

**Overview on the Cambodian Economy and the Accession Process to the WTO:
Opportunities and Challenges on Economic Development**

By

SOK Chamroeun

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

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ABSTRACT

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This paper discusses the cost and benefits to be expected by a least-developed and low-income ('vulnerable') economy, like Cambodia, if she accedes to the WTO, the impact of current debates about WTO reform on vulnerable economy, and measures to make it easier for vulnerable economy to accede to and actively participate in the WTO. The main idea is that the benefits from WTO membership in terms of improved market access of traditional exports are likely to be limited. However, by submitting a wide range of trade-related policies to international scrutiny and by entering into binding commitments on the conducts of these policies, so reform-oriented governments in vulnerable economy of Cambodia can make it more likely that her reforms will be successful.

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Dedicated to my parents

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asia Nations
AoA	Agreement on Agriculture
CV	Customs Valuation
CARDI	Cambodian Agriculture Research and Development Institute
EBA	Everything-but-arms Initiative
EU	European Union
FDI	Foreign Direct Investment
FMV	Fair Market Value
EPO	European Patent Office
GATS	General Agreement of Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
GTC	Green Trade Company
IMF	International Monetary Fund
ITO	International Trade Organization
JPTO	Japanese Patent and Trademark Office
LDCs	Least Developed Countries
LOI	Law on Investment
MFA	Multi Fiber Agreement
MFN	Most Favored Nation

MFTR	Memorandum on Foreign Trade Regime
MOFTEC	Ministry of Foreign Trade and Economic Cooperation of China
PCT	Patent Cooperation Treaty
RGC	Royal Government of Cambodia
SMEs	Small and Medium Enterprises
SOEs	State-Owned Enterprises
SPI	Pre-Shipment Inspection
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TPRM	Trade Policy Review Mechanism
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TRIMs	Trade-Related Investment Measures
UN	United Nations
UNDP	United Nations Development Program
USPTO	US Patent and Trademark Office
WB	World Bank
WG	Working Group
WIPO	World Intellectual Property Organization
WP	Working Party
WTO	World Trade Organization

Introduction

The Royal Government of Cambodia intends to realize the integration of the country's economy into the regional and world economies as not only a necessity for its sustained growth but as part of the overpowering worldwide process of globalization. Since 1989, the Government has taken a series of reform measures with a view to ensure the full-scale economies and social and development of the economy of the country in the interest of the people.

The constitution adopted following the election of May 1993 guarantees liberal democracy and a free market economy. The Royal Government has moved swiftly to adapt the role of government to that required by a market economy. Most state-owned-enterprises have been privatized. All prices, including the exchange rate and interest rates, have been liberalized and respond solely to market forces. Quantitative restrictions on trade have been removed. Import licensing is restricted to only a small number of sensitive goods. At the same time, the Royal Government has given highest priority to putting in place a legal framework necessary for the operation of a market economy. This process is still underway.

In adapting its laws, institutions and policies the Royal Government has been mindful of international standards, and the need to adhere to them. For example, the Most Favored Nation (MFN) and National Treatment status is accorded to all trade in goods. The tariff nomenclature is based on the Harmonized System. Draft laws on protection of intellectual property rights and technical standards fully meet the requirements of the respective WTO agreements. In brief, Cambodia has already taken, or is in the process of taking, a number of important steps to align its policies and practices to WTO rules.

However, the legacy of the past still bears heavily on Cambodia. Nowhere is this more evident than in the scarcity of skills required by a market economy. For these and other reasons, Cambodia has been classified by the United Nations as a Least Developed Country. Cambodia will need to utilize appropriately the various flexibilities contained in the WTO Agreements as regards Least Developed Countries to ensure that its integration into the world trading system is both rapid and consistent with its capabilities.

The beneficial integration of Cambodia into the global economy and multilateral trading system is a main driving force for socio-economic development. However, Cambodia's accession into the WTO is just the logical step in this process. Cambodia needs to take concrete actions to strengthen its production and export capacities. These actions have been a heavy task for the Least Developed Countries including Cambodia because of the difficulties they are facing such as lacking of capital, skilled human resources and adequate physical infrastructure.

This thesis will attempt to research and study a potential agenda and suggest policy recommendations to capitalize on opportunities and challenges that lie ahead for Cambodia as a new member of the WTO. It is divided into seven chapters. The major contents of each chapter are summarized as follows:

Chapter I: It briefly looks at the history of the World Trade Organization and international trade agreements. It covers the development of the GATT and WTO including the Uruguay round, trade liberalization, the benefits and the costs of the membership in the Organization, and the preferential trade agreements. Also it reviews the long road of China in joining the WTO. The case also illustrate the challenges and benefits for China as a new member of WTO and draws out some important lessons that should be learnt to avoid any mistakes or problems which may arise form the membership.

Chapter II: This chapter reviews the Cambodian economy since the early 1990s including the macroeconomic development, foreign trade, development in trade policy, concepts for a pro-poor strategy and industrial policy.

Chapter III: It overviews on the Cambodian historical relation with the GATT and on the accession of Cambodia to the WTO.

Chapter IV: The experiences of other countries that have joined WTO show that the economic impact of accession can take a variety of forms. In general, however, the impact can be understood in terms of two broad headings: the impact of accession on the legal and institutional framework governing the economy, and the immediate impact of accession on imports, exports, and other key macro-economic variables, in particular government revenue. It also evaluates Cambodia's competitiveness in the fast moving world and studies the strengths and weaknesses for the sectors that could have a potential on the world studies and assigns priority for each sector.

Chapter V: This part analyzes the opportunities and challenges of Cambodia in accession into the WTO. The Challenges will be tough for a Least Developed Country like Cambodia such as preparing of voluminous and complex documentation regarding its trade regime for goods and services, and Cambodia will have to engage in lengthy negotiations with the WTO member, both at the bilateral and multilateral level. However, Cambodia can also enjoy the benefits of the world trade system such as increased pressure for domestic reforms, technical assistance, shelter against unilateral pressure from powerful import market.

Ch. I. History of the World Trade Organization and Experiences of China's Accession

1. Post-World War II Negotiations

The wartime discussions, which laid the groundwork for the 1946-1948 GATT/ITO negotiations, were largely an American and British effort. The discussions began with an exchange of views in Washington in September and October of 1943. For the most part, the experts found themselves in complete agreement on particular issues of substantive policy. They canvassed most of the leading problems including quantitative restrictions, subsidies, export taxes, state trading, discrimination, and tariff reduction. On each point, the answers seemed fairly clear. Quantitative restrictions, more commonly known as quotas, were to be prohibited, the only exception being those used to deal with balance of payments emergencies. Export taxes and export subsidies were to be eliminated. State trading enterprises were to be encouraged to behave like private traders. Discrimination had to be outlawed, and tariffs had to be reduced substantially. Throughout 1945, formal government-to-government conversations continued. In December of that year, the American and British governments produced a detailed set of "proposals" on which the negotiations for an International Trade Organization (ITO) could be based. At the same time, the United States issued a preliminary invitation to fifteen other countries to take part in a bilateral/multilateral negotiation for the reduction of tariffs and other barriers to trade. Three more countries were added to the list, making the participants in the coming tariff negotiations identical to the members of the Preparatory Committee for the Havana Conference to establish the ITO. The United Nations Economic and Social Council accepted the proposals in early 1946 and a "United

Nations Conference on Trade and Employment" officially convened. A Preparatory Committee, consisting of the eighteen key governments, was appointed to prepare a draft charter for consideration by the Plenary Conference. At the end of the first session of the Preparatory Committee, held in London, the United States extended a formal invitation to the other seventy members of the Committee to meet to negotiate a concrete arrangement for the relaxation of tariff and trade barriers of all kinds.

In the Geneva Session held in 1947, the members of the Preparatory Committee had two tasks before them: to work out a draft charter for consideration and decision by the Havana Conference, and to organize the tariff negotiations and revise the Draft Agreement on Tariffs and Trade. The tariff negotiations started in April 1947 and on October 30th of that year, the General Agreement on Tariffs and Trade (GATT) was signed by "contracting parties" of twenty-three countries. For eight countries (Australia, Belgium, Canada, France, Luxembourg, the Netherlands, the United Kingdom and the United States), the Agreement went into effect on January 1, 1948. In the following months, the remaining countries ratified the Agreement. At the same time, signatory countries were drawing up the "Havana Charter" for the proposed ITO.

2. How the WTO Differs From the GATT.

Whereas the GATT was a provisional, multilateral agreement negotiated by its contracting parties but never ratified by their parliaments, the WTO is a formal international institution. It joined the ranks of the World Bank and International Monetary Fund (IMF) when it came into being as of January 1, 1995 as the embodiment of the Uruguay Round of GATT trade negotiations. The Agreement

Establishing the WTO was ratified by member governments and stipulates rules according to which the organization functions.

Charged with providing "the common institutional framework for the conduct of trade relations among its members in matters related to the agreements and associated legal instruments included in the Annexes," the WTO mandate was extended beyond the traditional GATT role of negotiations related to trade in goods to include trade in services as well as intellectual property rights. The three multilateral agreements which make up Annex I of the WTO charter include: the GATT 1994 (the updated version of GATT 1947), the General Agreement on Trade in Services (GATS), and Trade-Related Aspects of Intellectual Property Rights (TRIPS). Annex II - the Understanding on Rules and Procedures Concerning the Settlement of Disputes, Annex III - the Trade Policy Review Mechanism (TPRM), Annex IV - the Plurilateral Agreements, and the multilateral agreements among members along with Annex I, constitute the WTO framework. In addition, GATT 1947 accession procedures have been largely carried over to the WTO with the deliberations on trade schedules extended to include services and intellectual property rights. Furthermore, the WTO charter establishes a formal Secretariat headquartered in Geneva.

Principles inherited from the GATT and embodied by the WTO include promoting a trading system that is:

- Non-discriminatory - by applying MFN and national treatment principles;
- Reciprocal - by allowing automatic exchange of market access commitments among members;
- Liberalized - by negotiating lower tariffs and bringing down other barriers and allowing progressive market opening;

- Predictable - by having countries "bind" their commitments thereby promising not to raise barriers without compensating members if they renege;
- Fair - by discouraging unfair competitive practices such as export subsidies and dumping (selling products below cost to gain market share);
- Helpful to less developed countries - by allowing more time to adjust to agreements and greater flexibility as well as special privileges.

Specific agreements included under the WTO negotiated according to these principles include: agriculture, textiles, clothing, services, government procurement, rules of origin, intellectual property, financial services, telecommunications, provisions on the environment as well as ministerial declarations on the obligations and commitments of all WTO members. Also, as under the GATT, exceptions are made for regional trading agreements. Customs unions (i.e. the European Union, which is a member in its own right, is usually represented by the European Commission at the WTO, though all EU member countries are also WTO members in their own right), free trade areas and common markets are all accommodated by the WTO. In addition, the four agreements negotiated in the Tokyo Round, which were not multilateralized by the end of the Uruguay Round, known as the plurilateral agreements, are also accommodated by the WTO.

One of the most significant differences between the WTO and the GATT involves the dispute settlement process embodied in Annex II of the WTO Agreement. Under the GATT, the procedure for settling disputes had no fixed timetables, rulings were easy to block, and cases often dragged on inconclusively. The Uruguay Round introduced a more structured process with clearly defined stages and emphasis on prompt settlement. The WTO Agreement also made it extremely difficult for the losing country to block the adoption of the ruling. Under the GATT, rulings were not adopted unless full consensus was reached, meaning one

vote, i.e. the losing country's, could block a ruling. Under the WTO, however, rulings are automatically adopted unless there is a consensus for rejection. According to this procedure, any country wanting to block the adoption of a ruling has to convince all other WTO member countries, including the country favored by the ruling, to do so.

3. Experiences from China's WTO Accession

3.1. Key dates in China's bid for WTO Membership and Prospects¹

- 1986: China applies to join the GATT, predecessor of the WTO.
- 1989 June 4: China suppresses the pro-democracy demonstration, derailing trade talks.
- 1995 November: China unveils its economic and trade reforms.
- 1999 May 7: China freezes WTO talks after the NATO forces bomb in Chinese Embassy in Belgrade
- 2000 October 10: Clinton signs law giving China normal trade status with the US.
- 2001 December 11: China officially joined the WTO.

China put its commitment and tried for 15 years to enter the world's trade group.

China is one of the brightest stars among the world's economies. The country's stunning growth since the economic reform began in the late 1970s and has provided a dramatic proof of the benefits that globalization can bring. The country now stands on the threshold of another economic revolution as it enters the WTO. For the first time in the history of this remarkable country, China will be trading

¹ WTO Press Release, www.wto.org, accessed on 23 Mar 2003.

freely with the rest of the world. The world's largest country in term of population size with 1.3 billion people is now open for business.

China's far-sighted open door policies of the last twenty years have resulted in some 200 million people being lifted out of absolute poverty. Yet there are major challenges ahead, ranging from rising unemployment and industrial disruption to political reforms and human rights. How China will cope with these issues is of concern not just to China but also for the new world order, as it struggles to come to terms with the demands of free trade and globalization.

China tried to join the WTO, and the GATT before it, for 15 years. Within China, membership of the WTO is seen as a necessary component of the country's long march toward a fully functional economy. Over the past 20 years, the value of China's exports to the rest of the world climbed by 15 percent per year on average, while imports have grown at an annual rate of 13 percent. The growth in international trade has helped China to expand its economy at 8 percent annually for the past decade. China is now the world seven-largest economy and with the addition of Hong Kong, its fourth-largest exporter. If current trends continue, China could become the world largest economy within a generation, so the entry of China into the WTO is clearly a significant event.²

China's leaders believe that further gains from trade called for WTO membership. They understand that this will not be a painless process. Joining the WTO requires China to dismantle many trade barriers that currently protect local industry from foreign competition. Such short-term pain is expected to be quickly outweighed by long-term gains as foreign competition forces China's producers to become more efficient and as trade with other nations expands.

² Charles W. Hill, Global Business Today

Historically, one of the biggest roadblocks standing in the way of China's accession to the WTO has been the United States. The United States is China's largest trading partner, accounting for \$75 billion of exports in 2000. With its large population and rapid economic growth, China also holds the promise of being a very important market for U.S. producers. For years, however, influential political forces in the United States have opposed China's entry into the WTO on the grounds that the country has scant respect for human rights, labor standards, and intellectual property rights (China is one of the largest consumers of pirated computer software.)

Despite domestic opposition, the Clinton administration in the United States supported greater economic engagement with China. This administration repeatedly argued that greater economic freedom in China would follow after greater political freedom and respect for human rights. Accordingly, in November 1999, after a difficult series of negotiations, the Clinton administration and China signed a bilateral trade agreement. The agreement resolved a series of outstanding trade issues between the two countries and set down schedules for phasing out tariff and non-tariff barriers. In return for Chinese cooperation, the United States agreed to support China's application to join the WTO. China's bid to enter the WTO was further strengthened in mid-2000 when the European Union negotiated a bilateral trade agreement with China, effectively removing EU objections to China's entry into the WTO. A further signal of U.S. support was given in September 2000, when the U.S. Senate voted to normalize trade relations with China. By doing so, the United States signaled its intention to stop linking trade deals with China to human rights issues. With these endorsements in hand, China spent the next 14 months negotiating the fine details of its entry into the WTO.

These negotiations were completed in late 2001, and China officially joined the WTO on December 11, 2001. Under the terms of the entry agreement, China will

phase in tariff reductions and deregulation over the next decade. Key commitments by China include capping farm subsidies at 8.5 percent of the value of farm production. Tariffs on imports of agriculture products will be reduced from 22 percent to 17 percent. Tariffs on automobiles will fall to 25 percent by mid-2006, down from 80 to 100 percent in 2001. Tariffs on imports of information technology products will be eliminated by 2005. Foreign companies will be allowed to sell group and health insurance to Chinese by 2004. Foreign banks will be allowed to conduct local currency transactions for Chinese firms by 2003 and for Chinese residents by 2006. By 2007, foreign companies will be allowed to hold up to 49 percent of the equity in telecommunications providers operating in China. Collectively, these agreements will make it easier for foreign firms to invest in China and for exporters to sell their goods and services in China. In agriculture, for example, estimates suggest that imports of foodstuffs may rise by \$1.5 billion a year for the next decade as a result of this agreement. Chinese enterprises also benefit from easier access to foreign markets.

3.2. Lessons Learned from China's Accession into the WTO

China's entry to the WTO is an important milestone in its historic journey to embrace the world market. Not only is China further lowering its trade and investment barriers, generating immediate opportunities for exporters and investors, but its WTO entry package reinforces the reform program that is revolutionizing the Chinese economy.

China and Chinese people are rightly proud of the history of the world's oldest continuous civilization and has showed her strength after the WTO accession since 2001. Cambodia is not far behind China in terms of history. Our ancestors built the

world famous Angkor Wat temple, which is recognized by the world as the seventh world heritage site. Even so, Cambodian trade volume is much smaller than China, but Cambodia's exports structure is nearly similar to China's.

The experiences of China in accession are useful for Cambodia as an awaited member in the WTO. After more than one year and half as a full membership of WTO, China has undertaken a variety of measures with economic impact. In general, however, the impact can be understood in terms of two broad headings: the impact on the accession on the legal and institutional framework governing the economy, and the immediate impact of accession on imports, exports, and other key macroeconomic variable. The following are some important lessons for Cambodia, as an imminent WTO member should learn:

Legal and administration reforms: Accession to the WTO will present the toughest test that China's weak legal system has ever faced. As part of the price of WTO entry, China has promised to live up to international standards of transparency, accountability, and fairness. No one should be sanguine about China's ability to cope with the legal and administration reforms that it has promised as part of the WTO accession agreement. Yet the ability to implement these changes will be essential to determining the success of the accession. If it can implement the necessary improvements, they should have a tremendous spillover effect on China's overall legal system as well as on continued economic reform.

Genuine economic development cannot occur without a strong legal system. World Bank data shows that countries with good legal institutions are richer, more literate and have dramatically lower rates of infant mortality. World Bank President James Wolfensohn emphasizes that government should recognize that "an effective legal and judicial system is not a luxury, but a central components of a well-functioning state and an essential ingredient in long-term development." The

decision to build a stronger legal system isn't just a technique issues. It is, as Wolfensohn noted, a profoundly political one.

To this concern, at the time Cambodia becomes a member of the WTO, Cambodia has to undertake firm commitments to bring its legal framework and administrative procedures into conformity with WTO agreements. Cambodia expects to make considerable concrete progress in this direction during the accession process itself, and to commit to specific work-programs and time frames for completing the process after accession. WTO accession can be seen as a way of organizing and accelerating this process, and of ensuring that international norms are fully reflected in Cambodia's own legal framework governing business and trade. It will thus be of great help to Cambodia in accelerating economic reform, and ensuring that through reform, in the near future, the legal framework and administrative procedures of Cambodia will be consistent with international rules both in theory and in implementing.

It is Urgent for Enterprises to Learn and Master Rules in Practice: Since China became a full member of WTO, there have been many related training activities organized by various social sectors, which have been very helpful for everybody to get familiar with and understand the WTO. But it is more important that enterprises need to learn and study these rules in practice. In this regard, government, organizations and enterprises in Cambodia should strengthen the study and application of these rules. Cambodian enterprises should go into action as soon as possible. Besides learning the WTO rules, first of all, enterprises should understand the series of measures adopted by the Cambodian government to keep abreast of the new situation. It is important to note that trade does not expand automatically as a result of tariff reductions and the removal of trade barriers. This will happen only if business enterprises understand the rules and adopt appropriate export development

strategies that take into account the impact of the liberalization measures on the products they export.

It is more comfortable to overlook Chinese's continued modernization: Decades after opening its economy to outside world, China has demonstrated its effective organization, its genius in adapting technology, its patience in marketing, and its disciplined work force. It is more comfortable not to ask how its businessmen could remain so zealous in selling goods-textile, clothing, silk, electrical household appliances, general mechanical, small machinery, leather products, shoes, and toys, which are similar to Cambodia products, to America and world markets if they were basically selling below cost. It is disquieting to admit that Chinese economy had grown very fast during 1990s because of her good planning, organization, and efforts. To the extent that the Cambodia government and business enterprises study their Chinese counterparts, it is often only to gather information that might prove charges of dumping or antitrust violation. Moreover, one of the most important lessons of the Asian financial crisis is that Chinese strong institutions--central banks, regulators and courts--are critical to ensuring survival when a financial typhoon hits.

