BRINGING DOWN THE BARRIERS – CHARTING A DYNAMIC EXPORT DEVELOPMENT AGENDA

World Export Development Forum
Montreux, Switzerland, 8-11 October 2007

Cambodia
Background Country Report

WINNING NATIONAL STRATEGIES FOR EXPORT DEVELOPMENT
Trade Strategy: Identifying the Most Promising Export Potentials for Trade Diversification

To develop a more strategic view of Cambodia’s trade sector development, the Diagnostic Trade Integration Study 2007 identifies an initial basket of 19 export potentials and examines them through a series of “filters.” The “filters” are meant to identify export potentials that may “mature” more quickly or that Cambodia may seek to encourage more rapidly based on their current competitiveness strengths and weaknesses, their market access conditions, or their poverty-reduction impact. The filters are also used to try to ascribe priority to the cross-cutting legal and institutional reforms (trade facilitation, investment facilitation, TBTS, SPS, and IPRs) that might have a more immediate positive impact on the development of potential early gainers.

This analysis focuses on Cambodia’s current export performance in the 19 sectors and upon the countries or regions where opportunities for Cambodian exports might be greatest at present. It examines changes in world market demand, current supply capacity, and an initial assessment of potential positive impact of the sectors on poverty-reduction and sustainable development. This allows for an initial ranking of the 19 sectors.

Initial Identification of 19 Products and Services with Export Potentials

The analysis of export potentials starts from a list of 19 products and services. The sectors were selected jointly by representatives from the Ministry of Commerce, UNDP-Cambodia, ITC’s market analysis team, and local consultants. The list is divided into two lists, separating goods already exported (List 1) from goods produced in Cambodia but yet-to-be-exported as well as services currently exported or yet-to-be exported (List 2.)

The analysis is based on data from international data bases (ComTrade, TradeMap, Market Access Map for goods, IMF Balance of Payments for services) and data collected through a 2006 field survey of Cambodian producers carried out specifically for this study. Data availability for the 7 products and services included in List 2 sectors is far more limited necessitating some adjustments in the quantitative methodology applied here.

Cambodia is a small, least developed countries and the initial list of 19 products and services has been selected because those products and services capture many of the country’s current strengths. Specifically,

Competitive strengths:

- Plentiful labour and low labour costs
- Very large rural population
- Unique natural factor endowments including extensive arable land and Tonle Sap
- Unique cultural factor endowment including Angor Wat and other Khmer historical sites
- Market access preferences linked to Cambodia’s LDC status (including preferential tariffs in garments and other sectors)
- Fair labour standards and its “Better Factories” Programme
- Demonstrated ability to build on a small-scale controls and monitoring systems required to produce organic agriculture that can meet demanding standards of advanced economies

Some products included in List 2 have been selected because, even if they are yet-to-be exported (or are unreported in official Cambodian export statistics), Cambodia’s neighbours including Thailand, Vietnam, and Lao PDR export them significantly. If these three countries are able to export (thus, produce) such products as bananas, mangoes, pineapples, or onions, Cambodia, with very similar climate and soil conditions, should also be able to produce and export those and like products. Likewise, experience from other countries in the region suggest that a number of manufacturing products can “trickle down” over the medium term, with production moving from more advanced countries to lesser ones. Thus activities that have moved from China to Vietnam might move next to Cambodia.
Assessing Opportunities for Export Development:

To explore potential for export development, each of the sectors is assessed in terms of its opportunities for export and for its possible socio-economic impact. Three main indexes are used to assess export opportunities:

- **Index 1** measures current export performance of Cambodia in the given product or service sector by the export value in 2005;
- **Index 2** measures conditions of market demand in world markets using a composite indicator including growth of international demand and Cambodia’s access to international markets (based on tariffs);
- **Index 3** measures domestic supply capacity. The index is based on the results of a survey of Cambodian firms carried out for DTIS 2007 in which more than 150 enterprises were questioned about supply issues such as the quality of products and the efficiency of supporting industries;
- **Index 4** measures the potential socio-economic impact of each product or service sector on the Cambodian economy. The index is derived from the same enterprise survey in which firms were asked to evaluate their current and/or potential impact on employment creation, employment of women, poverty reduction, rural development, industrialization, and environmental sustainability.

