

# **South-South Economic Cooperation: Exploring Mekong Ganga Relationship**

## **Current Scenario and Potential for Trade and Investment between Laos and India**

### **I. Background of the Study**

With reference to the Meeting regarding South-South Economic Cooperation: Exploring Mekong Ganga Relationship held in New Delhi, India between 8 and 9 October 2004, it has been decided that the project team carried out fieldwork in each of the countries, namely Laos, Vietnam, and Cambodia.

This paper reports the results of the field research in Laos on the perceptions of different stakeholders (policy-makers, business community, trade and investment promotion bodies, civil society organizations) on present and future scenarios of economic cooperation between Laos and India. The field research was conducted through interview and discussions with relevant stakeholders and their representative bodies.

### **II. Objective**

The primary objective of the study is to investigate current situation and potentials for trade and investment between Laos and India.

### **III. Scope of Study**

The research is designed to interview concerned parties on trade between Laos and India, which includes both private and public sectors. Public sectors cover the Ministry of Foreign Affairs, Ministry of Commerce, Ministry of Agriculture, Chamber of Commerce, Foreign Investment Committee, and Embassy of India. Private sectors include trading groups and some selected import-export companies.

### **IV. Methodology**

The data collection is based on the interview question guideline from India. The questions were translated into Lao for convenience and easy to understand in the interview session. An interview team was established to make an appointment and interview the target groups.

Regarding the structure of the interview, it was in a discussion form. Since asking the interviewee to fill up the set questionnaire would narrow down the scope of

information, the data collection was on an in depth interview in the virtual sense. In brief, it was a purposive survey.

The interviews with public sector were very formal in a sense. Due to bureaucratic procedure of the public sector, the research team was requested to make formal proposal to the related ministries. Once the proposal was submitted to the ministry office, the person who is in charge of the relationship with India was appointed by the Ministry for an interview. Therefore, in public sector, only one interviewee was provided by each ministry.

## **V. Results**

The results of the study will be presented in two parts. The first part deals with the institutional relationship between Laos and India. The second part presents the analysis results of the interviews.

## **VI. Institutional Relationship**

### **1.) *Embassy of India***

The Embassy of India regards Laos as small but growing market for Indian exporters and service industry, particularly in the field of agriculture, infrastructure and manufacturing. The number of companies interested in participating in developmental projects funded by multilateral economic institutions namely ADB and World Bank is growing.

After MOU on Economic and Technical Cooperation signing in 1994, the two countries set up Joint Commission for Economic, Technical, Scientific and Cooperation in May 1997. Up to now, the Joint Committee Meetings were conducted 4 times, discussing on the efforts to expand the scope of bilateral trade to increase the volume of trade, which is currently very low. The Joint Commission investigates the possibilities of promoting joint ventures, exchange of business delegations, commercial information, participation in trade fairs and other trade promotion measures.

India offered a US\$ 2 million loan in 1999 to support agricultural extension project. With in the loan, Jaguar Overseas Ltd supplied tractors and agricultural implements, and Tata International Ltd is now currently setting up a foundry for the manufacturer of spare parts of pumps and agricultural implements.

Information technology is a very new and important area of cooperation and may, in the future, become a central component of Laos-India relations.

The Embassy of India states that Indian investment in Laos is limited to two garment manufacturing units and four service centers for irrigation pumps by Kirloskar Brothers Ltd, with total value of \$0.53 million.

Recently a number of companies are showing interests in consultancy works and projects. Some of the names of the companies are Kalpataru Power Transmission Ltd, KEC International Limited, Tatas, BHEL, Electrical Manufacturing Company (EMC), Intercontinental Consultants & Technocrats (ICT) Ltd., PEC Limited and Consulting Engineering Services (CES) Pvt. Ltd.

It has been stated that Indian pharmaceutical products have found a place in Lao market, but imports are mostly from Indian companies based in Vietnam. CES Ltd., an Indian consultancy firm, is one of the pioneers in Laos in the field of road consultancy. ICT Ltd. from India is currently bidding for consultancy in road project funded by the ADB.

India has engaged in agriculture sectors. After the visit of the Lao Prime Minister to India in May 1997, Laos has been purchasing irrigation pumps from India company, particularly Kirloskar Brothers Limited and WPIL Ltd. By the end of March 2001, Laos bought pumps worth US\$41 million from Kirloskars. Up to now, Kirloskar Brothers Ltd has set up four Service Centers in partnership with the Lao Ministry of Agriculture to provide after-sales service and training to the Lao personnel.

