

IMPLEMENTING THE INTEGRATED FRAMEWORK “IF” IN CAMBODIA

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ACRONYMS

AFTA	ASEAN Free Trade Area
BA	Bangkok Agreement
CAS	Country Assistance Strategy
CEPT	Common Effective Preferential Tariff
CDC	Council for the Development of Cambodia
CG	Consultative Group
CFR	Country Framework Report on Private Participation in Infrastructure
CSD	Council for Social Development
DTIS	Diagnostic Trade Integration Studies
DIAL	Development of the Internet for Asian Law
DMD	Doha Ministerial Declaration
EDC	Enterprise Development Cambodia
FfD	Financing for Development Conference
GAP	Governance Action Plan
GMS	Greater Mekong Subregion
IDA	International Development Association
IAWG	Inter-Agency Working Group
ICC	International Chamber of Commerce
IF	Integrated Framework for Trade related Technical Assistance for the Least-Developed Countries
IFSC	IF Steering Committee
IPRSP	Interim Poverty Reduction Strategy Paper
IMF	International Monetary Fund
ISO	International Standards Organization
ITC	International Trade Center
LoI	Law on Investment
MDG	Millennium Development Goals
MFTR	Memorandum on Foreign Trade Regime
PPIAF	Public-Private Infrastructure Advisory Facility
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
Quad	US, Canada, EU, and Japan
RTAs	Regional Trading Arrangements
SPS	Sanitary and Phytosanitary
SAC	Structural Adjustment Credit
SEDP	Socio-Economic Development Plan
SMEs	Small and Medium-sized Enterprises
TBT	Technical Barriers to Trade
TCJECS	Thailand-Cambodia Joint Economic Cooperation Study
TRCB	Trade Related Capacity Building
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TVET	Technical and Vocational Education and Training
UN ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNCTAD	United Nations Conference on Trade and Development
UNDAF	UN Development Assistance Framework
UNDP	United Nations Development Programme
WP	WTO Working Party
WTO	World Trade Organization

FOREWORD

With the pronouncement of the Millennium Development Goals in September, 2000 the world aspired to the goal of developing a true Global Partnership for Development which pointed to the establishment of an inclusive and equitable globalization, and which can be best achieved through a “human development paradigm”. The Millennium Declaration further resounded the need to develop an open, rule-based, predictable, non-discriminatory trading system, and a commitment to good governance, development, and poverty reduction — both nationally and internationally.

The Quad countries statement at the UN LDC-III Conference in Brussels (May 2001) and the Doha Ministerial Declaration (November 2001) is full of promise of trade-related assistance to help LDCs better address their capacity needs in relation to trade and poverty reduction, and to better participate in, negotiate and implement WTO agreements. The Financing for Development Conference’s Monterrey Consensus (March, 2002) moved the commitment further toward a new resource framework, which goes beyond ODA and included mobilization of domestic resources, revenue generated by trade and FDI, and other key provisions.

The revised Integrated Framework is a significant and practical component of this determination. Cambodia was fortunate to have been selected as one of the three Pilot Countries for implementing the revitalised Integrated Framework (IF). Since then we have worked diligently and with firm commitment to ensure that the initiative is viable and that we succeeded. LDCs need a success story. Not one of them has been able to accede to the WTO since its transformation from the GATT in 1995. Cambodia has a historic opportunity to play a larger role in the global arena, by sharing Cambodia's IF success stories with the rest of the world. We are trying our best to be the first LDC to accede to the WTO.

Cambodia is proud of and grateful for the responses of the donors and the six core agencies throughout the entire IF process. The long list of their support to Cambodia’s efforts at the end of this paper is a testimony of that. From the vast array of trade-related assistance activities ranging from Cambodia’s participation and implementation of global trade rules to the formulation of trade policy reform and other supporting complementary measures to technical support to address the supply side constraints, their responses have been and continue to be overwhelming. And many more are on the way.

We recognize that trade reform must be carried out such that it supports Cambodia's commitment to economic growth and poverty reduction. Additional work will be done with assistance from donors and other development partners to better understand the potential impacts of trade reforms on the poor, and to develop mechanisms which truly support pro-poor growth.

With appropriate trade related capacity building, Cambodia can further reap the fruits of economic growth generated from trade reform and openness. There is ample evidence that trade and investment reform and deeper integration with the global economy, undertaken within a comprehensive development strategy, are key strategic elements for achieving higher economic growth, a necessary condition for poverty reduction.

In sum, while the challenges for Cambodia to bring economic growth and reduce poverty seem enormous, so are also the hope and the possibilities that have been generated from this IF success. Cambodia’s success will mean liberation: liberation from hunger, poverty and income constraints, liberation from ignorance, and liberation from fear, especially from the fear of dying when still young. In the words of Nobel laureate Amartya Sen "... economic growth, which brings about a high standard of living, is interpreted too often in materialistic terms. But we need to pay attention to its human aspect too. For developing countries and LDCs alike, economic growth should be looked at as an effective force of liberation."

On that note, I wish to express my utmost thanks to all the six core agencies and the other donors for making the Cambodian IF a success and for helping Cambodia turn its hope into reality.

I. INTRODUCTION AND OVERVIEW

1. In May 2001, Cambodia was selected by the Integrated Framework Steering Committee as one of three countries – the others being Madagascar and Mauritania – to implement a Pilot Scheme to put into effect the new approach for the revitalised Integrated Framework in order to enhance LDCs' participation in global trade and investment. The core feature of this new approach was to embed a trade agenda or “to mainstream trade” into overall national economic development plans and poverty reduction strategies of the beneficiary countries, to ensure that trade policy and Trade-Related Capacity Building (TRCB) are coherent with the trade policy aims of the country concerned, and that they are prioritised with other development assistance needs.

2. The mainstreaming process involves five steps starting with the carrying out of country diagnostic trade integration studies (DTIS). They look at a number of issues, including establishing the link between trade development on the one hand and poverty reduction on the other, the impact of trade reform on economic growth and development in the country, the complementary policy agenda necessary to support successful trade reform, and market access issues. The outcomes of the DTIS will provide the basis for identification of prioritised trade-related capacity building and technical assistance needs that are linked to the country's overall development strategy, expressed through the PRSPs. This exercise is undertaken in country, with the World Bank as lead agency and working closely with the other five core agencies, the IMF, ITC, UNCTAD, UNDP and WTO. Cambodia was one of the first countries to undertake and complete a diagnostic trade integration study.

3. The second step involves the organization of a national workshop to review findings and policy recommendations of the DTIS including identification of a technical assistance (TA) action plan. Cambodia did this in November 2001, followed by the third step, the endorsement by government and other stakeholders of the policy recommendations and a TA Action Plan or TA Matrix. Cambodia adopted the TA Matrix in January 2002, was subsequently endorsed by the 29th IAWG/DAC/OECD Joint Meeting in Paris in the same month. The TA Matrix is available on the MoC website at www.moc.gov.kh/IntegratedFramework. Work is currently ongoing for inclusion of the trade policies in the country's Poverty Reduction Strategy Paper (PRSP).

4. The fourth step involves the submission of the TA Matrix to donors for financing. Within the six months period leading to the CG meeting to be held in June 2002, Cambodia has diligently and systematically worked with the core agencies and bilateral donors to secure funding for activities identified in the TA Matrix. Ultimately Cambodia will table its TRCB requirements at the formal CG meeting which will be held in Phnom Penh. The last step of the mainstreaming process relates to the responses of donors and the six core agencies to follow up on the specific TA projects identified in the TA Matrix.

A. OUTLINE OF THE PAPER

5. The overall objective of the present paper is to examine the status of the implementation of the IF and to highlight the efforts of the Government to mainstream trade into national development and poverty reduction policies. It provides an overview of the collaborative efforts required to promote a more integrated approach to trade assistance among the bilateral donors and multilateral agencies.

6. The paper starts with an overview of the historical development of the IF presented as a milestones timeline depicting its evolution both in the global arena and in Cambodia. Along that timeline we see a tentative emergence of Cambodia trade policy development in its early days prior to the revived IF initiative. Soon after the selection of Cambodia as a pilot country scheme we see the rapid evolution of the “trade mainstreaming” concept in the flurry of meetings and presentations

culminating in its full integration into the national development strategy, reflected in the SEDP II, IPRSP and ultimately the PRSP.

7. The paper gives major attention to partnership mechanisms for consultation among key stakeholders, among government, the private sector, and civil society organizations. The paper addresses directly the policy coherence issue and presents a detailed and coherent picture of the various supporting and complementary development policies of the government.

8. The paper also looks at current difficulties associated with Cambodia's accession to the WTO and focuses attention particularly to problems related to the weak capacity of the Government in the understanding of the complex global trade rules on the one hand and the challenges facing Cambodia in their bilateral negotiations, on the other. In that context the paper highlights a few lessons learned from the process related in particular to the efficient and coordinated delivery of trade related capacity building in this area. The paper also acknowledges the need to deepen our understanding of the linkages and potential impacts of trade reform on the poor.

9. The last chapter is entirely focused on trade-related capacity building. It stresses the need to have an effective delivery of TRCB both in the so-called "Trade rules compliance capacity" and the "Trade competitiveness capacity". The former is needed to enable Cambodia to improve knowledge and implementation of multilateral and regional trade rules and the latter to better address the supply side constraints and to exploit the improved market access for our exports. The chapter concludes with an extensive summary of the various initiatives already undertaken by Cambodia with assistance from the six core agencies and bilateral donors, and a series of newly proposed initiatives to further deliver on other development assistance needs, as identified in the Diagnostic Study and prioritised in the TA matrix.

B. "TRADE MAINSTREAMING IN CAMBODIA": MILESTONES IN THE INTEGRATED FRAMEWORK PROCESS TO SUPPORT LDCS

Dec 1996:	The WTO First Ministerial Conference in Singapore the adopts the "Integrated Framework for Trade related Technical Assistance for the Least-Developed Countries (IF)" mandating the six core multilateral Agencies (IMF, the International Trade Center (ITC), UNCTAD, UNDP, World Bank, and WTO) to collaborate more closely, and with bilateral donors to achieve a more efficient and coherent delivery of assistance. ¹
Sept 1997:	Cambodia's Needs Assessment Report was prepared and sent to WTO.
27-28 Oct 1997:	High Level Meeting on integrated initiatives for LDCs' trade development.
Sept 1998:	Integrated Responses of the six IF Agencies to Cambodia's Needs Assessment Report.
25-26 Feb 1999:	A reference to IF has been made by the World Bank as Chairman of the Consultative Group (CG Meeting) in Tokyo.
29 Jan 2001:	The International Trade Center (ITC) under funding from the <i>Agence Intergouvernementale de la Francophonie</i> recruited a senior consultant on trade strategy. Working closely with the ITC senior consultant and UNDP-Phnom Penh, the Ministry of Commerce produced a paper entitled A Pro-Poor Trade Sector Strategy for Cambodia: A Preliminary Concept Paper

which was tabled by the Ministry of Commerce at the mid-term Government-Donor Meeting held in Phnom Penh.

- 02 Feb 2001: Meeting of the Council of Ministers to examine the Pro-Poor Trade Strategy for Poverty Alleviation in Cambodia. A Working Group led by the Commerce Minister was tasked to elaborate on this strategy.
- 13 Feb 2001: Adoption of Sub-decree No 18 establishing the Inter-ministerial Steering Committee responsible for formulating – later on, implementing – the Government’s pro-poor trade sector strategy (IF Steering Committee) led by the Commerce Minister.
- 23 Feb 2001: IF Familiarisation mission to Geneva, led by the Secretary of State for Commerce. Presentation made to the 6 Agencies highlighting the strong political commitment from the Government to mainstream its pro-poor trade sector strategy into national poverty reduction strategies, including the 2nd Socio-Economic Development Plan (SEDP II), the country’s 10 Year Plan of Action tabled at the UN LDC-III Conference in Brussels in May 2001, the document for the CG meeting held in Tokyo in July 2001, and the full PRSP to be completed in Fall 2002.
- 01 Mar 2001: First Meeting of the Cambodian IF Steering Committee.
- 28 Mar 2001: The Government adopted a Sub-Decree amending the composition of the IF Inter-Ministerial Steering Committee (IFSC). The growing importance of the IF and the Pro-poor trade strategy process was reflected in the expansion the steering committee to include high level policy makers at the secretary of state level for 5 key ministries such as 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 for three ministries such as Industry, Mines, and Energy; Tourism; Social Affairs, Labor, Vocational Training and Youth Rehabilitation; and key representatives from the banking sector and the private sector.
- 04 May 2001: Cambodia was designated as one of the three Pilot Countries for Integrated Framework Pilot Scheme along with Madagascar and Mauritania, out of 49 LDCs.ⁱⁱ
- 14-20 May 2001: 3rd UN Conference on the LDCs in Brussels, Belgium. Cambodia made the first step in mainstreaming its trade sector strategy in the 10 Years Action Plan.
- 12-13 Jun 2001: Submission of the Tokyo Road Map: Mainstreaming Trade for Poverty Alleviation to the 5th Cambodia Consultative Group Meeting in Tokyo, Japan. The Tokyo Road Map is essentially a description of what Cambodia needs 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.
- July 2001: Preparation of a comprehensive Diagnostic Study “Cambodia: Integration And Competitiveness Study”. Drawing on the Tokyo Road Map, the World Bank Task Manager and the IF Team Leader prepared a draft generic IF TOR

highlighting emerging needs and team composition and submitted to MoC for comments.

- Aug 2001: Extensive discussions to incorporate the specificities of the country requirement were held and the IF TOR was finalized, leading to the recruitment of consultants, the assignment of MoC counterpart team, the establishment of a permanent IF secretariat at the MoC, and the commissioning of field work by a 13 member team comprising of officials from the WB, IMF and WTO, sector specialists and four local consultants.
- 6-7 Sept 2001: Cambodia shares its IF experiences at the 27th Meeting of the Inter-Agency Working Group (IAWG), World Bank, Washington D.C.
- Dec 2001: The Pro-Poor Trade Strategy was successfully incorporated in the second 5-Years Socio-Economic Development Plan (SEDP II).
- 19-20 Nov 2001: Discussion of the draft reports of the Diagnostic Study at a two-day National Workshop in Phnom Penh. Development of the Technical Assistance Matrix.
- 13 Dec 2001: A Follow-up Workshop was held to discuss and finalize the TA matrix. Cambodia was one of the first countries to undertake and complete a trade integration diagnostic study.
- 16 Jan 2002: The Government formally adopted the “Cambodia: Integration And Competitiveness Study” at the Meeting between the Royal Government of Cambodia and Donor Community.
- 16-18 Jan 2002: Cambodia shared its IF experiences and presented its Diagnostic Study Report at the 29th IAWG/DAC/OECD Joint Meeting, Paris. The meeting was keen to see Cambodia succeed as the most advanced Pilot country. The meeting reviewed various approaches to secure donor funding in order to implement the recommendations from the Diagnostic Study and as reflected in the TA Matrix. The objective is both to see Cambodia succeed in its efforts and to ensure that Cambodia's experiences can be later shared to other LDCs.
- 21-23 Jan 2002: Cambodia shared its initial IF experiences at the Netherlands Ambassadors Annual Meeting in The Hague. The objective was to assist Dutch ambassadors to promote more actively the IF to the countries of their posting.
- 28 Feb 2002: All six heads of agencies convened to review the progress of the IF initiative and the pilot scheme. The US government sent to Mr. James D. Wolfensohn, World Bank President, a letter of total support for the IF initiative.

“For our part, the US Government will implement U.S. programs as quickly as possible to help meet these assistance needs. We will also work with the multilateral agencies, including the World Bank, regional institutions and other bilateral donors to advance our common objective of moving quickly to implement assistance to pilot countries.” Signed by four top US officials: 1. Secretary of State Mr. Colin L. Powell; 2. USTR Mr. Robert B. Zoellick; 3. Secretary of Treasury Mr. Paul H. O'Neill; and 4. USAID Administrator Mr. Andrew S. Natsios.

- 8 Feb 2002: The 30th IAWG Meeting approved, and the IF SC endorsed, the First IF project resulting from the Cambodian Diagnostic Study. The project will use an earmarked fund of \$500,000 from Japan via the IF UN Trust Fund. Based on the "IF Ownership Principle" which was strongly stressed by UNDP and the UK as representatives of the IF donors, the project will be executed by the Ministry of Commerce as the National Executing Agency. ITC will be the Cooperating Agency and UNDP will handle one component on benchmarking and monitoring and provide technical and financial support.
- 12 Feb 2002: Cambodia made a presentation on the "Status of the Cambodian IF Model" to the IF Steering Committee (IFSC) in Geneva chaired by Ambassador Mr. Henrik Rée Iversen. Nearly one hundred representatives of donors, LDCs, and observers were present.
- Apr 2002: The Ministry of Commerce was officially recognized as a full fledged member of the Council for Social Development (CSD) which is tasked with the preparation of Cambodia's Poverty Reduction Strategy Paper (PRSP).
- May 2002: Japan formally approved the IF's Capacity Building for Pro-Poor Trade Reforms Project to be implemented under the UN Trust Fund with co-funding from UNDP.
- 29 May 2002: The Ministry of Commerce presented its Trade Policy Matrix for integration into the PRSP at the PRSP National Workshop, Phnom Penh.
- 19-21 Jun 2002: Presentation on the status of the implementation of the IF at the 6th Consultative Group (CG) meeting, Phnom Penh.

