

Cambodia's Trade in ASEAN:

To What Extent Do Exports Benefit from Preferential Schemes?

Cambodian Exports to ASEAN benefiting from CEPT and AISP schemes are minimal. Both preferential schemes are not providing profit for at least 68 percent of total Cambodian exports to the region.

Cambodia became the tenth member of the Association of South-east Asian Nations (ASEAN) in 1999. From a trade perspective, this integration would boost intra-regional trade since tariff barriers are removed and Cambodia would benefit from preferential schemes. The country also expected to expand its regional trade through regional trade agreements with other economies and regions.

Since it is a less developed country member, Cambodia is granted tariff concession under several regional preferential schemes, such as ASEAN Integration System of Preferences (AISP) by more developed country members. Though Cambodia is awarded these privileges, exports to the region have remained flat while imports have seen a rising trend; thus, leading to a large trade deficit with the region.

This article provides an overview of Cambodian trade within ASEAN and a discussion on CEPT and AISP preferential schemes granted to Cambodia. Then, an assessment is made of the extent to which Cambodi-

an exports benefit from CEPT and AISP schemes by using the margin of preferences (MOP) approach and examining approval AISP lists. Some possible reasons for low utilization rates of both schemes are also discussed. Finally, some conclusions and recommendations are highlighted.

Overview of ASEAN

ASEAN was established in 1967 in Bangkok by five original member countries namely Indonesia, Malaysia, The Philippines, Singapore and Thailand. Brunei Darussalam joined the association in 1984, Vietnam in 1995, Lao PDR and Myanmar in 1997. Cambodia is the last member, to join. The objective of the ASEAN is to accelerate the economic growth, social progress and cultural development in the region through joint endeavours in order to strengthen the foundation for a prosperous and peaceful community. Its aims are also to promote regional peace and stability through abiding

respect for justice and rule of law in the relationship among countries in the region and adherence to principles of the United Nations Charter.

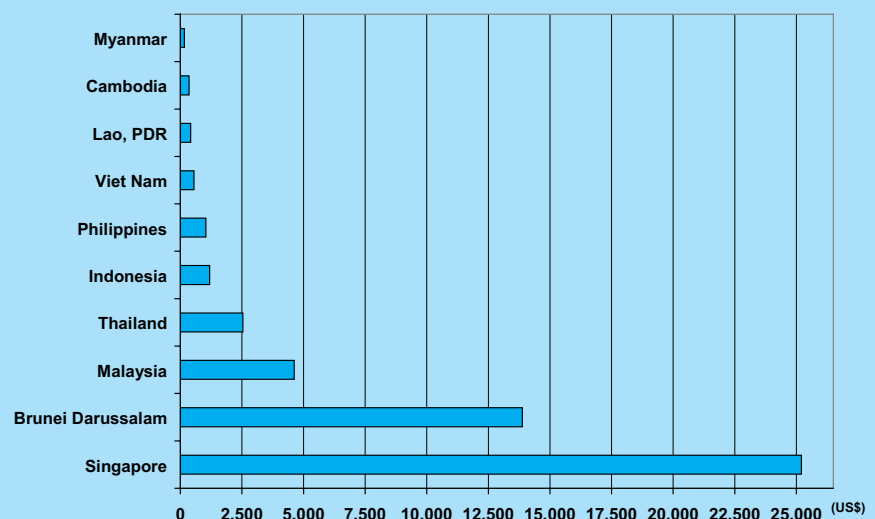
The highest decision-making organ of ASEAN is the meeting of the ASEAN heads of state and governments; the summit is convened every year. Ministerial meetings concerning several sectors are also held. These ministerial bodies are supported by 29 committees of senior officials and 122 technical working groups. The Secretary-general is appointed on merit for a five-year term and is mandated to initiate, advise, coordinate and implement ASEAN activities. The professional staff in ASEAN secretariat are recruited on a region-wide competition basis.

Economic integration in the region has been achieved through a number of initiatives such as CEPT, AISP, AIA and AICO. The Common Effective Preferential Tariff (CEPT) under ASEAN Free trade Areas (AFTA) initiative is an instrument to remove tariff barriers and allows intra-regional trade to benefit from zero or

List of Abbreviations and Acronyms

AIA: ASEAN Investment Area
AICO: ASEAN Industrial Cooperation
AFAS: ASEAN Framework Agreement on Trade in Services
AISP: ASEAN Integration System of Preferences
AFTA: Free Trade Area
ASEAN: Association of South-East Asian Nations
CEPT: Common Effective Preferential Tariff
CLMV: Cambodia, Laos, Myanmar and Vietnam
GSP: Generalized System of Preferences
IL: Inclusion List
MFN: Most Favored Nation
MOP: Margin of Preferences
TL: Tariff Lines

