

# Chapter 4

## Survey Report on Utilisation of Free Trade Agreements in Cambodia

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## CHAPTER 4

### Survey Report on Utilisation of Free Trade Agreements in Cambodia

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*Cambodia has signed a number of free trade agreements (FTAs) with other member countries of the Association of Southeast Asian Nations (ASEAN) and its main trading partners in the region. However, due to its limited production capacity, Cambodia has not yet fully utilised these FTAs and has not maximised the benefits from them. In contrast, Cambodia has made much more use of other preferential trade systems such as the Generalized System of Preferences (GSP) and most-favoured nation status to export products to developed countries such as the United States, Canada, the European Union, Japan, and others. However, it is not clear whether private sector firms, which are supposed to be actors in implementing the FTAs, know how to use them effectively and benefit from them. This study aims to explore how familiar the private sector in Cambodia has become with FTAs and how firms can optimise the use of FTAs to maximise their benefits. The survey finds that no company in Cambodia has used FTAs, and that the majority of firms are familiar only with the term 'FTA' and are not clear about the details of these trade agreements and how they can participate in order to benefit from them. Difficulties in becoming involved with FTAs include lack of information, high costs, and complications in trade procedures.*

Keywords: Cambodia, FTAs, Cambodia Manufacturing, Services, Survey, MFNs

JEL Classification: F1

## **1. Context**

### **1.1. Background**

With its strong political commitment to global and regional economic integration, hard work on reforms, and other preparations, Cambodia was admitted in April 1999 as the last member state of the Association of Southeast Asian Nations (ASEAN). After admission, there has been rapid growth in Cambodia's trade sector. Growth in export has been one of the engines of economic development and employment creation, and trade is strongly correlated with poverty reduction in the country.

Since 2001, a policy framework for promoting Cambodia's local and external trade has been in place to promote growth and help reduce poverty. Various initiatives and reform measures to implement it culminated in dynamic export performance and integration of the country in numerous regional bodies including accession to the World Trade Organization (WTO) in 2004. The Royal Government of Cambodia has also successfully negotiated free and/or favourable trade agreements with many countries. However, there are still many bottlenecks similar to those in private investment in industries, which inhibit growth in this sector. The immediate challenge is to ensure that the private sector takes advantage of existing favourable trade agreements to market products overseas, thus diversifying exports and lessening dependence on the garment industry.<sup>1</sup>

The government has put many reforms in place and made decisions to facilitate and promote trade, especially with neighbouring countries.

Cambodia has signed many free trade agreements (FTAs) with ASEAN member countries and other main trade partners in the region. However, due to its limited production capacity, Cambodia has yet to utilise fully the FTAs and maximise the benefits from them. In contrast, Cambodia has made much more use of other trade preferential systems, such as the Generalized System of Preferences (GSP) and most-favoured nation (MFN) status to export the country's products to advanced countries such as the United States (US), Canada, the European Union (EU), Japan, and others.

As result, and because of abundant cheap, young labour, the garment industry in Cambodia, especially garments and textiles, has been expanding rapidly. In recent years,

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<sup>1</sup> *National Strategic Development Plan (2006–2010)*, p.55.

textiles have accounted for more than 70 percent of the country's total exports that include footwear, natural rubber, and fish products. Cambodia mainly imports petroleum products, fabrics, vehicles, wholesale yarn, cigarettes, electrical communications equipment, and medicines. Cambodia's main trading partners are the United States; Hong Kong, People's Republic of China; Singapore; Canada; Republic of Korea; Thailand; and Viet Nam.

Cambodian traders applied for a total of 96,618 Certificates of Origin (COOs) in 2012 and 50,080 COOs for the first six months of 2013 from the Ministry of Commerce for exports to North America. No applications were made for COOs for exports to ASEAN due to the limited amount of exports to ASEAN member states.

In 2012, the value of Cambodian exports, mainly textiles and garments, under GSP and MFN schemes, reached US\$5.6 billion (Table 4.1).

