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WORKING PAPER NO. 34

ENHANCING INDIA'S BILATERAL TIES WITH CAMBODIA, LAO PDR, MYANMAR, VIETNAM: A BRIEF ANALYSIS

EXIM Bank's Working Paper Series is an attempt to disseminate the findings of research studies carried out in the Bank. The results of research studies can interest exporters, policy makers, industrialists, export promotion agencies as well as researchers. However, views expressed do not necessarily reflect those of the Bank. While reasonable care has been taken to ensure authenticity of information and data, EXIM Bank accepts no responsibility for authenticity, accuracy or completeness of such items.

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Executive Summary

A Brief Background of CLMV Countries

Cambodia, Lao People's Democratic Republic (Lao PDR or Laos), Myanmar and Vietnam, which form the CLMV countries, are an integral part of the Association of South East Asian Nations (ASEAN) region, covering 32 percent of geographical area of the ASEAN region, and accounted for around 10.5 percent of ASEAN's gross domestic product in 2013. These countries have been undergoing economic transition from central planning to market economy, from inward looking to outward looking economic development strategies and policies. The CLMV economies, which are considered among the fastest growing economies in the region, are primarily agrarian, and have enjoyed certain degree of macroeconomic stability in recent years, with vast potential for future development. These economies are endowed with abundant natural resources and low-waged labour forces. However, they are faced with underdeveloped infrastructure and logistics. Except Vietnam, all the CLMV countries fall under the category of Least Developed Countries as classified by the United Nations. The first CLMV Summit was held in November 2004 in Vientiane, Lao PDR, with the adoption of the Vientiane Declaration on enhancing economic co-operation and integration among CLMV countries. The Vientiane Declaration outlined seven areas of co-operation among CLMV countries which include, trade and investment, agriculture, industry and energy, transport, information technology, tourism, and human resource development. The Declaration showed strong commitment of CLMV countries to strengthen and enhance co-operation, and promote regional integration.

Economic Environment of CLMV Countries

Cambodia

With a population of 15.4 million in 2013, Cambodia falls under the U.N's LDC category. It is predominantly agrarian. According to World Bank estimates, services sector accounted for 40 percent of GDP in 2013, followed by agriculture (36 percent) and industry (24 percent). Cambodia has diverse forests which comprise a variety of evergreen, deciduous, mixed and mangrove type. The country also has significant mineral deposits, some of which include gemstones, iron-ore, manganese, phosphates and timber. Large scale mineral extraction has not yet commenced and the Cambodian government is committed to developing the sector.

The Cambodian economy has passed through three phases of development: the rehabilitation Phase (1993-1998), the reconstruction phase (1999-2003), and the economic takeoff phase (2004-2008). During the rehabilitation phase, economic work focused on implementing market reforms to transform the economy to one that is market-based. During the reconstruction phase, the government focused on the restoration of peace, economic integration into the region and the world, and promotion of socio-economic development. During this period, growth averaged 8.8 percent a year, driven by garments, construction, and tourism, in addition to the primary sector agriculture. During the economic take-off phase, the government commenced its second generation reforms, particularly implementation of the public financial management reform program. Investments in social sectors and infrastructure were increased to help reduce poverty, particularly in rural areas. Growth averaged 10.3 percent a year, driven by the four engines namely, garments, tourism, construction, and agriculture. The global economic downturn in 2009 severely impacted the economy as revenues from both garment exports and tourism sector fell, and the Cambodian economy witnessed close to flat growth (0.1 percent). The Cambodian government announced expansionary fiscal measures to mitigate the impact of global financial crisis. In 2009, investments worth US$ 1 billion in infrastructure (primarily transport and irrigation) were announced to stimulate growth. Tax relief was also provided to the most affected sectors. This helped pushing growth to 6.1 percent in 2010 and 7.1 percent in 2011. Growth continued to remain strong at 7.3 percent in 2012, buoyed by a strong export-led manufacturing activity. Robust growth in services and expanding export industries drove economic growth to 7 percent in 2013. In absolute terms, GDP amounted to US$ 15.7 billion in 2013, with per capita GDP was at US$ 1016.4.

Lao PDR

Lao PDR continues to develop rapidly, transforming itself into a lower-middle-income country. The seventh Socio-Economic Development Plan for 2011-15 has outlined plans to achieve Millennium Development Goals by 2015 and create favourable conditions for graduating from LDC by 2020. The World Bank has declared Lao PDR's goal of graduating from UNDP's list of LDC by 2020 as feasible. A resource based production boom, fuelled by hydropower development for energy exports and mining, has been an important driver behind the country's accelerating growth. The country is reaping the benefits of its investments in infrastructure, economic and social development, and from its outward orientation policies through regional co-operation and integration. The country's continued efforts to forge regional linkages and connectivity were important factors in attracting foreign investors especially in hydropower development for electricity exports. Regional transport linkages improved connectivity to neighbouring countries, resulting in increased intraregional trade. Driven by mineral exports, investments in hydropower, and rising electricity exports, Lao PDR's economy has been growing at a steady pace. Its strong performance continued during the global economic crisis. Lao PDR's real GDP grew by 7.9 percent in 2012, as compared to 8 percent recorded in the previous year. Despite weakness in the global economy, real GDP growth of Lao PDR was supported by moderately strong economic expansion on the part of its main trading partners in the region namely, Thailand, China and Vietnam. In 2013, economic growth of 8.2 percent was supported by expansionary fiscal and monetary policies. In absolute terms, GDP of Lao PDR stood at US$ 10 billion in 2013, with per capita GDP at US$ 1,476.9.

Myanmar

Myanmar, branded by IMF as Asia's 'final frontier', embarked on a path of political and economic reforms in 2011, paving the way for developing the country's large potential. According to a study by the ADB in 2012, Myanmar could follow Asia's fast growing economies and expand at 7 to 8 percent a year, become a middle income nation, and triple its per capita income by 2030 if it can surmount substantial development challenges by further implementing across-the board reforms.

Improved economic prospects have sparked a surge of interest from foreign investors. According to IMF data, Myanmar's real GDP grew by 7.5 percent in fiscal year 2013, driven by increased foreign investments in the country from China, South Korea and Thailand. In addition, the government maintained momentum on policy reform. In absolute terms, Myanmar's GDP stood at US$ 56.4 billion in 2013, while GDP per capita was US$ 868.7. A number of developments in 2013 contributed to raising Myanmar's international profile as an investment destination, including the award of telecommunications licenses to Norway's Telenor and Qatar's Ooredoo; selection of investors from South Korea, Singapore, and Japan as preferred bidders for developing airports, and hosting of the World Economic Forum on East Asia and of the South East Asia Games. The government has initiated a broad array of reforms on unifying the exchange rate, improving monetary policy, increasing tax collection, reorienting public expenditure towards social and physical infrastructure, improving the business and investment climate, developing the financial sector, and liberalizing agriculture and trade.

With recent positive political and economic outlook, Myanmar has shown substantial interest in extracting the country's natural resource wealth, and with the help of international organizations such as the World Bank and Asian Development Bank, it has started focusing on developing large-scale infrastructure projects to establish strategic corridors to connect the country to the wider economic region. After decades of relative isolation, the new government is in the process of liberalizing the economy and implementing reforms, to attract foreign investment. The international community has shown great interest, fuelling the onset of a gold rush, with Myanmar being portrayed as "probably the best investment opportunity in the world right now". Myanmar, as Asia's final resource frontier, has prominently enticed the interest of foreign investors. The approval of the Foreign Investment Law (FIL) in November 2012 has paved the way for attracting foreign investments in various sectors including infrastructure, telecommunications, energy and manufacturing.

Vietnam

Vietnam had suffered from a prolonged war and economic stagnation. Since 1986, the country began rebuilding its economy with the policy of *doi moi* or renovation, involving greater freedom to private enterprise, emphasis on exports, production of consumer goods and encouraging foreign investors. Substancial progress was achieved from 1986 to 1997, despite the ravages of war, loss of financial support from the old Soviet Bloc and changeover from a centrally planned economy. Real GDP growth averaged around 9 percent (as per IMF) from 1993 to 1997. After a slight dip during 1997 Asian financial crisis, growth averaged 7.5 percent in 2000-2007. GDP grew by a robust 8.4 percent in 2007, driven by strong domestic growth as well as higher investment following the country's accession to WTO in January 2007. However, the global recession had dampened the export oriented economy in 2008. In 2013, real GDP was seen growing at 5.4 percent. In absolute terms, GDP has increased to US$ 170.6 billion in 2013 from US$ 155.6 billion in 2012, and GDP per capita stood at US$ 1,901.7. Industry is the largest sector in Vietnam's economy, accounting for 40 percent of Vietnam's GDP in 2013. The shares of services and agriculture in GDP during the same year were 39 percent and 21 percent, respectively. Vietnam has substantial energy and mineral resources. Its energy resources are a major source of export earnings and support domestic industries. Some of its major resources include phosphates, coal, manganese, rare earth elements, bauxite, chromate, offshore oil and gas deposits, timber, and hydropower.

International Trade of CLMV Countries

The importance of international trade as a growth facilitator has been recognized by CLMV countries, which is evident from their growth performance in recent years. Rise in both exports from and imports to the region have underlined the increase in total trade of the region. Although there was a slight decline in trade variables during the Asian crisis in 1997, thereafter, there has been a rising trend witnessed. Total trade of the CLMV region grew at an annual average of 19.7 percent from US$ 71 billion in 2004 to US$ 342.1 billion in 2013, underlined by steady exports and imports. Total exports of the region rose from US$ 32.9 billion in 2004 to US$ 161.9 billion in 2013, close to a five-fold increase. Similarly, imports also rose from US$ 38.1 billion in 2004 to US$ 180.1 billion in 2013. Though total trade of the region moderated during 2009, owing to global slowdown emanating from the US housing crisis, it recovered in 2010, and has been growing steadily thereafter. The CLMV countries have maintained a trade deficit throughout the last decade, driven by increased imports of capital goods, owing to infrastructural developments in the region. Among the CLMV countries, Vietnam remained the major exporter in the ASEAN region followed by Myanmar and Cambodia. As regards imports, Vietnam is also the leading importer among the CLMV countries in the ASEAN region, with a share of 11.4 percent of total ASEAN imports in 2013, followed by Myanmar, Cambodia and Lao PDR.

India's Bilateral Relations with CLMV Countries

The adoption of "Look East Policy" by India in 1992 was an initiative towards developing extensive economic and strategic relations with the ASEAN nations. Since then India has progressed from a dialogue partner to the present status of a strategic partner. The economic and trade linkages which saw an expansion of trade volume showed the intensity of economic engagement. During the last ten years, India's total trade with the CLMV countries has grown from US$ 1.1 billion in 2004 to US$ 11.2 billion in 2013, more than a ten-fold increase. Trade balance is in India's favour, with the surplus amounting to US$ 2.6 billion in 2013. Among the CLMV countries, India has a trade deficit with Myanmar, owing to increased imports of pulses and forest products from the nation. In the last four years, India's trade balance with Lao PDR also flipped to a deficit, stemming from increased imports of copper ores and concentrates from the nation. India's exports to the CLMV countries comprise pharmaceuticals, machinery and instruments, vehicles other than railway, plastics and articles thereof, and cotton. On the other hand, India's key imports from the region include rubber and articles, wood and articles of wood, ores, slag and ash, mineral fuels, oils and distillation products, and coffee, tea and spices.

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

India's approved direct investments in joint ventures and wholly owned subsidiaries in the CLMV countries amounted to US$ 40.9 million during 2013-14, with the bulk of the flows directed to Vietnam (54.9 percent of the total flows to the CLMV region).

Foreign Investment in CLMV Countries

In 2013, FDI inflows to the CLMV region amounted to US$ 13.2 billion, which was 10.5 percent of the total inflows in the ASEAN region. In recent years, the CLMV region has benefited from increased FDI inflows, primarily to the infrastructure sector. In particular, in Myanmar, the suspension of Western sanctions has seen increased inflows of investment, particularly from China, South Korea and Thailand. The region, which is characterized as beset with infrastructural bottlenecks thus provide investment ground for foreign investors.

Investment Opportunities in CLMV Countries

An area of critical importance for CLMV region is infrastructure development. Infrastructure coverage of the CLMV region is amongst the lowest in the ASEAN region. The primary reason for low levels of infrastructure development in the CLMV region stems from limited economic capacity to invest in infrastructure. Development of infrastructure essentially encompasses rail road, air port connectivity, logistics, water supply, power, among others.

There are opportunities in agriculture and allied sectors like fisheries and forest products like teak that Indian companies could look at leveraging, besides development of forward and backward supply chain linkages. Further, the benefits of newer technologies like bio-technology can also be jointly harnessed to increase agricultural productivity in the CLMV region.

With countries in the CLMV region still on the path of modernization and computerization, ICT is a potential area of investment. With the strength and capability that India possess in the realm of IT sector, Indian IT firms could explore opportunities in the CLMV countries, and focus on investing in subsidiaries and joint ventures in the areas of e-governance, financial services and e-education.

The financial sector in the CLMV region which is still relatively underdeveloped due to its isolation from global banking system, also present opportunities for collaboration. With increased demand for technology and expertise from the banking sector required for global integration, opportunities emerge in technology udgradation and automation in the financial sector. Indian financial institutes could collaborate with local banks as they seek to offer more services.

The CLMV region is considered as one of the fastest growing tourism destinations in the world, bringing in foreign exchange, creating jobs, and contributing to economic growth. While the CLMV countries have a strong comparative advantage in tourism in terms of natural and cultural heritage sites, this potential needs to be fully tapped to make it an instrument to spur broad based economic growth.

The CLMV countries face the common problem of low education participation, widespread adult illiteracy, and poor education quality. Areas of focus in the region would include the establishment of international universities, either as standalone institutions or in partnership with existing teaching facilities, vocational training centers and international schools catering to local families.

Exim Bank India's Endeavours to Harness Synergies with CLMV Countries

Countries in the South East Asia region have been a focus region for Export-Import Bank of India (Exim Bank India), and thus form a critical component of the Exim Bank India's strategy to promote and support two way trade and investment. Exim Bank India provides a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment relations with the South East Asian countries, including CLMV countries. Exim Bank India plays the role of a catalyst for investment in CLMV region by extending loans to Indian companies for investment in the region and entering into various collaborative programmes.

A. Financing Programmes

(i) Lines of Credit (LOCs)

To promote bilateral and regional commercial relations, Exim Bank India extends LOCs to governments, parastatal organizations, financial institutions, commercial banks and regional development banks to support exports of eligible goods on deferred payment terms. As on September 30, 2014, operative LOCs covering the CLMV region extended by Exim Bank India, at the behest of Government of India include:

Cambodia: A total of three LOCs amounting to US$ 65.2 million to the Government of Cambodia for the following purposes:

- Stung Tasal Development Project, purchase of water pumps and construction of electric transmission line between Kratie and Stung Treng Province in Cambodia
- Strengthening the capacity of transmission line project between Kratie and Stung Treng
- Completion of the Stung Tasal Water Development Project in Cambodia

Lao PDR: A total of four LOCs amounting to US$ 153.8 million to the Government of Lao PDR for the following purpose:

- 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
- Development of irrigation schemes in Chammasack Province
- 230 KV double circuit transmission line from Nabon to Thabok and substations and 2 hydropower projects (15 MW) in Nam Boun
- Construction of Storage Dams and Development of Irrigation System

Myanmar: A total of nine LOCs amounting to US$ 601.4 million were extended to Myanma Foreign Trade Bank for a range of projects, including railway infrastructure, manufacturing of vehicles, upgradation of petrochemical complex, telecommunication, refinery assembly plant, hydropower project and transmission lines.

Vietnam: A total of four LOCs amounting to US$ 191.5 million extended to the Government of Vietnam covering, among others, the following sectors:

- Hydropower projects
- Exports of textile machinery and equipments

(ii) Supporting Project Exports

Exim Bank India 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. As on September 30, 2014, 20 project contracts valued at ₹ 6,498.3 crore supported by Exim Bank India were under execution in the CLMV countries. Out of these, 12 contracts valued at ₹ 1,472 crore are under Government of India supported LOCs.

Cambodia

- Stung Tasal Water Resources Development Project and Construction of electric transmission line between Kratie and Stung Treng

Lao PDR

- Development of irrigation schemes in the Champassack Province
- Equipment / goods / services for Construction of 230 KV and 115 KV Transmission Line and Associated Sub Station in conformity
- Project Management Consultancy (PMC) Services for Construction of Storage Dams & Development of Irrigation Systems

Myanmar

- Design & engineering, supply of equipments and supervision of erection of equipments
- Contract for design, procurement and construction of 205 km gas pipeline from Kyaukphyu main station in South Myanmar to KP 205 block valve station in central Myanmar
- Contract for design, procurement and construction of oil pipeline
- Renovation of Thanbayakan Petrochemical Complex
- Oakshitpin -- Taungup 230 KV Transmission Line and Substation project, as well as Taungup - Maei - Ann - Mann 230 KV Transmission Line and Substation project
- Contract for supply of Damage Control Simulator (DCS)/stores on turnkey basis for the Directorate of Procurement, Office of the Commander-In-Chief (Army)
- Contract for Yetagun platform secured from Petronas Carigali Myanmar

Vietnam

- Supply of complete electromechanical equipment and technical services for Nam Chien Hydropower Project

(iii) Finance for Joint Ventures

With a view to support Indian companies in their endeavour to globalise their operations, Exim Bank India operates a programme to support overseas investments by Indian companies through Joint Ventures / Wholly Owned Subsidiaries. Such support includes loans and guarantees, equity finance and in select cases direct participation in equity along with the Indian promoter, to set up such ventures overseas.

As on September 30, 2014, Exim Bank India has provided finance to four Indian companies for setting up ventures in Vietnam, with sanctioned amount of ₹129 crore. Companies supported are:

- Vallabhdas Kanji Limited
- Ngon Coffee Company Limited
- Vietnam Abrasives Company Limited
- Tufropes Vietnam Company Limited

Exim Bank India has also provided finance to TIL Ltd. for setting up ventures in Myanmar, with sanctioned amount of ₹ 8.3 crore.

B. Institutional Linkages

Exim Bank India 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 India has entered into MoU with Investment and Trade Promotion Centre, Vietnam to promote bilateral trade and investments between the two countries.

C. Exim Bank India: Experience Sharing

Exim Bank India 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 India has rendered consultancy services to a number of institutions in South East 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 ASEAN countries)
- Designing Export Marketing Seminars for SMEs in Vietnam

D. Forum on Asian Export Credit Agencies

With a view to enhance co-operation and forge a stronger link among its member institutions, the first meeting of Asian Export Credit Agencies (ECAs) was held in India in 1996 at the initiative of Exim Bank India, which led to the formation of the Asian ECA Forum. Members comprise ECAs from India, China, Japan, Indonesia, South Korea, Malaysia, Thailand, Philippines, **Vietnam**, **Cambodia** and Australia.

The task of Asian ECA Forum is to enhance co-operation 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 co-operation.

E. Research Studies

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

- ASEAN Countries: A Study of India's Trade and Investment Potential
- BIMSTEC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries
- Enhancing India-Myanmar Trade and Investment Relations: A Brief Analysis
- India's Trade and Investment Relations with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV): Enhancing Economic Co-operation

F. Representative Offices

Exim Bank India has two representative offices in the ASEAN region - Singapore and Yangon. These offices seek to establish and maintain relationships with multilateral agencies, regional development institutions, trade and investment promotion bodies, international banks, chambers of commerce, government departments and institutions in various South East Asian countries including CLMV countries and identify areas of co-operation. The representative offices play a role in facilitating India's economic co-operation 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 South East Asian Region, including CLMV countries.

Strategies and Recommendations for Enhancing Bilateral Commercial Relations with CLMV Countries

A. Co-operation in the Agriculture and Allied Sector

The CLMV countries are primarily agrarian with agriculture and allied activities forming the backbone as majority of the population in the CLMV countries depend on it for their livelihood. The region has the advantage of natural resources, fertile agro-ecosystems, and rich biodiversity. However, agro industries in this sub region of the ASEAN region are mostly underdeveloped, leaving significant opportunity for development of agro based industries. Towards this end, LOCs extended by Exim Bank India to these countries serve to contribute towards the development of agricultural and related activities in the region. With such LOCs in place, Indian entrepreneurs and experts could increase exports of agri related machinery and equipments to the region, thus enhancing bilateral co-operation in the agricultural sector, as also the overall development of the region.

B. Natural Resource Development

As the CLMV countries are endowed with mineral wealth and natural resources, India could share its expertise and experience for development/ exploration of natural resources in these countries. For instance, Myanmar has abundant mineral and energy resources, as well as large hydro-electric potential. Cambodia has rich reserves of ironore, manganese and phosphates. Vietnam has substantial energy and mineral resources. Some of its major resources include phosphates, coal, manganese, rare earth elements, bauxite, chromate, offshore oil and gas deposits, timber, and hydropower. Similarly, Lao PDR is endowed with a wide range of mineral deposits, the most important of which include tin, lead, gravel, gypsum and salt. There are also small deposits of coal, iron ore, gold, and oil and gas. The most valuable natural resource of Lao PDR are its forests and rivers; the latter have considerable potential for generating hydroelectric power In light of these, increased co-operation between India and the CLMV countries in developing/exploring mineral resources, with bilateral arrangements such as buy-back arrangements could be an important strategy to enhance commercial relations.

C. Co-operation in Infrastructure Development

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

D. Co-operation in SME Sector

The SME sector development in the CLMV countries are constrained by a number of factors like lack of accessibility to modern technology, limited access to international markets, lack of management skills and training, and lack of finance. Towards developing entrepreneurship and human capability, India could share its expertise and experience with these countries, particularly in the SME sector wherein India has developed successful SME clusters. An important element in this direction would be for delegations from these countries to visit India to study success factors of SME clusters in India, and developing similar clusters in their countries based on resource and skill endowments. In addition, the CLMV countries could tie up with Indian institutions such as Entrepreneurship Development Institute of India (EDPI), Ahmedabad and National Small Industries Co-operation Ltd. (NSIC), New Delhi towards entrepreneurship development and human capability creation. Further, Indian institutions could also share their expertise in the fields of institutional strengthening, export development and export capability creation in the region, in the form of technical assistance and sharing of expertise through site visits. SME financing is another area where Exim Bank India could support this sector. Exim Bank India has extended several LOCs to various countries for the development of their SME sectors.

