

Mekong-Ganga Cooperation: Breaking Barriers and Scaling New Heights



RIS
Research and Information System
for Developing Countries
विकासशील देशों की अनुसंधान एवं सूचना प्रणाली

AIC
ASEAN-India Centre at RIS

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Zone IV B, 4th Floor, India Habitat Centre
Lodhi Road, New Delhi 110 003, India
Tel.: +91-11-24682177-80; Fax: +91-11-24682173-74
E-mail: dgooffice@ris.org.in; aic@ris.org.in
Website: www.ris.org.in; <http://aic.ris.org.in>

ISBN: 81-7122-128-9

Contents

<i>Preface by Prof. Sachin Chaturvedi, Director General, RIS</i>	<i>v</i>
<i>Acknowledgements</i>	<i>vii</i>
<i>Abbreviations</i>	<i>viii</i>
<i>Executive Summary.....</i>	<i>xiii</i>
1. Introduction	1
2. India-Mekong Trade: Trends and Patterns	17
3. Strengthening Value Chains: Drivers of Integration	47
4. Facilitating Foreign Direct Investment: Trends and Developments	85
5. Mekong-India Connectivity: Fostering Integration	113
6. Harnessing Border Economic Zones for Border Connectivity	131
7. Mekong-Ganga Cultural Fusion	151
References	161

Preface

Prof. Sachin Chaturvedi

Director General, RIS

As we celebrate 25th year of ASEAN-India partnership, one is reminded of India's age old relations with Mekong subregion comprising Cambodia, Lao PDR, Myanmar, Thailand and Vietnam. The depth of this historical relationship can drive convergence of interests and can also help in finding common solutions to the problems being faced by these countries.

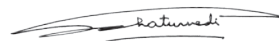
In view of India's Act East Policy, India has been strengthening its economic integration with Southeast and East Asian countries. Over the years partnership with ASEAN in general and countries in Mekong region in particular has made considerable movement. The Early Harvest Scheme with Thailand and the Comprehensive Economic Cooperation Agreement (CECA) with Singapore and Malaysia added desired momentum to make further progress in this regard. Initiatives like the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC) as well as East Asia Summit (EAS) are also parts of this important process. Therefore, in this context, the role of the subregional initiative of the Mekong-Ganga Cooperation (MGC), which was launched in 2000, has immense potential to augment further regional economic integration.

The ASEAN-India Centre at RIS has always been at the forefront for undertaking research on promoting the cause of deeper cooperation between India and Mekong countries. The present Report studies various aspects of issues such as India-Mekong trade, strengthening regional value chains, facilitating foreign direct investment, connectivity, harnessing border economic zones, Mekong-Ganga cultural fusion, among others. The comprehensive Report makes significant policy recommendations for further strengthening of Mekong-Ganga Cooperation (MGC).

It is also pertinent to mention here that earlier RIS had also undertaken a major study on India's Strategy for Economic Integration with CLMV. The study provides analytical and empirical basis for India's economic integration with the CLMV region and suggests certain policy steps that could harness the vast commercial and development potential that this relationship offers.

The idea to have a special purpose vehicle to support projects across the CLMV region through Project Development Fund has been initiated. Another RIS publication *The Logic of Sharing* while discussing entrepreneurship development in Laos and Cambodia highlights the special measures that India has taken in the broader spirit of promoting skill development through South-South cooperation to narrow the development divide and promote national competitiveness through intra-regional cooperation.

I am sure this Report will serve as an important reference for policymakers, academicians, practitioners and stakeholders. I also take this opportunity to compliment Dr. Prabir De and members of his research team for preparing this valuable Report.



Sachin Chaturvedi

Acknowledgements

The *Mekong-Ganga Cooperation: Breaking Barriers and Scaling New Heights* has been prepared by a research team comprising Dr. Prabir De (lead author), Dr. Durairaj Kumarasamy, Ms. Sreya Pan, and Ms. Opinder Kaur.

We are grateful to Ambassador Hardeep Singh Puri, Chairman, RIS and Prof. Sachin Chaturvedi, Director General, RIS for their guidance. We are specially thankful to Ms. Preeti Saran, Secretary (East), Ministry of External Affairs (MEA) and Ms. Pooja Kapur, Joint Secretary (ASEAN Multilateral), Ministry of External Affairs (MEA) for their support and cooperation. We would like to thank Ambassador Shyam Saran, former Chairman of RIS for sharing his thoughts on MGC and the Act East Policy.

We also wish to extend our thanks to Ambassador Suresh Reddy, Indian Ambassador to ASEAN; all the Heads of Indian Missions in MGC; and all the MGC Ambassadors to India for sharing their views on Mekong-Ganga Cooperation (MGC), further enriching the Report. We would like, in particular, to acknowledge the support of the Ministry of External Affairs (MEA), Government of India. In particular, we are grateful to Mr. N. Venkataraman, Under Secretary (ASEAN ML 3), ASEAN ML Division, Ministry of External Affairs (MEA) and Mr. Prem K. Nair, Deputy Secretary (DPA-I), Development Partnership Administration (DPA), Ministry of External Affairs (MEA) for data and secondary information on MGC.

Principal authors of the chapters of this Report are Dr. Prabir De (Introduction, Chapters 5 and 6); Dr. Prabir De, Dr. Durairaj Kumarasamy and Ms. Sreya Pan (Chapter 2); Dr. Prabir De and Dr. Durairaj Kumarasamy (Chapters 3 and 4); and Dr. Prabir De and Dr. Ishani Naskar, Rabindra Bharati University, Kolkata (Chapter 7). Additionally, substantial research inputs were received from Ms. Sreya Pan and Ms. Opinder Kaur. Mr. Imdadul Halder extended research assistance at the initial part of the Study. We also acknowledge the comments from experts, policymakers, research scholars, and government officials.

This Report benefited greatly from the assistance and support by the RIS Administration. Copy editing of the Report was carried out by Mr. Tish Malhotra, who along with Mr. Sachin Singhal also coordinated the production of the Report. Ms. Kiran Wagh provided administrative assistance.

Views expressed in this Report are those of the authors and not the views of the Governments of India or MGC countries, Research and Information System for Developing Countries (RIS), ASEAN-India Centre (AIC) or the ASEAN Secretariat. Usual disclaimers apply.

Due to space constraints, we had to omit several tables and figures, which will be made available on request. For any further queries on the Report, please contact prabirde@ris.org.in

List of Abbreviations

AAI	Airports Authority of India
ACCC	ASEAN Connectivity Coordinating Committee
ADB	Asian Development Bank
ADBI	Asia Development Bank Institute
ADMT	Air Dried Metric Tonnes
AEC	ASEAN Economic Community
AEP	Act East Policy
AHS	Effectively Applied
AIC	ASEAN-India Centre
AIF	ASEAN Infrastructure Fund
AI-FTA	ASEAN-India Free Trade Agreement
AMP	Automotive Mission Plan
ASAM	ASEAN Single Aviation Market
ASEAN	Association of Southeast Asian Nation
ASI	Archaeological Survey of India
BASA	Bilateral Air Services Agreement
BEC	Broad Economic Categories
BEZ	Boarder Economic Zone
BEZDA	Border Economic Zone Development Authority
BG	Broad Gauge
BIMSTEC	Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation
BITs	bilateral investment treaties
BJFCL	Birla Jingwei Fibre Co Ltd
BLPP	Birla Lao Pulp & Plantations Company Limited
BTZ	Border Trade Zone
CARC	Common Archival Resource Centre
CBEC	Central Board of Excise and Customs
CBTA	Cross Border Transport Agreement
CECA	Comprehensive Economic Cooperation Agreement
CELT	Centres for English Language Training
CESDT	Centres of Excellence in Software Development & Training

List of Abbreviations

CLMV	Cambodia Lao PDR Myanmar Vietnam
CMP	Cut Make and Pack
CPSE	Central Public Sector Enterprise
CRM	Cultural Resource Management
CST	Central Sales Tax
DFC	Dedicated Freight Corridor
DMIC	Delhi–Mumbai Industrial Corridor
DONER	Ministry of Development of North Eastern Region
DTAAs	Double Taxation Avoidance Agreements
EAS	East Asia Summit
EDC	Entrepreneurship Development Centre
EL	Exclusion List
EPFO	Employees' Provident Fund Organisation
EU	European Union
EWEC	East-West Economic Corridor
FDI	Foreign Direct Investment
FMS	Flight Management System
GAGAN	Global Positioning System Aided Government Navigation
GAIL	Gas Authority of India Limited
GCI	Global Competitiveness Index
GM	General Motors
GMS	Great Mekong Subregion
GPON	Gigabit-capable Passive Optical Network
GPS	Global Positioning System
GQ	Golden Quadrilateral
GST	Goods and Services Tax
GVC	Global Value Chain
HAP	Hanoi Action Programme
HPA	Hanoi Programme of Action
HSL	Highly Sensitive List
ICAO	International Civil Aviation Organization
ICCR	Indian Council of Cultural Relations
ICP	International Consumer Products Corporation
ICT	Information and Communication Technology
IDA	International Development Association
IDEAS	Indian Development and Economic Assistance Scheme
IIFT	Indian Institute of Foreign Trade

IIM	Indian Institute of Management
IIT	Indian Institute of Technology
IIT	Intra-Industry Trade
ILS	Instrument Landing System
IMF	International Monetary Fund
IMT MVA	India-Myanmar-Thailand Motor Vehicle Agreement
ISDS	Integrated Skill Development Scheme
ISRO	Indian Space Research Organisation
ITEC	Indian Technical and Economic Cooperation
JICA	Japan International Cooperation Agency
JV	Joint Ventures
JWG	Joint Working Group
KMTTP	Kaladan Multimodal Transit Transport Project
LCS	Land Customs Station
LDC	Least Developed Country
LEP	Look East Policy
LoC	Lines of Credit
MAI	Market Access Initiative
MDA	Market Development Assistance
MEA	Ministry of External Affairs
MFN	Most Favoured Nation
MGC	Mekong-Ganga Cooperation
MHIPE	Ministry of Heavy Industries and Public Enterprises
MIEC	Mekong-India Economic Corridor
MNC	Multi National Cooperation
MPAC	Master Plan of ASEAN Connectivity
MTTFP	MGC Trade and Transport Facilitation Programme
MVA	Motor Vehicle Agreement
NEC	North East Council
NER	North Eastern Region
NIFD	National Institute of Fashion Designing
NSEC	North-South Economic Corridor
NT1	Normal Track 1
NT2	Normal Track 2
NTM	Non-Tariff Measure
NU	Nalanda University
ODA	Official Development Assistance

List of Abbreviations

OEM	Original Equipment Manufacturers
ONGC	Oil and Natural Gas Corporation Limited
OP	Operating Procedures
OSS	One Stop Service
OVL	ONGC Videsh Limited
PAN	Permanent Account Number
PDF	Project Development Fund
POA	Plan of Action
PPP	Public-Private Partnership
QC	Quality Control
R&D	Research and Development
RCEP	Regional Comprehensive Economic Partnership
RIS	Research and Information System for Developing Countries
UTES	Rail India Technical and Economic Service
RR TUS	Restructured Technological Upgradation Fund Scheme
SAARC	South Asian Association for Regional Cooperation
SARDP-NE	Special Accelerated Road Development Programme in the North-Eastern Region
SDT	Special and Differential Treatment
SEC	Southern Economic Corridor
SECA	Special Economic and Commercial Area
SEZ	Special Economic Zone
SGSY	Gram Swarozgar Yojana
SIAM	Society for Indian Automobile Manufacturers
SITP	Scheme for Integrated Textile Parks
SME	Small and Medium Enterprise
SOM	Senior Officials Meeting
SPS	Sanitary and Phytosanitary Measures
TAN	Temporary Account Number
TBT	Technical Barriers to Trade
TCI	Trade Complementarity Index
TCIL	Telecommunications Consultants India Limited
TERI	The Energy Resources Institute
TFA	Trade Facilitation Agreement
TH	Trilateral Highway
TII	Trade Intensity Index
TISS	Tata Institute of Social Science

TMTT	Technology Mission on Technical Textiles
TPP	Trans-Pacific Partnership
TT&C	Telemetry Tracking & Command
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
VSF	Viscose Stable Fibre
VTC	Vocational Training Centre
WAPSCOS	Water and Power Consultancy Services Limited
WITS	World Trade Integrated Solutions
WoS	Wholly-owned Subsidiaries
WTO	World Trade Organization

Executive Summary

One of the strongest bases of the present day interactions between India and Southeast Asia is the long trajectory of socio-cultural contacts with the region. Civilisational and cultural links between India and the Mekong countries date back thousands of years. Both the Ganga and the Mekong are civilizational rivers, and the MGC initiative aims to facilitate closer contacts among the people inhabiting these two major river basins. Probably no other country has such strong links with the Mekong subregion as much as India by way of religion, language, culture and civilisation. Peoples in Southeast Asia seem to enjoy and treasure the feelings of this closeness. The cultural influence flowed both ways and Southeast Asia has also contributed in enriching India's culture and traditions. In one hand, Mekong countries and India inhabit a shared geographical and cultural space, while on the other, each country retains its distinctiveness and unique identity. It is this celebration of unity in diversity which underlines the MGC partnership.

Launched in the year 2000 at Vientiane, the Mekong-Ganga Cooperation (MGC) is a multidimensional initiative among Cambodia, India, Lao PDR, Myanmar, Thailand and Vietnam, which deals with not just economic aspects of regional cooperation but a host of cultural issues those important for building an inclusive and prosperous society. MGC member countries have been collaborating for regional cooperation in four areas such as tourism, culture, education and transport and communications. MGC has received further momentum under the Act East Policy (AEP), which was unveiled in 2014.

Since the establishment of MGC, India's trade with Mekong countries has increased substantially. India's total trade with Mekong countries in the year 2000 was just a mere US\$ 1.32 billion, which increased to US\$ 19.31 billion in 2015. Thailand, Vietnam and Myanmar are the top three trading partners of India in MGC. India's trade with Mekong countries has also been witnessing a compositional shift over time. Trade in goods between them has also witnessed transformation from trade in commodities to finished goods (pharmaceuticals) and intermediate products (automobile parts and components). However, India's pattern of trade with Mekong countries is relatively asymmetric, thereby implying high unlocked trade potential. The trade relations between India and Mekong countries has received a fillip through ASEAN-India FTA, implemented in 2010, that India has set free over

4000 products by 2016. Services and investment were added in 2015, adding another momentum to the trade and investment relations between India and ASEAN. Presumably, Mekong countries have gained relatively higher market access in India and so also India in MGC. There have been significant developments in the agriculture, processed food, machinery, electrical and electronics, travel and tourism, education sectors.

MGC has witnessed seven Ministerial Meetings since its establishment in 2000. The 1st MGC Ministerial Meeting was held in Vientiane from 9-13 November 2000. It issued the *Vientiane Declaration* on MGC covering cooperation in the four traditional areas. MGC Ministers agreed to widen collaboration into newer areas, such as SME cooperation, conservation of Rice Germplasm, setting up a Working Group on Health, establishment of a Common Archival Resource Centre (CARC) at the Nalanda University, and finally, India-Cambodia-Laos-Myanmar-Vietnam Quick Impact Projects. The 7th MGC Ministerial Meeting was held in Vientiane on 24 July 2016. At this Ministerial Meeting, new areas have since been added to the Work Programme such as cooperation in the field of SMEs, Rice Germplasm, health and pandemics, Nalanda University Archival Resource Centre and Quick Impact Projects. MGC cooperation has been expanding in the fields of trade, tourism, development, movement of people and goods. India will be hosting the 8th MGC SOM Meeting in New Delhi on 7 April 2017.

To restore the cultural and traditional textile affinities of the South and South East Asian region, an MGC Museum of Asian Textiles has been established in Siem Reap, Cambodia in 2014. Another milestone is the revival of Nalanda University. India has announced several dozens of ITEC scholarships for MGC countries in areas of culture, tourism, engineering, management, teachers training, film directing, sound, lighting and stage management in addition to over 1000 scholarships already given every year. New Centres of excellence in Software Development and Training were announced. Existing capacity building programmes in law enforcement, financial markets, ICT and space, to supplement the requirements of MGC partners was also announced. Three Quick Impact Projects in Lao PDR and two in Myanmar are under consideration in addition to nine in Cambodia and five in Vietnam already under implementation.

India has drafted a Plan of Action (POA) 2016-18, which was endorsed to become the core guideline for future action. It has been recommended that POA 2016-18 may be continued. Extension of trilateral highway to Laos, Cambodia and Vietnam has been activated. Cooperation in tourism, particularly in tourism-marketing, exploring tourist destinations for outbound tourists has been suggested.

Economic ties between India and Mekong countries have been expanding rapidly. Development cooperation has facilitated the expansion of economic and cultural relations in Mekong subregion. India has extended over US\$ 1 billion Line of Credits (LoC) to CLMV countries in recent years, bulk of which has went into Myanmar, followed by Vietnam and Lao PDR. India also provides a huge amount of ITEC assistance to developing countries across the world. Mekong countries are also recipients of ITEC assistance through MGC. Three types of development cooperation can be aggregated in India-Mekong relations: physical and digital connectivity (e.g. Trilateral Highway, Kaladan Multimodal Transit Transport Project, digital links, etc.), people-to-people connectivity (e.g. scholarships and fellowships, restoration of temples, visual and performing arts, etc.), science and technology (e.g. satellite launching), training and capacity building (e.g. EDI centres, language training centres, etc.), business and networking (e.g. SMEs cooperation, business fairs, etc.).

India has announced a new Line of Credit of US\$ 1 billion to promote projects that support physical and digital connectivity between India and ASEAN, and a Project Development Fund (PDF) with a corpus of INR 5 billion to develop manufacturing hubs in CLMV countries. India has three major ASEAN-India Cooperation Funds, namely, ASEAN-India Fund, ASEAN-India S&T Development Fund, and ASEAN-India Green Fund.

Building connectivity is a matter of strategic priority for India as also the ASEAN countries. While India has made considerable progress in implementing the India-Myanmar-Thailand Trilateral Highway and the Kaladan Multimodal Transit Transport Project, issues related to increasing the maritime and air connectivity between ASEAN and India and transforming the corridors of connectivity into economic corridors are under discussion. A possible extension to India-Myanmar-Thailand Trilateral Highway to Cambodia, Lao PDR and Vietnam is also under consideration. A consensus on finalising the proposed protocol of the India-Myanmar-Thailand Motor Vehicle Agreement (Trilateral MVA) has been reached. This agreement will have a critical role in realizing seamless movement of passenger, personal and cargo vehicles along roads linking India, Myanmar and Thailand. India supports the implementation of the Master Plan on ASEAN Connectivity 2025. India is also working together for an early conclusion of the Agreement on Maritime Transport between ASEAN and India and for the convening of the first Meeting of the ASEAN-India Working Group on Regional Air Services Arrangement. To build digital connectivity through the use of Gigabit-capable Passive Optical Network (GPON) technology has been welcomed by ASEAN.

Besides, India has been cooperating with ASEAN by way of implementation of various projects in the fields of Agriculture, Science & Technology, Space, Environment & Climate Change, Human Resource Development, Capacity Building, New and Renewable Energy, Tourism, People-to-People Contacts, and Connectivity, etc. For example, Space Project envisaging establishment of a Tracking, Data Reception/Data Processing Station in Ho Chi Minh City; Setting up of Centres of Excellence in Software Development & Training in CLMV countries are some of the major projects under implementation.

Trade

- India's trade with Mekong countries has increased from US\$ 1.32 billion in 2000 to US\$ 19.31 billion in 2015. Trade and investment flows between India and Mekong countries have been driving the economic cooperation between India and Mekong countries. The trade relations between India and Mekong countries has received a fillip through ASEAN-India FTA, implemented in 2010, that India has set free over 4000 products by 2016. Services and investment were added in 2015, adding another momentum to the trade and investment relations between India and ASEAN. Presumably, Mekong countries have gained relatively higher market access in India. Both India and Mekong countries have substantially high untapped trade potential, which has remained unrealised due to barriers to trade and structural differences of the economies, among which some are intuitively policy barriers (such as tariff and non-tariff measures, etc.), whereas a large part of the barriers are also related to environment such as remoteness and low connectivity, inadequate banking and financial instruments, unfavourable business environment, etc. In order to facilitate the trade flows, some of the recommendations of this study are removal of non-tariff measures (NTMs), reduce the costs to trade with the help of WTO Trade Facilitation Agreement (TFA), and pruning the sensitive lists of products in ASEAN-India FTA.

Regional Value Chains

- Production networks have become an important phenomenon in Southeast and East Asia. Given the variations in production of goods and services, complementarities between India and Mekong countries are the added strength to build and strengthen the value added stages needed for stronger cross-border regional value chain networks. Building value chain networks between India and Mekong countries, therefore, has gained high importance in bilateral relations. India and Mekong countries have huge potential in regional value chain linkages, particularly with Thailand and Vietnam. This study recommends that India and Mekong countries should continue to

strengthen the regional economic integration, improve the ranks in *Ease of Doing Business*, strengthen the connectivity, develop border economic zones, improve access to finance, and promote skill development.

Foreign Direct Investment

- Despite several economic crises in recent past, MGC countries have continued to witness a rising flow of FDI. The investment environment in the MGC subregion continues to improve, with Mekong countries and India reforming investment policies and introducing new measures that further promote FDI. Launching ASEAN Economic Community (AEC) in 2015 and India's massive reforms in recent years have improved the investor sentiments. Several companies are now planning to expand their presence in MGC subregion. There is a huge potential of FDI flows between India and Mekong countries. This study recommends that a supportive FDI environment is needed for the improvement of connectivity and value chains between India and Mekong countries. Besides, Mekong countries have to undertake policy measures to encourage participation of Small and Medium Enterprises (SMEs), enhancement of skill, initiate business facilitation measures, etc.

Physical and Digital Connectivity

- Physical and digital connectivity between India and Mekong countries is essential to strengthen the economic integration. This study has few specific recommendations such as the financing Mekong-India connectivity projects, completion of major cross-border corridors, and building a stronger coordination mechanism. A stronger coordination between MGC (ASEAN) and India will be helpful in building cross-border connectivity. This study also suggests that Mekong countries and India have to identify the missing links and investment needs from a region-wide perspective. To a great extent, missing rail and road links in Myanmar is hindering the overland connectivity between India and Southeast Asia. Therefore, average road conditions and the railway system inside Myanmar need to be improved and upgraded. Extension of Trilateral Highway (TH) to Mekong countries, direct air links, completion of ongoing connectivity projects, maritime links with Cambodia and Vietnam are some of the projects which would take the cooperation between India and Mekong to a new plateau.

Border Connectivity

- Mekong is a most prominent case where countries have successfully transformed borders into bustling place of economic activities. Border barrier has been declining in India's Northeast India in the present era of

Look East-Act East Policy. This study recommends that the Government of India may consider setting up Border Economic Zones (BEZs) across India-Myanmar (and also India-Bangladesh) border. Myanmar has received the GSP benefits, like Cambodia or Lao PDR in Mekong. India may also gain huge benefits if BEZs are promoted, particularly with Myanmar. To start with, two BEZs may be considered to set-up in Northeast India: (i) Manipur (Moreh-Tamu border) with Myanmar; and (ii) Mizoram (Champai-Rih border) with Myanmar.

Cultural Relations

- MGC countries need a common pathway to take forward cultural relations between them. This study recommends that MGC countries shall undertake a bottom-up approach involving the real stakeholders in designing the cultural integration process. A pragmatic cultural policy could drive a convergence of interests towards cooperation in finding common solutions. The fusion of cultural past could be enriched further through a robust cooperation between the Mekong region and India.

Finally, Mekong-Ganga Cooperation (MGC) has scored impressive performance in breaking barriers through regional connectivity. Efforts have been made to strengthen the cultural and commercial relations. MGC offers immense trade and investment opportunities. Trade is very much contingent upon governance and institutional quality. To support the growing partnership, more emphasis should be given in improving the functioning of the economic institutions and connectivity, which facilitate the economic and cultural relations. Mekong countries are central to India's Act East Policy (AEP). The increased economic relations between India and Mekong countries would create economic opportunities for India's Northeastern Region (NER). India should remain committed to working closely with ASEAN and Mekong countries with a view to bringing the MGC to new heights.

1

Introduction

1.1 Overview of the Mekong-Ganga Cooperation (MGC)

Regional economic cooperation among countries serves many objectives and purposes. For countries that are part of any regional block, it provides opportunities for trade, investment and production by lowering barriers to the movement of factors of production such as goods, capital, labour, technology, etc. Apparently, cooperation among countries in a regional block can help economic units achieve not only higher economies of scale but also realise the gains from the fragmentation of production processes. Ultimately, in such a regional setting, with the expansion of economic opportunities and competition, productivity and efficiency improve, job opportunities go up, growth accelerates and quality of life improves. Besides, regional cooperation can help member countries to benefit from regional public goods such as regional infrastructure (e.g. corridors, energy, pipelines, etc.) and shared resources that carry strong cross-border welfare. A multidimensional regional cooperation also helps member countries to improve the soft aspects of connectivity like arts and culture, education, tourism, etc. Finally, it allows participating countries to jointly address issues such as non-traditional security, climate change, protection biodiversity, prevention and control of communicable diseases, disaster management, etc. Mekong-Ganga Cooperation (MGC) is such a multidimensional initiative among Cambodia, India, Lao PDR, Myanmar, Thailand and Vietnam, that deals with not just economic aspects of regional cooperation but a host of cultural issues those are important for building an inclusive and prosperous society.

MGC: Strong Civilizational Link

One of the strongest bases of the present day interactions between India and Southeast Asia is the long trajectory of socio-cultural contacts with the region.

Civilisational and cultural links between India and the Mekong countries date back thousands of years. Both the Ganga and the Mekong are civilizational rivers, and the MGC initiative aims to facilitate closer contacts among the people inhabiting across these two major river basins. Probably no other country has such strong links with the Mekong subregion as much as India by way of religion, language, culture and civilisation. Peoples in Southeast Asia seem to enjoy and treasure the feelings of this closeness. Box 1 presents some of these civilizational links between India and Mekong countries. The cultural influence flowed both ways, and Southeast Asia has also contributed in enriching India's culture and traditions. On one hand, Mekong countries and India inhabit a shared geographical and cultural space, while, on the other, each country retains its distinctiveness and unique identity. It is this celebration of unity in diversity which underlines the MGC partnership.

Launched in the year 2000 at Vientiane, MGC member countries have been collaborating for regional cooperation in four areas such as tourism, culture, education and transport and communications. MGC has received further momentum under the Act East Policy (AEP), superseding the Look East Policy (LEP) of 1990s. India's proactive role in building a common market with an ambitious but realistic connectivity programme is the key focus of AEP. ASEAN centrality is the core to Act East Policy. Mekong countries are members of ASEAN. Starting as a sectoral partner of ASEAN in 1992, India became a dialogue partner of ASEAN in 1996, a summit-level partner in 2002 and a strategic partner in 2012. The year 2017 marks the 25 years of ASEAN-India dialogue partnership, 15 years of summit level interaction and 5 years of strategic partnership.

Box 1: Civilizational Links between India and Mekong Countries

The relations between India and Southeast Asia are age old, and a rich repository of scriptural, epigraphic, numismatic and architectural evidences help one chart the magnitude and depth of this historical relationship. Sea links played a significant role to bridging two river basins, Mekong and Ganga, in terms of commerce. Trade flourished under the Chola Empire in the 9th century AD, especially between Southern part of India and Southeast Asia. The famous temple of Cambodia, Angkor Wat and Ta Prohm reflect the Indian affinities in the region. Presences of Indian linguistic influence on South East region's inscription are also reflect decadal linkages of these two regions. Different forms or combine of Sanskrit inscription with other inscription are found in Thailand, Vietnam and Cambodia, etc. With the Civilizational link, India mythology and folklore are also assimilated into local mythology of Southeast Asia. The Thai Epic, Ramakien is based on the Ramayana, and the city of Ayodhya was named after Ayodhya. In Lao PDR, the popular version of the Ramayana is called Pha Lak Pha Lam, and an adaptation of the Ramayana called the Yama Zattdaw was also introduced as an oral tradition in Myanmar. Traditional textile linkages and its root have an important role in connecting the regions (Devare, 2016). Fine arts, dance, music, painting, sculpture and handicraft are also evident of the cross-cultural linkages between India and Southeast Asia.

Sources: AIC-RIS (2015a)

Figure 1: MGC Ministerial Meetings over Time

Source: ASEAN-India Centre (AIC) at RIS.

MGC: Building for Trade

Since the establishment of MGC, India's trade with Mekong countries has increased substantially. India's total trade with Mekong countries in the year 2000 was just a mere US\$ 1.32 billion, which increased to US\$ 19.31 billion in 2015. Thailand, Vietnam and Myanmar are the top three trading partners of India in MGC. India's trade with Mekong countries has also been witnessing a compositional shift over time. Trade in goods between them has witnessed transformation from trade in commodities to finished goods (e.g. pharmaceuticals) and intermediate products (e.g. automobile parts and components). However, India's pattern of trade with Mekong countries is relatively asymmetric, thereby implying high unlocked trade potential. The trade relation between India and Mekong countries has received a fillip through ASEAN-India FTA, implemented in 2010, through which India has set free over 4000 products by 2016. Services and investment components were added in 2015, adding another momentum to the trade and investment relations between India and ASEAN (also MGC). Presumably, Mekong countries have gained relatively higher market access in India and so also India in MGC.¹ There have been significant developments in the agriculture, processed food, chemicals and pharmaceuticals, machinery, automobiles, electrical and electronics, travel and tourism, education sectors.

