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India's Trade and Investment Relations with Cambodia, Lao PDR, Myanmar and Vietnam (CLMV): Enhancing Economic Cooperation



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Introduction

The CLMV countries comprising Cambodia, Lao People's Democratic Republic (Lao PDR), Myanmar and Vietnam are integral part of the ASEAN covering 32% of geographical area of the ASEAN region, and accounting for 9% of ASEAN's Gross Domestic Product (GDP). These countries have been undergoing economic transition from central planning to market economy, from inward-looking to outward-looking economic development strategies and policies. CLMV countries are among the fastest growing economies in the region – the average real GDP growth of CLMV countries was 6.2% in 2012 as against 5.4% for ASEAN as a whole.

These economies are endowed with abundant natural resources and low-waged labour forces. However, they are plagued by underdeveloped infrastructure, logistics. Except Vietnam, all the CLMV countries fall under the category of Least Developed Countries (LDCs), as classified by the United Nations (UN).

Foreign Investment in CLMV Countries

In 2012, Foreign Direct Investment (FDI) inflows to the CLMV region amounted to US\$ 13 billion, which accounts for 11.2% of the total inflows to the ASEAN region. The CLMV region has benefited from increased FDI inflows, primarily to the infrastructure sector. In particular, in Myanmar, the suspension of Western sanctions has seen increased inflows of investment, particularly from China, South Korea and Thailand. Among the CLMV countries, inflows into Vietnam were the highest at US\$ 8.4 billion, followed by Myanmar with US\$ 2.2 billion worth of inflows and Cambodia with US\$ 1.6 billion.

International Trade of CLMV Countries

Rise in both exports from and imports to the region have underlined the increase in total trade of the region. Total trade of the CLMV region grew at an annual average of 21% from US\$ 56 billion in 2003 to US\$ 301 billion in 2012, underlined by steady rise in both exports and imports. Total exports of the region rose from US\$ 25 billion in 2003 to US\$ 145 billion in 2012, a rise of more than five-fold (**Table**). Similarly, imports also rose by five-fold from US\$ 31 billion in 2003 to (US\$ 156 billion) in 2012. The CLMV countries maintained a trade deficit throughout the last decade. This primarily stems from increased imports of capital goods by the region, owing to large imports for infrastructural development. The share of the CLMV region in total ASEAN trade has increased from 6% in 2003 to 12% in 2012. The region accounted for 11.4% of total ASEAN exports and 12.6 % of total imports of the ASEAN region.

Articles of apparel constituted 71% of total exports of Cambodia in 2012, followed by footwear, and pearls and precious stones. Major imports of Cambodia included knitted or crocheted fabric, mineral fuels, oils and distillation products, machinery and instruments, vehicles, and electrical and electronic equipments. Imports were primarily

sourced from Thailand, China, Singapore, Hong Kong, Taiwan and South Korea.

Lao PDR's export basket in 2012 mainly comprised copper and articles, mineral fuels, ores, slag and, and wood and articles. Import basket of Lao PDR in 2012 included mineral fuels, vehicles, machinery and instruments, and electrical and electronic equipments. Thailand accounted for the bulk of Lao PDR's imports during 2012, accounting for 67% of total imports, followed by China (17%), and South Korea (3.1%).

Major exports of Myanmar were mineral fuels– mainly natural gas, followed by wood, wood charcoal, articles of apparel, edible vegetables, and pearls and precious stones. Myanmar's major import items were vehicles, machinery and instruments, and iron or steel and its articles. China is Myanmar's largest import source (37% of total imports). Other important sources include Thailand, Singapore, South Korea and Malaysia. India was the 7th largest source of imports (3% of total imports).

