

"Trade Mainstreaming and PRSP - Lessons from the Experiences of Cambodia"

BACKGROUND PAPER

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I. INTRODUCTION AND BACKGROUND

1. Globalization does not come without difficulties, particularly for small, micro and medium size enterprises (SMMEs) sector in the developing and least developed countries of Asia. The SMME sector plays a key role in the economy, accounting for more than 90 % of all firms outside the agricultural sector and constitutes a major source of employment. The global and regional events of the last several years have brought to the fore the necessity for governments in these countries to review their policies to support the sector: the 1997 regional financial crisis had a severe impact on the flow of capital; China's entry into the WTO has dramatically changed the dynamic of regional trade; the phase-out of Multi Fiber Arrangement (MFA), or the elimination of quantitative restrictions on textile trade, by 2005 will further intensify the pressure on the SMMEs to become more competitive in the textile and clothing industry. Moreover, the political upheavals in a few Asian countries and the war on terrorism did not bore well in term of confidence of investors in the region.

2. Successes or failures of SMMEs will depend to a large extent not only on their ability to understand the broad opportunities and challenges of regionalism and globalism, but also on their ability to remain extremely competitive. Michael E. Porter, the author of the famous book, *The Competitive Advantage of Nations*, describes the 'Competitiveness' paradigm as: "...Countries that improve their standard of living are those in which firms are becoming more productive through the development of more sophisticated sources of competitive advantage based on knowledge, investment, insight, and innovation." But competitiveness does not stop at the firm level. Stacey Lindsay, the author of *Plowing the Sea: Nurturing the Hidden Sources of Growth in the Developing World*, has extended the 'Competitiveness' paradigm to the political leadership at the national level also. He believes that these mental models were the chief obstacles that impede, or the chief elements that promote, the creativity and efficiency necessary for competitiveness and economic growth.

3. To respond to this, various governments have sought one way or another to start, or strengthen private-sector associations' input to national trade and investment policy processes and to reinforce the institutional support structure for the private sector. Moreover there were tremendous pressure on national policy makers in responding more effectively not only to the needs of the productive sectors through better integration of trade capacity building and

private sector development activities but to ensuring in the process that the objectives of their national poverty reduction strategies are also met.

4. The overall objective of the present paper is to share some of Cambodia's experiences and best practices in mainstreaming trade into national development and poverty reduction policies with focus on specific key issues, such as on the process and practical mechanisms of linking trade strategies, including WTO agenda, with the PRSP, on complementary policies to make trade work for the poor, on stakeholders consultation, and on the implementation challenges.

II. ORGANIZATION OF THE PAPER

5. The paper starts with the large backdrop of the Millennium Development Goals (MDGs) and presents an overview of the historical development of the "Integrated Framework for Trade Related Technical Assistance to Least-Developed Countries" (IF) and the "trade mainstreaming" process in Cambodia. A similar historical description of the development of the national poverty reduction strategy and the Poverty Reduction Strategy Papers (PRSPs) is highlighted (Section III).

6. Section IV gives attention to the partnership process and the mechanisms for consultation among key stakeholders in the government, the private sector, and civil society organizations. It also attempts to link the process and mechanisms of the trade strategy with those of the PRSP.

7. Section V addresses directly the policy coherence issue and presents a detailed and coherent picture of the various supporting and complementary development policies of the Government to make trade work for the poor.

8. Section VI attempts to describe the process of the Government to get stakeholders on board with some description of the wide range of stakeholders, their involvement in the trade policy process, and the various efforts to deepen the synergies thus far developed.

9. Section VII looks at Cambodia's accession to the WTO and focuses attention particularly to problems related to the post accession implementation stage, the impact of domestic reforms and on poverty.

10. The last Section is entirely focused on the challenges in implementing a pro-poor trade strategy, with reference to the recent global and regional trends and the linkage with trade-related capacity building. It concludes with a few thoughts on the need for a new paradigm for capacity development and institutional innovations.

III. PROCESS AND PRACTICAL MECHANISMS OF LINKING TRADE STRATEGIES WITH THE PRSP.

[A] Millennium Development Goals (MDGs): Putting trade and the PRSP in perspectives.

11. Cambodia has committed itself to achieving the MDGs¹ which emphasized the importance of efforts to integrate peace and development, and called for a coordinated and comprehensive approach by all partners to support economic growth, social sector investment, environmental protection, peace-building and the promotion of good governance. Nonetheless meeting the MDGs is not without challenges for Cambodia. Poverty reduction remains a central challenge in Cambodia. In addressing its financing requirement toward achieving the MDGs, Cambodia needs to tackle simultaneously several pivotal areas: (1) increasing ODA flow; (2) mobilizing domestic resources through a sound fiscal and financial system; (3) enhancing capital flows through FDIs; (4) using international trade as an engine of growth; (5) capacity development; (6) debt management; and (7) addressing systemic and cross-cutting issues such as good governance and gender considerations.²

[B] Adoption of the National Poverty Reduction Strategy

12. Way back in 1999, in line with the World Bank's new approach on promoting a *more holistic, participatory, and results based approach to development and poverty reduction*, the Government had recognized and appreciated the *multi-dimensional nature of poverty* and the need for an inclusive approach to development. This represented a fundamental paradigm shift and a motivating factor for the Government to start designing its Interim Poverty Reduction Strategy Papers (IPRSP) in 2000. Two years later the Government completed and adopted its National Poverty Reduction Strategy (NPRS). The NPRS approach offers Cambodia a new opportunity for development strategy and development assistance well grounded in a broad-based and country-owned process.

