Cambodia Trade Integration Strategy 2014-2018

Executive Summary

Phnom Penh, May 2013

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Acronyms

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AfT	Aid for Trade
AFTA	ASEAN Free Trade Agreement
ASEAN	Association of South East Asian Nations
BFC	Better Factories Cambodia
CDC	Council for the Development of Cambodia
CIB	Cambodia Investment Board
CoM	Council of Ministers
CTIS	Cambodia Trade Integration Strategy
DFQF	Duty-Free Quota-Free
DICO	Department of International Cooperation
DP	Development Partner
DTIS	Diagnostic Trade Integration Study
EBA	Everything-but-Arms
EDC	Electricité du Cambodge
EIF	Enhanced Integrated Framework
EU	European Union
FDI	Foreign Direct Investment
FiA	Fisheries Administration
FTA	Free Trade Agreement
GAP	Good Agricultural Practice
GDCE	General Department of Customs and Excise (MEF)
GDP	Gross Domestic Product
GHP	Good Health Practice
GMAC	Garment Manufacturers Association of Cambodia
GMP	Good Manufacturing Practice
GMS	Greater Mekong Sub-Region
G-PSF	Government-Private Sector Forum
HACCP	Hazard Analysis and Critical Control Points
HEI	Higher Education Institution
HRD	Human Resource Development
IC (Trade SWAp)	Trade SWAp Implementation Committee
IPA	Investment Promotion Agency
IPR	Intellectual Property Right
LDC	Least Developed Country
MAFF	Ministry of Agriculture, Forestry and Fisheries
MARD	Ministry of Agricultural and Rural Development
MEF	Ministry of Economy and Finance
MoC	Ministry of Commerce
MoCFA	Ministry of Culture & Fine Arts
MoE	Ministry of the Environment
MoEYS	Ministry of Education, Youth and Sports
MoFA	Ministry of Foreign Affairs

MoH	Ministry of Health
MoI	Ministry of the Interior
MoIH	Ministry of Industry and Handicrafts
MoPWT	Ministry of Public Works and Transport
MoT	Ministry of Tourism
MoU	Memorandum of Understanding
MoWA	Ministry of Women Affairs
NCIPR	National Committee on Intellectual Property Rights
NGO	Non-Governmental Organization
NSDP	National Strategic Development Program
NSW	National Single Window
PISC	Provincial Investment Sub-Committee
PSD	Private Sector Development
QIP	Qualified Investment Project
RCEP	Regional Comprehensive Economic Partnership
RDB	Rural Development Bank
RGC	Royal Government of Cambodia
RUA	Royal University of Agriculture
SEZ	Special Economic Zone
SMEs	Small and Medium Size Enterprises
SNEC	Supreme National Economic Council
SPS	Sanitary and Phytosanitary
S-SC	Sub-Steering Committee
SWOT	Strengths, Weaknesses, Opportunities, Threats
TA	Technical Assistance
TBT	Technical Barrier to Trade
TDSP	Trade Development Support Program
Trade SWAp	Trade Sector-Wide Approach
TPR	Trade Policy Review
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TVET	Technical Vocational Education and Training
TWG	Technical Working Group
WCO	World Customs Organization
WG	Working Group
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Background

In November 2001, Cambodia validated its first *Diagnostic Trade Integration Strategy* (DTIS.) DTIS 2001 was prepared with funding support from the *Integrated Framework* program (IF.) Cambodia had been selected by the IF as one of three pilot countries for this innovative program launched by six multilateral agencies – the International Monetary Fund (IMF), the International Trade Center (ITC), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), the World Bank (WB), and the World Trade Organization (WTO.)

In December 2007, Cambodia's Prime Minister launched the country's second DTIS, *Cambodia Trade Integration Strategy 2007* (CTIS 2007.) CTIS 2007 benefited from combined funding support from the original IF program and the UNDP as well as technical contributions from the EU, GIZ, IFC, the IMF, ITC, UNCTAD, and the World Bank. Back then, Cambodia was the first country to update its initial DTIS under the *Enhanced Integrated Framework* (EIF), the successor to the IF program.

Cambodia Trade Integration Strategy 2014-2018 (CTIS 2014-2018) is the country's third generation DTIS. Once again, Cambodia's leadership among EIF countries is in display. Cambodia is the first EIF country to update its original DTIS for a second time. CTIS 2014-2018 has benefited from funding support from the EIF, the Asian Development Bank (ADB), the UNDP, and the WB.

Since the first DTIS in 2001, leadership of the DTIS formulation process in Cambodia has changed significantly. This reflects Cambodia's growing capacity to manage its Aid-for-Trade process. The first DTIS was largely agency-driven, with the WB leading a team of experts under IF funding. CTIS 2007 was carried out under the joint leadership of the Ministry of Commerce and the UNDP. CTIS 2014-2018 is a fully Government-led and Government-owned process.

Under the leadership and guidance from the current and previous Senior Ministers, Ministers of Commerce, and with strong operational support from and management by key senior officials in the Ministry, the team assembled to prepare CTIS 2014-2018 benefited also from the technical inputs from the *Inter-Ministerial Committee for Updating the Cambodia Trade Integration Strategy 2013-2018*. The Inter-Ministerial Committee was established through a Prakas and includes senior officials from the Ministries of Commerce, Economy and Finance, Health, Tourism, Planning, Industry and Handicraft, Mines and Energy, Agriculture, Forestry and Fisheries, Rural Development, Women Affairs, Labor and Vocational Training, Public Works and Transport, Education, Youth and Sports, as well as the Council of Ministers, the Council for the Development of Cambodia, and the Royal School of Administration. Members of the Inter-Ministerial Committee provided DTIS team members with access to officials in their respective ministries, reviewed drafts, and met with the team to provide comments, feedback and other inputs on various documents.

This *Executive Summary* and the *20 Strategic Outcomes* used to organize the study were endorsed by the Sub-Steering Committee on Trade and Trade-Related Investment in May 2013. Thereafter, the Ministry of Commerce worked closely with the Ministry of Planning and SNEC to ensure those 20 outcomes would be mainstreamed in the new NSDP-IV and Rectangular Strategy-III of the new Government. The final *Full Report* and *Trade SWAp Road Map 2014-2018* were endorsed by the Sub-Steering Committee on Trade and Trade Related Investment chaired by the Senior Minister in January 2014.

CTIS 2014-2018: Underlying Principles

CTIS 2014-2018 reflects efforts by the Royal Government of Cambodia (RGC) to take stock of important developments in the country's trade sector since the previous DTIS (CTIS 2007) and to update Cambodia's strategy and directions for trade integration into global and regional markets. CTIS 2014-2018 is guided by three principles:

1. **Update and strengthen Cambodia's Trade SWAp.**

   Starting in 2008 and capitalizing on the strategic directions and actions identified in CTIS 2007, the RGC, through the leadership of the MoC and the Sub-Steering Committee on Trade and Trade-Related Investment, established a Trade Sector Wide Approach (Trade SWAp.) The purpose of the Trade SWAp was to provide Government with tools to improve its coordination and overall management of Aid for Trade as well as monitor progress against CTIS 2007 strategic objectives and actions.

   One such tool is the Trade SWAp Road Map, organized around three "Pillars." Each pillar captures key Indicative areas for reform and progress to support the development of Cambodia's trade sector. Priority areas are in line with CTIS 2007 and results are monitored through baselines and targets captured in Key Performance Indicators (KPIs) for each.

   CTIS 2014-2018 provides a fresh look at new opportunities and challenges that have emerged since 2007. Additionally, CTIS 2014-2018 provides the Government with an opportunity for updating the RGC's Trade SWAp Road Map and identifying key strategic directions for Cambodia's trade sector for the coming five-year period 2014-2018. Those directions will be used as anchors for ongoing and new technical assistance and for mainstreaming trade development priorities into the new *National Socio-economic Development Plan* (NSDP), the next *Rectangular Strategy*, and *Cambodia Vision 2030*.

2. **Incorporate Government capacity built since 2007 to lead the updating of CTIS and Trade SWAp Road Map**.

   As a result of implementing Trade SWAp since the mid and late 2000s, a growing number of Government officials in MoC and other trade-related line ministries have become far more familiar with the process of formulating, implementing, monitoring, and evaluating individual Aid for Trade projects. Others have been associated directly with the mechanisms established to oversee progress of the overall Trade SWAp, ensure objectives are met, and review progress against targets.

   The newly created capacity made it possible for the Government to take charge of the formulation of CTIS 2014-2018 under MoC's leadership. The process of formulating CTIS 2014-2018 started with the identification of the key themes to be included, the formulation of a Concept Note that was reviewed and endorsed by the Trade SWAp Inter-ministerial Implementation Committee (IC) under guidance from the Senior Minister, Minister of Commerce, the organization of the *Inter-Ministerial Committee for Updating the Cambodia Trade Integration Strategy 2013-2018* to support the formulation of the new CTIS 2014-2018, and led to a series of steps to ensure the result of the work is fully and collectively owned and internalized by the various ministries and agencies of the Government associated with implementing Aid for Trade technical assistance.

3. **Identify new challenges and incorporate new priorities of RGC for trade development into Trade SWAp**.

   While CTIS 2014-2018 is guided in large part by the priority areas identified in 2007 and reflected in the Three Pillars Road Map, it is not be bound by those. CTIS 2014-2018 recognizes that conditions may have changed and that new priorities and needs may have emerged as a result. So CTIS 2014-2018 also ensures that key new priorities identified by the Government are reflected in the update.

   Specifically, CTIS 2007 took a broad view at potential export sectors for Cambodia, leading to the identification of 19 potential sectors. More than six years of trade development have allowed a group of ten of those sectors to emerge from the initial selection. CTIS 2014-2018 focuses on those ten sectors.

   Two new cross-cutting issues are taken up in CTIS 2014-2018 under Pillar One and Pillar Three respectively: (1) transportation logistics, and (2) skill gap for exports. Successful export development of the past few years have pointed to those two as possible areas of bottlenecks requiring focused attention.

Highlights and Key Findings

Introduction

EXPORT COMPETITIVENESS AND HUMAN DEVELOPMENT

Cambodia has been quite successful heretofore in integrating the global economy through trade and investment. Progress since the mid-2000s is significant. But world markets are ever changing with new competitors continuously emerging to challenge Cambodia's export sectors. The challenge for the country and its leading export sectors is to respond to change by strengthening the competitiveness of established sectors while nurturing new ones.

Trade sector competitiveness is critical to growth, and, in turn, to the creation of new and better jobs as well as income which are requirements for poverty-reduction. Yet, connecting trade expansion to poverty-reduction, gender equality, and greater inclusiveness remains a challenge. With rapid growth in export-oriented agricultural sectors in rural areas and emerging diversification in the number of tourism destinations, Cambodia has made important progress in tackling poverty through employment and income creation on a more geographically-widespread basis. However, working and living conditions associated with many export-related jobs need improvement. The potential negative impact of some export production on the physical environment needs greater attention. And, possibly, raising skills of the work force will be the country's greatest challenges going forward if it is to succeed in using trade expansion as a means to create better jobs, with higher skills that generate greater income.

Export Competitiveness

Trade sector competitiveness is the result of interaction among a number of factors, which, in the context of Cambodia can be grouped into four subsets:

- Improved market access
- Strengthened domestic business environment
- Rising total factor and labor productivity
- Increasing domestic value added

Cambodia's market access has evolved significantly in recent years. Favorable changes in the rules of origin governing the EU's EBA program, the benefits from a number of Duty-Free Quota-Free (DFQF) programs, together with the implementation of free trade agreements with ASEAN Dialogue Partners, have triggered sharp increases in Cambodia's exports — including, but not exclusively, in its exports of garments. Together with a relatively favorable business environment and low labor costs, this improved market access is one of the primary forces driving the significant expansion of investment in manufacturing. Market access is also beginning to evolve as regards agricultural products. Reliance on neighboring countries as markets and as intermediaries for export of unprocessed, informal agricultural products is starting to give way to direct, formal exports to final markets where, generally, Cambodia enjoys duty-free access. This process is still at a very early stage and its continuation will depend, among other things, on Cambodia's being able to meet the SPS and technical standards of importing countries. For both manufactured and agricultural goods, the rapidly growing economies of Asia and "emerging" markets hold great promise in the years ahead.

- Exports of goods and services – recorded and informal – are estimated to have increased 65 percent between 2007-2011, from $4.945 billion to $8.155 billion
- US share of Cambodian exports declined from 55 to 35 percent during the period, as EU, ASEAN Dialogue Partners, Thailand, Vietnam, and other destinations became more important
- Eighty percent of Cambodia's growth in recorded goods exports since 2007 has been targeted to markets offering preferential access
- The share of exports other than garments and tourism during the period grew from 18 to 29 percent. Chief among those are bicycles, electronic and electrical components, footwear, natural rubber, milled and paddy rice, cassava, corn, and soybeans.

A strong business environment for trade has a number of attributes. A legal and regulatory framework that is predictable and based on international norms is a central element. A favorable investment environment as well as trade facilitation and logistics are other key determinants of competitiveness. Trade facilitation and trade logistics will be particularly important for the development of exports such as high-end garments or intermediate inputs into a production chain, where "turn-around" or delivery deadlines are critical. Much work has been done in Cambodia in many of these areas over the past ten years, but more remains to be done.

- Trade facilitation costs for exports and imports are 136 percent the ASEAN-6 average. Average release time of cargo is 24 days compared to 16 days for ASEAN-6 average.
- Cambodia plans completion of the establishment of a National Single Window by 2018 which should help lower those two key metrics
- Notwithstanding significant improvements in road infrastructure since the late 2000s, much remains to be done to improve the effectiveness of transport logistics in Cambodia as well as within the sub-region, both in term of investment in physical infrastructure and in term of reducing non-tariff measures, again with the view of reducing those important costs of doing business

Total factor productivity and labor productivity are also important determinants of competitiveness. Increases in productivity allow higher wages and improved competitiveness to go hand in hand. Productivity increases primarily through investment in equipment that contains more advanced technology. The use of such equipment, in turn, requires higher skill levels. There is a concern that weak mid-level and higher skills required for more sophisticated production processes in Cambodia is holding back productivity gains and investment that could lead to higher value added. There is also mounting concern that, without sufficient increases in productivity, the pressure for higher wages may erode competitiveness. Increased skills that allow Cambodians to perform tasks presently performed by foreign personnel will reduce the costs to enterprises and enhance their competitiveness. For these reasons, it is important to address the gap between skills presently available in the work force and the skills necessary for the present and prospective work place.

- Cambodia lacks a robust TVET system that works closely with the private sector, including export sectors, to ensure skill needs are met

- Cambodia's higher education institutions have grown quite rapidly over the past ten years or so leading to a rapid rise in university graduates. However, university curriculums remain quite disconnected from skills needed in the market place and quality of education is often weak
- Many young people graduate from primary, secondary, or even tertiary education with weak "foundation" soft skills (e.g. literacy and numeracy, communications, problem solving, team work, etc.) Foundation soft skills are critical to life-long-learning and future retraining in the work place
- Cambodia lacks a transparent labor market information system to help educators and labor market entrants understand where the demand is, what the skill requirements are, and how to assist employers in identifying where potential new workers can be found

Cambodia's main manufacturing exports — garments, shoes, and bicycles — operate almost exclusively within global value chains by assembling imported materials and parts into finished products that are then exported. Cambodia's agricultural exports mainly take the form of unprocessed agricultural products. In both cases the value added in Cambodia is usually a small fraction of the value of the finished consumer product. In both cases, Cambodia needs to exploit the possibilities for adding additional value in Cambodia. In the case of agriculture, this entails undertaking processing of farm-gate output – as is already underway in the case of rice. In the case of garments, shoes, and bicycles attention needs to be given to the production, in Cambodia, of inputs presently imported.

- Creating supply linkages between Cambodian SMEs and export firms is important and should be fostered. Foreign direct investment in the production of domestic inputs also needs to be encouraged. Export industries should become hubs around which a network of domestic production develops. What is true of manufacturing exports is also true of the tourism sector where opportunities for stronger linkages to domestic suppliers should also be encouraged.
- Cambodian exporters can and should seek to move into products requiring higher value operations in Cambodia but this will be conditioned in no small part by the capacity of exporting sectors and educational and TVET institutions to find ways to remedy the current skill gap
- Efforts to attract new investors should include targeting areas where favorable rules of origin offer a unique advantage for Cambodia to strengthen its foothold in global value chains
- Consistent quality is critical to long term competitiveness of firms. Uneven quality of inputs or uneven quality in the production process will undermine a value chain's competitiveness. For example, rice millers/exporters are finding it challenging to ensure sustained quality of their export product. Producers of high value silk products must learn how to better control the quality of imported yarn.
- In SPS-sensitive sectors (rice, cassava, corn, soy beans, hospitality sector, processed food, fisheries) there is a need for producers to bring their facilities up to standards that meet international requirements. Government must also play its part by putting in place the surveillance and enforcement systems required to control plant pests and animal diseases, monitor the use of pesticides, or control safety food and products in consumer markets.
- Financial backstopping of export-oriented investors through dedicated programs or specialized financial institutions is an area that has received attention from the Government, including in the context of the July 2010 *Policy Paper on the Promotion of Paddy Production and Rice Export*. Nevertheless, additional attention will be required in the coming years.
- The positive experience of the *Policy Paper on the Promotion of Paddy Production and Rice Export* should be replicated to other sectors (agricultural, manufacturing, or otherwise) that would benefit from explicit policy guidance

Sustainable Human Development and Export Growth

While critical in determining Cambodia's future success in graduating from an LDC to a middle-income economy, export competitiveness cannot be viewed alone. Export competitiveness must also be reviewed against improvement in Cambodians' standard of living and sustainable human development. Table 1 summarizes a number of sustainable human development measures collected during the preparation of the individual sector chapters and the skill chapter presented in the report. While the very limited availability of hard data in Cambodia makes it somewhat difficult to fully assess results and progress in this area, the measures presented in the table, even if impressionistic at times, do allow to point to areas of progress since 2007 as well as remaining challenges, especially in term of:

- Employment growth opportunities
- Quality of jobs, working and living conditions
- Geographical diffusion of the benefits of growth
- Environmental impacts

Employment Growth Opportunities

In the face of 300,000 to 400,000 youths projected to enter the labor market each year over the next decade, Cambodia's biggest human development challenge, by far, is job creation. Indeed, this has become a major, if not the top priority of the Government. With the possible exception of Silk, all nine other sectors have solid potential for continued robust, if not even rapid employment growth in the coming five years. Together they should be adding new jobs in the tens of thousands each year, hence contribute greatly to addressing the job creation challenge.[1]

In manufacturing sectors – garments, footwear, and light manufacturing assembly – as well as in tourism, significant new job creation is likely to occur mainly directly in the sector itself though service providers to those sectors will benefit from a multiplier effect through increased demand. As argued in the report, strong domestic supplier clusters should emerge to provide specific inputs to a few of those sectors provided the right policies and incentives are in place.

