

South-South Economic Cooperation Enhancing GMS-India Relationship



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Preface

The World Trade Organisation (WTO), in its annual report of 2003, identified South-South trade cooperation as one of the major issues of topical interest in international trade. One vital development in the recent past has been that the South-South trade as a percentage of world trade has increased. Given the modalities of the WTO negotiations, cooperation among Southern countries has assumed immense strategic value for multilateral negotiations. For shaping the respective role of the countries in the multilateral trade negotiations, South-South cooperation has become all the more important.

Experts have put forward two reasons for this phenomenon: a) to reduce the dependency of developing countries on markets of developed countries, and b) to enhance diversification of southern exports beyond primary commodities.

While South-South trade increased substantially (from 6.5 percent of world trade in 1990 to 10.7 percent in 2001), it has been largely confined to countries in Latin America and in the ASEAN region (Association of South East Asian Nations). It is, therefore, important to ascertain the potential for enhancing trade and other forms of economic cooperation between India, the world's second-most populous country after China and a member of the South Asian Association for Regional Cooperation (SAARC), and the CLV (Cambodia, Laos, Vietnam) countries of the Greater Mekong Sub-region (GMS) that are members of ASEAN.

The project entitled, "South-South Economic Cooperation: Exploring Mekong Ganga Relationship", of which this is a report, explores and analyses trade and investment relationship between India and the CLV countries, which at present constitutes a small proportion of global trade and foreign direct investment. This initiative looks at demand and supply-side factors, which can enhance (or not) trade and investment between India and the CLV countries.

This report explains the present volume and composition of trade and investment as well as the perceptions of diverse stakeholders, especially business and civil society. It explores and analyses the future scenario keeping in mind the historical ties and geographical proximity between these countries and recent attempts to forge closer trade and investment cooperation. What has been presented in this report is a detailed account of past and present trade and investment patterns, an analyses of the policy reforms that have been undertaken by each country, gaps and lacunae in economic cooperation among the countries and the main reasons for these. It also identifies areas

of cooperation among the countries concerned, i.e., the sectors where trade and investment flows may be enhanced.

It highlights counterfactual perceptions and attempts to simulate future trade scenarios among these countries while recommending policy measures aimed at enhancing trade and economic cooperation. It recommends the steps that can be taken to enhance interaction between business enterprises located in India and the CLV countries in the GMS region, and also how Thailand could provide institutional support to these countries. It suggests amendments in trade and investment policies and procedures to foster and facilitate trade and development among these countries. Moreover, civil society organisations are provided with advice on why they should be aware of relevant trade- and investment-related issues and how they could advocate for effective policy implementation.

The report draws some key messages for closer economic cooperation between India and the CLV countries of the GMS region and places the findings, lessons and recommendations accordingly.

It will help a whole range of stakeholders, including policy makers, experts, academics, trade community and scholars of Mekong countries and India, who have been looking for feasible ways to facilitate greater cooperation in trade and investment, with the goal of an ever-increasing South-South trade.

We are very grateful to the Swiss Agency for Development and Cooperation (SDC) for its generous support for conducting this project. I thank them and also all our partners and experts who were involved in this work. My special thanks goes to Mr. Paranjay Guha-Thakurta for compiling this document and to Dr. Sailendra Narain, SDC's Regional Adviser in South and South East Asia for his guidance in implementing the project.

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Abbreviations & Acronyms

ASEAN	:	Association of South East Asian Nations
ARF	:	ASEAN Regional Forum
ACFTA	:	ASEAN-China Free Trade Area
AFTA	:	ASEAN Free Trade Area
AISP	:	ASEAN Integrated Special Preferential
ADB	:	Asian Development Bank
B2B	:	Business-To-Business
BTA	:	Bilateral Trade Agreement
BIPPA	:	Bilateral Investment Promotion and Protection Agreement
CMEA	:	Council for Mutual Economic Association
CIDA	:	Canadian International Development Agency
CLV	:	Cambodia, Lao PDR, Vietnam
CECA	:	Comprehensive Economic Cooperation Agreement
CLMV	:	Cambodia, Lao PDR, Myanmar, and Vietnam countries
CEPT	:	Common Effective Preferential Tariff
CEP	:	Cultural Exchange Programme
EU	:	European Union
EDI	:	Entrepreneurship Development Institute of India
EDCs	:	Entrepreneurship Development Centres
FDI	:	Foreign Direct Investment
FTA	:	Free Trade Arrangement
FICCI	:	Federation of Indian Chambers of Commerce and Industry
GMS	:	Greater Mekong Sub-Region
GSO	:	General Statistics Office of Vietnam
GoI	:	Government of India
GSP	:	Generalised System of Preferences
GDP	:	Gross Domestic Product
HRD	:	Human Resource Development
HYV	:	High Yielding Varieties
IT	:	Information Technology

IDRC	:	International Development Research Centre
IMF	:	International Monetary Fund
ICT	:	Information And Communication Technology
IAI	:	Initiative for ASEAN Integration
JVs	:	Joint Ventures
LOI	:	Law on Investment
LDCs	:	Least Developed Countries
LNCCI	:	Lao National Chamber of Commerce and Industry
LIED	:	Lao PDR-India Entrepreneurship Centre
M&A	:	Merger and Acquisition
MFN	:	Most Favoured Nation
MGC	:	Mekong-Ganga Cooperation Initiative
OPEC	:	Organisation of Petroleum Exporting Countries
OVL	:	ONGC Videsh Limited
PSC	:	Production Sharing Contract
PSU	:	Public Sector Undertaking
QIPs	:	Quick Impact Projects
RITES	:	Rail India Technical and Economic Services
RTIA	:	Regional Trade and Investment Area
SSC	:	South-South Cooperation
SAARC	:	South Asian Association for Regional Cooperation
SMEs	:	Small and Medium Enterprises
SOEs	:	State Owned Enterprises
SITC	:	Standard International Trade Classification
SPT	:	Special Preferential Tariff
SWOT	:	Strengths Weaknesses, Opportunitites and Threats
SPZs	:	Special Promotion Zones
TNCs	:	Transnational Corporations
UNTAC	:	United Nations Transitional Authority in Cambodia
UNSD	:	United Nations Statistics Division
UNDP	:	United Nations Development Programme
VCCI	:	Vietnam Chambers of Commerce and Industry
WTO	:	World Trade Organisation

Introduction

Background

South-South Cooperation has for long been promoted as a means to reduce the economic dependence of developing countries on markets of developed countries and also to enhance diversification of exports of developing countries beyond primary commodities. There is considerable scope for enhancing South-South trade and economic cooperation between India and the three Greater Mekong Sub-Region (GMS) countries of Cambodia, Lao People's Democratic Republic (PDR) and Vietnam. The World Trade Organisation (WTO), in its Annual Report of 2003, has identified South-South trade cooperation as one of the major issues of topical interest in international trade.

While South-South trade increased from 6.5 percent of world trade in 1990 to 10.7 percent in 2001, the increase has been largely confined to countries in Latin America and in the Association of South East Asian Nations (ASEAN). It is, therefore, important to ascertain the potential for enhancing trade and other forms of economic cooperation between India, the world's second-most populous country after China and a member of the South Asian Association for Regional Cooperation (SAARC), and the four Mekong countries that are members of ASEAN.

Given its experience in researching trade and development issues, the Consumer Unity & Trust Society's Centre for International Trade, Economics & Environment (CUTS CITEE), Jaipur, India, took up the task of exploring the possibilities of enhancing South-South trade, investment and other forms of economic cooperation between India and the four Mekong countries of Cambodia, Lao PDR, Vietnam and Thailand, and within the Mekong countries themselves.

About the Project

The project is meant to explore and analyse how India and three countries of the Greater-Mekong Sub-region (GMS), namely, Cambodia, Lao PDR and Vietnam, can foster economic co-operation. Given the long-standing historical ties that have existed among these countries, their geographical proximity and recent efforts to forge closer trade and investment cooperation, the project explores future scenarios by analysing current trends in the volume and composition of trade and investment flows among these countries. It also delineates the perceptions of diverse stakeholders, including representatives of the business community and civil society.

This project is supported by the Swiss Agency for Development and Cooperation (SDC), Berne, Switzerland.

Objectives of the Project

The objectives of the project, most of them inter-related, are summarised as follows:

- To facilitate the cross-fertilisation of experiences and lessons learnt on economic cooperation between India and the three countries in the GMS — Cambodia, Lao PDR and Vietnam;
- To capture Thailand's perspectives and its role in the development of three Mekong countries;
- To strengthen the capacity of the GMS countries to explore and articulate issues relating to South-South economic cooperation by providing the necessary 'know-how' and 'do-how' to policy-makers, representatives of the business community and civil society, and other stakeholders;
- To facilitate the synergy between governments, CSOs and other stakeholders to enable them to learn from one another and strengthen their collective perspectives and positions on future economic cooperation scenarios between India and the GMS countries; and
- To prepare a policy advocacy document for public education on development-oriented South-South economic cooperation initiatives by taking into account the interests and priorities of trade and investment relationships between India and the GMS countries.

Methodology

The project has been implemented through field research as well as documentation and analysis of perceptions on current and future trade and investment relationships among these countries from different stakeholders – policy-makers, representatives of the business community and CSOs – through interviews and discussions.

Before conducting the field research and perception survey, a review and compilation of available literature on the political and economic aspects of cooperation on trade and investment relationships between India and the GMS countries was undertaken. Though this literature was not consistently well developed, the review did provide valuable references and helped highlight counterfactual perceptions.

National Seminars

In each country, a National Reference Group (NRG) comprising representatives of stakeholders was created. National Consultations were organised to deliberate issues relating to economic cooperation between India and the GMS countries. These consultations helped raise awareness of the factors constraining the enhancement of trade and investment flows among these countries.

The Advocacy Document

The primary purpose of the document is to advocate policy initiatives on development-oriented trade policy, by taking into account the interests and priorities of trade and economic relationship between India and the GMS countries. This policy advocacy document is also aimed at becoming a tool to disseminate information and sensitise the public at large about the need and importance of fostering closer economic ties between India and the GMS countries.

This document looks at demand-side and supply-side factors that could enhance (or hinder) trade and investment flows between India and the three GMS countries. It highlights counterfactual perceptions and attempts to paint future trade scenarios among these countries while recommending policy measures aimed at enhancing trade and economic cooperation.

This document contains three sections. Section One recommends steps that may be taken to enhance interaction between business enterprises located in India and the GMS countries and also how Thailand could provide institutional support to these countries. This Section draws upon the output of the project, namely: country papers; briefing papers' and discussions of the National Consultations conducted in all the five countries. It suggests amendments in governmental trade and investment policies and procedures to foster and facilitate trade among the countries. Moreover, CSOs are provided with advice on why they should be aware of the relevant trade and investment related issues and how they could lobby effectively for the implementation of these issues.

Section Two draws some key messages for closer economic cooperation between the GMS countries and India and corresponding to each key message placed the findings, lessons and recommendations.

Section Three contains a detailed account of past and present trade and investment patterns, including an analysis of the policy reforms that have been undertaken by each country, gaps and lacunae in economic cooperation among the countries and the main reasons therein. It also identifies areas of cooperation among the countries concerned, that is, the sectors where trade and investment flows may be enhanced.

Section 1: The Advocacy Points

This Section advocates for trade and investment policy initiatives, which if undertaken by the stakeholders, viz. governments, business communities and CSOs, particularly in the GMS region, could foster economic cooperation between the two regions and within the Mekong region itself. It also enumerates briefly the important role India could play in association with Thailand in the overall institutional development of Mekong region.

Areas of Opportunity

After taking into consideration all the relevant inputs, ‘*areas of opportunity*’ that have been identified are as under:

- *Human Resource Development (HRD)*: India and the Mekong countries can cooperate in a wide range of areas, which *inter alia*, calls for recognition of degrees, courses and credits between educational institutions within the region, exchange of faculties and facilitation of greater mobility of students between countries.
- *Agriculture and Food Processing*: The agro-climatic conditions in countries like Cambodia and Lao PDR, where large areas of land are yet uncultivated, are best suited for crops like rubber, coconut, coffee, black pepper etc. The high yielding varieties (HYV) and other agricultural practices developed by India could be shared with these countries.
- *Information Technology (IT)*: This is an area where the India-Mekong partnership will yield rich dividends. While Indian companies have already made some progress in training officials from the Mekong countries and setting up training centres in Vietnam, such efforts have to be complemented with HRD initiatives.
- *Health and Pharmaceuticals*: India’s success in this sector could be of immense value to the Mekong countries. The scope of cooperation could be extended to cover other areas like *Ayurveda* and herbal medicines.
- *Tourism and Culture*: Despite historical linkages, today there exists very little people to people contact between India and the Mekong countries. This in turn leads to an information gap, thereby contributing towards limited trade and investment. It is important, therefore, to improve connectivity between the two regions, more so because there are no direct flights between any of the Indian cities and the Mekong countries.
- *Capacity building in the Financial Sector*: The fact that the banking and financial sector in the Mekong countries is still in its infancy, adversely affects not just their growth but also their trade and investment prospects. It is generally assumed that liberalisation by way of lowering of barriers and tariffs leads to bigger trade. What needs to be recognised however is that trade will boom only if capacities for the

same are created. In this context, India's experience in building a vibrant capital market could be of considerable relevance to the Mekong countries.

- *Small and Medium Enterprises (SMEs)*: India has a vibrant SME sector and their enterprise could be of immense relevance to Mekong countries. This however is hindered by the fact that certain Mekong countries have specific provisions in their investment laws that deter investment by Indian SMEs.

Specific Recommendations

The following recommendations are proposed for developing trade-investment relations between the Mekong countries and India.

Recommendations to Enterprises and Civil Society Organisations

- Business enterprises and CSOs from both the regions should be more proactive in seeking market information and current and future patterns of demand for goods and services.
- Due to similarities in the levels of development and trading profiles (as in the case of India and Vietnam) efforts should be made by enterprises in these countries to explore niche markets. Enterprises from GMS countries would find potential niche markets in India that are relatively large and with considerable scope for earning profits.
- Enterprises must be made to realise that they should be willing to pay for market information and for conducting exhibitions/trade fairs, surveys and training.
- Enterprises should become more active in forming non-governmental associations, especially chambers of commerce and industry bodies for networking and for exchange of quality information on trade and investment opportunities.

Recommendations to Governments

It is recommended that the governments in concerned countries design and carry out trade and investment promotion programmes bilaterally or through multilateral forums such as BIMSTEC and ASEAN. In the short term, such programmes can be designed with the following objectives.

Information Dissemination: Information dissemination between the two regions can be promoted by:

- establishing 'Centres for Information Exchange' that could research trade related issues and regularly publish the same for public consumption. A joint information centre may be set up, so as to facilitate research on specific issue of bilateral relations between Mekong-Ganga Cooperation (MGC) and to evaluate opportunities that exist within the MGC Initiative;
- building a suitable information transmission mechanism via the Internet for not only having regularly-updated information but also creating favourable conditions for enterprises to have direct information exchanges. In fact, organisations such as the Institute of Applied Enterprise Information Technology at the Vietnam Chambers of Commerce and Industry (VCCI) have already done such work with African and Chinese markets;

- facilitating information dissemination through traditional means, for example, bilingual publications (in English and regional languages) about markets in India and the Mekong countries;
- organising contact group meetings that allow businessmen of both regions to exchange market information and also share their experiences with each other; and
- assisting enterprises from the Mekong countries in letting them become a part of market research delegations and participate in trade fairs and exhibitions in India.

