

## ➔ CAMBODIA: A FRAMEWORK TO ENTER THE ARENA OF WORLD TRADE

### **In a Nutshell**

The integrated framework (IF) is part of a commitment made by developed countries to assist developing countries in capitalizing on trade liberalization opportunities. In Cambodia, six multilateral agencies participate in managing this framework, while also supporting the mainstreaming of the IF initiative into the national poverty reduction strategy.

In 2001, a pilot study of Cambodia's entry into the international trading system was presented at the Fourth Ministerial meeting of the World Trade Organization (WTO), which found it to be among the best examples of the benefits of technical assistance to an LDC. Notable factors behind Cambodia's success include the dynamic leadership and strategic vision of the Ministry of Commerce, along with an overall national reform process grounded in strong country ownership and donor coordination.

### **The Story**

Cambodia depends greatly on a single economic activity: a third of its GDP comes from garment exports alone. Sustaining this rate will be difficult unless Cambodia can join the WTO. Along with the looming end of the Multi-Fibre Agreement regime in 2005, WTO membership is therefore a major incentive driving a broad range of public reforms.

Complying with WTO requirements places heavy demands on a small developing country, because accession is not merely about trade capacity alone, but about capacity development across a range of sectors. For example, in Cambodia there are concerns over whether the judicial system is sufficient, given that qualified people staff only a handful of positions in the legal machinery. Several other areas requiring stronger capabilities include legislative frameworks, valuation procedures, trade policy evaluation and reporting, and assessments of the impact of trade protection.

As a step in the direction of improving its capacity, and supported by six multilateral agencies, the Cambodian government adopted the IF in 2000. Under it, the government opted to pursue a growth-enhancing, pro-poor trade strategy within its overall national poverty reduction strategy. The Ministry of Commerce came forward from the start and clearly demonstrated its intention to take strong leadership and ownership of the trade reform process in Cambodia, a stance that varied from past practices.

Following the signing of a memorandum of understanding with the agencies, the government tabled a study entitled "A Pro-Poor Trade Sector Strategy for Cambodia: A Preliminary Concept Paper." Key elements were then incorporated into the draft

Second Socio-Economic Development Plan and the Cambodia Ten-Year Plan of Action prepared for the Least Developed Countries III Conference. Cambodia also used the conference to further explain the importance of capacity development in trade as a means to enhance poverty alleviation.

Subsequently, the government issued the “Road Map”. It outlined three critical actions: (a) strengthening the capacity of the Ministry of Commerce to lead and manage the formulation (and eventually the implementation) of the pro-poor trade sector integration study through broad partnerships with all key trade sector stakeholders and development partners; (b) ensuring solid assessment, targeting and monitoring of poverty reduction in the context of poverty reduction strategy formulation and implementation efforts; and (c) exploring best practice capacity development approaches tailored to the specific circumstances in Cambodia.

Following the presentation of the “Road Map” at a 2002 consultative group meeting, the government and donors agreed to conduct a pilot diagnostic study of Cambodia’s integration into the international trading system. The research addressed overall trade policy, facilitation, promotion and supply-side capacity, and included an initial poverty analysis. A matrix of technical cooperation that identified priority needs in relation to trade reforms was appended, providing the entry point for coordination of donor assistance. When the pilot was presented in Doha at the WTO’s Fourth Ministerial meeting, delegates applauded Cambodia’s integration process as among the best examples of effective technical assistance to an LDC.

A November 2002 publication by the OECD/DAC, “Studies on Donor Practices: Cambodia Case Study”, later concluded: “The vast majority of recipients interviewed in government stressed problems in donor practices that fall into the ‘lack of ownership’ category.... These recipients also complained of their own lack of capacity – in some cases holding donor practices responsible for not allowing them the opportunities to develop their own capacity further. But the ministries of Health, Education and Commerce stood out as exceptions, since the problems they identified were not ‘lack of ownership’. In these, firstly, fewer problems were identified. Secondly, problems identified were more to do with coordination among donors or derived from poor budgeting and cash management within government as a whole.”

The crux of Cambodia’s IF trade reforms involves several instruments for donor coordination, including the technical cooperation matrix and the constitution of a steering committee, chaired by the Ministry of Commerce, with members from government ministries, donor agencies, the business sector and civil society. The overall capacity development agenda itself focuses on several priorities. The first is knowledge acquisition. A core group of eight professionals leading the trade negotiations and integration process is expected to go through an extensive process of learning, with an emphasis on experiences in other countries in the South. These national experts will then work with other government ministries and agencies as well as the business sector and civil society in driving the national response and targeting international support.

A second objective is organizational development. The Ministry of Commerce places great emphasis on not limiting trade reforms strictly to itself, but involving other public institutions. Overall public sector reforms are still at a nascent stage, with ongoing efforts to re-align incentive systems and ensure sustainability. This includes the critical requirement of adopting new forms of work that are less centralized and bureaucratic.

Finally, there is the area of institutional environment and partnerships. The requirement to mainstream a trade reform process in the national poverty reduction strategy has led to the need to address the broader institutional environment within which poverty reduction is unfolding, especially in terms of wider participation. While civil society in Cambodia is still weak, it has nevertheless become increasingly involved in the poverty reduction strategy process and the WTO accession debate. By way of illustration, labour unions in the textile sector are organizing and mobilizing workers for demonstrations. International NGOs play a role as well, by closely scrutinizing labour standards.

## Results and Critical Factors

Some key capacity development lessons have emerged from Cambodia's IF experience. These include:

- There is a need for strong leadership. In this case, the Ministry of Commerce drove the trade reform process by shaping a strategic vision – including bridging knowledge gaps and nurturing an institutional change process – and placing it at the core of the national growth strategy.
- It is crucial to set up a nationally driven reform process at the outset (captured in the “Road Map”) with country ownership and donor coordination as its main pillars. This should include the establishment of national priorities and partnership coordination instruments (similar to the technical cooperation matrix and the IF steering committee).
- The integration of trade in the national poverty reduction strategy triggers the need to address trade within the broader institutional and global environment, which shapes efforts to reduce poverty and inequality.
- The setting of an ambitious target such as WTO accession in the context of the ongoing national poverty reduction process has led to a spill-over response, in the form of a growing national constituency on trade and poverty.

### Further information

Asian Development Bank (ADB). 2001. *Cambodia Financial Sector Blueprint 2001-2010* ([www.adb.org/Documents/Reports/CAM\\_Blueprint/chapoo.pdf](http://www.adb.org/Documents/Reports/CAM_Blueprint/chapoo.pdf)).

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Cambodia World Trade Organization membership negotiations background ([www.wto.org/english/news\\_e/news03\\_e/cambodia\\_membership\\_16ap03\\_e.htm#background](http://www.wto.org/english/news_e/news03_e/cambodia_membership_16ap03_e.htm#background)).

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