# India's Engagements with CLMV: Gateway to ASEAN Markets

Occasional Paper No. 180

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EXPORT-IMPORT BANK OF INDIA

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OCCASIONAL PAPER NO. 180

# INDIA'S ENGAGEMENTS WITH CLMV: GATEWAY TO ASEAN MARKETS

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# EXECUTIVE SUMMARY

The Association of Southeast Asian Nations (ASEAN) has emerged as one of the fastest growing regions in the world, on the back of its strong manufacturing sector. The existing ecosystem in the region supports sourcing, manufacturing and shipping of finished goods from these markets.

Within the ASEAN region, the CLMV (Cambodia, Lao People's Democratic Republic, Myanmar, and Vietnam) countries have begun attracting greater attention of the global economic community, given their huge potential for future development.

The CLMV region covers 32 per cent of ASEAN's total geographical area, 26 per cent of ASEAN's population, and account for 12 per cent of ASEAN's gross domestic product (GDP) in 2015. The CLMV region grew at an average rate of 7.1 per cent in 2015, as compared to ASEAN's average economic growth of 4.8 per cent in the same year. Responding positively to economic reforms, the economies of CLMV have shown tremendous potential for growth in the region. CLMV countries are primarily agrarian, and have enjoyed a certain degree of macroeconomic stability in recent years, with vast potential for future developments.

***International (Merchandise) Trade of CLMV Countries***

International trade has gained significance and has been growing rapidly in the CLMV region with the establishment of ASEAN Free Trade Area (AFTA), which has also resulted in increase in both amount and volume of intra-regional trade flows.

The importance of international trade as a growth facilitator has been recognized by CLMV countries and is evident from their growth performance in recent years. The share of CLMV region in ASEAN's total trade has more than doubled from 6.7 per cent in 2005 to 17.4 per cent in 2015. CLMV's share in ASEAN's exports increased from 6.1 per cent in 2005 to 16.2 per cent in 2015, and imports increased from 7.3 per cent to 18.7 per cent. However, there exist wide disparities in trade among CLMV countries. For example, Vietnam alone accounted for 14.5 per cent of ASEAN's total trade in 2015, while the combined share of Cambodia, Lao PDR and Myanmar was less than 3 per cent.

CLMV's total exports stood at US$ 187.8 billion in 2015, up from US$ 185.9 billion in 2014, mainly on the back of increased exports from Vietnam. During 2005-2015, CLMV's global exports increased nearly five-fold from US$ 39.9 billion in 2005 to US$ 187.8 billion in 2015, with a resultant rise in its share in ASEAN's exports from 6.1 per cent in 2005 to 16.2 per cent in 2015.

***International (Services) Trade of CLMV Countries***

The ASEAN region is a net importer of commercial services, accounting for 6.7 per cent of world imports, while contributing 6.4 per cent to world exports in 2015. In the CLMV region, all except Vietnam are net exporters of commercial services.

Cambodia's export of commercial services increased steadily from US$ 1.9 billion in 2010 to US$ 3.8 billion in 2015; corresponding share of Cambodia in ASEAN's exports of commercial services also increased from 0.9 per cent in 2010 to 1.2 per cent in 2015. The recent years have witnessed a rise in Cambodia's commercial services exports, mainly on the back of a strong tourism sector. At the same time, Cambodia's import of commercial services increased from US$ 0.9 billion in 2010 to US$ 1.9 billion in 2015.

Lao PDR's exports of commercial services increased from US$ 0.5 billion in 2010 to US$ 0.8 billion in 2015. At the same time, Lao PDR's imports of commercial services stood at US$ 0.6 billion in 2015, up from US$ 0.3 billion in 2010.

Myanmar's exports of commercial services increased twelve-fold from US$ 0.3 billion in 2010 to US$ 4.1 billion in 2014 (latest available data). Corresponding share of Myanmar in ASEAN's exports of commercial services also increased significantly from 0.2 per cent in 2010 to 1.3 per cent in 2014. Myanmar has witnessed an extraordinary growth in tourism in recent years. Similarly, Myanmar's imports of commercial services also trebled from US$ 0.7 billion in 2010 to US$ 2.6 billion in 2014.

Vietnam is the largest exporter as well as importer of commercial services among CLMV countries. Vietnam's exports of commercial services increased from US$ 7.4 billion in 2010 to US$ 11.1 billion in 2015. Accordingly, share of Vietnam in ASEAN's exports of commercial services also increased marginally from 3.4 per cent in 2010 to 3.6 per cent in 2015. At the same time, Vietnam's imports of commercial services increased from US$ 9.8 billion in 2010 to US$ 15.3 billion in 2015. Accordingly, Vietnam's share in ASEAN's imports of commercial services increased from 4.3 per cent in 2010 to 4.9 per cent in 2015.

### *FDI in CLMV Countries*

In recent years, the CLMV region has benefited from increased Foreign Direct Investment (FDI) inflows, primarily in the infrastructure sector. FDI inflows to the CLMV region increased by seven-fold to reach a record high of US$ 17.5 billion in 2015, as compared to US$ 2.5 billion in 2005. Outward FDI from the region increased from US$ 65.3 million in 2005 to US$ 1.1 billion in 2015.

The CLMV region accounted for 14 per cent of ASEAN's total FDI inflows in 2015. Of this, Vietnam alone accounted for 9.4 per cent of ASEAN's FDI inflows in 2015, followed by Myanmar (2.2 per cent), Cambodia (1.4 per cent), and Lao PDR (1 per cent).

Share of CLMV FDI outflows to ASEAN's, however, has been at low levels. FDI outflows from CLMV accounted for 1.7 per cent of ASEAN's FDI outflows in 2015. FDI outflows from the region are mainly from Vietnam.

As in the case of trade, Vietnam attracted the highest investments to and from the region. As regards FDI inflows, Vietnam accounted for 67.3 per cent of the region's inflows in 2015, followed by Myanmar (16.1 per cent), Cambodia (9.6 per cent) and Lao PDR (7 per cent). As regards outflows, Vietnam accounted for 95.8 per cent of the region's FDI outflows during the year. Cambodia and Lao PDR accounted for marginal shares of 4.1 per cent and 0.1 per cent of FDI outflows in 2015, respectively.

According to the ASEAN Investment Report 2016, manufacturing sector attracted a large portion of the FDI inflows to Vietnam's (nearly 67 per cent in 2015) during the year. Manufacturing FDI flows to Vietnam during the year were dominated by Asian investors, particularly South Korea and rest of ASEAN.

Companies from Vietnam continue to be active in investing in neighbouring countries, making Vietnam the largest FDI investor in the CLMV region.

### *India's Bilateral Trade and Investment with CLMV Countries*

The economic and trade linkages, which saw an expansion of trade volumes, showed the intensity of economic engagements. between India and ASEAN, and thus CLMV. During the last ten years, India's total trade with the CLMV countries has grown from US$ 1.4 billion in 2005 to US$ 10.3 billion in 2015, indicating a more than seven-fold increase. India's exports to CLMV increased by more-than eight-fold from US$ 0.8 billion in 2005 to US$ 6.4 billion in 2015, thereby accounting for 24.3 per cent share in India's exports to ASEAN. India's imports from CLMV, on the other hand, increased by nearly six-fold from US$ 0.6 billion in 2005 to US$ 3.9 billion in 2015, thereby accounting for 9.4 per cent share in India's imports from ASEAN.

India maintained a trade surplus with CLMV countries at US$ 2.5 billion in 2015. Among the CLMV countries, India maintained a trade surplus with Vietnam and Cambodia and a deficit with Myanmar and Lao PDR. Trade deficit with Myanmar was mainly due to increased imports of edible vegetables and certain roots and tubers, while with Lao PDR was mainly on the back of large imports of ores, slag and ash.

Alongside trade, India's investments in the CLMV region have also received a boost in recent years. CLMV countries are receiving strong investment interest from India mainly due to their high-growth markets, low wage labour and natural resource reserves. India's approved direct investments in joint ventures (JVs) and wholly owned subsidiaries (WOSs) in CLMV countries amounted to US$ 772.7 million during April 1996 to December 2016, with the bulk of flows directed towards Vietnam (66.5 per cent of the total flows to the CLMV region). FDI inflows to India from CLMV countries have been low at US$ 13.6 million during April 2000 and December 2016. These investments have been dominated by inflows from Myanmar.

***India's Initiatives to Enhance Regional and Bilateral Trade and Investment with CLMV Countries***

In order to further strengthen India-ASEAN relations and as an attempt to provide an impetus to the regional integration that India has with its eastern neighbours, India's 'Look East' Policy was renewed to 'Act East' Policy in 2014. The objective of 'Act East Policy' is to promote economic cooperation, cultural ties and develop strategic relationship with countries in the Asia-Pacific region through continuous engagement at bilateral, regional and multilateral levels thereby providing enhanced connectivity to the states of India's Northnastern Region.

The ASEAN - India Framework Agreement on Comprehensive Economic Cooperation (CECA) was signed between India and ASEAN on October 8, 2003 in Bali, Indonesia, to institutionalise a framework for future economic cooperation. The agreement covered the following objectives –

1) Trade in Goods Agreement

2) Trade in Services and Investment Agreement

These together would form the ASEAN-India Free Trade Area (AIFTA).

The India-ASEAN Trade in Goods Agreement was signed, after six years of negotiation, on August 13, 2009, in Bangkok, Thailand. This agreement came into effect on January 1, 2010. The ASEAN-India Agreement on Investment and Trade in Services was signed on November 13, 2014, came into effect on July 1, 2015.

Apart from the India-ASEAN CECA, the Mekong-Ganga Cooperation (MGC), Regional Comprehensive Economic Partnership (RCEP), and several other bilateral agreements of CLMV Countries individually with India aim at strengthening cooperation at various levels.

***Strategies for Enhacing India's Engagements with CLMV Countries in the Context of ASEAN.***

India's economic interests in the ASEAN region has broadened over the years; this is evident with the repositioning of the 'Look East Policy' to 'Act East Policy'.

Within the ASEAN region, CLMV countries, in particular, are at different levels of economic development. One of the top priorities of ASEAN Community is the integration of Cambodia, Lao PDR, Myanmar and Vietnam with ASEAN by bridging the development gaps. To improve the situation and effectively assist the CLMV countries in catching up with the six more developed ones, there is a need for using variety of approaches to promote wider economic development in the region. Attentions toward the CLMV countries need to focus on development projects including promotion of transport, energy, telecommunications, environment, human resource development, tourism, trade, and agriculture, among others. Emphasis need to be given toward promotion of economic growth of the Southeast Asian region as a whole by strengthening the economic linkages between CLMV countries with other ASEAN countries.

While opportunities in the region are plenty, Indian entrepreneurs' endeavours in these countries have been limited. It is also critical to note that a large number of companies from China, Japan, South Korea and the United Kingdom already have, or are planning to establish operations in the region, thus pre-empting Indian business forays. These countries have been able to capitalize on the bilateral pacts and investment strategies with CLMV countries to build core infrastructure, special economic zones, ports and industrial corridors to benefit their own industrial community for business expansion, and maintain cost competitive supply chains, besides integrating with global production networks.

### i. Cooperation in Agricultural Sector

The CLMV countries are primarily agrarian based with agriculture and allied activities forming the backbone as majority of population in the CLMV countries depending on it for their livelihood. Towards this end, LOCs extended by Exim Bank 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 equipment to the region, thus enhancing bilateral cooperation in the agricultural sector, as also over all development of the region.

Besides, the CLMV countries have demonstrated their comparative advantage through expanded trade-gaining a sizable share of global markets for key food and agricultural products, such as rice, cassava, prawns, processed fish, poultry products, and rubber. The sub-region's agricultural comparative advantage is the quality of natural resources, fertile agro-ecosystems, and rich biodiversity. However agro-industries in this region of ASEAN are generally underdeveloped, leaving significant opportunity for agro-economic growth.

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

### iii. Cooperation in Financial Services

While India's financial services sector has developed significantly over the years, India is yet to fully realize its potential in this sector. India has initiated several programmes in order to assume leadership role in financial services. The setting up of Gujarat International Finance Tec-City (GIFT), which aims at attracting global firms, is one of such initiative. GIFT is expected to help in enhancing capital inflows and also trade in financial services.

Many Indian companies have set up their base in key countries in ASEAN for investing in the rest of the region. For example, Tata International has its presence in Myanmar, through its registered company Tata International Singapore Pte Ltd in Singapore. Similar other such companies include Godrej (Singapore) Pte. Ltd, Swiss Singapore Overseas Enterprises Pte Ltd (SSOE) (Aditya Birla Group), among others. Along similar lines, GIFT has the potential to act as a financial hub in South Asia and South East Asia region, including CLMV countries.

- ***Preparations of Indian banks to avail the opportunity arising out of India's investment and services agreement with ASEAN***

As a dominant source of financing for development, ASEAN banking integration, which remains relatively low, needs to be accelerated to facilitate flow of trade and investment. There are gaps in banking presence among ASEAN countries which need to be bridged. For example, Bank's in Singapore, the financial hub of ASEAN, have branches only in Malaysia, Thailand, Brunei and Vietnam. It has subsidiaries and/or Representative Offices in Indonesia, Philippines, Myanmar, Thailand and Malaysia. It has no presence in Cambodia and Lao PDR.

India's investment and services agreement with ASEAN will allow India to access ASEAN markets including CLMV in the areas of finance, education, health, IT, telecommunications and transport, among others. Indian industry could partner with businesses in the CLMV countries to reach out to newer markets, by taking advantage of the trade agreements that the countries in this region already have in place. While opportunities in the region are aplenty, Indian entrepreneurs' endeavours in these countries have, thus far, been limited. Information regarding opportunities in the region is inadequate as is the infrastructure framework in these countries. This is also the case for the Indian financial services sector, which has a very limited footprint in the region. Indian Banks may increase their presence, especially by opening more branches/ representative offices, in the region. India can also offer knowledge and its experience with respect to deepening of rural financial systems. SME financing is another area where Indian Banks can explore possibilities of cooperation. Indian Banks could also develop corresponding relations with select banks in the region to facilitate and promote commercial relations.

**iv. Cooperation in ITES**

According to the World Trade Organization, the ASEAN region is a net importer of telecommunications, computer and information services. Further, the CLMV region is still on the path of modernization and computerization.

India is a global leader in software development and other IT services, which defines how greater cooperation between the two regions can be exploited. Further, India's IT-BPO industry has developed a large client base in OECD countries, principally the United States. There is a need to diversify these markets for India. The global and regional markets for IT-BPO services are huge, where India and ASEAN countries, including those from CLMV region, can combine together and expand and deepen the services. There is a potential to scale up and expand the scope of service delivery across many sectors.

India can share its expertise with the CLMV countries and even introduce necessary vocational course to support the initiative. This partnership will serve the ASEAN Economic Community (AEC) and the larger ASEAN-India markets for services.

Indian IT firms could also 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 for banks in the region. For instance, Indian companies such as NIIT, Aptech which already have presence in other ASEAN countries could expand their network of training centres in CLMV countries. 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.

### v. Cooperation in Regional Value Chains (RVCs)

While ASEAN as a region has one of the highest global value chain (GVC) participation indices in the world, the regional value chain (RVC) in the CLMV is yet to be developed. India's participation in RVCs has been relatively low, while RVCs in CLMV are also not well developed compared to rest of ASAIN. This creates opportunities for India's economic integration with CLMV region through RVCs. Regional value chains entail relocation of production bases at different stages of production and manufacturing in different countries that are linked with services. The net outcome of such relocation is in terms of efficiency-seeking industrial restructuring. For this to be achieved, there is a need to align India's commercial interest with CLMV Policy Focus, alongwith an integrated approach towards policy strategy.

A Study by Ministry of Commerce and Industry, Government of India, stressed the importance of integrating employment-intensive SMEs in RVCs through India-CLMV economic integration, which could be achieved with a three-pronged strategy: viz. by Linking SMEs with large companies, Linking SMEs with MNCs in CLMV, Linking SMEs on a stand-alone basis with their counterparts in CLMV.

Presently, India is not directly engaged with ASEAN (including CLMV) through a RVC. However, RCEP is likely to generate a stronger value chain between ASEAN and India. Simplification of trade rules and regulations through RCEP would eventually generate higher trade in the region, leading to an increase in higher economic welfare for the region. Some of the areas where the value chain between ASEAN and India may be developed include: mining and quarrying, textile and apparel, leather and footwear, basic chemicals, pharmaceuticals, metals, auto components and jewellery.

**vi. Cooperation in Improving Connectivity**

Connectivity, which include both physical connectivity and soft infrastructure, remains one of the major obstacles in enhancing trade between India and CLMV countries. In addition, there is also a need to enhance people to people connectivity, which will include exchange of students, cultural programmes, tourism, education, media, among others. While India has been working on some important connectivity projects with ASEAN+6, the connectivity between India and CLMV has been very weak.

Improved connectivity is required to reduce trade costs, and increase trade flows, among others. Effective cross border and national transport projects would result in stronger and more efficient CLMV–India connectivity. An integrated connectivity would also provide substantial benefits to countries of the region by giving them low-cost access to world market. Development of connectivity would open significant opportunities for industrial development in India, particularly in the Northeastern region and its trade potential with South and East Asian countries.

Soft connectivity is essential for smooth operation of hard connectivity. More attention, therefore, need to be given to the soft side of connectivity – trade facilitation, information exchange, customs cooperation as part of larger modernised border authorities. Harmonising and simplifying the customs procedures, information sharing, customs modernisation, establishing transparent transit rules, and improving logistics in general are, thus, critical to expansion of trade between India and the CLMV region, especially through the Northeast gateway. Enhancing the connectivity requires stronger regional institutions to build and manage the cross-border infrastructure. Enhancing soft infrastructure would help in attracting private investment. Moving forward, connectivity improvement would lead to sustainable development in coming years between India and CLMV, and further with ASEAN market.

Mobilising financial resources to support connectivity projects for both cross-border and backend linkages is a major challenge. Setting-up of Project Development Fund (PDF) has been an important beginning to build border connectivity, SEZs, attract investment and support SMEs. The PDF would support, among others, design, finance and implement connectivity projects in the region. One of the important ways of utilising the CLMV's economic space is by setting up manufacturing units in the region through PDF. This will help in accessing regional markets including China through exports originating from CLMV under existing trading agreements, including the China-ASEAN FTA. Additional exports worth US$100 billion are possible through this route, which in turn can address the India's trade deficit with neighbouring countries.

- ***Strengthening Northeast India-ASEAN Linkages***

Enhanced trade of India with CLMV is likely to benefit several sectors, as also the northeast region of India. There is a possibility that greater links with ASEAN, which may be facilitated through the CECA, will help the northeast region that shares its borders with some Southeast Asian countries. The advantages of the potential connectivity offered by the CECA, as also the ASEAN Connectivity Agenda, will contribute positively to the region's growth process. Key projects to reinvigorate this growth process include the Kaladan Multimodal Transit Transport Project, the India-Myanmar-Thailand Trilateral Highway Project (that extends from Moreh in India to Mae Sot in Thailand via Mandalay, Myanmar), Rhi-Tiddim Road Project, Border Haats, among others.

Investment cooperation can be given a boost by building up the back-end linkages to connectivity, whether in India's Northeast and Eastern seacoast or in the hinterland in ASEAN countries along the corridors for physical connectivity. There are opportunities for creation of infrastructure and capacity in manufacturing and industrial development, for skills training and vocational education, for establishing logistics chains, energy grids and food processing capacities, which in turn, can help India address complex issues pertaining to energy and food security in its region.

### vii. Cooperation in SME Sector

Small and medium enterprises (SME) form the backbone of CLMV economies, meeting the basic needs of goods and services as well as trade, contributing towards upgrading the standard of living and helping poverty alleviation. SME account for over 90 per cent of enterprises in the region, thereby contributing to a major share of the region's output. SMEs in CLMV countries are considered not only as crucial players in the country's economic development, but also in social and political development, generating huge employment opportunities for the local population. Though SMEs play a vital role in economic development of CLMV countries, they are constrained by a number of factors like lack of accessibility to modern technology, limited access to international markets, lack of management skills and training, and lack of finance. Towards developing entrepreneurship and human capability, India could share its expertise and experience with these countries, particularly in the SME sector wherein India has developed successful SME clusters. An important element in this direction would be for delegations from these countries to visit India to study success factors of SME clusters in India, and developing similar clusters in their countries based on resource and skill endowments. In addition, the CLMV countries could tie up with Indian institutions such as Entrepreneurship Development Institute of India (EDPI), Ahmedabad and National Small Industries Cooperation Ltd. (NSIC), New Delhi towards entrepreneurship development and human capability creation. Further, Indian institutions could also share their expertise in the fields institutional strengthening, export development and export capability creation in the region, in the form of technical assistance and sharing of expertise through site visits. SME financing is another area where Exim Bank could support this sector. Exim Bank has extended several LOCs to various countries for the development of their SME sectors.

### viii. 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 cooperation 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 identified 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 Small and Medium Enterprises (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.

***Investment Opportunities for India in CLMV Countries***

The CLMV economies, which are considered among the fastest growing economies in the region, have enjoyed certain degree of macroeconomic stability in recent years. These economies are endowed with abundant natural resources and low-waged labour forces, in addition to having a young and growing population, highlighting their potential for future development.

Opportunities that could be explored, besides trade potential in these countries include investments in potential sectors, through joint ventures with local or foreign partners or wholly owned subsidiaries; infrastructure creation which increases the connectivity with India that facilitates trade and investment, like ports, maritime routes, roads, warehouses, exclusive economic zones, industrial clusters/ corridors, etc.; and creation of institutional capability and development facilities in the region.

***Exim Bank'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), and thus form a critical component of the Exim Bank's strategy to promote and support two way trade and investment. Exim Bank operates 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 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 extends Lines of Credit (LOCs) to governments, parastatal organizations, financial institutions, commercial banks and regional development banks to support export of eligible goods on deferred payment terms. As on December 31, 2016, the total number of operative LOCs to the CLMV region stood at 21 and amounting to US$ 949.4 million.

**ii. Supporting Project Exports**

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

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

In order to provide further impetus to project exports from India on medium - or long-term basis, especially in the infrastructure sector, in April 2011, a product called Buyer's Credit under National Export Insurance Account (BC-NEIA) was introduced. Under this programme, Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. NEIA is a Trust, set up by Ministry of Commerce and Industry and administered by ECGC. A positive list of 83 countries (including CLMV countries) have been identified by ECGC for which Indian exporters can avail Buyer's Credit under NEIA.

### iv. Finance for Joint Ventures

With a view to support Indian companies in their endeavour to globalise their operations, Exim Bank operates a programme to support overseas investments by Indian companies through JVs/ WOSs. Such supports include loans and guarantees, equity finance and in select cases direct participation in equity along with Indian promoter, to set up such ventures overseas. As on December 31, 2016, Exim Bank has sanctioned ₹ 295.9 crore to ten Indian companies for setting up ventures in Vietnam and Myanmar.

### v. Project Development and Facilitation Framework

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

In compliance with the Finance Minister's announcement and to catalyse Indian private sector investments in the CLMV countries, under the 'Act East' policy of the Government of India, a Project Development Fund(PDF) with a corpus of ₹ 500 crore has been created in August 2016. The PDF, housed in Department of Commerce, will be operated through the Exim Bank, which will act as the Empowered Institution under the Initiative. The PDF shall be governed by an Inter-Ministerial Committee under the chairpersonship of the Commerce Secretary. The primary objective of the PDF is to facilitate Indian investments and broaden the manufacturing base of Indian companies in CLMV countries. The PDF will be used to identify projects, which support Regional Value Chain (RVC) and help integrate Indian companies into the RVC. The projects identified under the initiative, if found feasible/ viable, will be incorporated/ implemented through Special Purpose Vehicles (SPVs) in CLMV countries.

## B. Exim Bank as a Consultant

Exim Bank is well placed to provide a range of technical assistance in these fields. Exim Bank 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); and Designing Export Marketing Seminars for SMEs in Vietnam.

## C. Institutional Linkages

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

## D. Asian Exim Banks Forum

With a view to enhance cooperation and forge a stronger link among its member institutions, the Asian Exim Bank's Forum (AEBF), a grouping of Asian Exim Banks, was conceived and initiated by Exim Bank of India in 1996. Since 1996, the Forum meets every year at an Annual event hosted by ECA's, in rotation. Members comprise ECAs from Australia, China, India, Indonesia, Japan, Korea, Malaysia, Philippines, Thailand, and Vietnam. Asian Development Bank is a Permanent Observer. The task of Asian ECA Forum is to enhance cooperation and forge a stronger link among its member institutions, thereby fostering a long-term relationship with the Asian ECA community.