One of the most prominent cooperation is the human resource development. India dispatched experts to Laos for training Lao personnel in various area of agriculture, namely sugarcane and poultry. Lao personnel were also trained in Indian Agriculture Training institutions.

In bilateral trade, according to the embassy of India, the major items of India's export to Lao PDR have been irrigation pumps, pharmaceuticals and fine chemicals, paints, enamels and varnishes, cotton yarn, fabric make ups etc., RMG cotton including accessories, and paper/wood products. Damarbatu (raw material used for Agarbatti) is the only export item from Lao PDR to India. Total trade volume in the past decade was still under one million US\$ per year as shown in the table below.

Year	India's Export (US\$ million)	India's Imports (US \$ million)	Total Trade (US \$ million)
1993-94	0.24	Nil	0.24
1994-95	0.13	Nil	0.13
1995-96	0.31	Nil	0.31
1996-97	0.37*	Nil	0.37
1997-98	0.65*	0.01	0.66
1998-99	0.88	Nil	0.88
1999-2000	0.98	0.01	0.99
2000-2001	0.03**	0.3**	0.33
2001-2002	0.04**	0.02**	0.06
2002-2003	0.6**	0.1**	0.7

\* The official trade figure of Laos and India do not show export of irrigation pumps worth US\$ 41 million from Kirloskar Brothers during 1997-2000 period and US\$ 4.1 million from WPIL Ltd during 2000.

\*\* Data from Lao Ministry of Commerce

All other information is from the Embassy of India

## **2.) Ministry of Foreign Affairs**

According to the information from the Ministry of Foreign Affairs, the third Lao-India Joint Commission meeting held in Vientiane in November 2000 was an important landmark for the new phase of cooperation. The committee agreed on the supply of equipment and raw material for livestock vaccine production, supply of meteorological and hydrological equipment and deputation of expert in these areas, providing training and technical assistance to Laos in spinning and weaving sectors and assistance in setting up a wind power project.

In agriculture sector, work plan for cooperation in the field and allied sector was signed between India and Laos in November 2000. The work plan include an exchange scientists and experts, the training for Lao personnel in irrigation development projects, consultancy services in management of large irrigation projects and other joint / collaborative projects. Lao personnel were trained in the area of irrigation management, crop breeding, plant protection, maize and sugarcane production, livestock and veterinary and poultry. It was agreed that there would be preliminary studies in the field of agro industries and irrigation management by setting up vegetable oil extraction plants, sugarcane production and animal feed factories.

Agreement on Trade and Economic Cooperation between Laos and India was signed on 9<sup>th</sup> November 2000, effective on 21<sup>st</sup> December 2001. The agreement was to expand and increase the bilateral trade turnover and explore trade promotion measures such as participation in trade fairs, dissemination of commercial information, exchange business delegation and setting up joint ventures. India was interested in importing timber, phosphates, rough gemstones and pulses, and in exporting items such as capital goods, agricultural implements

and equipment, telecom equipment, solar energy systems, dairy and food processing equipment and pharmaceuticals.

In mining sector, there was an interest in pre-exploration or mining of minerals in Lao PDR. India possesses traditional strength in jewelry, and there is considerable amount of Gem quality stones available in Laos to be explored.

In manufacturing industry, textile and cement plants was the issued discussed in the 4<sup>th</sup> Joint Committee meeting. Laos was interested in purchasing Indian machinery for textile and cement plants. Joint venture between Lao and Indian companies in both private and public sectors were encouraged.

Rail India Technical and Economic Services (RITES) showed interest in participating in an inland container depot project established in Vientiane Capital City. India is also willing to share expertise in remote sensing techniques for use in forestry, urban development, agriculture, and biotechnology. Information Technology Center was also planned to be set up in Vientiane.

### ***3.) Ministry of Industry and Handicraft***

Under the Ministry of Industry and Handicraft, the relationship with India consists of a few projects. Currently, the Ministry dispatched 6 staff to be trained in India on the project of an establishment of Entrepreneur Development Center in collaboration with the Lao Ministry of Education. The second project is on power supply network in the southern part of Laos, which is a government project. The government receive US\$ 10 million loan from the government of India. The project has signed MOU with Jaguar on 20/10/2003 for a survey, primarily completed in June 4, 2004.

