CAMBODIA’S ECONOMIC TRANSFORMATION THROUGH TRADE

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CAMBODIA’S ECONOMIC TRANSFORMATION THROUGH TRADE

Paul BAKER

ABSTRACT

Cambodia joined the World Trade Organisation (WTO) in 2004 and has since used trade as an engine of economic growth. It has pushed through remarkable reforms, become integrated into the world economy and ranks as one of the world’s most open economies. Streamlining and simplifying tariffs, adopting multilateral agreements for standards and customs arrangements have, amongst others, enabled Cambodia to successfully tap into regional and global supply chains. Nevertheless, Cambodia is still hampered by poor governance, unpredictable law and regulations, and high logistics and infrastructure costs. Policies are needed to address these weaknesses to maintain momentum and the drive to eradicate poverty.

CAMBODIA’S SOCIO-ECONOMIC PERFORMANCE

Since WTO Accession, Cambodia has shown commitment to undertake major economic reforms to secure growth as an engine for pro-poor development. The country is highly integrated into the global economy and is the third most open economy in ASEAN, with trade reaching 142% of GDP in 2015. Growth has been sustained at high rates, above developing country averages over the last decade, driven by high growth in the sectors of construction and real estate, garments, agro-sectors. The country graduated into a lower middle-income country status in 2016. The levels of poverty have declined steadily over the last two decades, where the proportion the population in extreme poverty was just 2% in 2012. The level of inequality has also been moving in a positive direction, whereby the bottom quintile of income earners shared 9% of wealth, up one percentage point over two decades, while most of the world moved in an opposite direction (Figure 1).

Agriculture represents close to one third of the economy. The share of manufacturing in the economy has increased threefold since the 1990s, from 5% of GDP to 15% today. The share of services has also gradually increased, although at a moderate pace, and represents around 40% of GDP today.

Cambodia has performed well in attracting foreign direct investment (FDI) compared to other countries in the region, because of the relocation of low-cost manufacturing (accelerated by increasing labour costs in China, Vietnam and Thailand), and a low tax regime and incentives. Its central location in ASEAN, besides the preferential access to the EU (under Everything But Arms - EBA), and other markets has made Cambodia an attractive FDI destination with significant opportunities to integrate into regional and global value chains. Table 1 highlights the tariffs faced by Cambodia in selected markets for the key products it exports. The EU offers the most advantageous preferential access under every possible measure: 100% of tariff lines enter duty free and the average trade weighted margin of preference represents 32.5% for agricultural

1 Chief Executive at International Economics Ltd. Recently, he was Team Leader for the identification and formulation of an EC programme of trade related technical assistance to Cambodia.
products and 12.2% for manufactured products. By contract, its neighbours, Thailand and Vietnam, only offer 10.5% and 65% respectively of their tariff lines duty free for agricultural products.

Figure 1. Poverty Indicators for Cambodia

![Graph showing poverty indicators for Cambodia.](image)

Note: different scales prevail in the right and left hand sided graphs

Source: World Bank World Development Indicators, 2016

The high growth in investments and shortfalls in savings have led to a large current account deficit, reaching 10.7% in 2015. Growth is projected by the International Monetary Fund (IMF) to remain around 7 percent for 2016-17. There are medium-term downside risks to this economic outlook, including the continued appreciation of the US dollar, slower economic recovery in Europe, spillovers from a slowdown in the Chinese economy and potential labor market issues.