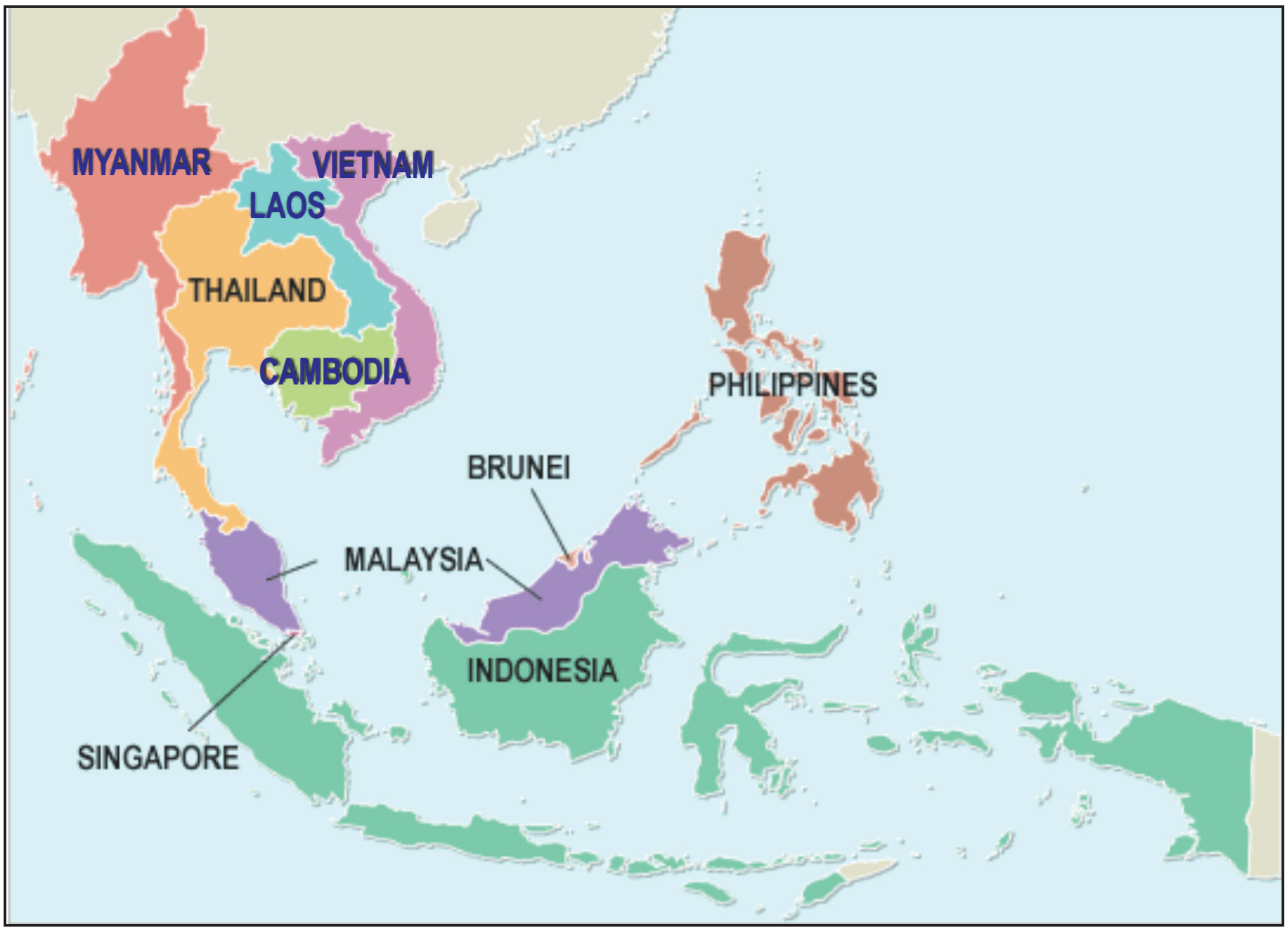
E. Focus on Multilateral Funded Projects

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

1. A Brief Background of CLMV Countries

Cambodia, Lao People's Democratic Republic (Lao PDR or Laos), Myanmar and Vietnam, which form the CLMV countries, are an integral part of the Association of South East Asian Nations (ASEAN) region, covering 32 percent of geographical area of the ASEAN region, and accounted for around 10.5 percent of ASEAN's gross domestic product (GDP) in 2013 (**Chart 1.1**, **Table 1.1**). These countries have been undergoing economic transition from central planning to market economy, from inward looking to outward looking economic development strategies and policies. The CLMV economies, which are considered among the fastest growing economies in the region, are primarily agrarian, and have enjoyed a certain degree of macroeconomic stability in recent years, with a vast potential for future development.

Chart1.1: CLMV Countries and the ASEAN Region



Source: www.mapsofworld.com

According to Asian Development Bank (ADB), CLMV economies are expected to grow much faster than the average growth of ASEAN economies over the next two decades (**Table 1.2**).

Table 1.1: Macroeconomic Snapshot of CLMV Countries

Countries	Total Area	Population, 2013	GDP 2013	GDP Growth Rate (%)		Exports 2013	Imports 2013	GDP per capita 2013	Trade/ GDP ratio 2013
	'000 square km	million	US$ billion	2008	2013	US$ billion	US$ billion	US$	%
Cambodia	181	15.4	15.7	6.7	7.0	**10.2**	**11.7**	1016.4	139.8
Lao PDR	236.8	6.8	10.0	7.8	8.2	**3.1**	**6.2**	1476.9	93.0
Myanmar	676.6	64.9	56.4	3.6	7.5	**10.5**	**18.4**	868.7	65.1
Vietnam	330.4	89.7	170.6	5.7	5.4	**138.1**	**143.9**	1901.7	165.3
CLMV	**1424.8**	**176.8**	**252.6**	**5.9**	**7.0**	**161.9**	**180.1**	**1428.9**	**138.5**
Brunei	5.8	0.4	16.2	-1.9	-1.2	11.6	3.7	39936.0	94.3
Indonesia	1890.8	248.0	870.3	6.0	5.8	182.6	186.6	3509.8	42.4
Malaysia	330.3	29.6	312.4	4.8	4.7	228.5	206.3	10548.0	139.2
Philippines	300	97.5	272.0	4.2	7.2	54.0	65.1	2790.4	43.8
Singapore	0.7	5.4	295.7	1.9	4.1	410.5	373.2	54777.6	265.0
Thailand	513.3	68.2	387.2	2.5	2.9	228.5	250.7	5674.4	123.8
ASEAN-6	**3040.9**	**449.1**	**2153.8**	**2.9**	**3.9**	**1115.7**	**1085.6**	**4796.0**	**102.2**
ASEAN-10	**4465.7**	**625.9**	**2406.5**	**4.4**	**5.5**	**1277.6**	**1265.7**	3844.9	**106.0**
Share of CLMV in ASEAN-10 (%)	**31.9**	**28.2**	**10.5**	-	-	**12.7**	**14.2**	**-**	**-**

Note: ASEAN-10 comprises CLMV and ASEAN-6
- Not applicable.
Source: IMF; Trade Map, ITC, Geneva

Table 1.2: Growth Potential of CLMV Countries

Countries	Gross Domestic Product			Per Capita GDP		
	Actuals (2010)	Targets (2030)		Actuals (2010)	Targets (2030)	
	US$ bn	US$ bn	Average annual growth (%) 2010-2030	US$ bn	US$ bn	No. of times of increase over 2010-2030
Cambodia	11.3	61.6	8.5	753.0	3,356.0	4.5
Lao PDR	6.5	32.3	8.0	1,004.0	4,015.0	4.0
Myanmar	45.4	231.3	8.1	742.0	3,337.0	4.5
Vietnam	103.6	478.6	7.7	1,174.0	4,694.0	4.0
ASEAN-10	1,871.1	6,732.0	6.4	3,117.0	9,435.0	3.0
ASEAN-6	1,704.4	5,928.1	6.2	3,969.0	11,492.0	2.9
CLMV	166.7	803.9	7.9	976.0	4,067.0	4.2

Source: ADB[1], 2013

These economies are endowed with abundant natural resources and low-waged labour forces, and a young and growing popuation. However, they are faced with underdeveloped infrastructure and logistics. Except Vietnam, all the CLMV countries fall under the category of Least Developed Countries (LDCs) as classified by the United Nations (U.N). The first CLMV Summit was held in November 2004 in Vientiane, Lao PDR, with the adoption of the Vientiane Declaration on enhancing economic co-operation and integration among CLMV countries. The Vientiane Declaration outlined seven areas of co-operation among CLMV countries which include, trade and investment, agriculture, industry and energy, transport, information technology, tourism, and human resource development. The Declaration showed strong commitment of CLMV countries to strengthen and enhance co-operation, and promote regional integration.

Among the CLMV countries, Vietnam has the largest volume of trade, followed by Myanmar and Cambodia, while Lao PDR has a relatively small external trade. Trade openness, as measured by trade/GDP ratio is very high for Cambodia and Vietnam (over 100 percent); moderate for Lao PDR while Myanmar is relatively less open. Trade deficit in the CLMV countries amounted to US$ 18.2 billion in 2013. Under the ASEAN Free Trade Area (AFTA) agreement, the CLMV countries are to eliminate duties on all products within the FTA framework by 2015.

In 2013, foreign direct investment (FDI) inflows to the CLMV region amounted to US$ 13.2 billion, which was 10.5 percent of the total inflows in the ASEAN region. In recent years, the CLMV region has benefited from increased FDI inflows, primarily to the infrastructure sector. In particular, in Myanmar, the suspension of Western sanctions has seen increased inflows of investment, particularly from China, South Korea and Thailand. The region, which is characterized as beset with infrastructural bottlenecks thus provides an investment ground for foreign investors.

[1] Supporting Equitable Economic Development in ASEAN, ADB, February, 2013

2. Economic Environment of CLMV Countries

Over the last decade, the countries of Cambodia, Lao PDR, Myanmar and Vietnam have shown remarkable economic growth, stemming from sustained FDI that was facilitated by improved physical infrastructure, cheap labour cost, and preferential market access treatment by developed countries. This chapter analyses recent trends in economic growth in the CLMV countries.

Cambodia

With a population of 15.4 million in 2013, Cambodia falls under the U.N's LDC category. It is predominantly agrarian. According to World Bank estimates, services sector accounted for 40 percent of GDP in 2013, followed by agriculture (36 percent) and industry (24 percent). Cambodia has diverse forests which comprise a variety of evergreen, deciduous, mixed and mangrove type. The country also has significant mineral deposits, some of which include gemstones, iron-ore, manganese, phosphates and timber. Large scale mineral extraction has not yet commenced and the Cambodian government is committed to developing the sector.

The Cambodian economy has passed through three phases of development: the rehabilitation phase (1993-1998), the reconstruction phase (1999-2003), and the economic takeoff phase, (2004–2008). During the rehabilitation phase, economic work focused on implementing market reforms to transform the economy to one that is market-based. During the reconstruction phase, the government focused on the restoration of peace, economic integration into the region and the world, and promotion of socioeconomic development. During this period, growth averaged 8.8 percent a year, driven by garments, construction, and tourism, in addition to the primary sector.

During the economic take-off phase, the government commenced its second generation reforms, particularly implementation of the public financial management reform program. Investments in social sectors and infrastructure were increased to help reduce poverty, particularly in rural areas. Growth averaged 10.3 percent a year, driven by the four engines namely, garments, tourism, construction, and agriculture. The global economic downturn in 2009 severely impacted the economy as revenues from both garment exports and tourism sector fell, and the Cambodian economy witnessed close to flat growth (0.1 percent). The Cambodian government announced expansionary fiscal measures to mitigate the impact of global financial crisis. In 2009, investments worth US$ 1 billion in infrastructure (primarily transport and irrigation) were announced to stimulate growth. Tax relief was also provided to the most affected sectors. This helped pushing growth to 6.1 percent in 2010 and 7.1 percent in 2011. Growth continued to remain strong at 7.3 percent in 2012, buoyed by a strong export-led manufacturing activity. Robust growth in services and expanding export industries drove economic growth to 7 percent in 2013. In absolute terms, GDP amounted to US$ 15.7 billion in 2013, with per capita GDP seen at US$ 1016.4 (**Table 2.1**).

Table 2.1: Macroeconomic Snapshot of Cambodia

Item	2009	2010	2011	2012	2013	2014[f]	2015[f]
Real GDP (% change)	0.1	6.1	7.1	7.3	7.0	7.2	7.3
GDP, current prices (US$ billion)	10.4	11.3	12.9	14.1	15.7	16.9	18.5
GDP per capita, (US$)	703.4	752.7	853.5	925.5	1016.4	1087.8	1177.2
Inflation, average (% change)	-0.7	4.0	5.5	2.9	3.0	3.8	3.2
Population (million)	14.8	15.0	15.1	15.3	15.4	15.6	15.7
Current Account Balance (% of GDP)	-4.5	-3.9	-8.1	-8.7	-8.6	-8.4	-7.4
External Debt (% of GDP)	33.8	34.0	34.6	40.8	40.5	41.3	39.4
Reserves (US$ million)	3288.0	3802.0	4069.0	4938.0	4995.0	6054.0	6634.0
Exchange rate (CR:US$)	4139.0	4185.0	4059.0	4033.0	4027.0	4034.0	4050.0

f: forecast
Source: IMF; Economist Intelligence Unit (EIU)

Inflation reached a peak of 25 percent in 2008. This was attributed to a drastic change in the composition of commodity basket for weighing inflation. In addition, the sharp hike in food prices and rise in transportation costs also contributed to the spiraling of inflation. In stark contrast, a deflation was observed in 2009 owing to easing of global commodity prices, resulting from the global recession. Inflation remained steady in 2010 and 2011 as compared to the fluctuations in the earlier two years. A moderation of food prices eased inflation to 2.9 percent in 2012. In 2013, customs duty collection was tightened, which resulted in raising import prices. Thus inflation increased marginally to 3 percent during 2013.

Cambodia has relied heavily on FDI to finance its saving-investment gap. Recent FDI flows have been harnessed into public-private initiatives to improve power generation. The economy's relatively open trade and investment regimes, combined with Cambodia's proximity to some of the most dynamic economies in the world, have also attracted FDI in the manufacturing sector. Sustaining strong growth in Cambodia will require further economic diversification and strengthened macroeconomic policies. Although nascent signs of product diversification have been emerging, removing infrastructure bottlenecks and improving the business climate will remain critical for attracting private investment and for further diversification.

Cambodia's good market potential is underpinned by a strong projected economic growth, bolstered by rising household purchasing power and a population of around 15.4 million which is expanding rapidly. Improved infrastructure is encouraging industrial development beyond the traditional garment sector; for instance, some foreign investors are moving into automotive components and bicycles.

The National Bank of Cambodia (NBC -the Central Bank) has accumulated substantial foreign-exchange reserves in recent years as a result of substantial capital inflows, including FDI. Special Economic Zones (SEZs) established in recent years are attracting investments, mainly in light industries. Although the substantial deficit on the current account exerts a downward pressure on the riel's (local currency) value, the currency has been supported by foreign inflows. However, given the continuing lack of confidence in the riel, the US dollar remains the currency of choice in Cambodia for trade and investment. The International Monetary Fund (IMF) views the riel exchange rate regime as floating but it is effectively a sliding peg to the US dollar that allows for broad exchange rate stability while compensating for inflation differentials. Owing to extensive dollarization of the economy, there are very few levers available with the NBC to regulate the economy.

Lao PDR

Lao PDR continues to develop rapidly, transforming itself into a lower middle- income country. The seventh Socio-Economic Development Plan for 2011-15 has outlined plans to achieve Millennium Development Goals by 2015 and create favourable conditions for graduating from LDC by 2020. The World Bank has declared Lao PDR's goal of graduating from UNDP's list of LDC by 2020 as feasible. A resource based production boom, fuelled by hydropower development for energy exports and mining, has been an important driver behind the country's accelerating growth. The country is reaping the benefits of its investments in infrastructure, economic and social development, and from its outward orientation policies through regional co-operation and integration. The country's continued efforts to forge regional linkages and connectivity were an important factor in attracting foreign investors, especially in hydropower development for electricity exports. Regional transport linkages improved connectivity to neighboring countries, resulting in increased intraregional trade.

Driven by mineral exports, investments in hydropower, and rising electricity exports, Lao PDR's economy has been growing at a steady pace. Its strong performance continued during the global economic crisis. Lao PDR's real GDP grew by 7.9 percent in 2012, as compared to 8 percent recorded in the previous year (**Table 2.2**). Despite weakness in the global economy, real GDP growth of Lao PDR was supported by moderately strong economic expansion on the part of its main trading partners in the region namely, Thailand, China and Vietnam. In 2013, economic growth of 8.2 percent was supported by expansionary fiscal and monetary policies. In absolute terms, GDP of Lao PDR stood at US$ 10 billion in 2013, with per capita GDP at US$ 1,476.9.

Agriculture is the primary means of livelihood for a majority of population but growth in the sector has been poor and productivity is low. Industrial sector dominates the economy of Lao PDR, accounting for 36 percent of GDP, followed by services sector (34 percent) and agricultural sector (30 percent). The country is endowed with a wide range of mineral deposits, which include tin, lead, gravel, gypsum and salt. There are also small deposits of coal, iron ore, gold, and oil and gas. The most valuable natural resource of Lao PDR are its forests and rivers; the latter have considerable potential for generating hydroelectric power.

Table 2.2: Macroeconomic Snapshot of Lao PDR

Item	2009	2010	2011	2012	2013	2014f	2015f
Real GDP (% change)	7.5	8.1	8.0	7.9	8.2	7.5	7.8
GDP, current prices (US$ billion)	5.6	6.9	8.2	9.2	10.0	10.8	11.9
GDP per capita, (US$)	893.0	1071.8	1251.7	1379.7	1476.9	1567.1	1698.5
Inflation, average (% change)	0.0	6.0	7.6	4.3	6.4	7.5	7.5
Population (million)	6.3	6.4	6.5	6.6	6.8	6.9	7.0
Current Account Balance (% of GDP)	-21.0	-18.2	-15.2	-28.4	-29.5	-27.3	-23.7
External Debt (% of GDP)	48.1	41.0	36.0	33.6	-	-	-
Reserves (US$ million)	609.0	703.0	741.0	799.0	636.0	-	-
Exchange rate (K:US$)	8516.0	8259.0	8030.0	8008.0	7853.0	8063.0	8128.0

f: forecast; - not available
Source: IMF; EIU

In 2013, the IMF and the World Bank analyzed debt sustainability of Lao PDR and consequently reclassified its risk of debt distress to moderate from high.

Myanmar

Myanmar, branded by IMF as Asia's 'final frontier', embarked on a path of political and economic reforms in 2011, paving the way for developing the country's large potential. According to a study by the ADB in 2012, Myanmar could follow Asia's fast growing economies and expand at 7 to 8 percent a year, become a middle income nation, and triple its per capita income by 2030, if it can surmount substantial development challenges by further implementing across-the board reforms. Improved economic prospects have sparked a surge of interest from foreign investors. Achieving the country's potential depends on maintaining momentum on the government's reform agenda.

According to IMF data, Myanmar's real GDP grew by 7.5 percent in fiscal year 2013, driven by increased foreign investments in the country from China, South Korea and Thailand (**Table 2.3**). In addition, the government maintained momentum on policy reform. In absolute terms, Myanmar's GDP stood at US$ 56.4 billion in 2013, while GDP per capita was US$ 868.7. A number of developments in 2013 contributed to raising Myanmar's international profile as an investment destination, including the award of telecommunications licenses to Norway's Telenor and Qatar's Ooredoo; selection of investors from South Korea, Singapore, and Japan as preferred bidders for developing airports, and hosting of the World Economic Forum on East Asia and of the South East Asia Games. The government has initiated a broad array of reforms on unifying the exchange rate, improving monetary policy, increasing tax collection, reorienting public expenditure towards social and physical infrastructure, improving the

Table 2.3: Macroeconomic Snapshot of Myanmar

Item	2009	2010	2011	2012	2013	2014[f]	2015[f]
Real GDP (% change)	5.1	5.3	5.9	7.3	7.5	7.8	7.8
GDP, current prices (US$ billion)	38.1	49.6	56.2	55.8	56.4	60.3	64.8
GDP per capita, (US$)	634.6	811.1	900.0	875.9	868.7	910.4	959.2
Inflation, average (% change)	2.2	8.2	2.8	2.8	5.8	6.6	6.9
Population (million)	60.0	61.2	62.4	63.7	64.9	66.2	67.6
Current Account Balance (% of GDP)	-1.3	-1.5	-2.1	-4.4	-4.9	-5.3	-5.2
External Debt (% of GDP)	25.1	20.7	17.3	5.7	5.7	5.2	5.7
Reserves (US$ million)	5265.0	5730.0	7017.0	6977.0	8278	8727	9417
Exchange rate (Kt:US$)	5.6	5.6	5.4	853.5	929.8	973.3	995.0

f: forecast;
Source: IMF; EIU

business and investment climate, developing the financial sector, and liberalizing agriculture and trade.

With the suspension of most Western sanctions in 2012 and their eventual lifting, GDP growth is expected to further strengthen in the coming years, likely to be driven by large projects funded by investors in a number of industries, notably power, petroleum and infrastructure. Improved access to capital and foreign markets is also expected to spur activity in other parts of the economy, such as tourism, textile, manufacturing, construction, agriculture and fisheries. Services sector dominates the economy, with a share of 41.8 percent of Myanmar's GDP, followed by agriculture (38.8 percent) and industry (19.4 percent). The major industrial sector of Myanmar mainly comprises agricultural processing, wood and wood products, construction materials, pharmaceuticals, fertilizer, oil and natural gas and garments.

Myanmar's natural resources are among its most important assets and a source of wealth. Myanmar is rich in natural resources, including natural gas, copper, timber and gemstones. It produces a large share of the world's rubies and teak. Other natural resources of the region include petroleum, tin, antimony, zinc, tungsten, lead, coal, marble, limestone, and hydropower.

Myanmar suffers from high structural inflation and is exposed to fluctuations in the prices of imported fuels and local agricultural produce. Inflation has subsided since 2008, when it exceeded 20 percent. This followed reduced monetization of the fiscal deficit and a stronger kyat exchange rate in the unofficial market. Inflation has remained in single digit since 2009, mainly because of the government's shift from central bank financing to partial bond financing of the budget deficit and the decline in international commodity prices.

Central bank financing of the fiscal deficit has been the primary cause of Myanmar's high inflation regime in the past 2 decades. The IMF's debt sustainability assessment carried out in 2012 concluded that Myanmar should remain classified as in debt distress due to the continued presence of substantial arrears. ADB has been working with the government and in collaboration with the IMF, the World Bank, and bilateral creditors (including the Paris Club) on the arrears clearance. Arrears to the ADB and the World Bank were cleared in January 2013, allowing both banks to renew lending to the country. The Paris Club of creditors also reached an agreement to cancel or reschedule arrears.

The local currency of Myanmar is kyat. The exchange rate has been changed from a peg to a managed float. On April 1, 2012 Myanmar removed its system of multiple exchange rates by unifying the official and black market exchange rates for the kyat, effectively seeing a massive devaluation of the currency. As state enterprises are net exporters, the exchange rate realignment boosted budget receipts, including export tax income and customs duties.

With recent positive political and economic outlook, Myanmar has shown substantial interest in extracting the country's natural resource wealth, and with the help of international organizations such as the World Bank and ADB, it has started focusing on developing large-scale infrastructure projects to establish strategic corridors to connect the country to the wider economic region. After decades of relative isolation, the new government is in the process of liberalizing the economy and implementing reforms, to attract foreign investment. The international community has shown great interest, fuelling the onset of a gold rush, with Myanmar being portrayed as "probably the best investment opportunity in the world right now" (Myanmar Times, July 2012). Myanmar, as Asia's final resource frontier, has prominently enticed the interest of foreign investors. The approval of the Foreign Investment Law (FIL) in November 2012 has paved the way for attracting

Table 2.4: Macroeconomic Snapshot of Vietnam

Item	2009	2010	2011	2012	2013	2014[f]	2015[f]
Real GDP (% change)	5.4	6.4	6.2	5.2	5.4	5.6	5.7
GDP, current prices (US$ billion)	101.6	112.8	134.6	155.6	170.6	187.8	204.6
GDP per capita (US$)	1181.4	1297.2	1532.3	1752.6	1901.7	2072.6	2234.2
Inflation, average (% change)	6.7	9.2	18.7	9.1	6.6	6.3	6.2
Population (million)	86.0	86.9	87.8	88.8	89.7	90.6	91.6
Current Account Balance (% of GDP)	-6.5	-3.8	0.2	5.8	6.6	4.3	3.5
External Debt (% of GDP)	32.6	39.8	39.4	38.0	37.4	38.5	39.2
Reserves (US$ million)	16803.0	12926.0	14046.0	26113.0	26287.0	32730.0	43052.0
Exchange rate (D:US$)	17800	19131	20,649	20,859	21,017	21,163	21,557

f: forecast
Source: IMF, EIU

foreign investments in various sectors including infrastructure, telecommunications, energy and manufacturing.

