



Development Analysis Network with the Support of the Rockefeller Foundation

THE CROSS BORDER ECONOMY OF CAMBODIA

An Exploratory Study

WORKING PAPER 32

K.A.S. Murshid and Tuot Sokphally



Cambodia Development Resource Institute

Cambodia's

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Phnom Penh, April 2005

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The Cross Border Economies of Cambodia: An Exploratory Study—Working Paper 32

April 2005

This work was carried out with the aid of a grant from the Rockefeller Foundation.

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Front cover photos: Phillipe Bataillard/Graphic Roots Co., Ltd.

Printed and bound in Cambodia by JSRC, Monivong Boulevard, Phnom Penh

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ABBREVIATIONS

ACLEDA	Association of Cambodian Local Economic Development Agencies
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AHTN	ASEAN Harmonised Tariff Nomenclature
AMBDC	ASEAN-Mekong Basin Development Cooperation
ASEAN	Association of South-East Asian Nations
CAS	Centre for Advanced Studies
CBE	Cross border economy
CBT	Cross border trade
CDRI	Cambodia Development Resource Institute
CED	Customs and Excise Department
CEPT	Common Effective Preferential Tariff
CLMT	Cambodia, Laos, Myanmar and Thailand
CO	Certificate of Origin
CSD	Council for Social Development
CSES	Cambodia Socio-Economic Survey
DAN	Development Analysis Network
ECS	Economic Cooperation Strategy
ECSPA	Economic Cooperation Strategy Plan of Action
GMS	Greater Mekong Sub-region
HCM	Ho Chi Minh City
MEF	Ministry of Finance
MIME	Ministry of Industry, Mines and Energy
MOC	Ministry of Commerce
NGO	Non-government organisation
NIS	National Institute of Statistics
PP	Phnom Penh
PRASAC	Support Programme for the Agriculture Sector in Cambodia
RK	Rong Kluea Market
RO	Rules of Origin
SME	Small and medium enterprises
WTO	World Trade Organisation

ABSTRACT

Title: The Cross Border Economy of Cambodia

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This study attempts to examine four aspects relating to the cross border economy of Cambodia:

- (a) The overall regulatory regime and evolving trade policy of Cambodia, including participation in international trading arrangements;
- (b) Specific policy issues or strategies for development of cross-border trade, including participation in regional trading arrangements, setting up of special zones or provision of special privileges;
- (c) Actual conduct and performance constraints of cross border trade arrangements, using illustrative case studies (e.g. garments trade, trade in shoes, vegetables etc.) with both Vietnam and Thailand;
- (d) The poverty impact of cross-border economies at the local level.

Findings of the study indicate that: official and unofficial costs of border clearance are rising, especially for small traders; credit default risk has also increased in the face of increasing market competition and lower margins; and personal links and trust have substituted for missing institutions.

Generally, areas along the border with Thailand were found to be much more active and to exhibit much greater impact, e.g. on employment, earnings and poverty, than areas around the Vietnamese border. A drawback of the study is that it did not explore negative or adverse impacts in any systematic manner.

ACKNOWLEDGEMENTS

The authors are deeply indebted to a large number of people for their contribution to this study. A number of researchers from CDRI have been involved in the field research, including Ms. Pon Dorina, Ms. Ouch Chandarany and Dr. Kang Chandararot. The household surveys were conducted with the assistance of the Centre for Advanced Studies in Phnom Penh. Our debt to CAS and, in particular, to its director, Dr. Hean Sokhom, is gratefully acknowledged.

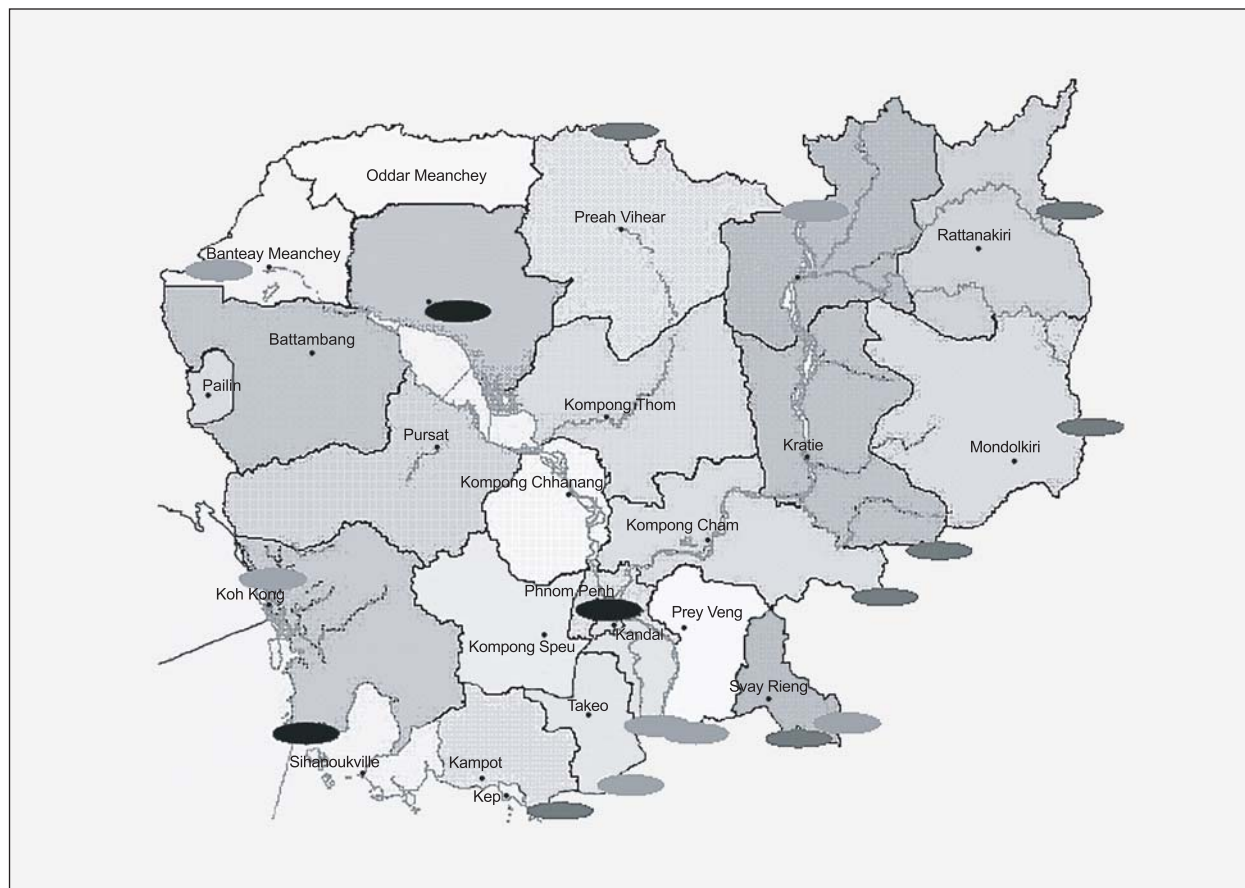
DAN colleagues provided a friendly but critical environment to share ideas and improve analysis, both formally through workshops and informally through electronic communications.

We would also like to express our deep thanks to the publications section of CDRI, and especially to Mr. Em Sorany, for bringing this publication out under a severe time constraint. CDRI editors Allen Myers and David Wharton also deserve a very special mention for rising to the occasion.




We take this opportunity to thank Eva Mysliwec (former executive director, CDRI) and Larry Strange, executive director, CDRI, for their support and encouragement. The generous support provided by the Rockefeller Foundation to the work of DAN is most gratefully acknowledged. We look forward to the further growth of DAN in the years to come.

K.A.S. Murshid
and **Tuot Sokphally**
January 2005

CAMBODIAN BORDER MAP



Note:

-  International Gate
-  International Border Gate
-  Bilateral Border Checkpoint

Some Milestones of Cambodia's Economy and Foreign Trade

1960s: Cambodia is an important exporter of rice, rubber, corn and other agricultural products to other Asian nations. Imports are mainly from Japan, the United States and western Europe. An industrial base starts to grow in the 1960s.

1970s: Collapse of foreign trade owing to conflict.

1975–1979: Democratic Kampuchea regime; no foreign trade or international relations except for trade with China in the form of exchange of Cambodian rice for Chinese weapons and other necessary items.

1978–1989: Vietnamese assistance. Official trade in rubber crepe, unprocessed timber, red maize, soybeans, sesame and tobacco carried out mainly with COMECON or CMEA (Council for Mutual Economic Assistance) countries such as Hungary, Bulgaria, East Germany, USSR and Vietnam.

Unofficial trade includes: the sale of timber, precious stones and gold along the Thai-Cambodian border; the sale of old/used items such as motorbikes, bikes, watches and recyclable waste to Vietnam; and the trafficking of goods and services from Thailand, Singapore and Vietnam.

1985: Government of KPRP (Kampuchea People's Republic Party) embarks on a market-oriented reform (key measures include the restoration of private ownership of property), following the Vietnamese lead.

1989: Substantial quasi-official cross border trade with Thailand and Singapore via Koh Kong and Kompong Som ports.

Promulgation of a foreign investment law (44 brief articles only, similar to the regulations initially adopted in Laos).

Early 1990s: Reined in by new customs duties in 1990, Thai traders move to locations on the frontier with Battambang (the area which is currently in Banteay Meanchey). An official market is opened at the Poipet-Khlong Luk crossing, but estimates of the value of trade there are unavailable.

1993: After the first national election under the auspices of UNTAC (United Nations Transitional Authority in Cambodia), Cambodia declares itself as an “economy government.” Trade policies are greatly liberalised. After the election, formal trade agreements with Thailand are signed.

1994: Adoption of a new investment law.

Since the late 1990s: Acceleration of economic integration into the regional and global economy, marked by Cambodia's entry into ASEAN and, later, the WTO.

1. INTRODUCTION

Cambodia has taken significant steps towards integrating its economy with that of its neighbours and with the rest of the world. It has joined the ASEAN Free Trade Area, is a signatory to CEPT (Common Effective Preferential Tariff) and has joined the WTO. It is regarded as a highly open economy, formally in the sense of a simplified and greatly reduced duty structure for imports, and informally, in the sense of weak border controls and a huge (but difficult to quantify) informal border economy. These trends are not isolated but reflect wider changes experienced throughout the region in recent years. In the Mekong sub-region, this has taken the shape of special (export processing) zones set up (or planned) along the border areas, and promotion of the ADB-led Greater Mekong Sub-region concept to integrate regional economies through transport-infrastructure linkages and trade facilitation reforms. The potential benefits of integration are thought to be considerable; there is less agreement, however, with regard to the distribution of benefits—both across countries and within each country.

For a given country, the type, magnitude and quality of the impact of integration will depend on a number of factors, acting on both the demand and the supply sides.

1.1. DEMAND SIDE FACTORS

A basic question relates to the structure of import demands of trade partners and the extent to which this is compatible with domestic comparative advantage and competitive strengths. Despite this, the potential for both static and dynamic gain cannot be disputed. Of particular concern is the question of incremental comparative advantage, which allows a country like Cambodia to identify and reap the benefits of a new, superior, division of labour. The main point on the demand side is whether integration will raise export demands and encourage new lines of exports to develop.

Static and Dynamic Gains

Todaro (1989) quotes Hicks to note that the gains from trade are the difference between the value of things received and the value of things that are given up. Static gains are based on the law of comparative advantage and accrue from trade creation, e.g. after the formation of a customs union, resulting in high-cost suppliers being replaced by low-cost suppliers, enabling the import of foreign products more cheaply in terms of real resources foregone, compared to domestic production.

Dynamic gains accrue from market widening and expansion for a country's producers. Dynamic gains are larger than static gains if production is subject to increasing returns, which is more likely if markets become vastly bigger than before. Dynamic gains can also emerge from lower cost capital goods and superior technical knowledge that alters and shifts the production possibility curve outwards, at the same time promoting efficiency through greater competition.

Comparative advantage and the free trade argument are essentially static, based on restrictive and unrealistic assumptions. It has been noted that if the demands for different commodities grow at different rates owing to differences in their price and income elasticity, free trade will work to the benefit of some and to the relative detriment of others. There is also the danger of excessive specialisation, e.g. garments in Cambodia and Bangladesh, leaving these economies highly vulnerable to external shocks.

The free trade argument does not adequately focus on dynamics with the implied assumption of an unchanging or slowly changing shift in static comparative advantage. Developing countries, it would seem, are thus condemned to the production/export of the same commodities forever. There is almost no discussion of the fact that a country may deliberately have to change its comparative advantage. As Prebisch points out, a lasting solution would be the promotion of manufactured goods, especially those with high price and income elasticity of demand (quoted in Todaro, 1989; also see Prebisch, 1964, and Sarkar and Singer, 1991).

1.2. SUPPLY SIDE FACTORS

While greater regional integration will help overcome demand side constraints, the critical bottleneck may well be factors operating on the supply side: infrastructure, communications, services (banking and insurance), human resources, governance, energy costs—elements that prevent or constrain realisation of the full potential opportunities provided by more open trade. Clearly these constraints are more rigid and require time, effort and resources to overcome. Once the demand side constraints are relaxed, the supply side needs to be addressed.

The focus of this paper is on the Cambodian experience of cross border trade and, in particular, the role and impact of supply side factors. Cambodian case studies examine cross border trade arrangements and trade facilitation, trade infrastructure and institutions, structure of costs and market performance, with reference to specific commodities traded. The demand side receives attention in DAN 4 through the country studies conducted from the other side of the border. For example, Cambodia's garment exports to Thailand have also been studied from the Thai side, to help identify demand bottlenecks and to examine the nature of Thai demand for Cambodian products more generally.

The third purpose of the paper is to go beyond supply-demand issues and facilitation arrangements and institutions to look at the implications for household level welfare, especially on the poor.

The rest of the report is organised as follows:

Section 2: Approach and Methodology

Section 3: Trade Environment and Policy

Section 4: Organisation and Conduct of CBT—Case Studies

Section 5: Cross Border Trade—Selected Case Studies

Section 6: Welfare Impact of CBT

Section 7: Household Level Evidence from Chantrea

Section 8: Concluding Observations

2. APPROACH AND METHODOLOGY

The overall approach taken in this study is **(a)** to review overall trade regimes and the emerging regulatory regime, **(b)** to describe the cross border trade facilitation regime currently in place, **(c)** to examine the structure, conduct and performance of CBT and the role of the different institutions involved and **(d)** to assess the welfare impact on households residing in border zones.

While **(a)** and **(b)** above are based on policy documents and interviews with key informants (officials, traders, customs and clearing agents), **(c)** is based on in-depth case studies of selected commodities traded (garment exports to and processed food imports from Thailand, and footwear and vegetable imports from Vietnam).

Assessment of welfare effects **(d)** is based on village surveys (along the Thai and Vietnamese borders) and household surveys (restricted to a sample of households derived from a district bordering Vietnam). The villages and the households sampled are expected to be representative of the districts from which they were taken. Thus, the district of Ou Chrov adjoining the international checkpoint at Poipet along the Thai border was selected for study, along with the district of Chantrea, situated near the international border gate in Bavet, on the Vietnamese border. Both Bavet and Poipet are major international crossings for goods and passengers.

3. TRADE ENVIRONMENT AND POLICY

3.1. RECENT CHANGES IN TRADE POLICY

Cambodia resumed trade with the rest of the world after a period of disengagement during the 1970s, in line with the process of liberalising from a centrally planned economy to a market-oriented one. The private sector was free to carry out business in the country; most non-tariff barriers were eliminated; and the requirement of licensing for trading in most goods was abolished (Economist Intelligence Unit & MEF 2004). All quantitative restrictions on trade were removed in 1994 (CSD 2002).

Further, the country took a significant step forward in trade liberalisation after becoming a member of ASEAN in 1999. Under the framework of CEPT/AFTA (see section 2.3.2 below), tariff lines were simplified and streamlined. A new harmonised tariff nomenclature (AHTN) was promulgated in 2003 and implemented from 1 January 2004 (MEF 2004 & CED 2003).

The customs code is also being revised, and further modernisation and liberalisation of the trade regime are envisaged, including improved trade facilitation, as stipulated in the *Strategy and Work Programmes of Reform and Modernisation of the CED of Cambodia for the period 2003–2008*.

A number of specific task forces and measures have been formalised, including: **(a)** the establishment of a steering committee for private sector development in July 2004; **(b)** joint inspection by the Cambodia Import Export Inspection and Fraud Repression Department (Camcontrol) and the CED, and issuance of a single inspection report, effective from 1 September 2004; **(c)** Ministry of Industry, Mines and Energy (MIME) and Ministry of Commerce (MOC) to issue a Certificate of Processing (CP) and Certificate of Origin (CO) respectively, and jointly carry out post-shipment inspection. Action plans are being mooted to streamline trade facilitation, to promote market infrastructure and deregulation, to enhance market access and information and to promote small-medium enterprises (SME) by the end of 2005 (CSD 2004).

3.2. OTHER REGIONAL ECONOMIC COOPERATION INITIATIVES

3.2.1. COMMON EFFECTIVE PREFERENTIAL TARIFF (CEPT)

After an agreement signed in 1992 on the establishment of AFTA, ASEAN members are required to implement CEPT, under which tariff rates levied on a wide range of products traded among the association's members have to be reduced to below 5 percent, and all quantitative restrictions and other non-tariff barriers removed. In practice, the original ASEAN members have already achieved the tariff reduction goal. The new ASEAN members are in the process—Vietnam is expected to complete the process by 2006, Laos and Myanmar by 2008 and Cambodia by 2010.

