



MINISTRY OF EDUCATION YOUTH AND SPORT

BUILD BRIGHT UNIVERSITY

SCHOOL OF DOCTORAL STUDIES

MEUK KIMSROEUN

A STUDY ON ASEAN TRADES AND POLICIES

(WITH SPECIAL REFERENCE TO CAMBODIA)

THESIS SUBMITTED FOR THE DEGREE OF

DOCTOR OF BUSINESS ADMINISTRATION

SPECIALIZATION

MANAGEMENT

PHNOM PENH-MAY, 2018



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Prof. (Dr.) TAPAS R. DASH

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Thesis Approved by Doctoral Research and Evaluation Committee

Dr.

Dr.

Dr.

Dr.

Dr.

MoEYS Representative

Asso. Prof. Diep Seiha

President, BBU

DECLARATION

I do hereby declare that except otherwise stated the thesis **"A Study on ASEAN Trades and Policies (With Special Reference to Cambodia)"** is based on my original work and the same has not been submitted either in part or in full for the award of any other degree of any other University.

Meuk Kimsroeun



BUILD BRIGHT UNIVERSITY

School of Doctoral Studies

Prof. (Dr.) Tapas R. Dash

Senior Vice President

University Affairs

CERTIFICATE

This is to certify that the thesis entitled "**A Study on ASEAN Trades and Policies (With Special Reference to Cambodia)**" written and submitted by Mr. MEUK KIMSROEUN towards the fulfillment of the requirements of the Degree of Doctor of Business Administration in Management to the Build Bright University, Cambodia is a record of genuine research work carried out under my guidance and supervision. The thesis or a part thereof has not been submitted to any other University/Institution for any research degree.

Tapas. R. Dash

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List of Abbreviations

ACFI	Aged Care Funding Instrument
ACFTA	ASEAN–China Free Trade Area
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AHTN	A new harmonized tariff nomenclature
AIA	ASEAN Investment Area
APEC	Asia Pacific Economic Cooperation
ASC	ASEAN Security Community
ASEAN	Association of South East Asian Nations
ASEM	Asia-Europe Meeting,
ASYCUDA	Automated System for Customs Data
AVG	Average
C.I.F.	Cost, Insurance and Freight
CDC	Council for the Development of Cambodia
CEPT	Common Effective Preferential Tariff
CG	Consultative Group
CITES	Convention on International Trade in Endangered Species
CLMV	Cambodia, Lao PDR, Myanmar, and Viet Nam
CO	Certificate of Origin
CP	Certificate of Processing
DGCE	Directorate General of Customs and Excise
EALAF	East Asia-Latin America Forum
ECS	Economic Cooperation Strategy
ECSPA	Economic Cooperation Strategy Plan of Action
ELG	Export-Led Growth model
EMAF	Export Market Access Fund
ESM	Emergency Safeguard Mechanism
EU	European Union
FDI	Foreign Direct Investment

GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs And Trade
GDP	Gross Domestic Product
GMS	Greater Mekong Sub-region
GSP	Generalized Scheme of Preferences
H-O	Hecksher-Ohlin
IBRD	International Bank for Reconstruction and Development
IEC	International Electro-technical Commission
IF	International Finance
IMF	International Monetary Fund
ISI	Import-Substitution Industrialization
ISO	International Standard Organization
ITC	Institute of Technology of Cambodia
ITU	International Telecommunications Union
JETRO	Japanese External Trade Relations Organization
K	Capital
KOTRA	Korea Trade Promotion Agency
L	Labour
MAFF	Ministry of Agriculture, Fishery and Forest
MATRADE	Malaysia External Trade Development Corporation
MEF	Ministry of Economy and Finance
MFA	Multi-Fibre Arrangement
MFNs	Most favor nations
MIME	Ministry of Industry, Mines and Energy
MNCs	Multi-national companies
MoC	Ministry of Commerce
NAFTA	North American Free Trade Agreement
NGO	Non-government organization
NSDP	National Strategic Development Plan
PPP	Purchasing Power Parity
PSI	Pre-shipment inspection
RGC	Royal Government of Cambodia
RTA	Regional Transportation Authority
SARS	Severe Acute Respiratory Syndrome

SEZs	Special economic zones
SITC	Security Innovation Technology Consortium
SMEs	Small-medium enterprises
SPS	Sanitary and Phytosanitary
SPSS	Statistical Package for Social Sciences
TBT	Technical Barriers to Trade
TPD	Trade Promotion Department
TRIMS	Trade-Related Investment Measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USA	United State of America
WHO	World Health Organization
WITS	World Integrated Trade Solution
WTO	World Trade Organization

ASEAN trade is expected to strengthen economic growth among ASEAN countries. Considering the importance of international trade in economic growth, the present study has made an attempt to analyze ASEAN trade with special reference to Cambodia for the period of ten years, i.e., from 2001 to 2011. Further, an analysis of the policies relating to trade of both ASEAN and Cambodia has been carried out in order to examine the trend of trade from 2012 to 2022.

The study sought to provide answers to the following questions:

- a) What factors determine international trade?
- b) What were the variations of ASEAN and Cambodia's trade value from 2001 to 2011?
- c) What will be the future trend of ASEAN and Cambodia's trade value from 2012 to 2022?
- d) What roles do the agencies, associations and government play to promote ASEAN and Cambodia's trade?
- e) What measures are needed to be taken by ASEAN and Cambodia to increase the future trade value?

The study has focused on the following objectives:

- a) To review the literature in identifying and analyzing the factors influencing international trade.

- b) To analyze the value of trade variations of ASEAN and Cambodia from 2001 to 2011.
- c) To study the future trend of ASEAN and Cambodia's trade value from 2012 to 2022.
- d) To analyze the policies and procedures of several agencies, associations, and government to promote ASEAN and Cambodia trade.

The study had attempted to test the following hypotheses:

- a) Ho1: There is no year-wise variations of ASEAN and Cambodia's trade values during the study period.
- b) Ho2: There is no significant difference between the actual and estimated ASEAN and Cambodia's trade values over the study period.

Both descriptive and quantitative analyses were carried out in the present study. Factors influencing international trade as well as policies and procedures of several agencies, associations and government involved in promoting ASEAN and Cambodia's trade were analyzed descriptively. Quantitative analysis was undertaken in analyzing the variations of ASEAN and Cambodia's trade over the period 2001 to 2011 along with projections of trade values from 2012 to 2022.

ASEAN and Cambodia had the potential and high bargaining power in trading and co-operating activities with large number of partners in the world. As of 2011, the ASEAN region had a population of about 604 million, a total area of 4.5 million square kilometers, a combined Gross Domestic Product of almost USD 2 billion, and a total trade of about USD 2.4 billion. The region is an important economic force in the world today. Along with ASEAN, Cambodia had almost USD 7,790 million GDP with nearly 14.5 million people in 2011. With such economic forces, the region had a high bargaining power in the world economy and possesses the potential to identify the economic cooperation among its member nations and neighboring countries. The ASEAN Vision 2022, adopted by the ASEAN leaders on the 30th Anniversary of ASEAN, agreed on a shared vision of ASEAN as a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies.

International trade of ASEAN along with Cambodia revealed that the intra-ASEAN trade was lower than the extra-ASEAN trade potentials. It was found that the total trade grew constantly about 12 percent from 2001 to 2011. USA, EU-27, Canada and Australia were the main export destinations for ASEAN. In addition, USA and EU-27 also traded with Cambodia amounting to USD 17,869.82 million and USD 7,601.22 million respectively over the study period. Both ASEAN and Cambodia got trade surplus from USA and EU-

27, but experienced trade deficit from China, Japan, South Korea and Russia from 2001 to 2011.

ASEAN earned a sum of USD 1,242,286 million by exporting top 20 products to all over the world. The commodities shared 47.7 percent with the total ASEAN exports and the other subordinate export products accounted for 52.3 percent in 2011. The top grouping commodities were electronic integrated circuits, Petroleum oils, gases and other gaseous hydrocarbons, automatic data processing machines and units thereof, natural rubber, coal & briquettes & ovoids, parts & accessories of computers & office machines, diodes & transistors & similar semiconductor devices, telephone sets, printing machinery, parts & accessories of motor vehicles, gold, electrical machines and apparatus, rice, discs & tapes & solid-states non-volatile storages devices, monitors and projectors, articles of jewelry and parts thereof and polymers of ethylene.

In 2011, Cambodia earned a sum of USD 6,635.9 million by exporting top 10 products to all over the world and more than half of the total exports made to G8 member states. The commodities were identified as natural sands of all kinds, rice, manioc (cassava), and similar roots and tubers, fish, women's or girls' suits, fuel wood, men's or boys' suits, natural rubber, and others.

ASEAN also spent an amount of USD 1,146,306 million in 2011 to import the top 20 commodities from the world. The commodities had accounted for 46.4 percent of the total imports and the rest was 53.6 percent in 2011. The commodities were identified as petroleum oils, electronic integrated circuits, bituminous minerals & crude, electric appliance, gold, unwrought, parts & accessories of computers & office machines, automatic data processing machines and optical reader, parts & accessories of motor vehicles, petroleum gases and other gaseous hydrocarbons, semiconductor devices, printing machines, aircraft, powered; spacecraft & launch vehicles, helicopters, satellites, motor cars & vehicles, turbo-jets, polymers of ethylene, etc.

Cambodia paid USD 6,080.82 million in 2011 for importing top 10 products from all over the world and more than half of the total imports were from Intra-ASEAN. The commodities were identified as petroleum oils and other various oils obtained from bituminous minerals, other than crude; other knitted or crocheted fabrics; knitted or crocheted fabrics of a width not exceeding 30 cm.; other woven fabrics of synthetic staple fibers; motor cars and other motor vehicles principally designed for the transport of persons; yarn (other than sewing thread) of synthetic staple fibers, not put up for retail sale; cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes; electrical apparatus for line telephony, including line telephone sets with cordless handsets and telecommunication apparatus; videophones; medicine; dumpers designed for off-highway use, etc.

The maximum variation of ASEAN trade was 33.11 percent in 2010 and the minimum variation was 3.30 percent in 2002. The annual average percentage variation was approximately 14 percent. The maximum variation of Cambodia's trade was 28.47 percent in 2003 and the minimum variation was 0.50 percent in 2004. The average percentage of annual variation was approximately 16 percent.

The estimated values from 2001 to 2011 had shown a continuous rise starting from USD 635,194.90 million in 2001 to USD 2,271,050 million in 2011 for ASEAN trade while it had increased from USD 3,562.14 million in 2001 to USD 13,576.32 million for Cambodia's trade. The actual value from 2001 to 2011 had also increased from USD 690,990.70 million to USD 2,388,592 million for ASEAN trade and from USD 3,287.62 million in 2001 to US\$ 14,479.66 million for Cambodia.

There has been a continuous increase in ASEAN trade value from 2012 to 2022. The predicted value of ASEAN trade in 2022 reached USD 4,867,197 million, an increase of nearly double as compared to the predicted trade value of USD 2,472,574 million in 2012. Meanwhile, the predicted value of Cambodia's trade had reached USD 39,115.58 million in 2022, an increase from the trade value of USD 15,269.34 million in 2012.

The potential partners of ASEAN and Cambodia in the world for trading and investment are mostly remain the same. USA, EU-27, Canada, Australia,

and New Zealand are the main export destinations for ASEAN and Cambodia while China, Japan, South Korea and Russia are the main international suppliers for ASEAN and Cambodia.

International trade between the world and ASEAN along with Cambodia, in general, is lower than extra-ASEAN countries. However, signs of upward trend have been evidenced over the past several years. There are high prospects for trade in the future given the high complementarity among ASEAN nations with EU-27, USA, Canada, Australia, and others. The imported products were mostly related to manufactured products such as electronic devices, petroleum oils, machines, parts and accessories of motor vehicles, and others; especially from China, Japan, South Korea to ASEAN and Cambodia. The exported products were mostly natural sands, rice, Manioc (cassava), women's or girls' suits, men's or boys' suits, fuel wood, natural rubber, and others.

It is expected that ASEAN and Cambodia's trade will continue to increase to nearly double their worth by the next decade. However, the policies and procedures were still made trade barriers for both ASEAN and Cambodia because some tariffs on few items were not eliminated. Some policy instruments were also not applied even though there was an agreement to justify for WTO requirements.

To enhance the international trade, after 2002 ASEAN had agreed with the Common Effective Preferential Tariff Scheme for ASEAN Free Trade Area in which the tariffs on Intra-ASEAN regional trade was no more than five percent for almost all products in the Inclusion List or removed them together. The free trade area covered all manufactured and agricultural products. Export duties were imposed on an MFN basis and hence its ASEAN partners were not exempted from these taxes. According to the authorities, the draft law on trade remedies followed closely the WTO safeguard and anti-dumping agreements. With regard to customs, in order to meet WTO requirements, several laws and regulations have been enacted such as Law on Customs promulgated on 20 July 2007 which consists of 13 chapters and 80 articles and supporting regulations which consists of one Sub-Decree (Anukret), 25 Ministerial Prakas and two guidelines.

International trade procedures were laid out in Sub-Decree No. 131 (2006) and under Sub-Decree No. 59 (2008), the TPD has the following duties and responsibilities: (i) inspection of imports and exports, jointly with Customs; (ii) consumer protection through product safety and suppression of fraud; (iii) export certification to meet importing country requirements; (iv) checking of compliance with international standards; (v) review of health and safety products from production through commercialization, and submission to competent authorities; (vi) the control of products and services on the markets; (vii) management of MoC laboratory product testing facilities; (viii) provision of a commercial inspection service; (ix) collection of inspection

fees relating to import/export quality testing; and (x) secretariat of National Codex Committee and SPS National Enquiry Point.

Thus, ASEAN as well as Cambodia need to play crucial roles in creating a favorable environment for facilitating the international trade, especially, the international trade policy and international relations with the western countries to attract more investments in Cambodia.

In conclusion, ASEAN along with Cambodia possess as the potential region and have high bargaining power in trading and co-operating some economic activities with many partners in the world. While USA and EU are the main export destinations for ASEAN and Cambodia, countries in Asia particularly neighboring countries are the main international suppliers for ASEAN and Cambodia. Thus, ASEAN and Cambodia in the future will become most attractive destinations for trade and investment on the basis of their potentialities.

Chapter I:

INTRODUCTION

1.1 Background of the Study

Cambodia has been making efforts to move from subsistence agriculture to industrialization and, more generally, further actively integrate itself into the regional and global economy. Trade development had entered a new era when the country joined the Association of Southeast Asian Nations (ASEAN) in 1999 and became a World Trade Organization (WTO) member in 2004. It has been considered as a key component of the overall national socio-economic development and poverty reduction strategy. The roadmap being used to plan the trade strategy was “pro-poor trade development strategy” endorsed by the Council of Ministers and presented to the international community at the Tokyo CG meetings in June 2001. A consortium of six donors (UNDP, IBRD, IMF, UNCTAD, WTO, ITC) provided funds under a program called “the Integrated Framework for Trade related Technical Assistance to Least Developed Countries (IF)”. Under this program, a “Diagnostic Study” was completed in late 2001. Trade policies under consideration by government and donors promoted the export-led growth approach through rapid liberalization and further integration into the global economy. These trade policy development processes were intended to be pro-poor, but the supporting documentation has yet to clearly demonstrate a positive correlation between the type of trade strategy suggested and the actual reduction of poverty in the Cambodian context. The NGO community has strongly recommended that in order to effectively realize poverty reduction, the type of growth and trade strategy to pursue should be based on clearly demonstrable links between various trade policy alternatives and poverty reduction indicators. Such an assessment should be based both on

Careful examination of experience from other countries, as well as what can be predicted for Cambodia, agreed between the Royal Government of Cambodia (RGC), the donor community, and civil society organizations. To that end, NGOs have also called for clearer linkages between the trade policy development process and the "Poverty Reduction Strategy" process coordinated by the Ministry of Planning. However, trade liberalization should not be part of loan conditionality.

The current global trade system is biased against developing countries and in particular poor producers and net consumers or subsistence farmers and fishers within these countries. Studies have shown that unequal distribution of the benefits of international trade has exacerbated the inequalities between rich and poor countries, and in particular the benefits do not reach the poorest. Integration through trade had created new opportunities but these were available only to economic actors (whether countries, enterprises, or individuals) with access to productive assets, infrastructure and education. However, given the appropriate international regulatory framework, trade can play an important role in poverty reduction. The RGC's future trade policy therefore, should consider the pace, sequencing and distributional aspects of trade and economic policy reform.

Development strategies which put a premium on aggregate growth targets, emphasizing investment in specific "profitable" economic sectors, must be prefaced by comprehensive poverty impact analysis, to identify policy

instruments and sector specific strategies which would most effectively target poverty reduction to ensure broad-based development with equity. The impact analysis must recognize that different socio-economic classes, ethnic groups, men and women, came to the market on different terms, based on a long standing as well as newly emerging patterns of economic, political and social exclusion and marginalization which resulted in inequality. The appropriate policy responded to these structural causes and consequences of these inequalities must be put in place in order to achieve long-term poverty reduction through trade and other economy-wide policies. Strengthening human capabilities and the domestic economy through robust social and economic structures at the national and community levels is a necessary prerequisite to a reduction in trade barriers as part of international integration. Increases in income gained by better-off sectors of society and foreign companies can only contribute to poverty reduction if part of this income returns to the government budget for redistribution into spending targeted at poorer segments of Cambodian society (through spending on improving access to services or increasing productivity). Thus, there has been a crucial link between trade policies and other macroeconomic and fiscal policies, and their implementation. Therefore, impact analysis of trade policy reforms must take place in the context of overall poverty reduction policy formulation and implementation.

Pro-poor trade strategy development required sufficient time for participatory poverty impact analysis and stakeholder consultation. Small-scale

producers, farmers, fishers, and factory workers were amongst those most heavily affected by trade strategy. They contributed valuable insights into how changes in the economic environment affected their livelihoods. The NGO community would like to collaborate with the RGC to pursue a participatory approach in the formulation of the strategies based on a continuous iterative analytical process, leading to an open policy dialogue and partnership. As expected, these developments, in conjunction with the government's outward-looking policies have brought many changes to the country's comparative advantages for Cambodia.

Cambodia had achieved impressive economic growth and significant poverty reduction over the past decade just before it was hit by the global economic downturn in late 2008-2009. The average annual growth preceding the downturn had been 9.3 percent over decade. The highest growth was recorded in 2005 at 13.3 percent. However, growth contracted to 6.7 percent in 2008 and to 0.1 percent in 2009. The poverty rate was 30 percent that remains the overarching goal underscoring many of the objectives of the Cambodian Government, its development partners, and non-governmental organizations involved in the country. In cooperation with numerous development partners, the RGC had maintained macroeconomic stability (i.e., avoided high inflation, high unemployment, and serious income decline), which allowed the private sector to grow. Cambodia's high economic growth has relied on four sectors such as garments and textiles, tourism, construction, and agriculture. Expansion

of the garment industry began in 2000, while significant and consistent agricultural growth has been achieved only since 2005.

The garment industry grew by more than two digits almost every year from 1998 to 2008 when it slowed sharply to growth of just 2.2 percent. The US market absorbed approximately 70 percent of the total garments and textile exports from Cambodia, the bulk of the rest going to the EU, Canada, and Japan. At its peak, in late 2008, the garment industry counted approximately 350,000 employees, mostly young females from rural villages, working in nearly 300 factories. The impact of the global financial crisis began to be felt in Cambodia in the last quarter of 2008, and the garments and textile sector registered a 9 percent decrease from the previous year. Along with garments, tourism is a main driver of Cambodia's economic growth, owing mainly to the ambience of ancient temples such as Angkor Wat. Contributing approximately 13 percent of GDP, the sector had earned USD 1.6 billion in 2008. Cambodia's tourism sector has been negatively affected by the global economic downturn, and it is also vulnerable to outbreaks of diseases such as influenza A, Avian influenza, and SARS, as well as to political instability in Bangkok, a major transit for tourists traveling to Cambodia. It is believed that Cambodia can realize its potential to attract more tourists in the future but it needs sizable capital to invest in tourism infrastructure and services. Construction is another sector that has grown above two digits over most of the past 10 years, although it started from a low base and experienced more fluctuations than the garment sector. Foreign capital has contributed to growth in this sector in the form of foreign

direct investment (FDI), evidenced in hotel construction and in real estate in 2005-2007. Started in 2005, Cambodia received large investments from Korea and China, bubbling the construction, real estate, and land markets. These market bubbles burst in late 2008, slowing growth in the sector substantially. The government estimation of growth of 5 percent in 2009 was very doubtful. It returned out to be 0.1 percent as estimated by the government, while the other institutions reported -1 to -2.7 percent. Agriculture has always been the backbone of rural Cambodia but has registered significant and persistent growth only since 2005, following that year's 44 percent increase in rice production (the result of good rainfall in that season). With other crops also expanded, although at the expenses of forests or degraded forests, the agricultural sector has continued to grow by approximately 5 percent per annum. It was the only sector that still grew by 5.4 percent in 2009, when the other sectors declined, stagnated, or slowed. There appears to be ample potentials for the sector to grow further, with room for improvement in yield, farm size, and value addition from processing.

After Cambodia has had social and political stability, since 1998 there has been a tremendous growth with approximately average annual 7 percent of GDP while the total trade balance was still deficit. In 2007, the total trade balance of ASEAN countries was 6 percent (ADB 2006)¹. The growth in international flows of goods and capital implies that geographically distant parts of the global economy are becoming increasingly interconnected as economic

¹ ADB outlook, 2011.

activity is extended across boundaries. Trade is an important factor in the globalization process as it intensifies the interaction between states, regions and firms. Growing international flows of tourism, migration, information and portfolio are all parts of this process. The large changes in the trade value for the past ten years have provided a strong incentive for research on this phenomenon.

Based on the importance of trade on national economy, the present research investigates different aspects of trade and policies that have been used in Cambodia and ASEAN countries. The choice of research topic has been made in order to allow for the possibility of finding results that can provide knowledge about the nature of trade and help policy makers of ASEAN and Cambodia to take appropriate decisions.

1.2 Statement of the Problem

The trade trends seem to be very sensitive for both developing and least developed countries when they meet the deficits of balance of payments. It is even important for developing the economy by promoting the trade to the rest of the world. Many ASEAN Member States are still worried about the challenges of standard and required products for all members of WTO and ASEAN. The producers, agencies and government need to learn about kinds of trade, both inward and outward. Recently, some of the ASEAN Member States are motivated to export their products to China, Korea, Japan, USA and European Union. Owing to this opportunity, many governments from both developing and

least developed countries introduced outward-oriented strategies as a way to enhance production efficiency and increase the transmission of technology from developed countries. The main purpose is to achieve economic development that could stimulate competition and efficiency in the domestic industry. It is expected that a more open economy to international trade and capital flow would improve output growth and alleviate structural macroeconomic problems. Trade among ASEAN Member States has experienced growth since ASEAN Free Trade Area (AFTA) was established in 1993, even the growth of intra ASEAN trade and its activity has progressed slowly in recent past. Thus, these conditions provide strong market (market driven) for the regional economic grouping among ASEAN countries. The 2008 global economic crisis, especially in ASEAN countries, gave many worth lessons. The credit crisis that had started in USA spread to the ASEAN countries and eventually triggered serious crisis in the international trade in Cambodia.

So far Cambodia's international trade is concerned, garment exports initially grew rapidly due to preferential market access to the US and EU; and under the general auspices of the Multi-Fibre Arrangement (MFA). However, over time, these preferential facilities have become far less important, as the MFA was phased out in 2005 and the margins of preference in major export markets have shrunk. However, apart from the 2008/09 global recession, export growth rates were maintained despite the more competitive environment.

In 2010, the export rose up to USD 5,068 million from USD 4,196.2 million in 2009,² while the major export was mainly garment and textile, animal, fish, cassava, rice, soybean, peanut, corn, pepper, sesame, cashew, rubber, timber, furniture, various agriculture products, and other products. The value of total import of Cambodia in 2010 rose up to USD 6,782.8 million from USD 5,830.5 million in 2009, while the major imports of Cambodia were composed of food, beverage, chemical product, petroleum, medicine and medical materials, cosmetic products, garment raw materials, construction materials, vehicle, and others. The percent change of import value of goods in 2010 was 16.7 as compared to 2009, and it was -4.90 percent in the previous year. The ASEAN trade had experienced a fall in export by 20.66 percent from USD 977,537 million in 2008 to USD 810,483 million in 2009, while the value of import had decreased by 26.60 percent from USD 919,599 million in 2008 to USD 726,354 million in 2009.³ According to the ASEAN Economic Community, economic integration measures shall be the end-goal, which is also outlined in the ASEAN Vision 2020. Its goal is to create a stable, prosperous and highly competitive ASEAN economic region in which there is free flow of goods, services, and capital, as well as equitable economic development and poverty alleviation. However, this condition underscores the fact that adjustment to the previous economic crisis continues to these days. There is a need for new schemes, as well as ASEAN cooperation, to reform and strengthen ASEAN trade which is expected to strengthen economic growth and stabilize macro economy

² Annual report of Ministry of Commerce, RGC (2010).

³ Export and Import of Cambodia (2010). Accessed: <http://www.cambodiamirror.org>

in ASEAN countries. Thus, against this backdrop, the proposed study analyzes ASEAN trade with special reference to Cambodia for the period of ten years - 2001-2010. Further, an analysis of the policies relating to ASEAN and Cambodia trade have been carried out in order to anticipate the trend from 2012 to 2022.

With a view towards widening the scope of existing research, the present research evaluates the patterns of international trade and analyses the trade structure of ASEAN and Cambodia alongside trade integration. It takes into account all exported commodities and provides an economy-wide investigation of the country's trade structure and reveals comparative advantage from 2012 to 2022.

1.3 Research Questions

The present study sought to provide answers to the following questions:

- a) What factors determine international trade?
- b) What were the variations of ASEAN and Cambodia's trade value from 2001 to 2011?
- c) What will be the future trend of ASEAN and Cambodia's trade value from 2012 to 2022?
- d) What roles do the agencies, associations and government play to promote ASEAN and Cambodia trade?
- e) What measures are needed to be taken by ASEAN and Cambodia to increase the future trade value?

1.4 Objectives of the Study

The main objectives of the study are as follows:

- a) To review the literature with regards to identifying and analyzing the factors influencing international trade.
- b) To analyze the values of trade variations of ASEAN and Cambodia from 2001 to 2011.
- c) To study the future trend of ASEAN and Cambodia's trade value from 2012 to 2022.
- d) To analyze the policies and procedures of several agencies, associations, and government to promote ASEAN and Cambodia trade.

1.5 Hypotheses of the Study

The study seeks to test the following hypotheses:

Ho1: There is no year-wise variations of ASEAN and Cambodia's trade values during the study period.

Ho2: There is no significant difference between the actual and estimated ASEAN and Cambodia's trade values over the study period.

1.6 Significance of the Study

The research findings have strong relevance to ASEAN and Cambodia's trade prospects. The expectation of research output is to acquire a better understanding of determinants of trade, as well as input to the policy makers and business practitioners.

Recognizing the role played by trades in economic development and macroeconomic balance for Cambodia, the Royal Government of Cambodia has simplified most of the policies relating to trades, thereby creating a supportive environment for the investors. Thus, the present study can further facilitate in understanding the importance of trade in economic development of the country.

Examining ASEAN and Cambodia's trade values and looking into the future trade values can enable the policy makers to develop suitable trade facilitation policies for Cambodia. Further, the research can provide inputs for developing suitable policies for the beneficial tax treatment on exports to the European Union and others, thus, Cambodia's manufacturing sector could be set to capitalize on it.

The study can help in considering new investment area and policies to generate more investments for ASEAN and Cambodia. More specifically this will help ASEAN, US, EU, Asian and Cambodian companies to invest within the integrated market since market risks and uncertainties are lowered.

The result of the study also becomes the part of information dissemination among academics and researchers to meet their further needs of researching about trades and policies of ASEAN and Cambodia. Thus, the present study has both academic and operational importance.

1.7 Scope and Limitations of the Study

The scope of the study is limited to the understanding of the trade determinants, directions of trade, and trend of ASEAN and Cambodia's trade.

The following are considered as the study limitations:

- i. The study is exclusively based on the secondary sources of information and thus, known limitations applicable to the secondary sources are quite applicable to the present study.
- ii. The study is restricted to the data from 2001 to 2011 for the analysis of the trade variations of ASEAN and Cambodia.
- iii. To analyze the future flows of ASEAN and Cambodia's trade values, the study has taken into account the period from 2012 to 2022. Thus, the findings of the study have to be placed in proper perspective while applying them in the formulation of different policies.

1.8 Layout of the Study

The proposed study consists of seven chapters which are as follows.

Chapter 1: The first chapter introduces the subject matter of the study. This includes the background, statement of the problem, research questions, study objectives, hypotheses of the study, significance, scope and limitations of the study.

Chapter 2: The second chapter reviews both conceptual and empirical literature relating to the theme of the research. In specific, the chapter analyzes the theoretical and empirical evidence in identifying and analyzing the factors influencing international trade.

Chapter 3: The third chapter analyzes the socio-economic profile of ASEAN and Cambodia.

Chapter 4: The fourth chapter explains the methodology adopted in the study.

Chapter 5: The fifth chapter reviews the existing trade policies of ASEAN and Cambodia.

Chapter 6: The sixth chapter analyzes the status and trend of ASEAN and Cambodia's trade over the period 2001 to 2011. Further, the value of trade projections from 2012 to 2022 for ASEAN and Cambodia have been presented in this chapter.

Chapter 7: The last chapter summarizes the main findings of the study. It also includes measures to enhance ASEAN and Cambodia's trade value in the future. Finally, concluding remarks are given at the end of the chapter.

Chapter II:
REVIEW OF
LITERATURE

2.1. Introduction

The purpose of this chapter is to review the conceptual and empirical literatures relating to the theme of the research. As such it describes the theoretical framework that provides the basis for the specification of the model and analysis of the issues tackled in this research. Sections 2.2 and 2.3 contain the international trade theories that explain why countries trade, the characteristics and determinants of international trade in developing countries, and the gains from trade. In section 2.4, there is a discussion about the new trade theories and particularly Porter's theory relating to how a nation shapes the environment and creates competitive advantage for promoting international trade. Section 2.5 contains the political reality that many nations are normally committed to free trade as well as how they intervene in international trade to protect the interest of politically important groups. In addition, it described two economic development policies: Import-Substitution Industrialization (ISI) and the Export-Led Growth model (ELG). In Section 2.6, review of the empirical literature of ASEAN+3 before and after economic crisis in 2008 is carried out. At the end, in section 2.7, a concluding remark is presented.

2.2. An Overview of International Trade Theories

This section has a discussion of mercantilism. Propagated in the 16th and 17th centuries, mercantilisms advocated that countries simultaneously encouraged exports and discourage imports. Although mechanism is an old and largely discredited doctrine, its echoes remain in modern political debate and in the trade policies of many countries. Next, we look at Adam Smith's theory of

absolute advantage. Proposed in 1776, Smith's theory was the first to explain why unrestricted free trade is beneficial to a country. Free trade refers to a situation where a government does not attempt to influence through quotas or duties what its citizens can buy from another country, or what they can produce and sell to another country. Smith argued that the invisible hand of the market mechanism, rather than government policy, should determine what a country imports and what it exports. His arguments imply that such a laissez faire stance toward trade was in the best interests of a country. Building on Smith's work are two additional theories-one is the theory of comparative advantage, advanced by the 19th century English Economist, David Ricardo. This theory is the intellectual basis of the modern argument for unrestricted free trade. In the 20th century, two Swedish Economists, Eli Heckscher and Bertil Ohlin, had developed the theory commonly known as the Heckscher-Ohlin theory that refined Ricardo's work.

2.2.1. Benefits of Trade

Hill (2003)⁴ pointed out that the greatest strength of the theories of Smith, Ricardo, and Heckscher-Ohlin is that they identify with precision the specific benefits of international trade. Common sense suggests that some international trade is beneficial. For example, nobody would suggest that Iceland should grow its own oranges. Iceland can benefit from trade by exchanging some of the products that it can produce at a low cost (fish) for

⁴ Charles W. L. Hill, *International Business: Competing in the Global Market Place* (McGraw-Hill/Irwin, 7th edition, 2003).

some products that it cannot produce at all (oranges). Thus, by engaging in international trade, Icelanders are able to add oranges to their diet of fish.

The theories of Smith, Ricardo, and Heckscher-Ohlin go beyond this common sense notion, however, to show why it is beneficial for a country to engage in international trade even for products it is able to produce for itself. This is a difficult concept for people to grasp. The same kind of nationalistic sentiments can be observed in many other countries. However, the theories of Smith, Ricardo, and Heckscher-Ohlin tell us that a country's economy may gain if its citizens buy certain products from other nations that could be produced at home. The gains arise because international trade allows a country to specialize in the manufacture and export of products that can be produced most efficiently in that country, while importing products that can be produced more efficiently in other countries. Of course, this economic argument is often difficult for all segments of a country's population to accept. Ricardo, and Heckscher-Ohlin suggest that the economy as a whole is hurt by this kind of action. Limits on imports are often in the interests of domestic producers, but not domestic consumers.

2.2.2. The Pattern of International Trade

The theories of Smith, Ricardo, and Heckscher-Ohlin also help to explain the pattern of international trade that we observe in the world economy. Some aspects of the pattern are easy to understand. Climate and natural resource endowments explain why China exports cocoa and crawfish, Brazil exports

coffee, and Saudi Arabia exports oil. But much of the observed pattern of international trade is more difficult to explain. For example, why does Japan export automobiles, consumer electronics, and machine tools? Why does Switzerland export chemicals, watches, and jewelry? David Ricardo's theory of comparative advantage offers an explanation in terms of international differences in labor productivity. The more sophisticated Heckscher-Ohlin theory emphasizes the interplay between the proportions in which the factors of production (such as land, labor, and capital) are available in different countries and the proportions in which they are needed for producing particular goods. This explanation rests on the assumption that countries have varying endowments of the various factors of production. Tests of this theory, however, suggest that it is a less powerful explanation of real-world trade patterns than once thought.

One early response to the failure of the Heckscher-Ohlin theory to explain the observed pattern of international trade was the product life-cycle theory. Proposed by Raymond Vernon, this theory suggests that early in their life cycle, most new products are produced in and exported from the country in which they were developed. As a new product becomes widely accepted internationally, however, production starts in other countries. As a result, the theory suggests, the product may ultimately be exported back to the country of its original innovation. Thus, the observed pattern of trade between nations may be due to the ability of firms within a given nation to capture first-mover advantages. In a work related to the new trade theory, Michael Porter of

Harvard Business School developed a theory, referred to as the theory of national competitive advantage, which attempts to explain why particular nations achieve international success in particular industries. Like the new trade theories, in addition to factor endowments, Porter points out the importance of country factors such as domestic demand and domestic rivalry in explaining a nation's dominance in the production and export of particular products (Kemp, 2008)⁵.

2.2.3. Trade Patterns in ASEAN

Thangavelu and Chongvilaivan (2009)⁶ pointed out that the ASEAN economies have experienced a remarkable increase in both amount and volume of intra-regional trade flows since the last three decades. The evidence proves that the ASEAN region has proliferated since the establishment of AFTA in 1992.

ASEAN tracks the intra- and extra- exports and imports trends over a period of 10 years (from 1996 to 2006) within the ASEAN region. One can observe a rising trend in the value of merchandise trade from 1996 to 2006. The total value of exports to the region rose from USD 341 billion in 1996 to USD 770 billion in 2006, while the total value of imports rose from USD 376 billion to USD 685 billion - the rise in exports trade is more

⁵ Murray C. Kemp, *International Trade Theory: A Critical Review* (Rutledge, 2008).

⁶ S.M. Thangavelu & A. Chongvilaivan, *Free Trade Agreements, Regional Integration and Growth in ASEAN*, 2009 (paftad.org./files/33/).

pronounced than that of imports trade with total exports being 125 percent higher in 2006 than in 1996, while total imports rose only by 82.2 percent. Although there is a slight decline in trade variables during the Asian crisis, we do observe a general rising trend among the ASEAN countries. Intra-import trade rose more than extra-import trade over this period, while extra-export trade rose more than intra-export trade over the same period. The growing strength of intra-regional trade transactions among the ASEAN economies is attributed mainly to considerable boosts in international and regional production networks through which production sharing enhances complementarities intra-industry trade, particularly that in parts and components (Urata, 2004)⁷. As trade in intermediate inputs has become more important to business operating, regional economic integration has a crucial role to play in fortifying a nexus that vertically and horizontally links firms in ASEAN vis-à-vis production and procurement networks.

One of the key catalysts that substantiated ASEAN's increasingly important role in world exports as well as strengthening intra-ASEAN trade is an exploding amount of Free Trade Agreements (FTAs) involving ASEAN observed in the past few decades. The proliferation of FTAs in East Asia observed since 1990s has been unprecedented even though this region is a latecomer of regional trade liberalization compared to the United States (US) and EU. East Asian countries, particularly Singapore and Thailand,

⁷ S. Urata, *The Shift from 'Market-Led' to 'Institution-Led' Regional Economic Integration in East Asia in the Late 1990s* (RIETI Discussion Paper No. 12, 2004).

have been actively pursuing FTAs not only within the region, but also with those non-ASEAN countries, especially Australia, China, India, Japan, Korea and New Zealand.

Kawai and Wignaraja (2007) reported the numbers and status of FTAs pertinent to East Asia. As of 2007, 31 FTAs have been concluded; 41 are under negotiation; and 25 are being proposed. Currently, East Asia is in the forefront of bilateral and regional trade negotiations, with a faster progress on trade and investment liberalization than that of NAFTA and EU. There are at least three driving forces of the FTAs proliferation in this region. First, to date, world trade is dominated by two mega-trade blocs, namely NAFTA and EU. This triggered the political concerns that ASEAN will become a laggard in the new era of globalization. This "Domino Effect" forced the ASEAN countries to hasten toward the establishment of FTAs in the region. Second, since the 1997 Asian Financial Crisis, there have been fears that ASEAN's competitiveness in the global market was deteriorating. AFTA has by far been the only FTAs involving the ten ASEAN member countries. Its scope, however, was confined merely to trade in goods, and some of the members were not agreeable to fully comply with the AFTA guidelines. Last but not the least, the emergence of the large developing countries, particularly China and India, has been a major threat to the region's attractiveness as a hub of international trade and investment. In this sense, the ASEAN countries employed FTAs as a panacea for sustaining their competitiveness in the global market. Apart from FTAs within the

region, the ASEAN countries have also actively pursued FTAs with their neighboring countries. Since the 1997 Asian Financial crisis, several regional trade agreements (RTAs) have been put forward to take up intra- and extra-regional economic ties related to East Asia, including the ASEAN-China, ASEAN-India, ASEAN-Japan, ASEAN-Australia and New Zealand, and ASEAN-Korea groupings.

A closer examination of these arrangements reveals that their coverage goes beyond free flows of goods, services and investment capital, and thus they are more comprehensive than the multilateral negotiations under WTO; in this sense, these RTAs are “WTO-Plus” agreements. These RTAs are potentially beneficial to ASEAN as it will equip the region with a better access to the regional markets as a result of trimmed trade barriers, more cross-border investment opportunities and improved ease of doing business. However, the broader and deeper scope of RTAs pertaining to ASEAN poses serious challenges to the region in terms of limited resources. The other major concern is the “noodle bowl” effect prompted by the proliferation of FTAs in this region (Baldwin, 2006)⁸. In principle, a FTA pertains to the Rules of Origin (RoO) – the ones determining whether goods are eligible to enjoy preferential tariffs under a particular FTA – which are of three categories: (i) a change in tariff classification (CTC) rule which defines a Harmonised System (HS) level; (ii) a local value content

⁸ R. Baldwin, “Managing the Noodle Bowl: The Fragility of East Asian Regionalism,” *Singapore Economic Review* 53/3 (2008): 449-478.

(VC) which specifies a minimum local value of goods, originated by the members of FTAs; and (iii) a specific process (SP) rule which determines a specific production process. Kawai and Wignaraja (2007)⁹ documented that among 30 concluded FTAs involving ASEAN, most of them have employed a combination of RoOs depicted above, rather than a uniform rule. As the ASEAN countries paved the way toward economic integration through a series of bilateral and regional trade negotiations, the overlapping FTAs pertinent to East Asia could make RoO multiple. Inconsistency and complication of RoOs that emanated from a tariff structure of combined FTAs that is abstract from that of the other increased transaction costs, discouraged utilization of FTA preferences, prevented the well-functioning production and procurement networks from being put in place, and ultimately transformed ASEAN economic partnership into a bane. The unsatisfactorily low utilization of FTA preferences calls for consolidation of the noodle bowl into a single, region-wide FTA, perhaps through the East Asia Free Trade Area and/or Comprehensive partnership in East Asia.

2.3. Conventional Wisdom regarding Intra-ASEAN Trade

Like many conventional wisdoms, this characterization of East Asian trading patterns, although it has some truth in it, is not entirely correct. Frankel

⁹ Kawai & Wignaraja, "Evolving Economic Architecture in East Asia," *Kyoto Economic Review* 76/1 (2007): 9–52.

and Wei (1996)¹⁰ extracted that conventional wisdom holds that trade within ASEAN is relatively low, despite the formal measures taken. Trade within ASEAN is considered to be low compared to other regions of the world. In one variant of the conventional wisdom, the low share of intra-ASEAN trade is just what one would expect, given the similarity in the factor endowments of the ASEAN countries. By comparison [with their trade with industrialized partners], intra-ASEAN trade accounted for only about 16 percent of ASEAN exports and imports combined. If intra-ASEAN trade involving Singapore is excluded, the extent of intra-ASEAN trade falls to a level lower than that for ASEAN trade with the East Asian NICs and the developing countries outside Asia. ASEAN economies are essentially competitive rather than complementary, which means that ASEAN comparative advantage and greatest gains from trade lie mainly in trade with the major industrial countries whose relative endowments of physical and human capital, basic labor, and natural resources are different from those of the ASEAN countries.

The assertion that intra-ASEAN trade is unusually low is not clearly right, depending on what metric is considered appropriate. Indeed, by some measures, trade among these countries is high. Two firms in Southeast Asian countries are far more likely to trade with each other than two firms at random locations around the globe. Much of this regional

¹⁰ J.A. Frankel & S.J. Wei, *ASEAN in a Regional Perspective* (Center for International and Development Economic Research, Working Paper No. C96-074, 1996).

concentration can be explained by natural determinants such as geographic proximity, especially if one allows a special role for Singapore as an entrepot, and if one allows for the extra trade orientation of ASEAN countries and Asian countries in general. Nevertheless, the conclusion is that intra-ASEAN trade is not lower than would be expected.

Urata (2004)¹¹ added the estimated values of the three measures of foreign trade and FDI for several regions in the world—East Asia, the North American Free Trade Agreement (NAFTA), the European Union (EU), and MERCOSUR. The results indicate that intra-regional trade in East Asia became more important not only in terms of the world trade but also in terms of regional trade. However, intra-regional bias became smaller over time. The importance of intra-East Asian trade in world trade increased significantly from 5 percent in 1980 to 13 percent in 1995, though it declined slightly to 11 percent in 1999. The share of intra-NAFTA trade in the world trade also increased over the same period, but the share was smaller, at 10 percent in 1999. The corresponding share for the EU was significantly higher, at 23 percent in 1999, although the share had declined sharply from 29 percent in 1990. A significant part of intra-East Asian trade takes place between Japan and emerging East Asian economies. This can be seen from the fact that the share of intra-regional trade among emerging East Asian economies (6 percent in 1999) amounts to only slightly more than half of the level observed for East Asia as a whole (11

¹¹ S. Urata, *op. cit.*

percent), that is, including Japan. The magnitude of intra-regional trade for the Asian NIE-4 and for the ASEAN-10 is still quite small in world trade, amounting to 1.2 percent and 1.4 percent of world trade in 1999, respectively. Intra-East Asian trade increased its importance for East Asia's total trade (exports + imports) over time, as shown in the increase in the relative measure from 36 percent in 1980 to 50 percent in 1997, followed by a slight decline to 49 percent in 1999. The comparable figures for emerging East Asia were 22 and 39 percent in 1980 and 1999, respectively. The importance of intra-regional trade in total regional trade also increased for the members of NAFTA from 33 to 47 percent during the same period, but it declined for the EU from 65 percent in 1990 to 61 percent in 1999, after rising between 1980 and 1990. Among the sub-groups in East Asia, intra-group trade among the NIE-4 was quite small, amounting to only 13 percent of total trade, while intra-ASEAN-10 trade was larger, at 23 percent. An analysis of the relative measures computed for exports and for imports shows that intra-East Asian trade is more important as a source of imports than as a destination for exports. This finding indicates a trading pattern in which East Asian economies procure imports within the region and sell exports outside the region. This appears to reflect the behavior of multinationals. Many multinationals use East Asia as an export platform, in which they assemble export products for regions outside of East Asia by importing parts and components from within the region. In contrast, intra-NAFTA trade is more important for NAFTA's exports than for its imports. The results of the double-relative measure (or the trade intensity index)

reveal an interesting contrast concerning the intra-regional trade bias for East Asia, on the one hand, and the NAFTA and the EU, on the other hand. Specifically, intra-regional bias declined in East Asia from 2.6 in 1980 to 2.3 in 1999, while the corresponding values for the NAFTA and the EU increased from 2.1 and 1.5 to 2.3 and 1.7 respectively, over the same period. Among East Asian subgroups, intra-regional trade bias is very high for ASEAN, with the double-relative measure at 4.2 in 1999, although the size of the bias has declined over time. The estimated measures of intra-regional trade dependence reveal that the importance of intra-regional trade in East Asia increased not only in world trade but also in regional trade over time. However, extra-regional trade also expanded rapidly. Indeed, intra-regional trade bias declined in East Asia, while it increased in the NAFTA and the EU. One may attribute these differences partly to differences in the institutional arrangements. Both the NAFTA and the EU have trade arrangements that give preferential treatment to their members, possibly leading to an increasing regional bias.

In East Asia, a preferential trading arrangement has been set up only for the ASEAN members that make up a small portion of intra-East Asian trade, and other economies do not have any discriminatory arrangements. The absence of discriminatory trade arrangements may have caused a decline in trade bias. Unilateral trade liberalization without discriminatory treatment among trading partners, even including those of ASEAN, may have contributed to a decline in regional trade bias in East Asia.

Furthermore, a decline in the cost of communications and transportation services, resulting from technological progress and liberalization, contributed to the diversification of trading partners. Rapid industrialization centered on similar industries such as textiles and electric machinery has forced many East Asian economies to look outside the region for markets for their products, diminishing the intra-regional trade bias.

Cordenillo (2005)¹² reconfirmed that in November 2004, at the 10th ASEAN Summit in Vientiane, Lao PDR, the Economy Ministers of ASEAN and China signed the Agreement on Trade in Goods (TIG) of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China. This occasion is a major step towards the realization of an ACFTA for goods, which is set to be established by 2010 for ASEAN 6 and China, and by 2015 for the newer ASEAN Member States. This ACFTA in goods would soon be augmented by services and investments with negotiations on agreements on these relevant areas being aggressively pursued in 2005. In order to understand the economic relevance of the ACFTA, this brief will highlight its net benefits to the ASEAN region. Enlarged Market Size and Enhanced Trade Outright, this ACFTA will create an economic region with 1.7 billion consumers, a regional Gross Domestic Product (GDP) of about USD 2 trillion and total trade estimated at USD 1.23 trillion. This makes it the biggest FTA in the world in terms of population size. As any in other FTA, the ACFTA will bolster ASEAN-

¹² L.R. Cordenillo, *The Economic Benefits of ASEAN of the ASEAN-China Free Trade Area* (Staff Paper for ASEAN Secretariat, 2005).

China trade, which has risen at a dramatic pace, indicating the growing economic interdependence of ASEAN and China.

