

## **Private Investors in Phnom Penh (Cambodia) and the Reconfiguration of the City Center in Relation to the Periphery since the 1990s**

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In 2006, models of luxury apartments equipped with high-end furnishings appeared in the heart of Phnom Penh, aimed at prospective new buyers in Cambodia and part of major urban development taking place in the city. This small Asian capital of 1.5 million,<sup>1</sup> which is the main point of entry for foreign direct investments (FDIs) into the country, was in the grip of a frenetic property bubble. The economy grew 11% annually from 2005 to mid-2008, which created 40,000 jobs in the construction sector and attracted total investment worth over 3.2 billion USD. Is this ongoing urban transformation the result of a metropolization process, that is to say “urban changes linked to globalization” (Ghorra-Gobin 2003, 3)? In fact, “globalization affects not only big cities, it can also affect daily life in outlying communities on the margins of the main economic centers” (Ghorra-Gobin 2003, 3).

Because of the city’s modest size, the center of Phnom Penh is “where things happen” (Reynaud 1992, 600). The diked-up and embanked areas along the Mekong’s alluvial plain, crisscrossed by drainage systems, contain the highest population densities, and are the hub of political and economic activity. Although marginal spaces continued to be a feature of the urban landscape (Pierdet 2008b), the central districts were the first to witness upheaval, starting from 2004, with the advent of large-scale real estate development financed by FDIs. The peripheral areas, in contrast to the city center, having no embankments, are prone to flooding, with no proper drainage systems. These areas have a lower population density, and economic activity mainly consists of water-intensive farming. However, since 2005, these areas have also been affected by speculative FDIs. With the proliferation of construction sites

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<sup>1</sup> The National Institute of Statistics, 2008. The urban population is estimated at around 2.61 million, from Cambodia’s total population of 13.4.

in “new cities,” the “forsaken outskirts” are gradually being “swallowed up” by the city center (Reynaud 1981, 62).

The influx of speculative FDIs since 2004 has thus encouraged, among other things, the construction of high-rise office buildings and condominiums, which have changed the city’s skyline, and the spreading of new towns in the outlying areas. The boundaries between the center and outskirts of this still-small capital city have consequently become more blurred, in keeping with globalization. The reshaping of the city center in relation to the outlying areas in Phnom Penh, which in Southeast Asia is synonymous with metropolization (Goldblum and Franck 2007), is now underway, at the expense of the city’s poorest residents. Although while still very much in its infancy, metropolization actually ground to a halt in 2008.<sup>2</sup>

Who, then, are the key players in Phnom Penh’s changing urban landscape? To what extent can we argue that Cambodian authorities have hastened these changes? What does the transformation of the space involve, both in the city center and the outlying areas, and what are the consequences for the quality of life for the residents?

## **1 The Key Players and Mechanisms in Phnom Penh’s Changing Economy and Real Estate Sector**

### ***1.1 Cambodia’s Unbalanced Investment Distribution***

With the arrival of United Nations staff in late 1991<sup>3</sup> and the reopening of embassies, Cambodia’s capital and main cities witnessed rapid changes in urban development, and an increase in urban construction density within interstitial spaces. Construction sites appeared throughout the country. Following the elections of May 1993 and the formation of a new government, the key players in the country’s reconstruction (bilateral or multilateral investors, NGOs, etc.) proliferated, and this necessitated an organization capable of coordinating the aid that was pouring into the country. Through Article 3 of the Law on

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2 This analysis is based on interviews and field work carried out in 2003–2004, and in spring 2008.

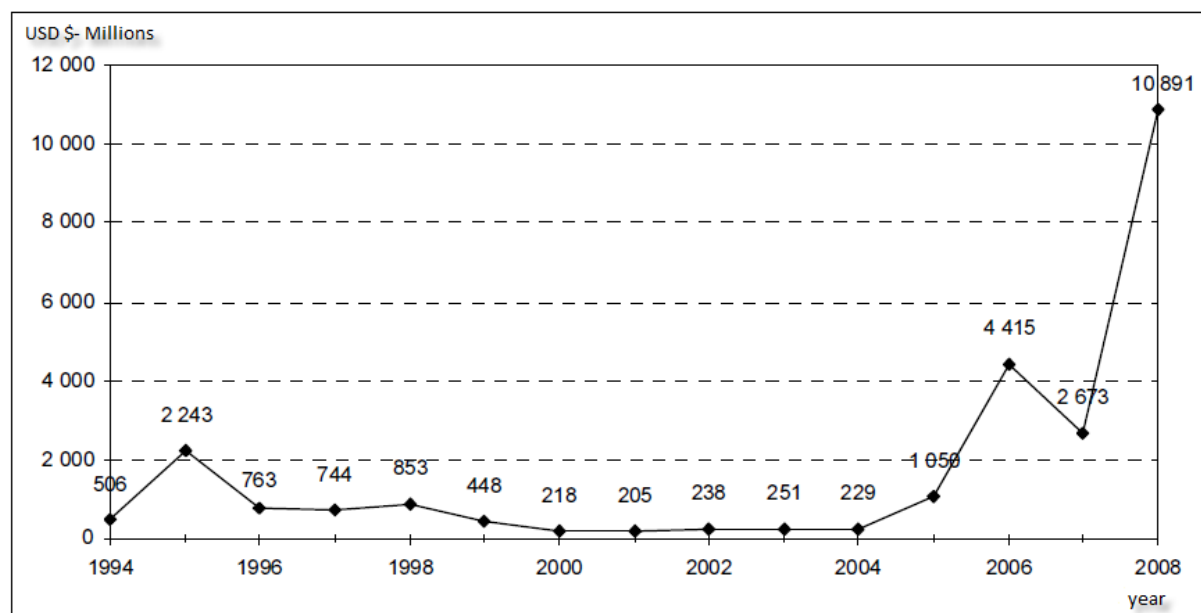
3 UNTAC (United Nations Transitional Authority in Cambodia), in Cambodia November 1991–October 1993, organized new elections and oversaw the formation of a new government.