Transfer of Technology from India to GMS countries: For the purpose of technology transfer, the following issues should be considered:

- introducing technologies;
- building business plans on technological application;
- solving financial issues;
- completing contracts on transfer of technologies and production know-how; and
- providing human resource training.

Of these issues, priority areas should be the settlement of financial issues and human resource training. This will help enterprises reduce financial burden and risks that may arise from technology transfer and acquisition.

Trade promotion activities: The following measures can be adopted by associations, government trade promotion offices (at ministerial and city levels) and non-governmental organisations (NGOs), and other trade promotion units:

- organising mutual visits between enterprises of the two regions at various levels;
- organising trade fairs to introduce/advertise business potential between the two regions, which can be combined with international and regional exhibitions. A rotating exhibition on MGC between the countries is proposed;
- creating trade promotion focal points for certain groups of product items, on the basis of which information exchanges may be developed between the two regions;
- strengthening the activities of Chambers for Commerce and Industry of each country, (especially the Mekong countries), and working out detailed programmes to support other associations in their trade promotion work; and
- developing specific plans or programmes like proposals to the governments of both the regions and other donors for trade promotion.

Role of Thailand

Thailand, by way of its strategic position as one of the original members of ASEAN, can play an important role in enhancing economic cooperation between the Mekong region and India. There are at present three possible modes for greater economic cooperation between India and Mekong countries through greater involvement of Thailand in this process.

- Scenario 1: Intensifying Thai-India FTA; Maximising bilateral benefits
- Scenario 2: Enhancing India-GMS cooperation through Thailand; Moderate Benefits and
- Scenario 3: Exploring ASEAN-China Plus India; Maximum benefits

Section 2: Key Messages

This Section draws some key messages from this project and places the findings, lessons and recommendations accordingly.

Closer India-CLV relationship presents considerable potential

Findings

- Trade and investment flows between India and Cambodia, Lao PDR and Vietnam (CLV) countries in the GMS are below their potential.
- There is competition in some similar commodities between India and CLV countries.
- There are no direct air links between India and CLV countries.
- India is a large market that is expected to become one of the most powerful economies with numerous comparative advantages as well as a scientific and technological power, particularly in the IT sector.
- India has strength in HRD and English language skills, while CLV countries have low levels of proficiency in English.
- There is a lack of information and knowledge in India and CLV countries about each other's region and markets. Communication among businessmen is limited.
- The Indian Government is supporting the establishment of entrepreneurship development centres in CLV countries in order to promote it, particularly SMEs.

Lessons

- Commercial relations between India and CLV countries are limited, but despite the lack of information and knowledge, poor transportation links and competition in some similar products, the relationship has considerable growth potential.
- In particular, there are seven areas of opportunity to strengthen India-GMS relationship: HRD; agriculture and food processing; IT; health and pharmaceuticals; tourism and culture; capacity building in the financial sector; and development of SMEs.

Recommendations

Government

- Facilitate information dissemination through, for instance, bilingual publications (in English and regional languages) about the Indian and CLV markets.
- Establish a joint 'Centre for Information Exchange' that would facilitate research on India-GMS relations and evaluate opportunities in that relationship.

- Build a suitable information transmission mechanism via the Internet for regular, updated information and to spur direct information exchanges among enterprises.
- India should facilitate transfer of technology to CLV countries, with special emphasis on training human resources on issues such as financial management.
- Recognition of degrees, courses and credits between educational institutions should be considered through mutual recognition agreements.
- Exchanges of faculties and facilitation of greater mobility of students.
- Make use of India's experience in developing its capital market to help build the financial sector in CLV countries.
- Improve connectivity between the two regions, including introducing direct flights.
- Take steps to utilise Thailand as a trade facilitator between India and CLV countries.

Private Sector

- Enterprises should take initiatives to improve information and knowledge about the Indian and CLV markets, including conducting exhibitions/trade fairs, surveys and training as well as forming joint chambers of commerce and industry bodies. In this context, enterprises need to realise that they should be willing to pay for such initiatives.
- Enterprises should make efforts to explore niche markets.

Government & Private Sector

- Engage in trade promotion activities, including organising mutual visits between enterprises of the two regions, organising trade fairs to introduce business potential between India and CLV countries, and the creation of trade promotion focal points for certain groups of product items.
- Build on the establishment of entrepreneurship development centres in CLV countries and other similar experiences to develop SMEs in CLV countries.
- Extend cooperation in health and pharmaceuticals to cover *Ayurvedic* and herbal medicines.

Better information and knowledge for Indian and Vietnamese business about each other's markets is needed

Findings

- There is a considerable lack of information and knowledge in India and Vietnam about each other's markets, including trade and payment procedures.
- The balance of trade between India and Vietnam is heavily in favour of the former. Vietnam's exports to India are extremely modest.
- Vietnam is a promising market that possesses abundant natural resources, industrial dynamics and a well-educated labour force.
- India and Vietnam have a high level of similarity in exports, such as rice, tea and cashews.
- Vietnam's main imports include machinery and equipment, petroleum products, fertilisers, steel products, raw cotton, grain, cement and motorcycles.
- Vietnam's trade and investment climate has become considerably more open and transparent since reforms were initiated in 1986. However, some strategic industries remain highly protected and there are strict entry conditions for non-state enterprises.

- There is no well-established and reliable channel for business-related financial transactions between India and Vietnam.
- There is limited trade promotion activity between India and Vietnam. If any, they are still primitive, non-professional and unstable.

Lessons

- Despite many similarities in their trading profiles, both India and Vietnam are promising markets for each other with a lot of potential for greater trade and investment flows between them. Indeed, Vietnam is one of the ASEAN members having most commercial potential for India.
- India is well equipped to export a majority of Vietnam's main imports at competitive prices.
- Four areas that offer great potential for strengthening commercial cooperation between India and Vietnam are energy, mineral exploration and processing, IT, and pharmaceuticals and healthcare.

Recommendations

Government

- India and Vietnam should seek to strengthen cooperation in the civilian nuclear power sector for energy, a measure that is both feasible and desirable.
- The two governments should explore ways to enhance collaboration in the area of procuring drugs for diseases like HIV/AIDS.
- Reliable channels for business-related financial transactions should be established.
- Establish 'Centre for Information Exchange' to address lack of information and knowledge each other in the two countries.
- India and Vietnam could fruitfully cooperate in agricultural research and biotechnology. Facilitating trade and investment in agro-chemicals and fertilisers should also be taken into consideration.

Private Sector

- Due to similarities between India and Vietnam in their development and trading profiles, enterprises should make efforts to explore niche markets.
- Enterprises should become more active in enhancing, qualitatively as well as quantitatively, the sources of information about their markets.
- Business bodies (like chambers of commerce) should strengthen their activities and work out detailed programmes to support each other in their trade promotion work.
- Business associations should develop specific plans or programmes, e.g. proposals to both government and other donors for trade and investment promotion and facilitation.
- Complement IT training centres set up by Indian companies in Vietnam with HRD initiatives.

Government & Private Sector

- Mutual visits between enterprises at various levels should be organised, including trade fairs to introduce/advertise business potential.
- Trade promotion focal points for certain groups of product items should be created.

Poor transport and communication linkages between India and Lao PDR limits potential growth in commercial relations

Findings

- Transportation route between India and Lao PDR is long and there is no direct air and/or road links. The Lao PDR market is small and the country is land locked, which leads to extremely high freight charges.
- India and Lao PDR have cooperated in agriculture, infrastructure, culture and education, and science and technology.
- India has shown interest in importing wood products, phosphates and precious stones and in exporting capital goods, agricultural machinery, telecom equipment, solar energy systems, dairy and food processing equipment, and pharmaceuticals.
- There is lack of awareness among Laotian consumers about Indian products and *vice-versa*.
- There is little or no communication between businessmen of India and Lao PDR. The two countries have never co-organised trade fairs. Moreover, no commercial information or trade delegates have been exchanged and no joint ventures are in place.
- Lao PDR has large areas of uncultivated land that is suitable for crops like rubber, coconut, coffee and black pepper and India has technical knowledge to develop these crops, including post-harvest technology for their processing.

Lessons

- There is a lot of scope for greater trade and investment between India and Lao PDR. India's areas of interest include participating in pre-exploration and/or mining materials and establishing weaving factories, cement factories and vegetable oil factories. India could also assist Lao PDR in designing industrial products and developing their standards.
- However, despite potentiality for closer commercial relations, poor transport linkages and lack of awareness and communication with each other present obstacles to realise this potential.

Recommendations

Government

- Build on and expand exchanges of faculties and facilitation of greater mobility of students.
- India should capitalise on the expressed need by the Ministry of Industry and Handicraft of the Government of Lao PDR to establish an industrial product design institute as well as to build capacity to develop and certify industrial products.

Private sector

- Enterprises should become more active in enhancing, qualitatively as well as quantitatively, the sources of information about their markets.
- The Indian jewellery sector should explore gemstones, which are available in large quantity in Lao PDR.

Government & Private Sector

- Mutual visits between enterprises at various levels should be organised, as should trade fairs to introduce/advertise business potential.
- Trade promotion focal points for certain groups of product items should be created.
- India should consider sharing with Lao PDR the HYV and other agricultural practices that it has developed.

Despite similar comparative advantages, trade between Cambodia and India is expected to grow considerably

Findings

- The overall trade balance has been in India's favour since 1996. Trade between the two countries remains small, uneven and relatively weak.
- Indian investment in Cambodia is negligible.
- Comparative advantages of both countries are almost the same. Nevertheless, complementary trade between the two countries is expected to improve far beyond the current levels.
- Cambodia possesses four strengths in terms of investment: access to the dynamic ASEAN market, as well as preferential access to EU and other developed regions as being a least developed country (LDC); membership of the WTO (while the other two countries are still in the process of accession); strong commitment on the part of the government to create a business-friendly environment; and considerable natural resources and cultural assets for developing agriculture and tourism.
- Investment is hampered in part because of difficulties for Indian companies to have better access to markets. For instance, the preferred mode of entry for Indian IT companies is mergers and acquisitions (M&As), but that mode is limited in Cambodia.
- Cambodia has large areas of uncultivated land that is suitable for crops like rubber, coconut, coffee and black pepper and India has technical knowledge to develop these crops, including post-harvest technology for their processing.

Lessons

- There is considerable scope for closer commercial ties. Indeed, Cambodia is one of the ASEAN members that has the greatest potential for India.
- More specifically, India can export raw materials for the garment industry, pharmaceutical products, automobile components and machinery to Cambodia. On the other hand, Cambodia can supply primary products such as rubber and fish products to the Indian market.
- Four areas of opportunity for Indian investors in Cambodia: tourism; commercial agriculture and agro-processing; garments and other light manufacturing; and infrastructure development and services such as education (technical skills) and health.

Recommendations

Government

- India should continue to assist Cambodia in developing its infrastructure through loans and other resources.

Private sector

- Potential Indian investors should consider investing in Cambodia's pharmaceutical industry, IT-related services, and education.
- Commercial agriculture and agro-processing is another area of opportunity for investors and an area for which the Cambodian government is granting incentives.

Government & Private sector

- India should consider sharing with Cambodia the HYV seeds and other agricultural practices that it has developed.

Thailand can act as a catalyst to enhance India-GMS relationship

Findings

- Thailand has a strategic location in South East Asia and is a key member of ASEAN.
- India has a strategic location in South Asia and can act as a hub for accessing this region's market, which is one of the fastest growing in the world and should continue to grow in near future. India is actively pursuing a 'Look East Policy' to get closer with ASEAN countries.
- Thailand is a hub for air links to South East Asia.
- Thailand has an extensive network of roads that allows easy access to all CLV countries.

Lessons

- The strategic economic geography of Thailand and India presents opportunities for them to act as mutual gateways to each other's regions. This is crucial for enhancing their strategic roles in this new regime of trade and economic cooperation.
- There are presently three entry modes for India into the GMS/ASEAN via Thailand: a) by intensifying the Thai-India free trade agreement (FTA); b) by bridging India directly to the GMS framework; and c) by bridging India to the ASEAN-China FTA.

Recommendations

Government

- The two governments should explore further the three entry modes for India into the GMS/ASEAN with Thailand acting as a gateway. However, cost-benefit analyses should be conducted for all three modes, based on which they should jointly follow the most implementable strategy.

Section 3: Country Studies

This Section takes a comprehensive look at the key findings from the available country-specific literature, the field research and perception surveys that were separately carried out in the three GMS countries. It considers the emerging trends in the economies of India and the GMS countries and goes on to discuss trade policy reforms that have been undertaken in Vietnam, Lao PDR and Cambodia and how these reforms have affected these countries' trade with India.

Vietnam: A Brief Overview of the Economy

The economic reform programme (*Doi Moi*) launched in Vietnam in 1986 covered a wide range of areas such as economic institutions, property rights, macroeconomic policies, State Owned Enterprises (SOEs), the banking system, and the international trade regime. After nearly 20 years of reform, the economy has changed dramatically. During the period of 1990-97, Vietnam recorded impressive achievements in terms of GDP growth, foreign trade expansion, and FDI inflows.

Table 1: GDP Growth and Volume of Merchandise Trade, 1990-2003 (figures in %)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 b
GDP growth	9.5	9.3	8.1	5.8	4.8	6.8	6.9	7.1	7.3	7.6
Economic structure ^c										
Agriculture	27.2	27.8	25.8	25.8	24.5	23.8	23.2	23.0	21.8	
Industry	28.8	29.7	32.1	32.5	36.7	37.7	38.1	38.5	40.0	
Services	44.0	42.5	42.1	41.7	38.7	38.5	38.7	38.5	38.2	
FDI (US\$ billion)	6.848	8.979	4.894	4.138	1.568	2.018	2.592	1.621	1.899	4.200
Export (US\$ billion)	5.449	7.256	9.185	9.360	11.540	14.483	15.029	16.706	20.176	26.003
% changes	34.4	33.2	26.6	1.9	23.3	25.5	3.8	11.2	20.8	28.9
Import (US\$ billion)	8.155	11.144	11.592	11.499	11.622	15.637	16.218	19.745	25.227	31.500
% changes	40.0	36.6	4.0	-0.8	1.1	34.5	3.7	21.7	27.8	24.9
^a Including construction ^b Preliminary figures ^c % in GDP Source: Statistics Year Book, 2003; International Merchandise Trade 2002 and Ministry of Trade.										

Table 2: Goods Exports and Imports of GDP (figures in %)

	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports	22.17	25.05	29.68	34.59	34.74	40.44	45.60	46.90	46.80	50.00
Imports	22.70	36.35	42.44	39.45	38.38	36.66	43.60	50.60	55.30	62.50

Source: International Development Research Centre (IDRC)/Canadian International Development Agency (CIDA) Project; General Statistics Office of Vietnam (GSO) and authors' calculation for 2001, 2002, and 2003.

However, after 1997, some major roadblocks appeared on the course to further reform. The Vietnamese economy was affected by the East Asian financial crisis and this revealed some fundamental structural weaknesses such as the inefficiency of the SOE sector and the underdevelopment of the banking system. Slower growth in GDP as well as export and substantial decrease in FDI characterised the last few years of the 1990s.

