

**CAMBODIA TRADE POLICY:  
Weaknesses of Export-oriented Strategy and Perspective**

**By**

**EUNG, Kimmuyly**

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
in partial fulfillment of the requirements  
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## **ABSTRACT**

### **CAMBODIA TRADE POLICY: Weaknesses of Export-oriented Strategy *Strategy and Perspective***

**By**

**Eung Kimmuyly**

Competition economic power has become the modern-day cold war as indicated by the endless competition in trade and investment. Various theoretical lenses have covered different aspects of how an export-oriented strategy would result in the better development. Yet, there are also beliefs about the fragility of foreign dependency that results from foreign import and investment. The sustainable development can be met only with the complement of import-substitution strategy. This strategy together will promote the domestic private sector which needs strong development for country's better independence. With the strong foundation of domestic investments, external shocks from imports and foreign investments will no longer be a big obstacle of developments. Moreover, the government's role as coordinator is a road to success and fast growth of firms both in granting domestic competition and further expanding international markets. Hence, this paper aims to produce a prudent policy recommendation for the Cambodian government with the direction to use import-substitution strategy to promote and sustain the export-led growth. To make an in-depth analysis on the issue, the paper has covered various theories and comparative case studies to find out the best policy outcomes suggested for leapfrog development.

**Key Words:** Cambodia, Import-substitution, export-oriented, import dependency, foreign investment dependency, and development gap



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I feel very positive about the research paper that would likely contribute to benefitting the community as a whole.

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## **GLOSSARY**

Abbreviation & Acronyms

AFTA	ASEAN Free Trade Area
ASEAN	Association of South East Asian Nation
CEO	Chief Executive Officer
CEPEA	Comprehensive Economic Partnership for East Asia
EBA	Everything But Arm
EBMA	European Bicycle Manufacturers Association
EVI	Economic Vulnerability Index
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of Preference
HS	Harmonized System
ICT	Information, Communication, and Technology
MoC	Ministry of Commerce
MIME	Ministry of Industry, Mines and Energy
NSDP	National Strategic Development Plan
RCEP	Regional Comprehensive Economic Partnership
RGC	Royal Government of Cambodia
RS	Rectangular Strategy
R&D	Research and Development
SAD	Single Administration Document
SEZs	Special Economic Zones
SMEs	Small and Medium Enterprises
SNEC	Supreme National Economic Council
UNTCAD	United Nations Conference of Trade and Development
UNICAP	Uniform Capitalization
WB	World Bank
WTO	World Trade Organization



## CHAPTER ONE

### INTRODUCTION

#### *Framework*

Trade has existed since the beginning of humanity. Trading simply refers to exchanging things or doing transactions. However in the modern-day context, “trade” is more complex than it once was. Common trade practice has become a widely known business concept all over the world and not only domestically but also internationally. Therefore, the concept of trade has been used in two different ways: domestic trade and international trade. International trade involves more complex exchanges with other countries within a commonwealth of nations. It has thus been proved that it is an engine of growth for a nation’s survival.

More insightfully, the ideas international trade came to existence since the early Greek era. The rapid practice of international trade began even early before the Gold Standard period (1870 to 1914).<sup>1</sup> David Ricardo wrote about the modern international trade theory in 1817 to demonstrate the value of free trade in the case of England’s importation of food which were restricted by tariffs.<sup>2</sup> As the British government abolished the Corn Law to protect farmers’ productivity and increase the expansion of trade, free trade has extended throughout the European continent in the 1860s.<sup>3</sup> Thereafter, the study of international trade theory, in terms of its history and its relative benefits, has become controversial. Hence, international trade theory has been viewed as “the extension and application of microeconomic theories of production

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<sup>1</sup> Britain was the first state to have established the Gold Standard since 1717 and widely practiced later throughout Europe (Barry Eichengreen & Marc Flanreau 1997, 4).

<sup>2</sup> Paul R. Krugman & Maurice Obstfeld. 2009. *International Economics: Theory & Policy*. Vol. 8th Ed. USA: Pearson Education, p. 76

<sup>3</sup> Barry Eichengreen & Marc Flanreau. 1997. *The Gold Standard in Theory and History*. London: Routledge, p. 6

and exchange to the study of economic transactions between agents in different countries.”<sup>4</sup>

As global markets began in the 17<sup>th</sup> century with the mercantilist theory, the long distance of international commerce existed. The emergence of global markets caused the various analytical strategies of international trade. Among them, one of the most well known strategies in the 20<sup>th</sup> and 21<sup>st</sup> century is the export-oriented strategy where the acceleration of economic growth needs the expansion of trade towards the global markets. In the beginning of 1970s, most countries around the world was practicing import-substitution strategy which was popular due to several reasons. The strategy was to reduce the amount of import and enhance the local production as to serve the domestic market. One among the alternative objectives of the practice is the fact that a country needs to protect the infant industries development. However, many countries abandoned this as they found the limited capacity of the domestic market, which was insufficient for growth.

Although import-substitution in an absolute sense has been abandoned, there are still some typical cases where the governments of developing countries attempt to use the partial strategy of import-substitution for the development of their domestic private sector. Henceforth, in a looser sense, import-substitution refers to effective protection. In this sense, it should include effective subsidies in the form of income tax exemptions and special low interest loans for the specific activities of domestic or joint venture firms.<sup>5</sup> This tax exemption and low interest rate is a form of subsidy

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<sup>4</sup> Harry P. Bowen, Abraham Hollander and Jean-Marie Viaene. 1998. *Applied International Trade Analysis*. London: Macmillan Press LTD, p. 3

<sup>5</sup> Kim, Kwang Suk. 1974. "Outward-looking industrialization strategy: The case of Korea." (Korean Development Institute) (Working Paper 7407), p. 31, accessed March 10, 2014. [http://www-dev.kdi.re.kr/kdi\\_eng/database/report\\_read05.jsp?1=1&pub\\_no=658](http://www-dev.kdi.re.kr/kdi_eng/database/report_read05.jsp?1=1&pub_no=658).

which helps differentiate the domestic value-added price from the world market price. Yet, the incentives as such should be preferred to particular non-competitive but potentially develop products in the early stage. Likewise, in Cambodia, where the export-oriented strategy is practiced, the domestic industries are still in infant stages. Firms face a great deal of difficulties in developing their own capacities due to the strong market competition with imported-products.

Similarly, the fragile condition of export expansion can also be seen due to the fact that a country has involved itself in a relatively small scope of diversified production where the market is also narrowed. Thus, once the current condition of export policy breaks out, the country will be in perilous condition with such a narrowed basket. This temporary contracted export strategy should be enhanced for sustainability. To solve this problem the government needs to not only diversify the export products alone but also vary the investment with the balance among all the three investments: foreign direct investment, domestic firm investment, and joint venture businesses. The aforementioned kinds of investments-domestic and joint venture investment can lead to the minimization of external shock once foreign investors want to withdraw their investment from the country and also aid sustainable growth of development. Although, Cambodia has achieved a strong increase in the outward-looking strategy, the simultaneous goals – minimization of import dependency and foreign investment dependency should be defined. Through the injection of the import-substitution element into the national trade policy agenda, alternatively the domestic private sector will improve. Additionally, the paper aims to initiatively redefine the meaning of import-substitution to which it refers. As the objective of import-substitution is to strengthen the private sector and domestic production, import-substitution in this sense would tempt to enlarge and diversify the

domestic produced goods, increase its competitiveness and value added, target the reduction of unnecessary import and promote diversification of export basket.

### ***Objective of Study***

The overall objective of this study is to evaluate the impact of export-oriented policy by the Royal Government of Cambodia. The principal research question is, “Is Cambodia’s export oriented strategy on the right track?” Typically, the study aims to compare the speed of industrialization in the country after inserting the flexible element of import-substitution to the current outward-looking practice.

### ***Scope of Research:***

This research paper aims to run a comparative analysis on the Cambodian government’s trade export-oriented strategy with the current and after injection of import-substitution. It will examine whether the implementation of the export-oriented policy is on the right track and what the significant problems of imbalance of trade policy between export and import are. This paper will cover the critical dynamics between internal and external balance of trade aspect. This economic view also involves in the sense of cost and benefit analysis of trade policy implementation. Indeed, the analysis will look into the growth rate of per capita income, market share (domestic and international trade), domestic industry performance, and the import dependency of the country. To claim this, it will additionally draw the importance of balanced focus between the export-oriented and the import-substitution policy. Besides, the private sector development image will be also envisaged to pave the way for the fast-track growth in which the export and import-substitution can be simultaneously developed. Nevertheless, this study will only look at the goods related

sector where two necessary potential industries will be scrutinized: the agro-processing industry and the light manufacturing industry – textile and bicycle industry, their substitutable products for domestic use and surplus for export. These industries are key to both promoting export growth and domestic industry development.

***Research Question(s):***

1. What are the weaknesses of the export-oriented strategy implemented in Cambodia?
2. What are the potential advantages of the import-substitution strategy?
3. How can import-substitution strategy be an agent to pushing speedy growth of export-oriented industrialization in Cambodia?

***Hypothesis (or Claim):***

This research paper will identify the three main weaknesses of export-oriented strategy in Cambodia as it is increasingly burdened, to the extent of (1) lacking export-diversification, (2) possessing import dependency, (3) having heavy foreign direct investment dependency, (4) low local value added and (5) the lead to development gap.

It is generally agreed by many literatures that Cambodia needs more effort to diversify its export basket. There are challenges to the diversification of the country's export market and export products. Cambodia's economic growth with the dependency on narrowed export markets is highly sensitive. If a foreign country faces economic or financial difficulty, it will likely shake the projected economic growth of Cambodia. Secondly, if the narrow-led export products continues, the change in the comparative advantage of those products will lead to the change in export benefit of the country.

Foreign dependency, which includes import dependency and foreign investment, can set the country growth direction. It is believed that the high level of foreign dependency may cause the country's economic growth to become fragile. The country will easily experience external shock with such dependency status, and such a shock did take once in Cambodia in 2008 with the global financial crisis.

Domestic products in Cambodia have become so vulnerable through competition with the impact from foreign products. The value added of each sector is undeniably low due to the lack of significant contribution from the domestic firms. Also, low local value added to the domestic production is partly due to the heavy import of raw material from the countries of foreign owned companies.

As foreign investment dominates the country, it is believed that little benefit goes to the ground roots domestic citizens, though job creation has been enormous. Domestic private firms receive fewer incentives, as they are practically believed to have little capacity in promoting growth in the country, especially SMEs. Aside from that the concentration on the development of few sectors also contributes to an uneven distribution of economic growth in the country.

By figuring out the core obstacles of the Cambodian export-oriented strategy, this paper makes a claim to push the speedy growth of current contracted export-oriented industrialization to sustainable development.<sup>6</sup> The study shows that foreign direct investment alone cannot foster the sustainable trade development to the country as it fears of external shock. There is a need to inject the sense of import-substitution strategy in the trade policy agenda of Cambodia as a driving tool to complement the export strategy. Thus, it claims the focus to use the alternative objective of import-

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<sup>6</sup> This research study will show how the current trend of export practice show the unsustainable development and future concern on the growth of export and investment.

substitution, which is the promotion of local industrialization in necessary consumer goods sector that includes the agricultural sector, garment and textile, and light manufacturing.

### ***Literature Review***

In the year 2010, Ronato P. Colistete writes about Brazil's import-substitution strategy. It suggests the heyday in Brazil development brought by import-substitution strategy though some mixed undesirable outcome existed.

There was a structural change in industrial share – industrial transformation and labor productivity growth. The modern industry jumped where the traditional industry declined. As a result of shifting share between modern and traditional industries, the structural change led to reallocation of capital and labor. Intra-growth of productivity is also seen as evident of efficient use of resource by firms. Moreover, Ronato's regression result shows that during his so called golden age developmentalism (1945-1961), there was an increase in manufacturing productivity. This resulted from the shift of labor to more productive and fast growing industries. Even though in later stages the labor productivity growth has slowed down, the data on productivity growth still shows the importance of effective import-substitution industrialization early stages.

Technological content of exports, selected firms and industries are another evidence of efficient import-substitution strategy proved by Ronato. Here, he uses the export structure of Brazil as the evidence for the development change in domestic production. Ronato uses the typology method based on United Nations Conference on Trade and Development to classify products into five categories: "Primary Products", "Resource Based Manufactures", "Low Technology Manufactures", "Medium Technology Manufactured", and "High Technology Manufactures". He measures the percentages of

export between each category and shows that within 34 years, the high dependency on primary product turns to high technology manufacture. Besides, the export basket also diversified. The export structure was moving towards more sophisticated and complex production. Nonetheless, the speed is slow and limited.

Ronato argues that besides the problem of import-substitution practiced in Latin America, which caused distortion and inefficiencies, the heterogeneous outcome of import-substitution also yielded favorable growth for the country. A group of leading firms became more competitive and highly standardized their production in manufacturing sector. There is evidence of high heterogeneity in industrial structure in term of productivity, quality and technology. He concludes his research paper by showing the advantage of import-substitution strategy where the industrialization plausibly takes place. This strategy as the result helps modernized and increases the productivity of the firm; otherwise, technological stagnation and competition would severely hit the firms. The change in organization structure and the efficient use of labor force and resources were also recognized.

Research done by Korean Development Institute with the support from the Ministry of Strategy and Finance of Korea entitled “Policy Agenda for Cambodia in SME, Industry and Trade” shows the possibilities of import substitutions. It is recommended that the government foster a number of industries that can substitute imports. Those industries include jewelry and precious stones, textile fabrics, mineral fuels, machinery, tobacco, as well as soft and alcoholic beverages. Cambodia is a country with rich natural resources where the fuels and jewelry industry can easily be substituted with extensive investment and with the inclusion of a vast demand.

Although the government has just planned to a build small oil refinery, Cambodia completely depends on imported petroleum. The amount of petroleum



import is large compared to other products as the economy develops and needs to consume more energy. There are several crude oil extractions from the coastal area while the refinery factory is still not existed. As this is a backbone industry and the country also has capacity to produce, the government is strongly encouraged to emphasize the investment. While Cambodia declares itself to promote textiles as a specialized industry, fabrics are still enormously imported by foreign investors for the use in their garment factories. The study goes on to suggest that cotton spinning and weaving mill production should be enhanced and standardized for further export benefits and for the import substitution of raw material to export.

The machinery industry is also increasingly in demand since the country is in the transition period. As there exists a high demand for good machinery to be used for agriculture and textile manufacture, the machinery industry is viewed in the research paper of KDI as one of the critical industries for the government to develop as well. Moreover, the tobacco industry is promising as the country's fertile soil produces an excellent quality of tobacco. It is a highly attainable goal to further enhances the country's production capacity. Lastly, the paper goes on to discuss the beverage and alcohol industry. High domestic demands, excellent and rich raw materials from the agricultural sector, make the development of the industry possible with government start-up support.

The workshop conducted by United Nations Conference on Trade and Development (UNCTAD) at the request by the Ministry of Commerce of Cambodia in 2013 states the requirement of Cambodia's graduation from LDC. UNCTAD continuously stresses the importance of sustainable growth projected for Cambodia through export-led growth. It emphasizes the important role of the garment industry in export and also the FDI in Cambodia, which contributed a very large proportion to the

development in the country. The effort of Cambodia to diversify its exports through favoring FDI in bicycle production has shown extensive progress that is recommended to further strengthen the initiative of the automotive sector.

However, the concept note of the workshop identifies the challenges facing Cambodia, including its corruption, transportation constraints, electrical capacity, and the lack of diversification.<sup>7</sup> The discussion also emphasizes the external competitive environment of Cambodia's exports. Unlike Bangladesh who has a major domestic cloth industry, Cambodia has none. Foreign ownership in the garment sector occupies about 90 percent of the total investment while in Bangladesh it is just the reverse. Besides, the report also questions the sustainability of the country. To the extent of upgrading its own higher-end products that requires more skills labor, Cambodia is suggested to address its existing domestic gaps as it seeks structural economic reform. This links to the concern over the fragility of the country's economy to the external shock and other crisis that include the financial crisis in 2008.

### ***Methodology of Research***

The research involves the quantitative and qualitative methods. The data comes from both secondary data and primary sources (such as survey, literature studies, reports from government institutions, international organization, and non-governmental organizations).

The research topic and solution finding have been introduced through the inductive reasoning approach with which the statement of the problem of the export strategy in Cambodia is claimed. It will be followed by the evidence of concrete

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<sup>7</sup> Secretariat, UNCTAD. 2013. "Trade and investment-led growth and structural transformation as key to Cambodia's eventual graduation from LDCs' category: challenges, opportunities and prospects for sustainable graduation." *Concept Note* (Division for Africa), p. 9, accessed May 1, 2014. [http://unctad.org/meetings/en/SessionalDocuments/aldc2013\\_05\\_Cambodia\\_CN.pdf](http://unctad.org/meetings/en/SessionalDocuments/aldc2013_05_Cambodia_CN.pdf).

argument based on theory, data statistics, and development experience from similar experiences. Through analysis, the paper will mark the importance of strengthening policy that is oriented by diversifying strategies to attain sustainable growth as its ultimate goal.

### ***Statement of Significance***

The purpose of this study is to figure out the weaknesses of export-oriented strategy in Cambodia and emphasize on the need to address an integrated policy agenda by using import-substitution as the complement strategy to foster export growth. It will explore the best policy options in speeding export activities and at the same time maintaining the sustainable growth of domestic entrepreneurship with the ultimate aim for surplus to export. By gathering all the pros and cons, the paper will seek solutions to reduce high foreign dependence. By doing this, there will be an analysis of various aspects such as the current account issue, balance of trade, GDP per capita and GNP growth rate, and social inequality. This analysis will prove how trade imbalance leads the country to a weakened export production as it suppresses the domestic enterprise development.

## CHAPTER TWO

### ANALYTICAL FRAMEWORK

#### *Theories*

##### Theories of Growth

According to the growth theory, a country's long term economic growth must apply to technological progress and a high level of human capital accumulation.<sup>8</sup> This can be done along with the emphasis on the movement of private sector development in the country. Based on Rostow's theory of industrial development, Cambodia is in the second stage of development where the country is setting up preconditions for economic takeoff. It is the transition period where the surplus of agriculture exists and the country is trying to extend the trade and manufacturing investment with more openness.

This paper will argue that Cambodia should be ready for the third stage of industrialization where rapid expansion of industry and surge for technology should be done through various acquisition and in-depth research and development. Hence, the government should strongly push for the agro-processing industry and the light manufacturing industrialization in the beginning stage of expansion. Remarkably, these two factors appear to be of utmost importance in the early stages of development. Also, domestic enterprises can afford to build up the two industries with less financial and technical investment. Indeed, the two sectors also play an extensive role in supplying the domestic market that helps substitute the current imports as well as the balance of trade (current trade deficit).

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<sup>8</sup> Boao Forum for Asia (2014), Part One: Annual Report 2014: Competitiveness of Asian Countries, p. 9. accessed on 8<sup>th</sup>, July, 2014 at <http://english.boaoforum.org/u/cms/www2/201403/301037261tis.pdf>

Table 1: Rostow's theory of industrial development (modernization model)

	Characteristics	Economy	Society	Political Power	Values
<b>Stage One</b>	The traditional society	Largely agricultural (>75%), limited production	Hierarchical social structure	Regionally-based in the hands of the landowners	Resists change, focus on the old traditions
<b>Stage Two</b>	Preconditions for takeoff	Surplus of agriculture & capital, expansion of trade & manufacturing	Beginning of a commercial class with some urbanization	Centralized national government	Rising spirit of progress and openness
<b>Stage Three</b>	Takeoff	Rapid expansion of industry, surge of technology and commercial agriculture	Increasingly dominant entrepreneurial class	Powerful faction encourage modernization	Increased investment of capital for profit
<b>Stage Four</b>	Drive to Maturity	Technology extent to all sectors, labor saving devices are made	Urbanization, increase in skilled and professional workers	Industrial leaders are highly influential	Emphasis on technology, expectation of progress
<b>Stage Five</b>	Age of Mass Consumption	More use and production of durable goods, service sector dominates (>50%)	New middle class, shift to the suburbs, population growth stabilizes	Social welfare, more resources for military & security	Increased acquisition of consumer goods

Source: (Rostow's Theory of Industrial Development, "Modernization Model", 2014)

*Infant industry development theory:*

Infant industry theory began after the first industrial revolution where Alexander Hamilton argued the importance of protection to infant industry.<sup>9</sup> He picked up the case of United States and Great Britain where the US needed to protect its own industry vis-à-vis the import product of Great Britain. According to Frederick List, one of the infant industry theorists, there are five stages of development: (1) the savage stage, (2) the pastoral stage, (3) the agricultural stage, (4) the agricultural and manufacturing stage, and (5) the agricultural, the manufacturing and commercial service stage.<sup>10</sup> List's argument is that the development of each stage cannot be done through the "natural course of things", but the government should take the measure of protecting its own industries. Nevertheless, this will not take place for a long period of time. The government has to make sure that the policy adoption and the protection are effectively coherent to the plan. Then the protection has to be removed gradually as the industry matures. This procedure is also known as the Mill-Bastable Test that is based on Stuart Mill and Chales Francis Bastable. John Stuart Mill also states his belief that the dynamic learning effects or a so-called learning by doing is essential to firms.

If the government wants to protect its own industry, the protection should be based on three things: industry's learning potential, the shape of learning curve, and the degree of substitutability between domestic and foreign goods.<sup>11</sup> Indeed, according to Chales Francis Bastable, there is a need to address the cumulative net

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<sup>9</sup> Shafaeddin, Mehdi. 2000. "WHAT DID FREDERICK LIST ACTUALLY SAY? Some Clarifications on the Infant Industry Argument." *UNCTAD Discussion Papers* (UNCTAD) 149, p. 4, accessed May 20, 2014. [http://unctad.org/en/docs/dp\\_149.en.pdf](http://unctad.org/en/docs/dp_149.en.pdf).

<sup>10</sup> Ibid. 5,

<sup>11</sup> Melitz, Marc J. 2004. "When and how should infant industries be protected?" *Journal of International Economics* (Elsevier B.V) 66: 177– 196. p. 177, accessed June 10, 2014. [http://scholar.harvard.edu/files/melitz/files/infant\\_jie.pdf](http://scholar.harvard.edu/files/melitz/files/infant_jie.pdf).

benefits of protected industry if it can cover up the cumulative costs of protection.<sup>12</sup> When desired welfare is maximized the then level of protection can be progressively reduced.

An essential case of infant protection mechanism can be found in the case of Britain in the 13<sup>th</sup>-14<sup>th</sup> centuries.<sup>13</sup> The British government was relying very much on the raw wool and wool cloth as the basic products for export. The government basically banned the importation of woolen cloth and promoted its local woolen textile industry.<sup>14</sup> This later accounted for about half of its total exports revenue and helped Britain to become successful in its initial stage for Industrial Revolution in the 18<sup>th</sup> century.<sup>15</sup>

## Trade Theory

The pattern of trade questions the idea of who sells what to whom, which builds the concrete analysis of trading system around the world. David Ricardo explained the patterns of trade that is internationally different in labor productivity. The 20<sup>th</sup> century explanation, however, proposed a more insightful one. Based on the Heckscher-Ohlin Principle, benefits of trading arise once the different between relative factor endowments of the countries' trading has been realized. This study gives a more concrete idea of how a country has certain comparative advantage in a specific sector. This theory shows the idea of how supplies of national resources such as capital, labor, and land are used as factors in the production. Additionally, in later studies technology has been added as relative factor to production as well.

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<sup>12</sup> Ibid. 178,

<sup>13</sup> Chang, Ha-Joon. 2001. "Infant Industry Promotion in Historical Perspective ." *Conference Paper on Development Theory at the Threshold of the Twenty-first Century*, p. 5 Accessed June 26, 2014. <http://www.eclac.cl/prensa/noticias/comunicados/8/7598/chang.pdf>.

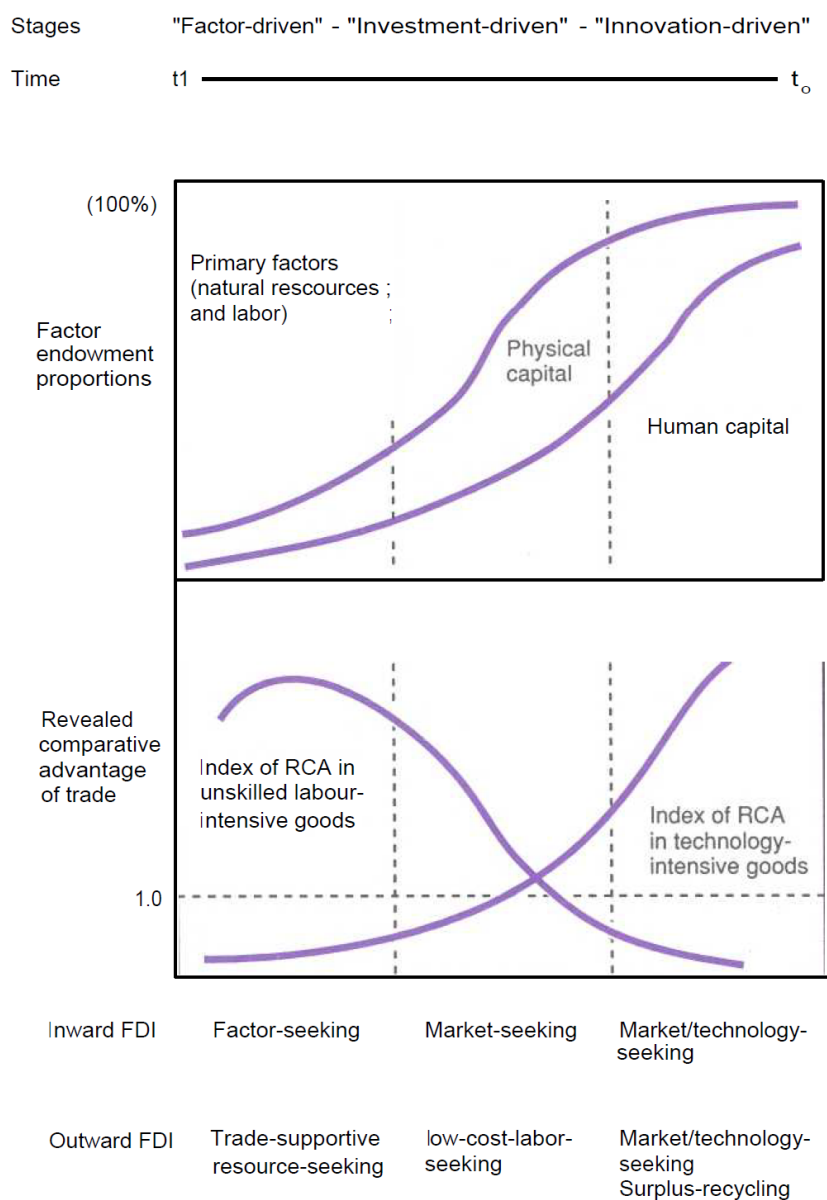
<sup>14</sup> Ibid. 6,

<sup>15</sup> Ibid.,

## The Law of Comparative Advantage

The Heckscher-Ohlin Principle states the different between relative factor endowments of the countries' trading which gives certain states a comparative advantage of its certain sector to another. Below figure shows the stage of development along with the comparative advantage of the economy in different stage.

Figure 1: Stages of Development and Changing Factor of Comparative Advantage<sup>16</sup>



<sup>16</sup> Terutomo Ozawa, Foreign direct investment and economic development, Transnational Corporations, vol. I, no. 1, published on February 1992, pp. 27-54. P 37. accessed on 20<sup>th</sup> of November, 2014 at [http://unctad.org/en/docs/iteiitv1n1a3\\_en.pdf](http://unctad.org/en/docs/iteiitv1n1a3_en.pdf)



There are 12 Pillars of Competitiveness that are divided in three stages of development – Factor-driven Economies, Efficiency Enhancer, and the Innovation and Sophistication Economies.

***First Stage:*** Factor-driven economies

Naturally, this stage does not cover anything besides the resources in the country that include human resource and natural resource.<sup>17</sup> Human resource is only a primitive inference, which is usually explained as endowment labor associated with low wages. More interestingly, the natural resource only refers to the abandoned unprocessed natural resource. Labor intensive industry will likely increase.

In this stage it is expected to attract the inward investment to capital and intermediate goods industries where there is the necessary transition to the second stage. This form of FDI should go along with the joint venture business. Furthermore, the natural development of outward FDI will slowly appear as the country trying to seek for resources abroad with the aggressive development, especially applicable to the case of resource scarce country.

There are four pillars in this stage. The first pillar is Institutions. To maintain the competitiveness of the country economy, it hinges primarily on the institutions of both public and private sector where healthy function of both organizations is a must. Second pillar is the country's infrastructure. Poor infrastructure would lead economy uncompetitive as the cost of production rises. The third pillar of a must-focus development is stable macroeconomic environment. Where the fourth pillar is a healthy labor force along with the primary education requirement.<sup>18</sup>

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<sup>17</sup>Malaysia Productivity Corporation. Appendix C: Competitiveness, p. 95. accessed on November 30<sup>th</sup>, 2014 at <http://bpap.mpc.gov.my/APR/KPSAPPENDICES.pdf>

<sup>18</sup>Klaus Schwab, The Global Competitiveness Report 2014-2015, Insight Report, 2014, The World Economic Forum: Switzerland, p. 9. accessed on 7<sup>th</sup> of December, 2014 at [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

According to the Global Competitiveness Report 2014-2015, Cambodia is still in factor-driven stage. The country economy still relies heavily on labor-intensive industry. Cambodia has poor institutions and poor infrastructure. The primary health welfare and education is still struggling with many obstacles for improvement. Yet, there is abundant of land and vast majority young labor with low skilled. Hence, the country production comparative advantage figure is as below:

Production Function:

$$Y = f(K,L,N,t)$$

	Capital (K)	Labor (L)	Land (N)	Technology (t)
<b>Cambodia</b>	X	O	O	X

The average rank of Cambodia's competitiveness in the factor-driven stage is 103<sup>th</sup> while the efficiency enhancer stage ranked in 100<sup>th</sup> and the innovation-driven stage ranked in 116<sup>th</sup>.<sup>19</sup>

**Second stage:** Investment/Efficiency-driven economies

The economy in this stage is now more efficient. The industry produces more standard product and service that is competitively able to compete against the other players in the markets. Indeed, physical capital is heavily invested to further enhance the competitiveness of the economies. Heavier investment on infrastructure will be regarded for the production efficiency. Moreover, business friendly environment, strong government organizational administration, strong investment incentives, skills

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<sup>19</sup> Klaus Schwab, The Global Competitiveness Report 2014-2015, Insight Report, 2014, The World Economic Forum: Switzerland, accessed on 7<sup>th</sup> of December, 2014 at [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

improvement of labor, better access to investment capital allow major improvement in productivity. In this stage, the government takes more prominent roles on comparative advantage strategy although wage hikes are unavoidable as economy develops and the skills of labor are improved. With the prompt development in this stage, the economy is subject to susceptible to external shock such as financial crisis and sector-specific demand shock.<sup>20</sup>

As the country become more competitive, the production rise and the wage hikes. The scale-based economy will be revealed in large-scale and capital-intensive trend will slowly appears.

Knowing that the best interest of competitiveness is efficiency, efficiency enhancer economy has to stay focus on another 6 pillars. The fifth pillar following the previous stage is higher education and training. Moving from primarily basic education, more skilled and educated professional workers have to be trained. Higher education institutes need to function well to meet the need of the economy. Moreover, the sixth pillar to stay focus on is the goods market efficiency, followed by financial market development as the seventh pillar, the technological readiness as the eighth, and the market size as the ninth.

***Third Stage:*** Innovation-driven economies:

In the third stage, R&D-based development is the main focus. The economy has to claim for high-tech manufactures. This means to look for continued import of advance technology and search for the new innovation with the outward FDI. The

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<sup>20</sup> Institute for Strategy and Competitiveness, Stage of Development, Harvard Business School, accessed on 1<sup>st</sup> of December, 2014 at <http://www.isc.hbs.edu/competitiveness-economic-development/frameworks-and-key-concepts/Pages/shapes-of-development.aspx>

development of new technology and methods makes economy a distinctive producers with highly competent workforce. The economy is quite resilient to external shock.

### *New Trade Theory*

New trade theory had emerged by the 1970s. The theory has countered the argument of conventional wisdom theory of unlimited free trade. Paul Krugman is a famous economist who develops the theory and explains the importance of economies of scale in production and the relative network effects.<sup>21</sup> The theory also investigates the effect of government regulation in altering comparative advantage of the key industry to be more competitive in the global markets. To protect potential domestic industries to extend its economies of scale, the theorist suggests the adoption of domestic subsidy or tariff protection for dynamic rate of return.

#### *Import-substitution theory*

#### Counter argument

As the world rapidly changes with unpredictable trends, perhaps the effort has been made to promote specific industry today may no longer be useful as its comparative advantage in the future might be changed.<sup>22</sup> Thus, if the government wants to place the import-substitution in a certain industry, they have to keep up with the progress of the world and make sure that the protected industry is still an important industry in the future.

It is important to note that the reason why protected industries develop or not is not due to the reason of protection but the industry itself. Thus, it has no benefit in

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<sup>21</sup> 2014. *International Relations Online*. Accessed May 19, 2014. <http://internationalrelationsonline.com/new-trade-theory/>.

<sup>22</sup> Paul R. Krugman & Maurice Obstfeld. 2009. *International Economics: Theory & Policy*. Vol. 8th Ed. USA: Pearson Education, p. 252

protection but generate more cost to the economy.<sup>23</sup> Therefore, if the country wants to protect its own industry, they will have to make a vivid plan to assure that the protection will not last forever. Also, the protected industry should be likely to grow and mature after the protection.

In the market failure case, the imperfect capital markets justification is all about the idea of financial constraints as the little saving from the traditional sector (such as agriculture) may lead to insufficient finance to new industries (i.e. manufacturing industry). To successfully develop the infant industries, there needs to be a strong capital market (efficient stock markets and banks) to work on financial matters of industrial development.<sup>24</sup> So, besides the potential industries of the country, the government also needs to consider the return from the industries and financial burden of the investment in these industries as well. The failure in identifying the cost of investment and little return will cause huge burden to the country's economy as a whole.

The “appropriability” argument for infant industry protection analyses the importance of new establishment of industry and the free rider cost. The problem that firms hesitate to invest in the new industry is an unavoidable loss on intangible establishment of the firms such as knowledge and new markets.<sup>25</sup> This yields an unfavorable outcome that the free rider firms can benefit which mitigate the pioneered firms' motivation to initiate. Besides the compensation to the intangible contribution of the firm, the tariffs and other incentives may be useful to encourage new entry to the specific industry. If government fails to give proper incentives to the pioneered firms, the protecting industrial policy would fail as no firm has the will to enter.

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<sup>23</sup> Ibid.

<sup>24</sup> Ibid. 253,

<sup>25</sup> Ibid.

## Realism

According to the view of realist, the narrowed-led of export growth may generate comparative losses to the country. In contrast, the countries whose diversification of export is reached may measure their benefits through winner-takes-all game by conquering large share of international markets. The theory also views the problem of rationalization and self-interest. A country A, for example, orders product M from country B, who has alternative product availability and is rich in production as they produce multi-products (M, N, O and etc.). The country B, in addition, has a vast development of its transportations. The choice that the country A made is based on the availability of production and the transportation cost. So, the country A may continue to order product N, O, and so forth from that Country B. Here, country A would not consider country C who has the same product as Country B and yet less comparative advantage in term of less products availability and transportation cost. Hence, the less diversification and less development on reduction of transaction cost cause country C to lose greater extent of market share.

## Domino theory

Domino theory refers to the concept defined by United States government during the Cold War that the existence of one communist regime in a country may spread to its neighbor, then across the region, and at last to the world. An example was the domino effect of Communist regime from Soviet Union to China, which later continued to North Korea and Vietnam. Ever since United States felt the risk, she did whatever it took to prevent the expansion of communist regime, perhaps to Cambodia and other neighboring countries of Vietnam by fighting against communist in Vietnam. The practice of domino theory in modern-day view, in contrast, pays more

attention to the effect of economic and finance between states. This can be seen during the two financial crises in 1998 and 2008. The world has become more interdependent where one country's crisis is the result of the other countries' crisis. Similarly, here it stresses the view of trade dependency with regards to the domino theory. Once a country becomes strongly dependent on the outside world, there will be both negative and positive impact from the global uncertainty. Thus, this theory argues that foreign import and investment dependency can be either a blessing or a curse.

### *Aspects*

This paper analysis will cover several points of views as ingredients to enrich the strong analysis of research. Those ingredients include: political economy, public policy, culture and history, and development. In the view of political economy, we will pin point the importance of external effects to the internal environment of trade. Indeed, it also describes the relative link of government foreign trade cooperation and agreements such as the regional cooperation in ASEAN, the membership role in WTO, and other bilateral and multilateral trade agreements. On top of that, public policy will analyze how and which way to innovate the alternative policy to pursue the best outcome of development. In this paper, the flexible policy may be created beyond the export-oriented strategy by combining it with the element of import-substitution. The historical image, on one hand, will help enhance a strong argument of trade policy implemented in the past and its results, while the cultural aspect on the other hand will seek for the reason why Cambodia is recommended a strong focus in certain sectors. For the development experience, Cambodia indeed needs the view of various countries' experiences to tailor the right policy of its own.

## CHAPTER THREE

### CAMBODIAN ECONOMIC OUTLOOK

#### *Cambodia's Economic Growth*

Located in the middle of the South East Asian region, Cambodia consists of 181,035 sq. km of land. The country geographically has the Asian-pan shape surrounded by mountains and the rolling-plains form the center part of the country. This country is roughly in square shape where the combination of streams, lakes and rivers forms the country's blood-vessel-like lines. In the central part of the country, there lays a great lake called the "Tonle Sap", rich in natural resources, which represents the heart of Cambodia. Cambodia is in tropical area and its soil is richly fertilized. However, the civil war and the country's development from 1960s to recent years have greatly reduced the country's forest coverage from 70 percent to 40 percent of the country's total land. Nonetheless, the economic still potentially depends on agriculture sector for the reason of vast arable land. Besides, the rolling-plains allow for a favorable condition for industrial development. The mountainous areas with enormous waterfalls are good for hydropower development. Streams and rivers can serve as advantage for water transportation and construction plants like cement and steel.

The law of comparative advantage described in the chapter two, explains the comparative advantage of Cambodia in term of its availability of land and labor. Thus, this country contemporarily needs to promote agriculture and labor-intensive industries. To further improve its dimension of future economic growth as well as sustainability, the country needs investments in capital and technology-based industry as the integration to the next stage of development. Foreign investors who may be



encouraged by the government to invest in the aforementioned industries in a joint-venture form can help this.

Above and beyond the expectation of general tendency to invest in natural resource related businesses, Cambodia has extensively enlarged its investment in other sectors including agriculture, textile, and light manufacturing industry instead. This expansion has been greatly viewed as a good strategy to move forward.

Having enjoyed the fastest growth period after the peace and stability in 1990s, Cambodia is like a newborn baby. Everything included infrastructure, production firms, building, household, and human resources capacity need to be built from the scratch. The war destroyed everything, Cambodia started from a so-called “Year Zero”. The total population in 1980s left about 6,589,954 people.<sup>26</sup> It was due to the mass killing field and civil war during 1969-1979. There were no noblemen or rich people to run businesses. Everyone has the same class as the farmer during the Pol Pot regime. Both individuals and the government had no capacity to run businesses. Therefore, the government decided to privatize its state-owned enterprises to attract foreign investors and call for an outward-looking strategy in 1990s. To be exact, it was in 1989 that the government transformed the country from central planned to open market economy.<sup>27</sup> The Paris Peace Accord in 1991 marked the beginning of a massive development in Cambodia where the country’s annual GDP growth rate reached 10 percent on average for over a decade (see figure 2). Although later, it dropped by 7 percent, it was ranked as the 11<sup>th</sup> fastest growing economy in the world

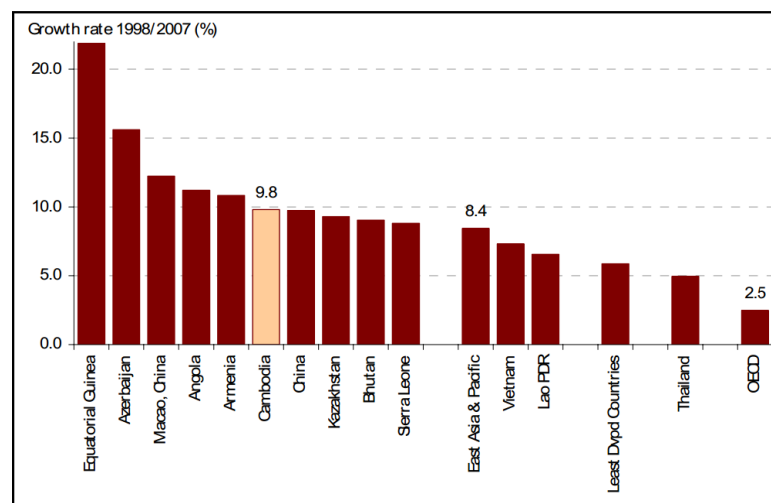
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<sup>26</sup> Kiernan, Ben. 2003. "The Demography of Genocide in Southeast Asia." *Critical Asian Studies: Research Note* (Routledge: Taylor & Francis Group) 35 (4): 585-597, p. 586, accessed May 12, 2014. <http://www.yale.edu/gsp/publications/KiernanRevised1.pdf>.

<sup>27</sup> Kem, Sothorn, Chhun Chhim, and Sovannarith So. *Policy Coherence in Agricultural and Rural Development: Cambodia*. CDRI Working Paper Series 55. Phnom Penh: CDRI, 2011. P. 5 <http://www.cdri.org.kh/webdata/download/wp/wp55e.pdf>.

within a decade of 2000-2010, reported by the World Bank. This fast growth is somehow reasonable since almost everything had been destroyed and the economic construction needed in every corner of the country that then brought up a huge demand of investments.

Figure 2: Fastest Growing Economies: 1998-2007



Source: National Strategic Development Plan update 2009-2013 2010, 78

After enjoying the fastest growth rate up until 2007, Cambodia was hit badly by the 2008 financial crisis, which led to economies' downturn. What was behind this downturn was the export growth, which accounted for 60 percent of the total GDP in 2009 as it was greatly increased from 16 percent in 1993.<sup>28</sup> The cause of this negative effect was the too dependent to FDI and narrow export-led products to a few markets. With the crisis, investors that were mainly in the garment sector just withdrew their investments out of the country as they faced severe crisis in the financial matter. The country financial institution, regulation, and capital account was also weak where the

<sup>28</sup> n.d. "Export dependence and export concentration." UNDP. Accessed May 12th, 2014. [http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards\\_SustainingMDGProgress\\_Chapter1.pdf](http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards_SustainingMDGProgress_Chapter1.pdf).

cash flow is uncontrollable. It was a big hit that Cambodia hardly survived. Crisis began like a domino effect. The export investment linked other investment to despair. Construction investment and other non-removable property activities were postponed.

The recovery of growth managed to be healthier after several years calling for the return of foreign investors. It catches up the annual GDP growth of 7 percent in the last few years according to World Bank data. After the lesson of external shock in 2008, the government should take a serious consideration on internal balance of the country economy, which is domestic investment. There is a projection of Cambodia's graduation from LDC countries in few-year times if sustainable growth can be reached. To achieve this successful growth, it needs structural economic transformation of diversification, value added and employment creation.<sup>29</sup> The next discussion will be about the Cambodian economy and its overall performance. Those economic indicators are thoughtfully selected to discuss of how the economy is perceived as in fragile condition and why diversification is needed for future success.

This paragraph will go about how Cambodian economy has shifted in the past decade as measured by percentage growth of each macroeconomic indicator. If we look at the table 2, we can see that the growth rate of the three sectors – agriculture, industry and service is significant. However, the percentage shares of the two main industries – agriculture and industry keep declining. It can be illuminated that the agriculture growth rate had declined dramatically from 15.7 percent to 5.5 percent during 2005 and 2006 for the reason of rapid shift of government's policy to focus more on manufacturing. Noticeably, the industrial sector rose to 18.3 percent in 2006,

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<sup>29</sup> 2013. *UNCTAD holds sensitization workshop on Cambodia's prospects for graduation from LDC status*. Workshop Report , UNCTAD, UNCTAD. Accessed June 4, 2014. <http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=631>.

yet it plunged down drastically to 8.4 percent in 2007 and lastly to 4.0 percent in 2008 as the result of global financial crisis. This rapid decline can be explained that the country's two main markets were United States and European Union. In fact, these two destinations were financially hit critically at the time. Another reason was that the Cambodia's manufacturing industry were mainly invested by foreign investors and all those investors withdrew from the country all of sudden. Therefore, this is the lesson that shows how Cambodia is subject to the vulnerable condition of external shock. The next discussion is going to analyze the economic strength of Cambodia after a few year recovered from the financial shock. The analysis is going on with the trend of the economy externality and how fragile the country's condition is.

Table 2: Macroeconomic Indicators (as a percentage of the GNP)

	1994	1999	2001	2002	2003	2004	2005	2006	2007	2008
Real GDP (% growth)	9.1	11.9	8.1	6.6	8.5	10.3	13.3	10.8	10.2	6.7
-Agriculture	9.7	2.2	3.6	-2.5	10.5	-0.9	15.7	5.5	5.0	5.7
-Industry	14.2	21.2	11.2	17.1	12.0	16.6	12.7	18.3	8.4	4.0
-Services	0.6	14.6	11.1	7.7	5.9	13.2	13.1	10.1	10.1	9.0
Domestic saving (without transfers)	-	-	8.2	4.3	1.8	3.6	2.0	2.9	3.7	4.4
National savings	19.4	16.6	20.1	21.3	16.2	16.3	17.2	21.7	22.6	12.7
Central administration savings	-1.0	1.6	1.0	1.0	0.8	1.7	1.8	1.2	3.2	3.2
Private saving	24.4	20.3	20.3	21.5	18.3	16.9	19.6	21.5	23.2	20.9
Domestic investment	12.1	11.8	12.1	11.9	12.2	11.8	11.1	11.2	11.1	11.5
Public investment	4.7	5.4	7.0	8.3	6.4	5.7	5.2	5.7	6.1	6.3
Private investment	18.7	16.5	14.2	14.2	12.8	12.9	16.3	17.0	20.4	18.0

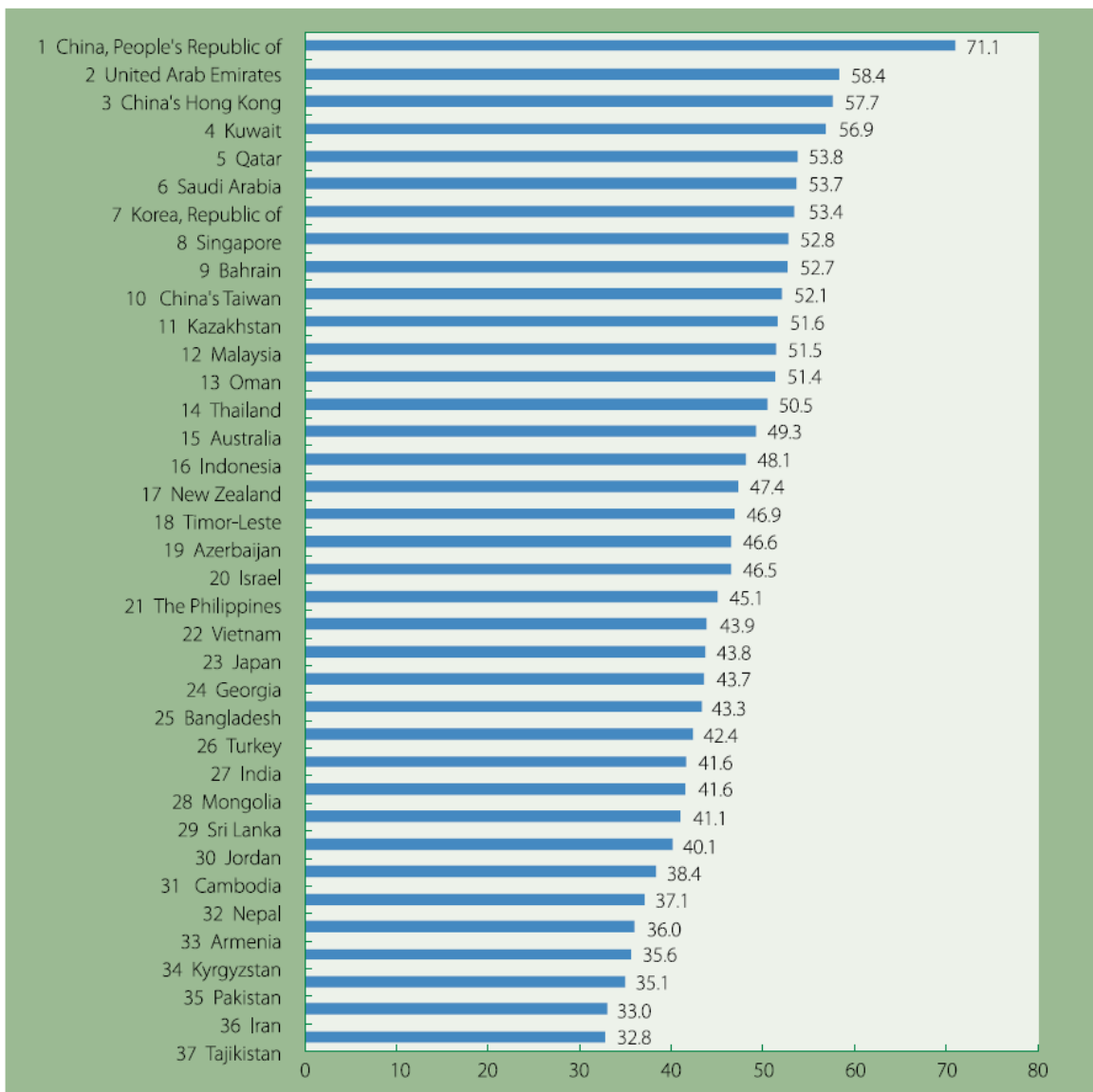
Source: (National Strategic Development Plan update 2009-2013 2010, 77)

### *Cambodia's Economic Strength and Vulnerability Rate*

Aside from the external vulnerability condition, Cambodian economic strength is still low. According to the figure 3 below, Cambodia in 2013 was ranked the 31<sup>st</sup> among 37 countries in Asia for its economic strength, indicated by the research of

Boao Forum. Having compared to other Asian economies, Cambodia is way far behind and certainly have rapid expansion to be able to survive in the region as well as the global competitiveness. Compared to Vietnam and Thailand whose economic strength is 22 and 14 respectively, Cambodia has its way at the bottom of 31<sup>st</sup>. This data shows much concern for the country as the economy keeps going and jumps with the high rate, yet the strength still seems weak.

Figure 3: Rankings of Overall Economic Strength Indicator for Asian Economies 2013



Source: Boao Forum, 2014<sup>30</sup>

<sup>30</sup> The Boao Forum was initiated by China as a part of development research in Asian. It is a non-governmental and non-profit organization where 52 countries in the regions joint together and research

The economic strength indicators evaluated by Boao forum based on the country's economic contribution index, the economic health index, the foreign economic relations, industry structure, and financial environment.<sup>31</sup>

The economic contribution index includes the GDP/global GDP and the GDP growth rate. As examined in the above section (p. 33), Cambodia's GDP growth rate was high over the past decade. However, comparing to the global GDP, this GDP is relatively low as the GDP in 2013 is still US\$1,007. Another index is economic health index, which includes the budget equalization/GDP, inflation rate and the total tax burden/GDP. They are rankly high in the government list. Cambodia's average inflation rate between 1995 and 2014 is 5.38 percent.<sup>32</sup> The percentage of GDP of tax revenue is 11.6.<sup>33</sup>

Significantly, the foreign economic relations measured the economic strength of a country are tariff rate, import volume/GDP, and the export volume/GDP. The highest export ratio in 2011 was almost 60.<sup>34</sup> This confirmed the high dependent on export of the country destiny. As seen in the figure 5 below, export growth rate shifts extensively from 1995 to 2011 though there is a little kink in 2008 and 2009 as the result of global financial crisis. However, export to GDP ratio has significantly recovered in the later years. This explains how the growing trend of export plays an

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about the Asian economies. As the result, they produced annual report of Asian Competitiveness and Economic.

Boao Forum for Asia (2014), Part One: Annual Report 2014: Competitiveness of Asian Countries, accessed on 8<sup>th</sup>, July, 2014 at <http://english.boaoforum.org/u/cms/www2/201403/301037261tis.pdf>

<sup>31</sup> Boao Forum for Asia (2014), Part One: Annual Report 2014: Competitiveness of Asian Countries, p. 97, accessed on 8<sup>th</sup>, July, 2014 at <http://english.boaoforum.org/u/cms/www2/201403/301037261tis.pdf>

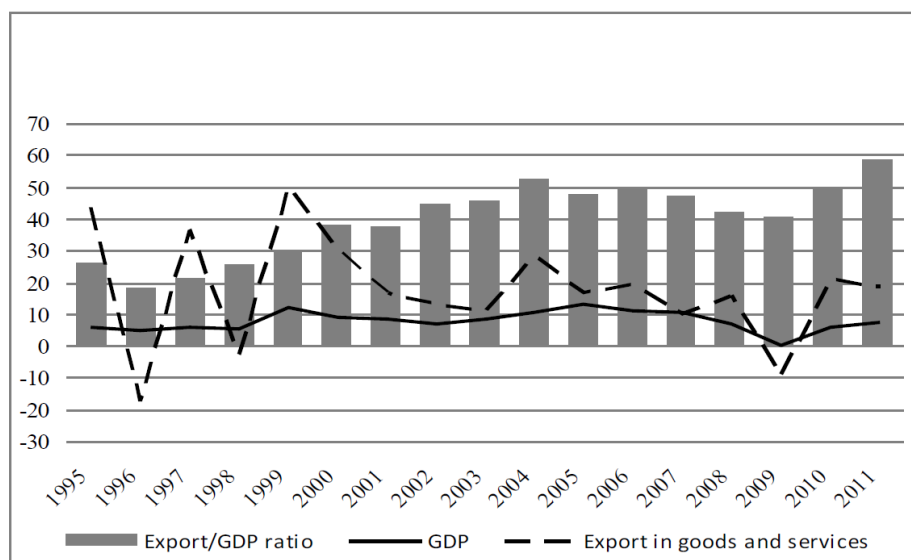
<sup>32</sup> Trading Economics (2014), Cambodia Inflation Rate, accessed on 12<sup>th</sup> of December 2014 at <http://www.tradingeconomics.com/cambodia/inflation-cpi>

<sup>33</sup> The World Bank (2014), Tax Revenue (% of GDP), accessed on 12<sup>th</sup> of December, 2014 at <http://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS>

<sup>34</sup> The Export to GDP ratio in 2013 is 60.7. European Commission, Cambodia: main indicators, Directorate-General for Trade, accessed on 12<sup>th</sup> of December, 2014 at [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_111485.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111485.pdf)

important role in the country's economic strength. Nonetheless, the import to GDP ratio is 113.7 (2013).<sup>35</sup> This reveals a very high trade dependency of the economy on imports as well as the trade deficits.

Figure 4: Export/GDP ratio and export growth rates of Cambodia (1995-2011)<sup>36</sup>



Source: UNCTAD, 2013

Besides, the industry structure such as added value of service industry/GDP and the industrial value/GDP as well as the financial environment, which include disparity of the interest rates of savings deposits and loans, and national savings, are the relative indicators of the country economy strength. All these rates are relatively low which link the economic strength to the lower score. For example, the national saving is still at lower rate that is around 15 percent of the total GDP.<sup>37</sup> As all these

<sup>35</sup> Ibid.

<sup>36</sup> Secretariat, UNCTAD. 2013. "Trade and investment-led growth and structural transformation as key to Cambodia's eventual graduation from LDCs' category: challenges, opportunities and prospects for sustainable graduation." *Concept Note* (Division for Africa), p. 9, accessed May 1, 2014. [http://unctad.org/meetings/en/SessionalDocuments/aldc2013\\_05\\_Cambodia\\_CN.pdf](http://unctad.org/meetings/en/SessionalDocuments/aldc2013_05_Cambodia_CN.pdf).

<sup>37</sup> See page 67 and figure 16 for relative explanation.

relative factors measured all together, Cambodia's overall economic strength is at the very low and rank in bottom.

Furthermore, the economic vulnerability of Cambodia is also considered as in higher rank. The figure 4 below shows that Cambodia's economic vulnerability index (EVI) in 1993 was 65.1 while in 2012 it dropped to only 49.9. Though the inclusion threshold of EVI is 36.0 and graduation requirement is 32, Cambodia is still on its way far behind. The export instability kept shrinking until 2008, yet the crisis appeared and caused the instability immediately until 2009. The prompt increase of Cambodia's EVI appeared shortly after the financial crisis where the country was able reduced about half of its EVI, yet it jumped contrarily back to vulnerable condition from 37.0 to 55.6 in 2009.

The composition of EVI is population size, the remoteness, economic structure, merchandize environment, and the shock index (trade shocks and natural shocks comprise of homelessness, other natural disasters and instability of agricultural production).<sup>38</sup> It is suggested that the Cambodia's EVI can be improved with the industrial diversification.<sup>39</sup> EVI composes of trade shock index, two of which are export content and export instability; the improvement of industrial diversification is needed to reduce the EVI index rate (see the figure 4). Furthermore, the current trend of Cambodian economic today is shifting from agrarian to manufacturing sector though agriculture industry still dominates the country. Thus, the industrialization and economic diversification can move in two directions. First, it moves from traditional agriculture to agro-processing industry by keeping agricultural industry as a

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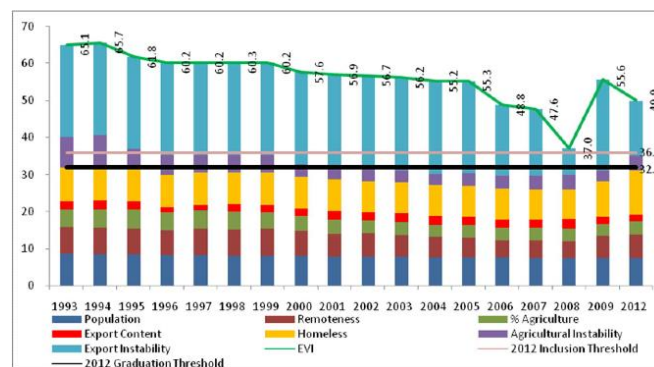
<sup>38</sup> Nou, Keosothea. Economic and Social Commission for Asia and the Pacific United Nations Department of Economic and Social Affairs the Royal Government of Cambodia. Workshop Series. Cambodia: Cambodia Development Resource Institute, November 28, 2013. P. 12. <http://www.unescap.org/sites/default/files/CaseStudy-Cambodia.pdf>.

<sup>39</sup> Ibid.



dominated sector. Second, the country can shift its industrialization to the manufacturing-based economy where labor intensive is the comparative advantage of the current economic conditions in the country. Possibly, it can gradually shift to heavy and capital intensive industry for instance steel and cement as the government is currently trying to promote the industries with the call for foreign direct investment.

Figure 5: Cambodia's Economic Vulnerability Index, 1993-2012



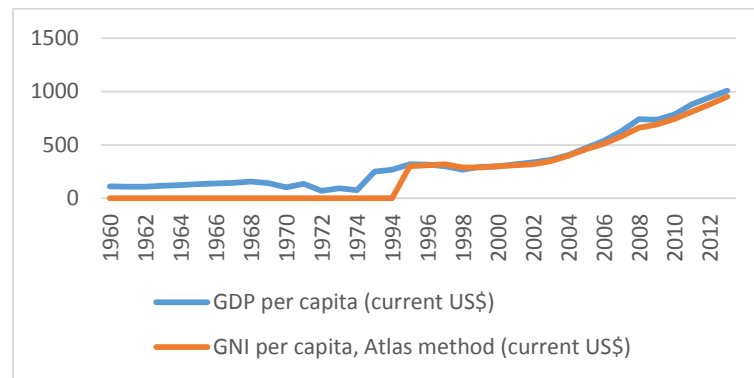
Source: UNESCAP, 2013<sup>40</sup>

### *Cambodia's Economic Inequality Overview*

When Cambodian GNI and GDP are examined, it shows the insignificant divergent of the growth. Regardless of having lack sufficient data from 1960 to 1994, GNI per capita has been growing along with the GDP. Thus, it is neither proving that the foreign investment is in current trend of over looping the domestic investment nor is there any sign leading to development gap between the foreign and domestic investment at all.

<sup>40</sup> Nou, Keosothea. Economic and Social Commission for Asia and the Pacific United Nations Department of Economic and Social Affairs the Royal Government of Cambodia. Workshop Series. Cambodia: Cambodia Development Resource Institute, November 28, 2013. P. 12. <http://www.unescap.org/sites/default/files/CaseStudy-Cambodia.pdf>.

Figure 6: Growth Rate of GDP and GNI in Cambodia, % 1960-2013, constant prices

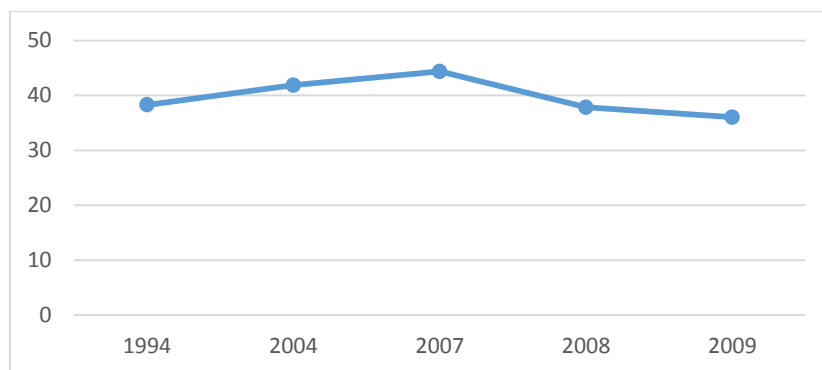


Source: The World Development Indicators, 2014

Another main indicator proving the need to improve domestic investment is Gini index. Gini index indicates the equality of income distribution among individuals. In this section, Gini index is used to analyze how economic is vulnerable with the unequal income distribution among groups of household.

According to the World Bank statistics from the year 1994 to 2009, Cambodia's Gini index falls from 38.28 to 36, which seems highly insufficient. The concentration of income distributions remains high and translated into high inequality among the group of household. With this result, the next part will further explain in details to which group shares the most percentage of income.

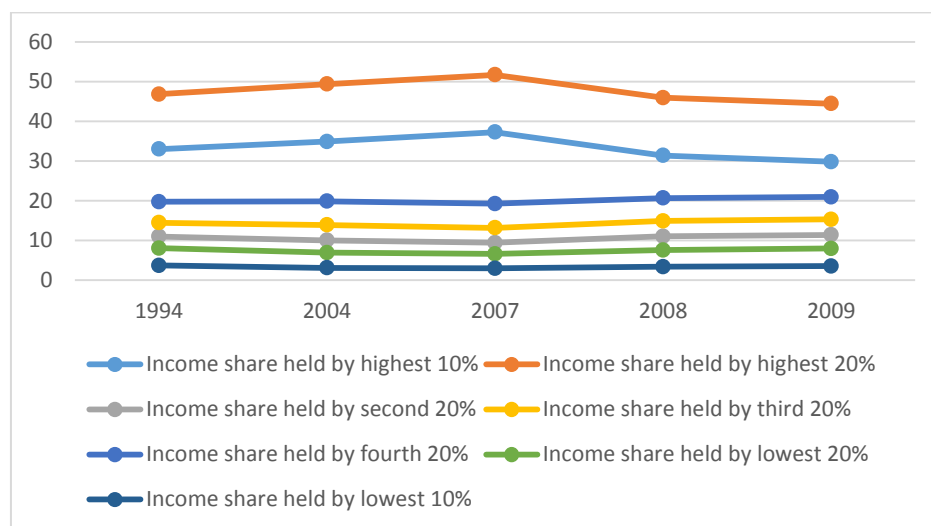
Figure 7: Cambodia's GINI index



Source: World Development Indicators, 2014

Now, let's examine the income shared by group of population in the country to see which group get the highest share among all. The first 10% group shares the income of 30% of GDP in 2009. Yet, if we accumulate the income shared by highest 20% group we can see that they control around 45 percent of the total GDP in the country. Nevertheless, the second and third 20% group share only 11.39 and 15.28 respectively. The fourth group in 2009 shares 20.95 while the lowest 20% share is only 7.93. This can be concluded that unequal distribution exists among classes in the domestic economy while the 20% percent gets the most shares among all the groups. This highly concentration remains the problem for the country that translates into economic vulnerability. Together with Gini index and the income distribution, it is the evidence showing that the country needs domestic investment to further improving the quality of life of the people and disperse the income to other groups as encouraging more investment in SMEs joint venture business.

