

Methodology and Strategy Workshop of Trade Impact Assessments for Cambodia

Post-Workshop Report



Photo 1. Representatives of the Ministry of Commerce, European Union, and German Embassy, and Head of ARISE Plus Cambodia
 Sofitel Phnom Penh Phokeethra Hotel, 03-04 November 2020

The Royal Government of Cambodia (RGC) is embarking on an ambitious program of bilateral free trade agreements (FTA). On 12 October 2020, Cambodia signed its first-ever bilateral FTA, with China. In the meantime, the Cambodia-South Korea FTA is being negotiated and is expected to reach its conclusion soon. Besides, the RGC is aiming to negotiate with several other countries. Within this context, it is of paramount importance that Cambodia expands the local capacity to provide analytical support to negotiators as they seek to maximize trade benefits for Cambodia.

To achieve this goal, the Ministry of Commerce (MoC), the lead body on trade negotiations of the country, and ARISE Plus Cambodia co-organized a three-day Methodology and Strategy Workshop on Trade Impact Assessments (TIA) for Cambodia. The workshop was delivered in two blocks. The first block was a two-day session on **3-4 November**, focusing on technical/methodological aspects (the methodology workshop). The second block was a one-day session on **23 November**, dedicated to discussing Cambodia's preferred way forward in terms of implementing future TIAs, which encompass economic, social and human rights, and environmental impacts, and the corresponding support requirements (the strategy workshop). Around 100 participants of the workshop were from relevant line ministries, private sectors, civil society, and local think-tanks who could potentially be the government's partner in implementing future TIAs for the country. The workshop was delivered with technical leadership from a team of experts consisting of Dr. Derk Bienen from BKP Economic Advisors and Mr. Joris Moerenhout from Trinomics. Dr. Derk Bienen has more than 15 years of experience working on the design and evaluation of different trade policies and trade agreements, both for developing countries and the EU. Mr. Joris Moerenhout is specialized in analyses on the interface between environmental/energy policies and economics.



Photo 2. First workshop block (methodology workshop) on 3-4 November 2020

The importance and relevance of the workshop were emphasized by all honorable guests representing the RGC as well as donor agencies. In his Opening Remark, Secretary of State of MoC and the Chair of ARISE Plus Cambodia Project Steering Committee **H.E. Sok Sopheak** emphasized that this workshop was, among others, an important step forward to help Cambodia, especially those analysts and policymakers of MoC and Ministry of Economy and Finance (MEF), to be equipped with practical knowledge of TIA methodology and model for its preparedness and confidence in forming or joining trade agreements for a more secured trade relation. First Secretary and Deputy Head of Cooperation at the German Embassy of Cambodia **Mr. Sascha Reeb**s highlighted that events like this workshop are a step towards a more coherent, data-driven approach to policymaking in Cambodia, including trade policy. At the same time, Head of Cooperation of European Union Delegations **Mr. Franck Viault** commented that Cambodia must develop its own resources in further studying the impacts of trade – not only economic but also social/human rights and environmental – to be able to develop negotiating positions that maximize an FTA's benefits to Cambodia while mitigating the FTA's effects on any negatively impacted sectors.



Photo 3. Secretary of State of MoC and the Chair of ARISE Plus Cambodia Project Steering Committee H.E. Sok Sopheak delivers his opening remark.

The first part of the workshop focused on the current practices and challenges of TIAs in Cambodia. Secretary of State of MoC H.E. Sim Sokheng stressed that the regional and bilateral FTAs that Cambodia is engaged in have all been assessed, though in different scales, with overall positive economic gains for the country despite varying sectoral effects. However, past feasibility studies just focused on economic impacts since welfare gain, export increase, and GDP growth are the main objectives of Cambodia's FTA negotiations. He recognized the importance and expressed strong interest to improve stakeholder consultation in both trade negotiations and TIAs, but an effective approach to do it remains to be explored given the constraints with time, the confidentiality of negotiation information, and representativeness of stakeholders.



Photo 4. Secretary of State of MoC H.E. Sim Sokheng explains the importance, current practices, and challenges of FTA negotiations and TIAs for Cambodia.

