Chapter 5: Constraints to Exports: Findings from a Case Study of Exporters in Cambodia and Lao PDR

Emerging Markets Consulting

1. Introduction

The trade of the GMS countries expanded rapidly during the 2000s. Combined exports of the GMS countries increased at an average annual pace of 10.9% and combined imports grew at an average annual pace of 11.4% during 2000-2009.1 Total exports and imports of Cambodia and Lao PDR expanded even faster. Cambodian exports increased at 13.5% annually during 2000-2009 while imports grew by 12.3% annually over the same period. Lao PDR’s export and imports expanded at an average annual growth rate of 16.0% and 17.6% respectively during 2000-2009. Despite the rapid expansion in trade, the share of Cambodia and Lao PDR in the total trade of GMS5 remains small. Thailand accounted for 68.8% of the total exports of GMS5 countries (to the world) in 2009, followed by Viet Nam at 25.6%. Cambodia and Lao PDR, on the other hand, accounted for only 2.2% and 0.6% of the total GMS5 exports to the world, respectively. The rest came from Myanmar.

Exporting allows a firm to cater to markets beyond their domestic borders, achieve economies of scale, improve productivity, and attain higher levels of efficiency as they compete with foreign firms in external markets. It is, thus, important to understand the factors that impede export growth in Cambodia and Lao PDR and how they could be positively addressed.

The bottlenecks to exporting more could come in the form of customs formalities and export clearances needed, cost of transportation, other logistics issues, and lack of trade-related infrastructure, etc. These usually fall under the domain of trade facilitation. However, in recent years, there has been a growing realization that to make full use of the expanded opportunities for trade, productive capacity of developing countries needs to be expanded along with improving trade facilitation. With this in view, the Aid for Trade initiative was launched at the Sixth WTO Ministerial Conference in Hong Kong in 20052 to “help developing countries, particularly least-developed countries, develop the trade related skills and infrastructure that is needed to implement and benefit from WTO agreements and to expand their trade.”3 According to the IMF, Aid for Trade is broad in scope and encompasses trade-related technical assistance, trade-related infrastructure, and aid to develop productive capacity.4

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1 This paper represents the views of the authors and not necessarily those of the Asian Development Bank, those of its Executive Directors or of the countries that they represent.
2 http://www.wto.org/english/tratop_e/minist_e/min05_e-final_text_e.htm
3 http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm
This chapter presents findings from a case study conducted in select sectors in Cambodia and Lao PDR to understand the bottlenecks faced by their respective exporters. The case study, which involved a qualitative survey, asked the firms about the logistical and supply chain constraints, i.e., those related to export and import procedures and logistics. The survey also asked the firms about the constraints to expanding their productive capacity. The case study, which had a relatively small sample size, covered the following sectors:

- Wood and wood products (in Cambodia and Lao PDR)
- Rice, fruits and vegetables, and other food products (Cambodia only)
- Garments (Cambodia only)

Cambodian firms listed customs formalities, cost of transport, and certifications as among their top logistical constraints. Laotian firms also listed customs formalities and the cost of transport as among their top logistical constraints. Cambodian firms noted lack of reliable energy supply, shortage of labor with sector-specific skills, financing constraints, and government regulations which slow down the process of importing inputs as hampering their ability to export more.

In Lao PDR, exporters in the wood products sector highlighted government regulations, clearances, and lack of raw material as key constraints. Alleviating these constraints will require a balance between helping exporters to export more, on one hand, and responsible wood exporting and forest management, on the other hand. This is also the case in the Cambodian wood products sector.

Findings from the case study show that addressing only the logistical constraints through trade facilitation measures may not be sufficient to stimulate exports from Cambodia and Lao PDR. Efforts to promote exports from the two countries also need to look at constraints which impact a firm’s capacity and competitiveness. As such, addressing these constraints will require providing support in areas other than trade facilitation. The chapter identifies possible areas for further action by the government. Aid agencies can work with the governments in these areas and provide support towards activities such as infrastructure projects, trade finance programs, vocational training institutes, and simplification of customs procedures.

Seamless movement of goods is essential for the smooth functioning of regional production networks. Improvements in logistics, export and import processes, and reduction in trading costs are thus critical to enable Cambodia and Lao PDR to diversify their economic base, to develop themselves as a production base in Asia, and to become a part of the cross-border production networks that span East and Southeast Asia. In that sense, enhancing trade facilitation and improving production competitiveness is vital to not only expanding trade but also to attracting investment.
Similarly, sector-specific constraints that impede productive capacity of a firm can also hold back foreign direct investment and should also be addressed.

The rest of this chapter is organized as follows. Section 2 gives an overview of the sectors covered in this study and discusses the sample characteristics. Section 3 presents the findings of the case study on the key logistical impediments faced by exporters covered in the case study. Section 4 reports the results of the survey on the sector specific constraints faced by exporters to expanding their production capacity and improving competitiveness. Section 5 provides policy recommendations based on the findings of the case study and Section 6 concludes the chapter.

2. Overview and Sample Description
The analysis undertaken in this chapter is based on a case study conducted in select sectors in Cambodia and Lao PDR. The case-study involved conducting interviews with exporters in the private sector. The questionnaire concentrated on several aspects such as key constraints to exporting more, logistics and supply chain impediments, and the firm’s perception of improvements in procedures, costs and time taken to export. The interviews with the firms were conducted in September 2011 and October 2011.

Approximately 120 SMEs (small and medium enterprises) based in Cambodia were identified, and interviews were then conducted with selected firms. The interviewed firms were chosen by identifying active firms in each sector in Cambodia and by leveraging past research experience and business networks. In total, 39 interviews were conducted with exporters in Cambodia—garments (15), rice and food products (14), and wood and grasses products (10). The sample selection was, thus, non random.

In Lao PDR, approximately 25 SMEs in the wood and wood products sector were identified (in the region of Vientiane and Northern Lao PDR) by leveraging business networks and 14 interviews were conducted. The selection of the sample was non random.

An overview of the three sectors in Cambodia and the wood products sector in Lao PDR and the sample description is provided below.

2.1 Cambodian Garments Sector

Sector Overview
The garment industry has been a key driver of Cambodia’s economic growth over the past decade, accounting for more than half of the exports in recent years. Currently, the garment sector employs almost 300,000 workers; which is just over 3% of the total labor force. The garment industry’s reach, however, extends far beyond those directly

5GMAC, http://gmac-cambodia.org
employed in the sector. The UN estimates that as many as 1.6 million Cambodians depend on the income of those employed in this sector.\textsuperscript{5}

Cambodian garment industry was largely established by foreign investors, largely from Asian countries such as PRC; Taiwan, China; Hong Kong, China; Malaysia; and Singapore. Foreign investors have been operating export-oriented garment factories in Cambodia since 1994.\textsuperscript{7} More than 90% of the garment sector exports are from firms owned by foreign investors through foreign direct investment (FDI). The garment sector in Cambodia continues to be primarily owned by foreign investors and local investors have not entered the business as they do not have the capabilities in supply chain, management, or experience in the garment industry.

