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Chapter

Becoming Competitive, and Dealing with the Competition

When it comes to competition, all WTO members ask the same questions: Are we competitive with other suppliers to foiegn markets? If not, how do we become so? Can we cope with the force of competition in our own market? If not, what can we do about it? This chapter looks briefly at both of these issues.

Business experience, as well as common sense, suggests that if an economy does not encourage competition internally, it is unlikely to generate products and services that will be competitive externally. That is a simplification, of course. But, to the extent that the WTO accession can promote better regulation and more credible institutions, stimulate investment, and provide for transparent, open, and predictable trading conditions, then it will also be provoking competition domestically.

That should be good for consumers and for investors. It will not necessarily always be welcome to domestic producers. And when local producers get worried, so do politicians. The WTO recognizes that, and provides a variety of escape routes. For Cambodia, as for any other WTO member, the judgment on when, or if, to use such escape routes will always be a fine one: a balance between the interests of consumers, taxpayers, and competitive producers against those of the owners, managers, and workers in local businesses.

The issue of competitiveness is in its infancy in Cambodia. The export base has been too narrow, too basic (dominated by garments and unprocessed rice and rubber exports), and overwhelmed by smuggling. Nevertheless, even formal exports, as well as imports, have been growing strongly and consistently for the past five years or more (see Box 15).

Domestically, there is little belief in Cambodia's ability to diversify, to go up-market and seriously to enter the global market. Many foreigners are surprised by the tendency of Cambodians to dismiss their own products, and to understate their capacity to compete. If Cambodians do not believe in their own products, why should buyers in other countries?

Box 15: Cambodia's Trading Performance

Cambodia's imports and exports have grown strongly over the past five years. The data below, from the International Monetary Fund, excludes re-exports. This means that, for instance, fabrics and yarns that are imported for the manufacture of garments, which are later exported, are not included.

Cambodia's Formal Trade: Recent Results (US$, millions)

	1999	2000	2001	2002	2003
Exports	997	1,283	1,462	1,638	1,960
Imports	1,490	1,849	2,010	2,228	2,524

Source: IMF Article IV Consultations with Cambodia, 2004

According to the Customs Department, 11 of Cambodia's 15 top export products in 2003 were from the garment sector. Rubber, footwear, and gold were the also significant items.

Cambodia's main imports (in terms of customs value), in 2003, were textile fabrics, followed by oil products, cigarettes, pharmaceuticals, clothing accessories, cement, and motor vehicles.

The reality is that Cambodia has much to offer. It produces some of the best rice, fruit, spices, nuts, and fish that can be found anywhere in the world. Many of these food items are produced without chemicals. That makes them potentially high-value, up-market, "organic" products for major markets. The streets abound with craftsmen producing fine furniture and handicraft items, many of which have high export potential. Tourism is already thriving on the vast cultural wealth of Cambodia.

Benefits of Implementing Labor Standards

Wages in Cambodia are low, but Cambodia has built a reputation for enacting and observing international labor standards. These are significant factors for inward investors, though the importance of neither should be exaggerated. Generally, Cambodia is a relatively low-cost economy in an increasingly high-cost, but high-growth, region. It is an interesting location for investors and overseas buyers to diversify sources of supply and manufacturing. Cambodia is a beneficiary of many preferential trade arrangements.

The handicaps are massive, and some of these have already been discussed in earlier chapters. Investors are not coming. With few exceptions, Cambodia is not trading in a serious manner. Only the garment industry is truly organized to export. The necessary critical mass of production capacity and quality control to make inroads into foreign markets does not exist. Packaging, labeling, and branding are inadequate. Infrastructure is also inadequate.

However, WTO accession can only be based on a conviction that the country can be part of the global economy. For many businesses, it will mean, over time, a complete reorientation of strategy and ambition. The defense of niches in a small domestic market will, for some, have to be converted into higher-risk strategies of investment (perhaps with foreign partners), combined with product and market development.

Taking Some of the Heat out of Competition

In practice, the WTO tends to distinguish between "fair" and "unfair" competition. Moreover, somewhat different regimes apply for industrial and agricultural products. Until now, the textiles and garments sector has had its own special rules: these were dismantled at the end of 2004. And China, in its 8-year transition period as a WTO member is subject to tougher conditions than other members.

One means of trade defense is simply to raise tariffs. Even bound tariffs can be increased. However, the procedure is long. It involves a potentially difficult negotiation with trading partners, in which bindings on other products have to be reduced to compensate for those raised.

When they believe they must take action against imports, WTO members usually have recourse to one of three principal trade defense instruments. Two of which could be loosely termed as actions against unfair competition. The first of these is the use of antidumping duties. These are duties added to normal customs duties on goods said to be dumped.[7] Dumping is not, in itself, illegal in the WTO. After all, if foreign suppliers choose to cut their prices, then consumers in the importing market usually gain. However, the WTO Antidumping Agreement (see Box 16) gives governments the right, under strict conditions, to impose additional duties to offset the effect of dumping where it damages a local industry.

