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Strengthening Cross-Border Trade Facilitation in the Mekong-Lancang Subregion: Navigating through Geopolitics of Supply Chain

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Executive Summary

- ❖ We live in an uncertain world of constant change. One could comprehend the evolving global headwinds blowing in the direction of the global recession but could not speculate what the future holds. Therefore, multilateral and minilateral dialogues have been organised to discuss possible approaches to make concerted efforts to build resilience against current crises and future shocks.
- ❖ Mekong-Lancang countries will have to navigate through the fog of war in Ukraine and various global headwinds on the geopolitical and economic fronts and the prospect of de-globalisation. For decades, global trade and economic architecture have been in clear motion with predictable regimes, where decisions were premised largely on economic reasoning; however, this may no longer happen because geopolitical implications may colour economic decisions more and more in unpredictable ways in the years to come.
- ❖ With a setback in globalisation and multilateral trading regime, the de-coupling strategy is now rising. As a result, cross-border trade would see significant shifts. Patterns of production, supply chains, and economic value chains will see readjustment and reconfiguration. The long-standing ‘off-shoring’ practice is being replaced by the ‘re-shoring’ or ‘ally-and-friend-shoring’ practice. Therefore, Mekong-Lancang countries should consider some coherent policies and measures to streamline cross-border trade facilitation and mitigate supply chain shocks to enhance resilience and sustainability in critical sectors intersecting with the supply side.

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- ដូចគ្នានេះដែរ បណ្ដាប្រទេសមេគង្គ-ឡានឆាងនឹងត្រូវឆ្លងកាត់ផ្សែងអ័ព្ទនៃសង្គ្រាមនៅអ៊ុយក្រែន និងគន្លងនៃវិបត្តិសកលនានា ទាំងក្នុងទិដ្ឋភាពភូមិសាស្ត្រនយោបាយ ភូមិសាស្ត្រសេដ្ឋកិច្ច ព្រមទាំងនិន្នាការបដិសកលភាវូបនីយកម្ម។ ប៉ុន្មានទសវត្សរ៍មកនេះ និម្មាបនកម្មសេដ្ឋកិច្ចនិងពាណិជ្ជកម្មបានដំណើរការដោយឈរលើហេតុផលសេដ្ឋកិច្ចជាចម្បង និងផ្អែកលើវិធានច្បាប់ច្បាស់លាស់ ព្រមទាំងអាចប៉ាន់ស្មានបាន។ ប៉ុន្តែទៅថ្ងៃអនាគត ប្រហែលជាមិនអាចឈរលើមូលដ្ឋានទាំងនេះបានទាំងស្រុងនោះទេ ដោយបច្ច័យនៃភូមិសាស្ត្រនយោបាយនឹងជះឥទ្ធិពលមកលើសេដ្ឋកិច្ចកាន់តែច្រើនឡើង ដែលនឹងមិនអាចព្យាករណ៍បាន។
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Global Headwinds and Changing Production Patterns

At this exact moment, we live in an uncertain world of constant change. One could comprehend the rapidly evolving global headwinds blowing in the direction of the global recession but could not speculate what the future holds. Therefore, multilateral and minilateral dialogues, including those under the frameworks of the United Nations, the Organization for Economic Cooperation and Development (OECD), the World Economic Forum (WEF), the Association of Southeast Asian Nations (ASEAN), and the Mekong-Lancang Cooperation (MLC), have been deliberately organised to discuss possible approaches to make concerted efforts to build resilience against current crises and future shocks.

Looking in retrospect, global crises have occurred throughout history, including the Asian and Global Financial crises. Looking in prospect, another challenge is marching on us as we are about to see the light at the end of the tunnel of our fight against COVID-19 and its evolving variants. The war in Ukraine has led to a major cut-off of the global energy supply and triggered supply chain shocks and inflation shaping market dynamics and having serious spill-over effects on the global development outlook.

The world is in a state of flux. Mekong-Lancang countries will have to navigate through the fog of war in Ukraine and various key global transitions on the geopolitical and economic fronts and the prospect of de-globalisation. **First,** the world is facing a significant geopolitical transition. We should neither assume a stable international order in which all countries abide by international law, nor should we assume the dominance of one single global power, especially as middle powers could also develop greater strategic significance.