Other Legislative and Institutional Developments since the selection of Cambodia as a Participant in the IF Pilot Scheme

- 31 May 2001: Cambodia held the First Working Party for its accession to the WTO in Geneva.
- July 2001: The Government appointed its senior economic advisor to the post of Ambassador to the Permanent Mission of Cambodia to the WTO.
- 27 July 2001: The Prime Minister appointed H.E. Cham Prasidh, in addition to his current commerce portfolio, as Vice-Chairman of CDC in charge of private sector investment.
- 29 Aug 2001: the Prime Minister appointed 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.
- 8 Nov 2001: The Prime Minister appointed H.E. Cham Prasidh to the ministerial portfolio in charge of Greater Mekong Subregion (GMS) economic cooperation program to ensure policy coherence.
- 26-27 Nov 2001: Special visit of WTO Director General Mike Moore to Cambodia.

- Dec 2001: Completion and adoption of the Thailand-Cambodia Joint Economic Cooperation Study paving the way for implementing the strategy of decentralization and regionalization of the export production base.
- Feb 2002: Initiated with JICA the Phnom Penh-Sihanoukville Growth Corridor Development Study.
- 7 Feb 2002: The Parliament passed the Law on Marks, Trade names and Acts of Unfair Competition.
- 8-16 Feb 2002: Cambodia held the Second Working Party and started the initial round of negotiations in Geneva.
- 17-19 Feb 2002: Special visit of EU Trade Commissioner Mr. Pascal Lamy.
- 26-31 Feb 2002: Special visit of ITC Executive Director Mr. Denis Belisle.
- 1 Apr 2002 The Council of Ministers adopted the draft Amendments of the Law on Investment.
- 26 Apr 2002: The Council of Ministers adopted the draft Business Enterprise Law

II. EFFECTIVE MECHANISMS FOR BUILDING DOMESTIC CONSTITUENCY

A. CAMBODIA'S PARTNERSHIP MECHANISMS FOR CONSULTATION AMONG KEY STAKEHOLDERS

10. Lessons from other developing countries suggest that implementation of a national trade sector strategy is unlikely to be very successful unless that strategy and its supporting plan of action have received a large measure of support from all key stakeholders: government policy-makers, business sector actors, development partners, and civil society. To achieve such support requires a process of strategy formulation that engages the three key partners directly into the formulation process itself. It is only in this manner that stakeholders can identify realistic goals, take full measure of their respective commitments, and become true "owners" of the strategy.

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

- 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.

11. Cambodia believes that identifying key issues and broad approaches to trade sector strategy is not necessarily the most difficult part of the exercise. What is likely to be more demanding is the formulation of a plan of action that is the result of a true process of consultation among all three stakeholders, one in which each partner is able to contribute ideas and inputs.

12. Cambodia ensures that country ownership is secured through effective coordination across ministries in government, partnership between the government and private sector, and partnership between the government and donor agencies. The partnership framework 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.

B. INTRA-GOVERNMENTAL POLICY CO-ORDINATION

13. In order to follow-up on the Pro-poor Trade Sector Strategy, the Government has designated MoC as the focal point for the implementation of the IF program in Cambodia. The MoC has established an IF Steering Committee to guide and monitor formulation and implementation of a “mainstreamed” trade sector strategy. The group includes representatives from Government (Ministry of Planning, Ministry of Economy and Finance, the Council of Ministers), the business community, and the local donor community.

14. The Council for Social Development 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. SEDP II and PRSP), 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 IF work on Cambodia trade sector reforms will closely co-ordinate with the work of the CSD, by providing critical policy-level sector inputs in preparation of the PRS and programme level performance data.

C. GOVERNMENT AND PRIVATE SECTOR PARTNERSHIP

1. Government-Private Sector Forum

15. Institutionalising 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, five sessions of which have been held in Phnom Penh over the last two years. Seven business-government sectoral working groups have been formed to address sector-specific problems on an ongoing basis, namely:

- Agriculture and Agro-Industry
- Tourism
- Manufacturing and Distribution
- Legislation, Taxation, and Governance
- Services including Banking and Finance
- Energy and Infrastructure
- Processing for Export.

16. 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.

2. Networks of trade support institutions

17. Cambodia is in the process of formalising its networks of trade support institutions capable of providing five kinds of services to exporters: trade policy information and commercial intelligence; export promotion and marketing; product development; financial services; and training. This network is a departure from the traditional approach, in which the Ministry of Commerce has attempted to meet most of the trade support service needs of exporters. A wide range of entities, both from the private and public sector, capable of providing trade support services have been brought together, although still at the informal level and on an ad hoc basis, including: consulting firms, packaging design consultants, freight forwarders and shippers, commercial banks and other financial institutions that offer trade credits and guarantees, chambers of commerce, training institutions (universities and business schools), investment promotion agency, small business development agencies, research and development organizations, overseas commercial representatives, enterprises and professional associations (manufacturer, exporter, and product sector associations), and sector-specific export councils.

18. 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 Enterprise Development Cambodia (EDC) which supports private sector development via the development of the Provincial Rice Millers' Associations and the National Federation of Cambodian Rice Millers' Associations, the Brick and Tile Manufacturers, and the Rural Electricity enterprises, and other business development services. Sector-specific private business associations have also been formed like farmer producing and marketing associations for 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.

D. GOVERNMENT AND DONORS' PARTNERSHIP

19. Cambodia has developed a fairly intensive system of consultations with donors – especially when compared to other developing countries. 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, demobilisation, 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.

E. BUILDING CONSENSUS AMONG KEY NATIONAL STAKEHOLDERS

20. Since the adoption of the IF, a number of actions have been taken at the country-level, principally to explain and build consensus around the concept of a pro-poor trade sector strategy. By way of illustration, the MoC has held several meetings of the IF Steering Committee and made substantive presentation of the pro-poor trade strategy at various fora to engage the dialogue and to seek the views and solutions from key stakeholders:

1. Private Sector

- Private sector stakeholders' consultations debriefing, 6 November 2001
- Meetings of the trade support network, 17 May 2002.

- Regular meetings of the Private Sector Forum Working Group.

2. Government Sector

- Government's mid term review for approximately 500 senior government officials, January 2001.
- National Seminar on Investment for Provincial Governors, Institute of Economy and Finance, organized by the Council for the Development of Cambodia, 30 August 2001.
- Special Hearing Session at the National Assembly, 19 June 2001.
- Public workshop to review the Integration and Competitiveness Study, 19-20 November, 2001.
- Singapore's Trade Training Program, 26-28 September and 20-29 November, 2001.
- ESCAP Capacity Building Workshop in the area of Facilitating Private Sector Development for commerce and industry officials in 5 provinces, 19-22 December 2001.
- Special interactive debates on "Trade and Investment" and "Labor Markets" for provincial governors at the National Workshop on Decentralization and Development, organized by the Cambodia Development Research Institute, 17 May 2002.
- Lectures on the World Trading System for the WTO think tank, May 2002.

3. Civil society stakeholders

21. In parallel an extensive awareness campaign with other civil society stakeholders was initiated, including the holding of international conferences, seminars and special condensed lectures within the national academic circles. These initial efforts are impressive and provide a basis for deepening the synergies thus far developed among trade sector stakeholders under the leadership of the MoC.

- International conference on "Globalization: Perspectives on Business and Law", 26-27 June 2001, followed by a special condensed lecture at the Royal Academy of Cambodia. The Conference Proceedings of "Globalization: Business and Law" was published and widely circulated in Khmer and English.
- Debates on Intellectual Property Rights at the Faculty of Law and Economics, 1 August 2001.
- Conference on "Peace, National Reconciliation and Democracy Building: Ten Years after the Paris Peace Agreements" Organized by the Cambodian Institute for Peace and Cooperation with the Support and Collaboration of the Office of the Council of Ministers, the Ministry of Foreign Affairs and International Cooperation, the Permanent Committee for National and International Events, the Friedrich-Ebert Stiftung and the Konrad-Adenauer-Stiftung, Government Palace, 12 October 2001.
- Interactive debates on the World Trading System at the Royal Academy of Cambodia – 9 May 2002, the Economics and Finance Institute – 17 May 2002, the National Management Institute – 31 May 2002.
- Interactive debates on "Market Access and Export of Agro Products" to the National Media Club, organized by the Konrad Adenauer Foundation, Sunway Hotel, 22 May 2002.

F. BUILDING CONSENSUS AMONG KEY INTERNATIONAL STAKEHOLDERS

22. A parallel campaign to involve donors in the process was also undertaken and has culminated in the pledge, and commitment, of support from key donors.

Sharing the "Cambodian Experiences" at:

14 -20 May 2001:	3rd UN Conference on the LDCs in Brussels, Belgium. Parallel Session organized by ITC's Business Sector Round Table (BSRT)
22-24 July 2001:	Least Developed Countries Trade Ministers' Meeting, Zanzibar, United Republic of Tanzania
26-29 Sept. 2001:	ITC Executive Forum 2001 in Montreux, Switzerland on the trade support network.
14 Nov. 2001:	WTO Ministerial Conference in Doha, Qatar. The Doha WTO Meeting Newspaper has labelled Cambodia as the IF success story.
19 Jan. 2002:	The "IF" Inter-Agency Working Group meeting and the OECD meeting in Paris.
22 Jan. 2002:	The "Netherlands Annual Ambassadors' Meeting" at The Hague.
12 Feb. 2002:	Meeting with WTO members at the margin of negotiations at the 2nd Working Party meeting in Geneva - chaired by IFSC Chairman, Amb. Henrik Rée Iversen.
21 Feb. 2002:	UN ESCAP's Regional Seminar on Facilitating the Accession of ESCAP Developing Countries to the WTO, Bangkok.
18-22 Mar 2002:	UN Conference Financing for Development (FfD) Conference-Monterrey, Mexico - Side Event on "Cambodia's Experiences with the Integrated Framework for Trade-Related Technical Assistance to LDCs ("IF") organized by WTO.
29 Apr 2002:	UNCTAD X Mid-term Review, Bangkok.
9 May 2002:	35th ADB Annual Meeting - Seminar on Regional Cooperation: Accelerating National Economic Development Through Regional Cooperation in the GMS, ASEAN and Border Development Plans, Shanghai.
13-15 May 2002:	Conference: "What is the Future for Intellectual Property in Asia?" <i>Maison du Droit Vietnamo-Francaise</i> and <i>L'Institut National de la Propriété Industrielle de France</i> , Hanoi.
14-15 May 2002:	Trade and Investment Conference 2002, US-ASEAN Business Council and Dataconsult, Phnom Penh.
20-21 May 2002:	Cambodia was highlighted as a country case study at the World Bank Roundtable in Cairo on Mechanisms for Trade-Related Capacity Building and Technical Assistance after Doha. ⁱⁱⁱ
May 2002:	Cambodia was highlighted as a country case study in the World Economy Journal. ^{iv}

III. TRADE STRATEGY IN CAMBODIA

A. "TOKYO ROAD MAP: MAINSTREAMING TRADE FOR POVERTY ALLEVIATION" A COHERENT TRADE STRATEGY

23. 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 labour services.

24. Following the Tokyo Road Map, the Government and the six IF core agencies undertook and completed a diagnostic trade integration study called "CAMBODIA: Integration and Competitiveness Study" with funding secured from the IF Trust Fund. The study which was undertaken in-country with support from the six core agencies with the World Bank as lead task manager 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 prioritised trade-related capacity building and technical assistance needs that are linked to the country's overall development strategy.

Why Cambodia believes in trade and economic growth...

- The role that trade is supposed to play in promoting growth and reducing poverty cannot be over-emphasized.
- Increased trade, promoted by liberalization policies, acts as a powerful stimulus to economic growth, and such open trade regime will lead to higher rates of economic growth.
- Trade may facilitate international diffusion of knowledge, thereby speeding up growth.
- Trade may occasionally substitute for aid in the development process.
- However, trade liberalization and reform cannot work and have never worked as stand-alone policies or measures.

Three Concepts for a Pro-Poor Trade Sector Strategy

- 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.
- Regionalization and decentralization of the export sector within Cambodia.

The Tokyo Road Map^v outlines three key principles: (a) strengthening the capacity of the MoC to lead and manage the formulation (later on, the implementation) of the pro-poor trade sector integration strategy through a broad partnerships with all key trade sector stakeholders and with development partners; (b) developing the right linkages to ensure proper assessment, targeting and monitoring of poverty reduction targets in the context of the PRSP formulation and implementation efforts; (c) capacity building approaches that are consistent with "best practices" and tailored to the specific Cambodian circumstances.

Role of Diagnostic Study

- The Tokyo Road Map - set out a plan for identifying and overcoming obstacles to trade.
- The Diagnostic study is an initial step which offers a diagnosis of obstacles to and needs for trade, suggests options for removing obstacles and meeting needs and proposes technical assistance for doing that.
- The Diagnostic Study proposes technical assistance for program development.

B. OUTLINE OF “CAMBODIA: INTEGRATION AND COMPETITIVENESS STUDY”

- The Study provided for a review and analysis of the country's growth and integration performance in historical and international perspective and a review of the macroeconomic environment covering issues such as dollarization and the implications of minimum wages specified in dollars based on analysis and past surveys (IMF/UNDP/Asia Development Bank).
 - Assessment of current trade regime and trade policy reform, notably WTO accession aspect, including legal obligations and other compliances, were made by UNCTAD and WTO. The study highlighted the resource constraints faced by a small country like Cambodia to comply with the WTO requirements. An analysis of the existing cascade tariff structure raised issues such as the scope for high protection while not much established industry depends on this protection; the question whether tariff could be simplified without sacrificing revenue; and the implications of tariff binding. The impact of trade reform (notably tariff reductions) was assessed using household survey data.
 - The trade facilitation review was undertaken in close consultation with the resident IMF customs advisor. The study surveyed “behind the border” constraints finding transport costs a significant deterrent. Improvements to customs administration and trade facilitation were highlighted as priorities for the country with both policy and assistance recommendations.
 - For the assessment of competitiveness of Cambodian exporters and entrepreneurs, a survey of 100 firms was conducted covering competitiveness and market access (See Box 1). Market access impediments and associated costs (notably satisfying rules of origin and product standard requirements) were highlighted, with accompanying assistance recommendations.
25. A review of the investment climate was conducted under separate contract with the government, involving extensive stakeholder discussions.
26. Sector analysis focused on what must be done to strengthen and develop a number of product-sectors for exports, including: rice, diversified agriculture, handicrafts, fisheries, and garments, tourism, and labour services. Tables 1 to 6 summarize the main issues and suggestions.

Box 1: Main Issues on Market Access

Firm survey evidence shows the significance of barriers to export as follows:

1. Delay in customs and unofficial payments
2. Official documents and fees
3. Domestic transportation costs
4. Labor standard and product standard
5. Local contents requirement
6. Shipping costs
7. Quota restrictions
8. Tariff.

Table 1: Agriculture/Agro-processing	
Main Issues	Suggestions
<ul style="list-style-type: none"> • Shifting from a food security (quantity) to a trade (quantity and quality) mindset • Informal taxes and unnecessarily high transaction costs • Systems for accessing information are rudimentary • Infrastructure, land and capital markets also rudimentary • Opportunities for new “niche” products (spices, herbs, unique fruits, certain essential oils e.g. lemongrass). 	<ul style="list-style-type: none"> • Assess the incidence of taxes on trade in rice • Strengthen participatory processes in rural communities to encourage farmers to cooperate • Facilitate cooperation and exchange of information among processors • Establish ‘incubators’ which nurture cooperation on production, markets, technology and information • Broaden focus of R&D and extension from rice to niche crops <ul style="list-style-type: none"> • Explore other sources of building information bases • Identify specific infrastructure needs that are likely to have high pay-offs in transport, energy and telecommunications • Develop trade facilitation services (troubleshooting help desk for sellers and buyers, global market intelligence services, and investor support services) • Identify niche markets for semi processed and finished agricultural products and determine market requirements for quality, price, and availability • Examine potential benefits of a national Cambodian export quality brand identity scheme. • Enlist assistance from organic, International Standards Organization (ISO), and other international quality certification programs and service providers.

Table 2: Garments	
Main Issues	Suggestions
<ul style="list-style-type: none"> • Rapid growth of garment sector reflects: <ul style="list-style-type: none"> - Preferential access - Competitive costs - Incentive regime • Benefits of preferential access being absorbed by administrative charges, rising labour costs and bureaucratic costs. • Increase competition from neighbouring and AGOA countries. • Limits on night shifts appear to help nobody. 	<ul style="list-style-type: none"> • Determine capacity of Cambodian producers to compete post 2005, compare costs and quotas facing main competitors and assess prospects for productivity gains • Increase capacity to analyze impact of market access restrictions and to negotiate better. • Explore alternative profit-sharing system such as flexible year-end bonuses instead of minimum wages. • Actively attract new investments in textiles and garment accessories industries to support the garment industry.

Table 3: Fisheries	
Main Issues	Suggestions
<ul style="list-style-type: none"> • Fisheries a vast but delicate resource under pressure. • Need to develop management regimes that will discourage over fishing. • Need for better statistics for management and marketing. • Various jurisdictions involved in determining collection and allocation of fisheries resources. • A sole export agency appears to take 10% and provide little in the way of marketing services. • Need to look at processing and conservation issue. 	<ul style="list-style-type: none"> • Evaluate export tax on production and marketing decisions in fish exports and impact of a sole exporter. • Assess the role of incentives for short-term exploitation. • Review methods of allocation of fisheries access. • Clarify role of different agencies in fisheries. • Develop a strategy for building a profitable, private sector-driven fisheries export sector. • Support development of private sector institutional capacity. • Support development of private-public sector partnerships to improve technical and business management capacity. • Develop cold chain to reduce post harvest loss. • Develop an effective market demand and price information system for all participants.