Products eligible for special treatment under CEPT are required to conform to the Rules of Origin (RO) or Cumulative Rules of Origin. The CO is issued after a thorough pre-shipment inspection. It can be waived, however, for products valued at less than \$200 f.o.b. When the products pass through one or more non-ASEAN country, some additional documents are required such as a through bill of lading, a CO, a copy of the original commercial invoice and some other documents to prove that the requirements of the RO have been met. At the entrance/exit gates the products under CEPT pass through the green lane.

3.2.2. GREATER MEKONG SUB-REGION ECONOMIC COOPERATION PROGRAMME (GMS PROGRAMME)

After peace was achieved in the Greater Mekong region, the GMS Programme (the Greater Mekong Sub-region Economic Cooperation Programme) was initiated in 1992 by the ADB in order to “transform the rich human and natural resources of the region into a new frontier of Asian economic growth.” Under this strategic framework, the ADB plays a role in facilitating GMS activities by supporting confidence building among the member countries, helping in the development of a framework for cooperation, assisting in project development for identified priorities and mobilising financial resources.

Under the GMS umbrella, Laos, Thailand and Vietnam signed a trilateral accord on the movement of goods and people across their borders in November 1999. As agreed in the ninth GMS Ministerial Conference in 2000, the implementation of the agreement and its annexes and protocols on a sub-region-wide basis would be completed by 2005. In November 2001, Cambodia became the fourth party of the agreement, followed by China. Myanmar is expected to enter in the near future.

At the beginning the GMS programme focused much on building the basic infrastructure to link remote areas. After the 1990s, the programme shifted its focus to the environment, human resource development, trade, investment, telecommunications and tourism. To facilitate the implementation of the strategic thrusts of the programme, the concept of the “economic corridor” was launched and three such corridors identified. In its 2003–2012 strategic framework, CBT is one of five strategic thrusts. The main measures to facilitate CBT and stimulate the cross border economy include:

- (a) A single-stop customs inspection process, initially to be piloted at selected points (e.g. Poipet and Bavet in Cambodia, Mukdahan and Aranyaprathet in Thailand, Savannakhet and Dansavanh in Laos and Lao Bao and Moc Bai in Vietnam;
- (b) Common hours of operation at checkpoints;
- (c) Transparency of customs procedures;
- (d) Trade financing;
- (e) Harmonisation of banking regulations;
- (f) Investment promotion;
- (g) Establishment of economic corridors.

3.2.3. TRIANGULAR COOPERATION AMONG CAMBODIA, VIETNAM AND LAOS

In December 2002, the three prime ministers agreed that Vietnam would develop the master plan in a number of specific areas, including infrastructure, human resource development, power, agriculture, trade, tourism, environmental preservation and biology in support of the development of the “triangular zone” cutting across the border regions of the three countries. In a recent meeting (in 2004), the prime ministers agreed to work closely to accelerate economic growth across their common borders, and in particular to address poverty concerns. The first priority would be given to upgrading transport networks, promoting trade and tourism under the principle of “three nations—one destination,” developing human resources and health care and connecting electricity grids between the three countries.

3.2.4. ECONOMIC COOPERATION STRATEGY

Under the Economic Cooperation Strategy (ECS), established in line with the Bagan Declaration in April 2003, Cambodia, Laos, Myanmar and Thailand (CLMT) will cooperate with one another to: **(a)** increase competitiveness and generate greater growth along the borders; **(b)** facilitate relocation of agricultural and manufacturing industries to areas with comparative advantage; **(c)** create employment opportunities and reduce income disparity among the four countries; and **(d)** enhance peace, stability and shared prosperity for all in a sustainable manner. Under this scheme, the Economic Cooperation Strategy Plan of Action (ECSPA) is the first series of action plans chalked out for the period 2003–2012.

In line with the ECSPA, the CLMT countries will implement initiatives to reduce trade barriers, improve transport linkages and upgrade major border checkpoints and promote cooperation in five strategic areas: **i)** trade and investment facilitation; **ii)** agricultural and industrial cooperation; **iii)** trade linkages; **iv)** tourism cooperation; and **v)** human resource development.

Specific measures to implement the ECSPA objectives include a number of common projects that are carried out by at least three countries, as well as other short-, medium- and long-term bilateral projects. Among the bilateral projects, there are 65 Cambodia-Thailand, 21 Cambodia-Laos and 25 Cambodia-Myanmar projects that have been identified. Some of the main Cambodia-Thailand projects include feasibility studies on the establishment of wholesale and export markets, development of industrial estates in Poipet and Pailin, reservoir construction at Poipet and a sister cities programme. Some of the main Cambodia-Laos projects are a feasibility study on trade facilitation in the border area between Champasak and Stung Treng, improvement of border checkpoints at Champasak-Stung Treng and strengthening and promoting border trade between Laos and Cambodia.

3.2.5. OTHERS

Other attempts to promote regional economic integration include the ASEAN-Mekong Basin Development Cooperation (AMBDC) and the Cambodia-Laos-Thailand growth triangle.

3.3. CURRENT REGULATORY ENVIRONMENT FOR CBT

There are no quantitative restrictions on imports into Cambodia but there are prohibited items, e.g. narcotic drugs and poisonous chemicals. Most imported goods may enter Cambodia without an import licence, except for the following:

- Weapons, explosives and ammunition;
- Vehicles and machinery for military purposes;
- Gold, silver and precious stones;
- Pharmaceuticals and medical material.

Tariff duties on goods are levied widely but consist of ad valorem duties. Imported goods are assessed at their customs value including insurance, freight, duties and taxes, and are subject to a 10 percent VAT. There are four import tariff bands as follows:

- Raw materials such as cement, iron, tiles and bricks and “essential” items like meat and fruits—7 percent;
- Equipment and machinery—15 percent;
- Consumer durables and house furnishings (TV, radio, furniture etc.)—35 percent;
- Luxury goods, automobiles, wine, cigarettes, cosmetics—70 percent.

Duty free imports include those of diplomatic missions, those for humanitarian or religious purposes, those provided with incentives under the Law on Investment (1994), commercial samples and various ad hoc exemptions decided by the prime minister. Cambodia has been a member of ASEAN since 1999 and has commenced reducing tariffs on ASEAN products according to its obligations under the AFTA.

All goods on which the customs duty is more than \$300 must have their customs value approved by the Valuation Office at the Department of Customs and Excise headquarters in Phnom Penh. Seven major border points are empowered to approve customs values for goods with a customs duty of \$300 or less, including the Poipet and Bavet border points. There is a \$4 charge for this service.

Cambodia operates a pre-shipment inspection system requiring the inspection company (Société Générale de Surveillance, SGS) to determine whether the invoice price corresponds to the open market price of the goods. Exemptions from this inspection are allowed for goods valued at less than \$4,000 f.o.b.

Cambodia restricts exports of rice, round logs, unprocessed timber, forestry products, antiques more than 100 years old, narcotic drugs and poisons, weapons, explosives, ammunition and vehicles and machinery for military purposes. An export tax of 10 percent is levied on raw material exports, while processed exports attract a tax of 5 percent.

Cambodia is expected to comply with the subsidies agreement for WTO accession. It will either eliminate the existing system of remission of import fees and waiver of duty for certain goods used by certain investors, or establish a functioning duty drawback system consistent with WTO provisions, through amendment of the Law on Investment as necessary, by the end of 2013.

3.3.1. PACKING, MARKING AND LABELLING

Camcontrol, under the Ministry of Commerce, is responsible for setting standards. It requires foodstuffs (exports and imports) to have a label and provide the following information:

- Name of goods;
- Producer's name and address;
- Source;
- Quantity;
- Batch number and production date;
- Expiration date;
- Ingredients;
- Directions for use (if needed);
- Licence of authorising institution.

For animals vaccination certificates are needed, while for plants it is necessary to show that certain phytosanitary measures have been taken. Phytosanitary certification is issued at the border by the Phytosanitary and Plant Protection Inspection team. Cambodia recognises phytosanitary certification from other countries.

3.3.2. DOCUMENTATION

Particulars required on cargo documents (manifesto) are **(a)** bill of lading number, **(b)** port of loading and unloading, **(c)** consignee and consignor, **(d)** description and gross weight and **(e)** quantity, marks, numbers and type of packages. Imported goods require an import declaration form. Goods shipped through Vietnam via the Mekong River must also have a transit licence.

3.4. CBT WITH THAILAND AND VIETNAM—BACKGROUND

3.4.1. CAMBODIA-THAI CBT

CBT between Cambodia and Thailand in the 1960s was mainly carried out informally between people living side by side as neighbours and friends, rather than as residents of separate nations with an acute sense of national identity. In the late 1960s, border trade declined in the wake of increased controls introduced by the Thai government in response to political events across its frontier. CBT declined but resumed with the first wave of Cambodian refugees to Thailand in the late 1970s. This was mainly restricted to trade in food, clothing, medicines, housing materials, seed rice and agricultural tools. The products purchased from Thai traders were sold partly inside Cambodia and partly in Vietnam. After 1985, when the Cambodian refugees were transferred to UN holding camps, Thai traders (and powerful trading interests) established direct business links with the resistance leaders, trading in timber, wooden furniture, guns, antiquities and gems—in an organised and systematic manner (French 2002).

Formal trade relations between the two countries resumed after the adoption of the “battlefields into marketplace” policy of the new Thai government in the late 1980s. Many border checkpoints, including Poipet, were opened along the Thai-Cambodian border in early 1990s. Formal trade agreements were initialled between the two countries, and both formal and informal border trade expanded rapidly.

During 1999–2003, the trade volume between Thailand and Cambodia was on average \$234 million per annum, making Thailand the second biggest importer of Cambodian goods. Cambodia also became an important export destination for Thai goods, ranking from seventh to thirteenth place among all its trading partners. The import of Thai products grew by 3.7 percent per annum (compounded), and exports to Thailand declined by 20 percent (Table 1).

Table 1: Cambodian Trade with Thailand, 1999-2003

Year	US\$ million			Growth in %	
	Export	Import	Total	Export	Import
1999	15	193	208	n/a	n/a
2000	23	222	245	53.3	15.0
2001	8	228	236	-65.2	2.7
2002	8	238	246	0	4.4
2003	12	223	235	50.0	-6.3
Total	66	1104	1170	-20.0	15.5
Average	13.2	220.8	234.0	-5.4	3.7

Source: Ministry of Commerce, Foreign Trade Department, Cambodia

In terms of value, the major commodities imported from Thailand include mineral fuels, oils and related products; vehicles and spare parts; chemical substances; sugar and sugar confectionery; plastics and articles; processed foods; and construction materials. Cambodia exports clothes, plywood and fish products to Thailand.

3.4.2. CAMBODIAN-VIETNAMESE CBT

The literature on CBT between Vietnam and Cambodia is limited. However, according to Beresford and Phong (2000), border trade between Cambodia and Vietnam started in 1979 with the overthrow of the Pol Pot regime

and the subsequent presence of a hundred thousand Vietnamese troops inside Cambodia. Exports from Cambodia to Vietnam were much bigger than imports. The items exported to Vietnam included mainly second-hand motorcycles and automobiles, along with unprocessed agricultural products such as dried and salted fish, palm sugar, timber and aromatics. Cambodian pearls and gemstones were also exported (often for re-export to Singapore and Hong Kong) along with smuggled Thai goods—e.g. popular brands of cigarettes, beer, clothing and cheap cosmetics. Vietnamese traders mainly dominated this trade.

Imports from Vietnam to Cambodia were mainly through official channels as part of Vietnamese assistance. These included cement, iron and steel, machinery and equipment, fuel, fertiliser, seeds, schoolbooks, medicines and medical equipment. However, some goods were also imported through unofficial channels, including beer and soft drinks, footwear, simple electrical goods, aluminium goods, clothing and textiles, some basic agricultural implements, sweets and other processed foods.

Today the situation is greatly changed. The balance of trade is by far in favour of Vietnam. The major imported items are cereals, steel and iron, soap and organic active agents, plastics and plastic articles and mineral fuels, oils and derivatives. Cambodian exports include rubber and agricultural produce, fish products and live animals.

Vietnam-Cambodia trade is about half as important as Thailand-Cambodia trade, in terms of value. Over the past five years, total trade was on average \$128 million per annum (Table 2). Vietnam ranked as Cambodia's seventh to ninth largest export partner and as its fourth to sixth largest import partner. Cambodian exports to Vietnam grew by 32.5 percent per annum (compounded), whereas imports grew at a compounded rate of only 11.2 percent.

Table 2: Cambodian Trade with Vietnam, 1999-2003

Year	US\$ million			Growth in %	
	Export	Import	Total	Export	Import
1999	12.75	84.68	97.4	n/a	n/a
2000	19.45	91.54	111.0	52.5	8.1
2001	21.13	109.49	130.6	9.5	19.6
2002	32.39	98.35	130.7	53.3	-10.2
2003	39.28	129.35	168.6	21.3	31.5
Total	125.0	513.4	638.4	208.1	52.8
Average	25	102.7	127.7	32.5	11.2

Source: Ministry of Commerce, Foreign Trade Department, Cambodia

4. ORGANISATION AND CONDUCT OF CBT—CASE STUDIES

4.1. BAVET

Svay Rieng, in the south-east of the country, borders on Vietnam and has a population of around half a million. There are seven districts, of which five border Vietnam. The international border gate at Bavet is located in Chantrea district, which comprises 10 communes, 49 villages and around 9,000 households.

Bavet border gate is located some 48 km from the provincial capital of Svay Rieng and opens every day from 7:00 am to 6:00 pm to enable movement of people and goods. In addition to the international checkpoint, there are seven local crossings within Chantrea district for local villagers (and increasingly used for smuggling). Banned or restricted items that are transported from these local points include cigarettes, air-conditioners, electronics and third-country products (mostly Thai and Malaysian). It is reported, however, that exports of third-country products to Vietnam have declined over the years as the Vietnamese are able to produce better quality products themselves at competitive prices.

Much of the commerce through Bavet border gate seems to be from the Vietnamese side. Cambodian exports are few and far between, and generally carried out on a small scale. In fact, exports are not officially permitted through this border point, but this restriction is sometimes relaxed. It was reported by Camcontrol that two consignments of crocodiles were exported in 2003. Some agricultural exports (tobacco, rice etc.) have also been reported.

The main items traded through Bavet are plastics, steel, fabric, chemicals for water purification, animal feed, fresh vegetables, candles, footwear and books. In 2003 the total value of goods imported through Bavet was more than \$4 million (3.2 percent of total imports from Vietnam). Imports are usually categorised in terms of volume (big, small), with small imports being tax free, although some informal payments still need to be made.

Overall exports from Cambodia have recently decreased rapidly, especially since the apparent restriction on exports of third-country products (which attract very high duties). In the border agreement of 2000–02, such exports were allowed (although with a different duty structure). New restrictions have driven this trade underground, leading to the emergence of a complex distribution system, e.g. for cigarettes (assembled in Bavet and then distributed through numerous individual carriers).

The border agreement between the two countries (periodically reviewed) allows border residents (e.g. in the border districts of Svay Rieng) to move freely across the border using a special identification card. Border inhabitants are frequent visitors to Vietnam as tourists or for medical reasons, or for purchase of agricultural or consumption goods. Vietnamese people also cross over to Cambodia to engage in small trade and farm work.

4.2. POIPET

The international crossing point at Poipet is located in the province of Banteay Meanchey in north-west Cambodia on the Thai border. The population of the province is close to 600,000, spread over nine districts, four of which border Thailand. Poipet is situated in the district of Ou Chrov and has a population of more than 100,000.

The Poipet international border gate is located in Kbal Spean village, Poipet commune, Ou Chrov district, about 50 km from the provincial capital of Banteay Meanchey. The border point has been in operation since 1991 but became more formal only in 1993, with the opening of a customs office there. On 30 June 1994, the Poipet crossing was officially declared as Poipet International Border Checkpoint. Since 1998, cross border activities have expanded rapidly, in the wake of the cessation of hostilities with the remaining Khmer Rouge forces. The checkpoint is open everyday from 7 am to 8 pm for movement of people and goods. Local people are able to travel by purchasing a border pass for 10 baht, which allows them to travel to Rong Kluea market inside Thai territory. Most of the workers and businessmen working out of the market belong to this group.

Besides the international checkpoint, there are several other crossings in the same province. These are of two types: **(a)** official, bilaterally agreed border checkpoints and **(b)** unofficial village paths. There are two other official checkpoints, namely Malai and Boeng Trakuon border points in Malai district and Thma Puok district, open four days a week. There are numerous unofficial paths, e.g. at Nang Chan, Ou Bei Choan and Tumnub Dach. These crossings are much less active than the Poipet gate.

The Poipet gate is of national significance. In 2003 some 38 percent of all imports from Thailand entered Cambodia through Poipet, while it also accounted for 3.8 percent of official exports to Thailand. The most important commodities imported in 2003–04 included cement, construction materials and equipment, fresh and processed foods, cosmetics, consumer goods, cars and spares and fertilisers. The most rapid increase has been in construction materials and cement, while other imports have risen much more modestly. The most important commodities exported to Thailand include scrap metals, second-hand clothes, handicrafts and fresh and processed fish.