**Table 4.1. Cambodian Exports Under GSP/MFN Schemes in 2012**

No.	Destination	Description	Amount million)	(US\$
<b>Grand Total in Value</b>			<b>5,614.44</b>	
1	Sub-Grand-Subtotal, by sector	Garments and textiles	4,445.64	79.1
		Shoes	311.21	5.5
		Rice	139.68	2.4
		Others	717.91	12.8
2	<b>Subtotal USA</b>		<b>2,086.40</b>	<b>37.1</b>
	USA	Garments and textiles	1,996.02	35.5
		Shoes	30.82	0.5
		Rice	0.96	0.0
		Others	58.57	1.0
3	<b>Subtotal EU</b>		<b>1,932.19</b>	<b>34.4</b>
	EU	Garments and textiles	1,454.01	25.9
		Shoes	154.65	2.7
		Rice	88.07	1.5
		Others	235.43	4.1
4	<b>Subtotal Canada</b>		<b>434.22</b>	<b>7.7</b>
	Canada	Garments and textiles	407.69	7.2
		Shoes	9.68	0.1
		Rice	0.02	0.0
		Others	16.81	0.3
5	<b>Subtotal Japan</b>		<b>189.47</b>	<b>3.3</b>
	Japan	Garments and textiles	140.69	2.5
		Shoes	40.06	0.7
		Rice		
		Others	8.72	0.1
No.	Destination	Description	Amount Million)	(US\$
5	<b>Subtotal Rest of the World</b>		<b>972.14</b>	<b>17.3</b>
	Rest of the World	Garments and textiles	447.20	7.9
		Shoes	75.97	1.3
		Rice	50.60	0.9
		Others	398.35	7.1

EU = European Union, GSP = Generalized System of Preferences, MFN = most-favoured nation, USA = United States of America.

Source: Ministry of Commerce.

## 1.2. Questions

The Royal Government of Cambodia has signed many FTAs and has been actively involved in several trade agreement negotiations. It is not clear, however, if private sector companies, which are supposed to be actors in the implementation of FTAs, know what to

do to benefit from them. Clearly, more efforts are needed to assist and encourage the private sector.

There has, to date, been limited or no study on the effects of FTAs in Cambodia. This leads to the question of how private sector firms can become more familiar with FTAs and optimise their use.

### **1.3. Objectives**

This study aims to explore how far the private sector in Cambodia has become familiar with FTAs and how firms can optimise use of FTAs to maximise their benefits. The manufacturing and services sectors were surveyed to investigate the use of FTAs by companies, to see if it has resulted in the expansion of foreign trade. In addition, the survey also sought to identify the constraints on using FTAs as their identification could enable policymakers to find ways of increasing the use of FTAs in the Cambodian private sector.

### **1.4. Methodology**

The Cambodia Institute for Cooperation and Peace sent out around 200 questionnaires prepared by the Economic Research Institute for ASEAN and East Asia (ERIA) to manufacturing and services companies selected at random. The study team followed up by meeting respondents either for interviews or to collect completed questionnaires. Eventually, 60 completed questionnaires were collected from manufacturing firms and 20 from services firms.

## **2. Key Findings of Survey of Manufacturing Firms**

Out of 60 firms in the survey, seven are small, 15 are medium-sized, and 27 are large.

The workforces covered in the survey vary from three to 9,000 employees, with an average of 1,089 employees per firm. Paid-up capital ranges from US\$50,000 to US\$200 million, with an average of US\$11,312,720.

Four companies are joint ventures of Cambodian and foreign partners and 54 are 100 percent foreign firms. Joint ventures have an average of 67.5 percent Cambodian shareholding. Twenty-eight firms included in the survey are located in areas that are not 'planned', 19 firms are in industrial parks, and eight firms in special economic zones.

In 2012, only two firms introduced new products and only six firms sold their products in the domestic market. Fifty-one out of 59 companies (86.44 percent) directly exported goods in 2012. In 2012, 54 companies directly imported inputs and materials.