Figure 1: Comparison of GDP per Capita of ASEAN Countries in 2004



Source: ASEAN Statistics Year Book 2005

low tariff. Each country member agrees to lower tariffs based on their committed schedules. AISP is the preferential scheme granted by more developed country members to less developed country members whose eligible products are based on approved AISP lists. ASEAN Investment Area (AIA) is the arrangement under which investors from any ASEAN country would enjoy the same rights as the citizens of another ASEAN country in which they invest. This means that ASEAN can attract investments from within and outside the region and hopes to encourage foreign investors to regard ASEAN as a single investment area and plan their operations on the basis of a region-wide strategy. ASEAN Industrial Cooperation (AICO) Scheme allows companies operating in two or more ASEAN countries to apply for AICO treatment. This entitles companies' subsidiaries in different ASEAN countries to buy products from one another at a much reduced tariff rate. Moreover, other initiatives are also developed such as ASEAN Framework Agreement on Trade in Services (AFAS) and E-ASEAN agreement.

By 2004, the ASEAN region had a population of around 550 million, a combined gross domestic product of US\$800 billion, a total trade of US\$985 billion and total area of 4.5 million square kilometers. The region also hosts foreign direct investment (FDI) of around US\$25.6 billion.

GDP per capita is largely varied in the region and ranges from US\$165 to US\$25,200 (Figure 1). This huge variation reflects the disparities in economic development and living standards in the region. Among ASEAN members, six countries including Brunei, Indonesia, Malaysia, The Philippines, Singapore and Thailand are more developed compared to new members Cambodia, Lao PDR, Myanmar and Vietnam (CLMV). ASEAN6 countries make up about 86 percent of the region's population and their shares of both GDP and FDI account for about 90 percent of the region.

Cambodia's Trade in ASEAN

Cambodia's trade with ASEAN experienced deficit reaching about US\$700 million in 2005 (Figure 2). Imports from the region increased about 9 percent per annum while exports were stable. Statistically, Cambodian trade depends heavily on four countries namely Thailand, Vietnam, Singapore and Malaysia, accounting for about 90 percent of Cambodia's total intra-regional trade in 2004.

Cambodia's imports from the region reached about US\$700 million in 2004 and US\$800 million in 2005. Thailand is the main exporter to Cambodia, accounting for 33 percent while Vietnam, Singapore and Malaysia accounted for 24 percent, 20 percent and 11 percent, respectively. Main Cambodia's imported products are mineral products, prepared foodstuffs and textile and apparel, which account for about 60 percent of exports.

Cambodia's exports to the region were worth only US\$80 million in 2004 and US\$100 million in 2005. Exports to Vietnam accounted for about 50 percent while Thailand and Singapore absorbed about 20 percent and 13 percent respectively. The main exported products are rubber, wood and wood articles, textile and apparel and gems, which in total accounted for 67 percent.

Nevertheless, informal trade and smuggling is widespread, mainly

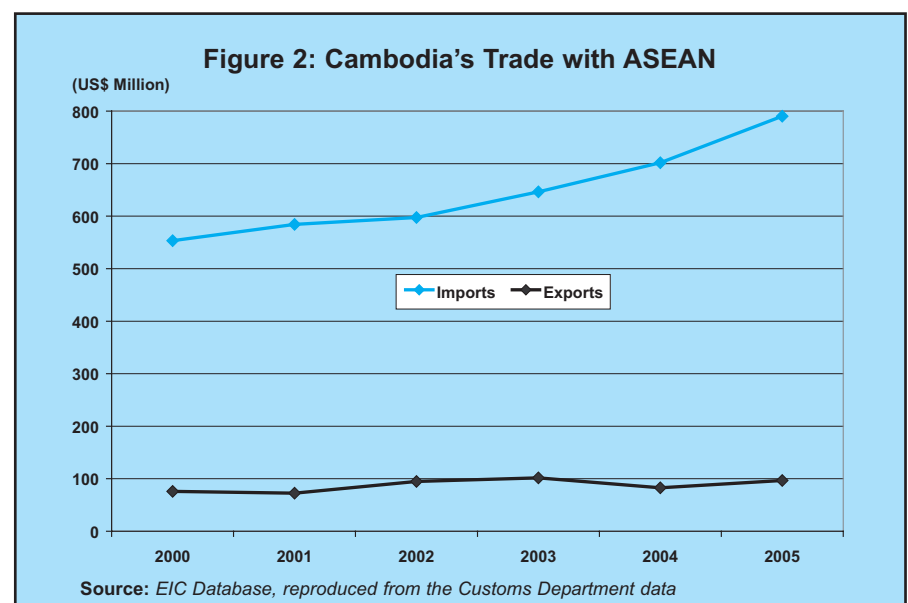
with neighboring countries. Gasoline is the largest informal import, in order to avoid higher gasoline tax.

