

TRADE POLICY REVIEW

Report by

CAMBODIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Cambodia is attached.

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I. INTRODUCTION

1. Cambodia has been classified by the United Nations as a least developed country. It is a small country of 181,035 square kilometers and a population of roughly 14 million. Its per capita GDP in 2010 was about US\$790. Eighty per cent of the population is rural and 28% is living below the poverty level. Large parts of the countryside suffer from a lack of basic infrastructure.

2. Cambodia is an open economy. Imports and exports combined are equivalent to about 65% of its GDP. Exports account for a high proportion of formal employment, and a very high proportion of the growth of employment. Cambodians working in export sectors are typically recruited from among the rural poor. Trade, employment and poverty reduction are thus tightly linked in Cambodia, and trade policy is an integral and central element in the Royal Government's efforts to promote development and improve living standards. Reflecting this, the Royal Government has identified trade as a priority area.

II. MACROECONOMIC PERFORMANCE

3. Cambodia experienced rapid growth in the years immediately following its accession to WTO in 2004. GDP expanded at an average annual rate of 10.3% during the period 2004-2008, reaching a peak of 13.3% in 2005. GDP per capita, in turn, rose from US\$417 to US\$773 over the same period.

4. All broad sectors contributed to this rapid growth. Industrial output expanded at an average annual rate of 12% during 2004-2008, while services and agricultural output grew by average annual rates of 11% and 6.2%, respectively. Within these broad sectors, specific activities are of special importance. Thus, paddy rice production accounts for roughly 55% of the value of all crops grown in Cambodia, and the value of paddy output in 2007 stood 87% above the level recorded in 2004. Likewise, garments and footwear make up roughly 70% of Cambodia's output of manufactures, and the value of their output in 2007 stood 49% above the level reached in 2004. The activity level in 2007 of construction, which accounts for about 25% of industrial output, stood 80% above the value of output in 2004. In the services sector, tourism was a particularly dynamic element, with estimated tourist expenditures in 2007 standing 250% above their level in 2004.

5. This period of rapid growth was accompanied by relative stability in prices. Consumer prices in Phnom Penh rose at an annual average of 6% during 2004-2007 and the exchange rate of the riel remained virtually unchanged.

6. Price stability was the result of prudent fiscal and monetary policies and a relatively stable external environment. The overall public sector budget deficit varied during this period between 2.5% and 2.8% of GDP, and was financed by external grants and concessionary lending. The deficit thus did not require domestic bank financing, and the central bank's net credit to government throughout this period was negative, allowing the National Bank of Cambodia to exercise firm control over monetary expansion. At the same time, the collection of budget revenues improved considerably, growing from about 10% of GDP in 2004 to over 13% of GDP in 2008. This allowed the Government to expand rapidly essential social services. In 2008 expenditure by the Ministry of Health stood 120% above the level of 2004, and the comparable figure for the Ministry of Education was 86%.

7. This period of robust growth in the context of stability allowed Cambodia to continue its significant progress in improving social welfare. The poverty rate is estimated to have fallen from 35% to 30% between 2004 and 2008; and to 28% in 2010. Over the same period the literacy rate advanced from 69.7% to 75% and the infant mortality rate is estimated to have fallen from 71 to 51 per 1,000 live births.

8. A series of shocks in the world economy that began in 2007 and continued during 2008 and 2009 threatened to interrupt these positive trends, and presented the Cambodian economy and Cambodian policy makers with severe challenges.

9. As a small and open economy that is highly dollarized, Cambodia was immediately affected by the dramatic increase in the price of crude oil that began in early 2007 and culminated in the record level of US\$147 per barrel in July 2008. At the same time the price of rice in international markets doubled between the first quarter of 2007 and the beginning of 2008, and then doubled again in the first four months of 2008. This was immediately followed by a widespread international financial crisis and a sharp recession in a number of industrial countries.

10. These events in the international economy had profound effects on the Cambodian economy. The world price increases for petroleum products and food triggered a sharp jump in Cambodian prices, with inflation reaching a peak of 25% in mid-2008. The recession in Cambodia's main export markets led to a sharp drop in exports: Cambodia's garment exports, which had grown by 24% in 2006, advanced by only 3.6% in 2008, and then fell by 1.6% in 2009. Difficulties in obtaining trade financing also contributed to the outcome. Tourist arrivals, which had grown by about 20% in 2006 and again in 2007, advanced by only 5.8% in 2008 and 1.7% in 2009. Construction, which had been booming, came to an abrupt halt as demand faltered and foreign developers encountered financing difficulties. Net foreign direct investment fell by 35% in 2009 as compared with 2008. Reflecting these developments, Cambodia's GDP growth rate slowed to 6.7% in 2008 and a bare 0.1% in 2009. In the key sector of garments, a significant number of firms were forced to close or temporarily suspend operations, and employment in the sector is estimated to have fallen by between 15% and 20%. These and other job losses resulted in lower remittances to rural areas and increased hardship for a large number of households.

11. Responding to inflation and the international banking crisis, the monetary authorities took a series of measures. Although Cambodia's banking system was not directly affected by the international crisis, the National Bank of Cambodia took proactive measures to strengthen the prudential regulation of the banking system, improved the credit rating system of the banking sector, and strengthened the credit information sharing system. Inflationary pressures were met by placing a 15% ceiling on credit to the real estate sector in January 2008, and by increasing the reserve requirement rate from 8% to 16% on foreign currency deposits in April of the same year.

12. By early 2009 inflationary pressures had eased, and prices actually fell during most of 2009. Policy was consequently oriented toward supporting growth. In January 2009, the National Bank of Cambodia lifted the 15% ceiling on credit to the real estate sector and lowered reserve requirements from 16% to 12% for foreign currency deposits. Government expenditure and the fiscal stance were directed toward stimulating economic activity and mitigating the negative effects of the downturn in growth. The Government put in place targeted tax cuts and incentives for key sectors, accelerated spending on infrastructure, and established a special fund for the re-training of garment workers who had lost their jobs, offering numerous short vocational training courses designed to re-skill up to 40,000 workers for re-employment. The result of these actions was a widening of the budget deficit, which increased from 2.9% of GDP in 2008 to 6.4% of GDP in 2009.

13. The Government also took steps to begin expanding its support for social protection, in particular through the development of a National Social Protection Strategy, prepared in close collaboration with development partners. Social protection, in particular the protection of vulnerable groups, including veterans and their families, will help Cambodians deal with future shocks. It will

also help reduce chronic poverty, promote human capital, improve productivity and promote sustainable economic growth.

14. In 2010, the revival of Cambodia's export markets set the stage for a recovery of growth. Exports rose by about 25% over 2009, led by a revival of garment shipments to traditional markets, and their diversification into new markets. Tourist arrivals advanced by 16% over a year earlier. These positive external changes were reinforced by domestic policies: the fiscal deficit rose to 7.9% of GDP, and monetary policy remained expansionary. These developments, together with continued robust growth of agriculture, produced a GDP growth rate of 5.9% and employment recovered. Price inflation was about 3.5%.

15. The outlook for 2011 is for continued vigorous growth, with GDP expected to rise by more than 6%. As in 2010, growth will be led by a robust expansion of exports, as traditional markets recover and the share of exports to regional markets, and the share of agricultural products in total exports, both grow. Tourism is expected to expand further, and agricultural output will remain vigorous. The budget deficit is expected to decline to 6.3% of GDP. There are, however, some potential dangers to this positive scenario arising in the international economy, in particular with regard to the prices of energy and foodstuffs.