**Table 4.2. Firm Characteristics**

a. By Size						
	Small	Medium	Large	Unknown	Total	
Number	7	15	27	11	60	
Percentage	11.6	25	45	18.3	100	
b. By Export Activity						
	Exporting only	Importing only	Exporting & importing	Unknown	Total	
Number	2	6	51	1	60	
Percentage	3.3	10	85	1.7	100	
c. By Ownership						
	Domestic	Foreign	Joint venture	Unknown	Total	
Number	2	54	4	0	60	
Percentage	3.3	90	6.7	0	100	
d. By Location						
	EPZ	Industrial zone/park	SEZ	Not in any	Unknown	Total
Number	1	19	8	28	3	59
Percentage	1.6	32.2	13.5	47.6	5	100

EPZ = export processing zone, SEZ = special economic zone.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

In the survey, 50 firms (83 percent) have their own factories, while nine (15 percent) have only main offices or headquarters.

**Table 4.3. Company Status**

<b>Company Status</b>	<b>Number</b>	<b>Percent</b>
Headquarters/Main office	9	15.0
Regional headquarters	1	1.7
Factory/Plant	50	83.3
<b>Total</b>	<b>60</b>	<b>100.0</b>

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

### 2.1. Use of FTAs

In the survey, 52 companies (86.67 percent) use the Generalized System of Preferences (GSP) while five companies do not.

**Table 4.4. Use of GSP**

<b>Use of GSP</b>	<b>Number</b>	<b>Percent</b>
No	5	8.3
Yes, and currently using GSP	52	86.6
Yes, but currently not using GSP	1	1.6
Missing	2	3.3
<b>Total</b>	<b>60</b>	<b>100.0</b>

GSP = Generalized System of Preference.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

In the survey, 39 out of 60 companies, or 65 percent, are familiar with the term FTA. However, in in-depth interviews with some of the firms claiming familiarity with FTAs, it was found that they are not clear about the details of FTAs and how they can benefit from them.

Almost half of respondents (26 out of 60 firms) see mass media such as television and the Internet as their main sources of information and 17 firms see the government as their main source of information. Four respondents see business associations and two see chambers of commerce as their main source of information.



**Table 4.5. Sources of Information**

Sources of Information	Number	Percent
1. Government	17	28.3
2. Business associations	4	6.6
3. Chambers of commerce	2	3.3
4. Trade lawyers/private consultants	3	5.0
5. Media (TV, Internet, etc)	26	43.3
6. Trading partners	4	6.6
7. Others, please specify	0	0.0
	60	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

No company in the survey uses FTAs. Thirty-six out of 60 companies (60 percent) in the survey cite lack of information as the main reason for not using FTAs.

**Table 4.6. Reasons for Not Using FTAs**

Reasons	Number	Percent
Lack of information	36	60.0
Cannot meet the of rules-of-origin requirement for using FTAs	3	5.0
Small trade volume	0	0.0
Small differences between preferential FTA tariff and normal applied tariff	0	0.0
Using other schemes (tariff exemption in export processing zone or other industrial zones; GSP)	3	5.0
Fee to obtain COOs is too expensive	0	0.0
Procedure to obtain COOs is too complicated	0	0.0
Others, please specify	0	0.0
	60	100.0

COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

## 2.2. Utilisation of Certificates of Origin

As COOs are required under export procedures, it is compulsory for exporters to apply for COOs. In the survey, 58 out of 60 companies use COOs. Thirty-nine companies (60 percent) use Form A (GSP), while 13 companies (21.67 percent) use Form B (MFN) and 12 (20 percent) use Form D.

**Table 4.7. Use of COOs**

Type of COOs	Number	Percent
Form A (GSP)	39	65.0
Form B (MFN)	13	21.6
Form D	12	20.0
Form E	10	16.6
Form AANZ	1	1.6
Form AI	0	0.0
Form AJ	0	0.0
Form AK	2	3.3
Others	21	35.0
	60	100.0

AANZ = ASEAN–Australia–New Zealand, AI = ASEAN–India, AJ = ASEAN–Japan, AK = ASEAN–Korea, COO = Certificate of Origin, GSP = Generalized System of Preferences, MFN = most-favoured nation.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

In the survey, 12 companies export their products to the United States (29.27 percent), seven companies export to Japan (17 percent), eight companies export to Canada (14.63 percent), and five companies export to the European Union.

