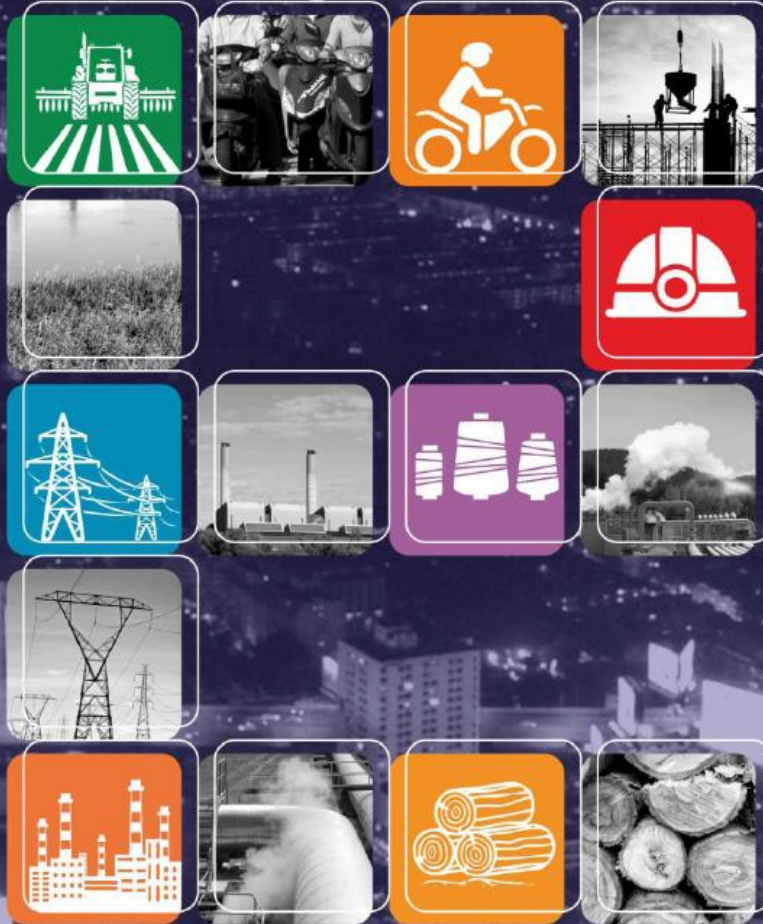


Project Development & Facilitation Framework: Opportunities in Trade & Investment for India in CLMV Countries



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BACKGROUND

The South East Asian region has emerged as a major manufacturing destination, with an existing ecosystem that supports sourcing, manufacturing and shipping of finished goods from these markets. 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

In addition to the geographical advantage of being located near fast-growing economies like China, CLMV countries have the advantage of having access to a wide market through economic partnership agreements with various countries including China. Some of the countries are also in the process of negotiating key partnership agreements with other major markets, most significantly the negotiations of Vietnam to be a part of the Trans-Pacific Partnership Agreement.

While opportunities are aplenty, Indian entrepreneurs' endeavours in these countries have, thus far, been limited. Information regarding opportunities in CLMV countries is unreliable and inadequate as is the infrastructure framework in these countries. Further, the overall operating environment for business in the region is not very conducive, with these countries ranking low on the World Bank's Doing Business Index. All these have limited the scope of engagement by Indian firms with CLMV countries. This is also the case for the Indian financial services sector, which has a very limited footprint in the region.

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.

In order to step up India's commercial engagements with CLMV countries, the Government of India has assigned the mandate to Export-Import Bank of India (Exim Bank) for undertaking a study to assess the feasibility of establishing an institutional mechanism for encouraging investments by Indian manufacturing and infrastructure development companies in CLMV countries through a Project Development and Facilitation Framework (PDFF).

A privately held Project Development Company (PDC) has been thought through as forming the anchor of the PDFF, helping catalyse India's commercial and strategic interests in the CLMV region. Set against this backdrop, this study makes an attempt to analyse the macroeconomic scenario and the opportunities that exist in CLMV countries, identify feasible industrial areas for Indian investments and draw the broad contours of an institutional mechanism to tap these opportunities

This mechanism would serve as a major step towards the overall Look East and Act East policy of the Government of India as is expected to promote India's political, economic and strategic interests in the region. Simultaneously, it would catalyse private capital to help ameliorate developmental challenges in CLMV countries, and in doing so, would advance India's foreign economic policy.

EXECUTIVE SUMMARY

INTRODUCTION

Cambodia, Lao People's Democratic Republic (Lao PDR or Laos), Myanmar and Vietnam, which form the acronym, 'CLMV', are an integral part of the Association of South East Asian Nations (ASEAN) region, covering 32 percent of its geographical area, and accounting for around 10.5 percent of its gross domestic product in 2013.

Besides the ASEAN market, which is likely to integrate in the form of an ASEAN Economic Community, business association with the CLMV countries also gains prominence for India, as the ASEAN has economic partnership agreements with other Asian giants like China, Japan and South Korea. Further, Vietnam along with The United States and 10 other countries [Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, and Singapore] are working to craft a Free Trade Agreement, called the Trans Pacific Partnership (TPP) Agreement that is likely to open up additional business opportunities with North America, and Australian markets. CLMV countries have also been proactively pursuing FTA with the European Union. All these factors make CLMV countries that of strategic interest to India, as it allows preferential market access to other countries through investments into CLMV, in addition to reaping the potential of bilateral economic co-operation with these countries.

These countries have been undergoing economic transition from Central Planning to that of Market Economy, from inward looking to outward oriented economic development strategies and policies. The CLMV economies, which are considered among the fastest growing economies in the region, are primarily agrarian, and have enjoyed certain degree of macroeconomic stability in recent years, with vast potential for future development.

Opportunities that could be explored, besides trade potential 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.

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

In 2013, foreign direct investment (FDI) inflows into the CLMV region amounted to US\$ 13.2 billion, which was 10.5 percent of the total inflows in the ASEAN region. In the recent years, the CLMV region has benefited from increased FDI inflows, primarily to the infrastructure sector. In particular, in Myanmar, the suspension of Western sanctions has seen increased inflows of investment, particularly

from China, South Korea and Thailand. The region, which is characterized with infrastructural bottlenecks thus provides an investment ground for foreign investors.

TRADE & INVESTMENT BETWEEN INDIA AND THE CLMV

The adoption of “Look East Policy” by India in the year 1992 was an initiative towards developing extensive economic and strategic relations with the ASEAN nations (including CLMV countries). Since then India has progressed from a dialogue partner to the present status of a strategic partner in the ASEAN bloc. The economic and trade linkages which saw an expansion of trade volume stand testimony to the intensified economic engagement. During the last ten years, India’s total trade with the CLMV countries has grown from US\$ 1.1 billion in 2004 to US\$ 11.2 billion in 2013, more than a ten-fold increase. Trade balance is in India’s favour, with the surplus amounting to US\$ 2.6 billion in 2013. Among the CLMV countries, India had a trade deficit with Myanmar, owing to increased imports of pulses and forest products from the nation. In the last four years, India’s trade balance with Lao PDR also flipped to a deficit, stemming from increased imports of copper ores and concentrates from the nation.

India’s exports to the CLMV countries comprise pharmaceuticals; machinery and instruments; vehicles other than railway; plastics and articles thereof, and cotton. On the other hand, India’s key imports from the region include rubber and articles, wood and articles of wood, ores, slag and ash, mineral fuels, oils and distillation products, and coffee, tea and spices.

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

OPPORTUNITIES IN THE CLMV REGION FOR INDIA

Cambodia

Cambodia’s real GDP growth rate is estimated at 7.2 percent in 2014, as compared to 7.0 percent in 2013. The services sector dominates the economy, accounting for 40.1 percent of Cambodia’s GDP in 2013, followed by agriculture (35.6 percent of GDP) and industry (24.3 percent of GDP).

Investment Opportunities

With close to 60 percent of the Cambodian population being engaged in agriculture, this has been the primary industry of the country. Rice is the principal food crop, while rubber is the principal commercial crop. Cassava, wood, paper and publishing are some other important industries. Many international aid organizations are supporting farmers through crop diversification programs to cultivate other crops. The food, beverage, and tobacco subsector continues to grow, but its relative importance has been diminishing with the rise of garments, textiles, and footwear.

Cambodia’s industrial sector has performed remarkably well since the country transitioned to an open market economy. Cambodia has become an attractive production site due to its low wages, preferential tariffs, and quota-free access to the major markets. Sectors that could be considered for investment

include manufacture of bicycle, two-wheelers, industrial clothing, textiles, garments, and footwear. The burgeoning demand for infrastructure development opens up ample opportunities for engineering, procurement and construction (EPC) companies, iron and steel manufacturers, and cement manufacturers.

The mining sector is still largely underdeveloped and most mining companies active in Cambodia are small-scale quarries producing materials for construction, such as laterite, marble, granite, limestone, gravel and sand.

Infrastructure Opportunities

The urban landscape, particularly in Phnom Penh, has changed vastly with strong demand for construction of buildings and infrastructure. A study by JICA in the year 2010 assessed the infrastructure needs for the period 2010-2020 based on the calculations by several donors, and estimated that Cambodia needs US\$ 13.36 bn of investment in infrastructure or US\$1.2 bn per year over the assessment period.

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 ~1,500 MW. There exists a power shortage currently with the government importing ~440 MW power. To address the shortage, the government has initiated ~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).

Investment Zones

In Cambodia, Special Economic Zone (SEZ) refers to the special area for the development of the economic sectors which brings together all industrial and other related activities, and may include General Industrial Zones and/or Export Processing Zones. Each SEZ has a production area which may have a Free Trade Area, Service Area, Residential Area and Tourist Area.

Currently there are 11 SEZs – Dragon King SEZ, Goldfame Pak Shun SEZ, Kampot SEZ, Manhattan (Svay Reing) SEZ, Neang Kok Koh Kong SEZ, Phnom Penh SEZ, Poi Pet O'Neang SEZ, Sihanoukville Port SEZ, Sihanoukville SEZ 1, Sihanoukville SEZ 2, and Tai Seng Bavet SEZ.

The identified SEZ areas with potential engagement by India are: the Sihanoukville Port SEZ, Sihanoukville SEZ 1, Sihanoukville SEZ 2, and Phnom Penh SEZ.

Economic Corridors

Development of the Poi Pet – Bawet economic corridor would lead to much required up-gradation of connectivity between the financial hubs of Cambodia i.e. Phnom Penh, and the tourism hub of Siem Reap. The corridor shall provide a quicker mode for transportation of Cambodian products to South Asia (including India), the Middle East, and the Europe, through the Dawei port, bypassing the congested Straits of Malacca. The growth nodes proposed for the region includes Poi Pet (focussing on developing an industrial zone for sectors such as agro processing, food processing, garments and textiles), Kampaung Cham (focussing on development of a greenfield industrial zone for rubber processing, agro processing, food processing, garments and textile industries); and Siem Reap (tourism hub, having a focus on development of an integrated tourist destination having multiple attractions for tourists, such as development of amusement park).

Lao PDR

Lao PDR is a landlocked country located in the center of Southeast Asia. Driven by the mineral exports, investments in hydropower, and rising electricity exports, Lao PDR's economy has been growing at a steady pace. In 2013, the economic growth of 8.2 percent was supported by the expansionary fiscal and monetary policies. Lao PDR is among the poorest countries in the region, and along with its neighbors Cambodia and Myanmar, is among the countries on the UN's list of Least Developed Countries (LDCs). The country is ranked 133 of 182 countries on the UNDP Human Development Index.

Investment Opportunities

The agriculture sector is the engine of the economy, contributing over 50 percent of the GDP and employing over 80 percent of the workforce. Significant potential for investments exists in rubber plantation and processing, specifically, in agro processing in the Savannakhet Province, which is located near the port and is well connected with Thailand.

Lao PDR is recognized as one of the most resource rich countries in the South East Asia. The country has significant potential for the discovery of new ore deposits and their successful development of a medium to large scale mining industry. The key materials mined include coal, metals (copper, gold, zinc etc.) and industrial minerals (cement and potash). The geological potential to develop mineral resources in Laos is also good for gold, silver, copper, iron and bauxite.

Hydropower, which has huge potential in Laos, happens to be the country's largest foreign exchange earner. The total hydro power potential is estimated at 23 GW, of which tapped potential is only 6.3 GW across 38 projects. The power sector, as one of the country's strategic growth sectors, has grown at a remarkable rate over the last several decades. Its pivotal role in enabling the country's economic growth and socioeconomic advancement over the decades is abundantly evident. Hydropower development in the country is driven by demand for energy from neighboring countries such as Thailand and Vietnam.

Since 2006, the country has seen an influx of private investors and developers in its hydropower sector, mainly from China and Thailand.

Infrastructure Opportunities

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.

The healthcare sector in Laos is not well developed and people travel to neighbouring Thailand for treatment. The government offers financial incentives for setting up of hospitals and making investments in the hospital sector. The government also offers better incentives in the healthcare sector with greater tax holidays if the healthcare infrastructure is built farther from the capital city – especially in rural areas for rural healthcare facilities.

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.

Investment Zones

There are two different types of SEZs in Laos: a) Special Economic Zones (SEZs), which are spread across larger areas, and b) Specific Economic Zones (SPEZs) which are for specific purposes such as specific Industrial Sectors or Export Processing Zones. There are presently 10 SEZs in Laos for which MoU's with various developers have already been signed. VITA Park (the closest to the capital city of Vientiane), established in 2003 as a joint venture partnership between Ministry of Industry and Commerce (30%) and Taiwanese company, Nam Wei Development Company (70%). Presently, 35 companies, mostly from Japan, China, Denmark, and Hong Kong, are engaged in the manufacturing of light industries. Savannakhet is another potential area for investments on account of an earmarked of SEZ and a dry port, and its proximity to Vietnam on the East, and Thailand on the West.

Economic Corridors

Xieng Kok – Tan Trang Economic Corridor and East-West Corridors are potential ones that could be developed in the near future. Xieng Kok – Tan Trang Economic Corridor could open up north Laos for

mineral exploration for Indian companies while reducing the transit time from Hanoi to India. The influence area of the East-West Corridor covers the Sepon mine in the Savannakhet Province which has the largest mine in Laos with reserves of copper and gold, and the catchment area for Nam Theun 2 which has the largest hydropower project in Laos.

Myanmar

Myanmar's strategic location in the heart of Asia provides immense opportunities and incentives for India 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. 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 the policymakers are looking at developing strategy towards a meaningful contribution in the economy through trade and investments. Myanmar's real GDP growth rate is estimated at 6.4 percent in 2014, as compared to 5.5 percent in 2013.

Investment Opportunities

Agriculture is a crucial driver of Myanmar's economy. According to the ADB, the agriculture sector accounts for around 70 percent of total employment as well as 30 percent of the country's exports. According to FAO statistics, arable land in the country amounted to 16.5 percent of total land area of Myanmar in 2012 (latest available data). Myanmar also has 10 times the per capita water endowment of China and India. The country's top agricultural area is the delta region at the confluence of the Ayeyarwady (Irrawaddy), Shittuang and Tahlwin rivers, and is the centre of the country's rice production (also called the Rice Bowl of Myanmar). The coastal region has high rainfall and is ideal for perennial crops like coconuts, oil palm and rubber. Myanmar ranks first in the world production of sesame seed, sugar crops and dry beans; second in the production of pigeon peas; and third in the production of mustard seed. Myanmar also offers significant opportunities in value-added timber products. Production of rice bran oil from rice husk also offers huge scope.

Myanmar holds great promise to become a manufacturing hub, because of low labour costs, its close proximity to major markets, and the prevailing domestic market for various manufactured products. While Myanmar has witnessed consistent increase in its manufacturing sector over the last decade, its share in GDP is significantly lower than agriculture. In fact, the share of manufacturing in GDP in Myanmar is the lowest among CLMV countries. Given the policy focus of the government, further industrial transformation is expected to happen, with a large possible shift of labour from the rural agricultural sectors to urban industrialized sectors in the coming years. Investments in industries like 2-wheelers and 3-wheelers, cement, furniture, FMCG products, assembling and manufacturing of agri-machineries, cotton and silk offers good potential.

In the tertiary sector, telecommunication offers good opportunity. The Government has recently awarded two new mobile telecommunications licenses to the international mobile operators, namely Ooredoo (Qatar based) and Telenor (Norway based), to encourage competition and increase efficiencies, thereby increasing the access to affordable communications services to the people of

Myanmar, and drive towards achieving universal access through mobile communications. With a current subscriber base of 5.44 million, the mobile penetration in Myanmar is the lowest in the region with less than 12 percent of the population having access to mobile services. This is expected to multiply several folds in the next 5 years. The experience of Indian mobile service providers in India, as well as in Africa, in creating a strong, low tariff communication network, could be leveraged to penetrate this growing market.

The increasing focus of the Government on healthcare has opened up new opportunities for foreign engagement. The country's healthcare system is among the weakest with the Government's expenditure on the sector as a percentage of GDP being one of the lowest in the world. Apart from exploring possibility of having a 50 to 100-bed hospitals, basic clinical level intervention could also be explored by Indian healthcare firms.

Infrastructure Opportunities

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 (~75%) 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 Laos. The transmission lines can then be routed from Laos to Myanmar and then to India.

Myanmar has high hydropower potential of 40,000 MW spread across 4 major river basins. By 2020, the government plans to build 13 new hydropower plants with capacity of 2.5 GW. Nine additional projects with a total capacity of 580 MW are expected to be developed by local companies. Indian players could identify potential locations and establish power plants with a total capacity of 500 MW.

Investment Zones

Some of the identified investment zones are, Kyauk Phyu, Thilawa, and Dawei. The Kyauk Phyu is well endowed with a natural deep sea harbor, with abundant natural resources in oil and gas, marine resources, etc. Investment in Kyaukphyu SEZ would open up the western markets through the Bay of Bengal. The SEZ Authorities are scouting for investments in fisheries, marine products, oil & gas, local port, water supply (construction of dam & water treatment), power generation, etc. Located on the outskirts of Yangon, it is the first SEZ to be built in Myanmar, and is likely to be fully commercially operational by the end of 2015. Some of the benefits of investment in Thilawa are its proximity to consumer base (23km southeast from Yangon urban area, and easy access to Thilawa Port. The investment in Dawei SEZ on the other hand will allow access to South ASEAN economic corridor till the Pacific.

Economic Corridors

The proposed corridors in Myanmar, namely, Sittwe – Bago Economic Corridor, and India – Myanmar – Lao PDR – Vietnam Economic Corridor, apart from the industrial zones, in Thandwa and Thilawa, and the Dawei Deep Sea Port and Industrial Estate – East Asia Corridor, could be instrumental in furthering India’s strategic interests across the ASEAN countries.

There are twin advantages of developing the Sittwe Bago Economic Corridor. Firstly, it acts as the gateway to ASEAN, and connects the Kaladan Multimodal Transit Transport Project to Yangon and further via the Trilateral Highway project to Mae Sot in Thailand. Currently the Indian connectivity to East-West Economic Corridor (across ASEAN) is through the trilateral highway originating from the North East Region of India. The proposed corridor is likely to facilitate direct access to the East-West corridor from major Indian seaports of Chennai, Kolkata and Vishakhapatnam. Secondly, it will enhance seaboard coverage of Bay of Bengal, as the coastline corridor is strategically important for consolidating India’s presence in the South Asian geopolitical dynamics. Additionally, given the potential of discovery of oil and gas at offshore blocks, access to the coast is crucial.

VIETNAM

Vietnam has a long sea coast line of 3,444 km, which is an ideal condition for development of maritime industries, manufacturing industries, trade and tourism. Vietnam has a diverse geographical structure together with hills, highlands, and coastal areas which are suitable for comprehensive economic zones. With an estimated 90 million population having median age of 29, Vietnam is world’s 13th most populous country. The GDP growth witnessed in 2013 was 5.4 percent which is expected to having touched 5.6 percent in 2014.

Vietnam is at the cusp of signing the Trans-Pacific Partnership (TPP). The TPP is a trade initiative that aims to create a free trade agreement in the transpacific region. It currently involves 12 active member countries (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam) bordering the Pacific Ocean. It aims to lower tariffs, open markets, and create a strategic partnership within the Asia Pacific. The current TPP participants represent 11 percent of world population and account for 39 percent of world GDP, making its potential impact on the global economy significant, with further expansion possible. The TPP agreement also aims at expanding trade in services which could help reduce the cost of activities such as shipping, banking, education and healthcare. Given this, investments into Vietnam could offer Indian firms opportunities to also tap the markets of TPP member countries.

The projected economic benefits to individual member countries would vary, driven by the facts such as scale economies, industry competitiveness, and level of economic development. Vietnam was estimated to be the largest beneficiary from TPP, especially in its apparel and footwear industries where China's competitive advantage is fading.

Investment Opportunities

Productivity in agriculture is very high in Vietnam, with three harvests in a year. State-owned-enterprises still play a large role in the production, processing and distribution of agricultural products, in particular for rice, coffee, rubber and tea. Rice and coffee are Vietnam's largest exports, followed by pepper, starches, cassava, rubber and seafood. Vietnam imports seafood (for processing and exports), cotton, corn, and bovine meat from India. Under the India-ASEAN FTA, the Government of Vietnam is in the process of developing a Master Plan for restructuring its agriculture sector, with separate plan for each sector falling under Agriculture (including forestry and fisheries). Basic purpose of the Master Plan is to improve value addition, expand public private partnership, and to adopt a value chain approach. Presently, the Ministry of Agriculture and Rural Development (MARD) is developing a Decree to increase FDI in agriculture sector. Furthermore, the government is also encouraging development in socially benefiting and value addition industries, green house, poly house, and cold storage. Agricultural implements and farm equipment can be imported duty free. Contract farming can also be undertaken for commodities like rice, sugarcane, coffee, pepper, and cashew. Investors can source inputs via contract farming, nominate local company to process for further exports. The Government of Vietnam is also open to partnership in training and in establishing a joint research institution.

Rising costs throughout the Asian region and in China particularly, are driving the businesses to look elsewhere for their sourcing partners. The state of manufacturing in Vietnam today closely parallels that of China ten or more years ago-when low-wage, low-tech, low-value added manufacturing acted as a magnet for FDI into China. Since the accession of Vietnam into the World Trade Organization, in 2007, foreign investment into the country has exceeded such investment flows into Indonesia, the Philippines, and Thailand combined. Sectors identified that are promising for Indian entrepreneurs include textiles and garments, leather footwear, auto-components, electronics, assembling and manufacturing of agri-machineries, tyres, food processing, industrial salt, and plastics, apart from packaging.

In the tertiary sector, opportunities exist in the IT/ITeS, which is considered as a sunrise industry in Vietnam. In the healthcare sector, with 76 percent of the population being insured in Vietnam, the country offers good opportunity for the sector. Several Government owned hospitals are looking for funds in private and public collaboration. Japan, Cuba, Sweden have funded development of hospitals through ODA funding. Opportunities to set up nursing school, enabling soft skill development and training can be explored.

The tourism sector, also offers huge opportunity with rising tourist arrivals, and increasing number of resorts coming up across the large coast line. Hue city and Tha Nang are big tourist destinations in Vietnam. In Central Vietnam, Hanoi, Halong Bay and Danang, and Bin Thuan province in South hold potential for such developments. Opportunities can be explored for setting up luxury resorts along the coast line, budget hotels around urban areas, and reviving sick hotels.

Infrastructure Opportunities

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).

The total installed capacity of the country was 7,000 MW (2012) and the power generation was 130 billion KWh (2012). In line with the increase in the GDP, the seventh national power development master plan envisages an installed capacity of ~50,000 MW by 2020 and ~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 ~65% 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.

Investment Zones

Vietnam has more than 250 investment zones offering incentives to investors to develop them. Some of the possible zones where India can engage are the Vietnam-Singapore Industrial Park (VSIP), Hoa Lac Hi-Tech Park (HHTP), Thua Thien Hue Province, Quang Binh and Phu Tho Province.

The VSIP is one of the earliest and most successful SEZs in which investments of more than US\$ 20 bn have been made. 740,000 people have been employed in the SEZ including 8000 expats. Foreign investment is in 2375 projects from 40 countries. Top 10 investors are from Korea, Hong Kong, Singapore, Japan, Taiwan, British Virgin Islands, China, Malaysia, Canada and Belgium. VSIP offers several advantages such as in-house customs services, one-stop service centre, technical training college, in-house fire-fighting services, culture house, and residential township.

HHTP is one of the three hi-tech parks in the country and is the first and the largest hi-tech parks with an area of 1586 ha. It is owned by the Ministry of Science and Technology, and is about 30 kms away from Hanoi and focuses on four sectors: biotech, automotive, new materials and information technology. The park comprises R&D zones, software park, hi-tech industrial zone and education and training zone.

The Phu Bai Industrial Zone (PBIZ), in Hue was established in 1998 and has a land area of 400 ha. It is 15 kms from Hue City, 1 km from airport, 40 kms from Chan May deep sea port, 70 kms from Da Nang City and 40 kms from Thu Nan sea port. Phase I and II have been completed with current occupancy rate of 97 %. Phase II is currently being developed and has current occupancy rate of 10 %. Phase IV is being proposed for Indian investment. Current priorities of the zone include textile, hi-tech, IT, auto components, non-alcoholic beverages and clean technology.

Phu Tho Province has been designated as the hub for textiles by the government. It is strategically located on the Hai Phong-Hanoi-Kunming economic corridor and is 50 km from Noi Bai International Airport, 170 km far from Hai Phong seaport and 200 km from China. McLeod Russel and Kirloskar Brothers have presence in the province. The province comprises seven industrial parks. Sectors identified as having good potential include food processing, tourism and wood processing.

Economic Corridors

The development of the Tay Trang-Hai Phong corridor could be explored. This corridor enters Vietnam through Tay Trang near the border with Laos, moves through towards Hanoi, and finally finishes at Hai Phong. The two growth nodes in this corridor are Hanoi, and Phu Tho / Bac Minh Industrial Zone. Development of industrial zones in these provinces would facilitate Indian investments in sectors like garment and textiles, and leather and footwear. Due to the proximity to Hanoi, Hoa Lac Hi-Tech Park is emerging as an attractive investment destination. The presence of Hanoi National University and high early stage occupancy (>90%) of the Education Zone at Hoa Lac Hi-Tech Park indicates that the surrounding sub-region has the potential to develop as an educational hub of the country.

The other corridor in Vietnam that can be explored for development is the East-West corridor which enters Vietnam through the city of Quang Tri, moving through Hue and finally ending at Da Nang. The Quang Vinh industrial zone is a 150 acres area developed by the People's Committee of Hue and focuses on the textile sector. With saturation of North and South Vietnam in terms of textile industries, and low labour cost in comparison to major textile hubs, this industrial zone offers good opportunity under the East-West corridor. Thua-Thien Hue Province is also the most popular tourist destination in Vietnam, and displays potential to emerge as a tourist hub with the development of an integrated tourist complex having amusement parks, hotels, adventure and cultural activities etc.

PROJECT DEVELOPMENT & FACILITATION FRAMEWORK (PDF)

The engagement by Indian companies in the CLMV region is, at present, limited to the extent of setting up a few manufacturing projects and in creation of infrastructure, largely under the Government of India's Lines of Credit. In contrast, firms from China, Japan, Korea, the USA, and the United Kingdom have been able to capitalize on the bilateral pacts and investment treaties of their national governments with these countries to build special economic zones, ports and industrial corridors with the objective of

leveraging the cost economies, market potential, and expansion of their overall business through better integration with the global production networks.

Given this scenario, it is recommended to initiate a Project Development and Facilitation Framework (PDFF). The primary objective of the proposed PDFF would be to facilitate Indian investments and broaden the manufacturing base in CLMV countries. The framework would seek to design suitable structures to increase physical connectivity and industrial infrastructure to propel Indian investment to the CLMV countries. The PDFF would serve as a major step towards the overall Look East and Act East policy of the Government of India and is expected to promote India's political, economic and strategic interests in the region. The proposed PDFF would ensure strengthening of ties in the commerce and connectivity sphere. Implementation of the proposed PDFF would facilitate Indian manufacturing firms to overcome the hurdles being faced by them in CLMV countries and undertake greater outward investment which will help them in integrating with the global production networks, thereby enhancing their market opportunities. It would, in effect, help mobilize private capital to help ameliorate development challenges in CLMV countries and in doing so, would advance India's foreign economic policy.

Structure of a Project Development Company

A privately held Project Development Company (PDC) has been thought through as forming the anchor of the PDFF, helping catalyse India's commercial and strategic interests in the CLMV region. The PDC will identify investment-worthy zones/regions in these countries and undertake feasibility studies to set up such industrial zones/ centres. While the PDC is proposed to be established as a private entity, Government agencies (including Exim Bank) would also be investing equity in the formation of PDC.

The equity of the PDC is proposed to be in the range of Rs. 100 crore. At this stage, no funding support from the Government of India is envisaged, as the equity would be contributed by the shareholders, which are largely public financial institutions and private corporate sector players. However, Government of India's support may be required for backing up the concept so that interest could be generated from prospective institutions / corporate houses.

With a view to bringing in operational flexibility and financial prudence as also attracting efficient manpower, the PDC would be structured as an independent entity managed by its Board. Accordingly, it is proposed that institutions of Government of India should hold less than 50 percent of the equity, with the balance being subscribed and held by Indian private sector institutions having experience and expertise in developing similar ventures.

The key role of PDC would include detailing the profiles of the viable economic regions in the CLMV countries and identification of investment centres and suitable projects. It will also, through its institutional, managerial and financial capabilities, undertake Pre-Feasibility studies, design and structure industrial infrastructure projects, and prepare Detailed Project Reports (DPRs). The PDC would also facilitate setting up project specific Special Purpose Vehicles (SPVs) to be incorporated in CLMV countries, obtaining various approvals and achieving financial closure for the projects, apart from providing advisory services to the Governments (local / provincial) in the CLMV countries in designing their policies and investment climate, and create implementation frameworks for various purposes on

need basis. The PDC will also be involved in conducting road-shows for investors in the identified projects.

It is recommended that the Project Development Company be incorporated in Singapore, owing inter alia, to its proximity to the region, its strong legal system for enforcement of contractual rights and its tax efficient regime. It is also proposed to establish a back-end office in one of the major Metro cities in India to benefit from recruitment of personnel at lower costs; easy co-ordination with stakeholders in India; and frequent interactions with the Indian companies.

Management Structure

The PDC would be structured as an independent entity managed by a Board with a full-time CEO managing 4 teams dedicated to each of the CLMV countries. Apart from the above, the PDC will have functional staff comprising engineers, project managers, legal and financial experts, advisors, etc.

Indicative 5 Year Business Plan of the PDC

Based on study undertaken, availability of funds and the opportunities available in the CLMV region, it is estimated that the PDC can incorporate about 10 SPVs in the region during the next 5 years i.e. from 2016-2020.

Funding Support from GOI

In line with the 'Act East Policy', the Government of India endeavours to cultivate extensive economic and strategic relations in South-East Asia by way of catalyzing investments from the Indian private sector into this region. Although, the Indian companies are expected to take commercial decisions while investing in this region, there is a need for Government-driven initiative to create adequate support infrastructure in this region to make these investment decisions operationally viable. Plugging of infrastructure gaps will be critical for the formation of a manufacturing hub where investments from Indian firms could be forthcoming. This will require substantial amount of funding and necessitates the formation of a "Project Development Fund" (PDF-CLMV), supported by the Government of India. The quantum of fund required for establishing the PDF-CLMV, for the creation of 10 SPVs in the CLMV countries over the initial 5 years is estimated at around USD 1 bn. It is expected that the above investment will create an enabling environment to facilitate investments to the extent of USD 10 billion over the next 10 years.

The proposed structure of funding from the Government of India is as mentioned below:

Structure of Funding From GoI

The PDF-CLMV would be a Revolving Fund housed in the Ministry of Commerce and Industry, receiving budgetary provisions/grants from Ministry of Finance, and will be routed through the Export Development Fund (EDF) administered by Export-Import Bank of India (Exim Bank) on behalf of the Government of India. As per the Exim Bank Act, the EDF can be used to support such transactions which are considered necessary by Government of India as a matter of priority in the interests of the international trade of the country. Credits into this special fund can be made by way of loans, grants, donations or benefactions from Government of India or any other sources in or outside India.

The PDF-CLMV will be primarily funding the infrastructure projects identified and assessed by the PDC in the CLMV countries. The projects will be implemented through project specific SPVs to be incorporated in those countries. The scope of PDF will be funding through equity, quasi equity, subordinated debt, viability gap funding, debt both at concessional rate of interest and/or at commercial terms, guarantees etc. The PDF will also have to reimburse various costs, which may be incurred by PDC/Exim Bank in carrying out diverse project development activities.

A Steering Committee will be formed with representatives from the Government of India and Exim Bank. This Steering Committee will provide overall direction by way of approvals for funding the proposed SPVs in each of the four countries, while also reviewing their performance.

It is expected that the infrastructure projects will not generate adequate returns in the initial years and the pay-back period of the projects will be very long. Therefore, the PDF would need to be adequately funded, at least for the initial five years. After this period, recycling of fund from existing projects may cater to the needs of future projects. Apart from funding support from the PDF, it is expected that the SPVs will be funded by local bodies, local and foreign banks, multilateral development banks etc. However, given the low credit rating of the CLMV countries, the PDF may have to contribute the maximum towards funding for the initial projects.

Initiating the establishment of Viable Special Economic Zones (SEZs) in the CLMV

One of the major roles of the PDF-CLMV would be to set up country level SPVs in the CLMV region for developing the identified industrial zone projects. The proposed SPVs would acquire already planned SEZs or identify new areas to set up Industrial Parks / Industrial Zones where Indian companies can set up manufacturing facilities.

The PDF-CLMV (through its Steering Committee) may mandate the proposed PDC to mobilise other partners, such as local Banks / Government agencies / companies in the host country, besides Indian agencies / companies as well as Multilateral Development Bank's (MDBs) for taking up equity or debt in the SPV.

Additionally, Exim Bank may also participate in the funding of the SPV under its Overseas Investment Finance / Buyer's Credit Programme on a case-to-case basis. Other Indian Banks also can be tapped for financing.

The PDC will approach the Steering Committee of the PDF for funding in the SPV by way of equity, subordinate debt, concessional loans, etc. For the viability to be achieved, the PDF may also need to contribute in the SPV by way of grants, additional gap funding, etc so as to ensure financial closure of the SPV.

The role of the SPVs, at the country level, will include implementing the identified projects, undertaking developmental projects required to connect the enclaves with other facilities, such as ports; liaising with the local authorities for approvals etc. for smooth functioning of the project; meeting the needs of Indian companies in setting up the facilities; and maintaining the quality of the infrastructure in the enclaves.

The study recommends that the initial projects to be set up could include establishing a Textile Park in Vietnam (SPV) in one of the identified SEZs in the country upon incorporation of the PDC. The Indian textile companies can set up manufacturing units in the textile park to benefit from Vietnam becoming a member of the TPP. There are already indications from few Indian companies to set up such facilities in Vietnam. Additionally, investments in agro processing and wood processing by way of establishing an Agro Processing Zone in Myanmar, and setting up of a Food Processing Park in Cambodia have also been identified as projects that could be taken up immediately by the PDF-CLMV. Establishing the feasibility of such proposals could serve as initial business opportunities for the proposed PDC. In other words, the proposed PDC would undertake mandates from PDF-CLMV to study the feasibility of establishing such exclusive industrial zones for Indian firms, including financial closure of such proposals.

PHASED APPROACH TOWARDS ESTABLISHMENT OF THE PDFF

Given the diversity of scope, a well structured approach is required to maximize mutual benefits of Indian involvement across the countries. Hence, a phased approach for Indian involvement is recommended in the Project Development and Facilitation Framework.

According to estimates of the study, a total of US\$ 21.12 bn infrastructure opportunity is envisaged where PDC can be involved. These infrastructure opportunities includes development of industrial zones, ports, power, water supply and sewage systems, information technology, tourism, road, railways, healthcare and education. In Phase 1, a total investment opportunity to the tune of US\$ 9.98 bn is anticipated, while in Phase 2, the estimated investment opportunity is US\$ 11.14 bn. In order to effectively capitalize on the opportunities available, it is essential to analyze them while taking into consideration aspects like – physical infrastructure, development plans of various entities such as local governments, multi-country entities – ASEAN, ADB, World Bank, and foreign governments, regional policies and constraints specific to cross-regional developments, including country specific policies and the local governments’ acceptance of the proposed projects.

CONCLUSION

CLMV countries have today emerged as key growth points, especially for Asian economies like China, Japan and South Korea. This has been driven primarily by competitive labour costs, wider market outreach on account of various preferential/free trade agreements and conducive manufacturing, trade and investment policies of CLMV countries. While the aforementioned three economies have been able to leverage and partner CLMV countries in their growth process, India has hitherto not been able to fully tap the potential that the four CLMV countries present.

In order to step up India’s engagements with CLMV countries, a Project Development and Facilitation Framework has been proposed. The proposed framework and its integral components, viz. the PDC and PDF-CLMV, will act as a vehicle for facilitating investments from India into the CLMV region. The proposed PDFF would serve as a major step towards the overall Look East and Act East policy of the Government of India as it is expected to promote India’s political, economic and strategic interests in the region. Implementation of the proposed PDFF would facilitate Indian manufacturing firms to overcome hurdles faced in CLMV countries and undertake greater investments which will help them in integrating with global production networks and undertaking vertical specialization. It would in effect,

help mobilize private capital to help ameliorate development challenges in CLMV countries and in doing so, would advance India's foreign economic policy.

A. CLMV: CAMBODIA, LAOS, MYANMAR, VIETNAM

1. An Overview

- ★ Cambodia, Lao People's Democratic Republic (Lao PDR or Laos), Myanmar and Vietnam, which form the CLMV countries, are an integral part of the Association of South East Asian Nations (ASEAN) region, covering 32 percent of its geographical area, and accounted for around 10.5 percent of its gross domestic product in 2013.
- ★ These countries have been undergoing economic transition from central planning to market economy, from inward looking to outward oriented economic development strategies and policies.
- ★ The CLMV economies, which are considered among the fastest growing economies in the region, are primarily agrarian, and have enjoyed certain degree of macroeconomic stability in recent years, with vast potential for future development.
- ★ These economies are endowed with abundant natural resources and low-waged labour forces. However, they are faced with underdeveloped infrastructure and logistics. Except Vietnam, all other CLMV countries fall under the category of Least Developed Countries (LDC) as classified by the United Nations.
- ★ The first CLMV Summit was held in November 2004 in Vientiane, Lao PDR, with the adoption of the Vientiane Declaration on enhancing economic co-operation and integration among CLMV countries. The Vientiane Declaration outlined seven areas of co-operation among CLMV countries which include trade and investment, agriculture, industry and energy, transport, information technology, tourism, and human resource development. The Declaration showed strong commitment of CLMV countries to strengthen and enhance co-operation, and promote regional integration.
- ★ Over the past decade, Vietnam, Lao PDR and Cambodia have all sustained economic growth rates averaging over 7 percent, nearly doubling their GDP. However, this economic growth has largely emanated from the region's endowment of natural resources and cheap labour. Going forward, this growth model may not be sustainable, especially in terms of being either inclusive or broad-based.
- ★ Among the CLMV countries, Vietnam has the largest volume of trade, followed by Myanmar and Cambodia and Lao PDR, which has a relatively small external trade. Trade openness, as measured by trade/GDP ratio is very high for Cambodia and Vietnam (over 100 percent); moderate for Lao PDR while Myanmar is relatively less open. Trade deficit in the CLMV countries amounted to US\$ 18.2 billion in 2013. Under the ASEAN Free Trade Area (AFTA) agreement, the CLMV countries are to eliminate duties on all products within the FTA framework by 2015.
- ★ In 2013, foreign direct investment (FDI) inflows to the CLMV region amounted to US\$ 13.2 billion, which was 10.5 percent of the total inflows in the ASEAN region. In recent years, the

CLMV region has benefited from increased FDI inflows, primarily to the infrastructure sector. In particular, in Myanmar, the suspension of Western sanctions has seen increased inflows of investment, particularly from China, South Korea and Thailand. The region, which is characterized with infrastructural bottlenecks thus provides an investment ground for foreign investors.