In agricultural commodity semi-processing or processing sectors – such as milled rice, semi-processed cassava, fisheries products, processed food, or rubber – the most significant job impact will continue to be overwhelmingly on those who produce the raw inputs: the rice and cassava farmers, the fisher-men and –women, the rubber plantation workers, etc. Still, as these sectors take off, the modern processed food or fish processing factories, for instance, could be adding a significant number of new jobs in and of themselves.

The intrinsic value of the silk sector is somewhat different, of course. Its value may not be so much in how many jobs it may create as much as its contribution to the "cultural image" of Cambodia, a hard-to-measure asset but nevertheless critical to the promotion of tourism and Cambodia's global image.

[1] Growth rates, of course, are a function of the initial baseline in each sector and will be slower in larger, established sectors such as garments and tourism even though large numbers of jobs will be created in those.

Quality of Jobs, Working and Living Conditions

As pointed out in Chapter 17 of the Full Report, young Cambodians do not want simply any job. They want good jobs and well-paying jobs. So quality of jobs, broadly defined, is the key. The quality of jobs and access to good working and living conditions is the result of interactions among many different variables, influenced, in no small part, but not exclusively, by Government policy, the availability of "public goods", as well as access to good income.

This report does not analyze the broader societal impact of recent growth on the livelihood of Cambodians. This is a topic better left to the analytical work associated with the NSDP. Still the latest World Economic Forum report does show that, on a ppp-basis (purchasing power parity), average per capita income of Cambodians grew from approximately $1,000 in 2000 to $2,500 in 2012 – a very significant progress indeed.[2] Of course, since this measure is simply an average, it says little about income distribution.

The focus in this report is more narrow and limited to the ten sectors. As shown in chapter 5 focusing on the investment environment as well as several of the individual sector chapters, one key factor that has attracted a new surge in foreign direct and domestic investment is the relative low labor cost in Cambodia. Still, as shown in chapter 17, the minimum monthly wage that prevails in much of the Cambodian manufacturing sector tends to be high when compared to neighboring and direct competitor countries.

With the possible exception of the garment sector where employers are concerned that wage increases might be running ahead of productivity – an unsustainable situation over the long run – in general it appears that rising wages in manufacturing have been accompanied also by productivity gains. Clearly in some of the agricultural commodity driven sectors identified in this study, there is often evidence of strong productivity increases in recent years at the production level as measured by yield-per-hectare. In general, monthly income in sectors others than garments tend to be lower and/or pegged against the garment sector minimum wage. In the medium and longer term, the concern will be whether growth in productivity will be able to keep up with demand for higher wages if the skill gap and skill shortages cannot be bridged.

International monitoring of many manufacturers under the *Better Factories Cambodia* (BFC) program remains a significant competitive advantage for Cambodia-based exporters in garments and footwear. Nevertheless, there is some recent evidence that further improvements might be needed in the safety of manufacturing facilities and production line (including building safety) and in the cleanliness of factories. This is an important issue that deserves Cambodia's attention, especially in light of negative developments over the past couple of years in such countries as Bangladesh or China.

General quality of living conditions is often a function of where one works. In general, the data tends to show that living conditions (good shelter, good access to clean latrines, and access to potable water) tends to deteriorate for many rural workers moving to large urban centers where good living conditions are harder to come by and more expensive. However, this does not always apply to workers taking employment in SEZs where employers might provide their own, reasonably good shelter conditions.

[2] World Economic Forum, *The Global Competitiveness Report 2013-2014*, Davos: WEF, 2013, p.144

Quality of jobs is also about the ability of the individual to build human capital through training and opportunities to move up the career ladder. This is an area where Cambodia is facing a major challenge across all ten sectors studied here. Weaknesses in primary and secondary schooling, weaknesses in university education, as well as a nearly absent, solid TVET system means that most workers take on employment with a deficit (gap) in both hard (occupational) skills and foundation soft skills.   This deficit or "gap" is in addition to employers facing a labor shortage (inability to find enough workers to apply for specific jobs) as analyzed in detail in chapter 17. These human capital shortages and gaps present a serious challenge to Cambodia's continued competitiveness. Whereas this challenge may have been less of an issue in the past when the focus of export growth was based on a purely low-skill-low-wage factor combination, it must now be addressed head-on by Government and the private sector if Cambodia is to remain an attractive location for new investment and succeed in moving up the value chain in a number of export sectors.

Lastly, an interesting finding is that, while export growth in agricultural sectors may tend to favor male employment, women are the ones that have benefited most from growth in manufacturing exports and tourism. Some of this balance may or may not change if Cambodia is able to move up the value chain and develop higher-skilled sectors.

Geographical Diffusion of Export Growth

Compared to 2007, there is evidence that economic activity associated with export growth has begun to diffuse away from Cambodia's initial three growth poles – Phnom Penh, Siem Reap, and Sihanoukville. In manufacturing, SEZs are beginning to attract factories close to the Thai and Vietnamese borders where none were there before. If anything that development is likely to expand.

In tourism, development of beach-oriented tourism is beginning to spread away from Sihanoukville into the surrounding coastal provinces. Eco-tourism is getting a foothold in the country's North-West and Cardamom Mountains. These and other developments are pulling growth of the hospitality sector into new provinces and regions. In agriculture-oriented sectors, the growing focus on export of semi-processed agricultural commodities or processed food is bringing new, modern processing activities into newer areas.

In addition, with many workers employed in processing facilities located in or near urban centers coming originally from rural areas, less developed provinces are benefiting from a significant amount of remittances from those workers.

Together, these trends mean a more geographically diffused distribution of the benefits of export growth throughout the country, through a more geographically widespread location of export-oriented facilities, through income re-distribution via remittances, and through multiplier effects.

Environmental Impact

Most of the fast growing export sectors, including nearly all of the ten sectors analyzed in this study, are heavily dependent on electricity to power modern equipment. The cost of electricity in Cambodia is high and reliability, low when compared to neighbors. This is an area where the country is clearly at a competitive disadvantage. Interestingly enough, Cambodia is in a unique position to address many of those needs through sustainable energy production solutions. These run from solar passive heating panels to produce hot water in hotels and restaurants (a major source of electrical demand in those establishments), bio-fuel gasification to power rice mills and other processing sectors, photo-voltaic panels to produce electricity in many different applications, or other sustainable technologies as well. So far, Cambodia has been very timid in pushing for widespread implementation of these economically profitable solutions. The fact that, for now, Electricité du Cambodge (EDC) does not purchase surplus electricity from small producers is preempting the development of bio-fuel gasification generating projects in sectors such as rice milling or cassava processing. The trend towards SEZs locating near the Vietnamese or Thai borders so they can tap into those countries cheaper electrical grids is a pragmatic solution, but a limited one at best. It does address the problems confronted by other key development areas where much of the nation's economic activity is taking place.

Weak proper waste and water management are areas that also need attention in no small part as a means to mitigate early on the possible negative impacts of some of the activities associated with various export sectors. Fisheries processing, processed food, footwear and other sectors do need to focus on those issues. Some operators point to the lack of clear environmental regulations as a negative factor on further investment as investors are unable to assess fully the financial risks associated with new projects.

In sum, the analyses presented in several chapters and summarized here suggest that human development progress that have been achieved as a result of rapid export growth since the last DTIS have also been accompanied by new challenges that must be tackled by Government and Cambodian trade sector stakeholders.

Table 1: Sustainable Human Development Impact in Ten Export Sectors

	Garments	Footwear	Light Manuf./SEZs	Processed Food
Employment Creation				
• sector employment (2012)	370,000	64,200	Possibly as many as 10,000	93,700
• future sector growth	10% or more	15%- 20% yearly based on recent trend	Very fast yearly growth: 20% to 25% or higher possible	Significant growth possible
• main indirect impact	Remittances to provinces	Remittances to provinces	Remittances to provinces	Impact on demand in Ag. sectors
Gender Equality	80%-90% women; under-aged labor an issue.	90% + women; under-aged labor an issue. Growing share of men	Not known	Majority women in SMEs. Not known in large facilities.
Wages and Working Hours	Minimum $100 monthly up to $180. 48 hours+OT/week.	Wages slightly higher than garments. 48 hours+OT/week.	Wages slightly higher than garments. 48 hours+OT/week.	Wages and shift work in large plants similar to garments
Working Conditions				
• labor representation	Mostly unionized	Mostly unionized	Some unions	None
• sector monitoring	Monitored under BFC	Monitored under BFC	None	None, except few factories meeting int'l SPS standards
• cleanliness and safety	Recent issues with building safety	Accidents an issue; exposure to hazardous chemicals an issue	Safety issues limited	Challenge is poor hygiene and abeyance to SPS standards
Skills Development				
• training ops	OTJ. No TVET. GMAC planning TVET center	Significant OTJ. No TVET	OTJ. Also off-site training incl. abroad. Limited TVET	OTJ in a few large establishments. No TVET
• career ops	Including for line workers	Including for line workers	Significant, including for line workers	Very limited except in a few large establishments
Living Conditions				
• access to shelter	Quality can be poor in urban environment	Quality can be poor in urban environment	Some SEZ employers provide good shelter in factories. Else, access to good shelter varies	Rural living: Good access to shelter
• sanitation (water/latrines)	Quality can be poor in urban environment	Quality can be poor in urban environment	Usually good	Good access to latrines. Water: variable
Regional Impact				
• Primary	Phnom Penh, Kandal	Phnom Penh, Kampong Speu, Kandal	Phnom Penh, Sihanoukville, Svay Rieng (Bavet), Koh Kong	Phnom Penh, Kampong Cham, Battambang, Siem Reap, Kandal
• Secondary	Svay Rieng, Sihanoukville	Possible expansion along VN border	Possible expansion along VN border	Many rural areas
Environment Impact				
• energy	High use of electricity	High use of electricity	High use of electricity	Limited except large firms
• water	High use for washing and ironing	Tanning and dyes	Relative good water treatment in SEZs	Extensive use. Limited management of water waste
• soil	None known	Possible negative impact from poor mngt of waste water	None known	Waste could be used as compost or fertilizer
• waste	Fabrics and chemicals	Fabrics, rubber, chemicals	Yes. Varies with manufacturing	Limited waste management

	Fisheries	Milled Rice	Cassava
Employment Creation			
• sector employment (2012)	450,000	A few thousands in rice mills	Employment in semi-processing limited
• future sector growth	Slow growth unless aquaculture and processing take off	Fast growth	Global demand and prices unstable. Hard to predict
• main indirect impact	Some multiplier effect. Great impact on main protein source for Cambodians	Millions of farmers grow rice	Hundreds of thousands of farmers grow cassava
Gender Equality	Balanced	Majority men	Balanced
Wages and Working Hours	Around minimum wage. Vary with season. Work hours vary with season.	Around minimum wage. Vary with season. Work hours vary with season	Around minimum wage. Vary with season. Work hours vary with season
Working Conditions			
• labor representation	None	none	none
• sector monitoring	None except for very few factories meeting int'l SPS standards	None – but modern rice mills soon must meet int'l SPS standards	Pressure on processors to meet int'l SPS standards
• cleanliness and safety	Mostly very poor SPS except large plants	See above. Modern export-oriented mills relatively clean	See above
Skills Development			
• training ops	Limited OTJ in large establishments. Mostly informal. No TVET	Limited OTJ in large establishments. Mostly informal. No TVET. Some RUA training	Limited OTJ in large establishments. Mostly informal. No TVET
• career ops	Very limited except in a few large establishments	Very limited except in a few large mills	Very limited except in a few large establishments
Living Conditions			
• access to shelter	Rural living: Good access shelter	Mills provide shelter. Quality limited	Rural living: Good access shelter
• sanitation (water/latrines)	Quality of latrines and water: variable	Quality of latrines and water: variable	Quality of latrines and water: variable
Regional Impact			
• Primary	Coastal provinces, waterway provinces	Prey Veng, Takeo, Kampong Cham, Battambang, Banteay Meanchey, Siem Reap, Kampong Thom	Battambang, Banteay Meanchey, Pailin, Kampong Cham
• Secondary		Most provinces	Most provinces
Environment Impact			
• energy	Limited except large firms	Electricity dependent. Could use sustainable energy solutions	Semi processing needs little electricity
• water	Extensive use. Limited management of water waste	None known	None known
• soil	Solid waste can have negative impact on soil if not managed properly	None known	Cassava cultivation has negative impact on soil unless mitigated
• waste	Limited management of waste	Could use husk for bio-fuel	Waste can be used for bio-fuel or fertilizer

	Natural Rubber	Tourism	High Value Silk
Employment Creation			
• sector employment (2012)	About 60,000 in plantation and small holders. Few thousands in processing.	Approximately 620,000	20,000+ weavers; 1000 breeders
• future sector growth	Likely very high. Could double or triple over next 5 years.	3% or more - 20,000 new jobs or more - yearly	slow
• main indirect impact	Families living on plantations	Remittances to provinces	Contributes to "cultural image" of Cambodia
Gender Equality	Mostly men	40% to 60% women	90 to 95% women
Wages and Working Hours	Cash income based on harvesting. Work hours vary.	No minimum wage. Starting monthly salaries $45-$60. Long hours in SMEs. Shift work based on 24 hours.	Long hours. Wage slightly above garments but varies with orders
Working Conditions			
• labor representation	None	Some establishments unionized	None
• sector monitoring	Quality monitoring about to become an issue	none	None
• cleanliness and safety	Processing facility often unclean	Varies. Hygiene and sanitation key sector development issue.	Home work environment. Usually safe
Skills Development			
• training ops	OJT. No TVET	Mostly OTJ. Lack TVET	Tradition-based OTJ. Risk of loss of skill if sector declines
• career ops	Very limited unless modern processing is developed	Significant	Limited except for higher skills (design and marketing)
Living Conditions			
• access to shelter	Processors provide good shelter	Quality can be poor in urban envirnmt	Rural living: Good access shelter
• sanitation (water/latrines)	Good sanitation linked to good shelter	Quality can be poor in urban envirnmt	Good access to latrines. Water: variable
Regional Impact			
• Primary	Kampong Cham, Kratie, Pailin, Ratanakiri, Stung Treng	Siem Reap, Phnom Penh, Sihanoukville	**Weaving:** Siem Reap, Takeo, Prey Veng, Banteay Meanchey, Kampong Cham, Kampong Thom, Kandal, Phnom Penh, and Stung Treng; **Breeding:** Banteay Meanchey
• Secondary	Mondolkiri	North West, Coastal areas, Waterways provinces	none
Environment Impact			
• energy	Intensive for processing	High use of electricity and fuel for hot water	Low use of electricity
• water	Some for processing. Chemicals used	High use of water, especially kitchen; waste water treatment limited	Use of dyes. Phasing out use of synthetic dyes.
• soil	Negative impact if not mitigated	None known. Limited composting.	None known
• waste	Little waste	Limited recycling. Plastic bottles.	None known

Cambodia Trade SWAp's Road Map 2014-2018: 20 Strategic Outcomes

To address issues at the core of trade sector competitiveness, job and income creation, and sustainable human development in the coming five years, Cambodia's next Trade SWAp Road Map will focus on 20 strategic outcomes. These address specific challenges at the market access and business environment level, at the value chain level, at the labor market and skill level, as well as in the management and deployment of technical assistance resources and focus on areas where reforms and institutional development are needed.

Progress against those 20 strategic outcomes will be measured in part by their beneficial impact in assisting Cambodia to meet its larger socio-economic development goals, including, of course its goal of enhancing trade sector competitiveness, creating new and better jobs, growing income, and reducing poverty. Those broader impacts are captured under five Development Goals.

The five Development Goals are not fundamentally different from the Goals defined in the first Trade SWAp Road Map derived from CTIS 2007. The 20 Outcomes include a number of "carry-overs" from the earlier Road Map that have been updated to account for progress accomplished since 2007 and to address further needs. The list also includes some new Outcomes that reflect new priorities that have emerged in recent years. The following table (Table 2) lists the five Goals and 20 Outcomes foreseen for 2014-2018. They are organized along the lines of the three Pillars of the Government's Trade SWAp.