Vietnam

Vietnam had suffered from a prolonged war and economic stagnation. Since 1986, the country began rebuilding its economy with the policy of *doi moi* or renovation, involving greater freedom to private enterprise, emphasis on exports, production of consumer goods and encouraging foreign investors. Substancial progress was achieved from 1986 to 1997, despite the ravages of war, loss of financial support from the old Soviet Bloc and changeover from a centrally planned economy. Real GDP growth averaged around 9 percent (as per IMF) from 1993 to 1997. After a slight dip during 1997 Asian financial crisis, growth averaged 7.5 percent in 2000-2007. GDP grew by a robust 8.4 percent in 2007, driven by strong domestic growth as well as higher investment following the country's accession to WTO in January 2007. However, the global recession had dampened the export oriented economy in 2008. In 2013, real GDP was seen growing at 5.4 percent (**Table 2.4**). In absolute terms, GDP has increased to US$ 170.6 billion in 2013 from US$ 155.6 billion in 2012, and GDP per capita stood at US$ 1,901.7.

Industry is the largest sector in Vietnam's economy, accounting for 40 percent of Vietnam's GDP in 2013. The shares of services and agriculture in GDP during the same year were 39 percent and 21 percent respectively. Vietnam has substantial energy and mineral resources. Its energy resources are a major source of export earnings and support domestic industries. Some of its major resources include phosphates, coal, manganese, rare earth elements, bauxite, chromate, offshore oil and gas deposits, timber, and hydropower.

Inflation has been observed to be high in Vietnam in recent years, owing to easy availability of domestic credit. In 2013, inflation eased to 6.6 percent as compared to a high of 18.7 percent seen in 2011. Sectors where prices are administratively controlled –health and medical services, energy, education and transport, have experienced higher and more volatile inflation than those sectors where prices are determined mostly by market forces. Vietnam has the highest inflation among its other regional peers. In 2013, Vietnam entered its third year of macroeconomic stability with lower inflation, strong external trade and capital flows, and a firmer exchange rate.

Vietnam follows a crawling-peg system, under which the dong is pegged against the US dollar and then allowed to crawl along either up or down as a reflection of central bank's judgment of market developments. The crawl is further limited by a +/- 1 percent band on either side of the pegged rate. Foreign-exchange reserves have risen at a strong pace, improving the ability of the central bank to counteract further downward pressure by intervening in the currency market if necessary.

Vietnam has remained an attractive investment destination in light of its growing working-age population and low labor cost. Nevertheless, the country faces increased competition for FDI in South East Asia, particularly from Indonesia. Vietnam's ability to remain competitive and drive economic growth back up to 7-8 percent is likely to depend in large part on the timely and decisive implementation of structural reforms to the banking sectors and the improvement of other aspects of the business environment.

3. International Trade of CLMV Countries

This chapter examines the various aspects of foreign trade of the CLMV region including their bilateral agreements, as well as their position in intra-ASEAN trade.

International Trade of CLMV Countries

The CLMV region has proliferated since the establishment of the ASEAN Free Trade Area (AFTA), which has resulted in increase in both amount and volume of intra-regional trade flows since the last three decades.

The importance of international trade as a growth facilitator has been recognized by CLMV countries, which is evident from their growth performance in recent years. Rise in both exports from and imports to the region have underlined the increase in total trade of the region. Although there was a slight decline in trade variables during the Asian crisis in 1997, thereafter, there has been a rising trend witnessed. Total trade of the CLMV region grew at an annual average of 19.7 percent from US$ 71 billion in 2004 to US$ 342.1 billion in 2013[2], underlined by steady exports and imports. Total exports of the region rose from US$ 32.9 billion in 2004 to US$ 161.9 billion in 2013, close to a five-fold increase. Similarly, imports also rose from US$ 38.1 billion in 2004 to US$ 180.1 billion in 2013. Though total trade of the region moderated during 2009, owing to global slowdown emanating from the US housing crisis, it recovered in 2010, and has been growing steadily thereafter. The CLMV countries have maintained a trade deficit throughout the last decade, driven by increased imports of capital goods, owing to infrastructural developments in the region (**Table 3.1**).

The share of the CLMV region in total ASEAN trade has increased from 6.6 percent in 2004 to 8.8 percent in 2008 and to further 13.4 percent in 2013. Similarly, the region accounted for 12.7 percent of total ASEAN exports and 14.2 percent of total imports of the ASEAN region in 2013 **(Table 3.2)**. The region's contribution to global trade is very small compared to many other similar

Table 3.1: International Trade of CLMV Countries, US$ billion

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Exports	32.9	39.8	49.1	58.2	74.8	69.4	87.5	114.9	134.1	161.9
Imports	38.1	43.7	52.9	73.2	94.0	82.8	97.2	129.6	142.1	180.1
Total Trade	71.0	83.5	102.0	131.4	168.8	152.2	184.7	244.5	276.2	342.1
Trade Balance	-5.2	-3.9	-3.8	-15.0	-19.1	-13.4	-9.6	-14.7	-8.0	-18.2

Source: Trade Map, ITC

[2] Data on trade has been sourced from Trade Map, ITC, unless otherwise mentioned

Table 3.2: International Trade of CLMV Countries, 2013 - Ranked by Value

	Value (US$ billion)			Share in ASEAN (%)		
	Exports	**Imports**	**Total Trade**	**Exports**	**Imports**	**Total Trade**
Singapore	410.5	373.2	783.7	32.1	29.5	30.8
Thailand	228.5	250.7	479.2	17.9	19.8	18.8
Malaysia	228.5	206.3	434.8	17.9	16.3	17.1
Indonesia	182.6	186.6	369.2	14.3	14.7	14.5
Vietnam	**138.1**	**143.9**	**282.0**	**10.8**	**11.4**	**11.1**
Philippines	54.0	65.1	119.1	4.2	5.1	4.7
Myanmar	**10.5**	**18.4**	**28.9**	**0.8**	**1.5**	**1.1**
Cambodia	**10.2**	**11.7**	**21.9**	**0.8**	**0.9**	**0.9**
Brunei	11.6	3.7	15.3	0.9	0.3	0.6
Lao PDR	**3.1**	**6.2**	**9.3**	**0.2**	**0.5**	**0.4**
ASEAN	**1277.6**	**1265.7**	**2543.3**	**100.0**	**100.0**	**100.0**
CLMV	**161.9**	**180.1**	**342.1**			
Share of CLMV in Total ASEAN Trade (%)	**12.7**	**14.2**	**13.4**			

Source: Trade Map, ITC

associations, given the abundant human and natural resources of the region. Therefore, there is a need for a focused approach on enhancing foreign trade of the region.

There also exists wide disparities in trade among member countries. For example, in 2013, Vietnam alone accounted for 11.1 percent of total ASEAN trade, while the combined share of Cambodia, Lao PDR and Myanmar was 2.7 percent.

Among the CLMV countries, Vietnam remained the major exporter in the ASEAN region followed by Myanmar and Cambodia (**Chart 3.1**). The share of Vietnam in total ASEAN exports rose from 4.6 percent in 2004 to 10.7 percent in 2013. On the other hand, the share of Lao PDR in total ASEAN exports has increased marginally from 0.1 percent in 2004 to 0.2 percent in 2013.

As regards imports, Vietnam is also the leading importer among the CLMV countries in the ASEAN region, with a share of 11.4 percent of total ASEAN imports in 2013, followed by Myanmar, Cambodia and Lao PDR (**Chart 3.2**). The share of Vietnam in total ASEAN imports has inched higher from 6.3 percent in 2004 to 10.7 percent in 2007 and 11.4 percent in 2013. The share of Cambodia was also seen to increase from 0.4 percent in 2004 to 0.9 percent in 2013, while that of Lao PDR rose from 0.2 percent in 2004 to 0.5 percent in 2013.

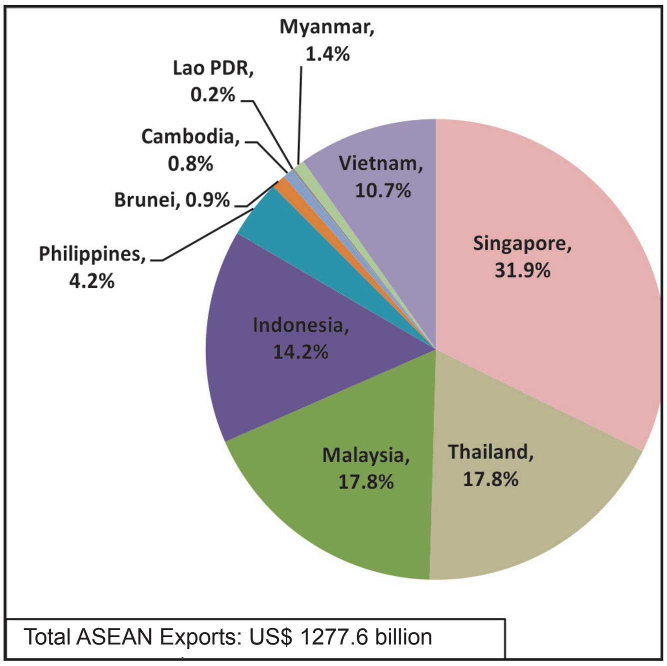
The section below analyses country wise coverage of international trade of the CLMV region.

Cambodia

Cambodia has a relatively open trading regime and acceded to the WTO in 2004. Total trade of Cambodia grew more than four-fold from US$ 4.9 billion in 2004 to US$ 21.9 billion in 2013 (**Chart 3.3**). Cambodia's exports increased by a compound annual growth rate (CAGR) of 13.8 percent to US$ 10.2 billion in 2013, from US$ 2.8 billion in 2004, primarily on the back of increase in garment exports. Articles of apparel constituted 72 percent of total exports of Cambodia in 2013. Other items of exports during the same year were footwear and gaiters (9.8 percent), vehicles other than railway (4.3 percent), cereals (2.7 percent), and electrical, electronic equipments (2.0 percent). Cambodia's exports were mainly directed towards USA (28.2 percent of total exports), Germany (11 percent), UK (10.3 percent), Canada (6.6 percent), and Japan (5.7 percent).

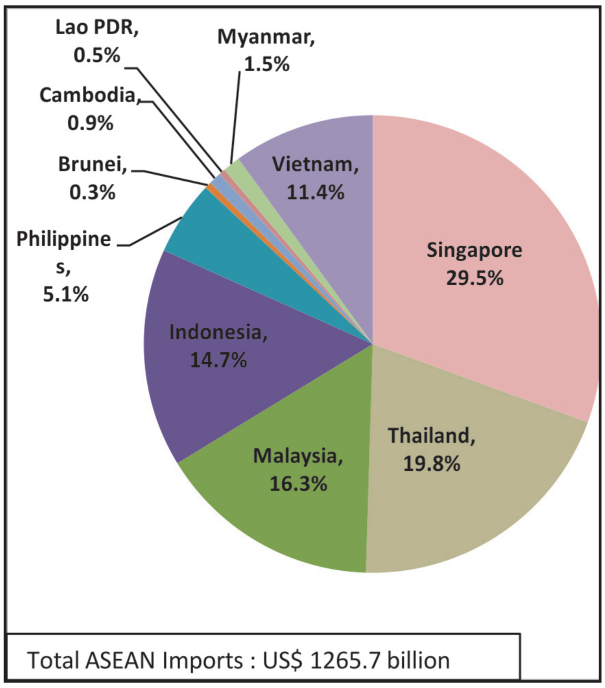
Imports also increased by a CAGR of 18.9 percent to US$ 11.7 billion in 2013, from US$ 2.1 billion in 2004. Major imports of Cambodia included mineral fuels, oils and distillation products (13 percent of total imports in 2013), knitted or crocheted fabric (11.8 percent), machinery and instruments (8.7 percent), vehicles other than railway (7.7 percent), and electrical, electronic equipments (6.3 percent). Imports were primarily sourced from Thailand (36.5

Chart 3.1: Share of CLMV Countries in ASEAN Exports, 2013



Source: Trade Map, ITC

Chart 3.2: Share of CLMV Countries in ASEAN Imports, 2013



Source: Trade Map, ITC

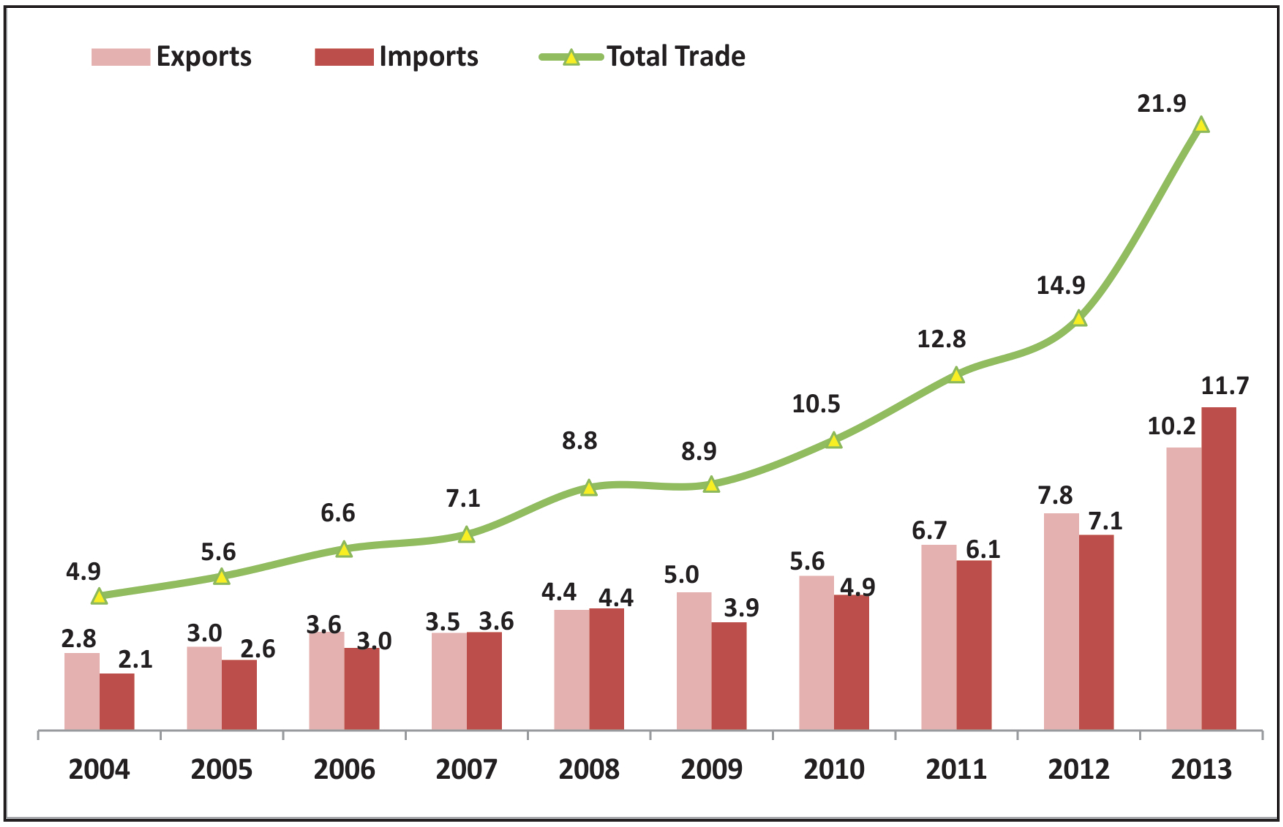
percent of total imports), China (29.2 percent), Singapore (9.5 percent), Taiwan (5.7 percent), and South Korea (5.3 percent).

The customs tariff system is based on a four-band system, with rates ranging from zero to 50 percent. Under its WTO agreement, Cambodia ensures that custom duties, tariff-rate quotas and tariff exemptions comply with the provisions of the WTO. Agricultural equipment and inputs, school materials and equipment, pharmaceutical products, construction materials, machinery, as well as other equipment and sporting goods are exempt from import duties; however, these products are still subject to VAT. Since 2003, over 85 percent of goods traded among ASEAN members, including Cambodia, have been subject to tariffs of between zero and 5 percent.[3]

(i) Foreign Trade Zones/Free Trade Zones

To facilitate the country's development, the Cambodian government has shown great interest in increasing exports via geographically defined SEZs. The government adopted the Sub-Decree on SEZs, which defines SEZs and establishes rules under which they operate. In December 2005, the Council of Ministers passed the Sub-Decree on Establishment and Management of SEZ to speed up the creation of the zones. The sub-decree details procedures, conditions, and incentives for the investors in the zone. Since

Chart 3.3: International Trade of Cambodia, US$ billion



Source: Trade Map, ITC

[3] Dun and Bradstreet Report on Cambodia, 2014

issuing the sub-decree, the Cambodia Special Economic Zones Board had approved 33 SEZs, of which nine are in operation. These SEZs are located near the borders of Thailand and Vietnam, and in Phnom Penh, Kampot, and Sihanoukville. Others are at different stages of development and some remain undeveloped. The main sectors of investment in SEZs include garments, shoes, bicycles, food processing, car and motorcycle assembly, and electrical equipment industries (U.S. Department of State, Investment Climate Statement, 2014)

(ii) Bilateral Agreements

Cambodia has signed bilateral investment agreements with Austria, Australia, China, Croatia, Cuba, Czech Republic, France, Germany, Indonesia, Kuwait, Japan, Lao PDR, Malaysia, Netherlands, North Korea, Pakistan, Philippines, Singapore, South Korea, Switzerland, Thailand, Vietnam, and the Organization of the Petroleum Exporting Countries. In 2006, USA and Cambodia signed a bilateral Trade and Investment Framework Agreement (TIFA), creating a cooperative mechanism focused on deepening and expanding bilateral trade and supporting Cambodia's efforts to implement its WTO commitments and domestic reforms. In 2012, USA and Cambodia agreed to begin exploratory discussions of a potential bilateral investment treaty (BIT) (U.S Department of State, Investment Climate Statement, 2014).

Lao PDR

The land-locked country of Lao PDR acceded to the WTO in 2013. As a WTO member, Lao PDR has agreed to bind its tariffs, in other words, set maximum rates at an average of 18.8 percent for all goods, with an average bound rate of 19.3 percent for agricultural goods, and an average bound rate of 18.7 percent for all other products.

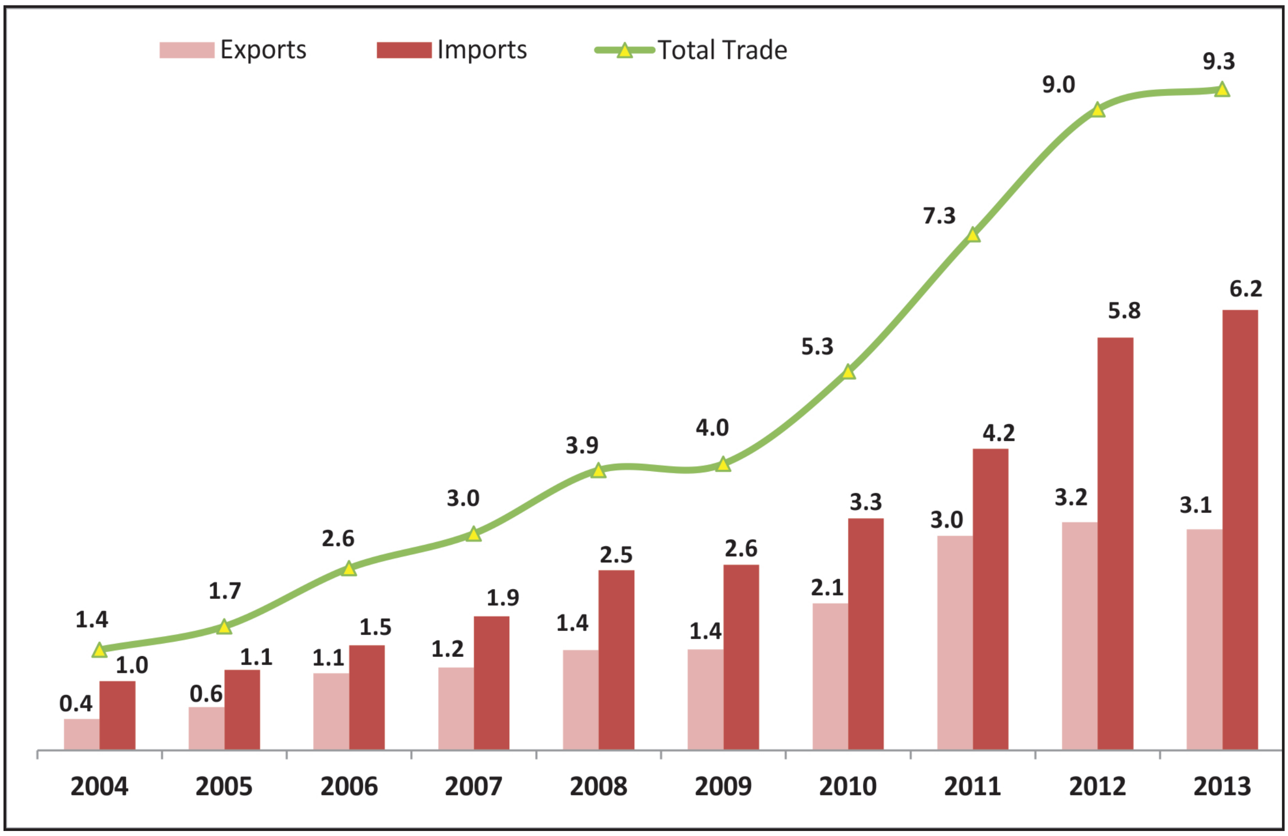
During the decade 2004-2013, total trade of Lao PDR grew more than six-fold, from US$ 1.4 billion in 2004 to US$ 9.3 billion in 2013 (**Chart 3.4**). Exports of Lao PDR increased to US$ 3.1 billion in 2013 from US$ 0.4 billion in 2004, witnessing a CAGR of 21.5 percent. Lao PDR's export basket in 2013 mainly comprised copper and articles (21.4 percent of its global exports), mineral fuels, oils and distillation products (19.4 percent), wood and articles of wood (16.6 percent), ores, slag and ash (15.1 percent), and articles of apparel (8.5 percent). Thailand was the principal export destination of Lao PDR, accounting for 43.7 percent of total exports in 2013, followed by China (32.8 percent), India (3.6 percent), Japan (3.2 percent), and Germany (3.0 percent).

Imports of Lao PDR amounted to US$ 6.2 billion in 2013, growing by a CAGR of 20.3 percent from US$ 1 billion in 2004. Import basket of Lao PDR in 2013 included mineral fuels, oils, distillation products (17 percent of total imports), vehicles other than railway (16.2 percent), machinery & instruments (15.2 percent), electrical & electronic equipments (14.3 percent), and articles of iron or steel (3.9 percent). Thailand accounted for the bulk of Lao PDR's imports during 2013, accounting for 60.7 percent of total imports. China (27.8 percent of total imports), South Korea (3.0 percent), Japan (2.0 percent), and India (1.0 percent) were the other major sources of the country's imports in the same year.