Moreover, the share of China in ASEAN's total trade has grown from 2.1 percent in 1994 to 7 percent in 2003, making China the 4th largest trading partner of ASEAN after the European Union (11.5 percent), Japan (13.7 percent) and the United States of America (14 percent). This trade value is expected to grow further with the implementation of the Early Harvest Programme of the ACFTA in January 2004, as well as the implementation of the tariff reduction programme under the normal track of the TIG Agreement by the mid-2005. Already by July 2004, the value of the Early Harvest Programme products traded between ASEAN and China reached USD 1.11 billion representing an increase of 42.3 percent over the same period of 2003, amongst which ASEAN exports to China were USD 0.68 billion, an increase of 49.8 percent over that same period. Amongst ASEAN's top exports to China include electrical equipment, computer/machinery, lubricants/fuels/oil, organic chemicals, plastics, fats and oils and rubber. Notably these products are mostly intermediate goods to China's exports to Third Countries. Thus, it can be expected that in the process of China's economic expansion and with the ACFTA in place, it will import more from ASEAN countries for its required inputs in its production processes and for its needs as its income and standard of living improves.

A key feature of the TIG Agreement is the non-maintenance of quantitative restrictions and the elimination of non-tariff barriers. The removal

of these trade impediments will lower the costs of trade transactions, further increase ASEAN-China trade and enhance economic efficiency. As low-cost imports under the FTA flow from one member to another, specialization in production ensues, thereby boosting real income in both ASEAN and China as resources flow to sectors where they can more efficiently and productively be utilized. Simulations conducted by the ASEAN Secretariat suggest that an ACFTA will increase ASEAN's exports to China by 48 percent and China's exports to ASEAN by 55.1 percent. The FTA increases ASEAN's GDP by 0.9 percent or by USD 5.4 billion while China's real GDP expands by 0.3 percent or by USD 2.2 billion in absolute terms.

It must be noted that the ensuing intensified competition in each region's domestic market given the similarity in industrial structures of ASEAN and China may entail short-run costs in the form of displacement of workers and rationalization of some industries and firms. And as such, there would be the need for adjustments amongst workers and enterprises, particularly the small and medium enterprises. This is particularly poignant in the case of Thailand, which undertook a bilateral FTA with China and in turn, experienced a surge of 117 percent for apple imports, 346 percent for Chinese pear imports and 4,300 percent for grape shipments. However, they also experienced an increase of 986 percent for fresh longan exports, 21,850 percent for durian exports, 1,911 for mangosteen and 150 percent for mango. Thus, clearly illustrating that with fierce competition, specialization would occur as enterprises from FTA members are inclined to produce those products, where

they have comparative advantage. Ultimately, the surviving enterprises would become globally competitive with their own niches in the world market.

2.4. The New Trade Theories

Hill (2003)¹³ pointed out that if the output required to realize significant scale economies represents a substantial proportion of total world demand for that product, the world market may be able to support only a limited number of firms based in a limited number of countries producing that goods and services. Thus, a country may dominate in the export of a particular product where scale economies are important, and where the volume of output required to gain scale economies represents a significant proportion of world output, because it is home to a firm that was an early mover in this industry.

Vernon (1966)¹⁴ initially proposed the product life-cycle theory. Vernon's theory was based on the observation that for most of the 20th century a very large proportion of the world's new products had been developed by U.S. firms and sold first in the U.S. market (e.g., mass-produced automobiles, televisions, instant cameras, photocopiers, personal computers, and semiconductor chips), and then, a strong incentive to develop new consumer products in other market. He argued that it could be produced abroad at some low-cost location and then exported to the U.S. back.

¹³ Charles W. L. Hill, op. cit.

¹⁴ Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics* (1966): 190-207.

Krugman (1981)¹⁵ asserts that economies of scale lead to the specialization and trade of a subset of goods within the same industry. This answers the question about why countries with similar factor endowments still trade. He formalized this type of trade with a model of Chamberlain monopolistic competition. Since countries' industries share similar factor ratios, they can differentiate products without costs (only limited by economies of scale). Gains from trade will occur if a single country produces every differentiated good.

Porter (1990)¹⁶ published the results of a research that attempted to determine why some nations succeed and others fail in international competition. Porter and his team looked at 100 industries in 10 nations. The book that contains the results of this work, 'The Competitive Advantage of Nations,' has made an important contribution to thinking about trade. Like the work of the new trade theories, Porter's work was driven by a belief that existing theories of international trade told only part of the story.

For Porter, the essential task was to explain why a nation achieves international success in a particular industry. Why does Japan do so well in the automobile industry? Why does Switzerland excel in the production and

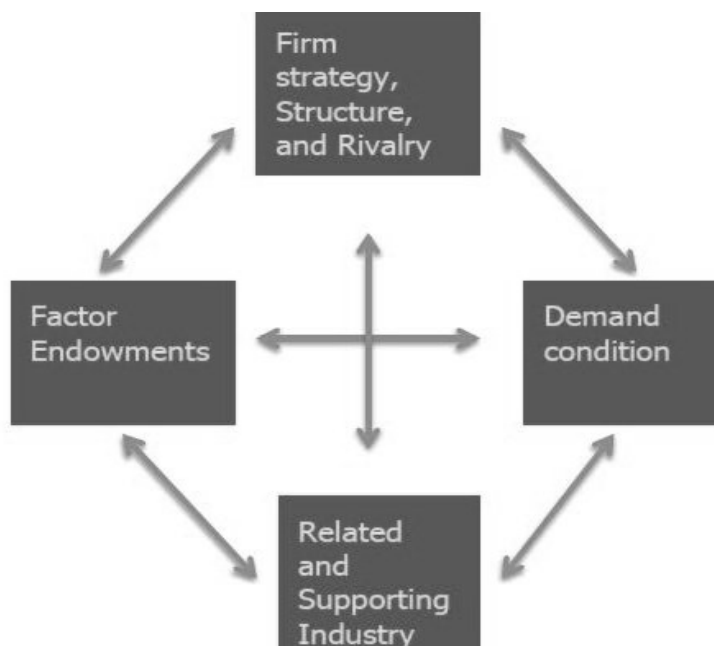
¹⁵ Paul Krugman, "Trade, Accumulation and Uneven Development," *Journal of Development Economics* (1981): 149-161.

¹⁶ Michael Porter, *The Competitive Advantage of Nations* (USA: The Harvard Business School, 1990).

the export of precision instruments and pharmaceuticals? Why do Germany and the United States do so well in the chemical industry? These questions cannot be answered easily by Hecksher-Ohlin theory, and the theory of comparative advantage offers only a part of explanation.

The theory of comparative advantage would say that Switzerland excels in the production and export of precision instruments because it uses its resources very productively in these industries. Although this may be correct, this does not explain why Switzerland is more productive in this industry than Great Britain, Germany, or Spain. Porter tries to solve this puzzle. Porter theorizes that four broad attributes of a nation shape the environment in which local firms compete and these attributes promote or impede the creation of competitive advantage (see Figure 2.1).

Figure 2.1: Determinants of National Competitive Advantage: Porter's Diamond



These attributes are described as follows:

- **Factor endowment**—a nation's position in factors of production such as skilled labor or the infrastructure necessary to compete in a given industry.
- **Demand condition**—the nature of home demand for the industry's product or service.
- **Related and supported industries**—the presence or absence of supplier industries and related industries that are internationally competitive.
- **Firm strategy, structure, and rivalry**—the conditions governing how companies are created, organized, and managed and the nature of domestic rivalry.

Porter speaks of these four attributes as constituting the diamond. He argued that firms are most likely to succeed in industries or industry segments where the diamond is most favorable. He also argued that the diamond is a mutually reinforcing system. The effect of one attribute is contingent on the states of others. For example, Porter argues favorable demand conditions will not result in competitive advantage unless the state of rivalry is sufficient to cause firms to respond to them.

Porter maintains that two additional variables that can influence the national diamond in important ways are chance and government. Chance events, such as major innovations, can reshape industry structure and

provide the opportunity for one nation's firms to supplant another's. Government, by its choice of policies, can detract from or improve national advantage. For example, regulation can alter home demand conditions, antitrust policies can influence the intensity of rivalry within an industry, and government investments in education can change factor endowments.

2.5. Instruments of Trade Policies

Krugman and Obstfeld (2000)¹⁷ pointed out that Trade policy uses seven main instruments: tariffs, subsidies, import quotas, voluntary export restraints, local content requirements, administrative policies, and antidumping duties. Tariffs are the oldest and simplest instrument of trade policy. A fall in tariff barriers in recent decades has been accompanied by a rise in non-tariff barriers such as subsidies, quotas, voluntary export restraints, and antidumping duties.

- **Tariffs**

A tariff is a tax level on imports. Tariffs fall into two categories. Specific tariffs are levied as a fixed charge for each unit of a good imported (for example, USD 3 per barrel of oil). Ad valorem tariffs are levied as a proportion of the value of the imported goods. A tariff raised the cost of imported products. In most cases, tariffs are put in place to protect domestic producers from foreign competitions.

¹⁷ P. R. Krugman and M. Obstfeld, *International Economics: Theory and Policy* (2000).

The important thing to understand about tariff is who suffers and gains. The government gains, because the tariff increases government revenues. Domestic producers gain, because the tariff affords them some protection against foreign competitors by increasing the cost of imported foreign goods. Consumers lose because they must pay more for certain imports. Whether the gains to the government and domestic producers exceed the loss to consumers depends on various factors such as the amount of the tariff, the importance of the imported good to domestic consumers, the number of jobs saved in the protected industry, and so on.

Two conclusions can be derived from a more advanced analysis. First, tariffs are unambiguously pro-producer and anti-consumer. While they protect producers from foreign competitors, this restriction of supply also raises domestic prices. Second, tariffs reduce the overall efficiency of the world economy. They reduced efficiency because a protective tariff encourages domestic firms to produce products at home that, in theory, could be produced more efficiently abroad.

- **Subsidies**

A subsidy is a government payment to a domestic producer. Subsidies take many forms including cash grants, low-interest loan, tax breaks, and government equity participation in domestic firms. By lowering production costs, subsidies help domestic producers in two ways: they help them compete against foreign imported goods and gain export markets. The main gains from subsidies accrue to domestic producers, whose international competitiveness is

increased as a result of them. Advocates of strategic trade policy favor subsidies to help domestic firms achieve a dominant position in those industries where economies of scale are important and the world market is not large enough to profitably support more than a few firms. If this achieved, further gains to the domestic economy arise from employment and tax revenues that a major global company can generate. But subsidies must be paid for. Government typically pays for subsidies by taxing individuals. Therefore, whether subsidies generate national benefits that exceed their national costs is debatable. In practice, many subsidies are not that successful at increasing the international competitiveness of domestic producers. Rather, they tend to protect the inefficient, rather than promoting efficiency, and promote excess production. Agricultural subsidies (1) allow inefficient farmers to stay in business, (2) encourage countries to overproduce heavily subsidized agricultural products, (3) encourage countries to produce products that could be grown more cheaply elsewhere and imported, and, therefore, (4) reduce international trade in agricultural products.

- **Import Quotas and Voluntary Export Restraints**

Hill (2003)¹⁸ explained that an import quota is a direct restriction on the quantity of some good that may be imported into a country. Issuing import licenses to a group of individuals or firms usually enforces the restriction. A variant on the import quota is the voluntary export restraint (VER). A voluntary export restraint is a quota on trade imposed by the exporting country, typically at the request of the importing country's government. Foreign producers agree

¹⁸ Charles W. L. Hill, op. cit.

to VERs because they fear far more damaging punitive tariffs or import quotas might follow if they do not. Agreeing to a VER is seen as a way of making the best of a bad situation by appearing protectionist pressure in a country. As with tariffs and subsidies, both import quota and VERs benefit domestic producers by limiting import competition. As with all restrictions on trade, quotas do not benefit consumers. An import quota or VER always raised the domestic price of an imported goods. When imports are limited to a low percentage of the market by a quota or VER, the price has gone up for that limited foreign supply. The extra profit that producers make when supply is artificially limited by an import quota is referred to as a quota rent. If a domestic industry lacks the capacity to meet demand, an import quota can raise prices for both the domestically produced and imported goods. Another industry that has long operated with import quotas is the textile industry, which has a complex set of multinational agreements that govern the amount one country can export to others. Quotas also encourage firms to engage in strategic actions designed to circumvent quotas.

- **Local content requirements**

A local content requirement is a requirement that some specific fraction of a good be produced domestically. Local content regulations have been widely used by developing countries to shift their manufacturing base from the simple assembly of products whose parts are manufactured elsewhere into the local manufacturer of component parts. They have also been used in developed countries to try to protect local jobs and industry from foreign competition. From the points of view of a domestic producer of parts going into

a final product, local content regulations provide protection in the same way an import quota does: by limiting foreign competition. The aggregate economic effects are also the same; domestic producer benefits, but the restrictions on imports raise the prices of imported components. In turn, higher prices for imported components are passed on to consumers of the final product in the form of higher final prices. So as with all trade policies, local content regulations tend to benefit producers not consumers.

- **Administrative Policies**

In addition to the formal instruments of trade policy, government of all types sometimes uses informal or administrative policies to restrict imports and boost exports. Administrative trade policies are bureaucratic rules that are designed to make difficult for imports to enter a country. As with all instruments of trade policy, administrative instruments benefit producers and hurt consumers, who are denied access to possibly superior foreign producers. However, critics charge that the country's informal administrative barriers to imports more than compensate for this.

- **Antidumping Policies**

In the context of international trade, dumping is variously defined as selling goods in a foreign market at below their costs of production, or as selling goods in a foreign market at below their 'fair' market value. There is a difference between these two definitions; the 'fair' market value of a good is normally judged to be greater than costs of producing that good because the former includes a 'fair' profit margin. Dumping is viewed as a method by which firms unload excess production in foreign markets. Some dumping may be the

result of predatory behavior, with producers using substantial profits from their home markets to subsidize prices in a foreign market with a view to driving indigenous competitors out of that market. Once this has been achieved, so the argument goes, the predatory firm can raise prices and earn substantial profits.

In terms of commercial policy, nations can protect or liberalize the economy to improve economic growth, but when applied incorrectly they create distortions because the market is not allowed to operate freely. In this section, we briefly analyze two opposite development policies that were applied in developing countries in the last century: a protectionist policy known as the Import Substitution Industrialization (ISI) and policies known as outward oriented policies (Galan, 2006).¹⁹

2.5.1 Inward-oriented Policies: The Import-Substitution Industrialization (ISI)

In this section, we consider the development policies that were applied in Latin- American countries, which are not radically different from other experiences but have some specific characteristics. The theoretical ideas behind protectionism are based on a Marxist interpretation that capitalism would eventually spread to the less-industrialized countries. In this context, to the Dependency School's ideologues, the spread of capitalism would represent a constraint for economic development because capitalists would expropriate much of the surplus created in those countries to their own

¹⁹ Belem Iliana Vasquez Galan, *The Effect of Trade Liberalization and Foreign Direct Investment in Mexico* (University of Birmingham, Ph.D. Thesis, 2006).

countries. For that reason, they hypothesized that income differentials between rich (centre) and poor (periphery) countries would diverge rather than converge.

Specialization in the production of primary and luxury goods and the transfer of surplus by foreign firms would only worsen the terms of trade in developing countries. The international division of labour would keep the labour intensive countries in a permanent state of specialization in primary goods. Foreign investment from rich countries was not seen as a source of positive externalities because such capital is attracted by high profits generated by the intensive use of cheap labour. It was assumed that most of the profits earned in the periphery would be transferred to the centre to the detriment of host countries.

Conditions prevailing after the First World War and the fall in international prices of primary goods made developing countries skeptical of opening their economies. Nearly all developing countries concentrated their human and natural resources in few primary sectors: agriculture, petroleum and basic manufactures such as textiles. However, this made them vulnerable to the long-term downward trend in prices. The solution as suggested Prebisch (1959)²⁰ and Singer (1950)²¹ to the vicious circle of underdevelopment and dependency, was the implementation of a

²⁰ Raul Prebisch, *The Strategy of Economic Development* (Conn: Yale University Press, 1959).

²¹ Hans Singer, "International Approaches to Modernization Programs," *Milbank Memorial Fund Quarterly* (1950).

development strategy that could allow industrialization and avoid the deterioration of the terms of trade. In practice, the policy of economic development implied measures to protect the domestic industry from foreign competition. The first measures were import restrictions (achieved through the application of high tariffs and non-tariff barriers to goods produced domestically) and an active government intervention in the economy to guarantee the achievement of national goals. Originally barriers to trade were intended to decrease gradually as the infant industry developed; however, that did not happen. In Latin America, most of the countries embraced protectionist ideas supported by the United Nations Economic Commission for Latin America, an institution that provided cohesion to governments' policies. The empirical evidence shows that the predictions of the dependency scholars about the transfer of surplus from the poor to the rich countries, through the deterioration of the terms of trade and capital repatriation did not occur. For example, in the period 1952-1970, the terms of trade improved 14 percent for manufactured goods in low-income countries and only 12 percent in high-income countries. Michaely (cited by Balassa, 1989)²² found that low-income countries improved by 19 percent the terms of trade for all exports; while high-income countries experienced a deterioration of 15 percent.

²² Bela Balassa, "Revealed Comparative Advantage in Japan and the United States," *Journal of International Economic Integration* (1989).

The prediction about the extraction of surplus by foreign investors did not happen. On the contrary, during the period 1950-1984, US foreign investment in Latin American countries fell from 41 percent to 12 percent. In relation to the transfer of surplus, during the period 1983-1984, the USA reinvested 41 percent of the profits in those countries (Balassa, 1989). Although the ISI did not work in isolation from government intervention, the results seem to contradict the view that the spread of capitalism would be detrimental to the less developed countries. Recent evidence shows that economic growth in developed and developing countries is converging due to economic liberalization. According to Dollar and Kraay (2000)²³, in the decades of the 1980s and 1990s, GDP growth in rich countries went down from 2.3 percent to 2.2 percent. On the other hand, 'post-globalizers'²⁴ countries increased their GDP growth rates from 3.5 percent to 5 percent in the same period.

From 1973 to 1983, developing countries experienced two external shocks; the first was caused by the increase in oil prices and the subsequent economic recession in the world. As a consequence, higher interest rates created higher debt costs for these countries. In the second world shock, at the beginning of the 1980s, the oil price rose to 34 dollars per barrel, leading to a debt crisis in most developing countries including Mexico. Policy

²³ Dollar, David & Aart Kraay, *Growth is Good for the Poor* (The World Bank Development Research Group, 2000).

²⁴ Developing countries classified according to tariff reductions after 1980. The tariff reduction was on average of 22 percentage points.

responses varied, but most nations redesigned their development strategies. Two were the reasons: the vulnerability of protectionism to sustain growth and the renegotiation of the external debt with international creditors (IMF and World Bank) who required the application of outward oriented policies.

2.5.2 Outward Oriented Policies: Export-led Growth

In the 1980s, many developing countries experienced radical transformations in their development policies from inward to outward oriented policies. In general terms, the outward strategy has its foundation in trade liberalization and the reduction of government intervention in the economy. A more liberalized economy is expected to lead to better resource allocation, to greater capacity utilization, to economies of scale, technological innovation and to higher labour productivity. In this way, economic policies – fiscal, monetary and trade policies are designed to achieve outward orientation objectives that promote free movement of capital and commodities. Among the most important measures taken in countries that adopted this strategy were the opening of the domestic market to diminish the difference between domestic and world prices, the maintenance of a realistic exchange rate, the restriction of government intervention in the economy, especially in goods production and factor markets and the support of export activities through the improvement of the infrastructure and administrative facilities.

The specific effort to promote exports and achieve higher growth rates is known as an Export-Led Growth (ELG) strategy. A summary of the ELG hypotheses is:

1. International trade encourages an efficient factor resource allocation in the economy, according to comparative advantages.

2. Exports are the mechanism by which output growth rates can be higher in the long-run trade.

3. The rate of export growth will cause productivity gains due to economies of scale and specialization.

4. The export sector may generate positive spillovers or linkage effects to the non-export sectors through technological transfers increase in productivity, and technology adoption and suppliers demand.

Whether exports affect positively to all these variables or not, has to be demonstrated empirically. The relationship between exports and growth is influenced and determined by variables surrounding them, such as exchange rates, economic policies, imports, income, relative prices, etc. This means that any analysis of the different relationships requires the inclusion of some variables that are affecting directly and indirectly the main endogenous variables.

2.6 Empirical Review of Literature

2.6.1 Trade in ASEAN+3

In this section, we review the previous studies on ASEAN+3. ASEAN has experienced trade fluctuations as well as attracted foreign direct investments for strengthening economic cooperation (Sri, et al., 2010)²⁵.

The ASEAN+3 (China, Japan and RoK) had a population of about two billion people and almost USD 10 trillion GDP in 2007, is an important economic force in the world. With such economic force, the region has a high bargaining power in the world economy and possesses the potential to intensify the economic cooperation among its member nations. In light of that, ASEAN+3 frameworks that are currently underway, is a huge attractive force for its members, especially those countries that have implemented economic openness such as South Korea, Thailand, and Indonesia.

Trade and investment among AMS have experienced growth since ASEAN Free Trade Area (AFTA) was established in 1993, even the growth of intra ASEAN trade and investment has progressed slowly during 1990s. Other facts show that (i) trade between AMS and China surge, and (ii) economic growth in Japan and RoK continuously grow. These conditions provide strong market (market driven) for the regional economic grouping between ASEAN+3. Besides international trade, foreign direct investment also shows an upward trend, albeit slowly. The increase in foreign direct investment flows is expected to become the driver for the growth and intensification of intra-regional trade

²⁵ Sri Adiningsih A., Ika Rahutami, Murti Lestari, & Laksmi Yustika Devi, *The Analysis on Trade and Foreign Direct Investment in East Asia, and its Policy Implication Before and After Crisis (Case Study: South Korea, Indonesia and Thailand)*, (Indonesia: Gadjah Mada University, 2010).

and economic growth in East Asia region. The increase in the volume of trade have implications for macroeconomic policies of East Asia nations. With the deepening of economic cooperation among East Asia countries, policy makers in each country develop comprehensive economic and financial market policies to ensure that fair cooperation at the regional level prevails.

Moreover, the 1997 economic crisis, especially in East Asia, gave many worth lessons. The currency crisis that started in Thailand spread to the neighboring countries of Southeast Asia and eventually triggered serious crisis in the currency and financial markets in Thailand, South Korea, and Indonesia. More than ten years have passed since Asia's twin currency and banking crises. Comparing the period 2000–2006 with 1990–1996, growth has slipped by an average of 2.5 percent a year in the five countries (Indonesia, Korea, Malaysia, Philippines, and Thailand) that were most directly affected. This condition underscores the fact that adjustment to the previous economic crisis continues to this day. There is need for new schemes, as well as ASEAN+3 cooperation, to reform and strengthen the economic and financial market. ASEAN+3 economic cooperation is expected to strengthen economic growth and stabilize macro-economy in ASEAN+3.

In this context, it was necessary to make an analysis of the latest situation and tendency in trade development in the region. The study used RoK, Indonesia and Thailand as sample countries which hit hard by the 1997 crisis to understand better the trade pattern and to determine the implication

on macroeconomic policies. The study was given some feedback/inputs to relevant economic authorities, as well as made a significant contribution to efforts tailored toward strengthening the stability of economic and financial markets in East Asian nations. ASEAN+3 were a cooperation arrangement between ASEAN nations and China, Japan, and South Korea. ASEAN nations have had long economic cooperation arrangements with the three East Asia nations. Beside bilateral agreement (i.e. Japan-Malaysia, RoK-Singapore), ASEAN also had economic cooperation arrangements with each of Japan, South Korea, and China (ASEAN+1). In line with increasing intensity of the cooperation, it was necessary to create an umbrella framework, which leads to the formation of ASEAN+3. Economic integration of nations has led to a surge in export and import activities, especially in the region. The ASEAN markets provided a huge market opportunity for East Asia nations for their industrial exports and vice versa, as ASEAN nations, which are largely endowed with natural resources, have immense opportunity to export their products to Japan, South Korea, and China.

Country with high global competitiveness index and high world competitiveness index tend to have higher share on export intra and extra ASEAN. Singapore, that have the highest rank among ASEAN (rank 2 on IMD world competitiveness 2007 and rank 5 of WEF GCI 2008-2009), has highest share on export with 44.3 percent share among intra ASEAN export and 33.45 percent share on extra ASEAN export in 2006. As reflected on the competitiveness index; Japan and Korea have high competitiveness in general;

although Singapore stands out with high competitiveness. On the other hand, China competitiveness is not so different from AMS. ASEAN is not the main exports destination for China, Japan, and South Korea. The main importers from those three countries are not AMS. However, the value increases from 2002 to 2006 for export and import among ASEAN+3. China export and import with ASEAN increase by 52.41 percent and 47.88 percent averaged per year in 2002-2006. Korea trade with AMS also increases more than 15 percent per year in the same period. Although intra ASEAN trade is considered more important, it still falls far behind the dominance of trade outside ASEAN nations. The ASEAN market is increasingly becoming important for ASEAN nations both as a market for their products and imports, is discernible from figures on market share in ASEAN in total export market that reached 25 percent in 2006. Japan is an important export market for ASEAN nations, while China and Korea fall in line behind it. ASEAN nations rely on neighboring countries for imports, as indicated by a market share of 25 percent of all imports in 2006. Japan, China, and South Korea are important as sources of ASEAN imports. Such statistics attest to growing interdependency between ASEAN nations and Japan, China, and South Korea. In light of that, it is hoped that APT cooperation will strengthen international trade in the region.

As a developed country, Japan has been involved in developing its industries in other countries. Since 2002, Japan has become the second most important source of foreign investment in ASEAN. ASEAN is the third largest source of investment, while Korea and China are ranked in the seventh and

tenth positions respectively. The large foreign investment in ASEAN shows an upward trend during 2004 – 2006 periods, and is likely to become the driver of international trade and economic growth in ASEAN region.

Business community believes that the adoption of free trade agreement will guarantee security in trade. With the implementation of a single rule of origin, the plus three nations can use ASEAN as a production base. For example, Japan established automotive plant in Thailand, with spare parts for the automotives to be produced in Indonesia and Vietnam. The well-streamlined cooperation framework embodied in ASEAN+3 facilitates investment opportunities. For plus three nations, ASEAN constitutes a region of strategic importance because of the opportunities it offers as a large regional market for selling products. The cooperation would become more important considering global crisis (end of 2008). Starting from United States, the crisis has affected ASEAN+3 nations. The study has pointed out that as international trade in the region will decrease, strengthening economic cooperation in ASEAN+3 is becoming more important. The study further pointed out South Korea, Indonesia, and Thailand which implement openness economic policy show that international trade among ASEAN+3 countries in three countries, in general, is lower than extra ASEAN+3 countries. However, signs of an upward trend have become evident over the past several years. There are high prospects for trade among ASEAN+3 countries in the future given the high complementarity among ASEAN nations with Japan, South Korea, and China in areas of international trade. ASEAN nations such as Indonesia and Thailand

in general, are producers of natural resources or low technology products and need external financing to develop their economies. Meanwhile, South Korea requires a lot of natural resources, which are available in ASEAN. To that end, products from South Korea are in general high tech, which are on high demand in ASEAN.

In general, intra ASEAN+3 trade in the three countries (Indonesia, Thailand, South Korea) depend on the development of economic growth in the area. Thailand and South Korea trade are more sensitive to GDP growth and real exchange rate, especially on its import. On the other hand, depreciation of real exchange rate does not increase intra ASEAN+3 trade export in Indonesia, Thailand, and South Korea. The nominal depreciation may increase export but not the real exchange rate. In general, economic crisis does not have significant influence on trade in the countries. Policy implication in the research finding is that the development of ASEAN+3 framework still relevant to be discussed. The framework should move ahead despite the global economic crises this time, since 1997 crises did not influence significantly trade in general.

2.6.2 Analysis of the Bilateral Trade Between ASEAN and China

In this section, we review the previous studies on ASEAN and China. As evident from Francis and Kallummal, 2008²⁶, the five original members of ASEAN namely, Singapore, Malaysia, Thailand, Indonesia and the Philippines (ASEAN-5) have dominated ASEAN trade. Together they accounted for nearly 93 percent of ASEAN trade during 2005-06. Among the new members, only Vietnam has significantly increased its trade share to 5.5 percent in 2006. Among the older members, Brunei's share was still less than one percent in 2006. Even so, given that the ASEAN Secretariat's trade database gives the country-wise and sector-wise data for ASEAN-6 as a grouping inclusive of Brunei.

An analysis of the distribution of ASEAN-6's total exports by destination shows that with a share of 21 percent, the intra-regional market was the largest market for ASEAN in 1993. This share increased until the crisis and reached the peaked 25 percent in 1997. But, with its average share maintained around 20 percent, the US was the single largest (country) market for ASEAN during 1993-97.

The EU and Japan followed, accounting for average shares of 15 percent and 14 percent respectively of ASEAN's total exports in this period. However, by 2006, the shares for all these top three markets had declined. The most significant drop was for the US, whose share dropped from 20 percent during

²⁶ Smitha Francis & Murali Kallummal, *The New Regionalism in Southeast Asian Trade Policy and Issues in Market Access and Industrial Development: An Analysis of the ASEAN-China Free Trade Agreement*, (Working Paper No. 6/2008).

1993-97 to 13 percent in 2006. Japan's share dropped from 14 percent to 11 percent. In the case of the EU, the decline was not as sharp. Meanwhile, from 2002 onwards, the share of intra-ASEAN exports in total ASEAN exports showed an increasing trend, after declining during 1998-2001. In fact, it again touched 25 percent in 2006, the same peak reached in 1997.

Among ASEAN's top-10 export markets, all the others are within Asia, and most of them show a rise in percentage share in ASEAN's total exports. Hong Kong China, South Korea, Australia and India gained quite significantly. However, China gained the most in share between the two periods. The share of ASEAN's exports going to China increased, consistently and slowly, from an average 2.3 percent during 1993-97 to 3.3 percent during 1998-2001. But, the dramatic change occurred during post-2002, with China's share registering a huge jump to reach nearly 9 percent of total ASEAN exports in 2006.

Similarly, the share of ASEAN's total imports sourced from within ASEAN showed a very large increase, from close to 18 percent on average during 1993-97 to 20.5 percent during 1998-2001 and further to 25 percent in 2006. Japan, which was the single largest import supplier for ASEAN until the early 1990s, declined in share consistently and had a share of only about 12 percent in total ASEAN imports in 2006. The US share also dropped markedly in 2006. The fourth largest import supplier, the EU also showed a drop in share. Meanwhile, South Korea, Hong Kong, China and India showed a rise in their shares. Once again, it is China which registered a dramatic increase in its

position as an import supplier to ASEAN. From an average of 3 percent during 1993-97, the Chinese share rose steadily and posted dramatic jumps in 2002 and 2004 to reach nearly 12 percent in 2006. Significantly, China has thus overtaken the US and the EU as an external source of imports for ASEAN, and is next only to Japan.

There has been a clear diversion of ASEAN's exports away from the US, EU and Japanese markets towards China and the other East Asian markets, in this case, Hong Kong China, South Korea and Taiwan Province of China. At the same time, ASEAN is also showing increasing dependence on the regional market as well as the larger East Asian market comprising of China, South Korea, Taiwan Province of China and Hong Kong China and to a lesser extent India, for sourcing its imports. Given these trends in the structure of ASEAN's trade, it is important to understand how significant ASEAN is among China's major trading partners.

2.6.2.1 The Sectorial Structure of ASEAN-China Trade

In this section, our attempt is to understand the changes, if any, in the sectorial composition of bilateral trade after 2002, in the recent years for which data are available. Electrical and non-electrical machinery industries dominate ASEAN's imports from China—by more than half of the total. This is similar to the trend observed for total ASEAN imports. By 2004, electrical machinery alone came to constitute one-third of ASEAN's imports from China. In fact,

apart from electrical and non- electrical machinery industries, all the other sectors had less than 5 percent shares in total imports from China in that year.

However, there was a marked change in the constitution of these imports. While petroleum and petro products remained the third most important import sector at around 5 percent share, iron and steel took the fourth rank in ASEAN's imports from China in 2004. Plastic & plastic products, articles of iron & steel and organic and inorganic chemicals were consistently among the other top-10 imports of ASEAN from China. Meanwhile, three sectors that moved out of the top-10 imports between 2001 and 2004 were aluminum, cereals and cotton & cotton fabric, while jewelry moved up the list into the top-10. China is important as a source in each of the top 10 import categories of ASEAN, except for vehicles and parts & accessories. On the other hand, inorganic chemicals are one of the top 10 ASEAN imports from China, while it is not present in the list of top 10 total ASEAN imports. ASEAN's export structure tells us the other side of the story of the regional trade dynamics. Electrical & non-electrical machineries have together constituted about half of ASEAN's total exports since at least 1993.

In fact, in 2004, electrical machinery alone constituted more than 30% of ASEAN's total exports and imports. Clearly, this reflects a significant degree of intra-industry trade in this sector. Similarly, the non-electrical machinery sector, followed by petroleum & petro products, organic chemicals, plastic &

plastic products, as well as vehicles and parts & accessories have also shown a high level of intra-industry trade for ASEAN countries.

A similar pattern in intra-industry trade is witnessed in the case of trade between ASEAN and China. The overall bilateral trade pattern clearly reveals that the electrical and non-electrical machinery sectors, followed by petroleum & petro products, organic chemicals, plastic & plastic products, as well as optical, photo/cinematic, measuring & medical instruments show a high level of intra-industry trade involving ASEAN countries and China.

Apart from the industries in which there was a high level of intra-industry trade, the other sectors of export importance to ASEAN in the Chinese market were mostly resource-based. Petroleum & petro products remained the third largest exports of ASEAN to China. Among ASEAN's other top exports to China, plastics & plastic products, wood & wood articles and wood pulp & waste of paper, etc., declined in share slightly, while organic chemicals, animal & vegetable fats & oils as well as rubber & rubber products gained in shares. While the share of non-electrical machinery declined slightly after 2002, export shares of the resource-based sectors increased, along with vehicles and parts & accessories. It should be noted that petroleum & petro products, followed by wood & wood products and animal and vegetable fats & oils were the three most important ASEAN exports to China in the early 1990s.

Thus, the fact that electrical and non-electrical machinery sectors have

come to dominate ASEAN's exports, imports from China clearly reflect the rapid integration of China into the regional production networks for these industries.

2.6.2.2 The Consolidation of East Asian Production Networks

Several studies have identified production networks at the heart of the recent growth in trade among East Asian countries. Production sharing, by definition, incorporates the back-and-forth nature of trade: the importation of inputs for assembly or additional processing, as well as the export of intermediate goods for assembly or additional processing by third countries. This phenomenon has been reflected in the trade in parts and components (fragmentation trade) growing at a rate exceeding that of the trade in final goods, because a good crosses multiple borders while it is involved in processing.

Developed countries account for the bulk of such fragmentation trade in components, but the share of developing countries has increased sharply over the years. In particular, the share of East Asia in the total exports of components rose steadily from 31 per cent in 1992 to 43 per cent in 2003, despite a decline in the share of Japan. Contrary to the popular perception of crowding out by China, the increase in the share of the exports of components by China and Hong Kong China has occurred within an overall increase in exports from relatively newcomers in trade in the region, including Vietnam.

Athukorala (2005)²⁷ had established that the high level of intra- industry trade observed in the East Asian region reflects the growing cross-border trade in components within the region. Thus, many East Asian economies have experienced an expansion in intra-industry trade with the rest of the world, as well as within the region. In the case of vegetable and animal oils & fats in which ASEAN gained in market share in China dramatically, the FTA does seem to have played a major role. This is the sector in which China has granted ASEAN a high margin of preference of 6.5 percent. Similarly, in plastics and rubber and products, the FTA seems to have helped, since ASEAN enjoyed margins of preference of 2.8 percent and 3.4 percent respectively by 2006. On the other hand, in wood & products, ASEAN faced a negative margin of preference of 2.4 percent as a result of which, its share in the Chinese market was eroded. In wood pulp & waste paper/paperboard, all of China's trading partners faced zero tariffs (but, the share of this sector in ASEAN's top exports to China has been declining).

In non-electrical machinery, ASEAN obtained a nearly one percent margin of preference. But, given that, this is an industry driven by low profit margins and mass volume production, even a very small reduction in tariff rates in cross-border trade can be substantial and lead to a significant increase in the volume traded. However, in electrical machinery it faced a negative margin of

²⁷ P. Athukorala, *Component Trade and China's Regional Economic Integration*. In R. Garnaut, & L. Song (Eds.), *The China Boom and its Discontents* (Canberra: Asia Pacific Press, 2005): 215-239.

preference of 1.4 percent by 2006. This suggests that China wanted to keep an upper hand in attracting FDI into the electrical machinery industry by way of keeping the tariffs on exports from ASEAN at a higher level as compared to its MFN rate. Nevertheless, in electrical machinery sector, ASEAN gained massively in China's market share. Overall, in sectors of export prominence for ASEAN in China, the ACFTA seems to be important in explaining the trends in bilateral trade. This is true especially in the case of the rapid increase in ASEAN's share in Chinese imports of vegetable & animal oils & fats, plastic & plastic products and rubber & rubber products. In sectors dominated by MNC-led intra-industry trade, preferential tariffs under the ACFTA do not seem to explain ASEAN's increased market share in China, except for the plastics and non-electrical machinery industries. In the others, it seems that the bilateral trade pattern is intrinsically linked to the production strategies of the MNCs dominating the production networks and the relative technological capabilities of the different countries.

2.6.3 Determinants of AFTA Member's Trade Flows

2.6.3.1 Estimation Results

According to Asia-Pacific Research and Training Network, Hapsari and Mangunsong (2006)²⁸ found the standard gravity variables GDP, GDP per capita, and distance have the expected sign and are statistically significant at the 1 percent level. A one percent increase of GDP in the reporting countries, a

²⁸ Indira M. Hapsari and Carlos Mangunsong, *Determinants of AFTA Member's Trade Flows and Potential for Trade Diversion* (Asia-Pacific Research and Training Network, Working Paper Series No. 21, 2006).

proxy for market size and ability to supply or demand products, leads to an increase in its bilateral exports by 0.74 percent and a one percent increase of GDP in the partner countries leads to a 0.65 percent increase in its bilateral trade. The variable GDP per capita also shows that an increase of GDP per capita by both reporting and partner countries leads to an increase on its bilateral trade. The variable distance shows a negative effect with statistical significance at 1 percent. The variable distance represents a barrier in trade with implicit assumption that transport costs increase with distance. A one percent increase in the distance between two countries will lessen their bilateral export by 1.31 percent.

Other variables representing barriers are dummy variables such as land and island. It is assumed that transportation costs are higher for island and land countries. On the contrary, countries that share a common border will have less transportation costs. The variable *comlang*, whether bilateral countries share a common language, is included to capture information cost. Information cost caused by inability to communicate and cultural differences. If so, we expected that countries which shares common language will trade more. Results for *comlang* variable show a positive and significant effect on bilateral exports from ASEAN countries. *Border* shows a negative and significant effect on bilateral exports from ASEAN countries. The result is inconsistent with the expected results where a shared border will increase bilateral trade between neighboring countries as transportation cost is lower. The reason is probably the different role of trade in the neighboring countries. This is probably caused

by a negative effect of bilateral trade between Indonesia and Malaysia that shared common border. The authors therefore included a variable reflecting country specific effect between Malaysia and Indonesia. The result is negative and significant at 10 percent level significance. Variable land shows a negative and significant effect which is consistent with the expected sign that landlocked partner countries will be more difficult to reach and thus will increase transportation costs. The variable island is significant for ASEAN exports.

On the second attempt the authors took an account of the effect of RTA on its member's bilateral trade. To capture this effect, the regional dummy ASEAN is included. Moreover, the authors also estimated whether AFTA results in trade creation or trade diversion to its member. The dummy CRE and DIV characterize the effect of AFTA in creating trade among its member or diverting member's trade from countries outside the agreement to counties inside the agreement. The result shows that the standard gravity variables are still significant except island with a statistical significance at one percent. Border has negative but insignificant effect on ASEAN exports. The authors also include the variable tariff as one of the parameter for AFTA through the CEPT scheme.

The variable tariff represents a trade barrier as tariff will increase the transaction cost for the exporting countries. The result indicates a negative and significant effect from tariff to influence the exports value. A reduction in tariff by one percent will contribute to an increase in exports by 2.44 percent. The coefficient above one indicates a multiplying effect of reductions in tariff for

ASEAN countries. Hence, a reduction in tariff through the CEPT scheme, as one of the main goal in AFTA to eliminate tariff barriers will boost the regional trade among its member. Following the signing of the Protocol to Amend the CEPT-AFTA Agreement for the Elimination of Import Duties on 30 January 2003, ASEAN-6 (ASEAN-5 plus Brunei Darussalam) has committed to eliminate tariffs on 60 percent of their products in the IL by the year 2003.

As of this date, tariffs on 64.12 percent of the products in the IL of ASEAN-6 have been eliminated. The average tariff for ASEAN-6 under the CEPT Scheme is now down to 2.39 percent from 11.44 percent when the tariff cutting exercise started in 1993. However, there are products that remain out of the CEPT-AFTA Scheme which in the Highly Sensitive List (i.e. rice) and the General Exception List. The Coordinating Committee on the Implementation of the CEPT Scheme for AFTA (CCCA) is currently undertaking a review of all the General Exception Lists to ensure that only those consistent with Article 9(b)1 of the CEPT Agreement are included in the lists. Thus, one can see that ASEAN members have increased their exports over time, to other ASEAN countries. The intra-ASEAN exports started to strengthen after the 1997 crisis, triggered by the fall of the Thai Baht relative to US Dollar. The economy in the region starts to integrate, through the intra-regional trade among members of the region. Intra-ASEAN exports over the period 1989-1992, grew at a rate of 20.5 percent per annum, increasing from USD 20.7 billion in 1989 to USD 33.5 billion in 1992. Total ASEAN exports grew at an average annual rate of 16.9 percent over the same period. After the formation of AFTA, intra-ASEAN exports grew at a rate

36.2 percent per annum over 1992-1995. At the same period, total ASEAN exports to the world grew at an average 24.1 percent per year. However, since 1997 and the Asian financial crisis, ASEAN economic growth and international trade have stalled. The pace of integration through trade has slow down. The intra- ASEAN exports experienced a negative growth at an average 4.2 percent per annum over 1995-1998. Eventually, in the period of recovery, the economy started to experience an upbeat growth albeit reduced momentum, one of them in the regional trade. The intra-ASEAN exports grew by an average 12.3 percent per annum, increasing from USD 75.1 billion in 2001 to USD 102.74 billion in 2003. Meanwhile, total ASEAN exports grew at an average annual rate of only 7.25 percent over the same period.

Taking Malaysia as an example, the complementarity index is highest with the Singapore for each year since 1989. In 2003, Malaysia export structure matches mostly with Philippines and Singapore with index value of 0.69 and 0.75, respectively. Malaysia's export profile with other countries outside the region is rather dissimilar with relatively low index like 0.41 with India or 0.49 with UK. Furthermore, the index is increasing over time with those who are ASEAN members and decreasing with non-members. In 1989, the degree of complementarity with Japan was 0.53 while with Philippines was relatively lower at 0.48. But in 2003, the degree of complementarity with Philippines reached 0.69 while, with Japan it was only 0.56, indicating that the growth of Malaysian export's complementarity was higher with Philippines than with Japan. In conclusion, the increase in ASEAN trade complementarity index no

doubt was an important factor fueling the rapid expansion of intra-regional trade. This means that the differences of factor endowments among ASEAN countries complements each other's so that the export structure of each ASEAN countries fits in with the imports structure of other ASEAN countries.

On the other side, the similarity index reflects common characteristic of the exporting product between the bilateral countries. The similarity index is significant at the 10 percent level but has the opposite sign to what was expected. A one percent increase in the similarity index between the bilateral trading countries is estimated to lead to a 0.2 percent increase in its bilateral exports. This result is not consistent with the initial hypothesis that the more similar the export structure of two countries, the less they will trade. A possible explanation for this result is the large intra-industry trade between countries. The calculation of the index is based on the two-digit level of SITC and the bilateral trade between ASEAN countries is very large in the same sector at this two-digit level. In the case of Indonesia, the highest index with Malaysia is in the sector of petroleum and petroleum products; and telecommunication products. However, there is a great possibility that Indonesia and Malaysia trade in the petroleum and telecommunication sectors although both countries have similar export products, one of them coming from this sector. This intra-industry trade with Malaysia was strong in parts of radio radar and apparatus and also electronic integrated circuits and micro assembly. From a broader perspective, the intra-industry trade of Indonesia to other ASEAN countries is also strong in three product categories, i.e., printed circuits, electrical apparatus

for switching, and insulated wire/cable, among others. The strong intra-industry trade indicates the good prospect for further ASEAN integration, particularly in the priority sectors that lead to intra-regional trade in ASEAN. Moreover, intra-industry trade is also important for ASEAN to participate in global/regional production networks.

2.6.4 Determinants of AFTA Member's Trade Flows

Nguyen (2012)²⁹, based on the findings of research on the real situation of international marketing and effect of the respective capacities on the export performance of Indochinese enterprises, proposed several basic solutions to further promote marketing activities of exporting enterprises in Vietnam, Laos and Cambodia, thus helping improve the export performance of the region as a whole. Groups of solutions include the following:

2.6.4.1 Proposals for Indochinese Exporting Enterprises

First, conducting wide and deep survey of the export markets; this operation will help Indochinese enterprises have a more specific grasp of international markets, so as to prevent from possible risks and improve the performance of international marketing activities for enterprises. Export market research should focus on such issues as: potential of import markets, tastes, requirements, culture and customs of each market, modes of transaction, entering into contract on payment and spending of each market, general and

²⁹ Hoang Nguyen, "International Marketing Capacities and Export Performance: An Empirical Study of Indochinese Exporting Enterprises," *International Journal of Marketing Studies* 4 (2012): 51-59.

several international regulations of each international market, distribution channels preferred to be selected by customers at each market, situations of competitions and rivals, most effective mass media on each market, etc. From such researches, Indochinese exporting enterprises shall be able to draw up the most effective and suitable international marketing strategy for each market, particularly, attention should be paid to the channels that have direct contacts with end-users of enterprises.

Second, improving capacities of services or department in charge of international marketing; enterprises should establish a professional international marketing section. In practice, this activity is very complicated, and now this will be even more complicated once enterprises are involved in international markets, since being there, they will find themselves confronted by more severely competitive rivals due to differences in culture, politics, environment, religion, etc. A solution which is good and in order for Indochinese exporting enterprises is to hire professional marketing companies at the international markets where they are involved in export to take the charge of advising and carrying out marketing strategies in specific locality. This will enable them to make use of the capacities and advantages of such professional marketing companies, and since these are local enterprises, they will have the steady knowledge of the local market.

Third, Indochinese exporting enterprises should bring into play their product distribution capacity based on 57 establishing sustainable cooperation

relations with exporting partners. According to the entrepreneurs taking part in the interviews, the trust among partners is the prerequisite that enables exporting enterprises of Vietnam, Laos, and Cambodia to bring their commodities to penetrate into international markets. This is also a foundation for establishing long-term strategic cooperation for mutual benefits of the parties and helping improve the export performance of Indochinese enterprises. In the context of global competition today, relations are also an important force to create competitive edge for exporting enterprises. By managing to establish good relations with importers, enterprises will have an advantage in market research through the information as shared by partners to promote the image, to distribute goods and to access customers easier.

Fourth, improving quality of export products and supporting services. It is product that is the most important element for establishing and maintaining trust with importing partners, and with end-users of enterprises as well. Because it, or the uses or utilities it brings about, is the value they expect to receive. For that reason, Indochinese exporting enterprises should develop their product development capacity to produce products that are more preeminent in both particularities and patterns, and services to meet the requirements of partners and internal standards. Promoting product-service development and improvement capacity will make it possible for enterprises to obtain differentiation advantage over the rivals' products, and the enterprises can achieve the export performance as desired.

Fifth, strengthening trademark promotion activities; almost all the Indochinese taking part in the interviews acknowledged that the fames established by them at international markets were still modest. This would influence their international marketing strategies and result in the fact the exporting performance unmatched with the potential. Exporting enterprises therefore should strengthen the promotion of their image and trademark on international markets. There are a wide range of means for promoting the enterprises such as the Internet, television, newspapers, radio, etc. Nonetheless, in order to establish trust with the target customers as enterprises, exporting enterprises of Vietnam, Laos, and Cambodia should use specialized magazines, participate in international exhibitions and trade fairs to introduce their products and promote their trade names.

