

## SUPPLY CHAIN AND LOGISTICS MANAGEMENT : CAMBODIA

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As a small economy, Cambodia needs to integrate into regional and world economies in order for goods produced in Cambodia to better compete in the world market and to better compete for foreign direct investment as well.

Multinational companies have been seeking to invest and do business in the country where they can produce and export goods at a competitive price to the world market and take advantages of economy of scale.

Cambodia is one of attractive countries in the region for FDI because of the good location, labor cost, greater market access through Generalized System of Preferences (GSP) to EU, Canada, and other developed and developing countries as well as in ASEAN and ASEAN plus one Free Trade Agreement (FTA) with China, Japan, Korea, Australia, New Zealand and India.

ASEAN has been negotiating Regional Comprehensive Economic Partnership (RCEP) since May 2013. RCEP is an ASEAN plus 6 FTA, involving all ASEAN Dialogue Partners which have done bilateral FTA with ASEAN so far. RCEP represent almost half of the world consumers.

(Rithi, 2014).

	2000	2012	2013
<b>Total GDP (US\$ Million)</b>	3,649	14,199	15,250
<b>Avg GDP per capita (US\$)</b>	295	971	1,043
<b>Total Trade (US\$ Million)</b>	2,772	14,442	18,479
<b>FDI Inflows (US\$ Million)</b>	218	2,283	4.483
<b>Population (Million)</b>	13	14.37	14.6
<b>Poverty Rate (% Population Living Below US\$1.25 per day)</b>	37	18.9	
<b>Infant Mortality Rate (per 1,000 live births)</b>	80	33.9	

(Rithi, 2014).

Cambodia needs to speed up its customs reform and to press ahead with automating processes in order to reduce trade costs and minimise the opportunities for corruption, and to be ready for live implementation of its National Single Window by 2015.

The Single Window initiative aims to interconnect each country's customs checkpoints and automatically share cargo-related data and information, including declarations and certificates of origin, in an effort to speed up cross-border trade.

(Morton, 2014).

For the period January 2008 to December 2009, Cambodia have achieve 70% compliance of the AEC key deliverable and ranked 3rd in its implementation record after Singapore and Malaysia, according the scorecard.

Cambodia's Achievement and Progress: TradeStructure

Since accession to the WTO, international trade plays a fundamental role in Cambodia's economic growth with imports and exports representing around 65% of country's GDP. However, Cambodia's trade volume is still small compared to some countries in ASEAN like Singapore, Thailand, and Vietnam.

Cambodia's Trade Structure has develop in the areas as following:

- Tariff policies
- Custom reform
- Non-Tariff barriers – NTMs applied by Cambodia
- Sanitary and phytosanitary measures
- Technical barriers to trade
- Other NTM Measures

In the region, ASEAN Working Group on Intellectual Property Cooperation (AWGIPC) prepared a work plan as a part of the AEC Blueprint to reflect the new objective of ASEAN, which is strengthen IPRs protection for enhancing integration.

- The Cambodian government also has desire to promote and protect IPR as a tools to attract the foreign direct investment to the country.
- In Cambodia, as a new WTO member, government has made a lot of efforts to comply with the WTO commitments, in particular in terms of compliance with the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPs Agreement), by enact various laws and regulations including IP and related laws.
- For international level, Cambodia government has also carefully considered on the treaties and conventions related to IPRs.

In the context of Cambodia, Cambodia continues to affirm on the following matter:

- The values of its ASEAN membership and its agenda for a future community
- At the leadership level, the government's vision and policy commitment to the strategic value of Cambodia's members in ASEAN and associated regional arrangements
- At the political and institutional level, Cambodia has relied on the ASEAN driven agenda to enter a "second generation of reforms" through increasing investment on "soft" aspects of development.

To realize the ASEAN Community, Cambodia must contribute its fair share by continuing to strengthen the rule of law, and enhance its judiciary system and legal infrastructure. Further, Cambodia need to adopt in a timely manner supportive laws and regulations.

Implementing the AEC remains a challenge that need to address the remaining measures, particularly the ratification of AEC agreements. Thus, it is critical that Cambodia continues to engage the private sector, strengthen connectivity, address the development divide, and build stronger institutional support, better macroeconomic and policy coordination.

(Siphana, 2014).

In addition, rights workers fear for the safety of Cambodia's vulnerable children once Asean joins in an economic community next year. The integration is aimed at improving the flow of goods and services between the 10 Asean nations, but that could also mean increased exploitation of Cambodian children, as few safeguards are in place, the UN Office on Drug and Crimes warned.

(Heimkhemra, 2014).

