

CHAPTER 5

Conclusion and Policy Implication

5.1 Conclusion

The purpose of this study is to determine the factors affecting bilateral trade between Cambodia and its trading partner in ASEAN over the period of 21 years (1995- 2015) using the gravity model. After that the coefficients from the gravity equation estimation is employed to predict its trade potential and performance by using out-off sample approach.

Seven significant variables have been added to the augmented gravity model of Cambodia's bilateral trade with its trading partners in ASEAN. To estimate the gravity model, we employ Pooled OLS and Random Effects Model. The Breush Pagan Lagrange Multiplier test and some other diagnostic tests show that both Pooled OLS and Random Effects Model are bias due to the present of contemporaneous correlation and heteroscedasticity in the model. Consequently, Feasible Generalized Least Square (FGLS) is used to estimate the gravity model by eliminating the heteroscedasticity and multicollinearity problem. The FGLS results indicate that the coefficient of $\ln(PCGDP_{it})$ and $\ln(PCGDP_{jt})$ are positively significant at 1 percent level, therefore per capita GDPs of Cambodia and Cambodia's trading partners have a positive impact on bilateral trade between Cambodia and its trading partners. Moreover, the common border-sharing ($Border_{ij}$) has positive coefficient which is statistically significant at 5 percent level, thus the common border-sharing will boost Cambodia's bilateral trade. However, the coefficient of bilateral distance, real bilateral exchange rate, AFTA, and crisis are negatively significant at 1 percent level. It means the bilateral distance, real bilateral exchange rate, AFTA, and crisis have negative influence on bilateral trade between Cambodia and its trading partners.

After that the coefficients from FGLS is used to predict Cambodia trade potential and

performance by using out-of sample approach. The Relative differences index (Rd) and Absolute difference (Ad), are used to analyze the trade potential and its performance. Cambodia's mean predicted trade was expected at 392.09 million USD during the entire period of study. The main trading partner is Thailand (1064.43 million USD), followed by Singapore (525.27 million USD). Conversely, Malaysia and Philippines are listed the lowest trade potential predicted at 102.226 million USD and 11.75 million USD, respectively. The result of Relative differences index (Rd %) describe that Cambodia's bilateral trade perform well at the 3.39 percent over the entire period of 1995-2015. The result of Asia Financial Crisis (1997-1998) reveals that Cambodia's bilateral trade performance at 2.04 percent during the period of 1999-2015. Becoming an ASEAN member in 1999 and World Trade Organization (WTO) in 2004, Cambodia's trade performance better has performed stably during the period of 2004-2015 at approximately 2.01 percent. Later, Cambodia's trade performance has improved gradually from 2.01 percent between 2004 and 2015 to 7.33 percent between 2010 and 2015. On the other hand, the results of relative differences index of Cambodia and each individual partners show that Cambodia has good trade performance with Malaysia and Vietnam, while Cambodia presents a bad trade with other trading partners during the entire period of study (1995-2015). The relative differences index during the period of (1999-2015) and (2004-2015) illustrates that Cambodia has a good trade performance with Malaysia, Vietnam, and Philippines; it has a poor trade performance (bad trade performance) with Indonesia, Singapore, and Thailand. Lastly, Cambodia shows a good trade with Malaysia and Vietnam; however, it has a bad trade with Indonesia, Singapore, Thailand and Philippines during the period of (2010-2015).

5.2 Policy Implementation

The Cambodia's bilateral trade with ASEAN countries have been increasing from 20 percent up to 40 percent of Cambodia's total trade in 2010 and 2015, respectively (figure 1.2). However, the trade between Cambodia and ASEAN region still has a lot work to be done to improve the trade performance and increase trade activities between Cambodia and ASEAN region. According to the result of this study, the further policy recommendations will be done by focus on five main points: (1) bilateral agreements and its enforcement; (2) trade facilitation and logistic improvement policy; (3) financial

cooperation; (4) increase the quality of custom system; and (5) commercial trading centers in its major trading partners.

