South-South Economic Cooperation

Exploring Mekong-Ganga Relationship

RIS
Research and Information System for Developing Countries

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Chapter 1

Introduction

1.1 India: An Emerging Economy

During the last two decades there has been an unprecedented turnaround in the Indian economy. After recording an annual growth rate of 2.98 per cent during 1970-80, the Indian economy revived during the 6th (1980-85) and 7th (1985-90) Five Year Plan periods recording an annual growth rate of 5.5 and 5.8 per cent respectively. During the 8th Plan (1992-1997), subsequent to the major policy initiatives as part of the stabilization cum structural adjustment, the economy recorded a marked revival with a growth rate of 6.8 per cent. Though the higher growth rate, however, could not be sustained during the 9th Plan (1997-2002), mainly on account of the lower growth of the world economy along with poor agriculture resulting from adverse weather conditions and to a lesser extent due to East Asian financial crisis, in the year 2003-04 the economy surged ahead recording an annual growth rate of 8.2 per cent. In general, during 1980-2003 the Indian economy recorded an annual growth rate of 5.9 per cent. Such a high growth rate, sustained for nearly two decades, appears to be unprecedented not only in the Indian economic history but second only to China.

India has also emerged as a major player in a number of areas like IT and software, drugs and pharmaceuticals, auto components, and others. A number of Indian firms over the years have been able to build-up technological and entrepreneurial capability and are seeking to internationalize their operations with a combination of overseas acquisitions and green field investments. Indian companies have reportedly invested nearly US$ 5 billion in the last four years in 4000 projects. Among developing countries, India has emerged as a significant source of outward investments with its ranking among the sources of FDI improving and is noted for 'its potential to be a large outward investor' (UNCTAD, 2004a). India's science and technology (S&T) infrastructure coupled with the relative abundance in qualified but cheap R&D manpower has begun to attract MNEs for setting up global or home-base augmenting R&D centers. In the past five years, more than 100 MNEs have set up

R&D centers in India. It has been shown that among 5500 corporate leaders with billion dollar revenues, and 31 per cent of executives favored R&D investments in India, compared to 27 per cent in China (Kumar, 2003).

Thus today, the analysts are competing among each other to predict a bright future for India. Basing primarily on favorable demographics of the country, Wilson and Purushothaman (2003) forecasted an annual growth rate of 5 to 5.5 per cent over the next 30 to 50 years. According to them, India's GDP is likely to exceed that of Italy in 2020, France in 2025, Germany in 2030 and Japan in 2035. The road ahead is less rocky and destination far is too close, according to Rodrik and Subramanian (2004). Using a simple growth accounting framework, they arrived at a growth rate of 7 per cent per year for output or 5.6 per cent for per capita output for India for the next 20 years.

1.2 India and ASEAN

Since 1991 India has not only intensified her economic integration with the outside world but also consciously deepened her economic linkages with the ASEAN and other East Asian countries as a part of her "Look East Policy". India's engagement with ASEAN began with a sectoral dialogue partnership in 1992 that was upgraded to a full dialogue partnership in 1995 and a membership of the ASEAN Regional Forum in 1996. The First Summit level interaction in November 2002 in Cambodia was a milestone in this growing partnership. The leaders of India and ASEAN countries at their Second Summit in October 2003 in Bali, Indonesia signed the Framework Agreement for Comprehensive Economic Cooperation that provided for a Free Trade Arrangement between India and ASEAN to be implemented in a phased manner by 2011 for old ASEAN countries and by 2016 for all the countries. This Framework Agreement also included announcement of an 'early harvest' of immediate deliverables and unilateral trade preferences by India in favor of least developed members of the grouping like Cambodia, Laos, Myanmar, and Vietnam.

The leaders of ASEAN and India are clearly aiming at further deepening of economic integration of their economies beyond the implementation of an FTA in trade of goods and services. This is clear from Vision 2020 paper of ASEAN-India Partnership, prepared by the consortium of ASEAN think-tanks, led by Research and Information System for Developing Countries (RIS), which was adopted at the Laos Summit in 2004.[1] The Indian Prime Minister at the Bali Summit of ASEAN and India has also proposed a long-term vision of integration of ASEAN, China, India, Japan, and Korea into a broader Asian Economic Community.[2]

1.3 India-ASEAN Partnership and South-South Cooperation

The growing partnership between India and ASEAN also may be viewed in the context of growing importance of South-South Cooperation (SSC) as a development philosophy. Two to three decades prior to the formation of WTO, witnessed the growing popularity of SSC as a means to achieving economic development wherein the developing countries, faced with lack of financial and technological resources, resorted to collective self-reliance as a development strategy. With large number of developing countries embracing globalization as a development strategy, with multilateral trade liberalization under WTO, the SSC as a development philosophy had taken the back seat during the 1990s. Given the sub-optimal outcome of globalization during the last decade, SSC seems to be reemerging as a guiding principle among the countries in the developing world. As a result, during the last decade, there has also been a continued growth in the South-South trade. The share of South-South trade in global trade increased from 34 per cent in 1990 to around 43 per cent by the end of the decade, and it is growing at a rate of 10 per cent per year, which is more than twice that of the recorded rate of growth in global trade (UNCTAD, 2004). Such unprecedented growth in South-South trade may be seen against the fact that during the last few decades the developing countries like India have built up substantial industrial-technological capabilities which in turn provided scope for exploiting synergies among themselves by sharing of knowledge and technologies on the one hand and investment on the other.[3]

South-South Cooperation appears to be particularlyrelevant in the context of growing development divide among the ASEAN countries.[4] With the entry of Cambodia, Lao PDR, Myanmar, and Vietnam (CLMV countries), ASEAN today comprises of a heterogeneous group of countries with varying levels of development. While the old members of ASEAN have been highly successful in achieving higher growth performance facilitated by, *inter alia*, greater integration with the rest of the world, the new members of ASEAN, namely, CLMV countries with the possible exception of Vietnam, exhibit the characteristics of least developed economies. Not only that their per capita incomes are at a much lower level as compared to ASEAN-6 but also their performance in the social sector needs improvement. As regard to the new members of ASEAN, given their lower levels of development, ASEAN's vision for 2020 underlines the need for bridging the development gap between the old and new members. In this process Leaders of ASEAN countries have underlined the key role of information technology. Initiative for ASEAN Integration (IAI) – ASEAN program for narrowing the development gap between the older and the newer members, focuses on information technology – as manifested in the e-ASEAN Framework Agreement, infrastructure, human resource development, and capacity building. The Leaders of ASEAN countries also have called for improving the English language capability. Of these, IT and human resource development are the areas of strength for India, and, thereby, open enormous opportunities for cooperation in enabling the CLMV countries to gain equitable political and economic status in the comity of ASEAN countries. In fact, one of the objectives of the Framework Agreement on Comprehensive Economic Cooperation signed by ASEAN with India is to "facilitate the more effective economic integration of the new ASEAN Member States and the bridging of development gap among the parties".

1.4 Context of the Present Study

During the last decade there has been perceptible increase in India's trade with ASEAN. India's trade with ASEAN during 1991-2003 recorded an annual compound growth rate of nearly 16 per cent as compared to 10.4 per cent in India's total trade. As a result, ASEAN accounts for about 10 per cent of India's total trade. Yet, it needs to be noted that India is a negligible trading partner for the ASEAN, accounting for only about 1.5 per cent of their total trade. Similar to trade, FDI from ASEAN to India also increased during the last decade. With total FDI approval of the order of over US$ 6 billion during 1991-2004, ASEAN today accounts for over 7 per cent of the total FDI approved in India.

At the same time China's trade with ASEAN increased almost six-fold to reach a level of US$ 30 billion and accounts for about 3 per cent of their total trade. This tends to suggest that India is yet to reap its trade potential with the ASEAN. One of the disquieting aspects of India's trade and investment relations with ASEAN relates to high regional concentration. Bulk of trade and investment takes place between Singapore, Malaysia and Thailand. India's trade and investment with Mekong countries, like Cambodia, Laos and Vietnam, remain at very low level despite the historical linkages and many recent initiatives. Given the paramount importance of Mekong countries in further strengthening India-ASEAN partnership and in promoting SSC, the present study undertakes an analysis of India's trade and investment relations with Mekong countries, specifically, Cambodia, Laos, and Vietnam, and comes up with a perspective for the future.

This report is presented in five chapters including this introduction. The Chapter 2 undertakes an analysis of the trends and patters of trade by these with focus on India against the present trade policy regime. The Chapter 3 focuses on India's investment in Mekong countries against the backdrop of their investment policy reforms and the trends and patterns in investment inflows to these countries. Issues relating to promoting trade and investment are dealt in Chapter 4. Given the importance of transport linkages in promoting trade and investment of India with these countries, Chapter 5 undertakes an analysis of the present state of transport infrastructure in these countries and its inter-linkages. Finally, the Chapter 6 presents a perspective for the future primarily based on our discussion with different stakeholders in India and the results of our analysis in the previous chapters.

Endnote

1. See RIS (2004a)
2. See, RIS (2003)
3. See, RIS (2004b)
4. An indicative list of earlier studies includes Pavlic et al. (1983), UNCTAD (1986), RIS (1987), South Commission (1990), and Mytelka (1994).

Chapter 2

Trade Policy Reforms and Performance

2.1 Introduction

It was observed that while the trade and investment between India and ASEAN in general recorded unprecedented increase, it was unequally distributed among ASEAN members. More specifically, trade and investment between India and the less developed countries (LDCs) in ASEAN, like Cambodia, Laos, Myanmar, and Vietnam, lagged much behind of developed ASEAN members. At the same time, there have been a number of initiatives undertaken by the Government of India and also by India's private sector to enhance the trade between India and the Mekong countries. This includes the bilateral trade agreement between India and Cambodia and also with the Vietnam. Moreover, special tariff concessions have been offered by India to all the ASEAN new comers (Cambodia, Laos Myanmar and Vietnam) under the Comprehensive Economic Cooperation Agreement, signed between India and ASEAN. To the extent that trade between countries is shaped to a great extent by the existing trade policy regime, with a view to identify the factors hindering trade, this chapter undertakes an exploration of the trade policy reforms in these three Mekong countries and place India's trade with these countries against the backdrop of their over all trade performance. In the first part of this chapter, we explore the trade policy reforms, and the second section presents the trends in their exports and imports with rest of the world and India. Some concluding observations are presented in the last section.

2.2 Changing Trade Policy Regime in the Mekong Countries

2.2.1 Cambodia's Trade Policy Regime: From State to Market[1]

The last decade, especially since 1994, witnessed major changes in the trade policies resulting in the emergence of a liberal trade regime in Cambodia. During the 1960s, Cambodia was a major exporter of agricultural products, like rice, rubber, and corn, and the balance of payments was relatively stable. Unfortunately, the political disturbances that followed had its adverse impact on the trading system and led to the virtual collapse of foreign trade in Cambodia. Under the trading system which was adopted in the early 1980s, the level and composition of trade was effectively controlled through quantitative restrictions (QRs) and state owned trading bodies, and tariffs and trade taxes played little or no role other than as a means to collect revenue. This was changed later with the move to a market economy and the wide range of reforms that have since been implemented.

A process of market-oriented liberalization began in the late 1980s in Cambodia. The state monopoly for foreign trade was abolished in 1987, and the foreign investment law was promulgated in 1989, enabling private companies to engage in foreign trade. By 1993 trade policies were greatly liberalized. Restrictions limiting the ability of firms and individuals to engage in international trade were largely removed. As a result, there are few binding QRs, and the rates of taxes on imports and exports are for the most part not prohibitive. Nevertheless, tariff rates and other trade taxes are still high and variable. This structure of duties penalizes some activities and benefits others, creates obstacles to the growth of efficient industries, gives rise to pressures for exemptions, hurts revenue and compounds problems of Customs administration.

Reduced Tariff Barriers

A notable feature of Cambodia's tariff structure, similar to most developing countries, is that the broad tariff bands correspond more or less to whether goods are final goods or raw materials. This is referred as a 'cascading' tariff structure, since the rates cascade down, with higher rates for finished goods, to lower rates for intermediate goods and raw materials. It has been argued that this 'cascading' tariff structure has important implications for the government's export led economic development and poverty alleviation strategy. By setting high tariffs on semi processed and consumer goods, Cambodians are required to pay above international prices for basic needs, unless smuggling of imported goods circumvents these high prices. In the case of locally produced wheat flour, for example, the tariff on wheat flour is 35 per cent. This duty has the effect of protecting the local wheat flour millers from cheaper imports. This means that downstream users of wheat flour (bakers, producers of processed foods, restaurants and home industries) must pay a relatively high price for wheat flour as an important ingredient into production of their goods. The higher costs of production are then passed onto consumers through higher retail prices. Since food makes up a large proportion of poor household's expenditure, lowering import tariffs on these products would benefit poor households.

The Cambodian government continues to reform its tariff rate system. In April 2001, the number of tariff bands was reduced from 12 to 4 with the maximum tariff rate falling from 120 to 35 per cent (see Table 2.1). Tariff rate reductions covered several major finished goods as well as some intermediate goods and raw materials. The Centre for International Economics (CIE, 2001) argues that these changes have had a minor impact on the overall tariff structure since only a small percentage (3.8 per cent) of tariff lines had rates above 35 per cent in 2000. For example, the percentage of tariff lines duty free or subject to the minimum 7 per cent tariff rate only increased from 44.3 per cent in 2000, to 44.8 per cent in 2001 and the percentage of tariff lines with tariff rates 15 per cent or less only increased from 71.6 per cent to 73.2 per cent. Consequently, the average tariff rate fell only slightly from 17.3 per cent to 16.5

Table 2.1 Cambodia's Tariff Rate Structure

Tariff band	1997		2000		2001	
	Number	Share %	Number	Share %	Number	Share %
0	107	2.1	290	4.3	297	4.4
0.3	7	0.1	9	0.1		
7	2112	40.7	2731	40	2758	40.4
10	14	0.3	14	0.2		
15	1184	22.8	1861	27.3	1936	28.4
20	46	0.9	68	1.0		
30			4	0.1		
35	1575	30.4	1569	23	1832	26.9
40			8	0.1		
50	133	2.6	256	3.8		
90			6	0.1		
120			6	0.1		
Total	5 186	100	6 823	100	6 823	100
Average tariff						
Unweighted average tariff rate		18.4		17.3		16.5
				(13.6)		(11.9)
Import weighted average tariff rate		15.9		15.4		14.2
Effective tariff rate				10.8		
				(12.4)		

Note: Figures in parenthesis are standard deviations, which measure the dispersion of tariff rates. Effective tariff rate is the ratio of revenue from tariffs over the value of imports. Import weighted average tariff rate for 2001 calculated using year 2000 import data.
Source: Customs Department and Ministry of Economy and Finance, as quoted in CIE (2001)

per cent and remained at 16.5 per cent in 2003. But if we approach the issue using tariff revenue as an indicator, since 1996 it may appear that there has been major reduction in tariff rates. During 1996-2001, the imports have recorded a growth rate of over 8 per cent. Yet, the tariff revenue increased only at a rate of 2.5 per cent per annum pointing towards a significant reduction in the tariff rate.

Procedural Reforms

The Government of Cambodia made significant improvements in processes and procedures for trade facilitation over recent years. Such improvements include:

- established seven public/private sector consultative working groups[2], and held four public forums chaired by the Prime Minister over the last two years to discuss issues raised at the working groups;
- removed most import and export licensing requirements;
- removed the monopoly of Caminco and introduced new legislation facilitating the entry of foreign insurers;
- entered into a new two year agreement in October 2000 with SGS to conduct Pre-Shipment Inspections on goods imported into Cambodia;
- required agencies operating at border checkpoints to co-ordinate their activities and subject traders to only one inspection;
- attempted to streamline procedures for issuing Certificates of Origin to garment exporters; and
- established visa issuing facilities to individuals entering Cambodia at the major land border crossings.

Impediments Remain

Despite the achievements, significant impediments to trade remain in the economy. These impediments reflect three themes that run throughout much of the Cambodian administration.

These themes are:

- procedural interventions by competing government agencies, under-pinned by a general acceptance of activities which supplement very low civil service salaries;
- lack of transparency and equitable enforcement of the law and lack of redress from public decision making; and
- lack of capacity in the administration of customs and sporadic enforcement of customs law.

Absence of a healthy banking system and capital market coupled with lack of any export credit also acts as deterrence to trade and investment activity in the country. While discussing business, it was discerned that bank loans are rarely available for investment, and in the case of short-term loans, the rate of interest is as high as 20 per cent. The underdeveloped banking system cannot be de-linked from the low savings rate and it could also be hypothesized that the *de-facto* "dollarization" of the economy, which in turn, makes the operation of the National Bank and the monetary policy in general far less effective, also has certain adverse effects. A definite conclusion however, is not warranted in absence of more a detailed enquiry.

2.2.2 Laos: Trade Policy Framework and Trade Facilitation

In 1986, the Laos Government launched the New Economic Mechanism, with the ultimate aim of turning the Lao PDR (interchangeably, Laos) into an open-market economy. Initial progress was rapid, as manifested in the series of reforms to open up the economy for FDI, and removing many of the manmade restrictions on trade. This greater integration with the world economy facilitated the entry of Lao PDR in ASEAN in July 1997. It is in the process of bringing about further lowering of its tariff barriers in line with the goal of complying with the tariff reduction schedule of the ASEAN Free Trade Agreement (AFTA) by 2008. Lao PDR also has an observer status within the WTO and applied for full membership in 1997. The ongoing trade and investment liberalization has to seen against the fact that WTO membership is conditional to its compliance with WTO trade regime.

As of now, Laos has a simplified tariff structure, although some non-tariff barriers, such as a quota on the import of automobiles, still exist. Given the yawning trade gap, additional restrictions on the import of certain luxury goods are currently under consideration by trade authorities. Importing from and exporting to Lao PDR still requires authorization from several national and local authorities, which can be a time-consuming and less-than-transparent process. At the same time, it may be noted that the computerization of Customs Department with UNDP assistance has seen major improvement in terms of a marked reduction in the time taken to clear imports from about two days to about an hour at present.

As in many other developing countries, the tax system in Laos has been framed in such a way as to promote the import of materials and equipment for investment and production, while protecting domestic production and limiting luxury imports to conserve limited foreign exchange. Also, in an economy with growing fiscal deficit, import tariff is seen as a major source of revenue generation. As we have already seen, the foreign investors are required to pay a one per cent import duty on imports of machinery for production, equipment, and spare parts. Raw materials and intermediate goods needed for export production are exempted from import taxes. Broadly speaking, there are following import tariffs in Laos:

- Five per cent for promoted goods such as heavy equipment and machine tools;
- Ten per cent for some medicines and some materials used in light industry such as fabrics and some chemicals;
- Twenty per cent for some food products, such as frozen fish; 30 per cent for certain kinds of fruit and vegetables; and 25 per cent for vehicles.

Besides the import tariff, the government also imposes excise tax on a wide range of products, with the steepest assessed on automobiles. In addition to the excise tax, importers may also face a turnover tax of 5-10 per cent on most goods. However, all imports by the international organizations and imports meant for educational purposes are exempted from such duties and taxes.

Being a member of AFTA, and with observer status in WTO, Lao PDR is committed to do away with all the restrictions on trade in commodities and services. More over, with a view to facilitate trade, the government is making efforts to reduce the paper works involved in the process of exporting and importing. With a view to promote exports, an export promotion division has been set up in the Ministry of Trade. The export promotion division has active interface with international export promotion organizations, like ITC, JICA, JETRO, and also with the Export Promotion Department of Thailand, which is the major trading partner of Lao PDR. The Export Promotion Department of Laos actively participates in major international trade fairs, holds seminars and exchange trade delegations.

The trade promotion efforts by the Export Promotion Department is being complemented by the Lao National Chamber of Commerce and Industry (LNCCI), a non profit organization set up in 1989 through a decree issued by the Prime Minister's Office. Among others, the LNCCI acts as an intermediary between the government and the business community, makes recommendations to government on various policy matters relating to trade and industry and also disseminates government policies to business community. For export promotion, LNCCI, undertakes various initiatives which, *inter alia,* includes developing a database, including the compilation of pertinent trade information within the country and abroad, participation and organization of training courses, seminars, etc. on subjects relevant to trade and investment, and participate in the activities of government in order to gain guidance and exchange policy information, acting as a coordinator between the business community and government authorities, contribute and establish professional educational institutions related to the fields of economics, trade, accounting, finance, etc. to respond to the needs of government and the private sector, organizing and participating in the trade fairs and exhibitions within the country and abroad, seeking the sources of finance and funding, market access and technology information in order to respond to the needs of members and non-members, etc.