The second round of reform measures were introduced at the end of the last millennium. They focused on improving the banking sector and the business environment. Together with the recovery of the East Asian economies, Vietnam has regained the growth momentum for the last few years, with the average annual growth rate in the period of 2000-2003 being over seven percent. Business environment has, over the years, improved remarkably in terms of infrastructure and institutional framework. A considerable share of public investment and foreign investment has been channelled to the development of infrastructure such as electricity, water, communication, roads and ports to meet the essential demand of investors. Institutional environment for business has become much more open and transparent with the enactment of a number of new laws.

Bilateral and Multilateral Agreements and Major Trading Partners

Vietnam joined ASEAN in 1995 and in September 2001 the Bilateral Trade Agreement (BTA) with the US was concluded. This has helped make inroads into newer and more remote markets in America, Africa and Southwest Asia. As a direct result of this BTA, in 2002 alone the number of export destinations doubled as compared to those in 2001. Vietnam applied for the membership of WTO on January 4, 1995 and it hoped to become a member of the WTO by December 2005.

Before the turn of the millennium, the East Asian countries were the major trading partners of Vietnam in both imports (74.5 percent in 1995) and exports (70.9 percent in 1995). Although they still are the major destinations, the share of Vietnam's exports to these markets reduced continuously to 45.8 percent in 2003, while the share of imports from these countries changed slightly (73.6 percent in 2003).

During 1995-2003, foreign trade turnover between Vietnam and China grew seven times (from US\$691.6mn to US\$4,870mn) in which exports to China increased nearly five times, while imports from China rose 9.5 times.

Table 3: Contribution of Various Sectors to GDP (figures in %)

	1995	2000	2002
State	40.2	38.5	38.3
Collective	10.1	8.6	8.0
Private	3.1	3.4	3.9
Household	36	32.3	31.4
Mixed	4.3	3.9	4.5
FDI	6.3	13.3	13.9
Total	100	100	100

Source: General Statistics Office of Vietnam (GSO), 2003

After signing a BTA in September 2001, US has become the largest export market for Vietnam. Whereas in 1995, the share of exports to this market was just 3.1 percent, it boomed to 19.5 percent in 2003. The European Union (EU) is also emerging as an important destination for the export products of Vietnam. In 2003 this market had a share of 19.1 percent compared with 12.2 percent in 1995.

Table 4: Major Trading Partners (figures in %)

	1995	2000	2001	2002	2003
Export (%)	100.0	100.0	100.0	100.0	100.0
ASEAN	20.4	18.1	17.0	14.5	14.7
Japan	26.8	17.8	16.7	14.6	14.4
China	6.6	10.6	9.4	9.1	8.7
Australia	0.1	8.8	7.2	8.0	7.1
Taiwan	8.1	5.2	5.4	4.9	3.7
Korea	4.3	2.4	2.7	2.8	2.4
Hong Kong	4.7	2.2	2.1	2.0	1.9
EU	12.2	19.6	20.0	18.9	19.1
USA	3.1	5.1	7.1	14.7	19.5
India	0.2	0.3	0.3	0.3	0.35
Rest of the World	13.3	9.9	11.9	10.5	8.1
Import (%)	100.0	100.0	100.0	100.0	100.0
ASEAN	27.8	28.5	25.7	24.2	23.6
Japan	11.2	14.7	13.5	12.3	11.9
Taiwan	11.0	12.0	12.4	12.8	11.6
Korea	15.4	11.2	11.6	11.5	10.4

China	4.0	9.0	10.0	10.9	12.4
Hong Kong	5.1	3.8	3.3	4.1	3.9
EU	8.7	8.4	9.3	9.3	9.8
USA	1.6	2.3	2.5	2.3	4.5
<i>India</i>	<i>0.8</i>	<i>1.1</i>	<i>1.4</i>	<i>1.6</i>	<i>1.8</i>
Rest of the World	14.4	9.1	10.3	11.0	10.1
<i>Source: Statistics Yearbook 2003, General Statistics Office (GSO).</i>					

Structure of International Trade

Items exported by Vietnam are almost all low technology, labour-intensive manufactures such as textiles and garments, footwear, leather products, plastics, processed foods, aquatic products and minerals. The share of sophisticated manufacturing products remains negligible.

Table 5: Share of Export-import of Services in Foreign Trade of Vietnam (figures in %)

	Export			Import		
	1997	2000	2003	1997	2000	2003
Trade in Goods	78.0	84.2	86.6	76.6	81.2	84.9
Trade in Services:	22.0	15.8	13.4	23.4	18.8	15.1
• Other services:	18.5	13.4	10.5	20.9	10.2	6.7
- Finance/Insurance	0.1	2.7	0.8	0.2	3.5	1.2
- Telecommunication	0.8	0.7	0.7	0.0	0.0	0.1
- Others	17.7	9.9	9.0	20.7	6.7	6.4
• Tourism	0.3	0.3	0.6	0.1	0.1	0.2
• Transportation	3.0	1.9	2.2	2.3	8.3	8.2
• Government services	0.2	0.1	0.1	0.1	0.1	0.1
<i>Source: Vietnam Central Bank.</i>						

Although export of services has grown, its rate of growth has been slow when compared with the growth rate of trade in goods. Also, its share in total export turnover has decreased over time. By 2003, the share of export of services had fallen to 13.4 percent (from 22 percent in 1997) of total export turnover.

Reforms at a Glance

The Government of Vietnam has undertaken several reform measures to open the economy and integrate it with the global economy. These measures have contributed to improving transparency, expanding market access for all importers and exporters, as well as increasing competition among firms.

Liberalised Trading Rights: The freeing-up of trading rights has prompted rapid growth in a number of enterprises that export and/or import today, especially private trading firms. Nearly 3,000 additional private firms sought custom-codes in the year 1999 after trading rights were liberalised. Consequently, the share of domestic private firms in total number of trading firms went up from 35 percent in 1998 to 58 percent in 1999.

SOE Reforms: Vietnam began reforming the SOEs in November 1987. The SOEs were given autonomy in formulating and implementing their own long-term, medium-term and short-term operating plans, based on socio-economic development guidelines set by the government. The system whereby the government provided all or most of the inputs was abolished.

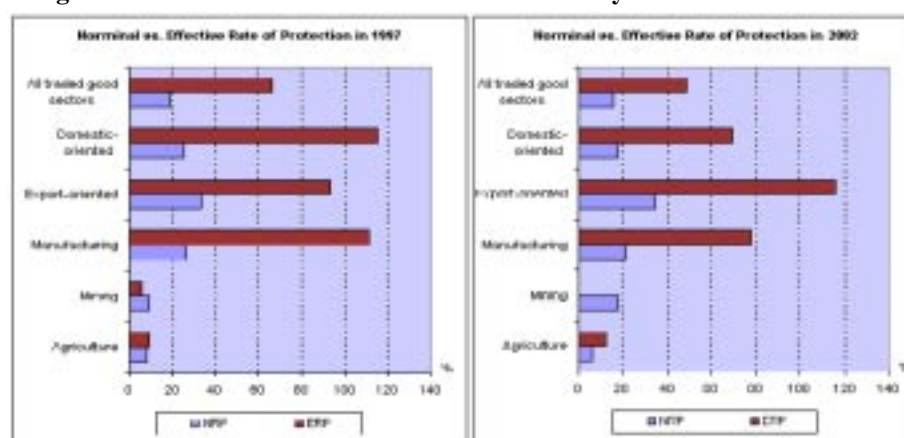
Export-Import Tariff: The current tariff schedule has 19 different tariff rates of which 13 are fundamental tariff rates and six are special ones. They range from zero to 100 percent. The maximum tariff rates are imposed on such goods as alcohol, petroleum products, automobiles, motorbikes, cosmetics, glass and glass products.

Vietnam's tariff schedule is composed of three tariff rate categories:

1. Most Favoured Nation (MFN) tariff rates, which are applied to imports from any country that already had a BTA with Vietnam or has granted MFN treatment to Vietnamese export.
2. Preferential tariff rates are applicable for goods under the European Conference of Postal and Telecommunications Administrations (CEPT) of ASEAN Free Trade Area (AFTA) agreement and textile and garments under the Vietnam-EU agreement
3. Normal tariff rates that are usually 50 percent higher than those applicable to countries with MFN status are used in other circumstances

Vietnam applies an accelerated taxing method by which low or minimum tariff rates are applied mainly to material inputs for production such as machinery and equipment. Thus, effective rates of protection for final goods are often much higher than nominal ones.

Figure 1. Nominal and Effective Protection Rates by Sectors: 1997 and 2002



Source: World Bank 2003

Table 6 provides a comparison of the protection levels of Vietnam with selected East Asian countries.

Table 6: Nominal Tariff Rates & Dispersion in Selected East Asian Countries, 2000

	Tariff measure	All products	Primary products	Manufacturing
China	Mean	15	14	15
	CV	71	102	59
	Weighted mean	20	19	16
	Maximum	121		
Indonesia	Mean	8	7	16
	CV	128	159	119
	Weighted mean	11	5	26
	Maximum	170		
Malaysia	Mean	10	5	15
	CV	200	181	172
	Weighted mean	13	12	16
	Maximum	300		
Philippines	Mean	8	6	8
	CV	94	57	19
	Weighted mean	7	5	9
	Maximum	60		
<i>Thailand</i>	<i>Mean</i>	<i>18</i>	<i>16</i>	<i>19</i>
	<i>CV</i>	<i>84</i>	<i>48</i>	<i>55</i>
	<i>Weighted mean</i>	<i>17</i>	<i>14</i>	<i>18</i>
	<i>Maximum</i>	<i>80</i>		
<i>Vietnam (2002)</i>	<i>Mean</i>	<i>16</i>	<i>19</i>	<i>14</i>
	<i>CV</i>	<i>113</i>	<i>124</i>	<i>102</i>
	<i>Weighted mean</i>	<i>15</i>	<i>17</i>	<i>13</i>
	<i>Maximum</i>	<i>120.0</i>	<i>120.0</i>	<i>50.0</i>
<i>Source: World Bank, 2003</i>				

Non-tariff Measures

The key non-tariff measures in Vietnam that considerably affect the ability of enterprises to import/export include: (i) non-automatic import licensing; (ii) special authority regulation; and (iii) foreign exchange control.

Non-Automatic Import Licensing

Until 1998, only licenced trading companies were allowed to import and export goods. In July 1998, however, all enterprises with a business licence without any requirement for a special licence for the import and export of 'special' goods¹. In addition, the business licence holders are allowed to import and export goods. At present, any formally registered enterprise can import and export goods that are not in the list of special goods as mentioned above.

Special Authority Regulation

A considerable number of items still require special authority for import and export, such as pharmaceuticals, some chemicals, recording equipment, etc. The import and export of these goods is generally limited and enterprises are required to apply for special authority. Goods are selected in special ways, usually by the Ministry of Foreign Trade, the Prime Minister, the line Ministries or the relevant agencies.

Foreign Exchange Control

The foreign exchange balancing requirements were abolished in May 2000. From then on foreign investment contracts are allowed to be denominated in foreign currency from domestic banks to foreign banks. In January 2003, the foreign exchange surrender requirements were abolished.

FDI Policy Reforms

FDI inflows

The Foreign Investment Law of Vietnam, which was designed to promote the development of the country, was enacted in 1996. At the very beginning of the open door policy,

Table 7: Foreign Direct Investment

Year	Number of projects
1988-2003	5,441
1988-1995	1,611
1996	387
1997	358
1998	285
1999	311
2000	389
2001	550
2002	802
2003	748

Source: Statistics Yearbook 2003; Doan Ngoc

of the law as well as related legal system have contributed to the establishment of a favourable environment for foreign investors. FDI commitments in 1996 achieved a record of US\$8.9bn. During 1997-1999, FDI inflows registered an annual drop of as much as 24 percent due to the Asian economic crisis. Since 2000 FDI inflows into Vietnam seem to have revived with the amount for 2004 at US\$4.2bn. This corresponds to an annual average growth rate of 22 percent for the period 2000-2004.

Table 8: Foreign Direct Investment by Kind of Economic Activity ^a, 1988-2003

	Projects		Registered Capital (US\$ million)		Share (%)	
	1988-03	2003	1988-03	2003	1988-03	2003
Total	5,441	748	45,776.8	1,899.6	100.0	
Agriculture, forestry, fishery	603	29	2,836.0	47.3	6.2	2.5
Manufacturing and construction	3,516	556	24,133.0	1,426.4	2.7	75
Mining and Quarrying	89	7	3,055.0	39.7	6.7	2.0
Services	1,233	156	15,752.8	386.2	34.4	20.5

^a Excluding supplementary capital to the licenced of the previous years
Source: Statistics Year book 2003, GSO.

East Asia is the most important source of FDI. More than 75 nations and territories have so far invested in Vietnam during 1988-2003. Taiwan, Korea, Hong Kong, Japan, and Singapore made up 54.2 percent of invested capital, in which Singapore was the biggest investor followed by Taiwan, Korea, and Hong Kong. Japan ranked fifth during this time. Vietnam attracted a quite large amount of FDI from European countries, such as British Virgin Islands, France, Netherlands, and UK.

Table 9: Country-wise Break-up of Foreign Direct Investment into Vietnam

	1988-2003		2003	
	Number of projects	Capital* (US\$ million)	Number of projects	Capital* (US\$ million)
Singapore	357	7 399.1	54	54.8
Taiwan	1255	5 418.5	187	371.9
Korea	762	4 113.0	181	336.2
Japan	493	4 032.5	52	102.0
Hong Kong	397	3 844.5	45	123.6
British Virgin Islands	226	3 421.7	29	210.7
France	186	2 415.6	10	7.2

Netherlands	67	1 884.5	8	39.1
United Kingdom	72	1787.5	9	8.6
United States	225	1 710.3	26	57.7
<i>Thailand</i>	<i>162</i>	<i>1 296.1</i>	<i>12</i>	<i>49.7</i>
Malaysia	164	1 131.3	20	56.9
Australia	132	1 071.4	17	163.8
* Total registered capital				
Source: <i>Statistical Yearbook 2003</i> .				

FDI Policy Environment

As part of the process of decentralisation, more autonomy has been given to provinces in making decisions related to foreign investment. Local authorities are under competition to appeal for foreign investment and increase jobs for local people, which result in significant improvement of the licensing mechanism.²

The foundation for a comprehensive legal framework for businesses has been laid with the promulgation of laws such as the Law on Commerce, Enterprise Law, Law on State Bank, Law on Credit Organisations, Law on Domestic Investment, and Law on Insurance. The restrictions imposed on foreign ownership have been removed by allowing 100 percent foreign owned enterprises invested in forestation, tourism, mechanics, IT and technical publishing.

In a nutshell, as a result of policy changes aimed at attracting FDI and the favourable conditions offered to foreign investors, the FDI environment in Vietnam has witnessed a remarkable improvement and become more transparent, freer and better able to compete with other countries within the region.

Trade and Investment between Vietnam and India

Vietnam and India have enjoyed a long-standing friendship. The governments of the two countries have worked to broaden and deepen the bilateral cooperation via many agreements that cover a broad range of areas including economics, trade, investment, science and technology, culture, education and training. However, the actual trade and investment flows have been far below the potential. India's investment in Vietnam remains low, with a total registered capital from 1996-2003 of US\$228.9mn³.

