



**EXPLORING MEKONG-GANGA RELATIONSHIP: TRADE AND
INVESTMENT BETWEEN CAMBODIA AND INDIA**

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1. Introduction

This is a background paper on the trade and investment link between Cambodia and India. This study focuses on two main objectives. First, it intends to explore the past and current relationship between Cambodia and India. Secondly, it will examine a number of potential areas in which the relationship between the two countries should be boosted to promote trade activities and long term capital flow.

This study was conducted for three important reasons. The first is the increase in South-South economic cooperation in Asia and among developing countries amidst multilateralism. The second reason is the “Look East Policy” of India toward Asia, especially to countries in the Mekong sub-region. Lastly, no study on the economic relationship between the two countries has been done although such a relationship has existed for centuries.

Due to its exploratory nature, this study depends upon secondary data only. However, collecting the necessary information together benefits greatly the various key sources such as the Ministry of Commerce of Cambodia, Cambodian Investment Board of the Council for the Development of Cambodia, Phnom Penh Chamber of Commerce, Ministry of Foreign Affairs of Cambodia, International Monetary Fund, World Bank, United Nations Conference on Trade and Development (UNCTAD) and the Embassy of India in Cambodia.

To examine the trade and investment relationship, the study is organized as follows. Section 2 briefs on the external trade of and inward investment to Cambodia. It also emphasizes trade and investment policies of Cambodia. Section 3 examines external trade and outward FDI of India. Section 4 describes the trade and investment links between two countries. Section 4 explores the future prospects for Cambodia’s economic relations with India, and Section 5 draws concluding remarks.

2. External Trade and Inward Investment of Cambodia

2.1 External Trade

Trade plays a positive role in increasing GDP. A UNDP analysis of the Macroeconomics of Poverty Reduction in Cambodia found that an increase in GDP of US\$1 was associated with an increase in exports of US\$1.40 and in imports of US\$1.30 during the 1994-2000 period. And the author’s study on trade and FDI relationships in Cambodia

showed that an increase in FDI of 1 percent will lead to a trade expansion of 0.17 percent during the 1994-2002 period.

2.1.1 Direction of Trade

In terms of export accumulation, the United States has remained the first destination of Cambodian exports for the 1995-2004 period. Exports to the US started increasing in 1998 when export figures were recorded at nearly US\$300 million, then jumped to more than US\$ 1 billion annually after 2001. Hong Kong, which had absorbed few exports from Cambodia prior to 2002, came in second due to a sudden export rise in 2003 and 2004. Germany was ranked third, replacing Singapore, due to increasing German demand for Cambodian exports during last three years.

Table 1: Top Ten Export Partners of Cambodia, 1995-2004, \$US Millions

Rank	Partners	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
1	US	5	4	86	293	236	740	832	1042	1127	1310	5674
2	Hong Kong	11	14	13	27	38	7	5	8	347	616	1085
3	Germany	18	42	18	72	40	66	99	160	155	237	906
4	UK	11	31	31	25	53	82	126	122	144	175	800
5	Singapore	38	43	74	133	182	18	28	77	29	10	633
6	Vietnam	21	16	157	176	107	19	25	27	39	42	629
7	Thailand	146	43	132	77	19	23	8	10	12	17	486
8	France	7	11	10	12	21	28	35	39	49	62	274
9	China	5	6	46	42	9	24	17	22	7	13	190
10	Canada	1	1	1	2	3	5	10	13	60	94	190

Source: Author, Compiled from IMF Direction of Trade Statistics for 1995-2002, Ministry of Commerce for 2003 & 2004 & UNSD SITC Rev. 3 for China and Hong Kong for 2004 because Ministry of Commerce combines China and Hong Kong together.

Concerning imports, countries in Asia especially ASEAN fellow members are the main partners. Although imports from Hong Kong and China increased remarkably in 2003 and 2004, Thailand and Singapore still maintain their first and second place respectively as major importers of Cambodian goods. By 2004, Thailand, which has long served as leading source of export partner, exported more than US\$3 billion worth of goods to Cambodia. By the same time, Singapore exports to Cambodia reached more than US\$2 billion. Neighboring Vietnam also performed quite well in exporting to Cambodia, setting a record as 4th in the top ten export partners to Cambodia. Imports from 1995 to 2004 amounted to more than US\$1

billion. It is believed that imports from Vietnam are much higher than this figure, for smuggling activities by big and small traders are enormous.

Table 2: Top Ten Import Partners of Cambodia, 1995-2004, \$US Millions

Rank	Partners	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
1	Thailand	367	399	198	169	195	222	504	567	223	231	3075
2	Singapore	550	567	6	3	99	106	399	388	127	142	2388
3	Hong Kong	43	49	67	130	186	254	117	373	414	410	1219
4	Vietnam	104	109	108	91	86	92	110	119	129	168	1115
5	China	57	70	57	96	86	113	87	277	225	341	841
6	Korea	0	0	115	96	80	77	50	127	81	99	724
7	Japan	84	62	84	71	74	58	20	77	78	84	692
8	Indonesia	88	66	15	28	51	68	10	76	83	79	563
9	Malaysia	85	58	1	1	50	64	19	60	78	77	494
10	France	67	53	41	41	42	39	13	63	38	45	441

Source: The Same as Table 1.

2.1.2 Composition of Trade

Exports (including re-exports) from Cambodia increased substantially from US\$1 billion in 1999 to US\$1.8 billion in 2002. However, its share of re-exports has decreased remarkably since 1996. In 2002, it accounted for only 6 percent (against 94 percent of domestic exports) of total exports, compared with 13 percent in 1999. One of the reasons for this declining re-export share was the soaring growth of garment product exports under preferential arrangements with the US and EU. The share of garment exports surged to nearly 80 percent in 2002, from 56 percent in 1999 (from US\$560 million to US\$1.4 billion). Other than garment and textile products, the country exports primary commodities such as logs, sawn timbers, fish products and rubber. Yet, these agriculture product exports show a declining trend since 1999. The decline was due to tighter government restrictions on already overexploited forest and fish resources.

Imports, on the other hand, rose from US\$1.6 billion in 1999 to US\$2.5 billion in 2002, higher amount than exports. This upsurge was mainly due to high imports of export-oriented investment projects in which tariff exemptions from the government have been granted.¹ This accounted for, on annual average, half of total imports from 1999 to 2002.

¹ In the Law on Investment, eligible investors are entitled to obtain 100% import duties exemption on construction materials, production equipment, machinery, intermediate goods, raw materials and spare parts which will be used for production for exports.

Petroleum was also one of the main imports. Its average share of total imports was recorded at around 7.5 percent annually.

Table 3: Composition of Cambodian Trade, 1999-2002

	Amount (US\$ Millions)				Percentage			
	1999	2000	2001	2002	1999	2000	2001	2002
Trade Balance	-596	-699	-700	-734				
	Exports				Exports			
Domestic exports	884	1278	1416	1656	87%	92%	93%	94%
Logs	65	47	38	22	6%	3%	2%	1%
Sawn Timber	73	54	30	16	7%	4%	2%	1%
Fish products	42	44	42	60	4%	3%	3%	3%
Rubber	49	60	52	63	5%	4%	3%	4%
GSP Exports	564	1012	1142	1403	56%	73%	75%	79%
Agricultural products	72	37	81	51	7%	3%	5%	3%
Other domestic exports	1	4	6	15	0%	0%	0%	1%
NR carrier procurements	5	7	8	8	1%	1%	0%	0%
Re-exports	132	118	109	111	13%	8%	7%	6%
Total exports (f.o.b.)	1016	1396	1525	1767	100%	100%	100%	100%
	Imports				Imports			
Customs (c.i.f.)	716	741	711	729	44%	35%	32%	29%
Cigarettes	119	70	70	68	7%	3%	3%	3%
Motorcycles	36	31	21	28	2%	1%	1%	1%
Beer	2	3	2	2	0%	0%	0%	0%
VCRs	1	2	2	1	0%	0%	0%	0%
Televisions	6	6	5	5	0%	0%	0%	0%
Audio cassettes	3	3	3	2	0%	0%	0%	0%
Gold	28	35	12	10	2%	2%	1%	0%
Vehicles	27	23	26	38	2%	1%	1%	2%
Construction materials	13	13	14	13	1%	1%	1%	1%
Cloth	34	46	28	39	2%	2%	1%	2%
Clothing	4	3	11	5	0%	0%	1%	0%
Petroleum products	151	156	175	150	9%	7%	8%	6%
Sugar	22	10	25	26	1%	0%	1%	1%
Cement	20	27	31	37	1%	1%	1%	1%
Steel	19	21	18	23	1%	1%	1%	1%
Other	238	302	277	281	15%	14%	12%	11%
Duty free imports (c.i.f.)	613	1076	1214	1444	38%	51%	55%	58%
Coverage adjustments	283	279	300	327	18%	13%	13%	13%
Total Imports (c.i.f.)	1612	2095	2225	2500	100%	100%	100%	100%

Sources: UNDP 2004, Table 5.2, p.148 and Author's Calculation.

