

AEC 2015: Benefits and Challenges for Cambodia

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**At the Seminar on
“ASEAN Economic Community 2015”**

Organized by the Ministry of Commerce and Funded
by Trade Development Support Program (TDSP)
16 September 2014, Dara Airport Hotel,
Phnom Penh, Cambodia

ASEAN Members

- Established on 8 August 1967, ASEAN comprises of 10 ASEAN member countries (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam).
- Cambodia has become the last ASEAN member in April 1999; It is now 15 year for Cambodia in ASEAN.

ASEAN Economic Community (AEC)

- Nov. 2007, ASEAN Leaders have agreed to establish ASEAN Community by 2015, including establishment of AEC by end of 2015.
- The AEC is designed to establish ASEAN as a single market and production base and making ASEAN more dynamic and competitive.
- An ASEAN single market and production base comprises five core elements: (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) freer flow of capital; and (v) free flow of skilled labour;

Key Economic Data of ASEAN

	1990	2000	2012
Total GDP (US\$ Billion)	334.1	606.4	2,311.3
Avg GDP per capita (US\$)	760.9	1,172.4	3,748.4
Total Trade (US\$ Billion)	306.4	759.1	2,476.4
Intra-Trade (US\$ Billion)	144.1	166.8	602.0
FDI Inflows (US\$ Billion)	12.8	21.8	110.3
FDI Inflows (% of Global Inflows)	6.2	1.6	8.2
Population (Million)	317.2	517.3	617.2
Poverty Rate (% Population Living Below US\$1.25 per day)	45.0	33.0	15.3
Infant Mortality Rate (per 1,000 live births)	27.3	35.9	22.4

Key Economic Data of Cambodia

	2000	2012	2013
Total GDP (US\$ Million)	3,649	14,199	15,250
Avg GDP per capita (US\$)	295	971	1,043
Total Trade (US\$ Million)	2,772	14,442	18,479
FDI Inflows (US\$ Million)	218	2,283	4.483
Population (Million)	13	14.37	14.6
Poverty Rate (% Population Living Below US\$1.25 per day)	37	18.9	
Infant Mortality Rate (per 1,000 live births)	80	33.9	

RGC Decision to join ASEAN

- RGC decision to join ASEAN and its various economic initiatives as well as the World Trade Organization (WTO) was the right and visionary decision.
- As a small economy, Cambodia needs to integrate into regional and world economies in order for goods produced in Cambodia to better compete in the world market and to better compete for foreign direct investment as well.
- Multinational companies have been seeking to invest and do business in the country where they can produce and export goods at a competitive price to the world market and take advantages of economy of scale.

Cambodia Is An Attractive Country

- Cambodia is one of attractive countries in the region for FDI because of the good location, labor cost, greater market access through Generalized System of Preferences (GSP) to EU, Canada, and other developed and developing countries as well as in ASEAN and ASEAN plus one Free Trade Agreement (FTA) with China, Japan, Korea, Australia, New Zealand and India.
- ASEAN has been negotiating Regional Comprehensive Economic Partnership (RCEP) since May 2013. RCEP is an ASEAN plus 6 FTA, involving all ASEAN Dialogue Partners which have done bilateral FTA with ASEAN so far. RCEP represent almost half of the world consumers.

Free Flow of Goods

- Through ASEAN Trade in Goods Agreement (ATIGA), original ASEAN member states (ASEAN-6), had eliminated their customs duties for 99.65% of the total tariff lines since 1st January 2010.
- For new ASEAN member states (ASEAN-4), they had reduced their customs duties to a maximum of 5%. CLMV committed to abolish their import duties by next year, with some flexibility until 2018.

Free Flow of Goods

Beside the elimination of import duties, ASEAN has been working to eliminate non-tariff barriers (NTBs), allowing exporters to do self-certification, implementing ASEAN Single Window, which is a single point of decision for release of cargo, and harmonizing standards of goods traded in ASEAN.

Free Flow of Services

- **For the free flow of services**, through ASEAN Framework Agreement on Services (AFAS) and ASEAN Agreement on Movement of Natural Persons, there will be substantially less restriction to ASEAN services suppliers in providing services and in establishing companies across national borders within the region.
- But it is subject to domestic regulations like national labour law in ASEAN member states.
- ASEAN has already signed 7 Mutual Recognition Arrangements (MRAs) for professional services such as Engineering Services, Architectural Services, Accountancy Services, Medical Practitioners, Dental Practitioners, Nursing Services and Surveying Professionals.

