

# PC Penetration in Cambodia



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## ACRONYMS AND ABBREVIATIONS

ACFTA	ASEAN China Free Trade Area
AFTA	ASEAN Free Trade Area
AHTN	ASEAN Harmonized Tariff Nomenclature
AKFTA	ASEAN Korea Free Trade Area
ASEAN	Association of South-East Asian Nation
CDC	Council for Development of Cambodia
CEPT	Common Effective Preferential Tariff
CIST	Center for Information System Training
CIT	Corporate Income Tax
CLMV	Cambodia, Lao PDR, Myanmar and Viet Nam
DEO	Data-Entry Operator
DOP	Database-Oriented Programming
FDI	Foreign Direct Investment
GMS	Greater Mekong Sub-region
HS	Harmonized System Code
ICT	Information, and Communication Technology
LCD	Least Developed Country
MoEYS	Ministry of Education Youth and Sport
MPTC	Ministry of Posts and Telecommunications of Cambodia
NiDA	National Information Communication Technology Development Authority
PCs	Personal Computers
RGC	Royal Government of Cambodia
SMEs	Small and Medium Enterprises
SNA	System and Network Administration
VAT	Value Added Tax
WTO	World Trade Organization

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## EXECUTIVE SUMMARY

Information, Communications and Technologies (ICTs) play a crucial role in improving the quality of lives by facilitating the promotion of economic, social and human development. ICTs enable trade in other sectors by enhancing market access and broadening the customer base, facilitating customs, transport and logistics. Computer and internet usage is generally recognized for its significant contribution to a broad variety of activities and economic growth.

However, Cambodia is lacking behind other countries in terms of promoting and facilitating trade of ICT goods with the rest of the world. As compared to countries with per capita incomes below US\$1,000, Cambodia's Personal Computer (PC) penetration rate is 5.4 times less than its potential. This is mainly due to the high tariff rates for ICT products thereby resulting into low computer penetration and preventing the country from the benefits of ICT use. Currently ICT products and particularly PCs are subjected to 15 percent tariff.

Besides, the tariff duty of 15 percent, PC related products are subjected to a Value Added Tax (VAT) of 10 percent. According to the ASEAN Free Trade Agreement (AFTA), Cambodia has approved the importation tariff duty of 5 percent on some of the IT related products but the implementation of the Harmonized System Code (HS) and ASEAN Harmonized Tariff Nomenclature (AHTN) are yet to be put in force. Additionally, the e-ASEAN framework, which Cambodia has signed, requires members to eliminate import tariffs and non-tariff barriers on intra-ASEAN trade of ICT products in three tranches. Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) will implement the three tranches in January 2008, 2009 and 2010 respectively.

There is a compelling argument to encourage Cambodia to adopt tax rates similar to countries that have signed the ITA, where duties have been reduced to zero or near zero to expand the market and increase PC penetration.

Cambodia joined the WTO in October 2004, and is yet to be a signatory of the IT Agreement. Compared to other developing countries like the Philippines and Thailand, the non-zero tariff scheme on computers has led Cambodia to a slower adoption of ICT. The high tax rates has resulted in high prices to end consumers, hampering wider scale PC adoption and encouraging informal imports. Informal imports hinder the ability for legitimate distributors to compete legally on price and deprive the government of import tax revenue.

Cambodia recently announced a reduction of import duty to zero percent on IT products from ASEAN countries. However, finished IT products can arrive from any parts of the world in the global supply chain or some components may originate from within ASEAN countries.

The new “zero duty on ASEAN originated product” is in the process of implementation.

Apart from tax, there are other factors that contribute to the price of the ICT products in Cambodian market, especially PCs. Some of the causes include price differential resulting from unpaid tariffs of informal importation of PC which make the formal ones face high competition as they need to pay all tariffs and other necessary legal fees. Another barrier is the poor infrastructure of importation procedures making Cambodia less competitive compared to neighboring countries. Low level of investment incentive for the ICT industry also affects the price of ICT products in the country.

The study comes out with specific suggestion to increase the potential growth for PC related products.

ICT agreement among ASEAN members is quite beneficial in improving the ICT inter-trade within ASEAN countries. It is important for Cambodia to sign the ITA agreement with WTO to expand the trade facilitation with other non-ASEAN member states. Awareness generation among the business community on CEPT and ASEAN agreement is vital for an informed IT business community.

## **I Introduction**

### **1.1 Background of the Study**

After more than 30 years of widespread use, there is now sufficient evidence to confirm the positive economic and societal impacts of information and communication technology (ICT). ICT use has not only been harnessed to significantly improve productivity and economic growth but it has also been used to improve all aspects of life, from health care to education.

Nonetheless, there are still factors preventing adoption of ICT across the globe. Trade barriers, such as disproportionately high tariffs prevent certain countries from benefiting from ICT's full potential.

Under the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA), Cambodia has pledged to eliminate tariffs on ICT products with points-of-origin in ASEAN countries by 2015. This is a commendable step that will surely foster an increase in trade with Cambodia and the ASEAN member countries but it does not address the large amount of ICT trade that originates from non-ASEAN countries. Currently in Cambodia, ICT products, mainly personal computers and hardware products are subjected to 15 percent tariff.

Cambodia is still lacking behind other countries in terms of promoting and facilitating trade of ICT goods with the rest of the world.

### **1.2 Objectives**

The main objective of the study is to examine import duty on IT products, focusing on personal computers (PCs) hardware and to identify key opportunities and challenges in promoting PC usage for economic growth in Cambodia. The specific objectives are as follows:

1. To review tax policies and IT agreements of Cambodia.
2. To identify key factors affecting prices of PC products.
3. To project potential PC market expansion through duty/tax reductions.
4. To suggest duty/tax policy recommendations to increase access and PC penetration.

### **1.3 Methodology**

The study utilized a research methodology based on information gathered both from primary and secondary sources. In addition, quantitative and qualitative approaches were employed to access detailed information from various IT product dealers/agencies and key sources from Ministries and Government Departments/Agencies that deal with ICT-related issues.



### **1.3.1 Secondary Data**

Existing data on import tariffs for PC products, bilateral and multilateral agreements, tax policies and other information was gathered from the ASEAN Secretariat, the Customs and Excise Department of Cambodia, the Ministry of Post and Telecommunication, the ASEAN and WTO Department of the Ministry of Commerce and the Ministry of Economy and Finance. Information on PC penetration and prices from IT shops was also collected.

### **1.3.2 Primary Data**

#### **Target Sources**

##### *Government Agencies*

To gain insight on tax policies and opportunities and constraints in promoting PCs in Cambodia, semi-structured interviews were conducted with key sources from Government agencies, such as officers from the:

- Customs and Excise Department of Cambodia;
- Ministry of Economy and Finance;
- Ministry of Post and Telecommunication;
- National Information Communication Technology Development Authority (NiDA);
- The Council for Development of Cambodia, etc.

##### *NGOs and Private Sectors*

Local and international organizations along with ICT-related donors were also contacted for additional information related to the general implication and improvement of ICT in Cambodia.

Interaction with the private sector, particularly IT shops in Cambodia was an important source to provide information on the major factors affecting price disparities and distortions, especially the effects of tariffs and taxes. Information related to the growth of PC related sales was also explored to assess the actual situation and forecast future penetration.

#### **Survey Tools**

To gather the information needed, the study used several survey tools as needed according to circumstances.

Pre-organized questions were set for the face-to-face interview with the key sources to have clear and detailed data relevant to the study, mainly with government officials, IT associations and the various NGOs.

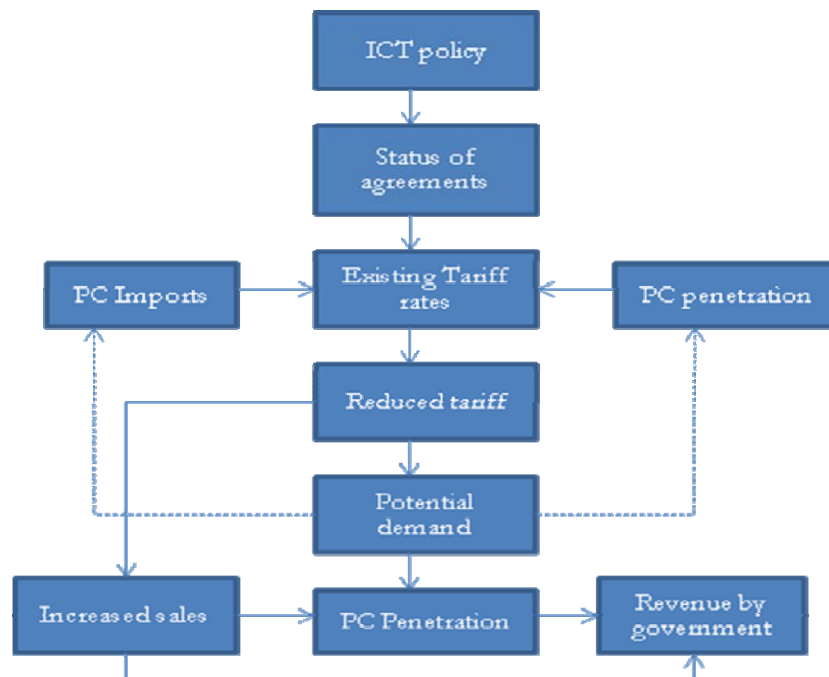
Telephone interviews were also used to access additional information and as follow-ups to gather information.

