

# **ESTABLISHING LEGAL AND INSTITUTIONAL BASIS FOR EFFICIENT DRY PORTS DEVELOPMENT IN SOUTH EAST ASIA**

## **A Case Study of Efficient Logistics Facilities Development in the Kingdom of Cambodia**

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### **Abstract**

Socio-economic conditions of Cambodia have been changed dramatically during the past decades. The economic structure has shifted from an agriculture-oriented economy to an industry and service-oriented economy. GDP per capita has increased to exceed over USD1,300 per capita and the economy has recently graduated from a lower income country to a lower middle-income country. The population growth has reached 16 million persons and a good percentage of them living or in the process of migrating to urban areas. With this growth have come new challenges to mobility in the country. Trade volume as well as transport volume has been significantly increasing. With a steady population growth and a pressure from a rapid rate of urbanization, the Royal Government of Cambodia (RGC) is constantly seeking ways to introduce important measurements to sustain the economic growth, and to improve the well-being of its citizens.

In addition to the tangible economic benefits of the ASEAN Community, Cambodia has been making efforts to improve its transport and logistics infrastructure to establish efficient and practical connectivity framework to facilitate industrial relocations from neighboring countries and China. Cambodia is geographically well-suited to be a logistics hub for Southeast Asia. It is part of a dynamic global supply chains involving various countries in the Mekong Region with a vast sub-regional transport network already in place. Enhanced transport connectivity, inside the country and intra-ASEAN, is required for Cambodia to secure adequate growth, to facilitate economies of agglomeration and integrated production networks, to enhance intra-regional trade, to attract foreign investment, and to promote deeper ties with other ASEAN countries. Upgrading transport infrastructure and strengthening the overland linkages would spur domestic economic development and enhance the mobility of people, goods and services within the country. Smart logistics development, as a complementary measure, should contribute to the socio-economic growth of the country through productivity improvement and competitiveness of the logistics sector.

Currently Cambodia is still dependent on light industries, like garments and footwear, which rely totally on low production costs and trade preferences with developed countries. Although the shift of industrial structure towards more value-added and skilled oriented has begun, it may take several more years before the transition is fully completed. As such, the light industry will continue to take a leading role in the employment generation and exports during the transition period. Reducing logistics costs is indispensable for the survival of the light industry in Cambodia. As such, logistics development and industrial development are an inseparable pair for ensuring inclusion in the global value chain. The logistics sector should provide with the following values to the new manufacturing industry: (i) Lower cost and stable time of cross-border transport to maintain investment value of Cambodia; (ii) More choices of transport modes; and (iii) More choices and sophisticated logistics services.

In order to reduce logistics costs in Cambodia, establishment of national logistics complexes are highly recommended. In Cambodia, logistics facilities such as Warehouses, ICDs, and dry ports are not

sufficient and scattered in each region operated through private initiatives, and therefore, an efficient transportation system has not been achieved. The development of multimodal (or intermodal) transport facilities in Cambodia is still at a nascent stage. In general, dry ports are inland intermodal terminal directly connected by road or rail to a sea/inland waterway ports and operating as a center for the transshipment of cargo. Regarding connectivity between modes, while there is a rail dry port in Phnom Penh, its performance seems to be not effective. As a result, Cambodia lacks connectivity between each logistics complex, unable to meet the demands from the altered generation. This unreasonable logistics system causes unfavorable outcomes including an increase in logistics costs and traffic volume. In particular, Cambodia depends on imports for most industrial products and construction materials and therefore, its economic structure leads to an increase in market price from increased logistics costs. Thus, efforts for the advancement of a logistics system by constructing logistics complexes are especially required.

Moreover, as a matter of principle, all the CIQ checks can be done at the dry port. In addition to their role in cargo transshipment, dry ports may also include facilities for storage/warehouse (goods, containers and empty containers), consolidation of goods (such as CFS/LCL), and maintenance of trucks and trailers. Therefore, dry ports can speed the flow of cargo between ships and major land transportation networks, creating a more central distribution point. Moreover, dry ports can improve the movement of imports and exports, moving the time-consuming sorting and processing of containers inland away from congested seaports. However, in Cambodia, the warehouse business remains underdeveloped. The dry ports in Cambodia have main functions of custom clearance for international freight. The dry port development and management are under General Department of Custom and Exercise, Ministry of Economy and Finance. According to Law on Customs<sup>27</sup> promulgated on 20 July 2007, customs may authorize the removal of the goods referred to in Article 10 from the customs clearance area prior to the payment of duties and taxes and fees, under customs control and after the fulfillment of customs formalities, for the purposes of: i) placing in customs temporary storage, ii) placing in customs bonded warehouse, iii) further transportation within or through the Customs Territory to a destination. Further discussion on the law regarding licensing for establishment and operation of Customs Temporary Storage and bounded warehouse are made throughout the paper.