13. **[1] Impact on the Cambodia's MDGs:** The adoption of the NPRS cleared the way for Cambodia to best position itself to meet the MDGs at two levels:

14. **[a] at the national level:** The NPRS approach incorporates the notion that development must be inclusive, comprehensive and country-owned in order to be effective and sustainable over the long term. The NPRS also recognizes the role of an appropriate country's overall policy and expenditure framework, strong institutions, a vibrant private sector, and a joint commitment to poverty reduction by the Government and the people.

15. **[b] at the global level:** The NPRS will provide the basis for better donor coordination and accountability for development results. There is also a clear recognition of the *multidimensional nature of poverty* and that dealing with the many urgent global problems will require better management and coordination across borders. The MDG Goal 8 focuses on the responsibility of donor countries to provide the aid, trade and political support necessary to assist countries in reaching the other seven goals.

¹ The MDGs constitute eight basic poverty reduction goals ranging from access to social services and gender equity to environmental sustainability. More specifically they are: Goal 1: Eradicate extreme poverty and hunger; Goal 2: Achieve universal primary education; Goal 3: Promote gender equality and empower women; Goal 4: Reduce child mortality; Goal 5: Improve maternal health; Goal 6: Combat HIV/AIDS, malaria, and other diseases; Goal 7: Ensure environmental sustainability; Goal 8: Develop a global partnership for development.

² Excerpt of Cambodia's Viewpoints Presented at the International Conference on Financing for Development (Monterrey, Mexico, March 18-22, 2002).

16. On the trade side, trade mainstreaming efforts were achieved with an integral inclusion into the NPRS a full chapter on trade which includes a trade policy matrix which identifies poverty reduction objectives, defines strategies to achieve these objectives and finally measures to monitor outcomes, evaluates impacts and adjusts the process as needed.

17. The trade chapter analyzed the link between trade and poverty reduction, the likely impact of trade reforms on different sectors and segments of society, constraints to trade development including market access and capacity constraints on trade development including institutional, manpower and physical constraints such as transport, telecommunications and port facilities.

[C] Cambodia's Pro-Poor Trade Sector Strategy

18. Cambodia's trade agenda was quite modest at the start of the implementation of IF in Cambodia. Cambodia conceptualized its preliminary trade policy needs assessment in 1998 followed by a Preliminary Concept Trade Sector Strategy Paper which was tabled at the mid-term Government Meeting held in Phnom Penh on 29 January 2001. A document entitled the Tokyo Road Map was presented at the Fifth annual Consultative Group (CG) meeting in Tokyo, June 2001 essentially describing what Cambodia needed to do to prepare all the inputs required to formulate a robust pro-poor trade sector strategy which can become a critical cornerstone of the country's poverty reduction strategy. The trade strategy built upon an early assessment of the incidence and nature of poverty using Cambodian poverty surveys and identified the importance of reducing impediments to trade for rural household production in areas such as diversified agriculture, fisheries, handicrafts and labor services.

19. Learning from the experiences of other countries with similar characteristics, Cambodia has sought to design its trade policy framework with the following elements:³

- a coherent trade strategy that is closely integrated with a country's overall development strategy;
- effective mechanisms for consultation among the three key sets of stakeholders: government, the enterprise sector and civil society;
- effective mechanisms for intra-governmental policy co-ordination;
- a strategy for enhanced collection, dissemination and analysis of trade related information;
- trade policy networks, supported by indigenous research institutions;
- networks of trade support institutions;
- a commitment by all key trade stakeholders to outward-oriented regional strategies;
- Shift from emphasis on "comparative advantage" (macro-environment issues) to focus on "competitive advantage" (micro- and meso-environment issues);
- Competitiveness is an enterprise issue and a sectoral issue; and
- Regionalization and decentralization of the export sector within Cambodia.

20. Following the Tokyo Road Map, the Government and the 6 IF core agencies undertook and completed a diagnostic trade integration study called "Cambodia: Integration

³ For more details on Cambodia's pro-poor trade strategy, See "Mainstreaming Trade for Poverty Reduction: The Tokyo Road Map" at: <http://www.moc.gov.kh>.

and Competitiveness Study” with funding secured from the IF Trust Fund. The study looked at a number of issues including establishing the link between trade development on the one hand and poverty reduction on the other, and the impact of trade reform on economic growth and development in the country. It also identified obstacles and institutional development needs to address the demands of increased engagement in the international economy facing Cambodian households and firms and assessed market access issues. The study provided the basis for the formulation of operational advice to improve export performance and support broad based welfare gains leading to the development of a matrix of prioritized trade-related capacity building and technical assistance needs that are linked to the country’s overall development strategy.⁴

[D] Background of the "Integrated Framework for Trade Related Technical Assistance to Least-Developed Countries" (IF) in Cambodia:

21. A little more than two years ago Cambodia, along with Madagascar and Mauritania, was selected as one of the 3 pilot countries scheme under the Revitalized IF scheme the basic purpose of which was to embed the trade agenda into a country’s overall development strategy and to ensure Trade Related Capacity Building (TRCB) is coherent to the trade policy aims of the country concerned. In line with its national policy commitment to trade liberalization and global integration for achieving economic growth and poverty reduction, the Government seized the opportunity offered under the IF to capture the necessary support to further its objective of trade mainstreaming.