Imports from Thailand are reported to have increased two- or three-fold over the past three to four years. At the same time, however, a number of additional checkpoints have been opened (e.g. in Pailin and Kamrieng) so that the overall rate of increase is not fully reflected by imports through Poipet itself.

Due to the absence of loading/unloading facilities in no man's land (between the border checkpoints), Thai trucks enter Cambodia (up to 8 km) to discharge their goods. Reciprocal facilities are not given to Cambodian trucks, which according to Thai authorities do not maintain minimum regulatory standards (many ply without even a licence plate).

The Rong Kluea (RK) Market

Rong Kluea Market is situated near the Poipet gate in Thai territory. Almost 90 percent of the traders in this market are Cambodians who live in Poipet but make the daily trip there and back. This market was originally located in Cambodian territory but moved to the Thai side in 1998 due to security concerns and high border charges. Before 1998, Thai traders came to Akeak market on the Cambodian side, about 1 km from the gate. This market has virtually ceased to function. Rong Kluea itself is expanding rapidly with the addition of new stalls supplying a wide range of products.

5. CROSS BORDER TRADE— SELECTED CASE STUDIES

To better understand the structure, trade facilitation and constraints of CBT, four traded items were selected based on their importance in terms of volume and likely impacts on employment and economic activities. These items include exports of ready-made garments to Thailand, imports of shoes from Vietnam, imports of vegetables from Vietnam and imports of processed foods from Thailand.

These case studies are based on interviews with key informants, including traders, transport agents and clearing and forwarding agents in Poipet, along with key officials in Camcontrol, in the Customs and Excise Department, and in the office of the international border checkpoint. Interviews were conducted at both borders: Poipet International Border Gate and Bavet International Border Gate, at markets in Phnom Penh and at Rong Kluea market (Thailand).

5.1. EXPORTS OF READY-MADE GARMENTS TO THAILAND

5.1.1. DEVELOPMENT OF READY-MADE GARMENT EXPORTS

People living in the Poipet area in Cambodia were producing garments for the Thai market even during the time of the civil war, as far back as 20 years ago. In the beginning, hats dominated the business, which was lucrative, helped by good market conditions, low levels of competition and very few regulations or restrictions.

Gradually, the situation changed in four ways:

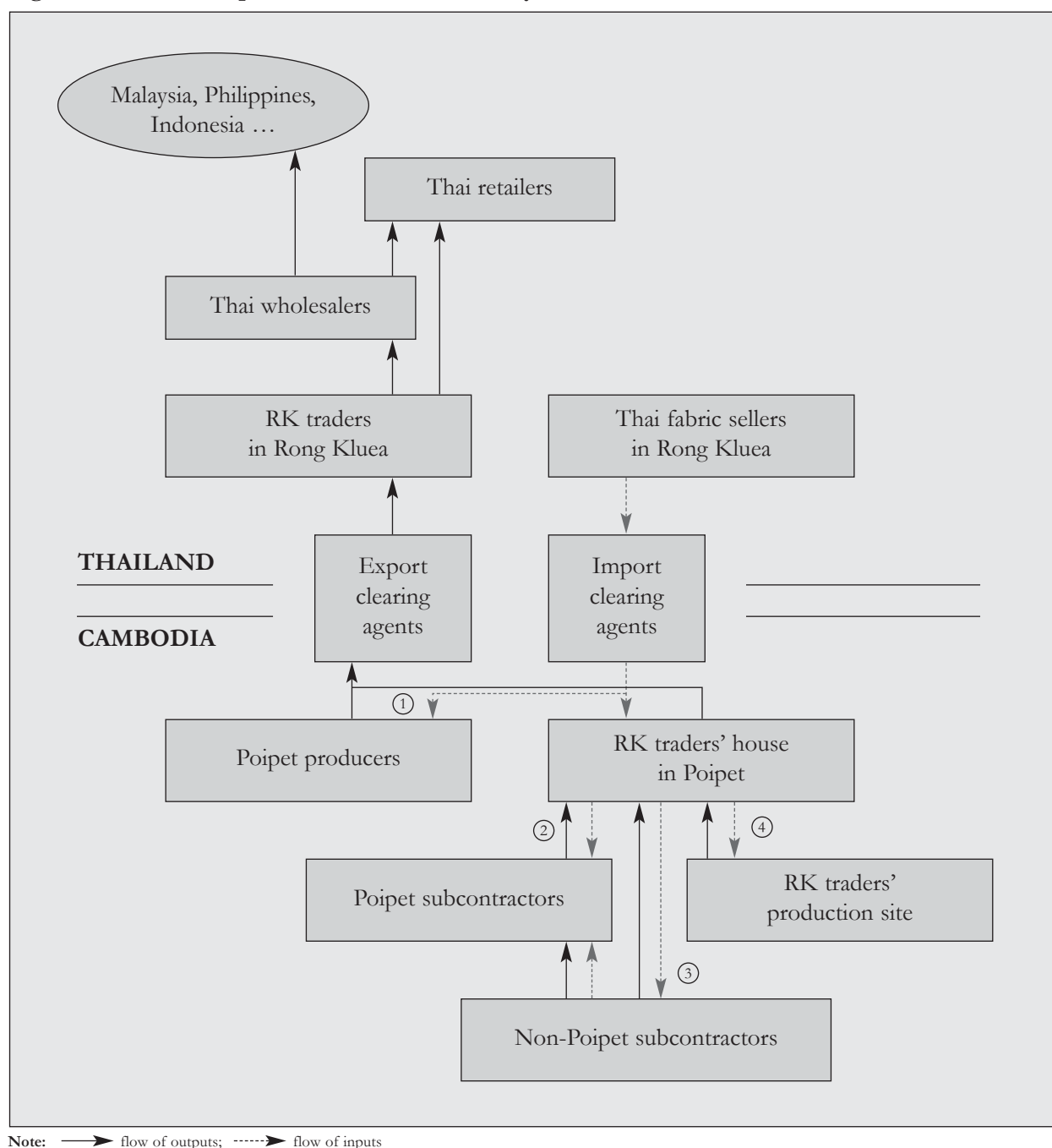
- i) Hats are no longer an important item of trade. Over the past two or three years, hat exports declined substantially—by more than 50 percent—because of the decline in Thai demand. Hat workers, manufacturers and traders therefore quickly moved to other products, mainly shorts and trousers, growing at around 10 percent per annum over the past five years.
- ii) The volume of ready-made garments exported to Thailand has grown: at present 50–100 tonnes¹ of “second-hand garments”—both second-hand and new garments categorised collectively as “second-hand garments”—are exported per day. The business is booming, with many new entrants joining every month. Inevitably, competition on the supply side is rising, reportedly serving to reduce profit margins. In addition, some administrative measures on exports/imports have been introduced. As a result, the transport and clearance of garment exports cost significantly more than before. The cost used to be 150 baht per 20 kg (before 2002), but in 2004 this rose to 270 baht per 20 kg—an increase of 80 percent.
- iii) Garment production/processing has spread to other districts of Banteay Meanchey, and even to other provinces like Battambang and Siem Reap. In some cases, the whole manufacturing process is subcontracted out to areas deep inside Cambodia.
- iv) The garment processing-trading business has become more structured and modernised. There are different layers of traders involved, who work with one another through a well-organised subcontracting system. In addition, almost all garment workers are now equipped with at least one semi-automatic sewing machine, simplifying some tasks like making buttonholes.

¹ This figure is a rough estimate based on an interview with a clearing house's owner in Poipet, and is different from the official figure of the Camcontrol office in Poipet: 890.610 tonnes in 2003.

5.1.2. TRADING AND PROCESSING CIRCUITS

The cross border garment business involves both manufacturing and trading of garments. The production process takes place in the border zones (although beginning to make deep inroads into other provinces) and the final output is sold in Rong Kluea market to Thai customers. All the fabric is imported from Thailand while other accessories (zips, buttons, labels etc) are brought from Phnom Penh and available in Akeak market in Poipet. These tend to be of Chinese, Taiwanese or Vietnamese origin. Figure 1 illustrates the flow of inputs and outputs among trading-processing units.

Figure 1: Flow of Outputs and Materials in Ready-Made Garment Business



There are eight groups of actors:

- i) *Thai wholesalers* and Thai retailers go to the RK market once or twice a week to buy shorts and trousers. Some large Thai wholesalers also order goods by phone and are given small amounts of credit by their regular suppliers. They then sell within Thailand, and it is also believed that some of the garments are re-exported, for example to Malaysia, Indonesia and the Philippines.
- ii) *Thai fabric sellers* are traders who procure the fabric from factories in Thailand to sell in the RK market. Normally, they do not provide credit to their customers, although small amounts of credit are sometimes extended to special customers (up to 20–30 percent of the value of the purchase), to be repaid at the time of the next purchase.
- iii) *RK traders* are the most important actors in this business. They sell the final products in the RK market. In addition, they generally purchase the fabric and/or additional accessories, and through the subcontracting system each trader provides work to several subcontractors, and through them to almost a hundred garment workers. Generally, they are Cambodians living in and operating from Poipet. Usually two members of each family are engaged in the family business, making daily trips to and from the RK market.
- iv) *Export clearing agents* are Cambodians who have been in this business for years and built up a relationship with RK traders and with the Cambodian and Thai border authorities. Currently, there are four such operators in the area providing a range of services, including transport, clearing and forwarding and delivery to the RK market.
- v) *Import clearing agents* provide similar services as the export clearing agents, helping to bring fabric from the RK market across the checkpoint to Poipet.
- vi) *Poipet producers* are independent Cambodian entrepreneurs, generally residing in the Poipet area, owning tailoring equipment to stitch garments with the help of 10–20 workers operating from home. They sell the finished products to the RK traders.
- vii) *Poipet subcontractors* are people living in Poipet, equipped with tailoring machines and 20–30 garment workers at home. They obtain cut fabric and additional accessories from the RK traders to produce garments. They complete the production process and are responsible for quality control and timely delivery to the RK traders.
- viii) *Non-Poipet subcontractors* are people living in Banteay Meanchey, Battambang or Siem Reap who provide similar services to the Poipet subcontractors. They obtain ready-cut fabric and additional accessories from an RK trader or Poipet subcontractor and complete the production process with the help of 5–10 garment workers at or near their house. They send back the garments to their clients in Poipet once every 3–10 days.

While trade is carried out primarily by RK traders, the production process has to go through four main channels (Figure 1). In channel 1, the Poipet producers purchase fabric from the RK market and complete the production process, selling their output later to RK traders. In channels 2, 3 and 4, it is the RK traders who purchase the fabric (several times a week), and have it delivered to their houses in Poipet. There, the fabric is cut into pieces ready to be stitched into shorts/trousers.

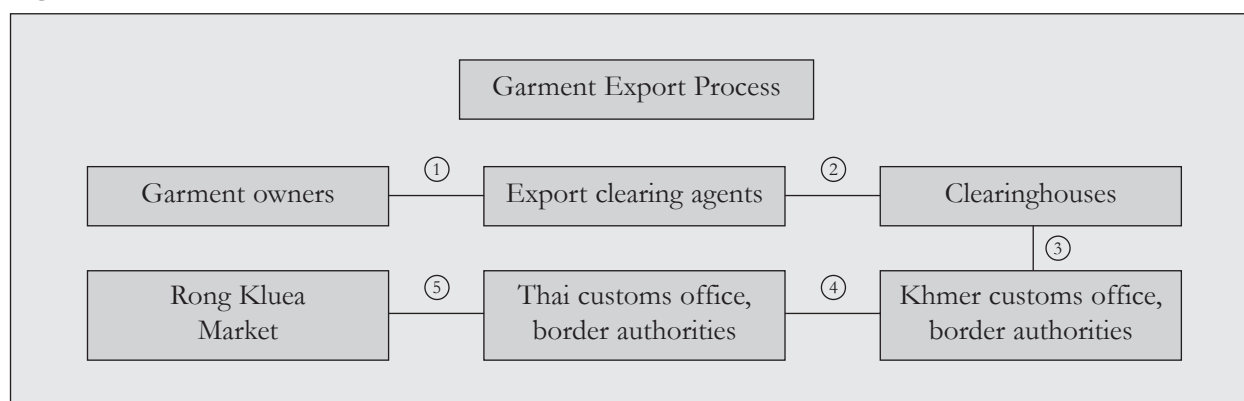
In channel 2, we find an additional layer of subcontracting traders (the Poipet subcontractors) taking charge of the production process. Sometimes, additional layers develop as the production process is moved out to more distant areas. In channel 3, we find some RK traders working directly with several non-Poipet subcontractors, by giving them ready-cut fabric and additional accessories, and demanding that the subcontractors bring the final products back to their house at some agreed date. In channel 4, some RK traders themselves engage in processing-stitching activities in Poipet.²

5.1.3. TRANSPORT AND CLEARANCE

The clearance of garment exports to Thailand entails four main steps (Figure 2). First, the garment owners (i.e. largely RK garment traders) contact an export clearing agent in Poipet to bring the garments from Poipet to the RK market. Second, the clearing agent contacts one of the three clearing houses³ in Poipet for processing the shipment. Third, the clearing house contacts the Cambodian customs office and other border authorities and issues a bill to the clearing agent. Fourth, the clearing agent presents the bill, along with the shipment, to the Cambodian border authorities.

At the Thai customs office, the goods are balanced and recorded in the bill. Due money is paid to the Thai customs office immediately after the balancing or later, depending on the agreement between the clearing agent and the Thai officials. Finally, the goods are delivered to the RK traders at their premises.

Figure 2: Cambodian Garment Export Process



Officially, 25 baht should be paid to the Thai customs office for the clearance of each kg of clothes. In practice, it is reported that 2 baht are paid to Cambodian customs and 10 baht to Thai customs in order to export 1 kg of garments. Further, while crossing the border, the clearing agent manages to earn a little extra by avoiding clearance payments on some clothes—approximately 3–5 percent of the total consignment.

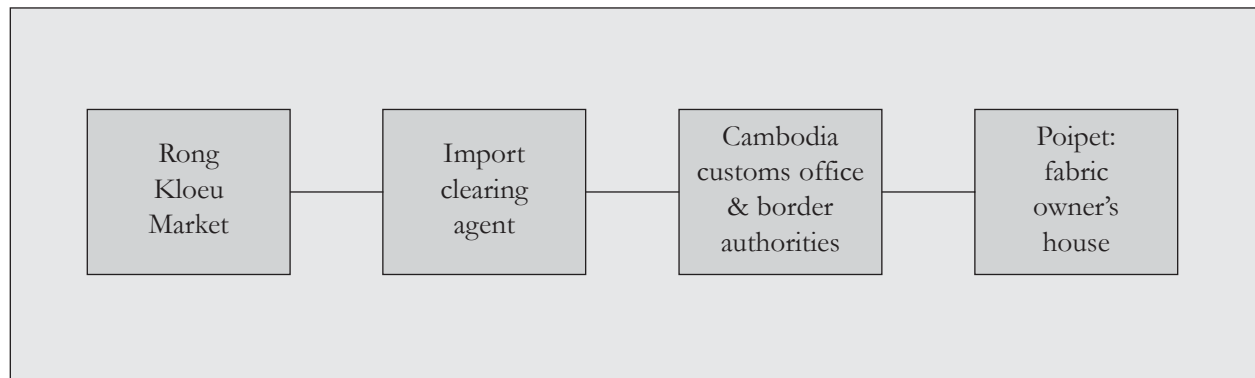
It is much simpler to bring Thai fabric needed to produce garments from the RK market to Poipet. First an import clearing agent contacts the owner of the fabric in the market. The clearing agent brings goods to the border and contacts the Cambodian customs office. It is reported that no payment is made to the Thai customs office or to Thai border authorities. However, 1–1.5 baht per *lar* (0.9 metre) is paid on the Cambodian side (Figure 3).

² It should be noted that the complex subcontracting arrangements that have evolved are suggestive of a “principal-agent” relationship in which the principal (e.g. RK trader) subcontracts work to an agent (e.g. Poipet subcontractor or producer). The question is how the principal ensures that the agent will behave (i.e. adhere to the contract).

³ Obviously this problem has been admirably solved here to allow such a rapid expansion of the garment subcontracting system in Cambodia.

The clearing houses are private companies authorised by the Ministry of Economics and Finance to process exports with the concerned border authorities.

Figure 3: Process of Material Imports from Thailand



5.1.4. CAPITAL AND FINANCE

Trade in the ready-made garment business requires a fairly big capital outlay but also provides good returns. The initial capital needed to start the business in 2000 ranged from 50,000 to 150,000 baht, depending on scale. Most of the capital came from own family sources, as grants or interest-free loans. After four years, and after repayment of family debts, current capital is estimated at 150,000 to 250,000 baht for a small player, and 250,000–500,000 baht for a bigger player, increasing on average, by more than 30 percent per annum.

The aid and support from the family is seen not only in financial terms but also in terms of know-how. For instance, two RK traders reported that they had helped their parents with the family business before getting married, and later started their own trade. The experience helped them to acquire skills and capital to start on their own.