MGC as Evolved over Time: Strengthening the ASEAN-India Partnership

Illustrated in Figure 1, MGC has witnessed six Ministerial Meetings since its establishment in 2000. The 1st MGC Ministerial Meeting was held in Vientiane from 9-13 November 2000. It issued the *Vientiane Declaration* on MGC covering cooperation in the four traditional areas. The 2nd MGC Ministerial Meeting was held in Hanoi on 28 July 2001, and adopted the *Hanoi Programme of Action (HPA)*, a detailed Work Programme for six years (July 2001 to July 2007),

providing specific actions for cooperation, in the four traditional areas. The 3rd MGC Ministerial Meeting was held in Phnom Penh on 20 June 2003 and provided additional political impetus to the MGC initiative. It adopted the *Phnom Penh Roadmap*. On the margins of the ASEAN Summit in Cebu, the Philippines, in January 2007, Thailand, the then chairman of the MGC, handed over chairmanship to India on 12 January 2007. The 5th MGC Ministerial Meeting was held at Manila on 1 August 2007, and was chaired by India. India hosted the 6th MGC Ministerial Meeting on 4 September 2012 in New Delhi, preceded by the MGC Senior Officials Meeting (SOM) on 3 September 2012. MGC Ministers agreed to widen collaboration into newer areas, such as SME cooperation, conservation of Rice Germplasm, setting up a Working Group on Health, establishment of a Common Archival Resource Centre (CARC) at the Nalanda University, and finally, India –Cambodia-Laos-Myanmar-Vietnam Quick Impact Projects. The 7th MGC Ministerial Meeting was held in Vientiane on 24 July 2016. At this Ministerial Meeting, new areas have since been added to the Work Programme such as cooperation in the field of SMEs, Rice Germplasm, health and pandemics, Nalanda University Archival Resource Centre and Quick Impact Projects. Table 1 presents the list of MGC cooperation areas. MGC cooperation has been expanding in the fields of trade, tourism, development, movement of people and goods. India will be hosting the 8th MGC SOM Meeting in New Delhi on 7 April 2017.

Table 1: MGC Areas of Cooperation

Traditional Areas of Cooperation	New Areas of Cooperation
<ul style="list-style-type: none"> • Tourism • Culture • Education • Transport and communications 	<ul style="list-style-type: none"> • SME cooperation • Conservation of Rice Germplasm • Setting up a Working Group on Health • Establishment of a Common Archival Resource Centre (CARC) at the Nalanda University • India-Cambodia-Laos-Myanmar-Vietnam Quick Impact Projects

Source: ASEAN-India Centre (AIC) at RIS.

MGC: Widening the Scope of Regional Cooperation

To restore the cultural and traditional textile affinities of the South and Southeast Asian region, an MGC Museum of Asian Textiles has been established in Siem Reap, Cambodia in 2014. Another milestone is the revival of Nalanda University. India has announced several dozens of ITEC scholarships for MGC countries in areas of culture, tourism, engineering, management, teachers training, film directing, sound, lighting and stage

management in addition to over 1000 scholarships already given every year. New Centres of excellence in Software Development and Training were announced. Existing capacity building programmes in law enforcement, financial markets, ICT and space, to supplement the requirements of MGC partners was also announced. Three Quick Impact Projects in Lao PDR and two in Myanmar are under consideration in addition to nine in Cambodia and five in Vietnam already under implementation.

India has drafted a Plan of Action (POA) 2016-18, which was endorsed to become the core guideline for future action. It has been recommended that POA 2016-18 may be continued. Extension of Trilateral Highway to Laos, Cambodia and Vietnam has been activated. Cooperation in tourism, particularly in tourism-marketing, exploring tourist destinations for outbound tourists has been suggested.

1.2 Role of Development Cooperation

Economic ties between India and Mekong countries are expanding rapidly. Development cooperation has facilitated the expansion of economic and cultural relations in Mekong subregion and vice versa.² Appendix 1 illustrates the current status of ASEAN-India development cooperation projects having implications on India-Mekong cooperation. Mekong countries have been receiving country-specific bilateral aid, subregional and regional assistances through MGC and ASEAN, respectively. India has extended over US\$ 1 billion Line of Credits (LoC) to CLMV countries in recent years, bulk of which went into Myanmar, followed by Vietnam and Lao PDR (see Appendix 2 and Table 2). India also provides a huge amount of ITEC assistance to developing countries across the world. Mekong countries are too recipients of ITEC assistance. Other Mekong countries have also been receiving such generous support. Under the MGC Scholarship schemes, India offers 50 seats every year to the Mekong countries for pursuing under graduate (UG), post graduate (PG) and Ph.D. courses in India (Table 3). India's expenditure on MGC scholarship scheme has been increased to US\$ 166,420 in 2015-16 from US\$ 50,640 in 2006-07. Therefore, three types of development cooperation projects can be categorised: physical and digital connectivity (e.g. Trilateral Highway, Kaladan Multimodal Transit Transport Project, GPON digital links, etc.), people-to-people connectivity (e.g. scholarships and fellowships, restoration of temples, visual and performing arts, etc.), science and technology (e.g. satellite launching station), training and capacity building (e.g. EDI centres, language training centres, etc.), business and networking (e.g. SMEs cooperation, business fairs, etc.).

Table 2: Government of India Supported Cumulative Line of Credits (LoC) and ITEC Slot

(US\$ million)

Sr. No.	Countries	Amount of Credit Committed	Amount of Credit Disbursement until November 2015	ITEC Slot (2016)
1	Cambodia	102.12	49.79	80
2	Lao PDR	153.83	86.30	210
3	Myanmar	747.59	248.18	500
4	Vietnam	191.50	70.53	150
	Total	1195.04	454.8	940

Note: Appendix 2 presents the status of the projects

Sources: Public Information Bureau, Government of India and RIS Database on India's Development Cooperation

Table 3: Mekong-Ganga Cooperation Scholarship Scheme*

Year	Number of Seats Allotted	Number of Seats Utilised	Total Expenditure ('000 US\$)
2006-07	50	31	50.64
2007-08	50	13	104.28
2008-09	50	28	140.46
2009-10	50	17	135.53
2010-11	50	23	195.10
2011-12	50	38	223.32
2012-13	50	33	262.74
2013-14	50	20	208.15
2014-15	50	17	186.78
2015-16	50	24	166.42

Note: *Courses include under graduate, post graduate and Ph.D.

Sources: Ministry of External Affairs (MEA), Government of India and RIS Database on India's Development Cooperation.

Apart from bilateral aid, to support the regional connectivity, India has announced a new Line of Credit of US\$ 1 billion to promote projects that support physical and digital connectivity between India and ASEAN, and a Project Development Fund (PDF) with a corpus of INR 5 billion to develop manufacturing hubs in CLMV countries. India has three major ASEAN-India Cooperation Funds, namely, ASEAN-India Fund, ASEAN-India S&T Development Fund, and ASEAN-India Green Fund.

Building connectivity is a matter of strategic priority for India as also the ASEAN (and MGC) countries. While India has made considerable progress

in implementing the India-Myanmar-Thailand Trilateral Highway and the Kaladan Multimodal Transit Transport Project, issues related to increasing the maritime and air connectivity between ASEAN (and MGC) and India and transforming the corridors of connectivity into economic corridors are under discussion. A possible extension to India-Myanmar-Thailand Trilateral Highway to Cambodia, Lao PDR and Vietnam is also under consideration. A consensus on finalising the proposed protocol of the India-Myanmar-Thailand Motor Vehicle Agreement (Trilateral MVA) has been reached. This agreement will have a critical role in realizing seamless movement of passenger, personal and cargo vehicles along roads linking India, Myanmar and Thailand. India supports the implementation of the Master Plan on ASEAN Connectivity 2025. India is also working together for an early conclusion of the Agreement on Maritime Transport between ASEAN and India and for the convening of the first Meeting of the ASEAN-India Working Group on Regional Air Services Arrangement. To build digital connectivity through the use of Gigabit-capable Passive Optical Network (GPON) technology has been welcomed by ASEAN. India has recently called the meeting of ASEAN telecom ministers at New Delhi.

Besides, India has been cooperating with ASEAN by way of implementation of various projects in the fields of Agriculture, Science and Technology, Space, Environment and Climate Change, Human Resource Development, Capacity Building, New and Renewable Energy, Tourism, People-to-People contacts and Connectivity etc. For example, Space Project envisaging establishment of a Tracking, Data Reception/Data Processing Station in Ho Chi Minh City; Setting up of Centres of Excellence in Software Development and Training in CLMV countries are some of the major projects under implementation.

In the Science and Technology, there are projects such as ASEAN-India Collaborative Project on S&T for Combating Malaria, ASEAN-India Programme on Quality Systems in Manufacturing, ASEAN-India Collaborative R&D Project on Mariculture, Bio-mining and Bioremediation Technologies etc.

Apart from the above projects, India has been supporting CLMV countries under the Initiatives for ASEAN Integration (IAI), which includes projects on Training of English Language for Law Enforcement Officers in CLMV countries and Training of professionals dealing with capital markets in CLMV by National Institute of Securities Management Mumbai. To boost People-to-people contacts, India has been organising various programme including Training Programme for ASEAN diplomats, Exchange of Parliamentarians, Participation of ASEAN and Mekong students in the National Children's Science Congress, ASEAN-India Network of Think Tanks, ASEAN-India Eminent Persons Lecture Series, etc. India is establishing four Centres of Excellence in Software Development & Training (CESDT) in CLMV countries,

including setting up of an IT Resource cum Study Centre at CDAC, Noida consisting of one existing Lab and one new Lab as well as the development of 12 e-learning courses in six identified areas.

A Plan of Action (POA) for the period 2004-2010 was developed to implement the ASEAN-India Partnership. Most of the paras of the 2nd POA (2010-15) have been implemented. The 3rd POA (2016-20) was adopted by the ASEAN-India Foreign Ministers Meeting, held in August 2015. ASEAN and India have finalised a list of priority areas for the period of 2016-2018, which would contribute towards successful implementation of the 2016-2020 Plan of Action. Out of 130 activities identified in the 3rd Plan of Action, a set of 54 activities have been already implemented.

1.3 Outline of the Report

Chapter 2 (*India-Mekong Trade: Trends and Patterns*) deals with the trade issues. India's trade with Mekong countries has increased from US\$ 1.32 billion in 2000 to US\$ 19.31 billion in 2015. All Mekong countries are India's FTA partners, and trade and investment flows between India and Mekong countries have been driving the economic cooperation between India and Mekong countries. The trade relations between India and Mekong countries has received a fillip through ASEAN-India FTA, implemented in 2010, and India has set free over 4000 products by 2016. Services and investment were added in 2015, adding another momentum to the trade and investment relations between India and ASEAN. Presumably, Mekong countries have gained relatively higher market access in India. Both India and Mekong countries have substantially high untapped trade potential, which has remained unrealised due to barriers to trade and structural differences of the economies, among which some are intuitively policy barriers (such as tariff and non-tariff measures, etc.), whereas a large part of the barriers is also related to environment such as remoteness and low connectivity, inadequate banking and financial instruments, unfavourable business environment, etc. In order to facilitate the trade flows, some of the recommendations of this chapter are: removal of non-tariff Measures (NTMs), reduce the costs to trade with the help of WTO Trade Facilitation Agreement (TFA), and pruning the sensitive lists of products in ASEAN-India FTA.

Production networks have become an important phenomenon in Southeast and East Asia. Chapter 3 (*Strengthening Regional Value Chains: Drivers of Integration*) analyses the prospects of value chain creations between India and Mekong countries. Given the variations in production of goods and services, complementarities between India and Mekong countries are the added strength to build and strengthen the value added stages needed for stronger cross-border regional value chain networks. Building value chain networks

between India and Mekong countries, therefore, has gained high importance in bilateral relations. India and Mekong countries have huge potential in regional value chain linkages, particularly with Thailand and Vietnam. This chapter recommends that India and Mekong countries should continue to strengthen the regional economic integration, improve the ranks in *Ease of Doing Business*, strengthen the connectivity, develop border industrial zones, improve access to finance, and promote skill development.

Chapter 4 (*Facilitating Foreign Direct Investment: Trends and Developments*) discusses scope and opportunities in foreign direct investments. Despite several economic crises in recent past, MGC countries have continued to witness a rising flow of FDI. The investment environment in the MGC subregion continues to improve, with Mekong countries and India reforming investment policies and introducing new measures that further promote FDI. Launching ASEAN Economic Community (AEC) in 2015 and India's massive reforms in recent years have improved the investor sentiments. Several companies are now planning to expand their presence in MGC subregion. There is a huge potential for FDI flows between India and Mekong countries. This chapter recommends that a supportive FDI environment is needed for the improvement of connectivity and value chains between India and Mekong countries. Besides, Mekong countries have to undertake policy measures to encourage participation of Small and Medium Enterprises (SMEs), enhancement of skill, initiate business facilitation measures, etc.

Chapter 5 (*Mekong-India Connectivity: Fostering Integration*) reviews the physical connectivity projects between India and Mekong countries and narrates the policies to deal with the emerging challenges. This chapter has few specific recommendations such as strengthening the financing Mekong-India connectivity projects, completion of major cross-border corridors, and building a stronger coordination mechanism. A stronger coordination between MGC (ASEAN) and India will be helpful in building cross-border connectivity. This chapter also suggests that Mekong countries and India have to identify the missing links and investment needs from a region-wide perspective. To a great extent, missing rail and road links in Myanmar is hindering the overland connectivity between India and Southeast Asia. Therefore, average road conditions and the railway system inside Myanmar need to be improved and upgraded. Extension of Trilateral Highway (TH) to Mekong countries, direct air links, completion of ongoing connectivity projects, maritime links with Cambodia and Vietnam are some of the projects which would take the cooperation between India and Mekong to a new plateau.

Mekong subregion is the lifeline of Asian integration. Mekong is a most prominent case where countries have successfully transformed borders into bustling place of economic activities. Border barrier has been declining

in India's Northeast India in the present era of Look East-Act East Policy. Chapter: 6 (*Harnessing Border Economic Zones for Border Connectivity*) analyses the border development in Mekong subregion and draws policy lessons for improvement of border connectivity in India as well as between India and Mekong subregion. Government may consider setting up BEZs across India-Myanmar (and also India-Bangladesh) border. We have to draw on local advantages, e.g. low-wage or labour-intensive activities, to become competitive. Myanmar has received the GSP benefits, like Cambodia or Lao PDR in Mekong. India may also gain huge benefits if BEZs are promoted, particularly with Myanmar. To start with, two BEZs may be considered for setting up in Northeast India: (i) Manipur (Moreh-Tamu border) with Myanmar; and (ii) Mizoram (Champai-Rih border) with Myanmar.

Finally, Chapter 7 (*Mekong- Ganga Cultural Fusion*) presents the pathways to take forward the cultural relations between India and Mekong countries. This chapter recommends that MGC countries shall undertake a bottom-up approach involving the real stakeholders in designing the cultural integration process. A pragmatic cultural policy could drive a convergence of interests towards cooperation in finding common solutions. The fusion of cultural past could be enriched further through a robust cooperation between the Mekong region and India.

1.4. Concluding Remarks

Mekong-Ganga Cooperation (MGC) has scored impressive performance in breaking barriers through regional connectivity. Efforts have been made to strengthen the cultural and commercial relations. MGC offers immense trade and investment opportunities. Trade is very much contingent upon governance and institutional quality. To support the growing partnership, more emphasis should be given in improving the functioning of the economic institutions and connectivity, which facilitate the economic and cultural relations. Mekong countries are central to India's Act East Policy (AEP). The increased economic relations between India and Mekong countries would create economic opportunities for India's North Eastern Region (NER). India should remain committed to working closely with ASEAN and Mekong countries with a view to bringing the MGC to new heights.

Endnotes

- ¹ Refer, De (2014) for detailed analysis on economic relations between India and Mekong countries with a narrative on challenges those are being faced by the MGC member countries.
- ² Refer, Chaturvedi (2016) for an unabridged discussion on aid and development cooperation in context of South-South Cooperation with particular reference to Mekong subregion.

Appendix 1: Status of Some Prominent ASEAN-India Projects

Sr. No.	Name of the Project	Status of the Project
1.	Initiative for ASEAN Integration: Creation of a Sustainable IT Infrastructure for Advanced IT Training using Conventional, Virtual Classroom and e-Learning Technologies in CLMV countries-1. Setting up of Centre of Excellence in Software Development and Training (CESDT) in CLMV countries 2. Setting up of Information Technology Resource cum Study Centre for ASEAN and CLMV countries at CDAC, Noida 3. Provide Assistance in IT Curriculum Development and IT Teacher Trainings to CLMV	Some training programmes are already going on. The project is likely to start very soon.
2.	IAI: Capital Market Training for Cambodia, Lao PDR, Myanmar and Vietnam- This project aims to implement capacity building activities for officials in the capital markets of Cambodia, Lao PDR, Myanmar and Vietnam. The activities include two workshops to be delivered in 2015 for 32 participants in two batches. The project is conducted on: 1st Batch: Completed (8-26 June 2015), 2nd Batch: Completed (31 Aug - 18 Sept 2015).	The project completed in 2015.
3.	Establishment of Tracking and Data Reception Station and Data Processing Facility for ASEAN and Training of ASEAN Personnel in Space Science & Technology-Setting up a new tracking and data reception station in Ho Chi Minh City (Vietnam) and upgrading the existing Biak Telemetry Tracking & Command (TT&C) station in Indonesia.	Some training programmes are already going on. The project is likely to start very soon.
4.	Six Scholarships for students of CLMV countries at Nalanda University	The academic session for 2015-2017 (two years course) commenced in August, 2015. Two students from Myanmar and two from Lao PDR are studying in Nalanda University.
5.	Implementation Study and Pilot Development of GPON Technology in CLMV countries and Indonesia - The projects aims to assess the feasibility of upgrading the existing broadband infrastructure with GPON technology, identify the GPON deployment scenario, and implement a pilot deployment of GPON technology in CLMV countries	The implementation process for this project has already been initiated.

Appendix 1 continued...

Appendix 1 continued...

6.	English Language Training for Law Enforcement Officers from CLMV Countries – The three months training programme was conducted by Aptech India Institute from May 1, 2015 in Yangon to increase the English language proficiency for 30 law officers.	The project completed in 2015.
7.	Capacity Building for professionals in the capital markets of Cambodia, Laos, Myanmar and Viet Nam – 1 st workshop for 16 professionals was held at National Institute of Securities Markets (NISM), Mumbai from June 8-26, 2015. The second workshop has also been completed on September 18, 2015	The project completed in 2015.
8.	Centre for English Language Training (CELTs)- CELTs have been established in Cambodia(August 2007), Laos (June 2007), Myanmar (2009) and Vietnam (Danang July 2009).	The project completed in 2009

Source: ASEAN-India Centre (AIC) at RIS based on Indian Mission to ASEAN, Jakarta.

Appendix 2: Government of India Supported Line of Credits

Sr. No.	Countries	LoC (US\$ Million)	Period	Sectors	Status
1	Cambodia	35.2	2007-22	Stung Tasal development project, purchase of water pumps, and construction of electricity transmission line between Kratie and Stung Treng.	The LoC has been fully disbursed as on March 31, 2014.
		15	2010-25	Strengthening the capacity of transmission line project between Kratie and Stung Treng.	Ongoing
		15	2010-25	Completion of Stung Tasal Water Development Project	Ongoing
2	Lao PDR	17.34	2009-29	Development of Irrigation schemes in the Champassack Province	The project is completed and repayments are being effected.
		33	2008-28	Paksong – Jiangxai 115 KV, double circuit Transmission Line Project , Nam Song 7.5 MW hydropower project and Equipment for Rural electrification Phase 2 Project	The project is completed and repayments are being effected.
		72.55	2010-30	230 kV Double Circuit Transmission Line from Nabong to Thabok and substations (USD 34.68 million), (ii) Extension of Thabok & Nabong substations to 230 kV (US\$ 12 million) and (iii) Nam Gnung - Laksao, 115 kV Transmission line and Sub Stations (US\$ 23.25 million) in Lao PDR Projects at (ii) and (iii) were not covered under the LOC. Alternate projects are yet to be finalised.	Ongoing
		30.94	2013-23	Construction of Storage Dams & Development of Irrigation Systems in four major provinces in Lao PDR	Out of four projects, one is ongoing, three projects yet to be tendered under new IDEAS guidelines.

Appendix 2 continued...

3	Myanmar	7	2004-14	Establishment of an OFC link between Moreh and Mandalay, an ADSL high-speed data link in Yangon area and a reduced number of COR-DECT lines	Project Completed
		56.36	2004-14	Railway rehabilitation	Project Completed
		20	2006-26	Renovation of Thanlyin Refinery	Project Completed
		60	2010-30	Railway projects by RITES Ltd.	Project Completed
		20	2008-28	Setting up an assembly / manufacturing plant for assembly and manufacturing of Tata vehicles	Project Completed
		64.07	2008-28	(i) Oakshitpin- Thahtay Chaung- Taungup 230 kV Transmission Line and Substation Project; (ii) Taungup- Maei-Ann- Mann 230 kV Transmission Line and Substation project; and (iii) Maei-Kyaukpyu 230 kV Transmission Line and Substation project	Project Completed
		20	2009-29	Upgradation of Thanbayakan Petrochemical Complex	Project Completed
		198.96	2013-28	16 ongoing irrigation schemes and 2 rehabilitation schemes in the irrigation project in Myanmar	PMC Contract was awarded to WAPCOS on nomination basis, EPC contracts are yet to be tendered.
		86.31	2013-28	Procurement of rolling stock, equipment and up-gradation of three major Railway Workshops by procurement of machinery	Project awarded to RITES is ongoing; Other contracts are yet to be awarded.
		6.2	2015-30	Implementation of a Microwave Radio Link on the Rhi-Mindat route in Myanmar	Contract has been awarded to TCIL, however contract is yet to be signed between the project authority and TCIL.
		140	Not yet signed	Up-gradation of Shwebo Putao and Rakhine State Roads in Myanmar	LoC is yet to be signed.

Appendix 2 continued...

4	Vietnam	27	2004-29	General purpose - Contracts approved included export of textile machinery, equipment and services for hydro power projects	The project is completed and repayments are being effected.
		45	2008-23	NAM Chien Hydropower Project (200 MW) at Son La Province	The project is completed and repayments are being effected.
		19.5	2013-23	Binh Bo Drainage Pumping Station and Nam Trai Hydropower Project	Binh bo Drairage Pumping station project being awarded to Kirloskar Brothers Limited is under execution. Nam Trai Hydropower project: Another project which could be covered under the LOC being identified, as the captioned project was awarded to another contractor.
		100	2014-29	Purchase of equipment / supplies	Contract Agreement for inclusion under the LoC is yet to be received from GOV.

Source: Ministry of External Affairs (MEA), Government of India.

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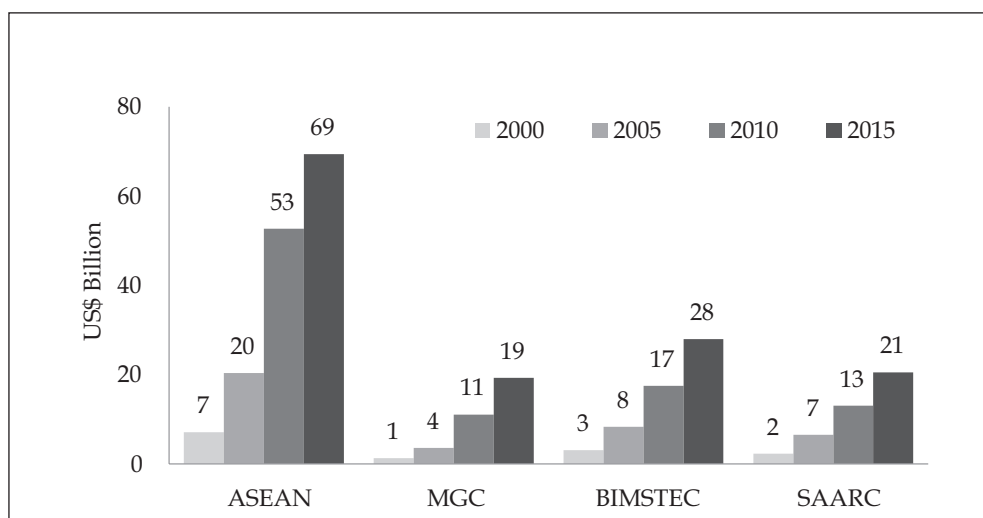
India-Mekong Trade: Trends and Patterns

2.1. Introduction

Regional economic integration is seen as a complementary path to strengthen the globalization process. India has taken steps on its passage towards economic integration, particularly with Southeast and East Asian countries. The partnership with ASEAN countries in general and countries in Mekong subregion in particular has made significant progress in recent years. The partnership has scaled new heights with the implementation of the Act East Policy (AEP). India's deepening relationship with its ASEAN neighbours is further evident from the bilateral FTA with Thailand, Comprehensive Economic Cooperation Agreement (CECA) with Singapore and Malaysia, and subregional cooperation such as the Mekong-Ganga Cooperation (MGC) and Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC), as well as the East Asia Summit (EAS), which help contribute to enhancing regional dialogue and accelerating regional integration. In particular, trade and investment flows between India and Mekong countries have been driving the Mekong-Ganga Cooperation (MGC).

2.2 Trade Flows

India's trade with Mekong countries has increased over the period 2000 to 2015. India's total trade with Mekong countries in the year 2000 was just a mere US\$ 1.32 billion, which increased to US\$ 19.31 billion in 2015 (Table 1 and Figure 1). India's pattern of trade with Mekong countries is relatively asymmetric, thereby implying high unlocked trade potential.

Figure 1: India's Trade with Regional Blocks


Source: Drawn based on DOTS, IMF.

Table 1: Trends in Intra-Regional Trade

Year	ASEAN-India		MGC		BIMSTEC		SAARC	
	Value	Share	Value	Share	Value	Share	Value	Share
	(US \$ Billion)	(%)	(US \$ Billion)	(%)	(US \$ Billion)	(%)	(US \$ Billion)	(%)
2000	107.60	22.92	4.66	3.91	4.63	3.69	2.78	4.38
2005	190.25	25.30	12.15	4.90	11.85	5.20	8.51	6.50
2015	353.27	23.80	54.37	8.20	35.77	6.70	23.36	7.00
CAGR (2005-2015), %	6.38	-	16.20	-	11.7	-	10.6	-

Source: Calculated based on DOTS, IMF

Table 2: India's Trade with Mekong Countries: 2000 - 2015

Country	2000	2005	2010	2015	CAGR	CAGR	CAGR
	(US\$ billion)				(2000-2005)	(2005-2010)	(2010-2015)
					(%)		
(a) India's Export to MGC Countries							
Myanmar	0.05	0.11	0.27	0.86	17.08	19.67	26.07
Cambodia	0.01	0.02	0.06	0.15	14.87	24.57	20.11

Table 2 continued...

Table 2 continued...

Lao PDR	0.01	0.00	0.01	0.05			37.97
Thailand	0.51	1.03	2.14	3.13	15.09	15.75	7.90
Vietnam	0.21	0.66	2.49	5.33	25.74	30.42	16.44
Total	0.79	1.82	4.97	9.52	18.17	22.25	13.88
(b) India's Import from MGC Countries							
Myanmar	0.18	0.50	1.12	1.07	22.67	17.50	-0.91
Cambodia	0.00	0.00	0.01	0.03			24.57
Lao PDR	0.00	0.00	0.02	0.13			45.41
Thailand	0.34	1.13	3.95	5.67	27.15	28.44	7.50
Vietnam	0.01	0.12	1.00	2.89	64.38	52.81	23.65
Total	0.53	1.75	6.10	9.79	26.99	28.37	9.92
(c) India's Total Trade with MGC Countries							
Myanmar	0.23	0.61	1.39	1.92	21.54	17.91	6.67
Cambodia	0.01	0.02	0.07	0.18	14.87	28.47	20.79
Lao PDR	0.01	0.00	0.03	0.18	-16.74	49.63	43.10
Thailand	0.85	2.16	6.09	8.80	20.51	23.04	7.64
Vietnam	0.22	0.78	3.48	8.23	28.81	34.86	18.79
Total	1.32	3.57	11.06	19.31	22.04	25.35	11.79

Source: Calculated based on DOTS, IMF.

Thailand, Vietnam and Myanmar are the top three trading partners of India in MGC. Table 2 presents India's trade with Mekong countries for both export and import. India's export to Vietnam in recent years has witnessed a phenomenal rise. During 2005 to 2010, India's export to Vietnam increased by over 30 per cent per annum, compared to 16 per cent growth during the period 2010 and 2015. With an export of US\$ 5.33 billion in 2015, Vietnam has become India's largest export partner in MGC, followed by Thailand (US\$ 3.13 billion). In case of India's imports from Mekong countries, Thailand comes in the top position, followed by Vietnam and Myanmar. During the period 2010 and 2015, India's import from Lao PDR has also witnessed the highest growth, followed by Cambodia and Vietnam. At the same time, India's import from Myanmar in the same period has encountered a negative growth. At present, with the Mekong countries, India has a trade deficit with Myanmar, Lao PDR and Thailand, and trade surplus with Vietnam and Cambodia.

Table 3: India's Major Exports and Imports with Mekong Countries: 2015-16

Country	India's Top Export Commodities to MGC Countries	India's Top Import Commodities from MGC Countries
Cambodia	Pharmaceutical Products, Textile, Leather, Transport and associate equipment, Vegetable products and Machinery and Mechanical Appliances	Wood and related, Textile, Rubber, Footwear and Mineral Products
Lao PDR	Transport and associate equipment, Animal products, Machinery and Mechanical Appliances, Related to Food Industry and Pharmaceutical Products	Gems and Jewellery, Mineral Products, Wood and related products and Base metal and related products
Myanmar	Sugar and Related, Pharmaceutical Products, Machinery and Mechanical Appliances and Textile	Vegetable Products, Wood and related, Live Animals, Leather Products and Mineral products
Thailand	Gems and Jewellery, Machinery and Mechanical Appliances, Organic Chemicals, Transport and associate equipment and Fishery	Machinery and Mechanical Appliances, Plastics, Transport and associate equipment, Organic Chemicals and Rubber
Vietnam	Animal products, Textile, Coffee/Tea, Machinery and Mechanical Appliances and Transport and associate equipment	Machinery and Mechanical Appliances, Coffee/Tea, Chemicals and allied products, Rubber and Base Metal

Note: Due to inadequate space, the details of India's Top Ten Trading Commodities at HS 6 digit level with MGC Country-wise are available upon request.

Source: Calculated based on Export-Import Databank, Government of India.

Among the MGC countries, India-Myanmar trade has witnessed a structural change in recent years. Bilateral trade between India and Myanmar has been showing convergence as India's export to Myanmar grew faster than her import from Myanmar, which also suggests rising trade complementarities between the two countries.

