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INDIA-CLMV: BUILDING SUPPLY CHAINS IN ASIA

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EXECUTIVE SUMMARY

Cambodia, Lao People's Democratic Republic (Lao PDR), Myanmar and Vietnam (CLMV) are the most recent additions to the Association of Southeast Asian Nations (ASEAN) Member States in the 1990s. Among CLMV countries, Vietnam was the first to join the ASEAN, in 1995, followed by Lao PDR and Myanmar in 1997 and Cambodia in 1999. Over the last two decades these four ASEAN economies have evolved economically and have become increasingly integrated with the ASEAN-6 countries. The CLMV group is a representative of growing economies owing to their rising consumption, strategic location and access to rich natural resources and biodiversity. The group is also endowed with the lowest wage industrial workforce in the entire ASEAN region. CLMV accounted for 32 percent of ASEAN's total geographical area, 26.4 percent of ASEAN's population and around 12 percent of its GDP in 2018.

Macroeconomic Overview of CLMV Economies

The share of CLMV countries in the GDP (current prices) of ASEAN has been consistently increasing over the years from 8.6 percent in 2008 to 12 percent in 2018. Vietnam has been the largest contributor to CLMV's GDP over the years, followed by Myanmar. The combined GDP of CLMV countries was US$ 352.5 billion in 2018, with 68 percent of the GDP coming from Vietnam.

Manufacturing value added of Myanmar was the highest among the four at 21.7 percent of total value added, followed by Vietnam at 17.8 percent and Cambodia at 17.4 percent. Lao PDR has a relatively low manufacturing value added share at 8.4 percent. As regards India, manufacturing value added as a percentage of GDP stood at 16.4 percent in 2018.

The Competitive Industrial Performance (CIP) ranking by UNIDO indicates a country's relative position in terms of its manufacturing capacity compared to other countries. According to the CIP Index 2020, Germany ranked the first globally among 152 countries, followed by two Asian countries, China and Republic of Korea, whereas India ranked 42nd. While among the ASEAN countries Singapore was at the top, with a global ranking of 9 in the CIP Index 2020. Among the CLMV economies, Vietnam ranked 38th followed by Myanmar at 84, Cambodia at 85 and Lao PDR at 123.

Following the current trend, the CLMV region is expected to continue to outpace ASEAN's aggregate growth forecast in the coming years. These economies are expected to grow at an average rate of 6.5 percent during 2020-2024. This may be largely attributed to the catch-up growth because of existing income and development gap between the CLMV and other ASEAN nations. However, it also reflects their advantageous geographical locations and comparatively stable governments, which will remain attractive to foreign investors.

Significance of CLMV Economies

The CLMV countries are the last frontier markets of Southeast Asia. According to the ASEAN Investment Report 2019, many Asian MNEs are shifting their production from China to the CLMV countries mainly due to competitive production costs and the rising trade tensions between USA and China.

- **GSP Beneficiaries**

Among the CLMV countries, Cambodia and Myanmar are beneficiaries of GSP from USA. India has been terminated from USA's list of developing country beneficiaries under the Generalized System of Preferences (GSP) based on market access in June 2019. Hence, Indian investments could gain greater market access through lower tariffs. Cambodia and Myanmar, as LDCs, are also GSP beneficiaries from other countries like Australia, Belarus, European Union, Iceland, Japan, Kazakhstan, and New Zealand, among others. India's share of exports to USA stood at 13.1 percent under GSP whereas Cambodia's share of exports under GSP stood at 23.6 percent in 2018. However, according to the Economist Intelligence Unit (EIU), economic risks are posed by the decision of USA and EU to re-evaluate Cambodia's trade benefits under the Everything but Arms (EBA) and GSP programs, respectively. Cambodia had exported 35 percent of its exports to EU and 23.6 percent of its exports to USA under these programs in 2018.

- **Changing Trends of China's Trade**

The last decade has witnessed China's remarkable growth in exports from a meagre 4.3 percent share in global merchandise exports in 2009 to becoming the export powerhouse of the world, accounting for 12.9 percent of global exports in 2018. China had started with light manufacturing and assembly of products as part of the global value chains but now it has moved up to produce higher-value-added upstream products, along with producing more sophisticated downstream products. At the same time, with its wages rising, it started to exit the labor-intensive sectors in the lower end of the value chain.

The rebalancing of Chinese trade, investment, and consumption patterns offer both opportunities and challenges to lower-income countries in Asia. The CLMV countries being the last frontier markets in Southeast Asia stand to benefit from this situation where China continues to diversify from light manufacturing. Vietnam and Cambodia, which are already established manufacturing countries, could benefit. However, as China's commodity demand continues to slow, Lao PDR and Myanmar may observe a decline in their energy and raw material exports, of which China is a major importer. Other than low wages, the gains from trade depends on other structural factors as well. Infrastructure, business climate, governance, education and trade openness are important areas of improvement for these countries.

- **The Asian Flying Geese Pattern**

Economic development in East Asia and Southeast Asia has been particularly characterized by the flying geese (FG) pattern. Originally a stylized four stage model depicting the evolving trade patterns of a developing country. Postulated by Akamastu (1935) a country graduates from importer of manufacturing goods to exporter of manufacturing goods and then to exporter of capital goods.

The modern versions of the FG paradigm explore frameworks with additional factors like regional integration and foreign investment. According to Kojima (2000), the outward FDI into the Asian economies were "pro-trade" in nature, resulting in FDI distributed by an industry of a country that has a relatively low comparative advantage in that industry, to a country with a greater comparative advantage in areas that are relevant to that industry. This kind of FDI-driven augmentation of comparative advantage increases production and trade resulting in FDI-led growth in the regional economies.

However, the industrial position of each of these countries vary with Vietnam emerging as a manufacturing base recently, and Lao PDR being at the initial stages of development. The proximity and cost competitiveness of the CLMV nations has made them a significant recipient of this redirected investment in the manufacturing sector. These economies initially were centrally planned and in later years have gradually opened their economies and adopted export-led growth strategies. This has resulted in increased FDI into these countries and integrated them early into the regional value chains of Asia. In relation to their economic size, they have received more FDI than most other Asian economies in recent years. As a result, foreign enterprises contribute significantly to growth, employment, and exports in the CLMV region.

International Trade of CLMV

All four CLMV countries share a lot of common features in terms of trade. All of them are neighbors to China and have a proximity to the Asian supply chain and are integrated to these value chains at different stages. Their trade patterns are therefore heavily influenced by the various bilateral and multilateral trade agreements formed in the region. These countries have also benefitted from free trade agreement like China-ASEAN, Republic of Korea -ASEAN, and other free trade agreements. All these have contributed to the rapidly increasing trade and FDI inflows from China, Japan and Republic of Korea.

The CLMV region accounted for 1.5 percent of the world exports in 2018 increasing from 0.6 percent in 2010. CLMV's share in ASEAN's exports have also doubled over the last decade from a share of 8.4 percent in 2010 to 19.8 percent in 2018. One of the major reasons in growth of trade is the increasing trade openness of these economies. Lao PDR and Myanmar are still at their early stages of development, and their exports majorly compose of natural resources and energy to the other ASEAN countries and China. Cambodia has been a major garment exporter, mainly to the US and European Union mainly under the preferential trade arrangements offered by the latter. Myanmar is gradually opening to the world economy though its trade openness remains the lowest at 37.8 percent of GDP in 2018 among CLMV countries. Vietnam, with a trade openness at 192.6 percent of GDP in 2018, is the most dynamic trading nation in the region and a major participant in the electronics global value chain.

CLMV's total trade increased nearly four times during the past decade from US$ 152.4 billion in 2009 to US$ 577.4 billion in 2018. CLMV's exports stood at US$ 286.5 billion in 2018, from US$ 69.6 billion in 2009, mainly driven by increased exports from Vietnam. As regards imports, CLMV's total imports amounted to US$ 290.9 billion in 2018, a rise from US$ 82.9 billion in 2009. Among the CLMV countries, Vietnam has the largest volume of trade (accounting for 83.1 percent of the region's total trade), followed by Cambodia (8.5 percent), Myanmar (6.3 percent) and Lao PDR (2.3 percent). The CLMV countries have maintained a trade deficit (US$ 4.4 billion in 2018) during 2009-2018, driven by increased import of capital goods, owing to infrastructural development in the region.

Foreign Direct Investments in CLMV

Investment into the CLMV countries remained strong during 2018 with the cumulative inflow of around US$ 23.5 billion. FDI inflows into Vietnam increased by 9.9 percent to US$ 15.5 billion in 2018 Cambodia's annual FDI inflows increased by 11 percent in 2018 to be at US$ 3.1 billion, mainly on account of FDI in financial services and real estate projects. In Myanmar, FDI inflows declined by 18 percent to US$ 3.6 billion. FDI inflows to Lao PDR, where China has been the largest investor, also contracted (down 17 percent to US$ 1.3 billion), after peaking in 2017.

The cumulative investment inflows to the CLMV region grew by a CAGR of 10.3 percent during the last decade (2009-2018). The inflows majorly came from intra-ASEAN sources and other Asian economies (China, Japan, Republic of Korea). Vietnam was the largest recipient in the region, accounting for 66 percent of CLMV's FDI inflows in 2018. This was followed by Myanmar (15.1 percent), Cambodia (13.2 percent) and Lao PDR (5.6 percent).

As regards sectors attracting investments in the CLMV region, in Lao PDR infrastructure, including construction and electricity generation, has been the largest recipient of FDI in 2018. Finance, real estate and manufacturing were the dominant recipients of inflows to Cambodia in 2018. Manufacturing sector remained the single largest recipient of FDI in Vietnam, accounting for 47 percent of total FDI in the country. In Myanmar, mining, manufacturing and services were the key sectors attracting investments in 2018.

India's Trade and Investment in CLMV

India has historically shared strong cultural and strategic ties with the ASEAN nations and more importantly with the CLMV countries due to the geographical proximity with these countries. However, India's economic engagements with the region has been relatively modest despite policies in place like the "Act East Policy".

The share of CLMV in India's trade with ASEAN has increased significantly from 2009 to 2018. However, as regards exports the share of CLMV in India's exports to ASEAN peaked at 27.4 percent in 2016, before declining to 22.6 percent in 2018. The share of CLMV in India's imports from ASEAN, on the other hand, peaked at 13.5 percent in 2018. India maintains a trade surplus with CLMV countries which decreased marginally from US$ 0.5 billion in 2009 to US$ 0.4 billion in 2018.

During the last ten years, India's total trade with the CLMV countries has grown nearly five-fold from US$ 3.7 billion in 2009 to US$ 15.9 billion in 2018, indicating a more than four-fold increase during the period.

India's exports to CLMV increased by more than four-fold from US$ 2.1 billion in 2009 to US$ 8.2 billion in 2018. Similarly, India's imports from CLMV also increased from US$ 1.6 billion in 2009 to US$ 7.7 billion in 2018.

India's trade deficit with ASEAN has widened from US$ 6.1 billion in 2009 to US$ 21.1 billion in 2018. The major reason behind such a huge trade deficit is the heavy import of electrical machinery and equipment (HS 85), animal and vegetable fats (HS 15), and machinery and mechanical appliances (HS 84). The only countries in ASEAN with which India had a trade surplus during 2018 were Philippines, Myanmar, Cambodia and Lao PDR.

Alongside trade, India's investments in the CLMV region have also received a boost in recent years. CLMV countries are receiving strong investment interest from India mainly due to their high-growth markets, low wage labour and natural resource reserves. During April 1996 to March 2019, India's approved direct investments in joint ventures (JVs) and wholly owned subsidiaries (WOS) in CLMV countries amounted to US$ 1.1 billion (1.4 percent of outward investments by India in ASEAN), with the bulk of flows directed towards Vietnam (61.1 percent of the total flows to the CLMV region). During 2018-19, Indian investments in CLMV region amounted to US$ 139.9 million, which accounted for 3.6 percent of India's investments in the ASEAN region. During April 2010 to March 2019, major sectors in CLMV attracting Indian investments include manufacturing (including mining), followed by agriculture, hunting, forestry and fishing and construction. India's investments were majorly into manufacturing in Vietnam and Myanmar while investments in agriculture, hunting, forestry and fishing were mainly in Cambodia and Lao PDR.

Building Value Chains in Asia

The emergence of Asia and the high growth rates in emerging and developing economies have increased the size of world demand and boosted international trade. Asia has not just emerged as the factory of the world, but rising wages has also led to new consumers who can afford a wider variety of products. By 2030, Asia is expected to contribute to 60 percent of global growth. Increased digitization has also resulted in providing additional access to previously unserved markets. As a result, trade in final goods and services has increased as much as trade in intermediates.

- **GVC Analysis of Select Asian Economies**

To understand GVCs, one needs to consider to what extent the countries are involved in a value chain in terms of their contributions as well as the contribution of other countries in their exports. This Study analyzes the value chain participation as well as position of the major Asian economies using the UNCTAD-EORA Global Value Chain database.

The Foreign Value Added (FVA) and Indirect Domestic Value added (DVX) when expressed as a share of gross exports, gives the GVC participation of a country. The larger the ratio, the greater the intensity of involvement of a country in GVCs.

$$GVC_{\,Participation} = \frac{FVA+DVX}{Gross\ Exports}$$

To further understand the relative “upstreamness” of a country in a value chain, Koopman et al. (2014) also defined GVC position index. It is defined as the log ratio of a country’s supply of intermediates used in other countries’ exports to the use of imported intermediates in its own production. The similar methodology has been applied to calculate the overall GVC position of the select Asian economies. Countries with positive position index are relatively more upstream that is they contribute more value added to other countries exports than other countries contribute to theirs.

$$GVC_{\,Position} = ln\left(1+\frac{DVX}{Gross\ Exports}\right) - ln\left(1+\frac{FVA}{Gross\ Exports}\right)$$

However, two countries may have identical GVC position and yet have different degree of GVC participation hence both parameters are used in conjunction to understand the importance of the global supply chain for the country.

Countries with significant share of natural resources like oil, minerals or primary commodities in their exports, tend to have higher share of domestic value-added trade as such kind of exports are the “initial stages of GVC” and require hardly any foreign inputs. On the other hand, countries with significant share of port trade as well as countries with processing trade sectors would have higher foreign value added as a share of their exports. Countries that have significant share of exports in highly segmented industries also have a higher share of foreign value added in their exports.

Cambodia, Lao PDR, Myanmar and Vietnam have undergone reduction in GVC participation from 2009 to 2018. India’s GVC participation rate has also declined from 44 percent in 2009 to 41 percent in 2018. Countries like China and Indonesia have witnessed a modest increase in share from 2009 to 2018 whereas majority of the other Asian countries like Japan has observed stagnation or reduction (Malaysia, Philippines, Republic of Korea and Thailand) in GVC participation rate. According to a World Bank report, GVC participation rate across all these countries declined after the Global financial crisis of 2009 as a result of a sharp slowdown in trade.

Singapore has a highest share of FVA among the ASEAN at 62 percent in 2018, as it is a trading hub. Vietnam has the highest FVA among the CLMV economies at 32 percent in 2018.

Lao PDR and Myanmar being primarily commodity exporters, their gross exports are largely dominated by domestic value added. The forward participation of Myanmar was found to be the highest among all the major Asian countries including ASEAN, India, China, Japan and Republic of Korea. However, the DVA decreased from 45 percent in 2009 and 39 percent in 2018 as Myanmar is transitioning from a commodity exporter to exporter of manufactured or processed products. Lao PDR's share of DVA in exports or forward participation rate is also higher as compared to these countries and stood at 31 percent in 2009 and 25 percent in 2018, respectively. in 2018. Hydropower exports accounts for a significant share in Lao PDR's exports thus reflecting the high forward participation rate.

Countries like Singapore and Republic of Korea have a negative GVC position reflecting their presence in the downstream part of the value chain and engagement in higher value-added sectors. Thailand, Vietnam, Malaysia are also majorly part of mid-tech and high-tech industries with higher foreign import content in their exports and therefore have a negative position. Cambodia also has a negative position in GVC as its exports are majorly dominated by garments and footwear. Myanmar and Lao PDR have relatively higher share of domestic value added in their exports thus reflecting their upstream nature of exports leading to a positive position. China's forward participation or domestic value-added share in exports has increased from 2009 to 2018 and therefore it has a relatively upstream position. This is because over the years, while China's technological capability has advanced, its scale of economies has increased as well.

- **Role of FTAs in Developing GVCs**

The proliferation of bilateral and regional trade agreements (RTAs) in Asia presently act as both the cause and effect of GVCs through trade diversion. Tariffs and non-tariff barriers may hinder the fragmentation of production process across borders. At the same time, deep trade agreements further facilitate the flow of goods and services within GVCs, even though other factors such as industry competitiveness, skills and R&D intensity affect GVC integration.

Most of India's FTAs have failed to provide India a balanced trade. However, in the case of FTAs with Japan and Republic of Korea, post implementation, India's import of industrial supplies, capital goods and transport equipment have increased significantly with these countries. These items are predominantly used as intermediate goods and have thus helped India improve productive capacity and employment generation. Thus, the greater imports and associated trade deficit with Japan and Republic of Korea should not be looked at stand-alone basis, overlooking the gains achieved on productivity, employment and exports with other nations.

India withdrew from RCEP on the grounds of insufficient market access for India along with the likelihood of increased imports that might prove detrimental to the domestic industry and agriculture leading to a higher trade deficit. India already had a trade deficit with 11 out of 15 RCEP countries and hence decided to pull out of RCEP in November 2019. India already has FTAs with most RCEP countries, except China. With China being a member, India is also a member of the Asia-Pacific Trade Agreement or APTA (formerly known as the Bangkok Agreement signed in 1975). India had a trade deficit of US$ 57.7 billion with APTA in 2018. The concern of entering an FTA in which China is a significant partner is therefore pertinent in case of RCEP. India runs a huge trade deficit with China – approximately US$ 57.3 bn in 2018. However, the ASEAN-India FTA has also benefitted India, increasing India's exports to ASEAN countries, with the largest access gained in Thailand, Cambodia, Vietnam, Malaysia, and the Philippines.

- **Potential Sectors for India's Investment in Cambodia**

The major investments in Cambodia have been in agricultural machinery, power, construction and mining. Manufacturing accounted for 53 percent of Indian investment in Cambodia during 2010-11 to 2018-19. Indian private sector companies are present in the textile, agro-processing, automotive, mining, and pharmaceutical sectors in Cambodia. The following are the potential sectors where Indian investors could diversify:

<u>Automotive:</u> The Tata Group has invested US$ 226.7 million in an automotive plant in Sihanoukville Special Economic Zone in Cambodia through its subsidiary, Tata

International. This manufacturing plant will produce a range of light commercial vehicles. Bajaj Auto, another leading automobile company from India, has also entered the Cambodian market. Bajaj Cambodia has started construction of a plant in Stung Meanchey to produce two and three-wheelers. Vehicles are the second highest imports of Cambodia from India. They include mainly tractors and two-and three-wheelers vehicles. Indian automotive companies can set up automobile manufacturing operations for making spare parts, assembly and distribution sales network as well as service centers in Cambodia.

Pharmaceutical: Pharmaceutical products are the highest imported item from India by Cambodia. The India based VTSIX Group, a pharmaceutical company, has invested US$ 19.5 million to set up a factory in the Phnom Penh Special Economic Zone in Cambodia. The upcoming pharmaceutical unit will comply with World Health Organization's Good Manufacturing Practices (WHO GMP) and produce about 500 million units of oral pharmaceuticals (including tablets, capsules, and syrups). The setting up of this plant will help diversify Cambodia's industrial output and create jobs for skilled personnel. Opportunities also exist for joint venture with local Cambodian companies which could provide logistics and distribution related services.

Agro-processing: Cambodia is trying to develop its agricultural sector through organic value chains. However, challenges faced at the farm level are unavailability of bio inputs for organic production, inconsistent supply, high production cost and farmers' capacity. The challenges at the processing level include lack of technology for grading, packaging, storage, transportation and quality control. In the meantime, the challenge at the marketing level is limited market information including its demand, supply and prices. All these create opportunities for India-Cambodia private sector cooperation where Indian companies could lend their expertise in terms of technological know-how as well as marketing services.

Agricultural Equipment: There also exist opportunities in the agricultural input industry. Indian companies like Green Khmer Agro Pvt Ltd have established joint ventures with Cambodia based Green Agri Khmer Pvt Co. Ltd for producing fertilizers. Farm equipment manufacturing is another potential area. Cambodia's increasing adoption of mechanized farming demand for equipment like tractors, power tillers, water pumps has increased.

Rubber Processing: Non-food agricultural products (tobacco, rubber, wood) could also be transformed locally. Rubber, for instance, is a raw material which can be processed into a wide range of products (industrial hardware, tyres, gloves). Yet, most of Cambodia's rubber exports are exported as graded dry blocks.

- **Potential Sectors for India's Investment in Lao PDR**

Indian investment in Lao PDR is majorly into agriculture and mining (94.2 percent of India's total investment during 2010-11 to 2018-19) followed by manufacturing (5.8 percent).

Rubber Processing: Plantation sector accounts for majority of Indian investment in Lao PDR. Grasim Industries India along with two other group companies—Thai Rayon (Thailand) and PT Indo Bharat Rayon (Indonesia) formed a joint venture, Birla Lao Pulp and Plantations Company Ltd., in 2006 to invest in eucalyptus plantation and setting up of a pulp production plant. The HSMM Group from India has invested US$ 13.8 million in agarwood plantations and two factories in Xaysomboun and Vientiane province of Lao PDR and Apollo Tyres also has a rubber plantation in Lao PDR. Therefore, Indian companies could further diversify from plantation to its processed products.

Mineral Processing: Lao PDR has rich deposits of industrial metals including iron ore. The Lao SPG CMC Mining Company, a subsidiary of GIMPEX India and the HSMM Group has investments in iron-ore mining. So far, the Lao SPG CMC's mine has spent US$ 7.7 million in a 200-hectare mine in Ta En village in Samneua province and produced 60,717 metric tonnes of iron ore. The HSMM Group has also made small investments worth US$ 0.8 million and US$ 0.1 million in iron ore mines in Sekong province and Khammuan province of Lao. PDR. Opportunities exist in mineral processing therefore integrating Lao PDR into steel industry.

Furniture Manufacturing: Many Indian companies like Tirupati Veneers, Phoneix Plywood and Siddhi Veneers Pvt Ltd have established wholly owned subsidiaries in Lao PDR. Further investments into wood processing exists which is an emerging exports sector for Lao PDR.

Electrical Parts: Export of electrical machinery and equipment accounted for 8 percent of Lao PDR exports in 2018. Due to its location on the economic corridor that links Vietnam, Lao PDR and Thailand, Savan-Seno, the first SEZ established in 2002, attracts investors from a broad range of economic sectors. Lao PDR also offers the lowest tariff for electricity for industrial use among the ASEAN countries. In Lao PDR's Savan-Seno SEZ, majorly companies from Japan, Thailand and Canada have invested. Indian companies could explore setting up electrical part manufacturing plants to tap the neighboring ASEAN market.

- **Potential Sectors for India's Investment in Myanmar**

In Myanmar, India's investment portfolio is dominated by the energy sector. ONGC Videsh, GAIL India, and Essar Oil are among the top Indian investors in Myanmar. ONGC Videsh was the largest Indian investor in Myanmar followed by GAIL India and together account for nearly 90 percent of Indian investments in Myanmar. This creates opportunities for developing supporting industries like refineries, fertilisers, machinery used in oil & gas industries. Other opportunities include-

<u>Agro-processing and agriculture equipment</u>**:** Key opportunities in agriculture include manufacturing agricultural tools and machinery, establishment of fertilizer or crop protection chemical factories, processing of local agricultural produce like ground nut, or sesame, and establishing packaging or canning industries.

<u>Wood Processing:</u> Opportunities also exist in wood processing as Myanmar has source of hardwood and bamboo hence could be utilized for furniture production. Myanmar is one of the leading producers of teak and hardwood (particularly Pyinkadoe and Padauk). In order to prevent unsustainable forestry practices and large-scale log harvesting, the Government of Myanmar strictly and effectively abandoned the export of unprocessed teak and hardwood in April 2014. This structural change offers opportunities to foreign and local investors to support the emergence of value-added and sustainable forestry (e.g., by establishing new wood-processing industries in Myanmar).

<u>Textile and Apparel:</u> Labour-intensive industries could be developed in second tier cities. India is a major input supplier cotton yarn in Myanmar. Therefore, a fiber value chain could also be created where India could contribute in terms of designing and R&D.

<u>Automotive assembly:</u> Indian companies like Sonalika Tractors and Tata Motors have ventured into the Myanmar market. In March 2010, Tata Motors had signed a turnkey contract with Myanma Automobile & Diesel Industries Ltd (MADI), an enterprise under the Government of Myanmar's Ministry of Industry for setting up a heavy truck assembly plant, at Magwe, in central Myanmar, funded by a US$ 20 million Government of India's Line of Credit extended by Export-Import Bank of India. The plant, inaugurated in December 2010, is now operational. With a highly flexible chassis & frame assembly line, along with cab manufacturing, paint shop and trimming set-up, the plant has a capacity of producing 1,000 vehicles per annum initially and has the flexibility of augmenting up to 5,000 per year. Sonalika Tractor has been involved in an authorized dealership with

Myanmar based Farmers Choice Tractors Co. Ltd. Indian companies could therefore explore the automotive assembly industry.

Pharmaceutical: In August 2018, the Myanmar Pharmaceutical Industrial Enterprise revealed that Myanmar imports pharmaceuticals and medical equipment worth US$ 400 million, with local production now meeting approximately 10 percent of domestic demand. Country's pharmaceutical market is valued at US$ 456 million in 2017. This value is lower than most of the ASEAN countries, placing Myanmar below even Singapore in terms of absolute pharmaceutical market size, despite its much larger population (60 million versus 5 million). Looking ahead to 2022, the market is forecasted to touch US$ 656 million. Indian companies are the main foreign companies operating in Myanmar. These include Zydus Pharmaceuticals Ltd., Sun Pharmaceuticals Ltd, Ranbaxy, Cadila Healthcare Ltd, Dr. Reddy's Lab., and Cipla Ltd., but they operate majorly through pharmaceutical distributors like DKSH, SeaLion and Mega Lifesciences. With Myanmar's improved investment facilitating policies enacted in 2018, Indian companies can explore setting up manufacturing plants in Myanmar thereby tapping its population of 54 million.

- **Potential Sectors for India's Investment in Vietnam**

Indian investments in Vietnam are mainly in energy, mineral exploration, agro-processing, sugar, tea, coffee manufacturing, agro-chemicals, IT and auto components. Only a handful of large Indian companies such as ONGC Videsh, Marico Industries, TATA Group, Shapoorji Pallonji, RK Marble, Tufropes, and Wolkem India account for over 80 percent of Indian investments in Vietnam. The following are the potential areas for Indian investments.

Renewable Energy: Indian companies like the TATA Group, Adani Green Energy, and Shapoorji Pallonji Infrastructure Capital Co. have made significant investments in the renewable energy sector of Vietnam. In 2017, the TATA Group invested in solar power plants in four Vietnamese provinces with a total capacity of 250 MW. Another recent investment in solar power made by TATA is a 49 MW project worth US$ 54 million in the Binh Phouc province of Vietnam. In 2018, Adani Green Energy subscribed to 80-percent equity share capital of Adani Phuoc Minh Wind Power Company Limited (APMWPCL) in Vietnam. The APMWPCL is developing a 27.3 MW wind power plant at Phuoc Minh and Phouc Ninh Commune, in the Ninh Thuan province of Vietnam. India's Shapoorji Pallonji Infrastructure Capital Co Ltd and Vietnam's Electricity Power Trading Company

(EPTC) signed a power purchase agreement for the solar power project SP Infra-1 Plant in Ninh Thuận Province. The total investment capital of the 50MW solar plant is about US$ 71 million Therefore, considerable opportunities exist for joint venture with Vietnamese companies in the renewable energy sector.

Consumer Goods: There exists significant scope for tapping Vietnam's growing consumer market. Marico Industries is another major Indian investor in Vietnam. It entered the Vietnamese market in 2010-11 by acquiring an equity stake of 85 percent in International Consumer Products Corporation, a leading Vietnamese fast-moving consumer goods (FMCG) company. Marico Southeast Asia Corporation is present in the grooming and food business (under the brand name Thuan Phat) segments Other Indian companies could likewise explore the large Vietnamese and other ASEAN markets.

Agro-processing: Tata Coffee, has set up a greenfield instant coffee facility in Vietnam at a cost of US$ 50 million and has become operational since 2019. Some of the prominent Indian companies in Vietnam include KCP Industries Ltd. (sugar industry); Nagarjuna Ltd. (fruits juice and pulp); McLeod Russell (tea); Ngon Coffee Manufacturing (instant coffee) and Tata Coffee (instant coffee). Vietnam has been promoting high-tech agriculture as on one its strategic sectors. Indian start-ups and other technology-based companies could facilitate high-tech agricultural projects in Vietnam.

Electronics and electrical equipment: Vietnam imports electronic integrated circuits, parts of mobile phones, printed circuits. India is increasingly trying to diversify into the manufacturing of electronic products and electrical parts. Indian companies could try to establish manufacturing assembly units in Vietnam.

Building Supply Chains: India and CLMV

The fundamental idea behind building supply chains across India and CLMV countries would be to optimally utilize the comparative advantage each country offers at different stages Based on the above potential sectors, supply chains like electronics, pharmaceuticals, textile and apparel, rubber processing among others could be built across CLMV and India. Similar linkages could also be established for other potential sectors such as food processing, agricultural equipment, automotive assembly, renewable energy and furniture making.

- **India – CLMV Economic Corridors**

Physical connectivity plays a very important role in facilitating trade through lower transport costs and reduced time. Enhanced connectivity also ensures efficient supply chain management by companies across the value chains and promotes development of industry clusters. India has been instrumental in developing various corridor connectivity projects in the CLMV region to provide cost effective logistic services. Recently, in August 2019, India adopted the new Mekong Ganga Cooperation Plan (MCG) of Action 2019 that envisages project-based cooperation in the seven areas - tourism and culture, education, public health and traditional medicine, agriculture and allied sectors, transport and communication, MSMEs as well as three new areas of cooperation, i.e. water resources management, science and technology, skill development and capacity building. Under the cooperation in transport and communication, the MCG plans to examine the feasibility of extending the India-Myanmar-Thailand Trilateral Highway to Cambodia, Lao PDR and Vietnam and developing it as an economic growth corridor. The India-Myanmar-Thailand Motor Vehicle Agreement is also soon to be finalized by 2020 to facilitate seamless movement of goods and services across the borders. Training programs would also be organized for the MGC countries, which include preparation of feasibility studies and detailed project reports for highway projects and construction and maintenance of highways.

India joined Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) as a Development Partner, focusing particularly on projects that can also complement joint projects already being undertaken by India with the ACMECS countries both under bilateral and other multilateral frameworks such as the MGC, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and ASEAN-India Dialogue Relations.

