

KEYNOTE ADDRESS
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at the Seminar on
ASEAN Integration and the Role of India: Investing in Cambodia and Why Now
India Chamber of Commerce, Embassy of India
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Mr. Sandeep Majumdar, President of India Chamber of Cambodia
Excellency Naveen Srivastava, Ambassador of India to the Kingdom of Cambodia
Excellencies, Ladies and Gentlemen,

First of all, it is an honor for me to speak at this Seminar. Let me take this opportunity to congratulate the conference organizers, the India Chamber of Commerce and the Embassy of India for the excellent arrangement of the event. I am certain that this important forum of some 200 prominent Cambodian and Indian businesses will offer a good opportunity for interaction. This direct and personal exchanges will surely reinforce, expand and create synergy for them to explore the many business potentials based on our two countries' vast resources of skills and talents, markets, and latest technological innovations.

Excellencies, Ladies and Gentlemen,

Before I move to address the achievements accomplished under the strategic relations between ASEAN and India, allow me first to set the stage by sharing with you some of my perspectives on the latest ASEAN development.

As you all are aware the year 2016 is the inaugural year of the ASEAN Economic Community (AEC) where the 10 Southeast Asian countries are now integrated into an ASEAN Community with a combined population of approximately 625 million and a collective GDP of some US\$2.5 trillion. Collectively, ASEAN has accomplished important economic achievements and is a significant contributor to the global growth. Even with the backdrop of global economic uncertainties, the region's economy is projected to grow by 4.5 per cent in 2016 and is forecasted to accelerate to 4.8 per cent in 2017.

ASEAN total merchandise trade remained resilient, standing at US\$2.28 trillion in 2015 with China retaining the top position with total bilateral trade at 15.2 per cent of total ASEAN trade, followed by Japan at 10.5 per cent, EU-28 at 10.0 per cent, and the US at 9.3 per cent. Intra-ASEAN trade remained at a modest 24 per cent, which, in my view, highlight enormous opportunity to further develop and exploit regional production networks.

Foreign direct investment (FDI) inflows to ASEAN stood at US\$120.0 billion in 2015 with the EU remaining the largest external source of FDI flows, accounting for 16.4 per cent of the total inflows to the region, followed by Japan at 14.5 per cent, the US

at 10.2 per cent and China at 6.8 per cent. Intra-ASEAN FDI remained stable at US\$22.1 billion in 2015. The services sector is surprisingly the largest recipient of FDI in 2015 with US\$74.9 billion or 62.5 per cent of total FDI inflows to ASEAN, followed by the manufacturing sector with 24.2 per cent.

To date, significant progress was made in tariff liberalisation and elimination, reaching to an overall 96.01% import duties of all ATIGA tariff lines: 99.2% for the ASEAN 6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand), and 90.9% for CLMV (Cambodia, Lao PDR, Myanmar and Viet Nam). In two years time, the percentages of tariff elimination for ASEAN, ASEAN-6 and CLMV will be at 98.67%, 99.20% and 97.81% respectively.

Excellencies, Ladies and Gentlemen,

As we move beyond the Post 2015 period, ASEAN has already set in motion its broad directions for the AEC for the next ten years. The AEC Blueprint 2025 and many sectoral work plans have been adopted for the period 2016-2015. Let me just list a few of them: The AEC 2025 Strategic Action Plan for Trade in Goods; the Strategic Action Plan for Services; the Investment Work Programme; the ASEAN Standards and Conformance Strategic Plan; the ASEAN Competition Action Plan; the ASEAN Strategic Action Plan for Consumer Protection; ASEAN Intellectual Property Rights Action Plan; the ASEAN Community Statistical System Strategic Plan; and the ASEAN Work Plan for Enhancing the Global Value Chain Agenda.

This year, under the Lao PDR's Chairmanship, ASEAN aims to adopt a set of frameworks such as: the ASEAN Trade Facilitation Framework; the ASEAN Food Safety Regulatory Framework; the ASEAN Institutional Framework on Access to Finance for the Micro, Small and Medium Enterprises (MSME), the ASEAN Guidelines for Special Economic Zone (SEZ) Development and Collaboration; the Report and Work Programme on Starting a Business in ASEAN etc.

In the area of trade facilitation various initiatives were implemented including self-certification, electronic ATIGA Form D (e-Form D), ASEAN Trade Repository (ATR), ASEAN Solutions for Investments, Services and Trade (ASSIST), ASEAN Single Window (ASW), and standards and conformance. What is exciting is that recently ASEAN has launched the ASEAN Tariff Finder (<http://tariff-finder.asean.org/>), which is a new practical tool for businesses, particularly the SMEs, in the form of a no-cost online search engine to obtain up-to-date information on tariff related information applied by ASEAN Member States and their Free Trade Agreement (FTA) Partners under the various ASEAN+1 FTAs.