Investment Trend: Gaining WTO status with more policy certainty, China attracted large amount of foreign investment that are making China a global exporting powerhouse, as well as money that is bringing new technologies and transforming China into an increasingly important global exporting power. Foreign direct investment operations in China now account for about half of China's exports.³ Increasingly, foreign direct investment is also aimed at the domestic market. It is this investment that is building the automobile plants and food-processing factories that represent the future for China's economy. And it is the foreign-controlled sector that employs the best and brightest-and most highly paid workers of China. Regarding

³ Supachai Panitchpakdi & Mark L. Clifford, *China and the WTO*. 2002.

this trend, Cambodian government and policy makers must move fast to improve the business environment. Cambodia has to show the world that it is serious about attracting foreign investment through the status as a new WTO member and is willing to move quickly to implement the micro and macro reforms necessary to attract foreign investors from what are perceived as more “dynamic” countries in the Asian region, including China, in the short run and attract investors from more advanced countries such as Japan, EU, and the United States in the long run.

<i>Institutional Weakness</i>	<i>Resulting deceptive management practices</i>	<i>Company response</i>	<i>Action to prevent or alleviate the problem</i>
Asymmetrical enforcement of law or lack of law enforcement	<ul style="list-style-type: none"> • Mangers exploit their local connections to collude with government officials to defraud the firm • Managers break the law because of confidence that convictions will not be enforced 	<ul style="list-style-type: none"> • Greeting assistance from local law enforcement and judicial system • Procuring government support at central level 	<ul style="list-style-type: none"> • Lobby and procure support from government and regulatory authorities at all levels (e.g. MOFTEC⁴) • Understand local officials who may also have influence in all levels of government • Develop relationship with local officials and powerful non-officials and opinion leaders • Develop system to handle intervention by local officials • Maintain open communication with other firms in region to identify asymmetries in application of laws • Lobby, directly or indirectly, for development of standards codes • Lobby, directly or indirectly, for uniform enforcement • Lobby for and use arbitration to resolve conflicts
Weak commercial and intellectual property protection	<ul style="list-style-type: none"> • Diversion of resources assets by managers for personal gains • Start-up of competing firms by JV partners 	<ul style="list-style-type: none"> • Monitoring investment 	<ul style="list-style-type: none"> • Use oversight/control system to detect deviant behavior • Draw clear lines on acceptable and unacceptable behavior • Formulize management structure in articles of incorporation
Lack of accounting, financial regulations and institutions	Financial manipulation and falsification of accounting records	<ul style="list-style-type: none"> • Gathering evidence of foul play 	<ul style="list-style-type: none"> • Place expatriates/Hong Kong managers trained in home country accounting and financial practices in key questions, such as financial controller • Have frequent internal audits • Use internationally recognized auditing firms and international accounting standards
Reform of legal system resulting in a state of ambiguity about laws and enforcement	Exploiting uncertainty and partner's lack of knowledge of evolving laws		<ul style="list-style-type: none"> • Background checks of local partners/managers • Identify clearly applicable laws • Track changes in laws

Summary of institutional weakness and resulting deceptive managerial practice in China⁵.

⁴ Ministry of Foreign Trade and Economic Cooperation of China

⁵ Source from Ministry of Foreign Trade and Economic Cooperation of China

Ch. II. Overview on the Cambodian Economy

1. Macroeconomic Development since the early 1990s

In the early 1990s, Cambodia attempt to reconstruct the economy, supported by a United Nations sponsored peace agreement and large inflows of international assistance. Reflecting a period of macroeconomic instability in the late 1980s and the large inflow of foreign aid, the economy became almost completely dollarized. The constitution adapted following the elections of May 1993 guarantees liberal and a free market economy. Cambodia has moved swiftly to adapt the role of the government to one requirement by a market economy. However, after an initial period of growth, ongoing civil strikes and political instability interrupted reform efforts. It was not until the late 1990s that reconstruction efforts were renewed, when the country firmly unified under one administration. The coalition government formed in 1998 committed itself to pursuing increased transparency within an open political and economical environment. Important measures policy has been initiated, notably revenue enhancing actions, improvements in forestry management, and banking reform. Cambodia's reform effort chiefly aims to endure macroeconomic stability, accelerate economic reconstruction, improve governance, and poverty reduction.

The establishment of peace and these reforms have seen a rebound of growth in the economy. Tourism has bounced back with rising demand met by strong investment in the sector and supportive policies. Agriculture has responded well, supported by efforts from government and from private sector firms to improve quality, yield, and processing. Garments and footwear exports have surged driven by a combination of improved market access, supportive policies and low inflation, and

competitive cost structures. However, the ensuring growth rates of around 5 percent, were good by recent Cambodian standards, especially considering the floods of 1999, are not high relative to the performance of some neighbors. For example, Vietnam has grown at around 8 and 9 percent per annum over the past ten years. Moreover, the ingredients of growth are fragile. Tourism is concentrated around Siem Reap and Phnom Penh and linkages with the rest of the economy are weak. The same applies to the garments sector, which is also vulnerable to changes in market arrangements.

The Royal Government of Cambodia started a reform process in 1999. Given an extremely low ratio of taxation revenue to gross domestic product (GDP) and a pressing need to rebuild infrastructure and increase social outlays, measures are being taken to substantially improve revenue raising effort. This increased effort in conjunction with other measures such as demobilization of the military will enable greater expenditures on health, education, and rural development. Overall fiscal performance has improved since 1999, increasing revenue by about 3 percent of the GDP, reflecting, in part, the introduction of a value added tax in 1999. Military expenditure has initiated fiscal restructuring while maintaining macroeconomic stability, as current budget surpluses have been maintained at about 1.5 percent of GDP and overall deficits, including development expenditure, have been contained below 6 percent of GDP (excluding grant). Cambodia has avoided domestic financing of budget since 1999, thus providing room for and expansion in private credit.

The government has simultaneously pursued a prudent monetary policy aimed at low inflation and a stable exchange rate. The increase in broad money has been largely accounted for by an increase in net foreign assets, while net domestic assets of the banking system declined, owing to the improved fiscal position. Mirroring the moneta

ry policy stance, the *Riel* has been relatively stable in US dollar, and real effective terms since late 1998; and official international reserves have increased to about three months of imports of goods and services. The external current account deficit has remained broadly stable at around 10 percent of GDP (excluding official transfers), due to the strong performance of garment exports. While there are significant barriers to both domestic and international trade, compared with many developing countries, Cambodia's trade regime is relatively open following reform in 2001. The country's exchange system is free of restrictions on payments and transfers for current international transactions.

The essential macroeconomic challenge is to further improve budgetary performance through revenue mobilization and increased spending for the social sectors. However, options for further increasing tax revenue are constrained to a few economically challenging and politically difficult measures, given the limited direct tax potential at Cambodia's current level of development. In this context, efforts to increase tax revenue will need to focus on broadening the tax base and improving tax administration, while strictly limiting exemptions. The ability to raise government salaries in the future, as the civil service reform strategy calls for, is directly tied to achieving annual targets for revenue performance and military demobilization.

Timely implementation of the bank restructuring process and payments system reform will be crucial in broadening financial intermediation. Challenges with bank restructuring include smooth liquidation of nonviable banks, monitoring of bank asset quality, and modernization and privatization of the Foreign Trade Bank. With respect to external policies, Cambodia still needs to refrain from contracting non-confessional foreign borrowing and to resolve outstanding debt rescheduling with major bilateral creditors.

Cambodia's medium term strategy is to support a rate and a pattern of economic growth consistent with ambitious reduction in poverty as set out in its Interim Poverty Reduction Strategy Paper and the forthcoming Socio-Economic Development Plan II for 2001-2005, developed in conjunction with the UNDP, the IMF, the WB, and the Asian Development Bank (ADB).

Cambodia's per capita income was estimated at \$238 in 2000, the lowest in Southeast Asia. While changes in survey design and interview practices make it difficult to access the evolution in the incidence of poverty over time, the most recent data (household survey rounds) suggest that the poverty headcount rate lies between 35.9 to 64 percent. Earlier surveys in 1993-94 and 1997 identified key characteristics of the poor were and these findings were largely supported by the most recent survey in 1999. The poor were more likely to live in rural areas, to live in households headed by farmers, or where the head was illiterate and had few years of schooling. Poorer households also tended to be larger, younger and have more children.

For the poor, expenditures on rice are the single most important item of all expenditures. On the income side, earning from self employment account for over 67 percent of all total income of the poorest, with two-third coming from activities related to cultivation. Thus, policies that affect food prices, especially rice, have important implications for the welfare of households. The government's Interim Poverty Reduction Strategy notes that people are poor because of inadequate human and physical resources, or the opportunity to generate income and accumulate resources. The poor are generally disadvantaged by a plethora of factors: inadequate food supplies, poor health, physical disabilities, lack of access to land, insecure land titles, lack of skills, inadequate information, and poor access to input and product markets.

In a large part of Cambodia, the U.S. dollar and the local currency-the *Riel*, co-exist smoothly. In Phnom Penh, either currency is widely accepted for everyday transactions. Large commercial transactions and asset building are invariably conducted in U.S. dollars. In the countryside, everyday transactions are more likely to be in *Riel*. In border areas the Thai *Bath* is also widely used. There is an active foreign exchange market managed by licensed money changers, and there are no restrictions on international transactions.

The readiness to accept the dollar as a currency has yielded many benefits. It supported early reconstruction; it helped Cambodia cope with the Asian crisis; and it helps protect producers and traders from exchange rate risk. However relying on another currency means that the ability to use monetary policy as an adjustment instrument is constrained. The continuation of dollarization raised important issues of export competitiveness especially in the context of minimum wage regulation.

2. Foreign Trade

In 1989, Cambodia adopted a trade policy of privatization, deregulation, and trade liberalization through abolishing the imports and exports licenses, quantitative restriction on trade, and other measures which were barriers to trade. These measures, implemented by the Cambodian government, have encouraged economic liberalization, and the import and export activities have increased year by year. To date, Cambodia has bilateral trade agreements with 10 countries, and as Cambodia is classified in the group of Less Developed Countries, Cambodia gains Generalized S system of Preferences and Most Favored Nation status from 28 developed countries such as the United States, Japan, the European Union, and other countries. This status promotes Cambodia's products growth in the world market.

2.1. Export Performance

During the 1990s, Cambodian exporters demonstrated their ability to increase their export performance despite fierce international competition. This is due in Cambodia's economic infrastructure. Cambodia's trade law offers some of the most attractive incentives and represents the most liberal legislation in the region.

Between 1994 and 1998, Cambodia's exports grew by an average rate of 34 percent per annum, reaching an absolute value of US\$ 743 million in 1998, according to the official statistics. The growth of exports from Cambodia can be attributed to the rise of non-traditional exports, especially garments, which represent approximately a third of Cambodia's total exports. 1997 was the first time in which non-traditional exports were more important than exports of primary products. Exports of garments, leather, furniture and processed food accounted for approximately 63 percent of Cambodia's total exports. Until 1996, primary products, especially timber and rubber, dominated Cambodia's domestically produced exports.

Among the most competitive Cambodian sectors are garments and leather products. Other significant exports include wood products, rubber and fishery products. Cambodia's main export markets for these products are Vietnam 18 percent, Thailand 15 percent, the United States 9.8 percent, Singapore 8.5 percent and China 5.3 percent. The service sector is another major sector in Cambodian accounting for about 40 percent of GDP. Tourism is one of the fastest-growing sub-sector.

The total value of exports from Cambodia, including re-exports, reached almost one billion US\$ in 1998. The main products were garments, which accounted for almost 40 percent of all exports, and forestry products, accounting for 18 percent of all exports. However, Cambodia's current export base remains narrow. Exports of

garments dominate the sector (nearly \$6000 million in 1999) followed by three or four products and services-logs and sawn timber (\$180 million), tourism (\$150 million), remittances of expatriate Cambodian workers (\$100 million), and rubber (\$50 million). Other exports are small, though a number show strong promises (e.g., shoe manufacturing, rice, fish, specialty agriculture and agro processing, handicraft.) Destination markets of current exports are also limited: the US, EU, Thailand, Malaysia are the dominant destinations.

2.2. Import Performance

In 2001, the imports reached 1,876 million US\$, an increase of 53 percent compared to the year 1998 which consisted of only 1,227. The main import items consists of fuel, vehicles, spare parts, construction material, electronic appliance, alcohol, beer, soft drink, cigarettes, and fruit. Due to Cambodia's massive economic reconstruction, imports of many capital and intermediate goods have started to increase substantially. ASEAN countries represent a substantial proportion of Cambodia's total trade partners in both imports and exports. However, garment exports flow chiefly to the United States and the European Union.

While the growth rates for the last import performance years may not constitute an ongoing trend, the Cambodian economy is very much in the midst of a fundamental transition, and trade patterns can be expected to continue to go through major changes. Nevertheless, these estimates again confirm the importance of imports for industrial activity, rather than consumption. It appears that imports increasingly necessary for the growth in industrial investment in physical infrastructure. The strong growth in the import of textiles reflects the input requirements of the rapidly expanding garments industry. The growth in vehicles, machinery and raw materials,

such as cement, are all indicative of requirements of an economy going through the process of industrialization. The decline in the imports of some types of goods suggests changing economic performance (e.g., rice) or increasing sources of domestic supply, (e.g., furniture, pottery).

2.3. Re-export

All of this trade entails import of goods destined for Vietnamese markets. There is also a general belief that there is a great deal of informal trade taking place between Thailand and Cambodia. This trade is essentially informal and is noteworthy, in part, because it is semi-official and generates substantial revenues for the government. The only other significant area of re-export activity consists mainly of liquors and cigarettes. However, re-exports will almost certainly decline in importance relatively rapidly. As a member of ASEAN, Vietnam is engaged in a program of tariff reductions as part of the ASEAN Free Trade Area (AFTA). While they are taking a very cautious approach to liberalization, they will eventually open their markets sufficiently to make re-export through Cambodia much less attractive. Other, more “normal” types of re-export activity are likely to become much more important for Cambodia in the future. This will include the importation of raw materials and intermediate goods that are processed and re-exported.

3. Developments in the Cambodian Trade Policy

During the 1960s, Cambodia exported agriculture products (mainly rice, rubber and corn). As the regional conflict spilled over into the country in 1970s, foreign trade virtually collapsed. Under the trading system adopted in the early 1980s the level

and composition of trade was effectively controlled through quantitative restrictions and state owned trading bodies. A process of market oriented liberalization began in the late 1980s. The state monopoly for foreign trade was abolished in 1987 and foreign investment law was promulgated in 1989, enabling private companies to engage in foreign in foreign trade. From 1993, restrictions limiting the ability of firms and individuals to engage in international trade were largely removed.

3.1. Domestically Imposed Trade Barriers

The tariff regime was again reformed in April 2001. High rates were reduced from 120 percent to 35 percent, and the system was simplified with number of bands being reduced from 12 down to 4. At the same time excise taxes were raised on excisable products. This meant that revenues could be maintained without inadvertently providing high protection to these products. Compared with the countries Cambodia experts to, its trade regime is relatively open. Moreover, the tariffs regime has not evolved in response to protectionist demands from local industry. Unlike many countries the challenge is not primarily one of dismantling protection and managing industry adjustment.

However there is still a cascading tariff structure, with the highest rates applying to processed goods and lowest rates on raw materials. Because producers are influenced by duties on inputs as well as outputs, this kind of tariff structure can provide high effective protection even with a tariff ceiling of 35 percent. Importantly, it can also lead to big variations between commodities in the levels of effective protection that each enjoys. Variation in effective production across sectors can lead to costly resource misallocation by inducing scarce sources away from productive activities to less productive ones.

While tariffs are low compared with past levels and tariffs in some other countries, they nonetheless involve taxes on people and firms consuming and using these goods. For firms producing for the domestic market a duty of 35 percent in output combined with a duty of say 10 percent on input can still leave a comfortable margin. But for exporters there is no input protection on international markets so even small input duties cannot be passed on. This is especially a problem where the export activity involves importing a lot of material for processing such as is the case for garments.

Schemes involving duty rebate, duty drawback, duty deferral, bonded warehouse and so on are to be found in many countries. Just as these schemes are common so are problems with them. Cambodia is no different in this regard. The Law on Investment (LOI) provides for exporters to have exemptions on the import of goods for export production. Like most devices for getting duty free access of materials to exporters, this system has deficiencies. In order to constrain exempted imported inputs to goods actually used in export production, exporters are required to complete a Master List inputs of planned imports. The ensuring system is reported to be unwieldy and involved high bureaucratic costs for exporters.

There is no easy way round this problem so long as tariffs remain. Given Cambodia's still evolving administrative system switching to other methods of delivering duty free access such as duty rebating or duty referral would incur difficulties. Declaring a zero tariff in the goods most frequently used would be an option in that at least the system would be transparent and administration would be simpler. Risk based audit systems are another option. In the longer run, moving to lower duties on all goods would gradually diminish the problem. Whatever the case, ways need to be found to give exporters access to inputs at world prices in a low cost way, and evidence point to the importance of this access in attracting export

oriented investment.

The actual amount of duty by importers is also affected by valuations procedures. For many goods, the Pre-Shipment Inspection (SPI) company proposes a value for duty based on fair market value (FMV), but in other cases the Ministry of Economy and Finance sets minimum or fixed values for duties and other taxes. Minimum prices are a practical way of coping with under-invoicing and a weak customs system but offer for very high protection. This protection is not transparent and can be determined by administrative decisions about the level of minimum price.

Most quantitative restrictions and licensing of imports were eliminated in 1994. A few goods remain under some form of control including pharmaceutical products, gold and silver, ornaments, ammunition, and various cultural and medical materials. Imports of some goods are banned, for example, pork (pig's meat), used motorbike tyres, right hand drive motor vehicles, and used footwear. A few state trading companies continue to operate, but they appear to compete with private companies in the same markets.

Control of various kinds apply to exports in the following circumstances:

- Control in place for the health and security reasons.
- Quotas and inspection procedures are applied to meet requirements of trading partners to satisfy quota limits or rule of origin.
- Control is applied to exports of processed wood products.
- Rice is a controlled export for food security objectives.
- Military, pharmaceutical and medical goods are also controlled for security purposes.

Export taxes apply to several classes of goods. These include live animals and fish, and raw hides and skins. While there are sometimes perceptions that encouraging further processing in the way is a good way to encourage value adding and employment generation, in practice this is seldom the case.

- Such as taxes involve “hurting” one activity and “helping” another so that the basis for presuming and output gain is weak.
- Illegal exports are encouraged.
- Reducing returns to animal producers from hides and skins discourages them from delivering high class products; yet such products are needed by processors seeking to compete in international company.

3.2. External Trade Barriers

Taking Cambodia’s top 50 export commodities, the main products are apparel (74 percent), footwear (5 percent), wood products (4 percent), and rubber products (3 percent). The main markets for apparel are the US and the EU. In 2000, the US imported 76 percent of garment exports and the EU 23 percent. Most footwear is exported to the EU (60 percent) and Japan (35 percent).

This study surveyed of some 100 exporting firms. These firms covered garments, footwear, whole scale and retail trade, wood processing, fisheries, agro-processing, and logging. Garment firms identified quotas, tariffs and labor standard requirements as the main obstacles to the US market. Opinions about the EU market were similar, indicating that local content requirements mean a substantial amount of goods are not eligible for duty free access and must enter at MFN rates. Footwear firms have been established primarily through Taiwanese investment. Most footwear exports are to the EU and Canada. Hardly any goes to the US. There are virtually no local inputs, and the 40 percent local content requirement bites hard on producers. Tariffs do not appear as a major obstacle for exporters and firms exporting to Japan rating tariffs there as relatively unimportant. Labored standards of the EU were cited

as a problem. Cambodian ownership and management of firms exporting in other product areas is much greater.

While Cambodia has duty free access for some 6,000-tariff items under the US GSP, the items where Cambodia can compete effectively with respect to cost and quality, apparel products, are regarded as sensitive and are excluded from GSP. MFN rates apply and 12 categories of garments are subject to restrict quotas. Thus, despite the fact that Cambodia is a least develop country (LDC) the average duty into the US is 17 percent. In the EU-Cambodia faces no quota restrictions and has duty free access subject to rules of origin requirements under the Everything-but-arms Initiative (EBA).