The informal exports are significant along the Thai and Vietnamese borders. Most of these exports are raw agricultural products. Economic Institute of Cambodia (EIC) estimated that informal exports of agricultural products accounted for about 12 percent of total recorded exports. As a consequence, Cambodian farmers or traders are suffering from low bargaining power on prices due to a lack of market information and prices are often determined by traders from neighboring countries. Additionally, the country as a whole is losing in terms of value added since most informal exports are raw and unprocessed products.

Preferential Schemes for Exports

Cambodian exports to the region are able to benefit from preferential tariffs through the CEPT and AISP schemes. However, both preferential schemes are tied up with criteria from the rules of origin.

The CEPT scheme is implemented in the framework of AFTA in which country members commit to reduce import duties overtime. According to the protocol to amend the agreement on the CEPT Scheme for AFTA for the elimination of import



duties, the new ASEAN members shall be eliminated no later than 1 January 2015, with flexibility however allowed for import duties on some sensitive products to be eliminated no later than 1 January 2018, while import duties on products in the Inclusion Lists of Brunei Darussalam, Indonesia, Malaysia, The Philippines, Singapore and Thailand shall be eliminated no later than 1 January 2010.

Currently, tariffs on almost 99 percent of products in the CEPT inclusion list of ASEAN-6 have been reduced to 0-5 percent tariff range. The average tariff for ASEAN-6 under CEPT scheme is now 1.93 percent down from 12.76 percent in 1994. For CLMV, about 81 percent of products in the IL are in the 0-5 percent tariff range. Cambodia's inclusion list covers about 75 percent of total tariff lines. To be qualified with CEPT benefit, products have to satisfy the rule of origin and request certificates of origin of form D from competent authorities in exporting countries.

On the other hand, the AISP scheme is to accelerate the integration of CLMV into ASEAN and to promote greater exports of CLMV to ASEAN-6. The scheme is not subject to negotiation and is based on the commitments of preference-giving countries.

Nevertheless, exports need to meet criteria of rules of origin set by different preference-giving countries and are requested to provide certificates of rule of origin of AISP from the competent authority of the exporting countries.

Cambodia obtained the AISP scheme with tariff concessions between 0-5 percent. Actually, Cambodia requested 862 tariff lines in 2001 to be included in AISP list with a preferred GSP rate at zero. The country did not receive the maximum requested number of tariff lines but gradually obtained 632 tariff lines in 2005 an increase from 173 tariff lines in 2003. Among these, 487 tariff lines, or 77 percent of total tariff lines, obtained duty free status and 23 percent are subject to import duty at 5 percent. Of 632

tariff lines, 293 tariff lines are textile and apparel, 113 tariff lines are wood and wood articles, 101 tariff lines are agro-products and the remaining are furniture, jewelry, paper products, paint and varnishes.

Benefit of Preferential Schemes

The means to assess the benefits of Cambodia's exports obtained through preferential schemes are combined. First, the concept of Margin of Preference (MOP) is used as a tool to assess benefits from CEPT schemes. Then, main exports are examined to see if they are in the AISP lists given by other ASEAN members. MOP is the difference between the MFN rate and the CEPT rate. High MOP means that the benefit of trade under preferential scheme is high in comparison with trade under the MFN rate. Low MOP means low benefit under preferential schemes in comparison with trade under MFN. When MOP is zero, tariffs under preferential and MFN schemes are equal and the preferential scheme does not give additional tariff reduction compared to MFN rates.

The statistical analysis reveals that a majority of Cambodian exports to ASEAN do not benefit from preferential tariffs under the CEPT and AISP schemes, but they do enjoy low MFN rates. Among the 76 percent of total exports to ASEAN destina-

tions, 68 percent of exports to ASEAN have a margin of preference (MOP) at zero and these tariff lines are not included in AISP lists (Table 2).

In fact, those 68 percent of products are enjoying the existing-low MFN rates at 0-5 percent. The country's exports in other tariff lines with high margins of preference are still limited. Government statistics also demonstrate that about US\$10 million worth of exports to ASEAN requested certificate of form D under the CEPT scheme and certificate of form AISP under AISP scheme in 2005. Of that US\$10 million, certificate of form AISP accounted for US\$9.5 million. Almost all products exported under both schemes are garments, corn, soybeans, tapioca sarch and sesame.

