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Cambodia's Looming Political and Social Crisis

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Background of SRP International Group Ltd. In Cambodia

SRP International Group Ltd. (SRP) is an investment, and advisory firm focused on developing opportunities in the frontier markets of Southeast Asia. The industry sectors company focuses in commercial reforestation, agriculture and manufacturing. It engages in start-up operations as well as support of other companies seeking to establish operations in these markets.

SRP has been active in Cambodia for over 13 years. Beginning with feasibility studies in 1999 and 2000. SRP's first nursery operations were established 2002 employing over 200 people at its peak. The first sites were planted from 2003 through 2006. In 2008, SRP International formed a joint venture with Capricorn Forest Fund K/S of Copenhagen Denmark. The joint venture Monsoon Timber K/S owns Grandis Timber Limited in Cambodia. This venture marked the first investment of institutional capital (in this cash Danish and Swedish pension fund money) in Cambodia. In 2009, Grandis Timber completed the negotiation of a 9,820 hectare economic land concession (ELC) in Kompong Speu province. This site is currently under development under a commercial reforestation plan to establish it as a teak plantation, employing an average of 800 persons. Through close cooperation with villagers, and officials of both local and national government, Grandis Timber is one of the few ELC's in Cambodia that does not have significant land tenure conflicts with the local populations. The policies and procedures have been reviewed by multiple NGO's and international aid agencies and are considered some of the best practices in the region. These processes have been reviewed by the German aid agency GIZ and the Ministry of Land Management and Urban Planning. Many of the basic elements can be found in governments land titling program of 2011 and 2012.

From 2008 until 2012, I served as the CEO of Grandis Timber and remain on the board of directors of Monsoon Timber K/S, its parent company, in which SRP is a shareholder. Over the past 14 years in Cambodia I have been directly involved in a wide range of the issues that challenge Cambodia today, including foreign direct investment, land tenure and labor. I have directly interfaced with government officials from the national from numerous ministries, as well as provincial district, commune and village level officials.

Since 2011, I have served on the board of governors of the American Chamber of Commerce in Cambodia (AMCHAM), and am the founding member of the Chambers Corporate Social Responsibility (CSR) Committee. My testimony is as a resident of Cambodia and as well as an investor with over 80% of my personal net worth invested in the country.

Demographics and Employment: Cambodia's Looming Social Crisis?

Cambodia's total population 15.2 million (CIA Fact Book 2013 Estimate). Because of high mortality rates and low fertility rates during the Khmer Rouge period and the periods of civil conflict that followed, the country has experienced a baby boom beginning in roughly 1980 and continues today. With a median age of 23 and a birth rate of 2.72 children/woman, (well above the 2.10 children/woman considered replacement rate), the effects of this baby boom can be expected to continue for the next the decade.

Today 54% of the population is 24 years old or below. In 2011, the Cambodian workforce was estimated to be 7.9 million (CIA Fact Book 2011 Estimate). With an estimated 300,000 new entrants

in the workforce, SRP estimates the current workforce as 8.8 million. Based on the sustained birth rate annual new entrants could grow the 400,000 over the next 15 years.

Cambodia's skewed demographics present specific economic and social challenges. A minimum 3.4% annual nominal GDP growth is required to maintain current productivity per worker of US\$1620/worker, and will challenge GDP per capita growth. While the overall GDP growth rate has been steady near 7% annually for the past few years, youth unemployment is a growing issue and has potential to create social instability. Historically, approximately 54% of the workforce has entered into subsistence farming (which had a close correlation with deforestation rates). This translates to roughly 150,000 jobs annually and 75,000 ha annually. In the future however, the agriculture sector, as it currently exists, will not be able to absorb these new workers. Growth in the industry and service sectors is becoming more critical.

Business Environment in Cambodia

The Cambodian government has long recognized the need for foreign direct investment (FDI) to rebuild its economy. To attract foreign investment, the government passed the first Law on Investment in 1993 with amendment in 2003. The law includes guarantees of:

- 100% foreign ownership for most industries;
- Non-discrimination of foreign businesses
- No nationalization of assets or property
- No price controls
- No restriction on currency transfers

Further, the 2003 amendments provided for the establishment of the Council for Development of Cambodia (CDC) to serve as a One-Stop shop for foreign investment. Under CDC's Qualified Investment Project (QIP) status, the government has developed an aggressive investment incentive package which includes:

- Tax holidays; and
- Import tariff exemptions for capital goods and equipment

This has created one of the most business friendly environments in the region. It is not without its issues with the lack of rule of law and corruption key. The government has made first steps toward improving these issues through:

- Recent establishment of the National Arbitration Council (NAC), as an alternative for businesses to the Cambodian court system;
 - NAC includes foreign arbitration experts and membership of the local and foreign business associations.
- Passage of the 2011 Anti-Corruption Law;
 - Ministries have begun the process of posting what were informal facilitation fees (now illegal under the Anti-Corruption Law) as normal tariffs for standard ministry functions

Cambodia has long had its Government Private Sector Forum which provides a venue for direct interaction and communication between the government and the private sector. This system is often cited internationally as one of the best in the region.