**Table 4.8. Destination of Exports**

Destination Country	Number	Percent
Canada	6	14.6
EU	5	12.2
EU, US	1	2.4
EU/Canada	1	2.4
France	2	4.8
Holland	1	2.4
Japan	7	17.0
Japan, Europe	1	2.4
Spain	1	2.4
Spain/UK	1	2.4
Turkey	1	2.4
US	12	29.2
US/Canada	1	2.4
US/Germany	1	2.4
Total	41	100.0

EU = European Union, UK = United Kingdom, US = United States.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

In the survey, the majority of firms (50 out of 60 firms, 83 percent) use COOs at the request of the government. The use of COOs is required by the government's export procedures. Many exporters complain about this. Some do not need COOs as the importing countries do not require them.<sup>2</sup>

**Table 4.9. Reasons for Using COOs**

Reason	Number	Percent
Lower tariffs	9	15.0
Expanding exports	0	0.0
Reducing import costs	0	0.0
Request from trading partners	13	21.6
Request from government	50	83.3
Don't know	2	3.3
Others (please specify)	1	1.6
Total	60	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

<sup>2</sup> During the drafting of this report, on 29 November 2013, the government issued an inter-ministerial notification No.233 to eliminate the requirement for COOs. Only when a COO is required by the importing country (or export destination) should a COO be applied for. This reform is part of a process of trade facilitation to promote exports and has received a warm welcome from traders.

Eight related documents are required to obtain a COO.<sup>3</sup> The majority of the companies (44 out of 60 or 73 percent) perceive the number of documents as reasonable and 12 perceive it as excessive.

**Table 4.10. Perceptions of the Number of Documents Required to Obtain a COO**

Perception	Number	Percent
Very few	4	6.6
Reasonable	44	73.3
Many	12	20.0
Total	60	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Only two companies answered the question about the length of time needed to obtain a COO. One says it takes three days and the other says up to six days to obtain a COO. Twenty-eight respondents, or 63 percent, perceive the process to be reasonable, while 21 others, or 35 percent, perceive it as lengthy.

**Table 4.11. Perceptions of the Process of Obtaining a COO**

Perception	Number	Percent
Very quick	1	1.6
Reasonable	38	63.3
Lengthy	21	35.0
Total	60	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

According to the survey, only one company answered that it cost US\$100 to obtain a COO. Thirty six firms say that the process is costly, while 24 firms think it reasonable.

**Table 4.12. Perceptions of the Costs of Obtaining a COO**

Perception	Number	Percent
Reasonable	24	40.0
Costly	36	60.0
Total	60	100.0

COO: Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

<sup>3</sup> For more detail, see Appendix II.

No company obtained a COO using the online system in 2012. Only four respondents compare the advantages of different COO schemes for their exports, while 29 respondents answer negatively, and 22 others do not know.

**Table 4.13: Comparison of the Advantages of Different COO Schemes**

Answer	Number	Percent
No	29	49.1
Don't know	22	37.2
Not applicable (only one COO available)	1	1.6
Yes	4	6.7
Total	59	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Only seven respondents (12 percent) have difficulty in applying for more than one COO when their firms export to more than one country, while 12 respondents answer negatively or do not know.

**Table 4.14. Difficulties in Complying with More than One COO**

Answer	Number	Percent
No	12	20.6
Don't know	38	65.5
Not applicable (using only one FTA)	1	1.7
Yes	7	12.0
Total	58	100.0

COO = Certificate of Origin, FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

If they have any difficulties in using COOs, the majority of companies (36 respondents, 69.23 percent) consult with forwarding or logistics companies, and six respondents, or 11.54 percent, consult the government's website. Some use other sources such as business associations and chambers of commerce.

**Table 4.15. Means for Consultation**

Answer	Number	Percent
Website of government of your location	6	11.5
Website of government of trading partner	2	3.8
Business associations	2	3.8
Chambers of commerce	2	3.8
Forwarders/logistics companies	36	69.2
Trade lawyers/consultants	1	1.9
Others	3	5.7
Total	52	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

### 2.3. FTA and Investment

**Past investment decisions.** Half the respondents (29 firms) consider FTAs a factor in deciding an investment location, 14 (24.86 percent) do not consider them as such, and 15 do not know. Among the firms that say FTAs are a factor, six select ASEAN Free Trade Area and four select low preferential tariff.

