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FOREWORD

Cambodia has entered a very interesting phase. A significant period of peace and macro-economic stability achieved by the Royal Government of Cambodia and the international community has rewarded Cambodia with a degree of dynamism, high economic growth and hopeful outlook. Inner resources to fuel growth are now changing base. Contributions from forestry resources, abandoned during decades of wars, will be replaced by oil and gas, a move from surface to underground exploitation. The external sector, which has also contributed substantially, is relatively moving towards more of private investment and trade. Regional growth and globalisation, which have resulted in handsome spillovers, will continue to cast more effects. Foreign investors that look for resource abundance (cheap labour and land) and foreign visitors eager to glance the many famous ancient temples will remain important drivers of economic growth.

While Cambodia enjoys these ample opportunities, it faces the challenge of accelerating poverty reduction and achieving development with equity. We see this as a challenge for all players. By way of achieving our goal to contribute to sustainable and equitable development of Cambodia, the Cambodian Economic Association (CEA) provides space for those interested in debating socio-economic development issues to publish their research-based views in our annual Cambodian Economic Review (CER). We believe in knowledge building and sharing. And we advocate in knowledge-based policymaking.

This third issue presents the challenges of contemporary issues that Cambodia is facing. The first paper examines the economic inequality in Cambodia, a concern for many. The second paper reviews Cambodia's agricultural production and trade, which is believed to be the direct source for reducing poverty and narrowing the rural-urban gap. The third paper underlines the non-tariff measures facing Cambodia's exporters. And the final paper discusses labour migration into and out of Cambodia, another way for rural residents to cope with stresses caused by the lack of employment creation in the country.

The Cambodian Economic Review targets a mixed audience, which is a challenge for its style. While we aim to contribute ideas to policymakers in various circles, we would also like to provide information to university students and development practitioners. We strive for excellence. We recognise that there is still a long way to go to achieve the standard comparable to that of the international refereed journals. We are taking steps towards that by trying to continuously improve our quality of the publication. We cordially invite participation and feedback of all that are interested in sharing their knowledge through this independent arena.

We thank you for your support.

Chan Sophal
President of CEA

ECONOMIC INEQUITY IN CAMBODIA

Sok Hach *

I. INTRODUCTION

The current paper is prepared in response to the global World Development Report 2006 on Equity and Development produced by the World Bank and to be launched in Cambodia on June 13, 2006. The WDR 2006 tackles inequality in two parts: *inequality in opportunities* and *inequality in outcomes*. As four other discussants are writing different aspects of inequality in Cambodia, namely the social, legal, political and historical aspects, the current report focuses on the economic dimension.

In line with the World Development Report 2006, economic inequality is defined as unequal status of individuals' well-being as measured by their consumption, income or wealth. Economic well-being can contribute to improved education outcomes and better health care. In turn, good health and good education crucially determine the economic status of individuals (World Bank, 2006). Thus, the economic aspect of equality intertwines both the opportunities and outcomes. Providing equal opportunities to all citizens does not mean that everyone will achieve an outcome equally since other factors can also make a difference. However, if opportunities differ between members of a society, potential gains from efficiency are lost. Promoting equal opportunities promotes economic efficiency as well as equity (Bourguignon, 2006).

Cambodia resumed its reconstruction and development after severe and pervasive destruction by more than two decades of civil war. Those who survived the Khmer Rouge regime (1975-1979) were almost empty-handed and pursued their livelihoods on an egalitarian manner as the country continued to follow a socialist regime. All the people were relatively equal and poor in terms of economic well-being throughout the 1980s, when the socialist type of regime was implemented in isolation from the Western world.

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With abundant land, labor, forests and fisheries but poor communication systems and governance, Cambodia suddenly opened its borders to the rest of the world in the early 1990s to follow a peace deal that required pursuit of democracy and market economy. This resulted in the market-valuing of national assets, primarily the abundant forests, fisheries, lands, and buildings. These resources suddenly found market prices and rose dramatically in value. However, not everyone enjoyed windfalls. Although the Cambodians had more or less equal outcomes in the 1980s, they were not situated on equal footings.

Naturally, those living in urban areas, especially Phnom Penh, enjoyed the advantage of receiving early outside interests, external assistance and foreign direct investment. Moreover, those having the authority over the distribution and management of these resources benefited the most by enriching themselves in the absence of a strong system of checks and balances system.

Over the last decade, Cambodia's macroeconomic numbers have performed reasonably well, largely thanks to external assistance.¹ Economic growth has been considerably high, averaging 7 percent per annum, and inflation has been kept on average in the single digits (NIS, 2005). The industry and service sectors picked up in the late 1990s due largely to the granting of preferential trade status by the USA and the EU. However, the largest export industry has yet to offer poverty-reducing wages, and many Cambodians have been left out in many corners of the countries. A 2004 national survey found 35% of the population living below the national poverty line of less than \$0.50 per capita per day. Despite the high economic growth, the poverty rate declined only by 1 - 1.5 percentage points per annum during the past decade which saw an inflow of \$6.5 billion in foreign aid (World Bank, 2006).

Furthermore, there has been substantial and rising inequality between urban and rural areas and residents. A small group of the elite has emerged and now controls a large part of Cambodian assets and land. Based on the comparable socio-economic surveys of 1993/4 and 2003/4, the richest 20 percent of the population managed to increase their well-being, measured by household consumption, by 56 percent, while the poorest 20 percent improved by only 8 percent. During this period, the Gini coefficient of household consumption increased from 0.35 to 0.42 (World Bank, 2006). How did such inequality occur, and how has it risen so rapidly over such a short period of time? In what ways did the change in economic regime from a planned to market economy contribute to today's high inequality? What were the determinants of this change? Looking forward, what would it take to enable the government to provide effective interventions to contain economic inequality or to avoid inequality traps for those in the bottom quintile?

¹ More than \$6 billion of foreign aid has been spent since 1993. Although roughly half of this amount has gone to foreign technical assistance, this expense has helped to improve the functioning and management of the Cambodian economy. Technical assistance by organizations such as the IMF, the World Bank, the ADB and the UN has tremendously helped Cambodia, which lost substantial human resources under the Khmer Rouge regime.

The current paper attempts to address the above questions in five parts. Following this introduction, the second section presents evidence of inequality in both opportunities and outcomes. Part III explores the determinants of inequality in order to address ways of reducing it, especially inequality of opportunities, in Part IV. In this section, policy recommendations are suggested for promoting equality of opportunity. Finally, Part V concludes the paper with suggestions on future research areas regarding the topic of equity and development.

II. EVIDENCE OF ECONOMIC INEQUALITY

This section briefly points out the evidence of sharp economic inequality in today's Cambodia. The substance of this section is largely drawn from two sources, the World Bank Cambodia Poverty Assessment 2006, an exhaustive assessment of poverty and economic well-being, and a new set of poverty estimates by James Knowles (2005). This part highlights contrasts between rural and urban areas as well as between provinces. It also examines the large differences in terms of outcomes, principally in consumption, income, and land ownership. Finally, it focuses on access to education and health services.

2.1. SPATIAL DIMENSION OF ECONOMIC INEQUALITY

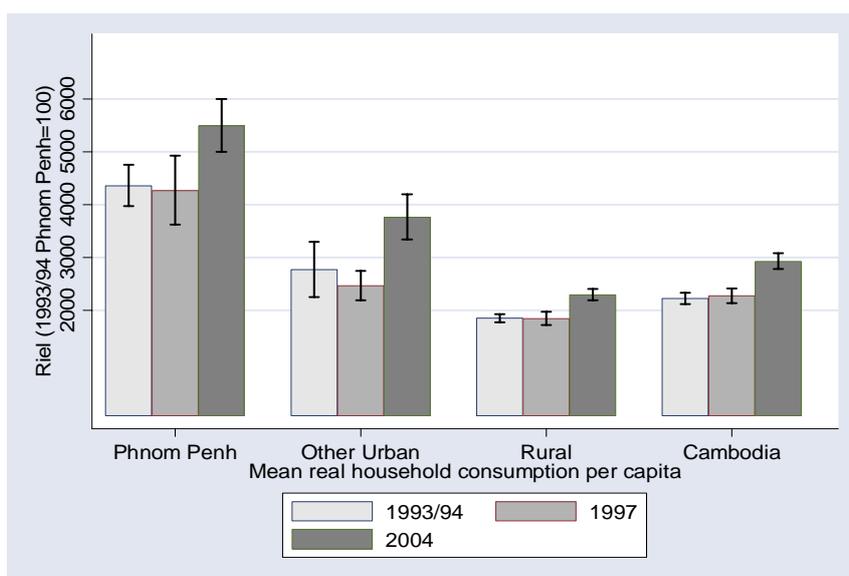
There is considerable inequality between rural and urban areas in Cambodia today. This is the case in almost all aspects, from housing and infrastructure to services and consumption. Economic activities have picked up and have intensified in urban areas, mainly Phnom Penh, Siem Reap and Sihanouk Ville, reflecting their favorable location and the existing infrastructure for investment in the garment industry and tourism. Expecting this trend of inequalities, the Royal Government of Cambodia (RGC) committed in its first five-year Socio-Economic Development Plan an allocation of 65% percent of resources to rural areas (RCG, 1995). However, the outturn was rather the opposite when implemented. Only 35 percent of the resources allocated were actually spent in rural areas. This skewed the already disproportionate development of infrastructure and thereby the existence of a favorable environment for doing business.

Most garment factories, which have been a primary force in generating economic growth and employment, are concentrated in Phnom Penh. Likewise, the hotel services, the second fastest growth generator, are centered in Phnom Penh and Siem Reap. Gains in these sectors further led to rising prices of assets and attracted more settlement in these cities. As a result, the construction of houses, factories and hotels soared, creating more jobs for rural migrant laborers. This multiplying growth effect is mostly retained in cities, with few linkages to rural areas. To point, although the expansion of

Siem Reap town has been dramatic due to the booming tourism sector, Siem Reap province remained the third poorest province, after Kampong Speu and Kampong Thom (James, 2005).

In terms of consumption, Phnom Penh was by far the highest in both 1993/4 and 2004. In real terms, there was a small increase (300 riels per day) in per capita consumption in rural Cambodia during this period (Figure 1).

Figure 1: Mean Real Household Consumption Per Capita



Source: Knowles (2005), based on the Socio-Economic Surveys 1993/4, 1997 and 2004.

The poorest region in Cambodia, in terms of consumption, is the plateau region, followed by the Tonle Sap. The three poorest provinces, namely Kampong Speu (57% poor), Siem Reap (52% poor) and Kampong Thom (52% poor), fall in these regions. People living in the plain and coastal regions did better, although they consumed only half as much as Phnom Penh residents (Table 1, adapted from Knowles 2005). Kandal province, which has the closest proximity to the capital, is the second best-off province in Cambodia. Mean consumption per capita and poverty rate by province, which show the differences between provinces and regions are provided in Table 1 below.

Table 1: Per Capita Daily Household Consumption in Constant 2004 Prices (Riel, 2004 Phnom Penh Prices=100) by Zone and by Selected Provinces, 2004 (Full 15-Month Sample)

| Zone/province | ^b Mean consumption | Poverty Headcount Rate |
|----------------------------|-------------------------------|------------------------|
| Phnom Penh | 8,120 | 4.6 |
| Plains zone | 3,583 | 32.5 |
| Kampong Cham | 3,469 | 37.0 |
| Kandal | 4,233 | 22.2 |
| Prey Veng | 3,140 | 37.2 |
| Svay Rieng | 3,007 | 35.9 |
| Takeo | 3,729 | 27.7 |
| Tonle Sap zone | 3,286 | 42.7 |
| Banteay Meanchey | 3,525 | 37.1 |
| Battambang | 3,614 | 33.7 |
| Kampong Thom | 2,773 | 52.4 |
| Siem Reap | 3,270 | 51.8 |
| Kampong Chhnang/Pursat | 3,214 | 39.6 |
| Coastal zone | 3,809 | 28.8 |
| Kampot | 3,456 | 29.9 |
| Sihanoukville/Kep/Koh Kong | 4,390 | 23.2 |
| Plateau/mountain zone | 2,820 | 51.8 |
| Kampong Speu | 2,480 | 57.2 |
| Other ^a | 3,139 | 46.1 |
| Cambodia | 3,805 | 35.1 |

Source: Knowles (2005) based on 2004 CSES, Page 39.

^a includes the following provinces: Kratie, Mondul Kiri, Preah Vihear, Ratanak Kiri, Stung Treng, Oddar Meanchey, and Pailin.

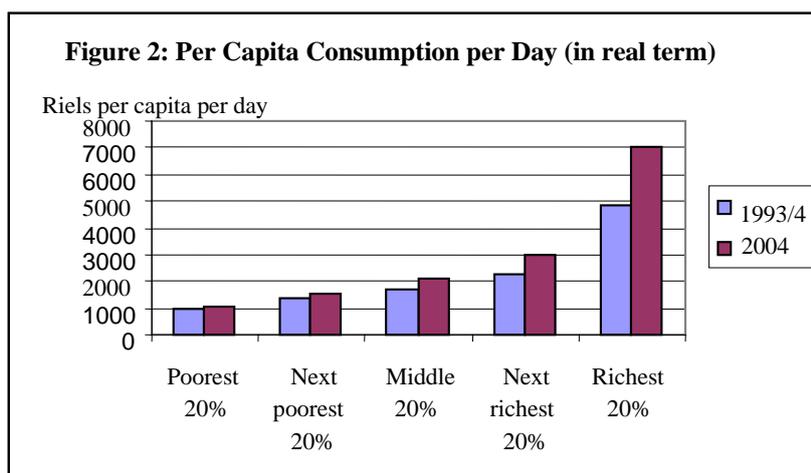
^b means are calculated using the entire 15-month 2004 CSES sample and are population-weighted.

2.2. INEQUALITY IN CONSUMPTION AND INCOME

As outcomes continue to be highly unequal, it becomes more and more difficult to close the gap because the upper group has far too many advantages to secure their continued rising wealth and therefore opportunities (World Bank, 2006, and Bourguignon, 2006).

Two comparable national household surveys in 1993/4 and 2003/4 show substantial inequality in terms of consumption by different quintiles. In 1993/4, the richest 20 percent consumed five times higher than that of the poorest 20 percent. In 2004, the gap increased further to 7 times (Figure 2).

In general, income is a better measure of welfare or economic well-being. However, income is far more complicated to survey and income data is not reliable since people tend to under-report their income in surveys. Hence, consumption is used as a proxy of income. Nevertheless, it can be argued that inequality in income between the rich and the poor in Cambodia would be higher than that in consumption because people do not consume all that they earn. The higher the earnings, the higher the savings, other things being equal.



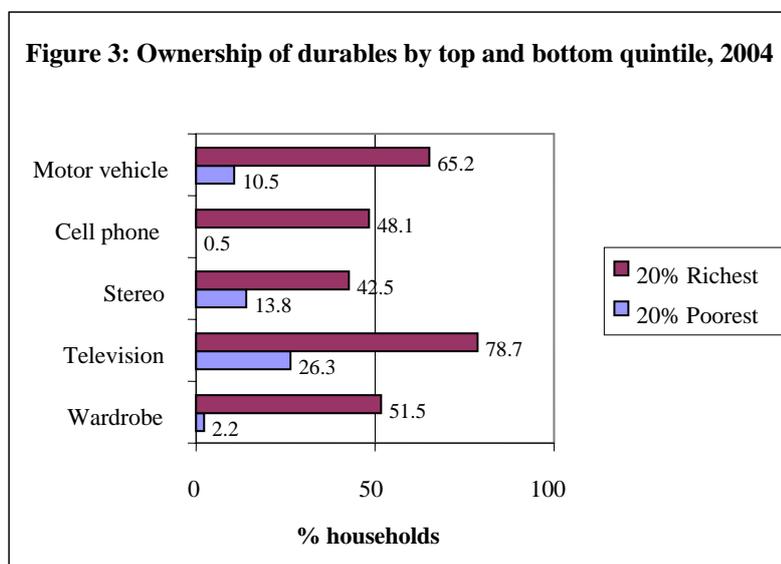
Source: Adapted from James Knowles (2005)

A series of surveys of workers conducted by CDRI found that ordinary workers earned on average about \$2 a day in 2005 (CDRI, 2006). These include garment factory workers, motor-taxi drivers, and construction workers who are supposedly above the poor group in Cambodia. A rice farm worker earns about \$1 a day. To compare with the rather extreme side, a lecturer teaching at a private university earns around \$12 per hour, thus about \$100 a day. Parliament members earn \$2,000 per month and low level civil servants earn on average \$35 per month. This is also true for a large number of freelance local consultants who mostly need a Master's degree and some relevant work experience. To some extent, this reflects the inequality in capacity. Nevertheless, such a large differential of 50 to 100 times of income indicates severe inequality and equity in Cambodia.

2.3. INEQUALITY IN OWNERSHIP OF DURABLES AND ASSETS

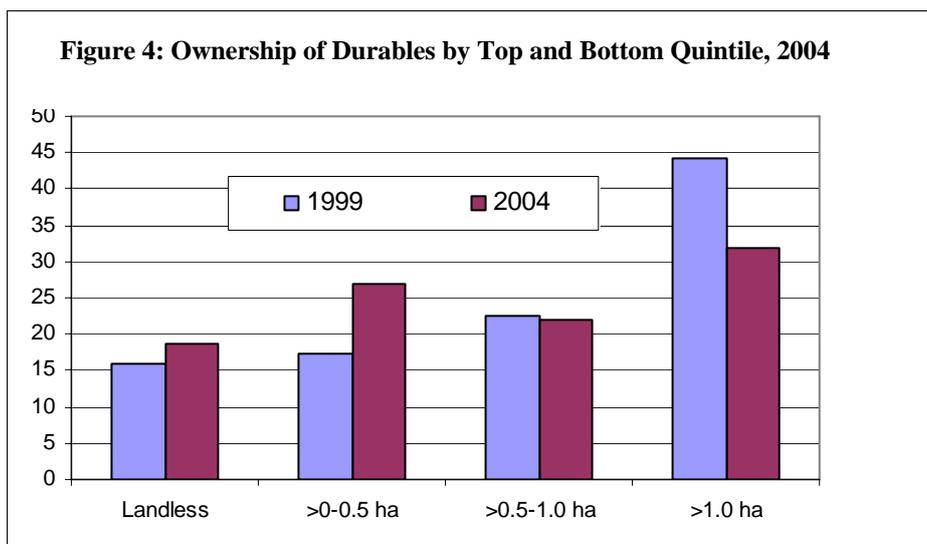
Consumption of durables and stocks of assets are also key indicators of economic well-being. By comparing the top and bottom consumption quintile in terms of these indicators, one can see huge inequality in outcomes. In 2004, only 10.5 percent of the bottom 20 percent households owned a motor vehicle, while 65.2 per cent of the top 20 percent households did (Figure 3). The patterns are similar for the ownership of cell phones, stereos, televisions and clothing. Durables such as motor vehicles and

cell phones are not only outcome indicators, but they also provide advantages in terms of future economic opportunities.



Source: Adapted from James Knowles (2005)

Land is a crucial asset as both a production base and store of value for Cambodians, most of whom still depend primarily on agriculture for their livelihood. Starting from an egalitarian base in the late 1980s, land ownership has gradually polarized with landlessness rising (Chan and Acharya, 2003). Based on the socio-economic surveys in 1999 and 2004, landlessness increased from 16 percent to 19 percent among the rural households. The percentage of households holding small plots, 0.5 hectare or below, also accelerated from 17 percent to 26.5 percent, which is consistent with the reduction of the holders of plots above one hectare (Figure 4). The near landless are even poorer than the landless in terms of income and consumption, the reason being that they are less free from cultivation to seek higher income jobs elsewhere (Chan and Acharya, 2003).

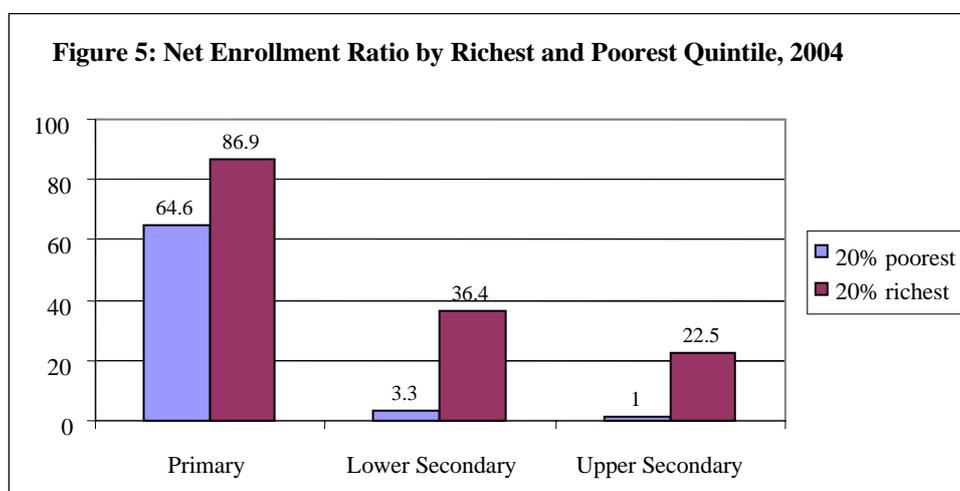


Source: Adapted from James Knowles (2005)

Based on the CSES 1999 and 2004, the Gini-coefficient of landholdings increased from 0.57 in 1999 to 0.65 in 2004, further indicating rising inequality of land holdings. Land consolidation and concentration have also taken place according to the Rural Sector Strategy Note of the World Bank (2005c). Inequality of landholdings has far-reaching implications on inequality in the opportunities to produce crops and therefore economic outcomes in the future.

