



SOUTH-SOUTH ECONOMIC COOPERATION  
EXPLORING MEKONG-GANGA RELATIONSHIP

Country Paper

Trade and Investment between Cambodia  
and India

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*September, 2005*

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## 1. Introduction

In terms of population, India is the second largest country in the world after China. India's economy has performed well in recent years after the country introduced a wide range of reforms starting in 1991 to open and deregulate. The economy grew sharply, reaching 8 percent in 2003, following the average of 4.6 percent growth in the period 2000-2002. It is widely anticipated that "Geese" China and India are going to surpass Japan to stand just behind only the United States by 2050. For instances such studies are conducted by Morgan and Wilson and Purushothaman in 2003 (Sen et. al, 2004). Moreover, India has been taking a lead to improve cooperation between Southern and Southern countries after experiencing hard fight with Northern countries. For example, recent "Look East Policy" of India emphasizes closer link to countries in the Mekong region. Therefore, it is necessary for Cambodia, which has long been a close friend of India, to investigate this evolvement. But, until now there is no study on such relationship, in particular on economic relation between the two countries.

Hence, this study examines the economic link, trade and investment, between Cambodia and India. It focuses on two main objectives. First, it intends to explore the past and current relationship between Cambodia and India. Secondly, it will explore a number of potential areas in which the relationship between the two countries should be boosted to enhance economic cooperation.

Due to its exploratory nature, this analysis depends upon secondary data and a small sample size of stakeholder perceptions survey.<sup>1</sup> However, collecting the necessary information

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<sup>1</sup> Stakeholders were determined based on his or her familiarity with issues on trade and investment between Cambodia and India. Stakeholders were thus identified as members of the business community in the fields of pharmaceuticals, IT and garment manufacturing; and representatives from government agencies, research institutes, universities and NGOs. Sample participants are as follows: six high-ranking university administrators (20%); four top-level managers of garment factories (15%); six general managers of pharmaceutical import companies (15%); six top level managers of IT companies (20%); two officials from the Ministry of Commerce; one representative from Embassy of India; one representative from Cambodia Chamber of Commerce; one

benefits greatly from 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. And, field survey gained a lot of crucial perceptions from those who has knowledge and/or experience about relations between the two countries.

To examine economic relationship, the paper is organized as follows. Section two describes the external trade of and inward investment to Cambodia. It also emphasizes trade and investment policies of Cambodia. Section three provides information on external trade and outward FDI from India. Section four outlines the economic cooperation between two countries. Section five explores the future prospects for the two countries, and section six draws concluding remarks.

## **2. External Trade and Inward Investment of Cambodia**

### **2.1 External Trade**

#### **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 growing German demand for Cambodian exports of apparel and footwear products during last three years.

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representative from the Cambodian Investment Board; one representative from Indian trading company; one representative from the NGO community; and one representative from research institute (25%).

*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	1,042	1,127	1,310	5,674
2	Hong Kong	11	14	13	27	38	7	5	8	347	616	1,085
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 data for 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. By 2004, Thailand, which has long served as a leading source of Cambodian import 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 4<sup>th</sup> place in the top ten export partners to Cambodia. Imports from 1995 to 2004 amounted to more than US\$1 billion. Nonetheless, it is noteworthy that imports from neighboring Vietnam and Thailand are believed to be much higher than these recorded figures; for cross-border smuggling trade by both 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	3,075
2	Singapore	550	567	6	3	99	106	399	388	127	142	2,388
3	Hong Kong	43	49	67	130	186	254	117	373	414	410	1,219
4	Vietnam	104	109	108	91	86	92	110	119	129	168	1,115
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, 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 forest and fish resources exploitation.

Imports, on the other hand, rose from US\$1.6 billion in 1999 to US\$2.5 billion in 2002, higher 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.<sup>2</sup> This accounted for, on annual average, half of total imports from 1999 to 2002. Petroleum was also one of the main import commodities. Its annual average share of total imports was recorded at around 7.5 percent.

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<sup>2</sup> 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.