Table 4: Tourism	
Main Issues	Suggestions
<ul style="list-style-type: none"> • Several important industry wide issues identified <ul style="list-style-type: none"> - Promotion - Data collection and analysis - Training and certification • Who should be responsible, how should these tasks be carried out and who should pay. • Limited local inputs used. 	<ul style="list-style-type: none"> • Develop an effective tourism development strategy, defined through private-public sector collaboration. • Develop a systematic process for continuous data collection through tourist arrival and customer satisfaction surveys. • Improve the tourism destination to broaden the offering, which include consulting neighbouring countries to promote regional tour packages. • Evaluate appropriate roles of government and private sector in promotion, setting charges and standards, and training. • Develop inter-ministerial working groups to raise the profile of tourism and to ensure that cross-sectoral constraining issues (health, transport, safety) are addressed.

Table 5: Handicrafts	
Main Issues	Suggestions
<ul style="list-style-type: none"> • Need to develop raw materials supplies. • Need to develop access to transport and communication. • Challenge of getting market intelligence and capacity to respond to market signals established in large numbers of small producers. • Need to develop links between crafts people and markets. • Part-time and home-based nature of craftwork provides opportunities especially for women heads of households. 	<ul style="list-style-type: none"> • Integrate enterprise development support through local centers, including business development services, and vocational training. • Encourage up micro-credit facilities including risk-sharing and concessional terms. • Identify markets and development support. • Organize cooperation among ministries and agencies at the policy and program levels for vocational training, cultivation or extraction of raw materials, trade facilitation, quality control, facilitation of producer organization. • Identify opportunities and needs for the emergence of craft villages. • Establish a National Handicraft Development Facility.

Table 6: Labour Services	
Main Issues	Suggestions
<ul style="list-style-type: none"> • Need to improve basic education and foreign language skills. • Tough competition for export labour. • Regulatory and administrative requirements appear to take a large slice of worker returns and discourage export. • How to balance need to protect worker and employer without unduly raising costs. • Supply driven TVET system. 	<ul style="list-style-type: none"> • Improve human resource development, including adult education that focuses on literacy, basic work and life skills, and foreign languages. • Involve employers' demand in TVET. • Review regulatory framework to ensure protection of export workers rights, while ensuring that regulations do not stifle competition and entry of new labour export companies. <ul style="list-style-type: none"> - Lessons from other countries - Inspection of overseas employer - Bilateral agreements - Passport and visa issues - Licensing of export agents.

Early Concrete Results from the Recommendations of the Trade Diagnostic Studies.

- Further streamlining of export licensing procedures.
- Reviewing of port charges and port procedures.
- Lifting of border trade restrictions for rice and paddy.
- Proposal to have MoC plays a key role in the Governance Action Plan.

The Tokyo Road Map and the Integration and Competitiveness Study are available both in Khmer and English version at the Ministry of Commerce or can be downloaded from the Ministry of Commerce website: <http://www.moc.gov.kh>

C. EXPERIENCES FROM THE IMPLEMENTATION OF THE PILOT SCHEME IN CAMBODIA

27. Bearing in mind the intention of the six core IF agencies to extend the benefits of the IF to as many LDCs as possible by the time of the conclusion of the new Doha Trade round, and to support as appropriate the IF concept to several non-LDC low-income economies, a few lessons can be learned from the implementation of the IF Pilot Scheme in Cambodia.

1. Country Ownership

28. **First: Government as owner of the process:** While the initial TOR was drafted by the Bank Task Manager and the IF Team Leader, the Government believed that the success of the IF initiative lies to a great extent on it being able to provide the right leadership both at the formulation and the implementation stages. Government ownership of the process is a sine qua non condition for the success of the pilot scheme in Cambodia. The Cambodian Commerce Minister Cham Prasidh has been on the forefront, both on the domestic front and the international front, to earn the respect and support of the key stakeholders and to assert his leadership on this vital initiative. This leadership was in fact one of the key determinants of Cambodia being selected in the pilot scheme.

29. **Second: Government as partner:** With the rigid time constraint imposed by factors beyond it and the IF agencies control (i.e. the Doha meeting in November and to a lesser extent the PRSP timetable), the Government believes that substantive outputs can still be achieved provided it and the IF team mission can develop an efficient, collaborative and synergistic partnership drawing on each other strengths and making up for each other's shortcomings. The mission was comprised of highly qualified international consultants, most of whom regrettably had never been in Cambodia and thus lacked insight of the local realities. Nonetheless this deficiency was compensated by extensive exchanges with the Cambodian local consultants and official counterparts. Research materials and other policy documents were conveniently made available to the team, thus saving enormous research time and resources.

30. **Third: Government as Policy maker:** The Government believes that technical assistance can be a potent tool for assisting in policy formulation and implementation. For this reason, Minister Cham Prasidh has appointed a senior policy maker, the Secretary of State for Commerce, to act as the focal point for the entire exercise. The IF permanent secretariat was established and operated in close collaboration thus providing instant access for mission team members to discuss policy issues and operational matters requiring quick decisions. Access to other key policy makers within the Government was also secured expediently through the focal point.

2. Coordination

31. During field missions, coordination amongst various government agencies, donors and key stakeholders was made by both the Government and the mission team leader. Both bilateral and multilateral consultations and debriefing were held on numerous occasions during the mission.

32. Over the long term there is a need to develop and consolidate mutually supportive policies, and to connect the trade, development, and finance communities. Financing is indeed critical in mainstreaming efforts, in the absence of which efforts to mainstream will dissipate. This will require effective coordination across government institutions, and development partners (donors and agencies), as well as partnership between the government and private sector participants in the economy, a common view shared by developed and developing countries at the Conference on Financing for Development. (See Box 2 for Cambodia's viewpoints).

3. Emphasis on Securing the Continuous Support of Stakeholders

33. The Government believes that the IF exercise will not be complete if the key stakeholders or beneficiaries are not fully on board with the process, to share and experience the challenges and ultimately the success of the initiative. The fact remains that the IF is an evolving undertaking which will require constant nurturing from all stakeholders concerned, and in particular the Cambodians, be it public sector, private sector, and the civil society. Recommendations for actions under the IF study will have to concretely reflect this need.

Box 2:

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

Cambodia has committed itself to achieving the Millennium Summit Development Goals (MDGs) 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 our 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.

4. Ensuring Policy Coherence

34. Mainstreaming needs a coherent policy framework. Ultimately, mainstreaming trade means giving greater visibility to the linkages between trade and all other related economic policy areas. The Government believes that the mainstreaming process needs to reconcile two distinct cultures namely, trade culture (which is legalistic and highly centralized - negotiation and implementation of the WTO Agreements) and development culture (which is decentralized, demand driven, and based on a country-owned process).^{vi} The latter involves a host of complementary policy reforms in areas outside the purview of the WTO, and costly investments in trade-related institutions, infrastructure, and human resources. For that purpose, the Government took bold measures to restructure and rationalize key ministerial functions under the Minister of Commerce, i.e. investment, bilateral, regional and global economic integration, intellectual property protection.

5. Political Commitment

35. Had it not for the strong political will of the Government the accelerated pace of the mainstreaming process would not have been achieved, from the preparation for accession to the WTO, to the successful completion of the diagnostic study, to the integration of pro-poor trade policies and programs into the PRSP. As in the vision of Prime Minister HUN SEN "... for the next ten years Cambodia will fully reclaim its destiny, to be a genuine partner in regional and global affairs and to be well on its way to becoming a truly free nation, free from want and poverty above all..." Throughout the entire process, this political commitment, support and participation of the Cambodian leadership, so needed to materialize this ambitious long-term vision, were visibly felt. On numerous occasions Prime Minister Samdech HUN SEN has reiterated his commitment to accelerate the various reforms and render them more effective.

6. Views of Cambodia's Development Partners on Trade Sector

36. The IF study team met with a wide range of donors and found that a significant number among them would be prepared to support more pointed efforts for business sector development provided that a solid framework exists to ensure overall coherence of individual donors' interventions.

37. Generally, the donor community in Cambodia would agree that trade sector development has not been at the top of its agenda until now. For the most part, the emphasis since 1993 has been on governance and government institution building, macro-economic structural and legal reform, the end of internal strife, removal of mines and other ordinance, and food security. To a large extent, the business community has been left to fend for itself.

38. There is also a shared recognition that the size of the Cambodian market, the experiences of neighbouring countries and other factors all suggest that trade sector development has to be an important element of that framework. A more focused effort at poverty reduction in Cambodia requires more direct interventions at the meso- and micro-level to insure quick and effective development of new investments and businesses that will be the source of much needed job and income creation.

39. In general, the IF sponsored diagnostic study was well received by development partners, donors and co-operating agencies alike. They have expressed a strong interest in the IF as a promising platform that, if implemented well as a shared responsibility among donors, recipients and multilateral agencies alike, can promote mainstreaming of trade and improved donor coordination within a country-owned poverty reduction framework. We need to maintain on the momentum generated so far, and to consolidate earlier achievements.

IV. WHAT IS TRADE MAINSTREAMING?

40. Mainstreaming trade involves the process and methods of identifying and integrating trade priority areas of action into the overall framework of country development plans. Thus trade priority areas of action need to be reflected in poverty reduction and national development plans and strategies.^{vii} In other words undertaking trade reforms and developing trade policies in isolation without the presence of mutually supportive policies will not bring about the full benefits resulting from trade reform and liberalization.

Key elements of trade mainstreaming:

- Trade reform under a pro-poor agenda
- Strengthening the capacity to trade
- Market access issues, and
- Impediments and benefits of the WTO global rule-making

41. Cambodia's trade agenda was quite modest at the start of the implementation of IF in Cambodia. An ITC/UNDP mission assisted the MoC to prepare the basic elements of a trade sector strategy to incorporate into the draft Second Socio-Economic Development Plan (SEPD-II) and in the country's 10 Years Plan of Action, which was tabled at the UN LDC-III Conference in Brussels in May 2001. The formulation of the IPRSP which highlighted the government's policy framework, comprehensive strategies and commitment to pull Cambodia and Cambodians out of the shackles of poverty, did not identify trade as a policy priority. The main concept behind the IPRSP was that the Government has responded to poverty by taking various measures to accelerate economic growth, improve the distribution of income and wealth and promote social development. Nonetheless trade was only sporadically mentioned as a sub component of other measures.

42. As the IF consultation process with key stakeholders evolved there was an emerging recognition of the need to embed the trade agenda into the country's overall development strategy, in this case the full PRSP, which is due to be completed toward the end of 2002. It is expected that the full PRSP process which will form the basis for the World Bank's Country Assistance Strategies will assist Cambodia as an IDA/PRGF country to formulate a poverty reduction strategy that includes efforts to benefit from integration into the global economy. Another vehicle was also to embed it in the United Nations Development Assistance Framework (UNDAF 2001-2005) process and the UNDP Country Co-operation Framework (2001-2005). Both documents outlined a clear strategy of support to the national poverty reduction initiative, through upstream poverty-focused policy advisory support to the Government and strengthening Government's ownership of the development agenda and leadership of the development process.

The role of trade once mainstreamed into the PRSP will be firmly situated within Cambodia's coherent national policy context and its trade-related technical assistance needs will be better identified, prioritised and sequenced, on the basis of policy diagnosis, and therefore stand a much better chance of being financed by donors and agencies.

43. Currently, mainstreaming efforts into the PRSP front are centering on developing through a participatory process a trade chapter, including a trade policy matrix which identifies poverty reduction objectives, strategies to achieve these objectives and measures to monitor outcomes, evaluate impacts and adjust the process as needed.

44. The trade chapter in the PRSP 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. The chapter and related issues were discussed recently with all the stakeholders at a National PRSP workshop and will be slated for discussion in a special session of the upcoming CG meeting.

45. Beyond the CG the MoC as focal point will facilitate a widely consultative policy development process and program implementation to ensure that the poverty reduction objectives of the trade strategy are achieved. Much more is needed. The trade policy matrix included in the PRSP lays out the requirements. See Table 7 for the trade policy matrix.

**PRO-POOR TRADE SECTOR STRATEGY
POVERTY ALLEVIATION POLICY MATRIX AND ACTION PLAN**
(for inclusion in the PRSP)

Objectives for Poverty Reduction	Constraints	Policy Directions	Actionable measures	Indicators
1. Economic growth through enhanced domestic and international trade.	Macro issues of global trading regime, level playing field, affirmative action for LDCs, and regional/global integration.	Export-led poverty reduction strategy, including promotion of domestic production and trade.	Capitalize on GSP treatment to enhance Cambodian export industry.	Increased exports to the 28 GSP-granting countries.
		Rapid engagement with world trading system. Further strengthen South-South cooperation.	Full engagement with trading partners through, regional and global economic cooperation (WTO accession). Trade promotion and market development with southern partners.	Increased trade with ASEAN. Join the Bangkok Agreement.
			Adjust tariff policies to be compatible with regional and global trend, but hard bargaining for concessions as LDC, to cope with externalities of market regime.	WTO Accession. Continued tariff reforms.
	Weak legal, judicial, administrative system.	Trade aspects of legal regime as priorities for reform, in order to ensure Cambodia's economic growth in global system.	Accelerate selected legal and judicial reforms to meet deadline of WTO accession in 2003.	New legislation and enforcement mechanisms in place.
2. Micro, small and medium enterprise (MSME) development, especially in rural areas.	Infrastructure; access to technology and capital; human resource development especially entrepreneurial skills; regulatory environment.	Promote private sector investment in agro-processing, handicrafts, fisheries, tourism and small manufacturing in rural areas, as priority sectors, oriented to recapture of domestic markets and export trade.	Promote dialogue between local private sector, the donors and the Government.	

Objectives for Poverty Reduction	Constraints	Policy Directions	Actionable measures	Indicators
	Lack of robust private sector institutions at provincial/ regional level	Provide support to emerging local private sector, develop human capital to identify structure and development needs of the economy, at provincial /regional level.	Provide incentives for investment targeted to priority sectors and regions	ITC “Export-led Poverty Reduction Program” (EPRP) project operating on several trade-oriented sectors.
	Cambodian products do not meet technical and health standards for world markets.	Develop capacity in Cambodian enterprises and in regulatory agencies to meet technical and Health standards of international markets.	Engage donor support in identifying and assessing priority investment opportunities with maximum poverty reduction effect.	Industry associations at provincial/ national level, able to work directly with donors and private investors as partner institutions
			Encourage formation of industry associations, apply business development services, and initiate pilot enterprises with domestic and export markets (the Enterprise Incubator Project).	Industrial technical and Health standards and implementation programs in place
			Implement MIME action plan for technical barriers to trade (TBT) through enactment of Law on Industrial Standards and SPS Health related institutional capacity development FDI and local pro-poor investment support program in place.	Cambodian export products meet technical standards of trading partners Producer associations operating and new or improved Cambodian products appearing in local and export markets.
Enhanced access for the poor to employment and income benefits associated with trade-led economic growth.	Benefits of trade liberalization do not necessarily flow to the poor.	Develop capacity to analyze, predict and monitor poverty impacts of trade and investment policies	Establish mechanisms for dialogue, coordination, and partnership involving trade sector stakeholders in formulation, implementation, and monitoring of pro-poor trade sector strategy: CSD, IFSC, Business Forum, civil society	Japan/IF “Capacity Building for Pro-Poor Trade Reforms” project operational

Objectives for Poverty Reduction	Constraints	Policy Directions	Actionable measures	Indicators
	Export industries concentrated in major cities, so employment opportunities not accessible to rural poor.	Explicit and robust poverty impact analysis should be a component of all investment decisions.	Capacity building program in MoC and other stakeholder groups Require poverty impact assessment for all investment approvals.	
		Decentralization of industrial development; prioritise basic infrastructure in selected non-core areas.	Stimulate capacity in Cambodian private sector to carry out poverty impact assessment and in MoC for review and follow-on monitoring.	
		Increased domestic multiplier effects of export production.	Establish export - processing zones; provide incentives for investment in non-core areas and for enhanced backward linkages to domestic economy.	
Sustainable use of natural resources, conservation of biodiversity, landscape, and cultural values	Raw materials (wood, fish, bulk agricultural commodities) for export tend to be produced with minimal controls on environmental impacts.	Trade agreements on agricultural commodities to take account of Cambodia's food security, rural development, and resource sustainability needs	Engage with MAFF, MoE, MIME to develop green approaches and compliance protocols (e.g. environmental impact assessment, pesticide and other input selection criteria, resource sustainability, poverty impact assessment, sanitary and phytosanitary procedures)	Enterprises producing environmentally friendly, "Green" and organic products for domestic and international markets
	Lack of technical and operational capacity at local and central levels, to implement policies of sustainable resource management and equitable access to benefits	Cambodian agricultural and agro-processing enterprises should have a "Green" character, to ensure sustainability of the resource base, and better to exploit available market niches.		

