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The Early Harvest Programme: An opportunity to enhance Cambodian agriculture exports

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This policy brief provides an overview of the Early Harvest Programme (EHP), identifies export opportunities associated with this scheme, and suggests policy recommendations for both the government and private sector so that greater benefits may be derived from the EHP.

1. Introduction

The EHP is a provision of the Framework Agreement on Comprehensive Economic Cooperation between the Association of South-East Asian Nations (ASEAN) and the People's Republic of China¹, which aims to accelerate implementation of agricultural trade liberalisation. The programme covers eight groups of agricultural products—live animals, meat and edible meat offal, fish, dairy produce, other animal products, live trees, vegetables, and fruits and nuts. It sets a three-year timeframe, beginning in January 2004 for the original ASEAN countries and China, and further time for the new ASEAN countries (Cambodia, Laos, Myanmar and Vietnam), for the reduction and elimination of tariffs. Policy makers expected that the EHP would enhance mutual agricultural exports and create economic gains for member countries. By July 2004, trade between ASEAN and China in the EHP products reached USD 1.11 billion, representing a 42.3 percent increase over the same period in 2003, of which ASEAN exports to China were USD 680 million—an increase of 49.8 percent.

Cambodia, which has a potential advantage in the primary sector² compared to other ASEAN nations, exports only small amounts of agricultural products, which account for only 2.5 percent³ of the ASEAN nations' total exports. The low level of exports is largely because agricultural production grew at the

sluggish rate of 3.3 percent during 1994–2004 and market access for agricultural exports in regional and international markets has been limited.

Given the features of the programme and the large demands of the Chinese market for certain agricultural products, this policy brief argues that the EHP provides considerable economic opportunities for Cambodia. Involvement in the EHP would be an appropriate means for an agrarian country like Cambodia to enhance agricultural exports and develop the agriculture sector as another source of economic growth. Cambodia needs a comprehensive strategy to obtain greater benefits from the EHP scheme. This policy brief is intended to inform policy discussion by addressing two main policy questions: what are the potential products of Cambodia for exports under the EHP, and what can be done to enhance the export potential of these agricultural products?

2. Features of the Early Harvest Programme

The EHP covers 562 items from Chapters 1–8 in the Harmonized System (HS) of tariffs. All products covered under the EHP are divided into three categories for tariff reduction and elimination according to the level of applied MFN tariffs, which vary from country to country. The product groups and definition of each category are detailed in the Table 1 and Table 2.

Table 1: Product Coverage under the EHP

Chapter	Description
01	Live animals
02	Meat and edible meat offal
03	Fish
04	Dairy produce
05	Other animal products
06	Live trees
07	Edible vegetables
08	Edible fruits and nuts

Table 2: Classification of Product Categories

Category	ASEAN 6 & China	Newer ASEAN
1	MFN tariff > 15 percent	MFN tariff ≥ 30 percent
2	5 percent < MFN tariff < 15 percent	15 percent < MFN tariff < 30 percent
3	MFN tariff < 5 percent	MFN tariff < 15 percent

* MFN tariff refers to applied most favoured nation tariff

ASEAN 6 and China initiated the implementation of a tariff reduction schedule, as indicated in Table 3, in July 2003 and reduced all tariffs to zero in January 2006 as planned.

For newer ASEAN members, including Cambodia, more flexibility is provided to allow tariff reduction to start later, and to be implemented with a longer timeframe, reducing to zero by 2010.

The EHP also allows member countries to exclude certain products from the programme’s coverage, although this must be mutually agreed upon by China and the concerned ASEAN member. Cambodia excludes 30 items from tariff reduction, including live swine, live fish (carp), tomatoes, onions, garlic, cauliflowers, broccoli, cabbages, lettuce, carrots, turnips, coconuts, pineapples, mangoes, oranges, watermelons, melons and longans. The EHP has not been ratified by the National Assembly of Kingdom of Cambodia and thus, by law, it is not yet ready for implementation. However, 155 EHP products enjoy

certain tariff preferences from China under a special and preferential treatment scheme, which granted Cambodia about 380 tariff lines for export to China at a lower tariff rate.

3. Economic Opportunities of the EHP

According to economic theory, the removal of trade barriers should lower costs, promote intra-regional trade and increase the economic efficiency of trading nations. After taking into account product coverage, the tariff reduction schedule, China’s demands for agricultural products, and the trade structure between Cambodia and China, the economic opportunities associated with the EHP appear to be considerable, especially in terms of potential exports of agricultural products.

Trade patterns between China and Thailand and China and Vietnam suggest that the Chinese market has a huge demand for products in chapter 3 (fish, crustaceans and aquatic invertebrates), chapter 7 (edible vegetables and certain roots and tubers) and chapter 8 (edible fruits and nuts). For example, in 2005, China imported \$341 million of tapioca or manioc (cassava)⁴ from Thailand and \$50 million from Vietnam. China also imported \$180 million of edible fruits and nuts, and \$57 million of fish, crustaceans and aquatic invertebrates from Thailand.

Some of these products are among Cambodia’s current exports to China, while others are products that have high potential for export development. Live fish, shrimps and prawns, for example, are Cambodia’s main exports to China under the EHP coverage, with total values of USD 3.99 million and USD 2.36 million, respectively, during 2000–05. These products would remain key exports and could further expand in response to Chinese demand following implementation of the EHP tariff reduction schedule. Cambodia’s cassava production is also comparable to that of Thailand and Vietnam in terms of quality and competitiveness and could, therefore, potentially be an additional export items under the EHP. Lastly, fresh fruits such as durians, longans, bananas and mangosteens are fruit products that Cambodia could supply to the Chinese market along with those from Thailand and Vietnam. Cambodia’s fresh fruits have a unique taste that is different from those of Vietnam and Thailand and such differences could facilitate the penetration of Cambodia’s fresh fruits into the Chinese market as niche products.