16. Cambodia has successfully met the challenges presented by the 2008-2009 world economic crises. However, events since 2008 clearly show the extent of Cambodia's exposure to external shocks. Indeed, this exposure appears to have increased in recent years. The Economic Vulnerability Index constructed by the Committee for Development Policy of the United Nations indicates that Cambodia's economic vulnerability increased by 6% between 2006 and 2009. In the period ahead, the Royal Government will be striving to deepen and broaden Cambodia's integration into the world and regional trading systems. At the same time, the economy's exposure to negative shocks transmitted through this system must be reduced. The diversification of export products and export markets is the key to accomplishing this goal.

III. INSTITUTIONAL DEVELOPMENTS SINCE ACCESSION

17. During the period since accession, some significant initiatives have been under way affecting the interaction between Government and civil society and the way Cambodia mobilizes financial resources for investment. These initiatives are ongoing. They will have important consequences for the way trade and development proceeds in Cambodia.

Good governance

18. The Royal Government views good governance as an essential pre-requisite 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. The Royal Government has been combating corruption through an Anti-Corruption Unit, the National Audit Authority, internal audit units in line ministries and agencies, and the Ministry of National Assembly-Senate relations and Inspection. It has recently expanded significantly its campaign against corruption and the mechanisms at its disposal to wage that campaign. The new Anti-Corruption Law, adopted in 2010, creates an Anti-corruption Council to oversee investigations of corruption, and a new Anti-Corruption Unit that undertakes investigations and brings charges. In December 2010, the first arrests were made under the provisions of the new law, and in April 2011 the first case went to trial.

19. Other aspects of good governance have also been addressed: The Council on Legal and Judicial Reform has been executing an extensive work program designed to accelerate reform in a number of ways, for example by fostering better access to legal and judicial information and by helping legal and judicial sector institutions strengthen their management, planning and monitoring mechanisms and capacity. At the same time, the Council for Administrative Reform has overseen reforms of the legal and regulatory framework governing the Civil Service, of the management and control systems for managing the Civil Service within that framework, and of the compensation regime to make it more reflective of performance.

Interaction with the private sector

20. The Government-Private Sector Forum was established in 1999 at the initiative of the Prime Minister of the Royal Government in order to provide a reliable consultation mechanism between the Government and the private business sector on all matters of mutual interest. The Forum holds a plenary session twice a year, under the chairmanship of the Prime Minister and with the presence of the full cabinet. These sessions allow the business community to raise issues of concern at the highest level of government.

21. During the period since accession, the Royal Government and the private sector decided to deepen and broaden their dialogue. Eight Working Groups have been established to deal with specific areas of private sector interest. These are: agriculture and agro-industry; tourism; manufacturing and small and medium enterprises; law, tax and governance; banking and financial services; export processing and trade facilitation; energy, transport and infrastructure; and industrial relations. Each Working Group is co-chaired by a government minister and a representative of the private sector, either one of which can request a meeting and propose items for discussion. Issues that cannot be resolved at the Working Group level may be referred to a plenary session of the forum.

22. Dialogue between the Government and the private also takes place in the Steering Committee on Private Sector Development. This Steering Committee has four sub-steering committees, dealing with the investment climate and private participation in infrastructure; trade facilitation; small and medium enterprises; and corporate governance. The Government welcomes and encourages public-private partnerships, which have developed in a number of areas, such as electricity, health care and the provision of drinking water.

De-centralization and de-concentration

23. De-centralization and de-concentration are part of the Royal Government's reforms to promote democracy, improve development opportunities, reduce poverty and ensure sustainable development. The centerpiece of the reform is the creation of Councils at sub-national administrative levels, consisting of elected officials with legislative and executive authority. The Councils assume primary responsibility for local economic and social development. They have the authority to collect direct revenue from taxes and fees, and are entitled to a share of national revenue. They play an important role in managing the local delivery of essential services provided by the central government, for example health and education, and identify and execute local development projects. They are the means through which citizens may participate in shaping the future of their communities, and in securing better and more responsive public services delivery. These changes are taking place in the context of a national program on sub-national democratic development that envisages the creation and progressive strengthening of the institutions of sub-national governance over the period 2010-2019.

24. An important result of these reform efforts was the creation at the local level of the One-Window Service Office (OWSO). This office organizes under one roof officials of the line ministries who deliver administrative services commonly required at the local level by citizens and small businesses.

25. This important shift in authority and responsibility to the local level does not affect Cambodia's WTO obligations, which remain the sole responsibility of the central government.

Mobilizing savings

26. In the context of its "Financial Sector Development Strategy 2006-2015" Cambodia is in the process of establishing a securities market. The basic laws and regulations are in place, a Securities and Exchange Commission has been established, and three state-owned enterprises are preparing to be among the first firms to be listed. When it begins operation, the securities market will provide additional channels through which firms operating in Cambodia can secure financing for investment, as well as additional outlets for domestic savings. The establishment of a securities market will also promote transparency, accountability, good corporate governance and efficiency in the allocation of financial resources.

IV. TRADE RELATIONS

A. Cambodia and the WTO

27. Cambodia views its integration into the world economy as an essential ingredient in its strategy for growth and poverty alleviation. This strategy has been elaborated in a number of Governmental undertakings, most notably the *Cambodia Millennium Development Goals*, the *Socio-Economic Development Plan 2001-2005* and the *Cambodia National Poverty Reduction Strategy 2003-2005*. The key elements in these undertakings were synthesized in the *Rectangular Strategy for Growth, Employment, Equity and Efficiency*, recently updated as the *Rectangular Strategy Phase II*, covering the period 2008-2013. The Rectangular Strategy, in turn, was the basis for the development of Cambodia's *National Strategic Development Plan*, also recently updated to cover the period 2008-2013.

28. International trade and investment are the foundation on which Cambodia's Strategic Development Plan is based. Cambodia is a small economy, most of its citizens are impoverished, and 60% of its population is under the age of 24. The labor force will grow rapidly in the years ahead. Poverty reduction will require an even more rapid expansion of employment opportunities. This can only be accomplished by accessing markets outside Cambodia, and by mobilizing financial resources and skills not presently available in Cambodia, in particular through private direct investment.

29. Joining WTO was a key element in Cambodia's trade- and investment-centered approach to development and poverty alleviation. WTO membership ensures that in all WTO member countries Cambodian exports will be subject to an internationally-agreed set of rules, including MFN treatment. At the same time, the need to align Cambodia's trade regime with WTO requirements has accelerated the process of reform of trade-related law. This is creating a more transparent and predictable environment for business, and is helping to improve Cambodia's attractiveness as an international investment destination.

30. The WTO system is thus the framework within which Cambodia seeks to harness international trade and investment to achieve its growth and poverty reduction objectives. Consequently, Cambodia attaches the highest importance to the preservation and enhancement of that

system, and to making it more supportive of development. In this regard, the early completion of the Doha Development Agenda is critical. Cambodia has actively participated in the Doha Round negotiations, and will continue to do so.

31. The present stalemate in the DDA negotiations is of great concern, and Cambodia urges Members to strengthen their resolve and exercise maximum flexibility so as to bring the Doha Round to a successful conclusion in 2012. Cambodia attaches particular importance to early and full implementation of duty-free and quota-free market access for LDCs and to the full implementation of the aid for trade commitments taken at the Hong Kong Ministerial Conference. It calls for the NAMA outcome to ensure that modalities for Special and Differential Treatment provide LDCs with more preferential treatment than non-LDCs. Cambodia also calls for special and differential treatment for LDCs in all other areas of the negotiations, which should go beyond a transition period. Cambodia notes with high appreciation the decision to put the LDC's priority issues for deliverables on the agenda of the discussions that will prepare the eighth Ministerial Conference. Cambodia calls on all Members to provide full support for the adoption of the LDC deliverables at the eighth Conference.

