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

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1. Introduction

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

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

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

To examine the trade and investment relationship, the study is organised as follows. Section 2 briefs on economic profiles and recent economic developments in the two countries. The special emphasis on the trade and investment policies of Cambodia is also discussed in this section. Section 3 describes the trade and investment links between two countries. Section 4 explores the future prospects for Cambodia's economic relations with India, and Section 5 draws concluding remarks.

1. Economies of Cambodia and India – A Glance

Cambodia is located in Southeastern Asia. The country is believed to be rich in natural resources such as timber, gemstones, some iron ore, oil, gas, manganese, and phosphates. It is estimated that the total population was around 13.4 million in 2004, with an annual growth rate of 1.8 percent. The total production of Cambodia is about US$25 billion measured in purchasing power parity; the economy grew at 5 percent in 2003. In 2002, agriculture sector share, which gave 70 percent of employment, accounted for only 35 percent of total GDP. The proportion of industry to GDP was 30 percent although it employed only 10 percent of workforce, while service contributed 35 percent with 20 percent employment. Inflation was kept at a very low rate of 1.7 percent in 2003. Aggregate exports were recorded at US$1.6 billion; aggregate imports jumped to the highest level of US$2.1 billion. Total external debt was estimated to amount to US$2.4 billion, around 50 percent of GDP (see appendix 1).

Figure 1: Structure of Cambodia's output, 2003

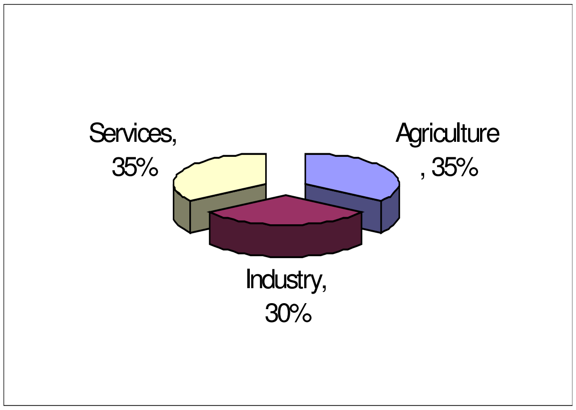
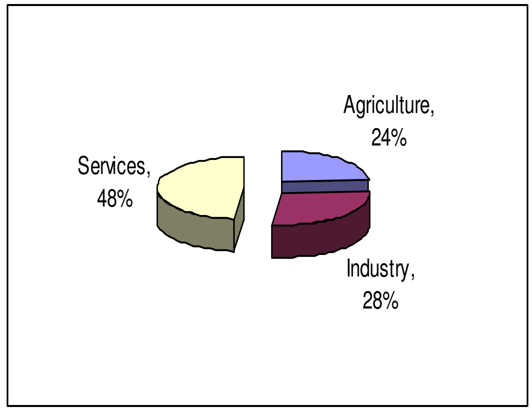


Figure 2: Structure of India's output, 2003



Source: Author, based on data from World Fact Book 2004: Cambodia and India.

India, on the other hand, is the third largest economy in Asia in terms of GDP and the second largest country in the world in terms of population. It is situated in South Asia, between Burma and Pakistan, and borders the Arabian Sea and the Bay of Bengal.[1] Coal is the main natural resource in India in addition to iron ore, manganese, mica, bauxite, titanium ore, chromite, natural gas, diamonds, petroleum and limestone. India has the fourth largest coal reservoir in the world. The Indian population exceeded 1 billion in 2004 with an annual growth rate of 1.4 percent. The country is dominated by a young labour force, with about 63 percent of the population aged between 15 and 64. In 2003, gross domestic product in purchasing power parity terms was recorded at US$3 trillion. Economic growth reached an impressive rate of 8.3 percent. The service sector share of GDP, in 2002, was 48 percent but absorbed only 23 percent of workforce. Industry contributed 28 percent to GDP and provided employment of 17 percent. Agriculture's share of GDP declined to 24 percent despite a 60 percent share of total labour forces.

1.1 Recent Economic Development of Cambodia

Economic Growth

The relative calm of 1999, after national elections in 1998, could help the Cambodian economy exceed expectations. Real GDP growth increased relatively high to 10 percent, due to the dramatic expansion of garment exports and growth of the tourism sector. This impressive economic growth was slowed down to less than 6 percent in three consecutive years (5.7 percent in 2001, 5.5 percent in 2002 and 5.3 percent in 2003). Cambodia's performance is lower than that of neighbouring Vietnam. Vietnam's real economic growth was recorded at only 4.8 percent in 1999, but it marked a record at the rate of 7 percent in 2002 and 2003.

Figure 3: Cambodia's GDP Growth Rate 1999-2003

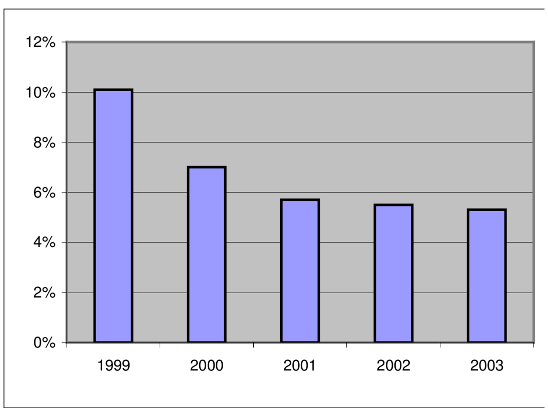
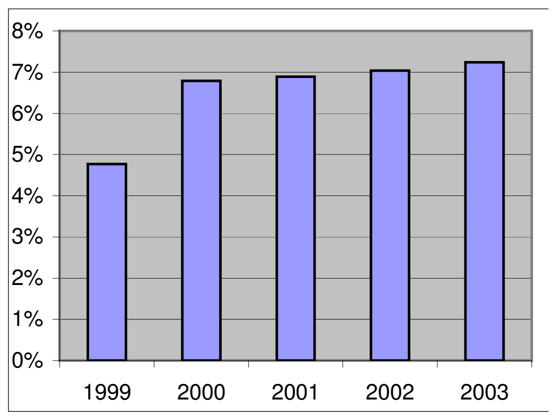


Figure 4: Vietnam's GDP Growth Rate 1999-2003



Source: World Development Indicator Database.

The main contributors to growth are the industry sector (garments) and services sector (tourism). Industry and service maintained their rising share during the 1999-2002 periods. The share of industry increased from 19 percent in 1999 to 28 percent in 2002, while service saw much a slower rate, from 36 percent in 1999 to only 37 percent in 2001, and fell back to 36 percent in 2002. The trend of industry is similar to Vietnam where industry took an increasing share from 34 percent in 1999 to 39 percent in 2002. The trend of service sector share in Cambodia, on the other hand, is slightly different from Vietnam. Vietnam's service sector retained the same share whereas Cambodia's share rose between 1999 and 2002. A smaller contribution to recent economic growth was made by the agriculture sector. Its share

[1] The name Burma is used in the CIA world fact book. However, the country is also known as Myanmar, and this name has been commonly used in many recent studies.

declined every year in both Vietnam and Cambodia. Nonetheless, agriculture still makes an important contribution to rural livelihoods due to its roles in providing jobs and income.

