

# **Scaling up and Shaping up Cambodia-India Economic Ties: '101' and Beyond**

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**(The views expressed here are solely those of the author)**

# To begin with, let us know the partners a bit

## Cambodia

- Young democracy
- Fast growing small economy
- Just graduated to LMIC status
- Youthful population
- Infrastructure constrained
- Emerging garment exporter
- Land-locked, sea-distanced
- Labor-intensive manufacturing
- FDI-receiver
- Tourism-led service exporter
- Large skill gap
- Highly open to trade, capital, and people

## India

- 70-year old democracy
- Fast growing large economy
- Recently graduated to LMIC status
- Youthful population
- Infrastructure constrained
- Established garment exporter
- Sea-linked
- Medium-skill manufacturing
- FDI-receiver and sender
- IT-led service exporter
- Abundant skilled personnel
- Least open to trade, capital, and people, although changing

# Cross-border cooperation: the conventional approach ... mostly about trade in products

- What can India import from Cambodia? agriculture commodities? garments? fishery products?
- What can Cambodia import from India? raw textiles? agricultural machinery? automobiles? drugs and medicines?
- What are the current constraints on both sides?
- Are tariffs too high? can bilateral preferential tariffs help? non-tariff barriers, a constraint? custom's procedures? long shipping routes? information gaps? or just negligent business sectors?
- These are the typical '101' course questions - good beginnings of a cross-border cooperation initiative
- But for the initiative to sustain and flourish, both countries should be prepared to go beyond these '101' trade issues
- Why? The global trading and production system is changing so rapidly that there is much more to cross-border cooperation than just a 'trade deal'...

# 21<sup>st</sup> century trade is a package deal, not a one-off exchange of products across borders

- No more trading in industrial products but trading in tasks
- No single country produces any product anymore
- Vertically integrated production process giving way to horizontal process
- A new wave of production un-bundling sweeping the world
- Finer specialization, aided by huge reduction in transportation costs and IT revolution
- Goods and services blend together in the entire manufacturing process
- The result: trade, production, service provision, and FDI are inextricably intertwined
- Cross-border economic cooperation initiative/deal has to be more comprehensive – beyond the ‘101’ trade issues
- The package deal – goods, services, investment, and people mobility – all must gel as an integral package deal
- Any one missing component will vastly reduce the efficacy of the entire package

# **Cambodia-India economic ties to be on a sustainable path, the two countries need to iron out the ‘101’ issues but at the same time focus on the broader ‘cooperation package’**

- How can Indian investors bring in FDI to Cambodia and establish production facilities? How about a BIT?
  - What sectors to focus on initially? agro-processing? dairy products? drugs and medicines?
- How can the people in the two countries, youth in particular, benefit from:
  - The globally high-ranking Indian IT-sector?
  - India’s robust education and medical services?
  - Cambodia’s renowned but underinvested tourism sector?
- Effectiveness of the broader ‘cooperation package’ would require:
  - Much more government engagement with the private sector
  - Vastly better coordination among the ministries themselves
  - Above all, better coordinated and constructive ‘diplomacy’ on both sides
  - Any lessons for India from the other ‘billion plus country’ – China?

