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EXISTING NON-TARIFF MEASURES IN CAMBODIA

Introduction

Academics, policymakers and practitioners working in the trade sector have paid much attention to non-tariff measures (NTMs). The reason is that while tariffs have been reduced through regional, multilateral and bilateral trade agreements, the use of NTMs to regulate trade has expanded, supposedly in response to demands for better consumer and environmental protection. However, NTMs are also used as an alternative to tariffs to protect domestic industry, markets and products. Further, NTM compliance increases the cost of exporting and, ultimately, leads to a reduction of trade flows. Tariff trade costs account for only 2 to 3 percent of the total trade cost in Asia-Pacific countries while policy-related and non-tariff trade costs represent 76 to 78 percent (Duval, Saggu and Utoktham 2015, 10–11). For developing countries, NTMs have implications for market access because compliance requires extensive technical capacity and international standard facilities which they often lack, while high compliance costs can put them at a competitive disadvantage. Yet both developing and developed countries are increasing their imposition of NTMs.

NTMs are imposed by countries on specific commodities to protect human, animal and plant life, and the environment. They are complex legal texts and extremely diverse and thus pose a challenge to their classification and definition. The United Nations Conference on Trade and



*The timelines for eliminating non-tariff barriers vary between countries
Sihanoukville, Oct 2017*

Development (UNCTAD) recently reclassified NTMs into 16 categories coded A to P (Table 1). Despite many proposals to simplify the definition of NTMs, none of them have been comprehensive enough. Although there is no single agreed definition, the World Trade Organization (2012, 72) broadly describes NTMs as:

... policy measures other than ordinary customs tariffs that affect international trade in goods at the border by changing quantities traded, prices or both. NTMs include a wide range of instruments such as quotas, licences, technical barriers to

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trade (TBTs), sanitary and phytosanitary (SPS) measures, export restrictions, custom surcharges, financial measures and anti-dumping measures.

This article aims to provide an overview of the existing NTMs Cambodia has imposed on the products it imports and exports so that trading companies can have a better understanding of their magnitude. It also aims to generate practical insights for conducting further research on NTMs in Cambodia. A short review of the empirical literature synthesises the most recent findings. A brief account of the evolution of NTMs in Cambodia and inventory of existing NTMs by Harmonised System (HS) classification follows. Then, NTM coverage ratios for Cambodia's imports and regulatory distance of NTMs within ASEAN are calculated and presented.

Analytical methods

NTM data was collected from the UNCTAD Trade Analysis Information System (TRAINS) and the World Bank's World Integrated Trade Solution (WITS) database, and trade data from UN Comtrade. To identify the distribution of NTMs and assess their potential effects, the study computed NTM incidence, NTM coverage ratios and NTM regulatory distance.

NTM incidence "accounts only for the presence or absence of an NTM and summarizes the percentage of products to which one or more NTMs are applied" (UNCTAD 2013, 4).

NTM coverage ratio is "the percentage of trade subject to NTMs for the importing country and provides a measure of the importance of NTMs on overall imports" (UNCTAD 2013, 4).

Regulatory distance, introduced by Cadot et al. (2015), determines the differences and similarities between the NTM regimes of different countries. I calculate regulatory distance as follows. First, if two countries apply NTM_l to six-digit HS commodity k , then the regulatory difference in NTM_l on commodity k of both countries is $RD_{lk} = 0$; $RD_{lk} = 1$, otherwise. Then, using the formula

$$D_{ij} = \frac{\text{sum of } RD_{lk} \text{ sum of } RD_{lk}}{\text{count of } RD_{lk} \text{ count of } RD_{lk}},$$

I calculate the overall regulatory distance D_{ij} between the countries of interest, and convert all the D_{ij} values into an asymmetric matrix. Multidimensional scaling is performed in Stata and the values plotted on a graph to show the relative similarity of NTM regulations across comparator countries.