These product ranges are probably large enough for a country like Cambodia to develop initially—taking into account comparative advantage and competitiveness—to prioritise its export products and promotions to the Chinese market under the EHP.

4. Enhancing Cambodia’s Agriculture Exports Through the EHP

The window of opportunity reflected in the EHP through tariff reduction is open, but is not the only

Table 3: The EHP Modality of Tariff Reduction for China

Product Category	Not later than 1 Jan. 2004	Not later than 1 Jan. 2005	Not later than 1 Jan. 2006
1	10%	5%	0%
2	5%	0%	0%
3	0%	0%	0%

Table 4: The EHP Modality of Tariff Reduction for Cambodia

Product Category	Not later than 1 Jan. 2004	Not later than 1 Jan. 2005	Not later than 1 Jan. 2006	Not later than 1 Jan. 2007	Not later than 1 Jan. 2008	Not later than 1 Jan. 2009	Not later than 1 Jan. 2010
1	-	-	20%	15%	10%	5%	0%
2	-	-	10%	10%	5%	5%	0%
3	-	-	5%	5%	0–5%	0–5%	0%

factor determining the success of exports. A wide range of activities and measures needs to be undertaken by a number of key stakeholders, including the government and the private sector. These measures can be summarised as follows:

- The private sector, in collaboration with the government of Cambodia, should conduct an in-depth study concerning the demand structure of the Chinese markets, including consumer preferences for fresh fruits. The study should not cover all of China, but should focus on the main markets, such as Guangzhou province where the wholesale market for fruit is located. The results of the study would enable entrepreneurs to better understand the Chinese market, and to develop niche markets for Cambodian products.
- Cooperation and partnership between business associations in the two countries needs to be strengthened. Cambodia’s enterprises could use Chinese business partners as a channel for sharing information.
- Relevant government institutions such as the Ministry of Commerce and the Ministry of Agriculture, Forestry and Fisheries, should devise comprehensive development strategies for the above-mentioned potential export products with an emphasis on finding solutions to key constraints to agricultural development. These constraints include poor infrastructure (roads, irrigation systems), inadequate extension services, absence of an efficient marketing system, insecure land tenure and lack of access to agricultural inputs.
- Technical and financial support from the government and donor communities is needed

to proceed with the “Special Agricultural Development Zone (SADZ)” initiative. SADZ could be very practical for developing specific products based on geographic characteristics. The SADZ strategy has several strengths compared to the current approach to agriculture development. First, it helps the government to concentrate on a particular area, thereby channelling scarce resources and management to a smaller area for maximum impact, rather than dispersing attention over a wider, less focused area. Second, it is easy to pilot, monitor and make changes and improvements, as well as to provide the necessary infrastructure and services, including marketing, storage, transport, and processing. Third, it would be a tangible development move to attract others to join in learning-by-doing in development collaboration.

- The provision of trade facilitation to the private sector should be further improved. These include trade-related information, updates on trade negotiations and international trade policy development and, in particular, trade facilitation. The government also needs to play a proactive role in curbing informal fees and simplifying import and export procedures.

5. Summary and Conclusion

The EHP between ASEAN and China comes at a time when the Cambodian government is committed to developing agriculture as an additional source of economic growth. It offers promising prospects for agricultural development through export opportunities for products such as cassava, fresh fruits, fish, and shrimps and prawns. It requires closer cooperation and a deeper partnership at both government and business levels between the two countries. This, however, will not be sufficient for Cambodia to obtain

greater benefits from the EHP unless the key stakeholders in agricultural trade, including the government, the private sector and donor communities take both independent and joint measures to enhance agricultural competitiveness.

- *State-to-state cooperation and partnership*: Cambodia should seek China's development and technical assistance for agricultural development.
- *Business-to-business cooperation and partnership*: Cambodian business associations should strengthen partnerships with those in China in order to obtain market information and distribute Cambodian products.
- *State-business partnership*: The Cambodian government should put in place a strategy for developing specific products, including addressing concerns or constraints raised by the private sector.
- *Supports from donor communities and NGOs*: Financial and technical assistances are required to support agriculture development, in general, and development of potential products, in particular.

With these measures, the EHP could be a powerful tool to enhance agricultural exports and to develop the agriculture sector in Cambodia.

Endnotes:

1. The Framework Agreement was signed in the eighth ASEAN summit in 2002 in Phnom Penh with the aim of further strengthen trade and investment cooperation and forming a free trade zone within 10 years.
2. Toshiyasu, Chan and Long (1998). These writers investigate determinants of comparative advantage of selected ASEAN countries based on empirical evidence

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from a cross-country study by Wood Adrian (1994): *Skills, Land and Trade: A Simple Analytical Framework*. IDS working paper 1 (Brighton: Institute of Development Studies)

3. WTO statistics (http://stat.wto.org/CountryProfiles/KH_e.htm)
4. According to Sabhasri et. al (2005), the Chinese government has promoted the use of manioc for animal feed as a partial substitute for corn and soybean, to produce alcohol in place of molasses and to produce acetic acid, which is used in the manufacture of vinegar.

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