32. Cambodia's accession to WTO was governed, among other things, by the 10 December 2002 Decision of the General Council on the Accession of Least Developed Countries. Cambodia's trade regime was thus not required to be fully compliant with WTO rules upon accession. Through its protocol of accession, Cambodia undertook commitments to bring its regime into compliance shortly after accession, in particular through the execution of agreed Action Plans in four areas – customs valuation, TRIPS, TBT and SPS. The Royal Government established a coordinating body, the Inter-ministerial Coordinating Committee on Cambodia's WTO Commitments, to oversee the fulfillment of its obligations. To date, 19 laws and regulations responding to these commitments have been adopted and implemented.¹ The Action Plan on customs valuation has been fully implemented, the final steps toward full compliance with GATT Article VII having been taken in January 2011. In other areas, however, difficulties in securing timely assistance have meant that not all of the laws and regulations required to meet commitments have been put in place. Cambodia presently has under preparation 12 laws and regulations that meet remaining compliance requirements. Two of these laws – on the Commercial Court and the organization of the judicial system – deal with general dispute settlement and law enforcement. Four other laws and regulations are in the area of intellectual property protection. Five other legal texts are being prepared to execute fully Cambodia's commitments in its services schedule.

33. Cambodia is also working on legal texts that are not required by its WTO commitments, but which are subject to WTO disciplines. It expects to put in place trade remedies legislation sometime in 2012, and is working on legal texts to make it easier to benefit fully from the Doha Decision on TRIPS and Public Health.

¹ These are: Law on Amending the Law on Drug Management; Regulation 1031 of the Ministry of Health amending Regulation 82 on drug import-export procedures; Regulation No. 589 of the Ministry of Agriculture, Forestry and Fisheries on elimination of quantitative restrictions on the importation of pesticides and fertilizer; Law on Customs; Regulation 387 of the Ministry of Economy and Finance on the Customs valuation of imported goods; Law on the Amendment of the Law on Investment; Sub-Decree No 111 on the implementation of the Amendment to the Law on Investment; Law on Standards of Cambodia; Sub-Decree No. 62 on Industrial Standards; Civil Code; Sub-Decree on Food Hygiene; Civil Procedures Code; Criminal Code; Sub-Decree No. 64 implementing the Law on Marks; Regulation of the Ministry of Industry, Mines and Energy on the procedure for granting patent and utility model certificates; Law on Seed Management and Plant Breeders Rights; Regulation of the Ministry of Culture and Fine Arts on the urgent control and suppression of activities violating copyrights and related rights; Regulation of the Ministry of Culture and Fine Arts on procedures for granting rights to manage literature, artistic and music rights without heirs.

34. Cambodia has experienced difficulty in fulfilling its notifications obligations in a timely manner, and has only recently been able to meet some of those requirements in the areas of state support for agriculture, customs valuation, pre-shipment inspection, TBT, import licensing, TRIPS and trade remedies. Cambodia is striving to meet all its notification requirements as soon as possible.

B. Trade Development: General Policy Orientation

35. Cambodia's capacity to benefit from its integration into the WTO trade system depends critically on its ability to expand exports. Policies to increase the supply and competitiveness of exports and potential exports are at the center of Cambodia's trade and development objectives. These policies fall under three broad and sometimes overlapping headings: policies to ensure the continued vitality of existing exports in the face of competition from other countries; policies to develop export potential and widen the range of Cambodia's export products and export markets; and policies to facilitate and encourage investment for export. In all of these areas, diversification of export products and of export markets is of the highest importance.

36. Textiles and garments are the mainstay of Cambodia's exports, and account for roughly 85% of total exports of goods and 15% of GDP. Much of this trade is directed toward markets in North America, with those markets accounting for about 65% of Cambodia's exports. During the period since accession, the garment industry has accounted for a very high proportion of total job creation, and the wages that garment workers send to their families in the provinces have a decided positive influence on village incomes and rural development. Ensuring the continued expansion of Cambodia's garment exports in the face of international competition is a high priority of the Royal Government (see section V(A), below).

37. Tourism has expanded rapidly in the period since accession and now accounts for about 13% of GDP. This sector has great further potential as regards both increasing tourism receipts, and forging backward linkages that would allow a greater part of tourist spending to be retained in Cambodia. Promoting tourism is a high priority of the Royal Government (see section V(C), below).

38. As mentioned above, developing additional export products is an urgent requirement if Cambodia is to be better protected against external shocks. Cambodia's "National Export Strategy: 2006-2008" was a first attempt to identify such products. The Strategy lays out steps that could be taken to reinforce the competitiveness of garments and tourism, but it also identifies fruits and vegetables, fresh water fish, organic rice and silk and silk products as having export potential. The report makes a series of proposals regarding the steps that might be taken to assist these sectors in achieving export competitiveness.

39. Cambodia's Diagnostic Trade Integration Study, 2007, developed this analysis further, examining in depth the export potential of a wider range of products. It identified 15 products having export potential, and 4 services. It also looked at the human development potential of the various products and services.

40. The Royal Government has been progressively putting in place support mechanisms to help producers of products with export potential to enter markets abroad, and to move up the value chain. At present, these activities are focused mainly on agricultural products, where success leads directly to increases in rural incomes. Exports of these products have increased, and are expected to rise rapidly in the near future. Recently, particular attention has been directed to expanding the export of milled rice (see section V(B), below).

41. Complementing these efforts, the new Export Market Access Fund provides both financial and technical assistance to Cambodian firms seeking to enter foreign markets.

42. A rapid expansion of exports will require an equally rapid expansion of investment. Cambodia is well aware of the role that foreign investment can play in developing skills and in providing access to technology and to markets abroad, as well as in providing capital to expand production for export. Cambodia's investment regime observes the principle of national treatment throughout, and provides attractive tax and other incentives to investors. Cambodia has entered into bilateral investment agreements with a number of countries, and expects to add to that number in the period ahead. Special Economic Zones are located near transportation centers and provide additional advantages to investors. The zones are an important instrument for attracting non-garment manufacturing investment, and their success will advance the process of diversification of Cambodia's production base and exports (see section V(A), below).

43. Cambodia is working to improve the overall investment climate, and in particular the climate facing exporters. Through the Government-Private Sector Forum, and the Steering Committee on Private Sector Development (and its sub-Steering Committees), described above, the Government is in regular dialogue with the private sector, and seeks to address their concerns. It has, for example, undertaken a series of concrete measures in the area of trade facilitation identified by the private sector (see section E, below).

44. The legal regime relevant to private businesses is an important component of the investment climate. In addition to those laws formally required by its accession to WTO, mentioned in section IV(A), above, Cambodia has adopted laws covering topics such as commercial enterprises, insolvency, secured transactions, commercial arbitration, transportation, civil aviation, and others. Cambodia has an ongoing work program to continue to improve its commercial law regime, and, in addition to the laws under preparation that are required by its WTO accession, referred to above, is presently preparing laws on contracts and competition.

C. Regional Integration and Preferential Trade

45. While supply-side policies are the essential ingredient for diversifying Cambodia's export basket, regional trade integration and trade preferences are important instruments for diversifying export markets.

46. As an ASEAN Member state, Cambodia undertook specific tariff reduction commitments in respect of the Common Effective Preferential Tariff (CEPT) Scheme of the ASEAN Free Trade Area (AFTA). On 17 May 2010, the ASEAN Trade in Goods Agreement (ATIGA) came into force following its ratification by all ten ASEAN Member states. The ATIGA consolidates all previous CEPT/AFTA commitments related to trade in goods. It also provides for the simplification of rules of origin and other measures to facilitate its implementation. The general principle of ATIGA provides for duty-free preferential access for trade among ASEAN Member states. For Cambodia (and also Laos, Myanmar and Viet Nam), the agreement specifies that duty-free access to its market will occur by 2015, with flexibility to 2018. It also allows for temporary suspension or adjustment of tariff reduction and exemption commitments.