Vietnam is among the leading exporters of agricultural products such as coffee, cashews, rice and rubber. Low-cost base has allowed garment and footwear manufacturers to expand. Manufacturers are moving to higher value-added segments; IT and electronics

Table : International Trade of CLMV Countries, US\$ billion

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports	25.4	32.9	39.8	49.1	58.2	74.8	68.9	86.3	114.8	144.6
Imports	30.6	38.1	43.7	52.9	72.9	94.0	82.8	101.5	129.5	156.0
Total Trade	56.0	71.0	83.4	101.9	131.1	168.8	151.7	187.8	244.4	300.7
Trade Balance	-5.2	-5.2	-3.9	-3.8	-14.7	-19.1	-13.9	-15.1	-14.7	-11.4

Source: Trade Map, ITC

exports are set to become a dynamic growth industry. Vietnam is Southeast Asia's 3rd largest oil producer. In 2012, main exports from Vietnam include electrical and electronic equipments, mineral fuels, and footwear. Main items of imports were electrical and electronic equipment, machinery and instruments, mineral fuels and iron and steel. Main origins of Vietnam's imports in 2012 were China, South Korea, Japan, Singapore, and Chinese Taipei.

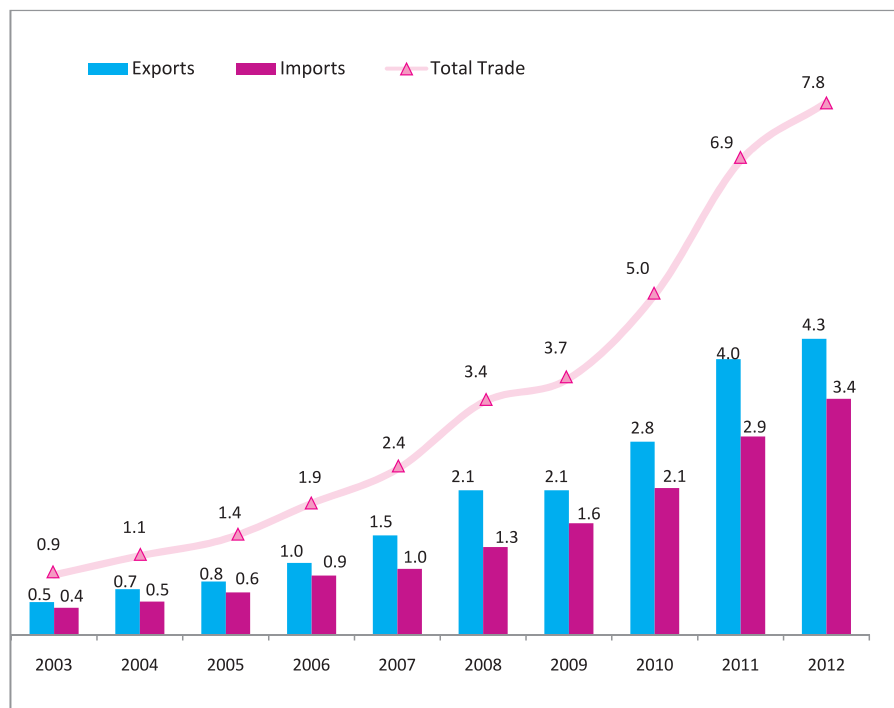
India's Bilateral Trade with CLMV Countries

The adoption of "Look East Policy" by India in 1992 was an initiative towards developing extensive economic and strategic relations with the ASEAN nations (including CLMV countries). Since then India has progressed from a dialogue partner to the present status of a strategic partner. The strengthening of economic and trade ties between India and ASEAN resulted in expansion of trade volume between India and CLMV countries.

Bilateral trade have increased more than eight-fold in the last ten years, from US\$ 0.9 billion in 2003 to US\$ 7.8 billion in 2012 (**Chart**). India's major exports to the CLMV countries include pharmaceuticals, machinery and instruments, vehicles, plastics and articles, and cotton. On the other hand, India's major imports from the CLMV countries are rubber and articles, wood and articles of wood, ores and slag, coffee, tea and spices. Among the CLMV countries, India maintains trade deficit with Myanmar, reflecting the large imports of pulses and forest products, and with Lao PDR, due to increased imports of copper ores and concentrates from the country. Myanmar is India's largest import source in CLMV region, accounting for a share of 26% each in India's in CLMV region global imports of wood and wood articles and edible vegetables, roots and tubers. In spite of pickup in bilateral trade, India's share in CLMV's trade is relatively small, accounting for less than 3% of their total imports. This highlights the potential for enhancing bilateral trade relations.