2.6.4.2 Proposals with the Government and Agencies Concerned

Government always plays a very essential role in the operations of enterprises. For export activities, the Government's policies on foreign trade are characterized by orientation and have decisive influences. Accordingly, to promote international marketing capacities, from that to improve export performance of the entire economy as a whole, the Governments of the Indochinese countries should:

First, strengthen diplomatic; trading activities with countries over the world to make it possible for enterprises to participate in these international markets. The Governments of Vietnam, Laos and Cambodia should therefore be more active by participating in agreements on liberalization of trade to create

favorable conditions for commodities from other countries to be imported into the Indochina (including production materials) and help keep enterprises from tax rate and non-tax rate barriers when exporting goods and services.

Second, the Governments of Vietnam, Laos and Cambodia should draw up and implement drastically policies as well as the legal environment in general to speed up export activities of enterprises, making it possible for them to get access to international markets. Specifically, the Governments of the three countries should support enterprises in terms of information, infrastructure development, and distribution system construction and consumption market expansion through the embassies or agencies in charge of trade in other countries. Such support will be of special importance for enterprises to know about the markets and partners on international markets.

Third, the Governments of the three countries and agencies concerned should organize various activities for trade promotion, trade fairs and contacts so as to learn about, exchange and introduce among exporting enterprises with foreign partners to further strengthen the co-operation among the parties. Activities as such a test of trust of Indochinese enterprises, as guaranteed by the Governments of the three countries before foreign partners, from that to assist enterprises in promoting their trade names and improving export performance. For the Laos Government in particular, the process of officially joining the WTO should strongly be speeded up so that more favorable conditions shall be created for enterprises to participate in the export market.

2.6.4.3 Conclusion

Development of internal economic relations is indispensable in the period of wide and deep integration into the world economy as well as in the trade liberalization process of the Indochinese countries. In this development, the radical influences of international marketing are undeniable. This shows that international marketing capacities of the Vietnamese, Laos and Cambodian enterprises have positive influences on their export performance. Export activities are conditions for promoting the economic growth at a high rate, for increasing national income, and one of the premises for the Indochinese countries to carry out industrialization and modernization.

Nevertheless, due to some objective factors and their very own difficulties, the real situation of the international marketing capacities of Vietnamese, Laos and Cambodian enterprises still reveal many limitations, particularly the capacities for product development, distribution and promotion. Pricing capacity has been rated fairly good, but this lies chiefly on the abundant and cheap human resources of the three Indochinese countries. To improve this situation, there should be a combined action of enterprises and Governments in the region to further enhance enterprises' international marketing capacities, from that to improve the export performance and promotion of the trade names of the three Indochinese countries.

2.6.5 Policy Priorities to Promote Trade for Growth

According to Vutha (2013)³⁰, global experience suggests that trade policy has been a key to growth and development. No country has ever been able to sustain long-term growth without integrating into the world economy. But while trade is a necessary condition for growth, it is not sufficient. To sustain growth over a long period, a host of factors apart from export promotion and industrial policy need to come together such as macroeconomic stability and financial sector development; investment in infrastructure, education and health; technology and knowledge transfer; and effective government.

Below are policy priorities for Cambodia to promote exports, enhance diversification and upgrade its industrial base to sustain economic growth. These recommendations are based on a balance of the country's current socio-economic and policy contexts, taking into account the experiences of successful exporting countries. The proposed policies are broadly categorized into two groups. The first comprises measures that aim to remove distortions and reduce transaction costs (known as "permissive policies"). Typically, these involve maintaining macroeconomic stability, improving the business and investment climate, removing high rates of domestic protection, especially through special import regimes (e.g. duty/tax exemption, special economic zones) and reducing high transaction costs for exporters. The second refers to measures that intend to overcome structural market deficiencies ("positive policies"). They can be subdivided into functional and selective interventions.

³⁰ Hing Vutha, *Leveraging Trade for Economic Growth in Cambodia* (Phnom Penh: CDRI, Working Paper Series No. 81, 2013).

Functional interventions are aimed at remedying market failures without influencing resource allocation between specific activities. Examples include improvement in physical infrastructure, human capital or provision of information and technical support to exporters. Selective interventions aim at influencing resource allocation or remedying market failures for specific activities through specific subsidies or protection, credit direction, creation of specific skills or technology or attracting specific investors. Functional interventions are more market friendly and less controversial than selective interventions.

2.6.5.1 Policies to Remove Distortions and Reduce Transaction Costs

1. Maintain sound macroeconomic management. Over the past two decades, Cambodia has done exceptionally well at maintaining macroeconomic stability: fiscal credibility has been maintained, the financial system is stable and secure, the exchange rate is stable, and inflation is low. A stable and resilient macro economy will continue to be important to successful outcomes from trade promotion. Policies for sound macroeconomic management for Cambodia include maintaining inflation under 5 percent, maintaining external sector and exchange rate stability, improving collection of revenue and deepening the financial sector. The financial sector is young, so the country should pay greater attention to building a robust and efficient financial system. One option would be to liberalize financial services in conjunction with improving supervisory capacity and the regulatory framework. Financial

regulatory reforms need to set in place pro-market financial institutions, pro-competition regulatory frameworks and macroeconomic and monetary stability prior to opening up financial sectors. Financial services liberalization helps to accelerate reforms, encourage a more transparent regulatory and supervisory framework, increase the incentive for better macroeconomic policies and regulations and enhance the credibility of rules. It is expected that trade liberalization of financial services would strengthen Cambodia's financial system.

2. Improve the investment climate. This is an effective complementary strategy in fostering export performance and sustaining growth. The investment climate combines factors such as macroeconomic certainty; quality and accessibility of infrastructure; extent of government regulation; taxation; access to and cost of financing; access to, cost and quality of factors of production; degree to which the government creates a level playing field; governance and corruption; and security (Asian Development Bank & World Bank 2007). Despite significant improvements in areas such as macroeconomic management, access to finance and information technology and trade facilitation, the Cambodian investment climate remains less conducive than in most countries in the region, as evidenced by its low ranking in business and economic assessments. In the 2012-13 Global Competitiveness Report, the country ranked 85th out of 144 countries as a result of poor infrastructure, undeveloped higher education, proper auditing and reporting standards, irregular payments and bribes and lack of transparency of government policy making.

World Bank confirms at Cambodia's 2009 investment climate report that corruption, anti-competitive practice, economic and regulatory policy uncertainty, expensive and unreliable electricity, poor skills and education, the legal system and customs and trade regulations are perceived by investors as important constraints on investment and business. Improving the investment climate is synonymous with removing or reducing these perceived constraints. Some of the policies to do this should be upgrading infrastructure, streamlining customs procedures, enhancing logistics and investing in human capital. While such improvements are already in the priority agenda of the government, also needed are: strong recognition of the issue by concerned institutions and stakeholders; sufficient human and financial resources; political support to tackle sensitive issues; and a stronger and more harmonious public- private partnership.

3. Improve customs procedure. Issues related to import and export are among the areas that the government has made the greatest effort to tackle. This is clear from the measures that have been implemented, namely the Twelve-Point Action Plan for Trade Facilitation, the government-private sector forum and the single administrative document and computerization of customs clearance through Automated System for Customs Data (ASYCUDA). As a result, trade facilitation has improved significantly. However, the outcomes vary across sectors. The garment sector was reported to benefit from significant progress, reflecting the active role of its industry association and recognition by government of its role in the economy.

Compared to other countries in the region, the gap in trade facilitation performance has been significant. While in Thailand it takes 14 days, in Malaysia 11 days and in Singapore five days to comply with all procedures required to export, the same process takes 22 days in Cambodia. Similar evidence was reported in (World Bank, 2009) suggesting that the top one-third of performers (in terms of total factor productivity) have documentation problems: the cost of shipping remains high; the cost of an import license is also high due to significant informal payments; and the cost of exports is worsened by delays and informal payments to obtain VAT rebates. This is confirmed by exporters' opinions reported in 2012 by ADB that customs formalities including paperwork and clearance are among top three impediments. Specifically, certificates of origin presently require five to seven days, but are issued almost immediately in Thailand. Inefficiency in import and export processes directly affects trade costs, total factor productivity and competitiveness. Addressing this issue will be critical in fostering export growth and competitiveness. To improve customs procedures, there is a need for comprehensive reforms that address major constraints perceived by the private sector, especially in documentation, coordination among trade-facilitation agencies and access to information on export procedures, regulations and fees.

The initial implementation of ASYCUDA was widely perceived as reducing import and export time. The system needs to be fully implemented in the remaining customs inspection points. Alongside ASYCUDA is needed a single electronic administrative document that would allow traders to submit required

documentation to the government through one electronic gateway and to do so only once, instead of multiple times to different agencies. There are different ways to manage a single window, and the debate remains inconclusive on which model is most effective. The government has opted for 100 percent public ownership of the single window. At this moment, it is premature to propose a change of ownership model. Instead, there should be a credible internal monitoring mechanism and external independent assessment.

Coordination and the quality of interface between trade-facilitation agencies remain issues that need greater attention. The most common practice to improve coordination is to agree on a governance framework for agency cooperation, especially in delegating authorities and powers. Frequently, customs take the lead in coordinating smaller agencies. Lack of information and transparency remain a concern. World Bank reported in 2009 that only 10-20 percent of firms have good information about export requirements, processes, times and costs. Increasing access to information should be a priority, and it can be done through multiple channels. One way is by providing widely available booklets. A handbook on export procedures was developed in 2009 with financial support from the World Bank Group, and it is highly valued by the private sector. This has two implications: first, information in the handbook needs to be updated on a regular basis; second, it generates demand for other booklets for instance on technical barriers to trade, sanitary and phytosanitary (SPS) measures and trade logistics. Developing a credible website that contains comprehensive trade information will also raise awareness and the

transparency of custom procedures. Significant progress made so far in several areas of facilitation has been accompanied by willingness to reform and strong leadership. This momentum should be maintained and supplemented by a strong political commitment to achieve trade facilitation targets.

4. Improve logistics efficiency. Cambodia is among the countries with the least efficient logistics services. The World Bank's logistics performance index 2012 ranked the country at 101 among 155 countries. Although the ranking has improved from 129 in 2010, the quality and efficiency of logistics remain significantly below regional standards. Poor logistics performance largely stems from insufficient supply and poor quality of infrastructure; low efficiency of the clearance process (speed, simplicity and predictability) by border control agencies; and low competence and quality of logistics services. Cambodia's infrastructure has lagged behind most countries in the region. Road transport remains embryonic and inefficient; the railway system is in bad shape, with little traffic demand. While the efficiency of ports has improved, the cost of shipping remains high. Poor infrastructure is compounded by the lack of competitive transport due to restrictions on foreign-owned trucking companies and the lack of firms engaged in cross-border shipments. The time-cost survey on transporting "normal" goods from Bangkok to Phnom Penh and from Phnom Penh to Ho Chi Minh City reported in 2012 by ADB reveals that logistics costs in Cambodia are double those of Thailand and Vietnam. The average logistics cost for the Cambodian section is USD 0.20 per ton-km from Bangkok to Phnom Penh, compared with USD 0.09 in the Thai section and USD 0.19 per ton-km

from Phnom Penh to Ho Chi Minh City compared with USD 0.10 in the Vietnamese section. Such low performance justifies policy intervention to improve logistics. The underlying idea is to reduce the costs of trade-related transport and logistics and increase their timeliness and reliability. This can be achieved through upgrades in trade-related hard infrastructure including roads, railways and seaports and their management; reforming and modernizing customs and wider information sharing and dissemination; greater competition in trucking, port and air freight; and improved access to information about international transit agreements.

5. Strengthen regional cooperation and connectivity. Cambodia is at the heart of the GMS, ASEAN, ASEAN+3 and several other regional frameworks. The prospects of an integrated Asian production network and market and huge East Asian market for exports offer vast opportunities for trade growth, private sector development and prosperity. The country has not yet fully harnessed opportunities from regional integration; this is evident in low intra-regional trade and weak awareness and engagement in ASEAN and AEC processes by the private sector (Chan & Strange 2012)³¹. The immediate challenge is to ensure that regional cooperation is reached and taken advantage of by the trade sector so that exports become more diversified. Cambodia must deepen regional cooperation and partnership while ensuring the coordination and synchronization of development cooperation and regional integration processes

³¹ Chan Sophal & Larry Strange, *Achieving the AEC 2015: Challenges for Cambodia and its Businesses: Challenges for Member Countries and Businesses*, edited by Sanchita Basu Das (2012) 37-52.

to achieve development objectives.

6. Deepen implementation of special economic zones (SEZs). In an attempt to emulate the successes of some East Asian economies, Cambodia has established rules on SEZs and approved the number of them. The idea is to provide a 'one-stop service' for investment approvals and customs procedures along with fiscal incentives, a better standard of regulatory administration and better infrastructure. Although SEZs were introduced almost a decade ago, they have not been as successful as hoped in attracting investors. There are currently 21 approved SEZs, with total investment capital in excess of USD one billion. Only eight of these are now operational, while others are at various stages of development and some remain undeveloped. There is almost no assessment that explains why SEZs have made such slow progress. Cambodia is well positioned to implement SEZs as a central component of its investment and export strategy. Learning from successful experiences elsewhere, these SEZs will need to offer investors something significantly different from what is available in the rest of the economy. Apart from superior infrastructure and fiscal incentives, SEZs should offer a sound business and investment environment, broader industry clusters that provide backward and forward manufacturing and service linkages and cost and flexibility of employment matters. More specifically, they have to attain high quality and efficient administration of taxes and regulations; overcome bureaucratic and administrative hurdles; offer tailored solution to investors' problems; create more flexible employment relationships; and ensure easy access to labour (both

low skilled and high skilled). Because the SEZ strategy involves comprehensive institutional and regulatory reforms, the zones' success requires strong leadership and political oversight from the government. That will include a commitment to streamline cumbersome and complicated regulatory processes, to manage the pervasive corruption, to ensure the efficient delivery of services and to provide regulatory oversight. Finally, the strategy needs to be accompanied by an effective investment promotion agency that actively seeks to attract FDI.

2.6.5.2 Policies to Overcome Structural Market Deficiencies

1. Invest in human capital. Cambodia's education and human capital lag behind most countries in the region, creating a major constraint on socio-economic development. The country has a 78.3 percent of the highest illiteracy rates in the world, and its Human Development Index is one of the lowest in ASEAN. The current labour market is characterized by a poorly educated workforce and emerging skills mismatches and skills gaps. Of the 6.8 million Cambodians (aged 15 years or older) employed in 2008, 61 percent had education below completion of primary school; 23 percent had completed primary education; 13.7 percent had lower secondary education; 1.5 percent had secondary or diploma education; only 1.1 percent had tertiary education. A survey by the Cambodian Federation of Employers and Business Associations identified workers' skills as 'difficult to find'. Employers reported soft (analytical and work attitude) skills as the most critical skills missing in most workers,

especially among out-of-school youth. Some of the hard-to-find hard skills (specific technical abilities) identified were ICT, foreign languages, sewing, plumbing, carpentry and blacksmithing. The same report stated that 'the lack of soft skills is a major challenge, but poor technical skills that do not match employers' needs also represent an obstacle to productivity growth in particular for the unskilled.' The shortage of educated and skilled labour has slowed the shift from a predominantly agrarian society toward a more diversified economy. Building on the lessons of successful exporting countries, Cambodia should invest heavily in human capital development. Education policies should stress universal primary education and improvement in quality at primary and secondary levels. Tertiary education should focus on the acquisition and mastery of technology and vocationally and technologically sophisticated disciplines. Priority policies to achieve these objectives include improving school infrastructure, especially in rural areas to achieve universal secondary education; increasing the number of technical and vocational schools to match the demand for skilled labour; improving teachers' quality and the governance of tertiary education; and institutionalizing research and development in higher education institutions.

2. Improve export market information services. Cambodia's private sector has low or uneven understanding of the implications of trade agreements and their potential benefits and lacks adequate knowledge of export procedures and export markets. Information asymmetry is primarily due to the high cost of obtaining information, limited human and financial resources, lack of networks

of trade support institutions and government failure to provide needed information. As in most developing countries, the trade promotion department of the Ministry of Commerce is tasked to provide information services on trade promotion and overseas markets. However, it will be critical to strengthen the functions of the Trade Promotion Department (TPD) as part of export promotion. A short-term priority should be providing support and information needed by exporting firms, especially product and market development and market information services. This recommendation is justified by the fact that the TPD has such a broad mandate: from exhibition management and product development to market development and providing trade information services, that existing financial resources cannot provide adequately. That requires a mixture of political support and strong leadership, adequate funding and capable staff. Since successful reforms in Cambodia usually benefit from strong political support, the TPD should firmly commit to transforming itself into an important institution in trade development. Funding needs immediate policy attention. Donor financing can be useful initially in the reform process as it can promote best practices and effective organization, but such support should be temporary and followed by sufficient domestic resources from either government or a combination of government financing and charging for services. Ensuring quality staffing is another important element in strengthening the TPD. This can be achieved through ongoing capacity building, recruitment of talented staff with business experience and proper salary. Policy should also focus on building domestic trade networks (government, private sector and investors) and overseas networks (foreign government, international buyers

and investors), improving information systems and enhancing cooperation and coordination with other ministries and institutions. The effectiveness and efficiency of trade promotion should be evaluated periodically. This requires a system to monitor and evaluate performance and assess customer satisfaction. A medium-term policy should consider changing the TPD into an independent entity. Trade promotion organizations that operate directly under ministries are often poorly positioned to deal with the main issues affecting external trade and competitiveness. Moreover, most successful trade promotion organizations are autonomous, and such a model fosters the confidence and mutual trust required to develop a supportive relationship with the business community. The TPD may also consider combining FDI promotion with trade promotion and try to promote a brand like Japanese External Trade Relations Organization (JETRO) in Japan, Korea Trade Promotion Agency (KOTRA) in the Republic of Korea and The Malaysia External Trade Development Corporation (MATRADE) in Malaysia.

3. Improve standard management system. Like most LDCs, Cambodia encounters great challenges in complying with importing countries' technical standards. Its standard management system suffers from serious weaknesses. While comprehensive reforms are needed in the standard management system, pragmatic measures should focus on strengthening the institutional framework, especially in relation to mandates and coordination; building technical and managerial capacity; and establishing assessment bodies accredited by internationally recognized bodies. Apart from clearly identifying roles and

responsibilities of institutions involved in Standardized Public Services (SPS) management, and putting in place mechanisms of coordination, there should be a strengthening of working arrangements for inspection, monitoring and testing. There should be a coordinated staff capacity building programme across all areas of SPS management, from food safety and control to inspection, monitoring and testing. Such a programme requires both support from the government and technical assistance from development partners and agencies. The creation of conformity assessment bodies is justified by the fact that there is no internationally recognized process or systems conformity assessment body in Cambodia, and as a result all agricultural products have the conformity assessment undertaken by the importer or buyer. It is therefore important to provide flexibility to exporters to gain their own certification and standards conformity requirements.

2.7 Conclusion

This chapter concludes with two fundamental statements. First, trade can foster investment, technology and knowledge transfer; improve efficiency and raise productivity; and stimulate economic growth. Most countries, particularly rapidly growing economies, develop their trade sector by adopting outward-oriented trade policy along with other policies conducive to growth, i.e., maintaining macroeconomic stability, developing an efficient financial system, investing in infrastructure, building trade-related institutions, investing in human capital and ensuring a labour market that works efficiently. Trade will be even more vital in a context in which it is governed by more integrated and

borderless regional trade architectures and by rules-based and least restrictive global trading rules.

Second, Cambodia's experience in developing its trade is impressive. The country not only managed its economic transition successfully but also transformed trade into a driving force of economic growth through liberalizing trade and investment and opening up to regional and global cooperation. Now, trade is the backbone of the economy and has reached a level that needs greater policy attention and focus to sharpen competitiveness and move up value chains. Policy priorities include investing in trade-related infrastructure, improving logistics efficiency, improving customs procedures, strengthening regional cooperation and connectivity, improving export market information services and improving standard management systems. These measures should come together with a number of complementary policies including macroeconomic stability and financial sector development, improvements in the investment and business climate, investment in general infrastructure, education and health and technology and knowledge transfer. There will also be a need to strengthen sub-regional and regional economic integration as a complement to the global trading system and to exploit the benefits of economic cooperation. Experience also suggests that trade policy is most likely to be associated with positive outcomes when it is conducted with effective institutions and strong commitment from the leadership. Therefore, trade policy liberalization and reforms need to gain political support from the leadership, receive momentum and impetus from stakeholders and be supported by

effective and responsive institutions.

Trade related research particularly in the context of Cambodian economy is quite limited. Further, the literature has shown huge gap in policy directed research on trade in ASEAN with reference to Cambodia. Thus, it is in this context the present study has made an attempt to fill up the gap in research.

Chapter III:

SOCIO-ECONOMIC

PROFILE OF ASEAN

AND CAMBODIA

This chapter attempts to analyze the profile of ASEAN and Cambodia. For this purpose, the chapter is broadly divided into three sections. While in the first section, the socio-economic profile of ASEAN has been presented, in the second section, Cambodia's profile focusing on trade has been elaborated. Finally, the conclusion of the chapter is given in the last section.

3.1. The Socio-economic Profile of ASEAN

Each country or region has its potential resources and culture. While some are well developed and civilized, others need to be developed. The profile should be learned because it helps identify the real situation before estimating or predicting the future.

3.1.1. The Overview of ASEAN³²

Before carrying out the analysis of trade and the progress from 2000 to 2012, it is vital to analyze the background of ASEAN and the goals of founding this association, reflecting the membership and the notion of each country.

Figure 3.1: ASEAN Member States and Flags

				
Brunei Darussalam	Cambodia	Indonesia	Laos	Malaysia
				
Myanmar	Philippines	Singapore	Thailand	Vietnam

³² Overview of ASEAN, in [http:// www.asean.org/about-asean/overview](http://www.asean.org/about-asean/overview), accessed 2012.

Figure 3.2: ASEAN Logo



3.1.1.1. Establishment

The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 in Bangkok by the five original Member Countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999. As of 2011, the ASEAN region has a population of about 604 million, a total area of 4.5 million square kilometers, a combined Gross Domestic Product of almost USD 2,200 billion, and a total trade of about USD 2,400 billion, as shown in Table 3.1 below.

Table 3.1: Selected basic ASEAN Indicators

Indicators	Unit	2010	2011	Remarks
Total land area	km ²	4,435,670	4,435,674	
Total population	thousand	597,176	604,803	
Gross domestic product at current prices	US\$ million	1,882,700	2,178,148	ASEAN figure is estimated using country growth rates and country share of world GDP valued in PPP\$ from the IMF WEO Database April 2012.
GDP growth	percent	7.8	4.7	
Gross domestic product per capita at current prices	US\$	3,153	3,601	
International merchandise Trade	US\$ million	2,045,731	2,388,592	
Export	US\$ million	1,070,941	1,242,286	
Import	US\$ million	974,790	1,146,306	
Foreign direct investments Inflow	US\$ million	92,279	114,111	
Visitor arrivals	thousand	73,752.6	81,229.0	

Sources ASEAN states, ASEAN Secretariat as of 14 January 2013.

3.1.1.2. Objectives

The ASEAN Declaration states that the aims and purposes of the Association are: (1) to accelerate economic growth, social progress and cultural development in the region and (2) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter. The ASEAN Vision 2020, adopted by the ASEAN Leaders on the 30th Anniversary of ASEAN, agreed on a shared vision of ASEAN as a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies. In 2003, the ASEAN Leaders resolved that an ASEAN Community shall be established comprising three pillars, namely, ASEAN Political Security Community (APSC), ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASCC) or People Pillar.

3.1.1.3. Fundamental Principles

ASEAN Member States (AMS) have adopted the following fundamental principles in their relations with one another, as contained in the Treaty of Amity and Cooperation in Southeast Asia (TAC): mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations; the right of every State to lead its national existence free from external interference, subversion or coercion; non-interference in the internal affairs of one another; settlement of differences

or disputes by peaceful manner; renunciation of the threat or use of force; and effective cooperation among themselves.

3.1.1.4. ASEAN Political Security Community

Through political dialogue and confidence building, no tension has escalated into armed confrontation among AMS since its establishment more than five decades ago. To build on what has been constructed over the years in the field of political and security cooperation, the ASEAN Leaders have agreed to establish the ASEAN Political Security Community (APSC). The APSC shall aim to ensure that countries in the region live at peace with one another and with the world in a just, democratic and harmonious environment.

3.1.1.5. External Relations

The ASEAN Vision 2020 affirmed an outward-looking ASEAN playing a pivotal role in the international community and advancing ASEAN's common interests. Building on the Joint Statement on East Asia Cooperation of 1999, cooperation between the Southeast and Northeast Asian countries has accelerated with the holding of an annual summit among the leaders of ASEAN, China, Japan, and the Republic of Korea (ROK) within the ASEAN Plus Three process. ASEAN Plus Three relations continue to expand and deepen in the areas of security dialogue and cooperation, transnational crime, trade and investment, environment, finance and monetary, agriculture and forestry, energy, tourism, health, labour, culture and the

arts, science and technology, information and communication technology, social welfare and development, youth, and rural development and poverty eradication. There are now thirteen ministerial-level meetings under the ASEAN Plus Three process. Bilateral trading arrangements have been or are being forged between ASEAN Member Countries and China, Japan, and the ROK. These arrangements will serve as the building blocks of an East Asian Free Trade Area as a long-term goal. ASEAN continues to develop cooperative relations with its Dialogue Partners, namely, Australia, Canada, China, the European Union, India, Japan, the ROK, New Zealand, the Russian Federation, the United States of America, and the United Nations Development Programme. ASEAN also promotes cooperation with Pakistan in some areas of mutual interest. Consistent with its resolve to enhance cooperation with other developing regions, ASEAN maintains contact with other inter-governmental organizations, namely, the Economic Cooperation Organization, the Gulf Cooperation Council, the Rio Group, the South Asian Association for Regional Cooperation, the South Pacific Forum, and through the recently established Asian-African Sub-Regional Organization Conference. Most ASEAN Member Countries also participate actively in the activities of the Asia-Pacific Economic Cooperation (APEC), the Asia-Europe Meeting (ASEM), and the East Asia-Latin America Forum (EALAF).

3.1.1.6. ASEAN Economic Community

The ASEAN Economic Community shall be the end-goal of economic integration measures as outlined in the ASEAN Vision 2020. Its

goal is to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities by the year 2020. The ASEAN Economic Community shall establish ASEAN as a single market and production base, turning the diversity that characterizes the region into opportunities for business complementation and making the ASEAN a more dynamic and stronger segment of the global supply chain. ASEAN's strategy shall consist of the integration of ASEAN and enhancing ASEAN's economic competitiveness.

In moving towards the ASEAN Economic Community, ASEAN has agreed on the following:

- institute new mechanisms and measures to strengthen the implementation of its existing economic initiatives including the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Services (AFAS) and ASEAN Investment Area (AIA);
- accelerate regional integration in the following priority sectors by 2010: air travel, agro-based products, automotives, e-commerce, electronics, fisheries, healthcare, rubber-based products, textiles and apparels, tourism, and wood-based products;

- facilitate movement of business persons, skilled labour and talents; and
- strengthen the institutional mechanisms of ASEAN, including the improvement of the existing ASEAN Dispute Settlement Mechanism to ensure expeditious and legally-binding resolution of any economic disputes.

Launched in 1992, the ASEAN Free Trade Area (AFTA) is now in place. It aims to promote the region's competitive advantage as a single production unit. The elimination of tariff and non-tariff barriers among Member Countries is expected to promote greater economic efficiency, productivity, and competitiveness. As of 1st January 2005, tariffs on almost 99 percent of the products in the Inclusion List of the ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) have been reduced to no more than 5 percent. More than 60 percent of these products have zero tariffs. The average tariff for ASEAN-6 has been brought down from more than 12 percent when AFTA started to 2 percent today. For the newer Member Countries, namely, Cambodia, Lao PDR, Myanmar, and Vietnam (CLMV), tariffs on about 81 percent of their Inclusion List have been brought down to within the 0-5 percent range.

3.1.1.7. ASEAN Socio-Cultural Community

The ASEAN Socio-cultural Community (ASCC), in consonance with the goal set by ASEAN Vision 2020, envisages a Southeast Asia bonded

together in partnership as a community of caring societies and founded on a common regional identity. The Community shall foster cooperation in social development aimed at raising the standard of living of disadvantaged groups and the rural population, and shall seek the active involvement of all sectors of society, in particular women, youth, and local communities. ASEAN shall ensure that its work force shall be prepared for, and benefit from, economic integration by investing more resources for basic and higher education, training, science and technology development, job creation, and social protection.

3.1.1.8. Structures and Mechanisms

The highest decision-making organ of ASEAN is the Meeting of the ASEAN Heads of State and Government. The ASEAN Summit is convened every year. The ASEAN Ministerial Meeting (Foreign Ministers) is held annually. Ministerial meetings on the following sectors are also held regularly: agriculture and forestry, economics (trade), energy, environment, finance, health, information, investment, labour, law, regional haze, rural development and poverty alleviation, science and technology, social welfare, telecommunications, transnational crime, transportation, tourism, youth. Supporting these ministerial bodies are committees of senior officials, technical working groups and task forces. To support the conduct of ASEAN's external relations, ASEAN has established committees composed of heads of diplomatic missions in the following capitals: Beijing, Berlin, Brussels,

Canberra, Geneva, Islamabad, London, Moscow, New Delhi, New York, Ottawa, Paris, Riyadh, Seoul, Tokyo, Washington D.C. and Wellington.

The Secretary-General of ASEAN is appointed on merit and accorded ministerial status. The Secretary-General of ASEAN, who has a five-year term, is mandated to initiate, advise, coordinate, and implement ASEAN activities. The members of the professional staff of the ASEAN Secretariat are appointed on the principle of open recruitment and region-wide competition. ASEAN has several specialized bodies and arrangements promoting inter-governmental cooperation in various fields including the following: ASEAN Agricultural Development Planning Centre, ASEAN-EC Management Centre, ASEAN Centre for Energy, ASEAN Earthquake Information Centre, ASEAN Foundation, ASEAN Poultry Research and Training Centre, ASEAN Regional Centre for Biodiversity Conservation, ASEAN Rural Youth Development Centre, ASEAN Specialized Meteorological Centre, ASEAN Timber Technology Centre, ASEAN Tourism Information Centre, and the ASEAN University Network. In addition, ASEAN promotes dialogue and consultations with professional and business organizations with related aims and purposes such as the ASEAN-Chambers of Commerce and Industry, ASEAN Business Forum, ASEAN Tourism Association, ASEAN Council on Petroleum, ASEAN Ports Association, Federation of ASEAN Ship-owners, ASEAN Confederation of Employers, ASEAN Fisheries Federation, ASEAN Vegetable Oils Club, ASEAN Intellectual Property Association, and the ASEAN-Institutes for Strategic and International Studies. Furthermore, there

are 58 Non-Governmental Organizations (NGOs), which have formal affiliations with ASEAN. The potentials of ASEAN are increasing from year to year to attract various purposes in the community.

3.1.2. Progress towards an ASEAN Community

As reported by ASEAN Secretary (2013)³³, the ASEAN Economy has as its goal the improved material welfare and well-being of member countries through the establishment of ASEAN as a single market and production base. Realization of this goal requires the elimination of barriers to the flow of goods, services, investment and skilled labor within the region, be they at-the-border or beyond-the-border barriers. At the same time, the region aims at being globally competitive. The ASEAN Socio-Cultural Community pursues the goal of better social outcomes through the delivery of programs which raise education standards, prevent and treat disease, and regulate anthropogenic damage to the natural environment. The progress made towards achieving the objectives between 2000 and 2011 includes outcomes resulting from reductions in border restrictions (such as tariffs) and other regulations, as reflected in increased flows of traded goods and services, investment and tourism and any tendency towards convergence in prices and income per capita. Furthermore, the economic outcomes can be achieved without sacrificing socio-cultural goals, as shown by progress in terms of poverty incidence, overall human development, life expectancy and health in general, and educational opportunity and attainment. Finally, it

³³ ASEAN Brief 2012-Progress towards the ASEAN Community (Jakarta: March 2013).

indicates the areas where progress has been inadequate for giving additional attention to ensure that the envisaged goals of the ASEAN Community can be realized. The overall results provide positive evidence of economic integration such as faster growth in intra-ASEAN trade, investment and tourism relative to the rest of the world. This increased intra-ASEAN economic activity also appears to be producing desirable economic and socio-cultural outcomes. For example, the gaps between the six more-developed ASEAN members (ASEAN 6) and the four newer members (CLMV) have narrowed quite significantly in some key areas, including income per capita, life expectancy, absolute poverty and the literacy rate. While there are clear signs of market convergence such as the reduction in the variation of PPP conversion factors, consistent with price convergence barriers to integration remain, as evidenced by the high variation in the cost of importing and exporting across ASEAN member states. In addition, evidence of convergence in terms of the flow of skilled labour is relatively non-existent; there are no signs of a reduction in the variation of wages or labour productivity across countries. Similarly, in relation to capital flows, the variation in effective real interest rates on deposits and lending particularly remains high, and tends to fluctuate wildly over time. Turning to socio-cultural indicators, the ASEAN6-CLMV gaps in terms of educational opportunities for children and the health of young children and adults (for example, as measured by life expectancy and infant mortality rates) have not decreased as rapidly as the gaps in other areas. The young people will take the chance in leading and managing the

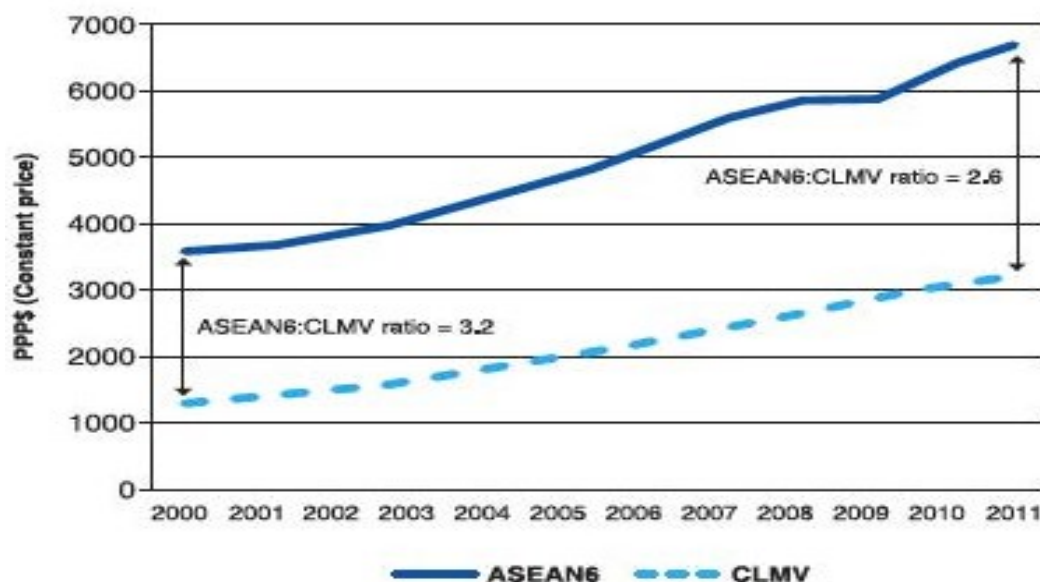
business and administration to improve the services in ASEAN after 2015, as educated people in the community are better and better.

3.1.2.1. Growth and Convergence in Per Capita

Income

ASEAN economic prosperity improved during the past decade, as reflected in rapid growth in real aggregate and per capita GDP across the region. Aggregate GDP (in PPP \$ terms) in ASEAN grew at an average 7.7 percent compound annual growth rate between 2000 and 2011, with growth in ASEAN 6 and CLMV countries of 7.7 and 9.9 percent respectively.

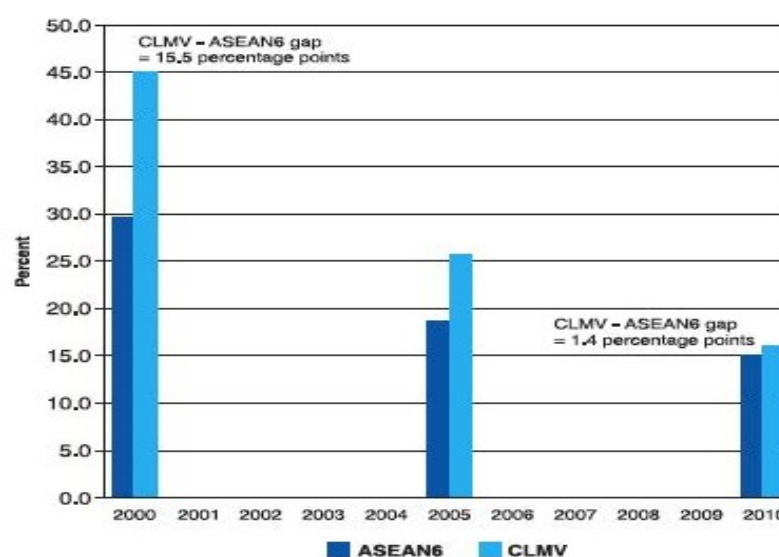
Figure 3.3: GDP Per Capita PPP (USD), 2000-2011



Note: ASEAN6 and CLMV figures are population-weighted averages
 Source: Processed from IMF World Economic Outlook April 2012

In per capita terms (Figure 3.3) 11 GDPs in the CLMV countries grew by 145 percent over the 11-year period, compared with 87 percent in ASEAN 6. As a result, the ASEAN 6 and CLMV ratio of GDP per capita dropped from 3.2 to 2.6 percent. However, the average income gap between the two country groupings in absolute terms was still large, ranging from around PPP USD 2,543 in 2000 to around PPP USD 4,156 in 2011. Because of the possibility of an unequal distribution of the economic gains, a measure based on average income is often inadequate for measuring progress in terms of people’s economic well-being. Thus, it is also important to look at income distribution-based measures of well-being such as the proportion of the population living in poverty. Figure 3.4 shows the percentage of the population in ASEAN 6 and CLMV countries living on less than PPP USD 1.25 a day.

Figure 3.4: Proportion of Population Living on Less than PPP USD 1.25 a Day, (2000-2010)



Note: ASEAN6 and CLMV figures are population-weighted averages
Source: Processed from ASEC MDG Indicators.

The extent of absolute poverty across both groups had declined substantially from more than 30 percent of the population in 2000 to around 15 percent in 2010. Specifically, it decreased from 45 to 16 percent in the CLMV countries and from 29 to 15 percent in ASEAN-6. This shows people's well-being has improved in ASEAN as the gap between ASEAN 6 and CLMV countries narrows.

3.1.2.2. Flows of ASEAN Trade

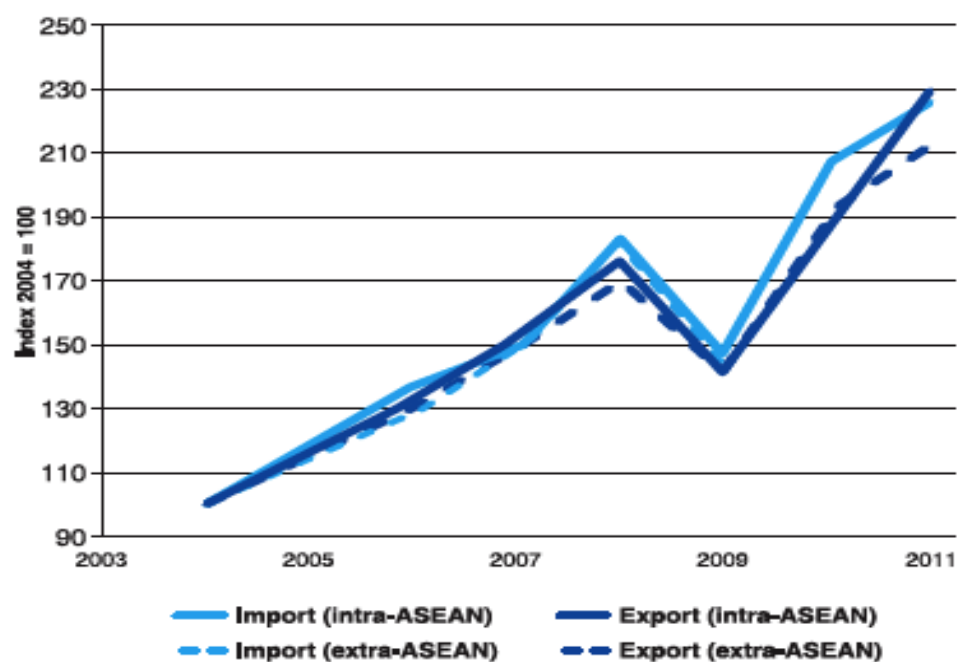
When moving towards a single market and production base, the flows of goods, services, investments, and people have been increasing because of the mechanism in reduction in trade barriers.

The improvements in economic well-being of the population of the ASEAN Community discussed above are consistent with the envisaged goals of the AEC pillar. While it is difficult to establish definite cause and effect relationships for such broad outcomes, we can at least assess whether or not the economic data are consistent with the region moving towards a single market and production base (through the elimination of barriers to the flow of goods, services, investment and people within the region), while ensuring it becomes more competitive globally.

Figure 3.5 shows that intra-ASEAN exports and imports of goods grew by around 132 and 126 percent respectively between 2004 and 2011, i.e., from USD 141 billion in 2004 to USD 328 billion in 2011 and USD 120 billion in 2004 to USD 271 billion in 2011. The Value of ASEAN's exports of goods to

and imports from the rest of the world during the same period rose by around 114 and 129 percent respectively (from USD 428 billion and USD 383 billion in 2004 to USD 915 billion and USD 876 billion in 2011). Though the diverse means of reporting and collection of export and import statistics may contribute to the difference in growth rates, the more than doubling in intra-ASEAN trade is consistent with ongoing reductions in the barriers to trade within the region.

Figure 3.5: Index of Current Value of ASEAN Trade in Goods, Base Year 2004 (2004-2011)

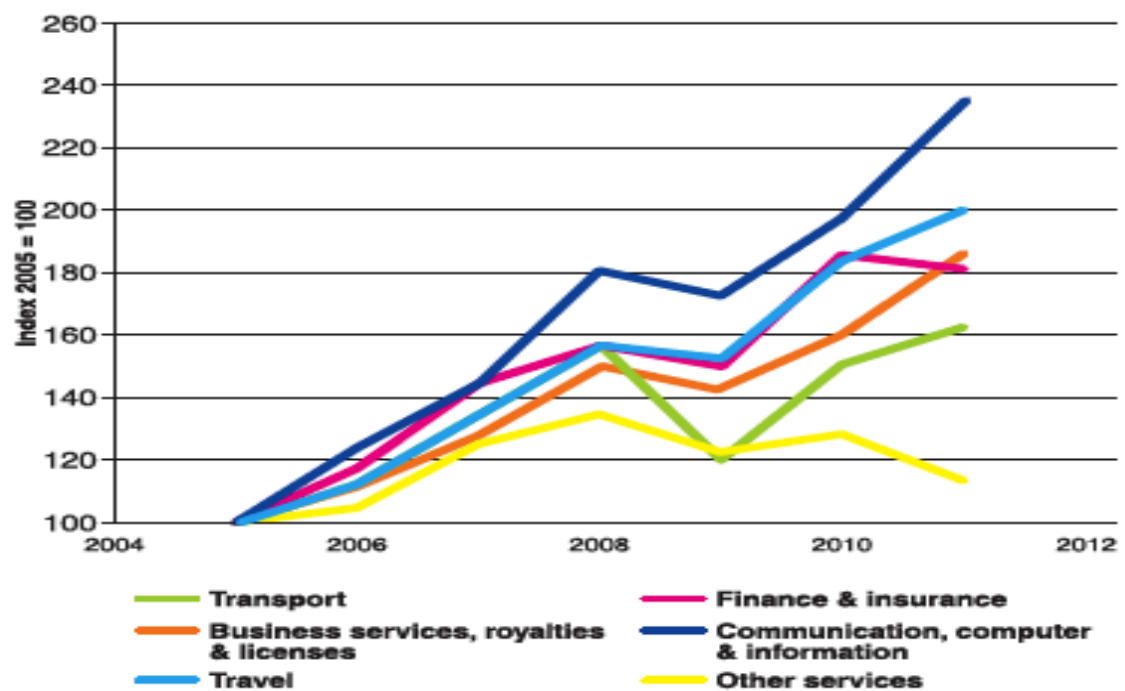


Source: Processed from ASEC Trade Database

As barriers are reduced, trade in the region intensifies for both goods and services. Figure 3.6 shows the total value of service imports into ASEAN in order to gauge the extent of reductions in barriers to trade as the ASEAN

region integrates. The figure shows that there has been a significant increase in the value of total service imports by ASEAN countries. While this trend is consistent with declining barriers to trade, it may also reflect increasing globalization and rapid development in information and communications technologies more generally (since in this instance the data include imports from outside ASEAN). The rapid growth in ASEAN's service imports has been more than matched by growth in exports, such that ASEAN's service trade deficit has declined by 37 percent since 2005 to less than USD 9 billion in 2011.

Figure 3.6: Index of Current Value of ASEAN Service Imports by Sector, Base year 2005 (2005-2011)



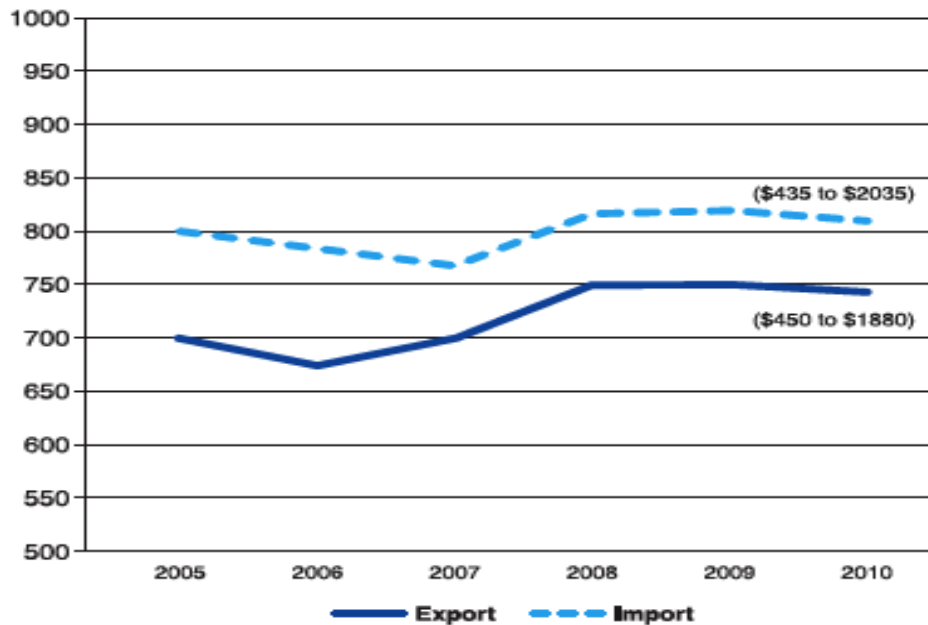
Source: Processed from ASEC Trade and SITS Database

The fastest growing sub-sectors within ASEAN's services imports include: Communication, computer & information services; Travel services; Finance & insurance services; and Business services, royalties & licenses. All of these areas are a focus of AEC integration initiatives. Trade in Transport services also recovered rapidly following a significant decline in 2009 due to the GFC.

3.1.2.3. Barriers to Integration

Remaining barriers and untapped potential inefficiencies in international trade procedures still exist as the barriers to integration slow down the integration progress. Promoting regional integration is a complex process and in the case of ASEAN is further complicated by the fact that member countries are highly heterogeneous in terms of geography, culture, ethnicity and economic development. Hence, it would be naive to assume that the measures being implemented in accordance with the AEC Blueprint have eliminated all barriers to trade. Figure 3.7 shows the average per-container cost across ASEAN of importing and exporting from 2005 to 2010 (World Bank data).