## 1.4 Study framework

To have a complete overview of the research study, a literature review was conducted to determine ways to reach the objectives. After completing the literature review, the scope of the study was developed and collected information was tabulated in order to obtain concrete results. Conclusion and recommendations are also provided based on the findings.

The flow chart below best explains the framework of the study in accordance with the set objectives.

**Figure 1.1: Study Framework**



## 1.5 Scope, Limitation and Difficulties

The main objective of the study was to focus on PC penetration vis a vis tariffs or import tariffs. Among other ICT goods, PC is the main focus of the study. The study was conducted particularly in Phnom Penh city as most of the ICT-related information is accessible.

Different sources have been approached to maximize accuracy and to ensure quality research. However, to gain insight on the sales environment, the study was conducted with some of the main importers and IT distributors. It is also worth noting that the study was subject to some limitations which include the following:

- The business information was regarded as confidential and many of the owners were reluctant to share.
- Constraints related to lack of time series data due to bureaucratic procedures.

## II. Overview of ICT in Cambodia

### 2.1 Contribution of ICT to Cambodia's Economic Growth

Three decades of use has proven that information and communications technology (ICT) is a driving force behind much of the world economy. ICT use has the ability to encourage macro-economic growth, increase productivity and even improve social conditions. While ICT is not a universal panacea to all economic ills, it should be a priority for Cambodia to increase ICT utilization amongst its citizens. Below is an excerpt from the e-ASEAN agreement that summarizes the importance of ICT.

*“Information and Communication Technologies (ICT) can promote economic growth, social development and better governance. They enhance access to information and news; enlarge employment opportunities; increase economic output; protect consumers; provide more efficient access to a range of government services; make distance education and training more effective; improve delivery of health services, including through the application of tele-medicine; reduce election fraud; and promote transparency in public procurement.”*

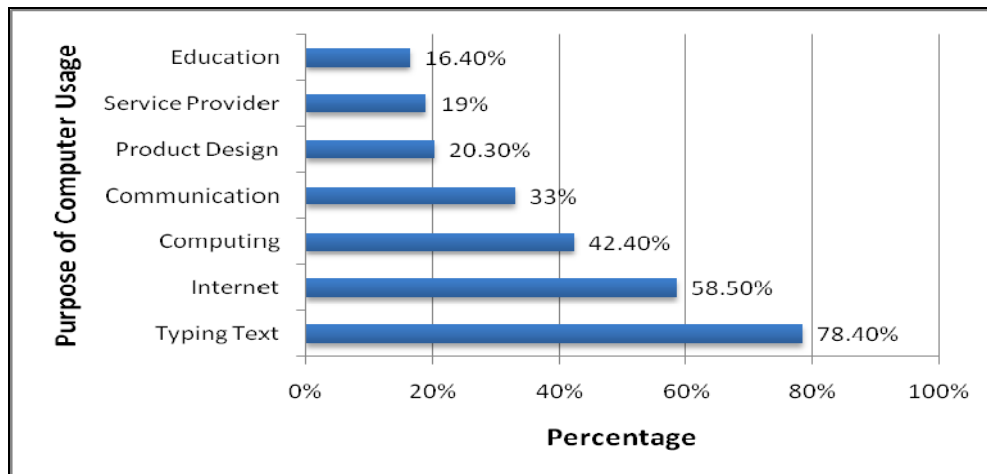
#### 2.1.1 ICT and SMEs

The vast majority of businesses in Cambodia are small and medium enterprises. As 98.3 percent of all businesses<sup>1</sup>, SMEs are the main driving force behind Cambodian growth. Realizing the importance of ICT in SMEs, the National Information Communications Technology Development Authority (NiDA), conducted a 2007 survey, “Result Findings on ICT use and Infrastructure for SMEs in Cambodia,” to clarify the country’s SMEs’ adoption of ICT. The statistics shows that 49.4 percent of SMEs have personal computers in the office. The study also showed that 58.5 percent of the work done on those respective computers is through the internet.<sup>2</sup>

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<sup>1</sup> National Institute of Statistics, “Statistical Yearbook of Cambodia 2008,” 2009

<sup>2</sup> National Information Communications Technology Development Authority, “Result Findings on ICT use and Infrastructure for SMEs in Cambodia,” 2007

**Figure 2. 1: Use of Personal Computers by Purposes in SMEs**

**Source:** National Information Communications Technology Development Authority (NiDA), “Result Findings on ICT use and Infrastructure for SMEs in Cambodia,” 2007

In the last four years Cambodian SMEs has seen a decline in their productivity growth rates. From 8.3 percent in 2004 to a level of 4.7 percent in 2007<sup>3</sup>, the SMEs in Cambodia are looking for new productivity innovations. There is significant evidence that firms in Developing Countries that adopt ICT have higher growth in productivity than firms that do not adopt ICT. In Thailand, manufacturers using computers witnessed a ten fold increase in sales per employee compared to those who did not use computers.<sup>4</sup>

The NiDA study<sup>5</sup> indicates that around 50 percent of the large and medium companies do not have networks that connect the computers together for sharing files and resources. Internet and email are also very limited. Financial constraints are the most important issue for Cambodians SMEs for limited adoption of ICT products. Thus, a limited budget coupled with expensive prices of ICT products is preventing the majority of SMEs in Cambodia from making any investment.

Cambodian SMEs could benefit greatly from the productivity increases from a more widespread adoption of ICT.

<sup>3</sup> National Institute of Statistics, “Statistical Yearbook of Cambodia 2008,” 2009

<sup>4</sup> UNCTAD Secretariat, “Information Economy Report 2007-2008; Science and Technology for Development,” United Nations Conference on Trade and Development, 2008: 167

<sup>5</sup> National Information Communications Technology Development Authority, “Result Findings on ICT use and Infrastructure for SMEs in Cambodia,” 2007

According to the draft report of UNESCAP<sup>6</sup>, there is only one firm engaged in the production of IT goods in the country. The company began its operations in 1992 as a joint venture and became 100 percent foreign owned by 2000. In the initial years the company used to employ more than 70 people. Over the years, the firm was forced to scale down its operations in the countries due to various reasons such as:

- a high import duty and VAT (import duty plus VAT totaled 26.5 percent).
- poor infrastructure and large scale informal imports resulting from the high import duty.

Currently, the company employs only about 20 people in its IT factory and focuses more on computer and software service related activities.

### **2.1.2 ICT and Education**

Cambodia has indeed noticed the importance of ICT in education. The Royal Government of Cambodia (RGC) has taken several steps to integrate ICT into all levels of education in the country. The Master Plan on ICT Education prepared by the Ministry of Education, Youth and Sport is a big step towards furthering ICT use in Cambodian education system. The RGC has also sought international advice on best practices. In February 2009, a Cambodian delegation met with education officials in Spain to visit Spanish schools that had successfully integrated ICT into daily education. With the assistance from UNESCO, the Ministry of Education Youth and Sport (MoEYS) has developed “Policy and Strategies on ICT in Education in Cambodia” for the effective use of ICT in the education sector.

Unfortunately though, there is still lack of ICT in Cambodian schools. In order to achieve a pragmatic ratio of one computer for 20 students in the nation’s high schools, Cambodia needs 20,000 additional computers in the country<sup>7</sup>. Obviously the price is a sensitive issue for schools, so it is important that the price of a computer in Cambodia is not artificially high.

ICT’s contribution to both SMEs and education eventually generates employment that is integral to economic growth. According to the study conducted by Center for Information System Training (CIST), due to an increase of IT development sectors, about 1,200 people were

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<sup>6</sup> “Trade and Investment Policies for the Development of the Information and Communication Technology Sector of the Greater Mekong Subregion,” Studies in Trade and Investment, Vol. 52, United Nations Economic and Social Commission for Asia and the Pacific. 2004

<sup>7</sup> Sok, Tha & Sola, Javier, “Best Practices of ICT in Education in Cambodia,” ICT Conference and Exhibition 2008 ICT in Teaching and Learning Kuala Lumpur, Malaysia, 10-12 March 2008: 6

employed;<sup>8</sup> 50 percent had a technical background; and of the 100 to 300 people working at IT service providers 70 percent were performing technical tasks. The income generated from this sector plays a crucial role in improving the standard of living of the population as well as contributing to a part of poverty reduction.

**Box 2. 1: Example of IT Development, Education and Poverty Reduction in Cambodia**

Center for Information System Training (CIST) is a French NGO established in October 2005 with the support of local NGOs and with a vision to efficiently train disadvantaged students and help them access qualified jobs and actively and concretely contribute to the development of business opportunities in the IT sector.