Objectives for Poverty Reduction	Constraints	Policy Directions	Actionable measures	Indicators
Improved conditions of equity, health, safety, and wage levels for workers.	Gender and other equity issues in Cambodian society, lack of regulatory enforcement capability	Improved labour relations Support for improved labour productivity through capacity building and FDI incentive programs.	MoC/MSA LVY/ private sector cooperation in labour policy development, in line with ILO analysis	Improvements in quality of life indicators among wage-earners and families
		Adherence to international core labour standards		

V. TRADE AND INVESTMENT LINKAGES

A. MAXIMIZING CAMBODIA'S LDC STATUS TO DEVELOP EXPORTS THROUGH COMPANION AND MUTUALLY SUPPORTIVE POLICIES

Companion and mutually supportive policies are required:

- Stable macroeconomic policies
- Sound and pro-growth regulation
- Investments in infrastructure
- Human resource development
- Good governance issues

Enforcement of the rule of law / Peace and National Reconciliation

46. Ultimately, trade mainstreaming means giving greater visibility to the linkages between trade and all other related economic policy areas. The creation of an environment that encourages trade is instrumental to sustainable, long-term economic growth. That environment will require changes to the investment, financial and commercial institutional infrastructure, including in areas such as accounting, corporate governance, and supervision of financial institutions. Moreover, the critical importance to ensure effective trade mainstreaming will require linkage with other ongoing Government led policies and strategies for poverty reduction like the SEDP II, GAP, and legal and judicial reform. Externally mainstreaming means encouraging broad-based economic cooperation and resource mobilization through regional and global economic linkages. To that effect it is worth highlighting a few recent developments:

1. Formulating a long-term financial sector development plan

47. A sound and efficient financial system is essential for achieving broad-based economic growth and socioeconomic objectives, including poverty reduction. A well functioning financial system is the key to ensuring macroeconomic stability, mobilizing savings, allocating resources for productive purposes, promoting private sector development, and in turn generating employment opportunities and reducing poverty. In Cambodia, a sound financial sector development will also contribute to promoting FDI and safeguarding the economy from external shocks. A weak financial infrastructure, on the other hand, hampers the further development of the financial sector. In particular, the underdeveloped financial system, with low public confidence and limited intermediation, has been a main impediment to private sector development and thus to broad-based economic growth. In recognition of the strategic value of financial sector development, the Government requested the ADB for assistance in formulating a long-term vision and a financial sector development plan. In response to the Government's request, ADB conducted a comprehensive diagnostic review of the financial system and formulated a financial sector development plan, or the Financial Sector Blueprint (the Blueprint) for 2001-2010. The Blueprint outlined a long-term vision and strategy for sequencing policy reforms to develop the financial system over three phases during 10 years. The Blueprint addressed key policy issues and proposed reform agenda in the banking and nonbanking sectors, contractual savings, and interbank/money and capital markets, as well as the basic infrastructure to underpin the development of the financial sector.^{viii}

2. Capitalizing on the FDI Opportunities through Reforms of the Investment Regime

48. Reviews of the Law on Investment (LoI)^{ix} had concluded that it suffered in several respects. Both the World Bank and the International Monetary Fund shared these concerns and in early 2001 both agencies suggested a number of reforms to the LoI as part of negotiations in the context of a Structural Adjustment Credit (SAC). In recognition of the problems associated with the current

investment incentive regime, a number of changes to the LoI have been formulated with the aim to make the regime more conducive to the encouragement of private investment in Cambodia through transparency, simplicity and predictability in both the approval process of private investments and the provision of fiscal incentives to such private investments.^x On February 2002 the Government approved the amendments to the LoI and submitted them to the Parliament for adoption.

3. Initiating Regional Development Master Plan of the Phnom Penh – Sihanoukville Corridor

49. One of the three Concepts for a Pro-Poor Trade Sector Strategy calls for the regionalization and decentralization of the export sector within Cambodia. For that purpose MoC has requested JICA to assist in the development of a Regional Development Master Plan with a focus on encouraging industrial development along the Phnom Penh – Sihanoukville Growth Corridor and the Sihanoukville Export Processing Zone (EPZ). With the development of numerous EPZs in the ASEAN region to attract FDI and the changing nature of foreign investors to compete in the world market place, there is a growing trend for EPZs to compete among one another. The Study will assess the comparative and competitive advantages of EPZs in the neighbouring countries to clarify their changing trend and issues. The final target year of the regional master plan is set for 2015 with an intermediate target year of 2008 to adjust to the evolving process of globalization and regionalization.

4. Bringing in Private Participation in Infrastructure

50. Good infrastructure is vital for economic and social progress. That is true of any region in the world. However, establishing a modern and efficient infrastructure in poorer countries is a key challenge. The infrastructure will not be built without private-sector involvement because its capital is needed, and because its efficiency and performance are vital.^{xi} Improving access to efficient and affordable water, electricity, transport and telecommunication services can have major impacts on the living standards of individual households. Efficient infrastructure is also essential to sustain broader economic growth and industrial competitiveness, thus creating jobs and expanding the country's tax base.

51. In recognition of the key role private participation in infrastructure may play in improving living standards for its people the Government requested the World Bank and the Public-Private Infrastructure Advisory Facility (PPIAF) to undertake a Country Framework Report on Private Participation in Infrastructure (CFR). The Cambodia CFR which is designed to help the Government improve the quality of their infrastructure through private sector participation will review opportunities, priorities, and constraints across infrastructure sectors, and so is intended to contribute to the development of effective policy and strategic choices. It is also expected that the CFR will assist potential investors in identifying possible opportunities. The project was recently completed and the report is being published. In summary, the report presents an overview of the Cambodian country context, the current performance of its infrastructure, and the promise and challenges associated with expanding the role of the private sector involvement. It reviews issues and options in individual infrastructure sectors of water, electricity, telecommunications and transport as well as several important issues that are substantially common across sectors. Finally it presents a draft action program for expanding private participation in Cambodia's infrastructure for consideration by the Government.

B. BENEFITING FROM ECONOMIC INTEGRATION

52. The Government considers the integration of the country's economy into the regional and world economies as not only a necessity for its sustained growth but as part of the irresistible world-wide process of globalization. After the 26 July 1998 elections, a new "Economic Government" led by Prime Minister Hun Sen was established and was specially devoted to economic

development.^{xii} A new strategy, called the Government's "Triangle Strategy", was developed to materialize this long-term vision. It consists of three key areas, one of which is Cambodia's economic integration and normalisation of relations with the international community. This has allowed Cambodia to attract more foreign assistance and FDI to support the ultimate objectives of development. Soon thereafter, Cambodia succeeded in regaining its seat at the UN, became the 10th member of ASEAN and aims to join the WTO in the near future. Other bilateral and regional initiatives such as GMS and the Bangkok Agreement are being pursued quite dynamically and in a coherent manner.

1. Cambodia's "Diamond Opportunity": Cambodia-Thailand Joint Economic Development

53. The Governments of Cambodia and Thailand are in the final stage of adopting the Thailand-Cambodia Joint Development Study (TCJDS).^{xiii} The TCJDS identifies joint development strategies which are sector specific, i.e., tourism, agricultural and industrial sectors. These are defined through the assessment of comparative advantages of Cambodia and Thailand taking into consideration the concept of mutual benefits from social and economic cooperation between the two countries.

54. Through this bilateral economic cooperation Cambodia can secure another source of regional development support to help sustain overall economic growth. Using Cambodia's GSP and taking advantage of existing infrastructure facilities in neighbouring countries, Cambodia is envisaging setting up four Export Processing zones as soon as possible next to Thailand's border in Poipet, Koh Kong, and Pailin.

Box 3

Benefits of Thailand Cambodia Bilateral Economic Cooperation:

100,000 jobs, US\$ 60,000,000 of annual wages, and 500,000 people (about 5% of the entire Cambodian population) fed.

Under the TCJDS 3 Co-Production areas would be located within these cross-border economic zones and would be jointly operated by the two countries. The possible sites for such a proposal are in three areas, 1) Aranyaprathet-Poipet, 2) Ban Laem-Kamrieng or Ban Pakkad-Pailin and 3) Hat Lek-Koh Kong.

1. Aranyaprathet-Poipet Industrial Estate. The total investment requirement is \$91,210,000. The private sector is expected to provide the entire investment costs. 280 factories will start operating in the Poipet Industrial estate each creating 200 job opportunities. At full capacity the investment will generate more than \$ 33 million of annual wages. The Poipet Industrial Estate covers 6 km² located in Cambodia about 7-10 kilometres from Aranyaprathet. Land use within the industrial estate is organized into 12 zones, namely areas designated for: (i) industrial factories, (ii) offices, (iii) truck parking, (iv) container yard, (v) probationary goods storage, (vi) power generator, (vii) telephone and Telecommunication center, (viii) garbage and industrial waste disposal plant, (ix) water treatment facility, (x) water reservoir, (xi) park and recreational area and (xii) residential area.

2. Ban Laem-Kamrieng or Ban Pakkad-Pailin. Ban Laem-Kamrieng and Ban Pakkad-Pailin are two possible sites for the establishment of the co-production area on the Chanthaburi side of the border. The total investment requirement for the Ban Laem Industrial estate is \$80,493,000 while that of Kamrieng industrial estate is \$86,493,000. The private sector is also expected to provide the entire investment costs for both industrial estates.

3. Hat Lek-Koh Kong. Cambodia has commenced the development project for an export-processing zone within the proposed cross-border economic zone, which would be able to accommodate the establishment of industrial factories in the very near future. The special zone covers a land area of approximately 225 hectares. This site has the highest priority over the other two sites, namely Aranyaprathet-Poipet which is second in term of priority and Ban Laem-Kamrieng or Ban Pakkad-Pailin third. Preparation of the industrial zone will be completed in around 2 years and will have all the necessary support facilities such as customs office etc. in place and ready for operation by that time. Cambodia will require foreign businesses to invest and establish factories in such an industrial zone. This would be a good opportunity for existing factories in Thailand to operate a branch in Cambodia to take advantage of the GSP status that Cambodia enjoys. The Koh Kong industrial zone already promises adequate on-site infrastructure such as power, water, roads and telecommunications. Total investments for the Koh Kong industrial estates amount to \$62,634,000 to be funded by the private sector. 140 factories will start operating in the Koh Kong Industrial Estate each creating 200 job opportunities. At full capacity the investment will generate more than \$ 17 million of annual wages.

2. Opportunities in ASEAN membership

55. Aside from bilateral agreements to promote trade and investment, Cambodia like other LDCs in the region understands the potential benefits of joining regional initiatives including regional trading arrangements (RTAs) in which they are members in one or more of them.^{xiv} These regional and bilateral agreements are increasingly seen as "fast-track" approaches to free trade. Moreover, Cambodia views them as "building blocs" or "stepping stones" for a wider trade liberalization strategy leading ultimately to the accession to the WTO.

56. Cambodia became the 10th member of ASEAN when it joined the regional grouping in April 1999. Under the Agreement on the CEPT Scheme for AFTA, Cambodia has committed itself to a gradual reduction in almost all of its tariff rates to 0-5 per cent on imported goods from other ASEAN members by the year 2010. Moreover, during the 3rd ASEAN Informal Summit in

November 1999, Cambodia as well as Laos, Myanmar and Vietnam agreed to eliminate tariffs for essentially all products by 2015. (ASEAN - six will eliminate their tariffs by 2010).

57. Benefits to be derived from the ASEAN 10 are numerous and include access to a market of 500 million people,^{xv} access to import fabrics from ASEAN countries to produce garments for the EU market while meeting the requirements in the Rules of Origin under the EU GSP Scheme, increased investor confidence, strengthened Cambodia's position in negotiations with big countries or organizations, and capacity building initiatives aimed at narrowing the development gap among ASEAN members like the Initiatives for ASEAN Integration (IAI) for 2002-2008.^{xvi}

58. Through the ASEAN framework, Cambodia stands to gain from the deepening of economic cooperation with ASEAN dialogue partners such as China, Japan, Republic of Korea, Australia and New Zealand (CER), EU and US. During the ASEAN + China Summit in Brunei last year, ASEAN and China Leaders have agreed to establish ASEAN-China Free Trade Area in 10 years with the Agreement on ASEAN-China FTA to be concluded first in 2004.

3. Strengthening economic linkages within the Greater Mekong Subregion (GMS)

59. In 1992, when the six member countries^{xvii} first entered into the program of economic cooperation, their vision of the GMS Program was to see a subregion that is more integrated, prosperous, and equitable. The GMS Program, though informal and guided only by a general set of principles and institutional arrangements, was able to strengthen economic linkages and acted as a catalyst for resource mobilization. It has also had a peace dividend which, while contributing to greater trust and better relations among the member countries, may be one of its most significant accomplishments.

60. The GMS Program Strategic Framework focuses on what is achievable through subregional economic cooperation covering eight priority sectors, both "hard" infrastructure (i.e. transport, telecommunications, energy, tourism) and "soft" sectors (i.e. environment, human resource development, trade, and private sector investment).

Five strategic thrusts of the GMS Program:

- Strengthen infrastructure linkages with a multi-sectoral approach;
- Facilitate cross-border trade and investment;
- Enhance private sector participation and improve its competitiveness;
- Develop human resources and skills competencies; and
- Protect the environment and promote sustainable use of shared natural resources.

61. Under the GMS Program, a series of feasibility studies led to the implementation of the first ten infrastructure projects, with overall investment amounting to US\$2 billion. Among these was the upgrading of the Phnom Penh-Ho Chi Minh City Highway and the East-West Corridor Project connecting north-eastern Thailand, Lao PDR, and central Viet Nam. Investment in transport infrastructure was complemented by improvement of the regulatory framework. A framework agreement has thus been signed by Cambodia, Lao PDR, Thailand, and Viet Nam to facilitate the cross-border movement of goods and people. The agreement covers such issues as customs procedures, rights of cross-border passage for vehicles and drivers, vehicle and load specifications, insurance provisions, and transit or user fees. In addition, significant progress has been made concerning trade in energy, and in establishing a telecommunications network for the subregion. Two hydropower projects amounting to US\$ 380 million were breakthroughs, both in terms of bilateral partnership (between Lao PDR and Thailand) and private sector participation. GMS countries are also promoting power-sharing arrangements on a multilateral basis.

62. Most important of all, the GMS Program has served as a catalyst for GMS countries to initiate new cooperation agreements. Examples are: the opening of new air routes and international airport designations in the subregion (e.g., Siem Reap, Luang Prabang); and the Quadripartite Agreement on Commercial Navigation along the Upper Reaches of the Mekong River. Bilateral agreements also include: Lao PDR's access to Sihanoukville Port in Cambodia.

.... All in all, what is more important – with this trade and labour clause linkage - Cambodia was able to develop a new image: that of a country free from sweatshop, free from child labour, a stable country... In a nutshell, Cambodia is now providing a safe haven for all the world's famous brand names: a safe and sound sourcing place.

Statement H.E. Mr. CHAM Prasidh, Minister of Commerce at the Asia Global Sourcing Exhibition and Conference 2002, Jakarta, February 14, 2002

63. Trade and investment initiatives have been closely coordinated with ASEAN and ESCAP, so as to avoid duplication of efforts and to focus on local impediments. The GMS Business Forum was recently established to promote private sector participation in the GMS. Cambodia is honoured to host this year three major GMS events: - the Donors Coordination Meeting, September 2002; - the 11th GMS Ministerial Conference, 23-25 September 2002; and the Mekong Summit of Heads of Governments, 3 November 2002 to mark the 10th Anniversary of the GMS Program.

4. Opportunities to secure world market access through WTO membership

64. The objective of the Government is to enter the WTO and reap the full benefits of global market access. Cambodia, like other 28 countries, which are seeking accession to the WTO, looks to the WTO as an opportunity to underpin their own liberalization efforts and to counter discrimination so that they can compete more effectively in the international market place. On achieving membership Cambodia will be guaranteed access to the trade concessions negotiated in eight rounds of trade negotiations over 50 years, including reduced tariff and non-tariff barriers to their exports. Cambodia will receive the benefits of the rule of international trade law, in the application of permissible measures such as anti-dumping or safeguards. The phasing out of textile and clothing restraints, and the first steps towards liberalization in agriculture and services should be of particular advantage for Cambodia. Moreover, Cambodia will have access to the new, strengthened dispute settlement mechanism to enforce its rights. Finally, Cambodia will be able to participate in the process of development of the rules and their interpretation as well as in future negotiations.

5. Deepening regional integration: Considering the process of acceding to the Bangkok Agreement

65. The Bangkok Agreement belongs to the first generation of RTAs, and is the only “regional” trading arrangement in Asia and the Pacific with a market potential of around 2.5 billion people with an average GDP per capita of \$798. From the entry into force of the Bangkok Agreement in the mid-1970s up to 31 December 2001, only five countries have become members of the Bangkok Agreement, namely Bangladesh, India, Lao PDR, Republic of Korea, and Sri Lanka. Recently the dynamics changed when China formally acceded to the Bangkok Agreement (BA) in 2000, becoming the Agreement's sixth full member. Recognizing the changes that have taken place in the multilateral trading system in recent years, and the fact that several regional trading arrangements offer broader coverage than the BA, Bangkok Agreement members have recently initiated a process to modernize and revitalize the Agreement including the establishment of a Ministerial Council to provide political backing to the Agreement and the launching of the Third Round of negotiations, where members have agreed to substantially deepen and widen the concessions offered. China's accession to the BA and

its implementation of its concessions on 1 January 2002 has provided the Agreement and the revitalization efforts with a major boost.

66. With membership open to all developing countries that are ESCAP members, Cambodia has the opportunity to accede to the Agreement. Concessions granted to Cambodia under the BA will help boost Cambodia's exports to BA countries. ESCAP has done a preliminary market analysis which has shown that Cambodia's export structure is highly complementary to major BA markets^{xviii} and as such there are great export opportunities for Cambodia in the BA region, in particular the huge markets of China, India, and the Republic of Korea.

67. The BA provides different types of opportunities than ASEAN, and in different countries. With a more flexible liberalization schedule, there is more scope (and time) for domestic industries to adjust to changing competition patterns. Especially for a country like Cambodia, benefits from export opportunities will far outweigh obligations.

C. GOOD GOVERNANCE

68. The governments which have applied for WTO membership have taken an important and very serious policy step which will permanently change their economies. It will mark the maturity of the reform process begun in the last decade in almost all emerging economies. Cambodia is no exception. As the country makes substantive progress in the WTO accession process, there is conscious recognition of the strong linkages between trade liberalization and domestic reforms. Trade openness creates efficiencies and, therefore, incentives and pressures for policy makers to pursue virtuous policies, either because they face the threat of capital flight or because they have found themselves in international agreements, implicit or explicit that provide a check on their policy.