Both governments have established favourable relations and environment for trade and investment between the two countries. A number of agreements have been signed. The most important among them are:

- Double Taxation Avoidance Agreement
- Agreement on Investment Promotion and Protection
- Aviation Agreement
- Tourism Agreement
- Agreement on Mines and Geological Cooperation

Two-way Trade between Vietnam and India

BTA was signed between the two countries in 1978 and was revised in 1997. Trade related issues were reviewed and a Bilateral Investment Promotion and Protection Agreement (BIPPA) was signed in 1997 and ratified in 1999. Total two-way trade between Vietnam and India increased by almost seven times during the period of 1990-2003, from US\$75mn in 1975 to US\$527.9mn in 2003.

Table 10: Vietnam-India Trade 1990-2003 (US\$ million)

Year	Total Trade		Exports to India		Imports from India		Balance
	Value	% change*	Value	% change*	Value	% change*	
1990	75.0		57.9		17.1		40.8
1991	50.9	-32.0	38.0	-34.4	12.9	-24.6	25.1
1992	79.0	55.2	62.0	63.2	17.0	31.8	45.4
1993	72.0	9.0	44.0	-29.0	28.0	64.7	16.0
1994	102.6	42.5	44.1	0	58.5	109.0	-14.4
1995	71.9	30.0	10.4	-76.4	61.5	5.1	-51.1
1996	97.6	35.7	9.1	-12.5	88.5	43.9	-79.4
1997	98.0	-0.1	13.2	45.1	84.8	-4.2	-71.6
1998	121.3	23.8	12.6	-4.5	108.7	28.2	-96.1
1999	155.0	27.8	17.0	34.9	138.0	27.0	-121.0
2000	225.6	45.5	47.2	77.6	178.4	29.3	-131.2
2001	273.4	21.2	45.4	-3.8	228.0	27.8	-182.6
2002	376.7	37.8	52.0	14.5	324.7	42.4	-272.7
2003	527.9	40.0	71.0	36.5	456.9	40.7	-358.9

* % changes from previous year, Source: International Merchandise Trade 2002; <http://www.ficci.com>; Statistics Yearbook 2003; <http://www.meaindia.nic.in>

The main items of India's exports to Vietnam are vegetable oil, pharmaceuticals, plastics, machinery and equipment, steel, textile machinery and fabrics, chemicals, wheat and spices etc.

The major commodities exported to Vietnam during 2002 (with their percentage share) were:

- Drugs, pharmaceuticals and material for pharmaceuticals (16.83 percent)
- Material for plastics (10.8 percent)
- Seafood (8.47 percent)
- Iron & steel (5.9 percent)
- Machinery & equipment (5.78 percent)
- Chemicals (4.9 percent)
- Pesticides (3.5 percent)

India's basket of exports to Vietnam expanded in 2003 with items like lubricants and vegetable oils (US\$13.05mn), fertilisers (US\$2.47mn) and CKD and IKD motorbikes. With the increasing acceptance of Indian products in the Vietnamese market, the prospects of a further rapid growth in India's exports to Vietnam are bright.

Vietnamese exports to India include crude oil, natural rubber, artificial resins, aniseed, tea, essential oils and cosmetic preparations, non-ferrous metals, chemical material and products, raw silk, silk yarn, paper board and manufactures, wood and wood products. The main items exported during 2003 were crude oil (32.13 percent), pepper (19.07 percent), tea (14.48 percent), leather & made-ups (2.13 percent), rubber (2.04 percent), cinnamon (1.87 percent), electronic components (1.85 percent), and coal (1.3 percent).

Balance of Trade

The balance of trade has been heavily in India's favour over many years, as Vietnamese exports to India have remained extremely modest (US\$72mn in 2003), with a negligible increase from the early years of the 1990s. Vietnam's exports to India have shown a rising trend but merely account for about 0.2-0.3 percent of Vietnam's total trade, (equivalent only to Vietnam's exports to Lao PDR).

One primary reason for trade in favour of India is the high level of similarity in exports of the two countries – both countries export items such as garments, footwear, rice, cashew, tea, coffee, pepper, rubber, and marine products. In other words, most of the Vietnamese products are already available in India and indeed exported to other countries. Even so, the possibilities of exporting some items such as crude oil, phosphates, furniture, non-ferrous metals, natural rubber, ceramics, tea, handicrafts, semi-precious stones and gems from Vietnam to India do exist.

Indian Investment in Vietnam

Vietnam's economic reforms have opened up significant opportunities for Indian investment, both for tapping the growing domestic market and for exports. The investment environment becomes much more attractive with the implementation of the "one-stop-shop" policy in licensing, the introduction of favourable conditions for investors by reducing land rent, granting exemption and reduction in import duties, preferential profit tax and so on. At present, Indian investment in Vietnam is mainly in sugar production, edible oil, pharmaceuticals, office furniture and plastic industries. So far, India has just eight investment projects in Vietnam, including those by ONGC, Tata, Ranbaxy and Godrej groups, with a total registered capital during 1996-2003 of US\$228.9mn, of which there are two big projects in the oil and gas sector.

A number of Indian companies have invested 100 percent capital in the projects on processing of agricultural products. In addition, ONGC Videsh Limited (OVL) is involved in a big joint venture for offshore oil and natural gas exploration in the southern part of Vietnam. In the coming years, this OVL investment in the production sharing contract (PSC) with Petro Vietnam, BP and Statoil, in which OVL's share is 45 percent, will be one of the largest overseas investments (US\$228mn) by a Government of India Public Sector Undertaking (PSU) anywhere in the world. The Vietnamese National Assembly has elevated this project to the top three projects of national importance. This project started delivering gas for commercial purposes in November 2002.

Prospects of Vietnam-India Economic Cooperation

India is a large market and expected to be one of the most powerful economies with numerous comparative advantages, and a scientific and technological power, particularly in the IT sector. Meanwhile, Vietnam possesses abundant natural resources, industrial dynamics and a well-educated labour force and is also a promising market. So the potential for bilateral cooperation is still vast and needs to be further exploited. Vietnam's current process of integration into the world economy and reforms in India are creating new opportunities to strengthen bilateral ties. India is one of 27 partners with whom Vietnam has to negotiate bilaterally in its process of WTO accession. This negotiation will also be a starting point for deliberating upon Vietnam-India BTA/FTA.

Currently, Vietnam's volume of export to India is small, in part because the two countries are competing in some similar commodities, such as rice, tea, cashews, garment and footwear. It is difficult for Vietnam to accelerate its export to India in the short term to overcome the trade deficit in trading with India.

The following areas should be made 'thrust areas' so as to develop trade and investment between India and Vietnam:

- The two countries could fruitfully cooperate in agricultural research, and biotechnology. Also facilitating trade and investments in agro-chemicals and fertilisers should be taken into serious consideration.
- The two countries are already cooperating in the energy sector and there is scope for strengthening it. Cooperation in the civilian nuclear power sector for energy is also feasible and desirable.
- Mineral exploration and processing is another area, which is being actively explored by the two sides.
- As Vietnam aims to develop its information and communication technology (ICT) sector, cooperation between the companies from the two countries, particularly in HRD, and in the development of software in Vietnamese language represents another avenue of emerging opportunities. Vietnam's capacity for IT acquisition is relatively suitable with India's technological transfer capacity. The Indian Government has already had successful programmes on technological assistance for the development of technology-based enterprises. These enterprises have received assistance for technological upgrade and this has also facilitated Indian technological transfer.
- Pharmaceuticals and healthcare, particularly in the area of procuring drugs for diseases like HIV/AIDS, is another area that has great potential.
- Vietnam's global import was worth US\$25bn in 2003, and primarily included machinery and equipment, petroleum products, fertiliser, steel products, raw cotton, grain, cement and motorcycles all of which India is well equipped to export and at competitive prices.

Lacunae in Vietnam's Policy Reforms

- The financial sector has remained underdeveloped despite several measures, which have recently been undertaken to reform and improve the same. The sector is still heavily regulated with a segmented credit market mainly dominated by four large state-owned commercial banks and tight licensing control of State Bank of Vietnam imposes very high barriers to entry.

- Vietnam has been following the two-track trade policy i.e. while promoting exports, it still maintains a high level of protection for some strategic industries⁴. Imports of products such as steel, cement and fertiliser — all crucial to further development of Vietnam's economy — are subject to management through QRs.
- Although the authorities have begun to allocate some import quotas in all commodities under quota restrictions to non-state enterprises, the number of these enterprises is still small because the conditions for entry are still strict and subject to change.
- Other industries which have not been opened absolutely for foreign investment include construction, telecommunication, local telecommunication, petroleum exploitation and processing, precious minerals, consulting service (except for technical consultancy), air transportation, railway transport, sea transport, public transportation, ports, air station, travel, industrial explosive production, culture, press, radio, and television.

The reasons for Vietnamese enterprises not entering the Indian market are apparently neither related to policies nor to environment. Rigorous assessment on the following reasons should be made:

- Procedures relating to import-export and payment are not widely known;
- Demanding markets, such as the US, EU and Japan often result in high added values, thus, Vietnamese enterprises tend to invest in these markets;
- There seems to be a high degree of similarity between Vietnamese and Indian products;
- Payment channels are not well-established and reliable in order to assure confidence for Vietnamese exporters; and
- Trade promotion activities between the two countries are still limited. If any, they are still primitive, non-professional and unstable.

Trade related information might be accessed primarily from the following places:

- Vietnam Chamber of Commerce and Industry (VCCI)
- Trade Representative Office of Vietnam in India
- Vietnamese Embassy in India
- Online India-Vietnam Trade Centre

Three main reasons why business enterprises and related parties in Vietnam have very limited understanding of the Indian market and product are as under:

- Only a few potential sources of information about the Indian market are available
- The access to these sources is not always easy
- Quality of information available is not very good

Lao PDR: A Brief Overview of the Economy

In Lao PDR, the process of transition from a centralised, planned economy to an open, liberalised, market-oriented system was launched in 1986. This led to a strong revival of economic growth, rapid increase in employment, reduction in poverty, a boom in exports and a decline in inflation. The country's external debt situation has also improved markedly over the years. The Lao economy is dominated by subsistence agriculture, with a low level of monetisation. The agricultural sector employs over 80 percent of the population, and contributes 53 percent to the GDP.

A market-based price system is now in place for most products, the currency has been floated and a fledgling private sector is growing in confidence. A number of banking and state enterprise reforms are gradually being introduced, with assistance from the World Bank and Asian Development Bank (ADB). A privatisation programme was initiated in the 1990s with the aim of improving economic efficiency and freeing state coffers from propping up inefficient state enterprises. This process however, has slowed/ down in recent years, and numerous enterprises still remain in government hands.

The industry and service sectors now account for almost half the GDP, with key economic activity focused in electricity production, handicrafts, foodstuffs, chemical production and mining. Tourist numbers increased significantly in the late 1990s, with the National Tourism Authority of Lao PDR anticipating around 747,000 tourist arrivals in 2004, making tourism one of Lao's biggest sources of foreign exchange.

The introduction of more attractive foreign investment legislation has led to increased foreign investment inflows, particularly in the hydroelectricity and mining sectors. Lao's foreign investment regulations are among the most liberal in the region and tariffs are relatively low. The foreign exchange markets have been opened and the Kip, the national currency, floats freely, based on supply and demand. Formal exchange controls have been lifted. However, trade and investment are heavily regulated.

Bilateral and Multilateral Trade Agreements

Lao PDR joined ASEAN in 1997 and is a member country of the World Bank, the Asian Development Bank (ADB), the International Monetary Fund (IMF), and is also in the process of applying to join the WTO.

Major Trading Partners

Lao PDR trades with more than 30 countries, with Thailand, Vietnam, Japan, China, Singapore, Hong Kong, France, Germany, Italy, US and Russia being the important ones. Since 1999, even as trade volume has increased each year by an average of 18.7 percent, the trade deficit has been going up annually by an average of 15.4 percent. Timber products, electricity, gypsum, rattan products, coffee, cardamom, sesame, non-timber forest products, garments and handicraft form the main items of export.

Table 11: Major Trading Partners of Lao PDR for Export (US\$ million)

No.	Countries in ASEAN	1999-00	2000-01	2001-02	2002-03
1	<i>Cambodia</i>	<i>0.017</i>	-	<i>0.053</i>	<i>0.12</i>
2	Indonesia	1.016	0.043	-	0.12
3	Malaysia	0.90	0.11	0.045	0.17
4	Myanmar	0.026	-	0.018	0.24
5	Philippines	-	0	0.015	0.062
6	Singapore	0.9	1.03	1.45	-
7	<i>Thailand</i>	<i>162.99</i>	<i>146.73</i>	<i>171.24</i>	<i>161.47</i>
8	<i>Vietnam</i>	<i>23.29</i>	<i>19.48</i>	<i>27.04</i>	<i>21.2</i>
	Total	188.6	167.4	198.5	183.5

Structure of International Trade

Lao PDR is increasingly diversifying its export structure, and improving upon the quality of exported products. The volume of exports has increased substantially from US\$247mn in 1994 to US\$374mn in 2004 and the export structure had changed over this period. While wood and wood products, garments and electricity are still important items of export, their share in total exports has come down despite fluctuations. Goods imported by Lao PDR are fuel and gas, garment raw material and foreign investment project machinery. There was a continuous increase in imports of fuel and gas from 1995 to 2004 whereas the import of garment materials and foreign investment project machinery started only recently.

Table 12: Lao PDR Commodity Composition of Exports 1995–2004 (figure in %)

Major exportation items	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Wood and Wood Products	28.6	19.1	16.2	23.0	22.0	24.7	23.2	19.8	19.1
Rattan and Bamboo	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.3
Coffee	10.1	11.2	19.6	11.5	9.0	4.7	3.0	3.1	3.5
Gypsum and other mineral	0.2	0.2	0.2	0.3	1.8	1.5	1.2	13.2	1.7
Gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.3
Benzoin	0.3	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Cardamom	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Non Forestry Produced	0.6	1.3	0.7	0.4	1.3	2.0	2.5	1.6	0.9
Maize	0.9	1.3	1.0	0.6	0.0	0.0	0.0	0.0	0.0
Animal /Agricultural	7.2	4.7	5.9	3.5	1.6	1.8	2.4	3.2	4.6
Handicrafts	0.0	0.2	0.7	1.1	1.6	1.2	0.8	3.5	0.5
Garment	25.9	36.1	30.6	29.7	29.1	30.8	31.0	24.7	26.5
Electricity	12.0	12.5	13.0	21.1	33.0	28.1	28.7	27.6	23.1
Other products/ Industrial Products	14.1	13.2	11.5	8.3	0.6	5.2	5.3	2.0	2.9
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.9	1.2	0.7
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 13: Lao PDR Commodity Composition of Imports 1995-2004 (figure in %)

Major exportation items	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Agriculture & animal equipment	4.8	5.0	4.5	4.5	4.6	3.4	1.6	3.1	1.9
Office and sport equipment	1.4	1.4	1.4	1.3	1.3	0.4	0.8	0.7	0.1
Commodities (food. Vegetables)	9.0	9.9	8.4	7.2	3.7	3.2	3.1	4.1	3.3
Clothes (garment stuff)	16.0	13.1	4.7	9.8	3.2	2.0	2.5	2.5	2.8
Electronic and spare part Equipment	14.4	15.4	10.9	12.3	1.3	0.5	0.6	0.7	0.7
Construction equipment	24.0	21.8	28.2	17.3	5.7	5.7	5.3	3.9	4.4
Fuel and gas	10.2	10.2	15.0	14.0	14.3	18.7	14.9	19.4	18.0
Medicine and equipment	2.7	2.9	3.4	6.6	0.6	0.8	0.5	0.3	0.6
Vehicles and spare part	14.6	17.8	20.4	22.4	3.9	3.7	3.5	5.2	6.4
Luxury products	0.8	1.1	1.1	1.4	0.6	0.1	0.3	0.8	0.9
Import of Electricity	2.1	1.5	1.9	3.1	1.5	0.8	1.3	1.4	1.7
Other products	0.0	0.0	0.0	0.0	0.9	3.4	2.6	1.3	0.7
Import of Garment Raw material	0.0	0.0	0.0	0.0	16.1	15.2	13.8	10.1	14.8
Informal Trade	0.0	0.0	0.0	0.0	8.3	14.5	15.0	3.9	3.5
Goods for Exhibition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0
Industrial goods	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.8	5.9
Total Import	0.0	0.0	0.0	0.0	66.0	72.3	65.9	65.3	65.6
Import of Foreign Investment Project	0.0	0.0	0.0	0.0	34.0	27.7	34.1	34.7	34.4
Grand Total Import of Lao PDR	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Reforms at a Glance

The New Economic Mechanism was launched in 1986 with the objective of converting Lao PDR's centrally planned economy to a mixed system that encourages market mechanisms. Trade policy before this had been highly restrictive. In 1988, however, in line with the New Economic Mechanism, the government began to progressively decentralise some of its trade-oriented responsibilities, including planning and arranging trade contracts with foreign suppliers. Several measures promulgated in March 1988 modified the trade policy considerably.