(i) Foreign Trade Zones/Free Ports

At present, there are ten different economic zones in Lao PDR, including: Savan-Seno Special Economic Zone, Golden Triangle Special Economic Zone, Boten Beautiful Land Specific Economic Zone, Vientiane Industrial and Trade Zone, Saysettha Development Zone, Phoukyou Specific Economic Zone, Thatluang Lake Specific

Chart 3.4: International Trade of Lao PDR, US$ billion



Source: Trade Map, ITC

Economic Zone, Longthanh – Vientiane Specific Economic Zone, Dongphosy Specific Economic Zone and Thakhek Specific Economic Zone. The Savan-Seno Special Economic Zone in Savannakhet province borders Thailand, and appears to be legitimately developing as a production, supply, and distribution center.

Laws pertaining to trade in Lao PDR are supposedly applied uniformly across the entire customs territory, including all sub-central authorities, special economic zones, specific economic zones and border trade regions. In reality, however, customs practices vary widely at ports of entry in the provinces. Centralization of customs collection by the central government has led to more uniform practices and increased the flow of customs revenue to the central government. In order to comply with National Single Window requirement under the ASEAN Single Window, in 2012 Lao PDR began operating the Automated System for Customs Data at the busiest point of cross-border trade, the Lao-Thai Friendship Bridge linking Vientiane with Thailand (U.S Department of State, Investment Climate Statement, 2014).

(ii) Bilateral Investment Agreements

Lao PDR has bilateral investment agreements with Australia, Burma, Cambodia, China, Cuba, Denmark, France, Germany, India, Indonesia, Japan, Kuwait, Malaysia, Mongolia, Netherlands, North Korea, Pakistan, Philippines, Russia, South Korea, Singapore, Sweden, Switzerland, Thailand, UK, and Vietnam.

On February 1, 2005 a Bilateral Trade Agreement (BTA) came into force between USA and the Government of Lao PDR. (U.S Department of State, Investment Climate Statement, 2014).

Myanmar

During the last decade, total trade of Myanmar increased more than four-fold, from US$ 6.3 billion in 2004 to US$ 28.9 billion in 2013 (**Chart 3.5**). During the same period exports from Myanmar increased to US$ 10.5 billion in 2013, rising from US$ 3.2 billion in 2004, witnessing a CAGR of 12.8 percent. In 2013, mineral fuels were the major item of Myanmar's exports, accounting for 37.7 percent of total exports. Other major export items include articles of wood, wood charcoal (15.1 percent of total exports), pearls and precious stones (11.6 percent), articles of apparel, accessories, not knit or crochet (9.9 percent), and edible vegetables (7.8 percent). Exports were primarily directed to the top four markets viz. Thailand, China, India and Japan, which together accounted for 85 percent of Myanmar's total global exports. Other important destinations include South Korea, Malaysia, Singapore, Taiwan and Bangladesh. To boost exports, the government has exempted commercial tax on a number of export items like rice, beans, pulses, corn, sesame, rubber, freshwater and salt water products and animal products (except prohibited ones) as well as value added products made of timber and bamboo.

Myanmar is rapidly opening up to international trade following the lifting of US sanctions, including a ban on US imports from Myanmar and the reinstatement of trade preferences under the EU's Generalised System of Preferences for least-developed countries. The requirement for import and export licences was recently removed on 600 products. Regional demand for natural gems is also expected to increase export revenues. In addition, with the coming on stream of new fields in 2013, natural gas revenues are also expected to surge.

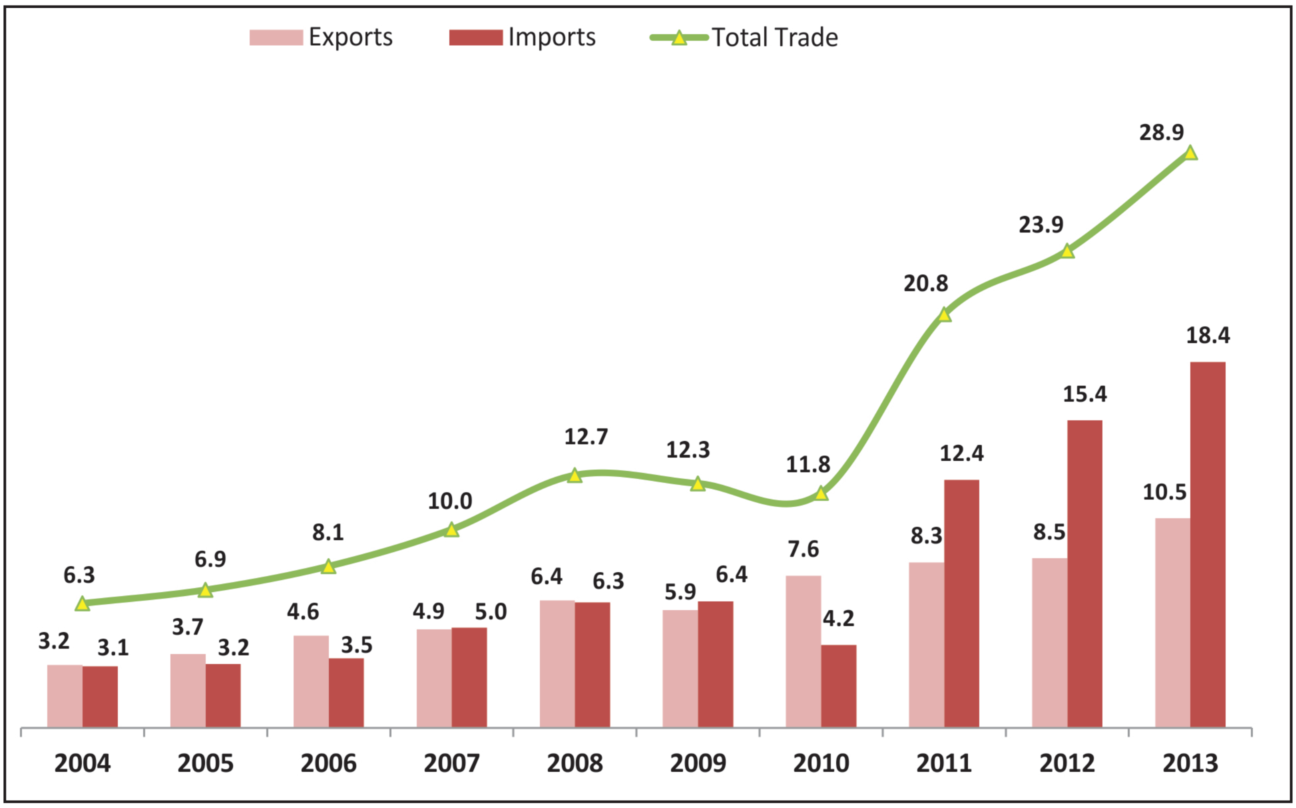
Merchandise import bill in Myanmar has risen in recent years, driven by a gradual liberalization of imports, as well as a rapid expansion in the number and total value of foreign-invested projects in the oil and gas, power, mining and infrastructure sectors. Imports have grown at a much faster pace during the same period, and were seen significantly higher at US$ 18.4 billion in 2013 from US$ 3.1 billion in 2004, with a CAGR of 19.5 percent. Machinery and instruments formed Myanmar's major import item in 2013, accounting for 12.4 percent of total imports. Other principal import items were vehicles other than railway, tramway (11.3 percent of total imports), electrical, electronic equipments (9.9 percent), mineral fuels, oils and distillation products (9.3 percent), and iron and steel (4.4 percent). China continued to remain Myanmar's largest import source over the decade, accounting for 40 percent of Myanmar's total imports in 2013. Other important sources include Thailand, Singapore, Japan and Malaysia. India was the 5th largest source, with a share of 4 percent of the total imports during 2013.

Myanmar follows the harmonised system. There are 22 bands of tariff rates, ranging from zero to 40 percent, with the lowest rates being applied to raw materials and agricultural implements. The tariff averages 15 percent for most industrial inputs, machinery and spare parts. As part of its accession to the ASEAN FTA, Myanmar is committed to reducing all external tariffs to zero for ASEAN members (and also for China) by 2015 (Dun & Bradstreet).

(i)Foreign Trade Zones/Free Ports

The government has set aside 19 industrial zones, large tracts of land surrounding Rangoon, Mandalay, and other major cities, and is exploring

Chart 3.5: International Trade of Myanmar, US$ billion



Source: Trade Map, ITC

the creation of another seven industrial zones. These areas are, however, merely zoned for industrial use. They do not come with any special service or investment incentives.

There are three SEZs in Myanmar (one in Dawei in Tanintharyi Division, one at Kyauk Phyu off the western coast of Rakhine State, and on in Thilawa on the outskirts of Rangoon). The Dawei and Kyauk Phyu SEZs are being developed as deep sea ports. The governments of Myanmar and Japan aim to establish a joint venture (with 51 percent Burma ownership) to develop the Thilawa SEZ (U.S Department of State, Investment Climate Statement, 2014).

(ii) Bilateral Investment Agreements

Myanmar has signed several bilateral investment agreements, also known as "Protection and Promotion of Investment" agreements, with Philippines, China, Lao PDR, Vietnam, Thailand, Kuwait and India. Myanmar has also signed a Trade and Investment Framework Agreement (TIFA) with USA. Japan and Myanmar signed a bilateral investment agreement in December 2013 and in January 2014, Myanmar signed an investment guarantee treaty with South Korea. Myanmar has also engaged in investment treaty negotiations with Japan, Russia, Mongolia, Bangladesh, South Korea, Iran, Israel, Serbia, Hong Kong, and China (U.S Department of State, Investment Climate Statement, 2014).

Vietnam

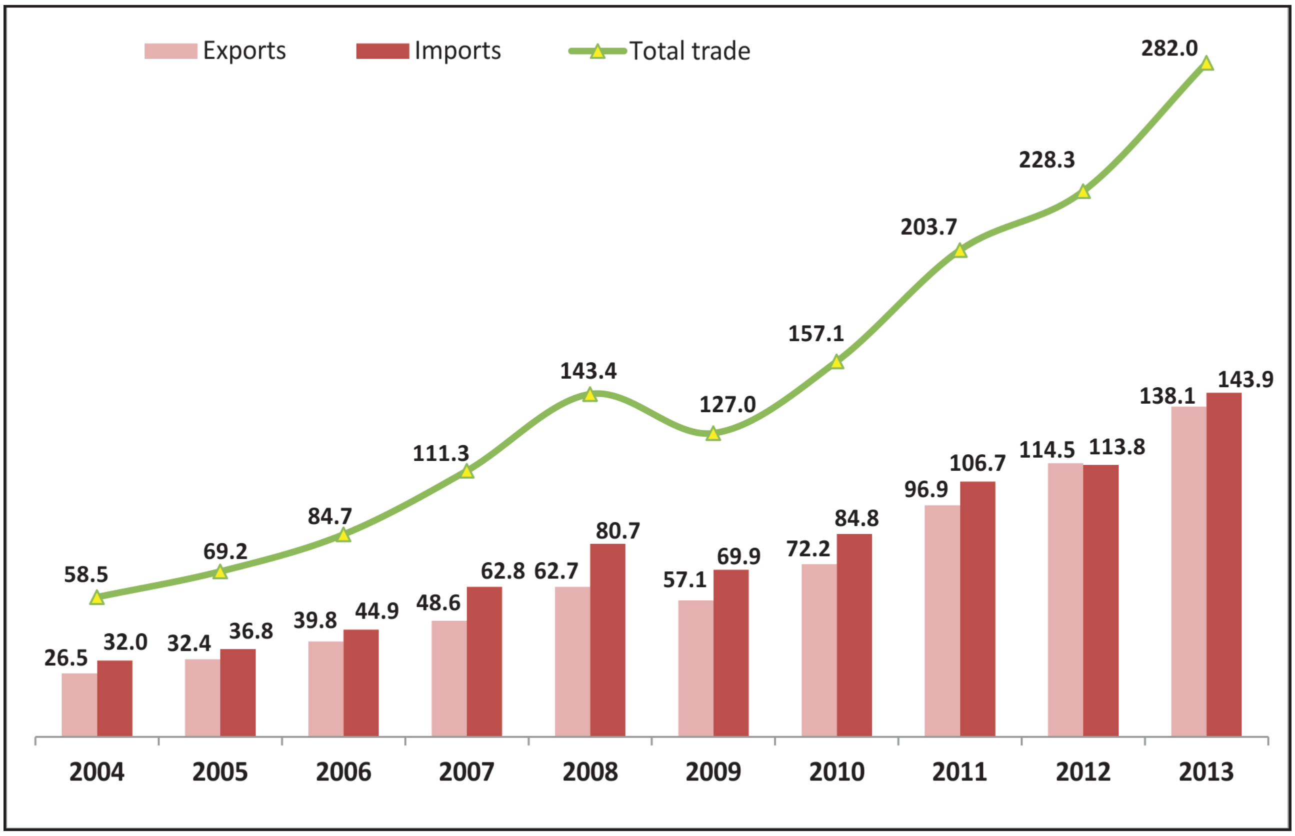
During the last decade, total trade of Vietnam increased close to five-fold, from US$ 58.5 billion in 2004 to US$ 282 billion in 2013 (**Chart 3.6**).

Vietnam's exports rose to US$ 138.1 billion in 2013 from US$ 26.5 billion in 2004, witnessing a CAGR of 18 percent. Vietnam is among the leading exporters of agricultural products such as coffee, cashews, rice and rubber; meanwhile, the low-cost base has allowed garment and footwear manufacturers to expand. Manufacturers are moving into higher value-added segments; IT and electronics exports are set to become a dynamic growth industry. Vietnam is South East Asia's third-largest oil producer and a net oil exporter. In 2013, the main exports from Vietnam comprised electrical and electronic equipments (27.8 percent of total exports), articles of apparel (13.3 percent), machinery and instruments (8.7 percent), footwear, gaiters and parts (8.4 percent), and mineral fuels, oils and distillation products (10.2 percent).

The major destinations of Vietnam's exports in 2013 were USA (18.8 percent of total exports), China (12.2 percent), Japan (10.3 percent), Germany (5.4 percent), and South Korea (5.2 percent). Vietnamese exports to USA have greatly benefited from the US-Vietnam Bilateral Trade Agreement.

Vietnam's imports in 2013 also stood higher at US$ 143.9 billion, up from US$ 32 billion in 2004, at a CAGR of 16.2 percent. The main items of import of Vietnam in 2013 were electrical and electronic equipments accounting for 19.2 percent of total imports, machinery and equipments (11 percent), mineral fuels, oils and distillation products (6.2 percent), iron and steel (5.1 percent), and plastics and articles thereof (4.8 percent). The main

Chart 3.6: International Trade of Vietnam, US$ billion



Source: Trade Map, ITC

origins of Vietnam's imports in 2013 were China (33.8 percent of total imports), South Korea (14.7 percent), Singapore (7.6 percent), Japan (7.3 percent), and Taiwan (6.2 percent).

To bring the trade deficit under control in 2011, the government implemented import restrictions on a number of consumer goods (including some types of alcohol, automobiles and food products) that remain in place. In recent years, the government has repeatedly raised import tariffs on selected steel products, increasing them (in some cases) to the maximum tariffs allowed under the country's WTO commitments.[4]

(i) Foreign Trade Zones/Free Ports

Vietnam has about 270 industrial zones (IZs) and export processing zones (EPZs), most of which are located in Vietnam's key economic zones. Projects in IZs and EPZs often enjoy investment incentives by sectors and geographical areas. Enterprises pay no duties when importing raw materials if the end products are exported. Vietnam committed to eliminating prohibited export subsidies on its accession to the WTO.

Many foreign investors note that it is easier to implement projects in IZs because they do not have to be involved in site clearance and infrastructure construction. Foreign investment in the IZs is primarily in the light industry sector, such as food processing and textiles.

(ii) Bilateral Investment Agreements

Vietnam has bilateral investment agreements with the following countries and territories: Algeria, Argentina, Armenia, Australia, Austria, Belarus, Belgium, Luxembourg, Bulgaria, Myanmar, Chile, China, Cuba, Czech Republic, Cambodia, Denmark, Egypt, Finland, France, Germany, Hungary, Iceland, India, Indonesia, Italy, Iran, Japan, Kazakhstan, Kuwait, Laos, Latvia, Lithuania, Malaysia, Mongolia, Mozambique, Netherlands, North Korea, Oman, Philippines, Poland, Qatar, Romania, Russia, Singapore, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Tajikistan, Thailand, Ukraine, UK, Uruguay, Uzbekistan, United Arab Emirates, and Venezuela.

In December 2008, Vietnam and USA began negotiations of a Bilateral Investment Treaty (BIT), concluding the third round of talks in November 2009. Ongoing negotiations of a Trans-Pacific Partnership Free Trade Agreement (TPP), in which both USA and Vietnam participate, address investment issues.

[4] Dun and Bradstreet Report on Vietnam, 2014

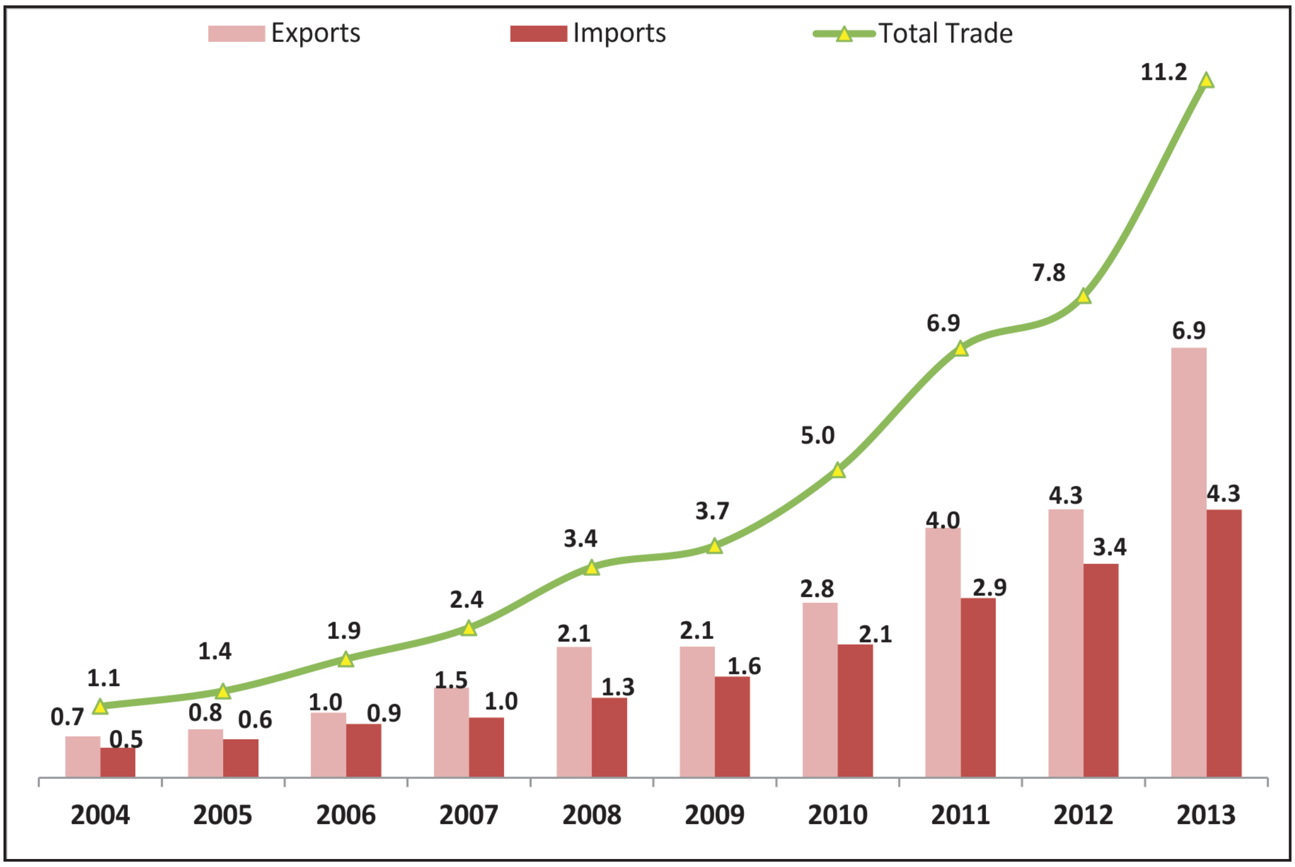
4: India's Bilateral Relations with CLMV Countries

This chapter analyses India's trade and investment relations with the CLMV region, which in recent years have seen increasing ties.

India's Bilateral Trade Relations with CLMV Countries

The adoption of "Look East Policy" by India in 1992 was an initiative towards developing extensive economic and strategic relations with the ASEAN nations (including CLMV countries). Since then India has progressed from a dialogue partner to the present status of a strategic partner. The economic and trade linkages which saw an expansion of trade volume stand testimony to the intensified economic engagement. During the last ten years, India's total trade with the CLMV countries has grown from US$ 1.1 billion in 2004 to US$ 11.2 billion in 2013, more than a ten-fold increase (**Chart 4.1**). Trade balance is in India's favour, with the surplus amounting to US$ 2.6 billion in 2013. Among the CLMV countries, India has a trade deficit with Myanmar, owing to increased imports of pulses and forest

Chart 4.1: India's Trade with CLMV Countries, US$ billion



Source: Trade Map, ITC

products from the nation. In the last four years, India's trade balance with Lao PDR also flipped to a deficit, stemming from increased imports of copper ores and concentrates from the nation. India's exports to the CLMV countries comprise pharmaceuticals; machinery and instruments; vehicles other than railway; plastics and articles thereof, and cotton. On the other hand, India's key imports from the region include rubber and articles, wood and articles of wood, ores, slag and ash, mineral fuels, oils and distillation, products, and coffee, tea and spices.

Country-wise analysis of India's bilateral trade is given below.

Cambodia

India's bilateral trade with Cambodia has been on a rising trend, increasing more than eight-fold from US$ 17 million in 2004 to US$ 149.6 million in 2013, buoyed by increasing exports (**Table 4.1**). In 2013, Cambodia accounted for 0.2 percent of India's total trade with ASEAN, 0.4 percent of India's exports to ASEAN and had a negligible share in India's imports from the ASEAN region. Structurally, India enjoys a trade surplus with Cambodia.

India's exports to Cambodia grew at an annual average of 31.5 percent from US$ 16.8 million in 2004 to US$ 136.8 million in 2013. Some of the key exports to Cambodia during 2013 include pharmaceuticals (25 percent of total exports to Cambodia), cotton (17.6 percent), residues, wastes of food industry, animal fodder (12 percent), manmade staple fibres (8.5 percent), and vehicles other than railway, tramway (7.1 percent). India was Cambodia's 5th largest global source of imports for cotton, as well as sugar and sugar confectionery, 10th largest global source of knitted or crocheted fabric, and 9th largest global source for imports of vehicles other than railway, tramway.

In 2013, India's imports from Cambodia primarily comprised articles of apparel (50.1 percent), rubber and articles (21.2 percent), footwears and gaiters (13.3 percent), vehicle other than railway, tramway (2.7 percent), and salt, sulphur, lime and cement (2.5 percent). India was the 4th largest destination for Cambodia's exports of rubber and articles.