Investments (August 5, 1994), the royal government set up the Cambodia Development Council (CDC) to be a “one-stop shop” for investors. Chaired by Prime Minister Hun Sen, it comprised the key decision makers on the country’s reconstruction and development.

The CDC coordinates the rehabilitation, development, and investment operations of donor nations, international institutions, and NGOs, and those of Cambodian ministries. Within the CDC, the Cambodian Rehabilitation and Development Board (CRDB) mainly oversees public investments, especially reconstruction, and infrastructure investments. In order to encourage such investments, the Cambodian Investment Board (CIB) welcomes private investors, using the principle of a “generalized system of preferences” (GSP) as per the World Trade Organization (WTO).<sup>4</sup> Decisions on investment projects worth over 50 million USD have been handed over to the Council of Ministers. Since February 2005, provincial and municipal subcommittees have had the task of registering investments worth less than 2 million USD, which complicates the evaluation of small projects.

Despite the various benefits the CDC granted to investors, including tax breaks, FDI inflows to Cambodia are far below that recorded by most other Asian nations, with the exception of Laos and Myanmar.

**Fig. 1 – FDI Approved by CDC (1994–2008)**



## CDC, 2009

<sup>4</sup> Cambodia became a member of ASEAN (Association of Southeast Asian Nations) on April 30, 1999, and became a WTO member on September 11, 2003.

One year after this law was voted in, investments approved by the CDC rose to 2.2 billion USD (CDC/JICA<sup>5</sup> 2007, 6–7). Previously, over the 1995–2005 decade, total FDI amounted to only 7.3 billion USD, 31% of which was from Malaysia, and 26% from Singapore. Korean investments made up only 5.3% of this amount. The amounts approved annually fell after the political crisis of 1997, and the financial crisis of 1998 (Table 1). Since 2000, they have varied between 200 and 250 billion USD. Further, these figures are a considerable overestimate of the actual amounts invested, especially for 2008. The cost of projects is often reduced following the CDC's approval. Of these FDIs, 34.8% have been directed toward real estate projects in the tourism sector, ahead of manufactured goods including textiles, which comprised 34.6%. Cambodia reached the milestone of two million tourists in 2007 (CDC-CIB 2008).

Phnom Penh received the majority of these investments, which produced roughly 30% of Cambodia's GDP, or 1.5 billion USD, in 2004, and nearly 3 billion USD in 2008 (CDC 2009). Cambodia's capital city attracts investors because infrastructure in the rest of the country is inadequate, and there is a lack of economic diversification. However, Phnom Penh is far less attractive than other Southeast Asian cities such as competitors Bangkok or Singapore. Until 2005, Cambodia had no productive economic sectors, because investment was targeted toward real estate, far outnumbering investment in the manufacturing sector. And as is the case in many developing countries, textile and clothing were the main drivers of industrialization. However, since January 1, 2005, China, India, and Vietnam, which are also WTO members, have been in direct competition with Cambodia.<sup>6</sup> According to the CDC, in 2008 around 28,000 jobs were lost in Cambodia's textile sector.

The Royal Government's sub-decree of 2005 created 16 special economic zones (SEZs), in order to attract FDI to the border provinces, to Phnom Penh, and to the deep-water port of Sihanoukville (CDC and JICA 2007, 34–37).<sup>7</sup> These SEZs are managed by a committee headed by the Prime Minister. This reduces red tape and bureaucracy, while ensuring the provision of basic services and infrastructure. The investors are not taxed on their profits for

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<sup>5</sup> Japan International Cooperation Agency.

<sup>6</sup> The Multifiber Arrangement of 1974 introduced a system of quotas. Since 2005, the overall system, which resulted from the General Agreement on Tariffs and Trade of 1986, followed by the Agreement on Textiles and Clothing of 1995, has been in place, paving the way for free trade.

<sup>7</sup> The CDC provided updated data on investments in the SEZs.

at least three years, and benefit from very low local labor costs. The Phnom Penh SEZ (365 hectares) is 15 kilometers southwest of the capital, along the RN 4, which leads to Sihanoukville. Construction was started in July 2006.

## ***1.2 Land and Real Estate Speculation***

There is little organization within the banking sector, and there are few possibilities for financial investment. Banks still regard Cambodia as too much of a risk for them to issue loans over five years at low interest rates, despite a significant increase in bank deposits since 2006.<sup>8</sup> In 2002, households had to finance 70% of goods and the interest rate was 10% annually (OCIC 2003 and 2009). In 2004, Canadia Bank introduced 3- to 12-year mortgage loans in order to finance its own real estate projects. But only 3% of private investment was financed by bank loans, and the guarantees required by banks exceeded their financial commitment. In 2008, the total value of Canadia Bank's mortgage loans reached 88 million USD, which was still low despite being almost double the amount of 2007, and interest rates varied between 7.2 and 13.2%. Thus, the banking sector does not contribute to the country's economic development. Business start-ups rely on self-financing, or loans from anyone willing to lend—including extended family members, storekeepers, informal group savings, etc.

Most households, and even companies, prefer to invest their savings in urban land. Despite their insecurity, investments are directed toward small building projects in the city center or outlying areas. This partly absorbs some of the demographic growth (increasing at 7,000 households annually) and partly makes up for the high number of poorly housed families and a 20-year shortfall in residential construction. However there are still too few residential projects to accommodate the large numbers of inadequately housed families. Most Cambodians cannot afford housing in the formal sector because there are no traditional bank loans (Danchin 2005). In 2004, investment in real estate and land in Phnom Penh was valued at 500 million USD. According to the Ministry of Land Management, these values reached 1.2 billion USD in 2006, and 3.2 billion USD in 2007. The number of construction permits doubled between 2000 and 2005. Housing and tourist hotels were the main recipients of investment. A mixed-use area is under development northwest of the city center, near *beng* (lake) Pong Peai (Fig. 2); textile factories, temporary and more permanent

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<sup>8</sup> According to the CDC, after growing by 47% in 2006, and 61% in 2007, their value reached 1 billion USD in 2008.

housing, and small shops. The more far-flung areas with no embankments, prone to flooding and lacking facilities, do not benefit from these operations.