Border trade between India and CLMV countries (through Myanmar) has special significance and there is immense potential to enhance bilateral economic relationship due to the geographical continuity with India and Myanmar sharing 1,643 kms of common border in the North Eastern Region. India's

Chart : India's Trade with CLMV Countries, US\$ billion



Source: Trade Map, ITC

four states in the North Eastern Region viz. Mizoram, Manipur, Nagaland and Arunachal Pradesh share international border with Myanmar. According to Myanmar Department of Border Trade, the border trade turnover between India and Myanmar ranges from (US\$ 10 to US\$ 22 million) which will be higher if informal trade is taken into account (Indian Embassy, Yangon). Secondary reports also show the prevalence of informal trading of items like fertilizers, vehicles, particularly two-wheelers from India to Myanmar through land border.

Indian Investments in CLMV Countries

During April 1996- March 2013, approved investments in joint ventures (JVs) and wholly owned subsidiaries (WOS) from India to the CLMV countries amounted to US\$ 699.8 million, with the bulk of flows directed to Vietnam (67.6% of total flows).

Potential for Enhancing Bilateral Trade with CLMV Countries

An important strategy to boost trade relations with the CLMV countries would entail identification of potential items of India's exports, which would be based on the following analysis:

- Identification of major categories of the CLMV countries' import basket, and share

of India in each product line of imports (based on 2-digit HS code).

- Selection of potential items of India's exports to the member countries, based on low share of India in the CLMV countries' import basket of major commodity categories, keeping in view India's global export capability. This would entail identification of potential export items under each product category, up to 6-digit HS Commodity Code.

Potential items of exports, identified at 2-digit HS Code Classification, to Cambodia would include:

Sugar and sugar confectionery (HS-17); Plastics and articles (HS-39); Rubber and articles (HS-40); Manmade filaments (HS-54); other made textile articles, sets, worn clothing (HS-63); Pearls, precious stones, metals, coins (HS-71); Iron and steel (HS-72); Articles of iron or steel (HS-73); Machinery and instruments (HS-84); Electrical, electronic equipments (HS-85); Vehicles other than railway, tramway (HS-87).

Potential items of exports, identified at 2-digit HS Code Classification, to Lao PDR would include:

Beverages, spirits and vinegar (HS-22); Mineral fuels, oils and distillation product

(HS-27); Iron and steel (HS-72); Articles of iron or steel (HS-73); Machinery and instruments (HS-84); Electrical, electronic equipments (HS-85); Vehicles other than railway, tramway (HS-87); Aircraft, spacecraft and parts thereof (HS-88).

Potential items of exports, identified at 2-digit HS Code Classification, to Myanmar would include:

Animal, vegetable fats and oils (HS-15); Salt, sulphur, lime and cement (HS-25); Mineral fuels, oils and distillation products (HS-27); Organic chemicals (HS-29); Plastics and articles (HS-39); Paper and paperboard (HS-48); Manmade filaments (HS-54); Manmade staple fibres (HS-55); Footwear, gaiters and parts (HS-64); Machinery and instruments (HS-84); Electrical, electronic equipment (HS-85); Vehicles other than railway and tramway (HS-87); Ships, boats and other floating structures (HS-89); Optical, technical and medical apparatus (HS-90); Furniture, lighting, signs, prefabricated buildings (HS-94)

Potential items of exports, identified at 2-digit HS Code Classification, to Vietnam would include:

Edible fruit, nuts (HS-08); Mineral fuels, oils and distillation products (HS-27); Organic chemicals (HS-29); Miscellaneous chemical products (HS-38); Plastics and articles (HS-39); Rubber and articles (HS-40); Paper and paperboard (HS-48); Manmade filaments (HS-54); Manmade staple fibres (HS-55); Articles of apparel, accessories, knit or crochet (HS-61); Iron and Steel (HS-72); Articles of Iron or Steel (HS-73); Copper and articles thereof (HS-74); Aluminium and articles (HS-76); Machinery and instruments (HS-84); Electrical, electronic equipment (HS-85); Vehicles other than railway, tramway (HS-87); Aircraft, spacecraft, and parts thereof (HS-88); Optical, photo, technical, medical, etc apparatus (HS-90).