Figure 5: Sector Composition of Growth, Cambodia, 1999-2002

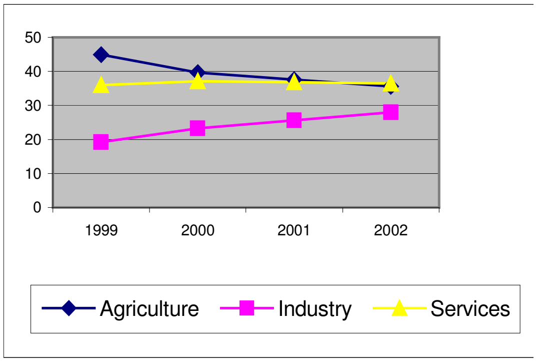
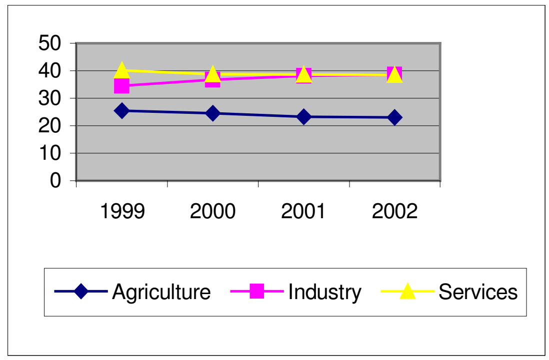


Figure 6: Sector Composition of Growth, Vietnam, 1999-2002



Source: Author's Calculation Based on World Development Indicator Database.

Trade and Investment

Trade plays a positive role in increasing GDP. A UNDP analysis of the Macroeconomics of Poverty Reduction in Cambodia found that an increase in GDP of US$1 was associated with an increase in exports of US$1.40 and in imports of US$1.30 during the 1994-2000 period. And the author's study on trade and FDI relationships in Cambodia showed that an increase in FDI of 1 percent will lead to trade expansion of 0.17 percent during the 1994-2002 period.

Exports (including re-export) from Cambodia increased substantially from US$1 billion in 1999 to US$1.8 billion in 2002. However, its share of re-export has decreased remarkably since 1996. In 2002, it accounted for only 6 percent (against 94 percent of domestic exports) of total exports, compared with 13 percent in 1999. One of the reasons for this declining re-export share was the soaring growth of garment products exports under preferential arrangements with the US and EU. The share of garment exports surged to nearly 80 percent in 2002, from 56 percent in 1999 (from US$560 million to US$1.4 billion).

Imports, on the other hand, rose from US$1.6 billion in 1999 to US$2.5 billion in 2002, higher than exports. This upsurge was mainly due to high imports of export-oriented investment projects in which tariff exemptions from the government have been granted.[2] It accounted for, on annual average, half of total imports from 1999 to 2002. Petroleum was also one of the main imported goods. Its average share was recorded at around 7.5 percent annually.

Table 1: Composition of Cambodian Trade, 1999-2002

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

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

Cement	20	27	31	37	1%	1%	1%	1%
Steel	19	21	18	23	1%	1%	1%	1%
Other	238	302	277	281	15%	14%	12%	11%
Duty free imports (c.i.f.)	613	1076	1214	1444	38%	51%	55%	58%
Coverage adjustments	283	279	300	327	18%	13%	13%	13%
Total Imports (c.i.f.)	1612	2095	2225	2500	100%	100%	100%	100%

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

FDI inflow to Cambodia fell continuously from 1999. The average flow for 1999-2002 was US$180 million, compared to US$980 million in the initial 1994-1997 period, when it soared. Despite this declining trend, FDI flow to Cambodia has been diversified. Investors are from both developed and developing countries in Europe, North America and Asia (Table 2). In spite of this diversification, the share of capital flow from developing countries in Asia has been increasing sharply since 1994 and they have maintained their dominant roles since then.

Table 2: Approved FDI Flow in Cambodia, by Geographical Region, 1999-2002

Region/economy	Amount (US$ Million)				Percentage			
	1999	2000	2001	2002	1999	2000	2001	2002
Total world	248.0	181.4	146.1	155.1	100%	100%	100%	100%
Developed countries	27.0	36.9	7.9	6.9	11%	20%	5%	4%
Western Europe	4.4	21.9	2.0	1.6	2%	12%	1%	1%
European Union	3.9	21.9	2.0	1.6	2%	12%	1%	1%
France	1.3	5.2	-	-	1%	3%	-	-
Netherlands	-	-	-	1.0	-	-	-	1%
Portugal	0.4	-	-	-	0%	-	-	-
United Kingdom	2.2	16.7	2.0	0.6	1%	9%	1%	0%
Other Western Europe	0.6	-	-	-	0%	-	-	-
Switzerland	0.6	-	-	-	0%	-	-	-
North America	20.0	12.7	5.9	3.2	8%	7%	4%	2%
Canada	0.4	1.2	-	-	0%	1%	-	-
United States	19.6	11.5	5.9	3.2	8%	6%	4%	2%
Other developed countries	2.5	2.2	-	3.2	1%	1%	-	2%
Australia	0.0	2.0	-	-	0%	1%	-	-
Japan	2.5	0.2	-	2.2	1%	0%	-	1%
Developing economies	221.1	144.5	138.1	148.2	89%	80%	95%	96%
Asia	221.1	144.5	138.1	148.2	89%	80%	95%	96%
South, East and South-East Asia	221.1	144.5	138.1	148.2	89%	80%	95%	96%
Cambodia	51.8	21.2	6.5	10.5	21%	12%	4%	7%
China	46.0	28.4	5.0	24.1	19%	16%	3%	16%
Hong Kong, China	29.8	4.9	1.2	1.6	12%	3%	1%	1%
Indonesia	0.8	15.1	-	-	0%	8%	-	-
Macau	1.2	-	-	-	0%	-	-	-
Malaysia	13.9	2.2	50.6	1.0	6%	1%	35%	1%
Philippines	-	0.3	1.0	-	-	0%	1%	-
Republic of Korea	-	19.4	2.1	79.0	-	11%	1%	51%

Singapore	1.0	8.1	-	1.0	0%	4%	-	1%
Taiwan Province of China	55.4	18.9	57.0	6.8	22%	10%	39%	4%
Thailand	20.7	26.0	14.7	-	8%	14%	10%	-
Vietnam	0.5	-	-	24.2	0%	-	-	16%

Sources: UNCTAD FDI Database and Author's Calculations.

In the area of distribution, the flow of foreign capital to the agriculture sector remained very small although there are many potential and favorable incentives from the government in various areas within this sector. The primary sector received US$39 million in investment in 1999 then slumped to only US$1 million in 2000. The industry sector, on the other hand, is a major recipient of FDI. Flow to industry was at a record of US$149 million (60 percent of total inflow) in 1999. However, its inflow has gone down since then, in 2000 (US$ 46 million), 2001 (US$81 million) and 2002 (US$69 million). Another major recipient is the service sector, which accounted for 24 percent of total FDI inflow in 1999 then climbed to take a share of 74 percent in 2000 before decreasing to just around 50 percent in 2001 and 2002.

Table 3: Distribution of FDI Flow to Cambodia, 1999-2002.

	Amount (US$ Million)				Percentage			
	1999	2000	2001	2002	1999	2000	2001	2002
Total FDI flow	248	181.4	146.1	155.1	100%	100%	100%	100%
Primary	38.8	1.3	..	..	16%	1%	..	..
Secondary	148.9	46.1	80.7	68.9	60%	25%	55%	44%
Tertiary	60.3	134.1	65.3	86.2	24%	74%	45%	56%

Source: The same as Table 2.

Fiscal Development

Table 4 reveals that the Cambodian government improved revenue collection every year. However, this increasing revenue cannot cover the higher-speed rising of total expenditure. As a consequence, the average annual budget deficit was about US$188 million during the 1999-2002 period.

Table 4: Revenue and Expenditure of Cambodia (Million US$)[3]

	1999	2000	2001	2002
Total Revenue	351	375	398	469
Total Expenditure	506	551	604	685
Fiscal Deficit	-155	-176	-206	-216

Source: UNDP (2004), Table 4.1.

Poverty

Poverty incidence in Cambodia was still very high. The poverty rate was 36 percent in 1997, down only 3 percent from 39 percent in 1994. This rate remained stagnant after 1997. The latest study of poverty in Cambodia conducted by the Ministry of Planning found that Cambodia still had a 36 percent rate of poverty in 1999. Despite this high incidence of poverty, the country is strongly committed to cutting the poverty rate in half by 2015, to achieve its Millennium Development Goals.