# Now on to a few visuals, so that you don't have to take just my word for some of the things I have said ...

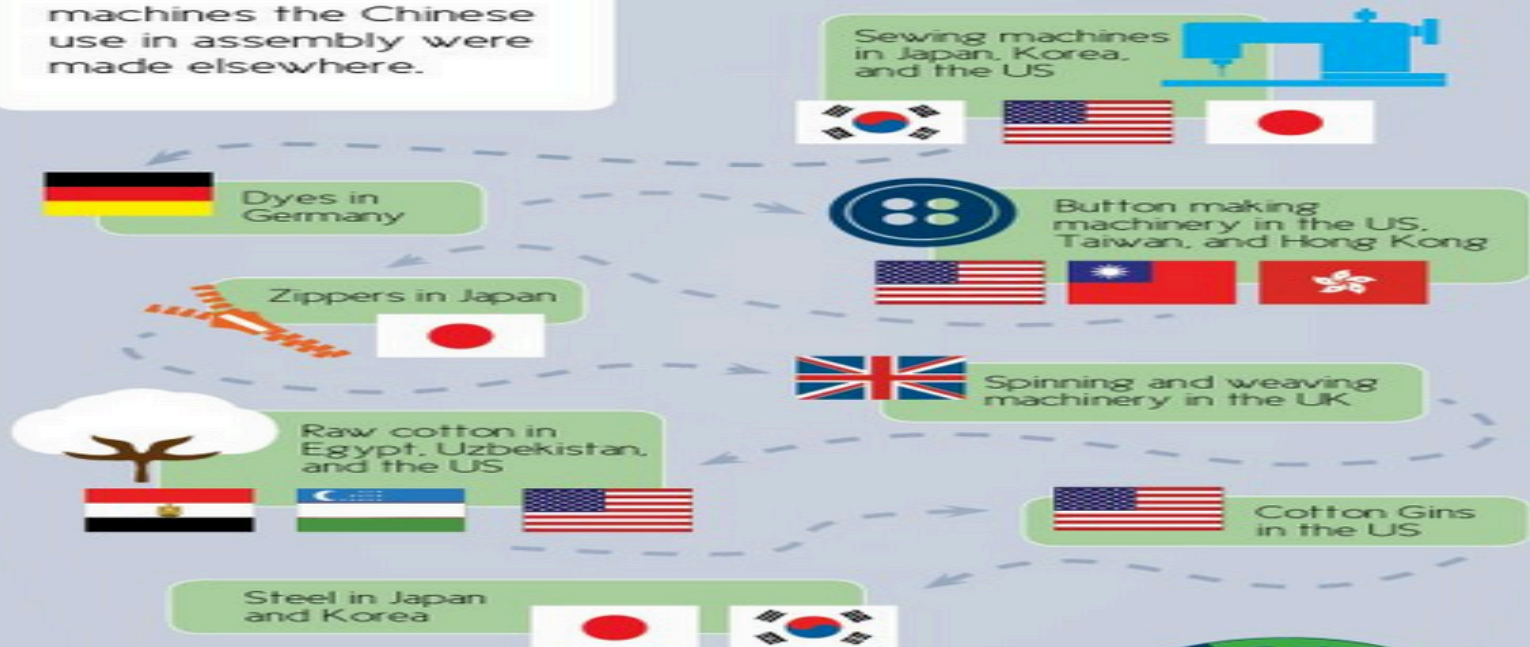
- Even as simple a product as a shirt is no more made in any one country but everywhere
- Let alone more complex products like an aircraft
- An Apple iPhone6
- Or, the need for blending of services in manufacturing (servicification, or manuservice, as it is now referred to).
- Or for that matter, the high global ranking of Indian services sector (ATKearney service location ranking – with three components – financial attractiveness (grey), people skills and availability (blue), and business environment (peach))

As simple a product like a shirt is no more made in any one country...

# Made Everywhere

The Chinese sell us a lot of clothing and other textile products, but most of the materials and machines the Chinese use in assembly were made elsewhere.

What do we mean when we say something is Made in China? Perhaps not what we think we are saying.