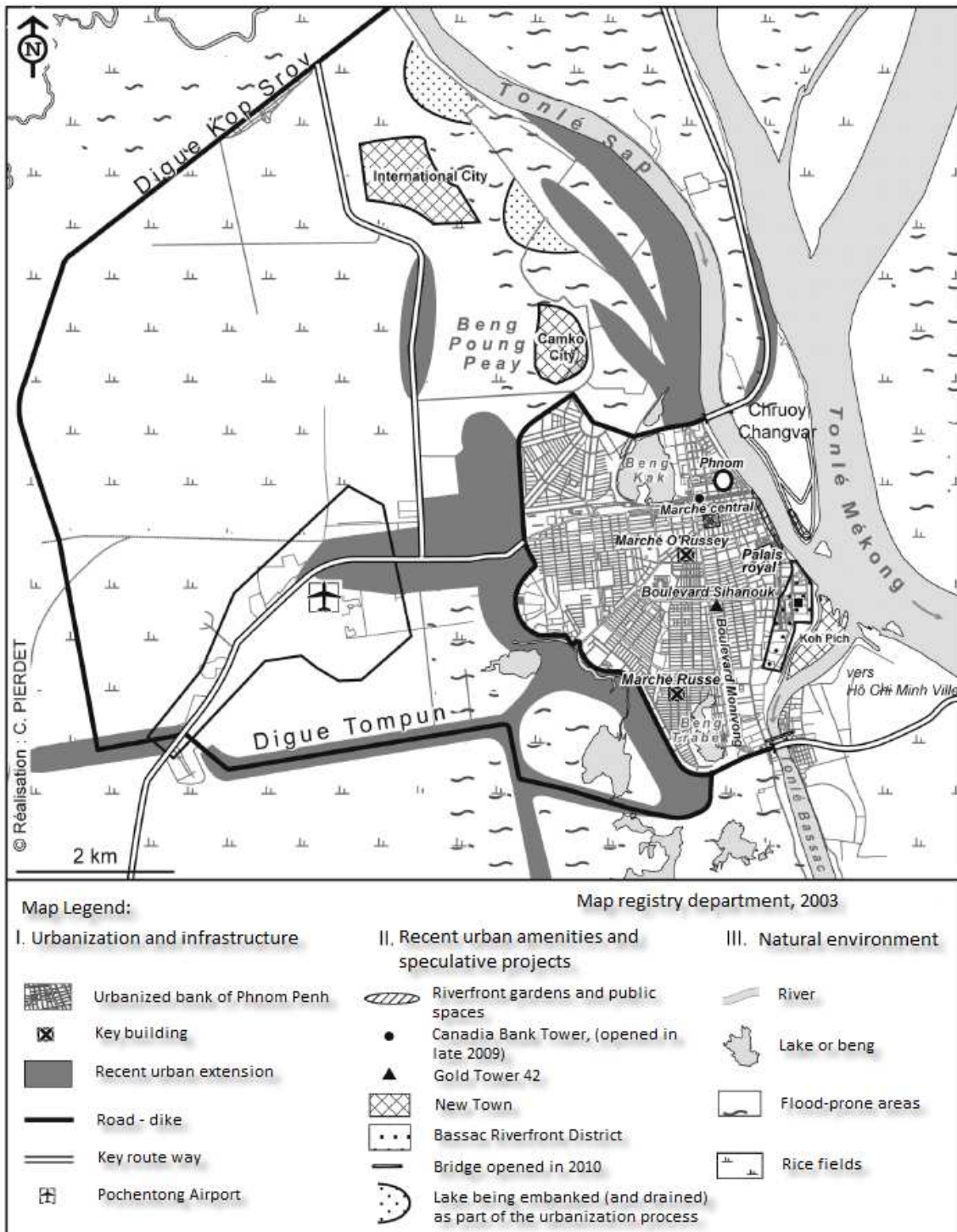
From 2005 to 2008, speculative real estate investment paid for office buildings, shopping malls, and luxury residential projects in or near the city center (Fig. 2). The city's skyline was transformed, gradually filling in with high-rise tower blocks. Cambodians, who love gambling, enthusiastically took up property speculation. They teamed up with family members or friends to buy land, then selling before having paid the full purchase price at a much higher price, splitting the profits among themselves. In this way, they got a return on their invested savings without taking out a bank loan.

This Cambodian love affair with land speculation lasted until mid-2008. Lacking financial resources, Phnom Penh's municipal government hardly invested in the property market, but did sequester some land against investors. With no laws regulating land use, by 2008 the government was grappling with near anarchical urban development practices; compounded by the fact that Phnom Penh's natural growth made the surrounding countryside highly attractive, demographic pressure led to strong competition between various development sectors: housing, industry, infrastructure, etc. (Durand-Lasserve 2005, 36). Property speculation priced most Cambodians out of the market. Areas of informal housing have grown by about 5,000 units per year in Phnom Penh. The campaign against poverty,<sup>9</sup> which was launched in 1996, has had only limited impact on the forced evictions practiced by investors in the central districts.

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9 UNDP, Phnom Penh Urban Poverty Reduction Project, 2000, 24p.: Royal Government, National Poverty Reduction Strategy of the Kingdom of Cambodia, 2003–2005. Phom Penh: Council for Social Development, 2002, 238p. This program prioritizes the improvement of infrastructure and facilities in the existing informal settlements and relocation sites, which are usually several kilometers from the city center.

**Fig. 2 – Urban Dynamics in Phnom Penh since 2004**



Real estate projects already started in 2008 are ongoing, but from 2009 many were delayed after having had their budgets slashed. For some, even with most of their luxury apartments

pre-sold, construction was postponed, creating a climate of distrust among investors in Cambodia. Substantial investment in land is now suspended and waiting for a recovery in the market, affecting the entire economy.