47. Cambodia follows the established schedule for liberalization of ASEAN trade in services. As of the seventh package of commitments under the ASEAN framework Agreement on Services, Cambodia's ASEAN commitments with regard to market access and national treatment of services sectors have gone beyond its WTO commitments in a limited number of sectors, for example leasing

of construction machinery (CPC 83107), translation and interpretation services (CPC 87905), paging services (CPC 75291) and dental services (CPC 93123). Cambodia is in ongoing discussions with its ASEAN Member on the further steps to be taken under the framework agreement.

48. In January 2007, the ASEAN Summit established an accelerated time line for completing the preparations for establishing the ASEAN Economic Community. The Economic Community, which is to come into effect in 2015, will transform ASEAN into a region with free movement of goods, services, investment and skilled labor, and a freer flow of capital. Cambodia is actively working to meet its commitments in these and other areas covered by the ASEAN Economic Community blueprint.

49. ASEAN has established a number of programs designed to harmonize the trade and trade-related procedures of its Members. ASEAN's harmonization policies cover a wide range of topics. There is a Common Manual for post-clearance customs audit and customs valuation. ASEAN is working toward a single window for cargo clearance. Work is under way to harmonize intellectual property procedures and cooperate on enforcement of IP rights. The harmonization of standards has begun and the mutual recognition of conformity assessment procedures is in progress. In the area of services, mutual recognition arrangements have been agreed for services in engineering, nursing, architecture, surveying, accounting, medical practitioners and dental practitioners.

50. Cambodia's goods exports to ASEAN members have risen rapidly in recent years. These exports mainly fall outside the category of textiles and clothing, and therefore help diversify Cambodia's export basket. At the same time, increased linkages to Cambodia's dynamic ASEAN partners help diversify export markets and protect against disruptions in major export markets. In 2009, a year of recession in North America, Cambodia's exports to ASEAN grew, thereby offsetting somewhat the drop in exports to North America. Although these trends are positive and encouraging, the actual magnitudes involved are still small: in 2009 exports to ASEAN accounted for a little more than 9% of total exports.

51. Within the context of ASEAN framework agreements with its dialogue partners, Cambodia has negotiated free-trade agreements with Australia/New Zealand, China, India, Japan, and the Republic of Korea. In most cases, the agreements are broad in scope, covering trade in goods and services, as well as investment, and the agreement with Australia/New Zealand also contains provisions in other areas such as intellectual property, SPS and TBT, and competition. All agreements contain dispute settlement mechanisms, and create cooperation fora.

52. The agreements with dialogue partners are relatively recent, and have not yet had their full impact on trade flows. However, available data suggest that a response by traders has begun. Since the implementation of Cambodia's agreement with the Republic of Korea exports to that country have grown three fold, albeit from a very small base. In 2006 the share of the five ASEAN dialogue partners in Cambodia's total exports was 2%; in 2010 their share was 7.5%.

53. Cambodia is eligible to benefit from the GSP schemes of a number of WTO Members. The extent to which Cambodia is actually able to realize these potential benefits varies from country to country, depending on the product coverage and rules of origin attached to the schemes.

54. In January 2011, the EU put in place new and more favorable rules of origin for its Everything But Arms program for least developed countries. This is a significant development which will be of considerable benefit to Cambodia's current exporters, and will open up new export opportunities. The Ministry of Commerce is working with present and prospective exporters to ensure

that they are aware of the new possibilities that this change has created. Data available for 2011 indicate that there has already been a supply response from established exporters of garments and bicycles.

55. Cambodia encourages other countries providing GSP schemes to follow the EU example.

D. Sub-Regional Integration

56. Cambodia has entered into a number of sub-regional arrangements with neighbouring countries designed to foster mutual trade. These arrangements do not involve independent tariff commitments: tariffs on trade within the sub-regional arrangements are governed by ASEAN tariff commitments, and in the case of the Greater Mekong Sub-Region, also by ASEAN Members' free-trade agreements with China. Rather, cooperation is designed to expand trade by joint activities such as improving trade and transportation infrastructure, facilitating cross-border movements of goods and people, developing joint approaches to tourism, etc. The underlying purpose of all the cooperation arrangements is to narrow the development gap between the participating countries and other ASEAN members. The arrangements involving ASEAN members only have been incorporated into the Master Plan on ASEAN Connectivity.

The Greater Mekong Sub-region

57. The members of this arrangement, which came into effect in 1992, are Cambodia, China, Lao PDR, Myanmar, Thailand and Viet Nam. The program of economic cooperation focuses on nine priority areas: agriculture, energy, environment, human resource development, investment, telecommunications, tourism, transport infrastructure, and transport and trade facilitation. In order to focus resources in a meaningful way, three "economic corridors" have been identified, along which a coordinated package of measures in the above areas will be implemented.

Cambodia-Laos-Myanmar-Vietnam Cooperation

58. The political and economic leaders of these five countries meet periodically to discuss ways in which they can help promote mutual trade. Recent discussions have focused on trade facilitation, enhancing trade promotion activities, and boosting investment, in particular in SEZs. The grouping has also attracted external support for specific projects, for example the promotion of information and communications technology aimed at narrowing the digital divide. At its recent summit meeting, the group identified 16 priority projects in eight sectors that the four countries will undertake.

Ayeyawady-Chao Phraya-Mekong Economic Cooperation

59. The members of this group are Cambodia, Lao PDR, Myanmar, Thailand and Viet Nam. The following priority areas have been identified: agricultural and industrial cooperation; transport linkages; tourism cooperation; human resource development and environment. A significant accomplishment has been the elaboration of a rice cooperation initiative.

Cambodia-Laos-Vietnam Development Triangle Area

60. This cooperative initiative focuses on promoting exchanges among the 13 provinces of the 3 countries in the area of their common border. In the case of Cambodia, the provinces in question are among the very poorest in the country. Cross border exchanges will be promoted by special preferential policies in: procedures for border crossings and residency of business people and investors; border crossings of goods and of means of transportation; transit; import-export duty and

tax policy; fees and charges; banking and payments mechanisms; border inspection; investment policy; tourism development; communication, energy and transportation infrastructure and environmental cooperation. These efforts are being supported by a regional development partner, who is financing a number of projects in the areas of transportation and education infrastructure.

E. The Import Regime and Trade Facilitation

61. Since accession, Cambodia has succeeded in broadening the revenue base of the Royal Government. The share of customs duties in total tax revenue declined from 21.9% in 2004 to 16.9% in 2010. However, import duties continue to be an important component of government revenue, and tariff policy is conducted giving due weight to its effects on budget revenue.

62. As part of its WTO accession commitments, Cambodia bound 100% of its customs tariff lines at an (unweighted) average rate of 19%. The average bound rate for agricultural products was 28%; the average for non-agricultural products was 17.7%. At the time of accession the average applied MFN tariff rate was 15.8%. In a relatively few specific tariff lines applied rates were higher than bound rates. The alignment of these applied rates with bound rates did not occur immediately after accession. At present, no applied rates are above their respective bound rates.