22. The trade mainstreaming process involves 5 stages beginning with a country diagnostic trade integration study (DTIS). The second stage involved the organization of a national workshop to review findings and policy recommendations of the DTIS including identification of a technical assistance (TA) action plan which was completed in November 2001. The third stage involved the endorsement by the Government and other stakeholders of the policy recommendations and the TA Matrix. The fourth stage involves the submission of the TA Matrix to donors for financing. On 8 February 2002 the 30th Inter-Agency Working Group IAWG Meeting approved, and the IF Steering Committee endorsed, the first IF project resulting from the Cambodian DTIS. The project used an earmarked fund of \$500,000 from Japan via the IF UN Trust Fund, and some co-funding from UNDP. The fifth and last stage of the mainstreaming process involved the responses of donors and the six core agencies to follow up on the specific TA projects identified in the TA Matrix. The Government presented its work in progress of the IF and its trade mainstreaming efforts at the Consultative Group (CG) Meeting in June 19, 2002 and provided updates to the donors’ at various forum the last one being at the 5th WTO Ministerial Conference in Cancun, Mexico on September 2003.

[E] Effective Mechanisms for Building Domestic Constituency

23. Behind the success of the IF, the NRSP, the accession to the WTO, and the MDGs lies a strong formal consultation mechanism or dialogue structure with key stakeholders: government policy-makers, business sector actors, development partners, and civil society organizations. Past experiences suggest that implementation of a national trade sector strategy or the poverty reduction strategy is unlikely to be very successful and sustainable unless that strategy and its supporting plan of action have received a large measure of support from all key stakeholders.

⁴ The full study is also available at the Ministry of Commerce’s website: <http://www.moc.gov.kh>.

24. While there are costs associated to developing and maintaining such dialogue mechanisms the benefits in the long run far outweigh the costs, to name just a few: strong political commitment at the highest level of policy making; an institutional framework for consultations with a legal status and necessary resources; access to a wide range of stakeholders in an on-going process of consultations.

25. The partnership framework in Cambodia builds upon existing mechanisms established by the Government which include: the IF Steering Committee (IFSC), the inter-ministerial Council for Social Development (CSD), the Government-Private Sector Forum, and the Consultative Group (CG) process.

26. **[1] Intra-governmental policy co-ordination:** In order to follow-up on the Pro-poor Trade Sector Strategy, the Government has designated by Sub-Decree the Ministry of Commerce (MoC) as the focal point for the implementation of the IF program in Cambodia. The MoC established a IF Steering Committee comprising of high level policy makers for various ministries: (at the vice ministers' level) Commerce; Economy and Finance; Agriculture Forestry and Fisheries; Public Works and Transport; Women's and Veteran's Affairs; (at the under secretary of state level) Industry, Mines, and Energy; Tourism; Social Affairs, Labor, Vocational Training and Youth Rehabilitation. Also include are representatives of the business and banking community.

27. The CSD is the Government's agency mandated with poverty focused policy and programme design, and monitoring of implementation. The CSD is composed of representatives from economic and line ministries. The work of the CSD is central in steering the preparation of the national poverty reduction strategy (i.e. Socio Economic Development Plan (SEDP II) and the NPRS), and the monitoring of process, inputs, intermediary outputs and outcomes in close co-ordination with sectoral and local level monitoring systems. The work of the CSD includes ex-ante impact assessment of major policy reforms (macroeconomics, sectoral and budgetary). The composition of the IFSC and the CSD is overlapping and the IF works on Cambodia trade sector reforms has been closely co-ordinated with the works of the CSD.

[2] Government and private sector partnership:

28. **[a] Government-Private Sector Forum:** Institutionalizing systematic consultations between private and public sector institutions can have positive, long-term effects. In addition to promoting a self-regulated private sector, these partnerships can assist government institutions, which in Cambodia generally lack experience in competitive markets, to understand the interconnections between good governance and economic growth. Cambodia is considered to have one of the most favorable policy approaches towards the private sector. It has a formalized procedure through which the Government and private sector are able to hold dialogue. Importantly, the private sector believes that action does result from their participation in the fora. At the peak is the Government-Private Sector Forum chaired by the Prime Minister, six sessions of which have been held in Phnom Penh over the last three years. Seven business-government sectoral working groups have been formed to address sector-specific problems on an ongoing basis, namely: (i) Agriculture and Agro-Industry; (ii) Tourism; (iii) Manufacturing and Distribution; (iv) Legislation, Taxation, and Governance; (v) Services including Banking and Finance; (vi) Energy and Infrastructure; (vii) Processing for Export and Trade Facilitation.

29. Each sectoral working group is run by a committee including ten members: six from the business community and four from the government. The fora do provide opportunities for IF related leadership dialogue involving the Government and the business sector. The secretariat of the Government Private Sector Forum is currently receiving some assistance from the IFC.