Preferential access may seem to be a valuable consideration but it has cost:

- Some of the bureaucratic obstacles identified as domestic restriction are caused by access requirements. For example, administration at the border is further complicated by the need to enforce various rules of origin requirements
- While labor market requirements are driven by the Cambodian Labor Law the regulations for garment labor conditions are linked to requirements of the US and the EU. The US quota expansion is directly linked to substantial compliance with labor standards and EU GSP status also has labor and environmental linked.
- Minimum wages are a transfer to existing workers. That is a positive for them, but a negative for people who would like to get work but cannot.
- Mandatory double time for night shift work appear to help nobody, raising costs of producing in Cambodia and removing work opportunities for people who like to work.

Given the level of productivity in Cambodia, costs are considered to be high relative to some competitor countries. Other competing countries such as Vietnam are also being granted MFN status. Quota restriction on imports from other countries

into the US and EU are scheduled for removal in 2005 under the Agreement on Textile and Clothing. When this happens, Cambodia will need to compete on costs and chasing preferences can input the capacity to do that at risk. Furthermore, the African Growth and Opportunity Act (AGOA) grant GSP benefits to eligible countries in sub-Saharan Africa. It also allows selected eligible sub-Saharan African countries duty-free and quota free access to US apparel markets subjects to the origin of the fabric. Whether competition from preferential conditions appears generous, the experience is that the administrative requirements to meet them are costly--demonstration rules of origin for example--and as Cambodia's own experience has shown, rapid increases in market share are likely to be met by tariffs and quota.

4. The Concepts for a Pro-Poor Trade Strategy

The diagnosis in the preceding subsections points to the formation of a pro-poor trade sector strategy on the basis of three concepts:

1. Shifting the balance of policy emphasis of market access and macro-reforms for trade to issues of supply capacity
2. Focusing strongly on the delivery of capacity-building support at the export enterprise and export sector levels
3. Strengthening the regionalization and geographical decentralization of export business within Cambodia.

A focus on market success issues and the macro-environment for trade stresses building up a country's comparative advantage. While comparative is a necessary conditions for successful integration into the global economy, it is not sufficient. The

development record in many countries shows that turning export potential into true export business does not happen automatically. This is due to an absence of supply capacity that may be the result of a variety of microeconomics factors affecting the formation or expansion of competitive business and export products. There is therefore a need to shift from a focus on comparative advantage to one enterprise competitiveness.

A specific example of the need for a shift in focus relates to the environment for labor relations at the enterprise and sector level. Cambodia has put in place a n initial legal and regulatory environment for labor relations in export industries. This framework now is linked closely to the country's bilateral trade agreement with the United States through a labor clause, which places Cambodia at the vanguard of a trend that is sure to develop more broadly in years to come. Consumers from developed countries (the US. and European Union in particular) are putting growing pressure on their government and on multinationals to focus trade and investment on countries that offer a prospective environment for labor. Cambodia should be able to use ors early positive record in this area to attract more export business.

However, the legal framework and culture for labor relations at the enterprises level remain relatively underdeveloped. Mechanisms for collective bargaining and labor-labor management dialogue are only slowly evolving, so that strikes remain widely used in enterprise, even to address the most minor grievances. This is unduly costly and disruptive of business. Also, the existing labor relations framework and culture does not yet promote a wage structure incorporating direct linkages between wage increases and productivity increases. Consequently, there is no strong mechanism encouraging productivity growth. This is a particular problem for export sectors (including garments) where competition is intensive and where there is a need for

productivity to rise if Cambodia exporters are to remain cost competitive.

Diversifying the destination of export products and developing new export products require identification of market and product potential and sectoral trade action plans to support business development. It also requires the availability of a variety of support services to enterprises. These may include strong producer associations, trade information and intelligence services, promotion services, export financing services, services to help the enterprises to meet with the technical standards and packaging requirements of export market, and others. Cambodia's existing base of such trade support services remains extremely rudimentary. Other micro-level issues may emerge from further investigations undertaken as part of the formulation of the pro-poor trade policy.

The shift in emphasis towards supply capacity constraint does not mean that all macro-level issues have been resolved. As already noted, there is a substantial amount of work to be done to secure Cambodia's accession to the WTO. Also, the Government is at an early stage of negotiating a series of bilateral agreements to expand its trading opportunities. Much remains to be done to increase the number of such agreements and to deepen their coverage (for example in such areas as investment protection, double taxation, conditions for labor exports).

That said, supply capacity needs to be increased at the enterprise and sectoral level, in order to strengthen and diversify the export base. Special attention must be given to increasing domestic value added content of individual exports through increasing the domestic value-added content of existing exports (such as wood processing, tourism), and through developing new export sectors characterized by a higher value-added content than existing ones. Tree crops, specialty crops, agro-processing,

fish farming and processing, skilled labor services (i.e. software development services) provide opportunities along these lines. Much work remains to be done in the next several years to identify a reasonable basket of feasible new export products and markets, and to ensure conditions are there to permit their successful development.

In addition, to increasing the value-added content of exports, Cambodia needs to regionalize and decentralize its export sector if the benefits of globalization are to be distributed more widely within the country. One way of achieving this is by supporting development in the areas of agriculture, agro-processing, fish-farming, and tourism (especially new tourism products in regions others than those already targeted). Another way is through the development of special economic zones or export processing zones to attract industrial and agro-processing exports to new regions (for example near the Thai and Vietnamese border, or in new coastal regions). The Government, with assistance from the Government of Japan, has done some preliminary work on the latter approaches. Feasibility studies are being conducted on both avenues for pro-poor export development and, where feasibility is established, initiatives will be implemented.

5. Industrial Development

5.1. Manufacturing

Employment generation is crucial reduction. In 1998, open unemployment rates in urban areas were 12.2 percent for women and 6.7 percent for men.⁶ The respective

⁶ Ministry of Social Affairs, Labor and Vocational Training

figures for rural areas were 5.0 and 4.3 percent.⁷ Underemployment rates—defined by the proportion of employed persons working under 35 hours per week—were higher in 1999; they were 8.6 percent of males and 14.7 percent for female in urban areas; and 13.9 percent for males and 18.1 percent for females in rural areas. In addition, an average of approximately 228,000 new entrants to the work force are expected each year and their numbers will be augmented by 30,000 soldiers demobilized in 2001-2003, and by a number of retrenched civil servants. Agriculture, which accounted for 76.5 percent of the employed population over 10 years of age in 1999, will absorb the bulk of the increased numbers. However, the Government recognized that labor-intensive manufacturing development is an essential means of creating productivity employment and reducing the pressure on agriculture's absorptive capacity. This annex represents the Government's industrial and minerals development strategies.

5.2. Growth Performance, 1996-2000

During the period of 1996-1999, the industry sector's growth rate of 13.5 percent per annum was well excess of the target rate of 9.8 percent. This reflected the exceptional performance of manufacturing, which was led by textile production for export to US. Manufacturing output grew at an average annual rate of 19.1 percent, while textile production grew at 64.3 percent (from small base). The key ingredients in the textile-led manufacturing expansion were cheap domestic labor and foreign investment. Electricity and water grew at 8 percent per annum, and construction grew rather erratically at an average annual 3.1 percent. Mining sector value added

⁷ Ministry of Social Affairs, Labor and Vocational Training

grew at 2.38 percent annum. In aggregate industry's share of GDP (at factor cost) rose to 20.6 percent in 2000.

As a result of its rapid growth during the late 1990s, industry's sector share of the employed population rose from 4.5 percent of 3.8 million in 1993-1994 to 6.4 percent of 5.5 million in 1999. Manufacturing employed 4.7 percent in the latter year, and was relatively female-labor intensive: nationwide, 6.0 percent of employed females worked in this sector compared with 3.3 percent of males, while in Phnom Penh 24.5 percent employed females were in manufacturing compared with 10.7 percent of males. Average monthly wages in manufacturing in 1999 were 228,413 Riels (US\$ 60) for males and 160,535 (US\$ 42) for females, suggesting (though not formally proving) discrimination in the labor market. The wage rate for females in manufacturing was the highest among the major sectors and third highest for males (after trade and utilities). Thus, notwithstanding the fact that many young women are forced by poverty to migrate from rural to urban areas and work in stressful circumstances, employment in manufacturing represents a real opportunity for economic betterment. The 1999 female wage rate of US\$ 42 was approximately double the average civil servant wage.

Towards the end of 2000, the manufacturing sector accounted for the majority of business enterprises as defined by the Ministry of Industry, Mines and Energy. There were 25,791 companies in manufacturing. Of these, 6,257 were enterprises, 19,227 were small and medium enterprises (SMEs) and 357 were big business enterprises. Food processing dominated the SMEs sector, with three-quarters of the total. Steel production, wood processing, and textile and sewn products manufacturing followed.

In the last two years, industrial projects accounted for 38 percent of the total approved value of US\$ 717.1 million. Garment and textile projects dominated, accounting for 77.5 percent of approvals granted for the industry sector. In 1999, 56 percent of the projects approved involved domestic investors, while the bulk of foreign investment was from Taiwan, China, and ASEAN countries. In 2000, the domestic investor share of a lower level of approved investment fell to 22 percent, with a corresponding rise in the share of investors from other Asian countries.

5.3. Growth Prospects and Projections, 2001-2005

The Cambodian economy has demonstrated comparative advantage in the production of labor-intensive manufacturing for export, and the potential exists for further growth in this sector. The pool of relatively cheap, unskilled labor will continue to grow rapidly, underpinning the country's wage cost advantage. In the case of the textile and garments industry, there are opportunities to diversify into non-quota markets, for the promotion of upstream activities such as primary textile production. Other labor-intensive activities such as toy and footwear production, and assembly of consumer and industrial electrical and electronic products, are potential growth areas. In this field of agro-processing, there are opportunities for import-substitution, although experience shows that caution must be exercised in order to avoid the development of chronically inefficient, and therefore costly, production. The construction sector accounts for over 4 percent of GDP and has the potential to respond to the growing demand for physical infrastructure development. It must be remembered, however, that human resource bottlenecks in this sector can be problematic. This constraint may be eased in the short and medium term by skills

importation, and in the long term by human resource development.

While there is potential for growth in manufacturing, its realization requires more than just plentiful supply of cheap labor. Private companies offering investment packages that include technology and entrepreneurial and management skills must be attracted. Other producers, notably China, offer cheap labor. Many producers in the Asian region have increased their international competitiveness through currency depreciations; and they offer more developed physical infrastructure, and cheaper water, power, financial, information and communication services. Also, the competitors' legal and regulatory frameworks are relatively well developed and enforced, their tax and customs administrations are characterized by less corruption and red tape, and physical security is usually assured. Implementation of the comprehensive economic and structural reform program is aimed at easing these constraints; but the Government also remains committed to specific interventions to encourage industrial development.

The outlook is for a sustained expansion of the industry sector, which is projected to grow at 7 percent per annum in the 2001-2006 period. Textiles and garments production is expected to continue to play a key role, growing at 6.5 percent per annum, and supported by the solid 5 percent annual growth rate in food, beverages and tobacco production and 6.4 percent growth in wood, paper and publishing output.

The major threats to the projects outcome are the departure of essentially footless firms in the garment sub-sector, and loss export markets as a result of a slowdown in the US economy and/or competition from lower-cost producers. In the latter regard, there are particular concerns about the possible damaging impact of more intensive

regional competition arising from China's accession to the WTO, the US-Vietnam bilateral trade agreement granting Vietnam MFN access to the huge North American market, and the end of the Multi-Fiber Agreement. These risks must be addressed through market diversification and productivity improvements, and a search for a new export goods and services.

5.4. Industrial Development Strategy

The Industrial Development Action Plan, 1998-2003 has two goals. First priority is given to the development of export-oriented industry, and second to the development of import-substituting production of selected consumer goods. Seven subsidiary objectives are identified:

- Promotion of labor-intensive industry
- Promotion of natural resource-based industry
- Promotion of small scale industry and handicrafts
- Promotion of agro-industry
- Promotion of technology transfer and upgrading the quality of industrial products
- Promotion of the establishment of industrial zones
- Promotion of import-substitution of selected consumer goods industries

There reasons for giving first priority to an outward-oriented development strategy are that the small size of the domestic market in terms of population and purchasing power constrains opportunities for efficient production. Second, Cambodia does not have sufficient financial resources or managerial expertise to utilize its natural resources base optimally. Third, access to the technological innovation that underpins increasing efficient and widening consumer choice can only come from

integration with regional and global economies. Fourth, no country has a comparative advantage in producing everything and all countries can therefore benefit from co-operating and trading with others.

The promotion of labor-intensive manufacturing will continue to focus on the textile and garments sub-sector, where the ready supply of mostly female labor underpins cost competitiveness. However, the government recognized that retaining and increasing market share in an increasingly competitive international environment requires the upgrading of product quality, as well as greater productivity through improvements in technology and management. The development of better industrial relations within the established legal framework is needed; and ways of increasing the multiplier effect of garment manufacturing need to be investigated. Currently, most of the garment sector operates on cut, manufacturing and tailor basis, with fabric and accessories (zippers, button, thread) being imported, and the purchase of local inputs to transportation and freight clearing services, utility-type services to run factories, and construction to build factories.

In order to diversify the manufacturing export base, the Government will encourage toy production, whether it be under license or through foreign direct investment (FDI). Such manufacturing is considered to be well-suited to the country's relatively large endowment of low skilled labor. A second area that will be promoted is assembly of electronic products, where all parts and components are initially fully imported.

The promotion of natural resource-based industry will focus on identifying and exploiting opportunities in processing of natural resources, including non-metallic mineral resources, timber, and fisheries. The development of animal and fish

breeding may permit their supply as a raw material for reprocessing factories. However, the main prospects in this area are in the use of non-metallic resources for manufacturing of construction materials. Specific local raw material sites include:

- Limestone in Kompot Province
- Bauxite in Kandal Povince
- Clay in Sihanoukville, Kompong Chhnang, Kompong Cham, Koh Kong, Kompot, Kandal Province
- Kaolin in Kompong Cham, Kompong Chhnang, Prey Veing, Sihanoukville, and Kratie Province.

On these resource bases, factory production of cement, ceramic floor tiles, brick roof tiles, and so on could be developed. Product quality, cost competitiveness, and other aspects of efficient operations would require imported technology and managerial expertise.

In regard to small-scale industry and handicraft production, the Government intends to give priority to the promotion of traditional art and crafts for the tourist market in both rural and urban areas. Again, it will be important to ensure sustained product quality. In addition, micro-finance is needed for small-scale business with little, if any, access to credit other than high-cost moneylenders.

The core strategy for agro-industry development is to grant concessional land plots to both domestic and foreign companies on a long-term basis, and to encourage contract growing by smallholders, who supply raw materials to a processing factory constructed on site. The main opportunities identifies include:

- Textile factories created for the purpose of dyeing traditional cloth/silk (to increase the above-mentioned multiplier effect of garment production)
- Jute factories based on jute growing near the Tonle Sap Lake
- Sugar factories based on two or three sugar cane harvests annually in

Battambang and Kompong Speu; and also use of waste products of sugar milling for power generation, fertilizer production, molasses and alcohol production

- Palm oil refineries
- Cashew nut processing factories drawing from concessional and other land
- Rubber processing factories (involving corporatization and privatization of state-owned rubber farms and processing factories)
- Other factories producing tapioca starch, flour, and fruit products (juice, canned fruit, dried fruits).
- It is also considered possible to encourage expansion of small-scale tobacco producers and to thereby increase the supply of raw materials to the larger manufacturers.

These agro-industry initiatives require close co-ordination between the Ministries of Industry, Mines and Energy, Agriculture, Fisheries and Forestry, and local authorities, as well as technological assistance in the full assessment of development potential. Strengthening the economic linkage between agriculture and industry within the context of sound environment management is seen as essential to the creation of income and employment.

The promotion of technology transfer and the upgrading of products will require the Ministry of Industry, Mines and Energy to design and implement a quality control system for export products that sets internationally-accepted standards and includes laboratory control. In addition, the transfer of technology must be encouraged by establishing an appropriate legal and regulatory framework covering copy rights, trade marks, and so on.

The creation of industrial zones is aimed at facilitating export development and creating employment by providing the high-quality infrastructure and utilities needed to encourage investment. Zones in suburban Phnom Penh and Sihanoukville would provide transport and communications, power and water, waste management, education and health facilities, and shopping complexes, along with minimal customs formalities and duty-free importation of business inputs. The special concentration of export-oriented enterprises would provide a business indicator environment in which ideas and experiences could be exchanged; and would also permit better control of environmental impacts of specific business activities. Other possible regions for industrial/export processing zones include Koh Kong and Poipet (both near the Thai border), Siem Reap (near Angkor Wat), Battambang, and

Kompong Cham (the most populous province). The Government, with external assistance, will conduct feasibility studies during SEDPII and, where feasibility is established, proceed to full project formulation and implementation.

The promotion of import-substitution of selected consumer goods must be undertaken on the basis of careful feasibility studies, which establish whether or not there is a genuine prospect of a proposed industry becoming internationally competitive. Areas proposed for such investigation include:

- Development of the paper industry through the use of specific domestic raw materials (bamboo in Kratie; paper mulberry in the northeast and northwest; old rubber trees in Kompong Cham; and waste from sugar mills)
- Development of a chemical industry producing fertilizer, caustic soda, sulphuric acid, acetic acid, and aluminium sulphate
- Production of a range of consumer goods including soap products, toothpaste, paints, plasticware, electrical accessories
- Development of metal processing starting with assembly line production of vehicles, water pumps, motor aggregates, and agricultural equipment; and moving to SME production of spare parts for bicycles, motor cycles, boats ferries, and tractors.

In general, the Government will support broad-based industrial development by:

- Encouraging expansion of the SME sector, especially through provision of micro-finance
- Improving the performance of State-Owned Enterprises (SOEs) through corporatization and privatization
- Stemming the flow of illegal imported products
- Reducing barriers to export such as export taxes and efficient provision of trade facilitation services (i.e. licensing)
- Reducing barriers to importation of business inputs
- Providing infant-industry protection in carefully selected instances
- Establishing a National Institute of Standards that will ensure product quality matches regional and international standards
- Establishing a National Laboratory with the technical capacity to undertake physical, chemical, microbiological, and medical analyses of products that establish the quality and other specifications of these products

- Establishing an industrial property rights bureau that would protect new products, designs and technologies from illegal copy
- Promoting vocational training domestically and overseas
- Upgrading the legal framework in the areas of factory law, industrial zone law, patent and industrial design law, weights and measures, industrial safety.

Private sector organizations play a key role in identifying industrial development opportunities and constraints, participating in the policy formulation and monitoring process, and promoting domestic and foreign private investment. The Phnom Penh Chamber of Commerce fulfils the following functions:

- Promoting Cambodia as an investment destination through provision of information and advice
- Provision of information to members on export markets, international laws and regulations, and products and technologies
- Working with the Government to establish a good legal and regulatory framework for the private sector, and good business practices, standards, and grading systems
- Representing the interests of members in respect of laws, regulations and taxes
- Arbitrating in any inter-business disputes

Ch. III. Cambodia's Accession Process to the WTO

Accession of Cambodia to the WTO is part of the general strategy of trade policy of Cambodia, which is directed to effective integration of the country into the world economy and global trading system. This strategy is reflected in numerous government policies,⁸ in particular, the royal government of Cambodia's Development Triangle Strategies: building peace and stability, economic integration, and poverty reduction. The Government believes in the role of the trade is supposed to play in promoting growth and reducing poverty. Increased trade, promoted by liberalization policies, act as a powerful stimulus to economic growth, and such open trade regime will lead to higher rates of economic growth. In many ways, trade may even occasionally substitute for aid in the development process.⁹

More specially membership in the WTO will enable Cambodia to reap the full benefits of the global market access through the following:

- (i) Application of best practices and non-discriminatory conditions for access of Cambodian goods and services to foreign markets;
- (ii) Promoting development of export opportunities of the country and diversification of the country's export;
- (iii) Ensuring a sufficient degree of protection of domestic producers within the framework of an open economy and on the basis of norms and rules of the WTO.

1. Cambodia's Unique Historical Relation with the GATT¹⁰

Cambodia previously enjoyed a special status within the General Trade Agreement

⁸ Socio-Economic Development Plan (SEPD I (1996-2000) and SEPD II (2001-2005), the Royal Government Platform for the Second Term 1998-2003, the Policy Framework Paper (PFP), the Interim PRSP, the Pro-Poor Trade Sector Strategy, and lastly the National Poverty Reduction Strategy.

⁹ Speeches made by Commerce Minister, CHAM Prasidh, on the IF in Geneva and Monterrey, 2002.