Cambodia is the youngest Asean nation to become a full member of this regional geo-politic and economic organisation in April 1999, after having been an observer for nearly four years. Although it's already a full member, Cambodia still can't rival older members in terms of economic strength, trade volume, human resources, technology, and infrastructure, among others.

The country is faced with the formidable challenge of accomplishing the objectives of AEC including setting up a single market and production base to pave the way for a highly competitive economic region. Most of Cambodia's production chains are dependent on SMEs, except the garments and textiles industries.

(Nguon, 2013).

In December 2008, Cambodian lawmakers passed a US\$ 1.8 billion budget for 2009, increasing spending by a third compared to the US\$ 1.37 billion 2008 budget. The budget was passed after donor countries pledged US\$ 950 million in aid, almost 40% more than they offered in 2008. However, the government was under pressure to have a stimulus package following what was done worldwide and in neighboring countries. In January 2009, opposition leader Sam Rainsy proposed a US\$ 500 million stimulus package in order to help the Cambodian economy overcome the economic recession. The money would go to stabilizing crop prices and the construction of irrigation and road networks. Although the government criticized the proposed budget as excessive given the limited budget, it said that it would extend tax breaks for clothing manufacturers and invest in power plants as a cash shortage restricted its ability to provide economic stimulus. According to Finance Minister Keath Chhon, the government already subsidized electricity by US\$300 million in 2008 and the fiber industry by US\$450 million, while total intervention accounted for 4.9% of Cambodia's GDP.

Responses to the global crisis in foreign trade by lower-income economies in the GMS such as Lao PDR, Cambodia and Vietnam share important policy dimensions, especially in terms of sub- regional cooperation.

First, like other developing Asian economies, the economies of Vietnam, Lao PDR and Cambodia rely too much on exports and foreign investment as the sources of growth. There was a remarkably synchronized contraction in trade and investment across these countries, which was generally consistent with their position in global and regional production networks. This kind of vulnerability was even greater for such economies as Vietnam and Cambodia, which have recently become WTO members. Although trade with neighboring economies is very important (especially for countries with geographical disadvantages such as Lao PDR), it has been either inadequately promoted or improperly exploited by the private sector, perhaps due to the prevalence of smuggling.

Second, there has been congruence and synergy in policy responses as these countries adopted monetary and fiscal measures. These policies were quite successful, but they were still limited by their largely national, independent, and uncoordinated characters, given that the GMS economies are increasingly interdependent with each other in trade, investment, and finance. Indeed, there has been a "stimulus

pressure” upon smaller countries with limited budgets such as Lao PDR and Cambodia who can not afford to compete with Thailand and Vietnam in terms of stimulus package size. However, fiscal policy stimulus can have a positive spillover effect on the neighboring countries through trade. Although this is to the benefit of smaller economies, these smaller economies should not see this as an incentive to “free ride” since this would lead to a smaller than desirable fiscal stimulus.

Third, although the risk of defection is always high in such moments of difficulty, lower-income GMS economies have not pursued beggar-thy-neighbor policies. They have not taken aggressive moves to encourage exports such as sharp currency devaluations, the provision of favorable tax treatment for exports, or raising tariffs to protect domestic industries by discouraging imports.

Finally, in their responses to the global recession, Lao PDR, Cambodia and Vietnam should look at ways to rebalance their growth. That means they must become a market for their own domestic production. The ultimate objective of growth rebalancing is not to restore the current account balance (Kawai, 2009). Export-led growth of such market-oriented economies such as those in the GMS may result in surpluses or deficits, but this trend must be justified by an appropriate foreign trade structure and the advancement of those economies’ positions in the global value chain. Also, rebalancing should proceed by removing impediments to domestic consumption by increasing the purchasing power of consumers and their opportunities to access cheaper domestic commodities.

(Hung & An, 2011).

The development of hard and soft infrastructure is considered vital to narrowing the gaps in economic development. In 1998, the ADB introduced the concept of “economic corridor,” which aims to promote regional cooperation. Most trunk roads in Laos and Cambodia have already been paved. Infrastructure development and the evolution of production networks supported rapidly increasing freight transport. There are also concerns in Cambodia and Laos that the development of economic corridors are beneficial only to economically large countries such as Thailand and China and not to small countries. Worse still, they could even hurt these countries’ industries.