Lao PDR

India's bilateral trade with Lao PDR has grown from US$ 1 million in 2004 to US$ 172.6 million in 2013 (**Table 4.2**). The trade balance which had been overwhelmingly in favour of India turned towards Lao PDR in 2010, primarily stemming from India's increased purchase of copper ores and concentrates from Lao PDR. India's exports to Lao PDR have increased on account of surge in sales of electrical and electronic equipments

Table 4.1: India's Trade with Cambodia, US$ million

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Exports	16.8	21.4	48.1	44.8	53.9	41.6	61.0	89.6	110.1	136.8
Imports	0.2	0.4	1.5	1.2	4.3	3.7	7.6	8.4	10.1	12.8
Total Trade	17.0	21.8	49.6	46.1	58.1	45.3	68.7	98.0	120.2	149.6
Trade Balance	16.5	20.9	46.6	43.6	49.6	37.8	53.4	81.2	100.0	124.0

Source: Trade Map, ITC

and pharmaceutical products to the region. However, during 2010, exports to Lao PDR fell to US$ 8.2 million while imports surged US$ 20.1 million. In 2011, bilateral trade was US$ 84.1 million with exports from India at US$ 14 million, while imports from Lao PDR were US$ 70.2 million. In 2013, India's exports to Lao PDR amounted to US$ 61.3 million, while imports from Lao PDR were at US$ 111.3 million, a two-fold increase from levels seen in 2010. In 2009, India has accorded the Duty Free Tariff Preference Scheme (DFTP) to Least Developed Countries including Lao PDR. The Scheme grants Lao PDR duty free access to 94 percent of India's total tariff lines.

India's exports to Lao PDR have increased in recent years on account of surge in sales of aluminium articles, metal articles and pharmaceutical products. In 2013, India's key exports to Lao PDR included vehicles other than railway, tramway (38.5 percent of total exports to Lao PDR), meat and meat offal (27.5 percent), electrical, electronic equipments (16 percent), articles of iron or steel (10.4 percent), and pharmaceutical products (1.8 percent).

In 2013, ores, slag and ash formed India's key imports from Lao PDR, forming 99.3 percent of India's total imports from the region. Rise in India's imports from Lao PDR in recent years is as a result of increased imports of metaliferrous ores and metal scrap from the region. India was the 2nd largest destination for exports of ores, slag and ash, the 11th largest destination for Lao PDR's exports of copper and articles thereof, and the 6th largest source of wood and articles of wood.

Myanmar

Since early 1990s, with the adoption of the Look East Policy (LEP), engagement between India and Myanmar has been growing consistently. Trade relations between India and Myanmar have witnessed a steady growth in recent years, with India's trade having risen from US$ 523.4 million in 2004 to more than US$ 2 billion in 2013 (**Table 4.3**), a four-fold increase. In 2013, India accounted for 13 percent of Myanmar's global exports, and ranking as its 3rd largest export market. However, trade balance is in Myanmar's favour, owing to increased imports of pulses and forest based products from Myanmar. The two countries have set a trade target of US$ 3 billion to be achieved by 2015.

India's export basket to Myanmar primarily comprised pharmaceutical products, machinery and instruments, electrical and electronic equipments, residues and animal fodder and iron and steel which together accounted for as much as 57 percent share in India's total exports to Myanmar in 2013.

Table 4.2: India's Trade with Lao PDR, US$ million

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Exports	1.0	6.5	2.4	2.9	4.6	26.9	8.2	14.0	27.3	61.3
Imports	0.1	0.1	0.4	0.1	0.5	0.2	20.1	70.2	143.7	111.3
Total Trade	1.0	6.6	2.7	3.0	5.1	27.1	28.3	84.1	171.0	172.6
Trade Balance	0.9	6.5	2.0	2.9	4.1	26.7	-11.9	-56.2	-116.4	-50.0

Source: Trade Map, ITC

Table 4.3: India’s Trade with Myanmar, US$ million

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Exports	112.7	117.2	124.1	162.8	237.3	208.2	272.6	455.9	526.9	742.9
Imports	410.7	489.2	702.7	809.1	906.3	1181.8	1122.1	1262.0	1346.2	1366.2
Total Trade	523.4	606.4	826.8	971.8	1143.6	1390.0	1394.7	1717.9	1873.0	2109.1
Trade Balance	-298.0	-371.9	-578.6	-646.3	-668.9	-973.6	-849.6	-806.2	-819.3	-623.4

Source: Trade Map, ITC

As regards India’s imports from Myanmar, two products viz. wood articles and charcoal, and edible vegetables dominate the import basket, accounting for as much as 98.5 percent of India’s total imports from Myanmar. For both these items, Myanmar was India’s largest import source, accounting for a share of 26 percent each in India’s global imports of wood and wood articles and edible vegetables, roots and tubers.

Border Trade through North East Region

Border trade between India and CLMV countries (through Myanmar) has a special significance and there is immense potential to enhance bilateral economic relationship due to the geographical continuity, with India and Myanmar sharing 1,643 kms of common border in the North Eastern Region. India’s four states in the North Eastern Region viz. Mizoram, Manipur, Nagaland and Arunachal Pradesh share international border with Myanmar (**Table 4.4**).

Table 4.4: Length of India’s Border with Myanmar

Indian North-East States	Border length with Myanmar (in kms)
Arunachal Pradesh	520
Manipur	398
Mizoram	510
Nagaland	215
Total	**1643**

Source: Research and Information System (RIS)

India and Myanmar signed a border trade agreement in 1994 and have two operational border trade points (Moreh-Tamu and Zokhawthar –Rhi) on the 1643 km long border (**Table 4.5**). Agreement has also been reached on setting up a third border trade point at Avakhung-Pansat/ Somra. Later in 2008, it was agreed that border trade at the existing points would be upgraded to normal trade so as to promote bilateral trade between the two countries. Notifications to this effect have been issued by both sides.

In 2012, India and Myanmar entered into MoU to open border haats. Initially the agreement provided for cross border trade in 22 products, mainly agricultural. Now the list of items for border trade has been increased to 40 since 2008. In December 2012, DGFT raised the number of border trade items to 62. Rice, wheat, corn, medicines and 18 other items were added to the list of goods for trade at India-Myanmar bordering areas. The other newly added items include agricultural tools, bicycles, coal, garments, edible oil, electrical appliances, steel products, tea, beverages, motor cycles and spare parts, semi precious stone, sewing machines and three wheelers/cars below 100cc.

At present there are four Land Customs Stations (LCS) in India dealing with border trade with Myanmar of which Moreh (in Manipur state of India) is the most active one. According to a study by RIS, the Moreh LCS in Manipur (Tamu in

Myanmar) was operationalised in April 1995 and handles 99 percent of India's border trade with Myanmar. Trade along Indo-Myanmar border remains relatively low in comparison with Sino-Myanmar and Thai-Myanmar borders (**Table 4.6**). India has been a late entrant but the opening of more border points is likely to increase the volume of border trade. The LCS have been found to be beset with infrastructure deficit. Several factors such as unavailability of electricity, bad road, manual handling of goods, unfriendly exchange rate and many such barriers, among others, are making trade at border expensive, thus, resulting in increasing incidence of unofficial (informal) trade. In addition, high transaction costs at border also contribute to unfriendly trading environment. Indian government has made several efforts to strengthen the border infrastructure, including the Integrated Check-Post (ICP) project at Moreh with an investment of ₹ 13.6 billion, so as to promote trade across the border. Improved land connectivity through border would result in higher trade flows between the two countries. To accommodate the rising trade, however, border infrastructure at all the LCS on both sides of the border has to be strengthened.

Table 4.5: Land Customs Stations Dealing with Indo-Myanmar Trade

NER State in India	LCS in India	LCS in Myanmar
Arunachal Pradesh	Nampong	Pan Saung
Manipur	Moreh	Tamu
Mizoram	Zokhawthar (Champhai)	Rih

Source: North Eastern Council (NEC), GOI

Table 4.6: India's Border Trade with Myanmar, US$ million

Year	Myanmar's Exports to India	Myanmar's Imports from India	Total Trade
2009-10	7.8	6.0	13.7
2010-11	8.3	4.5	12.8
2011-12	8.9	6.5	15.4
2012-13	26.9	11.7	38.6
2013-14	30.9	17.7	48.6

-Not available

Source: Indian Embassy in Yangoon

Major items imported by Myanmar from India include cotton yarn, auto parts, soya bean meal and pharmaceuticals. On the other hand, betel nuts, dried ginger, green mung, black matpe, turmeric roots, resin and medicinal herbs are India's main imports from Myanmar. Data compiled on India's exports and imports through border is shown in **Table 4.7**. According to Myanmar Department of Border Trade, the border trade turnover between India and Myanmar ranges from US$ 10 to US$ 22 million which will be higher if informal trade is taken into account. Secondary reports also show the prevalence of informal trading of items like fertilizers, vehicles, particularly two-wheelers etc from India to Myanmar through land border.

Table 4.7: Commodities Traded at Moreh

Exports from India	Imports by India
Fertiliser	Precious stones
Sugar	Dry ginger
Life saving medicines	Reed broom

Exports from India	Imports by India
Agarbatti	Pulses
Bicycle spares	Resins
Leather products	Betel nut
X ray and photo paper	Bean
Paints and Varnish	Rice
Cotton fabrics	Turmeric
Handloom textiles	Timber
Stainless steel	Sunflower
Blades	Red Kidney bean
Salt	Teakwood
Cosmetics	Rapeseed
Spices	Fresh vegetables
Menthol	Fruits
Bicycle	Tobacco
Motor cycle	Sesame
Redwood	Soyabean
Mosquito coil	Katha
Soyabari	Pearls
Electric coil	Kuth root
Bitumen	Onion
Wheat flour	Spice
Machinery	Garlic
Steel	Chilly
Bleaching Powder	Coconut
	Mosquito coils
	Gram
	Electric equipment
	Garments
	Furniture
	Candle
	Electronic goods
	Blanket
	Imitation jewellery
	Petrol
	Fish

Source: RIS

Vietnam

In recent years, India's relations with Vietnam have been marked by growing economic and commercial engagement. Bilateral trade between India and Vietnam reached US$ 8.8 billion in 2013, from US$ 608.1 million in 2004 (**Table 4.8**). The two sides have set a target of US$ 15 billion for bilateral trade by 2020. Vietnam ratified the India-ASEAN FTA in goods with effect from June 1, 2010. The proposed agreement on trade in services and investment is likely to impart further boost to bilateral trade and economic relations.

In 2013, India was seen as the 11th largest exporter to Vietnam. India is currently the 5th largest global supplier of cotton to Vietnam, 10th largest supplier of plastics and articles thereof, 11th largest supplier of vehicles other than tramway. The main commodities that constituted India's exports to Vietnam in 2013 comprised meat and edible meat offal (32.1 percent), fish, crustaceans, molluscs (16.9 percent), iron and steel (7.2 percent), cotton (5.7 percent), and cereals (5 percent).

Electrical, electronic equipments (51.9 percent), rubber and articles thereof (8.4 percent), machinery and instruments (7.9 percent), coffee, tea and spices (4.5 percent), and inorganic chemicals were India's key imports from Vietnam during 2013. India was Vietnam's 8th largest destination of rubber and articles, as well as coffee, tea and spices.

India's Investment Relations with CLMV Countries

India's approved direct investments in joint ventures and wholly owned subsidiaries in the CLMV countries amounted to US$ 40.9 million during 2013-14, with the bulk of the flows directed to Vietnam (54.9 percent of the total flows to the CLMV region).

Country-wise analysis on India's investment flows is covered below.

Table 4.8: India's Trade with Vietnam, US$ million

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Exports	534.8	633.5	874.1	1241.5	1812.6	1833.5	2475.6	3466.5	3658.2	5987.6
Imports	73.2	127.4	159.8	153.1	371.6	442.9	993.5	1554.3	1945.5	2826.7
Total Trade	608.1	760.8	1033.9	1394.6	2184.2	2276.4	3469.1	5020.8	5603.6	8814.3
Trade Balance	461.6	506.1	714.3	1088.3	1441.0	1390.6	1482.1	1912.2	1712.7	3160.9

Source: Trade Map, ITC

Cambodia

India's approved direct investments in joint ventures and wholly owned subsidiaries in Cambodia amounted to US$ 0.9 million during 2013-14. Cumulative approved FDI outflows from India into Cambodia during April 1996 – March 2014 was US$ 25.4 million.

Some of the Indian companies present in Cambodia include Kirloskar Brothers Ltd., WAPCOS, Essar Group, Angelique International Ltd., Tata Steel, Ranbaxy, Glenmark and Futurelinks India Pvt. Ltd. Bank of India has also set up a branch at Phnom Penh in 2009.

(i) Bilateral Agreements[5]

Select bilateral agreements signed between India and Cambodia are highlighted below:

- MOU on Tourism Co-operation (Feb 18, 2000)
- Cultural Exchange Programmes (CEP), (Feb 18, 2000)
- Agreement on Trade (Nov 16, 2003)
- MOU for setting up of Cambodia-India Entrepreneurship Development Centre (CIEDC)(Aug 25, 2005)
- MOU on Co-operation in the field of Water Resources Management (Dec 8, 2007)
- Work Plan under MOU on Agricultural Co-operation for 2007 and 2008 (Dec 8, 2007)
- MOU on Co-operation and Technical Assistance between ONGC Videsh Limited and Cambodian National Petroleum Authority (Dec 8, 2007)
- MOU on supply and installation of 1500 hand pumps in two provinces of Cambodia, namely Kampong Cham (1300) and Banteay Meancheay (200) (Sept 9, 2011)
- MOU on setting up of Center for IT Excellence in Cambodia (Feb 1, 2012)

(ii) Assistance and Capacity Building[6]

- For the purpose of capacity building, India has set up in Phnom Penh Cambodia-India Entrepreneurship Development Centre (CIEDC) in February, 2006 and Cambodia-India Centre for English Language Training (CICELT) in August, 2007
- Cambodia is a major recipient of India's ITEC programme and has utilized around 1000 civilian training slots and about 100 defence training slots till date

[5] India- Cambodia Relations, July 2014, Ministry of External Affairs (MEA), Government of India (GOI)
[6] India- Cambodia Relations, July 2014, MEA, GOI

- An Indian expert in water management was deputed for one year period from June 2009 to June 2010 under ITEC to assist APSARA Authority at Siem Reap
- In the last few years, there has been a steady enhancement of defence co-operation between the two countries

Lao PDR

India's approved direct investments in joint ventures and wholly owned subsidiaries in Lao PDR amounted to US$ 1.4 million during 2013-14. Cumulative approved FDI outflows into Lao PDR, during April 1996 - March 2014 was at US$ 11.8 million. Some of the Indian companies present in Lao PDR include Grasim Industries Ltd., Integrity Geosciences Pvt Ltd., CCS Grower Systems Private Ltd. etc, in sectors such as agriculture, construction and mining.

Some of the major investments made by Indian companies in Lao PDR include:

- Birla Lao Pulp and Plantation, established in June 2006, is committed to investing US$ 400 million in a Eucalyptus pulp and plantation project in Savannakhet province. This is the biggest Indian FDI in Lao PDR. The company has spent US$ 31 million up to March 2012
- The Lao SPG CMC Mining Company Limited, a subsidiary of GIMPEX India, obtained a license for an iron ore mine in 2008, with a commitment to invest US$ 10 million, out of which US$ 7.7 million has been spent. This is a 200 hectare iron-ore mine at Ta En village, Viengxay district, Samneua province. As of March 21, 2011, the mine has produced 60,717 metric tonnes of iron-ore, of which 56,408 metric tonnes have been exported to China
- The HSMM Group has invested US$ 13.8 million in agar wood plantations and two factories in Vientiane and Xaysomboun, Vientiane province. It has a US$ 0.8 million iron ore mine in Sekong province, and another US$ 0.1 million iron ore mine in Khammuan province
- Apollo Tyres Ltd. (ATL) has taken on lease about 10,000 hectares of land in Lao PDR for rubber plantation. ATL is the first Indian company to acquire a property for growing rubber

(i) Other Areas of Co-operation[7]

- India has signed "Trade and Economic Co-operation Agreement" and "Bilateral Investment Promotion and Protection Agreement" with Lao PDR, which lay down the basic framework for trade and investment
- In May 2009, India introduced Duty Free Tariff Preference Scheme to LDCs, which includes Lao PDR. This enabled almost all of Lao PDR exports to India free of customs duty
- Under human resource development, the Government of India has been providing over 210 scholarships to Lao nationals through the Indian Technical and Economic Co-operation, the TCS Colombo Plan, the Mekong-Ganga Co-operation Scholarship Scheme and the General Cultural Scholarship Scheme. So far, under ITEC, GOI has trained about 1000 Lao nationals
- The LICELT (Lao India Centre for English Language Training) was set up in Vientiane in June, 2007 under the India-ASEAN Co-operation framework, and is one of the assistance projects in the direction of capacity-

[7] Brief on India- Laos Bilateral Relations, July 2014 - MEA, GOI

building and self-sustaining capability of Lao PDR

- The LIEDC (Lao-India Entrepreneurship Development Centre) was set up under India-ASEAN Fund and inaugurated in November, 2004. LIEDC trains Lao PDR entrepreneurs for setting up small and medium scale business

- Restoration work of Vat Phou Temple, the most ancient symbol of Hindu civilization in the region, by ASI Team is in progress as per MoU signed by India and Lao PDR in 2007

- Lao PDR and India have signed several agreements over the past few years. These agreements lay down the essential framework for bilateral co-operation in matters relating to science, technology, economic co-operation and trade, as well as in defence and consular matters. Some recent agreements include:
  - ✓ Bilateral Investment Promotion & Protection in November 2000. Agreement on Co-operation in Defence, November, 2002
  - ✓ Agreement on Co-operation in Science & Technology, June, 2003
  - ✓ Agreement for Mutual Co-operation on Drug Demand Reduction and Prevention of Illicit Trafficking and related matters came into force from February, 2005
  - ✓ Agreement on Exemption of Visa Requirement for Holders of Diplomatic and Official Passports between India and Lao PDR came into force in April, 2005
  - ✓ MoU for restoration of Wat Phou UNESCO World Heritage Site in May, 2007
  - ✓ MoU for setting up Centre for English Language Training in June, 2007

Myanmar

During April 1996 to March 2014, the cumulative approved Indian FDI in joint ventures and wholly owned subsidiaries (FDI outflow) including equity, loan and guarantee issued, in Myanmar stood at US$ 217.7 million. In FY 2014, approved FDI outflows from India to Myanmar was at US$ 16.2 million. On the other hand, cumulative inflows into India from Myanmar during April 2000-March 2014 amounted to US$ 8.9 million.

Around 98 percent of Indian investment in Myanmar is in the oil and gas sector with the remaining 2 percent in manufacturing. Indian companies having operations in Myanmar include ONGC Videsh Limited (OVL), Jubilant Oil and Gas, Century Ply, Tata Motors, Essar Energy, RITES, Escorts, Sonalika Tractors, Zydus Pharmaceuticals Ltd., Sun Pharmaceuticals Ltd, Ranbaxy, Cadila Healthcare Ltd, Shree Balaji Enterprises, Shree Cements, Dr. Reddy's Lab., CIPLA, Gati Shipping Ltd, TCI Seaways, Apollo and AMRI. In the banking domain, United Bank of India has set up a representative office in Myanmar. In the banking domain, United Bank of India and Export-Import Bank of India have set up representative offices in Myanmar.

India is actively involved in a number of developmental projects in Myanmar, by way of implementation, and technical and financial assistance for several projects in infrastructural and non-infrastructural areas. These include:

- Setting up of a national centre of excellence-the Myanmar Institute of Information Technology (MIIT) being set up at Mandalay

- Setting up of an Advanced Centre for Agricultural Research and Education (ACARE) along with a Rice Bio Park at Yezin Agriculture University Nay Pyi Taw

- Implementation of various connectivity projects including the

  - o Kaladan Multimodal Transit Transport Project, building/ upgrading 71 bridges on the Tamu-Kalewa-Kalemyo road
  - o Construction/ upgradation of the Kalewa-Yargyi section of the trilateral highway (which envisages seamless connectivity between India, Myanmar and Thailand by 2016).

- Setting up of an India-Myanmar Industrial Training Centre in Pakokku with the assistance of Government of India, with a second centre was being set up in Myingyan
- Setting up of Myanmar-India Centre for English Language (MICELT), and a Myanmar-India Entrepreneurship Development Centre (MIEDC) with the assistance of Government of India
- Setting up and upgradation of the India-Myanmar Centre for Enhancement of IT Skills (IMCEITS) with state of the art equipment with Government of India assistance
- Setting up a Language Laboratories and E-Resource Centre at the Ministry of Foreign Affairs in Yangon and Nay Pyi Taw
- Other projects include restoration of the Ananda Temple in Bagan, upgradation of the Yangon Children's Hospital, Sittwe General Hospital along with proposed upgradation of Monywa General Hospital
- Besides, the Government of India is also closely working with the Government of Myanmar towards implementing the MoU on Border Area Development where India has granted an assistance of US$ 5 million each year for five years. The first year project is under implementation and under which 21 schools, 17 health centres and 8 bridges are being built in Chin State and Naga self Administered Zone of Myanmar

(i) India – Myanmar Regional Agreements

- *Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation* (BIMSTEC): is an international organisation involving Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal. Myanmar is a signatory to the BIMSTEC Free Trade Agreement, and trades mostly with Thailand and India in the region
- *Mekong Ganga Co-operation* (MGC): is an initiative by six countries – India and five ASEAN countries namely, **Cambodia**, **Lao PDR**, **Myanmar**, Thailand and **Vietnam** – for co-operation in the fields of tourism, education, culture, transport and communication
- *South Asian Association for Regional Co-operation* (SAARC): is an organisation of South Asian nations (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka). Myanmar was given the status of observer in SAARC in August 2008
- *Association of South East Asian Nations* (ASEAN): Myanmar is the only ASEAN country which shares a land border with India, and is a bridge between India and Southeast Asian markets

(ii) Other Areas of Co-operation[8]

- Shipping Corporation of India Ltd. (SCI) has completed a feasibility study to start a liner service between India and Myanmar
- India and Myanmar signed a double taxation avoidance agreement (DTAA) in April 2008 and a Bilateral Investment Promotion and

[8]India-Myanmar Relations, May 2014 - MEA, GOI

Protection Agreement (BIPA) on June 24, 2008, which came into effect on February 8, 2009

- An India-Myanmar Industrial Training Centre has been set up by HMT(I) in Myanmar with the assistance of GOI, while the Myanmar-India Centre for English Language (MICELT), a Myanmar-India Entrepreneurship Development Centre (MIEDC) and an India-Myanmar Centre for Enhancement of IT Skills (IMCEITS) are all operational

- Other projects include revamp of the Ananda Temple in Bagan, upgradation of the Yangon Children's Hospital and Sittwe General Hospital, erection of disaster proof rice silos etc

- India has also assisted in the reconstruction of 1 high school and 6 primary schools in Tarlay township, the area worst affected by the severe earthquake that struck north-eastern Myanmar in March 2011

Vietnam

Vietnam continues to be an attractive investment destination for Indian companies. India's approved direct investments in joint ventures and wholly owned subsidiaries in Vietnam amounted to US$ 22.5 million during 2013-14. Cumulative approved FDI outflow into Vietnam during April 1996 - March 2014 was at US$ 498.5 million. Several Indian companies in sectors as diverse as oil and gas, steel, minerals, tea, coffee, sugar and food processing have invested in Vietnam. Most Indian investments are in the form of wholly foreign invested projects. Cumulative FDI inflows into India from Vietnam during April 2000 to March 2014 amounted to US$ 0.24 million.

