



Cambodia Outlook Brief*

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Promoting Intra-regional Connectivity for Economic Growth: Cambodia and ASEAN in 2012¹

“I urge and encourage regional and national academic institutions, all industry and business associations, development partners and social and international organisations to join the ASEAN governments to further intensify efforts to achieve our common endeavour to create a fully integrated ASEAN single market and production base for boosting the prosperity of the region.”

*H. E. Cham Prasidh, Senior Minister
Ministry of Commerce, Royal Government of Cambodia*

ASEAN and Regional Economic Growth

This year Cambodia assumed the rotating Chair of ASEAN, with the opportunities it affords, for the first time since 2002. The Chair will provide a platform for Cambodia to mould the form of one of the region’s most influential institutions. The overriding goal will be to further build bridges and break down barriers between member states towards greater intra-regional cooperation, and to provide stronger links with external partners.

The linkages that ASEAN embodies are becoming ever more important as the region enters a period of rapid change and fundamental rebalancing in the global economic landscape. Seismic structural changes are taking place, with Asia emerging as a leading powerhouse of global economic growth.

Asian growth poles present new opportunities across the region at a challenging time. Sovereign debt crises and weak growth in advanced countries are reducing global demand, narrowing growth opportunities. But

increased regional interconnectivity and cooperation will yield new trade linkages and additional sources of demand from some of the world’s largest, fastest growing and most dynamic economies.

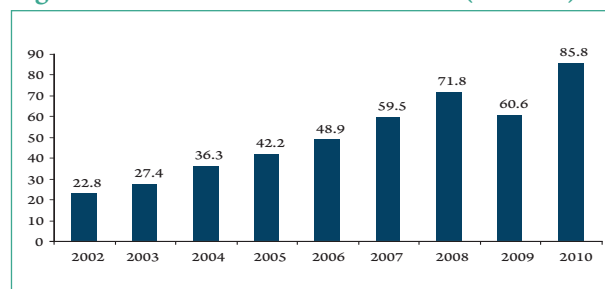
ASEAN economies are already becoming less trade dependant on Europe, Japan and America, and are increasingly looking closer to home for potential export markets.

Over the last decade, intra-ASEAN trade has grown remarkably despite competition from China and the newly industrialised economies (Figure 1). Intra-regional trade within the ASEAN-5 now accounts for around 24 percent of total trade with the rest of Asia (excluding Japan).

ASEAN has also provided an effective platform for member states to connect with other strategic economies. It has been especially active in fostering links with other Asian partners, thus providing another

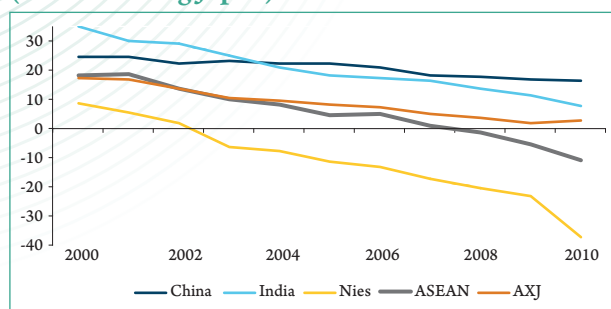
¹ This is a summary of the 2012 Cambodia Outlook Conference presentations by H.E. Cham Prasidh, Senior Minister, Ministry of Commerce, Royal Government of Cambodia; Mr Aninda Mitra, ANZ Head of Economics, Southeast Asia; and extracts from the speech of Samdech Akka Moha Sena Padei Techo HUN SEN, Prime Minister of the Kingdom of Cambodia.

Figure 1: Intra-ASEAN-5 Trade Flows (USD bn)



Source: Mr Aninda Mitra’s Cambodia Outlook Conference presentation, 16 February 2012

Figure 2: Difference between Share of Exports to Advanced Economies (EU, Japan, US) and AXJ (Asia excluding Japan)



Source: Mr Aninda Mitra's Cambodia Outlook Conference presentation, 16 February 2012

form of insulation to the crises that have engulfed the traditional export markets of the EU and US.