Both the government and the international community recognize the need for Cambodia to diversify its economy beyond the garment sector which currently represents approximately 80% of the country's exports. Efforts are being made to attract higher tech industries and progress is being made in the electronics and food processing sectors.

Activities of the US Embassy in Cambodia

The US has historically had a dynamic diplomatic mission in Cambodia. However, under Ambassador William Todd, the mission has significantly increased its visibility and its engagement outside the embassy walls. In the business community, this engagement takes the form of near daily communication with the staff of the mission's economic section, and regular meetings and dialogue directly with the Ambassador. Three examples that I have personally been involved in or have first-hand knowledge of are:

US Ambassadors Youth Council

With over half of the Cambodian population under 25, the hearts and minds of the Cambodian youth are key to the long term relations between the US and Cambodia. Ambassador Todd immediately recognized the importance of engaging the kingdom's young people and formed the US Ambassador's Youth Council. The purpose of the council is to cultivate young Cambodian leaders around the country, engage Cambodian youth on topics of interest, and generate feedback on U.S. policy and programs in Cambodia. The 15 members of the council were selected from over 350 applicants and represent a broad cross section of youth from around the country.

The ambassador meets with the Youth Council monthly to discuss a wide variety of issues including, freedom of information and expression, the political process, corruption, education and job opportunities.

Jobs are a key concern of Cambodia's youth and as a result, one of the first projects the council initiated is an internship program in cooperation with the AMCHAM. This program has so far involved over 40 students and recent graduates who first participated in training in preparation of CV's and interviewing skills and then are being placed for 3 to 6 months with western companies doing business in Cambodia. The program provides quality work experience and prepares the interns for what to expect when entering the workforce. I serve as an advisor to the council for this program.

Other activities of the council have included organized country-wide screenings, beginning at the end of March, of the critically acclaimed film "Half the Sky" to raise youth awareness on the consequences of trafficking in persons, and engaged in team-building activities with some high school students from the U.S. Embassy community who shared an American youth perspective on the challenges Cambodian youth face.

Human Rights Advisory Council

Cambodia is home to over 3000 NGO's. The purpose of the Human Rights Advisory Council is to work to focus these diverse organizations onto three to four key themes, making the message to the Cambodian government more consistent, of a higher intensity and more effective.

Bridge Project

Shortly after his arrival in Cambodia, Ambassador Todd and his staff engaged in extended dialogue with AMCHAM about the issues and challenges in Cambodia that are inhibiting US trade and investment in Cambodia and development of at least a first tangible step toward addressing the issue. The among the key issues identified and first steps toward jointly identified solutions were:

- Lack of rule of law
 - Support of the National Arbitration Council
- Corruption
 - USFCPA Compliance Seminars
- Gaps in skill sets and capacity of local employees
 - Planned conference on vocation and technical education
- Technical skills and understanding among ministerial working level staff
 - Enhanced participation in the joint US/Singapore Third Country Training Program (TCTP)

American Chamber of Commerce in Cambodia (AMCHAM) Human Rights Related Activities

The purpose of the AMCHAM is the promotion of US business interests in Cambodia. With regard to human rights,

- AMCHAM has historically taken the lead in regular (usually annual) seminars regarding compliance with USFCPA and has expanded this program to include similar laws enacted by the United Kingdom and Australia,
- Nearly 2 years ago, AMCHAM established a Corporate Social Responsibility (CSR) Committee. Promotion of Corporate Social Responsibility (CSR) among the members of the American Cambodia Business Council and its members through the following activities:
 - Proposal , coordination and execution of CSR activities of American Cambodia Business Council as an organization;
 - Serve as a point of contact and liaison between Non-Government Organizations and International Aid Agencies and the American Cambodia Business Council members fostering enhanced communication and cooperation;
 - Serve as an interface with other business / commerce advocacy organizations for CSR Issues;
 - Provide a forum for the discussion and exchange of ideas of CSR topics and issues;
 - Raise the awareness CSR activities of the AMCHAM member companies ;
 - Complete all of the above within the context of advocacy of mutual benefit to all stakeholders involved.
- Activities over the past two years have included:
 - Seminar supporting the United Nations Human Rights Office in the role out of the UN Guiding Principles for Business and Human Right;
 - Regular presentations by member companies of their CSR programs; and

- Development of a group of speakers from AMCHAM member companies to present CSR concepts and examples at local university seminars.

AMCHAM encourages its members to take a leadership role in the promotion of human right in the business community.

Comparison of China's Aid and Investment in Cambodia

China is very active in Cambodia both in terms of foreign aid and business investment. This factor proves especially challenging for the US in the promotion of human rights. Whereas US aid typically has stipulations for improvements in human rights, the Chinese are spending more aid money in Cambodia and human rights improvements are simply not a Chinese requirement of the Cambodian Government. Further, the Chinese stand ready to fill any aid gaps created by suspension or termination of aid by the US for human rights issues.

Whereas, the US has a policy in Cambodia of “no bricks and mortar”, the Chinese are only “bricks and mortar” focusing on dams, roads, bridges and other highly visible infrastructure projects.