2.2 Inward FDI

FDI inflow to Cambodia fell continuously from 2000 to 2002. But, it was resumed in the two consecutive years of 2003 and 2004. FDI flow to Cambodia is diversified since there are investors from both developed and developing countries in Europe, North America and Asia (Table 4). Furthermore, the share of capital flow from developing countries in Asia has been increasing sharply since 1994 and they have maintained their dominant roles since then. In terms of investment capital, stocks, by 2004 Malaysia was ranked the first. Taiwan was the runner up while United States was in the third place (Table 5).

Table 4: Approved FDI Flow in Cambodia, by Geographical Region, 2000-2004

Region/economy	Amount (US\$ Millions)					Share (Percentage)				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Total world	181.4	146.1	155.1	352.1	379.7	100%	100%	100%	100%	100%
Developed countries	36.9	7.9	6.9	15.1	31.1	20%	5%	4%	4%	8%
Western Europe	21.9	2.0	1.6	9.62	19.9	12%	1%	1%	3%	5%
European Union	21.9	2.0	1.6	9.5	17.2	12%	1%	1%	3%	5%
France	5.2	-	-	8.1	3.5	3%	-	-	2%	1%
Germany	-	-	-	0.6	0	-	-	-	0%	0%
Netherlands	-	-	1.0	0.0	0.0	-	-	1%	0%	0%
United Kingdom	16.7	2.0	0.6	0.8	13.7	9%	1%	0%	0%	4%
Other Western Europe	-	-	-	0.12	2.7	-	-	-	0%	1%
Norway	-	-	-	-	-	-	-	-	-	-
Switzerland	-	-	-	-	-	-	-	-	-	-
North America	12.7	5.9	3.2	4.6	8.7	7%	4%	2%	1%	2%
Canada	1.2	-	-	0	4.0	1%	-	-	0%	1%
United States	11.5	5.9	3.2	4.6	4.7	6%	4%	2%	1%	1%
Other developed countries	2.2	-	3.2	0.9	2.5	1%	-	2%	0%	1%
Australia	2.0	-	-	0.9	0	1%	-	-	0%	0%
Japan	0.2	-	2.2	0	2.5	0%	-	1%	0%	1%
Developing economies	145	138	148	337.0	349	80%	95%	96%	96%	92%
Asia	144.5	138.1	148.2	337.0	348.6	80%	95%	96%	96%	92%
South, East and South-East Asia	144.5	138.1	148.2	337.0	348.6	80%	95%	96%	96%	92%
Cambodia	21.2	6.5	10.5	224.9	153.9	12%	4%	7%	64%	41%
China	28.4	5.0	24.1	36.2	97.9	16%	3%	16%	10%	26%
Hong Kong, China	4.9	1.2	1.6	7.1	21.9	3%	1%	1%	2%	6%

Indonesia	15.1	-	-	0	0	8%	-	-	0%	0%
Malaysia	2.2	50.6	1.0	10.0	42.9	1%	35%	1%	3%	11%
Philippines	0.3	1.0	-	0	0	0%	1%	-	0%	0%
Republic of Korea	19.4	2.1	79.0	4.0	8.9	11%	1%	51%	1%	2%
Singapore	8.1	-	1.0	6.8	5.9	4%	-	1%	2%	2%
Taiwan Province of China	18.9	57.0	6.8	35.3	15.6	10%	39%	4%	10%	4%
Thailand	26.0	14.7	-	12.7	1.6	14%	10%	-	4%	0%
Viet Nam	-	-	24.2	0	0	-	-	16%	0%	0%

Sources: UNCTAD FDI Database for 2000-2002 & CDC Provided Data for 2003 & 2004 and Author's Calculations.

Table 5: Top 10 Investing Countries, 2004

Rank	Region/economy	FDI stock (US\$ Millions)	Share
1	Malaysia	1916.1	31.3%
2	Taiwan Province of China	552.0	9.0%
3	United States	446.8	7.3%
4	China	426.6	7.0%
5	Republic of Korea	300.7	4.9%
6	Hong Kong, China	266.0	4.3%
7	Singapore	238.3	3.9%
8	Thailand	213.0	3.5%
9	France	204.4	3.3%
10	United Kingdom	109.2	1.8%

Source: Author's Calculation Based on Data in Table 4.

In the area of distribution, flow of foreign capital to the agricultural sector remained very small despite many potential and favorable incentives from the government. The primary sector attracted only US\$1 million in 2000. There was a recovery in 2004 due to two big joint-venture investment projects between Cambodian and Malaysian amounting to US\$13 million. The industrial sector, on the other hand, is a major recipient of FDI which was at a record of US\$46 million (25 percent of total inflow) in 2000. Furthermore, its inflow has gone up since then, in 2001 (US\$ 81 million), in 2002 (US\$69 million), in 2003 (US\$142 million) and in 2004 (US\$168 million). The average share of industry inflow in total FDI was around 41 percent during the 2000-2004 period. Another major recipient is the service sector, which accounted for 74 percent of total FDI inflow in 2000. Although the inflow to this sector is

uneven and in a declining trend if compared to the year 2000, the average share of FDI inflow to the service sector was more than half of total FDI inflow.

Table 6: Distribution of FDI Flow to Cambodia, 2000-2004.

	Amount (US\$ Millions)					Percentage				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Total FDI										
inflow	181.4	146.1	155.1	351.7	378.6	100%	100%	100%	100%	100%
Primary	1.3	..	..	0	13.3	1%	..	..	0%	4%
Secondary	46.1	80.7	68.9	141.6	167.9	25%	55%	44%	40%	44%
Tertiary	134.1	65.3	86.2	210.1	197.4	74%	45%	56%	60%	52%

Source: The Same as Table 4.

2.3 Trade Policy

Trade policy in Cambodia made two important and remarkable changes during the last decade: (i) shifting from strict trade regulation to trade deregulation and (ii) moving towards bilateral, regional and multilateral arrangements, and trade openness.

The first move was evidenced by the abolition of the state-owned monopolized foreign trade company and the encouragement of private participation in trading activities including permission to establish import and export companies in late 1980s. It is also evidenced by the removal of quantitative restrictions on imports and exports in 1994 (see Table 7).

Table 7: Evolution of Trade Policy

Year	Policy and Policy Development
1980s	<ul style="list-style-type: none"> ▪ New trading system controlled the level and composition of trade through quantitative restrictions and state-owned trading bodies. ▪ Market-oriented liberalization in the later 1980s, abolishing state monopoly of foreign trade. A foreign investment law was promulgated in 1989, enabling private companies to engage in foreign trade.
1990	From 1993 restrictions limiting the ability of firms and individuals to engage in international trade were largely removed.
1994	All quantitative restrictions on trade were eliminated in 1994.
1996	Cambodia gained MFN status from the US.
1997	Cambodia gained GSP status from EU.
1999	<ul style="list-style-type: none"> ▪ Cambodia became a member of ASEAN in April. It committed to a gradual reduction in most tariff rates by 2010 for trade with other ASEAN members. ▪ US quota imposed on 12 broad categories of garments. ▪ End of year Cambodia gained MFN/GSP from 28 countries.
2001	<ul style="list-style-type: none"> ▪ Government reduced maximum tariff rates from 120 percent to 35 percent and reduced the number of tariff bands from 12 to 4. Structure of the 4 tariff bands are 0 per cent, 7 per cent, 15 per cent and 35 per cent, of which about 95 percent of the tariff lines are under three bands: 7 percent, 15 percent and 35 percent. ▪ Average un-weighted tariff rates were lowered to 16.5 percent from 17.3 percent in 2000 and 18.4 percent in 1997. ▪ The government imposed an absolute ban on exports of logs and an export quota on rice. Five items are subject to export licensing requirements: (i) processed wood products, (ii) garments, (iii) weapons, (iv) all vehicles and machinery for military purposes, and (v) pharmaceuticals and medical materials. ▪ Most non-trade barriers were eliminated.