Table 3 provides information about monthly incomes and expenses of the garment business. Major expenses include the cost of fabric (35–55 baht per metre), the cost of bringing the fabric from the RK market to Poipet (1 baht per metre), the cost of cutting (1 baht per pair), the cost of subcontracting with additional accessories (25–35 baht per pair), the cost of bringing shorts/trousers from Poipet to the RK market (16 baht per kg), and other expenses in the RK market. With the selling price of 75–85 baht per pair, the RK traders can make a profit of 10-20 baht per pair, on average.

Table 3: Monthly Incomes and Expenses of Ready-Made Garment CB Business

Incomes/ Expenses	Unit Price/Cost	A big RK trader		A small RK trader	
		Quantity	Amount (000 baht)	Quantity	Amount (000 baht)
Sales	75–85 baht/pair	3,600–10,800 pairs	288–864	1,800–5,400 pairs	144–432
Fabric	35–55 baht/m	1,800–5,400 m	81–243	900–2,700 m	40.50–121.50
Border-crossing cost of fabric	1 baht/m	1,800–5,400 m	2–6	900–2,700 m	1–3
Cutting cost	1 baht/pair	3,600–10,800 pairs	3.60–10.80	1,800–5,400 pairs	1.80–5.40
Production cost (labour, accessories, subcontract)	25–35 baht/pair	3,600–10,800 pairs	108–324	1,800–5,400 pairs	54–162
Border-crossing of outputs	14–16 baht/kg	1,440–4,320 kg	21.60–64.80	720–2,160 kg	10.80–32.40
Expenses in RK (rents, electricity, <i>phasy</i> ...)	-	1 stall	7.50	1 stall	5.50
Daily border-pass	10 baht/ person/day	2 persons, 30 days each	0.60	2 persons, 30 days each	0.60
Total expenses	-	-	224.3–656.70	-	114.2–330.40
Net income	-	-	63.7–207.30	-	29.8–101.60

Source: Interviews with five RK traders in Poipet

It seems that the value added from the business is shared equitably among all the actors throughout the subcontracting system. As indicated in Table 4, RK traders make on average a profit of 10–20 baht per pair, and the Poipet and non-Poipet subcontractors earn 4–5 baht per pair. The garment workers in Poipet get 10–16 baht per pair but also have to pay for the high cost of electricity (15–20 baht per kw). The garment workers outside Poipet obtain 6–10 baht per pair but spend less on electricity (5–8 baht per kw).

Table 4: Gross and Net Income Per Unit of Some Actors (in baht)

Actors	Per Unit Gross Income	Per Unit Net Income
1. RK trader	75–95	10–20
2. Poipet subcontractor	20–30	4–5
4. Non-Poipet subcontractor	10–16	4–6
5. Garment worker in Poipet	10–16	-
6. Garment worker outside Poipet	6–10	-

Source: Interviews with five RK traders in Poipet

5.1.5. CREDIT AND PAYMENT SYSTEM

RK traders have now changed their sales strategy. In the past two or three years, they gave out large amounts of (sales) credit to their Thai customers. Because of the rapidly rising credit default risk, credit sales are now restricted to only the most trusted customers.

On the supply side, the RK traders are able to obtain credit from all their partners engaged in production and transportation: Thai fabric suppliers, export clearing agents, subcontractors and/or garment workers.

5.1.6. RISKS AND CONSTRAINTS

External factors such as changes in Thai demand and imposition of rules and regulations on the production and export of garments present threats to the business. First, the business depends heavily on Thai demand, in terms of quantity demanded, quality of inputs and style. Second, the production of garments (inside Cambodia) is seen as a small-scale, family-based activity, and is considered informal in character. There are no registration or regulatory requirements to be met, and no fees or levies have to be paid, whether official or unofficial. These exports are officially recorded as “second-hand garments” at the customs office, providing duty advantages. Any attempt to regulate this business might result in chaos and could put the livelihoods of some 300 RK traders and about 5,000 to 6,000 subcontractors and garment workers⁴ at risk.

On the supply side, it seems that risks are low and the production process is carried out smoothly. The supply of shorts and trousers is ensured because RK traders have several alternative sources of supply.

Increasing competition amongst the garment firms poses a rising challenge for RK traders. There has been a significant increase in the number of traders entering this business over the last several years. As a result, sales have been declining, and profits have been reduced. Further, credit default risk has increased because debtors have more choices and can easily switch among different traders.

5.2. SHOE IMPORTS FROM VIETNAM

5.2.1. DEVELOPMENT OF CBT IN SHOE IMPORTS FROM VIETNAM

In the early 1980s, some importers from Bavet brought in shoes from Vietnam on a small scale for sale at local markets (mainly Chiphou market, about 25 km from the border) in Svay Rieng province. Gradually, more traders entered the business as the domestic market responded well, slowly expanding all the way to Phnom Penh by the mid-1990s.

The importers supplying direct to Phnom Penh use transport agents who provide both transport and (border) clearance services for goods imported from Ho Chi Minh City. The transport agents initially used the HCM-Bavet-PP trade route, but switched to the HCM-Trapeang Phlong-PP trade route after the construction of a bridge in Kompong Cham Province.⁵ It is estimated that today only 20 percent of shoe imports from Ho Chi Minh are brought in through the Bavet gate, destined mainly for provincial markets rather than for Phnom Penh.

⁴ This figure is a rough estimate based on the quantity of garments exported to Thailand through the Poipet checkpoint.

⁵ Following the construction of the Kizuna Bridge, the trade route through Trapeang Phlong checkpoint in Kompong Cham is more direct, while the alternative through the Bavet gate involves a ferry at Neak Loang, in Prey Veng.

Vietnamese shoes are popular among Cambodian low-income people because of their low price and stylish appearance. They are also well known, however, for poor quality. The peak demand is from September to April, while the lean season is from May to August. The peak demand period covers the two harvesting periods⁶ and several special occasions such as the Phchum Ben ceremony, the Water Festival, international New Year, Chinese New Year and Khmer New Year.

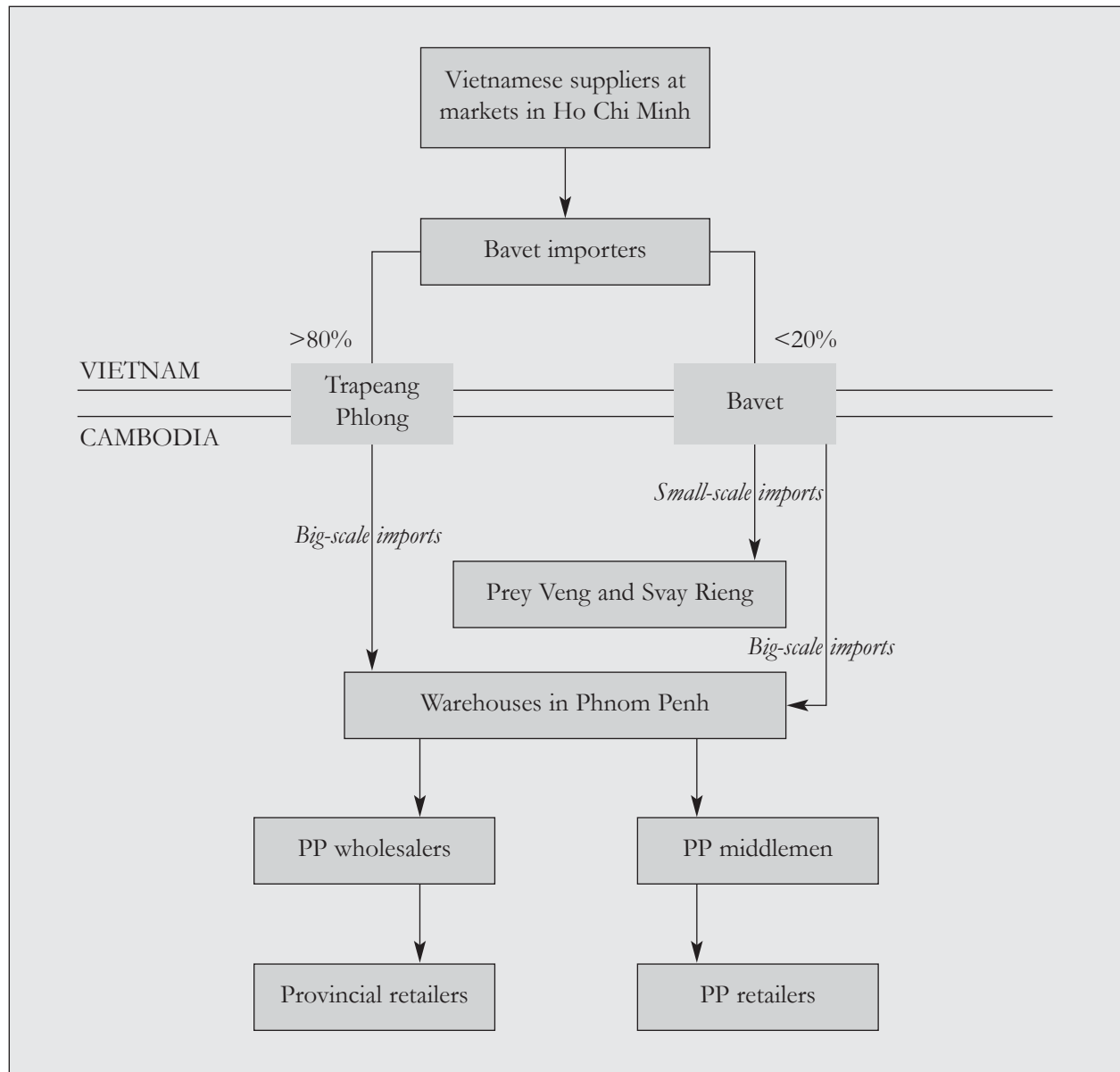
5.2.2. ACTORS AND TRADE CIRCUITS

There are six main groups of actors:

- i) *Wholesalers at Ho Chi Minh City* deal in various shoes of different types and styles.
- ii) *Bavet importers* are Cambodians residing in Svay Rieng, particularly in Bavet commune in Chantrea district, mostly women. After obtaining orders from their customers, they usually go to HCM once or twice a week to select fashions, release orders and pay back debts. In addition to direct purchase, telephonic orders are common, especially during the peak season. It is reported that there are some 10 importers supplying local markets in Svay Rieng and Prey Veng provinces, and around 20 supplying directly to Phnom Penh. The order-delivery cycle is fast, typically one day for an order to be placed and one or two days for transportation and delivery in Phnom Penh.
- iii) *Transport agents* provide a number of services in addition to transport—clearance, storage, guarantees and money transfers—specifically for big clients in PP dealing in plastics and steel, for example. Most agents are Vietnamese, except for the biggest, who is Cambodian. Each transport agent has several 20-tonne trucks, one or two warehouses in Phnom Penh and a number of workers. These agents work closely with Vietnamese transport agents on the other side, who provide the same services from HCM to the border.
- iv) *Shoe wholesalers* in Phnom Penh are Cambodians who sell shoes in the Olympic Market. Each of them usually places orders with a Bavet importer, who will normally take three or four days to deliver. At the Olympic Market, the PP wholesalers transact with many provincial retailers.
- v) *Phnom Penh shoe middlemen* obtain shoes from Bavet importers, deliver to some retailers in Phnom Penh and collect money on time on behalf of the importers. Currently, there are around 20 operating from the Olympic Market.
- vi) *Provincial shoe retailers* travel to the Olympic Market to purchase shoes once or twice a month. Retailers who have built up a strong relationship can order over the phone, while transport is carried out by an assigned taxi driver.

⁶ Farmers are among the main buyers of Vietnamese shoes. After harvesting, farmers usually want to buy new shoes, especially to prepare themselves for the celebration of special occasions like Khmer New Year.

Figure 4: Trade Circuits for Shoe Imports



There are essentially two types of flows (Figure 4): a) small-scale, informal operations not involving official clearance at the border to supply local markets in Svay Rieng and Prey Veng. In this case carriers are hired to take the shoes (a dozen pairs per person) across the border; and b) Larger, more formal operations using trucks and involving official clearance to supply Phnom Penh.

5.2.3. TRANSPORT AND CLEARANCE

Transport and clearance of small-scale imports go through several steps. The shoes are transported in taxis from HCM to Krayov market, about eight kilometres from the border in Vietnam. The Bavet importers bring the shoes by rented motorbike or bicycle from the Krayov market, stopping near or in front of Bavet border gate on the Vietnamese side. Next, several Cambodian carriers are hired to bring the shoes on their bicycles across Bavet border gate to the Cambodian side, to avoid payment to the Cambodian border authorities. The shoes

are then transported on local “trucks” a distance of 5–10 kilometres from the gate to the importers’ houses. The importers are then able to send the shoes to Neak Loeang market in Prey Veng province. Table 5 shows that the total cost of transport and clearance of 500 pairs of shoes is about 483,600 riels (976.2 riels per pair), of which only 163,000 riels (about 34 percent) is spent in Vietnam.

Table 5: Transport and Clearance Costs of 500 Pairs of Shoes Imported through Bavet Border Gate (in riels)

	Expenses in Cambodia	Expenses in Vietnam
Transport	105,000	138,000
Custom officials (at the border)	39,000	-
Border police (at the border)	30,000	-
Camcontrol officials (at the border)	15, 600	-
Payment to authorities along the way, in Svay Rieng and Neak Loeang	110,000	-
Vietnamese authorities	-	25,000
Others	21,000	-
Total	320,600	163,000

Note: - means zero value.

In the case of larger imports, transport and clearance responsibilities are subcontracted to a transport agent. Supplies from HCM are loaded into Cambodian trucks in no man’s land or near the international Bavet border market, about 2 km from the border on the Cambodian side. Some of these are then transported to PP warehouses and from there to the Olympic Market. Transport agents who use the alternative checkpoint in Kompong Cham charge 5,000 riels per sack of about 60 pairs of shoes, while supplies through Bavet border gate cost 15,000 riels for the same quantity of shoes.

5.2.4. COSTS AND BENEFITS

In the case of small-scale imports, the expenses incurred per trip include the cost of purchase and the cost of transport and clearance, amounting to 2.8–8 million riels for 500–1,000 pairs of shoes. The net income per trip ranges from 100,000 to 150,000 riels. Large-scale importers spend between 5.2 and 9.5 million riels for the purchase of 1,100–2,000 pairs. Other costs include expenses in Phnom Penh (39,000 riels), the cost for monthly stall rent in the Olympic Market (100,000 riels) and transport and clearance costs. In total, they earn 160,000–200,000 riels on each trip.

Table 6 shows that the net earnings of the main actors are not very different from one another. In fact, the retailers seem to earn more per unit than other groups.

Table 6: Net Earnings per Pair by Actors

Actors	Amount in riels
1. Bavet importer	100–200
2. PP wholesaler	100–200
3. PP middlemen	100–200
4. Provincial/PP retailers	300–1,000

5.2.5. CREDIT AND PAYMENT

Generally, the larger importers have been in the business longer than the small-scale ones and are able to command superior terms in the market. Thus, big importers adjust their debts with the suppliers once or twice per month (every four to eight purchasing occasions), whereas the small-scale importers have to adjust once per week (every two purchases). In addition, the big importers can get credit for costs of transport and clearance, whereas the small-scale ones cannot.

Importers generally do not sell on credit to their PP wholesalers. In other words, the PP wholesalers have to pay immediately in cash (always in riels) after each purchase. It is customary, however, for retailers to receive credit from their suppliers. It is for this reason that the importers do not want to work directly with the retailers, but only through the PP wholesalers and the PP middlemen, who are better able to handle the associated credit risks (i.e. “the agency problem”).

In most cases importers pay their suppliers directly in HCM in Vietnamese dong. Sometimes, money is sent through transport agents, but this is not the usual practice.

5.2.6. RISKS AND CONSTRAINTS

Both large and small importers complained about the tougher business environment faced: higher costs of clearance, higher credit risks and increasing demand for credit sales, in the face of dwindling profit margins.

Bavet importers face some risks and constraints on both the supply and the demand sides. On the supply side, these include: **i)** delayed orders—especially during the peak season, when the suppliers in HCM are under pressure; and **ii)** cash-flow problems—some Vietnamese suppliers require that their customers clear all old debts before offering further credit in the new year. Importers need to have enough money available for repayment at the end of each year, which is often difficult.

On the demand side, there is the problem of not being able to sell all the shoes—around 2 percent of shoes sold to the PP wholesalers are returned, sometimes two weeks after taking delivery. These cannot be sent back to HCM because they are already out of fashion, and have to be disposed of at a hefty discount. Further, the PP wholesalers sometimes refuse to accept their orders owing to sudden price changes.

5.3. VEGETABLE IMPORTS FROM VIETNAM

5.3.1. BACKGROUND OF THE CBT IN VEGETABLE IMPORTS FROM VIETNAM

Vegetable imports from Vietnam cover almost 70 percent of the vegetable demand in Cambodia, with Cambodian production meeting the remaining 30 percent. The last few years have seen a growing share of Vietnam in this trade, completely displacing Thailand.

The volume of daily imports ranges from 40 to 160 tonnes depending on the season⁷ (Figure 5). The main products imported are onions, red garlic, carrots, potatoes, tomatoes, cabbage, Chinese cabbage, peas and *shou* (a kind of fruit used as a vegetable).

⁷ Estimated on the basis of interviews with traders and officials.

