



## **CCFTA: Assessing the Uniqueness Amid Overlapping Trade Arrangements**

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### **Introduction**

Cambodia and China officially established diplomatic relations on July 19, 1958. Over the decades, their relationship has strengthened significantly, evolving from a comprehensive partnership of cooperation to a comprehensive strategic partnership in 2010<sup>1</sup>. To mark the 65<sup>th</sup> anniversary of establishing diplomatic relations in February 2023, the two countries have elevated their partnership to another level known as “diamond hexagon cooperation,” marking a new milestone in their bilateral engagement.<sup>2</sup> Given the depth of their political and economic ties, Cambodia and China formally implemented the Cambodia-China Free Trade Agreement (CCFTA) in early January 2022, complementing Cambodia’s existing trade agreements. Cambodia has been actively expanding its trade network. It became a member of the Regional Comprehensive Economic Partnership (RCEP) in 2022 and participated in the ASEAN-China Free Trade Agreement (ACFTA), signed in 2020.

However, the overlap of these free trade agreements with China raises critical questions: Do these multiplicities of agreements enhance Cambodia’s market access to China, or do they introduce complexities, commonly referred to as the “Noodle Bowl Effect?” More importantly, why does Cambodia continue to pursue bilateral trade agreements with China despite its membership with regional frameworks like RCEP and ACFTA?

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<sup>1</sup> Kin Phea, "CAMBODIA-CHINA RELATIONS IN THE NEW DECADE." Konrad-Adenauer-Stiftung. n.d. <https://www.kas.de/documents/264850/8651571/Chapter%203.pdf>.

<sup>2</sup> Chheng Kimlong, "Diamond-clad Friendship." CHINADAILY. Last modified June 19, 2024. <https://epaper.chinadaily.com.cn/a/202406/19/WS6672195ca3106431fe82e816.html>.

This paper will analyze the unique benefits that Cambodia can derive from CCFTA beyond its existing trade agreement by focusing on key aspects such as the CCFTA rules of origin (ROO), dispute settlement mechanism, and tariff structure, as well as its overall impact on trade between the two nations. Through this analysis, we aim to identify the specific advantages CCFTA provides to Cambodia that are unavailable under regional agreements like RCEP and ACFTA.

## **Background of CCFTA**

Cambodia proposed the Cambodia-China Free Trade Agreement (CCFTA), marking its first bilateral free trade agreement (FTA). While CCFTA complements existing multilateral agreements such as ACFTA and RCEP, it is distinct in its exclusive focus on Cambodia-China trade. As the rising economic pressures from the pandemic, especially due to the sanctions from the European Union and the United States, in 2020, Cambodia lost access to the U.S. Generalized System of Preferences (GSP), and a significant portion of the European Union's "Everything But Arms" (EBA) initiative, exposing its economy to heightened risks.<sup>3</sup> Deepening economic ties with China through CCFTA is a strategic response to mitigate these vulnerabilities. Officially signed on October 12, 2020, and coming into effect on January 1, 2022, CCFTA encompasses 16 chapters covering various aspects of trade and economic cooperation. The agreement adheres to the World Trade Organization (WTO) provisions under Article XXIV of GATT 1994 and Article V of GATS 1994, following the Reciprocity Principle. In 2020, exports to China accounted for approximately 6% of Cambodia's GDP<sup>4</sup>. As part of Cambodia's broader economic integration strategy, CCFTA aims to strengthen bilateral trade ties by enhancing market access, providing preferential tariffs, streamlining trade facilitation, and fostering investment. Beyond economic gains, the agreement also seeks to promote mutual benefits, alleviate poverty, and support broader social and economic development in both countries.<sup>5</sup>

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<sup>3</sup> Chheang Vannarith, "2022/46 "Cambodia-China Free Trade Agreement: A Cambodian Perspective"." ISEAS-Yusof Ishak Institute. Last modified June 12, 2023. <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2022-46-cambodia-china-free-trade-agreement-a-cambodian-perspective-by-vannarith-chheang/>.

<sup>4</sup> "Cambodia-China Free Trade Agreement." *Ministry of Commerce*. Last modified February 28, 2022. <https://drive.google.com/drive/mobile/folders/1CJAFBcgIBGa3gRWBbSEh5hgMk4D9Q8s3?usp=sharing>.