**Figure 1: Garments as a Share of Total Cambodian Exports**

![Graph showing the share of garment exports in total Cambodian exports from 2000 to 2010.](source: UNCOMTRADE and authors' calculations. Note: SITC Rev.2 2-digit code 84 (“Articles of apparel and clothing accessories”) is used as the definition of garments.)

\textsuperscript{6} [http://penhpal.com/business/cambodia%E2%80%99s-garment-industry/](http://penhpal.com/business/cambodia%E2%80%99s-garment-industry/)

\textsuperscript{7} [http://penhpal.com/business/cambodia%E2%80%99s-garment-industry/](http://penhpal.com/business/cambodia%E2%80%99s-garment-industry/)
Cambodian garment exports increased rapidly at an average annual rate of 16.2% from USD 1.2 billion in 2001 to USD 4.1 billion in 2008. Garments accounted for approximately 80% of the total Cambodian exports during 2000-2008 (Figure 1). The top destinations for garment exports from Cambodia are the US and the EU. With the onset of the global financial crisis in late 2008, garment exports dropped significantly in 2009 to USD3.5 billion and accounted for 72.4% of the total exports in 2009. Garment exports rebounded in 2010 to USD 4.2 billion, an increase of 20% compared to 2009. The share of garment exports in total exports increased by almost three percentage points to 75.2% in 2010. The uptick in garment exports continued in 2011.

The US continues to be the key export market, receiving 70% of the total garment exports followed by the EU (25%) and Canada (5%). Trade preferences implemented in the past decade such as the European Union’s “Everything but Arms” initiative have contributed significantly to this sector’s growth (Better Factories, 2011). The amount of exports to the EU has increased in 2011 as a result of more simple and more relaxed rules of origin under its preferential scheme. Recently, Japan has also signed a duty free agreement with Cambodia. However, exports to Japan continue to be very low because, as reported during interviews with private sector firms, Japanese buyers require a very high level of product quality that some Cambodian-based producers find challenging to meet.

Cambodia has maintained a stable record regarding labor compliance allowing it to build and maintain relationships with companies which actively seek “ethical sourcing”. However, Cambodian garment manufacturers have failed to move up the value chain in the garment market, and are primarily outsourced manufacturing centers for foreign-owned firms. Currently, the Cambodian garment industry is viewed as one of the lowest value-added segments in the global garment market (Natsuda et al., 2009). One of the key reasons cited by garment manufacturers for their inability to move up the value chain is the lack of Cambodia’s capacity to produce high-quality raw input materials and the firms surveyed for this study reported that materials are imported largely from PRC. According to the firms surveyed, electricity and water supply are primary challenges to improving Cambodia’s capacity to produce quality raw materials, as fabric mills need reliable supply of electricity and water to operate.

Sample Description
Based on the number of employees, all the companies interviewed (see Table 1) were either mid-range (400-2000 employees) or large-range (more than 2000 employees). In general, about one third of the Cambodian firms in the garment sector, as represented by the membership of the Garment Manufacturing Association of Cambodia (GMAC),

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10 http://www.investincambodia.com/gmac.htm
employ less than 400 employees and about 55% are in the mid-range (Table 1). Garment exporters included in this research study have 1,500 employees on average and average annual revenue of USD 5.1 million. The top export markets for the firms included in the sample are primarily the US and the EU and the firms have an average exporting experience of about six years. Table 2 summarizes key characteristics of the firms surveyed in the Cambodian garment sector.

Table 1: Number of Employees per Company GMAC vs. Survey Sample

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>GMAC (%)</th>
<th>Survey Sample number, (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>400 or Less</td>
<td>32%</td>
<td>---</td>
</tr>
<tr>
<td>401-1000</td>
<td>37%</td>
<td>6, (40%)</td>
</tr>
<tr>
<td>1001-2000</td>
<td>19%</td>
<td>5, (33%)</td>
</tr>
<tr>
<td>2001-4000</td>
<td>8%</td>
<td>3, (20%)</td>
</tr>
<tr>
<td>4001 or more</td>
<td>3%</td>
<td>1, (7%)</td>
</tr>
</tbody>
</table>

Source: GMAC Members List Data (October 2011).

All of the firms interviewed use freight forwarders to clear customs. About 90% of the shipments exit Cambodia through the port at Sihanoukville, while the other 10% of the shipments exit Cambodia through the Phnom Penh port.

Table 2: Cambodian Garment Sector Sample Characteristics

<table>
<thead>
<tr>
<th>Sample Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
</tr>
<tr>
<td>Average Years Exporting</td>
</tr>
<tr>
<td>Average Full-Time Employees</td>
</tr>
<tr>
<td>Average Export Revenue</td>
</tr>
<tr>
<td>Major Products Exported</td>
</tr>
<tr>
<td>Top Destinations</td>
</tr>
<tr>
<td>Foreign vs. Local Business</td>
</tr>
</tbody>
</table>

Source: ADB Constraints to Exports Questionnaire. Notes: * Freight forwarders have not been included in the data analysis. **Firms reported that many firms operate for around 5 years because the government gives tax incentives for initial years post-investment and then many firms shut down only to re-start again in order to avail of tax incentives.

2.2 Cambodian Rice and Food Products Sector

Sector Overview
Although the garments sector is the single largest component and driver of Cambodian exports, it is the agricultural sector which employs more than one half of Cambodians; with employment driven largely by the rice sector (Siphana, 2011). Under the National Rice Policy announced in 2010, rice has become a high priority good for export and Cambodia has established a goal of exporting one million tons of milled rice by 2015 (Royal Government of Cambodia, 2010). Considering that Cambodia became a rice exporter only in 2004, of which milled rice exports were only a small proportion and a large share was paddy, the target under the new policy represents a major turnaround.\footnote{http://blogs.worldbank.org/eastasiapacific/cambodia-moves-to-increase-exports-of-its-white-gold-rice} Despite the national focus on increased exports under Cambodia’s Rice policy, rice exporters continue to experience constraints in this fast growing industry.

**Figure 2: Food exports as a Percentage of Total Cambodian Exports**

![Chart showing food exports as a percentage of total Cambodian exports from 2000 to 2010.](chart.png)

Source: UNCOMTRADE and authors’ calculations. Note: The definition of food products used is from UNCTAD. Food products are defined to include SITC Rev.2 section 0 (food and live animals), section 1 (beverages and tobacco), section 4 (animal and vegetable oils and fats), and division 22 (oil seeds and oleaginous fruits). Also, shown in the above figure are the shares of section 4 and divisions 03 (Fish, crustacean, and mollusks), 04 (Cereals and cereal preparations), and 05 (Vegetables and fruits); these three divisions fall under section 0.
Total food exports\textsuperscript{12} increased at an average annual pace of 15.4% from USD 94.0 million in 2000 to USD 294.8 million in 2008 and stayed the same at USD 294.4 million in 2009. Despite the rapid growth, food products continue to be a small share of the total exports from Cambodia and accounted for 5.7% of the total exports of Cambodia in 2010, roughly the same as in 2000 but down from a peak of 7.4% in 2004 (Figure 2). Among the various food products, animals and vegetable oils and fats was the major export category throughout the last decade and accounted for 3.1% of the total exports or roughly half of the total food exports in 2010. The other major food export items are fish, crustacean, and mollusks; cereals and cereal preparations; and vegetables and fruits. The share of cereals and cereal preparations (which includes rice) in total food exports increased in the latter half of 2000s and was 1.2% in 2010 compared with 0.08% in 2000. Since rice is one component of the cereals and cereal preparations category, the sharp increase in 2010 could partly be the result of the Cambodian National Rice Policy announced in 2010.

