

Chapter 8

Trade Reforms

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“The Royal Government of Cambodia will strictly implement its obligations under the World Trade Organization, recognizing that Cambodia’s membership in the WTO requires great efforts in the formulation, adoption and the implementation of laws, regulations, and procedures...” (Royal Government of Cambodia, 2004b, p. 81.)

“Donors welcome the recent progress made in reform. Important recent achievements include entry to the WTO, the reduction of cost and time associated with simplification of company registration and import and export procedures, and the creation of the high-powered Steering Committee for Private Sector Development focusing on reform in three key areas: trade facilitation, SME development and public- private partnership...”. Statement made by the Representative of ADB at the Consultative Group meeting in Phnom Penh, December 6, 2004.

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Trade reform, especially on economic integration, is one of the most important accomplishments the government has made since its commitment to integrate its economy into the region and the world in the early 1990s. This was also strategically emphasized later in the 2001 Pro-poor Trade Strategy, the 2001 Socio-economic Development Plan II and the 2002 Poverty Reduction Strategy Paper, and in the 2004 Government Rectangular Strategy. However, we only examine the reforms progress in the area of trade against the action plan laid out in the poverty reduction strategy paper only.

8.1. Economic Integration

8.1.1. WTO

Cambodia became a member of the WTO in October 2004, later than expected, because ratification of the agreement was delayed by the Cambodian parliament due to political deadlock following the July 2003 elections.⁵⁰ The accession package required Cambodia to adopt 47 pieces of

⁵⁰ More details of the process of and pros and cons of Cambodia’s accession to the WTO can be found in Chea Samnang and Sok Hach’s articles in the EIC’s Economic Review, volume 1, No.1,

law, of which 14 pieces had been approved - five in 2001, five in 2002 and four in 2003. Nineteen pieces of law for WTO conformity were supposed to be enacted in 2004 but were delayed for around one year due to political impasse. Thus, a total of 31 passages are expected to be adopted by the Cambodian parliament in 2005, and two passages should be enacted in 2006 (Box 8.1). Yet it is unlikely, given the current capacity of the National Assembly, to meet the deadline. As Chea Samnang and Sok Hach (2003) claimed, “it has, on average, taken three months [for the National Assembly] to adopt a piece of legislation.”

Box 8.1: WTO Conformity Laws Expected to be Approved by the National Assembly in 2005

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| 1. Law on Business Enterprises | 18. Law Establishing the Commercial Court |
| 2. Tourism and Entertainment Law | 19. Criminal Procedure Code |
| 3. Negotiable and Payment Transaction Law | 20. Law on Layout Designs of Integrated Circuits |
| 4. Customs Code | 21. Law on Plant Variety Protection |
| 5. Land Traffic Law (Highway Code) | 22. Commercial Leasing Law |
| 6. Water Resources Management Law | 23. Merchant Shipping Law |
| 7. Water Supply Law | 24. Law on Protection of Undisclosed Information |
| 8. Law on Export Processing Zones (EPZs) | 25. Law on Anti-dumping Measures |
| 9. Commercial Arbitration Law | 26. Criminal Code |
| 10. Civil Aviation Law | 27. Law on Criminal Procedures |
| 11. Insolvency Law | 28. Commercial Agency Law |
| 12. Secured Transactions Law | 29. Civil Procedure Code |
| 13. Commercial Contracts Law | 30. Civil Code |
| 14. Telecommunication Law | 31. Law on Safeguard Measures |
| 15. Fisheries Law | 32. Competition Law |
| 16. Law on Geographical Indications | 33. Securities and Exchange Laws |
| 17. Law on Rule of Origin | |

Sources: EIC, reproduced from Chea Samnang & Sok Hach (2003) and IMF (2004b).

8.1.2. ASEAN, Regional and Sub-regional Integration

The government restructured the tariff rate in 2001 by reducing the maximum tariff rates from 120 percent to 35 percent and reducing the bands from twelve to four (0 percent, 7 percent, 15 percent and 35 percent). Moreover, under the AFTA program, Cambodia was recently

September-October, 2003. Cambodia was admitted, along with Nepal, to become a member of the WTO at the Fifth WTO Ministerial Conference at Cancun, Mexico on 11 September, 2003. However, it was delayed almost a year until a functional legal parliament ratified the agreement for Cambodia's admission on August 31, 2004.

reclassified to the ASEAN Harmonized Tariff Nomenclature (AHTN). The average tariff rates were lowered to 15 percent in 2004 from 16.5 percent in 2003 (IMF 2004b).