<sup>5</sup> "Free Trade Agreement Between the Government of The People's Republic of China and The Government of The Kingdom of Cambodia". Ministry of Commerce, PRC, 2022. [https://fta.mofcom.gov.cn/cambodia/xieyi/xieyifj01a1\\_en.pdf](https://fta.mofcom.gov.cn/cambodia/xieyi/xieyifj01a1_en.pdf).

## CCFTA Rules of Origin

The Rules of Origin (ROO) under the Cambodia-China Free Trade Agreement (CCFTA) establish a clear framework for determining whether a good qualifies for preferential tariff treatment. These rules define key terms such as "good," "material," and "originating good," ensuring consistency in application. A product is considered originating if it is: (1) wholly obtained or produced in one of the Parties, (2) made entirely from originating materials, or (3) produced using non-originating materials but meeting specific criteria.<sup>6</sup>

For goods that are not wholly produced or obtained, CCFTA requires either (1) a minimum regional value content (RVC) of 40% based on a predefined formula or (2) a change in tariff classification at the four-digit level. The calculation of RVC is precisely defined to account for the value of non-originating components. The agreement also allows for cumulation, meaning that materials originating in one Party (Cambodia or China) can be used in the production process of the other Party, provided they meet the required processing standards. However, minimal operations—such as simple packaging or sorting—are explicitly excluded from conferring originating status.<sup>7</sup>

Additional provisions clarify direct consignment requirements, set de minimis thresholds for non-originating materials, and specify the treatment of packing materials, accessories, and neutral elements in origin determination. To claim preferential treatment, exporters must obtain a Certificate of Origin from designated authorities following established procedures. Furthermore, the agreement includes mechanisms for regular review and modification and establishes a Committee on Rules of Origin to oversee implementation and compliance.<sup>8</sup> Rules of Origin play a crucial role in trade agreements, as they determine a product's eligibility for tariff benefits. However, despite the availability of tariff reductions or duty-free access, companies must comply with ROO requirements to benefit from these advantages. The Rules of Origin under CCFTA and the Regional Comprehensive Economic Partnership (RCEP) differ significantly, influencing trade facilitation and business operations.

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<sup>6</sup> “Free Trade Agreement Between the Government of The People's Republic of China and The Government of The Kingdom of Cambodia”. Ministry of Commerce, PRC, 2022.  
[https://fta.mofcom.gov.cn/cambodia/xieyi/xieyifj01a1\\_en.pdf](https://fta.mofcom.gov.cn/cambodia/xieyi/xieyifj01a1_en.pdf).

<sup>7</sup> Ibid

<sup>8</sup> Ibid

A key distinction lies in the cumulation approach. CCFTA follows a bilateral cumulation model, where only materials originating in Cambodia or China count as originating content for preferential treatment. In contrast, RCEP adopts regional cumulation, allowing inputs from any of its 15 member countries to contribute to a product's originating status. This broader approach enhances supply chain flexibility and encourages regional production integration.<sup>9</sup>

Another notable difference is in Product-Specific Rules (PSR). CCFTA enforces stricter origin criteria, often requiring a Change in Tariff Classification (CTC) at the four-digit level or compliance with an RVC threshold. RCEP, however, offers greater flexibility by allowing multiple pathways to determine origin, including CTC, RVC, or specific manufacturing processes.<sup>10</sup>

The agreements also diverge in their certification procedures. Under CCFTA, a Certificate of Origin must be issued by designated authorities, following predefined formats and guidelines. RCEP, on the other hand, introduces a more streamlined system that allows self-certification by approved exporters and, in some cases, by all exporters or producers, reducing administrative costs and processing time.<sup>11</sup>

These differences have significant implications for businesses. While CCFTA provides preferential access between Cambodia and China, firms must comply with its more rigid bilateral ROO and certification procedures. Conversely, RCEP offers a broader trade framework with more flexible sourcing options and lower administrative burdens through self-certification. As a result, businesses operating within regional supply chains may find RCEP's ROO provisions more advantageous for optimizing trade flows and cost efficiencies.

