Cambodia's Trade Balance

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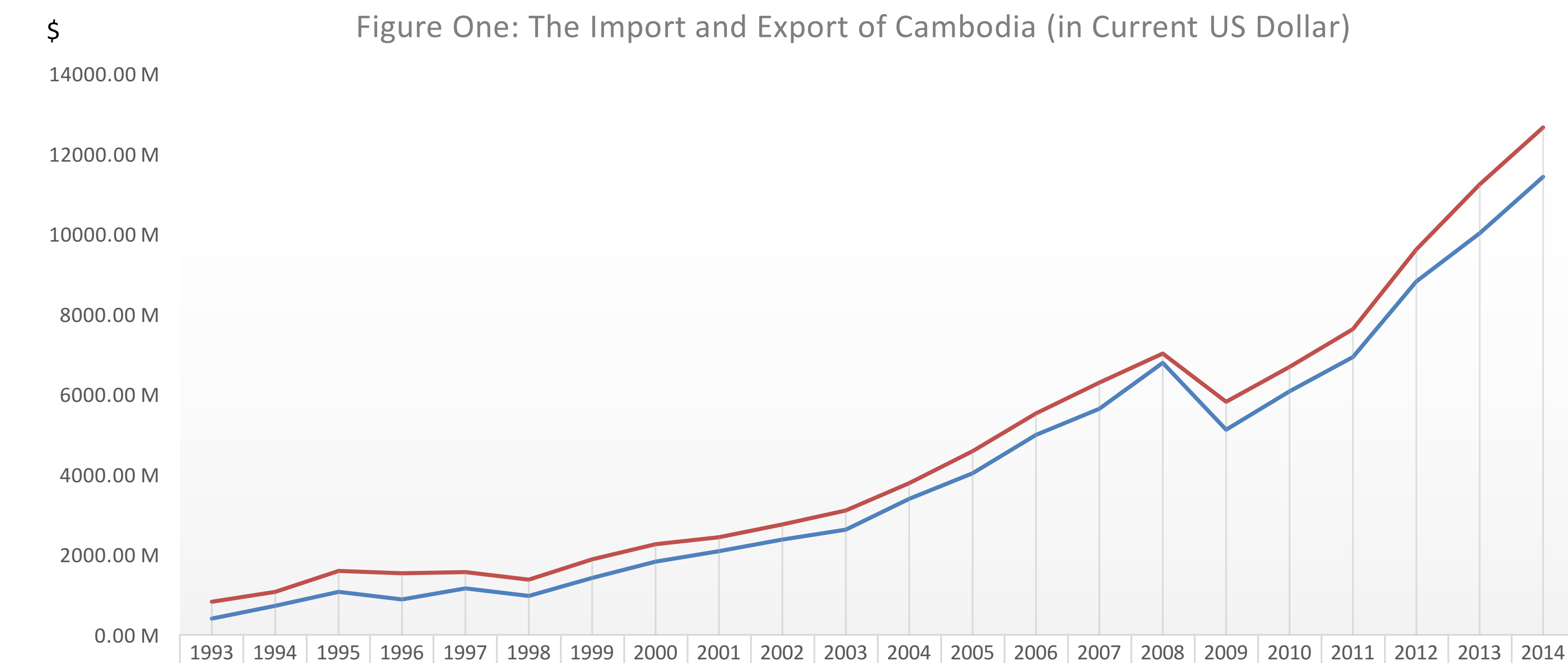

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Exports	406.8	719.9	1073.	889.4	1157.	974.7	1426.	1821.	2093.	2374.	2632.	3395.	4032.	4989.	5643.	6784.	5119.	6080.	6938.	8824.	10015	11424
Imports	827.7	1079.	1603.	1535.	1560.	1384.	1886.	2256.	2438.	2753.	3100.	3784.	4578.	5530.	6301.	7016.	5816.	6691.	7633.	9623.	11244	12664

(Source: World Bank, 2015)

As a country emerging from wars, Cambodia is one of the fastest growing economies. However, it is still an agrarian state and it strongly depends on garment sector from Foreign Direct Investment (FDI). Another important factor that should be noticed about Cambodian economy is that this country has virtually fully dollarized since 1995 (Zamaroczy & Sa, 2002); hence, the Cambodian central bank is not in full control of the inflation rate as well as the foreign exchange, which are really crucial in trade. According to the data from World Bank in Figure 1, Cambodia has had trade deficit since 1993. Though the import and export curves have a positive correlation, the import seems to pick up the pace and move faster than the export curve each year.