Progress in establishing free trade areas (FTAs) has also been made via ASEAN (See Box 8.2). ASEAN is working to build several of the world's biggest trading blocs by signing separate agreements with China, Japan, South Korea, and India. For instance, ASEAN-China will comprise 1.7 billion consumers whereas ASEAN-India will comprise 1.5 billion consumers. Hundreds of goods have been given low tariff rates under these FTAs. A similarly positive move is the ASEAN-CER Free Trade Area between members of ASEAN and members of the Australia-New Zealand Closer Economic Relations Trade Agreement.

In the area of sub-regional trading blocs, the government also made a remarkable step. Cambodia joined the Greater Mekong Sub-region Development Cooperation (GMS) initiative and formed various economic development zones with neighboring countries Thailand, Vietnam and the Lao PDR.

Despite this successful deepening of integration, real benefits will not be realised if the country cannot produce competitive goods for export, and if other structural reforms progress slowly or remain stagnant.

Box 8.2: Recent Developments in Regional and Sub-regional Integration

1. FTAs under ASEAN Framework

- ASEAN-China: Framework Agreement for ASEAN-China Economic Cooperation providing Special Preferential Tariffs (SPT) for 297 items.
- ASEAN-Japan: The Framework for Comprehensive Economic Partnership between ASEAN and Japan providing General System of Preferences (GSP) for 226 items.
- ASEAN-Korea: the ASEAN-South Korea Free Trade Area, providing General System of Preferences (GSP) for 78 items.
- AFTA-CER Free Trade Area (expected soon).
- ASEAN-India: The ASEAN-Indian Economic Partnership Agreement.

2. Sub-regional Economic Integration

- Thailand-Cambodia Joint Development within the framework of Ayeyawady Chao Phraya Mekong Economic Cooperation (ACMECS)/Cambodia, Thailand, Lao PDR and Myanmar: Economic Cooperation Strategy.
- Cambodia Vietnam and Lao PDR: Triangle Economic Cooperation/Development Triangle Zones/Cambodia-Laos-Vietnam Development Triangle.
- The Cambodia-Lao-Thailand Emerald Triangle/Cambodia Thailand and Lao PDR Development Triangle Zones.
- Greater Mekong Sub-region Development Cooperation.

3. Other Areas

- South-South Trade: Global System of Tariff Preferences.

Sources: EIC, compiled from Royal Government of Cambodia (2004b) and World Bank (2004).

8.2 Trade Facilitation

Progress on reducing overlapping administrative responsibilities for exports and imports has been slow since 2001 (See Box 8.3). It wasn't until the World Bank study "Seizing the Global Opportunity: Investment Climate Assessment & Reform Strategy" was publicized that the government took more actions to improve its time-consuming administrative procedures. As shown in Table A1.1 in appendix 1, the new procedure suggests the inspection of goods must be done at one time by officials from MIME and MOC. The necessary documents have been reduced from nine to seven. Moreover, duration of issuance of C/O, C/I and E/L certificates by relevant agencies within the MOC is restricted to only 11 hours 55 minutes, starting from the exact date and time companies applied for these certificates.

Box 8.3: Recent Development in Trade Facilitation Reforms

Progress	Remained Issues
▪ Took some actions to rationalize overlapping administrative responsibilities of authorities ▪ Reduced costs and time on issuance of C/I, C/O, E/O ▪ Reduced costs and time on business registration	▪ Computerize customs compliance procedures ▪ Successful implementation of twelve point action plan to improve trade facilitation and improving investment climate (as shown in Table A1.2 in Appendix 1)

Source: Selected from matrix A2.9 in Appendix 2.

In the area of automation systems, the intention to computerize customs clearance is expected to lag behind the promised schedule. The internet capable customs clearance system has not yet been put in place. And by the end of 2004, the government could only complete the proposal for information technology installation at the customs and excise administration.

Nonetheless, streamlining trade is underway as the government is committed to implementing a twelve-point plan that was drawn up with the World Bank in 2004 (See Table A1.2 in appendix 1). It is an urgent task, which the government promised to strictly complete by December 2005. Therefore the success or failure of improving trade facilitation depends largely on transforming this new pledge into concrete results.