Figure 8: Income Share held by Group in Cambodia (%)



Source: World Development Indicators, 2014

### *Private Sector Development*

Back in the mid-1950s, after the French colonization, Cambodia began its rapid industrialization. The country was very successful with its industrialization, yet it was dominated by the state-owned enterprises. There were only 369 registered SMEs operating in Cambodia while eight years later there were over 1000 enterprises according to the 1958 government report.<sup>41</sup> With regard to state-owned status, there were several successful running factories include assembly plants of Citroen cars and motorcycles, sewing machines, scooter factories, soap factories, weaving factories, paper, sugar mills, and the canning factory.<sup>42</sup> The promotion of SMEs development spread around the country and export promotion also reached the peak. The successful development at that time was also complimented and used as the model for other countries in the region such as Singapore.

Sadly, all these efforts were destroyed once the country fell into severe civil war. Cambodia had no significant established foundation of trade policy series after the civilization period (1950s-1960s).<sup>43</sup> Due to critical condition of society after the Khmer Rouge regime, in the 1980s, Cambodian government was pushed to adopt the policy that fostered national unity. The government was intensely pressured to manage the balance strategy between rapid growth and political stability. With the poor economic condition, the state-owned enterprises built in 1950s as nation owned production was privatized in late 1980.<sup>44</sup>

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<sup>41</sup> Baily, P. (2008), 'Cambodian Small and Medium Sized: Enterprises: Constraints, Policies and Proposals for Their Development', in Lim, H. (ed.), *SME in Asia and Globalization*, ERIA Research Project Report 2007-5, pp.2. Available at: <http://www.eria.org/Cambodian%20Small%20and%20Medium%20sized%20Enterprises%20Constraints%20Policies%20and%20Proposals%20for%20their%20Development.pdf>

<sup>42</sup> Ibid.

<sup>43</sup> The post-colonial period: after Cambodia got independent in 1953.

<sup>44</sup> Baily, P. (2008), 'Cambodian Small and Medium Sized: Enterprises: Constraints, Policies and Proposals for Their Development', in Lim, H. (ed.), *SME in Asia and Globalization*, ERIA Research Project Report 2007-5, pp.3. Available at:

After the economic stability in 1990s, the very first setting-up milestone of government policy was Rectangular Strategy, which was adopted in the First cabinet meeting of the third legislature of the National Assembly in 2004. With the insight and recognition on its essential content focus, the Royal Government of Cambodia decided to adopt its second phase called Rectangular Strategy Phase II in the 2008 fourth legislature of the National Assembly. Not many of the thirteen points mentioned in the document has been implemented or emphasized in the real practice though.<sup>45</sup> In the Rectangular Strategy phase II (RS II), rectangular III states about the private sector development and employment generation. It basically puts thorough focus on strengthening private sector, attracting investment, promoting SMEs, creating jobs and ensuring improvement of working conditions along with the creation of social safety nets.

Besides the effort of attracting foreign direct investment to the country, government also declares the importance of SMEs as the backbone of the country's economy. Yet, due to the historical tradition, the majority of SMEs in Cambodia are family-based business with very basic management and narrow productivity, which supplies only domestic market. Thus, the SMEs' businesses are based on personal relationships with few formal training and promotion marketing. Family based business and enough feeding household earning are what customarily perceived by most of the firms in Cambodia, especially in agricultural sector. This problem relates strongly to the motion of promoting growth and expanding standard of businesses in

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<http://www.eria.org/Cambodian%20Small%20and%20Medium%20sized%20Enterprises%20Constraints%20Policies%20and%20Proposals%20for%20their%20Development.pdf>

<sup>45</sup> Baily, P. (2008), 'Cambodian Small and Medium Sized: Enterprises: Constraints, Policies and Proposals for Their Development', in Lim, H. (ed.), *SME in Asia and Globalization*, ERIA Research Project Report 2007-5, pp.12 Available at: <http://www.eria.org/Cambodian%20Small%20and%20Medium%20sized%20Enterprises%20Constraints%20Policies%20and%20Proposals%20for%20their%20Development.pdf>

Cambodian. If Cambodia is to overcome this perception, it needs to be addressed by the government. A huge change in development will, therefore, occur with determination and persistent at the basic principles of the people instead.

### *Human Capital and Infrastructure Development*

Economic growth is underpinned with the productivity of human capital accumulation. Productivity can lead to efficient growth only by equipping human force with the targeted technical skills. In the report of the World Bank in 2003, about 97 percent of Cambodian manufacturing workers were unskilled and almost one fourth of the firms provided formal training to those labors.<sup>46</sup> This insufficient fact showed clearly the lack of training in public education institutions. Starting from inefficient public education to the lack of informal training, Cambodia faced serious problem of unskilled labor.

According to the report by UNCTAD, Cambodia's human assets index was 42 in 1994 and 57.9 in 2012 against graduation threshold 66.<sup>47</sup> This shows the relatively low increase of human capital in the country. Due to the civil war in the country, Cambodia had experienced vast destruction of infrastructure, which includes school, hospital, temple, and housing. After the civil war in 1980s, Cambodia started to rebuild everything. With the weak financial condition, the Royal Government of Cambodia managed to build hundreds of schools but these physical figures were not filled with useful capacity at all since the required facilities, equipment, and

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<sup>46</sup> Ibid.

<sup>47</sup> Secretariat, UNCTAD. 2013. "Trade and investment-led growth and structural transformation as key to Cambodia's eventual graduation from LDCs' category: challenges, opportunities and prospects for sustainable graduation." *Concept Note* (Division for Africa), p. 1, accessed May 1, 2014. [http://unctad.org/meetings/en/SessionalDocuments/aldc2013\\_05\\_Cambodia\\_CN.pdf](http://unctad.org/meetings/en/SessionalDocuments/aldc2013_05_Cambodia_CN.pdf).

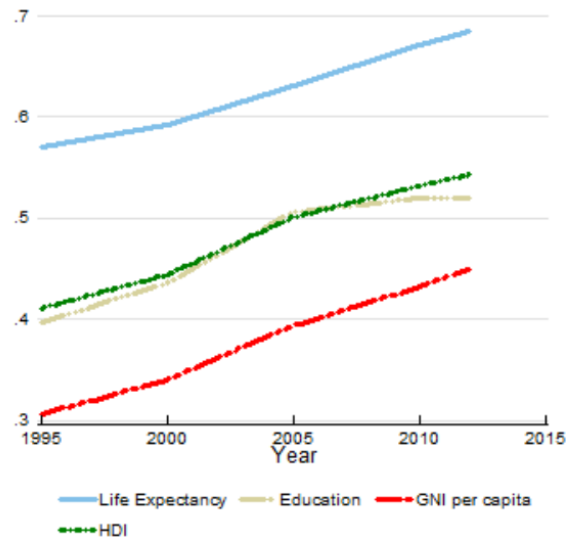
technology were lacking. This is one of the main factors of insufficient institutional training that contributes to the problem of human capital development.

The Human Development Index of Cambodia is 0.543 in 2012 and 0.411 in 1995. The significant increase of human development (32 percent across the years) tells the important improvement of life expectancy at birth, the mean years of schooling, the expected years of schooling, and the GNI per capita of the country.<sup>48</sup> With the annual growth rate of HDI 1.7 percent, the country was ranked 138 out of 187 that is in medium category. According to the figure 9 below, the human development trend of the country seems to have positively increased. This effort however seems less if we look at the new measurement of UNDP by including the inequality-adjusted measure. As a result, it deviates the value of HDI from 0.543 in 2012 to 0.402 with IHDI value. Thus, it falls against the original index by reducing the value of 25.9 percent. This can be reasonably explained with the aforesaid, the income share distributed among groups of population in the country is largely favored to the top 20 percent of total population.

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<sup>48</sup> *Cambodia: HDI Values and Rank Changes in the 2013 Human Development Report*. Human Development Report 2013. The Rise of the South: Human Progress in a Diverse World. UNDP, 2013. <http://hdr.undp.org/sites/default/files/Country-Profiles/KHM.pdf>.

Figure 9: Trends in Cambodia's HDI component indices 1995-2012



Source: UNDP, 2013<sup>49</sup>

More importantly, Cambodia's multidimensional poverty index in 2010 is 45.9 percent while income below poverty line is only 22.8%.<sup>50</sup> This shows that although about 77 percent of the total population in Cambodia earns more than PPP USD 1.25, almost half of the total population is still subject to vulnerability under multidimensional deprivations. It explains how the same household is vulnerable to poor education, health and standard of living though their income is above the poverty line.

To conclude, Cambodian human capital development is a crucial stage to be considered as it is a driving force that brings the country's civilization and the way to change society and economy. Skill training is a very essential strategy for the government to consider. Comparing to neighboring countries such as Viet Nam and

<sup>49</sup> *Cambodia: HDI Values and Rank Changes in the 2013 Human Development Report*. Human Development Report 2013. The Rise of the South: Human Progress in a Diverse World. UNDP, 2013. P. 2 <http://hdr.undp.org/sites/default/files/Country-Profiles/KHM.pdf>.

<sup>50</sup> *Ibid.* p. 5,



Thailand, Cambodian domestic condition is far inferior. This includes skilled labor, infrastructure, and bureaucratic barriers.<sup>51</sup> To be able to compete with current market, and to catch up with the modern trend of globalization, Cambodia should transform itself to a skill-based economy. By this, it is important to look at its demographic conditions such as population size and the number of potential human capital. Critically, the government should try to seek for a possible reform to turn this potential human capital into fully equipped capital in the future. Lastly, it is also important to underline the reform of education system.

### ***Chapter Conclusion***

In the above focused, the present of Cambodia's trade performance has been stated. Challenge and opportunity have been discussed. As Cambodia lies within the world business hub, outsourcing and subcontracting activities will keep moving on to the price competitive countries like Cambodia. As such influence, Cambodian turns around its economic to depend mostly on trade, especially export as outward looking strategy. Cambodia as a dependent export country has relies way far much more than other ASEAN countries on exporting textile and garment. This undiversified export basket and the fewer markets push the country to economic vulnerability, poor skilled labor, and income concentration. To prepare for the external shock, it has to seek for the higher production chain, diversifying its export basket, improving domestic firm's production and efficiency with the combination of some cost reduction. This should

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<sup>51</sup> Baily, P. (2008), 'Cambodian Small and Medium Sized: Enterprises: Constraints, Policies and Proposals for Their Development', in Lim, H. (ed.), *SME in Asia and Globalization*, ERIA Research Project Report 2007-5, pp.5. Available at: <http://www.eria.org/Cambodian%20Small%20and%20Medium%20sized%20Enterprises%20Constraints%20Policies%20and%20Proposals%20for%20their%20Development.pdf>

be done through the substitution of some imported raw materials with domestic industrial development and further attracting more technology-benchmarking business.

In the next chapter, the discussion on the importance of import-substitution and some case studies will be presented to reveal how Cambodia can substitute some of its top imported materials along with the potential development of those imported raw materials to export.

## CHAPTER FOUR

### CAMBODIA'S TRADE PERFORMANCE

#### *Policy Review and Weaknesses*

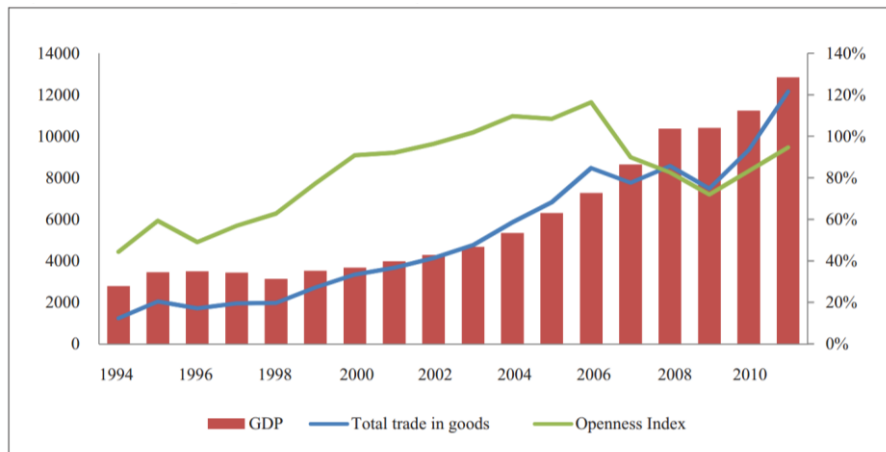
##### ***Trade Policy: Historical Review***

After the end of the Genocide regime in the 1979, Cambodia entered a period of change from a market-oriented to an export-oriented economy. By the 1990s, Cambodia had successfully eliminated restrictions after gradually abolishing it in the trading system. Having started trade liberalization and at the same time privatizing firms and industries, the government opened for vast investment. Though the adoption of openness started, the country is still on its way to transitioning its economy to graduate from LDC category. In the third mandate of the National Assembly, the Royal Government of Cambodia established a Rectangular Strategy by followed the Triangle Strategy in the second mandate. The Rectangular Strategy aimed to promote poverty reduction so as to reach the Millennium Development Goal that promotes growth and development through full employment, social equity and efficiency of government administration. To promote efficient growth, especially in the economic sector, the government emphasized the focus on export-oriented dimension and foreign investment attraction. Cambodia practices a trade model called “export-led growth approach – a standard model of development through rapid industrialization and further integration into global economy.”<sup>52</sup>

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<sup>52</sup> Tuck Cheong Tang & Ravin Chea. 2013. "Export-led Growth in Cambodia: An Empirical student." *Economics Bulletin* 33 (1): 655-662, p. 656

Figure 10: Cambodia's openness with comparison to trade and growth 1994-2011



Source: (Vutha 2013, 21)

The country's traditional export markets include the US, EU, Singapore, Thailand, and Malaysia.<sup>53</sup> Most of its export items are garments, footwear, textiles, and agriculture products; whilst the import products are basic consumer needs such as gasoline, diesel, construction materials, consumer goods and the production spare parts or raw materials used to export. To promote export production as an outward-looking strategy, the government has designated several Special Economic Zones, which are in Phnom Penh, Siem Reap, Sihanoukville, Koh Kong, Poi Pet, Svay Rieng, Takeo, Kandal, Kompot, Pursat, Banteay Meanchey, Kompong Cham, Ratanakiri, and Kompong Chhnang.

Cambodia's National Strategic Development Plan (NSDP) also states the detailed development strategies over a five-year term. The NSDP marks the successful experiences, challenges, and evaluation on the project implementation with the collaboration with different institutions. The NSDP also mentions the Industrial Development Policy where the objective is to achieve the integration of informal firms of domestic SMEs into the formal economy. It also aims to enable a friendly

<sup>53</sup> Ibid.

environment for investment to promote expanded export targets. The Cambodia's Ministry of Commerce (MoC) is the main institution that is responsible for trade program. MOC's Trade Sector Program uses a sector-wide approach (SWAp) to develop the trade strategy. This means they focus on trade facilitation and private sector development as the main objectives in achieving the rapid expansion of trade. Cambodia was the first one among many other countries to adopt the Integrated Framework (IF) on trade related technical assistance to LDCs.<sup>54</sup> The trade integration strategy was purposely looking for the potential sectors to strengthening and diversifying the country's export basket, figuring out the challenges of the export sector, integrating the development of trade to human capital expansion and poverty reduction, improving the trade related for the improvement of business environment.<sup>55</sup> The promotion plan includes the participation from the Ministry of Industry, Mines and Energy (MIME) and other related ministries. It works toward the SMEs promotion plan, agro-processing industries, labor-intensive industries, natural-resource-based industries, culture and nature-based tourism, technology transfer, production quality, and special economic zones expansion projects (SEZs).<sup>56</sup> All the promotions are mainly based on strengthening Cambodia's legal framework, long-term land management, tax incentives for facilities and establishment of business.

After all the work done by government, successful policy has yielded remarkable result in liberalizing trade and investment regimes. Those include increasing quotas in the garment export, integrating more international markets, and

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<sup>54</sup> n.d. "Export dependence and export concentration." UNDP. P. 42. Accessed May 12th, 2014. [http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards\\_SustainingMDGProgress\\_Chapter1.pdf](http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards_SustainingMDGProgress_Chapter1.pdf).

<sup>55</sup> Ibid.

<sup>56</sup> National Strategic Development Plan, 2010

achieving progress in trade facilitation.<sup>57</sup> The noticeable improvement in trade liberalization proves with the actual trade data. The table 3 shows clothing and garment production reached US\$2,500 million in 2010, which is a marvelous production growth. More than that the number of factories increases from 224 in 2005 to 350 in 2013, which is more than 50 percent rollover in 8-year time. The number of workers was also almost double from 2005 to 2013, which increases from 263,941 to 400,000 persons.

Table 3: Main Indicators of the Trade Sector

	2005	2006	2010	2013
Import Value (CR Billion)	15,727	18,040	-	-
Import Value (US\$ Million)	3,727	4,400	-	-
Export Value (CR Billion)	11,890	17,802	-	-
Export Value (US\$ Million)	2,900	4,342	-	-
Clothing and Garment (CR Billion)	8,979	2,218	10,250	-
Clothing and Garment (US\$ Million)	2,190	2,980	2,500	-
Number of Factories	224	293	295	350
Number of Workers (Males & Females)	263,941	351,340	350,000	400,000
Total Salary per month (CR Million)	73,800	112,750	110,700	123,000
Total Salary per month (US\$ Million)	18	27,5	27	30
Number of Companies Registered	1,551	2,784	1,726	2,227
Number of Trade Mark Registered	1,910	2,311	2,500	2,800
Number of Border Inspection for Imported Products	95,000	104,940	80,800	93,000
Number of Border Inspection for Exported Products	8,050	115,140	88,600	97,800
Number of Market Surveillance	758	533	410	460
Number of Countries providing duty free	9	9	-	-
Number of products exempted from imported tariff	1,337	20,321	-	-

Source: National Strategic Development Plan update 2009-2013, 2010

### ***Effect of Regional Free Trade Arrangement***

Cambodia started its remarkable integration into the international market with its accession to ASEAN as the tenth member in April 30<sup>th</sup>, 1999. Just a few years after

<sup>57</sup> Kang, Moon-Soo. 2012. *Policy Agenda for Cambodia in SME, Industry and Trade*. Edited by Sae Won Lee. Seoul: Ministry of Strategy and Finance & Korea Development Institute. ISBN 978-89-8063-617-4 94320, p. 61.

the Paris Peace agreement, Cambodia was forced to be ready with the regional cooperation. Markets and investments needed to be opened. The private sector, investors, other development partners and donor countries play a crucial role in supporting government will to maintain state economic stability and democracy. For instance, ASEAN as the regional partner provides countless benefits to trading systems in Cambodia. Aside from markets, investment, and assistance by the other members, Cambodia is able to achieve rapid expansion of infrastructure projects with the link to all countries across the region – Silk Road project. Such development is possible thanks to the variety projects of ASEAN such as ASEAN Way. After a few years of grouping with other nine countries, the group of ASEAN members began its wider promotion and partner with major countries around the globe. First, it began with China, then Japan and South Korea. After that India also joined the partnership, followed by Australia, New Zealand, United States, Russia and the EU. From ASEAN + 3 to ASEAN + 6, ASEAN is apparently becoming a crucial core linking the Asia region to the world. The Comprehensive Economic Partnership for East Asia (CEPEA) is one among many ASEAN partnerships it has made with other countries. In such organization, some countries may incur losses in specific sectors while others manage to greatly gain. According to the table 4, Cambodia in specific is projected to lose in agriculture, food, textile, clothing, electrical machinery and motor vehicles on which the government mainly focused as export-oriented products. This is the challenge that the Cambodian government has to consider and find the way out in minimizing the negative impact of this integration.

Table 4: CEPEA scenario-changes in output across broad sectors compared to projected 2017 baseline (percent)

	Thailand	Viet Nam	Korea, Rep. of	Malaysia	Singapore	Philippines	Indonesia
Agriculture and Food	-1.2	-6.3	10.5	-1.2	64.8	0.3	-0.2
Other Primary	0.5	0.4	0.7	0.6	0.3	0.5	0.4
Manufactures	9.3	49.9	5.5	5.7	1.5	10.6	2.4
Textiles and clothing	3.2	63.1	26.3	2.6	-14.3	12.4	1.9
Metals	22.0	12.1	11.8	24.4	16.7	-2.3	-1.2
Electrical Machinery	25.8	11.5	2.4	-0.4	1.2	2.0	7.1
Motor Vehicles	10.6	-28.9	2.5	-3.3	-28.4	-18.2	-6.5
Services	13.3	16.0	5.8	4.7	4.5	4.0	2.9
	India	Japan	China, People's Rep. of	Cambodia	Other ASEAN	Hong Kong, China	Taipei, China
Agriculture and Food	0.5	-2.1	-0.4	-4.1	0.9	0.2	0.7
Other Primary	0.3	1.3	0.2	0.1	0.3	0.4	1.9
Manufactures	5.9	0.6	2.4	55.2	-2.9	-10.2	-2.4
Textiles and Clothing	-1.5	5.8	2.7	-2.1	-3.5	-13.1	-17.5
Metals	15.6	6.5	-1.4	69.4	-8.0	-6.1	2.0
Electrical Machinery	1.8	-8.8	13.2	-17.4	5.5	-21.4	-4.5
Motor Vehicles	-2.1	0.5	-5.6	-7.7	-2.1	1.8	0.0
Services	4.2	1.1	2.4	3.1	0.2	0.2	-1.6

CEPEA = Comprehensive Economic Partnership for East Asia.

Source: (Masahiro Kawai & Ganeshan Wignaraja 2013).

In 2003, the country achieved full membership accession to WTO. With the status as LDC country and becoming member of WTO only a few years after the establishment of the Doha Round, there were many debates over the positive effects and drawbacks on Cambodia. The Doha Round, as the successor of several rounds of GATT, is focusing more on liberalized issues. It is not just concerning tariff reduction but also non-tariff and other non-trade issues such as environmental protection. On the one hand, Cambodia had to find its way to adapt to the extreme liberalization while the country was not ready with many parts of the development. On the other hand, since the Uruguay Round (1986-1994), Cambodia after becoming the member of the WTO was able to reach more free market access of its textile product. Cambodia later on received non-quota access and zero duties from developed countries such as US, EU, Japan, and other counterparts. In addition, Cambodia was able to confirm bilateral agreements with the United States, EU, and Japan for textiles



and garment products. This paved way for Cambodia to have more comparative advantages and friendly conditions to attract more foreign investors in the textile sector. Besides the favorable allowance for the country with assistance to develop trade regulation and policy, there are also countless rules, which bind the country at the same time. According to the GATT Art III, GATS Art XVII, and TRIPs Art 3, the state member has to ensure liberalization commitments, which do not offset through domestic and other policy measures. This is mentioned in the National Treatment part of the article that foreign products and domestic products have to be treated equally under the condition that they are like products. While changes in rules and trade patterns in the global arena pioneered the trade perspective of Cambodia into a more global integrated state with its compliance, Cambodia would find it hard to protect its domestic firms through import-substitution measures. It removed the quota restrictions and import bans after becoming the member of WTO. One among the exemptions justified under the GATT exemption clause Article XX (b) and (g) and GATS Article XIV is the protection related to national security, treasures, resources, and the effect on health of humans, plants and animals. Another case is having balance of payment difficulties, according to the GATT Article XVIII paragraph B. Cambodia in such case may be able to control the level of imports or the value of the merchandise. However, in the actual practice, since Cambodia depends much on the imported raw materials to use in the foreign export industries, it might be hard for the country to apply such limitation. It seems in the globalization world and as a member of world trade organization as well as the regional trade organization, the applicable trade restriction seems narrowed. If the country wants restriction, it may conflict with the free trade agreement as well as the foreign investment, most of which Cambodia depends on.

The integration in ASEAN trade (AFTA) and WTO greatly affects the government tariff revenue as it relies heavily on imports. The forgone revenue in 2010 was nearly 60 percent of custom duties collection.<sup>58</sup> The exemption of import duty was largely devoted to re-export goods and for-export-purpose investment. Most Cambodians do not export while foreign investors do. This means the benefits of exemption from duty tax goes to foreign exporters. If the government wishes to promote the domestic investment through domestic producer, they need to make sure that those domestic producers are able to benefit from the exemption and strengthen their capacities in the export expansion. If this measure can be done, therefore, the government can strategically position itself in the region to maximize the country advantage in the long run. Finally, it also helps bring the country out of fragile condition.

After becoming the WTO member, Cambodia has developed a number of laws such as the Copy Right and Trademarks law, Law on Commercial Enterprise, Transaction Law, and Financial Leasing Law. And it is now developing the Commercial Contract Law to help easing the way in joint venture business matter. It helps to ensure a full transparent and balance rules of the game.

On the other hand, no commercial code is a big deal for Cambodia to reassure the transparency in business environment in the country. However, the draft of the commercial contract law is a hint to attract the foreign investor in joint venture business, especially in Cambodia. With a good draft of the new law, the positive sign of the investment growth reveals. By developing more legal frameworks, the

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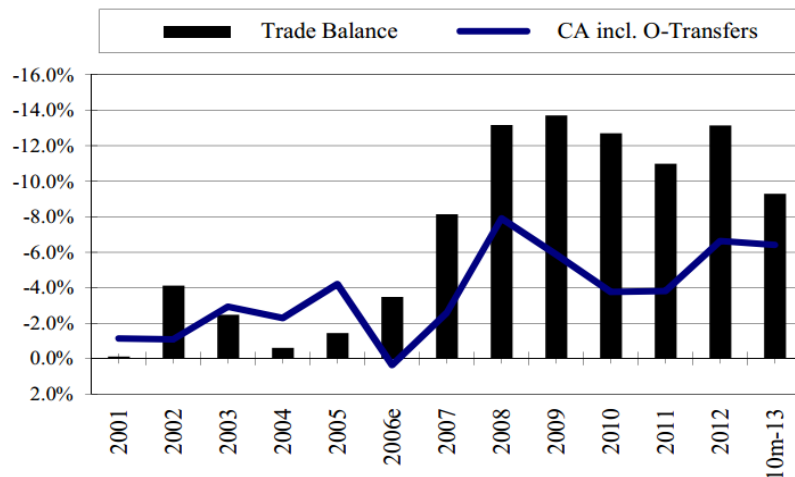
<sup>58</sup> Vutha, Hing. 2013. "Leveraging Trade for Economic Growth in Cambodia." *Working Paper Series* (A CDRI Publication ) (81). P. 14

government of Cambodia should call for more attention in the joint venture investment as a strategy of inward investment.<sup>59</sup>

### **Trade Activities**

Although rapid expansion of exports was made over the last decades, Cambodia cannot keep the current account and trade balanced at all. The chronic trade deficit in Cambodia has become the major problem to the country. Since 2009 until 2013, Cambodia's average trade balance was about -417.33 million US dollar.<sup>60</sup>

Figure 11: Trade Balance and CA as % GDP



Source: (Flash Report for November 2013 2014)

### **Weaknesses**

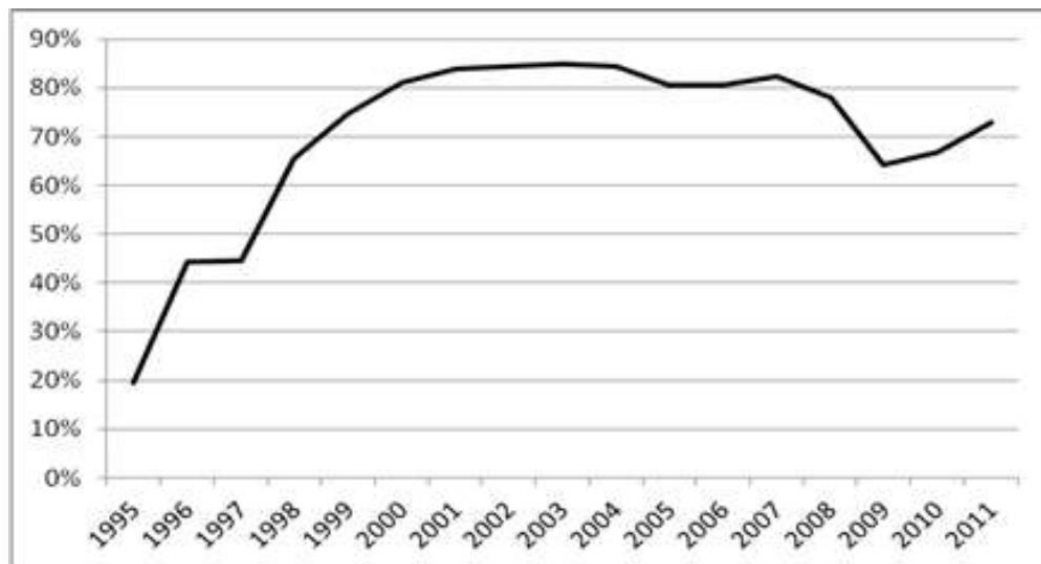
Besides the rapid growth in the country, most scholars believe that Cambodia's economic destiny depends largely on the decisive role of clothing and textiles exports, and the foreign direct investment. This perhaps generates an uncertain condition of growth. Further, the graduation from an LDC status is too much depended on the external environment. As shown in the figure 12 that there is a kink

<sup>59</sup> check chapter two: the analytical frameworks

<sup>60</sup> 2014. *Trading Economics*. Accessed May 5, 2014. <http://www.tradingeconomics.com/cambodia/balance-of-trade>.

in one of the Cambodia's most growing sector in 2009. This is sadly to say because of the Asian financial crisis. The argument here states that on the contrary of economic jump, if there is any alternative shock from the dependent markets, the country will likely face economic turndown. With these fragile conditions, it should transitionally veer from the status of foreign dependence to the domestic private sector dependence. Above all the narrow concentrated market; the export products and investment are also concentrated in a few items.

Figure 12: Share of garments in total merchandise trade of Cambodia (1995-2011)



Source: (Secretariat 2013, 7)

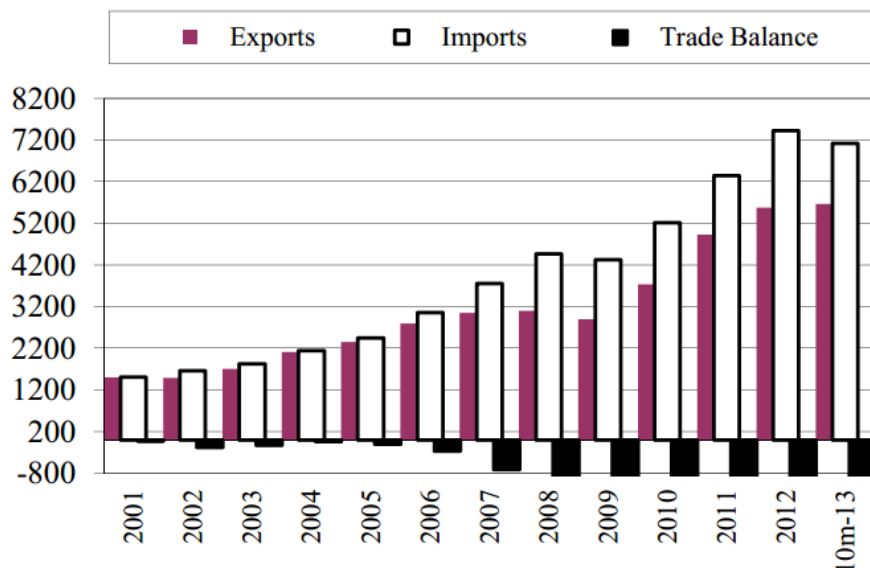
### *Import-dependency*

Not only the narrow-led export, but also the import dependency that is the problem, which has caused a decade of trade deficit in the country.<sup>61</sup> To substitute the balance with trade deficit, the government needs the use of foreign aid and loans,

<sup>61</sup> See more explanation about narrow-led export in page 35-36 and 47 – 48

which can cause the government a serious external debt. This can be reasonably explained as decade of trade deficit has not been improved (see figure 13).

Figure 13: Import and Export (mil. US\$)



Source: (Flash Report for November 2013 2014)

On the top of that there is also a problem regarding the psychological effect on the confidence of the domestic consumers to the domestic products. Cambodian people tend to have a sense of discrimination against domestically made products where restoring confidence has yet promoted by the government. Most Cambodians concern about the Cambodian made product as having poorer quality than the foreign product. They typically select to buy only some products while not others. Mostly the reason of not purchasing is the quality of the products. If we look at the respondent grouped in resident indicator, among all the five geographical areas, there is only the group of provinces that is next to Thailand perceives the Cambodian made product as

having poor quality and expensive.<sup>62</sup> This may be due to the popularity and influence of Thai product to Cambodian since the post-civil war. The Cambodian people perceive Thai product as having good quality with reasonable price.<sup>63</sup>

According to the survey responses of 612 people, 36.7% of respondents don't buy Cambodian made product because of its poorer quality compared to the foreign product. When asking the question if they ever bought any product made in Cambodia, 52.2% of the respondents says they bought only specific products.<sup>64</sup> Most reports have found that Cambodian product is largely available in very few sectors, most of which are agriculture, food and beverage industry. This shows that generally Cambodian made product does not have competitive power yet even though it is in the domestic market. Thus, the development capacity is still slow where cost of production and market access is also low. Based on the supply and demand theory, this results in demotivating the producers to develop or continue their businesses after less support from the demand side. Indeed, it also generates lower value to the nation-owned brands while domestic users only give value to foreign products. According to the result of the survey conducted on 612 people, 33.5 percent of the respondents don't choose the domestic product because it has higher price than the foreign product, whilst 36.7 percent think it has lower quality than the foreign product.<sup>65</sup> The reduction on support and lower confidence from consumers, furthermore, is linked to the financial constraint in expanding business size where capacity to generate surplus and expand export is also low.

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<sup>62</sup> See appendix for more detail information about the survey response.

<sup>63</sup> This does not apply to Vietnamese and Lao product since they were also not developed in the 1980s.

<sup>64</sup> Check the appendix for the detailed survey response.

<sup>65</sup> See Survey response Question 9, Appendix A, p. 111

*Market Analysis: why do domestic consumers not favor Cambodian products?*

First, there is a lack of information between the supply and demand sides. This includes quality standards and a historically poor image. Second, there is no proper pricing strategy where the domestic products are mostly much higher price than foreign products. Because of many reasons, those of which include the lack of technological production capacity and financial burden with small production size, many domestic firms have narrower ranges of production. This is less efficient for large-scale production and sad to say it cannot surpass more advanced imported products at all. Third, there is no agent who could actively disseminate the information and newly introduce products to potential consumers.

With the survey result from domestic consumers, mostly the concern on domestic product is its quality. Most producers produce poor quality with less production experience, which drive the production price higher than other countries made product. The production chain is not up-to-date which makes the product with low standard – package, design, and quality assurance.

Many respondents believe that the Cambodian made products possess low comparative advantage, which allows lower chance to enter different markets. This is true since the overall rank of Cambodia's competitive power in 2014 is 95<sup>th</sup>, which has slipped from 2013 with the rank 88<sup>th</sup>.<sup>66</sup> Furthermore, the producers have limited production capacity both quality and quantity. There is no effective legal control on standard, which causes lemon problem – fake product, low health assurance, no new innovation (copy from others' production), and low value added. Other respondents

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<sup>66</sup> Klaus Schwab, The Global Competitiveness Report 2014-2015, Insight Report, 2014, The World Economic Forum: Switzerland, accessed on 7<sup>th</sup> of December, 2014 at [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

comment that Cambodian made product is not useful at all and some others do believe that there is no branding image like other foreign products as well.

### *Private Sector Development Barriers*

Foreign-owned or joint-venture business in Cambodia accounts for more than 90 percent of the total businesses across the country.<sup>67</sup> Most domestic owned enterprises are mostly SMEs, and only a few are large enterprises and involved in export. In the case of foreign firms in Cambodia, there are also a number of challenges. Besides the benefit of removing barriers over foreign direct investment, the attractiveness of FDI to Cambodia keeps decreasing due to the lack of infrastructure, governance, lack of clear regulatory framework and the weak stand-alone ability. Cambodia possesses no strong transportation network; its railroad is still in outdated condition. It cannot generate more benefits and reduce cost at all. The governance problems are mainly due to the burden of bureaucratic red tape and strong corruption from the bottom up. The development of regulations entails master plans and massive frameworks, but the practical implementation is seen with less clear guidelines and commitments. Above and beyond, the country destiny is binding with a lot of uncertainties. The ability to fight with the external shock is weak and the economic strength is still out in the atmosphere.<sup>68</sup> The weak withstanding ability causes the country in blur destiny and the investors are also not willingly to cast the big slots in the well.

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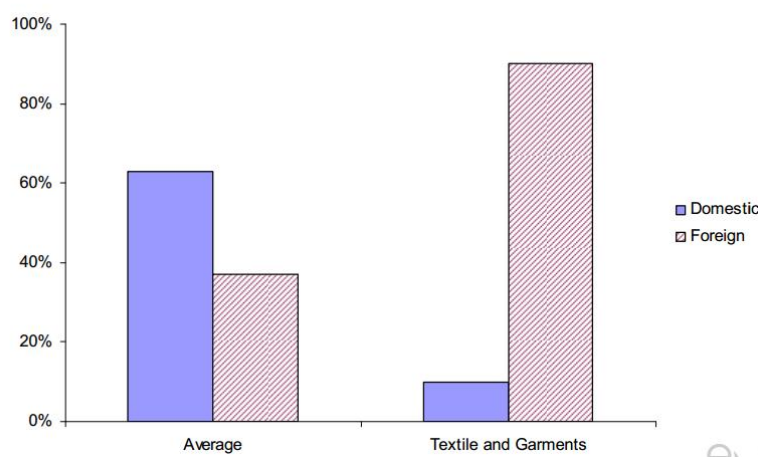
<sup>67</sup> Secretariat, UNCTAD. 2013. "Trade and investment-led growth and structural transformation as key to Cambodia's eventual graduation from LDCs' category: challenges, opportunities and prospects for sustainable graduation." *Concept Note* (Division for Africa), p. 17, accessed on May 1, 2014. [http://unctad.org/meetings/en/SessionalDocuments/aldc2013\\_05\\_Cambodia\\_CN.pdf](http://unctad.org/meetings/en/SessionalDocuments/aldc2013_05_Cambodia_CN.pdf).

<sup>68</sup> See page 36-40



According to the study by UNCTAD, the FDI inflows to Cambodia between 2009- 2011 were mainly in the garment sector, oil, and mineral production.<sup>69</sup> This is due to the fact that the garment sector was allowed to have zero-tariff access as LDC import to developed countries which gives Cambodia a greater comparative advantage. Oil and mineral were extracted and exported to the refineries in the foreign countries. This shows that the natural resource is undoubtedly needed by the developed countries whose natural resources become scarce and under conservation.<sup>70</sup> To prevent the foreign direct investment dependency's spillover effect, it is necessary to diversify the investment and gradually reduce the burden of less domestic investments; whilst a greater extent of foreign coverage in the country's investment cannot be avoided.

Figure 14: Cambodia's Private Investment, annual average and sector specific, 2007-2011 (percent)



Source: Inter-Agency Working Group, 2013

<sup>69</sup> Secretariat, UNCTAD. 2013. "Trade and investment-led growth and structural transformation as key to Cambodia's eventual graduation from LDCs' category: challenges, opportunities and prospects for sustainable graduation." *Concept Note* (Division for Africa), p. 17, accessed on May 1, 2014. [http://unctad.org/meetings/en/SessionalDocuments/aldc2013\\_05\\_Cambodia\\_CN.pdf](http://unctad.org/meetings/en/SessionalDocuments/aldc2013_05_Cambodia_CN.pdf).

<sup>70</sup> As explained in the Stage of Development section, p. 25-28 that developed country pursues the outward FDI trends aims to seek for resource abroad. This means the developed countries come to invest in the less developed country as unprocessed natural resources are abundant.

### *Export market and products concentration*

As mentioned earlier, Cambodia's market destinations include only a few countries. In terms of market shares, the two biggest markets are the US and EU. This is because the country's main export is garment and textiles. The two destinations have made agreements with Cambodia on duty-free and free market access in both garment and textiles sectors. The garment industry accounts for 85 percent of the total export share and 16 percent of the whole country GDP.<sup>71</sup> The manufacturing industry has been rapidly increased 15 percent per annum and this is contributed by the garments and textile industry as represents the major output in the country.<sup>72</sup> Besides garments and textiles as the main exported products, an alternative export category is agriculture products. The traditional export market, which is revealed above (included US, EU, Singapore, Thailand, and Malaysia) shows the fragility of the economic development as vulnerable to the external shocks. It is evidenced with the economic slowdown during the global financial crisis in 2008, which contracted the garment exports, by 20 percent of the 2008 export value and about 45,000 jobs were lost in the garment sector by 2010.<sup>73</sup> With few export markets and largely depends on only few exported products, Cambodia is strongly recommended to diversify its export activity.

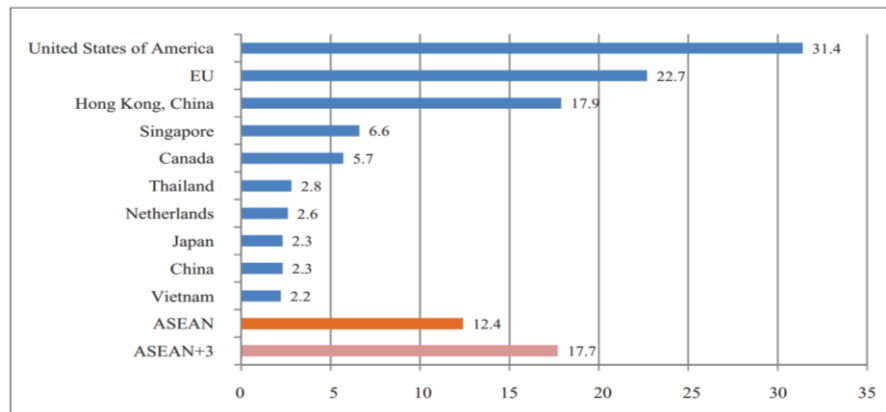
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<sup>71</sup> Thomasson, Sarah. 2013. *Textile World Asia*. June. Accessed May 15th, 2014. [http://www.textileworldasia.com/Issues/2013/April-May-June/Country\\_Profiles/Cambodia\\_On\\_The\\_Rise](http://www.textileworldasia.com/Issues/2013/April-May-June/Country_Profiles/Cambodia_On_The_Rise).

<sup>72</sup> Nou, Keosothea. Economic and Social Commission for Asia and the Pacific United Nations Department of Economic and Social Affairs The Royal Government of Cambodia. Workshop Series. Cambodia: Cambodia Development Resource Institute, November 28, 2013. P. 12. <http://www.unescap.org/sites/default/files/CaseStudy-Cambodia.pdf>.

<sup>73</sup> n.d. "Export dependence and export concentration." UNDP. P. 42 Accessed May 12th, 2014. [http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards\\_SustainingMDGProgress\\_Chapter1.pdf](http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards_SustainingMDGProgress_Chapter1.pdf).

Figure 15: Cambodia 's Top 10 Export Markets



Source: (Vutha 2013, 17)

### ***Challenges:***

Free trade and international trade law is far more complicated than before. There are many rules and regulations in the trading system of each international trade organization and agreements as well as for each country (Noodle Effect). Thus, dealing with the current international trade regime, there are many preparations to be done. Indeed, the challenges on rule of origins will frequently concur along with the greater involvement of Cambodia in international trade system.<sup>74</sup> Moreover, technology and globalization have become the easing tools in conducting trade and also increasing obstacle to the trade. First, there are more ways that trade can be accomplished. For example, the Alibaba website's total market valuation has recently hiked its trade to the amount of USD167.6 billion. This is not to mention the USD150 billion of the US-Amazon and USD65.7 billion of US-eBay as well.<sup>75</sup> The vast expansion of online trade is enormous. The growth complexion of it is uncontrollable.

<sup>74</sup> See the case study in Possible Import-Substitution and Export Diversification: selected sectors as case study section, part Light Manufacturing Industry. P. 76

<sup>75</sup> ZACKS, accessed on 24<sup>th</sup> November of 2014 at <http://www.zacks.com/stock/news/147963/alibaba-ipo-amasses-218b-on-nyse-day-1-trade-up-38>

As catching up the world modernization, Cambodia would face a lot of difficulties to deal with current trend of trade systems.

### ***Chapter Conclusion***

Having described above, Cambodian trade performance is a jump-over case. It grows very fast with the right trend to the diversification of the trade system. Nevertheless, there are some ills that need to be changed on the way for the achievable success. The country export basket and markets are narrowed. Moreover, the private sector development is still in weak condition. The coverage of SMEs is more than 90 percent of the country business while the big enterprises are mostly the foreign owned. Apart from that the country also faces many obstacles related to the international rules as well as the change of international trade system. To tackle with this problem, the next chapter will conclude the solution as well as policy recommendation. The target of the discussion will be mainly for the healthy trade growth and sustainable economic development in the country.

**CHAPTER FIVE**  
**HEALTHY TRADE GROWTH**

*Strategic Focus*

*The Importance of the Import-Substitution*

Two risks have been identified in the 2010 National Strategic Development Plan (NSDP): the global economics recession uncertainty and the slow recovery of the dependent export markets, mostly the developed countries.<sup>76</sup> As a result, investment, market demand, service and other economic activities have experienced losses. This proves the only “short-term contraction” of the development in the country where the economy strongly depends on foreign investments. The externality like a global/regional financial crisis has the high possibility to slow down the growth at any time and Cambodia will continue to be the vulnerable subject of global uncertainty. For instance, the slowdown in the construction sector during the 2008 financial crisis was due to the unstable cost of imported construction materials such as cement and steel. This turndown froze many projects in just a short period of time.<sup>77</sup> To be able to manage such a situation, the government needs necessary attention on import-substitution of vertical integration goods. Lately, the Royal Government of Cambodia has focused on domestic SMEs promotions. Yet, the result of the contribution and improvement of the policy seems insignificant. The SME promotion strategy should combine with the imported materials substitution strategy to draw the line for noticeable domestic development. Unlike in Cambodia where the garment sector, which is the main export sector of the country, is largely owned by the foreigners (about 90 percent); in Bangladesh, the one of the Cambodia’s main competitors in

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<sup>76</sup> 2010. *National Strategic Development Plan update 2009-2013*. Royal Government of Cambodia, p. 85

<sup>77</sup> *Ibid.* 50,

textile and garment industry, there is a significant gradual shift to small domestic firms.<sup>78</sup> The significant stability of growth in Bangladesh has been strengthened through the joint development between both the domestic development and the potential export sector.

It is important to note that Cambodia lost an opportunity during the critical period of the development in the 20<sup>th</sup> century. While the world was fighting for aggressive economic development after the World War II, Cambodia was enduring the civil wars that turned the state into a zero-start-up stage. This costs Cambodia the trade-off on the first-mover opportunity. The effort built up until 1960s in the People's Socialist Community era was almost completely devastated.<sup>79</sup> The first mover advantage had gone along with the huge domestic private sector development opportunity. Comparing to South Korea in the 1960s, there was no chance for Cambodia to pursue similar development strategy. South Korea had strived for protectionism at the same time of pushing an outward looking strategy. With the absence of early domestic development chance, the Cambodian government needs to prudently tackle the issue by upholding the international trade laws such as WTO and other multilateral agreements to promote the private sector properly.<sup>80</sup> Besides losing the early domestic development chance, Cambodia is still striking for the diversified industrial specialization. By having specialized in certain sectors in the early stage, Cambodia has gained comparative advantage in some products such as garment,

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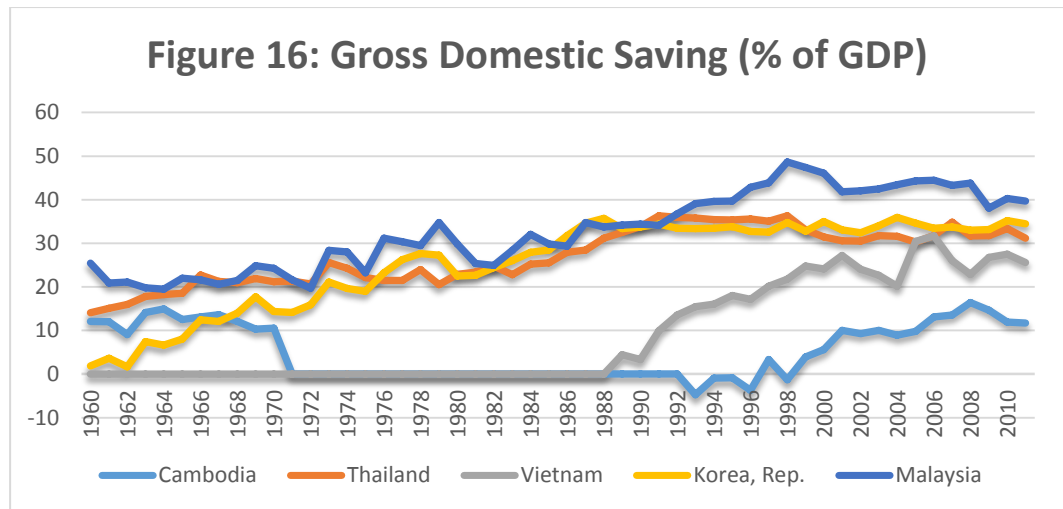
<sup>78</sup> Secretariat, UNCTAD. 2013. "Trade and investment-led growth and structural transformation as key to Cambodia's eventual graduation from LDCs' category: challenges, opportunities and prospects for sustainable graduation." *Concept Note* (Division for Africa), p. 16, accessed on May 1, 2014. [http://unctad.org/meetings/en/SessionalDocuments/aldc2013\\_05\\_Cambodia\\_CN.pdf](http://unctad.org/meetings/en/SessionalDocuments/aldc2013_05_Cambodia_CN.pdf)

<sup>79</sup> The Cambodia glorious era after the independent from French colonization in 1953. The regime was under the King Shihanouk, the great father who claims independence from France.

<sup>80</sup> See the Effect of Regional Free Trade Agreement section, p. 52-54

textile, and agriculture products. Yet, since the narrowed range of production still exists, the country is facing a larger risk of global uncertainties.

Another issue has to do with national saving. With much lack of domestic investments, the national saving rate is also small in proportion. Compared to its ASEAN countries, Cambodia has less gross domestic saving as the percentage of GDP (see figure 16). Domestic consumption is high while the earning is less. This means Cambodia earns through the sale of low value added product while purchasing the higher value added product. Such trade in return links to the account deficit where reliance on foreign fund is needed. Commonly, the impact of low domestic saving is on maintaining growth rate as well as investment confidence. Therefore, the competitive strength is also lessening. Currency overvalued also appears with the continuation of the low domestic saving. This circle effect will lead to low foreign direct investment as attractive benefit is out of sight. To seek for the solution in increasing domestic saving, the government has to strengthen the domestic value added product. Ideally, with the motive to strengthen the domestic value added, the government has to focus on the domestic producers' progress while many infant industries still exist with weak financial capacities.



Source: World Development Indicators, 2014

Although Cambodia has dramatically achieved necessary poverty reduction, inequality and rural poverty still remains. The benefits of the development seem unclear as wealthy families are becoming wealthier and poor families are still strikingly vulnerable.<sup>81</sup> The 2010 statistical data proves that the major proportion of Cambodian total households (59 percent) depends on agriculture as their primary source of income with poor living condition.<sup>82</sup> This shows the distribution of the development is unequal. As the result, the diversification of investments and productions is needed.

To put in the nutshell, as the private sector development, development stage, national saving and the income distribution is concerned, it is important to consider the import-substitution measure to ease the problems and promote growth. The next section will show how import-substitution can help reducing the income inequality and the poverty in the rural area as imported raw materials can be replaced through local productions as well as to promote farmers and SMEs' business.

<sup>81</sup> n.d. "Export dependence and export concentration." UNDP. Accessed May 12th, 2014, p. 42 [http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards\\_SustainingMDGProgress\\_Chapter1.pdf](http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards_SustainingMDGProgress_Chapter1.pdf).

<sup>82</sup> Ibid.



### ***Import-substitution as agent pushing growth: dimension to export diversification***

Enhancing the domestic investment capacity is a way to minimize the effects of external shocks to the country. Thus, promoting the domestic private sector development is a must to successfully reduce the external dependency. Private sector development in Cambodia can be promoted by a dual development system: domestic firm promotion and joint venture business promotion. Promoting joint venture businesses between Cambodian-owned and foreign investors can be done through technological transfer and expanding financial investment.

The Royal Government of Cambodia's industrial development action plan (1998-2003) emphasized the development of the export-oriented industries and development of the import-substitution of selected consumer goods. In the past years, RGC has been actively diversifying various industries with the connection to natural resources. According to them, the investment of cement plants is in operation while beverage, cigarette factories, and oil refineries projected to be built.<sup>83</sup> The result of export expansions has been tremendous, yet it was not sufficient enough to help improve the domestic firm conditions, especially yielding more surpluses for export. The study by the Ministry of Strategy and Finance of Republic of Korea proves the importance of structural changes from agricultural and informal production in traditional form to better modernization.<sup>84</sup> The change has to consistently make to improve the sectors with high productivity like manufacturing and tradable industry. This industry shall include labor-intensive industry and later to capital-intensive industry.

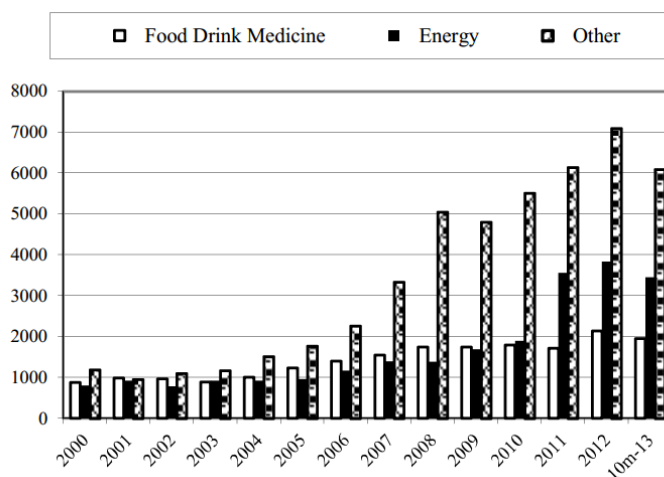
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<sup>83</sup> 2010. *National Strategic Development Plan update 2009-2013*. Royal Government of Cambodia, p. 50-51

<sup>84</sup> Kang, Moon-Soo. 2012. *Policy Agenda for Cambodia in SME, Industry and Trade*. Edited by Sae Won Lee. Seoul: Ministry of Strategy and Finance & Korea Development Institute. ISBN 978-89-8063-617-4 94320, p. 53.

The Cambodian government has identified “important” sectors which include (1) the agro-processing industry (agriculture and food processing industry), (2) labor-intensive industry for exports, (3) the tourism industry, (4) the oil, natural gas, and mineral industry, (5) information and communication, (6) electricity, (7) water and irrigation systems, (8) transportation, (9) human resource development, and (10) trade.<sup>85</sup> These go along with the nineteen potential products and services (sub-sectors) for export which include garment, footwear, rice, cassava, rubber, fish, cashew nuts, silk, soybeans, corn, wood products, light manufacturing, and tourism.<sup>86</sup> Although the potential products are vast, the needed sector hasn’t been covered. All the nineteen products are lower value added product. The high import of energy resource, food, drink and medicine makes the 19 products losing more cost of its production (see figure 17).

Figure 17: Import by Group Items (mil. Riels)



Source: Flash Report for November 2013, 2014

<sup>85</sup> 2010. *National Strategic Development Plan update 2009-2013*. Royal Government of Cambodia

<sup>86</sup> n.d. "Export dependence and export concentration." UNDP. Accessed May 12th, 2014, p. 42 [http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards\\_SustainingMDGProgress\\_Chapter1.pdf](http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards_SustainingMDGProgress_Chapter1.pdf).

The key industries include the agro-processing industry, the manufacturing industry, and the service industry. Almost all of the industries are foreign owned. Only if there are domestic-owned industries, they are still in the infant stage with less surpluses to export. The government should promote the aforementioned industries such as agro-processing industry, manufacturing industry, and service industry through guarantees of financial loan or/and help in joint venture businesses. The government may first select the “important industries” where substitution of consumer goods can be done at the first stage and potentially seeds surplus for export growth at the later stage. Hence, this paper will focus only on potential export goods in agro-processing industry as the strategy for food supply in Cambodia and surplus for export. Indeed, the light manufacturing industry is also considered as the strategic industry for necessary substitutable consumer products in the country and surplus for export.

*Country Case: Korea in 1950 to 1990:*

In the 1950s when South Korea was practicing its import-substitution strategy, the volume of export was in small scale and fluctuated depending on the demand of primary commodities.<sup>87</sup> This is similar to Cambodia where the market is fluctuated and depends on a small scale of export to a few foreign markets. Korean import-substitution strategy mainly introduced products which were formerly uncompetitive and unpopular to imports.<sup>88</sup> Afterwards, during the export expansion period, Korea

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<sup>87</sup> Kim, Kwang Suk. 1974. "Outward-looking industrialization strategy: The case of Korea." (Korean Development Institute ) (Working Paper 7407), p. 12, accessed March 10, 2014. [http://www-dev.kdi.re.kr/kdi\\_eng/database/report\\_read05.jsp?1=1&pub\\_no=658](http://www-dev.kdi.re.kr/kdi_eng/database/report_read05.jsp?1=1&pub_no=658).

<sup>88</sup> Ibid. 17,

exported labor-intensive products and imported capital-intensive ones.<sup>89</sup> This was known as a wise strategy for efficient growth. The renowned strategy was clearly an outward-looking strategy, yet injected some sense of import-substitution had been identified. This was well recognized among many other developing countries and was considered as practical, flexible, and responsible for generating the key success factors. To Cambodia in particular, the state resembles Korea's status in the 1960-1970s where the government was practicing the export-led growth as the trade policy for development. However, there are some differences in the five viewpoints, which Cambodia should learn from Korean experience.

First, after the civil war, Cambodia immediately activated privatization process and incorporated an outward looking strategy. Nonetheless, the domestic private sector was still in an infant stage and lack of development. Comparatively, after the civil war, the Korean government introduced its import-substitution strategy before making aggressive investment in export expansion. Even though this strategy was unpopular among many policy makers, it is believed to have contributed to the essential outcome of the domestic private sector development (domestic industrialization). Conversely, Cambodia has never experienced this kind of development stage, which is why the domestic firms are very small, and insufficient compared to the foreign firms.

Second, during the implementation of the export-oriented strategy in Korea, it was well known that the government imposed effective protectionism on domestic firms as well as certain promoted industries (both foreign and domestic). Even after the financial crisis in 1997, the Korean government opened up the investment to foreign investors to allow the flow of foreign exchange into the market; it still put a

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<sup>89</sup> Ibid. 28,

strong pressure on domestic firms to perform better.<sup>90</sup> The sense of import-substitution strategy was there. The Korean government provided support to domestic investment through the Ministry of Industry and Trade. Mainly, the government helped the domestic firms through technological acquisition by establishing R&D institutes for technology transfer and development. Besides, there was also a strong leadership in enterprise, as was a wishful partnership between the firms and government. Also, the government greatly eased the companies with loan guarantees. However, in Cambodia's case, the protectionism is limited as the state is a member of the WTO with restricted national commitment to free trade.<sup>91</sup> Despite this fact, the government should find ways to insert protections as the least developed country protects its domestic firms, perhaps what Korea has done. Yet, with the onset of the free trade era, Cambodia finds it hard to develop its own domestic enterprises. It is predicted that only effective protectionism with a smart flexible implementation much like the Korean case would allow domestic firms to grow.

Third, the Korean government tried to impose a strong joint venture investment to assist domestic firms' growth with the help from foreign companies. This kind of joint venture business vastly helped improve domestic firms' production size and technological acquisition. Having this experience is a desirable strategy for Cambodia's speedy growth. Consequently, it can significantly improve the export

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<sup>90</sup> Dahlman, Carl. 2007. "Technology, globalization, and international competitiveness: Challenges for developing countries." In *Industrial Development for the 21st Century: Sustainable Development Perspectives*, 29-83. New York: United Nations: Department of Economic and Social Affairs, p. 37, accessed May 21, 2014. [http://www.un.org/esa/sustdev/publications/industrial\\_development/full\\_report.pdf](http://www.un.org/esa/sustdev/publications/industrial_development/full_report.pdf).

<sup>91</sup> Yet, there is some allowance for the countries with trade deficits to use special preferential and differential treatment. Nonetheless, the special and differential treatment is not last long as graduation review can be at any time (See some instance cases in the Possible Import-substitution and export diversification: light manufacturing case study, p. 81-87)

production, at the same time induce domestic firms' growth and maintain a sustainable trade balance sheet.

The fourth experience that Cambodia can learn from Korea's successful history is the strong investment in infrastructure. The Cambodian government has been investing in infrastructure for the late decade as a growth perspective. Still, it seems slow and ineffective with the administrative red tape and capital burden. The development is neither sustainable nor permanent. After a few years, many infrastructure construction projects are stuck for years due to the administrative red tape and corruption burden, which is translated into slow growth of economy. Unlike Cambodia, South Korea has been actively putting effort into speedy infrastructure building. Along with the government commitment, the infrastructure development turns out successfully.

Fifth, human resource is also an essential key to the success of the Korean economic development. In the 1960s, the enrollment rate in primary education was already almost 100 percent which was back then the occasional case to any country around the world. The Cambodian government, with the Millennium Development Goals, tried to enhance the number of primary education graduates but failed to develop the institutional quality. Also, Cambodian citizens' motivation to value education is lacking while the Korean Confucian society highly regards education and tend to seek for a higher level of education.

With the five main experiences, it is believed that Cambodia with a strong will from the government can successfully benchmark the Korean economic development system and tailor it to fit the country's unique case.

*Possible import-substitution and export diversification: selected sectors as case study*

In this case study section, the paper will cover specific products in three main industries targeted as having substitutable potential to import and increasing export – agriculture industry, textile and garment, and light manufacturing industry. The case study of the three industries will prove the importance of import-substitution to unnecessary imported products that currently exists. Interestingly, this import-substitution strategy can also be used to further enhance the export diversification of the country. The proposed approach to this way of development is that by shifting from specialized industry such as agriculture and textiles, Cambodia can move further to a more complex industry through vertical integrated production chain. Introducing related industry to the existing ones as having established related infrastructure can do this. This vertical integrated strategy is also called a cost-cutting approach. In business development term, to reduce the production cost, the industrial development needs to place the business integration of different points into one same production path. As such, the manufacturer can own both supplier and distributor which helps the company reduces cost of production. Having done so, the cost of supplying raw materials and other utilities expense such as transportation cost and turnaround time will also be improved efficiently. A country economy is also same as manufacturing industry. To be both a supplier and distributor, the country must manage to reduce the production cost and lean for efficiency in the country production by introducing import-substituted industry through vertical integrated approach.

Deliberating about three case studies in the three different sectors, this section will look for the importance of vertical integration industry which is a necessary

strategy in reducing cost of production as well as substituting the import and increasing the export.

### *Agriculture Sector*

Cambodian rice has been ranked as the world number one top quality rice for the past three years consecutively. This rice product is the most valued rice among all, yet hardly has it stepped out of the very rock bottom price.

Rice product is used as one of the examples of substitutable product in agriculture industry. Major population in Cambodia is farmer. The country begins with 80 percent of the total population in agriculture sector, yet declines gradually. Rice product has become the main focus in Cambodia as for security reason. With the increasing demand in the domestic consumption and the world, the Royal Government of Cambodia decides to place a Rice Policy to increase the production of rice. Later on the country pursues rice production as one of the major production for export. Successfully, right in front of others stand Cambodia as one of the major rice producers in the world. It goes along with China, India, Indonesia, Bangladesh, Thailand, Vietnam, Philippines, Myanmar, Brazil and Japan.<sup>92</sup>

Rice alone has 28 percent in the total production of the overall production.<sup>93</sup> Between 1999 and 2009, the rice production increased about 355, 000 tons per year annually.<sup>94</sup> The increase in total productivity of Cambodian rice from 1.31 to 2.489 tons per hectare from 1993 to 2008 is a sign of rising surplus in the rice production. Being one of the major rice exporters, Cambodia is competing fiercely with others.

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<sup>92</sup> Map of the World, Top ten countries with most rice producing countries, accessed on 10<sup>th</sup> of December, 2014 at <http://www.mapsofworld.com/world-top-ten/rice-producing-countries.html>

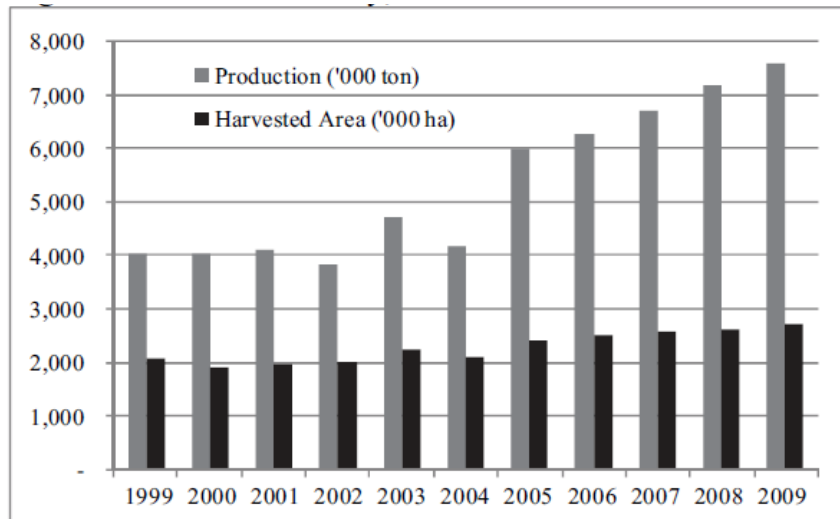
<sup>93</sup> Kem, Sothorn, Chhun Chhim, and Sovannarith So. Policy Coherence in Agricultural and Rural Development: *Cambodia*. CDRI Working Paper Series 55. Phnom Penh: CDRI, 2011. P. 6. <http://www.cdri.org.kh/webdata/download/wp/wp55e.pdf>.