In contrast to the garments sector, most food exporters are relatively new to the export process and are confronted with the challenges of navigating the export process. Some detailed questions about times and costs were frequently unclear to the surveyed food exporters. Food exporters interviewed as a part of this study reported challenges usually confronted by emerging industries such as access to working capital and investment capital, industry specific infrastructure, and international familiarity with Cambodian products.

Rice exporters interviewed export primarily to Europe since there is no tariff under the EU’s ‘Everything but Arms’ initiative. However, quality, consistency, and the ability to meet large export orders were reported by the surveyed firms as a challenge to establishing a strong foothold in the European market.

Thailand and Viet Nam are Cambodia’s primary regional competitors in the export markets for milled rice. Thai and Vietnamese millers also compete with Cambodian millers in rice paddy markets.

\textit{Sample Description}
In total, 14 food exporters were interviewed for this study. Of these, 10 were rice exporters, and 4 were non-rice exporters. In the non-rice food exports (which are not under the umbrella of the government’s positive Rice Policy), interviewed companies export products like dried fruits, palm sugar, pepper, and coffee. Table 3 shows the key

\textsuperscript{12} Food products are defined to include SITC Rev.2 section 0 (food and live animals), section 1 (beverages and tobacco), section 4 (animal and vegetable oils and fats), and division 22 (oil seeds and oleaginous fruits). The definition of food products is from UNCTAD and is available at: http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/UnctadStat.SitcRev3Products.UnctadProductGroupingslist.Classification_En.pdf.
features of the firms surveyed in the Cambodian rice and food products sector. Food products have been analysed collectively; however, relevant points of differentiation between responses of rice and non-rice exporters have been highlighted as they occur. Nearly all food exporters interviewed use freight forwarders and the majority of rice exporters use Sihanoukville as their primary port. For smaller non-rice exports, air shipments out of Phnom Penh were the most common shipping mechanism.

Table 3: Cambodian Food Products Sample Characteristics

<table>
<thead>
<tr>
<th>Sample Characteristics</th>
<th>Rice: 10</th>
<th>Other food products: 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Years Exporting</td>
<td>3 years</td>
<td></td>
</tr>
<tr>
<td>Average Full-Time Employees</td>
<td>23 employees*</td>
<td></td>
</tr>
<tr>
<td>Average Export Revenue</td>
<td>Rice: USD 1.2 million</td>
<td>Other Food Products: USD 90,000</td>
</tr>
<tr>
<td>Major Products Exported</td>
<td>Rice (jasmine, long grain, short grain)</td>
<td>Food (pepper, dried fruits, coffee, palm products)</td>
</tr>
<tr>
<td>Top Destinations</td>
<td>EU, US, Asia</td>
<td></td>
</tr>
<tr>
<td>Foreign vs. Local Business</td>
<td>All of the companies are domestically owned and operated. However, 3 are owned and managed by foreigners that reside in Cambodia (all of which are non-rice).</td>
<td></td>
</tr>
</tbody>
</table>

Source: ADB Constraints to Exports Questionnaire. *Note: The average excludes one company with 250 employees. The average would be 40 if this was firm was included.

2.3 Cambodian Wood Products

Sector Overview

Wood sector is a unique industry to contemplate constraints to growth in that there must be a balance between environmental protection and the potential economic gains to be made through production and trade. In the 1990s, timber was one of the largest sources of export revenue for Cambodia until the government imposed a “log export” ban in 1995. However, after 1997 the push for environmental protection declined somewhat and the definition of what was legal or illegal to source became somewhat unclear. As a result, many wood and wood product companies faced, and continue to face, difficulty in sourcing legal materials. In 2002, all logging activity was suspended for all forest companies pending a reevaluation, and re-approval, of activities from the Ministry of Agriculture. The result was a reallocation of 20% of the land as deemed protected areas (Roda and Rathi, 2006). Various policy initiatives have contributed to a reduced supply of legal wood for exporters. Despite these challenges faced by the domestic wood
product manufacturers in obtaining raw materials, Cambodia is helping meet PRC’s and Viet Nam’s growing demand for raw timber. Data from the European Forestry Institute shows that nearly all legal raw timber exports are going to either PRC or Viet Nam.\textsuperscript{13} PRC, Thailand, and Viet Nam are the main competitors for Cambodian wood exporters.

**Figure 3: Wood Exports as a Share of Total Cambodian Exports**

Shifts in priorities have meant a drastic decline in the share of wood exports in total exports (Figure 3).\textsuperscript{14} The decline in share of wood exports has been on account of both a decline in exports in some categories of wood exports and an increase in the overall total exports of Cambodia. Wood exports are now only a small portion of Cambodia’s overall exports and accounted for only 0.6% of the total Cambodia exports in 2010, down from approximately 5% in 2000. Raw wood (shown by cork and wood) is the major

\textsuperscript{13} International Market Requirements Implications for Cambodian Wood Industry, 2010, European Forestry Institute.

\textsuperscript{14} Wood exports are defined to include the following SITC Rev.2 2-digit categories: 24 (cork and wood), 63 (cork and wood, cork manufactures), and 82 (furniture and parts thereof). Note that SITC Rev.2 2-digit code 82 also includes items such as metal furniture, articles of bedding, and mattress support etc. Thus, wood exports might be overestimated here.
type of wood exports and since 2002 account for bulk of the total wood exports from Cambodia. Wood exports have since 2003 closely tracked the exports of raw wood. The share of raw wood itself in total exports has declined in recent years to 0.5% in 2010 after increasing in the first half of 2000s. Cork and wood manufactures used to be the major category of wood exports and accounted for more than half of the total wood exports in 2000 (Figure 3). However, the exports of cork and wood manufactures declined in absolute terms, and therefore its share declined, in the 2000s. The focus on forestry preservation by the government has meant additional sourcing restrictions as well as additional certification and document requirements (Savet, 2002). Firms surveyed noted that these factors not only serve as a constraint for current companies in the industry, but they also serve as a deterrent for many potential entrants into the industry.