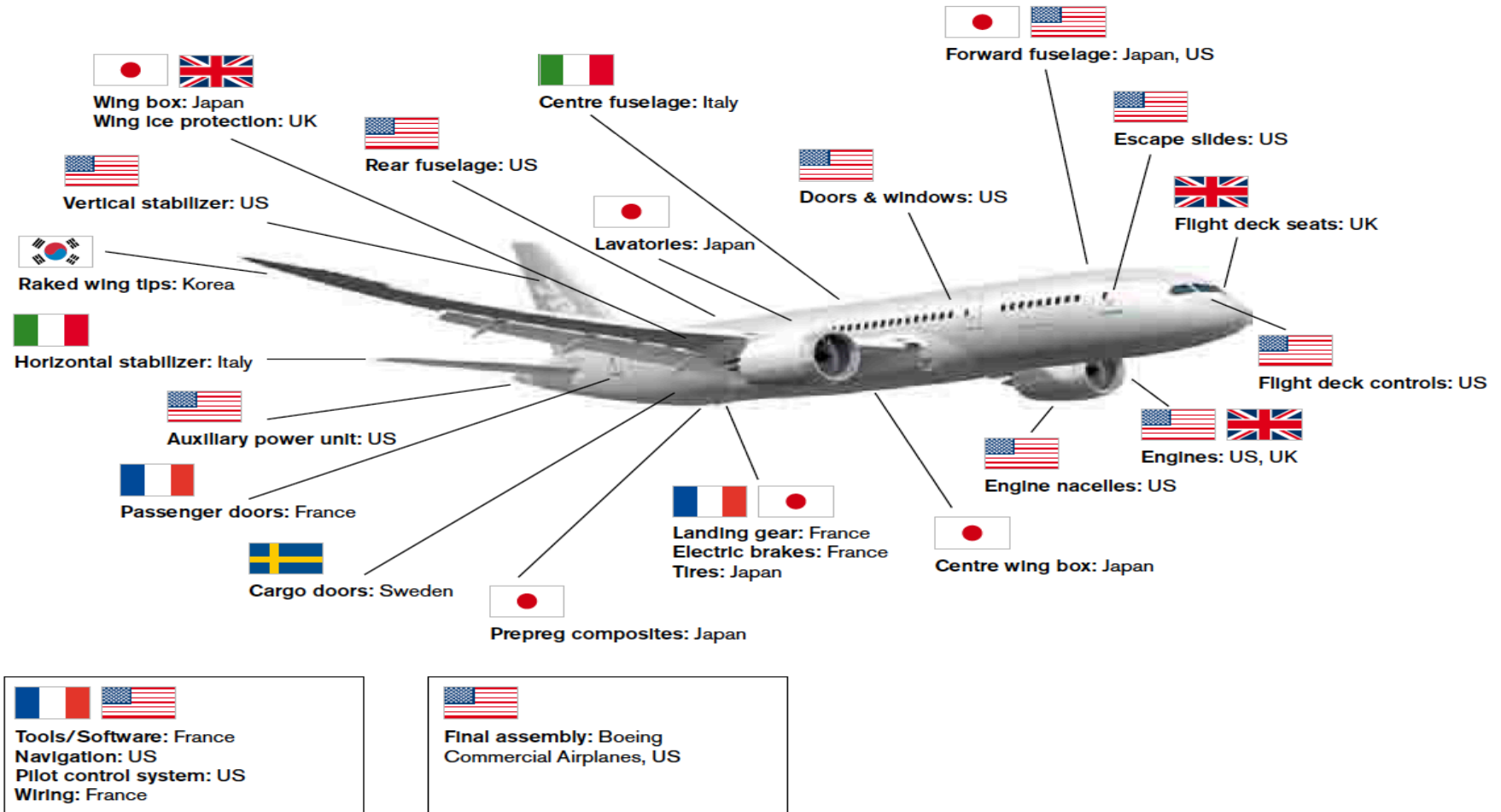


"When you read a label which says 'made in China,' it is not made in China. It is made by the world economy, by the globe as a whole. . . . It is impossible to make anything in one country."



# Let alone more complex products like an aircraft; who makes Boeing 787 Dreamliner?

The fragmentation of production: The example of the Boeing 787 Dreamliner



Source: Meng and Miroudot (2011).