¹⁰ This section is extensively drawn from a detailed analysis of Dr. Craig VanGrasstek, "Laws and Policies of the United States of America Concerning the Accession of Cambodia to the World Trade Organization," *UNTAD* February 8, 2000.

on Tariffs and Trade (GATT), due to its former relation with France, and also came very close to acceding on its own. While it must be stressed that country's former status in the GATT has no direct bearing on its current efforts to accede to the WTO, the matter is worth exploring for its historical significance. Had Cambodia taken full advantage of the opportunities, the country could have been a founding member of the WTO.

The country's previous colonial status could have facilitated Cambodia's accession to GATT. Under the terms of Article XXVI:5(c) of GATT 1947 – which now has no equivalent in the WTO – countries such as Cambodia were permitted a relatively easy route for entry into GATT. Former colonies of GATT contracting parties could acquire *de facto* GATT status upon their achievement of independence. A country could then convert this *de facto* status into full GATT contracting party status by succession, a process that involved much less stringent scrutiny of its trade regime and fewer new commitments than did the ordinary accession process of GATT Article XXXIII. Some countries succeeded to GATT shortly after gaining independence, while others waited for years before taking this step. Cambodia qualified for this route to accession, insofar as France did apply GATT rules to Cambodian trade while the country was under a protectorate, and duly informed the GATT of this fact upon Cambodia's independence. The option expired with the end of the GATT, however, and Cambodia – like all other countries are still outside the system – must now meet the more rigorous requirements of WTO accession.

Cambodia did indeed enjoy *de facto* status as a GATT contracting party, as did other former colonies of France. While some former colonies rejected both this status and the prospects for GATT contracting party status, Cambodia made a very serious effort to accede to GATT on its own, following the more difficult approach of

negotiating under GATT Article XXXIII.¹¹ The country took this approach in order to avoid the tariff commitments that France had already made in GATT negotiations. The country went so far as to finalize negotiations with the existing contracting parties over the term of its protocol of accession, which was formally concluded on 6 April 1962.¹² Although the Geneva side of the process was concluded, Phnom Penh never completes the domestic ratification procedures.

As recently as 1992, one former GATT official argued that Cambodia could still accede to GATT under the terms of protocol that it had negotiated thirty years earlier. Robin Davies based this suggestion on the fact that the 1962 protocol of accession placed no time limit on the country's conclusion of its domestic ratification procedures, "One can argue," Davies suggested, "that the Protocol remained valid in law (as of 1992). In other words, is despite the affixing its signature to the Protocol."¹³ Whether that position would have been sustained is debatable, but in any event the point is now moot. The 1962 Protocol expired with the GATT itself in 1995, and its irrelevant to Cambodia's WTO status. The country now faces the same process of accession as other countries.

2. Cambodia aims to be the First LDC to accede to the WTO

On December 1994 Cambodia applied for accession under article XII of the

¹¹ "Difficult" is a relative concept. The Article XXXIII negotiations were more difficult in the sense that this approach required that the country make tariff concessions to existing GATT contracting parties, which was not required under the more permissive terms of Article XXVI: 5(c). The extent of demands that were made upon acceding countries in the early 1960s were far less extensive than those made of acceding countries during the final ten years of the GATT's existence, which in turn were less demanding than the requirement that WTO applicants must meet today.

¹² See the "Protocol for the Accession of Cambodia," in General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents* Eleventh Supplement (Geneva, Switzerland: GATT, 1963), page 12-16. Note that this document does not include the annexes to the protocol (which would consist primarily of the tariff concessions that Cambodia made in the negotiations over its accession).

¹³ Robin Davies, "Cambodia and the GATT," *Journal of World Trade* Volume 26 Number 5 (October, 1992), page 96.

Agreement Establishing the World Trade organization and a working party on Cambodia's accession was established on 21 December 1994.¹⁴ Cambodia submitted on 21 May 1999 its Memorandum on Foreign Trade Regime (MFTR) to the Accessions Division of the WTO based on which 4 main trading partner countries,¹⁵ submitted a total of 179 questions, most of which overlapped or were of procedural nature. Cambodia completed answering the questions and submitted them to the WTO Secretariat on 8 November 2000 opening the way for the convening of the First Working Party (WP), which took place on 22 May 2001 and members. Motivated by these early success Cambodia committed itself to an aggressive accession agenda with the second and third Working Party meeting held in February 2002 and November 2002 respectively. At the third WP the focus was on the review of the actual Summary. Cambodia returned to Geneva for the fourth and last Working Party in 16 April 2003 to review the accession report. . The final meeting of the Working Party (WP) was on July 22nd 2003 when the accession package was finally approved by members of the Working Party, which includes Australia, Canada, China, EU, India, Japan, Rep. Korea, Malaysia, New Zealand, Panama, Singapore, Chinese Taipei, Thailand, United States and Venezuela. At the rate the accession process is moving Cambodia's stand to be the first LDC to accede to the WTO by the Fifth WTO Ministerial Meeting in Cancun, Mexico on September 2003. After this meeting officially approves the package, Cambodia will then have to ratify the agreement in an up or down vote of the parliament. It will become a full member 30 days after notification of the WTO, probably in the first quarter of 2004.

3. Cambodia's Accession Process

¹⁴ Letter of the Minister of Commerce No. 088/MC of 19 October 1994.

¹⁵ Australia, EU, Japan and USA.

3.1. Background and Current Status

Given the length and difficulty of the accession process it is surprising that so many members want to enter the WTO. However, in the case of a poor country like Cambodia accession is seen as a necessary means to achieve economic growth.

“In a time of harsh and fierce global competition, the survival of our country depends on our ability to capture the right opportunities and at the right time. We believe the entry to the WTO is such a case”. H.E. Cham Prasidh¹⁶ stated recently.

As part of their economic strategy to increase export revenues, countries knocking at the door of the WTO want to secure the benefits derived from membership. Such benefits include Most-Favored Nation treatment, access to the dispute settlement mechanism and a potential increase in foreign direct investment. Entering the WTO is also seen as the only way to try and influence the shape of future world trade rules which have an enormous impact on developing countries.

But more importantly for Cambodia, accession to the WTO is seen as an additional step towards breaking away from its image as a poor, war-stricken country, isolated from the international community. According to one Cambodian official Cambodia does not want only to be seen as “a country with killing fields”. This is why Cambodia has embarked on a structural adjustment program, sweeping domestic reforms, negotiation of a bilateral textile agreement in 1999 with the US including a labor clause and is now on the verge of achieving WTO accession.

But will Cambodia really benefit from entering the WTO?

It is worthwhile looking at the situation of the 30 LDC members of the WTO. Despite their membership, they have been unable to secure trade opportunities commensurate with their development needs. Low income countries account for

¹⁶ Minister of Commerce and Chief Negotiation for Cambodia, July 22nd 2003 on the adoption of Cambodia’s accession package

40% of the world's population but only 3% of world trade. During the period 1997-2000, non-oil exporting LDCs have actually seen their value of exports decrease because of the absence of any WTO, or other international measure, to address falling commodity prices.

In the current negotiations, despite promises made at the United Nations by WTO members, LDCs have still not received any insurance that they will obtain bound, duty-free and quota-free market access to developed countries, one of their long standing demands. In fact, the current round will probably erode the trade preferences that they currently enjoy, marginalizing them even further. In the case of the dispute settlement, costs, lack of technical capacity and political pressures have prevented LDCs from defending their rights. None of them have made any claims at the Dispute Settlement body so far. Technical assistance remains a drop in the ocean with just 22 million dollars in 2002 to be distributed among 104 developing country members.

3.2. Flexibility - or lack thereof - secured by Cambodia

When asked what constituted special and differential treatment in Cambodia's accession deal, a WTO official said that Cambodia has secured longer implementation periods for the following agreements:

- Technical Barriers to Trade (TBT) (2008)
- Sanitary and Phytosanitary Measures (SPS) (2008)
- Customs Valuation (CV) (2009)
- Trade Related aspects of Intellectual Property (TRIPS) (2007)

Not only is Cambodia unlikely to be significantly more developed by 2009 – the close of the longest implementation period - but it has no recourse to exemptions

from the rules of the agreements or any elements of positive discrimination. Furthermore, implementing all these agreements within four years will be extremely burdensome for a country like Cambodia where the national budget is under stress and already unable to cover essential social expenditures in the areas of health and education. According to available estimates, the cost of implementation of such agreements costs around \$100 million dollars. One might wonder whether using any resources for the implementation of these agreements is a reasonable use of public funding in such a poor country.

3.3. Evidence of pressure from WTO members

"(We feel) deep regret (because of the) onerous demands made by members to acceding countries like Cambodia" Malaysian representative in Cambodia's Working Party, July 22nd 2003 on the adoption of Cambodia's accession package

Despite the fact that Cambodia, a country with 13 million inhabitants, is unlikely to become a major trading nation, it has been pressured to accept all sorts of commitments throughout the accession process. *"The placing of these demands on an LDC is occurring only because of the precedent that not doing so would create vis-à-vis other applicants to the WTO."*¹⁷ WTO officials and many existing members deny the role of precedent, claiming that each country's accession is treated on its own merits yet the evidence contradicts them.

There are several areas where there is clear evidence of pressure from WTO members in the Cambodian accession deal. Whilst there is reluctance among the Working Group (WG) members to 'name and shame' the key demanders, it is widely known that the US takes the lead, *"Given that the USA places the greatest*

¹⁷ Grynberg and Joy, 2000.

*demands upon acceding countries – and this is well known among accession negotiators – assumptions have developed regarding US behavior that allow WTO members to play what accession negotiators now term ‘good cop-bad cop.’*¹⁸

The Cambodian negotiator’s demands for technical assistance in the implementation of the four agreements (TRIPS, CV, TBT, SPS) were rejected out right by the US. Recognizing the potential financial burden of implementation at an early stage in the accession negotiations, Sok Siphana, Secretary of State for the Cambodian Ministry for Commerce, had tried to get binding commitments from WTO member countries for technical assistance related to the implementation of these four agreements and beyond. However, Mr. SOK Siphana¹⁹ was obliged to drop the request when the WTO Secretariat told him that this was impossible since the US was absolutely against establishing such linkages.

Market Access

Due to the pressure of other members, Cambodia had, for instance, to revise substantially its first offer on market access in agriculture and industrial products in April 2003. This is completely in contradiction with the pledge made by WTO members to exercise due restraint in demanding further market access concessions from acceding LDCs.

	Official Offer			Revised Offer		
	Average bound tariff	Peak tariff	Minimum bound tariff	Average bound tariff	Peak tariff	Minimum bound tariff
Agriculture products	44%	100%	15%	30.88%	60%	5%
Industrial products	27.44%	100%		20.71%	60%	N/A

¹⁸ Grynberg and Joy, 2000.

¹⁹ State Secretary of Ministry of Commerce

Overall, this means that the bound average tariffs of Cambodia have decreased from its initial offer by 25% to a level of 22.13%, which is extraordinary low for an LDC. In terms of peak tariffs, Cambodia, a country where 80% of the population is employed in the agricultural sector, has been asked to provide less protection to its sensitive agricultural sectors than the US, the EU and Canada. The EU highest tariff peak on agriculture is 252%. In the case of the United States and Canada, it is 121% and 120% respectively.

The bilateral process

Furthermore, to secure support from key players, Cambodian delegates had to go the Washington, Brussels and Canberra, negotiating bilateral deals with the US, EU and Australia. The content of such bilateral treaties has not been fully disclosed. It is not known at this stage if other bilateral agreements were concluded. *“Without any right or ability to impose costs on a demander negotiations must continue until the WTO members are satisfied that no further concessions are possible. Thus, irrespective of the size of the applicant, the bilateral negotiations will be protracted unless the applicant quickly concedes the vast bulk of the standardized demands of the large WTO members.”*²⁰

*“This agreement is a clear demonstration of Europe's commitment to facilitate the accession of least developed countries to the WTO. The least developed countries have asked for this, it is reasonable, and we, the richer members of the WTO, have to deliver.”*²¹ The diplomatic speeches come easily to developed country ministers but despite this kind of lip service paid to development, once the curtains were drawn it is clear that bilateral agreements were used to secure additional

²⁰ Grynberg and Joy, 2000.

²¹ Commissioner Lamy, connecting on the conclusion of the Cambodia-EU treaty paving the way for Cambodia's accession (19 June 2003)

commitments from Cambodia. Less than one month after the conclusion of these agreements, the accession deal of Cambodia was completed.

3.4. Evidence of WTO-plus requirements in the accession package

TRIPS-plus

- Following Doha, all LDCs have the right to delay the implementation of TRIPS sections²² and 7 of Pt II in relation to pharmaceutical patents until at least 2016. The draft report of the working party's shows that Cambodia had asked for a 2009 deadline for TRIPS compliance, including pharmaceuticals, but they were eventually bargained down to January 1st 2007.²³ According to the WTO Secretariat, the 2007 deadline is generous given that Cambodia already has some intellectual property laws in place - the reference point for accession negotiations being what is already established. However, the truth is that Cambodia has recently passed and promulgated a law excluding pharmaceutical patenting altogether until the 2016 deadline agreed in the Doha Declaration. It would be a global scandal if the WTO accession now requires the Cambodian government to overturn this law. According to Carlos Correa²⁴, an internationally renowned intellectual property expert, Cambodia will gain nothing by shortening this period. The Cambodian government and the public will have to pay the cost of this early deadline in terms of higher prices for drugs. As a result many people

²² WT/ACC/SPEC/KHM/4/Rev.1, 19 June 2003

²³ It is worth noting that LDCs that were members of the GATT during the Uruguay Round were granted a 10-year implementation period to implement the TRIPS agreement. In contrast, by agreeing to the 2007 deadline, Cambodia will have to fully implement TRIPS less than 10 years after accession.

²⁴ From an email exchange with Carlos Correa, July-August 2003

will be deprived of access to the medicines they badly need.

- The accession requirements on data protection are TRIPS-Plus. First because Cambodia is being asked to introduce data protection immediately after its accession to the WTO, which is ahead of both the 2007 accession requirement to comply with TRIPS, and ahead of the new compliance period for pharmaceutical patenting agreed at Doha for LDCs i.e. 2016. And second, because the requirements go beyond what is required by TRIPS. When brand companies seek regulatory approval for a new drug they have to submit test data to the relevant government concerning the quality, safety and efficacy of the drug, as well as information on its chemical composition. In many countries this data is kept confidential for a period. When this period expires, generic producers or importers can gain regulatory approval without generating their own clinical data, by submitting bio-equivalence data that shows that their drugs are the same compound, which is much quicker and cheaper. The TRIPS Agreement requires that members must protect such data against 'unfair commercial use' but does not specify what this means, or the time period for protection. Cambodia has been required to "protect against unfair commercial use of undisclosed test or other data submitted in support of applications for marketing approval of pharmaceutical or of agricultural chemical products which utilize new chemical entities, by providing that no person other than the person who submitted such data may, without the permission of the latter person, rely on such data in support of an application for product approval for a period of at least five years from the date on which Cambodia granted marketing approval to the person that produced the data."²⁵ This requirement will prevent test data from being used by the regulatory authority to assess a bio-equivalent generic, and thereby slow

²⁵ WT/ACC/SPEC/KHM/4/Rev.1,19 June 2003

down the production or import of generic versions of new patented medicines after patent expiry. The generic producing or importing company would have to repeat all the trials - expensive and slow - or wait the five years. Again, according to Carlos Correa, by preventing generic competition on off-patent drugs this obligation could be seriously damaging to public health in Cambodia. Essentially, Cambodia is denied the rights to fully use the flexibilities accorded by TRIPS and the Doha Declaration - whether the extended compliance period for LDCs, or the use of article 39.3 which does not imply data exclusivity.

- Cambodia is obliged to sign The Patent Cooperation Treaty (PCT), which comes under the auspices of WIPO. The Treaty makes it possible to seek patent protection for an invention simultaneously in each of a large number of countries by filing an "international" patent application. Since its adoption in Washington in 1970, the PCT has been constantly evolving; the Treaty itself was amended in 1979 and subsequently modified in 1984 and 2001. Efforts aiming at a more substantial reform of the PCT began in October 2000. The last meeting of the Working Group on Reform of the PCT for this stage of reform took place in May 2003. Accordingly to Peter Drahos²⁶, a global intellectual property expert, the basic problem for developing countries is that the PCT is part of a deeper agenda about patent harmonization that will see global patent administration placed in the hands of the Trilateral offices - US Patent and Trademark Office (USPTO), the European Patent Office (EPO) and the Japanese Patent and Trademark Office (JPTO). In effect national patent offices will become letterboxes as many of them already are. The problem is that if patent administration should itself be responsive to a society's stage of technological development it follows that a

²⁶ From an email exchange with Peter Drahos, July-August 2003

globally harmonized system of patent administration run by the big three developed country offices is unlikely to serve the interests of developing countries. As Drahos warns, if the big three offices harmonize on matters such as the granting of patents relating to doing business over the internet this will almost certainly be of no assistance to entrepreneurs in Cambodia. Cambodians have a strong interest in an open source model of the internet, not a proprietary one.

- "[E]very society must choose how to regulate property rights in the context of the niche in which it seeks to excel in the world system. Again this is a prescription for rich local democratic deliberation on how to enforce property rights. It is a prescription against buying any WIPO Anglo-German hybrid regime as "best practice" in getting the best of both worlds."²⁷
- According to Carlos Correa, Cambodia should be allowed to claim the right to apply Chapter 1 of the PCT only (an option available to all countries). This means that a foreign patent office will do the international search on the patent application, but the assessment about patentability will be done by Cambodia according to its own national law and criteria.

3.5. Agriculture: a glaring case of double-standards

- Cambodia has agreed to eliminate agricultural export subsidies by binding them at 0%.²⁸ Whilst Cambodia has no previous export subsidies for agricultural products, the Cambodian negotiator had resisted this provision, stating that under the Agreement on Agriculture (AoA) LDCs were not required to undertake any commitments on export subsidies. Nevertheless, after sustained pressure,

²⁷ Drahos and Braithwaite, 2003.

²⁸ WT/ACC/SPEC/KHM/4/Rev.1, 19 June 2003

Cambodia complied with the demand. This provision will effectively seal off Cambodia's right under the AoA to introduce export subsidies on any agricultural product in the future should this be necessary in order to protect the livelihoods of poor farmers or achieve development priorities. Australia, representing the Cairns Group as one of the key *demanders*, was far more successful with Cambodia than it has been with the EU and the US in agricultural negotiations. In spite of the Doha Declaration commitment to phasing out export subsidies, EU and US intransigence on this issue means that total agricultural subsidies (including domestic support) account for one-quarter of farm output in the USA, 40% in the EU and over 60% in Japan (Watkins, Oxfam, 2002). The latest position on export subsidies is enshrined in the EU/US framework for agricultural negotiations which states the elimination of subsidies applied to products of particular interest to developing countries but provides no specific examples. This follows on from the EU statement following the Montreal Mini-Ministerial Meeting that they will phase out export subsidies "for certain major products" only and total phase-out may take up to 50 years.

- Under the terms of Cambodia's accession deal it is apparent that the WTO is continuing to impose further liberalization commitments on Cambodia for sensitive products. Whilst very few tariff lines will be bound at 0% (exceptions: electronic circuits etc), tariffs on rice will be bound at 40%, wheat 10%, dairy products +/- 40%, alcohol 60% (highest rate) and tobacco 50%.²⁹ Given that existing developing country members of the WTO are not required to make further tariff reduction commitments under the Uruguay Round, it is unconscionable that the first acceding Least Developed Country should have to

²⁹ Cambodia Tariff Offer: Department of Economic Integration and ASEAN, MEF

do so. 40% is not a very high bound rate should Cambodia need to protect against import surges in their most important agricultural commodity.

Ch. IV. General Impact and Areas Selected Study of Cambodia in Preparing for the Integration as a New Member of the WTO

1. General Impact on Cambodia's Accession to the WTO

Two categories of decision-makers will determine the impact of the WTO on the Cambodian economy. *First*, the public sector which will play a very important role in the process of policy adjustments to be consistent with WTO Agreements. *Second*, the private sector, which will directly participate in the implementation of the agreements, and will change investment, production and trade as a result of the new situation. The past experience of countries that have acceded to WTO does, however, provide a general guidance as to what these will be.

Accession to WTO will require policy action in two areas: *First*, steps will have to be taken to bring Cambodia's legal and institutional framework into conformity with WTO rules. *Second*, Cambodia will be called upon to make commitments on market access in the areas of trade in goods and trade in services. In each of these areas, Cambodia's economic integration into the world trading system will provide both opportunities and challenges.