Sources: Author, Reproduced Based on UNDP (2004) and World Bank (2004).

The integration into bilateral, regional and multilateral agreements and trade openness, the second move, was made possible by several achievements both recent and in the late 1990s. Firstly, Cambodia lobbied the US government for a bilateral trade agreement on textile and garments. As a result, Most Favored Nation (MFN) status for garment and textile products was offered in 1996. Secondly, Generalised System of Preferences (GSP) status from the European Union (EU) was obtained in 1997, giving special treatment for garment exports to all EU members. Thirdly, the government signed bilateral trade and investment agreements with various partners such as China, Cuba, India, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand, Vietnam, Russia and the Organization of Petroleum Exporting Countries (OPEC) members.² Fourthly, the government joined the Greater Mekong subregion and formed triangle development zones with neighboring countries Laos, Thailand and Vietnam (see table 8). Fifthly, membership in the Association of Southeast Asian Nations in 1999 and World Trade Organization in 2004 clearly marked a deepened integration into the regional and global trading system. Lastly, the trade/GDP ratio was 160 percent in 2002, and Cambodia obtained a trade policy score of 2 on the US-based Heritage Foundation's index of economic freedom in 2003, reflecting the liberalized character of Cambodia's external sector.³

These major integrations will ensure a large market and low tariff rates for products exported from Cambodia. For example, Cambodia can export 297 agricultural products at a zero tariff rate to China, 249 products at a preferential rate to Thailand, a quota and duty free access but with a quota to all Canadian markets except for bananas, and 496 agricultural and fishery products both quota and duty free to Japan (Table 8).

² Some agreements give MFN status for Cambodia. Those agreements include Australia, Canada, Korea, Japan, and New Zealand.

³ The overall score for the Cambodian economy was 2.68, which placed the economic freedom of Cambodia 35th among 170 countries (Thailand, 40th; Malaysia, 72nd; Indonesia, 99th; Vietnam, 135th; and Laos 153rd), according to UNCTAD and ICC (2003). Most recent indices are available at <http://www.heritage.org/research/features/index/countries.cfm?sortby=country>

Table 8: Policy Development in Bilateral and Regional Integration

2002	Initiated a Triangle Economic Cooperation strategy between Cambodia, Vietnam and Lao PDR, focusing on (i) Commerce, (ii) Industry, (iii) Public works and Transportation, (iv) Tourism.
2003	<ul style="list-style-type: none"> ▪ Cambodia's accession to WTO. ▪ Under the ASEAN-China Free Trade Area's Early Harvest scheme signed in July 2003, China has granted to Cambodia, effective from January 1, 2004, a special preferential tariff (SPT) treatment for 297 agricultural products at zero percent tariff rates. ▪ Under the ASEAN Integrated Special Preferential (AISP), Thailand has agreed to provide Cambodia with a special and preferential tariff treatment for 249 products. ▪ Cambodia-Canada Memorandum of Understanding signed by the two countries in March 2003 has given Cambodia, along with other least developed countries, a quota and duty free access to all its markets except for bananas. Its exported goods must meet the rule of origin which is contained at 25% of Cambodia's added value. Under the ASEAN agreement, raw materials imported from ASEAN countries are also considered to be of local origin. ▪ Japan expanded its duty and quota free treatment for LDCs to 496 agricultural and fishery products in 2003 and Cambodia is also eligible for this treatment as an LDC. ▪ Japan-ASEAN Comprehensive Economic Partnership signed in 2003 has provided Cambodia with a broad-based liberalization of trade and investment promotion. ▪ China-ASEAN Comprehensive Economic Partnership signed in November, 2003 to plan an ASEAN-China Free Trade Area within 10 years. ▪ Summit for Economic Cooperation Strategy between Cambodia, Lao PDR, Myanmar and Thailand developed 10-year timeframe (2003-2012) for economic cooperation with focused areas on Trade and Investment Facilitation, Agricultural and Industrial Cooperation, Transport Linkages, Tourism Cooperation and HR Development.
2004	Cambodia has requested that China treat an additional 439 Cambodian commodities exported to China with a special preferential tariff (SPT) at zero percent tariff rates.

Source: Author, Based on World Bank (2004).

2.4 Investment Regime

The investment policy of Cambodia is considered to be open and liberal (US, 2004 & UNESCAP, 2004). This policy is covered and defined in the 1994 Law on Investment which was amended in 2003. The main contents are discussed below.

Entry, Establishment and Exit⁴

The Law on Investment and the amendment to the Law on Investment ensure free entry to almost all sectors of the economy. The restricted areas defined in the sub-decree apply to areas which are largely concerned with national security and social safety, and only slightly concerned with economic necessity (See in appendix 2 Subdecree No. 80/ANK/BK on Measures Restricting Investment in Certain Sectors 1999). The government does not pose any obstacles to investors who end their activities and return to their home countries if they have settled properly with their creditors (if any); and if they have obtained a tax clearance certificate from the Tax Department. They are entitled to transfer their remaining assets after these official dissolutions.

Treatment and Operating Conditions

Both foreign and local investors are treated equally under the LOI, except on the issue of land ownership. Foreign investors cannot own land but can lease it for up to 70 years and 99 years for concession land for agricultural QIPs.⁵ It also emphasizes that the government shall not undertake a nationalization policy which adversely affects private properties of investors. There are no price controls. Investors are fully able to engage in foreign exchange operations including purchase and sale of foreign currency, and transfer remittances and international settlements through the banking system. A thorough explanation of operating conditions such as taxation, labor issues, dispute settlement, and protection of property rights can be found in four essential publications as noted in footnote number 6.

Investment Incentives

According to the UNDP and ICC (2004), the Cambodian government set priorities for the following areas where incentives are granted: (i) agriculture and agro-processing industries; (2) environmental protection; (3) export-oriented industries; (3) industries that create substantial employment; (4) investments in special promotion zones (SPZs); (5) physical infrastructure and energy; (6) pioneer and/or high technology industries; (7)

⁴ Well-explained guides on how to do business in Cambodia can be found in four important publications. (i) An Investment Guide to Cambodia: Opportunities and Conditions by UNCTAD and ICC in 2003; (ii) New Business Opportunities for EU Companies in Cambodia by European Asia Investing Programme of EU in 2004; (iii) Country Commercial Guide for Cambodia FY 2004 by US Embassy in Phnom Penh in 2004; and (iv) Cambodian Investment Guide by DFDL in 2002.

⁵ The Constitution of Cambodia (article 44) does not allow foreigners to own land.

provincial and rural development; (8) tourism and related industries. For a complete list of areas where investors can obtain investment incentives, please see appendix 3.

The Law on Investment of Cambodia grants very favorable tax and customs duties incentives for both local and foreign investors. Eligible investors can obtain a corporate tax exemption of up to six years (three years automatic tax holiday and three additional years can be granted depending on the activity and sector). The corporate tax exemption begins from the first year if the investment makes a profit, or otherwise after three years of operation. In addition, although business is subject to corporate income tax, its rate is only 20 percent, the lowest among ASEAN countries, according to Kevin Fletcher’s study on tax incentives in Cambodia, Laos and Vietnam in 2002 (Indonesia, progressive rate 10, 15, 30 percent; Laos, greater than 35 percent or one percent of turnover; Malaysia, 28 percent; Philippines, 32 percent; Thailand, 30 percent; and Vietnam 32 percent). Furthermore, investors can obtain 100 percent import duty exemption on construction materials, production equipment, intermediate goods, raw materials and spare parts used by (a) an export project with a minimum of 80 percent of the production set apart for export and (b) projects located in the designated Special Promotion Zone.