Table 1: UNCTAD classification of NTMs

		Code	Description
Import-related measures	Technical measures	A	Sanitary and phytosanitary measures
		B	Technical barriers to trade
		C	Pre-shipment inspection and other formalities
	Non-technical measures	D	Contingent trade-protective measures
		E	Non-automatic licensing, quotas, prohibitions and quantity control measures
		F	Price-control measures, including additional taxes and charges
		G	Finance measures
		H	Measures affecting competition
		I	Trade-related investment measures
		J	Distribution restrictions
		K	Restrictions on post-sales services
		L	Subsidies (excluding export subsidies)
		M	Government procurement restrictions
		N	Intellectual property
		O	Rules of origin
		P	Export-related measures

Source: UNCTAD (2015)

Some previous studies on Cambodia's NTMs and trade

Empirical research on the trade effects of NTMs in Cambodia is still limited, especially studies that use rigorous analytical tools. A country case study by Dourng and Sok (2005) concluded that the NTMs facing Cambodian export companies mostly concern sanitary and phytosanitary (SPS) measures, followed by government subsidy, customs and administrative procedures, and technical barriers to trade (TBT), and that lack of technical expertise and international standard laboratories are the main NTM-related obstacles to trade. The authors speculated that if the NTMs were eliminated, Cambodian exports would diversify and expand, yielding economic growth and poverty reduction.

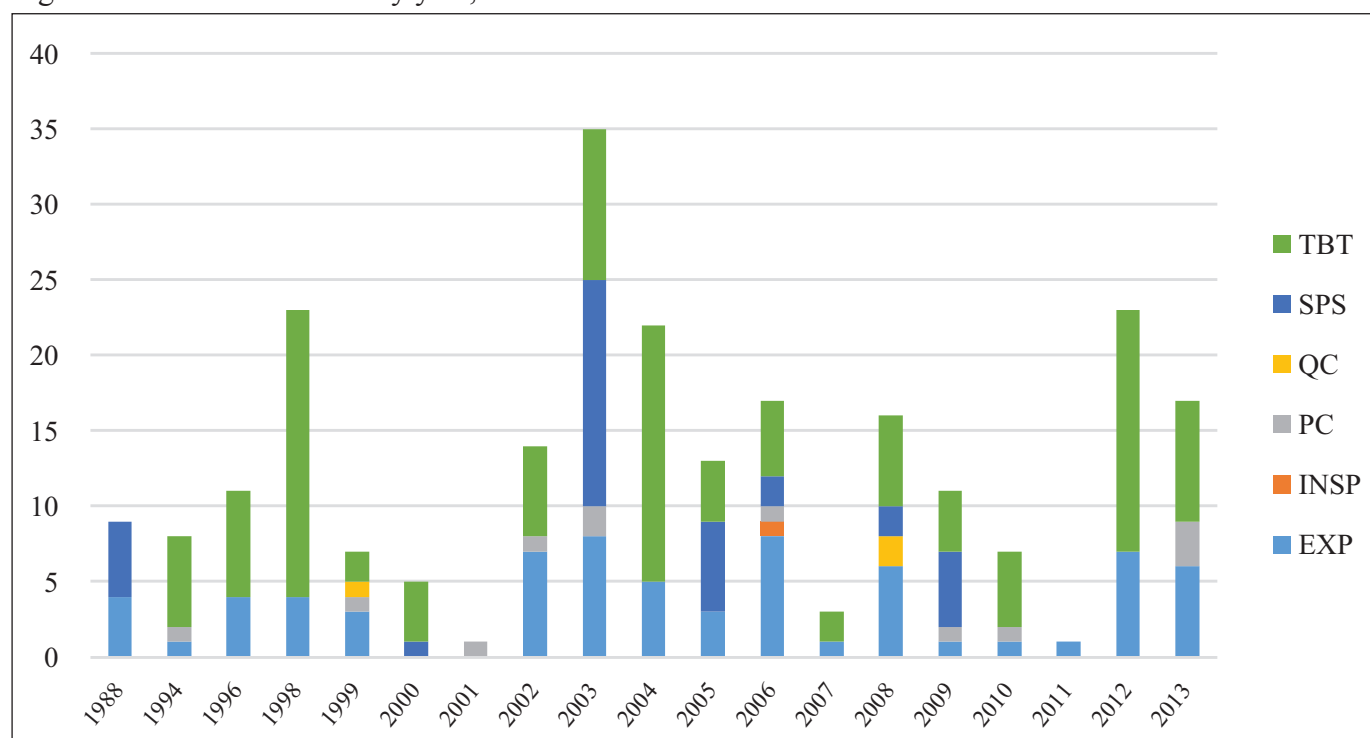
Research by the International Trade Centre (2014) on the company perspective of NTMs found that 69 percent of the firms interviewed in Cambodia face trade barriers. Among ASEAN member states, Cambodia has the highest proportion (82 percent) of firms affected by stringent NTMs. Agro-food commodities are the most affected, with 89 percent of agri-exporters facing burdensome difficulties. Exporters thought that getting the certificate of origin was the most

difficult and meeting conformity assessment requirements the second most difficult.