India had also announced US$ 1 billion of Line of Credit in November 2015 to promote physical and digital connectivity between India and ASEAN countries. This has aligned India with the Master Plan on ASEAN Connectivity 2025 (MPAC) after China and Japan. This is expected to facilitate sustainable infrastructure, digital innovation, seamless logistics and mobility of people.

- **Role of North East Region**

The North East region plays a strategic role for India as it acts as a gateway to Southeast and East Asia. The North Eastern states act as the land bridge as they share international borders with Myanmar and China. Therefore, increasing transport connectivity through this region can increase trade. Border infrastructure needs to be upgraded to facilitate connectivity between India and Myanmar which acts as the gateway to the CLMV region.

The study conducted by Exim Bank on Border Infrastructure, titled 'Act East: Enhancing India's Trade with Bangladesh and Myanmar Across Border' highlighted various issues and challenges with regards to border trading infrastructure, which require urgent attention. Absence of all-weather road connectivity, lack of storage and warehouse facilities, poor ICT and banking infrastructure, irregular electricity and water supply issues, absence of quality testing laboratories for imported food items, country of origin certificate issued manufactured items, among others, are the major bottlenecks leading to hindrance in border trade between India and Myanmar.

According to a study by the Research and Information System for Developing Countries (RIS), the North Eastern states are likely to gain more in terms of economic growth with higher movement of freight from Kaladan Corridor, Trilateral Highway and the Myanmar India Corridor which would be part of the Bangladesh-China-India-Myanmar–Economic-Corridor (BCIM – EC). Kaladan Corridor and the India, Myanmar, Thailand Trilateral Highway are currently under implementation.

- **Way Forward for Developing India-CLMV Value Chains**

- <u>Improving Logistics and Ease of Doing Business</u>

According to the World Bank Logistics Performance Index (LPI) Report 2018, improvement in the Logistics Performance Index by one position increases trade by 16 percent. Logistics sector plays a major role in connectivity, which in turns governs the trade costs incurred by a country. The LPI ranking takes into consideration parameters like customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing and timeliness. Singapore ranked 7th in 2018 followed by Thailand (32), Vietnam (39), Malaysia (41), Indonesia (46), Philippines (60), Brunei Darussalam (80), Lao PDR (82), Cambodia (98) and Myanmar (137) among 160 economies. India ranked 44th.

In Doing Business 2020 survey conducted by the World Bank, 190 economies across the world are ranked on their ease of doing business, from 1 to 190. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. In terms of Doing Business Cambodia ranked 144, Lao PDR ranked 154, Myanmar ranked 165 and Vietnam ranked 70 among the 190 economies. The CLMV countries, especially Cambodia, Lao PDR and Myanmar need to improve their LPI and Doing Business rankings which would improve their prospects to develop as potential destinations for value chain development.

- <u>Product Diversification</u>

The export product concentration index, also known as Herfindahl-Hirschman Index (Product HHI), has been found to be high among the CLMV countries, apart from Vietnam. This is mainly due to their exports remain less diversified with low technology sophistication. Benefiting from low wages, the CLMV countries initially focused on labor-intensive sectors.

Lao PDR has been gradually shifting its focus to hydro power and mining, and Myanmar, given its rich natural resource endowments, has become heavily dependent on petroleum gas, precious stones, and lumber exports, mostly to neighboring countries like Thailand and China. Cambodia remains almost exclusively focused on garments. Vietnam, though well diversified, depends heavily on labor-intensive manufacturing, including not only garments but also electronics, as the country has become an important player in global supply chains, Vietnam also maintains a strong position in a variety of agricultural sectors, including coffee, rice, and marine products.

- <u>Market Concentration</u>

Although China's rebalancing of growth and its trade disputes with the US may appear to be an opportunity for CLMV countries, it is undeniable that these countries are dependent on Chinese import demand and investment for their growth. Be it infrastructure, tourism or exports, China has continued to be present in this region. The CLMV exports have also begun to slow as Chinese imports from these countries have weakened. Both Myanmar and Cambodia depend on US and EU as major export destinations as a result of the market access benefits enjoyed by both countries in these markets. However, both the countries need to consider diversifying their markets, and think beyond traditional partnership to become resilient.

- <u>Collaborating with ASEAN economies for developing Value Chain Networks</u>

The CLMV economies have not been deeply integrated into the East Asian production and distribution networks despite their various locational advantages and notably abundant, and low-waged labor force. CLMV's underdeveloped infrastructure, logistics in particular, hinder them from participating in such networks in East Asia. India has been instrumental in facilitating investment in the ASEAN region mainly in connectivity projects. These could be strengthened by setting up funds to identify projects develop a viable and dynamic supply chains across South and Southeast Asia. The potential sectors as highlighted earlier for developing value chains where India has its strength include agro-processing, textile & garments, pharmaceuticals, automotive, agricultural machinery, renewable energy and construction, among others.

- <u>Transport Network Development</u>

Thailand and Myanmar recently opened a corridor with the objective of increasing connectivity between CLMV, Thailand and India. The new bridge, “Thai-Myanmar Friendship Bridge”, which was part of the East-West Economic Corridor between Thailand and Myanmar that opened in October 2019 is expected to give CLMV countries and Thailand access to the vast Indian market through its North East Region and reduce heavy reliance on China and reshape the supply chain dynamics of the region. This “Thai-Myanmar Friendship Bridge”, which is situated across the Moei River that connects Myawaddy, a city in Myanmar’s eastern region, and Mae Sot district in western Thailand, was built at a cost of approximately US$ 140 million. The East-West Corridor is a project to build a large economic bloc along a 1,700-km land route from Vietnam to Myanmar via Lao PDR and Thailand. From Myanmar these countries could get access in India. India has built a port at Sittwe in Myanmar, which will be linked to the state of Mizoram in the north via a multi-modal transport network. Besides, the trilateral highway connecting India with Thailand via Myanmar, once operational, could be expanded to Vietnam. India and Thailand recently signed pacts for port connectivity, adding further impetus to the Act East Policy and the Indo-Pacific Vision. More such connectivity projects could be explored between India and the CLMV countries.

- <u>Developing Cross-border SEZs</u>

Regional development initiatives and cooperation programmes have promoted the establishment of Special Economic Zones (SEZs) along regional economic corridors. The CLMV countries began establishing SEZs to attract labour-intensive manufacturing in the late 1990s and 2000s. Cambodia launched a new SEZ programme in 2005, establishing specialized SEZs to diversify its industrial base beyond electronics and automobile parts. Myanmar has one SEZ, with another two under construction in partnership with China, Japan and Thailand. One of the objectives of Cambodia’s SEZs is to establish economic links between urban and rural areas. Cambodia’s Sihanoukville SEZ, a joint venture between a Chinese conglomerate and Cambodia International Investment Development Group, was the outcome of a bilateral agreement signed between China and Cambodia in 2010. India would be developing an SEZ with Myanmar known as Sittwe SEZ, bilateral agreement for which was signed in 2016, but is still at the planning stage. Once this materializes it will facilitate further investment flows between the two countries.

- Engaging Start Ups

Another initiative which could enhance cooperation among India and the CLMV economies is facilitating engagements amongst startups, of these economies. India is the second-largest start in terms of hub by the number of startups, with more than 20,000 startups with a combined market value of more than US$ 50 billion. According to the data from World Bank, India had 123,942 businesses registered in the year 2018. In the CLMV region, Cambodia had 7007 startups, followed by Lao PDR (178), Myanmar (14,051) and Vietnam (73,422). Since the launch of the Startup India initiative, a year-on-year growth of 36 percent was seen in the number of incubators and accelerators in India in 2017, and a total of US$ 17.8 billion has been invested in startups since Jan 2016. One of the key activities under the program is to help connect the Indian startup ecosystem to global startup ecosystems through various engagement models. The ASEAN India Grand Challenge was organized by "Invest India" to support ASEAN startups with a commercially viable solution to solve India's key problems through a market access program in five Indian states. The themes for the Challenge included IoT for Smart Cities (Odisha), Financial Technology & Financial Inclusion (Andhra Pradesh), Renewable Energy (Uttarakhand), Agriculture & Rural Development (Andhra Pradesh), Digital Health (Karnataka) and Clean India (Rajasthan). Similar framework could be adopted for startups based in the CLMV countries with whom Indian startups could share their expertise.

- Enhancing SME Participation

SMEs account for 96 percent of businesses and over two-third of employment in the CLMV region. The challenges faced by these SMEs are in terms of lack of access to finance, inadequate skills for development of human capital, market access and adoption of latest technology. It is critical to integrate the employment-intensive SMEs in India-CLMV economic integration, which could be achieved with a three-pronged strategy: (i) Linking Indian SMEs with large companies locally and the latter gets engaged in outward FDI; (ii) Linking SMEs with MNCs in CLMV; and (iii) Linking Indian SMEs on a stand-alone basis with their counterparts in CLMV.

- Increasing Presence of Indian Banks

Enhancing financial inclusion is of utmost importance to develop commercial and economic linkages for developing value chains within the region. This would require increasing the number of Indian banks present in CLMV in their full-fledged form rather than just having representative offices. Formalizing, the informal trade that happens through the India-Myanmar border could be done through increased financial inclusion and access to banking services. As on March 31, 2020, there is just one branch each of public sector banks in Cambodia, Myanmar and Vietnam, respectively. Myanmar also has a representative office of Punjab National Bank. Indian Banks do not have any presence in terms of representative office or branch in Lao PDR Establishing wider networks would also help Indian companies to expand businesses in the region.

- Vocational Training and Capacity Building

Skill availability remains a challenge for the CLMV countries. There is a need to bridge the gap between availability of skill, personnel and technology with the requirements in the CLMV economies. To this end, effective collaboration for developing sector specific skill sets could be the way forward. The contribution of GVCs to GDP can be limited if countries capture only a small share of the value added created in the value chain, and thus need to ensure technology dissemination, skill building and upgrading.

- Increased Business to Business Interactions

A dedicated web portal for India-CLMV engagements with information on projects and prospects available could be created. This would address the existing information gap. Increased B2B interactions could be facilitated through digital platform or various outreach events to deliberate on the economic potential that could be materialized through increased engagements between India and CLMV.

1. ECONOMIC OVERVIEW OF CLMV

Cambodia, Lao People's Democratic Republic (Lao PDR), Myanmar and Vietnam (CLMV) are the most recent additions to the Association of Southeast Asian Nations (ASEAN) Member States in the 1990s. Among CLMV countries, Vietnam was the first to join the ASEAN, in 1995, followed by Lao PDR and Myanmar in 1997 and Cambodia in 1999. Over the last two decades these four ASEAN economies have evolved economically and have become increasingly integrated with the ASEAN-6 countries. The CLMV group is a representative of growing economies owing to their rising consumption, strategic location and access to rich natural resources and biodiversity. The group is also endowed with the lowest wage industrial workforce in the entire ASEAN region[1]. CLMV economies cumulatively accounted for 32 percent of ASEAN's total geographical area, 26.4 percent of ASEAN's population and around 12 percent of its GDP in 2018[2].

Macroeconomic Overview of CLMV Economies

The share of CLMV countries in the GDP (current prices) of ASEAN has been consistently increasing over the years from 8.6 percent in 2008 to 12 percent in 2018. Vietnam is the largest contributor to CLMV's GDP over the years, followed by Myanmar. The combined GDP of CLMV countries was US$ 352.5 billion in 2018, with 68 percent of the GDP coming from Vietnam (**Table 1.1**).

[1]OECD-UNIDO (2019), Integrating Southeast Asian SMEs in Global Value Chains: Enabling Linkages with Foreign Investors. Paris.

[2]Calculated using data derived from WEO October 2019 and FAO

Table 1.1: Macroeconomic Snapshot of ASEAN countries

Country	GDP Current Prices (US$ bn)			Real GDP Growth (%)			Population (mn)		
	2017	2018	2019e	2017	2018	2019e	2017	2018	2019e
Brunei Darussalam	12.1	13.6	12.5	1.3	0.1	1.8	0.4	0.4	0.4
Cambodia	22.2	24.4	26.7	7.0	7.5	7.0	16.0	16.3	16.5
Indonesia	1015.3	1022.5	1111.7	5.1	5.2	5.0	261.4	264.2	267.0
Lao PDR	17.1	18.1	19.1	6.8	6.3	6.4	7.0	7.1	7.2
Malaysia	319.0	358.6	365.3	5.7	4.7	4.5	32.0	32.4	32.8
Myanmar	61.4	68.7	66.0	6.3	6.8	6.2	52.6	52.8	53.0
Philippines	313.6	330.9	356.8	6.7	6.2	5.7	104.9	106.6	108.3
Singapore	338.4	364.1	362.8	3.7	3.1	0.5	5.6	5.6	5.7
Thailand	455.3	504.9	529.2	4.0	4.1	2.9	67.7	67.8	67.9
Vietnam	220.4	241.3	261.6	6.8	7.1	6.5	93.6	94.6	95.5
ASEAN	**2774.7**	**2947.1**	**3111.8**	**5.2**	**5.0**	**-**	**641.2**	**647.7**	**654.3**
CLMV	**321.0**	**352.5**	**373.5**	**6.8**	**6.8**	**-**	**169.3**	**170.7**	**172.2**

Note: - Not applicable; e - estimates.
Source: IMF, World Economic Outlook October 2019; and Exim Bank Analysis

Along with the strong macroeconomic fundamentals, the CLMV economies are endowed with abundant natural resources and low-cost labour force. Cambodia boasts of natural resources like oil and gas, timber, gemstones, iron ore, manganese and phosphate. Lao PDR has timber, hydropower, gypsum, tin, gold and gemstones. Myanmar is endowed with resources such as petroleum, timber, tin, antimony, zinc, copper, tungsten, lead, coal and marble. Vietnam has antimony, phosphates, coal, manganese, rare earth elements, bauxite, chromate, timber and offshore oil and gas deposits[3].

The following table shows indicative minimum wages in the industrial sector of the ASEAN countries (**Table 1.2**). Although minimum wages vary across sectors and provinces, the highest wages have been considered to compare across the countries. Comparison across the countries suggests that the CLMV countries clearly have the lowest wages among the ASEAN region. Further, due to rise in labor costs in other ASEAN countries due to increased competition, there has been an increasing preference for CLMV countries as an investment destination

[3]The World Factbook, CIA

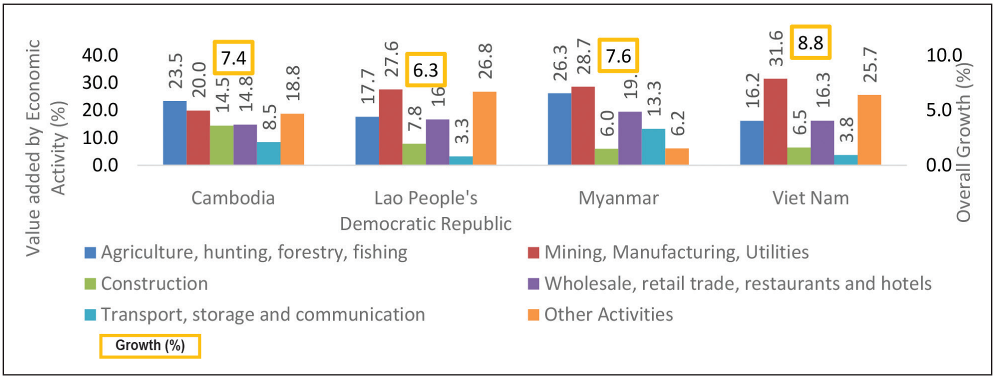
Table 1.2: Minimum Wages in ASEAN

Country	Monthly Minimum Wage (US$)	Daily Minimum Wage (US$)
Indonesia	91-228	3.0-7.6
Malaysia	224-243	7.5-8.1
Cambodia	170	5.7
Lao PDR	108	3.6
Myanmar	71	2.4
Philippines	170-224	5.7-7.5
Thailand	283-303	9.4-10.1
Vietnam	146-165	4.7-5.3

Note: Minimum Wage as on August 31, 2018. Data for Brunei Darussalam and Singapore not available
Source: OECD & UNIDO

Chart 1.1 shows the value added by different economic activities in the CLMV countries during 2018. Manufacturing value added of Myanmar was the highest among the four at 21.7 percent of total value added, followed by Vietnam at 17.8 percent and Cambodia at 17.4 percent. Lao PDR has a relatively low manufacturing value added share at 8.4 percent[4]. As regards India, manufacturing value added as a percentage of GDP stood at 16.4 percent in 2018. The major industries located in these economies are shown in **Table 1.3.**

Chart 1.1: Value Added by Economic Activity in CLMV Economies during 2018



Note: Value added by Economic Activity (% share) reflected on primary axis and Overall growth(%) reflected on secondary axis.

Source: National Accounts Main Aggregates Database, Statistical Division United Nations (unstats.un.org) and Exim Bank Analysis (data accessed on January 17, 2020)

[4]Calculated from unstat.un.org

Table 1.3: Major Industries in CLMV Economies

Country	Major Industries
Cambodia	Garments, construction, rice milling, fishing, wood and wood products, rubber, cement, gem mining and textiles
Lao PDR	Mining (copper, tin, gold, gypsum), timber, electric power, agricultural processing, rubber, construction, garments and cement
Myanmar	Agricultural processing, wood and wood products, copper, tin, tungsten, iron, cement, construction, pharmaceuticals, fertilizer, oil and natural gas, garments, jade and gems
Vietnam	Food processing, garments, shoes, machine-building, mining, coal, steel, cement, chemical fertilizer, glass, tires, oil and electronics

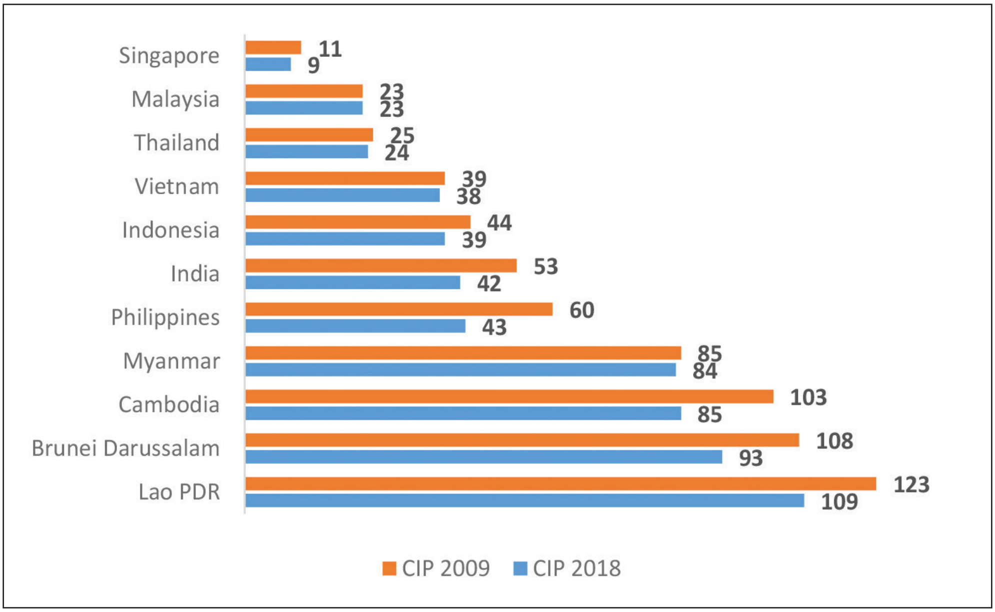
Source: Central Intelligence Authority (CIA)

The Competitive Industrial Performance (CIP) ranking by UNIDO indicates a country's relative position in terms of its manufacturing capacity compared to other countries. The CIP ranking is based on country's capacity to produce and export manufactured goods, extent of technological deepening and upgrading, and global market share[5]. There are eight indicators used to construct the CIP index viz manufacturing value added per capita, manufacturing value added share in total GDP, manufactured exports per capita, manufactured exports share in total exports, impact of a country on world manufactures trade, impact of a country on world manufacturing value added, medium and high-tech manufacturing value added share in total manufacturing value added, and medium and high-tech manufactured exports share in total manufactured exports. According to the CIP Index 2020, Germany ranked the first globally among 152 countries, followed by two Asian countries, China and Republic of Korea. USA and Japan were the fourth and fifth, respectively. India was ranked 42nd.

While Singapore ranked 9th globally as per CIP Index 2020, it has the highest rank among the ASEAN countries. Among the CLMV economies, Vietnam ranked 38th followed by Myanmar at 84, Cambodia at 85 and Lao PDR at 123. Cambodia and Lao PDR have made significant improvements in their position as compared to their 2009 rankings (**Chart 1.2**).

[5]UNIDO(2019). Industrial Development Report 2020. Industrializing in the digital age. Vienna.

Chart 1.2: Competitive Industrial Performance Ranking



Note: Data based on 2018
Source: UNIDO Statistics Data Portal and Exim Bank Analysis

Robust Outlook for CLMV

Following the current trend, the CLMV region is expected to continue to outpace ASEAN's aggregate growth forecast in the coming years (**Chart 1.3**). This may be largely attributed to the catch-up growth because of existing income and development gap between the CLMV and other ASEAN nations. However, it also reflects their advantageous geographical locations and comparatively stable governments, which remain attractive to foreign investors.

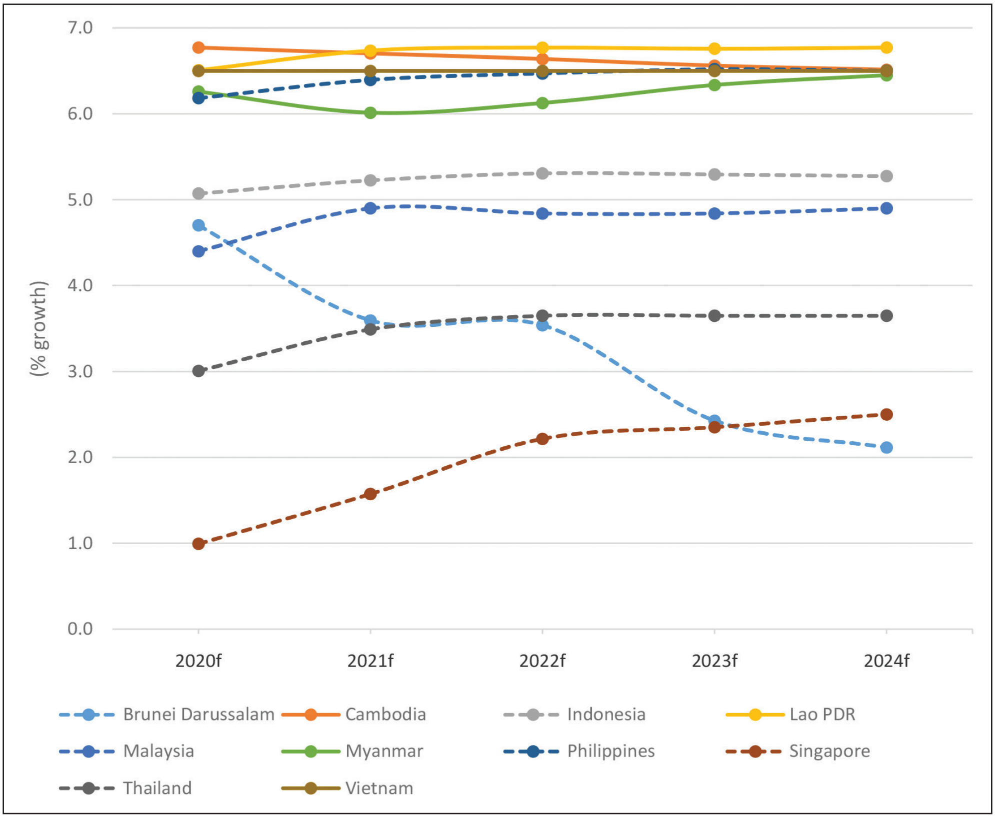
Cambodia's economy is projected to expand by 6.6 percent on an average during 2020-2024 as projected by the IMF, which is however lower to its average growth during the last four years. Growth is expected to be majorly driven by infrastructure and steady inflow of foreign capital and active involvement in multilateral infrastructures.

Lao PDR's economic growth rate is expected to remain at an average of 6.7 percent annually in 2020-2024, mainly driven by infrastructure projects and energy exports. Private consumption is also expected to drive growth supported by rising tourist arrivals.

Myanmar's GDP growth is estimated to average 6.2 percent annually in 2020-24. Growth in exports of goods and services is expected to be accompanied by a steady flow of imports, owing to strong investment activity and a lack of domestic industrial capacity to support infrastructure projects. Exports are expected to gain from planned expansion of Special Economic Zone (SEZ) operations.

Vietnam's growth is projected to grow by 6.5 percent on average in 2020-24. Exports are expected to continue to anchor economic activity along with inflow of foreign direct investment (FDI). Recently signed free-trade agreements are expected to boost the export sector amid external headwinds as Vietnam has successfully positioned itself as the major low-cost regional alternative to China for export-oriented manufacturing (including among Chinese companies).

Chart 1.3: Economic Growth Outlook for CLMV



Note: f- forecast
Source: IMF, World Economic Outlook October 2019; and Exim Bank Analysis

2. SIGNIFICANCE OF CLMV ECONOMIES

The CLMV countries are the last frontier markets of Southeast Asia. According to the ASEAN Investment Report 2019, many Asian MNEs are shifting their production from China to the CLMV countries mainly due to competitive production costs and the rising trade tensions between USA and China. This chapter highlights the growing significance of the CLMV nations as an alternate destination for manufacturing.

GSP Beneficiaries

Among the CLMV countries, Cambodia and Myanmar are beneficiaries of GSP from USA. India has been terminated from USA's list of developing country beneficiaries under the Generalized System of Preferences (GSP) based on market access[6] in June 2019. Hence, Indian investments could gain greater market access through lower tariffs. Cambodia and Myanmar, as LDCs, are also GSP beneficiaries from other countries like Australia, Belarus, European Union, Iceland, Japan, Kazakhstan, and New Zealand, among others[7]. The following chart shows the major recipients of GSP benefits extended by USA during 2018 in absolute terms (**Chart 2.1**). India's share of exports to USA stood at 13.1 percent under GSP whereas Cambodia's share of exports under GSP stood at 23.6 percent in 2018.

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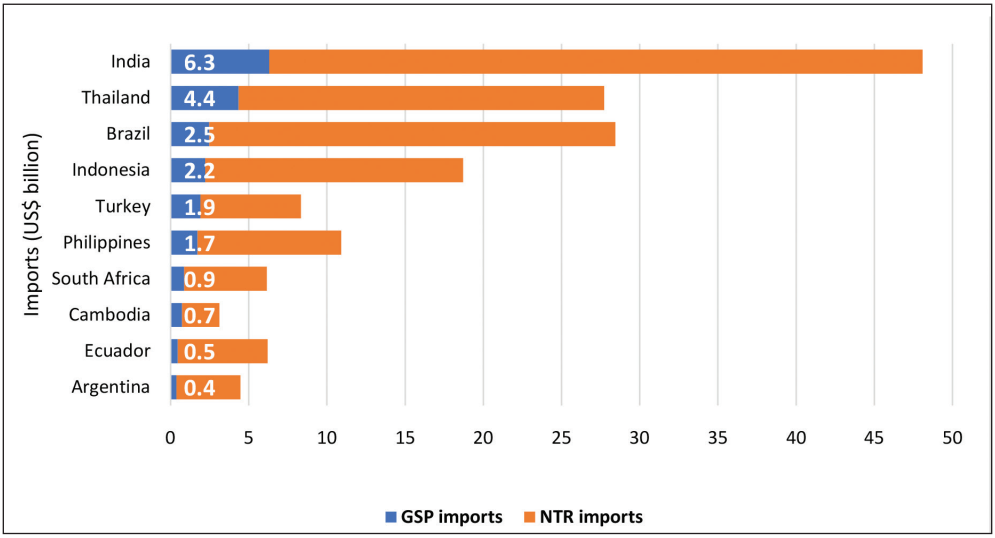
[6]Generalized System of Preferences (GSP): Overview and Issues for Congress Updated November 7, 2019, Congressional Research Service

[7]Generalized System of Preferences List of Beneficiaries, UNCTAD, September 2018

Chart 2.1: Top 10 U.S GSP beneficiaries in 2018



Note: Turkey (as on May 2019) and India (June 2019) are no longer GSP beneficiaries.
Source: U.S. International Trade Commission Dataweb and Exim bank Analysis

However, according to the Economist Intelligence Unit (EIU), economic risks are posed by the decision of USA and EU to re-evaluate Cambodia's trade benefits under the Everything but Arms (EBA) and GSP programs, respectively. Cambodia had exported 35 percent of its exports to EU and 23.6 percent of its exports to USA under these programs in 2018.

Changing Trends of China's Trade

Japan, Taiwan, Republic of Korea (also referred to as South Korea), and several ASEAN countries have experienced export-led growth for decades. As these economies matured, light manufacturing shifted to the less advanced countries. The advanced economies averted sharp contractions in growth by upgrading their research and development activities and diversifying into knowledge-intensive production onshore while shifting from lower-value-added activities like assembly and light manufacturing in other countries. Over time, increasing number of emerging and developing economies were integrated into the regional trade system, leading to a proliferation of competence in manufacturing and assembly. Such shifts occurred both as lower-wage producers were able to outcompete their predecessors in labor intensive work, and as firms from the more advanced economies chose to set up subsidiaries overseas to take advantage of cost differentials.

The last decade has witnessed China's remarkable growth in exports, from a meagre 4.3 percent share in global merchandise exports in 2009 to becoming the export powerhouse of the world, accounting for 12.9 percent of global exports in 2018[8]. China had started with light manufacturing and assembly of products as part of the global value chains but now it has moved up to produce higher-value-added upstream products, along with producing more sophisticated downstream products. At the same time, with its wages rising, it started to exit the labor-intensive sectors in the lower end of the value chain. This exit has been slower compared to Japan and other advanced economies—majorly owing to China's economies of scale in manufacturing and the continued presence of cheap labor in rural areas.

The rebalancing of Chinese trade, investment, and consumption patterns offer both opportunities and challenges to lower-income countries in Asia. Cambodia, Lao PDR, Myanmar, and Vietnam are heterogeneous economies, but they all are highly integrated with China. Shifting of China's production or export patterns may mean less scope for commodity exports from the region, but at the same time, CLMV's low labor costs suggest that manufacturing assembly for export could take off as China becomes less competitive.

The CLMV countries being the last frontier markets in South-east Asia stand to benefit from this situation where China continues to diversify from light manufacturing. Vietnam and Cambodia, which are already established manufacturing countries, could benefit. However, as China's commodity demand continues to slow, Lao PDR and Myanmar may observe a decline in their energy and raw material exports, of which China is a major importer. Other than low wages, the gains from trade depends on other structural factors as well. Infrastructure, business climate, governance, education and trade openness are important areas of improvement for these countries[9].