Sample Description
Ten exporters were interviewed for this study and these included firms exporting wood products as well as those exporting grass products. Table 4 summarizes key features of the respondent firms. While all the firms that were interviewed were exporting, many also had a sizeable local business, often catering largely to tourists. Surveyed firms exported primarily to the USA, Europe, and other Asian countries. Export volumes were reported as very small, at only a few containers per year, and most shipments are done through large shipping companies, DHL and EMS, rather than freight forwarders. Consequently, most of the interviewed exporters could not answer detailed questions about exporting, such as the average costs per export shipment, could not differentiate between formal and informal fees, and could not provide responses for the average times and costs of exports. Those that did answer had varied responses, based on the irregularity of the export frequency and size.

Table 4: Cambodian Wood Products Sample Characteristics

<table>
<thead>
<tr>
<th>Sample Characteristics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td>10 companies (1 timber, 4 wood products, 5 grass products)</td>
</tr>
<tr>
<td>Average Years Exporting</td>
<td>6 years</td>
</tr>
<tr>
<td>Average Full-Time Employees</td>
<td>13 average full-time employees</td>
</tr>
<tr>
<td>Average Export Revenue</td>
<td>USD 100,000</td>
</tr>
</tbody>
</table>
| Major Products Exported                 | Wood products: wooden sculptures  
Grass products: sedge made carpets,  
accessories, and placemats, palm leaf  
products, bamboo furniture  
Raw timber: roundwood, rubber wood,  
cashew wood, mango wood |
Top Destinations | EU, US, Asia
---|---
Foreign vs. Local Business | All of the companies are domestically owned and operated. However, 5 are managed by foreigners that reside in Cambodia.

Source: ADB Constraints to Exports Questionnaire.

2.4 Lao PDR Wood Products

Sector Overview
Lao PDR is a resource-rich, sparsely populated, land-locked country. Lao PDR enjoys favorable climate and land conditions, which allow for a diverse array of resource-based products for domestic and export markets.

Lao PDR’s economy has undergone considerable growth over the recent decade driven largely by commodity exports. The steady increase in exports has been driven by hydropower, electricity, copper, tin, gold, and wood. Lao PDR’s total exports declined in the aftermath of the global financial crisis but increased from 2009 to 2010. The rebound in exports in 2010 was driven by increasing world mineral prices, including the price of copper and gold, and Lao PDR’s surging hydropower exports.

As in the case of Cambodia’s wood product sector, Lao PDR’s abundance and quality of timber presents an opportunity for expanding wood product exports. However, this needs to be balanced against the falling forest cover. Lao PDR’s forest cover has decreased significantly since 1940, when forest covered approximately 70% of the country. Since then, the forest coverage rates have shown a decline from approximately 67% in the 1960’s to 47% in 1989 to 41% in 2002 (Tong, 2009). A variety of factors such as population growth, an economic shift to an agriculture based economy, a lack of enforcement of national policies towards timber trade on the provincial level and/or differences in legal interpretations between national, provincial and local governments and unplanned logging have contributed to the declining forest cover. To combat rising deforestation, the Government of Lao PDR has implemented policies that aim to reforest Lao PDR with the goal of reaching a 70% forest cover by 2020 (Tong, 2009).

Thus, there is an inherent tension between reforestation and the growth of the timber export sector. Recent policy initiatives taken by the Government of Lao PDR show that the government is aware of this challenge of making available timber for high value exports in a sustainable manner and balancing it with forest preservation measures and is attempting to address it at multiple levels.

Prime Minister Order Number 30, issued on 17 August 2007, clarified and further enhanced enforcement measures preventing the export of raw or partially raw roundwood and timber; in fact, the order implies a ban of roundwood for export (Tong, 2009). This measure, in conjunction with the actions to centralize wood allocation and
oversight of logging rather than managing wood allocation on the provincial level, shows there is political will to address key challenges in the sector. The intended effects are twofold: it bans raw timber exports and encourages an increase in sustainable processed wood exports. Nevertheless, the results of these recent policy decisions have been slow to show.

**Figure 4: Wood Exports as a Share of Total Lao PDR Exports**

![Graph showing wood exports as a share of total Lao PDR exports from 2000 to 2010.](image)

Source: UNCOMTRADE and authors’ calculations. Note: Wood exports are defined to include SITC Rev.2 2-digit codes 24, 63, and 82.

Figure 4 shows that the share of wood exports in Lao PDR’s total exports increased in the early half of 2000s until 2003 to account for as much as 41% of the total exports. But the share of wood exports has declined since then falling to 9.5% in 2010. The decline in the share of wood exports is due not only to the decline in legal wood exports but also because the total exports of other sectors from Lao PDR, such as mining and hydropower, increased faster. Among the various wood products, cork and wood (raw wood) accounts for the bulk of total wood exports and total wood exports closely track

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15 Wood exports are defined to include the following SITC Rev.2 2-digit categories: 24 (cork and wood), 63 (cork and wood, cork manufactures), and 82 (furniture and parts thereof). Note that SITC Rev.2 2-digit code also includes items such as metal furniture, articles of bedding, and mattress support etc. Thus, wood exports might be overestimated here.
the pattern of cork and wood exports. Cork and wood manufactures and furniture accounts for a small share of the total exports from Lao PDR. Within the wood products sector, raw cork and wood continues to be the largest component accounting for almost all of the wood exports. PRC, EU, Thailand, USA, and Viet Nam are the key export markets.

Sample Description
Overall, 14 Laotian wood product exporters were interviewed for the purposes of this study. Based on revenue the surveyed firms were mostly medium-size businesses, with an average of USD1.5 million in annual revenue and 47 employees. Table 5 shows the key characteristics of the surveyed firms.

Table 5: Lao PDR Wood Products Sample Characteristics

<table>
<thead>
<tr>
<th>Sample Characteristics</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td>14 companies</td>
</tr>
<tr>
<td>Average Years Exporting</td>
<td>11 years</td>
</tr>
<tr>
<td>Average Full-Time Employees</td>
<td>47 employees</td>
</tr>
<tr>
<td>Average Export Revenue</td>
<td>USD1.5 million</td>
</tr>
<tr>
<td>Major Products Exported</td>
<td>Furniture, parquet flooring, deck flooring, and doors and windows</td>
</tr>
<tr>
<td>Top Destinations</td>
<td>Thailand, Viet Nam, PRC, EU, US</td>
</tr>
<tr>
<td>Foreign vs. Local Business</td>
<td>All businesses are domestically owned and operated.</td>
</tr>
</tbody>
</table>

Source: ADB Constraints to Exports Questionnaire.

3. Logistical and Supply Chain Impediments to Increasing Exports
The case study conducted for this study quizzed the firms on both aspects of trade facilitation aspects under the umbrella of logistical impediments to exporting and constraints to firm’s production capacity. This section looks at the logistical impediments while the second aspect is covered in the next section.

For the purposes of this section, responses of the firms in the three sectors in Cambodia related to logistical and supply chain impediments are combined together. Those for Lao PDR’s wood products sector are presented separately.

Each firm in the survey was asked to rank their respective top three logistical impediments from a given list of nine constraints from one to three, one being the most
severe impediment.\textsuperscript{16} For purposes of presentation, customs formalities, fees and inspections are considered together with paperwork and clearance processing. Thus, if a firm ranks both these in their top three impediments, only one is considered or if only one of them appears in the top three it is taken as including the other. Consequently, for some firms (the ones which included customs formalities, fees and inspections as well as paperwork and clearance processing in their top three constraints) only two impediments are included in the analysis below.