Table 2: Development Impacts and Strategic Outcomes Trade SWAp 2014-2018	
Development Impacts/Goals	
Impact/Goal 1	Improved competitiveness contributes to reduce poverty through better and new job
Impact/Goal 2	Significant increase in the contribution of the trade sector to GDP and deepening diversification of Cambodia's export base
Impact/Goal 3	Strengthened capacity of RGC to formulate and implement trade policies and strategies
Impact/Goal 4	Responsiveness of RGC to private sector needs increases as a result of better dialogue
Impact/Goal 5	Improved planning, implementation, and monitoring capacity of RGC through implementing Trade SWAp
Strategic Outcomes	
Pillar One	
Outcome 1	**Trade Policy Reform and Trade Negotiations**: Cambodia meets its trade legal reform obligations under WTO and ASEAN; strengthens its access to markets through trade negotiations; enhances the transparency of its trade rules and laws
Outcome 2	**Trade Facilitation:** Cambodia increases its competitiveness through reduced import/export costs
Outcome 3	**Trade Logistics:** Cambodia increases its competitiveness through improved trade logistics
Outcome 4	**Technical Standards and SPS Requirements:** The capacity of Cambodian exporters to meet technical and SPS requirements standards set by importers and importing countries increases
Outcome 5	**Investment Environment for Exports:** The environment for investment in the ten DTIS 2013 focus export sectors is strengthened
Outcome 6	**Intellectual Property Rights:** A modern, trade-supportive intellectual property rights framework is established, implemented, and enforced
Pillar Two	
Outcome 7	**Garment:** Cambodia continues to grow and diversify its garment export sector through targeting new markets, increasing domestic inputs, and expanding in higher value products
Outcome 8	**Footwear:** Cambodia continues to grow and diversify its footwear export sector through targeting new markets and developing new market segments
Outcome 9	**9A: SEZs:** Cambodian SEZs increase their competitiveness and attract additional manufacturing investment
	9B: Light Manufacturing Assembly: Cambodia emerges as a node in regional production networks
Outcome 10	**Processed Food**: Cambodia continues to grow and diversify its processed food sector through new export markets, moving to higher value products, and expanding domestic inputs
Outcome 11	**Fisheries Products:** A sustainable fisheries sector sees Cambodian exports increase as a result of improved quality, growing production volumes, and strengthened access to markets.
Outcome 12	**Milled Rice:** Cambodia achieves the target set out under the RGC 2010 Rice Policy for export of milled rice
Outcome 13	**Cassava:** Cambodia consolidates its exports of Cassava through direct exports to such countries as China and Republic of Korea and lessens its dependency on exports of unprocessed tubers to Thailand and Vietnam
Outcome 14	**Rubber:** Cambodia progresses towards becoming a key producer and exporter of rubber
Outcome 15	**Tourism:** Cambodia progresses towards RGC's 2020 target set for Tourism: 8 million foreign visitors
Outcome 16	**High Value Silk Products:** A small but growing number of Cambodian producers are able to design and export high-value silk products
Pillar Three	
Outcome 17	**Skill Gap for Exports:** RGC and Cambodian exporters meet the skill gap through the formal education sector and increased public-private partnership to develop vocational/technical education.
Outcome 18	**Mainstreaming Trade:** Trade development objectives are fully mainstreamed in national development strategy and in product and service sector strategies
Outcome 19	**Monitoring and Mobilizing Aid for Trade:** RGC's ability to M&E Results of Trade SWAp is strengthened, leading to stronger mobilization of AfT inside and outside SWAp
Outcome 20	**Enhancing Private Sector Participation in AfT:** A better structured dialogue between private sector and Government contributes to efficient public-private partnerships for trade development based on AfT resources

Pillar One

Six cross-cutting issues at the core of Cambodia's trade competitiveness are analyzed under Pillar One of *CTIS 2014-2018*:

- Changing Patterns of Trade and Market Access
- Trade Facilitation
- Transport Logistics
- Sanitary and Phytosanitary Measures and Technical Standards
- Investment Environment for Exports
- Intellectual Property Rights

CHANGING PATTERNS OF TRADE AND MARKET ACCESS

Cambodia's exports have experienced very rapid growth since 2007, when *CTIS 2007* was formulated. An analysis of this development yields some very interesting observations about the significant progress made by the Government in creating a supportive environment for trade and by the private sector in building export supply capacity. Such analysis also bears very important lessons for the future especially with respect to the importance of preferential market access.

Going as far back as the late 1990s, Cambodia has relied heavily on exports of garments and tourism services for its external earnings. Up until 2011, garments exports were directed mainly at the United States market. Since 2012, the E.U. has become the leading export market. Diversification of product and service exports and diversification of destinations have been a policy objective for a number of years and was a key theme examined in *CTIS 2007*. There is clear evidence that the Government's and private sector's efforts to bring about such diversification have begun to pay off.

As shown in table 3, recorded exports of goods and services grew at a near average of 13 percent per annum between 2007 and 2011, from $4.509 billion to $7.335 billion. While the garment and tourism sectors continued to hold a very large share of recorded exports, their combined share did decline as the share of other recorded exports grew from 10 to 20 percent during that same period.

Table 3: Composition of Recorded Cambodian Exports, 2007 vs. 2011				
	2007		2011	
	$ million	% Share	$ million	% Share
Total Recorded Exports (goods + services)	4,509	100	7,335	100
Composition of Total				
Garments	2,653	59	3,978	54
Tourism	1,398	31	1,907	26
Other Recorded Exports	451	10	1,467	20
Source: GDCE for Goods; Balance of Payment for Services; MoT for estimates of Tourism				

But recorded exports reveal only part of the picture of change. As is well known, Cambodia is the source of a large amount of informal exports primarily in a number of agricultural commodities. Chapter 1 in *CTIS 2014-2018* analyzes some of the difficulties in measuring informal exports and builds a conservative estimate of values. Findings are included in table 4.

Table 4: Composition of Recorded and Estimated Informal Cambodia Exports, 2007-2011				
	2007		**2011**	
	$ million	% Share	$ million	% Share
Total Recorded Exports (goods + services)	4,509		7,335	
Total Recorded and Informal Exports (goods + services)	4,945	100	8,155	100
Composition of Total Recorded and Estimated Informal Exports				
Garments	2,653	54	3,978	48
Tourism/Travel	1,398	28	1,907	23
Other sectors (including informal exports)	894	18	2,418	29
Composition of Other Sectors				
Vehicles, mostly bicycles (recorded)	49	1	298	4
Footwear (recorded)	79	2	267	3
Rubber (recorded)	43	1	192	2
Milled Rice (recorded)	2	*	106	1
Corn + Soybean (recorded)	6	*	4	*
Cassava (recorded)	*	*	2	*
Paddy rice (informal - estimated)	356	7	581	7
Cassava (informal - estimated)	37	1	161	2
Corn + Soybean (informal - estimated)	42	1	78	1
Other recorded sectors (goods + services)	280	5	729	9

Source: GDCE for recorded goods exports; Balance of Payment for "services" included in "total recorded exports;" Ministry of Tourism for "tourism" estimate; and, see Chapter 1 of the Full Report for estimates of assumed values of informal goods trade

Note: "Vehicles" includes motor-cars, motor-bikes, and bicycles. The figure includes exports of second-hand vehicles. The star (*) indicates less than 1 percent.

Including relatively conservative estimates of informal exports, the table shows that the concentration on garments and tourism is even less than would be indicated by looking at recorded trade alone, with the share of other exports growing from 18 to 29 percent during 2007-2011. Bicycles, footwear, rubber, and milled rice are emerging as fast growing recorded exports; paddy rice, cassava, corn and soybeans as fast growing informal exports.

Together with diversification in export mix, the period 2007-2011 has been characterized by significant shift in the destination of exports. Table 5 points to some of the major trends underway in recent years in term of goods exports.

Table 5: Cambodia Goods Export Destination		
	2007	**2011**
Recorded Exports ($ millions)	2,962	5,122
Destination (% share)		
United States	64	41
European Union	23	30
ASEAN	5	8
All others	8	22
Recorded and Informal Exports ($ millions)	3,397	5,942
Destination (% share)		
United States	55	35
European Union	20	26
ASEAN	17	21
Of which: Thailand and Vietnam	(17)	(20)
Canada	4	6
Japan	1	3
China	*	3
South Korea	*	*
Canada	4	6
All others	3	6
Source: GDCE for recorded goods exports; assumed values of informal goods trade (see chapter 1.) A star (*) indicates less than 1percent		

Two observations stand out. Exports to the United States as a share of total exports are declining. In contrast, the share of exports to the European Union, Canada, China, Japan, Thailand, and Vietnam is increasing rapidly. For recorded exports alone, the US share declined from 64 to 41 percent between 2007 and 2011; for recorded and informal exports, that share declined from 55 to 35 percent. Major developments behind these declines are the stagnation of garment exports to the US, the rapid growth of garment exports to the EU, Canada, and Asian markets and the growing importance of agricultural trade within the GMS and larger Asian region.

Interestingly, the shifts registered in goods exports are also matched by similar shifts in the tourism sector. As shown in table 6, during the same 2007-2011 period, the share of arrivals of international tourists from the Asia-Pacific region grew from 62 to 73 percent, while total arrivals grew by approximately 10 percent per annum average during those years.

Table 6: Number and Origin of International Tourist Arrivals		
	2007	**2011**
Total International Arrivals	2,015,128	2,881,862
Origins (% Share)		
Asia-Pacific	62	73
Vietnam	6	21
South Korea	16	12
China	6	9
Japan	8	6
Thailand	5	4
Lao PDR	1	4
Australia	4	4
Malaysia	4	4
Europe, Americas, Africa and Middle East	38	27
United States	7	5
France	4	4
United Kingdom	4	4

Source: Ministry of Tourism, *Tourism Statistics: Annual Report*, 2007 and 2011
Note: All countries providing 100,000 or more visitors in 2011 appear individually in the table.

What explains those positive shifts? In a nutshell, three key factors:

- Trade Preferences and Rules of Origin
- Growing investment in supply capacity
- Continued reform in the business environment

Cambodia is making significant use of trade preferences. The United States does not provide preferences for garments. The EU does under its "Everything-but-Arms" program (EBA), as do Canada, China, South Korea, Japan and several other trading partners under either GSP and DFQF programs or FTAs. The largest change was the change in EU's EBA rules of origin in January 2011. Exports to the EU more than doubled between 2007 and 2011 from $664 million to $1,503 million. The share of trade under EBA grew from 72 to 92 percent. Likewise the share of recorded exports under AFTA from Cambodia to Thailand and Vietnam – its two largest ASEAN trading partners – grew from 15 to 42 percent.

The duty-free access that Cambodia enjoys in certain of its export markets under various trade preference arrangements is the key element explaining the rapid growth and changing destinations of Cambodia's manufactured exports. Eighty percent of Cambodia's growth in recorded goods exports since 2007 has been targeted to markets offering preferential access. This access will be the key determinant of export performance in the period ahead.

A key feature of all preferential schemes is their rules of origin, i.e. the set of rules that must be followed to determine whether or not goods produced in Cambodia are eligible for preferential access into the importing country. The rapid development in garments and bicycle exports from Cambodia to the EU has been driven in no small part by beneficial rules of origin. Chapter 1in *CTIS 2014-2018* analyzes how rules of origin have shaped and are likely to shape, in the future, Cambodia's export products and export destinations. It also discusses how the rules of origin governing Cambodia's free trade agreements could be reshaped to better serve Cambodia, including the importance of the negotiations on rules of origin in the context of the forthcoming Regional Comprehensive Economic Partnership (RCEP) that will include 16 ASEAN members and Dialogue Partners in a new Free Trade Agreement.

Rapid growth has been supported by fast growing new investment, both foreign and domestic, in many sectors of the economy, including export sectors in particular. These developments are reviewed in greater detail in the chapter on investment environment and the ten chapters covering the focus export sector targeted under *CTIS 2014-2018*. Clearly, however, improvements in market access as described above are driving where new investment is going and the investment itself is being facilitated by improvements in the domestic business environment.

Subsequent to its accession to the WTO, Cambodia engaged on a significant reform program to align itself with its WTO obligations and to increase the attractiveness of its business environment. The Trade Policy Review held in Geneva in November 2011 showed that a great majority of the needed legal reforms that had been identified immediately after accession and was crystallized in the Government's comprehensive *2004 Work Program on WTO Obligations* had been completed. Remaining, outstanding reforms have been inscribed in a follow-up *2012 Work Program* with a 2015 target for completion. The *2012 Work Program* identifies some 84 Actions. Cambodia is also addressing its commitment vis-à-vis ASEAN, especially in view of the rapidly approaching ASEAN Economic Community (AEC.) To further capitalize on these efforts, Cambodia is moving forward to provide greater transparency by establishing web sites to make all laws and regulations pertaining to trade readily available.

Last but not least, the emergence of agricultural commodities as a new, sizeable source of growing exports – be they unprocessed, semi-processed, or processed – points to the importance for Cambodia to accelerate the establishment of an SPS environment that meets international requirements. This issue is developed further in the chapter on SPS Measures and Technical Standards.

TRADE FACILITATION

The Royal Government of Cambodia has made significant progress in improving its trade facilitation performance in recent years. Following implementation of a *Twelve-Point Action Plan* adopted by the

Government in June 2004, and with significant technical assistance inputs from the development community, key border management institutions, particularly the General Directorate of Customs and Excise (GDCE), have strengthened their institutional capacities and made progress in implementing a number of international standards and good practice approaches. Key achievements, thus far, include:

- Development of a risk management strategy (Sub-decree 21 and associated regulations, Sub-Decree 209)
- Adoption of the Single Administrative Document (SAD) which replaced no less than 45 documents
- Introduction of Customs automation (ASYCUDA) at all national border points
- Introduction of single stop Customs inspection and establishment of the National Single Window Steering Committee (May 2008)
- Implementation of WCO SAFE Framework Action Plan
- Simplification of transit operation including through the implementation of GMS and ASEAN Transit Agreements and bilateral agreements with neighboring countries
- Development of an Action Plan for Accession to the Revised Kyoto Convention
- Preparations to implement the prospective WTO Trade Facilitation Agreement[3]

These reforms have resulted in improvements in the main Trade Facilitation indicators monitored by international organizations, reflecting an overall consolidation of Cambodia as an attractive investment destination and as a good trading platform.

However, further efforts are required both to ensure full compliance with the obligations originating from the ASEAN Trade Facilitation Work Program and the WTO Trade Policy Review and to make Cambodia an even more attractive destination for new investment. Some of the remaining key challenges to be addressed include:

1. Careful review of the WTO Agreement on Trade Facilitation adopted in December 2013 as part of the "Bali Package" and early implementation as required
2. Simplification of import, export, transit procedures and processes to decrease clearance costs and time
3. Full automation of border procedures covering all border agencies (National Single Window) including all Export/Import related Licenses, Certificates, permits and approvals.[4]
4. Improvement of Risk Assessment and Management procedures and processes by GDCE and other relevant agencies, including by setting up a system of Authorized Economic Operators
5. Implementation of official fees established under Prakas issued in December 2012, and elimination of unofficial payments
6. Establish Service Level Agreements to improve predictability of clearance time
7. Customs practices that reflects fully WTO Customs Valuation requirements
8. Increased transparency of customs tariffs and other trade regulations by making them available on-line and free of charge (National Trade Repository)
9. Further development and implementation of the Advance Ruling procedures introduced by GDCE to resolve custom related issues between GDCE and the private sector
10. Improvement of cross-border procedures and processes to support full integration in ASEAN Economic Community and benefit from linking to regional production networks and supply chains
11. Eliminate checkpoints (and informal payments) along the main trade corridors

[3] The WTO Trade Facilitation Agreement was adopted by WTO members during the Ministerial Conference held in Bali in December 2013 as part of the "Bali Package."
[4] As part of this process, MoC's Senior Minister announced in late November 2013 that the Ministry was taking major steps to achieve significant automation of the process of issuing Certificates of Origin by late 2014.

Cambodia should aim at increasing its competitiveness by reducing time/cost for import/export. By 2018, Cambodia could reduce costs to 120 percent of ASEAN-6 average (currently 136 percent), and it could reduce to ASEAN average (16 days) the time for cargo release (now 24 days). This could be achieved by simplifying and automating border procedures and continue improving its risk management practices.

Those needs will be incorporated in a follow-up Action Plan to the 2004 Twelve-Point Action Plan.

TRADE LOGISTICS

Inefficiencies in trade logistics will hold back Cambodia's export potential unless they are addressed. Garment exports are part of a supply chain that requires speed and reliability in delivery. Rice, cassava, rubber, and other agricultural commodities need good internal freight connections from fields to border and adapted storage facilities. Cambodia's supply chain performance also faces the curse of size — not enough scale to justify large investments or improve efficiency — while its main competitors, in garments for example (Vietnam, China, and Bangladesh), all enjoy the advantage of economies of scale. Cambodia's logistics performance, while in line with countries like Laos, is still below major competitors such as Vietnam. In addition, several of the country's supply chains are controlled by external buyers rather than local producers. Not only is it important to improve trade logistics at a national level, it is also critical to address the specific requirements of its key export sectors.

Recent improvements in Cambodia's major logistic corridors have had a significant positive impact on trade. Access to the port of Sihanoukville has been improved and expanded access to the more efficient ports in Vietnam has reduced the time and cost for selected international shipment. These improvements have allowed for increased regional trade by expediting both formal and informal trade with Vietnam and Thailand.

Cambodia's four major trade corridors are:

1. Western Cambodia-Poipet - Bangkok
2. Central/Eastern Cambodia - Bavet - Ho Chi Minh
3. Phnom Penh- Sihanoukville
4. Central Cambodia - Mekong - Saigon Port to Cai Mep

The Phnom Penh-Sihanoukville route includes transfer from road to ship, and since the reopening of rail following the rehabilitation of the rail system, from rail to ship. For the Phnom Penh-Sihanoukville route, the transit time is 2-3 days including the time for loading and unloading; for the Central Cambodia-Mekong-Saigon Port to Cai Mep, 4-5 days.