69. Similar to the IPRSP process, trade issues were marginalized in the early development of the Government's first Governance Action Plan (GAP). The GAP is a rolling strategic framework that provides for a consistent and transparent approach to coordinate efforts better, in what were then eight priority areas of reform such as judicial and legal system, anti-corruption and public finance.^{xix} The GAP outlines the Government's strategy and program of actions to further good governance as the backbone to sustainable development, social justice and poverty alleviation. To date, GAP initiatives have focused on strengthening or creating institutions and processes necessary for the State to apply principles of good governance within its jurisdiction, and to acquire the requisite levers of governance. In the follow up to the GAP which will focus more on empowerment, trade mainstreaming has been recognized and given its rightful place in the overall package of economic and legal reforms. The envisaged GAP II will incorporate a section on trade, commerce and investment.

D. ENFORCEMENT OF THE RULE OF LAW^{xx}

70. Legal reforms have moved to center stage as an important priority on the development agenda of Cambodia. These are being undertaken to foster development of a vigorous private sector, to respond to the requirements of the regionalization and globalization of world trade and to make the Government more accountable to its own citizens. The economy is becoming increasingly complex: urbanisation rates increasing, the labour force shifting from agriculture into light manufacturing and services, markets expanding, and the enterprise sector growing. Cambodia's recent membership in ASEAN and its impending accession to WTO require economic strategies that are more adaptable to the changing environment. Against this backdrop Cambodia must learn the lessons from Asia's unprecedented historical evolution, from the perspectives of industrialization, urbanisation, and the increasing division of labour, which have altered society, economy, and politics. All these changes also demand a legal framework that will provide flexibility for market agents, stable institutions to

enforce contracts and property rights, and enhance the predictability, transparency, and accountability of state actions.

71. The reform of the Rule of Law will also advance the fundamental aspects of good governance where public institutions and officials are held accountable to the people for decisions made or actions that damage the nation or individual rights, where a rule-based decision-making system operates in a predictable manner, where information on public sector decision making, policies, actions, and performance is available to people in a transparent manner, and where public officials facilitate and promote an environment in which people can participate meaningfully in the development process.

72. Moreover, as Cambodia is now pursuing market-oriented policies, opening up our industries to international competition, attracting foreign direct investment, liberalizing our trade in goods and services through the removal of barriers and developing rules in new trade-related subject areas, it is therefore vital that the ASEAN legal commitments and the uniform rules embodied in the WTO legal instruments are applied or set as a norms in all legislative initiatives of the Government.

73. With all these competing forces at play there is a clear need now, and to a far greater extent than has been the case at any previous time since 1993, to develop a coherent legislative program which sets out the purpose and objectives of the legislative reform program as a whole, as well as the purposes and objectives of each of the individual pieces of legislation. Such a program was developed and revised several times to respond to the political necessity of the accession to the WTO. Moreover progress in the legal and judicial reform, though still slow, is beginning to show signs of renewed energy, with the restructuring of the Council for Legal and Judicial Reform.

E. REINFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS AS TOOL FOR DEVELOPMENT

74. Within this larger scheme of economic development Cambodia views policies and legislation related to protection of Intellectual Property Rights as important instruments in the economic, social, scientific and technological, short and long-term development strategy of the country. This is evidenced by a series of activities aimed at fulfilling these goals, namely membership with WIPO in 1995, the Paris Convention in 1998, the ASEAN Framework Agreement on Intellectual Property Cooperation in 1999, bilateral agreement on Trade Relations and Intellectual Property Rights Protection Agreement with the United States of America in 1996. In the near horizon term is Cambodia's intent to join the Bern Convention and the Patent Cooperation Treaty.

75. On the legislative development front, the Law on Marks, Trade Names and Acts of Unfair Competition was adopted and promulgated into law on 17 February 17, 2002. A draft Law on Patents, Utility Model Certificates and Industrial Design was approved by the Council of Ministers on 12 October 2001 and submitted to the National Assembly for adoption. A draft Law on Copyright and Neighbouring Rights was also adopted by the Council of Ministers on March 2002 and submitted to the National Assembly for adoption.

76. As part of the accession process Cambodia has also set out a very ambitious national legislative agenda for the years 2002, 2003 and 2004 to implement the WTO requirements. Under this National Legislation Implementation Action Plan, more than 40 draft laws or regulations are planned to be adopted in order to complete the Cambodian legal framework of Cambodia. Among those are various intellectual property laws like the draft Law on Geographical Indications Including Appellation of Origin, the draft Law on Plant Variety Protection, the draft Law on Layout Designs of Integrated Circuits, and the draft Law on Protection of Undisclosed Information.

F. LINKING TRADE AND LABOR STANDARDS MAKING CAMBODIA AS A SOUND AND SAFE SOURCING PLACE FOR WORLD TEXTILE AND APPAREL

77. The year 1996, when Cambodia signed a bilateral Trade Agreement with the USA and a Textile Agreement with the European Union, saw the birth of the garment industry in Cambodia. With a permanent MFN status from the USA secured, investors started to move in and build their garment factories and to export in the most intensive way. As the industry grew at an exponential rate of 2,000 to 5,000 per cent per year, the USA hurried to impose quantitative restrictions on Cambodia's garment exports in 1998. Negotiations lasted almost a year with the US attempting to incorporate in a textile agreement a linkage between trade and labour standards. The negotiations were not easy when the records showed that no country in the world has ever agreed with the US position regarding this linkage between trade and labour standards. The reason is very clear: no one trusted the US altruism, some people might agree that there could be some genuine interests from the US aimed at protecting the workers rights in sourcing places but everybody sees this linkage as a clear attempt to create another technical barrier to trade.

78. Nonetheless, Cambodia agreed to the linkage and created a precedent in the annals of textile negotiations. The main reasons were very obvious:

- Cambodia believed that linking trade with the implementation of labour standards will going to be the most efficient internal mechanism for a developing country to ensure that foreign investors are not exploiting our local workers. Effectively, the power of the Minister of Commerce to deny the issuance of export documents to any manufacturer because of his/her violation of the Cambodian Labor Law has so far never failed to force him/her to take corrective measures. Without that intervention, the implementation of the Labor law would be ignored by the foreign investors who would prefer paying \$100 or \$200 penalties and continue to infringe the Law by firing any worker he/she disliked.
- The linkage of trade issues with labour issues was not a "stick" with which the USA could use to bar entry of Cambodian exports to the US market. It was a "carrot" to reward Cambodia when working conditions improved in the textile and apparel sector. There have been enough assurances and re-assurances from the US side that this carrot is a "real" one and not a "virtual" one.
- The ILO monitoring system using ILO will offered enough assurances that it the mechanism would not be biased or used for hidden political agendas.
- Cambodia was also very confident that American buyers would certainly set up their own rules (Code of vendor Conduct) to ensure that they were not buying from any "sweatshop" and thus would help the Government of Cambodia to enforce its Labor Law in the most appropriate manner.

79. According to the 1999 U.S.-Cambodia Textile and Apparel Agreement, the U.S. was required to make an annual determination whether working conditions in the Cambodia textile and apparel sector substantially comply with the labour law and internationally recognized core labour standards and if so, to increase the quotas by 14 per cent for the following agreement year. For the last three years the US granted only a 9 per cent quota increase reward despite many substantial improvements in labour conditions have been made. This is a situation that raised eyebrows and made people wonder whether the US was really sincere in their commitments.

80. In retrospect, the Cambodian experiences in the garment sector will be hard to duplicate or copy in another country because for the following reasons:

- Cambodia started from scratch, with little vested interests from any sphere of influence.
- Cambodia's current leaders have the political will and the guts to link trade to labour standards because, whatever people say, the Cambodian Labor Law needs to be enforced by the Cambodians, and with some foreign "carrots " (the incentives) plus some local "sticks" (our measure to deny issuance of export documents to labour law violators), the Labor Law would can be certainly be better implemented and enforced.
- The Cambodian society is still very open to democratisation. Strikes and street demonstrations occurred frequently and were not repressed even though most of them were illegal. Governments in other countries would have taken tougher stances in the case of illegal strikes.
- The linkage with labour standards is a double-edged sword: theoretically, it was supposed to encourage American buyers to place orders in Cambodia (no sweatshops, no child labour, no forced overtime...), but in practice, the occurrence of too many strikes --sometimes agitated by political opponents, sometimes for petty reasons -- had the effect of deterring the American buyers (disruption of production and delivery time). With the passage of time, labour unions have grown more mature, more educated and more responsible towards the workers.
- The labour clause was enforced on all garment factories including those not exporting to the USA, i.e. exporting only to the European Union. That explained why as many as 183 factories were registered with the ILO monitoring mechanism (including their subcontractors).
- The Government wants this reward incentive because it constitutes Cambodia's competitive edge vis-à-vis other textile exporting countries.
- While quotas will be phased out by end of 2004, there should be some larger and more generous quota levels being given to exemplary LDCs like Cambodia, in order to help it build up a stronger private sector, and provide more jobs to Cambodians. So far monthly wages for 180,000 plus garment workers amounts to more than \$12 million.

VI. PREPARATION FOR ACCESSION TO THE WTO

A. A HISTORICAL PERSPECTIVE. CAMBODIA'S UNIQUE RELATIONSHIP WITH THE GATT^{xxi}

81. Cambodia previously enjoyed a special status within the General Agreement on Tariffs and Trade (GATT), due to its former relationship with France, and also came very close to acceding on its own. The country's previous colonial status could have facilitated Cambodia's accession to GATT. Under the terms of Article XXVI:5(c) of GATT 1947 — which now has no equivalent in the WTO — countries such as Cambodia were permitted a relatively easy route for entry into GATT. Former colonies of GATT contracting parties could acquire de facto GATT status upon their achievement of independence. A country could then convert this de facto status into full GATT contracting party status by succession, a process that involved much less stringent scrutiny of its trade regime and fewer new commitments than did the ordinary accession process of GATT Article XXXIII. Some countries succeeded to GATT shortly after gaining independence, while others waited years before taking this step. Cambodia qualified for this route to accession, insofar as France did apply GATT rules to Cambodian trade while the country was under a protectorate, and duly informed the GATT of this fact upon Cambodia's independence. The option expired with the end of the GATT, however, and Cambodia — like all other countries that are still outside the system — must now meet the more rigorous requirements of WTO accession.

82. Cambodia did indeed enjoy de facto status as a GATT contracting party, as did other former colonies of France. It made a very serious effort to accede to GATT on its own and went so far as to finalize negotiations with the existing contracting parties over the terms of its protocol of accession, which were formally concluded on 6 April 1962.^{xxii} Although the Geneva side of the process was concluded, Cambodia never completed the domestic ratification procedures. The 1962 protocol expired with the GATT itself in 1995, and is irrelevant to Cambodia's WTO status. The country now faces the same process of accession as other countries.

83. On 19 October 1994, Cambodia applied for accession under Article XII of the Agreement Establishing the World Traded Organization and a Working Party was established in December of the same year to examine the accession process of Cambodia. With technical assistance from UNCTAD and the World Bank, Cambodia completed its Memorandum on Foreign Trade Regime (MFTR) and submitted it to the Working Party in May 1999. Subsequently, Cambodia received 179 questions and comments on the MFTR from Japan, EU, Australia and the US. On 08 November 2000 Cambodia provided its replies along with the pertinent documents clearing the way for the holding of the First Working Party Meeting (WP) on 22 May 2001 and a series of bilateral negotiations with some interested members.

84. While the outcomes of the first round of multilateral and bilateral negotiations were positive, many outstanding issues remained to be resolved by Cambodia. An additional 107 questions of substantive and clarificative nature on the previous replies to the MFTR were received. On the top of the agenda for the second Working Party was the submission of a National Legislation Action Plan, along with a series of checklists on regulations affecting trade in Services, regulations affecting Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS), and regulations on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Documents prepared for the second WP and interested members included the following: (1) Electronic copy of applied tariff book (Tariff Nomenclature six digits); (2) Legislation action plan; (3) Initial tariff offer; (4) Initial Services offer (services commitment); (5) Form ACC/4 (check list on domestic support measures in agricultural sector); (6) ACC/5 (check list on regulations affecting Trade in Services); (7) ACC/8 (check list on regulations related to TBT and SPS); (8) ACC/9 (check list on TRIPS); (9) Written answers to the questions posed by interested members during the first WP.^{xxiii}

85. Immediately following the Doha 4th Ministerial Meeting, WTO Director General Mr. Mike Moore visited Cambodia on 27 November 2001 at which time Cambodia submitted its documents for the second WP. During the period of 6-17 February 2002, a second WP was convened giving Cambodia the opportunity to engage in two separate tracks of negotiations - bilateral, multilateral - and to initiate an informal plurilateral meeting on Agriculture.^{xxiv} In the concluding remarks, the Working Party Chairman, Ambassador Andrea Meloni, upon the motion raised by the EU delegation, has recommended that the WTO Secretariat begin drafting the Factual Summary which will serve as input for the drafting of the Report on Accession for Cambodia.

86. It is interesting to note that Cambodia was the first LDC to have a Working Party meeting after the Doha ministerial meeting. In his Opening Statement at the Second Working Party, Commerce Minister Cham Prasidh emphasized the importance of this Working Party as the first Working Party of an LDC post-Doha 4th WTO Ministerial Meeting. The Doha Ministerial Declaration (DMD) made specific reference to Para 42, where there are provisions highlighting the need to fast track and facilitate the accession of LDCs. Minister Cham Prasidh reiterated to the Working Party that Cambodia's accession is a test of the sincerity and the intention of developed countries with regard the DMD.

87. Cambodia has just completed its preparation for the third Working Party meeting which is expected sometime in late July 2002. Documentation for this round includes the submission of a revised National Legislative Action Plan, a revised tariff offer, a revised Services offer, a revised

TRIPS checklist, and a series of action plan for areas like TBT, SPS, Custom Valuation for which Cambodia has requested a transitional period. Cambodia is also in the midst of adopting a sub-decree to establish three inquiring points (SPS, TBT, and Services) as well as a WTO rules compliance unit.

Statement of Commerce Minister Cham Prasidh at the 2nd Working Party in February 2002

"...It may not be by trying at this stage to get the most of concessions from a tiny country like Cambodia that WTO members will get something substantial for their countries, it shall be instead at the new round of trade negotiations kicked off at Doha last November that more important and more substantial gains should be sought. We do not rush to enter WTO just for the sake of being a member, but to be in a position to play a more active role and to benefit from the world trading system. Without bringing back to Cambodia the benefits of globalization, the whole preparation process that we have so far undertaken would be jeopardized by opposition forces to globalization, which are still on the wait-and-see position in Cambodia..."

88. While the short-term implications of WTO membership will probably indicate a prevalence of costs over benefits, the long-term benefits stand to outweigh costs by far. Not only does WTO membership provide smaller, more vulnerable economies like Cambodia, with better protection, non-discriminatory MFN treatment, and a recourse to the rule of law, but it also provides much better access to international markets, a boost to domestic reforms and economic development, while at the same time allowing for many exceptions under various S&D clauses and technical assistance.

B. LESSONS LEARNED FROM CAMBODIA'S ACCESSION PROCESS THE CHALLENGES FOR FUTURE

89. Cambodia's imminent accession into WTO constitutes a major challenge for the country. Cambodia is required to prepare voluminous and complex documentation regarding its trade regime for goods and services, and will engage in lengthy negotiations with the WTO Member Countries, both at the bilateral and multilateral level. We will also have to carry out legislative reforms to achieve conformity with the requirements of the implementation of the WTO Agreements. Moreover, WTO accession requires thorough understanding of the WTO Agreements ranging from trade in goods and services, to trade-related intellectual property rights, and to trade-related investment measures.

90. While it is acknowledged by many WTO delegations that Cambodia has made great progress in the preparation for its accession, Cambodia still suffers from shortcomings in the area of Agriculture negotiation, and WTO compliant legislation development. In the Services Offer, Cambodia needs to further its understanding on the policy and economic implications arising from the various services sector commitments like telecom, financial services and professional services, etc.

91. Cambodia needs to mobilize the necessary resources, both financial and in kind, to cover expenses associated with the accession process, including attendance of meetings, missions to Geneva and bilateral missions, adjustments in national legal and institutional framework, costs of translation services, and revenue foregone as a result of concessions made. Moreover, Cambodia needs to ensure that our concessions and commitments made under the WTO accession process are consistent with other international obligations (e.g. IMF or World Bank loan conditionalities) and are compatible with those made, or to be made, under regional trading arrangements like ASEAN or the Bangkok Agreement. For that matter, frequent consultations with other member countries of regional trading arrangements is really needed to avoid later conflict.

C. TARGET: CAMBODIA AIMS TO BE THE FIRST LDC TO ACCEDE TO THE WTO...SINCE 1995

92. At the rate the accession process is moving Cambodia stands a great chance to be the first LDC to accede to the WTO. Nonetheless political will and commitment to accelerate the accession process from Cambodia will not be enough. The WTO should consider the notion of so-called "fast track" procedures for streamline bureaucratic procedures for admission for LDCs as first suggested by the European Union.^{xv}

93. For their part, WTO members should be realistic in their demands for concessions from Cambodia and take due account of its unique financial, economic, institutional and other constraints. Moreover, powerful WTO members should refrain from insisting on "LDC-plus" or worse yet "WTO-plus" obligations for Cambodia, a country that has no current or potential capabilities to become a major player in the world market. They should take into account the internal adjustment shocks that Cambodia will confront when complying with the new rules in the absence of reasonable transition concessions. Just asking for a few reasonable schedules of commitments on goods and services from Cambodia would be perceived as a positive gesture from all WTO Members. Therefore, doing away with the WTO-plus conditions for accession and the automatic extension of special and differential (S&D) provisions to Cambodia – as an acceding LDC – would seem to be good starting points.