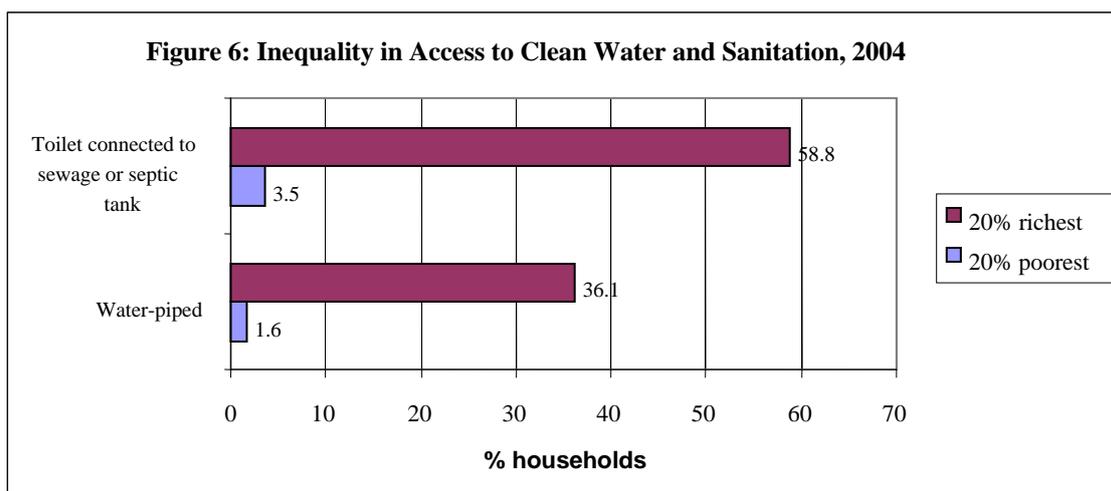
2.4. INEQUALITY IN HUMAN CAPACITY (HEALTH AND EDUCATION)

Human capacity is a crucial determinant of equality in outcomes. And human capacity is enhanced by education both formal and informal. Therefore, improving education services is key to empowering individuals to create opportunities or to grab those open to them (World Bank, 2006).



Source: Adapted from James Knowles (2005)

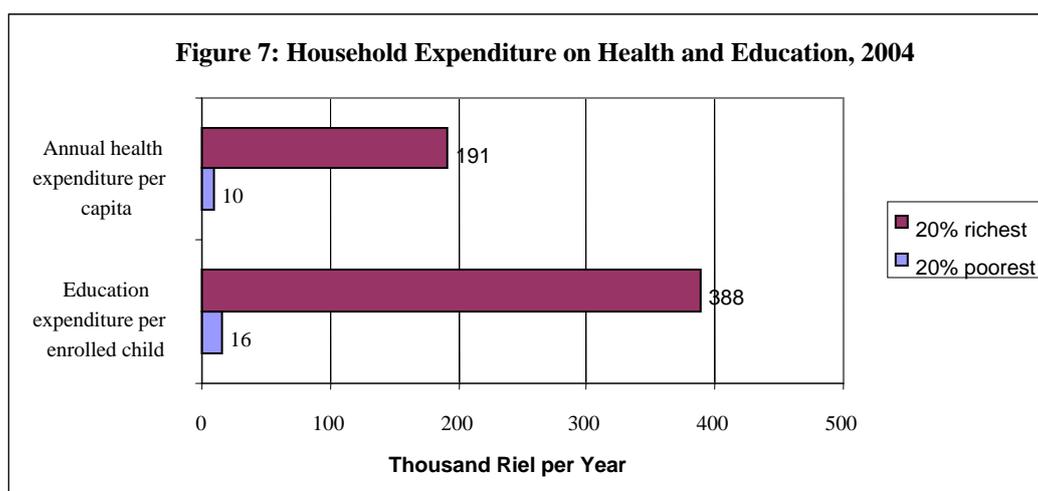
Cambodia's indicators show a long way to go in order to achieve universal education for nine years. The net enrollment ratio in 2004 for the richest 20 percent stood at 86.9 percent at the primary level, after which enrolment dropped drastically. The drop was more severe for the bottom quintile. Hardly anyone from the poorest 20 percent of households could enter upper secondary school (Figure 5). This, indeed, is a tremendous constraint on how to strengthen the poor to acquire important skills in order to improve their income and catch up with the rich or the non-poor.



Source: Adapted from James Knowles (2005)

Health status is an important factor in economic well-being. The poor are generally more vulnerable to disease due to their living conditions. Without free or affordable health care, they are forced to bear the costs by even selling their productive assets such as draft animals and land. This forces the poor into inequality traps. As illustrated in Figure 6, extremely few poor people had access to clean water and sanitation. The gap between the rich and the poor is huge by this standard, although even among the rich only 36.1 percent and 58.8 percent had access to piped water and a toilet connected to sewage or a septic tank.

As expected, the rich can afford better health care and education services than the poor. The gap is again huge, between 20 and 30 times different. The rich spent 191,000 riels per capita per annum on health care/treatment, while the poorest group spent a paltry 10,000 riels. Likewise, the top quintile spent 388,000 riels per enrolled child per annum, compared with 16,000 riels spent by the bottom quintile (Figure 7). This vast inequality in obtaining education and health services is a critical determinant of results in terms of economic outcomes.



Source: Adapted from James Knowles (2005)

III. REASONS BEHIND ECONOMIC INEQUITY IN CAMBODIA

3.1. FROM ZERO TO VERY HIGH MARKET VALUES OF PROPERTIES

After the Khmer Rouge regime destroyed the economic, social, and cultural fabric of the society, Cambodia restarted its economic development from an egalitarian basis. In the 1980s, everyone lived almost an equal life in terms of assets and income, as the country continued to undertake a socialist style regime. Private land ownership was not allowed by law until 1989. The country was isolated from the Western community and little was traded. In most of the 1980s, people lived a simple life; most were in hardship. As there was little economic activity, being materialistic was almost impossible. Suddenly, the economy transformed from a planned to a market type, following the political transition to a plural party democracy in 1993. Then, inequality of outcomes started to emerge and has risen ever since.

Although people were more or less equal in terms of outcomes in the 1980s, they were endowed with different levels of hidden opportunities. As is the case in any low income country, the capital city was the first to financially grow. As a result of the influx of foreign money and people (UN peace-keeping forces, emergency relief, ODA, and FDI), Phnom Penh residents benefitted the most from the sudden opening of the country. The first waves of cash to flow in the country, captured mostly by those with authority, came from the privatization of numerous state buildings and lands. Outsiders soon found interest in Cambodia's large abundant resources, primarily forests, which covered about 70 percent of the country then. Those resources were controlled by a handful of senior government officers under the centralized system. Without the checks and balances system, forests and fishing lots

were commercialized in non-transparent contract deals. This appeared to hugely benefit those in power, mostly living in Phnom Penh. Only scores of rural residents seemed to have shared the early cultivation of natural resources. In many cases, rural people continued to live in remoteness due mainly to lack of physical and communication infrastructure.

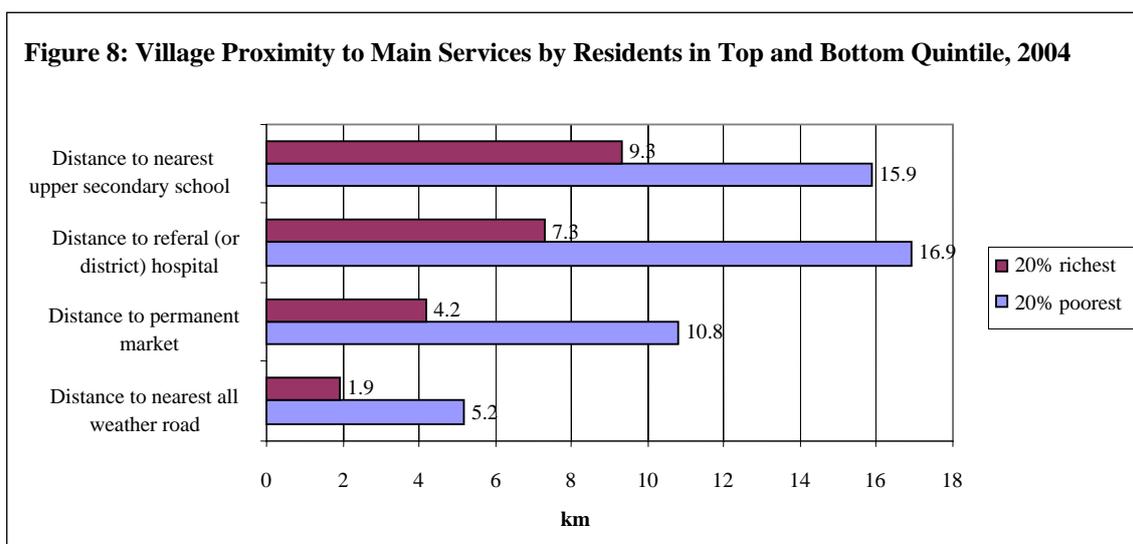
As most of the forests have been over-exploited and degraded, there have been intensive waves of forest-clearing for lands in the past three years. This has been acknowledged by the top leader.² This has been partly triggered by the soaring of land prices over the past few years. Large chunks of land have been appropriated, mostly illegally, by the elite and affluent officials.

3.2. DISINTEGRATION/REMOTENESS, POOR INFORMATION FLOW AND COMMUNICATIONS

Cambodia severely lacks communication infrastructure, primarily roads, bridges and telecommunications. This not only limits rural people from transporting products but also discourages them from traveling, which, particularly in the Cambodian context, is a crucial means to search for economic opportunities. Some information has to be passed along through word of mouth as many people are illiterate or have no access to electronic media because they live in areas where the service coverage does not reach.

As illustrated in Figure 8 below, the poor generally live in disadvantaged areas. The nearest all weather road, permanent market, district hospital and upper secondary school are located on average 5.2 km, 10.8 km, 16.9 km, and 15.9 km away from the 20 percent poorest households. The 20 top quintile households live much closer to these infrastructure and services. This contributes to the existence of unequal opportunities or an uneven playing field. Without equitable development of infrastructure and services for all, the poor tend to remain disadvantaged in their efforts to improve their livelihoods.

² On Monday, May 19, 2006, Prime Minister Hun Sen again verbally took serious issue with state land grabbing in his address at the inauguration of the new building of the Ministry of Parliament Relations and Inspection.



Source: Adapted from James Knowles (2005)

The remoteness and late achievement of peace in many areas are also responsible for the unequal distribution of external assistance, especially that provided by the non-governmental organizations. Some areas were inaccessible for NGOs to reach in the 1990s due to lack of roads or peace or both. Therefore, people living in remote areas were disadvantaged compared to the other areas.³

3.3. ILL-DEFINED PROPERTY RIGHTS

There is no demarcation of public lands, which is technically state land (World Bank, 2004b). While deforestation has been rapid and land has been cleared extensively, the Forestry Administration continues to aim for preserving the forest coverage of 60 percent of the country area (RGC, 2006). This technically makes clearing of degraded forest land illegal. However, in practice, the affluent and powerful people obtained the cleared land with a high level of confidence that they will own it. On the contrary, the poor who have also acquired new lands to meet their needs are subject to all kinds of harassments. In some cases, they are forced to sell their newly acquired lands to the affluent at very cheap prices. Having no choice to make a living, they move to clear more lands, and the cycle may repeat until all the lands are cleared and appropriated by the affluent or powerful people (EIC, 2005).

Motivated by the rise in land prices, the affluent continue to acquire more and more lands. They invest so much in obtaining large areas of land that they do not (or are financially unable to) farm

³ In Cambodia, NGOs play a very important role, arguably government role, in providing services to the poor. It cannot be denied that they contributed substantially to bringing many people out of poverty.

the lands efficiently. Large chunks of lands are fenced off and left idle. This is clearly inefficient from the economic point of view.

Some people may have ideas to invest in large-scale farming but are not willing to take the risk of doing so because of ill-defined property rights. Thus, we have an absurd situation in which large swaths of land are not used productively, while at the same time land is unavailable to those who are desperate for it or those who are capable of investing in the land and contribute to agricultural expansion. All of these problems contribute to rising economic inequity.

3.4. GOVERNMENT/POLICY FAILURES

Market failures exist in most, if not all, developing countries. One of the reasons for government to exist is to correct market failures, which is not an easy mandate. Owing to its recent devastating and turbulent history, Cambodia was left with very few educated people who survived the Khmer Rouge regime, which had a deliberate policy to kill educated Cambodians. One of today's great challenges for the government is lack of capacity in the public sector. Perhaps largely due to this reason, the government has failed to come up with sound policies and to implement them to accelerate the economic and social development of the country at a faster rate, as has happened in neighboring countries.

The capacity of the public sector is indispensable in correcting the market failures which create inequality of both opportunities and outcomes. Then, the political will to move forward with genuine reforms comes to the heart of the discussion for tackling economic inequity.

3.4.1. IMPAIRED INSTITUTIONAL DEVELOPMENT

The legacy of the war and Khmer Rouge in terms of human resources and institutional destruction has far-reaching implications to the current capacity of the public services. The government in the 1980s had to rely on very few educated people who basically volunteered, with their heart rather than with skill, to help their country in great need of rebuilding. Many of these poorly skilled public servants continue to hold senior positions and remain in power today. This is a major determinant of the weakness of public institutions. Although the younger generation has increasingly been recruited into the government circles, they are often stuck with leaders who are not active enough.

Strong institutions require competent and motivated individuals to run and support them. In Cambodia, public institutions are generally weak because staff members are not provided with the right incentives. Low salaries prevented new teachers, medical staff and other public service providers from fully committing to their work, especially in areas far from Phnom Penh or urban centers. Corrupt

activities thus come to fall under the banner of making a living. Once officials are corrupt and get away with their corruption activities, they tend to get worse and do not serve the public in an equitable manner.

Remote and rural areas severely lack public institutions because many are not willing to work there at the current salary level. Those who have the opportunity to advance their education and join the government service are mostly from urban areas because of their advantages in many aspects. Training institutions or universities are available mainly in Phnom Penh and a few other urban centers. Graduates who are recruited into the government circles generally could not afford to travel far from home because their salary could not cover their living expenses. This resulted in a severe lack of teachers and other public service providers in rural areas, which continues to be the case at present.

3.4.2. CIVIL SERVANT LOW SALARY AND "POLITICAL POWER DEPENDENCY"

Civil servants cannot survive on their salary, which is about \$1 a day on average, while a family of five needs at least \$2.5 a day to live just above the poverty line. In this situation, they are forced to either work part time and find income from elsewhere or to work full time and make income from committing corruption by abusing their public authority. These officials can get away with their corrupt activities so long as they share the benefits with their superiors, who also need extra income because of their low salary. These people are given the opportunities to undertake important work, which normally involves money that can be siphoned off. They need to be loyal to their bosses and might not have the right skills or capacity to perform the work efficiently or effectively. For those officials who dislike corruption or do not want to commit it, they are left to their meager salary and are not used for handling important tasks that are linked with money.

Corruption in the Cambodian government is no longer a sensitive issue. The Prime Minister of Cambodia went public to declare a war on corruption, reflecting his acknowledgement of the serious degree of corruption among the Cambodian civil servants and politicians (See Footnote 3 above). The impact of corruption on inequality cannot be overlooked. Enough has been documented with regards to the negative effects of corruption. In his response to the question imposed by the Commerce Minister in February 2005, the then World Bank President James Wolfenson asserted that the three top priorities for the Cambodian government to address were “Corruption, Corruption, Corruption.”

When corruption is rampant and pervasive, the state apparatus cannot be effective in serving everyone equitably. Those who suffer the most are those who cannot afford to buy favors from the authorities, including teachers, doctors, nurses, the police and even the courts. This in turn creates inequality traps for the unfortunate ones. Without a successful war on corruption, the chances for creating an equitable society are almost zero.

3.4.3. FISCAL POLICY FAILURES

The current revenue structure in Cambodia is not conducive to enhancing equity. Owing largely to its poor base, most government revenue is generated by indirect taxation, essentially from goods. This affects everyone including the poor and has no advantage of redistributing wealth from the rich to the poor. Direct taxes account for only 7 percent of the total revenue, compared with more than 50 percent in some developing countries. Taxation is generally used not only to generate revenue but to also correct rising inequality of outcomes, which in turn will create further inequality of opportunities.

The serious fiscal issue in Cambodia is that little revenue is collected from property. There are quite many luxury villas and mansions in Phnom Penh, but they are not subject to taxation. There was a proposal by the government in 2005 to tax residential land in Phnom Penh, but it was dropped by the National Assembly. Overall, only unused lands are subject to taxation by law. However, implementation of this law has been negligible. People generally plant a few trees to avoid being labeled as having unused lands. In the absence of taxation on used lands, many affluent people are holding large parcels of land, especially newly cleared forests. This further creates unequal opportunities because those who need land to produce crops efficiently might not have access to land or adequate land to make a living. According to the CSES 2004, 20 percent of rural households do not own land, and about 45 percent own less than 1 hectare, a size that cannot make people better off.

Yet the government leader vows to never tax land so long as he is in power (Cambodia Daily, “PM Promises No Land Taxes if Re-Elected, May 29, 2006). Tax on land per se does not mean taxing the poor as land is not only for the poor to farm. It is also a form of property that many rich people hold for asset and speculation. The government would be better off by imposing tax on large landholders. To avoid hurting the poor farmers, the tax should apply only to those owning more than a certain size that the poor cannot own. And a progressive rate could be more appropriate to discourage the elite from holding too large of lands to the exclusion of potentially viable small farmers.

Taxing large land holdings can provide a dual purpose of correcting the inequality of outcomes and inequality of opportunities because land is both an asset and productive resource. Imposition of land tax with waivers for small land holdings can be one of the effective ways to achieve an equitable society. Failing to do so would do the opposite. Land speculation would continue the rise at the disadvantage of the uninformed, poor farmers.

Quite the contrary, the Cambodian government imposes a high tax on fuels, mainly gasoline, which affects every strata of society and hampers production and services that rely heavily on fuels. Gasoline taxes are the highest in the region, leading to the high price of nearly \$1 per liter. This is not a

pro-poor policy. The poor need to travel by vehicles consuming gasoline, be they private or public. Gasoline is also used as an intermediary good, such as for water pumps. The cutback of its use in this manner because of the high price leads to a reduction of production, which can affect the poor.

The tax system is also a critical issue for the development of micro and small enterprises. These enterprises pay higher taxes relative to their incomes than those of the large enterprises. Moreover, in contrary to the large enterprise, they benefit nothing from the government in terms of tax incentive or public infrastructure facilities, especially for those in rural areas.

IV. HOW TO CONTAIN RISING ECONOMIC INEQUITY IN CAMBODIA

The inequality is the symptom of the lack of mechanisms to tackle it, be they legal, social, political or judicial. It takes genuine political will and competent institutions to correct economic inequity, in terms of both opportunities and outcomes. Building competent public institutions and civil servants is a fundamental key that is indispensable in address inequity issues.

Capable public institutions and civil servants can then bring about equal opportunities for all citizens by:

- First and foremost, fighting to eliminate corruption. As widely acknowledged by the Prime Minister, corruption is like a social cancer that destroys development.
- Creating and ensuring economic and political level playing fields. There should be no favors granted to some businesses with special status or ties with the political elite. These create barriers for the potential competitors by increasing prices and decreasing efficiency.
- Improving the fiscal policy to be pro-poor. Expanding direct taxes, especially those on property and lands, and reducing taxes on goods that have negative implications for the poor would contribute not only to improving equity but also to rapid development. The government should also provide fiscal incentives to micro and small enterprises, the same as they do for large ones.
- Providing safety nets for the poor to prevent them from falling into traps. In Cambodia, health is a major concern for most people. For those who have no cash at hand, they have to obtain loans at high interest rates or sell their critical assets such draft animals or land in order to pay for health treatment. They then fall into the trap of poverty that is very difficult to get out. The provision of free health services for the poor would prevent them from incurring such problems. Health equity funds and health insurance schemes that have been created by the

government and donors serve this purpose well. However, the coverage needs tremendous expansion.

- Enabling the weak to seize the opportunities created. Building human capital is a long-standing argument for both equity and long term development and cannot be overemphasized.

V. CONCLUSION

Inequality of outcomes in Cambodia arose from inequality of opportunities due to various reasons. Cambodia restarted its history from quite an equal, poor society in the 1980s when the country was under a socialist regime. Following the sudden transition to a free market economy and the achievement of peace, opportunities opened for commercialization and the inflow of external money. The bulk of the cash flowing into the country was from the exploitation of the previously abundant natural resources including land, foreign aid, and foreign direct investment.

A small number of people with more opportunities, especially those living in urban areas and having control over resources, were the first to capture such money and become rich. People living in remote areas continued to suffer from many kinds of disadvantages including lack of infrastructure, health and education services. The highly unequal share of the benefits was due to both market failures and government failures. Left to the market forces, inequality has become worse and is likely to rise further. While the emphasis is on creating equal opportunities, measures should be taken to contain rising inequality in outcomes as well, especially the “ill-gotten gains”. The government has the highest authority and power to bring about a more equitable society.

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CROSS-BORDER LABOUR MIGRATION

IN AND OUT OF CAMBODIA

Tuot Sokphally *

The objectives of this assignment are to examine (i) background of cross-border labour migration between Cambodia and her neighbouring countries; (ii) current policies and regulatory framework to manage cross border migration; (iii) trend, nature and the conduct of migration; (iv) remittances by migrant workers and their impacts on household economic conditions and their communities; and (v) social costs and other issues during migration process. Although the primary focus of the study is on cross-border labour movement, international labour movement is also reviewed to understand the big picture of regional flow of workers to and from Cambodia.

I. HISTORY OF CROSS BORDER LABOUR MIGRATION IN CAMBODIA

1.1. OUT-MIGRATION

Cambodia migration over the last two decades has changed from forced migration in the form of refugees or displaced people (along the Cambodian-Thai borders that was brought about by civil wars and political instability during 1980s to late 1990s) to voluntary migration in search for livelihoods at the borders or deep inside Thailand and other countries. At least 600,000 Cambodians were displaced during the Pol Pot era and the Vietnamese invasion began streaming to the Thai border in search of refuge. This movement could be said driven by internal strife, fear of war and domestic turmoil or non-economic factors. However, this type of movement has ceased to exist when Cambodia achieved full peace in late 1990s. Majority of the returnees settled in areas close to the Thai border. Due to the lack of productive assets to make a living in the areas where they had just resettled, many return to the Thai borders in search of livelihood

This created a new wave of Cambodians moving to the Thai borders or even across the borders. This group constituted of people who were motivated by economical purpose rather than by political one. There is anecdotal evidence that the group that moved to the Thai borders prompted migration of the group that crossed the borders after the former came back to inland Cambodia. This is made possible because the first group was familiar with cross-border activities and perhaps with

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Thailand socio-economic environment, had language ability and some network with people at the border or inside Thailand. Activities that these people involve include petty trade and business, carriage porter for cross-border trade, smuggling at the border gates, construction, factory, plantation, domestic help, and sex work at the Thai border or inside Thailand.

The driving force behind labour migration is high growth in labour receiving countries. Economic expansion of these countries exacerbated the shortage of supply of low-skilled labour in their own countries as their better trained workforce look for better opportunities. Hence, there is demand to fill in vacancies left by native workforces of labor receiving countries. Their higher average incomes attract workers from poorer countries. Unskilled poor labour from the Greater Mekong Sub-region (GMS) thus comes to Thailand, while semi-skilled workers from Thailand travel to richer East Asian nations, (World Bank, 2006). Table 1 and 2 indicated that workers from Thailand went to Korea and Japan in 2004.

