

WORKSHOP
On
“Mainstreaming Development into the WTO”

July 01, 2008
Cambodiana Hotel

Overview

The discussion on linkages between trade, development, and poverty reduction is not new. Seeing the importance of trade, development and poverty reduction, the Economic Institute of Cambodia (EIC) organized a workshop on “Mainstreaming Development into the WTO”, supported by CUTS, with the main objective to know about the issues of concern in the international trading system and their relationship with development and poverty reduction in Cambodia. The workshop is a forum for practitioners in the fields of trade and development to discuss and exchange ideas. EIC has invited key researchers to present the topic concerning the workshop and government officers who are experts from the Ministry of Commerce and Council of Minister to this workshop. Below are the names of the guest speakers:

1. *Mr. Neou Seiba*, EIC Senior Researcher: “Cambodia Economy WTO accession: after 5 years”
2. *Mr. Hang Sochivin*, Ministry of Commerce: “Aid for Trade/Trade SWAp”
3. *Mr. Tekreth Samrach*, Council of Minister: “Integrating Cambodia Development Strategy into Multi-Trade Strategy”
4. *Mrs. Kim Natacha*, Editor in Chief of Economics Today Magazine: “Cambodia, Global Economy, and Commodity Prices”
5. *Mr. Neou Seiba*, EIC Senior Researcher: “Trade and Poverty Reduction”

The workshop attracted around 100 participants. The participants were from government agencies, donors, private sectors, NGOs, academia and local media.

Discussion

The workshop began with the welcoming speech by Mr. Sok Hach, Director of EIC. He referred to a study on the linkages between international trade and poverty reduction in African and Asian countries, which has been supported by CUTS international, an Indian NGO. For Asian countries, Cambodia was selected by the organization for studying. The relation between international trade, economic growth, and poverty reduction is important to study for Cambodia after becoming a member of the WTO five years back. Sok Hach that this good opportunity is an exchange opinion based on two main parts; one is a result of being a member of WTO and another is the Cambodian economic situation. In addition, the topics in the afternoon session would address some specific issues related to Cambodian commodity prices and global economy and trade and poverty reduction.

I. MORNING SESSION

+ *Panel Presentation*

1. **Presentation on “Cambodia Economy WTO accession: after 5 years” by Mr. Neou Seiha, EIC Senior Researcher:**

The presentation illustrated Cambodia’s economic integration, economic performance, and challenges ahead for the country. Integration has opened the Cambodian economy, the country became a member of ASEAN in 1999 and WTO in 2004. For the current economy, compared to other countries in the region, the performance is good in terms of economic growth, lower GDP per capita, lower inflation rate and low FDI flow. Cambodia’s economic performance after five years of WTO accession is particularly interesting in three main economic sectors, namely industry, agriculture and services. The garment industry is a significant export sector to support Cambodian economic growth. Though, after the US quota ended in 2004, the sector is not too much falling down but it seems slowly to increase. In contrast, while the US put restrictions and safeguards against China in March, the Cambodian garment industry has performed well. With regards to agriculture, it is still restricted since there is a small number of investors. Nevertheless, the number of investors in the country increased in figures in 2007, yet it provided little positive effect to reduce poverty because most Cambodian people are in agriculture. In 2006, there are top five trade partner, China, Thailand, Taiwan, Vietnam and Singapore. The last part of the presentation addressed the challenges ahead for Cambodia. According to the report of the World Economic Forum (WEF) 2007-2008, business environment in Cambodia has ranged 110th among more than 120 countries in the survey whereas Thailand and Vietnam have better ranks. The biggest problems of doing business in Cambodia are corruption, inadequate educated workforce etc. Therefore, slow State reforms, lack of skill human resources, and further development infrastructure should be important remarks. More interestingly, the oil and gas and stock market are potential resources for development.

2. **Presentation on “Aid for Trade/Trade SWAp” by Mr. Hang Sochivin, Ministry of Commerce:**

The presentation started with the background of Cambodian trade. Cambodia enjoys Special and Preferential Treatment in acceding markets of developed countries. Cambodian exports will overcome the non tariff barriers if it can develop its supply capacity. The Ministry of Commerce stands ready to develop a Trade Sector wide Approach (SWAp), to encompass all initiatives, strategies, measures and actions, to strengthen partnership for consensus building and coordination with the private sector, civil society and donors and to improve implementation and delivery.

In Cambodia, the RGC is willing to experiment the SWAp as an instrument for better management, coordination and effectiveness of resources. SWAp is being utilized in Education, Health, and Public Finance Management and now it should be also used in the Trade sector. The Trade Sector Wide Approach is going to be the most efficient mechanism for Cambodia for example to tap on financial resources of Aid for Trade, to enhance its supply capacity, to alleviate poverty and to meet CMDGs.

Lessons learnt in Trade-Related Assistance focused on three points. First of all, there are many administrative offices that led to spend much cost so it should decrease those offices in order to save costs. Another one is trade-related activities. It should remain dynamic and able to adjust circumstances, especially as a means of ensuring ownership on the part of beneficiaries. The last point is to continue and enhance support in trade-related capacity building as well as strengthening Cambodian basic skills, and implement WTO commitments.

