better %
Quality of infrastructure: fixed line	18.8	68.8	0
Quality of infrastructure: mobile	20.0	60.0	20.0
Quality of infrastructure: internet	13.3	52.9	29.4
Banking facility	11.8	52.9	29.4
Insurance services	25.0	50.0	12.5
Regulatory regime: Telecom	46.7	53.3	0.0
Regulatory regime: Banking	33.3	46.7	20.0
Regulatory regime: Insurance	42.9	42.9	0.0
Good governance & corruption	46.7	33.3	0.0
Overall business environment	13.3	66.7	0.0

Sources: CDRI survey of 17 firms, August 2008

• Problematic service sectors (%)

	Fifth most problematic	Fourth most problematic	Third most problematic	Second most problematic	Most problematic
Fixed line telephone	20.0	20.0	33.3	20.0	6.7
Mobile phone	40.0	20.0	6.7	26.7	6.7
Internet	6.7	26.7	46.7	20.0	0.0
Banking	6.7	26.7	46.7	20.0	0.0
Insurance	15.4	30.8	15.4	7.7	30.8

Sources: CDRI survey of 17 firms, August 2008





Potential opportunities & needs for liberalization

	Least	Less	Medium	More	Most
Improve quality of services	0.0	0.0	6.7	26.7	66.7
Reduction in prices	0.0	0.0	20.0	40.0	40.0
Efficiency in production/distribution	0.0	6.7	13.3	13.3	66.7
Reduction in input cost	6.7	0.0	40.0	20.0	33.3
Enhanced competition	0.0	0.0	6.7	53.3	40.0
Increase entrepreneurship	6.7	0.0	13.3	60.0	20.0
Increase in employment	7.1	0.0	14.3	35.7	42.9
Transfer of technology	0.0	0.0	13.3	60.0	26.7
Increase government revenue	0.0	0.0	20.0	46.7	33.3
Decrease effectiveness NBC policy	0.0	7.1	35.7	21.4	35.7
Decline domestic firm Mkt share	13.3	20.0	46.7	13.3	6.7
Attract foreign direct investment	0.0	0.0	13.3	53.3	33.3
Improve social welfare	6.7	13.3	6.7	40.0	33.3
Impose social costs	6.7	13.3	20.0	40.0	20.0

Sources: CDRI survey of 17 firms, August 2008





Conclusion

- A decade of liberalization has brought about significant changes in terms of improved service cost and quality and marked expansion of the sectors.
- Improved regulatory environment is evident in all sectors, albeit differing paces.
- Less restriction on foreign participation in the domestic market.
- Services firms in the sample confirm the overall improvement in those sectors and proposed priority services for further negotiation/liberalization under GATS-WTO.





Policy recommendations

- **Telecommunication sector**
- No delay in adopting Telecom Law, sub-decrees on standard service and network licenses and sector competition policy
- Strict implementation on one company one license practice in order to license network and service operations separately
- Public access to procedures of interconnection negotiation and arrangement among operators
- Tariff determination by private operators on competitive basis
- Frequent consultation among regulator, operators and consumer groups in order to ensure quality and cost improvement and consumer protection
- Urgent formation of independent and capable regulator following the approval of Telecom Law





Policy recommendations

- Financial sector, banking & insurance
- Urgent need for building capacity of bank and insurance supervisory staff
- Speedy formulation and introduction of prudential regulations covering internal control system (NBC) and external auditors in line with international standard
- Introduction of new set of required conditions (under WTO scope) for new entrants to averse the current poor corporate governance of small scale banks
- Strict enforcement of compulsory disclosure of critical information of banks and insurance companies
- Introducing common and standard financial report for all insurers
- Frequent consultations among regulator and operators



An aerial photograph of the Preah Vihear temple complex, a series of ancient stone structures built on a high, rocky plateau. The temple is surrounded by lush green vegetation and overlooks a vast, blue lake. The sky is clear and blue. The text "Thank You for Your Kind Attention!" is overlaid in a large, cyan font across the center of the image.

Thank You for Your Kind
Attention!

Panoramic view of the temple of Preah Vihear