Table 1: Selected Social Indicators for Some Countries

| 2004 | Camb | Laos | Viet | Thai | Mala | Kore | Japa |
|--|------|------|------|------|------|------|-------|
| Population in million | 13.8 | 5.8 | 82.2 | 63.7 | 24.9 | 48.1 | 127.8 |
| Annual population growth | 1.95 | 2.29 | 1.04 | 0.87 | 1.86 | 0.49 | 0.15 |
| Labor Force in million | 6.6 | 2.3 | 43.1 | 35.3 | 10.7 | 24.1 | 67.0 |
| Unemployment Rate (% of total labor force) | .. | .. | 2 | 2 | 4 | 4 | 5 |
| Adult literacy rate | 74 | 69 | 90 | 93 | 89 | .. | .. |
| Life expectancy, male | 53 | 54 | 68 | 67 | 71 | 74 | 78 |
| Life expectancy, female | 60 | 57 | 73 | 74 | 76 | 81 | 85 |

Source: *World Development Indicators, World Bank*

Table 2: GDP per Capita (USD Constant 2000) for Some Countries

| | 1994 | 1996 | 1998 | 2000 | 2002 | 2004 |
|------------|--------|--------|--------|--------|--------|--------|
| Cambodia | 218 | 232 | 245 | 287 | 306 | 339 |
| Laos | 263 | 286 | 304 | 329 | 351 | 378 |
| Vietnam | 284 | 328 | 364 | 397 | 444 | 502 |
| Thailand | 1,906 | 2,154 | 1,862 | 1,998 | 2,110 | 2,356 |
| Malaysia | 3,280 | 3,763 | 3,560 | 3,927 | 3,944 | 4,290 |
| Korea, Rep | 8,511 | 9,707 | 9,307 | 10,884 | 11,936 | 12,752 |
| Japan | 34,958 | 36,651 | 36,720 | 37,409 | 37,216 | 38,609 |

Source: *World Development Indicators, World Bank*

Labour movement out of Cambodia increased its momentum in the 1990s. Sending areas are those received Cambodian returnees from Thai border camps, and later include many other areas throughout the country, except rural and remote areas with limited communication and poor infrastructure. Although Thailand is still the destination that takes in the largest number of Cambodian migrants, Malaysia, South Korea, Saudi Arabia, and Taiwan emerge as major alternative destinations. This phenomenon accelerated since mid 1990s, when Cambodia attained complete peace in Cambodia. This was further aggravated by the successive periods of natural disasters such as droughts and floods. Chan and So (1999), Godfrey et al. (2001), Maltoni (2006) and K.A.S. (2007) elaborated other push factors explaining the increase of migration. Those include chronic poverty, landlessness, lack of employment, lack of access to markets, materialism, and debts. Besides, this movement is facilitated by other factors including improved communication and infrastructure, and increase in demands for unskilled labour in Thailand and other Asian countries including Malaysia, South Korea, Japan, and Taiwan (AMC, 2002).

1.2. IN-MIGRATION

The most important flow of foreigners in search for livelihoods in Cambodia appears to be semi-skilled or skilled Vietnamese workers. Almost all Vietnamese who had lived in Cambodia for generations were deported when Lon Nol came to power in 1970. When the Khmer Rouge took power in the mid 1970s, they continued the policy of deporting Vietnam. During 1980s when Cambodia received assistance and protection from the Vietnamese government, some Vietnamese gradually returned to Cambodia, along with friends, relatives, and the Vietnamese army and advisers. When Vietnamese troops withdrew from Cambodia in late 1980s, some remained behind. And in the 1990s, a new group of Vietnamese came to Cambodia in search for opening opportunities offered by a growing market economy, (Godfrey et al., 2001).

Since the irregular flow of migrants has been very common in Cambodia, studies of Cambodia's labour migration have been constantly challenged by a lack of updated, reliable and comprehensive statistics and information. Different sources give different estimations and very often the discrepancy is substantial among the sources. For this point, UNIFEM (2006) went on to suggest more research and documentation about the volume and modes of irregular migration, the processes and consequences of migration, the relationship between workers and labour agents/brokers/recruiters, the abuses and problems that migrants encounter at their workplace, and the costs and benefits of migration for stakeholders. The following are some estimates on the scope and scale of Cambodia's in- and out-migration.

II. OVERVIEW OF CROSS BORDER LABOUR MIGRATION IN CAMBODIA

2.1. OUT-MIGRATION TO THAILAND

Cross-border migration is a very important source of livelihoods for many in Cambodia. According to a recent CDRI study on 'Reviewing the Poverty Impacts of Regional Economic Integration in the GMS' by Nou et al. (forthcoming), about 20-60 percent of households in Banteay Meanchey and 1-40 percent in Svay Rieng, depending on locations, have at least a member involved in cross-border labour migration in the past five years, Table 03. The extent is more significant in Banteay Meanchey province on the border of Thailand than in Svay Rieng province on the border of Vietnam¹. The qualitative aspect of this study in twelve villages in both provinces also revealed that the number of villagers crossing the border to look for a job has been on an upward trend over the past decade².

Table 3: Percentage of Household Having Members Involved in Cross-border Work during Last 5 Years by Location Strata

| Location Strata | Banteay Meanchey | Svay Rieng |
|-------------------------|------------------|------------|
| Formal gate | 34.5 | 26.0 |
| Border & Informal gates | 57.1 | 37.9 |
| Town & Urban | 19.4 | 7.5 |
| Remaining | 32.6 | 1.0 |

Source: NIS survey, 2005 in Nou et al. (forthcoming 2007)

Cambodian migration flow to Thailand is very prominent and dynamic, so attracts attention from many NGOs and researchers, more than the flows to any other countries. Based on the available data from Thailand's Ministry of Labour and Vocational Training, the number of Cambodian registered migrants has increased significantly over the last decade. The growth has been higher than the average growth of total foreign migrants in Thailand. About 32 percent of them are women as calculated from 2005 figure³.

¹ Some people from Svay Rieng province on the border of Vietnam go to work in Thailand.

² This is consistent to the upwards trend of overall illegal unregistered foreign migrant estimations in Thailand given by Ministry of Labour, Department of Employment.

³ According to Thailand's Ministry of Labour and Vocational training, 57,581 are women out of the 182,007 Cambodian migrants registered in Thailand as of October 2005, cited in Chantavanich, S. et al (2006).

Table 4: Number of Migrant Workers 1997-2004

| | Registered | | | | Total non-registered |
|---------------------------|------------|---------|---------|---------|----------------------|
| | Cambodia | Myanmar | Laos | Total | |
| 1997 | 25,455 | 256,492 | 11,594 | 293,541 | 667,926 |
| 1998 | 10,593 | 79,057 | 1,261 | 90,911 | 898,978 |
| 1999 | 9,496 | 89,336 | 1,164 | 99,996 | 563,780 |
| 2000 | 7,921 | 90,724 | 1,011 | 99,656 | n.a. |
| 2001 | 55,128 | 448,988 | 58,411 | 562,527 | 405,722 |
| 2002 | 37,600 | 348,779 | 42,089 | 428,468 | n.a. |
| 2003 | 19,675 | 247,791 | 21,314 | 288,180 | 711,220 |
| 2004 | 110,042 | 632,454 | 105,134 | 847,630 | n.a. |
| 2005⁽¹⁾ | 75,804 | 539,416 | 90,073 | 705,293 | n.a. |
| 2006⁽²⁾ | 48,362 | 568,878 | 51,336 | 668,576 | n.a. |

Source : *Ministry of Labor , Department of Employment*

Remarks : ¹*Date between June and August, 2005*

²*Date between March and June,2006*

Cambodia's migration to Thailand has been dominated by irregular flow. The irregular flow of Cambodian labour migration to Thailand is estimated to be as many as⁴ or more than⁵ registered migrants. IOM (2004) suggested that 80,000 Cambodian may be working illegally in Thailand in 2004. The major receiving areas in Thailand include East, Central and Bangkok, Table A1. Nearly half of the registered Cambodian migrant workers are located in the Eastern provinces of Thailand. Places like Klong Yai, Trad and Prah Jong are where a vast majority of the foreign workforce is composed of Cambodian migrant workers.

In Thailand, the migrant workforce is mainly employed in economic sectors characterized by harsh and dangerous working conditions, low salaries and requiring low-skilled workers. Most of these migrants (more than two third) are daily wage earners, while the remaining are monthly salary earner (Table A2 in Nou et al., forthcoming). The local workforce tends to move to other economic sectors with higher wages and better working conditions thanks to overall economic development in this

⁴ This is estimation by Maltoni (2006).

⁵ World Bank (2005) cited in Maltoni (2006) suggested that 90 percent of the migrants in Thailand are irregular.

country. Employments covered by migrants were characterized by low salaries and very low prestige as the case after 1997 crisis that unemployed Thai workers preferred to remain unemployed rather than taking jobs traditionally covered by migrants (Maltoni, 2006).

Most Cambodian migrant workers, both registered and non-registered, involve in agriculture, mining, pottery, construction, rice mills, livestock, fishery, warehouse transportation and domestic help. There were also migrants working as ferry porters and in manufacturing or food processing. Many work along the Thai-Cambodian border doing agricultural work for daily wages (AMC, 2002a).

Migrants to Thailand are from poor group. K.A.S (2007) who assessed the labour movement in Tonle Sap areas asserted that all migrants are from non-rich households. Migrants to Thailand are mostly from poor and some from medium, while very few poorest involved in long distance migration due to their limit ability to response to labour opportunities. Chan and So (1999) who carried out a study in 14 villages of Battambang province in late 1998 affirmed that all migrant labourers in those villages were reportedly either in, poor as refers to those who are marginally subsistent with small thatched houses and a small parcel of rice land; or, very poor households as refers to households without farmland, cattle or other major assets and with few months remaining with food shortage. Migrants in this study are mostly between the ages of 17 and 35 years. Of 272 migrants identified by key informants, 56 percent were male and 44 percent female⁶.

Two types of migrant flows are identified by Chan and So (1999): long-range migrants and short-range migrants. Long-range migrants are people who work in farther areas from the border, and whose jobs are mainly construction workers, ferry porters, in the fishing industry off the Thai coast, and in manufacturing or food-processing factories. This group is generally from poor group but not the very poor because long-range migrants need at least 3,000 baht to pay the guides who take them into Thailand. The poor are more advantageous than the very poor to get these opportunities as they have some assets such as animals to sell or land to use a collateral with which to obtain loans to finance the trips, though both groups were likely to have this amount of cash in hand.

Short-range migrants usually work on the Thai border in agriculture sector. Jobs for this group include transplanting and harvesting rice, picking corn, harvesting sugar cane, and weeding. They do not pay for guides to travel for farm work close to the border, but just a small amount to pay for transportation. They did daily wage work for Thai farmers along the Thai-Cambodian border. Most of the woman migrants are short-range. This activity is seasonal for shorter periods and yields lower

⁶ Cited in AMC (2002), woman migrants from Cambodia are on average older than man migrant.

wages relative to long-range migration, but was less likely to be caught by the Thai police, involved less risks, and no smuggling fees to be paid.

2.2. OUT-MIGRATION TO MALAYSIA

Cambodia started sending its workers to Malaysia in 1998 with an increasing number since then. Based on statistics from MoLVT in UNIFEM (2006), more than 6,000 Cambodians have been sent to work in Malaysia since 1998 but this figure is not indicative of the actual number currently working there. Majority of the Cambodian workers sent to Malaysia are women, most of whom work as domestic workers, (Table A4).

Two other sources suggest higher estimates of Cambodian workers in Malaysia, which they included both migration in regular and irregular manners. AMC resource book (2002) produced an estimate of some 11,000 Cambodians, while CARAM Cambodia cited in UNIFEM (2006) suggested 20,000 Cambodian working and living in Malaysia. According to the later, even though the majority of Cambodians had entered Malaysia legally, many became migrants of an irregular status after leaving their original place of employment.

The common activities for Cambodian migrants to Malaysia include domestic helpers, factory workers, shop assistants, plantation workers, construction workers and sex workers⁷. These required more skill than migrants' jobs in Thailand. According to K.A.S. (2007), all of the Cambodian migrants to Malaysia are medium with some education and so able to find work in factories such as garments, electronics and glass making etc.

2.3. OUT-MIGRATION TO VIETNAM

There is no official record of Cambodian migrant workers to Vietnam but some studies suggested some Cambodian people have been working in Vietnam. A few of villagers in some Cambodian border villages in Svay Rieng province go to work in Vietnam in agriculture sector. This activity is seasonal and has been introduced in some areas due to the agriculture production being expanded on the other side of the border in Vietnam, (Nou et al., forthcoming). Another group of people from the same province are reported to migrate to Vietnam for the purpose of begging, (AMC, 2002). Beggars are often children or mothers with children. They travel alone or with a facilitator, mostly to Ho Chi Minh City. Children go to Vietnam for a period of three to four months before

⁷ This activity was included in the Asian Migrant Yearbook 2004 while it was suggested that was not the case at all in UNIFEM 2006.

returning to Cambodia to give their earnings to their families. According to one interviewee for a study conducted by IOM, it is possible for a child to earn between 12.8-44.7 USD in this way.

2.4. OUT-MIGRATION TO SOUTH KOREA AND OTHERS

As a more recent destination dated officially in 2003, South Korea received more than 2,000 workers from Cambodia under Trainee Program. This program is to be terminated by December 2006. An MoU on sending migrant workers from Cambodia to South Korea is currently under negotiation. Very little is however known about this flow, except most of migrants are men and involve in factory, agriculture plantation and fisheries, Table A5. From the same source MoLVT, about 34 women migrants were sent to Saudi Arabia in 2005 and will complete their contract in 2007.

2.5. IN-MIGRATION FROM VIETNAM

Cambodia is also a receiving country of labour migrants itself. The scale of such immigration is however very difficult to estimate. Several estimates, though gave us different immigrant figures, suggested that a large number of Vietnamese immigrants and/or their off-spring living and working in Cambodia. *Estimation 1*: over one million of immigrants and their subsequent off-spring are living in Cambodia in 1998. This estimation is derived from the population difference between 1998 Census population and 1985 estimate population added by the natural annual growth of 2.5 percent and 360,000 of repatriated refugees and their off-springs, (Godfrey et al., 2001). *Estimation 2*: the number of persons of Vietnamese origin in Kampong Chhnang has greatly increased since 1980s, from 1,269 households having 7,064 persons in 1985 to 2,708 households with 13,445 persons in 1997, (Kampong Chhnang Immigrant office, cited in Godfrey et al., 2001).

Estimation 3: the population of Vietnamese origin was about 227,000 in 1995. This is estimation provided by the governments of eight provinces (Kandal, Battambang, Phnom Penh, Takeo, Kompong Chhnang, Pursat, Prey Veng and Siem Reap), which represent some 53 percent of the country's population, (Khmer Kampuchea Krom Human Rights Association in Godfrey et al., 2001). *Estimation 4*: despite the lack of reliable/realistic data on these migrants, AMC (2005) estimated that at least 150,000 Vietnamese migrants resided and worked in Cambodia.

Many of the Vietnamese migrants to Cambodia come from provinces near the border such as An Giang, Tay Ninh, Kien Giang, Dong Thap and Long An, although there are some migrants who come from provinces in the north, (AMC, 2005). Vietnamese migrant workers in Cambodia can be grouped into three: (i) tradesmen in professions such as carpentry, and may become small business owners themselves, (ii) low-paid hired laborers, with low levels of education and who often come from

poor households, and (iii) sex workers, who generally come from poor families with low levels of education. Majority of Vietnamese labourers work for Vietnamese business owners, rather than for Cambodian employers, (quality of life study of migrants workers in the GMS carried out by Mekong Migration Network, cited in AMC, 2005).

Majority of Vietnamese laborers in quality of life study (MMN) reported renting a house or room in Vietnamese communities. Migrants generally lived on or near the work-site, utilizing the bathroom facilities built in the working place. Many of them live with their families in Cambodia: in fact, many are joining their relatives and extended families who have previously settled in the country. Those who have relatives remaining in Vietnam will send monthly remittances to their families back home sometimes through employers or other contacts, and sometimes directly themselves during visits, (AMC, 2002a).

The motives for migration were overwhelmingly economic; better opportunities to earn money in Cambodia were cited by almost all of them. On the demand side, lack of local skilled workers offers opportunities to immigrant construction foremen, wood processors, machine repairers, etc. On the supply side, weak controls on immigration into Cambodia contribute to the flow, (Godfrey et al., 2001).

2.6. IN-MIGRATION FROM OTHER COUNTRIES

Besides Vietnamese, Cambodia has been receiving to an increasing number of people from China. Normally Chinese migrants arrange a contract with a Cambodian employer prior to arrival. The Chinese migrants come to Cambodia largely for economic reasons and often hold higher ranking jobs or skilled positions in factories. Their wages are better than the Cambodian workers. Another group of Chinese migrants used Cambodia as a transit country to other destinations such as the United States, (AMC, 2002a). Other Chinese are observed to be involved in services such as massage in town and big cities in Cambodia.

III. REMITTANCES IN LAST YEAR AVAILABLE

3.1. INCOME AND WAGES

Cambodian Migrants in Thailand: Cambodian people are lured by relatively higher-wage job opportunities in Thailand. Table 05 suggested wages in Thailand are generally higher than wages in Cambodia, although allowing some inflation added up to the wages in Cambodia for the comparable period. For instance, an average daily wage for construction is USD 3.7 in Thailand in 2000, compared to only USD 1.6 in Cambodia in 1999.

Table 5: Daily Earnings in Cambodia Compared to Earnings Reported by Migrants in Thailand (by Occupation—USD)

| In Cambodia, Apr/May 1999 | | In Thailand, April/May 2000 | | | | | |
|---------------------------|------------------|-----------------------------|----------------|-------------|------------------|------|--------|
| Type of Work | Average Earnings | Type of Work | Sample | | Average Earnings | | |
| | | | No. of workers | % of female | Both | Male | Female |
| Construction | 1.6 | Construction | 142 | 20 | 3.7 | 3.8 | 3.1 |
| Fishing | 0.5 | Fishing | 12 | - | 3.5 | 3.5 | - |
| Agriculture | 0.8 | Agriculture | 31 | 52 | 2.2 | 2.1 | 2.2 |
| Hunting/gathering | 0.5 | Food production | 20 | 35 | 3.9 | 4 | 3.7 |
| Firewood collect | 0.7 | Porter | 54 | 6 | 6.1 | 6.2 | 3.9 |
| Handicrafts | 0.8 | Garments | 18 | 100 | 3.5 | - | 3.5 |
| Small trade | 1.5 | Shop-work | 11 | 100 | 3.2 | 3.9 | 3.2 |
| Moto taxi driver | 1.9 | Others | 18 | 78 | 4.8 | 5.4 | 4.6 |
| Other | 0.9 | Total | 306 | 32 | 4 | 4.3 | 3.3 |

Source: CDRI interviews with Village Chiefs and Village Development Committees, Godfrey et al. 2001

In Thailand, wages for registered migrants are higher than those for unregistered migrants. The difference can be very high, as high as six times the wages for unregistered migrants, (Table A6 in Chantavanich, 2006). Wages for long range migrants are higher than for short range migrants (Table A7 in Nou et al., forthcoming).

Cambodian Migrants in Malaysia: Very little is known about this flow. Workers in Malaysia earn from 800-1,000 ringits per month or USD 200-250 (K.A.S. 2007). This figure is confirmed by CDRI's interview with key informants at MoLVT in March 2007.

Vietnamese Migrants in Cambodia: Vietnamese migrants in Cambodia are skilled or semi-skilled workers in masonry, carpentry or technician. Most Vietnamese are self-employed or work for Vietnamese employers. These people earn on average USD 4-7 per day, (AMC, 2005). Depending on the areas they work, some of them also work in fisheries or traders. Their wages are quite high relative to Cambodian workers' wage (Table 06).

| Occupation | Earning (riels) | Earning (USD) |
|----------------------|-----------------|---------------|
| Fisherman | 10,314 | 2.6727131 |
| Trader | 13,419 | 3.4773257 |
| Other skilled worker | 20,511 | 5.3151075 |
| Construction worker | 18,882 | 4.8929775 |
| Service worker | 12,231 | 3.169474 |
| Unskilled worker | 8,567 | 2.2200052 |
| Garment worker | 7,600 | 1.9694221 |

Source: CDRI interviews, Godfrey et al. 2001

3.2. AMOUNT AND TRANSFERRING PROCESS OF REMITTANCES

It seems that amount of remittances sent to the migrants' families in Cambodia is a sensitive issue since irregular flows are predominant. The total amount of official remittance and compensation of employees was estimated USD 138 million for Cambodian workers in 2003 (Table 07). World Bank (2006) suggested that the real size of remittances in the GMS region are estimated to be several times the official flows, as remittances in the region are mostly channeled through informal, albeit well-organized, mechanism. K.A.S. (2007) suggested that women generally send home more money than men as they tend to be much more careful with their money.

Table 7: Worker's Official Remittances and Compensation of Employees, received (\$ US)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------|---------------|---------------|---------------|---------------|---------------|
| Cambodia | 121,000,000 | 133,000,000 | 140,000,000 | 138,000,000 | 177,400,000 |
| Laos | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Vietnam | .. | 2,000,000,000 | 2,714,000,000 | 2,700,000,000 | 3,200,000,000 |
| Thailand | 1,697,000,000 | 1,252,000,000 | 1,380,000,000 | 1,607,000,000 | 1,622,000,000 |

Source: World Development Indicators, World Bank

In terms of remittance transfer, many studies pointed out consistently that while migrant workers in Thailand are not allowed to open a bank account, remittances of Cambodian migrants are sent mostly through informal system, AMC (2005). Two channels of getting the money home include

informal transfer and personal carry on their return trip. Informal transfer is also known as the Hundi system, a system in which a broker in Thailand facilitates the remittance of migrants by accepting money from the migrant in the receiving country, and then calling a broker in the home country of migrants to pay the remittance amount to the recipients. About 7% of the money will be charged to the sender and 1% may be also charged to the receiver (AMC, 2005). Another source revealed a higher transferring fee—the fee is high ranging from 10 percent to 15 percent of the total amount to be sent depending on the location of the receiving areas (Nou et al., forthcoming).