Table 1 Major exports and tariffs faced

<table>
<thead>
<tr>
<th>Major markets</th>
<th>Bilateral imports in million US$</th>
<th>Diversification 95% trade in no. of HS 2-digit HS 6-digit</th>
<th>MFN AVG of traded TL</th>
<th>Pref. margin Weighted</th>
<th>Duty-free imports TL in % Value in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Viet Nam</td>
<td>2013 306</td>
<td>6 6</td>
<td>13.8 9.8 7.9</td>
<td>65.2 69.8</td>
<td></td>
</tr>
<tr>
<td>2. European Union</td>
<td>2013 227</td>
<td>3 5</td>
<td>13.3 32.5 32.5</td>
<td>100.0 100.0</td>
<td></td>
</tr>
<tr>
<td>3. Thailand</td>
<td>2013 105</td>
<td>10 14</td>
<td>24.9 30.5 0.0</td>
<td>10.6 0.9</td>
<td></td>
</tr>
<tr>
<td>4. Malaysia</td>
<td>2013 58</td>
<td>2 2</td>
<td>27.1 34.1 0.3</td>
<td>43.8 14.9</td>
<td></td>
</tr>
<tr>
<td>5. China</td>
<td>2013 32</td>
<td>2 2</td>
<td>24.6 40.4 16.1</td>
<td>84.6 41.1</td>
<td></td>
</tr>
<tr>
<td>Non-agricultural products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. European Union</td>
<td>2013 3,073</td>
<td>4 71</td>
<td>6.5 12.2 12.2</td>
<td>99.9 100.0</td>
<td></td>
</tr>
<tr>
<td>2. United States of America</td>
<td>2013 2,730</td>
<td>13 102</td>
<td>9.5 16.5 0.2</td>
<td>37.4 5.0</td>
<td></td>
</tr>
<tr>
<td>3. Canada</td>
<td>2013 677</td>
<td>6 72</td>
<td>10.6 17.1 17.1</td>
<td>100.0 100.0</td>
<td></td>
</tr>
<tr>
<td>4. Japan</td>
<td>2013 575</td>
<td>11 67</td>
<td>11.0 32.1 32.0</td>
<td>97.1 97.6</td>
<td></td>
</tr>
<tr>
<td>5. China</td>
<td>2013 331</td>
<td>16 77</td>
<td>13.2 8.9 8.0</td>
<td>96.5 87.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: ITC/WTO Tariff Profiles 2015

Given the narrow production and export base and concentrated export markets in the EU and US, and exposure to increased competition in those markets, growth is expected to gradually dampen over the longer term. Around four fifths of Cambodia's exports are sold to just 8 partner countries (Figure 2). Margins of preference account for the quasi totality of exports of textiles, clothing and footwear to developed Europe and the USA, something which is expected to become eroded in the medium term. Additional downside risks include increasingly concentrated credit in real estate, leading to possible asset price inflation and which could undermine economic and financial
stability. External risks include a significant slowdown in China, an appreciating U.S. dollar, weaker growth in Europe.\(^2\)

**Figure 2 Cambodia’s concentration of trade**

Domestic credit accelerated by 27 percent year-on-year in 2015, according to the Cambodia Economic Update, which highlights how the financial sector has supported economic growth in Cambodia over the past few years. However, in the current context, the World Bank advises strengthening banking supervision to safeguard financial stability and sustainability. Recent measures such as the increase in capital requirements for financial institutions are welcome developments.\(^3\)

Despite formidable achievements made in reforms at the border, as well behind the border, major bottlenecks to the business and trade-enabling environment remain. These include high logistics and infrastructure costs, unpredictable application of regulations, a weak private sector, weak enforcement of the law and governance issues surrounding the independence of the rules of law legal system and high levels of corruption. Figure 3 compares the relative performance of Cambodia against LDCs regarding access to finance and key infrastructure, according to surveys.

**Figure 3 Global Competitiveness Indicators**

Source: WEF Global Competitiveness Index; Note: 1 is lowest and 7 is best

Corruption is one of the biggest obstacles to the sustainable economic development of Cambodia. According to Transparency International’s Corruption Perceptions Index (CPI)\(^4\), despite various reforms, the perception of corruption in Cambodia’s Public Sector in 2015 remains the same as in 2014. The CPI ranks Cambodia as the most corrupt country in Southeast Asia and 150th out of 168 countries. Of particular importance are the weak and unpredictable enforcement of existing laws and regulations, and burdensome administrative processes, and high official and unofficial administrative costs, particularly in transport and customs services. Due to these concerns, Cambodia ranks poorly in the World Bank’s “Doing Business Report 2016”\(^5\) at 127 out of 189 surveyed.