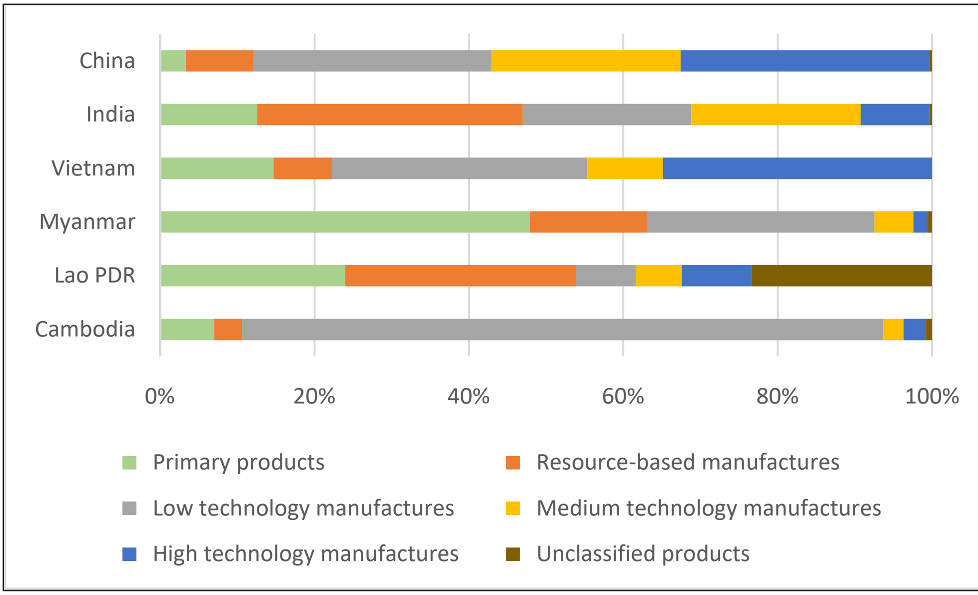
Chart 2.2 shows the technology intensity of exports by the CLMV nations along with India and China for comparison. As can be seen in the chart, Lao PDR and Myanmar are dependent on primary commodities. According to the UNCTAD's State of Commodity Dependence Report 2019, Lao PDR is dependent on minerals with its commodity exports accounting for 75 percent of total merchandise exports in 2017 whereas Myanmar is found to be dependent on agricultural exports and its total commodity exports accounted for more than 68 percent of its merchandise exports in 2017. Cambodia and Vietnam were

[8]Calculated from ITC Trademap

[9]IMF (2016). China's Changing Trade and Implications for the CLMV Economies. Koshy Mathai, Geoff Gottlieb, Gee Hee Hong, Sung Eun Jung, Jochen Schmittmann, and Jiangyan Yu.

commodity independent (primary commodities accounting less than 60 percent of their overall merchandise exports).

Chart 2.2: Technology Intensity of CLMV, India and China's Overall Exports



Source: UNCTADStat and Exim Bank Analysis

The Asian Flying Geese Pattern

The "Flying Geese" or FG paradigm which showcases the regional industrial dynamism, can be observed in network formation of several manufacturing activities in the East and Southeast Asian region. The flying geese paradigm in Asia's case essentially involves Japan remaining at the helm in 1960s, followed by the newly industrialized economies (NIEs) including Hong Kong, Republic of Korea, Taiwan and Singapore in 1970s and 1980s, and later into the ASEAN-4 (Indonesia, Malaysia, Philippines and Thailand) in 1990s and China in 2000s, and the rest of ASEAN countries thereafter. This pattern of industrial development evolved from Japan being the "goose" and the NIEs, ASEAN-4 and China being the follower "geese". Each of these countries are different in terms of natural resources, nature of economic development, trade policies and accordingly fit into the different stages of the value chain. Japan and Republic of Korea contributed to large outward Foreign Direct Investment (FDI) within the region along with technologically sophisticated components for assembly elsewhere. The role of Singapore and Hong Kong has always been more of logistics hub getting large quantum of goods distributed across the region and the world.

Economic development in East Asia and Southeast Asia has been particularly characterized by the flying geese pattern. Originally a stylized four stage model depicting the evolving trade patterns of a developing country and its "catching up" process was postulated by Akamastu (1935) where existing products are clustered into two broad categories "consumer goods" and "capital goods". The fundamental pattern of FG paradigm can be explained through four stages as shown in **exhibit 2.1**[10].

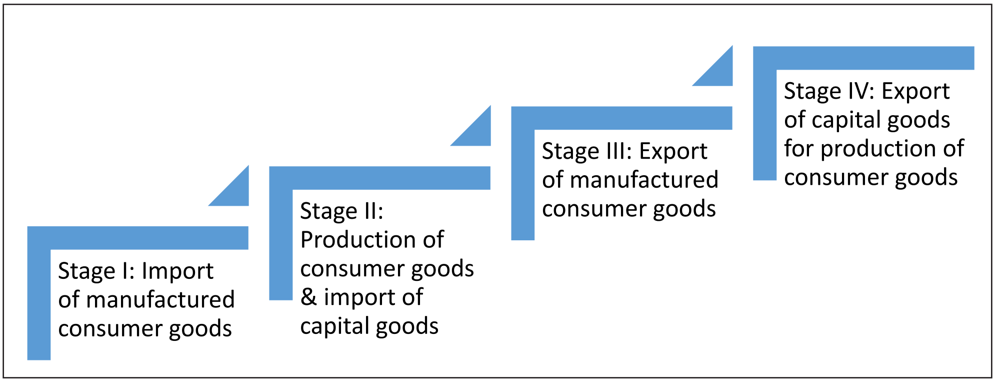
Stage I: A country begins to import manufactured consumer goods.

Stage II: Domestic industry begins to produce the consumer goods which were previously imported and starts importing capital goods required to manufacture these consumer goods.

Stage III: Domestic industry begins to export the manufactured consumer goods.

Stage IV: As the consumer goods industry catches up with similar industries of other developed countries. Thereafter, export of consumer goods starts to decline, and capital goods used for producing these consumer goods are exported.

Exhibit 2.1: Stages of the Flying Geese Paradigm



Source: Adapted from Historical Pattern of Economic Growth in Developing Countries, Akamatsu K, 1962

[10] Kumagai S. (2019) The Middle-Income Trap in the ASEAN-4 Countries from the Trade Structure Viewpoint. In: Tsunekawa K., Todo Y. (eds) Emerging States at Crossroads. Emerging-Economy State and International Policy Studies. Springer. Singapore

The modern versions of the FG paradigm explore frameworks with additional factors like regional integration and foreign investment. According to Kojima (2000)[11], FDI inflows into the Asian economies were "pro-trade" in nature, resulting in FDI distributed by an industry of a country that has a relatively low comparative advantage in that industry, to a country with a greater comparative advantage in areas that are relevant to that industry. The host country can enhance the productivity of the industry and increase its exports while the home country can enhance the productivity of industries therein exhibiting comparative advantages through the FDI. This kind of FDI-driven augmentation of comparative advantage increases production and trade resulting in FDI-led growth in the regional economies.

Increasing wage levels and production cost often act as the "push factors" for outward FDI from the host country. Pull factors of FDI are the external factors which attract investment from the home country to the host country. Major pull factors include large domestic market, low wages, and market access and investment opportunities.

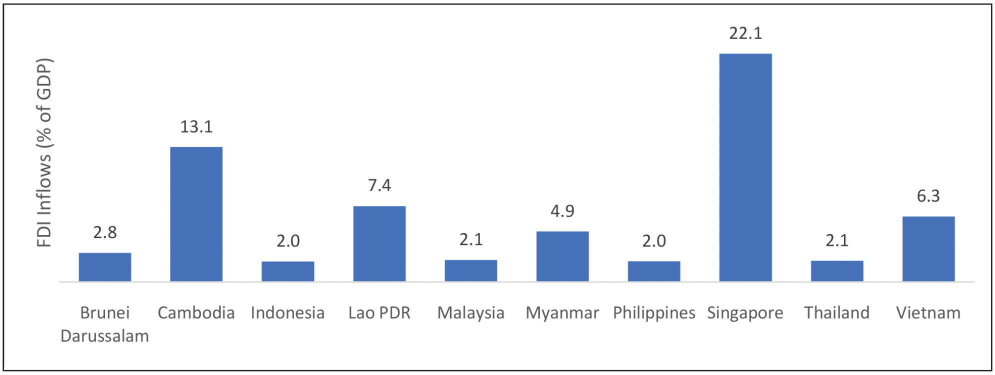
The last group of Asian nations to join this regional industrialization process are the CLMV group. The industrial position of each of these countries vary with Vietnam emerging as a manufacturing base recently and Lao PDR being, however, at the initial stages of development. The proximity and cost competitiveness of the CLMV nations has made them a significant recipient of this redirected investment in the manufacturing sector[12]. As mentioned earlier, the CLMV economies were the last to join ASEAN. These economies initially were centrally planned and in later years gradually opened up their economies and adopted export-led growth strategies. This has resulted in increased FDI into these countries and integrated them early into the regional value chains of Asia. As a result, foreign enterprises contribute significantly to growth, employment, and exports in the CLMV region.

According to the UNCTAD database, among the CLMV economies, Vietnam received the highest investment inflows in 2018 amounting to US$ 15.5 billion (6.3 percent of GDP in 2018) followed by Myanmar at US$ 3.5 billion (4.9 percent), Cambodia at US$ 3.1 billion (13.1 percent) and Lao PDR at US$ 1.3 billion (7.4 percent).

[11]Kiyoshi Kojima, (2000). The "Flying Geese" model of Asian economic development: origin, theoretical extensions, and regional policy implications. Journal of Asian Economics

[12]Value Addition Chains and Trade in Manufactured Commodities in Southeast Asia. Dr. V Kalyan Shankar. Exim Bank Occasional Paper 173. July 2015

Chart 2.3: FDI Inflows into the CLMV during 2018



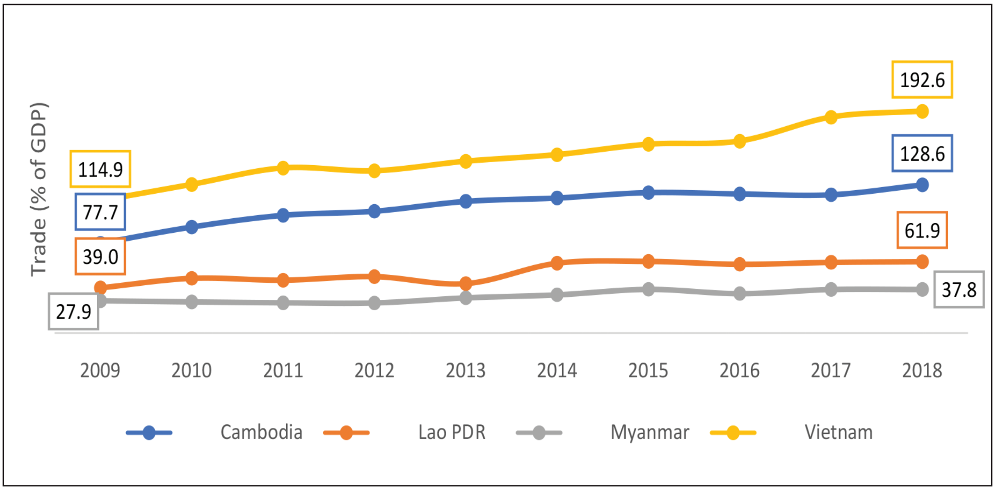
Source: UNCTADStat and Exim India Analysis

The impact of FDI on export diversification or sophistication of an economy is ambiguous. FDI may increase export diversification or sophistication by allowing host countries to enter new export categories; for example, Vietnam's rapid rise as an electronics exporter is due to increased FDI in its manufacturing sectors. However, in case of Lao PDR and Myanmar, FDI has been primarily directed at sectors that are already dominating the host country's exports—for example, primary commodities. In such cases, FDI can increase export concentration and hinder diversification by drawing scarce domestic resources toward these sectors. In case of Cambodia, FDI has led to product concentration on its garment sector.

3. CLMV: RECENT TRENDS IN FOREIGN TRADE AND INVESTMENT

The CLMV region is a combination of four heterogeneous economies comprising geographically smaller countries like Lao PDR and Cambodia with a population of 7.2 million and 16.5 million, respectively, as well as Myanmar and Vietnam with relatively larger landmasses and higher population of 53 million and 95.5 million, respectively. Lao PDR and Myanmar are still at their early stages of development, and their exports majorly compose of natural resources and energy to the other ASEAN countries and China. Cambodia has been a major garment exporter, mainly to the US and European Union primarily under the preferential trade arrangements offered by the latter. Myanmar is gradually opening to the world economy though its trade openness remains the lowest at 37.8 percent of GDP in 2018 among CLMV countries. As shown in **Chart 3.1**, being the most dynamic trading nation in the region and a major participant in the electronics global value chain, Vietnam has the highest trade openness at 192.6 percent of GDP in 2018.

Chart 3.1: Trade Openness of CLMV Economies



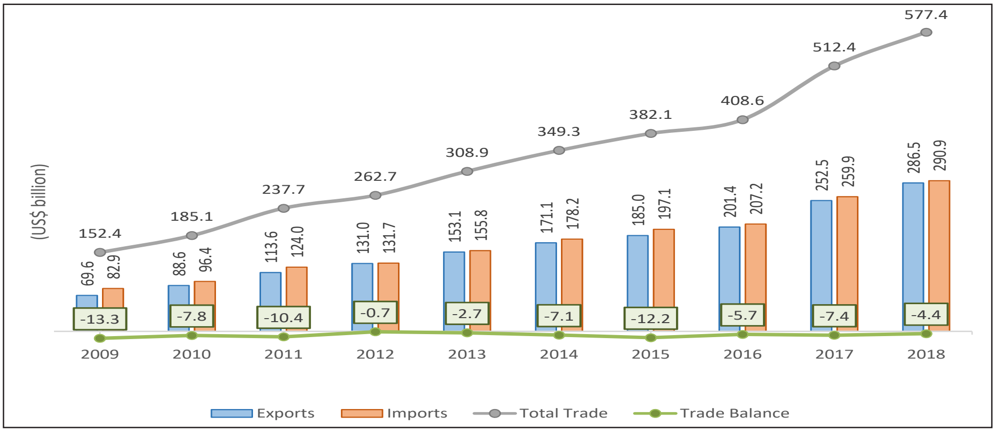
Source: UNCTADStat and Exim Bank Analysis

All four CLMV countries, however, share a lot of common features in terms of trade. All of them are neighbors to China and have a proximity to the Asian supply chain and are integrated to these value chains at different stages. Their trade patterns are therefore heavily influenced by the various bilateral and multilateral trade agreements formed in the region. These countries have also benefitted from free trade agreement like China-ASEAN, Republic of Korea-ASEAN, and other free trade agreements. All these have contributed to the rapidly increasing trade and FDI inflows from China, Japan and Republic of Korea.

The CLMV region accounted for 1.5 percent of the world exports in 2018 increasing from 0.6 percent in 2010 (as per data available for all four countries). CLMV's share in ASEAN's exports have also increased from a share of 8.4 percent in 2010 to 19.8 percent in 2018. One of the major reasons in growth of trade is the increasing trade openness of these economies.

CLMV's total trade increased nearly four times during the past decade from US$ 152.4 billion in 2009 to US$ 577.4 billion in 2018. Growth in the region's trade was driven by a rise in both exports and imports. CLMV's exports stood at US$ 286.5 billion in 2018, from US$ 69.6 billion in 2009, mainly driven by increased exports from Vietnam (**Chart 3.2**). As regards imports, CLMV's total imports amounted to US$ 290.9 billion in 2018, a rise from US$ 82.9 billion in 2009. Among the CLMV countries, Vietnam has the largest volume of trade (accounting for 83.1 percent of the region's total trade), followed by Cambodia (8.5 percent), Myanmar (6.3 percent) and Lao PDR (2.3 percent). The CLMV countries have maintained a trade deficit (US$ 4.4 billion in 2018) during 2009-2018, driven by increased import of capital goods, owing to infrastructural development in the region.

Chart 3.2: Foreign Trade of CLMV Region



Source: ITC Trademap; and Exim Bank Analysis

Cambodia's International Trade

Cambodia's major exports amounted to US$ 20.8 billion increasing four-folds over the last decade. The major commodities exported are shown in **Table 3.1**. Articles of apparel and clothing, footwear and leather articles accounted for 76.7 percent share of Cambodia's export basket in 2018. Cambodian exports enjoy duty-free market access under a variety of duty-free quota-free programs that many advanced, and some developing and emerging economies have put in place for Least Developed Countries (LDCs). In addition, they enjoy duty-free (or highly preferential) access within ASEAN and benefit from the free trade agreements concluded with ASEAN dialogue partners. The advantage that Cambodia enjoys because of duty free access depends on the height of MFN (i.e. non preferential) import duties in the importing country. For those products for which MFN duties are high, the duty-free access provided by these preferential trading arrangements dramatically improves Cambodia's competitive position[13]. Cambodia's garment and footwear exports are majorly dependent on the demand from USA and EU. Although, USA provides Cambodia benefits under the GSP program, it does not provide preference for garments exported by Cambodia[14].The EU has decided to withdraw tariff preferences for select garment and footwear products, all travel goods and sugar exported by Cambodia under the Everything but Arms preferential trade scheme (EBA) scheme and replace it with the EU's standard tariffs (most favored nation or MFN) in February 2020 and would be effective from August 2020[15]. Also, with investment relocation following the US-China trade disputes, Cambodia is looking at diversifying into non-garments sector. Food processing and manufacturing of parts and equipment of other products are also attractive as they are priority industries under the Cambodian government's 5-year tax incentives for SMEs[16]. Cambodia is also exploring FTAs with China and Republic of Korea. Cambodia could diversify into exports of electrical machinery and equipment and vehicles and its parts which presently account for a share of 2.6 percent and 2.3 percent of exports thereby moving up the manufacturing value chain. The major challenges faced are high electricity tariffs and inadequately educated workforce as highlighted by a World Bank report[17].

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[13]Cambodia Trade Integration Strategy, 2014-2018, January 2014, Kingdom of Cambodia, World Bank.

[14]ibid

[15]European Commission Press Release, Brussels, February 12, 2020

[16]Siam Commercial Bank (2019), CLMV Monitor

[17]World Bank (2017), Cambodia Climbing Up the Manufacturing Value Chain, World Bank

Table 3.1: Major Export Items of Cambodia

HS Code	Product Label	2009		2018	
		Values (US$ mn)	Share in total exports (%)	Values (US$ mn)	Share in total exports (%)
TOTAL	**All products**	**4992.0**	**100.0**	**20852.0**	**100.0**
61	Articles of apparel and clothing accessories, knitted or crocheted	2389.5	47.9	8834.2	42.4
62	Articles of apparel and clothing accessories, not knitted or crocheted	46.9	0.9	4047.2	19.4
64	Footwear & gaiters	108.5	2.2	2212.3	10.6
42	Articles of leather	0.3	-	892.6	4.3
85	Electrical machinery and equipment	6.7	0.1	542.0	2.6
87	Vehicles other than railway or tramway	53.6	1.1	482.0	2.3
07	Edible vegetables and certain roots and tubers	1.0	-	442.2	2.1
10	Cereals	12.6	0.3	416.7	2.0
08	Edible fruit and nuts	0.9	-	347.4	1.7
43	Fur skins and artificial fur	-	-	283.2	1.4

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

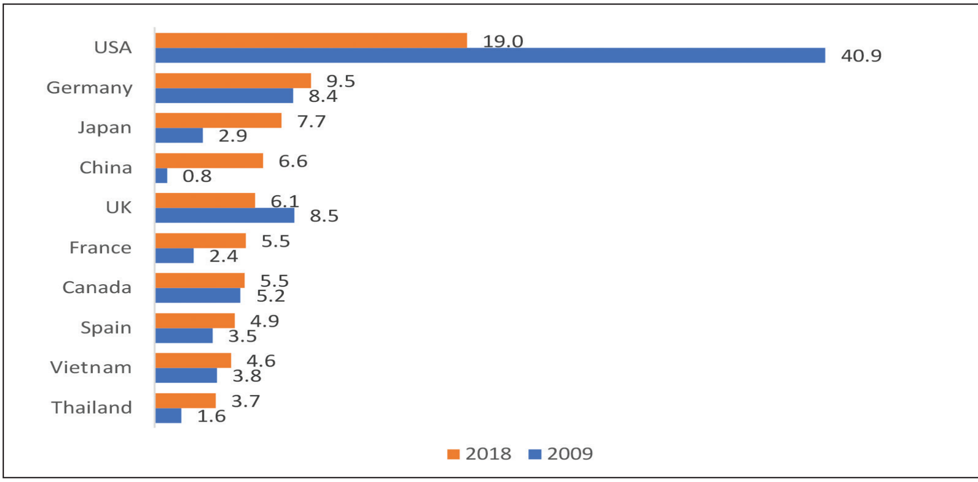
Note: "-" data not available

The major export destinations of Cambodia are shown in **Chart 3.3**. USA, EU and other developed economies account for the major share due to the GSP and EBA benefits given to Cambodia. Vietnam and Thailand being the neighboring countries are the ninth- and tenth-largest export markets. EU accounted for 39.7 percent of Cambodia's exports in 2018 due to the preferential access under EBA, followed by US accounting for 19 percent of total exports. GSP preference for travel goods and handbags was granted to Cambodia in 2016. Although US continues to remain the largest single overseas market for Cambodia's merchandise exports, its share has declined during 2013 from 31.3 percent to 19 percent in 2018 owing to reduced demand in USA[18]. China surpassed USA and became Cambodia's largest trading partner in 2012. China's share in Cambodia's exports have increased over the last decade, which was earlier dominated by agricultural exports[19].

[18]ITC Trademap accessed on November 5,2019.

[19]Cambodia: Background and U.S. Relations, Congressional Research Service U.S, January 28,2019

Chart 3.3: Major Export Markets of Cambodia (Share in %)



Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

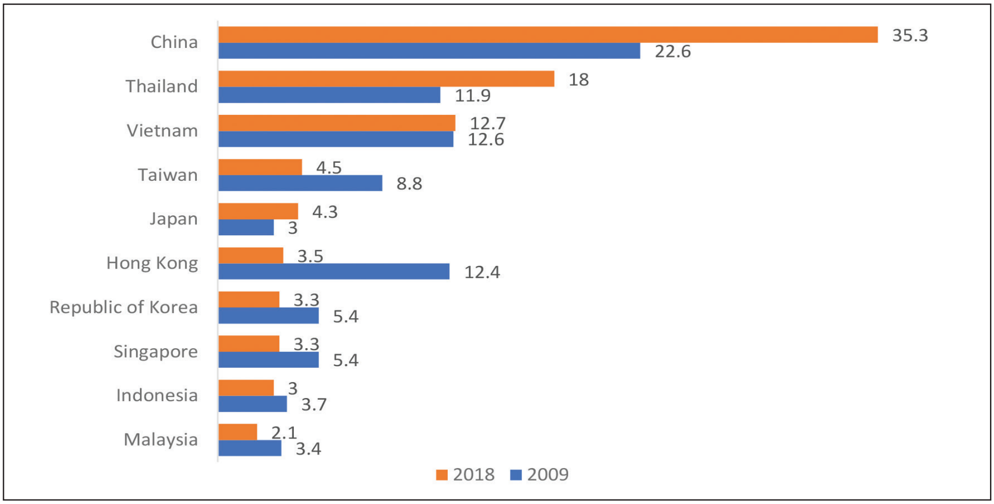
Cambodia's imports amounted to US$ 27.8 billion in 2018 increasing from US$ 3.9 billion in 2009. The major commodities imported by pearls and precious stones, mineral fuels and knitted and crocheted fabrics (**Table 3.2**). Cambodia's import of pearls and precious stones increased in 2018 majorly due to increased imports of gold (HS- 7108) from Thailand.

Table 3.2: Major Import Items of Cambodia

HS Code	Product Label	2009		2018	
		Values (US$ mn)	Share in total imports (%)	Values (US$ mn)	Share in total imports (%)
TOTAL	**All products**	3905.7	100.0	27,811.1	100.0
71	Pearls, precious stones and metals	53.1	1.4	5818.5	20.9
27	Mineral fuels, mineral oils and products of their distillation	391.6	10.0	2824.3	10.2
60	Knitted or crocheted fabrics	737.6	18.9	2765.8	9.9
87	Vehicles other than railway or tramway	252.7	6.5	1686.5	6.1
84	Machinery, mechanical appliances	210.2	5.4	1535.6	5.5
85	Electrical machinery and equipment	277.8	7.1	1298.3	4.7
72	Iron and steel	51.8	1.3	1025.1	3.7
52	Cotton	63.1	1.6	766.3	2.8
39	Plastics and articles	86.9	2.2	672.3	2.4

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Chart 3.4: Major Import Sources of Cambodia (Share in %)



Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Cambodia's major import sources were its neighboring ASEAN economies and other Southeast Asian economies. Cambodia hugely depends on Thailand and China for its imports, which together accounted for almost half of its global imports (**Chart 3.4**). Cambodia's imports from China have steadily increased over the years with the increased imports of products like knitted or crocheted fabrics, man-made staple fibre, machinery and cotton for its garment industry. Cambodia's garment industry is majorly run by companies from China, Japan and Taiwan.

Lao PDR's International Trade

The products exported by Lao PDR during 2018 were majorly primary commodities like mineral fuels, oils and product of their distillation (25 percent of total merchandise exports), ores, slag and ash (10.7 percent) and copper articles (8.4 percent) as shown in **Table 3.3**. Lao PDR is a major exporter of electrical energy HS (2716) and lignite (HS 2702). Lao PDR has shifted its focus to hydro power and mining recently as a part of its national strategy to attract investment. The share of Lao PDR's assembly industries like machinery (assembly of motorbike kits) or apparel, in exports have reduced substantially when compared to 2010[20]. According to the data analyzed from ITC Trade map, Thailand and Vietnam accounted for 99 percent share of Lao PDR's export of

[20] Koshy Mathai, Geoff Gottlieb, Gee Hee Hong, Sung Eun Jung, Jochen M. Schmittmann, and Jiangyan Yu (2016), "China's Changing Trade and the Implications for the CLMV", International Monetary Fund, Washington, September

electrical energy (HS 2716) in 2018 with Thailand accounting for 94 percent of the electricity exported by Lao PDR.

Table 3.3: Major Export Items of Lao PDR

HS Code	Product Label	2010		2018	
		Values (US$ mn)	Share in total exports (%)	Values (US$ mn)	Share in total exports (%)
TOTAL	**All products**	**1908.7**	**100.0**	**6014.9**	**100.0**
27	Mineral fuels, mineral oils and products of their distillation	16.6	0.9	1501.7	25.0
85	Electrical machinery and equipment	17.7	0.9	766.3	12.7
26	Ores, slag and ash	488.2	25.6	646.6	10.7
74	Copper and articles	465.2	24.4	506.2	8.4
44	Wood and articles of wood	40.9	2.1	300.4	5.0
40	Rubber and articles	1.6	0.1	259.8	4.3
62	Articles of apparel and clothing accessories, not knitted or crocheted	89.5	4.7	184.4	3.1
31	Fertilizers	1.2	0.1	169.8	2.8
47	Pulp of wood	0.3	0.0	129.3	2.2
09	Coffee, tea and spices	26.0	1.4	123.3	2.1

Note: data for 2009 not available.
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

It has large hydropower potential and aims to become the center for a regional electricity transmission system by 2025[21].Through its Renewable Energy Development Strategy, 2011–2025, Lao PDR is seeking to promote non-large hydropower renewable resources to reach a 30 percent share of the country's total energy demand by 2025. Lao PDR currently has 32–33 interconnections in the region with Cambodia (2), Myanmar (1), China (4), Thailand (17), and Vietnam (7). MOUs and cooperation agreements have been signed to supply Thailand (up to 9 GW), Vietnam (up to 5 GW) and Cambodia (up to 1.5 GW) by 2020. The Ministry of Energy and Mines, Lao PDR, has also signed an MOU with Myanmar's Ministry of Electricity and Energy with a view to securing exports for 300–500 MW. Thailand has continued to be the main consumer of power exports. Exports to Vietnam have begun only recently with around 1 GW at present and expected to increase further up to 1.5 GW by 2025. In September 2017,

[21]ADB (2019), Lao PDR Energy Sector Assessment, Strategy and Road Map, Asian Development Bank, November 2019

Lao PDR signed an energy purchase and wheeling agreement with Malaysia and Thailand, representing the first multilateral energy exchange or trade in the ASEAN and facilitating multilateral cross-border power trade beyond the Lao PDR's immediate neighbors. Under the 2-year agreement, the Lao PDR is to sell up to 100 MW of electricity to Malaysia via Thailand's power transmission grid, beginning on January 1, 2018[22].

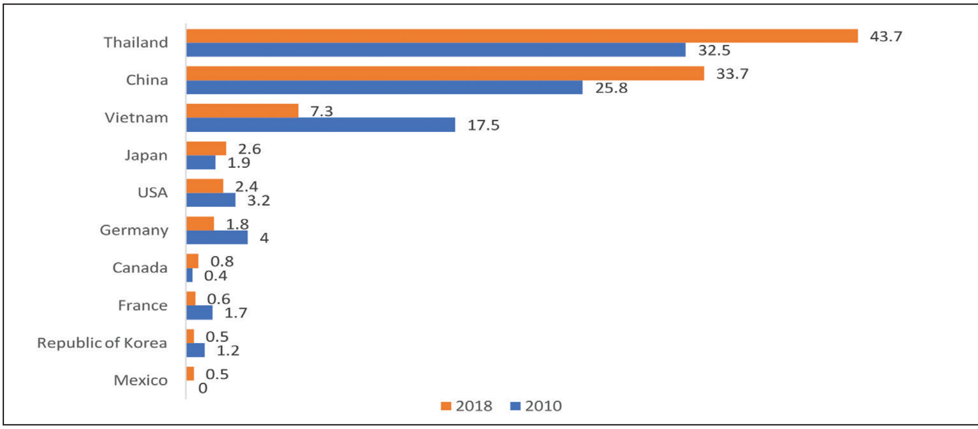
Lao PDR's second major export of electrical machinery and equipment (12.7 percent) majorly included cellular telephone sets and transmission apparatus for radio broadcasting and television. Articles of apparel of clothing not knitted or crocheted accounted for 3.1 percent of exports in 2018. According to the WTO, total value of manufacturing exports by Lao PDR has significantly grown from about US$ 307 million in 2010 to US$ 1,396 million in 2018 driven mainly by exports of electronics, telecommunication and electrical equipment from the two SEZs (Savan-Seno Special Economic Zone and VITA Park), as well as of food and beverages. While the manufacturing sector was traditionally concentrated around garment and food and beverage processing, electrical and electronic parts also accounted for a major share in exports. This shows that Lao PDR is getting integrated into the regional value chains. Addressing constraints like doing business outside of the SEZs and clarifying the incentive policies applicable within, can create potential for further enhancement in exports. Contribution of services to value added exports remain less than 5 percent in Lao PDR. Inadequate supply of financial and telecommunication services is also considered a constraint on the diversification and upgrading of manufacturing firms, preventing them from moving up the value chain[23].