94. On a parallel track Cambodia can take advantage of its status as an IF Pilot Scheme country to secure some of the necessary trade-related capacity building both to improve knowledge and implementation of trade rules, and to better exploit the improved market access for its exports. Developed nations should extend their Technical Assistance to Cambodia on a fast-track basis in some specific areas where immediate compliance to WTO rules is needed in line with their pledges made in numerous political statements like:

- The Millennium Development Goals (September, 2000), especially the goal on the development of a Global Partnership for Development (Goal No. 8), which points to the establishment of an inclusive and equitable globalization, which can be best achieved through a "human development paradigm". The Millennium Declaration includes critical considerations on further developing an open, rule-based, predictable, non-discriminatory trading system, and a commitment to good governance, development, and poverty reduction — both nationally and internationally.
- last year's call of the Quad countries regarding WTO Rules and their implementations (May 2001) in which they will "make full use of the flexibility foreseen under the WTO Agreements for LDCs, like the granting of transitional periods for the full implementation of specific rules. While the goal should be the adoption of WTO provisions upon accession, these transitional periods may be applied to the acceding LDCs upon request and presentation of a detailed plan of action for assuring compliance with WTO rules, to be included in the protocol of accession. The implementation of the action plans could be supported by technical assistance."
- The WTO Fourth Ministerial Declaration in Doha, Qatar, November 2001 which stressed that "technical cooperation and capacity building are core elements of the development dimension of the multilateral trading system. It provides the mandate and the resources to assist countries to mainstream trade into national plans for economic development and strategies for poverty reduction."
- The Financing for Development (FfD) Conference (March, 2002) which provided additional opportunities in addressing the capacity needs of LDCs in relation to trade and poverty

reduction. The FfD will allow to move the debate toward a new resource framework which goes beyond ODA and included, among others, mobilization of domestic resources, revenue generated by trade and FDI.

- and possibly more at the next World Summit for Sustainable Development in Johannesburg, South Africa in August 2002 where it is expected that a solid program of action will be firmed up now that new resources had been found in Monterrey, following the European and American decisions to step up development aid.

VII. MAINSTREAMING AND "TRADE-RELATED CAPACITY BUILDING"

Trade Related Capacity Building refers to:

A coherent set of activities by donors (bilateral and multilateral) and partner countries designed to enhance the ability of policy-makers, enterprises and civil society actors in-country to improve trade performance through policy and institutional strengthening as part of a comprehensive approach to achieve a country's overall development goals and poverty reduction strategies (DFID 2001, OECD 2001).

95. The shared view among development economists is that the ability of individual LDCs, and Cambodia is no different from the rest, to participate more fully in the global economy typically is constrained by bottlenecks and limitations arising from 3 main areas: (1) border barriers to trade; (2) the 'behind the border' barriers; and (3) barriers in accessing global markets. This diagnosis broadly applies to Cambodia and its experiences have shown that despite the success of recent years (Cambodia is the only LDC which has attained the 1 billion dollar export mark), Cambodian exporters often must struggle to remain competitive. The costs of doing export business in Cambodia are often high. This may be so because some of the pieces of our macro and legal framework are still missing, because the incentives for investment are not always the right ones, because of weaknesses in our physical infrastructure, because of the inordinately high costs of trade facilitation (customs and tax administration reforms are yet fully put in place), or for some other reasons. Thus for Cambodia to consolidate, expand, and diversify its export sector will require opening up bottlenecks and loosening up limitations that, at present, are constraining its development.

96. One of the critical findings of the IF Diagnostic Study is that supply bottlenecks rather than market access is a major constraint for trade development in Cambodia. The new multilateral trade regime and capital account liberalization have created an environment in which the most competitive countries gain the benefits of openness.

97. The competitiveness of Cambodian enterprises and products in world market is a function of the cost structure of their production, their productivity, and exchange rates. The cost structure is influenced in part by the cost of infrastructure services (telecom, utilities, industrial estates, etc.) by the cost of trade facilitation services (transportation, freight clearing and forwarding), and by direct or indirect export taxes. Some of those costs are high in comparison to those of competitor countries. Wages and labour productivity are other elements of competitiveness. Compared to competitor countries, productivity of labour in Cambodia tends to be low as a result of a number of factors including the relatively low skill level of the labour force and the incentive structure for productivity increases. There is a serious need to develop conditions to promote more rapid productivity growth in the export sector.

98. Developing new export products and markets requires putting in place also a range of trade support services (trade information, trade promotion, trade financing, and others) to assist exporting

enterprises as well as fostering a range of export skills within those enterprises. The current institutional and human capacity in Cambodia in this broad area is inadequate.

99. Developing new export products and markets also requires a new entrepreneurial capacity that is also weak in Cambodia. Even if domestic savings are mobilized for investment in the trade sector, there is a shortage of "soft" capital – that is the know-how that entrepreneurs need if they are to succeed. How to promote the transfer or development of this know-how into Cambodia must be a concern of government and the business community.

100. If Cambodia is to improve its trade performance it must obviously overcome many of these challenges. Capacity gaps need to be addressed in a wide range of areas, often simultaneously, and an unusually diverse array of stakeholders needs to be engaged. "Trade rules compliance capacity" is needed to enable Cambodia to improve knowledge and implementation of trade rules while "Trade competitiveness capacity" is needed to enable Cambodia to better exploit the improved market access for its exports. Without technical and financial support to upgrade domestic supply response capability and strengthen the competitiveness of Cambodia's products, the national economy will not be able to participate in the global one in a way that would benefit to it.

101. Throughout the entire Diagnostic Study these barriers were identified and sound diagnoses were formulated, adopted and reflected in the a TA matrix. The immediate challenge for the Government was then to maintain the momentum and translate the TA Matrix into concrete realities. The strategy of the Government was to kick start right away a few small initiatives drawn from the TA matrix under some existing fund from the main IF Diagnostic Studies while giving adequate time to prepare larger scale projects for implementation over the mid and long term timeframe. Over the months following the adoption of the TA Matrix, Cambodia has consistently referred to it as a coordination tool in its approach to mobilize capacity building support. In this connection, the TA Matrix is a concrete gauge of success of the IF regarding collaboration and coordination among donors. Many of these activities have come to fruition and as highlighted in the following pages while others are in the making.

102. For the upcoming CG meeting in June 2002 the Government will seek to take advantage of its status as an IF Pilot Scheme country to secure other necessary trade-related capacity building, both to improve knowledge and implementation of trade rules as well as to better exploit the improved market access for its exports. Some concrete proposals were made by various agencies and are reflected under each agency heading.

A. LIST OF TRADE-RELATED CAPACITY BUILDING UNDERTAKEN OR PROPOSED BY THE SIX CORE AGENCIES AND BILATERAL DONORS

(a) International Monetary Fund (IMF)

103. Trade-related technical assistance provided by the IMF focused primarily on trade facilitation issues (customs administration), capacity improvement in tax policy and administration, and on capacity to collect, compile, analyze, and disseminate broad economic statistics and external trade data through reform of the statistical institutional framework.

Drafting of Insolvency Law:

104. The IMF has been assisting MoC in the formulation and implementation of law and regulations in the areas of corporate insolvency as part of its overall legal reform efforts. The project is a sub-component of the IMF's Cambodia Technical Cooperation Action Plan (TCAP) and is implemented as a joint IMF/UNDP technical assistance project.

(b) International Trade Centre UNCTAD/WTO (ITC)

105. ITC has been actively involved in trade enhancement activities, in particular in supply-side development and promoting private sector's readiness for export, and hands-on training in enterprise development.

Creation of a Trade Support Network:

106. With the support of ITC, and following the outcomes of the ITC's Executive Forum 2001 in Montreux, Cambodia was able to build from there a Trade Support Network (TSN). This network is a departure from the traditional approach, in which the Ministry of Commerce has attempted to meet most of the trade support service needs of exporters. A wide range of entities, both from the private and public sector, capable of providing trade support services have been brought together, although still at the informal level and on an ad hoc basis.

...I am very interested in participating with the seminar on "Trade Support Network" where the information presented is very important to our students for researching and writing papers/assignments. I always circulate your presentation to our students/ staffs/lecturers... The International Institute of Cambodia firmly believes that education is one of the most crucial factors in the building of a just, prosperous and peaceful civil society in Cambodia. We are especially interested in collecting materials about the economy, business and trade practices of Cambodia and countries around the world... materials that are available, such as the "Business Guide to the World Trading System" would be an invaluable assets to our student understanding of the new issues in Cambodia and the world....

Chhuon Chan Than, Director
International Institute of Cambodia (IIC), Phnom Penh

Membership in the ITC's World Tr@de Net:

On 17 December 2001 the MoC officially established a local World Tr@de Net focal point within the MoC. Access to this network will enable Cambodian businesses to better manage their participation in trade as a result of better knowledge of the world trading system. Business managers become better informed and can improve their trade strategies. Moreover, the network will also allow Government officials and businesses to work more effectively together.

South-South Trade Promotion Programme:

107. Demand Surveys for Agro-Products and Processed Foods. ITC has commissioned a demand survey which covered raw material inputs and end-user imports related to the selected products which include food ingredients and fragrances, fruit and vegetable juices, cereal products, oilseed products, apicultural products, spices, confectionery and specialty food products in Cambodia. The principal objective of the demand survey was to provide comprehensive information on the market for the above selected products in Cambodia, with a view to assisting potential suppliers of these products in taking advantage of existing trade opportunities. The outcome of this survey was used by the ITC in a Buyers/Sellers meeting on Agro-Products and Processed Foods last November 2001, at Singapore. In addition to describing market characteristics for the benefit of potential suppliers in Cambodia, the survey also aimed at analyzing the existing constraints in the import sector concerned and at formulating recommendations for action to Government and others having development responsibilities.

Development of Essential Oils and Spices Industry:

108. As part of a series of initiatives to diversify the agricultural sector and in support of the Pro-Poor Trade Sector Strategy, ITC has recently completed an assessment of the potential of Cambodia to enter as an exporter into the international market for essential oils and spices and identified the next steps in the development pathway. For both commodity groups, competition exists between existing suppliers on the basis of product price, product quality and standards of trading service. However, these conditions do not preclude successful market entry by Cambodia with carefully selected commodities. The keys to success are: (i) aiming at the capture of a modest market share of a large-scale international trade, where market access is relatively easy; (ii) selecting commodities that do not pose great difficulties in the acquisition of technical skills for the production of an acceptable quality; and (iii) taking advantage of Cambodia's perceived comparative advantages, especially those of low agriculture labour costs, under-utilised farmland and a keen farmer interest in adopting new cash income generating crops. ITC has a full blown project in the range of \$300,000 - 400,000 for submission to the Swiss government or other interested donors.

ITC's Export led Poverty Reduction Programme (EPRP):

109. ITC has selected six countries (Bolivia, Cambodia, Namibia, Madagascar, Peru, and Vietnam) to implement the EPR program starting first with 2 sub-sectors: processed agricultural products, and simple manufactured components. The focus of intervention will be support to poor communities in producing export-oriented products (formation of producers' groups, training on entrepreneurial skills, support in the adaptation of products to export market requirements, partnership with micro finance institution to address producers' credit needs).

Industry Strategy in Medicinal and Aromatic Plants:

110. ITC has also expressed its support to assist Cambodia prepare a special industry strategy in medicinal and aromatic plants which they believe Cambodia has the right climate and soil environment to make it a success. This sub-sector can fetch extremely high value as compared to other agriculture crops.

ITC's Strategic and Operational Market Analysis Tools:

111. ITC produces and disseminates market research and trade analysis for exporters, importers and trade support institutions in developing countries and transition economies. ITC's market analysis activities have focused in particular on the in-depth analysis of international trade flows, with the TradeMap programme and the development of analytical tools for market analysis and trade promotion accessible through two new Market Analysis Portals (Country and Product MAPs).

(a) *Country Maps:*

This application has been designed to benchmark the national trade performance of 184 countries by sectors and specific products on the basis of a broad range of analytical tools. These include ITC's Trade Performance Index on export competitiveness, the National Export TradeMaps on a country's export portfolio, the econometric trade simulation model TradeSim on bilateral trade potential, the relation between trade and employment, and an assessment of the reliability and characteristics of national trade statistics.

(b) *Product Market Analysis Portals - or Product MAPs:*

This application is due to be launched early 2002 and represents a very valuable source of information, on both the quantitative and qualitative aspects of market analysis. Product MAPs consist of 72 product-based portals, covering the trade of 5,000 products in 184 countries, and are a virtual one-stop shop for market analysis, with a particular focus on

the needs of developing countries. Product MAPs facilitate the identification of dynamic import markets and competitive exporters, and offer an interactive facility to track international trade flows. Product MAPs also include networking tools, access to market studies, an enquiry reply service and give users the opportunity to establish a direct presence on the net and identify business contacts within a portal dedicated to international trade development.

(c) *Trade Support Institution TradeMap - or TSI TradeMap:*

This interactive tool presents import and export values and quantities, growth rates and market share for 5000 products and 200 countries and allows users to analyze their export/import markets, pre-select priority markets for targeted marketing activities, review the performance of competing countries and assess opportunities for product diversification. As of 2002, TSI TradeMap will also provide tariff and NTBs data.

(d) *Market News Service - or MNS:*

Provides weekly and monthly market prices and analysis for several hundred products in eight product groups. Sectors covered include cut flowers, fruit and vegetables, pharmaceutical starting materials, fruit juice, spices and rice.

(e) *PC-TAS:*

The world's largest trade data base updated annually on CD-ROM, with product-specific export and import statistics on some 200 countries and territories.

(f) *Market Brief:*

Each year ITC publishes concise market reports on export products of interest to developing countries. The Market Briefs provide a market overview, trade statistics and trends, recent market developments, regulations, price information, packaging information, importers' details, important addresses and trade fairs' schedules.

112. The MoC is currently seeking financial support of US\$ 50,000 to acquire all these tools for three years.

(c) United Nations Conference on Trade and Development (UNCTAD)

113. UNCTAD had been quite active in the provision of policy analysis on trade and investment. Trade-related technical assistance provided so far includes training and support in trade negotiations and implementation of commitments, WTO accessions advice and rules consistency, ports management and customs administration.

WTO Accession:

114. Cambodia considers UNCTAD as the lead agency in providing training and support in trade negotiations and WTO accessions since 1997. Missions were dispatched on a need basis to assist the Government finalize the WTO documents prior to submission to the Working Party. Advice given covers the entire range from WTO replies, tariff of goods offer, services offer, technical checklists (agriculture, TBT, SPS, and TRIPS), and various plans of action for the last two meetings of the WTO Working Party in 2001-2002.

Translation of Trade Negotiations Materials:

115. The project involves the translation and publications in Khmer of three key documents: "Business Guide to the World Trading System" published by the ITC and the Commonwealth Secretariat, the "Tools for Multilateral Trade Negotiations on Agriculture," and the "Tools for Multilateral Trade Negotiations on Trade in Services." published by the UNCTAD's Commercial Diplomacy Programme. The project was quite timely and useful as the Cambodian delegation prepared for the third round of negotiation. Moreover a series of training workshops were held for key stakeholders like government institutions involved in the WTO, private sector participants, and civil society organizations including academia.

Study Tours:

116. In 2000-2001 UNCTAD has sponsored several study tours and training for 12 Cambodian officials to in Geneva. Other activities include the launch the World Investment Report in Cambodia, and participation a Seminar on Traditional Knowledge (IP) in India.

English Language Training for Trade negotiators:

117. Cambodia will be eligible for additional technical assistance in the area of English Language Training for Trade negotiators in London and in the procurement of information technology equipment when these project will be approved by donors.

Trainfortrade programme:

118. The Trainfortrade programme is aimed at strengthening training capacities in developing countries, particularly LDCs, in the field of international trade and trade related services. The programme strategy consists of developing partnerships with other training institutions in order to enable a permanent exchange of information, courses, and teachers; developing, producing and updating high-quality training packages that meet the needs of persons involved in international trade, and executives from both state and private sectors; organizing national and regional seminars and training courses in the institutional members of the network. The project will also aim at helping MoC establish an international trade institute in partnership with the private sector and academia. Funding is expected to be secured from the French Government to cover program costs for Cambodia and Lao PDR.

UNCTAD-ICC Investment Guides Project for Cambodia:

119. UNCTAD in partnership with the International Chamber of Commerce (ICC) have initiated a mission to kick start the preparation of an investment guide to Cambodia for the use of potential foreign investors.

Proposed UNCTAD's IF projects:

Support for WTO accession:

120. Although UNCTAD provided several capacity-building activities such as training of trade negotiators, brainstorming meetings and seminars for Cambodian officials, a lot more needs to be done to assist Cambodia to achieve WTO membership and become an effective player in the multilateral trading system. Therefore, the purpose of this project is to further assist trade negotiators and policy makers in Cambodia through training and technical assistance to participate effectively in the international trading system and, especially, by achieving accession to the WTO and taking part in the Post-Doha trade negotiations.

Review of preferential arrangement in the textile sector:

121. Over the past few years, UNCTAD monitoring and analysis of trade preferences available to Cambodia demonstrates that in many cases a consistent part of Cambodia exports, although eligible for trade preferences (mainly GSP preferences), did not (and still do 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. Among the factors identified as affecting the effectiveness (i.e. the utilisation), of the GSP and of other preferential arrangements, is the lack of understanding or awareness of the preferences available and, more importantly, the technical difficulties encountered in fulfilling the conditions and requirements attached to preferences, among others rules of origin. The present project will assist and enable Cambodia trade officials, exporters, chamber of commerce and the business community in general, to take full advantage of the trade possibilities and opportunities available to Cambodia through the optimum utilisation of multilateral and regional and bilateral trade preferences of non-reciprocal or reciprocal nature.

