



# EMERGING REGIONALISM AND REGIONAL ARCHITECTURE: WHAT IT MEANS FOR CAMBODIA<sup>1</sup>

Development Research Forum

Synthesis Report 2014, N° 01\*

## 1. Introduction

The Research Interest Group (RIG) on “Cambodia and its Region” of the Development Research Forum in Cambodia (DRF) was established in 2012 as one of six RIGs in DRF Phase II 2012-14. In 2013, the RIG held three successful research workshops and designed two parallel sessions of the annual DRF symposium on regional issues. The presentation and discussion identified two major points on which there was broad consensus. First, international economic and political landscapes in East Asia, such as regional architecture, regional security and geopolitics, have evolved rapidly, and these changes might have significant implications for Cambodia and its future. Second, despite their significance, the complex regional cooperation and integration processes and institutions are not well known and understood among young officials, researchers and postgraduate students, thus limiting research interest and capacity. This research synthesis report aims to map regional issues and compile policy measures and research questions for Cambodia and its region. It does so by synthesising both papers written by DRF members and presentations made in the DRF workshops and symposium.

## 2. Major Emerging Regional Issues

Before delving into core issues, we need to understand some core concepts summarised in Strange (2013). “Regional cooperation” is a process by which nations work together either bilaterally or through multilateral agencies to achieve mutually beneficial political, security, economic, environmental or cultural objectives. “Regionalism” is defined as: the dynamics and processes of regional cooperation; growth of social and economic interaction and regional identity and consciousness; ideas of shared interests and futures. “Regional integration” is a process by which a region or subregion experiences closer interdependency through deepening political, economic and social relations, usually through mutually beneficial regional cooperation on trade and investment flows and movement of people. Below are some emerging issues

and trends that are frequently discussed in research papers and presentations at the conferences.

### 2.1. Regionalism and Regional ‘Architecture’

Observing the trends of regionalism in East Asia, Kawai and Wignaraja (2013), Hing (2013a) and Hing and Strange (2014) argue that the region has made rapid progress in economic integration and an unprecedented surge in free trade agreements (FTAs). All countries in the region have shifted their trade policies to a three-track liberalisation—global (WTO-based), trans-regional (APEC-based) and regional (ASEAN+3 or ASEAN+6), and bilateral—to boost trade and promote prosperity. As of March 2013, countries in the region were engaged in 143 bilateral, subregional or regional FTAs and were negotiating 84 FTAs (ARIC 2013) forming an “Asian noodle bowl”. The following are key region-wide FTAs highlighted in Hing and Strange (2014):

- **ASEAN Economic Community:** The AEC was adopted by leaders at the 2003 ASEAN summit in Bali. It responded both to the accelerated pace of ASEAN economic integration and to the challenges of globalisation, including the economic rise of China and India. The initially agreed deadline of 2020 was later brought forward to 2015. The AEC unifies and extends various existing frameworks such as the ASEAN Free Trade Area, the ASEAN Framework Agreement on Services and the ASEAN Investment Area. The aim is to create a regional organisation standing on four pillars: (1) a single market and production base, (2) a highly competitive economic region, (3) a region of equitable economic development and (4) a region fully integrated with the global economy.
- **ASEAN Plus Agreements:** ASEAN has continued to support the creation of the ASEAN Plus One framework and as a result has ratified FTAs with Australia and New Zealand, China, India, Japan and the Republic of Korea. This has made ASEAN a de facto FTA hub. All the ASEAN+1 FTAs are comprehensive and have been dubbed FTA-Plus and WTO-Plus (Chia 2011) in that they extend beyond trade liberalisation in goods to embrace trade in services and investment, trade and investment facilitation, government procurement, intellectual property rights, competition policy and wide-ranging economic and technical cooperation.

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- **Regional Comprehensive Economic Partnership:**

The RCEP was launched by ASEAN+6 leaders during the 21st ASEAN summit in Phnom Penh in November 2012. It has been widely viewed as the ASEAN strategic response to the two competing region-wide FTA initiatives: the East Asia Free Trade Agreement between ASEAN and CJK (China, Japan, Korea)—a proposal strongly advocated by China and Korea—and the Comprehensive Economic Partnership in East Asia between ASEAN and six partners (CJK, India, Australia and New Zealand). The creation of the RCEP was also driven by a wish to ease the “noodle-bowl” situation (relating both to rules of origin and to the huge variety of tariff schedules and rules). It was designed to increase participation in production chains, and to respond to a political economy argument that ASEAN needs to increase involvement in mega-FTAs in order to compete with other agreements such as the Trans-Pacific Partnership and the China-Japan-Korea FTA. Negotiations started in 2013 and are expected to conclude in 2015.