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				
	<b>Exports</b>				<b>Exports</b>			
Domestic exports	884	1,278	1,416	1,656	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	1,012	1,142	1,403	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.)	1,016	1,396	1,525	1,767	100%	100%	100%	100%
	<b>Imports</b>				<b>Imports</b>			
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	1,076	1,214	1,444	38%	51%	55%	58%
Coverage adjustments	283	279	300	327	18%	13%	13%	13%
Total Imports (c.i.f.)	1,612	2,095	2,225	2,500	100%	100%	100%	100%

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

## 2.2 Inward FDI

### 2.2.1 Sending Countries

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%
<b>Developed countries</b>	<b>36.9</b>	<b>7.9</b>	<b>6.9</b>	<b>15.1</b>	<b>31.1</b>	<b>20%</b>	<b>5%</b>	<b>4%</b>	<b>4%</b>	<b>8%</b>
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%
<b>Developing economies</b>	<b>145</b>	<b>138</b>	<b>148</b>	<b>337.0</b>	<b>349</b>	<b>80%</b>	<b>95%</b>	<b>96%</b>	<b>96%</b>	<b>92%</b>
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 Calculation.*

*Table 5: Top 10 Investing Countries, 2004*

Rank	Region/economy	FDI stock (US\$ Millions)	Share
1	Malaysia	1,916.1	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.*

### 2.2.2 Distribution of FDI

In the area of distribution, flow of foreign capital to the agricultural sector remained very small despite many untapped potentials and favorable government incentives. This primary sector attracted only US\$1 million in 2000. There was a recovery in 2004, however, due to two big joint-venture investment projects between Cambodian and Malaysian of the US\$13 million capital. 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.

### 3 External Trade and Outward Investment of India

#### 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, 41 percent rise. Despite this increase, India's export rate is still much lower than China's. It is five to six times less than China's export rate for the 1999-2002 period (Figures 1 & 2). But, the average annual increase of India's exports is higher than that of China at one percent (Table 7).

Figure 1: India Exports, 1999-2002

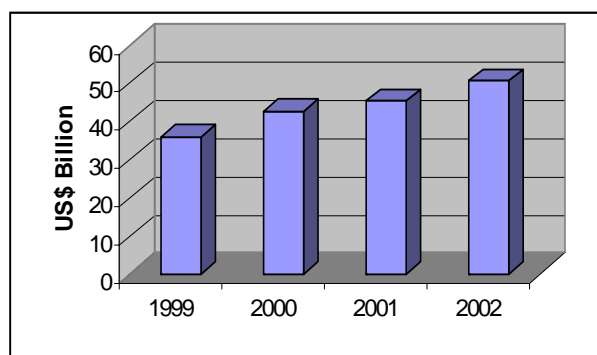
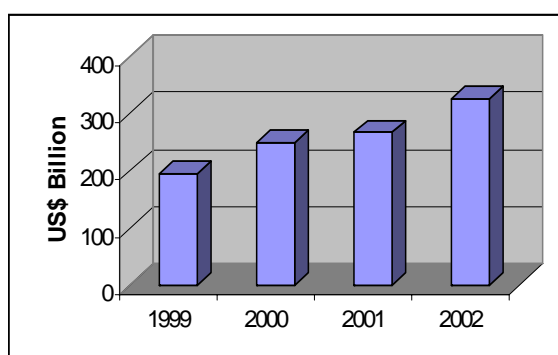


Figure 2: China Exports, 1999-2002



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

Table 7: 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 8: 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 7 shows that annual average import growth of India is lower than China (14 percent versus 21 percent).

Figure 3: India Imports, 1999-2002

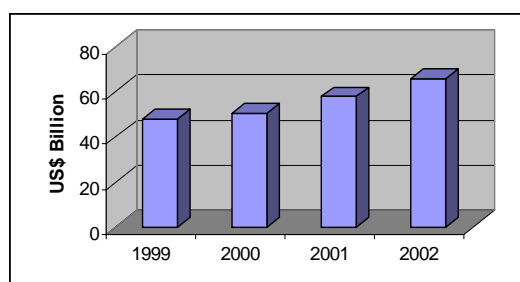
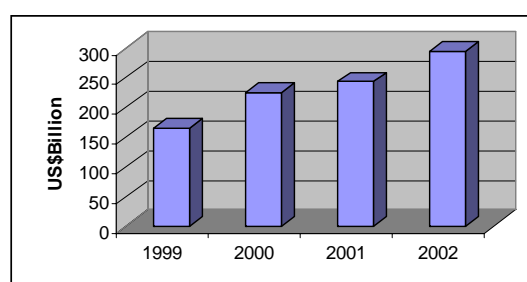


Figure 4: China Imports, 1999-2002



Source: The Same as Figure 1.