The concerted effort by the government towards removing barriers to trade notwithstanding, it was felt by the business that more reforms are called to simplify the procedures involved in exports and imports. For example, exporters should have the following documentation when applying for an export declaration.

- application for export declaration;
- export permission from provincial trading authority; invoice;
- packing list;
- certificate of country of origin and generalized system of preferences certificate of origin, if applicable;

- phytosanitary certificate for food exports; and
- certification for industrial products

When it comes to the importers of general goods, they are required to have the following documents for each shipment:

- contract with a foreign supplier or purchase order;
- import license (7 copies);
- letter of credit or payment guarantee paper from a foreign exchange bank;
- transport documents;
- bill of lading; and
- Customs clearance (import) report.[3]

Importers of raw materials for re-export are required to have the same documents as other importers, except for the contract and import license for each shipment. Instead, they are required to provide an annual import plan to the provincial or municipal industry and handicraft department where the factory is located.[4]

While the business is aware of the need for all these documents, they are concerned with the "hidden costs", what economists would prefer to call them as "transaction costs", involved in obtaining these documents. Another issue is related to the non-availability of export financing instruments like letter of credit. This is related to the weak banking infrastructure and low savings in the country. The business is also concerned with the absence of an active capital market.

Laos became a member of ASEAN in 1997 and has committed to bringing all of its tariffs in line with its AFTA commitments by 2008. This is indeed a factor that is likely to promote investment and trade. As of now, the following countries have granted MFN status to Lao PDR: China, Myanmar, Thailand, European Union, and Russia. Laos has signed bilateral trade agreements with 14 countries, including Bulgaria, Slovak republic, Hungary, Germany, Cambodia, Mongolia, and Poland.

2.2.3 Vietnam: Greater Integration with the World

During the last decade significant changes have been initiated with a view to create more liberal trade regime.[5] These changes related not only to reduction in the taxes and tariffs on imports and exports and bilateral agreements with leading economies but also in terms of the freedom for enterprises to engage in trade. These changes had its beginning with the initiation of Doi Moi, but accelerated with Vietnam joining ASEAN and AFTA. As part of AFTA, ASEAN members are committed to making this region a competitive trading area. Under the harmonization process, called Common Effective Preferential Tariff Scheme (CEPT), intra-regional tariffs, especially for manufactured goods are expected to be reduced to a level of between zero to five per cent by the year 2003. Vietnam has been granted an extension until 2006 to comply with this requirement.

In December 2001, the Government of Vietnam signed the US-Vietnam Bilateral Trade Agreement (BTA)[6] with a view to have normal trade relations with the major player in the global economy. As per this BTA, the US grants Vietnam "normal trade relations" status (which implies the application of the MFN principle) by removing Vietnam from a small list of countries denied this, including, North Korea, Afghanistan, Serbia and Cuba. With the BTA into force, US tariffs on imports from Vietnam have dropped from an average of 40 per cent to an average rate of 3 per cent, allowing Vietnamese exporters to compete on equal or nearly equal terms in the US market.[7] In return, Vietnam has undertaken to open its market and reform its legal system in a broad variety of areas, including telecommunications, and the IT sector.

Greater Role for the Private Sector

One of the major changes related to the right to engage in trade (imports and exports) is entry of private sector. Earlier only businesses, licensed by the Ministry of Trade, were allowed to engage in trade. This regulation distinguished between production enterprises and non-production enterprises. The production enterprises were required to be legally established in Vietnam and to operate in the line of business for which they have been initially registered. Import export licensing system has been abolished and the working capital requirement for trading enterprises is no longer effective. As of September 1, 1998, all the Vietnamese owned enterprises, irrespective of their ownership structure were allowed to import and export goods. Through the Decree No. 10/1998/ND-CP dated January 23, 1998, the government allowed the foreign invested manufacturing enterprises to purchase goods in the local market for direct export or export after processing.

Lowering Tariffs

The tariff schedule has been subjected to a series of changes over time in tune with the changing policy regime in the country. However, the policy reforms have been severely constrained by the pressures to protect the inefficient state owned industries, which are often over employed and the potential loss of significant tax revenues. Nevertheless, Vietnam is committed to reducing or eliminating tariffs and other trade restrictions, since it is a requirement for its membership into AFTA, and if it is to realize its hopes for membership into the WTO. The bilateral trade agreement with the US also addresses various market access considerations, including both tariff and non-tariff barriers. Thus, the government has been sandwiched between the domestic forces for import substitution and external pressures for opening up.

Today, the import tariff in Vietnam ranges from zero to 60 per cent and the tariff bands over time has been substantially reduced. About 52 per cent of the tariff lines fell in 0 - 5 per cent range.

Reduction in tariff rates notwithstanding, a study by Centre for International Economics (CIE, 1998) indicated that effective rates of protection vary greatly between sectors, and certain industries are being supported at very high economic cost. In some cases, quantitative restrictions are significantly increasing the protection available to local producers (see, Table 2.2). The study also showed that both domestic and foreign investments in Vietnam is being directed toward sectors

Table 2.2 ERP by Input-Output Industry in 1999

Industry	ERP (%)
Agriculture	17
Forestry	3.1
Fishing	43.3
Mining	-1.2
Fuels	14.5
Vegetable and Fruits Canning	100.4
Tea and Coffee Processing	90.1
Sugar[1]	107.0
Tobacco, Alcohol and beverages	8301.7
Other food stuffs	104.7
Textiles, carpets and rugs	131.7
Leather, footwear and bleaching	21.6
Wood processing and products	7.0
Paper and paper products	117.5
Petroleum & natural gas[2]	
Fertilizers and pesticides[1]	22.0
Chemical products	6.2
Pharmaceuticals	8.3
Soaps and Detergents	162.7
Rubber and rubber products	160.0
Plastic and Plastic products	185.2
Other Chemical products	38.0
Ceramics glass and porcelain	127.0
Cement	89.0
Other nonmetallic minerals	2.6
Manufacture of ferrous metals	256.5
Manufacture of nonferrous metals	-5.1
Equipment and machinery[1]	32.0
Electrical and Electronic products	65.3
Other metallic products	42.3
Other industry	62.7

Notes: 1. Includes estimated effect of quantitative restrictions on competing imports. 2. I-O table reports no domestic production by this industry.
Source: CIE (1998) Vietnam's Trade Policies, 1998, Canberra, quoted in CIE (1999).

with relatively high levels of protection and not towards sectors that are viable with low levels of protection. To elaborate further, the study also showed that about 50 per cent of investment is in sectors with effective rates of protection over 90 per cent, and a quarter is in sectors with effective rates over 120 per cent and only about 14 per cent of the value of FDI is in sectors with effective rates less than or equal to zero — most of which being oil or gas projects[8]. However, it was discerned from discussion with policy makers a number policy initiatives have been undertaken in recent years to address this problem.

Non-Tariff Barriers

The main feature of Vietnam's current trade policies lies at the series of administrative controls on trade, especially non-tariff barriers to imports. Non-tariff measures include (i) non-automatic import licensing; (ii) special authority regulation, (iii) direct quantitative restrictions; and (iv) foreign exchange control.

Until 1998 only licensed trading companies were allowed to engage in foreign trade. This acted as a powerful tool for preserving the privileged position of SOEs in foreign trade. In addition, there were also further requirements such as minimum working capital, skills in trade, business license. Decree 57/1998/ND-CP (31 July 1998) has marked a significant change in terms of the entry into international trading activities. The Decree stipulates that all enterprises are allowed to trade their goods registered in business license with no need to ask for the import/export license except four groups of 'special' goods.[9] In addition, the business license requirement was abolished in 2000 as the Enterprise Law came into effect. At present, any formally registered enterprises that also register for foreign trade activities, can import and export goods that are not in the list of four groups of the "special" goods as mentioned above.

A considerable number of items still require approval from relevant authorities (e.g. pharmaceuticals, some chemicals, recording and broadcasting equipment). Foreign trade of these goods is generally limited and enterprises that can participate in trade of these goods are selected in special ways, usually by nomination and approval of either Prime Minister, the line Ministries or the Provincial People's Committees.

Vietnam removed QRs relatively fast on a multilateral basis. At present, only petroleum products and sugar are still subject to QRs. In general most the commodities under QRs are imported by SOEs. Although the authorities have begun to allocate some import quotas in all commodities under QRs to non-state enterprises, the number of these enterprises is still small because the conditions for entry are still strict and subject to change.

Limiting foreign exchange release for imports by foreign invested enterprises to the actual amount of foreign exchange they have brought into the country in the year ("balance" foreign exchange) was another trade related instrument. The foreign exchange balancing requirement for foreign invested enterprises was relaxed in May 2000. From then on foreign invested enterprises have been able to purchase foreign currency from domestic banks to repay loans obtained from offshore banks. In 2003, the foreign exchange surrender requirements were abolished.

While tariff and non-tariff barriers sets limits to growth and efficiency in a number of sectors of the economy, the policy reforms initiated in some of the high tech areas like IT and software sector seems to have made them fairly free from such restrictions. At the same time, being a member of AFTA and in the context of BTA with US, Vietnam cannot afford to continue with this trade restrictive practices for long. What is important is, perhaps, to make better use of the investment and technology policies so that presently inefficient domestic manufacturing sector becomes efficient thereby the adverse effect of trade liberalization is minimized. In this context partnership with India towards building such competitiveness assume paramount importance.

Similar to Lao and Cambodia, a healthy financial sector is yet to emerge, despite several measures have been undertaken recently to reform and improve the performance of the financial and banking sector. The sector said to be heavily regulated with a segmented credit market mainly dominated by four large state-owned commercial banks and tight licensing control of State Bank of Vietnam imposes very high barriers to entry.

Active Export Promotion

The Government of Vietnam also actively promotes exports through various measures, like the setting up of export processing zones (EPZs) and industrial zones. The units operating in the EPZs enjoy a number of tax incentives like:

- 15 per cent tax on profits earned by service industries. Such industries shall be exempted from payment of profits tax for a period of two years from the first profit making year,
- Where foreign investors reinvest profits earned back into industries in the EPZ or in Vietnam for a period of 3 years or more, profit tax paid will be refunded to these industries in the fourth year,
- 10 per cent tax on profits earned by manufacturing industries. Exempted from profits tax for a period of four years commencing from the first profit making year and shall be granted a 50 per cent reduction of profit tax for a further period of 4 years, and
- Rate of Tax on the transfer of profits abroad is 5 per cent of the profits transferred.

In the case of units operating in the industrial zones, the incentives include:

- A maximum of 15 per cent profit tax after 2 years tax holiday from the first profit-making year for enterprises that export less than 50 per cent of the products.
- Enterprises, which export 50 - 80 per cent of their products, shall have a further 50 per cent reduction of profit tax for a further period of 2 years.
- 10 per cent tax on profits earned by manufacturers, which export more than 80 per cent of their products. 4 years tax holiday from the first profit-making year, and the enterprise shall have a further 50 per cent reduction of profit tax for a further period of 4 years.
- 20 per cent of profits earned by service industries. Such industries shall be exempted from payment of profits tax for a period of one year commencing from the first profit-making year, and
- Rate of tax on the transfer of profits abroad is 5 per cent of the profits transferred.

In addition to the various other initiatives undertaken by the Ministry of Trade for export promotion, the Government has also set up the Vietnam Trade Promotion Agency (see, Box 2.1).

2.3 Trade Performance

In case of Cambodia, during 1994-95 there has been a marked increase in both exports and imports, and since then both exports and imports almost stagnated, which in turn, has to be seen in the context of Asian financial crisis.

Box 2.1 Vietnam Trade Promotion Agency (VIETRADE)

The Vietnam Trade Promotion Agency (VIETRADE) is a governmental organization responsible for state management, coordination and implementation of trade and trade related investment promotion activities in Vietnam. VIETRADE works together with various provincial trade promotion centers and trade support institutions as well as international and foreign trade promotion organizations to assist Vietnamese and foreign enterprises in their business development and expansion.

Activities

- Providing business information
- Assisting Vietnamese and foreign enterprises to identify business opportunities, customers, suppliers and partners through dispatching trade missions abroad, hosting foreign business missions visiting Vietnam and organizing business meetings, seminars and conferences for Vietnamese and foreign enterprises
- Assisting Vietnamese and foreign enterprises in the organization of and participation in trade fairs and exhibitions in Vietnam and abroad
- Training Vietnamese enterprises and trade support institutions in trade promotion and export marketing
- Providing consulting services and technical assistance in trade and export production
- Developing e-commerce capabilities among the Vietnamese business communities
- Supporting foreign businesses to develop business in Vietnam
- Proposing to the Government policies and measures for the development of business support activities
- Developing facilities for trade promotion and cooperating with international and foreign organizations in trade promotion

Despite the various efforts made by the Ministry of Trade and the Phnom Penh Chamber of Commerce and industry for promoting trade, exports recorded negative growth rate in the first year and that imports almost stagnated during 1995-98 (see, Table 2.3). On the whole, the annual average growth rate of exports was as high as 20 per cent during 1994-2002, notwithstanding significant yearly variation. As there appears to be a revival in both exports and imports since 1999, the trade deficit and the current account deficit continues to be substantial and being mostly financed by official transfers.

When it comes to Laos, the exports performance has been rather erratic during 1992-2001; while exports increased almost 100 per cent in the initial year, three years during the period under consideration recorded negative growth rate. Though the exports picked up substantially during 1999-2000, the tempo seems to have not maintained in the terminal years.

In case of Vietnam, it is evident that during the liberalized period exports recorded very high growth rates in almost all the years, including period of Asian crisis except the year 1998, recording an annual average growth rate of 23 per cent during 1991-2003. With the liberalization of trade, the trade deficit also recorded an increasing trend to reach

Table 2.3: Trends in Exports and Imports of Cambodia, Laos and Vietnam

US$ Million

Year	Laos		Vietnam		Cambodia	
	Exports	Imports	Exports	Imports	Exports	Imports
1990			1352.2	1372.5		
1991			2009.8	2049		
1992	123.6	253	2552.4	2540.3		
1993	247.9	431.9	2952	3924		
1994	305.4	564.1	4054.3	5825.8	490	744
1995	346.2	588.8	5448.9	8155.4	854	1187
1996	321	690	7255.9	11143.6	644	1072
1997	317	648	9185	11592.3	862	1092
1998	341	553	9360.3	11499.6	900	1073
1999	310.9	524.6	11541.4	11742.1	1016	1612
2000	393	591	14482.7	15636.5	1396	2095
2001	425		15027	16162	1525	2225
2002			16706	19745	1767	2500
2003			20176	25227		

Source: Direction of Trade Statistics Yearbook, Various Issues, IMF.

the peak in 1996, and thereafter has shown a declining trend though there has been an increase during the last two years. There has also been significant change in the direction of trade from traditional partners like former Soviet Union and East European countries to about 221 countries/territories in the world at present.

It is also important to note that the foreign enterprises played a significant role in export performance. While the total exports from Vietnam recorded an annual compound growth rate of 18.4 per cent during 1995-2001, the foreign owned sector recorded a much higher growth rate of 29 per cent. More importantly, unlike the experience of most of the developing countries, like India, FDI in Vietnam has consistently been a net foreign exchange earner. To illustrate, in 1995 the foreign owned sector accounted for 27 per cent of exports and only 18 per cent of imports. By 2001, their share in exports and imports increased to reach a level of 45 per cent and 30 per cent respectively, bringing a net export earning of US$ 1814 million in 2001.

In sum, it is observed that the returns to trade liberalization initiatives in terms of trade performance vary across the three Mekong countries. The overall performance of Vietnam is found to be much higher than that of Cambodia and Laos. To illustrate, during 1992-2001, the period for which comparable data is available, total exports of Vietnam increased by six times, and that of Laos increased only by 3.5 times. While total population of Vietnam is about 15 times higher then that of Laos, its export is found to be 35 times higher than Laos in 2001. During 1994-2002, Cambodia's performance was comparable to that of Vietnam, and it appeared better than Laos with annual average growth rate of 20 per cent in exports and 18 per cent in imports during 1994-2002.

2.3.1 Structure of Exports

Cambodia

The major weakness of Cambodia's external sector lies in its narrow export base. It is no exaggeration that the export growth since the mid eighties has been mainly on account of the exports of garments. In fact, only about a dozen categories of goods are exported from Cambodia, and garments and shoes comprised over 90 per cent of total exports. At the same time, it needs to be noted that the investment in the garments

Table 2.4: Export Structure of Laos

US$ million

Major Exports	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Wood and Wood Products	28.60	19.10	16.20	23.00	22.00	24.70	23.20	19.80	19.10
Coffee	10.10	11.20	19.60	11.50	9.00	4.70	3.00	3.10	3.50
Gold	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16.30
Animal/Agricultural	7.20	4.70	5.90	3.50	1.60	1.80	2.40	3.20	4.60
Handicrafts	0.00	0.20	0.70	1.10	1.60	1.20	0.80	3.50	0.50
Garment	25.90	36.10	30.60	29.70	29.10	30.80	31.00	24.70	26.50
Electricity	12.00	12.50	13.00	21.10	33.00	28.10	28.70	27.60	23.10
Others	16.20	16.20	14.00	10.10	3.70	8.70	10.90	18.10	6.40

Source: WITS, World Bank.

sector has been highly import intensive and the net export earning is limited. Hence, the real challenge of Cambodia lies in diversifying the export basket. The estimates of revealed comparative advantage (RCA) by the UNCTAD show that Cambodia has comparative advantage in (i) clothing and (ii) leather products. Under these conditions, the export promotion strategy of Cambodia might focus on product diversification.

Lao PDR

Similar picture emerges from an examination of the export structure of Laos. Wood and wood products, garments, and electricity constitute almost 90 per cent of the exports by Laos (see table 2.4). The estimated RCAs by UNCTAD show that at present the comparative advantage of Laos is confined to just four commodities: (i) wood products, (ii) clothing, (iii) leather products and (iv) fresh food. Such a narrow commodity base and high level of product concentration is likely to make Laos highly vulnerable to development of the markets for these commodities. Secondly, in terms of the direction of trade, it is observed that bulk of the exports and imports are with Thailand. This again is not a highly appreciable situation because such high level regional concentration will make the fortunes of Laos dependent on one country. Naturally, any adverse impact on the major trading partner will get reflected in the export performance as happened during the 1997 crisis.

Vietnam

In terms of the structure of exports of Vietnam is not much different from other two Mekong countries, notwithstanding its better export performance. The light industrial products and handicrafts accounts for about 36 per cent, and the other major items are mostly mineral products (see table 2.5). The share of agriculture (which include rice, coffee, natural rubber, etc) and forest based products, though declined by almost 10 per cent points during 1995-2001, still accounts for a little over 21 per cent. The product concentration in the export basket was

Table 2.5: Export Structure of Vietnam

US$ million

Commodity Group	1995	1998	1999	2000	2001	2002	2003
Heavy Industrial Products and minerals	25.28	27.87	31.27	37.16	30.61	29.03	29.76
Light Industrial and Handicraft goods	28.44	36.62	36.77	33.85	35.94	36.22	34.66
Agricultural Products	32.04	24.30	22.06	17.70	21.62	24.92	26.44
Forest Products	2.82	2.04	1.47	1.08			
Aquatic Products	11.40	9.17	8.44	10.21	11.83	15.62	16.08

Source: WITS, World Bank.

further reinforced by the estimates of RCA, using the COMTRADE data. It is found that during 1998-2001 the RCA was confined to just four products, namely, leather products (15.66), clothing (3.45), minerals (2.12) and fresh food (4.25). In general it appears that the current commodity composition in the export basket is characterized by traditional commodities and that there are hardly any modern manufacturing products. Hence the need for product diversification with focus of manufacturing sector cannot be overemphasized.

2.3.2 Trade with India

India is yet to emerge as a major trading partner of Cambodia as India accounts for about 0.5 per cent of Cambodia's exports and 2 per cent of its imports. Table 2.6 presents data on trends in export to and import form Cambodia. It is evident from the Table 2.6 that in almost all the years till 1996 India-Cambodia trade was in favor of Cambodia. The trends reversed thereafter with increasing trade deficit for Cambodia from about US$ 1.5 million in 1997 to over US$ 19 million in 2003. The observed trend in trade between India and Laos is similar to that of Cambodia, wherein exports have increased India's import is negligible leading to a trade deficit of the order of US$ 3 million.