\(^3\) World Bank (2015). Cambodia Economic Update. October


\(^5\) Doing Business 2016 data for Cambodia. Available at: [http://www.doingbusiness.org/data/exploreeconomies/cambodia#trading-across-borders](http://www.doingbusiness.org/data/exploreeconomies/cambodia#trading-across-borders)
TRADE PERFORMANCE

Because of Cambodia’s accession to the WTO, it has undergone major trade reforms in binding tariffs, applied tariff reductions, adhering to key multilateral trade agreements, such as the TBT and SPS Agreements, and become far more open to the global economy. As depicted in the latest Trade Policy Review, “the country embarked on implementing far-reaching reforms to achieve rapid and sustained socio-economic development”. Cambodia has 100% of its tariff lines bound, and has maximum applied tariffs of 35%, although the majority of tariffs are in much lower bands, with inputs into industry at 0% usually. Four tariff bands apply to Cambodia’s exports: 0%, 7%, 15% and 35%.

Cambodia also has made efforts to streamline and improve the effectiveness of customs operations and to facilitate trade. In July 2007, the Senate ratified the Law on Customs, which was adopted to comply with commitments the Common Effective Preferential Tariff (CEPT) scheme of ASEAN, the 1999 Revised Kyoto Convention, and to implement the WTO Agreement on Customs Valuation. The streamlining of tariffs, and simplified procedures for imports, has facilitated trade and enabled it to benefit from tapping into global production networks.

Cambodia has registered significant progress in the increasing sophistication of its economy and has moved into a wider range of production lines and moved into value addition over the last two decades. In 1995, Cambodia had a comparative advantage in some construction materials and few other products. In 2014, the picture has changed, with a range of products displaying a comparative advantage, particular in textiles, apparel and footwear. While the product space remains relatively sparse, there has been improvement made, and it would be important to maintain the momentum towards building further industries to diversify the export base.

Cambodia’s exports are heavily skewed towards manufactures, despite its economic structure, which is heavily geared towards agriculture, which is the source of close to one third of its economic output and employs around two thirds of its labour force. Apparel and footwear account for over four fifths of Cambodia exports to the world (Figure 4). Around one fifth of Cambodia’s exports are sold to ASEAN member states. The structure of exports to ASEAN members differs greatly from its export structure to the world, in part owing to the differences in trade complementarity between its main trading partners and ASEAN partners, but also due to the differences in preferential market access (and their respective margins of preferences). The use of tariff preferences among Cambodian businesses is low (Fukunaga 2013). Out of 60 firms surveyed, 20 percent had applied for a certificate of origin under the ASEAN Trade in Goods Agreement scheme, 16.7 percent under the ASEAN China Free Trade Agreement (FTA), and 3.3 percent under the ASEAN Korea FTA. The majority of businesses cited a lack of information as the main reason for not using FTAs. Rules of origin in ASEAN have also been noted as a significant barrier to ASEAN intra-regional trade.

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7 Government of Cambodia (2007). Law on Customs. NS/RKM/0707/017
8 WTO (2011), *ibid*
Table 2 Cambodia’s applied tariffs

<table>
<thead>
<tr>
<th>Product groups</th>
<th>Final bound duties</th>
<th></th>
<th>MFN applied duties</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AVG</td>
<td>Duty-free in %</td>
<td>Max</td>
<td>Binding in %</td>
</tr>
<tr>
<td>Animal products</td>
<td>32.6</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Dairy products</td>
<td>36.5</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Fruit, vegetavles, plants</td>
<td>26.4</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Coffee, tea</td>
<td>36.6</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Cereals &amp; preparations</td>
<td>29.1</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Oilseeds, fats &amp; oils</td>
<td>21.9</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Sugars and confectionery</td>
<td>27.8</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Beverages &amp; tobacco</td>
<td>42.8</td>
<td>0</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>Cotton</td>
<td>7.0</td>
<td>0</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Other agricultural products</td>
<td>23.3</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Fish &amp; fish products</td>
<td>23.6</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Minerals &amp; metals</td>
<td>20.4</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Petroleum</td>
<td>23.9</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Chemicals</td>
<td>9.6</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Wood, paper, etc.</td>
<td>26.1</td>
<td>0</td>
<td>35</td>
<td>100</td>
</tr>
<tr>
<td>Textiles</td>
<td>10.0</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Clothing</td>
<td>17.5</td>
<td>0</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>Leather, footwear, etc.</td>
<td>26.7</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Non-electrical machinery</td>
<td>15.6</td>
<td>1.8</td>
<td>35</td>
<td>100</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>27.2</td>
<td>10.9</td>
<td>35</td>
<td>100</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>24.4</td>
<td>0</td>
<td>43</td>
<td>100</td>
</tr>
<tr>
<td>Manufactures, n.e.s.</td>
<td>25.2</td>
<td>1.5</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: ITC/WTO Tariff Profiles 2015