Speaking of movement of people, ASEAN has just completed last June the ratification of the ASEAN Agreement on Movement of Natural Persons, which shall facilitate the movement of ASEAN people engaging in trade, be they in goods, services or investment in the region.

Excellencies, Ladies and Gentlemen,

It is quite clear that the AEC has not been transformed into a single economic entity by 1 January 2016. As many people have expected or doubted, it was rather a "work in progress". All the initiatives I have enumerated earlier do nonetheless send a strong signal that positive measures have been put in place towards a more liberalized and integrated economic region. What we have is a clear action driven Vision ASEAN Post-2015 which lays out succinctly the progressive community building works leading ultimately toward ASEAN full integration... someday soon I hope.

Excellencies, Ladies and Gentlemen,

Back to the theme of today's event, where does India stand in this whole ASEAN integration process? What is its relations with ASEAN as a whole?

No doubt, ASEAN Member States and India share a long history of friendly relations. Over the centuries, our cultures have crossed and we have cross-pollinated. As our countries are situated at the intersections of major land and sea routes, we shared the same geographical and cultural space. And yet, and that's the beauty of it, each country has managed to retain its distinctiveness and unique identity. Fast forward to the contemporary setting, we all can agree that ASEAN and India have gradually forged a strategic multi-faceted and broad-rangin partnership.

Ladies and Gentlemen,

On that note, let me highlight the key milestones of this strategic relations.

ASEAN-India dialogue relations started as a sectoral dialogue partnership way back in 1992 and have grown rapidly to a full dialogue partnership in December 1995. The relationship was further elevated with the convening of the ASEAN-India Summit in 2002, right here in Phnom Penh, Cambodia. The ASEAN-India collaboration has transcended the realm of functional cooperation to cover political and security dimensions with India's acceding to the Treaty of Amity and Cooperation in Southeast Asia (TAC) in 2003. It is interesting to note that ASEAN and India intensified further their engagement with the signing, in 2004 in Vientiane, of the "ASEAN-India Partnership for Peace, Progress and Shared Prosperity", which sets out the roadmap for long-term ASEAN-India engagement. A Plan of Action (2004-2010) was developed to implement the Partnership and subsequently renewed for the period 2010-2015.

Currently, there are some 25 mechanisms coordinating the ASEAN-India cooperation in the areas of political-security cooperation, economic and socio-cultural cooperation. Many years of hard work paid off when, at the ASEAN-India Commemorative Summit held in New Delhi in December 2012, the ASEAN-India Strategic Partnership was pronounced.

Currently India has established its separate diplomatic mission with an Ambassador accredited to ASEAN residing in Jakarta to facilitate further the enhanced dialogue partnership cooperation in all three pillars of ASEAN Community. India has also participated in a series of consultative meetings with ASEAN under the ASEAN-India Dialogue Relations, at the Summit, Ministerial meetings, Senior Officials meetings, and expert meeting levels. I am pleased to note that India is very active in the various ASEAN led dialogue and cooperation frameworks, such as, the Post Ministerial Conference (PMC) 10+1, the ASEAN Economic Ministers+1 Consultations, the East Asia Summit (EAS), the ASEAN Regional Forum (ARF) ASEAN Defence Ministers Meeting Plus (ADMM Plus), the Mekong-Ganga Cooperation and Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC).

In my humble view, all these works have contributed, to a great extent, to enhancing regional dialogue and accelerating ASEAN regional integration. Moreover, I believe that India recognizing the centrality of ASEAN and its ASEAN-led processes is crucial, when it comes for sustaining the existing dynamic structures for cooperation for peace, security and development in the region.

Ladies and Gentlemen,

On the economic front, volume of trade and investment flows between ASEAN and India remained still relatively low compared with other Dialogue Partners of ASEAN. The volume of ASEAN-India trade in 2015 was US\$ 58 billion, accounting only for 2.9% of total ASEAN trade. With a target of US\$ 200 billion for bilateral trade set to be achieved by the year 2022, there are still a lot of works to do. As for investment, India FDI inflow into ASEAN has reached only a mere US\$ 1.25 Billion in 2015.