The core activity is to provide poor children the IT-related training such as System and Network Administration (SNA) training, Database-Oriented Programming (DOP) training and Data-Entry Operator (DEO) training. The achievement from CIST provides huge advantages to poor students as well as leverages standard living of the students' family. CIST's contribution includes:

- In October 2007, 100 percent of the 29 first graduates are employed
- In October 2008, 87 percent of the 51 second year graduates found a job within the first month after the end of their studies at CIST
- The average salary for a CIST graduate is three to four times the national average
- 50 percent to 70 percent of CIST graduates' salaries go to their families, supporting approximately five people who can in turn invest on their health, education, food and equipment.

**Source:** Retrieved from Website and Brochure of Center for Information System Training (CIST)

## 2.2 ICT Development in Cambodia

Currently information and communication technology in Cambodia is underutilized. Cambodia has indeed increased its ICT use, by almost 100 percent in the period from 2002 to 2007<sup>9</sup>. However, comparatively, this is far behind its neighboring countries. The use of ICT in Southern Asia for the same time period increased almost 400 percent and 200 percent in the developing countries. ICT development is relative and Cambodia needs to keep pace. This reality has become increasingly apparent. From 2002 to 2007, there was actually an increase in

<sup>8</sup> Market survey of CIST, 2006

<sup>9</sup> Measuring the Information Society: The ICT Development Index," International Telecommunications Union, 2009: 39

the correlation between ICT access, use and skills and gross national income.<sup>10</sup> Essentially, ICT is becoming more and more important to a nation's wealth.

### 2.2.1 Telecommunication Sectors

Cambodia has adapted to digital communication very quickly. This is a good example for the potential growth of PC's and internet usage. There are currently 42,000 fixed telephone subscribers in Cambodia. Compared to fixed telephone lines, mobile penetration is fairly high. In 2004, 96 percent of telephone numbers were for mobile subscribers. The tele-density has reached nearly 6 percent, a significant number for a Least Developed Country. In addition, Cambodia was known to be the first country in the world where mobile telephone subscribers surpassed fixed lines<sup>11</sup>. Indicative of a very high potential for telecommunication investment, mobile telephones reach 4,237,000 subscribers, with a mobile penetration of 28.6 per 100 inhabitants.

**Table 2. 1: Telecommunication Indicators in 2008**

Telecommunication Indicators	No. of Subscribers (March 2008)	No. of Subscribers (Dec.2008)
Total fixed and mobile phone subscribers	2,926,245	4,279,000
Mobile phone subscribers	2,885,669	4,237,000
Fixed phone subscribers	40,576	42,000
Mobile phone penetration per 100 inhabitants	19.5	28.6
Fixed phone penetration per 100 inhabitants	0.27	0.38
Fixed and mobile phone penetration	20	28.9

**Source:** *Ministry of Posts and Telecommunications of Cambodia (MPTC), Presentation in August 2008 and March 2009*

Cambodia's quick adoption of cell phone use is indicative of a country that possesses a high demand for real-time digital communication. The market for internet use is already in existence, it is simply waiting for an influx of computers that are affordable.

### 2.2.2 Internet Provider and Users

In December 2006, the internet users totaled 9,435 people and it increased to 70,000 as of March 30, 2009 (0.5 percent penetration). This shows a big advancement in the internet access

<sup>10</sup> Measuring the Information Society: The ICT Development Index," International Telecommunications Union, 2009

<sup>11</sup> Cambodia Progress Report. International Institute of Cambodia (IIC)

among people in the country. The number of internet subscribers has also shown a remarkable increase. From March 2008 to December 2008, it increased by 12.85 percent.

**Table 2.2: Internet Subscribers in 2008**

Telecommunication Indicators	No. of Subscribers (March 2008)	No. of Subscribers (Dec.2008)
Internet subscribers	15,950	18,000

**Source:** *Ministry of Posts and Telecommunications of Cambodia (MPTC), Presentation in August 2008 and March 2009*

However, if compared to the total population of 14 Million in the country, Cambodia still has a low internet penetration. A dearth of the required infrastructure, high electricity cost and the high cost of IT related equipment are all barriers to a higher rate of use. As mentioned by a Minister:

*“The Ministry charges high prices to the internet services companies because of large spending on infrastructure such as electricity, on taxation and also on imported equipment”, Cambodia’s Weekly Business Magazine, Vol. 1, Number 05, Dec 17, 2007*

Therefore high import taxes on ICT related goods directly affect internet service providers in Cambodia. A reduced tax can be a good incentive for market growth.

### **2.2.3 Computer Industry in Cambodia**

Hardware and software manufacturing industries have been successfully established in many developing countries such as China, India, the Philippines and Thailand. The industries provide a total turnover of several billion US dollars. In contrast, Cambodia has no such industry or enterprise, but there are other forms of ICT such as telecom companies, mobile operators, computer retail and repair shops, internet cafés, internet service providers, IT training centers, and software solution providers that specialize in web design, graphics design and web hosting.

Some of the IT training centers are managed by NGOs that provide vocational training in the IT-related field.

There are several software solutions providers in Cambodia, some of which are private companies and some are NGOs. Open Forum, a Cambodian NGO, specializes in web hosting and web design. It has also developed the website for the Khmer Rouge Trial for the Royal Government of Cambodia.

While the manufacturers of computer hardware and software are limited, the number of computer retailers or IT distributors has been increasing over time.



With about 150 distributors listed in Phnom Penh<sup>12</sup> in 2006, the IT distribution market is highly fragmented yet largely dominated by a limited number of players. There were 268 distributors in 2008 which shows a big jump from only three IT distributors in 1993.

**Table 2. 3: Trend of IT/Hardware Distributors in Cambodia**

Year	1993	2006	2007	2008
Number of IT distributors	3	150	195	212

**Source:** CIST market study, Yellow Pages, Directory of Chamber of Commerce of Cambodia and website: [www.ikenow.com.kh](http://www.ikenow.com.kh)

It is worth noting that computer retailers are also IT distributors who sell new and used computers, peripherals and accessories. In addition, most of them provide services such as hardware and software, installation and design and solutions to local area networks and other services.

**Table 2.4: Number of IT Firms and Specializations**

No	Number of Companies	Specialization
1	39	Web Design
2	115	Graphic
3	55	Networking
4	23	Programming Consultant
5	130	Training
6	42	Hardware
7	54	Software
8	19	Wholesale

**Source:** *Extracted from Research Report: E-policy and Strategy for ICT Development*

**Note:** Some companies have more than one specialization

<sup>12</sup> Market survey of the CIST, 2007

### III Tax Policies and ICT Agreements of Cambodia

#### 3.1 Cambodia's Tax Policy on ICT

##### *Rate of Customs Import Duty on PC Related Products*

Import tariffs are levied on any imported goods before releasing it from customs; except goods qualifying for special privilege according to the law and regulation, whereby tariffs and taxes are exempted.<sup>13</sup> There are three types of tariffs and taxes that an importer has to pay:

1. Customs Import Tariffs with an ad-valorem rate;
2. Excise Tax for specific category of goods;
3. Value Added Tax (VAT)

As PC related products are not listed in any special category of tax, the tariff structure is composed of only two main components:

- Tariff duty (MFN rate): 15 percent
- VAT: 10 percent

The total tariffs and taxes on computers imported into Cambodia is 26.5 percent based on the formula below:

**Table 3.1: Tax Charged on PC Imported into Cambodia with MFN Rate of 15 percent**

<b>Tax</b>	<b>Formula</b>
Tariff duty charged	$CIF \times 0.15$
VAT charged	$(0.15 \text{ CIF} + \text{CIF}) \times 0.10 = 0.115 \text{ CIF}$
Total tariff	Tariff duty + VAT $= 0.15 \text{ CIF} + 0.115 \text{ CIF} = 0.265 \text{ CIF} = 26.5 \text{ percent CIF}$

**Note:** *CIF (Cost, Insurance, and Freight) is the Cost of Product Imported.*

This tariff rate is applied to any non-ASEAN importer and to ASEAN country members who do not claim the preferential rate under the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA).

##### *Tariff Rates of Components of PC Related Products*

Tariff rates of some of the ICT goods vary depending on the category of ICT products and also on the tranche. For PC related goods, the tax rates were divided into three categories.

<sup>13</sup> Custom and Excise Department of Cambodia

**Table 3.2: Current Rate of Import Tariff Duty of Some of PCs Related Products**

Tariff Rate	15 percent	7 percent
PC components	Complete PC	Cable
	CPU (like SECC and server CPUs)	CPUs (like PPGA packages)
	Motherboard with components (but no microprocessor)	Motherboard without components (bare CPB)
	Motherboard with microprocessor	Digital ICs
	LAN & WLAN products	IA's., Flash, Strong Arm, etc

**Source:** *EIC Interaction with Computer Distributors in Phnom Penh city, Intel, March 2009*

**Note:** *LA's: Information appliance*

*ICs: Integrated circuit*

*PPGA: Plastic Pin Grad Array*

### 3.2 Cambodia and CEPT Rate and e-ASEAN Framework Agreement

Cambodia began to implement the tariff reduction schedule under the CEPT for AFTA since 1<sup>st</sup> January 2000. According to the ASEAN agreement, products originating from the member countries can enjoy the preferential tariff rate. Some of the computer related products such as laptops and personal computers were listed in the CEPT package and were subject to a rate reduction in 2008 to 5 percent from the original 15 percent as shown in the table 3.3.