Assistance to the reform of ports:

122. Port Reform Study: The project will review the seaport sector with the objective to identify the reforms required to reduce port related costs and to improve service to port users, thus improving the climate for trade and regional investment. A team of consultants will work with local transport officials and traders to draw up a strategic plan for the port sector that would include a blueprint of the changes required to improve port performance. The study will consider the Governments objectives for the Sihanoukville port, the procedures used for setting tariffs, the role of the private sector, how to encourage competition, and the effect of administrative procedures on port performance and costs.

Training of port managers (Trainfortrade):

123. The project will focus on Capacity Building for Cambodian port managers under the UNCTAD Port Certificate programme which is a comprehensive training package aimed at preparing new entrants and training qualified managers in all port management issues.

ASYCUDA (assistance to customs):

124. The project will involve the setting up of a pilot ASYCUDA site.

Capacity building in the tourism sector:

125. The project will provide the necessary means to assist Cambodia to develop governmental and entrepreneurial capacities to improve tourism competitiveness, through increased backward linkages with the rest of the national economy. This will provide the country with more income and less leakages of tourism revenues. Therefore the project will contribute to a better use of the Tourism sector as a tool for development and poverty reduction.

TOOLS FOR TRADE NEGOTIATIONS

One of the strategic objectives of the trade mainstreaming initiative is to promote a broader national constituency on trade and poverty, through a strategic and information-based partnership development approach between the MoC as the leading government institution on trade reforms and other key trade stakeholders. The systematic translation into Khmer of key IF and trade related documents will provide for additional opportunities to strengthen the partnership framework and allow for informed dialogue.

....While the Cambodian chief negotiator and a few other senior officials are fluent in English or French and handle with ease the trade negotiation, the remaining team members have limited English knowledge. The availability of these Khmer language supporting documents has proved to be a valuable asset.....

Sok Siphana, JD
Secretary of State for Commerce and IF (Cambodia) Focal Point

(d) United Nations Development Programme (UNDP)

126. UNDP involvement in trade areas is framed within the broader context of economic and social development as highlighted in several UNDP projects: Project CMB/01/009: “Capacity Development for Poverty Monitoring and Analysis” – led by the MoP/CSD in partnership with SIDA and UNDP; TCAP programme - led by the MEF in partnership with IMF, AsDB and UNDP - linkages between poverty, economic reforms and growth; UNDP Asia-Pacific Regional Programme on the Macroeconomics of Poverty Reduction - policy dialogue and partnership at the regional level; Programme CMB/01/002: “ Strengthening Capacity in Aid Coordination and Development Cooperation Partnerships” – led by the CDC in partnership with UNDP - promote innovative development partnerships models, based on Cambodian leadership, ownership and accountability.

Capacity Building for Pro-poor Trade Reforms:

127. FIRST IF Success Story: At its 29th meeting in Paris, in January 2002, the Inter-Agency Working Group for IF recognizing that the credibility of the Pilot Scheme depends on the effective follow-up to the diagnostic studies, encouraged “all multilateral agencies, including other providers of trade-related technical assistance to identify areas where they can contribute to trade capacity building process, as established by the IF diagnostic studies and resulting prioritised technical assistance matrices.” At a joint meeting of the IAWG and the OECD/DAC held in Paris in January 2002, donors pointed to the need for urgent follow-up of the diagnostic studies and the need for agencies to assist pilot countries to translate country action plans into concrete plans for funding. As a result the 30th IAWG and the IFSC have approved the First IF project resulting from the Diagnostic Study.

128. The project which will used \$500,000 of fund earmarked by Japan to the IF UN Trust Fund, and UNDP funds, aims at pursuing three priority objectives: (i) to promote a broader national constituency on trade and poverty through a strategic and information-based partnership development approach; (ii) to enhance opportunities for effective allocation of ODA towards trade, through the strengthening of supply side responses in three product sectors namely: diversified agriculture and agro business, fresh water fisheries, and handicraft; (iii) to further elaborating on the links between poverty reduction/ human development and trade expansion.

129. The project is nationally executed with MoC designated as the Executing Agent, the ITC as project co-operating agent, and UNDP providing technical and financial support services to the MoC.

ITC's e-Trade Bridge and ITC's Trade Secrets:

130. UNDP is also considering funding for ITC to launch the e-Trade Bridge program and the ITC's Trade Secrets.

(e) World Bank

131. The World Bank has been proactively engaged with Cambodian national trade policymakers to determine the nature and extent of the trade-related technical assistance and capacity building needed in the country. Areas of support include development and dissemination of trade information tools, trade policy research, advocacy, capacity building for trade officials and private sector participants.

Private Sector Development:

Development of the MoC Website:

132. MoC has an operational website originally funded by JICA which is being revised and expanded with support from the World Bank. The objective is to provide a wealth of promotion, marketing, investments, law, and trade information. Trade policies, sector reports, the Diagnostic Study and other information pertinent to the implementation of the trade sector strategy, market intelligence to producers and exporters are also included. MoC also envisions using the site to post information pertinent to the implementation of the trade sector strategy, and monitoring of poverty outcomes once they become available. Sustainability of the work was ensured through an ongoing capacity building of five MoC counterparts who were assigned to work on a daily basis on various software used for web design and website upkeep. After the launch of the website, much positive feedback were received praising the comprehensiveness and the usefulness of the data available.

...I have just surfed the web site of MOC. My most sincere and warm congratulations for a great job! This openness and sharing of information is really a contribution to policy making in Cambodia. I hope other ministries will follow suit....

Francesco Goletti
Team Leader
Ministry of Agriculture, Forestry, and Fisheries
ADB TA 3695-CAM
Agricultural Sector Development Program

Capacity Building for trade support and trade policy-making:

133. The early days of the IF exercise were difficult, due to the novelty of the initiative and the embryonic effort to promote a broader national constituency on trade and poverty between the MoC as the leading government institution on trade reforms and other key trade stakeholders. Moreover Cambodia lacks a network of domestic specialists and resource persons knowledgeable in international trade rules and the management of international trade functions. The World Bank has been instrumental in providing support to the development and strengthening of ownership and partnership mechanisms to support the formulation, implementation, and monitoring of the Pro-Poor Trade Sector Strategy. Capacity building efforts took into consideration the very special human and institutional conditions of Cambodia, owing to the country's level of development and its recent history. Concrete examples include training on international trade rules and the management of international trade functions, strengthening the capacity of Cambodia's trade support and trade policy-making institutions.

Tools for Private Sector Support:

134. Work is underway to complete a national and provincial resources data bank which is an user friendly multimedia resource for entrepreneurs and investors alike. Hyper linked texts and pictures cover human resources, educational, business, tourism and cultural, environmental, mineral and geological, infrastructure, transport, international trade, agricultural, investment, and mapping resources. The data will be put into a CD-ROM format and made available for key stakeholders in the trade and investment communities.

Publications of Khmer Trade Newsletters:

135. MoC has mobilized researchers to contribute articles for its Khmer Trade Newsletter which is published quarterly. The readership is widespread, reinforcing MoC's belief in the strong interest of society as a whole to get engaged in some way in the trade and economic development process of the country in this era of globalization.

Development of the Legal Framework:

136. At the heart of the development of a strong and vibrant private sector lies the need to put in place a sound commercial legislation framework. The World Bank has played a key role in the process and now results are forthcoming, with the recent passage of the Law on Marks, Trade names and Acts of Unfair Competition by the Parliament in January, 2002, and the adoption of the draft Business Enterprise Law by the Council of Ministers in April, 2002. The draft Commercial Arbitration Law is next on the agenda.

Economic Integration and International Trade:

Translation and publication of the Trade Diagnostic Report:

137. "Cambodia: Integration and Competitiveness Study" - English and Khmer version: The Diagnostic Study when translated into Khmer will find a wider audience among the Cambodian stakeholders.

Conference on Globalization:

138. A Conference on "Globalization: Business and Law" was held last June 2001 providing the first real opportunity for stakeholders' debate on opportunities and challenges facing Cambodia in process of joining the WTO. The conference proceedings was published and widely circulated in English and in Khmer.

Support for WTO accession:

139. Publication of Results of the Uruguay Rounds in Khmer: MoC has undertaken the translation and publication of the Results of the Uruguay Rounds into Khmer. In the near term the document will be extremely useful for WTO team members who are not well versed in the WTO Agreements and its trade jargon. In the medium term, MoC can use the materials to further reinforce the capacity of the WTO Think Tank and the Cambodian private sector, and to foster deeper appreciation of WTO rules and obligations. Eventually these legal texts will need to be submitted and ratified by the Parliament as part of a constitutional requirement, prior to Cambodia becoming a fully fledged member of the WTO.

Trade policy matrix for the PRSP:

140. The World Bank has also provided technical support in the development of a draft policy matrix for inclusion in the full PRSP to advance the trade sector strategy as a tool to alleviate poverty. The matrix was widely circulated and discussed at the recent National Workshop on PRSP.

Stakeholders Awareness Workshop:

141. "Trade Mainstreaming: Making Trade Works for the Poor." MoC is scheduled to hold over the coming few months a series of inter-ministerial workshops/seminars to raise overall appreciation of trade liberalization efforts and their poverty impact.

Other support from the World Bank Group

142. The Mekong Project Development Facility (MPDF) is a multi-donor funded initiative managed by the SME Department of the World Bank Group. Its objective is to promote the development of locally-owned small and medium sized enterprises in Cambodia, Vietnam and Lao PDR. In Cambodia, MPDF's interventions focus on the meso and micro level, in order to develop the competitive advantages of Cambodian enterprises.

143. *Meso level: Human Capital/Entrepreneurial know how.* MPDF has launched a series of 12 affordable self-study work books for entrepreneurs to learn, at their own speed, about marketing and human resources. Another 20 titles will be available over the next year in production, book-keeping and management skills. This material is will be converted into teaching material to be delivered in modular form by MPDF's partner training institutions in Cambodia.

144. *Business Associations.* MPDF has assisted in the development of a number of business associations including the rice millers and the hotel and guest house owners in Siem Reap. Others will be supported, as the functioning of cohesive and representative associations provides an effective mechanism for information sharing and skills development for its members.

145. *Finance for SMEs.* MPDF has provided multi-bank training to staff of all members of the Association of Banks of Cambodia, and has also provided training to individual banks. More intensive technical assistance has and will continue to be provided to individual banks. The objective is to improve the service that the private banks provide for Cambodian SMEs. MPDF is also working with some micro-finance projects to assist them convert to sustainable MFIs.

146. *Trade Promotion.* A handbook on trade finance for SMEs will be produced. Relevant bank staffs have already received some training in trade finance and more is planned. MPDF has started to work with the tourism industry to improve its awareness and use of e-commerce. In time, MPDF may work with certification agencies to broaden the acceptance and implementation of certification processes.

147. *Micro level:* MPDF has and will continue to provide technical assistance to a wide range of SMEs in Cambodia. This TA includes assisting with market access, improving quality processes and products, assistance in raising finance, amongst others. MPDF works with SMEs across sectors and for example is currently working with a number of export-oriented agro-processing businesses, handicraft producers and companies in the tourism sector.

148. **Integrated Trade Facilitation Initiative:** A proposal put forward by the World Bank is to review import and export processes with a view to consolidating procedures, eliminating duplication, streamlining and simplification, and reducing "bureaucratic costs" (Customs and Excise, Ministry of Commerce-Camcontrol, CDC, etc.) resulting in increased revenue collection, and more efficient trade

operations). In light of the revenue implications, implementation of the Customs automated system should receive top priority. The project will seek to develop an integrated information technology strategy (master plan) and related systems for import and export processing with the participation of government agencies, service providers (brokers, freight forwarders port authorities etc.), and private sector "clients" (importers exporters). Review of tariff policy and administration should be made taking into account the PRGF Tariff restructuring, AFTA/CEPT commitments, and WTO tariff offers. On WTO accession, customs implications -valuation, origin, appeal rights, etc. will also be looked at. The project proposal needs to be synchronized with UNCTAD's port management project proposal. Funding is not yet secured on this project.

(f) WTO

149. In general the technical assistance provided to Cambodia by the WTO as been aimed at human and institutional capacity-building for better understanding of and participation in the multilateral trading system. More specifically in the area of accession, the WTO Secretariat has been very efficient and proactive in the provision of technical support for Cambodia's Working Party meetings. In the IF "mainstreaming" process, Cambodia has benefited from the advice of the WTO trade policy review team and the dynamic support from the IF team.

Trade Policy Courses:

150. Cambodia has benefited every year from both the WTO three-week Short Trade Policy Course and the three month Trade Policy Courses specifically for participants from LDCs in Geneva.

National Seminars:

151. National seminars have also been organized by WTO to provide Cambodian officials an overview of the multilateral trading system and to disseminate information on the functioning, basic rules and principles of the WTO and its Agreements. Cambodian officials and private sector participants have regularly participated in specialized regional seminars focusing in depth on specific WTO Agreements and provisions, such as customs valuation, market access, trade and environment, TRIPS, and agriculture (mandated negotiations).

Technical Missions:

152. WTO has provided several technical missions to assist Cambodia in WTO accession.

153. Establishing modern data processing facilities ("WTO Reference Centre"): As Cambodia gears up for its accession to the WTO all trade-sector stakeholders within and outside government need to have access to up-to-date information about the WTO and other trade specific references materials which are sparse and poorly disseminated in Cambodia for the most part. With support from the WTO Secretariat, the MoC has established a "WTO Reference Centre" with modern data processing facilities and better communication and information technology, including Internet links. The Center is being renovated and expanded to house extensive trade specific references obtained from various sources including the ADB, ESCAP, IMF, ITC, OECD, UNCTAD, UNDP, World Bank, and WTO materials. Other training materials and conference/workshop proceedings are also available. Once completed the Center will be open to the public.

B. OTHER ACTIVE CONTRIBUTIONS IN CAPACITY BUILDING EFFORTS [BY AGENCIES AND INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs) AND BILATERAL DONORS]

(a) Asian Development Bank (ADB)

Access to Legal Resources:

154. As part of its regional outreach program the ABD has just launched the DIAL "Development of the Internet for Asian Law" Research Station Project at the MoC. The DIAL project, which aims to make it easier to find and use legislation-related material from the Internet, will complement and mutually support the ongoing and future initiatives of the Government in the development of the legal framework and the free exchange of information available in the WTO Reference Center. The use of the research station is free, open, and accessible to legislative draftspersons, law and policy reform personnel and the public.

SME sector sub-strategy:

155. The IF Diagnostic Study on Cambodia competitiveness and Integration refers extensively to the role of small- and medium-sized enterprises (SMEs). The ADB has expressed its support for conducting an SME sector study as a follow up of the diagnostic studies.

Improving Legal Infrastructure in the Financial Sector:

156. After the adoption of the Financial Sector Blueprint for 2001-2010 in August 2001 with ADB technical assistance, MoC has obtained technical assistance to improve the legal infrastructure in the financial sector. Activities will aim at developing the key legal infrastructure that underpins financial and commercial activities such as a secured transactions system, legal basis for money markets, government bond law, and ecommerce transactions law. The project will start in the later part of 2002 and fits well in the development scheme for supporting SME.

(b) UNESCAP

WTO accession and trade facilitation sector:

157. As a regional development partner in the IF process, ESCAP has assisted Cambodia in the area of WTO accession, regional trade facilitation and sectoral needs assessment missions in particular for the fisheries sector. ESCAP in tandem with ADB and MoC has hosted a four days Subregional Workshop on Facilitating Trade in Indo-China Countries in June 2001 with participants from GMS countries (Cambodia, China, Lao PDR, Myanmar, Thailand, and Viet Nam) who exchanged ideas on subregional cooperation on trade facilitation. They agreed on the important role that trade facilitation measures can play in invigorating trade in the Greater Mekong Sub-region (GMS). In this regard, the sub-regional workshop called for urgent action to improve trade facilitation both nationally and regionally and it was agreed that a holistic approach is needed to address the wide range of trade facilitation issues that are inhibiting trade flows. Cambodia also seeks assistance from ESCAP to develop an Electronic Data Interchange and other electronic commerce systems to improve the processing of trade related documents.

Familiarisation with the Bangkok Agreement:

158. Cambodia is considering the opportunity to accede to the Bangkok Agreement now that China has joined the grouping. ESCAP has done a preliminary market analysis which has shown that Cambodia's export structure is highly complementary to major BA markets and as such there are great export opportunities for Cambodia in the BA region, in particular the huge markets of China,

India, and the Republic of Korea. Such a finding was presented by ESCAP to Cambodia at a familiarisation workshop to key Cambodian policy makers. Technical sessions will follow over the next several months.

159. *New Technical assistance* will be provided to Cambodia in the next several months and include (1) Poverty Alleviation and Social Integration, (2) trade facilitation and e-commerce, and (3) trade policy and trade promotion.