Some progress in education has been made. The illiteracy rate dropped 2 percent from 1997 to 2000. However, the enrollment rate for both primary and secondary education made no improvement and in fact got worse. Primary school net enrollment rate declined to 95 percent in 2000 compare to 100 percent in 1997; the percentage of students enrolled in secondary education also fell to 17 percent from 22 percent. In spite of this low performance, through the Cambodian Millennium Development Goals (CMDGs) the country will hopefully achieve a 100 percent literacy rate by 2015.

Improvement in the health sector was as slow as improvement in the education sector. Life expectancy in 2000 was at the same level as 1997. The infant mortality rate increased from 91 to 95 per 1,000 live births.

Table 5: Cambodian Social Indicators

Indicators	1997	2000
Poverty		
Poverty headcount (%)	36	n.a.
Education		
Overall illiteracy rate (15+)	34	32
Female illiteracy rate (15+)	46	43

[3] These figures of revenue and expenditure of Cambodia in Table 4 were originally in Cambodian Riel. They have been converted from into US dollars based on each year's exchange rates.

Net enrollment rate: primary school (total)	100	95
Net enrollment rate: secondary school (total)	22	17
Health		
Life expectancy at birth (years)	54	54
Infant mortality rate (per 1,000 live births)	91	95
Under-five mortality rate (per 1,000 live births)	n.a.	135

Source: Selected from World Development Indicators CDROM (2003).

1.2 Review of Cambodia's Trade Policy and Investment Regime

2.2.1 Trade Policy

Trade policy in Cambodia was observed to have made two important changes during the last decade: (i) the shifting of a strict trade regime to deregulation and (ii) moving towards bilateral, regional and multilateral arrangements, and trade openness.

The first move was evidenced by the abolition of the state-own monopolized foreign trade company in the late 1980s, the encouragement of private participation in trading activities including permission to establish import and export companies, and the removal of quantitative restrictions on imports and exports in 1994 (see Table 6).

Table 6: Evolution of Trade Policy

Year	Policy and Policy Development
1980s	▪ New trading system controlled the level and composition of trade through quantitative restrictions and state-owned trading bodies. ▪ Market-oriented liberalization in the later 1980s, abolishing state monopoly of foreign trade. A foreign investment law was promulgated in 1989, enabling private companies to engage in foreign trade.
1990	From 1993 restrictions limiting the ability of firms and individuals to engage in international trade were largely removed.
1994	All quantitative restrictions on trade were eliminated in 1994.
1996	Cambodia gained MFN status from the US.
1997	Cambodia gained GSP status from EU.
1999	▪ Cambodia became a member of ASEAN in April. It committed to a gradual reduction in most tariff rates by 2010 for trade with other ASEAN members. ▪ US quota imposed on 12 broad categories of garments. ▪ End of year Cambodia gained MFN/GSP from 28 countries.
2001	▪ Government reduced maximum tariff rates from 120 percent to 35 percent and reduced the number of tariff bands from 12 to 4. Structure of the 4 tariff bands are 0 per cent, 7 per cent, 15 per cent and 35 per cent, of which about 95 percent of the tariff lines are under three bands:

	7 percent, 15 percent and 35 percent. ▪ Average un-weighted tariff rates were lowered to 16.5 percent from 17.3 percent in 2000 and 18.4 percent in 1997. ▪ The government imposed an absolute ban on exports of logs and an export quota on rice. Five items are subject to export licensing requirements: (i) processed wood products, (ii) garments, (iii) weapons, (iv) all vehicles and machinery for military purposes and, (v) pharmaceuticals and medical materials. ▪ Most non-trade barriers were eliminated.

Sources: Author, reproduced based on UNDP (2004) and World Bank (2004a).

The integration into bilateral, regional and multilateral agreement and trade openness, the second move, was made possible by several achievements. Firstly, Cambodia lobbied the US government for a bilateral trade agreement. As a result, MFN status for garment and textile products was offered in 1996. Secondly, GSP status from the EU was obtained in 1997, giving special treatment for garment exports to EU members. Thirdly, the government signed bilateral trade and investment agreements with various partners such as China, Cuba, India, Indonesia, Lao PDR, Malaysia, OPEC countries, Philippines, Singapore, Thailand, Vietnam and Russia.[4] Fourthly, the government joined the GMS sub-region and formed triangle development zones with neighbouring countries (see table 7). Fifthly, ASEAN membership in 1999 and WTO membership in 2003 clearly marked a deepened integration into the regional and global trading system. Lastly, trade/GDP ratio was 160% in 2002, and Cambodia obtained a trade policy score of 2 on the US-based Heritage Foundation's index of economic freedom in 2003, reflecting the liberalized characteristics of Cambodia's external sector.[5]

Table 7: Policy Development in Bilateral and Regional Integration

2002	Initiated a Triangle Economic Cooperation strategy between Cambodia, Vietnam and Lao PDR, focusing on (i) Commerce, (ii) Industry, (iii) Public works and Transportation, (iv) Tourism.
2003	▪ Cambodia's accession to WTO. ▪ Under the ASEAN-China Free Trade Area's Early Harvest scheme signed in July 2003, China has granted to Cambodia, effective from January 1, 2004, a special preferential tariff (SPT) treatment for 297 agricultural products at zero percent tariff rates. ▪ Under the ASEAN Integrate Special Preferential (AISP), Thailand has

[4] Some agreements give MFN treatment for Cambodia. Those agreements include Australia, Canada, Korea, Japan, and New Zealand.

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

	agreed to provide Cambodia a special and preferential tariff treatment for 249 products. ▪ Cambodia-Canada Memorandum of Understanding signed by the two countries in March 2003 has given Cambodia, along with other least developed countries, a quota and duty free access to all its markets except bananas. Its exported goods must meet the rule of origin which is contained at 25% of Cambodia's added value. Under the ASEAN agreement, raw materials imported from ASEAN countries are also considered to be of local origin. ▪ Japan expanded its duty and quota free treatment for LDCs to 496 agricultural and fishery products in 2003 and Cambodia is also eligible for this treatment as an LDC. ▪ Japan-ASEAN Comprehensive Economic Partnership signed in 2003 has provided Cambodia with a broad-based liberalization of trade and investment promotion. ▪ China-ASEAN Comprehensive Economic Partnership signed in November, 2003 to plan an ASEAN-China Free Trade Area within 10 years. ▪ Summit for Economic Cooperation Strategy between Cambodia, Lao PDR, Myanmar and Thailand developed 10-year timeframe (2003-2012) for economic cooperation with focused areas on Trade and Investment Facilitation, Agricultural and Industrial Cooperation, Transport Linkages, Tourism Cooperation and HR Development.
2004	Cambodia has requested that China treat an additional 439 Cambodian commodities exported to China with a special preferential tariff (SPT) at zero percent tariff rates.

Source: Author, based on World Bank (2004a).

These major integrations will ensure large market and low tariff rates for products exports from Cambodia. For example, Cambodia can export 297 agricultural products at a zero rate to China, 249 products at a preferential rate to Thailand, a quota and duty free to all Canadian markets except bananas, and 496 agricultural and fishery products at a special rate to Japan (Table 7).

2.2.2 Investment Regime

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

Entry, Establishment and Exit [6]

[6] Well-explained guides on how to do business in Cambodia can be found in four important publications. (i) An Investment Guide to Cambodia: Opportunities and Conditions by UNCTAD and ICC in 2003; (ii) New Business Opportunities for EU Companies in Cambodia by European Asia Investing Programme of EU in 2004;

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

Treatment and Operating Conditions

Both foreign and local investors are treated equally under the LOI, except on the issue of land ownership. Foreign investors cannot own land but can lease it for up to 70 years and 99 years for concession land for agricultural QIPs.[7] It also emphasizes that the government shall not undertake a nationalisation policy which adversely affects private properties of investors. There is no price control. Investors are fully able to engage in foreign exchange operations including purchase and sale of foreign currency, and transfer remittance and international resettlement through the banking system. A thorough explanation of operating conditions such as taxation, labour issues, dispute settlement, and protection of property rights can be found in four essential publications as noted in footnote number 6.