## **Dispute settlement Mechanism**

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<sup>9</sup> "Does the Cambodia–People's Republic of China FTA Offer Better Market Access Than RCEP?" Development Asia. Last modified July 4, 2022. <https://development.asia/explainer/does-cambodia-peoples-republic-china-fta-offer-better-market-access-rcep#:~:text=Analysis%20reveals%20that%20in%20terms%20of%20tariff,origin%20in%20the%20agricultural%20and%20agro%2Dprocessing%20sector.>

<sup>10</sup> Ibid

<sup>11</sup> Ibid

The dispute settlement mechanism (DSM) under the Regional Comprehensive Economic Partnership (RCEP) is designed to be efficient, transparent, and effective, providing a structured consultation process and dispute resolution among member states. Unlike RCEP and the ASEAN-China Free Trade Agreement (ACFTA), which follow more rigid legal frameworks, the Cambodia-China Free Trade Agreement (CCFTA) prioritizes bilateral consultations, good offices, conciliation, and mediation over strict legal arbitration, ensuring greater flexibility.

CCFTA establishes a Joint Committee composed of officials from both nations, which meets annually to address trade issues, resolve disputes, and strengthen bilateral cooperation. This regular dialogue prevents disputes from escalating. Rather than relying on binding arbitration, CCFTA emphasizes flexibility and political negotiation, making its approach more adaptable. If disputes persist, they are typically managed through diplomatic channels rather than formal legal proceedings.<sup>12</sup>

The China-Cambodia Free Trade Area Joint Commission also oversees the agreement's implementation. Comprising representatives from China's Ministry of Commerce (MOFCOM) and Cambodia's Ministry of Commerce (MOC), it monitors compliance, proposes amendments, negotiates trade issues, supervises committees, and adopts decisions and recommendations. The Joint Commission convenes at least once every two years, alternating meetings between China and Cambodia. In exceptional cases, sessions can be held at any time upon mutual agreement.<sup>13</sup>

The dispute settlement process under CCFTA is more straightforward and efficient than RCEP and ACFTA. CCFTA follows a bilateral approach, focusing exclusively on trade disputes between Cambodia and China. Consultation is required as the first step, and if no resolution is reached within 60 days, the complainant can request an arbitral tribunal, which must issue a final decision within 120 days, ensuring a swift resolution.<sup>14</sup>

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<sup>12</sup> "Free Trade Agreement Between the Government of The People's Republic of China and The Government of The Kingdom of Cambodia". Ministry of Commerce, PRC, 2022.  
[https://fta.mofcom.gov.cn/cambodia/xieyi/xieyifj01a1\\_en.pdf](https://fta.mofcom.gov.cn/cambodia/xieyi/xieyifj01a1_en.pdf).

<sup>13</sup> Ibid

<sup>14</sup> Ibid

By contrast, RCEP provides a multilateral dispute settlement framework covering 15 member states. It also prioritizes consultations but allows for good offices, mediation, and conciliation before escalating to a formal panel. Unlike CCFTA, RCEP does not include an appellate mechanism, meaning panel rulings are final. Additionally, specific RCEP provisions, such as Sanitary and Phytosanitary Measures, are initially excluded from dispute settlement, whereas CCFTA applies its dispute resolution uniformly across all trade provisions.<sup>15</sup>

Overall, CCFTA offers a more straightforward and faster dispute resolution process explicitly tailored to Cambodia-China trade relations. In contrast, RCEP's framework is broader and more flexible, accommodating disputes involving multiple countries. While RCEP provides a structured legal mechanism, CCFTA's diplomatic and negotiation-based approach makes it more adaptable and efficient for resolving bilateral trade issues.

