

Cambodia and the EBA: What is at Stake?

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The European Commission is due to announced the decision on the trade preferential status of Cambodia on 12th February 2020, which is exactly a year after the Commission had officially launched the procedure to temporary strip off the tariff preferences from Cambodia on 12th February 2019. In the press release made on 12th February 2020 regarding the decision of the Commission to whether suspend the trade preferential status from Cambodia, the European Commission decided that Cambodia will be taken away the status partially, which will take effect in August 2020, six months after the decision is made, if there is no objection from the European Parliament and the Council of the European Union. This partial withdrawal means that some products of Cambodia exports to the EU will be subjected to tariffs and duty while others will be benefiting from the scheme as usual (European Commission, 2020). According to the same press release, selected Cambodian garment and footwear products as well as all travel goods and sugar will be included in the list of products subjected to tariffs. The impacts of the partial withdrawal on Cambodia is calculated to be worth of approximately USD1.1 Billion or equivalent to 20 percent of total exports from Cambodia to the EU market.

The story behind the initiative to suspend the Everything but Arms (EBA) scheme from Cambodia came after the European Commission had launched an internal investigation over what was called “serious and systematic violation of principles” of

the UN and ILO Conventions on core human rights and labour rights (European Commission, 2019a). The condition for withdrawing the GSP scheme from beneficiary countries is based on article 19 of the GSP regulations in relations to the event of serious and systematic violation of the core 15 UN and ILO conventions. This is the official rationale pointed out by the European Commission to justify the controversial decision on the partial suspension of the EBA from Cambodia.

The procedure of temporary withdrawal is initiated by the EU commission. The Commission, first and foremost, initiated an investigation for sufficient justification for the temporary withdraw procedure proposal. The assessment was then followed by a set of procedures such as monitoring and evaluating stage, reports and recommendation, communication between the Commission and the beneficiary states and final decision. While the Commission takes initiative in adopting the implementing act, the Commission also informs the Parliament and the Council. In addition to their investigation during the assessment, the Commission has also taken into account the relevant reports and recommendations from the UN and ILO bodies as well as the information from the EU delegations, EU member states, the European Parliament, civil society, and authoritative international human rights, etc. According to the Council conclusions on Cambodia dated on 26th February 2018¹, the European Commission identified three challenges

¹ See Council of the European Union. (26 February, 2018). *Council conclusions on Cambodia*. Available at: <http://data.consilium.europa.eu/doc/document/ST-6416-2018-INIT/en/pdf>.

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to the basic principles of human and labour rights, which include: (1) political rights and the shrinking of the space for democratic opposition and civil society; (2) labour issues and curtailment of freedom of association and collective bargaining rights; and (3) land concessions, particularly in the sugar sector (European Commission, 2019b). After a long period of engagement and notice of the serious violation, the European Commission finally decided to take the issue to the next step by publishing in the EU Official Journal of the decision to formally start the procedure of the EBA withdrawal from Cambodia.

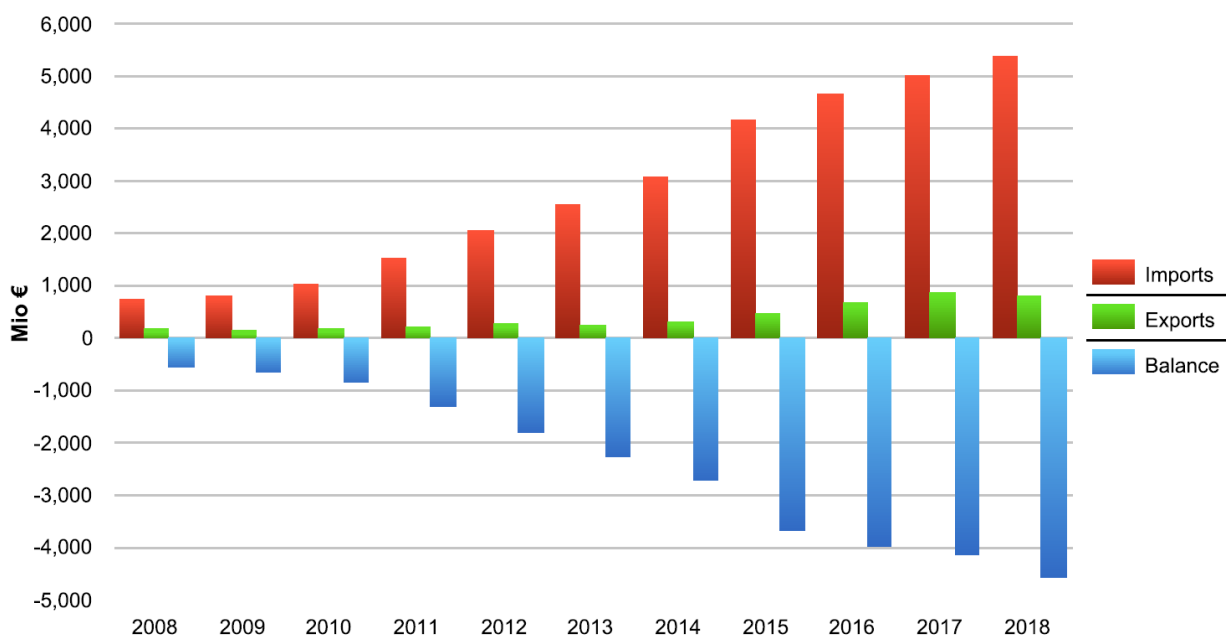
Cambodia is among the 48 countries that have been granted an access to the EU market with duty-free and free quota access to the European Market under the EBA scheme. Because of its tariff preferences in nature, the EBA arrangement is very significant to Cambodia's economic development, especially in the garment industry. As the objectives of the scheme suggest, EBA arrangement aims to assist the least developed countries in their efforts to reduce poverty, promote good governance and support sustainable development by generating additional revenue through international trade to the EU market (European Commission, 2019b).