Figure 5: Seasonality of Vegetable Demand-Supply in Cambodia

Month											
Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Season for local vegetables				Not season for local vegetables							
<ul style="list-style-type: none"> - Low demand for VN vegetables - Import: 4–5 trucks (10–20 tonnes per truck) to PP wholesale markets 				<ul style="list-style-type: none"> - High demand for VN vegetables - Import: about 8 trucks to PP wholesale markets 							

Source: Interviews with five wholesalers at Daeum Kor and Chbar Ampov markets, Phnom Penh

Fresh vegetables from Vietnam are imported through three main crossings: Bavet border gate in Svay Rieng (20 percent), Trapeang Phlong (TP) checkpoint in Kompong Cham (60 percent), and some border gates in Takeo, Kandal and Kampot (20 percent).

Two big vegetable wholesale markets are located in Phnom Penh: Daeum Kor and Chbar Ampov markets. These markets supply Phnom Penh as well as most of the provincial markets in the country. Of the two, Daeum Kor plays the most important role in vegetable distribution and accounts for about 70 percent of the total Vietnamese vegetable supply.

5.3.2. TRADE CIRCUITS FOR VEGETABLE IMPORTS FROM VIETNAM

Six groups of actors can be identified in this trade: Vietnamese suppliers in Vietnam, Vietnamese importers, Vietnamese ethnic traders, Cambodian sellers at Phnom Penh wholesale markets, provincial or PP wholesalers and provincial or PP retailers.

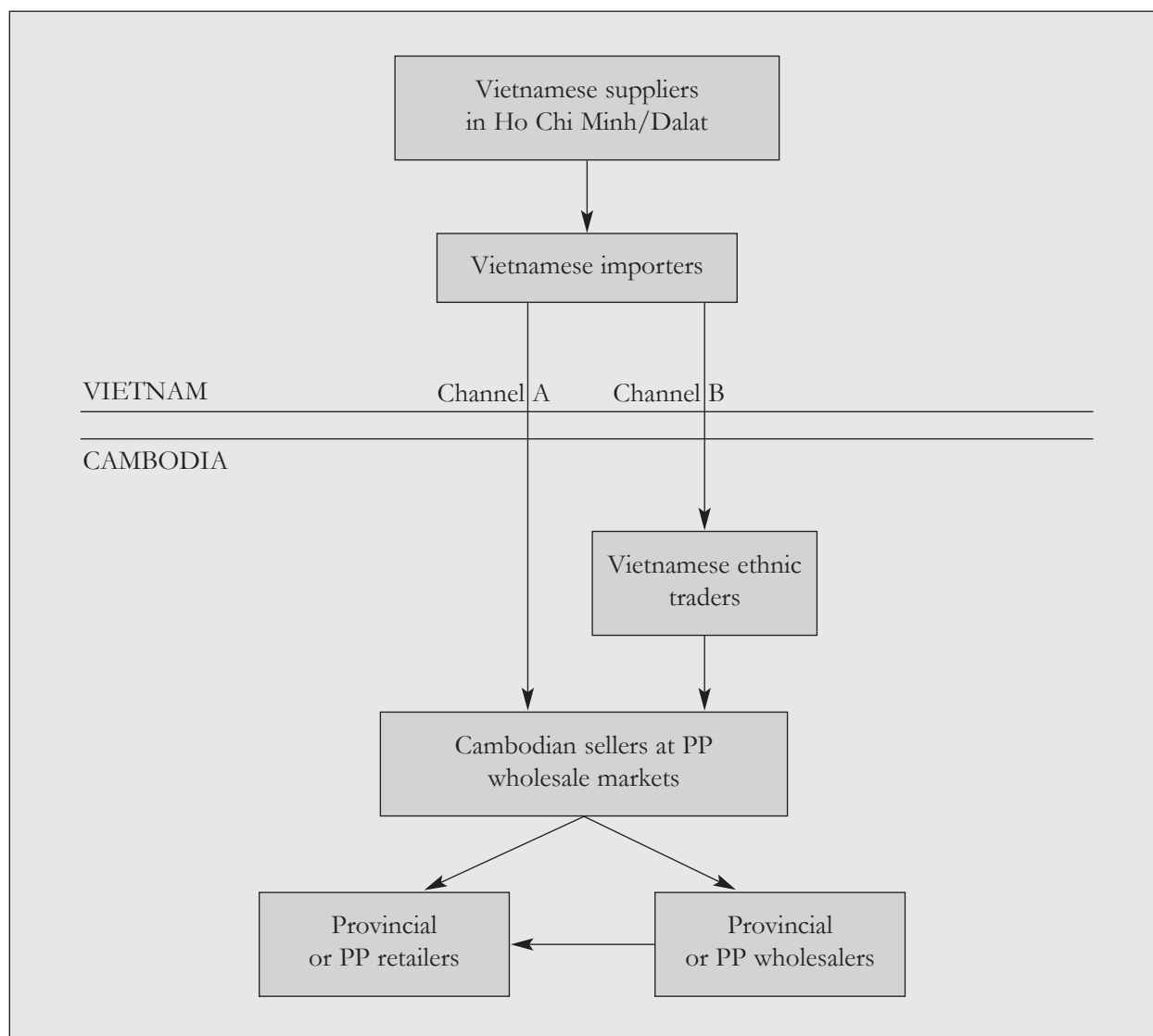
The major source of vegetables imported to Phnom Penh is Ho Chi Minh City and Dalat province in Vietnam. There are two main two distribution channels, marked as A and B in Figure 6. In channel A, the Vietnamese importers purchase vegetables from Vietnamese suppliers at the source markets and supply direct to the Cambodian sellers at PP wholesale markets. They have their own agents, who generally tend to be their relatives living in Cambodia, to help them with delivery and money collection. Out of the total of nine importers, five are working through this channel. The remaining importers are working through channel B. After the purchase of vegetables from Vietnamese suppliers, the Vietnamese importers sell to one of four ethnic Vietnamese traders, who are their relatives or friends and have lived in Cambodia for many years. These traders then supply the PP wholesale markets.

In general, Cambodian sellers at PP wholesale markets tend to have several suppliers among the Vietnamese importers or the ethnic Vietnamese ethnic traders. Currently, there are some 30 sellers in Daeum Kor market, and about 20 in Chbar Ampov market. The sellers specify the quantity and type of vegetables they want from each supplier. However, in practice they have to confirm the order at least two days before the agreed delivery date, either by phone or directly to the suppliers' agents who deliver vegetables every day at these markets.

At PP wholesale markets, three groups of customers may be identified: big customers, provincial or PP wholesalers and provincial or PP retailers. The big customers are mainly those who purchase vegetables on a regular basis for restaurants. The provincial or PP wholesalers procure from PP wholesale markets for sale to provincial or PP retailers. On average, they earn about 50 riels per kg of vegetables. This group may cease to operate, because

provincial or PP retailers increasingly prefer to purchase directly from the Cambodian wholesalers at PP wholesale markets.

Figure 6: Trade Circuits for Vegetable Imports from Vietnam



5.3.3. FINANCE AND CAPITAL

Vegetable wholesale activity in Phnom Penh does not require large investments because credit plays an important role at each end of the transaction (from suppliers and to consumers). Average capital needed in the business ranges from only 3 to 4 million riels, generally financed from own savings or loans from relatives.

Expenses include the purchase cost of 2–5 tonnes of vegetables every 1–2 days at PP wholesale markets, the monthly rent for stalls (0.64–0.72 million riels), the cost of labour (800 riels per basket of 100–150 kg), and the *pheasy* or market fee (200 riels per basket of 100–150 kg). The profit in total is about 0.8–1.2 million riels per month (Box 1).

Box 1: Case of a Cambodian Seller in Daeum Kor Vegetable Wholesale Market

The trader has two Vietnamese suppliers and purchases on average two tonnes per day of onions, garlic, carrots, potatoes, tomatoes, cabbage and peas. His customers are from Sihanoukville, Battambang, Kratie, Kompong Chhnang and Phnom Penh. In total, he has some 10 tied customers. His current capital is estimated to be 3 million riels, whereas it was only 1 million riels when he set up business four years ago. Previously, he worked for another wholesaler, from whom he learned about the business and gained valuable access to the wholesaler's customers. In running his business, he gets help from four relatives who live with him. In exchange for this labour, he pays for their schooling and living expenses.

From his two suppliers, he gets credit of up to 70–80 percent of the total value of purchases, to be repaid at the time of the next purchase. He usually pays debts on time. In addition, he also makes a part-credit deal with his big regular customers. The sales to this group of customers represent about 70–80 percent of his total sales. Of these, some 20 percent repay debts late.

Most of his big customers place orders by phone, and delivery is made by a mutually trusted taxi driver.

Expenses in his business include the cost of vegetable purchase (2–3 million riels for two tonnes), monthly stall rent (640,000 riels), daily labour (16,000 riels) and the daily *pheasy* of 200 riels. On average, he sells 1 kg of vegetables at a 50 riels margin. At two tonnes per day—this happens during the lean season—he earns just enough to feed his family. During the peak season, he purchases about seven tonnes per day, and earns on average 800,000–1,200,000 riels per month.

The system of supplier-customer credit is widely used among all actors. Payment is carried out in the following three ways:

- (a) Some big sellers at PP wholesale markets make part-credit deals with Vietnamese importers and repay debts once a week or at every two to three shipments, in the following steps: **i)** a Vietnamese importer's agent gives the seller a receipt, called a *bon*; **ii)** the agent contacts an exchange house in Phnom Penh; and **iii)** the exchange agent collects money from the wholesaler and adds a mark-up of \$4–5 for every \$1,000 transferred to his agent, who in turn delivers the money, in dong, to the importer in Vietnam.
- (b) The majority of the sellers at PP wholesale markets repay their debts in cash, directly to their suppliers, i.e. Vietnamese importers.
- (c) There are two ways that the provincial or PP wholesalers and retailers pay back suppliers: **i)** payment in cash directly at PP wholesale markets; **ii)** cash transfers through an agreed taxi driver, who carries vegetables from Phnom Penh to the provincial markets. It is reported that there is no risk involved in this kind of transfer because the two parties have been able to find and agree on a reliable taxi driver.

5.3.4. TRANSPORTATION AND CLEARANCE

Transportation of vegetables needs to be done quickly and carefully because these are perishable items that cannot be stored for long. For this reason they are transported separately from other goods that are imported from Vietnam.

Table 7: Transportation and Clearance Costs through Bavet and Trapeang Phlong Border Checkpoints

Activities	Bavet	Trapeang Phlong
Capacity	10–20 tonnes	10–20 tonnes
Time spent	Starts at 8 am and arrives at Daeum Kor market at 4:30 pm.	Starts at 7 am and arrives at Chroy Chongva bus station at 6 pm. Allowed to enter the city at 10 pm.
Transportation fee	100,000-150,000 riels	150,000-200,000 riels
Mobile checkpoints along the way	Four checkpoints (one at Svay Rieng, two at Neak Loeng, in Prey Veng and one at Boeung Snor in Kean Svay district, in Kandal). At each point, except the border point, 20,000 riels are paid to economic police and 30,000 riels to customs officials.	Three checkpoints (one at Prek Leap, two in Kompong Cham). At each point about 40,000-50,000 riels are paid to economic police and customs officials.
Customs clearance at the border	Unknown	Unknown
Other expenses	Chbar Ampov bus station: 2,000-3,000 riels	Chroy Chongva bus station: 400,000 riels

Source: Interview with an independent truck owner at Daeum Kor Market on 09 March 2004

The trade route used in the transport of vegetables changed from the Bavet gate to the Trapeang Phlong gate after the construction of a new bridge in Kompong Cham in 2002. This new trade route is reported to have both advantages and disadvantages. On the positive side, the new route is part of the direct road network from Ho Chi Minh City to Phnom Penh, and involves lower clearance costs and fewer ad hoc payments along the way. The total cost of transport and clearance through Bavet is about three times higher than that through the TP checkpoint (Table 7). On the negative side, big vehicles are prohibited from entering the city in the daytime, which causes delays and can sometimes result in spoilage of vegetables. Traders, however, usually manage to bypass this provision by paying off relevant authorities (in this case, staff of the Chroy Chongva bus station).

5.3.5. RISKS AND CONSTRAINTS

Interviews with some sellers in the PP wholesale markets suggest that their sales volumes have remained stagnant in the face of increased competition, with many local traders importing vegetables directly.

Default on payment is a risk, more so for the sellers at PP wholesale markets than for suppliers because the latter know their customers better than the former. According to a respondent, “Out of ten customers who buy on credit, there are two defaults.”

Cambodian sellers at PP wholesale markets tend to have a standing arrangement with their suppliers, agreed orally but requiring confirmation at least two days in advance of the delivery date. The ordering and delivery system generally functions very well, except when the harvest is affected by adverse weather conditions and poor quality of crops. Thus, the sellers potentially face additional risks relating to quality and price.

Box 2: Case of an Ethnic Vietnamese Trader Engaged in Vegetable Imports from Vietnam

Min, a Cambodian of Vietnamese origin, has been in the vegetable import business for several months. Previously, he was an independent distributor on behalf of another Vietnamese importer.

Currently he owns a house in Bavet Kandal commune, in Chantrea district of Svay Rieng province, and rents a house in Phnom Penh. He owns a 16-tonne truck. He imports vegetables once every two days and delivers them to five wholesalers at Daeum Kor market. Besides taking supplies from Min, the five wholesalers also procure vegetables from other importers.

Min gets his supply from his brother-in-law, who in turn gets the vegetables from Dalat province, about 300 km from Ho Chi Minh City. Vegetables in Ho Chi Minh City cost about the same as in Dalat province, but are less fresh. Given the low transportation costs in Vietnam, such distance is not very significant. The brother-in-law hires a transport agent (who is also his younger brother-in-law) to bring the vegetables to Min in no man's land on the Cambodia-Vietnam border near the Bavet border gate.

Min's truck goes to no man's land to collect the vegetables. He lets Vanna, a clearance agent in Bavet, clear all the official and unofficial payments at the border. Each trip's load of 16 tonnes is worth around 10 million riels, and the total cost of the clearance at the Bavet border gate is about 390,000 riels. Only 50 percent of this amount is for taxes, the rest being informal fees, the so-called money for rice to the officials, including customs officials, Camcontrol officials, officials of the Frontier Defence Department, the economic police and officials of the Office of the International Border Checkpoint of Bavet. Min rarely goes to Bavet for his business and usually stays in Phnom Penh, instead sending his nephew if necessary.

In addition, Min pays about 500,000 riels to get his vegetables to Daeum Kor market from the border. This amount is paid to customs officials and economic police along the way (some checkpoints in Svay Rieng town, and some at Neak Loeang in Prey Veng province). At each checkpoint, about 40,000–100,000 riels is paid. When he was an independent distributor, he made 350,000 riels in each trip. This amount is net of the ferry fee of 70,000 riels but excludes remuneration of one driver and one driver's assistant/conductor.

In one month Min brings in 10–15 shipments. Only three shipments are through the TP border checkpoint, while the rest are through the Bavet border gate. The total cost of transportation and customs clearance of vegetables imported through the TP border checkpoint is 100,000 riels—less than that through Bavet.

For both trade routes Min pays a “rice” fee of 10,000 riels per trip to Daeum Kor market officials. On average, he can make a profit of about 100,000–200,000 riels on each trip.

Min gets credit from his older brother-in-law, who also gets a certain amount of credit from his suppliers in Dalat, and he usually pays debts off every three to five trips through his nephew. The nephew converts the riels into Vietnamese dong in Bavet to pay the suppliers. From Min's point of view, there is no risk in such money transfers because he pays small amounts each time (around 10 million riels).

On the demand side, Min gives a certain amount of credit to his customers, i.e. the wholesalers at Daeum Kor market. The credit that Min gives to each customer can be as much as 4–9 million riels.

He complains that the business environment is getting tougher as the number of suppliers in Daeum Kor market has increased.

Min is able to closely monitor both the demand and supply sides of the market for vegetables, both in Cambodia and Vietnam, through his close network of traders and relatives.

5.4. PROCESSED FOOD IMPORTS FROM THAILAND

5.4.1. BACKGROUND OF PROCESSED FOOD IMPORTS FROM THAILAND

An enormous amount of processed foods consumed in Cambodia are imported from Thailand. These imports can be categorised into three groups: **i)** third-country products, mostly Malaysian and Singaporean foods (a small share); **ii)** items provided exclusively to certain companies for local distribution such as milk (powder and liquid), MSG, sugar, beer, branded instant noodles; and **iii)** smuggled processed foods such as canned/bottled soft drinks, fruits, vegetables and processed meats, cooking oil, snacks, candy, biscuits, instant noodles and spices.

The Poipet gate is officially one of the main gateways through which processed foods are imported from Thailand. Foodstuffs were estimated at 27 percent of total imports through the gate, and about 23 percent⁸ of the total foodstuffs imported into Cambodia in 2003. In practice traders continually switch between gates (both official and unofficial ones) in Banteay Meanchey and Battambang to avoid making higher payments (both official and unofficial) to a number of related border and/or mobile authorities along the transport route.

Imports of third-country products and of products exclusively assigned to certain companies are carried out through official lines, although it is believed that this involves unofficial payments and/or tax avoidance. It is hard to quantify the level of such payments. The import of smuggled items varies in form and complexity. This involves a number of actors, ranging from a group of cart carriers to more sophisticated transport agents who have built up relations with border authorities or high-ranking officials in Phnom Penh.