3. External Trade of India and Outward Investment

3.1 External Trade

Indian exports have performed very well in recent years. Total exports increased from US\$36 billion in 1999 to US\$51 billion in 2002, or 41 percent. Despite this increase, India’s export rate is still much less than China’s. It is five to six times less than China’s export rate for the 1999-2002 period (Figures 1 & 2). However, the average annual increase of India’s exports is higher than that of China at one percent (Table 9).

Figure 1: India Exports, 1999-2002

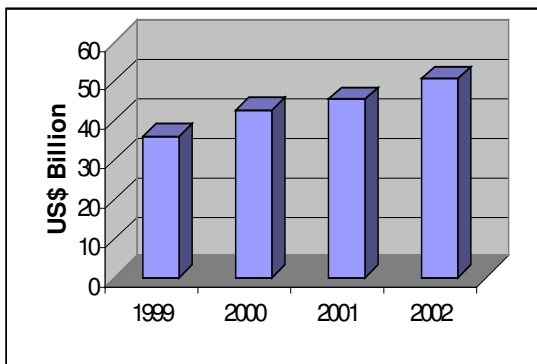
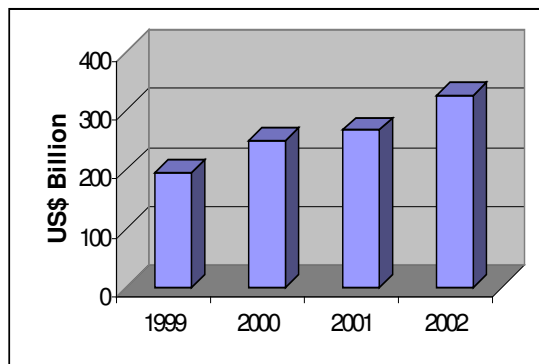


Figure 2: China Exports, 1999-2002



Sources: Author, Based on IMF Direction of Trade Statistics CD-ROM.

Table 9: Comparison of Export and Import Growth of India and China

Annual Change	Period				Annual average 1999-2002
	1999	2000	2001	2002	
India Exports	14.2	27.6	2.7	22.1	16.7
China Exports	6.1	27.8	6.8	22.4	15.8
India Imports	20.7	7.3	6.2	21.2	13.9
China Imports	18.2	35.8	8.2	21.2	20.9

Source: ADB Key Indicators (2004).

Markets of developed countries are the main destinations of exports from India. Nine out of the top ten Indian export partners are advanced economies. The US is the main buyer of exports from India. Its annual average imports were 8.3 billion dollars during the 1995-2003 period. Exports to these top ten countries accounted for nearly 60 percent of total exports of US\$368,490 billion, of which the US got a 20 percent share.

Table 10: Top 10 Export Partners of India, 1995-2003

Rank	Export Partner	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total	Share
1	United States	5,305	6,184	6,742	7,103	8,100	9,083	9,355	11,318	11,375	74,565	20.2%
2	United Kingdom	1,881	2,011	2,120	1,928	1,990	2,233	2,467	2,553	3,221	20,406	5.5%
3	United Arab Emirates	1,306	1,491	1,638	1,824	2,029	2,469	1,679	1,846	5,039	19,321	5.2%
4	China,P.R.:Hong Kong	1,821	1,765	1,915	1,893	2,353	2,608	2,088	2,272	1,688	18,403	5.0%
5	Germany	1,841	1,857	1,916	1,870	1,767	1,865	2,037	2,164	2,987	18,304	5.0%
6	Japan	2,130	2,078	1,925	1,714	1,677	1,767	2,011	1,900	2,513	17,716	4.8%
7	Italy	974	913	1,070	1,070	1,104	1,262	1,357	1,357	1,280	10,386	2.8%
8	Belgium	n.a.	n.a.	1,185	1,270	1,348	1,445	1,371	1,514	2,098	10,231	2.8%
9	Bangladesh	960	832	807	943	726	860	1,087	1,042	2,918	10,176	2.8%
10	France	683	710	753	819	890	999	1,047	1,091	1,719	8,710	2.4%

Sources: IMF Direction of Trade Statistics CD-ROM for 1995-2002 & UNSD

Comtrade Statistics Database for 2003.

Indian imports increased moderately from 1999 to 2002, slower than China's import increase (Figures 12 and 13). Imports from the world to India rose from US\$48 billion in 1999 to US\$66 billion, or 37 percent. China's import rate jumped from US\$166 billion to US\$296 billion, or 78 percent. Besides, table 9 shows that annual average import growth of India is lower than China (14 percent versus 21 percent).

Figure 3: India Imports, 1999-2002

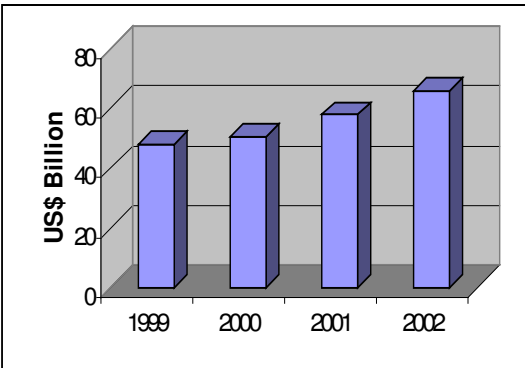
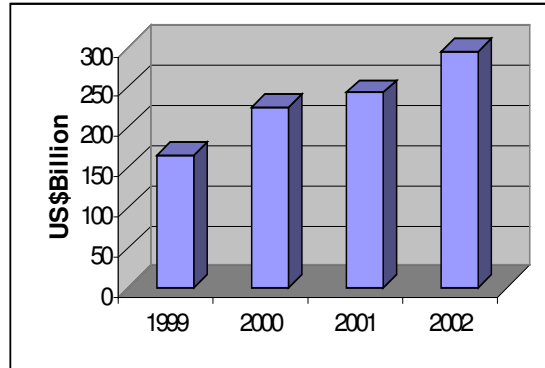


Figure 4: China Imports, 1999-2002



Sources: The Same as Figure 1 & 2.

On the import side, developed countries are also main partners of India. Nine out of ten top import partners of India are developed economies; six main import partners are in the top ten of main export partners of India (US, UK, Belgium, Germany, Japan, and United Arab Emirates). The US, which is the first trading partner of India, accounted nearly 8 percent of total Indian imports. United Kingdom, Belgium and Germany all took the share of around 5 percent of total Indian import. Import from these top ten countries accounted for nearly 40 percent of total imports.

Table 11: Top 10 Import Partners of India, 1995-2003

Rank	Import Partner	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total	Share
1	United States	3,344	3,187	3,709	3,660	3,583	3,152	4,141	4,508	4,975	34,258	7.6%
2	United Kingdom	1,683	1,948	2,366	2,577	2,686	3,053	2,824	2,913	3,195	23,246	5.1%
3	Belgium	n.a.	n.a.	2,564	2,825	3,480	3,073	2,966	4,226	3,928	23,062	5.1%
4	Germany	2,713	2,738	2,604	2,238	1,916	1,780	2,272	2,511	2,883	21,657	4.8%
5	Japan	2,234	2,134	2,156	2,386	2,518	2,016	2,134	2,056	2,636	20,268	4.5%
6	Switzerland	787	929	2,262	2,867	2,684	3,020	427	453	3,270	16,699	3.7%

7	Saudi Arabia	1,860	2,428	2,574	2,001	2,720	1,220	1,316	1,400	729	16,248	3.6%
8	Singapore	966	974	1,164	1,338	1,497	1,482	3,018	2,914	2,060	15,413	3.4%
9	China,P.R.: Mainland	811	702	1,029	1,102	1,240	1,449	2,094	2,940	4,005	15,371	3.4%
10	United Arab Emirates	1,594	1,657	1,769	1,736	2,181	1,078	1,163	1,237	2,035	14,449	3.2%

Source: The same as Table 10.

On the one hand, increases in exports and imports in the Indian economy reflect the revival of economic activities with the world and shows that the country has liberalized its economy. On the other hand, trade liberalization has led to a rising trade deficit. Figure 14 indicates that the trade deficit increased from US\$12 billion in 1999 to US\$15 billion in 2002. China, by contrast, exports much more than it imports, leading to a trade surplus of US\$26 billion annually for four consecutive years from 1999 to 2002.