Thailand and China are the major importers accounting for more than three-fourth of Lao PDR's exports in 2018 as shown in **Chart 3.5**. Thailand accounts for 94.7 percent of Lao PDR's export of mineral fuels, oil and product of distillation (HS-27). Within this category, electrical energy (HS 2716) is exported by Lao PDR majorly to Thailand (94.5 percent of Lao PDR's electrical energy exports) and Vietnam which accounts for 4.9 percent of its electrical energy exports. Thailand also accounts for 95.6 percent of Lao PDR's electrical machinery and equipment exports, the second highest exported product by Lao PDR in 2018. China majorly imports primary commodities like ores, slag and ash, wood pulp, edible fruit and nuts, fertilizers, rubber, copper and cereals from Lao PDR accounting for almost 86 percent of its imports.

[22]ibid

[23]WTO (2019), Trade Policy Review Report, Lao People's Democratic Republic, October 2019

Chart 3.5: Major Export Destinations of Lao PDR (Share in %)



Note: data for 2009 not available.
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

The major products imported by Lao PDR are mineral fuels and oils and electrical machinery and equipment (**Table 3.4**). Lao PDR majorly imports petroleum oils as it does not have abundant fossil fuel resources like that of its neighboring countries like Thailand or Vietnam. Capital goods like electrical equipment, machinery and vehicles also form a major part of Lao PDR's import basket.

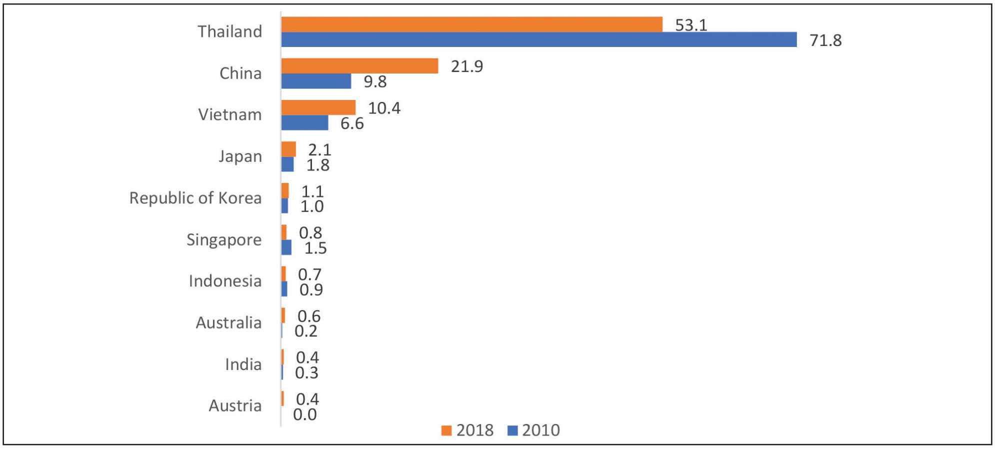
Table 3.4: Major Import Items of Lao PDR

HS Code	Product Label	2010		2018	
		Values (US$ mn)	Share in total imports (%)	Values (US$ mn)	Share in total imports (%)
TOTAL	**All products**	**1836.6**	**100.0**	**6901.7**	**100.0**
27	Mineral fuels, mineral oils and products of their distillation;	465.9	25.4	1021.8	14.8
85	Electrical machinery and equipment	178.2	9.7	893.5	12.9
84	Machinery, mechanical appliances,	210.4	11.5	661.9	9.6
87	Vehicles other than railway or tramway	167.0	9.1	633.6	9.2
72	Iron and steel	79.8	4.3	317.6	4.6
73	Articles of iron or steel	92.2	5.0	304.0	4.4
39	Plastics and articles	39.5	2.2	196.2	2.8
01	Live animals	17.3	0.9	183.0	2.7
22	Beverages, spirits and vinegar	50.8	2.8	132.8	1.9
19	Preparations of cereals, flour, starch or milk	9.3	0.5	118.5	1.7

Note: data for 2009 not available
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Lao PDR's major import sources in 2018 were Thailand, China, and Vietnam accounting for more than 85 percent of Lao PDR's imports (**Chart 3.6**).

Chart 3.6: Major Import Sources of Lao PDR (Share in %)



Note: data for 2009 not available
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Myanmar's International Trade

The major exports of Myanmar are primary commodities like mineral fuels and oils which are mainly in the form of petroleum gas and hydrocarbons (HS2711), followed by cereals, pearls and precious stones, and metals as shown in **Table 3.5**. Articles for apparel and clothing accounted for 24.7 percent of total exports in 2018. Given its abundant supply of natural resources, Myanmar has become heavily dependent on natural gas, gems and lumber exports mostly to Thailand and China. The beneficiary status of Myanmar under the EU's EBA is also under scrutiny and it is expected to graduate from the LDC status in 2024. Share of mineral fuels and oils (majorly petroleum gas and gaseous hydrocarbons) and precious stones (HS 7103) declined from 2009 to 2018 as export share of apparel and clothing accessories has increased during the same period as the economy has opened in recent years.

Myanmar's National Export Strategy or NES 2020-2025 focuses on priority sectors like agro-processing industry, gems and jewellery, handicrafts and ICT. Other sectors which would continue to remain in focus from the NES 2015-2019 are rice, pulses and oilseeds, rubber, access to finance and tourism[24]. The challenges faced by Myanmar are lack of infrastructure, and technological processes to integrate to the global value chains.

[24]ADB (2019), National Export Strategy and linking up to Regional and Global Value Chain, Presentation by Thidar Win Htay (Ms), Deputy Director, Myanmar Trade Promotion Organization, Ministry of Commerce, 22 October 2019

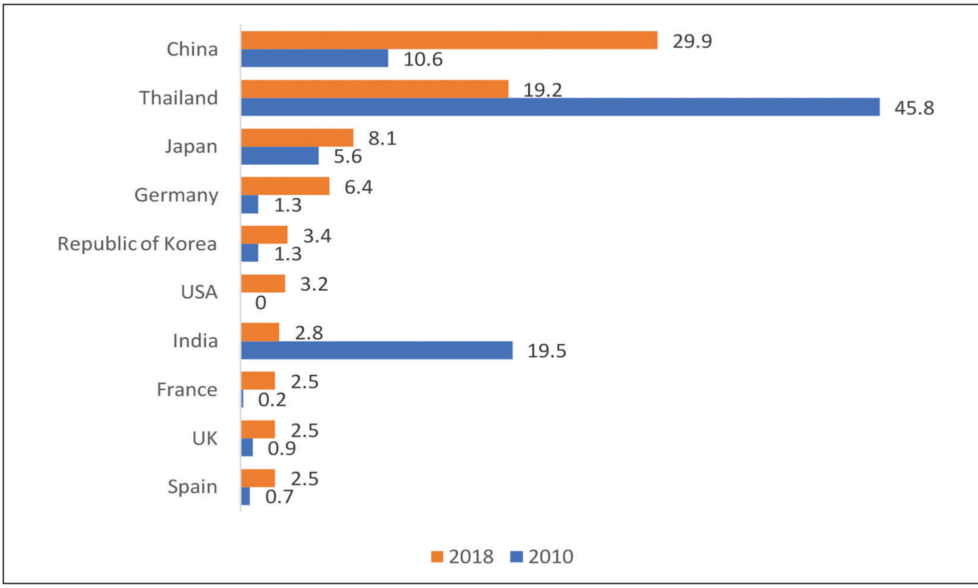
Table 3.5: Major Export Items of Myanmar

HS Code	Product Label	2010		2018	
		Values (US$ mn)	Share in total exports (%)	Values (US$ mn)	Share in total exports (%)
TOTAL	**All products**	**8873.4**	**100.0**	**16671.6**	**100.0**
27	Mineral fuels, mineral oils and products of their distillation	2936.0	33.1	3594.4	21.6
62	Articles of apparel and clothing accessories, not knitted or crocheted	335.5	3.8	3262.7	19.6
10	Cereals	160.9	1.8	1161.6	7.0
71	Pearls, precious stones and metals	1728.7	19.5	942.2	5.7
61	Articles of apparel and clothing accessories, knitted or crocheted	4.9	0.1	853.5	5.1
74	Copper and articles	52.6	0.6	828.7	5.0
17	Sugars and sugar confectionery	9.7	0.1	780.5	4.7
07	Edible vegetables and certain roots and tubers	886.0	10.0	761.5	4.6
03	Fish and crustaceans	313.2	3.5	734.2	4.4
08	Edible fruit and nuts	52.1	0.6	383.6	2.3

Note: data for 2009 not available
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

China and Thailand accounted for majority of Myanmar's exports in 2018 mainly for its hydrocarbon exports. USA, EU and Japan were the major exporters of articles of apparel and clothing both knitted or crocheted as well as not knitted or crocheted. India was the seventh-largest export destination for Myanmar in 2018 (**Chart 3.7**).

Chart 3.7: Major Export Destinations of Myanmar (Share in %)



Note: data for 2009 not available
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Myanmar's major import items were mineral fuels (majorly petroleum oils of HS 2710) and machinery and mechanical appliances, vehicles, and electrical machinery and equipment (**Table 3.6**).

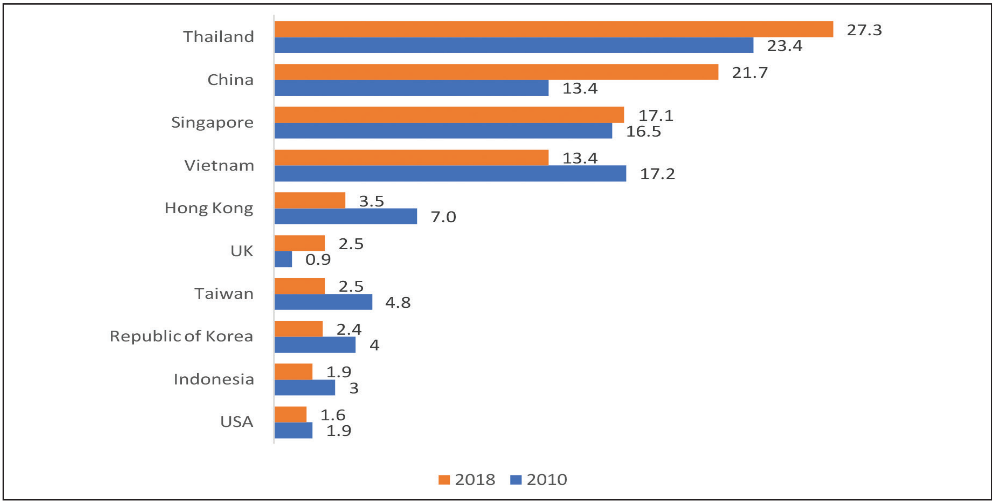
Myanmar majorly imports petroleum oils from Singapore (86 percent) followed by Malaysia and Thailand and India, each accounting for roughly 4 percent of Myanmar's petroleum oil imports (**Chart 3.8**). China is the largest import source for machinery and mechanical appliances for Myanmar, followed by Thailand. Most of Myanmar's import of vehicles were sourced from China, Japan and Thailand.

Table 3.6: Major Import Items of Myanmar

HS Code	Product Label	2010		2018	
		Values (US$ mn)	Share in total imports (%)	Values (US$ mn)	Share in total imports (%)
TOTAL	**All products**	**4865.9**	**100.0**	**19345.5**	**100.0**
27	Mineral fuels, mineral oils and products of their distillation	942.7	19.4	4030.4	20.8
84	Machinery, mechanical appliances	518.5	10.7	1813.0	9.4
87	Vehicles other than railway or tramway	157.2	3.2	1468.2	7.6
85	Electrical machinery and equipment	215.7	4.4	1242.7	6.4
72	Iron and steel	212.3	4.4	971.6	5.0
55	Man-made staple fibres	192.3	4.0	933.3	4.8
39	Plastics and articles	213.3	4.4	808.5	4.2
17	Sugars and sugar confectionery	8.8	0.2	601.4	3.1
15	Animal or vegetable fats and oils	174.2	3.6	586.9	3.0
30	Pharmaceutical products	162.5	3.3	549.7	2.8

Note: data for 2009 not available
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Chart 3.8: Major Import Sources of Myanmar (Share in %)



Note: data for 2009 not available
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Vietnam's International Trade

Vietnam continues to remain one of the fastest-growing ASEAN economies and a regional outperformer for exports. It has succeeded in positioning itself as the main low-cost regional alternative to China for export-oriented manufacturing. Its participation in several major FTAs ensures buoyant growth in both exports and investment by multinationals. Although Vietnam started as a commodity exporter twenty years back, it has climbed up the value chain first by adding garments and later electronics to its export basket. Vietnam's export growth continues to remain robust as it has emerged as the country with maximum market share in apparel and footwear and electronics among the CLMV countries as well as ASEAN with exception being Singapore (for electronics).

Vietnam has been one of the key beneficiary countries from the US-China trade war through trade diversion and FDI from production relocation. Apart from the ASEAN FTA and other FTAs which ASEAN has with third countries[25], Vietnam is also part of additional FTAs including (1) bilateral FTA with Chile, Japan, and Republic of Korea, (2) mega FTA with the European Union (EVFTA) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and (3) many other potential FTAs are under negotiation such as Regional Comprehensive Economic Partnership (RCEP) and Vietnam-Israel FTA or ASEAN-Canada FTA[26]. Second, Vietnam is also benefitting from increased exports to the US in substitution to Chinese products with higher US import tariffs.

The CPTPP is a free trade agreement signed among 11 countries in the Asia-Pacific region: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. Signed on March 8, 2018, it entered into force on December 30, 2018, after most signatories ratified the agreement. This group represents about 13.5 percent of global merchandise trade providing for freer trade and investment access to the member countries[27]. The trade pact is expected to boost Vietnamese exports and attract foreign direct investment, especially projects seeking a production base for exports to CPTPP members.

In Vietnam, a lack of an experienced workforce has been a challenge to business and many companies in the country choose to hire foreign workers. Based on

[25]ASEAN has FTAs with Republic of Korea, Japan, India, Hong Kong, China, Australia and New Zealand.

[26]Asia Regional Integration Center, Asian Development Bank

[27]CSIS (2019), The CPTPP : One Year Later, Centre for Strategic & International Studies, November 2019

data from the Ministry of Labor, Invalids and Social Affairs (MoLISA), the number of foreign employees rose by 5.5 percent on average during 2011-2016; and 73 percent of them are from other Asian countries in the region, mostly from China, Republic of Korea and Japan, the major foreign investors in Vietnam[28].

As shown in **Table 3.7**, Vietnam's major exports are electrical machinery and equipment, footwear, articles of apparel and clothing and machinery and mechanical appliances. The export basket of Vietnam reveals its relatively technology intensive nature compared to Cambodia, Lao PDR and Myanmar. Vietnam has managed to significantly diversify its exports compared to other CLMV countries. There has been a significant rise in the share of export of electrical and electronic equipment in 2018 as compared to 2009 (from 7.4 percent in 2009 to 35.6 percent in 2018) , in which Vietnam had to rely on import of these commodities. These are majorly telephones sets or telephones used for wireless or cellular network (HS 8517) whose share has increased from 1 percent in 2009 to 22.1 percent in 2018 and electronic integrated circuits (HS 8542) – from 0.3 percent in 2009 to 3.2 percent in 2018. Similarly, share of products like machinery and mechanical appliances and optical and medical apparatus has increased. This indicates Vietnam's shift to sophisticated products of the global value chain.

[28]SCB EIC (2018), CLMV Monitor, Q4 2018

Table 3.7: Major Export Items of Vietnam

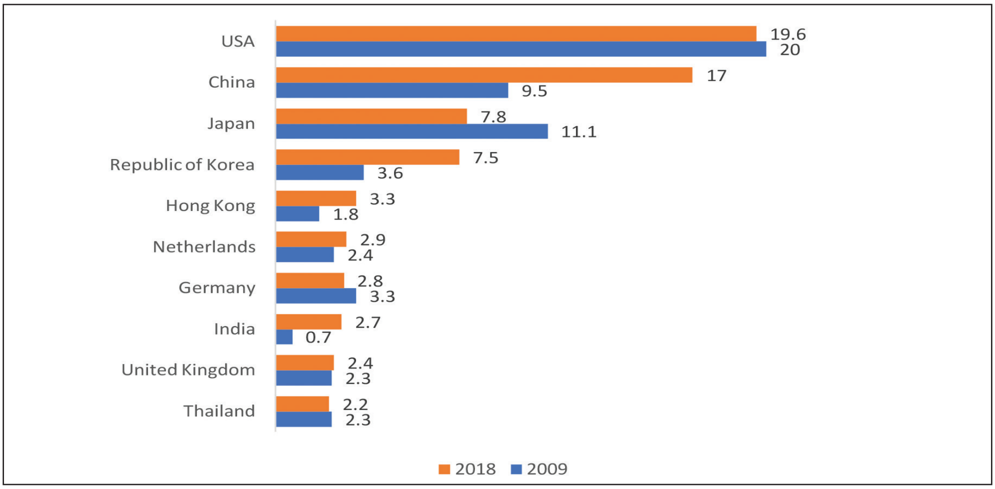
HS Code	Product Label	2009		2018	
		Values (US$ mn)	Share in total exports (%)	Values (US$ mn)	Share in total exports (%)
TOTAL	**All products**	**57096.3**	**100.0**	**242969.2**	**100.0**
85	Electrical machinery and equipment	4201.0	7.4	86442.8	35.6
64	Footwear, gaiters	4151.9	7.3	16806.0	6.9
62	Articles of apparel and clothing accessories, not knitted or crocheted	4354.4	7.6	14324.0	5.9
61	Articles of apparel and clothing accessories, knitted or crocheted	3974.7	7.0	13859.3	5.7
84	Machinery, mechanical appliances	2368.9	4.1	11720.7	4.8
90	Optical, photographic and medical apparatus	760.9	1.3	7707.6	3.2
94	Furniture; bedding, mattresses	2485.9	4.4	7409.8	3.0
03	Fish and crustaceans	3611.2	6.3	6414.7	2.6
08	Edible fruit and nuts	1062.9	1.9	5978.7	2.5
72	Iron and Steel	411.0	0.7	460.3	1.9

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Vietnam is integrated to value chains like electrical machinery, textiles, footwear and supplies of developed economies like USA, China, Japan and Republic of Korea making them Vietnam's major export destinations as shown in **Chart 3.9**. India was the eighth-largest global export destination for Vietnam.

Vietnam also imports electrical machinery and equipment, machinery and mechanical appliances, plastic articles (**Table 3.8**) from economies like China, Republic of Korea, and Japan among others. Vietnam imports cotton majorly from USA, China and India (combined 70 percent of Vietnam's cotton imports) and for textile manufacturing.

Chart 3.9: Major Export Destination of Vietnam (Share in %)



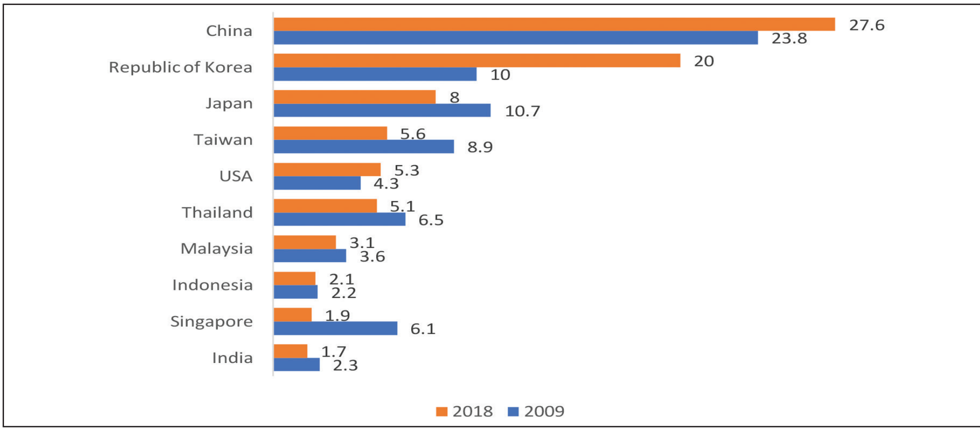
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Table 3.8: Vietnam's Major Import Items

HS Code	Product Label	2009		2018	
		Values (US$ mn)	Share in total imports (%)	Values (US$ mn)	Share in total imports (%)
TOTAL	**All products**	**69948.8**	**100.0**	**236837.4**	**100.0**
85	Electrical machinery and equipment	8296.8	11.9	67726.7	28.6
84	Machinery, mechanical appliances	9982.7	14.3	21660.5	9.1
39	Plastics and articles	4043.6	5.8	15155.2	6.4
27	Mineral fuels, mineral oils and products of their distillation	7581.0	10.8	14815.6	6.3
72	Iron and steel	6150.3	8.8	12003.9	5.1
90	Optical, photographic apparatus	1301.8	1.9	9299.6	3.9
60	Knitted or crocheted fabrics	1011.3	1.4	5001.5	2.1
52	Cotton	1498.5	2.1	4748.3	2.0
76	Aluminum and articles	720.2	1.0	4477.7	1.9
87	Vehicles other than railway or tramway	2523.9	3.6	4452.1	1.9

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Chart 3.10: Major Import Sources of Vietnam (Share in %)



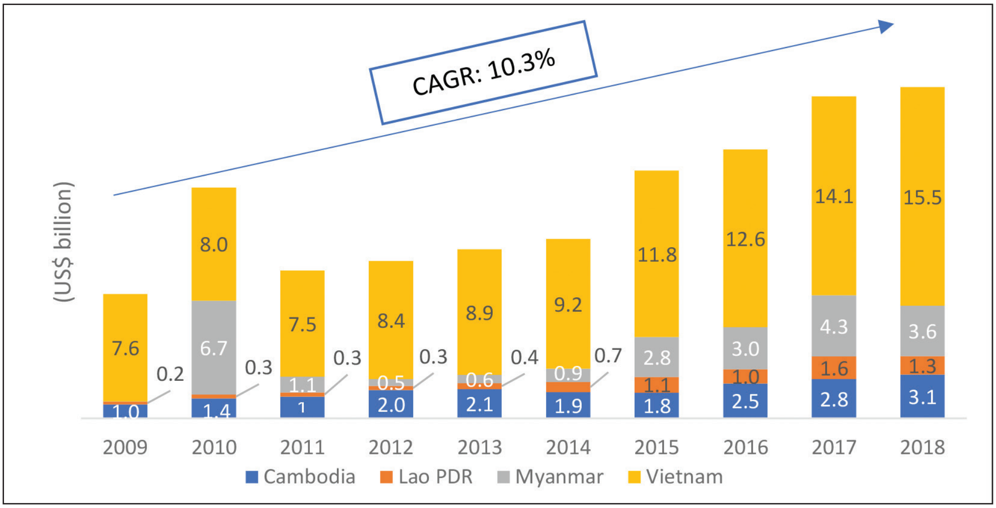
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

Chart 3.10 shows the major import sources for Vietnam. India was the tenth largest source of import for Vietnam in 2018. China is a major supplier of consumption and capital goods and, more recently, has become a source of intermediate goods for final assembly in Vietnam as final production in Vietnam has expanded. Vietnam's FTA with Republic of Korea signed in 2015 has also significantly boosted Vietnam's import from this country with the major product being electronic integrated circuits (HS 8542).

Investments in CLMV

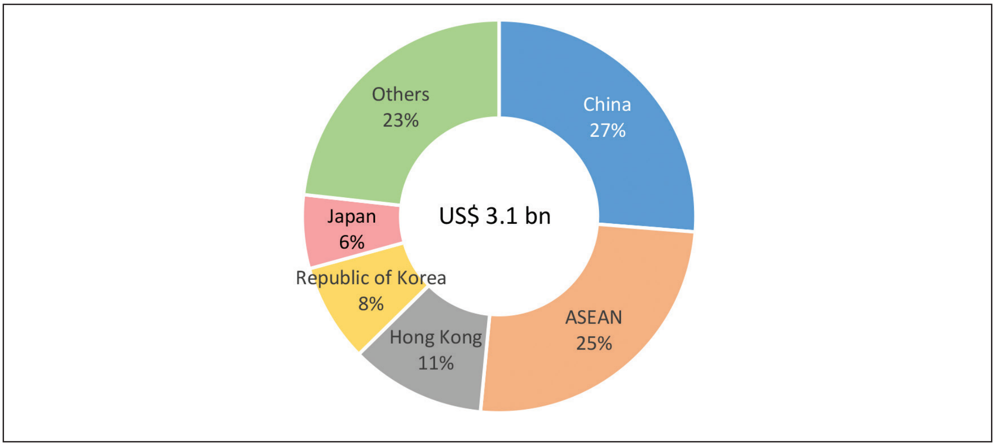
Investment into the CLMV countries remained strong during 2018 with the cumulative inflow of around US$ 23.5 billion. Myanmar witnessed a spike of FDI inflows in 2010 due to increasing FDI inflows from Thailand and China. During 2014, Myanmar implemented the "Special Economic Zones" Law. The gradual dismantling of economic restrictions by the US and EU also led to steady FDI inflows in the following years. (**Chart 3.11**). Cambodia's annual FDI inflows increased by 11 percent in 2018 to be at US$ 3.1 billion, mainly on account of FDI in financial services and real estate projects. In Myanmar, FDI inflows declined by 18 percent to US$ 3.6 billion in 2018. Major foreign investors slowed their investment, with the humanitarian crisis in Rakhine state being a contributing factor. Based on approved projects, foreign investments in the Thilawa SEZ – the country's first SEZ, in its second phase of construction – exceeded its cumulative investment target of US$ 6 billion in early 2018. FDI inflows to the Lao PDR, where China has been the largest investor, also contracted (down 17 percent to US$ 1.3 billion in 2018), after peaking in 2017. FDI inflows into Vietnam increased to US$ 15.5 billion in 2018 from 14.1 billion in 2017. The cumulative investment inflows to the CLMV region grew by a CAGR of 10.3 percent during the last decade (2009-2018). The inflows majorly came from intra-ASEAN sources and other Asian economies (China, Japan, Republic of Korea) as shown in **chart 3.11**. Vietnam is the largest recipient in the region, accounting for 66 percent of CLMV's FDI inflows in 2018. This was followed by Myanmar (15.1 percent), Cambodia (13.2 percent) and Lao PDR (5.6 percent). As regards outflows, Vietnam's share in the region's FDI outflows was the highest at 82.8 percent in 2018, followed by Cambodia (17.2 percent).

Chart 3.11: Foreign Investment Inflows into CLMV



Source: UNCTADStat and Exim Bank Analysis

Chart 3.12: Major Investors in Cambodia during 2018

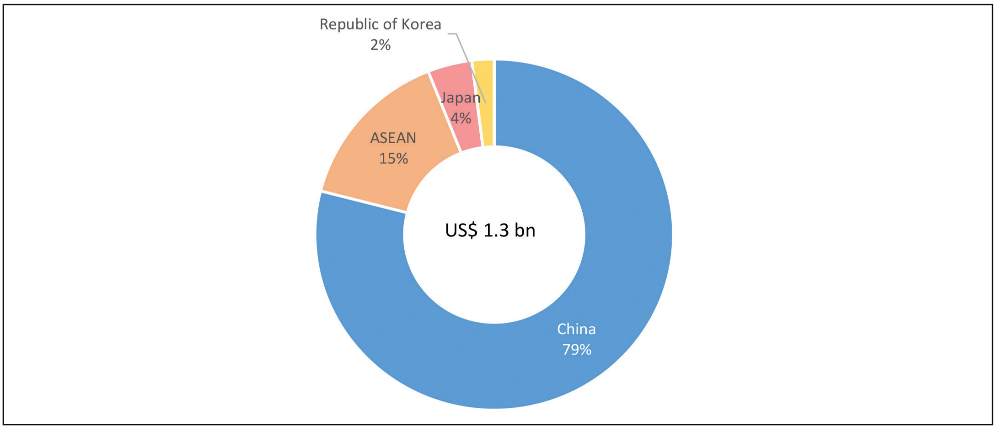


Source: ASEAN Investment Report 2019 and Exim India Analysis

Ongoing infrastructure investments and investments under the Belt and Road Initiative by China has also contributed to the continued flow of foreign investments in the CLMV economies. According to the ASEAN Investment Report 2019, Chinese and other Asian MNEs are shifting production to the CLMV countries for cost reasons and in some cases because of the uncertainty due to the United States-China trade tensions. Chinese and ASEAN companies were the major investors in Cambodia in 2018, accounting for more than 50 percent of inflows to the country (**Chart 3.12**).

Investments in Lao PDR, on the other hand, were mainly by China accounting for nearly 80 percent of total flows (**Chart 3.13**).

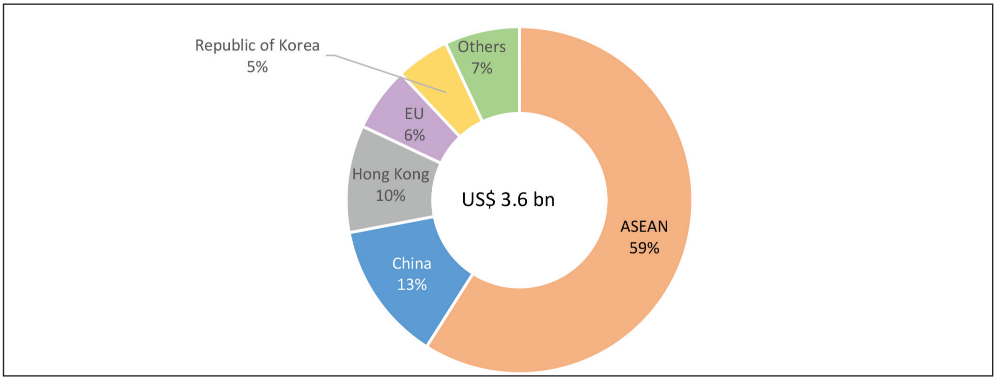
Chart 3.13: Major Investors in Lao PDR during 2018



Source: ASEAN Investment Report 2019 and Exim Bank Analysis

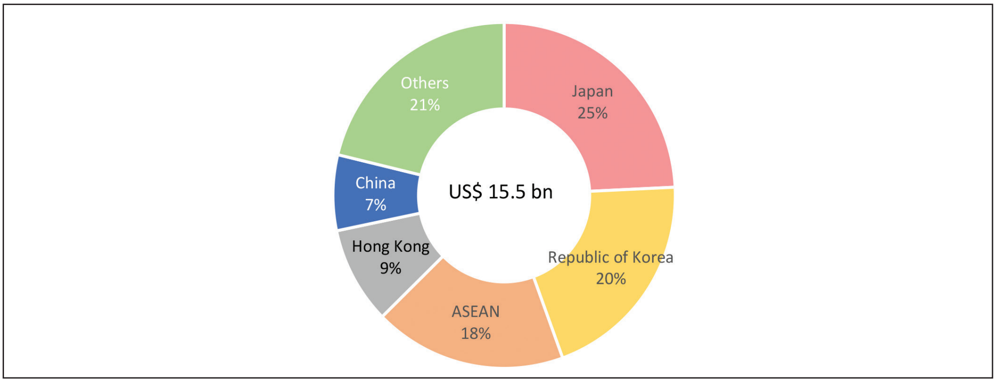
In Myanmar, ASEAN remained the largest source of investment (59 percent), led by companies based in Singapore, China and Hong Kong (**Chart 3.14**).

