

Special Address
by H.E. Dr. Sok Siphana
Advisor to the Royal Government of Cambodia
At the Session on Trade, Investment and Value Chain

Policy Dialogue on Mekong – Ganga Cooperation (MGC)
“Stronger Connectivity, Enhancing Ties”
India Habitat Centre, New Delhi
8 April 2017

*Ambassador Rajiv Bhatia,
Dr. Prabir De,
Distinguished Guests,
Excellencies, Ladies and Gentlemen,*

I am delighted to join you all at the **Policy Dialogue on Mekong – Ganga Cooperation (MGC)**. Let me express my appreciation to the Ministry of External Affairs and the ASEAN-India Centre for this initiative to organize this Dialogue. I am certain, listening to the previous speakers this morning, we can learn a lot from the experiences of India and the Mekong countries and hopefully we can be inspired to work together to formulate an actionable policy agenda for further strengthening the MGC. Let me also congratulate the AIC for playing an active role since 2013 in fostering dialogue and cooperation between ASEAN Member States and India. I wish to highlight that this year we are celebrating the 25th anniversary of ASEAN-India Dialogue Partnership, including 15 years of Summit Level interaction and 5 years of Strategic Partnership.

Today’s conference theme of ‘*Stronger Connectivity, Enhancing Ties*’ is very timely and relevant for India and the Mekong countries as there is clear sense of urgency to speed up the collaboration efforts under the MGC framework. I wish to recognize the successful outcome of the Seventh MGC Ministerial Meeting held last year in Vientiane, which has given an additional boost to the implementation of the MGC particularly in the area of trade, investments, and connectivity.

Excellencies, Ladies and Gentlemen,

We are now living in an interesting time. We have witnessed a bleak global economy that is being reshaped by forces, which are disrupting trade and industry structures, value chains and business models. The world is facing many challenges and undergoing great changes and profound adjustments: a new paradigm emerging with the rise of populism spreading wide and strong across the globe; a shift of a political trend toward nationalism and against globalization; the death of the TPP; the Brexit and its impact on the future of EU.

This year, Davos was confronted with a fundamental question: ‘*has Globalization really benefited everyone?*’ Not all who came to Davos were convinced that capitalism

has worked well for everyone. Instead, there seem to be the return to the criticism that globalization and free trade will only benefit the rich-man club.

Ladies and Gentlemen! Not all is so bleak! At least in our part of the world, the free trade spirit is still intact and strong. The Asia-Pacific region has been witnessing efforts at fostering new regional trade integration arrangements such as the *Regional Comprehensive Economic Partnership (RCEP)*. Equally important is the changing regional economic landscape toward deeper integration and greater connectivity: the Greater Mekong Sub-region is increasingly integrated; ASEAN has markedly achieved deeper regional integration through the *ASEAN Economic Community (AEC)*; the rise of China as a global economic power along with its recently launched the '*One Belt One Road (OBOR) Initiative*' and the associated mechanism like the *Asian Infrastructure Investment Bank (AIIB)*; India's '*Look East Policy*' that has matured into a dynamic and action oriented '*Act East Policy*', all these would also have profound implications for regional and sub-regional development. I believe, all these factors will significantly impact the trade and the future course of development of MGC countries.

There is a good trend that companies from Japan, United States, European Union, South Korea, Australia and even China are looking for cost and production efficiencies. Given the Mekong countries' strategic location in the fast-growing East Asian region, these present tremendous opportunities for their industrial sector to diversify and upgrade value chains.

Excellencies, Ladies and Gentlemen,

According to World Bank and OECD research, Global Value Chain (GVC)-driven policies have been shown to drive productivity growth, create jobs and improve living standards. East Asia is the region with the highest level of GVC participation. Advanced economies such as Japan and Korea often produced parts and components and then exported to emerging economies such as China, Thailand, Vietnam and Cambodia to assemble into finished products and export to global markets. Such an intensity and dynamics of intra-regional trade make the region known as 'Factory Asia'.

So what exactly are GVCs and are they the solution that India and the Mekong Countries are looking for to advance their trade and investment agenda? To what extent are the Mekong Countries integrated into GVCs? What are challenges for Mekong Countries in the context of GVCs dynamics?

Indeed, there is clear and convincing evidence that GVCs can speed up industrialization, growth and development. But not all GVCs are equally complex or widespread, nor are they easily captured in a simple flowchart; their technical characteristics and distribution may and does evolve over time. There is also the divergent socio-economic conditions between Mekong Countries and India, which can become either a strength or a weakness in a formation of various value chains. GVCs total participation index of Mekong Countries differs from country to country. Countries with low total participation index indicates that they have a

limited integration in the global economy. It means they rely more on raw materials supplied to and processed further by other countries within the global value chains. According to global value chain data, Cambodia's global value chains participation index is 49 percent, slightly lower than Vietnam. Thailand have the highest degree of participation among ASEAN countries. Due to these divergent socio-economic conditions between Mekong Countries, the success of the GVC implementation will highly depend on the political and socio-economic realities of the respective member countries.