3.1 Cambodian Exporters

Figure 5 summarizes the responses of the Cambodian firms in the three sectors to logistical impediments to exporting. The figure also distinguishes the responses by the three sectors. Out of the 39 firms interviewed in Cambodia, 33 ranked customs formalities (including paperwork and clearances) as among their top three impediments. It should be noted that this does not meant that customs formalities was ranked as the number one impediment by 33 firms. Instead, it shows that among all the impediments listed, customs formalities was ranked as 1, 2, or 3 by more firms than any other impediment.

Across the sectors, most of the surveyed firms—15 out 15 in the garments sector, 11 out of 14 in the food products sector, and 7 out of 10 in the wood products sector—noted customs formalities as among their top three impediments.

Some of the firms noted that customs procedures acted as a constraint on timely delivery of input supplies which further adds to the costs and/or forces them to use local supplies which then affects the overall quality of the final product. For example, in the case of garments, there are no input supplies in Cambodia and a garment factory’s ability to get timely shipments of fabric affects their delivery times. If inbound shipments are delayed at the border, outbound shipments will most likely be delayed, resulting in extra shipping fees. In addition, if buyers are late to approve or the fabric isn’t the right quality (requiring a re-order), garment shipments are also likely to be delayed.

Similarly, several exporters in the Cambodian wood product sector spoke of the difficulty and costs associated with importing goods such as additional raw materials, specific chemicals, or dyes. They also noted one specific cost that they reported was too high – which was that the fees charged are often on the entire invoice value, which often includes tax and cost of shipping. For some firms, the costs of importing becomes too high to compete and export and this can result in preventing the production of certain

\textsuperscript{16} The firms were asked to rank the top three constraints from the following list: (i) availability of transport; (ii) transit times (from time of leaving factory door); (iii) cost of transport (all cost variables); (iv) certifications (including CO); (v) customs formalities, fees and inspections; (vi) required quantity of order fulfillment; (vii) traceability of inputs; (viii) flexibility in routing cargo; (ix) paperwork and clearance processing; and (x) others (specify).
goods altogether, and also potentially restricts production capabilities to inputs available in Cambodia.

**Figure 5: Logistical and supply chain impediments in Cambodia**

Overall the cost of transport was listed by 27 firms as among their *top three* (ranked 1, 2, or 3) impediments. Cost of transport was ranked as the *number one* constraint by most firms (not shown in Figure 5). In the garments sector 9 out of 15 firms, in the food products sector 8 out of 14 firms, and in the woods products sector 5 out of 10 firms ranked cost of transport as the *topmost* (i.e., ranked number one) impediment. The cost of transport is, thus, perceived to be a major challenge by most firms interviewed. Cambodian garment manufacturing firms noted that freight forwarders are nominated by buyers, so they have to negotiate based on the buyer’s decision, resulting in lower negotiating power for factories. Another reason behind cost of transport as an impediment could be that informal payments are included as part of the transport charges. As evidenced by survey responses, firms had little idea or control over the informal payment part of overall transport charges.

Source: ADB Constraints to Exports Questionnaire. Note: Customs formalities also include paperwork and clearance which was included as a separate impediment during the interview.
Transport charges could also be high due to lack of competitive transport service providers. Several factors support this hypothesis. First, Cambodia’s trucking fleet is relatively small and aging. Second, transportation costs per kilometer are significantly higher in Cambodia than in neighboring countries.17 Third, the lack of firms conducting cross-border shipments (the vast majority of goods crossing Cambodia’s land borders are trans-loaded) coupled with restrictions on foreign owned trucking companies operating in-country provide a relatively protected domestic environment for transport service providers to operate in. Fourth, there are a relatively small number of large-sized trucking firms accounting for the vast majority of trailer trucks and international shipments. Additionally, some trade corridors, such as Phnom Penh to Bangkok via the Arranyapraphet border, are dominated by just one or two large trucking companies. These factors also support comments regarding the lack of availability of transport which was noted by 6 firms as a logistical impediment to exporting more.

Obtaining the requisite certifications was ranked as an impediment by 15 firms, 8 in the garments sector, 6 in the food products sector, and 7 in the woods products sector. In the case of the wood products sector, this is most likely due to various clearances required for the wood used in the wood products sector. Other top three impediments were required order quantity, traceability of inputs, quality control, and transit times.

3.2 Lao Wood Exporters
Out of the fourteen wood exporters surveyed in Lao PDR, only twelve responded to the logistics constraints related questions; two firms did not answer these questions, as interviewees did not handle the logistics and were not fully aware of all the issues at stake. Three firms did not rank top 3 constraints and instead ranked only one or two top constraints; these 3 firms are excluded for the purposes of analyzing the key logistical and supply chain impediments. Figure 6 shows the logistical constraints faced by the firms in Lao PDR using the data for the remaining 9 firms. As noted earlier, the firms were asked to rank the top three impediments only.

All the 9 firms in the sample ranked the customs formalities (including paperwork and clearances) as one of their top three logistical impediments. Surveyed firms described the process as long and cumbersome, and reported that many fees (both formal and informal) were required.18 Significant input clearance procedures and the cost of moving wood within Lao PDR also increases the overall cost and time to export wood products.

4 of the 9 firms in the sample highlighted “required order quantity”, i.e., the amount of wood products to meet buyers’ demand, as among their top three constraints to

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17 It was estimated in 2009 and 2011, depending on routes, transportation costs in Cambodia are $10.00 - $15.00 per ton/100 km compared to $4.00 per ton/100 km and $7.50 per ton/100 km in Thailand and Vietnam, respectively (ADB, 2011; CDRI, 2009; and EMC, 2011).
18 During the interviews, one wood exporter who buys wood inputs from a trader said, “The government should reduce the amount of inspections on inputs, which would decrease my costs indirectly.”
exporting. Firms noted that they could not source sufficient amount of raw materials to fulfill order demands from buyers. Fierce competition to source raw materials and the limited amount of quotas issues left firms searching for raw materials to meet orders.

Figure 6: Logistical and supply chain impediments in Wood Products Exports Lao PDR

Transportation costs to bring raw materials to the factory and transportation costs associated with the export of finished goods were also reportedly high and noted as a top three constraint by two (out of 9) firms. This could be due to lack of availability of transport services or due to informal payments being combined with transport costs. Two firms ranked certifications as among their top three constraints.

4. Constraints to Increasing Exports
A second objective of the survey was to ask the firms about the constraints to expanding their production and improving competitiveness which could enable them to export more and compete in export markets. In each of the four sector, the surveyed firms were
asked to rate each potential constraint from 1 to 5, with 5 being the most severe.\textsuperscript{19} A constraint was considered as severe if it was rated 4 or 5.\textsuperscript{20} Out of the list of eleven constraints, each firm could rank more than one constraint as 4 or 5. Constraints to expanding production capacity and improving competitiveness may vary across sectors and hence the findings are presented separately for each of the four sectors.