Investment Incentives

According to the UNDP and ICC (2004), the Cambodian government set priorities for the following areas where incentives are granted: (i) agriculture and agro-processing industries; (2) environment protection; (3) export-oriented industries; (3) industries that create substantial employment; (4) investments in special promotion zones(SPZs); (5) physical infrastructure and energy; (6) pioneer and/or high technology industries; (7) provincial and rural development; (8) tourism and related industries. For a complete list of areas where investors can obtain investment incentives, please see appendix 3.

(iii) Country Commercial Guide for Cambodia FY 2004 by US Embassy in Phnom Penh in 2004; and (iv) Cambodian Investment Guide by DFDL in 2002.

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

The Law on Investment of Cambodia grants very favorable tax and customs duties incentives for both local and foreign investors. Eligible investors can obtain a corporate tax exemption of up to six years (three years automatic tax holiday and three additional years can be granted depending on the activity and sector). The corporate tax exemption begins from the first year if the investment makes a profit, or otherwise after three years of operation. In addition, although business is subject to corporate income tax, its rate is only 20 percent, the lowest among ASEAN countries, according to Kevin Fletcher's study on tax incentives in Cambodia, Laos and Vietnam in 2002 (Indonesia, progressive rate 10, 15, 30 percent; Laos, greater than 35 percent or 1 percent of turnover; Malaysia, 28 percent; Philippines, 32 percent; Thailand, 30 percent; and Vietnam 32 percent). Besides, investors can obtain 100 percent import duty exemption on construction materials, means of production, equipment, intermediate goods, raw materials and spare parts used by (a) an export project with a minimum of 80 percent of the production set apart for export and (b) projects located in the designated Special Promotion Zone.

1.3 Recent Economic Development of India

Gross Domestic Product

The share of the Indian economy in South Asia has risen gradually in recent years. It grew from 77 percent in 1999 to 79 percent in 2003, or 0.4 percent per year on average during this period (Figure 7). Yet, India's share of world output is small given that it has the second largest population in the world. It increased by only 1 percent from 1999 to 2003, or 0.2 percent per year on average (figure 8). Despite this current status of the Indian economy, two separate studies in 2003 by Morgan Stanley and Wilson and Purushothaman predicted that by 2050 India will become the third largest economy in world behind China and the US (Sen et.al, 2004).

Figure 7: India's Share of South Asia GDP 1999-2003

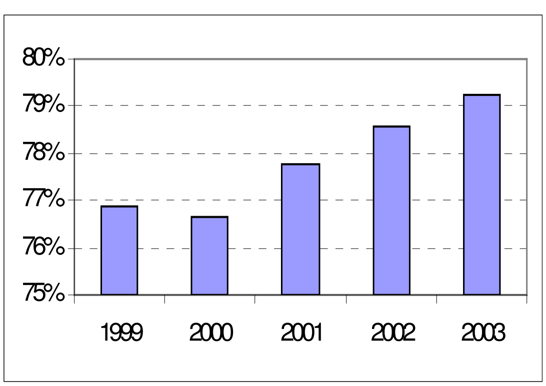
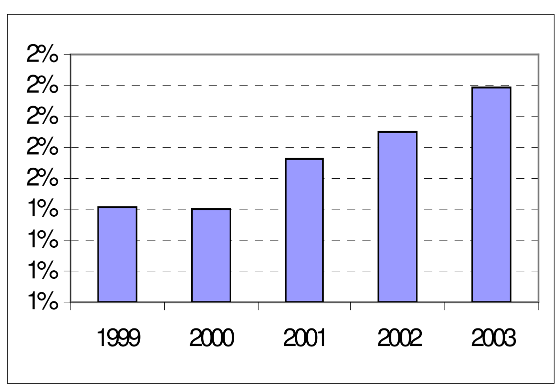


Figure 8: India's Share of World GDP 1999-2003



Sources: Author, Based on World Development Indicator Database.

Economic Growth

The economic growth of India has been impressive in recent years after the country introduced wide ranging reforms starting in 1991 to open and deregulate its economy. The economy grew sharply, reaching 8 percent in 2003, following the average of 4.6 percent growth in the period 2000-2002. This rate of growth for the 1999-2000 periods, however, is higher than the rate of South Asia but lower than that of China and the East Asia and Pacific region (Figure 9 and Figure 10)

Figure 9: Economic Growth of India, South Asia, East Asia and Pacific 1999-2003

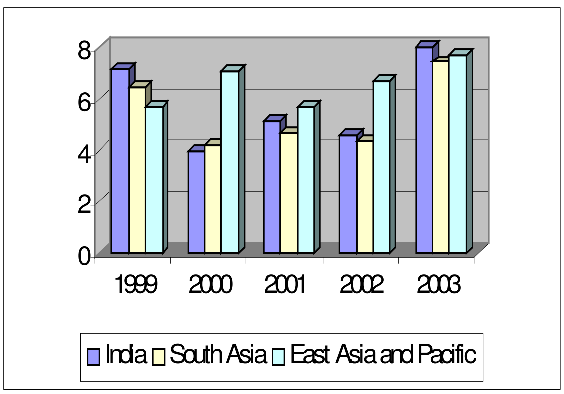
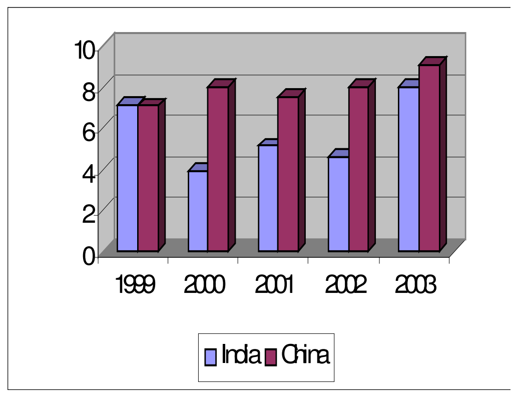


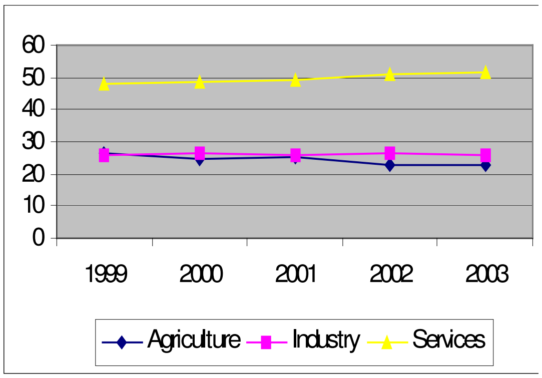
Figure 10: Economic Growth of India and China, 1999-2003

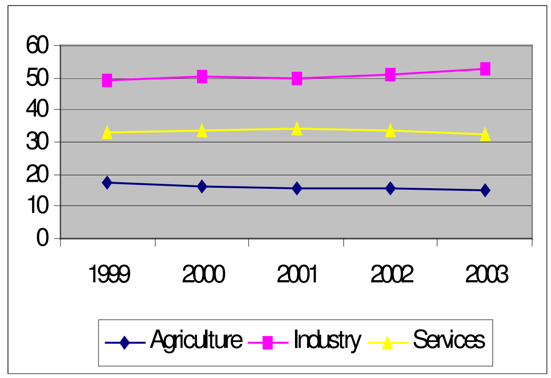


This recent impressive growth rate is attributed to the strong growth of the service sector. It accounted for nearly 50 percent of the overall economy annually from 1999 to 2003. The growth acceleration of this sector is due to (i) rapid expansion of information technology, (ii) expansion of other service such as transport, trade, and financial services; and an increased value added of public administration, according to the World Bank (2003). In contrast, an ADB report (2004) points out that software services and increasing wages in public administration do not contribute to the recent economic growth of India. It states "*A growth decomposition exercise shows that it is not just a statistical artifact arising from pay raises and the expansion of the wage bill in public administration. Nor is it attributable to the highly visible growth of software services, since their weight and contribution to total services sector growth is still limited" (ADB, 2004a p.2)*. The growth in services sources from two main sub-sectors of trade: hotels, restaurants, transport and communications, whose share is more than half, and the financial sector with a share of one fifth of total service (ADB, 2004a). Moreover, an IMF study found that high income elasticity of demand, user industry demand, and rising exports, in addition to reforms and technological advances, are the reasons for the recent robust service sector growth (ADB 2004a and ADB 2004b).