63. Cambodia has adopted the ASEAN Harmonized Tariff Nomenclature (AHTN), which is based on the WCO's Harmonized System.

64. At the time of accession, Cambodia's investment regime provided tax and tariff concessions to qualified investment projects. The objective of the tariff concessions was to ensure that Cambodian producers and especially exporters had access to imported capital goods and intermediate inputs at world market prices. Following accession, this regime was modified to bring it into conformity with WTO rules. Small and medium sized enterprises and small agricultural producers do not usually make use of the investment regime. In order to ensure that they, too, could secure essential imported inputs at the lowest possible prices, the Royal Government undertook to lower applied tariff rates on a select number of products of particular interest to these producers. As a result of these and other changes, the average MFN applied tariff rate declined from 15.8% in 2004 to 11.7% in 2011. Moreover, taking into account the preferential rates on goods originating in other ASEAN members and the impact of the tariff relief under the investment regime, the average tariff burden effectively facing importers is much lower than the average MFN applied tariff.

65. All firms, foreign and domestic, that are properly registered may engage in import and export activities. This includes wholly foreign-owned firms established for the sole purpose of engaging in international trade.

66. The administration of the import regime has undergone, and continues to undergo, significant change. Pre-shipment inspection, which was being used at the time of accession, was terminated in 2009. A number of trade facilitation measures have been taken. The most important are:

- The establishment in 2006 of the Single Administrative Document (SAD); the 45 documents previously required at the border were either eliminated or replaced by the SAD;
- The computerization of customs clearance through ASYCUDA, which became operational at five border checkpoints in 2009. It will be introduced at the remaining 17 international border check points in 2011 and early 2012. At checkpoints serviced

by ASYCUDA, more than 90% of import and export clearances now occur within 24 hours of the presentation of the customs declaration. Previously several days had been required. New modules, covering transit trade and allowing brokers to enter data directly on line, are being developed.

- Risk management has been introduced at the same five check points in conjunction with the introduction of ASYCUDA. Physical inspections at those border points have been reduced to less than 20% of import containers, and about 13% of export containers.

67. Plans for the immediate future include the development of a Single Window and implementing the WCO SAFE Framework of Standards and acceding to the revised Kyoto Convention.

68. The rapid expansion of the range and volume of imports has also required changes in the way imports that could endanger human, animal or plant health, or pose dangers to the environment, are monitored and managed. As compared with the situation at the time of accession, the list of products subject to import bans has been reduced, while the range of products that come under import licensing has been expanded. At the time of accession, for example, all imports of narcotics and psychotropic substances and their precursors were banned. Some are now under a regime of non-automatic licensing. Pharmaceuticals, pesticides and fertilizer continue to be subject to import licensing, and dangerous chemicals, live animals, and forestry and fishery products now also require import permits.

F. Protecting Intellectual Property

69. Cambodia has put in place four main laws dealing with the protection of intellectual property: the Law on Copyright and Related Rights; the Law Concerning Marks, Trade Names and Acts of Unfair Competition; the Law on Patents, Utility Models and Industrial Designs; and the Law in Seed Management and Plant Breeders Rights. In addition, Cambodia has adopted five legal texts implementing the first three of the above laws. The laws and the implementing texts have been notified to WTO.

70. Draft laws on Geographical Indications, Trade Secrets and Undisclosed Information, and Layout Designs of Integrated Circuits are under preparation. Pending the adoption of the law on Geographical Indications, a regulation has been adopted protecting two Cambodian geographical indications. A legal text clarifying and simplifying procedures allowing Cambodia to benefit from the Doha Decision on TRIPs and Public Health is also being prepared, as are regulations on border measures; on the import, export and manufacture of laser-readable discs and other means for storing information; and on the implementation of the Law on Seed Management and Plant Breeders Rights. A regulation on layout designs of integrated circuits has recently been issued; it will provide a basis for protection pending the adoption of the Law on Layout Designs of Integrated Circuits.

71. During 2010, more than 3,000 marks were registered, bringing the total registry of marks to more than 36,000. More than 32,000 of the registered marks are foreign owned.

72. Several avenues exist for resolving infringement of marks. Since the principles of intellectual property protection are not well understood in Cambodia, some infringement is inadvertent: a simple letter from the mark owner to the infringer often resolves the matter. A mark owner may also approach the Ministry of Commerce's Department of Intellectual Property Rights, which will then convene both parties and seek a mutually agreed resolution. A mark owner, like all rights holders,

may also approach the Economic Police, and the courts. Information on Trade Mark infringement cases dealt with through all these channels is not available. During 2010, 35 complaints were heard by the Department of Intellectual Property Rights, of which 32 were resolved. The Ministry of Commerce is planning to set up a formal Appeals Board to hear complaints.

73. The registration of copyrights is voluntary and is not a pre-condition for protection. So far, about 50 works have been registered with the Ministry of Culture and Fine Arts, all by Cambodian nationals, and mainly textbooks written in the Cambodian language. Creators of books and music usually sell their rights to a publishing house or music company for a lump sum, and have no further financial interest in the work they have created. In 2010, more than 255,000 infringing CDs and DVDs were seized in Cambodian markets and destroyed. In raids on production facilities and warehouses, 22 large-scale pieces of production equipment, 47,000 blank discs and 95,000 finished discs were confiscated and destroyed.

74. At the end of 2010, about 100 applications for patent protection had been received. All applicants were non-Cambodian individuals or entities. The process for granting a patent is under development, and is not yet fully in place. Since 2010, assistance in undertaking patent searches has been provided by WIPO. The Department of Industrial Property of the Ministry of Industry, Mines and Energy will shortly issue a regular publication containing applications and, where relevant, the results of the patent searches. There have not yet been any detailed examinations (international preliminary examinations) of the applications.

75. There have been no applications for the protection of utility models.

76. At the end of 2010, about 130 applications had been received for the protection of an industrial design, and 105 such designs had been registered. Most applicants are non-Cambodian entities. The registered designs are pictured and described in the Official Gazette on Industrial Design, which is published by the Ministry of Industry, Mines and Energy on behalf of the Royal Government. The Ministry will establish a technical board that can be used by rights holders, if they so choose, to resolve disputes involving infringement.

77. Experience with implementation and enforcement of copyright and trademarks has shown that there is need to strengthen and better coordinate the Government's efforts. To this end, the Royal Government has established the National Committee for Intellectual Property Rights, which is chaired by the Minister of Commerce. This committee is made up of representatives of 14 ministries and agencies, including all governmental entities with responsibility for the enforcement of intellectual property rights. The committee began its work in 2009. To better meet its objectives, two sub-committees will be created in 2012. A first sub-committee deals with enforcement. It will coordinate enforcement activities, ensure the exchange of information among enforcement entities and develop data bases, and provide guidelines for enforcers working on the ground and clarify their respective responsibilities. The second sub-committee deals with education. It will develop detailed training and educational materials, will review and make recommendations on existing curricula, and will seek to expand the scope and frequency of courses dealing with intellectual property in Cambodia's education system.

G. Trade Development: Managing Aid for Trade

78. Cambodia's efforts to develop trade as an instrument of development and poverty alleviation have been supported by its development partners, and that support has increased progressively during

the years since accession. Much of the progress described in other parts of this Report is the direct result of that support, which the Royal Government acknowledges with deep appreciation.

79. The Integrated Framework has played an important role in stimulating this support. Cambodia was the first country to complete an IF Diagnostic Trade Integration Study, in 2002. The program and procedures that followed the adoption of the DTIS were instrumental in moving forward the trade development agenda in the following years. They also revealed human and institutional weaknesses within the Government that were holding back progress.

80. The DAC Paris Declaration on Aid Effectiveness (March 2005) and the Aid for Trade initiative at the Hong Kong WTO Ministerial Meeting (December 2005) made it clear that important changes were taking place in the way the donor community was addressing aid for trade, and that such assistance could expand rapidly. This, together with lessons learned from the DTIS experience, caused the Royal Government to undertake a major revision of its institutions and procedures for dealing with trade-related assistance.

