



**ASEAN Economic Community:
*Perspectives from Cambodian Businesses on the
Forthcoming Changes, Risks and Opportunities***

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Intercontinental Hotel, Phnom Penh
17 November 2015



Brief background of the Presenter



- **Managing Partner, Soksiphana&associates, 2009-Present**
- **Advisor to the Royal Government of Cambodia** with concurrent attachment to the DPM and Minister of Foreign Affairs and International Cooperation **Hor Namhong**; Permanent DPM **Keat Chhon** at CDC on development and economic policy matters, particularly focused on private sector development; and the Supreme National Economic Council (SNEC) on economic development policy matters (2009-Present)
- **Chairman of the Board of Cambodia Development Resource Institute (CDRI)**, Cambodia's oldest and prominent independent research institute (2011-Present)
- **Former Secretary of State, Ministry of Commerce/WTO Negotiator** (1999-2005)
- **Director, International Trade Center (ITC)/UNCTAD/WTO** (2005-2009)
- **UNDP Management consultant, Legal Advisor attached to the Office of the Council of Ministers and CDC** (1993-1998)

Brief background of the Presenter

- **Advisory role during ASEAN Summits and Foreign Ministers Meetings**
 - 19th to 26th **ASEAN Summits and Related Summits** (8 Summits from 2011-2015)
 - 7th to 9th **East Asia Summits**, (3 Summits from 2012-2014)
 - 9th and 10th **Asia-Europe Meeting (ASEM) Summits**, (2 Summits, 2012 and 2014).
 - 14th to 17th **ASEAN-Japan Summits**, (4 Summits from 2011 to 2014)
 - **ASEAN-Republic of Korea Commemorative Summit** (2014)
 - **G20 Summit** (2002)
 - 44th to 48th **ASEAN Foreign Ministerial Meeting (AMM) and Related Meetings**, (5 AMM from 2011 to 2015).
 - 2nd to 5th **East Asia Summit Foreign Ministers' Meetings**, (4 meetings 2012 to 2015).
 - 19th to 22nd **ASEAN Regional Forum Ministerial Meetings (ARF)**, (4 meetings 2012 to 2015)
 - Other Foreign Ministers' Meetings (**ASEM, Mekong-Korea Cooperation, Mekong Lancang (China), Mekong LMI (US), Mekong Japan**).
- **Other ASEAN Related Nominations**
 - ASEAN Russia Eminent Person Group (2015 -2016)
 - ASEAN High Level Task Force to Strengthen ASEAN Secretariat and Related Organs (2014)
 - Eminent Person for the U.S. Lower Mekong Initiative (2014)
 - Member of the ASEAN Task Force on Substantive Issues (2012)
 - ASEAN India Eminent Person Group Co-Chair (2012)
 - ASEAN Cambodian Sherpa to G20 (2012)

WHAT EUROCHAM EXPECTS OF ME TODAY!

- Expectations for January 1st 2016 and the next milestones;
- Are Cambodian SME's ready? Fiction and reality;
- Cambodia and AEC Mutual Recognition Agreements;
- Free movement of people in ASEAN: threat or opportunity for Cambodia?;
- The Regional Comprehensive Economic Partnership (RCEP) and the AEC;
- Products and services standards;
- Updates on ASEAN and the National Single Window

This is what I propose!

1. Realities of the ASEAN Economic Community

2. A Few Statistics

3. Expectations for January 1st 2016 and the next milestones

4. AEC Development - Macro (events outside the border)

- FTA and Mega FTA: The Regional Comprehensive Economic Partnership (RCEP) and the TPP?
- Major Accomplishments in External Economic Relations

5. AEC Development - Micro (events inside the border)

- Cambodia and AEC Mutual Recognition Agreements
 - Free movement of people in ASEAN: threat or opportunity for Cambodia?
- Products and services standards and Non Tariff Measures
- Updates on ASEAN and the National Single Window

6. Are Cambodian Companies/SMEs ready? Fiction and reality

7. Conclusion and Q&A

REALITIES OF THE ASEAN ECONOMIC COMMUNITY

- **Background:** The AEC was adopted during the 13th ASEAN Summit on 20 November 2007 in Singapore. The aim of the AEC is to transform ASEAN into a region with free movement of goods, services investment, skilled labor and freer flow of capital by 2015.
- **AEC should be seen in conjunction with the ASEAN Political-Security Community and ASEAN Socio-Cultural Community.**
 - The sovereignty of nation states and non-interference in domestic matters were the key principles guiding the organisation since the early days of ASEAN.
- **ASEAN economic cooperation is a top-down initiative.**

REALITIES OF THE ASEAN ECONOMIC COMMUNITY (Cont.)