## **2 An Increasingly Dense Urban Landscape, and Building Upwards in the City Center since 2005**

The central areas of Phnom Penh, which were diked up, embanked, and equipped with drainage systems, saw the first regeneration projects in 1993 at the start of the reconstruction process. Since 2005, they have been ready for the first large-scale real estate development.

### ***2.1 Investors: Key Players in Urban Transformation***

From 1993 onwards, while Cambodia was reemerging in the international community, the capital city was once again focusing activities on its confluent rivers. Some urban regeneration projects (public gardens, recreational areas, big hotels) were implemented along the riverbanks, with some of the funding for this provided by the municipal government of Paris (Pierdet 2005). These were part of a reterritorialization process that began with the gradual return of Phnom Penh's residents. Infrastructure reconstruction began in earnest with larger-scale intervention by international experts and investors. From 2004 onwards, a period that saw an increase in real estate speculation, land that until then had been considered useless for construction increased in value, and attracted investors in search of building sites.

These investors were from various parts of the country, many from the Chinese diaspora, middle- and upper-class Khmers (including ethnic Chinese adapted to Khmer ways), and diaspora Khmers. Since 1990, certain Cambodian citizens aided reconstruction of the country's infrastructure by contributing at least 100,000 USD. As "patrons" of the kingdom they were rewarded with the title "*Oknha*" (similar to "Lord") and given associated privileges; later, they were given key government posts. The majority of them support the party of Prime Minister Hun Sen, the Cambodian People's Party (CPP). These include Kith Meng, president of the Phnom Penh Chamber of Commerce (PPCC) and president of The Royal Group (communications, banking, media, luxury hotels, etc.), and Sok Kong (PPCC honorary president), the CEO of Sokimex (petroleum) and a government minister. Another is Mong



Reththy, a CPP senator, vice-president of the PPCC, and director of the Mong Reththy Group (import/export, transportation, construction, agriculture). These high-profile individuals made fortunes in smuggling in the 1970s, during the time when, first, Vietnam, then Cambodia were under U.S and international trade embargos. Using their assets, they funded the CPP's rise to power. In return, the CPP continued to protect their operations (Mengin 2007).

From 2003, ASEAN countries' share of total investment in Cambodia grew to 75%, of which 65% came from Malaysia, and smaller percentages from Thailand and Singapore. Cambodia's economy is in the hands of networks of Chinese from overseas; they make four-fifths of investments in Cambodia (45% in real estate and infrastructure, 35% in tourism, and 15% in manufacturing). Similarly, South Korea, in 2006, invested more than 1 billion USD, or 22.8% of the total value of all approved projects, in the new town project of Camko City; and, in 2007, became Cambodia's leading foreign investor, ahead of China (CDC/JICA 2007, 6-7), as Chinese investments fell from 717 million USD in 2006 to 180 million USD in 2007. These real estate and tourism projects have employed few Cambodians, whose role has been to play middleman between investors and local authorities.

Khmer Chinese residents of Cambodia have achieved high-level positions in government. Descendants of Chinese migrants (mainly from the coastal provinces of southeast China), who live mainly in cities, comprise one sixth of the population, or at least 2 million people (Mengin 2007). According to the Association of Khmer Chinese of Cambodia (established in December 1990), most maintain ties with the worldwide Chinese diaspora, but only around 700,000 claim their Chinese roots. They integrate geo-dialectically, according to five language congregations. The Association contributed to Cambodia's economy, opened Chinese schools, etc., through funding from within this ethnic community. Families of close ethnic groups still help each other financially. Khmer Chinese act as go-betweens for overseas Chinese wishing to invest in Cambodia.

Since the liberalization of the banking sector in 1993, nearly 30 banks have opened in Cambodia, using Chinese capital. Canadia Bank was established in November 1991 by a Chinese refugee who fled Phnom Penh in April 1975 and immigrated to Canada. Many Cambodian politicians turn to Khmer Chinese for capital. In return, these businessmen are granted tax breaks, preferential access to certain economic sectors, etc. Theng Bunma, an ethnic Chinese and former president of the CPP, was apparently born in Kompong Cham in 1941, like the Prime Minister, Hun Sen. He made his fortune in trade in Cambodia and

Thailand in the 1960s, followed later by smuggling operations from Thailand, where he was a refugee in 1975. These gains enabled him to buy a company there, land in Phnom Penh in the early 1990s, and to invest in textiles, hotels, and banking. A billionaire, he maintains close ties with Hun Sen, and is one of the CPP's chief backers. He also heads the Chinese industrial and trade federation in the United States. He has been one of the key players in the recent real estate speculation in Cambodia.

## ***2.2 Central Phnom Penh's Increasingly Dense Urban Landscape and Modernization***

Starting in 2001, the influx and diversification of capital resulted first in spatial modernization of commercial infrastructure. The Sorya Center opened near the central market in January 2003. It had escalators, store fronts with windows, 40,000 square meters of retail units on five floors; and restaurants at the top, under a glass dome, offering panoramic views of the city. Other shopping malls several stories high opened near the Royal Palace and elsewhere in the city center, modeled after those of industrialized countries and neighboring Asian major cities.

Similarly, the *Front du Bassac* district, with the new Naga Casino, was a vast construction site (Fig. 3). A Malaysian group, Naga Resorts Casino, initially occupied the boat of a Singapore group, Unicentral Corporation Pte Ltd., before building the Naga World Complex, a 15-story casino and five-star hotel for high-end tourists, with 508 rooms, a spa, and luxury shops. This massive building, which now adjoins the Buddhist Institute and the Parliament building, was designed by international architectural firms (CDC-CIB 2008, 30–31). The district, which became very attractive to foreign companies, also attracts *oknhas* such as Theng Bunma, who built a luxury hotel in the area. The former hotel MiCasa, renamed the Himawari in 2007, and located opposite the confluence, is now owned by a Singaporean investment firm, Total Ariel (established in 2003). It is a vacation spot favored by business travelers, like other hotels of this district, which are all equipped with swimming pools, sports centers, riverside restaurants, conference and meeting rooms, and spacious, well-appointed apartments.