The most important corridors are those providing connections to Vietnamese deep-water facilities (Central/Eastern Cambodia - Bavet - Ho Chi Minh and Central Cambodia - Mekong - Saigon Port to Cai Mep.) For agricultural goods these provide access to larger general cargo vessels. For containers they provide access to direct calls by vessels operating on the global corridor to the US and to Europe. Both offer savings in freight rates because of the larger traffic volumes at the Vietnamese ports. The only constraint is the procedures for border crossing and movement of goods in transit. The performance of these corridors is improving as the shipping lines become involved in providing feeder services to the ports. Additional improvements in performance should be prioritized based on the impact on the cost and time for movement over the entire length of the corridor.

The recent *Transport and Trade Facilitation Assessment* (TTFA) and *Transport Corridor Assessment* (TCA) have identified key issues that need to be addressed to improve the trade logistics environment in Cambodia. Those are discussed in more details in the full *CTIS 2014-2018* report. They include:

1. Lack or poor implementation of cross-border transport agreements, causing inefficiencies and lowering the competitiveness of Cambodian products.
2. Lack of a third party insurance covering cross-border transport.
3. Difference in axle load limit between Cambodia and its neighbors.
4. Lack of "liquidity" in the container market as result of trade imbalance.
5. Despite recent improvements, roads considered not sufficiently safe by truck drivers.
6. Dominance of a few large trucking firms in the road haulage sector, with old fleet due to low competition.
7. High fuel cost, considered to be the greatest impediment to business operations, driving up total costs.
8. Lack of competition by foreign firms on most Cambodian roads so prices remain high for truck shipments.
9. Cambodia's railway network not yet connected to Thailand or Vietnam.
10. Port infrastructure adequate for the current trade volume but in needs of expansion to ensure sufficient capacity supporting trade growth.
11. Need to encourage the use of alternative waterways – particularly along the Mekong – to promote more extensive use Vietnam's port infrastructure.
12. Opacity of the costs included in transport final price and complex chain of brokers.
13. High levels of informal payments to clear cargo, a large proportion of which seems to be captured by shipping companies.
14. Insufficient logistics to support formal export of rice and other agricultural commodities.

Addressing these issues is critical to sustaining Cambodia's trade expansion. The magnitude of the problems will need to be tackled by strong, sustained policy-making attention at the top level of Government in order to pave the way for fruitful inter-ministerial cooperation to design and implement reforms. In this regard, a high-level national Task Force with a mandate to formulate a National Logistics Blueprint (NLB) could be set up by Decree, establishing clear objectives, tasks, and timeframes. The NLB could be developed and implemented in synergy with initiatives in support of specific supply chains and aiming at improving trade facilitation. Accordingly, the NLB would best be developed in close synergy with the Trade SWAp– with the Pillar Road Maps – to ensure maximum efficiency in the coordination among ministries and agencies and between RGC and private sector organizations.

The interventions for inclusion in the NLB in order to benefit Cambodia's overall trading competitiveness could include the following:

1. Negotiate improved agreements for an integrated road transport market with Thailand and Vietnam. The agreement should include the extension of specific permission provided to large companies operating in SEZs and ensuring regulatory support for cross-border shipments along the Mekong.
2. Prepare and implement National Logistics Plans and integrate them within ASEAN, linking to existing frameworks such as the "Roadmap for the Integration of Logistics Services". Draw attention of other ASEAN Member States to the need to ratify and implement existing agreements.
3. Improve transport regulations (liabilities, axle loads limits, drivers' qualifications and conditions, safety standards, contracts, etc) including by adopting international standards to attract investment.
4. Establish a regional third party liability insurance scheme and harmonizing axel load limits in main transport corridors.
5. Introduce a fleet modernizing scheme with appropriate financing and quality enforcement mechanisms.
6. Remove impediments to FDI in logistics in order to improve sector competitiveness and lower cost of services to traders.
7. Develop capacity among: (a) Clearing and forwarding agents based on FIATA courses; (b) Operators in the trucking industry in the areas of fleet management and modernization; and, (c) Transport Regulatory Authorities responsible for port, road, and railway regulation and rate setting.
8. Reconnect the Thailand and Cambodia railway networks prioritizing freight operations.
9. Explore feasibility of a Cambodia to Vietnam rail connection.
10. Encourage competition among ports, by liberalizing their fees in order to trigger competition on costs.
11. Identify options for making increased used of out-bound empty containers, possibly to formalize export of agricultural products (rice, cassava, rubber, corn, etc.).

SANITARY AND PHYTOSANITARY MEASURES – TECHNICAL STANDARDS

Since the late 2000s, Cambodia has experienced a boom in production and exports of rice, cassava, natural rubber, and selected other agricultural commodities such as corn. This boom has been facilitated by improved connectivity in the GMS region, relatively high prices, and availability of underutilized land and labor. Further growth is clearly possible.

However, this boom has also revealed weaknesses and risks that need attention in order to realize its full benefits. To date Cambodia faces significant internal bottlenecks in meeting quality and safety standards demanded by foreign markets and in adding value to raw materials. As a result, large amounts of product are traded unprocessed, at low prices, with informal markets in neighboring countries. Not only does Cambodia loses opportunities for adding value and getting better prices, but present exports depend *de facto* on waivers for SPS requirements by neighboring countries, which means such exports could be at risk if requirements were enforced. Therefore, improving relatively weak public and private capacity to ensure higher quality and safety standards is a major challenge for securing market access, for promoting market diversification, and for consolidating access to more demanding and better paying market segments.

The challenge of improving quality for the purpose of product and market diversification applies also to the silk, fisheries, processed food, or even tourism sectors. Tourism is growing rapidly but its image is vulnerable to food safety hazards. The fisheries sector can perform better if it can manage safety and quality.

With increased trade, the risk of transfer of pests and diseases by countries importing from Cambodia has increased also. This risk requires attention because it may result in loss of production and bans on Cambodian exports. Likewise, Cambodia needs to mitigate risks associated with imports of sub-grade and unsafe food, pesticides, and veterinary drugs.

Private sector firms are the first line of defense in meeting the quality and food safety requirements of buyers and importing countries. They need to build capacity for managing quality and safety at the plant and facility level. However, they need also an enabling environment and support from the public sector, especially in the area of technical standards and sanitary and phytosanitary measures.

GMP and HACCP are important tools for enterprises to improve their quality and safety management and their application is increasingly required by customers. This applies to rice millers, dried cassava processors, corn processors, processed food, and fish product processors. For quality and safety management in hotels and restaurants, GHP/GMP-based systems can be quite effective. Government can support implementation of certification systems for each of these sectors.

Firms also face challenges in obtaining sufficient raw materials of consistent quality and safety. Although this is a basic responsibility of private firms, Government can provide support in resolving bottlenecks, such as controls in the use of pesticides on crops and antibiotics in aquaculture. Good policies for seed of crops and propagation material for rubber are important for the quality of farm products. In selected cases Government can support the adoption of GAP (good agriculture practice and good aquaculture practice).

In many countries market access for plant products such as rice, dried cassava, and corn, can only be obtained if Cambodia can provide adequate information about its pest and disease situation through regular surveillance and assuring that agreed special risk-mitigation measures are performed such as fumigation and drying. China requires registration of production areas, surveillance of pesticides used, registration of firms involved in the post-harvest export chain, and adoption of GMP standards in processing facilities. Many countries require HACCP-based certification for fisheries product exporters. Export of fisheries products to the EU requires pre-approval of processing facilities, which is further conditional to the capacity of the exporting country's Competent Authority to control product safety from catch to export. And, for each shipment of plant, animal, or fisheries products, importing countries can require that a phytosanitary or sanitary certificate be issued to assure that the products meets defined safety standards. Methods and protocols for surveillance, provision of information, risk mitigation, diagnostics, conformity assessment, and certification are mostly defined in international standards.

For successful participation in international trade necessitating SPS and Technical Standards, countries must build capacity: on the import side, to protect crops, animals, and consumers against risk of pests, diseases, and unsafe food; and, on the export side, to facilitate trade that faces safety and quality requirements from importing countries. Under the WTO, member states must comply with WTO SPS and TBT principles. A main WTO recommendation is for countries to harmonize with international standards. ASEAN uses these WTO principles and recommendations as a basis for economic integration.

Since CTIS 2007, Cambodia has made good progress to improve compliance with WTO SPS and TBT principles and recommendations and to strengthen its capacity for enhancing its export strategy and controlling the safety of its imports. Yet, there remain bottlenecks and weaknesses that deserve being addressed. The main recommendations are:

To strengthen private sector capacity:

1. Promote certification based on international standards and systems (HACCP, GMP, GAP, GHP, Codex, OIE) appropriate for safety and quality among export processors (for milled rice, dried cassava, corn, fish products, processed food) and in hotels and restaurants.
2. Promote quality in silk, natural rubber, garments, footwear, and manufacturing assembly.
3. Promote consistent quality and safety of raw material through targeting weaknesses in supply chains.

To strengthen public sector capacity:

1. Address WTO compliance of legislation in standardization, accreditation, and conformity assessment.
2. Improve quality of legal texts and adopt further legislation or legal texts to address remaining gaps, ensuring their compliance with SPS and TBT norms. Support effective implementation of the major laws.
3. Establish effective surveillance systems and conduct regular surveillance of pests, diseases, and pesticides used in production areas of export crops as requested by importing countries.
4. Establish risk-based inspection systems and ensure proper risk-based inspection of imports and domestic markets to promote safety of food, pesticides, and veterinary drugs.
5. Modify procedures for formulation and approval of standards in order to solve backlog in adoption of international standards.
6. Strengthen management, administration, funding methods of regulatory laboratories for SPS.
7. Strengthen the development of trained and experienced SPS technical personnel.

INVESTMENT ENVIRONMENT FOR TRADE DEVELOPMENT

Private sector development is and has been a key priority of the Royal Government of Cambodia for many years. To enhance export-led, pro-poor growth through trade diversification, the RGC is committed to promoting private sector investment across (priority) sectors, including agricultural, industrial, and service sectors.

2012 marked a turning point in the development of Cambodia's private sector development, led by FDI inflows of $1.5 billion, up from $900 million in 2011. Nevertheless, the Cambodian private sector remains characterized by many rather small and informal SMEs, and a few large enterprises.

Table 7 provides some detail data about FDI inflows.

Table 7: Net FDI Inflows by Sector 2000-2012

	$ million				Annual rate of change
	2000	**2007**	**2011**	**2012**	**2007-2012**
Agriculture	5.8	118.0	188.1	295.5	20%
Manufacturing	132.3	231.1	262.0	557.6	19%
Services	-48.2	273.2	53.6	67.9	4%
Commercial Banking	3.7	167.3	216.5	424.8	20%
Others	54.8	77.6	181.4	211.3	22%
Total	148.5	867.3	901.7	1,557.1	14%

Source: National Bank of Cambodia

The lower rate of expansion during 2007-2012 compared to 2000-2007 reflects the effect of the global financial crisis. The low point in FDI was in 2009 when net inflows dropped down to $539 million. Nevertheless, FDI grew vigorously during the period 2007-2012 in all sectors, except in services.

To promote private sector investment, many important private sector legal and regulatory reforms and measures have already been implemented at the national level and more are underway. A large number of those reforms have been taken up under the umbrella of meeting Cambodia's obligations under the terms of its accession to the WTO (see Chapter 1 of the Full Report.)

But there remain constraints to private sector development in Cambodia both at the national and provincial levels. The traditional challenges are: weakness in infrastructure (cost of electricity, transport), weak governance, limited capacity in government agencies, access to and cost of finance (identified in 2009 and 2011 *Investment Climate Assessments*.) The emerging challenges include: skill shortages and mismatches, logistics and trade facilitation, technology upgrading and innovation, the need to build "fiscal space" (identified in the 2012 *Investment Climate Assessment.)* Most of those traditional and emerging challenges are addressed in the various chapters of *CTIS 2014-2018*.

The chapter on Investment offers and analysis of recent trends in investment and the investment environment and considers ways in which foreign investment can be harnessed to address weaknesses in the private sector structure (in both rural and urban areas) and support economic diversification.

To support continued private sector investment, a number of factors call for the rapid development and implementation of an innovative investment promotion strategy focusing on:

(a) The need to ensure that investors become more aware of the investment opportunities offered by Cambodia, especially in view of recent developments in investment conditions in other Asian economies and developments in regional and global value chains;
(b) Innovative ways to position Cambodia as an attractive investment location for foreign investors from neighboring countries and those further afield including how best to take advantage of the

international division of labor at the basis of global value chains and the resources available in Cambodia;

(c) Strengthened capacity for Cambodia to become a hub for growth of the GMS Southern Economic Corridor and, more broadly, the Greater Mekong Sub-region. The specific ways in which Cambodia can leverage its position in the GMS Southern Economic Corridor need to be very carefully examined and incorporated into the strategy, especially emphasizing the role of Sihanoukville as a major spur off the Corridor;

(d) Careful examination of the ways in which to convince potential infrastructure developers of the benefits of investing in infrastructure in the country, and particularly in the area of Sihanoukville. A comprehensive investment promotion strategy can be a critical element of building this credibility accompanied by reforms in the framework for public-private partnerships; and,

(e) The need for Cambodia to benchmark itself clearly against competitors both inside and outside the Greater Mekong Sub-region.

To address the critical need for improvements in the investment environment, the following measures will need to be addressed:

1. Building a National Investment Promotion Strategy

The first major step is to develop a comprehensive national investment promotion strategy as an integral component of an overall policy to develop the investment potential of the country and address poverty and well being concerns. Such a policy could include the following elements:

(a) A clear idea of where Cambodia is and where it is going from a business point of view. Lessons learned from recent experiences of foreign investment in Cambodia and the Greater Mekong Sub-region should be carefully considered as they provide invaluable insights into the likely issues to be faced in the future – both from positive and negative viewpoints;

(b) A practical strategy to drive business developments in the right direction, with accompanying measures to address remaining impediments to investment;

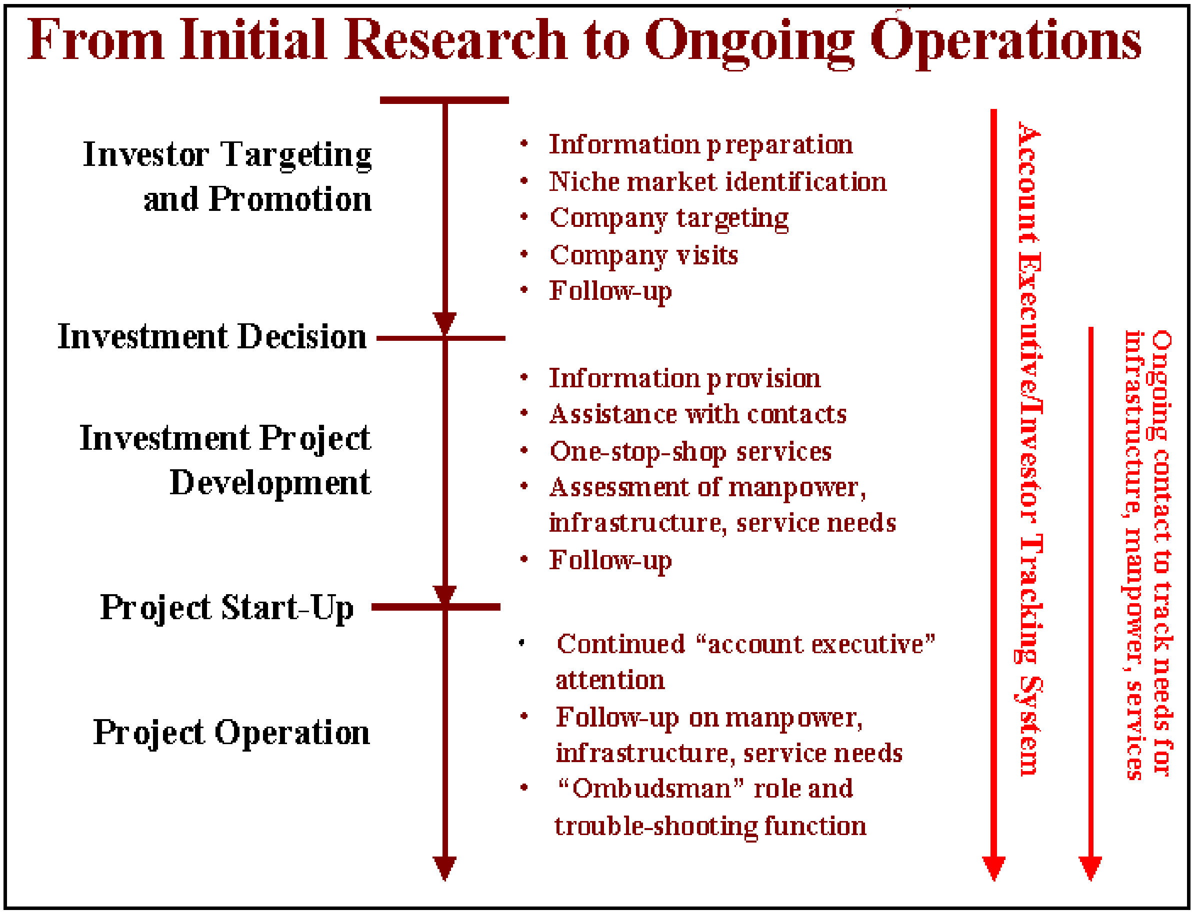
(c) Strategic targeting and promotion of FDI. As competition increases and global value chains become more fragmented, it becomes increasingly important to adopt a more targeted and strategic approach to FDI. Such strategic approach must factor in how trade preferences, including rules of origin, are benefiting Cambodia as an investment location. Thus far, Cambodia has had little by way of strategic programs to target and attract FDI into priority industries. Cambodia needs to learn from regional competitors ranging from Singapore to Malaysia and Thailand. There is a need for a more proactive role of Government in facilitating joint activities with foreign investors, to stimulate the growth of competitiveness-enhancing networks and services;

(d) Concrete measures/actions to strengthen key targeted sectors (see chapters individual focusing on the ten sectors) or retain existing investments that are vulnerable to relocation (such as low-labor cost investments);

(e) Practical measures incorporating regional cooperation and integration considerations to position Cambodia as a hub for the neighboring countries of the Greater Mekong Sub-region;

(f) A demand-driven, human resource development (HRD) strategy to build the skills required, incorporating close industry-education sector linkages as a key element of this HRD strategy. This strategy needs to involve all key players – firms, government agencies, and educational institutions (see skill gap Chapter 17 in Full Report.) A critical element of the overall strategy will include ensuring that human resources in the Cambodian Investment Board and any other involved institutions are well prepared and well resourced;

(g) Careful understanding of the various steps in the "investment promotion cycle" from the initial research phase to ongoing operations, in particular ensuring adequate attention to investors following project start-up – the "after-care" function. A key element of this will be an effective firm tracking system.