30. **[b] WTO Specific Institutional Mechanism:** After Cambodia applied for accession in October 1994, the Government established a WTO focal point under the MoC and an Inter ministerial Committee, chaired by the Minister of Commerce, was also established to carry out research studies on the potentials, opportunities and challenges facing by Cambodia in the accession process. On July 2001, the Government appointed its senior economic advisor to the post of Ambassador to the Permanent Mission of Cambodia to the WTO. With the pace of accession accelerating, the Prime Minister appointed on 29 August 2001 a large think tank comprising of over 100 senior officials in the government to assist in matters related to Cambodia's accession to the WTO. Moreover on 27 July 2001, to ensure further economic and trade policy coherence, the Prime Minister appointed the Minister of Commerce, in addition to his current commerce portfolio and ASEAN Economic Minister, to the position of Vice Chairman of CDC in charge of private sector investment, and to the ministerial portfolio in charge of Greater Mekong Subregion (GMS) economic cooperation program.

31. The MoC has a number of features that make it an appropriate organization for coordination and dialogue: it has the responsibility of negotiating and implementing the WTO accession package; it is an institution with broad multidisciplinary outreach and access; it is the only existing organization in a position to coordinate the WTO and trade related activities carried out by its sister institutions, i.e. economy and finance, industry, agriculture, and investment. Moreover it has "in-house" policies expertise in many fields linked to or affected by trade, such as labor, agriculture, environment, standards, and poverty.

32. **[c] Networks of trade support institutions:** Cambodia's networks of trade support institutions capable of providing a number of services to exporters are young but steadily growing. Examples of successful trade support institutions have begun to appear in Cambodia, like: the National Codex Committee which was created to help enterprises meet technical standards and packaging requirements of export market; the formation of SME Cambodia which supports private sector development; the development of the Provincial Rice Millers' Associations and the National Federation of Cambodian Rice Millers' Associations, the Brick and Tile Manufacturers, the Rural Electricity enterprises, the Silk Forum; and other business development services. Sector-specific private business associations have also been formed like farmer producing and marketing associations for spices, tobacco, fragrant rice, bananas, soybeans, and castor seed production. In the tourism sector the Tour Guide Association in Siem Reap, the Hotel Owners Association, and the Cambodian Association of Travel Agents were also established.

33. **[3] Government and Donors' Partnership:** Cambodia has developed a fairly intensive system of consultations with donors. This includes the formal Consultative Group (CG) meetings and the bi-annual post CG consultations. The CG process includes working groups involving donors and government and focusing on specific reform areas (e.g. fiscal reform, social sectors, public sector reforms, demobilization, governance including legal and judiciary reform, and natural resources management). These mechanisms are critical in

ensuring that national stakeholders and donors at all times develop and work from a shared vision of objectives and goals. The CG has formally integrated the IF in its work process.

IV. COMPLEMENTARY POLICIES FOR A PRO-POOR TRADE POLICY.

[A] The causes of poverty:

34. The World Bank's World Development Report 2001, *'Attacking Poverty'*, provides an important description of poverty and calls for a focus of anti-poverty efforts in three key areas: opportunity, security and empowerment.

35. In any economy, a handful of sectors tend to be critically important in social stability and the poor. The extent to which poor people, especially poor producers, benefit from expanded trade opportunities depends on not only trade policy but also complementary measures designed to tackle "supply-side" or "behind-the-border" constraints to efficient production and exports.

36. Traditionally companion and mutually supportive policies include stable macroeconomic policies, sound and pro-growth regulations, investments in infrastructure, good human resource development, and good governance issues. But these general policies still fall short of what is required to make trade really work for the poor. In an era for fierce global and regional competition, governments need to be pro-active in designing economic policies responsiveness to trade opportunities. Firms and economies as a whole must be able to respond quickly and efficiently to international market signals to take advantage of trade opportunities and reap the benefits of the international trading system.

37. Policies aimed at enhancing economic responsiveness, competitiveness, and productivity include measures to foster the development of competitive markets, reduce transaction costs, deliver public services, and address market and collective action failures. Poor producers are not only economically disadvantaged but often politically powerless, and when their interests are pitted against those of more powerful actors, they often lose. Understanding the institutional and political economy underpinnings of the organizational structure of a particular commodity or a sector is crucial for designing a set of measures that enables the poor to take fuller advantage of greater access to markets.

38. This suggests a role for value-chain analysis to identify the sectoral institutional and policy constraints between the two ends of the supply chains for that reduce the ability of poor producers to benefit from these expanding trade opportunities.

[B] Policies to tackle "supply-side" or "behind-the-border" constraints: Formulation of Cambodia's Private Sector Development Strategy.

39. [1] **Value-chain Approach:** With a view to identifying a number of potential industries and product groups strategic to the growth of the Cambodian economy and potential export items a value-chain analysis for a number of strategic products was recently completed with the findings being incorporated into the forthcoming private sector development strategy report. The aim of the value chain analysis is to support export diversification objectives. The poor-functioning of a single supply-chain component upstream or downstream can limit the productivity of every participant in the supply chain. Constraints or gaps at downstream stages closer to customers can be particularly damaging, they may

limit the price obtained by all upstream segments. The channel mapping technique measures the cost of administrative interventions and production costs along the entire value-chain of a product. This technique helps to capture the cost of administrative distortion on competitiveness as well as to benchmark the cost of production against local and regional competitors producing similar products. Specific products in the value-chain analysis include rice, cotton and textile production, garment, tobacco, canned milk, and motorcycle assembly.