First of all, regarding the Cambodian export, since 1993, it has increased about 28 folds from only about $406.84 million$ in 1993 to $11424.8 million in 2014, though it slumped during the Asian financial crisis in 1997 and global economic crisis in 2008. This dramatic increase is caused by several important reasons. The first reason is the government policies. Cambodian economy was changed from centralize economy to free market economy in the late 1980s with the adaptation of policy of deregulation, privatization of state-owned enterprises (Tang & Wong, 2011) and the Law on Investment. The Council for the Development of Cambodia was also established to manage and facilitate all the investment activities. Furthermore, in 2005 Cambodia also established the Special Economic Zone (SEZ) in total of 11 SEZs (CDC, n.d.) to promote export. After the general election in 2013, Cambodian trade environment has been changed in an unprecedented pace. The Minister of Commerce, being in the position for 15 years, was replaced by the Harvard-educated Minister, who vigorously advertised Cambodian investment-friendly environment to investors and abolished the red tape barriers of the old bureaucracies. Second, globalization and regionalism contribute tremendously to Cambodian export. Since 1994, Cambodian was granted Generalized System of Preferences (GSP) by 26 countries in 1994 (Francis & Heng, 1994) and by the U.S. in 1997 (Office of the U.S. Trade Representative, 2007). On top of that, in 1999, Cambodia joined ASEAN. Under the ASEAN Free Trade Agreement (AFTA) and AFTA with ASEAN major trading partners, Cambodia could benefit from tariff reduction with broader regional market. Cambodia later joined WTO in 2004 to access the global market and was granted the Most Favored Nation (MFN) status. This international market integration has made a major transformation in the Cambodian export. According to Hill, H. & Menon, J. (2011) in their ADB working paper series, from 1995 to 2000, Cambodia mainly exported wood, fish, and rubber to its neighboring countries, such as Thailand, Vietnam and Singapore. After 1999, the products were replaced entirely. Garment and footwear became the primary products due to the GSP and MFN status, tax-incentive policies, and abundant cheap labor. The major trading countries are U.S., EU and China (including Hong Kong). Last but not least, in terms of foreign exchange rate, the Cambodian Riel has been devalued in relation to $U.S. for the last two decades. According to World Bank (n.d.), one U.S. dollar could buy 2689 Riels in 1993 and up to 4037.5 Riels in 2014. Due to this low exchange rate, Cambodian product is more competitive in the international market.

Second, over the years, the Cambodian import has been expanding more and more. To start, Cambodia cannot satisfy its own domestic demand. Unlike Japan or Germany, after the Khmer Rouge genocide regime, Cambodia was left with no high-intellectual human capital at all. Most manufactures in Cambodia are in garment or footwear industries. Therefore, almost all consumer products are imported. From 1995 to 2000, the primary products that Cambodia imported were manufactured tobacco, motorcycles, and oil from major exporters including Thailand, Vietnam and Singapore (Tang & Wong, 2011). Nonetheless, from 2000 onwards, the integration to the world market (ASEAN and World Bank) has impacted Cambodian import. According to the World Integrated Trade Solution, in addition to the usual consumer goods, the intermediate goods, textile and clothing, capital goods, and fuel have dominated the Cambodian import to fulfill the demand in the garment and foot wear industries. Likewise, the importing partners are expanded to include China and other ASEAN members. Other reasons that inflate the Cambodian import are its surging GNI per Capita and population growth. The GNI per capita of Cambodia rose from $300 in 1995 to $1010 in 2014, while the population expanded from 10.77 million in 1995 to 15.4 million in 2014 (World Bank, n.d.). These factors push up domestic demand for more consumer goods.

Next, in terms of trade balance, Cambodia has faced trade deficit since 1993. From 1993 to 1995, there was not much of trade activities in Cambodia because this country just got out of civil wars and was in the process of adjusting the market system. In 1996, the trade deficit became widen because Cambodia faced a severe flood that affected more than a million people (David, 2013) and its agriculture, forestry and fishery, which were the main export sectors at that time. However, starting from 1996, the Cambodian trade deficit persists and there exists a positive correlation between import and export. The Cambodian manufactures imported the capital and intermediate inputs for value added (Tang & Wong, 2011) and then export the final product. From 2000 to 2014, in average intermediate goods accounted for 48.71%, and textiles and clothing 33.13% of the total imports annually (WITS, n.d.). Hence, the more garments and footwear Cambodia exports, the more inputs Cambodia needs to import. Based on WITS, the Cambodian export on garment and footwear was $2,237 million in 2005 and $2,665 million in 2006; likewise, the imported textile and clothing was increased from $1,079 million in 2005 to $1,281 million in 2006. Last but not least, as can been in Figure 1, the heavily importation of consumer goods (in average of 33.13% from 2008 to 2013) puts more weight on the Cambodian trade balance.

In conclusion, the line graphs in Figure 1 denote a healthy condition of Cambodian economy as both the import and export rise from year to year. Trade deficit is a common trend in developing economies, such as Laos or Vietnam. Notwithstanding, trying the narrow down the trade deficit should be prioritized. Moreover, Cambodia should not rely solely on FDI and garment-export oriented, and should diversify the economy.

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