### **Tariff line and Trade flow**

Under the CCFTA, China has increased its tariff reduction and elimination rate by 3.16% compared to the ASEAN-China FTA.<sup>16</sup> In CCFTA, the tariff reduction and elimination scheme is divided into four categories: Category A, which includes 8,328 tariff lines that enjoy zero tariffs; Category B, which will enjoy zero tariffs after five years; Category C, which will enjoy zero tariffs after ten years; and Category D, which will enjoy zero tariffs after twenty years. Products included in Category A range from agricultural goods such as pepper, mango, banana, longan, dragon fruit, and cashew nuts to meat, processed meat, honey, vegetables, grains, and processed foods. Other products include alcohol, beverages, vinegar, textiles, footwear, electronic parts, bicycles, cables, engines, and motors.<sup>17</sup>

Chinese tariffs on Cambodian imports have been eliminated for 97.53% of Cambodia's traded items, while Cambodian import tariffs have been eliminated for 90% of Chinese traded items. The Cambodia-China Free Trade Agreement (CCFTA) and the Regional Comprehensive Economic Partnership (RCEP) have played key roles in boosting Cambodia's trade and investment. Under RCEP, reductions in tariffs and non-tariff barriers have improved market

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<sup>15</sup> Aulia Ulfah, "Giving a Chance to the RCEP's Dispute Settlement Mechanism." Economic Research Institute for ASEAN and East Asia. Last modified March 21, 2023. <https://www.eria.org/news-and-views/giving-a-chance-to-the-rceps-dispute-settlement-mechanism/>.

<sup>16</sup> Chheang Vannarith, "2022/46 "Cambodia-China Free Trade Agreement: A Cambodian Perspective"." ISEAS-Yusof Ishak Institute. Last modified June 12, 2023. <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2022-46-cambodia-china-free-trade-agreement-a-cambodian-perspective-by-vannarith-chheang/>.

<sup>17</sup> Ibid

access and export diversification, particularly in the garment and agricultural sectors. This has led to a significant increase in Cambodian exports to the RCEP region in recent months. Similarly, the CCFTA has provided Cambodian goods with easier access to the Chinese market, resulting in a surge in vehicle spare parts, bicycles, and wood articles exports, while also contributing to increased imports of consumer durables and manufacturing inputs such as electronic equipment and solar panels. These agreements have expanded market opportunities supported manufacturing diversification, and attracted foreign direct investment from China, positioning Cambodia for strong economic growth, with projections reaching 5.6 percent in 2024.<sup>18</sup>

The overlap between the two agreements allows companies to select the tariff schemes that offer the most benefits. Tariff schedules show that the bilateral FTA offers deeper tariff liberalization than RCEP. More than 90% of tariff lines under CCFTA are subject to zero tariffs, whereas RCEP will take twenty years to reach a similar proportion. Agriculture is widely regarded as one of the sectors in Cambodia that benefits the most from the bilateral FTA. There are notable differences between the two agreements regarding tariff treatment for raw agricultural products classified under chapters 1–24 of the Harmonized System. Under RCEP, approximately two-thirds of tariffs on ASEAN raw agricultural exports to China have been abolished. In contrast, more than 95% of these products exported from Cambodia benefited from immediate tariff elimination under CCFTA upon the agreement’s entry into force. For example, tariffs on fresh or dried shelled cashew nuts will be gradually reduced over ten years under RCEP, while the bilateral FTA eliminated them immediately upon its implementation.<sup>19</sup>

Among processed agricultural products classified in chapters 1–24, rice, Cambodia’s top export to China in terms of value, is excluded from tariff commitments under both agreements. However, for processed agricultural products as a whole, the bilateral FTA provides deeper tariff liberalization than RCEP, with a larger proportion of products receiving zero tariffs upon entry into force, amounting to 40 percentage points. The clothing sector, which accounted for approximately 30% of China’s total imports from Cambodia, totaling \$436 million in 2020, also benefits more from CCFTA. Within this sector, jerseys, pullovers, cardigans, waistcoats, and similar articles will take ten years to reach zero tariffs under RCEP. In contrast, the bilateral

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<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

FTA abolished customs duties on these products upon its implementation, granting a preferential margin of 14%.<sup>20</sup>