According to the CEPT for AFTA, Cambodia has approved the importation rate of 5 percent on some of the IT related products such as laptops, personal computers and computer keyboards and other IT products as shown in the table 3.3. However, the new adoption and implementation of the Harmonized System (HS) Code and the ASEAN Harmonized Tariff Nomenclature (AHTN) from 2002 to 2007, led to a delay in transferring Cambodia's ICT Tranche 1 rate required for 2008. Nevertheless, the importers can claim the preferential rate at 0 percent for products classified in the ICT tranche 1, year 2008 and 5 percent for the ICT related products according to the CEPT schedule if they present the Certificate Form D (CO form D) at importation.

In the year 2000, the ASEAN leaders signed the e-ASEAN framework Agreement. Member States agreed to eliminate import tariffs and non-tariff barriers on intra-ASEAN trade in ASEAN ICT products in three tranches-the first in 1<sup>st</sup> January 2003, the second by 1<sup>st</sup> January 2004 and the third by 1<sup>st</sup> January 2005. Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) will implement the three tranches by January 2008, 2009 and 2010 respectively.

It is noteworthy that it is mandated that the tariffs rate will be 5 percent on some of the ICT goods mentioned in the above table and 0 percent on all the ICT goods in tranche 1 when the technical transposing process is approved.

It is important that importers keep track of this process so that they can gain more knowledge about the importance of the free trade agreements and benefit their own businesses. Reference information can be found on the ASEAN website: <http://www.aseansec.org>

**Table 3.3: Rate of Custom Duties on Some IT Related Products**

AHTN 2007/1	Description	MFN Rate 2007	CEPT *Rate 2008	CEPT *Rate 2009	CEPT *Rate 2010	KH ICT list based on AHTN 2007	LE2008 - 1st tranche (transposed into AHTN2007)	ACFTA <sup>(1)</sup>	AKFTA <sup>(2)</sup>
8471.30.20	-- Laptop	15	5	5	5	WTO		NT1	NT
8471.30.90	-- Other	15	5	5	5			NT1	NT
8471.41.10	--- Personal computers excluding portable computers of subheading 8471.30	15	5	5	5			SL	HSL
8471.41.90	--- Other	15	5	5	5			SL	HSL
8471.49.10	--- Personal computers excluding portable computers of subheading 8471.30	15	5	5	5	none/ICT1 ==> ICT	none/LE08	NT1	E
8471.49.90	--- Other	15	5	5	5			NT1	E
8471.50.10	--- Personal computers excluding portable computers of subheading 8471.30	15	5	5	5	none/ICT1 ==> ICT	none/LE08	SL	HSL
8471.50.90	-- Other	15	5	5	5			SL	HSL
8471.60.30	-- Computer keyboards	15	5	5	5			SL	E
8471.70.10	-- Floppy disk drives	15	5	5	5	ICT1	LE08	NT1	SL
8471.70.20	-- Hard disk drives	15	5	5	5	ICT1	LE08	NT1	SL
8471.70.30	-- Tape drives	15	5	5	5	ICT1	LE08	NT1	SL

**Source:** *Economic Integration and ASEAN Department, Ministry of Economy and Finance, Cambodia*

(1) KH modality product list under ASEAN-China Free Trade Area

(2) KH modality product list under ASEAN-Korea Free Trade Area

\* The rate is the CEPT-Inclusion List rate. ICT's Tranche 1 and its Legal Enactment has been issued but the rate for these products are yet to be included in the matrix because the HS code from AHTN 02- AHTN 2007 is yet to be approved.

**Note:** LE8 means legal enactment year 2008 or Pracas 2008. Under e-ASEAN Agreement, Cambodia should eliminate custom tariffs ICT- Tranche 1

### 3.3 Other Agreements

#### *ASEAN China and ASEAN Korea Agreement*

In addition to the CEPT for AFTA scheme, Cambodia is implementing the ASEAN-China and ASEAN-Korea Free Trade Agreement. Some of the PC related products, including personal computers and computer keyboards, will be subject to tariff elimination by 2012. Vietnam is required to eliminate the tariffs by 2016, and Cambodia, Laos and Myanmar (CLM) by 2018. For details refer annexure 1,2 and 3.

With reference to this agreement, the products are listed under four main categories: (1) Normal track (NT), (2) Sensitive List (SL), (3) Highly Sensitive List (HSL) and (4) Exclusive List (E). With reference to the ASEAN China agreement, tariffs of products listed under each category will be reduced to some extent by the set year in the agreement. Products in NT 1 will have the reduced rate faster than those in SL and HSL, products in SL will have a faster reduced rate than those in HSL. It is noteworthy that the exclusive list contains products that are not eligible for the reduced tariffs rate.

*PC Imports for Education Sector Development*

PC related goods imported into Cambodia by international NGOs and local NGOs can claim 0 percent tariffs if the PCs are for education related purposes. Any NGO that wishes to import PCs into Cambodia and wants to claim the zero tariffs will need to fill out the requested form as shown in the annex 4.

## IV. Factors Affecting Prices of PCs in Cambodia

### 4.1 Price of a PC in Cambodia

The computers imported into Cambodia are branded PCs, clone PCs (assembly of new brand name parts) and used computers. Used materials are imported and reassembled in accordance to the customer's specifications. A computer including all of the peripheral devices and accessories would cost approximately US\$ 300 to US\$ 500, depending on the quality. The cheapest computers are also available for as low as US\$ 100 – US\$ 150.

The price of branded computers ranges from US\$ 500 to US\$ 1,400 depending on the brand and the capacity of the PC<sup>14</sup>.

Informal imports have created a price differential in the market since the legal importers have to pay full tax rates and other necessary legal costs making them less competitive compared to those who gain from little or no tariffs.<sup>15</sup>

### 4.2 Infrastructure and Importation Procedures

Several factors contribute to the price of any goods imported into a country. Other than tariffs and VAT, infrastructure cost is an important criterion. Cost of handling a container and the time involved in the importation procedure is reported to have a big effect on the trade competitiveness between countries.

Compared to other countries in the Greater Mekong Sub-region (GMS), Cambodia is behind its neighboring countries since it takes three times longer than Thailand and two times longer than Vietnam to import goods. The cost of handling a container is also slightly higher than the neighboring countries with the exception of Lao PDR.

**Table 4.1: Main Indicators for Trading across Borders, GMS**

Region or Economy	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)
Cambodia	11	46	852
Lao PDR	10	50	1930
Thailand	9	14	786
Viet Nam	8	23	881
PRC	6	24	430
Avg. OECD	5	10	986

**Source:** Retrieved from *Transport Infrastructure and Trade Facilitation in the Greater Mekong Subregion*, ADBI

<sup>14</sup> EIC interaction with computer shops in Phnom Penh, March 2009

<sup>15</sup> Ibid

As time is one of the important variables in doing business, different processes account for the delays in the trading process. Table 4.2 below shows that document preparation is the main constraint, taking as long as 34 days for importing goods into Cambodia, three to four times longer than in Vietnam and Thailand. While custom clearance is one factor that prevents the smooth process of importing, ports and inland transportation are also other causes of increased importation time.

**Table 4. 2: Time Taken for Procedures to Trade across Borders, GMS (in days)**

Imports	Cambodia	Lao PDR	Thailand	Viet Nam	PRC	High income OECD <sup>1</sup>
Documents preparation	34	33	8	12	15	
Customs clearance	3	8	2	5	4	1.4
Ports	5	2	2	4	2	2.5
Inland transportation	4	7	2	2	3	1.6
<b>Total</b>	<b>46</b>	<b>50</b>	<b>14</b>	<b>23</b>	<b>24</b>	
<b>Total without document preparation</b>	<b>12</b>	<b>17</b>	<b>6</b>	<b>11</b>	<b>9</b>	<b>5.5</b>

**Source:** Retrieved from *Transport Infrastructure and Trade Facilitation in the Greater Mekong Sub-region*, ADBI

1. Average of high income/OECD economies

Cambodia was ranked 108 and 107 in term of market access and border administration respectively, making it less competitive compared to Vietnam (in terms of border administration only) and Thailand.

High tariffs and non-tariff barriers and import procedures increase the time taken at the borders. Consequently, Cambodia is lacking an encouraging trade system—its absence hinders the country's competitiveness in the area of market access and border administration.

**Table 4. 3: Variables from Enabling Trade Index**

Region or Economy	Overall Ranking <sup>1</sup>	Market Access <sup>2</sup>		Border Administration <sup>3</sup>	
		Rank	Score	Rank	Score
Cambodia	113	108	2.62	107	2.74
PRC	48	71	4.07	43	4.51
Thailand	52	62	4.25	56	4.07
Viet Nam	91	112	2.5	76	3.6
Hong Kong, China	1	1	6.66	7	5.99

**Source:** Retrieved from *Transport Infrastructure and Trade Facilitation in the Greater Mekong Sub-region*, ADBI

**Note:** 1. Out of 118 countries  
 2. Based on tariff and non-tariff barriers and proclivity to trade measures. Score is out of 7  
 3. Based on efficiency of customs administration, import/export procedures and transparency. Score is out of 7.