Under Secretary of State of MEF H.E. Chan Sopheap continued by explaining MEF's roles in TIAs. Thanks to being a member of ASEAN, Cambodia has already accumulated a lot of experience and capacity in performing TIAs through various capacity building programs provided by the ASEAN Secretary and ASEAN development partners. MEF is responsible for the assessment of Trade in Goods (TIG), while MoC is responsible for the assessment of Trade in Services (TIS), marking the two ministries the leads of TIAs. These two assessments are a requirement under ASEAN. He also emphasized three challenges that MEF faces with TIA implementation: (1) lack of human resources, (2) time constraints, and (3) limited capacity to conduct wider stakeholder consultation and information sharing.



Photo 5. Under Secretary of State of MEF H.E. Chan Sopheap explains MEF's roles in TIAs.

Based on his experience in the feasibility study of Cambodia-Eurasian Economic Union (Cambodia-EAEU) FTA and other related research experience, Executive Director of Centre for Strategy and Innovation Policy (CSIP) Dr. Oum Sothea shared his observation of several facilitating factors and challenges for Cambodia to conduct future TIAs domestically. Cambodia benefits from the well-established trust among line ministries of trade negotiations, government officials' increased capacity developed by past capacity building programs and available financial support from development partners. Nevertheless, Cambodia still needs to address the lacking needed capacity on methodologies, manpower within the government, and limited research skills of national research and academic institutes to conduct the study. Moreover, Cambodia does not yet have a formal framework to systematically guide future TIA implementation. Other challenges include data constraints (accessibility, reliability, and confidentiality) and limited government budget to assume full responsibilities after ended financial support from development partners.



Photo 6. Executive Director of Centre for Strategy and Innovation Policy (CSIP) Dr. Oum Sothea explains facilitating factors and challenges for Cambodia to conduct TIAs domestically.

In the second part of the workshop, Dr. Derk Bienen and Mr. Joris Moerenhout presented common methodology and practices of TIAs, encompassing economic, social & human rights, and environmental impacts. *TIA is defined as 'an assessment of the (potential) effects of a trade agreement, commissioned or undertaken by government'*. A TIA could be conducted for various objectives, at various stages of trade negotiations, with varying scope, using different analytical methods, either by the government or commissioned experts, and with different levels of stakeholder consultations. A collective decision on these aspects is important to determine a TIA model/framework for Cambodia.

Very often, all of these factors are inter-dependent. For example, it may not be necessary to do an Ex-ante TIA before Cambodia approaches the negotiating partner. The two countries could negotiate on a broader term first. During a negotiation, doing a joint TIA study is not recommended due to a potential conflict of interest. However,

it could be helpful to do a joint ex-post evaluation to assess the actual impacts of an FTA after its implementation. This joint assessment helps both governments to be able to fix things together. The government can determine if they need better policies and require adjustment measures for the affected sectors. This type of impact assessment is advantageous when the adverse effects of FTA appear to be greater than initially expected and considered at the beginning. The scope and depth of stakeholder consultation could largely be defined by the objectives of TIA as well.

The economic assessment is generally the basis of a TIA since economic benefits are commonly the main objective of FTA negotiations. Most governments worldwide do some kinds of analysis before and during FTA negotiations. An economic analysis, and other types of analysis of TIA, should isolate the effects of an FTA by comparing two situations: **what would happen if there was no FTA** and **What would happen if there was an FTA** (or a specific provision in an FTA). To understand the economic effects of FTA, it is essential to not only look at the direct impacts (changes in trade flows of the industries falling under the FTA) but also at the indirect impacts (overall economic impact in the broader market). While the tariff barriers are easy to identify and integrate into the analysis, the Technical Barriers to Trade (TBTs) and Non-Trade Measures (NTMs) generally require deep consultation with private sectors.