The analysis is based on data from international databases (ComTrade, TradeMap, Market Access Map for goods, IMF Balance of Payments for services) and data collected between summer 2006 and February through a field survey of Cambodian producers carried out specifically for this study. Data availability for the 7 products and services included in List 2 is far more limited necessitating some adjustments in the quantitative methodology applied here.

In total, the study provides rankings for each dimension as well as an overall ranking of export development opportunity that can be used to draw the attention of policy-makers. The resulting industry rankings should be interpreted with some caution: differences are often small and many indicators lack accuracy.

The results from this analysis point to some of the following observations:

- The export potential index – which combines Cambodia’s current export performance (Index 1), demand on world markets (Index 2), and domestic supply conditions (Index 3) – is the highest for garments, footwear, cassava, fishery and tourism products;
- The socio-economic impact index (Index 4) is the highest for garments, footwear, rice, silk, fruits and vegetables, and tourism.
- Combining the export potential index with the socio-economic impact index points to the following sectors as offering high opportunities for export development: garments, footwear, rice, cassava, rubber, tourism, followed by fishery products, cashew nuts, fruits and vegetables, wood products, light manufacturing, and labour services.

**Attractive Markets for Expanded Cambodian Exports**

To identify where new markets for expanded exports by Cambodian producers might be found, a market attractiveness index has been developed for each product or service sector in Lists 1 and 2. The attractiveness index ranks potential destination markets for each product or service and is a composite measure of the attractiveness of importing markets. It compares, for each product or service, the relative standing of importing countries in four areas:

- The dynamism of a given import market, as measured by the difference of the growth of that import in the given market and the growth of world imports for the same product. The presence of Cambodian exporters in a country with fast growth in import demand for their products may positively impact on Cambodia’s exports for those products;
• The size of import markets, as measured by their share in world imports of a given product. Larger markets are potentially more interesting than smaller ones;

• The openness of import markets for products from Cambodia, as measured by the ad valorem equivalent tariffs they apply to imports from Cambodia for a given product. Everything else being equal, it is easier for enterprises in Cambodia to export to open markets than to relatively closed markets;

• The preferential access to import markets, as measured by the tariff differential between tariffs faced by Cambodia and those faced by its five major competitors in each import market.

The results are quite revealing both on a product-by-product basis and overall:

• Cambodia’s main export destinations are the United States, the European Union (especially Germany and the United Kingdom), Canada, Japan, Singapore, and Switzerland. It must be noted though that Cambodian exports in the table are derived from official import statistics of the receiving countries (so-called “mirror” statistics.) Important key partners, especially Vietnam and Thailand are either not represented or underrepresented (due to extensive informal trade.) We have added those countries to which we know there are large volumes of export, even if unrecorded;

• The United Kingdom seems to the most attractive new and/or expanded market for products from List 1 (column 3.) The UK figures among the ten most attractive markets for 163 of the 192 products included in List 1. The UK is followed by France, Italy, Spain, Germany and Japan – all of which are among the ten most attractive markets for more than 100 products. Canada and Hong Kong also look promising for expanded markets. In general, these countries tend to be important importers that grant preferential access to products from Cambodia. Other interesting potential markets for List 1 products (column 4) are in South-East Asia (Singapore, Thailand, Indonesia, Malaysia, and Vietnam), the Gulf countries (Saudi Arabia and the United Arab Emirates), Australia, Turkey and Kazakhstan;

• Strong current Cambodian exports to Vietnam, Thailand, and other countries from the sub-region for a number of emerging agricultural exports (e.g. rice, cassava, cashew nuts, rubber, soybeans, corn) reflect Cambodia’s often-weak current processing capacity. This finding points to an important direction for Cambodia to increase the value it can extract from its export by building up processing capacity;

• Notwithstanding the previous information, South East and East Asia – including China, Taiwan (PoC), South Korea, Australia, Japan, and ASEAN countries – offer major current or potential destinations for many Cambodian exports, especially for products other than garments;

• Beside varying degrees of current and/or potential export opportunities to the key regions of North America, Western Europe, and Japan, the table suggests interesting opportunities for exports to a number of ex-Soviet Republics, the Russian Federation itself, as well as some African and Arabic countries;

• This diversity of geographical opportunities is important to consider because the market attractiveness analysis, thus far, is based on comparing tariff-based market access conditions. While Cambodia continue to benefit from preferential tariff conditions, differences in non-tariff barriers in a number of the export potentials identified in this chapter may play an even larger role in determining whether Cambodian exporters can succeed in those markets.