There are some specific reasons which are preventing Cambodian products from gaining increased benefits from the region. First, the main export products to the region, such as rubber and wood, products, seem to be encouraged rather than other products. Thus, these products are already subject to zero or low MFN rates. Additionally, about 27 percent of Cambodian exports to the region already enjoy zero MFN rate from Singapore. Products with high MOP are not current Cambodian exports.

Second, the utilization rate of AISP is low due to low tradable products in AISP approval lists. Not all

Table 1: Number of AISP Tariff Lines Given to Cambodia by Other ASEAN Countries

Countries	No of AISP TL requested (2001)	No of AISP TL given (2005)	No of AISP TL given at 0%	No of AISP TL given at 5%
Brunei	8	8	8	0
Indonesia	249	40	10	30
Malaysia	164	180	180	0
Philippines	99	64	64	0
Singapore	-	-	-	-
Thailand	342	340	225	115
Total	862	632	487	145

Source: EIC, compiled from the Ministry of Economy and Finance and Ministry of Commerce data

requested products are approved by preference-giving countries and some approved AISP rates are equal to MFN rates. Noticeably, there is also a lack of awareness of preferential tariffs by the private sector due to insufficient promotion and low participation. Sometimes, the Cambodian private sector feels that preferential benefits are minimal and are therefore not worth the time and effort needed to apply for them.

Last but not least, the country's own capacity supply is a reason for the lack of benefits. The country's export products are limited, most of which are also produced by other regional countries, such as garment products and processed agricultural products.

Concluding Remarks

Cambodia's export value to

ASEAN has remained flat since 2000 while import value from the region has been increasing, thus leading to a gradual trade deficit with the region. However, informal exports with neighboring countries are believed to be very high.

The calculation of MOP as a tool to assess the benefits from CEPT reveals that at least 68 percent of exports to the region are utilizing MFN rates. These exports are not benefiting from the CEPT scheme. Additionally, these export products are not included in the AISP approval lists. Documents also demonstrate the low utilization rate of both preferential schemes. In 2005, only about US\$10 million worth of exports to the region requested certificate of form D and form AISP for obtaining preferential tariff, while total exports to the region accounted for about US\$100 million.

The low utilization of both

preferential schemes are due to a number of reasons including low tradable products in AISP lists, the country's weak supply capacity and its limited export products. In addition, a majority of current exports have tariff lines of zero or low MFN rates.

To increase benefits from available preferential schemes, the approved AISP list should focus on Cambodia's current exports rather than a long list of non-export products and the AISP rate would equal zero. There should also be the promotion of these preferential schemes within the private sector. Exports need be diversified and competitiveness should be increased. Last but not least, informal exports with neighboring countries need to be regulated to help exporters' bargaining power and to potentially benefit from preferential schemes.

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Table 2: Margin of Preferences (MOP) for Main Export Products into ASEAN in 2005

Exports by H.S (8digits)	Product Exports*	% of total exports to ASEAN	MFN Rates	CEPT Rates 2005	MOP**	AISP
Vietnam						
4001.29.50	Rubber and article thereof	29.3%	3%	3%	0%	No
4003.00.00	Rubber and articles thereof	1.9%	3%	3%	0%	No
4407.99.90	Wood and articles thereof	6.3%	0%	0%	0%	No
3926.90.59	Plastics and articles thereof	0.8%	20%	5%	15%	No
5515.29.00	Man-made staple fibers	1.3%	40%	10%	30%	No
Thailand						
0302.11.00	Fish, fresh or chilled	0.6%	5%	5%	0%	No
1201.00.10	Soya beans	1.7%	6%	5%	1%	0%
7311.00.19	Articles of iron or steel	0.7%	10%	5%	5%	No
6309.00.00	Worn clothing	0.7%	30%	0%	30%	No
8703.23.23	Vehicles, parts and accessories thereof	2.7%	80%	5%	75%	No
Malaysia						
1511.10.00	Palm oil and its fractions	0.6%	0%	0%	0%	No
4001.29.50	Rubber and article thereof	2.8%	0%	0%	0%	No
6004.90.90	Knitted or crocheted fabrics	0.6%	15%	5%	10%	No
Sub-Total		49.2%	-	-	-	-
Singapore (all tariff lines)		26.8%	0%	0%	0%	No
Total (% of total exports to ASEAN)		76%	-	-	-	-
Total exports with MOP=0% (% of total exports to ASEAN)		68%	-	-	0%	No

* This is a shortened version of category components. ** Margin of Preference (MOP) is the difference between MFN rates and CEPT Rates 2005
Source: Author's calculations based on data from the Ministry of Economy and Finance and www.aseanse.org