EXIM Bank India in CLMV Countries

Exim Bank has actively supported Indian companies in their endeavours in the CLMV countries – through Lines of Credit and Project exports.

i) Lines of Credit

Exim Bank currently has 17 operative LOCs in the CLMV region amounting to US\$ 558 million.

In Cambodia, 3 LOCs amounting to US\$ 65 million extended to the Government of Cambodia, for Electricity transmission line, and Water development projects. In Lao PDR, 4 LOCs amounting to US\$ 154 million extended to the Government of Lao PDR for Electricity transmission line, Irrigation projects, Hydropower projects. In Vietnam, 3 LOCs amounting to (US\$ 92 million) were extended to the Government of Vietnam covering Hydropower projects, Exports of textile machinery and equipment. In Myanmar, 7 LOCs amounting to (US\$ 247 million) extended to Myanma Foreign Trade Bank for a range of projects, including railway infrastructure, manufacturing of vehicles, upgradation of petrochemical complex, telecommunication, refinery assembly plant, hydropower project and transmission lines.

During Indian Prime Minister's visit to Myanmar in May 2012, an MOU for LOCs aggregating to US\$ 500 million was signed between Exim Bank India and Myanma Foreign Trade Bank. Under this MOU, 16 ongoing irrigation schemes, 2 irrigation projects, project for procurement of rolling stock, equipment and upgradation of three major railway workshops in Myanmar are covered.

ii) Supporting Project Exports

Currently, 21 project contracts valued at around ₹ 6,000 crore supported by the Bank are under execution by Indian companies in the CLMV countries, covering sectors such as: water resources development and power projects in Cambodia; irrigation and power projects in Lao PDR; gas pipeline and power projects in Myanmar; and hydropower project in Vietnam.

iii) Joint Ventures

Exim Bank supports Indian companies in setting up JVs and WOS overseas. In CLMV region, Exim Bank has supported several Indian companies for setting up ventures in Vietnam, in the agri and plantation sectors.

iv) Representative Office

Exim Bank has two representative offices in the ASEAN region - Singapore and Yangon. These offices seek to establish and maintain relationships with multilateral agencies, regional development institutions, trade and investment promotion bodies, international

banks, chambers of commerce, government departments and institutions in various South East Asian countries including CMLV countries and identify areas of cooperation.

v) Research Studies

Exim Bank carries out research on areas related to bilateral trade and investment, sector/product/country and regional studies, as also policy issues related to the external sector with a view to enhancing competitiveness of Indian exporters. The published research studies related to CLMV are:

- ASEAN Countries: A Study of India's Trade and Investment Potential
- BIMSTEC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries
- Enhancing India-Myanmar Trade and Investment Relations: A Brief Analysis

Strategies and Recommendations for Enhancing Bilateral Commercial Relations with CLMV Countries

The CLMV countries are primarily agrarian with agriculture and allied activities forming the backbone as majority of population in the CLMV countries depend on it for their livelihood. However, agro-industries in these countries are mostly underdeveloped, leaving significant opportunity for development of agro-based industries. Towards this end, LOCs extended by Exim Bank these countries serve to contribute towards the development of agricultural and related activities in the region.

As the CLMV countries are endowed with mineral wealth and natural resources, India could share its expertise and experience for development/exploration of natural resources in these countries. For instance, Myanmar has abundant mineral and energy resources, as well as large hydro-electric potential. Cambodia has rich reserves of iron-ore, manganese and phosphates. Vietnam has substantial energy and mineral resources. Some of its major resources include phosphates, coal, manganese, rare earth elements, bauxite, chromate, offshore oil and gas deposits, timber, and hydro-power. Similarly, Lao PDR is endowed with a wide range of mineral deposits, the most important of which are tin, lead, gravel, gypsum and salt, although there are also small deposits of coal, iron ore, gold, and oil and gas. The most valuable natural resource of Lao PDR are its

forests and rivers; the latter have considerable potential for generating hydroelectric power. In light of these, increased cooperation between India and the CLMV countries in developing/exploring mineral resources, with bilateral arrangements such as buy-back arrangements, could be an important strategy to enhance commercial relations.