Figure 11: Sector Composition of Growth, Figure 12: Sector Composition of Growth

India, 1999-2003 *China, 1999-2003*





Source: Author, Based on World Development Indicator Database.

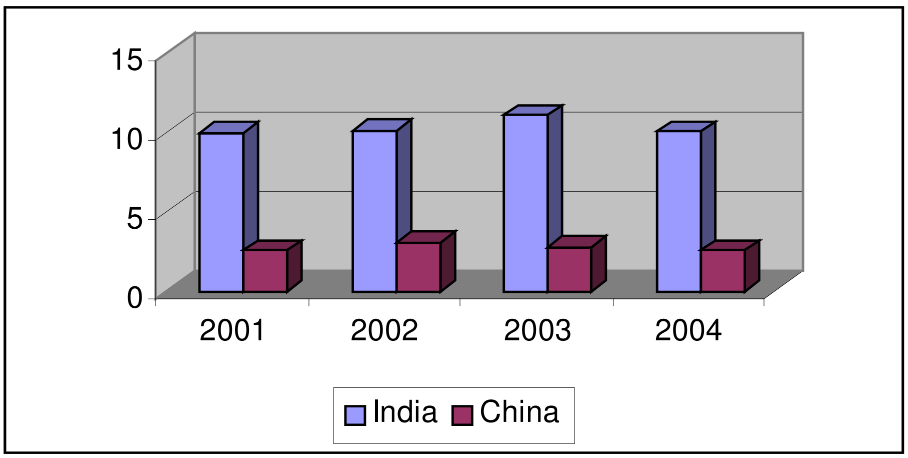
The performances of agriculture show less satisfactory results than the service sector. Agricultural share to total output kept declining from 26 percent in 1999 to 23 percent in 2003, but this share is higher than the share of China, where agriculture accounted for 18 percent in 1999 and 15 percent in 2003 (see figures 11 and 12). One of the main reasons for this slow growth may be unfavorable weather (drought, flooding and uneven rain) and insufficient irrigation systems due to limited public investment in agricultural infrastructure.

Figure 11 indicates that Indian industry's share of the country's total output is only one fourth, and it fluctuated between 26-27 percent between 1999 and 2003. China's industrial share is more impressive. It amounted to a 50 percent share in 1999 and it is riding on the trend of accelerating growth (figure 12). The slow growth of Indian industry can be explained by two factors, low demand and an absence of supporting domestic policy (World Bank, 2003). There was substantial investment in the industrial sector after economic reform in 1991. This investment led to the rapid expansion of the industrial output. But demand did not correspond accordingly to this output growth. As a consequence, there was a huge excess supply of industrial output. In the area of policy, insufficient infrastructure, market distortions and lower foreign market access were the major constraints.

Fiscal Development

The government of India's negative fiscal balance is enormous. It accounts for 10 percent of GDP annually from 1999-2003, three times higher than China. The debt stock has amounted to 75.5 percent of GDP, while the payment of interest has increased to 21.3 percent of total government expenditure (ADB, 2004a). The deficit resulted from a huge amount of subsidies and government civil servants' wages, and increasing repayment of debt and debt services of the public sector.

Figure 13: Fiscal Deficits of India and China (% of GDP), 2001-2004



Sources: ADB (2004a) and ADB (2004c).

Trade

Indian exports have performed very well in recent years. Total exports increased from US$36 billion in 1999 to US$51 billion in 2002, or 41 percent. Despite this increase, India's export rate is still much less than China's. It is 5 to 6 times less than China's export rate for the 1999-2002 period (Figures 14 & 15). However, the average annual increase of India's exports is higher than that of China at one percent (Table 8).

Figure 14: India Export, 1999-2002

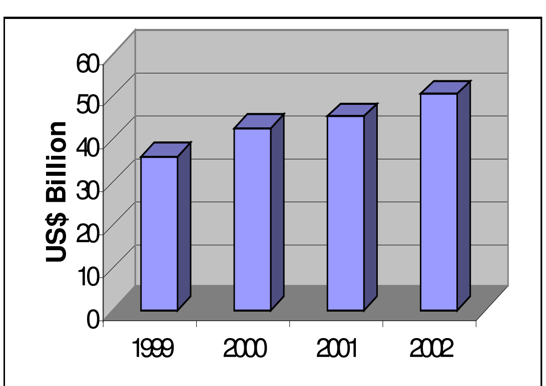
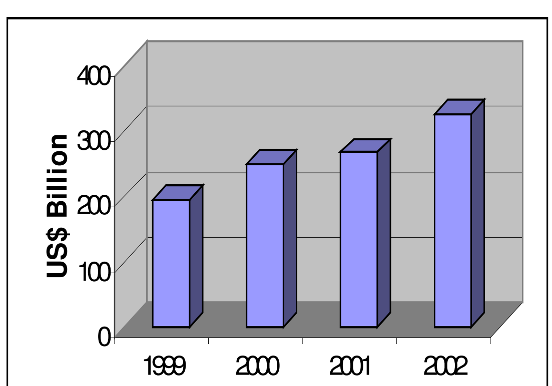


Figure 15: China Export, 1999-2002



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

Table 8: Comparison of Export and Import Growth of India and China

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

Source: ADB Key Indicators (2004).

Indian imports increased moderately from 1999 to 2002, slower than China's import increase (Figures 12 and 13). Import from the world to India rose from US$48 billion in 1999 to US$66 billion, or 37 percent. China's import rate jumped from US$166 billion to US$296 billion, or 78 percent. Besides, table 2 shows that annual average import growth of India is lower than China (14 percent versus 21 percent).

Figure 16: India Import, 1999-2002

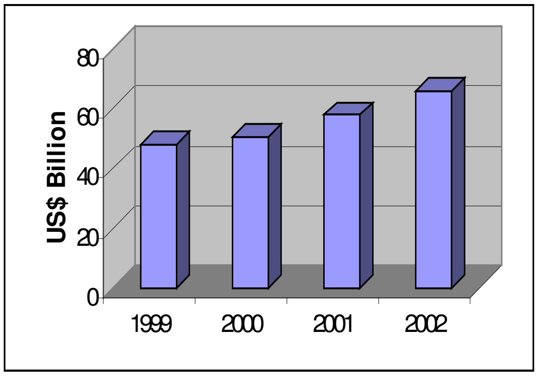
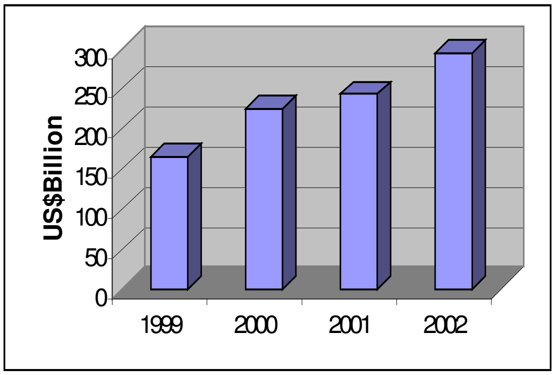


Figure 17: China Import, 1999-2002



Sources: The Same as Figure 14 &15.