4.1 Cambodian Garments Sector
Figure 7 summarizes the constraints faced by the garment sector in Cambodia to expanding their production. Of the various constraints, 11 firms (out of the 15 interviewed) rated high non-labor and non-raw material input costs such as the cost of electricity as a severe (rating of 4 or 5) constraint. Factories use power supply provided by the government when possible; however, unstable electricity forces factories to use their own generators, which is typically more expensive than using energy off the power grid. Addressing the high cost of electricity is a priority for the garment industry. The Garment Manufacturers’ Association of Cambodia (GMAC) has been working with the International Finance Corporation (IFC) since 2009 to audit energy consumption in the garment industry with the goal of improving energy efficiency in the Cambodian garment sector to reduce costs and thereby strengthen the industry’s overall competitiveness.

Government regulations were noted by 10 firms as a severe constraint to exporting more. Firms noted that for imports, factories need to apply for an import permit that normally takes up to three days. For exports, the factories need to apply for a certificate of origin and this can take up to 7 working days. The surveyed firms noted that the procedures and times are longer and costs are higher than they need to be which in turn affects their ability to deliver the shipment on time. This impacts both their price and non-price competitiveness and also impinges on their credibility as reliable exporters.

The need to apply for import permits is related to the unavailability of input materials in the local market, which was rated as a severe constraint by 9 of the 15 firms. The interviewed firms noted that raw input materials are unavailable in Cambodia and have to be imported, which restricts their ability to expand exports because ordering input supplies from fabric mills is handled by company offices outside Cambodia and these orders are placed only after the buyers’ approval of the sample. Any delay in either the

\textsuperscript{19} Note this is different from the approach used for logistical impediments where the firms were asked to identify only the top 3 constraints and rank them from 1 to 3. In the case of constraints to production capacity and improving competitiveness, the firms were asked to rate the severity of each constraint from 1 to 5, instead of identifying only the top 3 constraints.

\textsuperscript{20} In each sector, the interviewed firm was asked to rate the severity of each of the following constraints: (i) working capital/trade finance including payment terms; (ii) availability of raw materials/input supplies; (iii) availability of labor skills; (iv) reliable supply of energy; (v) finance for capital investment, including technology or production equipment; (vi) product not of export quality; (vii) supply chain and trade logistics capacity; (viii) knowledge of export markets/ finding buyers; (ix) market economics not attractive; (x) government regulation; and (xi) others (specify).
approval of the fabric quality by the prospective buyers or in getting through customs while importing the input can delay input supplies, which can then delay the delivery of the final product.

**Figure 7: Constraints to Increasing Exports in Cambodian Garments Sector**

![Bar chart showing constraints to exports](chart.png)

Source: ADB Constraints to Exports Questionnaire. Note: Only the impediments rated as being severe (i.e., rated 4 or 5) are shown here. The vertical axis shows the number of respondents (out of 15 firms) reporting the constraint as severe.

A few garment factories also reported that finding labor with adequate skills was a constant challenge. Garment companies reported that they needed both people with managerial skills and workers with technical skills in fashion, designing, pattern making, merchandising, and supply chains. However, these skills, the firms noted, were hard to find in the current human resource pool in Cambodia. Additionally, many Cambodian garment manufacturers also lack the knowledge and understanding of what international buyers want, which has limited their capacity to grow (World Bank, 2012). During the course of the interviews, some firms reported challenges with managing workers, given the low skill level and professionalism of some workers. This, the firms noted, made it difficult to meet deadlines.
However, constraints to the growth of the sector are larger than just the lack of input supplies. Cambodian garment manufacturers primarily operate as outsourced production centers for a foreign-owned firm, i.e. companies send inputs and receive back processed garment items. The Cambodian portion of the value chain, thus, doesn’t have a need to proactively market or sell their goods. Instead, Cambodian garment factories deliver goods that are ordered internally. To capture more of the value chain, Cambodian garment factories could start by owning more of the logistics responsibilities, ordering of inputs and determining delivery logistics, and beginning to charge for these extra services. Over the long-run, moving into higher skilled work like fashion design and marketing will also present an opportunity for growth.

4.2 Cambodian Food Products Sector

In contrast to the challenges noted by firms in the garment sector, the top constraints reported by the firms in the food sector relate to more basic business development needs, such as access to capital both to fund operations and for capital investment. 9 out of 14 firms and 8 out of 14 firms rated access to working capital and financing for investment as impeding their ability to expand production and exports (Figure 8).

Export quality was also rated as one of the constraints (6 out of 14 firms), which is somewhat related to access to finance because in order to improve rice quality, exporters need to be able to upgrade drying and milling facilities and invest in machinery. However, limited access to finance was holding back such investments. Export quality is also dependent on the quality of paddy used. According to the surveyed Cambodian rice millers, demand from foreign buyers for paddy creates challenges in sourcing paddy for their mills and also puts an upward pressure on the price of paddy. However, it should be noted that Thai and Vietnamese millers who import rice from Cambodia and also pay a transport cost back to their mills are still able to compete and sell in international markets. The pressure on the price of Cambodian paddy due to external demand cannot, therefore, be a key constraint for Cambodian millers to expanding rice exports. Thai and Vietnamese millers have large contracts locked in and potentially have access to working capital which allows them to buy big quantities of high quality paddy. This works as a competitive disadvantage against Cambodian millers that don’t have large international contracts and don’t have access to working capital either. The inability of the Cambodian millers to compete with foreign millers for high-quality paddy could be related to their inability to access working capital.

On the other hand, assuming that a part of the increase in paddy prices is passed on to the farmers, they gain from the presence of foreign buyers in the paddy markets. Higher prices can lead Cambodian farmers to grow more rice paddy which in turn can have a positive effect on the supply of paddy. However, when the rice paddy is milled outside of Cambodia, the value-added gains from rice milling and moving up the value chain in the
food sector are lost and Cambodia is left to exporting only the raw material (Royal Government of Cambodia, 2010).

**Figure 8: Constraints to Increasing Exports in Cambodian Food Products Sector**

During the interviews, rice exporters explained that working capital also impacted their ability to fulfill order requirements. Without sufficient working capital, exporters are unable to buy sufficient paddy to meet international order sizes. Several larger companies mentioned that sometimes large buyers ask for orders of 10,000 tons per month, but they are unable to supply such large orders due to limited capacity of local businesses and the constraints of the supply chain (which was noted by 5 out of 14 firms as an impediment to increasing exports).

Similar to firms in the garments sector, some firms (5 out 14) rated lack of reliable energy supply and the consequent higher electricity price due to use of generators, as constraining their ability to export more and compete with other regional exporters.

**4.3 Cambodian Wood Products Sector**
Factors rated as most constraining (rated 4 or 5) the ability of wood exporters (some of the interviewed firms also included grass exporters) to expand and improve competitiveness are summarized in Figure 9. Five of the ten firms interviewed reported availability of raw materials, government regulations, and knowledge of foreign markets/buyers as inhibiting expansion of exports.