<sup>94</sup> Ibid.



Competition become tough for the country as having received much pressure from the competitors especially neighboring countries due to the weak irrigation system and high production cost.

Figure 18: Rice Productivity of Cambodia from 1999 to 2009



Source: CDRI Special Report, 2011

To promote the rice production, the Cambodian government has given so many incentives to the related sectors. Various policy initiatives have been introduced, one of which is tariff incentive on seeds, fertilizer, and pesticides. The government also eliminates the export licensing to increase the export competitiveness and promote rice production. It is true that after abolishing the export license, the country rice production grows rapidly. Nonetheless, almost all of its export is rice paddy while milled rice export is very low. The problem is that once the farmers export, they tend to export rice paddy to the neighbouring countries where milled rice is exported back to Cambodia. This problem occurs because of the unavailable information of the market price and the low capacity to purchase paddy of the rice millers.

Moreover, rice processing in Cambodia these days faces many obstacles. Those problems are milling capacity, packaging, and production costs. This results in low value-added product and poor quality to export. Not only does it lose the value added of the product and the opportunity cost of production capacity but also other factors. For instance, it loses the supply capacity. The rice millers have been trying hard to seek for more market share while the rice paddy cannot supply on time.

Unlike other products, the Cambodian rice's quality inferiority is not the concern but its availability. The productions of rice both paddy and milled rice is still low. Cambodian farmers still face a lot of obstacles in producing rice. Technically, financial support is the problem as there is a lack of low interest loans. The irrigation systems and seeds' quality are also poor. Due to uncompetitive purchasing in the country, most of the rice paddies from Cambodian farmers are exported to the neighboring countries such as Vietnam and Thailand. This together combines with the abovementioned financial burden of the farmers as they are borrowing from the neighboring traders. Consequently, milled rice has been exported with high value after the neighboring country producers get paddy from Cambodia. In the domestic market where milled rice consumption is increasing, Cambodia needs to import milled rice back from neighboring countries. This circle loss has been going on for years. Hence, it is the loss of both domestic producers and consumers.

Rice millers lose so much export order as it cannot compete with the neighboring country rice producers' supply capacity. The rice trade becomes fluctuated which makes the rice millers lose many customers in hand. Moreover, the consumers face unsuitable losses on rice import to this unproductive competition. According to the tariffs regulation under the ASEAN Trade in Good Agreement

(ATIGA), the rice imports duty is exempted for ASEAN countries. The tax has been exempted, yet the value of the rice import has been added.

Cambodian top rice export destinations are France, Poland, Malaysia, Thailand and China.<sup>95</sup> The European Union turns out to be an important target destination. European Union Generalized System of Preference (GSP) plays a very crucial role in Cambodia's export. The EU's "Everything but Arms" initiative permits tariff exemption on Cambodian product who is listed as least developed country (LDC) in the United Nations. The import tax exempt is of €175 (about \$224) per ton which makes Cambodian rice more competitive than any other competitors.<sup>96</sup>

Cambodia's rice production has faced many obstacles at a time. The suggested solution from literatures is often about contract farming. This is to promote the milled rice production in the country. Contract farming refers to the official agreement between the rice miller and the farmer with the consent over the price, market, and other basis of selling and buying. The contract farming helps ensure benefits of farmers and rice millers typically for the trustworthy business environment.

Above all, rice production has also faced a problem with electricity shortage and the lack of good crops. To increase milled rice supply, the country needs further efforts with policy to promote and coordinate between millers and farmers. Facilitation on the other utilities cost should also be considered. Indeed, the sector needs more standardization and R&D research to make sure that the development of the industry is on the right track both in term of management and technical capability.

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<sup>95</sup> Hor Kimsay, Rice Export to region rising, The Phnom Penh Post, May 23<sup>rd</sup>, 2013, accessed on September 30<sup>th</sup>, 2014 at <http://www.phnompenhpost.com/business/rice-exports-region-rising>

<sup>96</sup> Ibid.

### *Textile and Garment Sector*

Everything but Arm initiative of the EU has been signed with 49 least developed countries as a part of GSP program in 2001. This coming advantage has marked a great recession in the country. The rapid expansion of garment industries contributed a lot to its economy that necessarily becomes a major dependent sector. In 2011, the amount of exports to EU and United States reached US\$3.24 billion, which accounted for 80 percent of the total garment exports.<sup>97</sup> This tremendous extension makes Cambodia a home to more than 300 factories and the employer of more than 335,000 workers.<sup>98</sup>

Cambodia's weakness in textile and garment industry is its dependency on fabric imports, foreign investment and export destination.<sup>99</sup> The lack of strong textile-manufacturing industry is cost of production. The root of this problem is due to the fact that most of the fabric used is imported from China and others ASEAN countries. In this section, cotton and fibers will be used as the examples of the agriculture products that can be substituted to import. As these products are ones of the top imports in Cambodia and the country has the capacity to produce it, it is vital to look further for substitution.

Price of the world cotton remains stable in the last few years. The annual production of the cotton worldwide is about 22 million tons in 2009.<sup>100</sup> Produced by 35 countries around the world, cotton business becomes the top commodity among all

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<sup>97</sup> Textile World Asia, Cambodia on Rise, June 2013, accessed on 8<sup>th</sup> of December, 2014 at [http://www.textileworldasia.com/Issues/2013/April-May-June/Country\\_Profiles/Cambodia\\_On\\_The\\_Rise](http://www.textileworldasia.com/Issues/2013/April-May-June/Country_Profiles/Cambodia_On_The_Rise)

<sup>98</sup> Ibid.

<sup>99</sup> Yarns and Fibres, Cambodia – Garment and Textile Industry, published on 19th of November, 2010, acceded on 7th of December, 2014 at [http://www.yarnsandfibres.com/preferredsupplier/reports\\_fullstory.php?id=546](http://www.yarnsandfibres.com/preferredsupplier/reports_fullstory.php?id=546)

<sup>100</sup> Organic Cotton, World Cotton Production, accessed on 8<sup>th</sup> of December, 2014 at <http://www.organiccotton.org/oc/Cotton-general/World-market/World-cotton-production.php>

others. The cotton's biggest producers appear to be China, India, USA, Pakistan and Uzbekistan.<sup>101</sup> The most significant problem of the world cotton production is the significant decrease of the cotton price in the past decade where the cotton fell almost 50 percent of its price from 1995 to 2002.<sup>102</sup> Not until the dumping action by major cotton players such as China and USA with the excess supply of the cotton did the price plunge.<sup>103</sup> Conversely, the market price of the cotton has risen in recent years, and at last it is strikingly stable as the demand grows. The future growth of the cotton industry is gigantic. The cotton production predicted to reach 133.93 million bales in 2020 while the global demand is 131.01 million bales.<sup>104</sup>

No less impressive than Cambodia, Bangladesh is transforming itself to be one of the leaders in the cotton production. In 2008, Bangladesh produced 2.9 million bales of processed cotton.<sup>105</sup> This production volume is only lower than China, India, and Pakistan. So, Bangladesh is the world fourth major cotton producers. Undoubtedly, the domestic garment and textile producers can handle major share of the sector and manage to fiercely compete with other major textile exporters. Comparatively, Cambodia literally loses another comparative advantage to Bangladesh as possessing none noteworthy cotton production.

Cambodia is a tropical country with two distinct seasons, which is a remarkable condition for the cotton cultivation. Still, the Cambodian cotton production is very low compared to the consumption in the garment industry and its

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<sup>101</sup> Ibid.

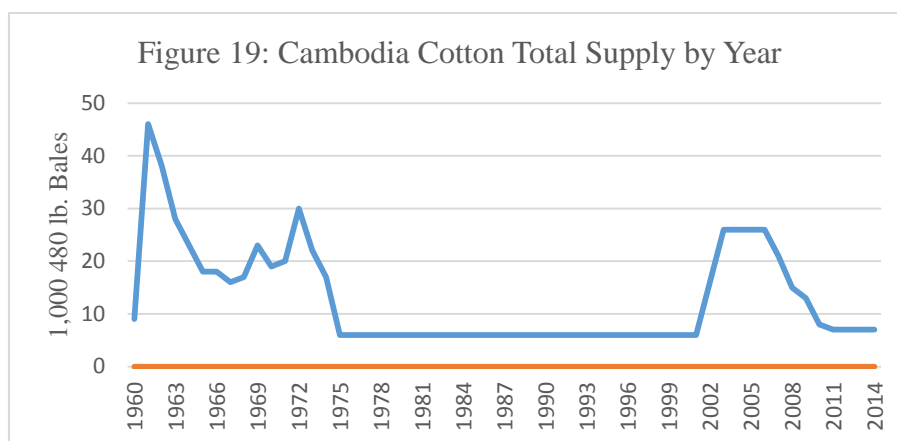
<sup>102</sup> Ibid.

<sup>103</sup> United Nations Conference on Trade and Development (UNCTAD), Cotton: Prices Development, 3<sup>rd</sup> January, 2011, accessed on 8<sup>th</sup> of December, 2014 at [http://www.unctad.info/en/Infocomm/Agricultural\\_Products/Cotton/Prices/](http://www.unctad.info/en/Infocomm/Agricultural_Products/Cotton/Prices/)

<sup>104</sup> Fibre 2 Fashion, Global Cotton Supply and End Use Demand: Trends and Forecast 2020, accessed on 8<sup>th</sup> of December, 2014 at <http://www.fibre2fashion.com/textile-market-watch/cotton-report/globalcottonreport.asp>

<sup>105</sup> Organic Cotton, Cotton processing, accessed on 8<sup>th</sup> of December, 2014 at <http://www.organiccotton.org/oc/Cotton-general/World-market/Cotton-processing.php>

past production before the civil war. Mostly the production can only supply to local processing factories where contract farming exists.<sup>106</sup> There are two provinces that produce cotton – Battambang and Kompong Cham. Battambang’s cultivation area is around 200 ha according to the Trade Promotion Department of the Ministry of Commerce of Cambodia whilst the country’s only full cotton processing plant is in Kompong Cham. Invested in the cotton industry since 2006, the Chinese company, which is the 2 million worth cotton plant – Seila Damix, is the only and biggest production company.<sup>107</sup> Even so, the planted cotton is mostly for exporting to China, Vietnam and South Korea. The contract farming price of the cotton purchased by the Seila Damix is approximately USD400 while the expected international market price is of USD1,500.



Source: Indexamundi, 2014<sup>108</sup>

In 2009, the cotton cultivation is only 1,200 ha per year. Yet, the expected annual growth rate is 40 percent.<sup>109</sup> The largest company – Seila Damix is expected to

<sup>106</sup> Trade Promotion Department, Cambodian Top 10 Products: Cambodia Cotton, Ministry of Commerce of Royal Government of Cambodia, accessed on 7<sup>th</sup> of December, 2014 at [http://www.tpd.gov.kh/cambodiaproduct/index.php?option=com\\_content&view=article&id=156%3Acambodia-cotton&catid=49%3Abattambang&Itemid=191&lang=en](http://www.tpd.gov.kh/cambodiaproduct/index.php?option=com_content&view=article&id=156%3Acambodia-cotton&catid=49%3Abattambang&Itemid=191&lang=en)

<sup>107</sup> Ibid.

<sup>108</sup> Indexamundi, Cambodia Cotton Total Supply by Year, 2014, accessed on 7<sup>th</sup> of December, 2014 at <http://www.indexamundi.com/agriculture/?country=kh&commodity=cotton&graph=total-supply>

<sup>109</sup> Royal Embassy of Cambodia in London, Agriculture, Trade & Investment Promotion Unit, 2013, accessed on 7<sup>th</sup> of December, 2014 at

export the cotton only around 1,000 tons per year.<sup>110</sup> Since there is only one-company produces cotton in the country and the market price is at the very bottom, not many farmers and domestic companies would consider investing in the sector. This results in the big import of the cotton to fill the need in the garment industry.

It is remarkable if only there is an increase in local production of the cotton and fabric, especially the increase in value added of the products since the overwhelming majority goes to import. The export of the cotton is only around 2 percent of the imports (see table 5). In 2014, Cambodia cotton imports are 5 (1,000 480-lb. bales) of out 7 (1,000 480-lb. bales) of total supply.

Table 5: Cambodia's Cotton Import and Export to ASEAN countries (2001-2008), USD thousand

	Product Label	2001	2002	2003	2004	2005	2006	2007	2008
Export	Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2	-	-	39	-	421	121	409	366
	Woven fabrics of cotton, nes	-	-	-	-	84	8	-	158
Import	Woven cotton fabrics, 85% or more cotton, weight less than 200 g/m2	506	229	38	80	13,899	24,545	12,815	13,687
	Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2	8	160	2,354	3,577	16,098	15,487	9,847	10,239

Source: Yarns and Fibres, 2010<sup>111</sup>

[http://www.cambodianembassy.org.uk/index\\_main.php?lang=&kc=1&mcat=0&menu=6&k=0&menu1=0&menu2=&menu3=&link=0&link1=0&issue=1&locate=&page=&topic=Agriculture&topic\\_cat=Business&readmore=3](http://www.cambodianembassy.org.uk/index_main.php?lang=&kc=1&mcat=0&menu=6&k=0&menu1=0&menu2=&menu3=&link=0&link1=0&issue=1&locate=&page=&topic=Agriculture&topic_cat=Business&readmore=3)

<sup>110</sup> Ibid.

<sup>111</sup> Yarns and Fibres, Cambodia – Garment and Textile Industry, published on 19th of November, 2010, accessed on 7th of December, 2014 at [http://www.yarnsandfibres.com/preferredsupplier/reports\\_fullstory.php?id=546](http://www.yarnsandfibres.com/preferredsupplier/reports_fullstory.php?id=546)

More than 90 percent of textile industries in the country are foreign owned. This means the producers themselves prefer the imported materials over the domestic ones unless there is a proposed favored policy to produce domestically with competitive price and quality. In 2008, about 66 percent of the raw materials are used in the garment industry is imported.<sup>112</sup> The country as such relies mostly on imported raw materials. This is likely susceptible to the possible price hikes as well as the world financial crisis. Rarely does the foreign-owned enterprise dare to place massive investment on the raw materials production. Importing raw materials is in favor with the exempted import tax. To put in another word, the investment of foreign-owned enterprise is mainly for exempted import-export tax and the benefits on the remarked of originated from Cambodia under the rule of origin.<sup>113</sup>

In another point of view, Cambodian government does not provide sufficient support to the local producers for the investment in fabric and cotton industry at all.<sup>114</sup> Although the country has tried to increase the cotton production, the investment is still limited. In the research literature, it is suitable for Cambodia to consider the organic cotton production where chemical intensive production systems should introduce. Some textile companies have considered the organic cotton product; thus it is a good deal for Cambodian producers to fill the exporters' need with this type of production system.

Likewise, Cambodia has a lot of abundant bamboo resource that are good for fabrics' production. Cambodia has rich bamboo resource that could reach the level of Chinese bamboo productivity. Now China covers 70 percent of the world bamboo

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<sup>112</sup> Ibid.

<sup>113</sup> See chapter four: Cambodia's Trade performance for more details.

<sup>114</sup> Yarns and Fibres, Cambodia – Garment and Textile Industry, published on 19th of November, 2010, acceded on 7th of December, 2014 at [http://www.yarnsandfibers.com/preferredsupplier/reports\\_fullstory.php?id=546](http://www.yarnsandfibers.com/preferredsupplier/reports_fullstory.php?id=546)



market.<sup>115</sup> First, processing the abundant bamboo resource into the fabrics could be a big substitution to the flooded imported raw materials as well as to the increase value added of the product. Indeed, the substitution also helps in the cost of foreign exchange. Also, there is an increase in local production and reduction on import dependency, which creates higher value, added and benefits to local development. Second, fabric bamboo production is environmental friendly. The bamboo plantation helps absorb carbon dioxide that is helpful to the environment. Third, the fabric produced from bamboo brings best quality to the textile product. Cloth made from bamboo has a higher absorbency than the cotton.<sup>116</sup> These relative benefits make it more sensible to consider fabrics' production made from bamboo.

Combining the joint venture business of textile companies and some others raw materials production line manufacturers, the domestic Cambodian players' enter is a distinct possibility. The government should prepare a concrete plan of development on the two imported raw materials so that interest domestic firms can catch the opportunity and seek for joint investment. Encouragement on investment as well as market research by the government plays a crucial role in building investors' confidence. Hereafter, the government should try to focus on convincing and calling for the investment in such area to diversify the vertical integration investment and production line.

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<sup>115</sup> Stuart Alan Becker, Bamboo bends towards sustainable industry, 2<sup>nd</sup> of May 2012, accessed on 8<sup>th</sup> of December, 2014 at <http://www.phnompenhpost.com/business/bamboo-bends-towards-sustainable-industry>

<sup>116</sup> The Fibre 2 Fashion, Bamboo can be money spinner for Cambodian garment sector, 2<sup>nd</sup> of May, 2012, accessed on 8<sup>th</sup> of December, 2014 at [http://www.fibre2fashion.com/news/textile-news/cambodia/newsdetails.aspx?news\\_id=110689](http://www.fibre2fashion.com/news/textile-news/cambodia/newsdetails.aspx?news_id=110689)

### ***Light Manufacturing Industry***

Expected to increase over the next five year, the bicycle global market anticipated by Lucintel shows the global bicycle industry plunges up to USD65 billion in 2019.<sup>117</sup> As population grows, the oil price hikes, the pollution bumps, and the recreation life is in need; the demand for bicycle is predictably amazingly high. Countries like China, Japan, USA, and EU are the projected contributors to such demand. The world major bicycle producers include China, India, EU, Taiwan, Indonesia, and Brazil. China possesses two third of the world major share while the rest holds about a quarter of the total share.<sup>118</sup> Bicycle production trend keeps increasing every year. In 2007, the production was around 3.2 percent more than its previous years.<sup>119</sup>

The substantial growing demand makes the bicycle manufacturers exotically adopt a new strategy to look for more market share. Out of the innovation and quality improvements, cost comparative advantage is also the biggest challenge for those manufacturers, especially raw materials seeking – steel, butyl, rubber, titanium, and others plus assemble cost. Many biggest Taiwanese bicycle manufacturers came to Cambodia several years ago to seek for the advantage of zero tariffs (import to EU), low wage, and raw materials imports which is low cost if imported from other ASEAN countries.

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<sup>117</sup> Prnewswire, Global Bicycle Industry 2014-2019: Trend, Forecast, and Opportunity Analysis, published on July 30th, 2014. accessed on November 29<sup>th</sup>, 2014 at <http://www.prnewswire.com/news-releases/global-bicycle-industry-2014-2019-trend-forecast-and-opportunity-analysis-269202531.html>

<sup>118</sup> World Watch Institute, Bicycle Production Reaches 130 Million Units, accessed on November 30th, 2014 at

<http://www.worldwatch.org/node/5462>

<sup>119</sup> Ibid.

Cambodia's total export to European Union is about 30 percent, which equals to USD2.4 billion.<sup>120</sup> The growing strength of bicycle industry has come to notice with this data. The total bicycle export alone accounts for 10.3 percent of the total export, which makes it the third largest export in Cambodia after textile garment and agriculture industry. The big jump of this industry has considerably catches the attention of policy makers as well as the investors from all over the world. The Cambodia's bicycle export has recently increased from USD268 million to USD357 million over a year (2012-2013).<sup>121</sup> In 2011, according to the Inter Press Service, around 366,000 units were exported out of Cambodia to the European Union.<sup>122</sup> This is not ended yet. The number of exports has tripled in the first half of 2012 which is closed to 520,000 units while the first half of its export last year was only 140,000 units.<sup>123</sup> The average value added also jumps up to 34 percent during that same period.<sup>124</sup> The cause of this amazing growth is the establishment of many bicycle companies in Cambodia as shifting from Thailand and China. This gigantic success marks Cambodia the second largest bike exporter to Europe.<sup>125</sup>

Allowing spare parts to import from ASEAN countries and putting the rule of origin as made in Cambodia helps the country benefits a lot on export and the growth of investments. Many countries view the preference from European Union as the opportunity to invest and grow, especially the Taiwanese companies. Recently, there

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<sup>120</sup> George Styllis, New EU Duty Threatens Bike Industry, The Cambodia Daily, issued on 26<sup>th</sup> of March 2014 accessed on 24<sup>th</sup> November, 2014 at <http://www.cambodiadaily.com/archives/new-eu-duty-threatens-bike-industry-54939/>

<sup>121</sup> Ibid.

<sup>122</sup> Michelle Tolson, Better to Ride These Bikes Than Make Them, Inter Pres Service, accessed on 24<sup>th</sup> of November, 2014 at <http://www.ipsnews.net/2013/01/better-to-ride-these-bikes-than-make-them/>

<sup>123</sup> Ibid.,

<sup>124</sup> The Cambodia Herald, Fourth Taiwanese bicycle maker considers move to Cambodia published on February 8<sup>th</sup> 2013. Accessed on November 28<sup>th</sup>, 2014 at <http://www.thecambodiaherald.com/cambodia/fourth-taiwanese-bicycle-maker-considers-move-to-cambodia-3342>

<sup>125</sup> Ibid.

is an adoption of GSP of European Union to end the incentives for Singapore and Malaysia, the biggest suppliers of Cambodia's bicycle spare parts import. Consequently, Cambodia faces a big trouble and serious challenge on its vehicle industry's future development.<sup>126</sup>

Given better wage competitiveness and import duty limits, Cambodia has more comparative advantage in exporting bicycle than her neighboring countries. European importers also managed to save 14 percent with the import from Cambodia.<sup>127</sup> Compared to other countries, Cambodia's minimum wage is USD128 while China and Thailand are USD400 and USD300 respectively.<sup>128</sup> The crosscheck comparative advantage makes Cambodia the most outstanding candidate for the investors. Conversely, in the long run, this condition will not apply as the country develops.

Nevertheless, the chance is more welcoming to Cambodia. It might bounce Cambodia a better opportunity to further enhance the industry and diversify the country's export strategy by moving to higher-skill end product.

From the basic to the complicated project, Cambodia should look for change and be more flexible. By doing so, the country can catch up the opportunity and is able to enter the world market. Having started from the bicycle industry Cambodia can turn this sector to a more complex vehicle industry by attracting various form of joint-venture business in the motorcycle industry as well as the car industry.

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<sup>126</sup> George Styllis, New EU Duty Threatens Bike Industry, The Cambodia Daily, issued on 26<sup>th</sup> of March 2014 accessed on 24<sup>th</sup> November, 2014 at <http://www.cambodiadaily.com/archives/new-eu-duty-threatens-bike-industry-54939/>

<sup>127</sup> The Cambodia Herald, Fourth Taiwanese bicycle maker considers move to Cambodia published on February 8th 2013. Accessed on November 28<sup>th</sup>, 2014 at <http://www.thecambodiaherald.com/cambodia/fourth-taiwanese-bicycle-maker-considers-move-to-cambodia-3342>

<sup>128</sup> Ibid.

Cambodia has succeeded in bicycle industry through enlarging its size and managing further export. The next step is moving forward to the integrated industry with more value chain.<sup>129</sup> This should be the motorcycle development step. Still, the step should be done by the time Cambodia graduated from European Union's Generalized System of Preferences Scheme since it would have negative impact on the country. The sensitive point of this is the original production of the spare parts that is not in Cambodia. As with the rules of origin in the GSP program, Cambodia is permitted to import spare parts from neighboring countries and assemble in the country. It means this still considers as the domestic inputs or production, which enables Cambodia to benefit from the duty-free status. Another advantage of producing bicycles in the country is its wage comparative advantage.

Truthfully, the abovementioned rules apply to only under the condition of GSP. Cambodia should not be too dependent on aforesaid comparative advantage. It should strengthen its vehicle sector to ensure that the future change will not affect the country progress. The rock bottom wage and zero-duty can gradually change. The wage strike has been controversial during the past two years in the last election. The increase in wage brought about the concern over the comparative advantage of cost of production in the country. Furthermore, Cambodian worker has less promising skills than the neighboring country like Vietnam. Due to the unskilled labor and strike matters, many parts manufacturers are still considering the establishment in this country. As mentioned above, the European Union also considers the graduation of Cambodia from the GSP program. An article from the Bicycle Retailer shows that the European companies tend to take advantage on temporarily boosting profits. For example,

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<sup>129</sup> UNCTAD, Panel discusses Cambodia: bicycle industry challenges and the fate of trade benefits, published on July 21st, 2013, accessed on November 23rd, 2014 at <http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=578>

gaining low wage opportunity and turning their back critically by using tariffs and anti-dumping investigation measure. Such action has been done to China and Vietnam already.<sup>130</sup> European Union starts to impose the 48.5 percent anti-dumping on Chinese bike importers that drives a way to shut the Chinese bicycle market in Europe.<sup>131</sup> The same is also true with some other countries. European Bicycle Manufacturers Association (EBMA) would take some actions against the tariff and quota preference if the import appears to seriously affect the EU firms. The slap on anti-dumping by EU turns many manufacturers to carefully make decision once they have to look into FDI. They tend to keep low profile and performance when they invest in a LDC.<sup>132</sup> Many believe in the potential threat of EU's GSP system as it also affects the EU manufacturer and domestic employment along with such rocketing imports. Analytically, many scholars put concerns on the promising future of Cambodian economic growth. The trend of investment would likely to change if this country does not make a grateful reform and stays focus on the improvement of its domestic investment.

[...] TBEA Chairman Tony Lo believes that Cambodia's primary advantage is limited to its zero EU import tariffs, and this advantage will not necessarily last forever. [...]<sup>133</sup>

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<sup>130</sup> Marc Sani, Cambodia takes bite out of Taiwan production, Bicycle Retailer, published on March 15<sup>th</sup>, 2014 accessed on November 27<sup>th</sup>, 2014 at <http://www.bicycleretailer.com/international/2014/03/05/cambodia-takes-bite-out-taiwan-production#.VHnWAtKUfKP>

<sup>131</sup> Ibid.

<sup>132</sup> BMU, 2013 Cambodia: focusing on exports, special reports, accessed on November 27<sup>th</sup>, 2014 at <http://www.biketaiwan.com/resource/article/2/27/article-03.pdf>

<sup>133</sup> Ibid.

[...] Cambodia's fledgling bicycle industry is under threat following changes to the European Union's duty-free trade incentive plan, the European Union's delegation to Cambodia said Tuesday. [...]<sup>134</sup>

Cambodia needs the urgent boost of local production in the bicycle spare parts to meet the minimum export requirement and quantity. According to the Cambodia Daily, at least 30 percent of the total spare parts needed must be produced in the country.<sup>135</sup> The spare parts used in the production are high rocketing plunged up.

The output of the bicycle industry in Cambodia increases at least 50 percent annually.<sup>136</sup> On the other hand, Cambodia has no bicycle spare part manufacturers at all. This reason makes unfavorable competitive ability since most of the spare parts need to import. By so doing, even though the country has relatively low wage competitive power, the price still does not carry the rock bottom.

Without a solid foundation, great foresight and attentive management within specialized industry, Cambodia would hardly find sustainability within the development in that specific field. The Special Economic Zone (SEZ) created by the Royal Government of Cambodia has contributed an extensive effort to the development yet limited. The SEZ offers a very pro-business environment with low tax paid, low wages, and reduction of the red tape.<sup>137</sup> The young labor force also

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<sup>134</sup> George Styllis, New EU Duty Threatens Bike Industry, the Cambodia Daily, published on March 26th, 2014, accessed on November 28th, 2014 at <http://www.cambodiadaily.com/archives/new-eu-duty-threatens-bike-industry-54939/>

<sup>135</sup> Ibid.

<sup>136</sup> Ibid.

<sup>137</sup> Michelle Tolson, Better to Ride These Bikes Than Make Them, Inter Pres Service, accessed on 24th of November, 2014 at <http://www.ipsnews.net/2013/01/better-to-ride-these-bikes-than-make-them/>

comparatively benefits the investors while the use of the labor force in bicycle industry is around 1,500 persons.<sup>138</sup>

Howsoever, SEZ is not the only strategy to be used. To upgrade the sector sustainably, the Cambodian government has to consider the long-term investment which helps increase the value-added of the product. This long term perspective should fill with the improvement on the performance of the firms through domestic investment in spare parts and a permanent set up of some service shop and repair shop to support the bicycle industry so as to make it complete.

Graduation of the spare parts sourcing countries from EU GSP program steps a big pain on Cambodia's toe.<sup>139</sup> The request for three years extension to the temporary derogation on imports bicycle spare parts from the sourcing countries brings Cambodia to the edge and hush preparation.<sup>140</sup> The country has to be ready no matter what. It needs spare parts shop and raw materials extraction to ensure its stable production hike as it will need to face the cumulation rule.<sup>141</sup> Further than this, the readiness of Cambodia plays a crucial role in keeping bicycle industry survives and maintaining the third rank in the top export to the EU after the garment and rice industry.

Even so, placing a strong investment in the industry requires time and capital. The factory of such is a capital intensive where extended supply chain is lack.

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<sup>138</sup> Ibid.

<sup>139</sup> See above explanation

<sup>140</sup> George Styllis, New EU Duty Threatens Bike Industry, The Cambodia Daily, issued on 26<sup>th</sup> of March 2014 accessed on 24<sup>th</sup> November, 2014 at <http://www.cambodiadaily.com/archives/new-eu-duty-threatens-bike-industry-54939/>

<sup>141</sup> Cumulation is a practice under rules of origin. It permits the use of inputs from other regional partners so that the inputs can be considered as domestic inputs. If the parts from regional partners cannot be counted as Cambodian parts, bicycle manufacturers will not be able to comply with the rules of origin and will have to pay a 14 percent duty, instead of benefiting from duty-free status as they do at present. (UNCTAD, 2013)



Chasing a small profits from such big investment makes most foreign manufacturers unwillingly to be persuaded. Yet, with the joint venture business and rigorous support from the government, this loath perhaps can break down.

The potential growth of the bicycle industry is not a one-shot-finish project. To be more exact, majority of Cambodian respondents in the survey sample say the bicycle industry is necessary. About 46.1 percent of the respondents answered that they think the vehicle industry is on the right track if the government keeps improving this sector.<sup>142</sup> Among the given reasons, the respondents consider the growth of demand is predictable as the economic is growing, the population is increasing, and the transportation is still poor. Some comment that the drastic increase in the GDP is predictable with the development track in the bicycle sector. Indeed, at the rate of 46.2 percent, respondents believes that as economic grows, the country needs the development in vehicle industry to ensure the value added as well as to reduce the production cost of those vehicles. The sector can grow and switch to heavy industry as the industry grows mature and skilled labor enhances. To catch up the opportunity of possessing comparative advantages in GSP as well as the massive production growth of the bicycle industry, the Cambodian government can save this advantage and call for further development. First, it should go to the improvement in development of domestic raw materials production. If this stage can pass, the government can go through to the next stage by calling for the investment in heavier industry such as motorcycle and its spare parts. Henceforward, the product development should keep expanding in vertical integration mode, yet diversifying different type of products in the sectors is needed.

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<sup>142</sup> See Appendix A, p. 179.

### ***Chapter Conclusion***

Although the effort has been put for diversification, the speed of diversifying is still slow as the main catalyst is out of nowhere. Improving the domestic production is one of the main substances helps varying the export basket. At the same time, while having domestic production improved, the quantity of those productions would likely to jump along the way. Therefore, it can help the country both independent from import and minimize external shock – the world fear. Definitely, as the international rules bind the country like Cambodia, it is important to make a faster speed of development to catch up with the world.

## Conclusion and Recommendation

Realizing the country's dream is a need. Pursuing a careful stage of development is a must. Cambodia has hit a big hike of its economic performance, which undoubtedly is an amazingly impressive experience. According to the theory of growth explained in the chapter two, Cambodia should be ready to brace itself for the next stage of development. As of the Rostow's theory of development, after the preconditions for takeoff, Cambodia should prepare to lift off its economic expansion. Nevertheless, along with the development, the existence of ills and policy flaws remains concern. Those weaknesses can hinder the economic growth in the long run, especially with the practice of open economy and export-oriented strategy. Long-term investment in the country has been worsening off by poor economic environment and a numerous policy uncertainties. We cannot ignore that this fact has to adjust through policy reformation and definite policy implementation with direct target to the problem.

The major effects are revealed along the case studies in the above chapter. It shows that once the external environment causes some changes, Cambodia is still a vulnerable subject to those changes. For instance, as described in the previous chapter, with the revision of EU's GSP program, Cambodia has suffered a lot from the major changes. Even Cambodia is still in the tax incentive and quota-free preference, the dependent countries like major bicycle spare part importers have already graduated from the system. Thus, Cambodia can no longer import spare parts from them. Many studies do believe that as the country grows and seeks for sustainable development, a strong economic power has to ensure. Beyond, Cambodia needs some space for independent as to improve her domestic production so that she can stand by herself.

Henceforth, there are two remarkable recommendations from this study. The first recommendation is to reduce the external shock; it needs reduction on import dependency (hypothesis 2). By minimizing the use of foreign products and starting to develop its own, Cambodia will be able to reduce the negative impact of the external shock on the country. Having mentioned in the previous chapter, external shock is one of the most important trends of the early economic growth. The development stage can be vast or completely turndown depends much on how the external environment treats it. Nevertheless, to become strong and stand independently, Cambodia should minimize the foreign product consumption and start to produce by itself. Setting focus on minimizing import, Cambodia would also be able to maximize export. By initiating some production of raw materials, the country may be able to lessen the import of raw materials, save the cost of production, and advance efficiency of the export production.

Diversifying export basket through improving domestic production (hypothesis 1) is the second recommendation in this study. Based on infant industrial theory explained in the chapter two, it should build some protection shields for the domestic firm. These shields help the domestic industry improves and catches up with the world market. It is understandable that based on the Heckscher-Ohlin Principle, as in the factor-driven economy, Cambodia needs FDI for its economic growth (hypothesis 3). In spite of that, the efficiency of the domestic productions needs to ameliorate.

As explained in the chapter five, the domestic production can be improved through vertical integration strategy. Astutely, Cambodia should develop the policy promotion on foretold strategy through three of its main industries that are agriculture industry, garment and textile industry, and vehicle industry. Varying production such

as spare parts and other similar production line can help Cambodia improve its export basket as explained in the previous chapter. What is more reasonable is spreading the similar production line help the exported product further enhances. Thus, the export quantity can grow further. This saves the producer with more skills and business capacity, which enable them to attract further markets. The supporting idea to this recommendation is the general view from the survey research. It is vastly mentioned about the reduction of import on both smuggling and unnecessary products such as import of raw materials.

Leading to this argument, there is also support from survey respondents. Consistently, this research finding also concludes the same results. It is confirmed that the government should pro the domestic production's value added by trying to promote, give value to the domestic product, and seek for new market for the domestic producers. The improvement on the production chain is also vital. This includes the improvement on standard of the product and quality assurance, skilled labor, technology and innovation, and benchmarking experience from more advanced industry. Other than this, the business environment should also be improved. Those include legalizing business environment, seeking support for domestic producers, putting effort on improving the competition and solving import smuggling matter. Thoughtfully, the government should enhance the information exchange on the product produced in Cambodia, fix the standard price (price floor), build local branding, and improve along with the income end of the workers.

As such, the improvement of the domestic production and independency should be considered to further diversify economy and get rid of external shock. With a strong policies evaluation and reform, the country would be able to appealingly

manage its own destiny and graduate from the factor-driven stage to become an efficiency enhancer (chapter two).

The fact that domestic product in Cambodia is inferior to the foreign product should also be focused by the government. In the introduction chapter, the hypothesis 4 explains how the foreign product has dominated the domestic product with its higher value added and favorable image. A pro support to the idea is also vastly from the survey respondents. They believe that Cambodia has rich natural resources. It should not export the unprocessed raw materials and import the processed raw materials back to use in export production as having done these days. More importantly, according to the data shown in this research paper, in order to reduce the raw material import, the country should have stood independently through the law enforcement and encouraged infant industry development. As such the domestic production would be able to gain recognition from the domestic consumers.

Therewithal, it is suggested that funding local business and improving production through community-based development is indispensable for the basic reform. The industrial development needs strong support from SMEs to the MNCs and from foreign to domestic firms. This strategy can help solving problem claimed in the hypothesis 5 of this paper. The belief that the ground root citizens cannot maximize their benefit from the development is proved through the explanation in the chapter three. The vertical integration strategy as described in chapter five can be adopted through community based development, especially in the agriculture sector. This helps ensuring employment and equalizing wealth distribution as the result of promoting domestic firm development.

To put in the nutshell, export-oriented needs the injection of import-substitution senses with the consideration on domestic firms. It is a way leading to

sustainable development. As for sustainability and extension of substitutability between the foreign and domestic product, Cambodia should push focus way deeply in the strategy. Domestic firm development is undoubtedly a must considered subject. With clear development and strategic policy frame, the Cambodian government will find a way to the speedy growth of the development. To put forward, export-oriented strategy without an import-substitution sense as a catalyst is a development block.

## APPENDICES



APPENDIX A  
Survey

**Form of the Survey**

Market Research Survey

There are 30 questions in this survey. The purpose of this survey is to study the market of Cambodian made products in the country. The study aims at seeking Cambodian or domestic consumers' ideas towards the domestic product. The survey is designed to test whether it is true that Cambodian made product is unfavorable and inferior to the foreign product. This survey must surely be done by voluntarily. If you have any questions regarding this survey feel free to contact Ms. Kimmuyly Eung at email address [kimmuyly.eung@gmail.com](mailto:kimmuyly.eung@gmail.com). Thank you for kindly participating in the survey.

This survey is targeted domestic/Cambodian consumers only.

1. Are you Cambodian?
  - a. Yes
  - b. No, please specify \_\_\_\_\_
2. What is your gender?
  - a. Male
  - b. Female
3. How old are you?
  - a. 0 – 20
  - b. 21 – 40
  - c. 41 - 60
  - d. above 61
4. Which level of education are you in?
  - a. No education
  - b. Primary to Secondary
  - c. High School
  - d. University level
  - e. graduate level
  - f. post-graduate level
5. Where are you living?
  - a. Phnom Penh, Kandal, Siem Reap, or Sihanouk Ville
  - b. Kampong Thom, Kampong Chhnang, or Kampong Speu
  - c. Stung Treng or Preach Vihear
  - d. Kom Pot, Takeo, Prey Veng, Svay Rieng, Kampong Cham, Tboung Khmom, Kratie, Mondolkiri, Ratanakiri, or Kep
  - e. Oddar Meanchey, Banteay Meanchey, Battambang, Koh Kong, Pailin, or Pursat

6. What is your impression when you see a product made in Cambodia? (you can choose more than one)

- a. Good quality   b. Poor quality   c. Good price   d. High price  
e. no impression   f. others, please specify \_\_\_\_\_

7. Do you like product made in Cambodia?

- a. Yes   b. No   c. neutral

Please specify the reason: \_\_\_\_\_

8. Have you ever bought any product made in Cambodia?

- a. Yes, I always buy product made in Cambodia  
b. Yes, but I only buy specific types of Cambodian made product but not others  
c. No, I don't buy it because I don't like all the product made in Cambodia  
d. No, I don't buy it, please specify the reason  
\_\_\_\_\_

9. In the case that you choose NOT to buy a needed Cambodian made product, what is the common reason? (You can choose more than one answer)

- a. Price: it is expensive to afford with my living standard  
b. Price: it is expensive compared to foreign product  
c. Quality: it is not usable or acceptable  
d. Quality: it is in poorer quality than foreign made product  
e. Other reason, please specify \_\_\_\_\_

10. If you choose either quality and/or price in question 8, will you choose to buy the product that made in Cambodia if these two factors are improved?

- a. Yes, I will if only the quality is improved  
b. Yes, I will if only the price is improved  
c. Yes, I will if both quality and price are improved  
d. No, I will not

11. What type of product made in Cambodia do you usually buy?

- a. Agricultural product   b. Food and beverage   c. Clothes and/or garment  
d. Vehicle   e. others, please specify \_\_\_\_\_

12. How often do you see product made in Cambodia?

- a. Every time I go to the market/shop
- b. Once every 10 times I go to the market/shop
- c. Once every 20 times I go to the market/shop
- d. Never see

13. Where do you usually see product made in Cambodia?

- a. Only vegetable and fish market
- b. Only in supermarket and/or shopping mall
- c. Only in the grocery store
- d. Both vegetable market and super market
- e. Others, please specify \_\_\_\_\_

14. Do you think product made in Cambodia is largely available?

- a. Yes
- b. No
- c. I don't know

Please specify your reason: \_\_\_\_\_

15. Do you think product made in Cambodia in overall has been improved?

- a. Yes, in overall it has improved
- b. No, nothing is improved
- c. Yes, some specific products only
- e. I'm not sure

16. If your answer in question 15 is YES, what is the improvement? (You can choose more than one answer)

- a. availability
- b. quality enhancement
- c. price reduction
- d. Others, please specify \_\_\_\_\_

17. If your answer in question 15 is NO, why do you think the products made in Cambodia are not improved? (You can choose more than one answer)

- a. No pro-policy from government
- b. None of any domestic producers are willing to improve
- c. Producers meet production obstacles (financial problems, management problems, structure of production problems, technological problems, .. etc)
- d. Domestic production conditions do not allow for improvement (infrastructure, logistics cost, utility cost, etc)
- e. Market constraints. Less domestic consumers would like to buy the Cambodian made products.
- f. Other reasons, please specify \_\_\_\_\_ .

18. If your answer in question 15 is YES but some specific products only, what are those?

- a. Agricultural product
- b. Food and beverage
- c. Clothes and/or garment
- d. vehicle
- e. others, please specify \_\_\_\_\_

19. Which sector do you think is the most potential sector in Cambodia?

- a. Agricultural product
- b. Food and beverage
- c. Clothes and/or garment
- d. Vehicle
- e. others, please specify \_\_\_\_\_

20. What are the factors that are used to describe one sector as the most potential in the country?

- a. The sector is competitive in terms of price and quality compared to foreign import products
- b. Producers' potentials to develop in the sector
- c. Consumers' preferences on the products of the sector
- d. Barriers to improve of the sector
- e. Availability of substitutable products in the sector
- f. Others, please specify: \_\_\_\_\_

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21. In your opinion, which sector has the most available Cambodian made product in domestic market?

- a. Agricultural product
- b. Food and beverage
- c. Clothes and/or garment
- d. Vehicle
- e. others, please specify \_\_\_\_\_

22. If in question 21 you choose agriculture product, which product is mostly available? (You can choose more than one)

- a. Milled rice
- b. rice paddy
- c. vegetables
- d. Livestock, poultry and fisheries such as pork, beef, fish, and chicken
- e. others, please specify \_\_\_\_\_

23. If one of your answers is rice paddy but not milled rice, do you think why Cambodian milled rice is not largely available in the market?

- a. Less rice miller that the rice paddy is overloaded and milled rice production is slow
- b. Rice millers have little capacities to produce milled rice
- c. Less farmers produce rice paddy
- d. Less farmers sell rice to domestic rice millers

- e. Rice paddy is export to other countries
- f. I don't know
- g. Other reason, please specify: \_\_\_\_\_

24. If in question 21 you choose food and beverage, which product is mostly available? (you can choose more than one)

- a. Beer
- b. soft drink
- c. vegetable and fruit (pack)
- d. bread and cereals
- e. milk product
- f. meat, fish, and poultry (pack)
- g. mixed meal dishes
- h. snack items
- i. others, please specify \_\_\_\_\_

25. If in question 21 you choose cloth/garment product, which product is mostly available?

- a. cloth
- b. garment
- c. footwear/shoes
- d. others, please specify: \_\_\_\_\_

26. If in question 21 you choose vehicles, which product is mostly available?

- a. Bicycle
- b. motorbike
- c. car
- d. boat
- e. ship
- f. others, please specify \_\_\_\_\_

27. If government chose vehicle industry to be the third industry for industrial promotion, do you think it is the right track?

- a. Yes
- b. No
- c. Neutral, I don't know

28. If your answer in question 27 is yes, what would be the reason? (you can choose more than one)

- a. The demand for vehicle is increasing as the population is growing
- b. The demand for vehicle is increasing as the economic is growing
- c. The demand for vehicle is increasing as the public transportation is poor
- d. Others, please specify: \_\_\_\_\_

29. If your answer in question 27 is no or neutral, what would be the reason?

Answer here: \_\_\_\_\_  
 \_\_\_\_\_

30. We are working on improving product made in Cambodia. This is to check whether the quality, price, and overall production line can be improved. If can, in which way? Thus, this section is open for your ideas regarding the topic.

Answer here: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## Survey Interpretation Method

The aim of this survey is to get the feedback from domestic consumers about the domestic products in overall. The survey research is used as a part of reference to verify the impression of domestic consumers on the domestic product. The hypothesis 4 of this research paper claims that the domestic product is holding fierce competition with the foreign product. Psychologically, the favorable consumption of domestic consumers is on the foreign product side. The sense of products discrimination appears which makes the domestic producers suffer a lot from this trend. To look forward if this claim is true, the research survey has been conducted as the complement subject with other research data. There are some features of the survey results that have been used as references in many parts of this research paper. For example, in the chapter four of this paper, the survey results are used to evident the psychological effect of consumers on the domestic product development.<sup>143</sup> To top up, in the conclusion part, respondents' comments are used as the supports to some ideal arguments. All in all, it is the justification complement along with the theory and secondary research data.

Digging up the survey, there are both objective and subjective questions. The questions are to seek for ideas of consumers on the quality, price and other production factors of domestic products. It aims to check if the improvement of the products has been made based on domestic consumers' points of views. Indeed, it also makes the crosscheck analysis on the different sectors. It wishes to see how to improvement the sectors and if the potential sectors marked by government are on the right track based on the public opinions.

There are 30 questions in the survey. From question 1 to question 5, they are the survey research indicators. This includes the nationality, gender, age, education, and resident. The question 6 to 14 is classified as the consumers' impression inquiry. This is to underline the image of Cambodian made products in the domestic consumers' point of views. From question 15 to 18 is the inquiry on the overall improvement of the domestic products. Furthermore, questions 19 to 29 are about the potential sectors inquiry. The questions aim at drawing knowledge out of the consumers. It seeks to estimate the percentage of consumers that catch up with the

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<sup>143</sup> See p. 60

current development. Based on the respondents' answers, we can check the consumers' knowledge on the product development. This helps drawing needed policy recommendations based on consumers' behavior (domestic firm development recommendation). In this section, it also aims for opinions from consumers of how they feel about the potential sectors and the country's current development track. Similarly, the question 30 asks consumers their general opinion on how to improve the domestic products.

The sampling is done randomly by dividing the geographical locations and conducting random survey on each location. The survey will be translated in Khmer language (The Cambodian official language). In the first phase, it seeks for online survey respondents. Yet, the targeted number did not reach, so the survey went on through paper interview as the second phase.

The survey is based on stratified random sampling. The geographical location is the main indicator in conducting the analysis. It has been divided into 5 categories. This includes the urban area, rural area, and the three border areas such as the border, which is next to Laos, Vietnam and Thailand. This intends to identify the effect of the foreign products to domestic products on domestic consumers in different locations. The different neighboring countries border will detect the importance of how those foreign products, which are trading excessively to the country, especially at the border effect the perception of domestic consumers. More importantly, this also aims to compare those perceptions with the other different locations such as rural and urban areas where the domestic products are fiercely competing with the foreign products.

Today estimation of the total population is 14.5 million. However, since the population per province in 2014 is absence, the data here is based on 2008 General Population Census. Based on 2008 data, the population in Cambodia is approximately 13.4 million. As such 610 survey will be conducted on 1/21,967 basis. This means one survey represents the population of 21,967. Based on this statistic, each province requires roughly the number of surveys as below:

Group	City/Provinces	Total Population	Approx. Number of Survey
Urban	Phnom Penh, Kandal, Siem Reap, and Sihanouk Ville	3, 686 977	275
Rural	Kampong Thom, Kampong Chhnang,	1, 818 936	75



	and Kampong Speu		
Next to Lao	Stung Treng and Preach Vihear	432 580	48
Next to Vietnam	Kom Pot, Takeo, Prey Veng, Svay Rieng, Kampong Cham, Tboung Khmom, Kratie, Mondolkiri, Ratanakiri, and Kep	4, 954 964	130
Next to Thailand	Oddar Meanchey, Banteay Meanchey, Battambang, Koh Kong, Pailin, and Pursat	2, 495 450	82
Total number of survey			610

Gender, age, and education are the sub-indicators for the survey. The inclusion of these factors is to make analysis vivid. It wishes to look for any the different result between different divisions. This means there may be some differences besides the geographical location. So, the gender, age, and education inclusion is to ensure the balance of analysis on the survey result. Hence on, it tackles the result of the survey with different indicators and analyzes the possible reason that makes the respondents in those indicators group answer that way.

## Survey Result

Question 6: What is your impression when you see a product made in Cambodia?

(You can choose more than one)

The sixth question of this survey aims at checking the impression of the domestic consumers on the domestic product. As the result, to them product made in Cambodia is generally reasonable price (37.9%) and good quality (28.1%). This result may due to the reason that most of the Cambodian made products available in domestic market is agriculture product. This typical product has relatively low price. Since the country is in traditional agriculture production, the products have been produced in natural way that is translated as a good quality based on Cambodian perception.

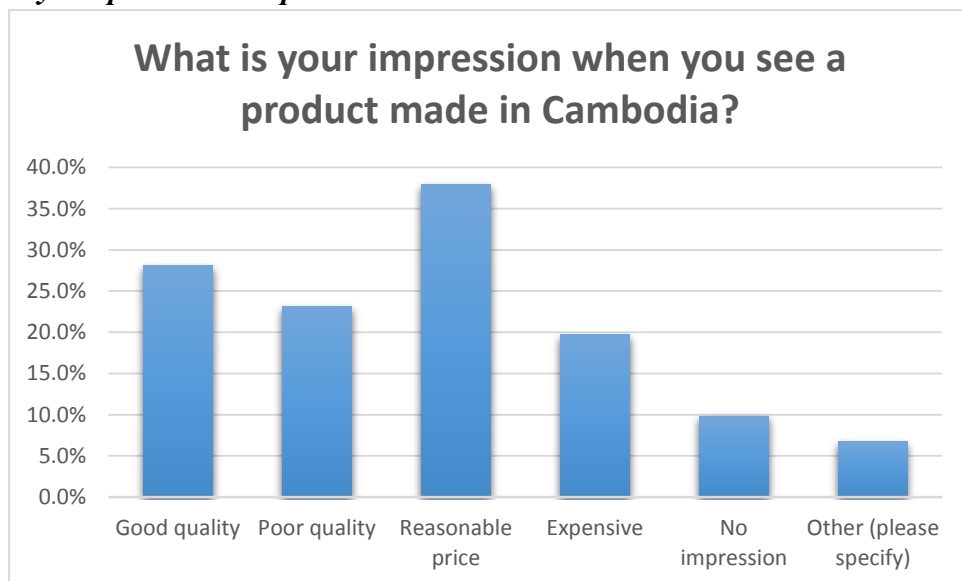
If we look at the response based on geographical locations, something a bit different appears. The provinces that are next to Thailand surprisingly answer that the domestic products are generally poor in quality (25% of them). This impression may due to the fact that among the dominated foreign products in the country, Thai products traditionally seems to have good quality and reasonable price compared to domestic products.

The result of another sub-indicator – the gender group shows no different from the general survey result. Yet, linking the result of this question to the age indicator, it shows significant different. Among the entire group, the age group above 60 year-old (30%) puts out their opinions that the domestic product has poor quality. There are two possible reasons for this answer. The first reason is that back in 1960s where the vast development in Cambodia had been recognized, people are generally impressed by how Cambodian produced a good quality of product. This means compared to the previous product, the current product is way inferior in the elder perspective. Second

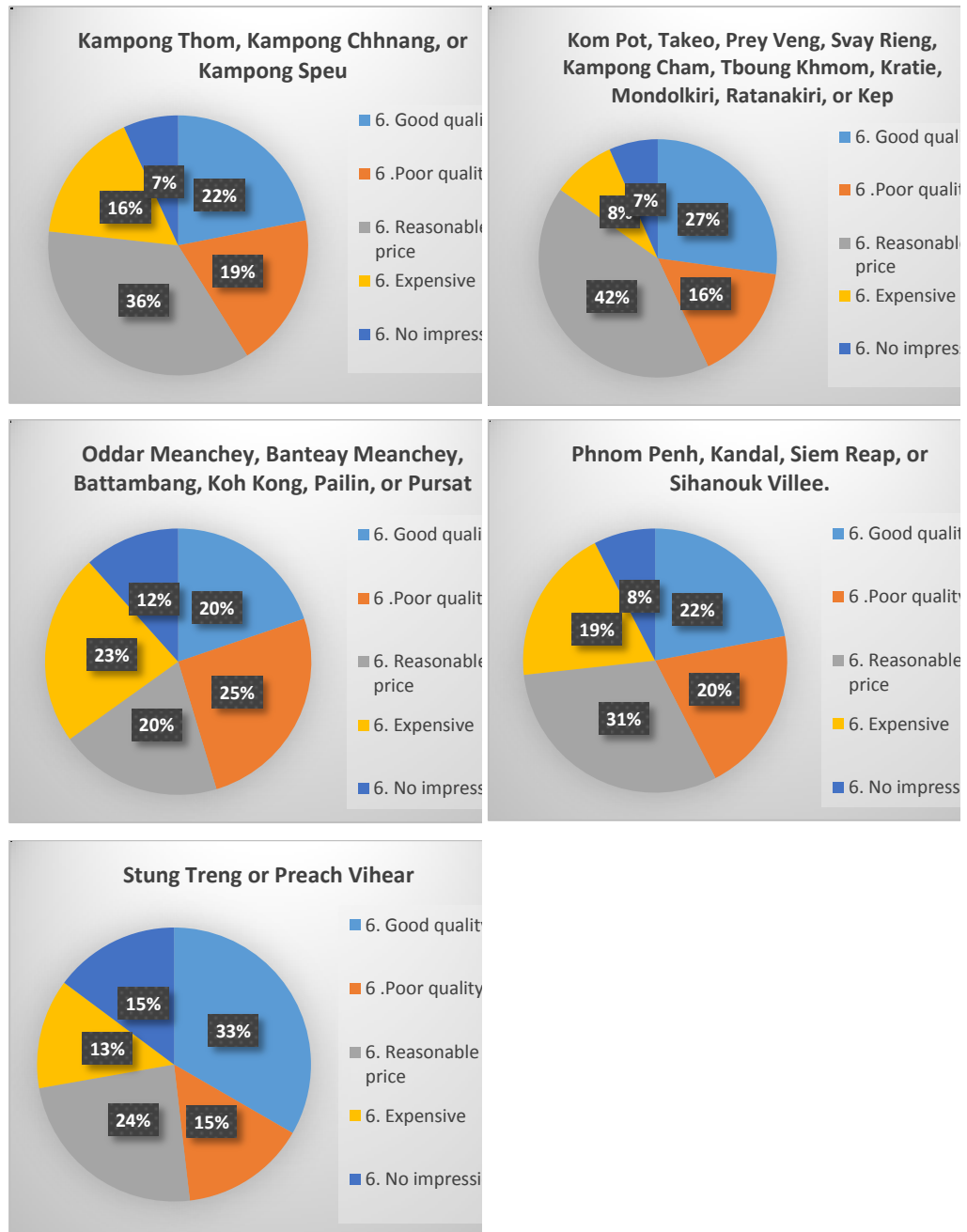
reason can be vary. One might due their long consumption on both foreign and domestic products. The domestic products have been long kept in their mind as no quality since after the civil war. The domestic product at that time was almost none or very desperately to find, not to mention the low production quality and capacity.

Another noticeable result in the next sub-indicator – Education indicator shows that those people who have never attended school group gives their impression on domestic product as having poor quality. The view from this group may depend largely on the overall popularity of the products. From the general audience, the domestic product is inferior to the foreign product. Hence, the judgment of the foretold group happens to say that the Cambodian made product is having poor quality. Thus, generally, their answer is based largely on their perception.

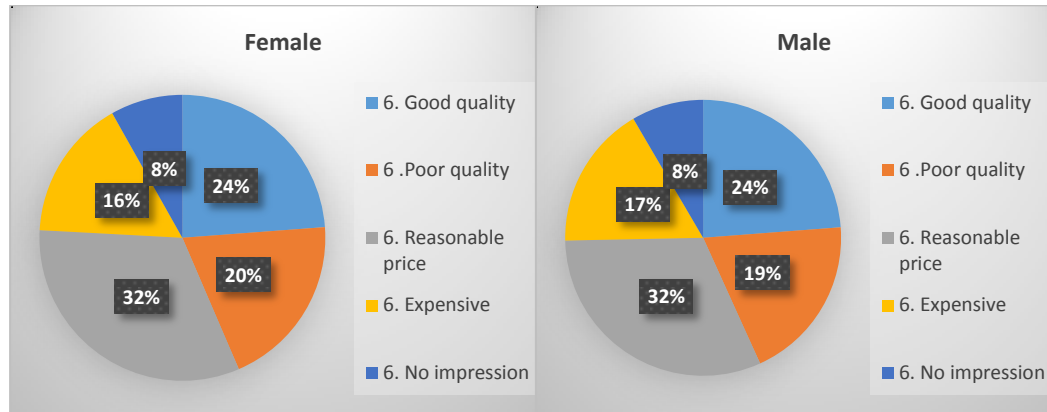
### ***Summary Respondents' Report***



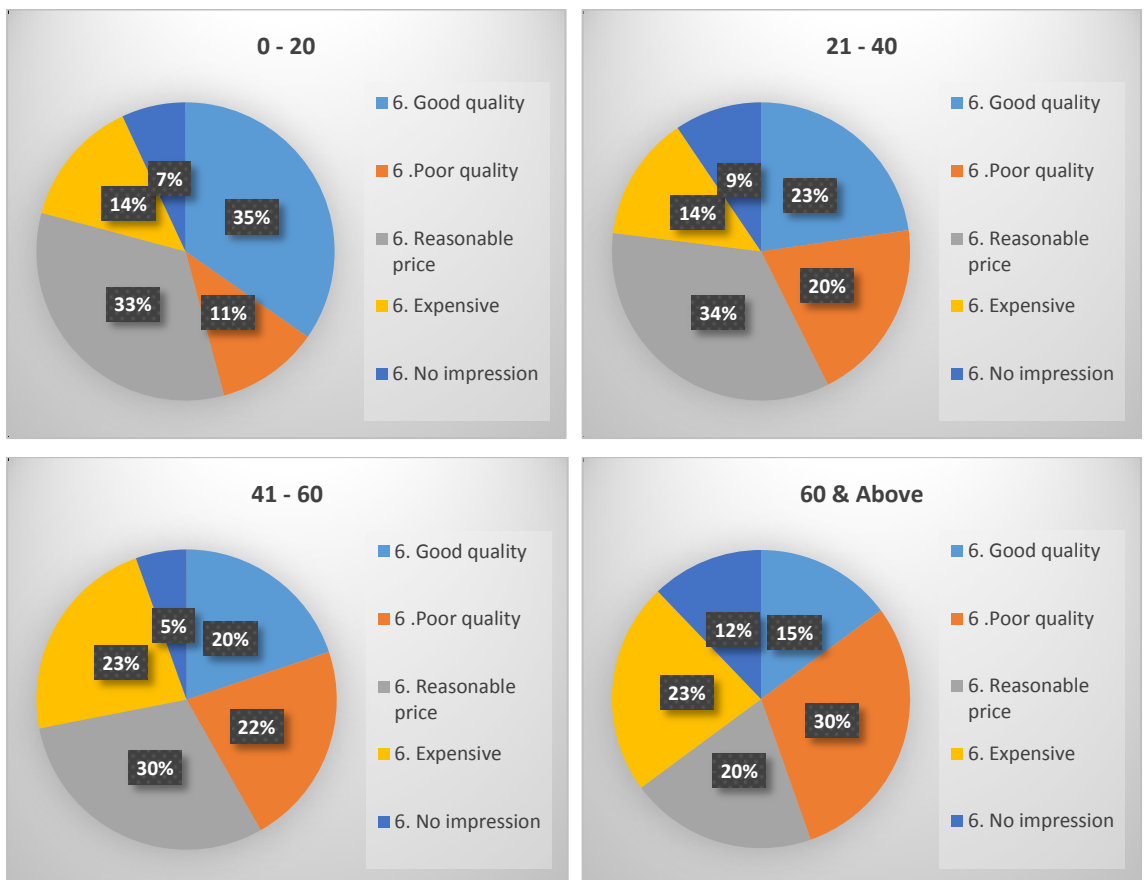
- **Main Indicator: Geographical Locations**



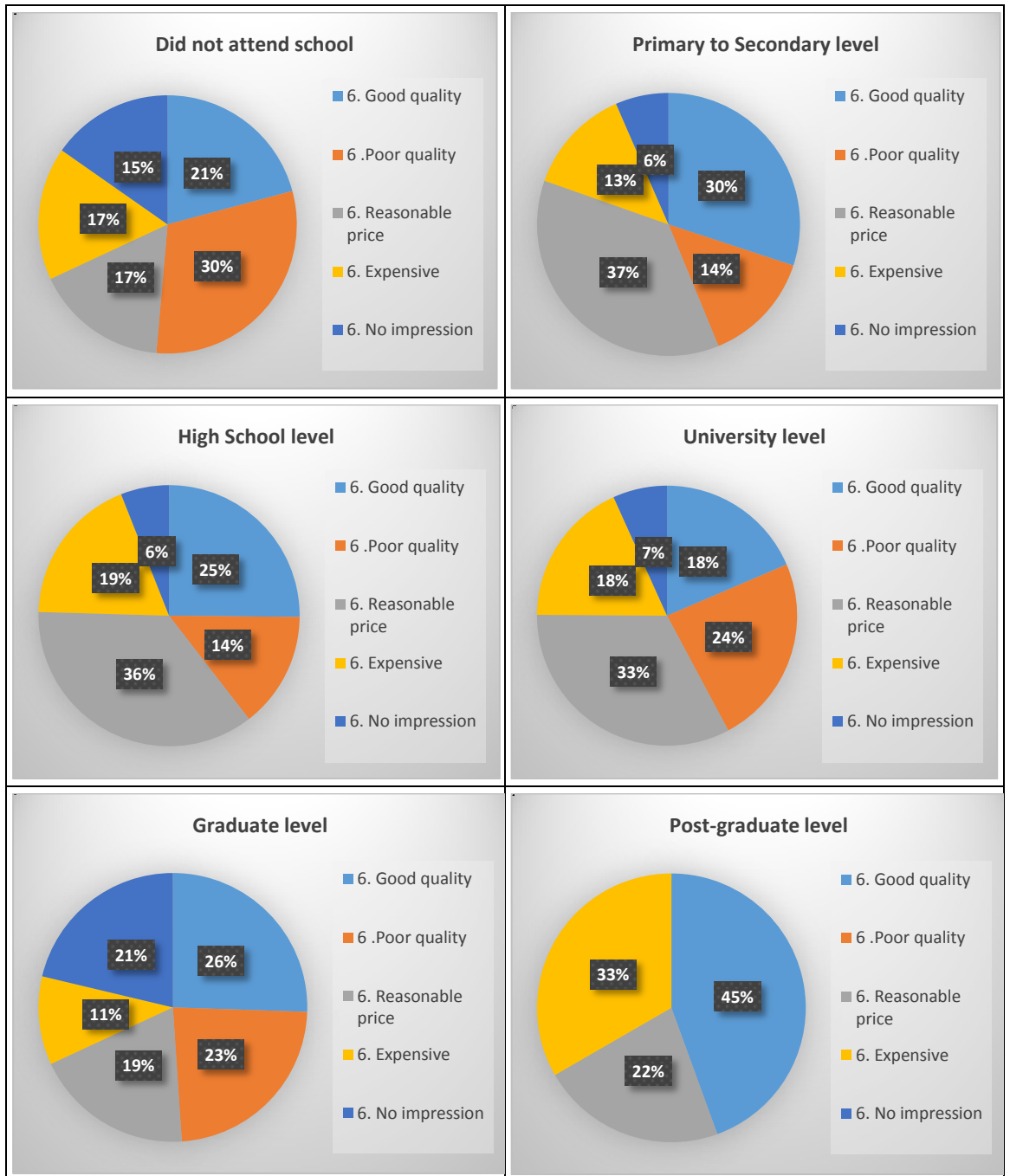
- **Sub-indicator: Gender**



- **Sub-indicator: Age**



- **Sub-indicator: Education**



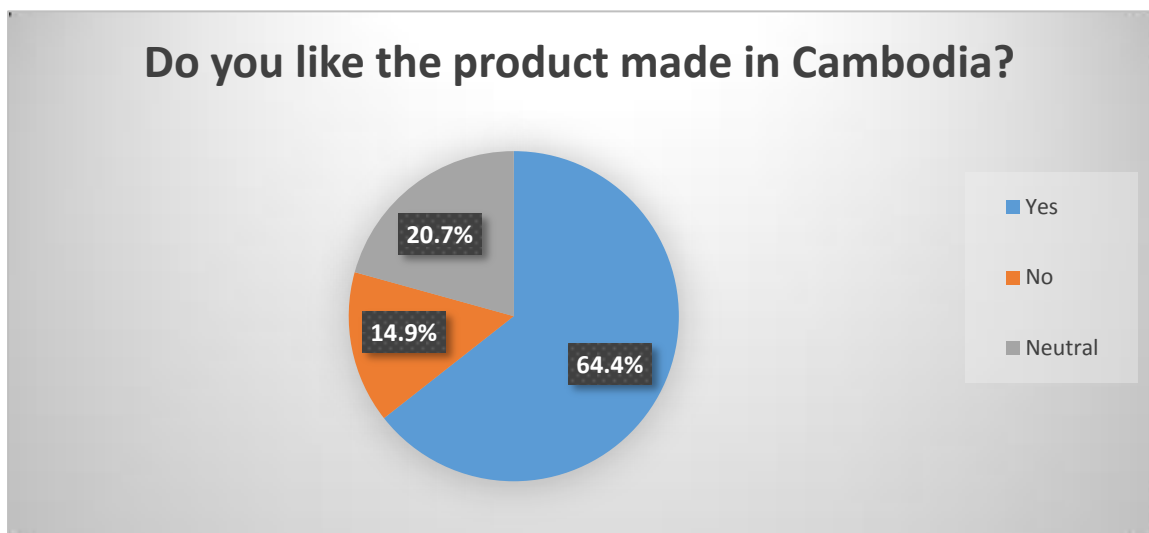
Question 7: Do you like the product made in Cambodia?