1.1. The Legal and Institutional Framework

At the time Cambodia becomes a member of the World Trade Organization, Cambodia has to undertake firm commitments to bring her legal framework and administrative procedures into conformity with WTO Agreements. Cambodia expects to make considerable concrete progress in this direction during the accession process itself, and to commit to specific work-programs and time frames for

completing the process after accession. Cambodia has for some time been seeking to reform its legal system to bring it into line with the requirements of a modern market economy. WTO accession can be seen as a way of organizing and accelerating this process, and of ensuring that international norms are fully reflected in Cambodia's own legal framework governing business and trade. It will thus be of great help to Cambodia in accelerating economic reform, and ensuring that through reform, in the near future, the legal framework and administrative procedures of Cambodia will be consistent with international rules both in theory and in implementation.

1.2. Market Access into the World Market

Currently, the market size of Cambodia is relatively small with 12 million consumers, 36 percent of which are living below the poverty line. Of course, we have access to the markets of our ASEAN neighbors, which consist of 500 million consumers, but economic conditions and products are alike and these create some difficulties for Cambodia to export as much as possible to this market. Therefore, it is necessary for Cambodia to look at the world market as a whole to find better comparative advantages for its products, especially in the US, EU, Japanese and Korean markets.

The Most Favored Nation Principle among members created an important factor for Cambodia to attract foreign direct investment.

1.3. Positive Effects from the Agreement on Agriculture

Since Cambodia is an agricultural economy, 80 percent of its labor force is employed in the agricultural sector. The agreement on agriculture provided many

benefits to least developed countries such as Cambodia. The agreement required member countries to eliminate non-tariff barriers, transfer them into tariff barriers and gradually reduce them. As a Least Developed Country, Cambodia may maintain import tariffs on agricultural products at higher levels through accession negotiations. This factor provides a better possibility for Cambodia to expand its export agricultural products and attract investment in this area as well.

1.4. Export Quota on Textile Products will be eliminated in the Future

The agreement on textile and clothing requires all members to eliminate quotas imposed on export textile products by January 1st 2005. At that time Cambodia will no longer be concerned about export quotas to the US and EU, and we should pay attention to the competition capacity of the private sector in this area.

From the above observations we can say that the membership of Cambodia in the World Trade Organization is very important for Cambodia to accelerate the economic development process and to raise the living standards of people through market access to the world market.

1.5. Good Dispute Settlement Mechanisms

With suitable dispute settlement mechanisms, it will ensure and support small and vulnerable economies such as Cambodia from any violation made by big countries due to the fact that dispute settlement mechanisms in the WTO are very crucial in providing security, safety and predication to the economic issues of member countries. This mechanism is also considered an important factor in upgrading the rights and obligations of members under the agreements. This factor is also very important for Cambodia to ensure current investment and attract more foreign direct

investment into the country.

1.6. Special and Differential Treatment

WTO Agreements provide a Special Treatment to least developed countries with longer time to prepare to implement WTO Agreements and technical assistance to upgrade the commercial legal framework. Developed countries commit to provide opportunities for goods from least developed countries to flow into their markets with better terms and 0% tariff rates. The European Union at the LDCIII Conference in Brussels declared the principal of everything but arms, which will provide more opportunity for least developed countries on market access. This is a very important factor for Cambodia to attract foreign direct investment.

1.7. Impact on the National Budget

Some challenges may arise from globalization. One immediate impact could be seen on the national budget. Binding tariff rates are one obligation that Cambodia has to fulfill in the negotiation process of accession. Within this context, main trading partners will request that Cambodia bind all tariff rates, some of which will have to be bound at levels below those currently applied. A key concern is how this can be managed without endangering the growth of budget revenues, taking into account the ongoing need for fiscal reform and for a broadening of the tax base.

1.8. Human Resource Needs

In order to absorb the benefits as much as possible from joining and implementing

WTO agreements, Cambodia has to ensure that both the public and private sectors that will directly participate in implementing agreements have a thorough awareness of the terms and obligations of the agreements. Based on a broad knowledge, we will find flexibility to get more benefits from the agreements. Unfortunately, the shortage of human resources in Cambodia at this stage does not allow us to conduct any substantial research on WTO agreements to find the good points or weak points for Cambodia. Therefore, human resource development and upgrading human capacity in this area is an urgent need for Cambodia at present, and although some training courses were provided to some staff members working in this area, the results still remain far behind the current needs.

2. Areas Selected Study of Cambodia in Preparing for the Integration as a New Member of the WTO

As the world entered the new millennium, Cambodia finds it further firmly established in an era of economic integration and of knowledge-based economies where position, distribution, and consumption of knowledge play important roles in economic growth. The United Nations Secretary-General, Mr. Kofi Annan, stated recently “the main losers today’s very unequal world are no these whose have been exposed too much to globalization. They are those who have been left out.”³⁰ Globalization is often described as the process of increasing integration of the world economy and the countries becoming more interdependent and interconnected. Much has been said of globalization helping us to realize the benefits of free trade through comparative advantage and division of labor. There is also supporting

³⁰ Robert Zoellick, *Competing in the Global Economy*, (2002)

evidence of the link between external openness and economic growth via access to technology.

However, there are also many critics who observe that the acceleration of the globalization process accompanied by a sharp increase in economic inequalities. Many less advanced economies are often at risk of being on the receiving end of the globalization process. The fact that the fruits of globalization are not shared evenly are exemplified by the fact that more than 1.4 billion people around the world are struggling to get by on less than US\$1 a day.

Nevertheless, it is unlikely that the globalization trend will be reserved, and the world in this millennium will certainly be even more integrated and more interdependent. The volume of international trade had been rising, and much of this is due to the combination of advanced information and communications technologies and the remarkable efforts of the GATT/WTO to dismantle trade barriers, both tariffs and non-tariff types, in the past eight rounds of multilateral trade negotiations.

Despite the debacle in Seattle, USA, it should be pointed out that at present, there are almost thirty nations, including Cambodia, awaiting their accession to the WTO. Over the past 15 years, China has showed its strong determination to become a WTO Member. Without a doubt, the membership will bring many opportunities as well as challenges and the long term benefits will outweigh the costs. This part will attempt to analyze the prospects for Cambodia as it is embracing globalization.

2.1. The Strength and Weakness of Agriculture Sector

Agriculture crops account for around 50 percent of agricultural sector value added.

Rice dominated agricultural crops though the total area planted to rice is only 80 percent of that planted in 1970s. Economic return to labor from rice production are much lower (less than half) than rates generated from production of vegetables, soy beans, mung beans, cassava, sweet potato, tobacco, and cotton. About 1.2 million hectares of agricultural land is currently unused. Other agriculture options include plantation of industrial crops such as coffee, castor oil, coconuts, sugar cane and horticulture. Livestock production accounts for around 17 percent of value added which potential for expansion in eggs, poor poultry, and pork (pig meat). Many farm households use livestock as a form insurance. Thus, program covering animal nutrition, and disease control would help provide security and improved livestock marketing and trading opportunities would enhance people wealth.

2.1.1.Rice

Most rural households are engaged in some form of paddy production mainly for home use with the balance trade. Cambodia has moved from a net rice importer to a net rice exporter over the last decade. Food shortages are reported to exist in some areas. As food security concerns are becoming resolved, attention is shifting to seed selection and post harvest practices to increase productivity and deliver consistent quality for storage and processing.

Marketing and processing of rice is typically done by mills, which range from small family affairs to larger mills with their own wholesale and retail outlets. A Federation of Rice Millers has recently been established with a view to building relationships with farmers to provide them with the information, capacity and incentives to deliver more consistent quality rice. Farmers training and incentives are reported to have reduced the rejection rate for grain grown under contract from

80 percent to less than 15 percent in just a year. Farmer extension services provided by the state are very basic and there is an important policy question regarding the best way of getting information to farmers. Many countries have subsidized extension services but the influence is relatively low and advisory services are being increasingly privately sources. The balance of private/public extension is a key question.

On the input side, land use is a key issue-for rice and for agriculture generally. Land in Cambodia can be classified in four classes: (a) larger of unused land in the hands of the state, (b) land which though reasonably securely held is not amendable for use as collateral for borrowing, (c) land which is unusable because of the existence of mines, and (d) which is securely held and well enough titled for use as collateral.

A new land was legislated in 2001 to clarify title, resolve, disputes, and build the foundations for efficiency land markets and for using land as collateral in financial transactions. Much needs to be done to embed this law into everyday practices. It needs to be disseminated throughout the country and understand and supported by individual sand local administrators.

Once explanations why some areas are food exporters while some area re reported to be in food deficit could be transport costs. Transportation costs are high partly because of the nature of the terrain and the quality of roads where the solutions lie in planning and building transport infrastructure. The informal fees and charges reported to be collected at the checkpoints reflect policy with respect to security salaries and arrangements between local and central government. In addition as noted earlier, fuel pricing and taxation policies are the fact that many vehicles are decentralize decision making, improve governance and achieve more sustainable and cost effective development of community infrastructure project.

Few rural business including farmers have accessed to formal sources of finance. Branch banking is expensive, incomes are low, and collateral is not well specified. Farmers processor contracting is emerging as a basic for credit security.

Extensive intervention in rice procurement, pricing, and marketing were largely disbanded during the 1990s. Fertilizer subsidies were abolished in 1997 and now most inputs are supplied by the private sector. The government remains involve in food aid distribution and the army purchases domestic and imported milled rice for soldiers. A state enterprise, Green Trade Company (GTC) is responsible for purchasing rice on behalf of state including the purchase and storage of rice for food security purpose. GTC also competes with private traders. While no formal quotas or taxes apply to rice exporters, exporters are required to obtain a permit. No official charges apply to these licenses but “facilitation fees” are apparently required. Such “irregularities” are reported to be a major constraint on exporting rice form Cambodia. The total cost of export producers, add about US\$14 per ton to the cost of exporting rice.

There has been extensive research and development in rice through government research institute such as Cambodian Agricultural Research and Development Institute (CARDI). While many varieties have produced, dissemination throughout the country has been limited. The research emphasis is now switching from yield to quality to post harvest management.

2.1.2. Diversified Agriculture and Agro-Processing

The role of trade policy in making it feasible for people to overcome poverty is to expand opportunities and enhance their resources. Thus, it is necessary to identify opportunities realistically confronting rural household and holders of small areas of

land. In the past harsh and immediate concerns about food security have caused both private and official emphasis to center on rice for alleviation. While production of rice for substance might be a recipe for survival, it is not a recipe for alleviating poverty and rice processors and rice growers are now increasingly focusing on commercial opportunities for trade as a means of raising incomes.

The broader these commercial opportunities are the better, and there are good reasons for pushing them beyond rice. Cambodian markets display a broad range of locally processed agricultural products such as milled rice; smoked, dried, fermented or salted fish; fermented cabbage and pickled vegetables. Much of this processing currently happens at the household or micro enterprise level but a few larger processing firms do exist. The main obstacles to specialization and exchange as a way of overcoming poverty are partly about infrastructure--transportation, energy, telecommunications--partly about social and institutional arrangements and partly about markets for credit and land. Most market transactions require a degree of trust. When parties trust one another, transactions proceed at low cost with less need to verify quantities, qualities, methods of delivery and so forth. Such trusting relationships and the reputations which reinforce them, are an important in a market economy. In rural Cambodia, these aspects of an efficient market took a terrible battering for many years and are not only slowly recovering. Farmers operate in very competitive markets yet for the most part they do not compete with each other for individual customers. Thus, there is enough scope for them to share information about technology and markets. In many countries--developed and developing--farmers do this by way of clubs, associations, breed societies and the like. Such activities are not well developed in Cambodia. At this time, the Cambodian government is actively supporting activities to rebuild them.

Just as Cambodia agriculture is evolving from a food target, international

markets are increasingly calling for niche products, which are “interesting,” “different,” tasty, clean and green. While individually transactions might be small, the market is huge. Cambodia has many such product products already in place. They include spices, herbs, certain fine flavored fruits, sesame seeds essential oils, tree and lemongrass for example-certain rice varieties.

The opportunities need to be tested demonstrate. This is happening already but at a slow pace because of the physical and social barriers mentioned. One way of supporting development would be through enterprise projects which worked with groups of producers, processors and market, analyze capabilities and costs developed options for commercial and support relationships and put together proposal for raising finance. These incentives would need to be designed so that there they were not working they would be allowed to fail and where were working well, they would be allowed to grow and become commercial entities. Meanwhile, government must provide farmers with needed information. This includes assistance with the development of modalities for setting associations with a common interest in marketing, technology, and purchasing inputs. One approach to this would be by way of establishment of an “enterprise Program,” which would provide access to information and other business development services to market oriented agricultural production and processing ventures.

2.1.3. Handicrafts

Cambodia has a rich cultural heritage, magnificently displayed in its grand temple complexes but also reflected in its traditional arts and crafts. There could be many opportunities to promote the export of Cambodian craft and cultural items.

Handicrafts offer considerable potential in the context of a agriculture development program. Handicraft production can be organized through household

units to fit around the timing of seasonally driven activities such as rice planting and harvesting. The rich tradition of handicraft production in Cambodia has yet to be brought to the attention of international buyers. However, many obstacles stand in the way of this happening. Years of war and civil strife broke the chain of the traditional transfer of skills and designs. These capacities are slowly reassembling but linkage between craftspeople and market are still weak. The capacity and keenness of young Cambodian people to trap into the opportunities offered by information technology is being utilized in some marketing of handicrafts. This approach offers considerable promise.

The demand for a greater variety of reasonable priced quality handicrafts for the very quickly growing of the tourism arrival is clear market of further development. Many of the crafts being sold in the primary tourist markets for foreigners in Cambodia are imported from neighboring countries.

Local tourism is also expanding as Cambodians feel more secure traveling within their own country. Until very recently Cambodians have tended to stay close to home out of fear of security risks in the countryside. Opportunities also exist in export markets as these markets are exposed to the unique design characteristics of Cambodian arts and crafts. Small amounts of handicrafts are already being exported to Japan, Europe, Taiwan, and USA. However, exporters continue to be confronted by obstacles in meeting the quantity, quality and cost demands of these markets. For producers to be able to take advantage of new economic opportunities and capture new markets, they need assistance to expand their production capacity, upgrade the quality of their products to the standards demanded by buyers, and overcome the many obstacles noted above.

The potential benefits from development of handicrafts are many. Capturing the sources of hidden wealth in craft and cultural items could contribute to the

economic empowerment of the sector. Cambodian people are already engaged in craft production and marketing, they need to be enabled to play a more active role in the development and promotion of their crafts. And, as much of craft production is carried out in rural areas, development of alternative livelihood opportunities revolving around the craft production would also contribute to the national poverty reduction efforts. Promotion of local products would also rebuild pride in Cambodia's rich culture and traditions.

Furthermore, in regard to small-scale industry and handicraft production, the government intends to give the promotion of traditional art for the tourist market in both rural and urban areas. Again, it will be important to ensure sustained product quality. In addition, micro-finance is needed for small-scale business with little, if any, access to credit other than high-cost moneylenders.

Freshwater Fisheries

Cambodia's abundant capacity to produce freshwater fish arises from complex and delicate interactions involving vast bodies of water (Tonle Sap Lake and the Mekong River), topography, and nature. The wet and dry seasons bring about regular and significant changes in the area (from 3000 Km³ to 7,500 Km³), depth, flows and nutrient composition. Traditionally, these interactions have replenished fish food stocks and provided a hospitable environment for fish to breed and grow. Now this vast but easily to damage resource is under pressure from many sources. Not all this pressures originate in Cambodia. People in China, Laos, Myanmar, Thailand and Vietnam all depend on the Mekong for a large amount of need—food, water for irrigation, power, recreation and waste disposal to name a few. Cambodia fishery stocks are also under pressure from the unregulated use of fertilizers and chemicals in agriculture production, forest logging; population growth; and marketing and

fisheries management arrangements.

The statistics on fisheries production, consumption and trade are very basic and complicated by the large amount of informal trade. That said, it seems to be widely accepted that about 25 percent of total fish catch is exported. About half of that is exported through illegal channels. Seventy five percent of exports are delivered to Thailand as fresh, sea fish and sea food. The bulk of balance goes to Vietnam. On the production side, the problem is one of resource stock depletion. On the marketing side, key issues are the large share of unofficial trade and the focus on border markets where prices are low and losses through spoiling are high.

The marketing and production of side sustainable fisheries management can be enhanced by appropriate regularly regimes. An abiding feature of Cambodia's fisheries is the depth of interventions. Yet, many of these interventions appear to be counterproductive. The fees, taxes and other charges actually appear to discourage investment in modern sustainable management and marketing system and instead bring about management and production systems which are both unsustainable and costly. They also encourage an illegal and unnecessary system of trade. These outcomes appear to be a direct result of government agencies intent on survival and supporting themselves direct market interventions, invasive regulations designed and enforced with a view to securing departmental revenue rather than sustainable fisheries operators. Activities to turn this state of affairs around could include reviewing the need to have a sole marketing agency enforcing, reviewing the export tax, supporting the development of private sector and community organizations, supporting private-public sector partnership to improve technical and business management capacity, and developing an effective demand price information system.

2.2. The Strength and Weakness of Industry Sector

The Cambodian economy has a demonstrated comparative advantage in the production of labor-intensive manufactures for export, and the potential exists for further growth in this sector. The pool of relatively cheap, unskilled labor will continue to grow rapidly, underpinning the country's wage cost advantage.

In the case of textile and garments industry, there are opportunities to diversify into non-quota markets, and for the promotion of upstream activities such as primary textile production.

Other labor-intensive activities such as toy and footwear production, and assembly of consumer and industrial electrical and electronic products, are potential growth areas. As mentioned in the agriculture sector above, there are opportunities for developing rubber products and furniture manufactures.

There may also be opportunities for import-substitution, although experience shows that caution must exercise in order to avoid the development of chronically inefficient, and therefore costly, production.

The construction sector accounts for over 4 percent of GDP and has the potential to respond to the growing demand for physical infrastructure development. It must be remembered, however, that human resource bottlenecks in this sector can be problematic. This constraint may be eased in the short and medium term by skills importations and in the long term by human resource development.

While there is potential for growth in manufacturing, its realization requires more than just a plentiful supply of cheap labor. Private companies offering investment packages that include technology and entrepreneurial and management skills must be attracted. Labor-intensive manufacturing for export is highly

competitive. Other producers, notably China, offer cheap labor. Many producers in the Asian region have increased their international competitiveness through currency depreciations, and they offer more developed physical infrastructure, and cheaper water, power, financial, information, and communications services. Also, the competitors' legal and regulatory frameworks are relatively well developed and enforced, their tax and customs administrations are characterized by less corruption and red tape, and physical security is usually assured. Implementation of the comprehensive economic and structural reform program aims at easing these constraints, but the government also remains committed to specific interventions to encourage industrial development.

The major threats to the projected outcomes are the departure of essentially footless firms in the garment sub-sector, and loss of export markets as a result of the competition from lower-cost producers. In the latter, there are particular concerns about the possible damaging impact of more intensive regional competition arising from China's accession to the WTO, the US-Vietnam bilateral trade agreement granting Vietnam MFN access to the huge North American Market, and the end of the Multi-Fiber Agreement in 2005. These risks must be addressed through market diversification and productivity improvement, and a search for new export goods and services.

Industrial Development Strategy

Cambodian government should set up the priority to develop her sector. First priority must focus on export-oriented industry, and second to the development of import-substituting production of selected consumer goods.

The reasons for giving first priority to an outwards-oriented development strategy are the small size of the domestic market in terms of population and

purchasing power constrains opportunities for efficient production. Second, Cambodia does not have sufficient financial resources or managerial expertise to utilize its natural resource base optimally. Third, access to the technological innovation that underpins increasing efficiency and widening consumer choice can only come from integration with regional and global economies. Forth, no country has comparative advantage in producing everything, and all countries can therefore benefit from cooperating and trading with others.

The promotion of labor-intensive manufacturing will continue on the textile and garments sub-sector, where the ready supply of mostly female labor underpins cost competitiveness. However, the government recognizes that retaining and increasing market share in an increasingly competitive international environment requires the upgrading of product quality, as well as greater productivity through improvements in technology and management. The development of better industrial relations within the established legal framework is needed, and ways of increasing the multiplier effect of garment sector operates on cut, manufacture and tailor basis, with fabric and accessories (zippers, buttons, thread) being imported, and the purchase of local inputs limited to transportation and freight clearing services, utility-type services to run factories, and construction to build factories.