While we have largely operated in a global trade and economic architecture with clear and predictable regimes, where decisions were premised largely on economic logic, this may no longer be the case going forward. In the years to come, we would expect a more fluid geopolitical environment where stability is not guaranteed and where economic decisions are made more unpredictably. For instance, the geopolitical tension intensified by the war in Ukraine has unfolded unexpectedly in a way triggering the global economic slowdown with global inflation and high energy prices. The financial crisis has caused the global growth to decrease from 6.0 per cent in 2021 to 3.2 per cent in 2022 and 2.7 per cent in 2023, while global inflation was projected to rise from 4.7 per cent in 2021 to 8.8 per cent in 2022 but to decline to 6.5 per cent in 2023 and to 4.1 per cent by 2024 (International Monetary Fund 2022).

Second, the world is facing a geo-economic transition. We expect changes in the relative economic weights amongst large and medium economic powers. Cross-border trade will see significant shifts. Patterns of production, supply chains, and economic value chains will see readjustment and reconfiguration. There are various reasons why they are happening. The ongoing trade volatility has resulted in tit-for-tat tariffs. It has also led to the onshoring of production and export controls on emerging technologies. Learning from COVID-19, many countries and companies are enhancing resilience by diversifying their production bases. Many are now adopting a 'China +1' strategy or shortening supply chains.

Third, countries worldwide have witnessed a setback in globalisation and trade multilateralism. The years following the fall of the Berlin Wall marked a golden era for globalisation. The drive for increased efficiency saw global value chains blossoming alongside the proliferation of trade, with production becoming increasingly unbundled across borders. And today, around half of the global trade is related to global value chain activities. However, the de-coupling strategy is now on the rise. In the past, we were familiar with the term 'off-shoring', but now we start hearing the buzz words 'on-shoring, re-shoring', and 'ally-or-friend-shoring'.

Therefore, Mekong-Lancang countries should usher out market protectionism and supply chain de-coupling while keeping the market wide open for trade to prosper and relaxing border measures to facilitate the flow of goods and services. Thus, resilient global supply chains and seamless trade facilitation are important topics in addressing the rapidly changing global landscape.

Corresponding Factors Between Trade and Supply Chains

Global supply chains have been on the news agenda. As the global financial crisis brought the financial system to the attention of the public, the pandemic also brought the working of modern supply chains to media attention. While the focus on these complex production networks is relatively new, many of the debates hark back to some of the oldest questions in economics: the role of the supply chains in international trade.

International trade affects the daily lives of almost everyone on this planet. Trade brings many benefits. It allows different countries to specialise in products they can produce more efficiently, thus increasing average productivity and incomes. At the same time, the development of global supply chains entails the production process using intermediate goods and services sourced from other countries. A large share of trade consists of inputs used in production. But in recent decades, global supply chains have grown in importance, reflecting large reductions over time in the high cost of goods transport. More recently, progress in information and communication technology has made it easier to communicate ideas, thus enabling the coordination of work remotely. As a result, Tenreyro contends that supply chains have also become longer and more complex, with production stages offshoring across various firms in different countries.

An example is smartphone. From design to delivery, our mobile phones have been designed and produced using the flow and exchanges of know-how and parts and components produced and assembled across different borders. For example, the Apple company has an extensive network of third-party suppliers in its supply chain, with over 700 suppliers in 31 countries, over 300 of which are based in China (Dittmann 2015). The process includes procurement, manufacture, and assembly. For the final stage, however, Apple assembly is done in China. In such a case, reshoring or friend-shoring has its limits.

Trade and global supply chains bring benefits in the form of higher national income. However, while trade and supply chains raise an economy's income level, they could also make it more volatile. It was once a widely held view by most economists, based on the idea that increased specialisation in one sector, which goes hand in hand with international trade, increases the exposure to supply chain shocks in that sector (Welford 2015).

Strengthening Cross-Border Trade Facilitation in MLC Subregion: Challenges at Doorstep

Trade facilitation underpins global supply chains, reducing the time and cost of moving goods around the world and promoting more inclusive trade. Reducing trade costs and streamlining measures at borders are particularly important for bolstering the resilience of the supply chains. The most common disruptions reported by firms are not so much related to their suppliers but to difficulties at the border when exporting or importing goods.