- **Trans-Pacific Partnership:** The TPP, originally known as the Trans-Pacific Strategic Economic Partnership, was signed in 2005 by Brunei, Chile, New Zealand and Singapore, and is now being negotiated by 12 countries including Australia, Canada, Malaysia, Mexico, Peru, the United States, Vietnam and soon Japan. If signed and ratified, it will represent a market of 792 million people, a combined GDP of USD26.5 trillion (32 percent of world GDP) and total trade of USD9.4 trillion or 26 percent of world trade (Choi & Lee 2013). The modality of TPP is “WTO-Plus”, covering a wide range of areas including trade liberalisation in goods, services, investment, intellectual property rights, environmental protection, labour, financial services, technical barriers to trade and other regulatory issues. Besides comprehensive coverage, the agreement aims to achieve a high standard FTA—a more North American-style FTA mode—and this requires more demanding commitments.

- **Greater Mekong Subregion:** The GMS is not a trade pact but a programme agreed by six countries (Cambodia, China’s Guangxi and Yunnan provinces, Laos, Myanmar, Thailand and Vietnam) in 1992 with support from the Asian Development Bank to enhance economic relations, subregional integration and socioeconomic development. Its specific objectives include: (1) facilitating subregional trade and investment, (2) facilitating subregional development opportunities, particularly for energy and tourism, (3) facilitating the resolution of transborder issues such as contagious diseases and environmental degradation and (4) meeting common resource or other needs. A particular focus is development of infrastructure to promote a freer flow of goods and people; other

priority areas include energy, telecommunications, environment, human resources development, tourism, trade, private sector investment and agriculture.

There has been a lot of discussion about evolving regional architecture and what it might mean for Cambodia and its future. Geographically, Cambodia is at the heart of the GMS, ASEAN, ASEAN+3 and several other regional frameworks. Strange *et al.* (2013) argue that the country’s strategic location is a major asset. The prospect of an integrated production network and market extending from China, through the GMS countries to the rest of South-East Asia, provides Cambodia with opportunities for trade, growth, prosperity, private sector development and poverty reduction. The government has articulated regional integration planning in the Rectangular Strategy Phase III. It states:

The process of Cambodia’s integration into regional and global communities will deepen especially through participation in the ASEAN Economic Community to be established in 2015, while making utmost efforts to effectively harness opportunities and the conducive environment stemming from regional integration to achieve maximum benefits for Cambodia, particularly through linking the Cambodian economy to regional production networks and global value chains.

These broad policy prescriptions demonstrate the government’s strong commitment to membership of GMS, ASEAN, associated ASEAN regional institutional arrangements and the WTO.

The surge of FTAs in the region presents both opportunities and challenges for Cambodia. Full implementation of the AEC is expected to increase real GDP by 4.4 percentage points, while bigger, region-wide FTAs like ASEAN+3 and ASEAN+6 will have an even larger impact, leading to increases in real GDP of 6.42 percent and 6.44 percent, respectively (Itakura 2013). Among ASEAN+1 FTAs, the ASEAN-China FTA will have the largest impact on Cambodia’s economy, increasing real GDP by 8.3 percentage points (*ibid.*). Hing (2013a) and Strange *et al.* (2013) draw similar conclusions in qualitative terms on opportunities arising from FTAs. They argue that, apart from maintaining political and macroeconomic stability, regional cooperation can promote physical connectivity, bring greater access to regional markets, resources and investments, increase involvement in regional production networks, accelerate necessary domestic reforms and thus improve the business and investment climate. These will all contribute to accelerating productivity, employment and economic growth. The authors conclude that it would be in Cambodia’s interests to move beyond the AEC and become part of an east Asia-wide free trade and

economic community, which could help narrow or bridge the development gap in east Asia through a coordinated approach to economic and regional development cooperation and integration.