Macroeconomic Snapshot of CLMV Countries

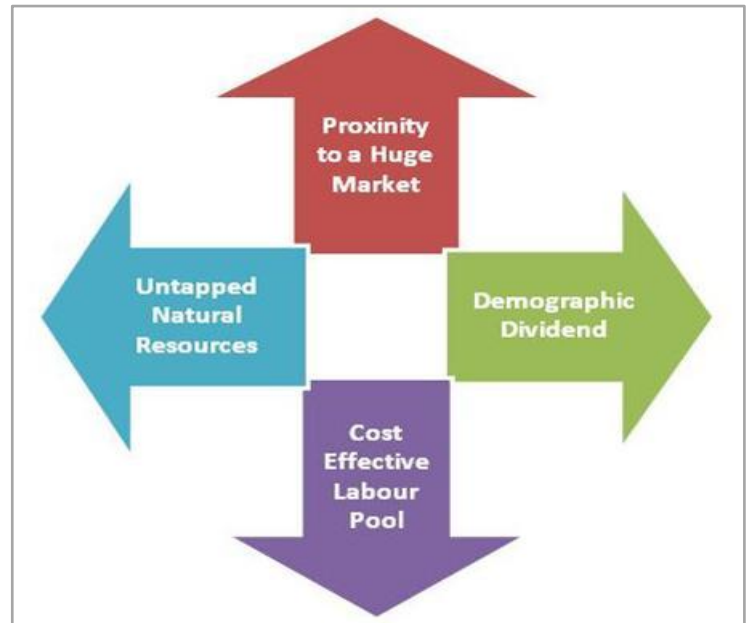
	Total Area	Population (2013)	GDP (2013)	GDP Growth (%)		Exports (US\$ bn)	Imports (US\$ bn)	GDP per capita (2013)	Trade/GDP Ratio
				2008	2013				
	'000 sq km	million	US\$ bn	2008	2013	2013	2013	US\$	In percent
Cambodia	181	15.4	15.7	6.7	7.0	10.2	11.7	1016.4	139.8
Lao PDR	236.8	6.8	10.0	7.8	8.2	3.1	6.2	1476.9	93.0
Myanmar	676.6	64.9	56.4	3.6	7.5	10.5	18.4	868.7	65.1
Vietnam	330.4	89.7	170.6	5.7	5.4	138.1	143.9	1901.7	165.3
CLMV	1424.8	176.8	252.6	5.9	7.0	161.9	180.1	1428.9	138.5
Share in ASEAN-10	31.9	28.2	10.5	-	-	12.7	14.2	-	-

Source: IMF; Trade Map, ITC, Geneva

2. Inherent Strengths of CLMV

Proximity to a Huge Market:

- ★ Myanmar for example, is often recognized as the gateway to the ASEAN, blessed by its location bordering Bangladesh, China, India, Laos, and Thailand – countries that are home to more than 40 percent of the world’s population and are huge potential markets. Overall, Myanmar is close to a market of more than half a billion people.
- ★ At the same time, Cambodia is strategically located between the two larger economies of Vietnam and Thailand, enabling it to play the role of an entrepot and hub.
- ★ Though Laos remains a landlocked country, its proximity to Vietnam, which has a huge coastline, acts as a potential transshipment hub.



Demographic Dividend:

- ★ A common market in terms of Asian Economic Community for capital and labour will present a significant opportunity to CLMV in terms of attracting inward FDI to utilise youthful and inexpensive labour forces.
- ★ Besides, Myanmar is blessed with a large working-age population (aged 15 to 64) estimated at 46 million out of an estimated population of 60 million, and an estimated 3-5 million migrants working abroad whose experience would benefit the country if they were to return home. This population will also be able to gainfully contribute to the respective sectors of the domestic economy with improved education, technical skills and suitable employment opportunities. Although there is a problem of availability of skilled labor, domestically the local populace is highly trainable as they are culturally disciplined and well behaved probably due to long military regime they shared.

Cost-effective labor pool:

- ★ Cambodia has one of Asia's lowest-cost workforces, with over 200,000 new entrants to the labor force annually. These factors allow Cambodia to undercut production costs in other countries – including China, where increasing production costs pose challenges for business. Laos, Myanmar and Vietnam also benefits from low wage costs.

Untapped natural resources:

- ★ The entire CLMV region is endowed with extensive marine, forest and agricultural resources, providing a good base for a range of natural resource-based industrial activities. The region has ample fertile land for the production and processing of agricultural commodities, and holds much potential for livestock farming and aquaculture. Mining is also a promising sector with many areas with abundant mineral deposits yet to be explored. Considerable off-shore gas and oil reserves are available for exploration and production.

3. Getting Regionally Integrated

- ★ Cambodia, Lao PDR, Myanmar and Vietnam are gradually opening up their once centrally planned economies to trade, FDI and the global market. The result has been fast growth and macroeconomic stability for the region. This was reflected in their resilience to the global financial crisis of 2008-09, largely due to their sound growth in exports of apparel, tourism, agricultural products and hydropower and their strong trade and investment linkages with their big regional neighbours.
- ★ Economic integration in the region is gathering momentum as well. All the CLMV countries stand to benefit from the integration of the ASEAN Economic Community which is expected to be completed by end-2015.
- ★ Myanmar and Cambodia's development strategies place emphasis on investment and trade liberalization, so as to ensure sustainable economic growth. They have become active members of a range of sub-regional and regional socio-economic programs, including the Greater Mekong Sub-region (GMS), the World Trade Organization (WTO), ASEAN and various ASEAN initiated schemes including the ASEAN Free Trade Area (AFTA), ASEAN Japan FTA, ASEAN-Korea FTA and

ASEAN-China FTA. **Annexure 1** covers in brief the Trade Agreements in which CLMV countries are involved.

- ★ With Vietnam's negotiations on the Trans Pacific Partnership (TPP) currently on-going, it is widely considered that Vietnam has much to gain from this agreement, due to its potential for a greater share of the global apparel and footwear market, particularly in USA and Japan. The TPP will allow Vietnam export apparel to the US at zero per cent tariff, making exports more competitive. Vietnam is member of ASEAN, APEC, ASEM, WTO and party to ASEAN Free Trade with India, China, South Korea, Australia, New Zealand and Japan. Vietnam is also making efforts in setting-up the ASEAN Economic Community in 2015.

4. SMEs in CLMV

- ★ 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. They account for over 90 percent 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 encounter significant structural challenges such as limited access to funds and financial facilities, inaccessibility to overseas market, limited knowledge of production and technology, inaccessibility to information and inadequate infrastructure. Difficulties in accessing finance due to bank's insistence on collateral-based lending, especially for new start up and innovative SMEs is one of the major bottlenecks. Therefore, SMEs in these countries have to rely on informal source of funds, which charge high interest rates. Access to market and access to technology and innovation are also key challenges for development of SMEs in CLMV. Most SMEs in CLMV countries lack awareness on benefits and implications of FTA and have, limited exposure to export promotion activities.

Annexure 2 covers in brief about SMEs in the four CLMV countries.

B. CAMBODIA

1. COUNTRY ANALYSIS

1.1. Geography

- ★ Cambodia shares its borders with three developing economies viz., Lao PDR, Thailand and Vietnam, and has a crucial connection to the Indian Ocean through its coast on the Gulf of Thailand. Among the ASEAN countries, it is the seventh largest country in terms of population, and has the eighth largest land area. The country has 25 provinces.
- ★ The country has diverse forests which comprise a variety of evergreen, deciduous, mixed and mangrove type. The country also has a significant mineral deposit, some of which include gemstones, iron-ore, manganese, phosphates and timber.

1.2. Political

- ★ The Prime Minister, Hun Sen, and the Cambodian People's Party (CPP) are expected to remain in power until 2018, but the 2013 election showed that the Cambodia National Rescue Party (CNRP) has emerged as a strong opposition party.
- ★ The Economist Intelligence Unit's 2014 democracy index ranks Cambodia 103rd out of 167 countries, putting it among the countries considered "hybrid regimes" - only one step up from a fully fledged authoritarian regime. Cambodia's overall score and ranking for 2014 improve marginally, after the country's two main political parties, the ruling Cambodian People's Party (CPP) and the opposition Cambodia National Rescue Party (CNRP), reached a deal in July 2014 to end the post-election political impasse that had lasted almost a year. The agreement saw the two parties agreeing to work together in the National Assembly.

1.3. Macroeconomic Analysis

- ★ The Cambodian economy has passed through various phases of development. During the last few years the government commenced its reforms, particularly implementation of the public financial management reform program. Investments in social sectors and infrastructure were increased to help reduce poverty, particularly in rural areas. Growth averaged 10.3 percent a year, driven by the four engines namely, garments, tourism, construction, and agriculture. The global economic downturn in 2009 severely impacted the economy as revenues from both garment exports and tourism sector fell, and the Cambodian economy witnessed close to flat growth (0.1 percent). However, the economy showed great resilience rebounding in 2010 to post a healthy 6.1 percent growth.

Macroeconomic Snapshot of Cambodia

	2009	2010	2011	2012	2013	2014 ^f	2015 ^f
GDP (percent change)	0.1	6.1	7.1	7.3	7.0	7.2	7.3
GDP (US\$ bn)	10.4	11.3	12.9	14.1	15.7	16.9	18.5
GDP per capita (US\$)	703.4	752.7	853.5	925.5	1016.4	1087.8	1177.2
Inflation, average (% change)	-0.7	4.0	5.5	2.9	3.0	3.8	3.2
Population (million)	14.8	15	15.1	15.3	15.4	15.6	15.7
Current Account Balance (% of GDP)	-4.5	-3.9	-8.1	-8.7	-8.6	-8.4	-7.4
External Debt (% of GDP)	33.8	34.0	34.6	40.8	40.5	41.3	39.4
Reserves (US\$ million)	3288	3802	4069	4938	4995	6054	6634

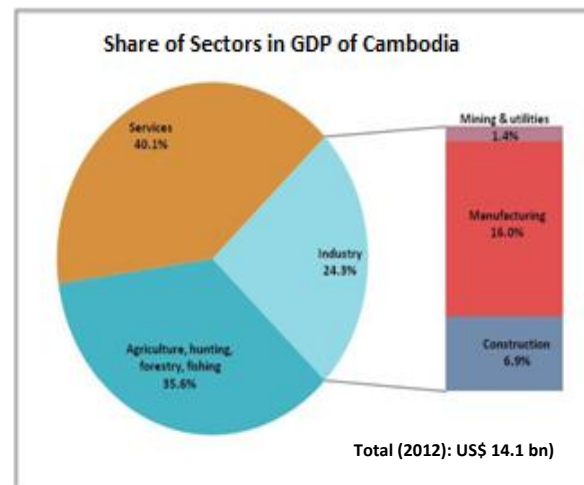
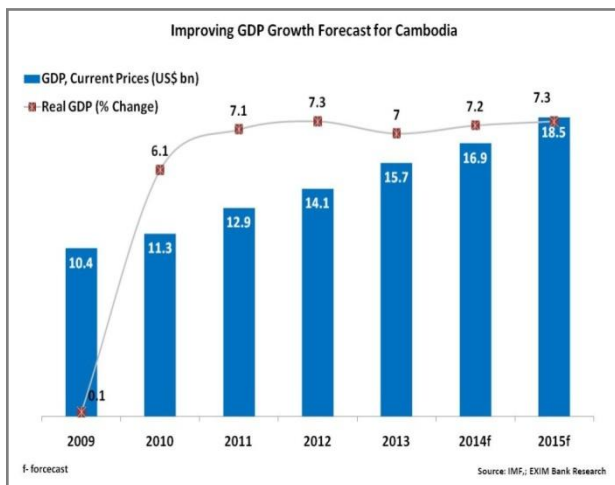
f: forecast;

Source: IMF; EXIM Bank Research

The Cambodian government announced expansionary fiscal measures to mitigate the impact of global financial crisis. In 2009, investments worth US\$ 1 bn in infrastructure (primarily transport and irrigation) were announced to stimulate growth. Tax relief was also provided to the most adversely affected sectors. This helped pushing growth to 6.1 percent in 2010 and 7.1 percent in 2011. Growth continued to remain strong at 7.3 percent in 2012, buoyed by a strong export-led manufacturing activity. Robust growth in services and expanding export industries sustained the economic growth in 2013.

According to the World Bank, real growth for 2014 is estimated to reach 7.2 percent, driven by the garment, construction, and services sectors. Bolstered by a strengthening global economy and with the expectation of renewed confidence and the return of political stability in July 2014 after a year-long political deadlock, Cambodia's real economic growth rate for 2015 is expected to reach 7.5 percent.

Services sector dominates the economy, accounting for 40.1 percent of Cambodia's GDP in 2013, followed by agriculture (35.6 percent of GDP) and industry (24.3 percent of GDP).



2. TRADE & INVESTMENT

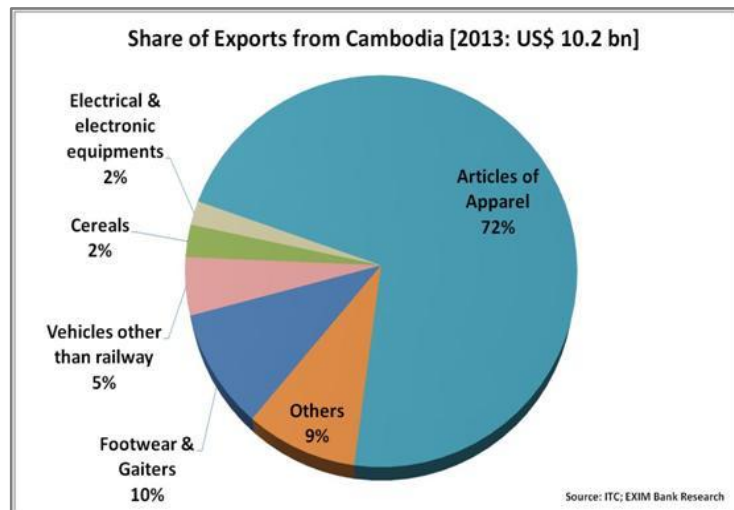
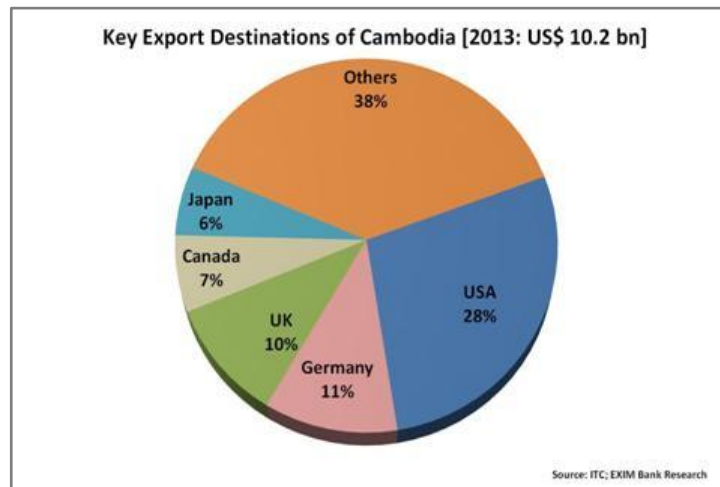
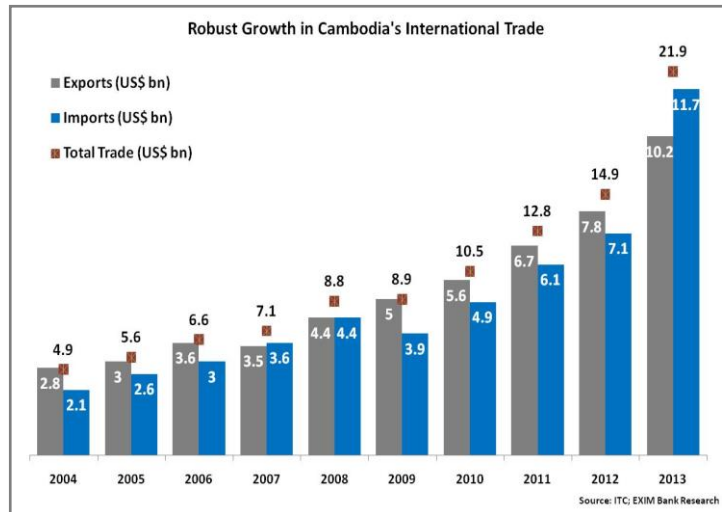
2.1. Cambodia's Merchandise Trade

★ Cambodia has a relatively open trading regime and acceded to the WTO in 2004. During the last decade, total trade of Cambodia increased more than four-fold, from US\$ 4.9 bn in 2004 to US\$ 21.9 bn in 2013. During the same period exports from Cambodia increased to US\$ 10.2 bn in 2013, rising from US\$ 2.8 bn in 2004, witnessing a CAGR of 15.4 percent. In 2013, the country turned into a net importer, after being a net exporter for the past four years.

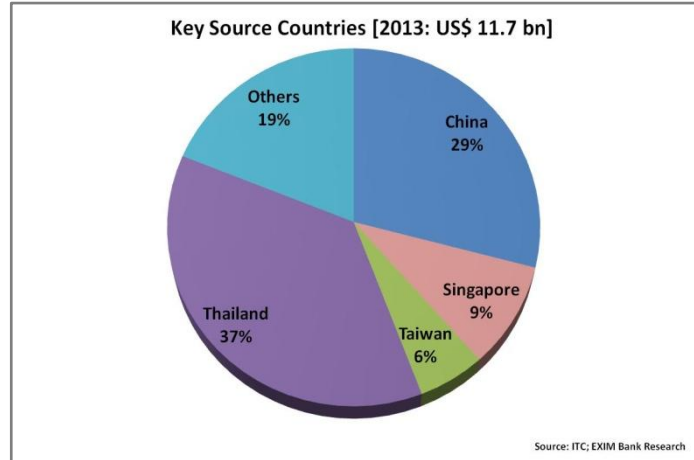
★ In Cambodia, agricultural equipment and inputs, school materials and equipment, pharmaceutical products, construction materials, machinery, as well as other equipment and sporting goods are exempt from import duties; however, these products are still subject to VAT.

Since 2003, over 85 percent of goods traded among ASEAN members, including Cambodia, have been subject to tariffs ranging between zero and 5 percent.

★ Cambodia's export structure has evolved considerably since the early 1990s, from resources-based products to manufactured goods. Moreover, there has been substantial diversification with Cambodia exporting 467 products in 2013, up from 386 a decade earlier

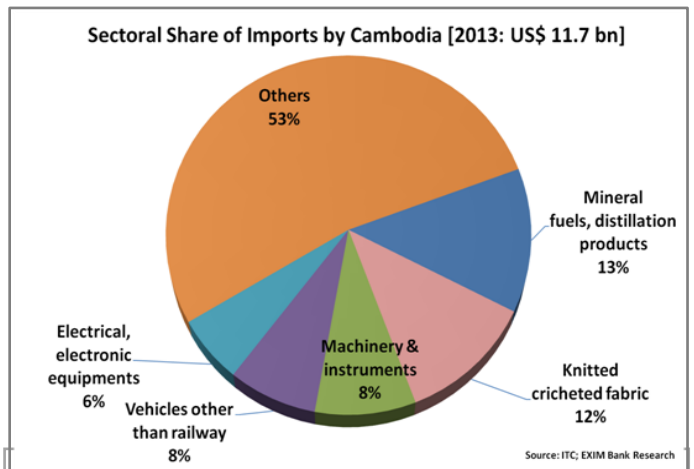


★ The Everything-But-Arms (EBA) arrangement with the EU gives the country duty-free access to the European Union, while other agreements offer low barriers for access to the markets of Canada and the United States. These tariff preferences have helped in increasing exports of rice, garments, and other products, and to establish a bicycle assembly industry.



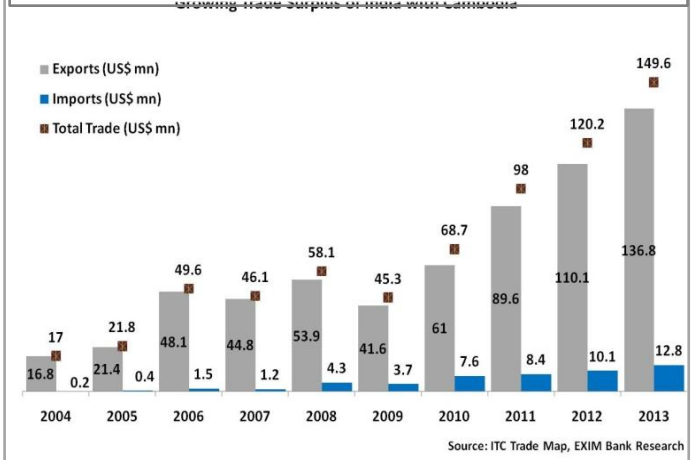
★ Imports have grown at a much faster pace during last decade, and were seen significantly higher at US\$ 11.7 bn in 2013 from US\$ 2.1 bn in 2004, with a CAGR of 21.0 percent.

★ Cambodia depends heavily on electricity imports, which provided 64 percent of electricity consumed in 2012. About three-fourth of these imports are sourced from Vietnam and the rest are mostly from Thailand.



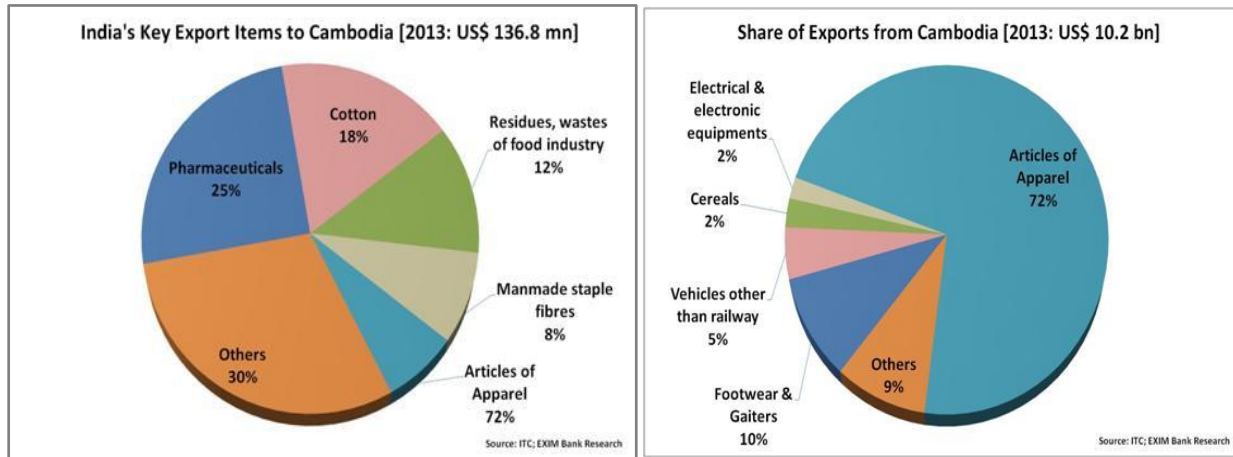
2.2. Trade with India

★ India's bilateral trade with Cambodia has been on a rising trend, increasing more than 8-fold from US\$ 17 million in 2004 to US\$ 149.6 mn in 2013, buoyed by increasing exports. Along with rising exports, India's trade surplus with Cambodia has also been growing.



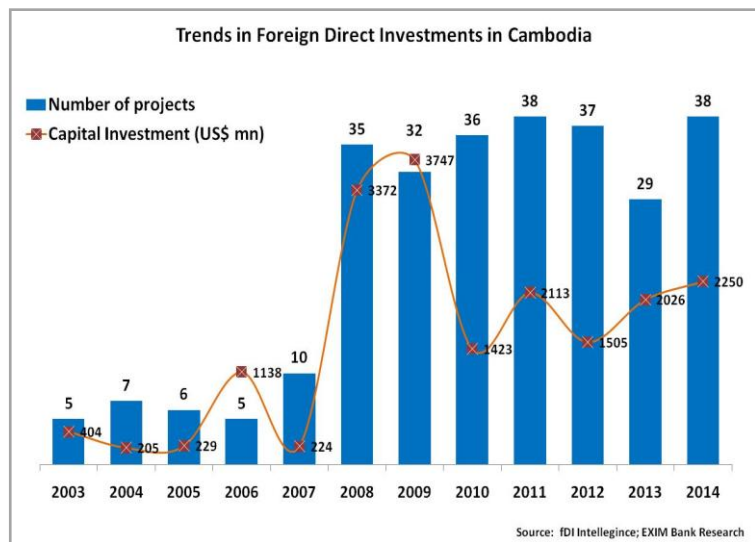
★ In 2013, Cambodia accounted for 0.2 percent of India's total trade with ASEAN, 0.4 percent of India's exports to ASEAN and had a negligible share in India's imports from the ASEAN region. Structurally, India enjoys a trade surplus with Cambodia.

★ India was Cambodia's 5th largest global source for imports of cotton, as well as sugar and sugar confectionery, 10th largest global source for knitted or crocheted fabric, and 9th largest global source for imports of vehicles other than railway, tramway.



2.3. Foreign Investments

- ★ According to FDI Intelligence, China signed deals worth US\$ 13.5 bn in January 2013 to develop a railway line, a steel plant, an oil refinery and a port to augment the already planned billions of dollars' worth of Chinese-invested infrastructure projects in Cambodia.
- ★ Between January 2003 and December 2014 a total of 278 FDI projects were recorded in Cambodia. These projects represent a total capital investment of US\$ 18.64 bn, which is an average investment of US\$ 67.00 million per project.
- ★ Out of a total of 31 sectors, the top five sectors account for the majority of projects. Financial Services is the top sector accounting for almost one-third of projects tracked. Other major sectors attracting investments are food and tobacco, communications, coal, oil and natural gas, and transportation.
- ★ Malaysia was the top source country accounting for one-sixth of projects tracked. Project volume in this source country peaked in both 2009 and 2010 with 11 projects tracked in each of these periods.



FDI trends by Source country

Source country	No of projects	No of companies	Capital investment (US\$ mn)
Malaysia	43	16	5,169.00
Japan	42	39	1,621.50
Vietnam	42	34	1,280.30
Thailand	25	19	1,592.60
United States	21	19	1,618.10
China	17	15	2,137.80
South Korea	16	14	1,561.20
Taiwan	8	8	357.00
Australia	7	3	253.10
UK	7	7	172.90
Other source countries	50	47	2,872.60
Total	278	221	18,636.00

Source: fDi Intelligence from The Financial Times

2.4. Select Investment Clauses

- ★ In Cambodia, FDI is freely permitted except in the areas mentioned in negative list¹, which are prohibited for both Cambodian and foreign investors. FDI has to be registered with the Ministry of Commerce after obtaining relevant operating permits. An investment approval is issued not to an investor or investing enterprise but to a project. A project which receives the investment approval is called a Qualified Investment Project (or QIP).
- ★ A QIP may be in the form of a joint venture. A joint venture may be formed among Cambodian entities, among Cambodian entities and foreign entities or among foreign entities. There is no limitation based on nationality or the share-holding proportion of each shareholder, except in the case a joint venture owns or intends to own land or an interest in land in Cambodia. In such a case, the maximum combined share-holding of all foreign parties must not exceed 49%.
- ★ The government provides investors with a guarantee neither to nationalize foreign-owned assets, nor to establish price controls on goods produced and services rendered by investors, and to grant them the right to freely repatriate capital, interest and other financial obligations.
- ★ The government has established an institution to oversee investment policy and strategy called the Council for the Development of Cambodia. This is expected to act as One-Stop Shop to obtain all of necessary licenses required from relevant ministries listed in the Conditional Registration Certificate for investment on behalf of the investment applicant.

¹ These include production of psychotropic substances and narcotic substances; poisonous chemicals, agriculture pesticide/insecticide and other goods by using chemical substances, prohibited by international regulations or the World Health Organization, that affect the public health and environment; electricity power by using any waste imported from a foreign country; forestry exploitation business prohibited by Forestry Law; and activities prohibited by law.

- ★ QIPs are entitled to the following benefits:
 - Receive a profit tax exemption or use special depreciation.
 - Profit tax exemption: A tax holiday is composed of “trigger period+ 3 years+ priority period” (maximum total 9 years). While trigger period commences on the issuance of receiving a final registration certificate, priority period is determined according to the type of project and investment capital.
 - Special depreciation (Selective): 40 percent special depreciation allowance on the value of the new or used tangible properties used in the production or processing.
 - Entitled to 100 percent exemption of export tax, except for activities as stipulated in laws in effect.
 - Duty free import of production equipment, construction materials, etc.

Type of QIP	Commodities to be imported free of duty
Domestically oriented QIPs	<ul style="list-style-type: none"> ▪ Production equipment, construction materials and production input to be used in the production of exports goods
Export oriented QIPs (except those which elect or which have elected to use the Customs Manufacturing Bonded Warehouse mechanism)	<ul style="list-style-type: none"> ▪ Production equipment, construction materials, raw materials, intermediate goods and accessories
Supporting Industry QIPs	<ul style="list-style-type: none"> ▪ Production equipment, construction materials, raw materials, intermediate goods and production input accessories. In the case where the Supporting Industry QIP fails to supply 100% of its manufactured products to the export industry or directly export its products, the QIP shall pay the customs duties and taxes on production inputs for the quantity that has not been supplied to the export industry or directly exported

- ★ However, certain projects like transportation services, tourism services, casino and gambling businesses, etc. are not entitled for investment incentives.
- ★ Apart from this, there are industry-specific additional incentives:
 - Import duty reduction or exemption and the government-borne VAT scheme (VAT exemption) have been introduced on various agricultural materials such as seeds, breeds or residues and agricultural machines including tractors.
 - QIPs in the area of agriculture and agro-industry may obtain incentives in the form of a priority period of tax exemption for three years.
 - VAT on the imported production input and equipment of supporting industry, which serves to the export of garment, textile or footwear, is exempted.

2.5. Special Incentivised Zones

- ★ In Cambodia, SEZ refers to the special area for the development of the economic sectors which brings together industrial and other related activities and may include General Industrial Zones and/or Export Processing Zones. Each SEZ has a Production Area which may have a Free Trade Area, Service Area, Residential Area and Tourist Area.
- ★ SEZs in the country must have a land of more than 50 hectares with precise location and geographic boundaries; must have a surrounding fence (for Export Processing Zone, Free Trade Area and the premise of each investor in each zone); must have management office building and Zone Administration offices and all necessary infrastructures must be provided; and must have water sewage network, waste water treatment network, location for storage and management of solid wastes, environment protection measures and other related infrastructures as deemed necessary.
- ★ Currently there are 11 SEZs – Dragon King SEZ, Goldfame Pak Shun SEZ, Kampot SEZ, Manhattan (Svay Reing) SEZ, Neang Kok Koh Kong SEZ, Phnom Penh SEZ, Poi Pet O’Neang SEZ, Sihanoukville Port SEZ, Sihanoukville SEZ 1, Sihanoukville SEZ 2, and Tai Seng Bavet SEZ. Brief of select SEZs visited during the reconnaissance mission are:
 - **Sihanoukville Special Economic Zone (SSEZ):**

128 hectares of land under Phase I available for setting up manufacturing units. SSEZ offers One Stop Shop for processing applications. Investors can approach Council for Development of Cambodia (CDC), which takes 28 working days for processing application. Minimum investment of US\$ 1 mn is required for investing in SSEZ.

Close proximity to airport, railroad and the only deep-sea port in Cambodia makes it a potential area of investment.
 - **Sihanoukville Port SEZ (SPSEZ):**

Spread across 747 acres adjoining the port. SPSEZ has 45 ha of developed land available, with 5 acres acquired by few companies from Japan.

Indian companies can acquire existing developed land under lease of 50 years. They can further sub contract the land for non restricted uses (i.e. not residential etc.). The land should preferably be sub contracted to heavy industries which shall generate revenues for port in terms of tonnage transported. Small cargo industries such as electronic chips are not preferred
 - **Phnom Penh SEZ(PPSEZ):**

With a total area of 360 hectare, PPSEZ is located on the Phnom Penh-Sihanoukville Economic Corridor on National Road 4, and is located 1 hour outskirts of the capital city.

PPSEZ is 78:22 JV between Cambodia and Japan. Phase I is operational, Phase II is under development and Phase III is planned for setting up of a residential complex which is proposed to be developed after completion of Phase II.

As on date, 57 companies are in operation and another 77 signed for future investment.

Infrastructure facilities at PPSEZ include power plant, water treatment plant, dry port and railway track.

CDC as well as Custom office at PPSEZ makes it a one stop shop.

★ **Incentives under the Cambodia SEZ Law include:**

For investors:

- Investors are entitled for the same incentives on customs duty and tax as other QIP, as mentioned in the previous section.
- The Zone Investor is entitled to the incentive on Value Added Tax (VAT) at the rate of 0% shall record the amount of tax exemption for its every import. The said record shall be disregarded if the production outputs are re-exported. In case the production outputs are imported for the domestic market, the Zone Investor shall refund the amount of Value Added Tax as recorded in comparison with the quantity of export.
- Incentive on VAT exemption to the investors located in the SEZ has been extended without specific time limit. The imposition of VAT is automatically suspended for the followings:
 - The construction materials, production equipments and materials to be imported by Export-oriented QIP in SEZ.
 - The construction materials and production equipments to be imported by Domestic Manufacturing QIP in SEZ.
 - Products produced by QIP in the SEZ, which will become the production input to other QIP in the same SEZ.

For developers:

- The exemption period for the Tax on Profit is provided for a maximum period of 9 years.
- The import of equipments and construction materials to be used for infrastructure construction in the zone is allowed and exempted from import duties and other taxes.
- Custom duty exemption on the import of machineries, equipments for the construction of the road connecting the town to the zone, and other public services infrastructures for the public interests as well as for the interests of the zone.
- Developer may request, under the form of a temporary admission, the import of means of transport and machineries used for the construction of the infrastructures in accordance with the laws and regulations in force.
- Developer may obtain a land concession from the State for establishing the SEZ in areas along the border or isolated region in accordance with the Land Law, and may lease this land to the Zone Investors.

Common Incentives for Developers and Investors

- Zone developers, investors or foreign employees have the right to transfer all the income derived from the investment and salaries received in the zone to banks located in other countries after payment of tax.
- Non-discriminatory treatment as foreigners, non-nationalization and no- fixing price.

2.6. Factors favoring India’s Trade & Investments in 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.

While Cambodia is one of the LDCs in the region, select factors makes it a Potential Market

Preferential Market Access	Open Economy	Competitive Advantage
<ul style="list-style-type: none"> • Cambodia is part of the China-ASEAN free trade agreement. It is an attractive trading block with demand potential from 1.7 billion people, and robust economic growth. • As a WTO member and LDC, Cambodia benefits from preferential access to a number of markets, including EU. 	<ul style="list-style-type: none"> • The country is one of the region's most open economies for foreign investment. • Low tax rates, investment incentives and a one-stop-service for qualified investments signal the government's commitment towards inviting foreign capital. 	<ul style="list-style-type: none"> • Low labor costs and increasing education levels are an attraction for labor-intensive manufacturing in the country.

3. INVESTMENT OPPORTUNITIES

- ★ Economic output in Cambodia depends significantly on garments, rice, tourism and construction. Political and macroeconomic stability, coupled with liberalized and export-oriented development policy attracted significant FDI into these sectors of the Cambodian economy. Although economic growth has been robust over the past two decades in the country on the back of these sectors, the country needs to bring about improvements in the key sectors, while expanding into newer ones. Nascent signs of product diversification have been emerging, but removing infrastructure bottlenecks and improving the business climate will remain critical for attracting private investment. .

3.1. Primary Sector

- ★ With close to 60 percent of the Cambodian population engaged in agriculture, this is the primary industry of the country. Rice is the principal food crop, while rubber is the principal commercial crop in Cambodia. Many international aid organizations are supporting farmers through crop diversification programs to cultivate other crops.
- ★ The food, beverage, and tobacco subsector continues to grow, but its relative importance has been diminishing with the rise of garments, textiles, and footwear.

Potential in Select Agriculture Related Industries

Sector	Potential	Remarks
Rice	<ul style="list-style-type: none"> ▪ Low labor costs and abundant agricultural land provides an apparent comparative advantage to the agro-industry. ▪ Rice production and processing benefitted from trade preferences given by the EU to rice exporters from the country. ▪ The country lacks the capability to turn its raw paddy rice into refined, more expensive grain. ▪ Lack of access to new technologies in agriculture and productivity improvements, poor storage and transport infrastructure have resulted in a low supply of agricultural produce in recent years. 	<ul style="list-style-type: none"> ▪ Value added in agro-industry is very low. ▪ Much of the rice currently 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.
Rubber	<ul style="list-style-type: none"> ▪ The available land for rubber plantation in Cambodia is located in Kampong Cham, Kratie, Kampong Thom, Rattanakiri, Mondulkiri, Battambang, Preah Vihear and Pailin provinces. ▪ In recent years, entrepreneurs from China, Vietnam, Malaysia and Thailand have invested heavily in the expansion of rubber plantation in the CLMV region as a whole. ▪ Economic Land Concessions (ELCs), which used to be granted before have been frozen. These ELCs provide a number of incentives. 	<ul style="list-style-type: none"> ▪ There have been large-scale land acquisitions, mainly by Vietnamese and Chinese, in the frame of Economic Land Concessions (ELCs) and by Khmer individual investors. ▪ The objectives of granting ELCs were: <ul style="list-style-type: none"> ○ to develop industrial-agricultural activities requiring a high rate of capital investment. ○ to reach agreements with investors for developing land in an appropriate and long-term manner; ○ to increase employment in rural areas and stimulate diversification of

Sector	Potential	Remarks
		livelihood opportunities; <ul style="list-style-type: none"> ○ to generate state revenues through economic land use fees, taxation and related services charges. ▪ ELCs used to be previously granted for large-scale farming, but lack of utilization by foreign entities, made the Government freeze allocation of ELCs.
Cassava	<ul style="list-style-type: none"> ▪ Cassava is currently the most important upland crop (grown on elevated landscape) of Cambodia. ▪ There is high demand in the international market for cassava food grade and cassava starch for bio-ethanol production. ▪ There are opportunities for yield improvement and narrowing of yield gaps through the adoption of field specific improved technologies and management practices. 	<ul style="list-style-type: none"> ▪ The main yield constraints for Cassava are soil nutrient deficits, short crop duration and weed competition.
Wood, paper, and publishing	<ul style="list-style-type: none"> ▪ There is sufficient supply of local tropical hardwoods in the country. ▪ There has been an increased demand for timber products for local construction of housing, hotels, offices, resorts, etc. ▪ There are insufficient production facilities and lack of technical know-how, which can be provided by the Indian companies. 	

3.2. Secondary Sector

Manufacturing

- ★ Cambodia's industrial sector has performed remarkably well since the country transitioned to an open market economy. Driven by a robust manufacturing subsector, industry's value added has been growing by more than double the annual rate of agriculture's value added.
- ★ Cambodia has become an attractive production centre due to its low wages, preferential tariffs, and quota-free access to major markets.

Sector	Potential	Remarks
Bicycle	<ul style="list-style-type: none"> ▪ Tariff preferences have primarily driven the industry's rise. Chinese, Taipei producers 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 	<ul style="list-style-type: none"> ▪ Power supply issues need to be addressed to reduce production costs, as bicycle factories currently have installed their own generators to ensure adequate supply. ▪ The industry would also benefit from sector-specific skills training to reduce the defect rate and improve product quality.

Sector	Potential	Remarks
	<p>the standard 14 percent tariff on imported goods. Cambodia's low wages were also a major factor for bicycle producers of Chinese Taipei moving production there.</p> <ul style="list-style-type: none"> Indian bicycle producers can also benefit from the emerging bicycle manufacturing hub in the country. 	
Two-Wheelers	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Bajaj Auto has recently moved into this space after studying the market for over a year. The motorbike assembly unit is located near the capital city. The motorbikes are selling at US\$ 3000. Current sales is around 200 units/month.
Industrial Clothing	<ul style="list-style-type: none"> The mining industry in Cambodia has substantial growth potential, with several foreign companies engaged in research and exploration for minerals. In this context, huge demand for industrial clothing is expected to arise. Garments industry is already well established in the country. Product diversification into the industrial clothing segment can add value to the current production chain. 	<ul style="list-style-type: none"> Operating as niche market supplier makes producers able to complete on quality, design and lead times, rather than on cost. As cost pressures increase, such steps are necessary.
Textiles & Garments	<ul style="list-style-type: none"> Specialization in assembly activities that involve cutting and sewing the fabrics into finished garments. Linkage between foreign-owned garments firms as well as local ones with international buyers or brand names provides the industry an important channel into the garments global value chain. Government promotes the garment industry by offering favourable investment conditions and tax incentives. Additional business opportunities can be found 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. 	<ul style="list-style-type: none"> High import dependence on inputs. Garment factories perform only cut-make-trim functions, while fabrics are imported from overseas. Given the plethora of textile companies in the country, job opportunities for low-end work remains high. Taking advantage of this situation, there is a frequent shift of jobs among employees for meagre salary increase. However, power availability remains an issue which the Government is trying to mitigate by putting more power plants.
Footwear	<ul style="list-style-type: none"> The growth of the footwear industry has been led by foreign enterprises which invested in Cambodia for enjoying the incentives offered by the government and the benefits of GSP/MFN privileges provided by advanced countries such as the EU and Japan. There was sudden FDI increase from 2006 onwards in this industry, which might have 	<ul style="list-style-type: none"> Most of the leather and other raw materials used to produce footwear are sourced from within the South-East Asian region but very little is produced in Cambodia.

Sector	Potential	Remarks
	<p>been caused by shifts in investment from China or Vietnam, due to the application of anti-dumping on these countries by the EU.</p> <ul style="list-style-type: none"> The large vendor factories have higher productivity due to investment in modern equipments. Indian companies can explore setting up similar units. 	

Mining

- ★ The mining sector in Cambodia is still largely underdeveloped, and most mining companies active in Cambodia are small-scale quarries producing materials for construction, such as laterite, marble, granite, limestone, gravel and sand.
- ★ According to the Ministry of Industry, Mines and Energy (MIME), Cambodia, copper, gold, iron ore, zinc, lead, tin, bauxite, sapphire, ruby, kaolin and limestone are amongst the most prevalent resources in Cambodia, that remain largely untapped.
- ★ A large number of foreign companies are engaged in research and exploration for minerals in Cambodia, and have also received licenses to conduct exploration.
- ★ Opportunities for Indian players exist in the form of participating in mineral exploration, improvement and revamping of existing mines and plants, expansion of production capacities using more profitable, efficient and appropriate technology or new projects with already known or partly known deposits.
- ★ Mining activities possible at various provinces are as follows:
 - Iron ore : Banteay Meanchey, Mondolkiri, Preah Vihear, Ratanakiri, Stung Treng
 - Gold and Gemstone: Kratie, Mondolkiri, Ratanakiri
 - Coal: Ratanakiri, Stung Treng
 - Stone: Kratie, Mondolkiri, Preah Sihanouk, Siem Reap, Stung Treng
 - Marbles: Banteay Meanchey, Kampong Chhnang
 - Limestone: Banteay Meanchey
 - Phosphate: Banteay Meanchey,
 - Sand & Clay: Kampong Chhnang, Kampot, Preah Sihanouk, Prey Veng, Siem Reap, Stung Treng.