Trade facilitation is particularly critical during a crisis to ensure the smooth movement of essential goods and production inputs across borders. To increase the resilience of the supply chains against current global challenges and future shocks, MLC countries should consider the following policy suggestions for cross-border sustainable and digital trade facilitation:

- Streamline formalities at border processes (i.e., facilitating the pre-arrival processing and post-clearance audits and creating green lanes for essential and special goods).
- Increase sharing of existing import-export regulations on the internet (i.e., notifying new trade-related regulations at least 30 days prior to their implementation).
- Reduce trade costs and unnecessary arrangements that overlap amongst competent border authorities and customs agencies in the MLC subregion.
- Work in orchestrated efforts to facilitate customs transit (i.e., related competent agencies at borders should reduce the physical inspections of transit goods but instead use risk assessment methods).
- Facilitate product certification in MLC subregion (i.e., streamlining certification procedures amongst MLC governments; using and adopting international best practices in certification such as standards and accreditation; and having more flexible application of product certification criteria in emergencies, including the issuance of Form E: Certificate of Origin, Customs Declaration, Import and Export Permits, SPS Certificate, and so on so forth).

- Enhance Cross-Border Digital and Paperless Trade. Digitalisation is key to supporting the efforts to facilitate trade in current global dynamics (i.e., exchanging specific digital trade documents such as the consideration to create the Mekong-Lancang Single Window System, using an electronic exchange of Certificate of Origin, electronic exchange of SPS Certificate, and electronic exchange of customs declaration in the MLC framework).
- Incentivise more SMEs activities to link the production chain, since small and medium-sized businesses could potentially be sourced by multinational companies due their limited exposure to supply chain crises.
- Negotiate more bilateral and multilateral FTAs as the chapters in those FTAs stipulate trade facilitation in goods and services and streamline customs transit procedures.
- Entry and movement of natural persons (investors and businesspersons) through a fast-lane or fast-track mechanism.

Measures and Approaches to Enhancing Resilience and Sustainability in Critical Sectors

Resilience and sustainability will shape the investment priorities of firms and governments. For firms, the push for supply chain resilience could lead to pressures in some industries to reconfigure international production networks through reshoring, regionalisation, or diversification. For governments, recovery stimulus and investment plans focusing on resilience and sustainability during crises are urgent.

Therefore, resilience has become a sexy catchphrase in every government’s statement; however, we do not usually notice that resilience in supply chains needs to go hand in hand with the sustainability dimension, which means that building resilience measures require us to address systemic challenges caused by sustainability issues. Hence, strengthening the resilience of the supply chain alone is never sufficient. Given the scale and multitude of challenges, we need a coherent policy approach amongst respective Mekong-Lancang countries to adopt measures that enhance sustainability in key critical sectors.

For Cambodia, the Royal Government has endeavoured to strengthen the resilience and sustainability of socio-economic development to cope with the prospects of a global recession through the rolling out of intervention policies and economic recovery strategies across key critical areas. Below are key areas deemed crucial to enhance the resilience and sustainability of socio-economic development against unpredictable future crises.

Agriculture is regarded as the backbone of the economy and is a potential source of income for more than 80% of Cambodia’s farmers. In the wake of the COVID-19 crisis, agriculture and agro-industry were considered highly resilient, while the tourism and service industry were the hardest hit. Thus, the Royal Government recognises the importance of agriculture in achieving priorities such as food security, poverty reduction, employment, resilient growth, and environmental sustainability. In this regard, the government have introduced the following development strategies such as the Agricultural Sector Master Plan 2030 and the Agriculture Sector Strategic Development Plan 2019-2023 to improve agricultural productivity and crop diversification, increase agro-processing capability, create an enabling investment environment, and enhancing logistics for the agricultural sector. For agri-food investment promotion, the Council for the Development of Cambodia (CDC), with support from the Australia Department of Foreign Affairs and Trade through the Cambodia-Australia

Agricultural Value Chain (CAVAC) programme, also established the Agri-Food Investment Desk (AFID) with the operationalisation of AFID website and the launching of promotional videos to attract investment in the agriculture, agri-food, and agro-industry sector.

SME development is also a critical pre-condition for enhancing sustainable and resilient economic growth, as it contributes to the development of the private sector, the creation of jobs, and the integration of Cambodia's economy into the global supply chains. However, during the pandemic, Small and Medium Enterprises (SMEs) could not keep pace with the new development of advanced technologies requiring resources and technological capacities. As a result, some SMEs had to file for bankruptcy or shrink their operations.