Sotharith, Tobing and Widiana's (2016) classification of NTMs in Cambodia identifies 243 NTMs affecting 9,558 products (Harmonised System [HS] codes), or 100 percent of the total products traded in Cambodia. The classification draws on 52 NTM regulations, most of which were issued by the Ministry of Agriculture, Forestry and Fisheries. Technical measures is the most frequently applied NTM, accounting for 65.0 percent of the total, of which TBT measures account for 49.8 percent, and B14¹ authorisation requirement for TBT reasons is the most frequently applied. Export measures (EXP) constitute 28.8 percent of total NTMs and affect all products traded in Cambodia. Products affected by three or more NTMs are machinery (21.6 percent), chemicals (12.1 percent), textiles (11.3 percent) and metals (9.5 percent).

1 "Requirement that the importer should receive authorization, permit or approval from a relevant government agency of the destination country, for reasons such as national security reasons, environment protection etc: Example: Imports must be authorized for drugs, waste and scrap, fire arms, etc" (UNCTAD 2015, 16).

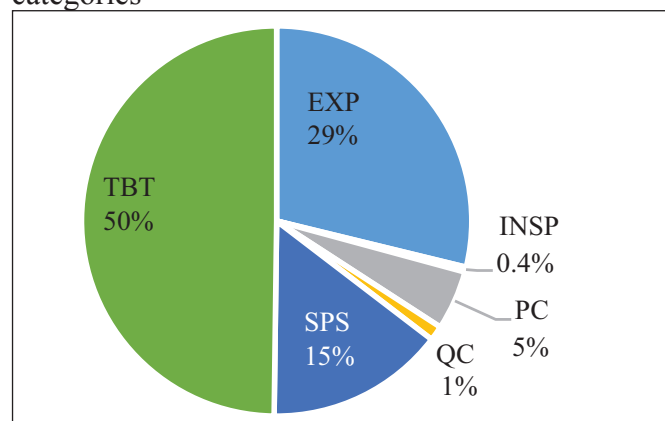
Figure 1: Number of NTMs by year, 1988–2013



Source: UNCTAD TRAINS-NTMs (<http://asean.i-tip.org/>)

Note: CTPM: contingent trade protective measure; EXP: export measure; INSP: pre-shipment inspection; QC: quantity control; PC: price control; SPS: sanitary and phytosanitary; TBT: technical barrier to trade.

Figure 2: Existing NTM distribution over categories



Source: UNCTAD TRAINS-NTMs (<http://asean.i-tip.org/>)

Ven (2017) examines the effect of trade partners' NTMs on Cambodia's agricultural exports. He found that almost all Cambodian agricultural products are subject to NTMs. SPS and TBT have higher coverage ratios than non-technical barriers (NTBs),

while SPS measures are the most prevalent NTMs imposed by the major importers of Cambodia's agricultural products. Cambodia's NTM regime is different from those of its major export partners; however, it is similar to that of Vietnam and Singapore. The author concludes that SPS and TBT are unlikely to constrain agricultural exports because Cambodia's main agricultural products conform with the SPS and TBT requirements adopted by trading partners such as the EU, US, China, Malaysia, Thailand, Singapore and Vietnam. Nonetheless, NTBs are likely to restrain agricultural exports: a 10 percent increase in NTBs could reduce Cambodia's agricultural exports by 2.7 percent.