Bringing money on the return trip on the other hand is risky. Migrants who are returning home for the first time may run into police and army checkpoints and have to pay fines or bribes, while more experienced migrants know how to avoid these checkpoints. With illegal status, migrants are subject to assault, arrest and deprivation. In many cases, it is reported that migrants were caught at the border and all their money and belongings are confiscated with only 100-200 Baht left for their further trip before allowing to cross the border. In addition it is also reported that a group of gangsters is organized to rob the returned migrants around the border gate in Poipet area, (K.A.S., 2007 and Nou et al., forthcoming).

It is believed that migrant workers through official channels sent remittance through their recruitment agencies. According to MoLVT, Cambodian migrants in Malaysia and South Korea are remitting their money through a bank transfer to the recruitment agencies who in turn distribute the money to their families. All migrant workers based in South Korea own a bank account, making the transfer of remittances safer and cheaper than through the informal system usually used by Cambodian migrant workers in Thailand (Maltoni, 2006). For Cambodian migrants in Malaysia, K.A.S (2007) noted that remittance is arranged through the labour contractor who charges 10 percent for the service.

3.3. IMPACTS OF MIGRATION AND REMITTANCES ON THE SENDING AREAS

From economic perspective, very few studies strike on the issues of migration and remittance impacts in Cambodia. Acharya (2003), using contemporary data and literature of migration in the Cambodia, Laos and Vietnam countries, suggested that the cases of relatively poorer rural workers seeking jobs anywhere to their accessibility were on increasing trend in transitional economies. Although these people may not be the poorest, since the poorest may not have the resources to manage and sustain migration, surely they belong to the weaker and more deprived sections of the society.

In home economy, migration, both internal and international, has contributed to the poverty reduction; however, the extent of poverty reduction cannot be obtained from the existing data except through making judgments based on wage or earnings differentials between the home and host locations. In addition, impact of migration can be observed through effects which are operating through

remittances. Remittances could help stabilizing the household food security situation back home and help in enabling some degree of capital formation. Expenditures of remittances may help to create local jobs for those poor who may not have succeeded in migrating. In host economy, indirect effects of migrations extend to filling gaps in certain segments in the labour markets, which in turn, it is believed, improve the host economy and hence create more jobs (Acharya, 2003).

Godfrey et al. (2001), who interviewed 160 households and some key informants in Battambang province in 1999, suggested CB migration to Thailand has some welfare impacts. Many long-range migrants reported positive outcomes from their experience: 11 households bought land, 40 more opened up a small businesses, another 25 renovated or built a house, and a few purchased motorcycles. 57 percent of the households with a long-range migrant member were able to meet short-term food and farming requirements in 1999. Almost all short-range migrants were able to save money. Migration also was judged to be good for the development of skills, such as construction and tailoring.

With regards to who migrate, K.A.S (2007) who reviewed migration patterns in Tonle Sap areas of Cambodia agreed that it is quite clear that successful migrants tend to be poor or medium—i.e. those with access to some capital and with some education. The rich never migrate while the destitute migrate in rather small numbers and work in the lowest paying jobs. However he revealed that reports on household welfare impact remain mixed. This is because remittance stream seems quite volatile and unpredictable as depends very much on individual luck it would seem, especially for cross-border migrants who are always confronted with deportation, jail terms, violence and fraud.

However, Maltoni (2006) argued that Cambodian migrants view migration as a short-term coping strategy to overcome unexpected problems and not as long/medium term process aimed at increasing the socio-economic status of the family. They are predominantly driven by push factors rather than pull factors including chronic poverty, landlessness, lack of employment, lack of access to markets, materialism, debt and natural disasters. They often find employment in 3D jobs which only allow them to maintain the status quo rather than improving their standard of living.

Maltoni (2006) who interviewed 100 people who or whose member involved in cross-border migration to Thailand in Prey Veng province found that the three major areas of investment for remittances are not directly productive. Those include consumption goods, health and debt. Other uses include housing, and education.

IV. MAJOR ISSUES RELATED TO CB MIGRATIONS

Labour migration is a relatively new topic for the Royal Government of Cambodia (RGC) as well as international organizations, and NGOs working in Cambodia. The focus of interventions and research related to mobility was previously concentrated on human trafficking, especially sexual exploitation, and forced migration, including diasporas, resettlement of refugees, and displacement. Given its multiplication and multifaceted nature, migration issue has been recently emphasized in Cambodia. Some reviewers stated that in terms of labour migration management, Cambodia is still in the early stages, (Maltoni, 2006 & UNIFEM, 2006).

4.1. REGULATIONS AND BILATERAL LABOUR MIGRATION AGREEMENTS⁸

➤ *REGULATIONS*

The RGC has a clear attitude that is to encourage official export of Cambodian labourers by developing appropriate government policies and regulations and bilateral agreements with the aim for protection of export workers' interests. Hitherto there is, however, no specific law to regulate labour migration, except the sub-degree 57 dated July, 1995 on "*The Sending of Khmer Worker to Work Abroad*". This sub-degree comprised 22 articles, which define the legal framework of cooperation between the former Ministry of Social Affairs, Labour and Veterans Affairs⁹ and the private recruitment agencies in order to provide migrant workers with a cheaper and safer labour migration channel. This sub-degree was then integrated into Prakas n. 1078 of MoLVT dated May, 2006 on "*Education of HIV/AIDS, Safe Migration and Labour Rights for Cambodian Workers Abroad*", and later into sub-degree 70 dated July, 2006 on "*The Creation of the Manpower Training and Overseas Sending Board*".

Sub-degree 57 has some limitation. For instance, there is no indication about the criteria for ownership and management of a private recruitment agency, such as nationality, income, or legal position. The absence of legislation that clearly defines the recruitment process and related costs means that the amount migrant workers are charged to secure employment overseas varies greatly depending on private agencies. With such limitation, and as the nature of labour migration has been changing, regulations on labour migration must be reviewed. So far, efforts from both the RGC and its partners have been put on formulation of a national strategy plan on labour migration management, (UNIFEM, 2006).

⁸ This sub-section is based on reviewing Maltoni, 2006 and UNIFEM, 2006.

➤ **RECRUITMENT PROCESS OF OFFICIAL LABOUR MIGRANTS**

According to UNIFEM (2006), with regards to the official recruitment process, in principle, the MoLVT runs early each year an information campaign to encourage job seekers to register in the placement office of either the municipal or provincial department of Labour and Vocational Training. All registered candidates are then passed on to appropriate recruitment agencies for selection and placement of qualified candidates. However in practice, all recruitment of labour migrants through official channel is done through private licensed recruitment agencies who conduct their own recruitment campaigns throughout the country based on needs in either South Korea or Malaysia, through advertisements in local newspapers, brokers operating in rural areas and word of mouth.

By 2007 there are 13 recruitment companies officially in operation, reduced from 38 companies before mid-2006. The current companies are those who successfully fulfill the financial reserve requirement of USD 100,000 at the MoLVT enforced since mid 2006, (key informant interview in March 2007). In practice, The Cambodian migrant workers have to sign two contracts in total. One which is standard is contract with the recruitment agency, including requirements such as pre-departure training and medical checks. Two is contract with their employer abroad, including the rights of the worker and insurance (UNIFEM, 2006).

The MoLVT is required to inspect working conditions where problems have been reported. This is done in cooperation with the Cambodian Embassy in the destination country as well as the recruitment company in Cambodia and in the destination country. In cases where labour disputes go to court, the relevant recruitment agency is required to provide a lawyer to assist the migrant worker (UNIFEM, 2006 and Maltoni, 2006).

➤ **BILATERAL LABOUR MIGRATION AGREEMENTS**

Official labour exports from Cambodia have been operating under one MoU with Thailand, and two bilateral agreements with Malaysia and South Korea (Table 08).

⁹This ministry has been reformed and currently known as Ministry of Labour and Vocational Training or MoLVT.

Table 8: Status of Bilateral Labour Migration Agreements

| | Status |
|--------------------|---|
| Thailand | <ul style="list-style-type: none"> • MoU on Cooperation in the Employment of Workers signed in May 2003 for five years • Objectives and scopes of MoU: proper procedures for employment of workers; effective repatriation of workers; due protection of workers and their rights; prevention and effective action against illegal border crossings, trafficking of illegal workers and illegal employment of workers |
| Malaysia | <ul style="list-style-type: none"> • No MoU • A bilateral labor agreement on "Recruitment Procedures for Cambodian national for Employment in Malaysia" signed in 1999 • Since 2001, negotiation on drafting an MoU on the recruitment of Cambodian workers |
| South Korea | <ul style="list-style-type: none"> • No MoU • A bilateral labour agreement allowing under industrial trainee programme signed in 2003; this programme would be phased out in December 2006 • Currently the two governments are negotiating to set up a state-owned, national recruitment agency as a requirement set up by South Korean government |
| Others | <ul style="list-style-type: none"> • A bilateral labour agreement with Japan signed in 2003 • A bilateral labour agreement with Brunei signed in 2003 • But the criteria are extremely strict and the private recruitment agencies cannot provide adequate pre-departure training, especially for language skills |

Sources: Adapted from UNIFEM (2006)

4.2. PROCESS OF UNOFFICIAL LABOUR MIGRATION

According to K.A.S. (2007), Cambodian migrants do not go to Thailand directly, but have to stay and work in Banteay Meanchey province border with Thailand for quite some time to await a suitable opportunity. They wait until 100 workers are collected and delivered up to Thai brokers on the other side of the border. A fee of 3,000 baht is charged to cover transport and travel arrangements. The broker-contractor is responsible only for taking them to the work place, but not for what happens thereafter. The workers who have already been to Thailand once can make return visits to find work by themselves, without help from brokers, and spend 120-300 baht for transportation fee, food and other living expenses. ID cards are essential (costs 2,800 baht for 6 months; 4000 baht for 1 year)- normally employers pay for the cards and deduct the cost from wages. Usually they applied for ID cards with one week validity at a cost of 120 baht, with each weekly renewal costing 20 baht. Maltoni (2006) confirmed that brokers and family networks are very important for migration process, from planning the journey through job location once in Thailand

Migration process to Malaysia is relatively expensive. People who want to go work have to have at least USD 300 with them: USD 100 for the passport, another USD 100 for the broker, and the rest will be used for some other expenses such as travel fare and food. They transit through Thailand.

Vietnamese immigration to Cambodia is cheaper. Since mid-1990s the unofficial fee for Vietnamese people to cross the border to Cambodia is reported to have been between USD 30-50¹⁰, and no work permit is needed. A few of those interviewed had acquired a Cambodian identity card, the unofficial fee for which is reported to be USD 50-100. They are also subject to informal levies by the police—ranging from Riels 1,000-20,000 per month in the survey villages, (Godfrey et al., 2001).

4.3. SOCIAL COSTS ON SENDING AND/OR RECEIVING AREAS

➤ SOCIAL COSTS FOR MIGRANTS

There seems to be lack of studies on social costs for sending or receiving areas at the macro level. However at the micro level, literature on social costs of labour migration and challenges for migrant workers are greatly abundant. The major issues reported include fraud and cheat; threat, arrest, abuse and punishment; security problem; use of drugs; STD/HIV and rape issues; and Problems at the Source. The vulnerability of migrants to deprivation of all kinds—verbal and physical abuse, non-payment of wages, arrest and torture, lack of access to basic health, education and other essential services is attributable to the lack of legal protection (K.A.S., 2007).

- *Fraud and Cheat:* Chan and So (1999) revealed that with the high fee of migration, some migrants are cheated by their brokers. They are sometimes led to and abandoned at somewhere close to the border. They are then arrested and beaten before being imprisoned for up to several weeks. After released, they returned home without any money to confront with severe debts, most of which had been incurred to finance the migration trip. Some migrants were sold by the Cambodian or Thai brokers to Thai employers so they received only THB 30 per day for minimal subsistence despite their hard work. In addition, some others are cheated by their employers. They receive less money for their work. For instance, construction workers receive only 15 days of wages for 20 days of work.
- *Threat, Arrest, Abuse and Punishment:* Given illegal status, migrants are subject to arrest, abuse and punishment by the Thai police (Chan and So, 1999, K.A.S, 2007, and Nou et al., forthcoming). According to Chan and So (1999), of 63 short- and long-range migrants studied, 18 had been arrested by the Thai police and imprisoned for half-three months, another 11 migrants had been arrested and held for 2-3 days by Thai police near the border when they were returning home. They reported their valuable belongings were confiscated, and they were

¹⁰ AMC (2005) reported that first time Vietnamese migrants pay USD 50, which include a bus ticket and a service fee to agents. Regular migrants pay only USD 20, for bus ticket and Cambodian Customs Officers.

only left with 100-200 baht to travel home. In some cases, it was reported that the Thai border police beat the men and raped the women migrants. Nou et al. (forthcoming) reported both short-range and long-range migrants lost some of their meager income from Thailand work on bribery to border officers.

- *Other Security Problem:* robbery, land mine...
- *Use of Drugs:* Some drugs are being used by workers in physical intensive activities such as porter, fishing worker, and construction worker in order to raise more energy. For example, amphetamines were used by most migrant porters; eight packets of 'yakhamchai' medicine and four bottles of 'Two Bulls' soft drink were used by some construction workers, (Chan and So, 1999).
- *STD/HIV and Rape:* lack of health services, rape by male migrants or authorities
- *Problems at the Source:* According to Chan and So (1999), some other issues include dependants were left unattended at home while migrants were in Thailand. Some young female migrants came back from Thailand as single mothers with new-born babies who were then left to the care of the elderly. Second, failure of earn money in Thailand caused the situation of the migrant's household to deteriorate. Third, the development planning and programmes of the NGOs working in the villages were disrupted by the large movement of the local population or the target groups for the programmes.

➤ ***IMPACT OF MIGRATION ON RECEIVING AREAS***

Chalamwong (2006) in his presentation at Regional Policy Formulation Meeting on Transborder Migration in the Greater Mekong Sub-region organized by Mekong Institute Foundation, 6-8 February 2006 discussed the impact of international labour migration on Thailand as hosting country. The brief arguments are as follows:

- *Impacts on Thai economy* by increasing GDP, lowering Thai wages, worsening income distribution, and limiting employment opportunity jobs
- *Impacts on rural (agricultural) economy* by deepening dependence so much on migrant workers, slowing down the development of labour-saving technology in agriculture and industry, limiting the chance for local Thais and minorities to find better wage employment, and enabling local enterprises to continue producing labour-intensive products i.e. maintain competitiveness

- *Impacts on way of life and community* by competing for positions among their nationalities, using and trading narcotics, making quarrel among members when drunk, living in slum and squatter areas, producing improper dumping garbage, and intensifying more crime?
- *Impacts on stateless children* by many of illegal workers come with their independent, many of them do not go to school, no birth certificate, no hope to improve their life, and easily be trafficked into prostitution
- *Impacts on public task forces* by requiring large number of task forces protecting the border and enforcing the law, shortages of police officers creating feeling of insecurity among local population, millions of government budget must be allocated to perform extra official tasks.
- *Impacts on Health of local Thai* by illegal migrants increase chance of nearby people to expose to infectious and contagious diseases, illegal migrants experience reproductive health problems
- *Impacts on social integration* by the government fears of negative impacts on Thai culture with the presence of million of illegal migrants, social integration (cross-cultural marriages), provision of basic infrastructure services and national security

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STATISTICAL APPENDIX

Table A1: Number of Work Permits Issued to Cambodian and Total Migrant Workers in 2004

| Regions | Cambodian | Total |
|--------------|----------------|----------------|
| Bangkok | 17,246 | 152,163 |
| Central | 21,149 | 195,407 |
| East | 52,019 | 100,309 |
| West | 2,083 | 51,331 |
| North | 801 | 131,674 |
| North-east | 1,443 | 15,940 |
| South | 10,048 | 167,423 |
| Total | 104,789 | 814,247 |

Source: Department of Employment, Ministry of Labour, 2004, cited in Chantavanich, Vangsiriphisal and Laodumrongchai (2006)

Table A2: Percentage of Employment Status for Household Members Doing Cross border Work

| Province | Self-employed | Daily wage earner | Monthly Salary earner |
|---------------------------|---------------|-------------------|-----------------------|
| Banteay Meanchey | | | |
| - Formal gate | - | 90.1 | 9.9 |
| - Border & Informal gates | 2.9 | 89.1 | 8 |
| - Town & Urban | - | 68 | 32 |
| - Remaining | 0.8 | 74.4 | 24.7 |
| Svay Rieng | | | |
| - Formal gate | - | 87.4 | 12.6 |
| - Border & Informal gates | 2.4 | 76.9 | 20.7 |
| - Town & Urban | - | 70.6 | 29.4 |
| - Remaining | 0.8 | 75.7 | 23.5 |

Source: NIS survey, 2005 in Nou et al. (forthcoming 2007)

Table A3: Number of Work Permits Issued by Sector in 2004

| Sector | Burmese | Cambodia | Laos | Total |
|-----------------|----------------|----------------|---------------|----------------|
| Fisheries | 33,178 | 22,874 | 2,634 | 58,686 |
| Fish processing | 62,923 | 4,666 | 1,013 | 68,602 |
| Agricultural | 143,793 | 18,816 | 16,795 | 179,404 |
| Construction | 81,554 | 24,463 | 8,442 | 114,459 |
| House maid | 88,319 | 8,746 | 31,449 | 128,514 |
| Rice mill | 6,471 | 186 | 266 | 6,923 |
| Ice making | 3,642 | 387 | 485 | 4,514 |
| Mining | 5,963 | 373 | 433 | 6,769 |
| Transportation | 1,108 | 1,770 | 124 | 3,002 |
| Others | 183,155 | 22,508 | 37,711 | 243,374 |
| Total | 610,106 | 104,789 | 99,352 | 814,247 |

Source: Department of Employment, Ministry of Labor, 2004, cited in Chantavanich, Vangsiriphisal and Laodumrongchai (2006)

Table A4: Cambodian Migrants in Malaysia

| Year | Total Number | | | Domestic worker* | Migrants for HRD factory** | | |
|--------------|--------------|--------------|--------------|------------------|----------------------------|--------------|--------------|
| | Male | Female | Total | Total | Male | Female | Total |
| 1998 | - | 120 | 120 | 120 | - | - | - |
| 1999 | - | 86 | 86 | 86 | - | - | - |
| 2000 | 307 | 195 | 502 | 82 | 307 | 113 | 420 |
| 2001 | 342 | 504 | 846 | 393 | 342 | 111 | 453 |
| 2002 | 246 | 803 | 1,049 | 437 | 246 | 366 | 612 |
| 2003 | 73 | 500 | 573 | 500 | 73 | - | 73 |
| 2004 | 105 | 704 | 809 | 582 | 105 | 122 | 227 |
| 2005 | 467 | 1,309 | 1,776 | 1,008 | 467 | 301 | 768 |
| 2006 | 267 | 687 | 895 | 497 | 172 | 190 | 362 |
| Total | 1,807 | 4,908 | 6,656 | 3,705 | 1,712 | 1,203 | 2,915 |

Source: Cambodia's Ministry of Labour and Vocational Training

* Figures given from recruitment agencies: Cambodia Labor Supply Pty.Ltd, Philimore Cambodia Co. Ltd, MLC Labor Supply Company, Human Resource Development Co. Ltd, RTH Central International Co. Ltd, OSM Group Co. Ltd, and Quata Human Resources Co. Ltd.

** Human Resource Development Co. Ltd

Table A5: Cambodian Migrants in South Korea

| Year | Total Number | | | Factory* | | | Agriculture** | | Fishing** | |
|--------------|--------------|------------|--------------|--------------|------------|--------------|---------------|------------|-----------|-----------|
| | Male | Female | Total | Male | Female | Total | Male | Total | Male | Total |
| 2003 | 638 | 118 | 756 | 638 | 118 | 756 | - | - | - | - |
| 2004 | 516 | 155 | 674 | 443 | 155 | 598 | 76 | 76 | - | - |
| 2005 | 432 | 36 | 468 | 305 | 36 | 341 | 100 | 100 | 27 | 27 |
| 2006 | 508 | 58 | 566 | 496 | 58 | 554 | 12 | 12 | - | - |
| Total | 2,094 | 367 | 2,464 | 1,882 | 367 | 2,249 | 188 | 188 | 27 | 27 |

Source: Ministry of Labour and Vocational Training

* International Manpower Cambodia Co. Ltd

** NH Manpower Ltd

Table A6: Approximated Monthly Income of Registered and Unregistered Migrant Workers

| Sector | Registered migrant Baht | Unregistered migrant Baht |
|----------------------|-------------------------|---------------------------|
| Agriculture | 3,000-4,000 | 1,500-3,000 |
| Construction | 4,500-6,000 | 3,000-3,300 |
| Domestic work | 2,000-4,000 | 1,000-3,000 |
| Entertainment | - | 3,000-10,000 |
| Factory | 3,000-5,000 | 1,000-3,000 |
| Fishery | 3,000-4,500 | 2,400-4,000 |
| Fishery related work | 3,000 | 500-2,400 |
| General labor | 3,000 | 600-3,000 |

Source: Chantavanich, Vangsiriphisal and Laodumrongchai (2006)

Table A7: Average Earning from Cross-Border Migration

| Types of CB migrants | Average Earning in USD | |
|--------------------------|------------------------|--------------|
| | Thailand | Vietnam |
| On Border Migrant | | |
| - Cart puller and porter | 2 /day | 1 /day |
| - Smuggler | 2 -10 /day | 4 /day |
| - Construction worker | 2 /day | 1.5 /day |
| - Casino worker | 40-80 /month | 40-80 /month |
| Daily Migrant | | |
| - Agricultural worker | 2 /day | 1 /day |
| - Pesticide sprayer | 3 -4 / day | 2 /day |
| Short term | | |
| - Agricultural worker | 2 /day | - |
| - Construction worker | 4 /day | - |
| Medium term | | |
| - Agricultural worker | 60 /month | - |
| - Construction worker | 4 /day | - |
| - Animal rearing worker | 80 /month | - |
| - Fisherman | 75 /month | - |
| - Domestic helper | 60 /month | - |
| - Shop assistant/servant | 100 /month | - |

Source: CDRI FGDs in 2005, in Nou et al. (forthcoming 2007)

NON-TARIFF MEASURES FACING CAMBODIA'S EXPORTERS¹

Dourng Kakada* and Sok Hach**

I. INTRODUCTION

Cambodia is a least developed country (LDC) with a GDP per capita of U\$448 in 2005. The economic growth during the last 10 years averaged 8.2 percent per annum.² The growth is narrow-based and driven by only a few industries: garments, tourism and construction. The agriculture sector, the country's largest employment sector, has experienced a boom and bust trend with an average growth rate of 5.7 percent per annum. In line with this growth, the poverty rate declined from 47 percent in 1993 to 35 percent in 2004.³

Cambodia's economy radically changed from a command system to a market system in 1989, as the country found relative stability after decades of conflict. This was shortly followed by trade liberalization, allowing the private sector to participate freely in international exchange. The country's exports only accounted for 8 percent of GDP in 1990, but this figure grew to 50 percent in 2005.⁴ Exports increased considerably from 1999 when the country was granted Generalized System of Preferences (GSP) scheme and Quota system by the EU and the US respectively. The garment export sector was the premier beneficiary of these trade agreements, as it accounted for about 90 percent of total exports.