The aim of the seventh question is to seek for favorable perception on the Cambodian product. The result from the general report and indicators are all same. Cambodian generally likes the domestic products. It is understandable since some of

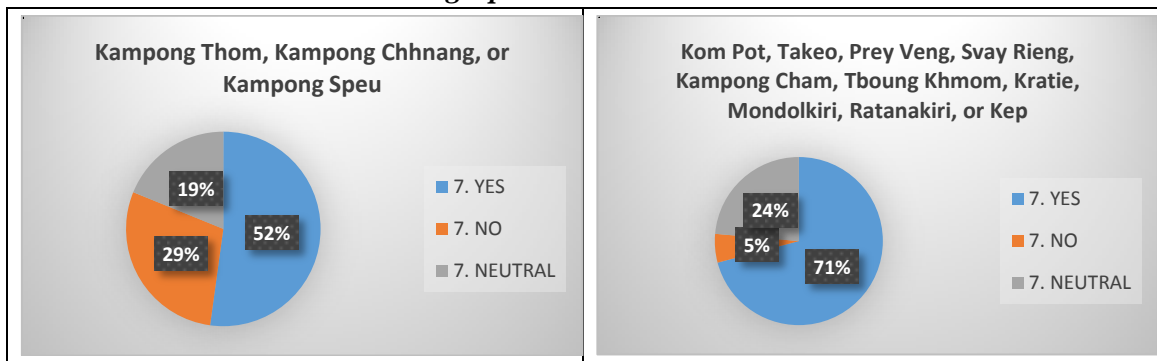
their comments show that they like it because they think it is their nation pride. This can be used as a part of recommendation. The policy maker can promote the domestic product through the nation pride and their empathy mind. However, in the actual practical support, it seems a bit contrast. Let's examine mean how they say they like it but actually support it or not when it comes to other consideration such as quality, price, and the usefulness of the product.

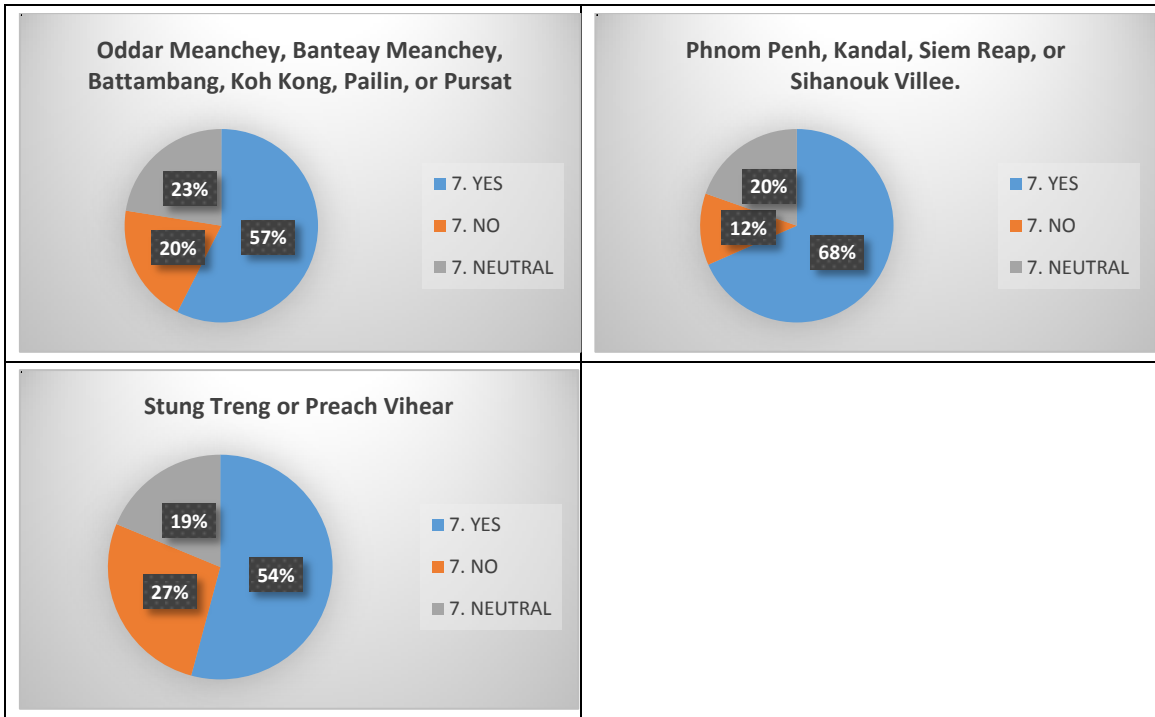
The next questions' result will further prove the practical behavior of Cambodia consumers on domestic product.

***Summary Respondents' Report***

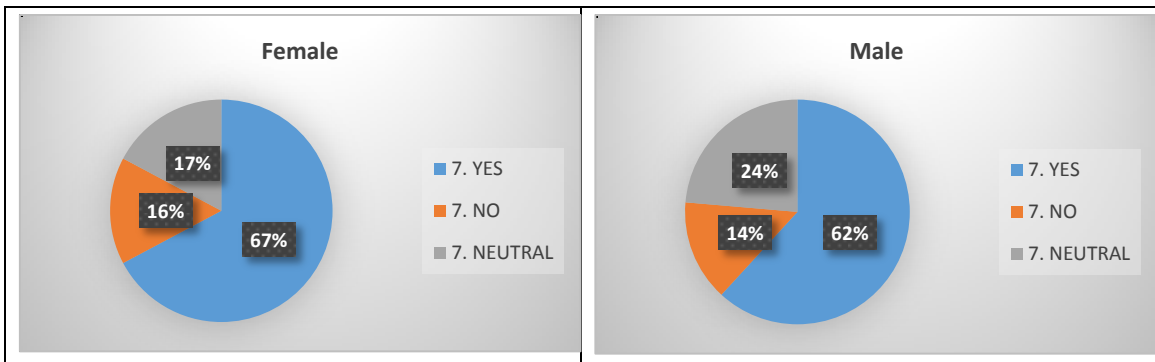


**- Main Indicator: Geographical Locations**

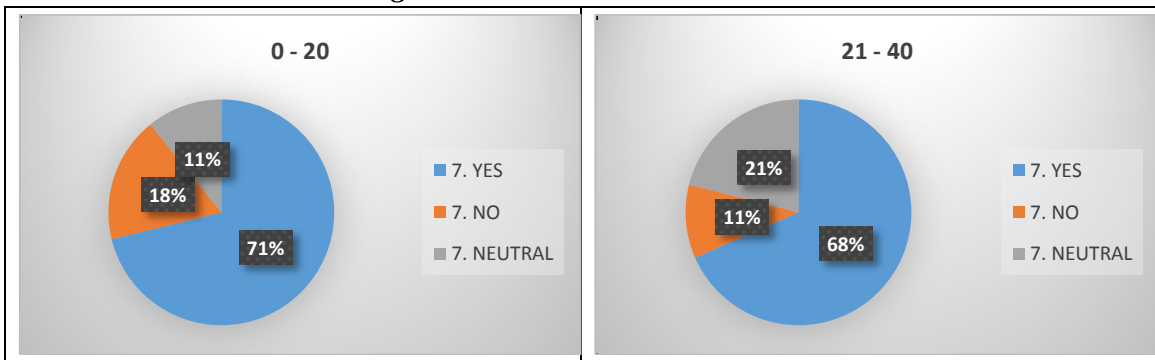




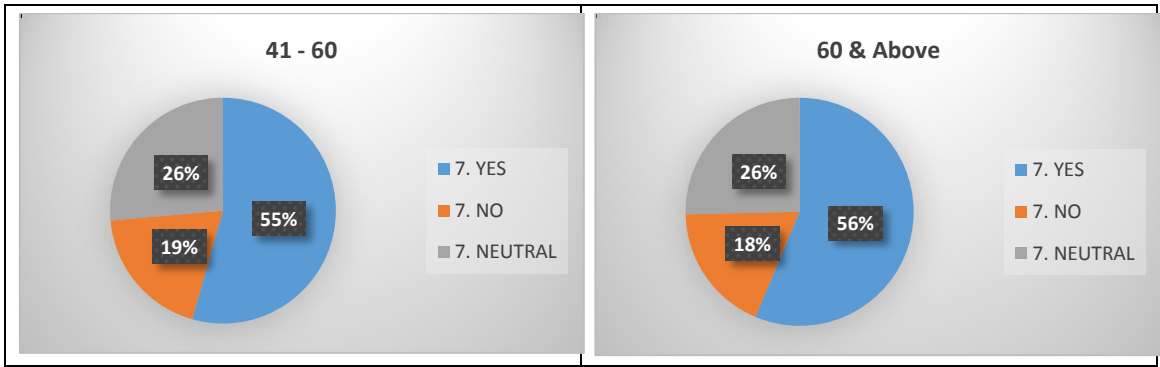
- *Sub-indicator: Gender*



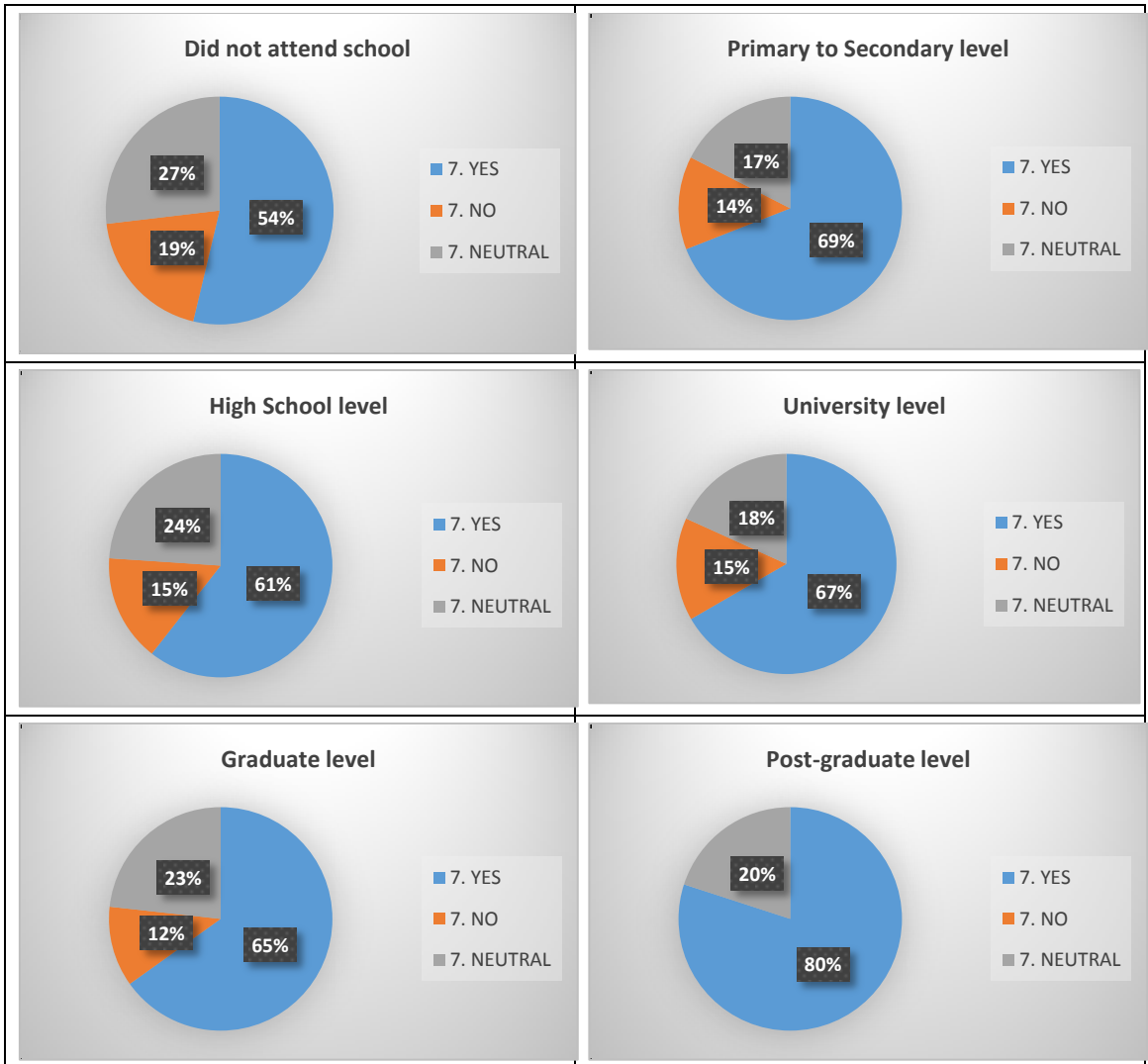
- *Sub-indicator: Age*







- *Sub-indicator: Education*

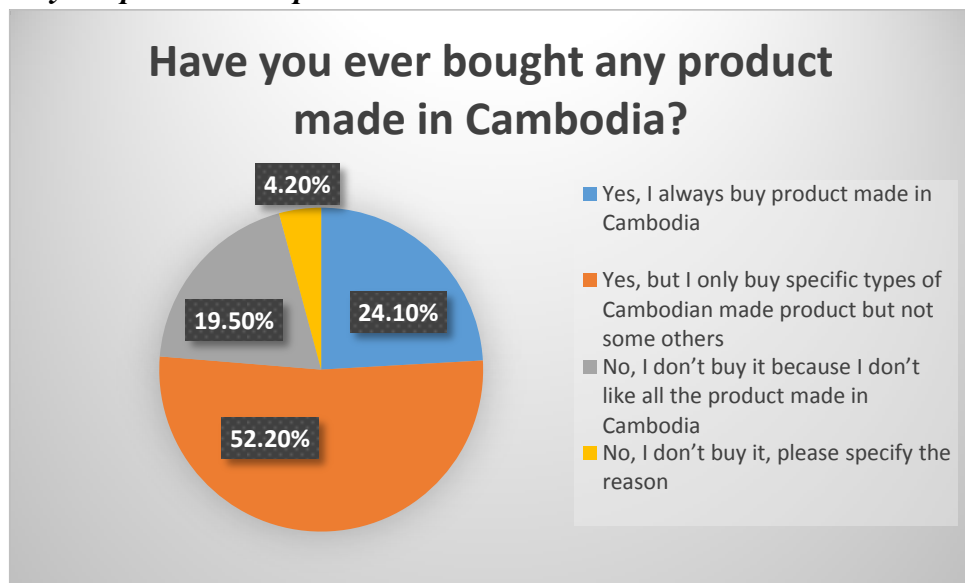


### Question 8: Have you ever bought any product made in Cambodia?

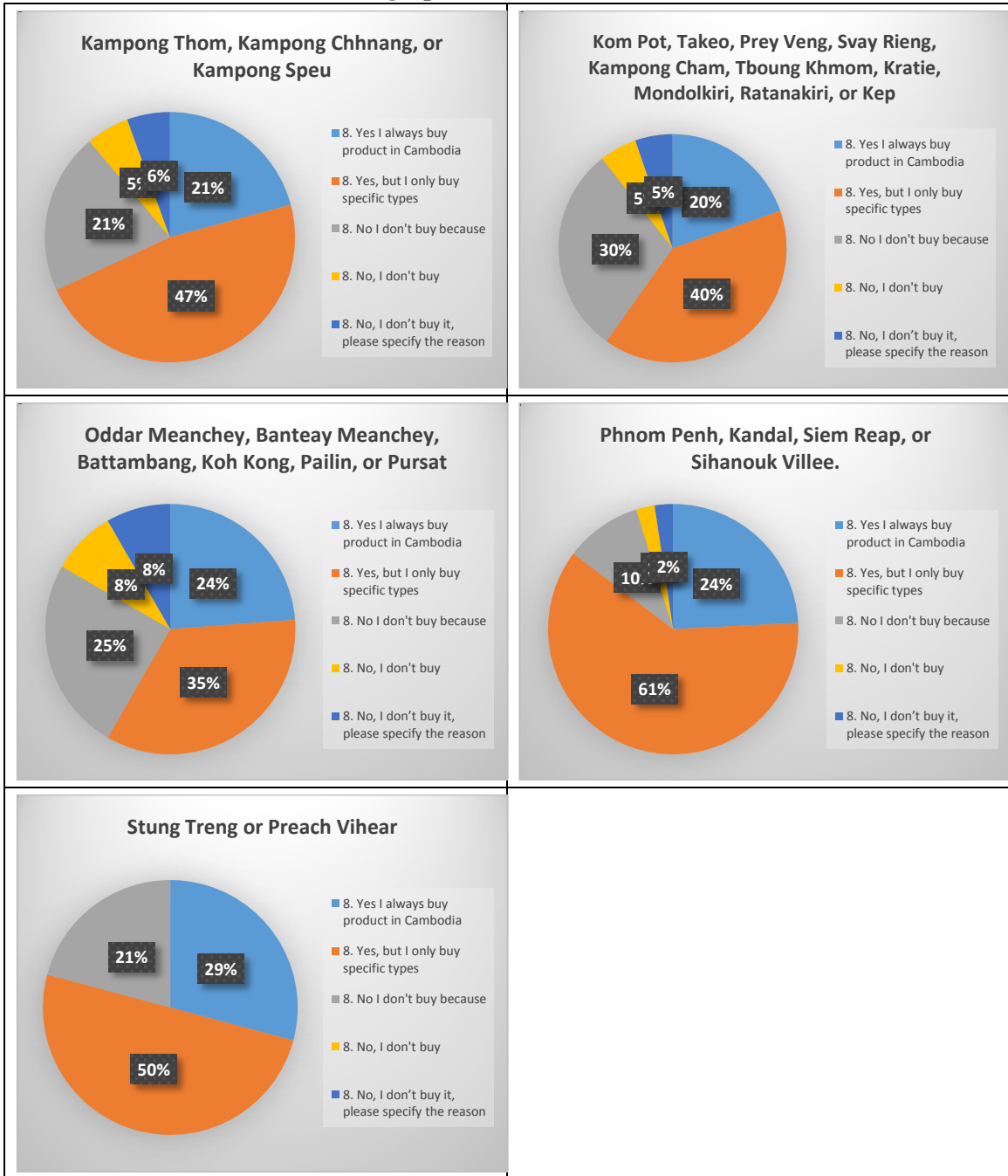
When asking about purchasing record of the domestic product of each domestic consumer, in overall their answer (52.2%) is purchasing only selected items of the domestic products. The comments are tracked from the respondents say that some buy domestic products because they feel they should support the local producers, especially farmers. There are also typical reasons that they believe some domestic products are good in term of quality. Therefore, this can explain why the majority domestic consumers (in question 6) say the product made in Cambodia is having good quality. The good quality they referred to may apply to some specific products that they choose to buy only.

The next question will ask specifically further about the comparison between foreign products and domestic products. It will give clearer support on the assumption that stated the good quality products in Cambodia are few while the price comparative advantage is also low

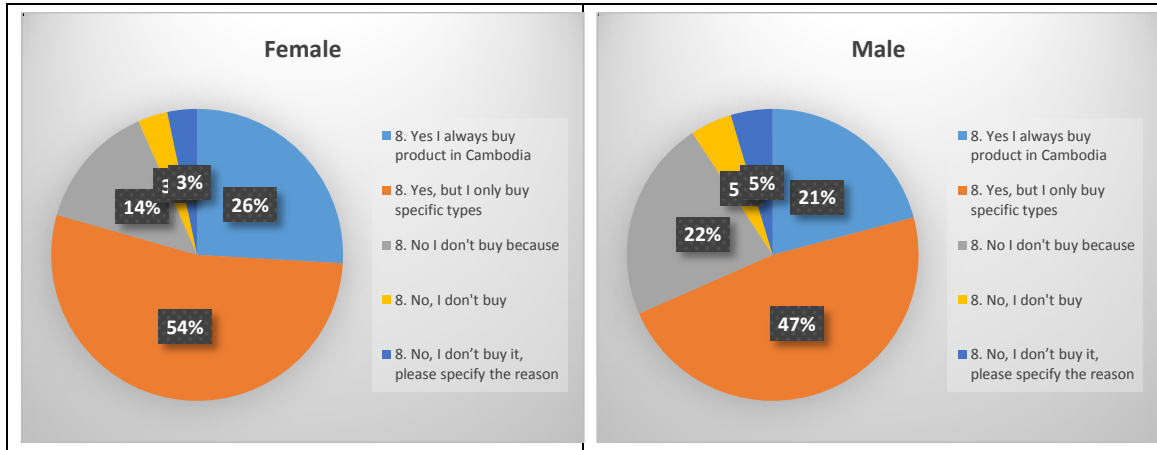
### *Summary Respondents' Report*



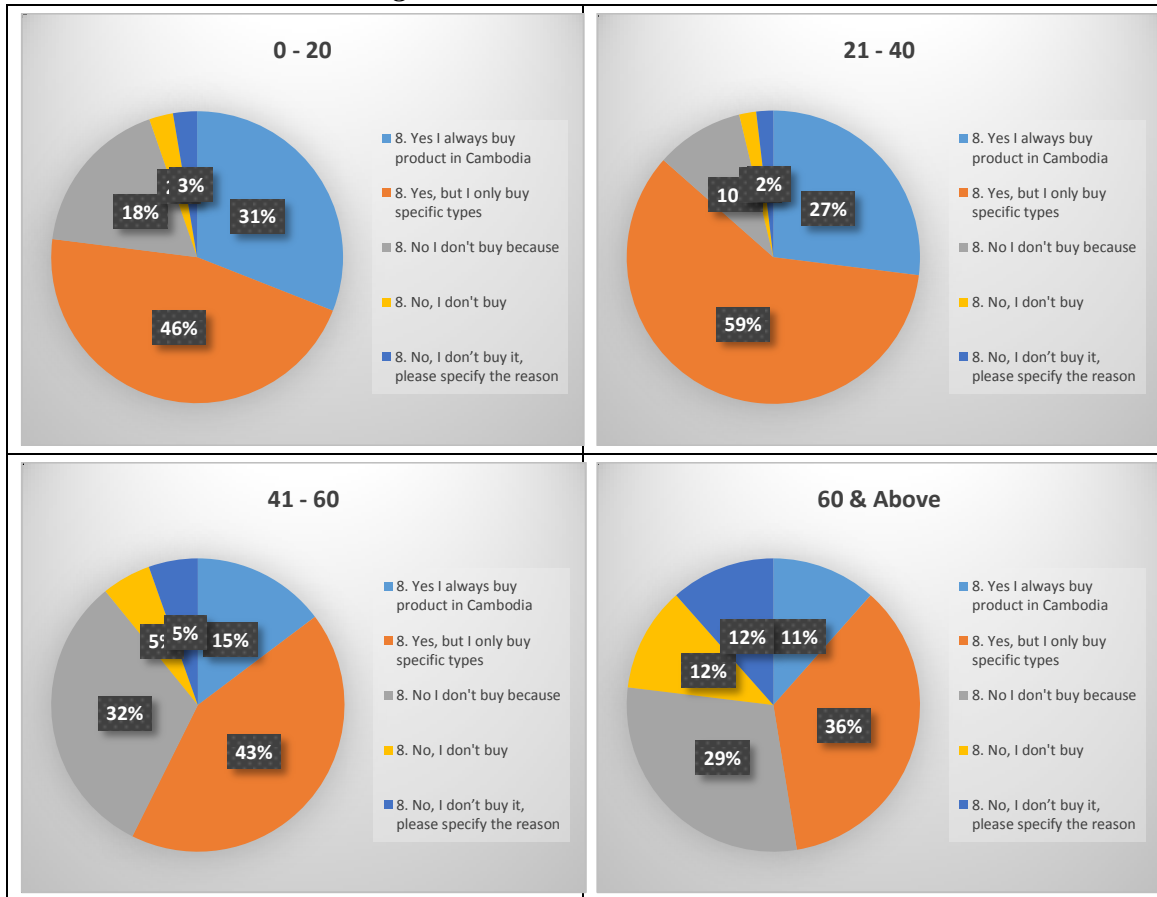
- **Main Indicator: Geographical Locations**



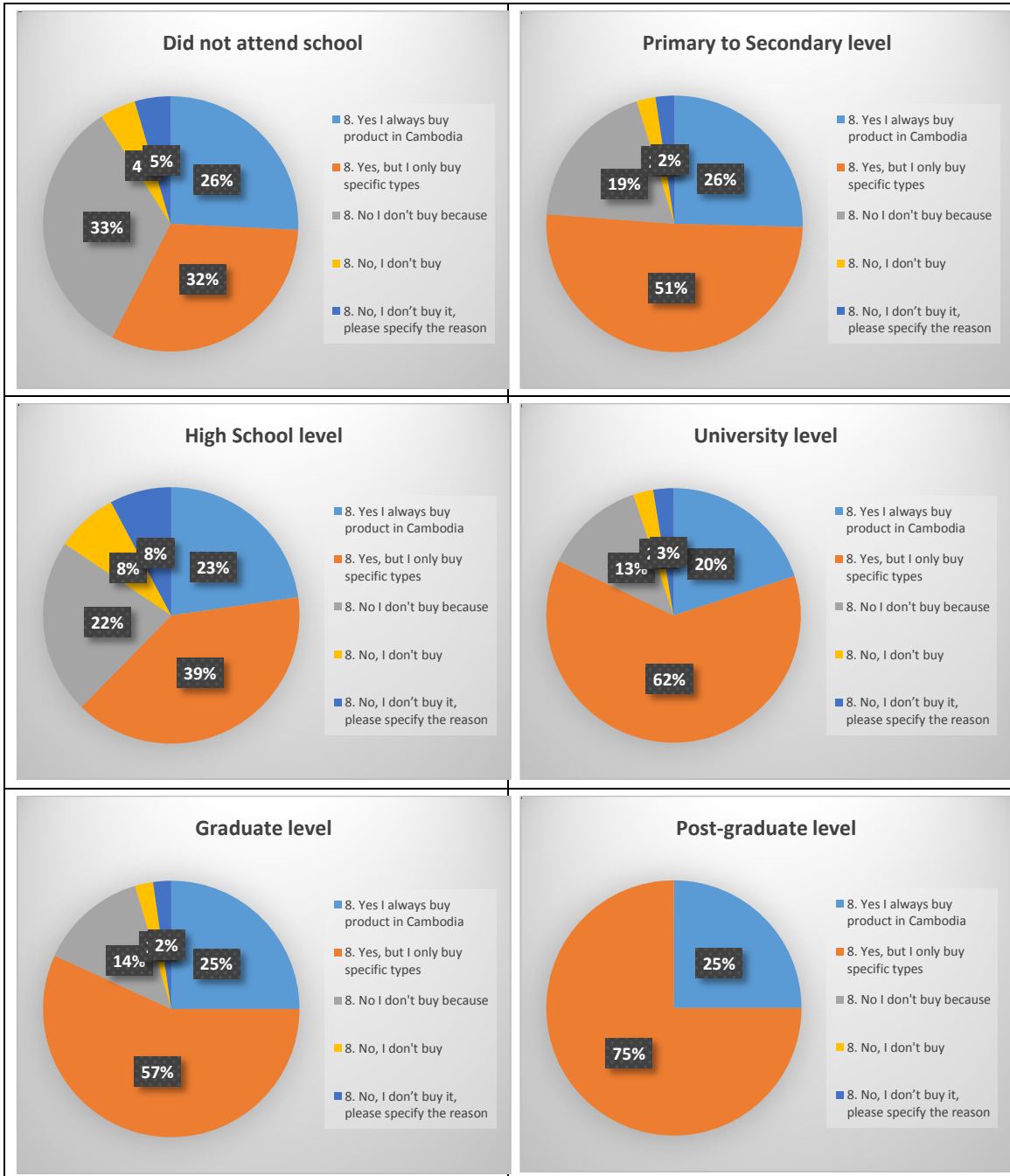
- **Sub-indicator: Gender**



- **Sub-indicator: Age**



- **Sub-indicator: Education**



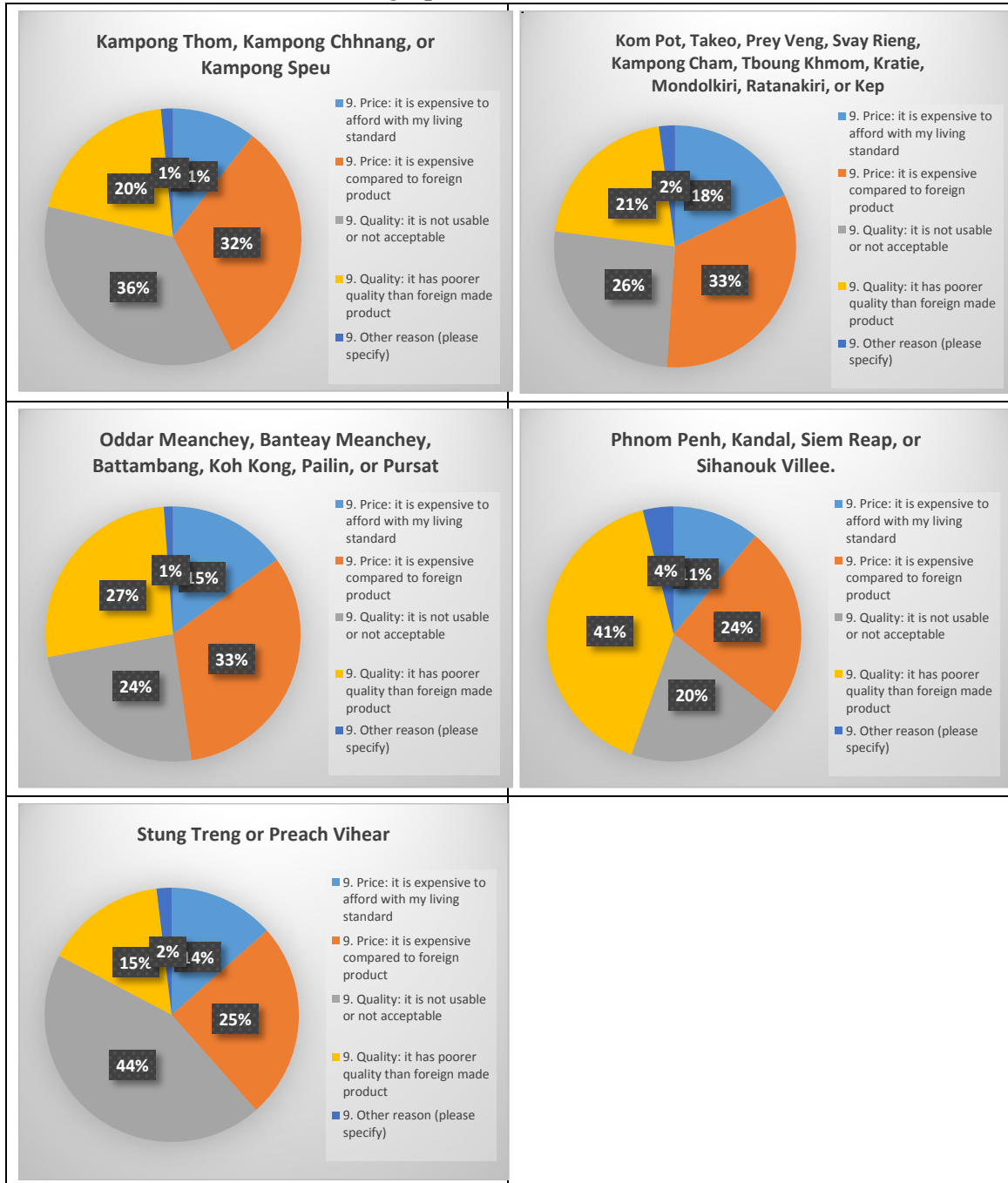
Question 9: Imagine that you need to buy a product, which has both Cambodian made and foreign, made. In the case you choose NOT to buy a needed Cambodian made product, what is the common reason? (You can choose more than one answer)

On the condition that if the domestic consumer choose not to the buy the domestic product, what make they conclude that decision? The answer from the respondents is that both quality (36.7%) and price (33.5%) of the domestic products are higher than the foreign products. Another significant percentage (30.2%) feels that the quality of domestic products is not usable or acceptable. The indicator groups that support this result are the rural area group (36%), the group whose border next to Lao (44%), the group whose age above 60 (35%), and the graduate level group (38%). This translates as domestic product is suffering from the bias perception from the domestic consumer. As what the paper has described, the domestic has been suffering from inferior perception and this survey result does support the idea. The chapter four explains further about this translation.

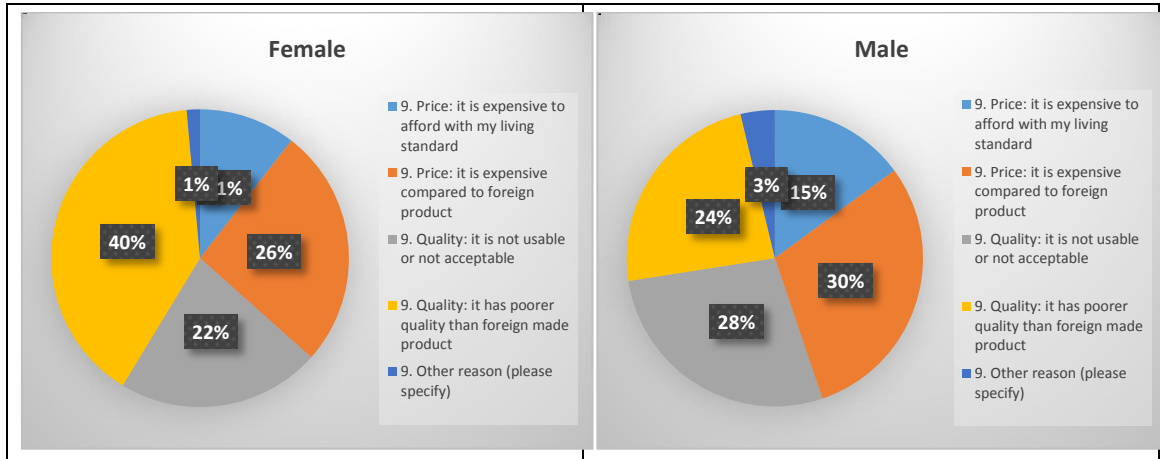
***Summary Respondents' Report***



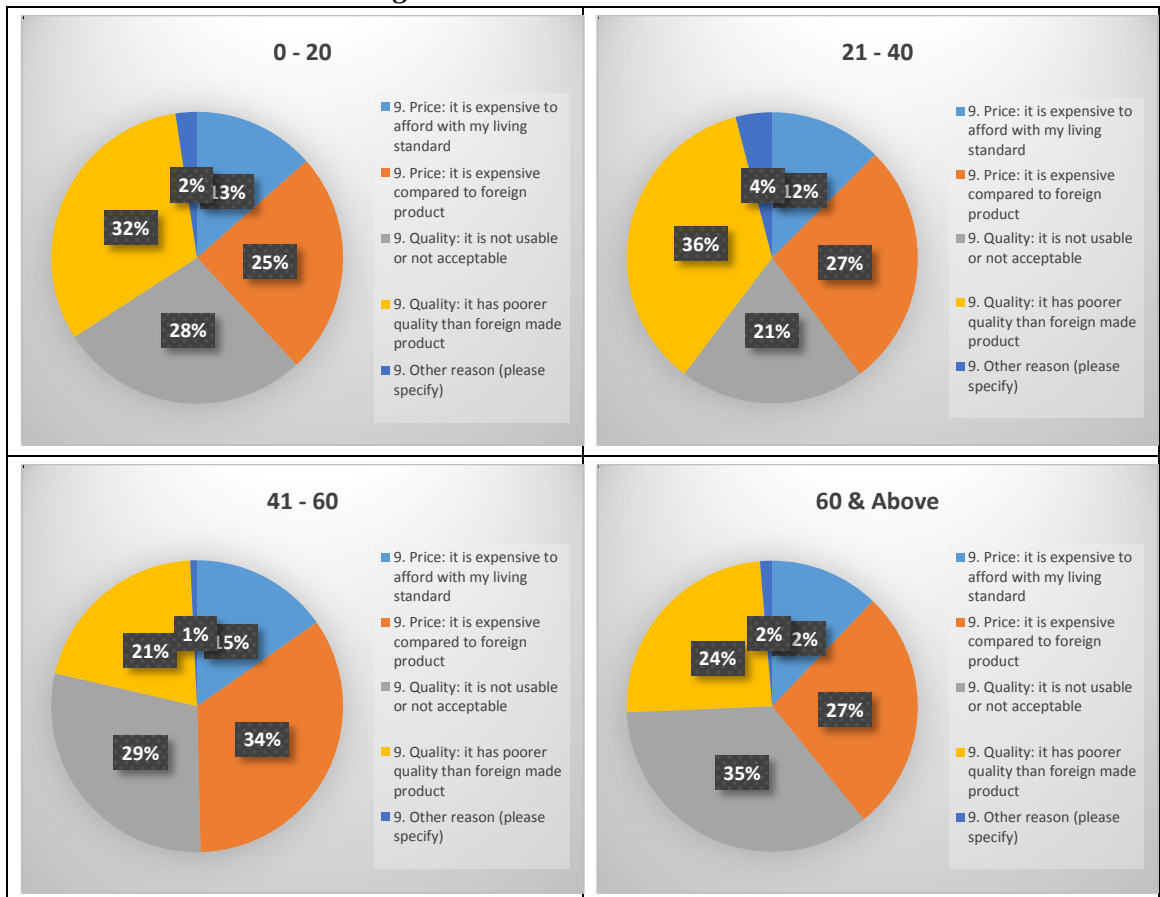
- **Main Indicator: Geographical Locations**



- **Sub-indicator: Gender**

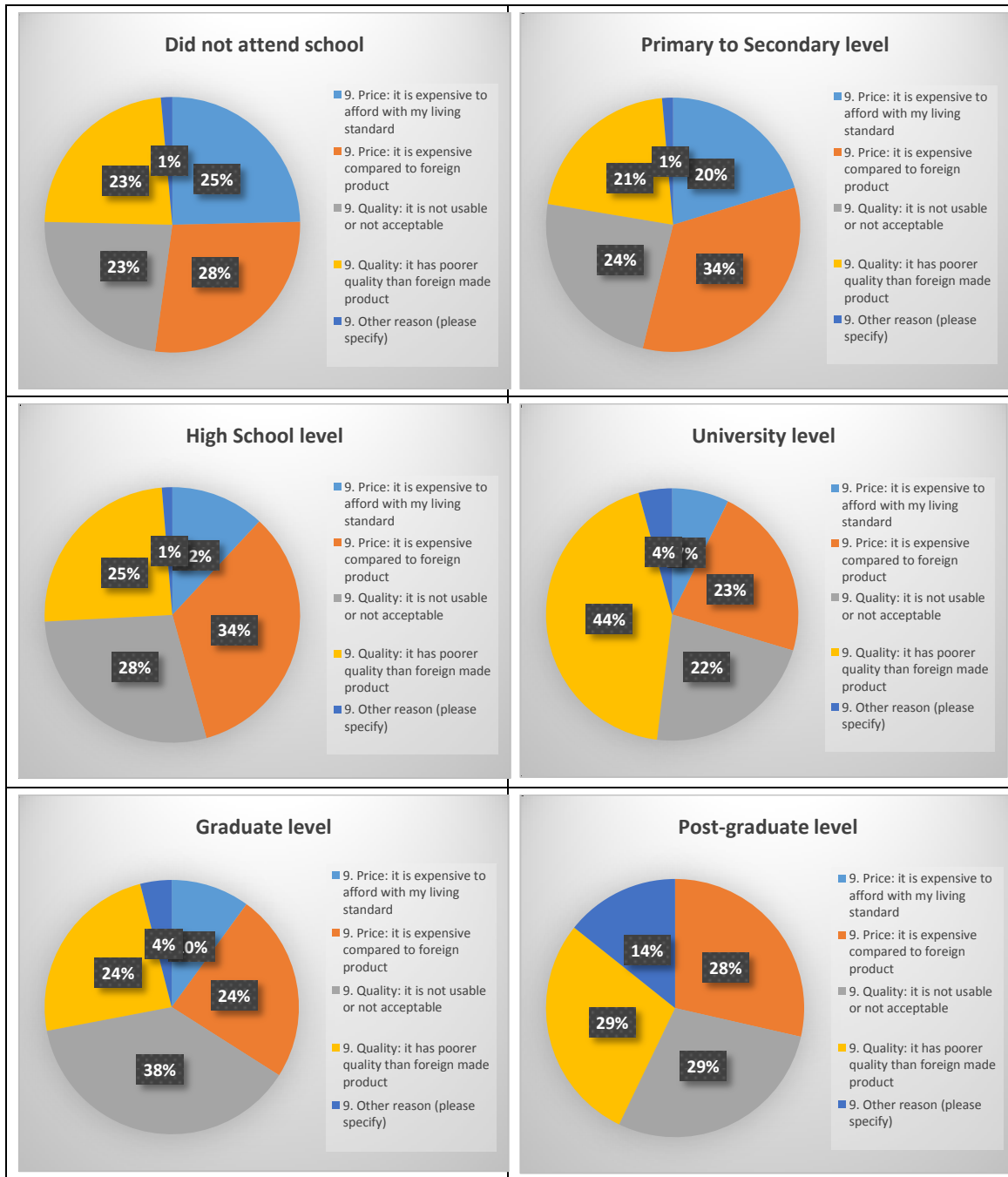


- **Sub-indicator: Age**





- **Sub-indicator: Education**



Question 10: If you choose quality and/or price in question 9, will you choose to buy the product that made in Cambodia if these two factors are improved?

Following the question 9, this question asks about the quality and the price of the product. In the case that consumers don't buy the domestic product because of the quality and the price, they will change buy it or not if either one or both of these two

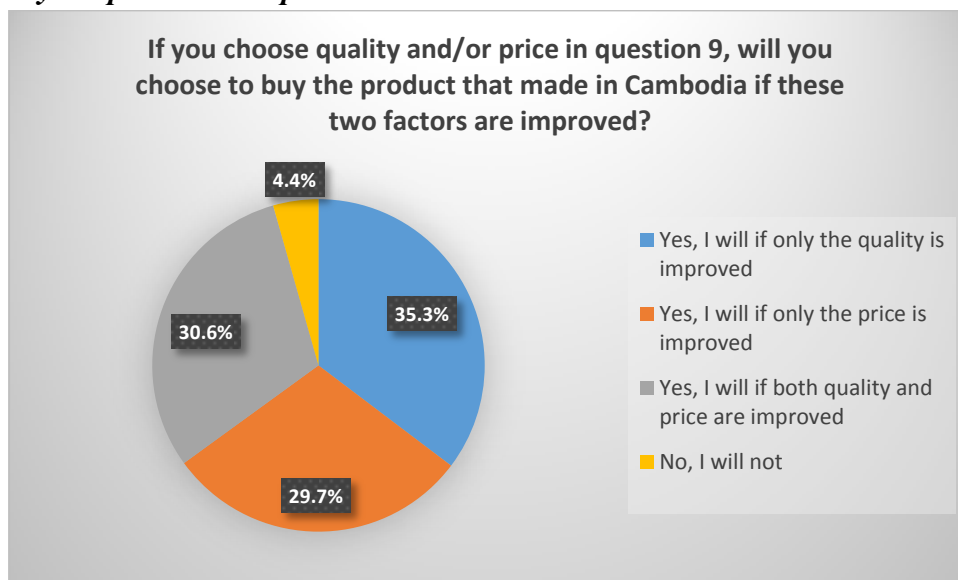
criteria is improved. The result turns out that only if the quality of the product is improved, they will choose to buy it (35.3% of the total respondents). The outcome seems consistent if we look at the main indicator – geographical location. The city group answers that they only care much about the quality. Since the average income of the city group is higher than the other groups, it is reasonable to explain this result. On the other hand, the other three groups in the same main indicator say they care about the price about the product.

Sub-indicator age shows an interesting result of decision making on purchasing the product made in Cambodia. The group from age 0 to 20 and from 21 – 40 answer the same that only if the quality is improved that they would buy the product made in Cambodia. Contrariwise, the two groups whose age between 41-60 and above 60 responses that they consider purchasing based on price. If the price of domestic product improves, they would choose to buy the product.

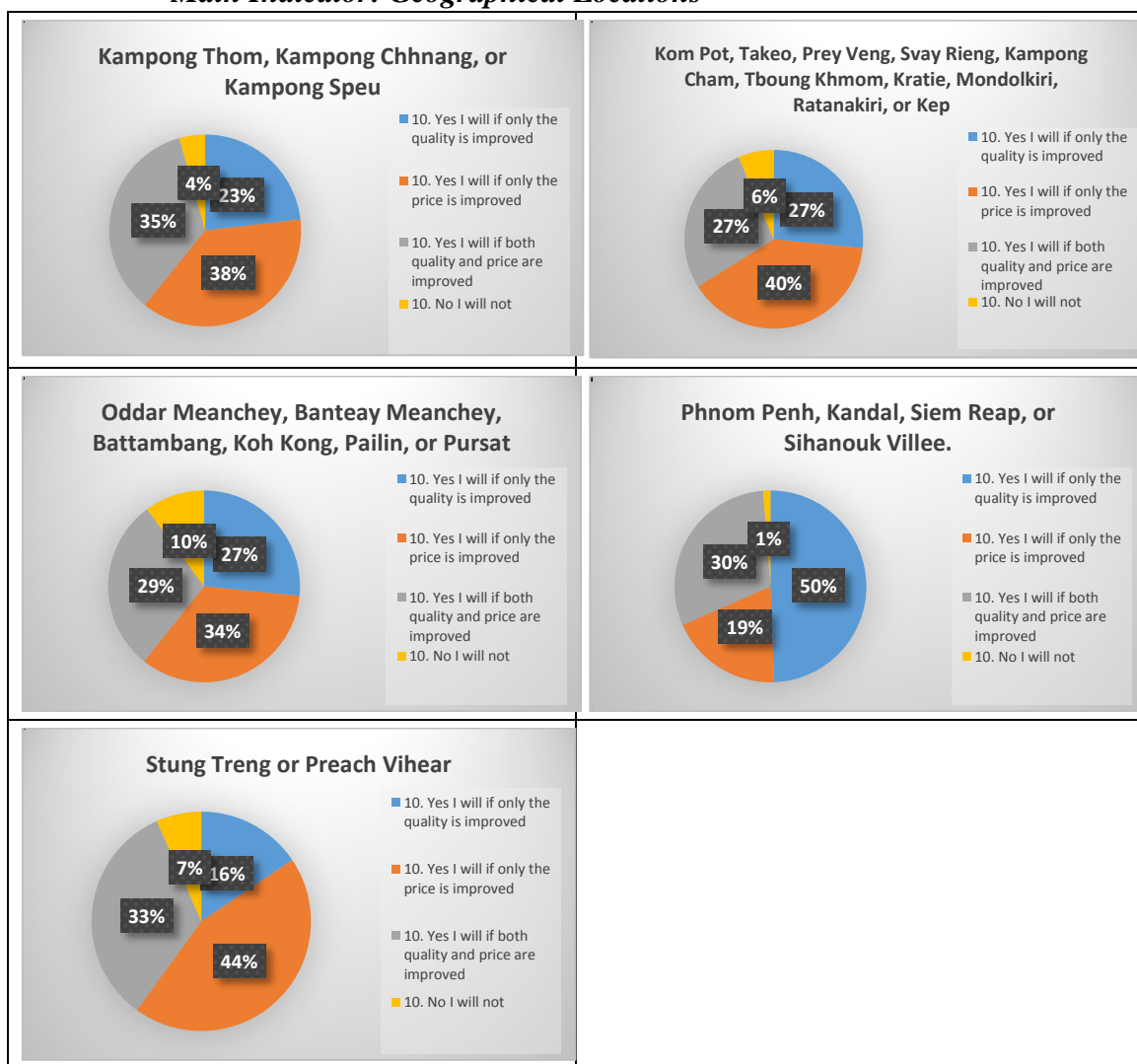
Another sub-indicator shows the different results with the different groups. Group did not attend school, receive high school education, and almost same for primary education level give the same idea that majority of them consider the purchasing only with the price improvement. This may due to the reason that most of them receive lower income or under the guardian. Hence, their purchasing attention is mostly on the price of the product rather than the quality.

The outcome of this result helps diverse the policy recommendation in a way that the domestic producers can follow the consumers' need. According to the survey result, government is recommended to ease the way for domestic producers to improve the quality of the product while the cost of the production can reduce at the later when the production line is advancing.

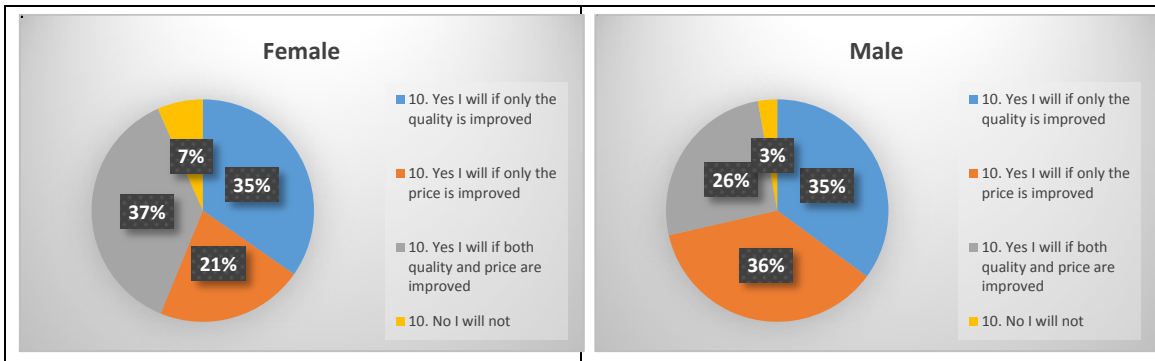
## Summary Respondents' Report



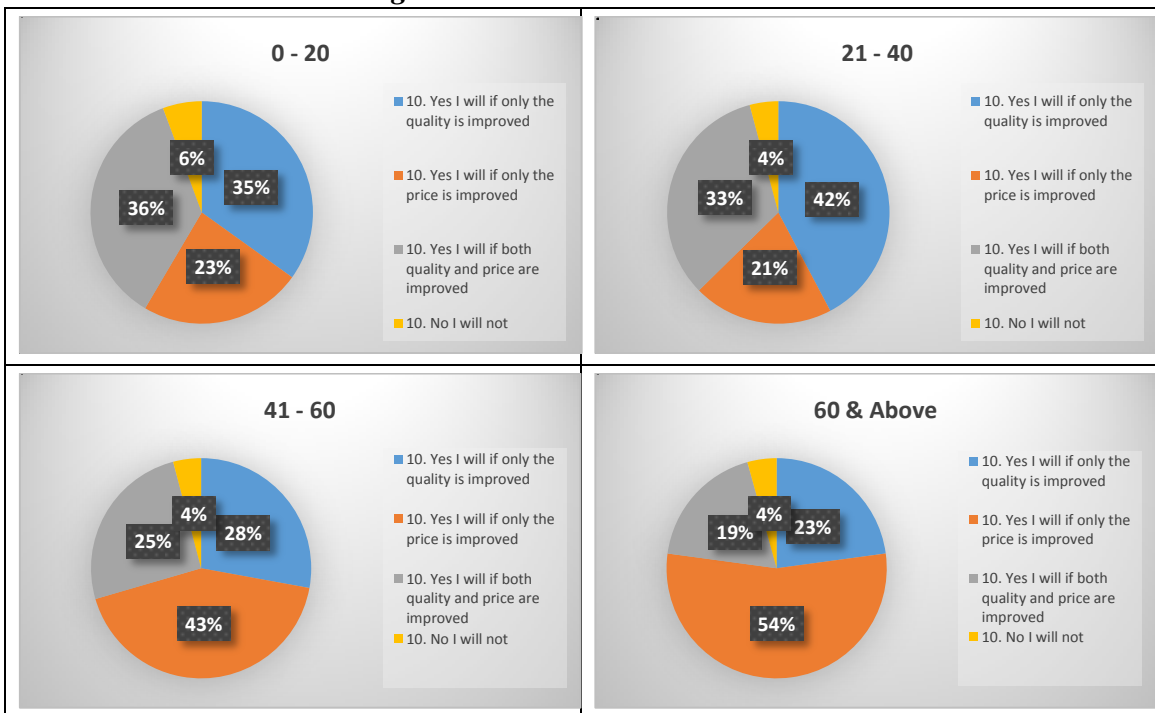
### - Main Indicator: Geographical Locations



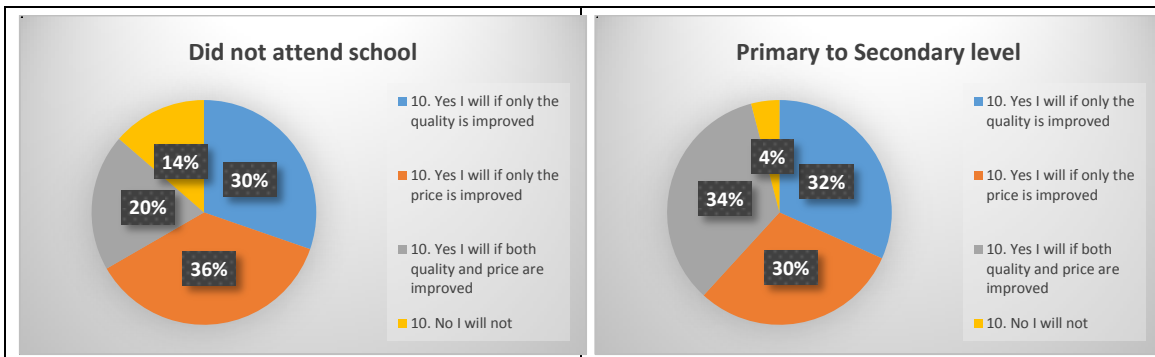
- **Sub-indicator: Gender**

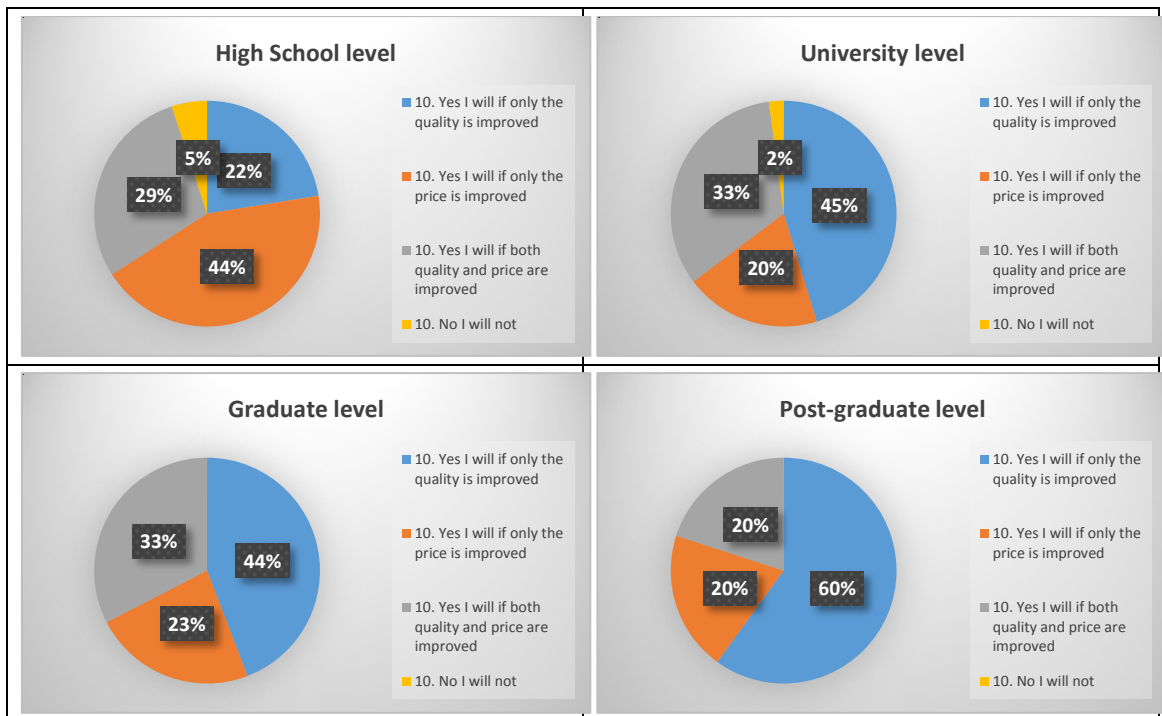


- **Sub-indicator: Age**



- **Sub-indicator: Education**



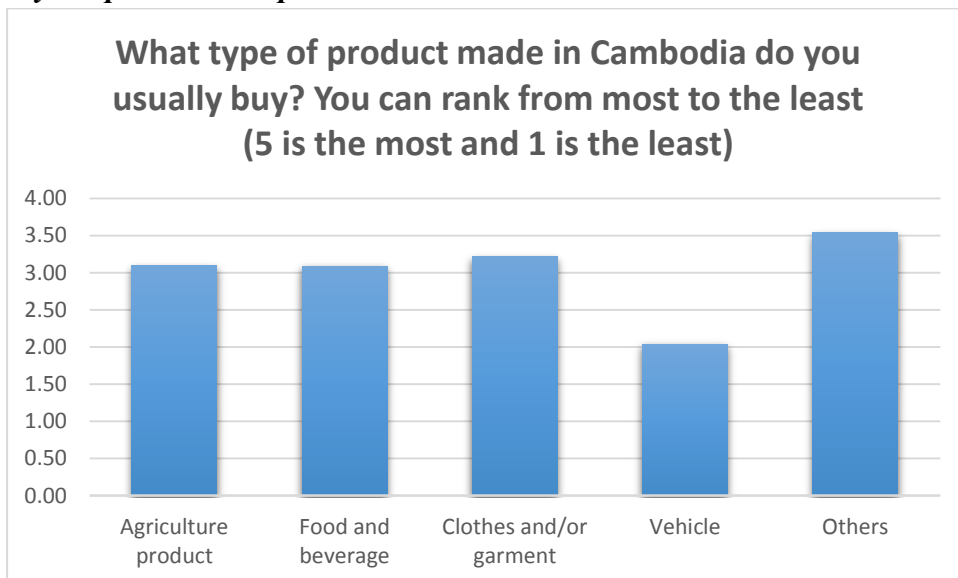


Question 11: What type of product made in Cambodia do you usually buy? You can rank from most to the least (5 is the most and 1 is the least)

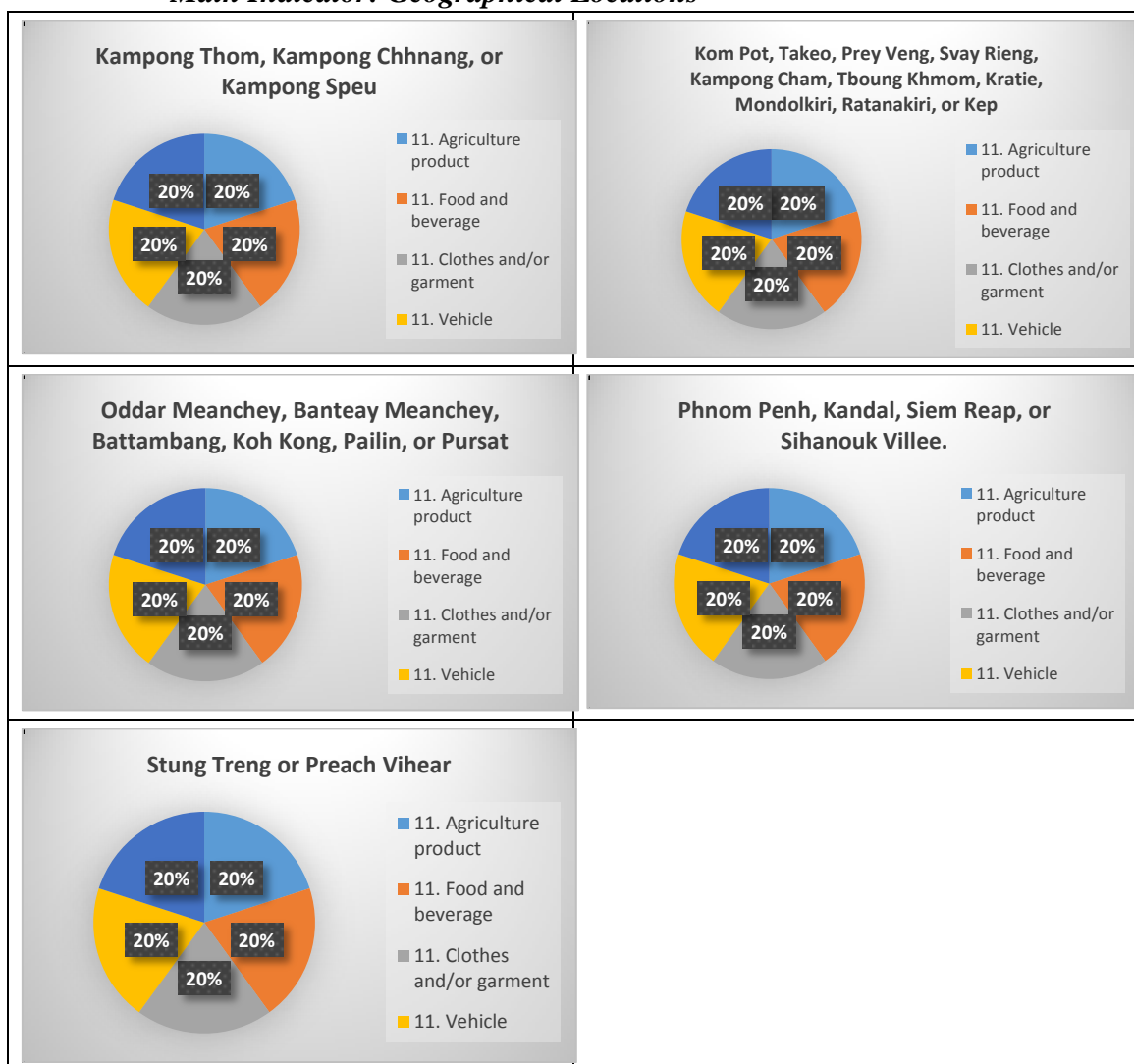
The question asks about the typical product Cambodia consumers usually buy. For the summary report result, in spite of the other category, the most purchasing products are clothes/garment, the agriculture product, and food and beverage. This is because most of the productions in the country go to this sector. Another reason is due to the fact that it is typical consumer goods and the basic needs.

Main indicator and sub-indicator result of this question cannot be tracked since the tracking responses show the significant errors of the result. This may due to the inaccurate question design.

**Summary Respondents' Report**



**- Main Indicator: Geographical Locations**



**\*\*\*Indicators' result has gone errors.**

Question 12: How often do you see the product made in Cambodia?

The significant of this question is to seek the availability of the Cambodian product. Also, there is a need to check the attention of the domestic consumers on the domestic product. Survey response summary shows that majority of domestic consumers the domestic product every time they go to the market (40.1%). The change in result appears once we check the result in the main indicator – geographical location. The groups who are next to the border of Thailand and Vietnam respond they see the domestic product once every 10 times they go to the market. The reason of this inconsistency may due to the overloaded availability of the foreign product to the market that the demand of the domestic products is low. This remarkable result matches with the research assumption that the foreign product has influenced the domestic product (hypothesis 4).