3.3. Tertiary Sector

Information Technology

- ★ There has been an increasing demand for IT Parks and ITES in Cambodia over the last decade. Indian IT companies being market leaders can explore multiple opportunities such as requirement of integration IT systems at Sihanoukville Port and SEZ, etc.

Tourism

- ★ While tourism opportunities are available in every province of Cambodia, India can explore specific opportunities as listed below
 - Development of tourism hub at Koh Kong province to capitalize on the presence of rich tourism resources such as beautiful coastlines, green forest, waterfalls, various kinds of wildlife and historical sites etc.
 - Resort and Eco – tourism development in the Kampot, Kandal and Kep provinces.

4. INFRASTRUCTURE OPPORTUNITIES

4.1. Construction

- ★ The urban landscape, particularly in Phnom Penh, has changed vastly with strong demand for construction of buildings and infrastructure.
- ★ A study by JICA in 2010 assessed infrastructure needs for the period 2010-2020 and estimated that Cambodia needs US\$ 13.36 bn of investment in infrastructure or US\$1.2 bn per year over the 2010-20 period.
- ★ 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 expected to boost the demand for transport infrastructure going forward.
- ★ Moreover, the country has one of the lowest construction costs in the region, along with high returns on investment for successful projects.
- ★ The burgeoning demand for infrastructure development therefore opens up ample opportunities for engineering, procurement and construction (EPC) companies, iron and steel manufacturers, and cement manufacturers.
- ★ Weak existing infrastructure provides many opportunities for growth, particularly in road and rail construction.

4.2. Power

- ★ The current power generation capacity of Cambodia is about ~1,500 MW. There exists a power shortage currently with the government importing about ~440 MW power annually. To address this shortage, the government had initiated ~18 energy projects with countries like China, Malaysia and Vietnam participating in many of these projects.
- ★ The opportunities available in the power generation, power transmission and rural electrification are listed below.

Power Generation on BOT basis

- ★ Cambodia aims to be a power surplus country in the near future, with projects generating up to 500 MW expected to be implemented by 2017, and a further set of projects with potential generation capacity of 500 MW, currently under planning stages. Given the plans of the government, the following is suggested:
 - Construction of hydropower plants in Kampong Thom, Kampot, Koh Kong, Kratie, Mondolkiri, Pursat – Proposed Generation Capacity = 350 MW
 - Wind energy production in the Kampong Cham province due to availability of suitable areas – Proposed Generation Capacity = 50 MW

Power transmission lines on BOT basis

- ★ There has been a shift in plans in transmission lines from the earlier focus on import of power from the Laos to current focus on import from Vietnam. Given the current focus of the government, following are recommended:

- Ratanakiri to Mondulkiri: Power Transmission of 230 kVA entailing investments of approximately US\$ 50 mn
 - Ratanakiri to Kong Tum: Power Transmission of 500 kVA requiring investments worth nearly US\$ 20 mn
- ★ The above projects are crucial to ensure normal functioning of mining & associated industries coming up in the region and hence have been fast-tracked by the government. Additionally, excess power is expected to be exported to Vietnam and Thailand.

Rural electrification

- ★ As part of Cambodia's rural electrification program, 70 percent of the country's households are planned to be connected to the grid by 2030. In order to achieve this target, Cambodia has initiated 18 energy projects and, as highlighted above, countries like China, Malaysia and Vietnam are participating in many of these projects.

4.3. Railway

- ★ The Cambodian government has proposed rail projects to improve connectivity and reduce freight transportation cost.
- ★ Some of the rail corridors where Indian companies could focus on to drive trade and investments in the region, could include the following:
- 48 km Sisophon – Poipet rail link (work has been suspended due to problems with current contractor)
 - Proposed 105 km Serei Saophoan – Siem Reap rail link
 - Proposed 239 km Siem Reap – Skun rail link
- ★ Other opportunities available in railways are as follows:-
- Proposed 255 km Bat Doeng – Loch Nich (Vietnam border)
 - Proposed 273 km Snoul – Strung Treng (Laos Border)

4.4. Water

- ★ Development and maintenance of water supply plants in the Kep, Takeo and Pailin province
- ★ Improvement in sewage systems of Phnom Penh city

5. ECONOMIC CORRIDORS

Poi Pet – Bavet Section

The development of the Poi Pet – Bawet economic corridor offers the following key advantages:

- ★ It would lead to the much required up-gradation of connectivity between the financial hub of Cambodia i.e. Phnom Penh and the tourism hub of Siem Reap.

- ★ The corridor can provide a quicker mode for transportation of Cambodian products to South Asia (including India), Middle East and the Europe through Dawei port bypassing the congested Straits of Malacca

Poi Pet Bavet Section of the Mekong India Economic Corridor



- ★ Poi Pet – Bavet Economic Corridor contains diverse growth nodes and associated hubs of tourism and finance. The influence area of this corridor would include the following provinces:

i. **Banteay Meanchey Province**

- ★ This province borders Thailand on the west. There is a significant volume of import and export goods that pass through this province and thus it could be attractive to develop a dry port at Poi Pet. This province has abundant mineral deposits of iron ore and marble and offers good potential for industrial development.

ii. **Siem Reap Province**

- ★ The Siem Reap Province is the most popular tourist destination in Cambodia. It has the UNESCO World Heritage site Angkor Wat as well as many other historical as well as cultural sites. The province offers potential as a tourist hub through development of an integrated tourist complex comprising amusement parks, hotels, adventure and cultural

activities. The province also has a well-developed transportation network, and is currently the second economic hub in Cambodia after Phnom Penh.

iii. **Kampong Thom Province**

- ★ This province is rich in natural resources, has a fertile land and an abundant supply of water. The region has significant production of agricultural products such as rubber, cashew and rice. This region offers potential for development of rubber plantations and establishment of rubber based industries.

iv. **Kampong Chan Province**

- ★ The Kampong Chan province is predominantly agricultural, focusing on production of rice and rubber. This region also displays potential for development of rubber plantations and establishment of rubber-based industries.

v. **Phnom Penh Municipality**

- ★ Phnom Penh is the capital city of Cambodia and has played a key role in the economic development of the country. The infrastructure in the city has been rehabilitated and it now has a developed transportation network. The city has Phnom Penh SEZ with focus sectors including food processing, agro processing and metal processing. Other than the SEZ, the city also has a vibrant garment sector.

vi. **Prey Veng Province**

- ★ The Prey Veng province has a rich supply of sand through the Mekong River. Thus, it can provide river sand for the construction industry. It also displays potential for development of fisheries and food processing industry.

vii. **Svay Rieng Province**

- ★ This province is well developed, owing to its proximity with Ho Chi Minh City in the neighbouring Vietnam. It has 3 SEZs, the Manhattan SEZ, Tai Seng SEZ and the Dragon King SEZ. It is a hub for light manufacturing industry of garments, shoes and bicycle assembly. The region is also emerging as an educational hub.

The following are the growth nodes proposed for the region

- ★ **Poi Pet** – Focus on developing an industrial zone in sectors: agro processing, food processing, garments and textile
- ★ **Kampong Cham** – Focus on development of a greenfield industrial zone in rubber processing, agro processing, food processing, garments and textile industries
- ★ **Siem Reap** – Tourism hub, having a focus on development of an integrated tourist destination having multiple attractions for tourists, such as development of amusement park.

From a development perspective, and with a view to gain goodwill for India, the following infrastructure could be created:

- ★ **Roads:** The current road infrastructure connecting the two key cities of Siem Reap and Phnom Penh is of poor quality and there exists an opportunity for the development of an expressway.
- ★ **Railways:** A railway line is proposed for development to connect the cities of Poi Pet and Bawet which can be developed as part of this corridor.

6. INVESTMENT POLICY

Investments in Cambodia are administered by the CDC, which is a one stop entity for obtaining authorizations required for an Investment Project and coordination with the Ministry of Commerce.

6.1. Framework for Investments

- ★ The only approval required for an investment is the Final Registration Certificate, which is given to a project
- ★ The CDC acts on behalf of investors in co-ordinating with ministries for approvals
- ★ The Law on Investment governs the licensing of investments
- ★ Investments lesser than US\$ 2 mn are handled by the Provincial-Municipal Sub-Committee
- ★ Only certain sensitive investment projects are referred to the Ministries for approval

6.2. Approval Process

- ★ An application is made to CDC in the form of an Investment Proposal
- ★ The CDC issues conditional registration certificate or states the reasons for rejections through a letter of non-compliance within 3 working days
- ★ The CDC obtains all licenses on behalf of the applicant from all relevant ministries within 28 working days
- ★ The CDC issues a final registration certificate to the project, after which all project activities can commence.

6.3. Policies Favourable for Investment

There exist favourable policies for investments falling under certain categories:

- ★ The projects can apply for tax breaks or apply for use of special depreciations.
- ★ Up to 9 years of tax holiday can be availed on profits
- ★ A depreciation of 40percent can be claimed on certain assets
- ★ Import duty waiver can be claimed for a project
- ★ 100 percent exemption can be claimed on export tax for certain projects
- ★ The government does not fix price or fee for products or services of a project
- ★ Nationalization policy that would adversely affect private properties are discouraged

6.4. Foreign Investment Policy

- ★ Foreign investors are allowed to make investment either in the form of a wholly foreign-owned enterprise, or partly-owned, or in the form of a joint venture with a local private or public entity.
- ★ A foreign investment project is not discriminated against benefits such as tax incentives
- ★ All sectors open to Cambodian investors are open to foreign investors
- ★ A maximum of 49percent foreign ownership is permitted in holding of land

C. LAO PDR

1. COUNTRY ANALYSIS

1.1. Geography

Lao PDR is a landlocked country located in the centre of Southeast Asia. Its longest borders are with Thailand to the west and Vietnam to the east; it is also bordered by China to 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.

The land area is approximately 236,800 km² and is mostly mountainous, with 68 percent forest coverage. The Mekong River forms a large part of the Lao PDR border with Thailand. With a population of about 6.8 million in 2013, Lao PDR is the second least populated country in the ASEAN. Seventy-three percent of the population lives in rural areas.

Lao PDR is divided into 16 provinces and Vientiane, its Capital which is located on the western side of the country on the Thai border. It is the centre for business and government and has a population of 725,820. Savannakhet is the largest city of the country, with 858,582 inhabitants. Other cities include Luang Prabang in the north and Champasak in the south.

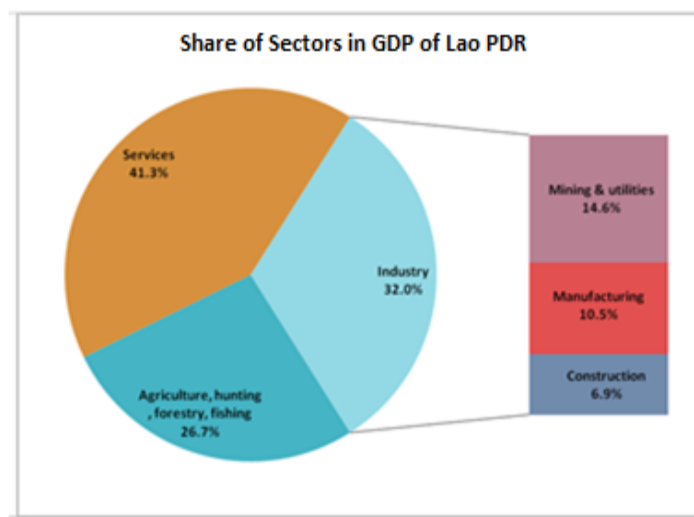
1.2. Political

The Lao People's Revolutionary Party (LPRP) is expected to continue to dominate the political scene. Although there is a National Assembly (NA, the legislature) election due in April 2016, Laos is a one-party country. The Council of Ministers is the highest executive body; the vice-chairmen of the council (deputy prime ministers) oversee the work of ministers; all members of the council are appointed by the chairman of the Council of Ministers (the prime minister).

1.3. Macroeconomic-analysis

Lao PDR is among the poorest countries in the region, and along with its neighbours Cambodia and Myanmar, is among the countries on the UN's list of Least Developed Countries. The country is ranked 133rd out of 182 countries on the UNDP Human Development Index.

A sector-wise analysis reveals that GDP in Laos is largely driven by the services sector with a 41.3 percent share, followed by industry with a share of 32.0 percent, with agriculture, hunting, forestry, and fishing,



constituting the remaining 26.7 percent. Driven by mineral exports, investments in hydropower, and rising electricity exports, Lao PDR's economy has been growing at a steady pace. Its strong performance continued during the global economic crisis. Lao PDR's real GDP grew by 7.90 percent in 2012, as compared to 8 percent recorded in the previous year. Despite weakness in the global economy, real GDP growth of Lao PDR was supported by moderately strong economic expansion on the part of its main trading partners in the region namely, Thailand, China and Vietnam. In 2013, economic growth of 8.20 percent was supported by expansionary fiscal and monetary policies.

Lao PDR's real GDP growth is expected to recover by 7.7 percent in 2015, in line with the recovery in the Thai economy. Average consumer price inflation is expected to moderate to 3.2 percent in 2015. Although strong inflows of lending and foreign investment will continue to support the value of the Lao currency Kip in 2015, the currency is expected to depreciate gradually. Trade deficit is expected to widen in US-dollar terms, albeit not as a proportion of GDP, while changes in global monetary conditions will boost the US dollar in 2015.

Macroeconomic Snapshot of Lao PDR

	2009	2010	2011	2012	2013	2014e	2015f
GDP Growth (percent)	7.5	8.1	8.0	7.9	8.2	7.5	7.8
GDP (US\$ bn)	5.6	6.9	8.2	9.2	10.0	10.8	11.9
Consumer Price Inflation, average (percent)	0.0	6.0	7.6	4.3	6.4	7.5	7.5
Population (million)	6.3	6.4	6.5	6.7	6.8	6.9	7.0
Current Account Balance (percent of GDP)	-21.0	-18.2	-15.2	-28.4	-29.5	-27.3	-23.7
External Debt	48.1	41.0	36.0	33.6	-	-	-
Reserves (US\$ million)	609	703	741	799	636	-	-

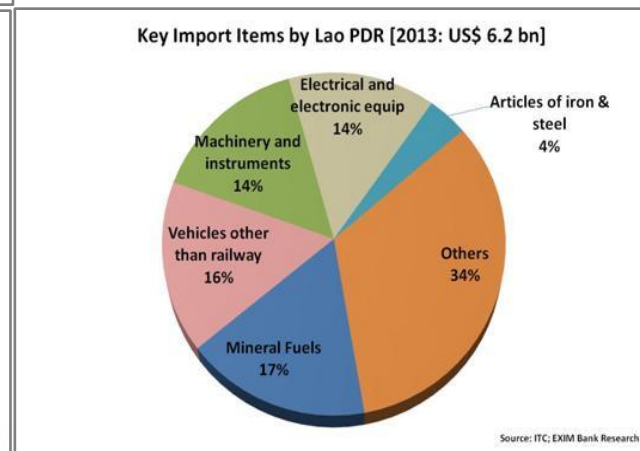
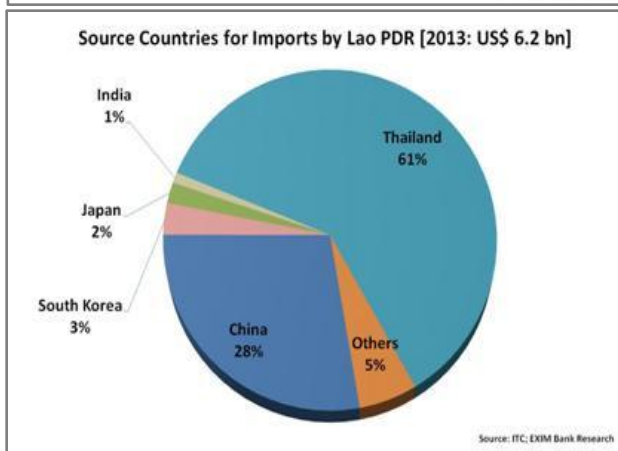
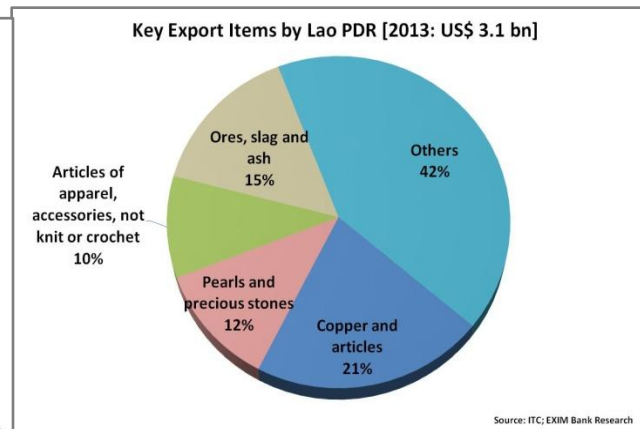
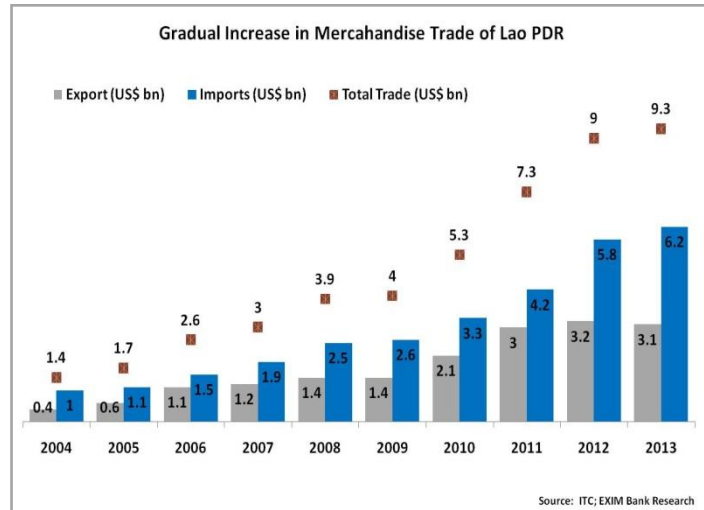
e: estimates; f: forecast

Source: EXIM Bank Research

2. TRADE & INVESTMENTS

2.1. Lao PDR's Merchandise Trade

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

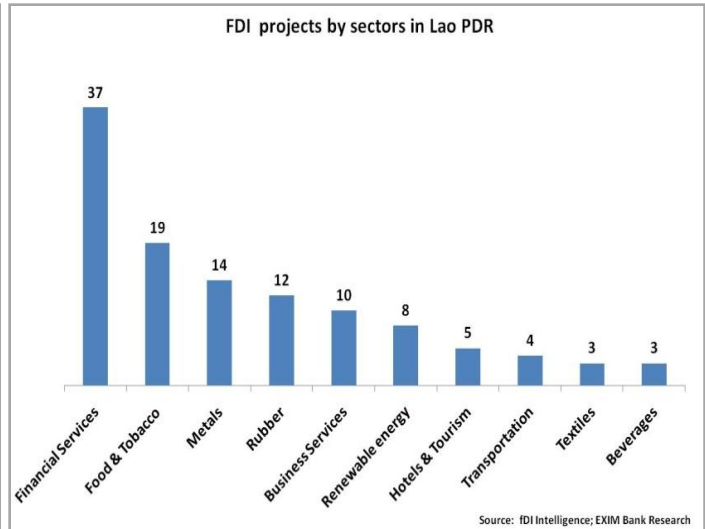
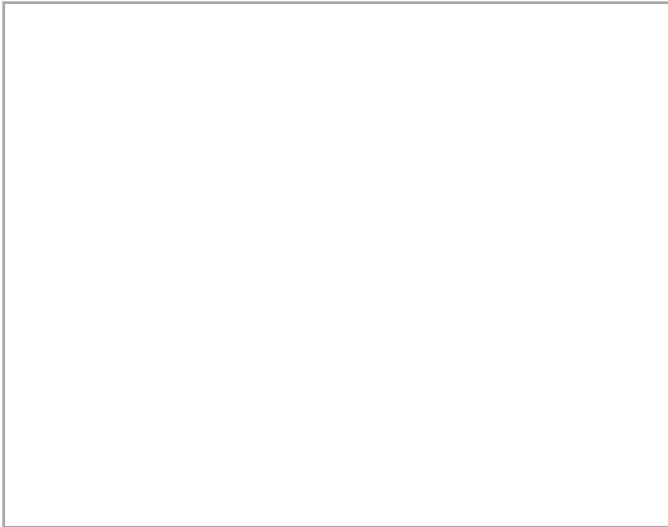


2.2. Trade with India

- ★ Bilateral trade between India and Laos decreased sharply by 46.7 percent to US\$ 89.3 million in 2013-14, from US\$ 167.6 million in 2012-13. As a result, India's trade deficit of US\$ 109.7 million with Laos during 2012-13 turned into a surplus of US\$ 10.5 million in 2013-14.
- ★ In 2013-14, India's exports to Laos increased by 72.6% to US\$ 49.9 million from US\$ 28.9 million in the previous year, supported by increase in the exports of meat and edible meat offal and vehicles. Meat and edible meat offal were India's major export items to Laos in 2013-14 accounting for 34.5% of India's total exports to the country. It was followed by vehicles other than railway (27.2%), electrical and electronic equipment (14.1%), articles of iron or steel (8.7%), machinery and instruments and pharmaceutical products (3.5% each) and residues and animal fodder (3.3%).
- ★ India's imports from Laos decreased sharply by 71.6% in 2013-14 to US\$ 39.4 million, from US\$ 138.6 million in the previous year, mainly driven by a fall in imports of ores, slag and ash. Ores, slag and ash was, by far, India's main import item from Laos, accounting for 97.8% of India's total imports from the country in 2013-14. Other major items imported include wood and articles of wood (1.1%) and rubber and articles (0.4%). During the period April-November 2014-15, India's exports to Laos increased sharply by 90.2% year-on-year to US\$ 41.1 million, where as India's imports from Laos increased to US\$ 55.9 million as compared to US\$ 19.9 million in the corresponding period of the previous year.

2.3. Foreign Investments

- ★ As per fDI Intelligence database, between January 2003 and December 2014 a total of 147 FDI projects were recorded in Laos. These projects represented a total capital investment of US\$ 9.56 billion, which implies an average investment of US\$ 65.00 million per project.
- ★ The largest number of projects was announced in 2008, with 21 projects that year. Average capital investment peaked in 2009, while average job creation peaked in 2006.
- ★ Out of a total of 27 sectors, the top five accounted for the majority of projects. Financial Services was the top sector accounting for one quarter of projects tracked by fDI Intelligence. Project volume in this sector peaked during 2014, with nine projects. Other major sectors attracting investments included food and tobacco, metals, rubber, business services, and alternative/renewable energy.
- ★ Vietnam was the top source country accounting for almost one-third of projects during the analysed period. Project volume in this source country peaked during 2008, with 13 projects.



FDI trends by source country

Source country	No of projects	No of companies	Capital investment (US\$ m)
Vietnam	46	34	3,025.80
Thailand	22	19	1,623.00
Cambodia	15	3	502.00
Malaysia	12	10	1,132.70
Japan	11	11	267.40
China	8	8	1,137.90
Australia	7	3	639.20
Hungary	5	1	21.10
Singapore	4	3	29.90
France	3	2	86.10
Other source countries	14	14	1,094.10
Total	147	108	9,559.20

★ India is ranked 8th in FDI in Laos with a total of 33 projects and investments of US\$ 161 million in 2011-12. Some of the major Indian Investments in Lao PDR include:

- The HSMM Group has invested US\$ 13.8 million in Agarwood plantations and two factories in Vientiane and Xaysomboun, Vientiane province. It has invested US \$ 800,000 in iron ore mine in Sekong province in partnership with Mineral Enterprises Limited, and an investment of US \$ 100,000 in iron ore mine in Khammuan province.
- The Lao SPG CMC Mining Company Limited, a subsidiary of GIMPEX India, obtained a license for an iron ore mine in 2008, with a commitment to invest US\$ 10 million, out of which US\$ 7.7 million has been spent. This is a 200 hectare iron-ore mine at Ta En village, Viengxay district, Samneua province. As of March 21, 2011, the mine has

produced 60,717 metric tonnes of iron-ore, of which 56,408 metric tonnes have been exported to China.

2.4. Select Investment Clauses in Laos PDR

- ★ The Foreign Investment Law, passed in 1994, outlines the procedure for foreign investment in the Lao PDR. This law is designed to attract investment and contains liberal provisions for repatriation of profits and involvement of foreign equity in Lao businesses. It outlines the areas in which investment is encouraged and areas where investment is not allowed. Prohibited areas include activities detrimental to the natural environment, national security, public health or national culture.
- ★ In March 2001, a Presidential Decree on the implementation of the Foreign Investment Law required special presidential approval for any investments that relate to natural resources, environment, public health and national culture. Although there is no other restrictions on activities permitted to foreign investors, these prohibited areas are not tightly defined and potential investors need to enquire whether a business sector is prohibited.
- ★ In October 2004, the National Assembly issued a new Foreign Investment Law. The Law states the forms of acceptable foreign investment and the rights, benefits and obligations that are attached to this investment. It also explains the responsibilities of the Committee for Investment and Cooperation (CIC), now known as Committee for Promotion and Management of Investment (CPMI) the government body that deals with foreign inward investment.
- ★ Key points of the Foreign investment Law are as follows:
 - Profit tax is classified into 3 groups: 20 percent, 15 percent and 10 percent and profit tax exemption is offered for a certain time period depending on activities, investment areas and size of investment;
 - Exemption of import duty on equipment and vehicles directly used for production for foreign investment investing in promoted activities;
 - Exemption of export duty on export products;
 - Project approval period set at maximum 90 days;
 - Foreign investment may be 100 percent owned or a Joint Venture with a minimum of 30 percent investment. 'One-stop service' for investors at the Committee for Investment and Co-operation (CIC), now known as Committee for Promotion and Management of Investment (CPMI).

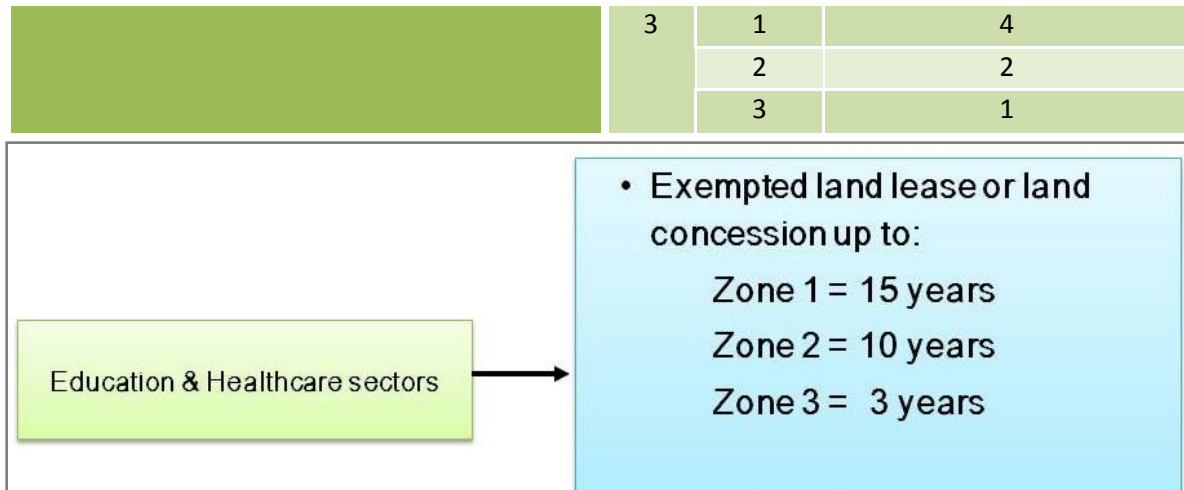
The Law on Investment Promotion defines principles, regulations and measures regarding the promotion, regulation of domestic and foreign investment in order to facilitate investments, protection by the Government of the rights and the benefits of investors, of the State and the people aiming at enhancing rights and benefits of the investment for continuous and sustainable socio-economic growth of the country.

- ★ There are 3 types of investments in Lao PDR:
 - i) General business (Ministry of Industry and Commerce will issue the business license);

- ii) Concession business (Ministry of Planning and Investment will issue the concession license);
 - iii) Activities for development of special economic zones and specific economic zones (Secretariat to National Committee for Special Economic Zones at Government office will issue the license).
- ★ There are 3 investment Forms in Lao PDR according to the Investment Promotion Law (IP law 2011):
- i) 100 percent ownership (foreigners and local people or business identities can apply for this form of business in Laos);
 - ii) The joint venture form (foreigners or local people can make the joint venture of company-company or company-persons);
 - iii) Business by contract (foreign companies can make the contract or agreement with the local partners to import the products or goods from Laos or vice versa).
- ★ Investment Terms in Lao PDR
- i) Investment concessions depends on the nature, size, investment value; conditions of the concession activities based on concerned regulations and laws but shall not exceed 99 years and may be extended with the approval of the government (Article 28 of the Investment Promotion Law 2009).
 - ii) Investment concessions in the special economic zones depends on the type, size and conditions of each special economic zone and specific economic zone; it shall not exceed 99 years and may be extended on a case by case basis with the approval of the Government, especially in the case where the project has generated maximum benefits to the country, the investor has effectively implemented the signed agreement and has recorded good performance in contributing to local development (Article 42 of the Investment Promotion Law 2009).
- ★ According to Article 49 of the Investment Promotion Law, the promoted sectors are agriculture, industry, handicraft and services. Details of promoted activities under the sectors are determined by the Government and are classified into three different levels based on prioritized activities of the Government, the activities related to the poverty reduction, the improvement of living conditions of people, construction of infrastructure, human resource development, jobs creation, etc. The Government has established the following fiscal incentive systems:

Incentive or Corporate Profit Tax (Article 50 and 51 of the IP Law 2009):

Promoted Sectors	Zone	Level	Period of exempt (years)
Agriculture, Industry, Handicraft, Services	1	1	10
		2	6
		3	4
	2	1	8
		2	4
		3	2



- a) Specific Promotion Incentives (Article 54 of IP Law 2009): Additional 5 years of corporate income tax exemption is provided for investment in the construction of hospitals, kindergartens, schools, vocational schools, colleges, universities, research centres and some public utilities shall sectors in Laos. Exemption in rental or land concession is available as exhibited alongside:
- b) Other Promotion Incentives (Article 52 of IP Law 2009): In addition to the profit tax incentives, investors shall be also entitled to customs duty and tax incentives, as given below:
- Exemption from profit tax in the next accounting year, if the net profit derived from business activities is used for business expansion.
 - Exemption from import duties for the importation of raw material, equipment, spares parts and vehicles which are directly used for production. However, exemption of import tax shall comply with specific regulations.
Exemption from export duties for exportation of general goods and products. The exportation of natural resources and natural resources-made products shall comply with concerned regulations and laws. The importation of all types of fuel is not exempted from duties and taxes.
 - If an investor suffers losses after completion of tax finalization with the tax office, the investor shall be permitted to carry the losses forward to 3 consecutive accounting years. After ending of the period, any remaining losses shall not be allowed to be deducted from profit. For special economic zones and specific economic zones, the provision of incentive treatment shall be in compliance with the Decree on the Establishment and Activities of respective zone.
- ★ The government provides the following non tax incentives to all foreign investors:
- Permission to bring in foreign nationals to undertake investment feasibility studies.
 - Permission to bring in foreign technicians, experts, and managers if qualified Lao nationals are not available to work on investment projects.
 - Permission to lease land for up to 20 years from a Lao citizen and up to 50 years from the government.

- Permission to own all improvements and structures on the leased land, transfer leases to other entities, and permission to sell or remove improvements or structures.
- Facilitation of entry and exit visa facilities and work permits for expatriate personnel.
- The government also offers guarantees against nationalization, expropriation, or requisition without compensation. Under the IP Law, the government does not offer incentives of import protection (in the form of increasing duties or banning imports) for import substituting investments and it does not provide measures to restrict further entry to reduce competition for current investors. The policy of not reducing market competition as an incentive for investors is not a feature of the foreign investment systems of most other countries, such as Thailand and Vietnam, in the region.

2.5. Investment Zones

- ★ There are two different types of SEZs in Laos:
 - a) Special Economic Zones (SEZs) which are spread across larger areas and
 - b) Specific Economic Zones (SPEZs) which are for specific purposes such as specific Industrial Sectors or Export Processing Zones
- ★ There are presently 10 SEZs in Laos for which MoU's with various developers have already been signed. The land is generally given on long lease basis (75 to 99 years which can be extended). Japanese are proactive in investments in SEZ.
- ★ SEZ's are developed by three models viz.:
 - State Owned (100 percent public)
 - Joint Venture (PPP)
 - Fully Private
- ★ India or Indian company can develop Greenfield SEZ – Also a service company can develop Greenfield SEZ and sub lease the land parcels to other entities.
- ★ The procedure for establishing the SEZ is:
 - a. Application to the Ministry of Investments and Planning;
 - b. Government to approve the project by factoring in compliance with
 - i. ASEAN agreement
 - ii. Movement of Natural Persons (MNP) Law
 - iii. Labour Laws
 - iv. Other regulations
 - c. Ministry approves the SEZ
- ★ Industrial zones for doing general business are divided into three types:
 - Remote areas (more incentives are given);
 - Outskirt areas (where moderate incentives are given);
 - Central areas (where less incentives are given)
- ★ Different investment zones focus on different sectors. There are 2 zones which focus specifically on Manufacturing and Processing in the Agriculture Sector.
 - Savannakhet: Potential area for investments on account of availability of SEZ and a dry port. SEZ focuses on manufacturing and exports. SEZ is close to Vietnam on the East and Thailand on the West.
 - Champasak Province (Pakxe): Close to Thailand.
- ★ Incentives under the Lao PDR SEZ Law include:

- Receiving the services from Economic Board or Management Board of the SEZ through the modality of one stop service;
- Receiving the exemption of duty and tax on the importation of equipment, vehicle and raw materials for construction;
- Receiving the reduction of income tax and value added tax depending on business type;
- Receiving the right to reside in Lao PDR along with the family during the period of the development investment contract;
- Receiving the other promotion privileges which are formulated by Economic Board or Management Board based on actual potential and conditions of the each SEZ.

2.6. Factors Favouring India's Trade & Investment in Lao PDR

- ★ China presently has strong ties with Lao PDR with lots of Chinese investors present in the country. However, with the Lao Government targeting investments of US\$ 1.5 bn every year, Lao is stressing on improving ties with countries like India and Russia.
- ★ Laos is at the centre of the Greater Mekong Sub-region (GMS), consisting of Cambodia, Myanmar, Thailand, Vietnam, and Yunnan province of China. It is the only country bordering all the other countries in the sub-region. More than 70 percent of international trade in Laos - except air freight - is cross-border trade.
- ★ National policy identifies quality investments to drive sustainable development and a diversified economy. The National Socio-Economic Development Plan 2011-15: targets at least 8 percent annual GDP growth, 60 percent of which will be from private investments.

3. INVESTMENT OPPORTUNITIES

The industrial sector of Lao PDR mainly comprises hydro power, mining, healthcare and agriculture. Lao PDR is well endowed with natural resources. It has untapped reserves of arable agricultural land, large forest, hydropower potential, and mineral resources that, when efficiently utilized, could contribute substantially to economic development.

3.1. Primary Sector

- ★ With a high percentage of the rural population still dependent on agriculture for their livelihoods, the sector is an important part of Laos' development strategy.
- ★ The agriculture sector is the engine of the economy, contributing over 50 percent to the GDP and employing over 80 percent of the workforce. Significant potential exists in rubber plantation and processing.
- ★ High potential for investment exists in agro processing in the Savannakhet Province, which is located near the port and is well connected to Thailand.

3.2. Secondary 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 total number of mineral occurrences are 511 comprising Gold (150), Copper (45), Zinc and Lead (75), Tin (45), Iron ore (52), Bauxite (8), other metals (36), Gypsum (6), Limestone (9), Potash (36), other industrial material (14), Coal (37) and Gemstone (6). The geological potential to develop mineral resources in Laos 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.
- ★ The mineral sector in Laos is governed by the Mining Law of 2008, which has been under implementation ever since the law's adoption. Duration of Licenses awarded by the Ministry of Energy and Mines in Laos is as follows:
 - Prospection 2 y + 1 y;
 - Exploration 3 y + 2 y;
 - Feasibility study 1 y + 1 y;
 - Construction 2 y + 1 y;
 - Mining + Processing 20 y + 5 y;
 - Concession area Maximum: 300 Km sq.

- ★ The application for mineral prospecting or exploration shall be considered within 90 days from the date the complete document is received. The applicant shall be notified of the result of consideration in writing. The term for a mineral prospecting license shall not exceed 2 years from the date the prospecting contract is signed, and it can be extended for additional term of one year. The term for a mineral exploration license shall not exceed three years from the date the exploration contract is signed, and can be extended for additional term not to exceed two years.
- ★ Basic conditions amongst others for investors concerning prospecting and mineral exploration in Lao PDR are as follow:
 - Investor should have technical staff and experience concerning prospecting and mineral exploration;
 - In addition, the investor shall determine the proposed area; submit a prospecting and mineral exploration work program, minimum expenditure cost, and a preliminary environmental and social impact assessment report.
 - In addition, for the investor on mineral exploration, the investor should have a report on the results of the mineral prospecting in the area proposed for mineral exploration.
 - During the period of prospecting, it is prohibited to have new joint investment, transfer or, buying–selling of concession right; as for exploration, the license holder may seek to have a joint venture with other investors, but needs to have consent from the government.

3.3. Tertiary Sector

- ★ Hospitals in the country leave a lot of scope for improvement and people generally travel to Thailand for treatment. Duty free capital intensive equipment imports for hospital projects are allowed.
- ★ The Government offers financial incentives for setting up of hospitals and 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.

3.4. Opportunities in Hydro Power

- ★ Total Hydro Power potential of Laos is estimated at 23 GW, of which tapped potential is only 6.30 GW across 38 projects. The power sector, as one of the country's strategic growth sectors, has grown at a remarkable rate over the last several decades. Its pivotal role in enabling the country's economic growth and socioeconomic advancement over the decades is amply evident.
- ★ Abundant water resources produced by tributaries of Mekong River.
- ★ Hydropower development in the country is driven by a demand for energy from neighbouring countries such as Thailand and Vietnam.
- ★ Since 2006, the country has seen an influx of private investors and developers in its hydropower sector mainly from China and Thailand.

4. INFRASTRUCTURE OPPORTUNITIES

4.1 Mining

- ★ A national moratorium on the issue of new mining licenses is in place and licenses in the resource rich country have not been issued since 2009. The government is expected to start the grant of new license between 2015 and 2016 post the finalization of the procedures and implementation of the new 2008 Mining Law. However, Indian miners can explore opportunities either through joint ventures with companies already awarded mining licenses or through new license from MEM / MONRE (active lobbying may assist).
- ★ The key materials mined include coal, metals (copper, gold, zinc etc.) and industrial minerals (cement and potash). The annual discovery targets of the country are:
 - 86,000 tons of flat copper
 - 298,000 tons of copper dust
 - 6 tons of gold
 - 728,000 tons of coal
 - 600,000 tons of granite

4.1. Power Generation

- ★ Lao PDR is a power surplus country owing to numerous hydro power plants. However, the country is heavily reliant on hydropower from run-of-the-river projects. This has resulted in country exporting energy during high river flow seasons while importing energy at higher costs during low flow seasons.
- ★ From a long-term planning perspective, Lao PDR requires a combination of stable power sources such as 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 from a long-term perspective. The following options could be explored:
 - Development of thermal power plant (200 MW) in northern Lao PDR
 - Development of hydroelectric dam with integrated river basin management along Mekong river (500 MW)

4.2. Power Transmission

- ★ From a larger regional perspective, it might be advantageous for Lao PDR to be connected to Myanmar national grid network. This could open opportunities for investments in power sector, especially by Indian firms, with a view to transfer power from Laos to North East India and Myanmar. In this context, the following transmission line could be built:
 - Transmission line from Luangnamtha to the National Power grid of Myanmar

4.3. Education

- ★ Vocational training institutions in Vientiane, Khammouane and Savannakhet province
- ★ Higher education institutions in Vientiane and Champasack province

4.4. Healthcare

- ★ Indian players can explore opportunities in secondary and tertiary healthcare as listed below.
 - Secondary and Tertiary hospitals in the Vientiane province
 - Secondary hospitals in the Champasack province

4.4. Tourism

Indian players can undertake development of resort and eco-tourism sites and upgradation of heritage sites across the country.

5 ECONOMIC CORRIDORS

Sections of Economic Corridors at Laos



Xieng Kok – Tan Trang Economic Corridor

- ★ This corridor could open up north Laos for mineral exploration for Indian companies;
- ★ Simultaneously, it would reduce the transit time from Hanoi to India.