NTMs in Cambodia

Evolution of NTMs

Available data indicates that Cambodia first used NTMs in 1988, when it imposed five SPS and four EXP measures (Figure 1). So far, Cambodia has

Table 2. Existing NTM incidence in Cambodia

HS section	TBT	SPS	INSP	CTPM	QC	PC	EXP	Total
Total number of NTMs	121	36	1	0	3	12	70	243
Live animals and products	12	19	0	0	1	5	28	65
Vegetable products	29	19	0	0	1	7	40	96
Animal and vegetable fats, oils and waxes	11	18	0	0	1	3	27	60
Prepared foodstuff, beverages, spirits, vinegar; tobacco	30	34	0	0	1	6	35	106
Wood, cork and articles, basket ware	4	0	1	0	1	2	15	23
Mineral products	17	0	0	0	2	1	14	34
Products of the chemical and allied industries	80	18	1	0	1	6	45	151
Resins, plastics and articles, rubber and articles	16	1	0	0	1	1	13	32
Hides, skins and articles, saddlery and travel goods	5	11	1	0	2	3	19	41
Paper, paperboard and articles	6	0	1	0	1	1	12	21
Textiles and articles	3	11	0	0	2	2	15	33
Footwear, headgear, feathers, artificial flowers, fans	4	11	1	0	2	4	19	41
Articles of stone, plaster, ceramics, glassware	2	0	0	0	1	1	8	12
Pearls, precious stones and metals, coins	18	4	1	0	2	4	25	54
Arms and ammunition	3	11	0	0	1	1	11	27
Base metals and articles	8	0	1	0	1	1	11	22
Machinery and electrical equipment	22	0	0	0	1	1	7	31
Vehicles, aircraft and vessels	6	0	0	0	2	0	7	15
Instruments, clocks, recorders and reproducers	7	11	0	0	2	2	10	32
Miscellaneous manufactured articles	15	11	1	0	2	3	24	56
Works of art and antiques	5	11	1	0	1	3	19	40
NTM incidence	303	190	9	0	29	57	404	992

Source: UNCTAD TRAINS-NTMs (<http://asean.i-tip.org/>)

Note: CTPM: contingent trade protective measure; EXP: export measure; INSP: pre-shipment inspection; QC: quantity control; PC: price control; SPS: sanitary and phytosanitary; TBT: technical barrier to trade

Table 3: NTM coverage ratios for Cambodia's imports, 2015

HS section	Imports (USD million)	Coverage ratio (%)				
		Any	SPS	TBT	INSP	NTB
Textiles and articles	4235.6	100	2.2	100.0	0.0	100
Machinery and electrical equipment	1492.5	100	0.0	100.0	0.0	100
Mineral products	1201.1	100	0.0	89.8	0.0	100
Vehicles, aircraft and vessels	1154.7	100	0.0	99.2	0.0	100
Prepared foodstuff, beverages, spirits, vinegar, tobacco	731.6	100	60.2	94.7	0.0	100
Base metals and articles	626.4	100	0.0	0.6	0.0	100
Products of the chemical and allied industries	584.6	100	0.5	84.1	4.8	100
Resins, plastics and articles, rubber and articles	572.9	100	20.3	21.2	0.0	100
Paper, paperboard and articles	328.0	100	0.0	91.2	0.5	100
Hides, skins and articles, saddlery and travel goods	311.6	100	9.2	9.4	0.0	100
Pearls, precious stones and metals, coin	261.6	100	0.0	99.9	0.2	100
Articles of stone, plaster, ceramics, glassware	192.3	100	0.0	0.1	0.0	100
Live animals and products	161.9	98	27.5	81.7	37.7	98
Miscellaneous manufactured articles	145.6	100	0.1	1.1	0.0	100
Footwear, headgear, feathers, artificial flowers, fans	120.8	100	29.5	29.5	13.1	100
Vegetable products	96.1	100	99.9	100.0	0.0	100
Instruments, clocks, recorders and reproducers	74.4	100	3.2	38.5	0.0	100
Wood, cork and articles, basket ware	64.2	100	0.0	100	99.4	100
Animal and vegetable fats, oils and waxes	14.9	100	16.9	100	0.0	100
Works of art and antiques	0.1	100	64.9	100	64.9	100
Arms and ammunition	0.1	100	75.9	100	0.0	100

Source: Author's calculation based on UN Comtrade (<https://comtrade.un.org/>) and WITS (<https://wits.worldbank.org/>)

Note: CTPM: contingent trade protective measure; EXP: export measure; INSP: pre-shipment inspection; QC: quantity control; PC: price control; SPS: sanitary and phytosanitary; TBT: technical barrier to trade

imposed 243 NTMs on imports from and exports to all trading partners: 121 TBT (50 percent of the total), 36 SPS (15 percent), 1 pre-shipment inspection (INSP) (0.4 percent), 3 quality control (QC) (1 percent), 12 price control (PC) (5 percent) and 70 EXP (29 percent) (Figure 2 and Table 2). Between 1988 and 2013, Cambodia imposed around 13 NTMs a year on average. TBT is the most frequently used measure, followed by SPS and EXP. During the same period, on average, Cambodia put in place eight TBT, five SPS and four EXP per year.