The associated challenges discussed in Hing and Strange (2014) relate to ASEAN centrality and the ability of Cambodian institutions to manage complex FTAs. It could be the case that ASEAN loses its “relevance and centrality”. Such an evolution would not be in the best interests of Cambodia since it would reduce its relevance in the rapidly growing and dynamic regional economic integration. Second, the complex set of economic cooperation initiatives bring a heavy burden for Cambodian institutions and the country’s private sector. Most public institutions in Cambodia are characterised by a lack of financial and human resources, uneven coordination vertically and horizontally and a lack of sufficient incentives to perform tasks effectively. The complex and multilayered regional integration processes will cause greater coordination problems for Cambodia and thus lead to less effective management of regional cooperation. Private sector engagement in ASEAN processes is at best uneven, and there is a lack of awareness about the benefits and opportunities of region-wide FTAs and of regional integration. Also, the complex set of rules and procedures creates a burden and leads to confusion for businesses.

## *2.2. The ASEAN Economic Community and Cambodia’s Labour Market*

This issue has attracted debate at both policy and academic forums. Surprisingly, despite its economic and social significance, in-depth analysis of the issue and its impacts is scarce. This section provides brief mapping of the coverage and progress of labour mobility in the AEC. It then puts together various perspectives on what it might mean for Cambodia, mainly extracted from Chia (2011), Hing (2013b) and Hing and Strange (2014).

The ASEAN region has experienced dynamic labour mobility, largely driven by particular skills shortages, foreign direct investment, surplus skills relative to demand or the export of skilled human resources as a deliberate government policy. A much larger share of labour flow is unskilled and semiskilled workers.

The AEC Blueprint covers only “free flows of skilled labour”, representing just a small proportion of intraregional labour movement. Free flow means a flow managed through regional rules and subject to national laws and regulations. Actions proposed in the Blueprint include: (1) facilitating the issuance of visas and employment passes for ASEAN professionals and skilled labour engaged in cross-border trade and investment-related activities; (2) enhancing cooperation among ASEAN University Network members to increase mobility for

both students and staff within the region; (3) developing core competencies and qualifications for occupational and trainer skills; and (4) strengthening the research capabilities of each ASEAN member state in promoting skills and job placements and developing labour market information networks among member countries. Mutual recognition agreements (MRAs) are a major instrument for skilled labour mobility. At present, ASEAN has concluded seven MRAs on engineering services, nursing services, architecture, surveying, medical practice, dental practice and accountancy.

It is widely agreed that the liberalisation of people movement in the AEC has shown slow progress, covers only a small proportion of labour and neglects the larger labour segment; negotiation on MRAs has been complex, and members are reluctant to allow the free flow of skilled labour because of apprehension about the impact of liberalisation on domestic employment and occupational standards. The situation is compounded by the fact that implementation of MRAs has been constrained by domestic regulations (Chia 2011). For instance, regulatory barriers impede skilled labour mobility, including requirements and procedures for employment visas and employment passes, constitutional and legal provisions reserving jobs for nationals, economic and labour market tests that constrain employment of foreigners and require them to be replaced by locals within a stipulated period, language proficiency requirements and licensing regulations of professional bodies.

In Cambodia, the fear of competition from more highly skilled foreigners is greater than the perceived opportunities or desire of skilled locals to work abroad. There is a perception that until Cambodia can bring its own occupational standards up to regional levels, many skilled workers might be displaced by more highly skilled foreigners if the free mobility of skilled labour prevails.

CDRI studies including Hing (2013a) and Hing and Strange (2014) argue that Cambodia is now facing skills shortages largely due to lack of motivation, staff turnover and insufficient education and training. Going forward, Cambodia can benefit from the AEC since it can continue to import skilled labour from other ASEAN countries to tide it over this period. But over the longer term, the country should also focus on developing the skills of domestic labour so that it can reduce its dependence on foreign skilled labour. Improving the education system should be the prime policy focus, with primary and secondary education imparting the necessary foundational skills to young people, and higher education and TVET (technical and vocational education and training) building on that. In particular, this would produce the highly skilled youth (especially in science, technology, engineering and mathematics) the country requires. Institutional capacity building to formulate

and implement appropriate policies and interventions in education is also vital.

### 2.3. Regional Tension in South China Sea

The problem of the South China Sea has arisen within the ASEAN cooperation agenda in recent years. Leng (2012) elaborates the causes and prospects of conflict and provides suggestions about how the conflict can be resolved.