81. In 2007 the Government adopted a revised and updated DTIS, launched a Sector-Wide Approach to trade (trade SWAp), and re-organized the Ministry of Commerce so as to allow it to better manage trade-related assistance.

82. As mentioned above, The DTIS 2007 laid out a new agenda for trade development. It identified 19 products and services with export potential; examined the human development and poverty reduction potential of the 19 sectors; identified markets abroad that could be attractive to Cambodian exporters of the 19 products and services; and expanded and updated the agenda for legislative reform.

83. The trade SWAp established the mechanisms for coordinating actions by the Royal Government and its development partners in executing the DTIS agenda. It established the Sub-Steering Committee on Trade Development and Trade-related Investment, whose members are representatives of all ministries dealing with trade and trade-related issues, and all development partners providing aid for trade. Representatives of the private sector also participate in the Sub-Steering Committee's work, when the topics under discussion are relevant to them.

84. The Sub-Steering Committee has three working groups, or "pillars" charged with developing the DTIS agenda into specific projects suitable for support by development partners. The first pillar deals with legislative reform, and works to formulate projects for funding by development partners in this area; the second deals with the 19 products and services, and works to develop projects for funding with regard to those products and services; and the third develops proposals with regard to capacity development. This process is producing a steady stream of viable projects, many of which have found support among development partners. The pillars have developed road maps, setting out goals, strategic objectives, and outcomes in the area for which they are responsible. Taken together, these "road maps" cover a large part of Cambodia's aid for trade strategy.

85. The Ministry of Commerce's new Department for International Cooperation serves as a focal point for coordination of the execution, monitoring and assessment of trade-related assistance.

86. This new institutional setting provides the Royal Government with an important additional mechanism for ensuring that trade, development and poverty alleviation actions are properly integrated as regards policy formulation and execution, and with respect to relations between the Royal Government and its development partners ("mainstreaming"). The Royal Government believes that these changes have increased, and are continuing to increase, Cambodia's capacity to successfully

utilize higher levels of aid for trade, and to ensure that trade realizes its full potential to reduce poverty and contribute to social development.

87. In support of these efforts, some development partners have come together to establish a multi-donor trust fund, whose resources are available to support directly project proposals identified through the SWAp process. Other development partners use their own delivery mechanisms to achieve the same results, under the coordination of the Sub-Steering Committee on Trade Development and Trade-Related Investment.

88. Activities under the trade SWAp are being backstopped by assistance from EIF Tier 1. Funding from Tier 1 will allow Cambodia to enhance its national capacity to formulate, implement, manage and monitor trade policy and trade-related assistance, with particular emphasis on poverty reduction. These resources will also help Cambodia share its experiences with aid for trade with other Least Developed Countries.

89. Further backstopping is being provided within Asia and the Pacific by the Regional Technical Group on Aid for Trade, which is co-chaired by Cambodia and Japan. The Group provides a forum for reviewing the flows of aid for trade to Asia-Pacific countries, and for exchanging information and experiences, particularly as regards the policy responses of individual countries in the area of aid for trade.

V. SECTORAL ISSUES

A. Manufacturing

Overview

90. Manufacturing accounts for a little more than 20% of Cambodia's GDP and employs more than half a million Cambodians. The most important manufacturing activity is the production of wearing apparel and footwear, which, together, account for more than 15% of GDP and around 80% of employment in the manufacturing sector. Wearing apparel and footwear are mostly produced by large manufacturing enterprises. The second most important manufacturing activity is food, beverages and tobacco, which accounts for somewhat more than 2% of GDP. Small and medium sized firms predominate in this activity, as they do in most other sectors.

91. The Royal Government's strategy for diversifying manufactured export products has four main pillars. The first is to continue to support and promote garment exports to existing markets, while diversifying the range of articles of clothing exported, and increasing value added. The second is to seize existing opportunities to diversify the markets for Cambodia's garments, in particular by developing exports to Asian markets. The third is to enlarge the range of manufactured exports by upgrading existing industries with growth and export potential. Such potential exists as regards furniture, handicrafts, paper/recycled paper, construction materials, household appliances and simple electronic equipment. Many of the firms operating in these sectors are small and medium enterprises. The fourth is to seek to develop manufactured export products not presently produced in Cambodia, in particular by attracting investment by transnational corporations. In addition, the Royal Government's trade policy encourages import substitution, in particular by developing competitive small and medium enterprises in the food processing sector. Cambodia's manufacturing base is very narrow; broadening it is a prime objective of industrial policy.

Garment industry

92. Cambodia began exporting garments in the mid 1990s. Growth was rapid, and by the time of accession in 2004, garment exports were a little less than US\$2 billion. There were 219 firms exporting from Cambodia, and employing some 270,000 workers. At present (mid 2011) there are about 270 firms exporting from Cambodia employing around 310,000 workers. Exports in 2010 were US\$2.9 billion. In addition to those directly employed by garment factories, it is estimated that the garment industry is responsible for the creation, indirectly, of a further 250,000 jobs in supporting services. Ninety per cent of the workers in the garment industry are women, most of them coming from rural areas.

93. There was concern that Cambodia's garment exports might suffer from the expiration of the WTO Agreement on Textiles and Clothing. This was not the case, however. Exports grew by 10% in 2005, by 21% in 2006, and by 8% in 2007.

94. In 2008-2009, the economic crisis affecting Cambodia's main export markets reversed these trends. Exports grew by 3.6% in 2008, and then dropped by 1.8% in 2009. Export values fell not only because of a sharp reduction in orders, but also because of downward pressure on prices. The number of operating firms, which had reached 292 at the end of 2007, was reduced to 243 by the end of 2009. About 75,000 jobs were lost, and the earnings of those who continued to be employed were reduced because work was increasingly part time, and overtime was not required.

95. In 2010, there was a sharp recovery, with exports expanding by 25%. The early months of 2011 showed a continuation of export growth. There are signs that exports to Asian markets are beginning to accelerate.

96. Throughout this period the garment industry has received strong support from the Royal Government through both appropriate investment incentives and the streamlining of import/export procedures.

97. A key feature of this support is the Better Factories program. This program, undertaken with participation of the ILO, establishes a system for the regular monitoring of work conditions in individual factories, through unannounced visits, and worker and management interviews. The monitoring is designed to ensure the full compliance of garment factories with Cambodia's labor law, which fully reflects the ILO's core labor standards with regard to freedom of association and collective bargaining; elimination of all forms of forced labor and child labor; and freedom from discrimination at work. The results of the monitoring are made available to the factories, including recommendations for improvement in work conditions. These electronic reports are subsequently posted on a web site, where they may be examined by buyers. This allows buyers to form their own judgment as to whether the work conditions in a particular factory meet the buyer's requirements.

98. The Ministry of Commerce enforces this program by requiring all factories seeking an export certificate of Cambodian origin to participate in the program. Only factories that are registered with the Ministry of Commerce may export, and the condition for registry is membership in the Garment Manufacturers Association of Cambodia and in the Better Factories Program.

99. While the main objective of this program is to ensure that Cambodian workers enjoy working conditions that meet international standards, the program also provides a competitive edge for Cambodian producers in markets that are sensitive to the issue of "sweatshop" labor.

100. Diversification of markets is a key objective for the future. Diversification is needed within existing markets: it is estimated that the top 15 buyers in the United States account for more than 50% of garment exports. In Europe, most exports have been concentrated on France, Germany, Spain and the United Kingdom: other EU markets will be exploited. Increasing exports to markets such as China, Japan, Mexico and Russia is also an important objective.