Another form of unfair competition is through the use of subsidies in the exporting country. Direct export subsidies are banned in the WTO for industrial goods, although, not yet, for agricultural goods. Other types of subsidies that meet certain criteria are permitted, including subsidies that are generally available, also called non-specific, across an economy. In other words, they are not directed at particular industries or firms (see Box 17).

A range of subsidies, those that fall between the two extremes, can be challenged in the WTO. Products that benefit from these actionable subsidies can also be penalized in importing markets through countervailing duties added to normal customs duties. The countervailing duty should cancel out the effect of the subsidy on competition in the importing market. The rules for imposing such duties are set out in a WTO agreement.

[7] Dumped imports are, broadly, goods sold in the importing market at prices below those in the exporting market.

Box 16: WTO rules on antidumping duties

The WTO rules on imposing antidumping duties are very complex. They provide scope for protecting a domestic industry while avoiding abuse.

Goods can be regarded as "dumped" when the export price is below the price charged in the producer's market. If there is no domestic market, then other comparisons can be made or a "constructed" domestic price calculated.

An antidumping duty can only be imposed if the domestic industry, producing the same product, has been materially injured, or is likely to be. Further, a causal link must be established between the dumping and the injury.

Procedural rules require that in investigating claims of damage through dumping, all interested parties have a right to make their case, including the exporting industries accused of dumping. However, exporting industries also have an obligation to cooperate with the investigating authority by providing the necessary information on which calculations of any dumping margin (the difference between the import price and the domestic-market price in the exporting country) are based.

Provisional measures can be put in place prior to a final determination of both dumping and the dumping margin, for each exporter of the product concerned. Suppliers can avoid paying anti-dumping duties by accepting to increase their export prices. If definitive duties are put in place, they should be kept under review. The sunset clause stipulates that antidumping duties should normally terminate automatically after five years.

Box 17: Subsidies and Countervailing Duties

Direct subsidies dependent on export performance, subsidized inputs into exported products, and tax breaks related to exports, are clearly prohibited. All such subsidies should have been eliminated; if not, they can be challenged in the WTO dispute settlement system.

All other subsidies are, in principle, permissible. However, they fall into two categories: those that are "actionable," and those that are "non-actionable". Non-actionable subsidies include "non-specific" subsidies that are generally available across the economy, and do not favour particular industries or firms. In addition, assistance to disadvantaged regions, or to small and medium-sized enterprises, private sector research, and support for investment in environment-friendly production facilities are also likely to be non-actionable.

If a subsidy is specific, for example; to an industry, a company, or a group of enterprises; then it will be actionable. That means that a WTO member may challenge the subsidy under the dispute settlement rules, or, if there is material injury to a domestic industry, impose a countervailing duty.

The conditions and procedures contained in the WTO "Subsidies Agreement," for imposing countervailing duties on subsidized imports, are much like those for imposing antidumping duties (see box 15). The key issue tends to be whether a subsidy is prohibited, "actionable," or "non-actionable". It is then necessary to determine whether or not subsidized imports are damaging the domestic industry producing the same product. Only then can a countervailing duty be calculated and imposed.

A LIMITED DEFENSE AGAINST FAIR COMPETITION

The third mainstream trade defense instrument is the safeguard measure. The WTO Agreement on Safeguards (see Box 18 below) applies to goods that may be traded fairly, but are building up in the market so quickly and unexpectedly that they are damaging a domestic industry, or, at least, threatening to do so. The disciplines on using safeguards are very tight, and duties or quotas can only be temporary.

While developing countries are making increasing use of these instruments, the costs to companies seeking them, and to governments imposing them, can be very high. Often they have to be defended in the WTO, as they are frequently challenged through dispute settlement proceedings. And, always, the interest of consumers in securing access to cheaper goods needs to be kept in mind in poor countries.

During its accession negotiations, Cambodia told other WTO members that it intended to put in place the necessary laws, regulations, and machinery to make use of antidumping, countervailing, and safeguard measures in the future. The relevant legislation has yet to be brought to the National Assembly.

Box 18: The Use of Safeguard Measures

Governments can put in place safeguard measures, normally duties, but quotas are also possible, where government determines that imports are building up at such a rate that they are causing, or threatening, serious injury to domestic producers.

All interested parties should be able to present their views in an investigation, and the wider public interest, such as, the impact on consumer prices, should be taken into account. Normally, safeguards are put in place for four years. This can be extended to eight years; ten years for developing countries. If a measure is put in place, then the protected industry must be required to adjust to the competitive environment that will emerge once the protection is removed.

If quotas are introduced, they should normally be allocated in a non-discriminatory fashion among all suppliers. However, if imports from one or more countries have increased disproportionately, then the quota restraint can be applied only to those countries.

The country imposing the safeguard is required to offer compensatory trade benefits to those suffering the impact. In the absence of agreed compensation, the exporting countries have some limited rights, in time, to remove trade benefits from the importing country.

Developing countries should not usually be covered by safeguard measures if their share of the relevant market in the importing country is less than 3%.