- **Economic cooperation came much later to the agenda than the pursuit of peace and stability.**
- **Economic cooperation became gradually a form of commercial diplomacy and most often was carried out in foreign ministries in consultation with trade ministries.**
- **A generalized low level of awareness of relevant economic cooperation measures, particularly among the end-users.**
- **Also most government agencies, other than the foreign and commerce ministries, generally lack detailed knowledge about the AEC.**
- **It has only been of late with the looming deadline of 2015 that private sector groups have begun to voice their concerns.**

VISION OF AEC

- **The vision for the AEC was developed with an awareness of current global economic trends.**
 - Production networks rapidly expanding in a few key industries across Asian economies.
 - China's entry into the WTO in 2001 and becoming the 'factory of Asia'.
 - The global economy has been in a constant state of flux since the 1997-98 financial crisis.
 - For the ten ASEAN member states WTO membership by itself was not enough.

A FEW STATISTICS

- **ASEAN's total GDP reached US\$ 2.57 trillion in 2014.**
 - almost double the size of the region's economy in 2007 when the AEC Blueprint was first adopted.
- **The growth outlook in the region remains relatively robust and better than the global average.**
 - Real GDP growth in the region is projected to be 4.6 per cent this year, the same as in 2014, before accelerating to 5.1 per cent in 2016.

A FEW STATISTICS ... (Cont.)

Annual GDP Growth (%)

Country	2007	2008	2009	2010	2011	2012	2013	2014
Brunei	0.6	-2.4	-1.8	2.6	3.4	0.9	-2.1	-2.3
Cambodia	10.2	6.7	0.1	6.0	7.1	7.3	7.4	7.0
Indonesia	6.3	6.0	4.6	6.2	6.5	6.3	5.7	5.1
Lao PDR	6.0	7.8	7.5	8.1	8.0	7.9	8.0	7.3
Malaysia	6.3	4.8	-1.5	7.4	5.2	5.6	4.7	6.0
Myanmar	13.1	12.0	10.3	10.6	9.6	5.6	7.3	7.7
Philippines	6.6	4.2	1.1	7.6	3.7	6.7	7.1	6.1
Singapore	9.1	1.8	-0.6	15.2	6.2	3.4	4.4	2.9
Thailand	5.0	2.5	-2.3	7.8	0.1	6.5	2.9	0.7
Viet Nam	7.1	5.7	5.4	6.4	6.2	5.2	5.4	6.0
ASEAN	6.6	4.9	2.2	7.6	5.1	6.0	5.2	4.6

Source: ASEANstats database (May 2015).

A FEW STATISTICS ... (Cont.)

External trading partners: Top four

- China was the top destination for ASEAN exports (US\$150.4 billion or 11.6 per cent of total)
- EU-28 (US\$132.4 billion or 10.2 per cent)
- United States (US\$122.4 billion or 9.5 per cent)
- Japan (US\$120.2 billion or 9.3 per cent).
- ASEAN collectively still accounted for the highest share of both ASEAN's total exports (25.5 per cent) and total imports (22.5 per cent) among the trading partners.
 - ASEAN's total merchandise trade stood at US\$2.53 billion in 2014, of which US\$608.3 million was intra-ASEAN trade.

FDI and Services Sector

- **ASEAN is one of the key destinations for FDI into the Asia region (US\$136.2 billion in 2014).**
 - European Union (EU-28) - the top source of FDI (21.5 % of inward FDI)
 - Japan (9.8 per cent); United States (9.6 per cent); China (6.5 per cent).
 - Intra-ASEAN FDI continued to grow (US\$24.4 billion in 2014 or around 17.9 per cent of total inward FDI into ASEAN).
- **Intra-ASEAN FDI** constituted a significant component of the region's total FDI inflows.
- **The services sector now accounts for the largest share of the region's economy and equally is the biggest recipient of FDI inflows.**
 - **On tourism**, the region welcomed a large influx of tourists in 2014 (105 million of international tourists).

A FEW STATISTICS ... (Cont.)