101. Diversification of products is an equally important objective, and is necessary for successful diversification of markets. Cambodia's exports are concentrated on a small number of high volume low value added products. In 2008, the top 5 products accounted for 54% and 67% of total garment exports to the United States and the European Union, respectively. Efforts to upgrade to higher value products will require improvements in the skill levels of Cambodian workers. Higher skill levels would also allow Cambodian producers to go beyond the simple cut-make-trim operations which predominate today.

102. The Garment Manufacturers Association of Cambodia manages the Cambodian Garment Training Center, which provides training across a broad range of topics connected with garment manufacture. The Garment Industry Productivity Center also works to improve skills. Through its activities, Cambodian pattern-makers have recently been trained and certified. It is estimated that production of garment patterns in Cambodia would allow Cambodia to retain an additional 25-30% of the value of a finished garment.

Trade, Investment and Special Economic Zones (SEZs)

103. The development of new manufactured products for export will require sizable investment, in particular by transnational corporations. The investment climate is thus critical to export expansion. As mentioned elsewhere, the Royal Government is firmly committed to improving the investment climate by putting in place a transparent and predictable legal framework for business; engaging in trade facilitation; improving infrastructure; maintaining efficient and competitive investment incentives, and entering into bilateral investment agreements.

104. Special economic zones can provide additional attractions for investors, and the promotion of SEZs is a government priority.

105. The Royal Government adopted the Sub-Decree on the Establishment and Management of Special Economic Zones in December 2005. Since then, 22 SEZs have been authorized. All zones are being developed by private investors/operators. Some zones are located near borders with neighbouring countries, allowing manufacturers in the zone ready access to those countries' transportation infrastructures when moving goods to market. Others are located near Sihanoukville port, and near Phnom Penh.

106. Investment incentives, and the criteria for granting incentives, are the same for investors inside and outside the zones. The principal advantages of locating in a zone are the availability of superior infrastructure, and the streamlining of government procedures.

107. The infrastructure and provision of non-governmental services inside a zone are the sole responsibility of the private investor/operator. All Governmental agencies have simplified and streamlined the application of regulations and procedures in the zones, and have stationed officials in the zones who operate a "One Stop Shop" to ensure rapid completion of all paper work.

108. Cambodia's Labor Law applies fully to workers in an SEZ, and workers in a zone enjoy the same rights and privileges as workers elsewhere in Cambodia. Goods that move from an SEZ into the rest of Cambodia are treated as imports into Cambodia and are subject to all applicable duties, taxes and import procedures.

109. The development of the zones has so far been uneven. Five are currently in operation; the remainders are in various stages of development. The zones have provided around 7,000 jobs and export about US\$100 million per year. Recent data suggest that the pace of investment in the zones is accelerating.

Small and Medium Enterprises

110. Small and medium enterprises are the incubators for the development of Cambodian entrepreneurship and business and technical skills. Most of these enterprises are located in the country side, and their success contributes directly to rural development.

111. The SME Sub-Committee of the Private Sector Development Steering Committee promotes dialogue between the Royal Government and small and medium enterprises. This dialogue has allowed the identification of key impediments to the growth of small and medium enterprises. The Royal Government is addressing these impediments.

112. A number of the difficulties faced by SMEs are common to all enterprises, but weigh especially heavily on small companies. These include the costs of registration procedures, and other costs of doing business; costs associated with import and export procedures; and uncertainties resulting from an incomplete legal system. These are being addressed by the Royal Government, and considerable progress has been registered during the period since accession, as mentioned earlier. The Royal Government continues to seek improvement in all these areas.

113. Other impediments are more specific to small and medium enterprises, and require a response that is more focused on them.

114. Access to bank finance is especially difficult for SMEs. In order to access bank finance an SME usually needs to show profitability through standard accounting methods, present a business plan, and provide collateral. Each of these is a challenge.

115. Lack of relevant production skills and knowledge is another impediment. Since most SMEs are in the food and beverage sector, knowledge of food technology and food safety is particularly important. To assist these SMEs, the Royal Government has established a Technology Incubator Center to help improve productivity and meet food safety requirements. The Center has recently organized training activities on water treatment technology for firms producing bottled water and ice; on soy sauce technology, and on good manufacturing practices and good hygiene practices.

116. Handicrafts are another area in which SMEs can develop competitiveness. The silk sector, for example, has registered rapid progress in improving efficiency in recent years, and is now able to begin exporting to markets offering preferential access.

117. SMEs also lack adequate knowledge of formal export procedures, thereby limiting their ability to access foreign markets. The Royal Government is establishing training and coaching service that will provide information on export procedures, and assist SMEs in complying with those procedures.

B. Agriculture

118. Cambodia is competitive or potentially competitive across a wide range of agricultural products. Increasing agricultural exports, widening the range of products exported, and developing new export markets are key elements in Cambodia's export strategy.

119. Export expansion necessarily takes place in the context of the overall development of the agricultural sector. The Royal Government has established strategic goals for the development of agriculture in the areas of food security, productivity and diversification; market access for agricultural products; improvement of institutional capacity and of the legislative framework; and fisheries and forestry reform.

120. Since its adoption, the law on Economic Land Concessions has been an important instrument for accelerating the production of a number of agricultural export products. Concessions have been granted to producers of rubber, sugarcane, palm oil, cashew nuts, cassava, acacia, teak, and eucalyptus, and for some of these crops exports have grown rapidly in recent years, albeit from a small base. Exports of crude palm oil, for example, rose from US\$700,000 in 2005 to US\$6.7 million in 2009 and US\$9.4 million in 2010. Exports of natural rubber rose from US\$34.7 million in 2005 to US\$82.6 million in 2010, most of the increase having occurred in the past two years.

121. Experience to date in encouraging agricultural exports indicates that there are a number of impediments which hold back Cambodian exports. Foremost among these is the high cost of transportation: these costs are more than twice as high per tonne/kilometre in Cambodia when compared to neighbouring countries. The Royal Government is actively pursuing an ambitious program of road improvement and bridge building. Energy costs are high in Cambodia, and are particularly high in rural areas. The National Policy on Rural Electrification addresses this issue. For many crops, up to date technology and production skills are lacking. The Cambodia Agricultural Research and Development Institute, the Agricultural Experimentation Station, the Agricultural Development Center and the Center of Seed Production, Research and Technical Training and various extension services all seek to address this. There is insufficient investment in land improvement by small farmers. In part, this is the result of insecurity produced by incomplete land titling – only about 24% of farmers have land titles. Land titling in rural areas is being speeded up so as to provide the necessary security. Titles will also allow land to be used as collateral when seeking loans. Finally, for food crops, insufficient knowledge of SPS requirements in importing countries, and insufficient capacity to meet those requirements are important impediments.

122. Until the very recent past, almost all of Cambodia's agricultural exports have been processed outside Cambodia, usually in neighbouring countries. This limits the gains to the economy as a whole, since significant value added resulting from processing is foregone. Promoting increased processing within Cambodia is an important policy objective.

123. The European Union has recently included milled rice in its "Everything But Arms" system of preferences for Least Developed Countries. This provides Cambodian producers with significant tariff advantages in the EU market.

124. In 2009, Cambodia produced 7.59 million metric tonnes of paddy rice, and was the world's 14th largest producer. Domestic consumption, and seed and post-harvest loss, were 4.09 million metric tonnes. Official statistics show that 13,000 tonnes of milled rice was exported. Thus, roughly 3.5 million tonnes of paddy rice appears to have left Cambodia for processing elsewhere. Much of this

movement went un-recorded. Estimates for 2010 indicate that more than 8 million tonnes of paddy rice were produced, expanding considerably the surplus available for export.