India's exports to Vietnam increased continuously over the years with the annual average growth rate of 28.5 per cent during the period of 1990-2003 that in turn helped India to make the 12th largest trading partner of Vietnam as compared to its 18th rank in 1995. The main items of India's exports to Vietnam are vegetable oil, pharmaceuticals, plastics, machinery and equipment, steel, textile machinery and fabrics, chemicals, wheat and spices, etc.

India's imports from Vietnam include crude oil, natural rubber, artificial resins, tea, essential oils, cosmetic preparations, non-ferrous metals, chemical material and products, raw silk, silk yarn, paper board and manufactures, and wood and wood products. The main items of trade in 2003 were crude oil (32.13%), pepper (19.07%), tea (14.48%), leather & made-ups (2.13%), rubber (2.04%), cinnamon (1.87%), electronic components (1.85%), and coal (1.3%). In terms of total imports, there has been a declining trend, and as a result, today the trade balance which was in favor of Vietnam in the early years of the last decade is heavily in favor of India.

Table 2.6: India's Trade with Cambodia, Laos and Vietnam

US$ Million

ears	Cambodia		Laos		Vietnam	
	Import	Export	Import	Export	Import	Export
1991	0.67	0.14	0.27	0.03	55.58	17.03
1992		0.02		0.04	38.54	13
1993	3.99	0.2		0.04	57.01	16.31
1994	0	1.42		0.24	43.79	27.98
1995	2.12	0.75		0.13	44.08	58.55
1996	0.34			0.31	15.51	124.55
1997		1.48		0.37	1.7	118.17
1998	1.52	2.95	0.01	0.31	12.43	126.73
1999	2.44	5.71		1.24	9.14	125.33
2000	0.25	7.86		1.39	11.54	154.55
2001	1.33	7.87		6.25	12.42	226.27
2002	1.12	11.33	0.04	3.17	18.98	218.92
2003	0.61	19.89	0.15	1.58	29.26	338.27

Source: Direction of Trade Statistics Yearbook, Various Issues, IMF.

Given the fact that India has a comfortable external balance at present and keen on promoting its relation with these countries, such a trade imbalance may not be highly desirable especially when viewed in the context of sustaining the economic relation with the three Mekong countries. Table 2.6 also reveals that the key factor behind unfavorable trade for these countries is their inability to penetrate the Indian market, resulting in declining exports to India despite various initiatives to promote trade. How to account for this issue? There must be a number of factors in operation. As a priori, it could be argued, based on the evidence relating to their export structure, that they have limited domestic production capacity, which in turn calls for investment from India. Secondly, trade with these countries despite the geographical proximity is constrained by limited connectivity with these countries. Finally, export from these countries to India also depends to a great extent up their perceptions about Indian market. Of these, the first issue has been addressed in Chapter 3, and Chapter 4 takes up the issue of connectivity. The perception survey undertaken by the partners in the respective countries is expected to through much light into the third issue.

2.4 Concluding Observations

From the foregoing discussion it is evident that the trade policy regime in all the three Mekong countries is much liberal than ever before, notwithstanding certain impediments to trade that still remain to be addressed. Despite reduced tariffs, effective rate of protection and non-tariff barriers remain high, customs and other administrative procedures needs much improvement. Underdeveloped capital market along with weak banking sector and absence of trade financing also stand in the way of trade expansion. Yet, there has been substantial increase in trade by all the three countries though inter country variations remain considerable. India has made concerted efforts to enhance the trade relation with these three Mekong countries. In the case of trade relation between India and Cambodia, an agreement entered into by both the countries in 2002 intends to develop, facilitate, and diversify trade and economic relations through granting each other MFN status relating to importation and exportation, and encouraging trade fair and participation in exhibitions.

Similarly India and Lao PDR signed an agreement on economic and trade cooperation in November 2000, and the agreement was in effect since 2001. When it comes to Vietnam, trade cooperation has a long history. A Bilateral Trade Agreement was signed between the two India and Vietnam originally in 1978, which later extended mutually during the visit of the Vietnamese Prime Minister to India. in March 1997. Trade related issues are also reviewed by the two countries under the aegis of the Indo-Vietnam Joint Commission, Joint Working Group and Joint Business Council. There is also greater interaction between India's leading chambers of commerce like FICCI and CII with their counterparts in these three countries.

Yet, if the available empirical evidence is any indication, these initiatives have had very limited impact in terms of promoting India's trade with these countries. More importantly while there has been modest increase in India's exports to these countries, their export to India remains more or less stagnant or declined. Moreover, their exports to India, in tune with their over all export structure, is characterized by very high level of product concentration. This in turn has been leading to substantial trade deficit for these countries. Such an outcome needs to be viewed as a point of concern for these Mekong countries because none of them today are comfortable in their external sector. In this context, it needs to be noted that being small countries, they have at present very limited capacity to generate tradable goods and services at competitive prices to exploit the opportunities offered by the trading partners like India. This points towards the inexorable link between trade and investment, which is bound to be especially strong in LDCs like Laos and Cambodia. Thus, it may be concluded that simple trade liberalization need not necessarily have its desired outcome unless preceded by efforts at capacity generation. This takes us to an exploration of the investment policies governing foreign investment in these countries, and trends and patterns of India's investment there.

Endnotes

1 For an excellent treatment of trade policy issues, see, Center for International Economics (2001) Component Reports - Macro assessment, trade policy, trade facilitation, poverty assessment - Part B, Ministry of Commerce, Phnom Penh.

2 The Working Groups are: Export Processing Industries; Manufacturing and Distribution; Energy and Infrastructure; Tourism; Law, Tax and Governance; Banking, Financial Services and Insurance; and Agro-processing.

3 See in this context, UNESCAP (1999) Alignment of the Trade Documents of Cambodia, Myanmar and Viet Nam, Studies in Trade and Development No. 38, New York.

4 Lao PDR uses two types of customs valuations: valuation based on the transaction value of the imported item, which is usually based on the shipping invoice and valuation based on the certificate of the Lao embassy or a reputable organization having expertise on price and fair market value, such as the chamber of commerce of the country of origin. If the importers cannot provide such documents, the customs valuation will be based on domestic price (the so-called general price), minus 15 per cent.

5 There are a large number of studies dealing with the trade and investment liberalization in Vietnam. See in this context, among others, Center for International Economics (1999), Trade and Industry Policies for Economic integration, Report prepared for CIEM and UNIDO, Centre for International Economics, Canberra. http://www.thecie.com.au/pdf/ciem.pdf. Truong Trien Doung, "Trade and Investment in Vietnam: Towards Deeper Integration into the region and the World", Paper presented at the International Law Conference in ASEAN Legal Systems and Regional Integration, Asia-Europe, Institute Malaysia, www.asia-europe-institute.org. For a critical analysis of the present state of trade policy regime, see, US Department of Commerce (2002). Another very useful document is UNESCAP (2001).

6 The BTA is a comprehensive agreement that covers trade in goods, trade in services, investment, intellectual property, the right of appeal and transparency matters, as well as general business facilitation issues. See for details , see the statement by Jeffrey A. Bader, Deputy Assistant Secretary for East Asian and Pacific Affairs, to the House Committee on International Relations, Washington D.C., June 18, 1997, available at http://usinfo.state.gov/regional/ea/vietnam/bader618.htm

7 Some countries still enjoy duty advantages in the US as compared to Vietnam, such as Mexico and Canada (under NAFTA), Jordan (under its FTA), certain Caribbean nations (under the Caribbean Basin Initiative), all states enjoying GSP status and many Sub-Saharan African nations, among others.

8 An intuitive way of interpreting these results is to think of what they imply for the costs of saving foreign exchange by producing goods through these projects rather than importing them. In a project reliant on an effective rate of protection of 120 per cent, every US $1 saved costs US $2.20 in the services of local labour, capital and land used in the production process.

9 Group of commodities traded by quotas; group of prohibited commodities; group of commodities under Government management; and group of specialized management

Chapter 3

Investment: Policies and Performance

3.1 Introduction

In this chapter, we shall explore the bearing of investment on capacity building to promoting trade. At the same time investment in any country is conditioned by a number of country specific factors, especially the policies that promote/hinter investment. Hence this chapter begins with an overview of the various reforms undertaken by three Mekong countries to attract investment. The second section undertakes an analysis of the trends and patterns in foreign investment in these countries from development perspective. Here, we highlight India's investment in three Mekong countries followed by some concluding observations in the last section.

3.2 Investment Policy Regime in Cambodia, Laos and Vietnam

3.2.1 Cambodia

As the economy emerged from political disturbances, the state economy was characterized by the inability of the state to invest and the private sector was in its rudimentary state. A survey of industrial establishments, carried out by the National Institute of Statistics (NIS) in 1993, has shown that only 17 per cent of the total of 3640 establishments engaged ten or more workers. In terms of legal organization, 62 per cent were single proprietorship, 29 per cent partnership and only two per cent private corporations. Government industrial establishments accounted for about five per cent (RGC 1996, quoted in Kannan, 1997). Thus, in a context of low rate of domestic savings (6 per cent in 1997), with a view to mobilize both capital and technology for the development of the country, a foreign investment law was promulgated in 1994.

This law was further amended in 2002 and this highly liberal and open law today governs investment in Cambodia. The foreign Investment law established the Council for the Development of Cambodia (CDC) as a one-stop service organization responsible for clearing the foreign investment applications. It was laid down that most of the areas are open for foreign investment with hardly any performance requirements and offering national treatment to foreign firms. However, in August 1999, a sub-decree provided for some restrictions on foreign investment in publishing, printing, radio and TV activities by limiting the foreign equity levels to 49 per cent. Also, there are certain restrictions on the use of land by the foreign nationals. Foreign investors may use land through long-term lease up to 70 years and with possible extension.

Incentives for Investment

According to the 2002 Law, the government shall make available incentives in the following area:

- Pioneer and/or high technology industries
- Employment intensive and export oriented activities,
- Tourism industry
- Agro-industry and transformation industry,
- Physical infrastructure and energy,
- Provincial and rural development,
- Environment protection and investments in special economic zones.

As per the new law, incentives include the following:

- A corporate tax rate of 9 per cent for the exploration and exploitation of natural resources, timber, oil, mines gold, and precious stones
- A corporate tax exemption up to 8 years depending on the characteristics of the projects and provision for carrying forward loss for five years.
- Tax-free distribution of dividends, profits and proceeds of investment and Tax-free repatriation of profits
- If the profits are re invested in the country such profits shall be exempted from all corporate tax
- 100 per cent exemption from import duties on construction materials, machinery and equipment, spare parts, raw materials and semi-finished products, and packaging materials for most projects for the construction period and first year of operation.
- The period of exemption from customs duties for the above items can be extended for export-oriented projects with a minimum of 80 per cent of production set aside for export and projects located in a special development zone

Given the low level of availability of skilled manpower in the country, the foreign firms are also permitted to bring into the country the management personnel, technical personal and other skilled workers.

The list of sectors to which investment incentives apply, without regard to the amount of investment capital, includes: crop production; livestock production; fisheries; manufacture of transportation equipment; highway and street construction; exploitation of minerals, ore, coal, oil, and natural gas; production of consumption goods; hotel construction (three stars or higher); medical and education facilities meeting international standards; vocational training centers; physical infrastructure to support the tourism and cultural sectors; and production and exploitation activities to protect the environment.

Linking Incentives to Investment

Investment incentives are available for manufacturing projects in the following sectors when investment capital exceeds US$ 5 million: rubber and miscellaneous plastics; leather and other products; electrical and electronic equipment; and manufacturing and processing of food and related products. A minimum investment of US$ 1 million applies when seeking incentives in the following three sectors: apparel and other textiles; furniture and fixtures; chemicals and allied products; textile mills; paper and allied products; fabricated metal products; and production of machinery and industrial equipment.

Once the investor's application is completed and the application fee is paid, the CDC is required by executive order to issue a decision on an investor's application within 28 days, although this time limit has often been exceeded. In practice, investors report that licensing requirements involve significant red tape and visits to multiple government agencies, despite CDC's designation as a one-stop shop. Once the CDC approves the project in principle, the investor must pays a second application fee - deposit a performance guarantee of between 1.5 and 2 per cent of the total investment capital at the National Bank of Cambodia, and register the corporate entity at the Ministry of Commerce. Once these steps have been taken, the investor will receive a formal investment license from the CDC requiring the investment to proceed within six months. Once the project is 30 per cent completed, the investor is eligible for a refund of the performance guarantee.

Some issues

In general, Cambodia's investment law has been rated as one of the most liberal in the region even by the US Department of Commerce. Yet, based on discussion with the private sector, it is felt that there is scope for further improvement and there exist a number of "hidden costs". To begin with, the minimum investment requirement for availing incentives might erect entry barriers for the small investors. Secondly, the need to deposit a performance guarantee and the refund of the same once 30 per cent of the project is completed might lead to a greater human interface in terms of deciding whether 30 per cent of the project is complete or not and thus leading greater scope for non-transparent practices. It is also surprising to note that in a country plagued by severe regional imbalance in development, there is hardly any provision in the investment law to attract investment into the less privileged regions. The experience of other countries tends to suggest that even with special provisions to attract investments into the backward regions, foreign investment tend to act as an agent of aggravating rather than mitigating regional imbalance. Hence, it appears that there is the need for addressing these issues in the investment law of the country.

3.2.2 Lao PDR

Evolution of Policies Governing FDI

Originally, the Investment Promotion Law (IPL), which has been in force since 1989, governed the inflow of investment into the Lao PDR. In 1994, a revised Foreign Investment Law was passed with a view to provide a more propitious environment for FDI. It contained a series of liberal measures designed to attract capitalist-style enterprises and contains liberal provisions for repatriation of profits and the involvement of foreign equity in Lao businesses. It outlines the areas in which investment is encouraged and those areas where investment is not allowed. Prohibited areas included activities detrimental to the environment, public health or national culture. An important part of the revised Investment Promotion Law related to the types of investment. Before the revision, there existed three types of investment – joint investment, wholly foreign investment and investment under contract. The third type was removed due to its complexity, which confused investors.

In 2001, as per the Decree of the Prime Minister (NO. 46/PM) regarding the law on the promotion and management of foreign investment in Laos, further changes have been effected. The law required special presidential approval for any investments that relate to natural resources, environment, public health and national culture. Although there are no other restrictions on activities permitted to foreign investors, prohibited sectors of business are not well defined, so the prospective investors need to conduct enquiries before beginning business. The revised law reduces the approval steps required for investment projects to just one, which is known as the one-stop-service system, and the duration of the examination of the project was decreased from 90 to 60 days. Meanwhile, registration of the enterprise must be completed within 90 days, half the time required before the revision. Of late, it has been further reduced to 15 days in the case of projects where the investment is less than US$ 1 million.

The new law also recognizes the ownership of capital, property and interest of foreign investors and offers national treatment. The law further states the forms of acceptable foreign investment and the rights, benefits and obligations that come with such investment. It also explains the responsibilities of the newly formed Department of Domestic and Foreign Investment (DDFI), the government body that deals with inward investment.

The Foreign Investment Law permits two forms of foreign investment: wholly foreign-owned enterprises and joint ventures. A wholly foreign-owned enterprise is a foreign investment registered under the law and regulations of the Laos by one or more foreign investors, without the participation of domestic Laotian investors. The enterprise established in the Laos may be a new company; alternatively it may be a representative office of a foreign company. Banks have the option of establishing branch offices but are restricted to the capital city - Vientiane. Apart from representative offices, foreign investments must have a minimum registration capital of US$ 100,000. The license for a wholly foreign owned enterprise will have a maximum life of fifteen years. This can be extended if approved by the DDFI. The stipulation of minimum capital as in the case of Cambodia is likely to have the effect of erecting entry barriers to certain foreign enterprises; especially the small and medium sized ones. This in turn could have its adverse effect on the total investment inflows. This is because, in the current era of globalization, it has been observed that large multinational firms are not the only source of investment resources, management expertise and technology that is badly needed by the LDCs like Cambodia. But, there are a large number of small medium enterprises having the financial and other resources and keen on investing in the developing countries. In the Indian context, for example, an overview of the foreign collaborations approved during the post 1991 period reveals that in each year there are a large number foreign investment proposals involving investment less than US$ 0.1 million. More specifically in the year 1999, out of the 1352 financial collaborations, almost 30 per cent were with foreign investment less than US$ 0.1 million. Hence, by opening the doors of investment for such small and medium firms might be instrumental in attracting more investment to Laos from the small and medium firms in countries like India.

A joint venture is defined as a foreign investment, established and registered under the laws and regulations of the Laos, which is jointly owned and operated by one or more foreign investors and by one or more Laotian investors. Foreign investors must contribute at least 30 per cent of the total equity investment in the venture. The license will have a maximum life of 20 years. This can be extended if approved by the DDFI. Foreign investments involving exploitation of natural resources and energy generation must be joint ventures. Here again, setting the minimum foreign share might act as an entry barrier. Hence, it may be worth considering the economic rationale for setting the minimum contribution at 30 per cent for such a minimum contribution appears to be not a necessary condition for reaping the benefits for foreign investment. Perhaps, it may be better to leave to the foreign and local counterparts to determine the sharing of investment. Such an approach is also likely to enhance the invest inflows to Laos.

Laos does not impose performance requirements like minimum local content *per se.* At the same time, for obvious reasons, foreign investors are encouraged to give priority to Lao citizens in recruiting and hiring. Foreign firms are also permitted to hire foreign personnel, if necessary. But, before bringing in foreign labor, the enterprise must apply for work permits from the ministry of labor and social welfare. A list of foreign personnel must also be submitted to the investment service center of FIMC.

The foreign investment law provides a number of incentives, which are comparable to other neighboring countries (see Table 3.1). In Lao PDR, a single rate of 20 per cent annual profit tax is applicable for foreign investments, which is much lower than that in Vietnam or in Thailand. Income and profit from the investment of a foreign investor can be repatriated through any bank located in Lao PDR under the foreign exchange rate, set by the Bank of the Lao PDR. This is also applicable for foreigners who work in Lao PDR, provided all payments required prior to repatriation have been completed. Import duty is imposed on imports of equipment, means of production, spare parts and other materials used in the operation of foreign investors' projects or in their productive enterprises, at a uniform flat rate of one per cent of the imported value. Raw materials and intermediate components, imported for the purpose production for export are exempted from such import duties. All exported finished products are also exempted from export duties. Raw materials and intermediate components, that are imported in order to achieve import substitution, are eligible for special duty reduction in accordance with government incentive policies.

In highly exceptional cases, and by specific decision of the Lao Government, foreign investors may be granted special privileges and benefits. These can include a reduction in or exemption from the 20 per cent profit-tax rate and/or one per cent import-duty rate. Such reductions and exemptions are normally given because of the large size of an investment and the significant positive impact that it is expected to have upon the socio-economic development of the Lao PDR. While the case by case exemptions are justified for attracting investment, such practices also has a potential danger of decisions turning out to be whimsical and lack of transparency in the decision making. Therefore, it is advisable to make such concessions more transparent. Also it may be worth considering the option of "automatic approval" for those investments in certain areas subject to certain investment limits.