Figure 5: India Trade Deficit,

1999-2002

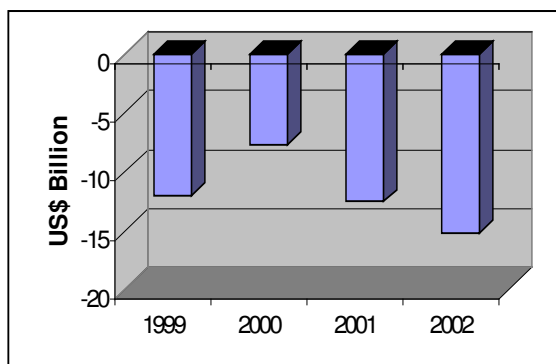
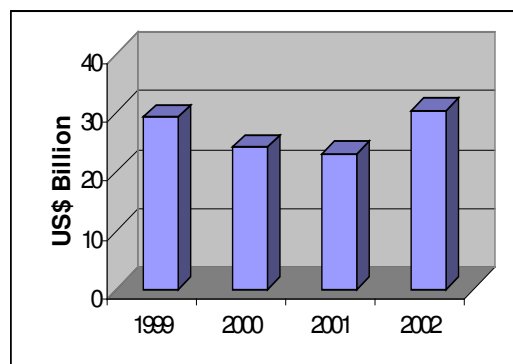


Figure 6: China Trade Surplus,

1999-2002



3.2 Outward FDI

3.2.1 Destination

By 2003, India was ranked 14th among major developing source countries with outward investment capital totaled to US\$5.1 billion (UNCTAD, 2004).⁶ But, this outward capital flow was directed more toward large or advanced countries. In terms of inward investment stock, the United States is the most important recipient and took a share of nearly 19 percent. Russia is the second largest recipient and took a share of nearly 18 percent. The

⁶ Other top sending countries among developing economies are Hong Kong (1), Singapore (2), Taiwan (3), Brazil (4), China (5), Korea (6), Malaysia (7), South Africa (8), Argentina (9), Mexico (10), Chile (11), Venezuela (12), Iran (13) & Nigeria (15).

United Kingdom (5 percent) and Singapore (2 percent) are also among the top ten recipients (Table 12). Developing countries also were the major destinations of Indian investment. Mauritius, Sudan, British Virgin Islands, Bermuda and Vietnam took 3rd, 4th, 5th, 8th and 9th place in the top ten recipients of India. These countries together have absorbed 31 percent of total Indian outflows.

Table 12: Top 10 recipient countries, 2003

Rank	Region/economy	FDI stock (US\$ Millions)	Share (%)
1	United States	1864.8	18.8
2	Russian Federation	1748.8	17.6
3	Mauritius	912.6	9.2
4	Sudan	912.0	9.2
5	British Virgin Islands	782.0	7.9
6	United Kingdom	543.2	5.5
7	Hong Kong, China	473.1	4.8
8	Bermuda	276.3	2.8
9	Viet Nam	228.9	2.3
10	Singapore	213.2	2.1

Source: UNCTAD (2004), Table 2.

3.2.1 Composition

Outward FDI from India goes to manufacturing. FDI outward accumulation in table 13 showed that the manufacturing sector accounted for 55 percent (US\$4.7 billion) of total outward FDI. In particular, it goes to manufacturing pharmaceutical products. The non-financial sector was also a substantial recipient, about 36 percent of total outward FDI. According to UNCTAD (2004), Indian investment in services was shifted from locations in developing countries in the 1980s to developed countries in the 1990s. Indian companies established their operations in more advanced countries such as UK and US, replacing the traditional locations of Singapore, Thailand, Sri Lanka and Malaysia.

Table 13: Distribution of Indian Outward Investment by Sector 1999-2004, US\$ Millions

Fiscal year	Industry					Total
	Manufacturing	Financial services	Non-financial services	Trading	Others	

	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1999-2000	535.8	30.9	4.3	0.2	1130.7	65.3	58.3	3.4	2.3	0.1	1731.5
2000-2001	370.7	26.8	16.6	1.2	876.5	63.4	89.2	6.5	29.1	2.1	1382.2
2001-2002	2210.9	73.0	48.6	1.6	565.5	18.7	139.2	4.6	62.3	2.1	3027.0
2002-2003	1056.7	71.8	1.8	0.1	280.2	19.0	69.9	4.7	63.7	4.3	1472.0
2003-2004	504.5	55.7	35.1	3.9	223.3	24.6	37.0	4.1	106.3	11.7	906.3
Total	4678.7	54.9	106.4	1.2	3076.2	36.1	393.5	4.6	263.7	3.1	8519.2

Source: UNCTAD (2004), Table 3.

4. Trade and Investment Relationship between India and Cambodia

4.1 Historical Background

The Cambodian economy in this period can be classified into two eras: a centrally planned economy (1980-1988) and a partly free market economy (1989-1994). During the centrally planned economy, the country's major trading partners were the members of the Council for Mutual Economic Association (CMEA) of former socialist countries. And direction of trade data was recorded only with CMEA members and major partners in Asia, whereas huge illegal cross-border smuggling trade was left unrecorded.⁷ Nonetheless, Direction of Trade Statistics, one of the major IMF publications, provides data for more countries than the CMEA. It also contains the volume of trade figures with India during the 1980s. This reflects that economic cooperation between Cambodia and India was resumed amidst Cambodia's isolation from Western nations and the USA.

Table 14: Cambodia-India Trade during Cambodia's Centrally Planned Economy and Partly Free Market Economy, 1981-1994

Year	Cambodia's Exports to India			Cambodia's Imports from India		
	Total Volume (US\$ Million)	Annual Change	Share of Total Export	Total Volume (US\$ Million)	Annual Change	Share of Total Import
1981	0.00		0%	3.50		4%
1982	0.00	0%	0%	0.15	-96%	0%
1983	0.00	0%	0%	0.02	-86%	0%

⁷ The World Bank's report in 1996 "Cambodia: From Recovery to Sustained Development," Table 3.1, which was based on information from the Ministry of Commerce and Custom Department, in the statistical appendix shows the trading volume for the 1988-1993 period between Cambodia and CMEA countries such as those of the former USSR, the former Democratic Republic of Germany, former Czechoslovakia, Poland, Bulgaria, Hungary, Cuba, Vietnam and Laos, and between Cambodia and major Asian partners such as Singapore, Thailand, Japan, Hong Kong, Malaysia, Indonesia and Taiwan. The trade figure between Cambodia and India was not reported.

1984	0.00	0%	0%	0.00	-100%	0%
1985	0.00	0%	0%	0.13	100%	0%
1986	0.00	0%	0%	0.17	31%	2%
1987	0.01	100%	0%	0.11	-37%	1%
1988	0.01	0%	0%	0.12	6%	0%
1989	0.00	-100%	0%	0.13	7%	0%
1990	0.00	0%	0%	1.44	1046%	3%
1991	0.00	0%	0%	0.02	-99%	0%
1992	2.39	100%	1%	0.20	908%	0%
1993	1.85	-23%	1%	0.34	73%	0%
1994	0.19	-90%	0%	1.59	362%	0%

Sources: IMF, Direction of Trade Statistics CD-ROM and Author's Calculation.

The total export figure from Cambodia to India was nearly zero during the whole period of 1981 to 1994. It was recorded at only US\$10,000 in 1987 and 1988, but jumped to US\$2.4 million in 1992 before falling slightly to US\$1.9 in 1993 and dramatically to US\$20,000 in 1994. Due to these weak exports, the share of exports to India against total exports to the rest of the world is very small, between 0 and 1 percent.

Cambodian imports from India, on the other hand, are noticeable although the volume was not so much for the 1981-1994 period. The total volume of imports from India marked a record US\$3.5 million in 1981, but started to fall every year after that and never exceeded US\$1.6 million (See Table1). The proportion of aggregate exports from India to the world fluctuated between 0 and 4 percent during this period.

4.2 Recent Relationship

4.2.1 Trade Agreement between Cambodia and India

The agreement was signed in Phnom Penh in November 2002 by the Cambodian Minister of Commerce and the Indian Minister of External Affairs. This agreement intends to develop, facilitate, and diversify trade and economic relations through granting each other Most Favored Nation (MFN) status relating to importation and exportation and encouraging trade fairs and participation in exhibitions (see appendix 4).