In Cambodia, there are numbers of dry ports that are mainly owned by trucking companies. There are more than 10 dry ports in Phnom Penh, and almost all of them are located south-west part of the city around the Phnom Penh International Airport. There are a few dry ports in Sihanoukville, Bavet and Poipet including the one being under construction. A few of them offer LCL services, however, each dry port has its niche market and trading partners and the competition among dry ports is not so intense. Some shippers consider dry ports services in Cambodia are expensive. While logistics volumes are expected to increase drastically, there will be a significant need to make urban logistics more time and cost efficient. Key issues in the dry port sector in Cambodia relate to the following: (i) there are a limited number of dry ports with specific niche routes/markets and they are directly linked with trucking companies/services, therefore, there is limited competition among them; (ii) dry port services including warehouse operations, CFS services, and container storage are expensive compared with neighboring countries; (iii) available services are either limited or fragmented. For example, LCL services is available only for certain destinations (e.g. China and USA) and certain customers (e.g. trucking companies' customers); (iv) the linkages between logistics hubs towards multi-modal transport are still weak. Moreover, there are no truck terminals and distribution functions towards last-miles delivery are limited. In such situation, in order to secure safe and reliable logistics services, a new comprehensive law for logistics service companies including warehouse and dry port businesses is recommended.

Phnom Penh Capital City, the first and foremost prioritized region, is the capital area in which population and economic infrastructure are highly concentrated and requires efficient process for a logistics volume.

The existing dry ports in Phnom Penh offer services ranging from cargo handling, warehousing, container storage yards, loading of containers, etc. They also offer freight forwarding, customs clearance and transportation services. The operators of the dry port handle both export and import cargoes. The import cargoes are for consumption of Phnom Penh city and for value addition in the nearby industrial areas. The export cargoes originate from Phnom Penh SEZs and other industrial set ups in the vicinity of the city. The need for Phnom Penh Logistics Complex has been consequently identified based on the following considerations: i) there is an increasing demand for inland container handling depots and intermodal connectivity, ii) inefficiencies in the existing value chain are leading to high logistics costs that needs to be addressed; and iii) urbanization pressure from Phnom Penh city is restricting cargo movements and reducing access to existing dry ports. The holistic approach in line with the of Master Plan for Phnom Penh Land Use should be adopted, taking into consideration the truck regulations/restrictions in the city and the development of Ring Roads. There will be large capex requirements for implementing this program – including the construction of logistics complexes.

The proposed Logistics Complex Development Program has been proposed in the Draft Logistics Master Plan to smooth out goods movements in local and capital logistics hubs. Since a logistics complex is not a facility in which construction and operation are separated the way in which roads are, if an efficient logistics system has not been established, it may become an isolated facility from the market. Therefore, in order to achieve successful construction and operation of logistics complexes, they should be implemented as the PPP (Public-Private Partnerships) project.

With the recent establishment of the National Logistics Council (NLC) and National Logistics Steering Committee (NLSC), the RGC has taken the first step to accelerate the development and reform of the logistics sector. Going forward, it will be key for the General Department of Logistics, as the Secretariat of NLC and NLSC, to be able to manage, administer, coordinate and monitor the implementation of the Logistics Master Plan being developed. Logistics regulatory framework requires strengthening. As discussed above, it is acknowledged that logistics hubs in Cambodia are currently underdeveloped with narrow gateways and inefficient/insufficient operations. Crossing the border is very costly in Cambodia and government related operations are not suitable to meet business demands. Limitation of existing legal and institutional basis of dry ports efficiency in the country has been highlighted in the draft Cambodia Logistics Master Plan. In order to secure safe and reliable logistics services, a new comprehensive law for logistics service companies including warehouse and dry port businesses is therefore strongly recommended.