On the one hand, increases in exports and imports in the Indian economy reflect the revival of economic activities with the world and shows that the country has liberalized its economy. On the other hand, trade liberalization has lead to a rising trade deficit. Figure 14 indicates that the trade deficit increased from US$12 billion in 1999 to US$15 billion in 2002.

China, by contrast, exports much more than it imports, leading to a trade surplus of US$26 billion annually for four consecutive years (1999-2002).

Figure 18: India Trade Deficit, 1999-2002

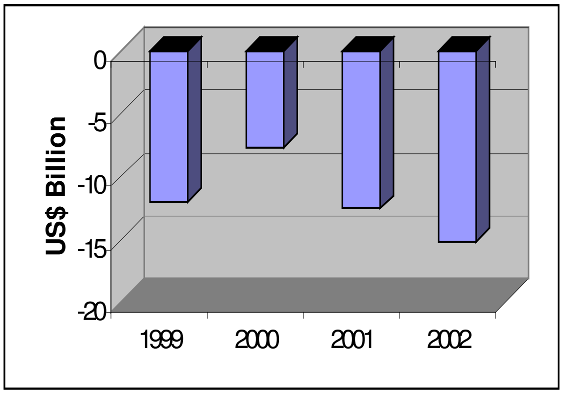
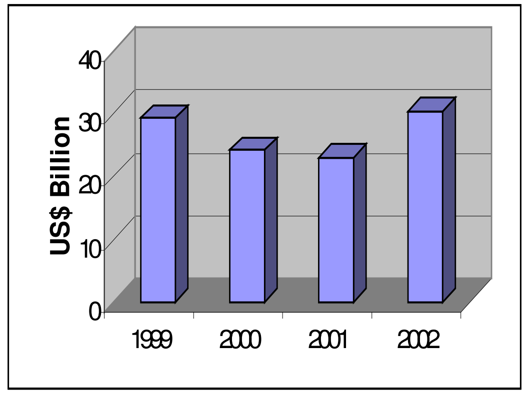


Figure 19: India Trade Surplus, 1999-2002



Sources: The Same as Figure 15 &16.

Poverty

India has made achievements in reducing poverty during the last two decades. The World Bank report in 2003 showed that poverty declined from 44.5 percent in the 1980s to 36 percent in the 1990s and to 26.1 percent in 2000 (halved in 20 years). Indicators in the education sector have improved remarkably (Table 9). For example, the literacy rate increased by more than 20 percent over 20 years, with female literacy rates rising by 18 percent. The net enrolment rate for both lower primary and upper primary schools was improved. The dropout rate for primary school students decreased moderately. Health sector indicators, in contrast, made little change. Maternal mortality rate rose from 424 to 540 per 100,000 live births. The infant mortality rate is still high. The percentage of children who lack adequate nutrition is nearly 50 percent.

Table 9: Progress on Social Indicators of India, 1980-2000

Indicators	1980s	1990s	2000
Poverty			
Poverty incidence (%)	44.5	36	26.1
Adjusted poverty incidence (%)	n.a.	n.a.	28.6
Education			
Overall literacy rate: 7+ years (%)	44	52	65
Female literacy rate as a percent of male literacy rate (%)	53	61	71
Net enrollment rate (NER): lower primary (%)	n.a.	71	77
Net enrollment rate (NER): upper primary (%)	n.a.	70	74
Female NER as % of male NER: lower primary (%)	n.a.	84	90
Female NER as % of male NER: upper primary (%)	n.a.	78	86
Dropout rate, grades 1-5 (%)	54	45	40
Health			
Life expectancy at birth (years)	56	60	61
Infant mortality rate 0-4 years (per 1,000 live births)	115	79	68
Under-five mortality rate (per 1,000 live births)	152	94	95
Maternal mortality rate (per 100,000 live births)	n.a.	424	540
Malnourished children, ages 0-3 (%)	n.a.	53	47
Prevalence of HIV (million people)	n.a.	3.5	4

Source: Selected from World Bank (2003).

2. The Trade and Investment Relationship between India and Cambodia

2.1 Historical Background

The Cambodian economy in this period can be classified into two phases: a centrally planned economy (1980-1988) and partly free market economy (1989-1994). During the centrally planned economy, the country's major trading partners were the members of the Council for Mutual Economic Association (CMEA) of former socialist countries. And direction of trade data was recorded only with CMEA members and major partners in Asia, whereas huge illegal cross-border smuggling trade was left unrecorded.[8] Nonetheless, Direction of Trade Statistics, one of the major IMF publications, provides data for more countries than the CMEA. It also contains the volume of trade figures with India during the 1980s. This reflects that economic cooperation between Cambodia and India was resumed amidst Cambodia's isolation from Western nations and the USA.

Table 10: Cambodia-India Trade during Cambodia's Central Planning Economy and Partly Free Market Economy, 1981-1994

Year	Cambodia's Exports to India			Cambodia's Imports from India		
	Total Volume (US$ Million)	Annual Change	Share of Total Trade	Total Volume (US$ Million)	Annual Change	Share of Total Trade
1981	0.00		0%	3.50		4%
1982	0.00	0%	0%	0.15	-96%	0%
1983	0.00	0%	0%	0.02	-86%	0%
1984	0.00	0%	0%	0.00	-100%	0%
1985	0.00	0%	0%	0.13	100%	0%
1986	0.00	0%	0%	0.17	31%	2%
1987	0.01	100%	0%	0.11	-37%	1%
1988	0.01	0%	0%	0.12	6%	0%
1989	0.00	-100%	0%	0.13	7%	0%
1990	0.00	0%	0%	1.44	1046%	3%
1991	0.00	0%	0%	0.02	-99%	0%
1992	2.39	100%	1%	0.20	908%	0%
1993	1.85	-23%	1%	0.34	73%	0%
1994	0.19	-90%	0%	1.59	362%	0%

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

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

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

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

2.2 Recent Relationship

3.2.1 Trade Agreement between Cambodia and India

The agreement was signed in Phnom Penh in November 2006 by the Cambodian Minister of Commerce and the Indian Minister of External Affairs. This agreement intends to develop, facilitate, and diversify trade and economic relations through granting each other Most Favored Nation (MFN) Treatment relating to importation and exportation, and encouraging trade fair and participation in exhibitions (see appendix 4).

3.2.2 Visit of Indian Prime Minister in 2002

The formal visit of former Indian Prime Minister Atal Bihari Vajpayee from 9 to 11 April, 2002 to join the first ASEAN-India Summit hosted by Phnom Penh strengthened the ties between the two countries. During his visit, three separate agreements were signed: (1) Agreement for Conservation and Restoration Work at Ta Prom, by which India provided US$5 million for a 12-year life span project; (2) The Air Services Agreement; and (3) The Agreement on Visa Exemption for diplomatic and official passport holders. Besides this, a US$10 million loan was given by India; US$1 million to build a Museum of Traditional Asian Textiles in Siem Reap under Mekong-Ganga Cooperation was offered by India; and five computer internet kiosks were established in Phnom Penh, Siem Reap, Kandal, Takeo, and Angkor Park.[9]

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

3.2.3 The Look East Policy and South-South Economic Cooperation

This economic cooperation will be enlarged through India's "Look East" policy. One of the concrete achievements of this policy is the ASEAN-India comprehensive economic cooperation, which was signed in October 2003 in Bali, Indonesia.[10] Under this agreement, Cambodia will benefit from special treatment for new ASEAN members; trade between the two countries should ultimately grow.