Figure 3.7: Cost of Import and Export in ASEAN, USD Per Container, (2005-2010)



Note: Costs shown are simple averages (Min and Max in parentheses).
 No data for Myanmar
 Source: Processed from World Bank database

The average cost of importing fluctuated around USD 800 per container and showed minimal increase over time, suggesting a decrease in costs in real terms. A similar pattern exists in relation to export costs, which fluctuated around an average of USD 719 per container and showed an overall nominal increase of 6.8 percent, also suggesting a decline in real terms over the period. However, the cross-country variation in the cost of importing and exporting over the period remained large. For example, in 2010, import costs ranged from a low around USD 435 to a high of USD 2035 per container, and exports costs varied from a low around USD 450 to USD 1,880. To some extent, these cross-country variations may reflect natural geographical differences (for example, with land-locked countries likely to experience higher trading costs). More importantly, the extent of ongoing

variation in per-container trade costs in 2010 indicates that there has been little improvement in efficiency in the high-cost countries since 2005.

3.1.2.4. ASEAN Partner Country/Region

For Trade in goods and services, it has also increased rapidly, especially in priority integration sectors such as communications, computer & information services, travel and business services, royalties & licenses. The value of trade was leading by ASEAN member and following by China and Japan among the biggest partners.

Table 3.2: ASEAN Trade by Selected Partner Country/Region, 2011

Partner country/region	Value			Share to total ASEAN trade		
	Exports	Imports	Total trade	Exports	Imports	Total trade
ASEAN	327,531.8	270,710.4	598,242.2	26.4	23.6	25.0
China	127,908.5	152,497.1	280,405.5	10.3	13.3	11.7
Japan	145,197.7	128,149.4	273,347.1	11.7	11.2	11.4
EU-27	126,593.5	108,182.6	234,776.2	10.2	9.4	9.8
USA	106,305.6	92,480.3	198,785.9	8.6	8.1	8.3
Republic of Korea	54,468.0	70,002.9	124,470.9	4.4	6.1	5.2
India	42,754.7	25,674.1	68,428.8	3.4	2.2	2.9
Australia	37,253.9	22,220.5	59,474.4	3.0	1.9	2.5
Russia	2,689.4	11,278.5	13,967.9	0.2	1.0	0.6
Canada	5,292.7	5,478.4	10,771.1	0.4	0.5	0.5
New Zealand	4,569.3	3,667.5	8,236.7	0.4	0.3	0.3
Pakistan	6,001.8	765.7	6,767.4	0.5	0.1	0.3
Total selected partner countries/regions	986,566.9	891,107.3	1,877,674.2	79.4	77.7	78.6
Others ^{2/}	255,719.5	255,198.6	510,918.0	20.6	22.3	21.4
Total ASEAN	1,242,286.4	1,146,305.9	2,388,592.3	100.0	100.0	100.0

value in US\$ million; share in percent

Source ASEAN Merchandise Trade Statistics Database (compiled/computed from data submission, publications and/or websites of ASEAN Member States' national ASEAN Free Trade Area (AFTA) units, national statistics offices, customs departments/agencies, or central banks), as of November 2012

Partnership with the trading community and economic operators need to be initiated as these parties play a key role in the realizations of ASEAN single window as clearly stipulated in the agreement to establish. In 2011, services trade returned to positive growth in all regions and groups of countries, especially developing countries as shown in Table 3.2.

Table 3.3 showed that the shifting patterns of trade are associated with the rapid industrial growth of a range of developing countries. Most intra ASEAN imports are mineral fuels, mineral oils & products of their distillation; bitumen substances; mineral wax while the exports from ASEAN to the important partners are electric machinery, equipment and parts; sound equipment; television equipment, etc.

This profile in summary finds that ASEAN has the potential to complete comprehensive regional trade and economic integration of real and financial sector in the future in particular throughout the utilization and implementation of ASEAN's open-regionalism resources and opportunities.

Table 3.3: Top Ten ASEAN Trade Commodity Groups, 2011

(value in USD million; share in percent)

Commodity group ^{1/}		value			Share to total ASEAN trade		
2-digit HS code	Description	Exports	Imports	Total trade	Exports	Imports	Total trade
27	Mineral fuels, mineral oils & products of their distillation; bitumin substances; mineral wax	228,086.3	251,335.2	401,530.4	18.4	21.9	16.8
85	Electric machinery, equipment and parts; sound equipment; television equipment	249,590.6	221,941.0	273,577.5	20.1	19.4	11.5
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	134,458.9	145,786.4	261,453.4	10.8	12.7	10.9
39	Plastics and articles thereof	37,323.1	35,136.8	65,626.1	3.0	3.1	2.7

87	Vehicles, (not railway, tramway, rolling stock); parts and accessories	31,336.9	34,339.3	57,561.8	2.5	3.0	2.4
40	Rubber and articles thereof	52,563.5	12,735.3	53,638.2	4.2	1.1	2.2
29	Organic chemicals	36,747.3	25,749.9	45,748.1	3.0	2.2	1.9
71	Natural or cultured pearls, precious or semiprecious stones, precious metals and metals clad therewith and articles thereof; imitation jewelry; coin	25,736.3	33,728.3	41,802.3	2.1	2.9	1.8
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	47,256.3	7,211.8	40,376.7	3.8	0.6	1.7
72	Iron and Steel	9,382.0	40,224.7	38,817.1	0.8	3.5	1.6
	Top Ten Commodities	852,481.4	808,188.8	1,280,131.6	68.6	70.5	53.6
	Others 2/	389,805.0	338,117.1	1,108,460.7	31.4	29.5	46.4
	Total	1,242,286.4	1,146,305.9	2,388,592.3	100.0	100.0	100.0
Source: ASEAN Trade Database (compiled from data submission and/or websites of ASEAN Member Countries' national statistical offices and other relevant government agencies), as of November 2012							

3.2. Profile of Cambodia

3.2.1. Overview of Cambodia³⁴

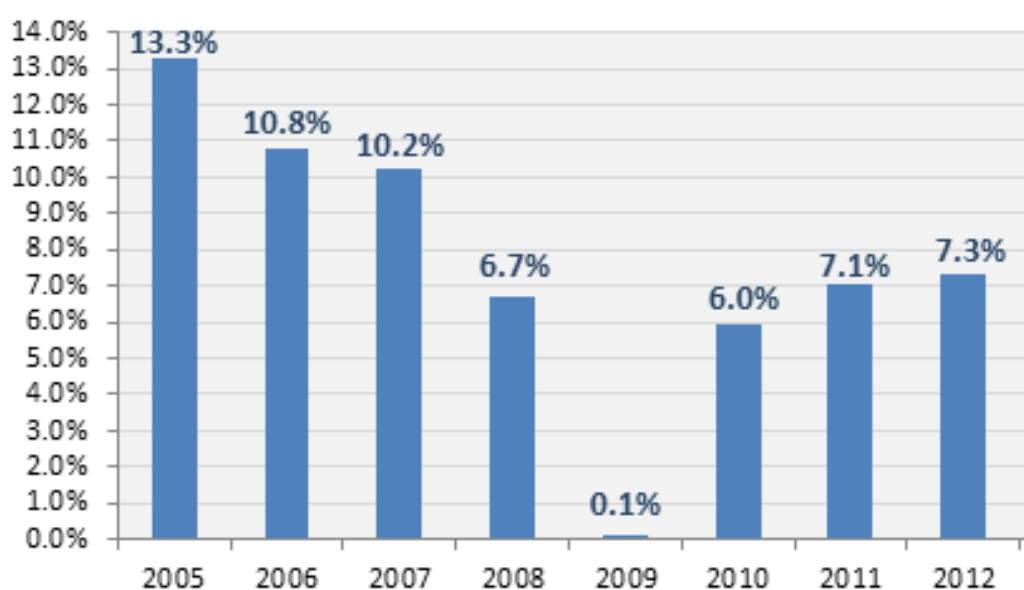
Cambodia's accession to the WTO in 2004 came in the middle of a decade of strong economic growth. The economic and social achievements between 1998 and 2007 were the most impressive in Cambodia's history: real GDP growth averaged close to 10 percent over this period, the highest of any low-income country in Asia, resulting in an almost doubling of income per capita; the poverty incidence is estimated to have fallen steadily; consumer price inflation declined markedly compared with the 1990-98 period; and prudent fiscal policies underpinned macroeconomic stability. The recent discovery of oil and gas could be a significant boon for the country and, if

³⁴ Annual report of National Bank of Cambodia, 2011.

properly managed, should provide the necessary resources to continue addressing a range of socio-economic issues.

However, after a decade of high growth and relative stability, the 2008-09 global recession exposed Cambodia's longstanding structural vulnerabilities, notably that growth and exports have remained narrowly based. The authorities were aware that diversified private-sector-led growth is important for raising Cambodia's growth potential. To this end, there have been initiatives during the review period to strengthen the investment climate, reduce the cost of doing business and improve Cambodia's international competitiveness, expand market access through trade agreements, and enhance agricultural development and rural infrastructure to help broaden the sources of growth.

Figure 3.8: Cambodia's Real GDP Growth Rate (2005-2012)



Source: MoC and MEF, Cambodia as of 2012.

Cambodia enjoyed a decade of high growth and relative stability prior to the recent global crisis, enabling improvements in living standards and poverty reduction. Cambodia's exceptional growth performance between 2005 and 2008, at an annual average of 10 percent, relied on four drivers of GDP growth: rapid garment exports, strong tourism receipts, a construction boom, and robust crop growth in agriculture. Growth in output and trade was underpinned by an open trade regime and a favourable regime for foreign direct investment. After liberalizing its economy and its trade regime in the 1990s, Cambodia joined ASEAN in 1999 and was the first LDC to complete WTO accession negotiations.

However, the global crisis resulted in a growth collapse, exposing longstanding structural vulnerabilities. A downturn in three of the four drivers of growth, agriculture being the exception, caused growth to slip to under 7 percent in 2008 and to a result with 0.1 percent in 2009 (Figure 3.8). The narrow concentration of the sources of growth has made Cambodia vulnerable to external shocks and to the United States' economic cycle. Garment exports and tourism revenues were hit hard from the effects of the global financial crisis and in particular, the severe economic recession in the United States. Several large projects, especially in the real estate and tourism sectors, were deferred. Actual foreign direct investment in Cambodia is

estimated to have fallen from USD 815 million in 2008 to USD 530 million in 2009.³⁵

The crisis and its impact on Cambodia's real sector exposed both structural and competitiveness weaknesses in the economy. For example, garment exports from Cambodia contracted by more than other countries in the region (such as Bangladesh) – indicative of a possible decline in the competitiveness of this sector. Growth and exports have remained narrowly based, offering limited benefits to the rural poor, which constitute Cambodia's vast majority. In 2010, however, driven by exports, the Cambodian economy achieved a stronger than expected recovery with estimated GDP growth of 4.8 percent, according to the IMF³⁶. The strength of the recovery was driven by two of Cambodia's traditional growth drivers, indicating that a broadening export-led recovery was under way. First, garment exports registered a 24 percent increase in 2010, after shrinking by 20 percent during the 2008-09 crisis and, second, tourism rebounded strongly with a 16 percent increase in tourist arrivals (to 2.5 million tourists) and a 14 percent increase in tourism receipts (to USD 1.8 billion).

Cambodia's economy was continuing to recover from the 2008-09 downturn but annual growth was not expected to return to the high of around 10 percent recorded in the years preceding the crisis. However, real GDP

³⁵ Monthly Bulletin of MEF and MoC, 18th year, No. 205, 2013.

³⁶ Annual report of IMF, 2012.

growth was expected to remain strong in 2011, at around 6 percent, as are Cambodia's garment and footwear exports, due partly to the EU's relaxed rule of origin on preferential tariffs for LDC exports to EU markets, effective 1 January 2011. Agriculture was becoming an increasingly important source of economic growth in line with official plans to boost exports of milled rice as the government seeks to develop other sources of economic growth. With GDP per capita at around USD 790 in 2010, Cambodia remains a very poor country. The poverty rate was estimated to have decreased moderately from 47 percent in 1993 to 35 percent in 2004 and to an estimated 30 percent in 2007, with rural poor comprising 90 percent of the total.

Further, reductions in the poverty level have been problematic since then due to the unexpectedly sharp rise in consumer prices, notably for foodstuffs, in 2008 and the effects of the global economic crisis. The Government has adopted the Updated National Strategic Development Plan (NSDP) to extend its development targets until 2013. The updated plan targets economic growth of 6 percent a year and per capita income of nearly USD 1,000 by 2013. Maintaining high, broad-based economic growth and a pro-poor policy is crucial to realizing the goal of reducing the poverty rate to 19.5 percent by 2015 as targeted in Cambodia's Millennium Development Goals.

3.2.2. Cambodia's Development Progress³⁷

The year 2012 had the potential to be the most fruitful of recent years for Cambodia. GDP grew by almost 7 percent in 2011, and was predicted to maintain this rate in 2012. The economy's core growth sectors, agriculture, industry and tourism had performed strongly and construction, which suffered greatest during the global financial crisis, also seems to be on the mend. In addition, this year, Cambodia takes the chair of ASEAN and with it the opportunity to shape and strengthen an increasingly influential and important regional institution.

At this important juncture, the Cambodia Outlook Conference assessed the opportunities and challenges that lie on the road to the government's medium-term aim of achieving middle income country status. The key goal is to build on strong foundations and deliver high and sustainable long-term economic growth. The conference stressed three interrelated areas where policy action is necessary if this goal is to be realized. First, utilizing opportunities afforded by ASEAN and other regional networks in driving economic diversification, efficiency and growth. Second, optimizing the role of the private sector in the context of regional integration was again to aid diversification, efficiency and growth. Third, inclusive development, so that Cambodia extends the benefits of growth across all sections of the population and into geographical peripheries.

³⁷ Cambodia in 2012: Key Trends and Policy Priorities From the Cambodia Outlook Conference, CDRI, Vol. 16, Issue1, January-March 2012, and Annual Development Report, 2011-2012.

3.2.2.1. Main Economic Activities

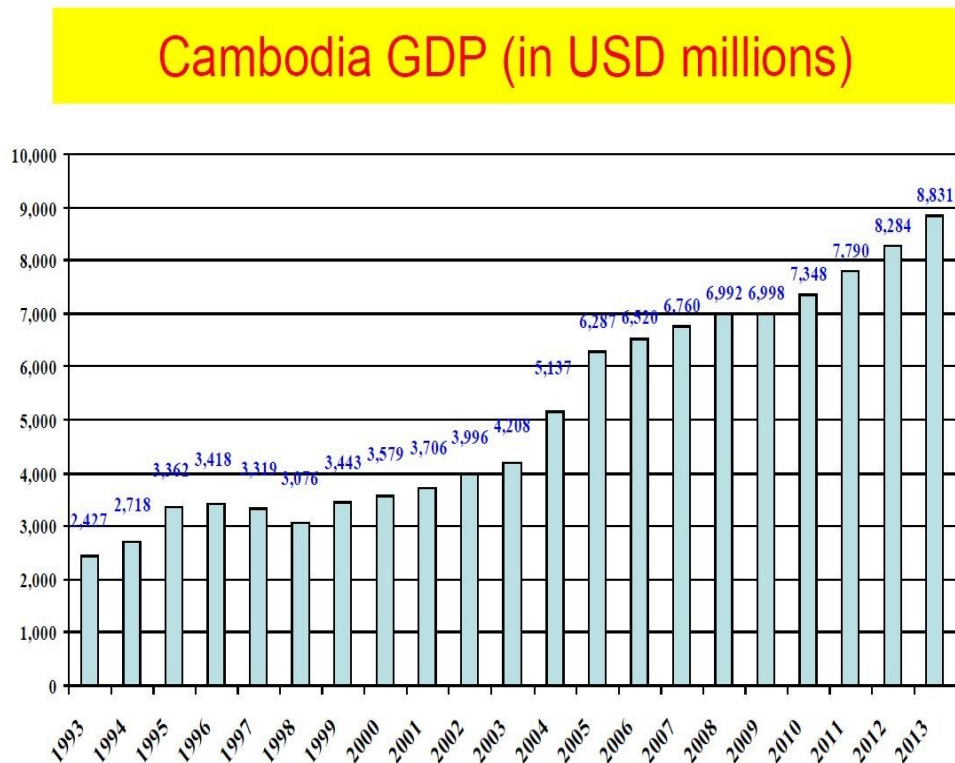
Despite the worst floods in a decade, which destroyed paddy fields in various parts of the country, and uncertainty in the global economy, economic outcomes of the Kingdom of Cambodia were largely positive in 2011, growth of gross domestic product was as 6-7 percent.³⁸

Fixed assets of private investment projects approved in the third quarter of 2011 had total of USD 2748.9 million, a 4.0 percent increase from a quarter earlier or 752.9 percent year on year. Further signs of recovery were seen in industry, where investment approvals accelerated by 499.2 percent compared to the preceding quarter or 5493.4 percent year on year. Investment in garments increased by 1.2 percent from the previous quarter to USD 109.7 million, partly due to the sluggish growth in the US and EU consumer markets. Fixed asset investment in services dropped by 88.2 percent from the previous quarter to USD 264.1 million. The decrease came despite increases in the number of foreign visitors (15.4 percent from a quarter earlier). Investment projects approved in agriculture went up by 100 percent from a quarter earlier to USD 6.9 million. There were also signs of recovery in real estate, the total value of approved construction projects reaching USD 247.4 million, a 219.7 percent increase from a quarter earlier or 215.6 percent year on year.

³⁸ Online-report by MEF, 2013, accessed in <http://www.mef.gov.kh>

According to the data from the Ministry of Tourism, in the fourth quarter 2012 the number of arrivals to Cambodia with total of 1,006,676 persons, increased by 22.64 percent from 820,888 persons compared to the last quarter 2012.

Figure 3.9: Cambodia’s GDP in USD Million (1993-2013)



Source: MOC and MEF, Cambodia as of 2012

At the same time, the number of arrivals at the Phnom Penh International Airport increased by 23.40 percent from 167,096 to 206,202 persons, the number of arrivals at the Siem Reap International Airport appreciated by 44.74 percent from 203,445 to 294,461 persons, and the number of arrivals by land and boat rose by 12.38 percent from 450,347 to 506,104 persons.

In December 2012, the Ministry of Planning reported that inflation rate remained unchanged compared to the last month. Commodity prices on local markets presented an increase and food prices reportedly. For example, the second rice quality price increased by 0.21 percent from 2,340 to 2,345 riels/kg., the Pork with fat price rose by 0.77 percent from 16,300 to 16,425 riels/kg., and the fresh Beef No.1 price jumped by 0.63 percent from 31,800 to 32,000 riels/kg. While, the dressed chicken No.1 price remained unchanged at 20,350 riels/kg., the mud fish (large) decreased by 3 percent from 13,455 to 13,440 riels/kg., the gasoline price and diesel price decreased by 0.93 percent from 5,350 to 5,300 riels/litre, and diesel price declined by 0.20 percent from 5,084 to 5,074 riels/litre. Overall, the annual inflation rate year on year in December 2012 increased by 2.5 percent.

In fourth quarter 2012, National Bank of Cambodia revealed that the total liquidity 28,592 billion riels, increased by 6.43 percent from 26,864 billion riels, compared to the last quarter. This was contributed mainly to the domestic credit (stock) increased by 11.05 percent from 18,961 to 21,056 billion riels, the credit to the private enterprises appreciated by 9.99 percent from 21,398 to 23,537 billion riels, the currency outside banks went up by 4.58 percent from 3,591 to 3,756 billion riels, and the foreign currency deposit rose by 6.27 percent from 22,363 to 23,766 billion riels. Net official

reserve including gold in December 2012 could sustain more than 7.5 months of retained imports of goods and services.³⁹

3.2.2.2. Trade Balance

In November 2012, the Domestic Revenue reflected 530.1 billion riels, a decrease by 9.16 percent compared to last month's totaling 583.6 billion riels, while, the current revenue decreased by 6.15 percent, from 564.8 to 530.1 billion riels, and the non-tax revenue depreciated by 39.45 percent from 90.6 to 54.9 billion riels. But, the tax revenue rose by 0.21 percent from 474.2 to 475.2 billion riels. At the same time, the current expenditure accounted for 404.3 billion riels, representing a decrease of 12.03 percent against 459.6 billion riels as compared to last month. Overall, current budget balance in 11 months in 2012, posted a noticeable surplus of 1,166.3 billion riels.

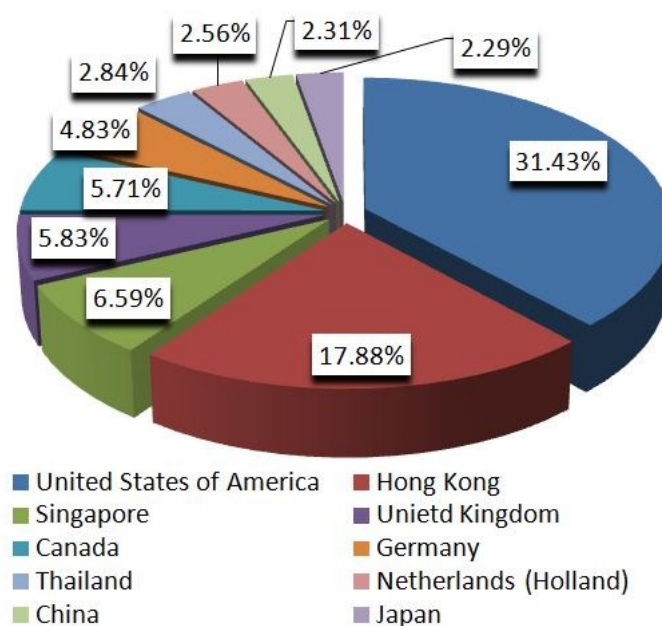
The total trade volume in the third quarter rose by 8.2 percent compared to the preceding quarter or 24.8 percent year on year, to USD 2218.7 million. Total exports reached USD 1455.6 million, of which garments made up 88.3 percent. Major export destinations included the US, EU, ASEAN, and Japan as shown in Figure 3.10. Compared to the previous quarter, exports to the US increased by 32.7 percent (16.4 percent year on year) to USD 619.4 million, to the EU by 31.8 percent (66.0 percent year on year) to USD 397.5 million, to ASEAN by 12.0 percent (62.1 percent year on year) to

³⁹ Flash report by MEF, October 2012.

USD 4.7 million, to Japan by 55.0 percent (70.2 percent year on year) to USD 43.4 million.

Rubber exports continued to be vibrant, growing by 15.4 percent from the previous quarter or 121 percent year on year, to USD 56.1 million. Despite strong exports, there were clear indications that Cambodia needs to diversify its export markets and products to guard against risks from competition of other developing countries and economic downturn in major markets. Expanding exports to China through bilateral and regional trade agreements is an option Cambodia could further explore.

Figure 3.10: Top Ten Country Exports from Cambodia in 2012



Source: MoC and MEF, Cambodia as of 2012.

During the same period, total imports decreased by 17.0 percent from the previous quarter to USD 763.1 million; imports of gasoline dropped by 4.0

percent to USD 73.8 million and of diesel by 8.4 percent to USD 118.9 million. Cambodia achieved a trade surplus of USD 692.5 million, a 224.6 percent increase from the preceding quarter or 120.4 percent year on year. Imports from China are leading among the top ten countries as shown in Figure 3.11.

According to the data from the General Customs and Excise Department and Ministry of Economy and Finance, in the fourth quarter of 2012, the total value of import decreased by 2.59 percent from 3,430.4 to 3,341.6 billion riels, compared to the last third quarter of 2012, of which, the import of construction equipment decreased by 7.61 percent from 50.18 to 46.36 billion riels, and the import of cement declined by 19.28 percent from 59.35 to 47.91 billion riels.

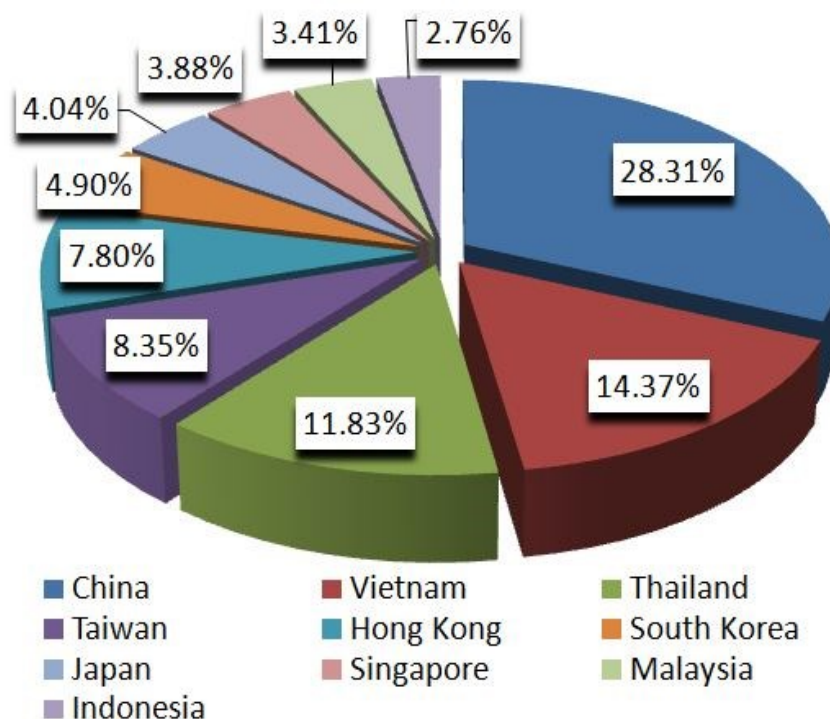
But, the import of cigarettes went up by 19.53 percent from 158.37 to 189.29 billion riels, the import of medicine appreciated by 9.64 percent from 85.85 to 94.13 billion riels, the import of the petroleum rose by 18.99 percent from 777.8 to 925.4 billion riels, and import of the vehicle, motorbikes and spare part rose by 15.75 percent from 487.14 to 563.87 billion riels.

In the fourth quarter 2012, total value of export decreased by 8.84 percent from the amount of USD 1,595.76 million to USD 1,454.71 million, compared to the last quarter. The export of clothing decreased by 15.75 percent from USD 1,236.56 to USD 1,041.78 million, the export of fishing products declined by 2.11 percent from USD 0.41 to 0.40 million, and the export rubber fell by 4.82 percent from USD 46.06 to USD 43.84 million.

But, the export shoes rose by 7.24 percent from USD 76.97 to USD 82.54 million, the export rice rose by 58.30 percent from USD 31.70 to USD

50.18 million, and the export of other textile products went up by 6.40 percent from USD 15.52 to USD 16.52 million.

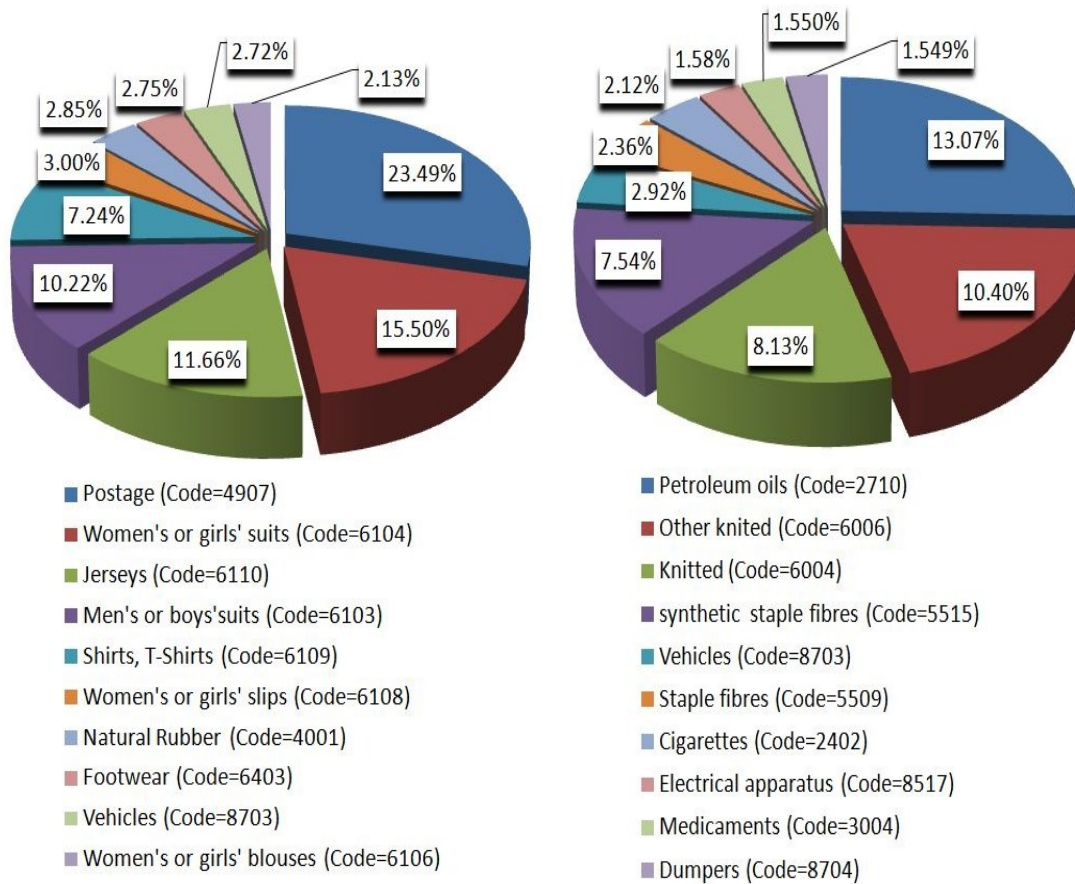
Figure 3.11: Top Ten Country Imports into Cambodia in 2012



Source: MoC and MEF, Cambodia as of 2012.

In summary, Cambodia has experienced rapid economic growth over the last decade. Cambodia's GDP grew at an average annual rate of over eight percent between 2000 and 2010 and over seven percent since 2011. The percentage of the population living below the poverty line also decreased to approximately 20 percent in 2011. GDP per capita increased to over USD 1,000 in 2013. The main investment and trade sectors include garments, shoes, bicycles, food processing, car and motorcycle assembly, and electrical equipment manufacturing.

Figure 3.12: Top Ten Product Imports into Cambodia in 2012



Source: MoC and MEF, Cambodia as of 2012.

3.3. Conclusion

Despite member states distinct cultures, histories, and languages, the ten ASEAN share a focus on jobs and prosperity. Household purchasing power has been rising, transforming the region into the next frontier of consumer growth. ASEAN is a major global hub of manufacturing and trade, as well as one of the fastest-growing consumer markets in the world. As the region seeks to deepen its ties and capture an even greater share of global trade, its

economic profile is rising and it is crucial for those outside the region to understand its complexities and contradictions.

Maintaining the current trajectory will require enormous investment in infrastructure and human-capital development - a challenge for any emerging region but a necessary step toward ASEAN's goal of becoming globally competitive in a wide range of industries. The ASEAN Economic Community offers an opportunity to create a seamless regional market and production base. If its implementation is successful, ASEAN could prove to be a case in which the whole actually does exceed the sum of its parts.

Furthermore, recent and prospective increases in aid for trade will allow Cambodia to advance more rapidly to meet fully its WTO obligations, and to accelerate legal reform and human resource development. Consistent with this opportunity, the Royal Government is fully committed to putting in place a modern, transparent and predictable legal framework for business that fully reflects international norms and best practice.

The inadequacy of physical infrastructure, in particular transportation infrastructure, is at the heart of the difficulties faced by Cambodian producers in competing in world markets. With the support of development partners, Cambodia has been making rapid progress in improving its roads, bridges, ports and railroad. These efforts will continue and intensify in the period ahead. A lowering of transport and electricity costs is central to any effort to improve the competitiveness of the Cambodian economy.

Policies of the Royal Government are designed to foster and support a vigorous and competitive private sector, and to ensure that Cambodia becomes a highly attractive destination for international investment. Export development through the expansion of supply-side capacity will remain the central element of trade policy. Policy seeks to increase the benefits Cambodia derives from the WTO system, while reducing its vulnerability to negative shocks. Specific policy objectives are to diversify the range of exported products; diversify the range of export markets; and for all export products and services, increase the value added in Cambodia.

The Royal Government views good governance as an essential prerequisite to sustainable socio-economic development and social justice. Corruption is a major impediment to good governance, and prevents the public sector from realizing its full potential to advance development goals and foster growth with equity.

Chapter IV:

RESEARCH

METHODOLOGY

In this chapter the methodology adopted in this study has been explained. As such it includes types of analysis carried out in this study, types and sources of data, procedure followed in gathering the data, statistical tools used, coverage of the study and procedure of data analysis.

4.1 Types of Analysis

Both descriptive and quantitative analyses were carried out in the present study. Factors influencing international trade as well as policies and procedures of several agencies, associations and government to promote the trades of ASEAN as well as Cambodia were analyzed descriptively. Quantitative analysis was undertaken in analyzing the trade variations of ASEAN as well as Cambodia over the period of study along with the future trend of trade worth from 2012 to 2022.

4.2 Types and Sources of Data

The present study was entirely based on secondary data. Several published and unpublished sources, including books, government documents, reputed websites and scholarly journals were consulted and the research was mostly depended upon documentary evidences.

Secondary data were collected from the following sources:

- a) Bulletin or Handbook of Statistics on the Cambodian Economy, various issues by Ministry of Commerce and

Ministry of Economy and Finance, Royal Government of Cambodia.

- b) Macroeconomic Indicators, Asian Development Bank.
- c) Statistics and Publications of Associations of South-East Asian Nations.
- d) Statistics and Publications of World Trade Organization.
- e) UNCTAD, WIR Series, various issues.
- f) Various issues of Economic Survey of Government of Cambodia.
- g) World Development Indicators and Publications of World Bank and IMF.

4.3 Data Gathering Procedure

As the study was entirely based on the secondary data, several information relating to ASEAN as well as Cambodia's trade were collected on the basis of a format developed for this purpose. After collection of data, further compilation and re-arrangement were carried out to meet the requirement of analysis.

4.4 Statistical Tools

To show the variations of trade value (both exports and imports) over the period of study of ASEAN and Cambodia, percentage of change of trade values were compared to the previous years.

A simple linear quadratic function model was employed for the trend analysis of ASEAN and Cambodia's trade value. Through the trend analysis, trade value has been projected from 2012 to 2022. The equation for estimating the trade value is as follows:

$$\hat{Y} = a + bX + c X^2$$

Where,

\hat{Y} : Estimating the dependent variable (Trade worth)

a : Intercept

b & c : Coefficients

X : Coded value of the time variable.

Further, the actual and estimated ASEAN and Cambodia trade values were presented graphically to show the nature of scatter.

4.5 Coverage of the Study

The present study has considered the case of ASEAN and Cambodia's trade value. Hence, data relating to trade values from 2002 to 2012 were taken into account for analysis and further projections.

4.6 Procedure of Analyzing Data

The study has used simple linear quadratic function model to analyze ASEAN and Cambodia's trade value. In order to carry out the same, Statistical Package for Social Sciences (SPSS) was used. Further, as per the objectives of

the study, both tabular and graphical analyses were carried out in analyzing the data.

Thus, to sum up, this chapter discusses the detailed methodology on the basis of which the present research has been carried out.

Chapter V:

ASEAN AND

CAMBODIA'S TRADE

POLICIES

In this chapter, the trade environment and policy instruments used for promoting and restraining international trade in ASEAN and Cambodia have been explained. For this purpose, the chapter is divided into four sections. While the first section discusses ASEAN trade environment and policies, the second section presents Cambodia's trade environment and policies. In the third section, trade policy instruments of Cambodia have been discussed. The last section provides a conclusion to the discussion.

5.1 ASEAN Trade Environment and Policies

The implications for ASEAN countries of trade and investment liberalization through their FTAs with dialogue partners depend on the outcome of the negotiations both in terms of market access commitments and substantive obligations. ASEAN countries enjoy the benefit from rules that are conducive to development, for example, investment rules that do not restrict the policy space of countries to adopt performance requirements such as local employment and technology transfer requirements, and sufficient safeguard provisions that will allow them to take appropriate measures when necessary in order to tackle severe balance of payment difficulties or import surges. In terms of market access, a good outcome means gaining meaningful market access for sectors of export interest such as mode commitments for lesser-skilled service suppliers and opening markets in sectors where foreign entry

will stimulate increased competitiveness rather than wipe out entire domestic industries (Kraichitti, 2010).⁴⁰

5.1.1. Policy Considerations for the Conclusion of FTAs

1. Trade in Goods - Most ASEAN countries are major exporters of such products as agriculture and fisheries products, electronic products, and textile, leatherwear and computer parts. The major objective for concluding FTAs to expand more market access for their products will be relied on export potential.

2. Trade in Services - All ASEAN countries except Singapore are not able to compete with advanced economies in supplying services in most sectors such as finance, transportation, telecommunication, education, public health and other services which require advanced technology and large amounts of capital. In concluding, FTAs with developed economies, ASEAN need to make thorough assessment of their capacity to supply the services and make appropriate strategies for the opening of these markets to benefit from the management skills, technology and investment that can come with the liberalization of these services sectors.

5.1.2. The Legal Structure of Present Day FTAs

⁴⁰ Ministry of Foreign Affairs of Thailand, *ASEAN Free Trade Agreements: Policy and Legal Consideration for Development Report 2010*, Department of Treaty and Legal Affairs.

The draft text of FTAs being used by the negotiating partners, mostly the developed countries such as the US, Japan, Australia and New Zealand are in line with North American Free Trade Agreement (NAFTA). This was adopted as a basis of the texts of the relevant WTO Agreements for liberalization of trade in goods, services as well as other trade-related matters. These are agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), agreement on Trade-Related Investment Measures (TRIMS), sanitary and phy-to-sanitary measures (SPS), technical barriers to trade (TBT), competition policy and government procurement with the addition of the investment chapter which provides a legal basis for the liberalization and protection of foreign investment.

5.1.3. Legal basis for Preferential Treatment Under FTAs

To complement and supplement the trade and investment liberalization process under the multilateral trading system, based on agreement, the WTO allows members to negotiate and conclude regional or bilateral trade liberalization agreements. These provide the contracting parties or members with wider and faster market access for their goods and services than those committed under the WTO framework. To encourage and ensure that the parties to the FTAs enjoy more preferential treatment for their goods and services than those enjoyed under the multilateral trading system, the parties to an FTA which meets the criteria set by the WTO rules will be exempted from the major WTO obligation to extend most-favoured-nation treatment to all WTO members. FTA provisions for

liberalization of trade in goods are sometimes called GATT-plus since they provide greater and more expeditious market access for the respective goods of the parties through the negotiation for reduction and elimination of tariff and quotas for all or substantive coverage of products with a specific limited time-frame. Under Article XXIV GATT, the basic obligations are that Members must eliminate (rather than just lower) trade barriers on “substantially all trade” among the FTA parties upon entry into force of the FTA or on the basis of a reasonable time-frame, which may not exceed ten years.

For ASEAN, the ASEAN Free Trade Area provides for ASEAN countries to reduce and eliminate tariff and quota for their products listed in the tentative, exclusion and sensitive lists in accordance with the agreed time-frame with the target date for total elimination of tariff for all products in the year 2010, with a longer period for the CLMV which are considered new members of ASEAN. Since all ASEAN countries are developing countries, AFTA was negotiated and implemented on the basis of the Enabling Clause (a WTO Decision made in 1979) which allows the AFTA parties to be exempted from the obligation to accord MFN treatment to all other members of the WTO without the strict criteria of Article XXIV of GATT.

For trade in services, the ASEAN Framework Agreement for Trade in Services (AFAS), which was negotiated and implemented under Article V of

the GATS, is used as a legal framework for negotiation and implementation of intra-ASEAN liberalization of trade in services. The objective of AFAS is to negotiate and liberalize the intra-ASEAN services market beyond the level committed under the GATS and the provisions of the agreement is therefore sometimes called GATS-plus. Liberalization for the service providers of another party, whether natural or juridical persons, is done through the reduction and elimination of domestic measures considered as limitations to national treatment and market access for the various modes of supply. In order to enjoy MFN exemption under Article V of the GATS, AFAS must have "substantial sectorial coverage" and eliminate "substantially all discrimination" between the parties, with flexibility allowed for developing countries.

5.1.4. The Legal Text for FTA Negotiations on Trade in Goods and Services

In view of above-mentioned objectives and legal basis of the FTAs, the legal text for intra-ASEAN and ASEAN-Dialogue Partner, FTAs should be based on the text of WTO agreements. In principle, ASEAN should adopt the text of GATT 1994 and GATS as a basis for ASEAN-Dialogue Partner, FTAs in total for negotiations on trade in goods and services. The focus of the negotiations may then be shifted from the text to negotiations on liberalization, namely, on the issue of greater and faster reduction and elimination of tariffs for a substantive coverage of products and for the reduction and elimination of measures that are considered limitations to

national treatment and market access. However, in practice, ASEAN and their negotiating partners have been using a simplified or modified version of the GATT and GATS as a basis for their agreement for liberalization of trade in goods and services. If a simplified version of the GATT and GATS is preferred, the ASEAN agreement should at least contain the following provisions: Objectives, definitions, general obligations, general and security exceptions, emergency and balance of payment safeguards, and dispute settlement mechanisms. To ensure that the parties to the FTA are able to refer to the provisions of the GATT and GATS which have not been incorporated in as simplified or modified text of an Agreement, the following two provisions must be provided for in the intra-ASEAN and ASEAN-Dialogue Partner FTAs:

1. Nothing in this Agreement shall prejudice the rights and obligations of the Parties under the WTO Agreements or other international agreements to which they are parties; and

2. In case where there is no provision on a related matter stipulated in this agreement, the relevant provisions of the related WTO agreements shall be applied *mutatis mutandis*. In this regard, it is most advisable that ASEAN use the text of GATT and GATS and other WTO covered agreements i.e., TRIPS, TRIMs, Agreement on the Application of Sanitary and Phyto-sanitary Measures (SPS Agreement), Agreement on Technical Barriers to Trade (TBT Agreement), Agreement on Rules of Origin and all other trade-related matters as a basis for negotiation and concluding FTA with their partners.

The following are some major reasons for using the WTO texts as a basis for negotiations:

i. The usage of the text of WTO agreement helps avoid any complication and technical difficulties which tend to arise during the course of negotiation from the demand of the more developed trading partner which may cause difficulties in interpretation and application because of the usage of technical terms and definitions which is different from those used in the WTO agreement.

ii. The text of the WTO agreements resulted from intensive negotiation by more than 130 trading partners from both developed and developing countries, who over the successive multilateral negotiation rounds made their best effort to create an international legal framework for a free and fair international trading system to contribute to the economic and social development of all countries and people.

iii. The provisions of the WTO agreements from GATT, GATS, Agreement on Agriculture, TRIPS, TRIMS and all other trade rules and regulations contained therein are designed to serve the objectives of trade and investment liberalization which are to promote employment, raise standards of living and promote economic and social development of all countries and people in particular of the less developed countries. The principle of progressive liberalization and special and differential treatment for less developed members take into account the fact that developing countries need more time to liberalize their markets in accordance with their

stage of the development and to keep up their trade balance with their more powerful trading partners.

iv. The WTO provisions on general and security exceptions as well as emergency and balance of payment safeguards also ensure that the liberalization of trade in goods, services and investment will not cause harmful effect to national security, environment, life and health of people, animals and plants, and that all members may temporarily suspend their obligation and adopt measures to protect their less competitive domestic market and industry which has been injured as a result of trade and investment liberalization as well as measures to address serious balance of payment difficulties.

v. The dispute settlement mechanism of the WTO has also been developed to provide fair and effective means of settlement of dispute arising from the differences of interpretation and application of the Agreement.

vi. ASEAN may not be able to fully enjoy their right as developing countries if ASEAN through the course of negotiations agrees to the proposal of our negotiating partners to amend or add any term, definitions or provisions other than those provided for in the WTO agreements. The provisions in most FTA which are called TRIPS-plus or TRIMS- plus are some examples of provision which deviate from the text of the WTO covered agreements that affect the rights of developing countries to special and differential treatment under the said Agreement.

5.1.5. Trade in Services

As recognized at UNCTAD IX, the ability of developing countries to integrate successfully into the global trading system depends on their increasing participation in cross-border trade in services. The principle of progressive liberalization using positive list approach should be insisted. It is important to remember that liberalization is not deregulation and all parties to an FTA retain the right to regulate and set the conditions for entry into the domestic market consistently with their international obligations.

It is crucial that ASEAN make a study of their competitiveness in providing services in all sectors and allow foreign entry to their service sectors that are ready for competition; protect those sectors that still need time to develop and negotiate for the opening of the negotiating partner's market in sectors of export interest. As substantial investment is required in establishing a commercial presence abroad, the provision of services through the temporary movement of natural persons (mode 4) may be seen as a key export interest for ASEAN. Remittances from migrant service suppliers working abroad can amount to a significant source of revenue for ASEAN. It is estimated that Asian migrant workers sent home a combined remittance income of more than USD 40 billion in 2003. Under the GATS, commitments on mode 4 made by developed countries are generally quite restrictive, being mostly limited to managers, skilled professionals and intra-corporate transferees and subject to an economic needs test. Furthermore, service suppliers must still meet all conditions under domestic regulations

regarding licensing and recognition of qualifications and members retain discretion to grant, refuse and administer work permits and visa. It is therefore important for ASEAN to push for deeper mode 4 commitments from its FTA partners for service suppliers at all skill levels in sectors of interest such as health services, IT, engineering, construction and tourism. ASEAN should also propose GATS-plus elements such as mode 4 commitments in the manufacturing and agriculture sectors (currently excluded from GATS) and for commitments to facilitate the visa and work permit application process which is often cumbersome, time-consuming and costly. Barriers caused by lack of recognition of qualifications could be solved by provisions in the FTA providing for the recognition of qualifications by reference to international standards and practices, or providing for specific tests of competence such as procedures for assessment of credentials, experience and knowledge.

Since the service industries of developing countries have relatively lower levels of development and competitiveness, it is possible that the rapid liberalization of service market will lead to rapid surge of import of more competitive foreign services which might cause severe injury to the uncompetitive domestic service industry or market. In this regard, Emergency Safeguard Mechanism (ESM) should be provided for in the agreement on trade in service to enable the party whose domestic service industry or market has been seriously injured to temporarily suspend their liberalization commitments to provide temporary protection to their

domestic service. As multilateral negotiations have not yielded results, this is an opportunity for ASEAN to contribute to international standard-setting that is beneficial for developing countries. Therefore, ASEAN should ensure that an ESM exists not only for trade in goods, but also for trade in services in all of its FTAs.

5.1.6. Harmonization of ASEAN Trade and Investment Law through the Conclusion of FTAs

The ASEAN-dialogue partners of FTAs contain several trade and investment issues such as investor-state dispute settlement, transparency of domestic laws, regulations and judicial decisions (requiring publication and possibly in the English language) alongside "border administration" disciplines such as customs valuation and administration of rules of origin (the control and verification of the country of origin of imports to determine whether a good is eligible for preferential treatment). These requirements are expensive to implement and administer and may require the enactment of new laws and regulations, or revision of existing ones which will impose a heavy burden on ASEAN countries, especially for those whose previous practice and regulations may differ substantially from international standards.

One of the most important legal principles under the international law of treaties provides that every treaty in force is binding upon the parties to it and must be performed by them in good faith (*Pacta Sunt Servanda*). Article

27 of the Vienna Convention on the Law of Treaties also stipulates that a party may not invoke the provisions of its internal law as justification for its failure to perform a treaty. Therefore, prior to the entry into force of a treaty, the parties must ensure that their existing domestic laws and regulations comply fully with their obligations under that treaty. If there are existing laws which are not fully in compliance with the terms and conditions of the treaty, that party to the treaty must make the necessary adjustments so that they can fully exercise their rights and comply with their obligations. Since FTAs can provide common rights and obligations which ASEAN countries must comply with, FTAs can be seen as an important means that ASEAN domestic trade and investment laws can be harmonized.