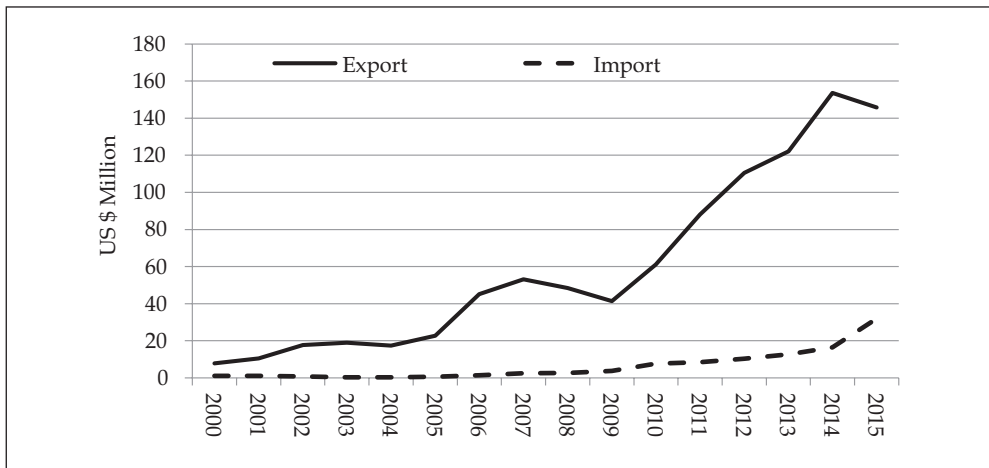
India's trade with Mekong countries has also been witnessing a compositional shift. Table 3 illustrates India's major exports and major imports from Mekong countries in recent years. India's major exports to Mekong countries are mostly pharmaceutical products, textiles, transport and equipments, machinery and mechanical appliances, whereas the major imports are wood and wood products, rubber, minerals, machinery and mechanical appliances. Trade in goods between them has also witnessed transformation from trade in commodities to finished goods (pharmaceuticals) and intermediate products (automobile parts and components). This is also evident from the total number of exports and imports between India and

Mekong countries.¹ Among MGC countries, Vietnam and Thailand are having trade in diversified products with India, and Myanmar, Cambodia and Lao PDR are also following the same trend, albeit slowly.

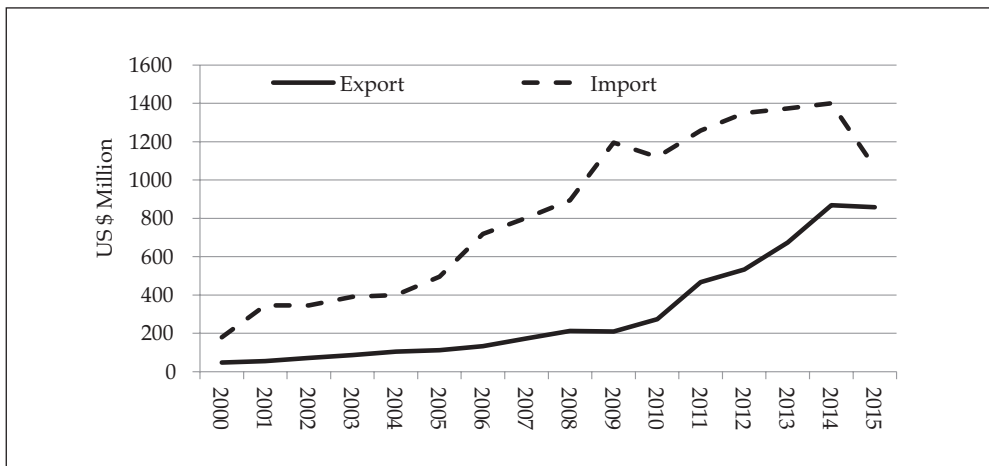
The trade relations between India and Mekong countries has received a fillip through ASEAN-India FTA, implemented in 2010, that India has set free over 4000 products by 2016. Services and investment were added in 2015, adding another momentum to the trade and investment relations between India and ASEAN. Presumably, Mekong countries have gained relatively higher market access in India.

Figure 2: Trends in India's Trade Flows with Mekong Countries

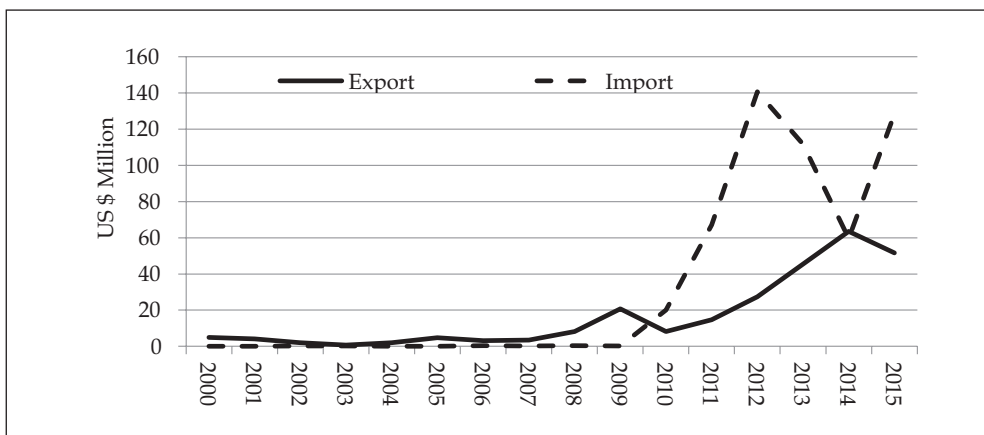
(a) India's Trade with Cambodia



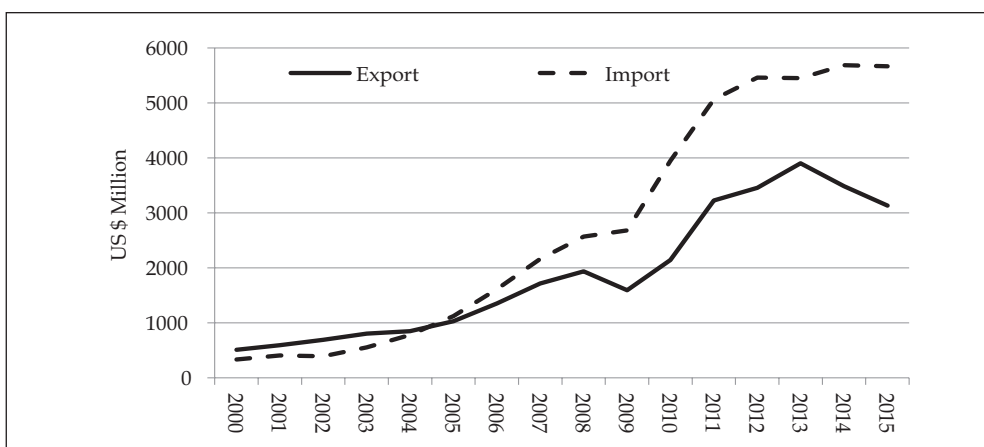
(b) India's Trade with Myanmar



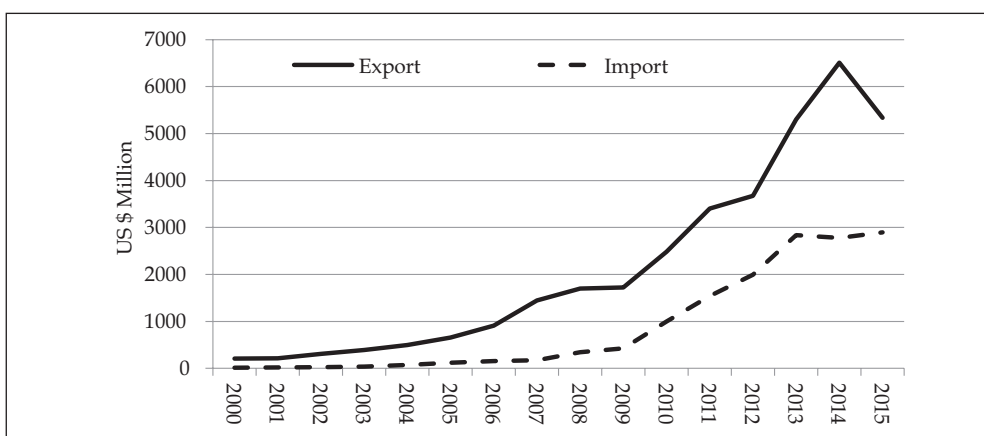
(c) India's Trade with Lao PDR



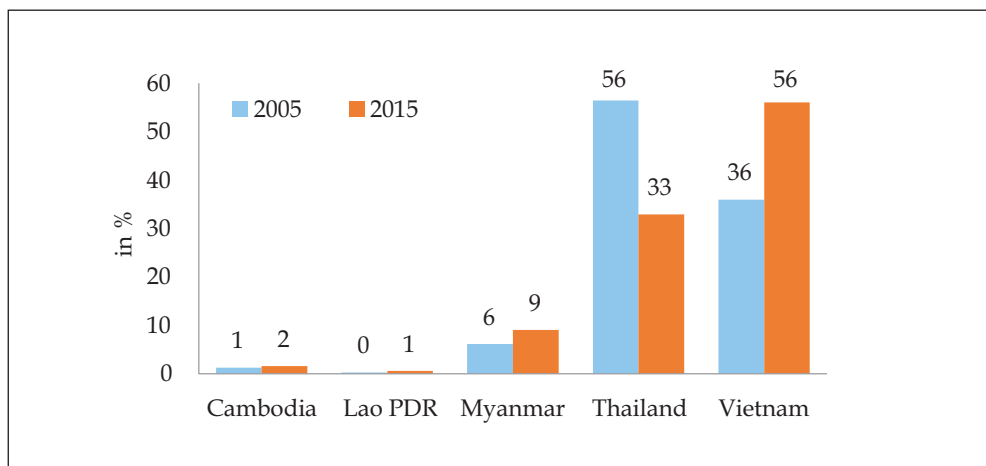
(d) India's Trade with Thailand



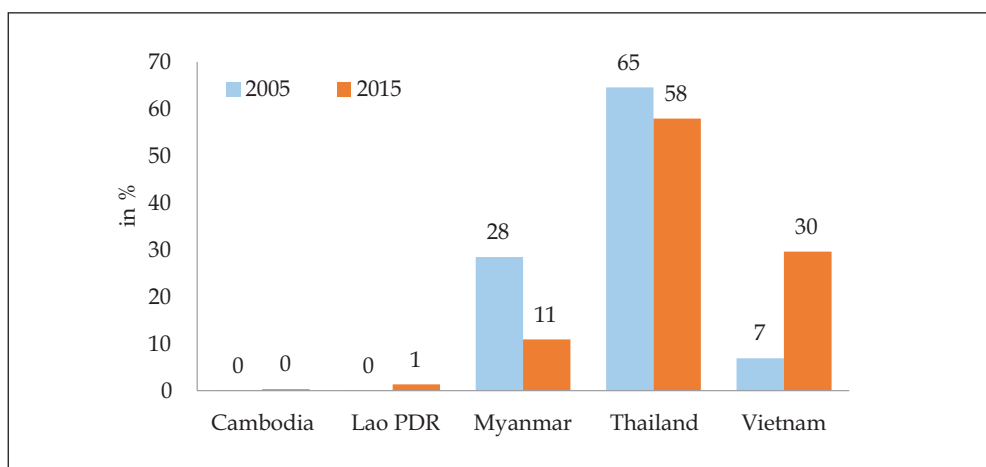
(e) India's Trade with Vietnam



Source: DOTS, IMF

Figure 3(a): Share of India's Export to Mekong Countries

Source: DOTS, IMF

Figure 3(b): Share of India's Import from Mekong Countries

Source: DOTS, IMF.

India, however, is not the major trading partner of most of the Mekong countries, neither all of the Mekong countries are major trading partners of India. Barring Lao PDR and Myanmar, India ranks in the group of top 20 trading partners in case of Thailand, Vietnam and Cambodia. On the other, none of the Mekong countries appears in the top 10 trading partners of India in 2015.² Figure 2 presents the trends in India's trade flow with Mekong countries. In terms of India's share in exports to and imports from Mekong

countries during the period 2005 and 2015, Vietnam is the only country with whom India has witnessed rising share in exports and imports in both the years. India's share in exports to Thailand has declined between 2005 and 2015, and the same trend has continued in case of India's share in imports from Myanmar and Thailand (Figures 3(a) and 3(b)).

What becomes clear is that India and Mekong countries are yet to have an active trade engagement, at least at the regional level. However, it also indicates scope for further trade expansion between India and Mekong countries. This is also not to deny that India's trade with Mekong countries would be driven by the short-run trend. However, the structure of exports may change when the countries witness a favourable trading environment such as improved and enabling infrastructure. Current trends suggest that India could become an increasingly important market for MGC's exports and vice versa. Deeper cooperation between India and Mekong countries is *sine qua non* for greater economic community being planned through RECP in Asia.

2.3 Patterns of Trade

Fuelled by Thailand's trade with MGC countries, MGC has witnessed a substantial rise in intra-regional trade; the intra-regional trade volume has increased from US\$ 3.91 billion in 2000 to US\$ 4.90 billion in 2005 to US\$ 8.20 billion in 2015 (Table 1). In value terms, intra-MGC trade has become US\$ 54.37 billion in 2015, which has increased from US\$ 4.66 billion in 2000. During the period 2000 and 2015, intra-MGC trade volume has grown at a phenomenal 16.20 per cent per annum, highest among the regional trading arrangements like BIMSTEC, SAARC and ASEAN. As reported earlier, growing over 18 per cent per annum during 2005 and 2015, India's trade with Mekong countries has increased from US\$ 3.57 billion in 2005 to US\$ 19.31 billion in 2015. The intra-regional trend clearly suggests a promising trade relation in MGC. Such rise in trade indicates growing importance of Mekong-India relations. A stronger Mekong-India trade relation is essential to foster the ASEAN-India partnership and build the greater Asian market.

Table 4: Trade Complementarity Index (%)

Reporter	Partner	2005	2014
India	Cambodia	34.55	31.24
India	Thailand	30.96	34.55
India	Vietnam	40.93	36.76

Note: TCI at HS 4 digit level

Source: Calculated based on WITS Database

To understand the relative trade patterns between India and Mekong countries, we analyse some of the trade indicators such as trade complementarity index, trade intensity and intra-industry trade (IIT). Another objective is to explore the gains from trade and the direction of benefits from trade.

Trade Complementarity Index

Trade potential between the two countries can also be judged based on trade complementarity index (TCI). TCI score can provide useful information on prospects for bilateral trade. It shows how well the structures of a country's imports and exports match. A high degree of complementarity is assumed to indicate more favourable prospects for a successful trade arrangement. For enhancing export and import between India and Mekong countries, we look at the extent of complementarity of tradable items, i.e. examining the extent of similarity in the export structure of these economies.³ Two countries with a high index may gain from trade expansion following a preferential or free trade agreement. The TCI scores for India with Mekong countries, presented for 2005 and 2014 in Table 4, indicate that the trade pattern is not that similar, and, thus, there is a possibility of trade expansion. The calculated TCI scores reveal that TCI for India and Thailand has increased from 30.96 per cent in 2005 to 34.55 per cent in 2014, thereby indicating more scope for further trade engagements between them. However, India has witnessed a fall in TCI score with Cambodia and Vietnam during 2005 and 2015.

We now look at the sectoral trade to explore the wider scope of possible trade expansion. Trade Intensity Index (TII) score tells us how intense the trade relations between India and Mekong countries at HS 4 digit level for the period 2014.⁴ Table 5 presents the calculated TII scores for India's trade with Mekong countries separately. TII determines whether the value of trade between the two countries is greater or smaller than the expected value on the basis of their importance in world trade.

Table 5: Trade Intensity Index (TII) for Top Ten Products at HS 4-digit Level for the Year 2014

(a) India and Cambodia

HS Code	Product Description	TII
7614	Stranded wire, cables, plaited band	471.64
1103	Cereal groats, meal and pellets.	384.70
4106	Goat or kid skin leather	319.22
5515	Other woven fabrics of synthetic	317.15
5209	Woven fabrics of cotton, containing	146.01

Table 5 continued...

Table 5 continued...

5112	Woven fabrics of combed wool	105.43
4105	Sheep or lamb skin leather, without	102.68
2302	Bran, sharps and other residues	60.92
6703	Human hair, dressed, thinned, bleach	47.05
2304	Oil-cake and other solid residues	44.75

(b) India-Lao PDR

HS Code	Product Description	TII
7614	Stranded wire, cables, plaited band	346.85
0202	Meat of bovine animals, frozen.	273.87
8410	Hydraulic turbines, water wheels	99.97
7313	Barbed wire of iron or steel; twist	87.92
5704	Carpets and other textile floor covers	76.73
5809	Woven fabrics of metal thread	68.79
8546	Electrical insulators of any materials	44.05
2309	Preparations of a kind used in animals	41.99
2301	Flours, meals and pellets, of meat	39.83
8428	Other lifting, handling, loading	38.22

(c) India-Myanmar

HS Code	Product Description	TII
0501	Human hair, unworked, whether or not	1633.23
2305	Oil-cake and other solid residues	279.41
6703	Human hair, dressed, thinned, bleach	124.64
5212	Other woven fabrics of cotton.	114.89
5205	Cotton yarn (other than sewing thread)	60.43
8604	Railway or tramway maintenance	43.82
1208	Flours and meals of oil seeds	42.83
5307	Yarn of jute or of other textiles	42.13
2807	Sulphuric acid	39.43
0909	Seeds of anise, badian, fennel	35.27

(d) India-Thailand

HS Code	Product Description	TII
0904	Pepper of the genus Piper; dried	111.695
7201	Pig iron and spiegeleisen in pigs	108.394
5003	Silk waste	86.615

Table 5 continued...

Table 5 continued...

1202	Ground-nuts, not roasted or otherwise	70.518
8110	Antimony and articles thereof	61.957
2942	Other organic compounds	58.494
0202	Meat of bovine animals, frozen	57.997
4003	Reclaimed rubber in primary forms	57.634
2802	Sulphur, sublimed or precipitated	55.663
2513	Pumice stone; emery; natural corund	55.452

(e) India-Vietnam

HS Code	Product Description	TII
909	Seeds of anise, badian, fennel	357.16
0202	Meat of bovine animals, frozen.	244.60
1202	Ground-nuts, not roasted or otherwise	189.92
2305	Oil-cake and other solid residues	126.44
0501	Human hair, unworked, whether or not	69.19
904	Pepper of the genus Piper; dried	61.65
0306	Crustaceans, whether in shell or not	60.04
1207	Other oil seeds and oleaginous fruit	56.79
5201	Cotton, not carded or combed	55.39
4106	Goat or kid skin leather	53.91

Source: Calculated by authors based on WITS Database.

Among the Mekong countries, there are some common products having relatively intense trade relations with India. In case of Cambodia and Lao PDR, there is one common item - Stranded wire, cables (HS Code 7314), in which Cambodia and Laos have relatively intense trade with India. Another common product between Cambodia and Myanmar having higher trade with India is Human hair, dressed, thinned etc. (HS 6703). Cambodia and Vietnam also have one common trade-intensive product i.e., leather and related item (HS 4106). Similar common trade-intensive item of Lao PDR, Thailand and Vietnam is frozen meat of bovine animals (HS 0202). Myanmar and Vietnam have three common trade-intensive items such as animal products (Human hair, unworked) (HS 0501), Food and beverages (Oil-cake and other solid residues) (HS 2305) and vegetable products (Seeds of anise, badian, fennel) (0909). Thailand and Vietnam have only one trade-intensive item, which is vegetable products (Ground-nuts, not roasted or otherwise) (HS1202). What follows is that India and Mekong countries have witnessed intense trade in products of animal meat, cotton and chemical.

Intra-Industry Trade

The intra-industry trade (IIT) between India and Mekong countries provides the glimpse of the relative importance of trade within a common sector (or industry). By engaging in IIT, a country can reduce the number of similar goods it produces, and benefits from economies of scale and/or market structure. The IIT scores for top products at 4-digit level for 2014 presented in Table 6 indicate that the pattern of IIT of India seems to be lower with Cambodia and Lao PDR, while IIT tends to be higher with Myanmar, Thailand and Vietnam.

Table 6: Intra-Industry Trade (IIT) Scores for Top Ten Products at HS 4-Digit Level: 2014

(a) India and Cambodia

HS Code	Product Description	IIT
1108	Starches; inulin.	0.931
3926	Other articles of plastics and articles	0.859
4015	Articles of apparel and clothing accessories	0.781
4016	Other articles of vulcanised rubber	0.385
4104	Leather of bovine or equine animals	0.370
4202	Trunks, suit-cases, vanity-cases	0.348
4821	Paper or paperboard labels of all kinds	0.283
4823	Other paper, paperboard, cellulose	0.192
4901	Printed books, brochures, leaflets	0.179
5407	Woven fabrics of synthetic filament	0.160

(b) India and Lao PDR

HS Code	Product Description	IIT
4819	Cartons, boxes, cases, bags and others	0.431
4016	Other articles of vulcanised rubber	0.017
3926	Other articles of plastics and articles	0.017
3002	Human blood; animal blood prepared	0.013
8544	Insulated (including enamelled)	0.006
9999	UN Special Code	0.005

(c) India and Myanmar

HS Code	Product Description	IIT
1211	Plants and parts of plants	0.90
9999	UN Special Code	0.89
8803	Parts of goods of heading No. 88.01	0.86
9505	Festive, carnival or other entertain	0.80
9016	Balances of a sensitivity of 5 cg	0.79

Table 6 continued...

Table 6 continued...

6912	Ceramic tableware, kitchenware, others	0.75
1207	Other oil seeds and oleaginous fruit	0.61
501	Human hair, unworked, whether or not	0.54
8407	Spark-ignition reciprocating or rot	0.53
6217	Other made up clothing accessories	0.46

(d) India and Thailand

HS Code	Product Description	IIT
3809	Finishing agents	0.998
4104	Leather of bovine or equine animals	0.998
8459	Machine-tools	0.991
8548	Waste and scrap of primary cells	0.987
5811	Quilted textile products in the pie	0.986
3207	Prepared pigments	0.979
2909	Ethers, ether-alcohols, ether-phenom	0.976
3215	Printing ink, writing or drawing in	0.972
5911	Textile products and articles	0.972
6217	Other made up clothing accessories	0.972

(e) India and Vietnam

HS Code	Product Description	IIT
3920	Other plates, sheets, film, foil	0.980
7219	Flat-rolled products of stainless steel	0.972
6111	Babies' garments and clothing accessories	0.971
7323	Table, kitchen or other household items	0.971
7407	Copper bars, rods and profiles.	0.968
2821	Iron oxides and hydroxides	0.964
7608	Aluminium tubes and pipes	0.962
4911	Other printed matter	0.946
904	Pepper of the genus Piper	0.945
7324	Sanitary ware and parts thereof	0.945

Source: Calculated by authors based on WITS Database.

The ITI scores indicate that there are some common items among the MGC countries in the top 10 product groups. For Cambodia and Lao PDR, two similar products are plastic and rubber items (HS 3926) and (HS 4016). One similar ITI item of Cambodia and Thailand is leather and related (HS 4104). Lao PDR and Myanmar have a single common ITI item with India. Myanmar and Thailand have one common ITI item with India which is a textile product (HS 6217).

IIT of India with Myanmar at HS 4-digit level is mostly on agricultural and primary products, whereas IIT for India with Thailand and Vietnam is mostly on textile, machinery and metal products. This also indicates that there is a possible production fragmentation process in some commodities with Thailand and Vietnam.

2.4 Export Potential

The indicative potential trade has been computed for each HS 6-digit product. The supply is represented by the exports of the selected country to the world. The demand is represented by the imports of the selected partner country from the world. The minimum between the two from which the bilateral trade is subtracted is the indicative potential trade. In a formal way, the unrealised trade potential for any commodity between India and Mongolia is given by $[\text{Min}(Y_i, X_j) - Z_{ij}]$, where Y_i , X_j and Z_{ij} are country i 's global exports, country j 's global imports and existing trade between the country i (exporter) and country j (importer), respectively.⁵ Products having trade potential were identified as those with (a) adequate demand in the importing country, and (b) adequate supply capabilities in the exporting country. The caveat is that the estimates of trade potential have to be treated with caution as they are merely indicative of the untapped trade possibilities. The estimate of trade potential is the maximum possible trade that two countries can have if they sourced all items from each other which they sourced from the rest of the world, *ceteris paribus*. The estimates also vary depending on the year of reference.

Table 7 presents the actual and potential export between India and Mekong countries. It suggests existence of high unrealised trade between India and Mekong countries. In 2015, India's actual export to Mekong countries was US\$ 9.52 billion against a calculated export potential of US\$ 425.77 billion. On the reverse side, Mekong countries' actual export to India was US\$ 8.95 billion against a calculated export potential of US\$ 389.82 billion. In popular sense, it suggests only 2 percent of the potential trade between India and Mekong countries was realised in 2015, whereas rest 98 percent of bilateral export was kept unrealised. This also indicates a vast potential of export opportunities between them.

The calculated export potentials at product level are reported in Annexure 1. At the product level, Indian export potential lies mostly in diversified products (automobile, electrical, mechanical appliances, gold, minerals, cement, sugar, petroleum products, Medicaments, copper, plastic, polypropylene, cotton, etc.). Export potential of Mekong countries to India are mix of finished goods, minerals and parts and components like electronic integrated circuits, machines, petroleum oils, data-processing machines, polyethylene, static converters, gold, apparels, wood and wood products,

gems and jewellery (rubies, sapphires and emeralds), copper, ferro-nickel, electrical energy, coffee, potassium chloride, etc.). Therefore, export potentials appear to be high between India and Mekong countries.

Table 7: Trade Potential between India and Mekong Countries in 2015*

(US\$ billion)

Indian Export to MGC by Country	Actual Export	Potential Export	Mekong Export to India by Country	Actual Export	Potential Export
Cambodia	0.15	14.04	Cambodia	0.03	8.53
Lao PDR	0.05	5.99	Lao PDR	0.12	3.90
Myanmar	0.86	21.06	Myanmar	0.97	12.16
Thailand	3.13	198.92	Thailand	5.22	205.67
Vietnam	5.33	185.77	Vietnam	2.62	159.55
Total	9.52	425.77	Total	8.95	389.82

Note: *The detailed trade potential at HS 6 digit level for top 20 products are given in Appendix 1

Source: Calculated by authors.

It is clear from the preceding sections that both India and Mekong countries have substantially high untapped trade potential, which has remained unrealised due to barriers to trade and structural differences of the economies, among which some are intuitively policy barriers (such as tariff and non-tariff measures, exchange rate volatility, etc.), whereas a large part of the barriers are also related to environment such as remoteness and low connectivity, inadequate banking and financial instruments, unfavourable business environment, etc. These barriers make the trade between them expensive and non-competitive.⁶ This type of trade restrictions not only limit bilateral trade but also diminish economic efficiency, depriving both the partners from best endowments not available elsewhere. For example, Indian cement and iron and steel can better suit the construction activities of Mekong countries had there been less expensive shipment between them. Indian drugs may serve the people of Mekong better had there been frequent direct flights between India and Mekong countries.

Improving the exports needs trade facilitation. Both India and Mekong countries have taken some important steps to improve trade facilitation. For example, steps have been taken to improve customs procedures, which, amongst other things, allow for post clearance customs control, as well as the introduction of the electronic interface allowing for the submission of electronic documents and electronic payments. As part of the efforts to diversify exports, banks in Mekong countries, particularly in Thailand, provide export finance, including pre- and post-shipment financing, export factoring, export credit guarantees, and export credit insurance.

Table 8: Section-wise Weighted Tariff Rate between India and Mekong Countries, 2014

(%)

	Cambodia		Lao PDR		Myanmar		Vietnam		Thailand	
	Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied
Live Animals	28	6	30	21	61	4	25	20	17	12
Vegetable Products	32	8			44	3	47	22	15	10
Fats & Oil					24	2	43	9	19	12
Processed Food	26	6	5	3	147	8	37	12	24	16
Chemical Products	12	5	8	5	34	2	29	1	6	2
Rubber & Plastic	17	7	11	6	4	3	30	2	10	7
Raw hide & skins	34	6	20	15	8	6	29	12	14	12
Textile	12	7	10	5	10	8	28	6	13	8
Footwear	20	5			7	5	30	10	28	23
Stone and Cement	24	8	5	3	50	3	30	2	17	11
Gems & Jewellery	35	6	5	3	43	14	8	2	10	9
Base Metals	25	9	5	3	25	3	25	4	12	7
Machinery & Electrical	21	9	5	3	9	2	20	1	7	4
Transport Equipment	26	11	22	19	0	4	57	22	27	23

Source: WITS Database, World Bank

To conclude, realizing the untapped trade potential means both India and Mekong countries should address the trade policy and connectivity issues as important agenda in their strategic partnership.

2.5. Policy Recommendations

(a) Reduce the Variations in Applied Tariff

In general, tariff is no longer the major barrier to trade in Mekong subregion. Table 8 presents weighted bound and applied tariff rates between India and Mekong countries.⁷ Most of the products enjoy low tariff except transport equipment, rawhide and skins, live animals, gems and jewellery, processed food, vegetable products, footwear, etc. In other words, the applied tariff rate between India and Mekong countries has come down significantly at around 10 per cent and less in most of the sectors, except transport equipment, when compare to the bound tariff rate. Apparently, applied tariff rates (MFN) in Thailand and Vietnam are relatively higher than other Mekong countries in case of import from India. However, applied tariff rates do not exceed the bound rates in none of the Mekong countries. Neither, countries have witnessed tariff escalation. However, the binding coverage varies across Mekong countries. With India as an importer, Cambodia and Myanmar, among the Mekong countries, suffer from large binding overhang.⁸ A large binding overhang makes a country's trade policies less predictable.

(b) Remove the Non-Tariff Measures (NTMs)

Mekong countries have been imposing relatively higher number of NTMs on imports from India. Table 9 illustrates major sector-wise NTMs imposed by Mekong countries on India and India on Mekong countries in SPS, TBT and other categories⁹. It is quite clear from the Table 9 that each Mekong countries have imposed SPS and TBT measures over minimum 1500 products on imports from India. On top, there are wide variations across Mekong countries in imposing NTMs on imports from India. While Lao PDR has NTMs on about 1700 products, Cambodia and Vietnam have over 4000 products having NTMs. The intensity can be measures through Frequency Index.¹⁰ In other words, almost 50 to 60 percent of India's exports to Mekong countries are affected by SPS, TBT and other measures (Figure 4). The major sectors that are affected by NTMs imposed by Mekong countries are live animals, vegetable products, chemical products, machinery and electrical and textiles (Table 9). On the other, India has been very liberal in opening up markets for Mekong countries. Besides, completion of tariff liberalization mandates under the ASEAN-India FTA¹¹, only 305 products of Mekong countries have to comply with NTMs in India.