An important area of bilateral cooperation could be infrastructure development in the CLMV countries. With an increasing need for better infrastructural facilities, together with the endeavour of the CLMV countries for rapid economic growth, investment in infrastructure development could prove to be a mutually rewarding area of bilateral cooperation. Lack of forward and backward linkages between different modes of transportation, poorly equipped ports, lack of a well developed railway network and inadequate access to all-season roads are some of the key problems which the low-income CLMV countries are beset with. Areas that provide investment opportunities include development of highways and roadways, development of railway networks and power systems, which could help in regional integration to a great extent. Large Indian construction companies could explore business opportunities to meet infrastructural requirements in the CLMV countries, thus contributing largely to economic development in these countries.

Small and Medium Enterprises (SME) sector development in the CLMV countries are constrained by a number of factors like lack of accessibility to modern technology, limited access to international markets, lack of management skills and training, and lack of finance. Towards developing entrepreneurship and human capability, India could share its expertise and experience with these countries, particularly in the SME sector wherein India has developed successful SME clusters. An important element in this direction would be for delegations from these countries to visit India to study success factors of SME clusters in India, and developing similar clusters in their countries based on resource and skill endowments. In addition, the CLMV countries could tie up with Indian institutions such as Entrepreneurship Development Institute of

India (EDPI), Ahmedabad and National Small Industries Cooperation Ltd. (NSIC), New Delhi towards entrepreneurship development and human capability creation. Further, Indian institutions could also share their expertise in the fields of institutional strengthening, export development and export capability creation in the region, in the form of technical assistance and sharing of expertise through site visits. SME financing is another area where Exim Bank could support this sector. Exim Bank has extended several LOCs to various countries for the development of their SME sectors.

Besides participating in investment activities that are promoted by the respective governments of the CLMV countries, Indian companies could also endeavor to participate in multilateral funded projects. Multilateral institutions such as the World Bank and Asian Development Bank are active in funding development projects in the CLMV region. They broadly cover areas as agriculture and related activities, infrastructure development such as roads, telecommunication, postal services, electricity, water supply and sanitation; mining and quarrying; rural and urban development; environment and natural resource development; healthcare and education; financial market development; and tourism development. Focus on these funded projects and increased participation by Indian project and service exporters in such projects would serve to enhance India's commercial presence in these countries. At the same time, efforts to participate in technical assistance in terms of project preparation and advisory services in such funded projects would support increased presence in the region. Besides, Indian institutions could co-invest with Indian companies in select projects, and encourage partnership with local entrepreneurs and local investment agencies.

Regional cooperation is highly essential for infrastructure development as it has a direct impact on private sector productivity and the attraction on international capital. India strongly supports the Initiative for ASEAN Integration (IAI) through which it has launched human resource development programmes in Cambodia, Lao PDR, Myanmar and Vietnam. India has also offered assistance for a communications network

involving highways, railways, river navigation and port facilities. Mekong-Ganga Cooperation (MCG) brings together Cambodia, Lao PDR, Myanmar, Thailand, Vietnam, India as well as another sub-regional initiative for a road link connecting India, Myanmar and Thailand. India needs to deepen its link with MCG Forum as it provides immense opportunities for India's private sector to create a niche in the region.

With the strength that India possess in the realm of Information Technology (IT) sector, Indian IT firms could explore the opportunities in the CLMV countries and focus on investing in subsidiaries or joint ventures in the areas of e-governance, financial services and e-education. Indian companies could also share their expertise in providing software programmes and services for banks and financial institutions in the region.

The contents of the publication are based on information available with Export-Import Bank of India and on primary and desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information

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