**Table 4.16: Past Investment Decisions**

Decision	Number	Percent
No	14	25.8
Don't know	15	24.1
Yes	29	50.0
Total	58	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

**Future investment plans.** In answer to 'Considering the current situation of your company and the economy in which your company is established, what would you like to do with your business in the next five years?', only three respondents signify intention to reduce the level of business operations.

In answer to 'Is your company considering expanding its existing business overseas or opening a new establishment overseas in the next five years?', five firms say they are still considering it, while six cite growing markets as the reason for expanding into foreign countries.

## 2.4. Information on FTAs

Thirty-five firms, or 67 percent of respondents, perceive the available information about FTAs as poor, 14 firms, or 26.92 percent, perceive it as good, and three consider it to be very poor.

**Table 4.17. Perception of Information on FTAs**

Perception	Number	Percent
Very poor	3	5.7
Poor	35	67.3
Good	14	26.9
Total	52	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Nineteen respondents select the Internet as their main source of information, 14 select television, and nine select forums and seminars as being very useful for learning about FTAs and/or any other form of economic cooperation.

**Table 4.18. Media of Communication**

Media of Communication	Number	Percent
Internet	19	31.6
TV	14	23.3
Forum/seminar	9	15.0
Websites about FTA	5	8.3
Radio	4	6.6
Booklets	3	5.0
Government (Ministry of Commerce)	3	5.0
GMAC	1	1.6
Information technology	1	1.6
International news	1	1.6
	60	100.0

FTA = free trade agreement, GMAC = Garment Manufacturer Association of Cambodia.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Eight firms select eliminating corruption and four firms updating the government's website as their main suggestions on what kind of government or private sector support or involvement (including by business associations, etc.) would help them maximise their use of FTAs.

**Table 4.19. Suggestion for Support to Maximise the Use of FTAs by Firms**

Suggestions	Number	Percent
Eliminate corruption	8	29.6
Update government website	4	14.8
Reduce the time, cost, and documents required to obtain COOs	4	14.8
Role of private sector/chambers of commerce	3	11.1
Enforcement of one-stop service	2	7.4
Forums/seminars on FTAs	2	7.4
Wide diffusion of information (research papers and other publications)	1	3.7
Clear FTA policy	1	3.7
Rule of law	1	3.7
Standardise the cost of processing documents	1	3.7
Total	27	100.0

COO = Certificate of Origin, FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

### 3. Key Findings of the Survey on Services

Fifteen firms out of 20 in the survey, or 75 percent, are headquarters or main offices, four are branch offices, and one is a regional/country headquarters.

**Table 4.20. Status of Companies**

Status	Number	Percent
Headquarters/main office	15	75.0
Regional/country headquarters	1	5.0
Branch office	4	20.0
Total	20	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Among services firms in the survey, the number of full-time workers in 2012 varied from four to 500, with an average headcount of 57. Two firms show invested capital of US\$80,000 and US\$90,000, respectively. The share of ownership held by foreign entities includes firms from the United States, People's Republic of China, France, the Republic of Korea, Thailand, and Viet Nam.



### 3.1. Firms' Sales and Procurement

The services that the surveyed firms provide are logistics, air-conditioner installation, IT solutions, transport, design and construction, trading, engineering, and spare part supplies.

Only one firm has introduced a new service and only four firms provide services in foreign markets.

Nineteen companies conducted direct imports or purchase inputs and materials to support their operations in 2012. Fourteen companies used goods for inputs and materials that had been imported by distributors or trading companies. Only two firms say they used 40 percent and 89 percent, respectively, of total inputs and materials. In answer to the question, 'Do you know if your imported goods are enjoying preferential tariff rates from FTAs?', six firms answer yes.

### 3.2. FTAs and Business Planning

#### *FTA usage in importing inputs and materials*

Seventeen out of 20 companies know or are familiar with the term 'FTA'. However, the companies seem to have a limited understanding of the use and the benefits of FTAs. Among firms familiar with FTAs, and in a multiple-choice question, 12 respondents know about FTAs from a government source, while 12 know about them from media, including television, radio, and the Internet. Business associations and chambers of commerce have limited roles in spreading information related to FTAs.