Rising NTMs therefore negates the tariff liberalization benefits. In addition to tariff liberalisation, it is imperative to achieve preferential market access by streamlining NTMs. Therefore, Mekong countries have to remove and/or streamline NTMs, particularly SPS and TBT measures, on imports from India.

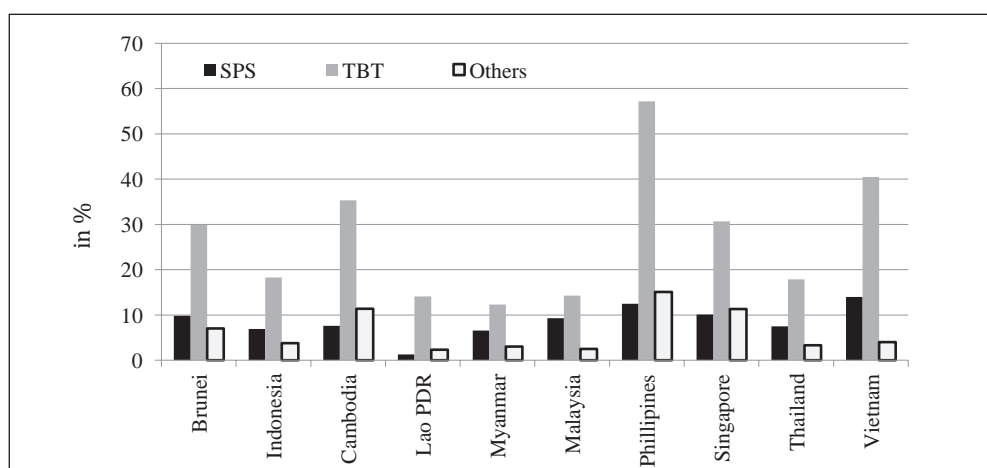
Table 9: Selected Major Sector-wise Number of Products Affected by NTMs, 2016*

(Numbers)

		Live Animals	Vegetable Products	Fats & Oil	Processed Food	Chemical Products	Rubber & Plastic	Wood	Textile	Base Metals	Machinery & Electrical	Transport Equipment	Instruments	Total
NTMs Imposed by Mekong Countries on India														
Cambodia	SPS	130	214	9	38	6	3	0	76	0	0	0	22	568
	TBT	137	79	7	24	475	66	44	76	31	608	21	71	1776
	Others	284	431	19	76	149	3	84	763	65	495	6	88	2842
Lao PDR	SPS	153	175	40	56	12	11	7	1	4	0	0	0	468
	TBT	20	10	0	3	162	14	0	1	6	64	73	12	384
	Others	155	192	43	79	218	28	17	2	151	40	71	12	1131
Myanmar	SPS	167	177	40	57	25	0	17	78	11	0	0	22	665
	TBT	165	178	39	56	178	7	11	76	14	36	70	28	938
	Others	185	198	42	57	333	14	28	81	15	44	70	25	1190
Thailand	SPS	145	174	39	93	58	2	0	1	0	0	0	0	513
	TBT	149	181	40	103	220	28	14	13	82	103	19	32	1077
	Others	175	219	44	74	249	22	12	0	62	22	27	24	1022
Vietnam	SPS	176	221	42	153	72	21	19	83	14	0	0	22	903
	TBT	171	197	39	84	225	25	12	711	93	162	28	85	2011
	Others	150	102	12	75	111	8	23	122	88	142	21	64	1061
NTMs Imposed by India on Mekong Countries														
India	SPS	4	1	0	2	0	0	2	0	0	0	0	0	10
	TBT	0	0	0	0	6	5	0	0	12	0	1	2	30
	Others	11	18	11	1	73	21	3	5	33	16	9	2	265

Note: *Number of products at HS 6-digit level

Source: Compiled from www.asean.i-tip.org and www.i-tip.org website.

Figure 4: Impact of NTMs on Indian Exports to ASEAN Measure of Frequency Index by Country (%)

Source: Calculated by authors.

(c) Reduce the Costs to Trade

Mekong countries and India have successfully improved the trade facilitation measures such as trading across borders indicators over time. All the MGC countries have witnessed fall in time to export and import and documents to export and import during the period 2006 and 2015 (Table 10). However, the costs to export and import in MGC have increased substantially except Myanmar and Thailand, which have managed to reduce the costs to trade in 2015, compared to 2006. India is relatively in a better position in terms of regulatory and logistics measures, when compare to other MGC countries. However, in terms of costs of export and import, India is 20 to 40 per cent higher than those of all other MGC countries except Lao PDR.

Table 10: Trading Across Borders Indicators

Country	Documents to export (Number)		Time to export (Days)		Cost to export (US\$ per container)		Documents to import (Number)		Time to import (Days)		Cost to import (US\$ per container)	
	2006	2015	2006	2015	2006	2015	2006	2015	2006	2015	2006	2015
India	3.3	3.3*	27.0	17.1	814.0	1332.0	4.7	4.7*	41.0	21.1	1324.0	1462.0
Cambodia	6.0	8.0	43.0	22.0	736.0	795.0	11.0	9.0	54.0	24.0	816.0	930.0
Lao PDR	12.0	10.0	55.0	23.0	1420.0	1950.0	15.0	10.0	65.0	26.0	1690.0	1910.0
Myanmar#	9.0	8.0	25.0	20.0	670.0	620.0	9.0	8.0	27.0	22.0	660.0	610.0
Thailand	9.0	5.0	24.0	14.0	848.0	595.0	12.0	5.0	22.0	13.0	1042.0	760.0
Vietnam	5.0	5.0	24.0	21.0	468.0	610.0	8.0	8.0	23.0	21.0	586.0	600.0

Note: *Data for 2013; # - Data for 2011 instead of 2006

Source: Doing Business Database, the World Bank

Barriers to trade pose particular burden on small and medium-sized enterprises in MGC countries. MGC countries are, therefore, aimed to undertake trade facilitation measures not only to reduce the costs to trade but also to harmonise the standards and connectivity across nations. The WTO Trade Facilitation Agreement (TFA) offers important solutions to red tape that still exists in moving goods across borders. Box 1 presents current status

Box 1. MGC Countries and WTO Trade Facilitation Agreement (TFA)

The Trade Facilitation Agreement entered into force on 22 February 2017, when the WTO obtained the two-thirds acceptance of the Agreement from its 164 Members. To benefit from special and differential treatment (SDT), a Member must categorize each provision of the Agreement, as defined below, and notify other WTO Members of these categorizations in accordance with specific timelines outlined in the Agreement:

Category A: Provisions that the Member will implement by the time the Agreement enters into force (or in the case of a least-developed country Member within one year after entry into force)

Category B: Provisions that the Member will implement after a transitional period following the entry into force of the Agreement

Category C: Provisions that the Member will implement on a date after a transitional period following the entry into force of the Agreement and requiring the acquisition of assistance and support for capacity building.

Table 11: Trade Facilitation Agreement: Ratification and Notification of MGC Countries*

Country	Ratified on	Category					
		A		B		C	
		Notified on	(in %)	Notified on	(in %)	Notified on	(in %)
Cambodia	12.02.2016	-		-	-	-	-
Lao PDR	29.09.2015	17.09.2015	20.8	-	-	-	-
Myanmar	16.12.2015	-		-	-	-	-
Viet Nam	15.12.2015	31.07.2014	22.9	-	-	-	-
Thailand	05.10.2015	19.09.2016	91.7	-	-	-	-
India	22.04.2016	23.03.2016	70.8	23.01.2017	29.2	-	-

Note: *As on 9th March 2017

Source: www.tfadatabase.org

The TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area. The implementation of this Agreement may help improve transparency, increase possibilities to participate in global value chains, and reduce the scope for corruption. The TFA was the first Agreement concluded at the WTO by all of its Members. All MGC countries have ratified the WTO TFA (Table 11). While most of them have bound their commitments in category A, India has selected both categories A and B.

of WTO Trade Facilitation Agreement (TFA), which has now come in effect. The WTO TFA is expected to give boost to MGC trade and may facilitate new products in the trade basket.

MGC countries, however, have to improve timeliness of trade, tracking and tracing of shipments, logistics quality and competence (on-time delivery with care), more reliable international shipments, improvement of infrastructure quality, and customs Single Window. Governments may like to initiate a MGC Trade and Transport Facilitation Programme (MTTFP), to foster the trade relations between India and Mekong countries.

(d) Pruning the Sensitive Lists in ASEAN-India FTA

ASEAN-India FTA in goods has large exclusions (negative) list on which concessional tariffs are not offered. There are certain products reserved under the sensitive lists, for which tariff reductions have been slower than the reduction in normal track. The rationale for any kind of exclusion or sensitive list is to provide protection to domestic industries. Contrary to popular belief, import demand has gone up in sensitive and exclusion lists items between India and Mekong countries since signing of the FTA in 2010 (Table 12).

Table 12. Trade in Products in Exclusion and Sensitive Lists

(US\$ million)

	India's Export to Mekong countries					
	Exclusion List		CAGR (2009-10 to 2015-16), %	Sensitive List		CAGR (2009-10 to 2015-16) %
	2009-10	2015-16		2009-10	2015-16	
Cambodia	1.6	3.0	11.05	10.6	20.1	11.25
Lao PDR	0	0.1		2.5	11.1	28.20
Myanmar	35.9	580.5	59.02	37.9	84.0	14.18
Thailand	258.7	353.7	5.35	178.8	320.1	10.19
Vietnam	64.8	166.9	17.08	232.9	496.5	13.45
	India's Import from Mekong Countries					
	2009-10	2015-16		2009-10	2015-16	
	2009-10	2015-16		2009-10	2015-16	
Cambodia	0	0		4.7	12.8	18.17
Lao PDR	0	0		0.1	37.7	168.78
Myanmar	17	0.1	-57.51	391.9	20.3	-38.95
Thailand	334.7	528.0	7.89	161.8	355.4	14.01
Vietnam	37.9	113.8	20.11	37.2	189.9	31.22

Note: Taken at HS 8-digit level.

Source: Calculated by authors based on Export-Import Databank, Ministry of Commerce and Industry, Government of India, New Delhi

What appears MGC countries except India's import from Myanmar have been trading more and more in those products which have been reserved under the exclusion and sensitive lists. In particular, the trade between India and Thailand and India and Vietnam have witnessed massive increase in trade in exclusion or sensitive lists products, indicating the need for pruning the reserved items. To prune the exclusion and sensitive lists in a phased manner, MGC countries may consider forming an expert group to review the ASEAN-India FTA.

2.5 Concluding Remarks

Regional economic integration is seen as a complementary path to strengthen the globalization process. India has taken steps on its passage towards economic integration, particularly with Southeast and East Asian countries. Trade and investment flows between India and Mekong countries have been driving the economic cooperation between India and Mekong countries. India's trade with Mekong countries has increased from US\$ 1.32 billion in 2000 to US\$ 19.31 billion in 2015. Thailand, Vietnam and Myanmar are the top three trading partners of India in MGC. The trade relations between India and Mekong countries has received a fillip through ASEAN-India FTA, implemented in 2010, and India has set free over 4000 products by 2016. Services and investment were added in 2015, adding another momentum to the trade and investment relations between India and ASEAN. India and Mekong countries are also partners in RCEP, which is being negotiated at present. Presumably, Mekong countries have gained relatively higher market access in India. Both India and Mekong countries have substantially high untapped trade potential, which has been remained unrealized due to barriers to trade and structural differences of the economies. To strengthen trade relations, Mekong countries and India should address the issues related to sensitive lists, non-tariff measures, and trade facilitation.

Endnotes

- ¹ Bilateral trade between India and Mekong countries at HS 8-digit product level is relatively skewed in favour of India's export to Mekong countries except Thailand. For instance, based on trade statistics of Export-Import Databank, total number of products exported to Cambodia, Lao PDR, and Myanmar at HS 8-digit level in 2015-16 were almost 4 to 8 times higher than the total number of products imported from these countries. The total number of products export to Vietnam were 3078 in 2015-16, which is two times than that of total number of products imported from Vietnam. The total number of products trade at HS 8-digit level between India and Thailand were almost close to 3500 to 4000 products in 2015-16.
- ² Ranking of countries is based on DOTS, IMF.
- ³ The trade complementarity index based on Michaely's working paper (Michaely, 1996), measures to what extent the export profile of country i matches the

import profile of country (or country group) k , the trade partner of country j . The index values range from 0 to 1 with 0 indicating that there is no correspondence between country j 's export structure and country k 's import structure and 1 indicating a perfect match in their export/import pattern.

- ⁴ TII is the ratio of two export shares. The numerator is the share of the destination of interest in the exports of the region under study. The denominator is the share of the destination of interest in the exports of the world as a whole. The trade intensity index uses similar logic to that of revealed comparative advantage, but for markets rather than products. It indicates whether a reporter exports more, as a percentage, to a partner than the world does on average. It is measured as country i 's exports to country j relative to its total exports divided by the world's exports to country j relative to the world's total exports. Range of Values: 0 to $+\infty$. A value greater than 100 indicates a relationship more intense than the world average for the partner.
- ⁵ For further details, one can refer <http://www.trademap.org/Docs/TradeMap-Userguide-EN.pdf>
- ⁶ Refer, for example, AIC-RIS (2015)
- ⁷ Bound tariffs are specific commitments made by individual WTO member governments. The bound tariff is the maximum MFN tariff level for a given commodity line.
- ⁸ The gap between the bound and applied MFN rates is called the binding overhang.
- ⁹ Others include Pre-Shipment Inspection and other formalities, Contingent trade-protective measures, non-automatic licensing, quotas, prohibitions and quantity control measures other than for SPS or TBT reasons, Price Control measures, Finance measures, Measures affecting competition, trade-related investment measures, distribution restrictions, restrictions on post-sales services, subsidies (excluding export subsidies under P7), government procurement restriction, intellectual property, rules of origin, export related measures.
- ¹⁰ The frequency index simply captures the percentage of products that are subject to one or more NTMs. The frequency index accounts only for the presence or absence of an NTM, and summarizes the percentage of products i to which one or more NTMs are applied. In more formal terms, the frequency index of NTMs imposed by country j is calculated as: where D is a dummy variable reflecting the presence of one or more NTMs and M indicates whether there are imports of good i (also a dummy variable). Note that frequency indices do not reflect the relative value of the affected products and thus cannot give any indication of the importance of the NTMs on overall imports. Refer, Gourdon (2014)
- ¹¹ Barring the Philippines, India has already eliminated tariff under NT1 on December 2013 and NT2 on December 2016 for all the ASEAN countries.

Appendix 1

(a) India's Export Potentiality with Mekong Countries

India's export potentiality with Cambodia (2015)

HS code	Description	Indicative potential (US\$ million)
710812	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes (excluding gold)	891.2
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	612.2
271012	Light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume "incl.	367.5
870323	Motor cars and other motor vehicles principally designed for the transport of persons, incl.	192.2
170199	Cane or beet sugar and chemically pure sucrose, in solid form (excluding cane and beet sugar	169.4
851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	136.4
240220	Cigarettes, containing tobacco	122.6
392690	Articles of plastics and articles of other materials of heading 3901 to 3914, n.e.s (excluding	115.5
252329	Portland cement (excluding white, whether or not artificially coloured)	105.8
871410	Parts and accessories of motorcycles, incl. mopeds, n.e.s.	100.6
	All products	14035.1

India's export potentiality with Lao PDR (2015)

HS code	Description	Indicative potential (US\$ million)
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	547.0
870421	Motor vehicles for the transport of goods, with compression-ignition internal combustion piston	184.7
710812	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes (excluding gold)	162.6
271012	Light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume "incl.	159.2

Appendix 1 continued...

Appendix 1 continued...

853400	Printed circuits	90.2
730890	Structures and parts of structures, of iron or steel, n.e.s. (excluding bridges and bridge-sections)	68.0
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	67.7
252329	Portland cement (excluding white, whether or not artificially coloured)	66.1
870332	Motor cars and other motor vehicles principally designed for the transport of persons, incl.	66.1
851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	65.6
	All products	5992.3

India's export potentiality with Myanmar (2015)

HS code	Description	Indicative potential (US\$ million)
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel,	1314.0
890520	Floating or submersible drilling or production platforms	759.0
271012	Light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume "incl.	618.8
871120	Motorcycles, incl. mopeds, with reciprocating internal combustion piston engine of a cylinder	356.8
730890	Structures and parts of structures, of iron or steel, n.e.s. (excluding bridges and bridge-sections)	258.7
170199	Cane or beet sugar and chemically pure sucrose, in solid form (excluding cane and beet sugar)	247.0
890190	Vessels for the transport of goods and vessels for the transport of both persons and goods	242.5
999999	Commodities not elsewhere specified	205.9
870422	Motor vehicles for the transport of goods, with compression-ignition internal combustion piston	199.5
210690	Food preparations, n.e.s.	174.4
	All products	21057.0

Appendix 1 continued...

Appendix 1 continued...

India's export potentiality with Thailand (2015)

HS code	Description	Indicative potential (US\$ million)
710812	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes (excluding gold)	5311.7
271012	Light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume "incl.	2220.8
880240	Aeroplanes and other powered aircraft of an of an unladen weight > 15.000 kg (excluding helicopters)	1900.5
740311	Copper, refined, in the form of cathodes and sections of cathodes	1550.3
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	1173.8
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons	1063.3
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	709.5
848180	Appliances for pipes, boiler shells, tanks, vats or the like (excluding pressure-reducing valves	695.3
890590	Light-vessels, fire-floats, floating cranes and other vessels	686.2
840999	Parts suitable for use solely or principally with compression-ignition internal combustion	652.0
	All products	198916.5

India's export potentiality with Vietnam (2015)

HS code	Description	Indicative potential trade (US\$ million)
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	4065.5
999999	Commodities not elsewhere specified	2126.6
271012	Light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume "incl.	1800.5
880240	Aeroplanes and other powered aircraft of an of an unladen weight > 15.000 kg (excluding helicopters)	1177.2
520100	Cotton, neither carded nor combed	1038.5
30617	Frozen shrimps and prawns, even smoked, whether in shell or not	933.7

Appendix 1 continued...

Appendix 1 continued...

300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	898.9
740311	Copper, refined, in the form of cathodes and sections of cathodes	816.8
390210	Polypropylene, in primary forms	696.2
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons	575.0
	All products	185773.5

(b) Mekong Countries Export Potentiality with India, 2015**Cambodia's Export Potentiality with India (2015)**

HS Code	Description	Indicative potential trade (US\$ million)
852990	Parts suitable for use solely or principally with transmission and reception apparatus	78.8
640419	Footwear with outer soles of rubber or plastics and uppers of textile materials	73.5
400129	Natural rubber in primary forms or in plates, sheets or strip (excluding smoked sheets)	64.3
851770	Parts of telephone sets, telephones for cellular networks or for other wireless networks	60.0
854430	Ignition wiring sets and other wiring sets for vehicles, aircraft or ships	58.8
854449	Electric conductors, for a voltage ≤ 1.000 V, insulated, not fitted with connectors, n.e.s.	42.0
350510	Dextrins and other modified starches, e.g. pregelatinised or esterified starches	36.6
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	35.6
871200	Bicycles and other cycles, incl. delivery tricycles, not motorised	30.0
710812	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes (excluding gold)	28.7
	All products	8532.6

Appendix 1 continued...

Appendix 1 continued...

Lao PDR's export potentiality with India (2015)

HS Code	Description	Indicative potential trade (US\$ million)
440399	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared	402.1
260300	Copper ores and concentrates	355.3
852990	Parts suitable for use solely or principally with transmission and reception apparatus	269.5
740311	Copper, refined, in the form of cathodes and sections of cathodes	187.4
310420	Potassium chloride for use as fertiliser (excluding that in tablets or similar forms)	155.5
90111	Coffee (excluding roasted and decaffeinated)	84.3
440799	Wood, sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed	58.9
440349	Tropical wood specified in the Subheading Note 1 to this chapter in the rough, whether or not	48.9
271600	Electrical energy	42.3
400122	Technically specified natural rubber "TSNR"	40.2
	All products	3903.0

Myanmar's export potentiality with India (2015)

HS Code	Description	Indicative potential trade (US\$ million)
720260	Ferro-nickel	207.5
740311	Copper, refined, in the form of cathodes and sections of cathodes	187.4
71331	Dried, shelled beans of species "Vigna mungo [L.] Hepper or Vigna radiata [L.] Wilczek"	164.9
440399	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared	126.3
710391	Rubies, sapphires and emeralds, worked, whether or not graded, but not strung, mounted or set	114.7
440729	Tropical wood specified in Subheading Note 1 to this chapter, sawn or chipped lengthwise, sliced	89.7
270900	Petroleum oils and oils obtained from bituminous minerals, crude	78.0

Appendix 1 continued...

Appendix 1 continued...

999999	Commodities not elsewhere specified	73.7
400121	Smoked sheets of natural rubber	62.7
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	60.7
	All products	12163.0

Thailand's export potentiality with India (2015)

HS Code	Description	Indicative potential trade (US\$ million)
710812	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes (excluding gold)	3543.0
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	2063.1
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons	1509.4
710239	Diamonds, worked, but not mounted or set (excluding industrial diamonds)	1455.9
271012	Light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume "incl.	1376.7
847330	Parts and accessories of automatic data-processing machines or for other machines of heading	1249.4
390110	Polyethylene with a specific gravity of $< 0,94$, in primary forms	1100.6
850440	Static converters	813.3
854231	Electronic integrated circuits as processors and controllers, whether or not combined with	752.0
390120	Polyethylene with a specific gravity of $\geq 0,94$, in primary forms	741.0
	All products	205671.7

Vietnam's export potentiality with India (2015)

HS Code	Description	Indicative potential trade (US\$ million)
851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	6536.6
851770	Parts of telephone sets, telephones for cellular networks or for other wireless networks and	4796.9
270900	Petroleum oils and oils obtained from bituminous minerals, crude	3823.8

Appendix 1 continued...

847130	Data-processing machines, automatic, portable, weighing ≤ 10 kg	2588.4
851762	Machines for the reception, conversion and transmission or regeneration of voice	980.3
854231	Electronic integrated circuits as processors and controllers	742.3
854239	Electronic integrated circuits (excluding such as processors, controllers, memories and amplifiers)	631.3
999999	Commodities not elsewhere specified	618.7
852580	Television cameras, digital cameras and video camera recorders	611.9
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	574.9
	All products	159547.0

3

Strengthening Value Chains: Drivers of Integration

3.1 Introduction

Global Value Chain (GVC) has gained significant importance in the economic integration. A value chain can be defined as “full range of activities that firms and workers do to bring a product from its conception to its end use and beyond”.¹ It means the functional activities of production process are spread across firms and involve more than one country. Almost 70 per cent of MNCs are involved in the GVC activities and have contributed almost 60 per cent of global trade (worth of US\$ 20 trillion in 2014).² In GVC, both trade and investment are very well integrated, particularly through MNCs. In Asia-Pacific region, the contribution of trade in GVCs has reached to 75 to 80 per cent despite the global financial crisis³. Asia-Pacific has become the largest trading region with a share of 37 per cent of world trade⁴. Therefore, production networks have become an important phenomenon in Southeast and East Asia.

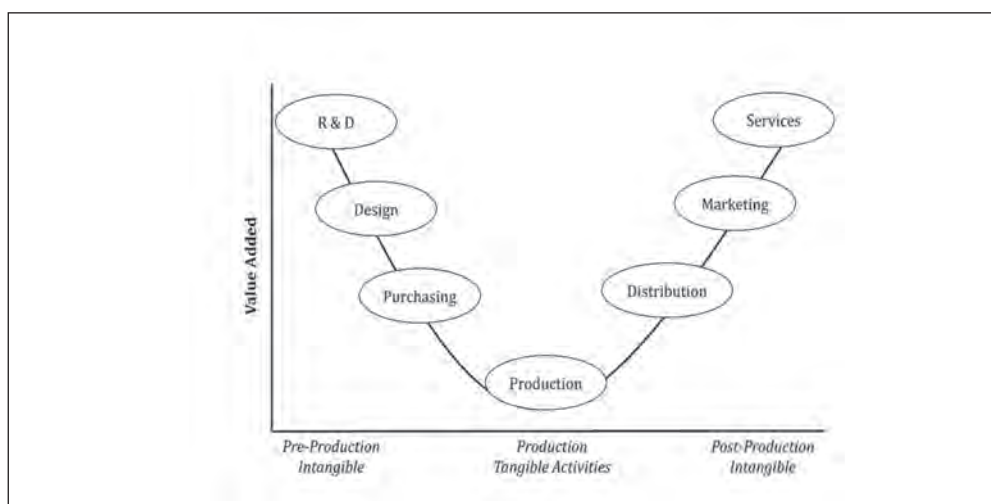
A strong set of literature has highlighted the major factors determining GVCs, and all of these are applicable to MGC subregion⁵. They can be described as follows:

- Reduction in trade costs
- Better logistics performance and support services like custom clearances
- Labour cost arbitrage
- Skilled labour and managers
- Availability of trade-related physical infrastructure

- Ease of doing business
- Proximity to markets
- Duty free access to markets
- Ability to comply with standards
- Issues on tariffs and non-tariff barriers
- Institutional and regulatory reforms

Liberalization and facilitation of trade in goods and services, investment promotion, intellectual property rights protection, and the harmonization of standards and regulations are required to make the cross-border regional production more efficient.⁶ The development of such international production networks is reflected in an expansion of international trade, especially in trade in intermediate goods. As illustrated in Figure 1, the value added at each stage of production goes up before or after the production of goods. For example, pre-production processes such as R&D, design and purchasing of raw materials add value addition to the production process, and further value additions come from the post-production activities such as distribution, marketing and services to reach the end consumers. Both pre-production and post-production value added stages are intangible services, which require high skill-intensive human resources to generate new ideas and deliver the product in a competitive global market.

Figure 1: Smile Curve of Value-Added Stages in the GVC



Source: Frederick (2010).

Given the variations in production of goods and services, complementarities between India and Mekong countries are the added strength to build and strengthen the value added stages needed for stronger cross-border regional value chain networks. Building value chain networks between India and Mekong countries, therefore, has gained high importance in bilateral relations.

The share of India in global value added exports was around 1.9 per cent, compared to 9 per cent of China in 2009.⁷ India has limited number of products where it leads in GVC, whereas, it has gained competitiveness to form GVC in 35 products that could sell in 50 countries⁸. To realize such potentials, the Government of India has taken initiatives to encourage the firms engaging in GVCs. The 'Make in India' is such an initiative to encourage foreign investors to manufacture in India.

Here, we attempt to assess the regional value chain networks between India and Mekong countries, particularly through two case studies: (i) value chain linkages between India and Thailand in automobile industry, and (ii) value chain linkages between India and Vietnam in textiles industry. We follow the Sturgeon and Memedovic (2013) methodology to classify the goods at HS 6-digit level (combined) based on Broad Economic Categories classification scheme (BEC, revision 3). The detailed methodology is given in Appendix 1.

3.2 India's Trade in Parts and Components with Mekong Countries

Parts and components have contributed almost 25 per cent (US\$ 6.27 billion) of India's export to ASEAN in 2014, followed by 18 per cent (US\$ 4.60 billion) to EU, 14 per cent (US\$ 3.49 Billion) to USA and 7.7 per cent (US\$ 1.95 billion) to China (Table 1). In terms of import of parts and components, India has imported 15 per cent (US\$ 5.48 billion) from ASEAN, 25 per cent (US\$ 9.39 billion) from China and 18 per cent (US\$ 6.81 billion) from Japan in 2014 (Table 2). Overall, India's export of final, parts and components, and processed goods to ASEAN was about 20 to 30 per cent of India's total export to world, whereas, India's import from ASEAN was roughly about 15 per cent in 2014. This shows that India is getting more engaged in production networks with ASEAN countries in both export and import of parts and components and processed goods.

Table 1: India's Export of Parts and Components to Major Countries and Country Groups

	Value (US\$ billion)						Share in World (%)					
	Final		Parts and Components		Processed		Final		Parts and Components		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014
USA	4.03	6.51	1.80	3.49	4.27	9.17	25.50	15.39	15.56	13.76	15.44	13.37
EU	3.34	6.67	2.05	4.60	5.98	11.87	7.78	4.26	7.12	7.70	9.23	12.40
Japan	1.99	2.67	1.78	2.13	2.04	3.88	21.11	15.77	17.75	18.15	21.61	17.30
South Asia	0.44	1.52	0.38	1.10	1.88	5.57	12.59	6.31	15.45	8.42	7.38	5.66
China	1.23	1.80	0.82	1.95	2.55	8.51	2.78	3.58	3.25	4.35	6.79	8.11
ASEAN	2.75	6.80	3.64	6.27	5.23	11.76	17.42	16.07	31.49	24.75	18.91	17.15
World	15.80	42.31	11.55	25.33	27.67	68.61	100.00	100.00	100.00	100.00	100.00	100.00

Note: The selection of HS 6 digit level product is based on BEC.

Source: Author's Calculation based on WITS Database, the World Bank.

Table 2: India's Import of Parts and Components from Major Countries and Country Groups

	Value (US\$ billion)						Share in World (%)					
	Final		Parts and Components		Processed		Final		Parts and Components		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014
USA	1.39	2.20	1.70	2.82	2.25	5.39	9.27	6.31	11.62	7.73	6.37	6.02
EU	3.52	5.98	2.79	5.35	4.70	9.43	23.39	17.12	19.08	14.66	13.31	10.52
Japan	2.78	4.49	3.79	6.81	4.75	8.51	18.52	12.87	25.90	18.65	13.46	9.49
South Asia	0.10	0.33	0.05	0.25	0.83	1.60	0.64	0.95	0.35	0.67	2.37	1.78
China	2.98	12.92	1.71	9.39	4.60	17.16	19.82	37.00	11.72	25.72	13.03	19.15
ASEAN	2.05	5.61	2.92	5.48	4.67	10.83	13.62	16.05	19.96	15.01	13.22	12.09
World	15.04	34.93	14.63	36.51	35.29	89.63	100.00	100.00	100.00	100.00	100.00	100.00

Note: The selection of HS 6 digit level product is based on BEC.