## E. Research Studies

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

- Act East: Enhancing India's Engagements with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV);
- Enhancing India's Bilateral Ties with Cambodia, Lao PDR, Myanmar, Vietnam: A Brief Analysis;
- India's Trade and Investment Relations with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV): Enhancing Economic Cooperation;
- Enhancing India-Myanmar Trade and Investment Relations: A Brief Analysis;
- ASEAN Countries: A Study of India's Trade and Investment Potential; and

- BIMSTEC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries.

**F. Representative Offices**

Exim Bank has two representative offices in the ASEAN region - Singapore and Yangon. These offices seek to establish and maintain relationships with multilateral agencies, regional development institutions, trade and investment promotion bodies, international banks, chambers of commerce, government departments and institutions in various South East Asian countries including CLMV countries and identify areas of cooperation. The representative offices play a role in facilitating India's economic cooperation with ASEAN countries (including CLMV), while keeping close coordination with Indian Missions in the region. The offices project Bank's capabilities in financing India's international trade and investment, as also keeps the Bank abreast of the developments in the economic and banking/financial sectors of the South East Asian Region, including CLMV countries.

# 1. BACKGROUND

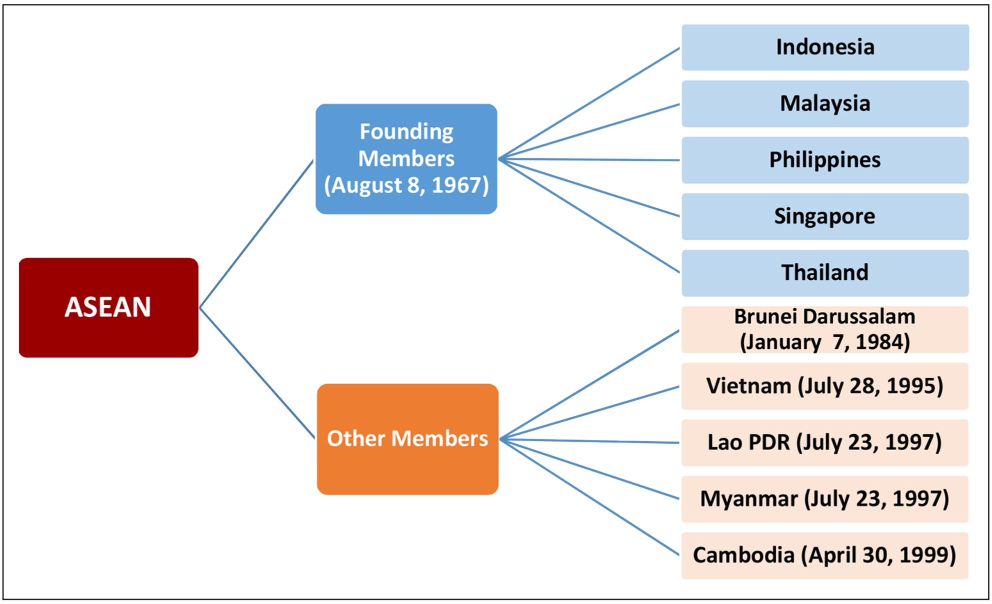
The South East Asian region has emerged as one of the fastest growing regions in the world, on the back of its strong manufacturing sector. The existing ecosystem in the region supports sourcing, manufacturing and shipping of finished goods from these markets.

The Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the founding Members of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand.

Later, Brunei Darussalam joined on January 7, 1984, Vietnam on July 28, 1995, Lao People's Democratic Republic (Lao PDR) and Myanmar on July 23, 1997, and Cambodia on April 30, 1999, making up its ten Member States of ASEAN **(Exhibit 1.1)**.

The name 'ASEAN' is protected under Article 6ter of the Paris Convention for

**Exhibit 1.1: ASEAN Members**




*Source: http://www.asean.org/*

**Table 1.1: Macroeconomic Snapshot of ASEAN countries**

| | GDP current prices (US$ bn) | | | Real GDP Growth (%) | | | Population (mn) | | |
|---|---|---|---|---|---|---|---|---|---|
| **Country** | **2014** | **2015** | **2016[e]** | **2014** | **2015** | **2016[e]** | **2014** | **2015** | **2016[e]** |
| **Brunei Darussalam** | 17.1 | 12.9 | 10.5 | -2.3 | -0.6 | 0.4 | 0.4 | 0.4 | 0.4 |
| **Cambodia** | 16.8 | 17.8 | 19.4 | 7.1 | 7.0 | 7.0 | 15.3 | 15.5 | 15.8 |
| **Indonesia** | 890.6 | 859.0 | 941.0 | 5.0 | 4.8 | 4.9 | 252.2 | 255.5 | 258.8 |
| **Lao PDR** | 11.9 | 12.6 | 13.8 | 7.5 | 7.6 | 7.5 | 6.9 | 7.0 | 7.2 |
| **Malaysia** | 338.1 | 296.3 | 302.7 | 6.0 | 5.0 | 4.3 | 30.7 | 31.2 | 31.7 |
| **Myanmar** | 65.8 | 62.9 | 68.3 | 8.7 | 7.0 | 8.1 | 51.4 | 51.8 | 52.3 |
| **Philippines** | 284.8 | 292.5 | 311.7 | 6.2 | 5.9 | 6.4 | 100.1 | 102.2 | 104.2 |
| **Singapore** | 306.4 | 292.7 | 296.6 | 3.3 | 2.0 | 1.7 | 5.5 | 5.5 | 5.6 |
| **Thailand** | 404.3 | 395.3 | 390.6 | 0.8 | 2.8 | 3.2 | 68.7 | 68.8 | 69.0 |
| **Vietnam** | 185.9 | 191.5 | 200.5 | 6.0 | 6.7 | 6.1 | 90.7 | 91.7 | 92.6 |
| **CLMV Region** | **280.3** | **284.7** | **301.9** | **7.3** | **7.1** | **7.2** | **164.4** | **166.1** | **167.8** |
| **ASEAN** | **2521.6** | **2433.3** | **2555.0** | **4.8** | **4.8** | **5.0** | **621.9** | **629.7** | **637.5** |
| ***Share of CLMV in ASEAN*** | ***11.1%*** | ***11.7%*** | ***11.8%*** | **-** | **-** | **-** | ***26.4%*** | ***26.4%*** | ***26.3%*** |

*- Not applicable; [e]-estimates*
*Source: IMF, World Economic Outlook October 2016; and Exim Bank Analysis*

the Protection of Industrial Property adopted in 1883 and revised in Stockholm in 1967.

The ASEAN Free Trade Area (AFTA), which was established on January 28, 1992, includes a Common Effective Preferential Tariff (CEPT) to promote the free flow of goods between member states. Within this region, the CLMV (Cambodia, Lao PDR, Myanmar, and Vietnam) countries have begun attracting greater attention of the global economic community, given their huge potential for future development.

The CLMV region covers 32 per cent of ASEAN's total geographical area, 26 per cent of ASEAN's population, and accounts for 12 per cent of ASEAN's gross domestic product (GDP) in 2015 **(Table 1.1)**. Responding positively to economic reforms, the economies of CLMV have shown tremendous potential for growth in the region. CLMV countries are primarily agrarian, and have enjoyed a certain degree of macroeconomic stability in recent years, with vast potential for future developments.

The CLMV region grew at an average rate of 7.1 per cent in 2015, as compared to ASEAN's average economic growth of 4.8 per cent in the same year.

CLMV economies are endowed with abundant natural resources and low-wage labour force, while facing challenges in developments of infrastructure and logistics. This provides an immense potential for further development and thus growth.

The first CLMV Summit was held in November 2004 in Vientiane, Lao PDR, with the adoption of the Vientiane Declaration on enhancing economic cooperation and integration among CLMV countries. Seven areas of cooperation were identified in the Declaration, which include trade and investment, agriculture, industry and energy, transport, information technology, tourism and human resource development. The Declaration showed strong commitment to strengthen and enhance cooperation and promote regional integration.

**Cambodia**

Cambodia shares its borders with Lao PDR, Thailand and Vietnam, and is connected to the Indian Ocean through the Gulf of Thailand. In 2015, Cambodia's nominal GDP stood at US$ 17.8 billion in 2015, an increase from US$ 16.8 billion in the preceding year. Cambodia is the eighth-largest economy in the ASEAN region, with a share of 0.7 per cent in ASEAN's GDP in 2015. With a population of 15.5 million, Cambodia is the seventh most-populous country among ASEAN members **(Table 1.2)**.

Cambodia continued to sustain its growth at 7 per cent in 2015, which was mainly on the back of an expansion in the industrial and services sector. Strong garment exports, real estate and construction activity as well as the reduction in oil prices led to this growth.

Cambodia's current account deficit has been narrowing since 2013, owing to lower commodity prices and strong garment exports. Cambodia's foreign exchange reserves have been steadily increasing, to be at US$ 7.3 billion in 2015, reflecting 8 months of import cover.

According to World Bank, the services sector accounts for 42.6 per cent of Cambodia's GDP in 2014 (as per latest available data), followed by agriculture (30.4 per cent) and industry (27 per cent).

Major industries in Cambodia include tourism, garments, construction, rice milling, fishing, wood and wood products, rubber, cement, gem mining and textiles.

**Table 1.2: Macroeconomic Snapshot of Cambodia**

| Items | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[e] | 2017[f] |
|---|---|---|---|---|---|---|---|
| GDP growth (%) | 7.1 | 7.3 | 7.4 | 7.1 | 7.0 | 7.0 | 6.9 |
| GDP current prices (US$ bn) | 12.8 | 14.1 | 15.2 | 16.8 | 17.8 | 19.4 | 20.9 |
| GDP per capita, current prices (US$) | 877.6 | 945.7 | 1010.4 | 1095.6 | 1144.5 | 1227.7 | 1307.5 |
| Inflation, average consumer prices (%) | 5.5 | 2.9 | 3.0 | 3.9 | 1.2 | 3.1 | 2.7 |
| Population (mn) | 14.6 | 14.9 | 15.1 | 15.3 | 15.5 | 15.8 | 16.0 |
| Current account balance (US$ bn) | -1.3 | -1.5 | -1.9 | -2.0 | -1.9 | -2.0 | -2.0 |
| Current account balance (% of GDP) | -10.2 | -11.0 | -12.3 | -12.1 | -10.6 | -10.2 | -9.4 |
| Foreign Exchange Reserves, incl. gold (US$ bn) | 4.1 | 4.9 | 5.0 | 6.1 | 7.3 | - | - |
| External Debt (US$ bn) | 4.2 | 6.3 | 7.1 | 7.9 | 9.3 | - | - |

*[e]- estimates; [f] - forecast; - not available*
*Source: IMF's World Economic Outlook October 2016; and World Bank's World Development Indicators 2016*

Cambodia's real GDP is estimated to grow at an average of 7 per cent during 2016-2017, supported by an estimated rise in garment exports, real estate and construction activity, however agricultural and tourism growth is projected to weaken during this period.

The current account deficit (CAD) is estimated to narrow to 10.2 per cent in 2016 and 9.4 per cent of GDP in 2017, due to reduced imports following the completion of major hydro projects, low commodity prices, higher tourism arrivals and growing remittances.

**Lao PDR**

Lao PDR is a landlocked country located in the centre of South East Asia. Its longest borders are with Thailand to the west and Vietnam to the east; it is also bordered by China in the north, Cambodia to the south and Myanmar to the northwest. The country stretches 1,700 kilometres north to south and between 140 to 500 kilometres from east to west.

Lao PDR's land area is approximately 236,800 sq. kilometres and is mostly mountainous, with 68 per cent forest coverage. The Mekong River forms a large part of Lao PDR's border with Thailand. With a population of about 7 million in 2015, Lao PDR is the third least populated country in the ASEAN.

The economy of Lao PDR has witnessed a strong growth in the recent years. An investment boom based on natural resources, fuelled by mining and exports of hydropower, has seen gross national income increased four-fold since 2006. Lao PDR's economic growth witnessed marginal increase to 7.6 per cent in 2015, from 7.5 per cent in the previous year, mainly due to strong private consumption supported by low inflation and large-scale investments in hydropower projects **(Table 1.3).** Lao PDR, with a nominal GDP of US$ 12.6 billion in 2015, accounts for 0.5 per cent of ASEAN's GDP in 2015.

Agriculture is the primary means of livelihood for majority of the population but growth in the sector has been poor and productivity is low. Services sector dominates the economy of Lao PDR, accounting for 41 per cent of the GDP, followed by industry (31.3 per cent) and agriculture (27.6 per cent) in 2014. 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. Forests and rivers are the most valuable natural resource of Lao PDR; the latter have considerable potential for generating hydroelectric power.

**Table 1.3: Macroeconomic Snapshot of Lao PDR**

| Items | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[e] | 2017[f] |
|---|---|---|---|---|---|---|---|
| **GDP growth (%)** | 8.0 | 7.9 | 8.0 | 7.5 | 7.6 | 7.5 | 7.3 |
| **GDP current prices (US$ bn)** | 8.1 | 9.4 | 10.8 | 11.9 | 12.6 | 13.8 | 14.8 |
| **GDP per capita, current prices (US$)** | 1236.2 | 1414.5 | 1593.6 | 1718.0 | 1786.9 | 1921.2 | 2029.2 |
| **Inflation, average consumer prices (%)** | 7.6 | 4.3 | 6.4 | 5.5 | 5.3 | -3.3 | 2.3 |
| **Population (mn)** | 6.5 | 6.6 | 6.8 | 6.9 | 7.0 | 7.2 | 7.3 |
| **Current account balance (US$ bn)** | -1.5 | -2.8 | -3.1 | -2.7 | -2.9 | -2.5 | -2.6 |
| **Current account balance (% of GDP)** | -18.4 | -29.3 | -28.9 | -22.8 | -23.1 | -18.0 | -17.6 |
| **Foreign Exchange Reserves, incl. gold (US$ bn)** | 1.2 | 1.3 | 1.1 | 1.2 | 1.0 | - | - |
| **External Debt (US$ bn)** | 7.5 | 8.2 | 9.4 | 10.2 | 11.6 | - | - |

*[e]- estimates; [f] - forecast; - not available*
*Source: IMF's World Economic Outlook October 2016; and World Bank's World Development Indicators 2016*

Major industries in Lao PDR include mining (copper, tin, gold, gypsum), timber, electric power, agricultural processing, rubber, construction, garments, cement and tourism.

Lao PDR's CAD widened to US$ 2.9 billion in 2015 from US$ 2.7 billion in 2014. Lao PDR's foreign exchange reserves stood at US$ 1 billion in 2015, representing an import cover of 2 months.

Electricity generation from the growing number of hydropower plants and the Hongsa lignite-powered plant is increasing. Construction of new hydropower projects, residential and commercial buildings, and facilities in special economic zones contribute to the economic growth of the country. Agriculture showed better prospects in 2016, mainly because of the favourable weather condition during the year. Gold output from the two major mines rose by 15 per cent in the first half of 2016, while copper production declined by 4 per cent. Tourist arrivals also fell by 4 per cent in this period[1].

Lao PDR's real GDP is estimated to grow at an average of 7.4 per cent during 2016-2017, supported by higher power exports and ongoing work on hydropower projects. The expected partial recovery in global commodity prices in 2017 is likely to support greater activity in the mining sector, helping to boost GDP growth further during the year.

**Myanmar**

Myanmar's strategic location, situated between China, India and other ASEAN countries, provides immense opportunities and incentives for it to engage effectively in the region to advance trade, investment, and developmental goals. For India, Myanmar is strategically important, as it is the only ASEAN country with which it shares border.

With a total land area of 676,578 sq. kilometres, Myanmar is the second-largest country in Southeast Asia. It has a 2,800 kilometres coastline which provides access to sea routes and deep-sea ports, enabling potential international trade.

Over the last few years, Myanmar has embarked upon major economic and political reforms to join the international economy. Those reforms are now at crossroads and policymakers are aiming to develop a strategy towards a meaningful contribution in the economy by its populace through trade and investments. According to the Asian Development Bank (ADB)[2], Myanmar could follow Asia's fast growing economies and expand at 7 to 8 per cent a year, become a

[1]Asian Development Outlook Update 2016, ADB
[2]Myanmar in Transition: Opportunities and Challenges, ADB, August 2012

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.

Myanmar, with a nominal GDP of US$ 62.9 billion in 2015, is the seventh-largest economy in the ASEAN region, accounting for 2.6 per cent of ASEAN's GDP in 2015 **(Table 1.4)**. With a population of 51.8 million in 2015, Myanmar is the fifth most-populous country among ASEAN members. Myanmar's real GDP growth decelerated to 7 per cent in 2015, as compared to 8.7 per cent in 2014, mainly due to supply shocks from heavy flooding during the year, slowdown in new investments during the election year and a more challenging external environment including lower commodity prices.

According to ADB's Asian Economic Outlook 2016, Myanmar's manufacturing sector has been sluggish as foreign investment approvals have dropped, but services continued to maintain robust expansion. Growth in telecommunications is being spurred by investments to extend networks to rural areas and build and maintain telecom towers. The Central Bank of Myanmar issued new rules that allow mobile network operators to offer financial services, which is expected to benefit 75 per cent of the population without having access to banking services.

**Table 1.4: Macroeconomic Snapshot of Myanmar**

| Items | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[e] | 2017[f] |
|---|---|---|---|---|---|---|---|
| **GDP growth (%)** | 5.6 | 7.3 | 8.4 | 8.7 | 7.0 | 8.1 | 7.7 |
| **GDP current prices (US$ bn)** | 60.0 | 59.7 | 60.1 | 65.8 | 62.9 | 68.3 | 75.7 |
| **GDP per capita, current prices (US$)** | 1196.9 | 1181.9 | 1179.6 | 1278.7 | 1212.8 | 1306.6 | 1438.8 |
| **Inflation, average consumer prices (%)** | 2.8 | 2.8 | 5.7 | 5.9 | 11.4 | 9.8 | 9.1 |
| **Population (mn)** | 50.1 | 50.5 | 51.0 | 51.4 | 51.8 | 52.3 | 52.6 |
| **Current account balance (US$ bn)** | -1.1 | -2.4 | -3.0 | -3.7 | -4.9 | -5.7 | -6.1 |
| **Current account balance (% of GDP)** | -1.8 | -4.0 | -4.9 | -5.6 | -7.8 | -8.3 | -8.1 |
| **Foreign Exchange Reserves, incl. gold (US$ bn)** | 7.4 | 7.4 | - | - | - | - | - |
| **External Debt (US$ bn)** | 8.2 | 7.8 | 7.3 | 6.3 | 6.4 | - | - |

*[e]- estimates; [f] - forecast; - not available*
*Source: IMF's World Economic Outlook October 2016; and World Bank's World Development Indicators 2016*

Services sector dominates the economy, accounting for 37.7 per cent of Myanmar's GDP in 2014 (as per latest available data), followed by industry (34.5 per cent) and agriculture (27.8 per cent). Myanmar is rich in natural resources, including natural gas, copper, timber and gemstones. Other natural resources of the region include petroleum, tin, antimony, zinc, tungsten, lead, coal, marble, limestone and hydropower.

Major industries in Myanmar include agricultural processing; wood and wood products; copper, tin, tungsten, iron; cement, construction materials; pharmaceuticals; fertilizer; oil and natural gas; garments; and jade and gems.

Myanmar's current account deficit widened to US$ 4.9 billion in 2015 from US$ 3.7 billion in 2014. Myanmar's foreign exchange reserves stood at US$ 7.4 billion in 2012 (as per latest data available), representing an import cover of 5 months.

Myanmar's real GDP is estimated to grow at an average of 7.9 per cent during 2016-2017, supported by a double-digit investment growth during this period. Investments in Myanmar will mainly be in large projects funded by foreign investors in a number of industries, notably hydrocarbons and infrastructure. According to ADB, Myanmar has a strong potential for broad economic expansion, possessing abundant natural resources, a strategic location at the crossroads of Asia, a young population, and a sizable market with wide-ranging investment opportunities. Successful national elections, held in November 2015, represented an important milestone in Myanmar's transition.

Myanmar's CAD is estimated to widen to 8.3 per cent in 2016 and 8.1 per cent of GDP in 2017, due to increased imports and a widening income deficit that outweigh the effects of strong export gains.

**Vietnam**

Vietnam is located in the centre of the Southeast Asia region with a land area of approximately 332,000 sq. kilometres[3]. The country borders China to the north, Lao PDR and Cambodia to the west and the East Sea and Pacific to the east and south.

Vietnam, which has a long sea coast line, is an ideal condition for development of maritime industries, manufacturing industries, trade and tourism. Vietnam is the sixth-largest economy in the ASEAN region, with a GDP size of US$ 191.5 billion in 2015 (7.9 per cent of the region's GDP). With an estimated 91.7 million

[3]Food and Agriculture Organization of the United Nations (FAO)

population in 2015, Vietnam is the world's 13th most populous country in the world **(Table 1.5)**.

Vietnam's economy continued to strengthen in 2015, with an estimated GDP growth rate of 6.7 percent. Vietnam's growth rate in 2015 reached a eight-years record high. Growth was underpinned by a higher private consumption growth, robust export performance, low inflation and improved confidence. According to ADB, well-balanced macroeconomic policies have helped restore stability and investor confidence, with growth being propelled by a surge in foreign direct investment and export-oriented manufacturing. According to the World Bank, Vietnam had weathered the recent turbulence in the external environment reasonably well.

Vietnam's consumer price index rose by just 0.6% through 2015, the lowest increase in 14 years. This was mainly on the back of lower energy prices.

According to World Bank, services sector accounts for 39 per cent of Vietnam's GDP in 2014 (as per latest available data), followed by industry (33.2 per cent) and agriculture (17.7 per cent).

Major industries in Vietnam include food processing, garments, shoes, machine-building, mining, coal, steel, cement, chemical fertilizer, glass, tires, oil and mobile phones.

**Table 1.5: Macroeconomic Snapshot of Vietnam**

| Items | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[e] | 2017[f] |
|---|---|---|---|---|---|---|---|
| **GDP growth (%)** | 6.2 | 5.2 | 5.4 | 6.0 | 6.7 | 6.1 | 6.2 |
| **GDP current prices (US$ bn)** | 134.6 | 155.6 | 170.6 | 185.9 | 191.5 | 200.5 | 215.9 |
| **GDP per capita, current prices (US$)** | 1532.3 | 1752.6 | 1901.7 | 2049.0 | 2088.3 | 2164.3 | 2306.7 |
| **Inflation, average consumer prices (%)** | 18.7 | 9.1 | 6.6 | 4.1 | 0.6 | 2.0 | 3.7 |
| **Population (mn)** | 87.8 | 88.8 | 89.7 | 90.7 | 91.7 | 92.6 | 93.6 |
| **Current account balance (US$ bn)** | 0.2 | 9.3 | 7.7 | 9.5 | 0.9 | 0.8 | 0.2 |
| **Current account balance (% of GDP)** | 0.2 | 6.0 | 4.5 | 5.1 | 0.5 | 0.4 | 0.1 |
| **Foreign Exchange Reserves, incl. gold (US$ bn)** | 13.5 | 25.6 | 25.9 | 34.2 | 28.3 | - | - |
| **External Debt (US$ bn)** | 53.9 | 61.6 | 65.5 | 72.4 | 77.8 | - | - |

*[e]- estimates; [f] - forecast; - not available*
*Source: IMF's World Economic Outlook October 2016; and World Bank's World Development Indicators 2016*

Under the Master Plan on Economic Restructuring 2013-2020, approved in 2013, the restructuring of public investment, banks and state-owned enterprises (SOEs) are government priorities. Through full or partial privatisation, the Vietnamese government aims at reducing the number of SOE to 200 by 2020, which is less than one fifth of that recorded in 2013.

Vietnam's real GDP is estimated to grow at an average of 6.1 per cent during 2016-2017. In 2016, the slow-down is a result of severe drought affecting agricultural production during the year. Broadly, the economy's growth during 2016-17 is mainly to be on the back of manufacturing sector, rising at a double-digit rate and confirming Vietnam's attractiveness for foreign direct investment, which is mainly aimed at the export-oriented manufacturing sector.

Vietnam's current account surplus is estimated to narrow to 0.4 per cent in 2016 and further to 0.1 per cent of GDP in 2017. As foreign investments in Vietnam are forecast to pick up, capital goods imports are likely to increase, thus affecting the trade balance.