(c) UNCITRAL

Familiarisation of International Trade Law:

160. UNCITRAL has conducted a workshop to for key Cambodian ministries and private sector participants on the various international trade laws such as the United Nations Convention on Contracts for the International Sale of Goods (1980), the United Nations Convention on Independent Guarantees and Stand-By Letters of Credit, the UNCITRAL Model Law on International Credit Transfers and the draft United Nations Convention on Assignment of Receivables in International Trade, the UNCITRAL Model Law on Electronic Commerce and the UNCITRAL Model Law on Electronic Signatures, the UNCITRAL Model Law on International Commercial Arbitration (1985); the UNCITRAL Arbitration Rules (1976) and UNCITRAL Conciliation Rules (1980); Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 1958); the UNCITRAL Model Law on Procurement of Goods, Construction and Services, with Guide to Enactment (1994); the UNCITRAL Legislative Guide on Privately Financed Infrastructure Projects (2001); and the UNCITRAL Model Law on Cross-border Insolvency and the draft legislative guide

(d) Australia

Sanitary and Phytosanitary Capacity Building:

161. Cambodian agricultural production has a relatively high incidence of pests and diseases. This constrains economic and social development, with significant direct impacts on the poor. However, Cambodia's efforts are constrained by significant limitations on regional Sanitary and phytosanitary (SPS) capacities. Improvements in SPS capacities are capable of making a major contribution over time to the alleviation of poverty, and the maintenance of food security. National laws and regulations do not always fully support SPS-related organisations. National quarantine (and pest and disease management) policy is sometimes not fully effective, and inter-agency coordination is sometimes inadequate. One important factor is lack of knowledge in Cambodia of its specific quarantine relevant situation (i.e. the prevalence of specific pests, weeds and diseases in individual crops and/or agricultural products). In some cases, there is also an incomplete understanding of current international rights and obligations on quarantine under the WTO.

162. Australia intends to use a regional initiative, ASEAN-Australia Sanitary and Phytosanitary Capacity Building Program, to contribute to overcoming these constraints through a targeted program of building institutional capacities over the next four years in ASEAN countries, including Cambodia. Key areas of capacity building include:

- improved practical capacities to manage pests and diseases
- improved technical data bases and information systems, including reference collections of plant pests and diseases improved monitoring and surveillance systems and practices
- strengthened national legislation and regulation

- improved operational capacity to manage border quarantine services
- improved technical and policy capacity to assess the need for, and design, national quarantine standards and measures for imports
- effective pre-export inspection services and quarantine facilities, and routine treatments and/or certifications for exported products in relation to endemic pests and diseases improved inter-agency cooperation and coordination at the national and regional level a clear understanding of the basic international SPS rights and obligations under the WTO.

(e) Austria

International Standards and Technical Regulations:

163. Cambodia does not have the capacity to deal with international standards, requirements and technical regulations which are essential for trade and for producers/consumers. Without capacity to deal with them, they become a real obstacle to Cambodia exports and thereby to production and investment. For that purpose, Austria has confirmed a contribution to UNIDO of up to EUR 600.000 to build trade-related supply capacities in Cambodia. This fund will enable Cambodia to establish essential quality and conformity assessment infrastructure (standards, metrology, certification, accreditation) as well as assist high export-potential sectors to upgrade product/ production quality, and comply with standards and regulations for exports.

(f) Canada

APEC/WTO Capacity Building Initiative:

164. CIDA's APEC Economic Integration Program which was originally aimed at four APEC developing economies in Southeast Asia, i.e. Vietnam, Indonesia, Philippines, and Vietnam. CIDA is considering adding Cambodia and Lao into the program.

165. The Government of Canada has also expressed its support in the area of private sector development.

(g) European Commission

Trade Sector Development:

166. The Country Strategy Paper (CSP) for Cambodia has been finalized and covers the period 2000-2003. In addition to a five year strategy, the EC is currently finalizing a rolling three year Indicative National Programme (2002-2004) where a contribution of € 2 million is foreseen. Possible priority areas for EU assistance are: institutional capacity building, trade facilitation/customs procedures and other procedures to make full use of the EBA initiative. Assistance may also be required for helping Cambodia diversify its exports in areas such as agriculture and fishery products, as well as in relation to food quality control projects.

167. Further assistance is needed, in particular, for human resource development in the MoC and other authorities involved in international trade. The Institutional Support Programme already under preparation will provide TA to the MoC and the TA should, in addition to other tasks, assess the need for additional EC support to assist Cambodia to enhance its capacity.

WTO Accession:

168. Another major specific objective of the EU intervention is to assist Cambodia in preparing for accession to the WTO. On a more detailed level the objectives are:

- to assist Cambodia to improve and build basic conditions for a sustained and stable economic growth and determine the areas of the national economy that should be liberalized at a slower pace in the accession negotiations;
- to assist Cambodia in preparing the necessary documents required for accession to the WTO, with particular emphasis on the drafting of the agriculture support tables;
- to increase knowledge among Cambodian officials about international trade policy and the WTO via appropriate economic and legal training and on international negotiations;
- to strengthen Cambodian expertise on WTO provisions, rules and disciplines;
- to improve the legal and regulatory framework and the administrative capacities to ensure compliance with WTO requirements; and
- to broaden the sector base for export development.

IPR/SPS/TBT:

169. At the regional level the EC foresees an additional €1 million for actions that would allow Cambodia's integration (1) into the EC/ASEAN IPR programme which aims to achieve further economic co-operation by upgrading the ASEAN intellectual property rights systems, and (2) in the EC/ASEAN standards programme that aims at the development of technical regulations and standards, conformity assessment procedures and quality structures and practices compatible with EU ones.

(h) France

IF familiarisation Missions:

170. Throughout the entire IF process Cambodia has greatly benefited from the financial support of the Government of France which enabled Cambodian participation in various regional and international forums on trade and development.

IPR protection (Geographical Indications and Border Measures):

171. The Government of France has provided technical assistance in the development of a system of geographical indications, a specialized field of intellectual property, including the drafting of a legislation and implementing regulations in line with the TRIPS Agreement. In this area Cambodia has good potential to develop its own geographical names, along with other collective names as provided under the recently enacted Trademark law. Moreover technical assistance was also extended by the French Customs in the strengthening of border measures for the control of cross border counterfeited goods.

(i) Germany

Legal Framework for Small Trade Guilds:

172. Through the Koblenz Chamber of Trade and Skilled Crafts, MoC has received technical support to prepare a draft legislation to govern small trade guilds.

Promotion of SME Term Lending Pilot Project:

173. The goal of the pilot project is the development of commercial banking sector in SME term-lending as part the financial system development. KfW will provide a grant of €3 million to the Government for on-lending to SMEs.

(j) Japan

Resident Commercial Advisor at MoC:

174. Since 1998 JICA has dispatched a Resident Commercial Advisor to the Export Promotion Department of MoC.

Master Plan Study for improvement of the marketing system and post-harvest quality control of rice:

175. Despite the surplus of rice production in recent years, there still remains many issues to be overcome in rice quantity and quality in Cambodia as a result of poor distribution system and inadequate post-harvest practices. Japan has provided a massive technical team to assist Cambodia conduct a Master Plan Study for improvement of the marketing system and post-harvest quality control of rice taking into account also the need for strengthening national food security. Moreover capacity building and transfer technologies were imparted to Cambodian counterpart personnel through on-the-job training in the course of the Study. The Master Plan Study focused on the fields of marketing system and post-harvest quality control of rice in 10 provinces. Major findings from the study were used in the analysis of the IF diagnostic studies.

Regional Development Master Plan of the Phnom Penh – Sihanouville Corridor:

176. Cambodia has received Japanese assistance in conducting a Regional Development Master Plan with a focus on encouraging industrial development along the Phnom Penh – Sihanouville corridor in close relationship with Sihanouville Export Processing Zone (EPZ). This Study will include a feasibility study on the said EPZ, and comparative analysis of Foreign Direct Investment (FDI) and industrial development in the neighbouring countries.

(k) New Zealand

Trade Policy and Agriculture Sector Analysis:

177. Cambodia has just completed its second Working Party meeting at which time the first plurilateral meeting on agriculture was held. Cambodia's domestic support and export subsidy tables were discussed at that meeting. Several questions have also been raised on Cambodia's agricultural policies. In order to complete accession requirements as they relate to the Agreement on Agriculture, Cambodia must complete two processes: the multilateral dialogue on its agricultural policies, and the bilateral market access negotiations. The Government of New Zealand has provided technical assistance in the area of trade policy analysis and in particular on key implications of the Agreement on Agriculture on Cambodia. This support was timely and enabled the Cambodian key negotiators to

better understand the Agreement – technical explanations about the rules and commitments; how to determine whether Cambodia’s agriculture policies are in conformity - and specific commitments as they prepare themselves for bilateral market access negotiations and the formal plurilateral meeting on Agriculture.

Trade Negotiations Tools:

178. The Government of New Zealand has also contributed to the overall effort to build capacity among the key WTO trade negotiators by providing funding for the translation into Khmer and publishing of the "ABC of Trade Policy: Compendium of Trade Terminology". The initiative complements two other initiatives funded by UNCTAD and the World Bank, namely the "Business Guide to the World Trading System", the "Tools for Multilateral Trade Negotiations on Agriculture," the "Tools for Multilateral Trade Negotiations on Trade in Services," and the “Results of the Uruguay Rounds: Legal Texts.”

(l) Singapore

179. As part of the *Initiatives for ASEAN Integration (IAI) - Trade Training Program*, the Government of Singapore has been conducting and continues to conduct a series of trainings for Cambodian key economic officials in the area of trade development, trade policy analysis, export promotion, and trade facilitation.

(m) Thailand

180. Trade negotiations and other WTO accession related capacity building were provided by the Government of Thailand to Cambodia during its preparation for the first and second Working Party meetings.

(n) United Kingdom

181. Stakeholders consultation on the issue of trade liberalization and poverty reduction have been ongoing since Cambodia first initiated its Pro-Poor Trade Sector Strategy. The debates go on with the recent development of the Trade Policy Matrix for inclusion into the PRSP. MoC intends to hold a national stakeholders’ workshop focusing on finding ways to make trade work for the poor. MoC also intends to draw and capitalize on the outcomes of various research on the subject, including DFID’s recent publication entitled “Trade Liberalization and Poverty Reduction: A Handbook” the translation of which will be supported by the Government of UK. Other materials used are the Oxfam’s Make Trade Fair publication and Cambodia trade policies.

VIII. THE COMING MONTHS

182. The MoC will organize a national workshop in Phnom Penh with key stakeholders to wrap up the trade policy matrix discussions. The workshop process should bring to closure on the issue and enable MoC to work with CSD to complete the “mainstreaming process” of the trade sector strategy into the PRSP.

183. On the WTO accession side there will be a strong push to get the key trade negotiators readied for the third Working Party meeting in July or August. Bilateral negotiations will also be held some in Phnom Penh and some others in Geneva.

184. With the Project on Capacity Building for Pro-poor Trade Reforms up and running the MoC will over a period of one year strive to consolidate earlier achievements of the IF, in particular to

continue promoting a national constituency on trade and poverty through a strategic and information-based partnership development approach and to enhance opportunities for effective allocation of ODA towards trade, through the strengthening of supply side responses. With the UNDP team and civil society organizations the MoC will further elaborate on the links between poverty reduction/ human development and trade expansion.

185. The MoC will continue broad consultations with additional donors who have shown interest in supporting the IF process, in particular the US and Nordic countries like Denmark, the Netherlands, Norway, Finland, and Sweden.

186. With the business sectors the MoC will deepen further the process of consultation and dialogue aimed at fine tuning a truly stakeholder-owned plan of action for the trade sector in light of the global economic and political development.

IX. CONCLUSION: "CAMBODIA LEADING THE WAY...TO THE FUTURE..."

187. Cambodia is a success story in the "IF" Pilot Scheme. Cambodia has a historic opportunity to play a larger role in the global arena by sharing Cambodia's success stories to the rest of the world. This success does not come without risks. So much has happened since Cambodia selection as a Pilot Country Scheme, in terms of process, in terms of policy reforms, in terms of expectations from stakeholders, in terms of maintaining momentum.

188. When an article appearing in the World Economy Journal highlighted Cambodia as a case study, the eyes of the world were focused on Cambodia. The efforts expended to ensure that Cambodia succeeds as an IF pilot country are indeed heavy, but not compared to the pressure to remain there. Cambodia can only go but so far on its own. Donor support will help us overcome the many challenges that lie ahead of us and ultimately help us achieve the Millennium Development Goals with "great honours".

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ENDNOTES

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- i WTO document, paragraph 2, WT/LDC/HL/1 Rev.1 October 1997.
- ii The present criteria for selecting a country are broadly as follows: (i) demonstration of a strong commitment in-country to integrate trade into the national development strategy, (ii) the preparatory stage of the development programme (iii) the preparatory stage of lead agencies donor meetings, and (iv) conducive operational country environment (i.e. pace of domestic reform, resource base of the lead agencies country offices, likely donor response) (for details see WTO document; WT/IFSC/W/9).
- iii The paper was prepared and presented by Susan Prowse, Senior Economic Adviser from the Department for International Development (DFID), UK, currently on secondment from the International Monetary Fund.
- iv The article was also written by Susan Prowse.
- v Mainstreaming Trade for Poverty Alleviation: Formulation of a pro-poor Trade Sector Strategy for Cambodia, presented by the Royal Government of Cambodia at the Cambodia's Fifth Consultative Group meeting, Tokyo, June 11-13, 2001.
- vi "Coherence" is one of the WTO's five core functions. see Marrakech Agreement Establishing the WTO, Article III:5; and Marrakech Declaration on the Contribution of the WTO to Achieving Greater Coherence in Global Economic Policy-Making.
- vii Chiedu Osakwe, and Sarath Rajapatirana, *The Policy-Relevance of Mainstreaming Trade Into Country Development Strategies - The Perspective of LDCs*, Background Paper.
- viii Byong Jo Chun, Xuechun Zhang, Ashok Sharma, Arun Hsu. Cambodia: Financial Sector Blueprint for 2001-2010, Asian Development Bank 2001.
- ix Law on Investment of the Kingdom of Cambodia as promulgated by Kram 03 NS 94 of August 05, 1994
- x FIAS, Report on the Review of the Law on Investment, Phnom Penh, 2000.
- xi Opening Address made by Siegmur Mosdorf, Parliamentary State Secretary of the German Federal Ministry of Economics and Technology (BMW) at the International Policy Dialogue "Attracting Private Sector Participation to Infrastructure Development in LDCs", Third UN Conference on Least Developed Countries, May 2001.
- xii The existing overall strategies of the RGC have been articulated in the following strategic statements: The National Program to Rehabilitate and Develop Cambodia (NPRD-1994); the Five-Year Socio-Economic Development Plan (SEDP I); the Triangle Strategy; the Royal Government Platform for the Second Term 1998-2003; and the Policy Framework Paper (PFP).
- xiii Office of the National Economic and Social Development Board and Kasetsart University Research and Development Institute, The Joint Development Study for Economic Cooperation Plan between Thailand and Cambodia (TCJDS), November 2001.
- xiv Afghanistan (Economic Cooperation Organization-ECO), Bangladesh (SAPTA, BIMST -EC51, Bangkok Agreement), Bhutan, Nepal and Maldives (SAPTA), Cambodia (AFTA), Lao PDR (AFTA, Bangkok

Agreement), Myanmar (AFTA, BIMST -EQ, Solomon Islands and Vanuatu (MSG , PARTA , SPARTECA"), Kiribati, Samoa and Tuvalu (PARTA, SPARTECA).

^{xv} The combined GDP of the ASEAN-10 was about US\$ 700 billion in 1996. The region experienced high economic growth of 5% to 7% in the 25 years before the financial crises in 1997.

^{xvi} Pich Rithi, "Impact of Economic and Trade Liberalization on Cambodia", Conference Proceedings: Globalization Conference: Business and Law, Preparation for WTO Accession: Experiences and Lessons Learned, June 27 -28, 2001, Phnom Penh.

^{xvii} The Greater Mekong Subregion (GMS) consists of Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam, and Yunnan Province of the People's Republic of China.

^{xviii} Trade "complementarity" between two countries is the extent to which one country's export structure matches another country's import structure more closely than it matches the pattern of world imports. It is an indication of trade potential between two countries.

^{xix} The eight priority areas of reform identified in the GAP are the Legal and Judicial Reform, Administrative Reform and Deconcentration, Decentralization and Local Governance, Public Finance Reform, Anti-corruption, Gender Equity, Demobilisation and Reform of the Armed Forces, and the reform of Natural Resources Management.

^{xx} For a comprehensive reading on this subject, see Siphana Sok "Formulating the Legal And Judicial Reform Strategy For Cambodia", MoC and CLRDC, 2002.

^{xxi} This section is extensively drawn from a detailed analysis of Dr. Craig VanGrasstek, "Laws and Policies of the United States of America Concerning the Accession of Cambodia to the World Trade Organization," UNCTAD February 8, 2000.

^{xxii} See the "Protocol for the Accession of Cambodia," in General Agreement on Tariffs and Trade, Basic Instruments and Selected Documents Eleventh Supplement (Geneva, Switzerland: GATT, 1963), pages 12-16. Note that this document does not include the annexes to the protocol (which would consist primarily of the tariff concessions that Cambodia made in the negotiations over its accession).

^{xxiii} Tekreth S. Conference Proceedings: Globalization Conference: Business and Law, Preparation for WTO Accession: Experiences and Lessons Learned, June 27-28, 2001, Phnom Penh.

^{xxiv} As a sign which reflects the importance Cambodia attached to the accession process Cambodia dispatched a large delegation comprising of 32 and 22 senior officials to the first and second WP respectively.

^{xxv} The idea was followed up by the ECE for economies in transition which had been able to accelerate their internal reforms. The approach would "involve radically streamlined review and evaluation procedures, more frequent meetings of the Working Parties, and flexible, individual schedules for individual countries" (Economic Commission for Europe (ECE) document, Committee for Trade, Industry and Enterprise Development, Fourth Session, 21-23 June 2000).