The ministry proposed cooperation in the future on cooperation on survey and mining of Potash and salt to be used as fertilizer. The cooperation may request Lao geology and mining experts to be trained in India regarding the issue so that the expert can conduct survey and mining.

Handicraft issue is another focal point of the Ministry. It is proposed that integrated research on Lao silk and cotton development, and apparel products is carried out for sustainable development. Cotton and silk handicraft promotion center project is also encouraged. In addition, information service and marketing training is needed.

Lao Ministry of Industry and Handicraft needs assistance from India on establishment of industrial product design institute as well as capacity building in developing and certifying industrial product standards.

#### **4.) Ministry of Agriculture**

Agriculture seems to be the most active sector on the relationship with India. High ranking officials from the Ministry of Agriculture and representatives from Ministry of Foreign Affairs and Ministry of Commerce attended the 4th Lao – India Joint Committee Meeting in New Delhi between 22 and 29 July 2002. The Ministry received US\$ 2 million loan from the government of India for a period of 14 years, to be used in the construction and installation of agriculture instrument factory.

In irrigation sector, water pump imported from India since 1996 – 2000 to facilitate irrigation projects, total 7,179 pumps, out of the total 7,648 sets in the whole country. The pumps were distributed to provinces throughout the country. Currently, according to the Ministry, there are 3 maintenance and repair centers: in Vientiane Capital City, Savannakhet, and Champasack, in collaboration between the Lao government and Kirloskar of India.

Ministry of Agriculture propose further cooperation in the area of plantation, agriculture and forestry promotion, forest survey and planning, forest rehabilitation, vaccine quality inspection, animal deceases analysis, technical assistance on vaccine production, and improving the flood forecasting capability.

#### **5.) Ministry of Commerce**

The Lao government signed the contracts on trade and economic cooperation with the government of India on November 20, 2000. The implementation, however, is not fully developed. The value of trade between the two countries is relatively low. The export to India in 2002 and 2003 was only US\$ 19,410 and US\$ 112,626 respectively while the import figures in the same period were US\$ 42,219 and US\$ 563,542 correspondingly. Imports include agricultural instruments, clothes, luxury goods, raw material, vehicle and etc. Exports to India were agricultural products, apparel, rattan and bamboo, and non-timber forest products.

The reason why trade relationship between Laos and India was not well developed was due to various obstacles: long transportation routes, consumers in Lao market does not know Indian products, the communication between Lao and Indian business people is not yet vigorous, both sides have not yet co-organized trade fairs, exchanged commercial information, exchanged trade delegates, and create joint ventures broadly and continuously. India showed interest in textile and cement factory. Up to now, there are only 5 investment project from India, with total investment value of 1.3 million US\$. According the Department of Foreign Investment, the direct investment of India are Lalitha Clothing Col, Ltd, International Consultants Consortium, and Famongkol (1993) Co. Ltd., with the value of investment US\$ 350,000; US\$ 75,000; and US\$ 399,398 respectively.

Joint ventures between Laos and India are Indo Lao Transformer Ltd. and Lao Anfar International Co., Ltd.

In the future, the Ministry planned to cooperate in promoting co-production of variety of products for domestic consumption and exports. The government proposed to India to cooperate in integrated garment factory (beginning from cotton plantation, spinning, weaving, dyeing, and cut and trim) in order to utilize GSP that Laos has received from EU and other countries.

The ministry proposed to have exchange delegates at ministry level and businessmen, in order to learn rules and regulation, and capacity of transaction as well as commercial information. The National Chamber of Commerce and Industry of Laos and India should organize business delegates exchange meeting, and organize workshop in order to identify ways to cooperate in business activities. Conducting trade show in both countries is also encouraged.

## **VII. Interview Results**

The interviewees in this research include both public and private sectors, most of whom are in the key position of the organization. The public sectors cover people who are responsible for the Laos-India relations. The results have shown that a relatively large percentage (47.37%) states that they do not know about the products and market of India. The most known products is textile, covering 28.95% of the total interviewees, followed by information technology 26.32%, machinery 18.42%, and technology 15%.

Regarding the satisfaction between the relationship between Laos and India, the majority (76.32%) of the subjects say they do not know, while a relatively high ratio (15.79%) are satisfied with India textile products. The most known capacity and hidden ability on investment of India is on IT sector, 23.68%, followed by technology 15.79%, machinery 10.53%, and textile and medicine covers 5.26% each, while some 60.53% do not know about the market information, technological capacity and other investment of India.

