



PROFIT

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for investment and trade

Opportunities for Cambodia India trade & investment

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1. Introduction

Over the past two decades, Cambodia has achieved significant growth of over seven per cent annually driven primarily by several key sectors of the economy. Small and growing businesses may now be at a stage where they are considering expansion through international trade and investment and India provides as attractive market as one of the fastest growing economies with geographical proximity to Cambodia. Trade between India and Cambodia is small but growing rapidly. Trade between the two countries amounted to \$271m in 2019, an increase of 30 per cent on 2018, and 2018 had seen growth of 75% compared to 2017. India, with its 'Act East' policy is also keen to become more of a regional power and thus to integrate culturally and economically with countries in south east Asia. Cambodia, with its long history of ties to India, should therefore be a natural trading partner. The Khmer language has been influenced by Sanskrit and Pali and the Angkor Wat and Preah Vihear temples were influenced by India religious concepts¹. Moreover, discussions on the possibility of negotiating a free trade agreement are currently underway which will make trade between India and Cambodia more attractive. India is seen by the Government of Cambodia as an attractive option for trade to counterbalance trade with and influence of China.

For businesses that are ready for this step, it is important to consider the different types of opportunities such as exporting, importing, technology transfer, licensing, joint ventures, as well as inward and outward investment, in addition to the sectors that are historically more integrated with India and are considered priority sectors in government policy. These could potentially offer the greatest prospects to businesses that are taking part in the PROFIT programme.

This factsheet provides an introduction to opportunities that are most relevant for international trade and investment but the PROFIT programme cautions however that not

¹ The Diplomat, 2020, To avoid overdependence on China, Cambodia needs to build its relations with India, see thediplomat.com/2020/08/to-avoid-overdependence-on-china-cambodia-needs-to-build-its-relations-with-india/, accessed 24 Nov 20

all opportunities within the highlighted sectors will be successful, that not all successful opportunities will come from these sectors and that the opportunity and business do not have to belong to the same sector. So, if you would like to explore the opportunities further, please register and PROFIT will help you.

2. Level of trade

2.1. Exports

Exports to India generated around \$65m in 2019. Statistics from the Ministry of Commerce and Industry in India show that a significant proportion of Cambodian exports to India in 2019 came from the garments sector which is currently a main driver of economic growth in Cambodia². Apparel, accessories and footwear alone amounted to 52 per cent of total exports. Exports of electrical machinery and equipment have grown to 18 per cent of total exports to India in 2019 and that of natural commodities with low value added such as coffee, tea and spices, has fallen from previous years though natural rubber continues to be important.

Until covid, Cambodia was an attractive tourist destination, though there is considerable potential to expand. However, of Cambodia's six million international tourists, just one per cent come from India. Thousands of Cambodians visit religious sites in India, yet few Indians visit the Angkor wat temple.

2.2. Imports

Imports from India accounted for \$207m in 2019. The top sectors of imports into Cambodia in 2018 are pharmaceuticals, textiles, petroleum products and automotive. More specifically from India, data from the Ministry of Trade and Commerce in India shows that in 2019 the automotive, pharmaceuticals and textiles and footwear sectors together contributed 60 per cent of Cambodian imports.

² Ministry of Commerce and Industry of India. Trade Databank, Available at commerce-app.gov.in/eidb/, accessed on 22/11/2020.

3. Investment

India is one of Cambodia's top ten foreign investors and, indeed, Cambodia is a recipient of considerable FDI from India focused on agricultural machinery, power, construction and mining, most of which is by Indian multinational conglomerates rather than SMEs.³ India's current investment in Cambodia is worth US\$20 million (less than one per cent of its total FDI) and has placed India as a top 10 investor in Cambodia.

