



NEWSLETTER



KAS CAMBODIA OFFICE

SPECIAL EDITION
May 2015

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Cambodia's Booming Construction Sector

Local and foreign investment up, lack of regulations a concern

The construction and real estate industry has become the second-largest contributor to the national GDP of Cambodia. Local and foreign investments are increasing as competition between banks lower the interest rates for loans. However, a lack of regulations in this sector remains a big issue, especially regarding safety standards for workers.

After the garment sector and before the tourism sector, construction was the second-largest driver for GDP growth in 2014, accounting for 8 percent of the Cambodian GDP.¹ This is in line with the improvement of living standards in Cambodia and a strong demand for housing. The main investments in the construction sector have been undertaken in large construction projects such as condominiums and residential projects, as well as hotels, factories, warehouses, rice mills and offices. Moreover, the import of construction equipment increased from 2014 to 2015. Investments and property acquisitions come mainly from Taiwan, Japan, China and ASEAN member states. For 2015, the Ministry of Land Management, Urban Planning and Construction gave permits to 1,478 construction projects worth more than \$2 billion.² Main drivers of this boom are optimism and confidence in the Cambodian economy, which is, according to the World Bank, expected to grow 7,3 percent in 2015 and 7,5 percent in 2016.³ Moreover, strong foreign direct investment positively influences the growth of the construction sector, along with growing credit for construction projects that puts pressure on banks and lowers interest rates.



The Cambodia Daily (20 November 2014): *Construction Workers' Lives Hang in the Balance.*

¹ The Phnom Penh Post, 3 January 2015.

² The Phnom Penh Post, 15 November 2014.

³ The World Bank, 2015.

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www.kas.dewww.kas.de/kambodscha**Wage rises in line with the sector's growth**

Although there is a lack of union involvement in the construction sector, the wages of construction workers have been rising in recent years, resulting in an increase of 30 percent from August 2013 to the August 2014.⁴ This is due to the raising wages in other sectors such as the garment industry, as well as the high demand for skilled workers to meet the demands of the market.



The Phnom Penh Post (15 November 2014): *Permits given for \$2b of projects this year.*

By comparing the garment and construction sector, the latter shows a certain degree of stability with less labor disputes. Even without negotiations on minimum wages, skilled workers can expect \$8 per day, which is \$2 more than the average wage in other sectors.⁵ Yet, considering the deteriorating work place safety on construction sites the improvement in wages fade into the background. The

construction work is considered one of the most dangerous kinds of labor. Building sites lack in safety conditions and workers are not provided with safety equipment such as hard helmets, harness belts, and safety boots. Moreover, most of the workers live on building sites under poor conditions. Although employers have to sign the construction permit of the Land Management Ministry, which includes the duty of care to the safety of workers, enforcement is significantly lacking. The International Labor Organization estimates in its *2011 to 2015 Decent Work Country Program*, that "at least 1,500 workers died in 2009 of occupational accidents – roughly four people a day".⁶ Foreign and local nongovernmental organizations urge to address the poor working conditions in the construction sector with a ministerial proclamation or *prakas*, which could enforce the 1997 Labor Law of Cambodia. But until now, there has been no action taken by the Ministry of Labor, which is responsible for the safety of workers in every sector. Nevertheless, according to the Ministry of Land Management, the government plans to draft a law in 2015 which holds construction firms liable in the case of building accidents.⁷

European investment in Cambodia?

While investments in the real estate industry from Asian countries is booming, European investors have been rather hesitant to invest. "In Cambodia, laws and regulations are not yet harmonized, may be incomplete or not thoroughly implement-

⁴ The Phnom Penh Post, 28 March 2015.

⁵ The Phnom Penh Post, 28 March 2015.

⁶ The Cambodia Daily, 20 November 2014.

⁷ The Cambodia Daily, 2 October 2014.

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ed", says Guillaume Massin, managing director of law firm DFDL, when explaining the reason for the absence of European investors, who lack confidence in the Cambodian construction sector.⁸ Despite these shortcomings, two European construction companies, the French *Saint-Gobain* and the multinational *Schneider Electric*, signed a joint agreement in April 2015 to expand their distribution in Cambodia.⁹ After establishing their businesses in Thailand, they now see potential in the Kingdom's construction sector. These two could be the first in a number of European companies coming to Cambodia, giving hope that with them the standard of safety regulations will improve. Moreover, long-term development plans for Phnom Penh and the infrastructure in and outside the capital are issues which need to be addressed by the government in the future. For 2015, Thierry Loustau, CEO of the Construction firm LBL International, expects further developments of factories, offices, hotels and residential compounds as well as condominium towers of high value.¹⁰

For Further Information

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⁸ The Phnom Penh Post, 7 April 2015.

⁹ The Phnom Penh Post, 3 January 2015.

¹⁰ The Phnom Penh Post, 3 January 2015.

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