For the agreement on trade in goods, the enabling legislation of a party is the law which enables the relevant authority, which in the case of Thailand is the Minister of Finance, to impose, maintain, reduce, abolish and raise tariffs for imported goods. This domestic law will enable the government of the party to an FTA to negotiate and agree to reduce and abolish the tariff on the product at the rate agreed by the negotiation, and to raise the tariff for protection when the circumstances allow such as in case of dumping or to protect domestic market which has been injured by the rapid surge of imports and in times of balance of payment crisis.

5.1.7. The ASEAN Free Trade Area

Most of the Southeast Asian region is now a free trade area. Accounting for over 96 percent of all ASEAN trade, the first six signatories of the Common Effective Preferential Tariff scheme for the ASEAN Free Trade Area have reduced their tariffs on intra-regional trade to no more than five percent for almost all products in the Inclusion List or removed them altogether. The ASEAN Free Trade Area was established in January 1992 to eliminate tariff barriers among the Southeast Asian countries with a view to integrate the ASEAN economies into a single production base and creating a regional market of 500 million people. The agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area requires that tariff rates levied on a wide range of products traded within the region be reduced to no more than five percent. Quantitative restrictions and other non-tariff barriers are to be eliminated. Although originally scheduled to be realized by 2008, the target of a free trade area in ASEAN was continuously moved forward.

The elimination of tariffs and non-tariff barriers among the ASEAN members has served as a catalyst for greater efficiency in production and long-term competitiveness. Moreover, the reduction of barriers to intra-regional trade gives ASEAN consumers a wider choice of better quality consumer products. By the beginning of 2002, only 3.8 percent of products in the CEPT Inclusion List of the first six signatories, or 1,683 items out of 44,060, would have tariffs above five percent. The current average tariff on goods traded under the AFTA scheme is about 3.8 percent. In the light of

their later accession to the CEPT agreement, Vietnam has to realize AFTA in 2006, Laos and Myanmar in 2008, and Cambodia in 2010. The first signatories to the CEPT scheme were Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand. The free trade area covers all manufactured and agricultural products. However, 734 tariff lines in the General Exception List, representing about 1.09 percent of all tariff lines in ASEAN, are permanently excluded from the free trade area for reasons of national security, protection of human, animal or plant life and health, and of artistic, historic and archaeological value.

5.1.8. Trade Facilitation Initiatives

ASEAN has devoted to trade facilitation in the area of customs and through the elimination of technical barriers to trade with a view to lowering the cost of doing business in the region. ASEAN's efforts have been directed at the simplification and harmonization of customs procedures, specifically through such measures as the harmonization of tariff nomenclatures and the accelerated implementation of the WTO Valuation Agreement. ASEAN has now adopted an ASEAN Harmonized Tariff Nomenclature.

ASEAN sought to develop product-specific mutual recognition arrangements in conformity assessment so that product-related standards and regulations do not become technical barriers to trade. A Mutual Recognition Arrangement on telecommunication equipment has already been

put in place. Negotiations were proceeding in the areas of cosmetics, pharmaceuticals, and electrical and electronic products.

ASEAN has also agreed to align the national standards with international standards such as those of the International Standard Organization (ISO), International Electro-technical Commission (IEC) and International Telecommunications Union (ITU), for 20 priority product groups. These 20 product groups represent some of the most widely traded products in the region, including important consumer durables such as radios, television sets, refrigerators, air-conditioners and telephones. In addition to the 20 product groups, ASEAN embarked on the harmonization of another 72 standards for safety and 10 standards for electromagnetic compatibility.

5.1.9. Rule-based Trade Arrangement

ASEAN has adopted a dispute settlement mechanism (largely patterned after the WTO dispute settlement understanding) covering all economic agreements. This mechanism became a tool for resolving any problem arising from the implementation of any economic agreement in ASEAN. The provision on emergency measures under the CEPT agreement has been strengthened to make it consistent with the WTO agreement on Safeguard Measures. A Protocol on Notification Procedures has been established which requires advance warning of actions or measures that can have an adverse effect on concessions granted under an existing ASEAN agreement. ASEAN has also agreed on a protocol regarding the

implementation of the CEPT Scheme Temporary Exclusion List, which is intended to provide some flexibility to countries facing real problems on their last tranche of manufactured products in their Temporary Exclusion Lists. The Protocol allows countries to temporarily delay the transfer of these TEL products or suspend concessions on those TEL products already transferred into the Inclusion List. The mechanism is based on Article XXVIII (Modification of Schedules) of the 1994 General Agreement on Tariffs and Trade.

5.1.10. Ultimate Target of AFTA: Elimination of All Import Duties

The ASEAN leaders had agreed to eliminate all import duties by 2010 for the six original members of ASEAN and by 2015 for the new members. Currently, 701 tariff lines (representing 38 percent of the Inclusion List) already have zero duties. By 2003, the first six members had each at least 60 percent of their Inclusion Lists with zero duties. Vietnam had got 35.37 percent of its Inclusion List with no tariffs in 2006 while Laos and Myanmar abolished import duties on 87.6 percent and 3.9 percent respectively of their IL by 2008. Cambodia eliminated duties on 7.64 percent of its IL in 2010.

5.2 Cambodia Trade Environment and Policies

Cambodia has taken significant steps towards integrating its economy with that of its neighbors and rest of the world. It has joined the ASEAN Free

Trade Area, is a signatory to CEPT (Common Effective Preferential Tariff) and has joined the WTO. It is regarded as a highly open economy, formally in the sense of a simplified and greatly reduced duty structure for imports, and informally, in the sense of weak border controls and a huge (but difficult to quantify) informal border economy. In the Mekong sub-region, this has taken the shape of special (export processing) zones set up (or planned) along the border areas, and promotion of the ADB-led Greater Mekong Sub-region concept to integrate regional economies through transport-infrastructure linkages and trade facilitation reforms. The potential benefits of integration are thought to be considerable; there is less agreement, however, with regard to the distribution of benefits both across countries and within each country.

5.2.1 . Recent Changes in Trade Policy

Cambodia resumed trade with the rest of the world after a period of disengagement during the 1970s, in line with the process of liberalizing from a centrally planned economy to a market oriented one. The private sector was free to carry out business in the country; most non-tariff barriers were eliminated; and the requirement of licensing for trading in most goods was abolished (Economist Intelligence Unit & MEF, 2004). All quantitative restrictions on trade were removed in 1994 (CSD, 2002). Further, the country took a significant step forward in trade liberalization after becoming a member of ASEAN in 1999. Under the framework of CEPT/AFTA, tariff lines were simplified and streamlined. A new harmonized tariff nomenclature

(AHTN) was promulgated in 2003 and implemented from 1 January 2004 (MEF, 2004 & CED, 2003). The customs code is also being revised, and further modernization and liberalization of the trade regime are envisaged, including improved trade facilitation, as stipulated in the Strategy and Work Programmes of Reform and Modernization of the CED of Cambodia for the period 2003–2008. A number of specific task forces and measures have been formalized, including: (a) the establishment of a steering committee for private sector development in July 2004; (b) joint inspection by the Cambodia Import – Export Inspection and Fraud Repression Department (Cam-control) and the CED, and issuance of a single inspection report, effective from 1 September 2004; (c) Ministry of Industry, Mines and Energy (MIME) and Ministry of Commerce (MoC) to issue a Certificate of Processing (CP) and Certificate of Origin (CO) respectively, and jointly carry out post-shipment inspection. Action plans are being mooted to streamline trade facilitation, to promote market infrastructure and deregulation, to enhance market access and information and to promote small-medium enterprises (SME) by the end of 2005 (CSD, 2004).

5.2.2 Other Regional Economic Cooperation Initiatives

Besides the internal law and Prakas in Cambodia, it has many other cooperative treaties with the neighboring countries and partners such as CEPT, GMS programme, CVL, and ECS.

5.2.2.1 Common Effective Preferential Tariff (CEPT)

After an agreement signed in 1992 on the establishment of AFTA, ASEAN members are required to implement CEPT, under a wide range of products traded among the association's members, tariff rates have to be reduced to below 5 percent, and all quantitative restrictions and other non-tariff barriers must be removed. In practice, the original ASEAN members have already achieved the tariff reduction goal. For the new ASEAN members, Vietnam was required to complete the process in 2006, Laos and Myanmar in 2008 and Cambodia in 2010. Products eligible for special treatment under CEPT were required to conform to the Rules of Origin (RO) or Cumulative Rules of Origin. The CO was issued after thorough pre-shipment inspection. It can be waived, however, for products valued at less than USD 200 F.O.B. When the products pass through one or more non-ASEAN country, some additional documents are required such as a through bill of lading, a CO, a copy of the original commercial invoice and some other documents to prove that the requirements of the RO have been met. At the entrance/exit gates the products under CEPT pass through the green lane.

5.2.2.2 Greater-Mekong Sub-Region Economic Cooperation Programme (GMS Programme)

After peace was achieved in the Greater Mekong region, the GMS Programme (the Greater Mekong Sub-region Economic Cooperation Programme) was initiated in 1992 by the ADB in order to "transform the rich human and natural resources of the region into a new frontier of Asian economic growth. Under this strategic framework ADB plays a role in facilitating

GMS activities by supporting confidence building among the member countries, helping in the development of a framework for cooperation, assisting in project development for identified priorities and mobilizing financial resources. Under the GMS umbrella, Laos, Thailand and Vietnam signed a trilateral accord on the movement of goods and people across their borders in November 1999. As agreed in the ninth GMS Ministerial Conference in 2000, the implementation of the agreement and its annexes and protocols on a sub-region-wide basis was completed by 2005. In November 2001, Cambodia became the fourth party of the agreement, followed by China. Myanmar entered later. At the beginning, the GMS programme focused much on building the basic infrastructure to link remote areas. After the 1990s, the programme shifted its focus to the environment, human resource development, trade, investment, telecommunications and tourism. To facilitate the implementation of the strategic thrusts of the programme, the concept of the “economic corridor” was launched and three such corridors identified. In its 2003–2012 strategic frameworks, CBT is one of five strategic thrusts. The main measures to facilitate CBT and stimulate the cross border economy include:

- (a) A single-stop customs inspection process, initially to be piloted at selected points (e.g. Poipet and Bavet in Cambodia, Mukdahan and Aranyaprathet in Thailand, Savannakhet and Dansavanh in Laos and Lao Bao and Moc Bai in Vietnam);
- (b) Common hours of operation at checkpoints;

- (c) Transparency of customs procedures;
- (d) Trade financing;
- (e) Harmonization of banking regulations;
- (f) Investment promotion;
- (g) Establishment of economic corridors.

5.2.2.3 Triangular Cooperation among Cambodia, Vietnam and Laos (CVL)

In December 2002, the three Prime Ministers agreed that Vietnam would develop the master plan in a number of specific areas, including infrastructure, human resource development, power, agriculture, trade, tourism, environmental preservation and biology in support of the development of the “triangular zone” cutting across the border regions of the three countries. In the last meeting (in 2004), the Prime Ministers agreed to work closely to accelerate economic growth across their common borders, and in particular to address poverty concerns. The first priority would be given to upgrading transport networks, promoting trade and tourism under the principle of “three nations—one destination,” developing human resources and health care and connecting electricity grids between the three countries.

5.2.2.4 Economic Cooperation Strategy (ECS)

Under the Economic Cooperation Strategy (ECS), established in line with the Bagan Declaration in April 2003, Cambodia, Laos, Myanmar

and Thailand (CLMT) has cooperated with one another to: (a) increase competitiveness and generate greater growth along the borders; (b) facilitate relocation of agricultural and manufacturing industries to areas with comparative advantage; (c) create employment opportunities and reduce income disparity among the four countries; and (d) enhance peace, stability and shared prosperity for all in a sustainable manner. Under this scheme, the Economic Cooperation Strategy Plan of Action (ECSPA) was the first series of action plans chalked out for the period 2003–2012. In line with the ECSPA, the CLMT countries have implemented initiatives to reduce trade barriers, improve transport linkages and upgrade major border checkpoints and promote cooperation in five strategic areas: (i) trade and investment facilitation; (ii) agricultural and industrial cooperation; (iii) trade linkages; (iv) tourism cooperation; and (v) human resource development. Specific measures to implement the ESPA objectives include a number of common projects that were carried out by at least three countries, as well as other short, medium and long-term bilateral projects. Among the bilateral projects, there were 65 Cambodia-Thailand, 21 Cambodia-Laos and 25 Cambodia-Myanmar projects that have been identified. Some of the main Cambodia-Thailand projects included feasibility studies on the establishment of wholesale and export markets, development of industrial estates in Poipet and Pailin, reservoir construction at Poipet and a sister cities programme. Some of the main Cambodia-Laos projects were a feasibility study on trade facilitation in the border area between Champasak and StungTren, improvement of border checkpoints at Champasak-Stung

Treng and strengthening and promoting border trade between Laos and Cambodia.

5.3 Trade Policy Instruments of Cambodia

A major challenge for effective SPS management systems was for relevant SPS agencies to agree to minimize duplication, reduce unnecessary inspections, and improve reporting mechanisms for food safety. Agencies' duplication of functions and inspections, through the proliferation of subordinate legislation, might have undermined effective SPS policy, reporting, and coordinated enforcement systems in Cambodia. This has also imposed a substantial cost on private sector food produced. However, the authorities contended that since the establishment of inter-ministerial Prakas 868 (2010) on the Implementation of an Institutional Arrangement of Food Safety, based on a farm-to-table approach, the definition of responsibilities has been clarified between Customs, Camcontrol, MAFF, MIME, and the Ministries of Tourism and Health. According to the authorities, substantial progress has been made in reforming SPS management systems and capacity development.

5.3.1 Camcontrol (Cambodia Import Export Inspection and Fraud Repression Department in the Ministry of Commerce)

The Law on the Management of Quality and Safety of Products and Services provides the legal mandate for Camcontrol to conduct official

inspection of goods in international trade and on the domestic (retail) market. Under Sub-Decree No. 59 (2008), the Department has the following duties and responsibilities: (i) inspection of imports and exports, jointly with Customs; (ii) consumer protection through product safety and suppression of fraud; (iii) export certification to meet importing country requirements; (iv) checking of compliance with international standards; (v) review of health and safety of products from production to commercialization, and submission to competent authorities; (vi) the control of products and services on the markets; (vii) management of MoC laboratory product testing facilities; (viii) provision of a commercial inspection service; (ix) collection of inspection fees relating to import/export quality testing; and (x) secretariat of National Codex Committee and SPS National Enquiry Point.⁴¹ Camcontrol undertakes inspections of food and some agricultural inputs. On the domestic market, it undertakes surveillance of food and other regulated products. It levies fees for its inspection service; for example, the fee for cargoes inspected is 0.1 percent of the c.i.f. worth on imports (and 0.1 percent of the f.o.b. worth on exports), with a minimum of USD 6.0, which covers costs and contributes to government revenues, at approximately 1 percent of consolidated revenue.⁴²

⁴¹ MoC Declaration No. 141 (Prakas of 2003) on Formation of SPS Enquiry Office (Point) under Camcontrol, nominated Camcontrol as SPS enquiry point and to work closely with the National Codex unit and to create SPS awareness within country.

⁴² It is not clear how the fees for inspection of imported food products are calculated to ensure that they are equitable vis-à-vis fees for inspection of domestic products and that they are no higher than the actual costs of the service as required in the SPS Agreement, Annex C, paragraph 1(f).

As there were from 5 to 20 inspectors in each province and Phnom Penh, Camcontrol also undertakes non-regulatory inspections for exporters, primarily in relation to export shipments of rice and other agricultural products. Camcontrol's priority SPS and food safety is surveillance of the domestic market, targeting smuggled and legitimate food products on the basis of risk assessment findings. Legitimate imported food products are principally inspected for the type and condition of packaging and the expiry date and safety risk. Camcontrol has a central laboratory that has limited testing capacity in microbiology and chemistry for water and foods.

5.3.2 Technical Barriers to Trade

In acceding to the WTO, Cambodia committed itself to bring its trade regime into compliance with the WTO agreements, and since the adoption of the Law on Customs in 2007, policy has been directed toward implementing the provisions of the law, while, at the same time, reviewing customs procedures and working toward their simplification. The enactment of the Customs Law has prepared the way for the adoption of some 36 regulations, *inter alia*, to fulfill commitments to ASEAN to move to the Common Effective Preferential Tariff (CEPT) scheme by 2010, adhere to the 1999 Revised Kyoto Convention, and has created a clear status for professional customs brokers. A revised plan has been drawn up for the modernization and streamlining of customs procedures for the period 2009-13.⁴³ The plan's objectives included

⁴³ The document is entitled "Strategy and Work Plan on Reform and Modernization of the General Department of Customs and Excise Department Strategic Objectives: 2009-2013".

increasing taxpayer awareness; developing an anti-smuggling policy; introducing an automated customs clearance system; developing and implementing the Cambodia Single Window; introducing risk-management and post-clearance audit; implementing the WCO SAFE Framework of Standards⁴⁴; acceding to the revised Kyoto Convention; and strengthening Cambodia's enforcement capacity to combat illegal trade in arms and narcotics.

Box 5.1: Customs Laws and Regulations

With regard to Customs, in order to meet WTO requirements, the following laws and regulations have been enacted:

1. Law on Customs, promulgated on 20 July 2007, consists of 13 Chapters and 80 Articles.

2. Supporting Regulations consist of 1 Sub-Decree (Anukret), 25

Ministerial Prakas, and 2 guidelines as following:

(a) Sub-Decree:

Anukret on Prohibited and Restricted Goods List

(b) Ministerial Prakas:

-Prakas on Provision and Procedure of Customs Declaration

⁴⁴ World Customs Organization (2007).

- Prakas on Establishment and Functioning of Customs Brokers
- Prakas on Customs Valuation of Imported Goods
- Prakas on Customs Bonded Warehouse
- Prakas on Customs Temporary Storage
- Prakas on Refund of Customs Duties and Taxes
- Prakas on Security
- Prakas on Reporting, Movement, Storage and Transport of Exported Goods
- Prakas on Importation of Goods under Temporary Admission
- Prakas on Management of Documents, Books, Records, and other Information
- Prakas on Determination of Exempt Goods
- Prakas on Exempt Goods Control Procedures
- Prakas on Management of Unclaimed Goods
- Prakas on Temporary Export of Goods
- Prakas on Customs Formalities outside Customs Offices
- Prakas on Extension of Customs Zone
- Prakas on Post Clearance Audit by Customs and Excise Department
- Prakas on Customs Transit
- Prakas on Special Customs Procedure in Special Economic Zone
- Prakas on Procedures for the Management of Special Designed Goods

- Prakas on Transportation, Distribution and Possession of Imported Goods in the Customs Territory
- Prakas on use of Information Obtained by Customs Officers
- Prakas on Settlement of Customs Offences
- Prakas on Customs Tariff and Tariff Classification of Goods
- Prakas on Reward Distribution
- Prakas on Procedures on Payment of Duty and Taxes and other levies on Imported and Exported Goods
- Prakas on Reporting of Imported Goods

(c) Guidelines:

Instruction No. 583, 30 June 2008, on the implementation of Initial Post Clearance Audit

Manual in the Customs and Excise Department

Instruction No. 790, 28 August 2008, and Procedures for Customs Transit

3. The remaining regulations to be enacted are:

Prakas on Setting of Interest Rates on Debts

Prakas on Procedures for Temporary Seizure of Goods, Conveyances, Documents and Other Items

Inter-Ministerial Prakas on Seizure (offence) Report

Prakas on Appeal Procedures

Prakas on Exemption for Travellers, Crews, and Border Crossers

Anukret on Authorization for customs officers to carry out duties

outside the customs territory and granting of permission for foreign customs officers to carry out duties in the customs territory.

Source: Ministry of Commerce and Ministry of Economy and Finance.

5.3.2.1 Import Tariffs and other Taxes

CDRI (2005)⁴⁵ mentioned that while Cambodia has reduced its import duties, excise taxes were increased to ensure that the tax reform would be revenue neutral. According to the authorities, both taxes are levied on imports at the same rates and conditions as on domestic traded goods, without exception. Revenue collected by Customs on international trade was the main source of government revenue. Customs duties, VAT on imports, and excise taxes on imports accounted for between 70 percent and 56 percent of total tax revenue between 2004 and 2010. Customs duties accounted for 16.9 percent of total tax revenue in 2010, down from 23.1 percent in 2005 as Cambodia implemented ASEAN-related and autonomous tariff liberalization initiatives. Excise duty and VAT on imports account for 14.6 percent and 19.8 percent of tax revenue respectively. The heavy dependence on trade-related taxes is nevertheless gradually declining, hence reducing Cambodia's fiscal vulnerability.

⁴⁵ CDRI, *The Cross Border Economies of Cambodia: An Exploratory Study* (Working Paper 32, April 2005).

- **Tariff Structure**

Cambodia agreed to implement its tariff reform largely before accession to the WTO. It did not participate in the optional tariff initiatives. For other duties and charges, Cambodia committed to bindings at zero and complying with the relevant WTO provisions, in particular Article II.1(b) of the GATT 1994. In reforming its tariff structure, Cambodia had reduced the number of tariff bands from 12 to 4 before joining the WTO and the highest tariff rates of 40 percent, 50 percent, 90 percent and 120 percent were abolished. The simple average applied tariff rate fell from 17.3 percent in 2003 to 11.7 percent in 2011.

- **Tariff Escalation**

A notable feature of Cambodia's tariff structure is that the broad tariff bands correspond roughly to whether goods are final goods or raw materials. Cambodia tariff structure shows escalation from raw materials to intermediate goods and to finished products. Escalation is particularly evident in some major sectors, i.e., food, beverages and tobacco, textiles and leather, chemicals, and non-metallic mineral products.

- **Tariff Exemptions**

Import duty concessions and exemptions are available to certain types of importers, including for temporary imports for re-export; goods in transit; personal items of Cambodians having resided abroad; imports by diplomatic missions, for humanitarian or religious purposes, and for goods

imported in connection with investment projects approved by the Council for the Development of Cambodia in accordance with the Amended Law on Investment. Export qualified investment projects (QIPS) are allowed to import production equipment, construction materials, raw materials, and intermediate goods and accessories free from customs duty, unless they operate under the customs bonded warehouse mechanism. For the QIPs of garment and footwear industries, the Government also provides VAT exemptions on these imports.

- **Tariff-rate Quotas**

At the time of its accession to the WTO, Cambodia did not apply tariff quotas but noted that it might consider these on certain agricultural imports in the future. The authorities confirm that, currently, there are no tariff-rate quotas in place.

- **Preferential Tariffs**

Together with the other ASEAN members, Cambodia accepted the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area, whereby the tariffs applicable to ASEAN products reduced to 0 - 5 percent over a ten-year period starting 1 January 2000. Average preferential tariffs were less than half of the MFN rate for agricultural products and around one third of the MFN rate for non-agricultural products. Cambodia agreed to eliminate tariffs on essentially all ASEAN products by 2015, except for 7 percent of the tariff lines where the

end of 2017 will eliminate the tariffs. For products covered by the Sensitive List, the maximum tariffs will be set at 5 percent as of 2018. There is also a General Exception List for which there are no ASEAN-related tariff preferences. Cambodia is subjected to tariff reductions agreed in five free-trade agreements (FTAs) signed by ASEAN: with China, Cambodia's tariff rates reduced to zero by 2015; with India and the Republic of Korea by 2018; with Japan by 2026; and with Australia and New Zealand by 2024.

- **Customs Valuation**

At the time of its accession, Cambodia was of the view that a move to the transaction value system could pose major risks to government revenue and therefore proposed that minimum customs values be phased out gradually over five years, with full compliance with the Customs Valuation Agreement to be achieved by the end of 2008. The challenges facing the customs administration at the time included a low rate of voluntary compliance by importers, lack of sound accounting systems and record keeping, and the limited capacity of Customs to administer transaction valuation provisions. Cambodia's request for a five-year transitional period granted to allow it to obtain and utilize technical assistance to facilitate implementation of the obligations of the Agreement. Since 1 January 2009, Customs was prepared to implement the first three methods of customs valuation: transaction value, identical goods, and similar goods; and on 1 January 2011 Cambodia took the final steps necessary to fully implement the Agreement. According to the authorities, the delay in full implementation was

because, *inter alia*: the number of competent officers is limited; the post clearance audit mechanism was still in its initial stage; the compliance level of traders is low (according to the Traders' Credibility Management System); invoices are often undervalued, leading to some difficulty in applying the transaction value; the customs valuation database was developed slowly, due to lack of technical assistance.

Prakas 32 of Cambodia's customs valuation legislation was a transitional provision providing Customs with some flexibility to provide for the use of valuation methods other than those contained in the WTO Customs Valuation Agreement for certain goods that Cambodia deems as sensitive or high risks. Prakas 32 of the MEF Regulation No. 387 (2008), which implements the WTO Customs Valuation Agreement allowed the GDCE to use the price-list methods, temporarily, for the valuation of certain sensitive items and high risk goods, including used vehicles and other used items as well as petroleum products. These methods were transitional and Cambodia has since confirmed that as of 1 January 2011 it terminated the transitional use of the above methods.⁴⁶ A complaint procedure and appeals process for these valuations is in place. During the review period, Customs implemented the WTO Valuation Agreement in parallel with the decentralization of customs valuation decision-making, and obtained significant early results. For example, 50 percent of dutiable goods were processed using the transaction value.

⁴⁶ WTO document G/VAL/M/51, p. 3, Statement by Cambodia at the meeting of the Committee on Customs Valuation, 12 May 2011.

Customs is considering whether certain non-dutiable imported goods will be processed at the transaction value such as goods imported by investment companies, exempted importation, temporary imports, and goods imported by the Government. According to the authorities, all imports currently comply with WTO valuation methods. As of June 2011, Cambodia was preparing to submit its checklist of issues to the WTO.

- **Pre-shipment Inspection (PSI)**

From accession, Cambodia undertook to ensure that the operations of the PSI companies it retained would meet WTO requirements⁴⁷, and that its PSI regime would be temporary and cease when Customs could carry out the functions performed by the PSI companies. Cambodia discontinued its service contract with BIVAC International of the Bureau VERITAS Group for PSI services in mid 2009. The MEF issued a Prakas in February 2009 (on the establishment and functioning of Transaction Value Management Unit under Customs)⁴⁸, setting up a unit that develops national customs valuation policies, implements valuation regulations, provides rulings at the request of the private sector, and conducts research on the transaction

⁴⁷ The Agreement on PSI requires that governments ensure that the PSI entity meet a wide range of provisions concerning transparency, treatment of business confidential information, avoidance of conflict of interest, prompt inspection, and appeals procedures.

⁴⁸ The transaction valuation unit is responsible for supervising the interpretation of the WTO Valuation Agreement in Cambodia, keeping the valuation legislation updated, providing valuation training to customs officials, updating the customs valuation list for products on a monthly basis; and considering importers' appeals against valuation decisions taken by customs officers or dealing with more difficult cases of valuation.

value of imports. Cambodia notified the WTO in 2010 that it no longer has any laws or regulations in the area of PSI.

- **Rules of Origin**

During accession, Cambodia confirmed that it intended to comply fully with the provisions of the WTO Agreement on Rules of Origin in the application of preferential and non-preferential rules of origin and would be able to do so after enactment of a new Customs Law and its implementing regulations. As of January 2011, Cambodia was still in the process of preparing a regulation on rules of origin: the Ministry of Commerce and the Ministry of Economy and Finance were working jointly on the draft regulation, which was at an early stage of development. According to the authorities, applicable duties and taxes on imports are collected according to the origin of the goods. The origin of natural products is the country where they were extracted from the soil or harvested. Goods manufactured in a single country, with no contribution from materials from another country, originate in the country where they are manufactured. Customs procedures for determining the origin of goods produced in one country that use products harvested, extracted from the soil, or manufactured in another country are determined by *Prakas* of the Minister of Economy and Finance. The origin of goods seeking preferential entry from FTA partner countries is determined by the certificate of origin issued by the exporting country, in accordance with the agreed rules of origin. The MFN rate is applied to all other goods.

- **Import Prohibitions, Quotas, and Licensing**

As part of its accession commitments, Cambodia eliminated quantitative restrictions on imports of fertilizers, pesticides, and other agricultural inputs, and established a WTO-consistent method of registration and review of imported agricultural chemicals. From 1 January 2007, Cambodia agreed that it would rely on the provisions of the TBT Agreement to regulate domestic and international trade in these items. From accession, Cambodia agreed not to introduce, re-introduce or apply other non-tariff measures such as licensing, quotas, prohibitions, bans and other restrictions having equivalent effect that could not be justified under the provisions of the WTO Agreements. The authorities note that since accession Cambodia has introduced some additional licensing requirements as allowed under GATT Article XX (b) for fisheries and live animals. Goods are prohibited or restricted for any of the following purposes: protection of national security; protection of public order and standards of decency and morality; protection of human, animal or plant life or health; protection of national treasures of artistic, historic or archaeological value; and the conservation of natural resources. Sub-decree 209 of 2007 (Prohibited and Restricted Goods List) identifies 1,537 tariff lines that are subjected to import prohibition or licensing. Much of the licensing is automatic and does not restrict import quantity or value. Exceptions include some narcotics and fish, where quantities are restricted. Sub-decree 209 provides for import prohibition only for metal waste, toxic waste, municipal waste, clinical waste, sewerage sludge, and waste of animal hairs. Cambodia currently prohibits the commercial importation of certain

narcotics; psychotropic substances and their precursors, toxic waste and poisonous chemicals; and substances and certain pesticides in accordance with toxicity classification by WHO. Government regulations also prohibit the importation of used computers and spare parts, household waste, and hazardous waste. A limited licensing system had been established for the protection of human health, consumer interests, national security, and to protect the environment.⁴⁹ The import licensing regime for chemicals is administered by the Institute of Standards of Cambodia, an organ of the Ministry of Industry, Mines and Energy. The system is designed to help maintain the orderly marketing of chemicals in Cambodia: it may result in limitations on some imports. The intent is to reduce the presence of dangerous chemical substances for which proper controls are difficult and storage facilities are limited. For these products, the system operates by assessing current legitimate import needs of Cambodian firms using chemicals or chemical products, and ensuring that those needs are met.

The import licensing regime for pharmaceuticals, medical materials, and narcotics and related substances is administered by the Ministry of Health and, with respect to their use for agricultural purposes, by the MAFF. Its purpose is to protect human health and animal and plant health. The authorities note that the import licensing of pharmaceuticals and medical materials does not restrict the quantity or value of imports.

⁴⁹ Notification pursuant to Article 7.3 of the Agreement on Import Licensing Procedures in WTO document G/LIC/N/3/KHM/1, 23 November 2010.

- **Anti-dumping, Countervailing Duties, Safeguard Regimes**

During accession, Cambodia confirmed that it would not apply any anti-dumping, countervailing or safeguard measure until it had notified and implemented appropriate laws and regulations in conformity with the provisions of the relevant WTO Agreements. In 2009, with donor assistance, Cambodia began the task of drafting trade remedies legislation. The current, single draft law, encompasses anti-dumping and safeguard measures, and allows for the later preparation of a sub-decree dealing with countervailing measures. An inter-ministerial drafting group had reviewed the draft and this process is expected to be completed by the end of 2011. According to the authorities, the draft law on trade remedies follows closely the WTO safeguards and anti-dumping agreements. It spells out procedures for identifying dumping and for establishing normal values, export prices, and dumping margins. It also deals in detail with procedures for the conduct of anti-dumping investigations, including the determination of material injury and a causal link, and for establishing and reviewing anti-dumping duties. As regards safeguards, the draft defines serious injury and the threat thereof and causation. It spells out procedures for initiating and conducting safeguard investigations and applying safeguard measures. The draft text also deals with confidentiality, access by the public to information, and other requirements of the two WTO agreements.

5.3.2.2 Export Tariffs and Other Taxes⁵⁰

Cambodia has specific regulations related to trade in transit that were developed to implement transit agreement with neighboring countries and other partners. The regulations are Article 9, 13, and 25 of the Law on Customs, MEF Prakas 508 (2008) on Customs Transit; and Customs Instruction No. 790 (2008) on Customs Transit Procedures.

- **Export Taxes**

A number of exported goods are subject to taxes such as natural rubber; uncut (unprocessed) precious stones; processed wood; and fish and crustaceans, mollusks and other aquatic products. Cambodia levies export taxes on certain unprocessed raw materials and products to encourage local processing, encourage exports of finished products, and protect human health. Cambodia's export duties were applied on an MFN basis and hence its ASEAN partners were not exempt from these taxes. Export taxes accounted for approximately 2 percent of the customs revenue collected by Customs in 2000 and less than 0.5 percent currently.

- **Export Restrictions and Prohibitions**

Several items are prohibited from export or strictly restricted, including antiques, certain narcotic and toxic materials, logs, precious metals

⁵⁰ Council for Development of Cambodia, *Trade Policy* (2010).

and stones, and weapons.⁵¹ Prohibited exports from natural forests comprise round logs; crude or rough sawn timber; squared logs with a thickness or width of more than 25 cm; oil extracted from yellow vine; yellow vine powder; firewood and charcoal. The export of wood and wood products derived from man-made forests is not subject to restrictions, although a license is needed. Prohibitions apply to any fish species mentioned on the CITES list of endangered species as provided for in Sub Decree No. 123 (2009).

- **Licensing**

Exporters must provide additional documentation for items that the Government has determined to be sensitive or that are monitored for trade purposes. Certain wood products from natural forests and other agricultural products require an export license; the objective is to control the volume of such exports. To obtain an export license the applicant submits an application to MAFF, along with the usual supporting documentation, and documentary evidence that the products are from legal sources. The Forestry Administration examines the application and makes a recommendation to MAFF, which in turn makes a recommendation to the cabinet of the Council of Ministers, which grants an export quota to the applicant. The quota is valid for one year, and may be renewed. After receiving a quota, the applicant may apply for an export license from the Ministry of Commerce. A license is

⁵¹ Annex 1, Sub-Decree No. 209 ANK. BK, 31 December 2007 (List of Prohibited and Restricted goods in Importation and Exportation).

required for each export transaction within the quota. The export license is made out to the Forestry Administration, which is the sole entity authorized to export wood and wood products, and which exports the goods on behalf of the applicant. The applicant must also secure a transportation permit from the Forestry Administration to transport goods to export points. According to the authorities, these procedures conform to GATT Article XX (g), which allows trade measures to be taken to preserve exhaustible natural resources, when such measures complement domestic conservation policies.

Exports of medicines and narcotics produced in Cambodia require an export license issued by the Department of Drugs and Food, Ministry of Health, and MAFF for veterinary medicinal products. Export licensing is maintained and statutorily required under the Law on Amending the Law on Drug Management (2007), Prakas 300, 363, and 754 (2007) and Prakas 1031 as amended by Prakas 82 on Drug Import-Export Procedures (2008). Cambodia had joined the WHO Certification Scheme on the Quality of Pharmaceutical Products Moving in International Commerce, and is in the process of taking the steps necessary to issue certificates under the scheme.

- **Export Subsidies**

Upon Cambodia's accession, the Government undertook to bind its agricultural export subsidies at zero in its Schedule of Concessions and Commitments on Goods, and not to maintain or apply any export subsidies for

agricultural products. The authorities confirm that Cambodia has no export subsidies.

- **Export Promotion**

The main entity to promote Cambodian exports is the Trade Promotion Department (TPD) of the MoC, which undertakes a range of activities to support actual and potential Cambodian exporters. It initiates, organizes, and participates in domestic and overseas trade fairs, and provides assistance to local companies wishing to organize and/or participate in such fairs. It also works with Cambodia's overseas trade missions to identify possible overseas markets and develop strategies for penetrating those markets. Its website contains a list of products whose producers are seeking foreign markets, and it established and manages the Electronic Market Communication System, which provides information on prices, trades, buyers, and sellers. TPD is also a counterpart to various development partners and international organizations in implementing trade promotion programmes. With assistance from the World Bank, the Government has set up the Export Market Access Fund (EMAF) to help registered Cambodian firms in their efforts to penetrate foreign markets. The EMAF, which was not yet operational in June 2011, is to provide both financial and technical assistance. It will provide co-financing (up to 50 percent) in the form of cash grants for eligible activities, with a ceiling of USD 30,000. Eligible activities include investigating export markets; product adaptation to meet export-market requirements; and product promotion. EMAF will also provide Cambodian

businesses with links to international and national experts to support export development, planning, and execution. Dedicated specialists will be made available to help applicants secure EMAF funding and to support export-marketing activities. In addition to direct assistance, the Government has taken steps to give Cambodian products a competitive advantage over similar products of other countries. For example, the Better Factories Programme establishes a system for the regular monitoring of work conditions in individual factories, through unannounced visits, and worker and management interviews. The results of the monitoring are made available to the factories, including recommendations for improving work conditions. These reports are subsequently posted on a website, where they may be examined by buyers. The MoC enforces this programme by requiring the participation of all factories seeking an export certificate of Cambodian origin. Only factories that are registered with the Ministry may export, and the condition for registration is membership in the Garment Manufacturers Association of Cambodia and in the Better Factories Programme.

- **Special Economic Zones**

In December 2005, the Council of Ministers passed a sub-decree (No. 148) on the establishment and management of special economic zones to speed up the creation of these zones. The sub-decree details procedures, conditions, and incentives for investors in the zone. The Cambodia Special Economic Zones Board has approved 22 SEZs (January 2011), of which 14 have been established but only 5 are operational; these are located near

the borders of Thailand and Viet Nam, and in Phnom Penh, Kampot, and Sihanoukville. To facilitate development, Cambodia is interested in increasing exports via geographically defined special economic zones (SEZs), with the goal of attracting foreign direct investment. The Government has prepared a Law on Special Economic Zones, which defined SEZs and establish the rules under which they operate.⁵² The law was submitted for approval by the Council of Ministers at the end of 2011. The fiscal regime of Cambodia's SEZs is governed by the same incentives as those stipulated in the revised Law on Investment. In this regard Cambodia follows the international best practice of avoiding different tax incentives for firms located in SEZs. Cambodia offers a choice of either a special depreciation allowance or a tax holiday. Regarding indirect incentives, Cambodia provides total exemption from import duties and VAT for qualifying investment projects whose output is essentially for export, but also for firms supplying the garment and footwear industries. Overall, according to the IMF, in terms of duration of tax holidays and terms of eligibility for direct and indirect tax exemptions, investment incentives in Cambodia appear to be as attractive as those provided in neighboring countries.⁵³

⁵² At the time of accession, Cambodia agreed that SEZs established in accordance with the Law on Investment would be subject to the coverage of WTO Agreements and its commitments in its Protocol of Accession to the WTO Agreement, and that Cambodia would ensure enforcement of its WTO obligations in those zones. In addition, goods produced in any such zones or areas under tax and tariff provisions that exempt imports and imported inputs from tariffs and certain taxes would be subjected to normal customs formalities when entering the rest of Cambodia, including the application of tariffs and taxes.

⁵³ IMF (2006, p. 10). However, withholding tax provisions make the profit tax holiday rather complex in reality.

5.3.3 Customs Procedures for Imports

Export (and import) procedures are laid out in Sub-Decree 131 (2006). According to the authorities, all goods to be exported must be reported at a customs office or other location as determined by the DGCE. The Minister of Economy and Finance may, by Prakas, determine the time, manner, documentation requirements, circumstances, and exceptions with respect to the reporting, movement, storage, and transportation of goods to be exported. Customs and Camcontrol when across the borders must examine all exports and imports. Goods are released when documents are approved, the export tax (if any) is paid, and the examination completed. An Export Office at Customs Headquarters takes charge of garment exports, which examines and seals the cargo with a container bolt seal (at factory premises) that conforms to international standards. Once they reach Sihanoukville Port, documents and the container seal are checked by Customs before loading on vessels. Customs charges a fee of Riels 15,000 for each export declaration and the Camcontrol fee is 0.1 percent of the f.o.b. value of exports and 0.1 percent of the C.I.F. value of imports.

5.4 Conclusion

As the trade policies are very important to all concerned, Cambodia needs to align to ASEAN for the future trade. ASEAN also needs the support from WTO to serve the international market. The trades have grown rapidly because of good economic policies, combined with the return of peace, a conducive neighborhood effect and large inflows of capital, both concessional

finance in the 1990s and increasingly private flows over the past decade. It is arguably the fastest-growing post conflict economy in recent history to ensure that openness remains broadly beneficial and durable, the impressive progress to date will need to be accompanied by a higher priority for social expenditures, extending the tax base to the very wealthy, a more inclusive political system, and institutional, legal and civil service reform.

Chapter VI:

**TRADE ANALYSIS OF
ASEAN AND CAMBODIA**

In this chapter, the discussion relates to the situation and trend of ASEAN and Cambodia's trade. The analysis has been focused on both export and import from the year 2001 to 2011. For this purpose, the chapter has been divided into three sections. In the first section, the status and trend of ASEAN and Cambodia's trade has been presented. The second section discusses the value of trade variation of ASEAN along with Cambodia from 2001 to 2011. Furthermore, in this section, the value of trade projection has been presented from 2012 to 2022 for ASEAN and Cambodia. Finally, a conclusion is given at the third section of this chapter.

6.1 The Status and Trend of ASEAN Trade

In this section, the presentation is on the patterns and factors for international trade, especially total trade, trade balance and selected partners of export and import in ASEAN from 2001 to 2011.

6.1.1. The Status of ASEAN Trade

The total trade grew constantly about 12 percent from 2001 to 2011, but it had minus 19 percent in 2009 for ASEAN after the global crisis. ASEAN trade rose by 16.8 percent to reach USD 2,388,592 million in 2011, compared to 33.1 percent in 2010. The trend seemed to be stable and turned to the same level as the last few years after the economic recovery.

Total trade grew for both Intra-ASEAN covered 10 countries and Extra-ASEAN covered the rest of the world. Despite record trade for Intra-ASEAN,

its share in trade fell very slightly to 25 percent in 2011 from 25.4 percent in 2010 to total trade, thereby increasing gap in trade between the Extra-ASEAN trade and Intra-ASEAN trade to over USD 1 billion in 2011 as shown in Table 6.1.1.

Intra-ASEAN trade and Extra-ASEAN trade had already started to increase since 2010 after the big decline in 2009. Intra-ASEAN trade in 2011 amounted to USD 598,242 million, an increase of 15.1 percent over 2010. Extra-ASEAN trade in 2011 also amounted to USD 1,790,350 million, an increase of 17.3 percent over 2010. The ASEAN trade had experienced minus 20 percent for Intra-ASEAN trade and minus 18.7 percent for Extra-ASEAN trade in 2009.

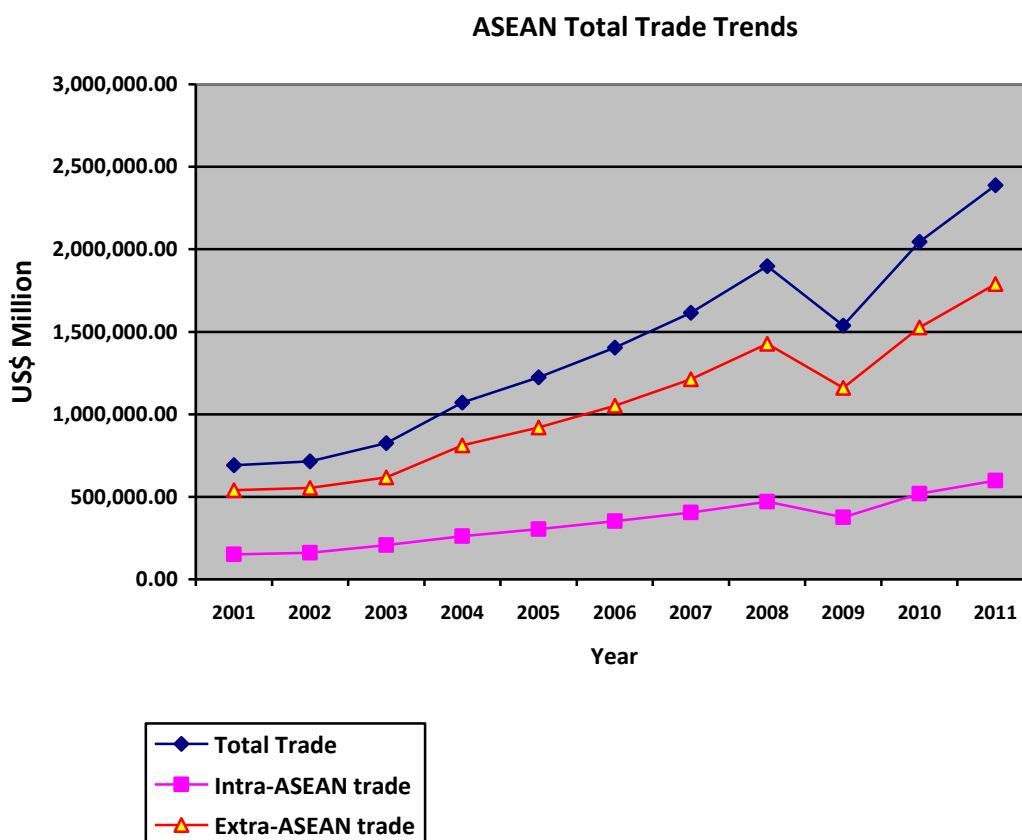
According to the Table 6.1.1, the share of ASEAN trade to GDP was still stable during 2001 to 2011. It grew every year with an average of 110 percent. There was not much gap as 110.9 percent was shown in 2010 and 109.8 was shown in 2011. The exports were still important for ASEAN because it took 57.1 percent in 2011 and 58.1 percent in 2010 as the share to GDP. On the other hand, imports had experienced for similar growth for the last two years, i.e., in 2010 and 2011 in the aftermath of the 2008 global economic crisis; as the financial, construction, trade and services sectors tended to be stable. As compared to GDP, the imports and exports experienced the highest growth rate in 2005, with share respectively 63.7 percent and 71.6 percent.