2. Strengthening Investment Promotion and Facilitation Capacity of Provincial Governments

Currently, most investment in Cambodia is targeted at the urban areas in Cambodia's main economic hubs (Phnom Penh, Siem Reap, and Sihanoukville) while the investment potential in rural areas and in other provinces remains significant but largely untapped. This is due partly to weak or non-existent investment promotion and facilitation capacity in the other provinces and the rural areas. The development of a greater understanding of private business and the ability to target and service outside investors in provinces will contribute to improving the provincial business climate and stimulating greater pro-poor investment.

In the investment promotion area, in line with the Government's Decentralization and Deconcentration (D&D) reforms and to provide more efficient services to private sector investors, a February 2005 Anukret to the Cambodian investment law) established provincial investment sub-committees (PISC), primarily to register investment proposals and provide investment incentives for investments with capital of less than $2,000,000. However, virtually all investment promotion and facilitation activity still remains centred at the national level in the Cambodia Investment Board (CIB.) PISCs require stronger, more coherent guidelines, as well as stronger support from the CIB, and need to develop their capacity to service private investors at the provincial level.

Building the capacity of the CIB to support the PISCs and enabling the PISCs to function as more effective provincial Investment Promotion Agencies (IPAs) in provinces will enable provincial authorities to provide better services to private investors. Initial efforts should focus on trade-related investments, thus attracting more investment and increasing retention of existing investment in the provinces. Over the longer term, the focus should be on strengthening provincial business climates and attracting quality investments that create jobs, that stimulate backward linkages into the MSME sector, and that contribute to the development objectives of the provinces.

3. Promoting FDI Linkages and Spillovers: A National Supplier Development Program

Efforts to enhance spillover benefits from FDI should be an intrinsic part of government strategies to enhance competitiveness and restructure industry. Industrial deepening ─ enhancing the levels of value-added created in the production of goods and services ─ is the key to Cambodia's continued competitiveness and economic dynamism. There is a strong case for government intervention because of the widespread externalities and information problems involved in building local linkages. Such programs are absent in Cambodia, and are becoming more urgent in view of greater inflows of foreign investment and increasing competition in global markets.

It is vital for Cambodia to draw on the experience of other countries in this area, adapt it to local needs, and set up a national supplier development program with commitment from government and the allocation of sufficient resources. In order to succeed, such program must bring together all agencies and players involved in SME development and related areas. Existing resources must be deployed more effectively and additional resources must be allocated within a consistent framework to avoid duplication and wastage. The involvement of the private sector is a key element of the whole program. Private sector institutions and associations must be included in all aspects of the program from the setting of goals and targets, to the implementation and monitoring of the specific activities.

Established export industries are a natural starting point for such industrial deepening. Cambodia’s garment, bicycle and footwear industries have all reached levels of production that create attractive markets to businesses able to supply these industries with inputs. In addition to enhancing the ability of Cambodian SMEs to increasingly play this role, efforts need to be made to promote FDI in areas such as production of yarn and fabric, production of bicycle parts, and of inputs to footwear production. FDI in these areas will often be for export, as well as for supplying domestic producers of garments, bicycles and footwear. But their existence will create a more vertically integrated export sector, enhance the ability of garment, bicycle and footwear producers to meet rules of origin, and contribute to the creation of new jobs. This issue is discussed further under the individual product sections, below.

4. Providing Financial Backstopping to Investment for Export

In a number of areas, investment for export needs to be backstopped by dedicated financial institutions supporting the operations of investors. In the case of rice milling, for example, it is evident that investors need to be supported by adequate provision of working capital. As a result, the Royal Government has recapitalized the Rural Development Bank, doubled the capital of the Agricultural Development and Support Fund, and put in place a credit guarantee scheme. Such dedicated support needs to be improved and is necessary in other sectors as well. For example, the strengthening of supply linkages of SMEs to export industries, discussed above, requires progress on the issue of SME access to bank finance. The question of developing a Cambodian Export-Import Bank also needs to be further explored.

INTELLECTUAL PROPERTY RIGHTS

Cambodia has made great strides since the mid-2000s in establishing a modern Intellectual Property Rights (IPR) infrastructure by focusing on the adoption of a WTO-compatible legal framework, its implementation, and its enforcement.

Responsibilities for Intellectual Property Rights protection in Cambodia is distributed across several Ministries. The Ministry of Commerce (MoC) is responsible for Trademarks, Geographical Indications, and Trade Secrets; The Ministry of Industry and Handicrafts (MoIH - formerly, part of the Ministry of Industry, Mines and Energy(MIME)), for Patents, Industrial Designs, Utility Models, Integrated Circuits, as well as Seed Management and Plant Breeder Rights; The Ministry of Culture and Fine Arts (MoCFA), for Copyright and Related Rights as well as for Traditional Knowledge, Genetic Resources, and Traditional Cultural Expressions; The Ministry of Health (MoH) for Compulsory Licensing for Public Health, The Ministry of Information, for broadcasting; The Ministry of Posts and Telecommunication (MoPT), for internet domain names.

Each ministry has been focusing on developing capacity and implementation in the areas it covers. Registration of Trademarks by MoC has grown rapidly in recent years (cumulative total of 43,240 at the end of 2012). In 2012, they were 5,140 new applications for Trademarks and 3,490 Trademarks were registered. Non mandatory registration of copyrights has also grown (about 50 in 2010). While Cambodia is not yet a member of the Berne Convention, copyrights issued in countries that are WTO members are protected in Cambodia up to the country's statutory limit of 50 years. This is so under provisions included in the TRIPS agreement to which Cambodia is a signatory. As of 2012, MIME had received 232 applications for registration of Industrial Designs, including 32 applications from local firms. Of the 232 applications, 192 registrations had been granted, of which 25 for local firms. Applications for patents registration had grown to 196 by the end of 2012. Thus far, no patent has been granted. MoIH is still working on putting in place a formal registration process with some assistance from WIPO.

Mechanisms for the resolution of disputes vary depending on the nature of the rights but are in place or being put in place in most of the key IP areas. Typically, rights holder can use a number of channels to protect their rights including "cease or desist" letters or mediation through the Ministry concerned (for instance, MoC mediated and resolved 32 out of 35 trade mark disputes in 2010), calling upon the assistance of the Economic Police (the Economic Police has the authority to cease counterfeits — for instance, some 250,000 CD/DVD were impounded in 2010, up from some 27,000 in 2009), or going to Court to seek an injunction.

Still, early experience with dispute resolution points also to the need for increased coordination among the many actors responsible for implementing and enforcing rights, not only the line ministries mentioned earlier but also the Economic Police of the Ministry of Interior (MoI), the General Directorate of Customs and Excise (GDCE,) Cambodia Import-Export Inspection and Fraud Repression Directorate General (Camcontrol) of MoC, the Ministry of Justice, and others.

In 2008, the Government adopted a sub-decree creating a National Committee for Intellectual Property Rights (NCIPR) to coordinate all agencies involved in IP protection. The new NCIPR replaces an earlier Committee (the Inter-Ministerial Committee Governing the Three Areas of Intellectual Property.) In addition to focusing on technical assistance needs and coordinating access to AfT resources, the Committee is creating two sub-committees: one focusing on enforcement; the other focusing on education (regulations creating those two sub-committee have yet to be issued.) The Sub-Committee on IP Law Enforcement aims at strengthening coordination among enforcement bodies, clarifying responsibilities, developing consistent guidelines, and developing enforcement data bases. The Sub-Committee on Education aims at developing curriculum materials to train legal professionals at the university level as well as active professionals, and at raising public awareness.

Going forward, the NCIPR had developed a detailed Action Plan focusing on the three key areas where capacity building and further reform is needed:

1. Legal reform, including outstanding legal text covering the domestic legal framework as well as possible selected membership into key international treaties and conventions. Cambodia is a member of WIPO, the WTO (with its TRIPS agreement), and the Paris Convention for the Protection of Industrial Property. Cambodia participates in the ASEAN Framework for IP Cooperation. Cambodia has yet to join a number of international arrangements, conventions, and agreements such as the Patent Cooperation Treaty (PCT), the Berne Convention relating to Copyrights & Related Rights, the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplications of their Phonograms, the International Union for the Protection of New Varieties of Plants (UPOV Convention), and the Madrid Protocol on Administered Treaties. However, since membership to any of those is not a WTO obligation, Cambodia needs first to assess carefully the benefits and costs of joining those treaties and conventions from the point of view of the Cambodian public or private sectors;
2. Institutional support to implement and enforce laws and regulations covering IPR including much strengthened coordination across agencies responsible for IPRs, clarification of mandates, and training of enforcement professionals, including judges and practicing lawyers;
3. Awareness-raising about IPR within the business community and the larger Cambodian public. Understanding of IPR remains very weak among Cambodian consumers. Cambodian producers need to learn how to use IPR protections to their benefits in order to better compete in the global economy.

Pillar Two

Competitiveness challenges and opportunities are analyzed in ten key export value chains under Pillar Two of *CTIS 2014-2018*:

- Garments
- Footwear
- Emerging SEZ-based light manufacturing and assembly sector
- Processed food
- Fisheries products
- Milled rice
- Cassava
- Rubber
- Tourism
- Silk products

Key findings for the ten sectors examined are consolidated in the form of eleven SWOTs tables (Strengths, Weaknesses, Opportunities, and Threats.) There are two tables for Special Economic Zone manufacturing. One table focuses on the manufacturing sectors emerging in the zones. The other focuses on issues relevant to the competitiveness of zones themselves as an environment for export-oriented business and investment.

GARMENTS

Key Facts

- World imports of clothing were $412 billion in 2011, with the EU and US accounting for two-thirds of total imports.
- Cambodian garment exports amounted to $4.4 billion in 2012, with approximately 45 percent destined for the US.
- The EU, China, South Korea, and Japan are rapidly growing new markets for Cambodia's garment export. Exports to the US are stagnant and their share of total is in decline.
- Global competition for garment trade is intensifying with manufacturers experiencing narrowing operating margins against a backdrop of increased consumer interest in the industry's ethics.
- Cambodian garment sector is characterized by low labor productivity compared to competitors.
- Labor practices at all export factories are subject to BFC monitoring against international standards.

SWOT Analysis

Strengths	Weaknesses
• Growth in garment sector a significant success story for Cambodia's recent economic development and trade integration efforts. • Workforce mostly women, with significant portion of wages remitted to support rural families. • With over 20 years of experience, Cambodia garment manufacturing has developed a reputation as relatively 'ethical' as a result of its "*Better Factories Cambodia*" program. • Growth in garment exports is driven by strong growth in basic apparel production volumes. • Focus on basic apparel production *partly* shields Cambodia garment sector from contractions in global economy compared to more volatile high-end garment trade. • Lead times for garment production are comparable to other competitors in the region. • Attractive FDI environment in Cambodia. • The principal export destinations are high-income North American and EU markets. • Low tariffs or tariff advantages on some items drive Cambodia's garment exports to US and EU markets. • Foreign investors provide industry know-how and expertise in international trade. • Industry and government support for long-standing *Better Factories Cambodia* gives international investors and buyers business confidence.	• Cambodia serves a small number of markets (US and EU mainly) with low value basic apparel. • Garment sector remains focused on simple low value 'cut-make-trim' (CMT) production with extremely thin profit margins. • Most garment factories (94%) are foreign owned with no Cambodian lead investors in the sector. • Most garment factories have little capacity to independently attract new orders or diversify. • Reliance on foreign labor in key technical and management positions weakens local industry's future (not in local hands.) • Little evidence of product diversification—the garments being exported today essentially the same as those exported in the mid-1990s. • Fabrics, threads, accessories and trim used in production of apparel exports are mostly imported resulting in lost value. • Cambodian garment worker productivity lags competitors in the region. • Highly mobile workforce discourages firms from investing in vocational training programs. • High cost electricity undermines efforts to shift garment production upstream (value-add). • Most factories have minimal investments in fixed assets and can easily relocate if operating costs are no longer competitive.

Opportunities	Threats
• Significant welfare benefits from sectors wage and employment growth aid poverty reduction goals. • Scope to increase profit margins and wages through production of higher valued garments. • Potential of linking 'Made in Cambodia' brand with relatively good labor laws and practices. • Improvements in the transit corridor linking the Phnom Penh & Vietnamese ports would shorten timeframes for importing fabrics and exporting garments—potentially attracting orders for higher value garments that necessitate faster turnarounds. • Additional savings in transit time could be achieved through reducing clearance times for imported fabrics and exported garments. • Industry-led vocational training centers would address acute skills shortages across supply chain. • Scope to incorporate Cambodian garment production into regional supply chain for higher value products.	• Myanmar could emerge as a lower-cost garment production center in next 5 years. • Rising costs of production (wages & energy). • Withdrawal of main foreign investors would have a profound and adverse impact on national income and rural livelihoods. • Pace of the Cambodian garment sectors' growth mirrors the pace at which the sector could decline—as seen in contraction of 2008-09. • High cost of capital and financial stress discourages the few locally owned factories from expanding production or shifting upstream. • Strong competition from larger basic apparel exporters such Vietnam, Bangladesh, China, and India that offer economies of scale. • Preference erosion in key export markets. • Inability to diversify products or export markets. • Reluctance of local investors to enter the sector. • Instability from labor disputes.

FOOTWEAR

Key Facts

- Global footwear trade reached $116 billion in 2011, a 36 percent growth since 2007.
- Total footwear exports from Cambodia were $311 million in 2012 while it imported $140 million of footwear components. Until recently, the footwear industry in Cambodia focused primarily on leather shoe production. However, the sector is diversifying quickly into textile and rubber shoe production. Cambodia imports most of its input materials.
- Key footwear markets for Cambodia in 2011 (2012 data not available) included the UK for $48 million, Germany for $38 million, Japan for $28 million, and the USA for $26 million. Cambodia's footwear exports to these markets grew by 189 percent, 65 percent, 25 percent, and 3406 percent respectively between 2007 and 2011.
- The footwear sector was estimated to provide 69,184 direct jobs in 2012 with wages comparable to those of the garment sector.
- The environmental impact of certain activities associated with the sector (e.g. tanning) raises significant environmental challenges and has yet to be managed properly.

SWOT Analysis

Strengths	Weaknesses
• Cambodia's low-cost, low-skilled workforce is particularly attractive for footwear production which is labor-intensive and not complex. • Geographical proximity to other stages of the footwear production chain, in Thailand and Vietnam, facilitates the integration of the Cambodian footwear industry in regional production networks. • Cambodia has a limited number of large vendor factories with modern equipment, with relatively high productivity. • Favorable investment environment for footwear companies benefitting from the Qualified Investment Project status or located in SEZs. • Cambodia enjoys duty free access to the E.U. and selected other markets, with lenient rules of origin	• Low skilled workforce and low productivity are limiting the relocation of more complex stages of footwear production in Cambodia. • The Cambodian footwear industry is concentrated in leather shoe production. • The Cambodian footwear industry depends almost exclusively on imported materials for its production. • The high price and poor reliability of electricity handicap footwear factories. • Cambodia's weak transport infrastructure compared to that of its neighbors (Thailand, Vietnam, China) hinders its competitiveness. • The limited number of large factories and the limited access to local outsourcing constrain the development of the footwear industry in Cambodia. • Factories in Cambodia have minimal control on inbound and outbound supply chains, no control on design, and, consequently, limited opportunities to increase the value of finished goods. • The footwear industry in Cambodia does not have its own representative body. At present, its private sector representation is bundled with garment in GMAC.

Opportunities	Threats
• Rising labor costs in China, Thailand, and Vietnam favors relocation of production to Cambodia. • Footwear production is characterized by a large number of components and processes, allowing for a division of labor across ASEAN countries. Cambodia can easily capture the labor-intensive, low-technology part of the process. • Cambodia has the capacity to develop certain shoe parts and materials (e.g. for tanning) in the vicinity of processing plants leading to clustering among contract manufacturers in particular. • Rubber can be sourced locally to feed in the footwear production process. • Continued strong investment by footwear firms drives technology transfer that can support diversification of Cambodia's footwear exports, for example with an increase in the production of shoes with textile uppers that can result in 50 percent higher FOB value. • Low and diminishing profit margin for low and medium quality footwear production drives international investors to search for cost savings, in particular through labor cost reduction.	• The softening formulation of international rules of origin can reduce the share of the footwear production process actually taking place in Cambodia. • The end of European anti-dumping measures against Chinese and Vietnamese footwear exporters might lead investors to return to those locations where they benefit from better productivity, better infrastructure, local input supply, and bigger economies of scale. • The relative fading of Cambodia's preferential tariff access as a result of a general reduction of tariffs on footwear can reduce its regional competitiveness. • Cambodia's exports of final footwear products are dependent on a limited number of markets (nearly 60 percent to its 4 largest markets). • Low and diminishing profit margin for footwear production limits investor's capacity to provide training programs for workers. • Social and environmental risks associated with certain parts of the footwear production process (tanning) are monitored poorly currently in Cambodia. • Increases in Cambodian wages for skilled workers are necessary to diversify and up-skill production, which in turns reduce Cambodia's main competitive advantage. • Labor unrest in large footwear factories disturbs production

SPECIAL ECONOMIC ZONES OPERATIONS

Key Facts

- In 2013, Cambodia had 8 SEZs operational – Phnom Penh SEZ, Sihanoukville SEZ II, Sihanoukville Port SEZ, Manhattan SEZ, Tai Seng Bavet SEZ, Neang Koh Koh Kong SEZ, Poi Pet O'Neang SEZ and Goldfame Pak Shun SEZ – with operators coming from Cambodia, Japan, China, Thailand and Taiwan. An additional 14 SEZs have been created but there are no investors in these zones as of yet.
- Sihanoukville Port SEZ is the only SEZ managed by the Cambodian government. It was financed by a loan from Japan International Cooperation Agency (JICA).
- In 2013, there were 94 companies operating in SEZs, including 37 in Phnom Penh SEZ,18 in Manhattan SEZ (the first SEZ developed in Cambodia), and 18 in Sihanoukville SEZ II. The latter are the three largest zones.
- As of 2013 Cambodian SEZs are host to 69 light manufacturing companies, 17 garment companies and 6 footwear companies.