NTMs by Harmonised System code

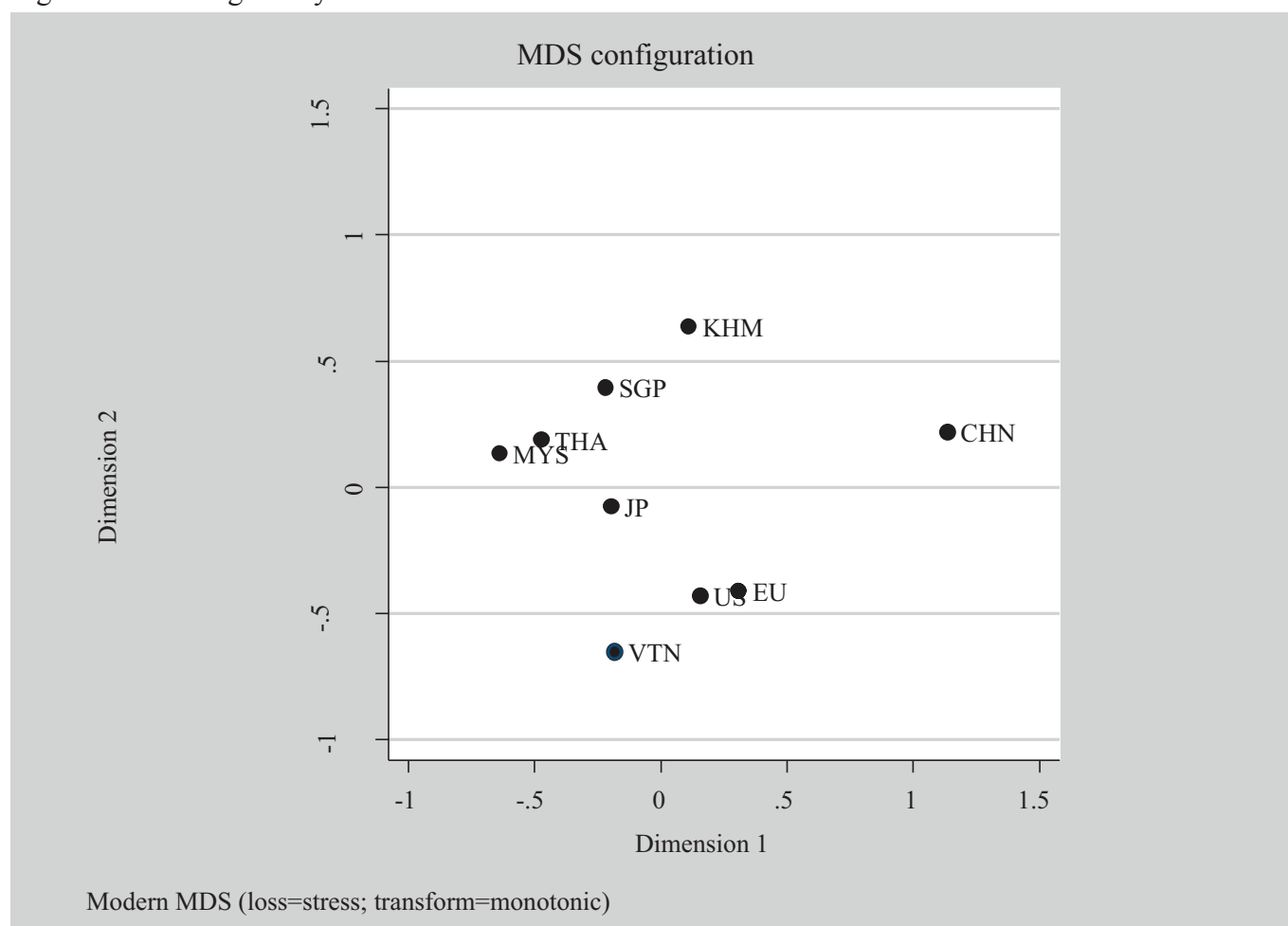
Table 2 presents Cambodia's existing NTM incidence by HS classification. The five HS sections with the most NTMs are, in descending order: (1) products of chemical and allied industries, (2) prepared foodstuff, beverages, spirits, vinegar, tobacco, (3) vegetable products, (4) live animals and products, and (5) animal and vegetable fats, oils and waxes.