Figure 2 shows a clear trend of traditional export markets in advanced economies being replaced by new sources of demand within Asia. In particular, ASEAN and the newly industrialised economies now rely on exports to Asian countries as a greater source of growth.

Intra-ASEAN Trade, Investment and Mobility

It is often said that one of the foundations of economic development is the elimination of geographical distance and time between services, processes of production and markets.

A farmer in Mondulkiri, for example, is restricted in his capital generating potential if market opportunities are limited to his village. But with improved transport links, the time, distance and associated transport costs between the field and national markets decrease. With free trade agreements (FTAs) in place this produce can supply regional and global markets, greatly increasing the scope of business, investment and hence increases in productivity.

Regional interconnectivity is primarily about reducing distance and time, both within ASEAN and between ASEAN member states and global markets, by upgrading communications and transport infrastructure, and breaking down institutional and policy constraints to increased socioeconomic interaction.

ASEAN has put great emphasis on removing policy and institutional barriers to trade between member states. Liberalising tariff regimes in the region has been a key aspect of these reforms. As of 1 January 2010, the ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand) eliminated import tariffs for ASEAN originating products on 99.65 percent of tariff lines. Cambodia, Laos, Myanmar and Vietnam

have reduced tariffs on 98.86 percent of their traded lines to within the range of 0-5 percent.

Cumbersome and inefficient cross-border procedures have been streamlined by developing an ASEAN Single Window (ASW) customs service. Traders will be spared the time, money and inconvenience of obtaining appropriate paperwork from a number of agencies, instead requesting the requisite clearance from a single authority.

ASEAN has implemented the First ASW Pilot Project and is now in the process of preparing the second. Cambodia will initiate its National Single Window (NSW) service, which will form the basis for its participation in the ASW, in the 4th quarter of 2012.

The services sector, particularly the financial service industry, is a key source of growth across the region. To liberalise the trade of services in the region, all 10 member states have fulfilled the commitments for the ASEAN Framework Agreement on Services (AFAS). This agreement includes commitments to open up market access in at least 65 services sub-sectors.

Intra-regional investment has been facilitated by the ASEAN Comprehensive Investment Agreement (ACIA), which is to be implemented in the first quarter of 2012. The ACIA is a single investment document covering the liberalisation, promotion and protection of investments by ASEAN investors and ASEAN-based foreign investors. Eliminating investment restrictions will attract more investment, encourage competition and increase efficiency in the region's economies.

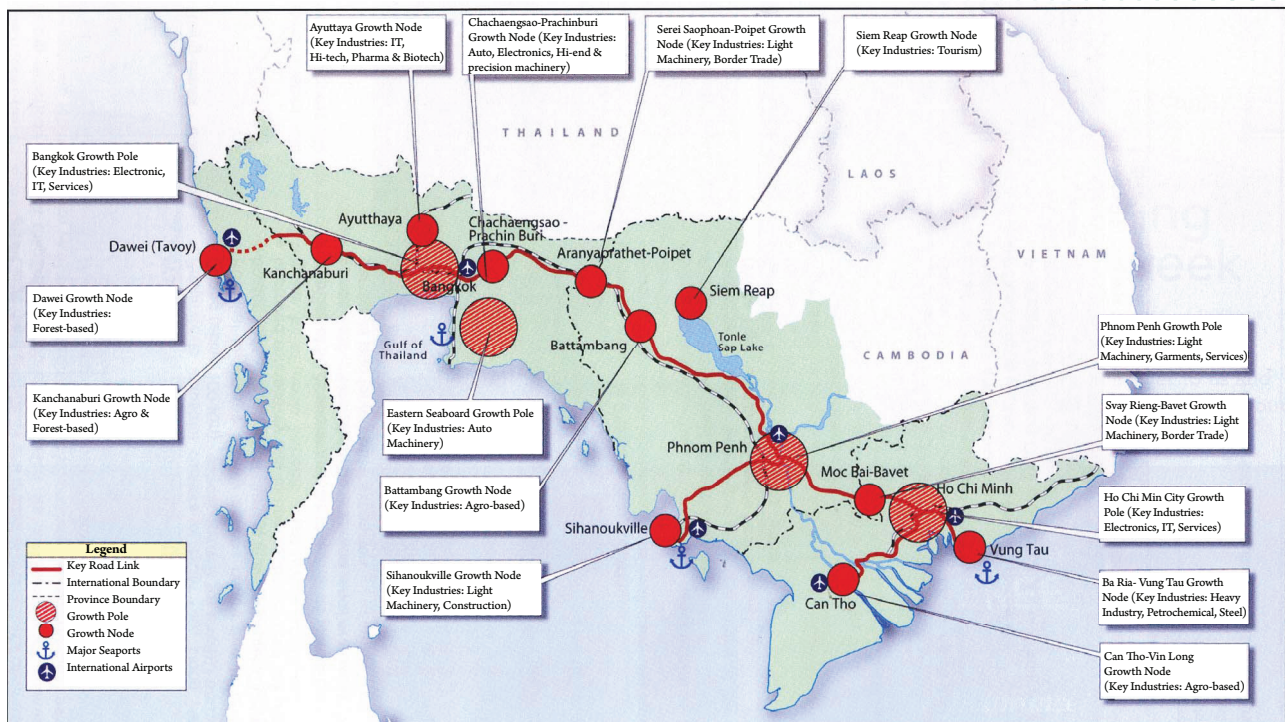
It is crucial to facilitate the mobility of skilled labour to reflect the increasing economic dynamism of ASEAN and optimise its labour force productivity. To this end ASEAN has implemented seven professional services through Mutual Recognition Arrangements (MRAs) in the areas of engineering, architecture, nursing, medicine, dentistry, accountancy and surveying.

