

# INDO-PACIFIC STRATEGIC REVIEW

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# The AEC and the Prospects for Cambodian Entrepreneurs

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When the ASEAN Economic Community (AEC) was adopted at the 13th ASEAN Summit on 20 November 2007 in Singapore, the expectation of the Leaders was high as they saw the AEC as a platform to transform ASEAN into a region with free movement of goods, services, investment, skilled labor and freer flow of capital by 2015. The vision for the AEC was set against the backdrop of a dynamic yet threatening global economic landscape. Across some ASEAN economies there were only a few production networks in key industries, like electronics, automobile, and textiles. The fear of China becoming the "factory of Asia," with its accession into the World Trade Organization (WTO) in 2001, accentuated the situation.

The psychological, as much as the economic, effects of this ambitious vision became clearly obvious a few years later. ASEAN's total GDP reached US\$ 2.57 trillion in 2014, almost doubling the size of the region's economy since 2007 when the AEC Blueprint was first adopted. The growth outlook in the region remains relatively strong in a global economic environment that continues to be challenging and uncertain. With limitations to growth prospects in other parts of the world, ASEAN remains an attractive market due to ASEAN economies' robust growth rates that are generally based on sound fundamentals.

Then came the long and anxiously awaited date of January 1, 2016, when ASEAN was expected to become a single economic entity. Nothing out of the ordinary happened; life went on as usual. In the year or so leading to the formal establishment of the AEC by end-2015, the ASEAN Economic Ministers were quick to reassure the business community that the implementation of the AEC measures did not mean that ASEAN would become a single economic entity by 1 January 2016, and that rather it sent a strong signal that positive measures had been put in place towards a more liberalized and integrated economic region. It should be seen as a "*work in progress*". Already, ASEAN has adopted a Vision ASEAN

Post-2015 and the economic community building process progressively continues.

In other words, the ASEAN Community is a building process, an ongoing journey towards a destination. Perhaps a good Cambodian metaphor will help. Think of the Water Festival with hundreds of boats racing down the mighty Mekong river toward the finishing line in front of the Royal Palace. From the river bank we can see these boats rowing, some faster than others, some slower than others, but all in all the flotilla slide through the water even though there is no finishing line. The flotilla continues on.

*But what does the AEC mean for our business people and our young entrepreneurs?* Let me state the obvious: Cambodia is a trading nation. Everywhere you look, whether in the capital or in provincial urban areas, you can feel the Cambodian entrepreneurial spirit at play. Cambodia is not like other ASEAN Member States, whether in terms of size, population, geography, stage of development policies, or economic pre-conditions. Joining ASEAN in 1999 was a good beginning, followed by a fast track accession to the WTO in 2004. But more than 10 years after the entry to the WTO, the excitement effect has started to taper off. The AEC has given Cambodia another serious boost to stimulate a second wave of domestic reforms to capture the full benefits from ASEAN integration.

There is no doubt that Cambodian consumers are the silent majority that benefit from access to a cheaper and wider range of imported goods and services, a more competitive domestic market environment. Cambodian businesses, including SMEs, have benefited for their part from larger market access and lower input costs through elimination of tariffs on goods and improved access to services; improved trade facilitation such as customs, logistics, transportation connectivity and ICT; rationalized rules of origin, product and technical standards, to name just a few.

Many analysts and SMEs themselves raise concerns

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