Cambodia aims to encourage foreign investment and so has been adopting liberal policies on taxation and foreign ownership. The Cambodia Investment Board (CIB) is interested in promoting investments in banking (though this is unlikely to be of interest to SMEs), insurance, energy, especially solar energy, e-commerce and, at least until the covid health crisis, aviation. However, it is also keen to encourage investment in the garments sector, hotels, agriculture, tourism and technology.⁴

Outward FDI from Cambodia to India is limited but to provide an indication of the sectors most conducive to investment for Cambodian businesses, it is worth noting the sector breakdown of FDI inflows into India. India ranks 12th among the top 20 host economies for FDI and is the biggest host in the subregion; the country historically accounts for 70 to 80 per cent of inflows in the region. The top sectors for FDI inflows to India in 2018 were chemicals (24%), services sector (23%), computer software and hardware (19%), trade (9%) and telecommunications (9%)⁵.

4. Government priorities

Industrial diversification has been key to the economic strategy adopted by the Cambodian government. This is based on a move away from the textiles and garments sectors to higher value industrialisation to develop a more balanced economy and reduce vulnerability to external shocks.

³ India-Cambodia Bilateral Relations Brief (2020). See www.mea.gov.in/Portal/ForeignRelation/India-Cambodia_Bilateral_Brief_feb_2020.pdf, accessed 22/11/2020.

⁴ Doing Business in Cambodia (2020). Available at www.legaleraonline.com/articles/doing-business-in-cambodia-indian-perspective, accessed 22/11/2020.

⁵ Department for Promotion of Industry and Internal trade. FDI Factsheet. Available at https://dipp.gov.in/sites/default/files/FDI_Factsheet_19February2019.pdf accessed 22/11/2020.

The government has outlined its approach to industrialisation through the Industrial Development Policy 2015-2025 (IDP) which aims to promote development of higher value activities such as agri-processing and machinery assembly and to build linkages between domestic industries. The policy promotes the integration of local businesses into global value chains, and by attracting FDI and importing new technologies, to generate higher value exports.

The National Strategic Development Plan 2019-2023 (NSDP) focuses on both FDI attraction and capacity building for local businesses to move into higher value activities. The plan considers the garment and footwear sectors, agri-processing in special economic zones (SEZs), manufacturing in SEZs of furniture, household appliances and souvenir products, tourism, the entertainment service sectors and oil and gas. Oil and gas may not be suitable for SMEs, though there may be scope in the supply chains of larger companies, and there could be limitations within the entertainment sector due to language and cultural sensitivities.

Cambodia's Trade Integration Strategy 2019-2023 is focused on adding value to existing productive sectors that are driving national growth such as agriculture (i.e. rice, cassava, rubber), industry (i.e. garment and footwear, travel goods, bicycles) and services (i.e. construction and tourism sectors)⁶

5. Conclusion

Based on this analysis, several sectors offer promising prospects for SMEs considering international trade and investment in India.

SMEs in Cambodia are currently exporting garment and apparel and footwear, electrical machinery and parts and agricultural commodities such as rubber, wood, coffee, tea and spices to India. The NSDP however highlights that the focus for each should be on higher value addition activities – so the focus should be on agricultural technology and processing of the sub-sectors that have historically been attractive to the Indian market such as rubber, wood charcoal, coffee, tea and spices rather than commodity production.

⁶ Cambodia Trade and Investment Strategy:2019-2023. Available at cambodiancorner.files.wordpress.com/2019/12/cambodia-trade-integratio-strategy-2019-2023-1.pdf, accessed on 22/11/2020.

Given they are government priority sectors, apparel and footwear and agricultural processing (and light manufacturing for furniture, household appliances and souvenir products) are likely to receive more preferable policies to stimulate production which could result in more exports. Tourism provides a considerable opportunity once COVID subsides. These sectors are also generally labour-intensive and are thus well suited to the highly skilled and lower cost labour force in Cambodia which also presents the opportunity for Cambodian businesses to seek Indian FDI or business partnerships.

A specific way to capture higher value in the garment industry is either through technology transfer by Indian investors or through investment by Indian textile businesses to provide backward linkages that support the priority sector. Cambodia is currently importing considerable amounts of made staple fibres from India and therefore there are considerable opportunities for Indian IFDI.

SMEs could consider importing within the automotive and pharmaceutical sectors through licensing from India as has been done in the recent past by other businesses in Cambodia and since India's recognised strengths often stem from its IT and IT enabled services sector, it could be appropriate for Cambodian businesses to consider these sectors for imports and inward investment.

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