All the major export commodities such as coffee, tobacco, timber, sawn wood, pressed wood, rattan, forest products such as benzoin and sticklac, and minerals were identified, for which the state so far enjoyed export monopoly. Only the government-owned Lao Import-Export Company, and certain provincial and state enterprises had been permitted to export these goods. By the end of the 1980s, however, the authority of the Lao Import-Export Company had begun to diminish, because import-export licences were being granted to increasing numbers of private organisations. By 1991, the national trade company was slated for privatisation.

Businesses are now permitted to export goods on the strategic list directly, after national requirements have been met. Thus, trade regulations have been considerably liberalised. The import of certain items, including automobiles and military vehicles, fertilisers, drugs, and ‘decadent cultural products and pictures,’ is still subject to quotas and other restrictions. In addition, trade in certain goods such as poisons, weapons etc., is entirely prohibited.

FDI Policy Reform

FDI Inflows

The Foreign Investment Law of Lao PDR promulgated in 1988 that seeks to encourage foreign investment as a means of facilitating economic development as called for by the New Economic Mechanism. In early 1989 the Foreign Investment Management Committee was established to centralise foreign approval procedures, thus enabling the Foreign Investment Law to be implemented. In 1995, the approval of foreign investment licences was to the tune of US\$1.218bn. At that time, the total amount of foreign investment was US\$7.126bn. The Government of Lao PDR has since 1988 approved projects that would bring in nearly US\$18bn by way of foreign investment. Hydropower schemes account for more than 65 percent of that amount, including the US\$1.2bn Nam Theun-2 hydro-electronic dam. The value of approvals for new investment licences declined by more than 90 percent from 1996 to 1998, while FDI fell by nearly 75 percent over the same period. FDI figures provided by the Bank of Lao PDR are given below.

Table 14: Foreign Investment Licences Granted in Lao PDR (US\$ million)

1998	1999	2000	2001	2002
68	53	36	68	43
<i>(Source: Foreign Investment Management Cabinet)</i>				

Foreign Investment licensed in Lao PDR by sector from December 1988 through February 1999 in US dollars

Table 15: Number of Projects

Sector	No of Projects	Amount (US\$)
Elec. Power	7	4,500,820,000
Telecom, Transport	16	637,655,997
Hotel/Tourism	34	605,288,232
Handicrafts	126	463,875,048
Wood Industry	37	168,022,632
Mining, Oil	30	130,992,764
Garments	78	75,753,130
Banking, Insurance	11	73,800,000
Agribusiness	76	68,679,221
Trading	106	64,766,611
Construction	37	61,733,566
Services	129	58,263,054
Consultancy	31	5,998,540
Total	718	6,915,648,795

Table 16 shows the official figures on foreign investment. However, these figures reflect the value of investment licences granted rather than actual FDI flows. Accurate data on how many of these licences have been implemented is not available.

Table 16: Foreign Direct Investment in Lao PDR by Countries

No	Country	No of Licenses	Value in US\$
1	<i>Thailand</i>	<i>248</i>	<i>2,926,062,468</i>
2	USA	41	1,489,599,019
3	South Korea	29	630,440,507
4	Malaysia	19	293,329,547
5	Taiwan	34	68,195,836
6	China	67	62,700,031
7	Australia	44	41,841,034
8	France	82	36,992,998
9	U.K.	17	27,535,200
10	Hong Kong	20	26,033,100
11	Singapore	15	20,044,384

12	Russia	15	18,928,705
13	Japan	26	17,466,585
14	Indonesia	1	5,000,000
15	<i>Vietnam</i>	14	4,641,916
16	North Korea	1	3,300,000
17	Italy	5	2,709,880
18	Germany	8	2,672,900
19	Belgium	5	2,628,952
20	Macau	1	2,534,856
21	Canada	11	2,452,366
22	Switzerland	3	1,080,000
23	Sweden	7	904,675
24	Norway	3	900,000
25	Holland	3	670,000
26	Finland	1	504,000
27	Denmark	6	477,000
28	<i>India</i>	2	469,600
29	Austria	3	212,000
30	Luxembourg	1	200,000
31	Ukraine	1	200,000
32	Bangladesh	2	150,000
33	New Zealand	2	118,500
34	<i>Cambodia</i>	1	100,000
35	Myanmar	1	50,000
<i>Source: Foreign Investment Management Cabinet FDI Policy Environment</i>			

In 1986, the Lao Government introduced an open-door policy and has since taken a number of measures to establish a market based economic system. Following this open-door policy, the Lao adopted a code for FDI in order to generate revenue and job opportunities. The Lao National Chamber of Commerce and Industry (LNCCI) was established in 1990 to assist new business ventures.

Trade Relationship with India – An Overview

India and Lao PDR signed a contract on economy and trade cooperation on November 09, 2000, and the contract has been in effect since December 21, 2001⁵. In the past some Indian businessmen have proposed sales of products, such as agricultural machinery,

electronic equipment, medicine, computers, office appliances, and others. India has also evinced interest on purchasing products like phosphate, precious stones, wood products etc., from Lao PDR. Some traders have also shown an interest in establishing weaving factories, cement factories, and vegetable oil factories in Lao PDR.

Table 17: Value of Trade between Lao PDR and India (US\$ million).

Fiscal year	Export	Import	Total
1999-2000	11,317	-	11,317
2000-2001	297,593	34,719	332,312
2001-2002	19,410	42,219	61,629
2002-2003	112,626	563,542	676,168
2003-2004	32,799	117,416	150,215

Source: Department of Statistics and Planning, Ministry of Commerce

Agriculture and Related Areas

In November 2000, India and Lao PDR worked out the working plan in agriculture and related areas, in which India would train Lao PDR personnel in irrigation development projects. Indian scientists and experts would also lend consultancy services in management of large irrigation projects and other collaborative projects.

The Government of India extended a credit of US\$2mn to Lao PDR. The two sides also agreed on the supply of equipment and raw material for livestock vaccine production, supply of meteorological and hydrological equipment and deputation of experts in these areas. The Government of India provided a soft loan of US\$5mn for Lao PDR to be utilised for upgrading the irrigation management system. Lao PDR has, since 1997, been purchasing irrigation pumps from Indian companies. Till 2003, this was worth US\$40mn. An agreement on conducting preliminary studies in agro industries and irrigation management by setting up vegetable oil extraction plants, sugarcane production and animal feed factories, has been reached between the two countries.

Mining

India is interested in participating in pre-exploration or mining of materials in Lao PDR. India also has business interests in the jewellery sector, and there is a considerable amount of gem quality stones available in Lao PDR to be explored.

Transport Infrastructure

India offered expertise consultancy in the infrastructure sector and involved some Indian private companies in road consultancy work in Lao PDR, so that this expertise can be effectively utilised for future projects. Rail India Technical and Economic Services (RITES) is interested in participating in an inland container depot project to be set up in Vientiane, as consultant project manager.

Education and Culture

As per the Cultural Exchange Programme (CEP) for 1999-2001, India and Lao PDR agreed upon organising book and photo exhibitions, visits of cultural troupes, film festivals and providing scholarships for Lao PDR Buddhist monks in India. In 2002-2003, India offered at least 70 slots to Lao PDR candidates for training civilians, which include 60 short and medium term and 10 long-term training courses.

Science and Technology

It was agreed that new possibilities of cooperation in science and technology of mutual interest would be explored by organising exchange visits of scientists and conducting joint seminars/workshops. India is ready to set up an Information Technology Centre in Vientiane. India offered to send one IT expert to explore feasibility of setting up the IT Centre, for which Lao PDR would provide office space, domestic transport and support staff. India is also willing to share expertise in remote sensing techniques for use in forestry, urban development, agriculture, and biotechnology.

Human Resource Development (HRD)

HRD should be a key area of focus. In fact, Indian experts have already trained Lao PDR personnel in agriculture related fields. Moreover, Lao PDR personnel have also received training in Indian Agriculture Training institutions.

Besides these, the following points may also be noted:

- India has shown interest in importing timber, phosphates, rough gemstones and pulses, and in exporting items such as capital goods, agricultural implements and equipment, telecom equipment, solar energy systems, dairy and food processing equipment and pharmaceuticals. In fact, Indian pharmaceutical products have found a place in Lao PDR market, but imports are mostly from Indian companies based in Vietnam.
- Lao PDR Ministry of Industry and Handicraft needs assistance from India on establishment of an industrial product design institute as well as capacity building in developing and certifying industrial product standards.

The following may broadly be listed as the reasons for sub-optimal trade between India and Lao PDR:

- There are long transportation routes and no direct air or road links. The Lao PDR market is small and the country is land locked. This leads to extremely high freight charges.
- Consumers in Lao PDR are not aware of Indian products.
- There is little or no communication between the businessmen of the two countries.
- The lack of resourceful local private enterprise in Lao PDR and unwillingness on the part of the Indian business community in launching an aggressive campaign with a long-term perspective.
- Lao PDR and India have never co-organised trade fairs. Moreover, no commercial information or trade delegates have been exchanged and no joint ventures are in place.

Box 1: Institutionalising Enterprise Development in the Mekong Region
Lessons from India

Establishing Entrepreneurship Development Centres (EDCs) is an efficient way for developing countries to pursue the path of growth and prosperity. The promotion and increased supply of well-groomed and competent entrepreneurs, coupled with a supportive institutional environment, spurs the creation of enterprises, which, in turn, boost employment, income, output and wealth. The Government of India (GoI) is currently supporting the CLMV countries in setting up EDCs in each of the four countries. The project started in 2004 and is in the process of implementation. The Ahmedabad-based Entrepreneurship Development Institute of India (EDI) helped establish the Lao PDR-India Entrepreneurship Centre (LIEDC) in Vientiane, the capital of Lao PDR.

Launch of LIEDC

Ministers of the GoI and Lao PDR inaugurated LIEDC jointly on November 27, 2004 at Vientiane.

The Centre had already selected 25 potential entrepreneur trainees who will undergo a three-month EDP that would cover achievement motivation training; product identification and feasibility study; various management inputs such as financial management and accounting, project planning and implementation, and information on formalities and procedures of setting up an enterprise (including regulatory framework); technology exposure; English; and computer application.

One of the LIEDC's objectives is to intervene at various levels by organising entrepreneurship appreciation workshops for support institutions, market studies, entrepreneurship awareness programmes in schools and colleges, performance and growth programmes for existing entrepreneurs etc.

LIEDC works in collaboration with EDI of India, which has provided its affiliation to the Centre.

Vision Statement

The Centre will spearhead entrepreneurship development movement in Lao PDR and become a Centre of Excellence for facilitating creation of viable and competitive new enterprises, strengthen existing ones, promote business-to-business (B2B) partnerships with other countries, and facilitate joint ventures (JVs) and transfer of technologies from other countries etc. It will endeavour to create resilient, indigenous Lao PDR entrepreneurs who will be efficient and effective in the emerging competitive environment.

The Objectives

To maintain the highest standards of entrepreneurial excellence, the prime objectives of the proposed Centre were to:

- Instill entrepreneurial culture amongst Lao PDR entrepreneurs, equipped with adequate knowledge and experience;

- Augment the supply of entrepreneurs through education, training and business advisory services;
- Promote resilient Lao PDR entrepreneurs in strategic industries;
- Create a conducive business and policy environment for the emergence, sustenance and growth of SMEs, by orienting bankers and other officials of the support system;
- Support, guide and counsel existing entrepreneurs so that they are able to grow, compete globally and operate profitably;
- Institutionalise entrepreneurship development by creating a cadre of competent trainer-motivators and business counsellors from other institutions and individuals;
- Act as a hub for developing B2B relationships at the national and international levels; and
- Conduct policy research related to industrialisation and influence policy-making processes at the national and provincial levels to develop entrepreneur friendly policies.

Lessons, Concerns and Recommendations

While the Project has started well, there are certain issues that need to be addressed promptly. The speed of implementation is rather slow and the Government of Lao PDR needs to take urgent steps to strengthen the systems as:

- An appropriate policy framework for accessing credit facilities for the potential entrepreneurs. It must be followed up by an appropriate support system.
- The Governing Board of the Centre should be put in place. In the absence of a Governing Board, the Centre might lack direction as well as support.
- The projects that are lined up will need well-trained and competent faculty members. If there is no body to execute the projects, the clients will stop giving jobs. This will adversely affect the image and also sustainability of the Centre.

This section has been based on a paper prepared by Dinesh Awasthi, Director, Entrepreneurship Development Institute, Ahmedabad, India.

Cambodia: A Brief Overview of the Economy

During the 1960s, Cambodia had been a major exporter of agricultural products, like rice, rubber and corn, and its balance of payments was relatively stable. Unfortunately, the political disturbance that followed had an adverse impact on the trading system and led to the virtual collapse of foreign trade in Cambodia. Under the trading system adopted in the 1980s, the level and composition of trade was effectively controlled by state-owned trading bodies, and tariffs and trade taxes played little or no role more than as a means of revenue collection. This was changed later with the move to a market economy and the wide range of reforms that have since been implemented.

In Cambodia, the process of market-oriented liberalisation began in the late 1980s. The state monopoly for foreign trade was abolished in 1987, and the foreign investment law was promulgated in 1989, enabling private companies to engage in foreign trade. In 1993, initiated as part of the United Nations Transitional Authority in Cambodia (UNTAC) assisted transition, trade policies were liberalised. As a result, there are few

binding hurdles now, and the rates of taxes on imports and exports are for the most part not prohibitive. Nevertheless, tariff rates and other trade taxes are still high and variable.

Major Trading Partners

In terms of export accumulation, US has remained the first destination of Cambodian exports during the 1995-2004 period. Exports to US started increasing in 1998 when annual export figures were recorded at nearly US\$300mn, then after 2001, jumped to more than US\$1bn. Hong Kong, which had absorbed few exports from Cambodia before 2002, moved to the second position, next only to US, 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 the last three years.