Cambodia exports predominantly machinery and agro-products, with minor exports of apparel (under 20% of total exports to ASEAN). Owing to its dependence on such products regarding the ASEAN, it’s priority lies in respecting SPS measures, reaching standards, and adhering to rules of origin.

Figure 4 Cambodia Structure of exports with World (LHS) and ASEAN (RHS), 2015

Source: ITC based on UNSD Comtrade

Because of the trade reforms undertaken by Cambodia, several outcome indicators suggest major improvements in the time to trade and in the cost to trade (See Figure 5). The time to export has fallen by over 15 days since 2006, although time to import remains significantly higher than the time to export. The cost to export has slightly risen since 2006, although at a slower pace than other LDCs. However, overall in ad-valorem terms, the cost to export has fallen at both the intra-regional and extra-regional level.
Similarly, indicators relating to logistics and trade facilitation performance indicate a marked improvement over time, except for timeliness. Cambodia outperforms other LDCs in trade facilitation indicators except for appeal procedures (Figure 6).

Despite improvements made, trade facilitation remains a major obstacle for realising the AEC. There has been slow progress in customs modernisation and the harmonization and standardisation of trade and customs procedures. For instance, whilst the ASEAN-6 has made much more progress in trade facilitation, CLMV (Cambodia, Lao PDR, Myanmar, Viet Nam) lag far behind. There have also been delays and unevenness in implementing key reforms such as integrating NSWs into the ASEAN Single Window (ASW)- with Cambodia, Laos and Myanmar (CLM) lagging behind, and the rest in various stages of implementation. Private sector feedback from several ASEAN Member States cite excessive and time-consuming documentation requirements, and irregular and arbitrary payments for expediting customs procedures.

Most public institutions in Cambodia are characterised by a lack of financial and human resources, uneven coordination vertically and horizontally and lack of sufficient incentives to perform tasks effectively. Given its current level of development and institutional limitations, the complex and
multi-layer regional integration processes will cause greater coordination problems for Cambodia and lead to less effective management of regional cooperation.

For business, despite effective, national-level mechanisms for consultation between the government and the private sector, private sector engagement in ASEAN processes is uneven, and there is a lack of awareness about the benefits and opportunities of region-wide Free Trade Arrangements (FTAs) and of regional integration (Chan and Strange 2012).

Cambodia has not fully reaped the benefits of regional integration, bearing in mind the country's meagre volume of intra-ASEAN trade compared with other countries in the region.

Infrastructure development, both “hard” and “soft”, does not respond well to business needs. The Global Competitiveness Report 2015-2016\(^{12}\) ranked Cambodia's overall infrastructure at 101, quite low compared with the rest of ASEAN. Road transport remains embryonic and inefficient, and the railway system is in bad shape with little traffic demand. While the effectiveness of ports has improved, the cost of shipping remains high. The power supply is costly, insufficient and to some extent unreliable, while telecommunications coverage remains limited. In addition, soft infrastructure is lagging behind the hard infrastructure.\(^{13}\) The World Bank Logistics Performance Index 2016\(^ {14}\) ranked the country at 73 among 160 countries, lower than Vietnam (64) and Thailand (45) but higher than Lao PDR (152) and Myanmar (113). This relatively poor performance largely stems from two major problems: first, lack of transparency in fees, often informal, hiding the true costs and making logistics expensive; second, a lack of integration of logistics services with neighbouring countries, also leading to higher costs, lack of capacity and delays (Clark and Sok 2013\(^ {15}\)).