OECD countries made a Declaration on Tariff based on: to strengthen ownership of countries that receive aid, to align with the policy of donor countries and receiving countries and to harmonize.

3. Presentation on “Integrating Cambodia Development Strategy into Multi-Trade Strategy”, by Mr. Tekreth Samrach, Council of Minister:

He gave the definition of Multi-Trade Strategy being various selected strategies planning which respond to the requirements or commitments of the WTO. Each country has to negotiate before being a member of the organization by expressing a status of its own laws to the WTO in order to make it familiar together with other members. For Cambodia, there were 222 points for a condition to adjust in order to follow a rule in WTO, and these were collected as a book.

He expressed that goods from Japan, EU, USA, and Canada cannot kill domestic markets. It is not a problem whether Cambodia accessed the WTO, but our local markets are full of goods from China, Thailand and Vietnam. And those goods flow from ASEAN countries. Importantly, our commitments in the WTO have not reduced all tariff rates yet; it remains at least 12%, whereas in ASEAN it will be reduced to zero percent.

He shared a theory published in the International Economics Book about trade blocks, it applied for an implementation in ASEAN. There are four elements as free market (free trade area), custom union, common market, and economic union.

+ Discussion Session

1. Mr. Mom Sarouen

As the Cambodian trade deficit ranged at 110th by WEF, does the Royal Government of Cambodia (RGC) have any reform to attract investors? If there is any reform, how many years does it take?

Replied by Mr. Hang Sochivin, Ministry of Commerce:

The trade deficit shows when import is bigger than export. This situation does not affect the Cambodian economy because an increasing of import replied to local demand. However, he suggested promoting exports since there is more income of US currency flow into our country. In responding to the reform, the RGC has already established the Private Sector Government Forum (PSGF) and Working Groups (WGs). Each solution has to solve at the WGs while there is still not any solution, it will be put in the discussion at the PSGF, which meets every six months. The PSGF makes an effort to adjust through some ideas of private sectors.

Replied by Mr. Tekreth Samrach, Council of Minister:

FDI in Cambodia relies on the garment sector, which plays an important role in exported products. In 2008, the exported products had increased to about three billions USD\$, and it is very satisfactory among LDCs. The factories have been increasing since 1997 until now. On the other hand, we mainly count investments that produce and export only, do not yet count such kind of investments which produce and sell in domestic markets.

Replied by Mr. Sok Hach, EIC Director:

He expressed that the Cambodian exports in the garment are very low cost. At the same time, oil products and other equipments are imported, as in 2007 the oil price has increased around 40% to 50%, resulting in a trade deficit.

2. Mr. Sak Sambath, Asia Foundation

- a. Does China restriction quota from the EU and the US finish or have other regulations in 2008?
- b. Being a membership of Vietnam in WTO, does it affect Cambodian garment sector?

Replied by Mr. Hang Sochivin, Ministry of Commerce and Mr. Neou Seiha, EIC Senior Researcher:

- a. Since January 01, the 2005 quota agreement was finished for some WTO members, but China agrees to receive a specific restriction quota (2005-2008) from the EU and the US. Most probably after 2008, there would be no quota anymore for China.

Replied by Mr. Tekreth Samrach, Council of Minister and Mr. Sok Hach, EIC Director to detail question b:

Membership of Vietnam is not a big concern as China because this country is small and it cannot threaten the US's economy. As result, US may not worry about Vietnam export. Now, investment in Vietnam is reduced because of difficult capacity to flow out capital. In addition, Vietnam government encourages more investment with specific skilled labor as a new instrument. So the remaining investors may decide to invest in Cambodia.

Replied by Mr. Tekreth Samrach to the question raised by Mr. Mom Sarouen:

WTO rules will check the quality control of the products by stopping the processing of company and investigating the problems.

Replied by Mr. Neou Seiha and Mr. Tekreth Samrach to the question from Mr. Thouen:

The garment sector has not decreased after WTO accession; it merely grows slowly. It is not because of entering WTO if the garment sector decreases, but if our country is not a member of WTO, we could not export garment as today. We may meet the restriction of the US.

3. Mr. Yeng Virak

The WTO committee will make a Policy Review in the future for Cambodia since we are not ready to fulfill the commitments, so are there any consequences?

Replied by Mr. Tekreth Samrach, Council of Minister

Around every two to three years, a Policy Review is performed to check the commitment and performance of members. As well, what is the constraint in the fulfillment period?

4. Mr. Roth, National University of Management

- a. Where is the Cambodian competition capacity in the WTO since 2004-2008?
- b. Have there been any complications before the WTO accession of LDCs?

Replied by Mr. Tekreth Samrach, Council of Minister

The way to build competition capacity does not depend on entering or not entering the WTO. Two decisive factors are: a good FDI and export increase, and individual country capacity.

a. Most LDCs struggle with the accession process. China spent 15 years for accession. Russia and Laos have not accessed yet. Cambodia started the process in 1998 and completed in 2004.