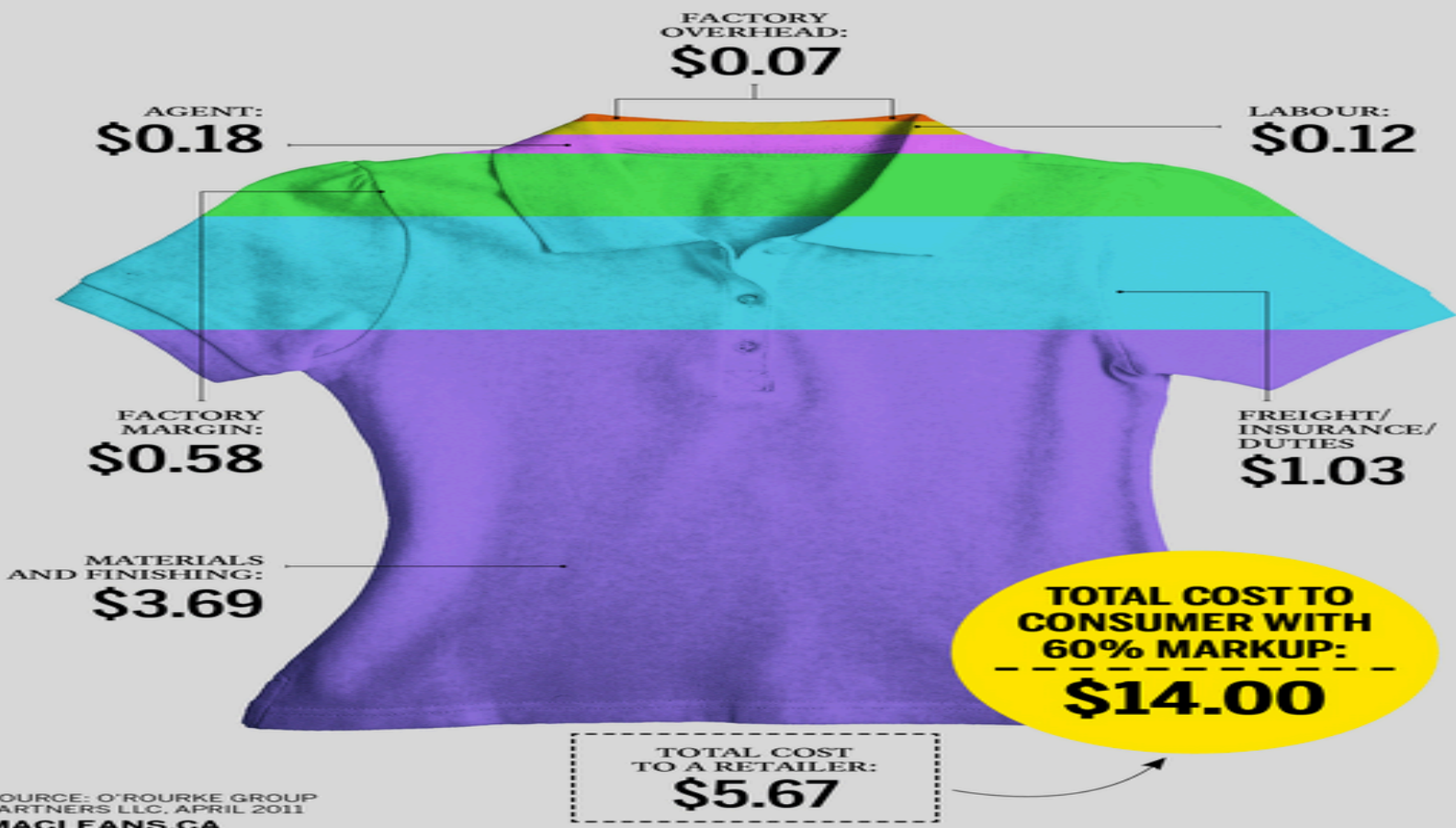


**There are about 23 components that go into making an Apple iPhone6, sourced from at least 10 countries...**

- China
- France
- Germany
- Italy
- Japan
- Korea
- Netherlands
- Singapore
- Taiwan
- United States (plus outsourcing)