5.2.1 Bilateral agreement and enforcement

The result of AFTA shows the negative impact the Cambodia's bilateral trade with ASEAN partners. The bilateral agreements between Cambodia and its trading partners seem to be a successful strategy to promote and boost trade between them. Anyways, there is a few bilateral trade agreements has been done, and some of them are not success due to lack of enforcement. Consequently, the bilateral trade agreements between Cambodia and each individual member of ASEAN should be done. For example, the bilateral trade agreement between Cambodia and its neighbouring countries such as Cambodia and Thailand should be done to strengthen the trade cooperation and increase trade activities between them. Other bilateral agreements with other countries should be made to have good trade relations between them with the enforcement form.

5.2.2 Trade facilitation and logistics improvement policy

According to the result, the distance which is a proxy variable of trade costs negatively influences on the bilateral trade between Cambodia and ASEAN region. The trade costs come from the cost of transportations and the poor trade facilitation. Cambodian government should focus on improving the transportation system in Cambodia which is a key important factor to promote and increase trade activities. The infrastructure should be improved in both Cambodia and its trading partners to decrease the cost of transportations. Firstly, Cambodian government need to pay careful attention on the infrastructure development such as paves, bridges, ports, waterways, airways, especially railways. Responding to the improvement of trade facilitation and logistics can be done in the form of bilateral agreements (section 5.2.1). For instant, Cambodia and Thailand have agreed to build the railway link from Banteay Meanchey province in Cambodia to Sa Kaeo province in Thailand.

5.2.3 Increase financial cooperation between Cambodia and its trading partners

The real bilateral exchange rate negatively influences Cambodia's bilateral trade.

Thus, the movement in the value of a currency requires effective management to improve total trade. Increase in the financial cooperation between Cambodia and its trading partners can increase the bilateral trade between Cambodia and its trading partners. The bilateral talks between Cambodia and its trading partners are made to strengthen the financial cooperation by focus on loans facility, necessary assistance and policy supports.

5.2.4 Increasing the quality of custom system

The results from the study show that Cambodia has a bad trade performance with some countries in ASEAN. Similarly, the reported news in Phnom Penh Post Newspapers on 20 October 2016 by Kali Kotoski and Hor Kimsay express that Cambodia is the third-worst illicit trade out of 17 countries in the Asia-Pacific region. Cambodia is listed as one of illicit trade countries because of the poor quality of custom system. The poor quality of custom system is caused by the lack of computer skill in recording the information, engagement corruptions and illegal practices. Firstly, Cambodian government should improve the customs system by providing the computer skill and other training programs for custom officers. Once the custom officers have learned how to use electrical record system, all the information of trade transaction and customs will be recorded accurately and safe. Additionally, the government should be proactive in reducing the corruption by promoting the fair treatment to every trading partner.

5.2.5 Establishing the commercial trading centers in partner countries

Another strategy to boost Cambodia trade with ASEAN countries is to establish the commercial trading centers in each individual partner country. The reason behind this establishment is to promote the bilateral trade activities between Cambodia and its trading partners in ASEAN. First and foremost, it is an information center where country partners can find important information related to trade and investment with Cambodia. On the other hand, the commercial trading center will a place where Cambodia and trading partners can arrange trade exhibition/ trade fair. Finally, the establishment will built a better relationship and cooperation with trust between Cambodia and its trading partners.

5.3 Areas for further research

Even though, the analysis of the bilateral trade between Cambodia and its major trading partners in ASEAN during the period of 1995 to 2015 seems to be the first investigation of the determinants, potential, and performance of Cambodia's trade. Nonetheless, there are some inevitable limitations considered as the gap of this study.

Firstly, the limitation of data available causes this study cannot cover all the countries in ASEAN. Additionally, it fails to analyze the specific determinant factors of Cambodia's bilateral trade at the industrial level due to unavailability of disaggregate data.

On the other hand, the study does not include some other important factors that might impact Cambodia bilateral trade such as quality of institutions, generalized system of preferences(GSP), political deadlock of Cambodia and its trading partners, foreign aid, Information and Communications technology (ICT) and so on.

Finally, the further study should employ aggregate data in investigating the specific determinant factors affecting bilateral trade at sector or firm level. Furthermore, other bilateral country partners in ASEAN such as Lao PDR, Brunei, and Myanmar should be added up in the study.