# 2. INTERNATIONAL TRADE AND INVESTMENT OF CLMV COUNTRIES

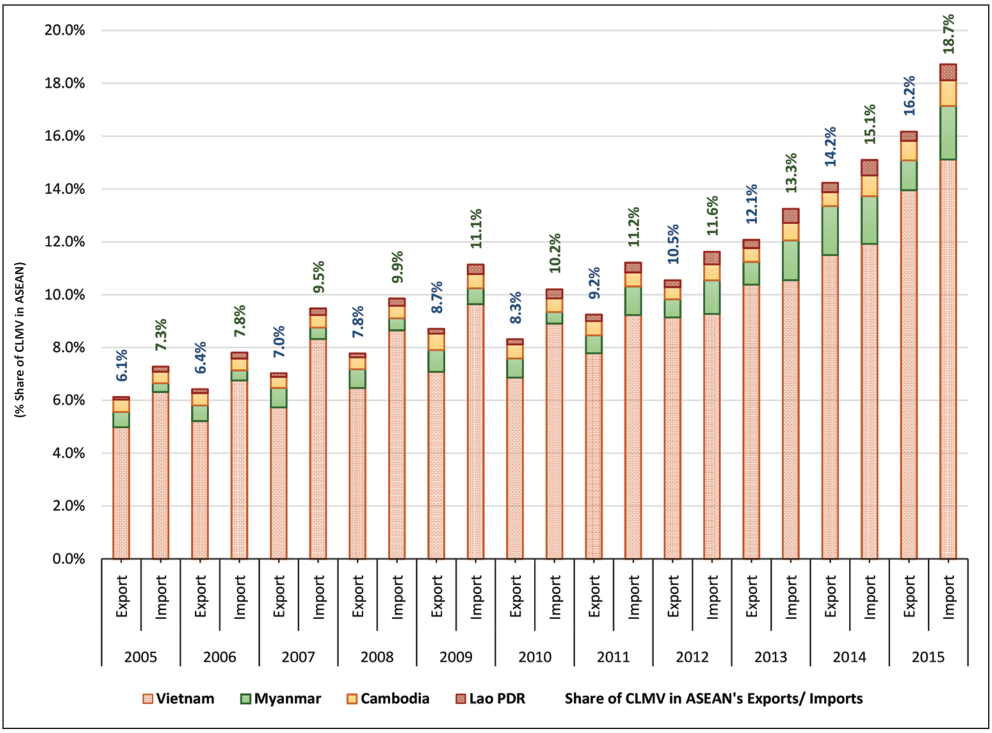
The rising importance of international trade and investment as a growth facilitator for regions is evident from the performance of CLMV countries.

***International (Merchandise) Trade of CLMV Countries***

International trade has gained significance and has been growing rapidly in the CLMV region with the establishment of ASEAN Free Trade Area (AFTA), which has also resulted in increase in both amount and volume of intra-regional trade flows.

The importance of international trade as a growth facilitator has been recognized by CLMV countries and is evident from their growth performance

**Chart 2.1: Share of CLMV in ASEAN's Trade**




*Source: ITC Trademap; and Exim Bank Analysis*

in recent years. Rise in both exports from and imports to the region have underlined the increase in the region's total trade. Although there was a slight decline in trade variables during the Asian crisis in 1997, thereafter, there has been a rising trend.

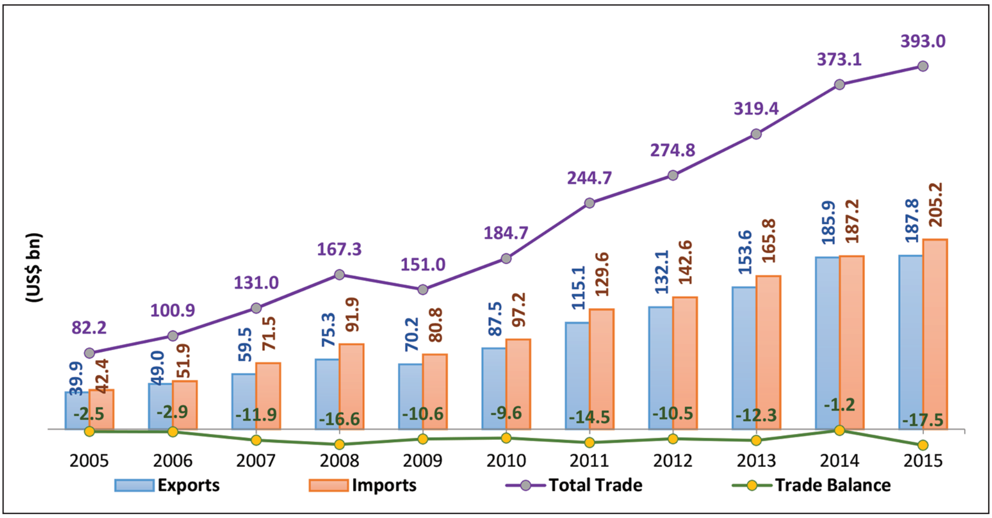
The share of CLMV region in ASEAN's total trade has increased from 6.7 per cent in 2005 to 17.4 per cent in 2015. CLMV's share in ASEAN's exports increased from 6.1 per cent in 2005 to 16.2 per cent in 2015, and imports increased from 7.3 per cent to 18.7 per cent **(Chart 2.1)**. However, there exist wide disparities in trade among member countries. For example, Vietnam alone accounted for 14.5 per cent of ASEAN's total trade in 2015, while the combined share of Cambodia, Lao PDR and Myanmar was less than 3 per cent.

CLMV's total exports stood at US$ 187.8 billion in 2015, from US$ 185.9 billion in 2014, mainly on the back of increased exports from Vietnam **(Chart 2.2)**. During 2005-2015, CLMV's global exports increased nearly five-fold from US$ 39.9 billion to US$ 187.8 billion.

As regards imports, CLMV's total imports amounted to US$ 205.2 billion, a rise from US$ 187.2 billion in 2015. During 2005-2015, CLMV's imports increased from US$ 42.4 billion in 2005 to US$ 205.2 billion in 2015 in ASEAN's imports from 7.3 per cent in 2005 to 18.7 per cent in 2015.

Among the CLMV countries, Vietnam has the largest value of trade, followed by Myanmar and Cambodia. Lao PDR has a relatively smaller value of external trade. The CLMV region

**Chart 2.2: Foreign Trade of CLMV Region**




*Source: ITC Trademap; and Exim Bank Analysis*

maintained a trade deficit (US$ 17.5 billion) driven by increased import of capital goods, owing to infrastructural development in the region.

### Cambodia's Trade

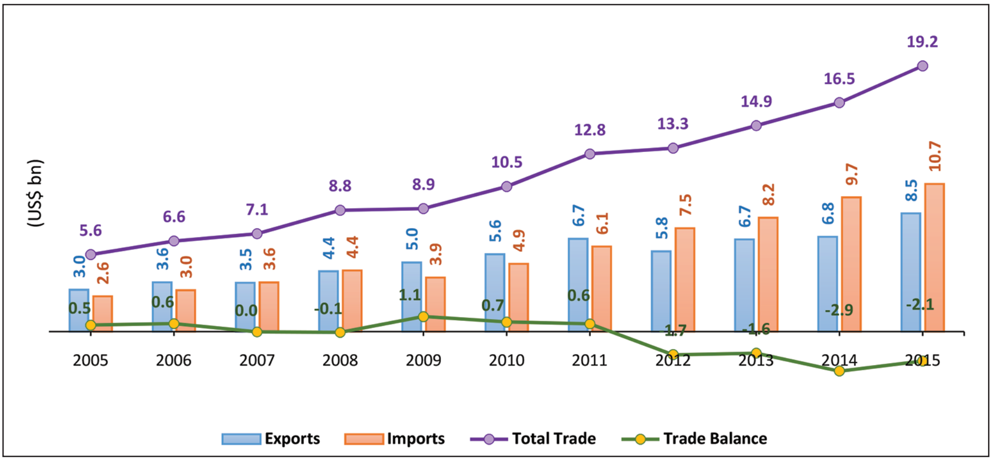
Cambodia's exports increased by 24.8 per cent in 2015 to US$ 8.5 billion, as compared to US$ 6.8 billion in the preceding year. Exports were mainly driven by rise in garment and footwear exports, rubber exports also recovered during the year, mainly due to the rise in rubber prices. The rise in garment and footwear exports, was underpinned by the labour market stability and gradual shift towards higher value-added products **(Chart 2.3)**.

During 2015, articles of apparel and clothing accessories (HS 61 and 62) accounted for 69.3 per cent of Cambodia's exports in 2015, followed by footwear and gaiters (7.5 per cent of exports), electrical machinery and equipment (3.7 per cent), and cereals (3.3 per cent).

Cambodia's major export markets in 2015 mainly include USA (accounting for 25 per cent of its global exports in 2015), UK (10.2 per cent), Germany (8.8 per cent), and Japan (6.7 per cent).

Cambodia's imports increased by 10 per cent from US$ 9.7 billion in 2014 to US$ 10.7 billion in 2015. Import growth was largely driven by strong domestic demand for both investment and consumption. Construction boom contributed to growth in construction material imports. Domestic demand pressures also stimulated import of consumer goods, especially foodstuff and beverages in 2015.

**Chart 2.3: Cambodia's International Trade**




*Source: ITC's Trademap, derived from UNcomtrade; Exim Bank Analysis*

Major items in Cambodia's import basket in 2015 included knitted or crocheted fabrics (18.6 per cent of total imports in 2015), vehicles other than railway or tramway (10.8 per cent), man-made staple fibres (9 per cent), machinery and equipment (6.3 per cent), and natural or cultured pearls, precious or semi-precious stone (5.6 per cent).

China was the major source for Cambodia's imports, accounting for 36.8 per cent of Cambodia's imports in 2015. Other major import sources during the year include Thailand (14.6 per cent on imports), Vietnam (8.7 per cent), Hong Kong (6.7 per cent), and Taiwan (5.9 per cent).

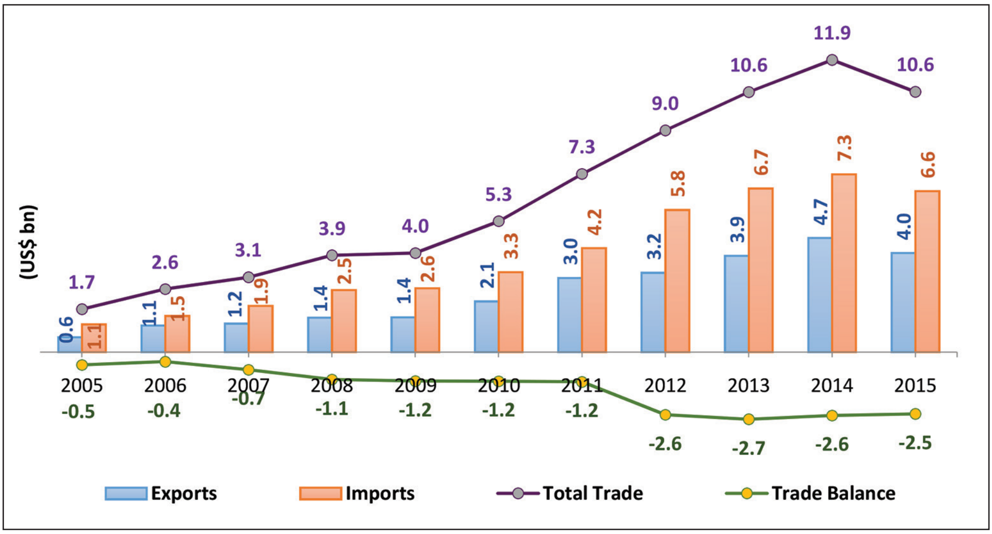
A slower growth in imports compared to that with exports, resulted in Cambodia's trade deficit narrowing from US$ 2.9 billion in 2014 to US$ 2.1 billion in 2015.

During 2005-2015, Cambodia's exports increased three-folds, while imports increased four-folds, taking the total trade from US$ 5.6 billion in 2005 to US$ 19.2 billion in 2015.

**Lao PDR's Trade**

Lao PDR's exports declined to US$ 4 billion in 2015, as compared to US$ 4.7 billion in the preceding year. The decline was mainly due to a fall in export of wood and its articles **(Chart 2.4)**. Lao PDR's imports also registered a decline from US$ 7.3 billion in 2014 to US$ 6.6 billion in 2015, mainly due to the fall in export of mineral fuels, oils and its products.

**Chart 2.4: Lao PDR's International Trade**




*Source: ITC's Trademap, derived from UNcomtrade; and Exim Bank Analysis*

Accordingly, Lao PDR's trade deficit narrowed from US$ 2.6 billion in 2014 to US$ 2.5 billion in 2015.

Lao PDR's export basket mainly comprised wood and its articles (23.7 per cent of its global exports in 2015), mineral fuels, oils and its products (15.1 per cent), copper and its articles (12.9 per cent), ores, slag and ash (11.8 per cent), electrical and electronic equipment (8 per cent), readymade garments (6 per cent), and fertilizers (4.1 per cent).

Thailand, China and Vietnam were the largest export destinations of Lao PDR, cumulatively accounting for 83.2 per cent of its exports in 2015. Lao PDR's major export markets mainly include Thailand (accounting for 36.2 per cent of its exports in 2015), China (32.5 per cent), Vietnam (14.5 per cent), and India (3.5 per cent).

Lao PDR's major imports in 2015 include mineral fuels (15 per cent of total imports), vehicles other than railway (14.5 per cent), electrical and electronic equipment (11.3 per cent), machinery and equipment (9.7 per cent), articles of iron or steel (6.3 per cent), and iron and steel (3.6 per cent).

In 2015, Thailand accounted for the bulk of Lao PDR's imports during 2015, accounting for 63.4 per cent of its total imports. China (18.4 per cent of its total imports), Vietnam (8 per cent), South Korea (2.6 per cent), and Japan (1.6 per cent) were the other major sources of Lao PDR's imports in the same year.

During 2005-2015, Lao PDR's exports increased nearly three-fold, while imports increased over four-fold, taking the total trade from US$ 1.7 billion in 2005 to US$ 10.6 billion in 2015.

**Myanmar's Trade**

Myanmar's exports declined to US$ 13.2 billion, from US$ 24.2 billion recorded in the preceding year, mainly due to the fall in export of pearls, precious and semiprecious stones **(Chart 2.5).**

Mineral fuels, oils and its products dominated Myanmar's exports in 2015, accounting for 37.8 per cent of Myanmar's exports. Other major export commodities during the same year include natural or cultured pearls, precious or semi-precious stones (18.1 per cent of its exports), readymade garment (12.8 per cent), edible vegetables and certain roots (8.9 per cent) and ores, slag and ash (3.6 per cent).

Myanmar's major export markets in 2015 include Thailand (accounting for 25 per cent of its global exports in 2015), Japan (6.6 per cent), South Korea (3.8 per cent), and USA (1.1 per cent).

Myanmar's imports declined marginally from US$ 22.4 billion in 2014 to US$ 22.2 billion in 2015. Electrical and electronic equipment formed Myanmar's major import item in 2015, accounting for 11.9 per cent of total imports. Other principal import items in the same year were machinery and equipment (10.8 per cent of total imports), vehicles other than railway, tramway (9.6 per cent), mineral fuels, oils and its products (9.1 per cent), and ships, boats and floating structures (4.5 per cent).

China was the major source for Myanmar's imports, accounting for 42.4 per cent of Myanmar's imports in 2015. Other major import sources during the year include Thailand (18.5 per cent of its imports), Singapore (11 per cent), Japan (4.8 per cent) and India (3.9 per cent).

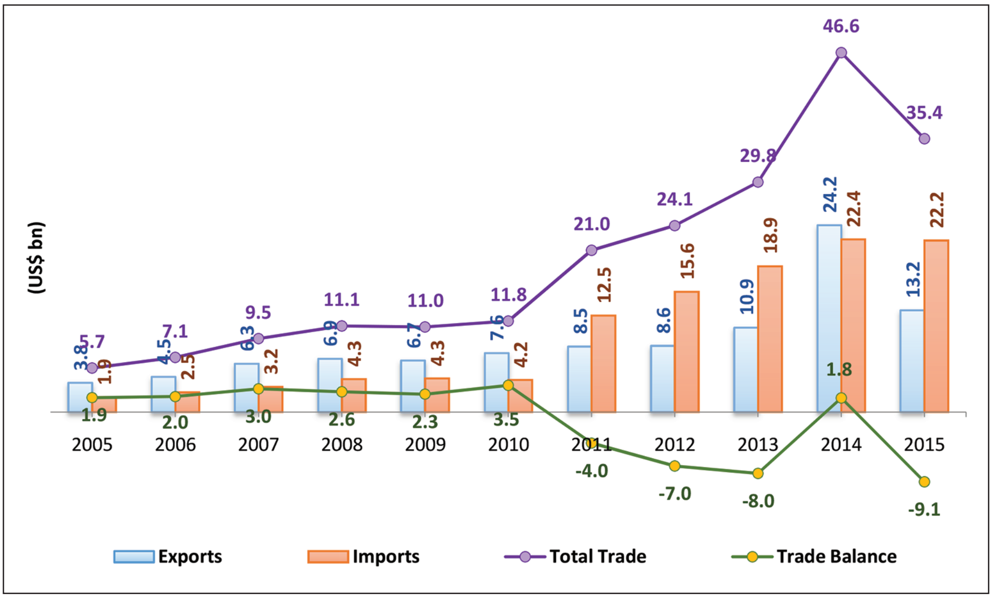
Accordingly, Myanmar's trade balance reversed to a deficit of US$ 9.1 billion in 2015 from a surplus of US$ 1.8 billion in 2014. High investments in the country during the year led to greater capital goods imports in 2015.

During 2005-2015, Myanmar's exports increased four-folds, while imports increased twelve-times, taking the total trade from US$ 5.7 billion in 2005 to US$ 35.4 billion in 2015.

### Vietnam's Trade

Vietnam's exports increased by 7.9 per cent in 2015 to US$ 162 billion,

**Chart 2.5: Myanmar's International Trade**




*Source: ITC's Trademap, derived from UNcomtrade; and Exim Bank Analysis*

as compared to US$ 150.2 billion in the preceding year. Exports were mainly driven by rise in electrical and electronic equipment, footwear and readymade garment exports during the year **(Chart 2.6)**.

During 2015, electrical and electronic equipment (HS 85) accounted for 29.3 per cent of Vietnam's exports, followed by readymade garment (13.2 per cent of exports), footwear and gaiters (7.7 per cent), and machinery and equipment (6.2 per cent).

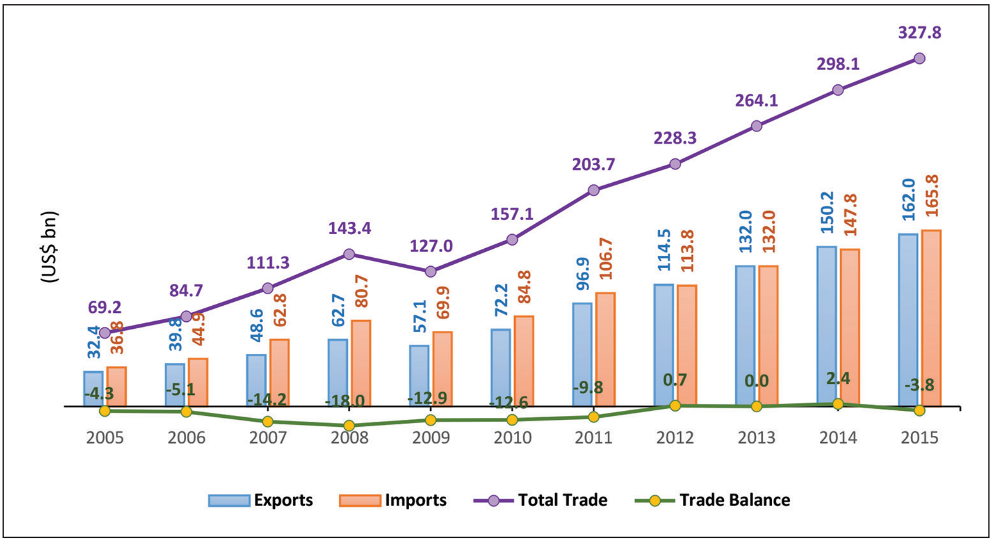
Vietnam's major export markets in 2015 include USA (accounting for 20.7 per cent of its global exports in 2015), China (10.2 per cent), Japan (8.7 per cent) and South Korea (5.5 per cent).

Vietnam's imports increased by 12.1 per cent from US$ 147.8 billion in 2014 to US$ 165.8 billion in 2015. Import growth was largely driven by a strong domestic demand for electrical and electronic equipment.

Major items in Vietnam's import basket in 2015 included electrical and electronic equipment (25.3 per cent of total imports in 2015), machinery and equipment (12.7 per cent), plastic and its articles (6 per cent), iron and steel (5.3 per cent), and mineral oil, fuel, and its products (4.8 per cent).

China was the major source for Vietnam's imports, accounting for 29.8 per cent of Vietnam's imports in 2015. Other major import sources during the year include South Korea

**Chart 2.6: Vietnam's International Trade**




*Source: ITC's Trademap, derived from UNcomtrade; and Exim Bank Analysis*

(16.6 per cent on imports), Japan (8.6 per cent), Taiwan (6.6 per cent), and Thailand (5.9 per cent).

Accordingly, Vietnam's trade balance reversed to a deficit of US$ 3.8 billion in 2015, from a surplus of US$ 2.4 billion in 2014.

During 2005-2015, Vietnam's exports and imports increased nearly five-folds, taking the total trade from US$ 69.2 billion in 2005 to US$ 327.8 billion in 2015.

***International (Services) Trade of CLMV Countries***

The ASEAN region is a net importer of commercial services, accounting for 6.7 per cent of world imports, while contributing 6.4 per cent to world exports in 2015. In the CLMV region, all except Vietnam are net exporters of commercial services.

- **Cambodia**

Cambodia's export of commercial services increased steadily from US$ 1.9 billion in 2010 to US$ 3.8 billion in 2015; corresponding share of Cambodia in ASEAN's export of commercial services also increased from 0.9 per cent in 2010 to 1.2 per cent in 2015. The recent years have witnessed a rise in Cambodia's commercial services exports, mainly on the back of a strong tourism sector. At the same time, Cambodia's import of commercial services increased from US$ 0.9 billion in 2010 to US$ 1.9 billion in 2015. As a result, Cambodia's share in ASEAN's import of commercial services also increased from 0.4 per cent in 2010 to 0.6 per cent in 2015 **(Table 2.1)**.

Travel services is the major component of Cambodia's commercial services exports, accounting for 83 per cent of Cambodia's commercial services exports, followed by transport, other business services and telecommunication, computer and information services **(Chart 2.7)**.

**Table 2.1: Cambodia's Trade in Commercial Services (US$ mn)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Exports | 1917.3 | 2602.7 | 3054.3 | 3354.1 | 3713.5 | 3775.1 |
| *Share in ASEAN's Exports* | *0.9%* | *1.0%* | *1.1%* | *1.1%* | *1.2%* | *1.2%* |
| Imports | 947.4 | 1289.1 | 1501.3 | 1734.7 | 1853.9 | 1877.9 |
| *Share in ASEAN's Imports* | *0.4%* | *0.5%* | *0.5%* | *0.5%* | *0.6%* | *0.6%* |

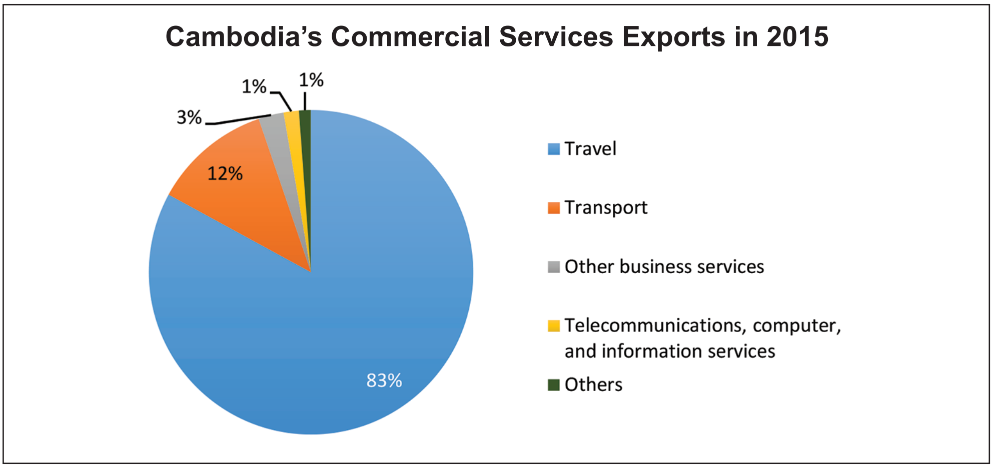
*Trade in Commercial Services as per BPM6
*Source: World Trade Organisation; and Exim Bank Analysis*

Transport is the major component of Cambodia's commercial services imports, accounting for 53 per cent of Cambodia's commercial services imports in 2015 **(Chart 2.8)**.