SWOT Analysis

Strengths	Weaknesses
• SEZs provides better infrastructure than elsewhere in Cambodia (in particular, water, waste water treatment, logistics and communication infrastructure). • Firms located in SEZs benefit from Qualified Investment Project status. QIP grants new investors (inside or outside SEZs) a number of investment and tax incentives. • Government officials on site in the SEZ provide a one-stop shop to handle foreign investors' submissions, requests, and complaints. • SEZs offer streamlined trade and administrative procedures. • Published official fees provide transparency and certainty to investors. • SEZ operators provide assistance to investors in dealing with public administration. • Private management of SEZs allows for more efficiency and better services in the zone. • SEZs' proximity to borders or export infrastructure facilitates integration of manufacturing facilities into regional production chains, in particular with firms in neighboring countries as potential suppliers or customers (especially Thailand and Vietnam). • Proximity to international transport infrastructure reduce export time and cost (maritime or air, Phnom Penh, Sihanoukville). • SEZs attract workers, providing a larger pool of labor for companies to pick from. . • SEZs provide a comforting and supportive	• Companies located outside SEZs can receive similar tax and investment incentives as companies located inside SEZs under the Qualified Investment Project status, which reduces the attractiveness of SEZs. • Tax free investment incentives do not encourage investment expansion as they only apply to the initial investment. • SEZ rules are unclear as to which procedures must be followed to allow trade with firms outside SEZ, making subcontracting relationships with firms located outside the zone uncertain, costly, and time consuming • SEZs, like the rest of the country, suffer from expensive electricity and unreliable supply. Price of electricity in Cambodia is \$0.23 per KWH from EDC and approximately \$0.40 per KWH or more if self-generated. Electricity prices in Vietnam vary between \$0.05 and \$0.09 per KWH and in Thailand between \$0.04 and \$0.09 per KWH. • The lack of language skills to communicate with SEZ investors and low management skills hinders the promotion of Cambodian workers to management and mid-management positions. • The Cambodian workforce lacks the technical, engineering, and business skills necessary for the development and automation of operations in SEZ companies. • The Cambodian Government, and in particular CDC, does not coordinate with SEZs operators for

environment for companies of the same nationality as the operator (i.e. Phnom Penh SEZ for Japanese or Sihanoukville SEZ II for Chinese). • An association of major SEZs allows for discussion of common issues and lobbying of government.	external SEZ promotion initiatives. • Exports and transport infrastructure linking SEZs to their markets are relatively poor in comparison to international standards and to competitors. • Published official fees are not implemented consistently by government officials with informal fees still required systematically. • Government officials on site in SEZs are not always informed about the administrative procedures firms operating in SEZs must follow. • Not all SEZs offer the same level and quality of government services. • Low mobility and distribution of the workforce at a national level means that certain SEZs face difficulty to access the workforce they need.
Opportunities	**Threats**
• Foreign investors express a preference for privately developed and managed SEZ as it is the case in Cambodia. • Foreign investors express a preference to invest in a SEZ managed by a company from their own country of origin. • Cooperation of major SEZs through a single representative association can facilitate the resolution of issues with Government. • Continuity in management of SEZ operations provides confidence and reliability to investors. • The Greater Mekong Sub Region projects focusing on the east west corridor (Vietnam to Thailand via Cambodia) continues to fund improvement in road network thus reducing transport time between SEZs in Phnom Penh and Bavet and their supply/markets. • Development of night shifts in SEZ factories help switching electricity demand to low peak time.	• Current shortfalls in SEZ (infrastructure, government services) generate a potentially lasting negative perception of the SEZ system in Cambodia amongst foreign investors. • Lifestyle requirements of foreign workers might not be easily met for provincial SEZs. • Neighboring countries offer SEZs with better infrastructure and lower investment costs (Thailand, Vietnam), with better electricity supply (Thailand, Vietnam, Laos) or with better growth potential (Myanmar).

LIGHT MANUFACTURING ASSEMBLY

Key Facts

- For purpose of *CTIS 2014-2018*, Cambodia's light manufacturing assembly sector, located principally but not exclusively in SEZs, covers principally labor intensive operations in bicycle manufacturing, electrics and electronics manufacturing and assembly, and a mix of other light manufacturing products. (Footwear and garments both have a dedicated chapter in *CTIS 2014-2018*.) It includes HS (Harmonized Commodity Description and Coding System) categories 87, 84 and 85.
- Global light manufacturing trade in electrical and electronic equipment was worth about $2.3 billion in 2012 and in bicycles, $8.1 billion.
- Total light manufacturing exports in Cambodia were $372 million in 2012, including $291 million worth of bicycles assembled locally, $62 million of electrical and electronic equipment, and approximately $20 million of diverse products.
- The light manufacturing sector employed perhaps as many as 6,000 workers in 2011 but employment in the sector is growing very fast. Workers in non-garment manufacturing industries receive wages slightly higher than in the garment industry

SWOT Analysis

Strengths	Weaknesses
• Low labor costs make Cambodia attractive for the labor-intensive stages of light manufacturing production in the ASEAN division of labor, in particular for tasks with lower level of technology such as wire harness, structural blocks for digital information appliances, chassis and auto body component. • The concentration of firms in sub-sector (i.e. bikes or wire harness) allows for productivity gains and economies of scale. • The domestic and regional demand for motorbike and bicycles is increasing quickly, in particular due to the young population in the region, providing opportunities for strong development and economies of scale. • Duty-free status for exports to EU for a number of manufactured good (such as bicycles) has brought investors to move production from neighboring countries to Cambodia. • Most components, parts, and raw materials required in light manufacturing assembly can be sourced from neighboring countries (Thailand, Vietnam, China, Malaysia). • Proximity to neighboring ASEAN markets leads to shorter lead time as part of a production supply chain, with Thailand and Malaysia, in particular, having well developed electric and electronic industries.	• Low productivity and low skill-level are trumping low labor cost and make Cambodia less attractive for capital intensive stages in the ASEAN chain of production, such as the mechanized winding process involved in the development of coil, filters, converters and vibration motors. • High electricity costs and unreliable supply constrain the development of light manufacturing, with steady power supply required in automated processes. See discussion in SEZs Operators SWOT. • Relatively weak transport logistics weakens the labor cost advantage and cuts off Cambodia from higher-value, time-sensitive segments of the market. • Unnecessary and inconsistent clearance and administrative procedures slow imports and exports, both in domestic trade and as part of the ASEAN division of labor. This hinders Cambodia's integration into the regional chain of production. • With the exception of bicycles, the critical mass for clustering of various light manufacturing industries has not been reached as of yet, with a lack of Cambodian firms capable of performing outsourced processing, hindering further investment/development (vicious circle). • Cambodian workers lack the language skills needed to facilitate their promotion to management and

• Rapid growth in agriculture (i.e. rice, cassava, corn) and mechanization support domestic and regional demand for agricultural equipment such as tractors, tiling, and harvesting machinery. • Political stability limits external disruptions to the flow of component supply. • Foreign expatriate employees can enjoy a safe residential environment.	mid-management positions in foreign companies. • The shortage in engineering and technical personnel results in high dependency on more expensive expatriate personnel. • Labor unrest and strikes disturb the production process and delay Cambodia's contribution to the regional chain of production. • Cambodia's small scale domestic market limits the development of light manufacturing industries and economies of scale. • Limits in capital and technology sourced locally constrain technology transfer.
Opportunities	**Threats**
• Strong agglomeration of foreign investment from a given country in a specific SEZ (i.e. Japan in PPSEZ, China/Taiwan in Bavet, China in Sihanoukville) tends to attract new investors from the same country. • Rubber can be sourced locally to feed into the light manufacturing production processes. • The concentration of ASEAN automobile production in Thailand and electronics production in Thailand, Vietnam, and Malaysia, provides opportunities for neighboring Cambodia to be involved in part of the assembly or supply processes. • Proximity of countries with strong light manufacturing sectors and investment from firms already operating in those countries provides opportunities for training Cambodian workers and for technology transfer. • The reduction of tariffs under the AFTA scheme is likely to increase trade and division of labor in the ASEAN, making larger markets of the region more easily accessible for Cambodia, thus creating opportunities for economies of scale. • Foreign investors operating in regional or international production networks are seeking to lower their dependency on a few countries in the region (e.g. China, Thailand, Vietnam, Indonesia, or Malaysia) and mitigate issues such as rising labor costs (e.g. China or Vietnam), natural disaster (Thailand, Japan), and others. • Rising wages in China, which is moving up the value chain in electronic production, in Thailand, which has become a key center for automotive production in the ASEAN, in Vietnam, which has become a key parts and component supplier, as well as in Singapore and Malaysia are leading to the relocation of production across the region, with an opportunity for Cambodia to capture some of the more labor intensive part of the work. • Increasing strategy of horizontal division of labor implemented by Japanese, Taiwanese, and Korean companies.	• Because efficient procurement of parts and material from other countries is critically important in the production process, logistic issues might factor higher in investment decision than labor cost. This can penalize Cambodia because of its relatively weak soft and hard logistics infrastructure. • Trends toward more mechanization and more capital intensive production is reducing Cambodia's cheap labor competitive advantage and making its electricity constraints more damaging for manufacturing investment attraction. • Negative changes in rules of origin of the EU's EBA program threaten market access for Cambodian bicycles. • Cambodian workers once trained can be tempted to take jobs in Thai and Vietnamese factories across the borders where they get better wages (for SEZs close to the borders). • China's scale of production and domestic market keeps the Chinese industry cost competitive in spite of potentially longer lead time and rising wages, thanks to economies of scale. • Lowering of electrical costs in Laos as a result of large scale hydro-electricity projects may attract light manufacturing winding process in that country. • The democratization process in Myanmar and its opening to investment is capturing the attention of regional investors because of low wages and a large domestic market (though heavy constraints in infrastructure suggest that Myanmar may not be a viable investment option before 4 or 5 years at best). • The increasing contraction of design-production cycles in electronics leads to shorter lead time requirement, emphasizing one of Cambodia's weaknesses. • Sustained morose economic climate in the Western World, especially in Europe, constrains traditional demand for cycles and high end electronics.

• Domestic demand will increase along with economic development. • Large manufacturing firms, in particular in electronics from Japan, are seeking to diversify away from Chinese suppliers (and from other location with political risks) as part of their risk management strategy. • Increased technology dissemination within Cambodian industry will result in a better integration in the ASEAN light manufacturing production, in particular for the electronic assembling process. • Cycling companies located in Western markets are increasingly moving to Asia to cut costs in response to falling demand in the USA and Europe, with Cambodia already capturing parts of this investment.	

PROCESSED FOOD

Key Facts

- World exports of processed food, beverage and tobacco were $791 billion in 2011.
- Cambodia is a net importer of processed foods, beverages and tobacco goods, with the local industry focusing primarily on the domestic market and import-substitution production. Cambodia's export of processed food, beverage, and tobacco was estimated at $59.6 million in 2011, with imports estimated at $251.8 million.
- A clear worldwide trend exists towards diets that include more animal products such as fish, meat, and dairy products, which in turn increases the demand for animal feed and grains.
- In 2010 there were more than 31,400 registered SMEs (capital less than $3,000 – many household operations) in Cambodia's processed food, beverage and tobacco sector, employing more than 93,700 people. In contrast, there were only 56 large investments registered with MIME (30 Processed Food Factories; 15 Beverage factories; 11 Tobacco Factories)
- The domestic agro-processing sector is heavily geared toward grain milling, with beer, wine, sugar, and tobacco production also representing a significant number of businesses.

SWOT Analysis

Strengths	Weaknesses
• The development of a local processed food sector complements Cambodia's economic profile as a large and growing producer of agricultural goods. • The processed food sector is dominated by a very large number of SMEs at household and village level, generating direct livelihood benefits. • The processed food industry important for both export market development and import-substitution production of selected consumer goods—generating income from value-adding as well as diverting cash outflows from the economy. • Increased exports of agricultural commodities will create demand for post-harvest agribusiness—such as grading, handling and logistics—and support the wider development of local agro-processing. • Seasonal surpluses of highly perishable agricultural goods (such as fruit and vegetables) are well suited to further processing. • Agricultural production of low quality—unsuitable for use in processed food—can be used in production of animal feed and support the development of local livestock industries. • Cambodia's extensive fish resource supports a fish processing industry that focuses on meeting traditional consumer preferences in the domestic market (with limited exports to the ASEAN region). • Cambodia's emergence as significant producer of cassava has created an opportunity for increased	• A major constraint to development of an export-oriented processed food sector in Cambodia is the lack of compliance with international SPS standards. • Inconsistent and generally low quality of raw agricultural products impedes efforts to expand local processing facilities. • Informal export of many raw agricultural goods further reduces access to inputs for food processors. • Often more cost-effective to export raw agricultural goods to Thailand and Vietnam for processing and then re-import finished product for local market. • Poor transport and storage infrastructure and the high cost of energy in Cambodia discourage private investment in food processing facilities. • Limited access to finance impedes SME expansion in the processed food industry. • Cambodian agriculture sector predominantly small-scale farms with very limited contract farming available for food and beverage processors to secure reliable supplies of raw inputs. • Despite the large size of the poultry sector, small-scale farms make little use of support services such as animal health, advisory, and technical services. • Despite an attractive FDI regime there has been relatively little foreign interest in investing in Cambodia's processed food sector compared to other industries such as garments and tourism. • Low availability of skilled labor discourages

production of processed and semi-processed cassava products—including pellets for animal feed and flour/starch for the global food processing industries.	investment. • Lack of information on processed food trade in Southeast Asia impedes strategic investment and efforts to expand processed food exports exports (especially for household and village-level SMEs). • Tariff preferences generally not as favorable for processed agricultural goods.
Opportunities	**Threats**
• As the Cambodian economy grows and household consumption increases, the food processing industry can be expected to grow at a faster pace. • With much of the food processing taking place at the household or village level, the prospects for continued growth in demand for value-added food offers important food security and poverty reduction outcomes for Cambodia. • With forward and backward supply chain linkages, the processed food sector offers high multiplier effects in terms of job creation and value addition. • Modern cultivation practices and agro-industry supply chains are still in development in Cambodia, offering scope for development of export-oriented organic food industry—especially in sub-sectors such as milled rice, soybeans, cashews, fruits, spices, and palm sugar. Incentives that encourage use of locally produced raw agricultural goods in food processing sector could substantially boost industrial development in Cambodia. • Improved disease management and securing an FMD-free zone would offer scope for development of meat export markets. • With appropriate policy settings and strategic investments, Cambodia can be well placed to support the growing food demands and changing consumer preferences of nearby markets in Southeast Asia, possibly including demand for Halal food.	• Processed food sector expands on the back of imported agricultural inputs—denying the local farmers an opportunity to improve earnings and diversify supply chains. • Larger food processing facilities choose not to rely on smaller, resource poor farmers for raw inputs—the latter are left out of supply chains and the socio-economic benefits of a processed food industry are potentially reduced. • Failure of local food processors to link up with larger multinational companies would undermine efforts to better understand international markets as reduce the prospect of significant export earnings. • Cambodia's consumer preferences shift to imported international brands of processed food and beverage products. • Failure to entice substantial FDI in food processing sector would deny local sector access to global value chains, technology and finance.

FISHERIES

Key Facts

- Global trade in fish is estimated at over $100 billion per year, with Japan the largest importer.
- In 2012 Cambodian fisheries produced approximately 682,000 MT of fish – 509,000 MT from inland fisheries, 99,000 MT from marine fisheries and 74,000 MT from aquaculture production (nearly exclusively from inland fisheries).
- Cambodia's recorded exports of fish products in 2012 were 21,000 MT, down from 35,000 MT in 2010. However, most exports are informal and unrecorded.
- The sector employs directly approximately 420,000 people. It is estimated that up to 6 million people benefit from some form of indirect employment or participation in the Cambodian fisheries sector.