- **Free flow of goods through ASEAN Trade in Goods Agreement (ATIGA)**
- **Removal of tariffs:** To date, import duties for 99.20% and 90.85% of tariff lines have been eliminated by ASEAN-6 and CLMV (Cambodia, Lao PDR, Myanmar and Vietnam) respectively while the ASEAN tariff elimination across all ten ASEAN member states stands at 95.99%. CLMV had committed to abolish their import duties by 2015, with some flexibilities until 2018.

EXPECTATIONS FOR JANUARY 1ST 2016 AND THE NEXT MILESTONES

- "The formal establishment of the AEC by end-2015 marks a major milestone in ASEAN's effort to fulfill the goal of an integrated region.....The implementation of the AEC measures does not mean that ASEAN will become a single economic entity by 1 January 2016, rather it sends a strong signal that positive measures have been put in place towards a more liberalised and integrated economic region," *Quote of ASEAN Economic Ministers.*
- It should be seen as a "work in progress".
 - The AEC 2015 is not the end-goal but, rather, marks a new phase in ASEAN economic integration.
 - ASEAN economic community building will continue progressively under the post-2015 agenda.

AEC DEVELOPMENT - EVENTS OUTSIDE THE BORDER

- **ASEAN has forged economic linkages with external partners through free-trade and comprehensive economic partnership agreements (FTAs and CEPAs).**
 - China, the Republic of Korea, Japan, India, Australia and New Zealand
- **Rise of the Mega Free Trade Agreements – RCEP/ TPP - *Boosting ASEAN's trade to the next level.***
- **The Chinese led RCEP is a proposed Free Trade Agreement between ASEAN nations and ASEAN's FTA Partners. The agreement involves 16 countries, which makes up 45% of world population and contributes a third of the world's GDP in total.**
 - The negotiations for the RCEP are expected to be concluded by mid-2016.
- **The US led Trans-Pacific Partnership (TPP) is a regional agreement just concluded by 12 countries. TPP will bring together 40% of the global economy and one third of world trade.**

AEC DEVELOPMENT - Other Major Accomplishments in External Economic Relations

- Commencement of the Upgrading of ASEAN-China FTA;
- Finalisation of the Third Protocol to Amend ASEAN-Korea Trade in Goods Agreement; Finalisation of the modality for further liberalisation of sensitive products under AKFTA;
- Signing and entry into force of ASEAN-India Trade in Services and Investment Agreements;
- Signing and arrangements for the implementation of the Protocol to Amend the Agreement establishing the AANZFTA;
- Endorsement of the ASEAN Qualifications Reference Framework;
- Finalisation of the Post-2015 ASEAN-Russia Trade and Investment Cooperation Work Programme;
- Finalisation of the 2016-2020 ASEAN-Canada Trade and Investment Work Plan.

AEC DEVELOPMENT – EVENTS INSIDE THE BORDER

- **Cambodia is not like other AMS, in terms of size, population, geography, stage of development policies, economic pre-conditions.**
 - A small country emerging from a very difficult period 20 years ago, starting from scratch, in terms of human, financial and technical infrastructure.
 - Embracing since the Paris Peace Accords in the early 90s a very open economic policy as well as an aggressive trade liberalization policy.
 - ODA has been helpful for public investment but not enough to stimulate growth.
 - Joining ASEAN in 1999 was a good beginning, followed by a fast track accession to the WTO in 2014.
 - Ten years after the entry to the WTO, the excitement effect started to taper off.
- **AEC will give Cambodia another serious boost to stimulate a second wave of reforms to capture the full benefits from ASEAN integration.**

AEC DEVELOPMENT - Cambodia and AEC Mutual Recognition Agreements

- **Regional competitiveness and productivity can be boosted by skills mobility through MRAs of select sectors.**
- Eight MRAs have been concluded: engineering services, nursing services, architectural services, medical practitioners, dental practitioners, framework for surveying qualifications, accounting services and tourism professionals.

AEC DEVELOPMENT - Cambodia and AEC Mutual Recognition Agreements

- **Movement of 'regulated professions'** (e.g., nurses)
 - not easy due to the differences in underlying legal schemes, education systems, and quality standards, as well as the hesitation of established domestic constituents (i.e., professional associations).
- **Movement of 'unregulated professions'** (e.g., tourism professionals)
 - the differences in legal and education systems matter much less than in regulated professions.