40. **[2] Trade supportive infrastructure:** Expanding and diversifying exports from Cambodia will require more than putting in place the appropriate policies. For trade liberalization to translate into higher exports and higher growth, trade supportive infrastructure is required. This has not always been the case in Cambodia, in particular in the rural areas. The higher cost of bureaucratic red tape and domestic transport constrain the ability of Cambodia to compete on world markets. In agriculture, which is of particular importance to the poor, this will help the country position itself better as commodity prices recover.

41. **[3] Improving trade facilitation:** Beyond strengthening physical infrastructure, Cambodia also needs to undertake improvements in the regulatory environment and in the conditions for cross-border facilitation. Reducing logistics costs will require re-visiting competition policy in the domestic transport sector, airfreight policy, landing rights and assessing intra-country corridor arrangements and infrastructure investments. Improving quality will require Cambodia to work with industry associations and producer groups, re-examine contractual arrangements, reward quality and invest in relevant training such as post-harvesting techniques in agriculture. Technical assistance can help by working with particular industries through these supply chain initiatives, including on quality and safety assurance.

42. **[C] Extending the networks of trade support institutions to rural areas:** Past lessons from the implementation of a national trade sector strategy suggest that the active participation of key stakeholders is a prerequisite for success. The process of consultation has been extended to the stakeholders at the provincial level: provincial administrators, rural business sector actors, development partners and NGOs. It is anticipated that over time there will be a lot more participation of civil society groups as many of their activities are linked to supporting micro and small enterprises in rural areas. Currently the MoC is working on outreach activities such as translation of documents into Khmer language, publishing of easy-to-read materials/pamphlets and short video series.

V. BUILDING CONSENSUS WITH STAKEHOLDERS

[A] Cambodia's policy of participation and engagement

43. The benefits deriving from stakeholders' engagement, whether from private sector or civil society organizations are obvious and multifold: from promoting public sector transparency and accountability to contributing to the enabling environment for good governance; from giving voice to stakeholders to promoting public consensus and local ownership for reforms; from bringing innovative ideas and solutions to providing professional expertise.

44. **[1] Dialogue and consultation:** In recent years, not only stakeholders' consultation and participation have been formalized but the Government strives to continue

improving the quality of these consultations to ensure that they result in improved policies and programs. Increasingly consultation has been enlarged to cover a broad spectrum of the development process, from country assistance strategies (CAS), sector studies, programs, reports, and individual project designs. Dialogues and consultations occur in many forms and venues, and at the local, national, or trans-national levels and may be initiated by either the Government or stakeholders themselves.

45. With the successful advent of the NPRS, the Government is encouraged to broaden and deepen the consultation process. Regular dialogues and consultations with a vast array of stakeholders around the country have been maintained particularly in updating macro-economic and poverty-reduction policies. Recent players to join the pool of existing dialogue partners are national and private universities and crafts and producers' associations.

46. The Government has turned to international financial institutions and agencies like the World Bank, the Asian Development Bank, and UNDP to assist in building the capacity of its institutions of those of the stakeholders. This facilitation takes the form of advice, resources, and training; sharing knowledge and best practices; and convening or supporting multi-stakeholder discussions. This facilitation role is best exemplified in the process of formulation of the NPRS and the IF.

47. **[2] Partnership on development activities:** Aside from dialogue and consultation another approach pursued by the Government is to engage the stakeholders on development activities. There are many good examples of active partnerships with stakeholders through development research, contracting technical assistance and training services, supporting small enterprise development and producers' associations, collaborating with civil society development initiatives, conducting poverty and social impact assessments, project evaluations, and micro-credit.

[B] Who are the national stakeholders?

48. The pool of stakeholders involved in the national development and trade policy process can be very large and varied. Most important are high-level policy makers and from the private sector, their senior executive officers. The following are the types of stakeholder that ideally could be involved in the policy process:

49. **[1] Government policy makers:**

- Government ministries and agencies responsible for export development and promotion (government agencies with foreign trade functions like ministries of commerce, industry, economy and finance/customs);
- Selected ministries or agencies in charge of specific areas or product groups of export importance, such as certain agricultural products, small-scale industry, handicrafts and minerals;
- Agencies with responsibilities for specific export-related functions, such as packaging, standardization and quality control, trade fairs and exhibitions;
- The central bank (National Bank of Cambodia);
- Members of national development or PRSP committees;
- Focal points of trade related programmes such as the IF, the WorldTr@deNet.

50. **[2] Private sector**

- Sectoral working groups;
- Companies and organizations providing support services to exporters (commercial banks; insurance companies; clearing and forwarding agents; transport companies).
- Exporting and potential exporting companies and their associations (exporters' associations, manufacturers' associations, chambers of commerce).
- Market-responsive producers (agriculture, industry, raw materials, and services) and market responsive (upstream) suppliers of inputs; (downstream) marketers, distributors, and exporters of production;
- Business development services that can provide support to private enterprise (e.g., accounting firms, lawyers, marketing firms, advertising firms, and business consultants)

51. **[3] Others:**

- Civil society organizations, research community, media, and donor country offices.