On the whole going by the declared policy on FDI, it may be inferred that there has been significant changes in the policies governing inflow of investment. At the same, evidence tends to suggest that there are rooms for improvement as is evident from the following statement:

"The screening process takes into account the financial and technical feasibility of the project; input from the relevant line ministry; and whether the proposed project conflicts with government policy. In general, the decision-making process is lengthy, opaque, and inconsistent. Potential investors report great difficulty in determining the progress of their applications through the bureaucracy, or

Table 3.1 Tax Incentives in Selected Countries

Features	Cambodia	Lao PDR	Thailand	Vietnam
Standard CIT Rate	20 per cent	35 per cent or 1 percent of turnover	30 per cent	32 per cent
Dividend Withholding Taxes	Taxed on relevant CIT Rate; creditable against CIT	10 per cent creditable against CIT	10 per cent on dividends remitted abroad; domestic inter-company dividends partly or wholly exempted	3, 5,or 7 per cent on dividends remitted abroad
Tax Incentives				
Sectors qualifying for incentives	HI-Tech Export Tourism, infrastructure, energy, rural development, environmental protection		Exporters, various other industries	Exporters, agricultural processors, certain location
Tax Holidays	Up to 8 years	Negotiable but rare	3 –8 year income tax holidays	Up to 8 years
Reduced CIT Rates	9 percent after end of holiday for favored projects	20 percent: foreign investors: 15 percent companies in low lands; 10 percent companies in remote areas	Enterprises in investment promotion zones get 50 percent reduction on CIT for 5 years	25 percent: foreign investors; 10,15 and 20 percent for 10 + years when certain are criteria
Investment allowances and Credits			Allowance of 25 percent for investment in infrastructure	If Profits reinvested for 3 consecutive years a portion or all of CIT may be refunded
Accelerated Depreciation	Immediate Expensing of plant and equipment investment financed from reinvested profits			
Import Duty and VAT exemptions	Import duty exemptions for Promoted investments	Reduced import duties ion inputs: 1 percent – foreign investors;0- percent exporters	Exemptions and reduces import duty and VAT rates on inputs in certain sectors esp. exporters	Exemptions from import duties and VAT in certain sectors
Export Processing Zones these zones				Various additional incentives apply in
Other		Investors can negotiate for special incentives on a case-by-case basis.	Dividend distributions during holidays are tax exempt	

Source: Fletcher Kevin "Tax Incentives in Cambodia, Lao PDR and Vietnam", paper presented at the IMF Conference on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Lao and Vietnam, Hanoi, August 16-17, 2002.

in obtaining timely feedback on possible objections to their proposals. Because of the lack of transparency in the entire process, the reason for the hold-ups—and thus any possible discrimination against foreign investors are frequently difficult to identify."(US Department of Commerce, 2002)

Further,

"While Laos' body of commercial law is slowly developing, foreign investors most frequently cite inconsistencies in the interpretation and application of existing laws as among the greatest impediments to investment. The lack of transparency in an increasingly centralized decision-making process, as well as the difficulty encountered in obtaining general information, augment the perception of the regulatory framework as arbitrary and inscrutable. Moreover, there is a feeling among the investors that the red-tape requirements associated with establishing a foreign investment have actually proliferated" (US Department of Commerce, 2002).

3.2.3 Vietnam

During the post independence period, which marked the Soviet style planning, foreign investment was not permitted in Vietnam. History, however, shows that during the period following industrial revolution, Vietnam has had substantial investments from France.[1] Much of these investments were oriented towards communications and mining (Thompson, 1937) later, followed by trading firms, rubber and tea plantations, mineral processing companies, and subsequently, a few textile companies as in the case of most of the erstwhile colonies. During the initial period of colonial expansion, the bulk of the investments in Vietnam were viewed as a means of getting a back door entry to the large Chinese market as is evident from the construction of Hanoi - Kunming railway line between 1901 and 1910 (Murray, 1980). The rise in foreign investment activity during the first three decades of the 20th century began to decline with the global economic recession of the 1930s.

The revival of interest in FDI began with the initiation of Doi Moi (Renovation) policy with focus on market oriented economic management. Almost a year after the initiation of the Doi Moi, in December 1987, the first foreign investment law was passed. This law has been revised twice and after almost ten years, in November 1996, a new investment law was adopted which was considered as one of the most liberal in the region. The law specified the following forms in which foreign investment could be approved:

- 100 per cent foreign investment,
- Joint ventures,
- Build –Operate – Transfer Contract[2]
- Build-Transfer-operate Contract[3], and
- Build Transfer Contract[4]

The law dealt at length with the almost every aspect of FDI like the areas wherein foreign investment is permitted, incentives offered, guidelines for remitting profits and dividends, etc. The law was amended in June 2000 and a Decree has been passed on July 2002, providing detailed regulations on the implementation of the law on foreign investment in Vietnam, which today governs the inflow of FDI into the country. Hence, let us deal with it at some length.

Running into 14 chapters and 125 articles, the decree covered at length all the aspects of FDI. The decree provided a list of especially encouraged investment projects, a list of encouraged investment projects, a list of regions where foreign investment is encouraged, a list of sectors in which licensing of investment is conditional and a list of sectors in which investment will not be permitted.

The decree provides for all forms of FDI specified in the foreign investment law of 1996. In the case of joint ventures, the legal capital must be not less than 30 per cent of the invested capital. But, based on the business sector, technology, market, business results and other socio-economic benefits of the project, the investment license issuing body may consider and permit the foreign joint venture party to have a lower capital contribution ratio, but not less than 20 per cent of the legal capital. However, given the fact that in the globalizing world of today, technology and managerial expertise, badly needed by the developing countries, is not the monopoly of large MNCs and that there are a large number of small and medium enterprises in countries like India are able to contribute significantly to the modernization process, setting the foreign equity limit might erect entry barriers to the small and medium firms, and thus might undermine the inflow of resources into the country.

If the evidence presented in UNCTAD (2000) is any indication, not only that mergers and acquisitions dominate FDI flows in developed countries, they have also begun to take hold as a mode of entry into developing countries and economies in transition.[5] It appears that the current law makes such cross-border mergers and acquisitions make it difficult, if not impossible. Foreign investment directly into existing local companies, rather than as joint ventures or fully owned foreign subsidiaries, is currently constrained by the law. The local companies may currently only issue shares to foreign investors only if they operate in one of 35 business sectors. Even then, the approval of the Prime Ministers Office is needed before a foreign investor may taken even minority equity (up to 30 per cent) stake in a local firm. This also potentially constrains the aggregate scale of FDI inflows and hinders local companies in tapping foreign capital and other non-financial inputs from overseas investors (Freeman, 2002).

Article 45 states that foreign owned capital shall pay corporate income tax at the rate of 25 per cent on their profit earned. But differential rates of 20 per cent, 15 per cent and 10 per cent will be charged according to the priorities attached to the investment like export orientation. This might go against the WTO provision to provide national treatment to FDI.

Article 80 deals among others with the transfer of technology. It states that the Government of the Socialist Republic of Vietnam shall create favorable conditions and shall protect the lawful rights and interests of a party transferring technology into Vietnam. Given the fact that there are different modes of technology transfer and the ultimate effect of technology transfer on the domestic technology capability building process of any economy depends to a great extent, *inter alia*, on the nature of technology transferred coupled with the terms and conditions attached, it is important that the law specifies in more detail terms and conditions to be followed in transferring foreign technology. Also, studies have shown that the process of technological change in developing countries is a combined outcome of technology transfer and in-house R&D. Hence it is important that technology transfer is complemented with in-house R&D activities. To promote R&D, the government might consider imposing a tax on payment for technology import and the resources thus mobilized being utilized for promoting domestic R&D activities.

With a view to attract investment in the less developed regions and achieve a balanced regional development, the provincial governments are given substantial powers to attract investment into the respective provinces. Moreover, the list of regions wherein investment is encouraged has been explicitly stated with additional benefits for investment in these regions.

Vietnam is perhaps the only country in the region having a specific government decision regarding the ways and means to attract FDI into emerging areas like software, wherein preferential treatment has been assigned in terms of lower tax levels, zero import duty on imports, zero export tax, preferential land use and rent, and also provision for preferential credit.[6] Moreover, Decision No. 19/2001/QD-TTG of the Prime Minister on adding computer products to the list of key industrial products also facilitates investment into the area of hardware production. On whole, notwithstanding certain marginal issues, it goes without saying that the present laws governing FDI in the country in general provides the most conducive environment for attracting investment into the country from countries like India.

The government also has initiated measures to develop the local private sector. Today, there is a proactive relation between the domestic capital and the government and the private sector has significant influence on the policy making in the country (see, Box 3.1). As we have already seen, now the domestic capital enjoys many privileges especially in relation to trade as compared to their foreign counterparts.

Box 3.1 Vietnam Chamber of Commerce and Industry (VCCI)

Founded in 1963 in Hanoi, the Vietnam Chamber of Commerce and Industry (VCCI), served the promotion of trade between Vietnam and the rest of the world. The purpose of the Chamber is to protect and assist business enterprises to contribute to the socio-economic development of the country, and to promote commercial, economic and technological relations between Vietnam and the rest of the world on the basis of equality and mutual benefit. The Chamber is an independent, non-governmental organization enjoying the status of juridical person and operating on financial autonomy. It has the following functions:

- To represent the Vietnamese business community for the promotion and protection of its interests in domestic and international relations.
- To promote and offer assistance in trade and investment, economic and technological co-operation and other business activities of enterprises in Vietnam and abroad.

The major activities of the chamber are as follows:

- Dialogue with Government
- Community Development
- Improvement of International Cooperation
- Assistance to Foreign Business and Business Associations
- Assisting Overseas Delegations
- Business Missions
- Trade Fairs, Exhibitions and Advertisement
- Business Information
- Seminars and Conferences
- Training
- Consultancy Services
- Industrial and Intellectual Property Protection
- Promotion of Small and Medium Enterprises

To sum up the discussion, all the three Mekong countries have made series of policy reforms during the last decade with a view to attract more investment. While, incentives provided by the three countries are on par with each other; in countries like Cambodia and Laos, there is greater link between incentives and the level of investment, which in turn might act as a deterrent to attracting investment especially from the small and medium enterprises of other developing countries like India. In Vietnam, there is greater freedom provided to the provincial governments to negotiate FDI. Also the procedures for FDI approval and implementation appear to be more transparent and less cumbersome.

3.3. Investment Performance

We shall begin with a comparative picture before presenting the detailed country-wise trends. In general, all the three countries, today, receive much less investment as compared to mid nineties (see Table 3.2). Also notable is the inter country variation as well as the proportion of realized investment to approved investment. In all respect, Vietnam appeared to have a better performance as compared to other two countries. Such an outcome, apart from the policy reforms undertaken, needs to be seen in terms of the relatively large domestic market of Vietnam, which in turn attracted more market seeking investment. Also, Vietnam is better endowed with human capital and infrastructure base, which acts as an inducement for efficiency seeking investment as well. To present a picture beyond the broad trends, let us explore the experience of each country in some detail.

3.3.1 Cambodia

It is evident from Table 3.3 that there has been a declining trend in both foreign and domestic investment. Notwithstanding the highly conducive investment policies, the declining trend in investment in general and FDI in particular needs to be viewed with concern. It must also be noted that the decline in FDI after the Asian crisis has been a phenomena faced other ASEAN countries as well. It might be possible that a large part of the investments might have been made with a view to take advantage

Tale 3.2 Trend in FDI Approval and Actual Inflows into Cambodia, Laos and Vietnam

('000 US$)

Year	Cambodia		Laos		Vietnam	
	Approved	Actual	Approved	Actual	Approved	Actual
1991					1322.3	
1992					2165.0	
1993					2900.0	
1994					3765.6	
1995	1910.9	162	534.24	88	6530.8	1780
1996	616.8	586	972.18	128	8497.3	1803
1997	578.1	-15.0	113.61	86	4649.1	2587
1998	554.3	230	97.78	45	3897.0	1700
1999	187.92	214	108.13	52	1568.0	1484
2000	211.22	179	190.33	34	2021.4	1289
2001	132.71	113	1017.05	24	2503.0	1300
2002	142.62					
Average actual Inflow	244.8		76.16		1990.5	
Fructification (%)	33.89		15.05		40.25	

Source: UNCTAD (2004)

of the MFN status and the GSP scheme that Cambodia enjoys with major economic powers like the US. The phasing out of the Multi Fibre Agreement (MFA) by 2005, however, is likely to diminish the present advantage for countries like Cambodia. That in turn might act as a dampener to investment in garments and textiles. There are also certain other limits to attracting investment into Cambodia because of the underdeveloped infrastructure.

Changing Investment Relations

Given the fact that the period since the mid 1990s was also marked by a drastic increase in the tourist arrivals that in turn might have led to what is called the "resource movement effect" and "spending effect" resulting in higher wages and prices.

Table 3.2 reports data on actual investment inflows taken from UNCTAD. It is evident that the ratio of actual investment to approval (defined as fructification rate) is found to be about 35 per cent. This has to be compared with over 50 per cent in Vietnam in recent years, and over 80 per cent in Thailand. This point towards greater focus of implementation of investment proposal and much could be learned from India.

Source-wise Distribution of FDI – Need for Diversification

A general pattern observed in some of the countries has been the domination of investment from one or two countries that in turn makes the host country highly susceptible to the ups and downs in the investor country. In the case of Cambodia, also the situation appears to be not much different. It is evident from Table 3.4 that three countries, Malaysia, Taiwan and the US, account for over 60 per cent of the total investment during 1994-2002. Given the obvious dangers associated with such regional concentration, there appears to be an urgent need to diversify its investment sources. In this process greater investment from India could play a contributory role.

Sectoral Distribution of FDI

In terms of the sector wise distribution of FDI, it was observed that the productive sectors of the economy (that is the agriculture and the industrial sector put together) accounts for only about 42 per cent of the total investment (see Table 3.5). Given the fact that there is enormous scope for increased investments in agriculture by brining new areas under cultivation and the present levels of yield in agriculture are low, there appears to be the need for attracting more

Table 3.3 Trend in Foreign and Domestic Investment: Cambodia

US$ Million

Year	Investment Approved			Actual FDI
	Total	Domestic	FDI	
1995	2242.9	332	1910.9	162
1996	760.8	144	616.8	586
1997	744.1	166	578.1	-15
1998	850.3	296	554.3	230
1999	447.92	260	187.92	214
2000	269.22	58	211.22	179
2001	197.71	65	132.71	113
2002	235.62	93	142.62	
2003			87.45	

Sources: National Institute of Statistics, Cambodia Statistical Yearbook, 2001, and UNCTAD, World Investment Report, Different Years, Geneva.

Table 3.4 Distribution of FDI Stock by Different Countries (1994-02) in Cambodia

Region/Country	Fixed Assets (US$ Million)	Share (%)
Americas	498.52	10.88
United States	434.2	9.47
Canada	64.08	1.40
Argentina	0.25	0.01
ASEAN	2378.32	51.90
Malaysia	1862.43	40.64
Singapore	225.59	4.92
Thailand	198.67	4.34
Indonesia	64.99	1.42
Vietnam	25.28	0.55
Philippines	1.34	0.03
Europe	332.87	7.26
France	192.76	4.21
United Kingdom	94.65	2.07
Netherlands	14.58	0.32
Sweden	12.04	0.26
Switzerland	11.78	0.26
Portugal	4.26	0.09
Russia	1.8	0.04
Bulgaria	0.52	0.01
Norway	0.25	0.01
Germany	0.23	0.01
Others & Other Asia	1372.93	29.96
Taiwan	500.66	10.93
China	291.48	6.36
Korea	287.68	6.28
Hong Kong	237.19	5.18
Australia	34.83	0.76
Japan	18.15	0.40
Macau	1.9	0.04
Israel	0.39	0.01
India	0.34	0.01
Sri Lanka	0.28	0.01
New Zealand	0.01	0.00
Total	4582.64	100.00

Sources: National Institute of Statistics, Cambodia Statistical Yearbook, 2001, and Thoraxy Hing (2003) *Cambodia's Investment Potential: Challenges and Prospects*, Japan International Cooperation Agency, Phnom Penh.

investment into the agricultural sector, which may be instrumental in generating employment opportunities for the rural population. But as per the available evidence, the share of agricultural sector is found to be only of the order of about 5 per cent. Given the fact that more than 80 per cent of the population still lives in rural areas and depend on agriculture for their living, it is important to attract more investment into the agricultural sector.

It is found that the industrial sector accounts for about 37 per cent of total investment. Within industrial sector, highest share is accounted for by the garment industry, which has recorded highest growth and employment during the recent past. It was observed that the number of garments units increased from four in 1994 to over 359 units in 2002. Another industry that attracts invest is leather products. The investment in these sectors seem to be with a view to take advantage of MFN and GSP that the US, European Union and other developed countries have conferred on to Cambodia (Thoraxy, 2003). It is found that tourism is one sector that attracts maximum investment and accounts for over 35 per cent of the total investment.

Table 3.5 Sector-wise Distribution of FDI in Cambodia: 1994 to 2002

Sector	Fixed Assets	Share (%)
Agriculture	**356.67**	**5.73**
Agriculture	70.73	1.14
Agro industry	98.33	1.58
Cattle	2.92	0.05
Plantation	184.68	2.97
Industries	**2317.41**	**37.26**
Anima Meal	0.84	0.01
Building Materials	38.79	0.62
Cement	408.49	6.57
Chemicals	7.85	0.13
Disc	2.87	0.05
Electronics	12.76	0.21
Energy	192.81	3.10
Food Processing	108.75	1.75
Garment	452.28	7.27
Hat	0.88	0.01
Household Goods	5.88	0.09
Leather Processing	1.11	0.02
Mechanic Assembly	10.28	0.17
Mechanics	0.96	0.02
Medical Chemical	8.74	0.14
Medical Instrument	0.08	0.00
Medical Supplies	1.92	0.03
Metal	8.07	0.13
Mining	20.09	0.32
Other Industries	255.71	4.11
Paper	32.67	0.53
Petroleum	85.63	1.38
Petroleum Distribution	1.27	0.02
Plastics	15.97	0.26
Shoes	43.13	0.69
Socks	0.01	0.00
Textiles	84.54	1.36
Tobacco	74.76	1.20
Wood Processing	441.00	7.09
Services	**1364.93**	**21.94**
Construction	644.60	10.36
Education	100.19	1.61
Engineering	0.90	0.01
Health Services	1.44	0.02
Infrastructure	188.87	3.04
Media	5.77	0.09
Service Energy	0.50	0.01
Services	212.80	3.42
Telecom	178.85	2.88
Transportation	29.56	0.48
Water Supplies	1.03	0.02
Tourism	**2181.32**	**35.07**
Hotel	624.09	10.03
Tourism	23.46	0.38
Tourism Center	1533.77	24.66
Total	**6220.33**	**100.00**

Source: National Institute of Statistics, Cambodia Statistical Yearbook, 2001, and Thoraxy Hing (2003) *Cambodia's Investment Potential: Challenges and Prospects*, Japan International Cooperation Agency, Phnom Penh.

3.3.2. Lao PDR

Trend in FDI Inflows

Table 3.6 presents number of projects approved involving FDI and the local investment involved in these projects. We also present data on actual inflow of FDI. Table 3.6 also indicates that there has been a marked decline in the FDI approvals after 1996.

However, viewed in terms of approvals, there appears to be a turn around since 2000. At the same time, in terms of the number of projects approved there has not been any marked decline. It is also evident that the rate of FDI fructification (defined as the ratio of approved FDI to actual inflow) has been significantly low. For the period under consideration, the fructification rate was found to be as low as 14.8 per cent. Now given the fact that there has not been any marked decline in the number of projects approved, where as the fructification rate has been rather low, one is tempted to infer that the real issue is one on contract failure, wherein the foreign/local firm initially intends to have investment but later drops the project. If this evidence is any indication, it is important that as regards FDI, policy makers might consider the adoption of a strategy of "walking on two legs", wherein investment promotion and investment implementation assumes equal importance. In addressing the issues in relation to investment implementation, there is the need for better coordination between different agencies involved, both at the central and provincial level. In this process Information and Communication Technology (ICT) could play a significant role.

Link between Foreign and Domestic Investments

Apart from the issue of FDI fructification, which calls for simultaneous focus on investment promotion and implementation, there appears to be yet

Table 3.6 Trends in the Approved and Actual inflow of FDI in Lao PDR

US$ Million

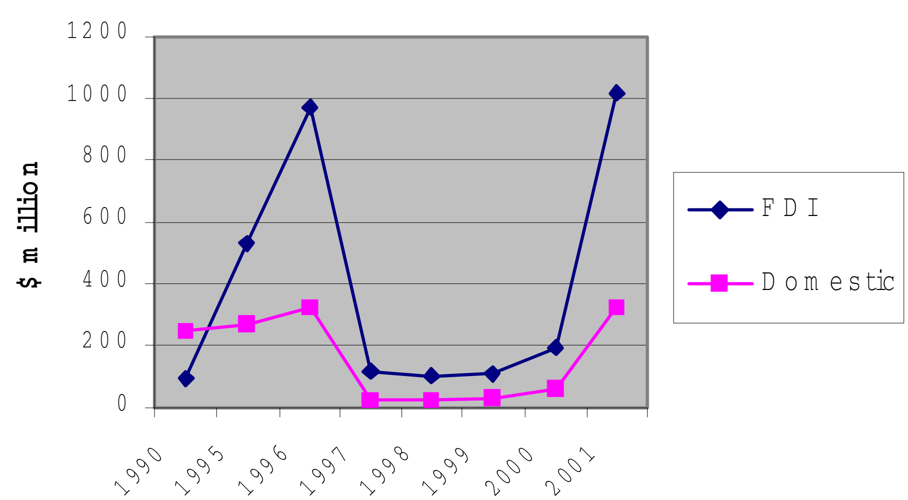
Year	No. of Projects	FDI Approved	Actual FDI Inflow	Domestic Investment
1990	43	90.38	6	247.25
1995	63	534.24	88	270.67
1996	63	972.18	128	320.47
1997	62	113.61	86	25.17
1998	69	97.78	45	24.75
1999	60	108.13	52	31.01
2000	68	190.33	34	58.76
2001	63	1017.05	24	326.09

Sources: National Statistical Center (2000) and National Statistical Center (2002) and UNCTAD (2002).

another issue that emerges from the Table 3.6. This pertains to the relation between foreign and domestic investment. In an economy, generally perceived as having a number of local impediments to overcome for investment, it is only natural that the foreign investors would like to join hands with the domestic capital. This is because of the comparative advantage of local capital in handling issues relating to obtaining required licenses and overcoming specific hurdles in the process of project implementation. As one of the successful entrepreneurs in Lao PDR, who is a partner in a joint venture, remarked "in my absence my foreign counterpart would not have ventured to invest in Lao PDR". Hence there is some basis to believe that domestic capital has a so-called "crowding in" effect on foreign investment.