4.2.2 Visit of Indian Prime Minister in 2002

The formal visit of former Indian Prime Minister Atal Bihari Vajpayee from 9 to 11 April, 2002 to join the first ASEAN-India Summit hosted by Phnom Penh strengthened the ties between the two countries. During his visit, three separate agreements were signed: (1) Agreement for Conservation and Restoration Work at Ta Prom, by which India provided US\$5 million for a 12 year life span project; (2) The Air Services Agreement; and (3) The

Agreement on Visa Exemption for diplomatic and official passport holders. Besides this, a US\$10 million loan was given by India. US\$1 million to build a Museum of Traditional Asian Textiles in Siem Reap under Mekong-Ganga Cooperation was offered by India and five computer internet kiosks were established in Phnom Penh, Siem Reap, Kandal, Takeo, and Angkor Park.⁸

4.2.3 The Look East Policy and South-South Economic Cooperation

This economic cooperation will be enlarged through India's "Look East" policy. One of the concrete achievements of this policy is the ASEAN-India comprehensive economic cooperation, which was signed in October 2003 in Bali, Indonesia. The ASEAN members and India agreed to establish an ASEAN-India Regional Trade and Investment Area (RTIA) which includes a Free Trade Area in goods, services and investment.⁹ Under this agreement, Cambodia will benefit under the scheme of special and differential treatment and flexibility for new ASEAN members. India will also gain advantages in supplying Cambodian demand at preferential tariff rates (which is yet to be finalized). However, ASEAN and India have agreed in 2003 in Bali, under the Early Harvest Programme, to implement a progressive reduction in tariffs on 105 products commencing from November 2004 until tariff elimination by October 2010.

The leading role of India in establishing, maintaining, improving, and widening ties among developing countries will indeed become another impetus for trade and investment links. This trend can be evidenced by the establishment of G20 after the collapse of the Cancun meeting of the WTO.

4.2.4 Volume of Trade

Although Cambodian external trade surged dramatically, trade with India remained very small, uneven and relatively weak. Total exports from Cambodia to India was recorded at US\$26 million in 1995, and then decreased substantially over the following years to less than US\$1 million in annual averages during 1996-2004. On the other hand, exports from India to Cambodia were rather good in the 1995-2004 period with an annual average of about US\$7 million. Similar to exports from Cambodia to India, unevenness also appeared in distribution of imports from India to Cambodia during this period. Nevertheless, the overall

⁸ Details of the outcomes of the Indian Prime Minister's visit to Cambodia are discussed in the Information Bulletin of the Ministry of Foreign Affairs and International Cooperation, Volume 26, April 30, 2002.

⁹ A full agreement can be found at the ASEAN website: <http://www.aseansec.org/15278.htm>

trade balance was in favor of India during the entire period, except in 1995. In terms of export and import accumulation, by 2004 India is ranked number 18 as an export destination of Cambodia and ranked 19 among 20 source countries for Cambodia's imports.

Table 15: Cambodia-India Trade, 1995-2004

Year	Cambodia's Exports to India			Cambodia's Imports from India			Balance
	Amount (US\$ Million)	Annual Change	Share of Total Export	Amount (US\$ Million)	Annual Change	Share of Total Import	
1995	26.25		7.35%	2.02		0.13%	24.23
1996	0.33	-99%	0.11%	1.43	-30%	0.09%	-1.10
1997	2.55	681%	0.41%	5.93	316%	0.53%	-3.38
1998	4.32	69%	0.46%	5.66	-5%	0.50%	-1.34
1999	0.04	-99%	0%	9.60	70%	0.77%	-9.56
2000	0.15	275%	0.01%	9.28	-3%	0.65%	-9.13
2001	0.10	-33%	0.01%	2.85	-69%	0.20%	-2.75
2002	0.11	9%	0.01%	3.09	9%	0.12%	-2.98
2003	0.02	-84%	0%	15.29	394%	0.86%	-15.27
2004	0.15	782%	0%	19.38	27%	0.94%	-19.23

Sources: Author, Compiled from IMF Direction of Trade Statistics for 1995-2002,

Ministry of Commerce for 2003 & 2004.

Table 16: Top 20 Trading Partners, 2004

Rank	Export Partners	Value (US\$ Million)	% of Total Export	Rank	Import Partners	Value (US\$ Million)	% of Total Import
1	United States	11578	46.1%	1	Thailand	11581	19.4%
2	Hong Kong	700	8.8%	2	Singapore	704	15.0%
3	Germany	602	7.4%	3	Hong Kong	605	7.7%
4	United Kingdom	776	6.5%	4	Vietnam	784	7.0%
5	Singapore	735	5.1%	5	China	740	5.3%
6	Vietnam	481	5.1%	6	Korea	493	4.6%
7	Thailand	217	3.9%	7	Japan	231	4.4%
8	France	245	2.2%	8	Indonesia	261	3.5%
9	China	219	1.5%	9	Malaysia	237	3.1%
10	Canada	145	1.5%	10	France	165	2.8%
11	Japan	167	1.4%	11	United States	189	1.8%
12	Netherlands	124	1.3%	12	Switzerland	148	1.2%
13	Malaysia	94	0.9%	13	Netherlands	120	0.9%
14	Spain	76	0.7%	14	New Zealand	104	0.7%
15	Ireland	74	0.5%	15	Germany	104	0.7%
16	Sweden	50	0.4%	16	United Kingdom	82	0.6%

17	Italy	67	0.3%	17	Australia	101	0.6%
18	Belgium	51	0.3%	18	India	87	0.5%
19	India	43	0.3%	19	Italy	81	0.4%
20	Russia	54	0.2%	20	Finland	94	0.2%

Source: The same as Table 16.

4.2.5 Composition of Trade

Available data from the Foreign Trade Department of Ministry of Commerce reveals that there are few categories of goods exported from Cambodia to India. The top product areas of table 17 took a 94 percent share of total exports. Raw materials and accessories for the garment and textile industry are main export items, together accounting for 56 percent of total exports during the 2000-2004 period.

Table 17: Composition of Cambodian Exports to India

Rank	HS	Goods	2000	2001	2002	2003	2004	Total	Share
1	62	Articles of apparel and clothing accessories, not knitted or crocheted	..	150	130,269	635	861	131,914	23.2%
2	61	Articles of apparel and clothing accessories, knitted or crocheted goods	16,683	..	11,957	2,637	72,659	103,936	18.3%
3	55	Man-made staple fibers	21,452	49,996	..	1,007	14,104	86,560	15.2%
4	04	Dairy produce: birds' eggs; natural honey; edible products of animal origin, not elsewhere specified	56,106	..	..	..	..	56,106	9.9%
5	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles.	40,408	..	..	..	10,471	50,879	8.9%
6	00	Personal effect	13,806	7,276	5,856	12,917	7,607	47,462	8.3%
7	30	Pharmaceutical products	..	..	16,689	..	..	16,689	2.9%
8	63	Other made up textile articles; sets; worn clothing and worn textile articles; rags.	..	..	..	..	16,180	16,180	2.8%
9	48	Paper and paperboard; articles of paper pulp of paper or of paperboard.	..	..	12,849	..	1,113	13,961	2.5%
10	73	Articles of Iron or steel.	..	..	..	..	9,018	9,018	1.6%

Source: Ministry of Commerce (2005).

Imports from India in the same years, on the other hand, were of various kinds of goods. Aggregate data for the top 20 products from India for the 2000-2004 period accounted for 97 percent of total imports from India. The area of pharmaceutical products and man-made staple fibers combined together claimed the share of 64 percent of total imports.