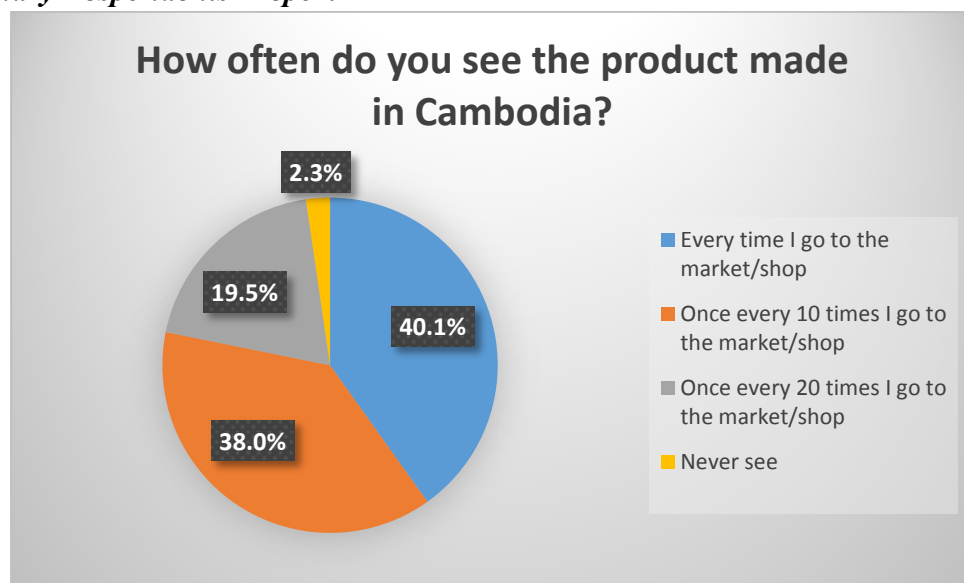
For the sub-indicator of the gender, the male group shows divert result from the female group and the whole survey response. The male group says they see domestic product once every 10 times they go to the market. What is important with this result is that the favorable consumption of the male group differs from the female group. Unlike male group, females group usually consumes the basic needs product such as clothes, agriculture products, and food and beverage while these products are among the most available product in Cambodia. The typical market that male group tends to enjoy is unlike the female type. Therefore, they may less likely see the domestic product.

The next indicator is the age indicator. Among the four groups of age indicator, the groups whose age between 41 – 60 and above 60 year-old, say the frequency they see domestic product is once every 10 times they go to the market. Two helpful explanations may be able to underline this result. First, their consumption type is

different from the other two groups. As demonstrated in the gender group, the justified reason might be the product they consumed are not largely available. Also, since different consumption may result in different destination of the markets, the two groups may not see the domestic product in some places.

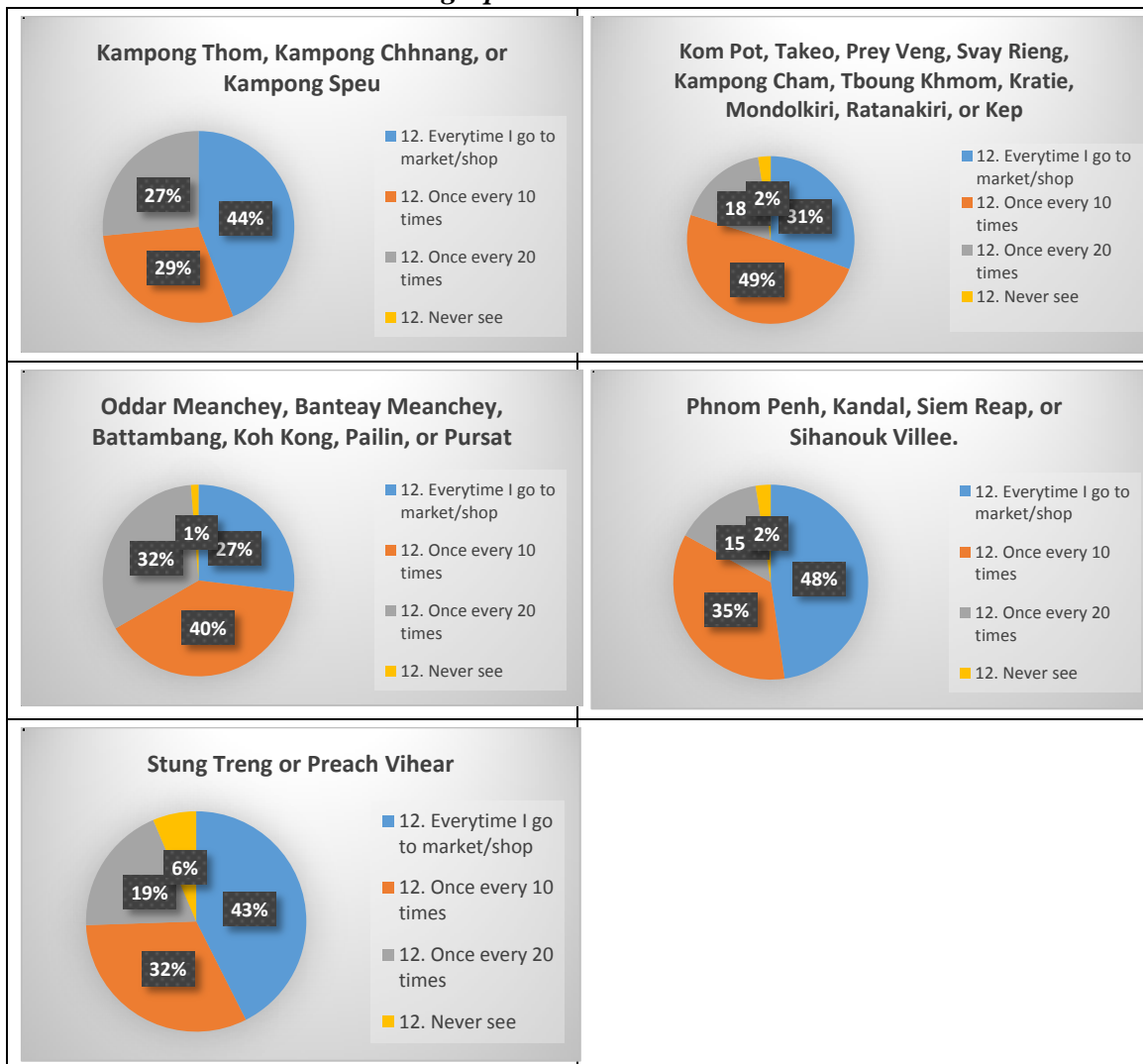
In education indicator, the significant majority share of the responses goes to the graduate group. 48% of this group says they see the domestic product once every 10 times. There is no justifying reason for the level of education to their answer. The reasons can be vast and related to many factors. One of the possible reasons might attach to how the graduate group identifies the domestic product and other may confuse the domestic product with the foreign product. Hence, the graduate group correctly sees the rare availability of the domestic products in the market.

### ***Summary Respondents' Report***

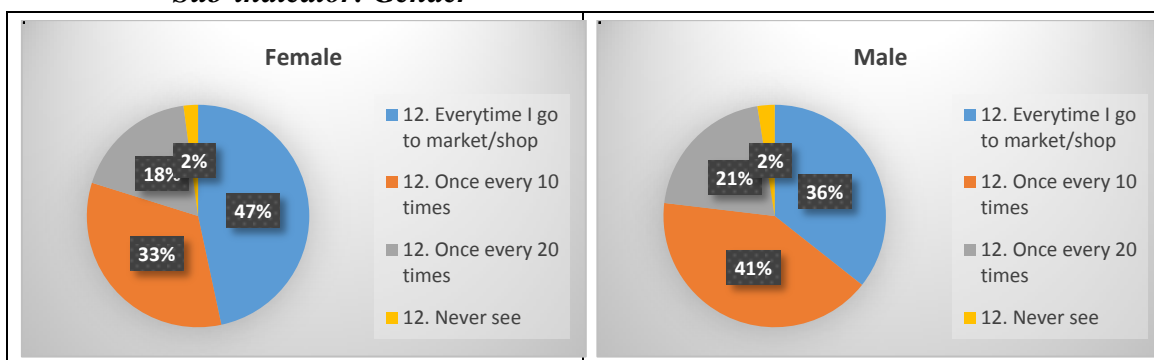




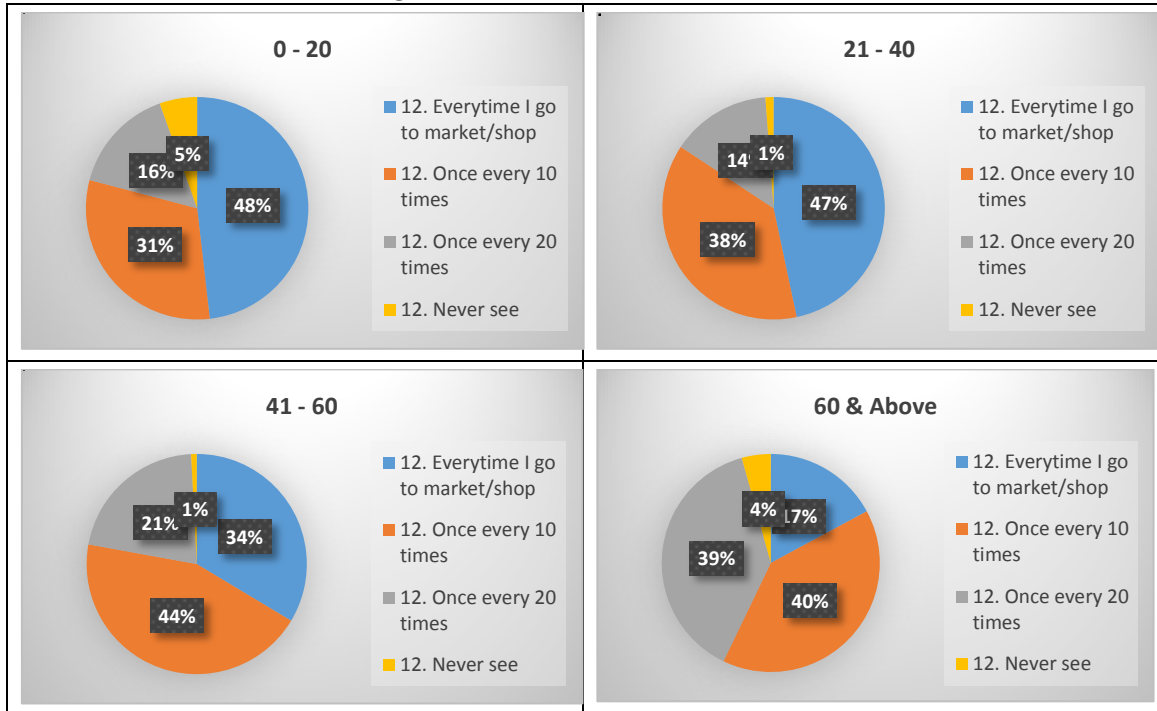
- **Main Indicator: Geographical Locations**



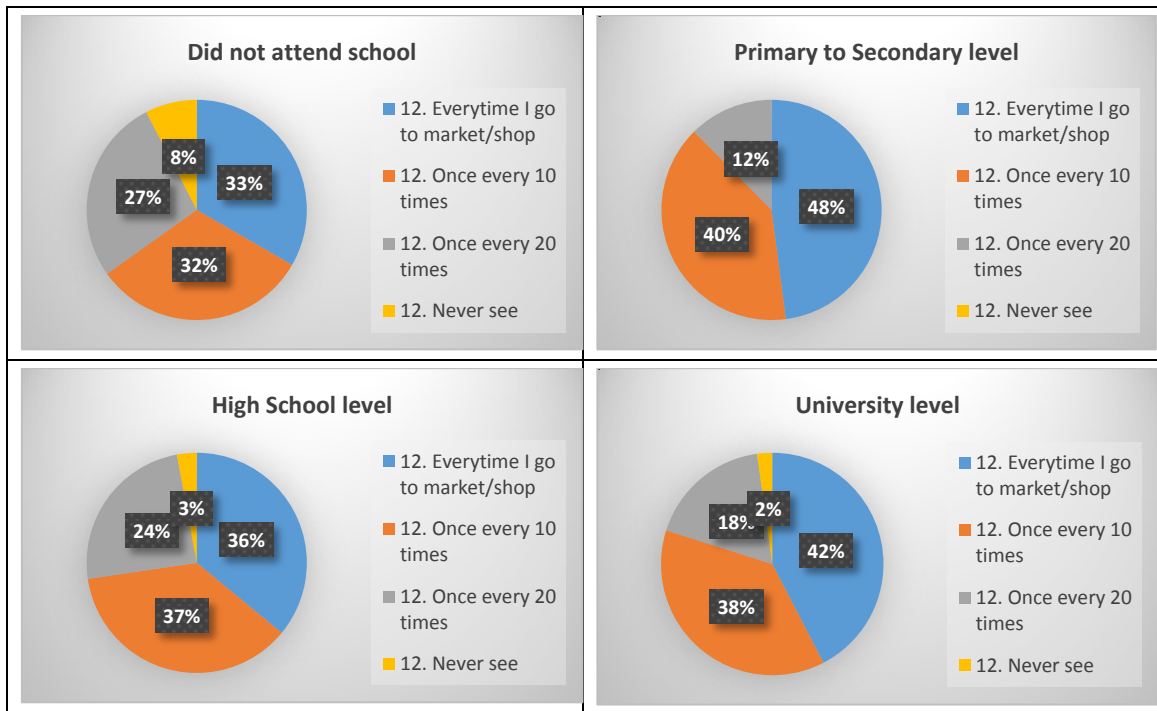
- **Sub-indicator: Gender**

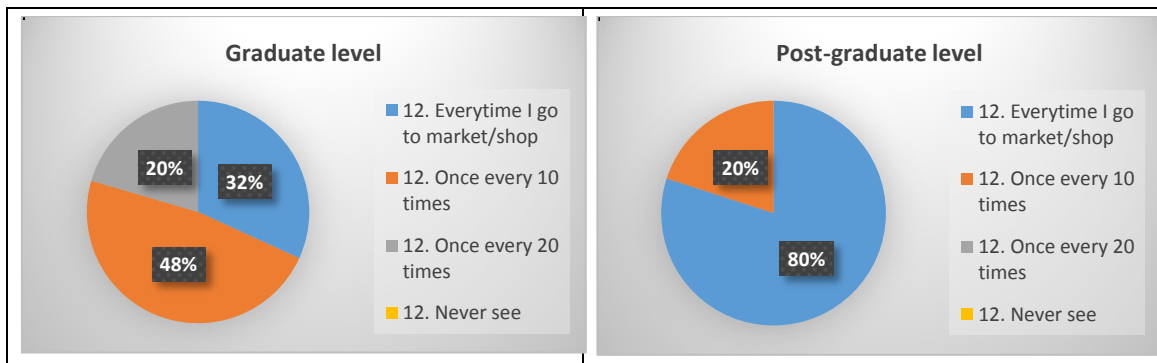


- **Sub-indicator: Age**



- **Sub-indicator: Education**

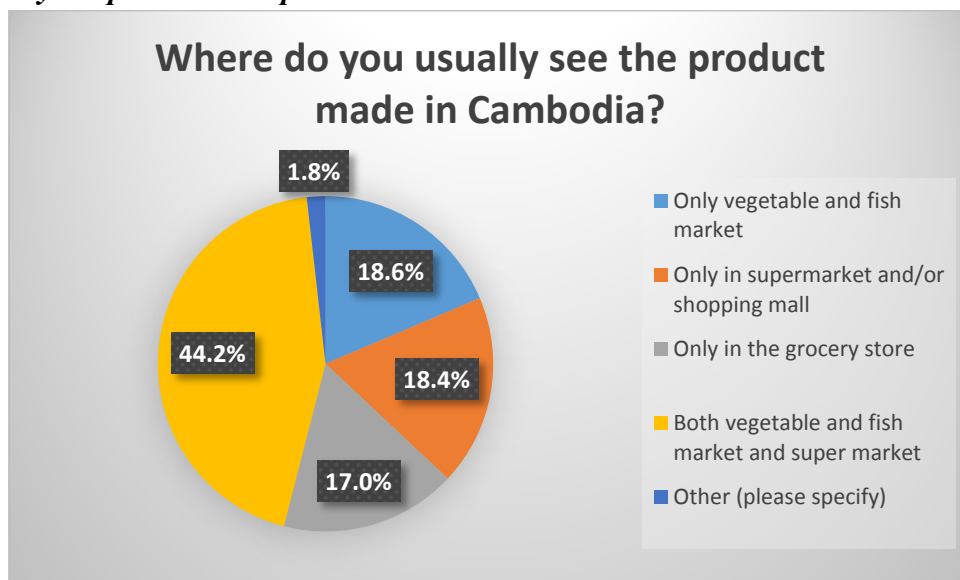




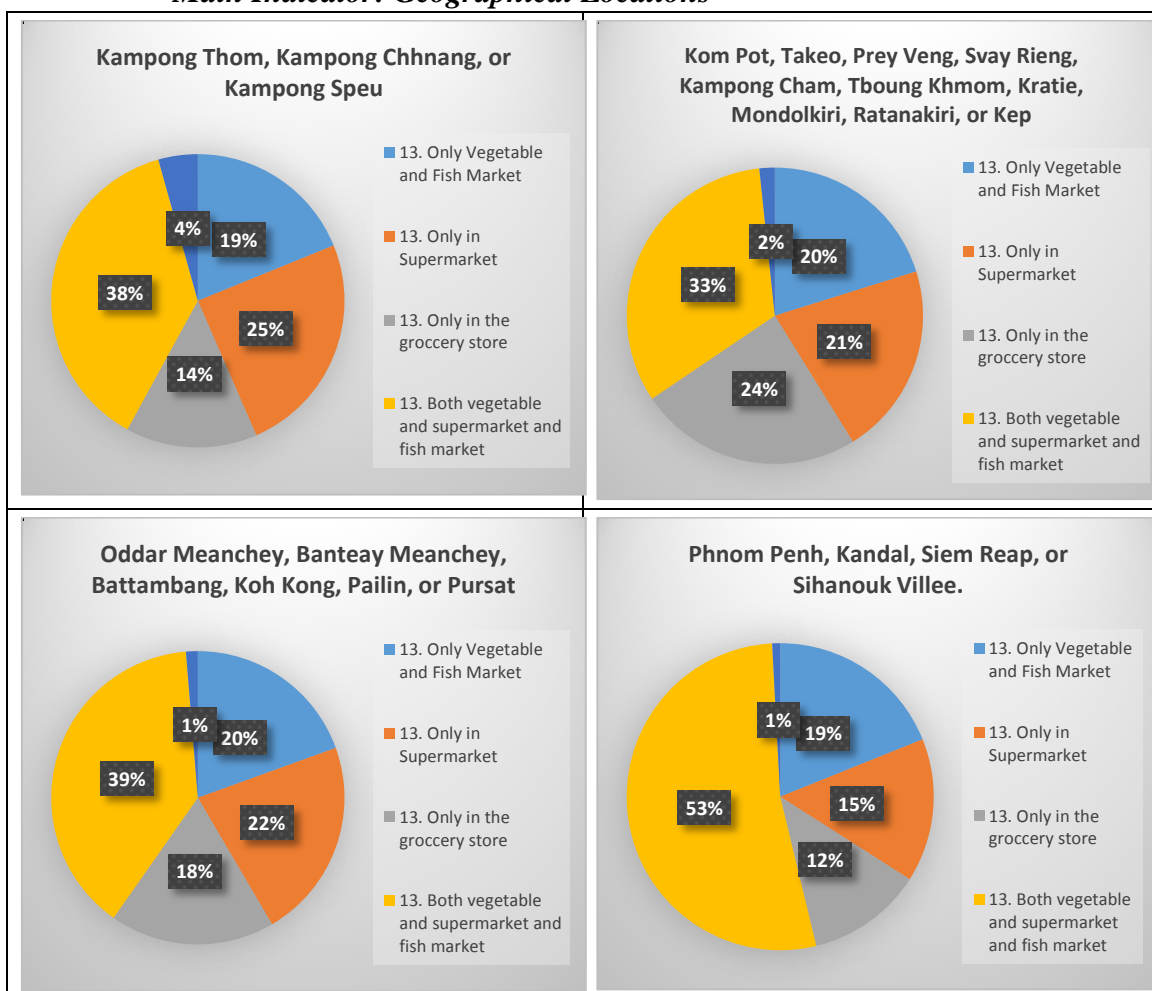
Question 13: Where do you usually see the product made in Cambodia?

The 13<sup>th</sup> question is designed to check the popular market that the domestic products have been in. The survey respondent responses to the 13<sup>th</sup> question that they usually see in both the vegetable market and super market. This shows insignificant differentiation between the types of markets that the products made in Cambodia are available. However, the significant sub-indicator in the age indicator appears to have some differentiation. The group of age above 60 year-old says they only see the domestic product in the supermarket (31% of the total respondents). The perception might base likely on how they differentiate the domestic product with the foreign product. The elder may think in the vegetable market there are vast foreign products and not knowing which the domestic products are. Nevertheless, in the supermarket, the domestic products have been labeled so it is easily to identify. Another possible reason is they measure the seeing as availability. This group may think the domestic product in the vegetable market is less than the supermarket. Thus, they consider its as domestic product is only largely available in the supermarket.

**Summary Respondents' Report**

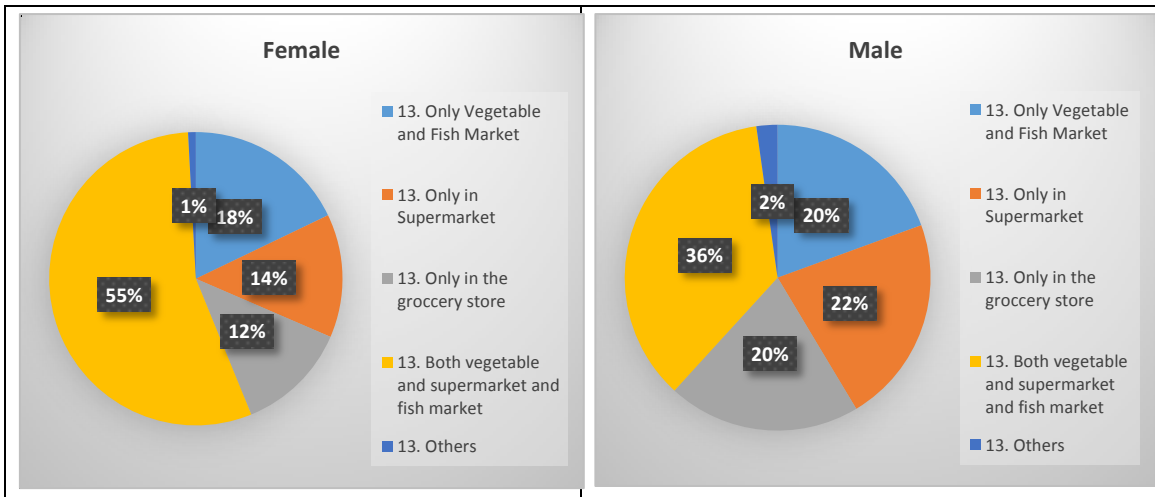


**- Main Indicator: Geographical Locations**

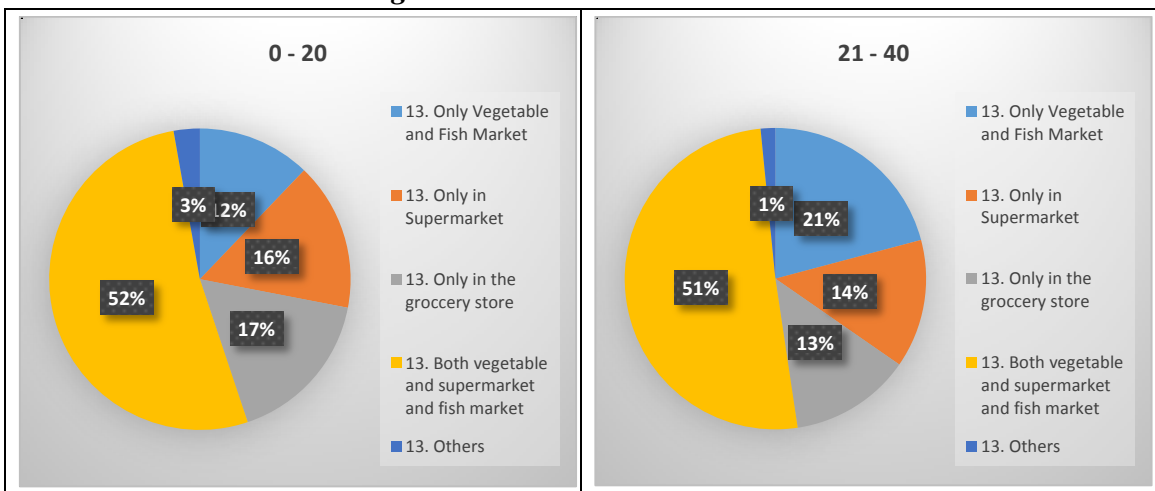


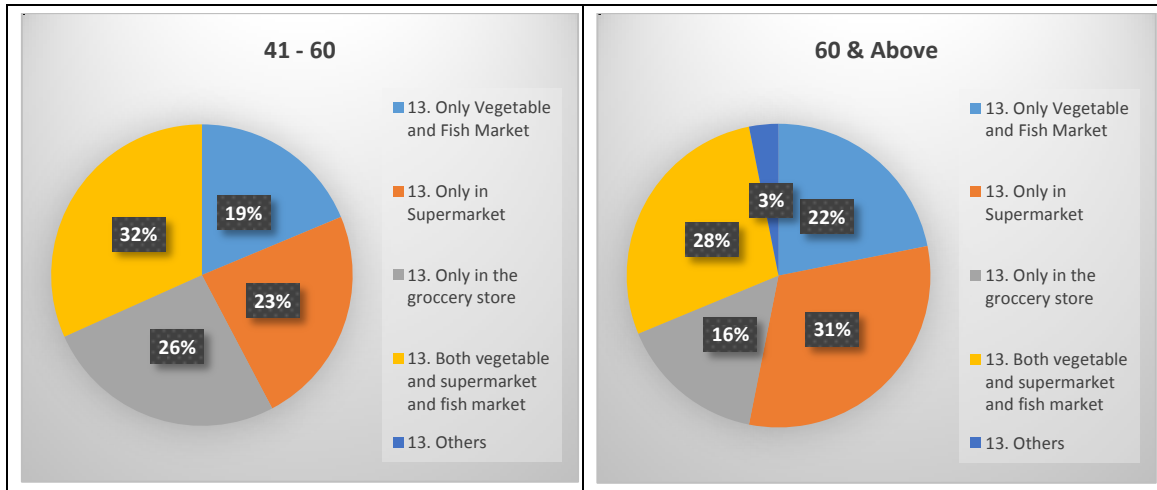


- **Sub-indicator: Gender**

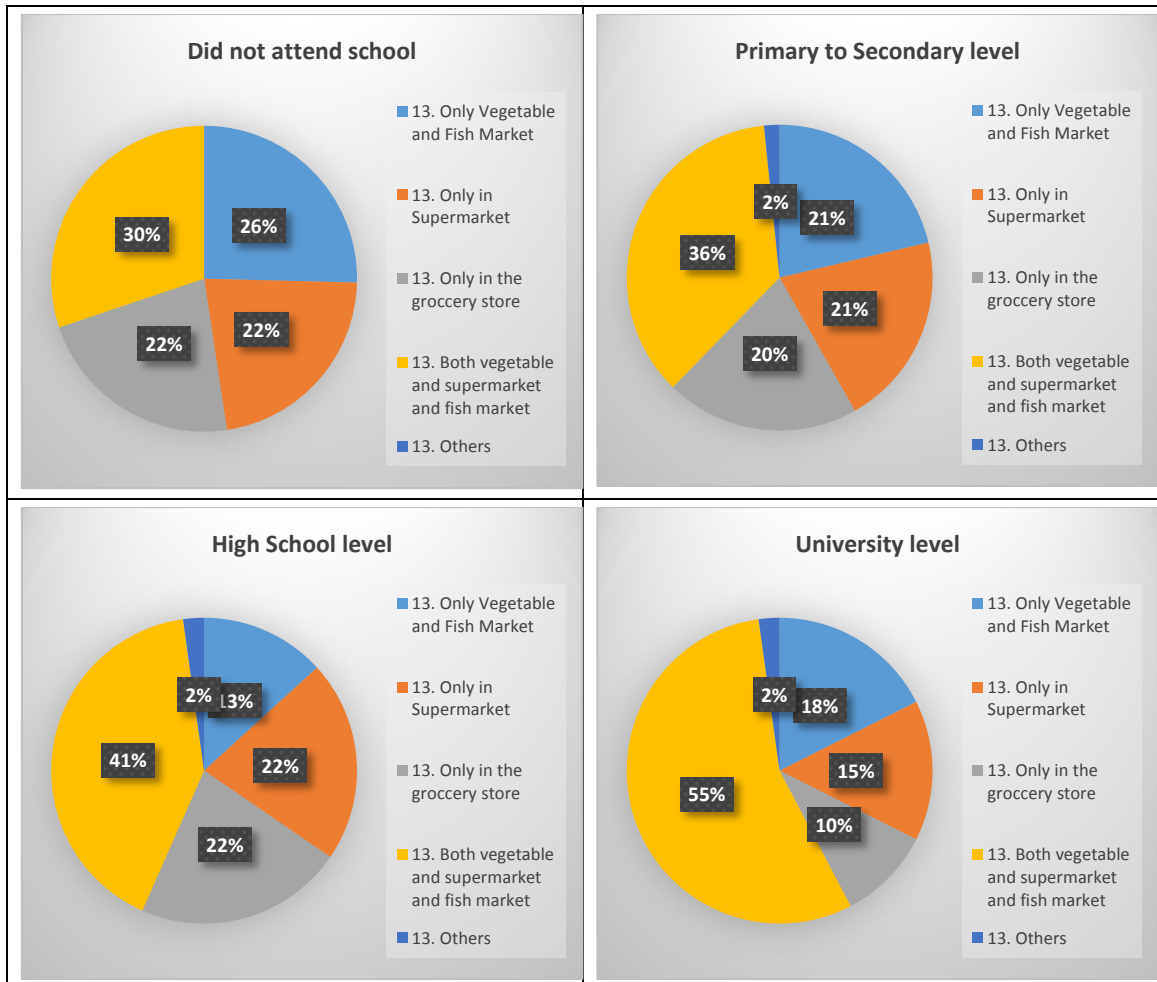


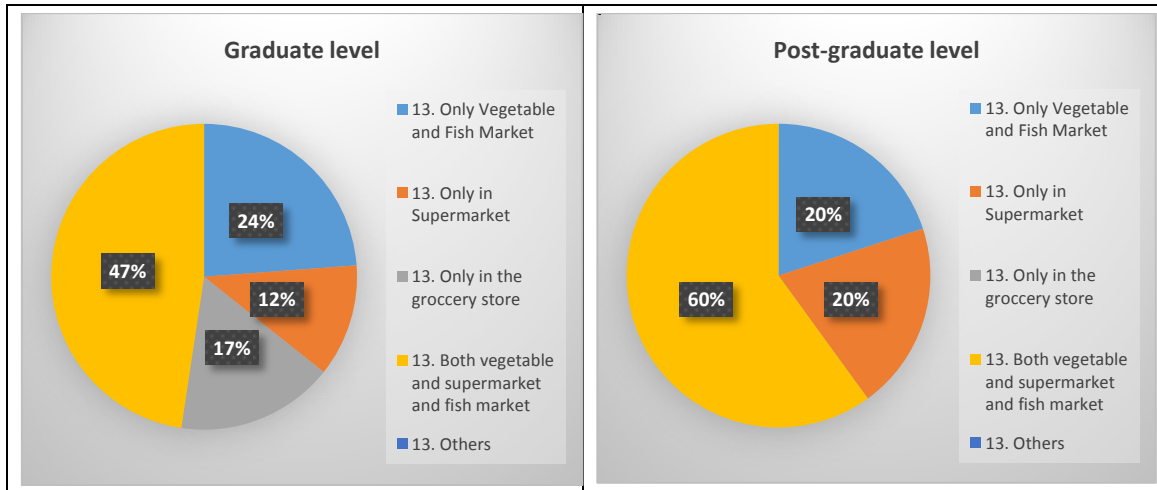
- **Sub-indicator: Age**





- **Sub-indicator: Education**

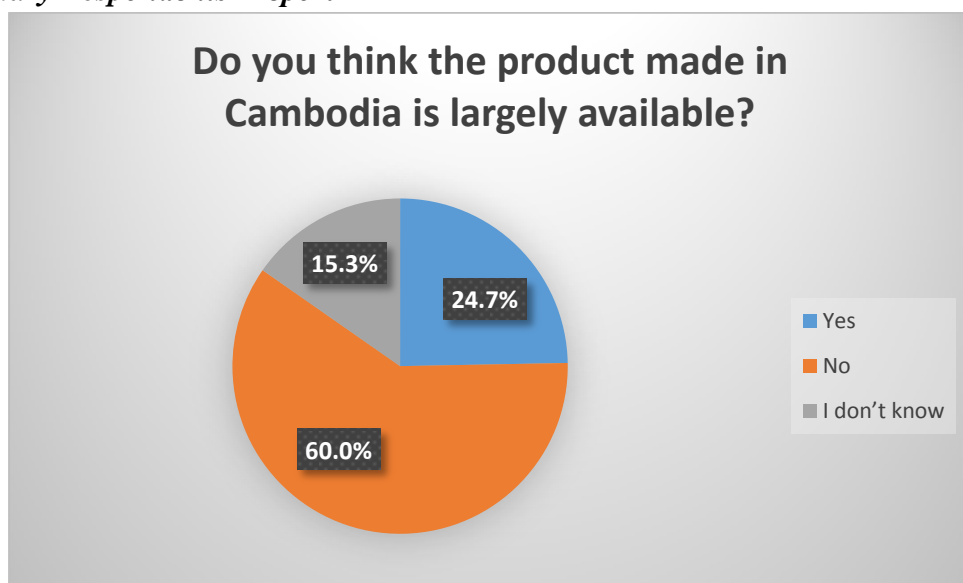




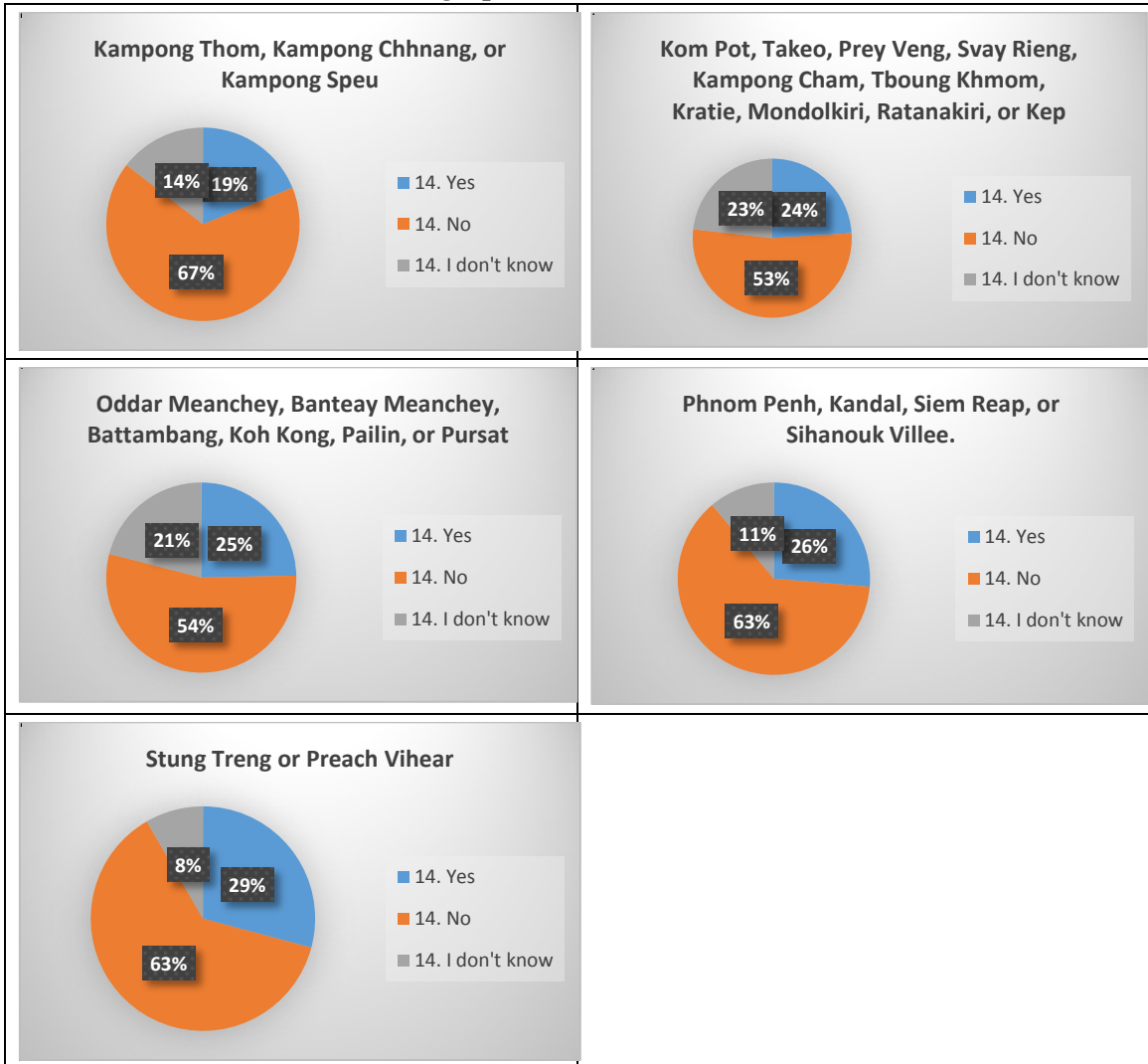
Question 14: Do you think the product made in Cambodia is largely available?

The question 14 is designed to check the availability of the domestic product in overall regardless of specific places. At the rate of 60% of the total respondents, the impressive comment is it is not largely available at all. Anyway, there is no significant different with other indicators regarding the matter. Hence, the statement of this thesis that states the domestic product is still in small proportion is evidenced and supported from also the consumers' point of view.

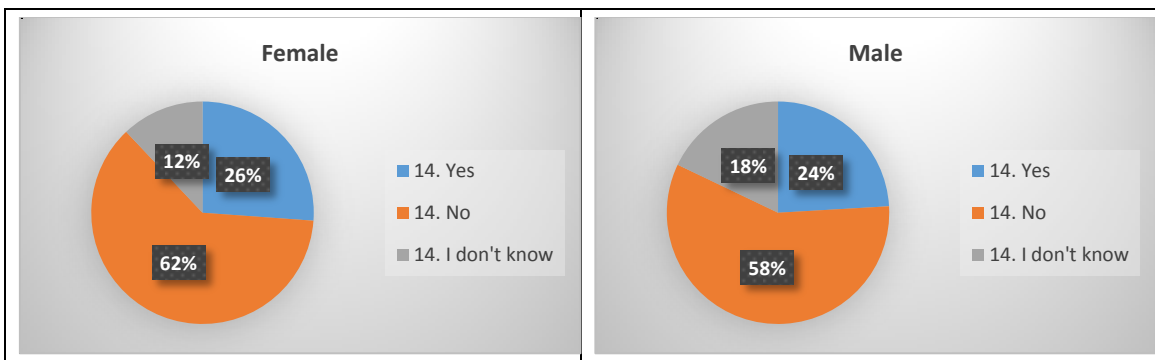
**Summary Respondents' Report**



- **Main Indicator: Geographical Locations**

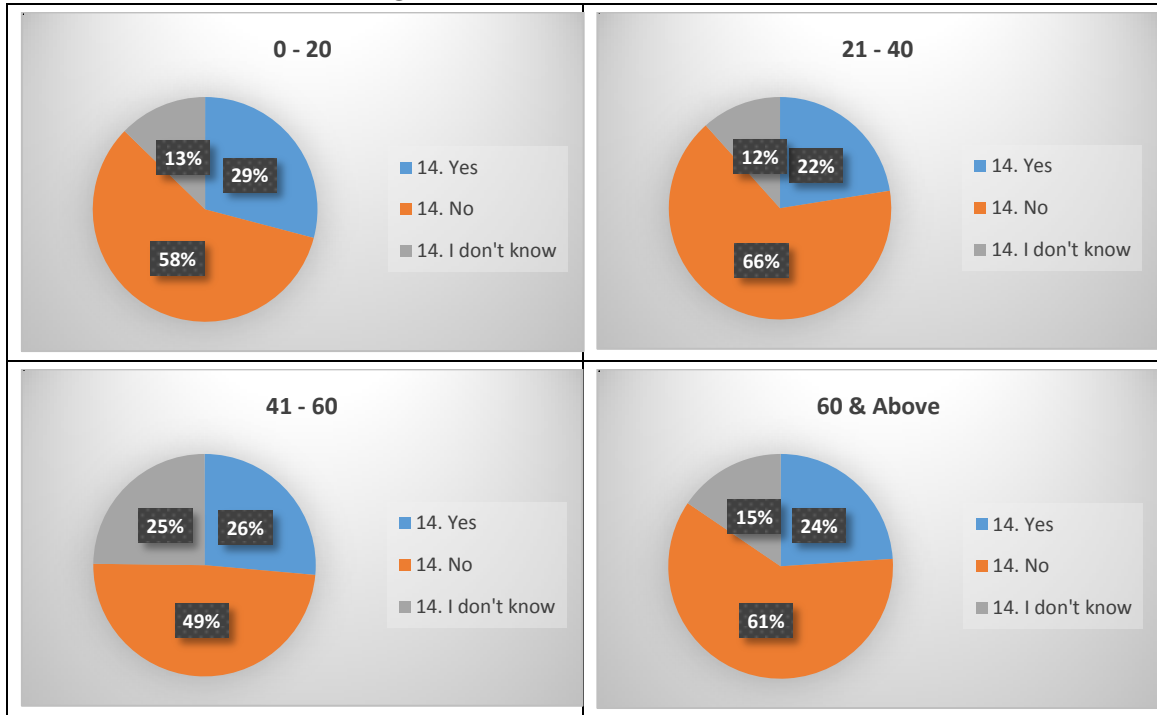


- **Sub-indicator: Gender**

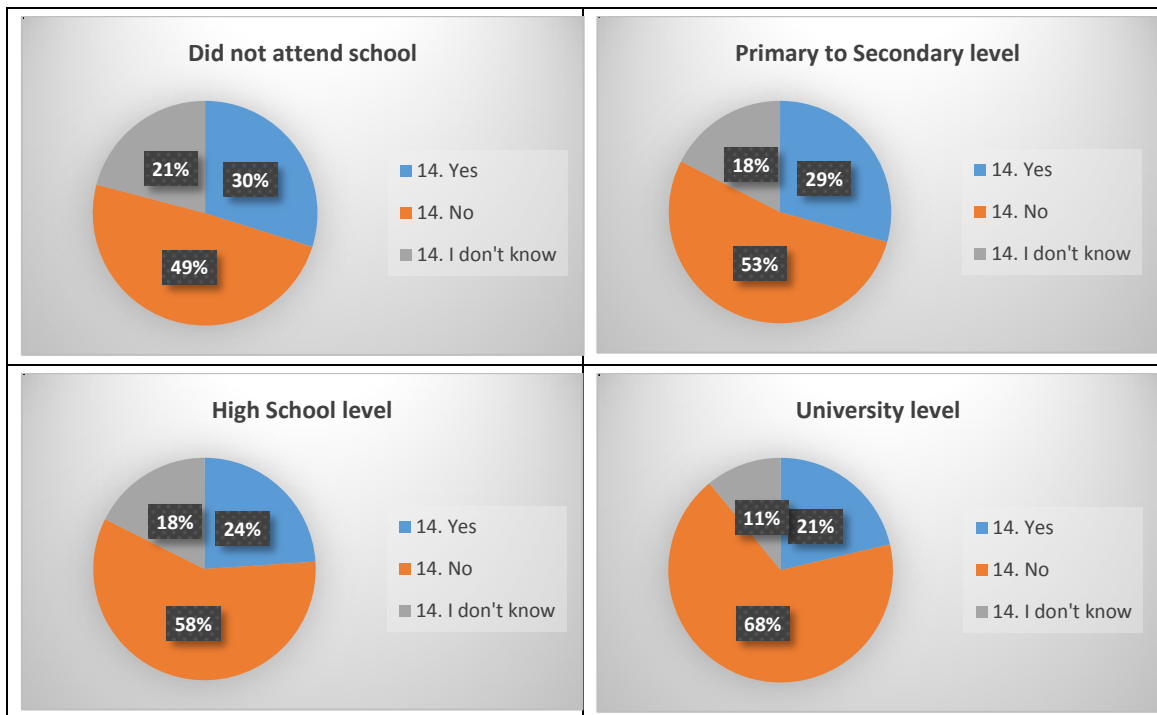


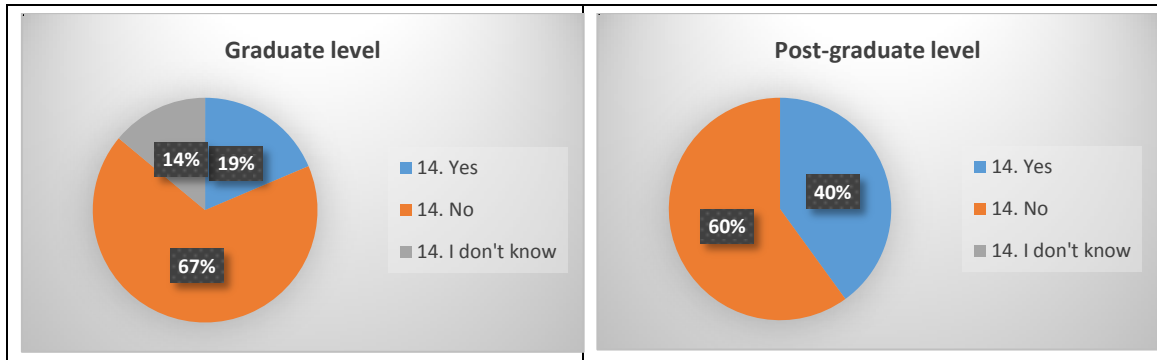


- **Sub-indicator: Age**



- **Sub-indicator: Education**



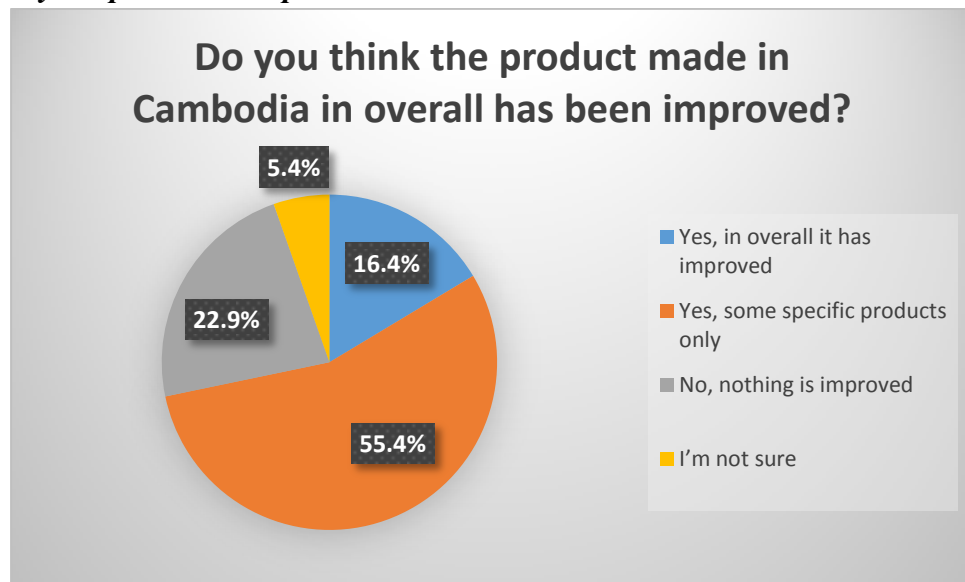


Question 15: Do you think the product made in Cambodia in overall has been improved?

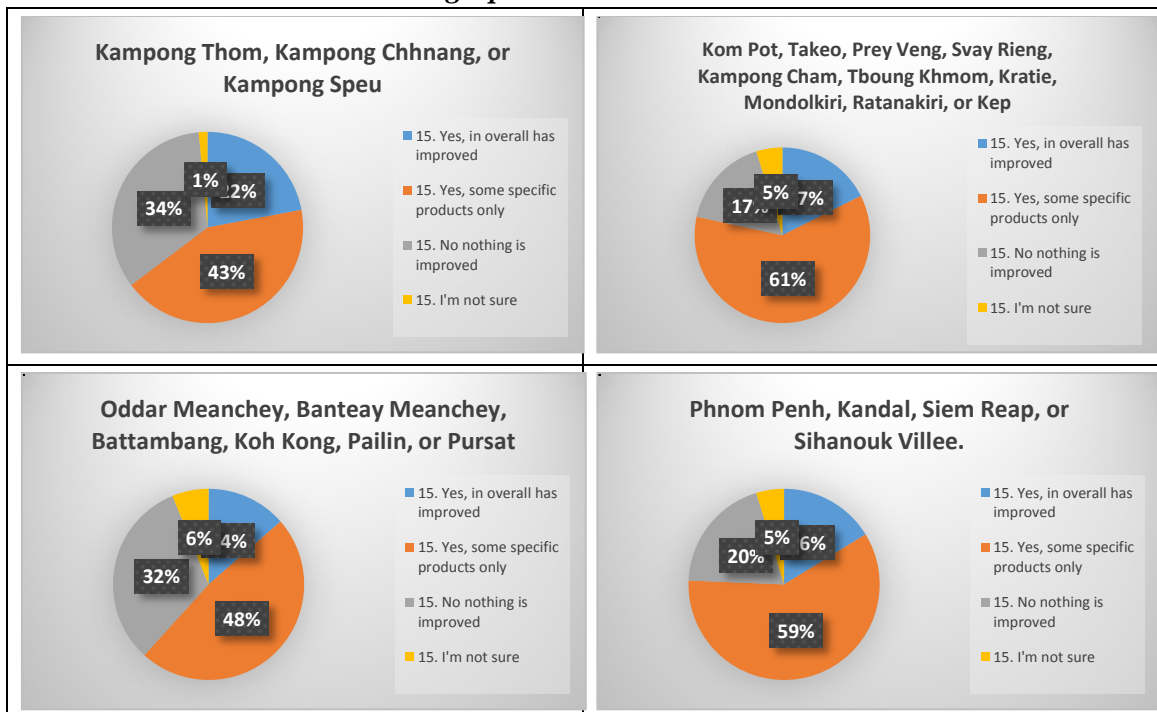
The question 15 asks to check the progress of the domestic products. The result in general shows that the domestic consumers think that there has been significant improvement on the domestic products, yet only with specific products. About 55.4% of the total respondents think improvement is on some specific products only. Among all the indicators, the education indicator shows a different. In post-graduate group, about 60% of the respondents think the domestic product has generally been improved. The justified reason explained should be due to the extensive research of this group on the country development both in the past and present. There may be a possible reason with the different definition or perspective of this group on the improvement of the domestic products. For example, not only concerning the price, quantity and quality, this group may also refer to the improvement in the production line and other behind the door factors. Further, this group may also think the improvement is generally made though to some extent it is not vast. They can recognize the improvement not only through the observation in the market, but also through the research and their study.

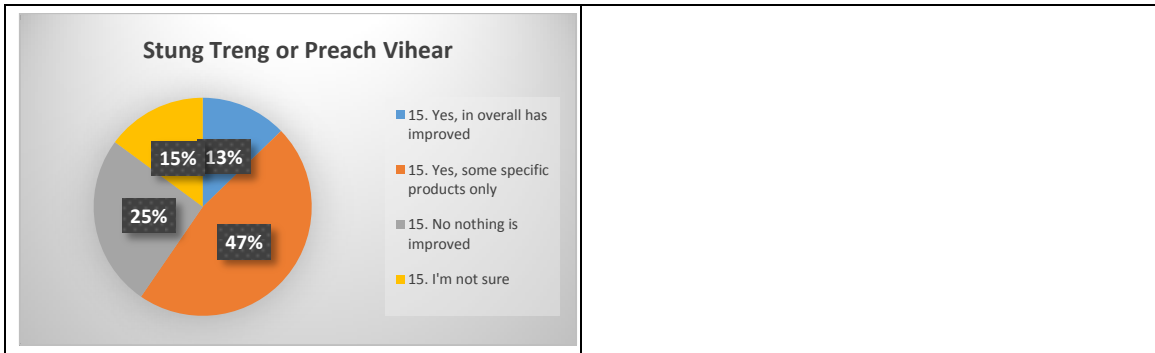
To know the exact interpretation of the respondents' answer, we will now continue the evaluation on this result with the following questions as the follow-up questions.

**Summary Respondents' Report**

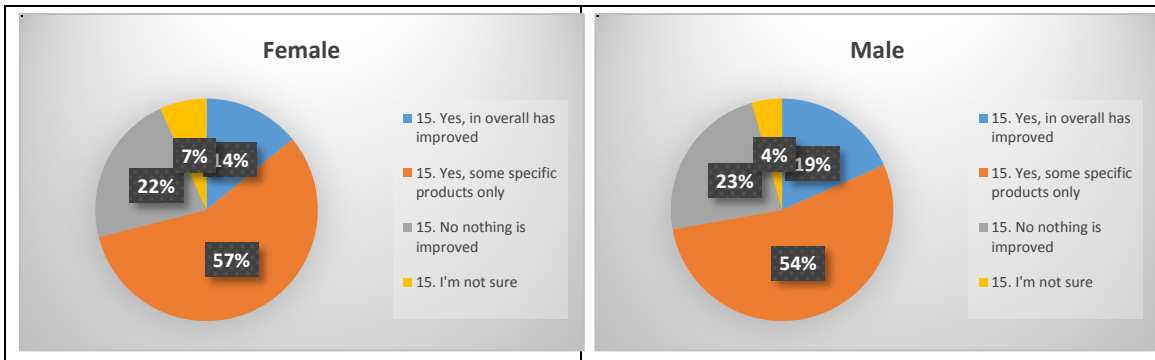


- **Main Indicator: Geographical Locations**

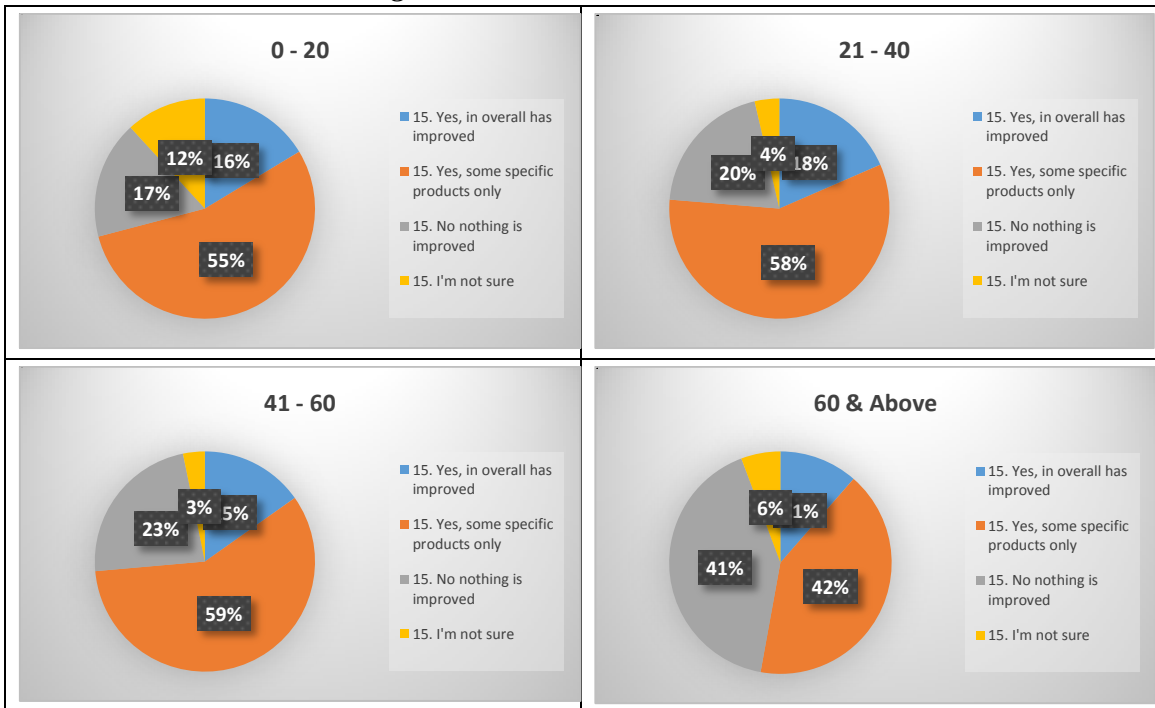




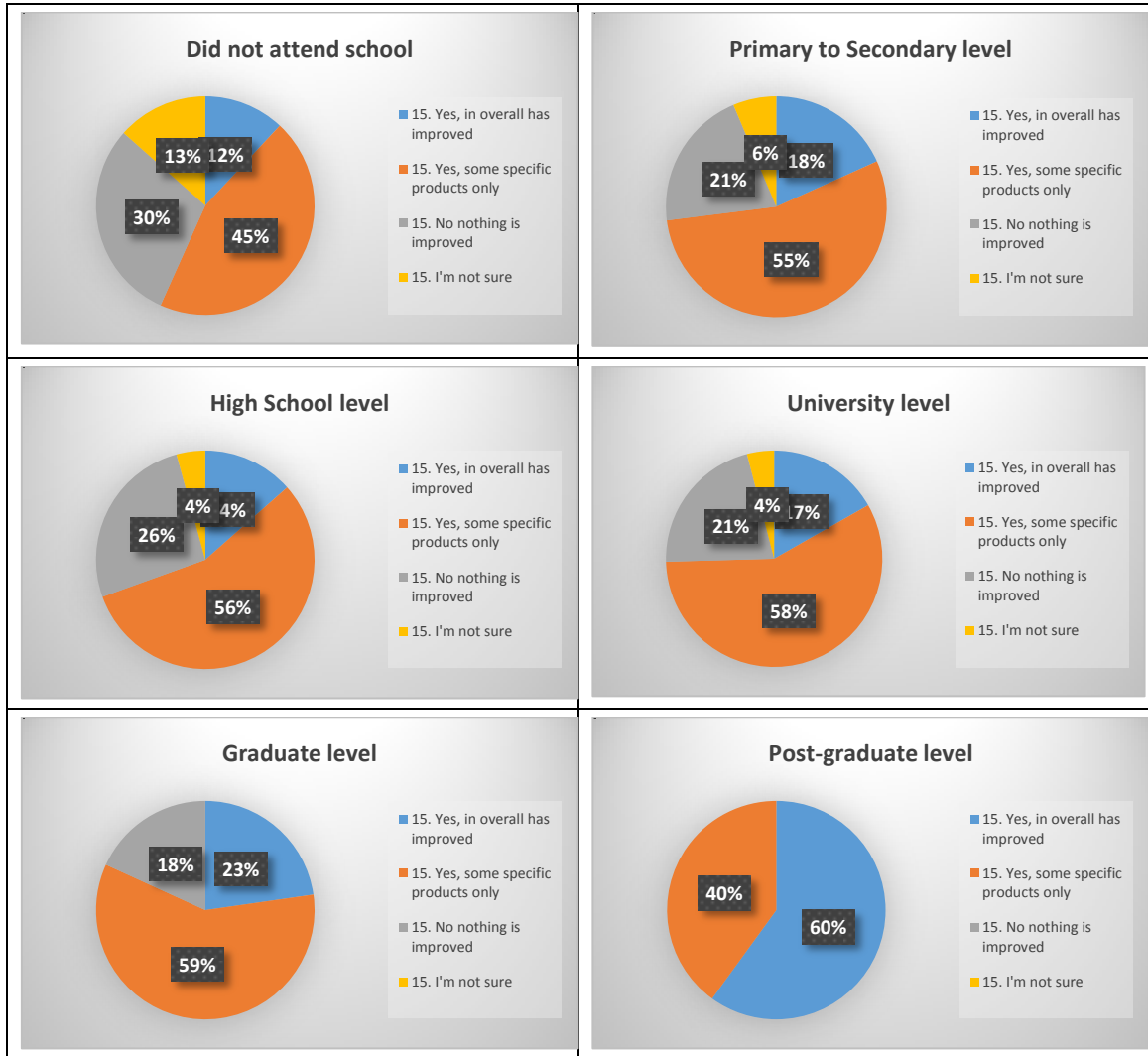
- **Sub-indicator: Gender**



- **Sub-indicator: Age**



- **Sub-indicator: Education**

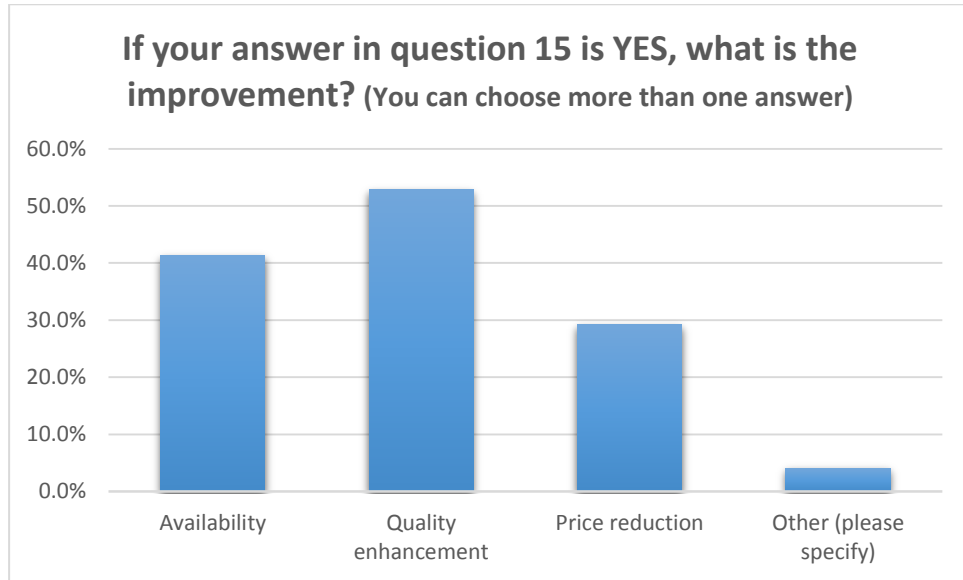


Question 16: If your answer in question 15 is YES, what is the improvement? (You can choose more than one answer)

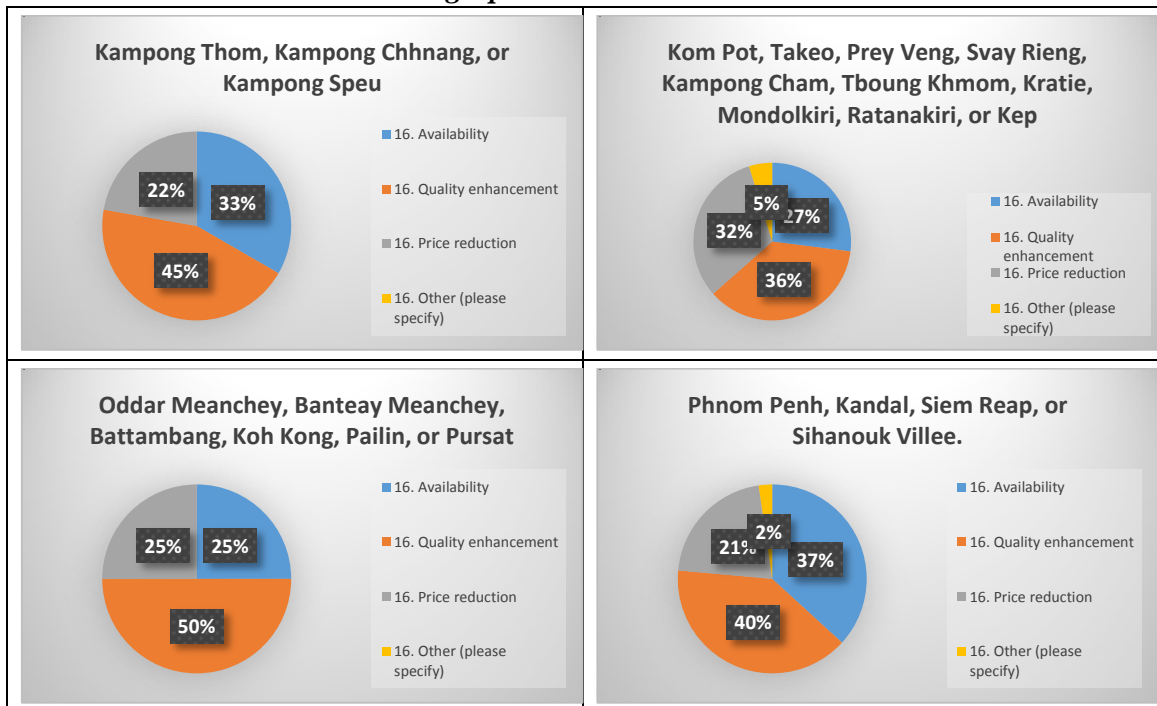
The 16<sup>th</sup> question is the follow-up questions where the respondents who answer YES in question 15 need to tell the specific improvement of the products. With the graphs shown below, we can see that in the post-graduate group of education indicator, about 57% of the respondents in that group think the improvement is on availability. This underlines the explanation of the 15<sup>th</sup> question that this group think

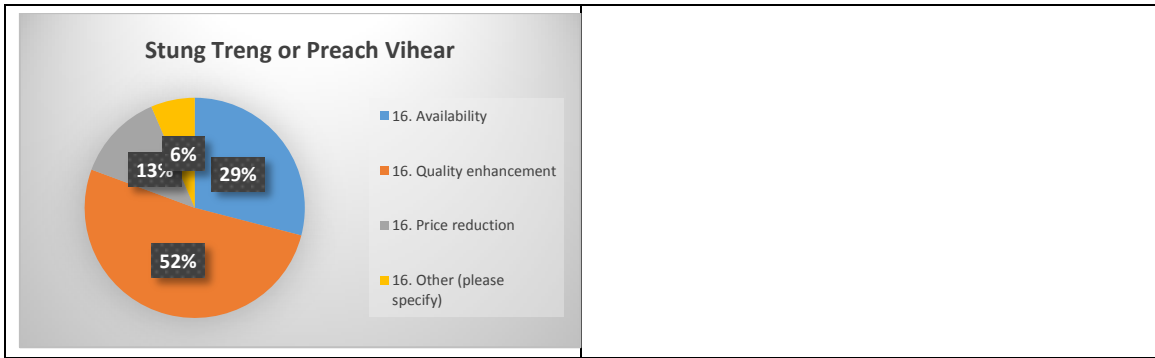
overall domestic product has been improved specifically on its availability. This can be simply translated as having diversified production more than before.