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

3.2.4 Volume of Trade

Table 11: Cambodian Top 20 Trade Partners, 1995-2002

Rank	Export Partners	Value (US$ M)	% of Export	Rank	Import Partners	Value (US$ M)	% of Import
1	USA	3237	50.1%	1	Thailand	2621	58.6%
2	Singapore	593	9.2%	2	Singapore	2119	47.3%
3	Vietnam	548	8.5%	3	Hong Kong*	1219	27.2%
4	Germany	514	7.9%	4	China*	841	18.8%
5	UK	481	7.4%	5	Vietnam	817	18.3%
6	Thailand	457	7.1%	6	Korea	544	12.1%
7	China*	171	2.6%	7	Japan	530	11.8%
8	France	163	2.5%	8	Indonesia	402	9.0%
9	Japan	128	2.0%	9	France	359	8.0%
10	Hong Kong*	123	1.9%	10	Malaysia	339	7.6%
11	Netherlands	101	1.6%	11	U.S.	238	5.3%
12	Malaysia	83	1.3%	12	Switzerland	184	4.1%
13	Ireland	57	0.9%	13	Netherlands	136	3.0%
14	Spain	39	0.6%	14	New Zealand	112	2.5%
15	Canada	36	0.6%	15	Germany	90	2.0%
16	**India**	**34**	**0.5%**	**16**	UK	88	2.0%
17	Sweden	32	0.5%	17	Australia	80	1.8%
18	Italy	25	0.4%	18	Italy	57	1.3%

[10] A full agreement can be found at the ASEAN website: www.aseansec.org

19	Russia	24	0.4%	19	**India**	**40**	**0.9%**
20	Belgium	22	0.3%	20	Belgium	26	0.6%

Source: Author's Calculations from IMF Direction of Trade Statistics.

* China refers to China, P.R.: Mainland; Hong Kong refers to Hong Kong, P.R.: Hong Kong as they are used by the IMF Direction of Trade Statistics CDROM. The intention of using "China" and "Hong Kong" is to save space for this table.

Cambodia fully adopted free market mechanisms in 1994. Private sector participation from local and foreign investors was encouraged through a liberalized trade policy and investment regime, as discussed in Section 2.2. Consequently, substantial trading has been expanded. Total exports from Cambodia climbed rapidly from US$360 million in 1999 to US$1.7 billion in 2002.

Although Cambodian trade surged dramatically, trade with India remained very small, uneven and relatively weak. India is ranked number 16 as an export destination of Cambodia and ranked 19 among 20 source countries for Cambodia’s imports. Exports from Cambodia to India hit a record high of US$26 million in 1995, then decreased substantially over the following years. On the other hand, exports from India to Cambodia hit a record low in this period, at an annual average of about US$5 million. Nevertheless, the overall trade balance was negative (amounting to US$6 million) for Cambodia between 1995 and 2002.

Table 12: Cambodia-India Trade, 1995-2002

Year	Cambodia's Exports to India			Cambodia's Imports from India			Balance
	Total Volume (US$ M)	Annual Change	Share of Total Export	Total Volume (US$ M)	Annual Change	Share of Total Import	
1995	26.25		7%	2.02		0%	24.23
1996	0.33	-99%	0%	1.43	-30%	0%	-1.10
1997	2.55	681%	0%	5.93	316%	1%	-3.38
1998	4.32	69%	0%	5.66	-5%	1%	-1.34
1999	0.04	-99%	0%	9.60	70%	1%	-9.56
2000	0.15	275%	0%	9.28	-3%	1%	-9.13
2001	0.10	-33%	0%	2.85	-69%	0%	-2.75
2002	0.11	9%	0%	3.09	9%	0%	-2.98

Source: The same as Table 1.

3.2.5 Composition of Trade

Available data from the Confederation of Indian Industry for 2000 and 2001 reveals that there are very few types of goods exported from Cambodia to India. Goods exported to India fall under just three categories: live animals, textiles and apparel, and machinery and electrical appliances (Table 13). Perhaps these commodities, except live animals, were not originally produced in Cambodia, but were transited in Cambodia for export to India.

Table 13: Composition of Cambodia Export to India

Section	Cambodia Export to India	
	2000	2001
Live animals	56,000	0
Textiles and apparel	38,000	50,000
Machinery and electrical appliances	40,000	0
All	134,000	0

Source: Confederation of Indian Industry.

Imports from India in the same years, on the other hand, were of various kinds of goods. The main items are prepared foodstuffs, chemicals, textiles and apparel, machinery and electrical appliances, and vehicles (Table 14). Export of chemicals from India to Cambodia recorded more than half of total exports.

Table 14: Composition of India Export to Cambodia

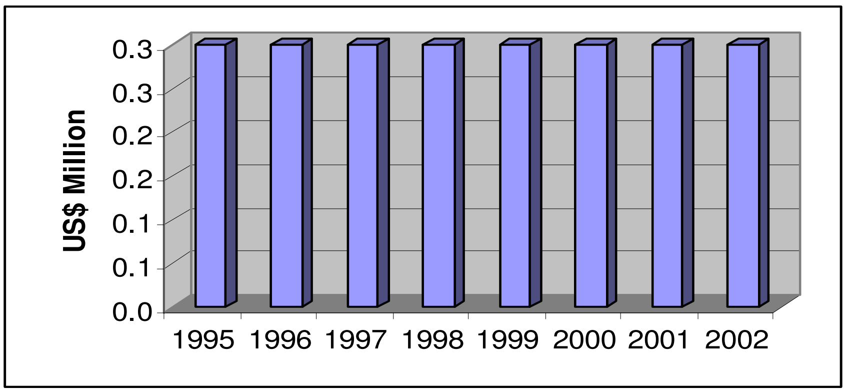
Section	India Export to Cambodia		Percentage	
	2000	2001	2000	2001
Vegetable products	60,400	300	0.7%	0.0%
Prepared foodstuffs	1,422,800	3,100	15.5%	0.1%
Mineral products	500	0	0.0%	0.0%
Chemicals	5,040,600	1,726,600	54.8%	61.4%
Plastics	168,600	9,400	1.8%	0.3%
Hides and leather	36,100	209,500	0.4%	7.5%
Pulp and paper	16,200	7,800	0.2%	0.3%
Textiles and apparel	958,400	379,500	10.4%	13.5%
Footwear	2,000	0	0.0%	0.0%
Stone/cement/ceramics	21,300	0	0.2%	0.0%
Gems	0	1,200	0.0%	0.0%
Base metal and metal articles	122,600	58,100	1.3%	2.1%
Machinery and electrical appliances	712,800	42,700	7.8%	1.5%
Vehicles	410,600	329,500	4.5%	11.7%
Optical, precision & musical instruments	190,800	23,200	2.1%	0.8%
Miscellaneous manufactured articles	30,600	15,800	0.3%	0.6%
Antiques and works of art	0	4,700	0.0%	0.2%
All	9,194,300	2,811,400	100%	100%

Source: Confederation of Indian Industry.

3.2.6 Indian Investment in Cambodia

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

Figure 20: Indian Investment Stock in Cambodia



Source: Author, Based on UNCTAD, World Investment Directory Online Database.

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

3. Future Prospects for the Trade and Investment Relationship Between Cambodia and India

The prospects for the economic relationship between Cambodia and India are very positive, for two main reasons. One reason is continuous economic relationship expansion between the Cambodian government and the Indian government, as mentioned in the above section. The second main reason is that potential complementary trade and investment by the two countries is considered to be far beyond the current actual level. This argument is supported by the most recent empirical evidence studied by Amita and Batra in 2004. They found that among ASEAN members, Cambodia together with the Philippines and Vietnam has the highest trade potential with India (Amita Batra, 2004).

Areas of Trade Relations

Taking the supply of export commodities and demand of 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. On Cambodian side, primary products such as rubber, fishery products and so on which are the main export commodities can be supplied to Indian markets.

Areas of Investment Relations

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

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

- Pharmaceutical industry
- IT-related services
- Education

4. Conclusion

Although good long-term links and common cultural features exist, the trade and investment relationship between Cambodia and India in the past and in the most recent years remains very small and weak. The volume of exports from Cambodia to India and exports from India to Cambodia marked a record low of US$4 million and US$5 million respectively. Investment flow sourced from India was only US$300,000.