The conflict is attributed to at least six factors: (1) the difference between China's historical rights and its actual possession of the archipelagos;<sup>2</sup> (2) the abundance of natural resources, particularly oil and gas, in this area; (3) the changes in the balance of power in south-east Asia following the US's defeat in the Vietnam War; (4) the lack of certainty in the UN Convention on the Law of the Sea, which creates the possibility of different interpretations by claimant states; (5) the importance of the islands' strategic positions for sea-lane defence, trade and surveillance; and (6) increasing nationalism in the countries involved.

There have been various efforts to resolve the conflict. The first was introduced by Indonesian Ambassador Hasjim Djalal, a leading expert in maritime law and politics. He initiated a series of workshops titled "Managing Potential Conflict in the South China Sea", aiming to influence officials initially and prepare possible proposals before proceeding to official negotiations. Even though the workshops fostered significant interaction among the parties, the conflict remained deadlocked. The ASEAN Regional Forum (ARF) was another approach applied by the ASEAN claimants to push Beijing into multilateral negotiations. In the beginning, ASEAN assumed that this approach would work because Beijing started viewing the ARF as a vital mechanism for confidence building after 1995. However, China opposed the use of ARF to engage it in multilateral negotiations. Beijing was afraid that ASEAN would reach a common position and pave the way for other external powers such as the US and Japan to get involved, putting Beijing at a disadvantage. Realising that its hard stance could result in closer military cooperation between the ASEAN countries and external powers, China somewhat softened its position towards ASEAN through the conclusion of the Declaration on the Code of Conduct of Parties in the South China Sea with ASEAN on 4 November 2002.

<sup>2</sup> *China's claim is based on its view that the Qing dynasty diplomatically resisted British vessels' arrival at the Spratly islands in 1877. Nevertheless, under the 1982 United Nations Convention on the Law of the Sea (UNCLOS), Beijing has not proved a "continuous and effective act of occupation" of the Spratly and Paracel groups, giving the green light to other coastal countries to construct legal claims based on the UNCLOS.*

The 2002 declaration signified a move towards the promotion of peace, stability, development and cooperation in the South China Sea. Nevertheless, it reflects only a political will, not a legal basis to bind and regulate the behaviour of the parties. In addition, implementation of the code is thus far almost in deadlock due to different positions on its geographic scope and to claimants' unilateral moves to exploit national resources in the disputed areas.

Any provocation against China should be avoided, as this could hamper the trust that ASEAN and China have achieved. Concerning the key elements in the code of conduct, China and the ASEAN claimant countries ought to work out the territories that each effectively controls, and those that they do not. The territories that have not been occupied by any party should be subject to joint development projects. These joint projects would set a good precedent to resolve disputes in areas where one party has effective control.

### 3. Policy Priorities to Leverage Regional Integration for Economic Growth

Hing (2013a) argues that while regional cooperation is a necessary condition for growth, it is not sufficient. He provides some policy priorities to maximise the benefits from regional cooperation. They are:

- (1) Maintain sound macroeconomic management:** Securing a stable and resilient macroeconomic environment will continue to be critical to successful outcomes from trade promotion policies. Policy priorities include maintaining low inflation and exchange rate stability, building trade sector resilience, improving revenue collection and strengthening financial sector services.
- (2) Improve the investment climate:** Priorities to remedy investment climate weaknesses include improving infrastructure, streamlining customs procedures, enhancing logistics efficiency and investing in human capital. Also conducive to investment would be deepening special economic zones through superior infrastructure, overcoming bureaucratic and administrative hurdles, creating more flexible employment relationships and ensuring ready access to low and highly skilled labour.
- (3) Invest in human capital:** Cambodia's current labour market is characterised by the low education of the workforce, skills mismatches and skills gaps. Cambodia must invest heavily in skills upgrading and human capital development. Priority policies include improving school infrastructure, especially in rural areas, increasing the number of technical and vocational schools to match the demand for skilled labour, improving the teaching and governance of tertiary education and institutionalising research and development capacities in higher education.

#### (4) Synchronise regional cooperation frameworks:

The country needs to improve its institutional arrangements, which have hampered integration in the past. Coordination and communication among government agencies need to be clear and efficient. Capacity building has to be provided to those who have a role in these frameworks. Central to this will be ensuring the coordination and synchronisation of GMS-ASEAN-east Asian development cooperation and regional integration to include a focus on sustained growth and bridging the development gap, with associated regional investment in long-term institutional capacity development. In addition, Cambodia needs to improve understanding of regional cooperation among the private sector and motivate it to engage.

