

**KEYNOTE ADDRESS**

**By**

**H.E. Dr SOK Siphana**

**Chairman of the Asian Vision Institute**

**Founding Partner of SokSiphana&associates**

**At the AmCham event on**

**“Impact of RCEP: Legal, Commercial, and Practical Implications for Cambodian Business”**

**Sofitel Phnom Penh Phokeetra, 24 May 2023**

*Excellency Sim Sokheng, Secretary of State, Ministry of Commerce and RCEP Chief Negotiator,*

*Mr. Devin Barta, President of AmCham Cambodia,*

*Mr. Ruwan Hulugalle, Chairman of AmCham’s Law Committee,*

*Excellencies, Ladies and Gentlemen,*

1. Let me start with the obvious! the RCEP is the largest FTA in the world with the most diverse membership, from their income per capita levels, their combined expansion of investments under the new ROO and certainly other openings in the trade in services. From a country macro level perspective, Cambodia will stand to gain a lot. Many studies done by the World Bank and the Asian Development Bank and ERIA have attested to that already. But what sort of new business opportunities will be generated for Cambodian companies? Here I meant enterprises owned and operated by Cambodian nationals, and not foreign investors establishing their business in the country. Are they ready to embrace RCEP, and in what ways?

2. In the past 20 years, the progressive market-based reforms driven by the WTO accession in both manufacturing and services have been successful in lifting Cambodia a few nods along the development spectrum. At the level of the private sector, much knowledge and know-how were transferred along with their corresponding technical and technological capacity. Financial resources accumulation is blatantly obvious from when you drive in town, from the flaunting of excess wealth, fancy cars and nice restaurants.

3. I believe that now is the time for Cambodia and Cambodian companies to move up to the next stage of development by embracing the trade and investment opportunities offered under the RCEP. From the government perspective, I see a major diversification drive to move industries from the currently concentrated textile, footwear and travel goods into higher value-added manufacturing activities. Do bear in mind that in just a few years from now, Cambodia will have the possibilities to graduate from the Least Developed Country (LDC) status to join the rank of many of its ASEAN neighbors as a Developing Country, the like of Vietnam, Thailand and Malaysia.

4. In my view, changing the business paradigm from a post-WTO to a post-RCEP will necessitate a deeper structural transformation to stimulate export diversification agenda. It would need to inculcate the notion that its domestic firms are capable of being part of the GVC.

5. First and foremost, we need to appreciate the impact of the China-Japan-Korea (CJK) trade integration factor, which by the way is one of the biggest factors arising under the RCEP. The gradual tariff reduction schedules between these three countries are very significant over time as light and advanced manufacturing, and trading services are expected to grow under the CJK framework. At a time when the markets for our export to the US and the EU are uncertain, for reason we all know, the war in Ukraine, the biggest and most competitive providers of inputs and intermediate products in the world are in the CJK. The RCEP cumulation possibilities between these three countries are enormous. And so are their ripples effects on ASEAN, and by extension Cambodia. How so, one may ask?

6. Through the enhanced ROO flexibility, I foresee more Japanese, Korean or Chinese multinationals shifting some of their production to Cambodia as a lower-cost location where they will expect higher profit margin through a better and streamlined regional supply chains. We all know that ASEAN countries have a high level of intra-industry trade, mainly in the electronics sector, and with the CJK the transformation of these GVC is expected to grow further. For the technically advanced ASEAN nations, their companies have moved to higher-end factories, where labour and production costs are relatively high. By default, they are keen to minimize costs by outsourcing finishing work to the less well-off ASEAN nations, and Cambodia is certainly one of them in the Mekong sub-region.

7. In that regard, Cambodia is in a unique position to take advantage of the RCEP CJK factor where existing trade and investment linkages already exist, particularly For labour-intensive processes where the unified ROO has stimulated a great deal of manufacturing interest and other GVC activities.