VI. LINKING UP THE WTO AGENDA AND ACCESSION PROCESS WITH THE PRSP?

52. On September 2003 at the 5th WTO Ministerial Conference in Cancun, Mexico, Cambodia was able to secure its ultimate market access by joining the World Trade Organization as the first LDC. WTO is an institution that derives its strength from the commitment of its members to managing trade with a common set of values: openness, transparency, predictability, non-discrimination / multilateralism and a rule-based dispute resolution. These principles are many of the same that Cambodia is trying to instil throughout its economic and social development.

[A] Political will and commitment

53. WTO accession is a very complex process involving wide-ranging informative, legislative and executive actions by the Government. Political will and commitment are an absolute requirement for smooth and successful accession. Without a clear government commitment to market reforms, WTO membership will not be obtained and the process will likely result in frustrations rather than benefits. A strong commitment may create a sound basis for ensuring that policies and reforms undertaken by the government are coherent with WTO rules and requirements.

54. **[1] Political commitments as reflected in budgetary allocations:** With due regard to its financial/economic constraints, Cambodia needs to mobilize the necessary resources, both financial and in kind, to fund the accession process. The necessary funds in the national budget was allocated for required travel associated with Working Party meetings, missions, and bilateral consultations and negotiations in Geneva. In this context, Cambodia has deemed essential to open a permanent mission in Geneva to effectively promote and protect its economic and trade interests.

55. Other areas of difficulties lie in the legislative area related to the implementation and enforcement of laws and regulations. Law implementation implies institutional changes, and hence requires adequate financial as well as human resources.

56. [2] **Commitment for legislative changes:** Cambodia has to demonstrate their willingness to participate in the world trading system by making new legislations, or as the case may be amendments, in areas like intellectual property rights, TBT, SPS, and custom valuation, bearing in mind that, along with the “most favored nations regime” and “national treatment”, the concept of “transparency,” - i.e. complete disclosure and predictability of national legislation - should be the guiding principles for the legislative reform.

57. [3] **Commitment for policy implementation:** Since WTO issues and agreements are rather complicated and cover a wide range of sectoral and cross-sectoral issues such as customs tariffs and valuation, agriculture, intellectual property, standards, services, anti-dumping, subsidies, foreign economic policy including regionalism and others, it is necessary for Cambodia to establish an institutional framework responsible for the coordinated implementation of policies related to WTO and WTO Agreements.

58. [4] **Commitment for policy dialogue with stakeholders:** The Cambodian negotiators were very conscious not to make concessions that would undermine the country’s economic development and unduly compromise strategic sectors. Forging effective partnerships with the private sector and frequent consultations with all economic actors – including civil society groups - has ensured that Cambodia could formulate comprehensive and consolidated positions and arguments during the negotiations. Engagement of, and national consensus among, all concerned parties in the accession process, particularly the private sector, have ensured before and during the accession process that maximum support is built and avoid internal problems at a later stage. The Government has launched active public awareness campaigns about the WTO, its agreements, the accession and implications of membership. As reflected in previous section of this report, Cambodia has probably developed one of the most daring and pioneering approaches to policy dialogue and consultation.

[B] Clear and coherent economic and integration strategies and policies

59. During the course of negotiations, the Cambodian negotiators have taken their country’s own economic interests and the future development of priority sectors in the economy into account before making policy commitment. Policy coherence matters are of particular importance, where widespread legislative and institutional reforms are still in process. The various policy documents developed in recent years were of great help for the Cambodian negotiators, to name the most important ones: the SEDP I (1996-2000) and SEDP II (2001-2005), the Triangle Strategy; the Royal Government Platform for the Second Term 1998-2003, the Policy Framework Paper (PFP), the Interim PRSP, the Pro-Poor Trade Sector Strategy, and lastly the NPRS.

[C] Clear appreciation of obligations and commitments

50. Before starting the negotiations, the Cambodian negotiators have consolidated their positions and laid out clear boundaries beyond which no further concessions were possible. Accession to the WTO should not take place at any price, but on the basis of reasonable terms and conditions. For Cambodia the key challenge would be to balance its internal interests – i.e. protecting its sensitive custom revenues base - with meeting WTO members' demands – i.e. binding at or below applied tariff rates, knowing full well that its domestic taxation collection is still in its infancy. Other challenges relate to the development of domestic

industry with identification of priority groups and sectors that may need nurturing and support in the future.

[D] Strategies to deal with bilateral negotiations on market access

51. When conducting various bilateral negotiations, the Cambodian negotiators, in defending a gradual approach to services sector liberalization, have raised several arguments to back up Cambodia's offers: the *development needs and priorities* on one hand and on the other hand the *legal provisions* establishing treatment of the least developed countries.

52. **[1] Development arguments:** On the development side, the Cambodian negotiators argued that it was premature to make commitments in those sectors where no supporting legislations have been yet put in place, nor their strategies been prepared in terms of their future development and their expected contribution to the development of the economy.

53. **[2] Legal arguments:** On the legal side, the Cambodian negotiators have referred extensively to the provisions of GATS Article XIX.2 which should be used as guideposts, and to quote it: *"There shall be appropriate flexibility for individual developing country Members for opening fewer sectors, liberalizing fewer types of transactions, progressively extending market access in line with their development situation."* GATS Article XIX.2 further provides the legal basis for developing countries to progressively extend *"market access in line with their development situation and, when making access to their markets available to foreign service suppliers, attaching to such access conditions aimed at achieving the objectives referred to in Article IV"*. One of important objective of the GATS Article IV is *"strengthening of developing countries' domestic services capacity and its efficiency and competitiveness"*. In fact, special priority in implementing this objective should be given to LDCs in line with the GATS Article IV.3. In addition, the Decision on Accession of Least-Developed Countries, WT/L/508 has identified development as the primary objective for LDCs in undertaking specific commitments, and the latter should be commensurate with *"individual development, financial and trade needs"*.