**Summary Respondents' Report**

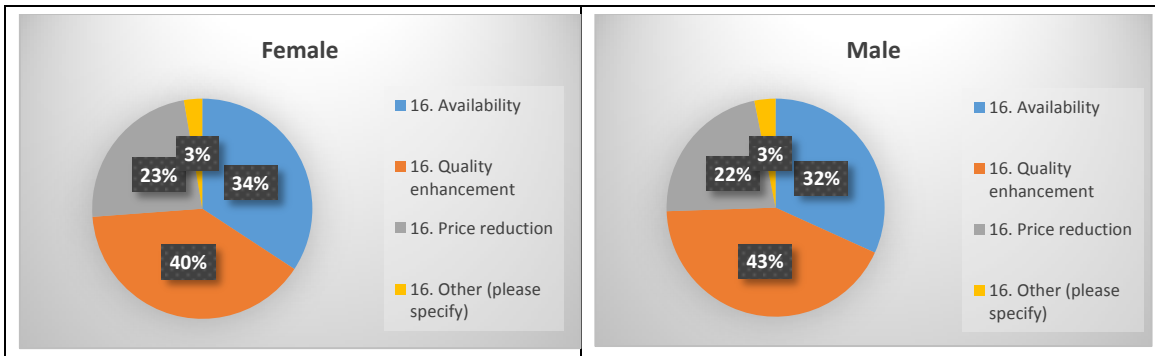


**- Main Indicator: Geographical Locations**

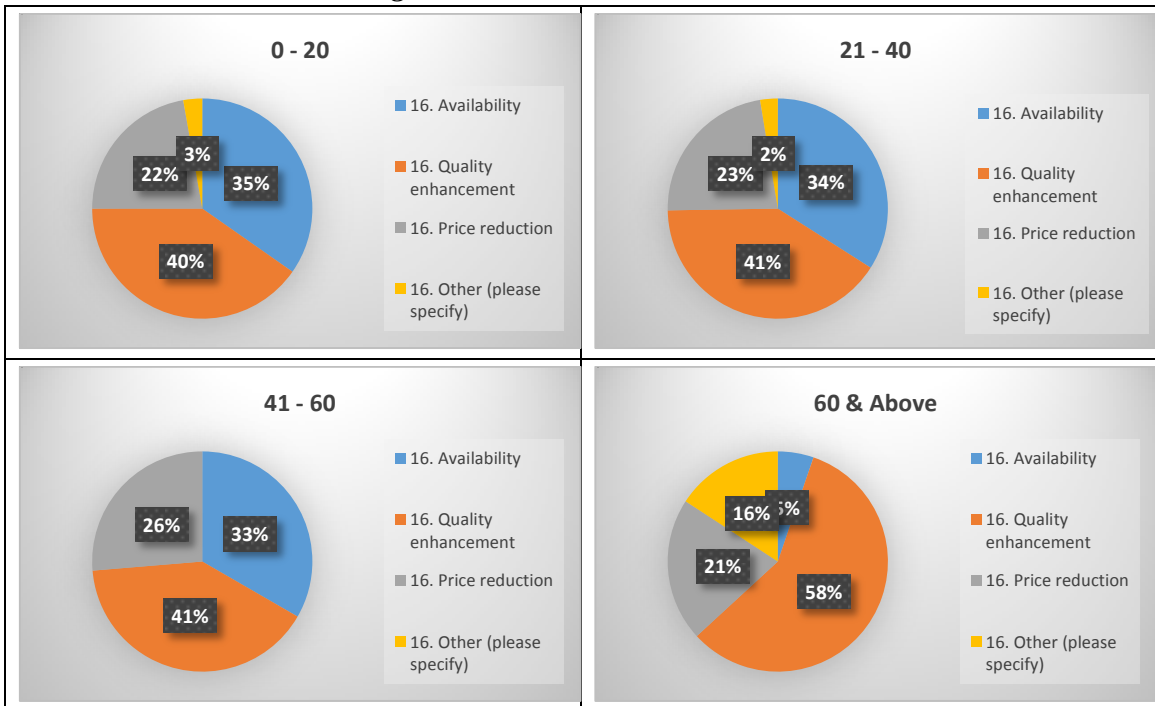




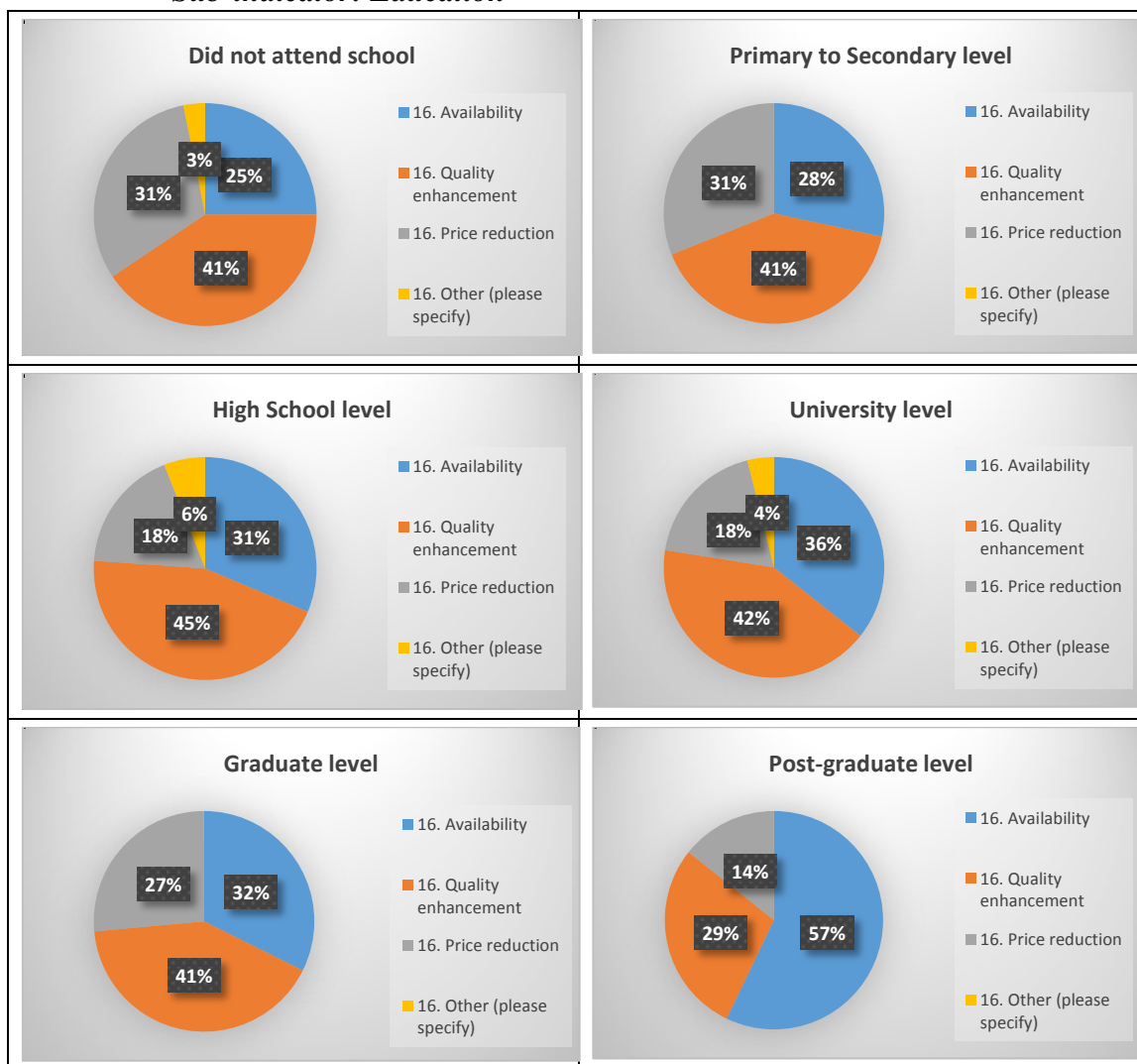
- **Sub-indicator: Gender**



- **Sub-indicator: Age**



- **Sub-indicator: Education**

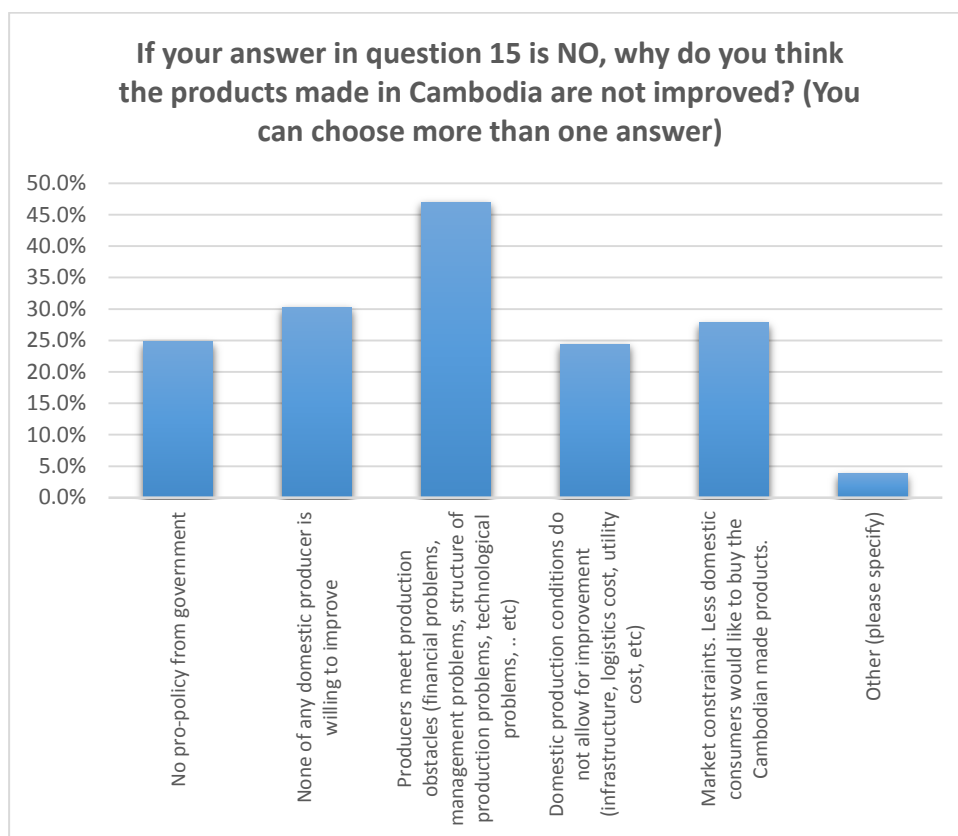


Question 17: If your answer in question 15 is NO, why do you think the products made in Cambodia are not improved? (You can choose more than one answer)

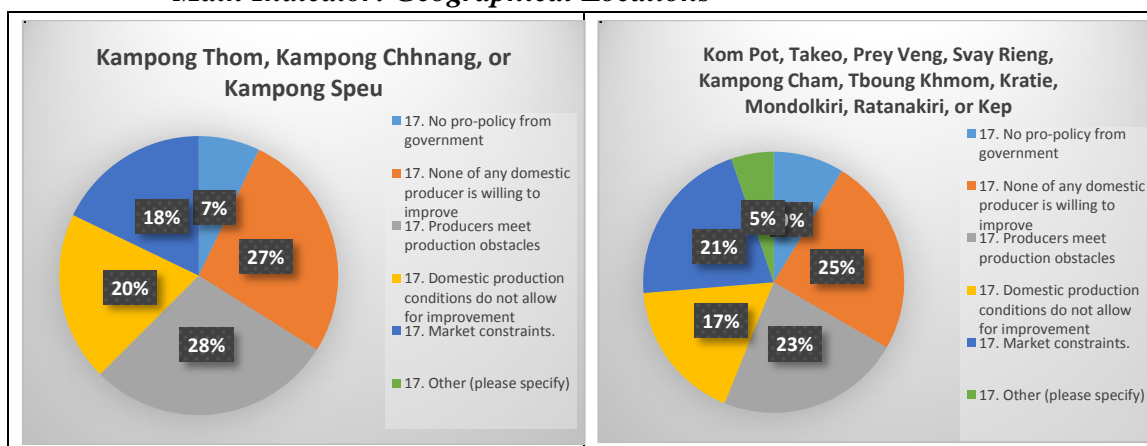
The second follow-up question to the question 15 is the question 17. This question is asking for specific reasons that make the respondents answer no improvement on domestic product. The major respondents think no improvement is because the producers are facing some obstacles on production such as financial difficulty, management, structure of production and technology (47% of the total respondents). There are no significant different when we separate answers based on different indicators.

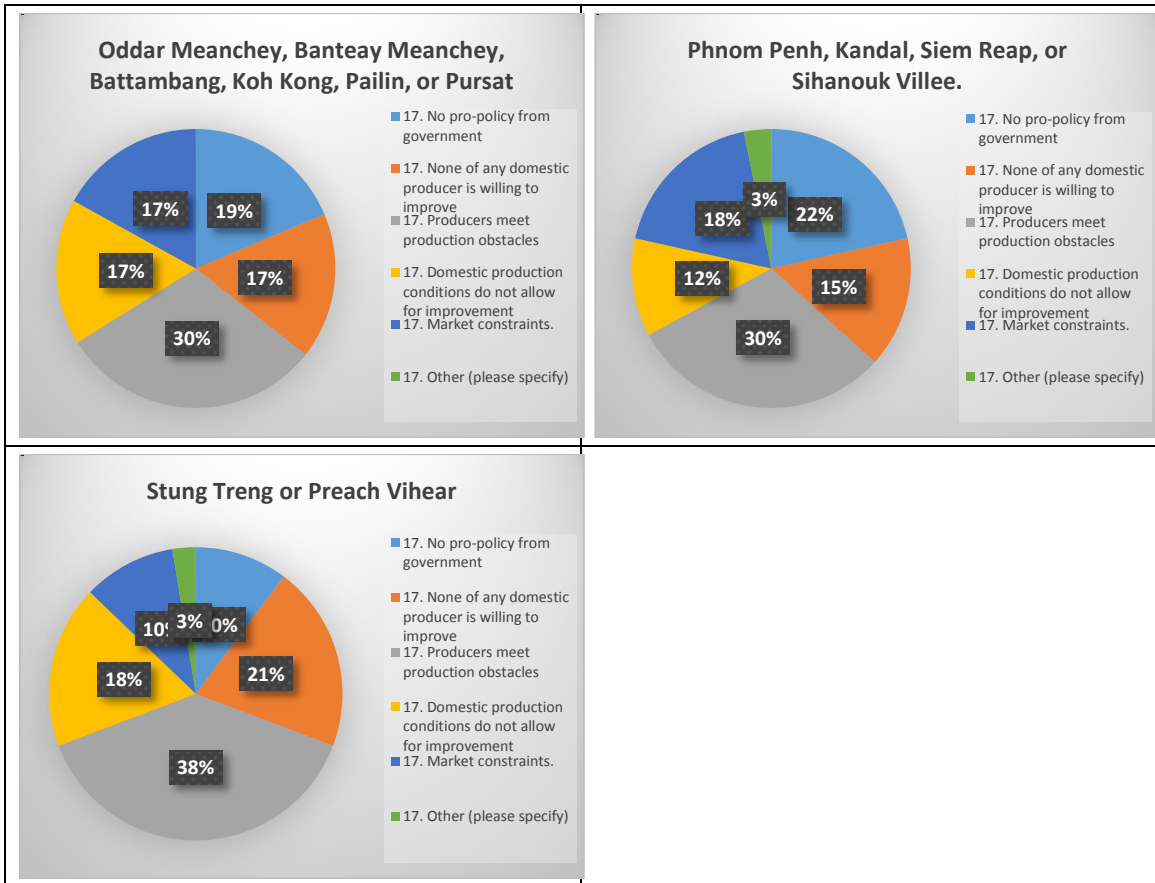


## Summary Respondents' Report

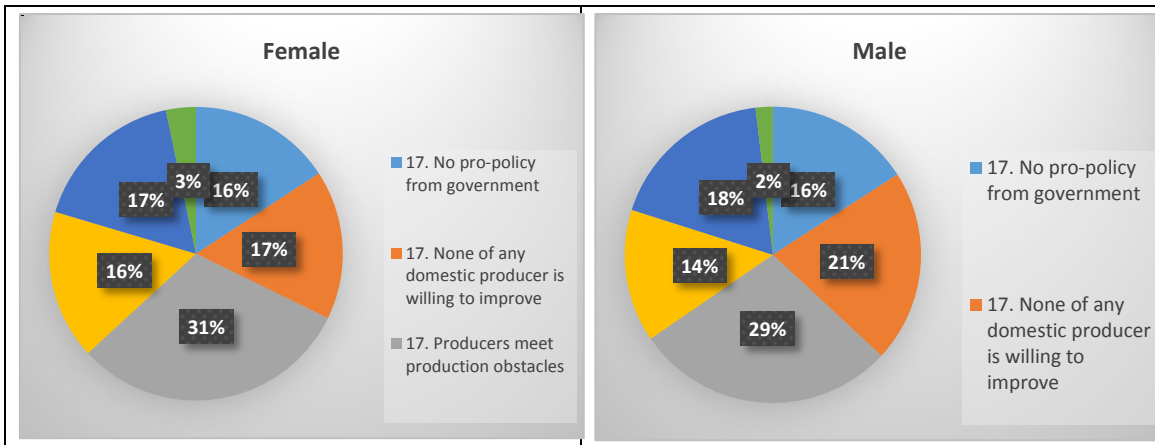


### - Main Indicator: Geographical Locations

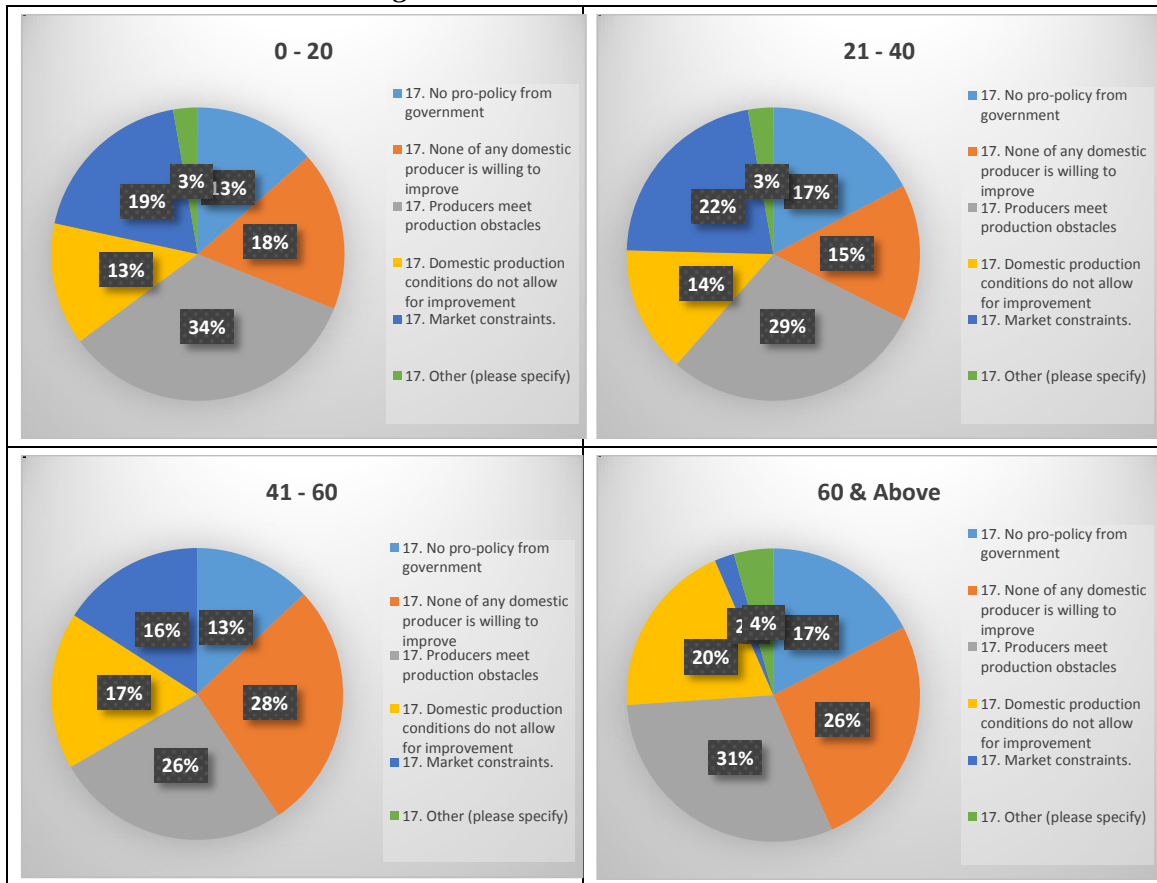




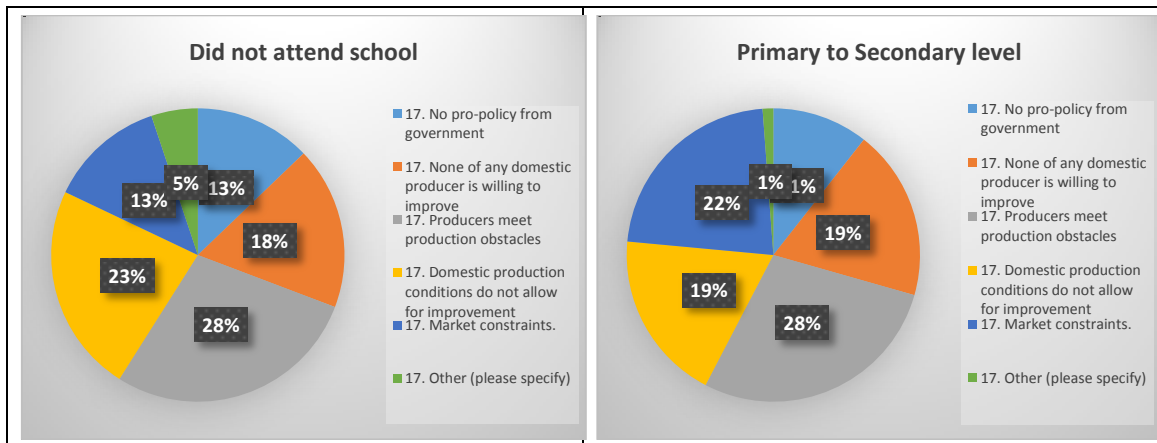
- **Sub-indicator: Gender**

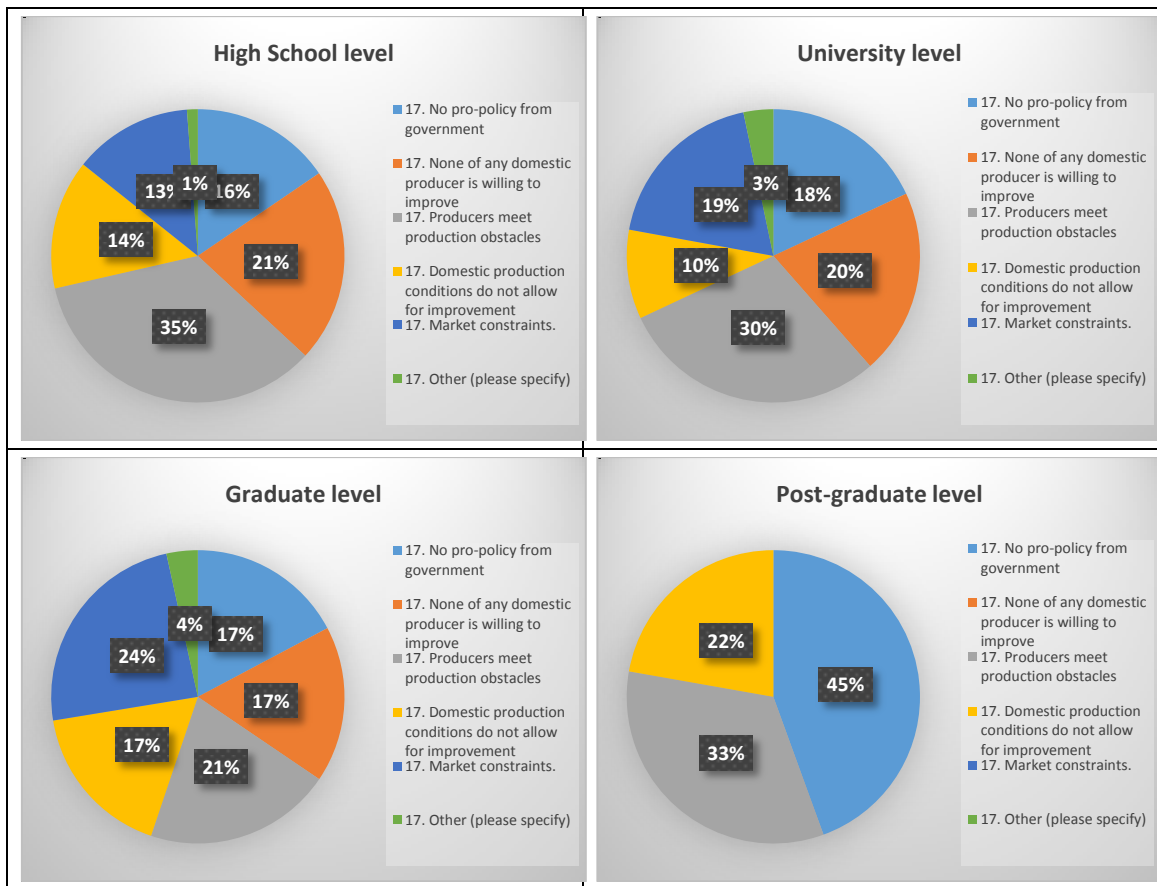


- **Sub-indicator: Age**



- **Sub-indicator: Education**





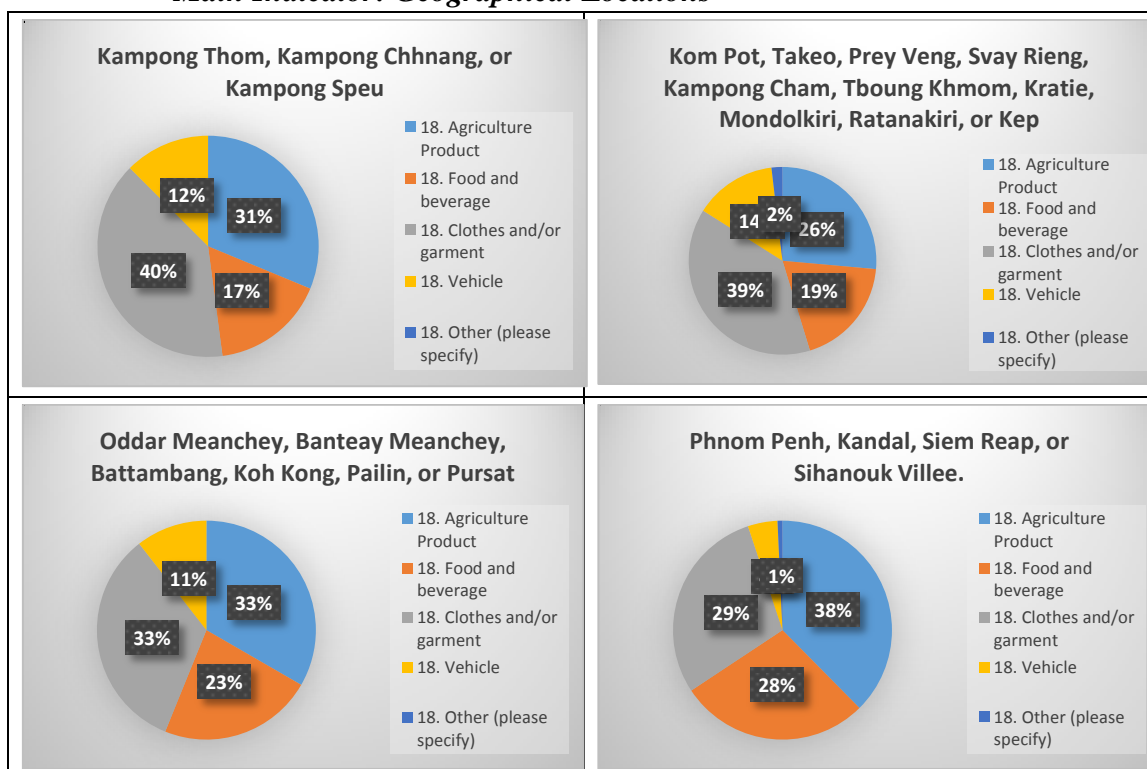
Question 18: If your answer in question 15 is YES but some specific products only, what are those? (You can choose more than one answer)

The question 18 aims at figuring out the specific sectors that respondents consider as having specific improvement over the others. The summary report graph above shows that there are specific sectors that are generally improved. These include the agriculture sector (46.8% of the total responses) and the garment and textile industry (45% of the total responses). Respectively, breaking down the result into different indicators shows no distinction from the whole survey report. The outstanding sectors to the different groups in each indicator are still agriculture and textile industry.

**Summary Respondents' Report**

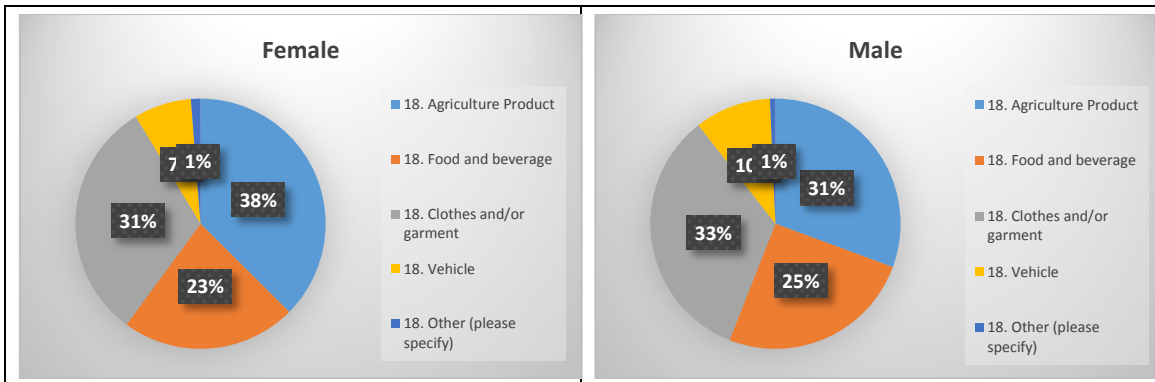


**- Main Indicator: Geographical Locations**

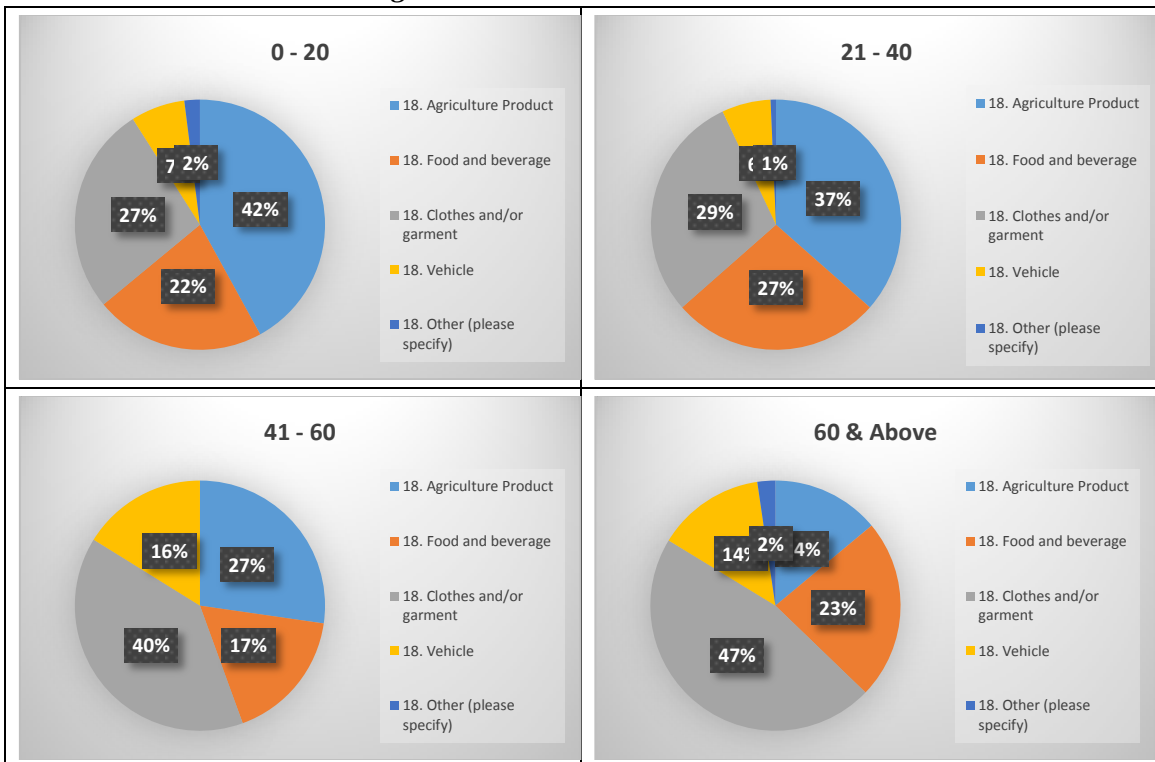




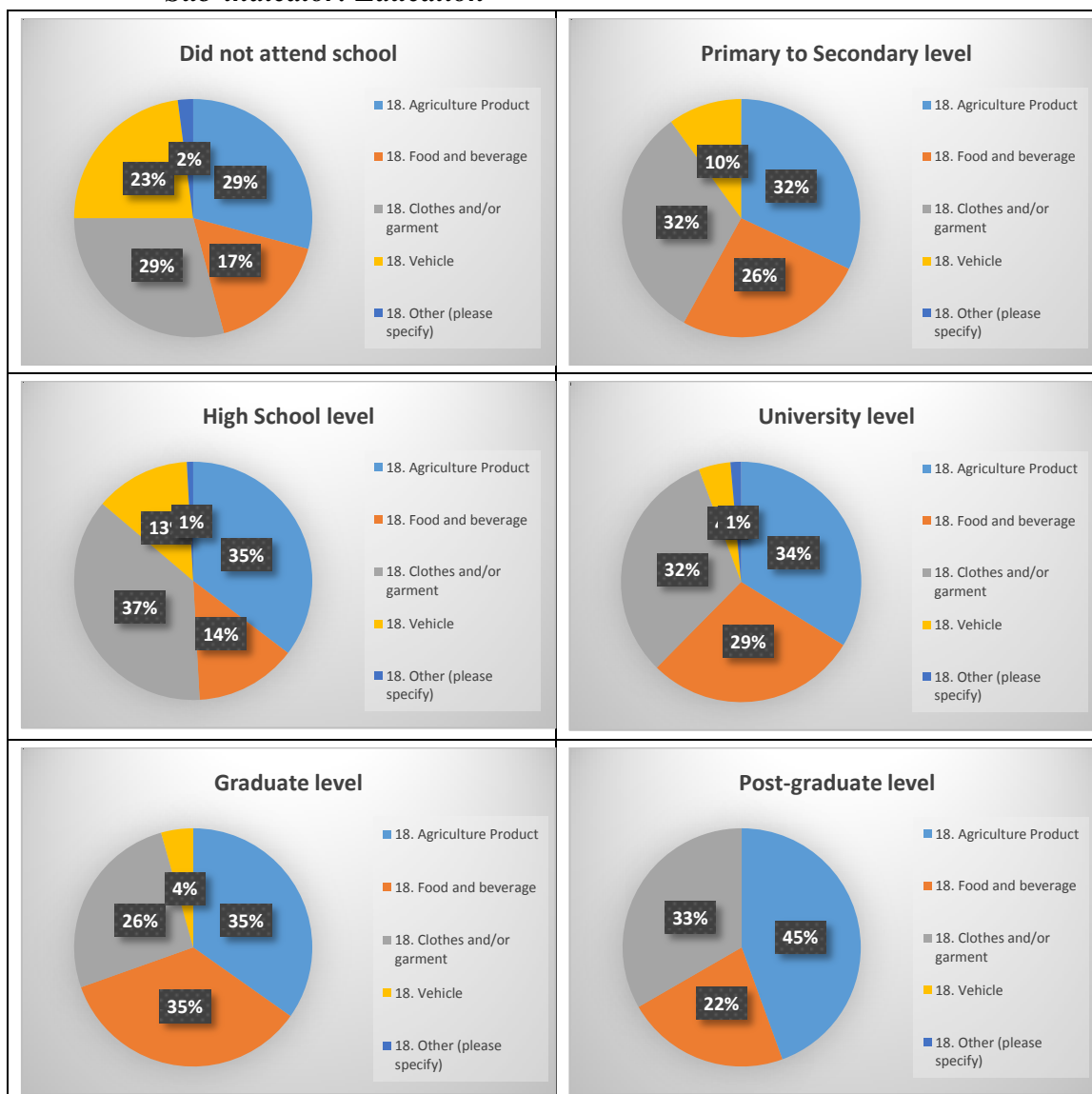
- **Sub-indicator: Gender**



- **Sub-indicator: Age**



- **Sub-indicator: Education**



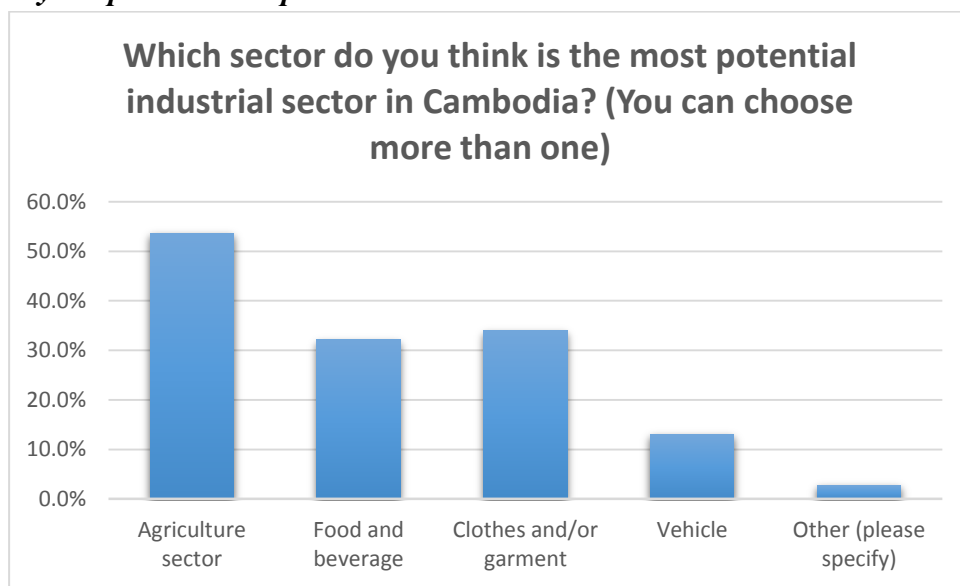
Question 19: Which sector do you think is the most potential industrial sector in Cambodia? (You can choose more than one)

The result of the question 19 shows that to the domestic consumers, the traditional potential sector in the country is still having its comparative advantage over the others. The most impressive sector to them is agriculture industry, which holds around 53.6% of the total support from respondents. It follows by the garment and textile industry that has 34% of the total supports. Yet, this change needs to be made. The government should make an aggressive development and preparation on

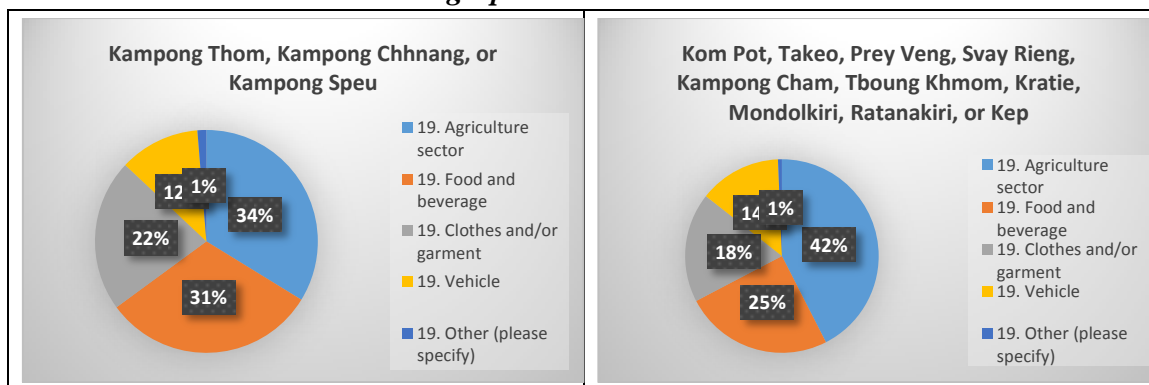
different sectors so that the other potential sectors would not lose support, especially light manufacturing industry as suggested in the chapter five and a more technology based industry.

Again this question's result has no distinctive different when it breaks down into different indicators.

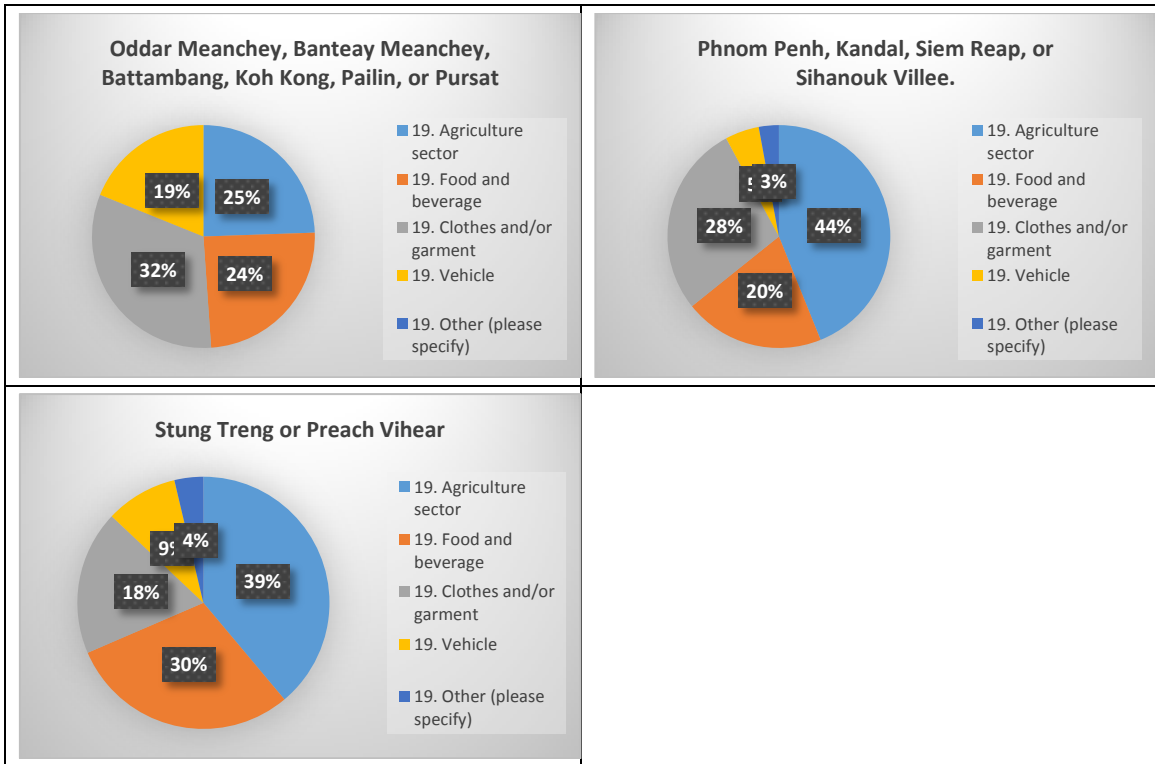
**Summary Respondents' Report**



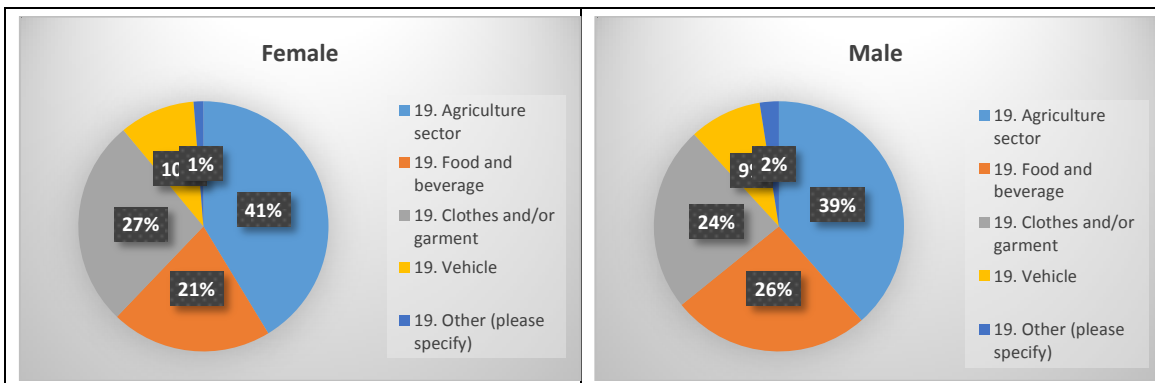
- **Main Indicator: Geographical Locations**



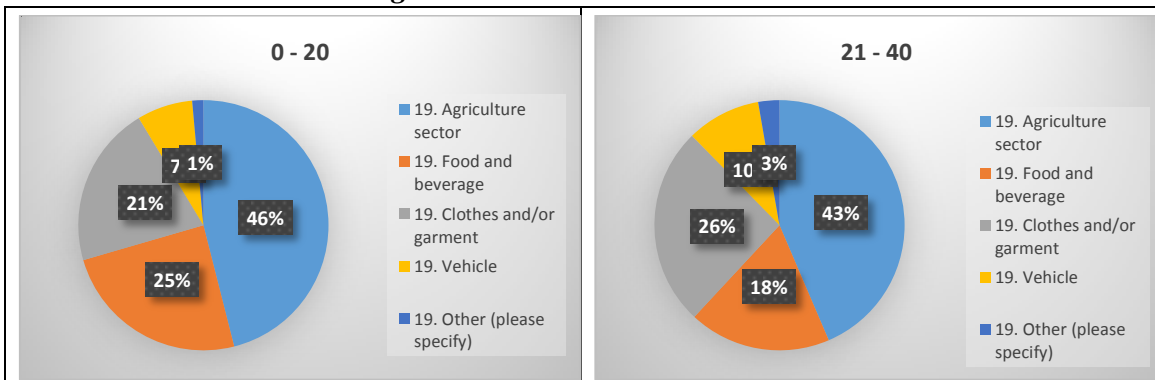


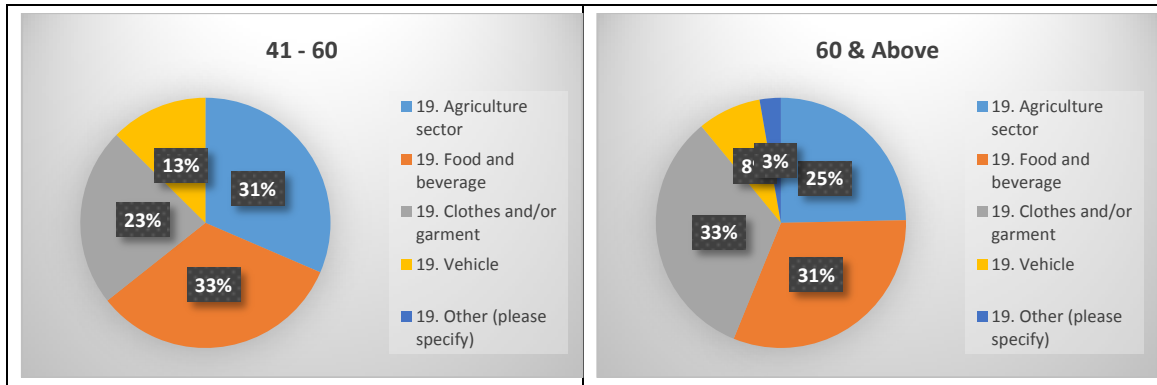


- **Sub-indicator: Gender**

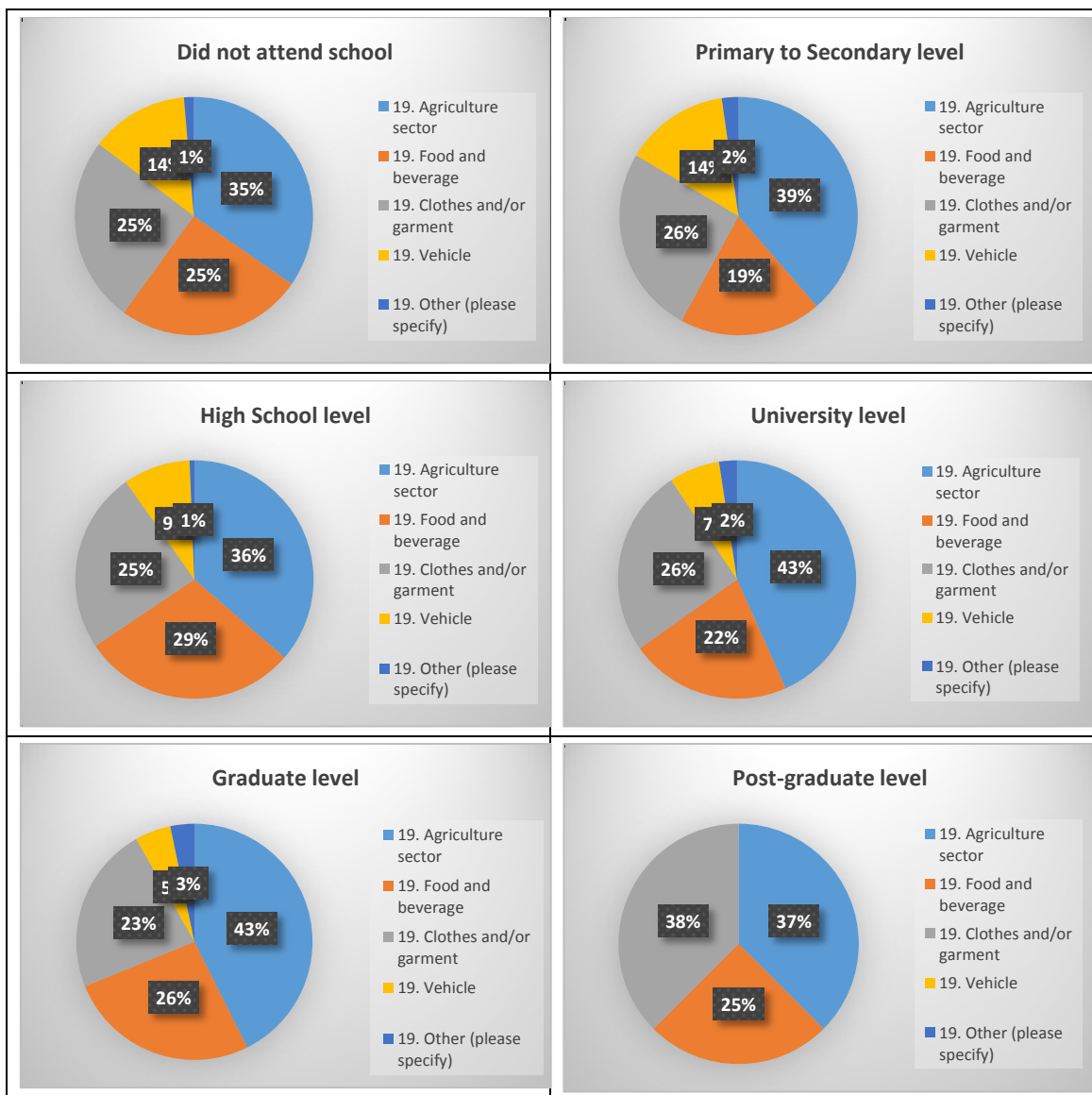


- **Sub-indicator: Age**





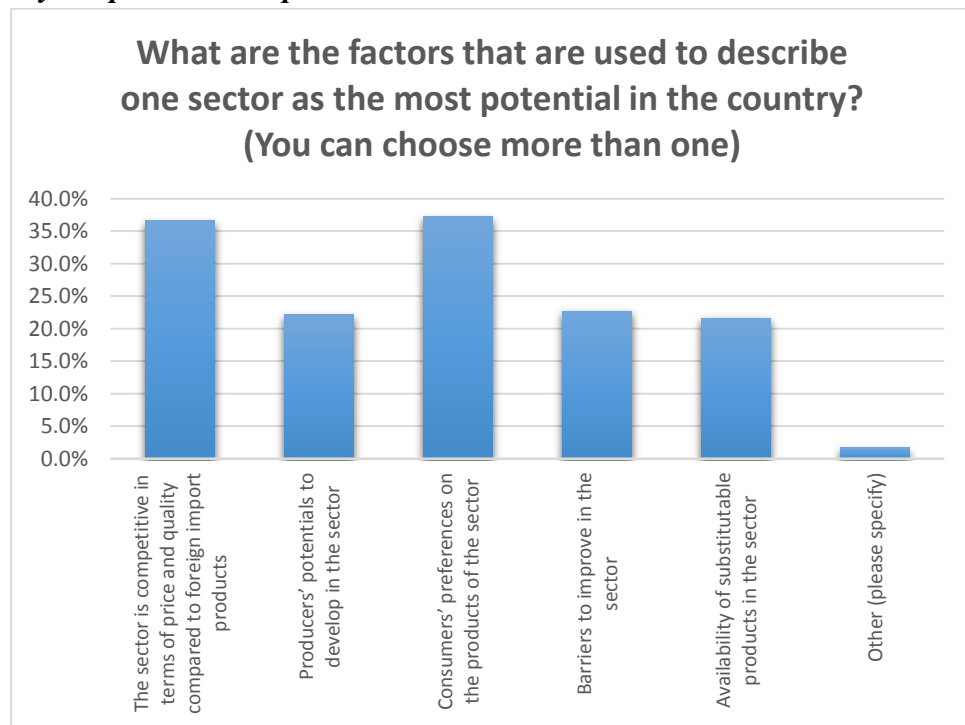
- *Sub-indicator: Education*



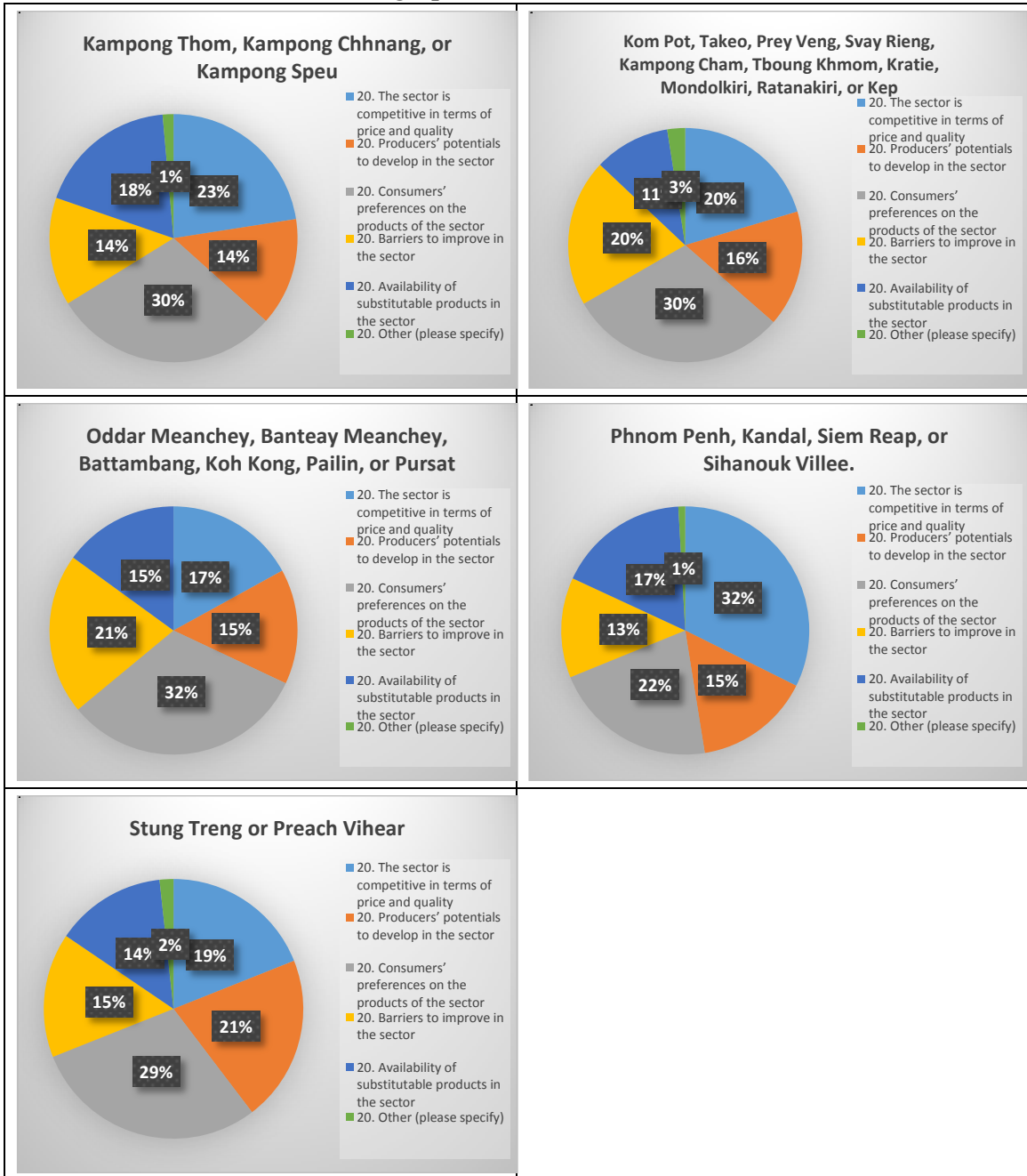
Question 20: What are the factors that are used to describe one sector as the most potential in the country? (You can choose more than one)

This is the followed-up question to check the certain criteria that identify the potential sector in the country. The stood out reasons are the consumers' demand and the comparative advantage of the products. These two reasons make the domestic consumer believe that a sector is the potential sector. This seems justified enough to general perception. Also, it is consistent to this research paper. The suggestion in this paper is that the development should seek improvement on the comparative advantage of the product including cost, availability, production system, quality, and standard. More, it should consider the consumers' idea on the product as well.