ASEAN has also been working to finalise an agreement on the Movement of Natural Persons in ASEAN, to be implemented in August 2012, which aims to ease movements of people trading in goods, services and investment.

Policy reforms have been complemented with initiatives that have sought to overcome the physical barriers between nations by upgrading hard infrastructure. Member states, especially the less developed economies, have been active in upgrading and constructing roads, railways and communications to improve regional connectivity.

The Southern Economic Corridor (Figure 3), for example, is the result of increased cooperation

Figure 3: Upgrading Infrastructure in ASEAN Region



Source: H.E. Dr Chhun Naron's Cambodia Outlook Conference presentation, 16 February 2012

in the Greater-Mekong Sub-region (Cambodia, Laos, Myanmar, Thailand and Vietnam). This initiative entailed a range of measures designed to promote connectivity within ASEAN, including the improvement of road and rail links between Cambodia and regional manufacturing hubs, cross-border electricity cooperation, and the upgrading of regional telecommunications and ICT infrastructure.

The flagship project is the rehabilitation of Cambodia's railway network. Once this is finished in 2013, the mainline from Kunming to Singapore will be fully operational.

Linking ASEAN to Global Economic Networks

A strong ASEAN provides member states with an effective platform from which to engage with Asian markets and beyond. Indeed, there have already been a number of agreements that facilitate increased economic interaction between member countries and other strategically important economies throughout the world.

ASEAN has negotiated a number of FTAs that have the potential to greatly improve the export profiles of member countries. Under the ASEAN-China FTA (ACFTA), more than 90 percent of all tariff lines of ASEAN-6 and China can be traded duty-free. The ASEAN-Korea FTA (AKFTA), between the ASEAN-5 and Korea, has eliminated tariffs on almost 100 percent of products included in the normal track. The ASEAN-

Australia-New Zealand FTA implemented in 2012 is the most comprehensive agreement concluded so far.

The ASEAN Framework for Regional Comprehensive Economic Partnership (RCEP) seeks to broaden and deepen its engagement with external partners beyond the scope of FTAs, to include trade in services, investment as well as other areas of economic cooperation. The ASEAN-Japan Comprehensive Economic Partnership (AJCEP) and the ASEAN-India Trade in Goods Agreement both include measures to facilitate trade in services and investment.

The RCEP's dynamic framework also provides a mechanism through which ASEAN and its external partners can address trade and investment issues as they emerge.