Table 6.1.1: The Status of ASEAN Trade (2001-2011)

Indicator	Unit/Scale	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Trade	Value (USD million)	690,990.70	713,816.30	824,539	1,071,847.80	1,224,889	1,404,806	1,616,056	1,897,127	1,536,878	2,045,731	2,388,592
	Growth (%)	-9.43	3.3	15.5	30	14.3	14.7	15	17.8	-19	33.1	16.8
Intra-ASEAN Trade	Value (USD million)	150,320.30	159,908.80	206,732	260,697.50	304,893	352,771	404,261	470,112	376,177	519,805	598,242
	Growth (%)	-9.9	6.37	29.3	26.1	16.8	15.7	13.9	17	-20	38.2	15.1
	Share to total trade (%)	21.86	22.46	25.1	24.3	24.9	25.1	25	24.8	24.5	25.4	25
Extra-ASEAN Trade	Value (USD million)	540,670.40	553,907.50	617,807	811,150.30	919,996	1,052,034	1,211,795	1,427,015	1,160,700	1,525,926	1,790,350
	Growth (%)	-9.3	2.44	11.5	23.61	13.5	14.4	14.9	18	-18.7	31.5	17.3
	Share to total trade (%)	78.14	77.54	74.9	75.7	75.1	74.9	75	75.2	75.5	74.6	75
Ratio to GDP	Share of trade to GDP (%)	120	111.76	114.2	124.56	135.2	130.8	124.6	125.4	102.6	110.9	109.8
	Exports to GDP (%)	64.65	60.26	62.7	66.43	71.6	69.9	66.5	64.6	54.1	58.1	57.1
	Imports to GDP (%)	35.35	39.74	51.5	33.57	63.7	60.9	58.1	60.8	48.5	52.9	52.7
Trade Balance	Value (USD million)	53,227.10	55,741.50	80,575	65,691.20	71,405	96,610	108,820	57,946	84,068	96,152	95,981
	Share to exports (%)	14.37	14.52	17.8	12.49	11	12.9	12.7	5.9	10.4	9	7.7

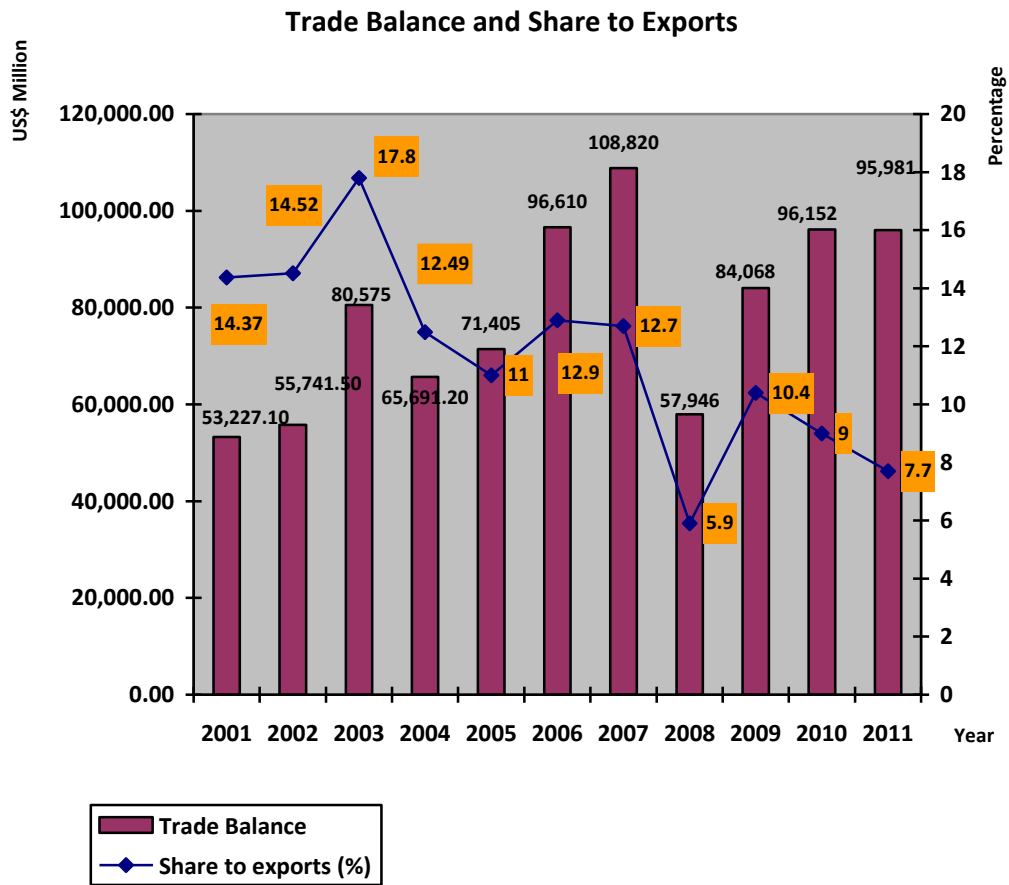
Source: ASEAN Statistics Yearbook 2008 and ASEAN Trade Statistics Database, as of November 2012.

Figure 6.1.1: The Status of ASEAN Trade (2001-2011)



As shown in Figure 6.1.1, the Intra-ASEAN trade had increased to about 38.2 percent in 2010 over 2009. But the increase was much lower than in 2011, when the trend rose by 15 percent. Moreover, the Extra-ASEAN trade had also increased about 31.5 percent in 2010 over 2009. But the trend was not much different from year to year even though the year 2009 was less due to global economic crisis. The trend of total trade was in the middle rank among the extra-ASEAN trade and intra-ASEAN trade from the year 2009 to 2010 as it rose to 33.1 percent.

Figure 6.1.2: Share to Exports and Balance of ASEAN Trade (2001-2011)



The trade balance of ASEAN recorded a historic high of USD 108,820 million in 2007 mainly due to higher exports to the world. The share to exports was 5.9 percent in 2008 which showed a somewhat different picture than did share to exports in the previous years, but it reflected USD 57,946 million, a huge decrease due to the global economic crisis. The share represented a stable increase by an average rate at 7 percent in 2011, as shown in Figure 6.1.2. The trade surplus was still stable even though it experienced a big amount in 2008. Then, it took approximately USD 95,981 million in 2011 compared to USD 96,152 million in 2010. The ASEAN trade

balance has been shown as a good signal and it would be good balance if there is not any change to the subject.

Considering the selected partners of ASEAN trade from 2001 to 2011, according to the Table 6.1.2, the total trade value that was observed over the past eleven years for the number of countries had undergone some major shifts. The Intra-ASEAN trade had shared the total world trade value with USD 3,803,919.6 million, which had increased nearly USD 100 million every year from 2001 to 2011. Japan had presented its shares in ASEAN trade with USD 1,799,704.6 million during the period of eleven years, which fluctuated every year. EU-27 accounted for USD 1,738,172.5 million which had an average increase by USD 40 million each year. Thus, as seen in the Table 6.1.2, USA shared USD 1,681,391.3 million of its trade into ASEAN during the past eleven years. China's trade amount was USD 1,535,441 million which shown USD 50 million increase in each year. Moreover, South Korea was also a good partner as well as India and Australia because their shares were around USD 500 million during the period 2001 to 2011, while some other countries started to be closer to ASEAN such as Russia, Canada, New Zealand, and Pakistan for cooperation which took around USD 50 million for the past eleven years.

Table 6.1.2: Total Value of ASEAN Trade with Selected Partners (2001-2011)

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total: 11 Years
													(In USD Million)
1	Intra-ASEAN	150,320.3	159,908.8	206,732.0	260,697.5	304,893.0	352,771.0	404,261.0	470,112.0	376,177.0	519,805.0	598,242.0	3,803,919.6
2	China	31,915.2	42,759.8	59,637.0	89,066.0	113,394.0	139,961.0	171,215.0	196,884.0	178,190.0	232,013.0	280,406.0	1,535,441.0
3	Japan	101,508.5	97,587.1	113,401.0	143,263.0	153,834.0	161,780.0	173,054.0	214,400.0	160,893.0	206,637.0	273,347.0	1,799,704.6
4	EU-27	97,151.4	97,056.8	101,365.0	131,543.3	140,706.0	160,590.0	186,376.0	208,291.0	171,732.0	208,585.0	234,776.0	1,738,172.5
5	USA	108,360.2	104,954.4	117,886.0	135,864.7	153,918.0	161,196.0	177,916.0	186,243.0	149,582.0	186,685.0	198,786.0	1,681,391.3
6	Republic of Korea	28,191.8	30,533.2	33,548.0	40,543.8	47,972.0	55,942.0	61,259.0	78,251.0	74,746.0	98,628.0	124,471.0	674,085.8
7	India	9,883.0	12,114.7	12,512.0	17,669.3	23,001.0	28,703.0	37,077.0	48,803.0	39,119.0	55,443.0	68,429.0	352,754.0
8	Australia	18,012.0	16,818.5	19,197.0	25,345.7	31,239.0	36,411.0	41,973.0	52,593.0	43,854.0	55,426.0	59,474.0	400,343.2
9	Russia	1,462.8	2,051.3	2,397.0	3,431.3	4,704.0	4,424.0	5,406.0	9,794.0	6,765.0	9,064.0	13,968.0	63,467.4
10	Canada	6,032.3	5,021.9	4,612.0	5,973.9	5,974.0	6,887.0	9,488.0	10,737.0	9,040.0	9,870.0	10,771.0	84,407.1
11	New Zealand	2,230.6	2,054.9	2,621.0	3,465.1	4,089.0	4,550.0	5,793.0	7,837.0	5,378.0	7,335.0	8,237.0	53,590.6
12	Pakistan	1,494.1	1,706.9	1,902.0	1,891.2	2,323.0	3,282.0	4,122.0	4,922.0	4,303.0	6,256.0	6,767.0	38,969.2
13	Rest of the World	134,428.5	141,248.0	148,729.0	213,093.0	238,842.0	288,309.0	338,116.0	408,260.0	317,099.0	449,984.0	510,918.0	3,189,026.5
TOTAL		690,990.7	713,816.3	824,539.0	1,071,847.8	1,224,889.0	1,404,806.0	1,616,056.0	1,897,127.0	1,536,878.0	2,045,731.0	2,388,592.0	15,415,272.80

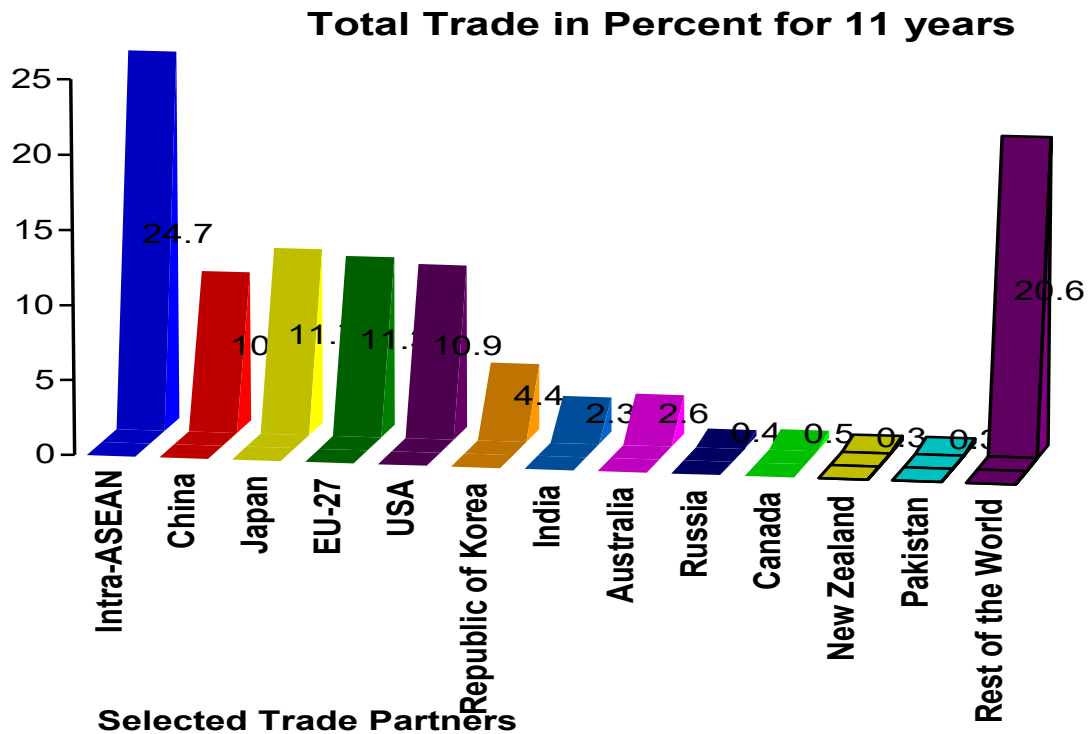
Source: ASEAN Statistics Yearbook 2008, p.78, and ASEAN Trade Statistics Database, as of November 2012.

Table 6.1.3: Total Percentage of ASEAN Trade with Selected Partners (2001-2011)

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total: 11 Years
1	Intra-ASEAN	21.75%	22.40%	25.07%	24.32%	24.89%	25.11%	25.02%	24.78%	24.48%	25.41%	25.05%	24.70%
2	China	4.62%	5.99%	7.23%	8.31%	9.26%	9.96%	10.59%	10.38%	11.59%	11.34%	11.74%	10.00%
3	Japan	14.69%	13.67%	13.75%	13.37%	12.56%	11.52%	10.71%	11.30%	10.47%	10.10%	11.44%	11.70%
4	EU-27	14.06%	13.60%	12.29%	12.27%	11.49%	11.43%	11.53%	10.98%	11.17%	10.20%	9.83%	11.30%
5	USA	15.68%	14.70%	14.30%	12.68%	12.57%	11.47%	11.01%	9.82%	9.73%	9.13%	8.32%	10.90%
6	Republic of Korea	4.08%	4.28%	4.07%	3.78%	3.92%	3.98%	3.79%	4.12%	4.86%	4.82%	5.21%	4.40%
7	India	1.43%	1.70%	1.52%	1.65%	1.88%	2.04%	2.29%	2.57%	2.55%	2.71%	2.86%	2.30%
8	Australia	2.61%	2.36%	2.33%	2.36%	2.55%	2.59%	2.60%	2.77%	2.85%	2.71%	2.49%	2.60%
9	Russia	0.21%	0.29%	0.29%	0.32%	0.38%	0.31%	0.33%	0.52%	0.44%	0.44%	0.58%	0.40%
10	Canada	0.87%	0.70%	0.56%	0.56%	0.49%	0.49%	0.59%	0.57%	0.59%	0.48%	0.45%	0.50%
11	New Zealand	0.32%	0.29%	0.32%	0.32%	0.33%	0.32%	0.36%	0.41%	0.35%	0.36%	0.34%	0.30%
12	Pakistan	0.22%	0.24%	0.23%	0.18%	0.19%	0.23%	0.26%	0.26%	0.28%	0.31%	0.28%	0.30%
13	Rest of the World	19.45%	19.79%	18.04%	19.88%	19.50%	20.52%	20.92%	21.52%	20.63%	22.00%	21.39%	20.60%
TOTAL		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100%

Source: ASEAN Trade Statistics Database, as of November 2012.

Figure 6.1.3: Total Percentage of ASEAN Trade with Selected Partners (2001-2011)



The total trade in percent from 2001 to 2011 has been presented in Figure 6.1.3. The Intra-ASEAN trade accounted for 24.7 percent, while Japan had the second rank with 11.7 percent. At the same period, the total trade of EU-27 was seen as the third rank in ASEAN trade which took 11.3 percent, while the USA and China followed respectively by 10.9 percent and 10 percent. Republic of Korea had also shared with 4.4 percent during eleven years along with the accountability of India for 2.3 percent, Australia for 2.6 percent, Russia for 0.4 percent, Canada for 0.5 percent, New Zealand for 0.3 percent, and the rest of the world for 20.6 percent.

Table 6.1.4: The Balance Values of ASEAN Trade with Selected Partners (2001-2011)

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total: 11 Years
													(In USD million)
1	Japan	-5,008.5	-8,580.3	-7,004.6	-8,807.8	-8,322.0	789.2	-2,785.8	-2,626.0	-4,716.0	-856.0	17,048.0	-30,869.8
2	USA	17,122.6	18,159.7	21,462.7	2,4451.0	31,966.0	32,691.0	33,683.8	20,091.0	14,818.0	14,245.0	13,825.0	242,515.8
3	EU-27	17,451.0	15,022.6	18,869.0	20,632.3	21,355.0	28,484.6	29,264.4	24,093.0	14,243.0	21,488.0	18,411.0	229,313.9
4	China	-2,883.2	-3664.7	-1,517.1	-6,362.4	-8,879.0	-9,940.8	-15,227.7	-21,694.0	-15,005.0	-6,014.0	-24,589.0	-115,776.9
5	Republic of Korea	1276.8	871.9	335.5	-922.1	753.0	-1,589.4	-2,211.0	-5,145.0	-6,152.0	-8,668.0	-15,535.0	-36,985.3
6	Australia	-988.4	2,349.0	4,726.9	7,048.7	8,053.0	9,885.7	12,904.4	16,256.0	14,229.0	15,075.0	15,033.0	104,572.3
7	India	2,538.9	4,721.8	4,392.7	4,209.6	7,096.0	9,153.5	12,444.8	12,990.0	13,929.0	16,614.0	17,081.0	105,171.3
8	Canada	2,678.8	1,054.0	890.3	800.9	308.0	946.1	1,051.4	349.0	1,961.0	536.0	-186.0	10,389.5
9	New Zealand	-257.2	121.5	319.5	764.5	1,177.0	1,487.4	1,307.9	1,220.0	901.0	1,159.0	902.0	9,102.6
10	Russia	-696.4	-997.8	-588.0	-1,120.2	-1,766.0	-1,258.1	-1,245.1	-4,322.0	-3,444.0	-3,884.0	-8,589.0	-27,910.6
11	Pakistan	754.6	1,106.1	1,421.1	1,537.1	1,962.0	2,690.1	3,440.9	4,002.0	3,971.0	3,971.0	5,236.0	30,091.9

Source: ASEAN Trade Statistics Database, as of November 2012.

Based on the Table 6.1.4, the largest trade deficits which ASEAN international trade experienced during 2001 to 2011 was China (minus USD 115,776.9 million), followed by Republic of Korea (minus USD 36,985.3 million), Japan (minus USD 30,869.8 million), and Russia (minus USD 27,910.9 million). But Japan's trade was surplus with USD 17,048 million in 2011. However, it showed that there was still minus USD 30,869.8 million in 11 years, i.e., from 2001 to 2011. This result reflected that Asian countries were still the main partners, and ASEAN needs to import to fulfill its demand.

The Table further showed that the largest trade surplus that ASEAN met through international trade operation from 2001 to 2011 was USA (USD 242,515.8 million), followed by EU-27 (USD 229,313.9 million), India (USD 105,171.3 million), Australia (USD 104,572.3 million), Pakistan (USD 30,091.9 million), Canada (USD 10,389.5 million), and New Zealand (USD 9,102.6 million). It also reflected that the main international market for exporting to the world was not Asia but USA and European Union and their alliances. But as India and Pakistan were the main importers from ASEAN, the partners are still in Asia. As reflected on the competitiveness index; China, Japan, and Korea have high competitiveness in general; although ASEAN stands out with high competitiveness. On the other hand, USA and EU-27 competitiveness was not so different from ASEAN countries. Table 6.1.4 and 6.1.5 show that China, Japan, and South Korea were not the main exports destination for ASEAN. Exports and imports of Australia and Pakistan with ASEAN had increased by 40 and 87 percent on average (yearly basis) during 2001-2011.

Table 6.1.5: The Trade Balance Share of ASEAN Exports with Selected Partners (2001-2011)

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	(% of Trade Balance share to exports)											
1	Japan	-10.4	-19.3	-13.2	-13.1	-11.4	1.0	-3.3	-2.5	-6	-0.8	11.7
2	USA	27.3	29.5	30.8	30.5	34.4	33.7	31.7	19.5	18	14.2	13
3	EU-27	30.5	26.8	31.4	27.1	26.4	30.2	27.1	20.7	15.3	18.7	14.5
4	China	-19.9	-18.7	-5.2	-15.4	-17	-15.3	-19.5	-24.8	-18.4	-5.3	-19.2
5	Republic of Korea	8.7	5.6	2.0	-4.7	3.1	-5.8	-7.5	-14.1	-17.9	-19.3	-28
6	Australia	-11.6	24.5	39.5	43.5	41	42.7	47.0	47.2	49	42.8	40.4
7	India	5.3	10.6	8.3	6.3	47.2	11.3	14.6	42	52.5	46.1	40
8	Canada	61.5	34.7	32.4	24.8	9.8	24.2	19.9	6.3	35.7	10.3	-3.5
9	New Zealand	-26.1	11.2	21.7	36.1	44.7	49.3	36.8	26.9	28.7	27.3	19.7
10	Russia	-181.7	-189.4	-65.0	-96.9	-120.2	-79.5	-60.0	-158	-207.4	-149.9	-319.4
11	Pakistan	67.1	78.6	85.5	89.7	91.6	90.1	91.0	89.7	87.8	77.7	87.2

Source: ASEAN Trade Statistics Database, as of November 2012.

Table 6.1.6: The Values of ASEAN Exports with Selected Partners (2001-2011)

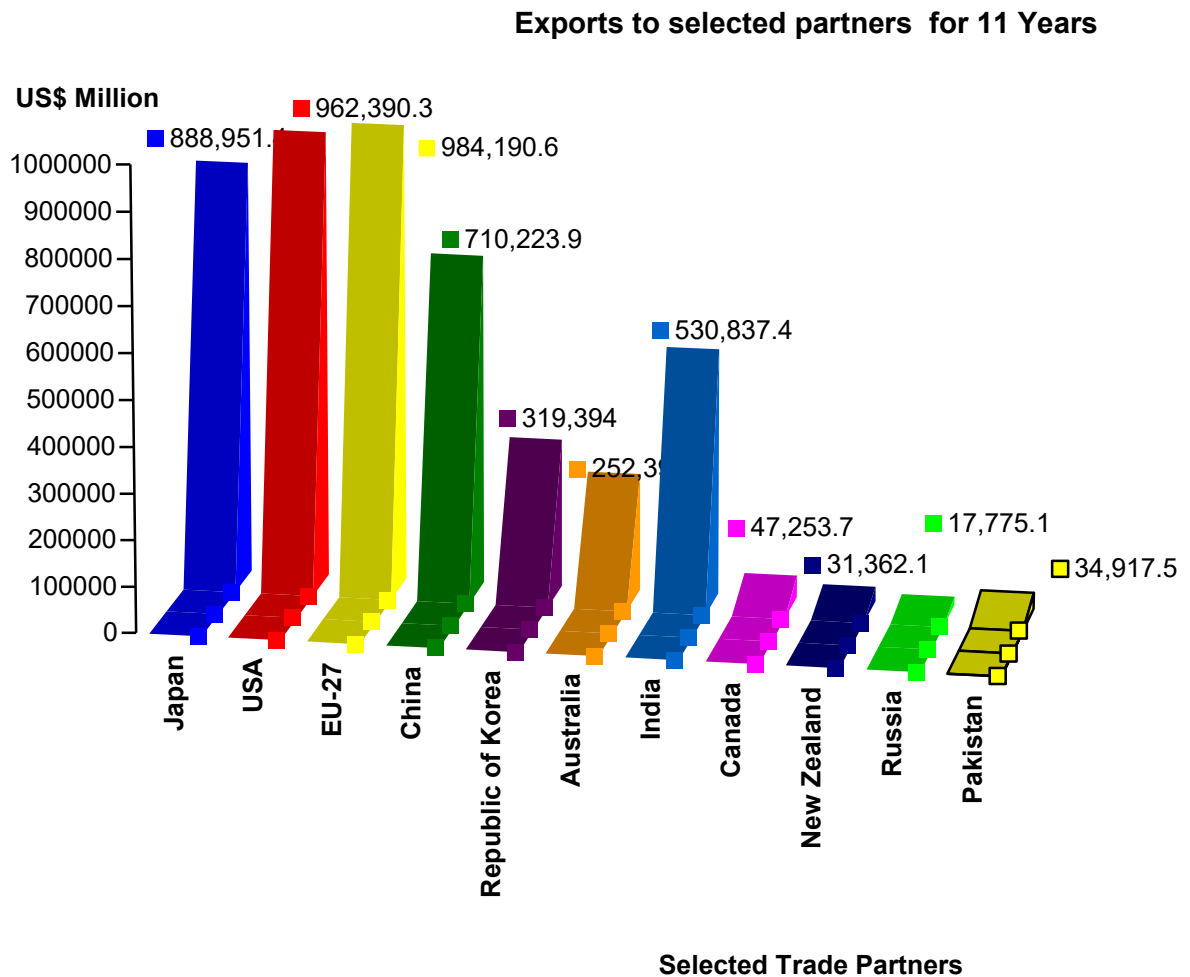
No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total: 11 Years
													(In USD Million)
1	Japan	48,250.0	44,503.4	53,198.0	67,227.6	73,000.0	81,284.9	85,138.1	105,040.0	78,600.0	107,000.0	145,709.4	888951.4
2	USA	62,741.4	61,557.0	69,674.2	80,157.9	92,924.4	96,943.4	106,375.9	103,030.8	82,322.2	100,316.9	106,346.2	962,390.3
3	EU-27	57,301.2	56,029.7	60,116.8	76,087.8	80,890.2	94,408.5	107,992.1	116,391.3	93,091.5	114,909.1	126,972.4	984,190.6
4	China	14,516.0	19,547.5	29,059.9	41,351.8	52,229.4	65,010.2	77,945.0	87,475.8	81,548.9	113,471.7	128,067.7	710,223.9
5	Republic of Korea	14,734.3	15,702.5	16,941.8	19,810.0	24,290.3	27,176.4	29,486.5	36,489.4	34,368.7	44,911.9	55,482.1	319,394.0
6	Australia	8,511.8	9,583.7	11,962.1	16,197.2	19,641.5	23,148.5	27,433.7	34,440.7	29,038.8	35,222.0	37,210.4	252,390.3
7	India	48,250.0	44,503.4	53,198.0	67,227.6	15,033.9	81,284.9	85,138.1	30,928.6	26,531.4	36,039.0	42,702.5	530,837.4
8	Canada	4,355.6	3,038.7	2,751.0	3,223.0	3,142.9	3,916.5	5,275.2	5,539.7	5,493.0	5,203.9	5,314.3	47,253.7
9	New Zealand	986.7	1,088.2	1,470.3	2,114.8	2,633.1	3,018.6	3,551.6	4,535.3	3,139.4	4,245.4	4,578.7	31,362.1
10	Russia	383.2	526.7	904.6	1,155.6	1,469.2	1,583.0	2,076.6	2,735.4	1,660.6	2,591.1	2,689.1	17,775.1
11	Pakistan	1,124.3	1,406.5	1,661.8	1,714.1	2,141.9	2,986.2	3,783.1	4,461.5	4,522.8	5,110.7	6,004.6	34,917.5

Source: ASEAN Trade Statistics Database, as of November 2012

The European Union was ASEAN's number one export destination followed by the United States of America. However, India and Pakistan were also the second ASEAN's export destination in Asia. Reflecting to the amount during 11 years from 2001 to 2011, the export values composed of USD 984,190.6 million to EU-27, USD 962,390.3 million to USA, USD 888,951.4 million to Japan, USD 710,223.9 million to China, USD 530,837.4 million to India, USD 319,394 million to Republic of Korea (South Korea), USD 252,390.3 million to Australia, USG 47,253.7 million to Canada, USD 34,917.5 million to Pakistan, USD 31,362.1 million to New Zealand, and USD 17,775.1 million to Russia. With economic recovery, ASEAN partners had also contributed to the country's export growth. This is because economic recovery in the wake of the economic crisis was largely as a result of an increase in exports to Asia regions and United States. Australia and Canada also become important destinations for ASEAN's exports, as shown in table 6.1.6 and Figure 6.1.4.

While ASEAN had linked up closely with its partners such as Australia, China, India, Japan, the European Union, the USA and Russia, a number of joint declarations had been forged with areas for specific cooperation. On the economic front, globalization is alive and very vibrant. Economic integration at all levels continues as companies respond to market forces to remain competitive and governments negotiated the concluded bilateral and multilateral trade as well as other economic cooperation arrangements.

Figure 6.1.4: The Values of ASEAN Exports with Selected partners (2001-2011)



Increasingly, the challenge is not how to prevent globalization of economic transactions, rather, the challenge for each and every country is how to manage it in a way that maximizes the benefits, minimizes the adjustment costs, and equitably share both the benefits and costs across different sectors of society.

Table 6.1.7: Top 20 Commodities of ASEAN Exports for 2011

HS Codes	Commodities	Value (USD Million)	Share (%)
8542	Electronic integrated circuits.	117,484	9.5
2710	Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included, containing by weight 70% or more of petroleum oils...	105,555	8.5
2711	Petroleum gases and other gaseous hydrocarbons.	49,814	4.0
2709	Petroleum oils and oils obtained from bituminous minerals, crude.	38,054	3.1
8471	Automatic data processing machines and units thereof	36,536	2.9
1511	Palm oil and its fractions, whether or not refined, but not chemically modified.	35,380	2.8
4001	Natural rubber in primary form or plates	32,908	2.6
2701	Coal; briquettes, ovoids and similar solid fuels manufactured from coal.	27,270	2.2
8473	Parts & accessories of computers & office machines	21,958	1.8
8541	Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices, including photovoltaic cells ..	18,963	1.5
8517	Telephone sets, including telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of voice...	17,463	1.4
8443	Printing machinery; machines for uses ancillary to printing	15,532	1.3
8708	Parts & accessories of motor vehicles	11,762	0.9
7108	Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form.	10,651	0.9
8543	Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this chapter	9,785	0.8
1006	Rice	9,178	0.7
8523	Discs, tapes, solid-states non-volatile storages devices, "smart cards" and other media for the recording of sound or ...	8,563	0.7
8528	Monitors and projectors, not incorporating television reception apparatus;	8,550	0.7
7113	Articles of jewelry and parts thereof, of precious metal or of metal clad with precious metal	8,460	0.7
3901	Polymers of ethylene, in primary forms	8,459	0.7
	Top 20 export commodities	592,326	47.7
	Others	649,961	52.3
	TOTAL	1,242,286	100

Source: ASEAN Trade Statistics Database, as of November 2012.

According to the Table 6.1.7, ASEAN earned a sum of USD 1,242,286 million by exporting products to all over the world. By top 20 grouping commodities, Electronic integrated circuits were number one product exported in 2011 (9.5 percent), followed by petroleum oils and other various oils obtained from bituminous minerals (8.5 percent), petroleum gases and other gaseous hydrocarbons (4 percent), automatic data processing machines and units thereof (2.9 percent), natural rubber in primary form or plates (2.6 percent), coal & briquettes & avoids and similar solid fuels manufactured from coal (2.2 percent), parts & accessories of computers & office machines (1.8 percent), diodes & transistors & similar semiconductor devices (1.5 percent), telephone sets (1.4 percent), printing machinery (1.3 percent), parts & accessories of motor vehicles (0.9 percent), gold (0.9 percent), electrical machines and apparatus (0.8 percent), rice (0.7 percent), discs & tapes & solid-states non-volatile storages devices (0.7 per cent), monitors and projectors (0.7 percent), articles of jewelry and parts thereof (0.7 percent), and polymers of ethylene, in primary forms (0.7 percent). The top export commodities shared 47.7 percent with the total ASEAN exports and the other subordinate export products accounted for 52.3 percent in 2011.

Table 6.1.8: Top 20 Commodities of ASEAN Imports for 2011

No.	HS Codes	Commodities	Values (USD Mn)	Share (%)
1	2710	Petroleum oils, not crude	136,208	11.9
2	8542	Electronic integrated circuits.	104,248	9.1
3	2709	Petroleum oils and oils obtained from bituminous minerals, crude.	93,928	8.2
4	8517	Electric appliance for the telephony (incl. curr. line system)	24,211	2.1
5	7108	Gold, unwrought or in semi-manufactured forms.	21,584	1.9
6	8473	Parts & accessories of computers & office machines	16,611	1.4
7	8471	Automatic data processing machines and optical reader; etc.	16,341	1.4
8	8708	Parts & accessories of motor vehicles	12,976	1.1
9	2711	Petroleum gases and other gaseous hydrocarbons.	12,862	1.1
10	8541	Diodes, transistors and similar semiconductor devices.	11,279	1.0
11	8443	Printing machinery; machines for uses ancillary to printing	10,410	0.9
12	8802	Aircraft, powered; spacecraft & launch vehicles, helicopters, satellites	9,795	0.9
13	8703	Motor cars & vehicles for transporting persons (except public transport motor vehicles)	8,542	0.7
14	8529	Part suitable for use solely/principally with televisions	8,333	0.7
15	7208	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated.	8,091	0.7
16	8536	Electrical appliance for electrical connection (i.e. fuses, switch, etc.)	8,039	0.7
17	8431	Parts of machinery (for lifting, handing, loading, unloading, scraping, boring, extracting, leveling)	7,884	0.7
18	8411	Turbo-jets, turbo-propellers and other gas turbines.	7,620	0.7
19	8803	Parts of Aircraft, powered; spacecraft & launch vehicles, helicopters, satellites.	6,224	0.5
20	3901	Polymers of ethylene, in primary forms	6,126	0.5
		Top 20 import commodities	531,314	46.4
		Others	614,992	53.6
		TOTAL	1,146,306	100

Source: ASEAN Trade Statistics Database, as of November 2012.

Based on product group in the Table 6.1.8, ASEAN also spent USD 1,146,306 million in 2011 to import the commodities from the world such as the most percentage which accounted for 11.9 percent was petroleum oils, not crude, followed by 9.1 percent Electronic integrated circuits, 8.2 percent petroleum oils and other various oils obtained from bituminous minerals and crude, 2.1 percent electric appliance for the telephony (incl. curr. line system), 1.9 percent gold, unwrought or in semi-manufactured forms, 1.4 percent parts & accessories of computers & office machines, 1.4 percent automatic data processing machines and optical reader, 1.1 percent parts & accessories of motor vehicles, 1.1 per cent petroleum gases and other gaseous hydrocarbons, 1.0 percent diodes, transistors and similar semiconductor devices, 0.9 percent printing machinery; machines for using ancillary to printing, 0.9 percent aircraft, powered; spacecraft & launch vehicles, helicopters, satellites, 0.7 percent motor cars & vehicles for transporting persons (except public transport motor vehicles) and others, 0.7 percent also part suitable for use solely/principally with television, 0.7 percent flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not-clad, plated or coated, 0.7 percent Electrical appliance for electrical connection, 0.7 percent parts of machinery, 0.7 percent turbo-jets, 0.5 percent polymers of ethylene, in primary forms. The top 20 import commodities were taken in 46.4 percent of the total imports and the rest was taken by 53.6 percent in 2011.

6.1.2. The Trend of ASEAN Trade

ASEAN trade was seen as an important factor for facilitating the economic development and motivating many producers to involve in the process. As the world's trade changed year-to-year, the future trend of ASEAN trade is being considered and the anticipation is needed from the real information of the previous year. In this study, based on the previous data, the estimation of the new trend from 2012 to 2022 has been done.

6.1.2.1. Annual Values of ASEAN Trade

Table 6.1.9: Annual Values of ASEAN Trade (2001-2011)

Year	Trade Values (USD in million)	Percentage to Total
2001	690,990.70	4.5%
2002	713,816.30	4.6%
2003	824,539	5.3%
2004	1,071,847.80	7.0%
2005	1,224,889	7.9%
2006	1,404,806	9.1%
2007	1,616,056	10.5%
2008	1,897,127	12.3%
2009	1,536,878	10.0%
2010	2,045,731	13.3%
2011	2,388,592	15.5%
Total	15,415,272.80	100.0%

Source: ASEAN Yearbook 2008 and Trade Statistics Database, as of November 2012.

Over the period 2001-2011, the annual trade in 2004 reached a maximum of USD 1,071,847.80 million. Since the year 2004, there has been a continuous increase of annual total trade value, which reached USD 2,388,592 million in 2011. The percentage of annual trade to total trade increased from 4.5 percent in 2001 to 15.5 percent in 2011, as shown in Table 6.1.9.

6.1.2.2. Annual Variation of ASEAN Trade Value

Table 6.1.10 reveals the amount and percentage variation of annual total ASEAN trade value from 2001 to 2011.

Table 6.1.10: Annual Variation of ASEAN Trade Value (2001-2011)

Year	Trade Value (USD Million)	Amount of Variation (USD Million)	Percentage to Variation
2001	690,990.70	-	-
2002	713,816.30	22,825.60	3.30%
2003	824,539	110,722.7	15.51%
2004	1,071,847.80	247,308.80	29.99%
2005	1,224,889	153,041.2	14.28%
2006	1,404,806	179,917	14.69%
2007	1,616,056	211,250	15.04%
2008	1,897,127	281,071	17.39%
2009	1,536,878	-360,249	-18.99%
2010	2,045,731	508,853	33.11%

2011	2,388,592	342,861	16.76%
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Source: ASEAN Trade Statistics Database, as of November 2012 and Yearbook 2008.

As seen from the Table above, there was an annual increase of ASEAN trade by 29.99 percent in 2004 as compared to 2003. There had been a continuous increase of ASEAN trade with an average of 15 percent from 2005 to 2008. However, it was negative during the economic crisis as the percentage variation of annual trade was minus 18.99 percent in 2009. There was an increase in ASEAN trade in 2010 which took approximately 33.11 percent, and the percentage variation of annual trade was found to be very high (16.76 percent) in 2011.

6.1.2.3. Actual, Estimated and Predicted Values of ASEAN Trade

According to the calculation based on the given formula

$$\hat{Y} = a + b X + c X^2$$

Where,

\hat{Y} = Estimating the dependent variable (Trade Values),
a = Intercept,
b & c = Coefficients, and
x = Coded values of the time variable.

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3E+012	2	1.477E+012	60.267	.000 ^a
	Residual	2E+011	8	2.451E+010		
	Total	3E+012	10			

a. Predictors: (Constant), XSQ, X

b. Dependent Variable: Y

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	509547.8	171918.8		2.964	.018
	X	122198.2	65846.232	.722	1.856	.101
	XSQ	3448.943	5344.352	.251	.645	.537

a. Dependent Variable: Y

For the purpose of estimating trade value of ASEAN during the study period, a simple linear regression of quadratic type has been fitted. On the basis of actual trade value of ASEAN from 2001 to 2011, the equation is estimated as follows:

$$\hat{Y} = 509,547.8 + 122,198.2 x + 3,448.943 x^2$$

The estimated trade value of ASEAN (\hat{Y}) against its actual trade value (Y) over the period 2001 to 2011 is presented in Table 6.1.11 as shown below:

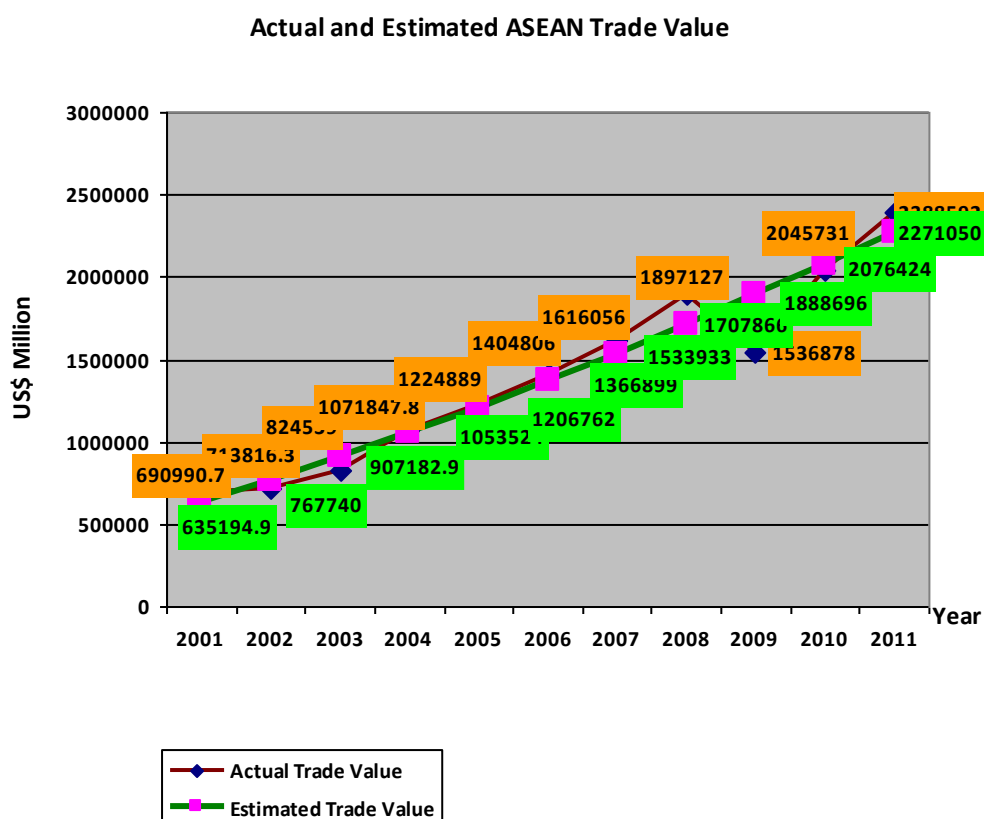
Table 6.1.11: Actual and Estimated Values of ASEAN Trade (2001 - 2011)

Year	Actual Value (Y) (USD Million)	Estimated Value (\hat{Y}) (USD Million)
2001	690,990.70	635,194.90
2002	713,816.30	767,740
2003	824,539	907,182.90

2004	1,071,847.80	1,053,524
2005	1,224,889	1,206,762
2006	1,404,806	1,366,899
2007	1,616,056	1,533,933
2008	1,897,127	1,707,866
2009	1,536,878	1,888,696
2010	2,045,731	2,076,424
2011	2,388,592	2,271,050

Source: ASEAN Trade Statistics Database, as of November 2012 and own estimation.

Figure 6.1.5: Actual and Estimated Values of ASEAN Trade (2001 - 2011)



The annual value of ASEAN trade in 2004 reached the maximum of USD 1,071,847.80 million and thereafter had increased continuously till the year 2011. The above trend of ASEAN trade is seen in the estimation, which has been calculated as per equation given above. The estimated value of ASEAN trade from 2001 to 2011 had shown a continuous rise starting from USD 635,194.90 million in 2001 to USD 2,271,050 million in 2011. However, compared to 2010, there has been an increase of trade value around USD 200 million in 2011. The above trend is also reflected in Figure 6.1.5.

**Table 6.1.12: Predicted Values of ASEAN Trade
(2012 - 2022)**

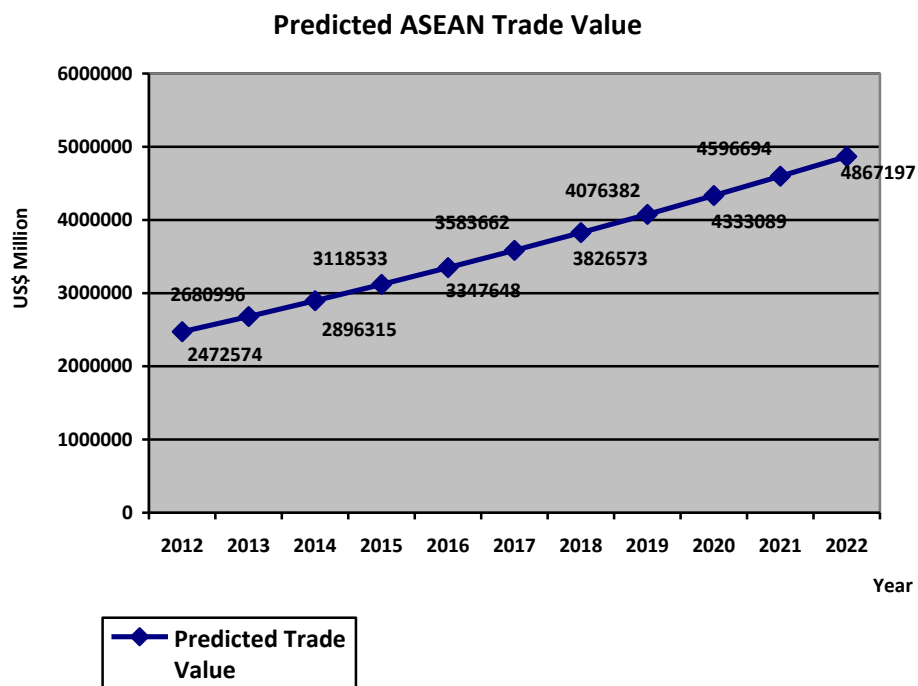
Year	Predicted Values (USD Million)
2012	2,472,574
2013	2,680,996
2014	2,896,315
2015	3,118,533
2016	3,347,648
2017	3,583,662
2018	3,826,573
2019	4,076,382
2020	4,333,089
2021	4,596,694
2022	4,867,197

Source: own estimation.

On the basis of the estimated equation $\hat{Y} = 509,547.8 + 122,198.2 X + 3,448.943 X^2$ as given above, the trade value has been predicted from 2012 to 2022 for the ASEAN which is presented in Table 6.1.12.

As revealed from the above Table, there has been a continuous increase in value of ASEAN trade from 2012 to 2022. The predicted value of ASEAN trade in 2022 reached to USD 4,867,197 million which was an increase of nearly double as compared to over the predicted trade value with USD 2,472,574 million in 2012. The predicted value of ASEAN trade of the above period is also shown in Figure 6.1.6 below.

Figure 6.1.6: Predicted Values of ASEAN Trade (2012 - 2022)



6.2. The Status and Trend of Cambodia's Trade

This section presents the patterns and factors for international trade between Cambodia and the rest of the world.

6.2.1. The Status of Cambodia's Trade

In 2011, the world economy had not completely recovered from 2008-09 global economic crises. In addition, the uncertainty and austerity resulting from the sovereign debt crises in Europe led to depressed growth in many advanced countries, which in turn, hurt the short-term economic outlook for Asia. Despite this slow expansion of the global economy and the Southeast Asian floods that reduced the domestic agricultural production, economic growth for Cambodia for the year was expected to reach 6.9 percent, compared to 6 percent in 2010. According to the Ministry of Economy and Finance (2012), Cambodia experienced approximately 36 percent increase of exports to the world. Cambodia's foreign trade had increased steadily during the period 2001-2011 at an annual average rate of 16 percent. The growth was driven by a continuous increase in imports caused by rising consumption and demands for imported products and rapid export expansion, especially in garment sector. The major export commodities are clothing, non-clothing products, mine, rubber and forest and fishing products. The US and EU are the major exports destinations and ASEAN members are the major imports for Cambodia. It also hopes to expand its markets in China under bilateral and regional agreement through the China-ASEAN free trade agreements and other largest countries in the world by 2022.

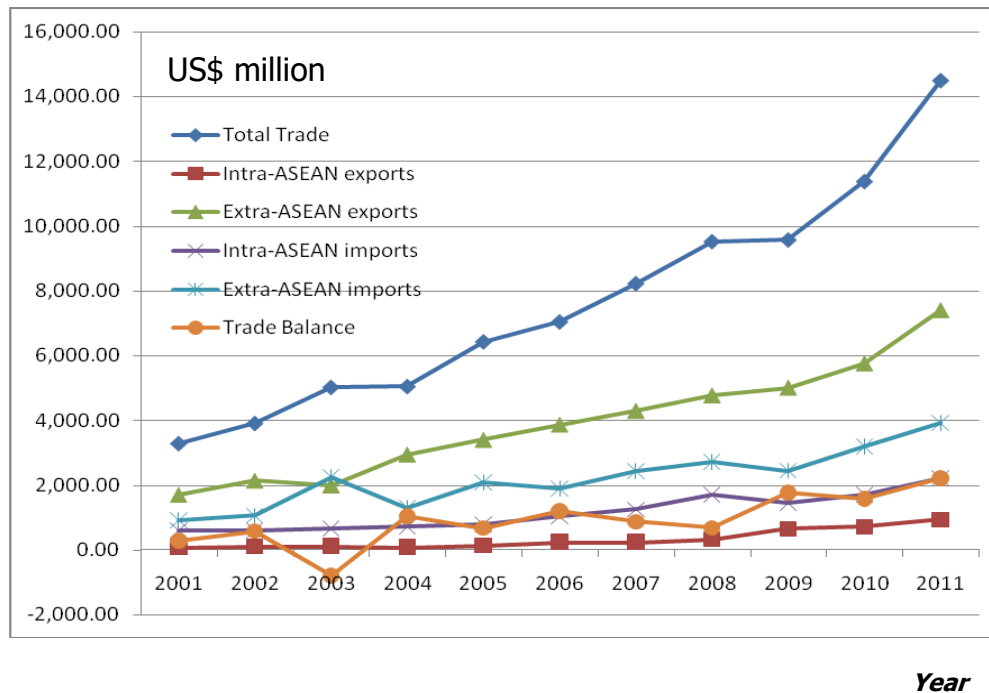
**Table 6.2.1: The Status of Total Values of Cambodia's Trade
(2001-2011)**

Indicator	Unit/Scale	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP	Value (USD million)	3,706.00	3,996.00	4,208.00	5,137.00	6,287.00	6,520.00	6,760.00	6,992.00	6,998.00	7,348.00	7,790.00
	Growth (%)	5.50%	6.20%	8.50%	10.30%	13.30%	10.80%	10.20%	6.70%	0.10%	6.00%	6.90%
Total Trade	Value (USD million)	3,287.62	3,909.47	5,022.49	5,047.46	6,427.90	7,041.33	8,220.39	9,516.50	9,567.67	11,366.74	14,479.66
	Growth (%)	8.10%	18.91%	28.47%	0.50%	27.35%	9.54%	16.74%	15.77%	0.54%	18.80%	27.39%
Exports	Value (USD million)	1,785.47	2,244.57	2,115.77	3,042.72	3,551.59	4,118.20	4,545.24	5,099.47	5,666.61	6,469.69	8,345.56
	Intra-ASEAN	72.88	94.99	111.73	83.35	142.66	240.25	241.52	315.31	644.63	702.54	931.44
	Extra-ASEAN	1,712.58	2,149.57	2,004.04	2,959.37	3,408.92	3,877.95	4,303.71	4,784.16	5,021.98	5,767.15	7,414.11
Imports	Value (USD million)	1,502.15	1,664.90	2,906.72	2,004.73	2,876.31	2,923.13	3,675.15	4,417.02	3,901.06	4,897.05	6,134.10
	Intra-ASEAN	584.62	597.79	650.29	702.37	790.41	1,024.84	1,245.51	1,695.70	1,452.80	1,708.52	2,213.30
	Extra-ASEAN	917.53	1,067.11	2,256.43	1,302.37	2,085.90	1,898.29	2,429.64	2,721.32	2,448.26	3,188.53	3,920.80
Ratio to GDP	Share of Trade to GDP (%)	88.71%	97.83%	119.36%	98.26%	102.24%	108.00%	121.60%	136.11%	136.72%	154.69%	185.87%
	Exports to GDP (%)	48.18%	56.17%	50.28%	59.23%	56.49%	63.16%	67.24%	72.93%	80.97%	88.05%	107.13%
	Imports to GDP (%)	40.53%	41.66%	69.08%	39.03%	45.75%	44.83%	54.37%	63.17%	55.75%	66.64%	78.74%
Trade Balance	Value (USD million)	283.32	579.66	-790.95	1,037.99	675.28	1,195.07	870.09	682.45	1,765.55	1,572.64	2,211.45
	Share to exports (%)	15.87%	25.83%	-37.38%	34.11%	19.01%	29.02%	19.14%	13.38%	31.16%	24.31%	26.50%

Source: General Department of Customs and Excise of Cambodia and ASEAN Trade Statistics Database, as of November 2012.