Low availability and the lack of ICT use in transport and communication infrastructure makes Cambodia 112 out of 118 countries as per the World Economic Forum, while Thailand and Vietnam rank only 64 and 71 respectively. It is interesting to note that the ICT shortage is also a cause of delay in trade transactions in Cambodia.

**Table 4. 4: Transport and Communication Infrastructure**

Region or Economy	Transport and Communication Total		Availability and use of ICT	
	Rank	Score	Rank	Score
Cambodia	105	2.48	112	1.69
PRC	36	4.15	55	2.92
Thailand	41	3.93	64	2.7
Viet Nam	75	3.08	71	2.54

**Source:** Retrieved from *Transport Infrastructure and Trade Facilitation in the Greater Mekong Sub-region*, ADBI

Cost of handling a container, the delay due to lack of ICT for communications, a shortage of market access, custom procedures and the bureaucratic delays have a huge effect on the prices of the PCs imported into Cambodia. The infrastructure problem is one factor leading to costlier PCs compared to neighboring countries.

Along with this bureaucracy problem, several studies revealed that import through informal channel is another stumbling block for Cambodia's investment transparency. Lack of proper law enforcement and poor infrastructure make informal imports easier, especially since the informally imported goods are cheaper since there is no import tax. The lower sale price causes difficulty for legal importers and discourages them from expanding market share since they would have to pay all the necessary taxes and legal fees. For instance, the CIST market survey also revealed that distorting activities such as informal imports of materials and unpaid taxes have a strong impact on the price competition. The retail market has become highly price sensitive among the IT distributors.

### 4.3 Regulation or Incentives on Investment in IT Industry

Investment incentives are employed throughout the world, especially by developing countries, as policy instruments issued to achieve target economic development objectives. Tax credits, corporate income tax exemptions or reductions, investment allowances and import duty exemptions or reductions are a few examples of incentives. So far, Cambodia has some investment policies, specifically in the field of agriculture and SMEs. For instance, on December 15, 2006, Ministry of Economy and Finance (MEF) issued an announcement (Prakas) N°1327 on the Facilitation of Customs Rates and Special Fiscal Rates on some imported goods to encourage



domestic producers by reducing tariffs rates on a number of raw materials for SMEs. Besides the task of reducing the tax rate, the government gives non-tax incentives to SMEs as well by coordinating activities along borders when they meet any obstacles.

Despite numerous incentives for SMEs, those addressing ICT, are yet to be effective. Some of these policies include:

- To allow 100 percent equity shareholding of ICT enterprises by foreign partners.
- To create regulations and a favorable environment for ICT enterprise development through special tax incentives
- Provide special support to small and medium enterprise to adopt and use automation tools (e.g. inventory management).
- Work out supportive policies on local production of ICT hardware
- Put in a special investment package guidelines for investors in the ICT sector
- Encourage financial institutions such as banks to devise lending mechanism to promote loans for small entrepreneurs in the ICT sector

These policies will be an important step in attracting foreign and local investment in the ICT sector.

#### **Box 4. 1: Lesson Learned from a Neighboring Country**

In order to improve the ICT sector in the country, the Government of Thailand has signed the ASEAN agreement on ICT imports from which the import tariffs on ICT products were to be zero percent by 2005. Thailand has also been a signatory to the WTO ITA Agreement since 1997.

To promote the usage of ICT, the Thai government has set up incentive policies for foreign investment in ICT with the following privileges:

- Exemption of import tax on machinery
- Corporate income tax exemption for a period of 8 years
- 50 percent reduction of corporate income tax for a period of 5 years from the expiry of 8-year corporate income tax exemption
- Tax reduction for research expenditures at 200 percent

Furthermore, there is no government restriction for foreign investment in ICT. It also allows the companies to have a minimum of 3 million Baht (NZ\$135,000) of the initial investment capital with 100 percent ownership.

**Source:** *Thailand's ICT Sector Profile, The New Zealand Health IT Cluster*

## V Potential of PC Growth

### 5.1 Potential for Computer Penetration

#### *Given Volume of PCs Distributed on the Market*

According to the market survey done by Center for Information System Training (CIST) in 2006, there are around 45,000 to 100,000 computers distributed per year in Phnom Penh. The distributors mostly sell branded machines.

In addition, the IT distributors reported a 5 percent growth in sales per year with an estimated 4 percent sales increase in 2005. The study also suggested that the main growth opportunity is in the public sector and the individual consumer market. The smaller stores mostly sell clone and second hand machines. The recent investigation through interaction with IT distributors and shops also shows that PCs sales have seen an increase of 5 percent to 8 percent in computer units, indicating a high potential for market growth and a demand of PCs.

#### *Given Cambodia's GDP per Capita*

While Cambodia may have a fairly low PC penetration rate at 0.3 percent, it is even lower when compared to its economic peers. Using a standard least squares regression compared against 29 other countries with per capita incomes below US\$1,000, Cambodia's 2006 PC penetration rate is 5.5 times below what it should be, at a value of 1.65 percent. Furthermore, compared to 65 countries with per capita incomes below US\$5,000, Cambodia's PC penetration rate is 7.4 times below its projected amount of 2.23 percent.

**Table 5.1: PC Penetration given GDP per Capita among Similar Countries**

Comparable Countries	Cambodia's projected PC percent Comparisons Using Least Squares	Factor Differential from Current Rate
GDP under US\$ 1,000	1.65	5.49
GDP under US\$ 5,000	2.23	7.43
ASEAN Countries	3.24	10.80

**Source:** EIC Projection, Compiled from Various Official Sources, March 2009

In the region, Cambodia lags behind its ASEAN neighbors as well. Excluding Myanmar and Lao, Cambodia's PC penetration rate should be 3.2 percent if it is only compared to the remaining ASEAN member countries. This is a 10.8 fold difference from Cambodia's rate of 0.3 percent.

**Table 5. 2: PC Penetration given GDP per Capita (ASEAN Member States)**

ASEAN Countries	Per Capita	PC Percent*
Singapore	US \$28,939.54	72.6
Brunei	US \$17,381.17	8.8
Malaysia	US \$5,457.36	23.4
Thailand	US \$2,805.36	6.9
Indonesia	US \$1,420.37	2
Philippines	US \$1,297.87	7.5
Vietnam	US \$646.09	9.5
Cambodia	US \$513.00	0.3

**Source:** EIC Projection, Compiled from Various Official Sources, March 2009

\*Based on per 100 members of the respective population

## 5.2 Sectors Contributing to the Growth of PC Penetration

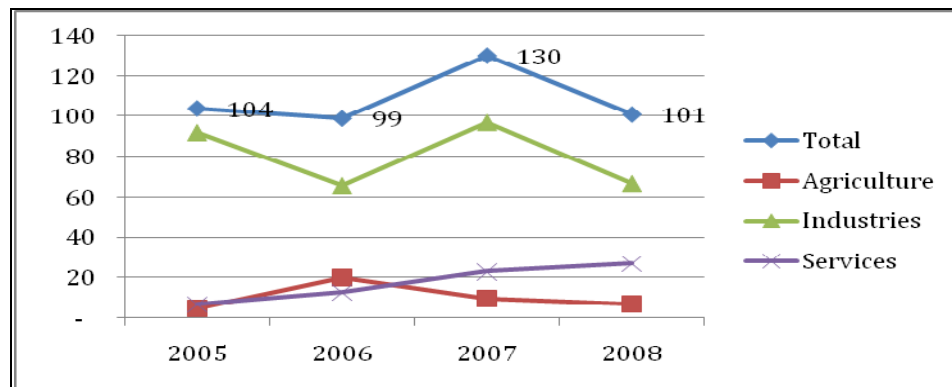
The majority of the customers in the market are multi-national companies that account for 40 percent of the market. At the same time, according to the Council for Development of Cambodia (CDC) foreign direct investment (FDI) has seen an increase of approximately 109 additional investments during the last four years, showing a potential demand for PC use in Cambodia.

**Table 5. 3: Breakdown of Customers of PC by Sector**

Type of Customers	Market Share (in percentage)
Multi-National Companies	40
NGOs and International NGOs	30
Public Sector	20
Individual	10

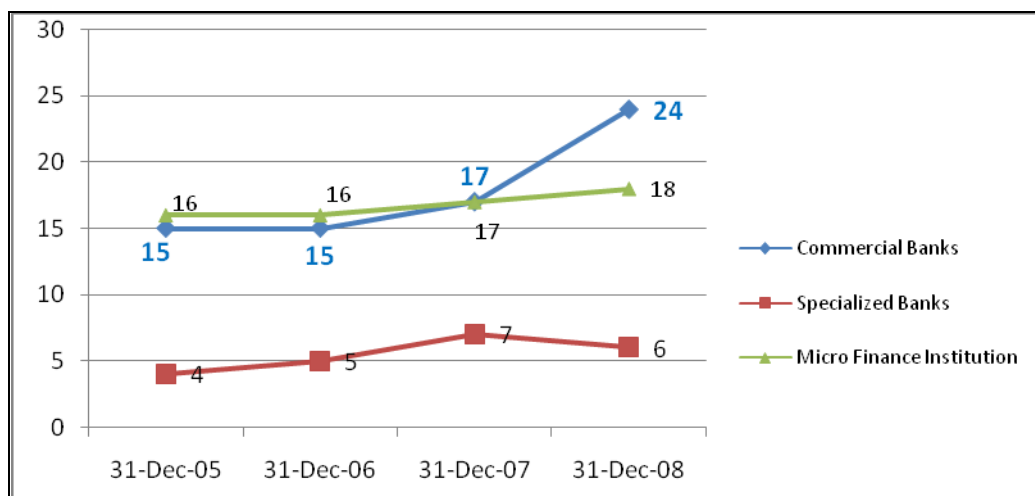
**Source:** EIC Compiled from the Study of Center for Information System Training in 2006

As the majority of multi-national companies in Cambodia are foreign direct investments, the figure below shows the increasing number of multi-national companies, specifically in industry and service, as well as the trend for PC demand, during the last four years.