Figure 1. Examples of FTA Clauses

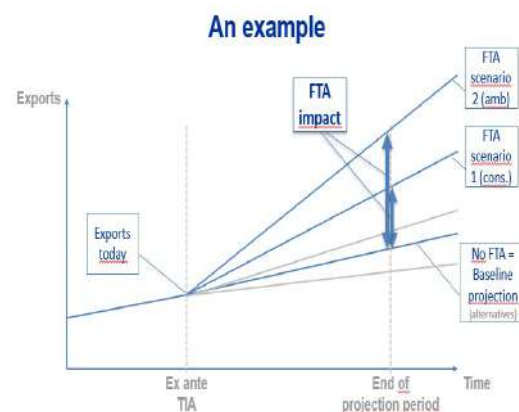


Figure 2. Illustration of FTA Impact

Several typical approaches to economic analysis are economic modeling (providing the highest precision of the potential effects), statistical analysis as a substitution for sophisticated economic modeling, and qualitative analysis for some FTA elements, for example, Intellectual Property Rights (IPR), e-commerce, and global value chain integration. Usually, the economic analysis may require significant resources, though depending on methods. A comprehensive analysis needs a mix of methods.

Increasing concerns over the distributional effects of globalization across and within countries gave rise to social and human rights impact analysis of FTAs. In advanced economies, such issues are often regarded as crucial to the negotiation/implementation of an FTA, as evidenced by two-third of FTAs concluded since 2008 all containing a Labour Standard clause. Therefore, Cambodia needs to anticipate and start looking at these issues in advance, potentially making the inclusion of social/ human rights

assessments a standard in negotiating future FTAs. The analysis informs negotiators on the most significant expected impacts (overall and sectoral), helps negotiators understand and examine claims on human and labor rights impacts made by partner countries during negotiations, and provides recommendations for negotiators on how to address these impacts.

Social and human rights impact analysis requires less technical expertise than economic analysis yet provides a lower degree of precision, is prone to value judgments and risk of biased analysis, and often provides unspecific recommendations. However, while it is important as a stand-alone analysis, it could be a great supplement to the economic analysis. For example, a CGE model could tell the effects on overall consumers' welfare but not break-down aspects of the welfare by gender or population groups. Thus, a social impact assessment is needed for the detailed effects of FTA.

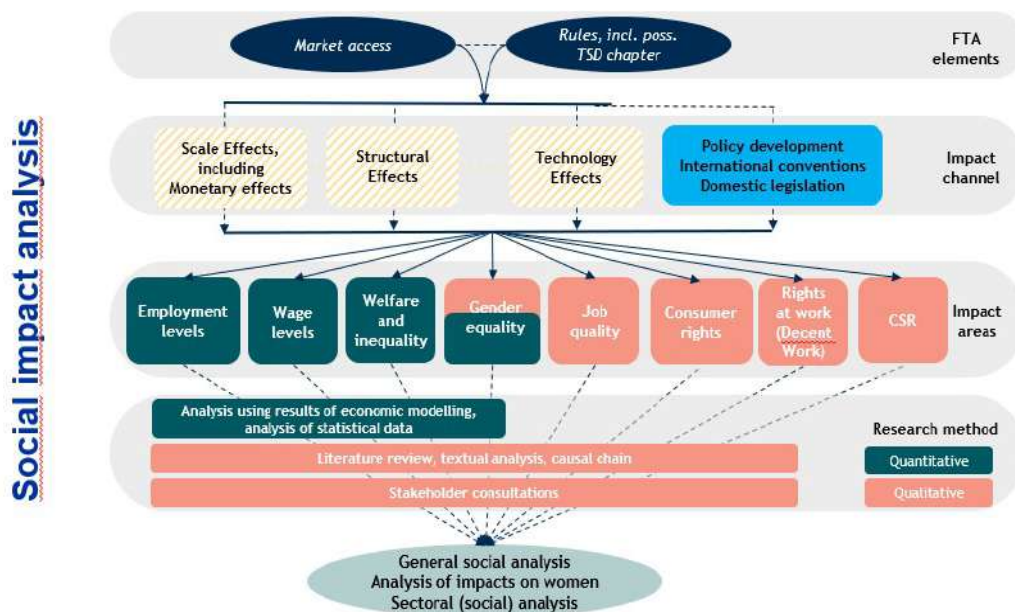


Figure 3. Social Impact Analysis Framework

From the plenary discussions, there was strong interest from the RGC in understanding more about past negotiation experience of other countries regarding social and human rights FTA clauses and what kinds of analysis is suitable for Cambodia. Currently, Cambodia is a beneficiary of the EU-GSP scheme and has ratified all of the 27 Core Human and Labour Rights UN/ILO Conventions. Moreover, the garment and footwear industry is also currently under labor monitoring of the ILO-Better Factories Cambodia Project. Therefore, it is not expected that Cambodia would have to undertake drastic legal and regulatory reform to comply with partner countries' requirements on this aspect. A comprehensive social and human rights impact analysis may not be necessary for Cambodia. Instead, the RGC may need to do a 'risk assessment' of FTA being withdrawn if there is any breach of the respective FTA clause.