- ONGC Videsh Ltd. (OVL), Essar Exploration and Production Ltd, Nagarjuna Ltd, Venkateswara Hatcheries, Philips Carbon and McLeod Russell are some of the major Indian investors. In the field of IT training, NIIT, APTECH and Tata Infotech have so far opened more than 50 franchised centers spread all across Vietnam. Banks like Bank of India and Indian Overseas Bank have representative offices in Ho Chi Minh City

- Currently India has about 70 business representative offices in Vietnam. They mainly operate in fields of pharmaceuticals, machinery, equipment, accessories, chemicals and agricultural supplies

- Indian company Marico has picked up 85 percent equity in International Consumer Products Corporation while Fortis Healthcare International bought 65 percent stake in Vietnam's Hoan My Medical Corporation for US$64 million

- Tata Power Co. Ltd. has signed a contract worth US$ 1.8 billion to invest in a thermal power project in Vietnam's Mekong Delta province of Soc Trang. It is billed as the largest Indian investment in Vietnam

- Major pharmaceutical firms such as Torrent, Zydus Cadila, Glenmark and Panacea Biotech have also set up offices to promote their products in Vietnam. Incidentally, India is one of the largest exporters of pharmaceutical products to Vietnam

(i) Other areas of Co-operation[9]

- The two nations have signed the BIPPA, Double Tax Avoidance Agreement (DTAA) and the Consular Agreement

- A maritime trade agreement was signed in May, 2013, which aims to expand maritime transport between Vietnam and India, promote

[9]India -Vietnam Relations, December 2013- MEA, GOI

bilateral economic exchanges and trade, and improve the Vietnamese maritime sector's regional and international opportunities

- India has set up the Vietnam-India Entrepreneurship Development Centre and Vietnam-India Center for English Language Training providing technical assistance to the Government of Vietnam, as part of its support to the Initiative for ASEAN Integration

- In the ICT sector, India has set up the Vietnam-India Advanced Resource Centre in Hanoi. The Centre provides a wide range of training in ICT, application of e-learning technology in education, infrastructure for digital library, for web-portal creation and service and for GIS Application development. India is also providing a PARAM Supercomputer to Vietnam

- A joint venture between FPT, Vietnam and India's APTECH to establish training centre for Vietnam's information technology professionals in India

- Vietnam has been a large recipient of training programmes under Indian Technical and Economic Co-operation (ITEC) programme. Presently, 150 ITEC slots are being offered to Vietnam every year along with 16 scholarships under the General Cultural Scholarship Scheme (GCSS), 14 scholarships under the Educational Exchange Programme (EEP) and 10 scholarships under the Mekong Ganga Co-operation Scholarship Scheme (MGCSS)

- In November 2013, the High Performance Computing facility at the Hanoi University of Science & Technology was inaugurated. The 16-node cluster with basic visualization laboratory and a 5-node Grid Computing facility at an estimated cost of ₹ 4.7 crore has been gifted to Vietnam by India. This is the highest configuration of supercomputer ever gifted by Indian Government till date

- Indira Gandhi Hi-Tech Crime Laboratory: This ₹ 2 crore grant assistance is a project to establish a Hi-Tech Crime Laboratory in Ha Noi. The MoU on this project was signed in November 2013

- Under the ASEAN framework India would provide assistance in the opening of a new Vietnam-India Centre for English Language Training at the Diplomatic Academy of Vietnam. A proposal to set up a Centre for Tracking and Data Reception and an Imaging facility in Vietnam under ASEAN-India Co-operation mechanism is under consideration. This Centre will be fully funded by India

- Select agreements signed by the two nations include:

  - MoU on India-Viet Nam Friendship Year 2012
  - Agreement on Co-operation between Petrovietnam and ONGC Videsh Limited
  - Work Plan for the years 2011-2013 in the fields of agricultural and fishery research and education
  - Cultural Exchange Program for the years 2011-2014
  - Protocol on cultural activities in the 'Vietnam India Friendship Year 2012'
  - MoU between the two central banks – Reserve Bank of India and the State Bank of Vietnam, signed in 2012

5. Foreign Investment in CLMV Countries

According to data released by the United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2014, FDI inflows in the low-income CLMV countries amounted to US$ 13.2 billion in 2013, a 7 percent increase, from levels seen in 2012 (**Table 5.1**), reflecting investors' increasing focus in the CLMV region. The higher inflows in 2013 have been partly because of improved FDI flows in Cambodia, Myanmar and Vietnam. In 2013, the CLMV region accounted for 10.5 percent of total FDI inflows to the ASEAN region. This chapter analyses the trends in FDI flows in the CLMV countries, along with investment policies and business environment prevailing in these countries.

FDI Inflows in CLMV Countries

Among the CLMV countries, FDI inflows into Vietnam were the highest at US$ 8.9 billion in 2013, followed by Myanmar with US$ 2.6 billion worth of inflows and Cambodia with US$ 1.4 billion. During the last five years, FDI inflows in Myanmar have increased at an annual average of 30.5 percent (2009-2013) and in Cambodia by 30.8 percent. These countries have received an increasing amount of FDI driven by the desire of investors to reduce costs for labor intensive manufacturing, to harvest mineral resources and to participate in infrastructure projects.

The low income CLMV countries have emerged as bright spots of the ASEAN region, particularly for labour intensive FDI and value chain activities. These low-income countries also experienced a rise in investment in the extractive sector and infrastructure, including those under contractual arrangements. A number of large Trans-National Companies (TNCs), including Nike (USA) and Adidas (Germany), have strengthened their contract manufacturing activities in the low-cost production locations of the CLMV region. In addition, attracted by good growth prospects, Japanese companies have pledged to invest US$ 1.8 billion in Vietnam in 2011, and US$ 4.4 billion of Japanese investments were approved in 2012. Some of the other sectors that have seen significant FDI inflows in recent years in Vietnam include banks, property and infrastructure. However there has been a shift, with a rise in FDI into manufacturing, retail and technology, among others. In Lao PDR, Chinese investments in infrastructure has been increasing. Cambodia and Myanmar have emerged as attractive locations for investment in labour-intensive industries, including textiles, garments and footwear.

Over the past few years, foreign participation in extractive industries (including both oil and gas, and metal mining) has also helped boost FDI in this region. In Myanmar, new investments in extractive industries have seen increased inflows, specially after the lifting of sanctions. In the oil and gas industry, companies from India, South Korea, Thailand and Singapore have entered into oil and gas exploration activities, and are ready to expand their operations. For instance, Total (France) and Chevron (USA) have long held stakes in oil and gas projects, but only after the recent easing of sanctions are the two companies expanding their operations in Myanmar. In metal mining, among others, a joint venture between a local company and Ivanhoe Mines (Canada) started operating a large copper mine in 2004, and later a Chinese investor has become involved instead of the

Table 5.1: FDI Inflows in CLMV Countries, US$ million

Country	2009	2010	2011	2012	2013
Singapore	23821	55076	50368	61159	63772
Indonesia	4877	13771	19241	19138	18444
Thailand	4854	9147	3710	10705	12946
Malaysia	1453	9060	12198	10074	12306
Vietnam	**7600**	**8000**	**7519**	**8368**	**8900**
Philippines	2065	1070	2007	3215	3860
Myanmar	**973**	**1285**	**2200**	**2243**	**2621**
Cambodia	**539**	**783**	**815**	**1447**	**1396**
Brunei	371	626	1208	865	895
Lao PDR	**190**	**279**	**301**	**294**	**296**
ASEAN	**46743**	**99097**	**99567**	**117508**	**125436**
CLMV	**9302**	**10347**	**10835**	**12352**	**13213**
CLMV/ASEAN (%)	**19.9**	**10.4**	**10.9**	**10.5**	**10.5**

Source: World Investment Report, 2014

Canadian company. Following the introduction of a new mining law in 2013, investors from China, India, Philippines, Russia, Vietnam and USA have expressed interest in mining, expanding the number of possible contributors of FDI inflows to extractive industries in Myanmar. A number of companies from Europe and USA have also recently established or are establishing operations in Myanmar. For instance, Hilton is opening a hotel in Yangon under a management contract.

FDI Outflows from CLMV Countries

Outward FDI from the CLMV region were higher by 63.8 percent in 2013 (**Table 5.2**), marking the fifth consecutive year of increasing flows from the region. Outflows from the region however remain small in magnitude, and accounted for 3.5 percent of total outflows from the ASEAN region. **Table 5.3** highlights the distribution of flows in the CLMV countries.

Table 5.2: FDI Outflows from CLMV Countries, US$ million

Country	**2009**	**2010**	**2011**	**2012**	**2013**
Singapore	26239	33377	23492	13462	26967
Malaysia	7784	13399	15249	17115	13600
Thailand	4172	4467	6620	12869	6620
Indonesia	2249	2664	7713	5422	3676
Philippines	1897	2712	2350	4173	3642
Vietnam	**700**	**900**	**950**	**1200**	**1956**
Cambodia	**19**	**21**	**29**	**36**	**42**
Lao PDR	**1**	**-1**	**0**	**-21**	**-7**
Brunei	9	6	10	-422	-135
Myanmar	**-**	**-**	**-**	**-**	**-**
ASEAN	**43070**	**57545**	**56413**	**53834**	**56361**
CLMV	**720**	**920**	**979**	**1215**	**1991**
CLMV/ASEAN (%)	**1.7**	**1.6**	**1.7**	**2.3**	**3.5**

Note: Negative values of FDI net outflows show that the value of direct investment made by domestic investors to external economies was less than the value of repatriated (disinvested) direct investment from external economies

-nil
Source: World Investment Report, 2014

Table 5.3: Distribution of FDI Flows among ASEAN Countries by Range

Range	**Inflows**	**Outflows**
Above US$ 150 billion	Singapore	-
US$ 10- US$ 49 billion	Indonesia, Malaysia, Thailand	Singapore, Malaysia
US$ 1- US$ 9.9 billion	Thailand, Vietnam, Philippines, **Myanmar**, **Cambodia**	Indonesia, Philippines, **Vietnam**, Thailand
US$ 0.1-US$ 0.9 billion	Brunei, **Lao PDR**	-
Below US$ 0.1 billion	-	**Cambodia**, Brunei, **Lao PDR**

-nil
Source: World Investment Report, 2014

Foreign Investment in CLMV Countries

Cambodia

FDI inflows[10] to Cambodia moderated by 3.5 percent in 2013 to US$ 1.39 billion, as compared to US$ 1.44 billion in 2012. The key sources of FDI in Cambodia include Malaysia, Japan, Thailand, China, Taiwan, Singapore, Hong Kong, among others. The signing of multi-year Chinese investment deals worth US$ 13.5 billion January 2013 to develop a railway line, a steel plant, an oil refinery and a port augment the already planned billions of dollars' worth of Chinese-invested infrastructure projects. Foreign investors are particularly attracted to the country's low cost labour, preferential market access in terms of duty and quota free access to USA and EU markets, locational proximity to ASEAN markets, as well as closeness to source countries of FDI in garments, such as Hong Kong, Indonesia, Malaysia, Singapore and Taiwan Province of China.

FDI outflows from Cambodia increased to US$ 42 million from US$ 36 million during the same period.

a) Focus Sectors for Investment[11]

Cambodia's open economy, plentiful natural resources and low-cost workforce offer many opportunities to investors. Areas of opportunity for investment in the country include

- Agro processing
- Infrastructure- rail, roads, bridges, power transmission, transport communication
- Tourism
- Mining
- High technology Industries

b) Investment Policies[12]

Foreign investment policy in Cambodia has been formulated to meet the challenges of the broad shift from a centrally planned to a market-oriented economy. All sectors are open to foreign investment except those related to national security. Cambodia has an open and liberal foreign investment regime with a relatively pro-investor legal and policy framework. Investment incentives available to foreign investors include 100 percent foreign ownership of companies, corporate tax holidays of up to eight years, 20 percent corporate tax rate after the incentive period ends, duty-free import of capital goods, and no restrictions on capital repatriation.

In order to attract FDI, the government of Cambodia has strengthened the country's legal framework, bolstered its institutions and liberalized the relevant regulations in ways that are conducive to private sector investment and business activities in Cambodia.

The government provides investors with a guarantee neither to nationalize foreign-owned assets, nor to establish price controls on goods produced and services rendered by investors, and to grant them the right to freely repatriate capital, interest and other financial obligations. Generally, there are no restrictions on the setting up of business. However, many businesses require a license or permit to operate, including areas such as banking and finance institutions, tour agencies, real estate agencies, telecommunication, industrial factories, etc. Investors can set up 100 percent foreign-owned investment projects and employ

[10] FDI data sourced from UNCTAD's World Investment Report, 2014, unless otherwise stated
[11] Cambodian Investment Board
[12] http://www.embassyofcambodia.org.nz/investment.htm

skilled workers from overseas, in cases where these workers cannot be found in the domestic labour force. Attention is also accorded to private investment in Build-Operate-Transfer (BOT) projects, and private investment in infrastructure, including public utilities such as electricity, water supply and telecommunications. However, the sectors restricted for foreign investment include cigarette manufacturing, movie production, rice milling, gemstone mining and processing, publishing and printing, radio and television, wood and stone carving production, and silk weaving, where foreign investment is subject to local equity participation or prior authorization from authorities.

In order to facilitate investors in their applications for investment approval, the government has established an institution to oversee investment policy and strategy called the *Council for the Development of Cambodia (CDC)*. The Cambodian Investment Board (CIB), the operational arm of the CDC, has been designated as the major and one-stop service of the government, responsible for the evaluation of investment proposals and projects from all investors, both individual and corporate.

Foreigners are not authorized to acquire ownership rights in buildings located within 30 kilometers of the land borders of Cambodia, except in Special Economic Zones or other areas, as determined by the government.

Sectors in which investment is encouraged

- High technology industries
- Export oriented industries
- Tourism
- Agro and processing industry
- Infrastructure and energy
- Investment in Special Promotion Zone (SPZ)

Commonly used business entities

A new entity is registered with the Cambodian Ministry of Commerce (MoC). Approval for registration usually takes approximately ten and a half working days upon submission of all required documents. In general, businesses operate in Cambodia via the following vehicles:

- ✓ a company incorporated in Cambodia
- ✓ a branch of a company incorporated outside Cambodia
- ✓ a representative office of a company incorporated outside Cambodia

Main legal formalities for the formation of a company or registration of a branch

Company

- The minimum registered capital is CDR 4,000,000 (approximately US$ 1,000). Generally, there is no restriction on foreign ownership (except for land holding). The name of the company must first be cleared with the MoC
- A standard memorandum and articles of association will have to be prepared for the company and lodged with the MoC, together with the prescribed information for incorporation

Branch

- Certain documents and information of the holding company and the Cambodian branch are required to be provided to the MoC for branch registration. The name of the Branch shall be the name of its principal

Representative Office (RO)

- A RO is prohibited from undertaking profit making activities including the buying or selling of goods, performing services or engagement in manufacturing, processing or construction. The name of the RO shall be the name of its principal

Requirements for foreign investors

- For a Cambodian company, the full name, address, nationality of the foreign investor and the number of shares held in the company are required by the MoC
- For a Cambodian branch, the place of registration of the foreign company, details of its structure and other information in the prescribed documents is required by the MoC
- For a RO, the requirements are the same as a Branch
- If the Cambodian company or Cambodian branch needs to apply for a particular license to carry out its business operation, additional information on the foreign investor may have to be provided to the relevant government authority

Taxation

Most foreign investments and foreign investors are affected by the following taxes:

- Tax on Profit
- Minimum Tax
- Various withholding taxes (e.g. Tax on profit withholding obligations)
- Value Added Tax
- Turnover Tax
- Import Duties
- Salary Tax on Cambodian and expatriate employees

A preferential rate of 9 percent is available from the CDC where certain criteria are met and the proposed activity is being specifically encouraged by the government. Preferential rates are granted for the life of the relevant investment. A preferential rate can be granted, following approval and issuance of the relevant license by the CDC. Investment sectors in which special incentives do not apply include the telecommunication sector, and the exploitation of natural resources, with the exception of oil and natural gas exploration. All fuels, lubricants and other petroleum-based products used as raw materials or intermediate goods are not eligible for exemptions from import duties. Oil and gas, together with certain other mineral exploitation activities, are subject to tax at a rate of 30 percent. Insurance activities are taxable at a rate of 5 percent of gross premium income.

Incentives consist of the following:

- ✓ A corporate tax rate of 9 percent except for the exploration and exploitation of natural resources, timber, oil, mines, gold, and precious stones which shall be set in separate laws
- ✓ A corporate tax exemption of up to 8 years depending on the characteristics of the project and the priority of the government which shall be mentioned in a Sub-Decree. Corporate tax exemption shall take effect beginning from the year the project derives its first profit. A 5-year loss-carried forward shall be allowed. In the event the profits are being reinvested in the country, such profits shall be exempted from all corporate tax
- ✓ Non-taxation on the distribution of dividends or profits of proceeds of investments, whether they will be transferred abroad or distributed in the country

✓ 100 percent import duties exemption on construction materials, means of production, equipments, intermediate goods, raw materials and spare parts used by:

(a) An export-oriented project with a minimum of 80 percent of the production set apart for export

(b) Located in a designated SPZ listed in a development priority list issued by the Council

(c) Tourism industry

(d) Labor-intensive industry, transformation industry, agro-industry

(e) Physical Infrastructure and energy industry

These 100 percent exemption of duties and taxes mentioned above shall be in effect according to the terms of the agreement or requirement book of the investment projects which will produce goods for export in minimum of 80 percent of total production and for the investment projects which will be located in SPZ. Beside the investment projects mentioned, 100 percent exemption of duties and taxes shall only be authorized for an arrangement of construction period of enterprises, factories, building and the first year of operation of business production.

Remittance Policies

Article 11 of the Law on the Amendment to the Law on Investment of 2003 states that Qualified Investment Projects can freely remit abroad foreign currencies, purchased through authorized banks, for the discharge of financial obligations incurred in connection with their investments. These financial obligations include:

- Payment for imports and repayment of principal and interest on international loans
- Payment of royalties and management fees
- Remittance of profits
- Repatriation of invested capital in case of dissolution

c) Business Environment

Though Cambodia's business environment has improved over the last decade, it still remains relatively challenging owing to the absence of an effective legal and regulatory framework, poor availability of business information, bureaucracy and corruption.[13]

- In Doing Business 2014[14] conducted by the World Bank and International Finance Corporation (IFC), Cambodia ranked 137th in ease of doing business.Cambodia ranked low in terms of starting a business (184 of 189), resolving insolvency (163), dealing with construction permits (161), enforcing contracts (162) and getting electricity (134). Despite its difficult business environment, Cambodia's performance in terms of paying taxes (65) is reasonable and above OECD's average. According to the World Bank, it takes an average of 173 hours per year to pay taxes compared to an OECD average of 175 hours

[13] Dun and Bradstreet Country Report, July 2014

[14] In Doing Business 2014, 189 economies across the world are ranked on their ease of doing business, from 1 – 189. 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. The topics covered include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency

- According to World Economic Forum's Global Competitiveness Index Ranking 2014-15[15], Cambodia was ranked 95 out of 144 countries. Cambodia was ranked poorly in terms of higher education and training (123), institution (119), infrastructure (107), and technological readiness (102)

Lao PDR

FDI inflows to Lao PDR increased marginally in 2013 to US$ 296 million, compared with US$ 294 million in 2012. During the same year, FDI outflows from Lao PDR were negligible. According to UNCTAD, China has decided to invest US$ 7 billion in domestic railways in Lao PDR; a 410-km high-speed railway linking Kunming and Vientiane may be operational by 2018.

According to Ministry of Planning and Investment, about 80 percent of total FDI in Lao PDR goes into the resource sector, particularly hydropower, and mining. China, Vietnam, Thailand, South Korea, and Japan are the largest sources of foreign investment. Economic transition of Lao PDR to a market-driven economy has attracted international investors' attention.

a) Focus Sectors for Investment[16]

- Agro Processing
- Mining
- Education
- Food processing
- Pharmaceuticals and healthcare
- Infrastructure
- Small and Medium Enterprises (SMEs)
- Tourism
- Information Technology (IT)

b) Investment Policies[17]

Lao PDR has followed a market-oriented economy; it has opened its economy to foreign investors since 1986 when it launched its New Economic Mechanism policy with giving foreign investment generous incentives, constructing the basis of a legal framework from scratch and allowing private ownership.

In addition to an investment license, foreign investors are required to obtain other permits, including, an annual business registration from the Ministry of Industry and Commerce; a tax registration from the Ministry of Finance; a business logo registration from the Ministry of Public Security; permits from each line ministry related to the investment (i.e., Ministry of Industry and Commerce for manufacturing; Ministry of Energy and Mines for power sector development); appropriate permits from local authorities; and an import-export license, if applicable. In 2013, the Lao PDR government began allowing businesses to apply for tax registration at the time of incorporation, slightly simplifying the business registration process.

Forms of Foreign Investment

There are no statutory limits on foreign ownership or control of commercial enterprises, but in

[15] World Economic Forum's Global Competitiveness Index Ranking 2014-15 measures the ability of a country to provide high levels of prosperity to its citizens based on the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity.
[16] Ministry of Planning and Investment, Investment Promotion Department, Lao PDR
[17] Ministry of Planning and Investment, Investment Promotion Department, Lao PDR

practice, many companies seek a local partner. The Foreign Investment Law permits three forms of foreign investment: Business co-operation by contract, joint ventures (JV) between foreign and domestic investors; and 100 percent foreign-owned enterprises.

Foreign investors are given rights to use and transfer real estate in Lao PDR and are also granted the right to repatriate earnings and capital, without restriction, through a bank established in Lao PDR. Foreign investors must open a Kip bank account in Lao PDR; if they want to use foreign currencies, they will need additional accounts. Investors may convert Kip to other currencies within Lao PDR.

Foreign investments involving exploitation of natural resources and energy generation must be joint ventures. This restriction may be extended by government decree. Foreign investors must contribute at least 30 percent of the total capital investment in case of joint ventures.

Under 100 percent foreign ownership, the enterprise established in Lao PDR may be a new company; alternatively it may be a representative office of a foreign company. Banks have an option of establishing branch offices; they are restricted to Vientiane. Foreign investments must have a minimum registration capital of US$ 0.5 million.

Under the 2005 Prime Ministerial Decree No 301, projects worth US$ 20 million or more require the approval of the Prime Minister. The Minister of Planning and Investment can approve projects below US$ 20 million while the Vice Minister of Planning and Investment can approve enterprises of less than US$ 10 million. FDI equal to or less than US$ 3 million can be approved at the provincial level by all provinces, and in four of the larger provinces - Vientiane Capital, Savannakhet, Champasack, and Luang Prabang - the ceiling for approval is US$ 5 million.

Foreign enterprises must begin business activities within 90 days from the date of receipt of an investment license, or the license is subject to termination.

Forms of Private Enterprise

The Business Law of 1994 defines the forms of business (sole trader, partnership, limited company, etc.) and sets minimum capital requirements. Minimum capital requirements are set at 1, 5 and 50 million Kip for sole traders, limited companies and public companies respectively; foreign-owned companies are required to have a minimum capital of US$ 0.5 million. Partnerships are not subject to such requirements as the partners assume unlimited liability.

Priority Sectors

The key areas of investment encouraged by Lao PDR Government are hydroelectric power, mining, manufacturing, infrastructure, tourism and telecommunications.

Lao PDR grants incentives for foreign investment depending on industry sectors and activities promoted by the government, and the level of infrastructure and socio-economic development in specific geographic zones. The government defines agriculture, industry, handicraft and services as promoted activities.

Protection of Property Rights

Foreign investors are not permitted to own land in fee-simple. However, Article 58 of the Law on Investment Promotion stipulates that foreign investors with registered investment capital of US$ 500,000 or above are entitled to purchase land use rights of less than 800 square meters in order to build housing or office buildings. The Government grants long-term leases, and allows the ownership of leases and the right to transfer and improve leasehold interests. Government approval is not required to transfer property interests, but the transfer must be registered and a registration fee paid.

Taxes

The Lao PDR government is seeking to encourage more foreign investment and maintains lower business tax rates for foreign companies than those applicable to domestic companies.