AEC DEVELOPMENT - Cambodia and AEC Mutual Recognition Agreements

- While the MRA may facilitate the movement of professionals across the region, other regulations aside from professional regulation (e.g., immigration or employment regulations) may practically block such movement.
- MRAs are not expected to override local laws, instead, the agreements are applicable only in accordance with prevailing laws and regulations of the host country.
- The ASEAN MRAs adopt different approaches, reflecting the varying nature of the provision of these services and the realities of regulatory regimes across the AMS.

AEC DEVELOPMENT - Cambodia and AEC Mutual Recognition Agreements

- **Regional registration systems for Architectural and Engineering Services:**
 - **No large-scale movement of these professionals for many reasons, such as existence of alternative legal schemes and small additional benefits of ASEAN MRAs.**
 - Many professionals (e.g., architects) are actually working as corporate employees rather than independent practitioners of professional services and often do not need local licenses so long as they have foreign licenses or proper education.
 - In many countries, an architect does not need to hold a local license to work in a construction company as a corporate employee so long as he/she does not sign a legal document certifying that the construction design complies with the local regulations.

AEC DEVELOPMENT - Cambodia and AEC Mutual Recognition Agreements

■ Engineering Services, December 2005

- Regional registration systems are in place. **Three-step registration system: home country registration, ASEAN registration, and host country registration.**
- The Cambodian Law on Investment allows foreigners to work by obtaining a work permit from the Ministry of Labour and vocational training based on investment license.

■ Architectural Services, November 2007

- Regional registration systems are in place.
- Cambodia is still waiting for the approval by the ASEAN Architect Council (AAC).

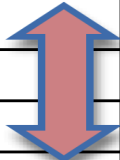
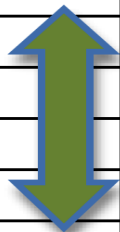

AEC DEVELOPMENT - Cambodia and AEC Mutual Recognition Agreements

- **Nursing Services**, December 2006
- **Medical Practitioners**, February 2009
- **Dental Practitioners**, February 2009
 - No regional registration system - movement of nurses in only a few countries.
 - According to the Law on Investment, foreigners can work in approved investment projects such as hospitals or polyclinics provided that they obtain approval from the Ministry of Labour.
- **Framework for Surveying Qualifications**, November 2007
 - Still a framework and has not yet been implemented. Still exploring possible ways towards ASEAN-wide recognition of surveying professionals.
- **Framework for Tourism Professionals**, November 2012
- **Framework for Accounting Services**, November 2014
- **ASEAN Qualifications Reference Framework**

AEC DEVELOPMENT - Products and services standards

- **ASEAN has embarked upon focused efforts to deepen and accelerate integration in the identified Priority Integration Sectors (PIS) with mixed results.**
- **Notable achievements in four natural-resource (NRB) based PIS – agro-based products, fisheries, rubber-based and wood based products.**
- **Significant progress has been recorded in regulatory and standards harmonisation and positive trade performance in the priority integration sectors and subsectors of cosmetics, pharmaceuticals and electrical equipment and electronics (EEE).**

AEC DEVELOPMENT - Products and services standards

CAMBODIAN AND ASEAN PRIORITY INTEGRATION SECTORS	
ASEAN 12 PRIORITY INTEGRATION SECTORS	CAMBODIA PRIORITY INDUSTRIAL SECTORS
Agro-based Fisheries Textile and Apparel 	Existing Core Sectors: Garment Manufacturing, Agro-Processing and Food Processing.
Rubber-based Wood-based Automotive Electronics 	Emerging industries with growth potential: Rubber Processing, Furniture and Handicrafts, Construction Materials, Metal Fabrication and Tooling, Plastics, Automotive and Light Manufacturing and Spare Parts, Electronic Components and Household Appliances, Extractive Industries.
Healthcare e-ASEAN/ICT 	Areas of Latent Comparative Advantage: Software and IT Development, Pharmaceuticals, Chemical Industry, Renewable Energy, and Creative Industries.
Air transport	<i>Supporting sector</i>
Tourism	
Logistics	<i>Supporting sector</i>

AEC DEVELOPMENT - Products and services standards

Concrete Achievements

- **Automotive industries:** Harmonisation of standards using United National Economic Commission for Europe (UNECE) provided a common platform for the automotive sector in moving forward towards common technical requirements is critical to deeper integration.
 - 51 internationally recognised standards and regulations for automotive.
- **Electrical and Electronic Equipment:** Progress has been made in the area of standards and conformity assessment under the Agreement on ASEAN Harmonised EEE and ASEAN Harmonised Electrical and Electronic Equipment Regulatory Regime (AHEEERR).