Environmental impact analysis shares similar causes of rising and importance with the social and human rights impact analysis. Various advanced countries now cover sustainability issues in FTA negotiations, for example, the USA, Canada, New Zealand, and the EU. Generally, there should be a ‘screening & scoping study’ to determine the focus for in-depth analysis that is more relevant to the national context. The implications to the environment caused by an FTA cannot be all taken into consideration in a detailed way at once. This identification of priorities should be made in a transparent and evidence-based manner. Depending on the scoping results, available resources, and know-how, different research methods could be selected accordingly.

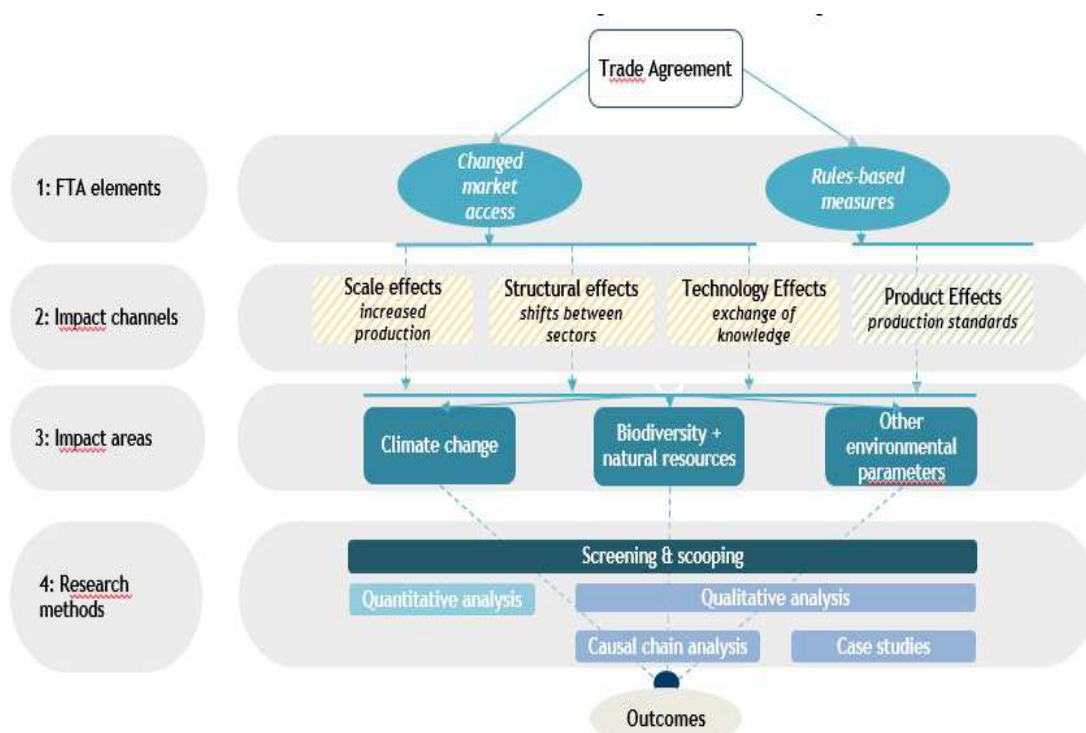


Figure 4. Environmental Impact Analysis Framework

Apart from the above technical aspects, a formal TIA model/framework of a country could be defined by anticipated scope and frequency of TIAs that the country needs to conduct, level of in-house capabilities and resources (staff time), level of financial resources available (in-house or through donor funding), degree of confidentiality required for specific TIAs, and importance of transparency. The TIA and the FTA negotiation processes should be transparent, and these could be done partly through a two-way consultation process between the government and stakeholders. A standing body for stakeholder consultation is not necessarily required, but its existence could facilitate work. Relevant stakeholders to be consulted may vary for each TIA. Different consultation methodologies need to be combined, such as surveys, workshops, and focus group discussions.