MIEC straddles Ba Ria-Vung Tau and Ho Chi Minh in Vietnam, the Moc Bai–Bavet border, Phnom Penh in Cambodia, the Poipet–Aranyaprathet border, Bangkok in Thailand, Kanchanaburi, Dawei in Myanmar and Chennai in India. We set the scenario as follows;

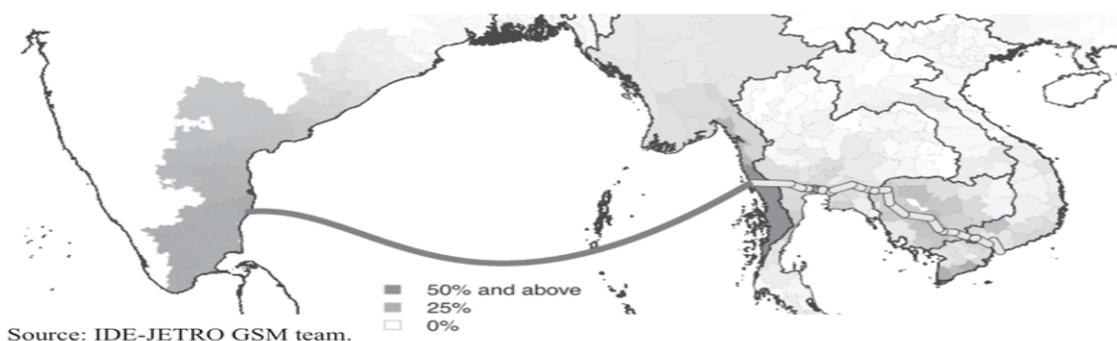
- Bridge at Neak Loueng is constructed. It will reduce the transit time for crossing the river.
- New highway between Kanchanaburi and Dawei is constructed.
- Dawei port is developed and a new sea route from Dawei to Chennai opens.
- Customs facilitations are implemented at the Moc Bai–Bavet border, the Poipet–Aranyaprathet border and the border between Kanchanaburi and Dawai.
- Handling time at Dawei port and Chennai port is shortened.

Figure 2 shows the economic impacts of the development of MIEC. The dark-shaded areas representing specific regions will have large gains in GDP vis-à-vis the baseline scenario. Although the size of the impacts differs by region, all regions along the corridor can expect considerable gains in regional GDP. Tanintharyi, where the capital region is Dawei, gains the most by 41.2% of GDP from the baseline scenario. This means Tanintharyi will benefit the most from the construction of a highway between Kanchanaburi and Dawei, a new sea route from Dawei to Chennai and the implementation of customs facilitation at the border between Kanchanaburi and Dawai. It is also notable that the gains are expected to spread to wider regions.

Let us focus the economic impacts of MIEC on regions in Cambodia. Table 2 shows the lists of top- and lower-ranked population-gaining provinces in Cambodia. Kampong Chhnang gains the most, followed by Siemreap. In the top-ranked list, Kampong Chhnang, Kandal, Pursat and Banteay Meanchey are along MIEC. We note that Kampong Chhnang, Kandal, Takeo and Pursat are near Phnom Penh, suggesting that MIEC will raise the populations of regions along the corridor and regions near the central city of cluster.

(Isono, 2010).

**Figure 2: Gains in Regional GDP: the Mekong-India Economic Corridor vs Baseline in 2020**



**Table 2: Top Ranked and Lower Ranked Population Gain  
Cambodia by the Mekong-India Economic Corridor**

Top Ranked		Lower Ranked	
<b>Kampong Chhnang</b>	2.1%	<b>Sihanoukville</b>	-5.4%
<b>Siemreap</b>	1.4%	<b>Koh Kong</b>	-1.7%
<b>Kandal</b>	0.9%	<b>Ratanak Kiri</b>	-1.1%
<b>Takeo</b>	0.9%	<b>Kratie</b>	-1.0%
<b>Pursat</b>	0.8%	<b>Pailin</b>	-1.0%
<b>Banteay Meanchey</b>	0.6%	<b>Phnom Penh</b>	-0.9%

**Table 3: Top Ranked and Lower Ranked GDP Gaining Regions in Cambodia by  
the Mekong-India Economic Corridor**

Top Ranked		Lower Ranked	
<b>Kampong Chhnang</b>	26.3%	<b>Ratanak Kiri</b>	4.6%
<b>Siemreap</b>	23.9%	<b>Pailin</b>	7.9%
<b>Kandal</b>	23.3%	<b>Sihanoukville</b>	8.1%
<b>Pursat</b>	22.9%	<b>Stung Treng</b>	8.5%
<b>Takeo</b>	22.7%	<b>Mondul Kiri</b>	9.5%
<b>Kampong Speu</b>	22.4%	<b>Koh Kong</b>	11.4%

Note: Compared with the Baseline Scenario.

Source: IDE-JETRO GSM team

(Isono, 2010).

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