Excellencies, Ladies and Gentlemen,

The good thing about GVCs is that individual members of the Mekong Countries do not need to undertake the full range of value chains. They can take part in particular tasks or activities or functions in which they have comparative and competitive advantages.

The remarkable success of Cambodia's garment and footwear industry is a typical example of successful integration in global value chains. As well as a key driver of strong and sustained growth, Cambodia's participation in garment and apparel value chains has contributed to the increase in wage employment that absorb much of productive labour force from rural areas. Cambodia's GVCs are increasingly integrating electronics, automatic components and vehicles sectors.

To some extent, Cambodia's garment and apparel value chains have contributed to the notable socio-economic progress of the country. Such high level of sustained growth has earned Cambodia a place in the World Bank category known as 'Olympian of Growth'. The progress also lifted per capita income from just USD 248 in 1994 to the level that moves the country from the lower income country to lower-middle income country (at USD 1307 in 2016). Over the same period, the economy has rapidly industrialised; the industrial sector accounted for 28.9 per cent of GDP in 2016, a sharp increase from 13.5 per cent in 1994.

Excellencies, Ladies and Gentlemen,

From its inception, the MGC initiative aims at developing closer economic relations among the member countries. Their Ministers have highlighted long ago their objectives with regards to facilitating movement of goods and people in the region; creating necessary infrastructural facilities in the Ganga-Mekong basin areas; and building value chains in the region. I must admit that the MGC has not matured to the extent that it was originally envisaged; its speed has been slow and uneven. Having said, as an optimist and a pragmatist, I am still of the view that we have taken our time to build our foundation. Slow pace indeed, but on solid foundation of trust, sincerity and understanding.

Furthermore, I would like to believe that this solid sub-regional foundation will enable us to take good advantage of the many recent regional and global developments.

First and foremost, the Mekong countries are an integral part of ASEAN and India is one of the strategic partners of ASEAN. With a total population of 1.8 billion and a combined GDP of some USD3.8 trillion, ASEAN and India together form an important economic space in the world. Presently, ASEAN has grown to be India's fourth largest trading partner after China, the European Union and the United States. The ASEAN-India Free Trade Area has been completed with the entering into force of the ASEAN-India Agreements on Trade in Service and Investments in 2015.

Investment flows are also substantial both ways, with ASEAN accounting for approximately 12.5% of investment flows into India since 2000. FDI inflows into India from ASEAN between 2000 to 2016 was about USD49 billion, while FDI outflows from India to ASEAN countries, from 2007 to 2015, was about USD38 billion.

Second, with the realization of the AEC last January 2016 and the RCEP negotiations in full swing, ASEAN and India are poised to become another economic block powerhouse of Asia. The eminent conclusion of the RCEP would deepen integration among the member countries, while promoting goods and services trade, investment, the IT sector, competition, dispute settlement, and altogether facilitate the creation of many GVCs. While awaiting for the RCEP to be realized, ASEAN has already abolished intra-regional tariffs under the ASEAN Trade in Goods Agreement (ATIGA), which was a good starting point for creating opportunities for GVCs to flourish throughout the region.

Third, India's 'Act East Policy' has placed renewed emphasis on its Eastern neighbours with focus on countries in East and Southeast Asia. India's announcement of a Line of Credit of USD 1 billion to promote projects that support physical and digital connectivity between India and ASEAN and a Project Development Fund of about USD73 million to develop manufacturing hubs in CLMV countries are clear indication of India's commitment.

Fourth on Connectivity. Transport connectivity is an important component of physical connectivity. Two major initiatives come to mind: (i) the proposed protocol of the India-Myanmar-Thailand Motor Vehicle Agreement (IMT MVA). I understand that a consensus has been reached. This agreement, when implemented, will have a critical role in realizing seamless movement of passenger, personal and cargo vehicles along roads linking India, Myanmar and Thailand; (ii) the extension to India-Myanmar-Thailand Trilateral Highway (IMTTH) to Cambodia, Lao PDR and Viet Nam is also under consideration. *Ladies and Gentlemen*, when all these initiatives become a reality, you can imagine a highway, a vibrant economic corridor full of life, that will take you from Vietnam to Cambodia, Thailand, Myanmar right up to East Asia.

Excellencies, Ladies and Gentlemen,

The diversity of the Mekong countries and India presents an opportunity for greater strategic partnership. India plays an increasingly greater role as a growth centre of the world and an attractive destination for foreign direct investment. Aside from having a huge domestic market with a growing aspirational middle class, India is

also a world leader in the IT sector and there are huge opportunities for Mekong countries to forge a deep relationship with India.

For India, Mekong countries occupies a significant position in global trade flows and are considered to be a growing hub for consumer demand. Focusing on trade in services with Mekong countries will give India an opportunity to use its competitive strength to become a services export hub for the ASEAN region as a whole. In sum, a stronger engagement with Mekong countries will give a major boost to India's stature in ASEAN.

Excellencies, Ladies and Gentlemen,

No great initiatives comes without great challenges. GVCs are essentially the practice of vertical integration in which the various stages of a production process are located across multiple countries in order to minimise marginal costs. In other words, a product may undertake multiple 'value-adding' stages across borders before reaching the final market. As such this process, which applies both for imports as well as exports, is dependent on efficient and inexpensive transportation of raw materials and intermediate inputs. GVCs thrive in countries with open borders.