Business also faces other major problems: the cost of shipping remains high; the cost of an import licence is also high due to significant informal payments. This is confirmed by exporters' opinions cited in Hing (2013) and by the investment climate survey reported in Clarke (2014), that customs formalities including paperwork and clearance are among the top three impediments. Inefficiency in import and export processes directly affects trade costs.

Cambodia's education and human capital lag behind most countries in the region, creating a major constraint on harnessing the opportunities from the AEC. The country has one of the lowest literacy rates in the world (73.9 percent in 2012), and its Human Development Index is one of the lowest in ASEAN. The current labour market is characterised by emerging skills mismatches and skills gaps largely due to lack of motivation, staff turn-over, and insufficient education and training.

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13 Hing Vutha (2014) ibid


SMEs in Cambodia face several major challenges including weak legal framework and bureaucracy, difficult access to finance, low productivity, insufficient support, and very limited participation in regional integration (Roth 2014). Roth argues that SME development in Cambodia is still at the initial stage and not yet ready for the AEC. Similar findings are reported in ERIA (2014), that Cambodia appears to be the poor performer in all SME policy dimensions: institutional framework, access to support services, cheaper and faster start up and better regulations, access to finance, technology and technology transfer, international market expansion, promotion of entrepreneurial education and more effective representation of small enterprises’ interests.

Cambodia has embraced several strategic documents relating to trade that underpin its trade development agenda. The key documents are presented here.

**Cambodia Trade Integration Strategy 2014-2018 (CTIS)**

Cambodia’s Trade Integration Strategy 2014-2018 (CTIS) is the country’s third generation trade integration strategy. It follows Cambodia’s first Diagnostic Trade Integration Strategy (DTIS) of November 2001; and its second in December 2007, which saw Cambodia be the first country to update its initial DTIS under the Enhanced Integrated Framework (EIF). Starting in 2008, the Government established a Trade Sector Wide Approach (Trade SWAp), which aimed to assist the Government to improve its coordination and overall management of the Aid for Trade (AFT) process, and monitor progress against CTIS 2007’s strategic objectives and actions. One such tool is the Trade SWAp Road Map, organised around three Pillars.

**2016-2020 Medium Term Plan (MTP) for implementing the Trade SWAp**

The formulation of the Medium Term Plan (MTP) was launched by DICO in March 2015, with the technical support of United Nations Development Programme (UNDP) and financial assistance from EIF. It involved a broad stakeholder consultative process encompassing Government, and the private sector, and development partners, with the objective of identifying and prioritising areas where future technical assistance, besides ongoing support, may be necessary to accelerate the implementation of CTIS and the Trade SWAp Roadmap 2014-2018.

**Rectangular Strategy for Growth, Employment, Equity and Efficiency Phase III**

The Rectangular Strategy for Growth, Employment, Equity and Efficiency Phase III (Rectangular Strategy-III) is the socio-economic policy agenda of the Cambodian Government, reflecting its 2030 vision. It builds upon the two earlier phases, retaining the four angles, but expanding its coverage, and prioritising the policies and mechanisms in a more concrete way, to ensure development sustainability and poverty reduction in the country. It provides a blueprint for sustainable development and the promotion of economic growth, job creation, and the equitable distribution of resources.

**National Strategic Development Plan 2014-2018 (NSDP-IV)**

The National Strategic Development Plan 2014-2018 (NSDP-IV) is the second most important policy document of the Cambodian Government. It is a development framework and roadmap for implementing the Political Platforms and the Rectangular Strategy Phase III, which lays out the political commitment towards the country’s socio-economic development. The NSD establishes the responsibility of the individual line ministries and agencies within each angle, to gain the most
from ASEAN Economic Integration allowing the country to move into Upper-Middle-Income Country status by 2030.