The influence area of this corridor would include the following:

Bokeo Province

- ★ This province borders Thailand to the south-west and Myanmar to the west. Bokeo is the second largest economy in the upper northern region with a GDP estimated to be around US\$ ~170 mn. This province sits on a potential gold and coal mine. It also serves as one of the main maize producing areas of Laos.

Oudomxay Province

- ★ This province of Laos is located in the north-west of the country. It also lies on potential zinc and copper zones. The province is an important transit location among Thailand, China and Vietnam as there is an active flow of goods through it. Four dams are planned on small rivers across

Oudomxay with a total generation capacity of 0.89 MWh. The GPP is estimated to be US\$ 242 mn.

Luangnamtha Province

- ★ This province is bordered by Myanmar to the northwest. This province sits on a potential coal mine. It also lies on a potential zinc zone. The agricultural sector is dominant with an annual rice production of 62580 tons. The cultivation of industrial crops like rubber has also been increasing. In 2010, 15 percent of the total rubber plantation area was in this province. Given the strategic location of Luangnamtha, development of a dry port at the border is suggested. This shall facilitate trade between Laos, Myanmar and India.

Luangprabang Province

- ★ The city of Luangprabang is located in the Northern part of Laos at the confluence of the Nam Khan and Mekong Rivers. This presents a potential for hydropower projects. It also lies on a potential zinc, copper and gold zone. Also, this province is a UNESCO World Heritage site which gives opportunity for its development as a tourist destination.

Development Focus

Opportunities for infrastructure development by India could include the following:

Roads: India and Myanmar can collaborate to develop the stretch between Xiengkok to Oudoumxy. In addition, India should lobby for Laos and Vietnam to collaborate and develop the stretch between Oudoumxy to Taytrang.

Power plant: Indian companies can focus on Coal / Hydro power plant in this corridor on a BOT basis.

Mining:

- Coal
- Copper
- Gold
- Zinc

East-West Corridor

The influence area of this corridor would include the following :

Savannakhet Province

- ★ The province is located in the southern part of the country and is the largest province in Laos. Sepon mine is the largest mine in Laos with reserves of copper and gold. The province is one of the main tobacco producers in Laos. The Savan-Seno Special Economic Zone was established in 2003 and covers an area of 954 hectares.

Khammouane Province

- ★ Khammouane is a province of Laos, located in the center of the country. This province contains the catchment area for Nam Theun 2, the largest hydropower project in Laos. It also sits on Limestone and Tin zone deposits. Some of the sectors prominent in this province are: mining, cement, salt processing, timber and fertilizers. It has 2 SEZ's namely Phoukyo SEZ and Thakhek SEZ which are 4850 and 1035 hectares respectively.

Development Focus

Road: Up-gradation of the east west corridor

Investment in a brownfield / greenfield industrial zone.

D. MYANMAR

1. COUNTRY ANALYSIS

1.1. Geography

Myanmar's strategic location in the heart of Asia 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.

Myanmar is divided into seven divisions, and seven states, classified by ethnic composition. The seven regions are Ayeyarwady Division, Bago Division, Magway Division, Mandalay Division, Sagaing Division, Taninthary Division and Yangon Division; the seven states are Chin State, Kachin State, Kayin State, Mon State, Rakhine State, Kayah State and Shan State.

With a population of a little over 60 million, and a total land area of 676,578 sq. km, Myanmar is the second largest country in Southeast Asia. It has a 2,800 km coastline which provides access to sea routes and deep-sea ports, enabling potential international trades.

1.2. Political

The government is expected to continue the process of political liberalisation that it began in 2011, but it is believed that there is a risk that the reform process could slip back in the interim as Myanmar gears up for the general election due in late 2015. The president, Thein Sein, and the opposition leader, Aung San Suu Kyi, have shown that they are capable of working together. Nonetheless, hardliners in the government and the military remain politically powerful, and sharp disagreement over constitutional reform is likely to continue. Amendments that would allow Aung San Suu Kyi to contest the presidency remain contentious and the likelihood that she will be able to do so is diminishing. The army continues in effect to wield a veto over amendments to the charter, as the constitution reserves 25 percent of parliamentary seats for the military and changes to the charter must be backed by at least three quarters of legislators.

1.3. Macroeconomic Analysis

Myanmar today is at a critical juncture of its history. Myanmar's economic and political isolation from the global economy over the past few decades cost the country greatly. However, its status as a latecomer to economic modernisation may be a boon in disguise, as it provides a unique occasion for accelerated growth, and an opportunity for the country to use its greenfield situation to leapfrog intermediate stages of economic and technological development.

Macroeconomic Snapshot of Myanmar

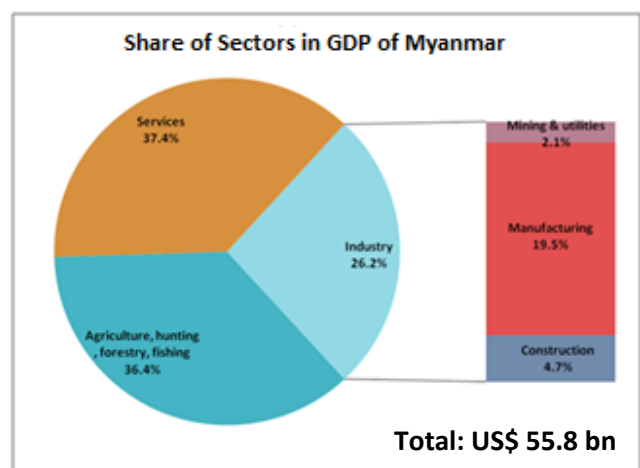
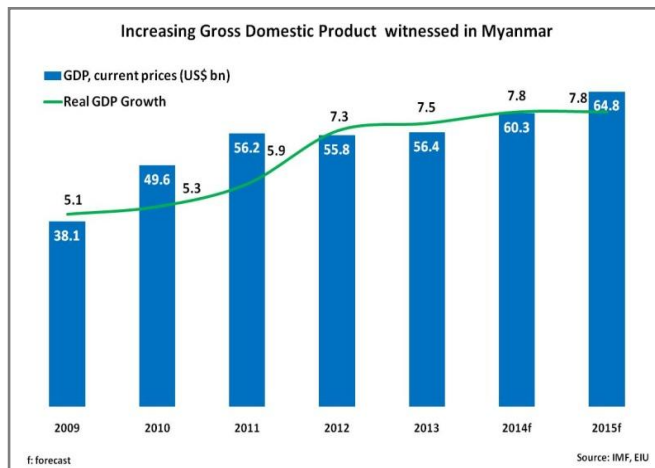
	2009	2010	2011	2012	2013	2014 ^f	2015 ^f
GDP Growth (% change)	5.1	5.3	5.9	7.3	7.5	7.8	7.8
GDP (US\$ bn)	38.1	49.6	56.2	55.8	56.4	60.3	64.8
Inflation, average (% change)	2.2	8.2	2.8	2.8	5.8	6.6	6.9
Population (million)	60	61.2	62.4	63.7	64.9	66.2	67.6
Current Account Balance (% of GDP)	-1.3	-1.5	-2.1	-4.4	-4.9	-5.3	-5.2
External Debt (% of GDP)	25.1	20.7	17.3	5.7	5.7	5.2	5.7
Reserves (US\$ million)	5265	5730	7017	6977	8278	8727	9417

f: forecast;

Source: IMF; EXIM Bank Research

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 a study by the ADB in 2012, Myanmar could follow Asia's fast growing economies and expand at 7 to 8 percent a year, become a middle income nation, and triple its per capita income by 2030, if it can surmount substantial development challenges by further implementing across-the board reforms.

Myanmar's real GDP growth rate is estimated at 7.8 percent in 2014, as compared to 7.5 percent in 2013, underpinned by large projects funded by investors from China, South Korea and Thailand in a number of industries, notably power, petroleum and infrastructure. In absolute terms, Myanmar's GDP stood at an estimated US\$ 64.8 bn in 2014. Services sector dominates the economy, accounting for 37.4 percent of Myanmar's GDP in 2013, followed by agriculture (36.4 percent of GDP) and industry (26.2 percent of GDP).

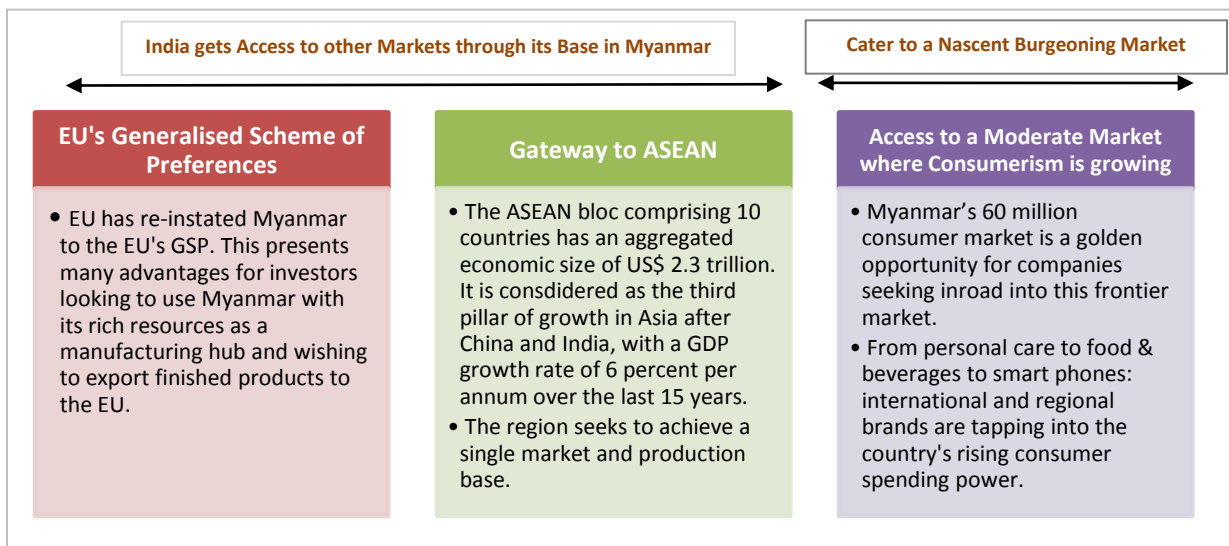


2. TRADE & INVESTMENT

2.1. Factors favouring India's Trade and Investments in Myanmar

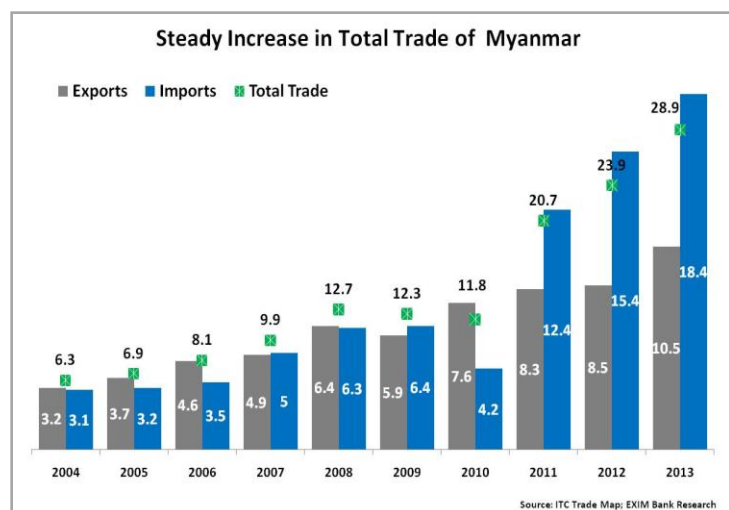
- ★ China's strong ties with Myanmar is felt to be going through a transitory phase. It is true that China has provided the previous regime with military and diplomatic support for a long time, but the present Government has significantly decreased its dependence on China. In fact, it is reported that China is often being blamed for exploitation of the country's natural resources and territorial space for gas and oil pipeline. The new Government has suspended the Chinese-led US\$ 3.6 Myitsone dam project, meant for supplying electricity to China. Given this, there is a belief that opening up the political system to more democratic reforms would help increasing liberal western support. It is because of this development that a possible constructive engagement of Myanmar with India looks favourable.

Key Factors that Should Propel India to Enter the Myanmar Market



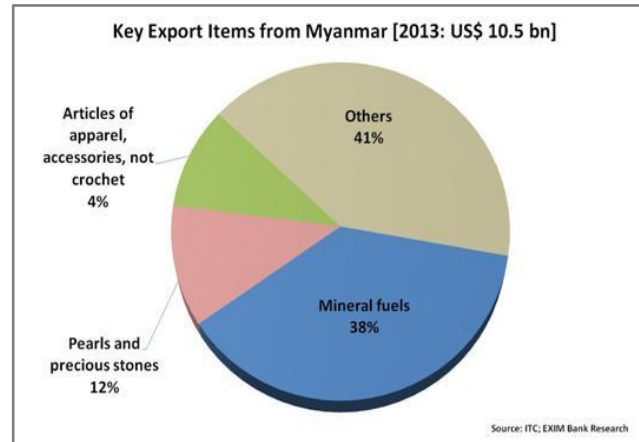
2.2. Myanmar's Merchandise Trade

- ★ During the last decade, total trade of Myanmar increased more than four-fold, from US\$ 6.3 billion in 2004 to US\$ 28.9 billion in 2013. During the same period exports from Myanmar increased from US\$ 3.2 billion in 2004 to US\$ 10.5 billion in 2013, witnessing a CAGR of 12.8 percent.
- ★ During the last decade, total trade of Myanmar increased more than

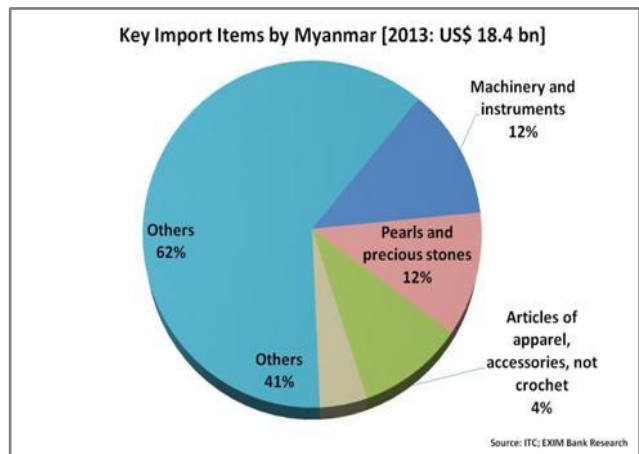


four-fold, from US\$ 6.3 billion in 2004 to US\$ 28.9 billion in 2013. During the same period, exports from Myanmar increased from US\$ 3.2 billion to US\$ 10.5 billion, witnessing a CAGR of 12.8 percent.

- ★ Myanmar is rapidly opening up to international trade following the lifting of US sanctions, including a ban on US imports from Myanmar and the reinstatement of trade preferences under the EU's Generalised System of Preferences for least developed countries. The requirement for import and export licenses was recently removed on 600 products.



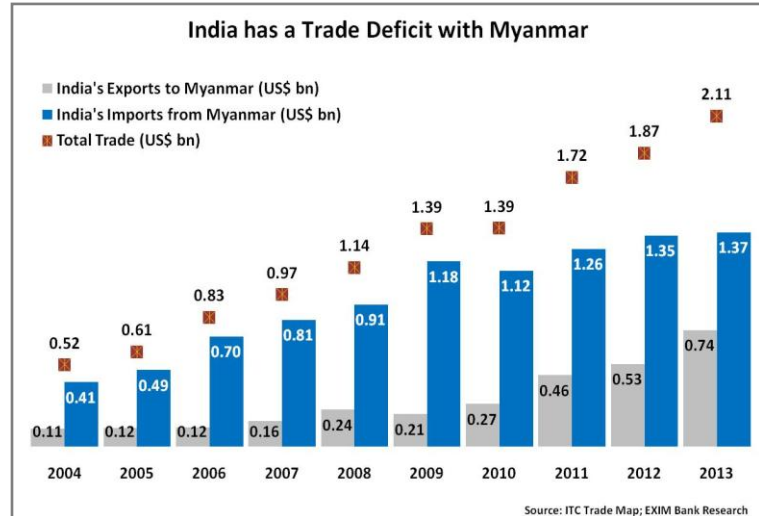
- ★ Exports were primarily directed to the top four markets viz. Thailand, China, India and Japan, which together accounted for 85 percent of Myanmar's total global exports in 2013. Other important destinations include South Korea, Malaysia, Singapore, Taiwan and Bangladesh.



- ★ To boost exports, the government has exempted commercial tax on a number of export items like rice, beans, pulses, corn, sesame, rubber, freshwater and salt water products and animal products (except prohibited ones) as well as value added products made of timber and bamboo.
- ★ Regional demand for natural gems is also expected to increase the export revenues. In addition, with the coming on stream of new fields in 2013, natural gas revenues are also expected to surge.
- ★ Merchandise import bill in Myanmar has risen in the recent years, driven by a gradual liberalization of imports, as well as a rapid expansion in the number and total value of foreign-invested projects in the oil and gas, power, mining and infrastructure sectors.
- ★ Imports have grown at a much faster pace, and were seen significantly higher at US\$ 18.4 billion in 2013 from US\$ 3.1 billion in 2004, recording a CAGR of 19.5 percent.
- ★ Machinery and instruments formed Myanmar's major import category in 2013, accounting for 12.4 percent of total imports.
- ★ China continued to remain Myanmar's largest import source over the decade, accounting for 40 percent of Myanmar's total imports in 2013. Other important sources included Thailand, Singapore, Japan and Malaysia. India was the 5th largest source, with a share of 4 percent of the country's total imports during 2013.

2.3. Trade with India

- ★ Since early 1990s, with the adoption of the Look East Policy, engagement between India and Myanmar has been growing consistently. Trade relations between India and Myanmar have witnessed a steady growth in the recent years, with India's trade having risen from US\$ 523.4 million in 2004 to more than US\$ 2 billion in 2013, a four-fold increase. In 2013, India



accounted for 13 percent of Myanmar's global exports, ranking as its 3rd largest export market. However, trade balance is in Myanmar's favour, owing to increased imports of pulses and forest based products from Myanmar. The two countries have set a trade target of US\$ 3 billion to be achieved by 2015.

- ★ India's export basket to Myanmar primarily comprised pharmaceutical products, machinery and instruments, electrical and electronic equipments, residues and animal fodder and iron and steel which together accounted for as much as 57 percent share in India's total exports to Myanmar in 2013.
- ★ As regards India's imports from Myanmar, two products viz. wood articles and charcoal, and edible vegetables dominate the import basket, accounting for as much as 98.5 percent of India's total imports from Myanmar. For both these items, Myanmar was India's largest import source, accounting for a share of 26 percent each in India's global imports of wood and wood articles and edible vegetables, roots and tubers.

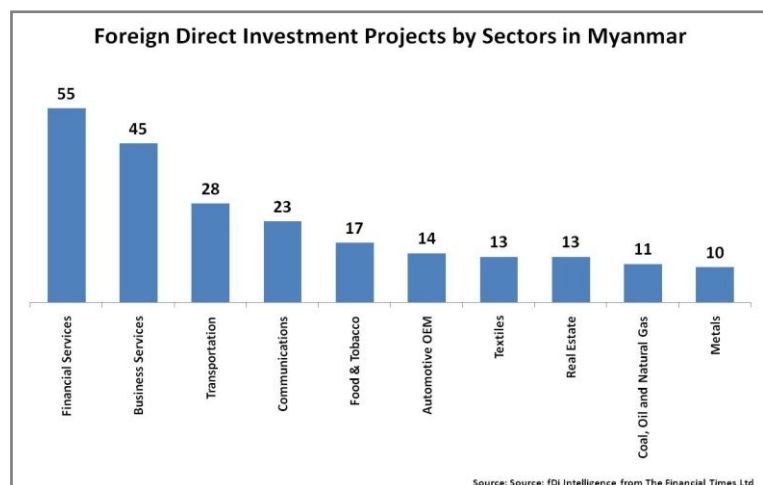
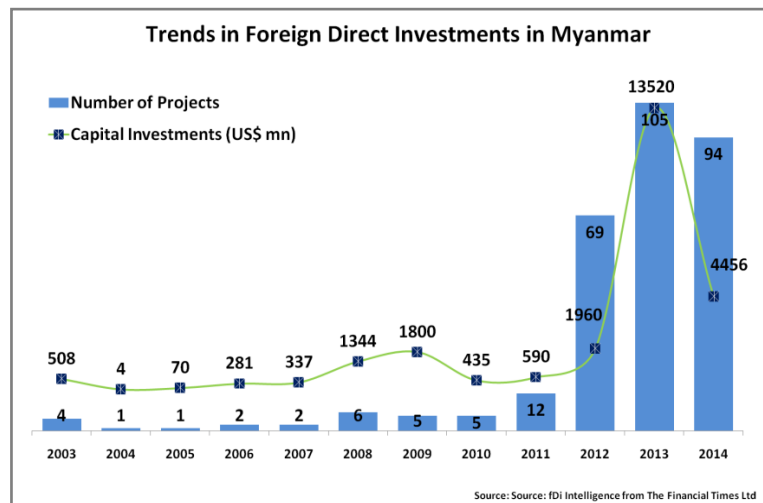
2.4. Border Trade

- ★ Myanmar shares long land borders with five neighbouring countries. 75 percent of Myanmar's exports and 39.75 percent of its imports are with 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.
- ★ 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 is estimated at around US\$ 15-25 million.
- ★ Trade along Indo-Myanmar border remains relatively low in comparison with Sino-Myanmar and Thai-Myanmar borders. India has been a late entrant but the opening of more border points is likely to increase the volume of border trade.

- ★ 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 and handles 99 percent of India’s border trade with Myanmar.
- ★ 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 ranges from US\$ 10 million to US\$ 22 million which will be higher if informal trade is taken into account. Secondary reports also show the prevalence of informal trading of items like fertilizers, vehicles, particularly two-wheelers etc from India to Myanmar through land border.
- ★ With the improvement of infrastructure (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 border trade between India and Myanmar.

2.5. Foreign Investments

- ★ A number of developments in 2013 contributed to raising Myanmar’s international profile as an investment destination, including the award of telecommunications licenses to Norway’s Telenor and Qatar’s Ooredoo; selection of investors from South Korea, Singapore, and Japan as preferred bidders for developing airports, and hosting of the World Economic Forum on East Asia and of the South East Asia Games.
- ★ Between January 2003 and December 2014 a total of 306 FDI projects were recorded in Myanmar. These projects represented a total capital investment of US\$ 25.34 billion, which implies an average investment of US\$ 82.80 million per project.
- ★ Out of a total of 32 sectors, the top five account for the majority



of projects. Financial Services was the top sector accounting for almost one-fifth of projects. Project volume in this sector peaked in both 2012 and 2014 with 19 projects in each of these periods. Other major areas of investment were business services, transportation, communication, food and tobacco, and automotive OEM.

- ★ Out of a total of 32 source countries, the top five accounted for the majority of projects. Japan was the top source country accounting for almost one-quarter of projects. Project volume in this source country peaked during 2012, with 25 projects.

FDI trends by Source country

Source country	No of projects	No of companies	Capital investment (US\$ mn)
Japan	72	61	12,053.20
Thailand	29	25	1,328.50
UK	19	17	406.40
Singapore	19	18	680.90
United States	18	16	547.30
Vietnam	18	13	1,265.20
Malaysia	17	16	659.40
South Korea	17	15	2,949.80
China	13	13	1,700.90
Indonesia	10	9	586.50
Other source countries	74	66	3,159.50
TOTAL	306	269	25,337.70

Source: fDi Intelligence from The Financial Times Ltd

2.6. Select Investment Clauses

- ★ The FDI law creates a number of new opportunities for international investors, besides imposing certain restrictions. It is considered optional except concerning major infrastructure projects, manufacturing projects, and projects which fall under the State Owned Enterprises Law of 1989. For other types of projects, investors can choose to operate under the new law in order to access incentives and benefits, including tax holidays.
- ★ The new law guarantees foreign investors with the following benefits:
 - Remittances of profits as well as protection from expropriation;
 - Foreign investors cannot buy land in Myanmar but can now lease property for up to 50 years with ten-year extensions twice;
 - The law provides for a 5-year tax holiday, exemptions available for re-invested profits;
 - Accelerated depreciation for tax purposes on capital assets;
 - A reduction of income tax up to 50 percent on profits from exports;
 - Deductions for Research and Development expenses;

- An exemption from customs duties on raw materials imported during the first three years of production;
 - Relief on customs duty on imports to be used for the expansion of the business.
 - Unlike in previous FDI law, foreign investors are not required to provide a minimum of 35 percent of the capital of a joint venture.
- ★ While there are no strict labour laws, however the law mentions that foreign investors must increase the percentage of their local employees over time, from atleast 25 percent during the first two years of the company’s operations to 50 percent in the second two years, and 75 percent in the third two years.
- ★ Sectors wherein 100 percent FDI is allowed are – manufacturing (such as garments, wood, cars), telecommunication services, hotels and tourism, power generation.
- ★ For certain types of projects, foreign investors must enter into joint ventures with local partners. These are:
- production of bakery products, confectionaries;
 - beer and alcoholic beverages, mineral water;
 - manufacturing plastic, rubber or paper goods;
 - infrastructure and building construction;
 - development, sales, and rentals of residential property;
 - air transport;
 - small-scale tourism projects (although hotels ranked 3-stars and above can be 100 percent foreign owned)
 - large scale retail operations (till 2015)
- ★ Another key aspect of the new law is that it obliges the Myanmar Investment Commission (MIC) to evaluate foreign investors project proposals for completeness and accept or reject these proposals within 15 days of submission of the application. The MIC must then provide or deny investment permit within 90 days.
- ★ The Foreign Investment Rules (Notification No. 11/2013 of the Ministry of National Planning and Economic Development) and notification (No. 1/2013 of the MIC issued on 31 January 2013) provide details on the terms and conditions for foreign investment. The MIC notification also advices foreign investors on the type of industries allowed. The following are select examples of the nature restrictions in foreign investment.

Sectors	Select Clauses
Mining	Foreign investors can only participate in large scale mining operations with a local joint venture partner
Gems	Prospecting, exploration and production of jades and gemstones are not allowed by foreign investors
Real Estate	Development of commercial and residential real-estate requires a local joint-venture partner
Oil & Gas	Drilling for oil and gas from shallow wells of less than 1000 feet is generally not permitted for foreign investors
Power	Hydro and coal power plants will only be permitted through a joint venture with the Government on a build, operate, and transfer basis;

- ★ In addition to foreign investment under the Myanmar Foreign Investment Laws (MFIL), foreign investors may invest under the Myanmar Special Economic Zone Law 2014 enforced on 23 January 2014 (Myanmar SEZ Law) which abolished the Myanmar Special Economic Zone Law 2011 and the Dawei Special Economic Zone Law of 2011.
- ★ The Myanmar SEZ Law is a basic law for any Special Economic Zone (SEZ) within Myanmar. The main regulatory body handling foreign investment under the Myanmar SEZ Law is the Central Body for the Myanmar Special Economic Zone.
- ★ The Myanmar SEZ Law contains provisions relating to the exempted zone, business promoted zone, other zone, exempted zone business, other business, developers and investors, exemptions and reliefs, restrictions, duties of developers or investors, land use, banks and finance management and insurance business, management and inspection of commodities by the customs department, quarantine, labour and guarantee of non-nationalisation, dispute resolution, withholding tax, bank and financial management and insurance business, etc.
- ★ Currently there are 3 SEZs – Dawei SEZ, Thilawa SEZ, Kyaukpyu SEZ. Besides these, there are 18 Industrial Zones established at district levels – 4 zones in the four districts of Yangon, and 1 each in the other districts.
- ★ Incentives under the Myanmar SEZ Law include:

For investors:

- Income tax holidays for the first 7 years starting from the date of commercial operation in respect of those investment businesses operated in exempted zone or exempted zone businesses;
- 50 percent income tax relief for the investment businesses operated in an exempted zone and a business promoted zone for the second five year period;
- For the third 5-year period, 50 percent income tax relief on the profits of the business if they are maintained for re-investment in a reserve fund and re-invested therein within one year after the reserve is made;
- exemption on customs duty and other taxes for raw materials, machinery and equipment and certain types of goods imported for investors in exempted zones, whereas for investors in exempted zones, exemption on custom duty and other taxes for the first five years in respect of machinery and equipment imported which are required for construction starting from the date of commercial operation, followed by 50 percent relief of custom duty and other taxes for a further five years;
- Carry forward of loss for 5 years from the year the loss is sustained.

For developers:

- Income tax holidays for the first 8 years starting from the date of commercial operation;
- 50 percent income tax relief for the second five year period;
- For third five year period, 50 percent income tax relief on the profits of the business if they are maintained for re-investment in a reserve fund and re-invested therein within one year after the reserve is made;

- Exemption on customs duty and other taxes for raw materials, machinery and equipment and certain types of goods imported;
- Carry forward of loss for five years from the year the loss is sustained.
- ★ Land use may be granted under an initial lease of up to 50 years and renewable for a period of further 25 years.
 - Developers/investors may rent, mortgage or sell land and buildings to another person for investment purposes within the term granted with the approval of the Management Committee concerned.

2.7. Special Incentivised Zones

Kyauk Phyu SEZ

- ★ Kyauk Phyu is uniquely positioned to serve as a trade corridor connecting India, China and ASEAN economies.
- ★ Kyauk Phyu has sufficient land and ample labour for industrial development and the expansion of residential areas.
- ★ MKSH is a consortium of 17 local companies (from Rakhine State and mainland Myanmar) which plans to implement Kyauk Phyu SEZ and Ponnagyun Industrial Zone.
- ★ MKSH would hold 51% equity in the Project JV Company while 49% equity with vest with foreign investor.

Opportunities

- ★ Kyauk Phyu is well endowed with a natural deep sea harbour and abundant natural resources in oil and gas, marine resources, etc.
- ★ Investment in Kyaukphyu SEZ would open up the western markets through the Bay of Bengal.
- ★ The SEZ Authorities are looking for investments in Fisheries, Marine supply, Oil & Gas, Local port, Water supply (dam & treatment), Power generation, etc.

Kyauk Phyu SEZ

- ★ Located on the outskirts of Yangon, Thilawa SEZ is the first SEZ to be built in Myanmar, and is likely to be fully (commercially) operational by end of 2015.
- ★ It is located at 14 miles (23 km) South-East of Yangon, which is the biggest commercial city of Myanmar.
- ★ It is developed by a Myanmar-Japan joint venture company (51 percent: 49 percent stake) with the name of Myanmar Japan Thilawa Development Limited (MJTDL).
- ★ Total area of the Thilawa SEZ is 2400 Ha (approx.) out of which 396 Ha is being developed by MJTDL in the following phases:
 - Phase I:
 - 211 Ha; 35 companies have reserved plots of which ~50 percent Japanese companies, and the rest are from SE Asia (Thailand, Singapore, Malaysia and Taiwan);
 - Main sectors – garments (domestic), steel, aluminium, construction material.

- Phase II:
 - 150 Ha – sales to be launched in May 2015, land levelling and grading underway
 - Residential / commercial area): 35 Ha

Opportunities

- Some of the benefits of investment in Thilawa include: (i) Proximity to consumer base- 23km southeast from Yangon urban area; (ii) Easy access to exportation - Adjacent to Thilawa Port; (iii) Reduced transportation cost - Several infrastructure improvements are coming up; (iv) Reduced risks of operation - Japanese Government's support in the form of Yen loan (v) Tax Benefits; (vi) Speedy and smooth license application through One-Stop-Shop Service (OSSC).
- Minimum capital for investment depends upon the category of business – typically a manufacturing zone would require ~USD 750,000.
- Selling price of land: USD 70 / sq. m on a 50+25 year lease
 - Land can be given only to manufacturing units, with a license from SEZ Management Committee
- ★ Infrastructure –
 - Power –
 - Currently, the SEZ runs on generator power,
 - National grid connectivity expected from June 2015
 - Japan is funding a 50 MW power plant and gas turbine power plant to commence operations from March 2016 (gas has already been reserved for this plant). The plant would supply power to the SEZ and to the National Grid.
 - Water would be sourced from North Yangon to cater to the SEZ and the rest of Yangon.
 - The road from Thanlyn Bridge to the SEZ would be an ODA project (JICA funded).

Dawei SEZ

- ★ A 50:50 joint venture registered in Thailand, DSEZ is a special-purpose vehicle with a 75-year concession from the Myanmar government to develop the special economic zone and a deep-sea port, replacing Italian-Thai Development Plc, which had received the concession from Myanmar in November 2010.
- ★ Investment in Dawei SEZ will allow access to South ASEAN economic corridor till the Pacific.
- ★ In addition, Dawei investment needs a scientific study to understand the viability of the project as trans-shipment point.

Opportunities

- ★ Investment in Dawei SEZ will allow access to South ASEAN economic corridor till the Pacific.
- ★ It is also noteworthy that Italian-Thai Development Plc (JV firm between Italy and Thailand), the previous developer has evinced interested in Indian investment into the Dawei SEZ.

3. INVESTMENT OPPORTUNITIES

3.1 Primary Sector

Agriculture

- ★ Agriculture is a crucial driver of Myanmar’s economy. According to ADB, the agriculture sector accounts for around 70 percent of total employment as well as 30 percent of the country’s exports.
- ★ According to FAO statistics, arable land in the country amounted to 16.5 percent of total land area of Myanmar in 2012 (as per latest available data). Myanmar also has 10 times the per capita water endowment of China and India².
- ★ The country’s top agricultural area is the delta region at the confluence of the Ayeyarwady (Irrawaddy), Shittuang and Tahlwin rivers, and is the centre of the country’s rice production (also called the Rice Bowl of Myanmar). The coastal region has high rainfall and is ideal for perennial crops like coconuts, oil palm and rubber.
- ★ The agricultural sector has great potential in Myanmar. The country ranks first in the world production of sesame seed, sugar crops and dry beans; second in the production of pigeon peas; and third in the production of mustard seed.

Challenges for Myanmar	Opportunities for India
<ul style="list-style-type: none"> ▪ Low public investments in agricultural research; ▪ Weak links between extension staff, researchers and farmers; ▪ Low quality of inputs like seeds , fertilisers and pesticides used; ▪ Transportation networks are backward, sluggish and inadequate; ▪ Weak rural financial institutions and hence skewed availability of credit, agriculture sector accounts for only about 2.5 percent of all formal sector loans; ▪ Access to commercial finance for traders and processors in major commodities such as rice and pulses is also constrained due to the high collateral requirements; ▪ Quality of rice produce leaves a lot of scope for investment in research/development. 	<ul style="list-style-type: none"> ▪ 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 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 helping to set up 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;

² McKinsey

Potential in Select Agriculture Related Industries

Crop	Potential	Divisions/States
Rice	<ul style="list-style-type: none"> Rice processing facility offers significant opportunity; Oil extraction from rice bran; Rice industries have huge potential. There are ~30 mn acres of paddy cultivated land; The yield can be further increased by better agricultural technology; Rice husk yielding captive power is also an area that can be explored. 	<ul style="list-style-type: none"> Ayeyarwadi Division is the rice bowl of the country; Shwebo (Saigong region) also produces good quality rice.
Pulses, Beans and Sesame	<ul style="list-style-type: none"> Nearly three-quarters of the beans exported from Myanmar end up in India. India currently imports between 3 million and 4 million tons of beans and pulses annually; Plants for processing raw pulses, beans and sesame alongwith their seed and oil form are potential areas to be explored; 	Myanmar beans and pulses export has increased consistently. The country has reached the second position among world beans and pulses exporting countries and the top position among ASEAN countries.
Rubber	<ul style="list-style-type: none"> India's rubber demand is on the rise. 	Mon (major state producing), Kachin, Shan.
Sugar Mills	<ul style="list-style-type: none"> Ministry is currently running 8 sugar mills with the maximum capacity of 90000 MT. 	Mandalay and Bago Divisions and the Mon State, while areas under cultivation in the Kachin State, Shan and Rakhine State are primarily for meeting requirement of local sugar mills within the respective states.
Rubber	<ul style="list-style-type: none"> Improvement of crumb rubber production, other rubber products and rubber wood industries. 	Kachin
Food processing	<ul style="list-style-type: none"> Rising consumerism is a major driver for growth of food processing industry, backed by strong agriculture background. 	

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.
- ★ Smallholder farmers account for almost 85 percent of all milk produced, but production is impeded by limited infrastructure, limited domestic technical expertise for animal husbandry, and insufficient financing options for farming inputs, and if these issues are addressed, they would greatly promote higher milk quality and yields.
- ★ Myanmar has about 500,000 Friesian cows, the most popular breed of dairy cow. However, the country does not have any commercial-scale dairy cow breeding operations and limited capacity for increased planning, technology and financing, handicaps the industry.
- ★ Most of Myanmar’s dairy farms are located in Mandalay and Sagaing Regions. States like Mon, Yerbadi and Kayin state are also potential areas because of the availability of ample grass.
- ★ 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.

3.2 Secondary Sector

- ★ The industrial sector of Myanmar mainly comprises agricultural processing, wood and wood products, construction materials, pharmaceuticals, fertilizer, oil and natural gas, and garments.
- ★ Myanmar holds great promise to be a manufacturing hub, because of low labour costs, its close proximity to major markets, and a population that needs many manufactured products.
- ★ While Myanmar has witnessed a consistent increase in the output of its manufacturing sector over the last decade, its share in GDP is significantly lower than that of agriculture. In fact, the share of manufacturing in GDP in Myanmar is the lowest, among the CLMV countries. Given the policy focus of the Government, further industrial transformation is expected to happen, with a large possible shift of labour from the rural agricultural sectors to urban industrialized sectors in the coming years.

Potential in Select Manufacturing Related Industries

Sector	Potential	Remarks
2-wheelers and 3-wheelers	<ul style="list-style-type: none"> ▪ A young labour force with a high two-wheeler ownership promises a potential. ▪ Myanmar is highly dependent on 2-wheelers as a mode of transport – and accounts for more than 80 percent of the automobile market. ▪ 3-wheelers (RE model from Bajaj) can be explored as a new variant to the local tuk-tuk. ▪ The volume of 2-wheeler industry stood at 1.2 million units in 2012. 	<ul style="list-style-type: none"> ▪ Most auto-components are imported from China and Thailand for assembly activities, as the few locally-produced parts available have very low added value. ▪ The completely knocked-down (CKD) parts used for assembly require a license for import, which expires after every 3 months. ▪ There is no restriction on imports of new parts based on the Control of Imports and Exports Act.
Mobile Equipment	<ul style="list-style-type: none"> ▪ The wireless telecom market in Myanmar has just opened with the entry of two 	<ul style="list-style-type: none"> ▪ The Government’s goal is for 74 percent of the country to have

Sector	Potential	Remarks
	<p>foreign players;</p> <ul style="list-style-type: none"> Given India's success in manufacturing high-end smart phones at low cost, the same can be replicated in this nascent market; Apple iPhone 5 is available for US\$ 650, while Samsung and China's Huawei, offer models with comparable features for less than US\$ 300. Successful Indian brands like Karbonn, iball, Lava, Micromax, etc. can also explore these markets. 	<p>access to cell service by 2016, from the current figure of 12 percent.</p> <ul style="list-style-type: none"> The market size of the telecom industry is expected to be around US\$ 2 bn by 2016.
Cement	<ul style="list-style-type: none"> Demand will be driven by large-scale infrastructure projects such as airports, inter-city roads and hydropower dams, as well as new hotels and resorts; Growing urbanisation is increasing demand for construction materials for residential development especially in three key cities – Yangon, Mandalay, and Nay Pyi Taw. 	<ul style="list-style-type: none"> Since the domestic demand exceeds the capacity, the country imports cement from Indonesia, Thailand and India.
Furniture	<ul style="list-style-type: none"> Huge potential exists for value-added timber to be exported from Myanmar. Companies could explore setting up either veneer or veneer-cum-plywood units. While plantation teak is for garden furniture, picture frames and assorted curios, natural teak is essential for luxury yachts, as the oils repel water and keeps the wood from cracking. 	<ul style="list-style-type: none"> Myanmar is estimated to have half of all the world's natural teak; Many Indian companies imports 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.
FMCG	<ul style="list-style-type: none"> India has a huge FMCG market and hence a host of producers – domestic and international. Indian companies can look at entering the Myanmar market in an array of commodities and products. 	<ul style="list-style-type: none"> Most of the FMCG goods are imported from neighbouring China or Thailand, or Singapore or from other developed countries.
Assembling and manufacturing of Agri machineries	<ul style="list-style-type: none"> With greater importance to agri sectors, assembling and manufacturing of agricultural machineries and farm implements are potential areas to be explored. 	
Energy	<ul style="list-style-type: none"> Investment opportunities under this sector include: <ul style="list-style-type: none"> Exploration and production in petroliferous onshore and offshore Myanmar; Rehabilitation of marginal fields and reviving the declining and suspended fields; 	<ul style="list-style-type: none"> In March 2014, Myanmar Government awarded tenders for exploration of oil and gas in 20 offshore blocks to various companies – international among them were Chevron, ConcoPhillips, Statoil, BG, Shell and Total. Foreign operators will be required to enter into production-

Sector	Potential	Remarks
	<ul style="list-style-type: none"> ▪ New downstream plants such as refinery, LPG, LNG, Fertilizers, etc.; ▪ Floating Storage Unit, and off-take facilities; ▪ CNG refilling stations and necessary parts and kits; ▪ Research & Development; ▪ Trading, Marketing and retailing of petroleum products; and ▪ Equipments to revamp and renovate in drilling rigs, refineries and plants. 	sharing agreements with state-owned Myanmar Oil and Gas Enterprise (MOGE).
Cotton /Silk factories	<ul style="list-style-type: none"> ▪ Investments in renovation and modernization of cotton ginning, delinking, baling factories are possible; ▪ Cotton yarn manufacturing and cotton seed oil industries and cocoon production, silk production and weaving also have great potentials to invest. 	