Free Flow of Investment

- ASEAN has been working to create an integrated investment region by harmonizing investment rules and progressively reducing investment restrictions through an improved Investment Agreement called ASEAN Comprehensive Investment Agreement (ACIA) and adoption of international best practices in investment.
- ACIA covers the 4 pillars of investment liberalisation, protection, facilitation and promotion.
- Further liberalisation will be made to improve the investment regime or eliminating the investment impediments.
- Facilitation measures are undertaken to improve the investment environment – in terms of ease and cost of doing business.

Other Economic Activities under AEC

- Other economic activities under AEC have been undertaken in the following areas: finance, tourism, agriculture, forestry, competition, consumer protection, intellectual property rights, transport, information & communication technology (ICT), energy, and SME.
- In this connection, a number of Senior Officials from relevant Ministries and Agencies of the Royal Government of Cambodia are going to make their respective presentations during this today Seminar.

AEC Benefits for Cambodia

- Based on the results of a study on the “**Realizing AEC: a Comprehensive Assessment**” made by Professor Michael G. Plummer from the Johns Hopkins University and Ms. Chia Siow Yue from Singapore Institute of International Affairs in 2009, AEC should lead to a 5.3% increase in regional welfare (\$69 billion) due to elimination of NTBs, lower trade costs, and anticipated increases in FDI.
- Additional likely benefits (e.g., with free movements of skilled labor, standardization and harmonization, best practices, and greater macro stability) will significantly increase the potential gains. All ASEAN Member States and stakeholders will gain.

AEC Benefits for Cambodia

➤ Potentially, **Cambodia, Laos, Myanmar and Vietnam** stand to gain the most due to the liberalization and reform efforts to improve efficiency and competitiveness, e.g., by leveraging the AEC to undertake politically sensitive domestic reforms; access to ASEAN capital, investment, technology, technical assistance, development experience and best practices; **greater participation in global production networks and value chains**; greater leverage in regional and international negotiations.

AEC Benefits for Cambodia

For ASEAN businesses, including SMEs: they stand to benefit from larger market access and lower input and transaction costs through elimination of tariffs and NTBs on goods and improved regulatory environment on services; improved trade facilitation such as customs, logistics, transportation connectivity (ASEAN Highways Network, Air Service Transport) and ICT; rationalized rules of origin, product and technical standards.

AEC Benefits for Cambodia

- **For ASEAN professionals and labor:** free regional mobility of skilled labor will benefit countries having skills shortages. Professionals and skilled workers are able to find better employment opportunities and improve earnings potential. In addition, labor in expanding industries, services and firms will benefit from increased employment and higher wages.
- **For ASEAN Consumers:** they are the majority that benefit from access to cheaper and wider range of imported goods and services, a more competitive domestic market environment and consumer protection.

AEC Benefits for Cambodia

- **In addition, for Cambodia** as a Least Developed Country (LDC) in ASEAN, EU allow Cambodia to use inputs from ASEAN Member States, except Brunei and Singapore, to produce goods in Cambodia and export to EU market duty-free and quota-free. Goods like garment, shoes and bicycle manufactured in Cambodia are example of these benefits.
- Furthermore, Cambodia like other new ASEAN Member States has benefited from technical assistance provided by ASEAN-6 and other ASEAN Dialogue Partners like US, EU, Japan, China, Korea, Canada, and so on in terms of fund, hardware, capacity building program, study visit and training courses.
- Last but not least, as a Member of ASEAN, Cambodia has 9 friends and we are stronger when working and negotiating together.

AEC Challenges for Cambodia

There are a number of challenges that Cambodia and other ASEAN Member States as well have been facing as a member of ASEAN. They are for example:

- Loss of import revenues when import tariffs are eliminated or reduced to maximum 5%;
- Carry out reform to comply with ASEAN Agreements resulting in increased transparency, reduction of cost for doing business;
- Goods produced in Cambodia need to meet international standards. Without this, it would be difficult to find buyers and get better price;

AEC Challenges for Cambodia continued...

- Improve education to meet the demand. Quality education is vital to compete in the region and world-wide;
- Limited financial resources to participate actively in all ASEAN Economic Activities;
- Do more awareness campaign about AEC 2015. It is useful to promote understanding about ASEAN Community, especially AEC by end 2015 and beyond;

What next for AEC after 2015?

- ASEAN is developing AEC 2025 and beyond. ASEAN want to deeper and consolidate ASEAN economic cooperation in the region, with ASEAN Dialogue Partners and the rest of the world;
- ASEAN need to implement AEC Measures that ASEAN may not be able to finalize by the end of 2015 and implement new measures to achieve ASEAN Goals.

Thank You Very Much