Source: Author's Calculation based on WITS Database, the World Bank.

India's export of parts and components to Mekong countries was about US\$ 0.73 billion in 2014, of which India's exports to Thailand, Vietnam and Myanmar were about US\$ 0.43 billion, US\$ 0.14 billion and US\$ 0.15 billion respectively (see Table 3 and Figure 2). India's export to Mekong countries

were about US\$ 0.69 billion in 2014 and US\$ 4.06 billion respectively. Therefore, India's export of parts and components and processed goods to Mekong countries are relatively higher in volume, compared to other ASEAN countries.

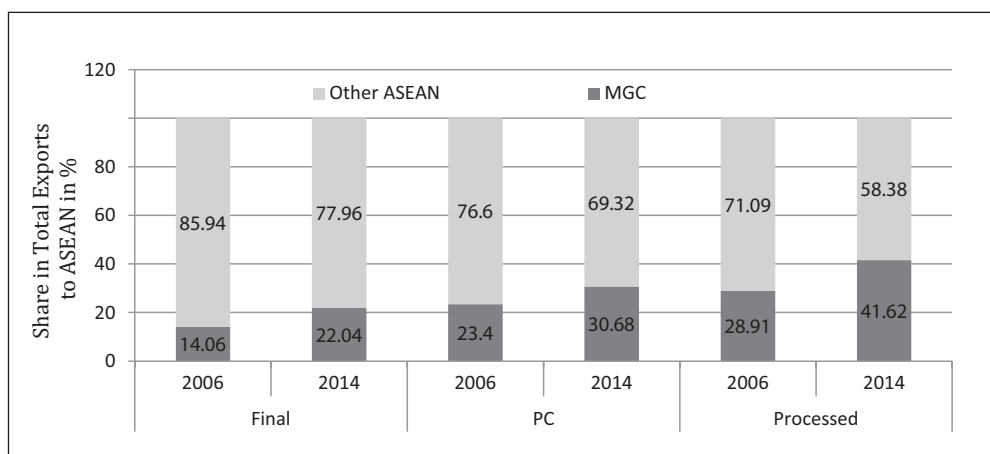
Table 3: India's Export of Parts and Components to ASEAN

	Value (US\$ Billion)						Share in ASEAN, (%)					
	Final		Parts and Components		Processed		Final		Parts and Components		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014
Brunei	0.00	0.01	0.00	0.00	0.00	0.01	0.13	0.44	0.14	0.14	0.02	0.06
Indonesia	0.04	0.37	0.08	0.45	1.08	1.72	4.63	11.83	13.37	19.02	21.00	17.60
Cambodia	0.00	0.01	0.00	0.00	0.01	0.09	0.20	0.39	0.39	0.20	0.24	0.96
Lao PDR	0.00	0.03	0.00	0.01	0.00	0.02	0.27	0.83	0.15	0.29	0.04	0.16
Myanmar	0.01	0.13	0.02	0.15	0.07	0.30	1.57	4.18	3.24	6.14	1.36	3.07
Malaysia	0.09	0.59	0.11	0.39	0.55	1.66	10.47	18.81	17.96	16.60	10.73	17.03
Philippines	0.02	0.18	0.06	0.18	0.32	0.49	2.62	5.67	9.58	7.63	6.23	4.99
Singapore	0.58	1.29	0.21	0.61	1.70	1.82	68.08	41.20	35.54	25.92	33.11	18.70
Thailand	0.07	0.29	0.08	0.43	0.87	2.18	7.98	9.14	14.13	18.27	16.93	22.34
Vietnam	0.03	0.23	0.03	0.14	0.53	1.47	4.05	7.50	5.49	5.77	10.34	15.09
MGC	0.12	0.69	0.14	0.73	1.48	4.06	14.06	22.04	23.40	30.68	28.91	41.62
ASEAN	0.85	3.12	0.58	2.37	5.13	9.75	100.00	100.00	100.00	100.00	100.00	100.00

Note: The selection of HS 6 digit level product is based on BEC.

Source: Author's Calculation based on WITS Database, World Bank.

Figure 2: India's Export to Mekong Countries



Source: Author's calculation based on WITS Database, the World Bank.

India's imports of final goods (US\$ 2.39 billion) and parts and components (US\$ 1.49 billion) from Mekong countries have increased substantially in 2014, compared to 2006, whereas India's import of processed goods from Mekong countries has also increased from US\$ 0.65 billion in 2006 to US\$ 2.94 billion in 2014 (Table 4 and Figure 3). Among the Mekong countries, Thailand and Vietnam are major sources of parts and components. In 2014, India's import of parts and components from Thailand and Vietnam were about US\$ 1.11 billion and US\$ 0.38 billion, respectively.

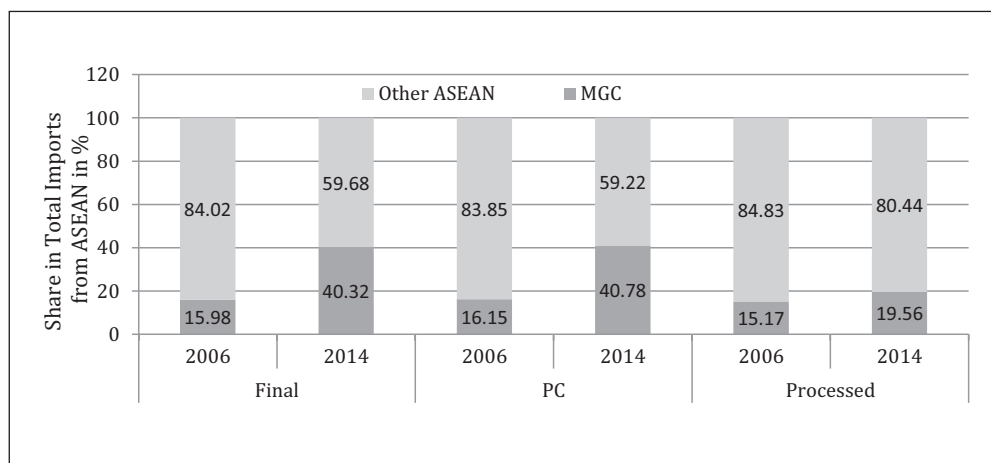
Given that ASEAN countries are at different stages of development, the degree of participation in production networks also differs widely across countries. In this regard, India's engagement with Mekong countries, particularly with Cambodia, Lao PDR and Myanmar is still at the initial development phase of the production networks. With Vietnam, India has a potential scope of expanding the value chains, and Thailand has already entered into relatively more sophisticated process of production networks in automobile, computer accessories, electronic components, etc. Therefore, India's emerging production networks with Vietnam and Thailand offer important scope of further strengthening the regional value chains. Stronger production networks between India and Mekong are, therefore, drivers of MGC as well as ASEAN-India partnership.

Table 4: India's Import from ASEAN

	Value (US\$ Billion)						Share in ASEAN (%)					
	Final		Parts and Components		Processed		Final		Parts and Components		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014
Brunei	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.03
Indonesia	0.16	0.36	0.05	0.24	1.52	4.90	6.83	6.12	3.18	6.61	35.63	32.57
Cambodia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.01	0.02
Lao PDR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02
Myanmar	0.00	0.00	0.00	0.00	0.01	0.02	0.01	0.02	0.00	0.00	0.16	0.15
Malaysia	0.60	1.26	0.35	0.84	0.93	4.01	25.90	21.28	20.40	22.83	21.72	26.68
Philippines	0.02	0.09	0.11	0.18	0.05	0.08	1.07	1.57	6.28	4.91	1.28	0.56
Singapore	1.16	1.82	0.92	0.91	1.12	3.10	50.22	30.70	53.98	24.86	26.19	20.60
Thailand	0.36	1.23	0.27	1.11	0.60	2.38	15.80	20.76	15.88	30.41	14.14	15.82
Vietnam	0.00	1.16	0.00	0.38	0.04	0.53	0.17	19.54	0.27	10.36	0.85	3.55
MGC	0.37	2.39	0.28	1.49	0.65	2.94	15.98	40.32	16.15	40.78	15.17	19.56
ASEAN	2.31	5.94	1.70	3.66	4.28	15.04	100.00	100.00	100.00	100.00	100.00	100.00

Note: The selection of HS 6 digit level product based on BEC.

Source: Author's Calculation based on WITS Database, the World Bank.

Figure 3: India's Import from Mekong Countries

Source: Author's Calculation based on WITS Database, the World Bank.

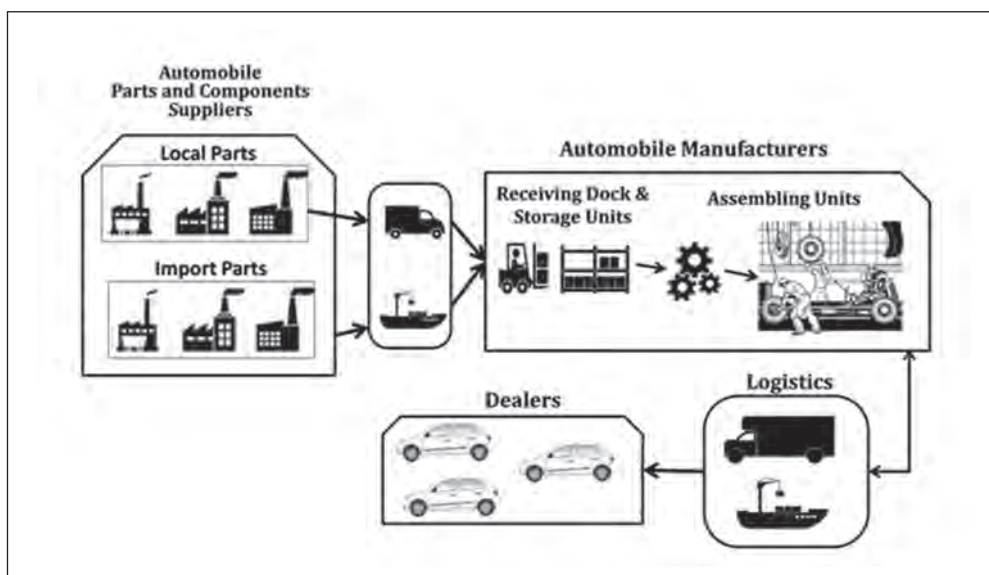
3.3 Value Chain Linkages between India and Thailand in Automobile Industry

Automobile industry is deeply integrated into both forward and backward linkages with several key sectors in the economy. It has become more standardised and face heavy competition that leads to look for production base in developing countries to take the advantage of low cost of production and market access. Original equipment manufacturers (OEMs) acquire intermediate auto parts from both local and foreign markets either from the subsidiary firms or sub-contractors. Manufacturing automobile, for instance commercial vehicles, requires series of production process (Figure 4). To produce a car requires 20,000 to 30,000 parts and components such as body parts, gear boxes, brakes, clutches, transmission, tires, etc. The production and supply of the intermediate parts should be supplied timely. Smooth customs operation is, therefore, important for an efficient and timely production of the assembly units, which then are transported to the dealers and final consumers.

The automobile policy has helped both India and Thailand to become major automobile hubs in Asia. The policy has helped countries to move from assembling stage to production stage.⁹ For instance, India is specialized in producing and exporting small cars, two-wheelers, tractors and goods and public transportation vehicles. Although automobile sector in India is primarily driven by domestic demand, its presence in export market has been growing particularly in small car and two-wheeler segments. Thailand, on the other, has specialized in producing and exporting pick-up trucks and other

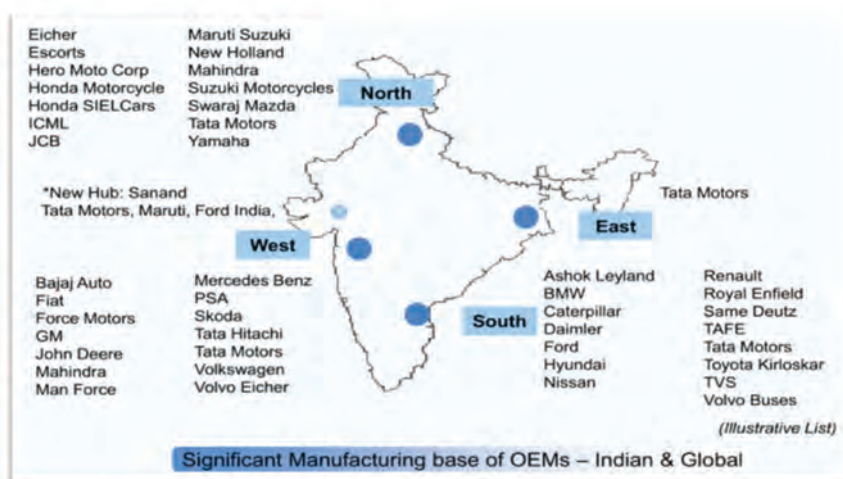
car segments. Automobile industry in Thailand is mainly driven by Japanese FDI to facilitate plants to export vehicles and components to other countries. At present, most of the global automobile giants are having operations in Thailand¹⁰.

Figure 4: Supply Chains in Automobile Industry



Source: AIC at RIS.

Map 1: Automotive Clusters in India

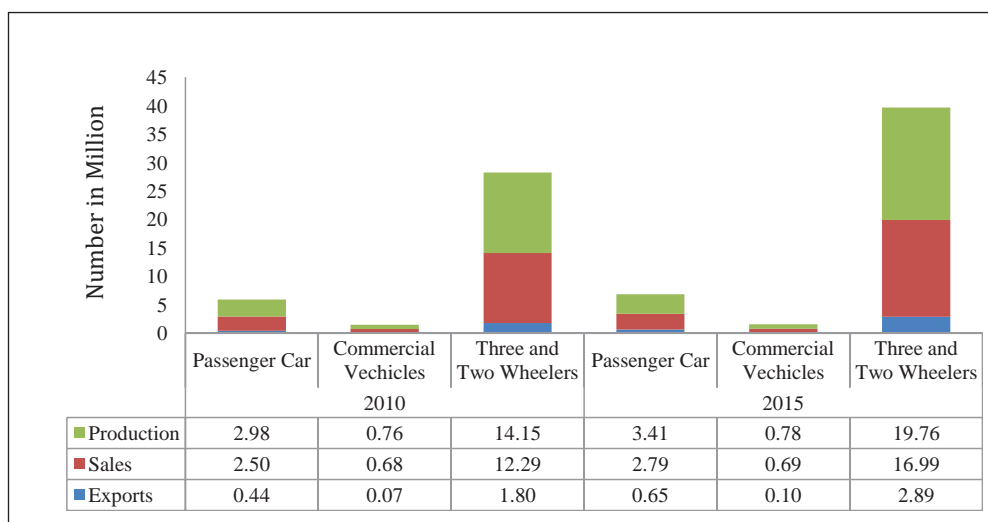


Source: Automobile Components Manufacturing Association (ACMA).

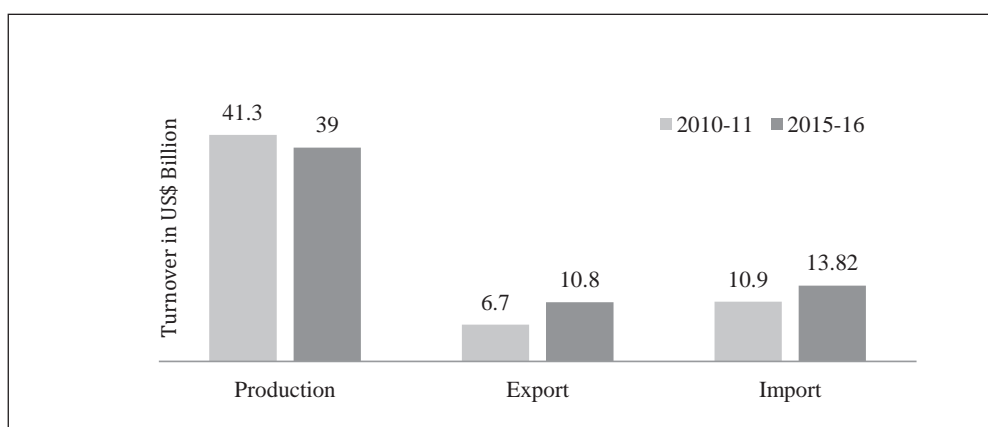
3.3.1 Profile of Automobile Sector in India

Automobile production in India started during the colonial period when Ford and General Motors (GM) set up assembly plants in the 1920s.¹¹ During post-independence period, Indian economy was heavily regulated including automotive industry. In late 1970s, the situation changed with deregulation of parts and components, followed by gradual import liberalization of parts and components and FDI. Automobile sector received a new boost with the creation of Maruti-Suzuki Joint Ventures (JV). The entry of Suzuki transformed the Indian automotive industry by encouraging backward linkages to produce parts and components at lower cost¹². During the post-liberalization period, foreign companies were allowed to have majority-owned or wholly-owned enterprises in India. Bigger Indian and foreign firms were allowed to acquire up to 24 per cent of domestic suppliers. Due to deregulation, international OEMs such as Ford, GM, Daewoo, Daimler, Fiat, Honda, Hyundai, Mitsubishi, Peugeot, Toyota, etc. have set-up their units in India (Map 1). Besides, the Ministry of Heavy Industries and Public Enterprises (MHIPE) introduced its Auto Policy in 2002 and Automotive Mission Plan (AMP) 2006-2016 in 2006. The main objective of the Auto Policy was to promote the automobile industry as a source for economic development and economic growth, encourage global competitiveness, induce modernization and development of indigenous design, and research and development (R&D) capabilities, develop vehicles that utilize alternative forms of energy and harmonizing Indian standards with international technical and industry standards¹³.

India being the second most populated country and rapidly growing economy, it has a huge domestic demand for automobiles such as two-wheelers, cars and buses. The growing demand has also attracted leading automobile manufactures to invest in the Indian automobile industry. India's production of automobile vehicle has increased rapidly in all segments (i.e., different price range of two-wheelers and small cars) and the specializations are in the production of two-wheelers particularly in India (Figure 5). Similarly, automobile's domestic sales and exports have also increased between 2010 and 2015. It clearly shows that majority of sales and exports were in two-wheeler segments, and in terms of commercial vehicles, domestic sales were almost static, but export has increased by 0.3 million vehicles. However, given the growing middle income class in India, there is a potential scope to shift from holding two-wheelers to purchase of four-wheelers, particularly small car segments. In terms of automobile components, India's production has declined to US\$ 39 billion in 2015-16, compared to US\$ 41.3 billion in 2010-11 (Figure 6). Besides, India's trade deficit in automobile components has also expanded during 2010-11 and 2015-16.

Figure 5: India's Automobile Production, Sales and Exports

Source: Society for Indian Automobile Manufacturers (SIAM).

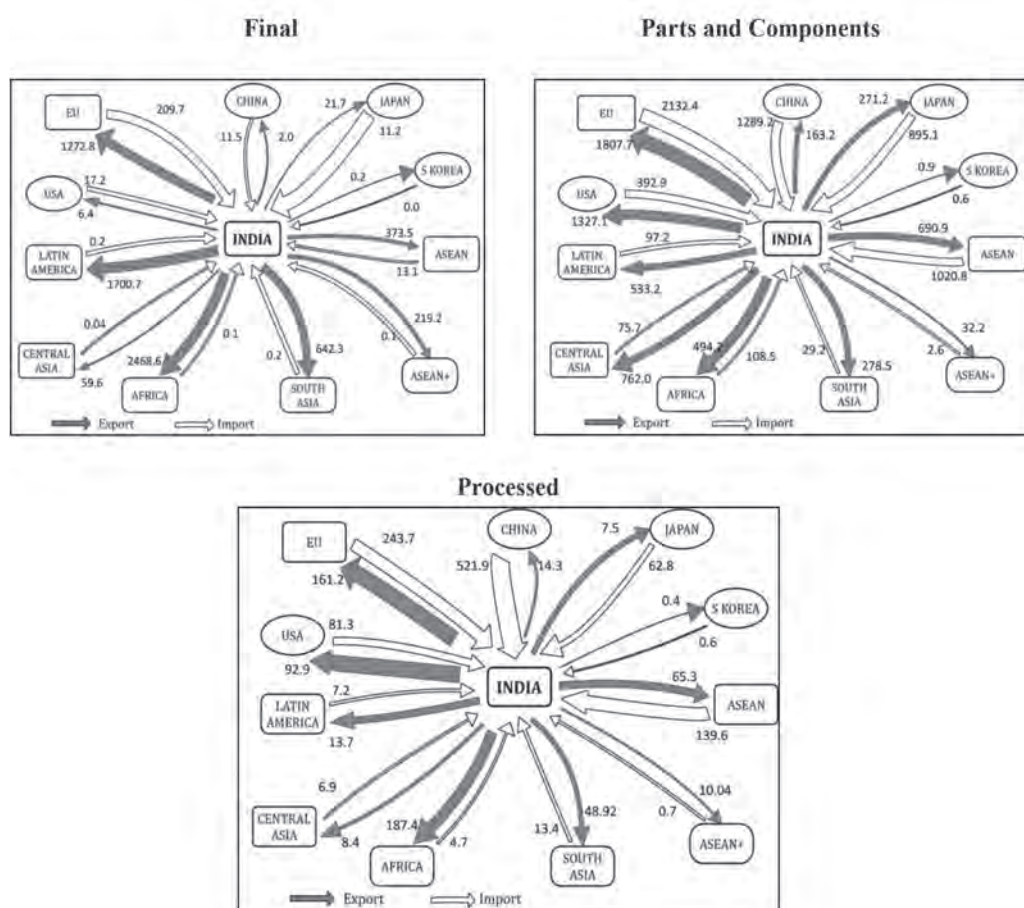
Figure 6: Automobile Component Industry in India

Source: Automobile Components Manufacturing Association (ACMA).

India's major export destinations of automobile parts and components were EU (US\$ 1.80 billion) and USA (US\$ 1.32 billion) in 2014, respectively (Figure 7 and Table 5). The share of India's export of automobile parts and components to ASEAN was about 10.27 percent to the world (US\$ 0.69 billion) in 2014. In terms of final goods, India's export to ASEAN was about US\$ 0.37 billion (5.05 per cent) in 2014, which was increased by 40 per cent per annum between 2006 and 2014 (Figure 8). This shows that India's export of

automobile goods to ASEAN countries has been growing gradually. In terms of India's import of parts and components of automobile products, India's import from ASEAN was about 15 per cent in 2014 (Figure 9). India's other major sources of imports of automobile parts and components have been EU, Japan and China. With major country groups, India's import of parts and components grew at double digit rate of 20 to 30 per cent between 2006 and 2014. Therefore, India is gaining strength in automobile trade, particularly in parts and components, which also assures a strong link of value chains with major countries, including ASEAN (Figure 9).

Figure 7: India's Export and Import in Automobiles Industry*



Note: * Based on BEC; Values in US\$ Million.

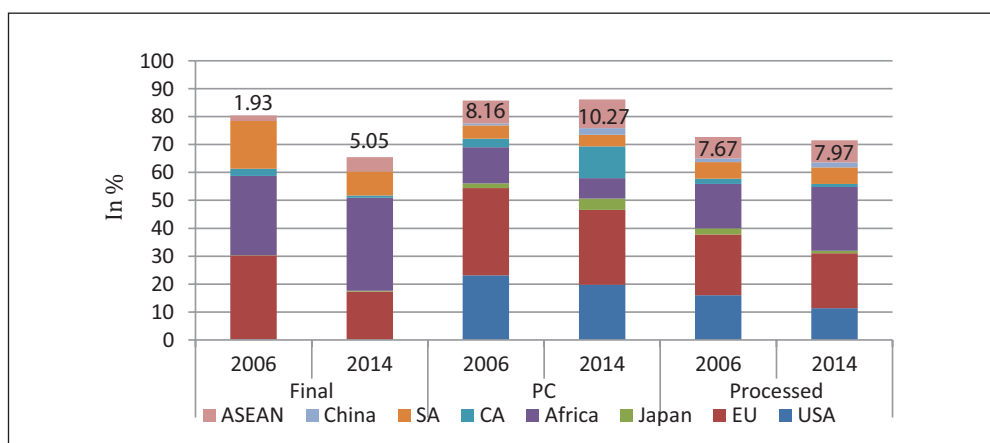
Source: Drawn based on WITS Database, the World Bank.

Table 5: Share of India's Export and Import of Automobiles from Major Country Groups in 2014

	Share of India's Export in Total Export to World (%)			Share of India's Import in Total Import from World (%)		
	Final	Parts and Components	Processed	Final	Parts and Components	Processed
USA	0.09	19.74	11.34	6.61	5.57	6.24
EU	17.19	26.88	19.68	80.40	30.22	18.70
Japan	0.29	4.03	0.92	4.30	12.69	4.82
South Asia (SA)	8.68	4.14	5.97	0.06	0.41	1.03
China	0.03	2.43	1.75	4.42	18.27	40.03
ASEAN	5.05	10.27	7.97	5.01	14.47	10.71
World	100.00	100.00	100.00	100.00	100.00	100.00

Note: The selection of HS 6 digit level product for automobiles is based on BEC.

Source: Author's Calculation based on WITS Database, World Bank.

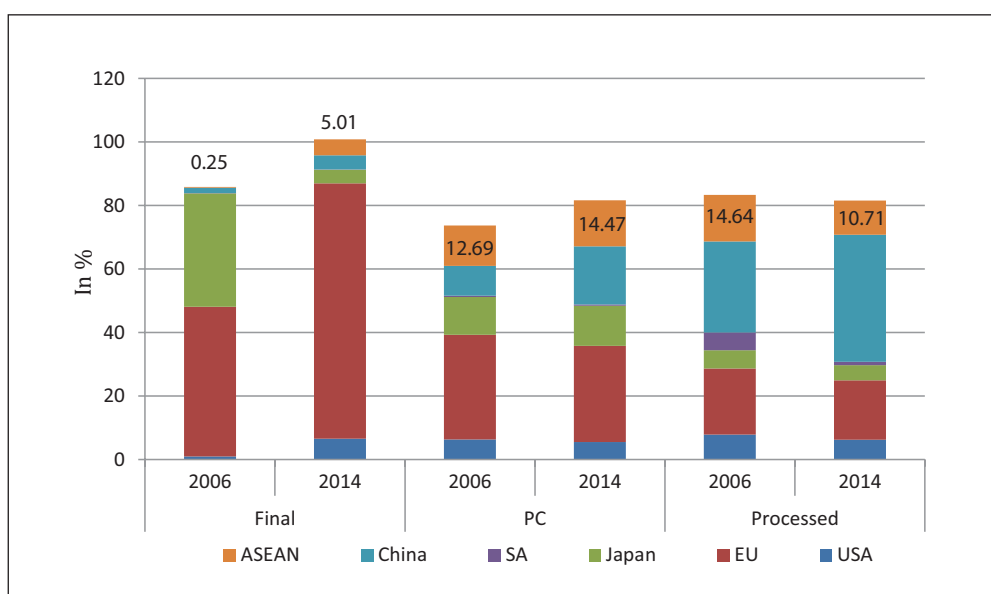
Figure 8: India's Export of Automobiles to Major Country Groups

Source: Author's Calculation based on WITS Database, World Bank.

Among ASEAN countries, India's export of automobile parts and components to Thailand was almost 41 per cent (US\$ 282.10 million) in 2014, and, India's export of parts and components to Vietnam was US\$ 15.03 million in 2014, which has grown at about 37 per cent per annum during 2006 and 2014 (Table 6 and Figure 10). Therefore, among Mekong countries, both Thailand and Vietnam are the leading countries with which India's export of automobile parts and components has been rising rapidly. Similarly, among ASEAN countries, the share of India's export of processed goods for

automobile products to MGC was at about 43 per cent (US\$ 27.93 million) in 2014, where 32.73 per cent of India's export had flown to CLMV countries and 10 per cent to Thailand. India's parts and components of automobile products have been mostly traded with Thailand. Among ASEAN countries, in terms of final goods of automobile products, India's export of final goods to Mekong countries was US\$ 87.38 million, and in that the share of CLMV was 22.77 per cent and Thailand at 0.62 per cent (US\$ 2.31 million) in 2014. Therefore, India's export of final goods of automobile products was mostly channeled to other ASEAN countries (77.23 per cent), particularly to the Philippines (US\$ 191.06 million) and Indonesia (US\$ 60.56) in 2014 (see Table 6).

Figure 9: India's Import of Automobiles from Major Country Groups



Source: Author's Calculation based on WITS Database, World Bank.

Table 6: India's Export of Automobiles to ASEAN

	Value (US\$ Million)						Quantity (100 TEU)					
	Final		Parts and Components		Processed		Final		Parts and Components		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014
Brunei	0.01	11.39	0.00	0.33	0.00	0.07	0.01	16.38	0.01	0.43	0.01	0.06
Indonesia	1.85	60.56	15.16	180.38	1.19	6.19	1.87	82.26	48.61	384.46	2.90	12.06
Cambodia	0.00	7.46	0.31	0.43	1.53	0.01	0.00	4.55	0.70	2.08	2.54	0.01
Lao PDR	0.00	13.02	0.05	0.16	0.07	1.16	0.00	18.26	0.06	0.30	0.04	1.15
Myanmar	0.01	0.94	2.30	6.39	1.16	17.15	0.00	0.91	10.75	18.95	3.59	40.00

Table 6 continued...

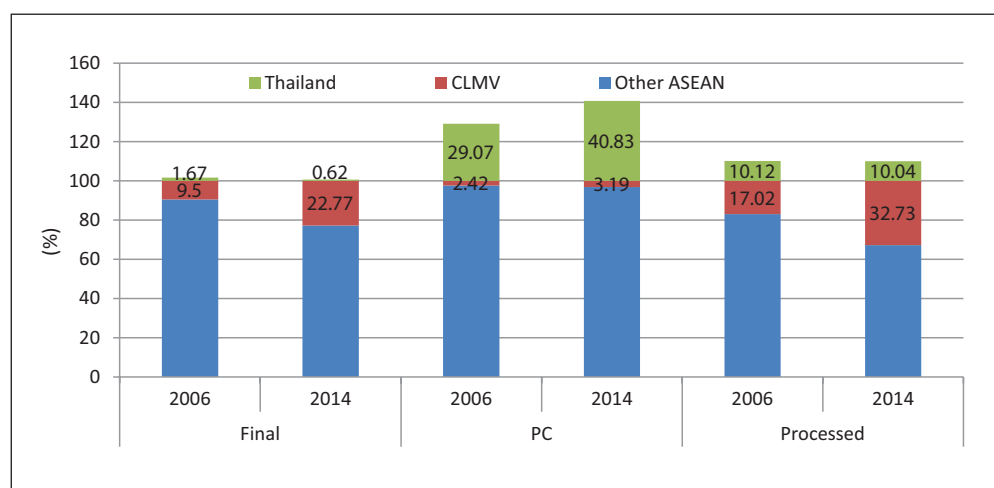
Table 6 continued...