Hence, increasing Cambodia's SME competitiveness and strengthening its participation in the global value chain is crucial. The SME environment in Cambodia has changed dramatically in recent years, and the Royal Government of Cambodia has taken significant initiatives to diversify the economy in addition to its unwavering efforts to attract foreign direct investments (FDIs), namely the draft of the SME Development Policy. Several initiatives to boost Cambodia's SME ecosystem were also launched in 2019, such as the new SME tax and customs incentives. In addition, several entities or programmes were established under the Ministry of Economy and Finance such as the SMEs Bank, Agricultural and Rural Development Bank, Techo Startup Center, Skills Development Fund, Khmer Enterprise, etc.

Moreover, CDC, receiving counsel from the World Economic Forum, has launched the Supplier Database to link foreign firms with qualified domestic suppliers. And those suppliers are selected based on certain criteria such as quality standard and certification, gender inclusion, responsible supply chains, environmental sustainability, employee capacity building, and employee care, which are all sustainability dimensions in line with the United Nations 2030 Agenda for Sustainable Development. Furthermore, the concept of Inclusive Business has also been embraced in Cambodia following the adoption of the ASEAN Inclusive Business Framework in 2017. Cambodia is the third country in ASEAN to develop a comprehensive strategic framework for promoting inclusive business, namely the draft Inclusive Business Enabling Environment Strategy for Cambodia, drafted by the Ministry of Industry, Science, Technology, and Innovation (Samath 2021).

Sustainable industrialisation is also an emerging priority for Cambodia, showing signs of rapid growth recently after the pandemic, as reflected by rising export growth and product diversification. During the COVID-19 crisis, the supply chain disruption brought challenges and opportunities to the industrial and manufacturing sectors. As the global value chains have been re-configured to build resilience through relocating strategy that allows companies to diversify their production bases closer to key markets, Cambodia capitalised on this shift to attract more non-garment manufacturing investments, including bicycles, plywood, furniture, solar panels, electronic components, and automobile parts.

In tandem with the efforts to implement the Industrial Development Policy 2015–2025, the Royal Government has recently put forth an Automotive and Electronics Sector Development Roadmap intending to develop these sectors further to drive long-term resilient and sustainable growth and to seize the opportunity from the geopolitics of supply chains through implementing the 'Plus-One' strategy.

Enabling investment and business environment also carries great importance in building resilient and sustainable growth that can cope with future volatilities. Moreover, creating a predictable environment for doing business could contribute to mitigating impacts from supply chain reshoring. Hence, for Cambodia, reforms at home are urgently needed to seize the opportunity of structural changes both in the domestic economy as well as from external factors and create a more enabling investment and business environment through streamlining services related to investment and trade facilitation, logistics and transport, intellectual property protection, e-commerce promotion, and fair competition amongst commercial enterprises.

In this regard, the Royal Government has so far enacted several laws to create a stable and predictable environment for doing business in Cambodia, such as the (i) New Law on Investment promulgated in 2021 with the provision of smarter incentive schemes and better investment facilitation; (ii) the Law on Competition enacted in the same year to govern any activities that prevent, restrict, or distort competition, and to establish the governing regulator; (iii) the Law on E-commerce to establish legal and commercial realities of electronic commerce; (iv) the Consumer Protection Law to ensure the protection of consumers and to promote fair competition; and (v) the replacement of the Law on Concession through the promulgation of the Public-Private Partnership (PPP) Law with the purpose to promote just management and implementation of PPP projects in an effective, efficient, sustainable, transparent, and accountable manner. Moreover, the Interim Master Plan on Intermodal Transport and Logistics Connectivity is underway to improve the supply chain and modernise transport and logistics infrastructure in Cambodia, thereby reducing costs, improving cross-border movement, and increasing Cambodia's competitiveness.

Digital transformation is quite a new area. However, Cambodia has a high potential to grasp the opportunities from the Fourth Industrial Revolution, thanks to growing trends of using smart devices and young demographic dividends, which are more open to absorbing digital technologies. Therefore, going digital as an essential means or approach to expediting recovery and strengthening resilience, as it helps build smarter human capital to leverage on the above-mentioned areas. However, to expedite the digital adoption and transformation in Cambodia following the launching of the Digital Economy and Society Policy Framework and Digital Government Policy, Cambodia needs to build two foundations: (i) bridging digital infrastructures, FinTech, and digital payments, and (ii) strengthening digital security through trust and reliability in digital systems. These two foundations involve three underlying goals, including (i) building digital citizens and society through Science, Technology and Innovation (STI) application; (ii) developing e-government to enhance digital governance and public services; and (iii) promoting digital economy through tech startups and digital businesses.

The opinions expressed are the author's own and do not reflect the views of the Asian Vision Institute.

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