3.3 Tertiary Sector

Telecommunication

- ★ Myanmar, a green field telecommunications market, has been the focus of many international players for the last few years.
- ★ The Government has recently awarded two new mobile telecommunications licenses to international mobile operators, namely Ooredoo (Qatar based) and Telenor (Norway based), to bring competition and efficiencies in order to increase access to affordable communications services to the people of Myanmar, and drive towards achieving universal access to mobile communications.³
- ★ It is understood that five years back, locals used to pay US\$ 2000 each for SIM cards, which came down to US\$ 250 in 2012-2013, while now a SIM costs just US\$ 1.50.
- ★ With a current subscriber base of 5.44 million, the mobile penetration in Myanmar is the lowest in the region with less than 12 percent of the population having access to mobile services. This is expected to multiply several folds in the next 5 years.
- ★ A properly functioning telecoms network will spur innovation in other critical industries, such as education, healthcare and finance, and contribute to overall socio-economic development.

³ The biggest challenge for Myanmar's mobile firms is meeting the overwhelming demand from consumers starved of modern luxuries for the past half-century. On its launch day, Ooredoo received more than 800,000 calls to its customer-support centre, many times more than it could answer

- ★ Telenor and Ooredoo are required to have about 8,000 base stations to cover the country, of which they have as yet built only a fraction.
- ★ The experience of Indian mobile service providers in creating a strong, low tariff entry in Africa, holds them in good stead to replicate their success in Africa even in Myanmar.
- ★ It may be noted that Infosys was appointed as the advisor for Myanmar's e-government efforts.

Healthcare

- ★ The increasing focus of the government on healthcare has opened up new opportunities for foreign engagement.
- ★ The country's healthcare system is among the weakest in the world with the government's expenditure on the sector as a percentage of GDP being one of the lowest in the world.
- ★ Apart from exploring possibility of having a 50 to 100-bed hospitals, basic clinical level intervention could also be explored by Indian healthcare firms.

4. INFRASTRUCTURE OPPORTUNITIES

4.1 Industrial Zone in Kachin Province

- ★ Kachin can be easily accessed from Manipur in India. 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.
- ★ Target sectors: Steel and Metals, Gems, Food processing, timber etc.

4.2 Creating Townships

- ★ Increasing real estate prices at Yangon have led to the local populace exploring options in suburban regions thereby fuelling the township developments across Myanmar.

4.3 Low Cost Housing

- ★ 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 affordable housing and low cost housing options.

4.4 Ports & Logistics

- ★ Apart from development of sea ports and dry ports as part of the corridor, India can also look at developing dry ports at Shan and Bago regions.

4.5 Railways

- ★ While Myanmar has evinced its interest in high speed rail links connecting the major urban nodes of Mandalay and Yangon, India could 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.

4.6 Power Plants

- ★ Based on power production and consumption data, Myanmar is a power surplus nation. However, this is because majority of the country (~75 percent) lives without access to electricity. In addition, most of the power generated is exported to China and Thailand in line with the respective power agreements for investment into projects. Hence, there exists a high demand for energy in Myanmar offering opportunities for development of power transmission lines and creation of a national grid network.

Hydropower Generation

- ★ Myanmar has high hydropower potential of 40,000 MW spread across 4 major river basins. By 2020, the government plans to build 13 new hydropower plants with capacity of 2.5 GW. Nine additional projects with a total capacity of 580 MW are expected to be developed by local companies. Indian players could identify potential locations and establish power plants with a total capacity of 500 MW.

Up-gradation of existing power plants

- ★ Program to replace old gas turbine plants with new and more efficient combined cycle plants that use the same amount of gas and produce two to three times the amount of power could be explored..

Rural Electrification

- ★ Although Myanmar is power surplus nation, most of the rural population is uncovered and live without electricity. Meanwhile, India has strong experience in various rural electrification programs across several states. Hence, India / Indian companies can assist Myanmar both on a policy level as well as on an implementation support level for establishment of framework for rural electrification.

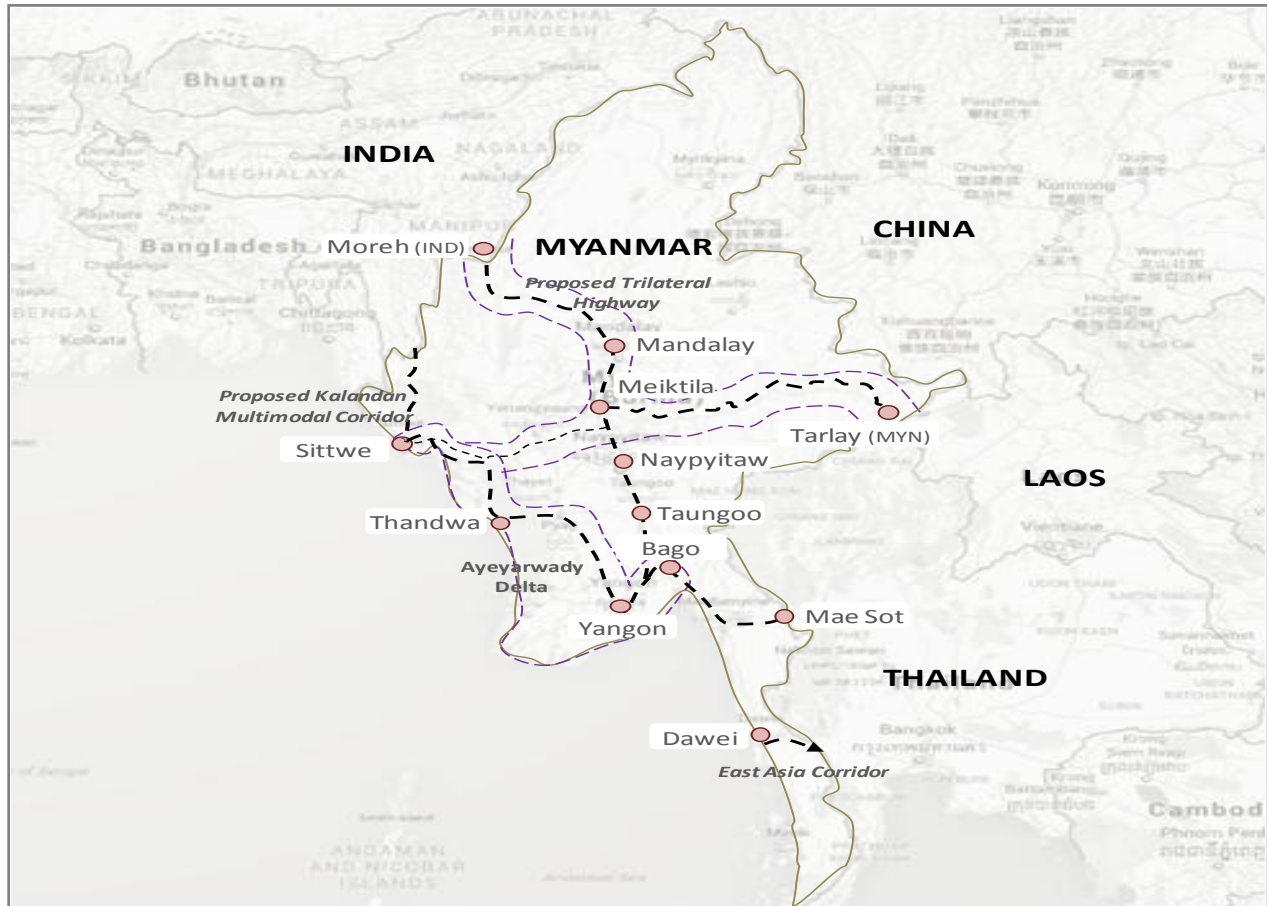
Transmission

- ★ Indian EPC companies can explore transmission opportunities based on EPC / BOT basis to take advantage of the excess power that is created in Laos. The power transmission lines can then be routed from Laos to Myanmar and then to India.

5. ECONOMIC CORRIDORS

The proposed corridors in Myanmar, namely, Sittwe – Bago Economic Corridor, and India – Myanmar – Lao PDR – Vietnam Economic Corridor, apart from the industrial zones, in Thandwa and Thilawa, and the Dawei Deep Sea Port and Industrial Estate – East Asia Corridor, is expected to be instrumental in furthering India’s strategic interests across the ASEAN countries.

Sections of Economic Corridors at Myanmar



Sittwe – Bago Economic Corridor

- ★ The development of Sittwe – Bago Economic Corridor will comprise multiple growth nodes and associated infrastructure such as deep sea ports and airport.
- ★ The advantages of developing the Sittwe Bago Economic Corridor are as follows:
 - Gateway to ASEAN: The corridor shall connect the Kaladan Multimodal Transit Transport Project to Yangon and further via the Trilateral Highway project to Mae Sot in Thailand. Currently the Indian connectivity to East-West Economic Corridor (across ASEAN) is through the trilateral highway originating from North East India. The proposed corridor

shall facilitate direct access to East-West corridor from major India seaports of Chennai, Kolkata and Vishakhapatnam.

- Enhanced seaboard coverage of Bay of Bengal: The coastline corridor is strategically important for consolidating India's presence in the South Asian geopolitical dynamics. Additionally, given the potential of discovery of oil and gas at offshore blocks, access to the coast is crucial.
- ★ The wider corridor influence area shall include Southern Chin, Rakhine, Ayeyarwady, Yangon and South Bago. Each of these regions offers a good investment potential.

Chin State

- ★ The government of Chin province has been striving to develop the industrial sector of the state. In the recent years, many new private industries have emerged in the region due to presence of good connectivity and quality power supply. In addition, the province is expected to become a major tea cultivation region in the future

Rakhine State

- ★ Agriculture and Aquaculture are the major sectors
 - Rice is the main crop (~ 85 percent of the total agricultural land)
 - Coconut & Palm plantations
- ★ Rakhine province has 2 major industrial zones:
 - Kyaukphyu SEZ
 - Phase 1 comprises development of ~4,000 acres
 - Key investment areas: Deep Sea Port, Industrial Park, Residential Zone
 - Ponnagyun Industrial Zone
 - Four year project and would be developed in multiple phases
- ★ Rakhine has large coastline along Bay of Bengal with presence of oil and gas blocks which makes it strategically important for Indian involvement.
- ★ The Indian diaspora at Myanmar widely consider Rakhine as favourable investment province

Ayeyarwady Division

- ★ Being heavily forested region, wooden products form an important component of the Ayeyarwady province. The Ayeyarwady delta region is well irrigated with rice being main crop. Other crops include maize, sesame, groundnut, sunflower, beans, pulses and jute. In addition, the region produces fish, prawn, fish-paste, dry fish, dry prawn, and fish sauce in large quantities.

Yangon Region

- ★ Yangon is the country's financial hub and main centre for trade, industry, real estate, media, entertainment and tourism – accounting for nearly a quarter of the national GDP.

- ★ There are around 14 industrial zones present in the vicinity of Yangon directly employing over 150,000 workers.

South Bago

- ★ Bago is emerging as an alternate investment destination owing to cheaper land prices in proximity to Yangon.
- ★ New Hanthawaddy International Airport is proposed to be constructed about 80 km from Yangon.
- ★ The economy is strongly dependent on the timber trade. Other contributors to the economy are natural resource such as petroleum and rice which occupies over two-thirds of the available agricultural land of the region.

Industrial Zones: Thandwa SEZ / Thilawa SEZ

- ★ Port based SEZ at Thandwa which has potential development in:
 - Agro-processing Zone
 - Garments & Textiles
- ★ Thilawa SEZ Phase II development has potential in:
 - Gems & Jewellery
 - Garments & Textiles
 - Information Technology

Dawei Deep Sea Port and Industrial Estate – East Asia Corridor

- ★ Dawei is a key location for Indian investment providing a direct access to South ASEAN and Pacific countries bypassing the congested Straits of Malacca. The current deep sea port and industrial estate project is proposed to be spread across approximately 45,000 acres and shall be developed jointly by Governments of Myanmar and Thailand.
- ★ A Special Purpose Vehicle jointly owned by Governments of Myanmar and Thailand with 50 percent share each shall be formed.

India – Myanmar – Lao PDR – Vietnam Economic Corridor

- ★ Shan district in Myanmar and Northern Laos districts are rich in mineral deposits including rare earth minerals. Limited transport options for transporting minerals have resulted in muted involvement of Indian companies in the region.
- ★ This particular corridor provides opportunities in the following sectors:
Roads:
 - Tamu – Kalewa – Kalemyo (TKK) road link (which is an ongoing project and is expected to be completed by 2018)

- Meiktila – Tarlay – Keng Lap (National Road 4 – Upgradation and road link till friendship bridge)
- ★ Dry port:
 - Potential dry port at Sagaing to facilitate cross border trade between India and Myanmar.
- ★ Mining:
 - Indian mining majors should also be invited to establish operations along the corridor.
- ★ In addition to foreign investment under the Myanmar Foreign Investment Laws (MFIL), foreign investors may invest under the Myanmar Special Economic Zone Law 2014 enforced on 23 January 2014 (Myanmar SEZ Law) which abolished the Myanmar Special Economic Zone Law 2011 and the Dawei Special Economic Zone Law of 2011.
- ★ The Myanmar SEZ Law is a basic law for any Special Economic Zone (SEZ) within Myanmar. The main regulatory body handling foreign investment under the Myanmar SEZ Law is the Central Body for the Myanmar Special Economic Zone.
- ★ The Myanmar SEZ Law contains provisions relating to the exempted zone, business promoted zone, other zone, exempted zone business, other business, developers and investors, exemptions and reliefs, restrictions, duties of developers or investors, land use, banks and finance management and insurance business, management and inspection of commodities by the customs department, quarantine, labour and guarantee of non-nationalisation, dispute resolution, withholding tax, bank and financial management and insurance business, etc.
- ★ Currently there are 3 SEZs – Dawei SEZ, Thilawa SEZ, Kyaukpyu SEZ.

E. VIETNAM

1. COUNTRY ANALYSIS

1.1. Geography

Vietnam is located in the centre of the Southeast Asia region with a land area of approx. 331,600 sq. km. The country borders China to the north, Laos and Cambodia to the west and the East Sea and Pacific to the east and south. Hanoi is the capital city and Ho Chi Minh City is the largest commercial centre.

Vietnam has a long sea coast line of 3,444 km, which is an ideal condition for development of maritime industries, manufacturing industries, trade and tourism. Vietnam has a diverse geographical structure together with hills, highlands, and coastal areas which are suitable for comprehensive economic zones. With an estimated 90 million population having median age of 29, Vietnam is the world's 13th most populous country.

1.2. Political Scenario

While Vietnam remains predominantly a socialist political regime, the government has pursued implementation of structural reforms required for economic liberalization and international integration. The Communist Party of Vietnam (CPV) is expected to maintain a firm grip on power, despite factional splits over economic policy. Ties with China remain prone to setbacks with growing mistrust owing to territorial disputes in the South China Sea, although business continues as usual.

The Economist Intelligence Unit's 2014 democracy index ranks Vietnam 134th out of 167 countries surveyed, putting it among the countries considered as having authoritarian regimes. This designation includes several other countries in Asia, such as China, Laos, Nepal, Myanmar and North Korea. With an overall score of 3.29 in 2014, Vietnam has moved somewhat closer to the standard needed to be categorised as a hybrid regime.

1.3. Macroeconomic Analysis

Vietnam had suffered from a prolonged war and economic stagnation. Since 1986, the country began rebuilding its economy with the policy of *doi moi* or renovation, involving greater freedom to private enterprise, emphasis on exports, production of consumer goods and encouragement to foreign investors. Growth averaged around 9 percent (as per IMF) during 1993 to 1997. After a slight dip during 1997 Asian financial crisis, growth averaged 7.5 percent in 2000-2007. In 2013, real GDP was seen growing at 5.4 percent. In absolute terms, GDP had increased to US\$ 170.5 billion in 2013 from US\$ 155.60 billion in 2012, with GDP per capita standing at US\$ 1,901.70.

Inflation has been observed to be high in Vietnam in recent years, owing to easy availability of domestic credit. In 2013, inflation eased to 6.6 percent as compared to a high of 18.7 percent witnessed in 2011. Sectors where prices are administratively controlled –health and medical services, energy, education and transport, have experienced higher and more volatile inflation than those sectors where prices are

determined mostly by market forces. Vietnam has the highest inflation among its other regional peers. In 2013, Vietnam entered its third year of macroeconomic stability with lower inflation, strong external trade and capital flows, and a firmer exchange rate.

Macroeconomic Snapshot of Vietnam

Economic Indicators	2010	2011	2012	2013	2014e	2015f	2016f
GDP growth (%)	6.4	6.2	5.2	5.4	5.6	6.0	6.2
GDP (US\$ bn)	112.8	134.6	155.6	170.5	186.0	200.5	217.5
Consumer price inflation (avg., %)	9.2	18.7	9.1	6.6	4.1	4.6	5.2
Population (mn)	86.0	89.9	90.8	91.7	92.5	93.4	94.2
Current account balance (US\$ bn)	-4.3	0.2	9.1	9.5	9.7	7.5	7.0
Total external debt (US\$ bn)	44.9	53.1	59.1	61.8	68.5	73.7	80.6

f: forecast;

Source: IMF; EXIM Bank Research

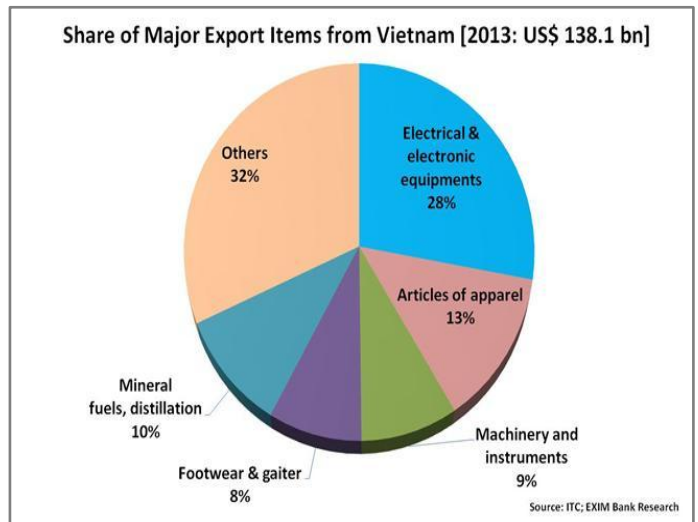
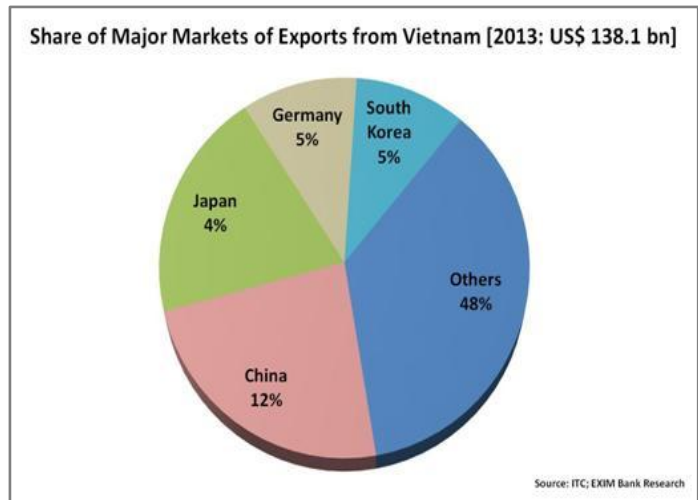
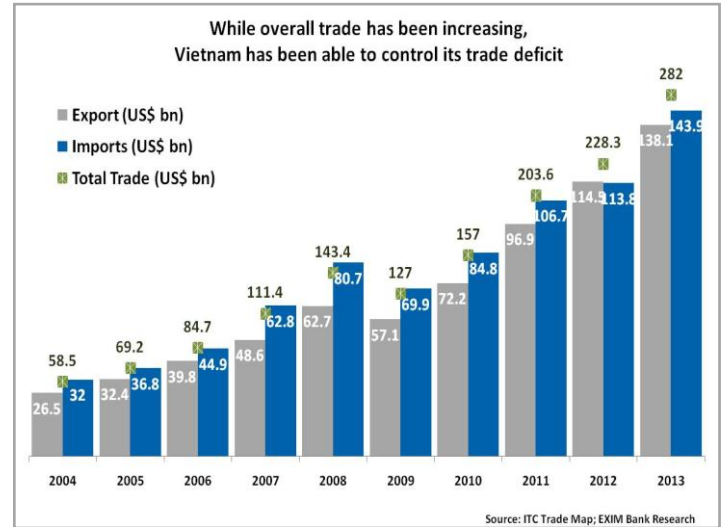
Vietnam has remained an attractive investment destination in light of its growing working-age population and low labor cost. Nevertheless, the country faces increased competition for FDI in South East Asia, particularly from Indonesia. Vietnam's ability to remain competitive and drive economic growth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

Vietnam export growth was observed to be more than 15 percent year-on-year in 2013. Vietnam is becoming an increasingly large importer of capital goods to meet its large infrastructure needs, and consumer goods to satisfy its rapidly expanding consumer market.

2. MERCHANDISE TRADE

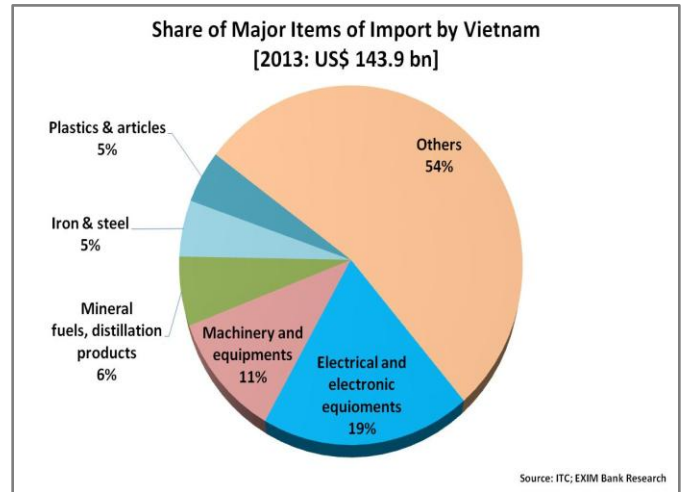
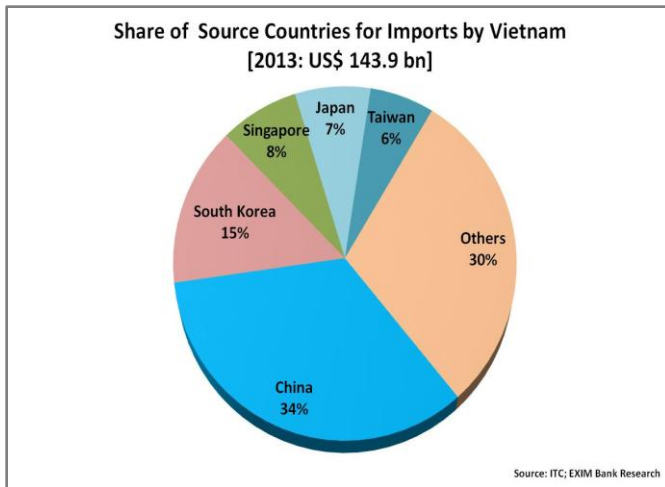
2.1. Vietnam's Merchandise Trade

- ★ Vietnam's merchandise trade continues to perform strongly, benefitting from the dynamism of the foreign direct investments.
- ★ During the last decade, total trade of Vietnam increased close to five-fold, from US\$ 58.50 bn in 2004 to US\$ 282.0 bn in 2013. Vietnam's exports rose to US\$ 138.10 bn in 2013 from US\$ 26.50 bn in 2004, witnessing a CAGR of 18 percent. Vietnam's imports in 2013 stood at US\$ 143.90 billion, up from US\$ 32.0 bn in 2004.
- ★ To bring the trade deficit under control in 2011, the government had implemented import restrictions on a number of consumer goods (including some types of alcohol, automobiles and food products) that remain in place. In recent years, the government has repeatedly raised import tariffs on selected steel products, increasing them (in some cases) to the maximum tariffs allowed under the country's WTO commitments.
- ★ Vietnam is among the leading exporters of agricultural products such as coffee, cashew, rice and rubber; meanwhile, the low-cost base has allowed garment and footwear manufacturers to expand. Manufacturers are moving into higher value-added segments; IT and electronics exports are set to become a dynamic growth industry. Vietnam is South East Asia's third-largest oil producer and a net oil exporter.
- ★ While earnings from commodity



exports are recovering gradually, Vietnam’s traditional labour intensive manufacturing exports such as garments, footwear, and furniture continue to sustain rapid growth.

- ★ Noteworthy, additions to the export basket have been hi-tech and higher value addition products (cell phones and parts, computers, electronics, and accessories, automobile parts). In terms of destination, Vietnamese exports to USA have greatly benefited from the US-Vietnam Bilateral Trade Agreement.



2.2. Trade with India

- ★ In the recent years, India’s relations with Vietnam have been marked by growing economic and commercial engagement. Bilateral trade between India and Vietnam reached US\$ 8.80 bn in 2013, up from US\$ 608.10 million in 2004.
- ★ The two sides have set a target of US\$ 15 bn for bilateral trade by 2020. Vietnam ratified the India-ASEAN FTA in goods with effect from June 1, 2010. The proposed agreement on trade in services and investment is likely to impart further boost to bilateral trade and economic relations.
- ★ In 2013, India was seen as the 11th largest exporter to Vietnam. India is currently the 5th largest global supplier of cotton to Vietnam, 10th largest supplier of plastics and articles thereof, 11th largest supplier of vehicles other than tramway. The main commodities that constituted India’s exports to Vietnam in 2013 included meat and edible meat offal (32.1 percent), fish, crustaceans, molluscs (16.9 percent), iron and steel (7.2 percent), cotton (5.7 percent), and cereals (5.0 percent).
- ★ Electrical, electronic equipment (51.9 percent), rubber and articles thereof (8.4 percent), machinery and instruments (7.9 percent) and coffee, tea and spices (4.5 percent) were India’s key imports from Vietnam during 2013. India was Vietnam’s 8th largest destination of rubber and articles, as well as coffee, tea and spices.

2.3. Foreign Investments

★ Vietnam officially encourages foreign investment as part of its development strategy and the government has stated its commitment to improving the business and investment climate to move Vietnam closer to the ASEAN average by 2015. Foreign invested companies play an increasingly important role in the economy. FDI sector exports reached 67 percent of the country's total exports in 2013, up from 47 percent in 2000, and foreign invested enterprises' share of the GDP increased to 18 percent from 13 percent over the same period. Vietnam has been very successful in attracting foreign direct investment, sustaining FDI levels of around US\$ 10-12 bn per year over the last five years. The FDI sector accounted for 23 percent of the country's investment capital in 2013.⁴



- ★ Investments had a higher technological content; companies such as Intel, Samsung, Nokia and LG have invested in assembly facilities. This is in line with Vietnam's policy and efforts to shift FDI to the high tech sector.
- ★ Between January 2003 and December 2014 a total of 2,462 FDI projects were recorded in Vietnam. These projects represented a total capital investment of US\$ 259.23 billion, which indicates an average investment of US\$ 105.30 million per project.
- ★ The largest number of projects was announced in 2008, with 359 projects that year.
- ★ Out of a total of 39 sectors, the top five accounted for more than one-third of projects. Financial Services was the top sector accounting for more than one-tenth of projects. Project volume in this sector peaked during 2008, with 37 projects. Other major areas of investment were food and tobacco, metals, textiles, transportation, and business services.

⁴ US Department of State

- ★ Out of a total of 58 source countries, the top five accounted for the majority of projects. Japan was the top source country accounting for more than one-fifth of projects. Project volume in this source country peaked during 2014, with 74 projects tracked.
- ★ Vietnam continues to be an attractive investment destination for Indian companies. India's approved direct investments in joint ventures and wholly owned subsidiaries in Vietnam amounted to US\$ 22.50 million during 2013-14. Cumulative approved FDI outflow from India into Vietnam during the period April 1996 - March 2014 was at US\$ 498.50 million⁵.
- ★ Several Indian companies in sectors as diverse as oil and gas, steel, minerals, tea, coffee, sugar and food processing have invested in Vietnam. Most Indian investments are in the form of wholly foreign invested projects. Cumulative FDI inflows into India from Vietnam during April 2000 to March 2014 amounted to US\$ 0.24 million.
- ★ Investment from India into Vietnam till end-2014 were in 87 projects with a total capital investment of US\$ 298.39 mn, in sectors like manufacturing, mining, oil and gas, and energy, among others⁶.

FDI trends by Source country

Source country	No of projects	No of companies	Capital investment (US\$ mn)
Japan	656	445	62,170.20
United States	352	247	24,797.70
South Korea	232	156	36,980.60
Malaysia	190	109	30,132.00
Taiwan	172	117	19,931.00
Germany	163	93	4,798.50
Thailand	155	93	13,761.70
UK	126	77	13,554.30
Singapore	126	86	13,355.20
Vietnam	106	61	5,571.30
Other source countries	915	663	87,714.40
Total	3,193	2,137	312,766.70

Source: fDI Intelligence, Financial Times; EXIM Bank Research

2.4. Select Investment Clauses

Corporate Income Tax (CIT)

- ★ Foreign investors are most typically attracted by the tax incentives for direct investment in Vietnam. The Corporate Income Tax (CIT) rate has gradually fallen from 32 percent in 1997, to 25 percent in 2009, and most recently to 22 percent (as of January 1st, 2014) and 20 percent

⁵ Ministry of Commerce, Government of India

⁶ fDI Intelligence, Financial Times

(takes effect on January 1st, 2016). These tax reductions have spurred new investment from national and foreign firms alike.

- ★ Certain social sectors (e.g. education, health) enjoy tax @10 percent for the life of the project.
- ★ Taxpayers may be eligible for tax holidays and reductions. The holidays take the form of a complete exemption from CIT for a certain period beginning immediately after the enterprise first makes profits, followed by a period where tax is charged at 50% of the applicable rate. However, where the enterprise has not derived profits within 3 years of the commencement of operations, the tax holiday/tax reduction will start from the fourth year of operation. Criteria for eligibility for these holidays and reductions are set out in the CIT regulations. Additional tax reductions may be available for companies engaging in manufacturing, construction and transportation activities which employ many female staff or employ ethnic minorities.

Preferential Tax Rates

- ★ In an effort to attract investors towards certain economic sectors, Vietnamese tax law further offers preferential tax rates, duration of tax reduction and tax exemptions for newly-established companies investing in areas with extreme socio-economic conditions, economic zones and high-tech parks. These incentives are also available for newly established firms investing in software manufacturing, education, training, vocational training, health care, culture, etc.
- ★ The Law on Import and Export Duties provides tax exemptions to the following cases:
 - goods imported to create fixed assets of projects entitled to investment incentives;
 - investment projects funded with official development assistance (ODA) capital sources;
 - raw materials, supplies and components imported for production activities in connection with the projects entitled to special investment incentives.
- ★ Income derived from the following new investment projects shall apply 10 percent tax rate for 15 years, tax exemption for 4 years and 50 percent tax reduction for 9 subsequent years:
 - Investment projects in the manufacturing sector with a minimum investment capital of VND12,000 billion, using advanced technology which is evaluated in accordance with the Law on High technology, Law on Science and Technology and disbursing capital (i.e. total registered investment capital) for no more than 5 years since the date of investment license. In special cases where it is necessary to attract investments, the preferential tax rate could be considered for extension but not exceeding 15 years
- ★ Tax rate of 15% shall apply for 2014 and 2015 and 17 percent from 1 January 2016 for enterprises operating in the agricultural sector not located in areas with difficult or special difficult socio-economic conditions.

2.5. Investment Zones

- ★ There are more than 250 SEZs existing in the country with each Province in the country competing against each other while devising incentives to attract more investors into their respective SEZs.
 - ★ Vietnam has tried to replicate the Singapore model of SEZs while providing incentives to investors and attract them to set up shop.

- **Industrial Zone (IZs)**
 - ★ No tax is levied on repatriation of profit, corporate tax is 22% and tax holiday is given for 2 years and for 4 years the firms are taxed on reduced rates.
 - ★ Foreign investors enjoy incentives if manufacturing unit is based in the industrial zone.
 - ★ Industrial Zones (IZs) attracted US\$ 12 bn of pledged foreign direct investment accounting for 60% of the country's total FDI in 2013-14. 10 new IZs were put into operation in 2014, increasing the number of operational IZs to 208 across Vietnam.
 - ★ IZ permits local and export sales, even allows companies to sell 100% locally.
- **Economic Zone (EZs)**
 - ★ EZs are located in remote area around 20-30kms from the city and it is larger than SEZ with the ability to accommodate several Industrial Parks within the zone.
 - ★ EZ offers high incentives such as; corporate income tax rate of 10%, 4 years tax exemption and 9 years on reduced tax rates.
- **Industrial Park**
 - ★ Vietnam currently has 289 Industrial Parks (IPs), 15 coastal EZs, plus 28 border EZs. The Industrial Promotion Agency (IPA) under the Ministry of Industry and Trade (MoIT) looks after Zone development in Vietnam. Clearance fall in place once the provincial head of Investment Department agrees for setting up of business in the province. Development strategy in each province is different from the other, mostly focused on development of industrial sector without taking relative advantage of province into account.
 - ★ IPs in Hanoi and Ho Chi Minh City has enjoyed a stable situation for long. At the end of 2014, HCMC has 18 operating IPs providing a total area of approx 3,625 hectare. The majority of IPs in HCMC reported occupancy rates of above 90% as they are established and have been operating for many years. The total increase in Industrial land in HCMC up to 2020 is projected at approximately 3,000 hectare. In terms of numbers of IPs, it is expected that the current 18 parks will expand with 12 new IPs in operation by 2020. Ha Noi is home to 10 IPs, covering 1,423 hectares, with vacant land now standing at approx 29% of total supply. Currently, four out of 10 operating IPs are fully occupied. The remaining IPs having land for lease are Hoa Lac Hi-tech Park, Phu Nghai IP, Noi Bai IP (Phase II), Man Thang Long and Wuang Minh I and HANSSIP I. Of these, Hoa Lac Hi-tech Park still has the highest vacancy rate of 72% with approx 355 hectare available for lease. By 2030 towards 2050, Ha Noi is expected to have 33 IPs with an area of 8,000 hectare.
 - ★ IPs in Nha Be, Cu Chi and Binh Chanh districts, which have just commenced operations recently, reported occupancy rates under 50%. IPs mostly focuses on manufacturing only. Most IPs are situated in the suburban districts, and located towards the western districts. Cu Chi and Hoc Mon are two new locations for IPs as there are large tracts of land available.
- **Hi-Tech Park**
 - ★ Investments are encouraged also in hi-tech zones and certain industrial zones with difficult socio-economic areas.

Hao Lac Hi-Tech Park (HHTP)

- ★ Owned by Ministry of Science and Technology, Vietnam, HHTP, the first Vietnamese Hi-tech Park's objective is to enhance development of hi-tech industry as well as R&D capacity of

the country. HHTP has 9 major functional zones including: Research and Development Zone (R&D), Software Park, Hi-tech Industrial Zone, Education and Training Zone, Central Area and Service Area. Phase I of HHTP completed by Vietnamese government and Phase II is being developed under Japanese ODA.

- ★ HHTP is located 25km from Hanoi capital. The park is adjacent to Thang Long Avenue and National Highway No 21, 47 km from Noi Bai international airport and Hai Phong port. HHTP is being developed as model of a Science City with over 200,000 people working and living
- ★ HHTP emphasizes on development of information technology, communication and software technologies, biotechnology for agriculture, fisheries and health, microelectronics technology, precision engineering, mechanical, electrical and optical automation, nanotechnology & technology for new material, new energy technologies and environmentally sound technologies.

Land Availability

- ★ HHTP is built on an area of 549.5 ha. The used area is 111.6 ha and the unused area remains at 437.9ha.

Sectors & Companies Involved

- ★ Total of 68 projects are licensed and approved, with registered capital of US\$ 2.6bn. Taiwan, Denmark, USA, Japan, France, Singapore, South Korea, China and Vietnamese Joint Venture companies make presence in HHTP. These investors are engaged in activities in sectors such as precision engineering, biotechnology, support industries, hi-tech services, education & training, R&D, pharmaceutical manufacturing, new material production, construction infrastructure, telecom and microelectronics.

Process to get Approval

- ★ Investor must apply for investment certificate under which the Park authorities will undertake assessment of investment conditions, determine the location plan and grant the certificate. Before implementation of the project, investor may seek zoning permit, planning approval, approval of basic design, finalize land lease and await building permit. Time to time progress report on management and operation of the project is also reviewed.

Key Features

- ★ Research and Development Zone (R&D)
 - Area of 229 ha, surrounds the Software Park
 - It is a location for national institutes, labs on hi-tech development and application; as well as expert training on hi-tech fields
 - Nissan Technical Services and VKIST have set up
 - ODA from Japanese Government of US\$ 500 mn for technical design and infrastructure
- ★ Software Park
 - Total area of 76 ha, located in peninsula area and surrounded by Tan Xa lake
 - This Park is for businesses in software development and trading
- ★ Hi-tech Industrial Zone
 - Total area of 549.5 ha, located in the South of Hoa Lac Hi-tech park

- It is the place for hi-tech manufacturing factories, customs clearance, bonded warehouse, etc.
- FPT (a leading software outsourcing company in Vietnam) is developing northern side of the park
 - FPT has also moved its 4,000 employee strong software operations from Ha Noi city to this park
- Vinaconex is developing southern side of the park
- Vitasco, a state owned developer company is developing the rest
- ★ Education and Training Zone
 - Total area of 108 ha, located in the North of hi-tech park near National Road No 21
 - There are universities, training centers, vocational schools, etc. in order to provide high quality labor force
 - French investments of ~1 mn Euros have been made for Ha Noi University
 - CST university is already present with capacity of 3,000 students
 - Vietnam Japan University is also operating here
- ★ Central Area
 - Total area of 50 ha, located near Software Park
 - It is the location for public service facilities such as office building, conference center, post office, hotel and restaurant, etc.
- ★ Service area
 - Total area of 87.5 ha
 - It is multifunction service that includes trading, business, supermarket, restaurant, hotel, public health, welfare of the people – serving for all inside and outside demands of hi-tech park
- ★ Investment Incentives: Corporate Income Tax (CIT)
 - Exemption for the first 4 years
 - 5% for the next 9 years
 - 10% for the next 2 years
 - Prolonged period to enjoy preferential CIT rate for a number of special projects
- ★ Exemption from import duties for goods imported as part of fixed assets;
- ★ Exemption from VAT for equipment, machinery and specialized transportation means not manufactured locally and imported as part of fixed assets;
- ★ One-stop administrative services
 - 30 days for all procedures in case of complete documentation
- ★ Developed Land is available at varying rates ranging from US\$ 60 to US\$ 80 per sq mt for 50 years. HHTP is currently drafting prices for Land with basic trunk infra along with Ha Noi people committee.

Vietnam Singapore Industrial Park (VSIP I):-

Introduction

- ★ VSIP is a JV between Becamex Corporation Vietnam & Sembcorp Development Singapore. VSIP is 20km north to HCMC, located in Binh Duong Province in which investments more than US\$ 20 bn have been made. 740,000 people have been employed including 8000 expats. Foreign

investment is in 2375 projects from 40 countries. VSIP has been awarded as the best developer in Vietnam.

- ★ VSIP is an integrated township and industrial park situated in the nucleus of Vietnam's dynamic southern economic zone, Binh Duong Province is the most favorable investment destination. VSIP is a self contained industrial park with modern facilities such as ready-built factories, full infrastructure facilities including electricity, treated water, sewerage treatment, telecoms etc.

Land Availability

- ★ VSIP I has a total area of 500ha. Total of 237 projects with investment capital of US\$2.7bn are operative.

Sectors & Companies Involved

- ★ Tenants from EU, Japan, Taiwan, Vietnam & JV, Singapore, Korea, Malaysia, USA and other Asian Countries occupy VSIP I with operations in sectors like supporting industry, automobile components, chemical, consumer goods, electronics, food, furniture, garment, packaging, pharmaceuticals, precision engineering and services.

Process to get Approvals

- ★ Investor must undertake discussion with VSIP and prepare application for investment certificate. VSIP helps check the application and prepares application dossier for the investor. Investor then submits application to authority body. After evaluation by the authority body, investment certificate is issued subsequently.

Benefits

- ★ In-house customs services,
- ★ one-stop service centre,
- ★ technical training college,
- ★ in-house firefighting services,
- ★ culture house,
- ★ Residential township.

Key Features

- ★ Current corporate tax rate is 22 percent which is likely to be reduced to 20 per cent in current year
- ★ There is a 50 per cent tax exemption for a period of 15 years for investments more than US\$ 300 mn and 3000 workers.
- ★ Minimum wage rate is US\$ 150 per month. However, wages are generally higher than this.
- ★ Offering ready built-in factories

Phu Bai Industrial Zone (PBIZ):-

Introduction

- ★ Established in 1998, PBIZ is located in Central Vietnam in Thua Thien Hue Province just 15kms away from Hue city. PBIZ has a total land area of 800ha. PBIZ is 15 km from Hue City, 1 km from Airport, 40 km from Chan May deep sea port, 70 km from Da Nang City and 40 km from Thu Nan sea port.