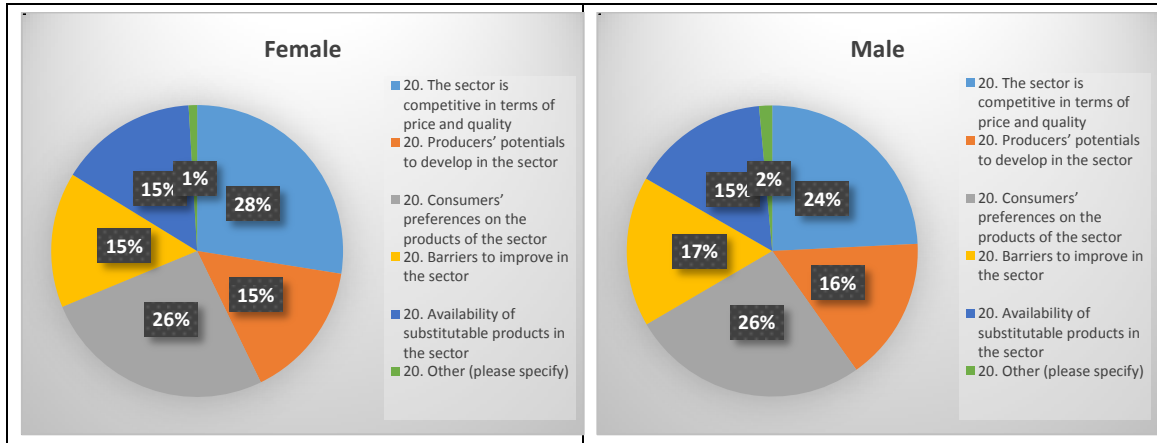
### ***Summary Respondents' Report***



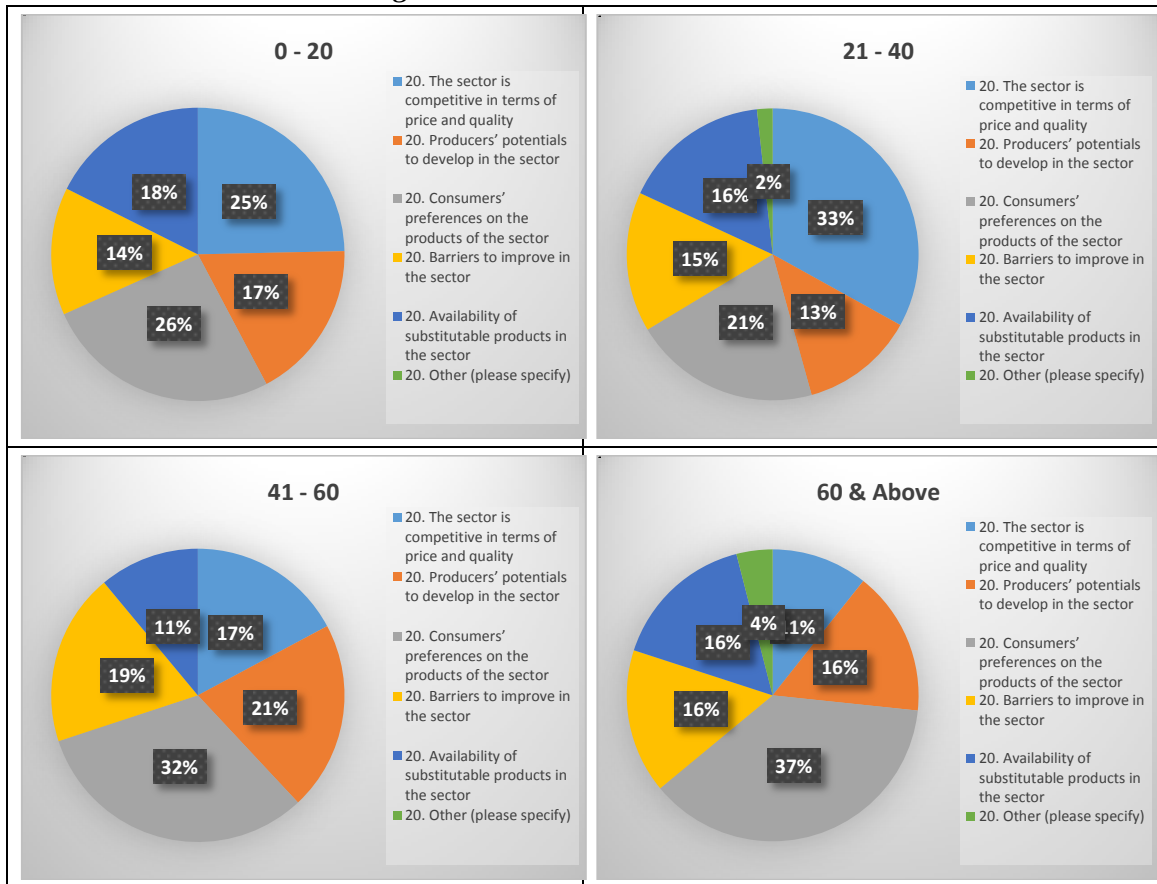
- **Main Indicator: Geographical Locations**



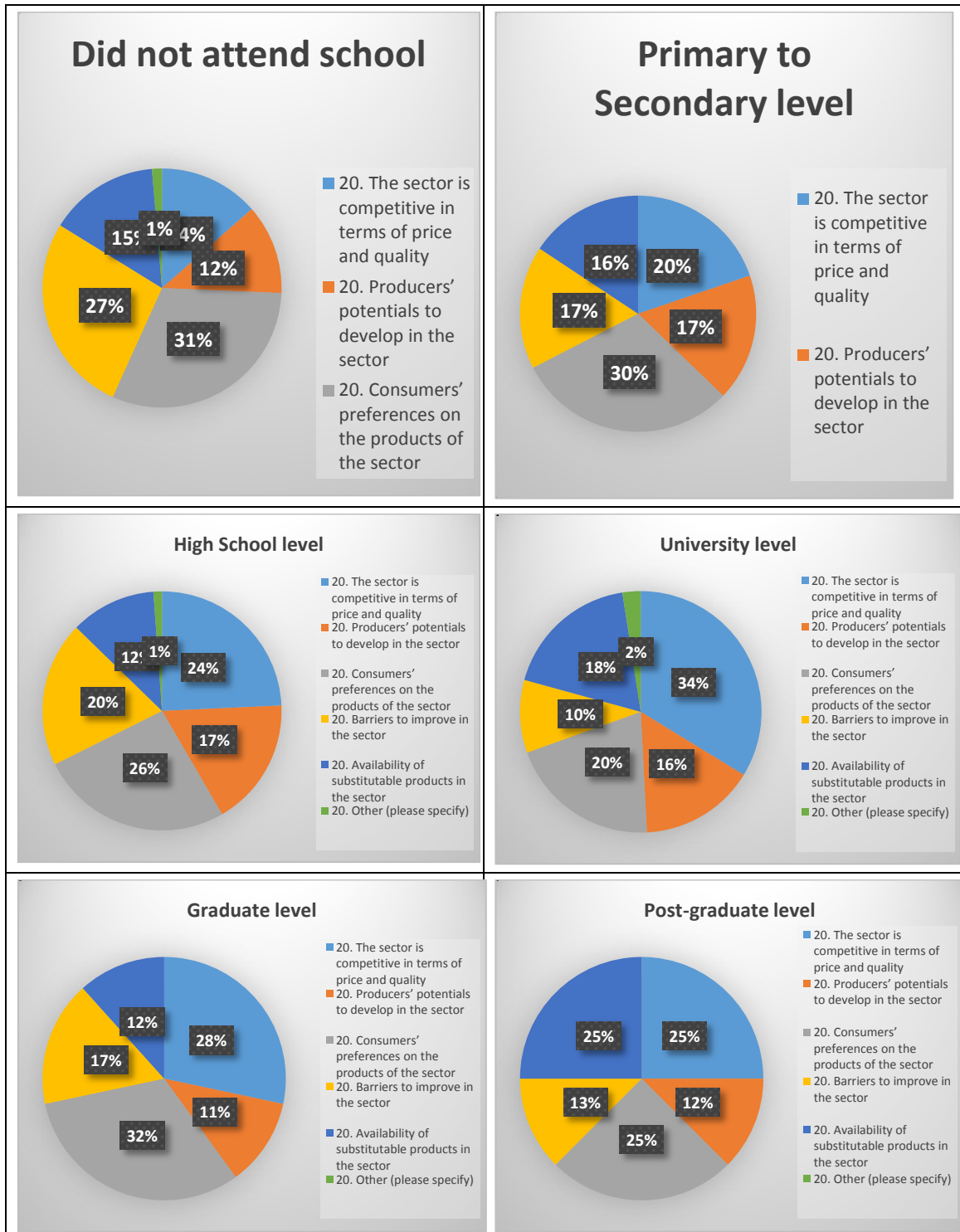
- **Sub-indicator: Gender**



- **Sub-indicator: Age**



- *Sub-indicator: Education*

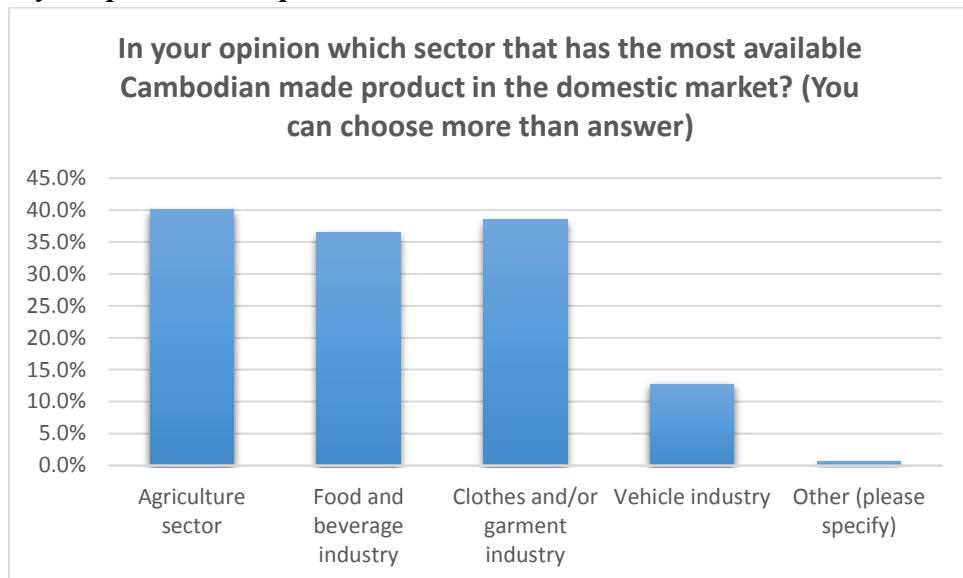


Question 21: In your opinion which sector has the most available Cambodian made product in the domestic market? (You can choose more than answer)

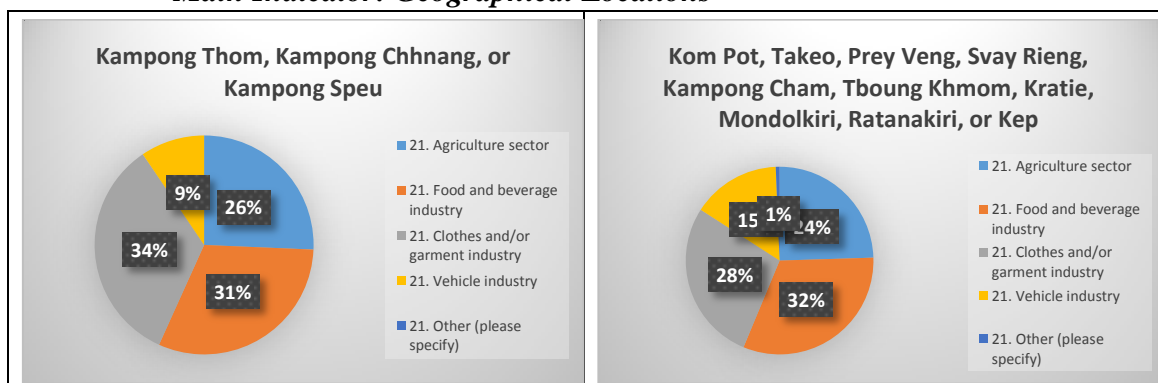
According to the domestic consumers, the three main sectors having most Cambodian made products are agriculture sector (40%), cloth and garment sector (38.5%), and food and beverage (36.4%) respectively. This seems justify since they are the most popular sectors in the country.

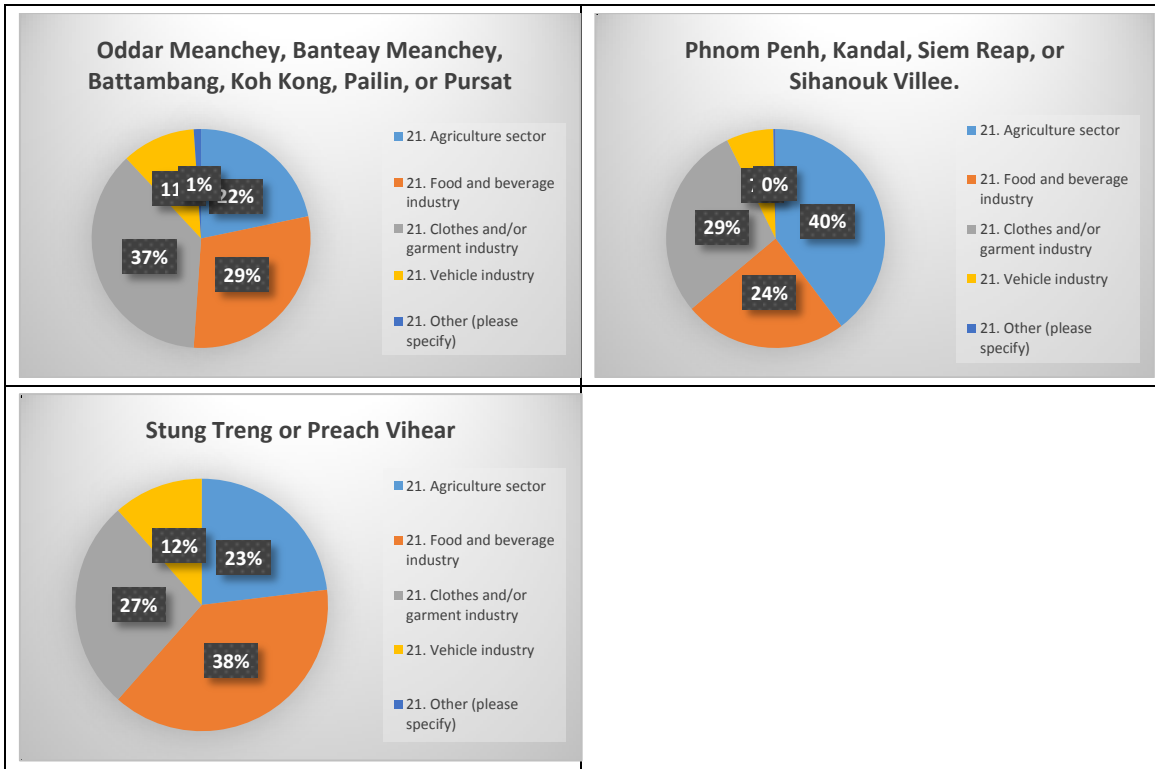
Noticeably, there is no idiosyncratic on the result even though we dig down further into different indicators.

**Summary Respondents' Report**

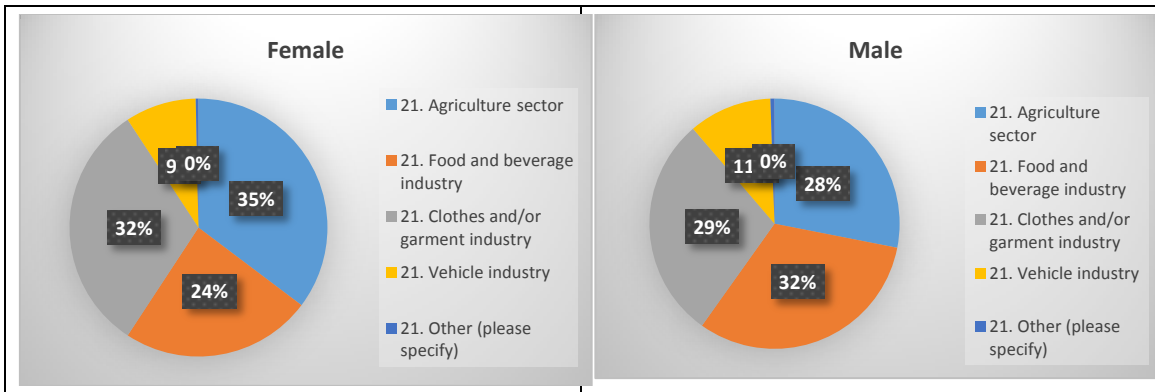


**- Main Indicator: Geographical Locations**

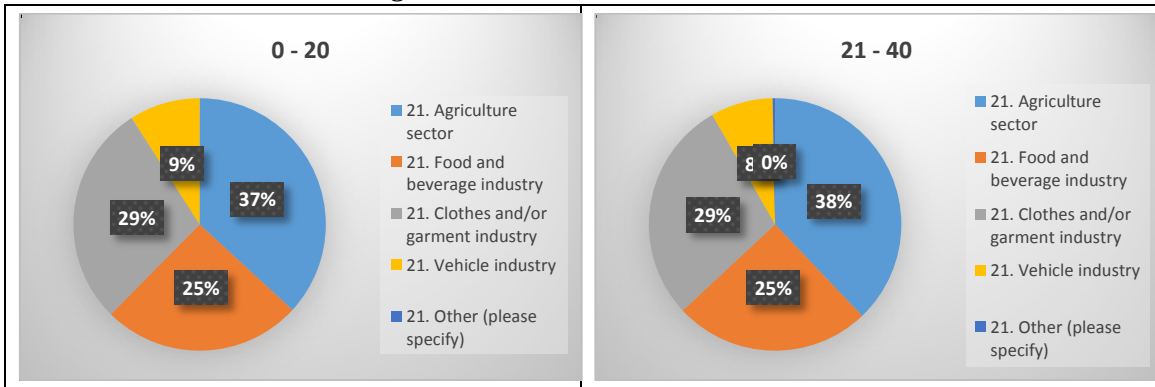




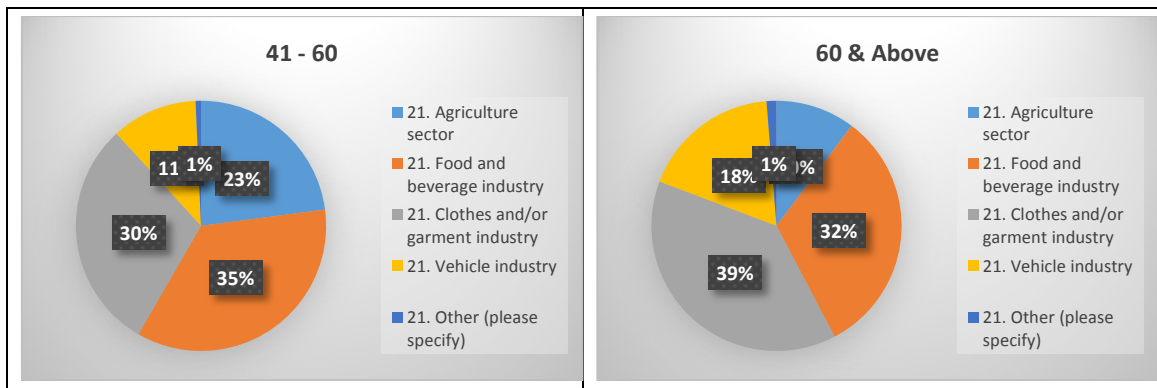
- **Sub-indicator: Gender**



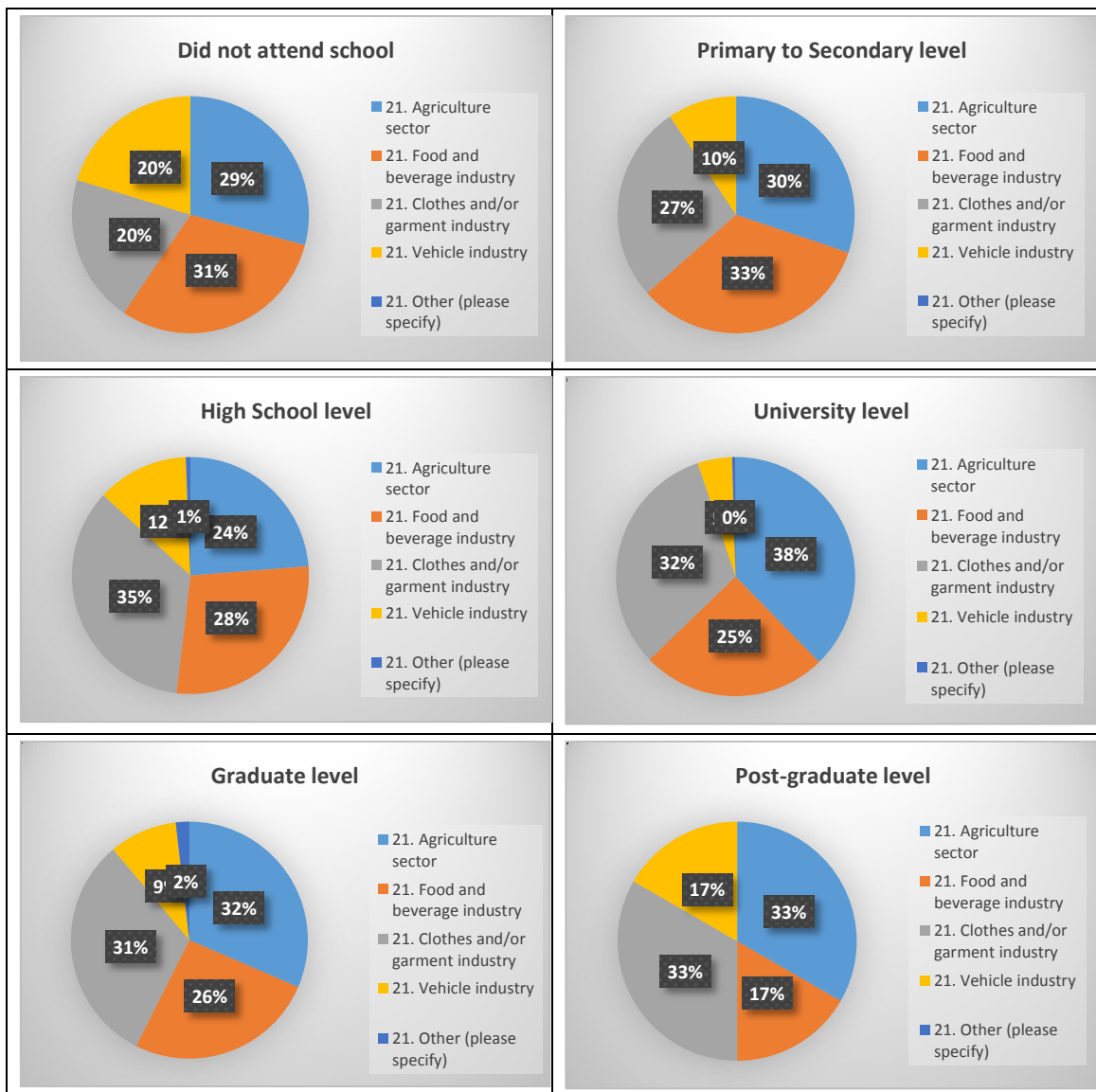
- **Sub-indicator: Age**







- **Sub-indicator: Education**



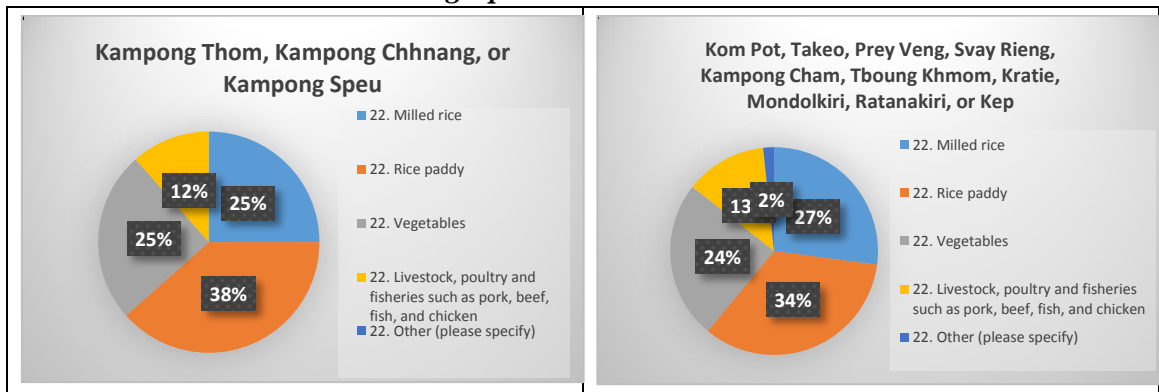
Question 22: If in question 21 you choose agriculture sector, which product is mostly available? (You can choose more than one)

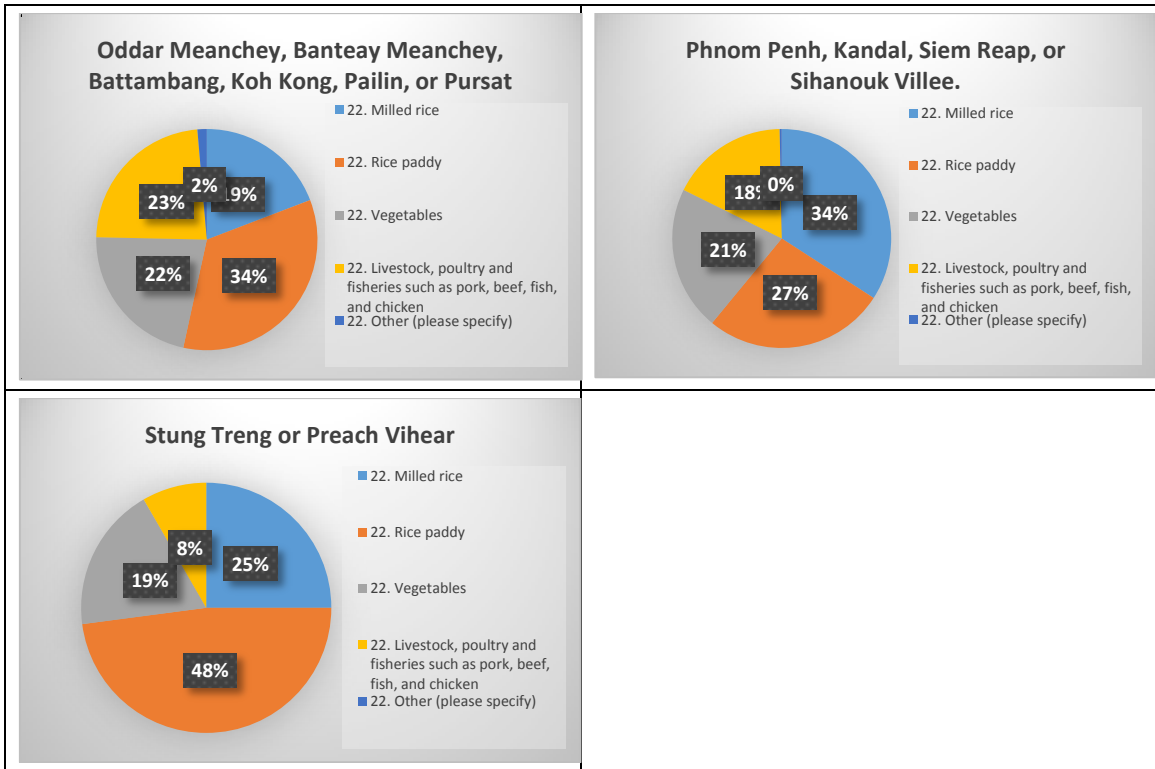
To the consumers' point of views, rice paddy is the most available product in the agriculture sector, which accounts for 63.8% of the total supports. It seems inverse with the study that say milled rice is relatively less than the rice paddy if we check on the indicator's result. For the main indicator – the geographical location, the 34% of the city group respondents says milled rice is the most largely available. Beyond and above, the age sub-indicator – age between 21 to 40 group and the age above 60 also says milled rice is the most available product. The same is also true to the university level group in education indicator. About 31% of the university respondents says milled rice is the most available product in the agriculture sector.

**Summary Respondents' Report**

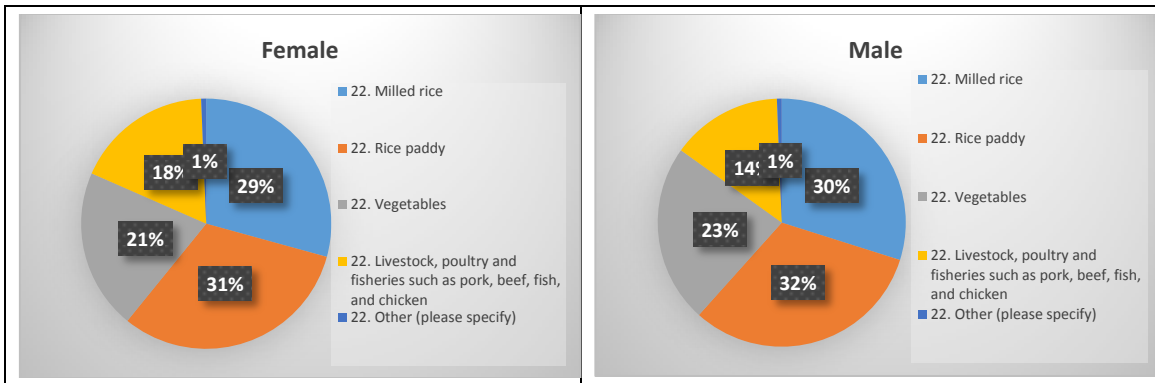


**- Main Indicator: Geographical Locations**

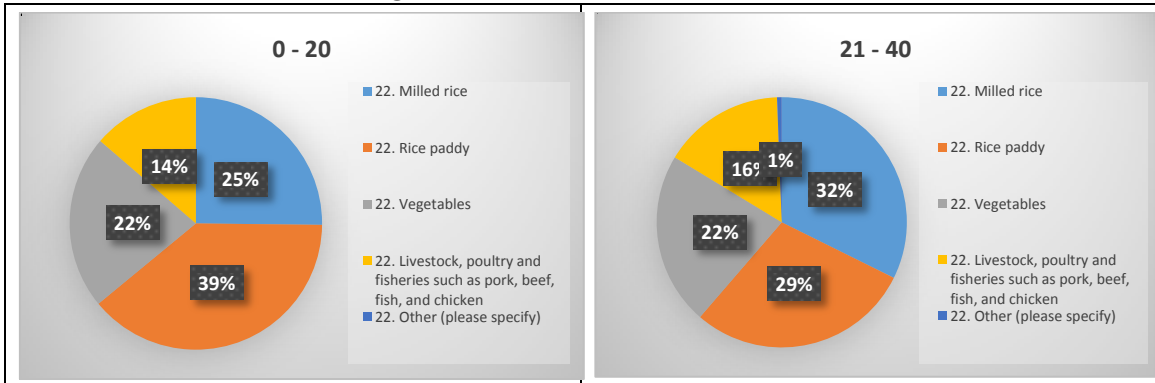


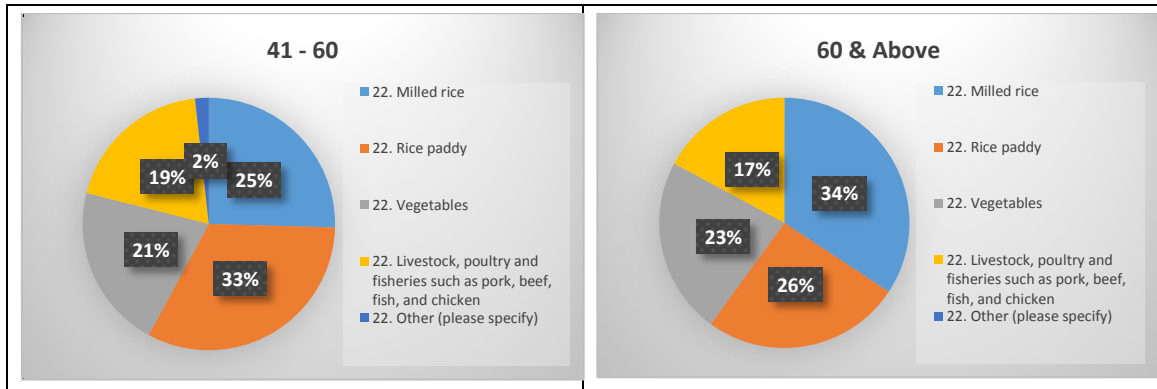


- **Sub-indicator: Gender**

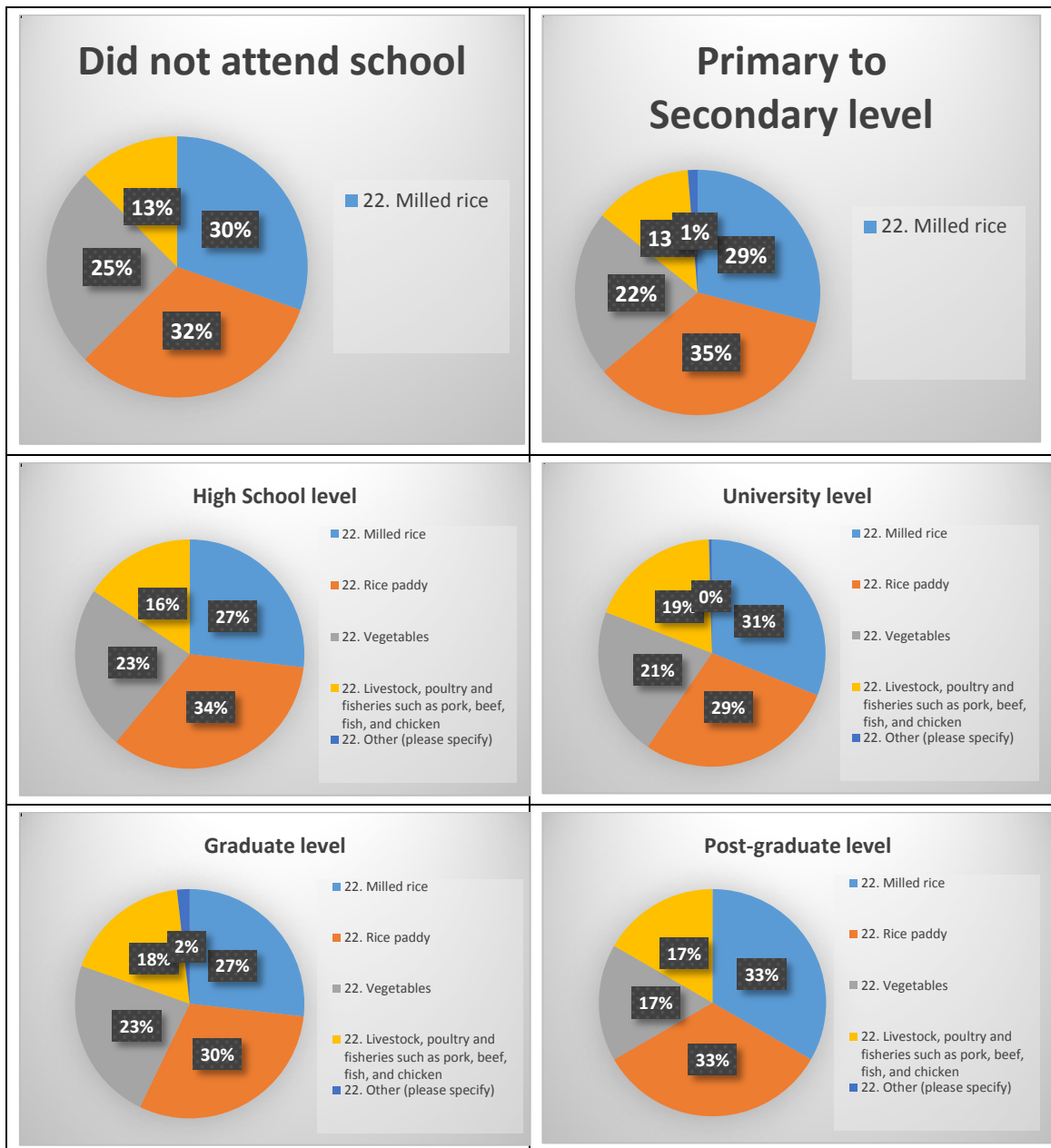


- **Sub-indicator: Age**





- *Sub-indicator: Education*

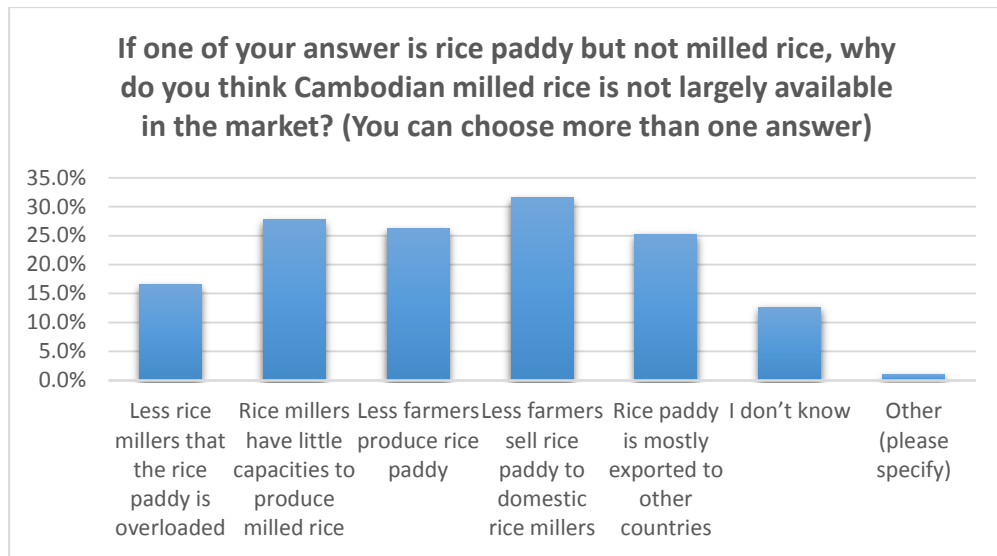


Question 23: If one of your answers is rice paddy but not milled rice, why do you think Cambodian milled rice is not largely available in the market? (You can choose more than one answer)

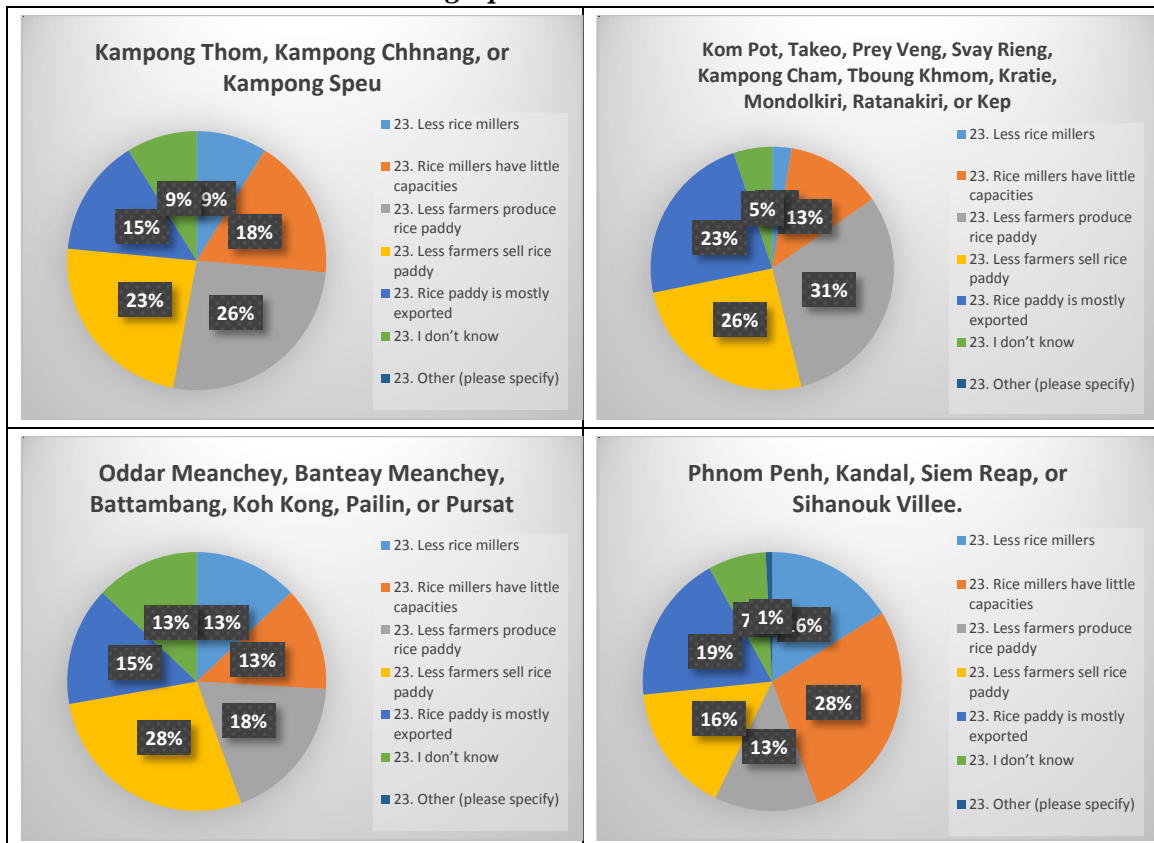
In the previous question, there are two choices, which include the mill rice and rice paddy in the answer list. The respondents who choose the rice paddy but not milled are asked to answer the question 23 to sketch out their reasons why they think the milled rice product is not largely available. Grounded on summary report result, the following explanation will only go through the whole summary report.

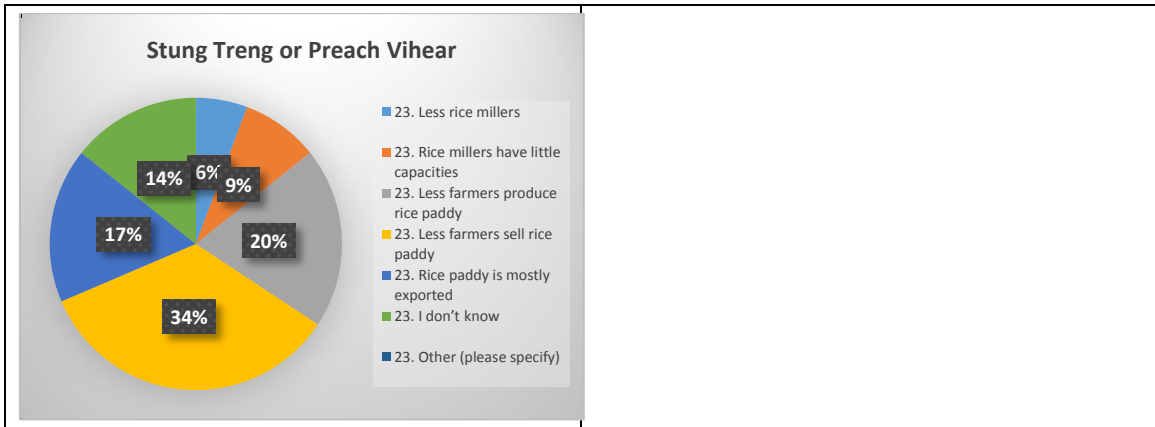
Among the reasons provided, the most chosen reason is “less farmers sell rice paddy to the domestic rice millers” with 31.6% of the total respondents. This result shows strong support on the thesis argument in chapter five – agriculture sector case study page 75 that the problem of the faithless outcome in the agriculture improvement is due to the less trade between farmers and domestic rice millers. In corporate with that there are more reasons that respondents believe milled rice is less available. This includes rice millers have little capacities to produces milled rice (27.7% of the total response), less farmers produce rice paddy (26.2%), and rice paddy is mostly exported to other countries (25.2%). With this result, the argument in the chapter also consistently elaborates. It seems to prove that the domestic consumers also generally see the problems of the rice sector these days which means this critics is generally vast and attract people’s attention. The government should held responsibility in preparing policy to help in this matter. As mentioned in the chapter five, the contract farming and pricing policy should be imposed and cautiously check. The vast rice paddy export also needs to be solved. T

**Summary Respondents' Report**

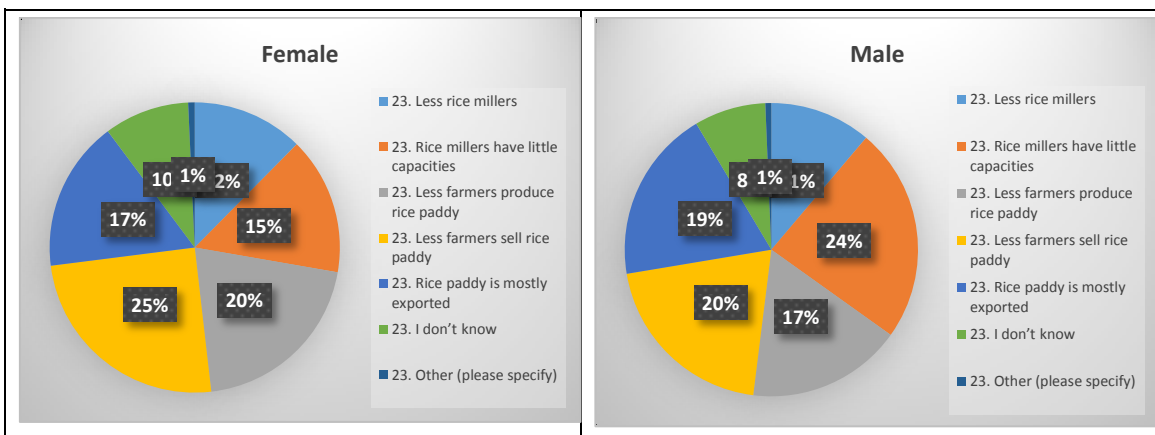


**- Main Indicator: Geographical Locations**

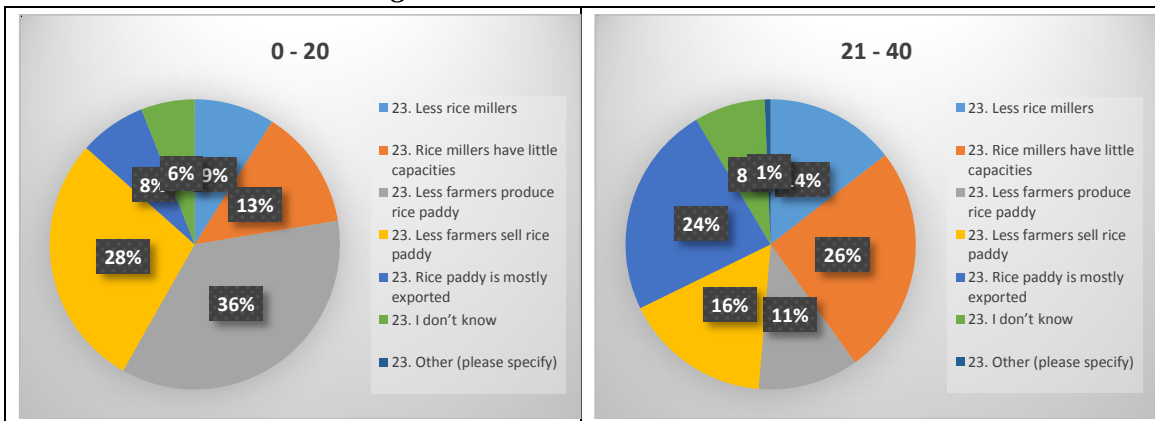


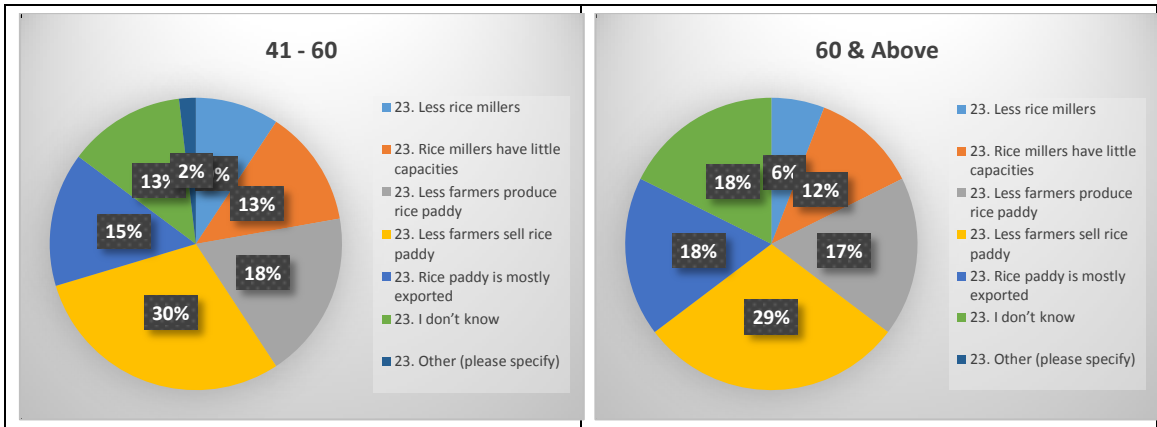


- **Sub-indicator: Gender**

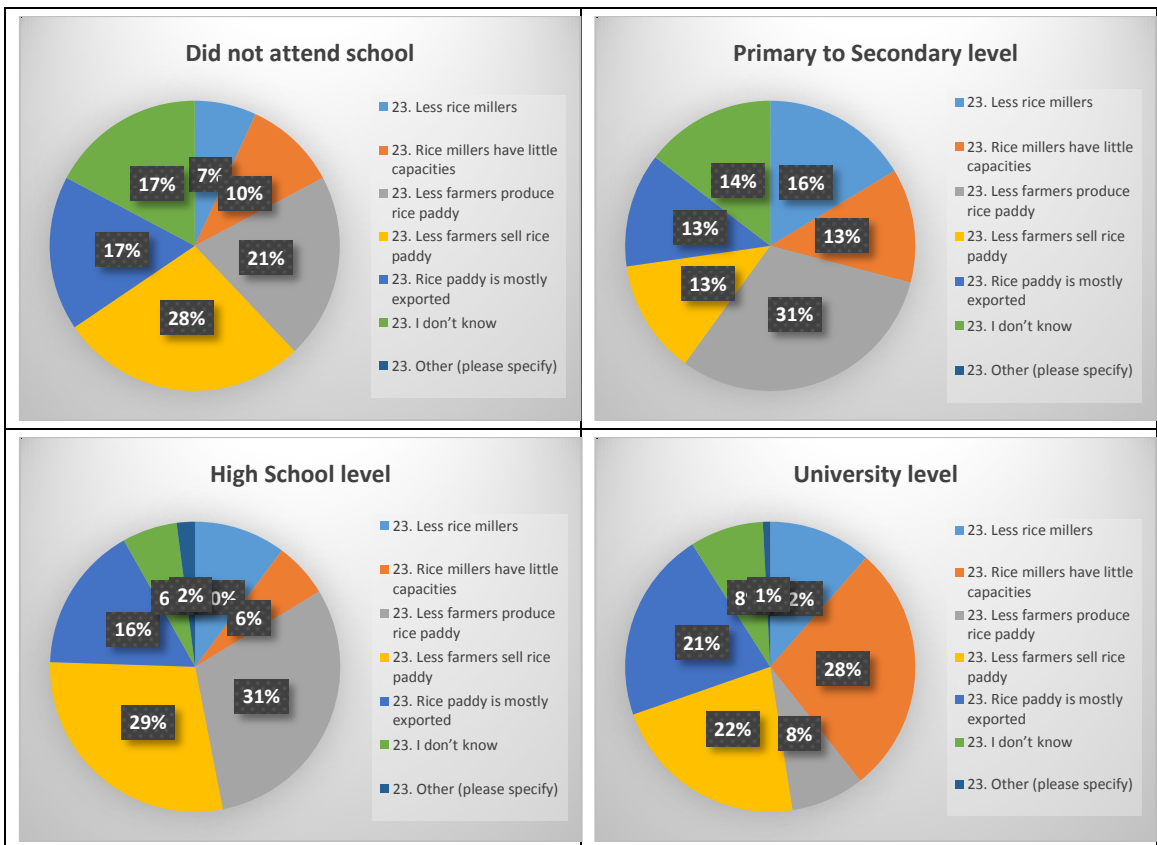


- **Sub-indicator: Age**

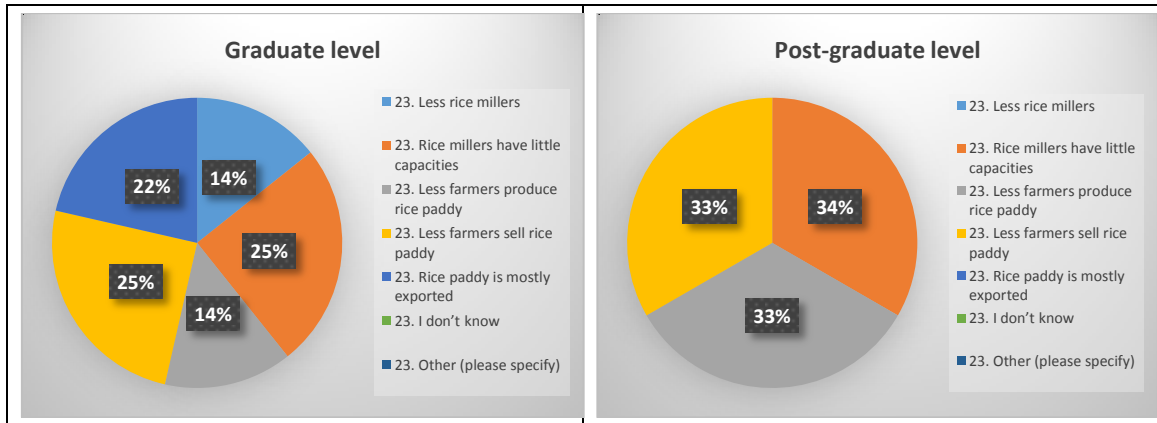




- **Sub-indicator: Education**







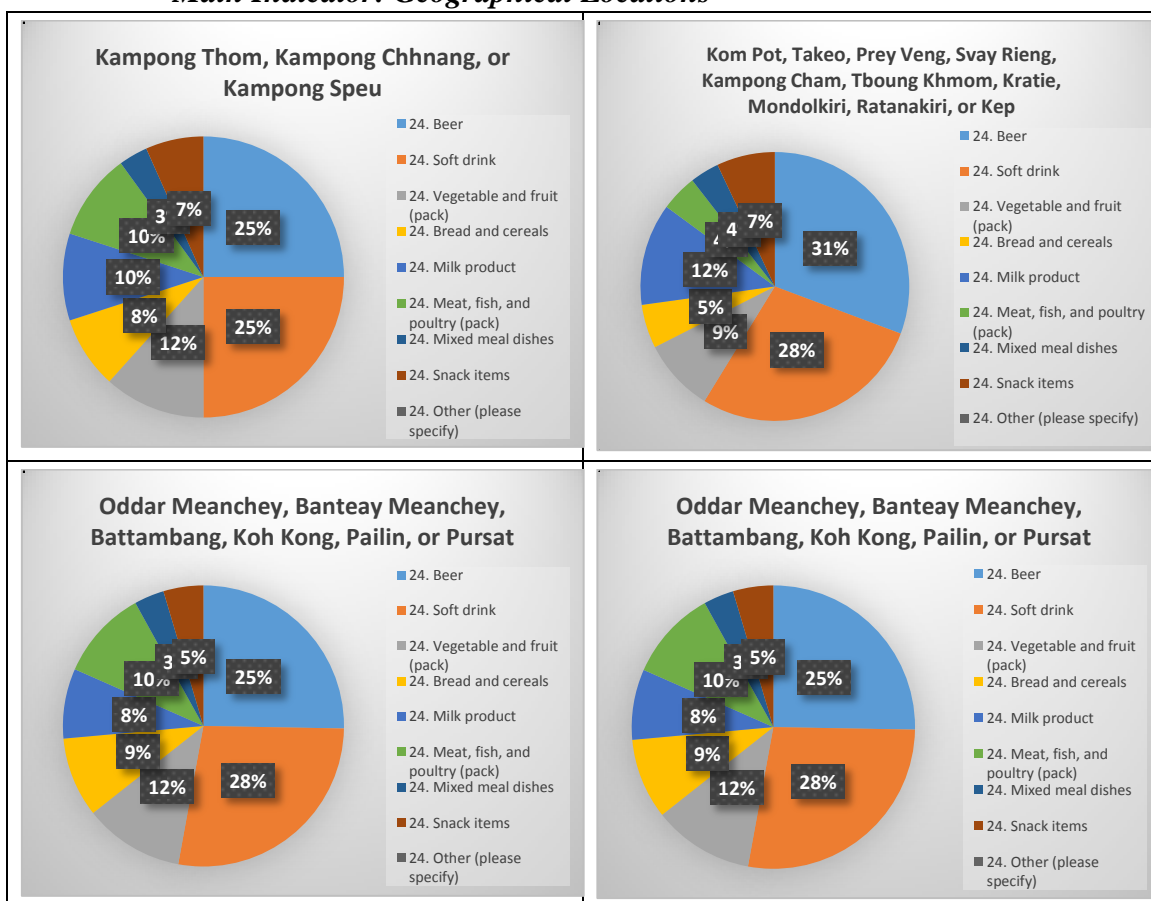
Question 24: If in question 21 you choose food and beverage industry, which product is mostly available? (you can choose more than one)

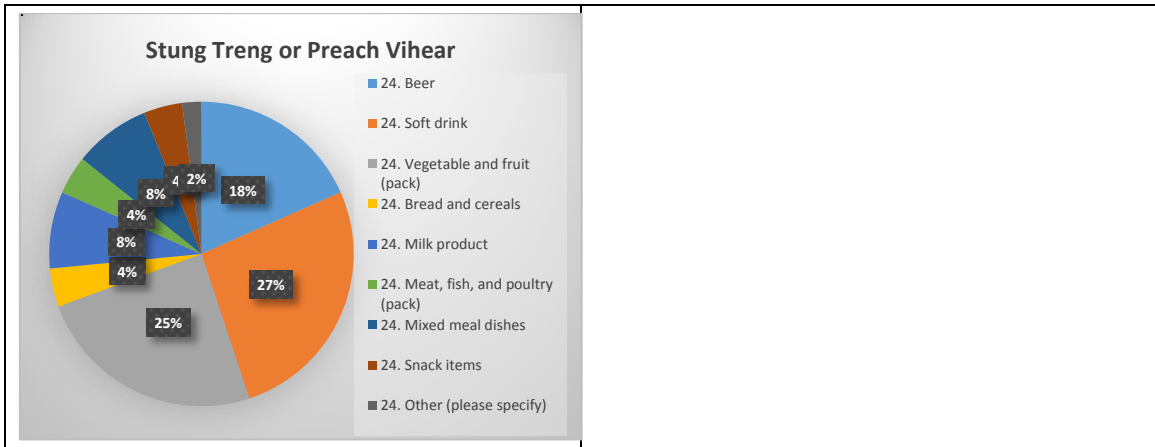
Had the respondents chose the food and beverage industry in question 21, they are asked to comment on which product in that industry is mostly available. In the respondents' perspective, the most available products of the food and beverage industry are beer (48.5% of the total respondents) and soft drink (43.6% of the total respondents). Beer and soft drink are generally the basic consumption and favorite of the domestic consumers that generates the high demand in the country. This popularity make the production grow enormously. Nonetheless, the other product in the same sector has been suffering with fierce competition from the foreign product. This result expresses the narrow basket of domestic product, according to the domestic consumers, which diversification should be improved.

## Summary Respondents' Report

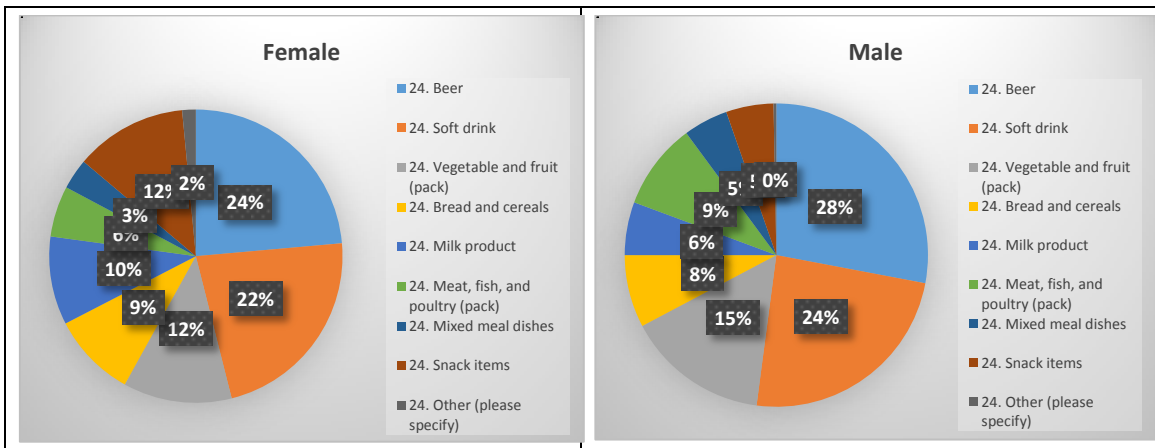


### - Main Indicator: Geographical Locations

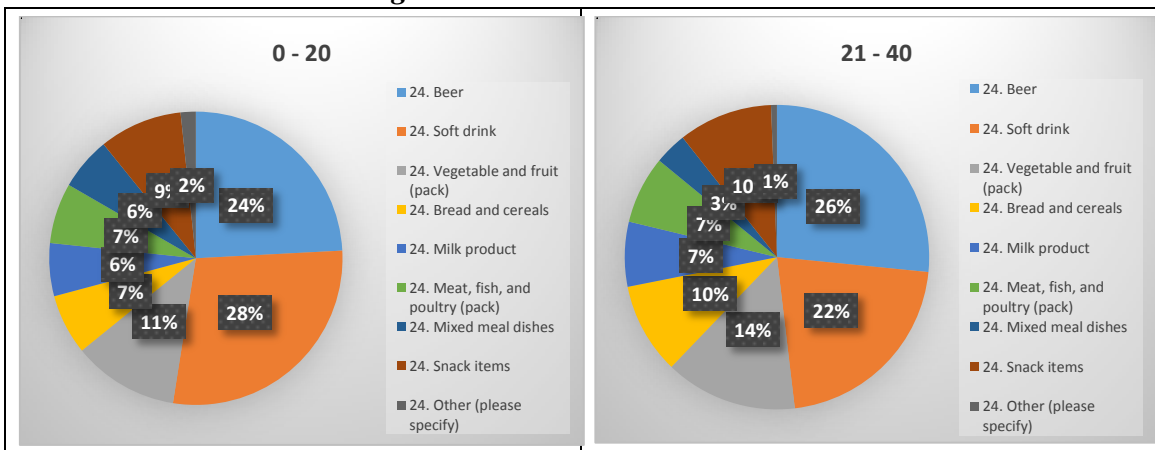


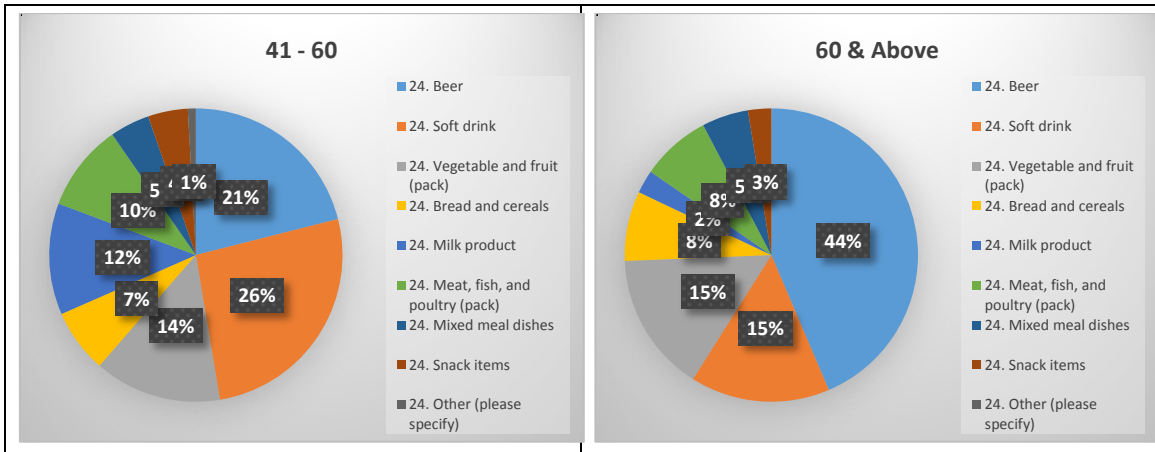


- **Sub-indicator: Gender**

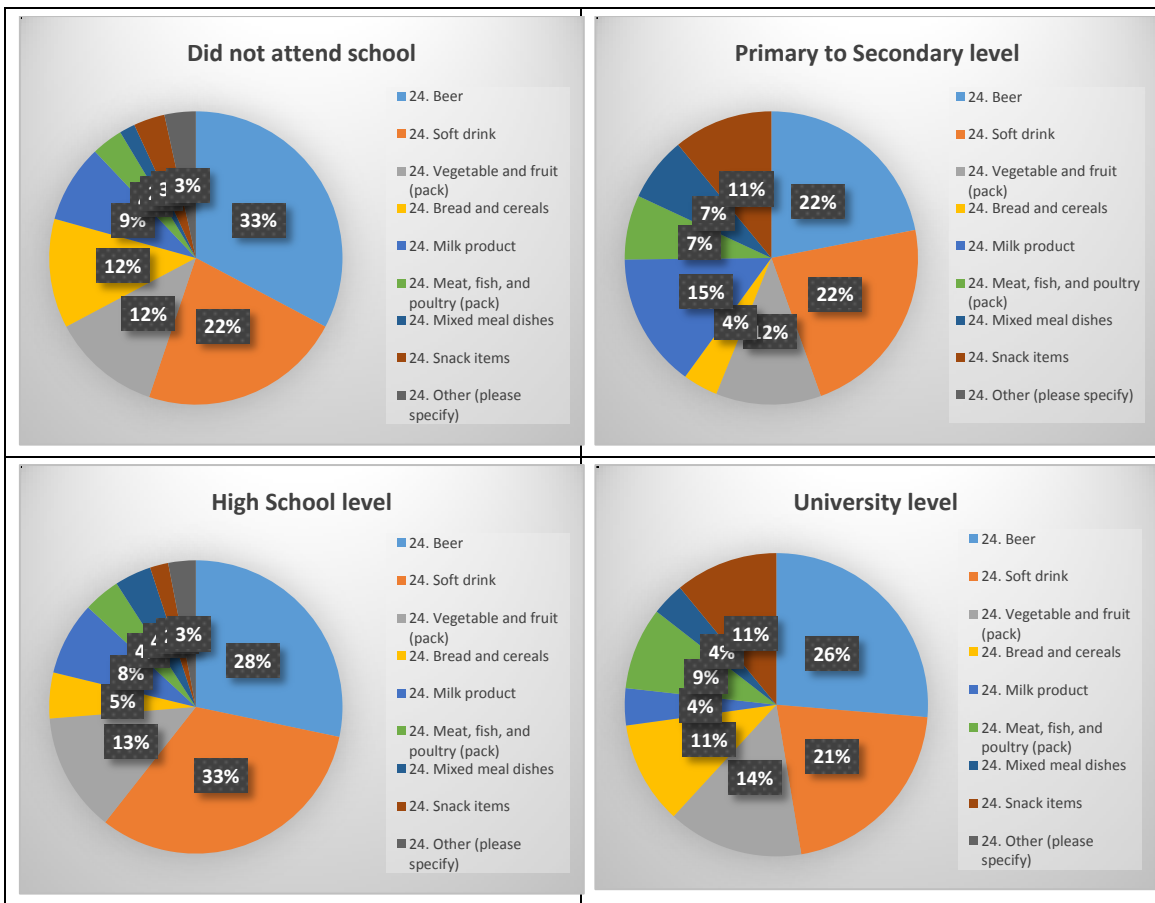


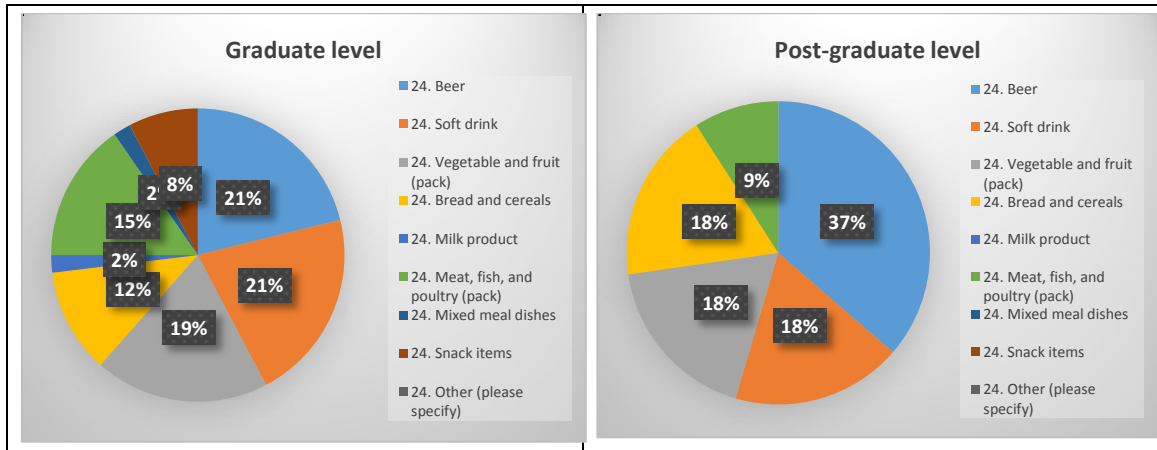
- **Sub-indicator: Age**





- **Sub-indicator: Education**





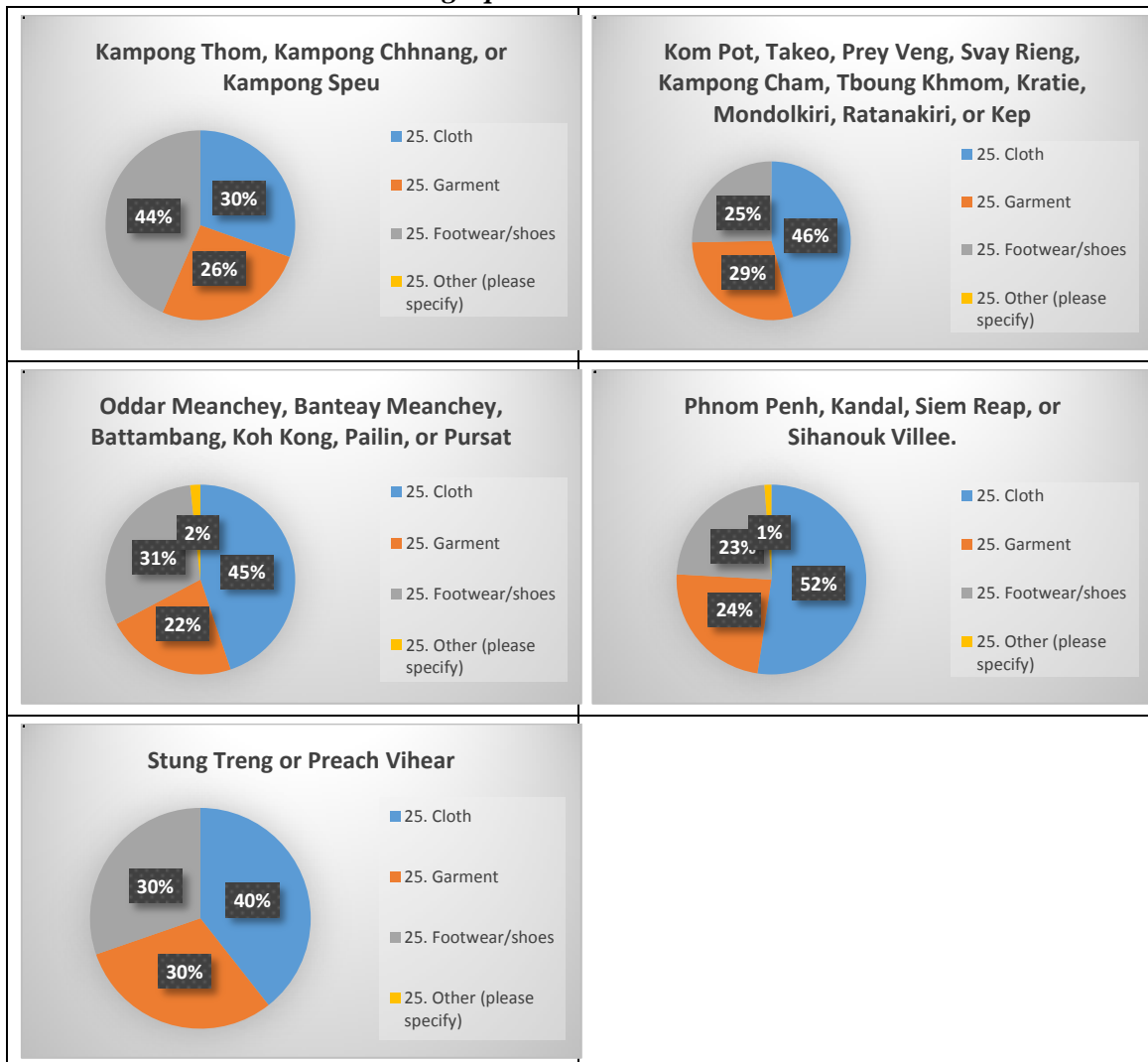
Question 25: If in question 21 you choose cloth/garment industry, which product is mostly available? (You can choose more than one)

With the summary report, the most available product in cloth and garment industry is cloth. About 58.9% of respondents think cloth product is mostly available. The garment industry has been extended noticeably since the last decade as the result of government pro-policy. The domestic product in this area has been improved and generated throughout the country. The other product in the same industry is also showing the sign of improvement with huge investment. This positive effort should be further placed in to ensure the rapid progress of this sector and the narrow export market.