With a view to empirically explore, in a rather rudimentary manner, the perceived relationship between the foreign and domestic investment, we have plotted the data on domestic and foreign investments on a graph (see Figure 3.1) It is evident that there is a synchronization in the movement of foreign and domestic investment. Hence, it appears that the presence of a strong and thriving domestic private sector act as a signaling device to the foreign capital.[7] It has also been found that mergers and acquisitions dominate FDI inflows into the developing and

Figure 3.1: Trends in Approved Foreign and Domestic Investment: Lao PDR



Source: UNCTAD (2004).

transitional economies (UNCTAD, 2000). Therefore, any attempt towards promoting FDI, to have the desired outcome, has to be complemented by simultaneously promoting the private sector. In an economy like Lao PDR, which has been earlier under the socialist regime, it is only natural to expect the domestic capital to be in its infant stage. It is therefore not surprising to note that the share of private sector in GDP is only around 10 per cent and most of the large enterprises are in the capital city with small medium firms operate in the provinces and rural areas. This being the case, a careful examination of incentives offered by the government would indicate that, there appears to be a discrimination against the domestic capital because they get much lower concessions than their foreign counterparts. To illustrate, the income tax rate for the domestic capital (30 per cent) is much higher than the income tax for the foreign capital (20 per cent). Hence it is important that a level playing field is offered for both domestic and foreign capital.

Given the fact the entrepreneurs are not only born but also developed, special emphasis may be given, preferably at the instance of the Department of Promotion and Management of Domestic and Foreign Investment, to create and nurture an entrepreneurial class in the country. In this context it is encouraging to note the setting up of Entrepreneurship Development Centre at the instance of Government of India in Vientiane. Thus, in addition to the efforts to generate skilled manpower in general there appears to be, for historical reasons, the need for focused efforts towards entrepreneurship development, which is bound to provide rich dividends in the years to come.

3.3.3. Vietnam

Table 3.7 presents data on the trends in FDI approvals and actual inflow in Vietnam. Given the fact the data provided by the Ministry on actual inflow is found to be at variance with that provided by UNCTAD, we have presented the data from both sources. We have also worked out the fructification rate (ratio of actual inflow to commitment) using both data. From the table it is evident that the FDI in Vietnam had its peak in 1996 (in terms of commitment) and in 1997 in terms of

Table 3.7 Trend in FDI Commitment and Actual Inflow: Vietnam

US$ million

Year	No. of projects	Commitment	Actual Inflow		Fructification (%)	
			UNCTAD	Ministry	Ministry	UNCTAD
1988	37	371.80		0.00		
1989	68	582.50		100.00	17.17	
1990	108	839.00	180	120.00	14.30	21.45
1991	151	1322.30		375.00	28.36	
1992	197	2165.00		492.00	22.73	
1993	269	2900.00		931.00	32.10	
1994	343	3765.60		1946.00	51.68	
1995	370	6530.80	1780.00	2343.00	35.88	27.26
1996	325	8497.30	1803.00	2518.00	29.63	21.22
1997	345	4649.10	2587.00	2822.00	60.70	55.65
1998	275	3897.00	1700.00	2214.00	56.81	43.62
1999	311	1568.00	1484.00	1971.00	125.70	94.64
2000	371	2021.40	1289.00	2043.00	101.07	63.77
2001	502	2503.00	1300.00	2100.00	83.90	51.94

Sources: Govt. of Vietnam *Statistical Year Book 2001*, General Statistical Office, Hanoi, and UNCTAD (2002), *Handbook of Statistics 2002*, United Nations, Geneva.

actual inflow regardless of actual inflow data provided by UNCTAD or the Ministry. In fact it has been found that in 1996 the FDI inflow as a per cent of GNP (55.6 per cent) was the second highest in the world and the highest in the region (Freeman, 2002).[8] Since 1996 there has been a decline both in commitments and disbursements; the commitments reached a low level of US$ 1568 million in 1999, and there appears to be a revival since then to reach a level of little over US$ 2500 million in 2001. While the data on actual inflows provided by the Ministry also tend to point towards a revival, going by the UNCTAD data, the revival is not conspicuous.

The most distinguishing point is the extent of fructification. During 1995-2001, for which comparable data is available, the fructification rate is as high as 54 per cent, according to the Ministry data and over 40 per cent according to the UNCTAD data. The difference notwithstanding, the observed rate of fructification is high when compared to neighboring countries like Lao PDR (15 per cent) and even comparable to that of China (50 per cent).[9]

FDI in the Manufacturing Sector

With a view to draw some inference on the importance of FDI across different manufacturing industries, we have estimated the change in the share of foreign enterprises in the out put of the manufacturing sector (at two digit level) and estimated the annual compound growth rate in the output of local and foreign sector.

It may be noted that there has been a significant increase in the share of foreign sector in the output of a number of industries, like textiles and garments, leather, chemicals, non metallic mineral products etc It is also seen that the share

Table 3.8: Vietnam: Performance of Foreign and Local Firms in Manufacturing Sector

(%)

ISIC	Industries	Share of Foreign Firms		ACGR (1996-01)	
		1995	2001	Foreign	Local
15	Food products and beverages	19.10	20.56	11.90	10.24
16	Manufacture of tobacco products	0.14	0.57	37.88	8.83
17	Manufacture of textiles	17.33	28.25	20.46	8.44
18	Manufacture of Wearing apparel	18.17	25.09	21.64	13.60
19	Manufacture of leather goods	35.70	43.41	22.82	16.37
20	Manufacture of wood & wood products	8.96	14.04	11.41	2.34
21	Paper and paper products	15.32	10.91	8.56	15.87
22	Printing and publishing	2.47	1.44	(0.45)	9.32
23	Coke and refined petroleum products	86.57	21.81	(22.17)	(3.62)
24	Chemicals and chemical products	14.58	29.78	31.23	12.75
25	Rubber& plastic products	13.81	24.11	34.32	19.79
26	Nonmetallic mineral products	4.90	22.96	49.38	11.46
27	Manufacture of basic metals	29.57	44.96	20.45	7.81
28	Fabricated metal products	11.53	24.76	35.16	15.77
29	Machinery & equipments nes	10.89	36.34	41.76	9.60
30	Office accounting & computing machinery	2.87	96.96	210.07	(3.35)
31	Electrical machinery and apparatus	13.86	34.52	46.63	20.23
32	Radio TV & communication equipment	45.96	81.42	26.71	(3.59)
33	Medical& optical instruments watches & clocks	20.63	74.38	13.88	13.88
34	Motor vehicles trailers semi trailers	70.64	80.48	19.66	9.40
35	Manufacture of other transport equipments	45.04	75.68	35.09	11.80
36	Manufacture of furniture manufacturing	7.53	28.63	43.98	10.36
37	Recycling	0.00	0.00	0.00	0.00
	Total Manufacturing	18.12	29.56	23.84	11.31

Source: Estimates based on data presented in General Statistical Office, Statistical Yearbook 2001, Statistical Publishing house, Hanoi.

of foreign sector in the computing equipment industry increased from a little over two per cent in 1995 to over 96 per cent in 2001. In the case of TV radio and communication equipment, the share almost doubled in a short span of six years, from 46 per cent to 81 per cent (see Table 3.8). The observed increase in the IT goods - an area with much potential for cooperation with India - becomes spectacular when seen against the fact that for the manufacturing sector as a whole, the increase in the share of foreign firms was about 11 per cent (from 18 per cent in 1995 to 29 per cent in 2001). The recoded annual compound growth rate also tends to suggest that the foreign sector recorded growth rates much higher than the local sector in general. Thus, FDI increasingly contributes towards the industrial growth of Vietnam. A study by Nhuyen Nhu and Jonathan Houghton (2002) has shown that BTA will boost FDI into Vietnam by as much as 30 per cent initially. This is in tune with the experience of Spain in the first years of EU membership and Mexico prior to NAFTA entry. Eventually, FDI inflows are expected to double, and an annual GDP growth is likely to be about 0.6 per cent points higher than without BTA.[10]

The experience other countries in the region tend to suggest the FDI is generally contributed by one or two countries, which in turn make them highly vulnerable to developments in these countries. But in the case of Vietnam, an examination of the source wise distribution of FDI tends to suggest that there are fairly high dispersion of FDI (see Table 3.9). The leading players in Vietnam are found to be Hong Kong (China) and Japan accounting for about 41 per cent of FDI stock followed by the South Korea. Needless to say, Vietnam, unlike many other countries, has been fairly successful in "not putting all the eggs in one basket" such that it is shielded from the adverse economic developments in one or two countries.

3.4 Indian Investments in Cambodia, Laos, and Vietnam

India and Cambodia share traditional links going way back into history and draw inspiration from shared values and strong cultural bonds. Bilateral relations between the two countries have developed smoothly. The spirit of SSC has guided Indo-Cambodian economic cooperation. India has been extending assistance to Cambodia in the form of technical experts and training facilities. India is also part of the Mekong-Ganga Cooperation (MGC) established in 2000 with the ASEAN countries of Myanmar, Vietnam, Laos, Cambodia and Thailand. Under the ambit of the MGC, the

Table 3.9: Vietnam: Country wise FDI Inflow during 1988-2001

US $ million

Country	No. of Projects	Total Registered Capital	Share (%)
Hong Kong(China)	338	3701.50	20.75
Japan	336	3604.20	20.21
Rep. of Korea	388	3338.80	18.72
Russian Federation	70	1589.30	8.91
United States	144	1452.50	8.14
Australia	108	1190.00	6.67
Netherlands	46	1159.95	6.50
Malaysia	107	1156.60	6.48
Others	90	644.70	3.61

Source: Estimates based on data presented in General Statistical Office, Statistical Yearbook 2001, Statistical Publishing house, Hanoi.

countries are committed to pursuing synergies in the areas of tourism, culture, human resource development and transport linkage. However, Indian investment is Cambodia till today remains negligible. The stock of investment by India in Cambodia is only about US$ 0.34 million, and it accounts for only about 0.1 per cent of the FDI stock in the country.

The situation is not much different in case of Laos, though there have been a number of agreements to promote trade, investment and cultural relations between the two countries (see Box 3.2) including BIPPA in 2000.

In case of Vietnam, a Bilateral Trade Agreement was signed between the two countries originally in 1978, a revised version of which came into being on 8th March, 1997 in New Delhi during the visit of the Vietnamese Prime Minister to India. The Bilateral Investment Promotion and Protection Agreement (BIPPA) was also signed between the two countries in March, 1997 in New Delhi and ratified during the visit of the Vietnamese President to India in December 1999. A Joint Declaration on the Comprehensive Cooperation in the 21st Century between India and Vietnam was signed during the visit to India by

Box 3.2: Bilateral Agreements between India and Laos

Several Agreements have been signed between the Lao PDR and India over the past few years. These Agreements lay down the essential framework for bilateral cooperation in matters relating to science, technology, economic cooperation and trade, as well as in defence and consular matters. India-Laos Cultural Agreement - August 1994. - MOU on cooperation in agriculture and allied sectors - May 1997 - Agreement for setting up of Joint Commission on trade, economic and scientific cooperation - May 1997 Two important Agreements - one on Trade and Economic Cooperation, and one on Bilateral Investment Promotion & Protection were signed on the 9th November 2000. These Agreements lay down the basic framework for trade and investment from India. The more recent Agreements are-

- Agreement on Cooperation in Defence: November, 2002
- Agreement on Cooperation in Science & Technology, June, 2003
- As part of Agricultural Cooperation, India and the Lao PDR signed a Work Plan for 2001-02, dovetailing specific areas for intensified interaction; the validity of this Work Plan was extended to 2004.
- An MoU for setting up of Lao-India Entrepreneurship Development Centre (LIEDC) was signed between EAM and Lao Deputy Prime Minister and Foreign Minister on 2 July, 2004. LIEDC was formally inaugurated by EAM and Lao Education Minister in November, 2004.
- An MoU for setting up of an Information Technology Centre was signed between the two sides on 17 September, 2004. The IT Centre formally inaugurated by EAM and Minister in the Lao Prime Minister's Office and President of STEA in November, 2004.
- Agreement for Mutual Cooperation on Drug Demand Reduction and Prevention of Illicit Trafficking and related matters came into force from February, 2005.
- Agreement on Exemption of Visa Requirement for Holders of Diplomatic and Official Passports between India and Laos with effect from 1 April, 2005.

Source: http://www.indianembassylao.com/culture_relation.html

General Secretary of the Communist Party of Vietnam H.E. Mr. Nong Duc Manh in April-May 2003. Recently both countries have agreed to enact three-year programs, beginning with the 2004-06 action program, which will be implemented to promote bilateral co-operation in the fields of politics, economics, trade, investment, industry, credit, technology-science, agriculture, telecommunications, aviation, tourism, culture, education and training.

India and Vietnam also targeted to raise bilateral trade turnover to US$ 1 billion by 2006, while strengthening and expanding investment co-operation. It is also planned to open a direct flight between the countries by 2005. India has agreed to accelerate the implementation of two non-refundable IT projects worth US$ 4.7 million, and pledged to create favorable conditions for preferential credit projects worth US$ 27 million. India has also agreed to help Vietnam for development of human resources.

Thus, investment relations between India and Vietnam appear to be more intense as compared to Laos or Cambodia. During the recent years, Indian companies are showing intense interest in some of the capital intensive sectors, like oil and natural gas exploration, knowledge intensive sectors, like pharmaceuticals, and emerging areas like software development and training. NIIT, one of the leading IT training companies in India, has made its significant presence in the field of software development and training.

Some of the other areas where the Indian firms have shown interest include, sugar production, edible oil, pharmaceuticals, office furniture and plastic industries. Of the Indian investment projects in Vietnam, a major project is in oil and gas sector. A number of Indian companies have invested 100 per cent capital in the projects on processing of agricultural products. There are some Indian companies planning to invest in Vietnam. For example, Tata Steel, India's largest private sector integrated steel company, is planning to set up a production facility in Vietnam through NatSteel Asia's plant in Vietnam. In 2004, Tata Group has signed a contract to set up a hydro electric power project in Vietnam (Business Standard, 2005).

ONGC is involved in offshore oil and natural gas exploration in the southern part of Vietnam with an investment of over US$ 162 million. The Government of Vietnam attaches a lot of importance to this project, and it has been elevated to the top three projects of national importance by the Vietnamese National Assembly. This project started delivering gas for commercial purposes in November 2002. Some of the major Indian ventures in Vietnam are the following:

- Arihant oils and Feeds (Vietnam) Ltd: 100 per cent foreign investment license for setting up a factory for manufacture of vegetable oil and de-oiled rice bran in Long An province.
- Godrej (Vietnam): 100 per cent foreign investment license for fabricating steel office equipment, sages, storage system and security equipment in Binh Duong province.
- Nagarjuna International (Vietnam) Ltd.: 100 per cent foreign investment factory of 4750 TCD in Long An province.
- ONGC-Videsh Ltd.: Exploration of oil and natural gas).
- Siva Bati Incorporation: J.V with Tin Thanh Co. Ltd. for manufacturing poly bags.
- Ranbaxy Laboratories Ltd.: 100 per cent foreign investment, manufacturing and marketing, selling of pharmaceutical products.
- The K.C.P Vietnam Industries Ltd.: 100 per cent foreign investment

license for 2500 TCD sugar factory in Phu Yen province.

- Vu Ta JV Co.: Licensed to produce incense sticks; project location in Vinh Phuc province.

With the establishment of a Joint Business Council between FICCI and Vietnam Chamber of Commerce, the private sector of two countries have come closer and is expected to boost the trade and investment between the two countries.

3.5 Concluding Observations

We begin with a broader hypothesis that simple trade liberalization measures have their obvious limits in promoting trade especially when dealing with countries having limited capacities. In such countries, trade and investment are likely to be inter-linked and that to promote trade, there is also the need to promote investment such that capacity building also takes place. In case of countries under study, we have seen that there has been a concerted effort to liberalize their trade and investment policy regime. As result, there has also been considerable increase in both trade and investment. Yet it appears that there are certain limits to attracting further investment especially to Cambodia and Laos. In a context wherein low labour cost is taken for granted, the ability of the developing countries to participate in global production network and attract investment is governed by their ability to provide certain specialized capabilities that the TNCs need in order to complement their own core competence. Countries, which cannot provide such capabilities, are kept out of the circuit of international production network despite their liberal trade regime. In such a context, India has a grater role to play in Mekong countries to enhance their capabilities by developing an entrepreneur base, human capital and strengthening the Small and Medium enterprises. Also as evident from the Table 3.10, the major trading partners of these countries are also the major investors in these countries. We have also seen that among the three countries under study, India's trade with Vietnam has grown at faster rate as compared to Cambodia and Laos. Based on their trade and investment behavior this has to be seen, among other factors, with the increased investment that India has undertaken in Vietnam as compared to other two countries. Thus, if India needs to enhance its trade with Cambodia and Laos, there is also the need to given special focus on inducing Indian companies to invest in these countries either for the domestic market or for the third country market.

Table 3.10 Major Trading and Investment Partners

Cambodia		Laos		Vietnam	
Trading Partners	Investment Partners	Major Trading Partners	Major Investment Partners	Trading Partners	Investment Partners
U.S.A	U.S.A.	Thailand	Thailand	Japan	Japan
Singapore	Vietnam	U.S.A.	U.S.A.	China	U.S.A.
Vietnam	Thailand	China	South Korea	U.S.A.	Australia
Germany	China	France	Malaysia	Australia	Taiwan
U.K.	Malaysia	Hong Kong	Taiwan	Taiwan	Singapore
Thailand	Korea	Singapore	China	Singapore	Korea
China		Russia	France		
France		Japan	Hong Kong		
Japan			Singapore		
			Russia		
			Japan		

Endnotes

1 For a succinct historical background of foreign investment in Indo China see Freeman N J (2002).

2 Here the approval is given for a foreign firm for construction and operation of an infrastructure project within a certain period of time; up on the expiry of the period foreign investor shall transfer without indemnification, the project to the state of Vietnam.

3 Here, again the contract is for the construction of an infrastructure project; up on the completion of the construction the foreign investor shall transfer the project to the state. The Government shall give the investor the right to operate the project within a certain period of time so as to retrieve invested capital and earn reasonable profit.

4 In this case the foreign investor, up on the completion of the project shall transfer the project to the state. The Government of Vietnam shall create conditions for the foreign investor to carry out another project so as to retrieve the invested capital and earn reasonable profits.

5 UNCTAD (2000).

6 See for details Decision No. 128/2000/ QD-TTG of the Prime Minister on a number of policies and measures to stimulate investment and Development of the Software industry.

7 These observations are to be viewed with sufficient caution for the "cause and effect" relationship is not statistically established on account of the lack of needed data.

