



ASEAN

FROM VISION TO REALITY



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INSIGHTS FROM SOUTHEAST ASIA'S
BUSINESS AND POLITICAL LEADERS

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Prospects for Cambodian businesses in the ASEAN Economic Community 2025

Over two decades of reform and market opening have brought about remarkable political, security and socio-economic transformation in Cambodia. Due to two decades of protracted civil strife, including the notorious genocidal Killing Fields regime in the 1970s, the country lost more than two million of its people, including a generation of intellectuals and a skilled labour force. Cambodia restarted from near 'Ground Zero' following the Paris Peace Accords in 1991, and has since become an island of peace. It reclaimed global and regional recognition with its impressive average growth rate of more than 7 per cent over the last two decades. The World Bank ranked it as the sixth-fastest growing country in the world and praised it as one of the 'Olympians of Growth'. The International Monetary Fund described it as a fast-growing, highly open economy, and it attained lower-middle income status in 2016. With this robust growth, the Asian Development Bank recognised the country as now moving towards becoming a new 'Tiger Cub Economy' of Asia.

There is ample debate about how this phenomenal growth success story of Cambodia, as a post-crisis country, is intricately linked to economic liberalisation and regional integration. My career path over the last 24 years has enabled me to appreciate, from a rich and diverse perspective, the idiosyncratic development of the Cambodian economy and to attest that, in fact, Cambodia is such a case. Cambodia has embraced a very open de facto economic policy and pursued an aggressive trade liberalisation policy. Its membership in ASEAN in 1999 marked its first step into a regional grouping, followed by a fast-track accession to the World Trade Organisation in 2004. The realisation of

the ASEAN Economic Community (AEC) in January 2016 constituted another important milestone in the consolidation of Cambodia's long-standing economic integration process. In my view, Cambodia's economic integration in ASEAN is not only irreversible but will pick up additional momentum as the implementation of the AEC takes further root, and all the initiatives put forward under the AEC Blueprint 2025 are realised.

As much as the 'ASEAN Way' has often been criticised for being slow, consensus-driven and based on a promise of non-interference, there is also much talk about the merits of the 'ASEAN Way': its constructive role and the monumental contributions to peace, prosperity and poverty reduction it has brought to the region through its successful and inclusive geopolitical collaboration. As ASEAN celebrates its 50th anniversary and looks forward to the next 10 years with an ambitious vision of building the AEC into a highly integrated and cohesive economy, Cambodia plans to ride on this optimism to improve its investment climate and accelerate its legal and judicial reforms so as to transform the country into an attractive and competitive place to do business. Access and exposure to foreign direct investment, foreign trade, modern ways of doing business and sophisticated professional practices are all concrete contributions that the advent of the AEC has brought to Cambodia.

At the highest level of the country's leadership, Samdech Techo Prime Minister Hun Sen is clear on his government's vision and policy commitment to the strategic value of Cambodia's membership in ASEAN and other associated regional arrangements. During Cambodia's 2012 ASEAN Chairmanship, he re-affirmed the value of ASEAN and its agenda for a future community—economic, political-security and socio-cultural—as much as he did when the country acceded to the World Trade Organisation (WTO).

Without a doubt, such an established policy commitment toward the AEC has sent a strong message, laced with psychological effects, to the local business community, in particular young entrepreneurs and professionals. It instils a greater sense of self-worth, of belonging in a larger community of 10 nations, where opportunities abound beyond the confines of a small Cambodian market. To put it differently, it shatters once and for all the inferiority complex brought about by being a small market squashed between the two larger markets of Thailand and Vietnam.

Metaphorically speaking, as all three countries share the same Mekong River, I usually refer to Cambodia as a tiger prawn caught between two river lobsters.