Cambodia had experienced an annual increase of trade values at an average of 15.5 percent from 2001 to 2011. As shown in Table 6.2.1 and Figure 6.2.1, there was an of 27.35 percent trade values in 2005 as compared to 2004. It was also found that the trend was not different from 2003 to 2004 and from 2008 to 2009. The increase was around 0.54 percent because Cambodia was affected from SARS, political deadlock in 2003 and global economic crisis in 2009.

Figure 6.2.1: The Status of Total Values of Cambodia’s Trade (2001-2011)



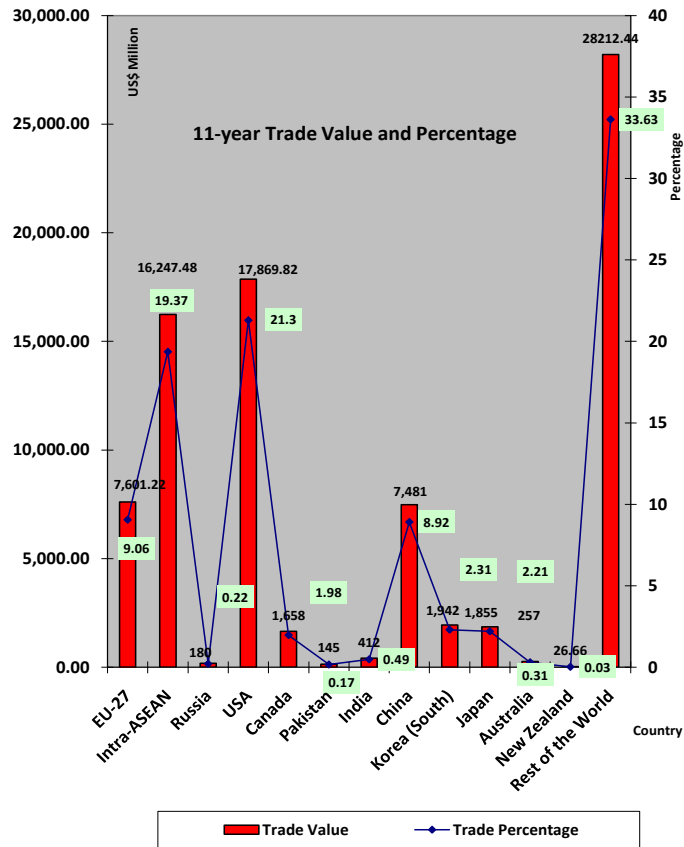
However, the trend had gone up after 2010. The trade balance which was negative, amounting to USD 790.95 million in 2003, had shown a positive value of USD 1,765.55 million in 2009. Cambodia had exported to the extra-ASEAN countries much more than the intra-ASEAN countries, especially to EU-27 and USA. The amount of extra-ASEAN export took USD 1,712.58 million in 2001 and was up to 7,414.11 million in 2011.

**Table 6.2.2: Total Values of Cambodia's Trade with Selected Partners
(2001-2011)**

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total 11 Years
		(USD million)											
1	EU-27	349.87	370.67	447.76	593.46	511.40	680.07	735.95	801.90	758.58	976.74	1,374.81	7,601.22
2	Intra-ASEAN	657.51	692.78	762.02	785.72	933.08	1,265.09	1,487.03	2,011.01	2,097.43	2,411.07	3,144.74	16,247.48
3	Russia	3.28	6.95	7.83	3.72	6.64	8.23	9.92	19.03	37.29	26.39	51.20	180.49
4	USA	851.31	975.37	1,137.69	1,333.13	1,631.52	1,924.43	1,919.75	2,190.62	1,643.76	2,033.14	2,229.11	17,869.82
5	Canada	12.59	11.27	13.11	95.76	108.75	117.74	140.08	293.43	198.74	278.26	388.35	1,658.07
6	Pakistan	4.53	6.56	7.36	9.19	11.71	13.22	15.38	16.55	20.89	17.45	21.98	144.83
7	India	9.09	13.22	14.84	19.81	16.95	28.09	31.69	92.88	40.28	60.48	84.20	411.53
8	China	167.89	205.53	234.72	353.36	437.74	539.35	639.11	946.36	897.73	1,249.82	1,809.38	7,481.01
9	Korea (South)	79.87	96.14	82.69	124.47	152.70	149.28	197.77	236.63	218.45	272.30	331.21	1,941.51
10	Japan	74.19	82.68	100.03	108.61	163.03	163.67	174.58	146.27	198.55	245.93	397.70	1,855.24
11	Australia	6.81	7.05	7.98	13.29	20.79	19.73	24.18	27.89	46.23	37.56	45.41	256.92
12	New Zealand	1.49	0.78	0.89	1.00	2.98	0.72	1.65	3.53	3.63	4.96	5.02	26.66
13	Rest of the world	1,069.20	1,440.45	2,205.55	1,605.91	2,430.62	2,131.70	2,843.29	2,730.39	3,406.12	3,752.66	4,596.55	28,212.44
	TOTAL	3,287.62	3,909.47	5,022.49	5,047.46	6,427.90	7,041.33	8,220.39	9,516.50	9,567.67	11,366.74	14,479.66	83,887.22

Source: General Department of Customs and Excise of Cambodia and ASEAN Trade Statistics Database, as of November 2012.

Figure 6.2.2: Total Values and Percentage of Cambodia's Trade with Selected Partners (2001-2011)



As shown in Table 6.2.2 and Figure 6.2.2, the total trade of Cambodia with selected partners around the world from 2001 to 2011 had undergone some major shifts and accounted for USD 83,887.22 million. USA was leading in trade relation with Cambodia which shared the total trade value of USD

17,869.82 million or 21.3 percent followed by intra-ASEAN trade with USD 16,247.48 million or 19.37 percent. EU-27 was supposed to be the third largest trade partner to Cambodia which amounted to USD 7,601.22 million or 9.06 percent. At the same time, China also took USD 7,481 million or 8.92 percent, while South Korea and Japan took respective amount for USD 1,942 million or 2.31 percent and USD 1,855.24 or 2.21 percent. Canada was also a good partner of Cambodia. It shared the total trade with USD 1,658 million or 1.98 percent. Besides, some other countries had closer trade with Cambodia such as Russia with USD 180.49 million or 0.22 percent, India with USD 411.53 million or 0.49 percent, Pakistan with USD 144.83 million or 0.27 percent, Australia with USD 256.92 million or 0.31 percent, New Zealand with USD 26.66 million or 0.03 percent, and rest of the world with USD 28,212.44 million or 33.63 percent. The total trade of Cambodia during the 11 years (2001-2011) was USD 83,887.22 million with the world.

**Table 6.2.3: Total Percentage of Cambodia's Trade with Selected Partners
(2001-2011)**

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total 11 Years
		(In percentage)											
1	EU-27	10.64%	9.48%	8.92%	11.76%	7.96%	9.66%	8.95%	8.43%	7.93%	8.59%	9.49%	9.06%
2	Intra-ASEAN	20.00%	17.72%	15.17%	15.57%	14.52%	17.97%	18.09%	21.13%	21.92%	21.21%	21.72%	19.37%
3	Russia	0.10%	0.18%	0.16%	0.07%	0.10%	0.12%	0.12%	0.20%	0.39%	0.23%	0.35%	0.22%
4	USA	25.89%	24.95%	22.65%	26.41%	25.38%	27.33%	23.35%	23.02%	17.18%	17.89%	15.39%	21.30%
5	Canada	0.38%	0.29%	0.26%	1.90%	1.69%	1.67%	1.70%	3.08%	2.08%	2.45%	2.68%	1.98%
6	Pakistan	0.14%	0.17%	0.15%	0.18%	0.18%	0.19%	0.19%	0.17%	0.22%	0.15%	0.15%	0.17%
7	India	0.28%	0.34%	0.30%	0.39%	0.26%	0.40%	0.39%	0.98%	0.42%	0.53%	0.58%	0.49%
8	China	5.11%	5.26%	4.67%	7.00%	6.81%	7.66%	7.77%	9.94%	9.38%	11.00%	12.50%	8.92%
9	Korea (South)	2.43%	2.46%	1.65%	2.47%	2.38%	2.12%	2.41%	2.49%	2.28%	2.40%	2.29%	2.31%
10	Japan	2.26%	2.11%	1.99%	2.15%	2.54%	2.32%	2.12%	1.54%	2.08%	2.16%	2.75%	2.21%
11	Australia	0.21%	0.18%	0.16%	0.26%	0.32%	0.28%	0.29%	0.29%	0.48%	0.33%	0.31%	0.31%
12	New Zealand	0.05%	0.02%	0.02%	0.02%	0.05%	0.01%	0.02%	0.04%	0.04%	0.04%	0.03%	0.03%
13	Rest of the world	32.52%	36.85%	43.91%	31.82%	37.81%	30.27%	34.59%	28.69%	35.60%	33.01%	31.74%	33.63%
	TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

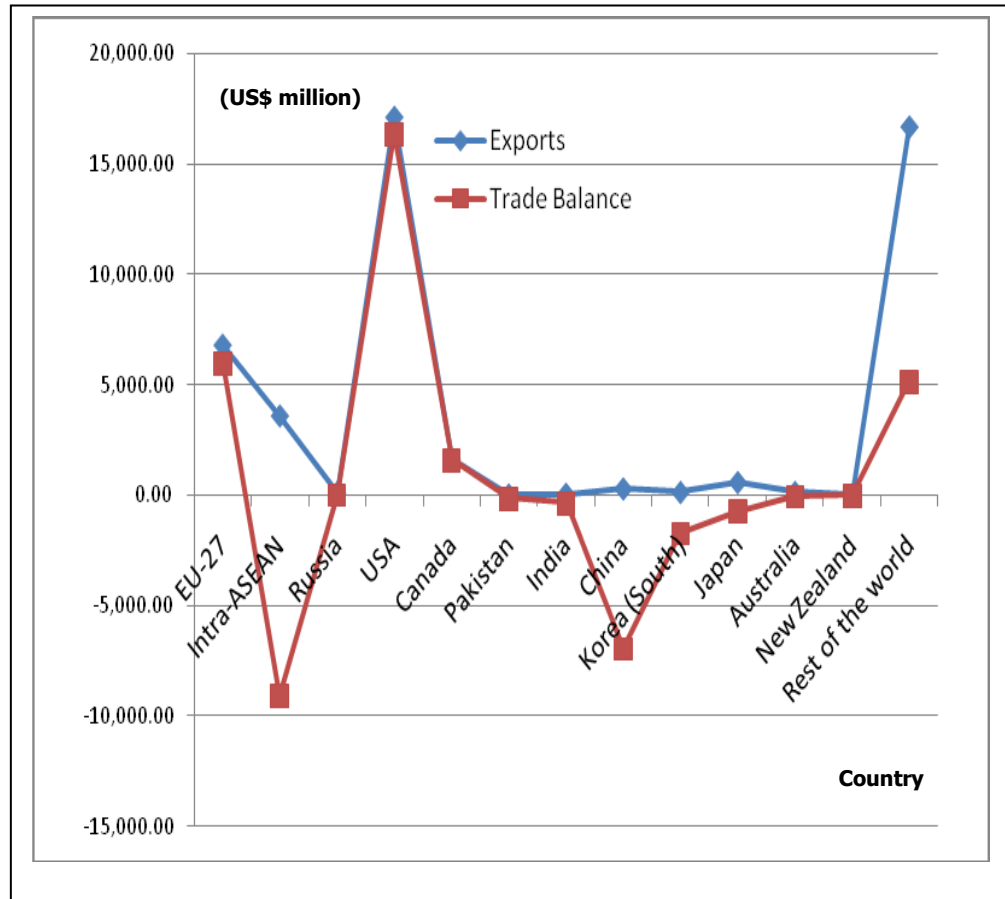
Source: General Department of Customs and Excise of Cambodia and ASEAN Trade Statistics Database, as of November 2012.

**Table 6.2.4: The Balance Values of Cambodia's Trade with Selected Partners
(2001-2011)**

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total 11 Years
	(USD million)												
1	EU-27	230.80	286.16	352.93	478.74	409.63	527.26	543.49	676.27	602.57	794.63	1,073.23	5,975.72
2	Intra-ASEAN	-511.74	-502.79	-538.56	-619.02	-647.75	-784.59	-1,003.98	-1,380.39	-808.17	-1,005.98	-1,281.86	-9,084.82
3	Russia	-2.48	-5.37	-5.98	1.69	0.18	2.78	3.45	4.59	-18.39	3.21	25.20	8.89
4	USA	812.79	944.81	1,105.09	1,286.98	1,559.14	1,873.41	1,846.98	1,750.27	1,462.49	1,773.62	1,942.29	16,357.87
5	Canada	8.19	9.18	10.77	92.94	105.26	112.57	136.54	289.53	193.09	269.94	369.05	1,597.05
6	Pakistan	-4.47	-6.55	-7.35	-9.19	-10.18	-13.11	-15.18	-16.54	-20.12	-17.13	-21.55	-141.35
7	India	-8.97	-12.85	-14.40	-19.50	-16.53	-26.99	-29.59	-84.45	-30.64	-44.43	-62.40	-350.75
8	China	-134.46	-188.89	-215.28	-328.14	-409.27	-508.35	-618.79	-920.50	-865.00	-1,119.96	-1,633.02	-6,941.67
9	Korea (South)	-77.86	-93.24	-79.31	-74.38	-148.67	-142.89	-186.21	-221.84	-199.75	-223.38	-264.79	-1,712.31
10	Japan	-47.59	-44.96	-55.97	-58.53	-37.39	-95.53	-107.28	-81.99	-39.04	-67.02	-94.10	-729.40
11	Australia	-4.25	-4.30	-4.77	-6.88	-10.31	-6.66	-4.19	-6.16	-11.50	6.05	13.81	-39.13
12	New Zealand	-0.78	-0.18	-0.18	0.25	-2.28	0.07	-0.31	-1.53	-0.48	-0.81	0.62	-5.60
13	Rest of the world	24.12	198.65	-1,337.93	293.01	-116.56	257.08	305.15	675.19	1,500.48	1,203.88	2,144.97	5,148.04
	TOTAL	283.32	579.66	-790.95	1,037.99	675.28	1,195.07	870.09	682.45	1,765.55	1,572.64	2,211.45	10,082.54

Source: General Department of Customs and Excise of Cambodia and ASEAN Trade Statistics Database, as of November 2012.

Figure 6.2.3: The Values of Cambodia exports and Trade Balance with Selected Partners (2001-2011)



Cambodia's trade with selected partners from 2001 to 2011 clearly reveals that it had surplus with some major partners such as EU-27, Russia, USA, Canada, and the rest of the world. Thus, this indicates that Cambodia needs these countries for main exports as presented in Table 6.2.4 and Figure 6.2.3 above.

The total surplus from 2001 to 2011 had shown that USA was a common leading figure and accounted for USD 16,357.87 million, while EU-27 was the second rank with USD 5,975.72 million and Canada was the third

rank with USD 1,597.05 million. Further, Russia was the fourth rank with USD 8.89 million, while some combined amount surplus of the rest of the world was USD 5,148.04 million. However, Cambodia still got deficits with some other partners such as Intra-ASEAN, China, South Korea, Japan, India, Pakistan, Australia, and New Zealand. The total deficits from 2001 to 2011 were presented in Table 6.2.4 and Figure 6.2.3. The intra-ASEAN was a leading minus figure and reflected for USD 9,084.82 million, while China was the second rank of deficit with USD 6,941.67 million and South Korea was the third rank with USD 1,712.31 million. At the same time, the deficits were respectively presented for Japan with USD 729.40 million, India with USD 350.75 million, Pakistan with USD 141.35 million, Australia with USD 39.13 million, and New Zealand with USD 5.60 million.

**Table 6.2.5: The Values of Cambodia's Exports with Selected Partners
(2001 - 2011)**

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total 11 Years
	USD million												
1	EU-27	290.33	328.42	400.35	536.10	460.51	603.67	639.72	739.09	680.57	885.69	1,224.02	6,788.47
2	Intra-ASEAN	72.88	94.99	111.73	83.35	142.66	240.25	241.52	315.31	644.63	702.54	931.44	3,581.33
3	Russia	0.40	0.79	0.92	2.71	3.41	5.50	6.69	11.81	9.45	14.80	38.20	94.69
4	USA	832.05	960.09	1,121.39	1,310.05	1,595.33	1,898.92	1,883.37	1,970.44	1,553.12	1,903.38	2,085.70	17,113.85
5	Canada	10.39	10.22	11.94	94.35	107.00	115.16	138.31	291.48	195.91	274.10	378.70	1,627.56
6	Pakistan	0.03	0.00	0.01	0.00	0.77	0.06	0.10	0.01	0.39	0.16	0.22	1.74
7	India	0.06	0.19	0.22	0.16	0.21	0.55	1.05	4.21	4.82	8.02	10.90	30.39
8	China	16.72	8.32	9.72	12.61	14.24	15.50	10.16	12.93	16.36	64.93	88.18	269.67
9	Korea (South)	1.01	1.45	1.69	25.05	2.01	3.20	5.78	7.40	9.35	24.46	33.21	114.60
10	Japan	13.30	18.86	22.03	25.04	62.82	34.07	33.65	32.14	79.76	89.45	151.80	562.92
11	Australia	1.28	1.38	1.61	3.21	5.24	6.54	10.00	10.87	17.37	21.81	29.61	108.90
12	New Zealand	0.36	0.30	0.35	0.63	0.35	0.39	0.67	1.00	1.57	2.07	2.82	10.53
13	Rest of the world	546.66	819.55	433.81	949.46	1157.03	1,194.39	1574.22	1702.79	2,453.30	2478.27	3,370.76	16,680.24
	TOTAL	1,785.47	2,244.57	2,115.77	3,042.72	3,551.59	4,118.20	4,545.24	5,099.47	5,666.61	6,469.69	8,345.56	46,984.88

Source: General Department of Customs and Excise of Cambodia and ASEAN Trade Statistics Database, as of November 2012.

As shown in Table 6.2.5 from 2001 to 2011 together, USA with USD 17,113.85 million was Cambodia's number one export destination followed by EU-27 with USD 6,788.47 million. However, intra-ASEAN with USD 3,581.33 million was also the third rank for Cambodia's export destination even though it was the deficit partner of Cambodia. Canada positioned as number four and accounted for USD 562.92 million, China was the fifth buyer of Cambodia and accounted for US\$ 269.67 million while South Korea was the sixth buyer with USD 114.60 million. Some other countries started to be closer to Cambodia such as Australia with USD 108.90 million, Russia with USD 94.69 million, India with USD 30.39 million, New Zealand with USD 10.35 million, Pakistan with USD 1.74 million, and the rest of the world with USD 16,680.24 million. The total exports of Cambodia to the world from 2001 to 2011 together had reached USD 46,984.88 million.

**Table 6.2.6: The Values of Cambodia's Trade with Intra-ASEAN Partners
(2001 - 2011)**

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total 11 Years
		(In USD million)											
1	Myanmar	0.19	0.15	0.39	0.56	0.49	0.16	0.06	1.40	0.10	0.05	0.10	3.66
2	Thailand	230.16	246.05	235.40	247.73	305.78	430.17	531.49	710.18	486.36	843.34	922.68	5,189.34
3	Laos	0.87	2.55	3.11	0.74	0.41	1.23	1.22	0.96	0.88	2.38	2.10	16.45
4	Vietnam	127.82	130.75	166.84	211.02	227.66	344.94	427.65	642.43	608.50	597.20	981.70	4,466.50
5	Indonesia	76.60	78.45	84.11	80.06	83.83	86.97	91.25	101.10	149.70	179.26	173.25	1,184.58
6	Malaysia	67.74	80.97	104.68	86.33	101.02	96.61	115.37	131.43	146.04	185.60	233.95	1,349.74
7	Brunei	0.19	0.10	0.30	0.07	0.40	0.12	0.35	0.03	0.99	0.56	0.44	3.54
8	Singapore	146.26	147.50	156.00	152.72	205.69	295.67	312.01	417.23	690.61	592.68	818.83	3,935.20
9	Philippines	7.68	6.28	11.20	6.49	7.80	9.21	7.63	6.25	14.24	10.00	11.69	98.46
	Imports	584.62	597.79	650.29	702.37	790.41	1,024.84	1,245.51	1,695.70	1,452.80	1,708.52	2,213.30	12,666.15
	Total	657.32	692.63	761.64	785.16	932.58	1,264.92	1,486.97	2,009.61	2,097.33	2,411.01	3,144.64	16,243.82

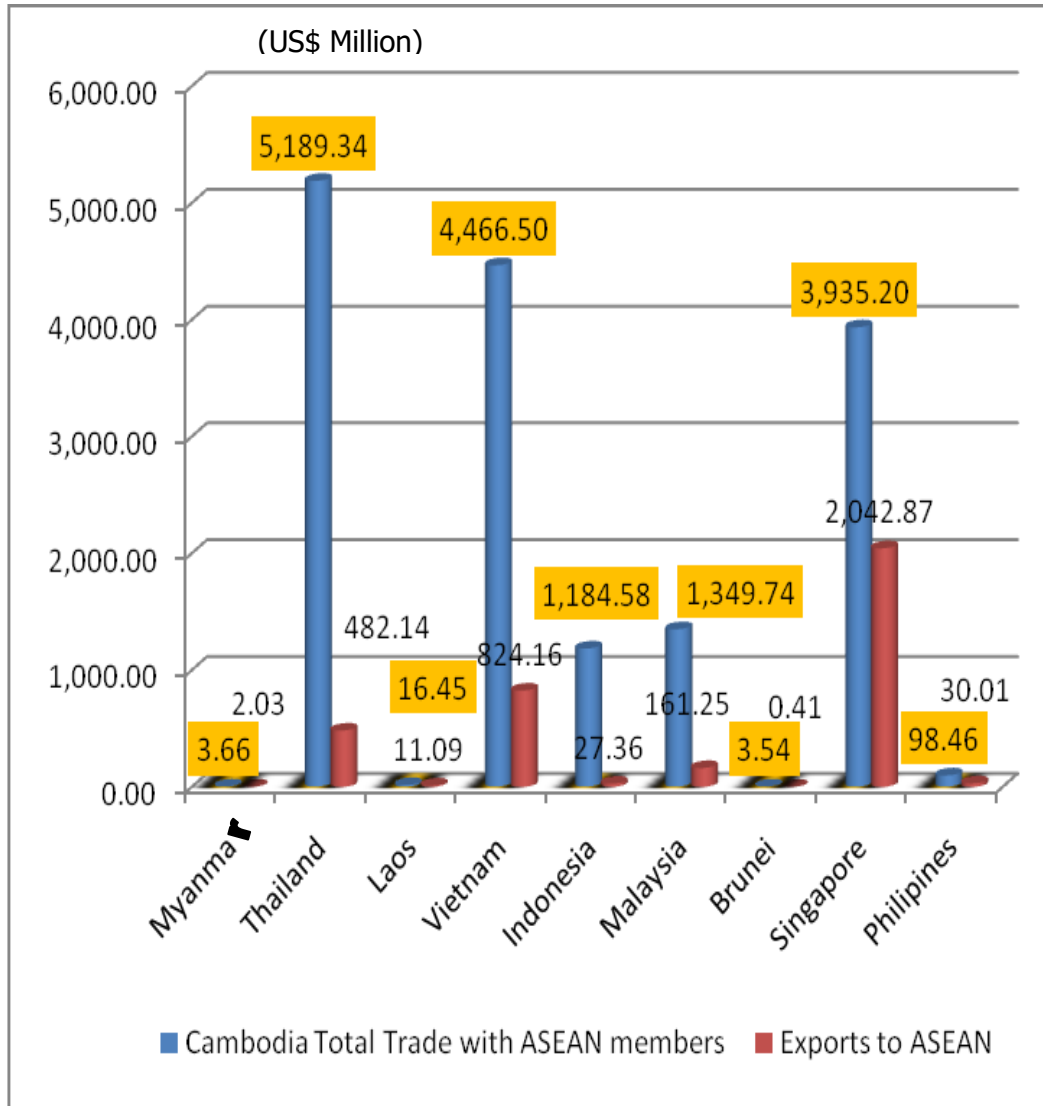
Source: General Department of Customs and Excise of Cambodia and ASEAN Trade Statistics Database, as of November 2012.

**Table 6.2.7: The Values of Cambodia's Exports with Intra-ASEAN Partners
(2001 - 2011)**

No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total 11 Years
(In USD million)													
1	Myanmar	0.04	0.06	0.07	0.32	0.07	0.03	0.01	1.38	0.04	0.00	0.00	2.03
2	Thailand	7.65	7.93	12.00	17.12	15.22	15.14	18.36	13.53	21.71	149.91	203.58	482.14
3	Laos	0.81	2.52	2.95	0.41	0.21	0.28	0.62	0.85	0.36	0.88	1.20	11.09
4	Vietnam	21.13	32.39	37.84	42.36	46.05	75.04	79.42	170.80	115.30	96.03	107.80	824.16
5	Indonesia	0.67	0.95	1.11	1.53	1.19	1.62	1.62	4.69	4.16	4.16	5.65	27.36
6	Malaysia	10.30	22.84	26.68	9.05	8.55	7.25	7.86	8.98	13.99	19.40	26.35	161.25
7	Brunei	0.08	0.01	0.01	0.03	0.08	0.10	0	0.01	0.03	0.03	0.04	0.41
8	Singapore	27.99	26.50	29.00	10.45	69.53	138.83	132.43	113.57	481.85	429.48	583.23	2,042.87
9	Philippines	4.22	1.78	2.08	2.08	1.77	1.97	1.19	1.49	7.20	2.64	3.59	30.01
	Total	72.88	94.99	111.73	83.35	142.66	240.25	241.52	315.31	644.63	702.54	931.44	3,581.33

Source: General Department of Customs and Excise of Cambodia and ASEAN Trade Statistics Database, as of November 2012.

Figure 6.2.4: The Values of Cambodia's Trade and Cambodia's Exports with Intra-ASEAN Partners (2001-2011)



With regard to the ASEAN members, Cambodia had a very close trade relation with the neighboring countries, especially Thailand was a leading figure and accounted for USD 5,189.34 million, followed by Vietnam which accounted for USD 4,466.50 million. The third country was Singapore which accounted for USD 3,935.20 million. Malaysia and Indonesia were nearly the

same which accounted respectively for USD 1,349.74 million and USD 1,184.55 million. The smallest trade amounts among ASEAN members were Brunei and Myanmar which accounted for only USD 3.54 million and USD 3.66 million respectively together from 2001 to 2011 as shown in Table 6.2.7 and Figure 6.2.4.

Cambodia is a smallest economy among ASEAN members and considered to be the main importer even there were some exports. The main export destinations in ASEAN were Singapore which accounted for USD 2,042.87 million followed by Vietnam for USD 824.16 million. Thailand took the third position with USD 482.14 million, followed by Malaysia accounted for USD 161.25 million, Philippines accounted for USD 30.01 million, and Indonesia accounted for USD 27.36 million. The smallest amount of exports was Laos with USD 11.09 million and Myanmar with USD 2.03 million.

Table 6.2.8: The Values of Cambodia's Trade with EU-27 Partners (2001-2011)

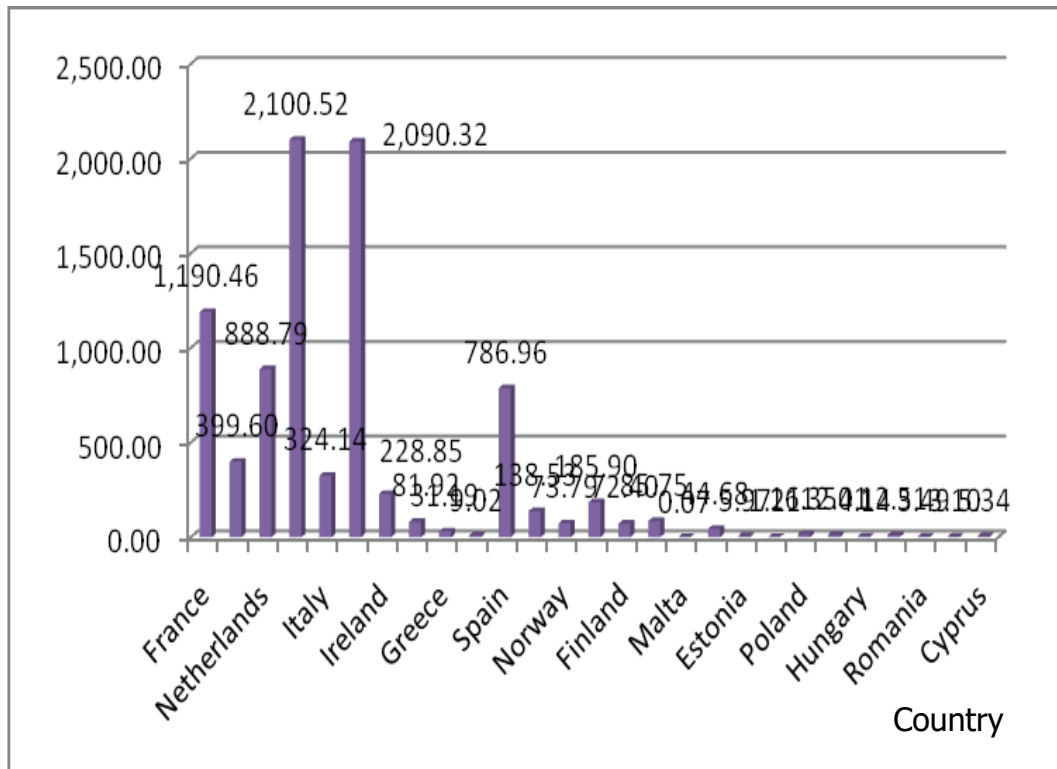
No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total 11 Years
	(USD million)												
1	France	76.04	86.67	103.18	106.98	228.95	102.53	90.61	67.98	82.69	107.83	136.99	1,190.46
2	Belgium	9.35	5.05	5.85	14.26	15.91	29.15	35.12	56.13	46.26	78.00	104.52	399.60
3	Netherlands	26.92	25.06	40.01	34.70	23.78	30.63	82.22	157.35	151.23	240.59	76.31	888.79
4	Germany	109.19	127.19	165.10	249.73	233.70	242.13	200.17	154.13	132.46	128.73	357.98	2,100.52
5	Italy	8.00	8.85	10.14	14.04	9.82	16.48	27.01	32.71	34.77	62.78	99.55	324.14
6	UK	149.31	146.70	159.73	181.30	131.68	163.25	157.34	161.53	186.55	241.67	411.27	2,090.32
7	Ireland	13.51	14.60	17.00	15.92	17.05	19.12	49.39	18.84	21.47	18.05	23.90	228.85
8	Denmark	5.12	2.32	2.65	5.40	5.68	10.62	11.15	10.66	7.19	9.15	11.98	81.92
9	Greece	0.19	0.55	0.64	1.12	2.07	2.83	2.66	5.68	5.85	4.08	5.54	31.19
10	Portugal	1.70	0.73	0.85	0.49	0.08	0.28	0.22	0.04	0.03	1.95	2.65	9.02
11	Spain	7.52	10.22	11.90	31.47	35.61	86.96	99.51	125.12	107.42	105.36	165.89	786.96
12	Luxembourg	3.45	5.65	6.42	10.06	12.14	12.64	13.34	18.04	12.85	18.95	24.98	138.53
13	Norway	3.20	4.71	5.50	5.07	6.01	5.64	6.99	8.80	5.73	9.39	12.75	73.79
14	Sweden	7.00	14.92	17.20	9.33	10.83	13.56	19.08	20.34	18.01	23.75	31.88	185.90
No.	Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total 11 Years
	(USD million)												
15	Finland	0.87	0.70	0.80	13.76	0.71	23.90	6.50	4.38	3.57	7.53	9.68	72.40
16	Austria	1.10	1.50	1.73	3.00	3.27	11.36	12.04	12.77	11.58	11.68	15.71	85.75

17	Malta	0.00	0.00	0.00	0.03	0.00	0.01	0.02	0.00	0.00	0.00	0.00	0.07
18	Turkey	0.33	0.43	0.49	1.96	1.92	4.94	5.91	9.04	7.32	5.27	7.06	44.68
19	Estonia	0.18	0.00	0.01	0.02	0.17	1.29	1.31	0.95	0.43	0.68	0.93	5.97
20	Latvia	0.01	0.00	0.00	0.01	0.00	0.00	0.00	0.10	0.14	0.40	0.54	1.21
21	Poland	0.29	0.54	0.63	1.13	0.45	1.77	2.08	0.81	2.76	2.52	3.37	16.35
22	Czech Republic	0.21	0.31	0.36	0.34	0.20	1.37	1.82	1.21	1.33	2.07	2.80	12.01
23	Hungary	0.15	0.41	0.48	0.16	0.14	0.63	0.26	0.33	0.13	0.61	0.83	4.14
24	Slovakia	0.01	0.05	0.06	0.07	0.11	0.36	1.48	2.25	1.31	2.92	3.88	12.51
25	Romania	2.18	0.08	0.09	0.02	0.03	0.06	0.11	0.36	0.06	0.21	0.29	3.49
26	Slovenia	0.06	0.10	0.12	0.07	0.03	1.10	0.22	0.34	0.13	0.40	0.54	3.10
27	Cyprus	0.06	0.09	0.10	0.31	0.62	0.39	1.18	0.80	0.51	0.57	0.71	5.34
	Total exports	290.33	328.42	400.35	536.10	460.51	603.67	639.72	739.09	680.57	885.69	1,224.02	6,788.47
	Total	349.87	370.67	447.76	593.46	511.40	680.07	735.95	801.90	758.58	976.74	1,374.81	7,601.22

Source: General Department of Customs and Excise of Cambodia and ASEAN Trade Statistics Database, as of November 2012.

**Figure 6.2.5: The Values of Cambodia's Trade with EU-27 Partners
(2001 – 2011)**

USD million



As revealed, Cambodia got trade surplus with EU-27 from 2001 to 2011. As shown in Figure 6.2.5, the leading export destination of Cambodia to European Union was Germany with USD 2,100.52 million followed by UK with USD 2,090.32 million (second rank), France with USD 1,190.46 million which positioned as third. The other countries were Netherland with USD 888.79 million, Spain with USD 786.96 million, Belgium with USD 399.60 million, Italy with USD 324.14 million and others.

Table 6.2.9: Cambodia's Top 10 Exported Products in 2011
(by weight)

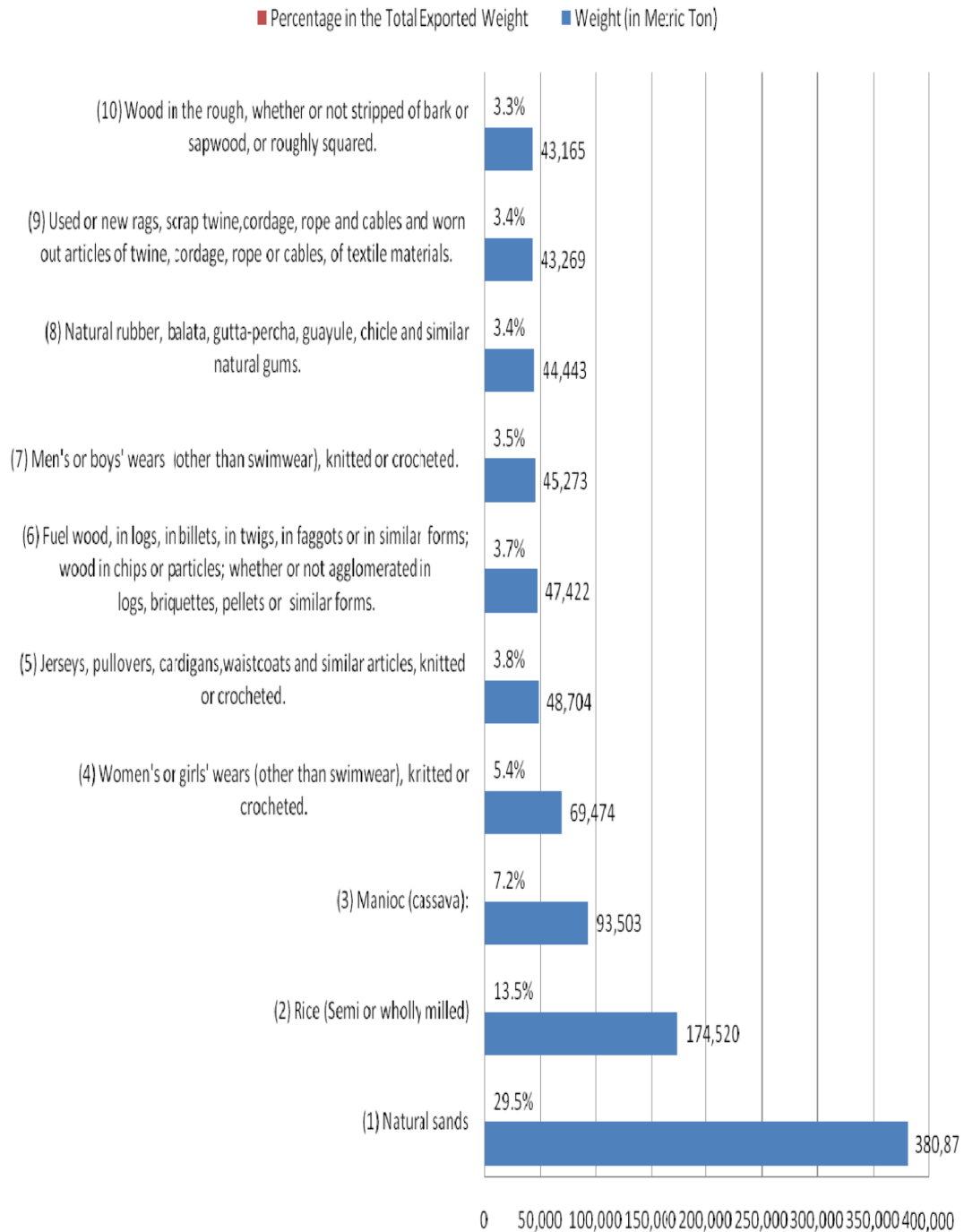
Sl. No.	Name of Product	Weight (Kg)	Value (in Million Riel)	Value (in Million USD)	Contribution in the Total
1	Natural sands of all kinds, whether or not colored, other than metal-bearing sands.	380,875,000.0	2,904.9	\$0.71	0.01%
2	Rice, Semi milled or wholly milled rice, whether or not polished or glazed and other forms	174,519,839.4	431,668.9	\$105.29	1.59%
3	Manioc (cassava), arrowroot, salep, Jerusalem artichokes, sweet potatoes and similar roots and tubers with high starch or inulin content, fresh, chilled, frozen or dried, whether or not sliced or in the form of pellets; sago pith.	93,502,562.0	9,144.8	\$2.23	0.03%
4	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear), knitted or crocheted.	69,473,883.4	4,216,122.6	\$1,028.32	15.50%
5	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted.	48,704,230.3	3,172,916.8	\$773.88	11.66%
6	Fuel wood, in logs, in billets, in twigs, in faggots or in similar forms; wood in chips or particles; sawdust and wood waste and scrap, whether or not agglomerated in logs, briquettes, pellets or similar forms.	47,422,132.0	7,673.2	\$1.87	0.03%
7	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear), knitted or crocheted.	45,272,865.1	2,781,633.5	\$678.45	10.22%
8	Natural rubber, balata, gutta-percha, guayule, chicle and similar natural gums, in primary forms or in plates, sheets or strip.	44,443,318.8	774,364.7	\$188.87	2.85%
9	Used or new rags, scrap twine, cordage, rope and cables and worn out articles of twine, cordage, rope or cables, of textile materials.	43,268,560.1	14,244.4	\$3.47	0.05%
10	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared.	43,164,652.3	192,782.3	\$47.02	0.71%
Total of Cambodia's Top 10 Exported Products in 2011		990,647,043.3	11,603,456.3	\$2,830.11	42.65%
Total of Cambodia's All Exported Products in 2011		1,291,057,791.07	27,207,243.85	\$6,635.91	100.00%

Note: Exchange Rate used: 1 US\$=4,100 Khmer Riel.

Source: General Department of Customs and Excise, Cambodia.

**Figure 6.2.6: Cambodia's Top 10 Exported Products in 2011
(by weight)**

Top 10 Exported Products in 2011 (by weight)



Cambodia's Export in 2011 (by value, from the world)

In 2011, Cambodia earned a sum of USD 6,635.9 million by exporting products to all over the world and more than half of the total export made to G-8 member states. As such, Cambodia had negative trade balance with ASEAN, ASEAN+3 and ASEAN+6. On the other hand, G-8 countries had only 9 percent exports to Cambodia in that year with a positive (USD 2,999 million) trade balance. Overall, Cambodia enjoyed USD 555 million favorable trade balance with the World (Figure 6.2.6, 6.2.7 and Table 6.2.9 for more details).

Figure 6.2.7: Cambodia's Export to ASEAN, G8 and to the World in 2011 (by value)

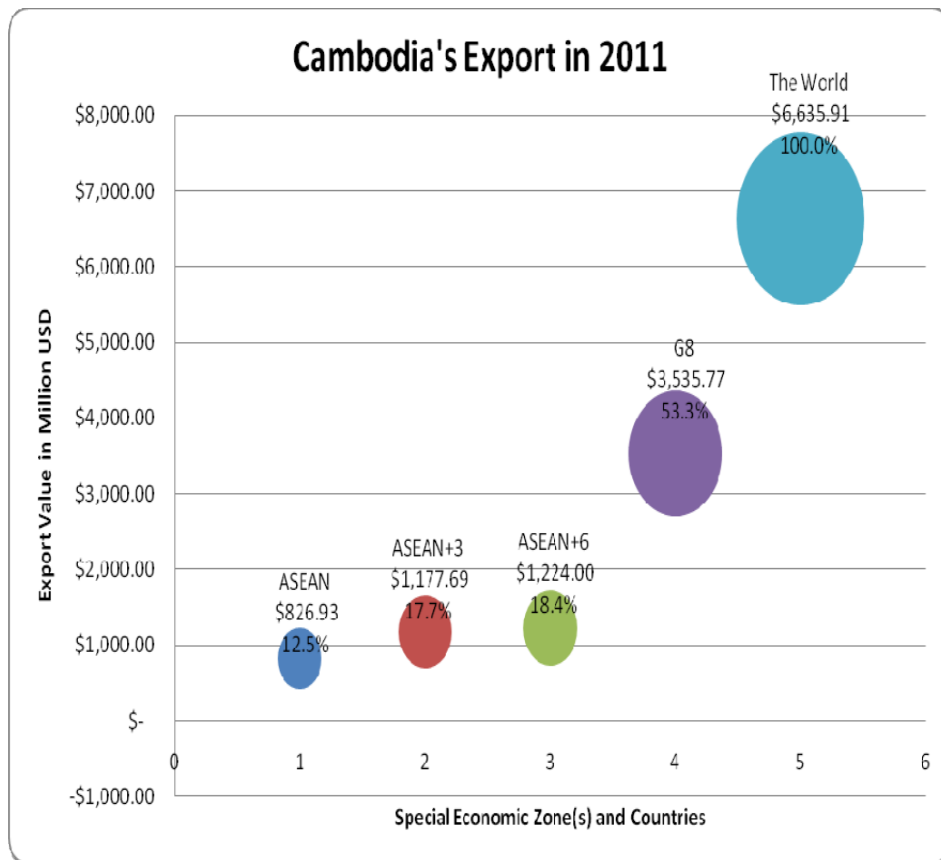


Figure 6.2.8: Cambodia's Export Vs. Import in 2011 (by value)

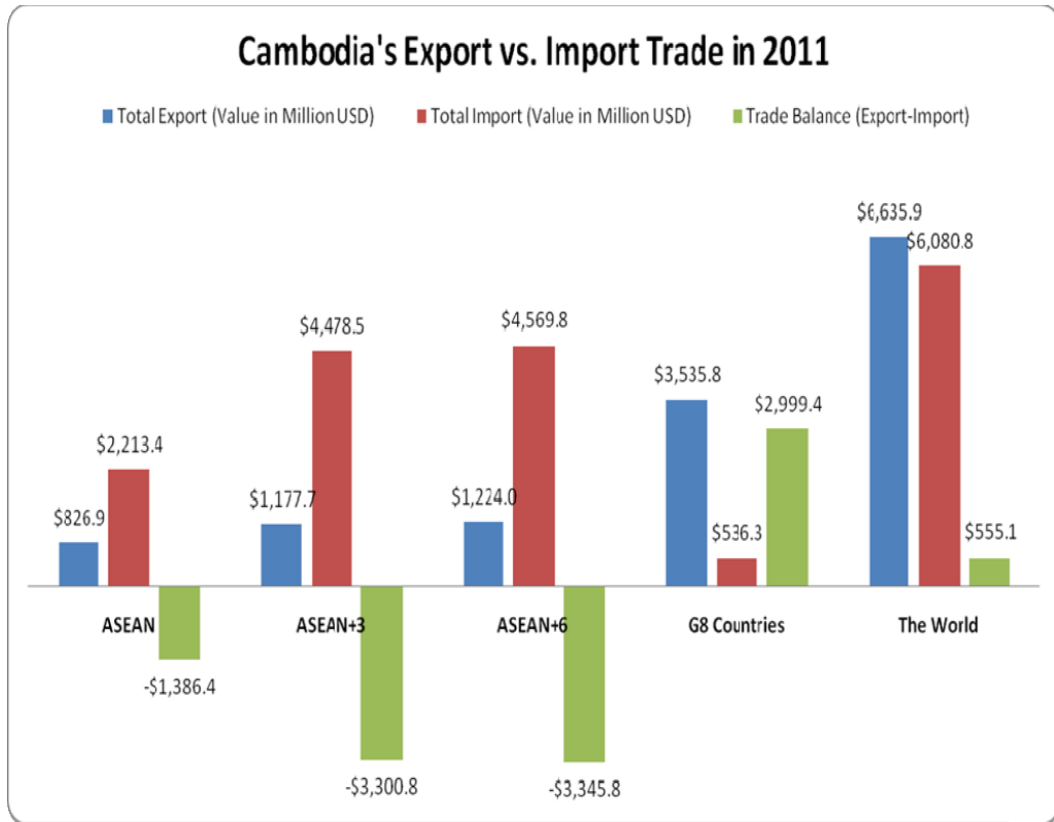


Table 6.2.10: Cambodia's Import Vs. Export in 2011 (by value)

Special Economic	Total Export (Value)	Total Import (Value)	Trade Balance
ASEAN aggregation	\$ 826.9	\$ 2,213.4	-\$ 1,386.4
ASEAN+3 aggregation	\$ 1,177.7	\$ 4,478.5	-\$ 3,300.8
ASEAN+6 aggregation	\$ 1,224.0	\$ 4,569.8	-\$ 3,345.8
G8 Countries	\$ 3,535.8	\$ 536.3	\$ 2,999.4
The World Total	\$ 6,635.9	\$ 6,080.8	\$ 555.1

Note: Exchange Rate used: 1 US\$=4,100 Khmer Riel
 Data Source: General Department of Customs and Excise of Cambodia.