Because of tight competition for property in the central districts, the *beng*, which previously received waste water and were polluted areas bordering urban districts, left to the squatters, are now in demand by investors (Pierdet 2008b). Since spring 2008, the *beng* Kak has gradually been drained and embanked. Shukaku Inc., owned by Oknha Lao Meng Khin, a CPP

senator, was granted a 99-year lease in early 2007 to develop 130 hectares and build commercial and residential buildings. The 4,250 families who live by the lakeside are about to be evicted, forced out of their straw huts and houses built on stilts. The same is happening to guesthouses, bars, restaurants, and shops that normally host backpackers staying for brief periods in Phnom Penh. The operation is conducted totally in the open. The Housing Right Taskforce advocates for the lakeside residents' rights to compensation. In late 2009, the company and municipality offered to resettle them 20 kilometers from the center, on embanked land but with few facilities, with either an extra payment of 500 USD and a land deed for the new plot, or a fixed-rate payment of 8,500 USD.

With the monsoon climate of the region, where the rainy season coincides with the Mekong's annual flooding, the embankment along the *beng*, and the increasingly dense urban landscape of the central districts, are factors that contribute to flooding. Investment projects have been on hold since 2008, but the more pressing concern now is to determine whether the flood-control system in place can drain the water stored by the *beng* along with the added water from the new construction in this rapidly growing district.

## **2.3 Land Speculation and Building Upwards**

The government, in an effort to speed up the economic transformation of the central districts, has also been selling land and buildings to investors involved in rampant real estate speculation. Properties have been illegally sold to private companies, in exchange for undertaking public works. In fact, according to Article 15 of the 2001 Land Law, which defines public and private property, public property is inalienable. This includes forests, rivers, coastline, public services, and the country's cultural, historical, and archaeological inheritance. Despite these legal provisions, a theater from the 1960s located opposite the concourse is now owned by Oknha Kith Meng. Similarly, in 2008 the government sold the fine arts school building, near the Royal Palace, to Oknha Mong Reththy. Claiming that buildings were in a state of disrepair, the government had them demolished and relocated to the outskirts of Phnom Penh, on barely embanked land in order to make way for more lucrative businesses.

Thus, the government's lack of resources for restoring or rebuilding public buildings has allowed the *oknha* to pay low prices and encouraged speculation. Traditional activities have

been forced out of the city center and old buildings have been lost.

According to Cambodia Properties Limited (CPL), the price of commercial real estate rose from 400 to 4,000 USD/m<sup>2</sup> between 2000 and 2008 near the central markets. In the residential sector, land prices rose to 2,000 USD/m<sup>2</sup> in 2008, near the river. Between 2004 and the end of 2007, real estate prices rose 50–100% in most of the central districts. However, these prices were still very competitive for investors, compared to prices in the central districts of Bangkok or Ho Chi Minh City, where, as of 2008, prices were about 10,000 USD/m<sup>2</sup>. As for the land with no embankments in the outlying areas and unfit for construction, prices have remained very low. At the far end of the peninsula opposite the urbanized bankside, prices in 2004 varied between 30 and 100 USD/m<sup>2</sup>. Moreover, near the dumping grounds of pumping stations, prices have ranged between 5 and 20 USD; 10–40 USD/m<sup>2</sup> for embanked lands; but exceeded 50 USD/m<sup>2</sup> near the main roads. Certainly, at the edge of the city center, what raises real estate values is proximity to the main roads and markets, embankments, and drainage systems. A ground-floor shop enhances a building's value, but leaves the upper floors less profitable. Although the roof terrace of a building well located in the city center is always very much in demand in terms of stiff real estate competition.



in 2009 is one year behind schedule. This condominium, owned by a Korean, Yon Woo, is located at the junction of two boulevards, Sihanouk and Monivong. Model apartments have been ready since January 2008 (Fig. 4). Original cost estimates were 2.4 billion USD for residential and commercial space, amenities, etc. As presented in glossy promotional brochures, the towers are supposed to reach 192 meters, each containing 360 apartments varying in size from 232 to 511 square meters. This piece of real estate, a novelty in Cambodia, is aimed at wealthy Cambodians, and especially Asian foreigners who use Cambodian nominee companies.<sup>10</sup> The goal is to put Phnom Penh on a competitive footing with the region's big cities, like Bangkok and Singapore.

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<sup>10</sup> As of early 2010, foreigners were still barred from purchasing real estate or land in Cambodia.

**Fig. 4 – Gold Tower 42 Project**



**Yon Woo Cambodia Co., Ltd., 2008**

As of early 2010, several large-scale real estate projects suspended after construction had begun were still on hold. In Chruoy Changvar, a project was launched in 2002 by the ex-governor of Phnom Penh, Chea Sophara (Pierdet 2005), and only the construction of quays

and recreational parks was completed. In 2004, the municipal government granted a 99-year lease to Oknha Sok Kong to develop 15 hectares of cultural and tourism amenities in the peninsula, including a big hotel and a conference center. This project has been on hold since 2008.

To meet the rapid, unprecedented changes of urban infrastructure and development speculation, businesses and government offices have moved out the city center. The poorest were hardest hit by the mass evictions to the periphery and by the land grab. Moreover, the sudden vertical integration should lead Phnom Penh to face, before long, the issues of subsidence, already confronted by other big Asian riverfront cities, which faced worsened flooding in densely built urban areas.

### **3 The Emergence of New Centers in Outlying Areas**

The periphery of the city center contained the settlements of the city's poor, who sustained and were sustained by an agricultural way of life (Berre 1992). Now, these settlements are being lost to renewed speculative development unregulated by the authorities; a random type of urbanization of these areas, which, as indicated earlier, "are gradually being swallowed up" by the encroaching center.