As such Mekong countries involved would need to have a clear policy and strategy to align with global supply chains. Also key to value chains participation are policies that promote deep integration including *trade and investment openness, trade facilitation, service liberalization, competition policy, intellectual property protection and dispute settlement*. I am proud that Cambodia is among the most open economies not just in the Mekong region but in ASEAN.

Other impediments to trade such as lack of adequate trade finance and appropriate financial instruments such as lines of credit, up-to-date modern manufacturing facilities, limited skill gaps have to be addressed in advance. In sum, private sector competitiveness would be a big issue going forward since most of Mekong Countries have small and medium sized companies (SMEs).

As such, India and Mekong countries should seek actively to tackle the real challenge, that is to integrate SMEs into regional value chains: how to help them build the required capacity to navigate the complicated GVC process.

In my country, the Royal Government of Cambodia has adopted in 2015 its '*Industrial Development Policy 2015-25: Market Orientation and Enabling Environment for Industrial Development*' (IDP). The Government's vision is ambitious - to transform and modernise Cambodia's industrial structure from labour-intensive industry to a skill-driven industry, through connecting to regional and global value chains; integrating regional production networks and developing interconnected production clusters along with efforts to strengthen competitiveness and enhance productivity of domestic industries; and moving towards technology-driven and knowledge-based industry.

The IDP is fully coherent with other key government policy instruments: (i) the *Rectangular Strategy III*, in which transport and logistics sector are identified as one of four key pillars; (ii) the *National Strategic Development Plan 2014-18*, which has imbedded the Master Plan for Transport Infrastructure Development; and (iii) the *Cambodia Trade Integration Strategy 2014-18*, which envisages the creation of a National Logistics Blueprint and reforms in customs, including the establishment of the National Single Window system and its integration into the ASEAN Single Window.

Excellencies, Ladies and Gentlemen,

Let me share with you now a few ideas on how I see the Mekong countries and India could move forward to ensure the success of its GVCs.

First, by committing to GVCs, Mekong countries would send a strong signal to the investment community that it is open for business. But participation in GVCs cannot be a single country endeavour. All Mekong countries must work together to eliminate distortions to trade to enable the sub-region to shine as a participant in GVCs. They should also leverage off existing ASEAN regional value chains as a way to enhance GVC participation.

Second, I am convinced that GVCs can provide Mekong countries with the opportunity to take on a more ambitious domestic policy reform agenda to remove market access barriers and implement a sound regulatory framework that enables foreign companies to operate in a transparent and non-discriminatory environment. The bottom line is that open, predictable and transparent trade and investment regimes are necessary for successful GVCs. In other words, GVCs do not work well with discriminatory trade policies and non-tariff barriers.

Third, for the GVCs to be successful, Mekong countries should develop greater co-operation in term of institutional and regulatory framework at three levels—(i) government to government, (ii) among industry associations and (iii) among businesses. They should also be open minded to reach out for synergy with other mega initiatives such as the One Belt, One Road initiative.

Fourth, on a more micro level, Mekong countries need to speed up the operationalization of its respective National Single Window so that the ASEAN Single Window can be fully functional. This would allow firms to submit all required import, export and transit documentation via a single electronic gateway. Other ASEAN ongoing initiatives would surely bring benefits to the Mekong Countries for developing its GVCs, such as the regional self-certification scheme that would enable exporters to self-certify the compliance of their exports with ATIGA's rules of origin. Similar efforts need to be done to upgrade their standards to comply or best to harmonize with ASEAN and other international standards through more mutual recognition agreements.

Fifth, the availability and quality of overall human capital in terms of skilled workforce and knowledge capital are also critical to value chains. The impressive industrialization and sustained economic growth of East Asian economies or known

as 'the East Asia Miracle' is in part due to the ability of these economies to achieve superior accumulation of physical and human capital. Mekong countries should work closely with India to undertake functional upgrading throughout the whole value chain process, that is from manufacturing activities where process and product upgrading naturally takes place toward concept, R&D, design, branding or/and toward distribution, marketing or sales and after service.

Sixth, I am of the view that India and Mekong countries should seriously consider developing its own value chain, by undertaking functional upgrading and brand manufacturing niches in their respective countries. For this purpose, they should support the development of market intelligence center to provide information for its member countries to gain understanding of demand characteristics and consumer needs in various markets.

In conclusion, *Excellencies, Ladies and Gentlemen*, by realizing the India-Mekong Countries GVCs, new business opportunities will be widely open for its member countries to fully enjoy the benefits of the AEC, to improve their respective competitiveness, and to capture over time more domestically created value added content activities.

I would like to again stress that to achieve our ambitious goals of moving up the value chains, it will require an unprecedented level of coordination and cooperation between key agencies and ministries, the private sector, our development partners, research community and educational institutions. The policy dialogue that is held today is such a good initiative and we should encourage more of these sorts of events to take place in the various Mekong countries. It is on that positive and optimistic note that I bring my remarks to a close. I thank you for your attention!