By far, products of chemical and allied industries is the most affected section, with 151 NTMs, including 80 TBT, 18 SPS, 1 QC, 6 PC and 45 EXP measures, and 1 INSP. The next four HS sections most affected by NTMs concern agricultural products. These products are more likely to be affected by SPS than by TBT. Notably, prepared foodstuffs has the most SPS measures (34) while products of chemical and allied industries has the most TBT (80).

NTM coverage ratios for Cambodia's imports

Table 3 shows the NTM coverage ratios for Cambodia's imports in 2015. Most HS sections have high coverage ratios of any NTM, NTB and TBT. The top four imported products (textiles and articles; machinery and electrical equipment; mineral products; and vehicles, aircraft and vessels) have very low SPS coverage ratios, but very high TBT coverage ratios. SPS coverage ratios are very high for most agricultural products, including vegetable products and prepared foodstuff, beverages, spirits,

Figure 3: NTM regulatory distance



Source: Author's calculation based on WITS (<https://wits.worldbank.org/>)

Note: Multidimensional scaling (MDS) (nonmetric), loss criterion = 0.0961

vinegar and tobacco. They are moderately high for live animals and products, and animal and vegetable fats, oils and waxes. Arms and ammunition, and works of art and antiques, also have high SPS coverage ratios.

Regulatory distance of NTMs

Cadot et al. (2015) introduced regulatory distance to determine the differences between the NTM regimes of different countries. If two countries impose the same NTMs on the same products, they are considered to have identical NTM regimes. The more different the NTMs, the longer the regulatory distance between NTM regimes. The data plotted on Figure 3 show the regulatory distances between the NTM regimes of Cambodia and some other ASEAN member states. Those of other major trading partners are also included as benchmarks. If two countries

are close to each other on the graph, they have similar regulatory distance; and vice versa. This figure shows that Cambodia's NTM regime is close to that of Singapore, but fairly far from Thailand's and Malaysia's. Cambodia's NTM regime is very different from Vietnam's, which seems to be an outlier within ASEAN. This indicates that NTM regimes within ASEAN are far from homogenous, possibly hampering ASEAN member states' ability to harmonise their NTM regimes.

Way forward

The findings show that the NTM data for Cambodia in UNCTAD TRAINS is not up to date; data is only available up to 2013. Accurate NTM data is necessary for trading companies to achieve NTM compliance. Therefore, in 2018, economists at CDRI will implement a research project to update NTM

data in Cambodia. This project is funded by ERIA-UNCTAD and is a part of a bigger project called ERIA-UNCTAD: Updating NTMs in ASEAN.

The findings also indicate that ASEAN countries' NTM regimes are diverse. This suggests the need to standardise NTM regimes and to speed up the process of mutual recognition arrangements within the ASEAN region so that freer flow of goods can be achieved. Although NTMs are put in place to protect people, the environment, and animal and plant life, many of them are simply used as an excuse for protectionism. These non-tariff barriers² should be eliminated. The 20th meeting of the ASEAN Free Trade Area (AFTA) Council endorsed the adoption of mechanisms to identify and eliminate non-tariff barriers as critical for integrating priority sectors. The timelines for eliminating non-tariff barriers vary between countries. For Cambodia, Myanmar, Laos and Vietnam, non-tariff barriers should be reduced by the end of 2018. Nonetheless, identifying non-tariff barriers among a huge number of NTMs is not an easy task. Future research on NTMs should therefore focus on identifying NTMs that are barriers to trade. Future classification of NTMs should include NTBs as a category. Countries need to design effective mechanisms for identifying and verifying information about NTBs and ensuring their elimination.

² Non-tariff barriers are sometimes incorrectly used interchangeably with non-tariff measures, yet not all non-tariff measures are trade barriers. Non-tariff barriers here refer to illegitimate non-tariff measures that are used to protect domestic industry or products.

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