Notwithstanding these modest figures, I am convinced, however, that there are good prospects for reaching a much higher level of trade and investment under the proposed strategic partnership, by improved air, sea, land and digital connectivity between the two sides. There are still plenty of room for expanding trade facilitation initiatives, collaboration in the SME sector, and exploiting to the fullest the various trade agreements, for example: the ASEAN-India Trade in Services and Investment Agreements have recently entered into force; the ASEAN-India Trade in Goods Agreement was also finalized. Moreover, let us not forget the good progress made in the Regional Comprehensive Economic Partnership (RCEP) negotiations. Its successful conclusion would further stimulate growth within the region, with a substantial rise in real GDP growth for the RCEP members, depending on the degree of their respective trade liberalization.

Ladies and Gentlemen,

I can't speak about ASEAN-India without mentioning India's key foreign policy, that is the "Act East Policy (AEP)", which was launched by Prime Minister Modi at the East Asia Summit in Myanmar in November 2014. The Act East Policy is the natural successor to the Look East Policy (LEP), which was initiated by Prime Minister

Narasimha Rao way back in 1992. Again I am pleased to note that ASEAN continues to remain the central pillar of India's Act East Policy.

The Indian government, through its Act East Policy, has encouraged private-sector firms to invest in the CLMV region, and announced in 2015 that \$12 million of Indian taxpayer money will be used to facilitate these investments. Moreover, on a grander scale, the allocation of \$US1 billion to promote connectivity between India and ASEAN, as announced by Prime Minister Modi during his visit to Malaysia last November 2015, will go a long way in bringing India and ASEAN closer together. In his views, Connectivity forms an indispensable element of the 3Cs of "Culture, Commerce and Connectivity", which will promote economic engagement and strengthen people-to-people, cultural and civilisational contacts between the two regions. Major infrastructure projects such as the India-Myanmar-Thailand Trilateral Highway can also prove to be a game-changer to connect India's Northeast with ASEAN.

Excellencies, Ladies and Gentlemen,

Allow me now to shift my focus on something closer to us: Cambodia-India Relations. I can't help but touch a bit on our history. Do you know that after the collapse of the Khmer Rouge regime, India is the only country, which recognizes the new government and re-opened its Embassy in Phnom Penh in 1981 when much of the world shunned Cambodia?

This historical factor along with India's active involvement in the making of 1991 the Paris Peace Accords is fondly remembered by the Cambodian leadership and the Cambodian people. India committed military and non-military personnel for the conduct of the UNTAC-sponsored elections in 1993 and was one of the original contributors to UN de-mining operations in Cambodia.

In response to an appeal by the Cambodian Government, the Government of India undertook the conservation of the famous Angkor Wat temple during the period 1986 to 1993 at a cost of US\$ 4 million, at a time when peace in the country was yet to be found.

Excellencies, Ladies and Gentlemen,

Much have happened since. There are now about 1500 Indian nationals working in various sectors in Cambodia. Most of them are based in Phnom Penh and are employed with international organizations and agencies. Indian nationals in Cambodia have formed an Indian Association-Cambodia as well as this Indian Chamber of Commerce (ICC). Indian tourist arrivals to Cambodia have increase from 28,529 in 2014 to 36,671 in 2015.

Bilateral trade wise, the two countries volume has reached \$160 million during the 2014-2015 fiscal year, with Indian exports to Cambodia amounting to \$142 million,

and imports from Cambodia amounting only to \$18 million. Cambodia is a promising destination for Indian exports for drugs, pharmaceuticals and fine chemicals, cotton, staple fibres, rubber articles, precious stones, transport equipment and machinery, and instruments etc. Cambodia's main exports to India are footwear, rubber, fruit and nuts, lime, salt and stone to India.

In term of Indian investment in Cambodia the volume is still minimal. Only \$88 million in investment from India are registered so far. In 2014, Indian investment was only a mere US\$ 3.3 million. This situation is likely to change for the better with India's cabinet approval last July 2016 of a new bilateral investment treaty (BIT) with Cambodia. The treaty has yet to be ratified though by the Cambodian side.

Last, but not least, India has provided numerous capacity building support to Cambodia and in 2006 the Cambodia-India Entrepreneurship Development Centre (CIEDC) was launched. It has since provided countless training in business administration, finance, marketing, agriculture, livestock development, etc.

Excellencies, Ladies and Gentlemen,

Moving to the next topic of "Investing In Cambodia: Why Cambodia And Why Now?", let me state the obvious: Cambodia is a trading nation. Everywhere you look whether in the Capital or in other provincial urban areas, you can feel the trade dynamics at play. I believe it is easy to understand. Unlike other ASEAN Member States, Cambodia is a small country emerging from 20 years of difficulties, of internal conflict and poverty that captured the wide world's attention: we have started from scratch, in terms of human, financial and technical infrastructure. After the Paris Peace Accords in the early 90s we embraced a very open economic policy as well as an aggressive trade liberalization policy. Joining ASEAN in 1999 was a good beginning, followed by a fast track accession to the WTO in 2014. A decade later as the excitement effect of the WTO started to taper off we prepared ourselves for the AEC, which we believe would give us another serious boost to stimulate a second wave of domestic reforms to capture the full benefits from ASEAN integration.