Exports have since contributed to the socio-economic development of the country. The surge in garment exports created around half of total jobs in the industry sector.⁵ Most garment industry workers are women from rural areas where the country's poor communities are concentrated. Cambodian

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² Based on revised national account in 2006.

³ The World Bank, Cambodia: Halve poverty by 2015? Poverty Assessment, 2006.

⁴ EIC, Cambodia Economic Watch, Issue 4, April 2004.

⁵ Idem

women are today part of the country's economic development as they support the country's largest export industry. These women tend to remit their salaries to their families living in the countryside.

Nevertheless, Cambodia's export profile is limited in terms of export sectors and destinations. To achieve substantial poverty reduction, an export diversification strategy must be taken into account, especially in rural areas where most people are employed in agriculture.

The markets for Cambodian exports are largely opened in terms of zero or low import duties. This is due to the country's successful integration into regional and global trading systems such as ASEAN and the WTO. The recent trend toward regional and bilateral trade agreements, for instance ASEAN-China, ASEAN-Korea, ASEAN-Japan and Cambodia-US⁶ provide additional opportunities. Additionally, the country is receiving preferential schemes from a number of countries, allowing its exports to overcome tariff barriers in their markets. Despite these privileges, Cambodian exporters are challenged by another kind of barrier, Non-Tariff Measures (NTMs), implemented by importing countries or markets both intentionally and unintentionally.

The main aim of this report is to identify what kinds of NTMs are currently faced by Cambodian exporters and what their impacts are. It is divided into five main sections. Section I provides an overview of Cambodia's socio-economic issues and considers the importance of exports for the country's development. Section II profiles exports by product categories and product destinations. It also highlights some of the reasons why exports have boomed during the last decade. Section III describes the research methodology on how NTMs are identified. Section IV discusses key results. Main NTM types and markets are identified, while several illustrated case studies are used for support. It also highlights the views of the private sector emerging during consultations. Finally, the report offers some conclusions and recommendations.

II. EXPORT PROFILE

The country's exports are quite limited in terms of products and destinations. Trade relies heavily on a few products and trading partners, thus placing the country in a precarious position. In order to minimize this highly limited and dependent structure, attention must focus on strategically diversifying export products and market access.

⁶ Cambodia and the US signed Trade and Investment Framework Agreement (TIFA) in July 2006. TIFA aimed at promoting trade and investment activities in both countries and examining a possible Free Trade Agreement (FTA).

Cambodia's major exports are garment and textile products, which account for about 90 percent of all merchandise exports (Table 1). The US absorbs about 70 percent of total garment exports while the EU absorbs about 25 percent. The majority of the remaining exports are to Canada and Japan.

Table 1: Export Products (Million US\$)

| Products | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2000-2005 | Percentage |
|-------------------------|-------|-------|-------|-------|-------|-------|-----------|------------|
| Clothing (All Kinds) | 925 | 1,156 | 1,291 | 1,580 | 1,969 | 2,197 | 9,119 | 88.8% |
| Shoes | 24 | 29 | 33 | 34 | 41 | 38 | 198 | 1.9% |
| Other Textile Product | 13 | 17 | 33 | 14 | 17 | 18 | 112 | 1.1% |
| Articles from Wood* | 33 | 22 | 16 | 10 | 11 | 9 | 101 | 1.0% |
| Agricultural produces** | 35 | 34 | 39 | 39 | 51 | 52 | 250 | 2.4% |
| Others | 70 | 34 | 77 | 93 | 94 | 120 | 488 | 4.8% |
| TOTAL*** | 1,100 | 1,292 | 1,488 | 1,770 | 2,183 | 2,435 | 10,268 | 100.0% |

* Including Timber, Ply wood, Veneer, and other articles produced from wood.

** Including Rubber, Fish products, Rice and other agricultural produces.

***Total export excludes export of bank notes (H.S: 4907.0010) which are currency exports, not goods exports.

Source: Authors, reproduced from data of Ministry of Economy and Finance

The garment industry started growing in 1997, when the country was granted Most Favored Nation (MFN) status by the US and signed a cooperation agreement including a trade agreement with the EU. Following these agreements, the country was awarded GSP and quota schemes by the EU and the US respectively in 1999. This opened the door for Cambodian products to access these markets duty-free. With the establishment of these agreements, garment exports grew dramatically from just US\$80 million in 1996 to US\$2.2 billion in 2005. Likewise, garment factories operating in the country also jumped from just 24 factories up to 247 factories during the same period.

Though the garment industry went through a dramatic expansion, Cambodia remains an agriculture-based economy. About 60 percent of Cambodians are employed in this sector and its share is more than 30 percent of GDP. Yet, recorded agricultural products including wood products, rubber, fish products and rice accounted merely for 3.4 percent of total exports (Table 1). It is estimated that production of some agricultural products have export surplus but most of this surplus is informally exported in the form of raw and unprocessed products to neighboring countries. The export of these raw products is the country's loss especially in terms of value addition and employment.

The analysis of export profiles by destination reveals that the US and the EU are major destinations for Cambodian exports owing to their GSP scheme and quota system. From 2000 to 2005, exports to both destinations accounted for about 88 percent of total exports (Table 2). Even though the quota system was phased out under the WTO agreement, garment exports to the US have increased. This increase is mainly due to the country establishing a comparative advantage based on its reputation for good labor practices and working rights. Additionally, US and EU safeguards on Chinese exports until 2008 have presently curbed an important competitor.

Table 2: Export Destinations (US\$ Million)

| Countries | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2000-2005 | Percentage |
|------------------|-------|-------|-------|-------|-------|-------|-----------|------------|
| USA | 739 | 832 | 960 | 1,127 | 1,310 | 1,595 | 6,563 | 63.9% |
| EU | 230 | 321 | 359 | 420 | 588 | 502 | 2,420 | 23.6% |
| ASEAN | 76 | 73 | 95 | 102 | 83 | 97 | 525 | 5.1% |
| Canada | 5 | 10 | 10 | 60 | 94 | 97 | 287 | 2.8% |
| Japan | 11 | 13 | 19 | 22 | 25 | 63 | 152 | 1.5% |
| China, Main Land | 24 | 17 | 8 | 7 | 13 | 14 | 82 | 0.8% |
| Other | 16 | 26 | 36 | 33 | 70 | 11 | 191 | 1.9% |
| TOTAL*** | 1,100 | 1,292 | 1,488 | 1,770 | 2,183 | 2,435 | 10,268 | 100.0% |

** The exports to Japan sharply increased in 2005 due to exports of antiques of an age exceeding one hundred years (9706.00.000) which accounted for US\$34.8 million.

***Total exports excludes exports of bank notes (H.S: 4907.0010) which are currency exports, not goods exports.

Source: Authors, reproduced from data of Ministry of Economy and Finance

Likewise, exports are also benefiting from GSP schemes to access Canadian and Japanese markets. Exports to both countries accounted for 2.8 percent and 1.5 percent of total exports respectively during 2000-2005.

Cambodian exports to ASEAN are minimal; accounting for 5.1 percent of total merchandise exports from 2000 to 2005. This is mainly due to the country's weak supply capacity and its limited export products. A huge proportion is exported mainly to Vietnam, Singapore, Thailand and Malaysia, accounting for over 90 percent of total merchandise exports to ASEAN. Exports to China are rather small, accounting for less than 1 percent from 2000 to 2005.

III. RESEARCH METHODOLOGY

The research is composed of two phases: desk review and field work. The desk review examines NTM researched by the WTO and international research findings which provide guidance in identifying barriers facing the country's exports. In contrast to develop and some developing countries which have NTM databases and/or foreign barrier reports, this system is underdeveloped in Cambodia. Thus, local research findings are reviewed across sectors based on export profiles. Other documents relevant to export constraints are also examined.

Based on the above literature review, priority sectors for the field work are identified and questionnaires are designed in consultation with the project managers. Twenty-three interviews were conducted, eight with government officials, two with business associations, twelve with exporters and one with a research institute. First, the study tried to assess barriers facing the country's main exports, namely garments, rubber, fish products, and rice. These products cover almost all of the country's exports and hold potential for export development. Barriers faced by other products are also assessed through standard literature and interviews with business associations and relevant government officials.

IV. KEY RESULTS

The study reveals that Cambodian exporters are facing NTMs implemented in importing countries and markets mentioned in this section. This section discusses the main types of NTMs and how prevalent they are in the Cambodian context. Several illustrated case studies portray the issues facing Cambodian exports and markets implementing NTMs are discussed. Views from the private sector on NTMs drawn from interviews are also included in this section.

1. NTMS FACING CAMBODIAN EXPORTS

Prior to considering NTMs imposed by importing countries, it is important to highlight some internal constraints faced by Cambodian exporters, which will help to understand why some regulations imposed by importing countries are specific barriers for Cambodian exporters but not for other exporting countries.

1.1. INTERNAL CONSTRAINTS

Bellow are some of the internal constraints contributing to NTMs for Cambodian exporters:

- **Weak Infrastructure of Standards and Conformity Assessment:** There is limited standard legislation which is compliant with international legislation. Currently, only 47 mandatory

standards in electronic products and four mandatory standards in food products were established by Industrial Standards of Cambodia (ISC), while more than 2500 standards are established by Thailand Industrial Standard Institute (TISI). Presently, ISC is losing speed due to fund shortage and only four standards have been issued in the last two years. The conformity assessment mechanisms such as institutional laboratories have difficulties to earn international accreditations due to the lack of technical competence and equipment. Consultations with government officials reveal that the current status of laboratories and facilities cannot perform some checks against adopted standard legislations which are compliant with international ones. Additionally, private investment in certification services is also limited due to the small market size of all sectors, excluding garments. There are only a few firms providing certifications, mainly focusing on garment exports. For instance, Intertek Testing Service, a UK-based private certification firm, operates only one division (Intertek Labtest division) which focuses on textile testing due to the small market size of other export sectors.

- **Limited Governmental Capacity to Respond to New Trade Regulations:** The change overtime of requirements of importing countries often require interventions from government institutions. The lack of technical and financial resources prevents the Government from responding to new requirements imposed by trading partners. Consultations with stakeholders also revealed that coordination among agencies is still weak, creating problems while the response to new trade regulations involves various agencies.
- Other internal obstacles commonly cited by exporters include the high cost of transportation due to inadequate infrastructure, high fuel costs and non-transparent procedures inducing unofficial payments.

1.2. NTM FACED BY CAMBODIAN EXPORTERS

During the course of this study, three types of NTMs were identified as the main obstacles for Cambodian exporters. They include rule of origin, standards and conformity assessment and sanitary and phytosanitary (SPS) measures.

1.2.1. RULE OF ORIGIN

The criteria for rule of origin are set to ensure that preferential benefits are correctly provided to contracting parties or beneficiaries. The critical issue concerning rule of origin is the sources where inputs are from. If a product is made in a single stage or wholly obtained, the product fulfills the requirements of the rule of origin. When inputs are imported from other countries, the final product has

to satisfy a specific percentage of local content or must have undergone sufficient working or processing in a beneficiary country. The cumulation method is also used as an instrument allowing producers to import materials from a specific country or regional group of countries without undermining the origin of the product.

Implications of the rule of origin for Cambodian trade arise in two contexts. First, the rule of origin is attached to general preferential schemes (GSP) granted by a number of developed and developing countries. Generally, a product is eligible if it is wholly produced in Cambodia or uses a specific percentage of local inputs. Regional cumulation is also allowed with some specific regions such as ASEAN. Second, the rule of origin concerns Cambodia in the context of the ASEAN framework. To be eligible for the common effective preferential tariff (CEPT) rate, exports from Cambodia to the region must use at least 40 percent of regional inputs. Within the framework of ASEAN-China Free Trade Agreement (ACFTA), the content must be at least 40 percent from the single country or ACFTA cumulative content basis.

The rule of origin is seen as a barrier for Cambodia's exports, mainly in the manufacturing sector, for several reasons. Due to the lack of a supporting industry the import of materials from other countries is required. In some cases, exporters cannot obtain the specific percentage of local content defined in the criteria of rule of origin.

In some rules of origin, such as for Everything But Arms and garment industry, imports of inputs are preferably tied up with some specific countries or regions; this creates difficulties for some products whose sources of inputs are imposed by their buyers. This becomes problematic when indicated sources are different from countries or regions defined in the rule of origin.

1.2.2. STANDARD AND CONFORMITY ASSESSMENT

Standard and conformity assessments are found to be major barriers for Cambodian exports. Standards demanded by importing countries are often higher than local Cambodian standards and different importing countries have diverging standards. This imposes significant costs for exporters to comply with different markets. In some cases, the products exported from Cambodia are only eligible for certain foreign markets but not all due to divergences in restrictive standards in different markets. For instance, fish products exported from Cambodia can access US and Hong Kong markets but they cannot access EU markets due to the EU's restrictive requirements.

As mentioned above, internationally compliant standards legislation is limited. The limitation of standards legislation could constrain the range of products to be tested and recognized by international

standards bodies. In some cases, an exported product is tested against standards requirements of buyers rather than against its standards legislation due to a lack of standards law for that particular commodity.

The conformity assessment infrastructure is noticeably weak in the country. Institutional laboratories are finding it difficult to claim international accreditations and some conformity assessment certifications are not accepted by importing countries. The conformity assessments served by the private sector are limited due to Cambodia's small market size.

Box 1: How Lack of Standards and Conformity Assessment Certifications Leads to Informal Exports

In this context, the informal exports are those which are not involved in formal export procedures and are not recorded. It refers to both unrecorded and illegal exports. Statistically, the amount of informal exports is equal to estimated potential exports deducted by recorded exports.

The informal exports are remarkably significant along the borders with Vietnam and Thailand. Most of these exports are raw and unprocessed agricultural products. The Economic Institute of Cambodia (EIC) estimates that informal exports of agricultural products account for at least 12 percent of total recorded exports in 2005.

As a consequence, Cambodian farmers or traders suffer from low bargaining power on prices due to a lack of market information. Prices are often determined by traders from neighboring countries. Additionally, the country as a whole is losing in terms of value addition and employment since most informal exports are raw and unprocessed products. Based on interviews with the private sector, the informal exports of agricultural products are processed in neighboring countries for their local market and for re-exporting to third countries.

The main reason leading to enormous informal exports of raw products is the lack of an agro-processing industry. The low private investments in the agro-processing industry are due to the unfavorable investment climate including unfavorable physical infrastructure, high cost of fuel, high cost of transportation and lack of transparency, which all increase the cost of doing business in the country. The lack of internationally recognized conformity assessments and certifications is often cited as well. Exports of agricultural products have difficulties in accessing world markets while internationally recognized certifications are gradually increasing and standard infrastructure of the exporting country is weak. This factor becomes more important for export-oriented investors in the areas which are strongly involved in standards and certification such as agriculture.

As a result, local demands for raw agricultural products are low and their surpluses end up in neighboring countries. They are informally exported for further processing in those countries which have well-established standards infrastructure and better access to external markets.

1.2.3. SANITARY AND PHYTOSANITARY (SPS) MEASURES

Sanitary (human and animal health) and phytosanitary (plant health) measures are increasingly used to prevent the spread of pest and diseases into importing countries. The complex requirements of SPS create obstacles for Cambodian exports of foods and agricultural products. The high and complex requirements on tastes, diets and perceptions towards the risks from developed and developing countries induce costly investments. The conformity assessment mechanism to ensure compliance with SPS requirements is inadequate due to a lack of technical competence and equipment. Exporters are also facing requirement changes overtime, which require solid technical and human resources to respond quickly.

2. ILLUSTRATED CASE STUDIES

This section discusses six specific case studies found during the course of study. These case studies demonstrate how main types of non-tariff measures mentioned above are prevalent for Cambodian exports. Additional findings in relation to NTMs are also included in each case study.

2.1. GARMENTS

Garment and textile products are Cambodia's main exports which account for 90 percent of total merchandise exports. Cambodia has a relatively cheap supply of labor, a good reputation for working rights, a relaxed investment law and access to GSP schemes granted by developed and developing countries. The country is lacking a textile industry and most fabrics and accessories are imported from China, Hong Kong, Taiwan and the Republic of Korea. All manufactured garments are for export only.

If one considers the case of garment exports to the EU, the barriers of the rule of origin are clearly highlighted. Cambodia as a least developed country (LDC) is receiving preferential treatment from the EU under the EBA's initiative. The garment exports would greatly benefit from the initiatives if they were eligible for the rule of origin. To be eligible for duty free, a product must be wholly processed in Cambodia, or a product constructed of originating inputs of the EU, ASEAN and ACP countries must have more than 50 percent value added in Cambodia.

Table 3: Cambodia's Imports of Man-made Staple Fibers (H.S 55) and Knitted or Crocheted Fabrics (H.S 60) in 2004

| Sourcing Countries | Man-made staple fibers (H.S 55) | Knitted or crocheted fabrics (H.S 60) | Total (H.S 55+H.S 60) |
|--------------------|---------------------------------|---------------------------------------|-----------------------|
| Hong Kong | 35% | 31% | 34% |
| China | 36% | 19% | 29% |
| Taiwan | 14% | 27% | 19% |
| South Korea | 4% | 4% | 4% |
| Subtotal | 89% | 82% | 86% |
| ASEAN | 6% | 18% | 11% |
| Rest of the World | 5% | 0.3% | 3% |
| Total | 100% | 100% | 100% |

Source: Authors, compiled from the Ministry of Economy and Finance

Given the fact that Cambodia lacks a textile industry and most fabrics and accessories are imported from countries which do not qualify for the rule of origin, Cambodia cannot fully benefit from the preferential treatment.

Most of the materials utilized for producing garments are man-made staples (H.S 55) and knitted or crocheted fabrics (H.S 60). These accounted for 75 percent of total imports of textile and textile articles in 2004. Table 3 demonstrates that 86 percent of both kinds of inputs (H.S 55 and 60) are imported from China, Hong Kong, Taiwan and the Republic of Korea and only 11 percent are imported from ASEAN countries. Evidently, Only 67 percent of garment exports to the EU in 2005 qualified for EBA's criteria of rule of origin and are eligible for certificate form A to access duty free, while in 2004 only 61 percent qualified. The rest are required to pay an import duty of 10-12 percent.

Based on interviews with the private sector, there are several reasons preventing them to source inputs from eligible countries to benefit fully from EBA's initiative. Importantly, the decisive factor that makes manufacturers difficult to change sources of inputs is the buyers' nomination. Buyers indicate where inputs are sourced, mostly from China, Taiwan, Hong Kong and the Republic of Korea. Buyers' nominations in some factories make up about 80 percent of utilized fabrics and accessories. One possible reason why buyers indicate sources from those countries is that they established business relations with those suppliers. Thus, credibility and reliability for quality, labor standards and delivery time become an important factor to sustain business relations.

This barrier is considered as a major obstacle by consulted exporters. With this restrictive rule of origin, it is estimated that garment exporters from Cambodia paid import taxes of US\$16-20 million

to EU governments, accounting for about 3.3-3.9 percent of the total value of garment exports to the EU in 2005. The total exports of garment products to the EU accounted for US\$ 508 million in 2005.

2.2. RUBBER

Rubber is the country's major agricultural export. On average, 45,000 tons are exported annually. However, the price of rubber has fluctuated from year to year. Its export value accounted for US\$32 million in 2005, representing 54 percent of total agricultural exports. The rubber production is on an increasing trend owing to growing demands. A study on the evolution of the Cambodian rubber sector⁷ reveals that traditional smallholders and private plantations are expanding by 1,000-1,500 hectares annually. Most of the rubber is exported to Vietnam.

Cambodian rubber is suffering cheaper prices of up to 20 percent compared with global prices. Reasons for this disparity include hidden margins and costs linked to the trade channel through Vietnam, the irregularity of shipments and the lack of technical standards of exported products.⁸ The latter refers to fact that Cambodia lacks certification by an internationally certified body. The barrier of certification prevents Cambodian rubber from accessing broader international markets other than Vietnamese markets. The limited markets decrease bargaining power and force producers to sell below international prices. Exporters also stress that the certification barrier is used by buyers to put pressure on lower prices.

To be internationally recognized, Cambodian rubber must be certified by an internationally recognized laboratory. This requires the country to be a member of the International Rubber Association (IRA), of which Cambodia is not yet a member. To be a member of IRA, Cambodia needs to complete the following requirements: i) the formation of a Cambodian Rubber Trade Association representing all stakeholders in the commodity chain, ii) building a laboratory equipped with qualified personnel and requisite equipment, and iii) test participation in compliance with international standards.

It is difficult to quantify only the effect of certification. But with the discount price of 20 percent with the combined factors mentioned above, it is estimated that the country is losing about US\$8 million per annum. Cambodian companies receive an average of US\$1,150 per ton for rubber at the Vietnamese border compared to US\$1,343 per ton that producers receive in Malaysia.⁹ However, exporters pointed out that lack of certification is the heaviest factor in that discount price. It is the major obstacle cited by consulted rubber stakeholders.

⁷ SOFRECO & CEDAC: *Study on the evolution of the Cambodian Rubber Sector*, Draft report, 2005.

⁸ *Idem*

⁹ The Cambodia Daily, 24 June 2005 p.18, based on interview with French Development Agency rubber expert.

2.3. FISH AND FISH PRODUCTS

Fish products are the second major export of the agriculture sector following rubber. The export of fish products reached US\$15 million in 2005, representing 24 percent of total agricultural exports. Currently, Cambodian fish products are exported to various countries such as the US, Hong Kong, and Taiwan.