5.4.2. TRADE CIRCUITS OF PROCESSED FOOD IMPORTS FROM THAILAND

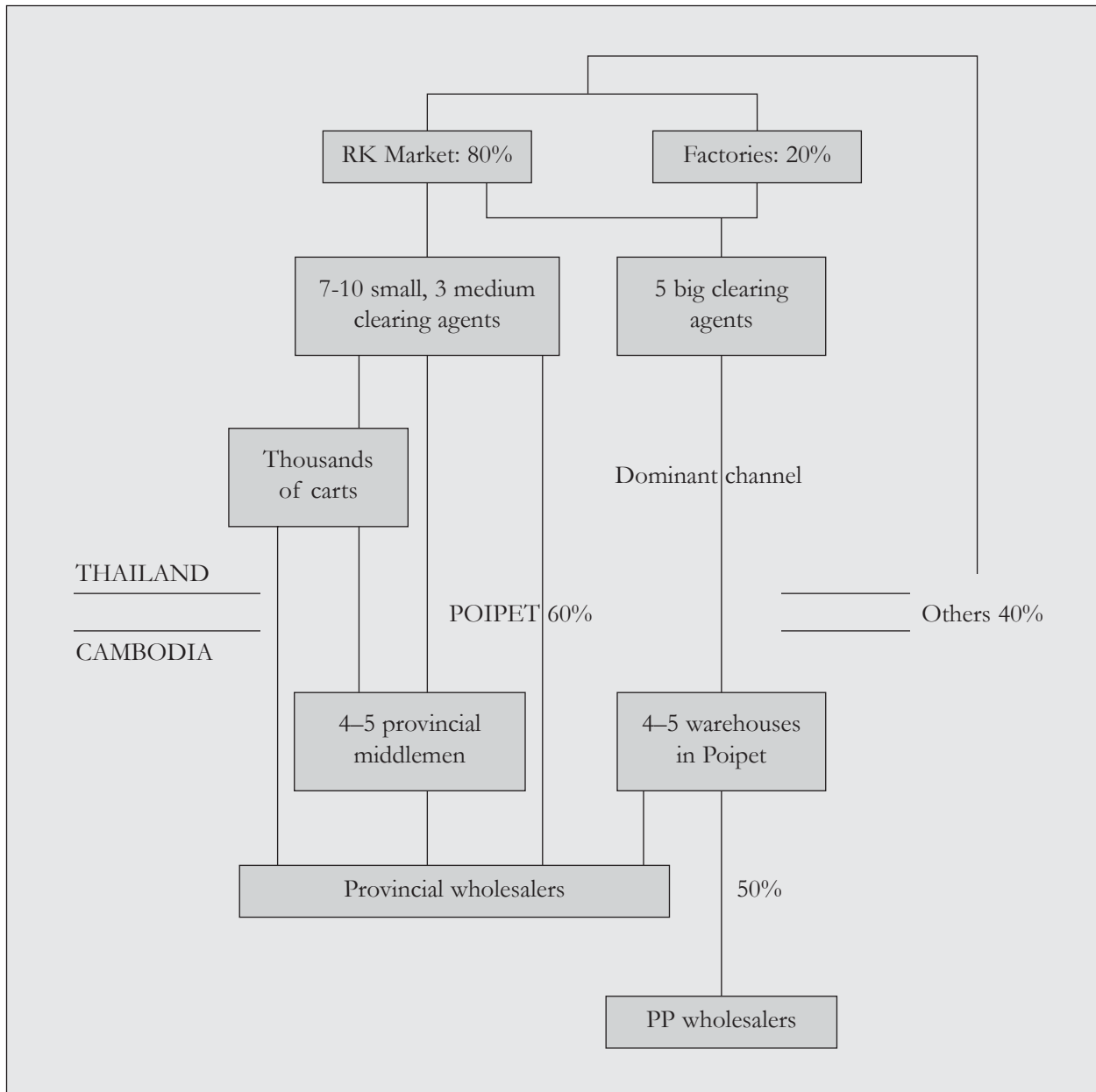
The RK market supplies a wide range of processed foods, including products made from rice, bottled soft drinks, snacks and biscuits. Some big traders obtain their supplies directly from Thai factories.

Varying with the scale and the level of complexity, this trade is based on a special network built up among the suppliers (Thai sellers at RK market or Thai factories), the transport and clearing agents (Cambodians responsible for transport, clearance and money transfer services) and the customers (Cambodian retailers and wholesalers in Banteay Meanchey, Battambang, Pursat, Siem Reap and Phnom Penh).

We can classify these imports broadly into two main channels: **(a)** large-scale operations using 30-tonne trucks or big six-tonne carts, involving official clearance; and **(b)** small-scale operations facilitated by small clearing agents and cart carriers.

⁸ This figure is generated from the data of the Customs and Excise Department and Camcontrol office of Poipet.

Figure 7: Trade Circuits of Processed Food Imports from Thailand



Channel 1: Imports Facilitated by Big Clearing Agents

In general, each big clearing agent makes a deal with several big processed food wholesalers residing in Phnom Penh, Battambang, Pursat or Banteay Meanchey provinces. The wholesalers order goods either through the agent or directly from their suppliers, and take delivery at home. They usually pay an agreed lump sum to cover the costs of transport and clearance (both official and unofficial fees at the border and along the way).

Personal relations are very important in trading through Poipet. Currently, four of the big clearing agents permanently use the Poipet gate because they have a special relationship with important border authorities in charge of the checkpoint and are able to obtain favourable terms. These relationships are less important at other border checkpoints, where the less influential agents go because of the Poipet “oligopoly.”

Neither the big clearing agents using the Poipet gate nor the agents using other checkpoints own the goods, nor do they require much capital. Over the years, Phnom Penh and provincial wholesalers have built up strong rapport with the big clearing agents and the Thai wholesalers in the RK market. This has generated confidence and trust, which in turn has enabled a well-ordered, safe and rapid trading system to emerge—despite some oligopolistic elements as noted.

Channel 2: Small-Scale Imports

The small-scale operation has two sub-channels: small clearing agents and cart carriers.

Small Clearing Agents

Some cart carriers can develop into small clearing agents. There are 10 operating at the moment in Poipet, specialising in specific items of trade. They clear and transport goods on behalf of middlemen who in turn collect orders from several small provincial wholesalers in the provinces. Depending on the degree of trust, some agents also play a role in money transfers. Some small clearing agents take full responsibility for bringing the goods across the border, but others subcontract the work to several other cart carriers.

Cart Carriers

Processed foods flowing through this channel end up in Poipet in the first instance. A number of retailers and wholesalers pay money in advance daily to several cart carriers to purchase certain items from the RK market.

There are thousands of Cambodians involved in the carrying business, travelling back and forth every day through the Poipet checkpoint. Most of them own a small cart, hiring themselves out at 20–25 baht per day. They buy a border pass at 10 baht per ticket, which allows them to cross the border up to three times a day. On each trip they carry goods for two or three clients, earning 30 baht each time.

5.4.3. OBSERVATIONS

The information for this case study was much harder to collect than for the other three cases (and less complete). This is due to: **(a)** a higher level of trade activities in general in Poipet so that competition is fierce and traders tend to be suspicious of “too many questions”—Poipet is viewed as a good place for people to earn a living and become prosperous easily, but also as a risky place where people are highly suspicious of each other; **(b)** the main actors in the processed food trade are big (in terms of capital) so the degree of involvement in unofficial or illegal activities for each actor is also relatively big. For instance, the clearing business involves a close, special relationship between the agents and border authorities, and traders are reluctant to discuss this; and **(c)** the dominant trading channel is used for some high-tax items, which the agents prefer not to discuss.

5.5. SUMMING UP

Our case studies illustrate how CBT is carried out and describe the formal and informal mechanisms and rules that enable transactions. These also provide an insight into the complexity (or otherwise) of alternative trading arrangements and their implications for the local and the broader economy. These help us to speculate about the evolving nature of CBT and the development of regional market integration.

Thai Trade

In terms of sheer volume and number of participants, CBT with Thailand is by far the most important. Unrecorded flows are large, as is easily brought out by comparing Cambodian and Thai trade data.⁹

Our case study of garment processing and trade reveals a complex but well-organised system of subcontracting that utilises mainly Thai inputs to manufacture garments for re-export to Thailand.

Judging by its growth, this is a dynamic sector, employing thousands of people, not only along the border but well inland. The most interesting aspect of the trade is the complete informality with which it is practised, but it is nevertheless complex enough to ensure that all basic trade objectives are met: fast delivery, good quality, competitive prices and low risks. The sector has been left largely unregulated, and this may hold the key to its success.

The case study of imports of processed food from Thailand reveals another aspect of CBT. Two clear channels are reported. The dominant channel is tied to Phnom Penh but appears to be controlled by a handful of large traders/clearing agents. No importer of any significance can hope to avoid dealing with one of these agents, whose role incorporates all the different stages of imports up to delivery in Phnom Penh. The key to this dominance is the personal relationship forged with border authorities, enabling the agents to make a considerable saving, but also preventing others from entering the clearance business. This could be considered the more formal channel.

Curiously, the other local channel (basically targeting local, border markets) is allowed to function informally. While this channel is small in terms of volume and value, large numbers of very poor people are engaged in this activity. The system, it would seem, allows the poor a share of the pie—even if it is very small.

In the absence of formal regulations or institutions, what makes the system tick? A crucial factor seems to be the dominant role played by Khmer traders or agents operating from both sides of the border. Even though the trade is between Cambodia and Thailand, most of the actors on either side are Khmer. The key actors here are the RK traders inside Thai territory, who are able to unite Thai suppliers and consumers with Cambodian traders. Clearly, a regulatory regime that allows Cambodians to trade inside Thailand is a crucial ingredient to this success story.

Vietnamese Trade

CBT at Bavet is in decline in the face of stiff competition from other land ports. Our two case studies reveal a completely informal system, increasing competition and growing risks—particularly with regard to credit. Unlike with Thai trade, Cambodian traders do not dominate the Vietnamese trade. In fact, as one of the case studies shows quite graphically, the entire trading circuit is closely controlled by traders who are frequently related to each other by blood or marriage. Thus, much of the CBT with Vietnam is controlled by Vietnamese or ethnic Vietnamese living in Cambodia.

From both Thai and Vietnamese CBT, there are suggestions that:

- (a) Official and unofficial costs of border clearance are rising, especially for small traders.
- (b) There is greater risk of credit default as competition rises and traders have a greater choice of business partners. The basic guarantee of credit in trade is the need for repeat transactions. A debtor is more likely to renege on his debt if he does not have to go back for a repeat transaction with his creditor, i.e. when he is able to find an alternative supplier.
- (c) Personal links and “trust” have substituted for missing institutions, including financial, enforcement and risk-bearing institutions. These have inherent limitations, the most important of which is the inability to expand rapidly. It takes time to build trust.

⁹ The total trade during 1999–2003 was \$2,434.5 million according to the Thai Ministry of Commerce, 2004, whereas it was only \$1,104 million based on the Cambodian Ministry of Commerce, 2004.

6. WELFARE IMPACT OF CBT

Village and household surveys were conducted in Chantrea district, adjoining the Bavet border gate with Vietnam. In Ou Chrov district along the Thai border near Poipet, only village-level surveys were fielded—household surveys were originally planned but later abandoned due to resource constraints. The annex provides a list of villages in Ou Chrov and Chantrea districts selected for the study. This section is based on the survey findings and is designed to evaluate the socio-economic and welfare impacts of CBT on local communities.

Impact assessment is based on direct evidence of involvement in employment or activities that are linked to CBT, their contribution to total incomes/earnings and subjective perceptions of the people themselves of the extent of their involvement in and dependence on CBT.

6.1. RESOURCE ENDOWMENTS

6.1.1. HUMAN RESOURCES

Chantrea is considerably smaller in population than Ou Chrov, the population of the latter being almost four times that of the former. This also means there are bigger villages in Ou Chrov (more than 800 households/village on average) than in Chantrea (around 250 households/village). Average household sizes are similar in the two areas and consistent with overall rural figures (Table 8).

Table 8: Demography, Illiteracy and Schooling

	Ou Chrov District	Chantrea District	Rural (1998)
Total population	84,952	24,956	n/a
Total household number	16,305	4,977	n/a
Average household number/village	815	249	n/a
Average household size	5.20	5	5.10
Female-headed households (%)	8.40	17.60	25.70
Divorced/separated households (%)	0.18	0.70	n/a
Female population (%)	50.30	52.60	51.90
Sex ratio	98.60	90.30	92.50
Dependency ratio	0.58	0.30	0.45
Disabled females (%)	0.40	0.60	n/a
Disabled males (%)	1.40	1	n/a
Girls attending school (age 7–18) (%)	78.70	75.60	49
Boys attending school (age 7–18) (%)	83.90	74	59
Girls illiteracy rate (age 7–18)	13.70	5.10	n/a
Boys illiteracy rate (age 7–18)	12.80	3.70	n/a
Female adult illiteracy rate (over 18)	13.70	23.20	45.70
Male adult illiteracy rate (over 18)	12.20	16.20	22.40

Note: n/a means not applicable

With respect to most of the demographic, illiteracy and school-related indicators presented in Table 2.8, the two districts are quite different from one another as well as from the overall rural situation. Thus school attendance rates for both areas are considerably higher than for overall rural Cambodia, and illiteracy rates for both males and females are much lower. The sex and dependency ratios are considerably higher in Ou Chrov than in both rural Cambodia and Chantrea district. In general, Ou Chrov appears to be better off in terms of human resources, judging from the demographic and illiteracy figures.

There has been a considerable flow of people into Ou Chrov over the last five years, mainly from the refugee camps along the Thai border that provided shelter to many Cambodians during the period of insurgency. These camps closed down after the cessation of hostilities, prompting refugees to relocate. It is not surprising that many settled in and around the border zones.

According to our estimates, over 21 percent of households in Ou Chrov belong to the category of recent settlers (moved in during the past five years). Interestingly, around 7 percent of households moved out of Ou Chrov over the same period, in search of less densely populated areas or work opportunities. By contrast, population movements in and out of Chantrea have been insignificant (Table 9).

Table 9: Population Movement

	% of hh moved in	% of hh moved out	% of hh moved in-out
Chantrea	0.50	0.84	0.36
Ou Chrov	21.54	14.24	1.88

6.1.2. LAND AVAILABILITY

Ou Chrov district is relatively land scarce due to a heavy population density; per capita and per household agricultural land owned are 0.01 ha and 0.58 ha, respectively. Chantrea seems better off in this respect, with per household and per capita agricultural land owned of 1.84 ha and 0.37 ha respectively. Residential land ownership differentials between the two areas are also striking, at 0.53 ha and 0.08 ha for Chantrea and Ou Chrov respectively.

The incidence of landlessness in Ou Chrov is also high. Almost 21 percent of households have no residential land and over 50 percent own no cultivable land, whereas in Chantrea the figures are 3 percent and 18 percent (Table 10).

Table 10: Land Ownership

	Avg. resid. land per hh, ha	Avg. agr. land per hh, ha	Total resid. land, ha	Total agr. land, ha	% of hh having no resid.	% of hh having no agr. land	% irrigated agr. Land
Chantrea	0.53	1.84	2655.07	9175.90	3.00	18.38	0.06
Ou Chrov	0.08	0.58	1119.92	8407.00	20.94	51.08	0.11

Apart from the population pressure faced by Ou Chrov because of the need to resettle large numbers of displaced persons, another factor that may have contributed to relative land scarcity for agriculture is an active land market. There is anecdotal evidence that areas around Poipet have been subject to intense speculative activity and a surging demand for land for non-agricultural use. The data, however, failed to pick this up, as we find that the

land market activity in our two areas is not very different. Thus, in Ou Chrov 4.8 percent of households accounted for the sale of 9 percent of the land over five years, while in Chantrea, 5.9 percent of households sold 3 percent of the land over the same period. On average, each selling household sold 1.13 ha in Chantrea and 1.09 ha in Ou Chrov. The reasons behind the land transactions appear quite similar in both districts: paying for medical treatment, debt, food etc. In the case of Ou Chrov, however, moving has been identified as an important additional factor explaining land sales, confirming the more volatile nature of population dynamics there (Tables 11, 12).

Table 11: Land Sales in Chantrea

Village Name	% of hh sold land in the past 5 years	% of land sold	Reasons for land sale
Banla S'et	8.2	1.6	food & hh consumption, paying debt (CHC, ACLEDA)
Baray	4.7	3.9	food & hh consumption
Bavet Kandal	3.5	2.0	high price
Bavet Leu	10.1	4.4	sickness, paying debt
Chantrea	4.4	3.7	moving, sickness
Chek	-	-	n/a
Chrey Thom	2.5	1.7	food & hh consumption, paying debt (ACLEDA)
Daun Tey	3.1	0.7	paying debt, sickness
Koh Kou	5.8	1.8	sickness, food & hh consumption
Kork Lvieng	3.4	4.6	paying debt, doing business
Prasat	19.5	7.7	high price, food
Prey Angkunh	7.6	3.7	lack of foods, paying debt (CHC)
Svay Kuy	2.5	1.3	food & hh consumption, sickness
Ta Boeb	-	-	n/a
Ta Pov	2.4	2.1	high price
Thnal Kaeng	29.4	14.3	paying debt (CHC, PRASAC, ACLEDA)
Thnanh	15.6	9.0	food & hh consumption, paying debt (CHC)
Tong Mau	5.9	2.9	sickness, food & hh consumption, paying debt
Trapeang Bon	2.4	1.7	sickness, paying debt
Trapeang Thlok	6.7	3.6	sickness
Average	5.9	2.8	

Note: " n/a " means no data. " - " means zero.