In order to diversify manufacturing export base, the government will encourage toy production, whether it be under license or through foreign direct investment. Such manufacturing is considered to be well suited to the country's relatively large endowment of low skilled labor. A second area that will be promoted is assembly of electronic products, where all parts and components are initially fully imported.

The promotion of natural resources-based industry will focus on identifying and exploiting opportunities in processing of natural resources, including non-

metallic mineral resources, timber, and fisheries. The development of animal and fish breeding may permit their supply as a raw material for processing factories. However, the main prospects in this area are in the use of non-metallic resources for manufacture of construction materials.

Cambodia is endowed with specific local raw material such as limestone, bauxite, clay and kaolin. Based on these resources, factories production of cement, ceramic floor tiles, bricks roof tiles, and so on could be developed. Product quality, cost competitiveness, and other aspects of efficient operations would imported technology and, managerial expertise.

The core strategy for agro-industry development is to grant concession land plots to both domestic and foreign companies on a long-term basis, and to encourage contract growing by smallholders, who supply raw materials to a processing factory constructed on site. The main opportunities identified include:

- Textile factories created for the purpose of dyeing traditional cloth/silk,
- Jute factories based on jute growing near the Tonle Sap Lake,
- Sugar factories based on two to three sugar cane harvests annually, and also use of waste products of sugar milling for power generation, fertilizer production, molasses and processing factories,
- Palm oil refineries.
- Cashew nut processing factories drawing supplies from concession and other land,
- Rubber processing factories,
- Other factories producing tapioca starch, flour, and fruit products (juice, canned fruit, dried fruit),
- Encouraging expansion of small-scale tobacco producers to thereby increase the supply of raw materials to the larger manufacturers.

These agro-industry require close co-ordinate between the ministry of Industry, Ministry of Agriculture, Forestry and Fishery and local authorities, as well as technical assistance in the full assessment of development potential. Strengthening

the economic linkage between agriculture and industry within the context of sound environmental management is seen as essential to the creation of income and employment.

The promotion of technology transfer and the upgrading of products will require the Ministry of Industry and Energy and Mine to design and implement a quality control system for export products that sets internationally-accepted standards and includes laboratory control which is compatible with the WTO rules. In addition, the transfer of technology must be encouraged by establishing an appropriate legal and regulatory framework covering copyright, trademarks, and so on.

The creation of industrial zones is aimed at facilitating export development and creating employment by providing the high-quality infrastructure and utilities needed to encourage investment. Zones in suburban Phnom Penh and Sihanouk Ville would provide transport and communications, power and water, waste management, education and health facilities, and shopping complexes, along with animal customs formalities and duty-free importation of business inputs. The spatial concentration of export-oriented enterprises would provide a business incubator environment in which ideas and experience could be exchanged; and would also permit control of environmental impacts of specific business activities. Other possible regions for industrial/export processing zones include Koh Kong and Poipet (both near Thai border), Siem Reap, Battambang, Kompong Cham-the most populous provinces. The government, with external assistance, will have to conduct feasibility studies, where feasibility is established, proceed to full project formulation and implementation.

The population of import-substitution of selected goods must be undertaken on the basis of careful feasibility studies, which whether or not there is a genuine prospect of a proposed industry becoming internationally competitive. Areas for

such investigation include:

- Development of the paper industry through the use of specific domestic raw materials (bamboo, paper mulberry, old rubber, hay, and from sugar mills),
- Development of a chemical industry producing fertilizer, caustic soda, sulphuric acid, acetic acid, and aluminium sulphate,
- Production of a range of consumer goods including soap products, toothpaste, paints, plastic ware, and electrical accessories.

In general, the government will have to support broad-based industrial development by:

- Encouraging expansion of the SME sector, especially through provision of micro finance,
- Stemming the flow of illegal imported products,
- Reducing barriers to importation of business inputs,
- Providing infant-industry protection in carefully selected instances,
- Establishing a National Laboratory with the technical capacity to undertake physical, chemical, microbiology, and mechanical analyses of products that establish the quality and other specifications of these products,
- Establishing an industrial property rights bureau would protect new products, designs and technologies from illegal copy,
- Promoting vocational domestically and overseas,
- Upgrading the legal framework in the areas of factory law, industry zone law, patent and industrial design law, weights and measures, and industrial safe.

On the other hand, private sector organizations play a key role in identifying industrial development opportunities and constraints, participating in the policy formulation and monitoring processes, and promoting domestic and private investment. Murdo Beaton of the International Office of Edinburgh Chamber says: “Export support is very diverse, there can never really be a one-stop shop because the export culture is becoming more complex. Companies need a lot of help before

they even dip their toes in the water.”

The Phnom Penh Chamber of Commerce has to fulfill the following functions:

- Promoting Cambodia as an investment destination through provision of information and advice
- Provision of information to members on export markets, international laws and regulations, and products and technologies
- Working with the government to establish a good legal and regulatory framework for the private sector, and good business practices, and grading systems
- Representing the interests of members in respect of laws, regulations and taxes
- Arbitrating in any inter-business

2.3. The Strength and Weakness Service Sectors

2.3.1. Tourisms

Tourism sector is the major contributor and promising Cambodia’s economic development. Cambodia is actively endeavoring to rehabilitate and develop the national economy, in which tourism is giving a priority and is the locomotive to accelerate economic growth. With our enriched cultural and natural potential, Cambodia considered tourism as cultural-natural tourism; and this policy is producing its positive outcome in line with the World Tourism Organization development trend at present.

During the 1950s and 1960s, Cambodia was a popular year-round tourist destination. In the 1990s, after 20 years of conflict, tourism quickly took off in an open and stable Cambodia. After being set back in 1997 and 1998 tourist hit 400,000 by 2001, with rates of 30 percent year, which contributed about US\$ 228 millions to

the national income, and created jobs for more than 100,000 people. At the present time, many hotels have been built, tour operators have emerged and policies such as the “open skies” airline policies have facilitated effective response to demand growth.

Major tourism development potential areas are the following five areas.

➤ *Siem Reap Regional and Cultural Tourism Area*

In this area exists the Angkor archaeological in Siem Reap province, which is the major and best-known attraction feature of Cambodia and one of the major archaeological sites in Asia and the world. The site is relatively well preserved and has already planned for further conservation and development with visitor facilities and a tourism program.

Siem Reap town has attractive features such as the river, much landscaping, and historic buildings. Some hotels, restaurants, and other tourist facilities have been developed and more are under construction or being planned. Tourism development is being planned and controlled by the public authority agency called APSARA. Access to Siem Reap is mainly by air, but tourists will be able to reach the area by boat cruise from Phnom Penh.

Besides the Angkor monuments in Siem Reap, other tourism attractions are West Baray, Phnom Krom Hill, Phnom Kulen National Park, the floating villages on Lake Tonle Sap, town tours, crocodile farm, and so on.

The public and private sectors have already carried out considerable planning for tourism in this area. UNDP and the World Tourism Organization projects have been preparing a tourism development strategy for this area since 1996. Most projects, which have been implemented, are preservation work of Angkor Wat archeological complex by technical assistance of foreign donor countries and

international agencies.

To increase the number of tourists into this area and enhance tourism potential for this area various actions and work need to be carried out such as development of additional tourism activities and program, improvement of tourism facilities and infrastructure, development of various types of hotels, and so on.

➤ ***Sihanouk Ville Coastal Resort Area***

Sihanouk Ville located along the Gulf of Thailand, which offers much tourism potential based on good sandy beaches and marine areas for beach resort development and marine activities. Sihanouk Ville area already has some beach resort development, and but not so much has been developed yet.

At present, Sihanouk Ville is considered a weekend resort for local people. It is easily accessed from Phnom Penh in three hours by using National Road 4. Recently, hotels and casino facilities have been constructed in this area. Existing hotels and pensions do not meet international tourism standards, and need to be upgraded, and additional hotel development will be required. Besides the beach, there are many tourism attractions, recreational facilities and tourism products at Sihanouk Ville.

In addition to the current beach located in the south of Sihanouk Ville Port, the natural shore in the north of port has potential as a development area for a beach and marine resort. A tourism development strategy for the Sihanouk Ville area was prepared by the United Nations Development Programs and the World Tourism Organizations project. These have marketing and tourism potential so this zone will be developed as an integrated coastal resort area with necessary infrastructure improvement.

➤ ***Koh Kong Coastal Resort Area***

Koh Kong Island is located about 130 km north of the Sihanoukville near Thailand border. This island area offers some excellent protected beaches and swimming areas. This area has colorful coral and various fish, and is suitable for diving activities. Beaches and marine areas provide the opportunity for development of beach resorts and related marine activities. It also has some potential for game sports fishing. At present, casinos have been constructed in this area. Additional tourism facilities need to be developed in this area in the future. Improvement of access roads from Sihanoukville and other areas are urgently required.

➤ ***Phnom Penh Area***

Phnom Penh is the tourist gateway to Cambodia, as the administrative, commercial and business centre of the country attracts many business and official travelers as well as holiday tourist. Phnom Penh International Airport is located in Phnom Penh. As the tourist gateway to the country, virtually all tourists arrive and depart at this airport.

The city offers a variety of urban attractions including the Royal Palace, the National Museum, Toul Sleng Museum--the place where the Khmer Rouge regime killed more than a couple thousand educated Cambodian people from overseas and the local area, Wat Phnom and important temples, historical colonial buildings, markets, and a potentially attractive riverfront area along the Tonle Sap, Mekong and Bassac rivers. A wide range of hotels, restaurants, entertainment and other tourist facilities have been developed or being constructed in the city. Riverboat cruises and tours already exist and can be further developed. Within a day tour distance from Phnom Penh are the attractions of Oudong historical site. Tonle Bati recreation facilities, Ta Prom and Phnom Chisor temples, Mekong Island, and other places of interest.

Current by most tourists coming to Cambodia visit the Angkor archaeological complex, and they spend only one or two days for visiting tourism sites in Phnom Penh. This city still has major opportunities for improvement and continued development of urban tourism within the city, and these exists opportunities for more closely tying in the outlying attractions located within a day tour circuit distance from the city.

Reinforcement of the tourism role of Phnom Penh is very important for overall tourism development in Cambodia. Therefore, this area should make more interesting and attractive areas to visit so that tourists can be induced to spend more total time in this area.

➤ ***Preah Vihear Area***

In the Preah Vihear area, various temples are situated on a crest of the Dangrek Mountains at altitude of 730 m, located closed to the southern Thailand border. These temples are archeologically very important monument in Cambodia. There is no access route from the Cambodian side at this monument.

Most of the visitors are Thai, coming from the Thailand side. This area has tourism development potential not only for visiting archeological/historical monuments, but also for enjoying wildlife viewing and hiking through scenic areas. It is necessary to have an access route from the Cambodia side for an increase of visitors and development of visitor facilities.

Development Strategy in Tourism Sector

A main goal in the development strategy in the tourism industry is to increase the number of tourist arrivals from 262,907 by air in 1999 to over 1,000,000 in 2010 and their length of stay. To realize the main goal, Siem Reap and Phnom Penh tourism has been proposed as the priority areas to develop first.

The Ministry of Tourism and its related ministries have to take responsibility for carrying out the following necessary action plans of proposed tourism based on cooperation with the private sector.

➤ ***Siem Reap Regional and Cultural Tourism Area***

Improvement of tourist attractions and activities

- Conservation of the monuments should be continued, and on-site information signs in a uniform style guiding route sights for monuments should be provided.
- Village tours in Siem Reap should be organized with pre-arrange village stops made to observe village life and agriculture activities.
- A tropical Garden and Wildlife Park should be planned as new tourism attraction.
- The tour of the floating villages on Tonle Sap Lake should be improved, with development of a new pier for tourist safety.
- Further development to crafts should be encouraged and a new handicraft centre will be established in the town. The existing handicraft centre outside the town should be maintained.
- Phnom Kulen National Park should be opened to tourists. Tours to the park should be organized.
- Evening activities at the town should be planned for tourists such as cultural performances and film shows.

Access to and within the Siem Reap Area

- Siem Reap Airport should be improved to serve increased tourists to Siem Reap. Major rehabilitation works are extension of the runway, improvement of the terminal building, and passenger facilities.
- Scheduled and charter flight service to Siem Reap airport should be increased during the high season of tourist visits to Cambodia.
- National Road No.6 should be improved for tourists' road access from Phnom Penh and Bangkok.
- Boat access on the Tonle Sap between Phnom Penh and Siem Reap should be improved and promoted.

Development of facilities and services

- Existing Provincial Tourist Information needs to be upgraded, or there needs to be construction of a new tourist information centre with provision for sufficient guiding staff.
- An upgraded existing Provincial Tourist Information Centre or a new tourist information center should have exhibits, tourist information guiding system, information material, and good guide services.
- Information hand out material such as a map of the town, tourism attraction programs, and information pamphlet should be provided at the information center, Siem Reap Airport, or designated place.
- An area covering Angkor Wat archeological complex, other monuments, the West Baray, and Lake Tonle Sap should be developed as Angkor Wat National Park. This proposed park needs to have a visitor centre, archeological museum, commercial facility, tourism training centre, and parking areas. The park development should also include restoration of monuments and supporting infrastructure.
- Most of the tours in the Siem Reap area are organized and operated by private travel agencies with their own transportation vehicles. For self-guided tourists, a shuttle bus should be operated among major tourist areas.
- For the future demand of tourist growth, planned hotels need to be constructed as soon as possible and a sufficient number of hotels will be required to be plan and constructed at the designated hotel zone.

Town and Infrastructure Improvement

- The environmental quality of Siem Reap town must be maintained and improved.
- New buildings in Siem Reap should be attractively and suitably designated to enhance the urban environment.
- Tourism supported infrastructure such as water supply, power supply, and roads should be improved.

➤ ***Phnom Penh Area***

Access and Infrastructure Improvement

- Construction of a new terminal building for Phnom Penh International Airport should be completed as scheduled.
- Scheduled and chartered flight services to Phnom Penh International Airport should be increased during high season of tourist visits to Cambodia.
- Major roads connecting Phnom Penh to other parts of Cambodia and to neighboring countries should be improved according to the development schedule.
- Public bus transportation and taxis should be operated within Phnom Penh City and also current bus transportation to other cities should be improved.
- Improving of urban infrastructure such as roads, water supply, electric power, telecommunications, waste management, and drainage should be implemented according to the respective development schedules.

Improvements to Tourists Attraction and Activities

- The National Museum needs to upgrade and expand, and apply contemporary exhibit techniques.
- Toul Sleng Museum should improve its interpretation services techniques and development of visitor facilities to accept both Cambodian and foreign tourists.
- An integrated craft market centre should be developed in the central area of Phnom Penh. This centre should include demonstrations of craft-making, sales shops, and visitors facilities.
- Historical buildings and architecturally important buildings need to be identified and restored as important tourism assets.
- The riverfront area of Phnom Penh should be developed with an urban design scheme including restaurants, landscaping, parks, parking, and beautification of the river embankments. Land use regulations and design guidelines would be included in the scheme.
- A Khmer Cultural and Heritage Park should be planned and developed in Phnom Penh or outside of Phnom Penh.
- Evening entertainment activities and programs should be expanded as

tourism attractions such as traditional dance, music performances, and other activities.

Improvement of Tourist Facilities and Services

- The Phnom Penh Tourism Office should be upgraded with information material including maps and audio-visual presentations available for both the entire country and Phnom Penh.
- The National Institute of Management should provide a tour guide training course to encourage the quality of tour guide services.

2.3.2. Labor Services

Remittances from citizens working in other countries are important sources of export income in many developing countries including for example, the Philippines, Sri Lanka, Thailand and Vietnam. There are costs in terms of family dislocation and risks in terms of limited sanctions for poor treatment or deficient or non payment, but there are also potential long-term non-income benefits in the form of developing skills, training and business networks and market information. In some countries for example, India developments in information technology have enabled the “export” of labor services without requiring the provider to leave the country.

While formal labor exports are not well developed, more than 100,000 Cambodian workers are reported to work in Thailand on unofficial basis. The Cambodia government is now encouraging official labor exports. Small numbers of people have gone to Malaysia as construction workers and maids. To be successful in this sector, the Cambodian government has to improve human resource development, including adult education that focus on literacy, basic work and life skills, and foreign language. At the same time, the government must review regulatory framework to ensure protection of export workers’ rights, while ensuring that regulations do not stifle competition and entry of new labor export companies.

In sum, Cambodia has both its strength and weakness in sector development. Even though, there have been successes in the tourism and textile industries in the past, a ton of effort remains to be done. Especially, as the trend toward economic liberalization continues and global competitiveness pressures mount, the challenge for Cambodia is to create the conditions where both operational productivity and better choices about the allocation of resources can be made. The goal is to rely less on basic raw materials and the hard work of inexpensive human capital, and to rely more on superior forms of capital, such as how efficiently the institution learns and disseminate knowledge.

Cambodia must create the type of environment that will support and encourage firms to achieve and sustain strategic advantages. Michael Porter has identified four broad attributes of a nation or region that, individually and as a system, constitute the “diamond” of regional productivity.

First is the Factor condition, which is a nation’s position in factors of production such as skilled labor or the infrastructure necessary to compete in a given industry. It refers to the presence of advanced and specialized human resources, technical infrastructure, and other factors of production needed in industry. The question is not about what Cambodia is born with but how it has upgraded those conditions. For example, it is good to have historical attractions like the Angkor Wat but are Cambodian tourist guides well trained and is Cambodian infrastructure adequate or not.

Factor conditions can be upgraded, depending on the sector that they best serve. For example, the Cambodian garment sector needs to upgrade specific elements of seaport infrastructure, the frequency of transport means, efficient delivery of export documents, and adequate inspection facilities. In global competition, cheaper labor alone will not be a competitive advantage.

Second is Demand conditions, which the nature of home demand for industry's products or services. This refers to the sophisticated local customer base demanding the latest innovations and the highest quality standards. It is important for local demand to anticipate global demand so that the signals that the producers receive help them learn, adjust, and ultimately upgrade to compete for the world's most sophisticated demand. Cambodian consumption of paper is low and unsophisticated because the country is primarily a rural society that does not purchase a variety of printed materials. Leader demand is low partly because of price sensitivity.

Third is related and supporting industry. The third broad attribute of national advantage in an industry is the presence of suppliers or related industries that are competitive. The benefits of investments in advanced factors of production by related and supporting industries can spill over into an industry, helping it achieve a strong competitive position. Cambodian industry policy must support the emergence of internationally competitive industries. Especially, relevant ministries should focus on (a) developing an outward-oriented industrial growth and services sector which is internationally competitive and efficient; (b) improving efficiency of public sector support services for assisting the industrial sector; (c) establishing efficient trade credit, finance, and banking systems that supports private sector expansion; and (e) targeting larger population centers as trade and market centers and establishing and industrial promotion centers to develop SMEs.

Fourth is firm strategy, structure, and rivalry, which are about choice, positioning, and the presence of capable, committed, and fiercely competing local rivals. The degree of rivalry in some innovation-driven economies is astonishingly high. As an illustration Porter cites Japan:

“Nowhere is the role of domestic rivalry more evident than in Japan, where it is all-

out warfare in which many companies fail to achieve profitability. With goals that stress market share, Japanese companies engage in a continuing struggle to outdo each other. Shares fluctuate markedly. The process is prominently covered in the business press. Elaborate rankings measure which companies are most popular with university graduates. The rate of new product and process development is breathtaking”.

Therefore, when Cambodia is fully integrated into the world economy Cambodia needs to focus on “high-productivity” thinking which would unlock the hidden sources of growth including the following:

- Value-added emphasis on Cambodian agriculture, which so far contributes little to GDP because there is very little value-added beyond the basic commodities. This offers a lot of opportunities for effective linkages between growers and marketers. Extraction of essential oils from indigenous plants is another avenue.
- Organic and natural food production: Fertilizer pesticide usage has been minimal in Cambodia, and this could encourage production capacity of high quality natural products for sophisticated markets.
- New product development: There has never been any experimentation in product introduction, apart from the rubber plantations, which are an extension of those beyond the borders in Vietnam. There is good potential for new product development.
- Canning and dry packaging of agro-products offer good scope for value-added for Cambodian resources, which are now exported as commodities.
- Supply chain management: Given the absence of any linkages between producer, marketing and consumer, there are good opportunities for creation of supply chains, which can extend across borders to reach of Vietnam, Thailand, Malaysia, and Singapore.
- Sustainable commercial forest plantation: Encourage investments in downstream activities in the sector.
- Labor intensive export production: Basic industries such as garments and shoe, together with backward integration into component supply, offer potential opportunities, including relocation of industries from

neighboring countries. Move to higher value added quality apparel and footwear.