AEC DEVELOPMENT - Products and services standards

Concrete Achievements

- **Fishery:** Equivalence of fishery products inspection and control systems to enhance trade of fishery products.
- **Rubber:** 46 ISO Method of Test Standards to be harmonised and 60 laboratories to be accredited.
- **Wood-based sector:** 34 ISO standards have been identified for harmonisation, which consist of wood-based panels (12 units), sawn timber (10 units), and flooring products (12 units).
- **Telecommunication:** The next ASEAN ICT Masterplan (2016-2020) is planned to be launched this month.

AEC DEVELOPMENT - Products and services standards

Concrete Achievements

■ Health sector:

- Standard harmonisation on Bioequivalence (BE) study and Good Manufacturing Practice (GMP) in the pharmaceutical sector.
- Introduction of the ASEAN Harmonised Cosmetic Regulatory Scheme (AHCERS) and the Post Market Surveillance Notification System assure safety and quality information.
- The MRA on GMP Inspection for Manufacturers of Medicinal Products has been implemented since 2011.
- ***Traditional Medicines (TM) and Health Supplements (HS):*** Harmonisation of 17 out of nineteen (19) technical requirements has been completed. These technical requirements will form an integral part of the ASEAN Agreements on TM and HS that are anticipated to be finalised in 2016 for signing in early 2017.

AEC DEVELOPMENT - ASEAN and the National Single Window

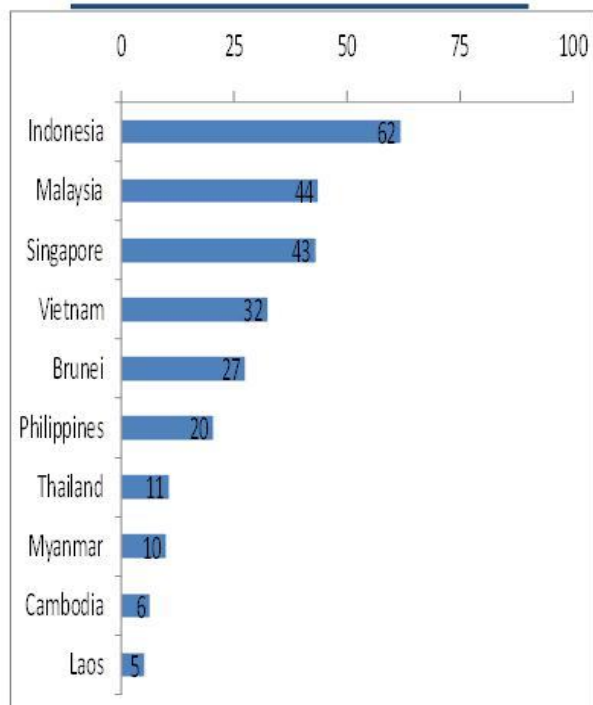
- The ASEAN Single Window is the result of an agreement by ASEAN Member States to connect the 10 national single windows into a Single Window. Each national window will expedite border clearance of goods by providing traders a single point for submitting clearance documentation and data.
- **The ASEAN Single Window is a key deliverable for the organisation under AEC. But prior to that, each of the ten countries need to set up their National Single Window (NSW).**

AEC DEVELOPMENT - Non-Tariff Barriers (NTBs)

NTMs by ASEAN member state

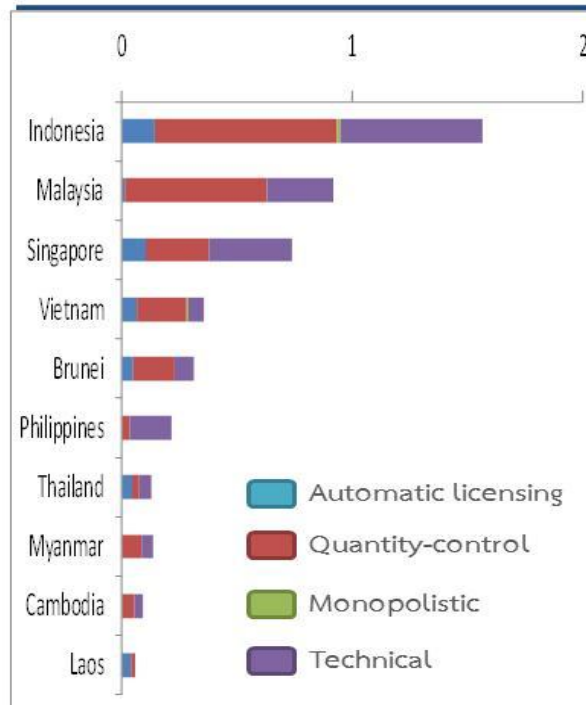
How much products are affected by NTMs?