- **Lao PDR**

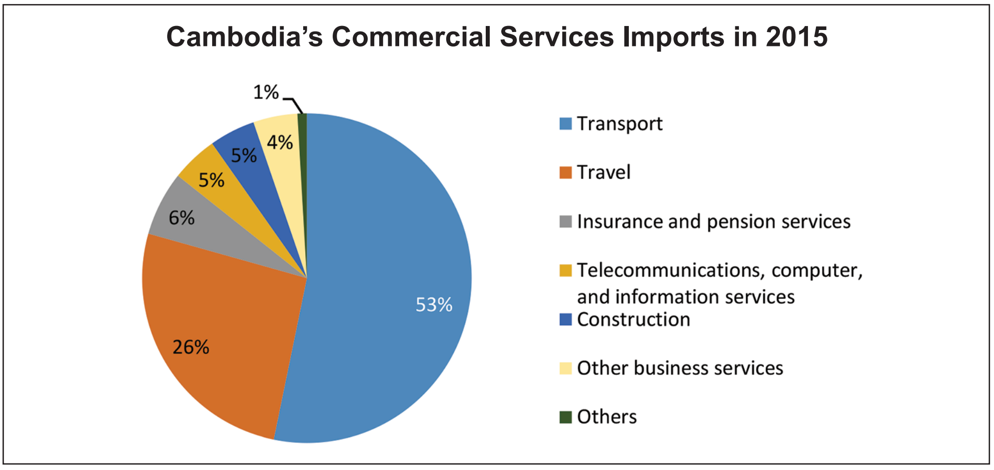
Lao PDR's export of commercial services increased from US$ 0.5 billion in 2010 to US$ 0.8 billion in 2015. Corresponding share of Lao

**Chart 2.7: Cambodia's Commercial Services Exports - Sectorwise**




*Trade in Commercial Services as per BPM6
*Source: World Trade Organisation; and Exim Bank Analysis*

**Chart 2.8: Cambodia's Commercial Services Imports - Sectorwise**




*Trade in Commercial Services as per BPM6
*Source: World Trade Organisation; and Exim Bank Analysis*

PDR in ASEAN's export of commercial services also increased marginally from 0.2 per cent in 2010 to 0.3 per cent in 2015. At the same time, Lao PDR's imports of commercial services stood at US$ 0.6 billion in 2015, up from US$ 0.3 billion in 2010. At the same time, Lao PDR's share in ASEAN's imports of commercial services increased marginally from 0.1 per cent in 2010 to 0.2 per cent in 2015 **(Table 2.2)**.

Travel services is the major component of commercial services exports of Lao PDR, accounting for 78 per cent of Lao PDR's commercial services exports. Other major commercial services exports include transport and insurance and pension services **(Chart 2.9)**.

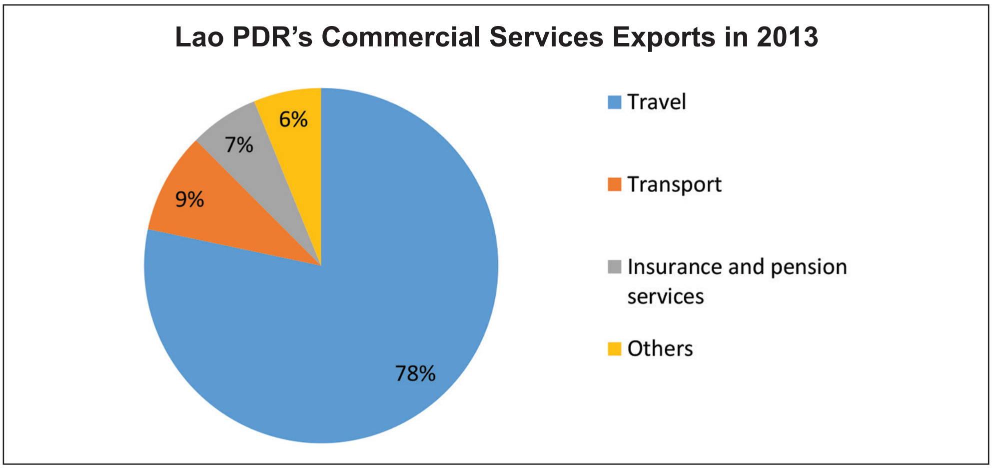
Travel services dominates Lao PDR's commercial services imports, accounting for more than two-third, followed by insurance and pension services and construction services **(Chart 2.10)**.

**Table 2.2: Lao PDR's Trade in Commercial Services (US$ mn)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Exports | 488.8 | 525.6 | 552.9 | 761.0 | 745.5 | 789.5 |
| *Share in ASEAN's Exports* | *0.2%* | *0.2%* | *0.2%* | *0.3%* | *0.2%* | *0.3%* |
| Imports | 257.5 | 325.0 | 333.0 | 522.5 | 478.7 | 554.0 |
| *Share in ASEAN's Imports* | *0.1%* | *0.1%* | *0.1%* | *0.2%* | *0.1%* | *0.2%* |

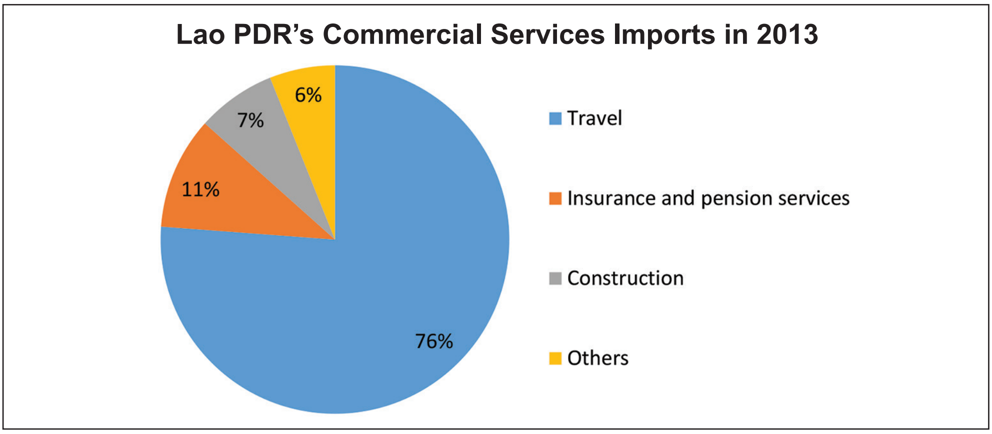
*Trade in Commercial Services as per BPM6
*Source: World Trade Organisation; and Exim Bank Analysis*

**Chart 2.9: Lao PDR's Commercial Services Exports - Sectorwise**




*Trade in Commercial Services as per BPM6; Latest data available for 2013
*Source: World Trade Organisation; and Exim Bank Analysis*

**Chart 2.10: Lao PDR's Commercial Services Imports - Sectorwise**




*Trade in Commercial Services as per BPM6; Latest data available for 2013

*Source: World Trade Organisation; and Exim Bank Analysis*

- **Myanmar**

Myanmar's exports of commercial services increased twelve-fold from US$ 0.3 billion in 2010 to US$ 4.1 billion in 2014 (latest available data). Corresponding share of Myanmar in ASEAN's export of commercial services also increased significantly from 0.2 per cent in 2010 to 1.3 per cent in 2014. Myanmar has witnessed an extraordinary growth in tourism in recent years.

Similarly, Myanmar's imports of commercial services also trebled from US$ 0.7 billion in 2010 to US$ 2.6 billion in 2014. At the same time, Myanmar's share in ASEAN's imports of commercial services increased from 0.3 per cent in 2010 to 0.8 per cent in 2014 **(Table 2.3)**.

Travel services is the major component of commercial services exports of Myanmar, followed by manufacturing services, together accounting for more than two-third

**Table 2.3: Myanmar's Trade in Commercial Services (US$ mn)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Exports | 337.4 | 727.0 | 1182.6 | 2678.5 | 4127.3 | - |
| *Share in ASEAN's Exports* | *0.2%* | *0.3%* | *0.4%* | *0.9%* | *1.3%* | - |
| Imports | 753.6 | 1066.6 | 1433.6 | 2162.2 | 2561.4 | - |
| *Share in ASEAN's Imports* | *0.3%* | *0.4%* | *0.5%* | *0.7%* | *0.8%* | - |

*Trade in Commercial Services as per BPM6; - data not available

*Source: World Trade Organisation; and Exim Bank Analysis*

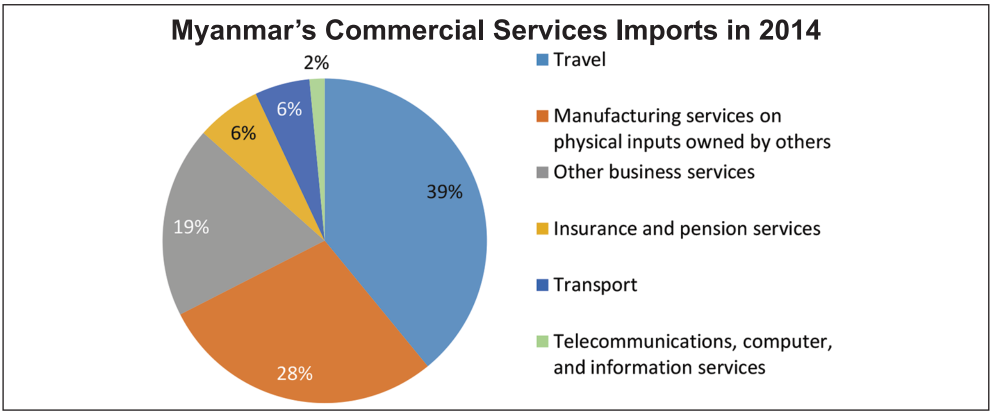
of Myanmar's commercial services exports. Other major commercial services exports include other business services, insurance and pension services, transport services and telecommunication, computer, and information services **(Chart 2.11)**.

Transport services is the largest contributor to commercial services imports of Myanmar, followed by manufacturing services, together accounting for two-third of Myanmar's commercial services imports. Other major commercial services imports include other business services, and insurance and pension services **(Chart 2.12)**.

- **Vietnam**

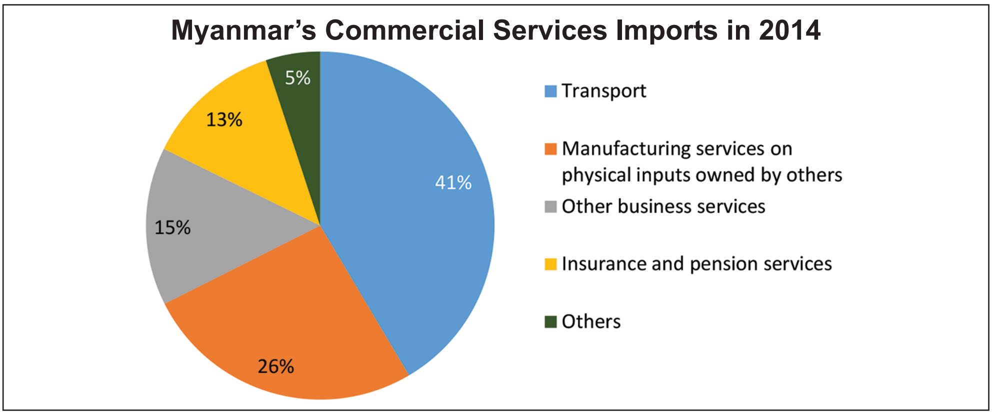
Vietnam is the largest exporter as well as importer of commercial services among CLMV countries. Vietnam's

**Chart 2.11: Myanmar's Commercial Services Exports - Sectorwise**




*Trade in Commercial Services as per BPM6; Latest data available for 2014
*Source: World Trade Organisation; and Exim Bank Analysis*

**Chart 2.12: Myanmar's Commercial Services Imports - Sectorwise**




*Trade in Commercial Services as per BPM6; Latest data available for 2014
*Source: World Trade Organisation; and Exim Bank Analysis*

export of commercial services increased from US$ 7.4 billion in 2010 to US$ 11.1 billion in 2015. Accordingly, share of Vietnam in ASEAN's exports of commercial services also increased marginally from 3.4 per cent in 2010 to 3.6 per cent in 2015. At the same time, Vietnam's import of commercial services increased from US$ 9.8 billion in 2010 to US$ 15.3 billion in 2015. Accordingly, Vietnam's share in ASEAN's import of commercial services increased from 4.3 per cent in 2010 to 4.9 per cent in 2015 **(Table 2.4)**.

Travel services, which is the major component of commercial services exports of Vietnam, accounted for 68 per cent of Vietnam's commercial services exports. Other major commercial services export items include transport, financial services, telecommunication, computer, and information services, and insurance and pension services **(Chart 2.13)**.

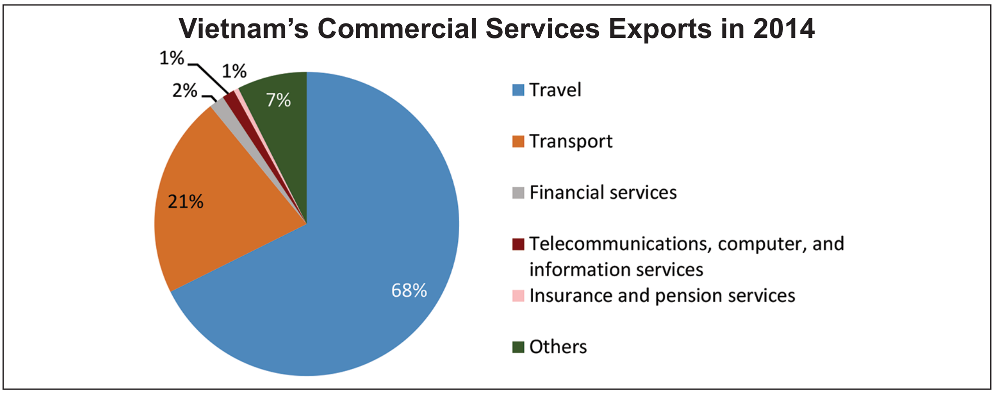
Transport services is the largest contributor to commercial services imports of Vietnam, followed by travel services, together accounting

**Table 2.4: Vietnam's Trade in Commercial Services (US$ mn)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Exports | 7355.0 | 8581.0 | 9510.0 | 10585.0 | 10833.0 | 11053.6 |
| *Share in ASEAN's Exports* | *3.4%* | *3.4%* | *3.5%* | *3.5%* | *3.4%* | *3.6%* |
| Imports | 9771.0 | 11707.0 | 12353.0 | 13635.0 | 14305.0 | 15292.0 |
| *Share in ASEAN's Imports* | *4.3%* | *4.4%* | *4.2%* | *4.3%* | *4.4%* | *4.9%* |

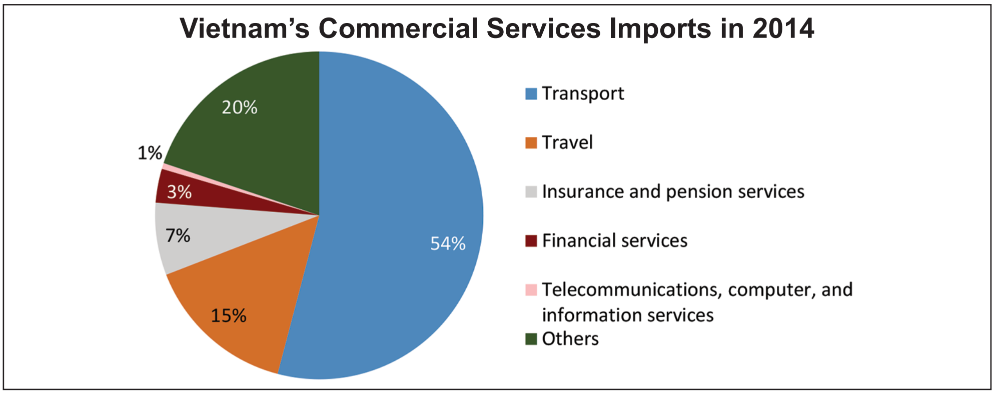
*Trade in Commercial Services as per BPM6
*Source: World Trade Organisation; and Exim Bank Analysis*

**Chart 2.13: Vietnam's Commercial Services Exports - Sectorwise**




*Trade in Commercial Services as per BPM6; Latest data available for 2014
*Source: World Trade Organisation; and Exim Bank Analysis*

**Chart 2.14: Vietnam's Commercial Services Imports - Sectorwise**




*Trade in Commercial Services as per BPM6; Latest data available for 2014
*Source: World Trade Organisation; and Exim Bank Analysis*

for over two-third of Vietnam's commercial services imports. Other major commercial services imports include insurance and pension services, financial services, and telecommunication, computer, and information services **(Chart 2.14)**.

### *FDI in CLMV Countries*

In recent years, the CLMV region has benefited from increased Foreign Direct Investment (FDI) inflows, primarily in the infrastructure sector. FDI inflows to the CLMV region increased by seven-fold to reach a record high of US$ 17.5 billion in 2015, as compared to US$ 2.5 billion in 2005 **(Table 2.5)**. Outward FDI from the region increased from US$65.3million in 2005 to US$1.1 billion in 2015.

The CLMV region accounted for 14 per cent of the total FDI inflows to ASEAN in 2015 **(Chart 2.15)**. Of this, Vietnam alone accounted for 9.4 per cent of ASEAN's FDI inflows in 2015, followed by Myanmar (2.2 per cent), Cambodia (1.4 per cent), and Lao PDR (1 per cent).

**Table 2.5: Investment Scenario in CLMV Region (US$ million)**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **FDI Inflows** | 2473.2 | 3794.9 | 8174.0 | 11255.4 | 8745.0 | 16290.4 | 10309.9 | 10994.5 | 11783.4 | 12587.2 | 17544.8 |
| **FDI Outflows** | 65.3 | 127.1 | 222.1 | 245.8 | 720.2 | 920.0 | 979.2 | 1236.3 | 2003.3 | 1195.2 | 1148.6 |

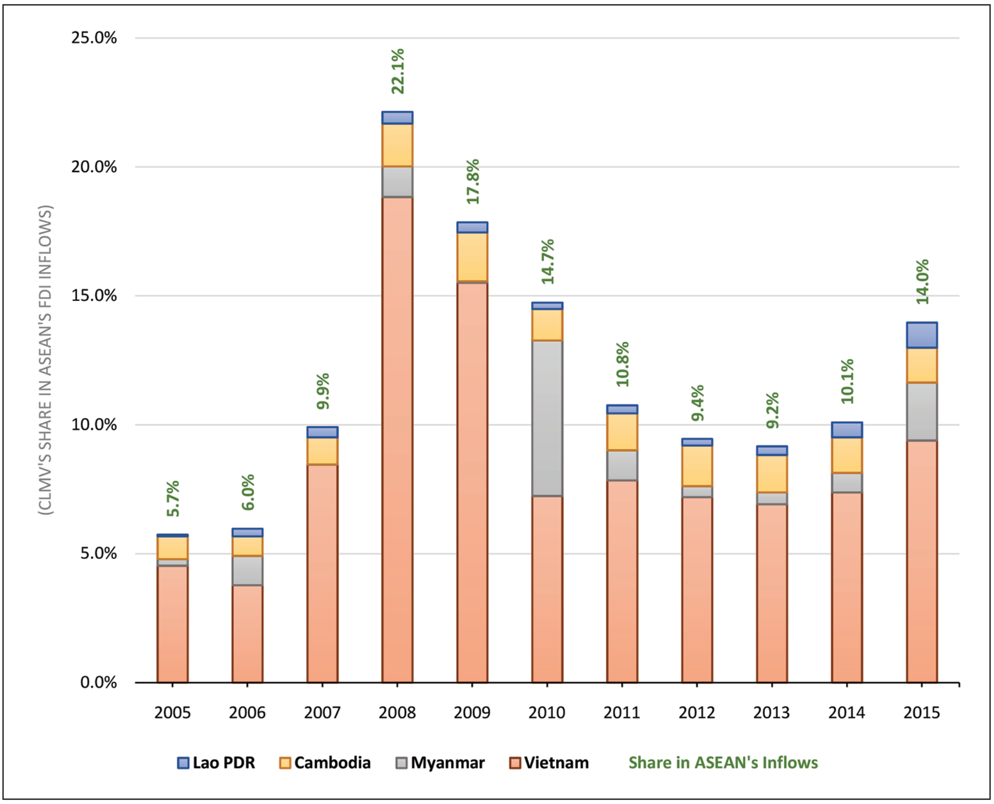
*Source: World Investment Report, 2016, UNCTAD; and Exim Bank Analysis*

Share of CLMV in FDI outflows of ASEAN's, however, has been at low levels. FDI outflows from CLMV accounted for 1.7 per cent of ASEAN's FDI outflows in 2015. FDI outflows from the region are mainly from Vietnam.

As in the case of trade, Vietnam recorded the highest investments to and from the region. As regards FDI inflows, Vietnam accounted for 67.3 per cent of the region's inflows in 2015, followed by Myanmar (16.1 per cent), Cambodia (9.6 per cent) and Lao PDR (7 per cent). As regards outflows, Vietnam accounted for 95.8 per cent of the region's FDI outflows during the year. Cambodia and Lao PDR accounted for marginal shares of 4.1 per cent and 0.1 per cent of FDI outflows in 2015, respectively.

According to the ASEAN Investment Report 2016, manufacturing sector attracted a large portion of the FDI inflows to Vietnam (nearly 67 per cent

**Chart 2.15: Share of CLMV in ASEAN's FDI Inflow**




*Trade in Commercial Services as per BPM6; Latest data available for 2014

*Source: World Trade Organisation; and Exim Bank Analysis*

in 2015) during the year. Manufacturing FDI flows to Vietnam during the year were dominated by Asian investors, particularly South Korea and rest of ASEAN. Strong FDI in manufacturing during the year mainly include investments in expansion facilities of Samsung (South Korea) and LG (South Korea), PTT Group (Thailand) and Saudi Aramco (Saudi Arabia) in a petrochemical and oil refinery project, among others.

As regards outflows, companies from Vietnam continue to be active in investing in neighbouring countries[4].

- **Cambodia's Investments**

According to the World Investment Report 2016, during 2005-2015, FDI inflows to Cambodia increased nearly five-fold, from US$ 381 million to US$ 1,701 million in 2015. FDI outflows from Cambodia were seen at US$ 47 million in 2015 **(Table 2.6)**.

During 2015, FDI inflows to Cambodia were dominated by China (32 per cent of the FDI inflows) and ASEAN (25 per cent of the FDI inflows). Chinese companies dominates the investments in manufacturing (48 per cent of total manufacturing FDI), while ASEAN investors led FDI in finance (30 per cent of investment in this industry).

FDI inflows to finance and insurance activities stood at US$ 515 million in 2015 as compared to US$ 325 million in 2014. Finance and insurance activities dominated and overtook inflows to the manufacturing sector in 2015. Investments in manufacturing sector stood at US$ 452 million in 2015, as compared to US$ 524 million in 2014. This decline was mainly due to fall in inflows to the garments and footwear industry during the year[5]. In 2015, the construction sector continued to expand, driven by a sustained foreign direct investment (FDI) into the sector, although approvals decelerated during the year[6].

**Table 2.6: FDI flows to and from Cambodia**

*(US$ mn)*

| Cambodia | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **FDI Inflow** | 381.2 | 483.2 | 867.3 | 845.3 | 928.4 | 1342.2 | 1372.5 | 1835.2 | 1872.4 | 1720.1 | 1701.0 |
| **FDI Outflow** | 6.3 | 8.4 | 1.1 | 20.5 | 18.9 | 20.6 | 29.2 | 36.2 | 46.3 | 43.2 | 47.5 |

*Source: World Investment Report, 2016, UNCTAD; and Exim Bank Analysis*

[4]ASEAN Investment Report 2016
[5]ASEAN Investment Report 2016
[6]Improving Macroeconomic and Financial Resilience-Cambodia Economic Update, World Bank, April 2016

In the garment industry, Asian companies that continued to set up factories in 2015 and have been awarded approvals to operate include Crystal Group (Hong Kong, China), Shinih (Taiwan Province of China), Heng Yang Cotton and Plastic (China), Kanejyu (Japan) and Nakatora (Japan), which opened factories in the country with production mainly for exports.

It may be noted that FDI inflows to Cambodia's light and non-garment manufacturing industries is witnessing a rise. Foreign companies in Cambodia are now also investing in production or building new factories to produce electrical parts, automotive components and food and beverages.

- **Lao PDR's Investments**

According to the World Investment Report 2016, FDI inflows to Lao PDR increased from US$ 720.8 million in 2014 to US$ 1.2 billion in 2015. FDI outflows from Lao PDR were at negligible levels of US$ 1.1 million in 2015, a fall compared to US$ 1.9 million recorded in the previous year **(Table 2.7)**.

China, with a share of 62 per cent of FDI flows, was the largest investor in Lao PDR in 2015, followed by ASEAN as a whole, which accounted for another 21 per cent in the same year[7].