Excellencies, Ladies and Gentlemen,

Cambodia, once a country synonymous with conflict and poverty, is now one of the fastest growing economies in Asia. With an average growth rate of more than 7 percent over the last two decades, Cambodia has been praised by the World Bank as one of the "Olympians of Growth" - the sixth-fastest growing country in the world. According to the Asian Development Bank, Cambodia is moving it toward becoming one of the new tiger economies of Asia with real growth projecting to remain healthy at 6.9% this year. Further reduction of poverty is expected for both urban and rural households.

The economy shows signs of becoming more diversified within and across sectors. Services, the second biggest contributor to growth, grew by an estimated 7.1%. The finance, transport and communications sectors all grew by about 8%, and tourist arrivals rose by 6.1% in 2015. Cambodia, which was once a predominantly agricultural nation, saw the industry sector grow at 11.7% last year – the biggest overall contributor to GDP. Despite a slowing global economy and regional uncertainty, Cambodia still managed to attract \$US 414 million USD in FDI in the first quarter of 2016.

Excellencies, Ladies and Gentlemen,

The One question lingering in people's mind is Cambodia's vision for a 'post-2015' ASEAN. From the many policy papers and speeches made by Cambodian leaders, it is quite clear that Cambodia's aspiration is to take advantage of its open and liberal economy as well as its geographically centralized location within the Greater Mekong Subregion to attract FDI in manufacturing industries, agri-industries and other production centers, which are integrated into the global and regional production chains.

Of course, all these depend a lot on external factors. The main downside external risks include a significant spillovers from a slowdown in China, weaker growth in Europe and increased uncertainty from the Brexit referendum result, and an appreciating U.S. dollar.

Acknowledging this exposure to externalities, the Royal Government of Cambodia has undertaken a broad range of policy measures to overcome structural growth barriers and vulnerabilities, such as a narrow economic base, weak business climate, high dollarization, and underdeveloped financial markets.

These measures include reducing energy costs and improving reliability, enhancing transportation links and developing a multimodal transport and logistics system, addressing skills gaps via improving the quality of education and promoting technical and vocational training. An Industrial Development Policy was launched in 2015, in which it has designated the coastal province of Sihanoukville to be a region-wide special industrial zone by 2018.

The Council for the Development of Cambodia (CDC) is currently working hard on revising a new investment law and on drafting a new law on special economic zones, a focus of which is to promote inter-firm linkages and strategic supplier partnerships, i.e. with Japanese automotive companies. The commissioning of the Tsubasa Bridge over the Mekong river in Neak Loeng is a good case of Cambodia's infrastructure connectivity linking production chains from Ho Chi Minh City to Bangkok through. Free trade zones and special economic zones are being built along that economic corridors. These are just some examples. Cambodian companies, particularly SMEs, should be well positioned to analyse their comparative and competitive strength and to strategize their entry points into this seamless flow of regional supply chain, which are part of the China+1 and Thailand +1 trends.

For the free flow of services under the ASEAN Framework Agreement on Services (AFAS) and the ASEAN Agreement on Movement of Natural Persons, Cambodia is already ahead of the game, being already a highly liberalized economy as a result of its WTO commitments way back in 2004. There are few restrictions to ASEAN services suppliers in providing services and in establishing companies across national borders within the region.

Excellencies, Ladies and Gentlemen,

Let me conclude by stating again the obvious: Cambodia is a country that has lost a generation of intellectuals and skilled labor force due to two decades long of civil strife. As such, access and exposure to FDI, to foreign trade, to modern ways of doing business, to sophisticated professional practices, are an important contribution that the AEC will bring to Cambodia. In recent years, Cambodian practitioners and entrepreneurs are getting themselves organized to better prepare to partner with foreign investors in these services sectors. There are a lot of efforts undertaken by business associations, like the Young Entrepreneur Association of Cambodia (YEAC), the Cambodian Women Entrepreneur Association (CWEA), the Cambodian Investor Club (CIC), and the CEO Master Club, to build and enhance the capacity of their members to achieve that purpose. Business matching and networking, distributorship, franchising, partnerships and joint ventures are some fast ways to skip the learning curve. I really encourage Indian companies to look at them as potential partners.

Thank you