Table 18: Top Ten Export Partners of Cambodia, 1995-2004 (US\$ million)

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

Source: Author, Compiled from IMF Direction of Trade Statistics for 1995-2002, Ministry of Commerce for 2003 & 2004 & United Nations Statistics Division (UNSD) Standard International Trade Classification (SITC) Rev. 3 for China and Hong Kong for 2004 (because Cambodia Ministry of Commerce combines China and Hong Kong together).

Cambodia's main import partners are ASEAN members. 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 import partners of Cambodia. By 2004, Thailand had exported goods worth more than US\$3bn to Cambodia. By the same time, Singapore's exports to Cambodia reached more than US\$2bn. Neighbouring Vietnam also performed quite well in exporting to Cambodia, setting a record as 4th in the top ten export partners to Cambodia.

Table 19: Top Ten Import Partners of Cambodia, 1995-2004 (US\$ million)

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

Source: Same as Table 13.

Structure of Trade

Exports from Cambodia increased substantially from US\$1bn in 1999 to US\$1.8bn in 2002. The share of garment exports surged to nearly 80 percent in 2002, from 56 percent in 1999 (from US\$560mn to US\$1.4bn). Other than garment and textile products, the country exports logs, sawn timber, fish products and rubber. Yet, these agricultural exports have been declining since 1999, primarily because of tighter government restrictions on already overexploited forest and fish resources.

Imports, on the other hand, rose from US\$1.6bn in 1999 to US\$2.5bn in 2002. This upsurge was mainly due to high imports of export-oriented investment projects in which tariff exemptions from the government have been granted.⁶ This accounted for half the total imports from 1999 to 2002. Petroleum was also one of the main imports. Its average share of total imports was recorded at around 7.5 percent annually.

Table 20: Composition of Cambodian Trade, 1999-2002

	Amount (US\$ million)				%			
	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
<i>Sources: United Nations Development Programme (UNDP) 2004, Table 5.2, p.148 calculation by NEAK Samsen, Researcher, Economic Institute of Cambodia .</i>								

Bilateral and Multilateral Trade Agreements

In the 1990s, Cambodia lobbied with the US Government for a BTA on textile and garments, as a result of which the MFN status for garment and textile products was offered to Cambodia in 1996. Then, the Generalised System of Preferences (GSP) status from the EU was obtained in 1997. The government went on to sign bilateral trade and investment agreements with various partners such as China, Cuba, India, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand, Vietnam, Russia and the Organisation of Petroleum Exporting Countries (OPEC) members.⁷ The government joined the GMS and formed triangular development zones with neighbouring countries Lao PDR, Thailand and Vietnam. Moreover, the membership of the ASEAN in 1999 and the WTO in 2004 clearly marked a deepened integration into the regional and global trading system.

Reforms at a glance

Trade policy in Cambodia has undergone two important and remarkable changes during the last decade:

- It has shifted from strict trade regulation to trade deregulation; and
- It has moved towards bilateral, regional and multilateral arrangements, and trade openness.

The first move was evidenced by the abolition of the state-owned monopolised foreign trade company and the encouragement of private participation in trading activities including permission to establish import and export companies in late 1980s. Moreover, QRs on imports and exports were removed in 1994.

The second move, aimed at integrating Cambodia into bilateral, regional and multilateral agreements and trade openness, was made possible by several achievements both recent and in the late 1990s. They are:

- US offered the MFN status for garment and textile products to Cambodia in 1996
- GSP status from EU was obtained in 1997
- The Cambodian 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 Organisation of Petroleum Exporting Countries (OPEC) members⁸
- Cambodia joined the GMS and formed tripartite development zones with neighbouring countries Lao PDR, Thailand and Vietnam (see Box 4)
- Memberships of ASEAN in 1999 and WTO in 2004 clearly marked a deep integration into the regional and global trading system.
- Finally, the trade/GDP ratio was 160 percent in 2002, and Cambodia obtained a trade policy score of two on the US-based Heritage Foundation's index of economic freedom in 2003, reflecting the liberalised character of Cambodia's external sector⁹

Box 2: Cambodia: Evolution of Trade Policy

Year	Trade Policy Development and Reform
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 liberalisation in the late 1980s, abolishing state monopoly of foreign trade. A foreign investment law was promulgated in 1989, enabling private companies to engage in foreign trade.
1993	<ul style="list-style-type: none"> • From 1993 restrictions limiting the ability of firms and individuals to engage in international trade were largely removed.
1994	<ul style="list-style-type: none"> • All quantitative restrictions on trade were eliminated in 1994.
1996	<ul style="list-style-type: none"> • Cambodia gained MFN status from US.
1997	<ul style="list-style-type: none"> • 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. • By the end of the 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 zero percent, 7 percent, 15 percent and 35 percent, 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.
2004	<ul style="list-style-type: none"> • Cambodia became a member of the WTO in October.
<p><i>Sources: NEAK Samsen, Researcher, Economic Institute of Cambodia (Reproduced Based on UNDP (2004) and World Bank (2004)).</i></p>	

Box 3: Policy Development in Bilateral and Regional Integration

2002	<ul style="list-style-type: none"> • Initiated a Triangle Economic Cooperation strategy between Cambodia, Vietnam and Lao PDR, focusing on (i) commerce; (ii) industry; (iii) public works and transportation; and (iv) tourism
2003	<ul style="list-style-type: none"> • Under the ASEAN-China Free Trade Area's Early Harvest scheme signed in July 2003, China granted to Cambodia, effective from January 01, 2004, a special preferential tariff (SPT) treatment for 297 agricultural products at zero percent tariff rates.

	<ul style="list-style-type: none"> • Under the ASEAN Integrated Special Preferential (AISP), Thailand 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 gave 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 percent 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, with Cambodia eligible for this treatment as an LDC. • Japan-ASEAN Comprehensive Economic Partnership signed in 2003 provided Cambodia with a broad-based liberalisation 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	<ul style="list-style-type: none"> • Cambodia requested that China treat an additional 439 Cambodian commodities exported to China with a special preferential tariff (SPT) at zero percent tariff rates.
Source: Same as Box 2	

Investment Regime

The main facets of the Cambodian investment policy are discussed below:

- Both foreign and local investors are treated equally under the Law on Investment (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 Quick Impact Projects (QIPs).
- 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.

Investment Incentives

The Cambodian Government set priorities for the following areas where incentives are granted¹⁰:

- Agriculture and agro-processing industries;
- Environmental protection;
- Export-oriented industries;
- Industries that create substantial employment;
- Investments in Special Promotion Zones (SPZs);
- Physical infrastructure and energy;
- Pioneer and/or high technology industries;
- Provincial and rural development; and
- Tourism and related industries.

The LOI grants very favourable tax and customs duties incentives for both local and foreign investors. Eligible investors can now 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). Moreover, 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 SPZ.

Trade and Investment Relationship between India and Cambodia

The Cambodian economy may be classified into two eras: a centrally planned economy (1980-1988) and a partly free market economy (1989-1994). During the era of the centrally planned economy, the country's major trading partners were the members of the Council for Mutual Economic Association (CMEA). These were former socialist countries. The direction of trade was documented only with the CMEA members and major partners in Asia, while a huge amount of illegal cross-border smuggling trade was left unrecorded.¹¹ 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 US.

Table 21: 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)	% of Annual Change	% of Total Share Export	Total Volume (US\$ million)	% of Annual Change	% of Total Share 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.

Although Cambodian external trade surged dramatically, trade with India remained very small, uneven and relatively weak. Total exports from Cambodia to India were recorded at US\$26mn in 1995, and then decreased substantially over the following years to less than US\$1mn 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\$7mn. The overall trade balance was in India's favour during the entire period, except in 1995.

Trade Agreements

The agreement signed in Phnom Penh in November 2002 intends to develop, facilitate, and diversify trade and economic relations through granting each other MFN status.

The following agreements have also been signed between Cambodia and India:

- Agreement for Conservation and Restoration Work at Ta Prom, by which India provided US\$5mn for a 12 year life span project;
- The Air Services Agreement; and
- The Agreement on Visa Exemption for diplomatic and official passport holders.

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 FTA in goods, services and investment.¹² Under this agreement, Cambodia will benefit under the scheme of special and differential treatment (S&DT) and flexibility for new ASEAN members.

Table 22: Cambodia-India Trade, 1995-2004

Year	Cambodia's Exports to India			Cambodia's Imports from India			Balance
	Amount (US\$ million)	% of Annual Change	% of Total Share Export	Amount (US\$ Million)	% of Annual Change	% of Total Share 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 23: Top 20 Trading Partners, 2004

Rank	Export Partners	Value (US\$ million)	% Total of 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	<i>Vietnam</i>	<i>481</i>	<i>5.1</i>	6	<i>Korea</i>	<i>493</i>	<i>4.6</i>
7	<i>Thailand</i>	<i>217</i>	<i>3.9</i>	7	<i>Japan</i>	<i>231</i>	<i>4.4</i>
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	<i>India</i>	<i>43</i>	<i>0.3</i>	19	<i>Italy</i>	<i>81</i>	<i>0.4</i>
20	Russia	54	0.2	20	Finland	94	0.2

Source: Same as Table 22.

Table 24: Composition of Cambodian Exports to India

Rank	HS	Goods	2000	2001	2002	2003	2004	Total	% of 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 fibres	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	..	5,856	..	10,471	50,879	8.9
6	00	Personal effect	13,806	7,276	16,689	12,917	7,607	47,462	8.3
7	30	Pharmaceutical products	..	..	..	..	..	16,689	2.9
8	63	Other made up textile articles; sets; worn clothing and worn textile articles; rags.	..	..	12,849	..	16,180	16,180	2.8
9	48	Paper and paperboard; articles of paper pulp of paper or of paperboard.	..	..	..	..	1,113	13,961	2.5
10	73	Articles of Iron or steel.	..	..	..	..	9,018	9,018	1.6
<i>Source: Ministry of Commerce (2005).</i>									

Table 25: Composition of Indian Exports to Cambodia (US\$ million)

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 fibres	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 fibres	..	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%
<i>Source: Same as Table 28.</i>									

Indian Investment in Cambodia

Data available from the UNCTAD's Investment Directory Database shows that the investment flow from India to Cambodia is US\$0.3mn and that investment stock by India has remained unchanged since 1995 at US\$0.3mn. 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.

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.

- First, there is a continuous expansion of economic relationship between the Cambodian and the Indian Governments through bilateral, regional and multilateral arrangements. Through the framework of the India-ASEAN Economic Partnership Agreement, progressive tariff reduction under the Early Harvest Programme, which started in November 2004, and which is expected to be completed by October 2010, will help boost trade. Furthermore, tariff reduction and elimination for a wider range of products has been realised after the two parties concluded their negotiations by June 2005. Through the framework of the WTO, Cambodia and India will indeed improve their trading activities under the rules and regulations and by respective commitments with WTO.
- The second reason is that complementary trade between the two countries is expected to improve far beyond the current levels. The most recent empirical evidence supports this argument. 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.¹³

Prospects for investment relationships, however, are rather limited due to several reasons:

- The destination of Indian outward FDI seemed to shift from Asian countries to more advanced countries in western Europe and North America;
- The distribution by sector of FDI focuses more on the IT industry where Indian transnational corporations (TNCs) used M&A modes of entry;
- Desires of Indian TNCs, as suggested by UNCTAD (2004), are for things such as access to markets, natural resources, distribution networks, foreign technologies and strategic assets like brand names, which are lacking in Cambodia;
- Comparative advantages of both countries are almost the same; and
- Finally, with the ASEAN-India comprehensive economic agreement, investment agreements did not get much emphasis. Hence, in terms of investment, it seems that the two countries are in competitive rather than 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 their 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:

- Access to the dynamic ASEAN market, as well as preferential access to EU and other developed regions as an LDC;
- WTO membership;
- Strong and stable government commitment to create a business-friendly environment; and
- Considerable natural and cultural assets for agriculture and tourism.

It also reveals four areas of opportunities for investors:

- Tourism
- Commercial agriculture and agro-processing
- Garments and other light manufacturing
- 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 specialisation, it is suggested that potential Indian investors should consider the following areas in Cambodia:

- Pharmaceutical industry
- IT-related services
- Education

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. The 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.

India: An Emerging Economic Power

Over the last decade and longer, there has been a significant turnaround in the Indian economy. After recording an annual average growth rate of 2.98 percent during 1970-80, the 1980s witnessed a revival with the country's economy recording an annual average growth rate of 5.65 percent during the decade. Again, during 1992-1997, following major policy initiatives aimed at liberalising the economy, the Indian economy grew by an average of 6.8 percent a year. Though the higher growth rate could not be sustained subsequently, in 2003-04 the economy surged ahead by 8.2 percent. Over the 1980-2003 period, India's economy grew by 5.9 percent every year. India's GDP is likely to exceed that of Italy in 2020, France in 2025, Germany in 2030 and Japan in 2035.

India has emerged as a major player in a number of areas such as IT and computer software, drugs and pharmaceuticals, and automotive components, among others. Many Indian firms are now seeking to internationalise their operations with a combination of overseas acquisitions and Greenfield investments. Indian companies have reportedly invested nearly US\$5bn in the last four years in as many as 4,000 projects located outside India.

India-ASEAN Partnership and South-South Cooperation

Since 1991, in her quest to intensify her economic integration with the outside world, India has consciously deepened her economic linkages with ASEAN and other East Asian countries. India's engagement with ASEAN began with a sectoral dialogue partnership in 1992 that was upgraded to a full dialogue partnership in 1995 and a membership of the ASEAN Regional Forum in 1996 (see Box 1).

The Framework Agreement on Comprehensive Economic Cooperation signed in 2003, provided for a FTA among the countries to be implemented in a phased manner by 2011 for old ASEAN countries, and by 2016 for all ASEAN countries (including the new ASEAN members like Cambodia, Lao PDR, Vietnam and Myanmar). This Framework Agreement also included the announcement of an "early harvest" of immediate deliverables and unilateral trade preferences by India in favour of the LDCs of ASEAN, that is, Cambodia, Lao PDR and Myanmar. That ASEAN and India are clearly aiming at further deepening the integration of their economies beyond the implementation of the FTA, is clear from the Vision 2020 paper of ASEAN-India Partnership, which was adopted at the Lao Summit in 2004 held at Vientiane.

Box 4: India-ASEAN at a glance

- India became a full dialogue partner of ASEAN during the fifth ASEAN summit in Bangkok in 1995 and a member of the ASEAN Regional Forum (ARF) in 1996.
- In 2003, India signed a Framework Agreement on Comprehensive Economic Cooperation with ASEAN.
- India has also been engaged in negotiations to form a Comprehensive Economic Cooperation Agreement (CECA) with Singapore.
- India signed an agreement in October 2003 for a FTA with Thailand.