Malaysia	5.84	14.49	59.48	114.59	4.55	6.85	4.39	11.50	113.41	146.53	11.77	12.79
Philippines	12.95	191.06	2.72	18.79	2.05	13.54	11.96	185.49	7.44	41.06	2.38	23.10
Singapore	1.30	8.69	32.17	72.67	11.26	10.73	1.27	4.80	94.02	118.62	31.03	18.46
Thailand	0.41	2.31	46.48	282.10	2.65	6.56	0.28	1.83	86.93	507.61	9.08	11.48
Vietnam	2.34	63.64	1.22	15.03	1.70	3.04	2.11	95.58	2.71	20.26	2.90	5.32
MGC	2.76	87.38	50.35	304.11	7.10	27.93	2.39	121.14	101.15	549.20	18.15	57.95
ASEAN	24.71	373.57	159.89	690.86	26.15	65.31	21.88	421.57	364.64	1240.30	66.24	124.43

Note: The selection of HS 6 digit level product for automobiles is based on BEC.

Source: Author's Calculation based on WITS Database, World Bank.

Figure 10: Share of India's Automobile Export to Thailand in India's Automobiles Export to ASEAN (%)



Source: Author's Calculation based on WITS Database, World Bank.

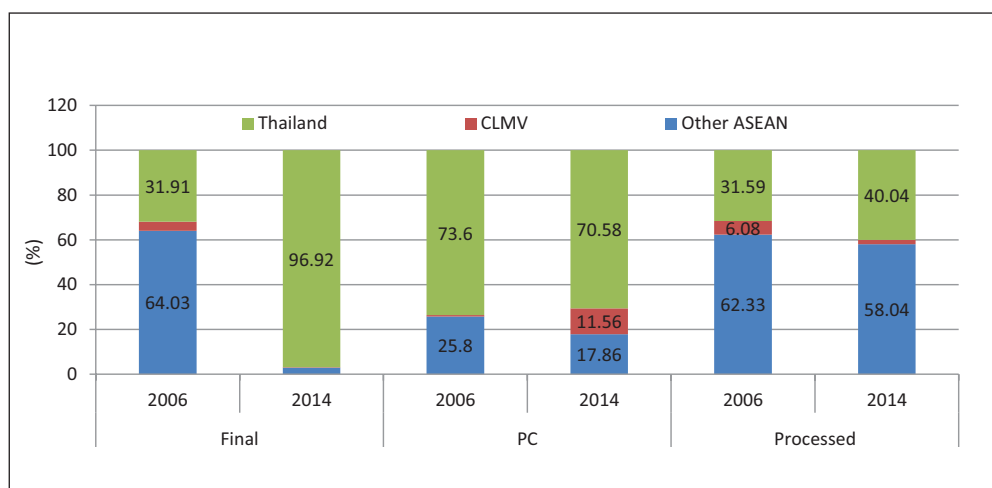
In case of import of parts and components of automobile products, India's import was almost 71 per cent (US\$ 720.49 million) from Thailand, followed by CLMV (11.56 per cent) in 2014. This shows that almost 83 per cent of import of parts and components came from Mekong countries (see Table 7 and Figure 11). Similar, trends are also visible in terms of final and processed goods of automobile products, among ASEAN countries; almost 96 per cent (US\$ 12.67 million) of the final goods and 40 per cent (US\$ 55.91 million) of the processed goods were imported from Thailand in 2014. This shows that in terms of value chain of automobile products, India has been maintaining closer ties with Thailand and Vietnam among the ASEAN countries.

Table 7: India's Automobiles Import from ASEAN

	Value (US\$ Million)						Quantity (10 TEU)					
	Final		Parts and Components		Processed		Final		Parts and Components		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014
Brunei	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Indonesia	0.05	0.22	11.83	77.86	1.21	6.93	0.05	0.29	18.21	87.17	2.55	9.18
Cambodia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lao PDR	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.01
Myanmar	0.00	0.00	0.00	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	0.02	0.11	7.13	29.49	21.13	43.21	0.02	0.07	13.27	55.05	39.78	59.42
Philippines	0.07	0.01	5.30	54.69	1.13	4.66	0.04	0.01	5.07	27.40	2.10	3.38
Singapore	0.08	0.05	30.25	20.27	31.00	26.26	0.04	0.03	27.35	15.62	51.55	25.67
Thailand	0.11	12.67	155.46	720.49	27.61	55.91	0.10	7.00	218.64	716.49	48.09	115.09
Vietnam	0.01	0.01	1.27	117.99	5.31	2.67	0.02	0.01	5.73	182.89	8.17	2.36
MGC	0.12	12.68	156.74	838.54	32.92	58.59	0.12	7.01	224.37	899.38	56.26	117.45
ASEAN	0.33	13.07	211.24	1020.84	87.39	139.64	0.26	7.41	288.26	1084.61	152.23	215.10

Note: The selection of HS 6 digit level product for automobiles is based on BEC.

Source: Author's Calculation based on WITS Database, World Bank.

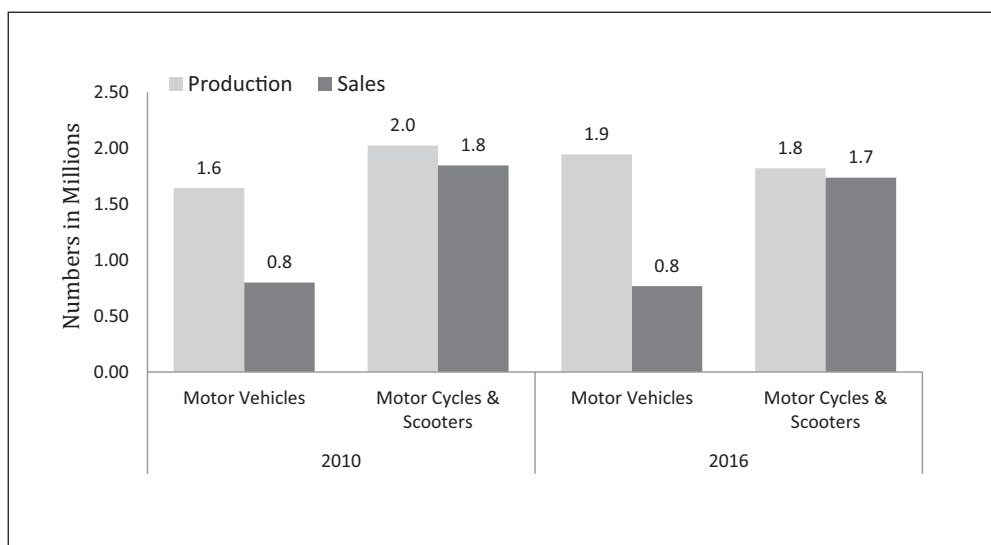
Figure 11: Share of India's Automobiles Import from Thailand on India's total Import of Automobile from MGC (%)

Source: Author's Calculation based on WITS Database, World Bank.

3.3.2 Automobile Industry in Thailand

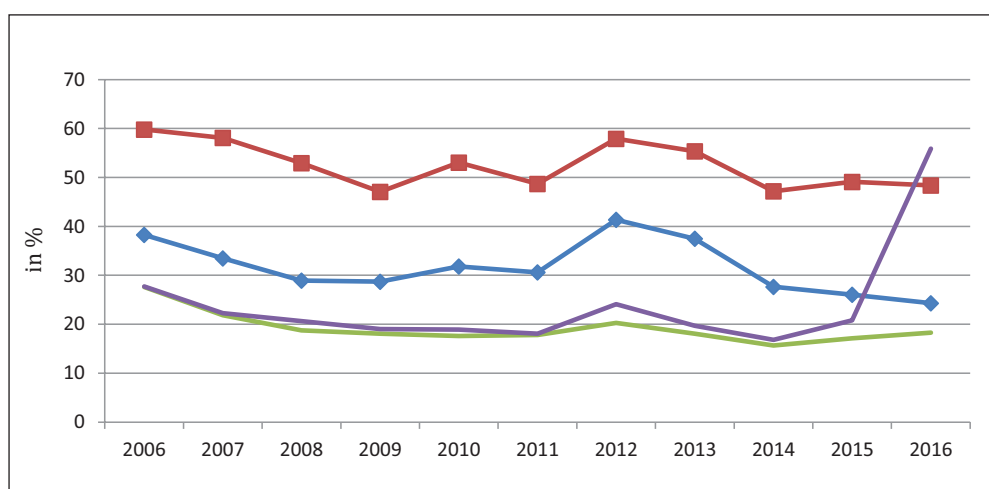
Thailand's automotive industry is the Southeast Asia's largest and most advanced automotive industry. It is the second largest manufacturer of pick-up truck next to USA.¹⁴ Thailand is a strategic assembly bases for Japanese and American OEMs as well as bases for automobile research and development (R&D) centers. The leading automobile manufacturers of Japanese OEMs are Toyota, Honda, Nissan, Mitsubishi, Mazda, Isuzu, and Suzuki; and for the American OEMs are GM, Ford, BMW, and Mercedes-Benz.¹⁵ Thailand Government's policies are mostly favourable to automobile and auto parts industry, which has consumer incentives to purchase cars and attract FDI in automobile OEMs. Most of the leading OEMs and intermediate parts manufacturers preferred to locate in Thailand by targeting ASEAN region and other emerging countries.¹⁶ Particularly, ASEAN FTA has favoured Thailand for the localization of automobile production to benefit from trade liberalization through intra-ASEAN trade. Unlike India, the production of motor vehicles is higher in Thailand, about 1.9 million units in 2016 (Figure 12) and holding almost 50 per cent of total motor vehicles production in ASEAN (Figure 13). In terms of sale of motor vehicles, Thailand mostly exports to ASEAN, EU, USA and Japan (Figure 14), which is also visible in the domestic sale of motor vehicles of about 0.8 million units in 2016.

Figure 12: Thailand's Automobiles Productions and Sales



Source: ASEAN Automotive Federation.

Figure 13: Share of Thailand's Automobile Sales and Production in ASEAN's Sales and Production of Automobiles



Source: ASEAN Automotive Federation.

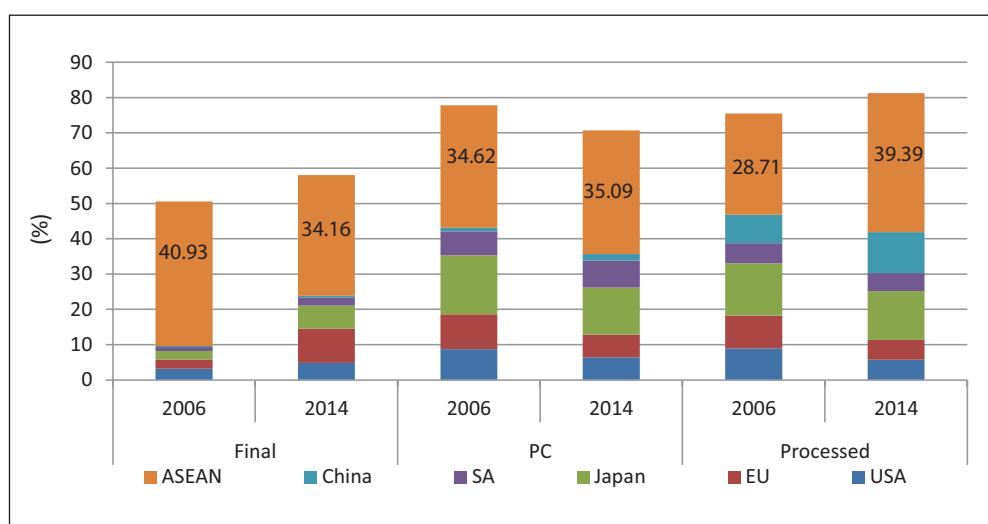
If we look at the Thailand's export of automobile products in terms of BEC, almost 35 per cent (US\$ 4.63 billion) of the parts and components were exported to ASEAN, followed by 13 per cent (US\$ 1.76 billion) to Japan and 8 per cent (US\$ 1.00 billion) to South Asia, including India, and 6.4 per cent each to USA and EU, respectively in 2014 (Table 8 and Figure 14). This shows that roughly around 60 per cent of the parts and components export of Thailand has been within Asia-Pacific countries. Thailand's import of parts and components of automobile was almost 56 per cent (US\$ 6.61 billion) from Japan, followed by China (8.43 per cent) and EU (10 per cent) in 2014, respectively (Table 9 and Figure 15). Within ASEAN countries, Thailand's import of parts and components of automobile was only about 13.25 per cent (US\$ 1.55 billion) in 2014. In terms of final goods imports, Thailand's import was almost 46 per cent (US\$ 668 million) from ASEAN, followed by EU (US\$ 448.52 million) and Japan (US\$ 288.38 million) in 2014. Therefore, Thailand's import of automobile products from South Asian countries has been very low in volume.

Table 8: Thailand's Export of Automobiles to Major Country Groups

	Value (US\$ Million)						Share in World, (%)					
	Final		Parts and Components		Processed		Final		Parts and Components		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014
USA	91.41	378.54	469.80	843.58	59.86	51.86	3.22	4.81	8.71	6.38	8.97	5.76
EU	73.68	770.43	534.82	856.27	62.05	50.03	2.59	9.78	9.92	6.48	9.30	5.56
Japan	68.81	510.75	897.46	1759.73	98.89	124.59	2.42	6.49	16.65	13.32	14.82	13.85
South Asia	31.64	183.54	366.45	1008.48	37.99	46.06	1.11	2.33	6.80	7.63	5.69	5.12
China	7.67	36.39	59.93	242.96	53.46	104.24	0.27	0.46	1.11	1.84	8.01	11.59
ASEAN	1163.26	2689.50	1866.47	4637.08	191.58	354.40	40.93	34.16	34.62	35.09	28.71	39.39
World	2842.18	7874.02	5391.38	13213.40	667.32	899.69	100.00	100.00	100.00	100.00	100.00	100.00

Note: The selection of HS 6 digit level product for automobiles is based on BEC.

Source: Author's Calculation based on WITS Database, the World Bank.

Figure 14: Share of Thailand's Automobiles Export to Major Country Groups in Thailand's Total Automobile Export to the World


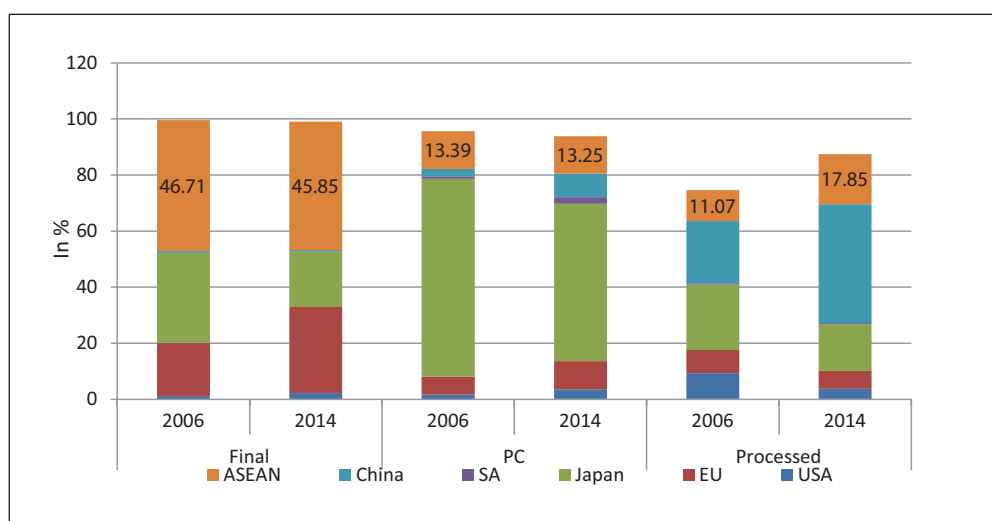
Source: Author's Calculation based on WITS Database, the World Bank.

Table 9: Thailand's Import from Automobiles from Major Countries and Country Groups

	Value (US\$ Million)				Share in World (%)					
	Final		Parts and Components		Processed		Final		Parts and Components	
	2006	2014	2006	2014	2006	2014	2006	2014	2006	2014
USA	3.91	32.24	78.13	422.69	92.59	70.00	1.14	2.21	1.68	3.59
EU	65.21	448.52	296.07	1176.37	83.13	120.55	19.08	30.75	6.36	10.00
Japan	109.35	288.38	3289.16	6616.63	232.28	313.13	32.00	19.77	70.63	56.22
South Asia	0.23	1.87	41.07	273.15	4.93	9.47	0.07	0.13	0.88	2.32
China	1.96	5.06	123.65	992.72	221.03	799.70	0.57	0.35	2.66	8.43
ASEAN	159.64	668.81	623.71	1559.16	110.40	336.86	46.71	45.85	13.39	13.25
World	341.76	1458.76	4657.03	11769.11	997.45	1886.83	100.00	100.00	100.00	100.00

Note: The selection of HS 6 digit level product for automobiles is based on BEC.

Source: Author's Calculation based on WITS Database, the World Bank.

Figure 15: Share of Thailand's Automobiles Import from Major Country Groups in Thailand's Total Automobiles Import from the World

Source: Author's Calculation based on WITS Database, the World Bank.

3.3.3 Value Chain in Automobile Sector between India and Thailand

Both India and Thailand are the leading automobile manufacturers in their respective segments and attracted huge FDI in the automobile sector. Both the countries are also producing auto components and exporting mostly to ASEAN, EU, USA, Japan and China. Thailand specializes in producing cars and pick-up trucks and India is specialized in producing small cars, two-wheelers and tractors. In case of bilateral trade in automobile sector, both the countries have high trade potential (Tables 10 and 11). This shows that both India and Thailand can explore the trade potential and strengthen the value chain linkages in automobile sector.

Table 10: India's Automobile Export to Thailand and the Barriers

		Automobile based on BEC*		
		Final	Parts and Components	Processed
India's Export to Thailand (Value in US\$ Million)	2006	0.41	46.48	2.64
	2014	2.311	282.09	6.55
CAGR (in %)	2006 – 2014	24.13	25.28	12.03
India's Export Potentiality (Value in US\$ Million)	2006	119.14	1101.08	206.08
	2014	347.32	2203.02	972.71
India's Export to Thailand (Number of Products at HS 6 digit)	2006	7	36	24
	2014	12	43	22

Table 10 continued...

Table 10 continued...

CAGR (in %)		2006 – 2014	6.97	2.25	-1.08
ASEAN-India FTA Offered by Thailand (Number of Products at HS 6 digit)		EL	10	17	4
		HSL	0	2	0
		NT1	0	11	11
		NT2	0	2	7
NTM Imposed by Thailand (Number of Products at HS 6 digit)		TBT	8	25	50
		EXP	8	0	0
		QC	7	2	0
		Others	15	2	0
Tariff	Bound Rate (%)	2006	100	39	35
		2014	100	39	37
	Applied Tariff Rate (AHS) (%)	2006	100	13	12
		2014	100	9	9
	Number of Tariff line under AHS	2006	16	67	71
		2014	32	71	51

Note: The selection of HS 6 digit level product for automobiles is based on BEC.

Source: Author's Calculation based on WITS Database, AIFTA Data from MoC website and I-TIP Database.

Despite the trade restrictions in both tariff and non-tariff barriers, India's export of final automobile products to Thailand has been increasing, having growth rate of about 40.42 per cent between 2006 and 2014. For instance, under the ASEAN-India FTA, about 10 items are in the exclusion list at HS 6-digit level, holding both MFN and applied tariff rate at 100 per cent, and having NTMs for 23 items at HS 6-digit level (Table 10). In case of India, the average MFN and AHS rates are almost 20 per cent lower, and NTMs imposed by India to Thailand on automobile products are almost nil (Table 11). Thailand's automobile parts and components export was about US\$ 1020.87 million, compared to India's automobile parts and components exports of about US\$ 690.86 million in 2014. Under AFTA, Thailand has offered about 17 and 2 items under exclusion and sensitive lists and Thailand has imposed TBT measures for 25 items to India's export of parts and components of automobile products. In the case of India, the trade restrictions such as tariffs and NTMs are relatively low for Thailand's export. India has come forward with liberalized approach compared to Thailand. If we look at the NTMs, it is almost zero or no restrictions of NTM imposed by India against Thailand. Similarly, India's tariff rate, both for bound and preferential tariff rates, is relatively lesser than Thailand's tariff rate of about 20 per cent. Comparing India's export to Thailand, export from Thailand to India has fewer restrictions in terms of NTM and tariff. This may

be the reason that Thailand export of automobile products of final, parts and components and processed goods are largely exported to India, compared to India's export of automobile products to Thailand.

Table 11: Thailand Automobile Export to India and the Barriers

		Automobile based on BEC*			
		Final	Parts and Components	Processed	
Thailand Export to India (Value in US\$ Million)		2006	0.34	222.83	272.58
		2014	5.48	744.57	372.21
CAGR (in %)		2006 – 2014	41.55	16.28	3.97
Thailand’s Export Potentiality (Value in US\$ Million)		2006	678.78	570.91	3145.0
		2014	1826.87	1312.84	4154.5
Thailand Export to India (Number of Products at HS 6 digit)		2006	9	48	22
		2014	12	47	24
CAGR (in %)		2006 – 2014	3.66	-0.26	1.09
ASEAN-India FTA Offered by India (Number of Products at HS 6 digit)		EL	7	12	0
		HSL	1	4	5
		NT1	2	13	10
		NT2	0	3	7
NTM Imposed by India (Number of Products at HS 6 digit)		TBT	0	0	0
		EXP	0	1	0
		QC	0	0	0
		Others	0	0	0
Tariff	Bound Rate (%)	2006	60	30	24
		2014	80	30	27
	Applied Tariff Rate (AHS) (%)	2006	60	18	10
		2014	66	12	3
	Number of Tariff line under AHS	2006	2	34	29
		2014	70	315	68

Note: The selection of HS 6 digit level product for automobiles is based on BEC.

Source: Author's Calculation based on WITS Database, AIFTA Data from MoC website and I-TIP Database.

Prior to ASEAN-India FTA (AI-FTA), automobile sector was restrictive. However, in a liberal trade regime government's policy is quite liberal and many MNCs have shown interest to take advantage of FTAs. Notwithstanding above, both the countries are relatively trade restrictive in nature to protect domestic production through selective tariff reduction in AI-FTA¹⁷. As a result, companies in both the countries largely aimed at creating high degree of localized production within India and within Thailand by supplementing

the costlier imports and critical components from OEMs home countries.¹⁸ Therefore, manufacturers have created supply chains within India and Thailand, but not much between them.

Further negotiations in AI-FTA for the automobile products having high trade potential that are covering under sensitive list and exclusion list would possibly strengthen the production networks between Thailand and India. While the ASEAN Economic Community (AEC) 2015 has brought down import tariffs to zero by conducting tariff elimination, the India-ASEAN FTA is only reduced tariffs. Hence, in comparison to intra-regional trade, trade with India is less attractive, which means that supply chains are more favourable to ASEAN countries like Thailand, rather than trade between Thailand and India.¹⁹

Better connectivity is the core factor for strengthening the automotive industry as several forward and backward linkages within and across the region have been taking place to supply intermediate parts to manufacturing units to produce finished goods. Both efficient time management (i.e., Just in Time) and low transportation cost would bring potential link for the value chain in automobile industry between India and Thailand.

Automobile industry in India and Thailand is subject to variety of taxes such as excise tax, sales tax, corporate income tax, VAT and import duties. In India, corporate income tax and import duties are higher. In India, taxes are not vehicle specific, whereas in Thailand different taxes are levied on cars, motor vehicles and commercial vehicles. However, with the introduction of GST in India, automobile trade is likely to grow as the market becomes more efficient.

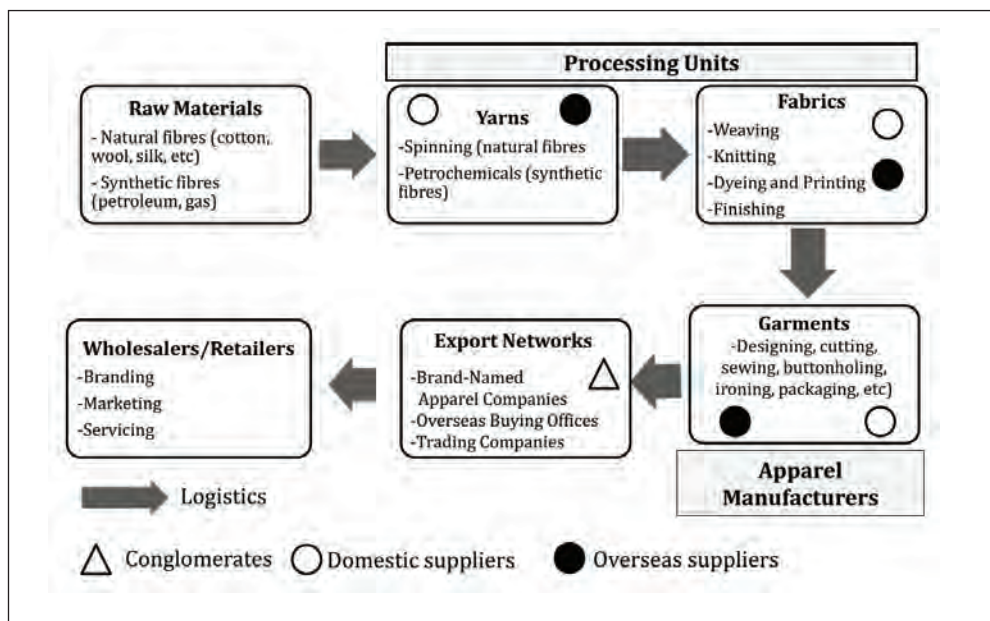
3.4 Value Chain Linkages in Textiles Industry between India and Vietnam

The textiles and apparel industry plays a key role in the industrial development of developing countries and LDCs. The basic characteristics of this are low capital requirements, labour intensity, and relatively simple production technology²⁰. In this regard, textiles and apparel industry in both India and Vietnam plays a significant role in trade and employment.

The value chain in this industry is organised around five main segments: (i) raw material supply, including: natural and synthetic fibers; (ii) processing units to manufacture yarns and fabrics for textile companies; (iii) production network made by garment factories, including their domestic and overseas subcontractors; (iv) export channel established by trade intermediaries; and (v) marketing networks at wholesale and retail levels²¹ (Figure 16). For the GVC in textile industry, profits come from combinations of high-

value research, design, sales, marketing, and financial services that allow the retailers, designers and marketers to act as strategic brokers in linking overseas factories and traders with product niches in the main consumer markets²². The companies that develop and sell branded products have control over how, when, and where manufacturing would take place, and how much profit accrues at each stage, essentially controlling the basic value-adding activities and distribution along the value chain²³.

Figure 16: Value Chain in Textile Industry



Source: AIC at RIS.

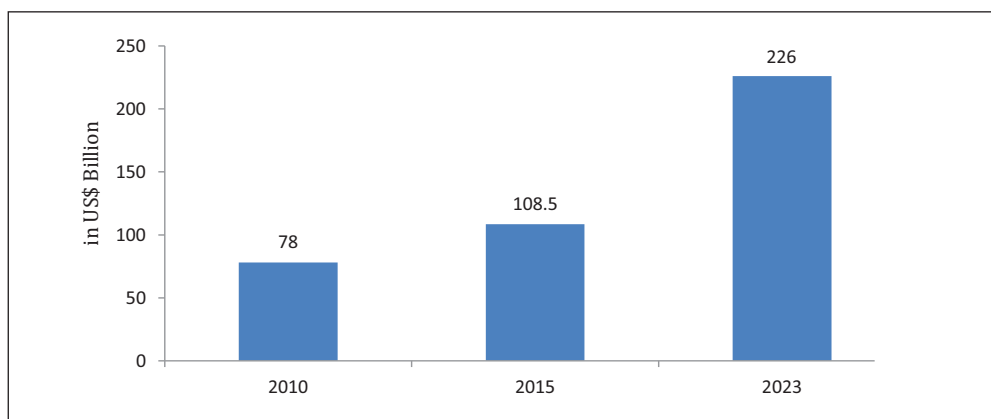
3.4.1 Profile of Textiles Industry in India

India is the second largest exporter of textiles and apparels, next to China. In 2014, India has contributed 5.2 per cent of global export in textiles and apparels. Export of textiles and apparels has contributed 4 per cent to India's GDP and 14 per cent to India's exports in 2015-16²⁴. Indian textile industry is majorly focus on cotton production, accounting for nearly 55 per cent of total fibre consumption in 2014²⁵ and provides direct employment of around 45 million and indirect employment of an estimated 263 million people²⁶.

Textile plays a major role in the Indian economy. The size of India's textile market in 2015 was around US\$ 108.5 billion, which is projected to reach US\$ 226 billion by 2023 (Figure 17). In terms of textile exports, ready-made

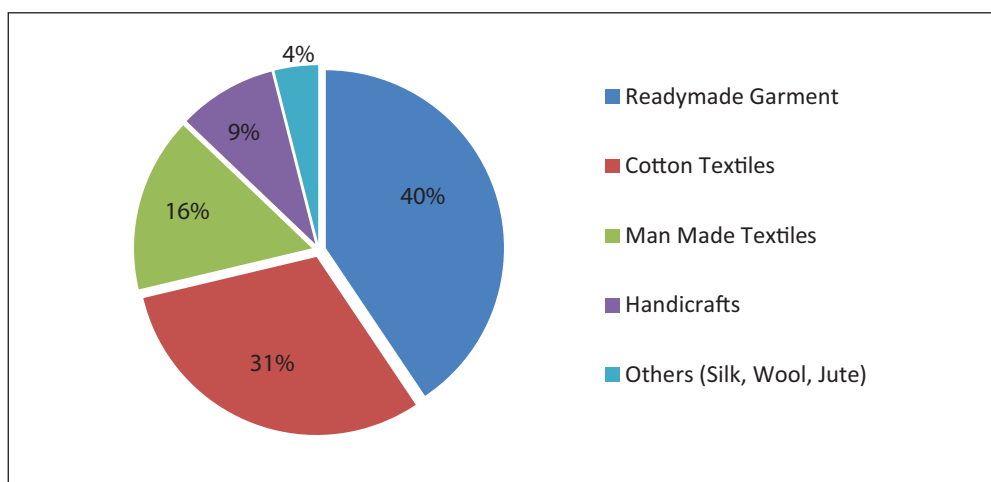
garments are the largest contributor to total textile and apparel exports from India (Figure 18). India is one of the few textile manufacturing countries in the world, where all levels of textile value chain, i.e. from fibre/filament to garment manufacturing are present²⁷.