*Excellencies, Ladies and Gentlemen,*

8. The CJK factor could have another positive impact on Cambodia in terms of greater flows of key value-added activities in the lower-tier parts and components of GVC manufacturing activities. Here I can mention computers, electronics, and electrical products, machinery parts and components, and transport equipment. Currently, major electronics component manufacturers and assemblers, including Minebea, SVI and Sumitronics, are successfully operating in Cambodia, in Phnom Penh or along the Cambodia-Thailand border. They have expanded their production activities into Cambodia as part of the Country "+1" strategy or broader supply chain diversification. Japan and China represent the major source of electronics sector investment in Cambodia.

9. It is promising to see Japanese companies working in the automobile assemblies. In the near-term, Cambodia will focus on more labour-intensive automotive components

for export (e.g., wiring harnesses, seats and simpler electronics and electrical components), while increasing backward linkages for locally assembled two-wheelers. Ultimately, Cambodia will aim to attract more Original Design Manufacturers and Original Equipment Manufacturers. But these are the big foreign companies. Certainly, they have created job opportunities for Cambodians and trained them. They have leased their factories or bought land. But where do Cambodian companies fit in?

10. In my humble view, there is a need to map and align domestic firms to enter the regional GVC activities in critical industries where Cambodian natural resources abound, like in rubber processing, cassava-based ethanol, and plywood processing. The recent inauguration of the Chinese-invested car tire factory which plan to export 6 million tires annually is a proof.

11. I don't think many of our Okhnas would have the financial and technical resources to undertake such a massive project. But the opportunities in smaller and mid-sized rubber manufacturing projects are limitless. Cambodia has more than 700,000 hectares of rubber plantation that can produce latex for a wide range of industrial applications like mountings, gaskets, belts, and hoses, industrial gloves as well as consumer products such as shoes, clothing, furniture, and toys. Other products made of natural rubber include e.g. mattresses, condoms, shoe soles, hot water bottles, balloons, rubber boots and seal rings. Here I want to stress that our natural rubber is favoured over synthetic rubber because of its great tensile strength, vibration-dampening characteristics, and tear resistance. I am thinking of airplane tires.

12. How about agro-industrial processing of cassava? The food industries are one of the largest consumers of starch and starch products. For nonfood industries, cassava could be used as chemical raw materials for many other purposes: corrugated cardboard manufacture, remoistening gums, and adhesives. Let's not forget cassava alcohol. How about biofuel production. This is an opportunity for Cambodia to help save the planet.

13. For processed agricultural goods there is a great opportunity to develop agri-processing for export, like package noodles, cakes, bird's nests, coconut processing goods, peanut oil, chili sauce, banana jam, and mango jam, etc. The spin off from the GVC activities are in key agricultural services which Cambodian companies can enter, e.g. in branding, marketing, warehousing, and storage for key market destinations.

14. Processing cashew nuts for export is another big-ticket item. Last year, Cambodia exported 670,000 tons of raw cashew nuts worth over US\$1 billion, mostly to Vietnam. Unfortunately, they export raw cashews. No value added. Already a Japanese company plans to build a large factory to process cashews to the world market. They are looking at processing cashew shells into fuel also.

15. How about bamboo? what products can be made from it? I am thinking of bamboo flooring, like the one you find in IKEA stores, furniture and kitchen utensils, chopping boards, cutlery, and chopsticks. How about sports equipment such as skateboards and snowboards?

16. Under RCEP there are plenty of export opportunities for agricultural products like maize, coconut, fresh mango, banana, sweet potato, honey, turmeric powder, orange, papaya, passion fruit, garlic, guava, dragon fruit, durian, etc. And the list goes on.

17. How about processed fish? After all we have the largest lake in Southeast Asia, the Tonle Sap Lake. The opportunities are also huge for processed fishery products. Fish can be ground, canned, pickled, salted, smoked, dehydrated, or otherwise cured, or cooked. They can be fresh and frozen, fish fillets and steaks, and canned clams. Hmm, I am hungry.