Infrastructure, particularly electricity projects, remained the key recipient of FDI inflows in the country, accounting for 50 per cent of FDI inflows in 2015. Lao PDRs infrastructure investments in 2015 were mainly dominated by investment from China, which accounts for 77 per cent of investment in the industry. FDI in manufacturing remained small, but investment in finance activities rose by 240 per cent due to a significant rise in investments by ASEAN companies.

Companies such as China International Water and Electric Corporation, China Huadian, China Electric Power Technology Import and

**Table 2.7: FDI flows to and from Lao PDR**

*(US$ mn)*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **FDI Inflow** | 27.7 | 187.4 | 323.5 | 227.7 | 189.5 | 278.8 | 300.8 | 294.4 | 426.7 | 720.8 | 1219.8 |
| **FDI Outflow** | -6.0 | 33.7 | 37.0 | -74.7 | 1.3 | -0.6 | 0.0 | 0.1 | 1.0 | 1.9 | 1.1 |

Note: Divestment is normally recorded as negative outflows in FDI statistics
*Source: World Investment Report, 2016, UNCTAD; and Exim Bank Analysis*

[7]ASEAN Investment Report 2016

Export Corporation, China Machinery Engineering Corporation, Hoang Anh Gai Lai (Vietnam), Banpu (Thailand) and Ratchaburi Electricity (Thailand) are building power plants in Lao PDR. These power plants involved the participation of many other engineering, procurement and construction (EPC) MNEs and financiers. For instance, nine Thai commercial banks were involved in providing financing for the Thai majority-owned US$ 3.7 billion Hongsa power plant (coal-fired power plant), completed in 2015. These banks include Bangkok Bank, Siam Commercial Bank, Krungthai Bank, Kasikorn Bank, Export-Import Bank of Thailand and TMB Bank, which have a presence in other ASEAN member States. Chinese MNEs such as China National Electric Equipment Corporation, Harbin Power Engineering, Harbin Turbine and Harbin Electric Machinery participated as the EPC companies for the construction of the plant. ABB (Switzerland) supplied the equipment and control system and was responsible for commissioning.

In 2015, Impact Energy Asia (Thailand) announced plans to build the largest wind farm in ASEAN in Lao PDR at an estimated value of US$ 1.5 billion; it is expected to start operation in 2019. China Machinery Engineering Corporation (China) is constructing two power transmission lines in the country. Hazama Ando (Japan) is involved with the Wattay Airport expansion, which is targeted for completion in 2018. During 2015–2016, Chinese companies such as the China Railway Group are starting to build railway projects in the country; Yunnan Provincial Energy Investment Group is investing in a cement factory to support infrastructure activities, including the construction of the China–Lao PDR railway project; and Yunnan Hai Cheng, a Chinese developer, is investing in developing the Boten Special Economic Zone.

As regards FDI in manufacturing sector, companies such as Coca-Cola (United States) and Mitsubishi Materials Corporation (Japan) established plants in 2015. Coca-Cola produces soft drinks for the local market while Mitsubishi manufactures thermistor sensors to export abroad. These are in addition to Japanese companies such as Toyota Boshoku, Mitsubishi Materials, Nikon, Minebea and Siam Cement (Thailand) that are already operating in the country. Many of these companies are connecting their manufacturing activities in Lao PDR with their operations based in other ASEAN Member States such as Thailand.

- **Myanmar's Investments**

According to the World Investment Report 2016, FDI inflows to Myanmar increased nearly three-fold to US$ 2.8 billion in 2015, as compared to US$ 946.2 million in 2014. FDI outflows from Myanmar were at nil or negligible levels **(Table 2.8)**.

During 2015, Myanmar witnessed a rise in investment in various economic sectors. In particular, foreign and ASEAN companies continued to invest and expand their activities in manufacturing, infrastructure and extractive industries. The opening of the services industry, such as in finance, has also received strong interest from investors looking to establish a presence in Myanmar.

According to ASEAN Investment Report 2016, during 2015-2016, several companies set up operations or expanded in Myanmar in various types of manufacturing activities. Suzuki (Japan) constructed a new plant in 2015 to produce automotive parts. Koyo Radiator (Japan) established a plant in 2015 and APM (Malaysia) plans to open a manufacturing facility in the host country. Zenner International (Germany) has set up a joint venture to assemble and calibrate water meters. ThyssenKrupp (Germany) and ABB (Switzerland) opened an office each in Yangon in 2015. Carlsberg (Denmark) opened a US$ 75 million brewery with a local joint venture partner in May 2015. Heineken (Netherlands) opened a brewery plant also through a joint venture. Kirin (Japan) bought a 55 per cent stake in Myanmar Brewery, and Yum Brand (United States), through a franchise arrangement, opened a KFC store in 2015.

In the infrastructure and real estate sector, VPower (Hong Kong, China) started to build its first gas-fired power plant in Kyaukphyu in 2015. Electricité de France signed an MOU with the Myanmar authority in December 2015 to build a US$ 1.4 billion 1,050 MW hydropower project in Moe Meik.

**Table 2.8: FDI flows to and from Myanmar**

*(US$ mn)*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **FDI Inflow** | 110.4 | 724.2 | 2.2 | 603.4 | 27.2 | 6669.4 | 1117.7 | 496.9 | 584.3 | 946.2 | 2824.0 |
| **FDI Outflow** | - | - | - | - | - | - | - | - | - | - | - |

- Negligible or not available

*Source: World Investment Report, 2016, UNCTAD; and Exim Bank Analysis*

Mitsubishi Corporation (Japan) and Hitachi (Japan) signed a US$ 20 million contract in 2015 to supply and install railway signalling systems.

As regards extractive industries, in a joint venture project, Wanbao (China) is constructing a copper mining operation in Letpadaung; it is expected to start production in 2016. Tap Oil Limited (Australia) signed an exploration agreement in 2015 and assumed operation of a production-sharing contract for the shallow-water Block M-7 in the Moattama Basin, offshore in Myanmar. Reliance Industries (India) entered into two production-sharing contracts with the Government of Myanmar; and Eni (Italy) and PetroVietnam entered into production-sharing contracts in exploration and development of offshore blocks in 2015.

In services, QNET (Hong Kong, China) opened its first direct selling office in Yangon in 2015 and the second one in Mandalay in 2016. Restaurant Group (Hong Kong, China) and a local partner, Pizza Hut opened its first restaurant in Yangon in 2015 and aims at having 20 outlets by 2020. Rice Communications (Singapore) and Bell Pottinger (United Kingdom) each established operations in Yangon in 2015. Ford opened a second showroom and a service centre in Mandalay, BASF (Germany) opened a representative office and Panalpina (Switzerland) opened a logistic office in Yangon. TUEV Rheinland Group (Germany), a provider of technical, safety and certification services, established a presence in Myanmar. Comsoft (Germany) established a joint venture in 2015 with a local partner to provide aviation technology and consultancy services. Saha Group (Thailand) expanded in Myanmar with a local partner in logistics and warehouse businesses. Thonburi Hospital Group (Thailand) announced plans in 2015 to build two hospitals, with an investment of US$ 100 million, in Yangon with a local joint venture partner.

In the banking and finance sector, Sumitomo Mitsui Banking Corporation (Japan), Bangkok Bank (Thailand), United Overseas Bank (Singapore), Malayan Banking (Malaysia), Bank of Tokyo-Mitsubishi UFJ (Japan), Mizuho (Japan), Industrial and Commercial Bank of China, Oversea-Chinese Banking Corporation (Singapore) and Australia and New Zealand Banking Group each opened a branch in Myanmar in 2015. In 2015, the Central Bank of Myanmar also issued representative office licenses to other foreign banks, including Bank Negara

Indonesia, Taishin International Bank (Taiwan Province of China), Ho Chi Minh City Development Joint Stock Commercial Bank (Vietnam) and Qatar National Bank. Bank of China opened a representative office in September 2015. Visa (United States) opened an office in Yangon in 2015.

In the insurance industry, Dongbu Insurance (Republic of Korea) opened a branch in 2015. New India Assurance and Metlife (United States) each opened a representative office. Jardine Lloyd Thompson, headquartered in the United Kingdom and a member of the Jardine Matheson Group (Hong Kong, China), also opened a representative office in September 2015.

- **Vietnam's Investments**

According to the World Investment Report 2016, FDI inflows to Vietnam increased to US$ 11.8 billion in 2015, as compared to US$ 9.2 billion in 2014. During 2005-2015, FDI inflows to Vietnam increased nearly six-fold from US$ 2 billion. FDI outflows from Vietnam were at US$ 1.1 billion in 2015, a marginal fall from US$ 1.2 billion in 2014 **(Table 2.9)**.

According to the ASEAN Investment Report 2016, manufacturing sector attracted a large portion of the FDI inflows to Vietnam's (nearly 67 per cent in 2015) during the year. Manufacturing FDI flows to Vietnam in the year were dominated by Asian investors, in particular the Republic of Korea and ASEAN. Strong FDI in manufacturing during the year mainly include investment in expansion facilities of Samsung (Republic of Korea) and LG (Republic of Korea), the investment of PTT (Thailand) and Saudi Aramco in a US$ 22 billion petrochemical and oil refinery project, the 2,640 MW BOT Van Phong Thermal Plant I and the US$ 5 billion real estate development in Ho Chi Minh City by two Korean companies, Eunsan Group and Oue Group.

Since 2006, Korean investments in Vietnam have risen rapidly, particularly in manufacturing activities, becoming the largest source of investment in that

**Table 2.9: FDI flows to and from Vietnam**

*(US$ mn)*

| Vietnam | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FDI Inflows | 1954.0 | 2400.0 | 6981.0 | 9579.0 | 7600.0 | 8000.0 | 7519.0 | 8368.0 | 8900.0 | 9200.0 | 11800.0 |
| FDI Outflows | 65.0 | 85.0 | 184.0 | 300.0 | 700.0 | 900.0 | 950.0 | 1200.0 | 1956.0 | 1150.0 | 1100.0 |

*Source: World Investment Report, 2016, UNCTAD; and Exim Bank Analysis*

country. Samsung, LG Electronics, Kumho Tire, Lotte and the many Korean MSMEs are the major Korean investors in the country.

As regards outflows, companies from Vietnam continue to be active in investing in neighbouring countries[8]. The Bank for Investment and Development of Vietnam in 2016 received a banking license to operate in Myanmar. Viettel received approval in 2015 to operate in Myanmar and announced that it will invest US$ 800 million in a telecommunication project with other partners. Vinamilk started construction of a joint venture milk manufacturing plant in the Phnom Penh SEZ (Cambodia) in 2015. The plant started operation in 2016. The Vietnam Rubber Group opened a rubber latex processing plant in Cambodia in 2015. In 2015, Hoang Anh Gia Lai invested in a number of business activities in Lao PDR, including a cow breeding business, rubber and oil palm plantations and a kali salt mining project, among others.

[8]ASEAN Investment Report 2016

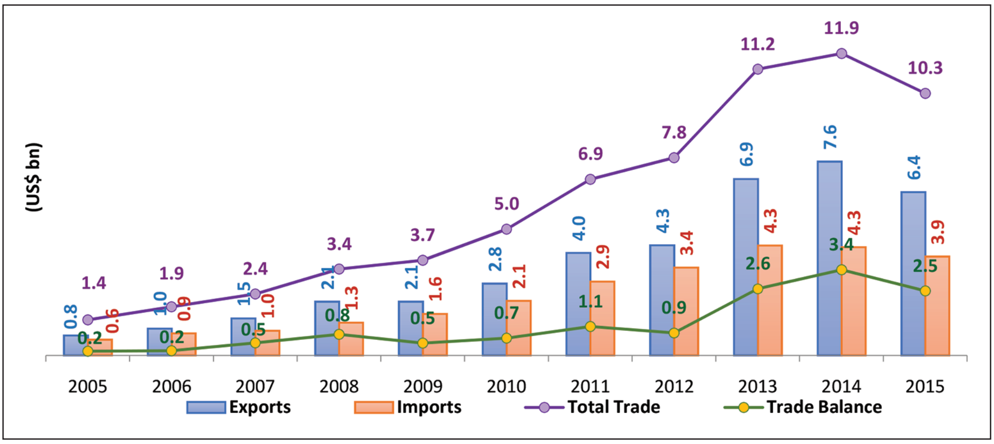
# 3. INDIA'S BILATERAL TRADE AND INVESTMENT WITH CLMV COUNTRIES

The adoption of 'Look East' (now 'Act 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 being a dialogue partner to a strategic partner. The economic and trade linkages, which saw an expansion of trade volumes, showed the intensity of economic engagements between Inida and ASEAN, and thus CLMV. During the last ten years, India's total trade with the CLMV countries has grown from US$ 1.4 billion in 2005 to US$ 10.3 billion in 2015, indicating a more than seven-fold increase **(Chart 3.1)**.

India's exports to CLMV increased by more-than eight-fold from US$ 0.8 billion in 2005 to US$ 6.4 billion in 2015, thereby accounting for 24.3 per cent share in India's exports to ASEAN. India's imports from CLMV, on the other hand, increased by nearly six-fold from US$ 0.6 billion in 2005 to US$ 3.9 billion in 2015, thereby accounting for 9.4 per cent share in India's imports from ASEAN **(Chart 3.2)**.

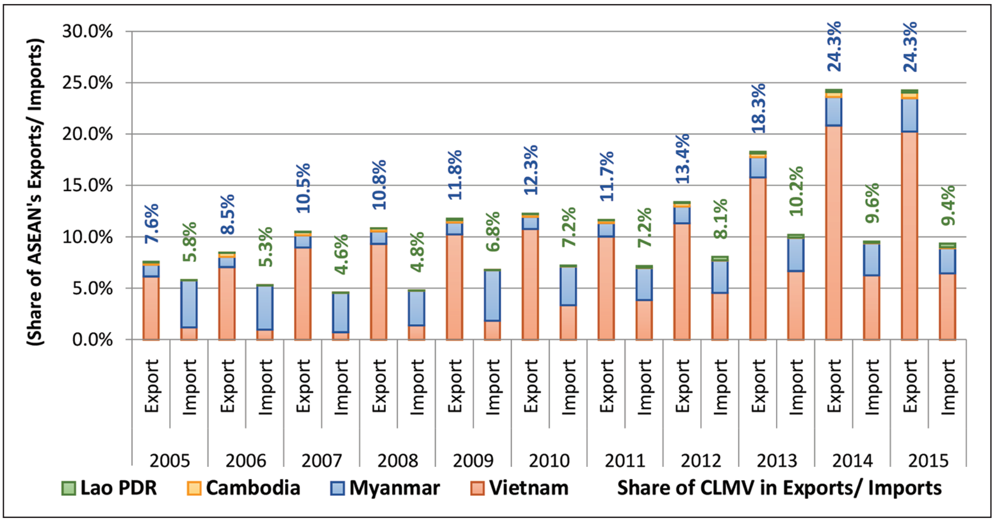
India maintained a trade surplus with CLMV countries at US$ 2.5 billion in 2015. Among the CLMV countries, India maintained a trade surplus with Vietnam and Cambodia and a deficit

**Chart 3.1: India's Trade with CLMV Region**




*Source: ITC Trademap; and Exim Bank Analysis*

**Chart 3.2: India's Trade with CLMV as Share of ASEAN**




*Source: ITC Trademap; and Exim Bank Analysis*

with Myanmar and Lao PDR. Trade deficit with Myanmar was mainly due to increased imports of edible vegetables and certain roots and tubers, while deficit with Lao PDR was mainly on the back of large imports of ores, slag and ash.

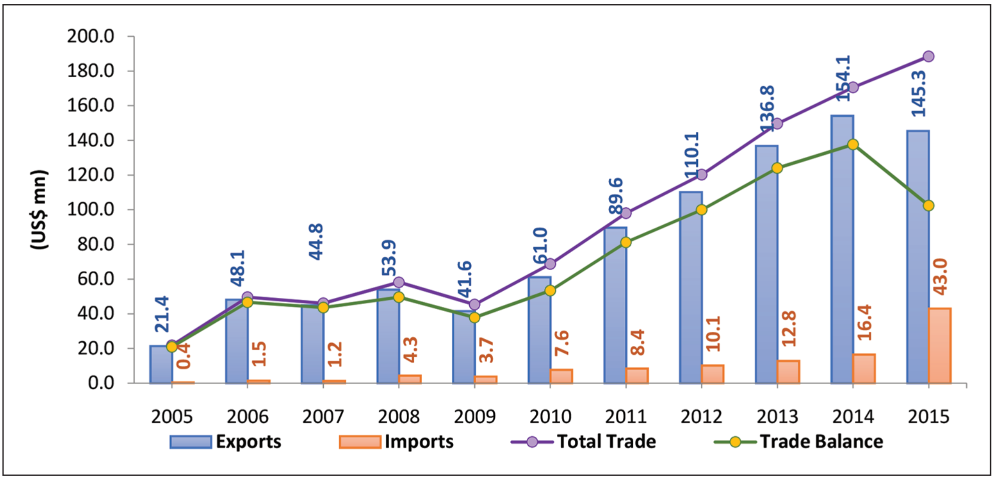
- **Cambodia**

India's exports to Cambodia grew at a CAGR of 21.1 per cent from US$ 21.4 million in 2005 to US$ 145.3 million in 2015 **(Chart 3.3)**. Cambodia accounted for 2.3 per cent of India's total exports to the CLMV region in 2015. India's key exports to Cambodia in 2015 include pharmaceutical products (26.4 per cent of total Indian exports to Cambodia), cotton (11.6 per cent), man-made staple fibres (8.4 per cent), raw hides and skins and leather (8.2 per cent), vehicles other than railway tramway (7.6 per cent) and residues and waste from the food industries (6.3 per cent).

India is Cambodia's twelfth-largest global source of imports in 2015. Among major import items of Cambodia, India is the fourth-largest supplier of manmade staple fibres; eleventh-largest supplier of electrical and electronic equipment and ninth-largest supplier of cotton.

India's imports from Cambodia grew at a faster pace with a CAGR of 58.7 per cent, from US$ 0.4 million in 2005 to US$ 43 million in 2015. In 2015, Cambodia accounted for 1.1 per cent of India's total imports from the CLMV region. Wood and its articles (45.7 per cent of total imports from Cambodia) were India's key imports from Cambodia in 2015. Other imports

**Chart 3.3: India's Trade with Cambodia**




*Source: ITC Trademap; and Exim Bank Analysis*

include readymade garments (21.1 per cent), rubber and its articles (12.3 per cent), salt, sulphur and earthstones (6.4 per cent) and footwear, gaiters and its parts (5.8 per cent).

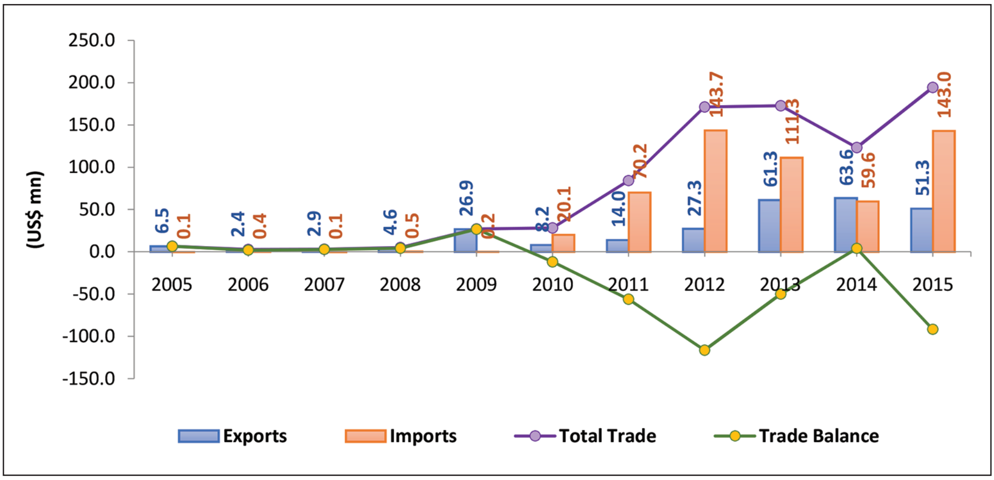
- **Lao PDR**

India's bilateral trade with Lao PDR has grown significantly from US$ 6.6 million in 2005 to US$ 194.2 million in 2015 **(Chart 3.4)**. Trade balance, which had been in favour of India, turned towards Lao PDR in 2010, primarily stemming from India's increased purchase of copper ores and concentrates of Lao PDR. India's trade balance with Lao PDR reversed from a surplus of US$ 6.5 million in 2005, to a deficit of US$ 91.7 million in 2015.

India's exports to Lao PDR grew at a CAGR of 22.9 per cent to be at US$ 51.3 million in 2015, from US$ 6.5 million in 2005. Lao PDR accounted for a marginal share in India's exports to the CLMV region; in 2015, it accounted for 0.8 per cent of India's total exports to the region. Meat and edible meat offal were India's major export items to Lao PDR in 2015, accounting for 33.1 per cent of India's total exports to the country. It was followed by vehicles other than railway and tramway (29 per cent), machinery and equipment (10.2 per cent), residues and waste from the food industries (9.7 per cent) and electrical and electronic equipment (5.9 per cent). India was the seventh-largest global source of imports for Lao PDR in 2015.

India's import from Lao PDR has surged from US$ 0.1 million in 2005 to US$ 143 million in 2015. In 2015, Lao PDR accounted for 3.7 per cent of India's imports from the CLMV region.

**Chart 3.4: India's Trade with Lao PDR**




*Source: ITC Trademap; and Exim Bank Analysis*

The rise in India's imports from Lao PDR since 2009 was primarily due to India according Duty Free Tariff Preference Scheme (DFTP) to Least Developed Countries, including Lao PDR. The Scheme grants Lao PDR duty free access to 94 per cent of India's total tariff lines.

Ores, slag and ash was India's main import item from Lao PDR, accounting for 52.1 per cent of India's total imports from the country in 2015. Other major items imported include wood and its articles (28.5 per cent) and lead and its articles (8.8 per cent).

India is the fourth-largest global export destination for Lao PDR in 2015. Among the major exports of Lao PDR, India is the fourth-largest destination for export of wood and articles of wood, and the second-largest destination for export of ores, slag and ash.

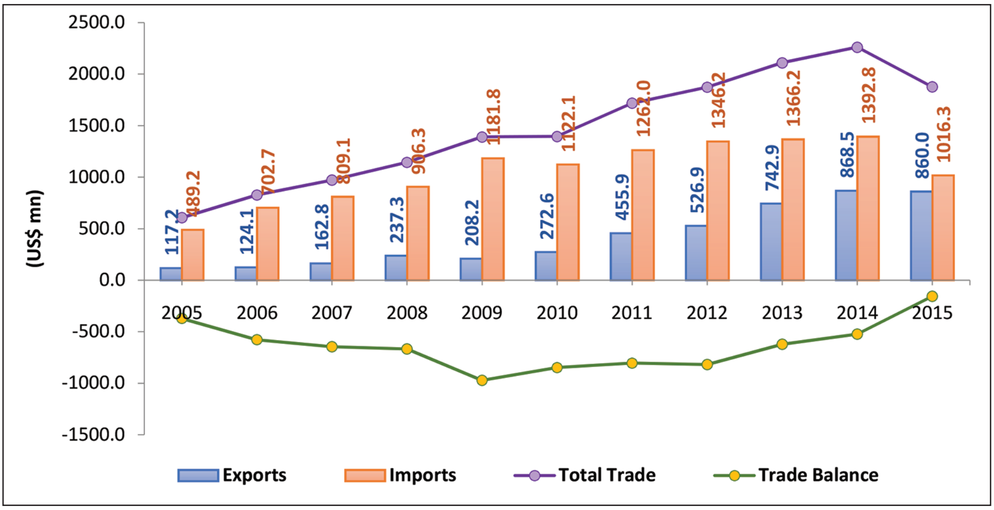
- **Myanmar**

Trade relations between India and Myanmar have witnessed a steady growth in recent years, with India's trade having risen from US$ 606.4 million in 2005 to US$ 1.9 billion in 2015 **(Chart 3.5)**, a three-fold increase. In 2015, Myanmar accounted for 18.2 per cent of India's total trade with the CLMV region, which included 13.4 per cent of India's exports to the region and 26.2 per cent of India's imports from the region.

India's exports to Myanmar increased at a CAGR of 22.1 per cent to US$ 860 million in 2015 from US$ 117.2 million in 2005, while imports increased at a CAGR of 7.6 per cent from US$ 489.2 million in 2005, to US$ 1 billion in 2015.

Accordingly, India's trade deficit with Myanmar stood at US$ 156.3 million in

**Chart 3.5: India's Trade with Myanmar**




*Source: ITC Trademap; and Exim Bank Analysis*

2015, from US$ 371.9 million in 2005. India's trade deficit with Myanmar is primarily on account of the deficit it maintains in edible vegetables and certain roots and tubers and wood and articles of wood.