**Figure 5. 1: FDI in Cambodia between 2005 and 2008**

Source: EIC Compiled from Council for Development of Cambodia (CDC), 2009

Noticeably, the banking sector, which is one of the biggest PC intensive industries, has shown a remarkable increase of around 50 percent between 2005 and 2008. Based on the importance of IT sophistication and its contribution to the competitiveness of this sector, it is reported that one small branch needs at least 15 PCs. In addition, commercial banks in Cambodia witnessed a growth rate of around 41 percent between 2007 and 2008. This is indicative of a market environment that has a growing demand for PCs.

**Figure 5. 2: Number of Banks during the Last Four Years**

Source: EIC Compiled from the National Bank of Cambodia, 2009

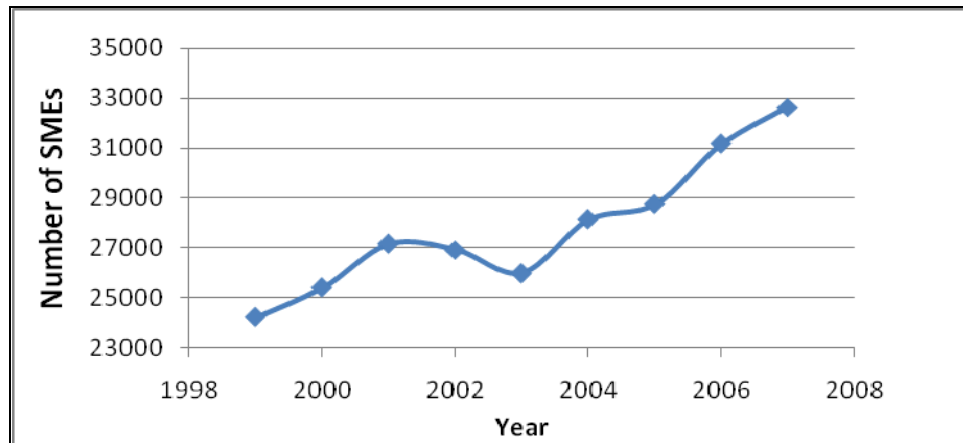
Beside multi-national companies, small and medium enterprises (SMEs) which account for more than 90 percent of Cambodia's businesses are also consumers of PCs.

Indeed, 52.1 percent of SME's have stated that they will need ICT in the future. This is noteworthy since the current percent of SMEs using PC is 49 percent, meaning there are undoubtedly SMEs that are in demand for PCs but cannot afford the price. Cambodian SMEs

are very sensitive to prices so with artificial high prices on PCs and ICT products, Cambodian SMEs may not be able to meet the need for computers.

Currently SMEs in Cambodia are growing at a rate of 4.7 percent. SMEs in Cambodia would need additional computers to meet the growing demand of SMEs.

**Figure 5. 3: Growth of Cambodia SMEs**



*Source: EIC Compiled from National Institute of Statistics, Cambodian Yearbook, 2007*

To sum up, there is high potential for PC penetration given the increasing trends of PC intensive industries such as banking industries, foreign direct investment (FDI) and SMEs.

## VI. Conclusion and Recommendation

ICT plays a major role in a country's development by enabling economics growth, increasing enterprises' productivity, and improving both education and the standard of living.

Cambodia is still lacking behind other countries in terms of promoting and facilitating trade of ICT goods with the rest of the world. As PC related products are not listed in any special category of tax, its tariff structure composes of only two components namely a tariff duty of 15 percent and a Value Added Tax of 10 percent. According to the ASEAN Free Trade Agreement (AFTA), Cambodia has approved the importation rate of 5 percent on some of the IT related products but the adoption and implementation of the Harmonized System Code (HS) and ASEAN Harmonized Tariff Nomenclature (AHTN) is delayed. As compared to other developing countries like Thailand, the non-zero tariff scheme on computers has led Cambodia to a slower adoption of ICT use. Obviously, most of the IT distributors and small scale business people in IT field have limited knowledge about the introduction and implementation process of this agreement. However, many of them are eager to know more details about the agreements and suggest lowering tariffs.

Additionally, Cambodia's trade environment for ICT has taken its toll on prices. Cambodia was ranked 108 and 107 in terms of market access and border administration respectively, making it less competitive compared to Vietnam (in terms of border administration only) and Thailand. High tariff and non-tariff barriers with import procedures increase the time taken at the borders. Additionally, informal imports of ICT products into Cambodia and selling the products at a lower rates causes difficulty for legal importers and discourages them from expanding their market as they have to pay all the necessary tax and legal fees.

Regardless of Cambodia's current tariff and trade structure, the country needs more computers. It is worth noting that 40 percent of the customers in the market are multi-national companies and their continuous growth in Cambodia directly affects PC demand. In addition, Cambodia's small and medium enterprises, 90 percent of Cambodian businesses, are in need of more computers. Currently over 50 percent of SMEs have stated the need for ICT in the future.

### *Recommendation:*

Based on the review of the ICT tax policy and issues confronting PC penetration in Cambodia, specific recommendations are suggested to improve PC penetration in Cambodia.

- Simplifying the administrative procedures at importation can help push trading activities while simultaneously lowering the cost of PCs and ICT related products. Fittingly, use of

ICT during the transportation and communication procedures at customs would shorten the bureaucratic time and increase the competitiveness of Cambodia's market.

- The RGC should implement its incentives for ICT investment. Incentives such as allowing foreign partners 100 percent equity in ICT enterprises and other supportive policies for local production of ICT hardware are beneficial for the future of ICT investment.
- Cambodia has signed the agreement on the CEPT under the AFTA and ICT agreement, but the process has been slow. Vietnam, which along with Cambodia was given the right to a slower pace of reduction, has already implemented its first tranche of tariff reduction. Cambodia should follow suit and ensure that the AFTA agreements are met and that the respective tariff reduction begins as soon as possible.
- While the AFTA agreement has already been signed, IT business owners in Cambodia do not seem to be much aware of its existence or enforcement. In this case, it is important that IT business owners are informed and so that they can keep track of the process. ICT-related Agreement awareness campaign among the IT business community would go a long way in harnessing its benefits. Organizing seminars or conference on CEPT rates and ICT agreements within the ASEAN framework would be helpful in raising awareness among related business groups or associations.
- Collaboration between the Ministry of Economy and Finance and the Government-Private Sector Forum (G-PSF) would be highly advantageous. The G-PSF: Government-Private Sector Forum) formed to develop the business environment and encourage private investment and currently consists of eight working groups. However, there is no workgroup in the ICT field. The creation of such a group is important in updating as well as monitoring the progress of ICT activities in Cambodia.
- Lastly, Cambodia would benefit if mutual access to free trade agreement with those who are not ASEAN countries is expanded. Signatory to the WTO's Information Technology Agreement (ITA) is a good point to start with.

**ANNEX 1: ASEAN 6 AND CHINA AGREEMENT**



**ANNEX 1: ASEAN 6 AND CHINA AGREEMENT****MODALITY FOR TARIFF REDUCTION AND ELIMINATION FOR TARIFF LINES PLACED IN THE NORMAL TRACK**

1. Tariff lines placed by each Party in the Normal Track on its own accord shall have their respective applied MFN tariff rates gradually reduced and eliminated according to the following Schedules:

**(i) ASEAN 6 and China**

X = Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not later than 1 January)			
	2005*	2007	2009	2010
$X \geq 20\%$	20	12	5	0
$15\% \leq x < 20\%$	15	8	5	0
$10\% \leq x < 15\%$	10	8	5	0
$5\% < x < 10\%$	5	5	0	0
$X \leq 5\%$	Standstill		0	0

\* The first date of implementation shall be 1 July 2005.

**(ii) Viet Nam**

X = Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not later than 1 January)							
	2005*	2006	2007	2008	2009	2011	2013	2015
$X \geq 60\%$	60	50	40	30	25	15	10	0
$45\% \leq X < 60\%$	40	35	35	30	25	15	10	0
$35\% \leq X < 45\%$	35	30	30	25	20	15	5	0
$30\% \leq X < 35\%$	30	25	25	20	17	10	5	0
$25\% \leq X < 30\%$	25	20	20	15	15	10	5	0
$20\% \leq X < 25\%$	20	20	15	15	15	10	0-5	0
$15\% \leq X < 20\%$	15	15	10	10	10	5	0-5	0
$10\% \leq X < 15\%$	10	10	10	10	8	5	0-5	0
$7\% \leq X < 10\%$	7	7	7	7	5	5	0-5	0
$5\% \leq X < 7\%$	5	5	5	5	5	5	0-5	0
$X < 5\%$	Standstill							0

\* The first date of implementation shall be 1 July 2005.