On the import side, developed countries are also main partners of India. Nine out of ten top import partners of India are advanced economies; six main import partners are in the top ten of main export partners of India (United States, United Kingdom, Belgium, Germany, Japan, and United Arab Emirates). The United States, 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 9: 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 8.

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

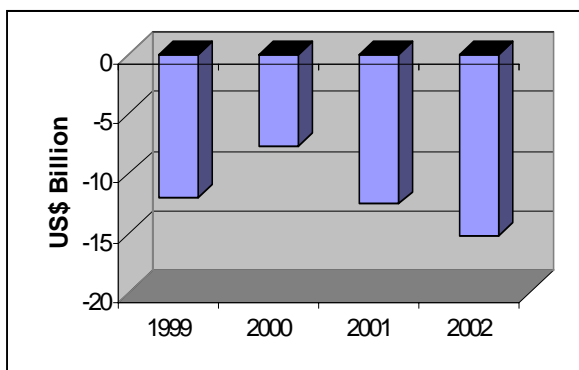
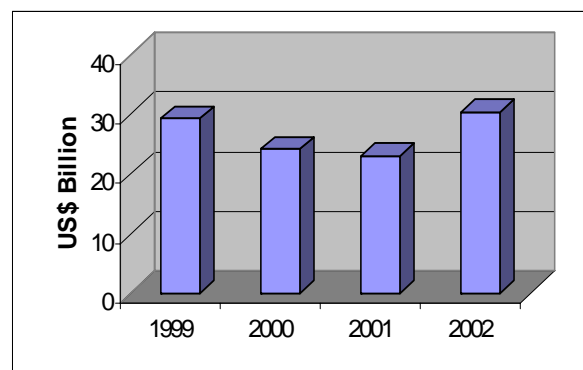


Figure 6: China Trade Surplus, 1999-2002



Source: The Same as Figure 1.

### 3.2 Destination of Outward FDI

By 2003, India was ranked 14<sup>th</sup> among major developing source countries with outward investment capital totaled to US\$5.1 billion (UNCTAD, 2004).<sup>3</sup> But, this outward capital flow was directed more toward large and/or advanced countries. In terms of inward investment stock in 2003, the United States was the most important recipient and took a share of nearly 19 percent of total Indian outward FDI stock. Russia was the second largest recipient and took a share of nearly 18 percent. The United Kingdom (5 percent) and Singapore (2 percent) are also among the top ten recipients (Table 10). Developing countries were also the major destinations of Indian investment. Mauritius, Sudan, British Virgin Islands,

<sup>3</sup> 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).

Bermuda and Vietnam took 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> place in the top ten recipient list of India. These countries together have absorbed 31 percent of total Indian outflows.

*Table10: Top 10 Recipient Countries, 2003*

Rank	Region/economy	FDI stock (US\$ Millions)	Share (%)
1	United States	1,864.8	18.8
2	Russian Federation	1,748.8	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.*

### ***3.3 Composition of Outward FDI***

Outward FDI from India dominantly focuses on manufacturing sector. FDI outward accumulation in table 11 showed that by 2004 the manufacturing sector accounted for 55 percent (US\$4.7 billion) of total outward FDI. In particular, it goes to manufacturing of pharmaceutical products where Indian has played key roles in global market. The non-financial sector was also a substantial recipient, accounted about 36 percent of total outward FDI. Furthermore, 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 the United Kingdom and the United States, replacing the traditional locations of Singapore, Thailand, Sri Lanka and Malaysia.

*Table 11: 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 Relationships between Cambodia and India

### 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.<sup>4</sup> 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.

<sup>4</sup> 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.

Table 12: 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%
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 1).

#### **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 further 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 capital city Phnom Penh, tourist city Siem Reap, Kandal Province, Takeo Province, and Angkor Park.<sup>5</sup>

#### **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.<sup>6</sup> Under this agreement, Cambodia will benefit under the scheme of special and differential treatment and flexibility

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<sup>5</sup> 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.