Foreign investments subject to the Foreign Investment Law pay an annual profit tax at a rate of 10 percent , 15 percent, and 20 percent according to the promotion zone (other investments are taxed at 35 percent).

The Lao PDR Government specifies 3 promotion zones based on geographical location and socio-economic conditions. The zones are as follows:

- Zone 1: areas lacking in socio-economic infrastructure – primarily mountainous and remote areas – and is assigned a high level of investment promotion

- Zone 2: areas with socio-economic infrastructure that is partially able to facilitate investments and is given medium priority

- Zone 3: infrastructure available to support investments and is assigned a low level of investment promotion

In Zone 1, Level 1 investments receive profit tax exemptions for 10 years, Level 2 investments for 6 years and Level 3 investments for 4 years. In Zone 2, Level 1 investments receive profit tax exemptions for 6 years, Level 2 investments for 4 years and Level 3 investments for 2 years. In Zone 3, Level 1 investments receive profit tax exemptions for 4 years, Level 2 investments for two years and Level 3 investments for 1 year. Profit tax exemptions in all zones start from the date the enterprise commences operations.

Foreign investors are not required to pay import duty on equipment, spare parts and other materials used in the operation of their enterprises. Raw materials and intermediate goods imported for the purpose of processing and re-export are also exempt from import duties. Raw materials and intermediate goods imported for the purpose of import substitution are eligible for import duty reductions on a case-by-case basis. Foreign enterprises are also eligible for profit tax and import duty reductions or exemptions on an individual basis, if the investment is determined by the government to benefit to Lao PDR's socio-economic development.

In highly exceptional cases, and by specific decision of the Lao Government, foreign investors may be granted special privileges and benefits. These can include a reduction in or exemption from the 20 percent profit-tax rate. Such reductions and exemptions are normally given because of the large size of an investment and the significant positive impact that it is expected to have upon the socio-economic development of Lao PDR.

The law places no limitations on foreign investors transferring after-tax profits, income from technology transfer, initial capital, interest, wages and salaries, or other remittances to the company's home country or third countries provided that they request approval from the Lao government.

c) Business Environment

- In the Doing Business 2014, Lao PDR was ranked 159th in ease of doing business out of 189 countries, a rise of 4 places from its previous ranking in 2013. The nation had very low ranking in resolving insolvency (189),and protecting investors (187)

- According to World Economic Forum's Global Competitiveness Index Ranking 2014-15, Lao PDR was ranked 93 out of 144 countries. Lao PDR was ranked poorly in terms of macroeconomic environment (124), higher education and training (110), financial market development (101), technological readiness (115), and market size (121)

Myanmar

FDI inflows to Myanmar increased by 16.9 percent in 2013, to US$ 2.6 billion from US$ 2.2 billion in 2012. There were no FDI outflows from Myanmar during the same period. The majority of FDI came from China, followed by Thailand, South Korea and Singapore, and was primarily channeled into garment manufacturing. According to the Directorate of Investment and Companies Administration, the 71 foreign-invested projects upto December 2013 created 50,751 local jobs. Myanmar may attract as much as US$ 100 billion in foreign direct investment over the next two decades if it spends enough to achieve its economic growth potential[18].

Myanmar's Energy Ministry has granted seven national owned companies to do joint venture business with international oil companies in nine blocks out of 18 and two have been inked. International companies include those from Indonesia, Thailand, France, Malaysia, Russia, China and India. The Myanmar Investment Commission has permitted the exploration and development of hitherto restricted sectors like oil, gas and minerals. The country has passed a Special Economic Zone Law which provides incentives for foreign investors in banking and insurance. Developed countries like USA, Netherlands, UK, and France are the major sources of FDI in Myanmar. Amidst Asian countries, Singapore remains the main source of FDI going to Myanmar.

a) Focus Sectors for Investment[19]

- Transport Infrastructure
- Telecommunication services
- Financial services
- Mining
- Healthcare
- Oil and gas exploration
- Agro-tech

b) Investment Policies

The Government of the Union of Myanmar has been striving hard to promote all round development of national economy to improve provisions of food, clothing and shelter for the people so as to ameliorate their living standards. In this connection steps have been taken to ensure mass participation and induce foreign investment on the basis of equality and mutual benefit.

The Foreign Investment Law (FIL) has no minimum capital requirement for foreign ownership, except for joint ventures in restricted sectors, although individual ownership requirements can be established by the Myanmar Investment Commission (MIC). Foreign investors may, depending on the type and value of investment, lease land for a period of up to 50 years and renewable for a further two 10-year periods

[18] Myanmar's moment: Unique opportunities, major challenges, McKinsey Global Institute, June 2013
[19] Foreign Investment Law, 2012, Government of Myanmar

Foreign investments shall be made in accordance with the following basic principles-

a) promotion and expansion of exports

b) exploitation of natural resources which require heavy investment

c) acquisition of high technology

d) supporting and assisting production and services involving large capital

e) opening up of more employment opportunities

f) development of works which would save energy consumption

g) regional development

Forms of Organization

Foreign investment may be made in any of the following forms-

(a) investment made by a foreigner to the extent of 100 per cent foreign capital

(b) joint-venture made between a foreigner and a citizen

- a sole proprietorship, a partnership and a limited company may be formed

- if a joint-venture is formed the foreign capital shall be at least 35 per cent of the total capital

Exemptions and Reliefs

The Commission shall, for the purpose of promoting foreign investments within the State, grant the investor exemption or relief from taxes. In addition the Commission may grant any or more than one or all of the remaining exemptions or reliefs from taxes:

- In respect of any enterprise for the production of goods or services, exemption from income-tax for a period extending to 3 consecutive years, inclusive of the year of commencement of production of goods or services
- Exemption or relief from income-tax on profits of the business if they are maintained in a reserve fund and re-invested therein within 1 year after the reserve is made
- Right to accelerate depreciation in respect of machinery, equipment, building or other capital assets used in the business, at the rate fixed by the Commission
- If the goods produced by any enterprise are exported, relief from income-tax up to 50 percent on the profits accrued from the said export
- Right of an investor to pay income-tax payable to the State on behalf of foreigners who have come from abroad and are employed in the enterprise
- Right to pay income-tax on the income of the above-mentioned foreigners at the rates applicable to the citizens residing within the country
- Right to deduct from the assessable income, such expenses incurred in respect of research and development relating to the enterprise which are actually required and are carried out within the State
- Right to carry forward and set-off up to 3 consecutive years from the year the loss is

sustained in respect of such loss sustained within 2 years immediately following the enjoyment of exemption or relief from income tax as contained in sub-section (a), for each individual enterprise

- Exemption or relief from customs duty or other internal taxes or both on machinery, equipment, instruments, machinery components, spare parts and materials used in the business, which are imported as they are actually required for use during the period of construction

- Exemption or relief from customs duty or other internal taxes or both on such raw materials imported for the first 3 years' commercial production following the completion of construction

Guarantees

- The Government guarantees that an economic enterprise formed under a permit shall not be nationalized during the term of the contract or during an extended term, if so extended

- On the expiry of the term of the contract, the Government guarantees an investor of foreign capital, the rights he is entitled to, in the foreign currency in which such investment was made

- Foreign investors have the right of remittance of foreign currency. Foreign investors are allowed to remit foreign currency overseas through banks which are authorized to conduct foreign banking business at the prevailing exchange rate

Taxes

Any enterprise operating under the FIL or the Myanmar Companies Act must pay income tax at a 25 percent tax rate

c) Business Environment

- In the Doing Business 2014, Myanmar was ranked 182nd in ease of doing business out of 189 countries. The nation had very low ranking in starting a business (189), enforcing contracts (188), and protecting investors (182)

- According to World Economic Forum's Global Competitiveness Index Ranking 2014-15, Myanmar was ranked 134th out of 144 countries. Myanmar was ranked poorly in terms of institutions (136), infrastructure (137), higher education and training (138), financial market development (126), and technological readiness (122)

Vietnam

FDI inflows to Vietnam increased by 6.3 percent to US$ 8.9 billion in 2013, as compared to US$ 8.4 billion in 2012. The country is an attractive destination for low cost labour intensive manufacturing and several large TNCs have strengthened their contract manufacturing activities. Singapore, Japan and South Korea have been the top investors in Vietnam. Increased levels of Chinese investments have also been observed in recent years in Vietnam. Foreign invested enterprises' share in GDP increased to 18 percent from in 2013, up from 13 percent in 2010. Vietnam has been very successful in attracting foreign direct investment, sustaining FDI levels around US$ 10-12 billion per year over the last five years. The FDI sector accounted for 23 percent of the country's investment capital in 2013[20].

FDI outflows from Vietnam also increased to US$ 1.9 billion from US$ 1.2 billion during the same period. Lao PDR and Cambodia are the primary destination of FDI outflows from Vietnam.

[20] U.S. Department of State, Investment Climate Statement 2014

a) Focus Sectors for Investment

- High-tech production: high technology and modern equipment, bio-tech products, telecom, electronics, clean & green industries
- Infrastructure
- Education & training, vocational training
- Health care: hospitals, pharmaceutical productions
- Oil and natural gas exploration
- Manufacturing industry: to produce competitive products for export and domestic consumption

b) Investment Policies

Vietnam has emerged as one of the most attractive destinations for foreign investment. Foreign investors are beginning to regard Vietnam as a key strategic investment location to achieve cost effectiveness of their global supply chains. Vietnam is becoming more attractive with its tax incentives, low cost labour and long coastline with increasingly modern and sophisticated port infrastructure. The government has made considerable effort in recent years towards improving the country's business and investment climate by issuing positive legislative measures. These measures, along with Vietnam's accession to the WTO, have significantly paved way for foreign investment in the country.

The Investment Law provides for five main forms of investment: 100 percent foreign-owned or domestic-owned companies; joint ventures (JV) between domestic and foreign investors; business contracts such as business co-operation contracts (BCC), build-and-operate agreements (BOT and BTO), and build and transfer contracts (BT); capital contribution for management of a company; and mergers and acquisitions (M&A). Foreign investors can, with restrictions, invest indirectly by buying securities or investing through financial intermediaries.

Forms of Investment

Foreign investors may invest in Vietnam in any of the following forms:

- Business co-operation on the basis of a business co-operation contract
- Joint venture enterprise
- Enterprise with 100 percent foreign owned capital

The forms of commercial presence that foreign investors can set up in Vietnam are as follows:

- Representative Office
- Branch
- Wholly Owned Subsidiary
- Joint Venture with Vietnamese partner

There are strict foreign ownership limitations for certain listed companies and service sectors. For example, foreign ownership cannot exceed 49 percent for listed companies and 30 percent for listed companies in the financial sector. A foreign bank is allowed to apply to establish a 100 percent foreign owned affiliate in Vietnam but may only own up to 20 percent of a local commercial bank. Individual foreign investors are usually limited to 15 percent ownership, though a single foreign investor may increase ownership to 20 percent through a strategic alliance with a local partner and with approval from the Prime Minister's Office.

Encouraged Investment Sectors

The Government of Vietnam promotes foreign investment in certain priority sectors or geographical regions, such as mountainous and remote areas of the country with difficult economic and social conditions. The government encourages investment in production of new materials, new energy sources, metallurgy and chemical industries, manufacturing of high-tech products, bio-technology, information technology, mechanical engineering, agricultural, fishery and forestry production, salt production, generation of new plant varieties and animal species, ecology and environmental protection, research and development, knowledge-based services, processing and manufacturing, labor-intensive projects (using 5,000 or more full-time laborers), infrastructure projects, education, training, and health and sports development. A September 2011 Prime Ministerial Directive further defined the government's foreign investment priorities, encouraging projects that use modern and environmentally-friendly technology, and promote efficient use of natural, mineral, and land resources.

Foreign investors are encouraged to invest in specific areas:

- Areas with difficult socio-economic conditions
- High tech zones and economic zones

Foreign participation in distribution services, including commission agents, wholesale and retail services, and franchising, opened to fully foreign-owned businesses in 2009. Distribution of alcohol, cement and concrete, fertilizers, iron and steel, paper, tires, and audiovisual equipment opened to foreign investors in 2010. The sectors where certain conditions are applicable to foreign investors include telecommunications, postal networks, ports and airports, and other sectors as per Vietnam's commitments under international and bilateral arrangements.

Investment Incentives

- Corporate Income tax (CIT) exemption and CIT reduction from the first profit making year
- Preferential CIT rate of 10-20 percent
- Import duty exemption on imports of equipment, materials, means of transportation and other goods for implementation of investment projects in Vietnam in accordance with the law on Export and Import Duties
- Land rental exemption or reduction
- Accelerated depreciation of fixed assets
- Losses carry forward

Foreign investors are exempt from import duties on goods imported for their own use and which cannot be procured locally, including all equipment, machinery, vehicles, components and spare parts for machinery and equipment, raw materials, inputs for manufacturing and construction materials that cannot be produced domestically. Remote and mountainous provinces are allowed to provide additional tax breaks and other incentives to prospective investors.

Licensing process

Foreign investors who invest in Vietnam for the first time must apply for an investment certificate with licensing authorities. The investment certificate of a foreign investment project can be granted by either of the following processes:

- Registration of an investment certificate application
- Appraisal of an investment certificate application

Generally registration process applies to projects with investment capital less than VND 300 billion (approx. US$ 16 million) and does not belong to the list of business sectors in which investment is prohibited.

Taxes

CIT applies to all foreign enterprises having income from Vietnam, regardless of a permanent establishment. Preferential tax treatment such as tax exemption, tax reduction and preferential rates are limited to:

- Encouraged sectors such as healthcare, education, high-tech, infrastructure development and software
- Encouraged special economic zones, or areas with difficult socio-economic conditions

Vietnam does not tax profits remitted by foreign-invested companies. However, companies are required to fulfill their local tax and financial obligations before remitting profits overseas and are not permitted to accumulate losses.

c) Business Environment

- The Doing Business 2014 conducted by the World Bank ranked Vietnam 99th in ease of doing business. Vietnam ranked poorly in terms of protecting investors (157), getting electricity (156), resolving insolvency (149), paying taxes (149) and starting a business (109)
- According to World Economic Forum's Global Competitiveness Index Ranking 2014-15, Vietnam was ranked 68 out of 144 countries. Vietnam ranked low in terms of institutions (92), higher education and training (96), financial market development (90), and technological readiness (99)

6: Investment Opportunities in CLMV Countries

The CLMV economies, which are considered among the fastest growing economies in the region, are primarily agrarian, and have enjoyed certain degree of macroeconomic stability in recent years, with vast potential for future developments. These economies are endowed with abundant natural resources and low-waged labour forces. However, they are faced with underdeveloped infrastructure and logistics.

Select sectors which hold potential for investment opportunities are briefly discussed in the following section.

A. Basic Infrastructure

An area of critical importance for CLMV region is infrastructure development. Infrastructure coverage of the CLMV region is amongst the lowest in the ASEAN region. The primary reason for low levels of infrastructure development in the CLMV region stems from limited economic capacity to invest in infrastructure. Development of infrastructure essentially encompasses rail road, air port connectivity, logistics and water supply, among others. The IMF and the Japan International Co-operation Agency (JICA) estimated in 2011, that Cambodia needed more than US$13 billion in infrastructure works by 2020 if the country intends to continue attracting foreign investment. A study by JICA in 2010 examined infrastructure needs assessments for 2010-2020 based on calculations by several donors and estimated that Cambodia had US$13.36 billion in investment needs, or US$1.2 billion per year over the period.[21] In Lao PDR, the National Economic and Social Development Plan 2011-15 sets development of a well laid transportation system as a priority, by embarking on a maintenance programme for existing roads and bridges, and constructing new roads, railway network and airport. As a land-locked country strategically located between Vietnam, Thailand and China, the government of Lao PDR has placed a strong emphasis on improving regional transport in order to expand trade and investment opportunities.

It is estimated that by 2030, infrastructure could contribute to US$ 49 billion to national GDP in Myanmar. Myanmar is one of the last untapped telecommunication markets in the world, and the mobile telecommunications market in Myanmar is significantly underdeveloped. Until recently, the telecommunications industry in Myanmar has been a monopoly run by the Myanmar Posts and Telecommunications (MPT), the state-owned incumbent operator, providing fixed and wireless communications services in the country. With a current subscriber base of 5.44 million, the mobile penetration in Myanmar has been the lowest in the region with only less than 10 percent of the population having access to mobile services. The government is stepping up its liberalization of the telecommunications sector by allowing

[21] Policy Challenges for Infrastructure Development in Asian LICs: Lessons from the Region, 2010.

international firms to form joint ventures with local ICT (Information and Communication Technology) players. With the entry of Ooredoo and Telenor, the subscriber base is expected to grow to 22 million increasing the penetration to approximately 40 percent by 2017. Similarly, the mobile network coverage of population is expected to grow from 12 percent in 2013 to 70 percent by 2017. To achieve this growth in coverage and penetration levels, considerable investments are needed in expanding the mobile network to reach the uncovered population. Mobile network is expected to grow from current 1,800 sites to 7,600 sites by 2015 and further to 17,300 sites by 2017. On fixed telecommunication lines, Myanmar has about 1 percent penetration or 604.5 thousand lines. The dispersion of fixed telephone infrastructure is biased towards larger cities such as Yangon and Nay Phi Taw. Most villages in rural areas remain without fixed line service. The underdeveloped telecom and logistics infrastructure in Myanmar has long been an operational challenge to its businesses, which needs good ports, road and rail systems. There is pent up demand for infrastructural development.

Vietnam's rapid growth has outpaced its infrastructure, creating a major constraint to continued export-led growth and investment[22]. Over the next 10-12 years, the World Bank estimates that US$170 billion will be required for planned infrastructure projects to sustain Vietnam's robust economic development.[23] Opportunities in Vietnam include ports, expressways, metro lines, among others.

The burgeoning demand for infrastructure development therefore opens up ample opportunities for engineering, procurement and construction (EPC) companies, iron and steel manufacturers, and cement manufacturers.

B. Power

Cambodia has one the lowest electrification rates outside Sub-Sahara Africa and some of the highest energy costs in the world[24]. The lack of a reliable electricity supply has been identified as one of the biggest bottlenecks for Cambodia's competitiveness and development. Plans for rapid industrialization and infrastructure development would significantly depend on availability of sufficient power. Therefore the government prioritized on improving the supply of electricity and reduce tariffs, by encouraging investment in the construction of low cost electricity plants, by using Cambodia's coal reserves and by exploiting its hydroelectric potential. In the case of Lao PDR, while hydropower generation has a potential of 26,500 MW, only 60 percent of the country's households have access to electricity. The government has announced a goal of electrification of 90 percent of households by 2020.

Large scale power generation is a critical issue for Myanmar with a modest power consumption of around 103.7 kwh per capita,[25] which is less than what is needed for a modern industrial economy. At present, only 30 percent of Myanmar's population has access to electricity The power sector is therefore a top priority for the government, with the goal to increase capacity to 20,000MW by the year 2030 from the current installed capacity of only 4,000MW[26]. In Vietnam, Directorate General of Energy has laid an ambitious plan to attain an installed power capacity in the range of 69,000

[22] USAID
[23] The Canadian Trade Commissioner Service
[24] Private Solutions for Infrastructure in Cambodia, World Bank
[25] Canaccord Genuity
[26] Myanmar- Power is the Key, MayerBrownJSM

MW to 75,000 MW by 2020. The period of 2011 to 2030, is expected to attract investment of US$ 42.6 billion in transmission and distribution (T&D) in the country. Phase 1 (2011-2016) concentrates on transmission grid development, automation and reliability improvement. Phase 2 (2017-2022) aims at expanding the distribution grid, enhance the network and increase its operational efficiency. Investments are also expected in 110 KV network to strengthen the links between the transmission and the distribution system. Other investments are expected in the implementation of modern technologies to improve grid reliability and to decrease the power losses.

Indian companies with their expertise and competence in setting up and implementing large scale power projects overseas could explore opportunities in power generation and distribution projects in this region.

C. Agriculture and Allied Activities

Cambodia is a leading exporter of rice in the CLMV region, yet the country lacks the capability to turn its raw paddy rice into refined, more expensive grain. Much of the rice is shipped off to Thailand at below-market rates where it is milled, repackaged, and sold at a much higher price as refined Thai jasmine or basmati[27]. Lack of access to new technologies in agriculture and productivity improvements, poor storage and transport infrastructure has resulted in a low supply of agricultural produce in recent years. However, rubber, cassava, sugarcane, teak, acacia and pistachio are some of the identified areas which are well suited to the soil conditions in the country and can be tapped by investors. Among the other opportunities identified by the government include sericulture, palm oil refineries, food processing, rubber processing and jute and sugar processing.[28]

In Lao PDR, while agriculture remains the most important sector in terms of share to GDP and contribution to employment, the sector continues to be largely dominated by subsistence farming employing traditional farm methods. There are opportunities in the transition from subsistence to commercial agriculture, especially through contract farming for rice, maize and other products and their processing. Organic farming is being targeted by the government as a promising niche for exports. Foreign investments have so far focused on cash and export oriented crops. The government's strategy to further improve the country's attractiveness as an investment destination for agricultural production include establishing provincial production zones and distribution centers, training farmers in new value added segments, and encouraging the use of new technologies in farming.

Myanmar which was once known as the rice bowl of Asia has been a major producer and exporter of rice on account of easy access to large amount of water and fertile soil. However, lack of access to new technologies in agriculture and productivity improvements, poor storage and transport infrastructure has resulted in a low supply of agricultural produce in recent years. Foreign investors are invited to invest in the form of Joint Venture or 100 percent investment in establishment of agro-based industries; assembling and manufacturing of light agricultural machinery and small farm implements, and manufacturing of agricultural inputs and related support products. The potential areas for agro-based industries are plantation, sugar mills, cotton industry, jute industry, rubber industry and assembling and manufacturing of light agricultural machineries and small farm implements.

[27] Cambodia- almost endless opportunities, Simon Black, 2012
[28] A Guide to Investments in Cambodia- UNCTAD, 2011

Foreign investment in agriculture in Vietnam has so far focused on exploiting available land and human resources, rather than science and technology-intensive projects like breeding vegetables and livestock. Some of the areas with potential for investment would include agricultural product processing, animal farming, animal feed, forestry and wood processing as the main areas needing foreign investment. The benefits of newer technologies like bio-technology can also be harnessed to increase agricultural productivity.

India with its expertise achieved in the agriculture sector by way of green revolution in 1960s and the white revolution (dairy and milk production) of 1980s could share its experience with the CLMV region and explore opportunities for investment and collaboration in agriculture, allied activities and food processing. There are opportunities in allied sectors like fisheries and forest products like teak that Indian companies could look at leveraging, besides development of forward and backward supply chain linkages. Further, the benefits of newer technologies like bio-technology can also be jointly harnessed to increase agricultural productivity in the CLMV region.

D. Financial Services

Growth in economy and pick up in consumer demand is expected to fuel growth in the financial sector. The financial sector in the CLMV region which is still relatively underdeveloped due to its isolation from global banking system, also present opportunities for collaboration. With increased demand for technology and expertise from the banking sector required for global integration, opportunities emerge in technology udgradation and automation in the financial sector. Indian financial institutes could collaborate with local banks as they seek to offer more services. Foreign banks may eventually look to secure branch licenses, which could fuel domestic growth through providing commercial and project financing services. With India's proven expertise in banking and financial sector related software automation processes, India could contribute towards capacity building and training for the personnel of regulatory agencies and financial institutions. With the need for greater global financial integration to enable cross-border payment and transaction, there is expected to be an increasing demand for technology, for integrated electronic payment systems, ATM networks and banking security, among others.

