

Sector Summaries

The impact of the WTO on specific, potential export sectors in Cambodia will vary widely. Short-term regulatory reform may be crucial to some industries, while longer-term changes in market access conditions may be important to others. The annexes in this guide briefly examine opportunities created by WTO membership for a representative group of Cambodian industries. The choice of sectors is only intended to provide a cross-section from key areas of the productive economy. The selection of an industry does not mean that it, more than one not selected, is likely to be successful at exporting.

Below are summaries from the sector guides in the annexes.

GENERAL AGRIBUSINESS

Cambodia possesses many agricultural assets, and the potential for turning them into successful export ventures is considerable. For some important products, the loss of quality agricultural commodities through smuggling is the biggest challenge. High domestic costs, poor infrastructure, administrative inefficiencies, as well as a lack of investment in processing capacity, all discourage formal trade. Farmers and wholesalers often take the easiest option; selling to traders from neighboring markets who are able to bear the informal costs of moving commodities out of Cambodia for processing and onward sales. The regulatory reforms that WTO membership requires, and preferential market access, should help. The global trading environment, however, is improving only gradually under WTO rules. High tariff barriers, complex quota regimes, and food safety requirements will need to be understood to take advantage of new opportunities. Agribusiness groups should look closely at the potential of the Doha Round to improve conditions further.

RICE

Cambodia's chances of returning to its status as a major rice exporter are limited. Thailand now dominates the global market, and Vietnam is also a big supplier. Large quantities of Cambodian paddy rice are smuggled to Vietnam for milling and onward export. Only one Cambodian rice mill can operate to export standards, and its products have proved themselves in developed country markets.

With more investment in modern rice mills, Cambodia could offer larger quantities of good-quality specialty rice to an international market that is growing in sophistication. This would increase international recognition that Cambodian products can meet high standards. The WTO has yet to bring openness and fairness to international rice markets, but preferential arrangements like the EU's "Everything but Arms" initiative are seen as opening doors for the world's poorest rice producing nations.

CASHEW NUTS

The biggest development in the world cashew market over the past few years has been the emergence of Vietnam as the dominant producer and exporter. The processing capacity in Vietnam is so large that processors are prepared to pay high prices for raw cashew nuts. One result is that a large part of the Cambodian cashew crop is being purchased with cash and taken informally, or smuggled, across the border with Vietnam. Prices paid by Vietnamese traders are too high for the one processing company in Cambodia that is capable of producing for the world market. Coupled with excessive domestic costs, and the need for informal payments to move the product to and through ports, it is difficult for Cambodian cashew production to be competitive.

Yet the world market for shelled cashew nuts is large, and trading conditions are open. Additional potential lies in marketing organic cashew nuts.

LIVESTOCK

Various studies, and experience, suggest that there may be considerable opportunities for Cambodia to export livestock, notably, cattle, buffalo, pigs, and poultry. Currently, the cattle trade is primarily through smuggling. Properly fattened, Cambodian cattle could be sold into regional markets, and perhaps meet increasing demand in the Middle East. Limited exports have been sold to Malaysia. Recently, animal diseases have made global trade in livestock precarious; meeting health standards is vital. This can be achieved by developing veterinary services and access to veterinary medicines. Exploiting the livestock sector would also require improved access to competitively produced animal feed. Trade conditions for livestock are otherwise relatively open.

MANGOES

Cambodian farmers grow a variety of high-quality fruits, many of which are in high demand in developed country markets. Buyers in developed countries are willing to pay premium prices for fruit certified as organic. Demand for mangoes, for example, has grown rapidly over the past 10 years, with world trade doubling. Several developing countries are trying to enter foreign markets with highly seasonal fruit of varying quality. Trading conditions for fruit are largely open, although food safety standards are strict. In Cambodia, mango production should be better organized, not only for export, but also to meet domestic demand, including from tourism.

VEGETABLE OILS

Cambodia imports many types of vegetable oils, but is an experienced exporter of palm oil. Various oilseed crops are leaving the country, however, through informal channels, to feed heavy processing capacity in neighboring countries. The world market for vegetable oils is complex because of competing temperate zone/tropical products. Access conditions are likely to improve, and production subsidies diminish, as a result of the WTO's Doha Round

negotiations. However, the market continues to grow as new uses emerge, related to demand for both healthy food products and industrial derivatives to compete with petrochemicals. China is a large and growing market for vegetable oils; several ASEAN members offer relatively open market access. Opportunities exist for Cambodia to export more palm oil, and to replace some of its vegetable oil imports, if local production costs can be contained.

PALM WINE

Palm wine is one of many products that can be generated from the sugar palm tree. One company, based near Phnom Penh, is manufacturing crystallized fruit, vinegars, hats, and baskets, as well as a range of wines and cocktails from various products of the sugar palm. Its alcoholic beverages include two grades of plain palm wine (8% and 10% volume alcohol), a pineapple palm cocktail and a ginger palm cocktail. These products could seek niches in the sweet aperitif market. Asian markets are often protected in favor of local alcoholic drinks, or for religious reasons. There is little protection, however, in developed countries, but strict food safety standards must be met. Informal administrative charges and infrastructure shortcomings in Cambodia damage competitiveness. WTO conditions will make little difference except, perhaps, in the context of food safety standards under the Sanitary and Phytosanitary (SPS) Measures Agreement.