Chart 3.14: Major Investors in Myanmar during 2018



Source: ASEAN Investment Report 2019 and Exim Bank Analysis

Chart 3.15: Major Investors in Vietnam during 2018

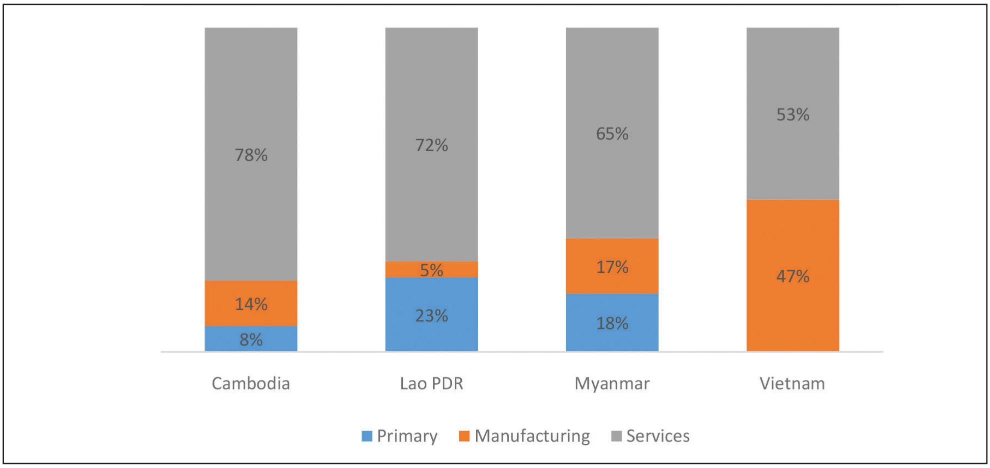


Source: ASEAN Investment Report 2019 and Exim Bank Analysis

During the year, Vietnam attracted investments from Japan, the Republic of Korea and ASEAN, cumulatively accounting for 63 percent of the investments (**Chart 3.15**).

As regards sectors attracting investments in the CLMV region, in Lao PDR infrastructure, including construction and electricity generation, has been the largest recipient of FDI in 2018. Finance, real estate and manufacturing were the dominant recipients of inflows to Cambodia in 2018. Manufacturing sector remained the single largest recipient of FDI in Vietnam, accounting for 47 percent of total FDI in the country. In Myanmar, mining, manufacturing and services were the key sectors attracting investments in 2018 (**Chart 3.16**)

Chart 3.16: Sectoral Classification of Foreign Investment Inflows in CLMV during 2018



Source: ASEAN Investment Report 2019 and Exim India Analysis

4. INDIA'S TRADE AND INVESTMENT WITH CLMV

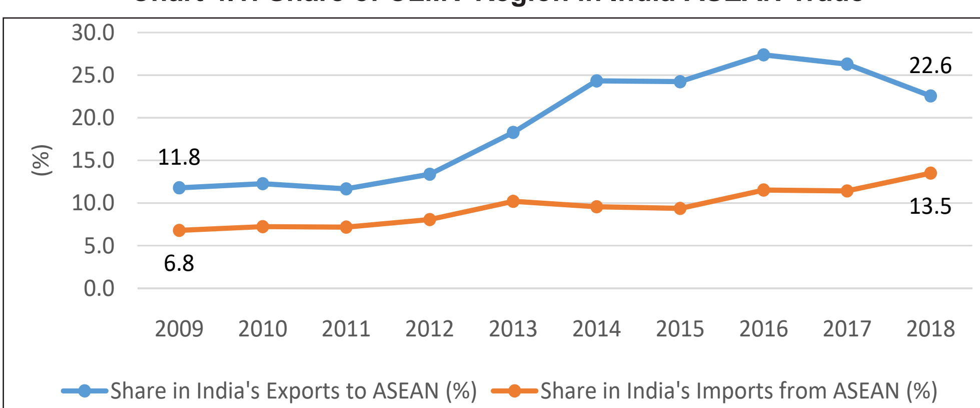
India has historically shared strong cultural and strategic ties with the ASEAN nations and more importantly with the CLMV countries due to the geographical proximity with these countries. However, India's economic engagements with the region has been relatively modest despite policies in place like the "Act East Policy".

The share of CLMV in India's trade with ASEAN has increased significantly from 2009 to 2018. However, as regards exports the share of CLMV in India's exports to ASEAN peaked at 27.4 percent in 2016, before declining to 22.6 percent in 2018. The share of CLMV in India's imports from ASEAN, on the other hand, peaked at 13.5 percent in 2018 (**Chart 4.1**)

During the last ten years, India's total trade with the CLMV countries has grown nearly five-fold from US$ 3.7 billion in 2009 to US$ 15.9 billion in 2018, (**Chart 4.2**).

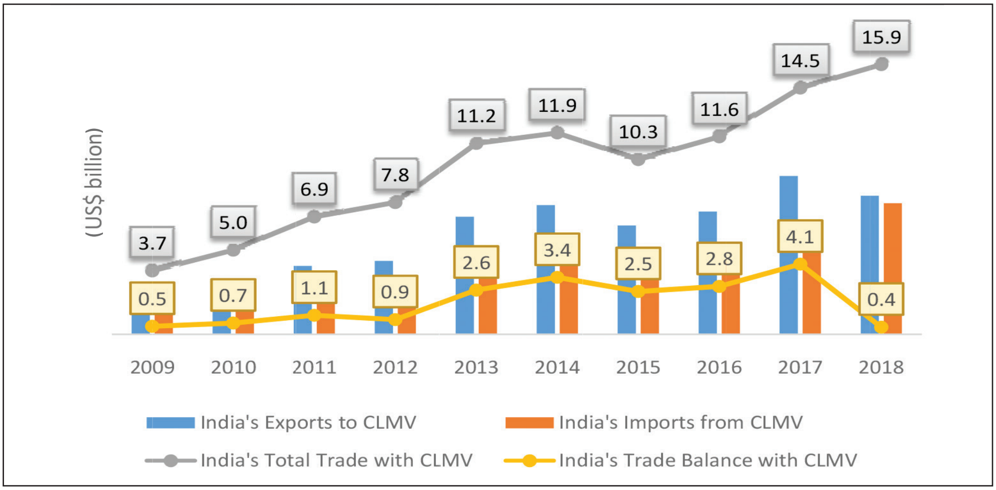
India's exports to CLMV increased by more than four-fold from US$ 2.1 billion in 2009 to US$ 8.2 billion in 2018. Similarly, India's imports from CLMV also increased from US$ 1.6 billion in 2009 to US$ 7.7 billion in 2018.

Chart 4.1: Share of CLMV Region in India-ASEAN Trade



Source: ITC Trademap; and Exim Bank Analysis

Chart 4.2: India's Trade with CLMV Region



Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

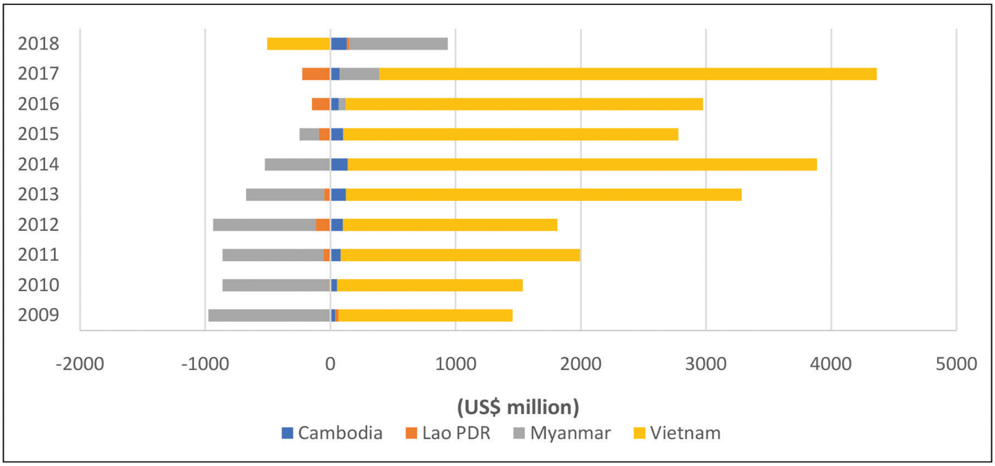
India's trade deficit with ASEAN has widened from US$ 6.1 billion in 2009 to US$ 21.1 billion in 2018. The major reason behind such a huge trade deficit is the heavy import of electrical machinery and equipment (HS 85), animal and vegetable fats (HS 15) and machinery and mechanical appliances (HS 84). The only countries in ASEAN with which India had a trade surplus during 2018 were Philippines, Myanmar, Cambodia and Lao PDR.

Chart 4.3 shows the trend of India's trade balance with the CLMV economies. As is evident, India continued to have a trade surplus with Cambodia over the last ten years majorly due to export of pharmaceutical products (HS 30), vehicles other than railway or tramway (HS 87) and machinery and mechanical appliances (HS 84). India maintained a trade deficit with Lao PDR till 2017, observed a trade surplus in 2018. The deficit till 2017 was majorly owing to India's import of pearls, precious stones and metals (HS 71), ores slag and ash (HS 26) and wood articles (HS 44). In 2018, India registered a trade surplus with Lao PDR majorly owing to increased exports of electrical machinery and equipment (HS 85), machinery and mechanical appliances (HS 84), vehicles other than railway and tramway (HS 87) and pharmaceutical products (HS 30).

India has consistently maintained a trade deficit with Myanmar from 2009 to 2015 mainly due to import of products like edible vegetables and roots (HS 07), wood articles (HS 44), edible fruits and nuts (HS 08) and coffee, tea and spices (HS 09). India has imposed quantitative restrictions on import of beans and pulses, classified under edible vegetables, certain roots and tubers (HS 0714). In 2017, India published a notification restricting the import of pulses through a quota for matpe, green gram and pigeon beans, as a measure for the steep decline in prices. This quota has been extended to March 2021[29]. As of 2018, India has a trade surplus with Myanmar owing to exports of mineral fuels, oil and product of their distillation (HS 27), pharmaceutical products (HS 30), sugar and sugar confectionery (HS 17).

India maintained a trade surplus with Vietnam from 2009 to 2017 with exports of products like meat and edible meat offal (HS 02), fish and crustaceans (HS 03), iron and steel (HS 72) and cotton (HS 52). In 2018, however, India registered a trade deficit with Vietnam due to huge import of electrical machinery and equipment (HS 85), copper articles (HS 74) and inorganic chemicals (HS 85), among others. One of the probable reasons of India's trade surplus with Vietnam changing to a deficit is increased investment of China in Vietnam as a result of the diversion of China's resources due to increasing trade tensions with USA. As Vietnam is part of the ASEAN-India FTA, Chinese goods exported to India through Vietnam would enjoy the duty-free access as agreed under the ASEAN-India FTA.

Chart 4.3: India's Trade Balance with CLMV countries



Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

[29]DGFT

India’s Trade with Cambodia

India’s trade with Cambodia has steadily increased from US$ 45.3 billion in 2009 to US$ 226.7 billion in 2018. India’s exports to Cambodia was valued at US$ 178.2 million in 2018 as compared to US$ 41.6 billion in 2009. Pharmaceutical products accounted for the major share of India’s exports to Cambodia followed by vehicles, machinery and mechanical appliances (**Table 4.1**). India was the largest exporter of pharmaceutical products (HS 30) to Cambodia in 2018 accounting for 14.6 percent of Cambodia’s pharmaceutical imports from the world. India was the ninth largest supplier of vehicles to Cambodia accounting for a share of 2.3 percent of Cambodia’s total import of vehicles (HS 87) from the world. India was also the 8th largest exporter of raw hides and skins to Cambodia accounting for 4 percent of Cambodia’s imports for this item. The raw hides and skins are utilized for Cambodia’s leather articles and footwear industry.

Table 4.1: India’s Major Exports to Cambodia in 2018

HS Code	Product	India’s Exports to Cambodia (US$ mn)	Share in India’s Total Exports (%)	Share in Cambodia’s Imports from the World (%)
Total	**All products**	**178.2**	**0.1**	**0.6**
30	Pharmaceutical products	43.2	0.3	14.6
87	Vehicles other than railway or tramway	38.4	0.2	2.3
84	Machinery, mechanical appliances,	20.5	0.1	1.3
41	Raw hides and skins	10.2	1.3	4.0
52	Cotton	9.3	0.1	1.2
23	Residues and waste from the food industries;	7.4	0.4	3.9
54	Man-made filaments;	6.8	0.3	1.6
55	Man-made staple fibres	5.8	0.3	1.9
60	Knitted or crocheted fabrics	3.7	0.9	0.1
85	Electrical machinery and equipment	3.2	-	0.2

Note: “-” nil or data not available
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

India's import from Cambodia increased to US$ 48.5 million in 2018 from hanging US$ 3.7 million in 2009, and were mainly composed of articles of apparel and clothing, rubber articles, footwear, and wood articles, among others (**Table 4.2**). India was the 3rd largest importer of rubber articles from Cambodia, accounting for 5.2 percent of Cambodia's global rubber exports. It was also the third largest importer of starches (HS 1108) under the category of products of the milling industry accounting for 6.2 percent of Cambodia's exports in 2018. India was also the fourth largest destination for Cambodia's animal and vegetable fat exports, majorly palm oil (HS 1511) in 2018.

Table 4.2: India's Major Imports from Cambodia in 2018

HS Code	Product	India's Imports from Cambodia (US$ mn)	Share in India's Total Imports (%)	Share in Cambodia's Exports to the World (%)
Total	**All products**	**48.5**	**-**	**0.2**
61	Articles of apparel and clothing accessories, knitted or crocheted	12.3	2.8	0.1
40	Rubber articles	10.6	0.3	5.2
62	Articles of apparel and clothing accessories, not knitted or crocheted	5.8	1.0	0.1
64	Footwear, gaiters	5.8	0.8	0.3
44	Wood and articles of wood	3.6	0.2	1.3
11	Products of the milling industry	2.0	2.5	6.2
08	Edible fruit and nuts; peel of citrus fruit or melons	1.8	-	0.5
90	Optical, photographic and medical apparatus	1.1	-	1.2
87	Vehicles other than railway or tramway	1.1	-	0.2
15	Animal and vegetable fats	0.9	-	3.9

Note: "-" Data not available or nil
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

India's Trade with Lao PDR

India's exports to Lao PDR in 2018 were valued at US$ 37.4 million increasing from US$ 26.9 billion in 2009. These mainly composed of electrical machinery and equipment, machinery and mechanical appliances, vehicles other than railway and tramway, and pharmaceutical products, among others (**Table 4.3**). India was the fifth largest exporter of electrical machinery and equipment accounting for 2 percent of Lao PDR's global imports, majorly insulated wire or cable (HS 8544). India accounted for 7.2 percent of Lao PDR's pharmaceutical imports from the world in 2018. India was the third largest exporter majorly exporting vaccines (HS 300220), medicaments containing penicillin (HS 300410) and medicaments for therapeutic purposes.

Table 4.3: India's Major Exports to Lao PDR in 2018

HS Code	Product	India's Exports to Lao PDR (US$ mn)	Share in India's Total Exports (%)	Share in Lao PDR's Imports from the World (%)
Total	**All products**	**37.4**	**-**	**0.5**
85	Electrical machinery and equipment	17.6	0.1	2.0
84	Machinery, mechanical appliances	8.2	-	1.2
87	Vehicles other than railway or tramway	3.8	-	0.6
30	Pharmaceutical products	2.8	-	7.2
02	Meat and edible meat offal	0.9	-	0.9
73	Articles of iron or steel	0.6	-	0.2
23	Residues and waste from the food industries	0.6	-	1.0
29	Organic chemicals	0.4	-	0.9
90	Optical, photographic and medical apparatus	0.3	-	0.3
54	Man-made filaments	0.3	1.6	-

Note: "-" data not available or nil

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

India’s major imports from Lao PDR were valued at US$ 17.2 million in 2018 increasing from US$ 0.2 million in 2009 and were majorly composed of pearls, precious stones and metals, wood articles, lac, gums and resins. India was the largest importer of gold (HS 7108) accounting for 20.6 percent of Lao PDR’s global exports. Lac, gums and resins and wood articles were the other products having significant share in Lao PDR’s global exports (**Table 4.4**).

Table 4.4: India’s Major Imports from Lao PDR in 2018

HS Code	Product	India’s Imports from Lao PDR (US$ mn)	Share in India’s Total Imports (%)	Share in Lao PDR’s Exports to the world (%)
Total	**All products**	**17.2**	**-**	**0.3**
71	Pearls, precious stones and metals	12.9	-	20.6
44	Wood and articles of wood	3.2	0.1	1.1
13	Lac, gums and resins	0.4	0.2	4.1
85	Electrical machinery and equipment	0.4	-	-
09	Coffee, tea, maté and spices	0.3	-	0.2
33	Essential oils and resinoids	0.1	-	0.9
24	Tobacco and manufactured tobacco substitutes	-	0.1	0.1
72	Iron and steel	-	-	0.4
90	Optical, photographic, cinematographic and medical apparatus	-	-	-

Note: “-” data not available or nil
Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

India's Trade with Myanmar

Myanmar and India share a long land border of 1,643 kms along the north eastern states of Arunachal Pradesh, Manipur, Mizoram and Nagaland. In spite of the geographical proximity, growth of trade between India and Myanmar during the last decade was marginal, increasing from US$ 1.4 billion in 2009 to only US$ 1.7 billion in 2018. In 2018, India's exports to Myanmar was valued at US$ 1.2 billion, which accounted for 6.4 percent of Myanmar's global imports. The major items of exports were mineral fuels, oils and product of distillation, pharmaceutical products and sugar and sugar confectionery (**Table 4.5**). Commodity-wise, India was the largest exporter of pharmaceutical products to Myanmar during 2018, accounting for its 36.7 percent of global imports. These are majorly medicaments for therapeutic use (HS 3004). India was also the largest exporter of meat and edible meat offal (HS 02) to Myanmar during the same year accounting for 69.7 percent of its global imports. India was also the second largest exporter of cotton to Myanmar during the same year accounting for 25 percent of Myanmar's global imports of cotton. India was the fourth largest exporter of mineral fuels to Myanmar, which mainly comprise refined petroleum oil (HS 2710).

Table 4.5: India's Major Exports to Myanmar in 2018

HS Code	Product	India's Exports to Myanmar (US$ mn)	Share in India's Total Exports (%)	Share in Myanmar's Imports from the World (%)
Total	**All products**	**1234.7**	**0.4**	**6.4**
27	Mineral fuels, mineral oils and products of their distillation	211.3	0.4	5.2
30	Pharmaceutical products	201.5	1.4	36.7
17	Sugars and sugar confectionery	130.6	11.2	21.7
02	Meat and edible meat offal	100.8	2.7	69.7
87	Vehicles other than railway or tramway	79.3	0.4	5.4
85	Electrical machinery and equipment	60.2	0.5	4.8
72	Iron and steel	55.4	0.6	5.7
84	Machinery, mechanical appliances	47.9	0.2	2.6
52	Cotton	47.7	0.6	25.5
23	Residue from food industries	43.4	2.6	17.7

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

India's imports from Myanmar in 2018 were valued at US$ 446.3 million in 2018 decreasing from US$ 1,181.8 million in 2009 and accounted for 2.7 percent of Myanmar's global exports. Imports from Myanmar have majorly decreased after India imposed a quantitative restriction of import of dried leguminous vegetables (HS 0713) in 2015. The major items of imports from Myanmar during 2018 were edible vegetables and roots, wood articles, iron and steel and zinc articles (**Table 4.6**). India was the largest importer of edible vegetables and roots (HS 07) accounting for 38.5 percent of Myanmar's exports to the world in 2018. India was also the largest importer of wood articles from Myanmar (HS 44) during 2018 accounting for 8.9 percent of Myanmar's global exports of wood articles in 2018.

Table 4.6: India's Major Imports from Myanmar in 2018

HS Code	Product	India's Imports from Myanmar (US$ mn)	Share in India's Total Imports (%)	Share in Myanmar's Exports to the World (%)
Total	**All products**	**446.3**	**0.1**	**2.7**
71	Edible vegetables and certain roots and tubers	293.2	27.3	38.5
44	Wood and articles of wood	99.3	4.5	48.9
13	Iron and steel	8.9	0.1	3.4
85	Zinc and articles	8.3	1.0	31.9
09	Rubber and articles	5.9	0.2	2.5
33	Coffee, tea, maté and spices	4.9	0.6	8.6
24	Aluminium and articles	4.6	0.1	27.3
30	Oil seeds and oleaginous fruits	4.6	0.9	1.8
72	Fish and crustaceans	4.4	4.5	0.6
90	Raw hides and skins	2.4	0.4	33.7

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

India’s Trade with Vietnam

The bilateral relations between India and Vietnam gained new heights in 2016 when it was elevated to “Comprehensive Strategic Partnership”, a strategic relation that Vietnam shares with only China and Russia[30]. India’s trade with Vietnam has increased six-fold from US$ 2.3 billion to US$ 13.9 billion in 2018.

India’s exports to Vietnam amounted to US$ 6.7 billion in 2018, increasing from US$ 1.8 billion in 2009 and accounted for 2.1 percent of India’s total exports to the world and 2.8 percent of Vietnam’s imports from the world. The major products exported by India are meat and edible meat offal, fish and crustaceans, cotton and coffee, tea and spices (**Table 4.7**). India was the largest exporter of meat and edible meat offal (HS 02) and fish and crustaceans (HS 03) accounting for 50.2 percent and 77.2 percent of Vietnam’s global imports for these products in 2018, respectively. India was also the fourth largest exporter of spices mainly pepper, fennel, cardamom and coriander among others (HS 0904, HS 0909, HS 0908 and HS 0910) to Vietnam during the same period.

Table 4.7: India’s Major Exports to Vietnam in 2018

HS Code	Product	India’s Exports to Vietnam (US$ mn)	Share in India’s Total Exports (%)	Share in Vietnam’s Imports from the World (%)
Total	**All products**	**6708.2**	**2.1**	**2.8**
02	Meat and edible meat offal	1785.4	47.9	50.2
03	Fish and crustaceans	1173.8	18.5	77.2
52	Cotton	510.5	6.3	10.8
09	Coffee, tea, maté and spices	334.1	10.7	34.1
72	Iron and steel	322.6	3.2	2.7
84	Machinery, mechanical appliances	247.2	1.2	1.1
23	Residues and waste from the food industries	230.7	13.8	6.0
39	Plastics and articles	197.0	2.5	1.3
85	Electrical machinery and equipment	184.7	1.6	0.3
87	Vehicles other than railway or tramway	162.4	0.9	3.6

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

[30]Bilateral Relations Brief, India and Vietnam, MEA, February 4, 2020

India’s imports from Vietnam amounted to US$ 7.2 billion in 2018 increasing from US$ 442.9 million in 2009 accounting for 1.4 percent of India’s global imports and 3 percent of Vietnam’s global exports. The major products imported by India are electrical machinery and equipment, inorganic chemicals, copper articles and machinery and mechanical appliances (**Table 4.8**). Vietnam was the third largest supplier of electrical machinery and equipment to India in 2018 accounting for 6.8 percent of India’s global imports. India also emerged as the largest market of inorganic chemicals and copper articles from Vietnam accounting for 42.8 percent and 43.3 percent of Vietnam’s global exports for these products during 2018, respectively. However, it may be noted that these products do not feature in Vietnam’s major exports to the world.

Table 4.8: India’s Major Imports from Vietnam in 2018

HS Code	Product	India’s Imports from Vietnam (US$ mn)	Share in India’s Total Imports (%)	Share in Vietnam’s Exports to the World (%)
Total	**All products**	**7214.0**	**1.4**	**3.0**
85	Electrical machinery and equipment	3539.7	6.8	4.1
28	Inorganic chemicals	531.9	7.3	42.8
74	Copper and articles	474.8	9.3	43.3
84	Machinery, mechanical appliances,	352.4	0.8	3.0
73	Articles of iron or steel	309.2	6.2	10.3
72	Iron and steel	236.9	2.0	5.1
09	Coffee, tea, maté and spices	233.8	30.8	5.7
40	Rubber and articles	196.7	5.2	5.1
64	Footwear, gaiters	114.5	15.4	0.7
54	Man-made filaments	112.1	12.0	9.8

Source: ITC Trademap, derived from UN Comtrade; and Exim Bank Analysis

India’s Investment Relations with CLMV

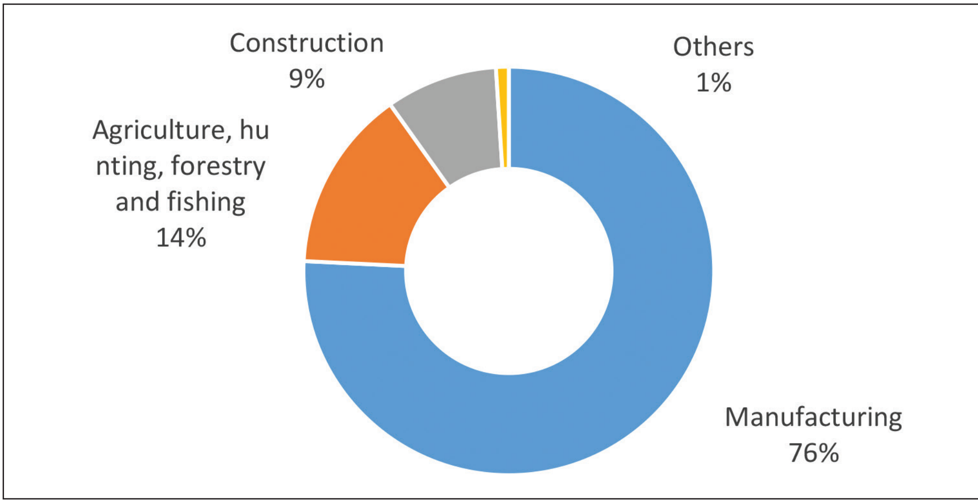
Alongside trade, India’s investments in the CLMV region have also received a boost in recent years. CLMV countries are receiving strong investment interest from India mainly due to their high-growth markets, low wage labour and natural resource reserves. During April 1996 to March 2019, India’s approved direct investments in joint ventures (JVs) and wholly owned subsidiaries (WOS) in CLMV countries amounted to US$ 1.1 billion (1.4 percent of outward investments by India in ASEAN), with the bulk of flows directed towards Vietnam (61.1 percent of the total flows to the CLMV region) (**Table 4.9**). During 2018-19, Indian investments in CLMV region amounted to US$ 139.9 million, which accounted for 3.6 percent of India’s investments in the ASEAN region.

Table 4.9: India’s Approved Overseas Direct Investment in ASEAN Region (US$ mn)

Name of the country	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	April 1996 to March 2019
Brunei Darussalam	-	-	0.9	1.4	-	-	-	-	-	-	**2.3**
Cambodia	-	-	0.4	9.6	0.9	0.3	0.3	1.9	2.3	2.1	**32.4**
Indonesia	266.0	29.5	113.3	89.0	113.8	122.2	102.3	155.5	32.5	83.2	**1336.2**
Lao PDR	2.0	2.0	2.1	0.2	1.4	1.0	1.2	0.3	0.7		**16.8**
Malaysia	7.1	75.0	400.6	116.4	9.9	64.8	485.8	82.0	9.2	82.1	**1474.7**
Myanmar	1.7	45.3	9.7	3.2	16.2	4.0	1.4	29.0	54.7	83.9	**369.2**
Philippines	31.5	34.4	56.1	19.4	16.0	26.3	19.0	6.0	29.5	11.2	**290.2**
Singapore	6787.4	11856.3	5945.8	4503.7	5057.9	7108.6	3751.6	6533.7	4589.1	3575.7	**73948.4**
Thailand	59.6	9.6	33.3	22.5	55.4	80.7	13.9	11.9	16.2	31.0	**617.9**
Vietnam	2.7	76.1	3.1	2.4	22.5	20.9	9.4	33.5	73.9	53.8	**656.9**
CLMV	**6.4**	**123.4**	**15.4**	**15.4**	**40.9**	**26.3**	**12.3**	**64.7**	**131.5**	**139.9**	**1075.2**
ASEAN	**7158.0**	**12128.3**	**6565.3**	**4767.6**	**5294.0**	**7428.8**	**4385.0**	**6853.9**	**4808.0**	**3923.0**	**78744.92**
Share of CLMV in ASEAN (%)	***0.1***	***1.0***	***0.2***	***0.3***	***0.8***	***0.4***	***0.3***	***0.9***	***2.7***	***3.6***	***1.4***

Note: ‘-’ not available/ negligible
Source: Ministry of Finance (MOF), Government of India; RBI; and Exim Bank Analysis

Chart 4.4: Sector-wise Indian Investments in CLMV



Others include financial, insurance, real estate and business services; community, social and personal services; electricity, gas and water; wholesale, retail trade, restaurants and hotels; and transport, storage and communication services; and Cumulative approved investments during April 2010- March 2019 in CLMV stood at US$ 569.6 million.
Source: RBI

During April 2010 to March 2019, major sectors in CLMV attracting Indian investments include manufacturing (including mining), followed by agriculture, hunting, forestry and fishing and construction (**Chart 4.4**). India's investments were majorly into manufacturing in Vietnam and Myanmar, whereas in Cambodia and Lao PDR, investments were in India's manufacturing investments were mainly in Cambodia, Myanmar and Vietnam, while investments in agriculture, hunting, forestry and fishing were mainly in Cambodia and Lao PDR.

FDI inflows to India from CLMV countries have been low at US$ 50.4 million during April 2000 and March 2019. These investments have been dominated by inflows from Cambodia (US$ 36.4 million), Myanmar (US$ 9 million) and Vietnam (US$ 5.1 million) (**Table 4.10**).