A large proportion of the respondents, 78.95%, do not know about Indian business; therefore, they have no comments on satisfaction of Indian business. Some 18.42% of the interviewees feel that they are satisfied with the business of India.

Most of the respondents do not do business with India, 84.21%, while the head of garment group has done business with India in the value of only US\$ 5000 and one of the medicine businesses has engaged in business with India for two years.

The reason behind not conducting the business has shown that no access to information is relatively high ratio, 42.11%, while medicine business states that it is because of low price medicine and others do not have sufficient funding.

A large number of the interviewees (71.05%) do not know about the Free Trade Agreements and the business in the Laos are planning to engage in the agreement in South Asia, while some 15.79% expect better environment in the future. Some 13.3% of the interviewees states that there will be good cooperation between ASEAN and India.

Among the respondents, none has invested in India. The reason of not investing in India is that they do not know any information 28.95%. The interviewees, however, thinks that the investments to target are textile 5.26%, and Beerlao aims to explore Indian market in the future, and 76.32% of the respondents just simply do not know what area to invest in India.

The obstacle of exporting to India is high transportation cost (5.26%) while 7.89% thinks that there is no obstacles and a large ratio of 86.84% do not know whether there is any obstacle. All interviewees do not know if there are any problems on the process relating to export to India. Similarly, 93.37% of the respondents do not know if there are any problems on tax in exporting to India while one interviewee mentions that there is no tax barrier.

The assistance from the government in export to India is tax exemption (5.26%); but the majority (94.74%) does not know if there is any assistance from the government. Regarding the investment in India, due to most of the respondents have never invested in India, 86.84% do not know, while 13.16% believe that there is no problem.

The process of investment permission in India, whether there is any trade barriers and if India is friendly to investors, most interviewees do not know about it (97.37%). One interviewee states that the process takes too much time and one respondent believe that India is friendly to investor.

Most of the respondents (84.21%) do not know if business transaction with India incurs more costs than others while two respondents states that transportation cost is high. All respondents have never encountered difficulties in basic infrastructure.

The governments / Industrial association in Laos has focused on commitments access to Indian Market in terms of organizing trade fairs, trade conference, and trade delegate exchange was very limited recently. Some 65.79% of the respondents never know if it exists at all while some 18.42% mentioned that they have never participated, and 5.26% have been invited, but did not attend. Only 7.89% have participated in an event of trade promotion.

Most of the respondents (97.37%) have known if banks or financial institutes are willing to provide investment / trade with India.

If the interviewee is assigned to be responsible to improve trade and investment with India, the measures to be used are to organize business delegate exchange event (5.26%), while 89.47% of the respondents does not know any measures, and one respondent does not know the practice of business relationship between Laos and India.

Interviewees recommended that both governments should promote more cooperation, particularly in the area of IT as India is highly experienced in the sector. India has a large population and expected to be a large market for Lao products. Therefore, beginning of cooperation should start from commercial information exchange as currently there is very little information communicated among the two countries; therefore, business communities do not know each other.

There are ample of opportunities to invest in Laos, yet Indian businessmen do not show interest in the area, perhaps due to the lack of commercial, trade, and investment information. Large scale investment is also opened to Indian investors, for example, at the end of July 2005, H.E. Thongloun Sisoulit will sign an Indian investment project on industrial tree plantation and establishment of paper factory, with registered capital of 300 million US\$.

## **VIII. Discussion and Recommendation**

### ***Discussion***

Through the interview and data provided by different agencies, it can be concluded that the relationship of trade and investment between Laos and India is at a very low level. Lao market does not know products of India, except textile, medicine, and machinery, particularly water pump. Most Lao consumers perceive that India is excellent on IT. These areas have a good potential in Lao market, while other unknown products may also have great potentials.

In the investment scenario, only a few Indian companies have invested in Laos. Lalitha Clothing Co., Ltd. invests on garment for export. International Consultant Consortium is a consulting company on design, construction, road, bridges, and building. Famongkol Co, Ltd. imports water pump, install, repairs, and provide spare parts. Indo Lao Transformers Ltd., a joint venture between Lao and Indian, provide services on repair and produce transformers; and Lao Anfar International Co. Ltd., a joint venture between Lao and India, extracts perfume for export. These companies, however, do not conduct trades with India. Lao Anfar International Co.Ltd., for example, extracts perfume from aquilaria, utilizing raw material from Malaysia and Indonesia and exports the products to Arabian

countries. Famongkol used to import pumps and spare parts from India, but recently the importation is from other sources.