Figure 17: India's Textiles Market Size



Source: www.ibef.org.

Figure 18: Distribution of India's Textiles Exports, 2015

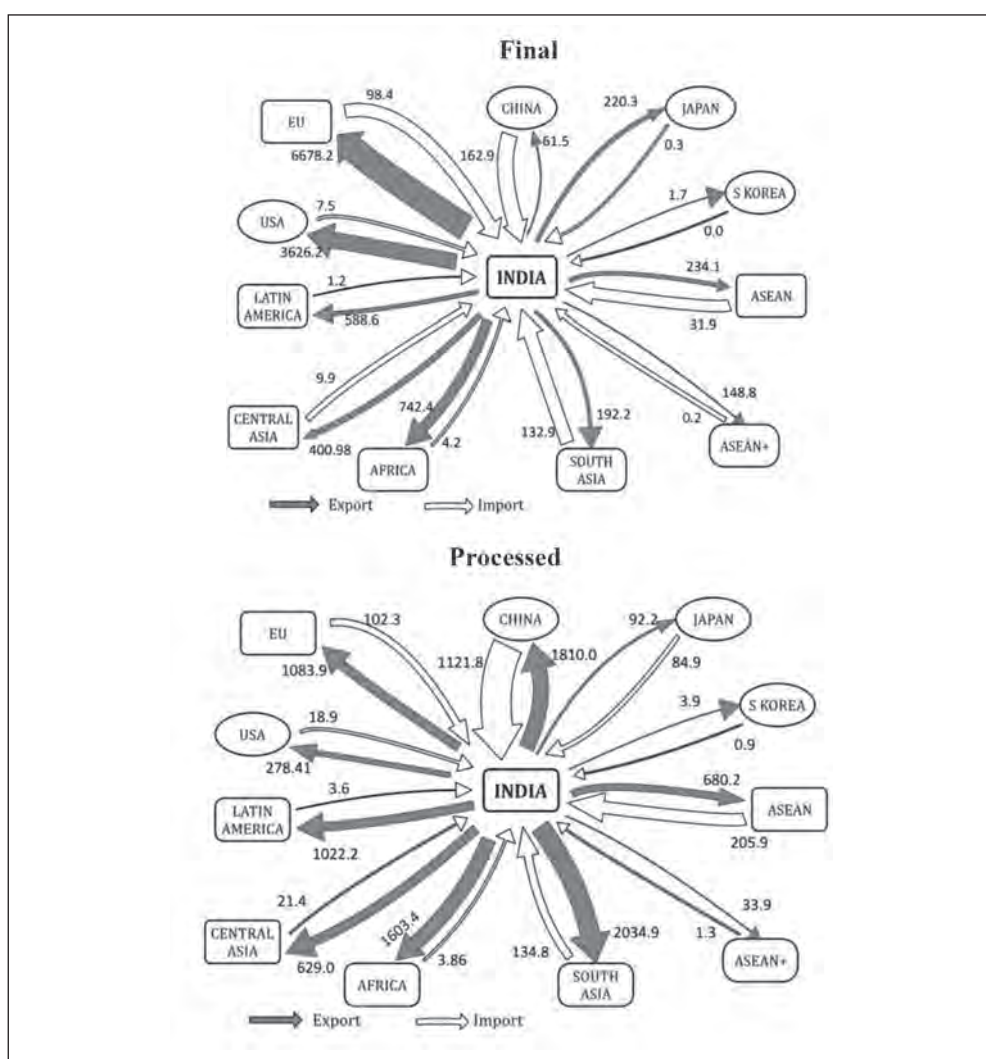


Source: Ministry of Textiles, Government of India.

Together, both the EU (US\$ 6.67 billion) and the US (US\$ 3.62 billion) accounted for two-thirds by value of India's export of final goods of textiles in a global market worth US\$ 10.30 billion in 2014 (Figure 19). In terms of export of processed textiles products, India exported US\$ 1.81 billion to China, US\$ 1.08 billion to EU and US\$ 680.2 million ASEAN in 2014. India's major imports of final textile products were from South Asia (US\$ 132.9 million), EU (US\$ 98.4 million), China (US\$ 162.9 million) and ASEAN (US\$ 31.9 million) in 2014 respectively (Figure 19).

Figure 19: India's Export and Import of Textile to Major Country Groups*

(US\$ Million)



Note: *-The selection of HS 6 digit level product for textiles is based on BEC.

Source: Drawn based on WITS Database, the World Bank

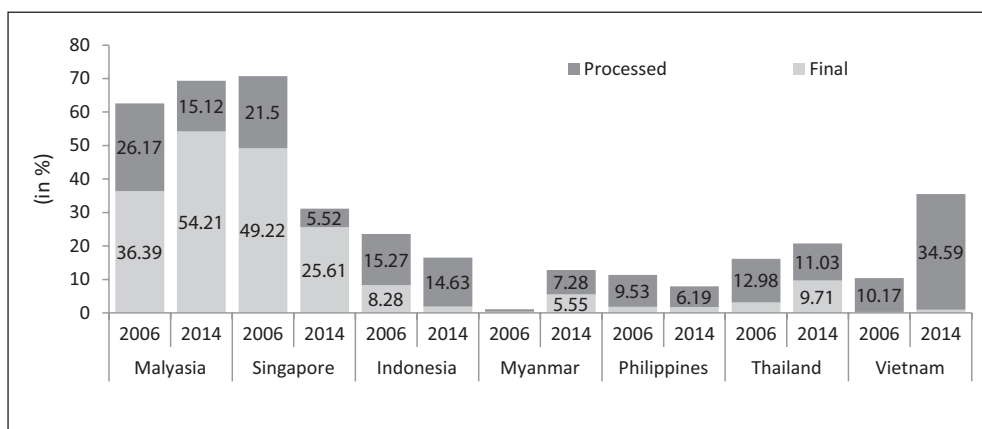
Table 12: India's Export of Textiles to ASEAN

	Value (US\$ Million)				Quantity (100 TEU)			
	Final		Processed		Final		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014
Brunei	0.38	0.71	0.30	0.66	0.12	0.28	0.36	0.47
Indonesia	8.11	4.41	25.37	99.54	3.78	1.61	60.02	307.28
Cambodia	0.09	0.15	5.71	37.35	0.02	0.04	12.93	55.21
Lao PDR	0.00	0.02	0.12	0.33	0.00	0.01	0.17	0.28
Myanmar	0.38	12.98	1.14	49.49	0.20	6.16	5.67	117.78
Malaysia	35.64	126.92	43.47	102.88	15.57	37.31	117.44	225.59
Philippines	1.77	4.04	15.83	42.14	0.71	1.84	63.80	198.07
Singapore	48.22	59.96	35.72	37.52	25.31	24.20	58.70	31.80
Thailand	3.10	22.73	21.57	75.02	1.08	7.53	53.10	236.32
Vietnam	0.26	2.19	16.89	235.30	0.07	1.05	50.18	755.82
MGC	3.83	38.07	45.44	397.49	1.37	14.79	122.06	1165.40
ASEAN	97.96	234.11	166.12	680.22	46.86	80.04	422.37	1928.61

Note: The selection of HS 6 digit level product for textiles is based on BEC.

Source: Author's Calculation based on WITS Database, World Bank.

Among ASEAN countries, India's export of finished textiles goods to Mekong countries was about US\$ 38.07 million in 2014 and the processed textiles goods was about US\$ 397.49 million (Table 12 and Figure 20), of which, almost US\$ 235.30 million was exported to Vietnam in 2014, witnessed almost 40 per cent of growth during 2006 to 2014. However, India's export of final textiles products to Vietnam was only of about 0.94 per cent (US\$ 0.26 million) of total ASEAN export in 2014. Similarly, in terms of India's import of processed textile products from ASEAN countries, India imports from Vietnam at US\$ 190.50 million, which has grown at the rate of about 43.23 per cent between 2006 and 2014 (Table 13 and Figure 21). However, India's import of final textile products from Vietnam was only about US\$ 6.78 million. In terms of shipment, India's export to and import from ASEAN of processed goods has increased almost 4 times between 2006 and 2014. This shows that India's trade relation in textiles industry among ASEAN countries like Vietnam, Malaysia, Indonesia, Singapore and Thailand have been growing, among which India's trade with Vietnam in textiles has been rapid.

Figure 20: Share of India's Export of Textiles to Vietnam in India's Total Export of Textiles to ASEAN

Source: Author's Calculation based on WITS Database, the World Bank.

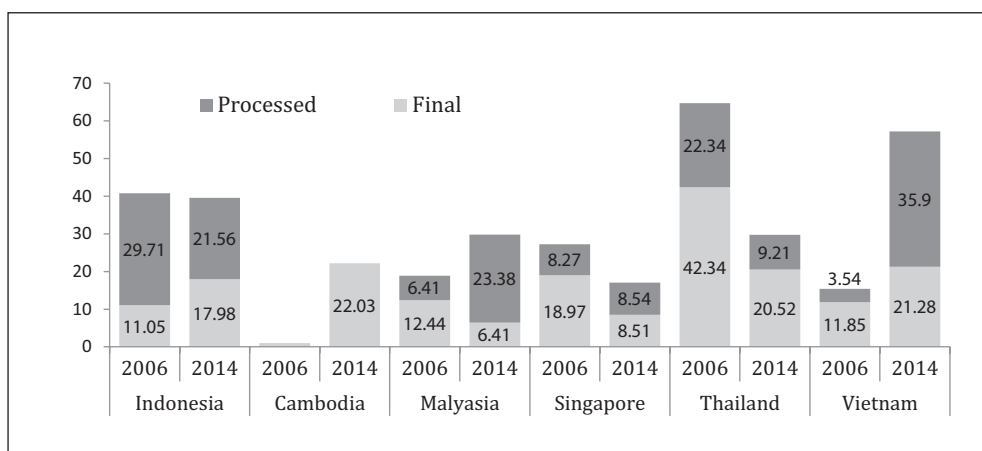
Table 13: India's Import of Textiles from ASEAN

	Value (US\$ Million)				Quantity (100 TEU)			
	Final		Processed		Final		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014
Brunei	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Indonesia	0.74	5.73	35.07	44.40	0.32	2.58	192.32	235.22
Cambodia	0.06	7.02	0.05	0.17	0.01	2.64	0.04	0.08
Lao PDR	0.00	0.09	0.00	0.00	0.00	0.02	0.00	0.00
Myanmar	0.03	0.00	0.11	0.00	0.01	0.00	0.02	0.00
Malaysia	0.83	2.04	41.97	48.15	0.63	0.98	289.90	285.02
Philippines	0.13	0.95	0.53	2.73	0.05	0.86	0.83	5.51
Singapore	1.27	2.71	9.76	17.59	1.27	1.48	11.06	28.64
Thailand	2.84	6.54	26.36	18.97	2.55	7.92	91.38	51.36
Vietnam	0.79	6.78	4.18	73.94	0.32	3.71	18.40	190.50
MGC	3.73	20.43	30.70	93.08	2.89	14.30	109.84	241.95
ASEAN	6.71	31.86	118.03	205.94	5.15	20.20	603.94	796.34

Note: The selection of HS 6 digit level product for textiles is based on BEC.

Source: Author's Calculation based on WITS Database, the World Bank.

Figure 21: Share of India's Import of Textiles from Vietnam in India's Total Import of Textiles from ASEAN



Source: Author's Calculation based on WITS Database, the World Bank.

3.4.2 Government of India Initiatives

The major initiatives of the Government of India to promote textile sector are as follows.

- Scheme for Integrated Textile Parks (SITP) for creation of infrastructure in the parks.
- Restructured Technological Upgradation Fund Scheme (RR TUFS) covers manufacturing of major machinery for technical textiles by providing reimbursement and subsidy to the specific technical textile machinery.
- Integrated Skill Development Scheme (ISDS) to provide training to 1.5 million people to cover all sub-sectors of textiles such as Textile and Apparel, Handicrafts, Handlooms, Jute and Sericulture.
- Technology Mission on Technical Textiles (TMTT) to promote technical textiles by helping to develop world class testing facilities, promoting indigenous development of prototypes, providing support of domestic and export market development.
- New National Textile Policy aims at creating 35 million new jobs by 2024-25
- Policy like 'Make in India' initiatives to transform the textile industry into a global manufacturing hub with the support of foreign manufacture across the entire value chain of textile and garments industry²⁸. It helps to promotes 100 per cent FDI in textile sector. Other schemes include Swarnajayanti Gram Swarozgar Yojana (SGSY), Market Development Assistance (MDA), Market Access Initiative (MAI), etc.

Indian textile and apparels have demand in both domestic and export markets. However, it faces stiff competition from the other developing countries such as Bangladesh, China, Vietnam, who enjoy lower duties due to GSP benefits of major developed countries like EU and USA.

3.4.3 Trends of Textiles Trade in Vietnam

Vietnam has strong base in textiles value chain. Vietnam has more than 3800 companies providing 2 million employment opportunities, directly and indirectly in the textiles and apparel industry²⁹. The major export markets for the Vietnam in final textiles products have been USA (US\$ 9.29 billion)³⁰, EU (US\$ 3.03 billion) and Japan (US\$ 2.31 billion) in 2014 (Table 14). In the case of processed textiles goods, Vietnam's major export markets have been China (US\$ 1.11 billion), ASEAN (US\$ 517.8 million) and South Asia (US\$ 199.53 million) in 2014. In terms of import of textiles products, import of final and processed goods by Vietnam was sourced mainly from China – US\$ 284.80 million and US\$ 4.10 billion, respectively, followed by Japan and ASEAN countries (Table 15).

Table 14: Vietnam's Export of Textile to Major Countries and Country Groups

	Value (US\$ Million)				Share in World, (%)			
	Final		Processed		Final		Processed	
	2006	2014	2006	2014	2006	2014	2006	2014
USA	2845.54	9292.51	19.28	30.03	56.03	50.41	4.54	1.03
EU	1088.64	3026.09	24.92	101.44	21.43	16.42	5.86	3.48
Japan	591.73	2310.68	27.00	68.21	11.65	12.54	6.35	2.34
South Asia	1.38	39.68	24.31	199.53	0.03	0.22	5.72	6.84
China	11.70	362.05	29.11	1118.94	0.23	1.96	6.85	38.37
ASEAN	44.53	127.27	123.19	517.80	0.88	0.69	28.97	17.76
World	5078.94	18433.15	425.18	2916.10	100.00	100.00	100.00	100.00

Note: The selection of HS 6 digit level product for textiles is based on BEC.

Source: Author's Calculation based on WITS Database, World Bank.

About 70 per cent of Vietnam's textile and apparel production is through "processing trade" using imported textiles and other inputs³¹. Most Vietnamese producers use the route of sub-contract for corporate buyers in the global supply chain, using imported inputs such as cotton, fiber, fabrics and other minerals and machinery³². The firms from China, Taiwan, South Korea, Japan and Hong Kong act as intermediaries to organize production through their own FDI joint ventures facilities in Vietnam or subcontract Vietnamese suppliers³³. It engages in Cut, Make and Pack (CMP) contracts, where most value-added derived from low wage assembly of imported materials and thus contributed to low value added segments compare to Freight on Board

(FoB) contracts, where firm can benefit from high value added in exports³⁴. In this regard, Vietnam government has encouraged both domestic and foreign investor to invest in the supply chain process to establish new enterprises in the knot of knitting, weaving, dyeing and finishing to manufacture quality fabrics in order to compete with imported fabrics³⁵.

Table 15: Vietnam's Import of Textile and Apparels from Major Countries and Country Groups

	Value (US\$ Million)				Share in World, (%)			
	Final		Processed		Final		PC Processed	
	2006	2014	2006	2014	2006	2014	2006	2014
USA	3.19	6.40	13.19	19.52	1.48	1.38	0.52	0.22
EU	9.14	19.22	79.79	112.20	4.24	4.13	3.13	1.29
Japan	43.53	38.11	247.22	500.93	20.19	8.19	9.70	5.76
South Asia	0.44	6.96	29.53	202.39	0.20	1.50	1.16	2.33
China	27.34	284.80	685.36	4109.83	12.68	61.23	26.88	47.24
ASEAN	10.06	20.66	178.36	411.82	4.67	4.44	6.99	4.73
World	215.58	465.10	2549.92	8699.51	100.00	100.00	100.00	100.00

Note: The selection of HS 6 digit level product for textiles is based on BEC.

Source: Author's Calculation based on WITS Database, World Bank.

There are huge opportunities in textiles and apparel industry in Vietnam as the country has been negotiating FTA with EU and other countries/regions. It would further attract more FDI from the neighbouring countries such as China, other ASEAN countries and India³⁶. Foreign investors have entered into Vietnam's textiles and apparel sector anticipating completion of TPP, which would drastically reduce tariff and open up the market access to the TPP member countries³⁷. There are no doubt that Vietnam's textiles and apparel exports will rise sharply and its global market share would increase substantially due to preferential duties³⁸. Vietnam's exports about 1000 lines of apparel products into the United States, which is expected to grow by 12 to 13 per cent to achieve US\$ 30 billion export target by 2025³⁹.

3.4.4 Value Chain of Textile Trade between India and Vietnam

Textiles and apparel industry in both India and Vietnam are more complementary than competing in nature. Both India and Vietnam have strong export market for textiles and garments, mostly to USA and EU. Both the countries have huge trade potential in textile industry to supplement and to grow in textiles value chains. For instance, trade between India and Vietnam on textiles components of final and processed products has grown at the rate of 30 and 40 per cent between 2006 and 2014, respectively (Table 16 and Table 17). Textile industry in India has specialized in complete value chain

process of textile productions and also in value chain segments. Compared to Vietnam, India is raw material-sufficient, whereas, Vietnam is dependent on import of raw materials from other countries, mostly China, for its textile inputs. Therefore, both India and Vietnam can cooperate and engage in textile industry, which would mutually beneficial. In that way, India can be raw material supplier for manufacturing textiles products for Vietnam exports and also gain huge market in Vietnam garment business. For instance, India's export of processed textile goods to Vietnam was US\$ 235.29 million (Table 16), whereas, China is the main fabric supplier, accounting for US\$ 4109.83 million in 2014, which was nearly 50 per cent of raw materials, imported by Vietnam in 2014 (Table 17). Thus, Vietnam can also be less dependent on China by importing intermediate textile products, rather import from India. To conclude, India has a huge potential for India's export in supplying raw material and know-how to Vietnam.

Table 16: India's Textile Export to Vietnam and its Barriers

		Textile based on BEC*		
		Final	Processed	
India’s Export to Vietnam (Value in US\$ Million)		2006	0.255	16.89
		2014	2.189	235.29
CAGR (in %)		2006 – 2014	30.83	38.99
India’s Export Potentiality (Value in US\$ Million)		2006	78.52	904.96
		2014	444.57	3186.46
India’s Export to Vietnam (Number of Products at HS 6 digit)		2006	32	130
		2014	83	193
CAGR (in %)		2006 – 2014	12.65	5.06
ASEAN-India FTA Offered by Vietnam (Number of Products at HS 6 digit)		EL	0	13
		HSL	3	92
		NT1	126	166
		NT2	112	20
NTM Imposed by Vietnam (Number of Products at HS 6 digit)		SPS	84	32
		TBT	362	682
		EXP	210	80
		Others	38	0
Tariff	Bound Rate (%)	2006	35	21
		2014	37	22
	Applied Tariff Rate (AHS) (%)	2006	24	27
		2014	10	10
	Number of Tariff line under AHS	2006	73	129
		2014	184	172

Note: The selection of HS 6 digit level product for textiles is based on BEC.

Source: Author's Calculation based on WITS Database, AIFTA Data from MoC website and I-TIP Database.

Having huge trade potential for textile products, both the countries have to cooperate with each other for strengthening the trade and resolve the trade barriers such as tariff and non-tariff barriers. For instance, in the case of processed textiles products, Vietnam under the ASEAN India FTA offers to India almost 105 items in exclusion lists and sensitive lists at HS 6 digit level. Similarly, NTMs imposed by Vietnam to India is mostly SPS (84 on final and 32 on processed goods at HS 6 digit level) and TBT (362 on final and 682 on Processed products at HS 6 digit level), respectively. The average bound rate was 37 per cent and 27 per cent for final and processed textiles goods respectively, which was reduced to 10 per cent after AFTA in 2014. In the case of India's offer on ASEAN-India FTA, it has both exclusion and sensitive lists of 100 items under both final and processed products at HS 6 digit level. Compared to Vietnam, India did not impose any NTM against textile products for both final and processed goods. In terms of tariff, India's average applied tariff rate was almost 14 and 6 per cent against Vietnam in 2014.

Table 17: Vietnam Textile Export to India and its Barriers

		Textile based on BEC*	
		Final	Processed
Vietnam Export to India (Value in US\$ Million)	2006	0.78	4.98
	2014	6.67	72.51
CAGR (in %)	2006 – 2014	30.77	39.76
Vietnam's Export Potentiality (Value in US\$ Million)	2006	1136.06	247.76
	2014	3960.98	1127.54
Vietnam Export to India (Number of Products at HS 6 digit)	2006	58	34
	2014	97	45
CAGR (in %)	2006 – 2014	6.64	3.57
ASEAN-India FTA Offered by India (Number of Products at HS 6 digit)	EL	54	13
	HSL	40	99
	NT1	90	94
	NT2	31	61
NTM Imposed by India (Number of Products at HS 6 digit)	SPS	-	-
	TBT	-	-
	EXP	-	-
	Others	-	-

Table 17 continued...

Table 17 continued...

Tariff	Bound Rate (%)	2006	50	32
		2014	20	10
	Applied Tariff Rate (AHS) (%)	2006	50	32
		2014	14	6
	Number of Tariff line under AHS	2006	28	86
		2014	141	172

Note: The selection of HS 6 digit level product for textiles is based on BEC.

Source: Author's Calculation based on WITS Database, AIFTA Data from MoC website and I-TIP Database.

Vietnam's garment enterprises can make use of Government of India's 'Make in India' initiative as it attracts foreign investors in its manufacturing industry such as textile and apparel sector. As for both India and Vietnam textile industries, European countries are the major export market, collaboration in textile production can benefit Vietnam firms in decreasing shipment costs. Similarly, Indian investors can invest in Vietnam in textiles and apparel industry, where tariffs are expected to fall to zero from the current 17-18 per cent due to international commitments. However, it may not positively benefit the yarn manufactures, if 'yarn-forward'⁴⁰ rule is accepted Indian spinners may consider setting up manufacturing base in Vietnam and explore the domestic market⁴¹.

To sum up, given a global competitiveness in the textiles and apparel industry for both India and Vietnam, in terms of designing and quality of products, labour productivity and technology up gradation, there is need for cooperation between India and Vietnam in textile and garments industry to make a strong involvement in global value chain.

3.5 Policy Recommendations

In view of the presence of RVCs among Southeast Asian countries and India's strong and stable relationship with the ASEAN countries, India and Mekong countries have huge potential in regional value chain linkages, particularly with Thailand and Vietnam. The analysis here addresses the need for policy directions to promote regional value chains.

(i) Strengthening Regional Economic Integration

Deeper level of economic integration would help to develop cross border trade among MGC countries. Deep in commitment and broad in scope and coverage of trade agreements will strengthen region as well as global value chain.

(ii) Ease of Doing Business

Effective governance will provide an enabling environment such as simple regulation and legislation in order to bring level playing field among domestic and foreign firms.

(iii) Better Infrastructure Development

Better connectivity is the core factor for strengthening the regional value chain, as several forward and backward linkages within and across the regions are taking place to supply intermediate parts to manufacturing units to produce finished goods. Both efficient time management (i.e., Just in Time) and low transportation cost would bring potential link for the value chain among MGC countries. Therefore, MGC countries should improve physical and digital connectivity; develop border industrial zones, etc.

(iv) Trade Facilitation and Logistics Measures

Trade cost reduction is essential to enable countries to more effective participation in global value chains and for overcoming geographical disadvantages. Therefore, MGC countries should take trade facilitation measures and improvement in logistics and customs systems. Trade facilitation measures helps to smoothen the process of trade related logistics and regulatory regimes that are obstacle for trade and increase time and cost in the movement of goods.

(v) More Trade Liberalisation Measures

Under AIFTA, reduce further tariff and remove items from exclusion and sensitive list for those products that are supporting regional value chain process. There is a need for reforms in NTM regime and maintain consistency in standards to help the firms to engage in regional value chain. Harmonization of standards, convergence of testing and certification requirements would help the traders to ease the complex procedures.

(vi) Improve Access to Finance

Firms engaging in GVCs face huge competition and they require investment to meet standards and need to change in dynamic market conditions. Therefore, MGC countries should facilitate and strengthen financial institutions to provide financial access for the firms to engage in GVCs.

(vii) Promote Labour Force Skills

GVCs is increasingly characterized by changes in technology up-gradation. Specializing in intermediate goods leads to the challenges in availability of

skilled workforce, particularly in developing countries. Therefore, MGC countries should conduct capacity building programme and improve education system for ensuring better performance.

(viii) Facilitate FDI in Potential Sectors for Regional Value Chain among MGC countries

Having strong linkages between trade and investment in GVC, government should encourage FDI within the regions to strengthen and support the regional value chain among MGC countries.

(ix) Encourage Small and Medium Enterprises

Government should encourage and provide technical assistance to MSMEs, particularly to the sectors such as automobiles, textiles, chemicals, electrical and electronic components, that has potential to be a part of value chain by supporting through forward and backward linkages.

3.6 Concluding Remarks

Global Value Chain (GVC) has gained significant importance in the economic integration. Given that ASEAN countries are at different stages of development, the degree of participation in production networks also differs widely across countries. In this regard, India's engagement with Mekong countries, particularly with Cambodia, Lao PDR and Myanmar, is still at the initial development phase of the production networks. With Vietnam, India has a potential scope of expanding the value chains, and Thailand has already entered into relatively more sophisticated process of production networks in automobile, computer accessories, electronic components, etc.

In the case of automobile sector, both India and Thailand, are the leading automobile manufacturers in their respective segments and attracted huge FDI in the automobile sector. Both the countries are also producing auto components and exporting mostly to ASEAN, EU, USA, Japan and China. Thailand specializes in producing cars and pick-up trucks and India is specialized in producing small cars, two-wheelers and tractors. In case of bilateral trade in automobile sector, both the countries have high trade potential. Similarly, textiles and apparel industry in both India and Vietnam are more complementary than competing in nature. Both India and Vietnam have strong export market for textiles and garments, mostly to USA and EU. Both the countries have huge trade potential in textiles industry to supplement and to grow in textiles value chains. Textiles industry in India has specialized in complete value chain process of textile productions and also in value chain segments. Compared to Vietnam, India is raw material-sufficient, whereas,

Vietnam is dependent on import of raw materials from other countries, mostly China, for its textile inputs. Therefore, India's emerging production networks with Vietnam and Thailand offer important scope of further strengthening the regional value chains. Stronger production networks between India and Mekong are, therefore, drivers of MGC as well as ASEAN-India partnership.

Endnotes

- ¹ Refer, for example, Gereffi and Fernandez-Stark (2011)
- ² Refer, for example, UNCTAD (2014)
- ³ Refer, for example, UNESCAP (2015)
- ⁴ Refer, for example, UNESCAP (2014)
- ⁵ Refer, for example, UNCTAD (2013), Hernandez et. al. (2014)
- ⁶ Refer, UNESCAP (2016)
- ⁷ Refer, OECD (2017).
- ⁸ Banga (2016).
- ⁹ Refer, for example Nag *et. al.* (2007)
- ¹⁰ *Ibid*
- ¹¹ Refer Balcet and Bruschiari (2010)
- ¹² Refer, for example, ERIA (2014)
- ¹³ Refer, for example, MHIPE (2006)
- ¹⁴ Refer, for example, Nag *et. al.* (2007)
- ¹⁵ Refer, for example, ERIA (2014)
- ¹⁶ Refer, for example, MHIPE (2006)
- ¹⁷ Refer, for example, Nag *et. al.* (2007)
- ¹⁸ Refer, for example, ERIA (2014)
- ¹⁹ Refer, for example, MHIPE (2006)
- ²⁰ Refer, for example, Gereffi and Memedovic (2003)
- ²¹ Refer, for example, Fernandez-Stark et al. (2011)
- ²² Refer, for example, Gereffi and Memedovic (2003)
- ²³ Refer, for example, Fernandez-Stark et al. (2011)
- ²⁴ Refer, for example, Knitting Industry (2017)
- ²⁵ Refer, for example, Business Line, May 22 2015
- ²⁶ Refer, for example, Knitting industry (2017)
- ²⁷ Refer, for example, Chandra (2006)
- ²⁸ Make in India is a major new national programme of the Government of India designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure in the country. The primary objective of this initiative is to attract investments from across the globe and strengthen India's manufacturing sector. It is being led by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India (www.makeinindia.org).
- ²⁹ ITA (2016)

- ³⁰ The United States-Vietnam Bilateral Trade Agreement (BTA) in 2001, opened huge opportunities for Vietnam with lowered tariff on US exports, see for example Nguyen and Duong (2016).
- ³¹ ITA (2016)
- ³² Refer for example Tran (2012)
- ³³ Refer, for example Gereffi and Frederick (2010)
- ³⁴ VITAS (2016)
- ³⁵ www.vietnamtextile.org
- ³⁶ Tran (2012)
- ³⁷ TPP is now put on hold temporarily.
- ³⁸ ITA (2016)
- ³⁹ VITAS (2016)
- ⁴⁰ Under TPP agreements, the stages of spinning, weaving - dyeing finishing and sewing have to be done at TPP member countries
- ⁴¹ www.fibre2fashion.com

Appendix 1: Methodology

UNCOMTRADE data broadly classify the Broad Economic Categories (BEC) into three end-use categories, namely, capital goods, intermediate goods and consumption goods. BEC can be used to identify the pre-determined category of intermediate goods to examine the issues related to value chain or production fragmentation between the countries. In other words, trends in intermediate goods trade are indicative of value chain formation, as fragmented production processes requires parts and components for partially or sub-assemblies cross borders, one or more times, before the production of final goods (Feenstra 1998). Sturgeon and Memedovic (2013) have customized the BEC classification of traded goods to reflect the nature of intermediate goods that are made specifically for one or a few final products in other country. All the export-import data is taken from World Trade Integrated Solutions (WITS) database. Due to inadequate space, we did not include the detailed classifications of automobile and textile sectors based on BEC classifications in our report, however, it will be available upon request.