Table 4.10: FDI Equity Inflows to India from ASEAN (US$ mn)

Name of the Country	April 2000 to March 2019
Brunei Darussalam	0.4
Cambodia	36.4
Indonesia	629.2
Lao PDR	-
Malaysia	932.2
Myanmar	9.0
Philippines	241.9
Singapore	82998.4
Thailand	461.3
Vietnam	5.1
CLMV	**50.4**
ASEAN	**85364.1**
Share of CLMV in ASEAN	***0.1***

Note: "-" data not available or nil

Source: Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, Government of India; and Exim Bank Analysis

5. BUILDING VALUE CHAINS IN ASIA

According to the UNCTAD, 80 percent of global trade is determined by multinational enterprises (MNEs). Global Value Chains (GVCs) are coordinated by these MNEs which invest in production networks across the world and cross border trade of intermediate goods and services take place within these networks. The investment decisions of MNEs have a significant impact on the trade of individual economies. Patterns of value-added trade in GVCs determine the distribution of actual economic gains from trade between individual economies. Integration into this fragmented production process across verticals allow developing countries to participate in international trade without developing full range of production capabilities across the value chain. However, economic activities in developing countries often tend to be concentrated in lower segments of the value chain. It may be extractive industries, where the countries, export primary products with minimal value-addition, or they assemble products without establishing substantial linkages with other processes[31]. GVCs also act as an important avenue for developing countries to build productive capacity through technology dissemination and skill building, thus opening opportunities for structural transformation of the economy through long-term industrial upgrade[32]. However, this positive spill over is not ensured by mere participation in the value chain. Appropriate policies for building productive capacity and ensuring upgradation of capabilities are important for ensuring inclusive growth in developing economies, through GVCs.

The emergence of Asia and the high growth rates in emerging and developing economies have increased the size of world demand and boosted international trade. Asia has not just emerged as the factory of the world, but rising wages have also led to new consumers who can afford a wider variety of products. By 2030, Asia is expected to contribute to 60 percent of global growth[33]. Increased digitization has also resulted in providing additional access to previously unserved

[31] Bamber, P. et al. (2014-01-08), "Connecting Local Producers in Developing Countries to Regional and Global Value Chains: Update", OECD Trade Policy Papers, No. 160, OECD Publishing, Paris.

[32] De Backer, K. and S. Miroudot (2013-12-19), "Mapping Global Value Chains", OECD Trade Policy Papers, No. 159, OECD Publishing, Paris.

[33] World Economic Forum Annual Meeting, 2019

markets. As a result, trade in final goods and services has increased as much as trade in intermediates.

GVC Analysis of Select Asian Economies

To understand GVCs, one needs to consider to what extent the countries are involved in a value chain in terms of their contributions well the contribution of other countries in their exports.

In this chapter we analyze the value chain participation as well as position of the major Asian economies using the UNCTAD-EORA Global Value Chain database. The Foreign Value Added (FVA) and Indirect Domestic Value added (DVX)[34] when expressed as a share of gross exports, gives the GVC participation of a country. The larger the ratio, the greater the intensity of involvement of a country in GVCs. FVA is also referred to as a measure of "backward participation", given that it measures imported intermediate inputs that is used to generate output for export. DVX is a measure of "forward participation", i.e. it measures exports of intermediate goods that are used as inputs to produce exports of other countries[35]. The DVX share in exports tends to be higher for countries that are involved in upstream production with the output and exports of that country feeding into the production and export of downstream producers. Developing economies tend to have a low FVA share in their exports or downstream component in their exports.

$$GVC_{\,Participation} = \frac{FVA+DVX}{Gross\ Exports}$$

To further understand the relative "upstreamness" of a country in a value chain, Koopman et al. (2014) also defined GVC position index. It is defined as the log ratio of a country's supply of intermediates used in other countries' exports to the use of imported intermediates in its own production[36]. The similar methodology has been applied to calculate the overall GVC position of the select Asian economies. Countries with positive position index are relatively more upstream that is they contribute more value added to other countries exports than other countries contribute to theirs.

[34]The portion of this domestic value added used as inputs by industries in other countries, which produce goods or services for export to third countries, is referred to as the indirect value-added exports (DVX). Foreign value added embodied in gross exports (FVA) refers to the value added of foreign goods and services that are used as intermediates to produce goods and services for export; Koopman, R., W. Powers, Z. Wang and S.-J. Wei (2010). "Give credit to where credit is due: tracing value added in global production chains", NBER Working Papers Series 16426, September 2010.

[35]Aqib Aslam, Natalija Novta, Fabiano Rodrigues-Bastos (2017), Calculating Trade in Value Added, IMF Working Paper 17/178, International Monetary Fund, Washington.

[36]Koopman, Robert, Zhi Wang, and Shang-Jin Wei. 2014. "Tracing Value-Added and Double Counting in Gross Exports." American Economic Review 104(2)

$$GVC_{Position} = ln\left(1 + \frac{DVX}{Gross\ Exports}\right) - ln\left(1 + \frac{FVA}{Gross\ Exports}\right)$$

However, two countries may have identical GVC position and yet have different degree of GVC participation hence both parameters are used in conjunction to understand the importance of the global supply chain for the country.

Countries with significant share of natural resources like oil, minerals or primary commodities in their exports, tend to have higher share of domestic value-added trade as such kind of exports are the "initial stages of GVC" and require hardly any foreign inputs. On the other hand, countries with significant share of port trade as well as countries with processing trade sectors would have higher foreign value added as a share of their exports. Countries that have significant share of exports in highly segmented industries also have a higher share of foreign value added in their exports.

The following analysis shows the GVC Participation of select Asian economies during the last decade. GVCs have spread widely over the last three decades where firms specialize in a set of activities and may produce parts and components in another country. This phenomenon has led to spread of the production process across various countries leading to increase in trade. However, after the global financial crisis of 2008-09, the expansion of GVCs have relatively slowed down as a result of a rising trade protectionist measures across the world[37]. According to the WTO, the stock of import restrictions imposed and still in force since 2009 has affected 7.5 percent of world imports in 2018[38].

Table 5.1 shows the trend in GVC participation rates of various economies. Cambodia, Lao PDR, Myanmar and Vietnam have all undergone reduction in GVC participation from 2009 to 2018. India's GVC participation rate has also declined from 44 percent in 2009 to 41 percent in 2018. Other countries like China, Indonesia have witnessed a modest increase in share from 2009 to 2018 whereas majority of them observed stagnation in GVC participation rate. According to a World Bank report, GVC participation rate across all countries declined after the Global financial crisis of 2009 as a result of a sharp slowdown in trade.[39].

[37]Global Value Chain Development Report 2019, World Bank

[38]WTO Trade Monitoring Report, December 2019

[39]Global Value Chain Development Report 2019, World Bank

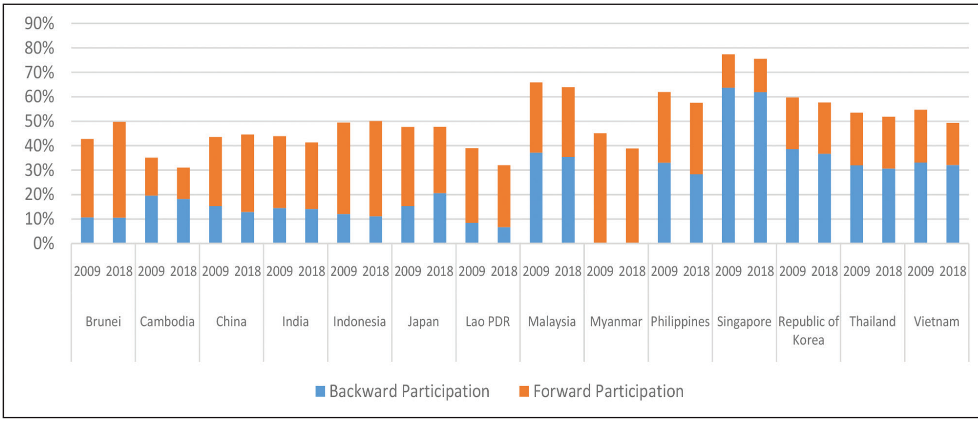
Table 5.1: GVC Participation Rate across Select Asian Economies

Country	2000	2009	2018
Brunei Darussalam	32%	43%	50%
Cambodia	35%	35%	31%
China	38%	44%	45%
India	39%	44%	41%
Indonesia	46%	49%	50%
Japan	42%	48%	48%
Lao PDR	43%	39%	32%
Malaysia	63%	66%	64%
Myanmar	44%	45%	39%
Philippines	63%	62%	58%
Singapore	79%	77%	75%
Republic of Korea	54%	60%	58%
Thailand	53%	53%	52%
Vietnam	46%	55%	49%

Source: UNCTAD EORA Database & Exim bank Analysis

The **Chart 5.1** shows the backward and forward participation of the select Asian economies during 2009 and 2018. Exports from developed economies like Singapore and Republic of Korea have high foreign value-added components and are mainly high-tech in nature and therefore are at a downstream part of a value chain. Japan has a relatively lower share of foreign value added like that of India where due to the larger size of their economies, inputs are majorly sourced from the domestic companies. Singapore being a small open economy has the highest backward participation rate among these select Asian economies.

Chart 5.1: Backward Participation and Forward Participation of Select Asian Economies as a share of Gross Exports (%)



Source: UNCTAD EORA Database & Exim Bank Analysis

Vietnam has been able to shift a significant proportion of its workforce over the years from a relatively less productive agricultural sector to a more productive manufacturing and services sectors. In 2018, more than one-third of Vietnam's exports as well as imports consisted of electrical and electronic equipment despite having a shortage of skilled labor force. This has been possible only by integrating into the GVCs in electronics and electrical equipment. Vietnam's remarkable progress in integrating itself to value chains can be attributed to the several trade agreements that Vietnam is part of, which led to the reduction in import tariffs and improvement in overall infrastructure to attract FDI. These policies have resulted in importing better quality inputs as well as related services and focusing on the stage of production (primarily assembling and processing) where the Vietnamese firms and workers have a comparative advantage[40].

Other economies like Indonesia have not seen much change in backward linkages as its specialization lies in natural resources and thus has strong forward linkages. Indonesia joined the global value chain in relatively upstream segments and similar patterns have been followed by the CLMV countries like Lao PDR and Myanmar. Since these countries are primarily commodity exporters, their gross exports are largely dominated by domestic value added (**Chart 5.1**). The forward participation of Myanmar was found to be the highest among all the major Asian countries (ASEAN, India, China, Japan and Republic of Korea) at 45 percent in 2009. However, it has declined to 39 percent in 2018 as Myanmar is transitioning from a commodity exporter to an exporter of manufactured or

[40]WTO 2019, Global Value Chain Development Report 2019

processed products. Lao PDR's share of DVA in exports or forward participation rate is also higher as compared to other countries at 31 percent in 2009 and 25 percent in 2018, respectively. Lao PDR's exports of hydropower has increased significantly in recent years. Since natural resources are the most upstream sectors, these economies tend to have much higher degree of forward GVC participation than backward GVC participation.

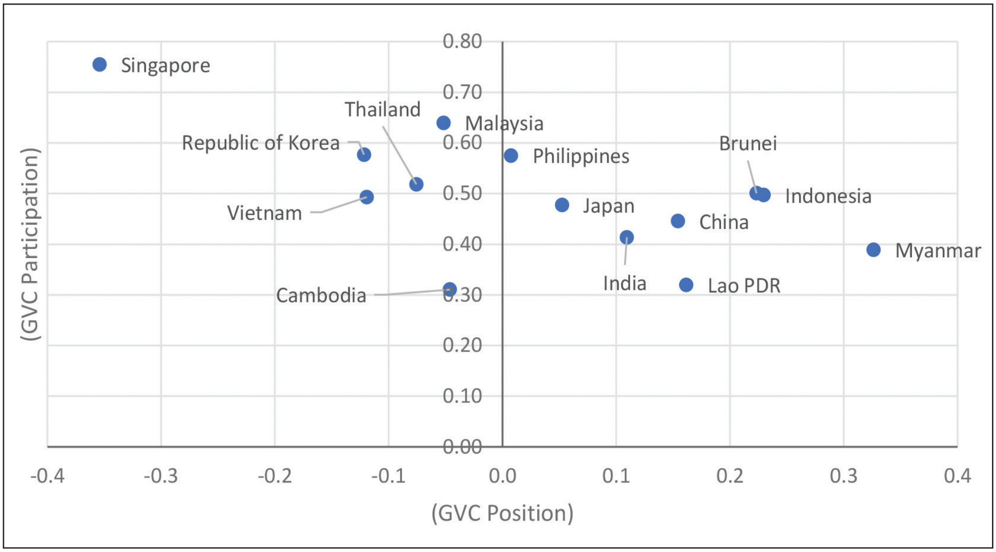
Share of foreign value added (FVA) in exports or backward participation is high for economies like Singapore or Vietnam as they are heavily reliant on foreign inputs for their exports. Singapore has the highest share of FVA at 62 percent in 2018, as it is a trading hub[41]. Vietnam has the highest FVA among the CLMV economies at 32 percent in 2018.

Malaysia and Thailand both started from similar stages of development and have integrated themselves over time in the electrical machinery, machinery and equipment and automobile value chains. Both these countries have a high share of FVA and hence higher backward participation rates.

Chart 5.2 shows the relationship between GVC participation and position of the select Asian economies. Countries like Singapore and Republic of Korea have a negative GVC position reflecting their presence in the downstream part of the value chain and engagement in higher value-added sectors. Thailand, Vietnam, Malaysia are also majorly part of mid-tech and high-tech industries with higher foreign import content in their exports and therefore have a negative position. Cambodia also has a negative position in GVC as its exports are majorly dominated by garments and footwear. Myanmar and Lao PDR have relatively higher share of domestic value added in their exports thus reflecting their upstream nature of exports leading to a positive position.

[41]ASEAN Integration Report 2019, Jakarta: ASEAN Secretariat, October 2019

Chart 5.2: GVC Position of Select Asian Economies in 2018



Source: UNCTAD EORA Database & Exim Bank Analysis

China's forward participation or domestic value-added share in exports has increased from 2009 to 2018. **Chart 5.2** also shows China's relatively upstream position. This is because over the years, while China's technological capability has advanced, its scale has increased as well. In the initial years of economic reforms, China shifted from commodity intensive exports to assembling apparel and electronics using intermediate produced in other countries. As China advanced technologically in the last decade the share of domestic value added went up as its share of high-tech goods produced domestically kept increasing[42]. This is part of China's "Made in China 2025" industrial policy which aims to make China a technology leader in ten high-tech sectors with higher targets of domestically value-added advanced manufacturing compared to the present levels.

Although the share of FVA in Japan's exports have increased over time with off-shoring of labor-intensive manufacturing, Japan continues to remain a major supplier of complex intermediate goods and as a result has a relatively higher share of DVA compared to other advanced Asian economies, explaining its positive position in the value chain. India has a positive position due to its higher local content requirements. India has emerged as an assembly hub for foreign-owned companies from US, Japan, China and Republic of Korea, which have invested in the country to gain market access[43].

[42]Global Value Chain Development Report 2019, World Bank

[43]UNIDO 2019, Global Value Chains and Industrial Development: Lessons from China, South-East and South Asia

Role of Free Trade Agreements in Developing GVCs

According to the Asian Development Bank (ADB) database on free trade agreements (FTAs), among the Asian economies, Singapore has the highest number of FTAs with 25 agreements signed and in effect at the end of 2019, followed by Japan, China, Republic of Korea, Malaysia, Thailand, India and Vietnam (**Table 5.2**). The scope of FTAs in twenty-first century has widened beyond the textbook definition of an FTA , which was mainly limited to removal of tariffs on partners' trade.

Table 5.2: FTAs Signed by Select Asian Economies

	Framework Agreement signed	Under Negotiation	Signed, but not in effect	Signed and in effect
Singapore	0	7	1	25
China	0	10	4	17
Republic of Korea	0	13	1	17
India	1	16	0	13
Japan	0	7	0	18
Malaysia	1	6	1	16
Thailand	1	9	0	14
Indonesia	0	7	4	11
Vietnam	0	3	1	12
Philippines	0	3	0	9
Lao PDR	0	1	0	9
Myanmar	1	2	0	7
Brunei Darussalam	0	1	0	7
Cambodia	0	1	0	7

Source: Accessed in January 2020, Asia Regional Integration Center, Asian Development Bank, 2019

The proliferation of bilateral and regional trade agreements (RTAs) in Asia presently act as both the cause and effect of GVCs through trade diversion. Tariffs and non-tariff barriers may hinder the fragmentation of production process across borders. At the same time, deep trade agreements further facilitate the flow of goods and services within GVCs, even though other factors such as industry competitiveness, skills and R&D intensity affect GVC integration.

Major Indian export markets offer preferential tariffs to certain countries which are competitors to India as a result of their FTAs. According to a study by the Exim Bank on “Non-Tariff Measures on Indian Exports” conducted in March 2019, tariffs on export of textiles from India to China (world’s largest importer of yarn) range from 7.5 percent (yarn) to 12 percent (made ups), while Vietnam, Cambodia and Indonesia enjoy duty-free access under their FTAs with China. Bangladesh and Pakistan also get preferential tariff for their exports to China. Saudi Arabia, Thailand, Malaysia, Vietnam, Indonesia and UAE have a high incidence of Non-Tariff Measures (NTMs) for some products such as agricultural products and more traditional export items from developing countries. Vietnam is one of the leading export destinations for India and it imposes non-tariff barriers for pharmaceutical products, and electrical and engineering products.

India has almost 30 FTAs either in operation, under negotiation or framework agreement signed. In terms of share in total imports and exports, among the existing FTAs, Asia Pacific Trade Agreement (APTA), ASEAN and South Asian Association of Regional Cooperation (SAARC) as country groups and Singapore, Republic of Korea and Japan as individual FTA partners are the major trading groups or countries. In the case of Singapore, share of preferential imports in its total imports from India is negligible as Singapore’s MFN tariffs were already low. Thus, India has not gained in terms of tariffs in India-Singapore CECA with a trade deficit of US$ 4.2 million in 2019. However, India has gained in other ways mainly through investments from Singapore in various infrastructure projects. The Indo-ASEAN FTA, after its signing in 2010, has resulted in India’s trade balance deteriorating from US$ 6.7 billion in 2010 to US$ 21.3 billion in 2018. This was a result of not just imports from ASEAN outpacing exports, but also of ASEAN outpacing the rest of the world in India’s import basket. Under the India-Republic of Korea Comprehensive Economic Partnership Agreement (CEPA), the India-Republic of Korea FTA entered at the same time had a similar experience. Trade deficit between India and Republic of Korea has widened from US$ 6.3 billion in 2010 to US$ 11.6 billion in 2018. The Indo-Korea CEPA is presently under review with eight rounds of negotiations undergone so far. The India-Japan CEPA became effective in August 2011. Indian exports have declined under this FTA as well, from US$ 6.4 billion in 2012 to US$ 4.8 billion in 2018.

Most of India’s FTAs have failed to provide India a balanced trade. However, in the case of FTAs with Japan and Republic of Korea, post implementation, India’s import of industrial supplies, capital goods and transport equipment have increased significantly with these countries. These items are predominantly used as intermediate goods and have thus helped India improve productive capacity and employment generation. Thus, the greater imports and associated trade deficit with Japan and Republic of Korea should not be looked at stand-alone basis, overlooking the gains achieved on productivity, employment and exports with other nations.

India withdrew from RCEP on the grounds of insufficient market access for India along with the likelihood of increased imports might prove detrimental to the domestic industry and agriculture leading to a higher trade deficit. India already had a trade deficit with 11 out of 15 RCEP countries and hence decided to pull out of RCEP in November 2019. India already has FTAs with most of the RCEP countries except China. With China being a member, India is also a member of the Asia-Pacific Trade Agreement or APTA (formerly known as the Bangkok Agreement signed in 1975). India had a trade deficit of US$ 57.7 billion with APTA in 2018. The concern of entering an FTA in which China is a significant partner is therefore pertinent in case of RCEP. India runs a huge trade deficit with China – approximately. US$ 57.3 bn in 2018. However, the ASEAN-India FTA has also benefitted India, increasing India's exports to ASEAN countries, with the largest access gained in Thailand, Cambodia, Vietnam, Malaysia, and the Philippines.

Potential Sectors for India's Outward Investment into CLMV

Cambodia

Cambodia's garment sector accounts for 16 percent of its GDP and 80 percent of its total exports. Over reliance on the garment export sector has led to Cambodia's risk for erosion of market access as EU and US continue to remain the largest export destination. Also, the garment industry is majorly foreign owned and engages in cut-make-trim activities placing Cambodia at a lower end of the textile value chain. The "Everything but Arms" (EBA) policy facilitates Cambodia with exclusive access to the EU common market without paying duties or tariffs. However, with the recent announcement made in February 2020, EU might withdraw tariff preferences for select garment and footwear products as mentioned in the earlier chapters. As a result, Cambodia is attempting to diversify its industrial base away from garments towards electronics, electrical products, household furnishing and automotive products mostly in its SEZs sharing borders with Thailand and Vietnam where these industries get special incentives from the Government. In the manufacturing sector, the other areas with investment prospects are in food and beverages, chemical, rubber, plastic and paper processing.

The Cambodian Government has set the ambitious goal of increasing agricultural sector's growth to 5 percent per year and increasing the share of exports that are processed to 12 percent by 2025. However, Cambodia is a net importer of processed food, sourcing mainly from its developed neighbors Vietnam and Thailand. A strong local agro-processing sector could reverse the flow of Cambodian exports of raw materials and generate significant value addition. Cambodia's agro-processing industry is predominantly made up of micro, small and medium enterprises (MSMEs) producing primarily for the domestic market and located close to production zones. Access to finance continues to be a barrier to the expansion of these formally registered SMEs, and there are many more informally operating MSMEs that have difficulty in obtaining registration.

Milled rice, palm oil, tobacco, rubber and cane sugar are some of Cambodia's most important processed food export items. Between 2012 and 2017, the number of food processing plants (including rice mills), breweries, and tobacco factories doubled, and the number of paper products factories increased from just 17 to 46. The diversity of commodities produced in Cambodia offers a variety of investment options in the food processing sector. Examples of possible value chain activities include, dairy products, cashew nuts, sugar, fruits, fish products, meat and cassava. Cassava starch is integral to the animal feed industry.

Recent agreements with ASEAN for the promotion of organic food and the rising demand for such products in ASEAN can further facilitate development in the local food industry. However, the sector is currently not competitive at a global level. Lack of infrastructure has been the major obstacle, especially for the export-based agricultural industries which could create an opportunity for Indian investments to develop the necessary infrastructure as well as participate in the value chains.

Potential Sectors for Indian Investment in Cambodia

India has been a major foreign investor in Cambodia and presently negotiations are underway for finalizing the India Cambodia Bilateral Investment Treaty. The major investments in Cambodia have been in agricultural machinery, power, construction and mining. Manufacturing accounted for 53 percent of Indian investment in Cambodia during 2010-11 to 2018-19. Indian private sector companies are present in the textile, agro-processing, automotive, mining, and pharmaceutical sectors in Cambodia. Grasim Industries, one of India's largest textile manufacturing companies, made investments worth US$ 9.6 million in Cambodia during the aforementioned period. The following are the potential sectors where Indian investors could diversify:

Automotive: The Tata Group has invested US$ 226.7 million in an automotive plant in Sihanoukville Special Economic Zone in Cambodia through its subsidiary, Tata International. for producing a range of light commercial vehicles. Bajaj Auto, another leading automobile company from India, has also entered the Cambodian market. Bajaj Cambodia has started construction of a plant in Stung Meanchey to produce two- and three-wheelers. Vehicles are the second highest imports of Cambodia from India. They include mainly tractors and two-and three-wheelers vehicles. Indian automotive companies can set up automobile manufacturing operations for making spare parts, assembly and distribution sales network as well as service centers in Cambodia.

Pharmaceutical: Pharmaceutical products are the highest imported item from India by Cambodia. The India based VTSIX Group, a pharmaceutical company, has invested US$ 19.5 million to set up a factory in the Phnom Penh Special Economic Zone in Cambodia. The upcoming pharmaceutical unit will comply with World Health Organization's Good Manufacturing Practices (WHO GMP) and produce about 500 million units of oral pharmaceuticals (including tablets, capsules, and syrups). The setting up of this plant will help diversify Cambodia's industrial output and create jobs for skilled personnel. Opportunities also exist for joint venture with local Cambodian companies which could provide logistics and distribution related services.

Agro-processing: Indian companies could also explore the agro-processing sector of Cambodia. Cambodia is trying to develop its agricultural sector through organic value chains. However, the high price of chemical pesticide and fertilizer has led to farmers using cheaper variants which pose serious health hazards. As a result, Cambodia is increasingly turning towards developing a sustainable organic value chain. However, challenges faced at the farm level are unavailability of bio inputs for organic production, inconsistent supply, high production cost and farmers' capacity. The challenges at the processing level include lack of technology for grading, packaging, storage, transportation and quality control. In the meantime, the challenge at the marketing level is limited market information including its demand, supply and prices. All these create opportunities for India-Cambodia private sector cooperation where Indian companies could lend their expertise in terms of technological know-how as well as marketing services.

Agricultural Equipment: There also exists opportunities in the agricultural input industry. Indian companies like Green Khmer Agro Pvt. Ltd. have established joint ventures with Cambodia based Green Agri Khmer Pvt. Co. Ltd for producing fertilizers. Farm equipment manufacturing is another potential area. Cambodia's increasing adoption of mechanized farming demand for equipment like tractors, power tillers, water pumps has increased. Indian companies (e.g., Mahindra and Mahindra) are undertaking acquisitions overseas in countries like Japan (33 percent stake in Mitshubishi Agricultural Machinery Ltd) and Turkey (75.1 percent stake in Hisarlar) and expanding foreign operations in agricultural machinery segment. Similar acquisitions could be explored in Cambodia by Indian companies.

Rubber Processing: Non-food agricultural products (tobacco, rubber, wood) could also be transformed locally. Rubber, for instance, is a raw material which can be processed into a wide range of products (industrial hardware, tyres, gloves). Yet, most of Cambodia's rubber exports are exported as graded dry blocks.

Box 5.1: Promotion of Sustainable Agricultural Value Chains through PPP

To strengthen ASEAN's agricultural production and trade and to align them with regional and international food standards, a new project, Promotion of Sustainable Agricultural Value Chains in ASEAN, or ASEAN AgriTrade was recently launched in Jakarta by the ASEAN Agrifood.org. The ASEAN AgriTrade project was initiated to support ASEAN in general, and, CLMV in particular, to improve the framework conditions to implement quality and sustainability standards in agricultural value chains within the region. This is being done through a Public Private Partnership (PPP) approach involving German Federal Ministry for Economic Cooperation and Development (BMZ) and the Governments of the CLMV countries with the lead executing agency being the ASEAN. Other than the CLMV countries, Thailand and Malaysia are also involved.

The first Project Steering Committee (PSC) Meeting of ASEAN AgriTrade in Jakarta, Indonesia was held on February 11, 2020 among six ASEAN nations - Cambodia, Indonesia, Lao PDR, Malaysia, Thailand and Vietnam. At the ASEAN level, the project will focus on strengthening regional cooperation to promote quality and sustainability standards and foster gender mainstreaming. In CLMV countries, dialogue and partnerships between public and private sectors will be promoted to improve standards implementation in selected agricultural value chains. In addition, the project plans to create consumer campaigns to improve awareness of the benefits and ecological advantages of sustainably produced agricultural products.

Deutsche Gesellschaft for Internationale Zusammenarbeit (GIZ) Gmbh is a German service provider in the field of international cooperation for sustainable development, working with partner globally. GIZ had established Food and Agriculture Cluster in 2018 in Thailand. The cluster aims to strengthen farmers to become competitive, inclusive and resilient with a partnership-oriented approach through various projects under the cluster. One such example is the Thai Rice NAMA Project, which aims to develop the use of low-carbon farming techniques such as the laser land levelling, alternate wetting and drying, site specific nutrient management and straw and stubble management for producing rice.

Lao PDR

Lao PDR's integration with the world economy started with its joining ASEAN in 1997 and WTO in 2013. The rapid economic growth over the last decade was driven by exploitation of natural resources and development of hydropower, with both the sectors receiving large foreign investments. However, in order to reduce dependence on these two sectors for employment generation, the Lao PDR Government has been focusing on developing other sectors like value added agriculture, light manufacturing, and tourism, while continuing to develop energy resources and related electrical transmission capacity to export to neighboring countries.

Lao PDR has suitable land for various plantation including large stands of teakwood and rosewood. Presently Lao PDR produces electricity of 29.74 billion kWh but it has the potential to produce over 23,000 MW. Lao PDR also has rich deposits of tin, zinc, iron ore, copper and other industrial metals and gold[44]. KPMG in its report lists out mining, hydropower, agriculture and tourism as the potential sectors for investment in Lao PDR[45]. Requirement for foreign investors to comply with special rules, concerning strategic areas like mining and hydropower where the Government largely approves projects, increases the need to use a local partner while investing in large projects.

The emergence of light manufacturing has begun to help Lao PDR integrate into regional supply chains, and improving infrastructure should facilitate this process, making Lao PDR a low cost production base for regional manufacturers seeking to diversify from existing production bases in Thailand, Vietnam, and China and catering to Europe and United States. New Special Economic Zones (SEZs) in Vientiane and Savannakhet have attracted major manufacturers from Europe, North America, and Japan[46]. Investors include Toyota, Nikon, Essilor, and Celestica. Coca Cola had opened a bottling plant in 2015, and GE opened a representative office in June 2017 to develop opportunities in the energy specifically, hydropower and medical equipment sectors[47].

As the energy sector is largely based on exports, investments in projects for improving connectivity with the energy markets of China, Vietnam and Thailand is another prospective area of investment[48]. Infrastructure connectivity is crucial for

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[44]Lao National Chamber of Commerce and Industry

[45]ASEAN Business Guide Laos, KPMG 2018

[46]2019 Investment Climate Statements: Laos, US Department of State

[47]Lao PDR Market Overview, Department of Commerce, USA, 2019

[48]Lao PDR Investment Outlook 2019, ASEAN Briefing

Lao PDR's economic development. Despite being relatively competitive compared to other landlocked countries, the relatively high cost of accessing international gateways is a handicap for developing an export-base in manufacturing and for local firms to integrate into global value chains[49]. Investment in ICT and transport networks are therefore essential which could be explored through PPP model[50].

Potential Sectors for Indian Investment in Lao PDR

Indian Investment in Lao PDR is majorly into agriculture and mining (94.2 percent of India's total investment) during 2010-11 to 2018-19 followed by manufacturing.

Rubber Processing: In Lao PDR, Indian investments have been concentrated in the plantation and mining sectors, accounting for almost 94 percent of India's approved investment in Lao PDR during 2010-11 to 2018-19. Grasim Industries India along with two other group companies, Thai Rayon (Thailand) and PT Indo Bharat Rayon (Indonesia) formed a joint venture, Birla Lao Pulp and Plantations Company Ltd., in 2006 to invest in eucalyptus plantation and setting up of a pulp production plant. The HSMM Group from India has invested US$ 13.8 million in agarwood plantations and two factories in Xaysomboun and Vientiane province of Lao PDR and Apollo Tyres also has a rubber plantation in Lao PDR.[51] Therefore, Indian companies could further diversify from plantation to processed products.