Number of products where there is at least 1 NTM imposed, %



Which NTMs are imposed?

Average number of NTMs imposed
Classified by NTM type



ARE CAMBODIAN COMPANIES/SMES READY? FICTION AND REALITY

- **The concerns or perception of concerns: Cambodian SMEs are worried that they will soon face increased competition and in the process vulnerable firms may be eliminated leading to job losses.**
- **The main constraints of SMEs are lack technical and managerial capabilities, access to greater markets, access to finance, skilled workers, and lack of access to information and network.**

ARE CAMBODIAN COMPANIES/SMES READY? FICTION AND REALITY

- ***What does AEC mean to Cambodian SMEs vis-a-vis other ASEAN SMEs?***
- The engine of ASEAN economy will be accordingly driven by ASEAN firms and ASEAN citizen. The difference of rules, regulations and barriers will be diminished and standardized among the ASEAN Member State (AMS).
 - Socio-economic heterogeneity such as race, language, religion, culture, etc. will be recognized as a benefit not a burden.
- **ASEAN initiatives:**
 - ASEAN Benchmark for SME Credit Rating Methodology,
 - SME Service Centre,
 - ASEAN Market Place,
 - ASEAN SME Policy Index
 - ASEAN Common Curriculum for Entrepreneurship.

WHAT WE TAKE FOR GRANTED

- *What have we take for granted from the WTO accession days?*
- **Cambodian consumers** are the silent majority that benefit from access to cheaper and wider range of imported goods and services.
- **A single market and production base requires competitive regulatory frameworks and the necessary infrastructure in place.**
- **Construction of ‘missing transport links’** and upgraded roads under the ASEAN Highway Network (AHN) and **Tsubasa Bridge**
- **Open skies policy** as part of the ASEAN Single Aviation Market (ASAM) aims at providing competitive space for expansion and opportunities for regional air travel.
- **Cambodian businesses, including SMEs**, have benefited from larger market access and lower input costs through elimination of tariffs on goods and improved access on services; improved trade facilitation; rationalized rules of origin, product and technical standards.
- Access to **ASEAN capital, investment, technology, technical assistance, professional experiences and expertise.**

ARE CAMBODIAN COMPANIES/SMES READY? FICTION AND REALITY

- ***SMEs collaboration with investment partners from ASEAN +++***
- ***SMEs should prepare and explore the opportunities to engage in a broader production network through supply chain links among the ASEAN firms.***
- Development of “Made in ASEAN” products.
- SMEs must make their business to understand the overall economy, government policies, market characteristics, tariff and non-tariff systems, business behavior, work ethics, and so on.
- Business matching and networking, franchising.

ARE CAMBODIAN COMPANIES/SMES READY? FICTION AND REALITY

- **Impact of the upcoming new investment law ?**
 - Promoting SMEs participation in sector-focused supply chain
 - Participating in inter-firm linkages and strategic supplier partnerships - Japanese automotive companies.
- **Role of financial institutions**
 - Other financial instruments/private equity, real estate as assets for joint venture with FDI
- **Language matters!**
 - "English is the working language of ASEAN".

CONCLUSION

- **The AEC may not be able to deliver immediately on a fully integrated single market and production base for ASEAN Member States, but it will likely be a stronger group of nations on many counts.**
- **Continued efforts under the Post-2015 agenda to implement economic integration initiatives embodied in the AEC will have a significant, positive influence on trade and FDI, promoting overall economic growth as well as stimulating structural transformation in Cambodia.**
- **On the whole, Cambodia appears to be the most prepared for integration, given its free and open economy.**
- **Though AEC is a regional initiative, implementation of AEC commitments depends on national-level action.**