With a large number of developing countries embracing globalisation as a development strategy, with multilateral trade liberalisation under WTO, South-South Cooperation (SSC) as a development philosophy had taken a backseat. However, in view of the sub-optimal outcome of globalisation during the last decade, SSC seems to be re-emerging as a guiding principle among the countries concerned. South-South trade is growing at a rate of 10 percent per year, which is more than twice the recorded rate of growth in global trade.¹⁴

During the last few decades, developing countries like India have built up substantial industrial and technological capabilities. These, in turn, have provided scope for exploiting synergies among developing countries by sharing knowledge and technologies on the one hand and by stepping up investment flows, on the other. SSC appears to be particularly relevant in the context of a growing divide between the more developed 'old' ASEAN members and the poorer 'new' members. With the entry of Cambodia, Lao PDR, Myanmar, and Vietnam (CLMV countries), ASEAN currently comprises a heterogeneous group of countries at varying levels of development.

The ASEAN FTA was established in 1993. It now comprises 10 members of ASEAN: Brunei, Burma, Cambodia, Indonesia, Lao PDR, Malaysia, the Philippines, Singapore, Thailand and Vietnam. AFTA's primary goals are to:

- Increase ASEAN's competitive edge as a production base in the world market through the elimination, within ASEAN, of tariffs and non-tariff barrier (NTBs); and
- Attract more FDI to ASEAN.

The primary mechanism for achieving these goals is the Common Effective Preferential Tariff (CEPT) scheme, which established phased tariff reductions within ASEAN, while leaving members free to set their own tariff levels against non-members.

ASEAN's vision for 2020 underlines the need for bridging the development gap between the old and new members. These countries have underlined the key role that IT can play in reducing levels of intra-ASEAN inequality. The Initiative for ASEAN Integration (IAI), an ASEAN programme for narrowing the development gap between the older and the newer members, focuses on IT, as manifested in the e-ASEAN Framework Agreement, infrastructure, HRD, and capacity building. Leaders of ASEAN countries have also emphasised the need to improve the English language capabilities of its peoples.

Box 5: BIMSTEC and MGC

BIMSTEC is an acronym for the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (earlier known as BIST-EC or the Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation). MGC stands for Mekong-Ganga Cooperation.

A Framework Agreement on the BIMSTEC Free Trade Area (FTA) including provisions for negotiations on FTAs in goods, services and investment was signed on February 8, 2004. As far as BIMSTEC is concerned, although intra-regional trade has increased during recent years, it stands at only around four percent of the global trade of these countries and the results of tariff negotiations remain unclear. In any case, BIMSTEC has made faster institutional progress than the MGC bloc. The two biggest countries in BIMSTEC, namely, India and Thailand, are also the two biggest MGC countries accounting for the largest chunk of intra-regional trade in terms of both value and items. Therefore, BIMSTEC could provide the MGC with a propulsive force in order to assist the MGC step up economic cooperation in the form of enhanced trade and investment flows and transfers of technology.

India's areas of strength include IT, HRD and fluency in English, thereby, offering enormous opportunities for cooperation to enable the CLV countries to gain equitable political and economic status within the comity of ASEAN. In fact, one of the objectives of the Framework Agreement on Comprehensive Economic Cooperation signed by ASEAN with India is to "facilitate the more effective economic integration of the new ASEAN Member States and the bridging of development gap among the parties".

Bilateral Trade Agreements with the Mekong Countries

Trade and investment flows between India and the LDCs in ASEAN lag much behind those relating to the developed members of ASEAN. At the same time, a number of initiatives have been undertaken by India and India's private sector to enhance trade between India and the Mekong countries. This includes BTA between India and Cambodia and the one between India and Vietnam. Moreover, India has offered special tariff concessions to all the three LDCs of ASEAN under the Comprehensive Economic Cooperation Agreement (CECA), signed between India and ASEAN.

Structure of International Trade

Indian exports have performed very well in recent years. Total exports from India increased from US\$36bn in 1999 to US\$51bn in 2002. Despite this, the value of India's exports in US dollars is still five to six times lower than that of China in the 1999-2002 period (Figures 2 and 3). However, the average annual increase of India's exports is higher than that of China by nearly one percent (Table 26).

Figure 2: India Exports, 1999-2002

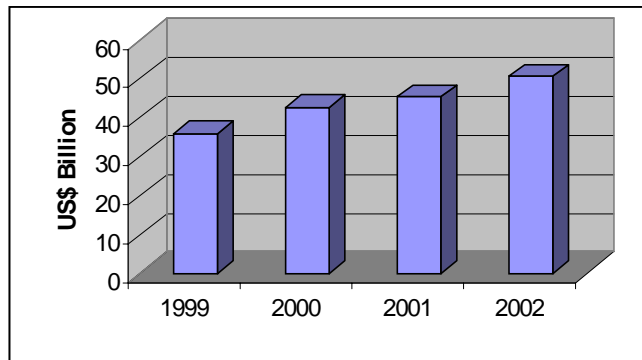
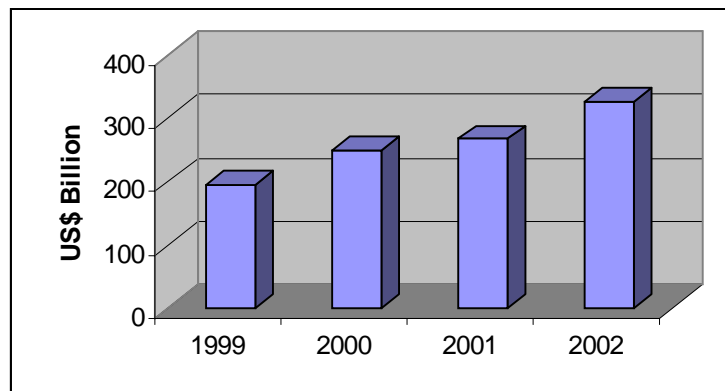


Figure 3: China Exports, 1999-2002



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

Table 26: Export Growth of India and China (US\$ billion)

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.

Nine out of the top 10 Indian export partners are developed countries. US is the main destination of Indian exports. The annual average exports from India to US were worth US\$8.3bn during the 1995-2003 period. Exports to these top 10 countries accounted for nearly 60 percent of total exports of US\$368,490bn, of which the US got a 20 percent share.

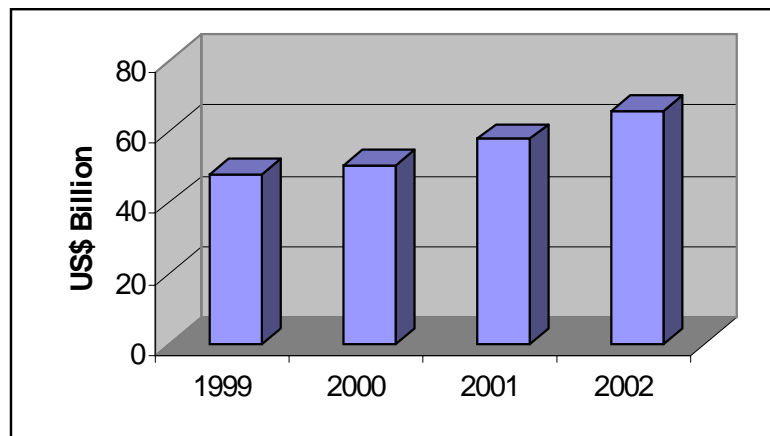
Table 27: Top 10 Export Partners of India, 1995-2003 (US\$ million)

Rank	Export Partner	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total	% of 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: International Monetary Fund Direction of Trade Statistics CD-ROM for 1995-2002 and United Nations Statistics Division (UNSD) Comtrade Statistics Database for 2003.

Indian imports increased by 37 percent from 1999 to 2002 from US\$48bn to US\$66bn. Developed countries are India's main import partners. Nine out of 10 top import partners of India are developed economies. The US, which is the first trading partner of India, accounted for nearly eight percent of total Indian imports in the 1995-2003 period. UK, Belgium and Germany all took the share of around five percent each of total Indian import. Import from these top 10 countries accounted for nearly 40 percent of total imports (see Table28).

Figure 4: India Imports, 1999-2002



Sources: Same as Figures 2 and 3.

Table 28: Top 10 Import Partners of India, 1995-2003 (US\$ million)

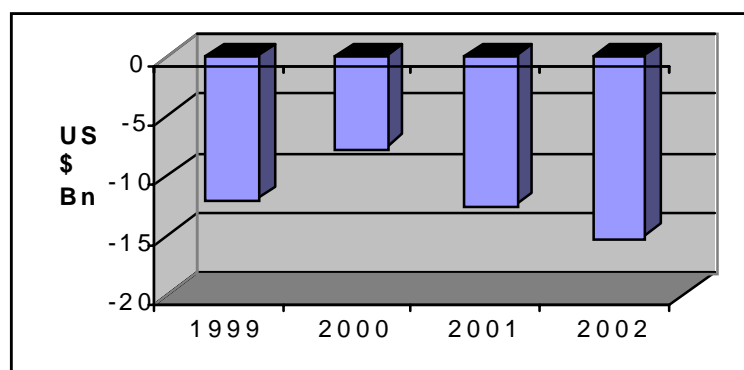
Rank	Export Import	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total	% of Share
1	United States	3,344	3,187	3,709	3,660	3,583	3,152	4,141	4,508	4,975	34,258	7.6%
2	United Kingdom	1,683	1,948	2,366	2,577	2,686	3,053	2,824	2,913	3,195	23,246	5.1%
3	Belgium	n.a.	n.a.	2,564	2,825	3,480	3,073	2,966	4,226	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: Same as Table 27.

Indeed, the increases in exports and imports in the Indian economy reflect the revival of economic activities with the world and show that the country has liberalised its economy. But, trade liberalisation has led to a rising trade deficit, which increased from US\$12bn in 1999 to US\$15bn in 2002.

By 2003, India was ranked 14th among major developing source countries with her outward investment capital aggregating US\$5.1bn.¹⁵ In terms of inward investment stock, US is the most important recipient with a share of nearly 19 percent. Russia is the second largest recipient and took a share of about 18 percent. UK (five percent) and Singapore (two percent) are also among the top 10 recipients (see Table 29).

Figure 5: India Trade Deficit, 1999-2002



Sources: Same as Figures 2 and 3.

Rank	Region/economy	FDI stock (US\$ million)	% of 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	<i>Vietnam</i>	<i>228.9</i>	<i>2.3</i>
10	Singapore	213.2	2.1

Source: UNCTAD (2004)

The Combined Role of Thailand and India in Development of GMS

Thailand and India found common opportunities in their respective “Look West” and “Look East” policies. Mr Mahansaria, President of India-Thai Business Forum qualified this relationship in his speech on October 07, 2004 in Bangkok as follows:

“(Given) Thailand’s strategic location in Southeast Asia and one of the ASEAN members, Thailand could become a vital production and export base for India to the world market. At the same time, given India’s strategic location in South Asia and one of the world’s largest potential buyers and natural resources, India could become a source of raw materials, and of course, a gateway for Thailand to South Asia region.”

Embedded in this statement are two concepts, containing aspects of mutual interest to India and Thailand.

- The first pertains to free trade that requires facilitating free flows of raw materials, goods and investment (between India and Thailand). Thailand is an aggressive exporter of various kinds of goods, for a few of which it has been a global export leader. At the same time, it imports a lot of raw materials to feed its industries. Japan and US have been its key trading partners.
- The second connotation is the gateway concept, based on strategic economic geography of both countries. This is crucial to enhancing the strategic roles of Thailand and India in the new trade and economic cooperation.

Figure 6 shows possible linkages of three powerhouses: China, Thailand and India. Thailand features prominently as a facilitator in development of the GMS. For instance, it is a crucial hub for air links (see Figure 7). From Bangkok, one could go to numerous destinations in Asia. For road transport, Thailand has perhaps one of the most extensive

networks that allow easy accesses to all of the GMS countries. This infrastructure has turned Thailand into an important inland passage within Southeast Asia. Of note are the extensive networks that connect China, Lao PDR, and Vietnam with the Eastern Industrial Seaboard of Thailand, into the Gulf of Thailand and into international waters.

Figure 6: Conceptual Linkages between India and the GMS Countries

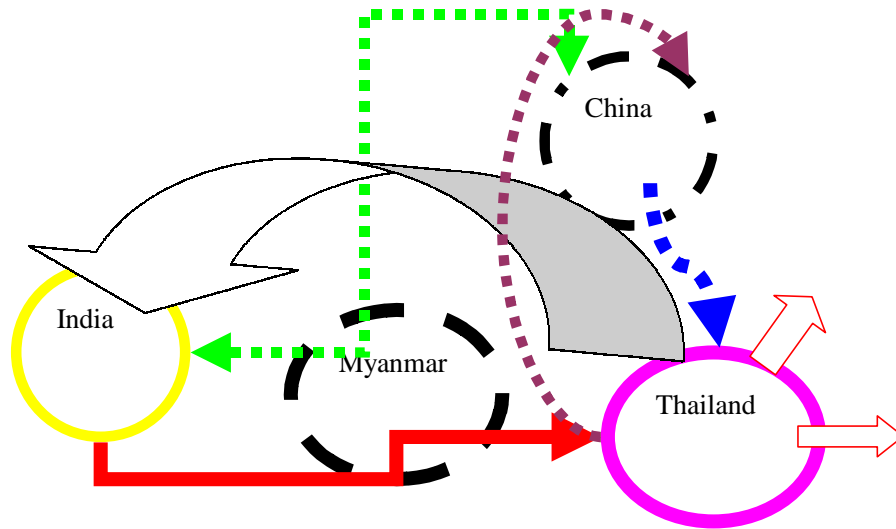
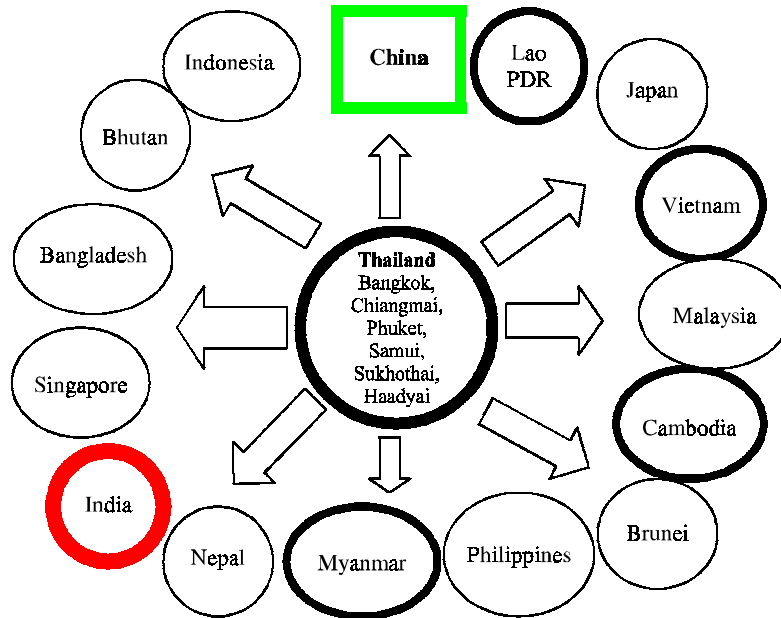


Figure 7: Air Links



Thai Trade and Investment: Present Scenario

The “Three Giants”, namely Japan, US and EU, took up the majority of Thai exports, with values increasing from US\$21bn in 1993 to US\$42bn in 2004. In relative terms, this value dropped from 55.8 percent of total exports of Thailand in 1993 to 44 percent in 2004.