However, there are opportunities for expansion. In the area of trade activities, both countries have opened their markets. Cambodia can expand its exports of primary commodities to supply Indian markets. India has a lot of 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 pairs is very positive due to efforts made by both governments through all existing channels - bilateralism, regionalism and multilateralism.

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Appendix 1: Facts about Economies of Cambodia and India

	Some selected facts about Cambodia and India	
	Cambodia	**India**
Geography		
Location	Southeastern Asia, bordering the Gulf of Thailand, Vietnam and Laos	Southern Asia, bordering the Arabian Sea and the Bay of Bengal between Burma and Pakistan
Area	181,040 sq km	3,287,590 sq km
Natural resources	oil, gas, timber, gemstones, some iron ore, manganese, phosphates, and hydropower potential	coal (fourth-largest reserves in the world), iron ore, manganese, mica, bauxite, titanium ore, chromites, natural gas, diamonds, petroleum, limestone, arable land
People		
Population	13,363,421 (July 2004 est.)	1,065,070,607 (July 2004 est.)
Age structure	0-14 years: 38.3% 15-64 years: 58.6% 65 years and over: 3.1%	0-14 years: 31.7 % 15-64 years: 63.5% 65 years and over: 4.8%
Population growth rate	1.8% (2004 est.)	1.44% (2004 est.)
Birth rate (2004 est.)	27.13 births/1,000 population (2004 est.)	22.8 births/1,000 population (2004 est.)
Infant mortality rate	73.67 deaths/1,000 live births	57.92/1,000 live births
Life expectancy	58.41 years	63.99 years
Literacy rate	69.40%	59.50%
Economy		
GDP (PPP)	US$25.02 billion (2003 est.)	US$3.033 trillion (2003 est.)
Real GDP growth rate	5% (2003 est.)	8.3% (2003 est.)
GDP per capita (PPP)	US$1,900 (2003 est.)	US$2,900 (2003 est.)
GDP composition by sector	agriculture: 35% industry: 30% services: 35% (2003 est.)	agriculture: 23.6% industry: 28.4% services: 48% (2002 est.)
Investment (gross fixed)	15.9% of GDP (2003)	23.1% of GDP (2003)
Population below poverty line	36% (1997 est.)	25% (2002 est.)

	Cambodia	India
Household income or consumption by percentage share	lowest 10%: 2.9% highest 10%: 33.8% (1997)	lowest 10%: 3.5% highest 10%: 33.5% (1997)
Distribution of family income Gini index	40.4 (1997)	37.8 (1997)
Inflation rate	1.7% (2003 est.)	3.8% (2003 est.)
Labour force	7 million (2003 est.)	472 million (2003)
Labour force by occupation	agriculture 70%, industry 10.5%, services 19.5% (2002)	agriculture 60%, industry 17%, services 23% (1999)
Unemployment rate	2.5% (2000 est.)	9.5% (2000 est.)
Budget	revenues: US$476.5 million expenditures: US$734.8 million (2003 est.)	revenues: US$86.69 billion expenditures: US$114.6 billion (2003)
Agriculture products	rice, rubber, corn, vegetables, cashews, tapioca	rice, wheat, oilseed, cotton, jute, tea sugarcane, potatoes, cattle, water, buffalo, sheep, goats, poultry, fish
Industries	tourism, garments, rice milling, fishing, wood and wood products, rubber, cement, gem mining, textiles	textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, software
Industrial production growth	22% (2002 est.)	6.5% (2003 est.)
Exports	US$1.616 billion (2003 est.)	US$ 57.24 billion (2003 est.)
Imports	US$2.124 billion (2003 est.)	US$ 74.15 billion (2003 est.)
Reserves of foreign exchange and gold	US$861.4 million (2003)	US$102.3 million (2003)
Debt- external	US$ 2.4 billion (2002 est.)	US$101.7 billion (2002 est.)

Sources: The World Factbook 2004, Cambodia and India and World Bank (2004), data annexes

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

1. *Industries closed to both national and foreign investors*

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

2. *Industries open to foreign investors with restrictions*

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

3. Service activities with restrictions specifically on foreign investment

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

Appendix 3: SUB-DECREE NO.88 ANKR BK updated according to Sub-decree No. ANKR BK dated June 11, 1999

PART A
LIST OF INVESTMENT AREAS FOR WHICH INCENTIVES ARE GRANTED

1. CROP PRODUCTION
   1-1 Paddy farming from 1,000 hectares and above
   1-2 All types of cash crops from 500 hectares and above
   1-3 Vegetables from 50 hectares and above
2. LIVESTOCK PRODUCTION
   2-1 Livestock from 1,000 heads and above
   2-2 Dairy farming from 100 heads and above
   2-3 Poultry and eggs from 10,000 heads and above
3. FISHERIES
   3-1 Fish hatcheries from 2 hectares and above
   3-2 Shrimp farming and other fisheries production from 10 hectares and above
4. MANUFACTURING AND PROCESSING OF GOODS AND RELATED PRODUCTS

Investment capital equivalent to US$500,000 and above
   4-1 Beverages
   4-2 Fats and Oils
   4-3 Sugar confectionary
   4-4 Meat products
   4-5 Dairy products
   4-6 Preserved fruits and vegetables
   4-7 Flour-made products
   4-8 Bakery products
   4-9 Animal feeding products

5. PRODUCTS FOR TEXTILE MILL

Investment capital equivalent to US$1,000,000 and above
   5-1 Cotton weaving mill and thread mill
   5-2 Embroidery cloth mill
   5-3 Carpet mill

Other weaving

6. MANUFACTURE OF GARMENTS AND OTHER TEXTILES

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

7. MANUFACTURE OF FURNITURE AND FIXTURES

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

7-1 Household furniture

7-2 Office furniture

7-3 Manufacturing of building partitions and fixtures

8. MANUFACTURE OF PAPER AND ALLIED PRODUCTS

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

8-1 Tree plantation for making papers and paper mill

8-2 Paper

8-3 Paperboard mill

8-4 Paperboard containers

9. MANUFACTURE OF CHEMICALS AND ALLIED PRODUCTS

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

9-1 All types of chemicals including agricultural chemicals

9-2 Plastics and other synthetic rubber

9-3 Drugs

9-4 Cleaning Products

9-5 Paints and allied products

10. MANUFACTURE OF RUBBER AND MISCELLANEOUS PLASTICS

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

11. MANUFACTURE OF LEATHER & OTHER PRODUCTS

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

12. MANUFACTURE OF ALL FABRICATED METAL PRODUCTS

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

13. MANUFACTURE OF ELECTRICAL AND ELECTRONIC DEVICES

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

14. MANUFACTURE OF TRANSPORTATION DEVICES

14-1 Motor vehicles and spare parts

14-2 Aircraft and spare parts

14-3 Construction and means of water transport

14-4 Railroad devices and means of railroad transportation

14-5 Bicycles and motorcycles

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

16. MANUFACTURE OF MACHINERY AND INDUSTRIAL EQUIPMENT

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

17. CONSTRUCTION OF HOTELS

Starting from three-star standard and above

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

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

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

PART B

LIST OF INVESTMENT AREAS WHICH WILL NOT RECEIVE INCENTIVES

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

Appendix 4: Trade Agreement between Cambodia and India

Trade Agreement

Between
The Royal Government of Cambodia
And
The Government of the Republic of India

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

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

Have agreed as follows:

Article 1

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

Article 2

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

Article 3

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

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

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

Article 4

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

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

Article 5

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

Article 6

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

Article 7

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

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

Article 8

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

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

Article 9

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

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

Article 10

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

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

For the Royal Government of Cambodia	For the Government of the Republic of India
CHAM PRASIDH **Minister of Commerce**	**YASHWANT SINHA** **Minister of External Affairs**