**Table 4.21. Sources of Information**

Source of Information	Number	Percent
Government	12	37.5
Business associations	3	9.3
Chambers of commerce	1	3.1
Trade lawyers/private consultants	3	9.3
Media (TV, Internet, etc)	12	37.5
Trading partners	1	3.1
Total	32	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

No firms report using FTAs to import inputs or materials, and one firm does not know if it does or not.

Thirteen firms (59 percent) perceive the main reason for not using FTAs as lack of information, while four say it is because of small trade volume with FTA partners (Table 4.22).

**Table 4.22. Reasons for Not Using ROOs**

Reason	Number	Percent
Lack of information	13	59.0
Cannot meet the ROO requirements for using FTAs	1	4.5
Small trade volumes	4	18.1
Small differences between preferential FTA tariff and normal applied tariff	0	0.0
Using other schemes (GSP)	0	0.0
Fee to obtain COOs too expensive	2	9.0
Procedure to obtain COOs too complicated	1	4.5
Others, please specify	1	4.5
Total	22	100.0

COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences, ROO = rule of origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

### 3.3. Utilisation of COOs

Sixteen out of 19 respondents use COOs (Table 4.23).

**Table 4.23. Types of COO**

No.	Type of COO	Number	Origin Country
1	Form A (GSP)	4	US
2	Form B (MFN)	2	Canada
3	Form D	13	Singapore, Thailand, Viet Nam, and other Asian countries
4	Form E	9	People's Republic of China, Republic of Korea, Taiwan
5	Form AANZ		
6	Form AI	0	
7	Form AJ	0	
8	Form AK	0	
9	Others	6	

AANZ = ASEAN–Australia– New Zealand, AI = ASEAN–India, AJ = ASEAN–Japan, AK = ASEAN–Korea, COO = Certificate of Origin, GSP = Generalized System of Preferences, MFN = most-favoured nation, US = United States.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

The main reasons given for not using COOs are lack of information and small trade volumes (Table 4.24).

**Table 4.24. Reasons for Not Using COOs**

Reason	Number	Percent
Lower tariffs	5	17.8
Reducing import	0	0.0
Request from trading partners	11	39.2
Request from government	12	42.8
Don't know	0	0.0
Total	28	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

If firms have any difficulties in using COOs, nine firms say they consult with freight forwarders and logistics companies, eight use government websites, and three use chambers of commerce.

**Table 4.25. Main Sources of Information on FTAs**

Source of Information	Number	Percent
Website of government of your location	8	36.3
Website of government of trading partner	2	9.0
Chambers of commerce	3	13.6
Forwarders/logistics companies	9	40.9
	22	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

### 3.4. FTA and Investment

**Past investment decisions.** Six out of 20 firms consider the existence of an FTA as a factor in deciding on an investment location, while nine do not think it is a factor.

**Table 4.26. Decisions Related to FTAs**

Decision	Number	Percent
No	9	45.0
Don't know	5	25.0
Yes	6	30.0
Total	20	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Only two firms use the ASEAN–China FTA, while one firm uses the ASEAN–Korea FTA. Low preferential tariff is one aspect of an FTA that many firms consider when deciding on investment.

**Table 4.27. Aspects of FTAs**

Aspect of FTA	Number	Percent
Lower preferential tariff	11	68.7
Higher foreign equity share	2	12.5
National treatment for foreign investor	1	6.2
Better investment protection	1	6.2
Other (country development)	1	6.2
Total	16	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

**Future investment plans.** Twelve firms are considering to expand the level of their business operations given the current situation of their firms and the economy.

**Table 4.28. Future Investment Plans**

Future Investment Plan	Number	Percent
Reduce the level of business operations	0	0.0
Move sites within a country	4	19.0
Maintain the same level of business operations	5	23.8
Expand the level of business operations	12	57.1
Total	21	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Fifteen firms (75 percent) have no plans to expand their existing businesses overseas or open a new establishment overseas in the next five years.