**Cambodia Industrial Development Policy 2015-2025**

Cambodia’s Industrial Development Policy was adopted as a guide to promote the country's industrial development, ensuring it maintains sustainable and inclusive high economic growth through economic diversification, strengthening competitiveness and promoting productivity. The three main aims are, to increase the GDP share of the industrial sector to 30% by 2025; to diversify the export of goods; and to encourage the formal registration and accounting of the majority of the country’s SMEs.

Like the Rectangular Strategy-III, it is driven by the Government’s long-term vision to transform and modernise Cambodia’s industrial structure from a labour-intensive industry to a skill-driven industry by 2025. It envisions this to be achieved through connecting to regional and global value chains, integrating into regional production networks and developing interconnected production clusters, with efforts to strengthen competitiveness and enhance productivity of domestic industries, all the while moving toward developing a technology-driven and knowledge-based modern industry.

**The Investment Law**

The revised investment law, adopted in Cambodia in 1994 offers various incentives to investors, including nine percent corporate/income tax; tax holidays of up to 8 years; 5-year loss carried forward; and full import duty exemption. It enshrines the responsibilities of the Council for the Development of Cambodia (CDC) as the sole, one-stop service organisation responsible for the rehabilitation, development and over-sight of investment activities in the country. The CDC is required within this law to respond to investors within a maximum of 45 days following their investment application. There has been criticism levelled at the investment law, in particular with respect to its provisions for investor protection, though it offers guarantees of national treatment and non-nationalisation of private investment holdings. An area of contention has been agricultural land ownership, with some cases of land appropriation being contested. The IFC is reviewing the law, with a view to update it, align it to the ACIA commitments and strengthen investor-state dispute settlement provisions.

**The Trade Facilitation Agreement (TFA)**

Cambodia became the 148th member of the WTO in October 2004, and was the second Least Developed Country (LDC) to join through the full working party negotiation process. In February 2016, Cambodia ratified the TFA, becoming the 8th LDC and the 69th WTO member to do so.

The TFA was concluded at the WTO’s 2013 Bali Ministerial Conference, and contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues, and provisions for technical assistance and capacity building.

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16 According to the investment law, Conciliation of disputes are to be settled before the Council which shall provide its opinion, or refer the matter to the court of the Kingdom of Cambodia, or refer to any international rules to settle the disputes as mutually agreed by the parties.
CAMBODIA ASEAN INTEGRATION AND CONNECTIVITY – THE WAY FORWARD

Cambodia has been a late adopter of the ASEAN integration process but has since remained committed to the implementation of the AEC. In 2003, ASEAN leaders affirmed their commitment to realising the AEC by 2020, declaring it as the end goal of regional economic integration that would both establish ASEAN as a single market and production base and transform ASEAN into a more dynamic and integrated regional organisation. The deadline was later brought forward to 2015. The AEC comprises four broad strategic components: (i) a single market and production base, (ii) a highly competitive economic region, (iii) a region of equitable economic development, and (iv) a region fully integrated with the global economy.17

According to the AEC Scorecard18, the monitoring mechanism to chart progress towards regional economic integration, ASEAN has made considerable progress in implementing the AEC. Some ASEAN Member States, especially CLMV are struggling to benefit from economic integration and have yet to catch up with the ‘ASEAN-6’19.

Connectivity in ASEAN encompasses the physical (e.g., transport, ICT, and energy), institutional (e.g., trade, investment, and services liberalisation), and people-to-people linkages (e.g., education, culture, and tourism) that are the foundational supportive means to achieving the economic, political-security, and socio-cultural pillars of an integrated ASEAN Community.