## (iii) Cambodia, Lao PDR and Myanmar

X = Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not later than 1 January)							
	2005*	2006	2007	2008	2009	2011	2013	2015
$X \geq 60\%$	60	50	40	30	25	15	10	0
$45\% \leq X < 60\%$	40	35	35	30	25	15	10	0
$35\% \leq X < 45\%$	35	35	30	30	20	15	5	0
$30\% \leq X < 35\%$	30	25	25	20	20	10	5	0
$25\% \leq X < 30\%$	25	25	25	20	20	10	5	0
$20\% \leq X < 25\%$	20	20	15	15	15	10	0-5	0
$15\% \leq X < 20\%$	15	15	15	15	15	5	0-5	0
$10\% \leq X < 15\%$	10	10	10	10	8	5	0-5	0
$7\% \leq X < 10\%$	7**	7**	7**	7**	7**	5	0-5	0
$5\% \leq X < 7\%$	5	5	5	5	5	5	0-5	0
$X < 5\%$	Standstill							0

\* The first date of implementation shall be 1 July 2005.

\*\* Myanmar shall be allowed to maintain ACFTA Rates at no more than 7.5% until 2010.

2. If a Party places a tariff line in the Normal Track, that Party shall enjoy the tariff concessions other Parties have made for that tariff line as specified in and applied pursuant to the relevant Schedules either in Annex 1 or Annex 2 together with the undertakings and conditions set out therein. This right shall be enjoyed for so long as that Party adheres to its own commitments for tariff reduction and elimination for that tariff line.

3. The tariff rates specified in the relevant Schedules in paragraph 1 only set out the level of the applicable ACFTA preferential tariff rates to be applied by each Party for the tariff lines concerned in the specified year of implementation and shall not prevent any Party from unilaterally accelerating its tariff reduction or elimination at any time if it so wishes.

4. Tariff lines in the Normal Track, which are subject to specific tariff rates, shall have such tariffs reduced to zero, in equal proportions in accordance with the timeframes provided in the Schedules set out in paragraph 1 of this Annex.

5. For all tariff lines placed in the Normal Track where the applied MFN tariff rates are at 0%, they shall remain at 0%. Where they have been reduced to 0%, they shall remain at 0%. No Party shall be permitted to increase the tariff rates for any tariff line, except as otherwise provided by the Agreement.

6. As an integral part of its commitments to reduce and/or eliminate the applied MFN tariff rates in accordance with the relevant Schedules in paragraph 1, each Party hereby commits to undertake further tariff reduction and/or elimination in accordance with the following thresholds:

**(a) ASEAN 6 and China**

(i) Each Party shall reduce to 0-5% not later than 1 July 2005 the tariff rates for at least 40% of its tariff lines placed in the Normal Track.

(ii) Each Party shall reduce to 0-5% not later than 1 January 2007 the tariff rates for at least 60% of its tariff lines placed in the Normal Track.

(iii) Each Party shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2010, with flexibility to have tariffs on some tariff lines, not exceeding 150 tariff lines, eliminated not later than 1 January 2012.

(iv) Each Party shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2012.

**(b) Newer ASEAN Member States**

(i) Each Party shall reduce to 0-5% not later than 1 January 2009 for Viet Nam; 1 January 2010 for Lao PDR and Myanmar; and 1 January 2012 for Cambodia the tariff rates for at least 50% of its tariff lines placed in the Normal Track.

(ii) Cambodia, Lao PDR and Myanmar shall eliminate their respective tariffs not later than 1 January 2013 on 40% of its tariff lines placed in the Normal Track.

(iii) For Viet Nam, the percentage of Normal Track tariff lines to have their tariffs eliminated not later than 1 January 2013 shall be determined not later than 31 December 2004.

(iv) Each Party shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2015, with flexibility to have tariffs on some tariff lines, not exceeding 250 tariff lines, eliminated not later than 1 January 2018.

(v) Each Party shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2018.

**ANNEXURE 2**  
**ASEAN 6 and Korea Agreement**

## ANNEX 1

### MODALITY FOR TARIFF REDUCTION AND ELIMINATION FOR TARIFF LINES PLACED IN THE NORMAL TRACK

1. Tariff lines placed by each Party in the Normal Track shall have their respective applied MFN tariff rates gradually reduced and eliminated according to the following Schedules. The first date of implementation shall be the date of entry into force of the Agreement. The tariff reduction will be in accordance with the rate provided for that year in the schedule.

**(i) ASEAN 6 and Korea**

X = applied MFN tariff rate	ASEAN-Korea FTA Preferential Tariff Rate (not later than 1 January)				
	2006	2007	2008	2009	2010
$X \geq 20\%$	20	13	10	5	0
$15\% \leq x < 20\%$	15	10	8	5	0
$10\% \leq x < 15\%$	10	8	5	3	0
$5\% < x < 10\%$	5	5	3	0	0
$X \leq 5\%$	Standstill			0	0

**(ii) Socialist Republic of Vietnam (“Vietnam”)**

X = applied MFN tariff rate	ASEAN-Korea FTA Preferential Tariff Rate (not later than 1 January)							
	2006	2007	2008	2009	2011	2013	2015	2016
$X \geq 60\%$	60	50	40	30	20	15	10	0
$40\% \leq X < 60\%$	45	40	35	25	20	15	10	0
$35\% \leq X < 40\%$	35	30	30	20	15	10	0-5	0
$30\% \leq X < 35\%$	30	30	25	20	15	10	0-5	0
$25\% \leq X < 30\%$	25	25	20	20	10	7	0-5	0
$20\% \leq X < 25\%$	20	20	15	15	10	7	0-5	0

$15\% \leq X < 20\%$	15	15	15	10	7	5	0-5	0
$10\% \leq X < 15\%$	10	10	10	8	5	0-5	0-5	0
$7\% \leq X < 10\%$	7	7	7	7	5	0-5	0-5	0
$5\% \leq X < 7\%$	5	5	5	5	5	0-5	0	0
$X < 5\%$	Standstill						0	

**(iii) Kingdom of Cambodia (“Cambodia”), Lao People’s Democratic Republic (“Lao PDR”), and Union of Myanmar (“Myanmar”)**

<b>X = Applied MFN Tariff Rate</b>	<b>ASEAN-Korea FTA Preferential Tariff Rate (Not later than 1 January)</b>						
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2012</b>	<b>2015</b>	<b>2018</b>
$X \geq 60\%$	60	50	40	30	20	10	0
$45\% \leq X < 60\%$	45	40	35	25	15	10	0
$35\% \leq X < 45\%$	35	30	30	20	15	5	0
$30\% \leq X < 35\%$	30	30	25	20	10	5	0
$25\% \leq X < 30\%$	25	25	20	20	10	5	0
$20\% \leq X < 25\%$	20	20	15	15	10	0-5	0
$15\% \leq X < 20\%$	15	15	15	10	5	0-5	0
$10\% \leq X < 15\%$	10	10	10	8	5	0-5	0
$7\% \leq X < 10\%$	7*	7*	7*	7*	5	0-5	0
$5\% \leq X < 7\%$	5	5	5	5	5	0-5	0
$X < 5\%$	Standstill						0

\* Myanmar shall be allowed to maintain ASEAN-Korea FTA preferential tariff rates at no more than 7.5% until 2010.

2. The tariff rates specified in the relevant Schedules in paragraph 1 only set out the level of the applicable ASEAN-Korea FTA preferential tariff rates to be applied by each Party for the tariff lines concerned in the specified year of implementation and shall not prevent any Party from unilaterally accelerating its tariff reduction or elimination at any time if it so wishes.

3. The tariff lines in the Normal Track, which are subject to specific tariff rates, shall have such specific tariff rates reduced to zero, in equal proportions in accordance with the timeframes provided in the Schedules set out in paragraph 1.

4. For all tariff lines placed in the Normal Track where the applied MFN tariff rates are at 0%, they shall remain at 0%. Where they have been reduced to 0%, they shall remain at 0%. No Party shall be permitted to increase the tariff rates for any tariff line, except as otherwise provided in this Agreement.

5. As an integral part of its commitments to reduce and/or eliminate the applied MFN tariff rates in accordance with the relevant Schedules in paragraph 1, each Party hereby commits to undertake further tariff reduction and/or elimination in accordance with the following thresholds:

(a) Korea

- (i) Korea shall eliminate its tariffs for at least 70 % of the tariff lines placed in the Normal Track upon the entry into force of this Agreement.
- (ii) Korea shall eliminate its tariffs for at least 95% of the tariff lines placed in the Normal Track not later than 1 January 2008.
- (iii) Korea shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2010.