*Ladies and Gentlemen,*

18. Under RCEP, opportunities abound for the domestic service industries in support of manufacturing activities and other GVC activities in the CJK framework. The predictability of Cambodia's regulatory commitments made to liberalise these various services sectors will strengthen the structural transformation of border and behind-border issues of the Cambodian economy and will comfort investors to enter the Cambodian market. But there are many Cambodian companies which can compete as well in these sectors. For example, in the logistics and transportation sector, domestic SMEs can move into higher value-added activities, like cold-chain system, integrated warehouse operations, and container storage services along the entire supply chain. Cambodian Okhnas can easily invest there.

19. New Special Economic Zones (SEZs) can attract multinational activities in GVC activities. The recent inauguration of the Phnom Penh-Sihanoukville highway and the upgrades of ASEAN Highway 1 linking the Southern part of Cambodia to Thailand have provided new service linkages for managing the movement of goods across first-tier cities such as Phnom Penh, Sihanoukville, Battambang and Bavet.

20. In term of improving services required to support foreign manufacturers and investors, Cambodia has made commitments over 100 sectors and sub-sectors in the form of a positive list, much higher than it did during the WTO accession. For example, we have committed to allow foreign firms to operate in the areas of legal services, accounting, auditing, management consulting, and transport, etc. As such, there will be many opportunities for these homegrown companies to develop innovative services to tap the regional supply chain chains, and most importantly, to emerge as credible business actors in the international business scene.

*Ladies and Gentlemen,*

22. How about human resources development? Higher value-added activities are driven by strong human capital and the skilled labour force. Cambodia has great potential to transform its demographic dividend into a critical mass of human capital. The RCEP commitments are made in areas that will help Cambodians develop the skills needed for a modern and competitive economy, for example, it committed to allow foreign firms to provide technical and higher education services. Professional

cooperation is also envisaged between RCEP countries to mutually recognize each other's professional qualifications, as they will potentially open new doors for our dentists, engineers, architects and other professions. With the enactment of Cambodia's new Law on Investment, with its wider range of incentives for human resources development, Cambodia is prime to expand its pool of trained electronics workers, technicians and mid-level managers, and skilled engineers.

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23. On the last portion of my keynote, I want to touch on the how Cambodian companies can truly benefit from the RCEP. Obviously, the market opening under RCEP will offer new joint venture or commercial collaboration possibilities for Cambodian services suppliers, for those who know. As a matter of fact, nearly two decades after the country's accession to the WTO, Cambodian companies have developed their respective strength and expertise in the market place. Many have moved to manufacturing and improved its process ecosystem, with matured supply chain linkages. Others have moved their business online, resulting in a surge of digital shops and accelerating e-commerce growth.

24. It is now time to move into sophisticated joint ventures with foreign firms to access external financing, new technology and know-how. Many commercial partnerships and collaborative arrangements in the various sectors can be complex as they can be subject to many different regulations but do remember to have proper shareholders' agreements. You should not enter into a JV without a well negotiated shareholder's agreement. In any venture, small problems will appear soon enough and therefore you must have corporate documents that legally regulate the relationship between the shareholders. Among these points, the most important ones relate to the exit. What if you or they want to leave the JV outright and/or sell their shares, who can or must buy those shares and at what price?

25. This is something Cambodian companies must start to appreciate the value of professionals, the like of consultants, lawyers, and accountants. In international businesses where people move all the times from one project to another, from one country to another, relations don't matter much without a good document to protect you in the long run. Lastly, I can't stress enough the importance of conducting sufficient due diligence of your potential foreign partners. It is critical to screen them for reliability and trustworthiness and to ensure that all terms of any potential agreements are clearly articulated, including processes related to dispute resolution.

26. Finally, let me wrap up my keynote address by reiterating one more time that RCEP is a game changer for our country. It will bring new sources of business opportunities for many businesses for years to come. Let's try to learn as much as we can on its nuts and bolts so that we can say that this huge regional FTA which the Government has worked so hard to conclude will be well worth their efforts.

Thank You.