SWOT Analysis

Strengths	Weaknesses
• Cambodia's vast water resources offer significant economic opportunities for rural livelihoods—across floodplains, rivers and lakes, marine fisheries, rice field fishery and aquaculture. • Cambodia's freshwater fisheries are among the most productive in the world due to the presence of large floodplains around the Great Lake and along the Tonle Sap and Mekong Rivers. • As a traditional sector with a long-history in Cambodia there is a significant knowledge base of fisheries species and habitats. • Freshwater fish is the largest source of animal protein in Cambodia and figure prominently in Cambodian nutrition. • Establishment of small producer associations in the three main coastal provinces has been an important first step in creating a better-organized marine fisheries sector. • The practice of co-management of Cambodia's inland water resources through the use Community Fisheries (CF) organizations has given greater voice to small-scale fishers and enhanced the sustainable use of inland water resources. • Since 2010 there has been a rapid growth in export volumes (of mainly frozen shrimp) to one of the largest and most high-valued markets for fish—Japan. • While most fish exports are unrecorded, it is likely informal exports of inland fish are significantly larger than those from marine resources. • Global fish trade typically faces very low (and often zero) tariff barriers.	• Lack of knowledge and/or compliance with SPS requirements in high-value international markets, including the EU, is a substantial barrier to increased export earnings. • Lack of consistent supply constrains onshore processors (including freezers) from expanding output or seeking export markets. • Licensees are empowered to collect a 4 percent fee on the value of fish exports, discouraging exports or leading traders to seek informal trade channels. • Pressures on freshwater and coastal fisheries resulting in catch of lower economic value. • Many of the larger and more valuable fish species have declined significantly both in numbers and size and are now in short supply in local markets. • A significant quantity of deep-sea catch is sold at sea by Cambodian fisherman to larger Thai, Vietnamese and Hong Kong vessels, bypassing Cambodia's markets and on-shore processing facilities. • Poor roads and lack of electricity make the storage and transportation of fish products difficult. • Highly unreliable trade data (especially for marine fisheries) impedes policymaking and strategies for export market development. • Little industry knowledge of international fish markets, export practices or marketing.

Opportunities	Threats
• Greater access to international markets will have significant welfare benefits—the sector employs directly 420,000 people while up to 6 million people derive some form of livelihood benefit from fisheries activities in Cambodia. • *The Strategic Planning Framework for Fisheries: 2010–2019* and ongoing reforms to the management of Cambodia's fisheries provide the current platform to drive private sector investment in the fisheries sector and in exports. • Significant quantities of deep-sea catch could be processed onshore in Cambodia. • Increased resources and capacity for Cambodia to patrol and monitor its marine fish resources could lower the significant quantity of fish currently harvested by foreign vessels within Cambodian waters. • Opening of the Marine Aquaculture Research and Development Centre (MARDeC) in 2012 could help the marine aquaculture sector grow rapidly. • Expansion of the aquaculture sector provides an opportunity to reduce fishing pressures on wild stock while also providing future export capacity. • Investment in harvest and post-harvest technology to meet global market standards would provide a catalyst for improved access to export markets. • Current efforts to turn the FiA into a 'Competent Authority' that meets EU requirement together with parallel actions could help lift SPS capacity in the sector.	• Environmental degradation and habitat destruction from damming, deforestation and conversion of land for agricultural uses. • Widespread over-fishing of freshwater and marine stocks due to increased demand, unregulated catch limits and less efficient fisheries practices. • Key importing countries impose new and more stringent SPS and TBT restrictions on Cambodia's fish exports. • No increase in institutional capacity for fish inspection and enforcement of quality and food safety standards would deny the sector any real chance of a sustained increase in export earnings. • Disease outbreaks, especially in aquaculture. • Reluctance for government or industry to invest in research and development would weaken efforts to promote fish processing technology and minimize post-harvest losses.

MILLED RICE

Key Facts

- Global rice trade exceeds 30 million MT each year but remains distorted and subject to frequent government intervention.
- Cambodia's formal exports of milled rice grew from 16,000 MT in 2009 to 145,000 MT in 2011 and an estimated 350,000 MT in 2013. EU, Russia, and Malaysia are its largest exporting markets but there is a need for and a trend towards diversification of export markets including within the region.
- The Government has set a target of 1 million MT of exports by 2015
- The cost of rice paddy production in Cambodia is one of the lowest in the world.
- Annual gross production of paddy has grown at an average annual rate of 4.9 percent.
- Production surplus (gross production less domestic consumption) of paddy rice in 2012 was approximately 4 million MT indicating ample supply of paddy for milling
- Rice paddy yield is growing and reached 3.2MT/ha in 2012

SWOT Analysis

Strengths	Weaknesses
• Introduction of *Policy Paper on the Promotion of Paddy Production and Rice Export* in 2010 has encouraged investors to significantly boost milling capacity. • Rice is a traditional crop of cultural and historical significance and production in Cambodia is extensive and widespread. • Very low-cost paddy rice gives local millers an advantage over foreign competition. • Strong growth in rice cultivation and improved yields has supported efforts to increase milled rice exports. Yield in Cambodia was 3.2MT/ha in 2012 (5.6MT/ha in Vietnam; 2.8MT/ha in Thailand) • Duty-free access granted to Cambodia by the EU and Russia is a key driver of rapid export growth since 2009. • Opportunistic in taking market share from competitors when global trade is disrupted by foreign government rice policies (e.g. India and Thailand).	• Low and inconsistent paddy quality and poor post-harvest handling results in lower value milled rice. • Cambodian export procedures for milled rice remain complex and costly: $11/MT compared to $0.10/MT in Thailand and $0.05/MT in Vietnam. The large number of government agencies with overlapping bureaucratic mandates adds to the cost of doing business and exporting milled rice. • Few cooperatives exist to help organize farmers (small land holders), limiting access to extension services, market information, finance and reducing bargaining power. • Insufficient capacity building support. • Inconsistent supply and working capital reduces efficiencies and profitability of milling operations. • Inadequate access to finance forces local millers to compete for paddy rice with Thai / Viet buyers. • Limited capacity of modern mills reduces the size of exports that can be handled. • Lack of modern silo and storage facilities to provide large mills a more steady access to paddy supply • Cambodian rice millers pay significantly more for transport, electricity, diesel and port access compared to competitors in Vietnam and Thailand. • Difficult to meet international standards, including milled rice specifications and SPS. • Lack of skilled labor to service and manage milling and polishing operations. • Cambodian practice of mixing varieties undermines ability of exporters to provide consistent quality.

Opportunities	Threats
• Increased participation in global markets will improve industry returns and offers increased income potential for 2.9 million rice farms. • Provision of extension services to improve rice cultivation practices can further increase yields and available stocks of uniform and higher quality grains for millers. • Global trade in milled rice is expected to remain at near record volumes over medium term (at 30+ million MT per year). • Large rice importing markets with strong growth outlook are nearby — including Indonesia, the Philippines, and China. • Continued expansion and modernization of Cambodia's milling sector will increase output and lower costs. • Good prospects for increased exports of fragrant rice to China. • Break bulk barging down the Mekong River would significantly improve competitiveness of Cambodian rice exports. • Significant opportunity to address high electricity costs through use of alternative, cost-competitive technology (use of rice husk as bio-fuel).	• Myanmar likely to re-emerge as a large low-cost rice exporter in next 5 years and will benefit from similar duty-free preferences. • Historical growth rates in rice paddy production become more difficult to maintain. • Thailand is a major competitor for aromatic rice exports, while Vietnam is a major competitor for non-aromatic rice exports. • Return of India and Thailand as dominant rice exporters likely to weaken global prices. • Sales to EU market may have already peaked. • Global rice markets are unpredictable and often subjected to significant government intervention. • Price volatility and variable climatic conditions adds to risk and reduces returns on investment • Reliance on containerized rice exports is at odds with global practices of trading in break bulk rice. • Without ability to reliably produce large quantities of uniform milled rice access to international markets will be restricted. • Increases in electricity costs could place millers under further cost pressure. • Export of fragrant and non-aromatic rice exports will continue to grow only if modern milling capacity continues to expand and rice exporters open new markets beyond their current main targets (EU and Russia). • Emerging pest and disease threats. • Absence of pests and diseases surveillance system might lead to bans by importing countries in the event of infestation

CASSAVA

Key Facts

- Global cassava production (fresh root equivalent) exceeded 282 million MT in 2012, with less than 12 percent of total production traded on world markets in 2011.
- Cassava production in Cambodia increased from 150,000 MT in 2000 to 8 million MT in 2011. Cambodia's formal cassava exports grew from $0.4 million in 2010 to $2.3 million in 2011. However, most Cambodian production is exported in the form of fresh tubers or dried chips and most exports are informal and unrecorded to Thailand and Vietnam.
- Newly cultivated land can generate yields in excess of 40 MT of cassava per hectare.
- Weak cultivation practices expose farmers to the risk of soil depletion, erosion, and falling yields. Most new plantings come informally from Vietnam and Thailand and are diseased. Cambodia needs to develop a disease resistant plant that is appropriate for its soil.

SWOT Analysis

Strengths	Weaknesses
• Cassava is adaptable to diverse climates and soil varieties—offering potential income source to farmers on marginal land. • Inexpensive source of carbohydrate and can be substituted for rice during shortages, offering important food security to the rural poor in Asia. • Cambodia has some of the highest yields for cassava roots in the world—average 20 MT/ha. • Cassava can be grown as a single crop or inter-cropped—offering an additional income source. • Rising prices have encouraged increased plantings and improved returns to farmers. • Cassava offers farmers the flexibility to time harvest with suitable market conditions. • Low labor cost makes intensiveness of planting / harvesting cassava manageable. • Cassava has many end uses and is widely used in the global food, animal feed, bio-fuel, and semi-industrial sectors. • Substitution of corn for cassava in Chinese bio-fuel industry has opened up a new market offering attractive returns for dried cassava. • Attracting FDI from South Korea and China to establish large commercial plantations and dedicated processing facilities (for bio-fuels). • Cambodia's cassava exports enjoy tariff preference advantages in ASEAN, EU, and China.	• Raw cassava roots are highly perishable and need to be quickly processed (chipped and dried.) • Weak investment in R&D and inadequate extension services to support use of higher yield varieties or improve crop management practices. • Exports are mainly fresh tubers or dried chips traded informally across the Thai and Viet borders and are subject to high cross-border fees. • Significant disease in new seedlings, low quality cassava plantings, and poor post-harvest handling make it difficult to maintain yields or meet export specifications in higher-value markets. • Inconsistent supply in term of quantities • Poor preparation, drying, and storage of cassava chips reduce quality and value. • High cost of credit impedes efforts to improve post-harvest handling and farm-gate returns. • Low investment in processing facilities, despite sectors growth and new export opportunities. • Competition from Thai and Viet traders for raw cassava limits available stock for local processors and undermines sectors profitability and growth. • Lack of skilled labor to operate and manage processing facilities. • Limited experience in marketing, supply chain management and exports. • Difficulty in meeting SPS standards for key markets such as China

Opportunities	Threats
• The poorest rural families often farm cassava and opportunities to earn higher returns will have significant welfare enhancing benefits. • Mechanization of on-farm cassava chipping would significantly lower seasonal labor costs, reduce wastage from perished stock and improve farmer's margins. • Development of local processing capacity near main production areas would increase competition for cassava crop and improve farm-gate prices. • Increase in local processing capacity would significantly boost sectors overall prospects and support parallel agro-processing sector. • Scope to diversify exports of processed cassava to other Asian markets—especially China, Korea, Indonesia and Malaysia. • Cambodia–China MoU offers an important platform to facilitate technical exchanges and exports of up to one million MT of dried cassava per year.	• Deforestation from increased cultivation. • Rising cost of agricultural inputs and labor shortages during planting / harvesting. • Maintaining poor cassava farming practices can lead to serious depletion of soil quality, erosion, falling yields and lower farm profits. • Unpredictable border closures (such as with Thailand) and limited access to credit to finance increased production. • Continued dominance of Thai and Vietnamese traders impedes efforts to shift production to more local channels for value adding and generating higher returns to rural communities. • Limited market information leading to farmers' continued acceptance of lower farm-gate prices despite higher regional and international prices. • Exposure to future changes in Chinese Government bio-fuel and import policies. • General reluctance by government and private sector to invest significantly in cassava industry.

NATURAL RUBBER

Key Facts

- Annual worldwide natural rubber production exceeds 10 million MT ($50 billion), with the industry's fortunes and supply chains heavily geared toward the global auto industry.
- Cambodian exported almost 55,000 MT of natural rubber in 2012.
- Cambodia currently has 225,000 hectares of immature rubber plantings coming into production in the next few years that lead to an exponential growth in natural rubber production.
- The Government has set a national target of 290,000 MT of dry rubber production by 2020 with total area planted to reach 400,000 hectares (300,000 hectares tapped).

SWOT Analysis

Strengths	Weaknesses
• Sector has strong government backing with Cambodia's climate, soils and pest and disease profile presenting favorable conditions for rubber plantation. • Employed 40,000, mostly in rural communities, in 2007 (possibly double that number by 2012). • An estimated 21,000 smallholder families provide the bedrock of Cambodia's rubber sector. • Mature rubber trees typically offer reliable yields for 25-30 years, subject to proper plantation management and disease control. • Option of intercropping between newly planted rubber trees as an additional source of income and to help offset high setup costs. • Cambodia's LDC status affords it tariff-free access for natural rubber exports to the EU, US, Japan, Korea—all major importers. • As recent plantations mature and come into production, yields and export capacity will increase exponentially. • Attractive FDI environment with lower cost (and more available) land compared to traditional rubber exporters such as Malaysia. • Relatively low cost labor a competitive advantage.	• High entry barriers to industry given large financial outlay over several years with leadtime of 5-7 years before trees mature and begin to yield latex. • Limited knowledge of modern cultivation techniques, pest management and post-harvest handling leading to low yields and quality. • Majority of smallholder rubber plantations rely on 25+ year old trees with poor yields • Weak R&D, absence of extension services and poor access to market information inhibits farmer's capacity to make informed decisions in an inherently risky business. • Reliance on imported inputs often leads to shortages of fertilizers and pesticides. • Shortage of skilled tappers, while use of unskilled labor damages trees. • Vulnerable to price fluctuations and limited access to credit to re-invest in sector. • Rubber processing industry is overly focused on latex products—representing a highly competitive, yet very small, segment of the global rubber trade. • Cambodian Rubber Standards (CRS) not trusted by international buyers, often requiring exports to be independently tested by Singapore laboratories.
Opportunities	**Threats**
• This is a labor-intensive sector leading to large employment creation. Increased exports of natural rubber products will make the sector an even more important contributor to poverty alleviation in rural communities. • Strong outlook for global natural rubber trade backed by reliable and growing demand from global auto manufacturers. • Close proximity to China—world's largest importer	• Serious long-term environmental issues if expansion of industry dependent on deforestation. • Fluctuating world prices for natural rubber makes investment decisions difficult and risky. • Shortage of skilled tappers in a period where the number of mature trees is increasing rapidly, leading to substantial losses from untapped hectares. • Increasing cost of land—especially where close to

of natural rubber products. • Improving the quality of processed rubber would significantly add to the sector’s profitability and farm-gate prices. • Encouraging processors to diversify away from latex to other natural rubber forms may create new market opportunities. • Recent accreditation of Cambodia’s rubber testing laboratory should allow for broader market access and domestic export certification against international standards.	main arterial roads. • Cambodia’s industry overshadowed by regional competitors that dominate global production and trade in natural rubber—Thailand, Indonesia, Malaysia, China, and India. • Limited experience in marketing and export. • Failure to significantly increase yields despite recently planted areas reaching mature age. • Continued perceptions of Cambodia as a supplier of low grade, poor quality natural rubber products.

TOURISM

Key Facts

- International tourist arrivals passed a record 1 billion tourists worldwide for the first time in 2012.
- The number of international tourist arrivals in Cambodia has increased from 290,000 in 1998 to nearly 3.6 million in 2012, generating export earnings estimated at $2.2 billion.
- The Government has set a target of 8 million international visitors by 2020.
- The tourism sector is estimated to employ directly around 620,000 people (around 8.1 percent of the total workforce) and contribute around 9.6 percent of GDP in 2012.
- Cambodia's hospitality facilities are concentrated primarily in the Siem Reap, Phnom Penh, and Sihanoukville areas. There is a need for significant diversification of tourism destination and products. Access to skilled labor is a significant constraint.

SWOT Analysis

Strengths	Weaknesses
• Tourism is a leading source of economic growth and employment in Cambodia. • The UNESCO World Heritage site Angkor Wat is high profiled, internationally renowned and a unique draw card for Cambodia. • Tourism revenue encourages the preservation of historical, cultural and environmental assets. • Success of *Cambodia: Kingdom of Wonder* tourism marketing campaign has contributed to strong growth in tourist arrivals. • Southeast Asia remains one of the fastest growing tourist markets in the world with Cambodia also benefiting from 'side-trips' from Thailand and Vietnam. • Strong growth in regional tourists from Asia has more than offset slower growth in tourist arrivals from traditional markets (especially Europe and North America). • Increased number of regional low-cost airlines flying to Cambodian airports and the simplification of visa procedures has encouraged tourist arrivals. • Modernization of major airports has enhanced arrival/departure experience.	• Shorter average stays than Thailand and Vietnam. • Cambodia perceived as a 'low cost' destination—making it harder to encourage growth in premium tourist services. Average daily expenditure per tourist was $107/day in 2007; $98/day in 2012. • High concentration of tourism activities in few areas (particularly Siem Reap) leading to significant congestion and amenity issues. • Higher-spending business stays accounted for just 5% of total international arrivals in 2012. • Low occupancy rates for 5-star hotels discourage further investment in high-end accommodation and conference facilities. • Weak consumer protection laws and no policing to prevent false advertising of hotel accommodation, particularly in relation to Internet sales. • Weak food hygiene and sanitation • Despite recent advances in competition, airfares to/from Cambodia remain more expensive than other regional destinations. • Severe skills shortages across the hospitality sector, including in culinary and hotel management. • Limited infrastructure and very limited domestic air connections further exacerbates concentration of tourists in small areas.
Opportunities	**Threats**
• Strategic marketing and promotion campaigns to target specific sub-sectors of international arrivals. • A national marketing campaign to attract business to the largely under-developed Meeting, Incentive, Conference, Exhibition (MICE) sub-sector. • Interest from Gulf carriers in servicing Phnom Penh airport would assist in attracting international	• Forecast growth in international tourist arrivals will further increase demand for skilled labor in the hospitality industry. • Tourism sector exposed to downturns from global / regional economic and political crises, natural disasters and outbreaks of pandemic diseases. • Over-emphasis on attracting large volume of

arrivals from Middle East and European markets. • A proposed common visa scheme for ASEAN would facilitate increased international arrivals. • Proposed launch of second national airline would increase competition on both domestic and regional routes and attract both business and tourist arrivals. • Increased skilled labor in the hospitality and restaurant industry would help solve a current bottleneck • Development of new destinations within the country, as prescribed in *Cambodia Tourism Strategic Development Plan 2012,* as well as a deepening of the service offering would add to Cambodia's competitiveness and encourage longer stays. • Diversification of tourism products and destinations would not only create a more resilient sector but provide more broad-based poverty reduction benefits.	tourists rather than targeting more valuable tourists with higher expenditure and longer stays. • Failure to attract highly-prized medium-large size business events under the MICE sub-sector where the cost and availability of airfares is a key determinant in selecting host city. • Income-generating benefits of tourism activities not being dispersed more evenly across Cambodia. • The free flow of services and skilled labor under the ASEAN Economic Community may effect the availability of skilled labor in Cambodia given the higher wages available elsewhere in the region.