RUBBER

After garments and footwear, rubber has historically been Cambodia's most important export product. The quality of Cambodian rubber is generally high, yet it is seldom sold directly to overseas customers and is discounted by as much as 15-20% on world prices. The Cambodian rubber industry is still largely state-owned. Worldwide, the industry is still heavily affected by government intervention, and by attempts in Asia to limit competition through cartels. Cambodia has confirmed, in the WTO accession negotiations, that it will privatize most public rubber industry assets by 2006. WTO rules and market access conditions will be of little value, however, until Cambodian rubber producers are recognized for producing to international quality.

FISH

The opportunities for Cambodia to exploit its fish resources in export markets are clear, and potentially very large. Demand for high quality fish and fish products is expanding globally, while supply is limited. Markets are largely open, however, standards for consumer food safety, labeling, sustainable production, and the widespread use of subsidies, set a series of barriers that need to be overcome in order for Cambodia to have a strong outlook for entering global markets. Cambodia is losing the value of much of its marine catch due to the direct offloading of fish and shrimp onto foreign vessels. However, costs of processing, transport and shipment in Cambodia are often too high for legitimate trade to be profitable. WTO Doha Round negotiations to control fishing subsidies, if successful, should open new opportunities.

SILK PRODUCTS

The world market for silk and silk products is low in volume, and extremely high in value. The production of silk yarn occupies less than 0.2% of the global textiles fiber market. Raw silk prices are twenty times those of raw cotton and silk products, from yarn and fabric to high fashion, are premium products. Cambodian raw silk is of high quality, but production is minimal. Weavers rely on informal imports, which complicate the certification of origin of Cambodian made silk products. If standards and origin can be demonstrated, there are many market opportunities in wealthy Asian countries, which offer duty-free entry. Capacity is currently too limited to allow for economies of scale, and a critical mass of high-quality exportable goods. In these circumstances, WTO rules can have little impact.

BAMBOO/RATTAN FURNITURE

Cambodia's furniture production sector is not currently organized for export. Family businesses in Phnom Penh and other major towns are producing relatively high quality furniture in hardwood, bamboo, and bamboo/rattan mixes. While both raw materials and skilled craftsmen exist, domestically produced furniture is sold in local markets. The world market for well-made rattan and bamboo furniture,

however, is vast and growing; US imports were worth over \$400 million in 2003. All of the major producers are Asian countries, primarily China, but with Vietnam establishing itself quickly. China's penetration of the US furniture market has already provoked protectionist action by Washington. This may provide an opportunity for other producers. For the moment, however, Cambodia possesses neither the appropriate organization of producers, nor the physical infrastructure, to engage in large-scale trade. That may require the involvement of foreign partners.

GARMENTS

As Cambodia's major export sector, the garment sector depends greatly on future developments in the WTO. The special conditions applied to the global textiles and garment sector for forty years terminated in January 2005. Without guaranteed quota access to the US market, it is feared that Cambodia, like most other low-cost producers, will be eliminated by China. In reality, the situation is more complicated. There are signs of a strong reaction to the dominance of China in the United States (US) garment market. China's special WTO accession terms allow for its textiles and clothing exports to be controlled by importing countries. Other WTO instruments exist that may also be used to create obstacles to continued growth in market penetration by Chinese producers. Given those possibilities, importers and retailers in developed markets will need to diversify their suppliers. Cambodia has some advantages: it has a positive record on labor rights, and may be able to secure preferential access in major markets. But, Cambodia needs to meet origin conditions for duty-free access to the EU. This means developing an indigenous textiles sector, or evolving a coordinated ASEAN approach to garment production. Encouragingly, Chinese garment manufacturers are increasing their investment in Cambodia.

FINANCIAL SERVICES

Lack of access to competitive financial services is a major structural handicap for trade-oriented development and investment in Cambodia. Concessions made on banking and insurance services in the WTO negotiations are not expected to

have significant impact in the short-term. In the longer-term, if reforms are put in place, and are accompanied by changes in business practices and public attitudes towards credit, they may help attract investment by foreign financial services firms, and in extending the services of existing banks and insurance companies. However, such companies are unlikely to be interested until the risks associated with conducting business in Cambodia are radically reduced.

CONSTRUCTION AND RELATED SERVICES

In order to develop its infrastructure for export-oriented development, Cambodia needs a construction sector capable of providing modern, efficient, and competitive services. Given present

domestic constraints, some of that capacity will continue to be foreign-owned. At the same time, to be competitive, construction firms need competent associated services, like transport, engineering, and architectural firms. Cambodia's WTO services commitments allow relatively open access for foreign firms. However, construction firms need to be able to secure materials and equipment on the most advantageous terms. In the case of cement, for instance, imports are expensive and delays in delivery due to administrative complications are common. Construction is, therefore, one important area of the economy where trade conditions governing both goods and services are likely to be instrumental in determining output.