[E] Impact of WTO's accession

54. **[1] Impact on reforms:** Specific benefits aside, WTO is not a panacea. Leveraging the benefits of market access will require substantial reforms, which go far beyond what Cambodia has committed during its negotiations. Cambodian domestic producers face a number of impediments beyond tariffs that tend to undermine the benefits of market access. Cambodia will have to move to develop and implement coherent complementary policies to tackle the "behind-the-border" institutional and regulatory constraints in order to maximize the developmental benefits of trade and investment liberalization. These "behind-the-border" issues also feature prominently on the Doha Development Agenda.

55. **[2] Impact on the way business is handled:** The post-WTO accession environment will be one that rewards competitive firms more clearly and penalizes uncompetitive firms. While Cambodia secured a good package of transition periods in term of policy commitments, WTO accession puts urgency into removing impediments to increasing productivity and competitiveness of the private sector and employment growth.

56. [3] **Impact on poverty:** Trade policy is an important first step but by no means the last. To truly impact poverty, reforms need to be carried out throughout the value chain behind the border to remove firm-level and supply chain impediments.

57. [4] **Impact on Capacity Building:** Leveraging the advantages of WTO required skilled public service, and informed public and a responsive private sector. Cambodia had a capable core negotiating team at the national level but capacity needs to be equally spread across the Government and in the provinces.

VII. TACKLING THE CHALLENGES IN IMPLEMENTATING A PRO-POOR TRADE STRATEGY?

58. Tackling the challenges in implementing a pro-poor trade strategy is as much as a domestic issue as well as an external issue. The success of the pro-poor strategy will depend to a great extent on how Cambodia can appreciate and factor in the external events into their national strategies.

[A] External Factors:

59. [1] **Doha Development Agenda (DDA):** The willingness of the world's richer countries to target the needs of developing countries and LDCs in the context of the Doha Development Agenda is helpful, but the outcome of these negotiations is still uncertain. Though the Cancun Ministerial Meeting was a disappointment, Cambodia believes that only the mid-point mark of the trade negotiations has been moved and that the DDA is still as viable and needed as much now as it was when it was launched in Doha in November 2001. Delays in the negotiations timetable are normal, in particular when they involve complex negotiations issues and divergent views. The Uruguay Round negotiations was such a concrete historical precedent. The world, in particular the poor countries, can not afford a failed round.

60. Cambodia puts a lot of its hopes that the successful conclusion of the DDA. As an LDC, Cambodia counts on the expansion of trade as a potent tool for poverty reduction and for meeting its commitment under the MDGs.

61. [2] **Regionalization as a steppingstone to global integration:** Traditionally more formal economic cooperation and economic integration arrangements and agreements between countries in East Asia have been quite limited with the major exceptions of the ASEAN Free Trade Area (AFTA), established in 1993, and dialogue under Asia-Pacific Economic Cooperation (APEC). However, the past several years have seen a proliferation of regional and bilateral agreements which has provided a needed momentum – or pressure - to the global discussions which have yet to achieve.

62. ASEAN has moved to a two-tier system to permit its more advanced members to accelerate trade reform, while launching new initiatives to integrate its less developed members, Cambodia, Lao PDR, Myanmar, and Vietnam. At the same time, other framework agreements have been launched at a very rapid pace, such as the Framework Agreement for ASEAN-China Economic Cooperation, signed in November 2002; an East Asia-wide Free Trade Agreement; a more recent proposal by Japan for an ASEAN-plus-Japan Free Trade Agreement; and bilateral agreements under negotiation, in particular by Japan, Singapore, Korea, and Thailand.

63. Addressing intraregional barriers can ensure continued dynamism in regional trade and investment flows-including in response to China's growing role. The stated motivation of several initiatives, including the Framework Agreement for ASEAN-China Economic Cooperation, is to take advantage of complementarities and build on existing strengths in order to make the region collectively more efficient and competitive, and thereby also attract investment. The regional agreements under consideration are increasingly comprehensive in scope, going beyond the removal of tariffs and non-tariff barriers on trade in goods to include trade facilitation measures such as conformity of standards and procedures across national boundaries, and trade in services.⁵

64. **[3] China's accession to WTO: What it means to the world but specifically for the rest of East Asia and Cambodia:** After many years of lengthy negotiations for the renewal of its Most Favoured Nation (MFN) status with the US, China saw accession to the WTO as an essential element in securing access to the US and other WTO members' markets. After fifteen years of difficult negotiations China was admitted to the WTO on November 2001. China's accession to the WTO had, and will continue to have, profound implications on the dynamism of the world markets as well as regional markets.