<sup>6</sup> A full agreement can be found at the ASEAN website: <http://www.aseansec.org/15278.htm>

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 of Indonesia, 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 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 13: 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

Source: Author, Compiled from IMF Direction of Trade Statistics for 1995-2002, Ministry of Commerce for 2003 & 2004.

Table 14: 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	11,578	46.1%	1	Thailand	11,581	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%	<b>18</b>	<b>India</b>	<b>87</b>	<b>0.5%</b>
19	<b>India</b>	<b>43</b>	<b>0.3%</b>	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 15 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 15: 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 16: Composition of Indian Exports to Cambodia*

Rank	HS	Goods	2000	2001	2002	2003	2004	Total	Share
			US\$ Million						
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 15.*

#### 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.

## **5. Prospects for Trade and Investment Relations between Cambodia and India**

This chapter is derived from a combination of the author's background paper of trade and investment between Cambodia and India and the findings from a stakeholders' perception survey.<sup>7</sup> This survey reflects Cambodian perspectives from different businessmen, government agencies and academia who have been contacted for intensive individual discussions.

### **5.1 Prospects for Trade Expansion**

More than 80 percent of respondents in the field survey indicated that total trade between Cambodia and India has yet to reach its potential. The prospects for trade relationships between Cambodia and India are 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 completed by October 2010, will help to boost trade. Furthermore, tariff reduction and elimination for a wider range of products has been realised after the two parties concluded their negotiations in June 2005. On the side of trade in services 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

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<sup>7</sup> The background paper is "Exploring Mekong-Ganga Cooperation: Trade and Investment between Cambodia and India"; the field survey report is "Relations between Cambodia and India: Stakeholder Perception Survey Report".

improve far beyond the current level. India is a country where exports of raw materials for garment production are the main commodities; Cambodia is a country whose garment industry depends entirely on foreign-supplied fabrics, yarn and garment related articles. Pharmaceutical products and cement are also major industries in India while these products are major imports to Cambodia (Table 17). This trade expansion argument is also 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.

*Table 17: Leading Indian Industries and Cambodian Import Demand*

Major Industry	Cambodian Imports	2002 (US\$ Millions)
Textile	Raw materials for textiles and garments	1,355
Pharmaceutical	Pharmaceutical products	41
Cement	Cement	37
Other Industries		...
Gems and jewellery	Gems and jewellery	...
Steel	Steel	23
Automobile	Automobiles	...
Information and Technology	Information and Technology	...
Furniture	Furniture; bedding and the like	5
Paper	Paper and paperboard	40
Salt	Salt	...

*Source: Economy Watch.com; Table 3 & Foreign Trade Department 2002's Cambodia Import Statistics.*

These positive prospects were also supported from the discussion with stakeholders during the field survey. More than half of the respondents expressed optimism at not only the potentialities of Indian exports to Cambodia but also Cambodian exports to India because both countries are undertaking strategies to diversify their commodities and their export destinations. However, the prospect of Indian exports to Cambodia generated more support from respondents than the potentialities of Cambodian exports to India. But respondents asserted that two-way trade will be maintained at current levels.

All respondents from the pharmaceutical industry in our sample believed that trade will grow beyond current levels. Additionally, although the representatives of the four garment factories in our sample reported that they individually have never traded with India, three out of four said that general trade will not decrease due to India's expansion in other areas of trade. The majority of respondents from the remaining three groups also expressed positive expectations on exports from India to Cambodia rather than exports from Cambodia to India.

## **5.2 Areas of Trade Expansion**

Many of the suggestions from the field survey revealed that Indian industrial export-based production to Cambodia should receive more attention whereas Cambodian primary products should be promoted the other way around. Moreover, respondents from the garment sector believed the potential in garment trade with India is unlikely to be realized given the substantial influence of China, Taiwan and Indonesia on the supply side and from EU and US on the demand side. More explicitly, Indian trading companies can likely compete in Cambodia's market with an array of goods, according to many respondents across the sample. Indeed, pharmaceutical products from India have the greatest potential in gaining a bigger market share. Other potential products are children's books, higher education books, textiles, agricultural water pumps, chemical fertilizers and consumer products. Products with less potential are automobiles, dyes and paints, food products and stationery. It is suggested that Cambodia, on the other hand, strengthen its focus on exports such as cashew nuts and green beans. Other products with diminished potential include rubber, tropical fruits, black pepper, corn, handicrafts, gems, and jewelry.