(b) ASEAN 6

- (i) Each Party shall reduce its applied MFN tariff rates for at least 50 % of the tariff lines placed in the Normal Track to 0-5 % not later than 1 January 2007.
- (ii) Each Party shall eliminate its tariffs for at least 90 % of the tariff lines placed in the Normal Track not later than 1 January 2009.
- (iii) Each Party shall eliminate its tariffs for all tariff lines placed in the Normal Track not later than 1 January

2010, with flexibility to have tariff lines, not exceeding 5% of all the tariff lines or as listed in an agreed Schedule, eliminated not later than 1 January 2012.

(iv) Each Party shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2012.

(c) Vietnam

(i) Vietnam shall reduce its applied MFN tariff rates for at least 50% of the tariff lines placed in the Normal Track to 0-5% not later than 1 January 2013.

(ii) Vietnam shall eliminate its tariffs for at least 90% of the tariff lines placed in the Normal Track not later than 1 January 2015.

(iii) Vietnam shall eliminate its tariffs for all tariff lines placed in the Normal Track not later than 1 January 2016, with flexibility to have tariff lines, not exceeding 5% of all the tariff lines, eliminated not later than 1 January 2018.

(iv) Vietnam shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2018.

(d) Cambodia, Lao PDR and Myanmar

(i) Each Party shall reduce their respective applied MFN tariff rates for at least 50% of the tariff lines placed in the Normal Track to 0-5% not later than 1 January 2015.

(ii) Each Party shall eliminate their respective tariffs for at least 90% of the tariff lines placed in the Normal Track not later than 1 January 2017.

(iii) Each Party shall eliminate their respective tariffs for all tariff lines placed in the Normal Track not later than 1 January 2018, with flexibility to have tariff lines, not exceeding 5% of all the tariff lines, eliminated not later than 1 January 2020.



- (iv) Each Party shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2020.

6. If an exporting Party places a tariff line in the Normal Track, that exporting Party shall enjoy the tariff concessions which an importing Party has made for that tariff line as specified in and applied pursuant to the relevant Schedules either in this Annex or Annex 2 together with the undertakings and conditions set out therein. This right shall be enjoyed for so long as that exporting Party adheres to its own commitments for tariff reduction and elimination for that tariff line.

7. Each Party shall eliminate all its tariffs for the tariff lines given flexibility in paragraph 5, not later than 1 January 2012.

8. Each Party shall notify the other Parties its tariff lines placed in the Normal Track along with the tariff elimination schedule for each tariff line in accordance with paragraph 5, not later than the date when the commitment of the Party commences with respect to the tariff lines.

**ANNEX 2**  
**MODALITY FOR TARIFF REDUCTION/ELIMINATION**  
**FOR TARIFF LINES PLACED IN THE SENSITIVE TRACK**

1. The number of tariff lines which each Party can place in the Sensitive Track shall be subject to a maximum ceiling of:

- (i) ASEAN 6 and Korea:  
10% of all the tariff lines and 10% of the total value of imports from Korea or from the ASEAN Member Countries as a whole, as appropriate, based on 2004 trade statistics;
- (ii) Vietnam:  
10% of all the tariff lines and 25% of the total value of imports from Korea based on 2004 trade statistics; and
- (iii) Cambodia, Lao PDR and Myanmar:  
10% of all the tariff lines.

2. Tariff lines placed by each Party in the Sensitive Track shall be further classified into the Sensitive List and the Highly Sensitive List. The number of tariff lines which each Party can place in the Highly Sensitive List shall be subject to a maximum ceiling of:

- (i) ASEAN 6 and Korea:  
200 tariff lines at the HS 6-digit level or 3% of all the tariff lines at the HS digit level of each Party's own choice and 3% of the total value of imports from Korea or from the ASEAN Member Countries as a whole, as appropriate, based on 2004 trade statistics.
- (ii) Cambodia, Lao PDR, Myanmar and Vietnam:  
200 tariff lines at the HS 6-digit level or 3% of all the tariff lines at the HS digit level of each Party's own choice.

3. The Parties shall reduce and, where applicable, eliminate the applied MFN tariff rates of tariff lines placed in the Sensitive List according to the following Schedules:

- (i) ASEAN 6 and Korea shall reduce the applied MFN tariff rates of tariff lines placed in their respective Sensitive Lists to 20% not later than 1 January 2012. These tariff rates shall be subsequently reduced to 0-5% not later than 1 January 2016.
- (ii) Vietnam shall reduce the applied MFN tariff rates of tariff lines placed in their respective Sensitive Lists to 20% not later than 1 January 2017. These tariff rates shall be subsequently reduced to 0-5% not later than 1 January 2021.
- (iii) Cambodia, Lao PDR and Myanmar shall reduce the applied MFN tariff rates of tariff lines placed in their respective Sensitive Lists to 20% not later than 1 January 2020. These tariff rates shall be subsequently reduced to 0-5% not later than 1 January 2024.

4. The tariff lines placed in a Party's Highly Sensitive List shall be categorised into five groups. For each group of their respective tariff lines in the Highly Sensitive List, the Parties undertake the following commitments:

- (i) Group A (Tariff lines subject to 50% tariff rate capping):  
ASEAN 6 and Korea shall reduce the applied MFN tariff rates of tariff lines placed in Group A to not more than 50 % not later than 1 January 2016. Vietnam shall reduce the applied MFN tariff rates of tariff lines placed in Group A to not more than 50% not later than 1 January 2021. Cambodia, Lao PDR and Myanmar shall reduce the applied MFN tariff rates of tariff lines placed in Group A to not more than 50 % not later than 1 January 2024.

- (ii) Group B (Tariff lines subject to tariff reduction by 20%):

ASEAN 6 and Korea shall reduce the applied MFN tariff rates of tariff lines placed in Group B by not less than 20% not later than 1 January 2016. Vietnam shall reduce the applied MFN tariff rates of tariff lines placed in Group B by not less than 20% not later than 1 January 2021. Cambodia, Lao PDR and Myanmar shall reduce the applied MFN tariff rates of tariff lines placed in Group B by not less than 20% not later than 1 January 2024.
- (iii) Group C (Tariff lines subject to tariff reduction by 50%):

ASEAN 6 and Korea shall reduce the applied MFN tariff rates of tariff lines placed in Group C by not less than 50% not later than 1 January 2016. Vietnam shall reduce the applied MFN tariff rates of tariff lines placed in Group C by not less than 50% not later than 1 January 2021. Cambodia, Lao PDR and Myanmar shall reduce the applied MFN tariff rates of tariff lines placed in Group C by not less than 50% not later than 1 January 2024.
- (iv) Group D (Tariff lines subject to TRQs):

The parties shall apply the tariff rate quotas on imports of the goods of tariff lines placed in Group D from the entry into force of this Agreement, in accordance with the conditions set out in their respective Schedule.
- (v) Group E (Tariff lines exempted from tariff concession):

Each Party reserves the rights to maintain the applied MFN tariff rates of tariff lines placed in Group E. The number of tariff lines which each Party can place in Group E shall be subject to a maximum ceiling of 40 tariff lines at the HS 6-digit level.

5. Tariff lines in the Sensitive Track, which are subject to specific tariff rates, shall have such tariffs reduced in accordance with the timeframes provided for in paragraphs 3 and 4. The proportion of tariff reduction for

these tariff lines shall be equal to the average margin of tariff reduction of the tariff lines with ad-valorem tariff rates under the Sensitive Track, which are subject to tariff reduction in the same year.

6. Notwithstanding the Schedules in paragraphs 3 and 4, any Party may unilaterally accelerate the tariff reduction and/or elimination for its tariff lines placed in the Sensitive Track at any time if it so wishes. Nothing in this Agreement shall prevent any Party from unilaterally transferring any tariff line from the Sensitive Track into the Normal Track at any time if it so wishes.

7. The reciprocal tariff rate treatment of tariff lines placed by an exporting Party in the Sensitive Track, excluding Group E, while the same tariff lines are placed by the importing Party in the Normal Track, shall be governed by the following conditions:

- (i) the tariff rate for a tariff line placed by an exporting Party in the Sensitive Track, excluding Group E, must be at 10% or below and the exporting Party has given notification to that effect to the other Parties in order for that exporting Party to enjoy reciprocity;
- (ii) the reciprocal tariff rate to be applied to a tariff line placed by an exporting Party in the Sensitive Track shall be either the tariff rate of that exporting Party's tariff line, or the Normal Track tariff rate of the same tariff line of an importing Party from whom reciprocity is sought, whichever is higher;
- (iii) notwithstanding sub-paragraph (ii), the importing Party can, on its discretion, apply its Normal Track tariff rate even if such rate is lower than the tariff rate of the exporting Party; and
- (iv) the reciprocal tariff rate to be applied to a tariff line placed by an exporting Party in the Sensitive Track shall in no case exceed the applied MFN rate of the same tariff line of an importing Party from whom reciprocity is sought.

8. The tariff lines placed by each Party in the Sensitive List and the Highly Sensitive List under the Sensitive Track based on the modality set out in this Annex are respectively listed in Appendices 1 and 2.

**ANNEX 3**  
**APPLICATION PROCESS FOR NGOs AIMING TO IMPORT PCs**  
**WITH TAX EXEMPTION**