SILK

Key Facts

- Global production of raw silk averages 80,000 MT per year, about 70 percent is produced in China.
- Global trade in silk fabric was estimated at around $2.5 billion in 2011.
- In 2012 Cambodia exported $7 million of silk products through cross-border trade and sales to foreign tourists. Around 98 percent of silk products are produced from imported white silk yarn – approximately 400 MT annually
- Sericulture is a very small industry in Cambodia, producing just 1 MT of silk yarn in 2012.
- Over 20,000 weavers present in Cambodia, offering significant rural employment.

SWOT Analysis

Strengths	Weaknesses
• Yarn production and weaving is an important village-based activity offering significant rural employment especially for women and individuals with disabilities. • In some households weaving is the sole source of income for many rural families. • Utilizes traditional handloom techniques and maintains practices of historical and cultural importance to Cambodia. • Preservation of traditional techniques passed on from generation to generation. • Village-based and hand-woven silk production is a natural complement to growing tourism sector. • Characteristics of native golden silk yarn are well suited to differentiating finished product from competition. • Strong consumer preference in domestic market for locally woven silk fabrics. • Sericulture can offer farmers higher per hectare revenue than cassava or rice cultivation.	• Small-scale yarn production and lack of recognition of Cambodia as a quality supplier in international markets. • Returns from sericulture *perceived* as being too low by Cambodian farmers to encourage increased silk yarn production. • Tiny portion of locally produced silk products is exported. • Tourists cannot easily access information on local silk sector or observe looming and weaving practices. • Smaller silk producers constrained by cost and availability of high-quality yarn. • Lack of interest from investors constrains growth in sericulture production. • Lack of export market experience.
Opportunities	**Threats**
• Increasing the volume of yarn and weaving production at village level likely to be welfare enhancing. • Scope to develop high-value local product using golden silk yarn. • Improvements in the quality and availability of finished silk products will open markets. • Few tariffs or other import restrictions imposed in global silk trade. • Village life and hand looming and weaving processes could be marketed to tourists. • Growth in production of silk fabrics using imported yarn. • Growth in production of high-end fabrics using	• Increasing prices of imported inputs, such as yarn, dyes and processing materials. • Key suppliers of imported silk yarn—such as Vietnam—cutting production, exposing Cambodia's weaving sector to silk yarn shortages. • Domestic demand for silk fabric likely to stagnate due to changing consumer preferences and availability of substitutes. • Global sericulture production in general decline. • Significant competition in international markets from Thailand for traditional hand-woven silk products. • Cambodia fails to improve the quality and availability of finished silk products.

'Golden Khmer Silk' targeting high-value consumers (both tourists and for export). • Creation of national Silk Board may improve sectors' capacity to coordinate production chain and develop a uniform supply structure.	• Cambodia fails to preserve production of local golden silk yarn (just 1 MT produced in 2012). • Capacity to market Cambodia's silk product exports may be overshadowed by the larger silk suppliers in the region. • General reluctance and lack of interest to maintain or support local sericulture sector.

Pillar Three

Under Pillar Three, CTIS 2014-2018 addresses four main areas:

- Bridging the Skill Gap in Export Sectors
- Trade Mainstreaming
- Monitoring and Mobilizing Aid for Trade
- Enhancing Private Sector Participation in Aid for Trade

BRIDGING THE SKILL GAP IN EXPORT SECTORS

Labor Market

- Cambodia has a young population. Nearly 60 percent of the population is 25 years old or younger.
- Around 300,000 – 400,000 new job seekers enter the Cambodian labor market each year.
- Unemployment and under-employment data are hard to come by. Unemployment is significantly higher in urban than rural areas. Youth unemployment (15 – 24 years) is significantly higher than overall unemployment. Under-employment is likely significant.
- Industry (mostly manufacturing and construction) contributed 24 percent of GDP in 2011 and employed 18 percent and 16 percent of total female and male labor force respectively in 2011. Manufacturing employs mostly rural women, skilled and unskilled, while construction employ mostly rural male workers who move into construction, in particular when the agriculture season is low. None of these sectors have education or TVET facilities servicing the needs of industry.
- Agriculture contributed 37 percent of total GDP and employed 56 percent of total employment in 2011 (57 percent and 55 percent of total female and male labor force respectively in 2011). Agriculture has a university and various ad-hoc short-term NGO training programs operating mainly when projects are launched. No TVET programs or accreditations are provided in this sector.
- Services (retail and wholesale trade, hotels and restaurants, transport and communication, real estate, banking, etc.) contributed 40 percent of GDP in 2011 and employed 26 percent and 29 percent of total female and male labor force respectively in 2011. Many university graduates are employed in services and, in particular, in hotels and restaurants. At present, TVET programs in the hospitality sector are dominated by NGOs servicing the very poor.

Education and Technical Vocational Training

- Skills mismatches, skill gaps, and skill shortages are significant in all priority export sectors
- Cambodia's key economic sectors lack systematic training or TVET programs graduating skilled professionals for industry. For example, there is no school or curriculum targeting the garment sector.[5] Most skills are acquired through on-the-job training provided by employers themselves.

[5] GMAC is in the process of setting up a TVET center for the garments and footwear sectors

- Cambodia has a total of 11,046 schools including pre-schools, primary schools, and secondary schools as of 2012. The public school system does not integrate language skills in curriculums (e.g. English and Chinese) whereas this is compulsory in many private schools.
- In 2012, there were 38 TVETs, mostly run by NGOs with an emphasis on the very poor.
- In 2012, there were a total of 101 higher educational institutions (HEI.) Among the 101 HEIs, 39 are state and 62 are private HEIs. HEIS are located in Phnom Penh and 18 provinces. Of the total HEIs, 61 (9 state and 52 private HEIs) are under Ministry of Education, Youth and Sport and the other 40 HEIs are under 13 other ministries.
- There were 34,978 university graduates in 2012 including 14,432 female graduates. The number of University graduates is growing each year.
- Education and industry have very few linkages and education systems -- at the secondary, TVET or university levels -- are not producing graduates that meet the needs of industry in terms of technical skills and foundation/soft skills. There is a very significant need to bridge the gap between what the education systems produce and the demand of the labor market.
- Various PPP models will be required to bridge the gap.
- Weak foundation soft skills (e.g. literacy and numeracy, communications, team work, problem solving, language, etc.) are a major problem in view of the fact that they are the basis for life-long-learning and the ability of employers to train and retrain their existing labor force

SWOT Analysis

Strengths	Weaknesses
• A vibrant and young workforce eager to learn and adaptable to learning • Fast growing working age population and labor surplus • An open economy means investors are able to compensate for local skill shortages by recruiting skilled foreign workers or professionals • A fast growing economy with strong potential for further growth and job creation in higher value added activities and with income opportunities for youth and job seekers. • Government has identified Skill Gaps and Skill Development as a major priority.	• Underemployment is a challenge for Cambodia, particularly for youth in urban areas • Severe skill shortages, both technical/occupational skills and foundation/soft skills in most sectors. • Labor productivity, especially in many industrial and service sectors, is low, precisely because of low skill levels of the work force • Shortage of private and public vocational training institutes • Many non-formal training and TVET programs are under-funded, of uneven quality, and somewhat disconnected from market demand. • The few good TVET programs focus on the very poor and are not available to the general youth population. • A relatively large supply of university graduates with weak work place skills. • Defining the respective roles of the public and private sectors in education and vocational-technical remains a challenge. • Challenges in integrating a community of educational and training providers around the goals of a national development strategy and the needs of key employment sectors • Labor markets are non-transparent. There is a lack of information and coordination to match labor demand and supply. • Because of lack of information, expectations of youth entering the job market are often at odd

	with reality. • Access to information still a challenge for many young people, especially those unable to use web-based information • Young people view university education as the key to enabling access to better jobs and view TVET as education for "workers" • Potential impact of ASEAN integration on Cambodia and skill migration not well researched or understood
Opportunities	**Threats**
• Strengthen institutional support and coordination to match labor supply and demand and improve information access and sharing. • Promote education as a sector requiring public and private investment, including using PPP models • Strengthen cooperation among unions, employers, government, and education providers (e.g. industry skill councils) through institutional arrangements focusing on enhancing strategic and forward-looking approach to skills development and re-skilling of the workforce • Encourage PPP TVET to supply investors with skilled labor force. • Promote TVET as a viable educational option • Rethink higher education legal framework to create alternative education opportunities for youth, including creation of a second tier of universities (polytechnic institutes) that specialize in delivering shorter graduation programs (e.g. two years) with a strong focus on skills relevant to specific sectors. • Strengthen primary and secondary education offering, in particular in language skills. • Strengthen bilateral agreements (MoUs) with countries to train Cambodian workers in particular sectors	• ASEAN integration might cause an outflow of skilled Cambodian labor to other countries where wages are higher • Local wage increases need to be matched by total factor productivity gains. • Industrial relations environment is fragile and creating challenges for general investor perceptions on industry stability and harmony. • Flexibility of employment needs to be maintained for investors to innovate and scale up workforces as needed. • High number of public holidays impacting productivity and working time, particularly in manufacturing and industries with a large number of workers. • Excessive use of overtime can become a drag on labor cost competitiveness • Health, nutrition, and supporting infrastructure (housing, sanitation, training etc.) insufficient to ensure healthy balance between work and life resulting in negative impact on labor productivity. • Migration of skilled workers to neighboring countries with higher minimum wages. • Lack of regional labor market information to enhance Cambodia's ability to train its workforce for labor shortages in regional countries

MAINSTREAMING TRADE, MOBILIZING AID FOR TRADE, ENGAGING THE PRIVATE SECTOR

Despite Cambodia's robust GDP growth, strong export performance, and a good poverty reduction record, as reflected in remarkable progress in attaining MDGs, trade contribution was not fully embedded in earlier national development plans and strategies, such as the *2008-2013 National Strategic Development Plan* (NSDP) and the Royal Government of Cambodia's *2008-2013 Rectangular Strategy* (RS.) The current trade development formulation effort led by the Ministry of Commerce to support the preparation of the new NSDP and RS shows that critical issues need to be addressed to avoid mainstreaming bottlenecks. Increased reliance on accurate, timely, and easily accessible data, strengthened participation of the private sector in the formulation of sector policies and the design of corresponding projects, and stronger linkages between trade development and poverty reduction gains are some of the few areas needing additional attention.

Insufficient incorporation of trade in national development strategies may lead to under-investing by Government and development partners in areas of needs – infrastructures, productive capacity, women empowerment – and missing out on the significant leverage trade can provide to increase employment, improve revenue generation, and reduce poverty. It may also jeopardize Cambodia's competitiveness, in particular when compared to its neighbors, all of whom are gearing up to position themselves for grasping fully the benefits of AFTA.

Trade mainstreaming is the process of integrating trade into national and sector development planning, policymaking, implementation, and review in a coherent and strategic manner. It implies taking trade-related issues into account when planning and executing broader development objectives. It further entails using trade proactively to attain specific national development goals, including poverty reduction. Mainstreaming trade takes place at four levels: (1) integrating trade development in national and sector policies; (2) strengthening institutions responsible for implementing those policies; (3) strengthening the dialogue and partnership between Government and the Private Sector; and, (4) deepening international cooperation with development partners to enhance Aid for Trade effectiveness. While Cambodia is proving to be a model for other LDCs on the role trade mainstreaming can play in a fast-growing economy, the country needs to focus on its next-generation trade sector development strategy and equip itself with the appropriate tools to do so.

Development partners' initial response to Cambodia trade integration progress in the mid-2000s leads one to believe that Aid for Trade commitments to support the country's trade development agenda will remain strong. Robust institutional mechanisms were put in place, through an ambitious program-based approach known as Trade SWAp, following the DTIS update 2007 adoption. The governance, monitoring, and strategic planning institutional arrangements of Cambodia's Trade SWAp framework for the SWAP includes the Sub-Steering Committee on Trade Development and Trade-Related Investment, the SWAp Implementation Committee (IC), the three SWAP Pillar Working Groups, the Trade SWAp Secretariat (DICO), the EIF Focal Point, and the Donor Facilitator. Their work is to ensure that much needed Aid-for-Trade resources are used appropriately, for the right objectives and in a spirit of increased ownerships. As a result, the quantity and quality of Aid for Trade resources disbursed in Cambodia have increased.

Using the findings and lessons from the Trade SWAp independent review, the Trade Development Support Program (TDSP) regular supervision missions, the *National Mainstreaming Trade Agenda* prepared by UNDP-Geneva, and other relevant information, it is possible to identify possible next steps for better, more inclusive and poverty-reduction friendly trade mainstreaming.

In spite of better policy formulation, a strengthened institutional framework for consultation, implementation, and monitoring, as well as a better structured dialogue with development partners, pockets of growth have been overlooked, such as enhancing access to non-traditional donors' resources, aligning Aid for Trade strategy with trade policy trends, and, chief among those, seeking better and stronger private sector participation in trade policy formulation, project design, and project implementation.

Although NSDP III (2009-13) does refer to trade development as a possible source of poverty reduction, the link remains weak and only social sectors are seen as contributing directly to poverty reduction. In the future, investment and pro-poor measures should be included in Cambodia's NSDP and RS so that trade and private sector development policies are effectively responsive to poverty reduction. This, in turn, can only be informed by better data collection, compilation, and dissemination. Parallel initiatives are in place in MoC (ICT Master Plan, automation of certificate of origins, business registration, IP registration), in the General Department of Customs and Excise (ASYCUDA deployment, National Single Window) and the Ministry of Economy and Finance (trade repository, ASEAN data). Efforts should be made so that data are compatible and more readily accessible by policymakers.

Sector policies, in turn, have only recently started including trade as one of their priorities. A clear positive example is the *Policy Paper on the Promotion of Paddy Production and Rice Export* endorsed by the Government in July 2010. More should be done to emulate this successful effort in other export sectors, such as cassava, rubber, and, possibly, light manufacturing, as suggested in the relevant chapters of CTIS 2014-2018. But better policy-making also entails better and deeper involvement of the private sector in the formulation process. This, in turn, means that the private sector must better organize itself, especially at sector association-level, in order to engage in a meaningful dialogue with Government counterparts, learn from the shortcomings of the G-PSF in recent years, or get involved in public-private partnerships (PPP).

Looking forward, additional progress could be made to turn some of the mechanisms of Trade SWAp into more powerful tools that can provide stronger strategic information for the Government to guide overall trade development and poverty reduction, to strengthen the management and coordination of multiple AfT assistance, or to include the private sector more directly in supporting the implementation of the country's strategic priorities, including in the trade sector.

To do this, further institutional development and capacity building is required to support the Government taking full leadership over the coordination and management of AfT as well as trade mainstreaming. The current national arrangements for Trade SWAp implementation will need to be improved and streamlined, as has already been started by the Ministry of Commerce, with a view to increasing inclusiveness and the quality of dialogue as well as preparing the future when different, if not less, donor support will be available. The focus of the Trade SWAp individual pillar road maps should be modified to make them less instruments for guiding and monitoring implementation of individual donor projects (with an emphasis on activities and outputs) and more instruments for helping the Trade SWAP's Governance structure to monitor progress in the implementation of an overall trade development and AfT program (with an emphasis on impacts and outcomes.) This shift away from an individual project focus to a program focus, eventually, will help Cambodia aligned itself with the 2005 Paris Declaration on Aid Effectiveness for which "aid for trade is effective when it is owned by the developing countries which lead their own development policies and strategies; is aligned to developing countries' national development strategies; is harmonized among donors to avoid duplication; is result oriented and mutually accountable".

Changing patterns at global and regional levels should be kept in mind when updating a country's medium-term Aid-for-Trade strategy, in adherence to the Busan Declaration. As Cambodia's patterns of international trade change, so should its dialogue with development partners. While trade towards EU and US has grown significantly because of DFQF or other preferential schemes, the future is likely to be a significant expansion towards ASEAN, China, and Asia in general. It is therefore crucial to reach out to non-traditional donors from the region.

Similarly, Aid for Trade in the future might turn more into Investment for Trade: a strong public-private dialogue is essential to understand where bottlenecks to private sector investment and activity exist and how Governments can allocate Aid for Trade more efficiently. The private sector should be involved at different levels of Cambodia's trade development policies. It should be possible for the private sector to contribute financially, based on its deeper involvement in the design, formulation, and implementation of Aid for Trade projects. The G-PSF and the PSD WG should be put back into full operation as avenues for the development of more and better public-private partnerships to ensure a more harmonious trade sector development and, ultimately, stronger economic development.