For this reason, the EU has become Cambodia's largest trading partner, in which total exports from Cambodia to the EU accounted for about USD5.8 Billion (European Commission, 2019c). Moreover, it was reported that 95 percent of those exports were under the EBA tariff preferential scheme, the second highest ratio among all EBA beneficiary countries. Noticeably, Cambodian exports to the EU has grown by 630 percent comparing to 2008, which more or less had contributed to the steady 7 percent on average of Cambodia annual economic growth for the last two decades and helped lift almost one third of the country's total population out of poverty (European Parliament, n.d.). As mentioned earlier, garment and textile industry are the huge beneficiary for this scheme, which make up around three quarters of the total EU imports from Cambodia, where some two million people, including the workers in the fields and their families, who depend heavily on the garment and textile industry. Recognizing the importance of EBA scheme on Cambodia's economic growth, the loss of tariff preferences will undoubtedly pose an immense impact on the Kingdom's economic performance and development as well as social welfare of the people, especially those are at the grassroots level and that benefit from the sectors.

European Union Trade with Cambodia

Total goods: EU Trade flows and balance, annual data 2008 - 2018

Source Eurostat Comext - Statistical regime 4



Source: European Commission

The European Commission's Basis for the EBA Withdrawal and Cambodia's Reaction

Political crackdown, from the EU views, was considered a long-standing problem in Cambodia. The European Commission has expressed various concerns on what were considered as the breach of rights, democracy and the rule of law in the country, especially on the arrest of the former opposition leader, Kem Sokha, in 2017, the dissolution of his party and a few crack downs of media outlets – a set of allegations strongly objected by the Cambodian government. Stripping off the tariff preferences from the Kingdom's export is perceived and measured, by the EU, as an effective tool to put Cambodia back on track to the strengthening of human rights and restoring democracy in the country.

The Royal Government of Cambodia (RGC) has repeatedly expressed deep regret and called such conclusion of the EBA partial withdrawal from Cambodia as an unjust decision, which came through an official statement² by Cambodian Ministry of Foreign Affairs only a few hours after the European Commission's press release³ on the 12th of February 2020. The Kingdom has regarded the decision as unjust owing to the fact that the Commission has disregarded the Kingdom's commitments and substantial progresses made by the RGC in accordance with the Commission's concerns, including the releases of some detained political figures, civil society activists and journalists and an amendment to the Law on Political Parties allowing more space for politically restrained individuals, amongst others. However, it shall be noted also that the European Commission's attempt for this endeavor claimed to restore democracy and strengthen human rights through the EBA scheme was not only used against

Cambodia but also Bangladesh and Myanmar, both of whom were identified under a category of serious violation of basic human and labour rights.

So, what does it mean for Cambodia in such case that the European Commission decides to waive the tariff preferences? As the press release by the Commission projected, Cambodia will lose some USD1.1 Billion on garment, footwear and sugar sectors. However, there are at least a few scenarios that can be projected in the near future from this decision. First, it is suggested in the 12 February 2020 decision that further interaction between the European Commission and the Royal Government of Cambodia to tackle and monitor the situation, especially in regards to human rights and labour rights situation, is still ongoing, which provides possibility for the EC itself to re-evaluate and review the decision as well as reestablish a full EBA trade preference status for Cambodian products to the EU market if significant improvement on the concerned problems is made in the country. Yet, Cambodia is not in a position to continue depending on the EBA for many locals, especially pro-government groups who heavily suggested that Cambodia should take this opportunity as a united moment to stand on the difficulty and continue striving for economic development on its own rather than depending on foreign aids and trade preferential scheme such as the EBA. In addition, second scenario appears also very likely that more and heavier pressure can further be imposed on the country because as of now, the EC's decision on EBA withdrawal from Cambodia is only made partially which still can offer an open and possible frame for the European Commission to keep raising the same concerns to the Cambodian authority once again and even further in the near future. If that is the case, judging from

² Ministry of Foreign Affairs and International Cooperation. (12 February, 2020). *Statement of the Ministry of Foreign Affairs and International Cooperation on the Decision of the European Commission on Tariffs Preferences under the EBA regime*. Retrieved from: <https://www.mfaic.gov.kh/site/detail/40591>.