Table 12: Land Sales in Ou Chrov

Village Name	% of hh sold land in the past 5 years	% of land sold	Reasons for land sale
Baliley	n/a	n/a	n/a
Dong Aranh	-	-	n/a
Kbal Spean	n/a	n/a	n/a
Kilou Lekh Buon	1.7	10.2	moving
Kompong Reab	1.8	1.5	sickness, paying debt
Kuttaksat	23.4	10.4	sickness, high price
Naka Chhay	16.2	10.3	food & hh consumption
Nimit Muoy	3.2	0.8	sickness, selling to relatives who have just moved
Nimit Thmei	10.5	3.7	moving
Or Neang	27.5	10.3	moving
Ou Russey	5.4	1.8	moving, sickness
Phkoam	5.3	1.9	foods and hh consumption, sickness
Prey Chan	4.7	n/a	sickness, paying debt
Prey Kob	35.1	n/a	n/a
Souphi Tboung	2.6	0.2	paying debt
Souriya Thmei	11.7	21.1	moving
Ta Chrueng	2.2	1.3	sickness
Tuol Pongro	n/a	n/a	n/a
Tuol Prasat	8.7	8.2	moving
Yeang Thmei	n/a	n/a	n/a
Average	4.8	9.0	

Note: “ n/a ” means no data. “ - ” means zero.

The more agrarian character of Chantrea is borne out by the fact that 18 villages have reported wet rice cultivation while six have reported dry season rice, out of 20. On the other hand, only wet rice cultivation has been reported from Ou Chrov, from 14 villages out of the total 20 (Table 13).

Table 13: Main Crops

	Chantrea		Ou Chrov	
Main crops	No. of villages	Yield (tonne/ha)	No. of villages	Yield (tonne/ha)
Wet rice	18	1.23	14	1.43
Dry rice	6	2.03	-	-

6.1.3. ANIMAL RESOURCES

Animals play an important role in the rural economy as a source of income and investment as well as a form of savings. Animals are also used for draught power and transport. Thus, next to land, animal wealth is often the most useful indicator of rural wealth, especially in an agrarian context.

Ownership of large animals (cattle/buffaloes) was found to be negligible in Ou Chrov, less than 2 percent of households reporting positively. This compares with around 53 percent of households in Chantrea reporting large animal ownership. Pig raising and rearing of poultry are popular activities in rural Cambodia, and this is also true for our two areas. However, Chantrea villagers are much more involved in these activities than is the case in Ou Chrov. Thus around 84 percent and 50 percent of Chantrea households reported ownership of poultry and pigs compared to 43 percent and 23 percent in Ou Chrov (Table 14).

Table 14: Main Animals

	Chantrea		Ou Chrov	
Main Animals	No. of villages	% of hh	No. of villages	% of hh
Cattle/Buffaloes	20	52.60	12	1.74
Chickens/Ducks	20	84.09	20	43.34
Pigs	20	49.71	19	23.31

The picture that emerges so far from the pattern of land and animal ownership is that Chantrea is much more agrarian in character than Ou Chrov, inhabitants in the latter being much less dependent on agricultural and animal rearing activities. This would suggest that non-farm activity and employment are likely to be much more important in Ou Chrov than in Chantrea.

6.2. ACCESS TO INFRASTRUCTURE AND SERVICES

6.2.1. CREDIT AND LOANS

Two villages in Chantrea and four in Ou Chrov (out of 20) reported the existence of a bank or other entity within the village operating a credit programme. In another six villages (three in each area) a bank or NGO is available within 5 km. The average distance from a village to a bank/NGO is 21.4 km for Chantrea and 15.5 km for Ou Chrov.

It is quite remarkable that the primary sources of credit reported in both areas are formal or semi-formal (NGOs) in nature, contrary to the prevalent notion that informal credit markets and “friends and relations” are the most important port of first call. Recent evidence generated by CDRI from a sample of households from six provinces lends credence to these findings, indicating that formal sources of credit meet 60 percent of demand and semi-formal sources (NGOs) another 23 percent.

Table 15: Access to Credit (in number of villages)

	Bank	NGO	Friends/ Relatives	Money Lenders	Self-help group
Chantrea	11	4	2	2	1
Ou Chrov	11	4	-	5	-

While the broad picture for the two areas is similar, it is nevertheless interesting to note the higher dependence in Ou Chrov on moneylenders.

In terms of credit utilisation patterns, it is hard to read much into the highly aggregated, village-level data based on key informants. Nevertheless, it seems that the most common uses are for farming or animal raising, business and trade and, in the case of Chantrea, food consumption (this was not reported from Ou Chrov).

6.2.2. ACCESS TO SCHOOLS AND MARKETS

In terms of access to educational infrastructure, Ou Chrov appears to be much better placed. Most Ou Chrov villages (17 out of 20) have a primary school within walking distance, with a fifth of the villages reporting a junior high school. Only one village has a high school close by. In Chantrea, on the other hand, 12 villages (out of 20) reported a primary school close by, while one reported a junior high school in the village. No high schools were found.

Table 16: Access to Schools

School	Chantrea		Ou Chrov	
	No. of villages	Avg. distance km	No. of villages	Avg. distance km
Primary	12	1.70	17	1.20
Junior high	1	5.50	4	5.50
High	-	14.00	1	24.20

Market infrastructure endowments in Ou Chrov too are found to be superior to those in Chantrea. More than 50 percent of the villages in Ou Chrov report having a food shop or restaurant while only two (out of 20) villages in Chantrea reported the same. Similarly, eight villages in Ou Chrov reported the presence of a permanent market, and seven villages declared the existence of a nearby shop selling manure and agro-chemicals. The numbers for Chantrea are far fewer, two and one respectively (Table 17 below).

Table 17: Access to Markets (in number of villages)

	Food shop/ Restaurant	Avg. distance, km	Permanent market	Avg. distance, km	Shop selling agri. inputs	Avg. distance, km
Chantrea	2	7.10	2	7.80	1	7.40
Ou Chrov	11	7.80	8	7.30	7	13

6.2.3. OTHER SOCIAL SERVICES

Access to basic services like water and electricity is uneven between the two areas. Different hinterland characteristics have also led to the fielding of quite different sets of development programmes by NGOs and other agencies.

Villagers in Chantrea depend largely (14 villages) on pump wells for water supply, with four villages reporting surface water as the main source. In Ou Chrov, surface water and pump wells are about evenly distributed. The greater dependence on surface water here has obvious implications for health and sanitation standards in the area. Few villages reported having a clinic in the immediate area (Table 18), the average distance from a clinic being 4–5 km for both areas.

Table 18: Access to Clinics or Health Centres (in number of villages)

	Chantrea		Ou Chrov	
	No. of villages	Avg. distance km	No. of villages	Avg. distance km
Clinics/health centres	3	4.74	4	4.19

Electricity access is much better in Ou Chrov, with 11 villages covered compared to four in Chantrea. Almost all the villages in both areas report ongoing development activity by NGOs and others. Five villages in Chantrea reported three development programmes each, while nine villages reported two programmes. The most popular development interventions are agriculture and animal husbandry, infrastructure, credit and education, in that order. In Ou Chrov, the focus on agriculture is missing, most interventions focusing on infrastructure, credit and education. Some villages have also reported programmes for refugee welfare, indicating that the problem of resettlement and rehabilitation after the cessation of the insurgency in the late 1990s remains relevant. Most villages (70 percent) in Ou Chrov have at least three development programmes ongoing.

A history of war, displacement and destruction has had much greater impact in areas like Ou Chrov along the Thai border, which remained under Khmer Rouge control until quite recently. This in turn appears to have led to a proliferation of development interventions by government and non-government agencies, particularly in infrastructure development.

6.3. WELFARE PERCEPTIONS AND LABOUR MARKET IMPACTS

Perceptions of key village informants on changes over time with respect to a number of indicators of welfare are shown below. These suggest that, in both areas, the overwhelming majority of respondents felt that there has been an overall improvement in their living standards compared to five years ago. Thus villagers in 16 villages in Chantrea reported an improvement in incomes, food security, transportation and social security; 17 villages thought that personal security had improved, while 19 considered public health to be better today. In terms of the changes experienced by the poorest, only nine villages reported an improvement and five reported that the situation had worsened.

In Ou Chrov, there was almost universal agreement that things were much better today compared to five years ago, in terms of the indicators discussed above. The condition of the poorest was stated to have improved in 10 villages, with eight reporting “no change” and two reporting being worse off.

Table 19: Perceptions of Welfare (in number of villages)

	Better		No Change		Worse	
	Chantrea	Ou Chrov	Chantrea	Ou Chrov	Chantrea	Ou Chrov
Income	16	19	1	-	3	1
Public Health	19	19	1	-	-	1
Food	16	19	1	1	3	-
Transportation	16	20	3	-	1	-
Social Problem	16	19	4	-	-	1
Security	17	18	3	-	-	2
Overall	17	19	-	-	3	1
Poorest	9	10	6	8	5	2

Note: “-” means zero value.

6.3.1. LABOUR MARKET ACTIVITIES

The major labour market activities in each village (up to seven) were ranked and grouped for the two districts. The approach used was to look for labour/income activities that are linked to the cross border economy directly (e.g. through trading activities or migration) or indirectly, by working in sectors that are obviously dependent on the cross border economy (gambling, transport, hotels etc.).

For Ou Chrov, seven villages were identified where cross-border-related labour-market activity could be described as very high (marked by three asterisks—see Table 20 below). The following villages were grouped into this category: Baliley, Kbal Spean, Ou Russey, Tuol Prasat, Prey Kob, Kilou Lekh Buon and Or Neang. Major occupations reported from these villages are trading, farm and non-farm labour in Thailand, work in the transport/carrying sector in and around the border gate, employment in casinos and garments subcontracts from Thai traders. Most of the major activities reported from these seven villages have strong links with the cross border economy.

Another four villages were categorised as having important cross border links through the labour market even though in most cases the single most important activity was farming (two stars). The rest of the nine villages were given single stars to denote low but significant impact. The information and the attendant scheme are described below.

Table 20: CB Impact as Income Sources in Ou Chrov

Serial No.	Village	Category	Major Activities Reported
1	Baliley	***	Trading, labour sale in Thailand, transport, casino work, garments subcontract
2	Kbal Spean	***	Carrying/transport, trading, garments, casino work
3	Ou Russey	***	Farm labour work in Thailand, transport, garments
4	Tuol Prasat	***	Farm labour work in Thailand, labour in Poipet, transport, garments
5	Prey Kob	***	Farm labour, long-term employment, moto-taxi in Poipet
6	Kilou Lekh Buon	***	Port work, non-farm work in port area, motorcycle-taxi and casino
7	Or Neang	***	Labour sale in Thailand, carriers, motorcycle-taxi, casino work
8	Nimit Thmei	**	Farming, labour in Thailand, collecting from common property, garments, casino
9	Souphi Tboung	**	Farming, labour sale in Thailand, trading
10	Tuol Pongro	**	Farm labour sale in Thailand, land clearing, motorcycle-taxi, petty trade
11	Yeang Thmei	**	Farming, labour sale in Thailand, petty trade, motorcycle-taxi, petty cross border trade
12	Dong Aranh	*	Farming, labour sale in Thailand, local farm labour, petty trade
13	Naka Chhay	*	Farming, labour sale in Thailand, petty trade, motorcycle-taxi and garments
14	Prey Chan	*	Common property, farm labour in Thailand, charcoal production, motorcycle-taxi

Serial No.	Village	Category	Major Activities Reported
15	Kg. Reab	*	Farming, common property, farm labour in Thailand, local farm labour, garments
16	Kuttaksat	*	Farming, sawmill work, farm labour in Thailand, petty trade
17	Nimit Muoy	*	Farming, charcoal, garments, labour in Thailand, casino
18	Phkoam	*	Farming, sawmill work, farm labour in Thailand, charcoal, garments
19	Souriya Thmei	*	Farming, collecting from commons, labour in Thailand, charcoal
20	Ta Chrueng	*	Farming, wine production, collecting from common property, labour in Thailand

Categories: *** Major impact; ** Important impact * Low but significant impact

Table 21: CB Impact as Income Sources in Chantrea

Serial No.	Village	Category	Main CB Activities
1	Bavet Kandal	++	Carrier (export/import), port labour
2	Bavet Leu	++	Bulk trading, port labour
3	Ta Pov	++	Carrier (export/import), bulk trading, casino labour
4	Chek	+	Petty border trade (rice), port labour
5	Ta Boeb	+	Bulk trade, carrying/transport
6	Daun Tey	+	Carrying/transport, farm/non-farm labour in Vietnam
7	Prasat	+	Farm labour in Vietnam, carrying, casino
8	Prey Angkunh	+	Petty trade (rice exports)
9	Thnal Kaeng	+	Farm labour in Vietnam
10	Trapeang Bon	+	Petty border trade (rice and other goods)
11	Trapeang Thlok	-	None
12	Tong Mau	-	Some farm labour in Vietnam
13	Thnanh	-	Some casino work
14	Svay Kuy	-	Some petty border trade
15	Koh Kou	-	Some petty border trade
16	Chrey Thom	-	Some port labour and petty border trade
17	Chantrea	-	Farm labour in Vietnam
18	Baray	-	Petty border trade
19	Banla Sét	-	Petty border trade
20	Kork Lvieng	-	Some bulk trade

Note: Farming is the most important activity/occupation in all the villages. The categorisation has been made on the basis of major activities ranked 2nd, 3rd, 4th and 5th in the villages.

Categories: ++ : Very significant impact—second major activity relates to CBE along with at least one additional activity from the group of cross border activities.
+ : Significant impact—third major activity relates to CBE plus one other from the group. The remaining villages display weak or negligible impact.

Overall, the CBE labour market impact is much higher in Ou Chrov than in Chantrea. This has led us to adopt different signs to denote this in the latter (table above). In all villages in Chantrea, the most important economic and labour market activity was farming, with CBE activities coming second, third or later. Thus a ++ refers to “significant impact” (CBE in second position, at least), while a + refers to some impact (CBE coming in third place or later). The sign - refers to little or no impact. Three villages in Chantrea were awarded a double ++, seven villages are categorised as + while the remainder are in the third (or no impact) category.

That Ou Chrov, being close to Poipet, experiences substantial CBE impact is to be expected. The tables above serve to underline the extent of this dependence, with all villages exhibiting impact and some exhibiting very substantial impact. Even in Chantrea, where our preliminary discussions with key informants led us to expect rather little direct impact, quite significant effects are in fact observed in at least half of the villages.

6.3.2. OTHER DIRECT IMPACTS OF CBE

A number of additional issues were probed, related to the extent that people in the two areas depend on cross border trade or movement to purchase essential agricultural inputs, food or consumer products, for medical attention or as tourists. Currency use patterns were also examined.

It became clear that Chantrea villagers moved to Vietnam frequently and regularly for **(a)** purchase of agricultural inputs or agro-chemicals (42 percent) and **(b)** for purchase of food or consumer products (56 percent). Recreational visits were also reported from 13 percent of households. Half of the villages reported either sole or predominant use of the dong as the currency of choice.

Given the strong cross border influence already reported from Ou Chrov, it was surprising to note that few households went to Thailand for the above reasons (purchase of agro-inputs or consumer goods, or for medical treatment). However, the use of the Thai baht was dominant in 14 of the 20 villages.

6.3.3. PERCEPTIONS OF CBE

Key informants were asked to choose from a list of possible advantages and disadvantages of border trade (Table 22). The most frequently reported advantages were: **(a)** demand for agricultural goods (eight villages in Chantrea and six in Ou Chrov); **(b)** as a source of employment (15 and 19 villages respectively); **(c)** as a source of agricultural inputs (10 and two villages); and **(d)** as a source of food and non-food items (11 and seven villages in the two areas).

Table 22: Perception of CB Impacts in the Two Areas (in number of villages)

Advantages	Chantrea	Ou Chrov
Access to credit (e.g. to buy fertiliser)	1	-
Access to health services/medical treatment	2	-
Collaboration in combating security or social problems	2	-
Demand for agricultural products	8	6
Enabling condition when importing goods	-	1
Exchange of culture/knowledge	-	2
Source of income/employment	15	19
Supply of agricultural inputs	10	2
Supply of goods (food and non-food)	11	7
Disadvantages	Chantrea	Ou Chrov
Anarchy, robbery, drugs, trafficking	4	3
Free immigration	3	-
Health problems resulting from imported foods	4	1
High cheating rate when working in Thailand/VN	-	1
High formal/informal expenses of crossing the border	-	6
Imbalanced access to the border	3	2
More environmental pollution	-	1
Competition in production/employment (in Cambodia)	6	2

Note: “-” means zero value.

The main disadvantages identified were: **(a)** security—drugs, trafficking, robbery, in four villages in Chantrea and three in Ou Chrov; **(b)** having to compete with foreigners for employment or in trade (six and two villages), **(c)** high informal costs for crossing the border (zero and six villages in the two areas).