Table 18: Composition of Indian Exports to Cambodia

Rank	HS	Goods	2000	2001	2002	2003	2004	Total	Share
1	30	Pharmaceutical products	5.03	1.43	4.88	6.91	9.18	27.42	45.8%

2	55	Man-made staple fibers	0.94	0.28	1.76	2.44	5.64	11.07	18.5%
3	84	Nuclear reactors, boilers, machinery and mechanical appliances	0.65	0.05	0.47	3.18	0.45	4.80	8.0%
4	10	Cereals	0.00	0.00	2.90	0.41	0.00	3.31	5.5%
5	29	Organic Chemicals	0.02	0.27	0.90	0.18	0.37	1.73	2.9%
6	24	Tobacco and manufactured tobacco substitutes	1.18	..	0.05	0.05	0.40	1.67	2.8%
7	41	Raw hides and skins and leather	0.04	0.21	0.14	0.20	0.80	1.39	2.3%
8	87	Vehicles and parts	0.41	0.11	0.24	0.28	0.15	1.19	2.0%
9	90	Optical, photographic instruments, etc	0.19	0.02	0.42	0.14	0.11	0.89	1.5%
10	52	Cotton and other vegetable textile fibers	..	0.08	0.09	0.16	0.37	0.70	1.2%
11	33	Essential oils and resinoids; perfumery cosmetic or toilet preparations	0.00	..	0.00	0.22	0.40	0.62	1.0%
12	40	Rubber and articles thereof	0.00	0.00	0.23	0.17	0.15	0.55	0.9%
13	72	Iron and steel	0.07	0.00	0.17	0.19	0.00	0.43	0.7%
14	11	Products of milling industry	..	..	0.00	..	0.40	0.40	0.7%
15	36	Explosives, pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	..	0.02	0.22	0.06	0.05	0.35	0.6%
16	39	Plastics and articles thereof	0.17	0.01	0.03	0.03	0.10	0.34	0.6%
17	96	Miscellaneous manufactured articles	0.03	0.02	0.05	0.10	0.14	0.33	0.6%
18	32	Tanning or dyeing extracts	..	..	0.11	0.19	0.00	0.30	0.5%
19	63	Other made up textile articles	0.00	0.00	0.08	0.05	0.13	0.26	0.4%
20	38	Miscellaneous chemical products	0.02	..	0.02	0.05	0.17	0.26	0.4%

Source: The same as Table 17.

4.2.6 Indian Investment in Cambodia

Capital flow from India to Cambodia is extremely small. Data available from the UNCTAD's Investment Directory Database shows that the investment flow from India to Cambodia is US\$300,000 and that investment stock by India has remained unchanged at US\$300,000 (Figure 20) since 1995. Its share of total Indian capital outflow and Cambodian capital inflow is negligible, and it is far less than the real potential between the two countries if geographical conditions and cultural similarities are taken into consideration.

As discussed earlier, trade and investment cooperation between Cambodia and India remains very small, and it is clearly below the potential level of the two countries due to their close cultural links and geographical location as well as a good political relationship.

5. Future Prospects for the Trade and Investment Relationships Between Cambodia and India

The prospects for trade relationships between Cambodia and India are very positive for two main reasons. One reason is a continuous expansion of economic relationships between the Cambodian government and the Indian government through bilateral, regional and

multilateral arrangements. Through the framework of the India-ASEAN Economic Partnership Agreement, progressive tariff reduction under the Early Harvest Program, which started in November 2004 and is expected to be complete by October 2010, will help to boost trade. Furthermore, tariff reduction and elimination for a wider range of products has been realized after the two parties concluded their negotiations by June 2005. On the side of trade in service and investment, negotiations are on the way and are scheduled to be completed by 2007. Through the framework of the world trading system WTO, Cambodia and India will indeed improve their trading activities under the WTO rules and regulations and by respective commitments with WTO. The second main reason is that complementary trade between the two countries is expected to improve far beyond the current actual level. This argument is supported by the most recent empirical evidence studied by Amita Batra in 2004. He found that among ASEAN members, Cambodia, together with the Philippines and Vietnam, has the highest trade potential with India while Malaysia, Indonesia and Singapore exceed their respective trade potentials (Amita Batra, 2004).

Prospects for investment relationships, however, are rather limited due to several reasons. Firstly, the destination of Indian outward FDI seemed to shift from Asian countries to more advanced countries in Western Europe and North America. Secondly, distribution by sector of FDI focuses more on the IT industry where Indian transnational corporations (TNCs) used merger and acquisition modes of entry. Fourthly, motivations of Indian TNCs, suggested by UNCTAD (2004), such as access to markets, natural resources, distribution networks, foreign technologies and strategic assets like brand names are something that Cambodia is lacking. Fourthly, comparative advantages of both countries are almost the same, just slightly different in level. Finally, with the ASEAN-India comprehensive economic agreement, investment agreements were not so much emphasized. Hence, in terms of investment, it seemed the two countries are in competitive rather than in complementary positions.

Areas of Trade Relations

Taking the supply of export commodities and demand for import commodities into consideration, some areas of trading activities are suggested for expansion. India can export raw materials for the garment industry, pharmaceutical products, automobile components, and machinery to Cambodia. On the Cambodian side, primary products such as rubber, fish

products and so on, if production can be increased, will be the main export commodities to be supplied to Indian markets.

Areas of Investment Relations

A recent study by UNCTAD and the ICC on opportunities and conditions of investment in Cambodia shows that Cambodia possesses four strengths (i) access to the dynamic ASEAN market, as well as preferential access to the European Union and other developed regions as an LDC; (ii) WTO membership; (iii) strong and stable government commitment to create a business-friendly environment; and (iv) considerable natural and cultural assets for agriculture and tourism. It also reveals four areas of opportunities for investors (i) tourism; (ii) commercial agriculture and agro-processing; (iii) garments and other light manufacturing; and (iv) infrastructure development (with loans and other resources) and services such as education (technical skills) and health.

Combining these opportunities with India's strengths and increasing outward FDI specialization, it is suggested that potential Indian investors should consider the following areas in Cambodia:

- Pharmaceutical industry
- IT-related services
- Education

6. Conclusion

Although good long-term links and common cultural features exist, the trade and investment relationship between Cambodia and India in the past and in the most recent years remains very small and weak. Investment flow from India is even more disappointing.

However, there are opportunities for expansion. In the area of trade, both countries have opened their markets. Cambodia can expand its exports of primary commodities to supply Indian markets. India has great potential in increasing exports in textiles, pharmaceuticals, automobile components and machinery to Cambodia. In the area of investment, Indian investors should seek investment opportunities in the pharmaceutical industry, IT-related services, and education.

Foreseeable economic cooperation between the two is very positive due to efforts made by both governments through all existing channels - bilateralism, regionalism and multilateralism.

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**Appendix 2: Sub-Decree No.80, ANKR-BK, on Restrictions on Some Sectors of Investment,
Dated 30 August 1999**

ISIC

Code Industry / activity

Remark (Restriction / requirement)

1. Industries closed to both national and foreign investors

3698	Manufacture / processing of cultural items	Subject to prior approval from relevant ministries
2021	Sawn timber, veneer, plywood, wood-based products utilising local logs as raw materials	No new licence will be issued
2411	DBSA production. Toxic chemicals affecting community health or the environment. Production of toxic chemicals or utilisation of toxic agents	Subject to prior approval from the Ministry of Health and other relevant ministries
2429	Manufacture of psychotropic substances	Subject to approval from Ministry of Health
2429	Manufacture / processing of narcotic drugs	Prohibited
2927	Manufacture of weapons and ammunition	Prohibited

2. Industries open to foreign investors with restrictions

1600	Manufacture of cigarettes	Only for 100 % export
1551	Alcohol	Subject to prior approval from the Ministry of Industry and the Ministry of Health
2230	Movie production	
1320	Exploitation of gemstones	Subject to prior approval from the relevant ministries
2691	Tiles and bricks made of clay (hollow or solid)	Subject to local equity participation
1531	Rice mills	
2029	Wood and stone carving	Subject to local equity participation
1711	Silk weaving	Subject to local equity participation
		Subject to local equity participation

3. *Service activities with restrictions specifically on foreign investment*

2210	Publishing	Subject to prior approval from the Ministry of Information and the Ministry of Culture and Fine Arts
2212	Publishing of newspapers, journals and periodicals	Subject to prior approval from the Ministry of Information and the Ministry of Culture and Fine Arts
2213	Publishing of recorded media (CDs, etc.)	
2219	Other publishing	Foreign equity is restricted to a maximum of 49 %
2221	Printing	Foreign equity is restricted to a maximum of 49 %
2222	Service activities related to printing	Foreign equity is restricted to a maximum of 49 %
9213	Radio and television activities	Foreign equity is restricted to a maximum of 49 %