#### ***3.1 Negotiating the Construction of Public Infrastructure by Private Investors***

This process has involved annexing Koh Pich, a small island on the periphery of Phnom Penh. Until 2005, this island sitting just above the surface of the water had been seasonally inhabited, farmed by 134 families selling their produce in the capital's markets. A fishing village of floating vessels inhabited by the Cham people (Muslim Cambodians) had existed on the banks of the Bassac since the early 1980s. Nevertheless, in 2005 these residents, most of whom owned land rights bought from the authorities (sometimes at very high prices), were evicted to make way for a new town. Financed by Canadia Bank, the municipal government granted a 99-year lease to OCIC to develop the town on this 80-hectare island. In return, OCIC paid the municipal government 50 million USD for the first 10 years of the lease, and



undertook to build flood and erosion defense systems, along with new bridges on the Tonle Bassac. One bridge, which began operation in 2010 (Fig. 3), eases congestion on Monivong Bridge, which is part of the RN1 highway linking Phnom Penh to Vietnam's main southern city, Ho Chi Minh City. The project is due for completion in 2015.

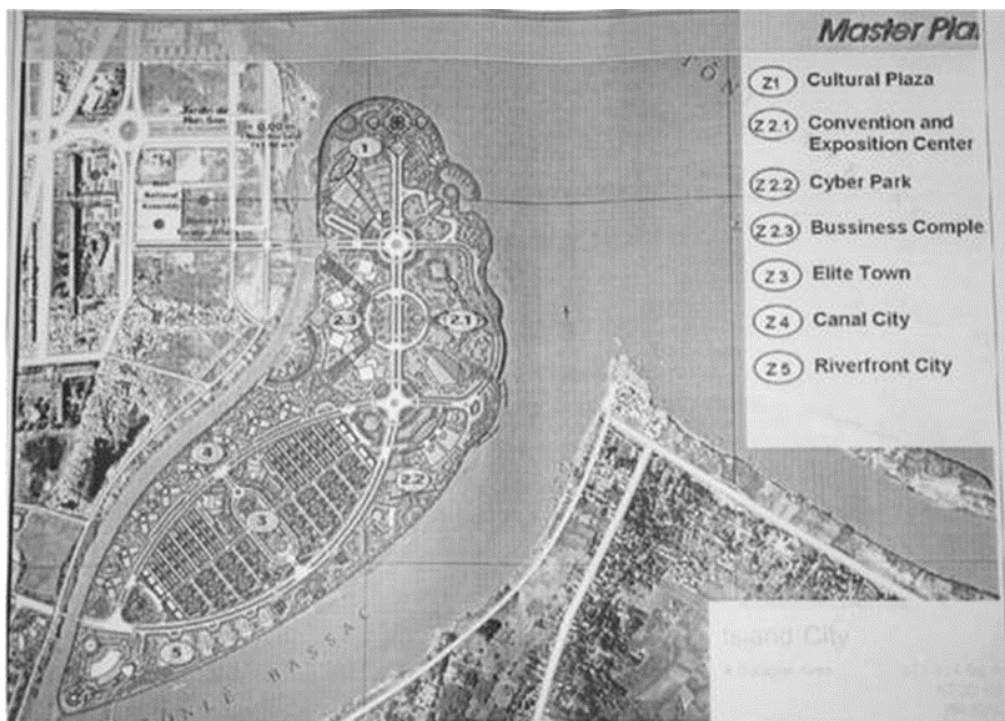
Despite the intervention of NGOs, the compensation paid to the villagers was negligible: one to two USD/m<sup>2</sup> for these very fertile arable lands, instead of up to 12 USD/m<sup>2</sup>. Despite proving their length of occupation, all the residents were relocated to Phnom Penh's southern outskirts, far from their source of income. The 2001 Land Law ratified the 1992 Land Law; Article 102 confirmed the inalienable nature of "islands, islets, and alluvial deposits around river beds and navigable rivers;" along with *beng*, they became the state's private property. Thus, in Koh Pich, as with *beng* Kak, the government had authorized eviction of residents living there since the 1980s from districts that had become illegal. All property had in fact been abolished by the Khmer Rouge in April 1975. Following the departure of the Vietnamese army in 1989, and the gradual return of residents, new laws restored these lands, creating complicated issues of land ownership. The registration of new land inflated land prices and, meanwhile, there was no housing policy of any sort (Clerk 2005). Long-lease purchase of land and government buildings are prohibited by the 2001 Land Law. The government is trying to end forced evictions, as promised by Hun Sen during the 2003 election campaign, while modernizing the capital through speculative real estate programs in order to compete in Southeast Asia. Realty competition therefore remains intense in central districts, especially with the presence of private investors.

The government wants to sell these areas to investors. To this end, Koh Pich is now dammed up. The embankments, between six and 11.5 meters high, have been completed since 2009, and have an estimated volume of 2.4 million m<sup>3</sup>; but the unstable sedimentary balance of the confluence has been altered. In spring 2008, the project's investor encountered severe erosion on the island's northeastern corner. The island formed south of the confluence, due to the lack of dredging in this area in the 1970s and 1980s, whereas, downstream, erosion has taken hold. Despite a detailed study of this issue, the sedimentary imbalance remains a major problem.

According to the project's initial layout plan (Fig. 5), 67.3 hectares (64.5% of the area) can be placed on the market; 15.52 hectares (14.87% of the area) are reserved for public use; and 21.52 hectares (20.63% of the area) are reserved for the road network. On the northern part of the island, the Cultural Plaza area features a tower 230 meters high that is aligned with the Independence Monument. At its top, an observatory dominates the rivers' confluence,

with a restaurant 80 meters above ground, and a giant aquarium below. Infrastructure of this tourist district comprises a harbor for tourists, a five-star international hotel, a floating museum, and a market. In the south, a six-hectare cyber park is in the pipeline on the banks of the Bassac, and an exhibition and conference center, flanked by a riverside promenade. A business complex with office buildings and a shopping mall is located opposite the Bassac riverfront and the Naga Casino. The 20-hectare central section of the island is reserved for the Elite Town, which is composed of low-rise blocks of buildings and villa with boutiques and shopping malls. They are rather low-level constructions, with restricted access. There are also plans for leisure amenities such as a sports hall and a club house. Elite Town is bordered on the west by 20–30-story condominiums, some 120 meters tall, over eight hectares. Lastly, on the southern section of the island, high-end residential buildings spans nine hectares. The road network is carefully zoned and there are separate lanes for vehicles, cyclists, and pedestrians. Bougainvilleas, palm trees, etc. provide some shade over walkways, bicycle lanes, and parking lots.