Nonetheless, fish product exports to the EU have been banned since 1997 under the Commission Decision 97/296/EC. This case clearly highlights how Cambodian exports are facing the barrier of divergences in standards from different importing countries. Based on assessments of the EC's mission to Cambodia in 2004, the country cannot meet EU requirements in terms of legislation, laboratories, certifications and competent authorities, as discussed below:

- The Cambodian legal system does not provide guarantees equivalent to the ones required by EU legislation for the production and the placing on the market of fishery products.
- Cambodia's competent authority currently has no legal basis for carrying out control activities based on food safety principles. There are no official control services for this purpose available at the central level and in the provinces. Therefore, health controls and the monitoring of production conditions are currently not in place at any stage of the fish production chain.
- The official laboratories are not currently in a position to perform the range of analyses required by Community provisions (Chapter V of the Annex to Directive 91/493/EEC and Directive 98/83/EC). They are not accredited against standard ISO17025 as required by Art. 3 of Council Directive 93/99/EEC.
- Health conditions during the production and storage of fishery products potentially intended for export to the EU are not in line with Community requirements.
- The health certification currently carried out is not in line with international standards in the field of certification (Chapter 1.3.2 of the Aquatic Animal Health Code 2005 of the Office International des Epizooties and Council Directive 96/93/EC).

Furthermore, since 2004, the EU has banned the import of tuna and swordfish from a number of countries including Cambodia,¹⁰ because Cambodia often failed to respect international conservation rules. This measure, however, does not have any impact because imports of fish products

¹⁰ Available at : <http://www.europaworld.org/week175/eutakes30404.htm>

into the EU were already banned since 1997 and production of both kinds of fishes are minimal. But it is an additional barrier which would induce a bad brand image for buyers and consumers, indicating that Cambodia is a country which is not compliant with international rules.

It is by no means impossible to quantify the impacts of this barrier by reason of the lack of export data to the EU before 1997. But interviews with government officials and exporters reveal that they can get better prices in the EU markets and some buyers from the EU are seeking supplies of fish products from Cambodia. Hence, without this barrier, expansion of exports to the EU is quite possible. This barrier is the prohibitive obstacle for Cambodian fish product exports.

2.4. RICE

The recorded rice exports reached US\$2.6 million, about 5 percent of total exports in the agriculture sector. However, the informal paddy (unprocessed rice) exports are estimated to be a large amount, much higher than the recorded value of rice. Rice is currently exported to some markets in the EU and the US.

Cambodian rice exports are unable to access Chinese markets. China requests a number of documents for risk and assessment to confirm that all rice and paddy imported into China is free of pests and diseases. China also dispatched an expert group to conduct field inspections in Cambodia in 2006 by evaluating laboratory, border phytosanitary authorities and export firms. The results will determine whether China will sign a bilateral inspection and quarantine agreement with Cambodia for market access. Based on the field inspection, Cambodia does not seem to meet China's requirements, mentioned below:

- The capacity of the Cambodian phytosanitary laboratory does not satisfy Chinese requirements.
- There is inadequate capacity of the border phytosanitary authority in terms of facilities and staff for carrying out inspections.
- There is inadequate facility and management capacity at selected export firms such as processing facilities and quality management.

Access to Chinese markets would be a strategy for market diversification for rice since future rice production will increase, thus providing a surplus for exports. Enhancing rice production can be made possible by raising productivity while the country's current productivity is low compared to that of Thailand and Vietnam due to an underdeveloped irrigation system which is in the government's

priorities. The rice production can also be enhanced by blocking informal paddy exports to neighboring countries and processing them in the country.

2.5. BLACK PEPPER

Currently, black pepper is not a major export. The product is accessible to France but not Japan. To access Japan, documents describing the manufacturing processes, raw materials and additives used in manufacturing processes, and certificates of sterilization are required.¹¹ Because of a lack of certificate of sterilization, the country's main black pepper firm cannot export to Japanese markets, though it does to France, where only a certificate of analysis is required. On their own means, exporters must buy expensive technology for sterilizing black pepper. The Cambodian firm is currently not willing invest since this certificate is required only by Japanese markets. The cost of sterilization technology is high and poses a question of return on investment. On the other hand, there is no private investment in sterilization certification services since the market for this service is undersized.

2.6. GIANT AFRICA SNAIL (GAS) PREVENTIVE MEASURE IN AUSTRALIA

The Australian government has been taking action against GAS and issued a draft action list of countries in 2005. The draft action list has named countries where GAS are known to exist and which are targeted for inspection. The draft list includes Cambodia. If Cambodia does not succeed in appealing this inclusion, additional conditions will be required for containers shipped from Cambodia to Australia. Those additional requirements can be mandatory external and internal inspections or treatment and a certificate from an approved authority stating that the container interior and content are free of GAS. There would be an Australia Quarantine Inspection Service (AQIS) fee-for-service charge applying to containers from Cambodia.

Cambodian exports to Australia is minimal, accounting for about US\$ 3 million or 0.1 percent of total exports. This preventive measure would be a major barrier for Cambodian exports to Australia, by introducing more complicated and lengthy procedures, delaying products from reaching markets and putting an extra burden on importers.

3. VIEWS OF THE PRIVATE SECTOR ON NTMS

The discussions with the private sector reveal some aspects on NTMs as below:

¹¹ Interviews with exporters based on their correspondents and negotiations with buyers.

- **NTMs in middle and high income countries are stringent:** it is commonly cited that NTMs in middle and high income countries are much higher compared to low income countries. Those measures are developed by both importing countries and markets associated generally with preferences and tastes of consumers. Some Cambodian exports are accessible to markets of low income countries but not those in developed countries.
- **Additional requirements are perceived as prohibiting barriers for Cambodian exporters:** Some importing countries impose trade regulations or their requirements demand stricter overtime for consumer health protection, environment and country security. The imposing new requirements would be prohibitive obstacles for LDCs like Cambodia while institutional responses to new trade regulations are still weak. When importing conditions require government interventions, the process is slow or immovable, such as in the case of exports of fish products to the EU.
- **Divergence in standards and technical regulations is seriously burdensome for exporters:** It is expensive to access developed markets due to the need for exporters to invest in high technology. Costs are lower for goods sold on local markets because these investments are not necessary. Additionally, the country is poor in supplying internationally recognized certifications of compliance. The production of “double standard” products for different products is thus burdensome for exporters.
- **Lack of experience to use certification system in the region:** Some exporters who failed to export are lacking experience in using the certification systems common in regional countries like Singapore, Thailand and Malaysia. The lack of experience makes them reluctant to risk investments for compliance. Medium scale export firms are especially concerned that benefits from their investments in adjusting supply chains will be minimal.
- **NTMs degrade brand image of the country:** NTMs imposed on products from LDCs affect not only the product itself, but also the well-being of the country as a whole, especially if the barrier relates to the environment, pests, diseases or international rules. Exporters found that buyers are increasingly seeking more guarantees while they know that new NTMs are imposed even on different products.

V. CONCLUSION AND RECOMMENDATIONS

Cambodian exports face significant obstacles in getting to market through the form of various non tariff measures. Some internal constraints induced by the country itself also contribute to the

increase of NTMs. Unlike developed and some developing countries which have an NTM database and/or foreign barrier report, this system is underdeveloped in Cambodia.

Findings from literature reviews and field surveys across sectors based on export profiles and potential products for exports revealed that three main types of NTMs are prevailing. These are: rule of origin, standard and conformity assessment and sanitary and phytosanitary measures. The cause is the lack of supporting industry, requiring imports of inputs. This makes it difficult for exporters to reach a specific percentage of local content. The cumulation method of some rules of origin exclude countries where most inputs are sourced. Importantly, buyers' nomination of input sources is a decisive factor. The main cause of the two latter barriers is the combination of stringent requirements of importing countries coupled with the country's poor standard infrastructure, conformity assessment and SPS which cannot afford to meet those requirements. Divergences in requirements in different countries and their changing demands overtime are really major obstacles for Cambodia's exporters.

With the above mentioned barriers, some recommendations are highlighted. The EU should liberalize the rule of origin for EBA initiative so that garment industry can benefit fully from preferential scheme since the development of textile industry in the country seems not foreseeable in medium term.

The harmonization of standard requirements among importing countries are highly recommended since Cambodia, as an LDC, finds it difficult to produce double-standards in order to meet the standards requirements of different countries due to a shortage of technical and financial resources. It is also suggested that some importing countries should not be restrictive to their own format of certification. Equivalent certifications should be also accepted, such as the case of black pepper in Japanese markets.

Last but not least are Cambodia's own obligations. The country should track the changes of requirements of importing countries; foreign barrier reports should be initiated and awareness of NTMs should be promoted among private sector. This kind of information would help policy makers to design policies to overcome the barriers. The infrastructure of conformity assessment and SPS should be strengthened by starting from products which have high potentials for exports. Finally, business development services (BDS) in relation to standards and certifications should be encouraged among the private sector with initial supports from the government and donor communities.

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APPENDIX 1

THE INVENTORY OF NON-TARIFF MEASURES

| PARTS AND SECTIONS | DESCRIPTION |
|--------------------|---|
| Part I | <u>Government Participation in Trade and Restrictive Practices Tolerated by Governments</u> |
| A | Government aids, including subsidies and tax benefits |
| B | Countervailing duties |
| C | Government procurement |
| D | Restrictive practices tolerated by governments |
| E | State trading, government monopoly practices, etc. |
| Part II | <u>Customs and Administrative Entry Procedures</u> |
| A | Anti-dumping duties |
| B | Customs valuation |
| C | Customs classification |
| D | Consular formalities and documentation |
| E | Samples |
| F | Rules of origin |
| G | Customs formalities |
| H | Import licensing |
| I | Pre-shipment inspection |
| Part III | <u>Technical Barriers to Trade</u> |
| A | General |
| B | Technical regulations and standards |

| PARTS AND SECTIONS | DESCRIPTION |
|--------------------|--|
| C | Testing and certification arrangements |
| Part IV | <u>Sanitary and Phytosanitary Measures</u> |
| A | General |
| B | SPS measures including chemical residue limits, disease freedom, specified product treatment, etc. |
| C | Testing, certification and other conformity assessment |
| Part V | <u>Specific Limitations</u> |
| A | Quantitative restrictions |
| B | Embargoes and other restrictions of similar effect |
| C | Screen-time quotas and other mixing regulations |
| D | Exchange controls |
| E | Discrimination resulting from bilateral agreements |
| F | Discriminatory sourcing |
| G | Export restraints |
| H | Measures to regulate domestic prices |
| I | Tariff quotas |
| J | Export taxes |
| K | Requirements concerning marking, labelling and packaging |
| L | Others |
| Part VI | <u>Charges on Imports</u> |
| A | Prior import deposits |
| B | Surcharges, port taxes, statistical taxes, etc. |
| C | Discriminatory film taxes use taxes, etc. |
| D | Discriminatory credit restrictions |

| PARTS AND SECTIONS | DESCRIPTION |
|---------------------------|--|
| E | Border tax adjustments |
| Part VII | <u>Other</u> |
| A | Intellectual property issues |
| B | Safeguard measures, emergency actions |
| C | Distribution constraints |
| D | Business practices or restrictions in the market |
| E | Other |

Source: *WTO Secretariat*

CAMBODIA'S AGRICULTURAL PRODUCTION AND TRADE

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I. THE CURRENT STATUS OF AGRICULTURE IN CAMBODIA

With GDP per capita of \$500 (in 2006) and 35% of the population living in poverty, Cambodia is among the few which are poorest countries in Asia. Cambodia's agriculture remains a large, undeveloped sector, contributing 34.2% to GDP (excluding taxes) in 2005 and primarily employing 70% of the labour force. The World Bank (2006) strongly concludes that improving agriculture will be the most effective way in reducing Cambodia's poverty rate and raising rural income.¹

Agricultural crops are the dominant sub-sector, contributing 55.28% to the agricultural sector in 2005. Rice is by far the largest crop, accounting for 25.8 of the agricultural GDP or 8.8% of the total gross value added in 2005 (Table 1). Much of rice production is for subsistence. However, a marked amount is for export, although mostly through informal channels. Rice therefore deserves an in-depth discussion in the next section. The second largest crop is cassava, which contributed 8.7% to the agricultural GDP or 3% to the national GDP. Close to cassava is rubber. Among the rest of the crops, soybean, maize and vegetables are of significance and have the potential to be expanded.

As the second largest sub-sector (7.9% GDP), fisheries comprises primarily inland fisheries due to the favorable eco-systems which result in the fourth largest fresh water fish catch in the world. In addition to the concentration in the Tonle Sap and Mekong plains, fish and other aquatic resources are naturally available in every part of Cambodia, contributing primarily to protein intake in the rural food diet. Marine fisheries is also of significance to the coastal residents and has the potential to expand in value added.

Livestock and poultry are also a crucial part of rural income. They are mostly small-scale and spread out in every part of the country. It is not uncommon that the average household raises a few chickens, one pig and two cows, all combined contributing to about 5% of GDP. It is believed that this sub-sector can be expanded remarkably as more grazing land is available after deforestation. Many have been inspired by the recent hike in prices of livestock to raise pigs and cattle.

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¹ World Bank (2006) Having Poverty by 2015? A Poverty Assessment of Cambodia

Table 1: Gross Value Added of Agricultural Commodities in 2005

| | Production Value Added at Current Prices (US\$, million)* | % in Agricultural GDP | % in Total GDP* |
|--------------------------------|--|------------------------------|------------------------|
| Agricultural Crops | 1,108.76 | 55.28% | 18.90% |
| Paddy | 516.74 | 25.76% | 8.81% |
| Maize | 24.37 | 1.21% | 0.42% |
| Cassava | 174.92 | 8.72% | 2.98% |
| Sweet Potatoes | 3.78 | 0.19% | 0.06% |
| Mung Beans | 11.24 | 0.56% | 0.19% |
| Soya Beans | 39.39 | 1.96% | 0.67% |
| Groundnuts | 10.63 | 0.53% | 0.18% |
| Sesame | 23.07 | 1.15% | 0.39% |
| Vegetables | 70.53 | 3.52% | 1.20% |
| Sugar Cane | 6.34 | 0.32% | 0.11% |
| Black Pepper | 2.18 | 0.11% | 0.04% |
| Tobacco | 23.32 | 1.16% | 0.40% |
| Jute | 0.42 | 0.02% | 0.01% |
| Rubber | 101.87 | 5.08% | 1.74% |
| Other Crops | 65.30 | 3.26% | 1.11% |
| Livestock & Poultry | 291.31 | 14.52% | 4.97% |
| Cattle & Buffaloes | 125.71 | 6.27% | 2.14% |
| Pigs | 87.70 | 4.37% | 1.50% |
| Poultry & Eggs | 70.26 | 3.50% | 1.20% |
| Hunting and wildlife | 7.64 | 0.38% | 0.13% |
| Fisheries | 462.34 | 23.05% | 7.88% |
| Aquaculture | 54.50 | 2.72% | 0.93% |
| Inland fisheries | 333.85 | 16.65% | 5.69% |
| Marine fisheries | 73.99 | 3.69% | 1.26% |
| Forestry & Logging | 143.29 | 7.14% | 2.44% |
| Logging | 53.47 | 2.67% | 0.91% |
| Wood fuel | 82.18 | 4.10% | 1.40% |
| Gathering | 7.64 | 0.38% | 0.13% |
| AGRICULTURAL GDP | 2,005.71 | 100.00% | 34.19% |
| TOTAL GDP* | 5,866.09 | | 100.00% |

* Excluding Taxes

Source: NIS (2006) National Accounts of Cambodia 1993-2005

The last part of Cambodia's agricultural sector is forestry and logging, which occupied 62.7% of the country's area in 2002/3, but contributed to only 2.4% of GDP in 2005.² However, this very small share in GDP does not reflect the true worth of the forests. It is unlikely that illegal logging is well counted. Moreover, other non-timber forest products are obviously grossly under-estimated in the national account calculation. A number of small area studies point out that forests provide an important source of livelihood to those living nearby.³ Nevertheless, the Cambodia Socio-Economic Survey (CSES) 2004 found that poverty in the plateau region, which is primarily covered by forests, actually rose from 40% to 58% between 1993 and 2004. This reveals that most of the trees that were cut have not benefited rural residents but those in urban areas. The rapid degradation of forests, however, has opened up some lands for farming. The recently increased production of cassava, cashew, maize and bean has been largely the result of deforestation (See next section for analysis of trends).

II. CHANGES IN CROPPING SYSTEM OVER THE PAST 10 YEARS

At the national level, agriculture has been growing but at a lower rate than the industry and services sectors. The main contributor to this growth is the crop sub-sector. Livestock, poultry, and fisheries have gradually increased as well to maintain their large shares in the agriculture from 1996 to 2005 (Table 2). However, forestry and logging declined considerably in this period.

The main crops driving recent growth in the agriculture sector are the cash crops primarily maize, cassava, groundnuts, mung bean, soy bean, sesame and rubber. These are the cash crops that have been expanded on the new lands cleared from the forests mostly in the past 5 years. As indicated in Table 2, value added of cassava, maize and soy bean has jumped remarkably in the past 4 years. Crop patterns have shifted significantly as a result. These crops are grown in the new areas where most residents are poor (>40% poverty rate), while rice is concentrated in the old lands in the plains.

Paddy has been significantly expanding as well in absolute terms due mainly to the gradual increase in yield from 1.5 tons to 2.4 tons per hectare within the past 10 years as a result of large amounts of investment in seed and other technique improvements. However, rice production is still vulnerable to wild changes in the weather because most of the paddy fields are totally rain fed. For instance, rice did not show well in 2004 because there was severe drought in many provinces in the Plateau region. Then, in 2005 thanks to very good rainfall, rice production bounced back to a highest record of 6 million tons, compared with less than 5 million ton before.

² Forestry Administration (2005), Cambodia: Forest Statistics 2004, (Phnom Penh: May 2005)

³ See, for instance, the World Bank commissioned Poverty and Environment Nexus study and Moving out of Poverty study.

Since crops account for nearly half of the agriculture sector, which includes fisheries, forestry and livestock, they deserve more scrutiny as discussed below. Crop intensification, extensification and diversification are briefly discussed before issues related to each substantial crop production and trade are presented.

2.1. DEVELOPMENT OF CROP PRODUCTION

CROP INTENSIFICATION

As mentioned above, Cambodia has seen significant improvements in rice yields per hectare over the last decade, with wet-season yields growing by 14% over the last five years.⁴ Increased paddy yields have contributed to improved incomes – there is a strong (inverse) correlation between per capita paddy production and poverty rates (CSES 2004). In fact, this correlation is stronger with dry-season yield growth which, although slower (6% over the same period) has higher poverty elasticity.⁵ (Per hectare yields are an average 60% - 100% higher than those in the wet season.⁶) While wet-season paddy production provides subsistence for many rural households, it is likely dry-season crop production that contributes the most to lifting rural households out of poverty. The first and foremost constraint to crop intensification is lack of irrigation, which will be discussed below.

Table 2: Gross Value Added of the Agriculture Sector from 1996-2005 (Million US\$)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Agricultural Crops | 712 | 620 | 531 | 606 | 603 | 606 | 580 | 712 | 717 | 900 |
| Paddy | 413 | 360 | 299 | 337 | 328 | 325 | 300 | 361 | 314 | 443 |
| Maize | 12 | 7 | 6 | 12 | 20 | 23 | 18 | 38 | 31 | 29 |
| Cassava | 14 | 14 | 10 | 32 | 21 | 31 | 32 | 56 | 88 | 113 |
| Sweet Potatoes | 14 | 9 | 8 | 8 | 7 | 6 | 8 | 8 | - | 8 |
| Mung Beans | 7 | 7 | 3 | 5 | 5 | 6 | 8 | 10 | - | 14 |
| Soya Beans | 10 | 18 | 7 | 9 | 7 | 6 | 10 | 16 | 27 | 43 |
| Groundnuts | 5 | 5 | 4 | 5 | 4 | 5 | 5 | 9 | - | 11 |
| Sesame | 5 | 5 | 3 | 5 | 6 | 5 | 6 | 13 | - | 31 |
| Vegetables | 116 | 72 | 71 | 69 | 68 | 66 | 65 | 64 | 62 | 62 |

⁴ Specifically, to account for annual climatic fluctuations, we calculate average yields for two periods 1997/98 – 1999/00 and 2003/04 – 2004/05.

⁵ We limit the sample to Provinces with statistically robust estimates of poverty headcounts. The simple correlation coefficient is -43%. In fact, the correlation is stronger (-55%) when we use dry season per capita rice production, further reinforcing our earlier conclusions of the importance of double-cropping for poverty reduction.

⁶ Data from Cambodia Agricultural Statistics, 2004/05.

| | | | | | | | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sugar Cane | 8 | 8 | 5 | 5 | 6 | 6 | 7 | 6 | - | 4 |
| Black Pepper | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | - | 2 |
| Tobacco | 23 | 22 | 17 | 10 | 12 | 7 | 4 | 12 | 4 | 22 |
| Jute | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 |
| Rubber | 21 | 17 | 41 | 47 | 51 | 50 | 50 | 47 | 46 | 41 |
| Other Crops | 61 | 74 | 57 | 60 | 67 | 67 | 66 | 67 | - | 64 |
| Livestock & Poultry | 301 | 265 | 223 | 218 | 196 | 216 | 215 | 226 | 234 | 243 |
| Cattle & Buffaloes | 139 | 120 | 100 | 89 | 75 | 81 | 82 | 86 | 89 | 94 |
| Pigs | 92 | 80 | 70 | 72 | 66 | 75 | 72 | 72 | 73 | 75 |
| Poultry & Eggs | 69 | 65 | 53 | 57 | 55 | 58 | 58 | 63 | 66 | 68 |
| Hunting & Wildlife | - | - | - | - | - | 2 | 3 | 5 | 6 | 6 |
| Fisheries | 517 | 482 | 391 | 378 | 393 | 409 | 412 | 413 | 402 | 417 |
| Aquaculture | 52 | 49 | 27 | 27 | 27 | 28 | 28 | 34 | 41 | 49 |
| Inland fisheries | 428 | 402 | 299 | 285 | 299 | 308 | 312 | 312 | 296 | 301 |
| Marine fisheries | 36 | 31 | 65 | 66 | 66 | 73 | 72 | 68 | 65 | 67 |
| Forestry & Logging | 160 | 206 | 164 | 140 | 120 | 118 | 114 | 110 | 112 | 115 |
| Logging | 83 | 136 | 107 | 81 | 60 | 46 | 36 | 31 | 30 | 32 |
| Wood fuel | 76 | 70 | 57 | 59 | 61 | 70 | 75 | 75 | 75 | 75 |
| Gathering | - | - | - | - | - | 2 | 3 | 5 | 6 | 8 |
| Total agriculture | 1,689 | 1,573 | 1,309 | 1,343 | 1,313 | 1,349 | 1,321 | 1,461 | 1,464 | 1,675 |
| TOAL PRODUCTION (GDP) | 3,750 | 3,518 | 2,933 | 3,218 | 3,466 | 3,673 | 3,889 | 4,184 | 4,528 | 5,046 |

* Excluding Taxes

Source: NIS (2006) National Accounts of Cambodia 1993-2005

CROP EXTENSIFICATION

There is also evidence of extensive paddy cultivation, as population pressure forces rural households to expand the cultivated area. The agricultural labor force is growing at 2.7% per annum and in the absence of alternative forms of employment will likely remain in agriculture. This is placing increasing demands on land, is leading to further declines in the average productivity of labor and forcing the clearing of forested area in a process of extensive agricultural expansion. With little non-protected land remaining, cultivated land is expanding relatively slowly in the Plains. However, the cultivated area in the Tonle Sap region is expanding outwards from the Tonle Sap itself into the surrounding forested areas at significant rates.⁷ Some of the fastest

⁷ There is ample evidence from land use maps that deforestation is clearing land for agricultural uses. Wet season cultivated land under paddy is a reasonable proxy since encroachment is typically motivated by subsistence needs and is un-irrigated. Between 2003/04 and 2004/05 cultivated land grew by 6% in the Plains and by 15% in the *Tonle Sap*.

expansion in areas with significant existing paddy production is occurring in the far North West Provinces of the Tonle Sap region in Battambang and Banteay Meanchey. In these regions there is extensive maize production to meet demand of traders in Thailand.