E. Information and Communications Technology (ICT)

With countries in the CLMV region still on the path of modernization and computerization, ICT is a potential area of investment. With the strength and capability that India possess in the realm of IT sector, Indian IT firms could explore opportunities in the CLMV countries, and focus on investing in subsidiaries and joint ventures in the areas of e-governance, financial services and e-education. Indian companies could also share their expertise in providing software programmes and services for banks and financial institutions in the region. Designing specialized e-learning courses on the web for providing technological assistance, manufacturing process know-how, troubleshooting and other technical areas also present opportunities. Such initiatives would help industry and commerce, promote education in remote areas, create employment opportunities and promote healthcare to remote areas in the region, thereby contributing to overall development of nations in the region.

F. Tourism

The CLMV region is considered as one of the fastest growing tourism destinations in the world, bringing in foreign exchange, creating jobs, and contributing to economic growth. While the CLMV countries have a strong comparative advantage in tourism in terms of natural and cultural heritage sites, this potential needs to be fully tapped to make it an instrument to spur broad based economic growth.

Cambodia's rapidly expanding tourism industry is led by the spectacular cultural attraction of Angkor Wat. It is estimated that the international arrival will reach 4.5 million by 2015 and 7 million by 2020. The government has focused on three poles for tourism development (Phnom Penh, Siem Reap, Sihanoukville) by inviting foreign investments to develop tourism through construction of hotels, restaurants, and other facilities of international standard. Lao PDR boasts large tracts of beautiful wild landscape and isolated villages of traditional ethnic communities and two UNESCO world heritage sites- the ancient capital of Luang Prabang, and the Angkor era temple complex of Wat Phu. The government has identified tourism, especially ecotourism as a major area of future growth. The Lao PDR government has devised the National Tourism Development Strategy 2006-2020, under which three main areas of the country have been identified for development- Luang Prabang, Luangnamtha, Xiengkhuang and Bokeo in the north; Vientiane Capital City , Khammuane, Savannakhet in the central region; and Champasak, Attapue and Salavanh in the south. In Myanmar, limited hotel rooms, logistical capacity and coverage, as well as an underdeveloped banking system hold back a boom in tourism. The boom in hotel and tourism industry is already witnessed by a three-fold increase in hotel room rates in Yangon in the last few years. The Government of Myanmar has prioritized tourism development in its Framework for Economic and Social Reforms, and has formulated a seven-year tourism development master plan, 2013-2020, targeting 3.01 million visitors in 2015 and 7.48 million in 2020. There is a growing need for international class hotels in major tourist sites. There are also many newly opened areas where there are no hotels of international standard. Opportunities for investment in developing golf courses, beach resorts, tourist village, amusement parks, recreational centers also exist. Vietnam has established a master plan for continuing to develop tourism between 2011 and 2020. The plan sets strategic priorities to target key market segments and develop regional clusters, as well as establish a desired approach to marketing.

The hospitality and tourism sector is likely to see a great boom, especially as foreign tourists and businessmen come for pleasure and work. Development of the hospitality sector in the region could open up opportunities for companies either to operate in the sector or as part of the ecosystem that services the sector. An area of co-operation would be opening direct air links between India and the CLMV countries, which would contribute to a greater influx of tourists into the CLMV region from India as well.

G. Healthcare

The CLMV countries are beset with inadequate healthcare services, and thus face difficulties in meeting health needs of the population. Adequate health care is still widely inaccessible to most rural Cambodians, as a result, healthcare is a priority in Cambodia. In Lao PDR, the Government's 2020 Health Sector Strategy aims at improving the country's health systems and broadening the reach of health services. In this regard, priority areas of intervention have been identified, including improved community based health promotion and disease prevention in an effort to make the primary healthcare system more efficient. Myanmar's healthcare system has long been starved of western pharmaceuticals, medical devices and diagnostic equipment. Due to the lack of quality healthcare services currently available in the country, many well to do citizens of Myanmar and foreign expats fly out to neighbouring countries of Thailand, Malaysia, India and Singapore for medical treatments. Myanmar's healthcare sector is lacking in the availability of modern medical equipments which were previously unavailable mostly due to economic sanctions. Myanmar's primary specialist hospitals are located in Yangon and Mandalay. Healthcare facilities located outside of these two regions of Myanmar are more downsized with hospitals providing just the basic healthcare services for people living in those rural regions. To fill this gap, many foreign hospitals have set up offices with representatives to help with the language barrier along with a local partner hospital to facilitate medical treatment. According to a report by EIU, spending on healthcare services in Vietnam would increase from US$ 7 billion in 2010 to US$ 11.3 billion in 2015, at an average growth rate of 10.3 percent per annum. However, the country's healthcare system remains largely underdeveloped in terms of both the number and quality of hospitals, clinics and doctors. A perceived shortfall in local resources and expertise is leading a number of foreign companies to target the Vietnam healthcare sector, with the French and US companies the dominant foreign players in the market, largely drawn by the inability of local players to service growing demands. Being a large and fast growing economy, with a population expected to reach 96 million by 2019, Vietnam is seen as a potential market offering opportunities for foreign investors in the healthcare sector.

The CLMV region thus provides opportunity for Indian health care providers to set their foothold and create a niche for themselves. Indian healthcare companies can also set up JVs in the CLMV countries.

H. Education

The CLMV countries face the common problem of low education participation, widespread adult illiteracy, and poor education quality. A number of structural problems continue to plague the education system in Cambodia. The lack of teachers and school buildings limits access to education especially in the rural areas. Where schools exist, the necessary infrastructure to facilitate learning is either non-existent or in poor condition. Soft skill training is missing and research activity is limited and is generally not perceived as a core mission of most universities. In Lao PDR, problem of skill shortage is one of the prominent factors that concern business and investors. Thus improving education outcomes is one area which requires utmost attention. Myanmar has emphasized and encouraged the development of education sector which plays a vital role for the development of the country. Opening schools for not only basic education, but also vocational education provide big opportunities in Myanmar's education sector. There is a huge local market for education sector which is evident from the fact that many students from Myanmar, both in primary, secondary and tertiary education levels, are seeking for the overseas education who are mainly go to Singapore, Thailand, Australia, Malaysia, UK and USA. Among the most critical drivers for achieving a transition to more productive, higher-value-added activities is expanding Vietnam's talent pool. With Vietnam's economy growing, and with a rise in income levels, more multinational firms invest in Vietnam and demand skilled professionals. However, there is a shortage of qualified professionals, given the under-developed education system prevailing in Vietnam, with only affluent Vietnamese families seeking high quality education outside Vietnam. Given 60 percent of the population is under the age of 30, this ensures a vast pool of prospective students. At present, there are two fully-operated foreign universities in Vietnam: one in Hanoi (British University Vietnam) and one in Ho Chi Minh City (RMIT Vietnam). In addition, there is the cooperative program between Saskatchewan Institute of Applied Science and Technology (SIAST) and Ho Chi Minh City University of Industry (HUI). Areas of focus in the region would include the establishment of international universities, either as standalone institutions or in partnership with existing teaching facilities, vocational training centers and international schools catering to local families.

I. Mining

The mining sector in Cambodia is still largely undeveloped, and most mining companies active in Cambodia are small-scale quarries producing materials for construction, such as laterite, marble, granite, limestone, gravel and sand. According to the Ministry of Industry, Mines and Energy (MIME), Cambodia, copper, gold, iron ore, zinc, lead, tin, bauxite, sapphire, ruby, kaolin and limestone are amongst the most prevalent resources in Cambodia, which are largely untapped. A large number of foreign companies are engaged in research and exploration for minerals in Cambodia, and have also received licenses to conduct exploitation. Lao PDR is rich in mineral resources, with majority of foreign investments concentrated in mining sector. With only 30 percent of its territory exploited so far, activity in the mining sector is expected to rise in the near future, with atleast 650 locations identified to be containing metal ores. Myanmar is blessed with abundant mineral resource deposits including tungsten, tin, zinc, silver, copper, lead, coal, goal, industrial minerals, antimony, limestone, marble, gemstones, and oil and gas. The policy objective of the Ministry of Mines is to immediately boost up the present production fulfilling the growing domestic needs and at the same time promoting exports. Types of possible investments can be through production sharing or profit sharing arrangement. Both the arrangements are consistent with international practice and the Ministry of Mines is flexible enough to negotiate on a case by case basis. These opportunities consist of participating in mineral exploration, improvement and revamping of existing mines and plants, expansion of production capacities using more profitable, efficient and appropriate technology or new projects with already known or partly known deposits.

J. Oil and gas

Myanmar and Cambodia are expanding their hydrocarbon production in an effort to capitalise on ever-rising domestic and regional demand. Myanmar has about 80 oil and gas blocks to exploit on its territory. Crude oil production in Myanmar is currently limited at around 21,000 bpd, which is insufficient to meet domestic demand, leaving the country in the role of a net oil importer. Apart from crude oil, the country has sizeable offshore natural gas reserves and is currently producing more than 400bn cu ft per day, of which around 70 percent is exported to Thailand and the rest to China, while Myanmar itself relies on hydropower to meet domestic energy demand. Myanmar has been liberalizing its oil and gas industry starting from 2011 and began holding licensing rounds for international investors. In addition, infrastructure investments in oil terminals and pipelines are also in the agenda, since Myanmar also wants to position itself as an oil and gas trade hub between the

Middle East and China. The Ministry of Energy has invited multinational companies to participate in the exploration and production of crude oil and natural gas in Myanmar's onshore and offshore areas, in co-operation with Myanmar Oil and Gas Enterprise on a production-sharing basis. Other investment opportunities under this sector include among others, exploration and production in petroliferous onshore and offshore Myanmar; rehabilitating to marginal fields and enhancing suspended fields; new plants commissioning, Refinery, LPG, LNG, Fertilizer Plants; floating Storage Unit (FSU), Floating Storage and Offtake Facilities; CNG refueling stations; research and development; trading, marketing and retailing of petroleum products; indispensable equipments to revamp and renovate in drilling rigs, refineries and plants. Cambodia has sought to promote investment the country's oil and gas resources in order to enhance economic growth, provide employment opportunities and generate revenue. Over the past few decades Vietnam has emerged as an important oil and natural gas producer in South East Asia. Vietnam has boosted exploration activities, allowed for greater foreign company investment and co-operation in the oil and gas sectors, and introduced market reforms to support the energy industry. These measures have helped to increase oil and gas production. Increased foreign investment since 2007 has led to greater exploration, significantly increasing Vietnam's proven natural gas reserves. Vietnam produced 296.4 billion cubic feet (Bcf) of dry natural gas in 2013, all of which was domestically consumed. The country is currently self-sufficient in natural gas, but it is predicted that there will be a natural gas supply gap of 1.3 Bcf per day by 2025 as demand surpasses supply. Vietnam and several of its neighbors have reached agreements in principle in the past to conduct joint exploration for oil and natural gas resources in the area.

7. Exim Bank India's Endeavours to Harness Synergies with CLMV Countries

As the apex financial institution in India, financing, promoting and facilitating India's international trade and investments, Export Import Bank of India's (Exim Bank India) vision has evolved from financing, facilitating and promoting trade and investment to a conscious and systematic effort at creating export capabilities. Since Exim Bank India commenced operations in 1982, the developing and least developed countries have always been a focus area, and thus a critical component of Exim Bank India's strategy to promote and support south-south co-operation, trade and investment. As a partner institution to promote economic development in developing and least developed countries, the commitment towards building relationships and fostering co-operation among southern countries is reflected in the various activities and programmes which Exim Bank India has set in place. Exim Bank India operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment.

A. Financing Programmes

(i) Lines of Credit

Exim Bank India is the implementing agency for extending Lines of Credit (LOCs) under Government of India's (GOI) India Development and Economic Assistance Scheme (IDEAS). To promote bilateral and regional commercial relations, Exim Bank India extends LOCs to governments, parastatal organizations, financial institutions, commercial banks and regional development banks to support export of eligible goods on deferred payment terms. As on September 30, 2014, the current operative LOCs covering the CLMV region extended by Exim Bank India, at the behest of Government of India include:

Cambodia: A total of three LOCs amounting to US$ 65.2 million to the Government of Cambodia for the following purposes:

- Stung Tasal Development Project, purchase of water pumps and construction of electric transmission line between Kratie and Stung Treng Province in Cambodia
- Strengthening the capacity of transmission line project between Kratie and Stung Treng
- Completion of the Stung Tasal Water Development Project in Cambodia

Lao PDR: A total of four LOCs amounting to US$ 153.8 million to the Government of Lao PDR for the following purpose:

- 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
- Development of irrigation schemes in Chammasack Province
- 230 KV double circuit transmission line from Nabon to Thabok and substations and 2 hydropower projects (15 MW) in Nam Boun
- Construction of Storage Dams and Development of Irrigation System

Myanmar: A total of nine LOCs amounting to US$ 601.4 million were extended to Myanma Foreign Trade Bank for a range of projects, including railway infrastructure, manufacturing of vehicles, upgradation of petrochemical complex, telecommunication, refinery assembly plant, hydropower project and transmission lines.

Vietnam: A total of four LOCs amounting to US$ 191.5 million were extended to the Government of Vietnam covering, among others, the following sectors:

- Hydropower projects
- Exports of textile machinery and equipment

(ii) Supporting Project Exports

Exim Bank India extends both funded and non-funded facilities for overseas turnkey projects, civil construction contracts, supplies as well as technical and consultancy service contracts across various sectors of the economy.

As on September 30, 2014, 20 project contracts valued at ₹ 6,498.3 crore supported by Exim Bank India were under execution in the CLMV countries. Out of these, 12 contracts valued at ₹ 1,472 crore are under Government of India supported LOCs.

Cambodia

- Stung Tasal Water Resources Development Project and Construction of electric transmission line between Kratie and Stung Treng

Lao PDR

- Development of irrigation schemes in the Champassack Province
- Equipment / goods / services for Construction of 230 KV and 115 KV Transmission Line and Associated Sub Station in conformity
- Project Management Consultancy (PMC) Services for Construction of Storage Dams & Development of Irrigation Systems

Myanmar

- Design & engineering, supply of the equipments and supervision of erection of equipments
- Contract for design, procurement and construction of 205 km gas pipeline from Kyaukphyu main station in South Myanmar to KP 205 block valve station in central Myanmar
- Contract for design, procurement and construction of oil pipeline
- Renovation of Thanbayakan Petrochemical Complex
- Oakshitpin -- Taungup 230 KV Transmission Line and Substation project, as well as Taungup - Maei - Ann - Mann 230 KV Transmission Line and Substation project
- Contract for supply of Damage Control Simulator (DCS)/stores on turnkey basis for the Directorate of Procurement, Office of the Commander-In-Chief (Army)
- Contract for Yetagun platform secured from Petronas Carigali Myanmar

Vietnam

- Supply of complete electro-mechanical equipment and technical services for Nam Chien Hydropower Project

(iii) Finance for Joint Ventures

With a view to support Indian companies in their endeavour to globalise their operations, Exim Bank India operates a programme to support overseas investments by Indian companies through Joint Ventures (JVs) / Wholly Owned Subsidiaries (WoS). Such support includes 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 September 30, 2014, Exim Bank India has provided finance to four Indian companies for setting up ventures in Vietnam, with sanctioned amount of ₹129 crore. Companies supported are:

- Vallabhdas Kanji Limited
- Ngon Coffee Company Limited
- Vietnam Abrasives Company Limited
- Tufropes Vietnam Company Limited

Exim Bank has also provided finance to TIL Ltd. for setting up ventures in Myanmar, with sanctioned amount of ₹ 8.3 crore.

B. Working Arrangement with the International Finance Corporation

Exim Bank India has a long standing working relationship with International Finance Corporation (IFC of the World Bank Group) to facilitate the utilization of Indian consultants/ project facilities promoted and sponsored by IFC to develop private sector small and medium enterprises in developing countries. These project facilities span across various regions including Europe, Mekong Region, China, South Pacific and CIS countries. The facilities engage consultants for the provision of a variety of technical assistance to entrepreneurs. Under the arrangements, Exim Bank India helps to identify consultants from India who could be considered for assignments under these facilities and meets their professional fees.

The Bank has supported a number of assignments in Vietnam, Cambodia and Lao PDR under Mekong Project Development Facility in areas such as castings, tyre-retreading, tin packaging, wool, tea, shoes, tubes and information technology.

C. Exim Bank India: Experience Sharing

Exim Bank India 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 India has rendered consultancy services to a number of institutions in South East 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 ASEAN countries)
- Designing Export Marketing Seminars for SMEs in Vietnam

D. Institutional Linkages

Exim Bank India 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 India has entered into MoU with Investment and Trade Promotion Centre, Vietnam to promote bilateral trade and investments between the two countries.

E. Exim Bank India's Joint Ventures

Exim Bank India has taken the initiative of setting up of Global Procurement Consultants Ltd. (GPCL), in partnership with leading consultancy firms in India, for providing procurement related services to multilateral agencies such as World Bank, Asian Development Bank. GPCL has undertaken a number of assignments in many countries including Vietnam, Lao PDR and Myanmar.

F. Forum on Asian Export Credit Agencies

With a view to enhance co-operation and forge a stronger link among its member institutions, the first meeting of Asian Export Credit Agencies (ECAs) was held in India in 1996 at the initiative of Exim Bank India, which led to the formation of the Asian ECA Forum. Members comprise ECAs from India, China, Japan, Indonesia, South Korea, Malaysia, Thailand, Philippines, **Vietnam**, **Cambodia** and Australia.

The task of the Asian ECA Forum is to enhance co-operation 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 co-operation.

G. Research Studies

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

- ASEAN Countries: A Study of India's Trade and Investment Potential
- BIMSTEC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries
- Enhancing India-Myanmar Trade and Investment Relations: A Brief Analysis
- India's Trade and Investment Relations with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV): Enhancing Economic Co-operation

H. Representative Office

Exim Bank India has two representative offices in the ASEAN region - Singapore and Yangon. These offices seek to establish and maintain relationships with multilateral agencies, regional development institutions, trade and investment promotion bodies, international banks, chambers of commerce, government departments and institutions in various South East Asian countries including CLMV countries and identify areas of co-operation. The representative offices play a role in facilitating India's economic co-operation 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 South East Asian Region, including CLMV countries.

8. Strategies and Recommendations for Enhancing Bilateral Commercial Relations with CLMV Countries

As highlighted in the previous chapters, countries in the CLMV region have witnessed increased economic activities in recent years, reflected in increased GDP growth as also rise in foreign trade of the countries. The analysis also traced recent trends in India's trade and investment relations with the CLMV region, with a view to identifying potential areas for boosting bilateral trade and investment relations.

The concluding chapter delineates some broad strategies and recommendations which would build upon the analysis and findings of the previous chapters, and thereby serve to enhance two-way trade and investment between India and the CLMV region.

A. Co-operation in Agriculture and Allied Sector

The CLMV countries are primarily agrarian with agriculture and allied activities forming the backbone as majority of the population in the CLMV countries depend on it for their livelihood. The region has the advantage of natural resources, fertile agro-ecosystems, and rich biodiversity. However, agro-industries in this sub region of the ASEAN region are mostly underdeveloped, leaving significant opportunity for development of agro based industries.

Towards this end, LOCs extended by Exim Bank India to these countries serve to contribute towards the development of agricultural and related activities in the region. With such LOCs in place, Indian entrepreneurs and experts could increase exports of agri related machinery and equipments to the region, thus enhancing bilateral co-operation in the agricultural sector, as also the overall development of the region.

B. Natural Resource Development

As the CLMV countries are endowed with mineral wealth and natural resources, India could share its expertise and experience for development/ exploration of natural resources in these countries. For instance, Myanmar has abundant mineral and energy resources, as well as large hydro-electric potential.

Cambodia has rich reserves of iron ore, manganese and phosphates. Vietnam has substantial energy and mineral resources. Some of its major resources include phosphates, coal, manganese, rare earth elements, bauxite, chromate, offshore oil and gas deposits, timber, and hydro-power. Similarly, Lao PDR is endowed with a wide range of mineral deposits, the most important of which include tin, lead, gravel, gypsum and salt. There are also small deposits of coal, iron ore, gold, and oil and gas. The most valuable natural resource of Lao PDR are its forests and rivers; the latter have considerable potential for generating hydroelectric power

In light of these, increased co-operation between India and the CLMV countries in developing/ exploring mineral resources, with bilateral arrangements such as buy-back arrangements could be an important strategy to enhance commercial relations.

C. Co-operation in Infrastructure Development

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

D. Co-operation in SME Sector

The SME sector development in the CLMV countries are constrained by a number of factors like lack of accessibility to modern technology, limited access to international markets, lack of management skills and training, and lack of finance. Towards developing entrepreneurship and human capability, India could share its expertise and experience with these countries, particularly in the SME sector wherein India has developed successful SME clusters. An important element in this direction would be for delegations from these countries to visit India to study success factors of SME clusters in India, and developing similar clusters in their countries based on resource and skill endowments. In addition, the CLMV countries could tie up with Indian institutions such as Entrepreneurship Development Institute of India (EDPI), Ahmedabad and National Small Industries Co-operation Ltd. (NSIC), New Delhi towards entrepreneurship development and human capability creation. Further, Indian institutions could also share their expertise in the fields of institutional strengthening, export development and export capability creation in the region, in the form of technical assistance and sharing of expertise through site visits. SME financing is another area where Exim Bank India could support this sector. Exim Bank India has extended several LOCs to various countries for the development of their SME sectors.

E. Focus on Multilateral Funded Projects

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

F. Regional Co-operation

Regional co-operation is highly essential for infrastructure development as it has a direct impact on private sector productivity and attracting international capital. India strongly supports the Initiative for ASEAN Integration (IAI) through which it has launched human resource development programmes in Cambodia, Lao PDR, Myanmar and Vietnam. India has also offered assistance for a communications network involving highways, railways, river navigation and port facilities.

Mekong-Ganga Co-operation (MGC) brings together Cambodia, Lao PDR, Myanmar, Thailand, Vietnam, India as well as another sub-regional initiative for a road link connecting India, Myanmar and Thailand. India needs to deepen its link with MGC Forum as it provides immense opportunities for India's private sector to create a niche in the region.

G. Developing Linkages with Investment Promotion Agencies/Chambers of Commerce

Besides streamlining their investment regimes, many countries in the region have set up specialized investment promotion agencies/Chambers of Commerce to promote and facilitate inflow of foreign investment into these countries, while also serving as one-stop-shop for investment related activities. In light of the key role of these institutions, building closer co-operation and linkages with these investment promotion agencies in the CLMV countries would serve to enhance access to information about investment opportunities in the region. An important element of the strategy to boost bilateral trade and investment relations would be to effectively disseminate relevant information relating to the presence of potential to Indian exporters and investors in India.

Such relationship would serve to enhance knowledge about potential areas of investment, upcoming projects in different sectors, prospective investment partners, as also procedures, rules and regulations required for venturing into specific sectors in these countries and incentives offered to investors. Further, investment promotional events with select investment promotion agencies would foster increased interaction between potential investors and concerned agencies in potential sectors in target countries in the region.

A national level industry association/ trade chamber could be identified which could undertake various trade promoting activities such as organizing Business-to-Government (B2G) and Business-to-Business (B2B) delegation visits relating to identified potential sectors; organizing fairs in the CLMV countries to showcase the competencies of Indian SMEs and to capture market opportunities in these countries.

Besides, an interactive portal hyperlinked with major industry and trade associations and chambers in the CLMV region would be helpful in providing necessary information and advisory services on potential export and investment markets. It could also maintain a readymade database accessible to all the potential investors and exporters in both India and the CLMV region.

Training by way of specialized courses on the web for providing technical assistance and other technical advices in sectors relevant to the CLMV countries can be an important step towards enhancing bilateral trade and investment.