**Fig. 5 – Development Plan for Pich Island, 2008**



The villa models range in price from 168,000 to 277,000 USD. This is exclusive of the land price which is set at around 1,500 USD/m<sup>2</sup>. It is difficult to know how much of the development has been sold as of 2010. In late 2009, the sponsor was offering a 35% discount for a plot of land along with 10-year real estate loans. This project was also affected by the economic crisis (apparent by early 2010) at which time a significant chunk of the island was made into space for public recreation, and therefore was no longer available for real estate development as originally planned. The investor prefers to wait for the economic recovery rather than diminish the project's value.

### ***3.2 Chaotic Speculative Developments on the Edge of the City Center***

From 2008, new towns sprang up in suburbs with flood defenses. Ditches were built in 1971 under Lon Nol, but with no embankments and with no waste and rain water drainage systems in place. These lands were then converted to market gardens and pastures, and dotted with *beng* which vary in size according to the season. Camko City, a new town, now extends toward the *beng* Pong Peai, thanks to embanking (Fig. 2). This joint-venture project, which is 49% Korean-owned, is to encompass 120 hectares. Scheduled for completion in 2020, it will house 25,000 residents. The project is backed by its sponsor, World City Co. Ltd., the construction firm E & C (Cambodia) Ltd., and Camko Bank. The original budget has been halved at one million USD. According to the 2007 design, villas and condominiums will encircle central shopping areas, office blocks, schools, etc., and will be right next to the lake, part of which will not be drained. The first phase commenced in early 2008, just before the economic slowdown. It spans 9.6 hectares; there are villas and six 362-unit condominiums. Model apartments for the development can be viewed near the construction site. The condominium units range in size from 113 to 225 m<sup>2</sup>, and prices range from 122,192 to 275,000 USD. As of spring 2008, only east-facing plots remained unsold. An apartment could be purchased with a down payment of 30% of the total price, followed by six quarterly instalments at 10%, and the remainder over the next four months; taking a very short period of time (less than two years) to complete. The corresponding plot of land has been purchased at the same time (Table 1).

**Table 1 – Schedule of Payments for the Purchase of a Unit in a Camko City Condominium**

Asset	Deposit	Intermediate Payments						Total Price
		1	2	3	4	5	6	
		04/25/08	07/25/08	10/25/08	01/25/09	04/25/09	07/25/09	11/09
Land	30%	60%						10%
Construction	30%	10%	10%	10%	10%	10%	10%	10%

**World City Co. Ltd., Supply Information, Phnom Penh, 2008**

According to an engineer at Hanil E & C, this project necessitated two- to three-meter embankments. A partitioning drainage system was then put in place. Waste waters are to be diverted to septic tanks and rain water will be directed to the portion of *beng Poug Peai* that has not yet been drained.

The International City new town project of *Oknha* Ly Yong Pat it is located nine kilometers north of the city center (Fig. 2). *Oknha* signed a joint-venture with the Indonesian Ciputra Group. Despite a delay in 2008, the development is ongoing and spans an area of 260 hectares. In return for incentives granted by the municipal government in 2009, Ciputra agreed to help fund hydraulic infrastructure in Phnom Penh.

Thus, the peripheral areas have also undergone rapid changes like the city center, particularly along the main roads. If these new towns are completed, the capital city will have an additional one million residents by 2025. Will urban infrastructure and services be able to absorb such growth? Often forced to negotiate with investors on public infrastructure, the cash-strapped municipal government, thereby contributes to uncoordinated, speculative urban developments. As a result, the government has little control over such development.

### ***3.3 The Transformation of the Urban Center and Emerging Imbalances***

Constructed by the royal government from 1993, Riverfront infrastructure is used for activities with low value added. Gardens and recreational grounds cater to families making the confluence more accessible to the capital. They fit within the context of national reconciliation

after the dark years of the 1970s and 1980s. In the early 2000s, Phnom Penh's municipal government planned to develop these central areas in a similar fashion to riverfront cities in industrialized countries since the 1970s, or Asian cities like Shanghai and Bangkok since the 1980s. The central districts of Phnom Penh are being transformed around the confluence and are focusing more on lucrative businesses such as the Naga Casino, or new high-end tourist hotels and business hotels. In this more favorable economic and political climate, the riverfront and island are undergoing rapid development (until recently deemed unfit for construction) and are now being eyed by investors. Real estate developments with high value added are proliferating while annual economic growth reached 11% between 2005 and mid-2008.

However, such rapid rise in real estate prices has serious social consequences both for the poorest in society and for the kingdom's new middle class. It is generating emerging imbalances. The steep price increases "are a drain on household savings which are necessary for sustaining long-term growth. While the very poorest bear the brunt of the rising rental prices . . . the middle classes, who are still able to purchase property, can only do so with increasing financial hardship . . ." (CPL 2008).

In fact, many Cambodians who bought lavish properties did so by becoming indebted to their extended families for several years. Many small farmers and landowners in the capital sold their lands to the highest bidders at the height of the property bubble in order to fund the purchase of the latest motor bike or other luxury product. Such purchase would have been unaffordable a few months earlier. What does the future hold for these small farmers who are now landless?