Table 6.2.11: Cambodia's Top 10 imported Products in 2011**(by Value)**

Imported Products	Value (in Million Riel)	Value (in Million USD)	Share in Total Imp
(1) Petroleum oils and oils obtained from bituminous minerals, other than crude;	3,259,077	\$ 794.90	13.1%
(2) Other knitted or crocheted fabrics.	2,593,102	\$ 632.46	10.4%
(3) Knitted or crocheted fabrics of a width not exceeding 30 cm.	2,026,938	\$ 494.38	8.1%
(4) Other woven fabrics of synthetic staple fibers.	1,880,997	\$ 458.78	7.5%
(5) Motor cars and other motor vehicles principally designed for the transport of persons	728,075	\$ 177.58	2.9%
(6) Yarn (other than sewing thread) of synthetic staple fibers, not put up for retail sale.	587,164	\$ 143.21	2.4%
(7) Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.	527,432	\$ 128.64	2.1%
(8) Electrical apparatus for line telephony, including line telephone sets with cordless handsets and telecommunication apparatus; videophones.	392,874	\$ 95.82	1.6%
(9) Medicine	386,342	\$ 94.23	1.5%
(10) Dumpers designed for off-highway use	386,161	\$ 94.19	1.5%
Cambodia's Total Import Cost for Top-10 Products:	12,768,162	\$ 3,114.19	51.2%
Cambodia's Total Import in 2011:	24,931,347	\$ 6,080.82	

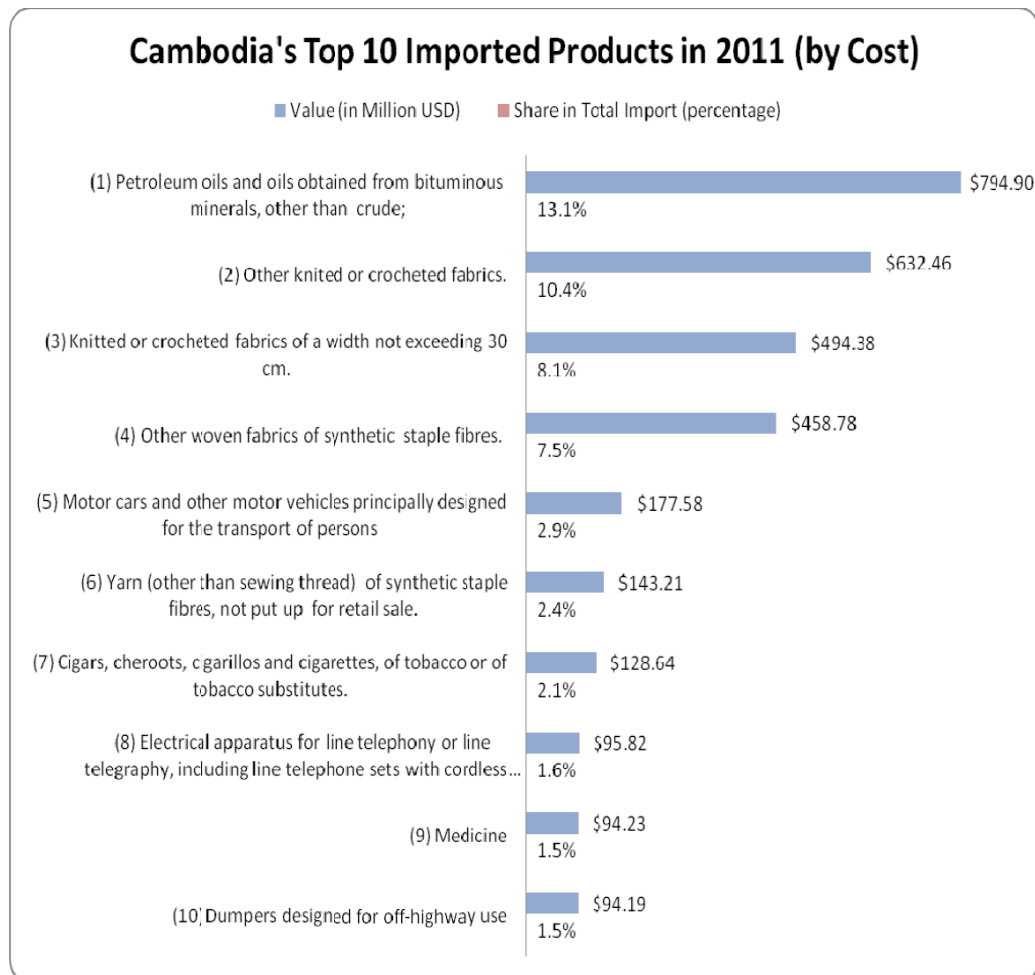
Note: Exchange Rate used: 1 US\$=4,100 Khmer Riel

Data Source: General Department of Customs and Excise of Cambodia.

Cambodia's half of the total import value was channelized for only 10 products in 2011, as USD 794.9 million was the highest (13 percent of total import cost) in importing Petroleum oil and oil obtained from bituminous minerals, other than crude. Also a total of USD 1,728.8 million (28 percent of total import value) was spent on four top rated categories of garment sector and some raw products such as knitted or crocheted fabrics, women fabrics of

synthetic staple fibers, yarn of synthetic staple fibers (Figure 6.2.9 and Table 6.2.10).

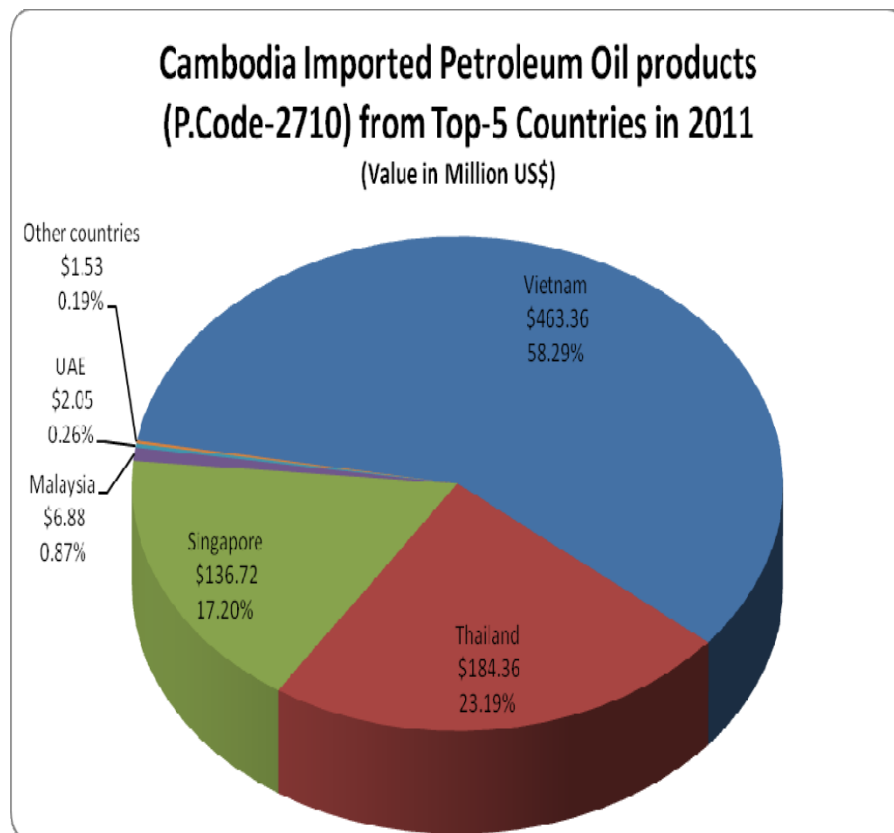
**Figure 6.2.9: Cambodia’s Top 10 Imported Products in 2011
(by Value)**



- (1) **Petroleum Oil:** In 2011, Cambodia had imported “Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included” at a total cost of USD 790.9 million from 19 countries of the world. The petroleum product code included Premium leaded, Aviation spirit, Naphtha, reformate and preparations for preparing spirits,

Kerosene, lubricating oil feedstock, lubricating oils for aircraft engines, other lubricating oil, lubricating greases, hydraulic brake fluid, high speed diesel fuel, and other fuel oils. Majority of those imports had been made from the top five countries, i.e. Vietnam (58.3 percent), Thailand (23.2 percent), Singapore (17.2 percent), Malaysia (0.8 percent) and UAE (0.2 percent). Only 0.2 percent of the product came from the bottom part of 12 countries in the import list in 2011 as shown in the Figure 6.2.10 and Table 6.2.12.

Figure 6.2.10: Top 5 Countries Exported Petroleum Oil Products to Cambodia in 2011 (by value)



**Table 6.2.12: Countries Exported Petroleum Oil Products to
Cambodia in 2011 (by Value)**

Sl. No.	Country Name	Code	Import Value (Million Riel)	Import Value (Million USD)	Percentage
1	Vietnam	690	1,899,786.42	\$ 463.36	58.29%
2	Thailand	680	755,887.27	\$ 184.36	23.19%
3	Singapore	706	560,554.41	\$ 136.72	17.20%
4	Malaysia	701	28,192.60	\$ 6.88	0.87%
5	UAE	647	8,395.33	\$ 2.05	0.26%
6	Indonesia	700	2,650.22	\$ 0.65	0.08%
7	Japan	732	1,861.47	\$ 0.45	0.06%
8	Taiwan	736	750.31	\$ 0.18	0.02%
9	Philippine	708	246.52	\$ 0.06	0.01%
10	Germany	4	226.46	\$ 0.06	0.01%
11	USA	400	162.99	\$ 0.04	0.01%
12	China	720	154.41	\$ 0.04	0.00%
13	UK	6	62.13	\$ 0.02	0.00%
14	Belgium	2	50.37	\$ 0.01	0.00%
15	France	1	39.28	\$ 0.01	0.00%
16	South Korea	728	38.76	\$ 0.01	0.00%
17	Netherlands	3	15.98	\$ 0.00	0.00%
18	India	664	2.01	\$ 0.00	0.00%
19	Hong Kong	740	0.01	\$ 0.00	0.00%
	Total		3,259,076.97	\$ 794.90	100.0%

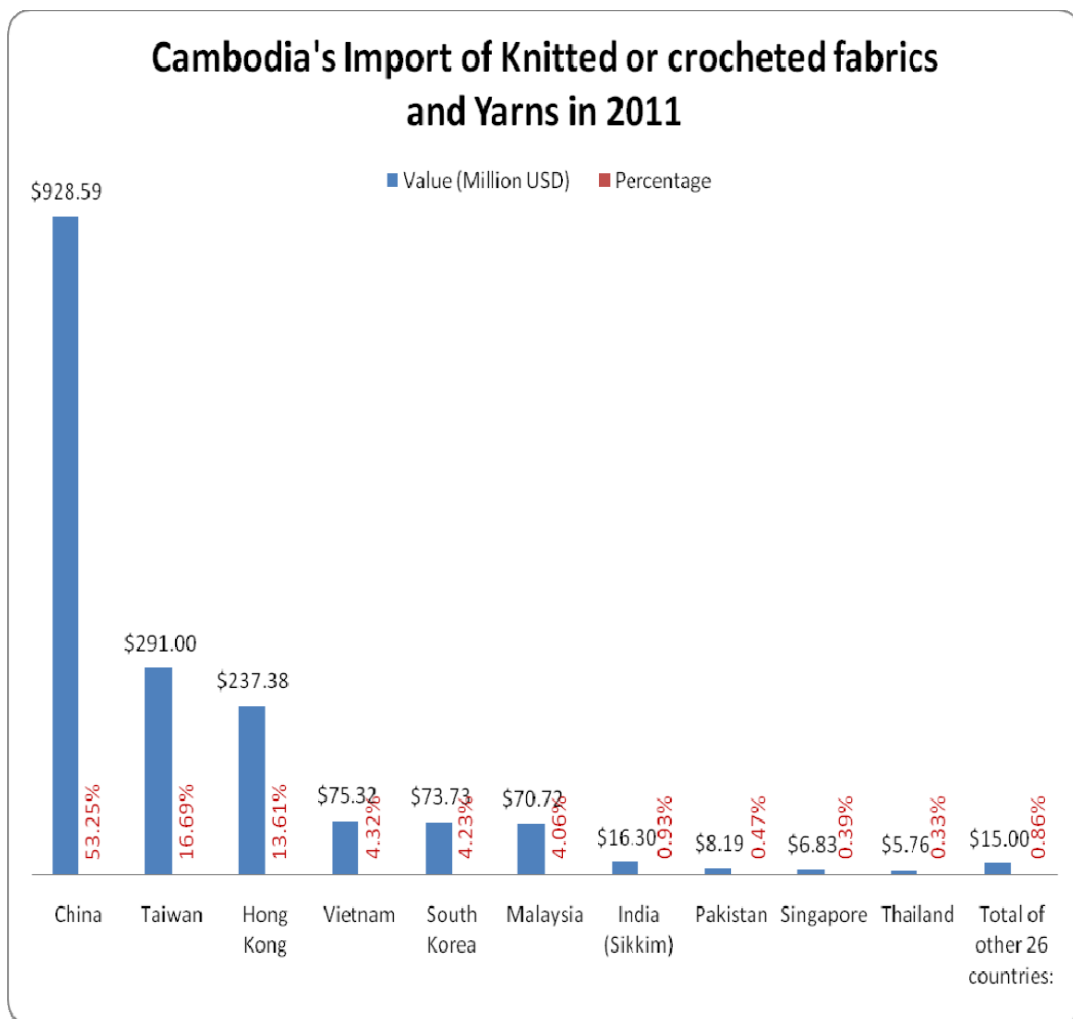
Note: Exchange Rate used: 1 USD = 4,100 Khmer Riel.

Source: General Department of Customs and Excise of Cambodia.

- (2) **Knitted or crocheted fabrics and Yarns:** In 2011, Cambodia had imported over half of its fabrics and yarns for garment industry from China. The rest came from Taiwan, Hong Kong, Vietnam, South Korea, Malaysia, India, Pakistan, Singapore and

Thailand. Less than one percent came from other 26 countries throughout the world as represented in the Figure 6.2.11 and Table 6.2.13.

Figure 6.2.11: Top 10 Countries Exported Fabrics and Yarns to Cambodia in 2011 (by Value)



**Table 6.2.13: Countries Exported Fabrics and Yarns to Cambodia
in 2011 (by Value)**

Sl. No.	Country Name	Code	Import Value (Million Riel)	Import Value (Million US\$)	Percentage
1	China	720	3,807,236.89	\$ 928.59	53.71%
2	Taiwan	736	1,193,098.39	\$ 291.00	16.83%
3	Hong Kong	740	973,273.45	\$ 237.38	13.73%
4	Vietnam	690	308,806.05	\$ 75.32	4.36%
5	South Korea	728	302,289.28	\$ 73.73	4.26%
6	Malaysia	701	289,964.54	\$ 70.72	4.09%
7	India (Sikkim)	664	66,838.90	\$ 16.30	0.94%
8	Pakistan	662	33,581.09	\$ 8.19	0.47%
9	Singapore	706	27,991.68	\$ 6.83	0.39%
10	Thailand	680	23,609.63	\$ 5.76	0.33%
11	Indonesia	700	20,918.44	\$ 5.10	0.30%
12	Japan	732	9,902.95	\$ 2.42	0.14%
13	Macau	743	9,308.45	\$ 2.27	0.13%
14	France	1	3,887.89	\$ 0.95	0.05%
15	Srilanka	669	2,624.07	\$ 0.64	0.04%
16	United States of	400	2,504.94	\$ 0.61	0.04%
17	Italy	5	2,449.14	\$ 0.60	0.03%
18	Philippine	708	2,415.76	\$ 0.59	0.03%
19	Bangladesh	668	1,924.30	\$ 0.47	0.03%
20	Jordan	628	1,642.96	\$ 0.40	0.02%
21	Spain	11	849.12	\$ 0.21	0.01%
22	United Kingdom	6	847.42	\$ 0.21	0.01%
23	Brunei	703	806.47	\$ 0.20	0.01%
24	Austria	38	413.69	\$ 0.10	0.01%
25	Canada	404	362.15	\$ 0.09	0.01%
26	Australia	800	248.10	\$ 0.06	0.00%
27	Cape Verde	247	247.71	\$ 0.06	0.00%
28	Uruguay	524	36.43	\$ 0.01	0.00%
29	Turkey	52	35.66	\$ 0.01	0.00%
30	Laos	684	34.94	\$ 0.01	0.00%
31	Iceland	24	29.29	\$ 0.01	0.00%
32	North Korea	724	13.82	\$ 0.00	0.00%
33	Germany	4	3.20	\$ 0.00	0.00%
34	Kenya	346	1.57	\$ 0.00	0.00%
35	Sweden	30	1.30	\$ 0.00	0.00%
36	Belize	421	1.08	\$ 0.00	0.00%
	Total:		7,088,200.76	\$ 1,728.83	100.00%

Note: USD 1 = 4100 Khmer Riel

Source: General Department of Customs and Excise of Cambodia.

(3) **Motor Cars/Vehicles and Off-highway**

Dumpers: In 2011, Cambodia had paid a total of USD 271.8 million for importing motor cars and other motor vehicles principally designed for the transport of persons, including station wagons and racing at a cost of USD 177.58 million and dumpers designed for off-highway use at a cost of USD 94.19 million. Top car exporting country to Cambodia was Japan with 35 percent of these two products in total. Cambodia also had imported from USA and South Korea by spending USD 70.2 million and USD 33.49 million respectively. Import from neighboring country, Thailand was 11 percent of the total. Chinese cars/dumpers had 5th position while Vietnam had 10th. Further, 2.5 percent of the total imported was from other 26 countries throughout the world. Table 6.2.14 and Figure 6.2.12 have shown details.

Figure 6.2.12: Top 10 Countries Exported Cars and Dumpers to Cambodia in 2011 (by value)

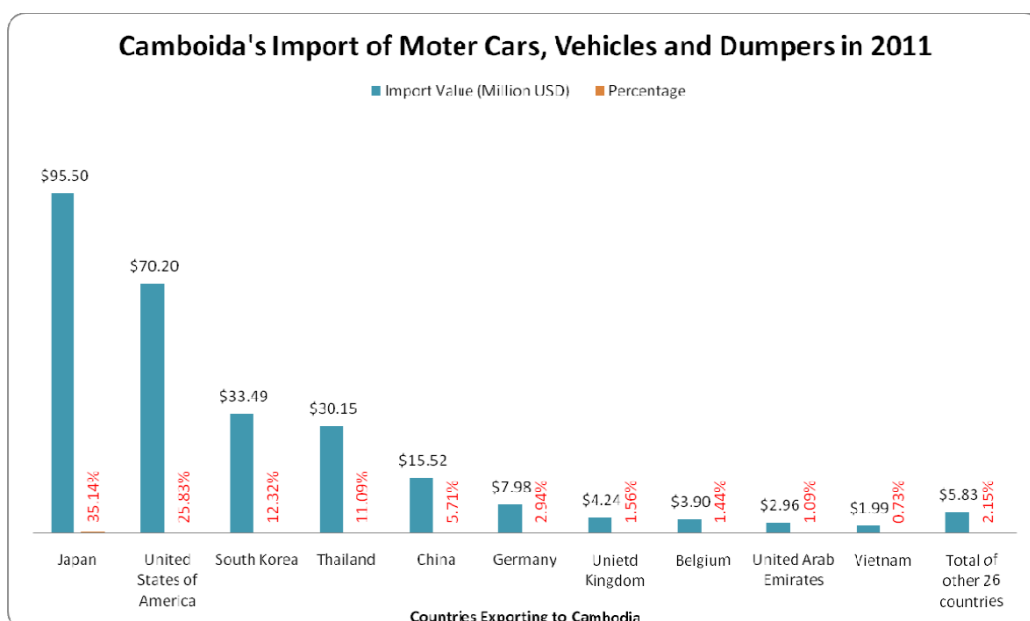


Table 6.2.14: Countries Exported Motor Cars/Vehicles and off-highway Dumpers to Cambodia in 2011 (by value)

Sl. No.	Country Name	Import Value (Million Riel)	Import Value (Million USD)	Percentage
1	Japan	391560.93	\$ 95.50	35.14
2	United States of America	287817.05	\$ 70.20	25.83
3	South Korea	137309.26	\$ 33.49	12.32
4	Thailand	123598.39	\$ 30.15	11.09
5	China	63634.27	\$ 15.52	5.71
6	Germany	32714.62	\$ 7.98	2.94
7	United Kingdom	17375.10	\$ 4.24	1.56
8	Belgium	16007.24	\$ 3.90	1.44
9	United Arab Emirates	12121.86	\$ 2.96	1.09
10	Vietnam	8171.40	\$ 1.99	0.73
11	Russia	5193.62	\$ 1.27	0.47
12	Canada	3707.17	\$ 0.90	0.33
13	Taiwan	3423.12	\$ 0.83	0.31
14	Mongolia	2541.42	\$ 0.62	0.23
15	Morocco	2465.39	\$ 0.60	0.22
16	France	1433.81	\$ 0.35	0.13
17	Turkey	821.96	\$ 0.20	0.07
18	Mexico	765.71	\$ 0.19	0.07
19	Malaysia	556.29	\$ 0.14	0.05
20	Spain	482.71	\$ 0.12	0.04
21	Mali	460.52	\$ 0.11	0.04
22	Hong Kong	328.64	\$ 0.08	0.03
23	Australia	272.48	\$ 0.07	0.02

24	Egypt	232.70	\$	0.06	0.02
25	Saudi Arabia	229.01	\$	0.06	0.02
26	Italy	199.68	\$	0.05	0.02
27	Yemen	194.42	\$	0.05	0.02
28	Netherlands (Holland)	127.05	\$	0.03	0.01
29	Cuba	111.04	\$	0.03	0.01
30	Uganda	99.73	\$	0.02	0.01
31	Philippine	83.35	\$	0.02	0.01
32	Austria	51.39	\$	0.01	0.00
33	Swaziland	45.87	\$	0.01	0.00
34	Singapore	45.09	\$	0.01	0.00
35	Jordan	25.24	\$	0.01	0.00
36	Switzerland	21.75	\$	0.01	0.00
	Total:	1,114,229.25	\$	271.76	100.00%

Note: Exchange Rate used: 1 USD = 4,100 Khmer Riel

Source: General Department of Customs and Excise of Cambodia.

6.2.2. The Trends of Cambodia Trade

Cambodia being a part of ASEAN trade, the future trend of Cambodia trade is likely to be the same as ASEAN. The information of previous years has been used as the basis for estimating the new trend of trade from 2012 to 2022.

6.2.2.1. Annual Value of Cambodia Trade

Cambodia trade value from 2001 to 2011 is presented in Table 6.2.15 below:

**Table 6.2.15: Annual Values of Cambodia Trade
(2001-2011)**

Year	Trade Values (USD in Million)	Percentage to Total
2001	3,287.62	3.9%
2002	3,909.47	4.7%

2003	5,022.49	6.0%
2004	5,047.46	6.0%
2005	6,427.90	7.7%
2006	7,041.33	8.4%
2007	8,220.39	9.8%
2008	9,516.50	11.3%
2009	9,567.67	11.4%
2010	11,366.74	13.6%
2011	14,479.66	17.3%
Total	83,887.23	100.0%

As revealed from the above table the trade value of Cambodia reached USD 3,287.62 million in 2001. There had been a continuous increase in the trade value of Cambodia as compared to its previous year. As found, the percentage of trade value to total over the period had been a continuous increase, i.e., 3.9 percent in 2001 which reached 17.3 percent in 2011.

6.2.2.2. Variation of Annual Values of Cambodia's Trade

The annual amount and percentage variation of Cambodia's trade from 2001 to 2011 are presented in Table 6.2.16.

**Table 6.2.16: Annual amount Variation of Cambodia's Trade
(2001-2011)**

Year	Trade Value (USD Million)	Amount of Variation (USD Million)	Percentage to Variation
2001	3,287.62	-	-
2002	3,909.47	621.85	18.91%
2003	5,022.49	1,113.02	28.47%
2004	5,047.46	24.97	0.50%
2005	6,427.90	1,380.44	27.35%
2006	7,041.33	613.43	9.54%
2007	8,220.39	1,179.06	16.74%
2008	9,516.50	1,296.11	15.77%
2009	9,567.67	51.17	0.54%
2010	11,366.74	1,799.07	18.80%
2011	14,479.66	3,112.92	27.39%

As shown in the above table, there was an increase of trade value of USD 621.85 million in 2002 as compared to 2001. Thus, the increase was 18.91 percent in 2002 compared to the previous year. However, there has been a small increase of trade value of USD 24.97 million or 0.5 percent in 2004 compared to 2003. The reason of a small change in the trade value was due to the political uncertainty that had occurred in 2004. Again, there was a small increase of trade value of USD 51.17 million or 0.54 percent in 2009

compared to 2008. However, it is seen that there was a big jump in the trade value of USD 1,799.07 million or 18.80 percent in 2010 as compared to 2009. Further, as revealed, the highest amount of variation of Cambodia's trade was found in 2011 (USD 3,112.92 million) over the year 2010 resulting to a change of 27.39 percent.

6.2.2.3. Actual, Estimated and Predicted Values of Cambodia's Trade

According to the calculation based on the given formula

$$\hat{Y} = a + bX + cX^2$$

Where,

\hat{Y} = Estimating the dependent variable (Trade Values),
 a = Intercept,
 b & c = Coefficients, and
 X = Coded values of the time variable.

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1E+008	2	56851317.42	162.486	.000 ^a
	Residual	2799080	8	349885.003		
	Total	1E+008	10			

a. Predictors: (Constant), XSQ, X

b. Dependent Variable: Y

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3252.322	649.602		5.007	.001
	X	246.942	248.803	.240	.993	.350
	XSQ	62.873	20.194	.753	3.113	.014

a. Dependent Variable: Y

A simple linear regression of quadratic type has been fitted to the estimated trade value from 2001 to 2011. On the basis of actual trade value (Y) from 2001 to 2011, the equation is estimated as

$$\hat{Y}: 3,252.322 + 246.942 X + 62.873 X^2$$

Table 6.2.17 shows the estimated trade values \hat{Y} against its actual trade values (Y) for the years under study. As shown from the Table 6.2.17, the estimated trade values from 2001 to 2011 had increased continuously. The values of Cambodia trade were estimated from USD 3,562.14 million in 2001 to USD 13,576.32 million in 2011. The estimated values had been based on the actual values of Cambodia's trade over the period under the study.

**Table 6.2.17: Actual and Estimated Values of Cambodia's Trade
(2001-2011)**

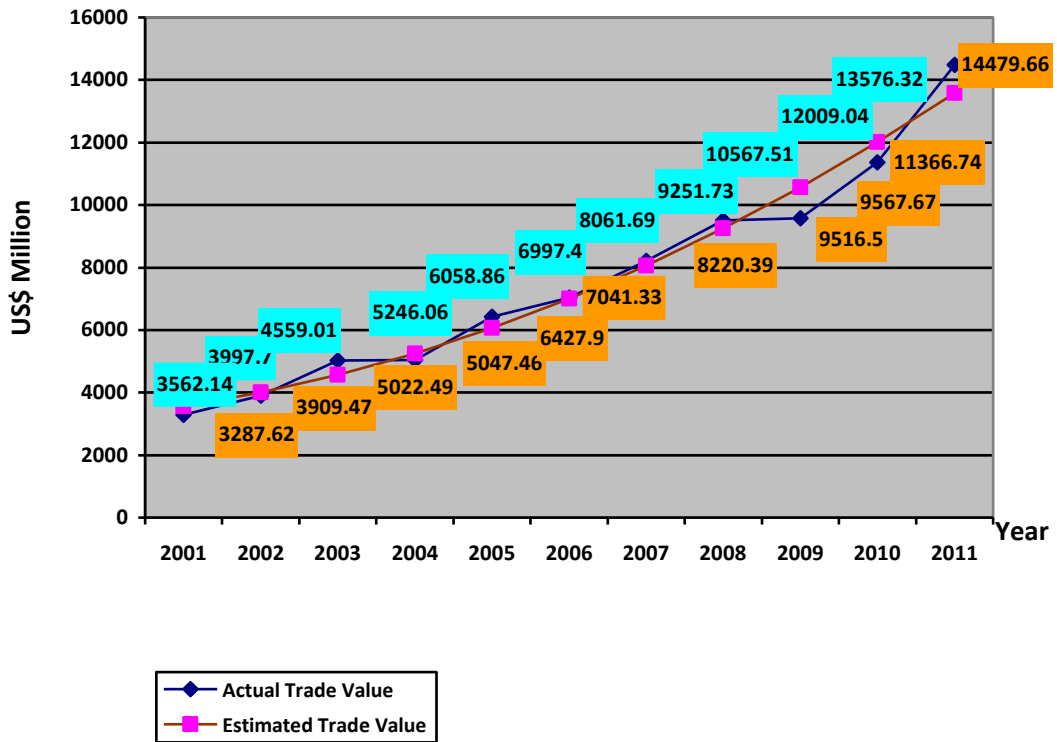
Year	Actual Value (Y) (USD Million)	Estimated Value (\hat{Y}) (USD Million)
2001	3,287.62	3,562.14

2002	3,909.47	3,997.70
2003	5,022.49	4,559.01
2004	5,047.46	5,246.06
2005	6,427.90	6,058.86
2006	7,041.33	6,997.40
2007	8,220.39	8,061.69
2008	9,516.50	9,251.73
2009	9,567.67	10,567.51
2010	11,366.74	12,009.04
2011	14,479.66	13,576.32

As revealed, there was not much difference between the actual values of Cambodia's trade as compared with the estimated values over the study period.

**Figure 6.2.13: Actual and Estimated Values of Cambodia's Trade
(2001-2011)**

Actual and Estimated Cambodia Trade Value



Based on the estimated equation,

$$\hat{Y}: 3,252.322 + 246.942 X + 62.873 X^2, \text{ the trade values of}$$

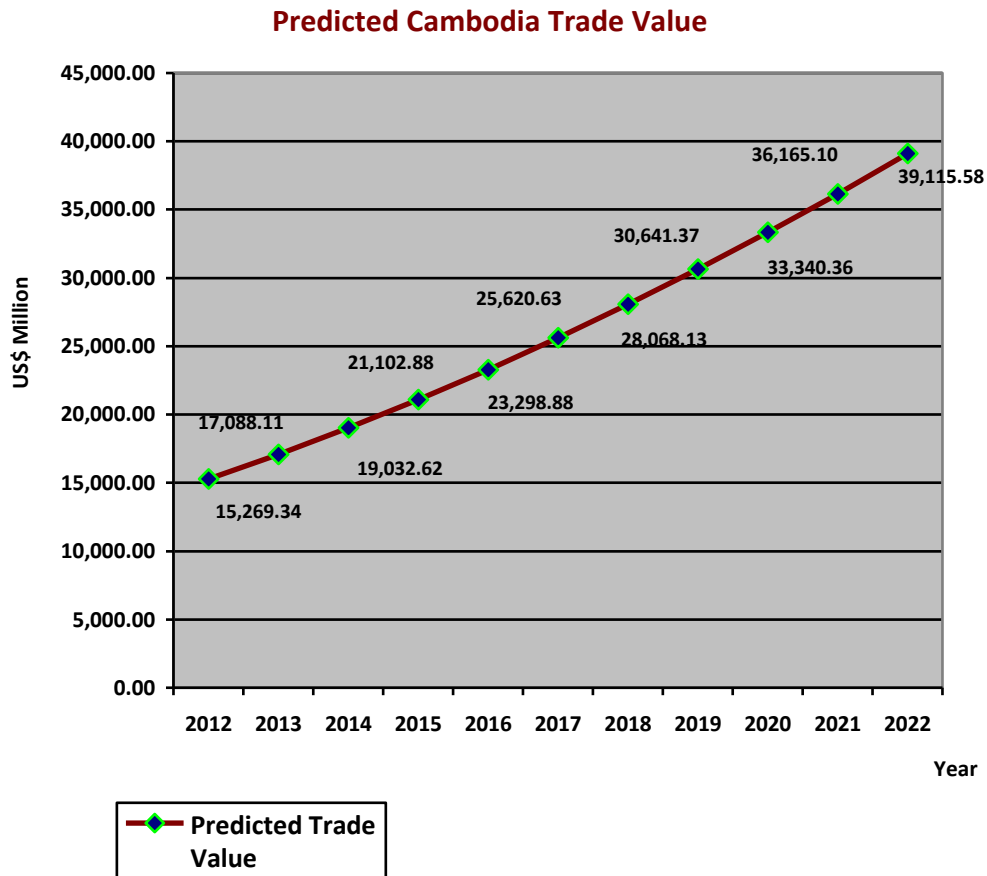
Cambodia from 2012 to 2022 have been predicted and presented in Table 6.2.18. The predicted values of trade of Cambodia had shown a continuous increase from 2012 to 2022. The predicted trade value had reached USD 39,115.58 million in 2022, from the trade value of USD 15,269.34 million in 2012. Further, Figure 6.2.14 shows the predicted values of Cambodia's trade from 2012 to 2022.

**Table 6.2.18: Predicted Values of Cambodia's Trade
(2012-2022)**

Year	Predicted Value (USD Million)
2012	15,269.34
2013	17,088.11
2014	19,032.62
2015	21,102.88
2016	23,298.88
2017	25,620.63
2018	28,068.13
2019	30,641.37
2020	33,340.36
2021	36,165.10
2022	39,115.58

The growth of trade by percentage was 11.91 in 2013 which had fallen to 8.15 percent in 2022. Thus, Figure 6.2.14 shows that Cambodia's Trade will continuously go up until 2022. However, to realize the same, sound macroeconomic policies of the government are required. Further, Cambodia's trade sector (goods and services) is heavily correlated with the business cycle of developed economies such as the United States of America and European Union.

**Figure 6.2.14: Predicted Values of Cambodia's Trade
(2012-2022)**



6.3. Conclusion

In this chapter with the help of a statistical model the trade values of ASEAN and Cambodia for the period 2012 to 2022 have been predicted. The result shows more than 100 percent increase of the trade value in 2022 as compared to 2012. However, the growth of trade is highly dependent on both internal and external environments. Both ASEAN and Cambodia's trade are heavily correlated with the environment of developed countries such as USA,

EU, Canada, and Australia for exportation and with China, Japan, and Korea for importation of inputs, especially the materials and equipment to support the garment industries. Thus, ASEAN and in particular, Cambodian government should maintain a cordial relationship and sound macroeconomic policies to accelerate the pace of economic development through trade.

Chapter VII:

**CONCLUSION AND
RECOMMENDATIONS**

In this chapter, the main findings of the study, conclusions and recommendations for policy options are presented. It also includes the measures for ASEAN and Cambodia to enhance their future trade value. Based on the above objective the chapter is divided into three sections. While the first section is about the main findings of study; the second section presents recommendations from the research to all concerned. The last section presents the conclusion of the study along with the scope for future research.

The present study sought to provide answers to the following questions:

- a) What factors determine international trade?
- b) What were the variations of ASEAN and Cambodia trade value from 2001 to 2011?
- c) What will be the future trend of ASEAN and Cambodia trade value from 2012 to 2022?
- d) What roles do the agencies, associations and government play to promote ASEAN and Cambodia trade?
- e) What measures are needed to be taken by ASEAN and Cambodia to increase the future trade value?

The study had focused on the following objectives:

- a) To review the literature in identifying and analyzing the factors influencing international trade.

- b) To analyze the value of trade variations of ASEAN and Cambodia from 2001 to 2011.
- c) To study the future trend of ASEAN and Cambodia's trade value from 2012 to 2022.
- d) To analyze the policies and procedures of several agencies, associations, and government to promote ASEAN and Cambodia trade.

The study had attempted to test the following hypotheses:

- a) Ho1: There is no year-wise variations of ASEAN and Cambodia's trade values during the study period.
- b) Ho2: There is no significant difference between the actual and estimated ASEAN and Cambodia's trade values over the study period.

The study was carried out by using the secondary data for the period 2001 to 2011.

7.1 Main Findings of the Study

ASEAN region had a population of about 604 million people and almost USD 2 billion GDP in 2011. Today, the region is considered as an important economic force in the world. Along with ASEAN, Cambodia had almost USD 7,790 million GDP with nearly 14.5 million people in 2011. With such economic forces, the region has a high bargaining power in the world

economy and possesses the potential to identify the economic cooperation among its member nations and neighboring countries.

It is revealed from the study that intra-ASEAN trade was lower as compared to the extra-ASEAN trade potentials. It has been found that the total trade grew constantly about 12 percent from 2001 to 2011. USA, EU-27, Canada, Australia, and New Zealand as well as India and Pakistan were the main export destinations for ASEAN. The total value of trade from Cambodia during the study period for USA and EU-27 respectively was USD 17,869.82 million and USD 7,601.22 million. Both ASEAN and Cambodia got surplus trade value from USA and EU-27, whereas, it was deficit from China, Japan, South Korea and Russia during 2001 to 2011.

ASEAN earned a sum of USD 1,242,286 million in 2011 by exporting top 20 products to all over the world. The commodities shared 47.7 percent with the total ASEAN exports and the other subordinate export products accounted for 52.3 percent in 2011. The top grouping commodities were electronic integrated circuits, Petroleum oils, gases and other gaseous hydrocarbons, automatic data processing machines and units thereof, natural rubber, coal & briquettes & ovoids, parts & accessories of computers & office machines, diodes & transistors & similar semiconductor devices, telephone sets, printing machinery, parts & accessories of motor vehicles, gold, electrical machines and apparatus, rice, discs & tapes & solid-states non-volatile

storages devices, monitors and projectors, articles of jewelry and parts thereof and polymers of ethylene.

ASEAN also spent USD 1,146,306 million in 2011 to import the top 20 commodities from the world. The commodities were accounted for 46.4 percent of the total imports and the rest was 53.6 percent in 2011. The commodities were identified as petroleum oils, electronic integrated circuits, bituminous minerals & crude, electric appliance, gold, unwrought, parts & accessories of computers & office machines, automatic data processing machines and optical reader, parts & accessories of motor vehicles, petroleum gases and other gaseous hydrocarbons, semiconductor devices, printing machines, aircraft, powered; spacecraft & launch vehicles, helicopters, satellites, motor cars & vehicles, turbo-jets, polymers of ethylene, etc.

In 2011, Cambodia earned a sum of USD 6,635.9 million by exporting top 10 products to all over the world and more than half of the total export made to G8 member states. The commodities were noted as natural sands of all kinds, rice, manioc (cassava), and similar roots and tubers, fish, women's or girls' suits, fuel wood, men's or boys' suits, natural rubber, and others.

Cambodia had spent USD 6,080.82 million in 2011 to import the top 10 products from all over the world and more than half of the total imports were from intra-ASEAN. The commodities were identified as petroleum oils and other various oils obtained from bituminous minerals, other than crude; other

knitted or crocheted fabrics; knitted or crocheted fabrics of a width not exceeding 30 cm.; other woven fabrics of synthetic staple fibers; motor cars and other motor vehicles principally designed for the transport of persons; yarn (other than sewing thread) of synthetic staple fibers, not put up for retail sale; cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes; electrical apparatus for line telephony, including line telephone sets with cordless handsets and telecommunication apparatus; videophones; medicine; dumpers designed for off-highway use, etc.

The maximum variation of ASEAN trade was 33.11 percent in 2010 and the minimum variation was 3.30 percent in 2002. The average percentage of annual variation was approximately 14 percent. The maximum variation of Cambodian trade was 28.47 percent in 2003 and the minimum variation was 0.50 percent in 2004. The average percentage of annual variation for Cambodia was approximately 16 percent.

The estimated value over the period 2001 to 2011 had shown a continuous rise starting from USD 635,194.90 million in 2001 to USD 2,271,050 million in 2011 for ASEAN trade while it had increased from USD 3,562.14 million in 2001 to USD 13,576.32 million for Cambodia's trade. The actual trade value from 2001 to 2011 had also increased from USD 690,990.70 million to USD 2,388,592 million for ASEAN trade and from USD 3,287.62 million in 2001 to USD 14,479.66 million for Cambodia.

There had been a continuous increase in the predicted value of ASEAN trade from 2012 to 2022. The predicted value of ASEAN trade in 2022 reached USD 4,867,197 million, an increase of nearly double as compared to the predicted trade value of USD 2,472,574 million in 2012. Meanwhile, the predicted value of Cambodia's trade had reached USD 39,115.58 million in 2022, an increase from the trade value of USD 15,269.34 million in 2012.

To enhance the international trade after 2002, ASEAN had agreed with the Common Effective Preferential Tariff Scheme for ASEAN Free Trade Area in which the tariffs on Intra-ASEAN regional trade was no more than five percent for almost all products in the Inclusion List or removed them together. The free trade area covered all manufactured and agricultural products. For the first six signatories on 1,683 items out of 44,660 traded under the AFTA scheme were about 3.8 percent. However, 734 tariff lines in the General Exception List were about 1.09 percent of all tariff lines. To follow the WTO Agreement, the ASEAN had harmonized tariff nomenclature. ASEAN leaders had agreed to eliminate all import duties by 2010 for the six original members and by 2015 for the new members.

Cambodia had eliminated duties at 7.64 percent of its IL in 2010. A new harmonized tariff nomenclature (AHTN) was promulgated in 2003 and implemented from 1 January 2004 (MEF, 2004 & CED, 2003). Cambodia had experienced more imports than exports of the goods and services with its partners because of the need of foreign direct investment and there were

some incentives with taxes and special economic zones concession. Cambodia levies export taxes on certain unprocessed raw materials and products to encourage local processing, encourage exports of finished products, and protect human health. Export duties were imposed on an MFN basis while its ASEAN partners were not exempted from these taxes. According to the authorities, the draft law on trade remedies followed closely the WTO safeguard and anti-dumping agreements. For accession, Cambodia had agreed not to introduce, re-introduce or apply other non-tariff measures such as licensing, quotas, prohibitions, bans and other restrictions having equivalent effect that could not be justified under the provision of the WTO agreements. With regard to customs, in order to meet WTO requirements, several laws and regulations have been enacted such as Law on Customs promulgated on 20 July 2007 which consists of 13 chapters and 80 articles and supporting regulations which consist of one Sub-Decree (Anukret), 25 Ministerial Prakas and two guidelines. The main entity to promote Cambodia's exports is the Trade Promotion Department (TPD) of the Ministry of Commerce (MoC) which undertakes a range of activities to support actual and potential Cambodian exporters. International trade procedures were laid out in Sub-Decree No. 131 (2006) and under Sub-Decree No. 59 (2008). The TPD has the following duties and responsibilities: (i) inspection of imports and exports, jointly with Customs; (ii) consumer protection through product safety and suppression of fraud; (iii) export certification to meet importing country requirements; (iv) checking of compliance with international standards; (v) review of health and safety products from production through

commercialization, and submission to competent authorities; (vi) control of products and services on the markets; (vii) management of MoC laboratory product testing facilities; (viii) provision of a commercial inspection service; (ix) collection of inspection fees relating to import/export quality testing; and (x) secretariat of National Codex Committee and SPS National Enquiry Point⁵⁴.

In conclusion, ASEAN and Cambodia are considered as the potential regions and have high bargaining power in trading and co-operating some economic activities with many partners in the world. USA, EU-27, Canada, Australia, and New Zealand are the main export destinations for ASEAN and Cambodia, whereas, China, Japan, South Korea and Russia are the main international suppliers for ASEAN and Cambodia.

International trade between the world and ASEAN including Cambodia was lower than extra-ASEAN countries. However, signs of upward trend have been evidenced over the past several years. There are high prospects for trade in the future given the high complementarity among ASEAN nations with EU-27, USA, Canada, Australia, and others. The imported products were mostly related to manufactured products such as electronic devices, petroleum oils, machines, parts and accessories of motor vehicles, and others; especially from China, Japan, South Korea to ASEAN and Cambodia. The exported products were mostly natural sands, rice, Manioc (cassava),

⁵⁴ MoC Declaration No. 141 (Prakas of 2003) on Formation of SPS Enquiry Office (Point) under Camcontrol, nominated Camcontrol as SPS enquiry point and to work closely with the National Codex unit and to create SPS awareness within country.

women's or girls' suits, men's or boys' suits, fuel wood, natural rubber, and others.

The trade variation was not very large, as it was only 14 percent for ASEAN and only 16 percent for Cambodia. The actual value was similar to the estimated value for both ASEAN and Cambodia. The trend of ASEAN and Cambodia's trade will continue to increase nearly double by the next decade. However, the policies and procedures were still made trade barriers for both ASEAN and Cambodia because some tariffs on few items were not eliminated. Some policy instruments were also not applied even though there was an agreement to justify for WTO requirements.

7.2 Recommendations

On the basis of the findings of the study, the following recommendations have been given:

ASEAN and Cambodia should use its potential region and people to build the confidence in producing agricultural products and attracting more trading activities.

The merchandise trade deficits remained sustainable in the short-term because ASEAN and Cambodia rely on imported capital goods. In the medium term, there should be a clear need to diversify the economy, which is overly dependent on the garment, tourism, and construction sectors in Cambodia.

The international trade policy discussions have given Cambodia to a lower rank in a number of government indicators. Thus, there should be initiatives to improve Cambodia's international competitiveness.

Cambodia should strengthen and enforce its capacity to combat illegal trade in arms and narcotics. It should accelerate the plan's objectives such as taxpayer awareness, anti-smuggling policy, automated customs clearance system, single window implementation, risk-management and post-clearance audit, etc. Thus, as planned, the modernization and streamlining of customs procedures should be effectively carried out.

As the main export destinations for ASEAN and Cambodia were shared by USA, EU-27, Canada, and Australia, the relations and cooperation with those countries should be focused and further strengthen. ASEAN and Cambodia should consider and complete quickly the condition and requirements for supports and getting aids from them.

The business organizations and government should consider the commodities and products as mentioned in chapter VI to develop or improve to attract more markets. The production of both agricultural products and manufactured products should be enhanced for welcoming international trade.

ASEAN and Cambodia should follow the WTO guidelines and international trade policies to balance the total trades in the world. For Cambodia, it also requires to improve its political climate to build confidence among others.

Policy implications of the research findings are that the development of ASEAN and Cambodia framework still relevant to be discussed. Of course, to make the economic cooperation more fruitful, increasing international competitiveness in ASEAN and Cambodia should be considered. In order to accelerate the performance of export sector, ASEAN and Cambodia should become a member of the world Trade Organization Negotiations on The Cairns Group of Agricultural Exporters. ASEAN and Cambodia should assume even greater importance in the long run. Factors to support should include market driven economic interaction.

7.3 Scope for Further Research and Conclusion

The present study has given enough scope for carrying out future research. Further study should analyze the new trends with special reference to other countries in Southeast Asia such as Laos, Vietnam, Thailand for the next decade. Furthermore, an analysis of the policies relating to trade of those countries be examined and reviewed in order to anticipate the trend from 2022 to 2050.

A coherently integrated, not a fragmented, Asia is needed to realize an “Asian” century. ASEAN should maintain its centrality in the regional architecture for cooperation to allow an Asia-wide economic community to emerge. The association has a very important role to play in ensuring that other major Asian economies such as the China, India, and Japan will be able to work together to create such a community. ASEAN and its AEC can play a core central function in this process, as no regional member wants other groups to take leadership. Eventually, a more closely integrated and coordinated Asia is of strategic importance to ensure sustained global economic integration, growth, and shared prosperity.

While ASEAN has served the region well so far, efficiency-boosting reforms are needed. Handling economic and social issues requires flexibility, and timely decisions, which the current institutional system is often unable to provide. Without institutional reform, ASEAN will be unable to maintain its centrality and strengthen its competitive edge against the rise of other fast growing nations including emerging regional economies. To sum-up, the present study is considered to be significant from the point of view of both academic and policy directions.

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