- ★ Among leading economic zones of central region, Thua Thien Hue is strategically located on east-west economic corridor connecting the province with Lao, Thailand, Myanmar.

Land Availability

- ★ PBIZ is divided in 4 phases: Phase I & II with 185 ha have 98% occupancy rate, Phase III & IV are under construction of infrastructure. Phase III and IV are welcoming investments. At present, the area of PBIZ in phase I & II has already been nearly filled up. In the third phase that began recently, the investors would focus on expanding PBZI by additional 87 hectares of infrastructure facilities. In the coming time, the industrial zone will continue being extended so that PBZI will have total area of about 800 hectares.
- ★ Fields calling for investment are automobile production, hi-quality ceramics, MDF production, machine manufacturing, animal feed, electronics, information technology, computer assembly, sub-products for textile and garment industry including spinning & dyeing, cashew processing

Sectors & Companies Involved

- ★ Approx. 60 investment projects are to be carried out in PBIZ of which many factories have been put into operation in various sectors of construction materials, wood processing, pottery and ceramics, natural minerals, creating jobs for thousands of local employees. At present, the area of Phu Bai industrial zone in phase 1 & 2 has already been nearly filled up.
- ★ Investments at present are from USA, Denmark, Japan, Bulgaria, and Finland.

Process to get Approvals

- ★ Normally it takes 6 months to issue certificate for a typical project from the date the complete application is submitted. Investors can enjoy preferential policies stipulated by the Government and the province. Investment procedures are only carried out at the provincial industrial zones authority with the mechanism of one door on the spot mechanism.

Benefits

The investors get benefit from preferential policies such as

- ★ Land-leasing charges of \$1/sq. m/year,
- ★ Infrastructure fee of US\$ 0.70 per sq. meter / year
- ★ flexible payment mechanism,
- ★ financial support for ISO registration charges,
- ★ trademark, and copyright registration.

Key Features

- 1) Hue province is the key economic zone in Central Vietnam
- 2) Located in the east-west economic corridor
- 3) Borders eastern sea and western border to Lao
- 4) Stable geology composition
- 5) Convenience of transport system (road, railways and waterways)
- 6) Wide network of transmission lines ensures stable power supply
- 7) The IZs of Hue province have favourable position due to being located near concentrated material area with great volume of production and processing of industrial products using seafood, timber, minerals, production material, limestone, granite, and kaolin

- 8) Human resource is abundant, supplied from 9 universities, 6 collages, 7 vocational schools.

Phong Dien Industrial Zone (PDIZ):-

Introduction

- ★ Established in 2009, PDIZ is located in Central Vietnam in Phong Dien district of Thua Thien Hue Province about 35 km from Hue city, near the NH 1A, and 50km from Phu Bai International airport, 30km from Thuan An seaport.

Land Availability

- ★ 400ha area will be expanded to 700ha by 2020. Area A having 152ha is 40% occupied, Area B: having 147ha is occupied upto 60 percent by sand processing industrial zone and Area C of 100ha is under construction of infrastructure.

Sectors & Companies Involved

- ★ PDIZ has emerged as an attractive investment destination in the building material industry. Total invested projects are numbered at 14, covering almost 52% of the industrial land. Investments are in the fields of fibreglass, liquid glass, frit enamel, solar pile production, garment and aquatic products processing.
- ★ Investments are called for in support industry, processing of aquatic products, animal products, deep processing of sand, forest product processing, cosmetics, pharmaceuticals, beverages, machinery, automobile and leather.

Process to get Approvals

- ★ Normally it takes 6 months to issue certificate for a typical project from the date the completed application is submitted. Investors can enjoy preferential policies stipulated by the Government and the province. Investment procedures are only carried out at the provincial industrial zones authority with 'one door on the spot mechanism' mechanism.

Benefits

The investors get benefit from preferential policies such as:

- ★ Land lease price at \$0.75/sq. m/year
- ★ Infrastructure fee at \$0.17/sq. m/year

Key Features

- ★ PDIZ is located next to the quartz sand mine of good quality with an area of 3800 ha with an estimate reserve of 40mn m³, serving fit for solar pile factories, fibreglass, glass and ceramic production.

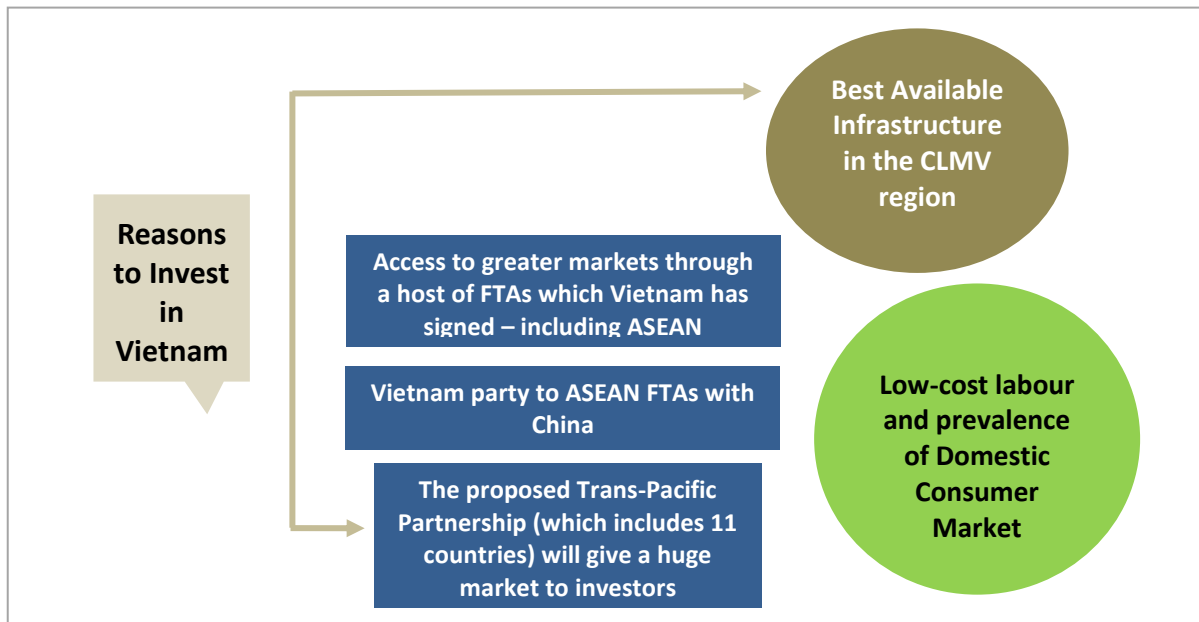
2.6. Factors favouring India's Trade & Investments in Vietnam

- ★ Vietnam is one of the leading investment destinations in ASEAN, and is moving towards a socialist-oriented market economy.
- ★ Investors commonly cite Vietnam's geographical position, near global supply chains, the growing consumer market, expected improvements in the business climate upon completion of the Trans-Pacific Partnership Agreement, relative political and economic stability and an increasing desire to diversify their manufacturing base in Asia as reasons for their investments in Vietnam.

Japanese and Korean firms in particular appear eager to increase manufacturing investment in the country.

- ★ According to the Government of Vietnam, 101 countries have invested in the country with total projects numbering 17499 and valued at US\$ 250.70 bn, till 2014.

Key Factors that Should Propel India to Enter the Vietnam Market



Source: EXIM Bank Research

- ★ As on November 2014, Vietnam's stock market was one of the five markets with the strongest growth in the world⁷. Vietnam also quickly recovered from the impacts of the financial crisis in 2008-09 and over the last four years, the Vietnamese Government has been successful in keeping a high economic growth at 5-6 per cent per year, attracting a good amount of FDI.
- ★ It is one of the top three ASEAN exporters to the US, ahead of Thailand and Malaysia, wherein Vietnam accounts for 20 percent of ASEAN exports to the US; this share is expected to increase further in the near future.
- ★ Share of Indian exports to Vietnam in 2013-14 was only 1.73 percent of total Indian exports, and imports from Vietnam only 0.58 percent of total Indian import. This low share of India's participation in the growing ASEAN market provides India ample opportunity to develop comprehensive trade relations with Vietnam.
- ★ The country is also on the anvil to sign the Trans-Pacific Partnership (TPP) Agreement which will give it access to large and developed markets in the world, which will further deepen its trade and investment potential.
- ★ India has a huge opportunity in Vietnam given its growing consumerism, which is supported by a huge number of youth in its population of 90 million.

⁷ US Chamber of Commerce in Singapore

3. INVESTMENT OPPORTUNITIES

Opportunities exist in upgrading or creating new infrastructure and investing in industrial and manufacturing sectors. Sectors which are encouraged by Vietnamese government includes, education & training, healthcare (general hospitals & health clinics), High-technology Industries, Agricultural & Food Processing, Scientific research, Infrastructural development (railways, roadways, inland waterways, airways, deep-sea port & trade infrastructure), IT & software , labour intensive industries and support industries, water & waste treatment, renewable energy, and biotechnology. Attractive incentives and commercial benefits are offered for investments in SMEs. As SMEs contribute to the development of Vietnam's supporting industries not only through manufacturing and supply of products for domestic and export market, but also in helping to bolster the capacity of local firms through partnerships and business alliances.

3.1. Primary Sector

Agriculture

- ★ Vietnam is an agrarian economy with more than 50 percent of the population being dependent on agriculture. The sector was worth US\$ 36.80 bn in 2011, representing 21.6 percent of the country's GDP.
- ★ Productivity in agriculture is very high in Vietnam, with three harvests in a year.
- ★ State-owned-enterprises still play a large role in the production, processing and distribution of agricultural products, in particular for rice, coffee, rubber and tea.
- ★ Rice and coffee are Vietnam's largest exports, followed by pepper, starches, cassava, rubber and seafood. Vietnam imports seafood (for processing & exports), cotton, corn and bovine meat from India.
- ★ Government of Vietnam is in the process of developing a master plan for restructuring of the agriculture sector in Vietnam, for each sector falling under Agriculture (including forestry & fisheries). Basic purpose of the master plan is to improve value addition, expand public private partnership, to and adopt value chain approach.
- ★ The Ministry of Agriculture and Rural Development (MARD) has primary responsibility for agricultural policy and pricing, while the Ministry of Industry and Trade oversees food distribution and trade. Presently, MARD is developing a decree to increase FDI in agriculture sector. There's a great scope for processing, especially in Southern part of Vietnam.
- ★ The Government is welcoming partnership in training and joint research institution. Furthermore, the government is also encouraging development in socially benefiting and value addition industries, green house, poly house, and cold storage.
- ★ Agricultural implements and farm equipment can be imported duty free. Foreign companies cannot own land in Vietnam; only lease of land is possible. Incentives and other commercial benefits offered under agri sector vary from province to province.
- ★ Contract farming can be undertaken for commodities like rice, sugarcane, coffee, pepper, and cashew. Investor can source raw material via contract farming, nominate local company to process for further exports. During discussion it was opined that, such an arrangement shall be

highly appreciated because it offers social benefits & employment to farmers and local companies in Vietnam.

Potential in Select Agriculture Related Industries

Crop	Potential	Divisions/States
Rice	<ul style="list-style-type: none"> ▪ Rice processing including hybrid rice facility offers significant opportunity ▪ Investments are encouraged in new science and breeding technology. ▪ Enhancing irrigation systems, transportation and storage facilities, mechanized harvesting and contract farming to small farmers ▪ Encouraging plantation, harvesting and processing related investments using high productivity breeds and modern techniques. 	<ul style="list-style-type: none"> ▪ Rice occupies 94 percent of arable land. ▪ In the north, two or three crops a year can be harvested. ▪ Agriculture in north (Hanoi) has reached advanced stage of cultivation ▪ Single cropping prominent in South ▪ Mekong Delta region accounts for more than 50% of Vietnam's rice production. ▪ Red River Delta has potential too.
Coffee	<ul style="list-style-type: none"> ▪ Robusta coffee variety accounts for 95 percent of total output. Arabica variety makes up for remaining 5 percent. ▪ Exported 1.70 mn tons of coffee valued at US\$ 3.70mn in 2012. ▪ Has natural advantage of climate condition, soil with high yield from the central highlands. ▪ Investments encouraged in companies for developing coffee value chain, ensure food safety, improve distribution system and branding 	<ul style="list-style-type: none"> ▪ Grown in provinces like Daklak, Lam Dong, Daknong, Gia Lia, Dong Nai.
Tea	<ul style="list-style-type: none"> ▪ New technology in tea plantation and cultivation invited. 	<ul style="list-style-type: none"> ▪ Phu Tho province, soil is good for tea plantation

Aquaculture

- ★ Vietnam's landscape provides natural opportunities for the fishery industry, a coastline of over 3,444 kilometres, 2,860 rivers and more than 3,000 islands and islets offshore. In 2010, fish production contributed 10.14% to the country's GDP. According to Vietnam Association of Seafood Exporters and Producers (VASEP), Vietnam's seafood export value rose 19 percent and export turnover stood at approximately US\$ 7.22bn in 2014. The bulk of Vietnam's exports are bound towards Japan, Taiwan, South Korea, Hong Kong, China, the EU and the US. Top export products include fishes, crustacean, tuna, frozen shrimp, pangasius and molluscs.
- ★ Vietnam's fishing industry attracted more than 70 FDI projects from 18 countries amounting to US\$ 310 mn. Despite the investments, there is still unfulfilled potential.

- ★ The Mekong River Delta in the south and the Red River Delta in the north have been used for wild catch fishing as well as extensive fish farming. The Mekong River Delta, one of the most productive fishery zones, covers an area of about 40,000 square km. In addition, there are about 4,200 square km of rivers, lakes and other natural bodies of water further inland in the region.
- ★ Vietnam imports large volume of seafood products for export processing because of lack of due to limited production from domestic sources. According to VASEP, Vietnamese seafood export enterprises registered a 73 per cent year-on-year increase in unprocessed seafood imports to US\$ 720 million in 2014.
- ★ In the future, domestic enterprises in Vietnam are expected to import more unprocessed seafood as the Trans Pacific Partnership (TPP) agreement is to be signed by TPP member countries. Huge potential lies for Indian seafood processing companies to establish value chain in exploration, processing and trade units in Mekong Delta region.

Seafood Processing

Challenges for Vietnam	Opportunities for India
<ul style="list-style-type: none"> ▪ Fishmeal and fisheries processing facilities are limited ▪ Uncontrolled quality of feed, antibiotics and chemicals in the market ▪ Non branded market ▪ Weak network between countryside markets and traditional markets and subsequent connectivity with supermarket chains 	<ul style="list-style-type: none"> ▪ Exploit & utilize 100 percent of fisheries reserves; ▪ Urbanization and industrialization has increased standard of living, which will contribute to expansion of domestic market; ▪ Tourism development will create great potential for high grade seafood products; ▪ Good export market.

- ★ Indian seafood processing companies can take benefit of several incentives for investments, credit, insurance and preferential tax available for organizations operating in fisheries sector. These tax incentives include tax exemptions for natural marine resource extraction, excise exemptions for aquaculture farming and fishery logistic services and offering free land and water use for aquaculture and seafood production, among many others. In addition, income tax exemption will also be available to and businesses earning incomes from fishing activities can import machinery, equipment, raw materials and components duty free which cannot be produced domestically.

3.2. Secondary Sector

Manufacturing

- ★ Rising costs throughout the Asian region and in China particularly, are driving businesses to look elsewhere for their sourcing partners. The state of manufacturing in Vietnam today closely parallels that of China ten or more years ago-when low-wage, low-tech, low-added value manufacturing acted as a magnet for FDI into the country.

Potential in Select Manufacturing Related Industries

Sectors	Potential	Remarks
Auto components	<ul style="list-style-type: none"> ▪ Currently in Vietnam, spare parts needed for domestic manufacturing are mainly imported; ▪ For instance, 60-70 percent components for buses are not made in Vietnam, while the proportion is 90 percent for cars; ▪ Vietnam manufactures about 70,000 cars per year and has to spend roughly US\$ 80 billion in importing components; ▪ India has been now recognized as a global player in the auto-component industry; ▪ Opportunities exist to diversify into this market by setting up manufacturing units. 	<ul style="list-style-type: none"> ▪ According to a strategy approved by the Government in July 2014, local automobile firms will produce 227,500 cars by 2020, 237,900 by 2025 and 1.5 million by 2035.
Electronics	<ul style="list-style-type: none"> ▪ The electronics industry has seen remarkable growth over the past few years (20-30 percent per year), especially in 2011 (96 percent); ▪ Many foreign IT giants have expanded their operations in Vietnam such as Intel, Samsung Electronics, Canon and HP; ▪ In 2012, the export value of electronics products amounted to over US\$ 22.90 billion, accounting for 18 percent of the country's total export revenue. 	<ul style="list-style-type: none"> ▪ The consumption tendency of Vietnamese people has increased in both quantity and quality. Products of higher value and more utilities are favoured by Vietnamese people; ▪ According to the Vietnam General Statistics Office, the export revenue from mobile phones, computers and components reached about US\$ 20 billion in 2012 out of the country's total export value of US\$ 114.5 billion.
Assembling and manufacturing of agri machineries	<ul style="list-style-type: none"> ▪ With the country giving greater importance to agri sectors, assembling and manufacturing of the agricultural machineries and farm implements are potential areas to be explored for investment. 	-
Tyres (Rubber)	<ul style="list-style-type: none"> ▪ India is the world's 4th largest producer and 2nd largest consumer of natural rubber; and the 3rd largest consumer of all the rubbers put together. ▪ The consumption of synthetic rubber has been increasing at more than 20 per cent for the past 5 years; ▪ Vietnam's rubber manufacturing industry is expanding almost 30 percent a year. In 2013, manufactured rubber products like tyres, spare parts and shoe soles generated in US\$ 1.10 billion of export turnover; ▪ 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 Vietnam. ▪ Vietnam has plans to increase the domestic consumption of rubber from the current 15 	<ul style="list-style-type: none"> ▪ As of 2014, Vietnam has nearly 1 million ha of rubber trees. ▪ Domestic rubber companies also planted about 157,700 ha in foreign countries, including approximately 94,600 ha in Cambodia and about 63,100 ha in Laos. ▪ Southeast and Highland areas, are the largest rubber producing region in Vietnam.

Sectors	Potential	Remarks
	percent to 40 percent through a sharper focus on rubber products manufacturing.	
Leather/Footwear	<ul style="list-style-type: none"> ▪ Turnover of footwear export is estimated to increase by 23 percent as compared to last year, gaining up to US\$ 1 bn. The production of shoes and sandals in January 2015 reached approx. 20 million pair; ▪ Indian companies can take advantage of preferential trade agreements. 	<ul style="list-style-type: none"> ▪ Investments in support and value addition industries are encouraged. Government is also encouraging diversification of material sourcing, research based companies, and value addition to exported products.
Textile	<ul style="list-style-type: none"> ▪ Huge investment opportunities for setting-up textile support industries in Industrial Parks based in Provinces, namely; Pho Noi, Hung Yen and Nan Dinh; ▪ Vietnam Investment JSC (Vinatex) is developing exclusive textile park in Nam Dinh province. Nam Dinh textile park; <ul style="list-style-type: none"> - The land can be acquired (100 hectares) on a 50 year lease at a cost of US\$ 30 per sq. meter for setting up of garment manufacturing units - Phu Tho Province is another hub for textiles sector. ▪ Phu Bai Industrial zone in Hue is exploring investment opportunity to setup a textile zone 	<ul style="list-style-type: none"> ▪ Vietnam in talks to sign FTA with EU and TPP with the US; ▪ Industries offering environmental protection measure and scientific & technological solutions are encouraged. ▪ However the Government is not in favour of having textile units around the major cities – Hanoi, HCMC, etc. – as they are now considered as polluting industries; ▪ Garment industry is an exhausted sector. Potential exists for setting up spinning & dyeing units for making yarn.
Food processing	<ul style="list-style-type: none"> ▪ Demand for processed and packaged food would continue to rise because of the ongoing urbanisation, young and growing population, increasing incomes, and modern retail structures; ▪ Processed foodstuff and beverage is one of the major industries of Vietnam, accounting for nearly 37 percent of GDP; ▪ The Vietnamese processed foodstuff industry is now one of the world's top 10 sectors for export revenue. Vietnam has penetrated the three biggest markets in the world: EU, US and Japan. Exporting capacity and potential of this industry is promising. Consumers in the world are deeply impressed with Vietnamese processed food products. 	<ul style="list-style-type: none"> ▪ Development of the processing industry has greatly impacted upon other sectors and industries in society. Particularly the processed foodstuff industry has contributed to increase export revenue, foster business interfacing, and enhance diplomatic relationships between Vietnam and many countries. High growth of this industry has meant a remarkable contribution to Vietnam's economy and labor structure nationwide; ▪ In recent years, the processed foodstuff industry has made considerable advances.
Salt	<ul style="list-style-type: none"> ▪ Good scope for industrial salt manufacturing for FMCG companies in Vietnam. ▪ Manufacturing for selling in retail market is restricted. 	<ul style="list-style-type: none"> ▪ Northern and Coastal Vietnam, Coast south of Nha Trang, Ha Long Bay
Brewery Containers/Packaging	<ul style="list-style-type: none"> ▪ Rapid development of food processing, beverage, and pharmaceutical industries is being experienced by the 90 million 	<ul style="list-style-type: none"> ▪ A huge retail opportunity is on the anvil with disposable income poised to increase;

Sectors	Potential	Remarks
	<p>population of the country, offering opportunities for packaging manufacturers;</p> <ul style="list-style-type: none"> Many recent foreign direct investment projects are in the fields of food processing, beverages, cosmetics, and medicines, offering much opportunity for the industry. 	<ul style="list-style-type: none"> Likes of Coke and Pepsi are there. Largest is Dr. Tan. McDonalds has opened 3 outlets, while Starbucks have entered the market.
Plastic	<ul style="list-style-type: none"> The plastic manufacturing industry is one the fastest growing industries in Vietnam, sustaining average annual growth of 20 percent to 25 percent. The plastics sector is aggressively promoted by the Vietnamese government. It aims to achieve sufficient supply of home-produced raw material through resin production facilities. In parallel, the government issued a blueprint for developing supporting industries such as mold-making, plastic recycling, chemistry and machinery supply. Modern manufacturing equipment such as: calendaring and coating, extrusion moulding, injection moulding, extrusion blowing, laminating and printing lines have basically met plastics production for end-user consumption in industries such as, construction, packaging, and engineering sectors. 	<ul style="list-style-type: none"> Plastic products were one of the fastest growing exports in Vietnam in the last few years and have great potential to perform well on the international market.

Opportunities in Textile industry from Trans-Pacific Partnership Agreement

- ★ Textile industry has been the most developed industry in Vietnam for the last 20 years. The industry has grown by approx. 15 percent annually, over the last 2 decades, with the growth rate increasing to 18 percent in the past 3 years. The textile industry registers a turnover of US\$ 28 bn every year of which US\$ 24 bn is exported, majorly, to USA (49 percent), EU (16 percent), Japan (14 percent) and South Korea (8 percent). Additionally, Vietnam is the second largest exporter of textiles to USA, after China.
- ★ Most of the cotton required for garment manufacturing is imported by Vietnam. Of the total requirement of 500,000 tn of cotton p.a., domestic supply is a meager 3000 tn. Almost 25-30 percent of the balance cotton requirement of Vietnam is met by India. Demand for cotton imports is increasing and is expected to reach 1 mn tn by 2025.
- ★ Considering that manufacture of the finished product (garment) is a 4 step process involving procurement of cotton, spinning of yarn, converting the yarn into a fabric and getting the finished product (garment), presently in Vietnam cotton and fabric is imported. Vietnam imports approx. 6.50 bn sq. meters (US\$ 9 bn) of fabric every year of which 50 percent is sourced from China. Only a small percentage of fabric comes from India.

- ★ Considering the above, potential exists for the Indian companies to set up the entire garment manufacturing process in Vietnam. Indian manufacturers may make the fabric in Vietnam (50 percent of which is presently sourced from China) so as to enable export the finished products to countries like the EU and USA.
- ★ With its advantage of cheap labor, Vietnam is one of the biggest garment and textile exporters in the world. The country is an important manufacturing base of many brands such as Nike and Adidas.

Trans-Pacific Partnership Agreement and 'Yarn Forward' Rule

- ★ The TPP is a free trade agreement currently being negotiated by 12 countries including the US, Australia, Malaysia, New Zealand, Singapore, Japan, Mexico, and Vietnam. The yarn-forward rule, under the TPP, requires that the yarns, fabrics and final garments exported within the TPP are produced in TPP countries.
- ★ 'Yarn forward' ROO (Rule of Origin), requires the TPP nation (USA) to use a TPP member (Vietnam) produced yarn in textiles in order to receive duty-free access. The 'Yarn forward Rule' is a basic policy that has been part of every U.S. textile trade agreement.
- ★ However, Vietnam is opposing / trying to abandon the historic rule ('Yarn forward') so that they are allowed to buy imported fabrics (against manufacturing the same locally), transform them into garments and ship them into the U.S. duty-free. This isn't allowed in any current U.S. free trade agreement and is the major sticking point for U.S. textiles.

Opportunity for Indian Textile Industry in the TPP Agreement

- ★ Ever since Vietnam started negotiating the TPP, many foreign investors have announced they would increase their investments into the country's garment and textile industry to enjoy duty-free exports to the US market and other TPP member states.
- ★ In the last few years, Vietnam has been especially sensitive to Chinese economic and trade predominance. The trade balance between Vietnam and China has consistently been in China's favour, and Vietnam's trade deficit with China has ballooned.
- ★ That is an important reason why the TPP is significant in Vietnamese eyes. The TPP has been regarded as a means for securing Vietnam's economic interests vis-à-vis China. Considering that China's size, geographic proximity, and mercantilist policies will harm Vietnamese economic development, the country is strategically looking at India to replace its dependence of fabric imports from China.
- ★ Additionally with the TPP, Vietnam may be able to compensate for its trade deficit with China through a surplus in trade with TPP members, especially the U.S. It could also have a spill-over effect in the form of deeper cooperation in areas such as intellectual property, services and investments. That suggests TPP membership is the best bet for Vietnam at the moment, helping it to expand its export market and chances of indirectly mitigating the unfavourable trade balance vis-à-vis China, while Indian textile manufacturers take the opportunity to enter the Vietnamese market catering to the entire textile value chain.

3.3. Tertiary Sector

Opportunities in Information Technology

- ★ IT / ITES is a focus of the Vietnamese Government and is a big sunrise industry here.
- ★ The Banks run on Indian IT systems and the Big Four (Wipro, Infosys, TCS, HCL) 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.

Opportunities in Healthcare

- ★ With 76 per cent of the population being insured in Vietnam, the country offers good opportunity for the healthcare sector.
- ★ Most hospitals are government owned. Several provinces are looking for funds in private and public collaboration. Japan, Cuba, Sweden have funded development of hospitals through ODA route.
- ★ Per person expenditure on drugs in Vietnam is around US\$ 30-35 a year.
- ★ Hanh Phuc Hospital is looking for expansion of existing hospital.
- ★ Opportunity for setting up Nursing school, enabling soft skill development and training.

Opportunities in Hospitality

- ★ Rising tourist arrival, large coast line, robust trading performance makes Vietnam an emerging location for investments in hotels & resorts. Opportunities can be explored for setting up Luxury resorts along the coast line, budget hotels around urban areas and reviving sick hotels.
- ★ Hue city and Tha Nang are big tourist destination in Vietnam. Potential also exists in establishing hotels and resorts, sports and entertainment complexes.
- ★ In Central Vietnam, Hanoi, Halong Bay & Danang and Bin Thuan province in South hold potential for such investments.

4. INFRASTRUCTURE OPPORTUNITIES

Besides large scale development projects India could also consider exploring prospects in following areas:

4.1. Roads

- ★ The distribution of passenger traffic by types of transport shows that roadways and water ways are preliminary modes of transport constituting 99 percent of the passenger traffic.
- ★ Vietnam is planning to modernize its transportation infrastructure by building thousands of kilometres 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 scout for opportunities on a BOT basis across the following sections:
 - North – South expressway: Two routes with total length of 3,262 km
 - Central region – Western highlands expressway: Three routes with total length of 264 km
 - Northern expressways: Two routes around Hanoi capital region with total length of 324 km

4.2. Power

Power generation and transmission

- ★ The total installed capacity of the country was 7,000 MW (2012) and the power generation was 130 billion KWh (2012). At present, Electricity of Vietnam (EVN), a state owned enterprise, which reports directly to the Prime Minister, has 47 percent share of the installed capacity in Vietnam and holds a monopoly on electricity transmission and distribution.
- ★ In line with increase in GDP and economy, the seventh national power development master plan envisages an installed capacity of ~50,000 MW by 2020 and ~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\$ 5-8 billion on an average per year with ~65 percent investment for power generations and remaining for power grid.
- ★ The source wise break up of power generation envisioned as per the seventh national power development master plan is as follows.

Sector	2012	2020
Coal	17%	54%
Gas / Oil	33%	20%
Hydro	46%	19%
Others	4%	7%

- ★ Due to unavailability of large land parcels (required for hydro), it is likely that traditional sources like coal and gas would dominate the power scenario by 2020. Only after achieving the power requirement in 2020, focus would be given to non-conventional energy sources. Hence, Indian players could consider establishing thermal power plants of the accumulated capacity of 400 MW.

Rural electrification

- ★ Development of localized grid to power rural areas.

4.3. Education

K 12 Education

- ★ Development of International schools in HCMC, Ha Noi and Hoa Lac province.

Higher Education

- ★ International Campus Universities in the field of Engineering & Management in Ha Noi and HCMC province.

4.4. Healthcare

Secondary Healthcare

- ★ Hospitals in the top tier cities like Ho Chi Minh City and second tier cities such as, Ha Noi, Phu Quoc, etc.

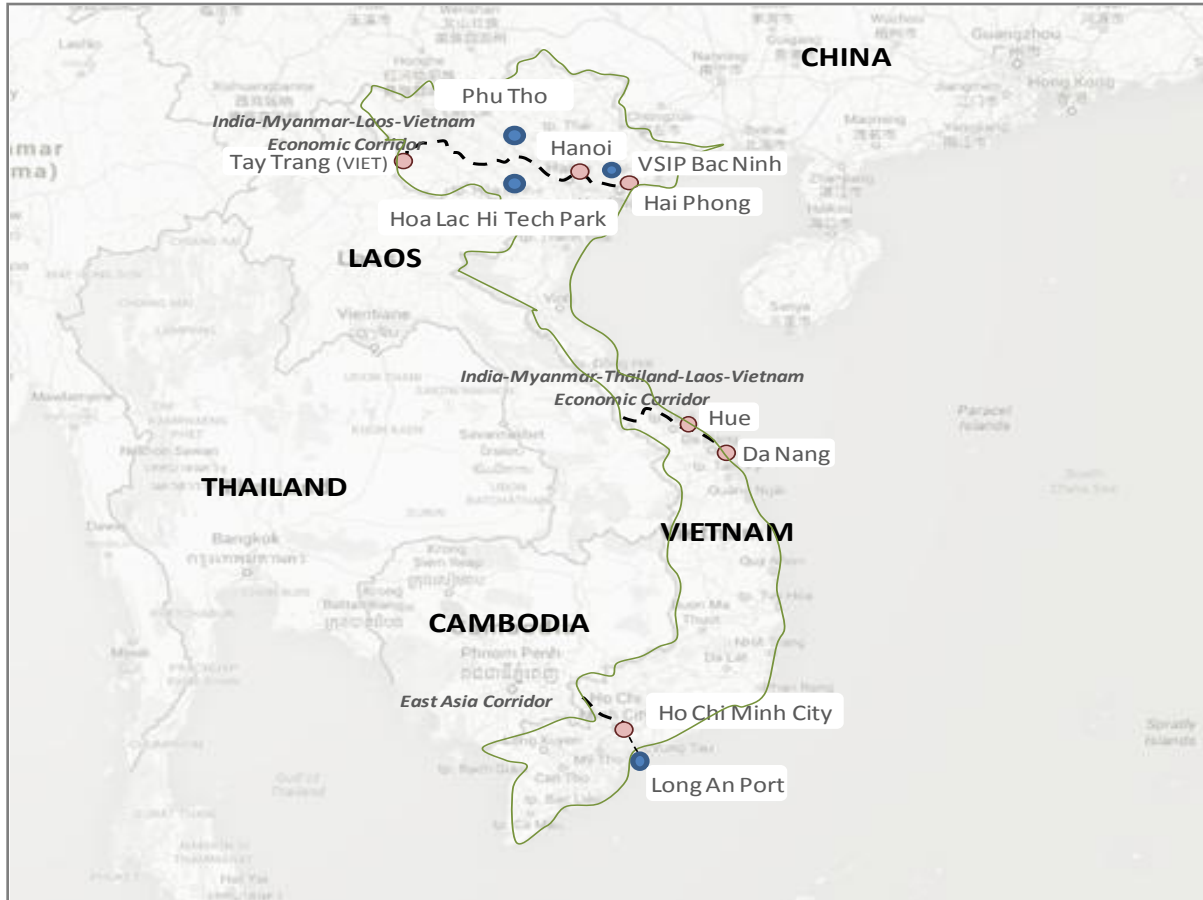
Tertiary Healthcare

- ★ Hospitals in the top tier cities such as Ho Chi Minh City, Ha Noi etc.

5. ECONOMIC CORRIDORS

Vietnam forms the eastern boundary of CLMV region with the South China seacoast marking the end of the stretch of corridors which begins at the North of the CLMV region in Myanmar.

Sections of Economic Corridors at Vietnam



Tay Trang-Hai Phong Section

- ★ Development of the Tay Trang-Hai Phong Section is recommended.
- ★ The corridor enters Vietnam through Tay Trang near the border with Laos, moves through towards Hanoi, and finally finishes at Hai Phong.
 - The two growth nodes are **Hanoi** and **Phu Tho / Bac Minh Industrial Zone**
 - Establishment of Brownfield investment at one of the two provinces to facilitate Indian investments in the following sectors:
 - Garment and textile
 - Leather and footwear

I. Hanoi

Due to its proximity to Hanoi, Hoa Lac Hi-Tech Park is emerging as attractive investment destination. The presence of Hanoi National University and high early stage occupancy (>90 percent) of the

Education Zone at Hoa Lac Hi-Tech Park indicates that the surrounding sub-region shall develop as an educational hub of the country.

▪ **Hanoi National University**

- ★ Spread over 1,113.7 Ha
- ★ Currently over 30,000 students are enrolled in various courses
- ★ Capacity to be increased to ~100,000 students by 2050

▪ **Hoa Lac Hi-Tech Park**

- ★ Spread across an area of 1,586 Ha
- ★ Education Hub spread over 108 Ha and high occupancy of >90 percent
- ★ Major functioning zones include R&D, Hi-tech industrial zone, Software Park and Services zone
- ★ Ancillary zones include centre zone, housing for workers, residential & office zone and recreational zone

▪ **Target sectors:**

- ★ IT and ITES
- ★ Automotive parts
- ★ Bio tech
- ★ New materials

▪ **Development Focus**

- ★ Establishment of Education hub with opportunities for Indian universities offering courses across various streams
- ★ Partnership with Hoa Lac Hi-Tech Park to facilitate investments from Indian companies.

II. **Phu Tho Industrial Zone**

- ★ Strategically located on the Hai Phong-Hanoi-Kunming economic corridor
- ★ 50 km from Noi Bai International Airport, 170 km far from Hai Phong seaport and 200 km from China

▪ **Presence of 7 industrial parks**

- ★ Ho Hoa Industrial Park
- ★ Cam Khe Industrial Park
- ★ Tam Nong Industrial Park
- ★ Phu Ha Industrial Park
- ★ Phu Ninh Industrial Park
- ★ Thuy Van Industrial Park
- ★ Trung Ha Industrial Park

III. **Bac Minh Industrial Zone**

- ★ Located about 20 km from Hanoi.
- ★ Integrates commercial and residential facilities with industrial park development
- ★ Bac Minh lies on the major traffic artery linking Vietnam and China – which is a strongly growing link and expected to be larger as the China - ASEAN free trade area is formed.

Quang Tri-Hue-Da Nang Section

- ★ The East-West corridor enters Vietnam through the city of Quang Tri, moving through Hue and finally ending at Da Nang.
- ★ The following are the growth nodes:

Quang Vinh industrial zone

- ★ 150 acres industrial zone developed by the People's Committee of Hue
- ★ Focus sector: Textile
- ★ Investment rationale:
 - Saturation of North and South Vietnam in terms of textile industries
 - Low labour cost in comparison to major textile hubs
 - Integration with East-West Corridor
- **Tourism Node**
 - ★ The Thua-Thien Hue Province is the most popular tourist destination in Vietnam. Many historical buildings are located in Hue, largely a legacy from its time as a capital of the Nguyen dynasty (1802–1945), including the Royal Citadel, the Flag Tower, the Royal Palace, and the Royal Tombs. It displays potential as a tourist hub through development of an integrated tourist complex having amusement parks, hotels, adventure and cultural activities etc.
- **Development Focus**
 - ★ Establishment of a tourist destination at Hue
 - ★ Establishment of an industrial zone at Quang Vinh in partnership with the People's Committee of Hue.

East Asia Corridor

- ★ This corridor enters Vietnam through the international border gate of Bavet, making its way through Ho Chi Minh City and ending at the Long An Port.
- ★ Following growth node is recommended for Indian investments

Long An Province

- ★ Key Province in the Southern Key Economic Zones that connects Ho Chi Minh City to the North, some Mekong Delta provinces in the South, Cambodia in the west and the East Sea in the East
- ★ Good Connectivity:
 - 4 national roads
 - 2 Highways which go through provincial areas
 - 70,000 DWT sea port in Soai Rap.
- ★ Heavily industrialized province with the presence of 28 industrial zones and 29 industrial clusters
- **Development Focus**
 - ★ Construction of Food Logistics Centre at Dong Thap Muoi Region in Thanh Hoa on PPP basis;
 - ★ Development of high-tech agricultural manufacturing area in Thanh Hoa on PPP basis.

F. OVERALL PROSPECTS IN THE CLMV REGION

Scope for India's Involvement to Enter CLMV

Policy & Strategy Advisory	<ul style="list-style-type: none"> • Defining policy frameworks and policy advisory. • Focus on implementation of policy reforms. • Strategic advisory to safeguard the national interests of each country and maintain regional balance of power.
Financial Support	<ul style="list-style-type: none"> • Investments in essential development projects. • Credit lines to facilitate development project execution. • Facilitating sourcing of funds from multilateral agencies. • Development aid and grant funds for critical sectors.
Technical Assistance	<ul style="list-style-type: none"> • Creation of institutional infrastructure which serve as enablers of economy. • Operational support in implementation of projects. • Determining bureaucratic structures essential for development.
Private Investment Promotion	<ul style="list-style-type: none"> • Direct investments by private players across various sectors • Greenfield investments in manufacturing, production etc. • Brownfield opportunities including acquisitions, partnerships and alliances

Given the diversity of scope, a well structured approach is required to maximize mutual benefits of Indian involvement across the countries. Hence, a phased approach for Indian involvement is recommended. The CLMV countries offer a combined investment potential of US\$ 23 bn across identified projects. In order to effectively capitalize on the opportunities available it is essential to analyze them while taking into consideration the following determinants, like physical infrastructure, policy, investment considerations, etc.

Physical Infrastructure

- ★ Low existing Infrastructure
- ★ Development plans of various entities such as
 - Local governments
 - Multi-country entities – ASEAN, ADB, WB
 - Foreign Governments

Policy

- ★ Regional policies and constraints specific to new cross-regional developments
- ★ Country specific policies including the local governments' acceptance of the proposed projects

Investment Considerations

- ★ Investment capability of all the stake holders including the development agencies, local governments, aid agencies / financing agencies etc.

A detailed feasibility analysis based on the above factors shall frame a clearer picture for the path ahead in terms of:

- ★ Areas wherein immediate development steps can be initiated;
- ★ Areas which have already been finalized and shall take time to materialize for example;
 - Policy reforms as part of the Free Trade Agreements coming into effect later
 - Development projects sanctioned and under various stages of construction
- ★ Areas which require diplomatic engagement by the Indian government in terms of lobbying inter alia, for
 - favourable policies / decisions for investments
 - specific infrastructure development projects of strategic nature

PHASE 1

Phase 1 shall focus on initiation of activities for the following:

- Capitalizing on key development oriented projects;
- Creation of an enabling environment for Indian companies to invest

The broader development focus during this phase is to:

- Create vibrancy and buzz among the Indian as well as ASEAN entities;
- Establish footprints across the countries;
- Understand the regional way of working.

In addition, incubation of projects for later phases should also be undertaken.

In the subsequent phases, focus should be on furthering India's larger strategic plans and intensifying Indian trade and investments across the region. Based on the learning from Phase 1, the corridor development strategy may be redefined with suitable adjustments to investment capital may be required. Large scale infrastructure projects with higher returns and benefits can also be targeted during these phases.

DETERMINANT 1: PHYSICAL INFRASTRUCTURE

Physical Infrastructure shall influence the action plan of PDC in terms of corridor development and specific opportunities at various nodes. The following map indicates the development status of various sections of the proposed corridors:

Development Status of the proposed Economic Corridors



Physical Connectivity

- ★ The initial focus shall be on timely completion of existing projects under construction and non – existing sections of the proposed economic corridors. Strengthening the developed sections of the corridor shall be pursued post completion of basic corridor.