Mineral Processing: As highlighted earlier, Lao PDR has rich deposits of industrial metals including iron ore. The Lao SPG CMC Mining Company, a subsidiary of GIMPEX India and the HSMM Group has investments in iron-ore mining. So far, the Lao SPG CMC's mine has spent US$ 7.7 million in a 200-hectare mine in Ta En village in Samneua province and produced 60,717 metric tonnes of iron ore. The HSMM Group has also made small investments worth US$ 0.8 million and US$ 0.1 million in iron ore mines in Sekong province and Khammuan province of Lao PDR[52].Opportunities exist in mineral processing therefore integrating Lao PDR into steel industry.

Furniture Manufacturing: Many Indian companies like Tirupati Veneers, Phoneix Plywood and Siddhi Veneers Pvt Ltd have established wholly owned subsidiaries in Lao PDR. Further investments into wood processing exists which is an emerging exports sector for Lao.

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[49]OECD (2017), OECD Investment Policy Reviews: Lao PDR, OECD Investment Policy Reviews, OECD Publishing, Paris

[50]ibid

[51]MEA bilateral brief, Lao PDR, February 2020 and RBI data on India's approved Investments

52ORF Occasional Paper, India and CLMV Countries: Investments, Development Cooperation and Sustainable Development, Malancha Chakrabarty, June 2019

Electrical Parts: Export of electrical machinery and equipment accounted for 8 percent of Lao PDR exports in 2018. Due to its location on the economic corridor that links Vietnam, Lao PDR and Thailand, Savan-Seno, the first SEZ established in 2002, attracts investors from a broad range of economic sectors. Lao PDR also offers the lowest tariff for electricity for industrial use among the ASEAN countries. In Lao PDR's Savan-Seno SEZ, majorly companies from Japan, Thailand and Canada have invested[53]. Indian companies could explore setting up electrical part manufacturing plants to tap the neighboring ASEAN market.

Myanmar

Myanmar is blessed with large and cheap workforce, natural resources and generally low production costs. The garment sector has grown substantially in the past decade due to low wages and the favorable external trade environment. Preferential access to the EU and the US markets are one of the key factors attracting foreign investors. The EU initiative "Everything But Arms" gives Myanmar tariff- and quota-free market access to the EU common market.

In 2018, Myanmar enforced a new Companies Law to ease local investment opportunities. Foreign investors can now hold up to 35 percent of shares in a local company. The Myanmar Investment Promotion Plan announced in October 2018 envisages to attract US$ 200 billion of FDI into Myanmar in the next 20 years. It projects to receive US$8.5 billion the first four-year phase starting from the 2021-22 fiscal year, US$12.3 billion in the four-year phase of 2026-2027 to 2030-2031 and US$17.6 billion in the third phase from the 2031-2032 to 2035-2036 fiscal years[54]. Myanmar's economic development objective is largely based on the National Export Strategy 2020-2025 launched in February 2020 with Government focusing on sectors that would be boosting export competitiveness. The key areas are the agricultural products, textiles and garment, industry and power, fishery products, forestry products, digital products and services, logistics, quality management, trade information service, innovation and entrepreneurship[55]. The first SEZ in Myanmar, the Thilawa Special Economic Zone began operation in late 2015. The majority of the roughly 60 businesses that set up in Thilawa are Japanese, although Chinese, US and Thai investors are also present. Sectors include manufacturing of garments and toys, steel products, radiators, aluminum cans, packaging and waste management.

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[53]ibid

[54]Myanmar's Ambitious 20-Year Plan to Attract Foreign Investment, The Irrawady, June 2020

[55]Ministry of Investment and Foreign Economic Relations (MIFER), Republic of the Union of Myanmar

Potential Sectors for Indian Investment in Myanmar

In Myanmar, India's investment portfolio is dominated by the energy sector. ONGC Videsh, GAIL India, and Essar Oil are among the top Indian investors in Myanmar. ONGC Videsh was the largest Indian investor in Myanmar followed by GAIL India. Together, ONGC Videsh and GAIL India account for nearly 90 percent of Indian investments in Myanmar. This creates opportunities for developing supporting industries like refineries, fertilisers, machinery used in oil & gas industries.

Apart from energy, the other major sector receiving Indian investment is wood articles. Two of India's leading manufacturers of plywood and veneers, Century Plyboards and Greenply Industries, also made investments worth US$ 6.25 million and US$ 2 million in Myanmar. Century Plyboards set up a plywood unit in Yangon in 2012 with the objective of exporting plywoods and veneers back to India in response to an imminent ban on raw timber exports in Myanmar. Greenply Industries commenced production of commercial veneers in 2014.

<u>Agro-processing and agriculture equipment:</u> Key opportunities in agriculture include manufacturing agricultural tools and machinery, establishment of fertilizer or crop protection chemical factories, processing of local agricultural produce like ground nut, or sesame, and establishing packaging or canning industries.

<u>Wood Processing:</u> Opportunities also exist in wood processing as Myanmar has source of hardwood and bamboo hence could be utilized for furniture production. Myanmar is one of the leading producers of teak and hardwood (particularly Pyinkadoe and Padauk). In order to prevent unsustainable forestry practices and large-scale log harvesting, the Government of Myanmar strictly and effectively abandoned the export of unprocessed teak and hardwood in April 2014. This structural change offers opportunities to foreign and local investors to support the emergence of value-added and sustainable forestry (e.g. by establishing new wood-processing industries in Myanmar).

<u>Textile and Apparel:</u> Labour-intensive industries could be developed in second tier cities. India is a major input supplier of cotton yarn to Myanmar. Therefore, a fibre value chain could also be created where India could contribute in terms of designing and R&D.

<u>Automotive assembly:</u> Indian companies like Sonalika Tractors and Tata Motors have ventured into the Myanmar market. In March 2010, Tata Motors had signed a turnkey contract with Myanma Automobile & Diesel Industries Limited (MADI), an enterprise under the Government of Myanmar's Ministry of Industry- for setting

up a heavy truck assembly plant, at Magwe, in central Myanmar, funded by a US$ 20 million Government of India's Line of Credit extended by Export-Import Bank of India. The plant, inaugurated in December 2010, is now operational. With a highly flexible chassis & frame assembly line, along with cab manufacturing, paint shop and trimming set-up, the plant has a capacity of producing 1,000 vehicles per annum initially and has the flexibility of augmenting up to 5,000 per year[56]. Sonalika Tractor has been involved in an authorized dealership with Myanmar based Farmers Choice Tractors Co. Ltd Indian companies could therefore explore the automotive assembly industry.

<u>Pharmaceutical:</u> In August 2018, the Myanmar Pharmaceutical Industrial Enterprise revealed that Myanmar imports pharmaceuticals and medical equipment worth US$ 400 million, with local production now meeting approximately 10 percent of domestic demand. Country's pharmaceutical market is valued at US$ 456 million in 2017. This value is lower than most ASEAN countries, placing Myanmar below even Singapore in terms of absolute pharmaceutical market size, despite its much larger population (60 million versus 5 million). Looking ahead to 2022, the market is forecasted to touch US$ 656 million[57]. Indian companies are the main foreign companies operating in Myanmar. These include Zydus Pharmaceuticals Ltd., Sun Pharmaceuticals Ltd, Ranbaxy, Cadila Healthcare Ltd, Dr. Reddy's Lab., and Cipla Ltd., but they operate majorly through pharmaceutical distributors like DKSH, SeaLion and Mega Lifesciences. With Myanmar's improved investment facilitating policies enacted in 2018, Indian companies can explore setting up manufacturing plants in Myanmar thereby tapping its population of 54 million.

Vietnam

Vietnam is increasingly becoming a preferred destination for investors transitioning out of China. Even prior to the US-China trade war, low-tech and labor-intensive industries like garments and footwear have been shifting to Vietnam and Cambodia. With time, Vietnam has evolved its production base by integrating itself to the electrical machinery and equipment value chain which presently accounts for more than 40 percent of Vietnam's exports. Vietnam has emerged as the ASEAN alternative to Chinese manufacturing supported by an increasingly skilled workforce, improved infrastructure, pro-business policy decisions and its proximity to China which limits interruptions or delays to existing supply chains in China. Participation in strategic trade agreements like the EU-Vietnam FTA and CPTPP have also ensured Vietnam's competitiveness in these markets. It

[56] Tata Motors enters into distribution agreement in Myanmar, Press Release, March 2012

[57] Regulatory and Market Profile of Myanmar, Pharmaceuticals Export Promotion Council of India

also has a large market with increasing purchasing power and emerging middle class[58]. The potential sectors for investing in Vietnam are consumer goods, electrical and electronic sector, renewable energy and agro-processing.

Vietnam is one of the most promising consumer markets in the Asia Pacific region, besides Indonesia, India, the Philippines and China. According to the World Bank, Vietnam's consumer expenditure in 2018 reached approximately US$181 billion and is forecast to grow further in the future. Against the backdrop of rising consumer spending and disposable income in Vietnam, several opportunities have emerged for consumer goods. Vietnam's strong consumer confidence (one of the top three most confident countries globally, according to Nielsen) has propelled spending on consumer goods especially in the areas of food and beverages, premium goods and apparel. E-commerce growth is forecast to double to US$10 billion in 2020 from US$5 billion in 2016.

Vietnam is also well-positioned to be a manufacturing hub for the electrical and electronics sector. Vietnam has been shifting gear into high technology, represented by around US$43 billion of high-tech export value in 2016, which is higher than its peers including Thailand (US$ 34 billion), Philippines (US$ 32 billion) and Indonesia (US$ 3.9 billion). In 2018, total export revenue was estimated at US$ 244.7 billion, up 13.8 percent against 2017. Phones, computers, and cameras (plus their related components) posted a CAGR growth of 18 percent, 23 percent and 26 percent, respectively, over the period of 2013 - 2018.

The agriculture and allied sector contributed 8.7 percent to the general growth of the economy and 40 percent to the total employment in 2018 Nevertheless, foreign investment in Vietnam's agriculture is still relatively untapped compared to its manufacturing counterpart. Vietnam's agribusiness market value is estimated to reach US$ 44.6 billion in 2020. The two main markets are packaged food and soft drinks, which are expected to grow at a CAGR of 8 percent between 2018 – 2023, according to Euromonitor International. However, the food processing industry is still weak and fragmented and would require investment for further value addition to the products. Opportunities exist in processing plants with advanced equipment and technology[59].

Vietnam's energy demand is surging heavily with forecast indicating that by 2035 the total final energy demand will be nearly 2.5 times higher than in 2015. Growth in the non-hydro renewables sector is set to gain momentum, with

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[58]Doing Business in Vietnam, PwC,2019

[59]ibid

opportunities in wind and solar. In 2018, Vietnam attracted 23 inbound renewable energy investment projects, according to FDI Intelligence. The revised National Power Development Master Plan VII (PDP 7) plans to nearly quadruple the installed capacity for renewable energy to 21 percent as a percentage of total installed capacity of 2030, up from 5.4 percent in 2015. Vietnam has a suitable geography for wind and solar energy including: (i) coastal and mountainous regions favourable for wind turbines; and (ii) high concentration of direct normal irradiance in the Southern-central part (average DNI is more than 1,000kWh/sqm a year); these will ensure stable long-term renewable power generation. The Government has openly shifted to a pro-renewable stance by issuing a number of investment incentives, for instance the introduction of the feed-in-tariff (FIT) scheme for solar and wind power. In order to meet the high demand of capital requirement, the Vietnamese Government has permitted 100 percent foreign ownership of Vietnamese energy companies. Foreign investors can choose different types of investment forms in which PPP is preferred to minimise risks.

Potential Sectors for Indian Investment in Vietnam

Indian investments in Vietnam are mainly in energy, mineral exploration, agro-processing, sugar, tea, coffee manufacturing, agro-chemicals, IT and auto components[60]. Only a handful of large Indian companies such as ONGC Videsh, Marico Industries, TATA Group, Shapoorji Pallonji, RK Marble, Tufropes, and Wolkem India account for over 80 percent of Indian investments in Vietnam. The following are the potential areas for Indian investments.

<u>Renewable Energy:</u> Indian companies like the TATA Group, Adani Green Energy, and Shapoorji Pallonji Infrastructure Capital Co. have made significant investments in the renewable energy sector of Vietnam. In 2017, the TATA Group invested in solar power plants in four Vietnamese provinces with a total capacity of 250 MW. Another recent investment in solar power made by TATA is a 49 MW project worth US$ 54 million in the Binh Phouc province of Vietnam. In 2018, Adani Green Energy subscribed to 80-percent equity share capital of Adani Phuoc Minh Wind Power Company Limited (APMWPCL) in Vietnam. The APMWPCL is developing a 27.3 MW wind power plant at Phuoc Minh and Phouc Ninh Commune, in the Ninh Thuan province of Vietnam. India's Shapoorji Pallonji Infrastructure Capital Co Ltd and Vietnam's Electricity Power Trading Company (EPTC) signed a power purchase agreement for the solar power project SP Infra-1 Plant in Ninh Thuận Province. The total investment capital of the 50MW

[60]MEA Bilateral Brief, Vietnam, February 2020

solar plant is about US$ 71 million[61]. Therefore, considerable opportunities exist for joint venture with Vietnamese companies in the renewable energy sector.

Consumer Goods: As mentioned earlier, there exists significant scope for tapping Vietnam's growing consumer demand. Marico Industries is another major Indian investor in Vietnam. It entered the Vietnamese market in 2010-11 by acquiring an equity stake of 85 percent in International Consumer Products Corporation, a leading Vietnamese fast-moving consumer goods (FMCG) company. Marico Southeast Asia Corporation is present in the grooming and food business (under the brand name Thuan Phat) segments.

Agro-processing: Tata Coffee, has set up a greenfield instant coffee facility in Vietnam at a cost of US$ 50 million and has become operational since 2019. Some of the prominent Indian companies in Vietnam include KCP Industries Ltd. (sugar industry); Nagarjuna Ltd. (fruits juice and pulp); McLeod Russell (tea); Ngon Coffee Manufacturing (instant coffee) and Tata Coffee (instant coffee)[62]. Vietnam has been promoting high-tech agriculture as on one its strategic sectors. Indian start-ups and other technology-based companies could facilitate high-tech agricultural projects in Vietnam.

Electronics and electrical equipment: Vietnam imports electronic integrated circuits, parts of mobile phones, printed circuits. India is increasingly trying to diversify into the manufacturing of electronic products and electrical parts. Indian companies could try to establish manufacturing assembly units in Vietnam.

Building Supply Chains: India and CLMV

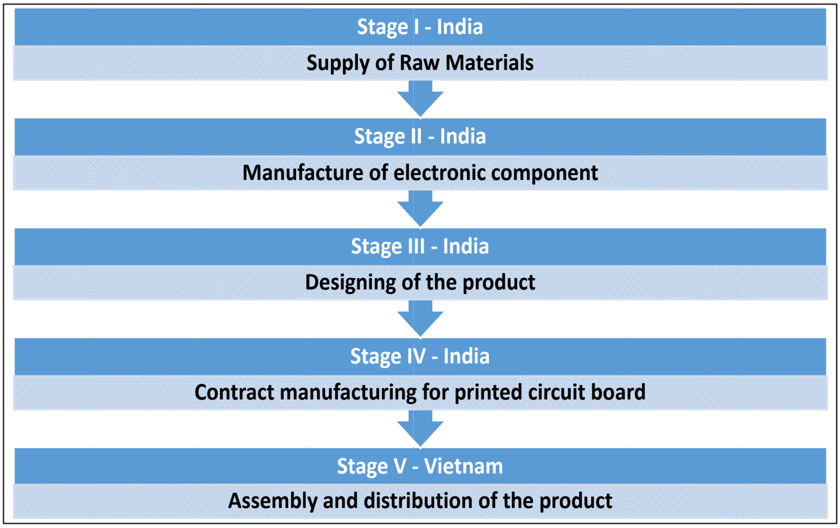
The fundamental idea behind building supply chains across India and CLMV countries would be to optimally utilize the comparative advantage each country offers at different stages of production. Based on the above potential sectors the following supply chains could be built across CLMV and India[63]. Similar linkages could also be established for other potential sectors such as food processing, agricultural equipment, automotive assembly, renewable energy and furniture making.

[61]ORF (2019), India and CLMV countries: Investments, development cooperation and sustainable development, Malancha Chakrabarty, June 2019

[62]ASEAN Investment Report 2019, UNCTAD

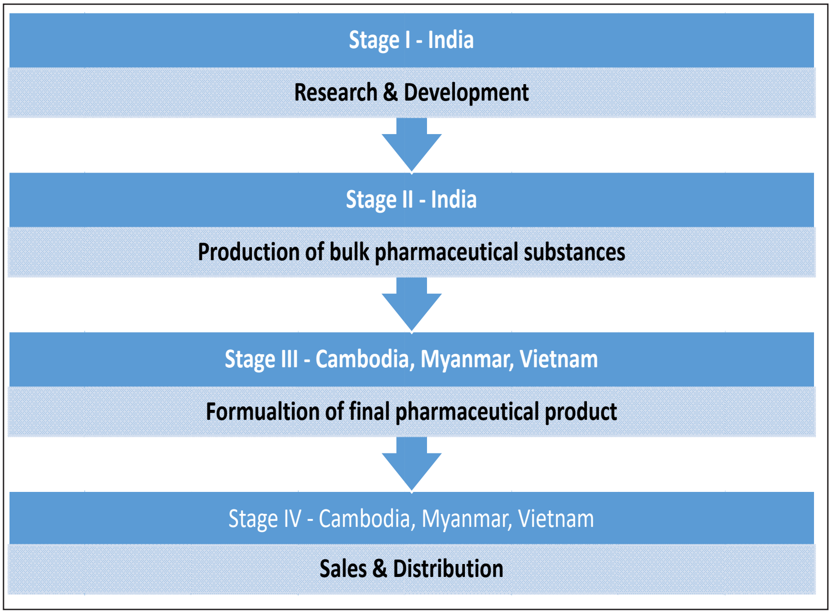
[63]India's Strategy for Economic Integration with CLMV, Dr. Ram Upendra Das, MOCI, GoI, 2015

Exhibit 5.1: Electronics Value Chain



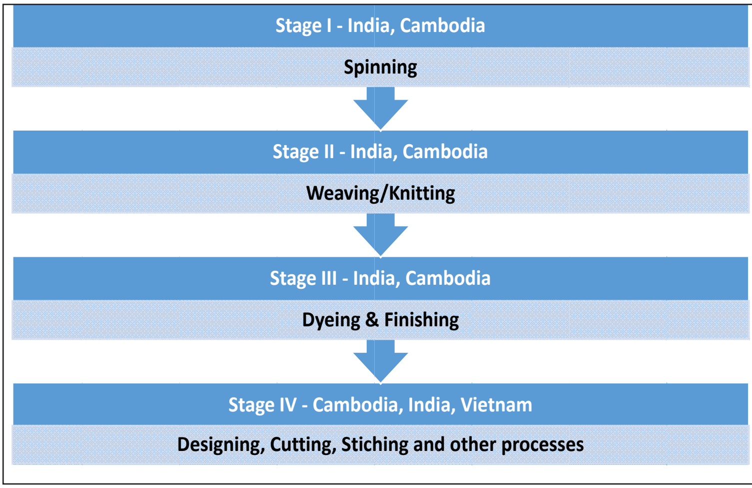
Source: India's Strategy for Economic Integration with CLMV, Dr Ram Upendra Das, MOCI, GoI, 2015 and Exim Bank Analysis

Exhibit 5.2: Pharmaceuticals Value Chain



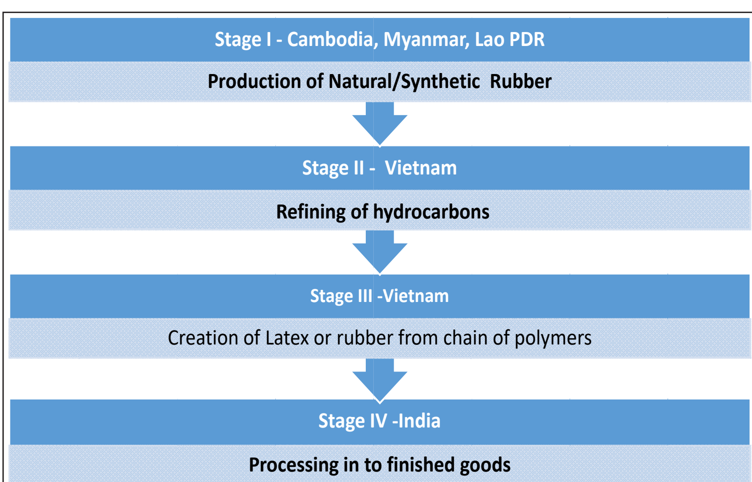
Source: India's Strategy for Economic Integration with CLMV, Dr Ram Upendra Das, MOCI, GoI, 2015 and Exim Bank Analysis

Exhibit 5.3: Textile and Apparel Value Chain



Source: India's Strategy for Economic Integration with CLMV, Dr Ram Upendra Das, MOCI, GoI, 2015 and Exim Bank Analysis

Exhibit 5.4: Rubber Processing Value Chain



Source: India's Strategy for Economic Integration with CLMV, Dr Ram Upendra Das, MOCI, GoI, 2015 and Exim Bank Analysis

India – CLMV Economic Corridors

Physical connectivity plays a very important role in facilitating trade through lower transport costs, reduced time. Enhanced connectivity also ensures efficient supply chain management by companies across the value chains and promotes development of industry clusters. India has been instrumental in developing various corridor connectivity projects in the CLMV region to provide cost effective logistic services. Recently, in August 2019, India adopted the new Mekong Ganga Cooperation Plan (MCG) of Action 2019 that envisages project-based cooperation in the seven areas - tourism and culture, education, public health and traditional medicine, agriculture and allied sectors, transport and communication, MSMEs as well as three new areas of cooperation, i.e. water resources management, science and technology, skill development and capacity building. Under the cooperation in transport and communication, the MCG plans to examine the feasibility of extending the India-Myanmar-Thailand Trilateral Highway to Cambodia, Lao PDR and, Vietnam, and developing it as an economic growth corridor (**Exhibit 5.5**)[64]. The India-Myanmar-Thailand Motor Vehicle Agreement is also soon to be finalized by 2020 to facilitate seamless movement of goods and services across the borders. Training programs would also be organized for the MGC countries, which include preparation of feasibility studies and detailed project reports for highway projects and construction and maintenance of highways[65].

India joined Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) as a Development Partner, focusing particularly on projects that can also complement joint projects already being undertaken by India with the ACMECS countries both under bilateral and other multilateral frameworks such as the MGC, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and ASEAN-India Dialogue Relations.

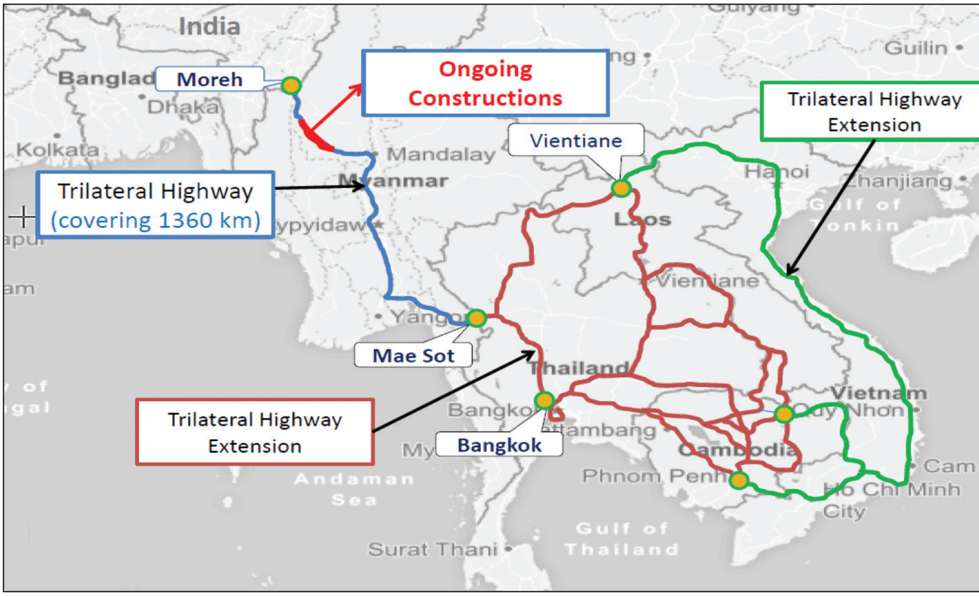
India had also announced US$ 1 billion Line of Credit in November 2015 to promote physical and digital connectivity between India and ASEAN countries. This has aligned India with the Master Plan on ASEAN Connectivity 2025 (MPAC) after China and Japan. This is expected to facilitate sustainable infrastructure, digital innovation, seamless logistics and mobility of people[66].

[64]Mekong Ganga Cooperation (MGC) Plan of Action (2019-2022), August 02, 2019, MEA, GoI

[65]Joint Ministerial Statement of the 10th Mekong-Ganga Cooperation Ministerial Meeting, MEA, GoI, August 02, 2019

[66]ASEAN-India Connectivity: Mapping Pathways of Shared Prosperity, MEA, GoI

Exhibit 5.5: Extension of India-Myanmar-Thailand Trilateral Highway



Source: Adapted from ASEAN-India Centre, RIS[67], 2018

Role of North East Region

The North East region plays a strategic role for India as it acts as a gateway to Southeast and East Asia. The North Eastern states act as the land bridge as they share international borders with Myanmar and China. Therefore, increasing transport connectivity through this region can increase trade. Border infrastructure needs to be upgraded to facilitate connectivity between India and Myanmar which acts as the gateway to the CLMV region.

The study conducted by Exim Bank on Border Infrastructure, titled 'Act East: Enhancing India's Trade with Bangladesh and Myanmar Across Border' highlighted various issues and challenges with regards to border trading infrastructure, which require urgent attention. Absence of all-weather road connectivity, lack of storage and warehouse facilities, poor ICT and banking infrastructure, irregular electricity and water supply issues, absence of quality testing laboratories for imported food items, country of origin certificate issued manufactured items among others are the major bottlenecks leading to hindrance in border trade between India and Myanmar.

[67] Strengthening Transport Connectivity between CLMV-T and India: Opportunities and Challenges, Prabir De, UNESCAP Workshop, October 2018

Table 5.3 shows the major Land Custom Stations (LCSs) functioning between India-Myanmar border. The major products exported from India to Myanmar via Moreh in 2018-19 were wheat flour, pulse, chemicals, bleaching powder, decorative wallpaper and methyl bromide, whereas areca nut was the major product imported from Myanmar. According to Myanmar Department of Border Trade, the border trade turnover between India and Myanmar would be higher if informal trade is considered. Secondary reports also show the prevalence of informal trading of items like fertilizers, vehicles, particularly two-wheelers from India to Myanmar through land border. At the same time, these are several challenges that need to be addressed to facilitate trade in the region including limited availability of electricity, poor roads, manual handling of goods, unfriendly exchange rate and many such barriers, making border trade expensive[68].

Table 5.3: Land Custom Stations at the India-Myanmar Border

State	LCS in India	LCS in Myanmar	Status
Arunachal Pradesh	Nampong (Pangsau Pass)	Pangsu	Notified but non-functional
Manipur	Moreh	Tamu	Functional Being developed as Integrated Check Post in Phase-I by D/o Border Management
Mizoram	Zokhawthar (Champhai)	Rih	Functional
Nagaland	Avangkhu	Somara	Bi-laterally agreed to open new Land Custom Station in the Indo-Myanmar Joint Trade Committee meeting in October 2008. Not yet notified by Govt. of India under Section 7 of the Customs Act, 1962 (52 of 1962) (letter of Joint Commissioner, Central Excise & Custom, Shillong Zone, North Eastern Region No.VIII(29)1/CUS/ CCO/ SH/2010 dated 15.11.2010)

Source: Ministry of Development of North Eastern Region, Government of India (accessed on January 2020)

[68]India-Myanmar Trade and Investment: Prospects and Way Forward, Working Paper 90, Export-Import Bank of India, June 2019

According to a study by the Research and Information System for Developing Countries (RIS)[69], the North Eastern states are likely to gain more in terms of economic growth with higher movement of freight from Kaladan Corridor, Trilateral Highway and the Myanmar India Corridor which would be part of the Bangladesh-China-India-Myanmar–Economic-Corridor (BCIM – EC). Kaladan Corridor and the India-Myanmar-Thailand Trilateral Highway are currently under implementation.

Connectivity Projects

In order to provide a boost to its 'Act East' policy and to link to Southeast Asian markets, the Indian Government has multiple connectivity projects, through land, water, and air highlighted in **Table 5.4.**

India-Myanmar-Thailand Trilateral Highway

The India-Myanmar-Thailand Trilateral Highway is a flagship land connectivity project between India and ASEAN, announced in 2002. The Trilateral Highway connects India, Myanmar and Thailand through Moreh, Bagan and Mae Sot, respectively. After a decade, in 2012 it was extended to Cambodia and Vietnam, at the Commemorative Summit between ASEAN and India. India is undertaking construction of two sections of the Trilateral Highway in Myanmar namely, 120.74 km Kalewa-Yagyi road section; and 69 bridges along with the approach road on the 149.70 km Tamu-Kyigone-Kalewa (TKK) road section. The work on both sections were awarded on Engineering, Procurement and Construction (EPC) mode in November 2017 for the TKK section and in May 2018 for Kalewa-Yagyi section. The project is being funded by Government of India under grant assistance to the Government of Myanmar[70].

Kaladan Multi-Modal Transit Transport Project (KMMTTP)

The Kaladan Multi-Modal Transit Transport Project (KMMTTP), was jointly identified by India and Myanmar to develop connectivity through water. The project envisaged creation of a multimodal mode of transport for shipment of cargo from the Eastern ports of India to Myanmar as well as to the North Eastern part of India through Myanmar. This project, which will connect Sittwe Port in Myanmar to the India-Myanmar border, is expected to be an alternative route through Myanmar for the transportation of goods to the North East region of India. This is expected to contribute to the economic development of the North

[69]RIS (2018), Assessing Economic Impacts of Connectivity Corridors: An Empirical Investigation, Prabir De, Sunetra Ghatak, Durairaj Kumarasamy, RIS, 2018

[70]PIB Press Release on 'India-Myanmar-Thailand Trilateral Highway' January 3, 2019

Eastern states of India, by opening up the sea route, thereby reducing pressure on the Siliguri Corridor. In the absence of an alternate route, the development of this project not only serves the economic, commercial and strategic interests of India, but also contributes to the development of Myanmar, and its economic integration with India. According to a study by the ASEAN-India Centre, RIS, 2018, the project was initiated by the Indian Government in 2008. Since the project is of political and strategic significance, it was decided to execute it through India's grant assistance to Myanmar. The project has three different stretches involving shipping, inland water and road transport stretches. The project will connect Kolkata seaport with Sittwe seaport in Rakhine State, Myanmar, by sea. It will then link Sittwe port to Paletwa in Myanmar by sea and river, respectively via the Kaladan river boat route, and then from Paletwa by road to Zorinpui in Mizoram state in North East India. Once completed, the project would allow goods from Kolkata port to reach India's North East states more economically.