II AFTERNOON SESSION

+ *Panel Presentation*

1. Presentation on “Cambodia Global Economy, and Commodity Prices”, by Mrs. Kim Natacha, Editor in Chief of Economics Today Magazine:

The first presentation addressed Cambodia’s WTO accession but now the focus has shifted towards Cambodian commodities on global markets and our expectation of entering the WTO. There are certainly benefits and risks of the accession. For the positive impact is that Cambodia can access the global market, increase its attractiveness to investors, foster capacity building and good governance—while respecting the rules of the organization. The negative impact includes that local products could not compete with imported products having cheaper prices, as well as fluctuations of the global economy which affect the Cambodian economy.

In terms of trade, commodities are goods, which are usually produced/sold by different companies, and are uniform in quality between companies that produced /sell it. There are two kinds of Cambodian commodities trade with the world market. First, exported products such as rice, clothing, timber, rubber, and tobacco to the world market. Second, imported products such as oil, vehicles, medication, and fertilizers to the domestic market. A global rising price of goods affects Cambodian markets, especially oil and rice prices.

2. Presentation on “Trade and Poverty Reduction” by Mr. Neou Seiha, EIC Senior Researcher:

This presentation distributed knowledge about trade, poverty, linkages between trade and poverty, lesson learned from other countries, and implications of trade for the Cambodian economy and poverty. Trade is defined as the international exchange of goods, services, capital and labor between countries. Trade and poverty linkage appear when there are increasing of trades into economic development, but the advantages from trade to Cambodia is limited.

Take some experiences from other countries—Africa, Central America, and Asia, trade led economic growth in countries, and reduce poverty through creating jobs and increase income. Still it could not lift people out of poverty.

+ *Discussion Session*

1. **Mr. Sou Sokha, a student of University of Cambodia**

Cambodia is using two currencies, namely Cambodian Riel (CR) and US dollar (US\$), does this operation have impacts on the Cambodian economy?

Replied by Mr. Hang Sochivin:

The dollarization of the economy provides advantages and disadvantages. However, it is controlled by National Bank of Cambodia (NBC). The garment sector has to exchange in US currency which is an incentive for investors. Most tourists coming to Cambodia use US currency. US currency flow into Cambodia since UNTAC brought about US\$ 2 billion to facilitate the elections in 1991.

Utilizing US currency in the Cambodian context, it depends on government mechanisms to consolidate our currency and make it stable.

Replied by Mr. Neou Seiha and Mrs. Kim Natacha:

After becoming a member of the WTO in 2004, Cambodia has enjoyed a two digit economic growth. Also, poverty has been reduced remarkably one percent every year. Moreover, Cambodia can access the US, EU and Japanese markets in which it can help to push the national competitiveness.

2. **Mr. Vannak, a student of Western University**

How can tariffs in ASEAN be reduced to zero percent in 2015? And what are impacts on the Cambodian economy?

Replied by Mr. Neou Seiha, Mrs. Kim Natacha, and Mr. Hang Sochivin:

Cambodia is a member of the WTO, so revenues from tariffs are reduced but domestic revenues increase. So we have to strengthen our local capacity in order to compete with other members. Governments are negotiating on mechanisms to reduce tariffs.

There is a program called CEPT in ASEAN, which is a tool for tariff reduction. And, there are three groups of products that are time-bound. Those are exclusive, inclusive and incentive. What is more, the government considers which product can be used for substituting another one that its tariff will be reduced to zero. For example, gasoline cannot be reduced to zero unless there is a substitute product.

3. **Mr. Seing Sitha, a student of Western University**

The Cambodian economy is growing rapidly. Does it come from domestic production or more export and import activities?

Replied by Mr. Neou Seiha, Mrs. Kim Natacha, and Mr. Hang Sochivin:

The Cambodian economic growth is related to FDI and domestic investment. He thinks that we should increase production, export and diversify economy. Economic growth is calculated based on what we produce that is called gross domestic product (GDP).

Cambodia's market is smaller than that of neighboring countries. Currently, export and import activities are making the economy work. Intentionally, we are trying to produce for export.

4. A student of National University of Management

According to Mr. Seiha's presentation, the data of poverty is in 2004, then how is it changed based on purchasing power in 2008?

Replied by Mr. Neou Seiha, and Mrs. Kim Natacha:

While we interviewed officials from the National Institute of Statistics, we required census data first of all. The poverty line figure is revised every 4 years. The new data of poverty should be released in late 2008.

5. A student of National University of Management

If Cambodia can strengthen the law of intellectual property rights, what are impacts on the Cambodian economy?

Replied by Mrs. Kim Natacha, and Mr. Hang Sochivin:

Cambodia will be able to take advantage of creation and innovation. Also, it will have more power to negotiate with other countries and Cambodian products will be well recognized with high quality.

Cambodia has done well with better labor standards in the garment industry. Then, we intended to make a good reputation that a country respects intellectual property rights.

Conclusion

The participants were highly interested in the topic. A long discussion was engaged separately in the morning and afternoon session. Related problems were raised by the participants for trade and poverty reduction in Cambodia, but many things still need to be done and the strong commitment of the government is absolutely critical in helping to improve the trade and investment and alleviate poverty.

List of Participants

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