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Why Cambodia Needs a Comprehensive Review of its Existing Free Trade Agreements

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Imagine a 50-kilogram bag of Cambodian fragrant rice, grown and processed in Battambang, one of Cambodia's best rice-producing regions. This bag of fragrant rice, tagged along by invoices, packing lists, and certificates of origin, is set to depart from Sihanoukville Autonomous Port, heading to Indonesian ports in Jakarta. Once it reaches there, the rice bag goes through customs clearance once more, benefiting from preferential tariffs under the ASEAN Free Trade Agreement (AFTA), making it more competitive in the Indonesian market. This journey illustrates how AFTA facilitates trade beyond just rice. It opens doors for various Cambodian products like fruits, vegetables, garments, and processed foods to reach other ASEAN markets, benefitting all parties involved.

Free Trade Agreements (FTAs) have always been great for Cambodia, but can it be any better? It's time to take a closer look. A FTA refers to a legally binding agreement between two or more countries that put an obligation on its member states to lower or eliminate both tariff and non-tariff barriers for trade, businesses, and investments. FTAs play a crucial role in pushing Cambodia through development phases; in particular, the graduation from Least Developed Country (LDC) status in 2027. Without FTAs opening, even if Cambodia can manufacture high-quality products, it will still see its competitive dreams left at the border. However, while securing FTAs is crucial for Cambodia's market access, some agreements give questionable benefits. They may produce less desirable outcomes, or leave Cambodia in an awkward position of dependency, vulnerable to fluctuations in the geopolitical landscape.

"All of these agreements, like the Free Trade Agreements we have with other countries under both regional and international frameworks, serve as valuable data for us. However, this is just raw data. We need to analyze it to determine the direction we should go," **Samdech Thipadei HUN Manet**, Prime Minister of Cambodia, provided his insights during the Launching Ceremony on the National Report on Final Results of Economic Census of Cambodia 2022. "We cannot pack one basket and wander around. We need to ensure that each direction meets its demands," he added. The Prime Minister's metaphor of "pack one basket and wander around" highlights the potential risk of relying solely on a generic, limited set of products for export across all available markets.

Currently, Cambodia has signed 10 FTAs, including two bilateral trade agreements with China and Korea, seven under the ASEAN framework, and one regional trade agreement which is the Regional Comprehensive Economic Partnership, also known as RCEP. By simply relying on the limited set of products, similar to packing only one basket, it can leave Cambodia

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vulnerable to market saturation and non-tariff barriers. This metaphor serves as a timely reminder that Cambodia's economic journey requires reassessment. This comprehensive review prioritises optimisation of existing FTAs over renegotiation. Its objective is to identify potential products to export based on each market, and maximise benefits for Cambodia's economy and its businesses.

A thorough, comprehensive review of Cambodia's existing FTAs presents a set of potential benefits. First, the comprehensive review can expose hidden asymmetries within existing FTAs. While FTAs allow the free flow of products with extremely high tariff reductions, it does not necessarily guarantee that Cambodia benefits from it as much as its free trade partners do. For instance, the China-Cambodia Free Trade Agreement, also known as CCFTA, was signed in October 2020 and came into force in January 2022, aimed to reduce tariffs up to 97.3 percent. Cambodia exports \$1.24 billion worth of goods to China, but that only represents around 12% of the \$10.4 billion in imports Cambodia gets from China. This means Cambodia imports from China much more than it exports, creating a large trade deficit. Furthermore, the type of goods traded emphasises the imbalance. Cambodia primarily exports agricultural products and textiles, while its imports from China consist mainly of manufactured goods and machinery. This suggests a relationship where Cambodia is exporting raw materials and basic goods, while importing more value-added products from China.

Consequently, these hidden asymmetries also lead to trade dependency, which makes Cambodia vulnerable to geopolitical fluctuations. Such a high degree of trade dependence on the foreign market can potentially expose Cambodia to increased leverage and other disadvantageous terms imposed by its trading partners. Take a look at trade statistics between the US and Cambodia. During the first eleven months of 2023, the United States remained Cambodia's primary export destination, accounting for 38.25% of its total exports, with a value of \$8.14 billion. Key exports to the US include apparel, accessories, leather goods, handbags, and electronics. Although this statistics falls outside the scope of reviewing existing FTAs, it highlights the broader need for trade diversification.

Secondly, a comprehensive review can tell Cambodia whether its existing FTAs remain align with the national strategy. Cambodia's national development hinges on acquiring the knowledge and expertise for value-added industries. Exploring new FTAs that promote knowledge transfer, alongside strengthening existing ones to facilitate the same, is key to unlocking Cambodia's full potential in value-added industries.

Thirdly, a comprehensive review also presents a golden opportunity to recalibrate Cambodia's export strategy. By analysing each market's needs and preferences, Cambodia can adjust its exports accordingly. This means focusing on investments in industries that cater specifically to the demands of each trading partner's market. For instance, markets that emphasise agricultural goods would call for domestic agricultural processing. Similarly, markets that prioritise manufactured goods would focus on strengthening manufacturing infrastructure and skills development. This tailored approach shifts Cambodia from a generic export strategy to a more market-driven one, with the explicit goal of maximizing profit potential.

Reviewing Cambodia's FTAs needs a well-coordinated effort, which requires an inter-ministerial committee. This committee will review existing FTAs, identify strengths and weaknesses, and then recommend new markets and partners, matching Cambodian exports to them. FTAs have played a crucial role in Cambodia's economic growth. However, to ensure

truly fair trade and maximize benefits for both Cambodia and its partners, a comprehensive review is essential. Cambodia's goal should be to thrive, not just survive, in the global market.

The views expressed are the author's own and do not reflect the views of the Asian Vision Institute.