#### (5) Effectively address trade policy constraints by:

- a) **Improving logistics:** Cambodia is among the countries with the least efficient logistics services, which stems from factors including insufficient and poor quality of infrastructure, low efficiency and effectiveness of clearance by customs and border control agencies and low competence. Policy interventions can range from improved trade-related infrastructure to better border management, i.e. through reforming and modernising customs and wider information sharing, greater competition in trucking, port and air freight services and ready access to information about international transit agreements.
- b) **Simplifying customs procedures:** Cambodia requires comprehensive reforms to ease major constraints perceived by the private sector, in particular processing customs and trade documents, coordination among trade facilitation agencies and access to information on export procedures, regulations and fees.
- c) **Improving export market information services:** The private sector lacks knowledge of export procedures and export markets. A short-term priority measure should be providing support needed by exporting firms, particularly in product and market development and market information services. Policy measures should also focus on building domestic trade networks (government, private sector and investor) and overseas networks (foreign governments, international buyers and investors) and improving information systems.
- d) **Improving standards compliance:** Cambodia has encountered great challenges in complying with importing countries' technical standards primarily due to weak legal and regulatory frameworks, poor coordination, duplication of functions among various agencies and

absence of systematic laboratory testing to support inspection. Measures should focus on strengthening institutional frameworks, especially in relation to mandates and coordination, building technical and managerial capacity and establishing assessment bodies that are recognised by international accreditation agencies.

#### 4. Some Policy Questions for Cambodia and the Region

Questions arising from various studies, specifically Strange (2013) and Hing and Strange (2014) and discussions at the workshop on policy related to regional integration and Cambodia, include:

- What is the state of play of regional security and geopolitical and economic cooperation in Asia? How is Cambodia placed in terms of regional cooperation?
- Which of the related and sometimes competing models of “regional architecture” will ultimately “win”: ASEAN+3? ASEAN+6? Others? Which would be in Cambodia’s best interests?
- Can ASEAN’s “centrality” in future regional architecture still be assumed? Why? How can it best be maintained? What might a CJK FTA mean for ASEAN’s and Cambodia’s future? How feasible is it, given the unresolved tensions and issues between China, Japan and South Korea? Is it in Cambodia’s and ASEAN’s interests for a CJK FTA to be achieved, then “dock” with the AEC to constitute an East Asian Economic Community, either as the dynamic driving force of RCEP, or as an alternative regional integration and cooperation mechanism?
- Does ASEAN need to strengthen its institutional structure, rules and resources? Is “the ASEAN way” still an effective way to deal with regional tensions and issues if ASEAN continues to claim centrality in respect of regional economic integration and cooperation?
- How is geopolitical and economic competition between China and the US in Asia likely to affect regional architecture and regional cohesion? What are the implications for Cambodia?
- Which model(s) of regional economic integration and cooperation would best serve the needs of ASEAN’s least developed countries, now and when they achieve lower middle-income status? Is RCEP a feasible vehicle for narrowing the development divide? How?
- Do these issues have any impact on the day-to-day lives and activities of Cambodian communities, private sector companies and NGOs? Or do they mainly keep government officials busy? How can these other stakeholders in Cambodia’s regional future become more informed and engaged to benefit from the opportunities that regional economic integration and cooperation bring?

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### About DRF

The Development Research Forum (DRF) of Cambodia was established following the All-Partners Forum organised by the International Development Research Centre (IDRC) in September 2007.

The DRF vision is of a high capacity, professional and vibrant Cambodian development research community. Its goal is to support and strengthen the capacity of the Cambodian development research community.

The DRF partnership involves the Cambodia Development Resource Institute (CDRI), Cambodian Economic Association (CEA), Learning Institute (LI), National Institute of Public Health (NIPH), Royal University of Agriculture (RUA), Royal University of Phnom Penh (RUPP), Supreme National Economic Council (SNEC) and the International Development Research Institute (IDRC).

In DRF Phase II 2012-15, with financial support from IDRC, the partners intend to work together to build research culture and capacity and to share research knowledge through workshops, policy roundtables and symposiums as well as training and online discussion ([www.drfcambodia.net](http://www.drfcambodia.net)) on six research themes: growth and inclusiveness, governance of natural resources, social policy – education, social policy – health, agricultural development, and Cambodia and its region.

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