**Table 4.29. Future Plans**

Future plan	Number	Percent
No plan to expand/invest	15	75.0
Under consideration	4	20.0
Will expand/invest overseas	1	5.0
Total	20	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

No specific country was identified for expanding business outside Cambodia. Four firms cite growing markets, while two cite low logistics costs as the main reasons for expanding into foreign countries.

**Table 4.30. Reasons for Expanding Business**

Reason	Number	Percent
Growing markets	4	44.4
Low labour costs	0	0.0
Low tax	1	11.1
Low logistics costs	2	22.2
Investment incentives	0	0.0
FTA	1	11.1
Follow business partner's investment	1	11.1
Total	9	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Lower preferential tariffs, higher foreign equity limits, and better investment protection are aspects that are important for firms when using FTAs.

### 3.5. Information on FTAs

Nine firms (50 percent) perceive that the available information on FTAs is still poor, while eight see it as good. Only one firm sees it as very poor (Table 4.31).

**Table 4.31. Perceptions of the Availability of Information**

Perception	Number	Percent
Very Poor	1	5.5
Poor	9	50.0
Good	8	44.4
Total	18	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Eleven respondents see television as the main means of communication and the easiest to access by firms in communicating about FTAs and/or any other economic cooperation, eight prefer websites, and four prefer forums and conferences (Table 4.32).

**Table 4.32. Communication Means**

Communication Means	Number	Percent
Facebook	1	4.1
Forums/Conferences	4	16.6
TV	11	45.8
Websites for FTA	8	33.3
Total	24	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Six respondents suggest that promoting awareness of FTAs should be encouraged, six firms suggest that the rule of law is an issue, and four see the elimination of corruption as the main action needed by the government or the private sector (including business associations, etc.) to maximise the use of FTAs by firms.

**Table 4.33. Suggestions**

Suggestion	Number	Percent
Eliminate corruption	4	21.0
Investment protection	1	5.2
Loan with low rate	1	5.2
Promote the awareness about FTA	6	31.5
Rule of law	6	31.5
Training and study tours	1	5.2
Total	19	100.0

FTA = free trade agreement.

Source: The Survey conducted by Cambodia Institute for Cooperation and Peace , 2014

## 4. Key Recommendations

### 4.1. Trade Facilitation

To maximise the benefits that can be derived from FTAs, Cambodia should promote trade with countries in ASEAN and the region. Trade facilitation should focus on reducing red tape and complicated procedures in exporting and importing, especially with ASEAN countries. The implementation of ASEAN's e-Customs and National Single Window projects should be finalised within the timeframe adopted by ASEAN. Systems for electronic linkage of relevant agencies for permits, licenses, and COOs should be created and launched.

#### **4.2. Dissemination of Information on FTAs and the ASEAN Economic Community**

Information related to Cambodia's current status in preparation to implement ASEAN Economic Community agreements and protocols, especially FTAs, is important. However, such information is still limited. Government agencies' websites, especially of the Ministry of Commerce, and of the chambers of commerce are outdated and lack useful information such as trade data and rules and regulations related to trade and trade promotion. Forums and workshops should be conducted to exchange views between government agencies, the private sector, and academia. Recommendations from these forums should be reported to decision-makers for adoption.

#### **4.3. Trade Promotion and Diversification**

Trade in Cambodia is focused on textiles and garments. The major exports are only to a few countries, such as the United States, Canada, and the European Union. This is not a strong foundation for trade development. The government should identify more sectors such as electronics, rubber-based products, agricultural products, and processing products that should receive information on FTAs. Promoting exports to neighbouring countries and countries in the region, especially ASEAN member states, could develop more sustainable markets for Cambodia.

#### **4.4. Capacity Building**

To maximise the utilisation of FTAs, capacity building such as training, workshops, and study tours should be provided to government officials and private sector firms on topics such as trade liberalisation, WTO, ASEAN FTAs, etc.

#### **4.5. Rule of Law and Combating Corruption**

Respect for the rule of law and equal treatment for all investors and traders are important in developing a positive and conducive investment climate. Combating corruption should be the government's first priority in promoting trade, investment, and business development.