Since the adoption of the Master Plan on ASEAN Connectivity 2010 (MPAC 2010), notable progress has been made. By May 2016, 39 initiatives in MPAC 2010 have been completed. 18 relate to physical connectivity; 15 to institutional connectivity; and 6 to people-to people connectivity.20 However, much remains to be done to realise the vision of a seamlessly connected ASEAN. Particular areas to be addressed include the services sectors, which are lagging goods sectors in terms of connectivity because of tighter investment restrictions, and challenges relating to the mobility of skilled labour, and energy and rail connectivity. The remaining 52 uncompleted initiatives in MPAC 2010, with a clear sector owner and do not overlap with the newly proposed initiatives, will be included in the Master Plan on ASEAN Connectivity 2025 (MPAC 2025).21

While Cambodia has made significant progress, in particular on tariff reduction and elimination, economic integration in ASEAN still has a long way to go, with trade facilitation and nontariff measures yet to be fully addressed. In very different levels of infrastructure, institutional and human development across ASEAN, the costs and benefits from greater economic integration may lead to a widening rather than narrowing development gap. The challenge will be for ASEAN to

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18 To ensure a timely implementation of the AEC initiatives, ASEAN has established a monitoring mechanism called the AEC Scorecard. As a compliance tool, the AEC Scorecard reports the progress of implementing the various AEC measures, identifies implementation gaps and challenges, and tracks the realisation of the AEC by 2015, http://asean.org/?static_post=asean-economic-community-scorecard-3
19 Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand.
pursue its integration in a way that leads to inclusive economic growth addressing development gap among and within ASEAN Member States (AMS).

### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>CIT</td>
<td>Corporate income tax</td>
</tr>
<tr>
<td>EVFTA</td>
<td>EU-Vietnam Free Trade Agreement</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>FTA</td>
<td>Free Trade Agreement</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Products</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
</tr>
<tr>
<td>TPP</td>
<td>Trans-Pacific Partnership</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
Support C-level executives and boards to prepare for different challenges

*International Economics* can help facilitate internal discussions on strategy by providing technical insights, developing dashboards of key performance measurements, and giving advice to executive boards on building resilience to possible disruptions related to exogenous trade shocks, such as Brexit or Donald Trump’s Presidency. We work closely with our clients to brainstorm and identify challenges and opportunities based on our professional experience.

Map market access

In order to quantify the potential costs to your business in engaging in trade, including tariffs, standards, and customs procedures, among many others, we (i) undertake a mapping of which terms are most at risk of changing and by how much, depending on the type of agreements; and (ii) quantify and forecast the potential effect on your business using predictive analytics to generate insights into future outcomes.

Navigate through trade and investment agreements

With more than 400 trade agreements and 2,400 investment agreements already in place, *International Economics*’ team is able to navigate through them, guiding and identifying which specific agreement will better suit the interests of our client. Additionally, we have developed optimization techniques, through the use of sophisticated rules and algorithms, to analyse the Free Trade Agreements (FTAs), which are growing in space, depth and complexity, in order to offer insights into investment and trade decisions. With increasing fragmentation of global production networks and the need for careful evaluation of supply chain risks, the tools developed by *International Economics* offer a solid foundation for the adoption of critical decisions by businesses.

Prepare briefings and strategic papers

Our clients need to prepare strategic position papers to assess the issues and prepare responses, whether it be internal restructuring, supply chain re-engineering or addressing policy risks. We assist our clients with short, impactful, and relevant position papers, including setting out the possible impacts of risks at different business levels (policy, financial, structural, etc.) and provide the latest thinking on the issues to date, based on a holistic economic framework.

Undertake a full economic and legal review of the trade and investment exposures to worldwide events

We conduct independent and objective reviews of the impact of different worldwide events on your business and industry. We use deep learning tools, large multi-country macro models and the latest unstructured data to offer insights into the risks, exposure assessments and likelihood of disruptions to supply chain. These provide our clients with a competitive advantage as they prepare mitigation strategies and leverage identified opportunities. We work with our clients to develop the right strategies and make breakthrough decisions.

Brexit: Help the private sector position itself during the UK’s trade negotiations

Brexit will affect our clients’ business strategies, supply chains, funding, tax positions, regulations, growth and opportunities. *International Economics* works with public affairs companies and specialized firms to offer the full range of trade-related technical support and advice to help companies position themselves and ensure that their interests are addressed in the negotiations.

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