## **5.3 Prospects for Investment Expansion**

Prospects for investment relationships, however, are limited for 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. Thirdly, desires of Indian TNCs, suggested by UNCTAD (2004), are for things such as access to markets, natural resources, distribution networks, foreign technologies and strategic assets like brand names but these are things that Cambodia lacks. 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.

**Box 1: Prospects for and Areas of Trade and Investment Expansion, Cambodia-India**

	<b>Cambodia-India</b>	<b>India-Cambodia</b>
Trade expansion	Positive prospects	Positive prospects
Investment flow		Limited positive prospect
Areas of trade expansion	Primary products: cashew nuts and green beans, rubber, tropical fruits, black pepper, and maize.  Other products: handicrafts, gems, and jewelry	Industrial products: pharmaceuticals, children books, higher education books, textiles, agricultural water pumps, chemical fertilizers, consumer products, automobiles, dyes and paints, food products and stationery products  <ul style="list-style-type: none"> <li>▪ Education services in IT field</li> <li>▪ Agricultural processing plants</li> <li>▪ IT software solution services</li> <li>▪ Paper production</li> <li>▪ Automobile assembly plants</li> <li>▪ Soap production</li> <li>▪ Film production</li> </ul>
Areas of investment inflow		

#### **5.4 Areas of Investment Expansion**

Given the strengths of India in IT and software development, it is suggested that (in particular respondents from universities and IT companies) India open training institutes in Cambodia either within the university system or as independent, vocational training centers. Agricultural processing is ranked second as a possible investment option while IT software companies are ranked third, as suggested by field work findings. Investing in the hotel industry is ranked fourth. Other areas of investment cited were paper production, automobile assembly plants, soap production and film production.

#### **5.5 Ways to Promote Trade and Investment**

Survey respondents can be grouped according to four schools of thought on ways to promote trade between Cambodia and India.

The first school of thought is based on the idea that initiatives should be government based; to arrange a free trade agreement and investment protections bilaterally in order to pave the way for private sector growth. Trade exhibitions are another possibility for both governments. However, in the early stages of participating in exhibitions, the focus should be more on bringing businessmen together to meet each other rather than having exhibitions where consumers meet businessmen.

The second school of thought sees the promotion of tourism as an anchor whereby encouraging Indians to visit Cambodia can serve as a precondition to expanding trade and encouraging investment.

The third school of thought is based on the assertion that the private sector, especially chambers of commerce of both countries, can autonomously achieve trade and investment as both governments have limited initiative.

The fourth school of thought states that respective domestic barriers must be gradually removed in order to improve trade and investment. Respondents emphasized this need more for Cambodia than India. In terms of trade expansion, it was articulated that Cambodia should have a wider variety of commodities for export beyond garments. Trade facilitation should be in place to ease export and import activities. For investment promotion, legal frameworks and low production costs were identified as key determinants to this process.

## **6. Conclusion**

The economic relationships between Cambodia and India in the past and in the most recent years have remained very weak although the two countries enjoy good relations and have common cultural features. Two-way trade is minimal. Investment from India to Cambodia is even more disappointing.

However, there are opportunities for expansion in the future due to their actual potentialities and foreseeable closer economic cooperation between the two. 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, cement, automobile components and machinery to Cambodia. Indian investors should seek investment opportunities in the pharmaceutical industry, IT-related services and education services. Yet, capturing these actual potentialities will be realized if better trade facilitation and investment climate are in place.

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## Appendix 1: 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, concession 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.

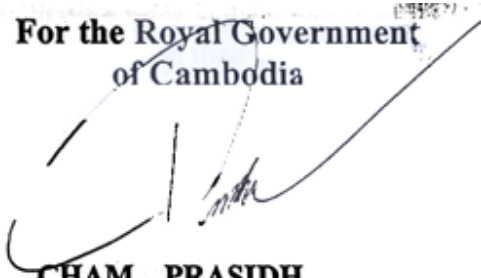
Thereafter, it shall automatically be extended for a period of one year (01) at a time unless either contracting party gives a written notice of its intention to terminate the Agreement at least three months (3) prior to the expiry of the validity of the Agreement.

#### **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**