The Bangladesh-China-India-Myanmar Economic Corridor or BCIM-EC, 2800 km long corridor connecting India and China via Bangladesh and Myanmar was proposed to be a part of the Belt and Road Initiative in 2013 but was later dropped. This project is still at a stage of discussion among the four countries.

Table 5.4: Economic Corridors Connecting India and CLMV

Corridors	Length (Kms)	Origin	Destination	Connecting Region
Trilateral Highway	1360	Moreh (India)	Mae Sot (Thailand)	India-Myanmar-Thailand
Kaladan Multimodal Transit Transport Project	539	Kolkata (India)	Sittwe (Myanmar)	India-Myanmar
	158	Sittwe (Myanmar)	Paletwa (Myanmar)	Myanmar
	210	Paletwa (Myanmar)	Zorinpui (India)	Myanmar-India
BCIM-EC	2800	Kolkata (India)	Kunming (China)	Bangladesh-China-India-Myanmar

Source: Assessing Economic Impacts of Connectivity Corridors in India: An Empirical Investigation with Special Focus on North East India, ASEAN-India Centre, RIS, 2018

Maritime Connectivity

The bulk of India - ASEAN trade happens through the sea route hence maximizing the trade potential with India by developing the maritime infrastructure and appropriate policies is of utmost priority. The ASEAN-India Maritime Transport Agreement has therefore been proposed. India is looking to set up a maritime transport working group of Myanmar, Thailand, Cambodia and Vietnam to explore the feasibility of shipping networks. Plans to interlink islands in India and ASEAN countries for improving maritime connectivity are also under consideration[71].

Air Connectivity

Increased demand for air cargo services, ease of doing business and tourism are the major drivers of air connectivity between India and the ASEAN countries. However, India has direct flights only to Myanmar among the CLMV countries. The majority of air traffic is concentrated in countries like Singapore, Malaysia and Thailand as the airport hubs at Bangkok, Singapore and Kuala Lumpur, have passenger as well as cargo handling facilities and infrastructure. Direct flight services from Vietnam along with flights originating from Tier 1 and Tier 2 cities of India are expected to start, which might facilitate further trade and investment activities[72].

Way Forward for Developing India-CLMV Value Chains

Improving Logistics and Ease of Doing Business

According to the World Bank Logistics Performance Index (LPI) Report 2018, improvement in the Logistics Performance Index by one position increases trade by 16 percent. Logistics sector plays a major role in connectivity, which in turns governs the trade costs incurred by a country. The LPI ranking takes into consideration parameters like customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing and timeliness. Singapore ranked 7th in 2018 followed by Thailand (32), Vietnam (39), Malaysia (41), Indonesia (46), Philippines (60), Brunei Darussalam (80), Lao PDR (82), Cambodia (98) and Myanmar (137) among 160 economies. India ranked 44th.

In Doing Business 2020 survey conducted by the World Bank, 190 economies across the world are ranked on their ease of doing business, from 1 to 190. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. This index averages

[71] ASEAN-India Connectivity: Mapping Pathways of Shared Prosperity, MEA Blog, 2019

[72] KPMG (2019), India-ASEAN Co creating the Future, 4th ASEAN Expo and Summit 2019, February 2019

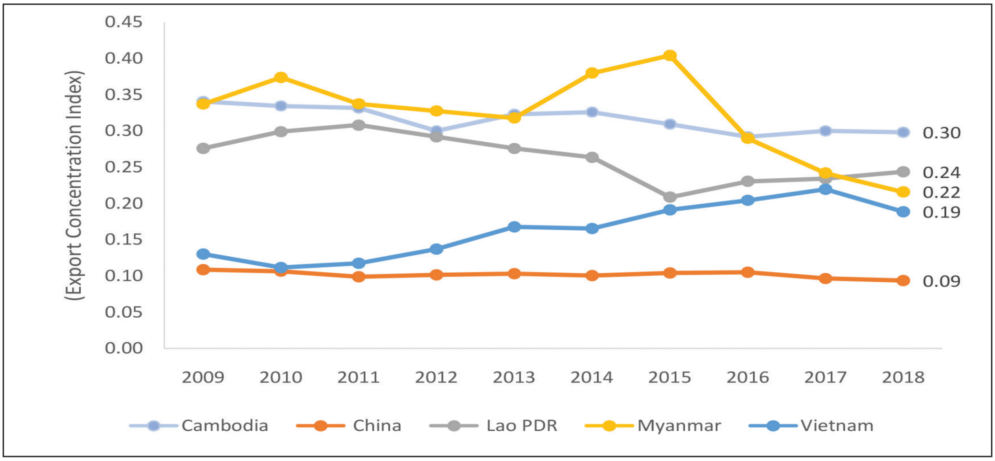
the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. In terms of Doing Business, Cambodia ranked 144, Lao PDR ranked 154, Myanmar ranked 165 and Vietnam ranked 70 among the 190 economies. Cambodia, Lao PDR and Myanmar need to improve their LPI and Doing Business rankings which would improve their prospects to develop as potential destinations for value chain development.

Product Diversification

Vietnam being an exception, the CLMV economies remain poorly diversified in terms of exports focusing majorly on low technological sophistication. The export product concentration index, also known as Herfindahl-Hirschman Index (Product HHI), is a measure of the degree of product concentration in a country's exports. An index value closer to 1 indicates a country's exports are highly concentrated on a few products. On the contrary, values closer to 0 reflect exports are more homogeneously distributed among a series of products. Benefiting from low wages, the CLMV countries initially focused on labor-intensive sectors such as garments.

As highlighted in the earlier analyses, Lao PDR has been gradually shifting its focus to hydro power and mining, and Myanmar, given its rich natural resource endowments, has become heavily dependent on petroleum gas, precious stones, and lumber exports, mostly to neighboring countries like Thailand and China. Cambodia remains almost exclusively focused on garments. Vietnam, though well diversified, depends heavily on labor-intensive manufacturing, including not only garments but also electronics, as the country has become an important player in global supply chains, Vietnam also maintains a strong position in a variety of agricultural sectors, including coffee, rice, and marine products.

Chart 5.3: Export Concentration Index for CLMV Countries



Source: UNCTADStat and Exim Bank Analysis

<u>Market Concentration</u>

Although China's rebalancing of growth and its trade disputes with the US may appear to be an opportunity for CLMV countries, it is undeniable that these countries are dependent on Chinese import demand and investment for their growth. Be it infrastructure, tourism or exports, China has continued to be present in this region. CLMV exports have also begun to slow as Chinese imports from these countries have weakened. Both Myanmar and Cambodia depend on US and EU as major export destinations as a result of the market access benefits enjoyed by both countries in these markets. However, both the countries need to consider diversifying their markets, and think beyond traditional partnership to become resilient.

<u>Collaborating with ASEAN economies for developing Value Chain Networks</u>

The CLMV economies have not been deeply integrated into the East Asian production and distribution networks despite their various locational advantages and notably abundant, and low-waged labor force. CLMV's underdeveloped infrastructure, logistics in particular, hinder them from participating in such networks in East Asia. India has been instrumental in facilitating investment in the ASEAN region mainly in connectivity projects. These could be strengthened by setting up funds to identify projects develop a viable and dynamic supply chains across South and Southeast Asia. The potential sectors as highlighted earlier for developing value chains where India has its strength include agro-processing, textile & garments, pharmaceuticals, automotive, agricultural machinery, renewable energy and construction, among others.

Transport Network Development

Thailand and Myanmar recently opened *a* corridor with the objective of increasing connectivity between CLMV, Thailand and India. The new bridge, “Thai-Myanmar Friendship Bridge”, which was part of the East-West Economic Corridor between Thailand and Myanmar that opened in October 2019 is expected to give CLMV countries and Thailand access to the vast Indian market through its North East Region and reduce heavy reliance on China and reshape the supply chain dynamics of the region. This “Thai-Myanmar Friendship Bridge”, which is situated across the Moei River that connects Myawaddy, a city in Myanmar’s eastern region, and Mae Sot district in western Thailand, was built at a cost of approximately US$ 140 million. The East-West Corridor is a project to build a large economic bloc along a 1,700-km land route from Vietnam to Myanmar via Lao PDR and Thailand. From Myanmar these countries could get access in India[73]. India has built a port at Sittwe in Myanmar, which will be linked to the state of Mizoram in the north via a multi-modal transport network. Besides, the trilateral highway connecting India with Thailand via Myanmar, once operational, could be expanded to Vietnam. India and Thailand recently signed pacts for port connectivity, adding further impetus to the Act East Policy and the Indo-Pacific Vision. More such connectivity projects could be explored between India and the CLMV countries.

Developing Cross border SEZs

Regional development initiatives and cooperation programmes have promoted the establishment of Special Economic Zones (SEZs) SEZs along regional economic corridors. The development of the Greater Mekong Subregion corridors, a regional economic cooperation programme that involves Cambodia, China, Lao PDR, Myanmar, Thailand and Vietnam, has encouraged these countries to build SEZs in border areas to better utilize the improved connectivity along the corridors. SEZs in border areas can exploit the advantages that arise from resources available in neighbouring countries, proximity to their markets and the potential for cross-border linkages with suppliers. The CLMV countries began establishing SEZs to attract labour-intensive manufacturing in the late 1990s and 2000s. Cambodia launched a new SEZ programme in 2005, establishing specialized SEZs to diversify its industrial base beyond electronics and automobile parts. Myanmar has one SEZ, with another two under construction in partnership with China, Japan and Thailand[74]. One of the objectives of Cambodia’s SEZs is to establish

[73]Southeast Asia's trans-regional corridor takes shape, Nikkei Asia, December 2,2019

[74]UNCTAD 2019, World Investment Report 2019

economic links between urban and rural areas. Cambodia's Sihanoukville SEZ, a joint venture between a Chinese conglomerate and Cambodia International Investment Development Group, was the outcome of a bilateral agreement signed between China and Cambodia in 2010. India would be developing an SEZ with Myanmar known as Sittwe SEZ, bilateral agreement for which was signed in 2016, but is still at the planning stage. Once this materializes it will facilitate further investment flows between the two countries.

Engaging Startups

Another initiative which could enhance cooperation among India and the CLMV economies is facilitating engagements amongst startups, of these economies. India is the second-largest start up hub in terms of the number of startups, with more than 20,000 startups with a combined market value of more than US$ 50 billion[75]. According to the data from World Bank, India had 123,942 businesses registered in the year 2018. While in the CLMV region, Cambodia had 7007 start-ups followed by, Lao PDR (178), Myanmar (14,051) and Vietnam (73,422). Since the launch of the Startup India initiative, a year-on-year growth of 36 percent was seen in the number of incubators and accelerators in India in 2017, and a total of US$ 17.8 billion has been invested in startups since Jan 2016. One of the key activities under the program is to help connect the Indian startup ecosystem to global startup ecosystems through various engagement models. The ASEAN India Grand Challenge was organized by "Invest India" to support ASEAN startups with a commercially viable solution to solve India's key problems through a market access program in five Indian states. The themes for the Challenge included IoT for Smart Cities (Odisha), Financial Technology & Financial Inclusion (Andhra Pradesh), Renewable Energy (Uttarakhand), Agriculture & Rural Development (Andhra Pradesh), Digital Health (Karnataka) and Clean India (Rajasthan). Similar framework could be adopted for startups based in the CLMV countries with whom Indian startups could share their expertise.

Enhancing SME Participation

SMEs account for 96 percent of businesses and over two-third of employment in the CLMV region. The challenges faced by these SMEs are in terms of lack of access to finance, inadequate skills for development of human capital, market access and adoption of latest technology. It is critical to integrate the employment-intensive SMEs in India-CLMV economic integration, which could be achieved

[75]Promoting Economic Connectivity between India and ASEAN, Invest India, February 2019

with a three-pronged strategy: (i) Linking SMEs with large companies locally and the latter gets engaged in outward FDI; (ii) Linking SMEs with MNCs in CLMV; and (iii) Linking SMEs on a stand-alone basis with their counterparts in CLMV[76] .

Increasing Presence of Indian Banks

Enhancing financial inclusion is of utmost importance to develop commercial and economic linkages for developing value chains within the region. This would require increasing the number branches of Indian banks present in CLMV rather than just having representative offices. Formalizing, the informal trade that happens through the India-Myanmar border could be done through increased financial inclusion and access to banking services. As on March 31, 2020, there is just one branch each of public sector banks in Cambodia, Myanmar and Vietnam, respectively. Myanmar also has a representative office of Punjab National Bank. Indian banks do not have any presence in terms of representative office or branch in Lao PDR. Among the other ASEAN economies, only Singapore and Thailand have presence of Indian banks. Singapore has 14 Indian banks with branches (both public sector as well as private banks) whereas Thailand has only one. Establishing wider networks would also help Indian companies to expand businesses in the region.

Table 5.5: Presence of Indian Banks in CLMV Region

Region	Branches of Indian Banks	Subsidiary	Joint Venture	Representative Offices
Cambodia	Bank of India (1)	-	-	-
Lao PDR	-	-	-	-
Myanmar	State Bank of India (1)	-	-	Punjab National Bank (Yangon)
Vietnam	Bank of India (1)	-	-	-

Note: "-" data not available or nil

Source: RBI as on March 31,2020

Vocational Training and Capacity Building

Skill availability remains a challenge for CLMV countries. There is a need to bridge the gap between availability of skill, personnel and technology with the requirements in the CLMV economies. To this end, effective collaboration for developing sector specific skill sets could be the way forward. The contribution of GVCs to GDP can be limited if countries capture only a small share of the

[76] India's Strategy for Economic Integration with CLMV, Dr. Ram Upendra Das, Department of Commerce Ministry of Commerce and Industry, Government of India, New Delhi, 2015

value added created in the value chain, and thus need to ensure technology dissemination, skill building and upgrading.

Increased Business to Business Interactions

A dedicated web portal for India-CLMV engagements with information on projects and prospects available could be created. This would address the existing information gap.

Increased B2B interactions could be facilitated through digital platform or various outreach events to deliberate on the economic potential that could be materialized through increased engagements between India and CLMV.

6. EXPORT-IMPORT BANK OF INDIA IN CLMV REGION

As the apex financial institution in India for financing, promoting and facilitating India's international trade and investments, Export-Import Bank of India (Exim Bank), since its inception in 1982, has focused on promoting and supporting South-South cooperation, trade and investment. As a partner institution to promote economic development in developing and least developed countries (LDCs), the commitment towards building relationships and fostering cooperation among southern countries is reflected in the various activities and programmes, which Exim Bank has set in place. Exim Bank operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment.

Accordingly, countries in the Southeast Asia region, including CLMV, have been a focus region for Exim Bank, and thus form a critical component of the Exim Bank's strategy to promote and support two-way trade and investment.

Lines of Credit (LOCs)

To promote bilateral and regional commercial relations, Exim Bank extends Lines of Credit (LOCs) to governments, parastatal organizations, financial institutions, commercial banks and regional development banks to support export of eligible goods on deferred payment terms. Operative LOCs covering the CLMV region extended by Exim Bank, at the behest of the Government of India are given in (**Table 6.1)**.

Table 6.1: Exim Bank's Operative Lines of Credit in CLMV Countries (as on March 31, 2020)

Borrower	Amount of Credit (US$ mn)	Key Sectors/Projects covered
Cambodia	102.1	Electricity Transmission Line; Water Development Projects
Lao PDR	153.8	Electricity Transmission Line project; Irrigation Project; Hydropower Projects
Myanma Foreign Trade Bank, Myanmar	531.9	Railway Projects; Refinery Projects; Manufacturing Plant Projects; Transmission Lines; Irrigation System; Petrochemicals; Microwave Radio Link Project
Vietnam	191.5	Hydro Power Project; Exports of Textile Machinery and Equipment

Supporting Project Exports

Exim Bank extends both funded and non-funded facilities for overseas turnkey projects, civil construction, supplies as well as technical and consultancy service contracts across various sectors of the economy. Exim Bank has financed several Indian project exporters in the region in various sectors including, among others, water resources development, power projects, irrigation, gas pipeline and hydropower projects.

Buyer's Credit under National Export Insurance Account (NEIA)

The Buyer's Credit under National Export Insurance Account (BC-NEIA), introduced in April 2011, provides further impetus to project exports from India on medium- or long-term basis, especially in the infrastructure sector. Under this programme, Exim Bank facilitates project exports from India by way of extending credit facility to overseas sovereign governments and government-owned entities for import of goods and services from India on deferred credit terms. Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. NEIA is a Trust, set up by Ministry of Commerce and Industry and administered by ECGC. All the CLMV countries featured among the positive list of 91 countries identified by ECGC for which Indian exporters can avail supports under the BC-NEIA programme.

Finance for Joint Ventures

With a view to support Indian companies in their endeavour to globalise their operations, Exim Bank operates a programme to support overseas investments by Indian companies through JVs/ WOSs. Such supports include loans and guarantees, equity finance and in select cases direct participation in equity along with Indian promoter, to set up such ventures overseas. As on March 31, 2020, Exim Bank has sanctioned ₹ 2959 million to ten Indian companies for setting up ventures in Myanmar and Vietnam in sectors including agriculture and food processing, consumer goods, plastic and its articles, engineering goods and wood and wood-based products.

Project Development Fund (PDF) for CLMV Countries

The Ministry of Commerce and Industry (MOCI), Government of India, engaged Exim Bank for conducting a study for developing a framework to identify opportunities for India in trade and investments in CLMV countries. Accordingly, Exim Bank mounted a Mission to CLMV countries to gather inputs from all stakeholders in those countries and after various rounds of deliberations submitted the final report with its recommendations to MOCI. Subsequently, the Union Finance Minister in his Budget Speech for 2015-16 announced in the parliament that “in order to catalyze investments from the Indian private sector in this region, a Project Development Company will, through separate Special Purpose Vehicles (SPVs), set up manufacturing hubs in CLMV countries, namely, Cambodia, Lao PDR, Myanmar and Vietnam”.

In compliance with the Finance Minister’s announcement and to catalyse Indian private sector investments in the CLMV countries, under the ‘Act East’ policy of the Government of India, a Project Development Fund (PDF) with a corpus of ₹5 billion has been created in August 2016. The PDF, housed in Department of Commerce, will be operated through Exim Bank, which will act as the Empowered Institution under the Initiative. The PDF shall be governed by an Inter-Ministerial Committee under the chairpersonship of the Commerce Secretary. The primary objective of the PDF is to facilitate Indian investments and broaden the manufacturing base of Indian companies in CLMV countries. The PDF will be used to identify projects, which support Regional Value Chain (RVC) and help integrate Indian companies into the RVC. The projects identified under the initiative, if found feasible/ viable, will be incorporated/ implemented through Special Purpose Vehicles (SPVs) in CLMV countries.

Under this initiative, in 2018-19, four projects covering three key sectors viz. healthcare in Cambodia and Myanmar, education in Myanmar and pharmaceuticals in Vietnam, have been identified for preparation of DPRs. The DPRs have since been finalised. Exim Bank is now in the process of implementing projects in the region based on the findings of the DPRs.

Exim Bank as International Consultant

Exim Bank is well positioned to share its experience and expertise in the fields of capacity creation, institutional strengthening, export development and export capability creation. The Bank is thus well placed to provide a range of technical assistance in these fields. Exim Bank has rendered consultancy services to a number of institutions in Southeast Asia region such as:

- Study on Regional Co-operation in Export Finance and Export Credit Guarantees for the Economic and Social Commission for Asia and Pacific (ESCAP) (includes CLMV countries);
- Strategy paper for SAARC Development Fund to promote intra-regional projects in the South Asian Region (including Myanmar);
- Expertise provided on developing a National Export Strategy of Myanmar; and
- Designing Export Marketing Seminars for SMEs in Vietnam.

Institutional Linkages

Exim Bank has a wide network of alliances with financial institutions and investment promotion agencies, market promotion boards and service providers across the globe for assisting externally oriented Indian companies in their quest for excellence and globalization. In the CLMV region, Exim Bank has entered into an MOU with the Investment and Trade Promotion Centre, Vietnam to promote bilateral trade and investments between the two countries.

Asian Exim Banks Forum

With a view to enhance cooperation and forge a stronger link among its member institutions, the Asian Exim Bank's Forum (AEBF), a grouping of Asian Exim Banks, was conceived and initiated by Export-Import Bank of India in 1996. Since its inception, the Forum meets every year at an Annual event hosted by members of the Forum on a rotating basis. Members comprise Export Credit Agencies (ECAs) from Australia, China, India, Indonesia, Japan, Malaysia, Philippines, Republic of Korea, Thailand, Turkey and Vietnam. Asian Development Bank is a Permanent Observer.

The task of Asian ECA Forum is to enhance cooperation and forge a stronger link among its member institutions, thereby fostering a long-term relationship with the Asian ECA community. The Annual meetings serve as a forum for discussing a wide range of issues focused on fostering common understanding as well as exchanging and sharing information. Together, the endeavour is to meet the challenges faced as an export credit agency in Asia and explore possible areas for further regional cooperation. Myanma Foreign Trade Bank has attended meetings of the AEBF as an Observer. A new website for AEBF, which was developed in-house by Export-Import Bank of India was launched during the 24th annual meeting of the Asian Exim Banks Forum (AEBF) at Phuket, Thailand in November 2018.

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 include:

- Enhancing India's Engagement in Healthcare Sector of CLMV Countries;
- Act East: Enhancing India's Trade with Bangladesh and Myanmar Across Border;
- India's Engagements with CLMV: Gateway to ASEAN Markets;
- Act East: Enhancing India's Engagements with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV);
- Enhancing India's Bilateral Ties with Cambodia, Lao PDR, Myanmar, Vietnam: A Brief Analysis;
- India's Trade and Investment Relations with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV): Enhancing Economic Cooperation;
- Enhancing India-Myanmar Trade and Investment Relations: A Brief Analysis;
- ASEAN Countries: A Study of India's Trade and Investment Potential; and
- BIMSTEC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries.

Representative Offices

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 Southeast Asian countries, including

CLMV countries, and identify areas of cooperation. The representative offices play a role in facilitating India's economic cooperation with ASEAN countries (including CLMV), while keeping close coordination with Indian Missions in the region. The offices project Bank's capabilities in financing India's international trade and investment, as also keeps the Bank abreast of the developments in the economic and banking/financial sectors of the Southeast Asian Region, including CLMV countries.

- ***Exim Bank in East and North Eastern Region of India***

With a view to assist entrepreneurs in harnessing the tremendous export potential of the East and the North Eastern region (NER) of India, Exim Bank has its representative offices at Kolkata and Guwahati. While the Kolkata Office covers Exim Bank's activities in the states of Bihar, Chhattisgarh, Jharkhand, Odisha and West Bengal, the Guwahati Office covers the Bank's activities in the eight states of the NER, namely, Assam, Arunachal Pradesh, Meghalaya, Mizoram, Manipur, Nagaland, Sikkim and Tripura. These two offices are strategically placed to play vital roles in promoting exports from the Eastern and the North Eastern regions, ranging from creating awareness of export potentials of the regions and capacity building, to financing of exports and export-oriented units. In order to enhance export potential of MSME in industrial clusters in the NER, Exim Bank has recently collaborated with the United Nations Development Programme (UNDP). The Exim Bank-UNDP programme for the NER seeks to develop, among others, bankable export clusters in the NER, based on local resource availability and comparative advantage of the identified clusters.

In a Nutshell

In sum, Exim Bank, with its comprehensive range of financing, advisory and support services, seeks to create an enabling environment for enhancing two-way flow of trade, investment and technology between India and the CLMV Region. While promoting infrastructure development and facilitating private sector development in host countries, the various efforts of Exim Bank, ensconced in its range of activities, also contribute towards institutional building in the CLMV Region.

Annexure

1. GOI-supported LOCs extended by Exim Bank of India in CLMV (As on March 31, 2020)

Sr. No	Country	Borrower	Amount of Credit (US$ mn)	Purpose
1	Cambodia	Government of Cambodia	35.20	Stung Tasal development project by WAPCOS, purchase of water pumps, construction of electricity transmission line between Kratie and Stung Treng by WAPCOS
2	Cambodia	Government of Cambodia	15.00	Strengthening the capacity of transmission line project between Kratie and Stung Treng
3	Cambodia	Government of Cambodia	15.00	Completion of Stung Tasal Water Development Project
4	Cambodia	Government of Cambodia	36.92	Stung Sva Hab/Slab Water Resources Development Project
5	Lao PDR	Government of Lao PDR	17.34	Development of Irrigation schemes in the Champassack Province
6	Lao PDR	Government of Lao PDR	33.00	Paksong S/S – Jiangxai 115 KV, double circuit Transmission Line Project , Nam Song 7.5 MW hydropower project and Equipment for Rural electrification Phase 2 Project
7	Lao PDR	Government of Lao PDR	72.55	(i) 230 kV Double Circuit Transmission Line from Nabong to Thabok and substations (USD 37.30 million), (ii) Improvement and Expansion of 22kV distribution line in Vientiane capital city branches project [USD 35.25 million] in Lao PDR
8	Lao PDR	Government of Lao PDR	30.94	Construction of Storage Dams & Development of Irrigation Systems in four major provinces in Lao PDR
9	Myanmar	Myanma Foreign Trade Bank, Myanmar	56.36	Railway rehabilitation
10	Myanmar	Myanma Foreign Trade Bank, Myanmar	20.00	Renovation of Thanlyin Refinery
11	Myanmar	Myanma Foreign Trade Bank, Myanmar	60.00	Railway projects by RITES Ltd.

Sr. No	Country	Borrower	Amount of Credit (US$ mn)	Purpose
12	Myanmar	Myanma Foreign Trade Bank, Myanmar	20.00	Setting up an assembly/ manufacturing plant for assembly and manufacturing of Tata vehicles
13	Myanmar	Myanma Foreign Trade Bank, Myanmar	64.07	(i) Oakshitpin – Thahtay Chaung – Taungup 230 kV Transmission Line and Substation Project; (ii) Taungup – Maei – Ann – Mann 230 kV Transmission Line and Substation project; and (iii) Maei – Kyaukpyu 230 kV Transmission Line and Substation project
14	Myanmar	Myanma Foreign Trade Bank, Myanmar	20.00	Upgradation of Thanbayakan Petrochemical Complex
15	Myanmar	Myanma Foreign Trade Bank, Myanmar	198.96	16 ongoing irrigation schemes and 2 rehabilitation schemes in the irrigation project in Myanmar
16	Myanmar	Myanma Foreign Trade Bank, Myanmar	86.31	Procurement of rolling stock, equipment and up-gradation of three major Railway Workshops by procurement of machinery
17	Myanmar	Myanma Foreign Trade Bank, Myanmar	6.20	Implementation of a Microwave Radio Link on the Rhi-Mindat route in Myanmar
18	Vietnam	Government of Vietnam	27.00	General purpose - Contracts approved include export of textile machinery, equipment and services for hydro power projects
19	Vietnam	Government of Vietnam	45.00	NAM Chien Hydropower Project (200 MW) at Son La Province
20	Vietnam	Government of Vietnam	19.50	General Purpose – drainage pumping station and infrastructure upgradation
21	Vietnam	Government of Vietnam	100.00	Purchase of equipment / supplies
Total			**979.35**	

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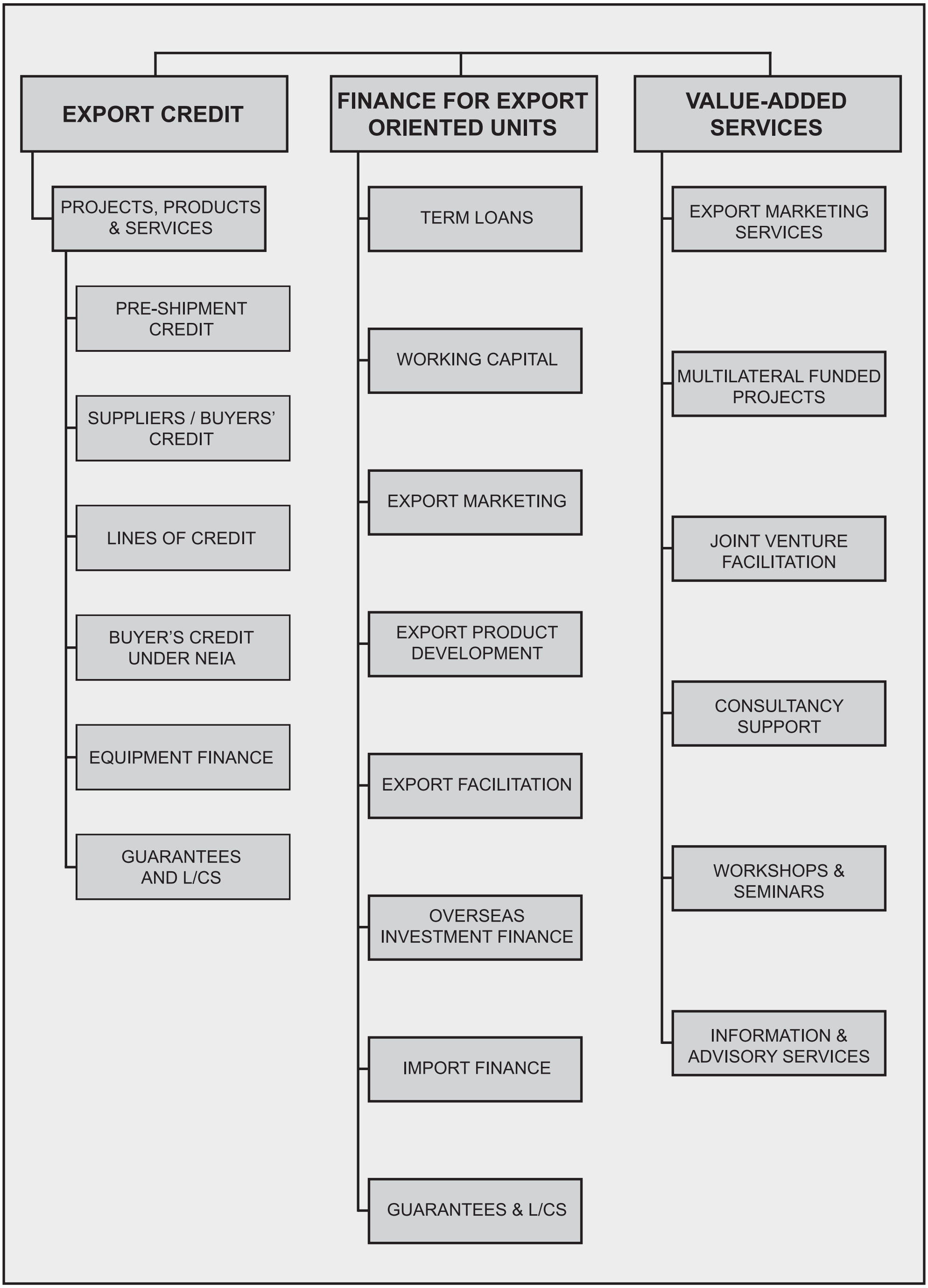
Bank’s Major Programmes



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