8 However, going by Freeman's estimate on the stock of per capita FDI in Vietnam in 2000 (US$225) is found to be much lower than Malaysia (US$ 2341) or Thailand (US$ 388)

9 For China and India, the period covered refers to 1991-99. See, for details Joseph (2002)

10 See for details Nguyen Nhu Binh and Jonathan Houghton (2002).

Chapter 4

Promoting Trade and Investment

Against the backdrop of the analysis of the trade and investment relationship between India and Mekong countries like Cambodia, Lao and Vietnam, this chapter presents a perspective to promote trade and investment in the region. Here it may be noted that India – Mekong Cooperation needs to be seen against the backdrop of deepening integration of India with ASEAN and India's commitments towards mitigating ASEAN divide as envisaged under the Comprehensive Economic Cooperation Agreement between India and ASEAN.

4.1 Trade Liberalization

Expediting ASEAN-India Comprehensive Economic Cooperation Agreement with focus on Mekong

Trade and investment continue to be the principal channels of economic integration. The latter also supports social, cultural and political partnerships. Hence, we envisage a vigorous push to intensification of trade and investment relations between ASEAN and India with greater focus on Mekong countries in the short and medium term within the framework of a regional trade and investment agreement. The exports of Mekong countries to India are characterized by a rather narrow export basket and their trade with India has been insignificant. India has offered Unilateral Concessions under the Framework Agreement in favour of New ASEAN Members in order to assist them in their industrialization with market access on a non-reciprocal basis. The regional economic integration approach, if accompanied by capital mobility and other trade facilitation measures, could lead to efficiency seeking restructuring of the industry in the region be instrumental in enhancing their external competitiveness. The economic integration between ASEAN and India should be deepened in such a manner that it synchronizes with the formation of ASEAN Economic Community that ASEAN has embarked on with a target date of 2020. To achieve greater integration at the earliest, there is the need for sustained procedural liberalization in trade and investment regimes conducive to transparency, harmonization and competition.

(i) Expediting the implementation of trade liberalization contemplated under the Framework Agreement for Comprehensive Economic Cooperation and further deepening of the economic integration to ASEAN-India FTA plus by 2020.

(ii) Customs cooperation for enhancing trade facilitation by simplifying and harmonizing customs procedures including documentation, certification, etc.

(iii) Reduction of tariffs is hardly adequate for expansion of intra-regional trade. The non-tariff barriers need to be identified and removed. Harmonization of customs procedures regarding the tendering, importer registration, shipment, customs and port-clearance, etc. is also important for boosting intra-regional trade. For this the customs authorities of Mekong countries and India need to discuss ways and means of standardizing their procedures.

(iv) Cooperation between standards and export inspection bodies for harmonization and mutual recognition of conformity assessment procedures and capacity building

(v) Under the WTO regime, member countries have installed regulatory import controls based on standards and conformity assessment procedures, specifically from the standpoint of health and safety. Accordingly, mutual recognition of conformity assessment procedures between member countries for the purposes of meeting their respective regulatory requirements represents convenient method of reducing non-tariff barriers to trade. Although some of the countries involved would be adhering to the international standards, there is a need to assess the situation with regard to compatibility of each other's standards and enter into mutual recognition with regard to standards and conformity assessment activities. This will involve:

- Studying the requirements of different countries with regard to specifications and conformity assessment procedures with a view to assess the differences;
- Developing databases of standards and conformity assessment procedures in relation to the regulatory requirements of Mekong countries as well as India for easy access by the regulatory bodies and exporters in the participating countries.
- Technical cooperation in capacity building including
  - Setting up an accreditation mechanism for various international systems standards, especially ISO/IEC Guide 65 and also facilitating the building up of the systems in certification bodies with a view to their seeking accreditation against these standards
  - Assisting laboratories in upgrading as per ISO/IEC-17025
  - Establishing export and import control systems in line with internal standards of ISO and Codex.
  - Organizing awareness and training programmes jointly by India and countries of ASEAN with a view to utilizing the available expertise within this region especially for the benefit of Mekong countries.
  - Setting up an expert group on standards and quality control, which meets once in six months for experience sharing with regard to problems with importing countries, testing issues, standardization and conformity assessment issues and latest developments in related fields

- Developing on-line linkage between India and Mekong countries with regard to Certificate of Origin, quality and test certificates, etc.

Institutionalize annual ASEAN-India trade fairs with special incentives for the Mekong participation.

Business contacts and exchange of business information plays an important role in facilitation of trade and investment. ASEAN-India Business Summits held annually for the past two years are an important step in facilitating business contacts. A web-based India-ASEAN Business Portal has also been launched. Trade fairs and exhibitions are also means of exchanging information on supply capability, projection of image, demonstration of quality and help establishing personal contacts between businessmen. The Trade Fair Authority of India (TFAI) has organized Indian exhibitions in number of countries in the ASEAN region. Some of the ASEAN countries participate in the annual India International Trade Fair (IITF), and also in several fairs organised at the state level. To accelerate the trade investment relationship, ASEAN Secretariat could institutionalize the ASEAN-India Trade Fairs to be held every year with venue rotating among the capitals or other business centers of the member countries with the help of trade promotion agencies of the member countries. These fairs will be exclusively open for enterprises of the member countries and will go a long way in fostering the trade links, intra-regional trade, and filling the information gap. These trade fairs could have on the spot sales of participating countries' goods subject to the rules of origin within a fixed country quota. To encourage the participation of Mekong countries, and their enterprises in greater measure in Indian trade fairs and vice-versa, they could be offered a special concessional rate for space.

Maximizing the synergies in trade in services and promoting trade between Mekong and India by identifying and removing the barriers to service trade

In the world over the fastest growing segment of trade is not goods but services. In the sphere of services, like transport, travel, banking, insurance, technology and other fields the trade between India and Mekong remains negligible and that there is substantial scope for increased trade by maximizing their synergies. Some of these issues are taken up later in this document while we discuss different service sectors like transport, tourism, banking etc.

4.2 Trade Facilitation

Absence of Harmonization and Mutual Recognition of Standards

Lack of common standards in the region has been shown to be a major hindrance to growth of trade between India and the Mekong countries. In this context, it was transpired that there is the need to evolve common standards or mutual recognition of reciprocal standards with respect to product rating, packaging, labeling, etc. Harmonization of conformity assessment procedures could be instrumental not only in achieving scale economies and cost reduction but also in bringing about innovations and promote international division of labor. Thus, an agreement on mutual recognition with regard to standards, inspection and testing could promote trade to a great extent. This calls for cooperation between the standards institutions and export inspection bodies of these countries and India.

Limited Conformity Assessment Procedures

Like other countries, Cambodia Lao and Vietnam also have installed regulatory import controls based on standards and conformity assessment procedures, specifically from the standpoint of health and safety. Accordingly, mutual recognition of conformity assessment procedures between member countries for the purposes of meeting their respective regulatory requirements represents convenient method of reducing non-tariff barriers to trade, and thereby resulting in increased trade between the member countries. There is a need to assess the situation with regard to compatibility of each other's standards and enter into mutual recognition with regard to standards and conformity assessment activities.

Need for Customs Cooperation

Harmonization of customs procedures regarding the tendering, importer registration, shipment, customs and port-clearance, etc. is also important for boosting intra-regional trade. For this the customs authorities of India and Mekong need to discuss ways and means of standardizing their procedures.

4.3 Investment Promotion and Capacity Building

Creation of a revolving fund with an initial corpus of US$ 200 million for concessional lending to Indian investors in Mekong in the spirit of IAI.

All the three countries have set up investment promotion agencies. In this context, it was transpired that the investment promotion agencies may be encouraged to set up their offices in India which in turn could help dissemination of information about the policies, rules and procedures, putting the potential investors in touch with local entrepreneurs, facilitating approvals, among other initiatives.

Today, the leading chambers of commerce, like CII and FICCI, have close interaction with their counterparts in Mekong countries. Such initiatives need to be supplemented with setting up of sectoral bodies to promote business interaction is specific industries. For instance, there should be Mekong-India IT Association, Mekong-India Association of Auto Producers etc. Such bodies would facilitate formation of strategic alliances between the enterprises of the region to exploit their synergy for not only the regional markets but also for third country investments and trade opportunities.

As reported in previous chapters, a major factor that prevents investment in these countries is their limited domestic market. The fact that Indian investment in Vietnam is much higher than in Cambodia, and Laos has been shown to substantiate this case. When it comes to investment aiming at third country market, it was shown that infrastructure facilities and human capital base in countries like Laos and Cambodia are not developed to induce investment in these countries. Hence, it was suggested that given the importance that the Government of India attaches to Mekong partnership, special incentives may be offered to those Indian enterprises investing in countries like Cambodia and Laos. In order to help bridge the ASEAN divide, investment from India to Mekong countries needs to be encouraged. While there are a number of opportunities for investment, the risk factors are also at a relatively higher level. To re-orient Indian firms to Mekong countries government will have to institutionalize certain measures which may include, providing concessional funds from a Revolving Fund specially set up for lending to Indian companies setting up in these companies.

Secondly India could cooperate with Mekong countries in capacity building in a number of areas, which in turn could help attracting further investment. The different areas for the consideration of capacity building are discussed in the forthcoming chapters.

ASEAN-India Business Forum to be complemented with sectoral bodies (eg. ASEAN-India IT Association, ASEAN-India Association of Auto Producers) to promote business interaction in specific industries.

Formation of ASEAN-India business forum and ASEAN-India Business Summits held annually for the past two years are important initiatives towards promoting trade and investment. But to the extent that industries vary not only in terms of their characteristics but also in terms of opportunities and the challenges, it may be more rewarding to have ASEAN India business forums at sectoral/industry level. Such bodies would facilitate formation of strategic alliances between the enterprises of the region to exploit their synergy for not only the regional markets but also for third country investments and trade opportunities.

Indian technology exhibitions in Mekong countries with a focus on SMEs

Indian agencies should organize technology exhibitions in ASEAN countries especially the Mekong countries more frequently with a focus on machinery and equipment for small scale and rural industries to provide the potential entrepreneurs an opportunity to check for themselves the quality and performance of the machinery and that of the end product. The exhibits should be complete with project profiles and other details.

Cooperation between investment promotion agencies

The investment promotion agencies of Mekong countries and India may pay a special attention to investment promotion in each other with the creation of representative offices, dissemination of information about the policies, rules and procedures, putting the potential investors in touch with local entrepreneurs, facilitating approvals, among other initiatives.

Agreement for Investment Promotion and Protection and Double Taxation Avoidance

ASEAN and India may sign a regional investment promotion and protection agreement and regional or bilateral double taxation avoidance agreements within the Framework Agreement for Comprehensive Economic Cooperation.

Banking, Finance, and Capital Market

India joining the Chiang Mai Initiative (CMI) and entering into bilateral swap arrangements with ASEAN+3 countries and participating in the Finance Ministers' Meetings.

Cooperation in the monetary and financial sectors not only facilitates investment, trade and integration within the region but also could contribute to sustained growth. Chiang Mai Initiative (CMI) is one of the most important initiatives among the ASEAN-plus-three countries in the area of monetary and financial cooperation. Under the CMI arrangement, bilateral swap arrangements are made between different pair of countries within the ASEAN-plus-three to provide the exchange rate stability. The ASEAN-plus-three countries also regularly interact at the level of finance ministers to facilitate macroeconomic coordination. As a country seeking deeper economic integration with ASEAN member states, India should join the CMI, enter into bilateral swap arrangements with them and the plus-three countries, and start participating in the finance ministers meetings. In long-run the CMI may evolve in to a basis for a more ambitious institutional architecture for regional monetary and financial cooperation such as an Asian Monetary Fund or a Reserve Bank of Asia that is able to mobilize substantial foreign currency reserves of the region for their development especially that of less developed Mekong countries, besides exchange rate stability.

Cooperate with the Mekong countries in the development of their stock markets.

India has considerable experience in development of capital markets with the Bombay Stock Exchange being one of the oldest and well performing stock exchanges in the world. This expertise could be shared with the ASEAN countries especially the Mekong Countries to assist them in development of their stock markets.

Integration of the capital markets of India and ASEAN by cross-listing of securities with minimum standards for listing rules to facilitating the flows of capital across the region.

The integration of capital markets between ASEAN and India could involve cross listing of securities and shares. This will facilitate the flows of capital across the region. A Working Group of the representatives of respective stock markets may be set up to work out the modalities for cooperation and integration between them. Provision for exchange of financial analysts and consultants will act as a catalyst in the process of developing and integrating the capital markets in the region.

Development of the bond market

The importance of a well-developed bond market for industrial and infrastructural development which is of paramount importance to Mekong countries and India cannot be overemphasized. In this context, an important initiative is the Asian Bond Fund created as a part of the Asian Cooperation Dialogue (ACD) launched by the Prime Minister of Thailand. India has contributed US$ 1 billion to this. More such initiatives may be taken to develop the bond market in the region besides expanding the corpus of the Asian Bond Fund. A substantially expanded Asian bond market could become an important source of funding for regional public goods programmes.

More intensive commercial banking links by facilitating the setting up of branches commercial banks of Mekong countries in India and that of Indian banks in Mekong region to promote the trade transactions

As of now the presence of Indian banks is limited to mostly to Singapore besides a joint venture in Thailand. The commercial banks of Mekong countries and India need to open branches and representative offices in each other to back up and promote the growing trade transactions.

Chapter 5

Transport Infrastructure: Profile and Potentials

5.1 Introduction

Efficient transport linkages have always played a central role in the South, Southeast and East Asian development process: to promote economic growth, to share the benefits of growth with poorer groups and communities, and to connect countries within the region and with the rest of the world.

Much of the Mekong countries continue to grow rapidly in recent period. Urbanization is proceeding at a rapid pace, particularly at coastal Vietnam, resulting which demand for infrastructure services is increasing massively, particularly in cities.

The regional challenge for Mekong countries is to strengthen the connections between countries, and to spread the benefits of growth. In part, the challenge is to create the infrastructure required to connect isolated countries and areas of the region— landlocked Laos. And in part it's about the logistics required to facilitate trade (and lower costs through economies of scale where possible). At the core of Mekong-Ganga Cooperation (MGC) is the idea of the role of transport and communication infrastructure in fostering regional inclusive development.

In this section, we describe the present profile of transport infrastructure and its linkages between India and Mekong countries, and also provide an action plan for strengthening the transport linkages in the region.

5.2. Transport Infrastructure Profile

5.2.1. Road Network

Road sector in Mekong countries plays an important role for intra- and inter- regional movement of goods and services. This sector has also promoted regional development cooperation in Mekong countries as an effective means to meet the emerging challenges of globalization. Performance of road network in Mekong countries in terms of road density is quite notable, particularly in case of less developed Mekong countries and India. In terms of spread of road network, today, one sq. km. of surface area in India is covered by one km. of road. However, quality of road network varies across the country and also across the region. Except Thailand, there is clear absence of availability of all weather paved roads indicating high potentials for future investments in road sector. Laos has comparatively done well in terms of access to paved roads and overall growth of road length; her total road length has grown over 5 per cent per annum during 1991 to 2001 (see Table 5.1).

Although there are apprehensions about the quality of road and harmonization in road standards most of the Mekong countries are still suffer from all-weather stable paved roads. In one hand, Thailand is endowed with fairly well established road network in terms of harmonization of tracks, length, rights of carriage way, etc., on the other, we have Cambodia and Myanmar, where road condition differs widely. There have been efforts in improving road condition in India in recent years; the same in Cambodia, Laos, Myanmar and Vietnam needs immediate attention. Thus, objective in MGC should be to establish harmonized road track across the region so that intra- MGC trade gets adequate fillip. Nonetheless, disparity in road networks in Mekong countries also offers substantial investment opportunities.

5.2.2. Railway Network

Six countries in MGC have in total 75,175 km. railway tracks, whereas India alone shares more than 84 percent. Except in India, railway system in Mekong countries is fairly old, unstable, and obsolete in technology. Virtually, a modern railway system is fully missing in Mekong countries, and Laos is yet to have the railway system even. It may be noted from the Table 5.2 that while India ranks first in terms of railway's area coverage, most of the Mekong countries are still lagging behind in terms of its spread in the economy. There are also high mismatches in railway gauges and rolling stocks. Without a properly laid modern broad gauge railway track in conformity with the world standard, bulk movement of goods and services will always be hampered. Except India, Mekong countries are endowed with narrow gauge, railway system, which disappeared from most part of the world in the last quarter century. Drastic attention is required from governments of the Mekong countries in short term basically in three areas: (a) conversion of narrow gauge to broad gauge track, (b) addition of new capacity, and (c) strengthening of rolling stocks.

Finally, in order to generate bulk movement of goods and services across borders, priority should be to harmonize the railway track and to strengthen adequate capacity of rolling stocks along with effective installation of modern communication systems. In this respect,

Table 5. 1: Road Network in MGC in 2001

Countries	Road Density Per 1000 Sq. Km. of Area		Paved Roads Percentage of Total Roads		Growth in Road Network %
	1991	2001	1991	2001	1991-2001
Cambodia	198	200	7.50	16.20	0.12
India	715	1009	47.30	57.35	4.11
Lao PDR	60	92	16.00	44.50	5.40
Myanmar	38	43	11.20	12.20	1.29
Thailand	102	112	88.40	98.50	0.97
Vietnam	280	296	23.90	25.10	0.57

Note: 1. Average annual growth for the period 1991 to 2001

Data sources: 1. RIS Database based on World Development Indicators CD ROM 2005, World Bank. 2. RIS based on ASEAN Statistical Yearbook 2004, ASEAN Secretariat.

Table 5. 2: Railway Network in MGC in 2002

Countries	Railway Length KM	Railway Density Per 1000 Sq. Km. of Area	Railway Gauge Types[1]
Cambodia	632	3.49	Narrow gauge
India	63140	19.21	Broad gauge
Lao PDR			
Myanmar	4759	7.03	Narrow gauge
Thailand	4044	7.88	Narrow gauge
Vietnam	2600	7.84	Standard gauge + Narrow gauge

Notes: 1. Classification considers 1.676m, 1.435m, 1.000m for Broad, Standard and Narrow gauges of railway track respectively.
Data sources: 1. RIS Database based on World Development Indicators CD ROM 2005, World Bank. 2. RIS based on ASEAN Statistical Yearbook 2004, ASEAN Secretariat.

experiences of India could be of great help towards the development of stable railway network in MGC region.

5.2.3. Air Network

MGC countries have in total 344 airports (domestic and international), but not all are capable of handling international flights. India has comparatively major concentration of airports, while Cambodia, Laos, and Myanmar have relatively less no of airports (see, Table 5.3). In terms of the air passenger density (by this term we mean population availed airways), and air freight density, Thailand occupies the top position. Myanmar has witnessed comparatively high growth in air traffic (freight, passenger and air craft) during 2000 to 2003, whereas Thailand has registered negative growth in air passengers and aircraft departures in the same period. Myanmar's opening up to the world has attracted new air passengers and airlines to operate in the country, whereas stiff competition between the hub airports in Southeast Asia has generated air traffic routings in the region, resulting which Thailand has witnessed a fall in air passengers and airlines. Generally speaking, airways has been found as an essential transportation facility for all Mekong countries.

Therefore, the immediate challenge before the Mekong countries is to establish an open sky policy in the region which can foster people-to-people contact, and strengthen airport infrastructure, in relatively less developed economies, like Cambodia, Laos, Myanmar and Vietnam. Although, cargo airlines run scheduled operations in most of the Mekong countries, the same, in case of commercial airlines, is still absent due to which

Table 5.3. Air Transport in MGC in 2003

Countries	No of airports[1]	Air Freight		Air Passengers			Aircraft Departures	
		Volume MTKM[2]	Growth %	Volume Million	Density Per 100 pop.[3]	Growth	Volume	Growth %
	2003	2003	2000-03	2003	2003[4]	2000-03	2003	2000-03
Cambodia	6	2.60	NA	0.12	1[5]	NA	3600	NA
India	234	580.00	1.97	19.46	2	4.15	263900	10.98
Lao PDR	9	1.90	3.92	0.22	4	1.25	7100	3.65
Myanmar	9	2.10	54.17	1.12	2	51.77	20600	33.33
Thailand	65	1764.10	1.00	16.62	28	-1.47	93600	-2.62
Vietnam	21	164.50	13.41	4.55	5	19.40	47600	21.38

Notes: 1. Considers airports with paved runways. 2. Million tons per km. 3. Air passengers per 100 population. 4. Simple average for the year period 2000-2003. 5. For the period 2002 – 2003.
Data source: RIS Database based on World Development Indicators CD ROM 2005, World Bank

travelers had to incur extra air miles and costs to catch a connecting link from a nearest hub, which sometimes is not again placed in MGC region. Again, due to absence of budgetary support, national carriers of Cambodia, Laos, and Myanmar have to restrict their flying schedule within limited zones. Airways linkages and improvement in civil aviation infrastructure in the areas of cargo tracking and storage systems, runways, air traffic control, etc. need drastic improvement. In this regard, experiences of Thailand could be of great help to strengthen the airways network in MGC. Moreover, to foster people-to-people between India and Mekong countries, direct air connection is the need of the hour, particularly between India and Vietnam.