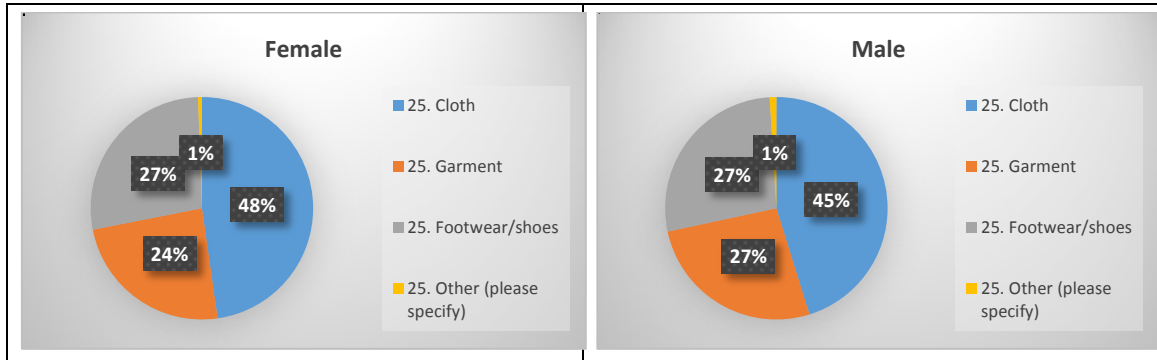
**Summary Respondents' Report**



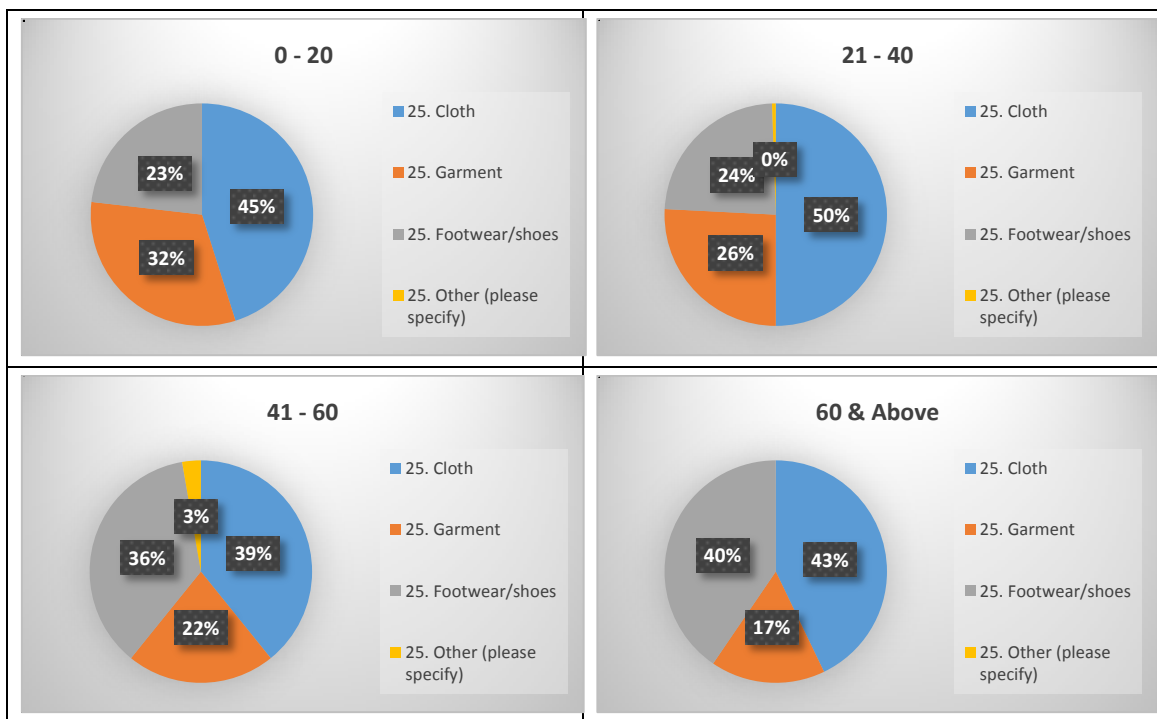
**- Main Indicator: Geographical Locations**



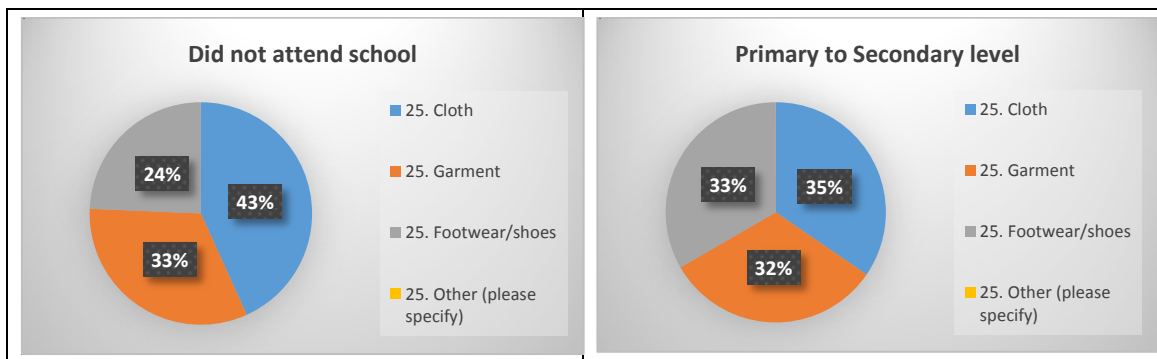
- **Sub-indicator: Gender**

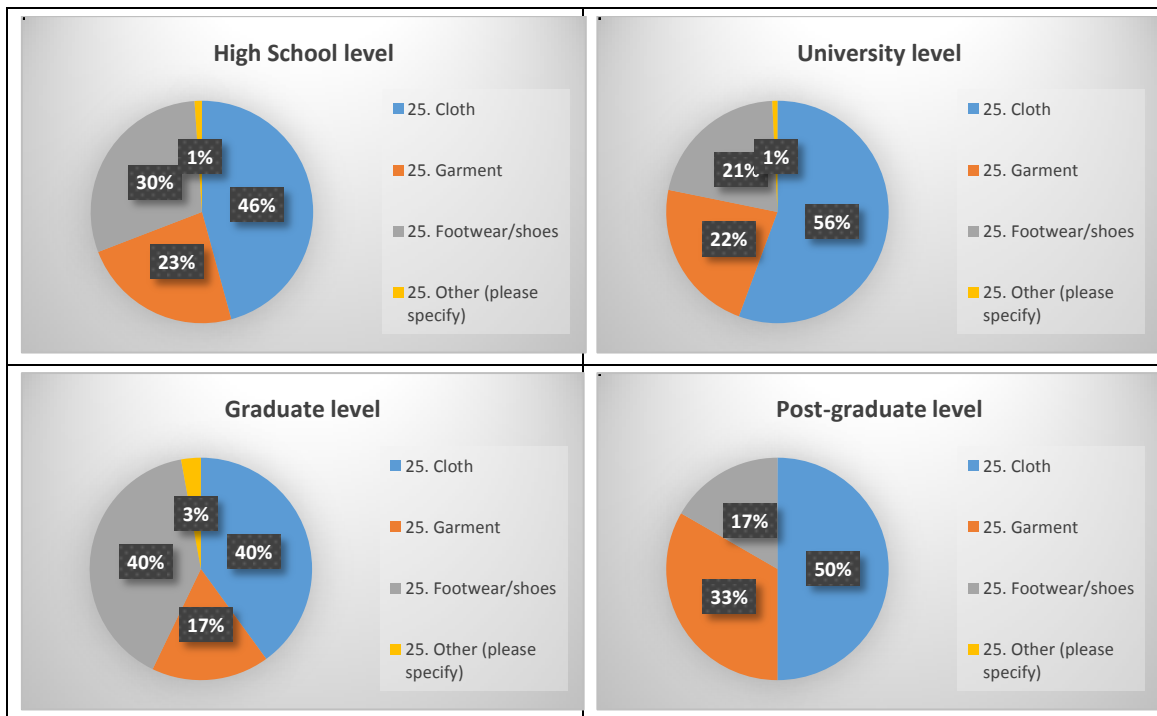


- **Sub-indicator: Age**



- **Sub-indicator: Education**



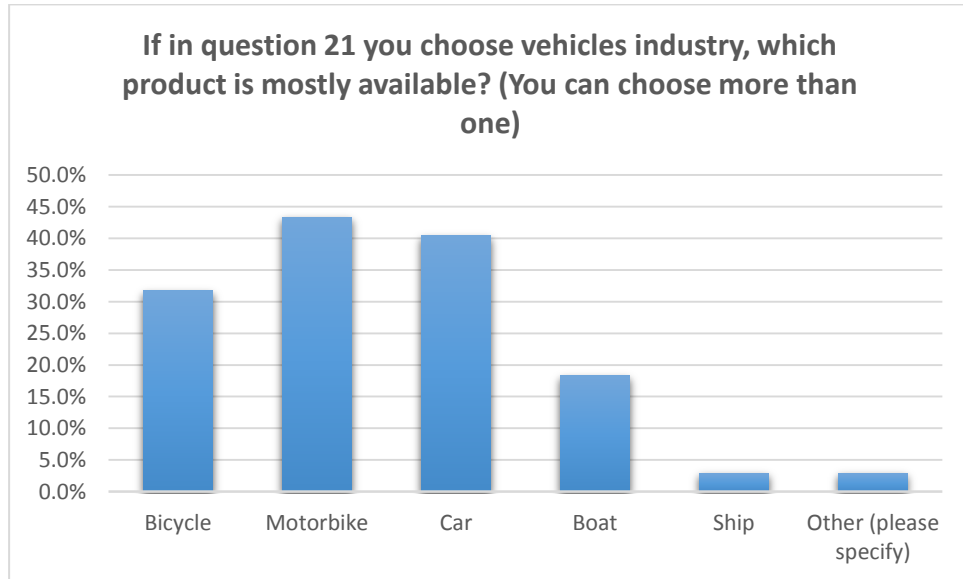


Question 26: If in question 21 you choose vehicles industry, which product is mostly available? (You can choose more than one)

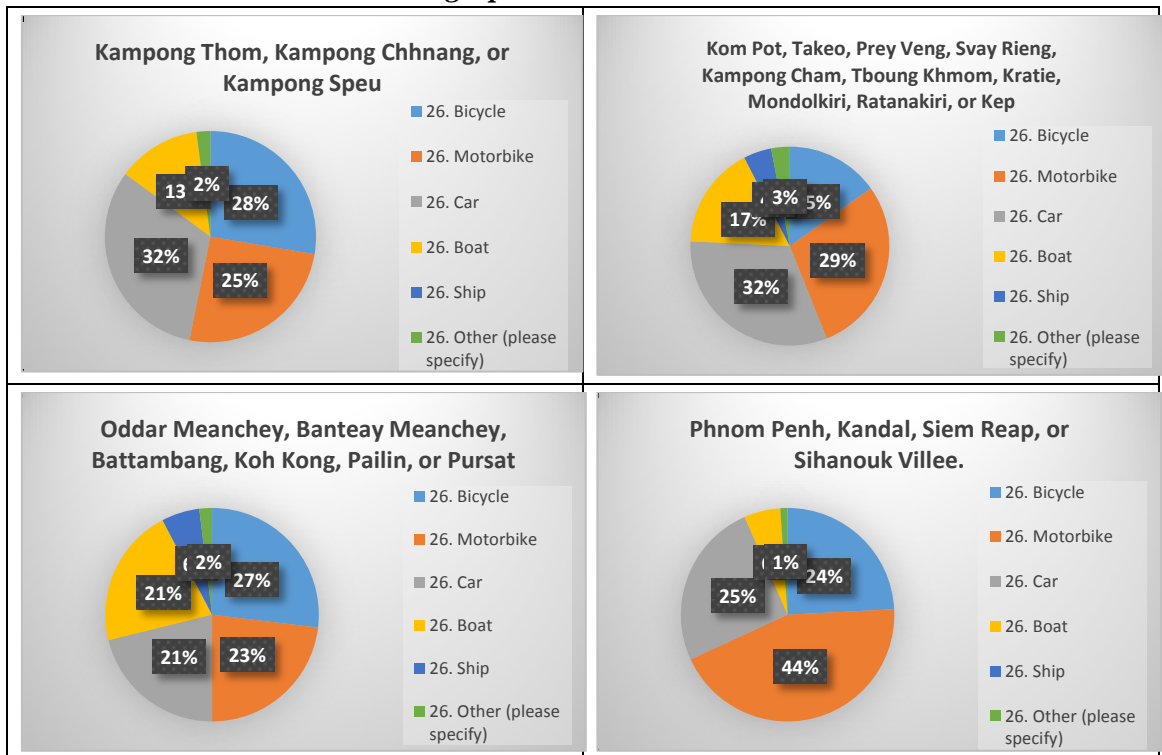
In vehicle industry, 43.3% of the total respondents think motorbike is the most available product in the Cambodia while 40.4% of respondents think car is also the most available product in the country. It seems the contrary to the actual reality since the motorcycle product and car are not produced in Cambodia. For motorcycle, there is only few parts assemble factories aim at enjoying tax incentives. This appeals to be some misunderstanding for the domestic consumer to identify the domestic made product. As mentioned in the chapter five, the government should start the light manufacturing from the scratch. There are few investments on bicycle industry. This should continue to enhance through some sorts of joint venture businesses to ensure the strong foundation of investments in the country as it is one of the most potential sectors. With this sector's improvement, it brings about the upgraded technology to the country, which is needed for the country development.

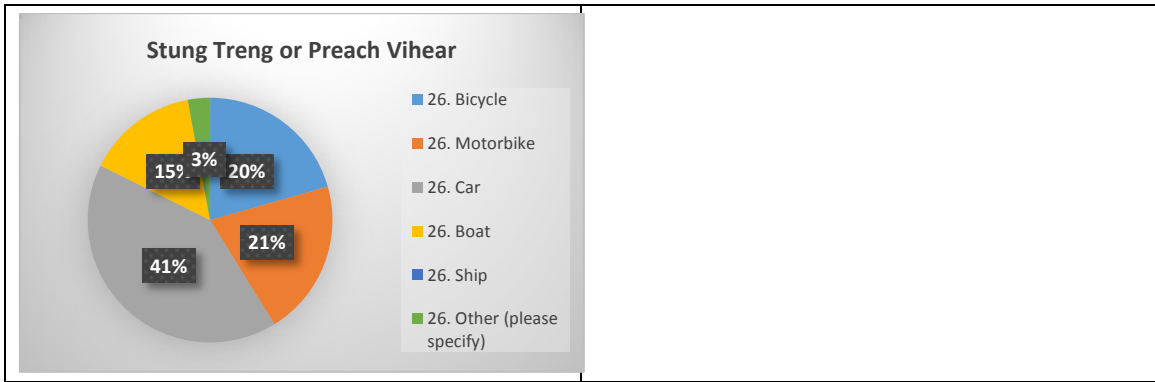


**Summary Respondents' Report**

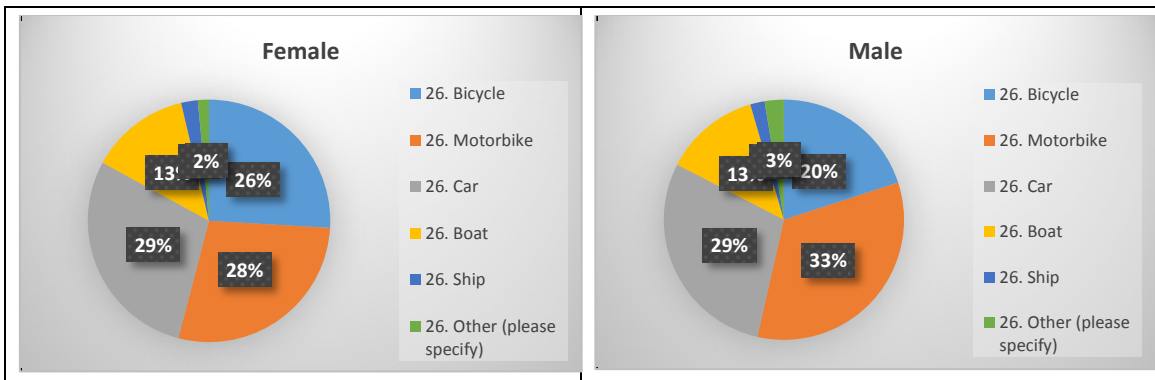


**- Main Indicator: Geographical Locations**

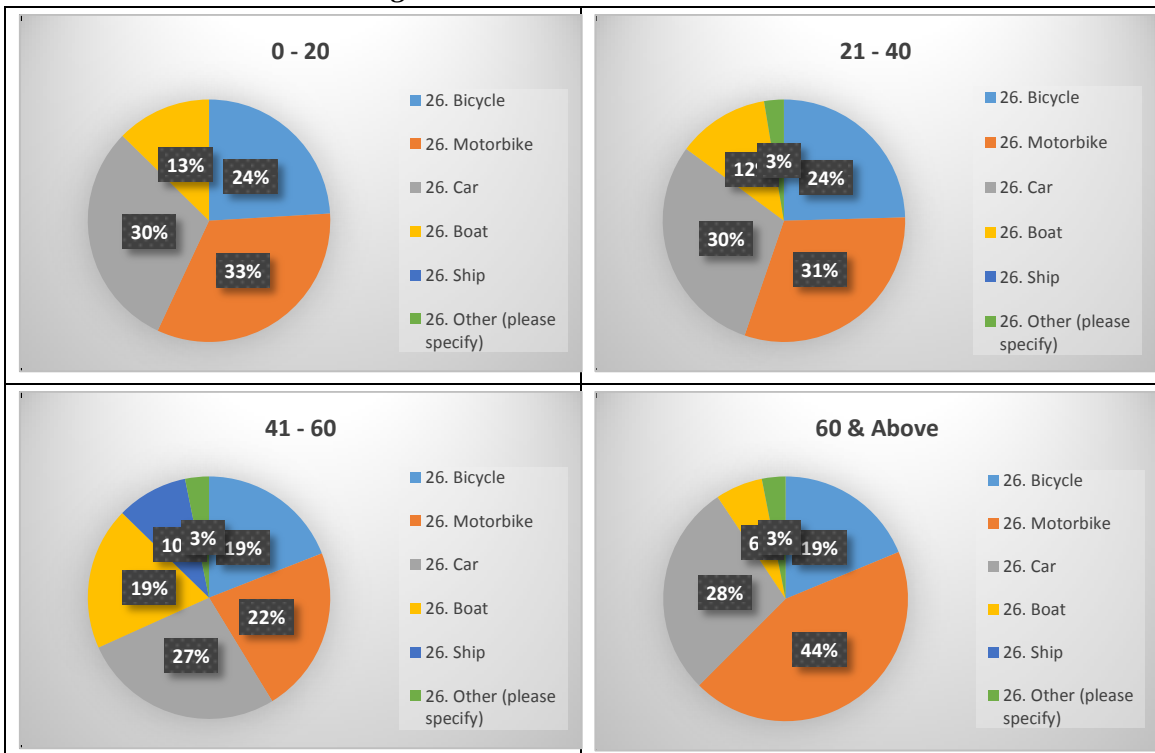




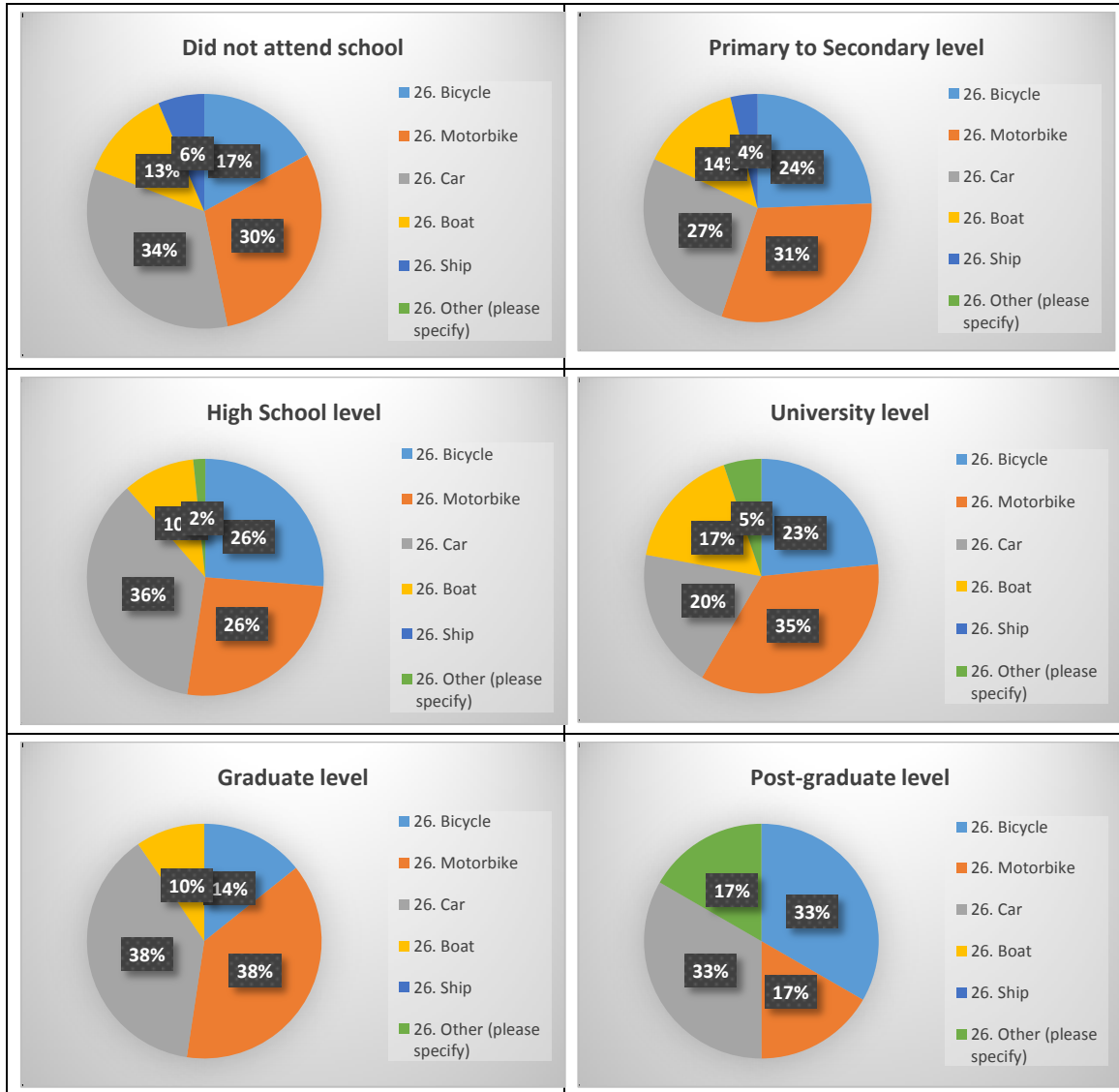
- *Sub-indicator: Gender*



- *Sub-indicator: Age*



- *Sub-indicator: Education*

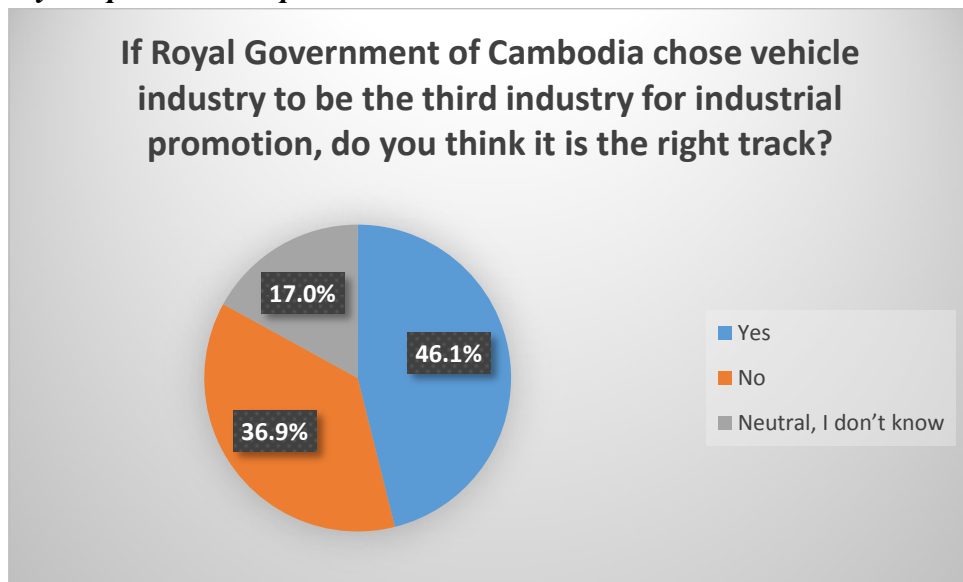


Question 27: If the Royal Government of Cambodia chose vehicle industry to be the third industry for industrial promotion, do you think it is the right track?

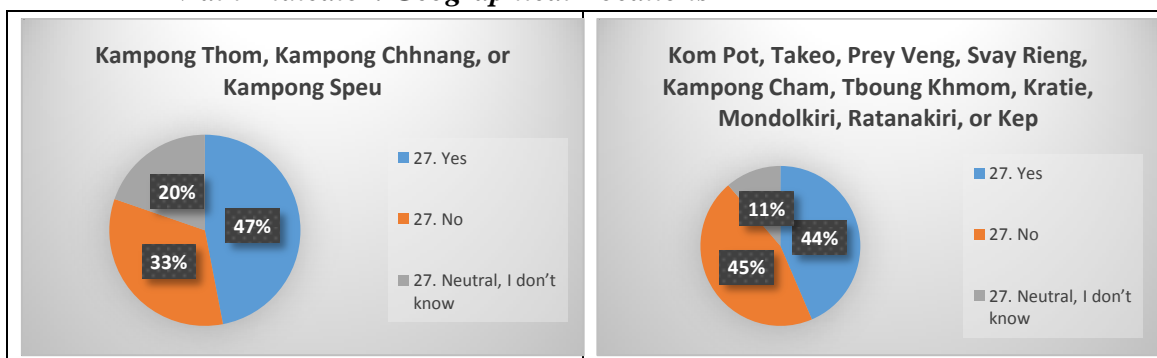
This question wishes to collect ideas from respondents if promoting the vehicle industry is the right track. The summary report shows that 46.1% of total respondents trust that the vehicle industry is the potential industry that should be promoted. It is consistent with this paper suggestion in the third case study in the chapter five that the bicycle industry should be the next targeted industry to be promoted by the government. On the contrary, in the sub-indicator – education

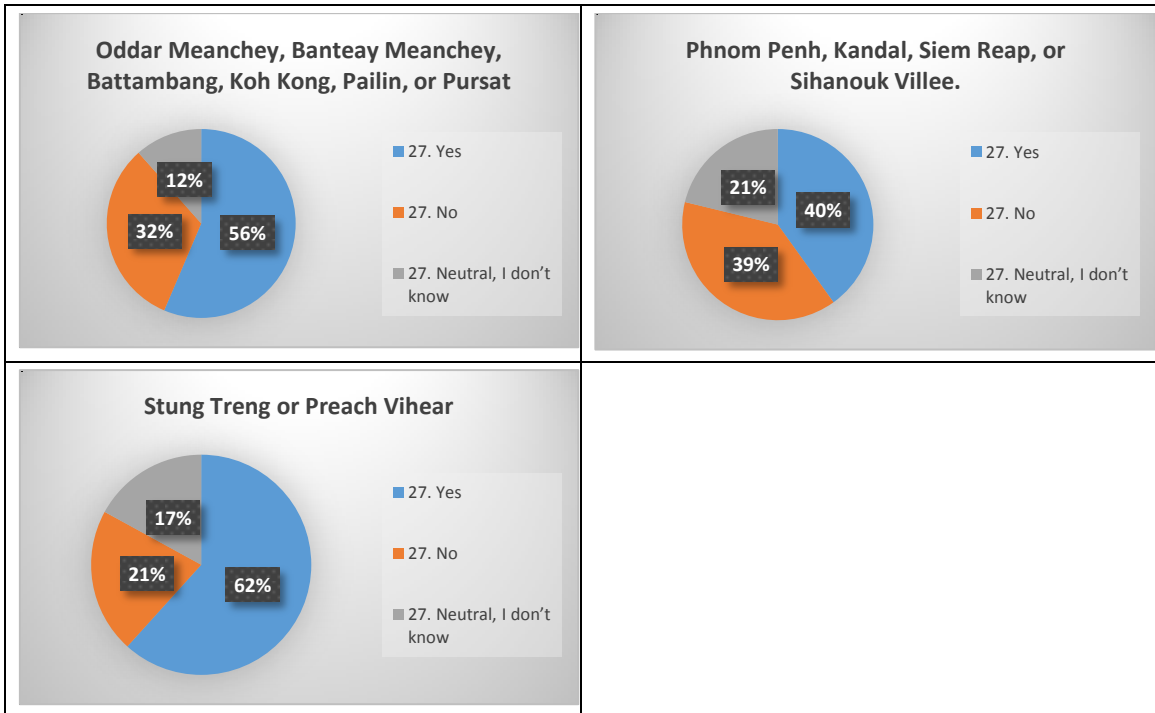
indicator, about 48% of the graduate group says it is not the right industry for the government to be stimulated. Probably, the graduate group thinks in order that the sector to be improved, it has to be with gigantic investment plus massive technology to be success. At the current state of the country development, this group suggests to better focus on the agriculture industry. Beyond, the argument in the paper is somehow contrary. The country should start the diversification to ensure the civilization and industrialization process for the frog leap jump development.

**Summary Respondents' Report**

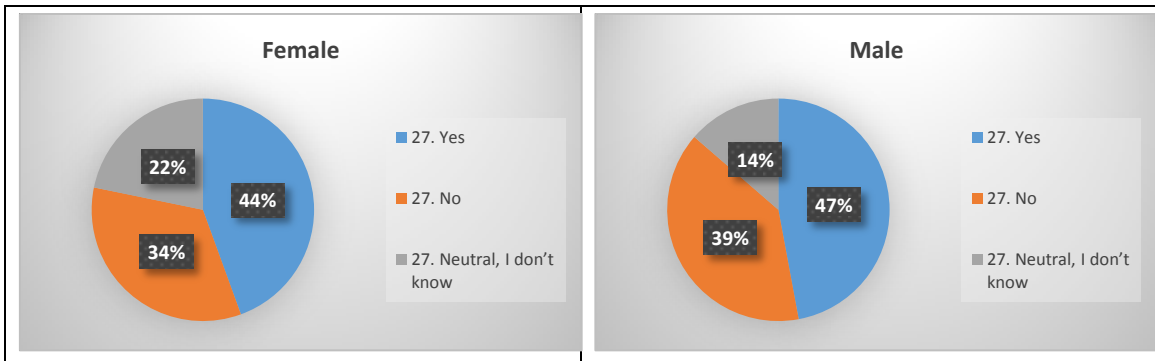


- **Main Indicator: Geographical Locations**

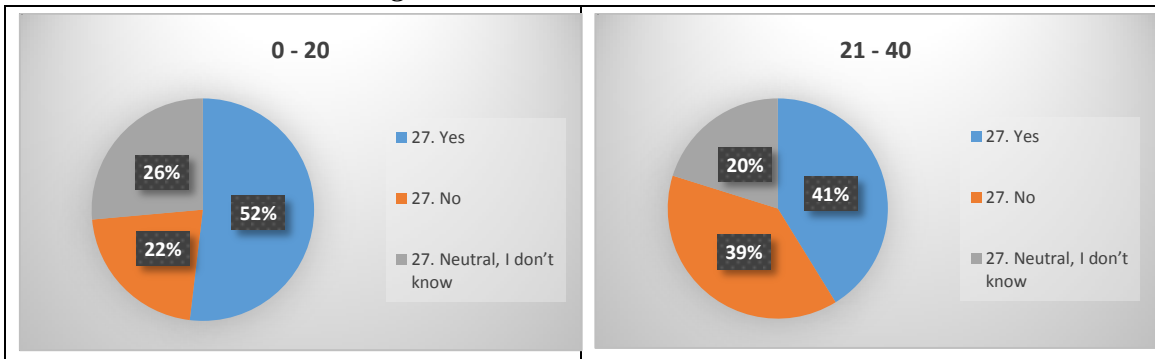


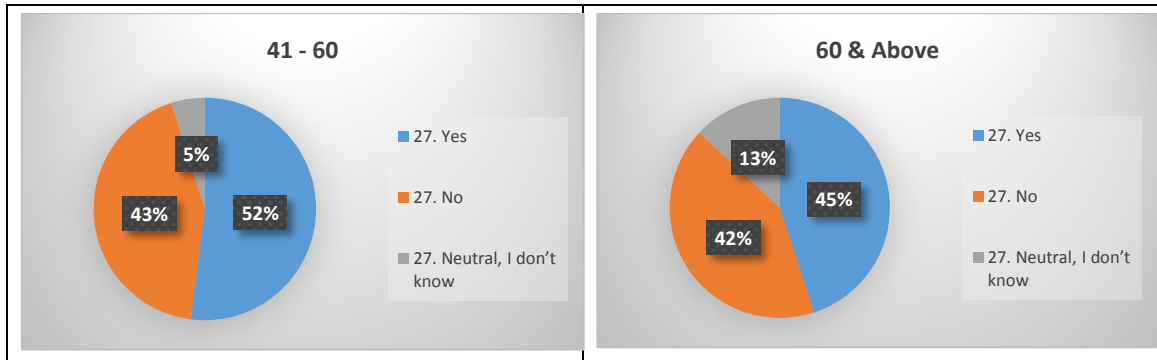


- **Sub-indicator: Gender**

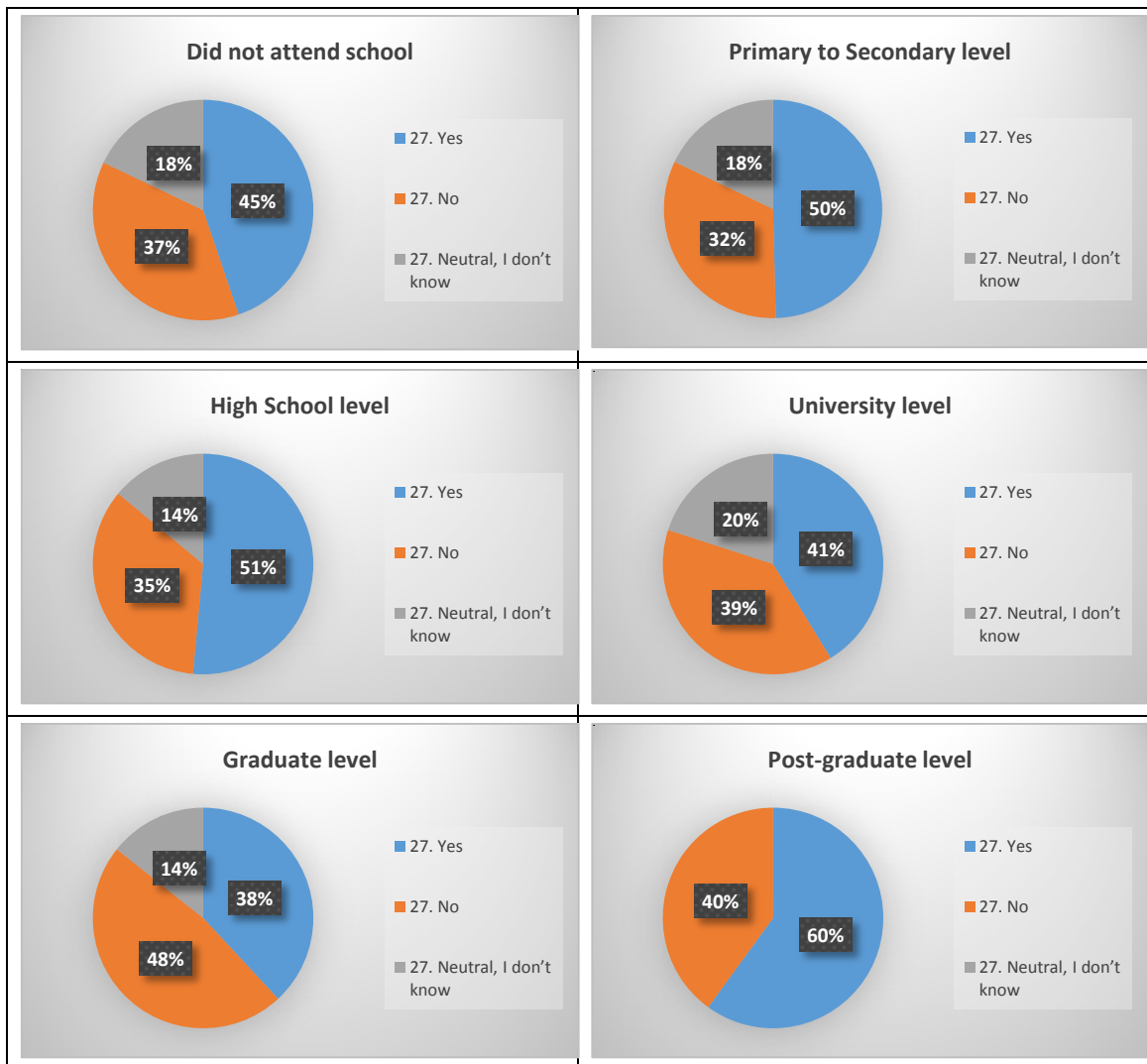


- **Sub-indicator: Age**





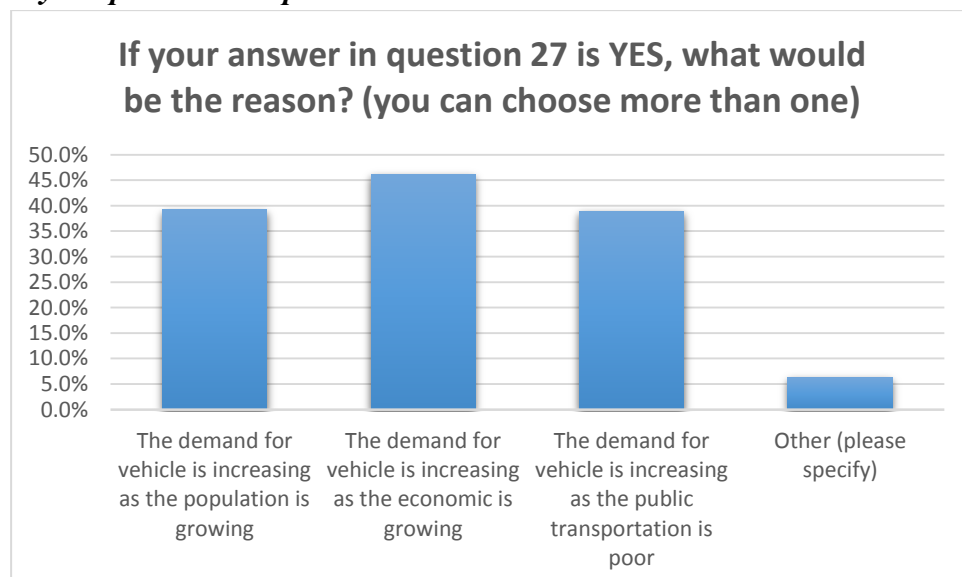
- *Sub-indicator: Education*



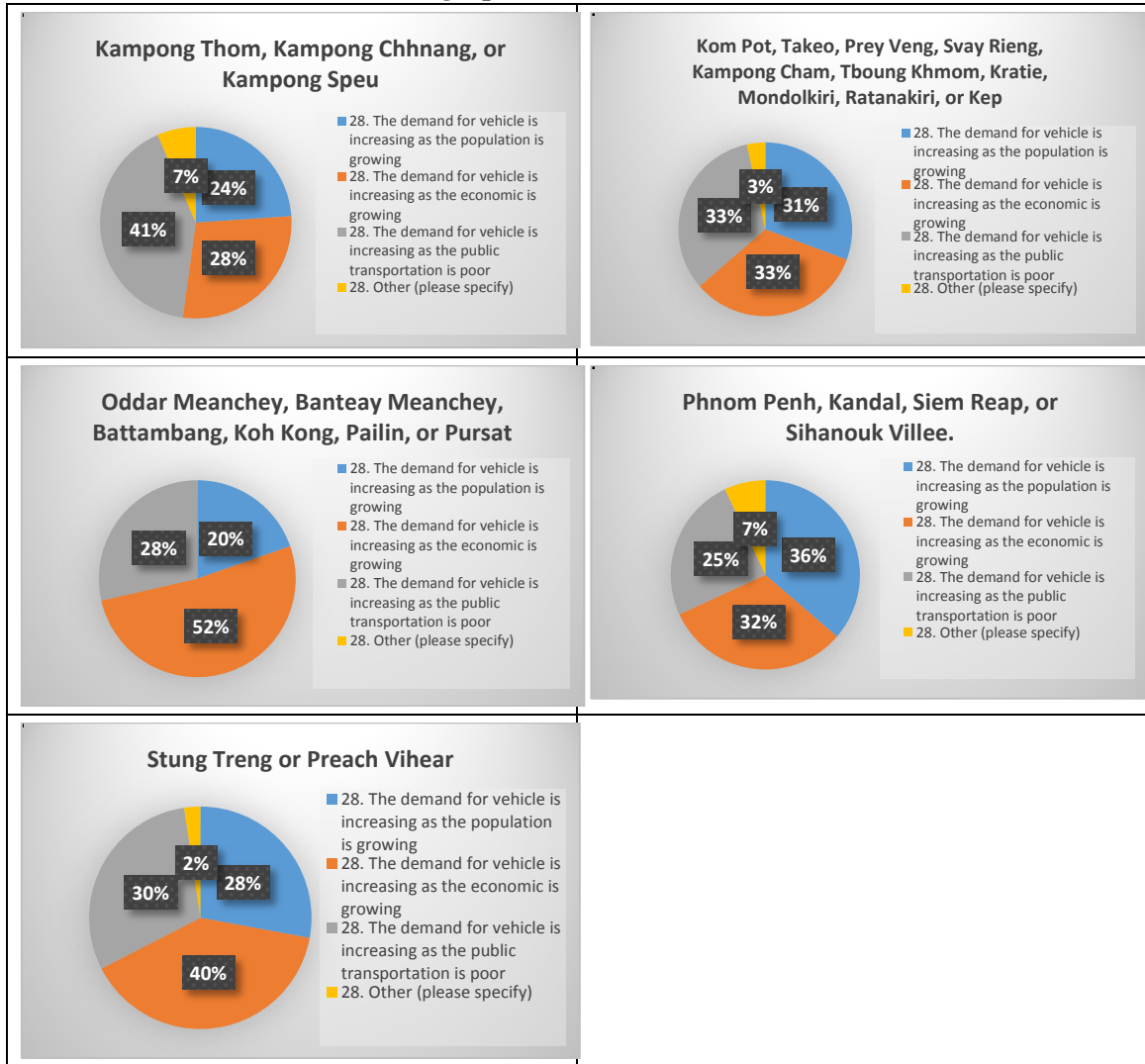
Question 28: If your answer in question 27 is YES, what would be the reason? (you can choose more than one)

Claiming YES answer in question 27, the respondents give the reasons that the demand for vehicle is increasing as the economic is growing, the population is growing, and the public transportation is poor. It seems reasonably in the short run as well the medium term. Indeed, vehicle transportation like motorcycle has becoming a primary transportation in the country. Therefore, in the critical perspective, the motorcycle industry will likely jump undoubtedly. Even though the predicted future of public transportation will be improved, the usage of motorcycle as transportation is still immeasurably and hardly bends down. This proves the demand will be high no matter what. As such, the development of this industry undeniably helps decreasing the cost of import. Furthermore, if the right policy has been amended, the next generation of motorcycle producers will also include Cambodia.

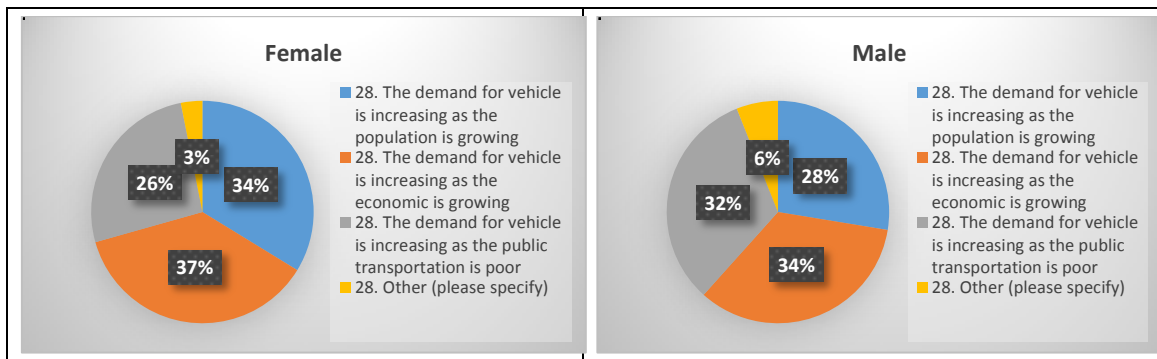
### ***Summary Respondents' Report***



- **Main Indicator: Geographical Locations**

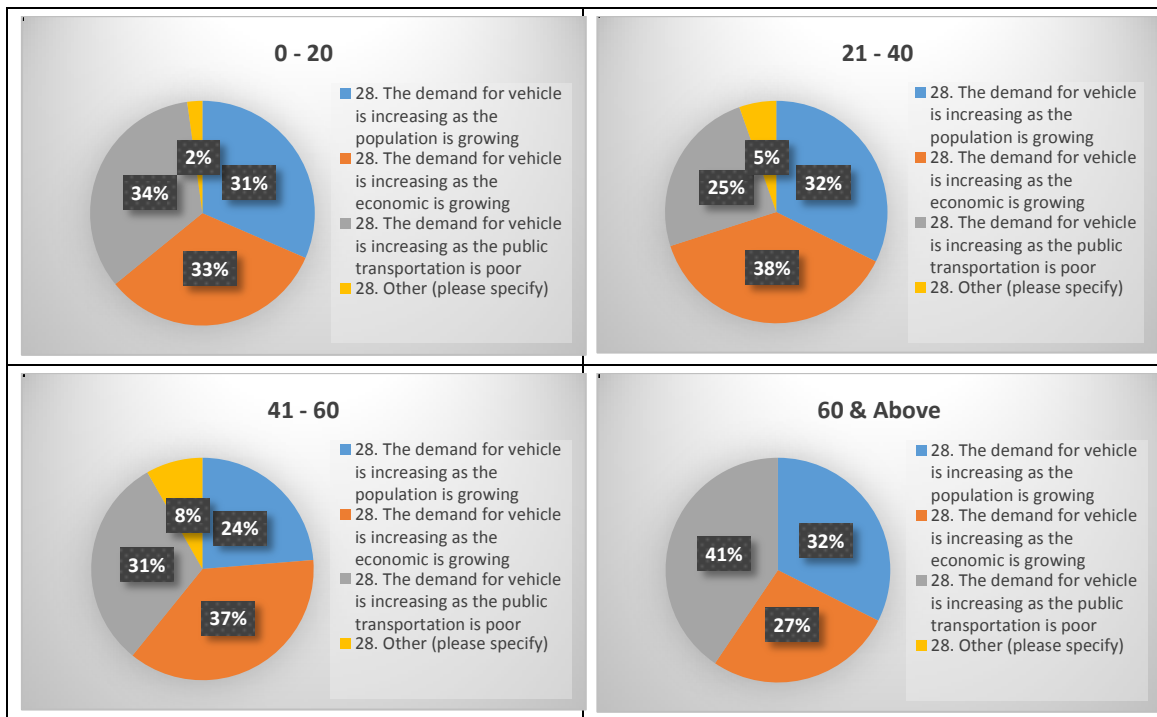


- **Sub-indicator: Gender**

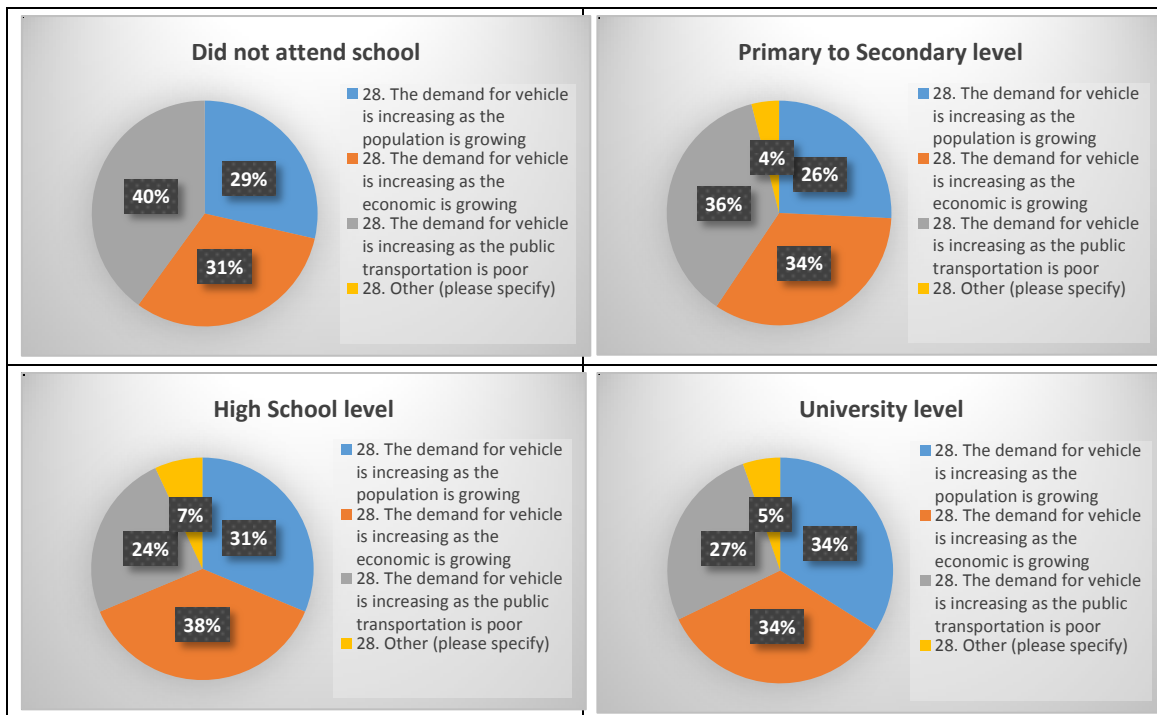


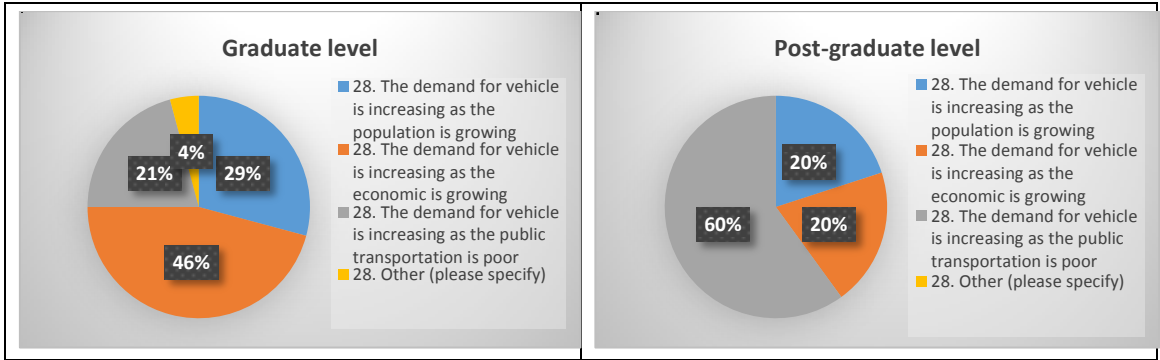


**- Sub-indicator: Age**



**- Sub-indicator: Education**





APPENDIX B  
Special Economic Zones in Cambodia

Concessionaire/Company	Origin	Director nationality	Land area (Hectares)	Contract	Concession Location	Tier
<b>D &amp; M Bavet SEZ</b>	Not specified	Not specified	117,95		Svay Rieng Province, Chathrea	
<b>Doung Chhiv Phnom Den SEZ</b>	Not specified	Not specified	79		Takeo Province, Kiri Vong District	
<b>Dragon King Bavet SEZ</b>	Not specified	Not specified	Not specified		Svay Rieng Province, Krong Bavet District	
<b>Goldfame Pak Shun SEZ</b>	Not specified	Not specified	80		Kandal Province, Sa Ang District	
<b>Hi-Park SEZ</b>	Not specified	Not specified	263.13		Svayrieng Province, Krong Bavet District	
<b>Kampong Saom SEZ</b>	Not specified	Not specified	255		Preah Sihanouk Province, Steung Hav District	
<b>Kampot SEZ</b>	Not specified	Not specified	145		Kampot Province, Kampot District	
<b>Kiri Sakor Koh Kong SEZ</b>	Not specified	Not specified	1750		Koh Kong Province, Kirisakor District	
<b>Manhattan (Svay Rieng) SEZ</b>	Not specified	Not specified	157		Svay Rieng Province, Chanthrea District	
<b>MDS THMORDA SEZ</b>	Not specified	Not specified	2265		Pursat Province, Veal Vong District	
<b>N.L.C SEZ</b>	Not specified	Not specified	105		Svay Rieng Province, Svay Teab District	
<b>Neang Kok Koh Kong SEZ</b>	Not specified	Not specified	335.43		Koh Kong Province, Mundul Seyma District	
<b>Oknha Mong SEZ</b>	Not specified	Not specified	100		Koh Kong Province, Srea Ambel District	
<b>P (SEZ) I C</b>	Not specified	Not specified	107.55		Svay Rieng, Svay Teab District	
<b>Phnom Penh SEZ</b>	Not specified	Not specified	360		Phnom Penh, Posenchey District	
<b>Poi Pet O Neang SEZ</b>	Not specified	Not specified	467		Banteay Meanchey Province, Poay Paet District	

<b>S.N.C SEZ</b>	Not specified	Not specified	150		Preah Sihanouk Province, Prey Nob District
<b>Sanco Cambo SEZ</b>	Not specified	Not specified	0.07		Banteay Meanchey Province, Krong Paoy Paet District
<b>Shandong Sunshell Svay Rieng SEZ</b>	Not specified	Not specified	96.14		Svay Rieng Province, Krong Bavet District
<b>Sihanoukville Port SEZ</b>	Not specified	Not specified	70		Preah Sihanouk Province, Sihanoukville City District
<b>Sihanoukville SEZ 1</b>	Not specified	Not specified	178		Preah Sihanouk Province, Steung Hav District
<b>Sihanoukville SEZ 2</b>	Not Specified	Not specified	1688		Preah Sihanouk Province, Prey Nop District
<b>Steung Hav SEZ</b>	Not specified	Not specified	196		Preah Sihanouk Province, Steung Hav District
<b>Souy Chheng SEZ</b>	Not specified	Not specified	100		Koh Kong Province, Mundul Seyma District
<b>Tai Seng Bavet SEZ</b>	Not specified	Not specified	99		Svay Rieng Province, Bavet District
<b>Thary Kampong Cham SEZ</b>	Not specified	Not specified	142.14		Kampong Cham Province, Memot District
<b>Try Pheap Ou Ya Dav</b>	Not specified	Not specified	136		Ratanakiri Province, Ou Ya Dav District
<b>Zhong Jian Jin Bian Jing Ji Te Qu SEZ</b>	Not specified	Not specified	470.28		Kampong Chnang Province, Kampong Tralach District

Source: (OpenDevelopment 2014)

## APPENDIX C

### Cambodia's Tariff Lines

<b>Part A1</b>		<b>Tariffs and imports: Summary and duty ranges</b>								
<b>Summary</b>		Total	Ag	Non-Ag	WTO member since				2004	
Simple average final bound		19.1	28.1	17.7	Binding coverage:		Total		100	
Simple average MFN applied	2012	10.9	15.2	10.3			Non-Ag		100	
Trade weighted average	2011	8.9	8.2	9.0	Ag: Tariff quotas (in %)				0	
Imports in billion US\$	2011	6.1	0.4	5.7	Ag: Special safeguards (in %)				0	

<b>Frequency distribution</b>		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV
		Tariff lines and import values (in %)								
<b>Agricultural products</b>										
Final bound		0	3.4	7.3	17.3	14.6	56.6	0.9	0	0
MFN applied	2012	13.5	0	38.1	21.8	0	26.5	0	0	0
Imports	2011	25.1	0	56.3	11.7	0	7.0	0	0	0
<b>Non-agricultural products</b>										
Final bound		1.1	0	29.0	29.6	17.2	23.1	0	0	0
MFN applied	2012	16.0	0	44.9	32.7	0	6.4	0	0	0
Imports	2011	23.5	0	49.8	22.2	0	4.5	0	0	0

<b>Part A2</b>		<b>Tariffs and imports by product groups</b>								
<b>Product groups</b>	Final bound duties				MFN applied duties			Imports		
	AVG	Duty-free	Max	Binding	AVG	Duty-free	Max	Share	Duty-free	
	in %	in %	in %	in %	in %	in %	in %	in %	in %	
Animal products	32.3	0	40	100	27.9	9.2	35	0.1	43.1	
Dairy products	36.5	0	40	100	21.6	0	35	0.1	0	
Fruit, vegetables, plants	26.0	0	40	100	12.5	10.1	35	0.2	5.0	
Coffee, tea	36.6	0	40	100	26.7	0	35	0.1	0	
Cereals & preparations	29.2	0	40	100	13.5	16.0	35	1.3	7.9	
Oilseeds, fats & oils	22.2	0	40	100	7.6	17.8	35	0.3	57.6	
Sugars and confectionery	27.8	0	40	100	7.0	0	7	0.3	0	
Beverages & tobacco	43.6	0	60	100	23.8	0	35	2.8	0	
Cotton	7.0	0	7	100	0.0	100.0	0	0.0	100.0	
Other agricultural products	23.7	0	40	100	10.9	25.8	35	1.4	93.9	
Fish & fish products	23.2	0	40	100	19.5	1.4	35	0.1	25.7	
Minerals & metals	20.3	0	40	100	7.6	29.2	35	10.4	42.2	
Petroleum	23.9	0	40	100	12.5	6.3	35	13.1	61.8	
Chemicals	9.6	0	40	100	7.2	15.7	35	5.3	45.3	
Wood, paper, etc.	24.9	0	35	100	9.9	2.0	35	2.7	14.6	
Textiles	10.1	0	40	100	5.5	24.8	35	36.6	8.1	
Clothing	17.5	0	18	100	14.1	0	15	0.8	0	
Leather, footwear, etc.	28.9	0	40	100	12.6	1.3	35	2.3	1.0	
Non-electrical machinery	15.5	1.8	35	100	13.4	9.2	35	6.8	14.4	
Electrical machinery	26.8	11.7	35	100	17.1	11.0	35	4.4	19.4	
Transport equipment	24.3	0	43	100	15.7	9.3	35	7.3	6.4	
Manufactures, n.e.s.	24.8	2.1	35	100	14.7	15.5	35	3.5	38.3	

<b>Part B</b>		<b>Exports to major trading partners and duties faced</b>								
<b>Major markets</b>	Bilateral imports		Diversification		MFNAVG of		Pref.	Duty-free imports		
	in million	95% trade in no. of	HS 2-digit	HS 6-digit	Simple	Weighted	margin	TL	Value	
	US\$	HS 2-digit	HS 6-digit	Simple	Weighted	Weighted	in %	in %		
<b>Agricultural products</b>										
1. European Union	2011	105	2	3	15.6	32.6	32.6	100.0	100.0	
2. Viet Nam	2010	91	5	5	13.8	10.9	6.7	51.3	48.3	
<b>Non-agricultural products</b>										
3. Thailand	2011	49	6	6	23.0	31.3	31.3	100.0	100.0	
4. Malaysia	2011	14	4	5	29.1	28.4	0.3	28.1	25.1	
5. Russian Federation	2011	10	1	1	200.4	206.9	206.9	100.0	100.0	
<b>Non-agricultural products</b>										
1. United States	2011	2,700	7	85	9.6	16.5	0.1	33.6	2.5	
2. European Union	2011	1,697	5	64	7.2	11.9	11.9	99.8	100.0	
3. Canada	2011	528	6	70	11.5	17.7	17.7	100.0	100.0	
4. Japan	2011	303	4	36	15.7	42.3	42.2	97.0	98.5	
5. Viet Nam	2010	185	6	10	11.1	2.7	0.5	44.3	30.4	

Source: (World Trade Organization n.d.)

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