7. HOUSEHOLD LEVEL EVIDENCE FROM CHANTREA

A total of 140 households were selected on the basis of a two-stage sampling strategy, with 20 villages drawn at random from a list of 49 villages in Chantrea district. At the second stage, six to eight households were randomly selected from a complete listing of households in each village, yielding our total of 140 households deemed to be representative of the district as a whole. We will now turn to this body of data to explore the implications of CBE for rural welfare in the Bavet area adjoining Vietnam.

7.1. LAND DISTRIBUTION AND POVERTY ASSESSMENT

The distribution of land in Chantrea district seems more uneven than elsewhere in the country. Recent data available from six provinces (So *et al.* 2001) put landlessness (defined as less than 0.5 ha of land owned) at around 22 percent of households, compared to almost 30 percent for Chantrea. Similarly, the socio-economic survey 1997 puts landlessness (defined as zero land owned) at 12 percent of all rural households (Acharya *et al.* 2003). This compares with the figure of 21 percent for Chantrea. In fact, landlessness levels in Chantrea appear to be closer to those pertaining to fishing villages, e.g. around the Tonle Sap, which can sometimes approach 24 percent (Acharya *et al.* 2003). This is also well above the provincial average for Svay Rieng, where landlessness has been estimated at 6 percent (Biddulph 1998).

Poverty self-assessments by the villagers themselves established three categories: medium, poor and very poor. It is of course difficult to relate these to the national poverty line, but the assessment nevertheless is a good indication of the status of poverty. Around 44 percent of households were designated as medium and another 44 percent labelled poor. Around 12 percent of households were designated very poor. We would assume that this group consists of those who are food poor, unable to meet even basic food-calorie norms, approximately corresponding to food poverty as defined by the NIS (Gibson 1999). Interestingly, according to CSES 1999 (the latest data available at the national level), 12.1 percent of the rural population were found to be food poor.

7.2. CONSUMPTION EXPENDITURES

Table 2.23 provides estimated consumption expenditures per capita per day for Chantrea. The poor spend around 2,100 riels on average and the very poor spend 1,800 riels. The non-poor, on the other hand, spend 4,600 riels per day. These figures compare well with the estimated poverty line in 1999, which was 1,777 riels (food poverty line was 1,379 riels). Allowing for inflation of, say, 10–15 percent over the past five years, our poverty line today for rural Cambodia would be around 2,000 riels (1,955–2,043 riels). The self-perception of the poor and their average consumption levels appear to match the national poverty line quite well. The standard deviations of the estimates are low, especially for (both) groups of the poor.

7.3. LAND AND ASSETS

Land and other assets owned by households are distributed in order of importance of the classification of well-being: medium, poor and very poor, respectively. The difference between the medium and the poor is much more important than that between the poor and the very poor (Table 23).

Table 23: Average Value of Land and Assets and Per Capita Daily Consumption by Household Categories (in 10,000 riels)

Asset/Consumption	Medium	Poor	Very poor	Average
Land, animals	299.90	151.73	32.06	201.76
Durables	27.00	3.01	0.55	13.24
Transport equipment	77.78	40.72	9.23	53.04
Farm equipment	75.03	1.13	0.33	33.23
Per capita consumption	0.46	0.21	0.18	0.33

7.4. DEMOGRAPHIC AND OCCUPATIONAL PATTERNS

The total population of our sample is 788, grouped into 140 households (average household size 5.63). The population found to be economically active was high at 84.5 percent (all ages), with females being 52.7 percent of the economically active, reflecting the general female to male ratio in the population. Significant population movement was reported, a total of 99 persons (42 female) leaving the area over a period of five years. The main reason was marriage, followed by death and rural-urban migration. The percentage of female-headed households was 23.5 percent, which is slightly below the national average of 25.7 percent.

The major occupation of the head of household was “cultivation” (64 percent). Another 11 percent reported “no job,” while 6 percent were petty traders (vendors), 5 percent worked for the government and 4 percent hired out their labour. Around 60 percent of household heads reported a second occupation and 20 percent a third occupation, with non-farm labour, transport and “collection-gathering” being important contributors.

7.5. EDUCATION AND LITERACY

For the age group six and above, the percentage of people without any schooling was found to be 15 percent, 8.6 percent for males and 21.1 percent for females. Some 33.5 percent of the population had one to three years of schooling, 32 percent had four to six years of schooling, 17 percent reported seven to 10 years and 2 percent more than 10 years. Female participation remained consistently below male participation, especially at the junior high and high school level.

Table 24: Education of Household Members by Sex

Sex of Member	Age	Years of Education					Total
		1–3	4–6	7–10	>10	zero	
Male	6–12	50	22	1	-	11	84
	13–18	12	36	12	3	1	64
	19–50	25	53	53	11	11	153
	51 and over	5	7	8	-	5	25
	Total	92	118	74	14	28	326
	%	(28.2)	(36.2)	(22.7)	(4.3)	(8.6)	(100)
Female	6–12	54	11	1	-	10	76
	13–18	17	34	17	-	8	76
	19–50	58	57	26	-	29	170
	51 and over	10	2		-	30	42
	Total	139	104	44	-	77	364
	%	(38.2)	(28.5)	(12.1)		(21.1)	(100)
	Grand Total	(33.5)	(32.2)	(17.1)	(2.0)	(15.2)	

7.6. CROSS BORDER IMPACT

7.6.1. DIRECT IMPACT OF CBE (BUSINESSES/EMPLOYMENT)

Ten percent of all households reported being engaged in businesses directly related to CBE, with annual earnings ranging from \$30 to around \$12,000. The average amount earned is estimated at \$270 per annum. However, the bulk of these earnings accrued to the non-poor. The “very poor” obtained no earnings from this source, while the poor earned only around \$13 per annum on average. This picture is also borne out by the distribution of earnings by land ownership.

The broad structure of earnings by households is presented below:

Table 25: Earning Structure by Household Categories (annual, in 10,000 riels)

	Medium	Poor	Very poor	Average
Common property resources	10.7	6.9	11.4	9.10
Animals	49.9	47.0	7.6	43.5
Crops	73.2	49.5	27.4	57.2
Worker in a hotel/restaurant/ casino/shop	-	-	-	-
Off-farm worker outside Svay Rieng, in Cambodia (daily based)	1.7	7.6	2.2	4.4
Off-farm worker outside Svay Rieng, in Cambodia (monthly based)	26.5	32.0	6.0	26.4
Worker in Vietnam (daily based)	0.7	0.8	2.7	1.0
Worker in Vietnam (monthly based)	-	1.9	-	0.9
Farm worker for others	1.8	6.2	19.6	5.9
Small business not directly related to CB activities	92.0	93.4	-	81.5
Business directly related to CB activities	244.3	5.1	-	252.9
Transport (including both own business and working for others)	62.8	27.3	-	39.4
Others	177.5	66.0	143.8	124.0
Total	741.3	343.4	220.6	536.6

The landless are not the poorest, having average earnings per household of around \$900 per annum, a figure that places them at the level of those with 1–2 ha of land (around \$1,000/annum). However, households reporting significant earnings from cross-border-related businesses are to be found mainly among land size groups above two hectares.

7.6.2. CROSS BORDER IMPACT: CONSUMPTION

All 140 households reported consumption of Vietnamese products during the reference year—not a particularly surprising finding. More than 50 percent reported purchase of farming goods as the most important, followed by household appliances (18 percent), clothes (12 percent), fuel (10 percent) and food (5 percent). While Vietnamese goods were not considered high quality, they were thought to be highly price competitive.

Around 68 percent in the sample reported at least one trip to Vietnam over the past year, while regular border trips by females were reported by 30 percent of households, and a similar proportion of males. Around 53 percent reported shopping as the main purpose of their trips, followed by trade (29 percent), employment (8 percent) and others (4 percent).

Irregular or occasional visits were also recorded, with shopping being the most cited reason (54 percent), followed by medical treatment (25 percent) and visiting relatives/tourism (8 percent). A total of 63 households out of 140 reported making regular trips, with most using local (official) border points for crossing (47 percent). Use of local informal crossing points was not very popular. They were used only by 17 percent of reporting households. The remaining used Bavet border gate.

The magnitude of dependence on Vietnamese goods by Bavet households is also clearly borne out by the following table, with bold items showing a preponderant dependence on products of Vietnamese origin.

Table 26: Country of Origin of Goods-Services Consumed by Households
(in number of households)

	Total	Cambodia	Vietnam	Thailand	Other countries	Not Applic.
Animal feed	59	52	2	-	-	5
Veterinary and medical service	47	1	6	-	8	32
Rice and other staple foods in last week	140	135	1	-	-	4
Fruits and deserts in last week	92	22	66	-	-	4
Meat in last week	138	112	22	-	-	4
Vegetables in last week	140	55	83	-	-	2
Cooking ingredients in last week	139	5	122	1	-	11
Tobacco products in last week	97	47	50	-	-	
Beverage in last week	90	53	24	2	-	11
Other food products last week	14	4	1	-	-	9
Products to use in the household in last month	86	2	78	2	-	4
Clothes and foot wear in last year	135	6	70	35	7	17
Health care/treatment/medicines in last year	139	5	16	3	19	96

7.7. BORDER CONTROLS

A clear majority of households (65 percent) wanted more border controls and regulations **(a)** to prevent smuggling (e.g. drugs, timber), **(b)** because the border trade does not benefit Cambodians, **(c)** to counter greater social insecurity (trafficking, crime) and **(d)** because poor quality goods come in. It was also hoped that greater controls would lower informal fees charged for cross border activities.

A significant number asked for reduced control, mainly to reduce fees (formal) and allow cheaper imports of food and agricultural inputs.

7.8. WELFARE CHANGES

Around half (73) of sample households thought that their living standards had improved “moderately” over the past five years, while 44 households (31 percent) reported becoming poorer. Of the latter, 23 households thought they had become much poorer, while at the other end of the scale, only two households reported becoming much better off. These figures suggest that considerable social-economic dynamics have been in operation in the area.

Table 27: Perception of Well-being by Land Ownership (in percent)

Land Owned (ha)	Much better off	Moderately better off	About the same	Moderately poorer	Much poorer	Total
Landless	3.3	50.0	3.3	16.7	26.7	100
0–0.5	-	33.3	8.3	16.7	41.7	100
0.51–1	-	41.2	17.6	17.6	23.5	100
1.1–2	-	58.3	19.4	13.9	8.3	100
2.1–5	2.9	52.9	17.6	17.6	8.8	100
5 and above	-	85.7	14.3	-	-	100

It is interesting to note the welfare dynamics of the different land ownership groups. Of the landless, 53 percent improved their position while 43 percent said they were worse off, compared to five years ago. Of this, a large proportion (27 percent) reported being much worse off. Of the marginal land owners (0–0.5 ha) almost 42 percent reported being much worse off. Even in the upper size groups (up to 5 ha), a significant proportion of households reported being much worse off.

Households were also asked to report on the factors that have contributed to being better off or worse off, as the case may be. We continue to examine possible links with the CB economy while exploring these responses. The distribution of these responses is reported in Table 28 below.

Table 28: Reasons behind Mobility

Reasons	Better Off	Reasons	Worse Off
Higher crop yields	25	Lower yields	17
More earners in hh	18	Lower earnings	8
Higher earnings	7	Fewer earners	3
More CB opportunity	6	Old/sick	5
More land	6	Less land/no land	7
Other	12	Other	6
Total	74	Total	46

Four types of factors are seen to be operative here: agricultural yields, land access, household demographics (number of earners) and age/illness. It was interesting to note that a few households (8 percent) flagged cross border income opportunities as being an important factor behind their upward mobility.

8. CONCLUDING OBSERVATIONS

There are four aspects of CBT that this study has sought to explore:

- (a) The overall regulatory regime and evolving trade policy of Cambodia, including participation in international trading arrangements;
- (b) Specific policy issues or strategies for development of cross border trade, including participation in regional trading arrangements, setting up of special zones or provision of special privileges;
- (c) Actual conduct, performance and constraints of cross border trade arrangements, with particular reference to specific case studies, e.g. garments, shoes etc. As part of this exercise, formal/informal trade-enabling arrangements and mechanisms are explored; and
- (d) Local impact of CBT on livelihoods and poverty based on purposively generated village and household data.

Generally, the border areas with Thailand were found to be much more active. The economically active population, both men and women, were found to be heavily dependent on CBT or CBE and demonstrated a quite significant poverty reduction impact. The areas along the Thai border studied were also found to be better off in terms of infrastructure and service delivery, including communications, access to schools and health centres, credit and financial institutions and rural development programmes.

The Thai border also reveals the evolution of complex subcontracting arrangements for the processing of and trade in fabrics/garments. The bulk of the commodity import trade, however, appears to be associated with dual, quite distinct, trade circuits. The dominant circuit is huge (accounting for 75–80 percent of trade volume), is formal in nature, employing official channels/routes and clearing-transport agents, to conduct the trade. This trade, however, appears to be cartelised, with just four or five clearing-transport agents holding sway. All importers would need to work with one of these four or five entities to arrange for delivery of their shipments. These actors are able to restrict entry and provide rapid, less costly services to their clients because of their special relationship with the border authorities. In other words, to survive in this business, it is essential to have these special relationships to help navigate around the complex and expensive procedures involved.

At the same time, the system allows a small (in terms of volume) purely informal trade circuit to operate as well, allowing some of the gains from trade to be spread more evenly. This dichotomy between dominant/formal-but-managed and small/informal trade circuits is also present on the Cambodia-Vietnam border, even though in terms of volume, complexity and structure, CBT with Vietnam is on a much lower evolutionary plane.

In the same vein, our village/household level evidence points to quite significant impacts on livelihoods, and this is especially true for the areas adjoining Thailand. The question of distribution is quite mixed, with the poor in the border zones near Vietnam not receiving any direct benefits. Whatever benefits they do obtain are through access to cheaper products available from Vietnam.

In terms of the policy implications of our study, three sets of recommendations could be advanced:

1. **Do less:** There seem to be an endless plethora of rules, regulations, arrangements, policy statements, paper incentives and paper facilitation measures. In addition, there is a multiplicity of agreements (bilateral, triangular, regional, sub-regional). We do not need any more policy; we now need to take concrete action if we are really interested in using CBT as a trade-development vehicle.
2. **Do nothing:** No attempt should be made to regulate or formalise the small-scale informal circuits or activities like the informal garment processing trade. Any attempt to do so would have adverse effects and would threaten the livelihoods of many poor people of the area.
3. **Do more:** Clearly more needs to be done on a number of fronts: infrastructure, border gate facilitation measures and allowing more competition in the dominant trade circuits, especially amongst transport-clearance-forwarding agents. At the same time, institutional measures are crucial in order to increase availability of working capital and reduce transaction costs and risks. Market or trader level associations are likely to be useful in developing low cost enforcement measures, as well as dealing with conflict and dispute resolution. The absence of these structures makes trading more uncertain than it needs to be.

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Table 29: Village Lists of the Two Studied Areas

Ou Chrov, Banteay Meanchey		Chantrea, Svay Rieng	
Village	Commune	Village	Commune
Baliley	Poipet	Banla S'et	Chres
Dong Aranh	Nimitt	Baray	Me Sa Thngak
Kbal Spean	Poipet	Bavet Kandal	Bavet
Kilou Lekh Buon	Poipet	Bavet Leu	Bavet
Kompong Reab	Samraong	Chantrea	Chantrea
Kuttaksat	Kuttaksat	Chek	Samraong
Naang Chan	Nimitt	Chrey Thom	Prey Angkunh
Nimit Muoy	Nimitt	Daun Tey	Tuol Sdei
Nimit Thmei	Nimitt	Koh Kou	Prey Kokir
Or Neang	Poipet	Kork Lvieng	Prey Angkunh
Ou Russey	Poipet	Prasat	Prasat
Phkoam	Soengh	Prey Angkunh	Prey Angkunh
Prey Chan	Prey Chan	Svay Kuy	Me Sa Thngak
Prey Kob	Poipet	Ta Boeb	Bavet
Souphi Tboung	Souphi	Ta Pov	Bavet
Souriya Thmei	Koub	Thnal Kaeng	Bati
Ta Chrueng	Changha	Thnanh	Bati
Tuol Pongro	Poipet	Tong Mau	Chantrea
Tuol Prasat	Poipet	Trapeang Bon	Prey Kokir
Yeang Thmei	Koub	Trapeang Thlok	Chres

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THE CROSS BORDER ECONOMY OF CAMBODIA: AN EXPLORATORY STUDY

An often overlooked aspect of the Cambodian economy's increasing integration with its neighbours and the world is the development of cross border trade. Located between the economic powerhouses of Thailand and Vietnam, Cambodia is keen to expand its market access. This working paper, part of a larger regional study produced by the Development Analysis Network, focuses on Cambodia's trade environment and policy and its experience of cross border trade, particularly the role and impact of supply side factors. The organisation and conduct of cross border trade are illustrated through case studies of two areas, one adjacent to Thailand and one to Vietnam. The trade in specific commodities is examined: exports of ready-made garments to Thailand and imports of shoes, vegetables and processed foods from Vietnam. Importantly, the paper studies the implications of cross border trade for household welfare, particularly for the poor.

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