5.2.4. Maritime Network

All Mekong countries, except Laos, are endowed with seaports – some are sea ports and some are riverine ports. Mekong countries have in total 44 working major ports, which in together handled 611 million tonnes of traffic including 11 million TEUs of container in 2003 (Table 5.4). The region has long coastline and offers world's largest navigable waterways - Mekong and Ganga rivers. Naturally, countries in MGC, except Laos being landlocked, are endowed with port infrastructure. Container traffic has been growing in rapid scale in MGC. Asia's two noted container ports, such as Jawarlal Nehru (India) and Laem Chabang (Thailand), are located here. However, there are shortages in shipping tonnage in MGC which should be strengthened. Port infrastructure facilities in terms of dredging, equipment, human resources, and research vessels in Mekong countries need complete upgradation without which cost of sea transportation within MGC would be growing by manifolds when bulk trading occurs mainly through ports. Experiences of India and Thailand in managing and running port facilities could be of great help to Cambodia, Laos, Myanmar and Vietnam in setting up new ports as well as upgrading existing facilities, and training human resources.

5.3. Cross-border Trade and Transport Facilitation

India is linked with Southeast Asia through Myanmar. India's international border with Myanmar spans about 1,450 km. Even though the cross-border markets are far nearer in terms of both cost and distance than the rest of India's large market places, border trade from India (North Eastern Region of India) has not been growing at a faster rate; her international trade has grown only by

Table 5.4. Maritime Profile of MGC in 2003

Countries	Coastline KM	Navigable waterways KM	No. of Ports[1]	Port Traffic[2] MT[4]	Container traffic Volume MTEU[5]	Container traffic Growth[3] %	Shipping tonnage MGRT[6]
Cambodia	443	1300	6	2	0.13	5.17	1.91
India	7000	5685	13	345	3.92	19.93	6.55
Lao PDR		2897					0.00
Myanmar	1930	7500	9	12	0.16	8.17	0.42
Thailand	3219	3701	7	163	4.41	12.91	2.03
Vietnam	3444	5000	9	89	2.20	28.19	1.17

Notes: 1. Considers only major sea ports. 2. Port traffic for Cambodia, Myanmar and Vietnam stand for the year 2000. 3. Average annual growth for the period 2000 to 2003. 4. Million tons. 5. Million 20 foot equivalent units. 6. Million gross registered tonnage.

Data sources: 1. RIS Database based on World Development Indicators CD ROM 2005, World Bank. 2. RIS based on ASEAN Statistical Yearbook 2004, ASEAN Secretariat.

1.11 per cent per annum during 1997 to 2004. A substantial part of India's trade with Myanmar takes place through land borders. In 2003-04, India's total official border trade with Myanmar was Rs. 0.23 billion, out of which exports and imports were Rs. 0.09 billion and 0.13 billion respectively (Table 5.5). It is clear from the Table 5.5 that there is a noticeable increase in India's border trade with Myanmar due to opening up border trade point at Moreh (Manipur) in 1995.

There are many officially recognized land custom stations (LCS) along India-Myanmar border, of them only 1 LCS is functioning properly - Moreh in Manipur (Tamu in Myanmar). The flow of border trade between India and Myanmar may conveniently be characterized primarily as transit trade. The two-way flow of goods shows that goods produced outside the region are mainly exported through the Moreh-Tamu sector. Similarly, goods of third country origin are imported from Myanmar. India-Myanmar border trade has not yet been linked with the local resource bases and production structures across the border (Das *et al.,* 2005). Perhaps, because of the competitive character of resource bases across the border the linkages of India-Myanmar trade are weak. Border trade between India and Myanmar through Moreh-Tamu LCSs are carried on mostly through barter trade system.[1] Normal trade on demanded items is yet to take a shape on the ground of anomaly in exchange rates between India and Myanmar, resulting which traders from both the sides are not interested for opening letter of credit (LC) channels.[2]

India needs new initiative in border trade with Mekong countries, particularly through Myanmar. Strengthening cooperation between India and Myanmar would facilitate direct (and non-stop) railway/road/air linkage between Mekong countries and India. In view of the regional geo-political setting, cross-border trade between India and Mekong countries will always be beneficial to the local population. However, its contribution largely depends on two factors: the export potential and the existence of suitable conditions for the growth of cities.

5.3.1 India's Trade Facilitation Initiatives

LCSs are gateways for the transit of goods, services and human beings between India and Mekong countries. Steps for improvement of infrastructure at several LCSs have been taken by the Government of India. The 11 LCSs, as shown in the Table 5.6, have been prioritized for development of infrastructure,[3] out of which development of 2 LCSs, namely Moreh and

Table 5.5 India – Myanmar Border Trade

Year	NER Export to[1]			NER Import from[1]		
	Total Export	Myanmar	Other Countries	Total Import	Myanmar	Other countries
	Rs. Billion			Rs. Billion		
1997-98	3.90	0.22		0.49	0.36[2]	
1998-99	4.07	0.06		0.22	0.04	
1999-00	3.96	0.03	3.90	0.19	0.07	0.12
2000-01	4.04	0.06	3.72	0.20	0.12	0.10
2001-02	3.80	0.01	4.07	0.16	0.08	0.08
2002-03	4.10	0.05	4.22	0.21	0.12	0.09
2003-04	4.35	0.09		0.33	0.13	

Notes: 1. Exported / imported from/through Indian's North East Region 2. Due to high demand of wheat flour from Myanmar.
Source: Indian Custom Data, Shillong

Table 5.6 LCS under Renovation/Development in Northeastern India

Sr. No.	Land Custom Station	State	Neighbouring Country
1	Agartala	Tripura	Bangladesh
2	Borsorah	Meghalaya	Bangladesh
3	Dawki	Meghalaya	Bangladesh
4	Demagiri	Mizoram	Bangladesh
5	Ghasuapara	Meghalaya	Bangladesh
6	Karimganj Steamer Ghat	Assam	Bangladesh
7	Moreh	Manipur	Myanmar
8	Old Raghana Bazar	Tripura	Bangladesh
9	Srimantapur	Tripura	Bangladesh
10	Sutarkhandi	Tripura	Bangladesh
11	Zokhawthar (Champai)	Mizoram	Myanmar

Source: Annual Report 2004-05, Ministry of Commerce and Industry, Govt. of India.

Zokhawthar, falling India-Myanmar border, have given highest priority.[4]

Several measures have already taken for trade facilitation from India. However its effects are still limited. The Government of India continues to accord high priority to the development of trade and exports in the North Eastern Region (NER) of India, which is closest to Mekong countries. Following the announcement made by the Indian Prime Minister in respect of measures for the development of exports from the NER in January, 2000, an Export Development Fund (EDF) has been set up with the objective of using the resources for the development of exports from NER. An Empowered Committee has been set up under the Chairmanship of the Additional Secretary, Infrastructure, Department of Commerce, Government of India for approving projects to be funded from the Export Development Fund. The funds are released to the Agricultural & Processed Food Products Export Development Authority (APEDA), which has been nominated as the nodal agency for the scheme. The Government of India has also been assisting the NER states for creation of infrastructure under the Assistance to export States for Development of Export Infrastructure and other activities (ASIDE) scheme. During 2004-05, an amount of Rs. 360 million, constituting 10 percent of the outlay under the scheme, has been allocated for the NER.[5]

5.3.2. Cross-country Transport Linkages: New Initiatives

An extensive traveling in India and Mekong countries makes it clear that four critical components are missing in the region– harmonization of railway tracks, networks, standardization of all weather paved roads, international airports, and modern land custom stations – which are seriously hindering trade between India and Mekong countries. For instance, average road condition and railway system inside Myanmar needs to be rebuilt. Roads leading to Myanmar from the India's NER require widening and better maintenance to allow efficient movement of larger trucks. Development of regional economic corridors taking countries in the region will facilitate investments as well as spur economic growth in MGC. One of such option would be linking IMTTH with EWEC. Greater economic and/or commercial cooperation may be sought from the developed countries which have better technological expertise on transport and communications.

India – Myanmar – Thailand Trilateral Highway (IMTTH)

India – Myanmar – Thailand Trilateral Highway (IMTTH) from

Moreh (in India) to Mae Sot (in Thailand) through Bagan (in Myanmar) links India with Mekong countires. The IMTTH is divided into three phases; the first phase includes 78 km of new roads, upgradation of about 400 km of roads, construction of all-weather approach lanes, rehabilitation/reconstruction of weak or distressed bridges and a detailed examination of a project on the Ayeyarwaddy river as well as a causeway. Phase-I of the IMTTA has already taken up in early 2005. India assumes responsibility of 78 km of missing links and 58 Km of upgradation as part of Phase-I. India may also take up additional 132 Km of upgradation. Thailand would take up upgradation of 136 km and 62 km sectors of Phase-I and another 100 km as part of Phase-II. Myanmar indicated willingness to take up intermediary approach roads, reconstruction/ rehabilitation of weak bridges. India has agreed to offer credit at concessional terms to Myanmar for financing new constructions from Chaungma-Yinmabin (30 km.) and Lingadaw-Letsegan-Pakokku (48 km.). India has also agreed to consider similar financing of the upgradation to two-lane standard of the Yinmabin-Pale-Lingadaw (50 km.) inside Myanmar. Further, India has agreed to consider, subject to internal approvals, financing of the upgradation of the Bagan-Meiktila (132 km.) segment in Myanmar. Indian has also agreed to undertake the preparation of a Detailed Project Report (DPR) for construction of a bridge on the Ayeyarwaddy river and for the causeways near Kyadet. Thailand has also agreed to extend concessional loans for financing the upgradation to two-lane standard of the Thaton-Hpa-an-Kawkareik section (136 km.) and Kawkareik-Myawaddy section (62 km.). The Thailand side also agreed to assist Myanmar in financing of the route Thaton-Mawlamyine-Mudon-Kawkareik as a second phase of the project. Myanmar has agreed to finance construction of all weather intermediate lane approach roads at both ends from Pakokku to Bagan up to the existing ferry crossing and the rehabilitation/ reconstruction of only distressed and weak bridges. Myanmar has decided to explore the possibility of important commercial segments of the highway being constructed, operated and maintained by operators on a commercial basis.[6]

East-West Economic Corridor (EWEC)

East-West Economic Corridor (EWEC), the first East-West sea-land-sea route to be implemented in the Greater Mekong Subregion (GMS), is a strategic communication network that will link the China Sea (Port of Da Nang, Vietnam) to the Bay of Bengal, thereby connecting East/West in the shortest and most effective way. EWEC represents a historic trade/transport link through the Mekong subregion. Running from Da Nang Port in Vietnam, through Thailand, transiting Lao PDR via new Second Friendship Bridge at Savannakhet and proceeding west to Thailand and Myanmar, the EWEC will significantly shorten shipping transit times through the Mekong and by doing so, provide further stimulus to trade and investment growth throughout the Mekong .

Delhi – Hanoi Railway Link

Railways can play a positive role in integrating India with Mekong countries which will promote bulk trans-national movement of goods and services amongst the neighbouring countries. Needs are two folds – (a) to link India's Manipur with India's main railway corridor, and (b) to re-establish and renovate railway networks in all Mekong countries. Harmonisation of railway track in the region is very much essential.[7] Without having a compatible and strong railway system inside Mekong countries, closer communication between India and Mekong countries will be unfulfilled. Indian government has come forward and extended US$ 56 million credit to the Myanmar government for upgradation of 640 km railway system between Mandalay and Yangon.[8] Similar initiative should be taken up in southern (Yangon to Dawei) and northern (Mandalay to Kalay) Myanmar. A possible connection between Myanmar and Thailand could be via Thanbyuzayat and Three Pagoda Pass, and between India and Myanmar could be by constructing new railway line between Tamu and Kalay. On completion of these projects, there could be possibilities for India – Myanmar – Thailand – Malaysia - Singapore rail link, and finally a railway system that will connect Delhi with Hanoi.

5.4. Regional Cooperation and Action Plan

Getting the goods to market has been the key to the prosperity of any regional economic bloc. Trade has been crucial to rapid growth, and trade expansion is equally found to be important. Superior logistics has played an important role in most of the economic integration process. This is particularly so in case of ASEAN and EU. However, performance varies across Mekong countries. On the whole, it appears that logistics efficiency of MGC region appears to be falling behind on the ground of inadequate transportation networks. Increased logistics costs stem from inadequate transport infrastructure, underdeveloped logistics and transport services, and bureaucratic import and export procedures. Issues of coordination feature prominently in the broad measures required to address the logistics challenges of Mekong countries. This requires, in particular, coordination across national boundaries (in harmonization and simplification of customs procedures, for instance, or information sharing), and in urban management (most important, in the implementation of land use policies for the location of roads, ports, and other infrastructure related to logistics). Strong coordination is thus a prominent feature for success of any regional economic bloc.

Countries in MGC are gradually embracing free trade and their economies are becoming more globalized. Although transport problems within a country are local, but linking the logistics networks, be it railways or roadways, has a regional component through their impact on trade and investment. Solving this major problem certainly requires international and regional cooperation. It is not enough to just strengthen the systems of each country—they also require networking to facilitate information sharing, bulk trans-border movement of goods, etc. Since development and construction of sustainable transport systems are major international subjects, there is an undoubted need for an international database where the current conditions, problems, and experiences of each country can be accessed by all. The aim of building sustainable infrastructure will require strengthened regional cooperation between governments, industry and academia in a variety of fields, including education of the workforce, establishment of common specifications, technical cooperation, financial cooperation, etc. within the frame work of MGC.

5.4.1. Mekong - Ganga Relationship: A Positive Sum Game

India's trade and investment links with Mekong countries over the past few years suggest the presence of complementarities and unexploited potentials. The integration of Indian economy with East Asia in general and Mekong countries in particular has appeared to be mutual advantageous. The pattern of development, endowments and capabilities of Mekong countries open new opportunities for India. Quite naturally, this development could facilitate the exploitation of substantial complementarities and important synergies that exist between these economies and would help in expediting the process of development.

What is then required is to enhance India's trade with bordering Mekong countries and beyond. To address this, we need to strengthen our internal trading infrastructure facilities and also to help our Mekong countries to strengthen the same. Nonetheless, compared with the strength of India, there exists much space and huge potential for the development of trade and economic relations in Mekong countries. India and Mekong countries are together involved in restructuring international as well as regional economic agenda. Therefore, deepening connectivity between India and Mekong countries could become a successful economic integration process on the backdrop of India's growing integration with East provided we make an honest attempt to widen India's "hard and soft" linkages with Mekong countries. In a sense, these synergies now being rejuvenated centre around shared vision towards economic development when Mekong countries has high "embedded" potentials.

In addition to the trade and transport issues, MGC in together should take help from UNESCAP's initiatives in transport cooperation. UNESCAP has worked extensively in the transport sector to promot regional development cooperation as an effective means for countries to meet the emerging challenges of globalization. The most significant transport projects promoted by UNESCAP are the Asian Highway (AH) and the Trans-Asian Railway (TAR), which together provide a web of transport links spanning the region. The Intergovernmental Agreement on the Asian Highway Network was signed by 26 member countries at Shanghai during the 60th session of ESCAP. It clearly demonstrates the desire and capacity of Asian countries to work together, now and for the future, to achieve common goals.

With the AH in place, new opportunities will be created, and economic growth and social development will be further strengthened. The involved governments are committed to developing the 140,000 km regional transport network that spans across 32 countries. This will certainly strengthen regional integration and economic cooperation, accelerating trade and tourism in the region.

Realizing the potential benefits of the AH Agreement, UNESCAP member countries requested this year to develop a similar agreement for the TAR network. The TAR network, cutting across the entire Asian continent, offers a land transport alternative, which connects Asian markets with Europe and facilitates intra-regional and inter-regional movements. The network was updated in 2003 to include new linkages proposed by member countries and now comprises over 80,000 km of tracks in 25 countries. Rail transport has considerable potential, particularly for Asia's landlocked countries, and offers significant advantages for the environment and safety.

We also need to bring experts together to share their technical knowledge, "unique experience" from different range of perspectives in facilitating cross-country transport infrastructure facilities. MGC countries also have to explore opportunities to expand trade and investment in the Mekong basin in general and along the IMTTH and EWEC linking the Indian Ocean with Pacific Ocean through major cities in the Mekong basin in particular.

In this respect further research and extensive discussion on some important key technical issues such as regulations, standardizations, specialized finance, risk underwriting in a trans-border route, international security, through-passage modalities and facilitation, global value chain manufacture and sub-contracting service sector opportunities would pave the way for upgradation of knowledge and regional planning process in MGC. Therefore, the improvement in interconnectivity among the countries in MGC is prerequisite to make better use of their infrastructure and contribute to economic development of regional countries with strengthening regional economic integration.

Endnotes

1 Traditional exchange of locally produced goods up to US$ 1000 between indigenous people residing up to 40 km on either side of the border, and 22 exchangeable items of agriculture and forest products up to US$ 20,000 are permissible for border trading at Moreh-Tamu sector.

2 Due to absence of normal currency exchange rate between India and Myanmar, formal settlement of trade transactions between Myanmar and India takes place through ACU (Asian Clearing Unit) dollar. Over and above, there is economic sanction of United States Government on Myanmar for which operationalization of LC between India and Myanmar is not feasible at this moment.

3 It has been decided that requirement of funds for the development of infrastructure at 11 LCSs would be met from the central component of ASIDE. RITES Ltd. has been asked to conduct a study on the development of infrastructure at Borsorah and Agartala LCS in NER. An Inter- Ministerial Committee for the development of LCSs has been constituted under the Chairmanship of the Additional Secretary (Infrastructure), Department of Commerce, Government of India with representatives from the Ministry of External Affairs, Ministries of Home Affairs, Railways, Road Transport and Highways, Telecommunications, Department of Revenue, Reserve Bank of India, Central Warehousing Corporation, National Highways Authority of India, Border Roads Organization and the concerned State Governments. Coordination Committee at each of the LCSs has also been constituted under the Deputy Commissioner of Customs / Assistant Commissioner of Customs for deliberating on local issues connected with day to day functioning of the Station (Government of India, 2005).

4 The Central Warehousing Corporation (CWC) has conducted studies on requirement of infrastructure facilities at Moreh (Manipur), Dawki (Meghalaya) and Sutarkandi (Assam) for improvement of LCS. CWC is the appointed agency for the development of Moreh, Dawki and Sutarkandi LCS, whereas the Zokhawthar (Mizoram) will be developed by the Borders Road Organisation (BRO) in cooperation with the Mizoram Government. (Government of India, 2005).

5 Source - Government of India, 2005.

6 Source - Ministry of External Affairs, Government of India

7 Indian Railways is actively engaged in harmonization and construction of railway tracks in NER. Considering the projects already sanctioned and under construction, Diphu – Karong – Imphal - Moreh rail link (in Indian side) is identified for development which will link India with ASEAN. Although at present, construction work is being carried out in Diphu – Karong section, linking Karong with Morea via Imphal would link India with Thailand provided railway system in other side (Myanmar) is also developed simultaneously.

8 Source - Ministry of External Affairs, Govt. of India.

Chapter 6

India-Mekong Relationship: Other Sectors of Cooperation

This chapter essentially deals other areas of cooperation between India and Mekong countries based on the detailed discussion that we had on the issue with different stakeholders in India that included the government officials dealing with trade, investment, technology and other related aspects, a cross section of entrepreneurs and the academia. It was generally held that, in the context of India's deepening relationship with ASEAN and in evolving an Asian Economic Community that has been discussed at different forums, more importantly in strengthening South-South Cooperation India's engagement with the Mekong countries, which was already set in motion, assumes importance. What follows is a highlight of the main findings that emerged from our discussion.