Outside of the Asian region, ASEAN has also been actively pursuing agreements to foster increased economic interaction. The ASEAN-Canada Joint Declaration on Trade and Investment will promote trade and investment through business-to-business networking events and the organisation of an ASEAN-Canada Business Summit. The Trade and Investment Framework Agreement (TIFA) was signed with the United States in 2006. New developments include the organisation of the ASEAN-US Trade and Environment Forum, the ASEAN Roadshow to the United States, the ASEAN-US Digital Dialogue and the ASEAN-US Healthcare Services Forum.

Dialogue with the European Union has also improved – the first ASEAN-EU Business Summit

(AEBS) was successfully held last year and a second has now been scheduled. In addition, consultations between the ASEAN economic ministers and the EU Trade Commissioner will be held back-to-back with the 20th ASEAN Summit in Phnom Penh in April 2012, providing an opportunity for companies to network and address important issues.

ASEAN has recently started a dialogue with Russia. The first Meeting of the ASEAN-Russia Joint Experts Group held in Phnom Penh in October 2011 was to prepare a comprehensive roadmap towards enhancing ASEAN-Russia economic and trade relations.

The Road to ASEAN Economic Community 2015

The core challenge for Cambodia as Chair of ASEAN will be to enable the organisation to reach its goal of a single ASEAN Economic Community (AEC) by 2015. To this end Cambodia must work to ensure that member states stay on track with the ASEAN Community 2009-2015 roadmap under the banner of “ASEAN: One Community, One Destiny”.

The roadmap stipulates that member states must deliver 111 policy reforms as part of the first phase of AEC implementation (2008-2009); however, on average each member state has completed only 83.8 percent of the requisite reforms. The second phase of the roadmap (2010-2011) requires a further 189 measures to be taken, but on average only 68.6 percent of these have been implemented. Cambodia must strive to encourage better participation across the region in this crucial endeavour.

Cambodia must also engender a greater role for the private sector in ASEAN processes and policy making, and better utilisation of the benefits of ASEAN FTAs and bilateral trade and cooperation relationships.

Industry players throughout the region must be mobilised through appropriate national industry groups to play a more proactive role in developing common standards, technical regulations and assessment requirements not only within ASEAN, but also between ASEAN and FTA partners.

Unity and harmonisation among members provide the foundations for ASEAN. Greater efforts, therefore, should be made to narrow the development gap between ASEAN and the lesser developed economies of Cambodia, Laos and Myanmar through mutual assistance and cooperation.

The ASEAN Regional Forum, ASEAN+3 and East Asian Summit processes provide excellent opportunities to promote cooperation, peace and security in the region, to prevent conflicts and resolve tensions, and to respect and safeguard the interests of both the big and small nations of the region. ASEAN partners and others in the region should support Myanmar to achieve its aspirations and assume its rightful role in ASEAN.

ASEAN cooperation is also vital in addressing social ills across the region. Cambodia must remind members of their commitments to poverty reduction according to the ASEAN charter, and work to promote nuclear non-proliferation, tackle terrorism, prevent human trafficking and address the real threat of climate change.

ASEAN should also be playing a more active role in international issues. This requires a stronger commitment by its members and better resources, with bigger roles for the ASEAN Secretary-General and the Secretariat and greater continuity between chairships.

Cambodia has been an eager proponent of regional interconnectivity. More than most, it has made policy reforms to align itself with the AEC 2015 roadmap, fulfilling 95.33 percent of reforms required for phase one and 76.30 percent of those demanded for phase two. In both cases this is significantly higher than the ASEAN average.

The real challenge for Cambodia will be developing institutional capacity to implement policy transparently and effectively. As ASEAN becomes a single market and flows of goods, services and people increase, this will become particularly important if intra-regional networks are to optimise the Cambodian economy. Targeted institutional capacity building, therefore, is integral to the country’s medium to long-term success in the AEC.

The Chair of ASEAN affords Cambodia the opportunity to make a lasting and positive impact on the institution. The Prime Minister’s vision for ASEAN is a strengthened organisation with stronger commitments from members, better resources and an enhanced organisational structure. These changes will enable the institution to more effectively contribute to global policy agendas - an important role in today’s challenging global economic landscape.

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