Main export items of India to Myanmar in 2015 were sugars and sugar confectionery (24.6 per cent of total exports to Myanmar), pharmaceutical products (19.4 per cent), electrical and electronic equipment (8.5 per cent), cotton (5.7 per cent), and machinery and equipment (5 per cent).

India is the fifth-largest global source of imports for Myanmar in 2015. Among major import items of Myanmar, India is the fifth-largest supplier of electrical and electronic equipment; seventh-largest supplier of machinery and equipment; and sixth-largest supplier of vehicles other than railway, tramway.

Main imports of India from Myanmar during 2015 were edible vegetables and roots (84 per cent of total imports from Myanmar), and wood and its articles (12 per cent).

India is the third-largest global export destination for Myanmar in 2015. Commodity-wise, India is the largest destination for Myanmar's export of edible vegetables, roots and tubers, and the second-largest destination for export of wood and its articles.

**India-Myanmar Border Trade**

Myanmar shares long land borders with five neighbouring countries. Nearly 75 per cent of Myanmar's exports and 40 per cent of its imports are with its neighbours, China, Thailand and India. Myanmar's border trade happens through various border points with four neighbouring countries that share land borders, namely China, Thailand, Bangladesh, and India.

With regard to border trade, India and Myanmar signed a border trade agreement in 1994. Border points with India are at Tamu and Rhi. Myanmar has favourable border trade with its neighbouring countries, and has maintained a border trade surplus with India throughout the years. The border trade turnover between India and Myanmar had a quantum jump during the year 2015-16 touching US$ 71.6 million from US$ 12.8 million in 2010-11 **(Table 3.1)**.

Trade along Indo-Myanmar border remains relatively low in comparison with China-Myanmar and Thailand-Myanmar borders. India has been a late entrant but the opening of more border points is likely to increase the volume of border trade[9].

At present there are four Land Customs Stations in India dealing with border trade with Myanmar of which Moreh (in Manipur state of India) is the most active one handling most of India's border trade with Myanmar **(Table 3.2)**.

Major items imported by Myanmar from India's border 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.

According to Myanmar Department of Border Trade, the border trade turnover between India and Myanmar would be higher if informal trade is taken into account. Secondary reports

**Table 3.1: Trends of India-Myanmar Border Trade (US$ mn)**

| Year | India's Exports to Myanmar | India's Imports from Myanmar | India's Total Border Trade with Myanmar | India's Border Trade Balance with Myanmar |
|---|---|---|---|---|
| 2010-2011 | 4.5 | 8.3 | 12.8 | -3.8 |
| 2011-2012 | 6.5 | 8.9 | 15.4 | -2.3 |
| 2012-2013 | 11.7 | 27.0 | 38.6 | -15.3 |
| 2013-2014 | 17.7 | 30.9 | 48.6 | -13.2 |
| 2014-2015 | 18.1 | 42.6 | 60.7 | -24.5 |
| 2015-2016 | 18.6 | 53.0 | 71.6 | -34.4 |

*Source: Embassy of India, Yangon, Myanmar*

[9]Enhancing India-Myanmar Border Trade : Policy and Implementation Measures, Dr. Ram Upendra Das, Department of Commerce, Ministry of Commerce and Industry, Government of India.

**Table 3.2: India-Myanmar Land Custom Stations**

| Sl. No. | LCS in India | LCS in Myanmar | Status |
|---|---|---|---|
| 1 | Nampong (Pangsau Pass) | Pangsu | Notified but non-functional |
| 2 | Zokhawthar | Rih | Functional |
| 3 | Moreh | Tamu | Functional Being developed as Integrated Check Post in Phase-I by D/o Border Management |
| 4 | Avangkhu | Somara | Bi-laterally agreed to open new Land Custom Station in the Indo-Myanmar Joint Trade Committee meeting in October, 2008. Not yet notified by Govt. of India under Section 7 of the Customs Act, 1962 (52 of 1962) (letter of Joint Commissioner, Central Excise & Custom, Shillong Zone, North Eastern Region No.VIII(29)1/CUS/CCO/SH/2010 dated 15.11.2010) |

*Source: Ministry of Development of North Eastern Region, Government of India*

also show the prevalence of informal trading of items like fertilizers, vehicles, particularly two-wheelers from India to Myanmar through land border.

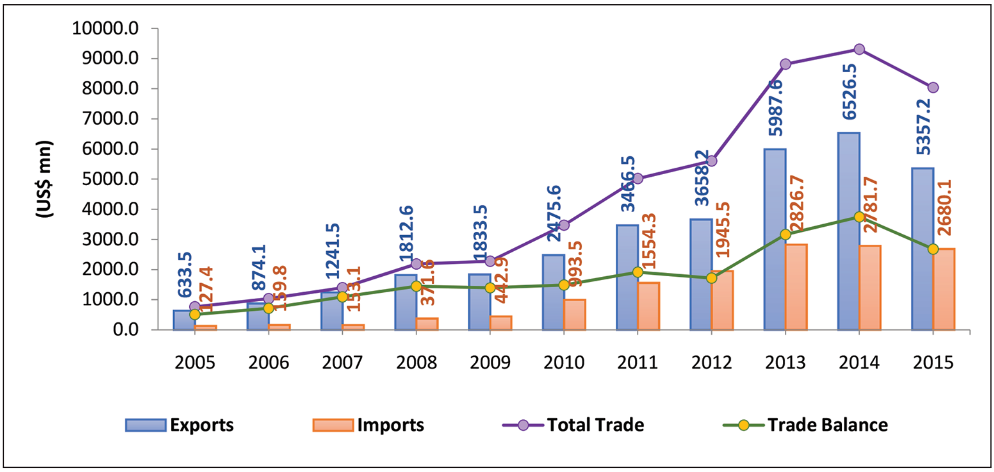
With the improvement of infrastructure (with regards to limited availability of electricity, bad roads, manual handling of goods, unfriendly exchange rate and many such barriers, making border trade expensive), there is a high potential for further strengthening of border trade between India and Myanmar.

- **Vietnam**

In recent years, India's relation with Vietnam is marked by growing economic and commercial engagement. Bilateral trade between India and Vietnam reached US$ 8 billion in 2015, from US$ 760.8 million in 2005 **(Chart 3.6)**. Vietnam is the largest export market for India in the CLMV region, accounting for 83.5 per cent of India's exports to the region in 2015.

India's exports to Vietnam increased at a CAGR of 23.8 per cent to US$ 5.4 billion in 2015, from US$ 633.5 million in 2005, while imports increased at a CAGR of 35.6 per cent from US$ 127.4 million in 2005 to US$ 2.7 billion in 2015.

**Chart 3.6: India's Trade with Vietnam**




*Source: ITC Trademap; and Exim Bank Analysis*

India maintained a trade surplus with Vietnam, which increased from US$ 506.1 million in 2005 to US$ 2.7 billion in 2015.

Major exports from India to Vietnam in 2015 were meat and edible meat offal, which comprise 36.5 per cent of India's total exports to Vietnam. Other principal export items include fish and crustaceans (17.4 per cent), cotton (5.4 per cent), vehicles other than railway and tramway (4.1 per cent) and coffee, tea, mate and spices (3.9 per cent).

As regards Vietnam's import sources, India is the eleventh-largest global source of imports for Vietnam in 2015. Among major import items of Vietnam, India is the eleventh-largest supplier of machinery and equipment, eighth-largest source of iron and steel and seventh-largest source of vehicles other than railway or tramway.

As regards India's export market, Vietnam is the eleventh-largest global export destination for India in 2015. It is the largest destination for India's global export of meat and edible meat offal and oil seed, oleagic fruits; second-largest destination (after USA) for India's global export of fish, crustaceans, molluscs, and aquatic invertebrates and coffee, tea, mate and spices; and fourth-largest destination for India's global export of cotton.

As regards India's imports from CLMV region, Vietnam accounted for 69 per cent of India's total imports from the region in 2015. Main imports of India from Vietnam in 2015 were electrical and electronic equipment, accounting for 36.6 per cent of India's total imports from Vietnam. The other principal import items include machinery and equipment

(11.5 per cent), coffee, tea, mate and spices (6.7 per cent), inorganic chemicals (6.1 per cent), and rubber and articles (5.8 per cent).

**India's Investment Relations with CLMV region**

Alongside trade, India's investments in the CLMV region have also received a boost in recent years. CLMV countries are receiving strong investment interest from India mainly due to their high-growth markets, low wage labour and natural resource reserves. India's approved direct investments in joint ventures (JVs) and wholly owned subsidiaries (WOSs) in CLMV countries amounted to US$ 772.7 million during April 1996 to December 2016, with the bulk of flows directed towards Vietnam (66.5 per cent of the total flows to the CLMV region) **(Table 3.3)**.

- **Cambodia**

India's approved direct investments in joint ventures and wholly owned subsidiaries in Cambodia amounted to US$ 27.5 million during April 1996 to December 2016. 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.

- **Lao PDR**

India's approved direct investments in joint ventures and wholly owned subsidiaries in Lao PDR amounted to US$ 16.1 million during April 1996 to December 2016. Some of the Indian companies that have invested in Lao PDR include Birla, GIMPEX India,

**Table 3.3: India's Approved Overseas Direct Investment in CLMV Region (US$ mn)**

| Name of the Country | April 1996 to March 2010 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 (Apr-Dec) | April 1996 to December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Cambodia | 14.5 | - | 0.4 | 9.6 | 0.9 | 0.3 | 0.3 | 1.5 | 27.5 |
| Lao PDR | 8.0 | 2.0 | 2.1 | 0.2 | 1.4 | 1.0 | 1.2 | 0.3 | 16.1 |
| Myanmar | 121.8 | 45.3 | 9.7 | 3.2 | 16.2 | 4.0 | 1.4 | 12.9 | 214.6 |
| Vietnam | 361.3 | 76.1 | 3.1 | 2.4 | 22.5 | 20.9 | 9.4 | 18.8 | 514.6 |
| **CLMV Total** | **505.7** | **123.4** | **15.4** | **15.4** | **40.9** | **26.3** | **12.3** | **33.5** | **772.7** |

*Note: '-' not available/ negligible*
*Source: Ministry of Commerce and Industry (MOCI), Government of India; RBI; and Exim Bank Analysis*

HSMM Group, Grasim Industries Ltd., Integrity Geosciences Pvt Ltd., and CCS Grower Systems Private Ltd., 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 (BLPP), established in June 2006, has set up a Eucalyptus pulp and plantation project in Savannakhet province. Three companies viz., Grasim Industries Ltd., India, Thai Rayon Public Company Ltd., Thailand, and PT Indo Bharat Rayon, Indonesia, form the equity holders in BLPP. This is the biggest Indian FDI in Lao PDR.

- The Lao SPG CMC Mining Company Ltd., a subsidiary of GIMPEX India, obtained a license for an iron ore mine in 2008, with This is a 200 hectare iron-ore mine at Ta En village, Viengxay district, Samneua province.

- The HSMM Group has invested in Agarwood plantations and two factories in Vientiane and Xaysomboun, Vientiane province. It has also invested in iron ore mines in the Sekong province and 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.

- **Myanmar**

During April 1996 to December 2016, the cumulative approved Indian FDI in joint ventures and wholly owned subsidiaries (FDI outflow) from India to Myanmar stood at US$ 214.6 million. Indian companies having operations in Myanmar include ONGC Videsh Limited (OVL), Jubilant Oil and Gas, and 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, Bank of India and State bank of India have their presence 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) 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 -
  - o Kaladan Multimodal Transit Transport Project, building/ upgrading 71 bridges on the Tamu-Kalewa-Kalemyo road; and
  - o Construction / upgradation of the Kalewa-Yargyi section of the trilateral highway (which envisages seamless connectivity between India, Myanmar and Thailand).
- Setting up of an India-Myanmar Industrial Training Centre in Pakokku with the assistance of Government of India, with a second centre 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; and
- Besides, the Government of India is also closely working with the Government of Myanmar towards implementing the MOU on Border Area Development.

• **Vietnam**

Vietnam continues to be an attractive investment destination for Indian companies in the CLMV region. India's approved direct investments in joint ventures and wholly owned subsidiaries in Vietnam amounted to US$ 514.6 million during April 1996 to December 2016. Indian companies are investing in energy, mineral exploration, agro-processing, sugar manufacturing, agro-chemicals, IT, and agricultural processing industries of Vietnam.

- 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;

- 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 an 85 per cent equity in International Consumer Products Corporation, while Fortis Healthcare International bought 65 per cent stake in Vietnam's Hoan My Medical Corporation;

- Tata Power Co. Ltd. has signed a contract 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; and

- 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.

Indian Banks have a limited presence in the CLMV region. Indian Banks in the ASEAN (including CLMV) region is represented in (**Table 3.4).** Indian Banks have also set up subsidiaries in the Region. Some of which include Bank SBI Indonesia with 76 per cent stake of State Bank of India, PT Bank of India Indonesia TBK with 76 per cent of Bank of India, and India International Bank (Malaysia) Bhd (IIBM) with 40 per cent stake of Bank of Baroda and 35 per cent stake of Indian Overseas Bank, and 25 per cent stake of Andhra Bank.

FDI inflows to India from CLMV countries have been low at US$ 13.6 million during April 2000 and December 2016. These investments have been dominated by inflows from Myanmar **(Table 3.5)**.

## Table 3.4: Presence of Indian Banks/FIs in ASEAN countries

| | Brunei Darus-salam | Cambodia | Indonesia | Lao PDR | Malaysia | Myanmar | Philippines | Singapore | Thailand | Viet Nam |
|---|---|---|---|---|---|---|---|---|---|---|
| AXIS Bank | | | | | | | | Branch | | |
| Bank of Baroda | | | | | | | | Branch | Repre-sentative office | |
| Bank of India | | Branch | Repre-sentative office | | | Repre-sentative office | | Branch | | Repre-sentative office |
| Exim Bank | | | | | | Repre-sentative office | | Repre-sentative office | | |
| ICICI Bank | | | Repre-sentative office | | | | | Branch | Repre-sentative office | |
| Indian Bank | | | | | | | | Branch | | |
| Indian Overseas Bank | | | | | | | | Branch | Branch | Repre-sentative office |
| State Bank of India | | | | | | Branch | Repre-sentative office | Branch | | |
| UCO Bank | | | | | | | | Branch | | |
| United Bank of India | | | | | | Repre-sentative office | | | | |

*Source: RBI*

## Table 3.5: FDI Equity Inflows to India from CLMV Countries (US$ mn)

| Country | FDI Inflow during April 2000 to December 2016 (US$ mn) |
|---|---|
| ***CLMV*** | ***13.6*** |
| **Myanmar** | 9.0 |
| **Vietnam** | 4.6 |
| **Cambodia** | 0.04 |

*Source: Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India; and Exim Bank Analysis*

# 4. INDIA'S INITIATIVES TO ENHANCE REGIONAL AND BILATERAL TRADE AND INVESTMENT WITH CLMV COUNTRIES

In order to further strengthen India-ASEAN relations and as an attempt to provide an impetus to the regional integration that India has with its eastern neighbours, India's 'Look East' Policy was renewed to 'Act East' Policy in 2014. The objective of 'Act East Policy' is to promote economic cooperation, cultural ties and develop strategic relationship with countries in the Asia-Pacific region through continuous engagement at bilateral, regional and multilateral levels thereby providing enhanced connectivity to the states of India's Northeastern Region.

Further, India's Union Budget for 2015-16 proposed the setting up of project development fund in order to catalyze investments from the Indian private sector to the region.

Inida and ASEAN have several regional and bilateral initiatives to enhance trade and investment. The following chapter highlights few of them.

***ASEAN - India Comprehensive Economic Cooperation Agreement***

The ASEAN - India Framework Agreement on Comprehensive Economic Cooperation (CECA) was signed between India and ASEAN[10] on October 8, 2003 in Bali, Indonesia, to institutionalise a framework for future economic cooperation. The agreement covered the following objectives –

1) Trade in Goods Agreement

2) Trade in Services and Investment Agreement

These together would form the ASEAN - India Free Trade Area (AIFTA).

The India-ASEAN Trade in Goods Agreement was signed, after six years of negotiation, on August 13, 2009, in Bangkok, Thailand. This agreement came into effect on January 1, 2010.

[10]The signing of the ASEAN declaration or Bangkok declaration marked the establishment of the ASEAN (Association of Southeast Asian Nations) on August 8, 1967 in Bangkok, Thailand. The founding member states of ASEAN were Indonesia, Malaysia, Philippines, Singapore and Thailand. Later, it was joined by Brunei Darussalam (1984), Vietnam (1995), Lao PDR and Myanmar (1997) and Cambodia (1999).

The ASEAN-India Agreement on Investment and Trade in Services was signed on November 13, 2014, came into effect on July 1, 2015.

- **Trade in Goods Agreement**

The India-ASEAN Agreement on Trade in Goods came into force on January 1, 2010 in the case of Malaysia, Singapore and Thailand; June 1, 2010 for Vietnam; September 1, 2010 for Myanmar; October 1, 2010 for Indonesia; November 1, 2010 for Brunei; January 24, 2011 for Lao PDR; June 1, 2011 for Philippines; and July 29, 2011 for Cambodia. Elimination or reduction of tariffs under the various tariff categories like normal tracks 1 & 2, sensitive track, special products and highly sensitive track would be 2019 for ASEAN non-CLMV barring Philippines; 2022 for Philippines; and 2024 for Cambodia, Lao PDR, Myanmar and Vietnam (CLMV). Tariff concessions in the Agreement are offered either through tariff elimination or tariff reduction. **(Table 4.1)** itemizes the agreed tariff reduction or elimination framework for different categories of tariff lines among the ASEAN member states and India.

Under the Agreement, ASEAN countries and India have agreed to progressively eliminate tariffs on 80 per cent of the tariff lines, accounting for 75 per cent of the trade[11]. India has excluded 489 tariff lines (HS6 Digit level) from the list of tariff concessions and 590 tariff lines from the list of tariff elimination to address sensitivities in agriculture, textiles, auto, chemicals, petrochemicals, crude and refined palm oil, coffee, tea, pepper, etc. ASEAN countries have also maintained country wise exclusion list from the proposed tariff concessions or eliminations.

- **Trade in Services & Investment Agreement**

The ASEAN-India Trade in Services Agreement was signed on November 13, 2014 came into effect from July 1, 2015. Select articles contained in the Services Agreement include transparency, domestic regulations, recognition, market access, and national treatment, increasing participation of developing countries, joint committee on services, review, dispute settlement and denial of benefits. The Investment Agreement primarily focuses on protection of investment to ensure fair and equitable treatment for investors, non-discriminatory treatment in expropriation or nationalisation, and fair compensation.

The India-ASEAN Trade in Services and Investment Agreement covers

[11]Free Trade Agreements, Frequently Asked Questions (FAQs), Ministry of Commerce and Industry, Government of India

**Table 4.1: India-ASEAN Tariff Reduction/Elimination Framework**

| Category | Brunei, Indonesia, Malaysia, Singapore, Thailand & India | India and Philippines | Cambodia, Lao PDR, Myanmar, Vietnam (CLMV) & India |
|---|---|---|---|
| **Normal Track 1** | MFN tariff rates to be reduced to 0% by 2013 | MFN tariff rates to be reduced to 0% by 2018 | MFN tariff rates to be reduced to 0% for India by 2013 and 0% for CLMV by 2018 |
| **Normal Track 2** | MFN tariff rates to be reduced to 0% by 2016 | MFN tariff rates to be reduced to 0% by 2019 | MFN tariff rates to be reduced to 0% for India by 2016 and 0% for CLMV by 2021 |
| **Sensitive Track** | i. MFN tariff rates to be reduced to 5% by 2016<br><br>ii. Other than 50 tariff lines, MFN rates to be reduced to 4.5% upon entry into force of the Agreement. Preferential Tariffs rates to be reduced to 4% by 2016.<br><br>iii. Applied MFN tariff rates on 4 per cent of the tariff lines placed in the Sensitive Track (as will be identified by each Party) will be eliminated by 2019. | i. MFN tariff rates to be reduced to 5% by 2019<br><br>ii. Other than 50 tariff lines, MFN rates to be reduced to 4.5% upon entry into force of the Agreement. Preferential Tariffs rates to be reduced to 4% by 2019.<br><br>iii. Applied MFN tariff rates on 4 per cent of the tariff lines placed in the Sensitive Track (as will be identified by each Party) will be eliminated by 2022. | i. MFN tariff rates to be reduced to 5% by 2016 for India and for CLMV by 2021<br><br>ii. Other than 50 tariff lines, MFN rates to be reduced to 4.5% by 5 years for CLMV. Preferential Tariffs rates to be reduced to 4% by 2021.<br><br>iii. Applied MFN tariff rates on 4 per cent of the tariff lines placed in the Sensitive Track (as will be identified by each Party) will be eliminated by 2024 |
| **Special Product* (Applicable for India)** | MFN tariff rate to be reduced to 37.5% for crude oil, 50% for pepper, 45% for palm oil, coffee and black tea by 2019 | MFN tariff rate to be reduced to 37.5% for crude oil, 50% for pepper, 45% for palm oil, coffee and black tea by 2019 | MFN tariff rate to be reduced to 37.5% for crude oil, 50% for pepper, 45% for palm oil, coffee and black tea by 2019 |
| **Highly Sensitive Track (Not applicable for Brunei, Lao, Myanmar & Singapore)** | MFN tariff rates to be reduced to 50% (Category 1), 50% (Category 2) and 25% (Category 3) by 2019 | MFN tariff rates to be reduced to 50% (Category 1), 50% (Category 2) and 25% (Category 3) by 2022 | MFN tariff rates to be reduced to 50% (Category 1), 50% (Category 2) and 25% (Category 3) by 2024 |
| **Exclusion List** | Exclusion Lists shall be subject to an annual tariff review with a view to improving market access | Exclusion Lists shall be subject to an annual tariff review with a view to improving market access | Exclusion Lists shall be subject to an annual tariff review with a view to improving market access |

* India's Schedule of Tariff Commitments consists of 40 items placed under Special Products. This is also referred to as India's Highly Sensitive List. These items belong to 5 products namely Crude Palm Oil (CPO), Refined Palm Oil (RPO), coffee, pepper and tea.

*Source: ASEAN – India Trade Goods Agreement, Ministry of Commerce*

General Agreement on Trade in Services (GATS) plus commitments for different modes of supply of services. Each of the ASEAN countries have submitted individual schedule commitments which would be equally applicable to all participating countries.

Both India and ASEAN Member States have taken GATS plus commitments in various Services and modes of supply. GATS plus commitments are done in mainly two ways. Firstly, it assures that the partner country's service provider would be considered as a local service provider in matters of regulations and taxation. This commitment extends the "National Treatment "to areas which were previously not made available by the nation. Secondly, it promises to provide better market access to the service providers of the partner country (recognition in terms of regulatory certification). So the preferential content of a regional trade in service agreement becomes "deeper" or "wider" with a GATS plus commitment compared to GATS. Each ASEAN Member State has tabled individual schedule of commitments, which are equally applicable for India and other ASEAN Member States. India on the other hand has tabled three schedules of commitments one for Philippines, one for Indonesia and one for the remaining eight ASEAN Member States. It was also agreed by India that in order to increase participation of the least developed countries (LDCs) no additional requests would be tabled to the CLMV countries.

The Agreement also includes a brief annex on Movement of Natural persons, which defines Business Visitors, Intra Corporate Transferees (Managers, Executives and Specialists) and Contractual Service Suppliers. This will help provide commercially meaningful market across in ASEAN for professionals, including those from the IT/ITeS sector. However, an independent professional has not been defined in this Annex.

***Mekong-Ganga Cooperation***

The Mekong-Ganga Cooperation (MGC), established on November 10, 2000, is an initiative by six countries – India and five ASEAN countries namely, Thailand, Cambodia, Lao PDR, Myanmar and Vietnam – for cooperation in the fields of tourism, education, culture, transport and communication. The Seventh Mekong Ganga Cooperation Ministerial Meeting (7th MGC MM) was held on July 24, 2016 in Vientiane, Lao PDR, chaired by the Minister of Foreign Affairs of Lao PDR. The Ministerial Meeting emphasized that collaboration under MGC must be given a sense of urgency since it actively supports the Initiative for ASEAN Integration, the Master Plan on

ASEAN Connectivity, and contributes towards the implementation of the ASEAN Community Vision 2025[12].

***Regional Comprehensive Economic Partnership (RCEP) Agreement***

Regional Comprehensive Economic Partnership (RCEP) Agreement is a proposed free trade agreement (FTA) between ASEAN (including Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam) and six FTA Partners (Australia, China, India, Japan, South Korea and New Zealand). RCEP negotiations were formally launched in November 2012, at the ASEAN Summit in Cambodia. There have been several rounds of detailed negotiations to conclude the RCEP. The 15th round of RCEP negotiation was held during October 11-22, 2016, in Tianjin, China.