Photo 7. Mr. Joris Moerenhout from Trinomics virtually explains Environmental Impact Analysis.

After workshop participants possessed a good understanding of Cambodia's current practices and challenges and conceptual knowledge of TIA methodology and global and regional practices, they participated in group discussions to provide inputs needed to develop a TIA model for Cambodia. The discussions touched upon the purposes, scope, timing, institutional issues, resources, and methodological considerations of TIAs for Cambodia. Synthesized results of the group discussions and online polls conducted during the workshop and a proposal of the TIA model for Cambodia were presented to workshop participants on the third day of the workshop (virtually done on November 23).



Photo 8. Participants discuss various questions to formulate a TIA model for Cambodia.

Workshop participants considered TIAs mainly as a tool to help the RGC in scoping negotiations (before negotiation start) and measuring the performance of FTAs but less as a tool to engage stakeholders in negotiations or inform them about (potential) FTA effects. The scope of TIA should depend on the scope of the respective FTA that Cambodia aims for. Participants similarly agreed that MoC should be the lead agency of TIA with inter-ministerial coordination responsibilities and that MEF must always

be engaged. TIA could be conducted through cooperation between international experts and local think-tanks. National expertise within the government has increased substantially and should play an important role in the study group. Different groups of stakeholders, such as the Chamber of Commerce (CCC), local traders who trade with the partner country, stakeholders in the partner country, private sector (GMAC, law/audit firms, and business associations), civil society, and academic institutions, should be engaged to provide needed inputs. The most important inputs are related to local production capability, local potential export products, export/import related process, issues like Rules of Origin, general views of stakeholders, and specific inputs for negotiations. The consultation should happen before TIA start.



Photo 9. Secretary of State of MoC H.E. Sim Sokheng (second from the left) delivers his opening remark on 23 November 2020 at the Angkor Wat Hall of MoC for online participants.

Workshop participants were asked to self-assess themselves and the general level of local skill and knowledge necessary for TIAs. Descriptive statistics and other quantitative analysis and qualitative analysis skills are more developed than sophisticated economic modeling, namely CGE and Partial Equilibrium Analysis. Knowledge of economics and international/trade law is more highly reported than social sciences and environmental studies. Specifically related to FTA, workshop participants self-reported a higher level of their knowledge on certain topics, including tariff & quotas, trade facilitation, investment issues, e-commerce, trade & environment, and trade in service. However, there is a big gap in their knowledge of dispute settlement, government procurement, competition & subsidies, trade and human/labor rights, and intellectual property rights.



Photo 10. Dr. Derk Bienen from BKP Economic Advisors virtually presents synthesized results of the group discussions from the first workshop block (methodology workshop on November 3-4) and a proposal of the TIA model for Cambodia.

With the understanding of current strengths and limitations within government bodies and relevant institutions, workshop participants suggested several approaches for TIAs of Cambodia. More capacity building programs not only for government officials but also for private sectors could overcome human resource constraints. The RGC should also consider a staff retention policy, which provides remuneration and training for extra TIA responsibilities. There are significant gaps in current trade and investment data in quantity and quality, apart from data stored in a decentralized system. A cross-government data management system thus could be helpful. TIAs are generally expensive, requiring the government to plan them well in advance in the national budget and for them to be able to seek external support from ASEAN or development partners (despite not preferable given confidentiality issues). Finally, enhancing stakeholder consultations (private sector and civil society) is suggested for all of the reasons discussed above.

In close consultation with MoC and MEF, ARISE Plus Cambodia will utilize the workshop results to develop its follow-on support on TIAs for Cambodia. For more information, please contact Ms. Molyaneth HENG, Trade Training and Research Advisor of ARISE Plus Cambodia by molyaneth.heng@giz.de. To download workshop materials and other TIA related online resources, follow the guide below:

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