CROP DIVERSIFICATION

According to CSES 2004, poor households still depend on paddy for three-quarters of their (gross) annual income from crops. This is complemented by income from other crops, particularly vegetables. The average household in the bottom quintile allocate more land to vegetable production than any other household, although the yields are lower than non-poor households. Vegetables are important dry-season crops to households in the Tonle Sap, providing over twice the incomes in the dry season compared to the wet season. Half the total land under vegetable production is in the Plains, and it generates about 18% of gross revenues from crops in both the wet season and dry season.

2.2. CROP PRODUCTION AND TRADE

In 2005, real value added of crop accounts for 55.3 percent in agricultural GDP, equal to 18.9 percent in total GDP. The share of crop in agricultural GDP has increased over the past several years, partly due to increased commercial cash crop farming and expansion of agricultural land following deforestation. Production of maize, cassava and soybean in tonnage terms has been rising in the past 3-5 years (Table 3). It is worth discussing each of the main crops (rice, maize, soy bean, cassava, cashew and rubber) in detail with regards to both production and trade.

Table 3a: Cultivated Area of Crop Production in the Past 10 Years (thousand hectares)

| Kind of crop | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|
| Rice | 2,153.0 | 2,076.0 | 2,094.7 | 2,157.6 | 2,318.5 | 2,240.9 | 2,137.1 | 2,314.3 | 2,346.9 | 2443.5 |
| Maize | 49.5 | 49.4 | 44.9 | 59.9 | 71.5 | 80.2 | 80.5 | 93.4 | 91.2 | 90.7 |
| Soybeans | 29.0 | 32.9 | 31.0 | 35.1 | 33.3 | 32.0 | 33.6 | 53.2 | 84.9 | 118.8 |
| Cassava | 14.0 | 10.5 | 8.8 | 14.0 | 16.3 | 14.2 | 19.6 | 25.7 | 22.7 | 30.0 |
| Sesame | 12.2 | 16.4 | 14.8 | 16.5 | 19.2 | 20.2 | 20.9 | 34.0 | 64.5 | 79.3 |
| Vegetables | 46.0 | 36.5 | 37.7 | 31.5 | 34.0 | 35.3 | 34.4 | 36.1 | 32.6 | 35.8 |
| Mung bean | 28.0 | 27.5 | 25.2 | 26.8 | 25.0 | 29.4 | 39.8 | 44.9 | 39.1 | 60.6 |
| Peanuts | 11.9 | 9.6 | 9.7 | 10.6 | 10.4 | 11.9 | 13.8 | 14.6 | 19.2 | 17.2 |
| Sweet potato | 11.0 | 9.3 | 9.3 | 9.3 | 7.4 | 7.2 | 8.1 | 8.7 | 7.3 | 8.5 |
| Sugar cane | 7.1 | 8.3 | 7.1 | 8.4 | 8.0 | 7.9 | 9.5 | 9.6 | 6.8 | 6.0 |
| Tobacco | 13.8 | 15.0 | 13.8 | 8.3 | 10.0 | 8.6 | 4.1 | 6.4 | 1.7 | 8.2 |
| Jute | 1.7 | 2.0 | 1.3 | 0.3 | 0.2 | 0.2 | 0.5 | 0.5 | 0.6 | 0.5 |

Source: MAFF, *Various issues, Agricultural Statistics*

Table 3b: Production of Crops in the Past 10 Years (thousand tons)

| <i>Kind of crop</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> | <i>1999</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> | <i>2005</i> |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Paddy | 3,404.0 | 3,414.9 | 3,509.9 | 4,041.0 | 4,026.1 | 4,099.1 | 3,822.5 | 4,711.0 | 4,170.3 | 5,986 |
| Maize | 64.6 | 42.4 | 48.5 | 95.3 | 157.0 | 185.6 | 148.9 | 314.6 | 256.7 | 248 |
| Soybeans | 28.3 | 56.3 | 27.7 | 35.1 | 28.1 | 17.2 | 38.6 | 63.2 | 110.3 | 179 |
| Cassava | 69.7 | 77.3 | 66.5 | 228.5 | 148.0 | 142.3 | 122.0 | 330.6 | 362.1 | 536 |
| Vegetables | 249.7 | 176.8 | 217.3 | 181.9 | 196.0 | 184.6 | 143.2 | 139.6 | 179.1 | 172 |
| Mung bean | 13.8 | 15.3 | 9.2 | 15.9 | 15.1 | 17.2 | 23.9 | 31.8 | 45.3 | 45 |
| Peanuts | 6.2 | 7.0 | 6.6 | 9.2 | 7.5 | 8.9 | 9.7 | 18.5 | 21.5 | 23 |
| Sweet potato | 38.0 | 28.9 | 30.5 | 32.5 | 28.2 | 26.3 | 31.5 | 34.9 | 35.1 | 39 |
| Sesame | 5.2 | 3.1 | 5.1 | 8.4 | 10.0 | 9.0 | 10.0 | 22.0 | 55.0 | 57 |
| Sugar cane | 171.3 | 187.5 | 133.1 | 159.9 | 164.2 | 169.3 | 208.8 | 173.1 | 130.4 | 118 |
| Tobacco | 9.6 | 10.5 | 10.1 | 6.4 | 8.0 | 4.7 | 2.5 | 7.6 | 2.5 | 14 |
| Jute | 2.4 | 2.3 | 1.1 | 0.3 | 0.2 | 0.2 | 0.6 | 0.6 | 0.9 | 1 |

Source: MAFF, *Various issues, Agricultural Statistics*

2.2.1. Rice production and trade

Like in many other Asian countries, rice is a staple food in Cambodia, and its production dominates the agricultural sector. Rice is produced in almost all provinces in Cambodia, especially in provinces around the Great Lake and along the Mekong River. About 90 per cent of the total crop cultivated area is occupied by rice production which is divided in rainy-season crop and dry-season crop. The former occupies approximately 87 percent of the total rice planted area, and the latter 13 percent. The dry-season crop has higher productivity and accounts for 25 percent of the total production as it has good varieties of seeds that can be planted many times a year. Rainy-season crop, on the contrary, is one rain-fed crop per year, and the harvest is gathered 6 months after the seeds are sown. Both crops are planted by farmers who usually own small land and possess an inefficient cultivation method. Companies that produce rice on a large scale for export do not exist.

Table 4: Rice production

| | 2002 | 2003 | 2004 | 2005 |
|----------------------------|-------------|-------------|-------------|-------------|
| Value added (US\$ million) | 285.4 | 349.4 | 345.9 | 516.7 |
| Cultivated area (1000 ha.) | 2,137.1 | 2,314.3 | 2,374.2 | 2,443.5 |
| Value added (US\$/ha.) | 133.6 | 151.0 | 145.7 | 211.5 |
| Productivity (ton/ha.) | 1.9 | 2.1 | 2.0 | 2.4 |

Sources: Ministry of Agriculture and National Institute of Statistics

In 2005, Cambodia produced nearly 6 million tonnes of paddy, equivalent to 8.3 per cent of GDP (GDP including taxes). Since reform in farming system in mid-1980s, in which *Krom Samaky* “farm solidarity group” had been abolished, and reconstruction of peace and security in the late 1990s following the breakdown of the Khmer rouge, rice production has significantly increased from year to year. Cultivated area has remarkably increased. In the last several years, rice productivity has clearly risen, from 1.6 tonnes per hectare in 1996 to 2.4 tonnes per hectare in 2005. The implementation of varieties of good seeds and the improvement of the irrigation system and fertilizer have, by no doubt, an interesting contribution to this achievement. Of interest to note, rainfall in 2005 was a primary reason for the extra-ordinary high production of rice according to an unpublished report by a joint field investigation of staff of the World Bank, Ministry of Economy and Finance and Ministry of Agriculture, Forestry and Fisheries.

Compared to neighbouring countries such as Vietnam and Thailand, rice productivity in Cambodia, however, remains the lowest in the region due to some constraints such as low rate of irrigated land, less varieties of superb seeds and fertilizer. Cambodia needs to remove such constraints if it actually wants to develop agriculture which is one of the key sectors that reduces poverty. If those constraints are removed, rice production and rice income will substantially increase.

The expansion of rice cultivated area seems to have reached its limit. In 2005, e.g. rice cultivated area increased only by 3 per cent from 2004, while cultivated area of other cash crops such soybean, cassava and rubber have experienced much higher growth. Because of this, the percentage of rice cultivated area to total crop cultivated area slightly declined from 88 per cent in 2004 to 87 per cent in 2005. Soybean, cassava and rubber bring higher value added per hectare than rice. If there is increasing demand for these products, rice cultivated area may decline as farmers transfer resources (labour and land) to higher value added crops. There is currently, however, no significant sign for such a decline as export market for the whole cash crop is not fully established. Labour involved in agriculture may easily move from one activity to another since such activity does not require much skill. But land, in some cases, is suitable for just one crop, therefore, cannot be converted to planting another crop.

Cambodia began to export rice in 1995 when rice production met the self-sufficiency need in that year. The surplus of about 20 per cent of the total production per year is exported to the world. Data of official (recorded) rice export is, however, not available for the time being. According to the data from the National Statistics of Cambodia (NIS), unrecorded rice export in 2005 was as much as US\$ 43 million. This number is much lower than the export potential that would be more than US\$100 million. It has been observed that rice export has drastically increased since the last couple of years due to high production. Rice export is directed mostly to Vietnam and Thailand, most in an informal

manner. The two countries act as middlemen who buy rice from Cambodia for re-export rather than for their own consumption.

There are several transactions involved before rice is exported to Vietnam and Thailand. At the first level, farmers sell rice to the local rice collectors who himself are quite often farmers who do that kind of business as side activities. The local collectors sell rice further to the wholesalers or to the millers. The wholesalers sell rice further to the traders who then sell rice to Vietnamese or Thai buyers. According to some reports, low and medium-grade rice is exported to Vietnam whilst high-grade rice to Thailand. Theoretically, price offered by the Vietnamese and Thai buyers must be higher than domestic price including cost of transportation. Otherwise, trade will not happen. Since the last couple of years, Vietnamese traders have offered a relative lucrative price that induces Cambodian traders to transport rice across the country in order to export to Vietnam. Sometime rice produced in Battambang and Banteay Mean Chey, provinces bordering Thailand, was also transported across Phnom Penh to Vietnam.

An increasing demand from Vietnam and Thailand can be a stimulus of rice market as rice surplus is increasing. Cambodia needs, however, to establish a direct access to the world market, in order to fully utilise its surplus.

2.2.2. MAIZE PRODUCTION AND TRADE

Maize is one of the most popular crops growing in all provinces of Cambodia, especially in Battambang and Pailin, provinces bordering Thailand. In 2005, maize production of the two provinces amounted to 174,000 tonnes, which is equivalent to 70 per cent of the total production of that year. The productivity of maize in the two provinces is about 4.6 and 4.0 tonnes per hectare, respectively, that is much higher than that in other provinces. According to some available data, there is evidence that the production of maize has remarkably increased from 156,000 tonnes in 2000 to 247,760 tonnes in 2005.

There are two kinds of maize growing in Cambodia, yellow maize and red maize. But yellow maize predominates and accounting for more than 80 per cent of the total production. Yellow maize is generally used for human consumption and while red maize for animal feeds. Both crops can be planted twice a year, in wet and in dry season. The productivity of the two crops is about the same high, but wet season crop is dominant in the production.

Maize is a crop that is relatively easy to be planted because it does not require good soil although fertile soil brings higher yield. The period from planting to harvest is about three or four months.

Table 5: Maize production

| | 2002 | 2003 | 2004 | 2005 |
|----------------------------|-------|-------|-------|-------|
| Value added (US\$ million) | 20.0 | 28.6 | 25.4 | 24.3 |
| Cultivated area (1000 ha.) | 80.4 | 93.3 | 91.2 | 90.7 |
| Value added (US\$/ha.) | 247.9 | 306.8 | 279.2 | 268.6 |
| Productivity (ton/ha.) | 1.8 | 3.3 | 2.8 | 2.7 |

Sources: *Ministry of Agriculture and National Institute of Statistics*

Although maize production has significantly increased since the last several years, its contribution to GDP is insignificant. In 2005, e.g., the value added of maize is about US\$ 24 million or 0.4 per cent of GDP.

It is estimated that up to 90 per cent of the production is used domestically. The rest is exported to neighbouring countries such Thailand and Vietnam. Maize produced in Battambang, Pailin, Preah Vihear and Banteay Mean Chey, is sold to Thai traders, while maize produced in provinces along the Mekong and Basac River is exported to Vietnam. Data on maize export is, however, sparse, since some exports are informal, and therefore, have not been recorded. For instance, in 2004, maize export was about US\$ 3.8 million while as in 2003 only US\$ 0.06 million. There are many resources, e.g., land and cheap labour, available for expanding maize production because maize does not require very fertile soil and much skill to be planted. So if maize market is well established and transportation obstacles are removed, maize will be one of the key crops that increase farmer's income.

2.2.3. CASSAVA PRODUCTION AND TRADE

Cassava is one of the cash crops with highest potential for expansion. It is produced mainly for export rather than for domestic consumption. Cassava is a relatively inexpensive, but high-yield crop. One ton of cassava costs about US\$ 25-30, and one hectare of good land can yield as much as 20 tonnes that makes up a gross income of US\$ 500 to 600 per hectare. An average yield in 2005 is about 17 tonnes per hectare, increased by 12 per cent from 2004. Cassava can be planted in all provinces, but the production is concentrated only in Kompong Cham followed by Battambang. The two provinces made up in 2005 to more than 90 per cent of the total production 535,623 tonnes.

The production is intensely determined by demand from Vietnam and Thailand because production exceeds the processing capacity of domestic factories and needs therefore to be exported. This, in turn, may have some negative effects on domestic production if price set by buyers from the two countries lower than the production cost. Farmers will consequently lay down their production tools. Data from MAFF, however, shows that cultivated area and productivity of cassava increased from 22,750 hectares and 15 tonnes per hectare in 2004 to 30,030 hectares and 17 tonnes per hectare in

2005, respectively. The recent establishment of few cassava processing factories in Kompong Cham, Phnom Penh and Sihanouk Ville will increase demand of cassava and therefore production and income of cassava producers.

Table 6: Cassava Production

| | 2002 | 2003 | 2004 | 2005 |
|----------------------------|-------|-------|-------|-------|
| Cultivated area (1000 ha.) | 19.56 | 25.74 | 22.75 | 30.03 |
| Productivity (ton/ha.) | 6.2 | 12.8 | 15.9 | 17.8 |

Sources: Ministry of Agriculture and National Institute of Statistics

There is no reliable data of cassava export. Data provided by the MAFF shows that export of cassava was in 2004 about US\$ 1.5 million that is about 8 percent of the total production of that year. That amount seems to be very low as cassava is less useful for direct consumption, and needs to be processed to flour. Most of Cassava might be exported to neighbouring countries such as Vietnam and Thailand as in that period Cambodia did not possess factories for processing cassava.

2.2.4. SOYBEAN PRODUCTION AND TRADE

Soybean belongs to the main crops in Cambodia after rice, cassava and rubber. In 2005, about 179,000 tonnes of soybean were produced, that is equivalent to US\$ 39 million or 0.6 per cent of the GDP. Production, cultivated area as well as productivity of soybean has increased significantly from 63,000 tonnes, 53,160 hectares and 1.18 tonnes per hectare in 2003 to 179,000 tonnes, 118,760 hectares and 1.5 tonnes per hectare in 2005, respectively. Soybean can also be planted twice a year, in wet and in dry season. But the production of dry season crop is less important and makes up only about 1 per cent to the total production.

Table 7: Soybean Production

| | 2002 | 2003 | 2004 | 2005 |
|----------------------------|-------|-------|-------|-------|
| Value added (US\$ million) | 10.4 | 19.1 | 27.8 | 39.4 |
| Cultivated area (1000 ha.) | 33.6 | 53.1 | 84.9 | 118.7 |
| Value added (US\$/ha.) | 311.1 | 357.7 | 327.5 | 331.6 |
| Productivity (ton/ha.) | 1.15 | 1.19 | 1.30 | 1.50 |

Sources: Ministry of Agriculture and National Institute of Statistics

Soybean is produced largely in three provinces, Battambang, Kompong Cham and Pailin although farmers in other provinces also produce soybean for their own consumption. Production in the three provinces makes up to 90 per cent of the total production. For many years, Kompong Cham had been the largest soybean producer. Since 2005 Battambang has outstripped Kompong Cham, and by far, is the largest soybean producer in Cambodia.

Generally, soybean has higher value added per hectare than maize and rice. In 2005, e.g. the value added per hectare of soybean was about US\$ 330 while maize and rice have a value added per hectare of about US\$ 268, and US\$ 211, respectively. In 2004, an export of about US\$ 3.4 million that is equivalent to 9 per cent of the total production, was recorded, an amount that seems below the export potential. According to a study by Nou Keosothea (ADR 2004-2005, pp. 136), up to 99 percent of soybean produced in Kompong Cham was exported to Vietnam. An interview with the inter-provincial wholesalers in Kamrieng commune in Battambang came up with a similar result that about 80 percent of soybean produced in that commune was exported to Thailand.

2.4.5. CASHEW PRODUCTION AND TRADE

Cashew has been grown in Cambodia at household levels for a long time and eventually shifted to commercial production in a decade. Total land cultivated for cashew production is estimated at 60,874 ha in 2005 up from 15, 653 ha in 2000 (MAFF, 2006)⁽¹⁾. Kompong Cham used to cultivate more land than any other province in 2000. The situation has changed and in 2005 Rattanakiri province cultivates 21,562 ha of land for cashew production, followed by Kompong Cham, Kampong Thom and Mondulkiri (Table 3).

Table 8: Cashew Production in Selected Provinces

| Province | Planted area (ha) | | |
|--------------|-------------------|--------|--------|
| | 2000 | 2003 | 2005 |
| Rattanakiri | 917 | 6,505 | 21,562 |
| Kampong Cham | 10,872 | 17,136 | 17,765 |
| Kampong Thom | 4 | 6,371 | 7,515 |
| Mondulkiri | 380 | 500 | 3,190 |
| Cambodia | 15,653 | 37,240 | 60,874 |

Source: MAFF, Agricultural Statistics 1999-2000, 2001-02, 2002-03 and 2005-06

Cashew trees can survive low quality soils and start to bear fruits at the age of three for a period of up to 30 years. The productivity of each cashew tree depends on age of the tree, soil quality,

water supply, spacing and seed. More than a decade ago, cashew farmers planted cashew trees about 6 m from one another but experience showed that spacing between 10 to 14 m provided higher yield.

In Ratanakiri where soil quality is high, the average output was approximately 1.4 tonnes per hectare. Some farmers even reported declines at 7 years after harvest and are assuming that the trees are short lived and need to be torn out about every 7 years or so. It is anticipated that with proper applications of fertilizer, proper weed control, and weekly watering of 500 litters per tree that yields of 2-4 tonnes per hectare could be realized on this quality of land with no more than 52 trees per Hectare.

The initial investment in irrigation would cost less than \$700 per hectare to install and if water was abundant and relatively shallow, only about \$150 per hectare per year to irrigate by pump. Therefore, the investment would be paid back possibly with-in 5- 7 years when trees began reaching peak production. The issue of pest control is one that still needs to be looked into. Some farms were observed to have been invaded by a caterpillar which was eating the leaves and actually killing the leaves. By the time the caterpillar goes into chrysalises, the trees look dead although they seem to be able to recover quickly. Apparently there is even the possibility of some sort of a crop in this instance although it is doubtful that there could be too much. It would be good to see what sort of organic control would work on this pest.

The total annual production around year 2000 was estimated at somewhere between 10,000 to 15,000 tonnes of nuts in shell (Kang and Chan, 2003)⁽²⁾. This amount should be increased four times by 2005 as cultivated land has been increased to four times since 2000. Cashew nuts are getting more popular among consumers in recent years and especially being served in restaurants and in wedding party. Most of cashew nuts produced are for export to Vietnam while only a small proportion is being processed domestically. The price of cashew nut increased from \$500 per ton several years ago to about \$800 per ton in 2006, prices has been fluctuating a long the way though. Suppose, the yield is one tone per hectare, then 60,874 ha of cultivated land together with \$800 per ton, Cambodia can earn almost 50 million dollars.

2.4.6. RUBBER PRODUCTION AND TRADE

Rubber production started in Cambodia 20th century, with low yield of around 200kg/ha. Over time, both production and productivity have increased; reaching the peak in mid 1960s, with 50,000ha of cultivated land and yield at almost 1.5 tonnes/ha. Because of civil war, yield went down to almost like yield in the early stage of development at around 400kg/ha. However, yield eventually increased to around one ton/ha in recent years. In 2005, there are more 60 thousands ha of cultivated land (of which 22,085 ha belong to state-own companies, produced 20,382 tonnes). Kompong Cham province

accounts for the largest share in total rubber production. Cambodia plans to chop down 31,652 ha of aged rubber trees but until 2005, only 69% has been achieved.