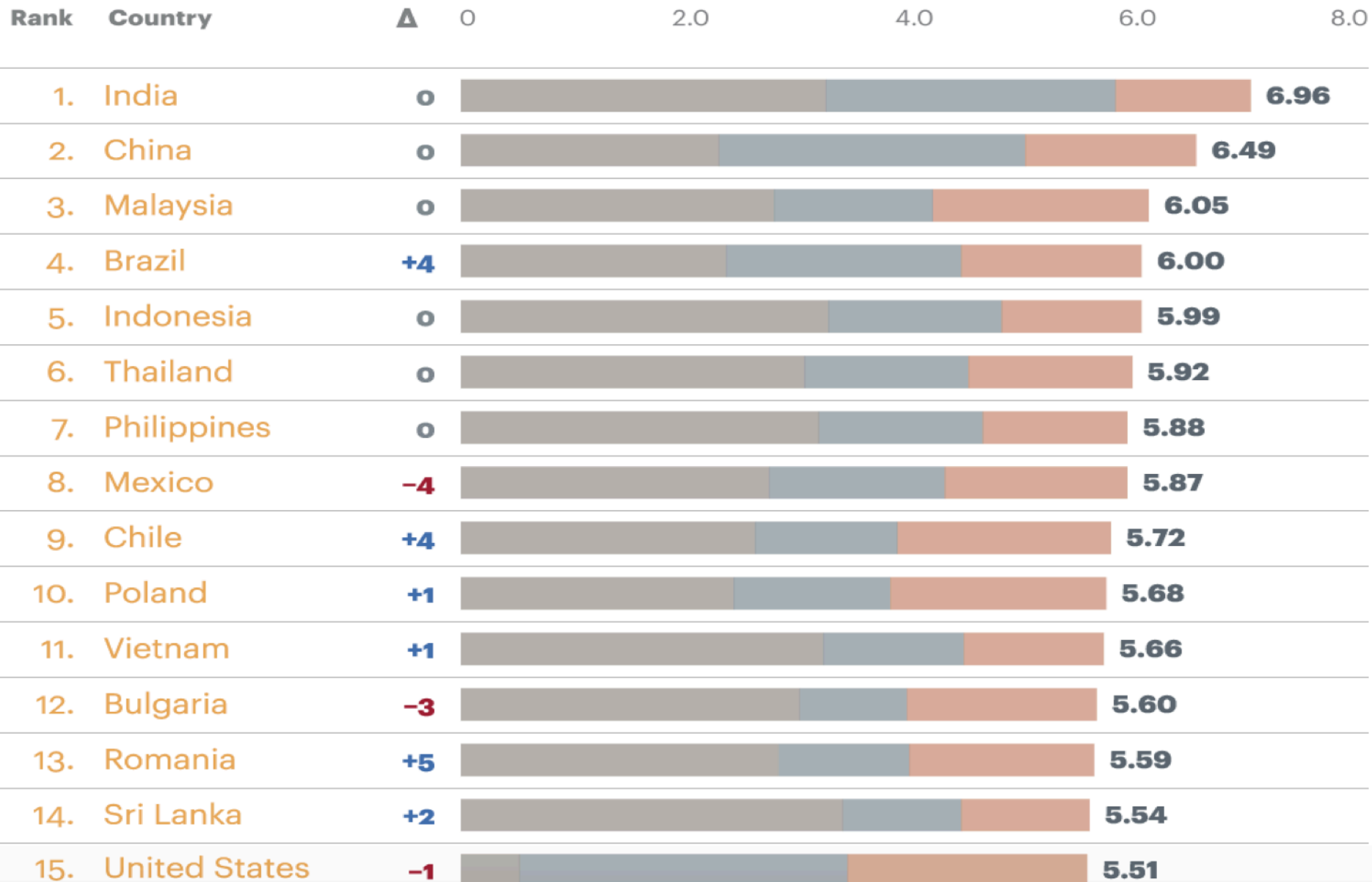
# The blending of manufacturing and services - the importance of services in as simple a product as a T-shirt

## WHAT DOES THAT \$14 SHIRT REALLY COST?



SOURCE: O'ROURKE GROUP PARTNERS LLC, APRIL 2011  
MACLEANS.CA

# AT Kearney 2016 Global services location Index- top 15 countries



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