Accessing raw materials in adequate quantity and of consistent quality that can be processed into higher value products was one of the biggest challenges for wood exporters. For other wood products made from sedge and palm leaves, the input supply is seasonal. Therefore, price, quality, and quantity of input supply fluctuate seasonally.

**Figure 9: Constraints to Increasing Exports in Cambodian Wood Products Sector**

Source: ADB Constraints to Exports Questionnaire. Note: Only the impediments rated as being severe (i.e., rated 4 or 5) are shown here. The vertical axis shows the number of respondents (out of 10 firms) reporting the constraint as severe.

In terms of government regulations, wood exporters (excluding grass products) described lengthy and multi-step processes for approval, high informal fees, and the low availability of government officials for approvals. Inability to source raw materials and the role of government regulations may be related to the government’s focus on forest
preservation which has resulted in sourcing restrictions and added to the process of seeking clearances.

Another constraint to exporting more is the knowledge of export markets. The respondents noted that a good understanding of international designs and tastes was essential and was stated by many as being a challenge to entering foreign markets. This is somewhat related to the lack of labor skills, i.e., shortage of staff understanding consumer preferences and international markets, which was reported by three firms as being a constraint to exporting more.

Similar to the exporters in the food sector, lack of capital, both for operational purposes and for investment, was viewed as a constraint. Like with the garments and food product sector, lack of reliable electricity supply and high energy costs due to use of generators was noted as a constraint by four of the ten firms.

4.4 Laotian Wood Products Sector
Out of the 14 firms surveyed, 10 firms reported their inability to source raw materials, specifically round wood, as a severe constraint to increasing exports. 8 of the 14 firms listed government regulations as constraining their growth. The two, i.e. availability of raw material and government regulations are, however, linked as Viet Nam, which is amongst the world leaders in processed wood exports, has taken a sustainable approach to domestic forest preservation. During the course of the survey, interviewees noted that the wood quota policy was ambiguous and not enforced regularly. This, in turn, has a direct effect on the Lao PDR wood industry, as Vietnamese processors seek to source raw materials from Lao PDR via both legal and illegal methods (Forest Trends, 2010).

The interviewed firms noted that they face competition for limited raw wood and processed wood from Vietnamese companies. Competition from foreign buyers together with limited access to wood can result in higher wood prices. Laotian exporters see this as eroding their competitiveness in international markets. Some of the interviewed firms raised the issue of “special treatment” for foreign buyers. However, higher price of wood caused by the lack of availability of raw wood and competition from foreign buyers cannot itself be a constraining factor. This is because foreign buyers incur a transportation cost on top of the higher price and are still able to compete in international markets. There may be other reasons such as the lack of the ability of Laotian exporters to finance purchases of large quantities of raw wood vis-à-vis the purchasing capacity of foreign buyers which impinge on the ability of Laotian wood exporters to buy more wood for exports.

In fact, 6 firms reported access to working capital as a severe constraint. Financing is also inextricably linked to the ability to source raw materials. Firms reported that banks
are reluctant to lend to wood processing businesses, because the current timber allocation policy set by the Government of Lao PDR is unpredictable. From the point of view of the banks, this unpredictability made wood companies risky borrowers.

![Figure 10: Constraints to Increasing Exports in Laotian Wood Products Sector](image)

Source: ADB Constraints to Exports Questionnaire. Note: Only the impediments rated as being severe (i.e., rated 4 or 5) are shown here. The vertical axis shows the number of respondents (out of 14 firms) reporting the constraint as severe.

4 firms also noted shortage of labor skills as a severe constraint. This may be related to lack of knowledge of export markets, i.e., trends in international tastes and preferences in wood products, which was also listed by four firms as an impediment to exporting more. Two firms noted that the “market economics” was not attractive enough to export, and this was likely due to lack of raw materials and competition from foreign buyers which together increased the cost of raw input materials.

5. Policy Recommendations

Based on the findings of the case-study, the following set of policy recommendations are made with a view to alleviating the current constraints faced by exporters in Cambodia and Lao PDR. For both the countries, policy recommendations include measures to
improve the process of exporting and to help the firms expand their productive capacities to export more.

5.1 Cambodia

1. Improve exporting as well as importing procedures. The latter will help ensure timely delivery of imported inputs. A list of possible measures include the following:21
   a. Fully implement the e-clearance system to minimize export times, reliability, and costs for the import and export process.
   b. Increase number of government positions with the authority to approve import and export permits. There are often delays in waiting for the signature of the designated officials.
   c. Implement permits for a certain time period instead of per shipment. Instead of requiring customs permits for each shipment, the General Department of Customs and Excise could offer permits for a certain time period, such as annually, for shippers with a good history. This would allow shippers with good records to experience faster trade process times.
   d. Implement “Service Level Agreements” (SLAs) to provide for default positive processing in the absence of a provided rationale for disapproval within an agreed time limit. For instance, a certificate of origin would be approved unless there is a reason for disapproval after 3 days. This would allow the private sector to plan around definitive times for import and export processes and eliminate holdups.

2. Improve access to working capital for companies in the food products and the wood products export sectors. Firms in both the sectors noted access to working capital as a key growth constraint. For example, there have been a number of recent studies involving rice paddy bonded warehousing. Under this scheme, banks can loan capital to private sector players using rice paddy as collateral. This is an innovation against hard capital loans, and could unlock business growth for small holders, traders as well as rice millers if found viable. Trade finance programs in coordination with international aid agencies can also help alleviate financing constraints.

3. Improve power supply. Firms interviewed in all the three sectors, rated energy as a highly important factor constraining their ability to expand production and export more. Currently, the power supply in Cambodia is unstable and many factories have to use their own generators. The latter are inefficient and costly which increases the energy bill for these businesses. Thus, improving energy supply through tapping into additional sources of power supply as well as diversifying the sources of power supply should be a priority for the government. This will ensure stable supply, lessen the use of generators, and bring down the cost of electricity for the firms. It can help firms improve their

21 Also see the discussion in Chapter 6 which provides a list of nine policy measures to improve trade facilitation in Cambodia.
competitiveness in cost terms as well as enable them to deliver larger orders and also help with timely delivery of orders.

4. Simplify the documentation process for wood exporters while maintaining strong forestry management. Wood exporters are acutely aware of the gains made for rice exporters following the National Rice Policy in terms of improvements in export procedures, times, and costs. Wood product exporters expressed a desire for a similar emphasis on their own export industry, particularly for SMEs.

5. Increase access to information about export requirements, processes, times and costs. Increased information and transparency will improve the competitiveness of service providers, resulting in better products for the consumers of export services. Exporters, such as those in the food products sector, reported that they were frequently unfamiliar with the requirements or processes for exporting. Such resources do exist, for example the Export Handbook for SMEs published by the IFC (IFC, 2008). However, exporters could greatly benefit from a resource that provided up-to-date information that is easy to access. In this regard, measures proposed in ADB’s Blue Book (see Chapter 6) such as setting up of an online information resource that would be a one-stop information resource for exporters are a step in the right direction. Awareness about the online resource could be raised through relevant associations and forums such as the Cambodian Small and Medium Industries Association.