**CAMBODIA**

***Bilateral Agreements***[13]

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

- MOU on Tourism Cooperation (February 2000);
- Cultural Exchange Programmes (CEP) (February 2000);
- MOU for setting up of Cambodia-India Entrepreneurship Development Centre (CIEDC) (August 2005);
- MOU on Cooperation in the field of Water Resources Management (December 2007);
- Work Plan under MOU on Agricultural Cooperation for 2007 and 2008 (December 2007);
- MOU on Cooperation and Technical Assistance between the ONGC Videsh Ltd. and the Cambodian National Petroleum Authority (December 2007);
- MOU for supply and installation of hand pumps in two provinces of Cambodia, namely Kampong Cham and Banteay Meancheay (September 2011);
- MOU for implementation of India-CLMV Quick Impact Projects under Mekong Ganga Cooperation initiative (September 2012);
- MOU for setting up of Center for IT Excellence in Cambodia (February 2012); and
- MOU on Tourism Cooperation between Indian and Cambodia (September 2015).

***Other Areas of Cooperation***[14]

- In May 2009, India introduced Duty

[12]Ministry of External Affairs (MEA), Government of India.
[13]India- Cambodia Relations Brief, Ministry of External Affairs (MEA), Government of India (GOI)
[14]India- Cambodia Relations Brief, MEA, GOI and Embassy of India, Phnom Penh

Free Tariff Preference Scheme to LDCs, which includes Cambodia.

- For the purpose of capacity building, India has set up Cambodia-India Entrepreneurship Development Centre (CIEDC) in February, 2006 and Cambodia-India Centre for English Language Training (CICELT) in August, 2007 in Phnom Penh.
- The India-Cambodia Center of Excellence and Talent Development (ICCETD) has started operations in Phnom Penh.
- Cambodia is a major recipient of the Indian Technical and Economic Cooperation (ITEC) programme.

**LAO PDR**

***Bilateral Agreements***[15]

- India-Lao PDR Cultural Agreement (August 1994);
- Agreement for setting up of Joint Commission on Trade, Economic and Scientific Cooperation (May 1997);
- Agreements on (i) Trade and Economic Cooperation; and (ii) Bilateral Investment Promotion and Protection (November 2000);
- Agreement on Cooperation in Defence (November 2000);
- Agreement on Cooperation in Science and Technology (June 2003); and
- Agreement on Exemption of Visa Requirement for holders of Diplomatic and Official Passports (2005).

***Other Areas of Cooperation***

- Institutional consultative mechanisms include Foreign Office Consultations (FOCs) (the 2nd FOC was held in New Delhi in August, 2015) and Joint Commission Meeting (JCM) (the 8th JCM was held in New Delhi in August, 2015).
- 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 PDR nationals through the Indian Technical and Economic Cooperation, the Mekong-Ganga Cooperation Scholarship Scheme and the General Cultural Scholarship Scheme.
- The LICELT (Lao India Centre for English Language Training) was set up in Vientiane in June

[15]India-Lao PDR Relations Brief, MEA, GOI

2007, under the India-ASEAN Cooperation framework, and is one of the assistance projects in the direction of capacity-building and self-sustaining capability of Lao PDR.

- The LIEDC (Lao-India Entrepreneurship Development Centre) was set up under India-ASEAN Fund; and was 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, was done by Archaeological Survey of India (ASI) Team as per MoU signed by India and Lao PDR in 2007.

**MYANMAR**

***Bilateral Agreements***[16]

- *Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (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.

- *South Asian Association for Regional Cooperation (SAARC):* is an organisation of South Asian nations (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka). Myanmar was given the status of observer in SAARC in August 2008.

- India and Myanmar signed a double taxation avoidance agreement in April 2008 and a Bilateral Investment Promotion and Protection Agreement on June 24, 2008, which came into effect on February 8, 2009.

***Other Areas of Cooperation***

- The First India-Myanmar Joint Consultative Commission (JCC) Meeting co-chaired by the External Affairs Minister of India and the Foreign Minister of Myanmar was held in New Delhi on July 16, 2015.

- Set up in 2003, the Joint Trade Committee has met five times. The 5th JTC meeting was held in Nay Pyi Taw on February 16-17, 2015.

- In May 2009, India introduced Duty Free Tariff Preference Scheme to LDCs, which includes Myanmar.

- An India-Myanmar Industrial Training Centre has been set up by HMT(I) in Myanmar with the

[16]India-Myanmar Relations Brief, MEA, GOI

assistance of the Government of India. Other such centres include the Myanmar-India Centre for English Language (MICELT), Myanmar-India Entrepreneurship Development Centre (MIEDC) and India-Myanmar Centre for Enhancement of IT Skills (IMCEITS).

## VIETNAM

### ***Bilateral Agreements***[17]

- The two nations have signed a Bilateral Investment Promotion and Protection Agreement, Double Tax Avoidance Agreement and Consular Agreement.
- A maritime trade agreement was signed in May, 2013, which aims to expand maritime transport between Vietnam and India, promote bilateral economic exchanges and trade, and improve the Vietnamese maritime sector's regional and international opportunities.
- Select agreements signed by the two nations include:
  - o Agreement on Cooperation between Petrovietnam and ONGC Videsh Ltd.
  - o MoU between the two central banks – Reserve Bank of India and the State Bank of Vietnam, signed in 2012.
  - o An MoU between TRAI and the Vietnam Telecommunications Authority (VNTA) and MoU on cooperation in the field of spectrum management between the Wireless Planning and Coordination Wing, M/IT and the Authority of Radio Frequency Management, VN Ministry of Communication was signed in New Delhi in July 2013.
  - o An MoU on cooperation in Information Technology was signed in Vietnam in September 2016.
  - o Several other agreements including Customs, Defense LOC, Animal Health, Pangasius Breeding, Youth Affairs, education, culture, and energy, have been signed during exchange of high–level visits.

### ***Other areas of Cooperation***

- Joint Commission Meeting at the Foreign Ministers' level, the Foreign Office Consultations (FOCs) and Strategic Dialogue at Secretary-level between India and Vietnam have provided the larger framework for bilateral cooperation in various areas. The 8th round of FOCs and the 5th Strategic Dialogue were held in New Delhi on August 2, 2016.

[17]India-Vietnam Relations Brief, MEA, GOI

- The first meeting of the Joint Maritime Liaison Committee was held on April 15, 2016, on the sidelines of the 2016 Maritime India Summit, in Mumbai.
- The India-Vietnam Joint Sub-Commission on Trade was set up in 2013 and meets regularly, the last meeting being in March 2016, in New Delhi.
- 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 geographic information systems (GIS) Application development. India is also providing a PARAM Supercomputer to Vietnam.
- A joint venture between FPT, Vietnam and India's APTECH to establish a training centre for Vietnam's information technology professionals in India.
- Vietnam has been a key recipient of training programmes under ITEC programme and other scholarship schemes.

# 5. STRATEGIES FOR ENHANCING INDIA'S ENGAGEMENTS WITH CLMV COUNTRIES IN THE CONTEXT OF ASEAN

Traditionally, India's economic interests in the ASEAN region primarily aimed at attracting more foreign direct investment from these countries and being part of ASEAN's Production Network. However, this approach has broadened over the years. The repositioning of the 'Look East Policy' is testimony to the same. This section briefly evaluates strategies for enhancing India's engagements with CLMV countries in the context of ASEAN.

As highlighted in the previous chapters, within the ASEAN region, CLMV countries, in particular, are at different levels of economic development. One of the top priorities of ASEAN Community is the integration of Cambodia, Lao PDR, Myanmar and Vietnam with ASEAN by bridging the development gaps. To improve the situation and effectively assist the CLMV countries in catching up with the six more developed ones, there is a need for using variety of approaches to promote wider economic development in the region. Attentions toward the CLMV countries need to focus on development projects including promotion of transport, energy, telecommunications, environment, human resource development, tourism, trade, and agriculture, among others. Emphasis need to be given toward promotion of economic growth of the Southeast Asian region as a whole by strengthening the economic linkages between CLMV countries with other ASEAN countries.

The strategy here is to pursue the enhancement of competiveness among the CLMV countries towards reducing income disparity and creating employment. Further, FDI flows, aided by implementation of liberalisation policies, need to drive economic growth, alleviate development gaps, and improve regional competitiveness.

While opportunities in the region are plenty, Indian entrepreneurs' endeavours in these countries have been limited, as seen in the earlier chapters. It is also critical to note that a large number of companies from China, Japan, South Korea and the United Kingdom already have, or are planning to establish operations in the region, thus pre-empting Indian business forays. These countries have been able to capitalize on the bilateral pacts and investment strategies with CLMV countries to build core infrastructure, special economic zones, ports and industrial corridors to benefit their own industrial community for business expansion, and maintain cost competitive supply chains, besides integrating with global production networks.

**i. Cooperation in Agricultural Sector**

The CLMV countries are primarily agrarian based with agriculture and allied activities forming the backbone as majority of population in the CLMV countries depending on it for their livelihood. Towards this end, LOCs extended by Exim Bank 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 equipment to the region, thus enhancing bilateral cooperation in the agricultural sector, as also over all development of the region.

Besides, the CLMV countries have demonstrated their comparative advantage through expanded trade-gaining a sizable share of global markets for key food and agricultural products, such as rice, cassava, prawns, processed fish, poultry products, and rubber. The sub-region's agricultural comparative advantage is the quality of natural resources, fertile agro-ecosystems, and rich biodiversity. However agro-industries in this region of ASEAN are generally underdeveloped, leaving significant opportunity for agro-economic growth.

**ii. 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 are tin, lead, gravel, gypsum and salt, although there are also small deposits of coal, iron ore, gold, and oil and gas. The most valuable natural resources of Lao PDR are its forests and rivers; the latter have considerable potential for generating hydroelectric power

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

### iii. Cooperation in Financial Services

While India's financial services sector has developed significantly over the years, India is yet to fully realize its potential in this sector. India has initiated several programmes in order to assume leadership role in financial services. The setting up of Gujarat International Finance Tec-City (GIFT), which aims at attracting global firms, is one of such initiative. GIFT is expected to help in enhancing capital inflows and also trade in financial services.

Many Indian companies have set up their base in key countries in ASEAN for investing in the rest of the region. For example, Tata International has its presence in Myanmar, through its registered company Tata International Singapore Pte. Ltd in Singapore. Similar other such companies include Godrej (Singapore) Pte. Ltd, Swiss Singapore Overseas Enterprises Pte Ltd (SSOE) (Aditya Birla Group), among others. Along similar lines, GIFT has the potential to act as a financial hub in South Asia and South East Asia region, including CLMV countries.

- ***Preparations of Indian banks to avail the opportunity arising out of India's investment and services agreement with ASEAN***

As a dominant source of financing for development, ASEAN banking integration, which remains relatively low, needs to be accelerated to facilitate flow of trade and investment. There are gaps in banking presence among ASEAN countries which need to be bridged. For example, Banks in Singapore, which is the financial hub of ASEAN, have branches only in Malaysia, Thailand, Brunei and Vietnam. It has subsidiaries and/or Representative Offices in Indonesia, Philippines, Myanmar, Thailand and Malaysia. It has no presence in Cambodia and Lao PDR.

India's investment and services agreement with ASEAN will allow India to access ASEAN markets including CLMV in the areas of finance, education, health, IT, telecommunications and transport, among others. Indian industry could partner with businesses in the CLMV countries to reach out to newer markets, by taking advantage of the trade agreements that the countries in this region already have in place. While opportunities in the region are aplenty, Indian entrepreneurs' endeavours in these countries have, thus far, been limited. Information regarding opportunities in the region is inadequate as is the infrastructure framework in these countries. This is also the case for the Indian financial services sector, which has a very limited footprint in the region. Indian Banks may increase their presence, especially by opening more branches/ representative offices, in the region. India can also offer knowledge and its experience with respect to deepening of rural financial systems. SME financing is another area where Indian Banks can explore possibilities of cooperation. Indian Banks could also develop corresponding relations with select banks in the region to facilitate and promote commercial relations.

**iv. Cooperation in ITES**

According to the World Trade Organization, the ASEAN region is a net importer of telecommunications, computer and information services. Further, the CLMV region is still on the path of modernization and computerization.

India is a global leader in software development and other IT services, which defines how greater cooperation between the two regions can be exploited. Further, India's IT-BPO industry has developed a large client base in OECD countries, principally the United States. There is a need to diversify these markets for India. The global and regional markets for IT-BPO services are huge, where India and ASEAN countries, including those from CLMV region, can combine together and expand and deepen the services. There is a potential to scale up and expand the scope of service delivery across many sectors.

India can share its expertise with the CLMV countries and even introduce necessary vocational course to support the initiative. This partnership will serve the ASEAN Economic Community (AEC) and the larger ASEAN-India markets for services.

Indian IT firms could also 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 for banks in the region. For instance, Indian companies such as NIIT, Aptech which already have presence in other ASEAN countries could expand their network of training centres in CLMV countries. 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.

**v. Cooperation in Regional Value Chains (RVCs)**

While ASEAN as a region has one of the highest global value chain (GVC) participation indices in the world, the regional value chain (RVC) in the CLMV is yet to be developed. India's participation in RVCs has been relatively low, while RVCs in CLMV, are also not well developed as compared to rest of ASEAN. This creates opportunities for India's economic integration with CLMV region through RVCs. Regional value chains entail relocation of production bases at different stages of production and manufacturing in different countries that are linked with services. The net outcome of such relocation is in terms of efficiency-seeking industrial restructuring. For this to be achieved, there is a need to align India's commercial interest with CLMV Policy Focus, alongwith an integrated approach towards policy strategy.

A Study by Ministry of Commerce and Industry, Government of India, stressed the importance of integrating employment-intensive SMEs in RVCs through India-CLMV economic integration, which could be achieved with a three-pronged strategy: viz. by Linking SMEs with large companies, Linking SMEs with MNCs in CLMV, Linking SMEs on a stand-alone basis with their counterparts in CLMV.

Presently, India is not directly engaged with ASEAN (including CLMV) through a RVC. However, RCEP is likely to generate a stronger value chain between ASEAN and India. Simplification of trade rules and regulations through RCEP would eventually generate higher trade in the region, leading to an increase in higher economic welfare for the region. Some of the areas where the value chain between ASEAN and India may be developed include: mining and quarrying, textile and apparel, leather and footwear, basic chemicals, pharmaceuticals, metals, auto components and jewellery.

**vi. Cooperation in Improving Connectivity**

Connectivity, which include both physical connectivity and soft infrastructure, remains one of the major obstacles in enhancing trade between India and CLMV countries. In addition, there is also a need to enhance people to people connectivity, which will include exchange of students, cultural programmes, tourism, education, media, among others. While India has been working on some important connectivity projects with ASEAN+6, the connectivity between India and CLMV has been very weak.

Improved connectivity is required to reduce trade costs, and increase trade flows, among others. Effective cross border and national transport projects would result in stronger and more efficient CLMV–India connectivity. An integrated connectivity would also provide substantial benefits to countries of the region by giving them low-cost access to world market. Development of connectivity would open significant opportunities for industrial development in India and its trade potential with South and East Asian countries[18].

With India sharing 96 per cent of her Northeastern borders with the neighbouring countries of Bhutan, Bangladesh, China, and Myanmar, it is important to link the region with the Southeast Asian as well as South Asian markets. The obstacles to physical connectivity as well as non-physical institutional arrangements between India and the ASEAN region, including along the physical border of Myanmar, need to be addressed expeditiously.

Soft connectivity is essential for smooth operation of hard connectivity. More attention, therefore, need to be given to the soft side of connectivity – trade facilitation, information exchange, customs cooperation as part of larger modernised border authorities. Harmonising and simplifying the customs procedures, information sharing, customs modernisation, establishing transparent transit rules, and improving logistics in general are, thus, critical to expansion of trade between India and the CLMV region, especially through the Noirtheast gateway. Enhancing the connectivity requires stronger regional institutions to build and manage the cross-border infrastructure. Enhancing soft infrastructure would help in attracting private investment. Moving forward, connectivity improvement would lead to sustainable development in coming years between India and CLMV, and further with ASEAN market[19].

India and CLMV region need to concentrate on connectivity projects that need to be completed urgently, including Trilateral Highway, Kaladan Multimodal Transit Transport Project, air connectivity between India and ASEAN-4 (CLMV), and the multimodal connectivity with CLMV. Yargi and Monywa section of Trilateral Highway, which is in very bad condition, is yet to be upgraded to highway standard. The Myanmar government is supposed to develop this part of the Trilateral Highway.

Mobilising financial resources to support connectivity projects for both cross-border and backend linkages

[18]RIS, ASEAN-India Connectivity Report: India Country Study, 2012.

[19]RIS, ASEAN-India Economic Relations: Opportunities and Chllenges, Proceedings of the Third Roundtable on ASEAN-India Network of Think-Tanks (AINTT), Hanoi 25-26 August 2014, New Delhi, 2015.

is a major challenge. Setting-up of Project Development Fund (PDF) has been an important beginning to build border connectivity, SEZs, attract investment and support SMEs. The PDF would support, among others, design, finance and implement connectivity projects in the region. One of the important ways of utilising the CLMV's economic space is by setting up manufacturing units in the region through PDF. This will help in accessing regional markets including China through exports originating from CLMV under existing trading agreements, including the China-ASEAN FTA. Additional exports worth US$ 100 billion are possible through this route, which in turn can address the India's trade deficit with neighbouring countries.

- ***Strengthening Northeast India-ASEAN Linkages***

Enhanced trade of India with CLMV is likely to benefit several sectors, as also the Northeast region of India. There is a possibility that greater links with ASEAN, which may be facilitated through the CECA, will help the northeast region that shares its borders with some Southeast Asian countries. The advantages of the potential connectivity offered by the CECA, as also the ASEAN Connectivity Agenda[20], will contribute positively to the region's growth process. Key projects to reinvigorate this growth process include the Kaladan Multimodal Transit Transport Project, the India-Myanmar-Thailand Trilateral Highway Project (that extends from Moreh in India to Mae Sot in Thailand via Mandalay, Myanmar), Rhi-Tiddim Road Project, Border Haats, among others.

Investment cooperation can be given a boost by building up the back-end linkages to connectivity, whether in India's Northeast and Eastern seacoast or in the hinterland in ASEAN countries along the corridors for physical connectivity. There are opportunities for creation of infrastructure and capacity in manufacturing and industrial development, for skills training and vocational education, for establishing logistics chains, energy grids and food processing capacities, which in turn, can help India address complex issues pertaining to energy and food security in its region[21].

**vii. Cooperation in SME Sector**

Small and medium enterprises (SME) form the backbone of CLMV economies, meeting the basic needs of goods and services as well as

[20]The ASEAN leaders adopted the new Master Plan on ASEAN Connectivity 2025 (MPAC 2025) in September 2016 to boost the development of the region's infrastructure, logistics, innovation, and skilled labour mobility.

[21]Inaugural Address by Hon'ble Minister for External Affairs H.E. Mrs. Sushma Swaraj at the Third Roundtable on ASEAN-India Network of Think-Tanks (AINTT), Hanoi, 25 August 2014.

trade, contributing towards upgrading the standard of living and helping poverty alleviation. SMEs account for over 90 per cent of enterprises in the region, thereby contributing to a major share of the region's output. SMEs in CLMV countries are considered not only as crucial players in the country's economic development, but also in social and political development, generating huge employment opportunities for the local population. Though SMEs play a vital role in economic development of CLMV countries, they are constrained by a number of factors like lack of accessibility to modern technology, limited access to international markets, lack of management skills and training, and lack of finance. Towards developing entrepreneurship and human capability, India could share its expertise and experience with these countries, particularly in the SME sector wherein India has developed successful SME clusters. An important element in this direction would be for delegations from these countries to visit India to study success factors of SME clusters in India, and developing similar clusters in their countries based on resource and skill endowments. In addition, the CLMV countries could tie up with Indian institutions such as Entrepreneurship Development Institute of India (EDPI), Ahmedabad and National Small Industries Cooperation Ltd. (NSIC), New Delhi towards entrepreneurship development and human capability creation. Further, Indian institutions could also share their expertise in the fields institutional strengthening, export development and export capability creation in the region, in the form of technical assistance and sharing of expertise through site visits. SME financing is another area where Exim Bank could support this sector. Exim Bank has extended several LOCs to various countries for the development of their SME sectors.

**viii. 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 cooperation 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 identified 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 Small and Medium Enterprises (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.

**Investment Opportunities for India in CLMV Countries**

The CLMV economies, which are considered among the fastest growing economies in the region, have enjoyed certain degree of macroeconomic stability in recent years. These economies are endowed with abundant natural resources and low-waged labour forces, in addition to having a young and growing population, highlighting their potential for future development.

Opportunities[22] that could be explored, besides trade potential in these countries include investments in potential sectors, through joint ventures with local or foreign partners

[22]Source: Exim Bank. 2016. ‘Act East: Enhancing India’s Engagements with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV)’. Working Paper No.49.

or wholly owned subsidiaries; infrastructure creation which increases the connectivity with India that facilitates trade and investment, like ports, maritime routes, roads, warehouses, exclusive economic zones, industrial clusters/ corridors, etc.; and creation of institutional capability and development facilities in the region.

Select sectors which hold potential for Indian investments in the CLMV region are briefly discussed below.

### i. Cambodia

In recent times, there has been an expansion of cooperation between India and Cambodia in various fields such as institutional capacity building, human resource development, extension of financial assistance in infrastructure projects, security and defense. Cambodia's open economy, abundant natural resources, market access and low-cost workforce, offer many opportunities to Indian investors.

Eventhough Cambodia is an LDC, select factors that make it a Potential Market include, among others, preferential market access, open economy (with low tax rates, investment incentives and a one-stop-service for qualified investments), and competitive advantage of low labor costs and increasing education levels are an attraction for labor-intensive manufacturing in the country. In Cambodia, select sectors which hold potential for Indian investments include

- **Investing in 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[23]. 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[24].

For investments, Cambodia offers low labor costs and abundant agricultural land that provides an apparent comparative advantage to the agro-industry. Trade preferences given by the EU to rice exporters from the country are also an added advantage.

Apart from rice, rubber is also a potential sector for Indian investments. Moreover, from the demand side, India's rubber demand has been on the rise. In recent years, entrepreneurs from China, Vietnam, Malaysia and Thailand have invested heavily in

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

the expansion of rubber plantation in the CLMV region as a whole. India's investments in this sector, however, have been low.

- **Investment in Manufacturing sector**

Cambodia's manufacturing sector benefits from competitive labor cost (lowest in the CLMV region) and several tax incentives. Cambodia's attractiveness as a manufacturing hub has also been boosted by regional integration, such as, ASEAN. Investments in the manufacturing sector of Cambodia have not limited to the China alone, Japanese and Korean producers have also emerged as one of the large investors in this sector. MNE investors in the region are seeking to establish production footholds to service the region's vast demand.

Under manufacturing, potential for Indian investments mainly exist in bicycle, two-wheelers, and textiles and garments.

*Bicycle:* Tariff preferences have primarily driven the industry's rise in Cambodia. Chinese Taipei producers have relocated factories from Vietnam to Cambodia after the European Union imposed antidumping duties in 2005. Cambodia enjoys quota-free and tariff-free access to the European Union under the Everything But Arms (EBA) arrangement, which means all exports are exempt from the standard 14 per cent tariff on imported goods. Cambodia's low wages were also a major factor for bicycle producers of Chinese Taipei moving production there. Indian bicycle producers can also benefit from the emerging bicycle manufacturing hub in the country.

*Two-Wheelers:* The rapid economic growth in the last decade has driven up demand for motorcycles in Cambodia. There are several local and Chinese motorcycle assemblers in operation, including Asia Motors Co. Ltd., apart from Japanese Cambodia Suzuki Motor Co. Ltd. Bajaj Auto has recently moved into Cambodia, after studying the market potential.

*Textiles and Garments:* Cambodia specializes in assembly activities that involve cutting and sewing the fabrics into finished garments. Linkage between foreign-owned garment firms as well as local ones with international buyers or brand names provides the industry an important channel into the garments global value chain. The Government promotes the garment industry by offering favourable investment conditions and tax incentives. Indian investors could also invest in vertical integration of garments production (particularly provision of fabric and assembly) or in other parts of the production process (like retail) which generate higher value added per unit.

### ii. Lao PDR

Lao PDR Government is targeting investments of US$ 1.5 billion every year. Presently, the Government of Lao PDR is stressing on improving ties with countries like India and Russia. Select sectors in Lao PDR which hold potential for Indian investments include:

- **Investments in Mining sector**

Lao PDR is recognized as one of the most resource rich countries in South East Asia. The country has a diverse wealth of natural resources in the form of mineral deposits, water and forests, and has a resource-based economy. Mining industry in Lao PDR has been identified as one of the priority sectors in the country's socio-economic development, and is rapidly becoming an important source of economic growth, national revenue and a driver for local community development.