Table 9: Total Value of Rubber Export, US\$ million

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Recorded | 25.30 | 27.40 | 31.10 | 24.60 | 29.60 | 35.00 | 38.90 | 21.00 |
| Unrecorded | 15.90 | 21.40 | 28.90 | 27.90 | 33.00 | 62.70 | 75.80 | - |

Source: Rubber Development Department, the figure in 2004 was calculated until November

Most of rubber produced in Cambodia is for export due to lack of capacity to process. Just like most of other agricultural crops, there is only a small amount of import. There are seven state owned rubber plantations, excluding the Rubber Research Institute of Cambodia that also has its own plantation. In 2005, state owned companies exported 20,999 tonnes, amounting to 29 million dollars. This is just about the recorded data, needless to say about the unrecorded which is almost twice to amount of recorded data. The sale price in 2005 was at \$1,391/ton, up from \$1,175/ton in previous year.

III. AGRICULTURAL TRADE BETWEEN CAMBODIA, CHINA AND GMS

Cambodia's agricultural trade with countries in the GMS and the world has increased remarkably over the past few years, but the volume has not been as significant as trade in non-agricultural products. In 2005, Cambodia's agricultural trade with the world amounted to only USD66.55 million or 2.2 percent of total exports, according to official data. Exports to GMS⁸ countries represent 22 percent of total agricultural exports, of which exports to Thailand took about 80 percent or USD11.75 m. Thailand has been the Cambodia's largest export destination in the GMS for agricultural products due to the fact that the western provinces of Cambodia, which are relatively productive in agriculture production especially crops, share borders with Thailand, and that Thailand has greater demands for agricultural production for animal feedings and industrial inputs.

Cambodia's agricultural exports to Thailand have been carried out under various preferential trade schemes including AFTA/CEPT, a regional free trade agreement, and ASEAN Integration System of Preference (AISP), by which Thailand unilaterally agreed to allow imports of 310 items from Cambodia at preferential tariff rates.

⁸ In the table of statistics, it refers to GMS 3 which includes China, Thailand and Vietnam. Cambodia's trade with other two GMS countries, Lao PDR and Myanmar, is negligible. Due to lack of trade data with these two countries, we take GMS 3 as GMS.

Vietnam, on the other hand, appeared to be the second largest export market for Cambodia's agricultural products in the GMS with trade value of USD 1.72 m., followed by China. Cambodia's export of agriculture to Vietnam takes place either through exporters themselves transporting directly to Vietnam or through middlemen from Vietnam coming to Cambodia's nearby province to collect agricultural products from Cambodia such as cassava, cashew nuts, live animals and rubber and bringing these into Vietnam. It is also important to note that trade statistics between the two countries which is quoted here could be much less than the actual trade value the two countries conducted. This implies that Vietnam is also a Cambodia's key trade partner in agricultural products.

As for imports, Cambodia imported USD386.9 m. of agricultural products from the world in 2005, about 12 percent of total imports. The agricultural imports from countries in GMS took about 62 percent of total agricultural imports or USD238.6 m., of which Thailand is the largest importer (USD208.9 m.), followed by China (USD23.8 m.), and Vietnam (USD5.8 m.).

Table 10: Cambodia's Trade with countries in GMS and the world: 2005

(In USD million)

| Commodity Cluster | China | Thailand | Vietnam ¹ | GMS 3 | World |
|--------------------------------------|-------|----------|----------------------|---------|---------|
| Cambodia's Export | | | | | |
| All products | 27.3 | 31.4 | 42.4 | 101.1 | 3,001.2 |
| Agricultural Products | 1.3 | 11.7 | 1.7 | 14.7 | 66.6 |
| Non-agricultural products | 26.0 | 19.6 | 40.7 | 86.4 | 2,934.6 |
| % of agricultural products to total | 4.7% | 37.4% | 4.0% | 14.6% | 2.2% |
| % of agricultural exports by country | 1.9% | 17.7% | 2.6% | 22.2% | 100% |
| Cambodia's Import | | | | | |
| All products | 536.1 | 909.4 | 168.6 | 1,614.1 | 3,298.0 |
| Agricultural Products | 23.8 | 208.9 | 5.8 | 238.6 | 386.9 |
| Non-agricultural | 512.3 | 700.4 | 162.8 | 1,375.5 | 2,911.1 |
| % of agricultural products to total | 4.4% | 23.0% | 3.5% | 14.8% | 11.7% |
| % of agricultural exports by country | 6.1% | 54.0% | 1.5% | 61.7% | 100% |

Source: *Global Trade Atlas and TradeMap*

¹ *Data from TradeMap in 2004*

Cambodia trade with China has also increased rapidly over the last six years at average annual compound growth rate of 25 percent during 2001-2006. In 2006, the total foreign trade reached USD732 m., in which trade in agricultural products amounted USD20 m. or 3 percent. Agricultural trade between Cambodia and China has not been as significant as trade in non-agricultural products and

this reflects potential for both side to increase mutual trade in agricultural products especially through existing trade preferential trade schemes i.e. special and preferential treatment given by China to Cambodia over 300 items, and the Early Harvest Programme under the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China. In terms of structure of trade, agricultural trade between the two countries has been dominated by imports from China, which accounts for approximately 87 percent. The top five agricultural products imported from China in 2006 were beverage, spirits and vinegar (USD6.39 m.), tobacco and manufactured tobacco substitutes (USD4.59 m.), prepared meat, fish and crustaceans (USD3.27 m.), sugar and sugar confectionery (USD1.04 m.), and prepared vegetables, fruit and nuts (USD0.74m.). As for Cambodia's exports to China, it accounts for 13 percent of total agricultural trade between the two countries and 8 percent of total exports to China. In 2006, Cambodia's top four agricultural exports were live animals (USD1.37m.), fish and seafood (USD0.95 m.), prepared meat, fish and crustaceans (USD0.19 m.), and oil seeds and oleaginous fruits (USD0.12 m.).

Table 11: Cambodia-China Trade: 2001-06

(In USD million)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Avg. Growth |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------------|
| Total External Trade | | | | | | | |
| All Products | 240.4 | 276.1 | 320.8 | 481.9 | 563.4 | 732.8 | 25% |
| Agricultural Products | 11.9 | 9.1 | 7.4 | 29.1 | 25.1 | 19.9 | 11% |
| Non-agricultural Products | 228.5 | 267.1 | 313.3 | 452.9 | 538.3 | 712.8 | 26% |
| % of Agricultural Products | 5% | 3% | 2% | 6% | 4% | 3% | - |
| % of Cambodia's agr. exports | 11% | 18% | 16% | 6% | 5% | 13% | - |
| Cambodia's Exports to China | | | | | | | |
| All Products | 34.8 | 24.5 | 26.2 | 29.6 | 27.3 | 35.1 | 0.2% |
| Agricultural Products | 1.3 | 1.6 | 1.2 | 1.7 | 1.3 | 2.7 | 15% |
| Non-agricultural Products | 33.5 | 22.9 | 24.9 | 27.8 | 26.0 | 32.4 | -1% |
| % of Agricultural Products | 4% | 7% | 5% | 6% | 5% | 8% | - |
| Cambodia's Imports from China | | | | | | | |
| All Products | 205.6 | 251.6 | 294.6 | 452.3 | 536.1 | 697.7 | 28% |
| Agricultural Products | 10.6 | 7.4 | 6.2 | 27.2 | 23.8 | 17.3 | 10% |
| Non-agricultural Products | 194.9 | 244.1 | 288.3 | 425.1 | 512.3 | 680.4 | 28% |
| % of Agricultural Products | 5% | 3% | 2% | 6% | 4% | 2% | - |

Source: *Global Trade Atlas*

TRADE BALANCE FOR AGRICULTURAL TRADE

Cambodia's agricultural trade with China over the last five year 2001-05 has experienced deficit of USD82.8 m. percent, a 4 percent of total trade deficit with China and 0.3 percent of GDP. The rapid increase in agricultural imports relative to exports over the last two years caused the deficit in agricultural trade to worsen considerably from USD9.2 m. in 2001 to USD22.5 m. in 2005. However, the share of agricultural trade deficit to total trade deficit with China and to GDP remain stable around 4 percent and 0.3 percent respectively. Except live animals and animal products, which recorded trade surplus of USD 8.4 m. during 2001-05, trade in vegetable products and prepared food stuff, beverage and tobacco over the same period experienced deficit of USD3.6 m. and USD87.7 m., respectively.

Table 12: Cambodia-China Trade Balance: 2001-06

(In USD m.)

| Commodity Cluster | 2001 | 2002 | 2003 | 2004 | 2005 | 2001-05 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| <i>Agricultural Products</i> | -9.2 | -5.8 | -5.0 | -25.5 | -22.5 | -82.8 |
| Live animals and animal products | 1.1 | 1.6 | 1.2 | 1.3 | 0.9 | 8.4 |
| Vegetable products | 0.0 | -0.5 | -0.8 | -1.2 | -0.9 | -3.6 |
| Prepared food stuff, beverage, tobacco | -10.4 | -6.9 | -5.4 | -25.7 | -22.6 | -87.7 |
| <i>Non-agricultural products</i> | -161.5 | -221.2 | -263.4 | -397.2 | -486.3 | -2,177 |
| Total | -170.8 | -227.1 | -268.4 | -422.8 | -508.8 | -2,260 |
| % of agricultural trade balance | 5% | 3% | 2% | 6% | 4% | 4% |
| % of total to GDP | 0.2% | 0.1% | 0.1% | 0.5% | 0.4% | 0.3% |

Source: *Global Trade Atlas*

CHANGE IN CAMBODIA'S AGRICULTURAL TRADE OVER THE PAST 3 YEARS

Cambodia's agricultural trade over the past 3 years has not been changed significantly, as measured by modest improvement in Revealed Comparative Advantage (RCA) index. RCA index, which is measured by the product's share in the country's exports in relation to its share in the world trade⁹, for Cambodia concentrated in manufacturing products and few in agricultural products. Table 13 suggests that products that Cambodia has comparative advantage in China's market include live

⁹ The RCA Index of Cambodian commodities in China market is calculated by

$$RCA_{ij} = (T_{ij}/T_{it}) / (w_{wj}/W_{wt})$$

Where T_{ij} and w_{wj} are China's import of product j from country i (Cambodia) and from the world

X_{it} and X_{wt} are China's total import from country i (Cambodia) and from the world.

animals, apparel, footwear, rubber, and fish. Data also suggests that live animals, apparel, essential oils and cotton are getting stronger comparative advantage with RCA index increasing significantly, while fish's comparative advantage slightly decline from the previous two years.

Table 13: The Cambodia's Revealed Comparative Advantage (RCA) Index: 2003-05

| HS Code | Commodities | RCA 2003 | RCA 2004 | RCA 2005 |
|---------|---|----------|----------|----------|
| 01 | Live animals | 8.67 | 3.41 | 54.15 |
| 62 | Articles of apparel, accessories, not knit or crochet | 0.75 | 16.14 | 53.03 |
| 33 | Essential oils, perfumes, cosmetics, toileteries | 5.08 | 3.01 | 52.35 |
| 63 | Other made textile articles, sets, worn clothing etc | - | 19.53 | 44.36 |
| 52 | Cotton | 10.75 | 24.05 | 25.81 |
| 40 | Rubber and articles thereof | 32.84 | 10.01 | 13.55 |
| 61 | Articles of apparel, accessories, knit or crochet | 0.34 | 2.10 | 9.77 |
| 03 | Fish, crustaceans, molluscs, aquatic invertebrates | 9.65 | 10.28 | 6.15 |
| 64 | Footwear, gaiters and the like, parts thereof | - | 0.99 | 5.53 |
| 60 | Knitted or crocheted fabric | - | 0.13 | 1.99 |

Source: Authors' calculations based on Trade Map statistics

As for change in RCA index during 2003-05, live animals, essential oils, cotton and articles of apparel have RCA index increased, while RCA of fish and rubber declined. The RCA of articles of apparel, both knit and not knit, increase substantially between 2003 and 2005 as a result of increase in Cambodian share in China market. Other commodities such as live animals, cotton and essential oils also record significant increase in RCA. Live animal and cotton are categorized as falling stars as Cambodian share of these products in China market increased and the world share decreased, while essential oil is the rising star due to the increase in Cambodian share as well as world share in China market. Fish and rubber, on the other hand, are lost opportunity due to decrease in RCA as a result of decline in Cambodia share in China market.

Table 14: Dynamic Revealed Comparative Advantage: 2003-05

| HS Code | Commodities | RCA Change (%) | Xij/Xtj Change (%) | Xiw/Xtw Change (%) | Status |
|---------|---|----------------|--------------------|--------------------|------------------|
| 62 | Articles of apparel, accessories, not knit or crochet | 6,976.89 | 4,501.12 | -34.98 | Falling star |
| 61 | Articles of apparel, accessories, knit or crochet | 2,752.87 | 2,129.58 | -21.85 | Falling star |
| 33 | Essential oils, perfumes, cosmetics, toileteries | 930.35 | 1,046.79 | 11.30 | Rising star |
| 01 | Live animals | 524.88 | 263.00 | -41.91 | Falling star |
| 52 | Cotton | 140.19 | 128.67 | -4.80 | Falling star |
| 40 | Rubber and articles thereof | -58.74 | -61.20 | -5.98 | Lost opportunity |
| 03 | Fish, crustaceans, molluscs, aquatic invertebrates | -36.35 | -38.54 | -3.44 | Lost opportunity |

Source: author calculations based on TradeMap statistics

The following table categorizes Cambodian export commodities in China market according to change in RCA, change in Cambodian market share and change in world market share in China market. Cambodian HS 33 is in the best position (rising star), HS 01, HS 52, HS 61 and HS 62 are in good position (falling stars), while HS 03 and HS 40 are in worse position (lost opportunity)

Table 15: The Competitiveness of Cambodian Commodities in China Market

| Decreasing RCA | | | Increasing RCA | | |
|--------------------------------------|---|---|---|--|--------------------------------------|
| China: Increasing in share | Cambodia: Decreasing in share | Cambodia: Increasing in share | Cambodia: Decreasing in share | Cambodia: Increasing in share | China: Increasing in share |
| | Lost Opportunity | Lagging Opportunity | | Rising Stars | |
| | - Fish (HS 03) - Rubber (HS 40) | (none) | | - Essential Oils (HS 33) | |
| China: Decreasing in share | Leading Retreat | | Lagging Retreat | Falling Stars | China: Decreasing in share |
| | (none) | | (none) | - Live animals (HS 01) - Cotton (HS 52) - Apparel (HS 61 & 62) | |

Source: Authors' calculation

IV. ECONOMIC RELATIONS BETWEEN CAMBODIA AND CHINA: CONSTANT MARKET SHARE ANALYSIS (CMS)

Between 2003 and 2005, Cambodia's exports to China grew by 3.2 percent annually, much slower than annual growth of China's total imports, 27 percent. Such a modest export growth resulted in a decrease in Cambodian share in China market from 0.006 percent in 2003 to 0.004 percent in 2005. To understand factors that contribute to Cambodian export performance, a statistical tool called Constant Market Share Analysis (CMS) was used in this section. The CMS analysis can decompose the performance of Cambodian export to China market as depending on three effects: 1) the Growth Effect, 2) the Commodity Effect, and 3) the Competitiveness Effect. The growth effect indicates that part of Cambodian export growth is attributable to the increase in China's import demand. The commodity effect indicates whether the commodities imported from Cambodia grow more or less than the growth of China's total import. If they grew by more than total imports, then the country is exporting goods with high demand growth in China market. The competitiveness effect indicates the improvement or deterioration in the competitiveness of exports.

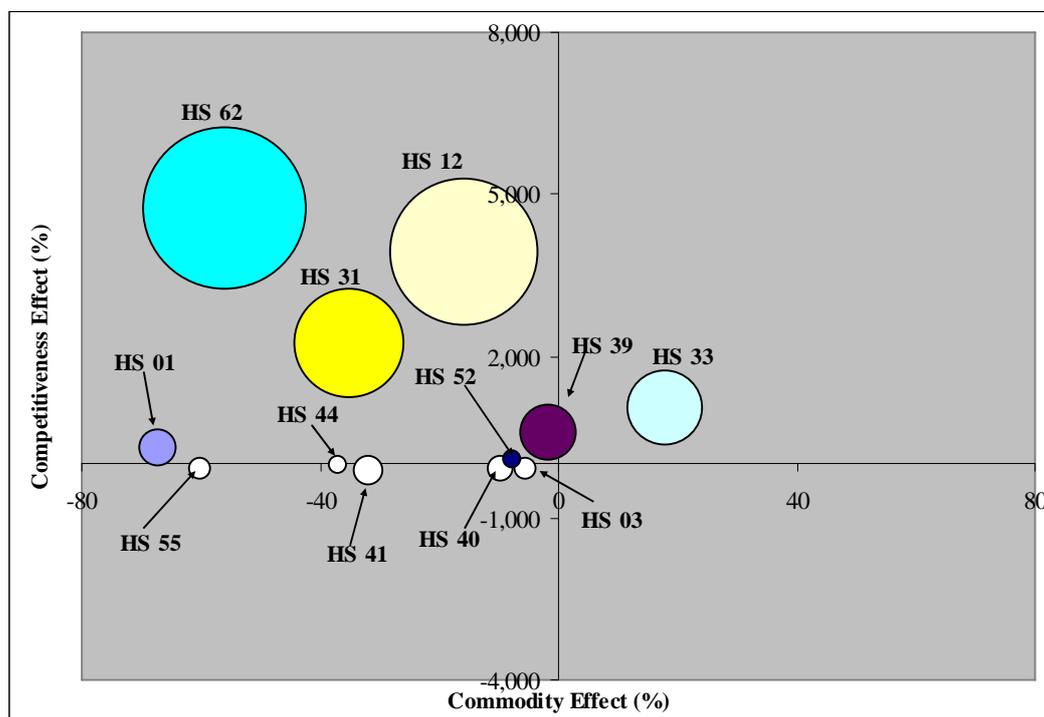
Table 16 suggests that, exports of apparel, oil seeds and essential oils grew extremely rapidly, while exports of plastics, live animals and cotton grew at a slower pace between 2003 and 2005. In the same period, exports of wood and articles of wood, fish, rubber, manmade staple fibres and raw hide and skins decreased. All commodities with export growth (HS 62, 12, 61, 33, 39, 01 and 52) are largely attributed to improvement in competitiveness and general increase in total imports. Except for essential oil, the demand growth of all commodities are considerably below the average rates of growth of China import. As a result, Cambodia's overall market share is shrinking (0.006 percent in 2003 versus 0.004 percent in 2005). Whereas, the decline in exports of commodity HS 44, 03, 40, 55 and 41 was a result of combination of deterioration in export competitiveness and slower export growth of those commodities compared to growth in general imports.

Table 16: Factors of Growth in Cambodian Export to China Market

| HS Code | Commodities | CMS: 2003-05 | | | |
|---------|--|---------------|------------------|------------------------|-------------|
| | | Growth Effect | Commodity Effect | Competitiveness effect | Growth Rate |
| 62 | Articles of apparel, accessories, not knit or crochet | 59.89 | -55.93 | 4,728.48 | 4,732.43 |
| 12 | Oil seed, oleagic fruits, grain, seed, fruit, etc, nes | 59.89 | -15.74 | 3,905.85 | 3,950.00 |
| 61 | Articles of apparel, accessories, knit or crochet | 59.89 | -34.93 | 2,216.71 | 2,241.67 |
| 33 | Essential oils, perfumes, cosmetics, toileteries | 59.89 | 18.07 | 1,026.49 | 1,104.44 |
| 39 | Plastics and articles thereof | 59.89 | -1.51 | 582.79 | 641.18 |
| 01 | Live animals | 59.89 | -67.01 | 288.37 | 281.25 |
| 52 | Cotton | 59.89 | -7.67 | 87.95 | 140.17 |
| 44 | Wood and articles of wood, wood charcoal | 59.89 | -36.83 | -40.69 | -17.63 |
| 03 | Fish, crustaceans, molluscs, aquatic invertebrates nes | 59.89 | -5.51 | -89.83 | -35.45 |
| 40 | Rubber and articles thereof | 59.89 | -9.56 | -109.59 | -59.25 |
| 55 | Manmade staple fibres | 59.89 | -60.00 | -76.69 | -76.81 |
| 41 | Raw hides and skins (other than furskins) and leather | 59.89 | -31.72 | -124.39 | -96.23 |

Source: Authors' calculations based on TradeMap statistics

Figure 1 showing competitiveness effect in horizontal axis and commodity effect in vertical axis, provides a clearer picture of commodity position in terms of competitiveness improvement and demand growth. The figure suggests that products that are more competitive experienced export growth, while those that are less competitive recorded decline in export. The higher level of export competitiveness is the more rapid growth in export. Export of articles of apparel (HS 62), for example, grew by 4,732 percent between 2003 and 2005. The extremely rapid growth was predominantly attributed to that fact that the product was very competitive in China market. Whereas, rubber which become less competitive (negative competitiveness effect) experienced decrease in exports. From these observations, we argue that export competitiveness is the only determining factor to export growth of Cambodian products in China market, regardless of how fast or slow is the demand growth compared to growth total import.

Figure 1: Commodity Effect and Competitive Effect of Cambodian Goods in the China Market: 2003-05

V. CONCLUSION

Cambodia has considerable potential to further expand agricultural production and exports, thus raising rural income and farmers, which is the most direct to reduce poverty. Although rice is the main stable food in the Cambodian economy and by far the largest crop in agricultural production, other cash crops dominate the agricultural markets and exports. The future for agricultural exports is promising given both domestic and regional conditions.

Cambodia has experienced to some extent intensification, extensification and diversification of agriculture. However, there is still a lot more room to improve on these fronts. Production of rice has been at highest level in the past two years, resulting in average yield of 2.4 tons per hectare, which compares well with that in Thailand (2.5 tons per hectare). However, this recent expansion has primarily owed to good rainfall. It is imperative that acceleration of water control systems will maintain the high achievements in rice production.

Export of paddy is significant but is largely recorded as in many of other crops. There is potential value creation in the processing industry. However, to realise this potential require more domestic capacity to store paddy and improvement of processing technology. Production of other crops such as rubber, maize, cassava, soybean, cashew and sesame has been growing remarkably in the last 4 years, thanks partly to expansion of farms into former forest lands. As a result, exports of these crops,

mostly to Vietnam and Thailand, have also been rising. Much of the export is conducted informally and in raw form.

Although statistics does not reveal true magnitude of export of agricultural commodities, as much is unrecorded, there are ample opportunities to increase production and export of these crops because regional demand for these crops is on the rise. The future for agricultural commodities, especially low value crops looks promising as China, Thailand, Vietnam and other countries are shifting towards manufacturing or high-value crops. It is now time for the Cambodian government, development partners and the private sector to increase investment in the agricultural sector. This will not help reduce poverty but bring about more equitable development between rural and urban areas.

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