6. Continue to build the national transportation infrastructure network. This would improve transport infrastructure and port facilities to reduce not only actual transportation costs but also the costs resulting from delays in export and import times. For example:
   a. Continue to develop alternative means of transit to the port, such as the under-construction train from Phnom Penh to Sihanoukville.
   b. Continue to realize the potential for investment or exploration of river and barge transportation and how it links to existing supply chains and transport infrastructure.
   c. Continue forward on steps already being taken, such as the bridge to Bavet which will provide a better linkage for trucks to the Vietnamese border.
   d. Protect frequently used road infrastructure with strictly enforced weight loads for trucks (as suggested in ADB’s Blue Book, Chapter 6).

7. Support the building of sector specific infrastructure such as cold storage warehouses, food grade containers, and refrigerated containers, which will help support export growth in the food industry. Currently, most food product testing is done in Thailand or Viet Nam. Establishing internationally recognized testing labs in Cambodia in partnership with trusted international bodies could greatly reduce costs and times of testing.

8. Build labor skills. All the firms noted lack of skilled labor in their respective sectors. This is closely tied to workers with lack of knowledge about foreign markets and
international tastes and preferences. Establishing training institutes to build sector-specific skills and ensuring that the skill sets of graduates match with the needs of the private sector can help improve the quality of labor pool available in Cambodia. From an operational perspective, the government could support the training institute with infrastructure and training materials, and the private sector could pay subsidized fees for trainings in the beginning, growing to full-fledged fees over time. In addition to improving skills, the training institute, garment factory owners suggested, could run courses on basic skills which would improve worker productivity. For example in October 2005, USAID initiated a three-year program for the Garment Industry Productivity Center. After the funding ended, that initiative was turned into a private business. More recently, GMAC began advertising pattern-making courses, with support from the Ministry of Economy, Trade and Industry (METI), Japan, and through the Japan Overseas Development Corporation.

9. Increase global awareness of Cambodian products. Exporters noted that improving international recognition of their products would help boost exports. Programs like the Export Market Access Fund (EMAF) help SMEs to increase their knowledge about foreign markets as well as promote their products in international markets. Additional support for Cambodian exports could be provided through trade shows with the help of the government. Extending and growing the reach of programs could be a potential way to continue supporting Cambodian exporters as they grow their international business. Supporting the preparatory steps for growing international brand awareness is vital as well. For example, organizing internationally recognized certifications and associated training programs for Cambodian businesses could improve competitiveness within ASEAN and then could eventually positively increase global awareness of Cambodian products.

10. The National Rice Policy laid out by government which targets rice exports of 1 million tonnes by 2015 is a good example of a national sector policy. Cambodia should continue to build on this success by (i) reviewing and revising the current rice policy with the help of market and policy specialists and (ii) developing policies for other priority sectors. In both cases, having concrete goals and time frames will help the relevant authorities to facilitate infrastructure improvements, export processes, access to finance, and other incentives that are valuable to exporters in order to reach the goal. If developed and instituted, the industrial policies would help increase the responsibility of the public sector to reduce constraints including the cost and time of exports, which in turn, should incentivize exporters to be more competitive.

11. Conduct a thorough study of transportation costs including local and international routes in the country. The output of the study should have few important components which can help the Royal Government of Cambodia to build strategies around the issues:
a. The study shall indentify all major constraints, for instance, informal fee, gasoline price, competition of trucking companies, route condition and other infrastructure that cause the price of transportation high. The costs shall be compared with those in neighboring countries as a benchmark.

b. Given the hindsight of the major constraints, the study shall lay out the responsibility and policy in both private and public sectors to solve those constraints. The solution should spell out clear time frame which can help exporters have clear picture to build export growth plan.

5.2 Lao PDR

1. The most pressing concern for the firms surveyed was the availability of raw materials. This is inextricably linked to government regulations and the allocation of wood permits. Any policy recommendation to alleviate this constraint needs to be balanced with the imperatives of forest management and responsible wood exporting. The government should centralize, manage, and increase transparency in the allocation of wood permits. Through recent decrees and actions, the Government of Lao PDR has shown a desire to address the wood allocation challenges faced by the industry. The measures undertaken at the provincial level should be coherent and aligned with those at the national level to ensure uniform implementation of wood allocation policies.

2. Streamlining the input inspection process and export clearance process would facilitate exports and lower costs for exporting businesses. For example, reducing the numbers of required inspections for domestic movement of roundwood would reduce the transport costs for wood processors as informal costs incurred during inspections will go down.

3. Support access to finance initiatives for wood exporters. Lending to businesses in the wood sector is considered high risk due to the unpredictable nature of the wood allocation policy. A transparent and a predictable wood permits policy will allow local firms to be more informed about the input availability as well as their growth prospects. This will in turn lend credibility to their business plans improving their prospects for accessing finance from banks. The business of the wood exporters will also become less risky which can help bring down interest rates for financing. In addition, financing through trade finance programs can ease the financing constraint, provided that the wood used is legal and meets the sourcing requirements. To this end, a rigorous evaluation of legitimate wood businesses with certification from an international organization could be used to give assurance to local banks and partners in the trade finance program that the exporter is following best-practices.

4. Conduct a study to better understand where the market opportunities are in Lao PDR for either domestic production or export production, and analyze what capabilities, in
both soft and hard skills, Laotian firms and labor force would need in order to be competitive with regional players.

6. Conclusion
The trade of Cambodia and Lao PDR has expanded rapidly, yet trade of Cambodia and Lao PDR is a small share of the overall GMS5 trade. Trade offers countries an opportunity to cater to markets beyond their borders, compete in global markets, learn new technologies, and improve their business performance. Ultimately, more trade helps a country grow and improve their living standards.

It is, therefore, important to understand factors constraining export growth in Cambodia and Lao PDR. This chapter presented findings from a qualitative survey carried out in four sectors (three in Cambodia and one in Lao PDR). The survey involved asking the firms about two different aspects of exporting—logistical and supply chain impediments and the second was obstacles to expanding production to increase exports and to improving competitiveness.

Findings from the case study show that firms face constraints to both logistical and supply chain impediments as well as to expanding production capacity and improving competitiveness. Thus, addressing the logistical and supply chain constraints through trade facilitation measures may not be sufficient to stimulate exports from Cambodia and Lao PDR. Efforts to promote exports from the two countries thus also need to look at constraints which impact a firm’s production capacity and competitiveness.

The chapter has identified possible areas for further action by the government. Aid agencies can work with the governments to address these constraints and provide support towards activities such as infrastructure projects—energy and transport, SME finance, trade finance programs, vocational training institutes, and simplification of customs procedures. However, to further understand the severity of various constraints, in-depth sector-specific diagnostic studies should be undertaken. This will help identify the most binding constraints and help prioritize policy action geared towards relaxing those constraints.
References