Current products that are already known in Lao consumers' minds are textile, medicine, agriculture tools and equipment, and IT. Yet trading and investment in these areas are not fully developed. Thus there are rooms for these products in Laos for immediate expansion. Other products which are not familiar to Lao consumers may need effort in marketing to access the market.

Investment area of mining, agriculture, and human resource development has a good potential for India to invest in Laos. As can be seen from the Ministry of Industry and Handicraft comments, there is a need on survey and mining of Potash and salts to be used in fertilizer. HRM development is also needed in all ministries in various areas. In agriculture, not only tools and equipment are needed, but variety of technical aspect is also in need, as specified by the Ministry of Agriculture.

An investment of Lao businessmen in India, on the other hand, has not existed; but the Lao business community perceives that India is an attractive market and has good potential for Lao products. Yet, the information on Indian market is still unknown to the Lao business community (including the process, procedures, and rules and regulations.)

The overall atmosphere of trade and investment between Laos and India has shown that basic foundation has been laid out at the government level. Many MOU and contracts have been signed and both governments have agreed many different issues regarding trade and investments. The implementation, however, is still very slow-moving, perhaps due to the lack of information dissemination to the public and business sectors.

The obstacles on the expansion of trade and commercial relation between Laos and India are on the nature of small market in Laos with its land lock position that create extremely high freight charges, particularly on land transportation from Bangkok to Vientiane. According to the Embassy of India, the lack of resourceful local private enterprise and unwillingness on the part of Indian business to launch an aggressive campaign with a long-term perspective is another problem.

### ***Recommendation***

Most of the obstacles of trade and commercial relation seem to be on the lack of commercial information between the two countries. Thus it is strongly recommended that Joint Commission push forward trade fairs and information centers to provide and disseminate the information regarding trade, commerce, and products at both ends. Businessmen meeting between the businesses communities of both sides may bring about deeper understanding, identify

business opportunities, and eventually resulted in joint venture or create more lively business and trade environment between the two countries.

Textile, garment, agriculture, and mining seem to be relatively impressive sectors for potential trade and investment. Both governments have laid a reasonably sound foundation and initiative for these sectors. In textile and garment industry, Laos has received NTR with the USA and GSP from EU and other countries. This shows that there is a big potential market for Laos. In agriculture, the government has laid good infrastructure for agricultural development by supplying irrigation systems, whose technology is mostly from India. Therefore, agriculture business, particularly in agro industry, is an attractive sector to invest. In these sectors, however, the government seems to prefer integrated development and sustainable projects rather than snap-shot investment. In mining, Laos has abundant mineral resources which have not been explored. Therefore, preliminary survey and exploration are the potentials in the near future.

## **Attachment**

### **Question Guideline**

1. Do you have knowledge of Indian markets & products?
2. What is your impression about Vietnam-India trade relations?
3. Do you have easy access to information about the Indian market and Indian technological capabilities and investment potential (through Chamber of Commerce, Country Investment/Trade Desks etc)?
4. What is your impression about Indian businesses/business houses?
5. Does your company trade with India?
6. If yes, describe the characteristics of your trade? If no, why?
7. What is your impression about free trade agreements? Does the business houses in Vietnam are planning to engage into any such kind of agreement in South Asia?
8. What are the countries that your company has invested in?
9. Does your company have investments in India?
10. If yes, describe the nature of investments/areas of investments? If no, why?
11. Which are the areas you think could be targeted for trade / investment?
12. What are your biggest concerns while exporting to India?
13. What are the procedures involved in exporting to India? Do you think they are cumbersome?
14. While exporting to India do you have face any kind of tariff or non-tariff barriers?
15. Do you get any kind of Government Assistance for exporting?
16. What are your biggest concerns while investing in India?
17. What are the approval procedures for investment in India? Do you have to face any kind of trade barriers? Do you find India an Investor-friendly country?

18. Is it more expensive to conduct business with India? (Transport cost, Transaction cost and other infrastructural cost) Do you face any kind of infrastructural constraints?
19. Has your Government / Industry Association of Vietnam undertaken any initiatives to enter the Indian market, like organizing or participating in trade fairs, attending or organizing trade meetings, sending trade delegates etc.?
20. Are the banks/financial institutions willing to fund investment/trade with India?
21. If you were given the responsibility to improve trade and investment with India, what measures would you take? Please categorize as
- (i) Sectoral
  - (ii) General (Macroeconomic)