Growth Nodes & Specific Opportunities

While the identification of growth nodes is based on merits of the region and alignment with corridor approach, specific opportunities are identified based on the advantages of the investments. The phasing varies across the character of development

- ★ Small scale development projects, which aim at enabling corridor growth, are taken up in an earlier phase;

- ★ Large scale developments such as Industrial Zones and Power generation are expected to be developed across the phases with initial phases

DETERMINANT 2: INVESTMENT CONSIDERATIONS

- ★ The CLMV countries fall in the lower strata of development and provide significant potential for infrastructure growth. The total investments required for development of infrastructure in these countries over the next 5 years as a percentage of the GDP is provided in the table below⁸:

All figures in US\$ bn	2016f	2017f	2018f	2019f	2020f
CAMBODIA					
GDP	20.1	22.0	24.0	26.3	28.7
Expected 2016-20 Infra Spend	8.71% = US\$ 10.5 bn				
LAOS					
GDP	14.1	15.5	17.3	18.7	20.4
Expected 2016-20 Infra Spend	13.61% = US\$ 11.7 bn				
MYANMAR					
GDP	82.2	91.4	101.5	111.9	124.7
Expected 2016-20 Infra Spend	6.04% = US\$ 30.9 bn				
VIETNAM					
GDP	219.4	238.8	259.0	281.4	305.7
Expected 2016-20 Infra Spend	8.12% = US\$ 105.9 bn				

- ★ The huge infrastructure growth requires commensurate investment. However, the low credit ratings of these countries deter funding from international institutions.
- ★ This creates an opportune ecosystem for India to engage with the region by bringing in expertise and finance and utilizing them to meet the infrastructure needs of the countries, while giving priority to mutual benefit over monetary gains.
- ★ In order to identify the projects to be pursued across the phases, it is important to determine the investments required for each of the proposed projects.
- ★ Post the analysis by the above determinants, further short-listing of the projects for execution in phase 1 should be done. Apart from innate financial logic for investment the extent of Indian involvement in the recipient country's larger investment plan shall also impact the decision.
- ★ The proposed size of investments during Phase-I (expected to span over 5 years from 2016-20) and its contribution to the infrastructure investment need per country is given below.

Country	Total Investment proposed (US\$ bn)	Proposed Investment in Phase-I (US\$ bn)	Infrastructure needs 2016-20 (US\$ bn)	Percentage of Total 5 year investment
Cambodia	5.9	2.5	10.5	21.0%
Lao PDR	1.7	0.9	11.7	10.0%
Myanmar	9.3	6.1	30.9	12.0%
Vietnam	5.4	1.7	105.9	1.3%

⁸ Data Source: IMF and Asian Development Bank

- ★ As evident from the table, the extent of Indian involvement varies widely across the countries which are characterized by the following:
 - Cambodia – smaller economy with significant number of commercially attractive opportunities and positive foreigner friendly environment; strategic interest of India
 - Lao PDR – small economy with long gestation opportunities such as mining (*excluded from calculations*) and power
 - Myanmar – Heavy strategic investments in the infrastructure of the country
 - Vietnam – relatively large economy

INDICATIVE ACTION PLAN: PHASE 1

Corridor 1: Mekong-India Economic Corridor

Infrastructure

- ★ Development of deep sea port and industrial estate at Dawei – **US\$ 2,400 mn**

Road

- ★ Up-gradation of road between Siem Reap to Phnom Penh – **US\$ 312 mn**

Railway

- ★ Rail link between Siem Reap to Phnom Penh – **US\$ 600 mn**

Growth Nodes

- ★ Cambodia
 - Kampaung Cham –Industrial zone – **US\$ 240 mn** (Phase-I)
 - Siem Reap – Tourism & Hospitality Cluster – **US\$ 25 mn**
 - Koh Kong – Eco-tourism Destination – **US\$ 6 mn**
 - Kampot, Kandal and Kep – Eco-tourism Destination – **US\$ 9 mn**

Corridor 2: India-Myanmar-Thailand-Laos-Vietnam Economic Corridor

Roads

★ **Myanmar:**

- Aizawl – Sittwe through Kaladan Multimodal Project (Ongoing project – expected to be completed by 2016)
- Development of Sittwe – Yangon Economic Corridor – **US\$ ~580 mn**
- Development of road from Sittwe to Meiktila – **US\$ 500 mn**

★ **Vietnam**

- Development of road from Hue to Da Nang – **US\$ 130 mn**

Growth Nodes

★ Lao DPR

- Vientiane – Secondary and Tertiary Healthcare, Higher Education Institutes – **US\$ 72 mn**
- Champasack – Secondary Healthcare and Higher Education Institutes – **US\$ 62 mn**

★ Myanmar

- Thandwa – Deep Sea Port – **US\$ 1,200 mn**
- Thilawa / Thandwa – Special Economic Zone Phase II Development – **US\$ 240 mn**
- Ngapali Beach / Chuang Tha Beach: Tourist Destination – **US\$ 36 mn**
- South Bago: Knowledge City and Medicity – **US\$ ~120 mn** (in Phase – I; US\$ 1,100 mn overall)
- Yangon: Housing and Life spaces – **US\$ ~260 mn**

★ Vietnam

- Hue – Tourism & Hospitality Node – **US\$ ~120 mn**
- Quang Vinh – Industrial Zone – **US\$ ~120 mn**
- Thanh Hoa – Logistics and Agri production hub – **US\$ ~120 mn**

Corridor 3: India-Myanmar- Laos-Vietnam Economic Corridor

Road

★ Lao PDR

- Up-gradation of road from Oudoumxay to Taytrang – **US\$ ~ 145 mn**

★ Myanmar

- Tamu – Kalewa – Kalemyo (TKK) road link (Ongoing project – expected to be completed by 2018)

Growth Nodes

★ Myanmar

- Development of dry port at Sagaing – **US\$ 30 mn**

★ Vietnam

- Ha Noi – Industrial Zone near Hoa Lac Hi Tech Park & Greenfield Education Hub in vicinity – **US\$ 740** (in Phase – I; US\$ 2,600 overall)
- Ho Chi Minh City: Secondary and Tertiary Healthcare centers – **US\$ 120 mn** (US\$ 240 mn overall)

Power

Cambodia

- ★ Ratanakiri to Mondulkiri: Power Transmission of 230 kVA – **US\$ ~50 mn**
- ★ Ratanakiri to Kong Tum: Power Transmission of 500 Kva – **US\$ ~20 mn**
- ★ Wind Energy Projects with capacity of 50 MW – **US\$ 85 mn**
- ★ Hydropower projects with capacity of 550 MW – **US\$ 425 mn** (in Phase-I; US\$ 935 mn overall)

Lao PDR

- ★ Northern Lao: Thermal Power Plant of 200 MW – **US\$ 200 mn**
- ★ Mekong River: Hydropower Plant of 500 MW – **US\$ 340 mn** (in Phase-I; US\$ 850 mn overall)
- ★ Luangnamtha to Aizawl via Thazi 230 kVA – **US\$ 20 mn** (Lao section only)

Myanmar

- ★ Hydropower generation 500 MW – **US\$ 170 mn** (US\$ 680 mn overall)
- ★ Luangnamtha to Aizawl via Thazi 230 kVA – **US\$ 210 mn** (Myanmar section only)

Vietnam

- ★ Thermal Power Plant of 400 MW – **US\$ 100 mn** (in Phase-I; US\$ 500 mn overall)
- ★ Ratanakiri to Kong Tum: Power Transmission 230 kVA – **US\$ ~160 mn** (Vietnam Section only)

Specialised Development Projects

Cambodia

- ★ Rural Electrification – **US\$ 425 mn**
- ★ Development of water supply plants and sewage systems – **US\$ 200 mn**
- ★ IT opportunities – **US\$ 150 mn**
- ★ Tourism opportunities - **US\$ 15 mn**

Lao PDR

- ★ Development of Skill Development Institutes – **US\$ 3 mn**
- ★ Development of resort and eco-tourism sites – **US\$ 15 mn**

Myanmar

- ★ Low cost housing – **US\$ 10 mn** (in Phase-I, US\$ 100 mn overall)
- ★ Skill Development Centres – **US\$ 2 mn**
- ★ Up gradation of existing power plants (on a case basis)
- ★ Rural electrification (on as case basis)

Vietnam

- ★ Skill Development Centres – **US\$ 3 mn**

INDICATIVE ACTION PLAN: SUBSEQUENT PHASES

Corridor 1: Mekong-India Economic Corridor

Road

- ★ Cambodia
 - Up-gradation of Poi Pet to Siem Reap and from Phnom Penh to Krong Bavet – **US\$ 200 mn**
- ★ Myanmar
 - Myanmar portion of Dawei to Bangkok – **US\$ 65 mn**

★ **Vietnam**

- Development / Up-gradation of road connecting Phnom Penh – Ho Chi Minh City – **US\$ ~70 mn**

Railway

★ **Cambodia**

- Poi Pet to Skun via Siem Reap – **US\$ 310 mn**
- Snoul to Strung Treng – **US\$ 550 mn**
- Bat Doeng to Loch Nich – **US\$ 510 mn**

Growth Nodes

★ **Cambodia**

- Dawei SEZ – **US\$ 300 mn**
- Poi Pet – Industrial zone and Dry Port – **US\$ 12 mn**
- Expansion of Industrial Zone at Kampong Cham – **US\$ 240 mn**

★ **Myanmar**

- Dawei – Port based Special Economic Zone – **US\$ 500 mn**

Corridor 2: India – Myanmar – Thailand – Laos – Vietnam Economic Corridor

Roads

★ **Lao PDR**

- Up-gradation of East West Corridor – **US\$ 150 mn**

Growth Nodes

★ **Myanmar**

- Expansion of Knowledge City and Medicity at South Bago – **US\$ ~970 mn**
- Expansion of Industrial Zone at Thandwa – **US\$ 360 mn**

★ **Vietnam**

- Expansion of Quang Vinh Industrial Zone – **US\$ 180 mn**
- Thanh Hoa: Expansion of Industrial Zone – **US\$ 180 mn**

Corridor 3: India – Myanmar – Laos – Vietnam Economic Corridor

Roads

- ★ Meiktila – Tarlay – Keng Lap (National Road 4-Upgradation and road link till friendship bridge) – **US\$ 490 mn**
- ★ Xieng Kok - Oudomxay (Lao PDR)- Tay Trang (Vietnam) – Ha Noi (Vietnam) road link – **US\$ 560 mn**

Growth Nodes

★ Myanmar

- Kachin – Industrial Zone – **US\$ 120 mn**
- Shan / Bago – Dry Ports – **US\$ 24 mn**

★ Vietnam

- Phu Tho / Bac Minh: Industrial Zone – **US\$ 600 mn**
- Hanoi: Industrial Zone and Education Hub Expansion – **US\$ 360 mn**

Power

★ Cambodia

- Hydropower capacity augmentation – **US\$ 510 mn**

★ Lao PDR

- Hydropower capacity augmentation – **US\$ 510 mn**

★ Myanmar

- Power Transmission extension from Laos to Aizawl via Myanmar – **US\$ 90 mn**

★ Vietnam

- Thermal Capacity Expansion – **US\$ 300 mn**

SUMMARY OF INVESTMENTS INTO REGION

Given below are the tables with details of the proposed investments in the region. Phase-I and Phase-II are spread over 5 years each.

CAMBODIA	Investment (USD mn)	
	Phase I	Phase II
Project Name		
Industrial Zones	240	240
Dry Port at Poi-Pet	0	12
Power Opportunities	362	1,494
Water Supply Plants and Sewage Systems	197	0
IT Opportunities	153	0
Tourism Opportunities	40	0
Road Infrastructure	312	202
Railway Opportunities	0	1,410
Education Opportunities	3	0
Total Cost	1,307	3,363

LAO PDR	Investment (USD mn)	
Project Name	Phase I	Phase II
Power Opportunities	563	510
Healthcare Opportunities	30	0
Tourism Opportunities	15	0
Road Infrastructure	143	306
Education Opportunities	107	0
TOTAL COST	858	816

MYANMAR	Investment (USD mn)	
Project Name	Phase I	Phase II
Industrial Zones	240	780
Dawei Deep Sea Port	2,400	0
Deep Sea Port at Thandwa	1,200	0
Dry Ports	30	24
Power Opportunities	288	773
Education Opportunities	102	900
Tourism Opportunities	36	0
Road Infrastructure	1,651	553
Medicity	19	76
Housing and Residential Opportunities	163	99
Total Cost	6128	3204

VIETNAM	Investment (USD mn)	
Project Name	Phase I	Phase II
Industrial Zones	480	1,320
Power Opportunities	258	300
Education Opportunities	621	1,500
Tourism Opportunities	120	120
Road Infrastructure	130	475
Healthcare Opportunities	80	50
Total Cost	1,690	3,765

G. PROJECT DEVELOPMENT & FACILITATION FRAMEWORK (PDFF)

- ★ While the countries in CLMV region are growing fast, lack of investments in infrastructure will be constraining factor for future growth. These countries have low tax base and the governments lack resources for public funding of infrastructure. Other means of funding are also not available since capital market and banking sectors are not well developed. Traditionally, infrastructure investment in CLMV has been funded largely by the various multilateral agencies including the World Bank, the Asian Development Bank, and other donor organizations, like the Japan Bank for International Cooperation (JBIC), apart from China and South Korea.
- ★ Notwithstanding large investment and trade potential in CLMV region, private Indian companies are reluctant to invest in the region because of infrastructure bottlenecks. The inability of Indian companies to penetrate this market and establish trade and investments linkages on their own have excluded them to capitalize on the opportunities presented by the region in infrastructure and manufacturing sectors. In contrast, China, Japan, Korea, USA, and United Kingdom have been able to capitalize on the bilateral pacts and investment pacts with these countries to build core infrastructure, special economic zones, ports and industrial corridors to benefit their industrial community for business expansion, and maintain cost competitive supply chains, besides integrating with global production networks.
- ★ Given this scenario, it is recommended to initiate a Project Development and Facilitation Framework (PDFF). The primary objective of the proposed PDFF would be to facilitate Indian investments and broaden the manufacturing base in CLMV countries. The framework would seek to design suitable structures to increase physical connectivity and industrial infrastructure to propel Indian investment to the CLMV countries, while at the same time promoting Indian exports. The Indian companies can benefit immensely from various Free Trade Agreements (FTAs) that the CLMV countries enjoy with other advanced countries.
- ★ The proposed PDFF would serve as a major step towards the overall Look East and Act East policy of the Government of India as it is expected to promote India's political, economic and strategic interests in the region. The three pillars of commerce, culture and connectivity are crucial in the bilateral relations of India with South East Asian countries. The proposed PDFF would ensure strengthening of ties in the commerce and connectivity sphere. Implementation of the proposed PDFF would facilitate Indian manufacturing firms to overcome the hurdles being faced by them in CLMV countries and undertake greater outward investment which will help them in integrating with the global production networks, thereby enhancing their market opportunities. It would in effect, help mobilize private capital to help ameliorate development challenges in CLMV countries and in doing so, would advance India's foreign economic policy.
- ★ The PDFF would have three key components, viz. The Project Development Company (PDC), the Project Development Fund (PDF-CLMV) and project-specific Special Purpose vehicles (SPV). These components and their structures are elaborated below:

The Project Development Company

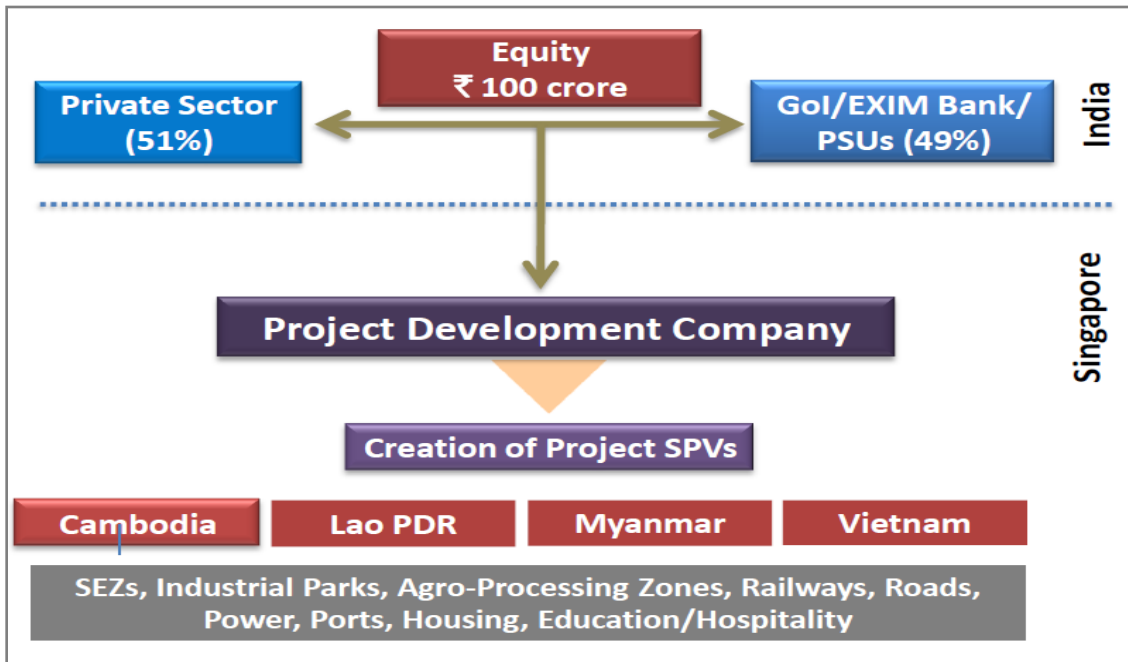
- ★ A privately held Project Development Company (PDC) has been thought through as forming the anchor of the PDFF, helping catalyse India's commercial and strategic interests in the CLMV

region. The PDC will identify investment-worthy zones/regions in these countries and undertake feasibility studies to set up such industrial zones/ centres. While the PDC is proposed to be established as a private entity, Government agencies (including Exim Bank) would also be investing equity in the formation of PDC.

The Equity Structure

- ★ The equity of the PDC is proposed to be in the range of Rs. 100 crore. At this stage, no funding support from the Government of India is envisaged, as the equity would be contributed by the shareholders, which are largely public financial institutions and private corporate sector players. However, Government of India’s support may be required for backing up the concept so that interest could be generated from prospective institutions / corporate houses.
- ★ With a view to bringing in operational flexibility and financial prudence as also attracting efficient manpower, the PDC would be structured as an independent entity managed by its Board. Accordingly, it is proposed that institutions of Government of India should hold less than 50 percent of the equity, with the balance being subscribed and held by Indian private sector institutions having experience and expertise in developing similar ventures.

Structure of the Project Development Company



region, it is estimated that the PDC can incorporate about 10 SPVs in the region during the next 5 years i.e. from 2016-2020.

- ★ Conducting road-shows for investors in the identified projects.
- ★ Providing advisory services to Indian companies willing to invest in CLMV region.
- ★ It will also act as an advisory body to assist Governments in the CLMV countries designing their policies and investment climate and create implementation frameworks for various purposes on need basis.

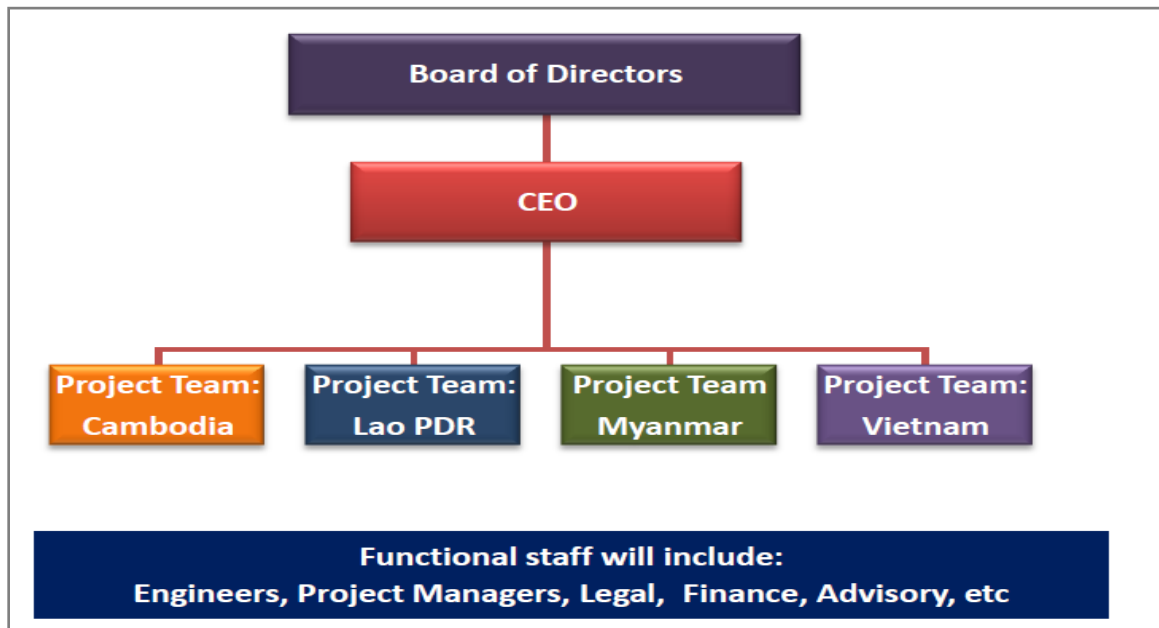
Geography of Incorporation

- ★ It is felt that the Project Development Company be incorporated in Singapore due to the following advantages:
 - Member of ASEAN and trade & investment hub;
 - Strong legal system for enforcement of contractual rights;
 - More tax efficient; and
 - Most of existing investments into the CLMV are presently being routed through Singapore.
- ★ It is also proposed to establish a back-end office in one of the major Metro cities in India to benefit from recruiting personnel at lower costs; easy co-ordination with stakeholders in India and frequent interactions with Indian companies.

Management Structure

- ★ The PDC would be structured as an independent entity managed by a Board with a full-time CEO managing 4 teams dedicated to each of the CLMV countries. Apart from the above, the PDC will have functional staff comprising engineers, project managers, legal and financial experts, advisors, etc.

Management Structure of the Project Development Company



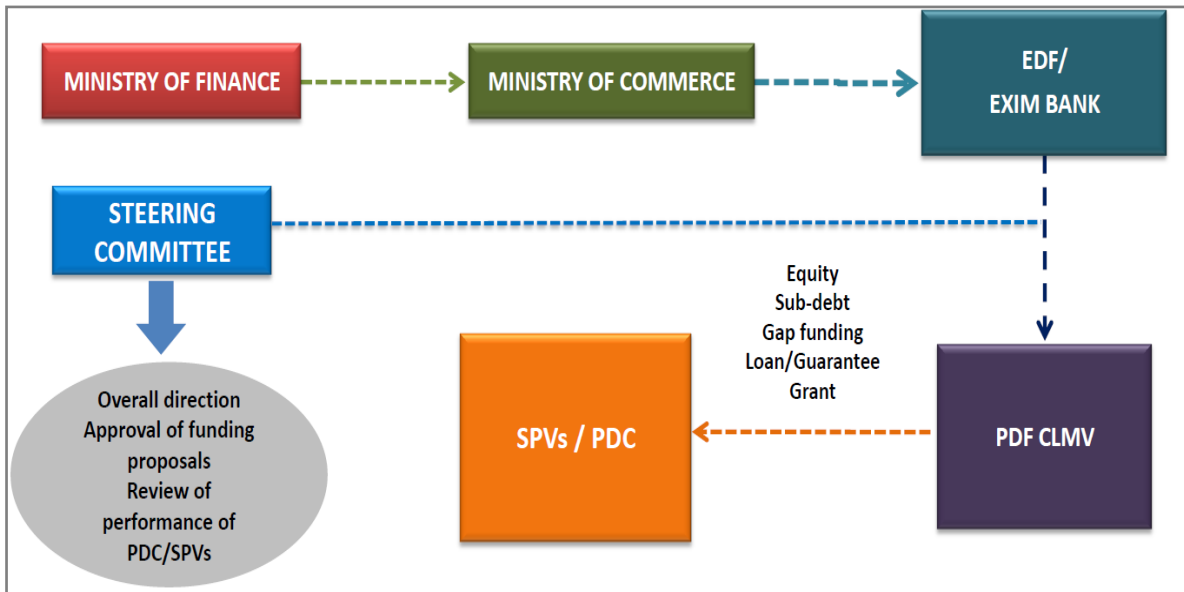
The Project Development Fund

- ★ In line with the 'Act East Policy', the Government of India endeavours to cultivate extensive economic and strategic relations in South-East Asia by way of catalyzing investments from the Indian private sector into this region. Although, the Indian companies are expected to take commercial decisions while investing in this region, there is a need for Government-driven initiative to create adequate support infrastructure in this region to make these investment decisions operationally viable. In view of the above, it is recommended to establish a Project Development Fund (PDF) for the CLMV region (PDF-CLMV), supported by the Government of India. The quantum of fund required for establishing the PDF-CLMV, for the creation of 10 SPVs in the CLMV countries over the initial 5 years is estimated at around USD 1 bn. It is expected that the above investment will create an enabling environment to facilitate investments to the extent of USD 10 billion over the next 10 years.
- ★ The proposed structure of funding from the Government of India is as mentioned below:

Structure of Funding From GoI

- ★ Plugging of infrastructure gaps will be critical for the formation of a manufacturing hub where investments from Indian firms could be forthcoming. This will require substantial amount of funding and necessitates the formation of a "Project Development Fund" (PDF-CLMV).
- ★ The PDF-CLMV would be a Revolving Fund housed in the Ministry of Commerce and Industry, receiving budgetary provisions/grants from Ministry of Finance, and will be routed through the Export Development Fund (EDF) administered by Export-Import Bank of India (Exim Bank) on behalf of the Government of India. As per the Exim Bank Act, the EDF can be used to support such transactions which are considered necessary by Government of India as a matter of priority in the interests of the international trade of the country. Credits into this special fund can be made by way of loans, grants, donations or benefactions from Government of India or any other sources in or outside India.
- ★ The PDF-CLMV will be primarily funding the infrastructure projects identified and assessed by the PDC in the CLMV countries. The projects will be implemented through project specific Special Purpose Vehicles (SPVs) to be incorporated in those countries. The scope of PDF will be funding through equity, quasi equity, subordinated debt, viability gap funding, debt both at concessional rate of interest and/or at commercial terms, guarantees etc. The PDF will also have to reimburse various costs, which may be incurred by PDC/Exim Bank in carrying out diverse project development activities.
- ★ A Steering Committee will be formed with representatives from the Government of India and Exim Bank. This Steering Committee will provide overall direction by way of approvals for funding the proposed SPVs in each of the four countries, while also reviewing their performance.

**Setting up a Project Development Fund and Project Development Company:
 Structure of Funding from Government of India**



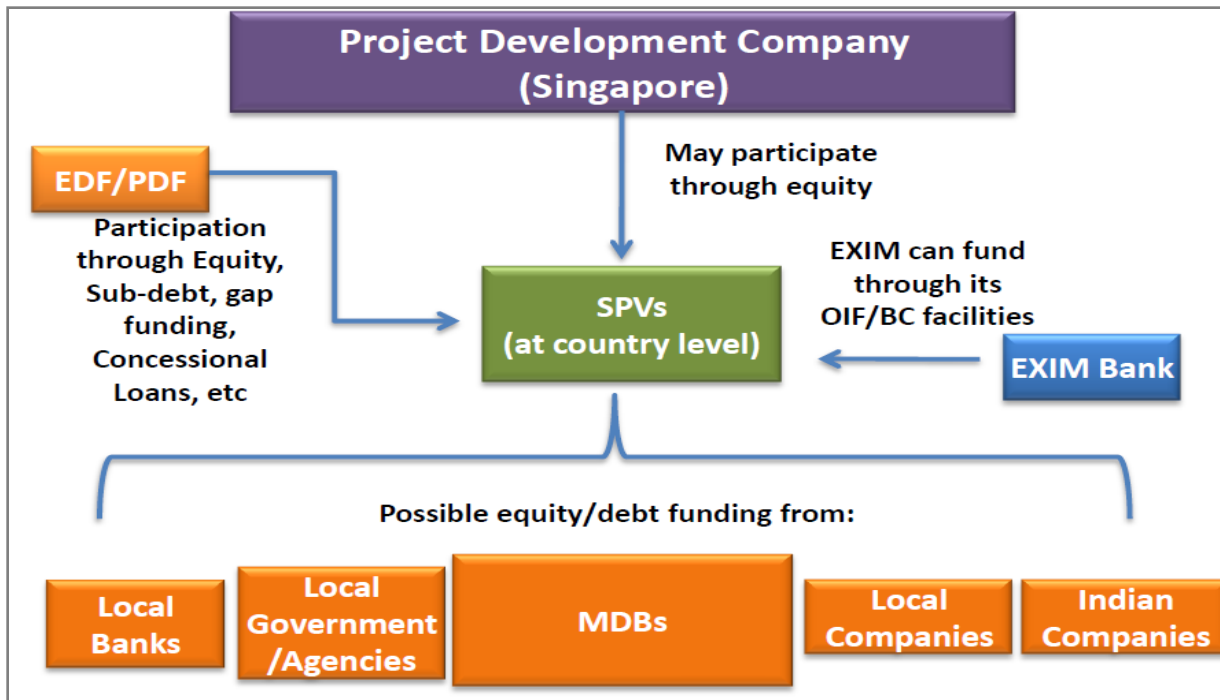
- ★ It is expected that the infrastructure projects will not generate adequate returns in the initial years and the pay-back period of the projects will be very long. Therefore, the PDF would need to be adequately funded, at least for the initial five years. After this period, recycling of fund from existing projects may cater to the needs of future projects. Apart from funding support from the PDF, it is expected that the SPVs will be funded by local bodies, local and foreign banks, multilateral development banks etc. However, given the low credit rating of the CLMV countries, the PDF may have to contribute the maximum towards funding for the initial projects.

Project Specific Special Purpose Vehicles

- ★ One of the major roles of the PDF-CLMV would be to set up country level SPVs in the CLMV region for developing the identified industrial zone projects. The proposed SPVs would acquire already planned SEZs or identify new areas to set up Industrial Parks / Industrial Zones where Indian companies can set up manufacturing facilities.
- ★ The PDF-CLMV (through its Steering Committee) may mandate the proposed PDC to mobilise other partners, such as local Banks / Government agencies / companies in the host country, besides Indian agencies / companies as well as Multilateral Development Bank's (MDBs) for taking up equity or debt in the SPV.
- ★ Additionally, Exim Bank may also participate in the funding of the SPV under its Overseas Investment Finance / Buyer's Credit Programme on a case-to-case basis. Other Indian Banks also can be tapped for financing.
- ★ The PDC will approach the Steering Committee of the PDF for funding in the SPV by way of equity, subordinate debt, concessional loans, etc. For the viability to be achieved, the PDF may also need to contribute in the SPV by way of grants, additional gap funding, etc so as to ensure financial closure of the SPV.

- ★ The role of SPVs at country level will be as follows:
 - Implementation of the project;
 - Liaison with local authorities for approvals etc for smooth functioning of the project;
 - Meeting the needs of Companies setting up the facilities;
 - Maintaining the quality of the infrastructure.

Structure of a SPV



- ★ The local SPV will be incorporated as a foreign private entity and shall work with the local government to seek appropriate approvals and to drive local involvement in the project. The incorporation procedure and investment climate existing in CLMV countries have been detailed in the following sub-sections:

Cambodia

- ★ The SPV in Cambodia can be registered as Limited Liability Company (LLC) by submitting corporate documents at Ministry of Commerce, Cambodia. This procedure normally takes around 3-4 weeks. There is no restriction against establishment of a 100 percent foreign LLC in Cambodia and the foreign LLCs are afforded all the rights and benefits as locally-owned LLC with the exception that it cannot own land. The minimum capital requirement for establishing an LLC is US\$ 1,000 except for certain Qualified Investment Projects (QIPs).
- ★ The investment made by the SPV needs to be registered with Council for the Development of Cambodia (CDC) in order to avail incentives such as profit tax exemptions, special depreciation, import duty exemptions etc. The CDC is proactive in approving investment proposals and procedure will normally around 1-1.5 months in case documentation is complete from applicant's end. However, some investment sectors are restricted or prohibited for reasons of national security and social safety such as production & processing of electricity power using any waste imported from a foreign country, the forestry exploitation business etc.

Lao PDR

- ★ The Investment Promotion Law is the policy framework for investments in Laos. The investments are classified based on the ownership pattern into 100 percent ownership, Joint venture and Business by contract. It is recommended that local PDC is established as either an entity with 100 percent foreign equity investment or a joint venture depending on investment interest expressed by local Companies. It will be registered as general business and enterprise registration certificate (ERC) will be issued by Ministry of Industries and Commerce (MoIC). The ERC is normally issued within 10 days of application in case documentation is complete from applicant's end. Longer period can be expected in case of controlled businesses such as logging, plantation agriculture, certain manufacturing industries, transportation, leasing, education etc due to requirement of additional approval from relevant ministry.
- ★ The SPV in Laos will require special investment approval under the Investment Promotion Law in case of concession related activities or investment in a special economic zone (SEZ). In these cases, an investment application must be made to Investment Promotion Department (IPD) of the Ministry of Planning and Investment (MPI) for a concession registration certificate or at the Provincial Division of Planning and Investment in order to obtain specific investment approval.

Myanmar

- ★ The Myanmar Investment Commission (MIC) is the governmental agency, which administers the Foreign Investment Law (FIL) and co-ordinates with various ministries and organization to facilitate foreign investments in Myanmar. It is recommended that SPV be established as either an entity with 100 percent foreign equity investment or a joint venture depending on investment interest expressed by local Companies. It is single window clearance process but the entire procedure of obtaining a license may take up to 6 months and could be more rigorous than other routes. However, a 5 year tax holiday is offered to investments under this route, which makes it attractive.
- ★ There are activities that are only allowed for foreigners in joint ventures with Myanmar nationals having maximum foreign investment up to 80%. These activities include tourism, special private hospitals, establishing of factories, construction of bridges, manufacturing of raw materials of medicine, pharmaceuticals & drugs etc.

Vietnam

- ★ There exist multiple ways in which a foreign investment can come up in Vietnam such as Direct investment, Wholly Foreign-owned enterprise, Joint venture, Business Cooperation Contract, Merger & Acquisition, Concession, Foreign Contractor, Offshore Investment. It is recommended that local PDC is established either as Wholly Foreign-owned enterprise or Joint venture depending on investment local equity partners. There is generally no minimum capital required from the foreign side. However, the Vietnamese JV partner (in case of Joint venture with local Vietnamese partners) will usually contribute Land Use Rights (LURs), and/or cash, and the foreign investor will usually contribute cash and/or assets.
- ★ The Investment Law (IL) and the Law of Enterprise (EL) of Vietnam provides the policy framework for investments, including those from foreign sources. Foreign participation is allowed in all sectors as specified by the general master plan of the country. Foreign

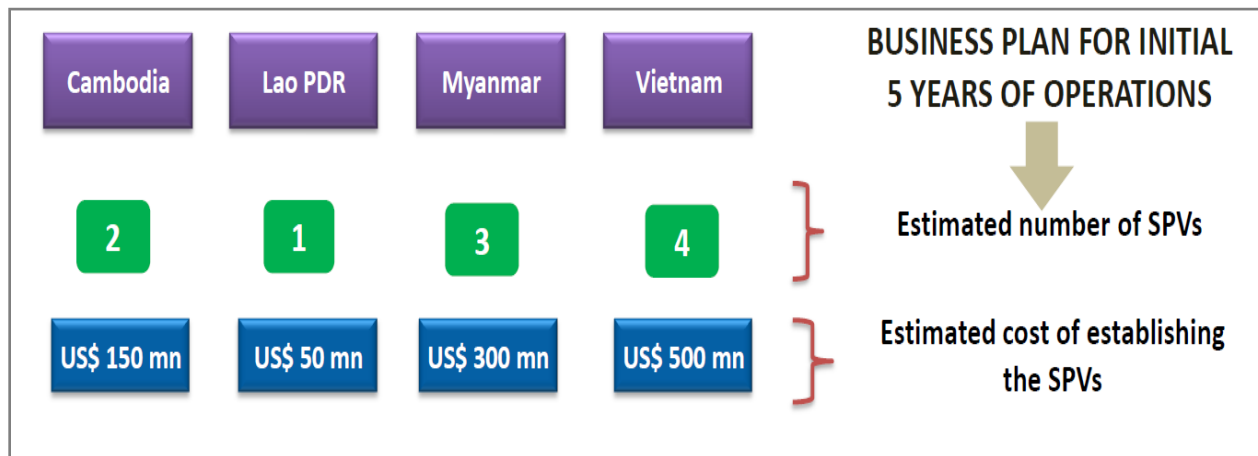
investments are granted approval and are registered as business through the Investment Certificate Issuing Body (ICIB). At present, investments greater than USD 15 mn are subject to evaluation by Ministries. The investment approval procedure normally takes 15 days for general projects and 45 days for projects requiring evaluation by ministries.

- ★ However, there is restriction in foreign capital contributions in certain sectors such as Agriculture, Hunting & Forestry (up to 51%), Mining (up to 51%), Manufacturing (up to 50%) and Maintenance & Repair of equipment (up to 51%).

INDICATIVE FIVE YEAR BUSINESS PLAN OF THE PDC

- ★ Based on the study undertaken, availability of funds and the opportunities available in the CLMV region, it is estimated that the PDC can incorporate about 10 SPVs in the region during the next 5 years i.e. from 2016-2020.
- ★ The quantum of fund required for establishing the PDF to begin with the creation of 10 SPVs in the CLMV countries over the initial 5 years is approximately around US\$ 1 bn. However, the amount can be less if the PDC is successful in garnering funding from other resources.
- ★ It is estimated that the above investment in 10 SPVs will create an enabling environment to facilitate Indian investments to the extent of USD 10 bn over the next 10 years.
- ★ The study recommends that the initial projects to be set up could include establishing a Textile Park in Vietnam (SPV) in one of the identified SEZs in the country upon incorporation of the PDC. The Indian textile companies can set up manufacturing units in the textile park to benefit from Vietnam becoming a member of the TPP. There are already indications from few Indian companies to set up such facilities in Vietnam. Additionally, investments in agro processing and wood processing by way of establishing an Agro Processing Zone in Myanmar, and setting up of a Food Processing Park in Cambodia have also been identified as projects for the PDF-CLMV to take up immediately after incorporation. Establishing the feasibility of such proposals could serve as initial business opportunities for the proposed PDC. In other words, the proposed PDC would undertake mandates from PDF-CLMV to study the feasibility of establishing such exclusive industrial zones for Indian firms, including financial closure of such proposals.

First 5 years Business Plan for the PDC



PHASED APPROACH TOWARDS ESTABLISHMENT OF THE PDFF

- ★ Given the diversity of scope, a well structured approach is required to maximize mutual benefits of Indian involvement across the countries. Hence, a phased approach for Indian involvement is recommended in the Project Development and Facilitation Framework.
- ★ According to estimates of the study, a total of US\$ 21.12 bn infrastructure opportunity is envisaged where PDC can be involved. These infrastructure opportunities includes development of industrial zones, ports, power, water supply and sewage systems, information technology, tourism, road, railways, healthcare and education. In Phase 1, a total investment opportunity to the tune of US\$ 9.98 bn is anticipated, while in Phase 2, the estimated investment opportunity is US\$ 11.14 bn. In order to effectively capitalize on the opportunities available, it is essential to analyze them while taking into consideration aspects like – physical infrastructure, development plans of various entities such as local governments, multi-country entities – ASEAN, ADB, World Bank, and foreign governments, regional policies and constraints specific to cross-regional developments, including country specific policies and the local governments’ acceptance of the proposed projects.

H. POLICY INITIATIVES

- ★ While India has expressed interest in promoting trade and investment across the CLMV countries, for successful implementation of the plans, it is essential that the proposed Project Development Facility also strive for establishment of an ideal policy framework. This will then ensure that investors are not deterred by unnecessary barriers, taxation policies and legal frameworks.
- ★ These policy initiatives taken towards rationalization of activities can be classified in two ways:
 - Initiatives for promotion of trade and investment
 - Development oriented policy initiatives to strengthen existing framework
- ★ While initiatives taken for simplification of trade and investment process show visible benefits in a short time, the initiatives taken for development of framework need time to show improvement. However, these initiatives are also important as they set the tone for relationships between two countries and improve cooperation over a long term period. For example, initiatives taken to ease India's contribution to PPP in these countries would provide assistance to Indian companies to expand their businesses in the CLMV region and contribute to their economy.
- ★ It is important for the evolved policy framework to be transparent and predictable with adequate accountability of the government agencies for their activities. In equal measure, the policy framework should be dynamic and flexible, and provide equal opportunities to all investors.
- ★ Policy Framework needs to be evaluated over the broad heads as given below:

Investment Policy

- ★ The quality of investment policies acts as a key determinant the decisions of domestic and foreign investors. These policies enable the creation of an investment environment which is transparent with adequate property protection and non-discrimination. Measures which can be taken in such reforms are:
 - Securing rights to agricultural & other types of land and reliable property titling to enable the creation of a healthy investment environment;
 - Intellectual property rights are important to drive innovation and research in the economy.