Consideration should be given to two policy changes:

- Reallocation of a portion of the aid to tangible infrastructure projects with higher visibility to the average Cambodian; and
- Reallocation to significantly increase spending on programs promoting democracy, facilitating the voice of the Cambodian population to hold the government accountable on human rights issues.

Chinese investors are active in infrastructure and agriculture sectors, and within each of these sectors human rights issues often arise. Corruption, which is a serious issue for US investors and businesses, is much less of a concern for the Chinese, who are not governed by an equivalent of the US Foreign Corrupt Practices Act (USFCPA). This issue makes it challenging for US companies to compete. Further, it undermines the initial efforts the government is making to address corruption. Within the infrastructure sector, multiple dams are being built which involve displacement of villagers and have potentially significant negative environmental impact. Many of the well-publicized land disputes on ELC's are direct Chinese investments or local partnerships backed by Chinese capital. Whereas this is a serious concern to US and other western investors, it is of minimal concern to Chinese investors in Cambodia.

Because of the role of the Chinese, the US should stay engaged both in terms of foreign aid. Whatever aid the US withdraws, the Chinese stand ready to fill the gap, with no human rights requirements attached.

Role of US Investment and Trade in Championing Human Rights

US investment and trade has been at the forefront of promotion of human rights in Cambodia. Beginning with the Clinton Administration's 1999 increase in Cambodia's garment sector quota linked to labor law development ,enforcement and the cooperation with ILO and other labor related organizations through the “Better Factories” and “Better Work“ programs. This set program made

the largest set of economic and human rights gains to date. It should serve as a model of the effectiveness of a “carrot” over a “stick” in efforts to drive change.

US customers and shareholders have a tradition of holding companies accountable to meeting international human rights and environmental standards, whether the national government in any given country does or not. With regard to labor and environmental issues, being locally legal is not necessarily sufficient. This accountability is critical in frontier economies such as Cambodia with weak and/or ineffective government institutions. Fostering US investment in Cambodia, as companies are seeking alternatives to China, provides a key point of leverage for improving human rights in the areas linked to labor and the environment.

Conclusion

This election cycle has been calmer than any previous. Political violence has been nearly non-existent since the official campaigning started late last month, even in the provinces where before it was prevalent. Campaigning convoys of the two main political parties pass each other in the street without incident. Sometimes they are rallying in the same parks, again without incidents. While not perfection, this is progress. Both parties feel they need to campaign, they are not taking voters for granted.

There are human rights issues in Cambodia. Cambodia has an active and dynamic NGO and international aid community and a free and uninhibited press that publish articles critical of the government daily, and documenting these issues. My question is, “what has the government gained by this?”. While it is expected that the CPP will win a majority necessary to form a government, it will lose seat in parliament, while having a strong record on economic growth and development. I take this as a sign that human rights are moving up the pyramid of priorities for Cambodians and that is the another sign of a maturing democracy.

Improving the economy is one of the most effective tools in addressing the root causes of the human rights issues that exist. To effect human rights, the US government and business should engage rather than shy away from opportunities in Cambodia. A mature democratic process is a political manifestation of self-actualization. Requisites for his maturing are individual self-esteem, respect for others, problem solving, a sense of belonging, and respect and faith in the democratic process. To take a page from Abraham Maslow’s playbook, as long as a majority of the Cambodian people are concerned about issues at the of his pyramid (such as food, shelter and physical security), higher level self-actualization issues necessary to mature their democratic institutions and process will receive a lower level of attention. But tangible progress is emerging.

Context is important. After years of civil war, stability, the type of stability taken for granted in our mature democracy, is a high priority to the Cambodian population. The portions of any society that have little, have little to lose in the event of civil strife and conflict. In that situation, the society as a whole, must rely on its government to maintain stability, and that situation provides the opportunity for abuse of power and human rights issues, in the name of maintenance of stability. Today, a majority of Cambodians believe the CPP is offering the best alternative for stability; a stability the Cambodian population does not take for granted. However, because of the aforementioned issues, it is expected that fewer Cambodians believe this than before and that will lead to the loss of seats for the CPP in the parliament. That is democracy at work.

The business climate in Cambodia provides an opportunity to provide participative economic growth that can help the average Cambodian up Maslow's pyramid. Stable employment, a liveable wage address the base issues and frees and individual to contemplate higher level issues. This will raise the expectations her or she has of the government.

US companies are looking for alternatives to China, (and now Bangladesh following the tragedies there) for labor intensive manufacturing. Cambodia has the untapped and underutilized human potential to meet that need. This is an opportunity for US business to invest and support and emerging democracy that has demonstrated, if not a perfect human rights record, one substantially better than that of China.

Cambodia is at a crossroads. Cambodian/US relations are at a crossroads. History has provided the political leadership of both countries with an opportunity. The opportunity is whether this event will mark the beginning of a period of constructive dialogue, enhanced economic cooperation and trade, with the resulting improved human rights, and ultimate the transition from an emerging democracy to a mature democracy; or period during which Cambodia moves closer into the China's sphere of influence, within which neither human rights or democracy will be a priority. Continued foreign aid, and enhanced economic investment trade and cooperation provide one of the best opportunities following the upcoming elections.