- Labor export: Many countries in ASEAN have developed a skilled labor force domestically by means of sending unskilled workers overseas for employment and thereby gaining training. This may be possible for Cambodia.
- Localized products and packaging: Most products traded in Cambodia originate in foreign countries, with the packaging of those countries. Market advantage could be created by localization by branding and advertising.
- Up-market tourism: At Cambodia's stage of development, there are opportunities to reach up-market segments for small groups of high-priced tourists.
- Eco-tourism: Tourism is an export market, and Cambodia's rich endowment of biodiversity will attract wealthy tourists if it is properly protected and maintained. The Cardamon Mountains site is rated as one of the most pristine forest areas remaining in Southeast Asia, with a number of endangered species locally present, and the major ecosystem intact. Income from recreational tourism and from research permits issued to international scientists could be significant.
- Niche marketing: There are several niche area opportunities, including French-speaking market sourcing, and historical and archaeological groups.

Ch. V. Opportunities and Challenges of Cambodia's Membership

The experience of other countries that have joined WTO shows that the economic impact of accession can take a variety of forms. In general, however, the impact can be understood in terms of two broad headings: the impact of accession on the legal and institutional framework governing the economy, and the immediate impact of accession on imports, exports, and other key macro-economic variables, in particular government revenue. At present, there has not yet been any substantial research study conducted on the impacts of the membership of Cambodia in the World Trade Organization on its economy. But the experience of other countries, together with several studies that have been done based on the different experiences of individuals or institutions, allows for a preliminary assessment of the likely consequences on Cambodian of membership in the World Trading System.

Two categories of decision-makers will determine the impact of the WTO on the Cambodian economy. First, the public sector which will play a very important role in the process of policy adjustments to be consistent with WTO Agreements. Second, the private sector, which will directly participate in the implementation of the agreements, and will change investment, production and trade as a result of the new situation. Currently, decision-makers in both sectors do not yet have full knowledge of the exact terms, conditions and obligations that will emerge from the accession process. The past experience of countries that have acceded to WTO does, however, provide a general guidance as to what these will be.

Accession to WTO will require policy action in two areas: First, steps will have to be taken to bring Cambodia's legal and institutional framework into conformity with

WTO rules. Second, Cambodia will be called upon to make commitments on market access in the areas of trade in goods and trade in services. In each of these areas, Cambodia's economic integration into the world trading system will provide both opportunities and challenges.

1. Challenges in WTO Accession

Cambodia's imminent accession into WTO constitutes a major challenge for the country. Cambodia is required to prepare voluminous and complex documentation regarding its trade regime for goods and services, and will engage in lengthy negotiations with the WTO Members Countries, both bilateral and multilateral level. We will also have to carry out legislative reforms to achieve conformity with the requirements of the implementation of the WTO Agreements. Moreover, WTO accession requires thorough understanding of the WTO Agreements ranging from trade in goods and services, to trade-related intellectual property rights, and to trade-related investment measures.

While it is acknowledged by many WTO delegations that Cambodia has made great progress in the preparation for its accession, Cambodia still suffers from shortcomings in the areas of agriculture negotiation and WTO compliant legislation development. In the Services Offer, Cambodia needs to further its understanding on the policy and economic implications arising from the various services sector commitments like telecom, financial services and professional services.

Cambodia needs to mobilize the necessary resources, both financial and in kind, to cover expenses associated with the accession process, including attendance at of meetings, missions to Geneva and bilateral missions, adjustments in national

legal and institutional framework, costs of translation services, and revenue foregone as a result of concessions made. Moreover, Cambodia needs to ensure that the concessions and commitments made under the WTO accession process are consistent with other international obligations (e.g., IMF or World Bank loan conditionalities) and are compatible with those made, or to be made, under regional trading arrangements like ASEAN. For that matter, frequent consultations with other member countries of regional trading arrangements are really needed to avoid later conflict.

To some extent, Membership in the WTO is not costless:

First, sovereignty is curtailed and short-term maneuvering in trade related policies is discouraged and also restricted, even for developing economies that invoke special and differential treatment. Politicians and interest groups who are used to acting selfishly will take the political cost involved in “tying their hands” seriously.

Second, there are economic costs in terms of the opportunity costs of employing high skilled personnel for the implementation of the WTO commitments and active participation in WTO negotiations. Using this particularly scarce resource, provided it is available in Geneva precludes its use at home and in other activities, perhaps including the private sector. During GATT times, the performance of skilled personnel playing in the “theatre of trade diplomacy” was often belittled. Today, under the WTO with its multifaceted tasks to secure market access rather than only trade liberalization, there is every reason not to belittle active participation in WTO negotiations. Although training facilities are provided through external technical assistance especially for personnel from LDCs, the true opportunity costs arise in the aftermath of training when such personnel could likewise be employed productively in other activities. The proposal to economize on scarce human resources by

bundling them regionally among several developing country partners encounters a lack of political will on the part of governments to surrender national sovereignty.

Third, a more liberal trade regime encouraged by WTO membership may expose companies in LDCs to stronger competition from abroad, often from more advanced developing member states. The result may be a short-term deterioration of the current account since higher imports due to market opening materialize faster than higher exports due to improved market access abroad. The external vulnerability of countries may thus be aggravated if the time lag between the two effects cannot be shortened. Yet, the positive experience of vulnerable economies in the WTO for instance, with Mozambique until the February-March 2000 natural disaster, suggests that even these countries can benefit in the short run from market opening and rationalization of trade regime. In any case, vulnerable economies can resort to long adjustment periods as they accede to the WTO.

Fourth, the fiscal costs of reducing import tariffs may be significant because taxes on international transaction are a major source of government revenue in Cambodia. This may be less of an issue in the early stages of trade liberalization when non-tariff barriers are tariffied and prohibitive tariffs are lowered and imports increase. In the medium to long run, however, substantial reductions in average tariff rates require a broadening tax bases.

Ultimately, it is the opportunity cost element of employing high-skilled personnel to deal with WTO matters, which Cambodia has to access. Experience shows that during the GATT period, governments rated these costs as prohibitively high, and thus refrained from participation not least because the so-called principal supplier rule practically excluded them from level playing field negotiations with the large trading partners. It was only during the Uruguay Round that LDCs and Developing

countries began to regard the advantages of participating in negotiations more positively. With the foundation of the WTO, this trend will continue, though very poor countries like Cambodia are likely to remain at the tailight of negotiations simply because of shortages of personnel.

Furthermore, Cambodia's entry into the WTO means that Cambodia enters into a globalization process. Globalization does not come without difficulties, particularly for Least Developed Countries (LDC) like Cambodia. The recent regional financial crisis while sparing Cambodia from its direct immediate effects had nonetheless affected indirectly the country as seen from the sharp drop of foreign direct investment from the region. The imminent ratification of the US-Vietnam Trade Agreement by the US Congress will no doubt create some uncertainty as to the flow of FDI away from Cambodia. China's entry into the WTO will dramatically change the dynamic of regional trade. The phase-out of Multi Fiber Arrangement (MFA), or the elimination of quantitative restrictions on textile trade, by 2005 will further intensify the pressure on Cambodia to become more competitive in the textile and clothing industry. Moreover, the recent political upheavals in a few other ASEAN countries did not bear well in terms of confidence of investors in the region.

Almost all countries whether developed, developing, least developed or transitional are now pursuing market-oriented policies, opening up their industries to international competition. In some developing and LDC countries, virtually all industries, large and small, today depend on foreign trade either as exporters or as importers. Thus, the question for Cambodia today should be focused on how it can best take advantage of these global trends.

Cambodia, like other subsistence economies, is trapped in a complex web of interlocking vicious circles of rapid population and labor force growth, insufficient

employment creation, low per-capita income level, as well as low growth in per-capita income level. The problems and dilemmas facing it are many and varied. External shocks and natural disasters are not predictable and often bring harsh consequences. The recent flood that had devastated crops and affected one third of the Cambodian population is a good illustration. Rapid population growth, the highest in the world, also undermines the growth of the country's economy. It is estimated that Cambodia will need to create 150,000 or more new jobs each year over the next five years in order to absorb young people entering the labor market and redeploy demobilized soldiers. The economy, in recent years, has not been able to produce jobs at such a high rate and the results have been a tripling of official unemployment rates (1.9 percent in 1994 to 7.1percent in 2000) and, more significantly, a considerable increase in rural underemployment. Low productivity is one of the major bottlenecks holding back economic development in Cambodia. It will take stronger and more sustained economic growth over the new decade for Cambodia to pull itself out of the vicious circle of rapid population growth and unrelenting poverty.

2. Opportunities and Benefits of WTO Membership

Cambodia is categorized by the UN as a Lest Developed Country (LDCs). Cambodia has a small population, shortage of skilled labour, reliance on a small number of export goods, mostly raw materials, weak administrative capacities, large economical vulnerability, lack of market-oriented institutional infrastructure, and weak legal system and regulatory frameworks.³¹ Given such characteristics, the gains from the WTO membership seem to be small is they are accessed only in

³¹ International Trade Center, *Cambodia Country Profile*, May 2003.

terms of improved market access for traditional exports. Raw materials mostly enjoy low or zero tariffs and supply bottlenecks on the Cambodian side (including inadequate transport facilities) seem to hamper export expansion more than policy-induced barrier on the demand side. Furthermore, although some raw material suppliers have been affected by anti-dumping procedures of major industrial countries, the LDCs are typically not the price setters in the world markets of individual raw materials and therefore have not been targets of anti-dumping measures, quantitative restrictions, or other non-tariffs barriers.

Nevertheless, there are a number of benefits for Cambodia to join the WTO:

First, WTO membership implied binding commitments to reforms in all trade-related policies. As the domestic reform momentum is often weak, external commitments can help reform-minded governments to contain anti-reform coalitions.

Second, WTO membership, including the process of accession, leads to sizable technical assistance in the form of training with respect to the legal framework of the multilateral trading system and its economic underpinning. Such human capital is indispensable for building up institutional infrastructure, in particular for anchoring private property rights. The WTO is institutionally prepared and financially endowed to help LDCs such as Cambodia for human capital in trade policy formulation and trade diplomacy that can also be used for other legal issues.

Third, the WTO is a shelter against unilateral pressure from powerful import markets. It can make conflicts transparent and offers “good office” services embodied into the legalized dispute settlement procedure. Powerful members may be deterred from exerting unilateral pressure once the small country can publicize conflicts within the WTO.

Fourth, WTO membership encourages Cambodia to open its domestic markets even if they can take a free ride under “special and differential treatment” for a certain period. Apart from the medium-term allocation efficiency gains of import market opening in terms of lowering the implicit tax on exports and stimulating resource reallocation and export diversification, import market opening implies a concrete short-term gain: domestic prices of imports will often fall by more than the decline in import tariffs. It is well-known from the experience of Sub-Saharan Africa (year 1990) that countries with high tariff levels also pay higher CIF-prices for imports because restrictive tariff regimes are inextricably intertwined with rent seeking activities of traders and domestic producers (if the later exist).

Fifth, WTO membership will make domestic regulations more transparent to potential foreign direct investors and will enforce non-discrimination and national treatment. This may help to attract foreign direct investment even if institutional barriers are not the only (and perhaps not even the most important) impediment to private risk capital inflows.

Sixth, WTO is presently in the process of requiring the US and EU to eliminate quantitative restraints on imports of garments from other WTO members. This process is to be completed by 2005. When Cambodia becomes a member, quota on its exports will also be eliminated. If Cambodia doe not become a member, it will continue to have quotas on its garment exports. This would be very detrimental to the Cambodian garment industry and would probably stop its growth.

To sum up, at first glance and given the existing export profile of Cambodia,

WTO membership does not seem overly urgent. Yet, this misses the point. Specifically, because Cambodia suffers from deep structural and natural barriers to international market integration, WTO membership (unlike GATT membership) can carry important positive indirect effects for human capital formation, institution building and structural reforms. By applying for membership and by actively participating in the various accession procedures, Cambodia government can signal its willingness, in principle, to implement economic reforms. As in his statements at the Working Party for Cambodia accession into WTO, H.E. Cham Prasidh, the Minister of Commerce said that “It may not be trying at this stage to get the most of concessions from a tiny country like Cambodia that WTO members will get something substantial the new round of trade negotiations kicked off at Doha last November that more important and more substantial gains should be sought. We do not rush to enter WTO just for the sake of being a member, but to be in a position to play a more active role and to benefit from the world trade system.”³² Without bringing back to Cambodia the benefits of globalization, the whole preparation process that we have so far undertaken would be jeopardized by opposition forces to globalization, which are still on the wait-and-see position in Cambodia.

³² Speech of Cambodian Minister of Commerce at the 6th Consultative Group Meeting on 21, 2002.

Conclusion

To join or not to join the WTO?

Viewed from the current state of the integration of LDCs into the world economy, one might be inclined to call their accession to the WTO symbolic. This view would be based on the following presumptions that:

- Given their current export structure, market access for their export cannot be significantly improved by WTO accession.
- LDCs has only few interests in non-GATT related issues such as services, Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs) or Trade-related Investment Measures (TRIMs), and thus are GATT rather than WTO oriented.
- LDCs will continue to rely on the MFN clause rather than actively participate in WTO negotiations, due to lack of personnel and the high opportunity costs of posting personnel permanently in Geneva.
- LDCs cannot influence WTO negotiations in a specific way due to their heterogeneity.
- The aspiration of the WTO to be taken seriously as the first universal rule-setting multilateral institution does not depend on whether some or all LDCs or Cambodia become members.³³

This view relies both on past evidence about the limited role-played by LDCs in the multilateral trading system and on extrapolation of a GATT-type setting into the WTO era. Both points of departure, however, must be questioned.

³³ Rolf J. Langhammer & Matthias Lucke, Discussion Paper No. 2001/36, WTO Negotiation and Accession

Issues for Vulnerable Economies. Page 11. (July 2001).

First, many representatives of LDCs see themselves either as victims of globalization or as outcasts that are bypassed by it. At the same time, they recognize that globalization calls for a wider set of global rules if cross-border externalities increase in importance and if they themselves are mainly affected by negative externalities. The only way to influence the setting of global trade rules is through membership and participation in the WTO.

Of course, the trend of being bypassed by foreign direct investment, for instance, cannot be corrected by WTO membership only. However, membership plus participation would send an important signal to capital markets that a country is seriously about reforming its trade-related policies to the point of the government tying its hands by entering into internationally monitored obligations. This approach can reduce that part of LDCs like Cambodia that is due to domestic policy volatility. At the same time, this approach will only be successful if a country “owns” its reforms in the sense of assuming full responsibility for implementing them.

Second, the WTO, rightly or wrongly, is increasingly moving into territory not previously covered by GATT 1947. A recent example is the so-called precautionary principle: When future damages associated with the production or consumption of a good cannot be assessed today, such uncertainty (as distinct from risk) constitutes a legitimate reason to intervene in trade. Conservation of biosphere and biodiversity, protection of human and animal resources as well as good governance are already elements of multilateral treaties and impact upon trade and access conditions. LDCs including Cambodia are often threatened by depletion of their human, natural and physical capital stock. Hence, they are strongly affected by the new issues entering the WTO either directly or indirectly via the question of coherence between the WTO and other multilateral agreements.

WTO membership and participation should therefore be part of all efforts to

create a greater momentum for economic development in LDCs and Cambodia alike. When financial or personnel shortages are the main reason holding countries back from WTO accession or participation, public external assistance for this process will doubtless yield a high return.

Furthermore, globalisation is here to stay. Countries and companies alike must accept that reality. Kenichi Ohmane, a Japanese corporate strategist and the author of the best-selling books called *The Borderless World* and *the Invisible Continent*, has said that “a true global corporation serves the interests of consumers, not governments, and wealth comes from the marketplace, not from natural resources.” Cambodia has long enjoyed its natural resources without having derived much benefit from them in terms of economic development, and it is time now to seek wealth through the market place. The massive restructuring of political boundaries, the opening of new consumer markets, historic trade agreements, and the World Trade Organization have created unprecedented opportunities for opening new market places, and there has never been a more opportune time for Cambodia, Cambodian medium and small enterprises, and the business community to capitalize on this globalization trend.³⁴

In closing, it is worth re-emphasizing that the 21st century will be full of opportunities and challenges. Technological advancements will not only change our lifestyle but also the ways we conduct business and the methods in which we produce goods. As industrialization is intensified in the era of globalization, competition will become fiercer. Cambodia will need to intensify its international competitiveness, and the new international competitiveness of Cambodian products can be obtained only through improving the quality rather than lowering the price.

³⁴ H.E. Sok Siphana’s speech on the challenges of the Cambodian SME in the globalization era.

Mindful of our current technological and technical constraints Cambodia needs to review its paradigm and look for a complementary or a “win-win” scenario with its more advanced neighboring countries and WTO members through economic cooperation and “strategic business alliances.” In the final stage, Cambodia and other LDCs can hope to avoid falling further behind the more advanced economies only if they are able to bring and apply information, ideas, and innovations from abroad. The old patterns of uncompetitive behavior need revisiting to pave the way for the “new way of thinking” which can turn these patterns into valuable opportunities for growth. The “poverty alleviation” which is the mindset of Cambodians should be replaced by other terms such as “wealth creation” or “productivity.”

Annexes

Table 1: Gross Domestic Product (GDP) and Per Capita GDP

	In current prices									
	1993 _{r/}	1994 _{r/}	1995 _{r/}	1996 _{r/}	1997 _{r/}	1998 _{r/}	1999 _{r/}	2000 _{r/}	2001 _{r/}	2002 _{p/}
GDP in billion Riels	6,666	6,986	8,294	9,024	9,927	11,609	13,131	13,810	14,544	15,667
Per Capita GDP in '000 Riels	704	702	792	818	853	953	1,050	1,077	1,106	1,163
GDP in million US \$	2,427	2,718	3,362	3,418	3,319	3,076	3,443	3,579	3,706	3,996
Per Capita GDP in US \$	256	273	321	310	285	252	275	279	282	297
Household Final Consumption										
Expenditure (HFCE)	6,713	6,571	7,916	8,725	8,952	10,776	11,582	11,838	12,038	12,497
Per Capita HFCE in '000 Riels	709	660	756	791	769	884	926	923	916	928
Monthly Per Capita HFCE in Riels	59,049	55,011	63,001	65,895	64,088	73,689	77,192	76,919	76,295	77,297
Population estimate (As of July, in million) (Estimated based on NIS population count as of January 1999)										
	9	10	10	11	12	12	13	13	13	13
Official Exchange rate (Riels/US\$) (Average mid-piont buying and selling rate)										
	2,747	2,570	2,467	2,640	2,991	3,774	3,814	3,859	3,924	3,921

r/ - revised estimates

p/ - preliminary estimates

Source: National Institute of Statistics of Cambodia

Table 2: Balance of Payments Summary (US\$ million)