As of early 2010, residential construction is insufficient to house the influx of 7,000–10,000 new households every year. Since 2003, land on the periphery of Phnom Penh has been sold to investors for high-end real estate development. This intensified land-use competition between various sectors. Less land is available for housing, in particular for the poorest residents forcibly evicted from central districts. Clerc (2005) and Durand-Lasserve (2005) nevertheless have stressed the municipal government's efforts regarding forced evictions. Between 1998 and 2003, under pressure from NGOs, the municipal government organized a "concerted resettlement program" of evicted communities with the assistance of UN agencies and international help. However, despite squatters now being able to negotiate compensation for their resettlement, the selected sites are far from the city center. Set up in 2004 on the recommendation of the UN, the Housing Rights Task Force is charged with

coordinating the activities of various NGOs. It now acts as a mediator in negotiations between the municipal government and investors. In the city center, few resettlement projects have received funding. Owing to the economic slowdown and losses incurred by investors, who are now less amenable to negotiating with NGOs than they were before 2008, evictions with bulldozers have come back with a vengeance.

Embanked lands, essential infrastructure, and drainage systems are very much lacking in the outlying areas. Although as of 2004, drinking water and electricity were available in Phnom Penh's peripheral areas, this did not extend throughout the entire city or periphery. The building or even planning of a road is enough to trigger a spate of low density urbanization along the route with such new settlements relying on makeshift embankments. Lining access roads near the new town of Camko City are clothing factories with rudimentary housing for workers and small shops. The scarcity of land for residential use is further compounded by investors who have gone bust and who tend to leave vacant lots, even abandoning construction sites due to lack of funds.

In 2008, the government introduced a deposit (2% of a project's total value) payable to the Finance Ministry in an attempt to restrict these types of real estate developments. Furthermore, since too many Khmers have invested vast sums of money on apartments which are never built, it is no longer permitted to advertise a project before it is 3% completed. However, FDIs have stagnated since 2008 and the GDP decreased to 9.5 billion USD in 2009. Annual economic growth also fell to 5% in 2009 (CDC 2009). By late 2009, real estate prices had stabilized to 2,700 USD /m<sup>2</sup> for commercial property and 1,600 USD /m<sup>2</sup> for residential property in the city center, representing a decrease of over 50%. Around 36,500 jobs were lost in the construction sector in 2008. These workers returned to the countryside, and if possible, to their village of birth. Agriculture and tourism have absorbed a portion of the labor force laid off from other sectors. Given the gloomy economic outlook, as of early 2010, implementation of the law on real estate developments has been postponed.

## **Conclusion**

Overall, the anticipated economic recovery and the need to continue with modernizing the infrastructure of the city center and the riverfront encourages the royal government to attract investors providing them with flexibility on taxes and easing bureaucracy. Because of the new,

large-scale urban development projects, the agricultural occupations which have thrived along the riverbanks since the 1980s are now making way for a new type of urbanization modeled on neighboring metropolises. This model “combines urban density and diversity within a given area” (Lussault 2003). The Cambodian authorities remain divided on the need to protect the land of the poorest members of the community and the need to allow this emerging, but modernizing type of urbanization to take hold throughout the capital. New ways of life and land use are gradually replacing the agricultural nature of land in the city center and outlying areas. It is a new phase of reterritorialization, more in line with globalization (Théry 2008), which succeeded the deterritorialization under Pol Pot. The municipal government contributes to this process while still in its infancy by selling land to investors in return for providing public infrastructure. This is partly due to an inability to raise necessary funds. The abrupt pace of change that these urban developments have wrought on Phnom Penh (dreaded by some, hoped for by others) shows how this still-small riverfront capital is headed in the same direction as other Asian metropolises. This process, which has been analyzed as “the reign of the urban and the death of the city” (Choay 1994) in countries of the North (characterized by superior drainage systems and uncontrolled urbanization). It is neither synonymous with a better standard of living for everyone nor with the homogenization of the urban landscape.

## **Table 2 – List of Abbreviations**

UNTAC	United Nations Transitional Authority in Cambodia
ASEAN	Association of Southeast Asian Nations
PPCC	Phnom Penh Chamber of Commerce
CDC	Cambodian Development Council
CIB	Cambodian Investment Board
CPL	Cambodian Properties Limited
CRDB	Cambodian Rehabilitation and Development Board
GSP	Generalized System of Preferences
FDI	Foreign Direct Investments
JICA	Japan International Cooperation Agency

OCIC	Overseas Cambodia Investment Company
WTO	World Trade Organization
NGO	Non-Governmental Organization
GDP	Gross Domestic Product
CPP	Cambodian People's Party
SEZ	Special Economic Zone

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<sup>12</sup> Bureau des affaires urbaines (Municipalité de Phnom Penh) [Office of Urban Affairs of the Municipality of Phnom Penh].

<sup>13</sup> Fonds de solidarité prioritaire [Priority Solidarity Fund].



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<sup>15</sup> Centre nationale de la recherche scientifique [National Center for Scientific Research].

<sup>16</sup> Sociétés en développement, études transdisciplinaires [Research Laboratory for the Transdisciplinary Study of Developing Societies].

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## **Abstract**

In the early 1990s, with increased political stability, the rebuilding of infrastructure in Phnom Penh began. It was focused primarily in the central districts, where drainage systems were installed. Intensive land and property speculation between 2005 and 2008 brought in new towns, office blocks, and oversized condominiums, both in the city center and outlying areas. This development followed policy intended to put Phnom Penh on a competitive footing with the big cities of neighboring countries. Small landowners on the outskirts sold their land to private investors. Phnom Penh’s municipal government also sold portions of its land holdings to investors, who provided public infrastructure in return. These changes were in large part financed by foreign direct investment (FDI)—the assets of Southeast Asian ethnic Chinese—in partnership with Khmer citizens. A reshaping of the city center in relation to the outlying areas then began in earnest—at the expense of the poor, who were forcibly expelled from the central districts. The municipal government, low on assets and having to keep pace with

modernization and urbanization, was unable to protect areas on which the poor depended for their livelihoods. The limitations of foreign-capital-driven development were exposed during the 2008 economic slowdown.