Having said this, for years ASEAN itself has kept its focus on narrowing development gaps between the CLMV (Cambodia, Laos, Myanmar and Vietnam) and the more advanced ASEAN-6. Cambodian businesses perceive their main constraints as being related to the lack of technical and managerial capabilities, weak knowledge of external markets, inadequate access to finance, an insufficient number of skilled workers, and/or a lack of access to information and networks. Sceptics of the AEC have predicted even worse. They foresaw that Cambodian businesses will face increased and stiffer competition and in the process vulnerable firms may collapse. While there is some truth to this premonition, the reality is that the AEC, combined with Cambodia's de facto and de jure economic openness, generally taken for granted by the vast majority, has led to increased access by local firms to ASEAN capital, investment, technology, professional experience and expertise, and broad technical assistance.

What transpired was a gradual paradigm shift from fear of overwhelming competition to a collaboration, cooperation or partnership mindset with ASEAN partners. What I witnessed, with great excitement, was the 'soft' evolution of regional integration, which is hard to quantify vis-à-vis the straitjacket formula

driven by tariff reduction and elimination. The AEC has brought about tremendous opportunities by broadening and deepening service integration, which has in turn helped to enhance the country's competitiveness. Business

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matching and networking, distributorship, franchising, partnerships and joint ventures are some fast ways for local businesses to skip the learning curve. Many Western-educated young entrepreneurs joined their family businesses and took on the task of 'internationalising' their brands.

Local young business associations are busy getting their members organised to better prepare them to partner with foreign investors in various service sectors. Many informal businesses have started to

formalise their entities, get their corporate documents and books in order, and pay taxes, all for the purpose of being seen as a credible local partner. Access and exposure to modern and sophisticated professional practices have broadened their horizons and the scope of their service offerings. Partnerships with ASEAN professional service firms enabled them to offer quality services to their local and foreign clientele. In the legal field, we have seen the emergence of internationally recognised law firms, thanks to their commercial collaborations with foreign law firms. My own law firm partnering with an ASEAN-wide law firm, ZICOlaw, is a good case in point. In recent years, a major boom in residential and commercial real estate developments has created huge demand for architectural, engineering and construction services, the bulk of which are delivered by joint venture firms, often out of projects financing necessity, transfers of technology and know-how.

In the distribution sector, the benefits of the liberalisation policy are significant in light of the sector's strong economic linkages, which have led to efficiency improvements, economies of scale, and better prices, quality and choice for local consumers. Exposure to competition stimulates Cambodian suppliers to upgrade their supply chains and production methods and standards. Foreign retailers employ various strategies to enter the Cambodian market through acquisition, joint ventures, strategic alliances and franchises, while Cambodian entrepreneurs are increasingly becoming agents of, or distributors for, foreign companies from developed countries.

In the education sector, a significant shift has occurred, with a growing number of Cambodian private universities seeking out international partners to increase the quality and competitiveness of their courses. Distance-learning, franchise or twinning arrangements with foreign educational providers have flourished by leaps and bounds. Cambodia's Open Sky policy, along with the arrival of low-cost air carriers, has radically transformed the tourism industry as a whole and boosted the capacity and prosperity of local operators. In the area of motion picture production, the market of Cambodian filmmaking continues to develop, with an increasing stream of young artists and production companies entering the industry. The music and sound recording industry has also experienced a revolution in recent years, as digitisation, increased

bandwidth, and the fast-growing younger population have generated phenomenal growth in the sales of digital audio and video media. This is just some of the anecdotal evidence of the effects of the AEC on Cambodia's entrepreneurial dimension in the services sector.

In conclusion, I like to think that, by 2025, when we assess the first decade of the ASEAN Community, the ASEAN policymakers would look at their so-called AEC scorecard and proudly quantify their achievements or targets in terms of the percentage of measures that have been implemented or met deadlines. As to the private sector, I still believe in their extraordinary capacity, ingenuity and business acumen to spot and exploit business opportunities in whatever shape or form they come. As a whole, in my humble view, lest an unexpected full confrontation of superpowers in the region, ASEAN will continue to exhibit its current inherent qualities, namely a region well-endowed with natural resources, a rising urban middle class and growing consumer market, an ample growing supply of young working age and trained human capital, economical production costs, an adequately well-connected infrastructure, a digitally savvy society, and a more 'rules based' organisation with new dispute-resolution mechanisms, all of which will combine to ensure ASEAN remains a viable and sought-after region to be doing business with.



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