Main Components	1998	1999	2000	2001	2002	Q1-02	Q2-02	Q3-02	Q4-02	Q1-03
Current Account										
Goods										
Exports f.o.b.	800.5	1129.3	1401.1	1571.2	1750.1	329.1	376.9	526.4	517.7	389.1
Imports f.o.b.	-1165.8	-1591.0	-1939.3	-2094.0	-2313.5	-457.5	-515.0	-677.7	-663.3	-542.5
Balance on Goods	-365.3	-461.6	-538.2	-522.8	-563.5	-128.4	-138.1	-151.3	-145.7	-153.4
Services										
Credits	177.3	293.8	428.4	524.6	600.2	153.3	140.2	147.7	159.1	135.9
Debits	-220.5	-291.5	-327.9	-347.3	-379.6	-81.5	-86.7	-104.8	-106.6	-93.0
Net Services	-43.2	2.3	100.5	177.3	220.7	71.8	53.5	42.9	52.5	43.0
Balance on Goods and Services	-408.5	-459.4	-437.7	-345.5	-342.8	-56.6	-84.6	-108.5	-93.2	-110.4
Income										
Credits	47.9	51.4	67.1	57.5	50.7	12.7	12.6	12.8	12.6	12.4
Debits	-108.0	-150.2	-189.6	-193.4	-219.2	-51.9	-56.2	-57.3	-53.7	-79.6
Net Income	-60.1	-98.8	-122.5	-135.8	-168.5	-39.2	-43.7	-44.5	-41.0	-67.2
Current Transfers										
Credits	299.0	377.9	432.0	403.8	456.6	122.4	111.8	111.2	111.2	134.6
Debits	-5.6	-7.6	-7.3	-8.3	-9.3	-2.3	-2.3	-2.3	-2.3	-2.6
Net Current Transfers	293.4	370.3	424.7	395.5	447.3	120.1	109.4	108.9	108.9	132.0
Balance on Current Account	-175.2	-187.9	-135.4	-85.8	-64.0	24.2	-18.8	-44.0	-25.3	-45.6
Capital Account										
Capital Transfers										
Credits	89.5	78.7	79.8	102.8	76.7	19.2	19.2	19.2	19.2	24.4
Debits	-94.3	-67.7	-44.2	-58.0	-63.4	-15.8	-15.8	-15.8	-15.8	-19.2
Net capital transfers	-4.8	11.0	35.6	44.8	13.3	3.4	3.4	3.4	3.4	5.2
Net Non-produced, Non-financial assets										
Balance on Capital Account	-4.8	11.0	35.6	44.8	13.3	3.4	3.4	3.4	3.4	5.2
Financial Account										
Direct Investment	223.1	221.2	141.9	140.9	47.8	18.2	-14.1	21.6	22.1	26.3
Abroad	-19.8	-9.1	-6.6	-7.3	-6.0	-1.5	-1.5	-1.5	-1.5	-0.1
In Cambodia	242.9	230.3	148.5	148.1	53.8	19.7	-12.6	23.1	23.6	26.5
Portfolio Investment	-13.5	-7.8	-7.2	-7.7	-7.5	-1.9	-1.9	-1.9	-1.9	-1.6
Assets	-13.5	-7.8	-7.2	-7.7	-7.5	-1.9	-1.9	-1.9	-1.9	-1.6
Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	31.0	-1.3	62.7	33.0	259.1	23.1	70.9	102.3	63.0	30.7
Assets	-70.2	-59.2	-183.7	-118.2	-11.9	77.1	-19.6	-118.9	49.5	131.6
Liabilities	101.2	57.8	246.4	151.2	271.0	-54.1	90.5	221.2	13.4	-100.9
Reserve Assets	-30.8	-68.4	-112.3	-88.6	-187.1	-57.4	-68.5	-36.6	-24.6	5.1
Balance on Financial Account	209.8	143.6	85.1	77.5	112.3	-18.1	-13.6	85.4	58.6	60.6
Net Errors and Omissions	-29.8	33.3	14.7	-36.5	-61.6	-9.5	29.2	-44.7	-36.6	-20.1

Source: National Bank of Cambodia

Table 3: Crops Production

Table of General Crops Production

No.	Description	Unit	1996	1997	1998	1999	2000	2001
1	Rice	MT	3,458,000	3,414,918	3,509,871	4,040,900	4,026,092	4,099,016
2	Maize	MT	64,255	42,423	48,510	95,974	156,972	185,589
3	Yellow Maize	MT	27,000	15,037	20,141	54,680	121,741	157,652
4	Cassava	MT	69,656	77,266	66,534	228,512	147,763	142,262
5	Sweet Potato	MT	38,032	28,922	30,476	32,516	28,178	26,252
6	Vegetable	MT	249,710	250,000	217,258	181,851	195,894	179,741
7	Bean	MT	13,758	15,312	9,160	15,913	15,100	16,558
8	Sugar Cane	MT	171,305	187,532	133,053	159,859	164,176	164,469
9	Soya Bean	MT	28,299	56,342	27,709	35,063	28,111	24,658
10	Ground Nut	MT	6,166	6,952	6,612	9,244	7,490	8,792
11	Sesame	MT	5,245	6,500	5,087	7,385	9,855	8,949
12	Tobacco	MT	9,621	10,492	10,144	6,358	7,665	4,299
13	Jute	MT	2,398	2,329	1,104	264	180	243

MT: Million Tones

Source: Ministry of Agriculture, Forestry and Fisheries

Table 4: Fisheries Production

Table of Status of Fisheries Production

No.	Description	Unit	1996	1997	1998	1999	2000	2001
1	Total Fish Production	MT	104,310	105,110	109,810	284,100	296,030	444,500
	Capture Fisheries	MT	94,710	93,310	95,710	269,100	281,600	427,000
	Inland caught fish	MT	63,510	63,510	63,510	231,000	245,600	385,000
	<i>Industrial scale</i>	MT	63,510	63,510	63,510	71,000	85,600	135,000
	<i>Family scale</i>	MT				115,000	115,000	140,000
	<i>Rice-field</i>	MT				45,000	45,000	110,000
	Marine caught fish	MT	31,200	29,800	32,200	38,100	36,000	42,000
	Aquaculture							
	Fish	MT	9,600	11,800	14,100	15,000	14,430	17,500
	Crocodile	head	20,200	17,002	40,700	25,380	26,300	36,000
2	Export							
	Fish	ton	24,700	36,870	40,240	44,600	42,300	35,000

MT: Million Tones

Source: Ministry of Agriculture, Forestry and Fisheries

Table 5: Industry Sector

Table of Gross Value Added by Industry

	Value in Million Riels									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
INDUSTRY SECTOR	834,985	969,997	1,193,283	1,355,800	1,629,169	1,995,916	2,371,574	3,047,161	3,519,843	4,114,939
Mining	13,089	15,951	19,406	19,548	20,531	19,342	26,629	33,544	39,645	46,614
Manufacturing	560,480	624,034	758,212	909,340	1,156,069	1,534,039	1,736,919	2,238,690	2,556,362	2,969,456
Food	217,619	215,171	292,808	302,902	319,709	383,383	416,733	386,537	391,183	392,155
Beverages	51,097	38,960	34,826	34,616	32,973	35,647	34,763	31,249	30,915	31,498
Tobacco	10,974	10,536	9,001	9,949	11,329	13,902	15,692	15,594	20,387	26,653
Textiles	31,583	35,960	40,697	45,867	53,770	60,469	63,546	79,695	77,971	96,102
Wearing Apparel	34,464	38,829	76,679	145,910	315,016	510,767	706,425	1,180,888	1,502,280	1,808,176
Footwear	4,827	5,300	5,849	6,044	9,599	16,094	21,980	35,188	41,891	54,372
Wood, Paper & Publishing	58,255	115,400	104,739	132,562	156,053	228,243	128,780	109,883	82,909	101,379
Rubber Manufacturing	23,540	22,256	31,357	42,366	48,767	46,359	55,744	69,165	61,706	73,707
Non-Metallic Manufacturing	25,308	29,977	35,716	35,819	38,935	40,638	58,377	85,989	101,914	120,249
Basic Metal and Metal Products	8,736	10,168	12,522	12,387	13,315	12,922	18,595	24,325	28,830	34,017
Other manufacturing	94,078	101,478	114,018	140,919	156,601	185,613	216,283	220,179	216,376	231,147
Electricity, Gas & Water	24,085	30,834	39,501	40,111	40,655	46,539	43,478	43,331	56,750	75,786
Construction	237,331	299,178	376,164	386,802	411,914	395,996	564,547	731,596	867,086	1,023,083

Source: National Accounts of Cambodia, 2002

Table 6: Service Sector

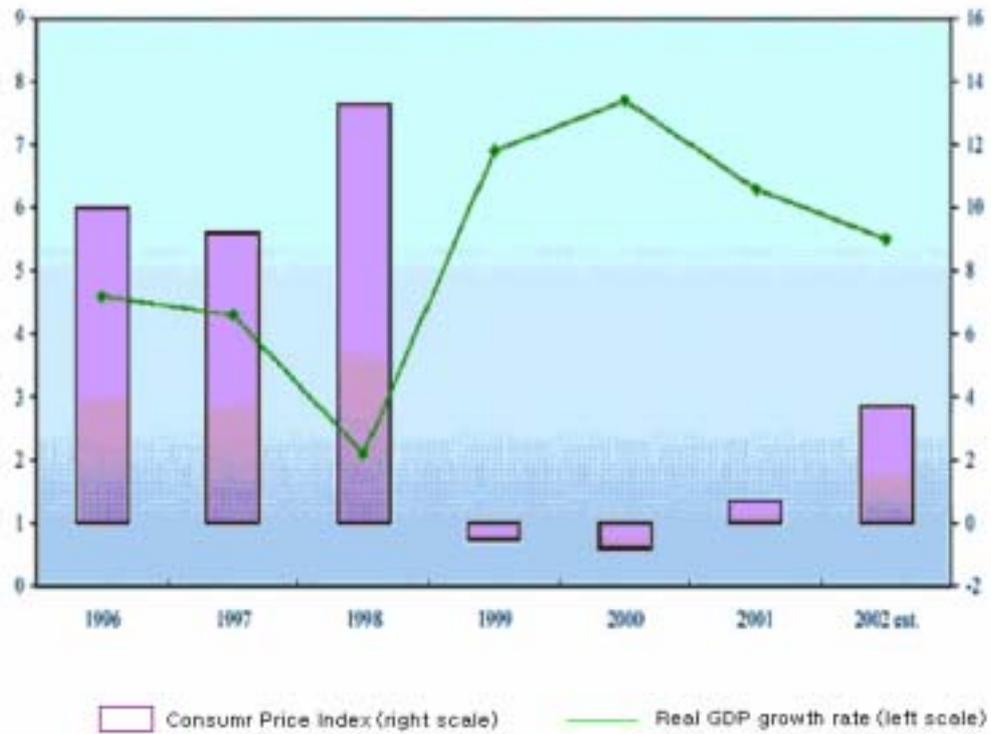
Table of Gross Value Added by Service Sector

	Value in Million Riels									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
SERVICES SECTOR	2,580,382	2,467,038	2,761,061	3,180,179	3,409,622	3,895,383	4,448,412	4,855,582	5,059,726	5,358,302
Motor Vehicle Sale & Repair	48,861	50,835	52,135	61,921	60,063	77,493	94,038	95,320	106,770	105,655
Wholesale Trade	53,631	63,009	67,752	75,507	86,914	100,113	116,526	115,898	116,208	120,852
Retail Trade	863,677	777,803	878,582	966,534	1,040,009	1,135,198	1,208,689	1,221,162	1,223,026	1,257,006
Hotel and Restaurants	154,757	193,942	238,695	249,707	283,211	320,332	395,579	472,646	575,275	656,645
Transport	346,701	359,367	418,119	490,091	504,257	564,557	685,450	779,861	802,781	873,137
Post and Communication	29,546	40,823	30,883	42,825	65,678	73,418	93,477	97,789	144,412	86,826
Finance	23,770	27,385	76,526	86,541	97,806	100,334	129,390	174,845	128,370	84,720
Public Administration	142,162	228,500	233,700	296,156	305,041	333,214	388,637	376,603	359,180	390,477
Real Estate	579,997	408,008	438,570	492,684	555,892	669,678	698,701	754,607	773,909	793,705
Business Services	42,248	43,524	44,804	44,566	44,804	62,725	64,921	71,413	78,554	86,410
Education	62,475	31,980	36,827	86,472	88,244	100,313	138,383	149,145	156,917	192,676
Health	48,355	59,459	81,607	35,175	39,636	64,261	72,817	86,724	82,950	97,747
Community Services	124,878	118,465	114,629	159,101	143,438	192,270	181,317	188,504	192,132	232,471
Recreational Services	17,432	22,614	35,275	52,837	51,168	52,773	131,368	220,623	266,038	323,861
Personal & Other Services	41,892	41,323	42,957	40,062	43,462	48,702	49,119	50,441	53,203	56,116

Source: National Accounts of Cambodia, 2002

Figure A: Real GDP and Inflation

Cambodia: Real GDP and Inflation (in percent change)



Source: Data provided by the Cambodian authorities; and IMF staff estimates.

Figure B: Budget Balance

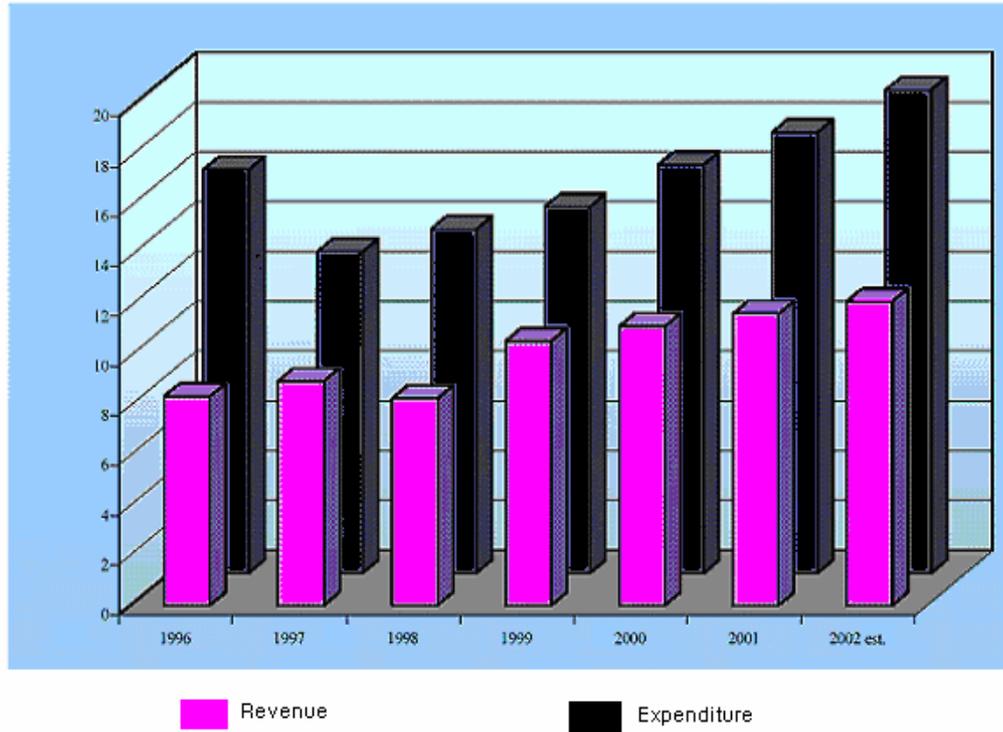
Cambodia: Budget Balance (in percent of GDP)



Source: Ministry of Finance and Economy

Figure C: Government Revenue and Expenditure

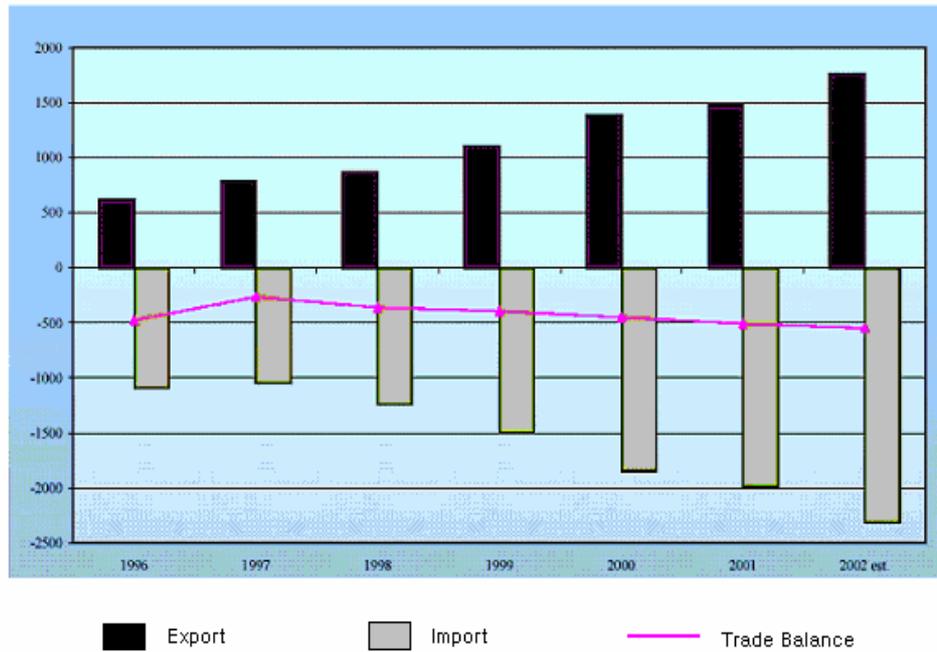
Cambodia: Government Revenue and Expenditure (in percent of GDP)



Source: Ministry of Finance and Economy

Figure D: Trade Balance

Cambodia: Composition of Trade Balance (in million of U.S. dollars)

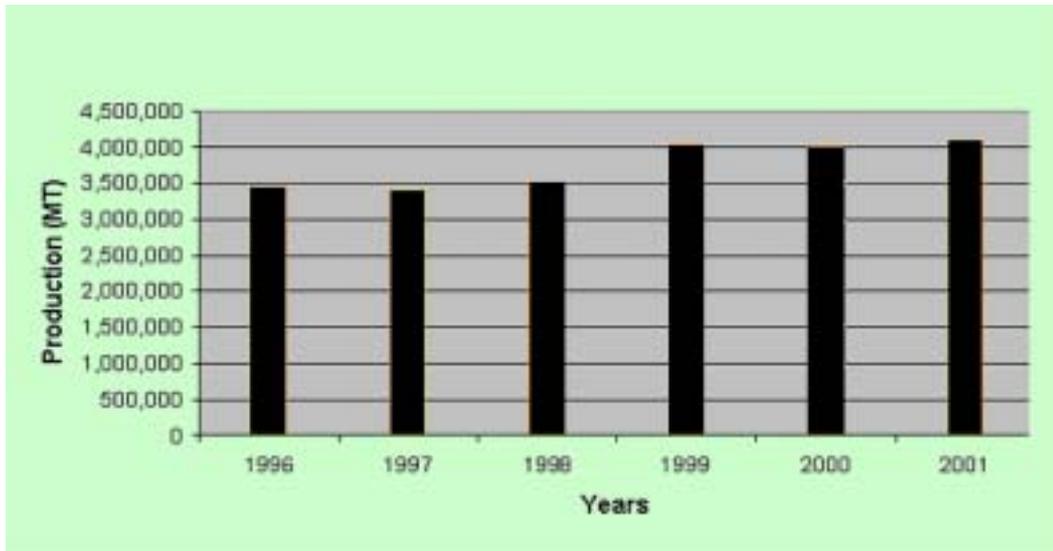


Note: Include re-exports.

Source: Ministry of Commerce

Figure E: Rice Production

Total Rice Production

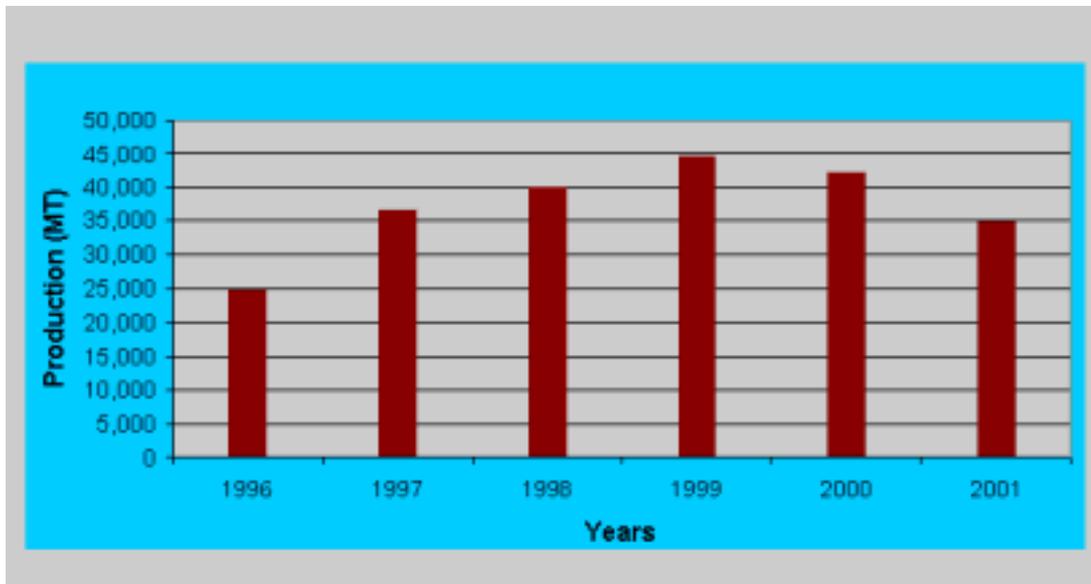


MT: Million Tones

Source: Ministry of Agriculture, Forestry and Fisheries

Figure F: Fisheries Production Exportation

Total Fisheries Production Exportation



MT: Million Tones

Source: Ministry of Agriculture, Forestry and Fisheries

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