125. On 25 June 2010, the Royal Government adopted a Policy Paper on The Promotion of Paddy Production and Rice Export. The objectives laid out in the Policy Paper are to increase paddy production, in particular by raising output per hectare; to increase the milling of rice to international standards; and to seek out markets abroad for Cambodian milled rice. The specific targets are to attain, by 2015, an annual paddy rice surplus of more than 4 million tonnes, and milled rice exports of one million tonnes.

126. To achieve these goals, the Royal Government is intensifying its efforts to reduce the general impediments to agriculture exports, mentioned above. In addition, it is addressing issues specific to rice milling and export. The availability of working capital to rice producers, millers and exporters is a key issue. In early 2011 the Royal Government doubled its contribution to rice milling loans offered by the Rural Development Bank. It is also preparing a US\$25 million fund to guarantee 50% of the credit offered to the rice industry by commercial banks, and is taking other steps to facilitate the access of rice millers to commercial credit. In all, between now and 2015, the Government will spend US\$40 million supporting rice processing, trade facilitation and market research.

127. The Government is also assisting exporters and potential exporters to identify import markets, and has led missions abroad and facilitated contacts between Cambodian exporters and potential importers.

128. These steps are already producing results: Cambodia exported about 30,000 tonnes of milled rice in 2010, and about 80,000 tonnes of milled rice in January-June 2011.

C. Services

129. An efficient and competitive services sector is crucial to Cambodia's economic and social development. Infrastructure services such as telecommunications and transport, business services such as accounting, auditing and bookkeeping, and basic financial services are important elements determining the investment climate. Higher education and health services are essential for the well-being of the population, and also affect the business and investment climate.

130. Cambodia has historically had a liberal policy regarding the entry of foreign enterprises into the services sector. During accession, Cambodia formalized this policy by taking market access commitments in 94 services subsectors. It believed that such commitments would encourage foreign participation in the services sector, and accelerate the development of an efficient, world class services sector.

131. No comprehensive data on services are available. In a few sectors, however, developments since accession can be followed: they indicate that Cambodia's strategy has met with considerable success.

132. Cambodia took market access commitments with regard to commercial banking. At the time of accession, there were 14 commercial banks in Cambodia of which 8 had foreign ownership as branches, subsidiaries or joint ventures. In 2010 there were 29 commercial banks in Cambodia, of which 23 were foreign-owned.

133. Cambodia took market access commitments across a wide range of Telecommunication Services sub-sectors, including mobile services where it granted full market access. At the time of

accession, Cambodia had three mobile operators. In 2010, there were eight mobile operators. The original investment in all eight operators included foreign participation. In the case of one operator, a Cambodian investor subsequently bought out the foreign investor.

134. Cambodia also took a market access commitment with regard to higher education, adult education, and other education services. At the time of accession, Cambodia had 17 private institutions of higher learning, all of them Cambodian owned. Since accession, 26 additional private institutions of higher learning have been established, of which four are foreign owned. As regards the movement of natural persons, Cambodia places no restrictions on any of its institutions of higher learning with respect to the hiring of foreign instructors. Cambodian universities have entered into more than 200 memoranda of understanding with foreign educational institutions establishing cooperation and exchange frameworks, thereby enhancing the openness of the higher education system. These developments have significantly expanded the educational opportunities available to Cambodians.

135. Similar stories can be told with regard to other sectors in which Cambodia took commitments, for example hospital services and insurance services.

136. Cambodia also has one important services export: tourism.

137. At the time of Cambodia's accession to WTO, tourism was already well established and growing rapidly. Visitor arrivals in 2004 totalled more than one million, a 50% rise over 2003. During the period 2005-2007, tourist arrivals and tourist receipts continued to experience double digit growth. In 2008-2009, however, this robust growth was interrupted by the economic crises experienced by some important source countries. Arrivals from Europe and North America slowed noticeably, and arrivals from the Republic of Korea and from Japan actually fell. These developments were partly offset by sharply higher arrivals from neighbouring countries: overall, visitor arrivals grew by less than 6% in 2008 and by less than 2% in 2009.

138. In 2010, visitor arrivals and tourist receipts returned to double-digit growth: there were 2.5 million arrivals and US\$1.8 billion in tourism receipts. It is estimated that tourism generates, directly and indirectly, about 300,000 jobs.

139. Despite these fluctuations, the main tourist generating markets have remained almost the same throughout the period. The Republic of Korea, Japan, the United States and, recently, Viet Nam, rank among the top four generating markets. The data for 2010 also show strong growth in arrivals from China.

140. From the very beginning, the primary tourist attraction in Cambodia has been the historic Khmer temples around Siem Reap, in particular the world famous Angkor Wat. The Royal Government's tourism policy has sought to manage the growth of tourism in this area, while progressively developing complementary and alternative tourist destinations in the rest of the country. A number of such destinations have been identified and are under development. These include beach resorts in the coastal zone, (Cambodia has recently been admitted as a member of the World's Most Beautiful Bays Club); ecotourism zones in the northeast and the southwest; the Tonle Sap biodiversity zone; and the upper Mekong river, with its fresh-water dolphins. For all these destinations, the main attractions are the natural beauty of the Cambodian countryside and the uniqueness of Cambodian village life. Further tourist development will also be promoted in Phnom Penh and its surrounding area. Special attention is being given to the requirements of sustainable tourism development, which requires close attention to the interaction of tourism with the

natural environment and with local communities. The potential of tourism as a direct means for poverty alleviation is recognized.

141. The Royal Government is fostering tourism development through a number of channels. It supports marketing, in particular through the "Cambodia-Kingdom of Wonder" and "Clean City, Clean Resort and Good Service" campaigns. Marketing is directed mainly at East Asia, where the attractiveness of Cambodia as a tourist destination has already been demonstrated. But recent rapid growth (albeit from a low base) of tourists from non-traditional markets, such as Russia and India, suggest that other countries could profitably be targeted.

142. Cambodia is also seeking to facilitate tourist arrivals through such measures as encouraging direct flights to Cambodia's international airports, increasing the number of land border crossings, and working with ASEAN partners to eliminate visa requirements – an objective that has already been partly met. Connectivity within Cambodia is also important, and the Government is encouraging the establishment of regular flights from Siem Reap to Sihanoukville, so that tourists can more easily combine visits to Angkor Wat with relaxation on the beach.

143. Attention will also be given to reinforcing measures to ensure the safety and good health of tourists while in Cambodia, and to further elaborating the legal and regulatory framework for tourism. This is in particular needed to organize properly community-based tourism.

144. In addition to promoting increases in tourism, the Royal Government is concerned to enhance the development impact of tourism by increasing backward linkages and local value added. Almost all of the food products used in upscale tourist hotels, for example, are imported. Many of these products could be, and should be, supplied by Cambodian producers.

145. Foreign commercial presence (i.e. foreign investment) has been a major contributor to the rapid growth in tourism mentioned earlier. In its WTO services schedule, Cambodia took on market access and national treatment commitments with respect to hotels, restaurants, travel agencies and tour operator services and tourist guides services. With respect to hotels, travel agencies and tour operators, the schedule contains some limitations with regard to foreign ownership. However, present policy allows 100% foreign ownership in all three subsectors.

146. Since accession there has been a significant expansion of foreign investment in luxury grade hotels.

VI. CONCLUSION

147. During the period since accession, Cambodia has made considerable progress in meeting its WTO obligations and in using the WTO trading system to foster growth, development and poverty alleviation. Efforts in both areas will be intensified in the period ahead. Cambodia understands that the Trade Policy Review will produce detailed comments by WTO Members on its trading regime. These comments are welcome, and will assist the Government in elaborating further its WTO work program.

148. 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. 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.

149. 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.

150. These, and other specific 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.

151. Export development through the expansion of supply-side capacity will remain the central element of trade policy. As described throughout this Report, 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.