Lao PDR has significant mineral potential for the discovery of new ore deposits and their successful development of a medium to large scale mining industry. The geological potential to develop mineral resources in Lao PDR is good not only for gold, silver, copper, iron and bauxite, but also for other commodities such as potash, sapphire, gypsum, coal and to a lesser extent tin, lead-zinc and construction materials.

- **Investments in Healthcare**

Education and healthcare sectors are amongst the top priority sectors in Lao PDR. Hospitals in the country leave a lot of scope for improvement and people generally travel to Thailand for medical treatment. Investment in this sector is benefitted from several incentives, including duty free capital intensive equipment imports for hospital projects. The Government also offers better incentives in healthcare sector with higher tax holidays if healthcare infrastructure is built farther away from the capital city, especially in rural areas.

### iii. Myanmar

Myanmar is the only ASEAN country which shares a land border with India, and is a bridge between India and Southeast Asian markets. Indian investments in Myanmar could benefit from access to the rest of ASEAN, apart from catering to Myanmar's own domestic market. Further, investments in Myanmar could also benefit from EU's Generalised Scheme of Preferences, as EU has re-instated Myanmar to the EU's GSP. This presents many advantages for investors looking to use Myanmar with its rich resources as a manufacturing hub and wishing to export finished products to the EU.

- **Investments in Agriculture**

Myanmar 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. The agriculture sector offers considerable potential in basic production (of palm oil, rubber, rice, fruits and vegetables), and agro-processing including for export.

Indian investments could be in the areas of strengthening rice research capacity; agricultural research, through creation of a market-oriented, farmer centred research system, like contract farming and cooperatives; boosting the post harvest technology; improving connectivity, especially for post harvest, improving rural transport and communications.

India can also offer knowledge and its experience with respect to deepening of rural financial systems. India can help with its experience of drafting transparent, predictable policies, particularly in areas governing land use decisions, input quality and cross-border trade.

India is currently providing support for the setting up of Myanmar's new Rice Bio Park, which is developing ways to use every part of the rice plant, thus improving the income of local farmers.

- **Investments in Dairy Farming**

Myanmar's growing economy is contributing to changing dietary patterns and driving the demand for dairy products, especially in urban areas such as Yangon and Mandalay. Although the local population has traditionally consumed large quantities of sweet condensed milk, consumption of other dairy products such as pasteurised and Ultra-Heat Treated (UHT) milk is on the rise. Domestic production of fresh milk is currently underdeveloped and to meet this growing demand, the country imports large volumes of UHT milk from Thailand and New Zealand. Myanmar, inspite of consuming condensed milk, lacks the technology to produce it at a low cost. India needs to tap into the potential presented by the dairy industry and capitalise on growing demand for quality dairy products would require new and sustainable business solutions adapted to the local context.

- **Investments in Manufacturing**

Under manufacturing, potential for Indian investments mainly exist in mobile equipment, cement, furniture and FMCG goods.

*Mobile Equipment:* The wireless telecom market in Myanmar opened in 2014 with the entry of two foreign players. The Government has set a goal of increasing the access to cellular services. Given India's success in manufacturing high-end smart phones at low cost, the same can be replicated in this nascent market.

*Cement:* Myanmar's demand for cement will continue to be driven by large-scale infrastructure projects such as airports, inter-city roads and hydropower dams, as well as new hotels and resorts. Further, growing urbanisation is increasing demand for construction materials for residential development especially in three key cities – Yangon, Mandalay, and Nay Pyi Taw. Currently Myanmar imports cement from Indonesia, Thailand and India.

*Furniture:* Myanmar is estimated to have half of the world's natural teak[25]. Many Indian companies import raw materials from countries like Myanmar, Indonesia and Malaysia, with Myanmar having banned exports of wood, it make sense to set up timber processing plants locally. Huge potential exists for value-added timber to be exported from Myanmar. Indian Companies could explore setting up either veneer or veneer-cum-plywood units.

*FMCG:* India has a huge FMCG market with a host of producers, both domestic and international. Indian companies can look at entering the Myanmar market in an array of commodities and products. Myanmar imports most of the FMCG goods from neighbouring China or Thailand, or Singapore or from other developed countries.

### iv. Vietnam

Vietnam is one of the leading investment destinations in ASEAN, and is moving towards a socialist-oriented market economy. Major factors promoting investments in Vietnam include its geographical position, near global supply chains, the growing consumer market, expected improvements in the business climate upon completion of the Trans-Pacific Partnership Agreement, and relative political and economic stability. India has a huge opportunity in Vietnam given its growing consumerism. Select sectors, which hold potential for Indian investments include:

- **Investment in Manufacturing**

Under manufacturing, potential for Indian investments mainly exist in electronics, tyres (rubber), and textiles and garments.

*Electronics:* The electronics industry of Vietnam has seen remarkable growth over the past few years (20-30 per cent per year). Many foreign giants have expanded their

[25] Food and Agriculture Organization of the United Nations

operations in Vietnam such as Intel, Samsung Electronics, Canon and HP. Indian companies can also benefit from the emerging opportunities in this industry.

*Tyres (Rubber):* India is the world's fourth-largest producer and second-largest consumer of natural rubber; and the third-largest consumer of all the rubbers put together. On the other hand, Vietnam's rubber manufacturing industry is expanding almost 30 per cent a year. Leading tyre makers in the world like Bridgestone, Yokohama and Kumho also realised the pluses of Vietnam's rubber supply, labour costs and tax policies and have opened tyre export factories in the country. Vietnam has plans to increase the domestic consumption of rubber through a sharper focus on rubber products manufacturing. Indian investments could leverage on this increasing demand.

*Textile:* There exist huge investment opportunities for setting-up textile support industries in Industrial Parks of Vietnam.

- **Investment in Information Technology**

IT / ITES is a focus sector of the Vietnamese Government and is a big sunrise industry. Vietnamese Banks run on Indian IT systems and require ITES. Most Vietnamese companies want ERP implementation. ITES is being mostly outsourced to Singapore based firms who further sub contact it to Indian IT technicians.

**v. Infrastructure Investment opportunities in CLMV countries**

Infrastructure is of critical importance for CLMV region. 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 or air port connectivity, logistics and water supply. The International Monetary Fund and the Japan International Cooperation 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 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[26].

[26]Policy Challenges for Infrastructure Development in Asian LICs: Lessons from the Region. JICA Research Institute Working Paper.

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 linking 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. Vietnam's rapid growth has outpaced its infrastructure, creating a major constraint to continued export-led growth and investment[27]. During 2010-2020, the ADB estimates that Vietnam would require an estimated 8.1 per cent of GDP per year in order to meet rising demands for infrastructure services[28].

Plans for rapid industrialization and infrastructure development in the region would significantly depend on availability of sufficient power. The Cambodian government has 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 per cent of the country's households have access to electricity. The government has announced a goal of electrification of 90 per cent of households by 2020[29]. Large scale power generation is a critical issue for Myanmar. At present, only 30 per cent 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[30]. In Vietnam, Directorate General of Energy has laid an ambitious plan to attain an installed power capacity in the range of 69,000 MW to 75,000 MW by 2020. The period of 2011 to 2030, is expected to attract investment of US$ 42.6 billion in the transmission and distribution networks of the country. 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.

The burgeoning demand for infrastructure development therefore

[27]USAID
[28]ADBI Working Paper series, 'Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020', Biswa Nath Bhattacharyay, September 2010
[29]World Bank's Energy and Mining in East Asia and Pacific, Lao PDR
[30]Myanmar- Power is the Key, Mayer Brown JSM, February 2014

opens up ample opportunities for engineering, procurement and construction (EPC) companies, iron and steel manufacturers, and cement manufacturers.

*Infrastructure Opportunities in Cambodia*

The urban landscape, particularly in Phnom Penh, has changed vastly with strong demand for construction of buildings and infrastructure. Robust tourist arrival into Cambodia has been driving the demand for infrastructure in the country. The government is keen to develop the tourism sector, with an ambitious target of 6 million foreign visitors by 2020. This is likely to boost the demand for transport infrastructure, going forward.

Weak existing infrastructure also provides many opportunities for growth, particularly in road and rail construction. Moreover, the country has one of the lowest construction costs in the region, along with high returns on investment for successful projects.

The current power generation capacity of Cambodia is approximately 1,500 MW. There exists a power shortage currently with the government importing approximately 440 MW power. To address the shortage, the government has initiated around 18 energy projects, and countries like China, Malaysia and Vietnam are participating in many of these projects. India could also explore opportunities available in such energy projects.

The Cambodian Government has also proposed rail projects to improve connectivity and reduce the freight transportation cost. India could focus on the select rail routes to drive trade and investments in the region; some of the rail routes identified are: the 48 km Sisophon – Poipet rail link, 105 km Serei Saophoan – Siem Reap rail link, and the proposed 239 km Siem Reap – Skun rail link. Other opportunities available in railways are at the proposed 255 km Bat Doeng – Loch Nich (Vietnam border), and the proposed 273 km Snoul – Strung Treng (Laos Border).

*Infrastructure Opportunities in Lao PDR*

Lao PDR can become a country with surplus power in all seasons owing to numerous hydro power potential. However, the country is heavily reliant on hydropower from run-of-the-river projects. This has resulted in the country exporting energy during high river flow seasons, and importing energy during low flow seasons. It may be noted that due to absence of efficient trading mechanism, the country is exporting power at low cost as compared to its import cost. From a long-term planning perspective, Lao PDR requires a combination of stable power sources through dams and thermal (coal, gas, diesel powered) power plants. It is therefore recommended that Indian involvement may be planned to improve the power generation mix of Laos from a long-term perspective.

Possibility to build a transmission line from Luangnamtha to the National Power Grid of Myanmar is recommended. From a strategic regional perspective, Lao PDR could be connected to Myanmar's national grid network through this transmission line. This shall open opportunities for Indian investments in the power sector with a view to transfer power from Laos to the North East Region of India, through Myanmar.

Besides, there exists opportunities in creating social infrastructure such in the fields of education, and tourism. In education, investments in schools and technical and management colleges offer good opportunities. Tourism sector has also been witnessing improvement offering opportunities for investments in budget resorts.

*Infrastructure Opportunities in Myanmar*

Kachin can be easily accessed from Manipur in India, and hence the development of this province could be considered. Further, the road between Myitkyina and Mandalay is being developed by China, thereby linking the state to rest of Myanmar. The region is rich in precious and valuable natural resources such as iron ore, coal, copper, gold, jade etc. It has good agricultural produce such as rice, sugarcane, teak etc.

Increasing real estate prices at Yangon have led to the local populace exploring options in suburban regions thereby fuelling the township developments across Myanmar, especially in nearby Bago Division. Opportunities also exist in affordable housing and low cost housing development projects. With increasing real estate prices owing to the rapid rise in land prices, the lower income groups, which form the majority of the population, are exploring these new options. Indian property developers could consider exploring these nascent markets.

Transport infrastructure is yet another sector where investments in the country could be explored. Indian companies can look at developing dry ports at Shan and Bago regions to facilitate shipment of cargo inland. On the other hand, while Myanmar is interested in high speed rail links connecting the major urban nodes of Mandalay and Yangon, India could actively consider development of the countrywide rail infrastructure for greater public benefit and rural inclusion. While this may not be commercially attractive in the short term, it could potentially open multiple downstream opportunities.

Majority of the population in the country lives without access to electricity. On the other hand, most of the power generated is exported to China and Thailand in line with the respective power agreements signed for investment into power projects. Hence, there exists a high demand for power in Myanmar, offering opportunities for development of transmission lines and creation of a national grid network. This will also help in addressing issues like rural electrification. Besides, Indian EPC companies can explore opportunities in creating transmission infrastructure based on EPC / BOT basis to take advantage of the excess power that is created in Lao PDR. The transmission lines can then be routed from Lao PDR to Myanmar and then to India.

Myanmar has high hydropower potential of 40,000 MW spread across four major river basins. By 2020, the government plans to build 13 new hydropower plants with capacity of 2.5 GW. Indian players could identify potential locations and establish power plants.

*Infrastructure Opportunities in Vietnam*

Vietnam is planning to modernize its transportation infrastructure by building thousands of kilometers of new expressways to integrate the infrastructure. The government has set a target for construction of 2,000 km of new highways by 2020. Indian companies can look at opportunities on BOT basis across North – South expressway (3,262 km long); Central region Western highlands expressway (264 km long); and Northern expressways (324 km long).

In line with the increase in the GDP, the seventh national power development master plan envisages an installed capacity of approximately 50,000 MW (from 7,000 MW in 2012) by 2020 and around 110,000 MW by 2030. This entails capacity addition of at least 4,000 MW each year. The capacity additions would require capital requirement of US$ 5 to 8 billion on an average per year with approximately 65 per cent of the estimated investment for power generation and remaining for power grid. Development of localized grid to power rural areas is also possible.

Other areas of infrastructure opportunities exist in the development of international schools in HCMC, Ha Noi and Hoa Lac provinces. International Campus Universities in the fields of engineering and management in Ha Noi and HCMC provinces could also be explored.

# 6. EXPORT-IMPORT BANK OF INDIA IN THE CLMV REGION

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

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

***Lines of Credit (LOCs)***

To promote bilateral and regional commercial relations, Exim Bank extends Lines of Credit (LOCs)

**Table 6.1: Exim Bank's Operative Lines of Credit in CLMV Countries (as on December 31, 2016)**

| Borrower | Amount of Credit (US$ mn) | Key Sectors/Projects covered |
|---|---|---|
| **Cambodia** | 65.2 | Electricity Transmission Line; Water Development Projects |
| **Lao PDR** | 153.8 | Electricity Transmission Line project; Irrigation Project; Hydropower Projects |
| **Myanma Foreign Trade Bank, Myanmar** | 538.9 | Railway Projects; Refinery Projects; Manufacturing Plant Projects; Irrigation System; Petrochemicals |
| **Vietnam** | 191.5 | Hydro Power Project; Exports of Textile Machinery and Equipment |
| **CLMV** | **949.4** | |

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

***Supporting Project Exports***

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

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

In order to provide further impetus to project exports from India on medium- or long-term basis, especially in the infrastructure sector, in April 2011, a product called Buyer's Credit under National Export Insurance Account (BC-NEIA) was introduced. Under this programme, Exim Bank facilitates project exports from India by way of extending credit facility to overseas sovereign governments and government-owned entities for import of goods and services from India on deferred credit terms. Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. NEIA is a Trust, set up by Ministry of Commerce and Industry and administered by ECGC. A positive list of 83 countries (including CLMV countries) have been identified by ECGC for which Indian exporters can avail Buyer's Credit under NEIA.

***Finance for Joint Ventures***

With a view to support Indian companies in their endeavour to globalise their operations, Exim Bank operates a programme to support overseas investments by Indian companies through JVs/ WOSs. Such supports include loans and guarantees, equity finance and in select cases direct participation in equity along with Indian promoter, to set up such ventures overseas. As on December 31, 2016, Exim Bank has sanctioned ₹ 295.9 crore to ten Indian companies for setting up ventures in Vietnam and Myanmar.

***Project Development Fund (PDF) for CLMV Countries***

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

In compliance with the Finance Minister's announcement and to catalyse Indian private sector investments in the CLMV countries, under the 'Act East' policy of the Government of India, a Project Development Fund(PDF) with a corpus of ₹ 500 crore has been created in August 2016. The PDF, housed in Department of Commerce, will be operated through the Exim Bank, which will act as the Empowered Institution under the Initiative. The PDF shall be governed by an Inter-Ministerial Committee under the chairpersonship of the Commerce Secretary. The primary objective of the PDF is to facilitate Indian investments and broaden the manufacturing base of Indian companies in CLMV countries. The PDF will be used to identify projects, which support Regional Value Chain (RVC) and help integrate Indian companies into the RVC. The projects identified under the initiative, if found feasible/ viable, will be incorporated/ implemented through Special Purpose Vehicles (SPVs) in CLMV countries.

***Exim Bank as a Consultant***

Exim Bank is well positioned to share its experience and expertise in the fields of capacity creation, institutional strengthening, export development and export capability creation. The Bank is thus well placed to provide a range of technical assistance in these fields. Exim Bank has rendered consultancy services to a number of institutions in 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 CLMV countries);
- Expertise provided on developing a National Export Strategy of Myanmar; and
- Designing Export Marketing Seminars for SMEs in Vietnam.

***Institutional Linkages***

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

***Asian Exim Banks Forum***

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

The task of Asian ECA Forum is to enhance cooperation and forge a stronger link among its member institutions, thereby fostering a long-term relationship with the Asian ECA community. The Annual meetings serve as a forum for discussing a wide range of issues focused on fostering common understanding as well as exchanging and sharing information. Together, the endeavour is to meet the challenges faced as an export credit agency in Asia and explore possible areas for further regional cooperation.

***Research Studies***

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

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

***Representative Offices***

Exim Bank has two representative offices in the ASEAN region - Singapore and Yangon. These offices seek to establish and maintain relationships with multilateral agencies, regional development institutions, trade and investment promotion bodies, international banks, chambers of commerce, government departments and institutions in various South East Asian countries, including CLMV countries, and identify areas of cooperation. The representative offices play a role in facilitating India's economic cooperation with ASEAN countries (including CLMV), while keeping close coordination with Indian Missions in the region. The offices project Bank's capabilities in financing India's international trade and investment, as also keeps the Bank abreast of the developments in the economic and banking/financial sectors of the South East Asian Region, including CLMV countries.

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

# ANNEXURE

**Annexure 1: Exim Bank of India's Operative Lines of Credit in CLMV Countries**

| S. No. | Country | Borrower | Amount of Credit (in US$ mn) | Purpose |
|---|---|---|---|---|
| 1 | Cambodia | Government of Cambodia | 35.2 | Stung Tasal development project by WAPCOS, purchase of water pumps, construction of electricity transmission line between Kratie and Stung Treng by WAPCOS |
| 2 | Cambodia | Government of Cambodia | 15.0 | Strengthening the capacity of transmission line project between Kratie and Stung Treng |
| 3 | Cambodia | Government of Cambodia | 15.0 | Completion of Stung Tasal Water Development Project |
| | ***Cambodia Total*** | | ***65.2*** | |
| 4 | Lao PDR | Government of Lao PDR | 17.3 | Development of Irrigation schemes in the Champassack Province |
| 5 | Lao PDR | Government of Lao PDR | 33.0 | 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 |
| 6 | Lao PDR | Government of Lao PDR | 72.6 | (i) 230 kV Double Circuit Transmission Line from Nabong to Thabok and substations (USD 34.68 million), (ii) Extension of Thabok & Nabong substations to 230 kV (USD 12 million) and (iii) Nam Gnung - Laksao, 115 kV Transmission line and Sub Stations (USD 23.25 million) in Lao PDR |
| 7 | Lao PDR | Government of Lao PDR | 30.9 | Construction of Storage Dams & Development of Irrigation Systems in four major provinces in Lao PDR |
| | ***Lao PDR Total*** | | ***153.8*** | |
| 8 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 7.0 | Establishment of an OFC link between Moreh and Mandalay, an ADSL high-speed data link in Yangon area and a reduced number of COR-DECT lines |
| 9 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 56.4 | Railway rehabilitation |

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| 10 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 20.0 | Renovation of Thanlyin Refinery |
| 11 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 60.0 | Railway projects by RITES Ltd. |
| 12 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 20.0 | Setting up an assembly/manufacturing plant for assembly and manufacturing of Tata vehicles |
| 13 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 64.1 | (i) Oakshitpin – Thahtay Chaung – Taungup 230 kV Transmission Line and Substation Project; (ii) Taungup – Maei – Ann – Mann 230 kV Transmission Line and Substation project; and (iii) Maei – Kyaukpyu 230 kV Transmission Line and Substation project |
| 14 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 20.0 | Upgradation of Thanbayakan Petrochemical Complex |
| 15 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 199.0 | 16 ongoing irrigation schemes and 2 rehabilitation schemes in the irrigation project in Myanmar |
| 16 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 86.3 | Procurement of rolling stock, equipment and up-gradation of three major Railway Workshops by procurement of machinery |
| 17 | Myanmar | Myanma Foreign Trade Bank, Myanmar | 6.2 | Implementation of a Microwave Radio Link on the Rhi-Mindat route in Myanmar |
| | ***Myanmar Total*** | | ***538.9*** | |
| 18 | Vietnam | Government of Vietnam | 27.0 | General purpose - Contracts approved include export of textile machinery, equipment and services for hydro power projects |
| 19 | Vietnam | Government of Vietnam | 45.0 | NAM Chien Hydropower Project (200 MW) at Son La Province |
| 20 | Vietnam | Government of Vietnam | 19.5 | Two projects |
| 21 | Vietnam | Government of Vietnam | 100.0 | Purchase of equipment / supplies |
| | ***Vietnam Total*** | | ***191.5*** | |
| | ***CLMV Total*** | | ***949.4*** | |

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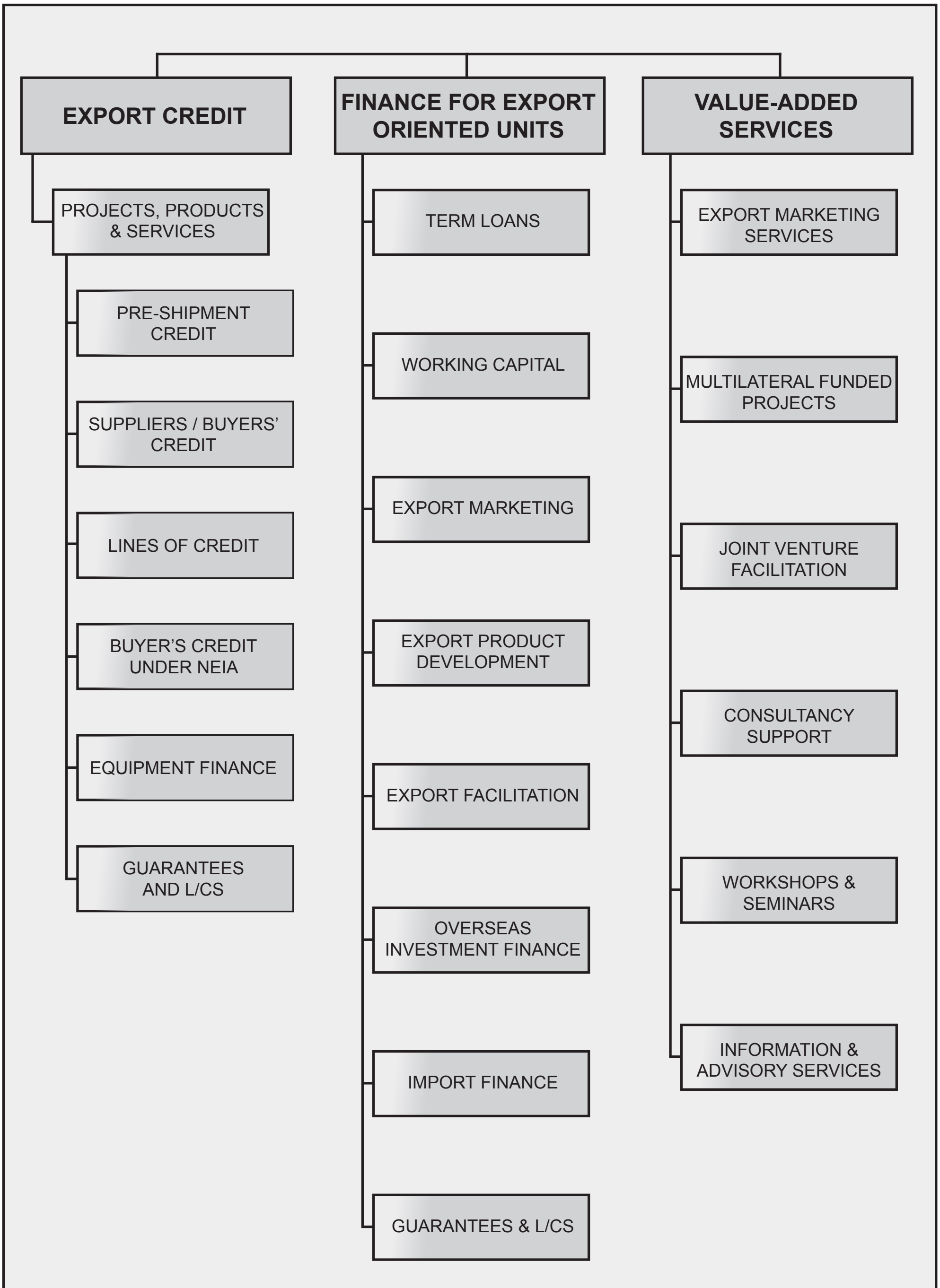

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