³ European Commission. (12 February, 2020). *Trade/Human Rights: Commission decides to partially withdraw Cambodia's preferential access to the EU market*. Retrieved from: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_229.

the numbers in the yesterday decision above, Cambodia will suffer dramatically in terms of exports in particular and economy in general. The most obvious loss would be on the 95 percent of exports to EU which is under the duty-free privilege. Statistic-wise, if we calculate that into number, it would amount to approximately 5.5 billion loss for tariffs. What it also means is that 12 percent of tariff will be added on Cambodia's apparel exports and somewhere between 8 percent and 17 percent on shoes (Turton, 2020). Speaking under his capacity as a Secretary of State of the Ministry of Economy and Finance, Vongsey Vissoth projected that the garment sector would see a sum of about USD500 Million fall in exports and another 35,000 potential job losses out of 750,000 factory workers (Aun, 2020). Since the European Union has repeatedly indicated the concerns with human rights situation in Cambodia despite receiving numerous responses from the RGC claiming to have put continuing efforts to address such concerns, it is still possible that the EU will continue to threaten Cambodia into abiding to them by using the EBA as a mean. Thus, more or less Cambodia should consider the likelihood of such scenario and be well-prepared against any possible odds. Lastly, amid the controversial anxiety of possibly losing the EBA, however, the fallout of the EBA is something bound to happen, and is only a matter of time since this trade preferential scheme will not be granted forever to any beneficiary. Regardless of how, the effects will take a hit on Cambodia's economy and may linger for quite some time as the regulation provides six months for the decision to enter into force. Thus, the preparation is deemed short. Still, Cambodia should view this in a brighter perspective because something like the EBA is not everything nor the only thing that have brought Cambodia this far and even bring forward to the far future. As the saying goes, when one door closes, another one opens. Cambodia as an independent country – rather than dwell with such problem that is not within its own hand – shall use this opportunity, despite still a challenge, to stay strong and united

in finding practical deals such as forging more bilateral trade deals with like-minded and potential partners to enlarge the market, strengthening skilled labour forces and further advancing its industrial and digital transformation as well as diversification of production and profit generating sectors for the country. In this case, for instance, following the Brexit where the United Kingdom officially leaves the European Union, Cambodia must speed up its negotiation with the UK for bilateral free-trade agreement. The UK is actually the top exporters from Cambodia in the EU market, where some USD1 Billion of the Cambodia's exports to the EU goes to the UK alone (Phoung, 2020). In this connection, other major markets such as China, South Korea, Japan and those within ASEAN dialogue partners and RCEP frameworks, are the potential trading partners for Cambodia. Furthermore, what was seen in the first round of the negotiations on a free-trade agreement between Cambodia and China, specifically in the bilateral trade deal, have borne with meaningful results as high-ranking representatives from both countries expect to have it ready in the not-too-distance future, if not very soon. Besides, Cambodia can also opt for diversification of the products to somewhere that has equivalent demand but lower tariffs and duty paid. Amid the growing fear of losing EBA, rice exports to the EU had declined from 300,000 tons in 2018 to 200,000 tons in 2019, but the blow from the fall in rice exports to the EU was covered by an increase of 46 percent in rice exports to China (Hutt, 2020).

As much as the decision could have quite an impact on Cambodia, the EU is also bound to suffer the shock as well. When Cambodia begins to diversify the export destinations, the EU will have to look for new import destinations to substitute Cambodian products. However, it is not as easy as it may seem. On the one hand, they will have to find exporting countries that provide low and affordable labour forces like Cambodia. On the other hand, the EU consumers will have to look for similar

materials. And if they cannot find both, they will have to trade one off for another.

To this point, EBA scheme constitutes an essential trade aid that benefits Cambodia economy for almost two decades and bringing anxiety to many people. The removal of the tariff preferences will undeniably impact the country's development and most importantly the garment sector. Even though the Commission has released its decision on the EBA case for Cambodia, nevertheless, it is not yet final. For the decision to be adopted, it requires a condition of no objection from the European Parliament and Council of the European Union on the decision. But in the event decision to remove the EBA scheme still holds without any objection from the two co-legislative EU institutions above, the effect will come into force in the next six months, particularly on 12th August 2020. In the light of hope, it is expected that the EU will take into consideration the potential social impacts and the living conditions of almost two million workers garment sectors and their families.

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