Investment Promotion and Facilitation

- ★ Investment promotion and facilitation measures, including incentives, can be used effectively to attract investments. These however cannot substitute for investment policy measures. Their success is contingent on their ability to correct for market failures and to leverage the strengths of a country's investment environment. A few facilitation measures are as given below:
 - Creation of Investment Promotion Agencies which expedite the process of starting new businesses and act as single point agencies for provision of information, services and approvals. These agencies also help in liaising with the local government. Example of

such an agency is Asia-Africa Investment Technology Promotion Centre (AAITPC) to promote Asian investment in Africa.

- World Association of Investment Promotion Agencies (WAIPA) helps these agencies in advising their governments on the formulation of investment promotion strategies

Trade Policy

- ★ Reduction in trade barriers by forgoing / liberalizing trade policies related to local content requirement, manufacturing requirements can lead to higher quality investment by integration of global supply chains leading to higher productivity and higher return on investment.

Human Resource Development

- ★ Presence of skilled, adaptable and highly productive population is imperative for an investment driven business environment. It is thus critical to have policies aimed at promotion of Human Resource development to garner investments and creation of high productivity environment.
- ★ However, this policy cannot be framed in isolation and need to be linked to countries broader development. A few initiatives in this direction are:
 - Increase participation in basic schooling and to improve the quality of instruction so as to leverage human resource assets to attract and to seize investment opportunities;
 - Mechanisms exist to promote closer co-operation between education institutions and business and to anticipate future labour force skill requirements.

Public Governance

- ★ Transparency in the regulatory system and faith in public sector are critical factors which determine investments in any region. There is no specific framework of public governance but it is important for the government and its agencies to maintain integrity in the system. Public governance can be enhanced by:
 - Laws and regulations developed in an open and transparent fashion with timely inputs from interested national and foreign parties;
 - Administrative simplification and reduction of bureaucracy;
 - Anti-corruption policies and international coordination towards its elimination.

Country Specific Initiatives

- ★ While it is difficult for all the countries to enforce ideal policy frameworks, the proposed project development company can focus on following country specific interventions which can ease the process of investments and trade across the region:

Cambodia

- Cambodia should sign a BIPA with India
- Allowing foreign investors as major stakeholders to acquire land on a freehold basis
- Providing tax holidays for infrastructure investments
- Formulation of PPP framework

- Framing an efficient dispute resolution mechanism for arbitration as per international practices
- Formulation of PPP framework

Lao PDR

- Strengthening single window clearance system
- Availability of information with respect to approvals and incentives for investors
- Forming regulatory agency for mining /natural resources
- Transparency in regulatory framework

Myanmar

- Identification of government land banks and resolving issues pertaining to land ownership
- Single window clearance system
- Information with respect to approvals/procedures/incentives
- Simplification of repatriation procedures
- Harmonization in Border Customs Duties
- Creation of a financial auditing framework
- Providing tax holidays for infrastructure investments
- Formulation of PPP framework
- Framing an efficient dispute resolution mechanism

Vietnam

- Finalising the proposed PPP framework.
- Framing an efficient dispute resolution mechanism.
- Rationalising the duty structure for Indian goods.
- Devising a mechanism to address Phytosanitary and quality issues.

ANNEXURES

Annexure 1: Trade Agreements

ASEAN FTA

- ★ ASEAN was first formed in 1967 with six member countries: Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand and was subsequently joined by Cambodia, Laos, Myanmar and Vietnam. The first six members are commonly referred to as the ASEAN 6 while the latter four entrants are common known as the CLMV countries.
- ★ The main aims of ASEAN are to:
 - accelerate the economic growth, social progress and cultural development in the region and;
 - to promote regional peace and stability.
- ★ The ASEAN Free Trade Area (AFTA) came into force on 1 January 1993. The ASEAN member countries also signed an agreement on the Common Effective Preferential Tariff (CEPT) Scheme on 28 January 1992 to eliminate tariffs and non-tariff barriers in the region. This agreement was subsequently updated on 31 January 2003.
- ★ On 17 May 2010, ASEAN Trade in Goods Agreement (ATIGA) entered into force, upon the notification of the ratification of all ASEAN Member States.
 - The ATIGA is an enhancement of the CEPT-AFTA into a more comprehensive legal instrument. With this, certain ASEAN agreements relating to trade in goods, such as the CEPT Agreement and selected Protocols would be superseded by ATIGA.
 - With the coming into force of ATIGA, Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand will issue their legal enactments in 90 days, while Cambodia, Lao PDR, Myanmar and Vietnam will do so in 180 days.
 - Thereafter, tariff liberalisation commitments under the ATIGA will be implemented retroactively from 1 January 2010.
- ★ With regards to services, ASEAN signed the ASEAN Framework Agreement on Services (AFAS) in 1995. The AFAS aims to eliminate restrictions to trade in services and enhance cooperation in services within ASEAN.
- ★ The ASEAN Ministers signed the Framework Agreement on the ASEAN Investment Area (AIA) on 7 October 1998 in Manila. The AIA encourages investors to adopt a regional investment strategy and network of operations. It will provide greater scope for division of labour and industrial activities across the region, creating opportunities for greater industrial efficiency and cost competitiveness.

ASEAN-AUSTRALIA-NEW ZEALAND FREE TRADE AREA

- ★ The ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) Agreement was concluded and announced by Ministers in August 2008 in Singapore. It was signed on 27 February 2009.
- ★ The objectives of this Agreement are to:
 - liberalise and facilitate trade in goods;

- progressively liberalise trade in services among the Parties, with substantial sectoral coverage;
 - facilitate, promote and enhance investment opportunities among the Parties through further development of favourable investment environments;
 - establish a co-operative framework for strengthening, diversifying and enhancing trade, investment and economic links among the Parties; and
 - provide special and differential treatment to ASEAN Member States, especially to the newer ASEAN Member States, to facilitate their more effective economic integration.
- ★ The AANZFTA Agreement is the first comprehensive free trade agreement that ASEAN has signed with a Dialogue Partner. It is also the only one that has commitments in all three pillars of goods, services and investments.
- ★ The agreement covers trade in goods; rules of origin; customs procedures; services (including financial and telecommunications services); electronic commerce; movement of natural persons; investments; sanitary and phytosanitary (SPS) measures; standards, technical regulations and conformity assessment procedures; intellectual property; competition; economic cooperation; and a dispute settlement mechanism.

ASEAN FTA with China

- ★ In November 2001, ASEAN and China agreed to launch negotiations for an ASEAN-China Free Trade Area (ACFTA). In the following year, ASEAN and China signed the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China to:
- strengthen and enhance economic, trade and investment co-operation between the Parties
 - progressively liberalise and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime
 - explore new areas and develop appropriate measures for closer economic co-operation between the Parties; and
 - facilitate the more effective economic integration of the newer ASEAN Member States and bridge the development gap among the Parties
- ★ The Agreement on Trade in Goods was signed in 2004 and implemented in 1 July 2005 by the ASEAN countries and 20 July 2005 by China. Under this Agreement, the 6 original ASEAN members and China have to eliminate tariffs on 90% of their products by 2010, while Cambodia, Lao PDR, Myanmar and Vietnam, and have until 2015 to do so.
- ★ The Trade in Services Agreement entered into force in July 2007. Under this agreement, services and services suppliers/providers in the region will enjoy improved market access and national treatment in sectors/subsectors where commitments have been made.
- ★ The Investment Agreement was implemented on 15 February 2010. The Agreement is expected to create a more transparent and facilitative environment, and give companies from ASEAN a competitive edge to tap on thriving opportunities in China.

ASEAN FTA with India

- ★ Negotiations on a trade in goods agreement between India and ASEAN were started in March 2004. The negotiations continued for six years and finally the India-ASEAN Free Trade Agreement (AIFTA)

was signed on 13 August 2009 in Bangkok during a meeting of the Economic Ministers of ASEAN. The agreement, which only covers trade in goods between India and the ASEAN members, came into effect on 1 January 2010

- ★ Starting from January 2010, the tariff liberalization under the India-ASEAN FTA was to gradually cover 75% of the two-way trade between India and the ASEAN member countries. The FTA will lead to the elimination of tariffs on some 4,000 products including electronics, chemicals, machinery and textiles. Of these 4,000 products, 3,200 products will have duties reduced by the end of 2013, while duties on the remaining 800 products will be lowered to zero or almost zero by the end of 2016.
- ★ Under the Trade in Goods Agreement, the Schedules of Tariff Commitments has been drawn up by all the member countries, indicating product-wise tariff concessions or no concessions.

The Three Categories of Tariff Commitments of India

Tariff Elimination	Tariff Reduction	Negative List/Exclusion List
Normal Track 1: 7775 products (at HS 8 digit level) through annual cuts between January 1, 2010 and December 31, 2013.	Sensitive Track: Reduction to 5% on 1805 (at HS 8 digit level) products through January 1, 2010 and December 31, 2016.	No tariff concession is offered for 1297 products (at the HS 8-digit level)
Normal Track 2: 1252 (at HS 8 digit level) products through annual cuts between January 1, 2010 and December 31, 2016	Highly Sensitive Track: Reduction to 37.5% on crude palm oil, 45% on refined palm oil, coffee, tea and 50% on pepper through annual cuts between January 1 2010 and December 2019	

Source: Dash, 2010.⁹

ASEAN FTA with Japan

- ★ The Framework Agreement for Comprehensive Economic Partnership (CEP) between the Association of Southeast Asian Nations and Japan was signed in Bali, Indonesia, on 8 October 2003.
- ★ Subsequently, the ASEAN Japan Comprehensive Economic Partnership (AJCEP) was signed after 11 rounds of negotiation over a period of four years. Ministers of ASEAN Member States and Japan then completed the signing of the AJCEP Agreement on 14 April 2008

⁹ 'India-ASEAN: Trade in goods agreement', SME Times, 20 January 2010. New Delhi, India.

ASEAN FTA with Korea

- ★ The ASEAN Korea Free Trade Agreement (AKFTA) was proposed by the Korean President Roh Moo Hyun in October 2003 at the ASEAN-Republic of Korea Summit held in Bali, Indonesia.
- ★ Negotiations began in 2005 and the Trade in Goods chapter of the AKFTA entered into force in June 2007. It was agreed that ASEAN-6 and Korea shall eliminate tariffs for 90% of all products by 2010. Thailand signed the Accession Protocols to the Trade in Goods and the Trade in Services Agreements under the AKFTA on 27 February 2009.

ASEAN'S FTA NETWORK

	AFTA	ACFTA	AKFTA	AJCEP	AANZFTA	AIFTA
Realization	01.01.10	01.01.10	01.01.10	within 10 years	2015	2016
Tariffs						
- elimination	more than 99%	at least 90%	at least 90%	at least 90%	90%,	at least 80%
- standstill	none	yes (tech)	None	none	100%	None
- exclusion	none	none (tech)	40 TL	1% (total trade)	None	About 500 TLs
- special prods	rice and sugar	none	none	none	Yes	Coffee, tea,
- max tariffs	5% (UAP)	20% (SL) 50% (HSL)			None	pepper and palm oil
Rules of Origin	RVC (40) or CTC; PSRs	RVC (40); limited PSRs	RVC (40) or CTC; PSRs	RVC (40) or CTC; PSRs	RVC (40) or CTC; PSRs	RVC 35% +CTSH
SPS/TBT	yes	yes	minimal	yes	yes	None
Services and Investment	AFAS and ACIA	Yes (only protection for investment)	Yes (liberalisation for investment in built-in agenda)	Built-in agenda Being negotiated	yes	Yes

RVC: Regional Value Content; PSR: Product Specific Rules; CTC: change in tariff classification; CTSH: Change in Tariff Subheading;

ASEAN'S FTA NETWORK

	AFTA	ACFTA	AKFTA	AJCEP	AANZFTA	AIFTA
Entry into Force	1993	2005	2007	2008	2010	2010
Market Size (US\$ Million)	605	1953	654	733	1812	637
Economic Size (US\$ Trillion)	2.2	9.5	3.3	7.1	3.9	3.8
Coverage	Goods, Services, Investment	Goods, Services, Investment	Goods, Services, Investment	Goods (services, Investment in bilateral EPAs)	Goods, Services, Investment	Goods, Services, Investment
Duty Phase out date	2010	2012	2012	2026	2019	2020
Rules of Origin	RVC (40) or CTC; PSRs	RVC (40); limited PSRs	RVC (40) or CTC; PSRs	RVC (40) or CTC; PSRs	RVC (40) or CTC; PSRs	RVC 35% +CTSH

Source: ASEAN Secretariat

Annexure 2: SME Sector in CLMV Countries

SME SECTOR IN CAMBODIA

- ★ The SME sector (which includes micro-enterprises in rural areas) dominates Cambodia’s real sector economy in number of firms (99 percent) and employment (45 percent). SMEs operate almost entirely in the informal sector and are typically not registered. While often licensed to operate by relevant ministries at the provincial-municipal level, SMEs are normally regulated informally by local-level authorities. Small-scale enterprises dominate economic activity and account for a substantial part of employment.
- ★ According to National Institute of Statistic’s census in year 2009, it was found that there are 376,761 enterprises established in Cambodia which is classified as below:
 - Less than 5 person engaged: 316, 607 enterprises
 - 5 persons engaged and over: 46, 233 enterprises
 - 10 persons engaged and over: 13, 123 enterprises
 - 100 persons engaged and over: 692 enterprises
 - 1000 persons engaged and over: 106 enterprises
- ★ The female representative of the enterprises are 50.1 percent which mean the women play an important role in the private sector development especially in the Small and Medium size of enterprises.

Definition of SMEs:

- ★ The “SME Development Framework”¹, developed by the SME Sub-Committee of the Private Sector Steering Committee classifies SMEs according to the number of their employees and the size of their assets. The Framework states that for statistical purposes and policy development and implementation, the definition is based on equivalent full-time employees.

	No of Employees	Assets excluding land (in US \$)
Micro	Less than 11	50,000
Small	11-50	50,000 – 250,000
Medium	51-100	250,000 – 500,000
Large	Over 100	Over 500,000

Source: SME Sub-Committee of the Private Sector Steering Committee

Key Challenges

- ★ **High Regulatory Compliance Costs:** SMEs in Cambodia face a weak legal and regulatory environment that creates uncertainties and risks which result in high barriers to entry. The current lack of a commercial legal framework prevents firms from operating on the basis of market transactions and results in a largely relationship-based business environment.
- ★ **Lack of a Clear and Market-Oriented Framework for SME Development:** While recognizing that the SME sector remains one of the core engines for growth, the Government has been unable to

develop a framework for its development. As a consequence, various agencies and line Ministries are developing their own SME programs, which are at times redundant and even contradictory.

- ★ **Limited Access to Finance:** Local commercial banks provide only 1 percent of working capital and 1.7 percent of investment capital overall. Despite the high liquidity of the banking system, it is difficult for banks to lend due to weak financial infrastructure, which makes enforcing loan agreements and liquidating collateral very uncertain. The lack of financial information resulting from weak accounting standards and the absence of a credit information sharing system makes it difficult for banks to evaluate the creditworthiness of borrowers.
- ★ **An uneven playing field:** Registered and unregistered SMEs alike are often competing for the same customers. While some SMEs are registered and comply with the law, others providing the same products and services are not complying with the law, and enjoy unfair advantages and cost structures. To ensure compliance with the law, and encourage entrepreneurs to formalize their businesses, registration procedures for SMEs need to be streamlined.
- ★ **Low productivity:** Competing for a fair share in the global market, Cambodia is disadvantaged by lower productivity rates than its neighbours (Thailand and Vietnam) and other countries with much larger populations such as Bangladesh, China, India and Pakistan. Access to relevant training and professional services provided by the public or private sector is important to ensure a competitive SME sector.
- ★ **Lack of access to information and customer markets:** It is well documented that SMEs lack access to information on markets. As most SMEs operate only in the provinces where they are based, very few have international markets for their products. To ensure that SMEs can compete for their share of the global market, and contribute more to job creation and economic growth, they need access to information, technology and services that will enable them to expand their customer base, both within Cambodia and globally.

SME SECTOR IN LAO PDR

- ★ According to the Prime Minister's Decree 42 on the "Promotion of Small and Medium Enterprises", Small and Medium Enterprises (SMEs) are independent enterprises that are legally registered and operate according to the prevailing laws of the Lao PDR.

Definition of SMEs:

- **Small enterprises** - those having an annual average number of employees not exceeding 19 persons or total assets not exceeding two hundred and fifty million KIP or an annual turnover not exceeding four hundred million KIP
- **Medium enterprises** - those having an annual average number of employees not exceeding 99 persons or total assets not exceeding one billion two hundred kip or annual turnover not exceeding one billion KIP

	No of Employees	Annual Turnover (in million KIP)	Total Assets (in million KIP)
Small	1 - 19	< 400	< 250
Medium	20 - 99	< 1000	< 2100

1 US\$=10,000 KIP

- ★ There are three types of SMEs: Product Production; Trade; and Services. According to the Steering Committee on Economic Census, 2006, there are 126,913 enterprises of which about 90 percent are SMEs.
- ★ SMEs have played an important role in socio-economic development in Lao PDR. In recognition of this, the government is developing a policy to promote SMEs and provide intending entrepreneurs access to finance and other facilities.

Key Challenges

- ★ **Low Cost:** High transaction costs, taxes and fees are seen as serious problems for business development, despite the fact that taxes in Lao PDR compared to other countries in the region are relatively low.
- ★ **Market Access:** Lao PDR is becoming more and more intertwined in international markets with rising energy and fuel prices, improved road linkages and trade barriers and restrictions on imports being dismantled. Increasing competition is slowly becoming more important but the knowledge on changes in trade regulations, customs duties etc. and the implications for own products are still inadequate. Instead of acting defensively enterprises must look at opportunities for accessing neighbouring markets.
- ★ **Competitiveness:** Competition is a major challenge for Lao enterprises. SMEs usually perceived their “unit cost/price” as the main reason for their competition problems. Their generally low level of competitiveness and inadequate innovation is especially troublesome in the context of the ASEAN Free Trade Agreement (AFTA) and the upcoming accession of Lao PDR to World Trade Organisation (WTO). In order to overcome these constraints, significant efforts of both public and private sectors are needed. In particular, the SME Promotion & Development Office (SMEPDO) and the Lao National Chamber of Commerce & Industry (LNCCI) are tasked as key organisations to address these challenges.
- ★ **Access to Finance:** Enhancing competitiveness of Lao enterprises also requires addressing the large overestimation of financial factors (relative to other needs and constraints) for successful enterprise development. The banking sector has to develop quickly the ability to function as a capital resource for SME sector. Of particular concern are the interest rates which are in international comparison prohibitively high and limit the competitiveness of business sector (interest 20-25 percent).

SME SECTOR IN MYANMAR

- ★ Available data indicate that the approximate number of registered enterprises in Myanmar is 127,000; of these, 99.4 percent are SMEs. It is estimated that over 620,000 business entities—

constituting over 83 percent of all Myanmar businesses—operate in the informal sector. The majority of these are expected to be family-based establishments and self-employed workers.

- ★ It is also estimated that Myanmar has 2.6 SMEs per 1,000 people. This number is far lower than that of developing countries generally, and least developed countries in particular, which recorded 27 and 9 SMEs per 1,000 people, respectively. The small number of SMEs and the comparatively large informal sector can be explained by a variety of factors, including, a weak entrepreneurial culture; a lack of incentives to enter the formal sector; the remaining influence of the centrally planned economic system; and the important role of state-owned enterprises in the market.

Key Challenges

- ★ The assessment of the business climate points to a number of hurdles for SMEs in Myanmar. These hurdles include: access to finance, lengthy business licensing and permit procedures, access to, and the state of infrastructure (including electrical power) and poor support services such as business development services and trade facilitation measures. Myanmar currently lacks a unified SME policy to address these hurdles. While the Government is aware of the need to develop its policies and guide SME development, the Ministry of Industry and the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) are working with UNIDO and GIZ towards this end, progress is slow.

SME Definition				
Category	Investment Amount	Annual production capacity	Installed power	Number of workers
Micro sized manufacturers or “cottage industries”	Not applicable	Not applicable	0.25 horse power to 5 horse power	Less than 10
Small sized manufacturers	1 million Kyat	10 million Kyat	Less than 25 horse power	10 to 50
Medium sized manufacturers	5 million Kyat	10 million Kyat	Less than 50 horse power	51 to 100
Large sized manufacturers	10 million Kyat	More than 10 million Kyat	Over 50 horse power	Over 100

Source: Ministry of Cooperatives (2013)

- ★ It is important that any initiative to promote SME development is formed as part of a wider private sector development strategy. An important element to consider in the development of SME-supporting policies will be the definition of SMEs. The current definition is based on the

1990 Private Industrial Enterprises Law, 1991 Promotion of Cottage Industries Law and 2011 amending the Promotion of Cottage Industries Law.

- ★ The definition of “SME” varies from country-to-country; however, the definition in Myanmar is seemingly more complex while only targeting small and medium sized manufacturers. This situation is hindering the implementation of policies targeting SMEs. The development of an appropriate SME definition is of critical importance to guiding SME development policies and other supporting measures such as SME financing schemes and training programmes. The definition could benefit from being more specific, either by the creation of categories divided by subsectors, as is the case in Thailand, or by including microenterprises, as in Indonesia and Malaysia. Such considerations would help in the design of more targeted SME support and promotion measures.
- ★ SMEs in Myanmar also encounter several major physical and non-physical challenges relating to access to market and finance. One of challenges concerning market access is a distinct lack of awareness among SMEs themselves of the benefits and implications of free trade agreements (FTAs). Export promotion activities and the under-use of e-channels and e-commerce mechanisms have not been properly explored. The existence of non-tariff barriers prohibits SMEs’ access to foreign markets. SMEs lack familiarity with trade facilities and customs procedures, and market intelligence in and outside ASEAN markets is not currently available in Myanmar. In terms of access to finance, SMEs in Myanmar are finding it difficult to access funds due to the rigorous collateral-based lending requirements of local banks. Such obstacles are difficult to overcome, especially for newly established SMEs. This situation makes it even more difficult for micro enterprises to obtain loans, since most of the banks are reluctant to provide loans to high-risk borrowers like them. SMEs in Myanmar thus have to rely on informal sources for funding which charge high interest rates.
- ★ Investment in research and development (R&D) among SMEs in Myanmar is still low, resulting in low productivity and efficiency. Funds for the commercialization of R&D are still not forthcoming due to uncertainty over demand levels or the absence of contracts. Recognition and promotion of innovative SMEs is not widespread, either. Additionally, there is still limited knowledge about the protection of intellectual property (IP), and the cost of IP registration is high.
- ★ Also, in the case of Myanmar, the majority of SMEs are not prepared to face the global transformation of business strategies and practices, meaning that they are unable to take advantage of the benefits and opportunities provided by regional integration. Adding to this conundrum, SMEs are frequently under pressure in the domestic markets from cheaper imports and foreign competition. The common preferential tariff scheme exercised in the ASEAN countries, for instance, has led to the influx of cheaper and better commodities from other ASEAN countries. Such influxes threaten the future of many SMEs in Myanmar, pushing down the prices of products from local SMEs. Domestic products, especially household products, appliances and consumer electronic products, are facing price competition with cheaper products from China. Other products, such as canned products, snack foods, garments, plastic products and toys must compete with products from Thailand.

Key Challenges

- ★ Absence of a user-friendly legal and regulatory environment;
- ★ Lack of an adequate and modern infrastructure;
- ★ Undeveloped entrepreneurship abilities, i.e. lack of confidence and a high level of risk aversion in taking advantage of new opportunities;
- ★ Inequality for women entrepreneurs;
- ★ Inadequate and/or expensive access to financing;
- ★ Obsolete technology;
- ★ A lack of R&D and innovation facilities and the commercialization thereof;
- ★ Inadequate input of business development services (BDS), and;
- ★ Weak linkages with external markets;
- ★ Poor institutional networking, which bars access to global value chains and the integration of SMEs into international markets.

SME SECTOR IN VIETNAM

- ★ SMEs have played an important role in the Vietnamese economy. The sector has long been a major source of employment generation and a main vehicle for poverty alleviation particularly in rural areas and narrowing development gaps among provinces, urban, and rural areas. In addition, SMEs help to maintain the high flexibility of the labor market.
- ★ It also contributed significantly to absorb the “shocks” associated with the transition from a centrally planned economy to a market-oriented one especially after the collapse of the socialist bloc in Eastern Europe.
- ★ In Vietnam, the number of SMEs is nearing 400,000. SMEs represent 97 percent of the number of businesses of the country; employ 77 percent of the workforce and account for 80 percent of the retail market.
- ★ According to the government over 40 percent of GDP is produced by SMEs. Further, SMEs are the engine of growth in Vietnam just as small business plays the same role in developed markets like the U.S.
- ★ In Vietnam, SMEs in Vietnam; on average, have seen their profits grow approximately 20 percent each year for the immediate past.
- ★ Additionally, organizations such as the Vietnam Chamber of Commerce and Industry (VCCI), the World Bank, the Asian Development Bank (ADB) and many foreign governments through their embassies such as the German and Danish government have implemented a variety of programs supporting SMEs to help them improve working skills for their employees and business management and leadership skills.

Definition of SMEs:

- ★ The Vietnamese government, defines SMEs by Decree 56/2009/ND-CP as: Small and medium-sized enterprises are business establishments that have registered their business according to law and are divided into three levels: very small, small and medium according to the sizes of their total capital (equivalent to the total assets identified in an enterprise’s accounting balance

sheet) or the average annual number of labourers (total capital is the priority criterion), concretely as follows:

Type of enterprise	Very small enterprises	Small sized enterprises		Medium sized enterprises	
	No of Labourers	Total Capital	No of Labourers	Total Capital	No of Labourers
Agriculture, forestry and fishery	10 persons or fewer	VND 20 billion or less	Between over 10 persons and 200 persons	Between over VND 20 billion and VND 100 billion	Between over 200 persons and 300 persons
Industry & construction	10 persons or fewer	VND 20 billion or less	Between over 10 persons and 200 persons	Between over VND 20 billion and VND 100 billion	Between over 200 persons and 300 persons
Trade and service	10 persons or fewer	VND 10 billion or less	Between over 10 persons and 50 persons	Between over VND 10 billion and VND 50 billion	Between over 50 persons and 100 persons

Key Challenges

- ★ With the increasing number of FTAs Vietnam is getting involved in, it is posing numerous challenges to Vietnamese enterprises, especially SMEs, because of heavy competitive pressures from foreign firms. FTAs cause most pressure on merchandise trade because of huge tax cuts stated in ASEAN and ASEAN+6 FTAs: about 90 percent of tariff lines reduced to zero in 2015 and most to zero in 2018. Meanwhile, many Vietnamese exporters have yet to take maximum advantage of FTAs-induced tax cuts.
- ★ Furthermore, Vietnamese SMEs' lack of information about market opportunities that FTAs bring in, is a major obstacle. Especially, they also lack information about tax incentives related to the degree of domestically added value of goods and services and other technical barriers to improve performance and competitiveness in the process of sustainable development and integration.
- ★ Access to finance is another impediment for the Vietnamese SMEs – however the situation is much better when compared to its neighbours like Cambodia, Myanmar and Lao PDR.

Annexure 3: Land Policy

Cambodia

Ownership of land by investors for the purpose of carrying on a QIP is only permitted for individuals and entities with Cambodian nationality i.e. 51% ownership in the landholding company. However, land concessions and long term leases are permitted to all the investors.

A perpetual lease must be for a term of at least 15 years, up to a maximum of 50 years. During the concession or lease period, investors may subject to the terms of each specific concession or lease agreement, mortgage or sub-lease any movable or immovable properties on the land. The transfer or mortgage of concession land, which has not been exploited, is prohibited.

Cambodia's current system and rules for and registration, titling, ownership, and transfer of land are in a state of transition. The valid certificate of title registered with the relevant authorities needs to be ensured before an investor deposits any money towards the purchase.

Lao PDR

All the land in the Lao PDR is owned by the national community thereby making it impossible for any individual or entity, Lao or foreign, to own land. Foreign investors, in addition to Lao nationals and domestic entities, can be granted land use rights or usufructs, but only under limited circumstances. Foreign investors with registered investment capital of US\$ 500,000 are entitled to purchase land from the government in order to build housing or office buildings. However, implementation of this aspect is still unclear.

Apart from this limited provision, foreign individuals and foreign invested companies are restricted to leasing land from Lao citizens, or receive land concessions from the state for up to 30 years (Lao citizen), 50 years (State) and 75 years (SEZ). Foreign investors are entitled to own structures and developments that they build or purchase on leased land. However, upon the expiration of the lease or concession term, all fixtures will revert to the lessor or the state without compensation. Foreign investors are also permitted to use the fixed assets on land leased as security, to sub-lease their land use rights, and to use a lease concession agreement as capital contribution in a Lao entity, subject to prior approval from the state.

In order to be able to lease land to foreign investors, a Lao citizen must obtain formal title to land. While the Land Law outlines titling procedures for the entire country, land in urban areas such as Vientiane and Luang Prabang is much more likely to be surveyed, registered and titled than the land in rural areas.

Myanmar

In accordance with the Myanmar Constitution of 2008, all lands are ultimately owned by the government. Some privately owned freehold immovable property exists in Myanmar, however this is very rare. The Transfer of immovable property restriction act of 1987 (TIPRA) is the legislation restricting foreign ownership, stating that immovable property may not be transferred to, or by, a foreign person or a company owned by a foreigner. TIPRA also restricts the lease term for foreigners, prescribing a maximum term of one year for any lease of immovable property by a foreigner or foreign entity, or

leasing of immovable property from a foreigner or foreign entity by any person. However an exemption to this one year lease restriction exists for a foreign entity formed under the auspices of the Foreign Investment Law (FIL), having obtained an MIC Permit.

In October 2014, the Government of Myanmar had released a draft national land policy and is currently for public consultation.

Vietnam

All land belongs to the state in Vietnam and no private ownership of land is allowed. The state allocates or leases land through the grant of long term land use rights (LUR). Only Vietnamese individuals and companies can own land on freehold basis. Foreign organizations and individuals are not entitled to own land on freehold basis and can acquire land use rights (LUR) through land lease with the state, under which they can pay land rental on an annual or lump-sum basis. The term of lease generally does not exceed 50 years or, in some special circumstances, 70 years and lease rental rate applicable to each project is fixed for a period of five years.

Upon the expiration of each period, the provincial's people committee reviews the rental rate based on following two formulas,

- ★ The provincial led Finance department decides the land rent rates to be applied if the land prices publicized by the provincial people's committee do not exceed by 20% of the land rates used for the calculation of land lease rate during previous period and
- ★ The provincial led Finance department decides the revised land rates to be used for new land rates if the land prices publicized by the provincial people's committee do not exceed by 20% of the land rates used for the calculation of land lease rate during previous period.

Importantly, although an investment certificate for a particular project may be extended, there is no guarantee that the LUR will be extended, as this is subject to the discretion of the state. It is unclear how the assets on such land would be disposed of in the event that the lease term is not extended.

Annexure 4: Regional Blocks

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is an organisation for cooperation, formed to promote collaboration, mutual assistance and training with the aim of achieving rapid economic development and social progress among the countries of India, Bangladesh, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal. The organization was established in 1997 and is headquartered at Dhaka, Bangladesh.

A total of 14 sectors have been identified for cooperation amongst the member countries. Each sector is assigned to a country for taking lead in the activities of that sector. Of these, the following 6 sectors have been given a priority status:

- ★ Trade & Investment
- ★ Transport & Communication
- ★ Energy
- ★ Tourism
- ★ Technology
- ★ Fisheries

A free trade area framework agreement is established among the member countries to encourage reduction and elimination of tariffs for certain goods and eventually for services and investments. The latest summit, held during March 2014 resolved for increased cooperation with following key points:

- ★ Achieve a harmonious Free Trade Area;
- ★ Enhance skill and training cooperation directed at MSME sector and
- ★ Enhance regional transport connectivity and identify transportation projects

Mekong Ganga Cooperation (MGC)

The Mekong Ganga Cooperation (MGC) was established in 2000 for cooperation in the areas of tourism, culture, education, and transportation linkages by the countries India, Thailand, Myanmar, Cambodia, Laos and Vietnam.

Following are the key activities of the cooperation agency:

- ★ Adoption of Hanoi Programme of Action, which provides specific actions in the focus areas;
- ★ Hosting of cultural exchanges from member countries;
- ★ Offer of scholarship by India for study and vocational training;
- ★ Extension of Hanoi Programme of Action;
- ★ Identification of new areas for cooperation: healthcare, SME sector, food security and biodiversity and
- ★ Announcement of a US\$ 1 mn annual fund by India for quick impact projects in CLMV countries.

Greater Mekong Sub-region (GMS)

The Greater Mekong Sub-region (GMS) is a program formed with the support of Asian Development Bank in 1992 by the six countries of Cambodia, Laos, Myanmar, Thailand, Vietnam and China (specifically, Yunnan Province and Guangxi Zhuang Autonomous Region).

The program facilitates implementation of high priority projects in the following sectors:

- ★ Transport
- ★ Energy
- ★ Telecommunications
- ★ Environment
- ★ Human resource development
- ★ Tourism
- ★ Trade and private sector investment
- ★ Agriculture

The key activities of the GMS program are:

- ★ Creation of a Cross-Border Transport Agreement (CBTA), a multilateral instrument facilitating transport across borders, covering all aspects in a single document.
- ★ Infrastructure projects worth US\$ 11 bn have been implemented or under implementation.
- ★ Investments of US\$ 16.6 bn have been made in projects, of which ADB has given a support of US\$ 6 bn.
- ★ The program has mobilized ~ US\$ 331 mn for technical assistance, of which ADB has provided ~ US\$ 115 mn.
- ★ Creation of Phnom Penh Plan for development management of the projects passed by the GMS program.
- ★ Up-gradation of the highway from Ho Chi Minh City to Phnom Penh and creation of East West Economic Corridor.
- ★ Creation of a GMS Strategic Framework, 2012-2022, that anchors the program on development of economic corridors based on multi sector investments through the Regional Investment Framework 2013-2022.

Annexure 4: List of Interactions during the Reconnaissance Mission

CAMBODIA

Embassies/Ministry

Kuldeep Singh, Embassy of India
Pen Sophal, Ministry of Land Management, Urban Planning & Construction
Mam Amnot, Ministry of Agriculture, Forestry & Fisheries
Chhuon Samrith, Ministry of Economy & Finance
Bun Hean, Ministry of Water Resource & Meteorology
Pan Sorasak, Ministry of Commerce (Bilateral Trade Department & Trade Promotion Department
Samly Boutsady, Industrial zone/ Estate Promotion Division, Ministry of Industry and Commerce
Nget Sokhan, Electricite Du Cambodge
Lou Kim Chhun, Ministry of Public Works & Transport
Mai Sayovongs, Ministry of Foreign Affairs
Somnang, Council for Development of Cambodia

Bilateral/Multilateral Agencies

Duong Sarak, IFC
Jan Hanssen, ADB

Financial Institutions

Nguyen Thi Kieu Van, Bank of Investment and Development of Cambodia plc
Hem Socheat, National Bank of Cambodia

Consultancy Firms

Sinratana Lan, E&Y
Lim Kuy, PwC

Associations

Sandeep Majumdar, Indian Chamber of Commerce in Cambodia

Private Players

Chea Vuthy, Sihanoukville Special Economy Zone
Lou Kim Chhun, Sihanouk Autonomous Port
Hiroshi Uematsu, Phnom Penh Special Economic Zone
Narendra Kumar, Mega Life sciences
Rajiv Sharma, Cobra Project Office

LAO PDR

Embassies/Ministry

Subir Dutta, Indian Embassy in Vientiane
Mai Sayavongs, Ministry of Foreign Affairs, Asia Pacific Africa Department
Bounsom Phommalihaane, Ministry of Industry and Commerce
Chief of Cabinet Office, Ministry of Energy and Mine

Oulay Phadouangdeth, Ministry of Public Work and Transportation, Planning and Cooperation Department
Rithikone Phoummasack, Ministry of Finance
Phonesay Vilaysack, Project Screening Division, Ministry of Planning and Investment, Investment Promotion Department

Bilateral/Multilateral Agencies

Keomanivone Phimmahasay, World Bank / IFC
Sang Soo Kwon, Korea International Cooperation Agency

Financial Institutions

Vanhkham Voravong, Banque Pour Le Commerce Exterieur Lao Public (BCEL)
SouphachanhKhansyla, ANZ Bank
Sounthone Sinthapaseuth, Lao Development Bank
Phetsathaphone Keovongvichith, Director General, Bank Of Lao PDR

Consultancy Firms

R K Sharma, WAPCOS
Anh Hoang Trinh, Financial Services, E&Y

Associations

Habib Mohammed Chowdhury, Indian Chamber of Commerce in Lao PDR
Sisavath Thiravong, Lao National Chamber of Commerce & Industry

Private Players

Habib Mohammed Chowdhury, HSMM Group

MYANMAR

Embassies/Ministry

Gautam Mukhopadhaya, Embassy of India
Cho Cho Wynn, Ministry of National Planning and Economic Development
Daw Lei Lei Thein, Ministry of National Planning & Economic Development
Han Sein, Ministry of Transport

Bilateral/Multilateral Agencies

Sabestian Sommer, Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ)
Tha Nwai Law, Food and Agricultural Organisation of the UN
Eleonora Gatti, UN Capital Development Fund

Financial Institutions

Surinder Angroola, Bank of India
Anil Bankey, State Bank of India
Cherry Lwin, Myanma Foreign Trade Bank
Tapan Kumar Ghosh, United Bank of India

Associations

U Tint Swai, Union of Myanmar Federation of Chambers of Commerce and Industry

Consultancy Firms

Mark D'Alelio, DFDL
Jasmine Thazin Aung, Price Water Coopers
Thomas Chan, KPMG
Sunil Mehta, My Asia Consulting

Private Players

Venkatesh, Global Pharma
Manoj Uthup, Irrawady Greentowers
Rajiv Mehta, CB Group
Govind Shorewala, Credera Group
Naresh Dinodiya, PL Global
Salil Dutt, Thermax
Aye Lei Lei Htoon, Max Energy
Hardeep Singh Bhasin, Bhasin International Ltd.
Anant Chhajed, Swiss Singapore (Aditya Birla)
Murali, Distributors TVS Motors (Agrocorp)
Khsitij Chaudhary, Talemar /Aptech
A K Murarka, Tropical Biotech
Sunil Seth, Tata International
Rohit Chawla, Essar Group
Michael Guarino , Frontier Myanmar Research Ltd
Mya Han, Chairman, (Myanmar Kyauk Phyu Special Economic Zone Holding Public Co Ltd)
Kyaw Myat Tha, Kaung Myanmar Aung
Viraj Juthani, Nielsen MMRD Co. Ltd

VIETNAM

Embassies/Ministries

Tran Kim Long, Ministry of Agriculture & Rural Development
Madam Nguyen Xuan Thao, Ministry of Finance
Srinivas Gotru, Indian Embassy in Hanoi
Pham Thanh Tung, International Cooperation and PPP Dept, Ministry of Transport
Tran Kim Oanh, Ministry of Industry and Trade Vietnam Trade Promotion Agency
Manoj Kumar, Consulate General of India, Ho Chi Minh City
Bui Thi Nu, HCMC Export Processing & Industrial Zones Authority

Bilateral/Multilateral Agencies

Victoria Kwakwa, World Bank
Dominic Mellor, ADB
Lam Bao Quang, IFC

Financial Institutions

Vu Nhat Lam, Ocean Bank
Vu Quynh Nga, AB Bank
Vuong Thi Huyen, Vietnam International Bank
Nguyen Duc Nam, Vietnam Development Bank
Nguyen Ngoc Quang, Vietcom Bank
Le Quyen, Vietin Bank
Amit Malhotra, Standard Chartered Bank
Chandra Mohan Achary, Indian Overseas Bank
Suvendu Kumar Behera, Bank of India
Nguyen Hoang Tuan, HSBC Bank Vietnam Ltd
Johan Nyvene, HCMC City Securities Corporation

Consultancy Firms

Huong Vu, Ernst & Young
Dinh Thi Quynh Van, PricewaterhouseCoopers (Vietnam) Limited

Associations

Doan Duy Khuong, Vietnam Chamber of Commerce & Industry
Indian Chamber of Commerce
Jay Prakash Shriram, Incham HCMC
Minh Phuong, CEO Club

Private Players

Van, World Auto Ltd.
Neeraj Malik, Minda Vietnam Company Limited
Nghia Do Trung, TATA Power
Indronil Sengupta, TATA International
J V Ratnam, Bioseed Vietnam
Deepak Kumar Arora, Minda Vietnam Automotive Co. Ltd.
Z S Sagawal, ONGC Videsh Ltd.
Pankaj Arora, Cipla
Dao Van Giang, Ishan International Pvt Ltd.
Kershaw Rustomji, Godrej (Vietnam) Company Ltd
Vidhyut Gadodia, Reliance Industries Ltd.
Sharad Kumar Saxena, Wipro Unza Vietnam Co., Ltd.
Manoj Saxena, Bayer Vietnam Ltd.
Mozam Daruwalla, Bohra Industries Ltd.
Prataap Taneja, United Phosphorus Vietnam Ltd.
R Ravikumar, Multilateral Trading Pte Ltd
Jesudas Bell, Futurelinks Pte Ltd.
Nguyen Dinh Tho, CT Group
Nguyen Tam Dang, DPT Pte