PART A
LIST OF INVESTMENT AREAS FOR
WHICH INCENTIVES ARE GRANTED

1. CROP PRODUCTION
 - 1-1 Paddy farming from 1,000 hectares and above
 - 1-2 All types of cash crops from 500 hectares and above
 - 1-3 Vegetables from 50 hectares and above
2. LIVESTOCK PRODUCTION
 - 2-1 Livestock from 1,000 heads and above
 - 2-2 Dairy farming from 100 heads and above
 - 2-3 Poultry and eggs from 10,000 heads and above
3. FISHERIES
 - 3-1 Fish hatcheries from 2 hectares and above
 - 3-2 Shrimp farming and other fisheries production from 10 hectares and above
4. MANUFACTURING AND PROCESSING OF GOODS AND RELATED PRODUCTS
Investment capital equivalent to US\$500,000 and above
 - 4-1 Beverages
 - 4-2 Fats and Oils
 - 4-3 Sugar confectionary
 - 4-4 Meat products
 - 4-5 Dairy products
 - 4-6 Preserved fruits and vegetables
 - 4-7 Flour-made products
 - 4-8 Bakery products
 - 4-9 Animal feeding products
5. PRODUCTS FOR TEXTILE MILL
Investment capital equivalent to US\$1,000,000 and above
 - 5-1 Cotton weaving mill and thread mill
 - 5-2 Embroidery cloth mill
 - 5-3 Carpet millOther weaving
6. MANUFACTURE OF GARMENTS AND OTHER TEXTILES
Investment capital equivalent to US\$1,000,000 and above
7. MANUFACTURE OF FURNITURE AND FIXTURES

Investment capital equivalent to US\$1,000,000 and above

7-1 Household furniture

7-2 Office furniture

7-3 Manufacturing of building partitions and fixtures

8. MANUFACTURE OF PAPER AND ALLIED PRODUCTS

Investment capital equivalent to US\$1,000,000 and above

8-1 Tree plantation for making papers and paper mill

8-2 Paper

8-3 Paperboard mill

8-4 Paperboard containers

9. MANUFACTURE OF CHEMICALS AND ALLIED PRODUCTS

Investment capital equivalent to US\$1,000,000 and above

9-1 All types of chemicals including agricultural chemicals

9-2 Plastics and other synthetic rubber

9-3 Drugs

9-4 Cleaning Products

9-5 Paints and allied products

10. MANUFACTURE OF RUBBER AND MISCELLANEOUS PLASTICS

Investment capital equivalent to US\$5,000,000 and above

11. MANUFACTURE OF LEATHER & OTHER PRODUCTS

Investment capital equivalent to US\$5,000,000 and above

12. MANUFACTURE OF ALL FABRICATED METAL PRODUCTS

Investment capital equivalent to US\$1,000,000 and above

13. MANUFACTURE OF ELECTRICAL AND ELECTRONIC DEVICES

Investment capital equivalent to US\$5,000,000 and above

14. MANUFACTURE OF TRANSPORTATION DEVICES

14-1 Motor vehicles and spare parts

14-2 Aircraft and spare parts

14-3 Construction and means of water transport

14-4 Railroad devices and means of railroad transportation

14-5 Bicycles and motorcycles

15. CONSTRUCTION OF ROADS AND BRIDGES AND PHYSICAL INFRASTRUCTURE CONSTRUCTION INCLUDING ELECTRIC POWER AND WATER PRODUCTION

16. MANUFACTURE OF MACHINERY AND INDUSTRIAL EQUIPMENT

Investment capital equivalent to US\$1,000,000 and above

17. CONSTRUCTION OF HOTELS

Starting from three-star standard and above

18. INTERNATIONAL STANDARD MEDICAL COMPLEX -
INTERNATIONAL STANDARD EDUCATIONAL FACILITIES AND
VOCATIONAL TRAINING CENTRES

19. INFRASTRUCTURE CONSTRUCTION FOR USE IN THE CULTURE
AND ARTS AREA

20. PRODUCTION AND BUSINESS ACTIVITIES FOR THE PROTECTION
OF THE ENVIRONMENT

PART B

**LIST OF INVESTMENT AREAS WHICH WILL NOT RECEIVE
INCENTIVES**

1. ALL TYPES OF TRADING ACTIVITIES
2. ALL FORMS OF TRANSPORTATION SERVICES
3. DUTY FREE SHOPS
4. RESTAURANTS, KARAOKE, AND OTHER NIGHTCLUBS AND
MESSAGE PARLORS THAT ARE NOT LOCATED IN AN
INTERNATIONAL STANDARD HOTEL
5. BUSINESS CENTRES
6. PRESS RELATED ACTIVITIES AND MEDIA NETWORKS (RADIO, TV,
NEWSPAPERS)
7. RETAIL AND WHOLESALE
8. PROFESSIONAL SERVICES
9. TELECOMMUNICATION SERVICES
10. NATURAL RESOURCES EXCEPT PETROLEUM AND NATURAL GAS

Appendix 4: Trade Agreement between Cambodia and India
Trade Agreement
Between
The Royal Government of Cambodia
And
The Government of the Republic of India

The Royal Government of Cambodia and the Government of the Republic of India (hereinafter referred to as the "Contracting Parties"),

Desirous of promoting friendly relations and of developing and facilitating trade and economic relations on the basis of equality and mutual interest between their two countries,

Have agreed as follows:

Article 1

The Contracting Parties shall, subject to the laws, regulations and procedure in force in their respective countries, take all appropriate measures to facilitate, strengthen and diversify trade between the two countries, on the basis of mutual advantage.

Article 2

The Contracting Parties shall encourage and provide necessary assistance to the relevant enterprises and organizations of each country to explore the scope for short and long arrangements in trade and, where appropriate, to conclude such contracts as may be mutually agreed upon.

Article 3

Each Contracting Party shall grant the other the Most Favored Nation Treatment in all matters relating to customs duties and foreign formalities in connection with the importation and/or exportation of products.

The above provision of this Agreement shall not apply to advantages, concessions and exemptions, which either Contracting Party has granted or may grant:

- a. to contiguous and neighboring countries in order to facilitate frontier traffic;
- b. to countries who are members of a customs union or a free trade zone or a preferential trading arrangement that either of the Contracting Parties has joined or may join.

Article 4

In order to develop further trade between the two countries, the Contracting Parties shall encourage each other's participation in trade fairs and exhibitions organized in the territory of the other Contracting Party on terms to be agreed between their competent authorities.

The exemptions from customs duties and other similar charges on articles and samples intended for trade fairs and exhibitions shall be subjected to the laws, rules and regulations of the country where such fairs and exhibitions are held.

Article 5

Any disputes that may arise from the interpretation of this Agreement shall be resolved through diplomatic channels.

Article 6

All payments between the two countries shall be effected in freely convertible currency that may be agreed upon by the Contracting Parties in accordance with the foreign exchange legislation in force in each country.

Article 7

Subject to the requirement, the provisions of this Agreement shall not limit the rights to either Contracting Party to adopt or execute measures:

- a. for reasons of public health, public morals, order or security;
- b. for the protection of plants and animals against diseases and pests;
- c. to protect national treasures of artistic, historical or archaeological value.

Article 8

Either Contracting Party may propose in writing such amendments to the present Agreement at any time and to which the other Contracting Party shall reply within three (3) months upon receipt of such proposal.

Any alteration or modification of this Agreement shall be done mutually without prejudice to the rights and obligations arising from this Agreement prior to the date of such alteration or modification until such rights and obligations are fully implemented.

Article 9

This Agreement shall come into effect on the date of its signature and shall remain in force for a period of five (5) years.

Thereafter, it shall automatically be extended for a period of one year (01) at a time unless either Contracting Party gives a written notice of its intention to terminate the Agreement at least three months (3) prior to the expiry of the validity of the Agreement.

Article 10

The provisions of this Agreement shall apply, even after its termination, to contracts entered into during the period of the validity of this Agreement but not fully consummated on the day of the termination of this Agreement.

Done at Phnom Penh on November 06, 2002 in 02 (two) originals, in Khmer, Hindi and English languages, all texts being equally authentic. In the event of discrepancy the English text shall prevail.

**For the Royal Government
of Cambodia**



**CHAM PRASIDH
Minister of Commerce**

**For the Government of
the Republic of India**



**YASHWANT SINHA
Minister of External Affairs**