Table30: Export Destinations of Thailand (US\$ million)

Year	Total	Japan	USA	EU	ASEAN	ROW
1993	37,324.8	6,326.5	8,022.3	6,492.6	6,584.8	9,898.6
1994	45,430.0	7,756.3	9,549.4	7,099.4	9,058.4	11,966.5
1995	56,725.3	9,524.7	10,113.2	8,558.4	12,325.3	16,203.7
1996	55,941.4	9,417.1	10,061.3	8,916.6	12,113.4	15,433.0
1997	58,328.6	8,837.3	11,340.9	9,285.7	12,734.0	16,130.7
1998	54,490.1	7,469.3	12,167.2	9,718.1	9,895.9	15,239.6
1999	58,463.4	8,261.3	12,654.3	9,828.7	10,871.6	16,847.5
2000	69,624.2	10,232.4	14,870.1	11,001.3	13,482.2	20,038.2
2001	65,183.2	9,945.4	13,199.6	10,551.9	12,599.1	18,887.2
2002	68,156.3	9,950.0	13,509.4	10,214.6	13,568.9	20,913.4
2003	80,049.4	11,363.8	13,596.2	11,749.5	16,486.1	26,853.8
2004	96,530.9	13,498.4	15,508.5	13,815.7	21,241.0	32,467.3

Source: Ministry of Commerce, Government of Thailand

A sizeable expansion of Thailand’s trade is attributable to its open trade and investment policy regimes. Upon the collapse of Cancun Ministerail, Thailand began to intensify its drive to freeing trade and investment. A recent Federation of Indian Chambers of Commerce and Industry (FICCI) survey revealed that the impact of the Thailand-India Comprehensive Framework was significant for Thailand, though not necessarily so for India due to Thailand’s small market size. It estimated that during April-December 2005 imports of 82 Early Harvest items from Thailand into India stood at US\$104.85mn, a notable rise from US\$84.44mn during 2003-2004.

In retrospect, Thailand’s trade with India over the past five years grew just below one percent of Thailand’s total trade volume. Specifically, export share to India from Thailand averaged 0.77 percent, and is growing at 25.73 pwercent. Imports from India grew at a much slower pace of 22.27 percent.

Entry Modes for India into the GMS

There are presently three entry modes for India, into the GMS, via Thailand:

- Scenario 1: Intensifying the Thai-India FTA
- Scenario 2: Bridging India directly to the GMS Framework
- Scenario 3: Bridging India to ASEAN-China FTA

Scenario 1: Intensifying Thai-India FTA: Maximising Bilateral Benefits

Thailand looks at India as a strategic partner to bridge South and Southeast Asia. The current structure of trade and investment between the two countries indicates complementariness between them. For instance, the low level of trade flows between the two shows greater opportunities. India exports commodities to Thailand, which enables Thailand to feed its industries. Meanwhile, imports by India from Thailand are more diversified. This also shows an innate potential of services and investment cooperation between them in such areas as education, health, transport, finance and banking and tourism.

A framework agreement was signed in 2003 in Bangkok. This agreement broadly seeks to:

- eliminate tariff and NTBs on all goods by 2010;
- sequence sectors for gradual liberalisation for which the negotiations were launched in January 2004 to be concluded in two years;
- create conducive climate for bilateral investment;
- explore new areas of economic cooperation, such as fisheries, telecommunication, health and sanitation, tourism and biotechnology; and
- facilitate trade and investment by improving customs procedures and a mutual recognition arrangement.

This framework agreement would enhance trade and investment flows in three aspects. Firstly, it would create better market access, even beyond Indian markets. Secondly, it would increase the competitiveness of Thai industries, and lastly, the increased volume of trade and investment between the two countries would increase welfare of both, and the framework agreement itself would prepare both countries to engage in global free trade.

An India-Thailand Trade Negotiating Committee was established to work on the details of future specific agreements. Thailand and India have taken turn to host the last four negotiations, the last one being on September 20-22, 2005. These efforts have resulted in a Draft Text on Goods and two other drafts for Services and Investment. Specifically, both sides agreed to go beyond the 2000 Bilateral Investment Protection and Promotion Agreement between the two nations.

Thailand would indeed be a good partner for India. But, the limitation of this option is apparent: it is a bilateral agreement, which brings benefits to just these two nations. Another layer of efforts has to be worked out if India and Thailand together provide technical assistance to GMS.

Scenario 2: Moderate Benefits: India and GMS, Through Thailand

Thailand's usefulness for greater economic cooperation between India and GMS may be assessed by applying a SWOT analysis.

As shown in Figure 7 the opportunity sphere (O), is external to both India and Thailand, while the strength (S) and weakness (W) are internal, and thus manageable by respective countries. The area between points of intersection of Os in this case translates as the 82 Early Harvest Products of the Framework Agreement between Thailand and India. There are more areas of common O to be explored. Common threats, the Ts in Figure 7, if mutual, could be managed and perhaps abated by both parties through closer cooperation – for example the security issues. Table 6 summarises the three aspects of strengths and weaknesses present in Thailand.

Figure 8: Conceptual SWOT between Thailand and India

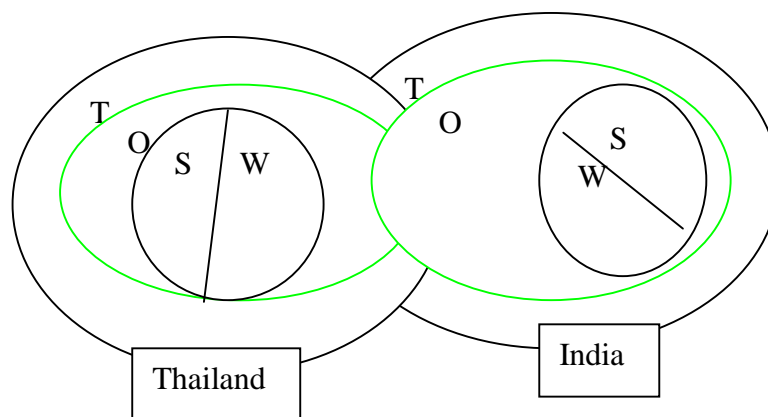


Table 31: Assessing Thailand’s Strengths and Weaknesses

Aspect	Strength (S)	Weakness (W)
Economic	<ul style="list-style-type: none"> • Open trade and investment regimes • Consumerism society • Strong growth oriented policy • Well developed financial markets and telecommunication systems • High food security • Dynamic growth records • Moderate inflation rates • Strong private sector spirit • Narrow digital divide • Key communication and transport hub of Southeast Asia • Good public infrastructure • Clear government policies • Easy access to the Mekong and other GMS countries 	<ul style="list-style-type: none"> • Consumerism society • High public debt burden • High personal debts • Some degrees of oligopolistic power • Legitimising of illegal activities such as lottery • High external resource dependency • Poor public transport systems • Urban-rural divide
Social	<ul style="list-style-type: none"> • Adequate laws and regulations • Moderate governance 	<ul style="list-style-type: none"> • Poor communication in English

	<ul style="list-style-type: none"> • Superb Constitution • One-party politics • Moderate level of effective enforcement • Free of ethnic class • Diversity admired • Moderate political ties with GMS members, with strong tie to China 	<ul style="list-style-type: none"> • Gap in education and skills • Losing work ethic • Weak check and balance in politics • Proliferated Corruption • Money politics
Environment	<ul style="list-style-type: none"> • Adequate laws, regulations and awareness • Moderate level of effective enforcement • Green drives • Rooms for introduction of cleaner production • Good access to resources 	<ul style="list-style-type: none"> • Transparency questioned • Escalating pollution levels
Culture	<ul style="list-style-type: none"> • Well-respected Monarch • Indian-based cultures • Majority Buddhism, but rich diversity 	<ul style="list-style-type: none"> • Some rifts among minority faiths

Though India could capitalise on Thailand’s strengths, and perhaps take opportunities of some of the weaknesses (e.g., environmental services), the access to GMS would be sub-optimal, considering that presently, India and Thailand have a framework agreement signed. To reap greater benefits from trade with GMS, more negotiations with GMS countries are needed. Moreover, the 11 priority areas of cooperation between the GMS countries (see Box 3) have been confined to members of the GMS. An Indian entry into this framework would need to be negotiated, perhaps with a new and different framework. Otherwise, Indian suppliers could subcontract some of the operations through a joint venture with Thai counterparts. Though that is feasible, but it might not be sensible because there is a larger window for reaping longer run benefits from free trade regimes.

Box 6: Eleven Areas of Cooperation under the GMS

1. East-West Economic Corridor
2. North-South Economic Corridor
3. Southern Economic Corridor
4. Strategic Environmental Framework
5. Regional Power Interconnection and Power Trade Arrangements
6. Facilitating Cross-Border Trade and Investment
7. GMS Tourism Development
8. Enhancing Private Sector Participation and Competitiveness
9. Telecommunication Backbone and Information and Communication Technology
10. Developing Human Resources and Skill Competencies
11. Flood Control and Water Resource Management

Scenario 3: Maximum Benefits: ASEAN-China Plus India

The ASEAN-China FTA, negotiated by 11 leaders of ASEAN and China since 2001, sets a new window of opportunity to strengthen economic cooperation between China

and members of ASEAN. This agreement is the world's largest to serve 1.7 billion people in member countries. Strategically speaking this arrangement would enable China to gain free entry into ASEAN markets and to capitalise on ASEAN's AFTA. Besides market expansion through AFTA, the agreement would help China reduce its transaction costs dramatically, if implemented fully.

Succinctly, the process of engaging China into ASEAN can be divided into the following stages:

- The first stage involved negotiating and implementing the Framework Agreement on Comprehensive Economic Cooperation and related protocols. This was concluded in 2002.
- The Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation between the ASEAN and China was signed on November 04, 2002 to liberalise trade in goods between ASEAN and China, called ASEAN-China Free Trade Area (ACFTA). This negotiation was completed in 2004, and implementation of tariff reductions would be between 2005- 2010. The Framework Agreement was modified for early harvest programme, signed by economic ministers a year later in Bali. The target was to liberalise trade in goods between 'ASEAN6' with China by 2010 and newer members of ASEAN with China by 2015¹⁶. Some flexibility was provided for, extending the duration of tariff elimination for sensitive goods to 2018.
- The negotiation on Dispute Settlement was completed in 2004.
- Lastly, the on-going negotiations focus on liberalising investment and trade in services.

2.5.3 Assessing Potential Structure, Scale and Technological Impacts

India's entry into the GMS would bring additional mutual benefits to both parties, but there are also negative impacts to be realised to India. Table 32 summarises these impacts, based on the three scenarios of access.

Table 32: Structure, Scale and Technological Impacts of Indian Entry

Mode of Entry	Structure	Scale	Technology
Mode 1	0 Additional change in structure would be very minimal.	0 Additional scale impacts would be nil considering the types of trade in products.	0 Impacts would be small, unless agreement on technology transfer is reached.
Mode 2	+ As market expands, the structure of industry will also change, but not drastically due to similar structure of the economies.	++ Scale of production would increase to serve much larger demands.	++ Additional gain is in areas related to drugs and heavy industries, but to face competition from China.
Mode 3	++ More visible change in the structure towards capital-intensive industries.	+++ Immense market size spurs expansion of scale tremendously.	++ Similar as above.

Endnotes

- 1 Group of commodities traded by quotas; group of prohibited commodities; group of commodities under government management; and group of specialised management
- 2 Far Eastern Economic Review 2/2003
- 3 World Investment Report 2004
- 4 (Rodrik, 2001)
- 5 Minutes of the Fourth Meetings of India-Lao PDR Joint Commission on Trade, Economics, Scientific and Technological Cooperation held in New Delhi on July 22-23, 2002
- 6 In the Law on Investment, eligible investors are entitled to obtain 100 percent import duties exemption on construction materials, production equipment, machinery, intermediate goods, raw materials and spare parts which will be used for production for exports.
- 7 Some agreements give MFN status for Cambodia. Those agreements include Australia, Canada, Korea, Japan, and New Zealand.
- 8 Some agreements give MFN status for Cambodia. Those agreements include Australia, Canada, Korea, Japan, and New Zealand.
- 9 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 Lao PDR 153rd), according to UNCTAD and ICC (2003). Most recent indices are available at <http://www.heritage.org/research/features/index/countries.cfm?sortby=country>
- 10 UNDP and ICC (2004)
- 11 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 Lao PDR PDR, 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.
- 12 A full agreement can be found at the ASEAN website: <http://www.aseansec.org/15278.htm>
- 13 Amita Batra, 2004
- 14 United Nations Conference on Trade and Development (UNCTAD), 2004
- 15 2(UNCTAD, 2004)
- 16 "ASEAN 6" refers to Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand; "newer ASEAN Member States" refers to Cambodia, Lao PDR PDR, Myanmar and Vietnam.

Other Advocacy Documents

Improving Labour Standards through Development: A Positive Agenda

The fundamental aim of every individual and organisation concerned with development is to improve standards of living. Several approaches can be taken towards the achievement of this objective, most importantly the eradication of poverty. When exploring the issue of labour standards and their observance in developing countries, there are several issues to be considered, including history, religion, and social structures.

The objective of this paper is to advocate against the inclusion of a social cause – sanctions on trade in response to violations of labour standards. This paper has argued that poverty reduction should be the foremost way of improving core labour standards. The achievement of higher economic growth, along with adequate distributive mechanisms and safety nets, will raise per capita incomes and thus ultimately lead to the institution of pro-active social policies, as a result improving the conditions of work and workers' rights significantly. The focus, therefore, should be on education, health and infrastructure. The Millennium Development Goals and the Declaration on Fundamental Principles and Rights to Work provide further useful stepping-stones.

pp64, #0429, Rs 50/US\$10, ISBN: 81-8257-046-8

Linkages between Environmental Standards and Poverty: A People-centred Approach

Environmental degradation and poverty are major threats to the world. These two are entwined in a complex way by which each reinforces the other and makes it even more difficult to control both, particularly for poor countries that experience resource constraints.

The advocacy paper explores the possible linkages between environmental standards and poverty reduction. It provides a conceptual analysis of issues like the problem of poverty, impact of poverty on environment; and the impact of environmental standards on poverty. It analyses how environmental standards that focus on prevailing use of resources could dilute the ability of the poor to gain capabilities to rise above poverty and affect the overall welfare and stability in the poor countries. Alternatively, the paper points out the need for measures to ensure stable income to the poor to raise their capabilities and reduce environmental degradation.

pp60, #0504, Rs 50/US\$10, ISBN: 81-8257-052-2

South-South Cooperation: Exploring the IBSA Initiative

One of the healthiest developments in recent past has been that the South-South trade as a percentage of world trade has increased. With an agenda of exploring the possibilities of enhancing South-South cooperation further, in 2003, the foreign ministries of India, Brazil and South Africa (IBSA) established the 'IBSA Dialogue Forum'. The IBSA Dialogue Forum aims to promote South-South partnership, cooperation and common positions on issues of international importance, and also to promote trade and investment opportunities between the three regions of which they are a part.

The report is an attempt to analyse and present the fundamental issues pertaining to the IBSA initiative in order to facilitate increased trade and investment among the countries through enhance contact between business and industry bodies, high political proximity and removal of all types of procedural barriers. It also aims to catalyse discussions among the international trade community and draw a future road map for South-South trade partnerships.

This research report would help a whole range of stakeholders, including policy makers, experts, academics, trade community and scholars of IBSA countries, who have been looking for feasible ways to facilitate greater cooperation in trade and investment, with the overall goal of an ever-increasing South-South trade.

<http://www.cuts-international.org/PDF/advocacy1.pdf>