6.1 Science and Technology and Human Resource Development

Science and Technology

All the three countries in Mekong attach utmost importance to develop their science and technology capability. This is an area where India-Mekong partnership will have rich dividends. Some progress has already been made in terms of providing IT training for the officers from Mekong countries in India, facilitating the setting up of an IT center in Vietnam, and some of the Indian firms have set up training centers in Vietnam. The initiatives in information technology have to be complemented with human resource development efforts at different levels. To begin with, software development capabilities are to be imparted to help designing the local content according to local needs and in local languages. Local content development cannot give the desired result unless local people are empowered to access and use the web content for their benefit. In this context various innovations made by India in the field both hardware and software could be of immense importance to Cambodia, Laos and Vietnam. India being a country with largest number of e-governance projects and IT initiatives for development at the instance of different stakeholders like, governments, civil society organizations, and the private sector, a forum may be evolved to share their experiences for mutual benefit. India's experience with setting up of software technology parks also offers immense potential for cooperation.

Setting up of Advanced Institutes of Information Technologies in different Mekong countries for facilitating the building up of ICT capabilities in Mekong countries.

India has facilitated the setting up an advanced center for Information Technology in Hanoi, Vietnam. This center deals with e-learning, IT training, distance education and other areas, which help building up IT human capital. It is understood that a similar center is being planned in Laos. Given the fact that other Mekong countries are also not endowed with the needed human capital for the development of IT, setting up of such centers in other countries will contribute towards the development of IT base in these countries.

Creating a forum of different stakeholders like private sector, civil society organizations and government for sharing experiences/expertise in the field of e-governance, harnessing ICT for development, including the capabilities in Free or Open Source Software for mutual benefit.

India is considered as having the largest number of e-governance projects and IT initiatives for development at the instance of different stakeholders like, governments, civil society organizations and the private sector. The expertise and experience that India has in this field will be of particular relevance to Mekong countries. The Mekong countries are committed to harnessing ICT for their development. All of them are today having an IT policy and much needs to be done in the sphere of capacity building. While significant help has been forthcoming in building up hardware infrastructure, India could cooperate in developing local content according to local needs and in local languages. Local content development cannot give the desired result unless local people are empowered to access and use the web content for their benefit. In this context various innovations made by India in the field of both hardware and software could be of immense importance especially to the less developed countries in the ASEAN. Given the fact that the socio-economic milieu in the Mekong countries are similar to the Indian context, much could be learned from India's e-governance experiments and IT projects for rural development.

A Network of IT Industry Associations in the Mekong and India may be fostered for exploring business opportunities and joint initiatives for strengthening the IT foundation of the region.

In the field of technology management, cooperation may address issues like management of IPR, technology forecasting, technology assessment, technology intermediation, etc.

In frontier sciences like biotechnology, space research, etc, focus should be on basic research, but in other areas applied research and management of technology could be the primary consideration. The management of technology may cover issues like a) management of IPR and technical cooperation in implementation of WTO commitments such as product patents, and b) technology management with focus on technology forecasting, technology intermediation etc. The cooperation in S&T has to focus on all dimensions, and implementation of these aspects may determine the extent of success in the cooperation between India and Mekong.

Setting up of a Technology Transfer Network, which facilitates the pooling of information on the availability of technologies with the enterprises/R&D organizations in the region that could be transferred.

Since 1990s there have been a large number of technology licensing agreements between India and the firms abroad. Most of these agreements were with the western world.

In the field of space technology and remote sensing, cooperation may lead to the provision of human resource development in GIS, disaster warning and joint programme for the fabrication and launching of satellites for remote sensing, broadcasting and communication

The regional cooperation in space technology could focus on remote sensing, disaster management, fabrication and launching of satellites for broadcasting and communication needs, among others. Countries like Malaysia are engaged in receiving data from remote sensing satellites from various countries including Indian Remote Sensing (IRS). Such database is useful for optimum management of natural resources in individual economies in Mekong region and also the whole region. Some countries in the region have got their micro-satellites fabricated in other countries. But their experiences have not been very satisfactory with respect to transfer of expertise in handling them through training programmes leading to continued high dependence on suppliers as well as cost aspect of satellite fabrication. A number of Mekong countries would like to develop their capabilities and facilities in remote sensing. Some of them are also interested in having their satellites launched to support their broadcasting, communication and remote sensing networks. Here India's strong capability and infrastructure for satellite design, fabrication, launching as well as training of personnel could be made use of by Mekong countries. India's Antrix Corporation has emerged as one of the most competitive supplier for these services in the world. Some training programmes on remote sensing are going on between India and Mekong countries. Under these programmes there is provision to use IRS data for environmental management such as forest fire, monitoring marine and coastal management, etc. The training programme may be useful for equipping the participants in using remote sensing data, processing, analysis and interpretation as well as information extraction for resource management. There should be some institutional mechanism for imparting training to the Mekong nationals in various disciplines concerning space programme. Indian Space Research Organization (ISRO) and Antrix could also design a training programme for meeting the specific requirements of ASEAN in general and Mekong countries in particular.

Human Resource Development

Increasing the number of fellowship for the students, especially to those from Mekong countries to pursue IT education in India

India already provides training facilities and fellowship for the officers from Mekong countries. At present 45 officers from each of the Mekong countries are getting trained. Given the fact that the strategy of training the trainers has its own limits, it may be worth its while to explore the possibility of exploring the possibility of providing training to more people and attracting more students to pursue their higher education in India.

Setting up of Department of Electronics (DoE) Accredited Software Development and Training Centers in the Mekong countries and providing DoE accreditation to existing training centers.

Computer and English are the buzz-words of the younger generation in the Mekong countries. Accordingly, there are a number of training centers offering software training of varying quality. Very often these centers are generating unemployable youth – leading to wastage of resources. Thus, there is the need for general improvement in standards.

Speedy establishment of Entrepreneurship Development Institute of India in Cambodia and Vietnam.

Notwithstanding the fact that some of the Mekong countries are having very liberal foreign investment policy, some of their success in attracting investment has not been highly laudable. One of the reasons found is the absence of a strong local private sector, for historical reasons. Given the fact that the presence of a vibrant entrepreneurial class is the key to facilitating trade, investment and technology transfer, the need for developing an entrepreneurial base in the country cannot be over emphasized. There is also a general consensus that entrepreneurs are not only born but could be developed. India has taken initiatives for setting up institutions for providing training to the prospective entrepreneurs and promotion of entrepreneurship. India's Entrepreneurship Development Institute (EDI) has trained Entrepreneur Trainer-Motivators (ETMs) from several developing countries, sometimes with the World Bank assistance. These ETMs in turn organize Entrepreneurship Development Programmes in their home countries under the supervision of EDI. In addition, EDI identifies viable small-scale projects and prepares project profiles for different developing countries. Thus the scope of regional cooperation needs to be expanded to cover entrepreneurship development to speed up the process of industrialization in these countries. The EDI could design special courses for training ETMs for the ASEAN countries especially for Mekong countries, which may be delivered from a Centre set up in one of the Mekong countries. These programmes could be coordinated with those suggested under SMEs cooperation. In 2003, India established a branch of EDI in Laos. Initiatives have to be taken for setting up branches of EDI in Cambodia and Vietnam at the earliest.

India also may facilitate setting up of centers for teaching English language in the Mekong countries.

While it is imperative to have English proficiency for survival in the globalised world, the general level of English training in the Mekong countries is considered as poor. Given India's capability in this field, initiatives may be made to facilitate setting up of English teaching centers in the Mekong countries at the instance of India's private sector and universities. Here it may be noted that India has been providing English language training programme for college teachers of Mekong countries. As a part of her support to the Initiative for ASEAN Integration (IAI), India has also signed an MoU with Singapore for joint training programme at Singapore IAI Centres in Mekong capitals. Possibilities of establishing a vocational training center are being explored for Mekong countries.

Evolving an ASEAN-India University Network that involves, among other things, exchange of students, faculty and scholars, mutual recognition of degrees, courses and credits and promotion of joint research.

The human resource development effort cannot be confined to software and select areas of frontier technologies. We envisage partnership for human resource development in a wide range areas which *inter alia* calls for mutual recognition of degrees, courses and credits between the Universities and other institutions of higher learning within the region, exchange of faculties and facilitating greater mobility of students between India and Mekong countries. This in turn could further the people-to-people contacts and thereby promote cooperation in other related areas such as science and technology, trade and investment, and tourism. India has already provided a number of training slots to trainees from new ASEAN members in various disciplines. The number of training slots needs to be increased.

Therefore, it may be concluded that India could cooperate with Mekong countries for human resource development in a wide range of areas which, *inter alia,* calls for mutual recognition of degrees, courses and credits between the Universities and other institutions of higher learning within the region, exchange of faculties, facilitating greater mobility of students between countries. This in turn could further enhance the people-to-people contacts, and thereby promote cooperation in other related areas such as science and technology, trade and investment, and tourism.

In the era of globalization, English has become a language with immense importance. The Mekong countries in general are weak in English language and they are keen on developing this capability. Given India's capability in this field, this is could be an area of special focus.

Presence of a vibrant entrepreneurial class is also the key to facilitating trade, investment and technology transfer. It was shown that a major factor that acts as a hindrance to foreign investment in these countries is the absence of a vibrant private sector and limited entrepreneurial base. Hence, the human resource development effort needs to give due emphasis on developing entrepreneurial capabilities. India has taken initiatives for setting up institutions for providing training to the prospective entrepreneurs and promotion of entrepreneurship as a factor of development. India's Entrepreneurship Development Institute (EDI) has trained Entrepreneur Trainer-Motivators (ETMs) from several developing countries, sometimes with the World Bank assistance. These ETMs in turn organize Entrepreneurship Development Programs in their home countries under the supervision of EDI. In addition, EDI identifies viable small-scale projects and prepares project profiles for different developing countries. Thus, the scope of regional cooperation needs to be expanded to cover entrepreneurship development to make these countries attractive for those firms intending to set up joint ventures. EDI has already started functioning at Laos since 2004 and expected to start operation in Cambodia, Vietnam and Myanmar by 2005.

6.2 Sharing of Experience on Managing Development

There is an enormous potential for sharing development experiences between Mekong and India. Given the similarity in policy regimes that existed in India and the Mekong countries, much could be learned by the Mekong countries in bringing about successful transition. There could be scope for learning from each other even in terms of broad development strategy and evolving an Asian consensus on the basis of indigenous experiences. In fact Asia is sitting on a gold mine of success stories of development, the likes of which cannot be found either in the developed countries or developing countries in other regions. To take advantage of this potential following are some of the measures worth considering.

Regular meetings of the India-Mekong Network of Think-Tanks should be institutionalized in India and in Mekong on a rotational basis to facilitate exchange of development experiences

There is a concerted effort of the Think-tanks in these countries to elicit lessons of these experience in successful development and disseminate them for the benefit of late comers in the region. Most of these Asian countries have followed a model of public-private partnership rather than either state-led or private sector led growth and it would be useful for the latecomers in the region to articulate the modalities of such partnership. What India has done to maintain relative stability of real effective exchange rate may have lessons for other countries in the region often buffeted by high instability in their exchange rates. Then there some of the Mekong countries have been neglected by multilateral institutions (because of politicization inconsistent with their Articles of Agreement) and which urgently need advice and assistance from other sources.

Instituting fellowships for promoting studies on Mekong-Ganga relationship

Instituting fellowships, Visiting Fellowships of six months each under which two Indian academics, keeping gender balance, could visit the ASEAN countries and two ASEAN scholars visit India to exclusively work on policy research project in a specific area of ASEAN-India cooperation during their stay at the host country think-tank. These Fellowships could be attached to AINTT and be coordinated by RIS. This programme, besides contributing to policy research of relevance, will develop generating a cadre of researchers interested and specialized in ASEAN-India relations.

6.3 Pharmaceuticals and Health

India has been successful in developing a highly competitive generic pharmaceuticals industry, which has made medicines more affordable to the masses. The Indian experiences and capability in the sector can be fruitfully shared with Mekong countries. At the same time there are a number of areas wherein India could also ASEAN and Mekong countries learn from Mekong and areas where joint initiatives bring mutual benefit.

Sharing of India's experiences and capability in developing a highly competitive generic pharmaceuticals industry, which has made medicines more affordable to the masses.

A number of Indian pharmaceutical companies have already been set up joint ventures or production bases in some Mekong countries. For example Ranbaxy has setup 100% subsidiary at Vietnam. It also has wide distribution network in Cambodia and Laos. Appllo Group is planning to set up specialty hospitals in Mekong countries.

There are a number of diseases which are common to Mekong and India and joint research in this area is bound to provide rich dividends not only in terms of addressing the basic health problems of the people but also in developing a vibrant pharmaceutical industry in the region The scope of cooperation in Pharmaceuticals may be extended to cover other areas like Ayurveda & herbal medicines such that India could learn from Mekong countries' experiences and expertise in exploiting her potential as an exporter of herbal products.

Joint R&D for development of drugs for telemedicine, health services and health-care management are some of the related areas with immense potential for cooperation. In the field of health care sharing the experiences could lead to mutual learning.

ASEAN and India have set up a Task Force in the area of health and pharmaceuticals to examine issues concerning cooperation in the sector and in improving the access to essential drug and life saving medicines at affordable prices. Similar initiative can be taken up between India and Mekong countries. The scope of cooperation could be extended to cover other areas like Ayurveda & herbal medicines, joint R&D for development of drugs for tropical diseases, tele-medicine, health services and health-care management. Since India has cutting edge medical expertise, a networking group between hospitals and health centres of Mekong-India could be established for promotion of health and medical facilities in the region. Also India is emerging as a major source of high quality health-care services at a much lower cost as compared to rest of the world, there appears to be immense scope for making use of the facilities in India for mutual advantage.

Recent experiences with the incidence of SARS and bird flu emphasize the need for institutional arrangements between India and Mekong countries, both preventive and curative, to address health related issues having bearing on countries in the region.

6.4 Commodities, Agriculture, Horticulture and Food Processing

In Cambodia and Laos, large area of land remains to be brought under cultivation and that there is significant scope for improving the yield levels of almost all the crops. The agro climatic condition in these countries is best suited for crops like coconut, natural rubber, coffee black pepper, etc. where India has developed a number of high yielding varieties, and new cultural practices have been developed, which could be shared with these countries. In this context, the special role of different commodity boards has been highlighted. India's expertise in developing a large number of coconut-based products, if shared with countries like Laos and Cambodia, could be instrumental in generating considerable employment. Many such instances could be identified for mutually beneficial cooperation. In case of Vietnam, the situation appears to be different wherein both countries compete in a number of crops. For example, just like India, Vietnam is also a major producer of black pepper, natural rubber, coffee, coconut, etc. In fact the second largest export item of Vietnam to India this year has been black pepper. In such a context, apart from sharing experience, India Vietnam cooperation in supply management and joint marketing is shown to be beneficial to both countries.

Closer interaction between the commodity boards in India and their counterparts in Mekong countries with a view to learning from each other's experience relating to farm mechanization, post-harvest technologies, organic farming, etc. and to initiate joint actions on issues of common interest.

In India, Commodity Boards were established by the Ministry of Commerce to deal with issues relating to production, marketing and exports. Various initiatives have already been taken jointly by the Commodity Boards in India and their counterparts in Mekong countries to foster collective action to address the common problems. We envisage furthering and consolidating of various collective initiatives at the instance of different commodity boards with a view to achieve greater degree of supply management of primary commodities and enable the countries concerned to go up the value chain such that commodity producers and more importantly the millions of plantation workers are ensured of a steady and decent level of income. Given the fact that there is huge potential for increasing commodity production Mekong countries, especially Laos, and Cambodia much could be gained by cooperation.

Besides commodities, agriculture sector and post-harvest technologies present potential for fruitful cooperation. Agriculture plays an important role in the economies of Mekong and India as a source of output, jobs and livelihood. India and Mekong countries could share their expertise in plant breeding and agriculture biotechnology for improving the efficiency of the agriculture. India has developed tropical horticulture and floriculture industry. Mekong countries can benefit from their expertise in horticulture and floriculture and post-harvest technology to increase the shelf-life, processing and packaging while meeting international sanitary and phytosanitary standards.

6.5 Small and Medium Enterprises (SMEs)

SMEs not only contribute a substantial proportion of industrial output, employment and exports in India, they are breeding grounds for entrepreneurship. In India a number of highly successful first generation entrepreneurs started as small-scale industrialists. In the current era of globalization, SMEs are faced with new challenges. Hence, India and Mekong countries can share mutual experiences in strengthening small-scale industries through various direct and indirect support mechanisms. It could be of particular relevance for promoting industrial development in the Mekong countries.

The small-scale industry promotion agencies of India and Mekong countries establish liaison with each other in setting up industrial estates, common facility centers, or prototype development and training centers, tool rooms and in training of personnel for operation and maintenance of SSIs.

The cooperation in this area could involve mutual assistance for setting up infrastructure, supply of consultancy services and plant and machinery, and training of personnel, especially for the Mekong countries.

Associations of small-scale industries and other non-governmental organizations should be encouraged to establish liaison with their counterparts in other countries in the region.

Here the focus may be more on Mekong countries. Such forums may be induced to form a regional association as a forum for the exchange of views, contacts and information. They also be instrumental in facilitating greater interaction and exchange of information by organizing technology exhibitions in Mekong countries more frequently with a focus on machinery and equipment for small scale and rural industries to provide the potential entrepreneurs an opportunity to check for themselves the quality and performance of the machinery and that of the end product.

6.6 Tourism and Culture

Tourism plays an important role in the economies of a number of Mekong countries. Besides contributing to the national income, promotion of intra-regional tourism has other beneficial spillovers for trade and people-to-people contacts. The shared history and culture dating back to several centuries provides a base for tourism exchanges. A large number of tourists from Southeast Asia come to centres of Buddhist pilgrimage in India every year. With the rise of Indian middle class with higher purchasing power, India has also emerged as a big market for Mekong countries as a source of tourists. The specific action points to promote tourism include:

To attract more Mekong tourists to India, India may offer Mekong national preferential/concessional tariff rates on admissions to popular tourist places as well as for staying in the luxury hotels as applicable to Indian and SAARC nationals. Also cooperation in facilitation of tourism with easier visa facilities and initiatives to train tourist guides in local Mekong languages will help promoting tourism.

Encouraging an environment to revitalize the cultural heritage and exchanges of developmental experiences between India and Mekong.

Regularize the meetings of tourism ministers of India and Mekong countries to take the cooperation in tourism forward.

6.7 Infrastructure Development

Industrial investment in countries like Cambodia and Laos is constrained by poor infrastructure. In Cambodia, for example, only about eight per cent of the household are having access to electricity despite the potential for the generation of hydroelectricity. Laos has immense untapped potential for hydroelectric projects. These are areas where India's large companies could consider investment. The situation is not much different with respect to transport infrastructure either. In Cambodia, for example, the total rail length is only over 600 Kms and that remained constant for many years. All these are areas where India has built up considerable expertise over the years which in turn open opportunities for mutually beneficial cooperation in the short run and long run.

6.8 People-to-People Contacts

Despite historical linkages today, there is very limited people to people contact between India and Mekong countries. This in turn offers very limited information about each other and also contributes towards limited trade and investment. To address this issue, the need for improving connectivity between these countries has been often highlighted. This becomes especially important because at present there is no direct air linkage between any of the Indian cities and the Mekong countries. An important way to promote people to people contact and also to generate considerable employment and income is through promoting tourism.

Importance of people-to-people contacts for intensifying cooperation cannot be over-emphasized. Several possibilities exist, in addition to those specified in the specific sectors, for improving the people-to-people exchanges.

Facilitate greater interaction between media of India and Mekong countries for reducing the information gap.

Greater interaction between media India and Mekong countries is crucial for reducing the information gap. There is very little reporting on Mekong countries in the Indian media and vice versa. To bridge this gap, some exchange fellowships for media persons and journalists could be set up to allow for Mekong journalists to spend some time in India and vice versa.

Cooperation in Entertainment Industry

Some of the Mekong countries like Cambodia, and Laos have excellent locales for shooting films scenes. USA, Korea, Japan and France have already made films including the famous 'Tomb Raider' with Angkor Wat providing excellent natural settings. The world's largest film making country, India, which influenced all the great monuments of these countries are yet to make even a single film using these locales. Given the fact that Indian films are already popular in ASEAN countries, such initiatives will provide further demand for Indian films. The TV and Radio broadcasting companies of the region could join hands to launch an Asian Channel covering news as well as entertainment content from the entire region. Indian entertainment industry is the largest producer of feature films in the world, could provide a backup for the Channel. Such a Channel would also serve the growing clientele of migrant population and diaspora within the region besides addressing the information gap. This by itself might facilitate greater integration of media groups within the region.

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