65. **[a] Threats:** Among lower-income countries, Cambodia is particularly exposed because its exports are highly concentrated in apparel. Roughly 30 percent of Cambodia's exports to the United States have similar unit values to Chinese exports, indicating direct competition. Another 67 percent are in categories where China is currently quota-constrained and competition from China is likely to increase. This prospect highlights the urgency for Cambodia to speed up its governance and other reforms to ensure that alternative products develop.⁶

66. **[b] Opportunities:** On the flip side of the coin, opportunities for East Asia is to export more to China's growing and more open markets. China's imports are expected to grow from 3 percent of global GDP in 2000 to more than 6 percent by 2005, and China sources 55 percent of its imports from East Asia, 37 percent from emerging East Asia. All groups of countries in East Asia will benefit, but evidence suggests the scope is especially large for Japan and the newly industrializing economies, while still significant for the middle-income countries and the lowest-income countries.

67. Of particular interest to Cambodia as a predominantly agriculture based country, China's reduction of trade barriers in agriculture is extremely important for poverty reduction. Under the ASEAN-CHINA Free Trade Area's Early Harvest scheme China will grant to Cambodia effective from 1 January 2004 special and preferential tariff (SPT) treatment of zero percent tariff rates for 297 agricultural products. Moreover, given Cambodia's strong historical and political ties with China, Cambodia will benefit from China as a powerful source of external demand.

68. **[c] Impact on Trade Related Capacity Building:** While Cambodia is conscious of the fast evolving global negotiations and the dynamism of the Asia Pacific region in which it

⁵ For an indepth analysis see the recent publication of the World Bank's *East Asia Integrates: A Trade Policy Agenda for Shared Growth*., 2003.

⁶ Workshop Proceedings: How to Develop Garment Exports without Quotas, ITC and the Garment Manufacturers Association in Cambodia (GMAC), Phnom Penh, 2002.

is situated, Cambodia is concerned of the capacity building challenges in dealing with the "spaghetti bowl of rules of origin" effect of different rules and regulations associated with different bilateral and regional agreements. Over the past few years, UNCTAD monitoring and analysis of market access conditions available to Cambodia demonstrates that in many cases a consistent part of Cambodia exports, although eligible for trade preferences (mainly GSP preferences), did not qualify for the preferential tariff rates, thus causing unnecessary payment of MFN customs duties, rejected imports, unnecessary testing, spoilage, legal fees and foregone opportunities in general.⁷

VIII. CONCLUSION: TOWARD A NEW PARADIGM FOR CAPACITY DEVELOPMENT AND INSTITUTIONAL INNOVATIONS

69. Cambodia has come a long way, from the rebirth from the ashes of genocide to a vibrant multi-party democracy and a thriving free market economy, from the painful years of economic isolation to the ultimate reintegration into the world economy, from an era of close door and secrecy to one of dialogue, consultation and participation, and yet it seems that it still has a much longer and winding road ahead.

70. Perhaps the country's greatest breakthrough lies in its society's willingness to explore new approaches, to reassess old assumptions and practices, and to try institutional innovations. All these would not have been possible without a steady flow and absorption of new knowledge and capacity. Since the Peace Accords in 1991 the country has been transformed for the better, and new capacities developed at all levels: *Individual, Institutional, and Societal*. As the world evolved at a dizzying speed in today's knowledge-based market environment, this transformation needs to be further nurtured and sustained. Thus the overarching need to place capacity development as one, if not the country's central development challenges of the decade, as much of the rest of social and economic progress will depend on it. Cambodia's economic survival is at stake. To quote one of UNDP's latest critique of capacity development in "Capacity for Development New Solutions to Old Problems" it says: "...if the purpose of human development is to extend human capabilities, then capacity development is not merely a stepping stone towards higher levels of human development; it is an end in itself. For individuals, for institutions and for societies, this demands a continuous process of learning and relearning - from each other and from the world around them."

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⁷ Statement of Cambodia at the ESCAP's Committee on Managing Globalization, First Session, 19-21 November 2003, Bangkok.

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Since his appointment as Secretary of State for Commerce in May 1999, Mr. Sok has worked extensively on trade policies development, trade promotion, commercial legal framework, and economic integration. He is the deputy chief negotiator for Cambodia's accession to the WTO and the Cambodian focal point for the Integrated Framework "IF".

Prior to being appointed to the post, Mr. Sok was the managing partner of a law firm in Cambodia where he did several legal assignments for international institutions like the World Bank, UNDP and ADB. Prior to this post, he has served as the UNDP Legal Advisor to the Royal Government of Cambodia. He has assisted the Government of Cambodia at its highest level formulate national development policies and was instrumental in supporting the Government negotiating many bilateral and multilateral agreements and instruments.

He holds a Juris Doctor from Widener University School of Law, Delaware, USA and admitted to both the Cambodian and the Pennsylvania Bars. Aside from his official duty, he has previously served as Secretary-General of the Cambodian Bar. He lectures extensively on laws and policies at the National Institute of Management, the Faculty of Laws and Economics, the Institute of Economy and Finance, and the Royal Academy of Cambodia. He has written and published extensively on Cambodia, particularly the Compendium of Cambodian Laws, Volume I, II & III, the Cambodian Business and Investment Handbook, Edition 1996, 1997 & 2000, the Legal System of Cambodia, the Legal Aspect of Doing Business in Cambodia, and recently the "Formulation of a Legal and Judiciary Reform Strategy in Cambodia". Recently he was appointed as a member of the Cambodian Legal and Judicial Reform Council.

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