## **Challenges and Limitations of CCFTA**

The Cambodia-China Free Trade Agreement (CCFTA) presents significant opportunities for Cambodia but also faces several challenges and limitations. One of the primary barriers to Cambodia's exports, particularly agricultural goods, is the country's low sanitary and phytosanitary (SPS) standards. A 2019 United Nations Conference on Trade and Development (UNCTAD) study identified tariffs and SPS requirements as the main obstacles to entering the Chinese market. Within the World Trade Organization (WTO) framework, the SPS Committee serves as a platform for discussion and exchange of information on these issues. Under CCFTA, Cambodia and China have agreed to explore further cooperation on SPS measures to facilitate bilateral trade. This commitment is a positive step, as SPS measures play a crucial role in ensuring the safety and quality of agricultural products in international trade. Enhanced cooperation in this area can help reduce trade barriers and improve market access of Cambodian farm exports to China. Establishing a committee dedicated to SPS measures reflects the commitment of both countries to strengthening technical cooperation and mutual understanding while also providing a mechanism for monitoring the implementation of these measures.<sup>21</sup>

Despite these efforts, Cambodia faces significant SPS-related barriers in exporting agricultural products to major Asian markets, particularly China. While the Ministry of Agriculture, Forestry, and Fisheries oversees SPS issues, the Ministry of Commerce is essential in negotiating mutual recognition of certifications to ease trade. Some progress has been made in specific sectors, such as aquaculture and agricultural exports, with China recognizing registered farms that meet its quality standards for products like bananas and mangoes. However, sanitation and phytosanitary concerns remain a global trade challenge, necessitating ongoing negotiations and improvements in product quality to align with Chinese requirements.<sup>22</sup>

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<sup>20</sup> Ibid.

<sup>21</sup> Ibid

<sup>22</sup> May Kunmakara, "Cambodia-China FTA Brings Growth." Phnom Penh Post. Last modified October 9, 2023. <https://www.phnompenhpost.com/business/cambodia-china-fta-brings-growth#:~:text=Under%20the%20terms%20of%20the,implemented%20on%20January%201%2C%202022.>



Another challenge is that although Cambodia has gained broader access to China's vast market through various agreements such as CCFTA, RCEP, and ACFTA, numerous challenges persist. One of the most pressing concerns is the trade deficit with China. In early 2023, China accounted for 25.6% of Cambodia's total trade volume. Although Cambodia's trade deficit with China slightly decreased to \$5.4 billion, the country continues to import significantly more than it exports. This imbalance is largely driven by Cambodia's domestic demand and reliance on industrial raw materials from China. While China maintains a strong demand for commodities, Cambodia struggles to fully meet its export potential, especially as the United States and the European Union diversify supply chains toward other ASEAN countries such as Vietnam and Indonesia. Cambodia must strengthen its manufacturing base, improve infrastructure, and reduce electricity costs to take advantage of emerging opportunities. Increased Chinese investment in Cambodia's manufacturing sector could further enhance export capacity and contribute to economic growth.<sup>23</sup>

Furthermore, Cambodia's restricted production capacity is a critical limitation which hinders its ability to compete in international markets. The country faces challenges related to lower product standards, a low-skilled labor force, and a lack of digital technology expertise. Cambodia's economy remains overly dependent on a few key industries, particularly garments, footwear, and agriculture, failing to diversify into sectors with higher growth potential. Expanding into industries such as manufacturing, electronics, and technology products currently in high demand in global markets could provide Cambodia with greater economic resilience and competitiveness. However, achieving this diversification requires substantial investment in human capital development, technological innovation, and industrial modernization. Without these improvements, Cambodia risks remaining reliant on a limited number of sectors and missing out on broader opportunities in the global trade landscape.

## **Conclusion**

The Cambodia-China Free Trade Agreement (CCFTA) complements Cambodia's existing trade agreements, offering unique opportunities that other ASEAN countries may not have. As one of the largest global markets, China provides Cambodia with significant trade advantages, and bilateral trade between the two nations creates spillover effects that extend to Cambodia's

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<sup>23</sup> Ibid

agreements with Japan and South Korea. By leveraging the CCFTA, Cambodia can expand its export destinations, strengthening its position in regional and global trade networks.

This agreement is crucial to Cambodia's long-term economic strategy, supporting its goal of graduating from Least Developed Country (LDC) status by 2029. Cambodia and China emphasize the CCFTA, recognizing its potential to drive economic growth and enhance trade relations. Additionally, the agreement offers policymakers an alternative framework to maximize trade benefits, allowing them to strategically choose between the CCFTA and other trade agreements based on economic priorities and market conditions.

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