4

Facilitating Foreign Direct Investment: Trends and Developments

4.1 Introduction

Foreign Direct Investment (FDI) is considered as an important source for achieving greater and faster economic growth in Asian countries. FDI can also have positive impact on host country's development initiatives. However, policies towards attracting FDI and enhancing the linkages between MNCs and domestic firms are very vital for the recipient countries. FDI can also be a source of valuable technology and know-how, while fostering linkages with domestic firms through backward and forward linkages. In this regard, Mekong countries and India have introduced several important policy reforms over the last few decades to attract FDI. India, Thailand and Vietnam are three major sources of FDI in Mekong subregion.

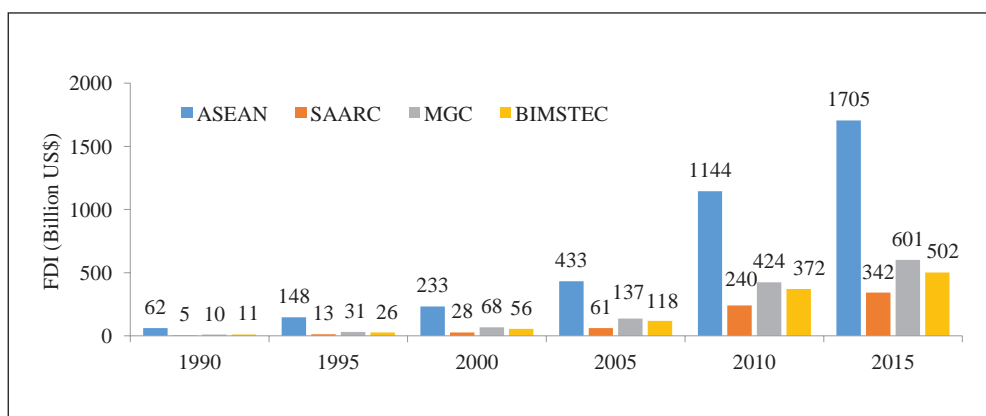
The investment environment in the MGC subregion continues to improve, with Mekong countries and India reforming investment policies and introducing new measures that further promote FDI. Launching ASEAN Economic Community (AEC) in 2015 and India's massive reforms in recent years have improved the investor sentiments. Several companies are now planning to expand their presence in Mekong subregion. A supportive FDI environment is needed for the improvement of connectivity and value chains between India and Mekong countries.

4.2 Trends in FDI Flows

FDI inward stock within Asian regional blocks has been increasing steadily since 1990s. FDI flow to ASEAN has reached about US\$ 1705 billion in 2015 (Figure 1). MGC has received FDI stock of about US\$ 601 billion till 2015.

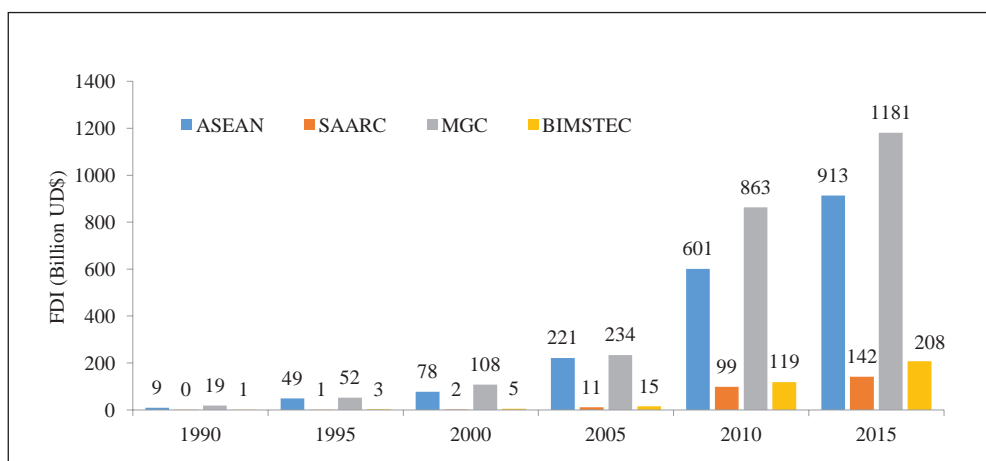
In the case of FDI outward stock, ASEAN and MGC are investing more in SAARC or BIMSTEC. For instance, stock of FDI outward flow from MGC was about US\$ 1181 billion in 2015, followed by ASEAN (US\$ 913 billion) (Figure 2). MGC as a regional block shows higher stock of FDI outflow than that of ASEAN.

Figure 1: FDI Inward Stock across Regional Blocks



Source: UNCTAD FDI Statistics

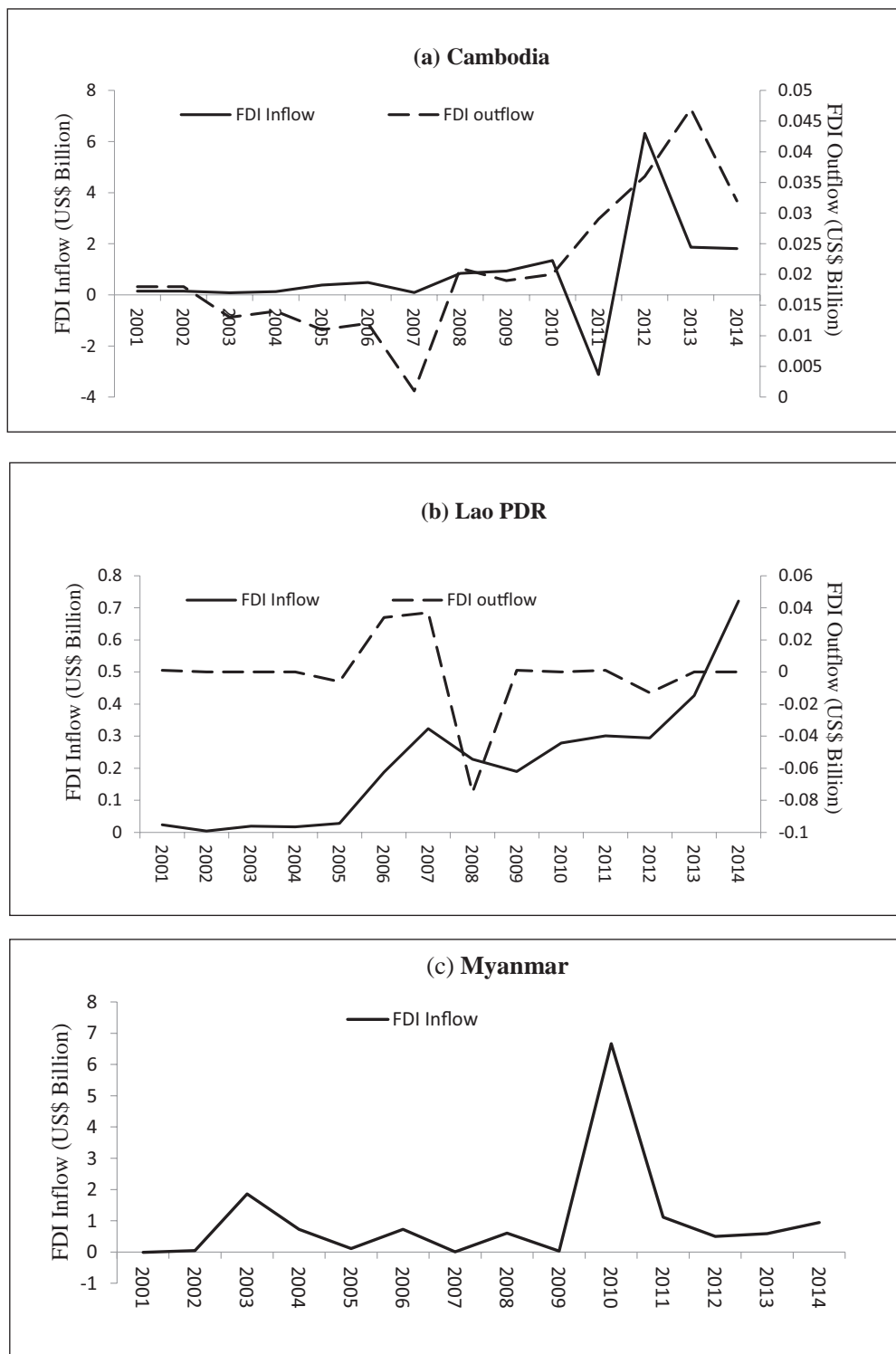
Figure 2: FDI Outward Stock across Regional Blocks

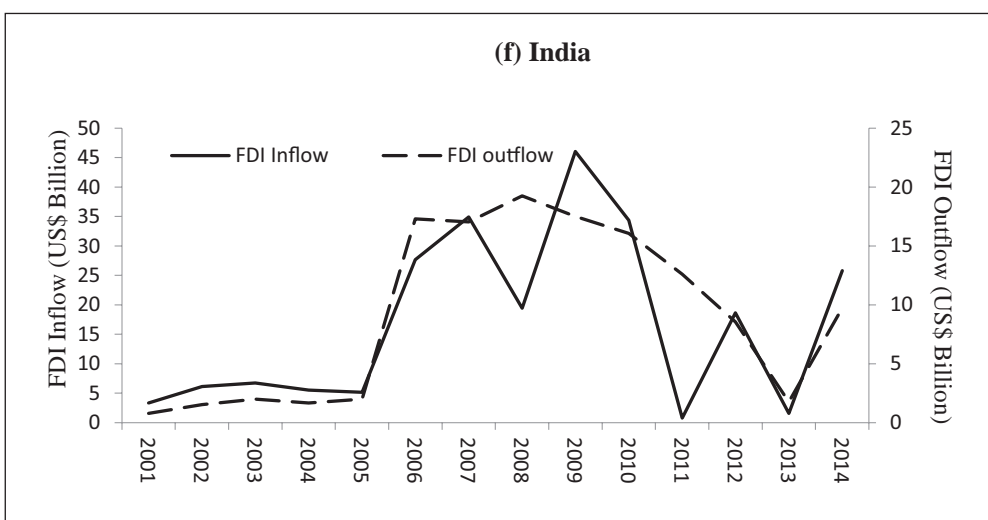
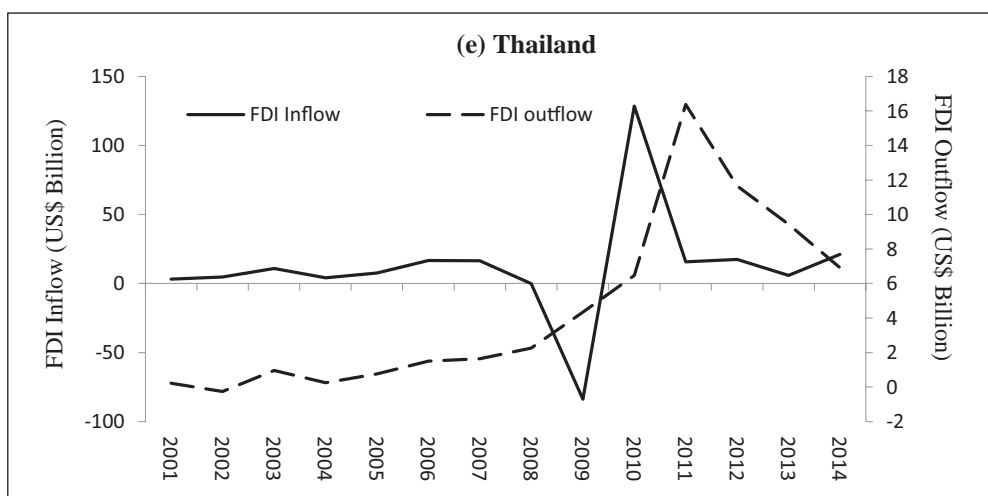
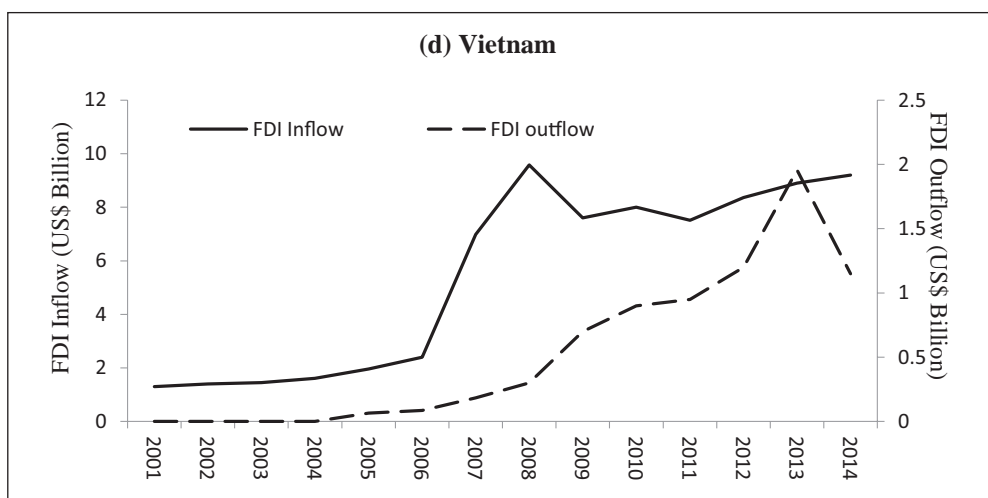


Source: UNCTAD FDI Statistics.

Among the MGC countries, Thailand and India lead in both inflows and outflows of FDI, followed by Vietnam. However, in terms of attracting FDI inflows, there is a steady rising trend in cases of Cambodia and Lao PDR (Figure 3). Despite several economic crises in recent past, MGC countries have continued to witness a rising flow of FDI.¹

Figure 3: Trends in FDI Inflow and FDI Outflow of MGC Countries





Source: DOTS, IMF.

Table 1: Intra-MGC Inward FDI Stock (2001-2012)

(US\$ billion)

		FDI Inward					
		Cambodia	Lao PDR	Myanmar	Vietnam	Thailand	India
FDI Outward	Cambodia	-	0.00	0.00	0.00	0.03	0.00
	LAO PDR	0.00	-	0.00	0.00	-0.01	0.00
	Myanmar	0.00	0.00	-	0.00	0.02	0.00
	Vietnam	0.80	0.13	0.37	-	0.01	0.00
	Thailand	0.37	0.23	8.28	0.20	-	0.02
	India	0.05	0.00	0.25	0.02	0.02	-
	ASEAN	2.09	0.41	9.76	2.78	15.93	16.13
	World	6.73	2.21	34.72	15.89	89.59	142.37

Source: UNCTAD Bilateral FDI Statistics.

The intra-regional investment between India and Mekong countries has been low, compared to ASEAN (Table 1). Among the Mekong countries, Thailand has been investing in almost all Mekong countries. During 2001-2012, Thailand's outward FDI stock has reached US\$ 8.28 billion in Myanmar, followed by Cambodia, Lao PDR and Vietnam. Similarly, Vietnam has been also investing in other MGC countries. MGC has received about US\$ 1.2 billion FDI stock from Vietnam during 2001 and 2012. Compared to their respective world investments, intra-regional investment has been very low, suggesting a huge potential for FDI flows within the subregion.

Table 2: Major Sector-wise FDI Inflow in MGC

(US\$ million)

Industry	India	Thailand	Cambodia	Lao PDR	Vietnam
	(2012)	(2011)	(2012)	(2011)	(2012)
Total (merchandise and services)	18286	9539	387	300.7	16348
Agriculture and hunting		21.2	83.2	37.1	167.5
Mining and quarrying	69	423.3	-	78.9	99.4
Machinery and equipment	-	1741.2	-	-	-
Chemicals and chemical products	-	782.5	-	-	-
Textiles, clothing and leather	-		142.8		-
Food, beverages and tobacco	-	219.5	1.4		-
Unspecified Secondary	6528	1509.9	-	15.1	11701.9
Rubber and plastic products	-	698.7	-	-	-

Table 2 continued...

Table 2 continued...

Other Manufacturing	-	1.7	-	-	-
Electrical and electronic equipment	-	1247.4	-	-	-
Wood and wood products	-	79.1	-		-
Construction	1319	28.1	-	3.6	346
Education	150		-	-	105.1
Electricity, gas and water	1653	93.6	-	-	97.2
Finance	2760	1662.1	74.2	-	0.1
Health and social services				-	140.2
Hotels and restaurants	3129	12.8	13.6	-	108.2
Business activities	1087	905.1	11	0.2	2084
Transport, storage and communications	305	94.6	2.2		644
Unspecified Tertiary	692	-	-	155.9	20.5
Community, social and personal service activities	-	-	-		61.1
Wholesale and retail trade	551	-512.9	-		772.8

Source: Investment Map Database, ITC.

In terms of potential sector of FDI, India, Thailand and Vietnam mostly have similar sectors such as construction, education, electricity, gas and water, finance, health and social services, hotels and restaurants, business activities, transport, storage and communications, machinery and equipment, chemical products, etc. Cambodia and Lao PDR have received FDI in agriculture and hunting, mining and quarrying, textiles, clothing and leathers, food and beverages sectors (Table 2).

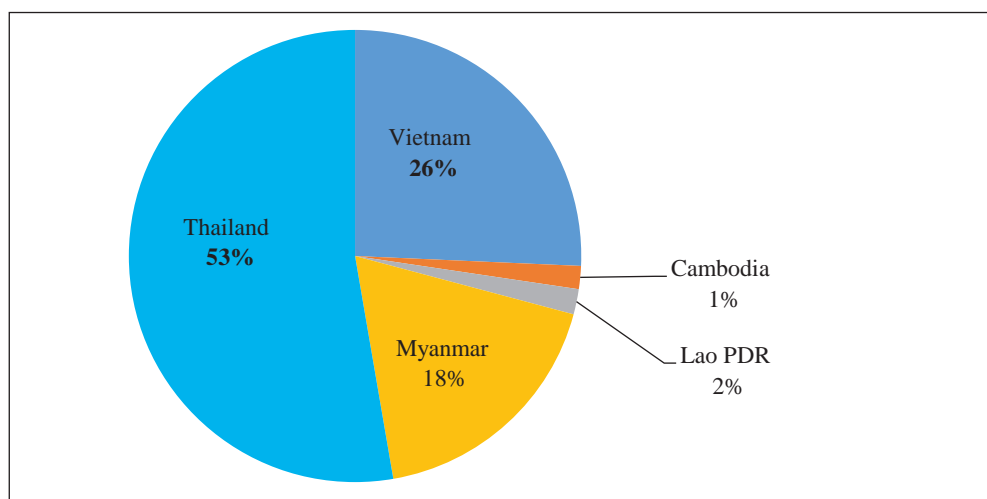
India's FDI to Mekong countries has gradually increased over time. India's outward FDI stock to MGC countries is almost US\$ 780 million for the period 2008 and 2016, of which almost 53 per cent (US\$ 411 million) went to Thailand, 26 per cent (US\$ 200 million) to Vietnam and 18 per cent (US\$ 142 million) to Myanmar. India's FDI to Cambodia and Lao PDR has been around 1-2 per cent since 2008. Although India's outward FDI in Mekong countries is rising gradually, only 0.3 per cent of India's global outward FDI has gone into Mekong subregion, suggesting high investment potential as the Mekong economies start liberalising the FDI sectors (Table 3 and Figure 4).

Table 3: India's FDI Outward Flow to Mekong Countries

(US\$ million)

	Cambodia	Lao PDR	Myanmar	Vietnam	Thailand	India's Total FDI Outward to Mekong Countries (US\$ Million)	India's Total FDI Outward to the World (US\$ Billion)	Share of Total Outward FDI to Mekong Countries to the World (%)
2008	-	4.03	42.21	45.97	126.29	218.5	17.52	1.2
2009	-	2	20.24	6.68	61.92	90.84	17.45	0.5
2010	-	2	45.25	19.88	6.53	73.66	40.51	0.2
2011	0.02	2.06	9.72	59.52	35.29	106.61	33.94	0.3
2012	10.03	0.2	1.76	1.64	22.42	36.05	25.60	0.1
2013	0.85	1.03	16.09	11.62	55.72	85.31	27.70	0.3
2014	0.01	1.09	4.44	15.72	73.59	94.85	38.25	0.2
2015	0.52	0.8	1.55	22.24	21.24	46.35	22.50	0.2
2016	1.45	0.9	0.44	17.49	8.74	29.02	22.31	0.1
Total	12.88	14.11	141.7	200.76	411.74	781.19	245.77	0.3

Source: Author's calculation based on RBI data.

Figure 4: Distribution of India's FDI Outward Stock among Mekong Countries: 2008-2016

Source: Author's Calculation based on RBI data

The number of Indian firms investing in Mekong countries has been growing gradually through both joint venture and wholly-owned subsidiary routes (Table 4 and Figure 5). Out of the total 350 Indian firms investing in Mekong countries during 2008 to 2016, Thailand has received 190 of them, followed by Vietnam (72) and Myanmar (57). Cambodia and Lao PDR have received only 12 and 19 Indian firms in the same period, respectively.

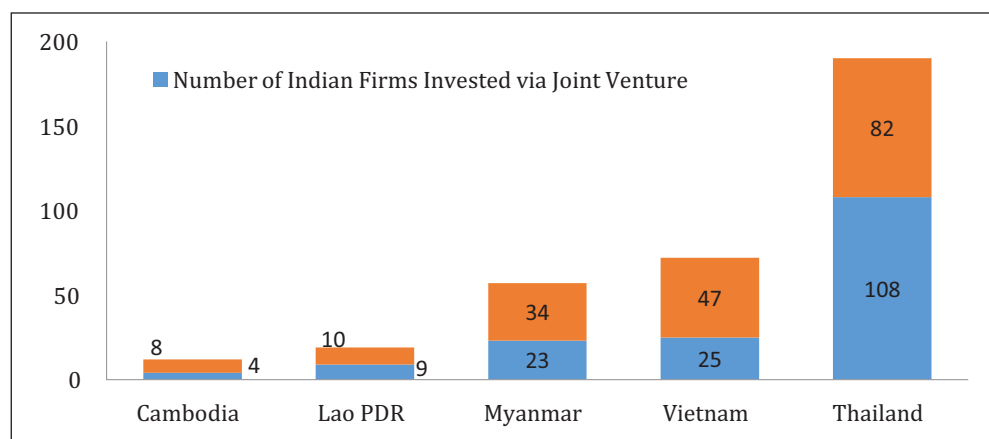
Table 4: Number of Indian Firms Invested in Mekong countries

(Numbers)

	Cambodia	Lao PDR	Myanmar	Vietnam	Thailand	Total Number of Indian Firms Invested in MGC Countries	Share of Total Number of Indian Firms Invested via Joint Venture in MGC Countries (%)
2008	-	2	7	7	17	33	51.5
2009	-	1	3	9	13	26	57.7
2010	-	1	4	11	15	31	48.4
2011	1	2	3	6	13	25	68.0
2012	2	1	2	5	26	36	61.1
2013	1	3	7	5	20	36	47.2
2014	1	2	12	6	23	44	36.4
2015	2	3	11	10	33	59	40.7
2016	5	4	8	13	30	60	43.3
Total	12	19	57	72	190	350	48.3

Source: Author's calculation based on RBI data.

Figure 5: Indian Firms Invested via Joint Venture and Wholly-owned Subsidiary in Mekong Countries (2008-2012)



Source: Author's calculation based on RBI data.

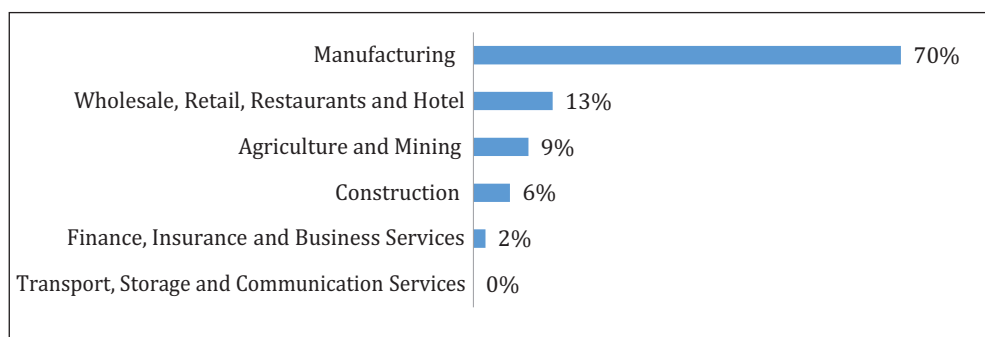
The major sectors for India's outward FDI in Mekong countries are manufacturing (70 per cent), wholesale, retail, restaurants and hotel (13 per cent), agricultural and mining (9 per cent) and construction (6 per cent), respectively (Table 5 and Figure 6).

Table 5: Sector-wise India's FDI Outward Stock to Mekong Countries and Its Share in the World (2008- 2016)

(US\$ million)

	Cambodia	Lao PDR	Myanmar	Vietnam	Thailand	Sector-wise		
						India's Total Outward FDI to Mekong Countries	India's Total Outward FDI to the World (US\$ Billion)	Share of Total Outward FDI to Mekong Countries in the World (%)
						(1)	(2)	(3) = (1)/(2)
Agriculture and Mining	2.15	13.58	41.04	9.94	0.15	66.86	35.94	0.19
Manufacturing	9.92	0.5	100.04	144.89	293.49	548.84	27.27	2.01
Finance, Insurance and Business Services	-	-	0.27	0.05	15.5	15.82	40.42	0.04
Wholesale, Retail, Restaurants and Hotel	0.75	-	-	0.14	99.45	100.34	36.82	0.27
Construction	-	0.03	-	45.64	0.69	46.36	32.34	0.14
Transport, Storage and Communication Services	0.05	-	0.34	0.1	1.08	1.57	45.11	0.00
Total	12.9	14.1	141.7	200.7	411.7	781.2	245.8	

Source: Author's Calculation based on RBI data.

Figure 6: Sector-wise Share of India's FDI investment in Mekong Countries (2008-2016)

Source: Author's Calculation based on RBI

Table 6: Number of Indian Firms Invested in Mekong Countries

	Cambodia	Lao PDR	Myanmar	Vietnam	Thailand	Sector-wise		
						Total Number of Indian Firms Invested in MGC Countries	Total Number of Indian Firms Invested in ASEAN	Total Number of Indian Firms Invested to World
Agriculture and Mining	3	2	9	5	3	22	180	618
Manufacturing	3	4	16	21	62	106	451	2943
Finance, Insurance and Business Services	-	-	5	1	19	25	760	3775
Wholesale, Retail, Restaurants and Hotel	1	-	-	1	28	30	515	2340
Construction		1		1	3	5	95	565
Transport, Storage and Communication Services	1	-	3	2	9	15	180	596

Source: Author's calculation based on RBI.

In terms of number of Indian firms investing in Mekong countries, most of the them are in manufacturing sector (106), followed by finance, insurance and business services (25), wholesale, retail, restaurants and hotel (30), and transport, storage and communication services (15) (Table 6). This shows investments from Indian firms have gone up in Mekong countries.

India's major investments in Cambodia and Lao PDR are mainly in manufacturing, agriculture and mining sectors under both JV and WOS routes, which together constitute about 98 per cent of India's total FDI stock in Cambodia and Lao PDR in the period 2008 to 2016 (Tables 7 and 8). Grasim Industries Ltd. is the major Indian investor in both Cambodia and Lao PDR, having the share of about 74 per cent and 85 per cent of India's total FDI stock to Cambodia and Lao PDR, respectively. For instance, in Cambodia, they have a joint venture with its own-subsidary firm called Birla Jingwei Fibre Co. Ltd. (BJFCL) to produce viscose stable fibre (VSF). VSF is a man-made, biodegradable fibre mainly used in apparels, home textiles, dress material, knitted wear and non-woven applications (Box 1). The other Indian firms invested in Cambodia include Akay Flavours and Aromatics Pvt. Ltd., Mesco Mining Limited, WAPSCOS, Essar Group, Tata Steel, Ranbaxy, Glenmark, etc.

Table 7: Indian Firm-wise Major Investments in Cambodia (2008-2016)

(US\$ million)

Indian Firm	Foreign Firm	JV/ WOS	Major Activity	Value	Share in Total India's FDI Stock to Cambodia (%)
Grasim Industries Ltd.	Birla Jingwei Fibres Co Ltd	JV	Manufacturing	9.56	74.3
Mesco Steels Limited	Mesco Gold (Cambodia) Limited	WOS	Agriculture and Mining	1.34	10.4
Radhe Infrastructure and Projects India Limited	Target Leisure Co. Ltd	WOS	Wholesale, Retail, Restaurants and Hotels	0.75	5.8
Green Khmer Agro Private Ltd.	Green Agri Khmer Private Co Ltd	JV	Agriculture and Mining	0.49	3.8
Akay Flavours & Aromatics Pvt Ltd	Akay Flavours & Aromatics (Cambodia) Pvt Ltd	WOS	Manufacturing	0.35	2.7
Mesco Mining Limited	Mesco Gold (Cambodia) Limited	JV	Agriculture and Mining	0.32	2.5
Ascent Air Pvt Ltd	Quick Freight Inc	WOS	Transport, Storage and Communication Services	0.06	0.4
U Square Life Science Pvt Ltd	M/S U Square Life Science (Cambodia) Co., Ltd.	WOS	Manufacturing	0.01	0.1

Source: Author's calculation based on RBI data.

Box 1: Brief Profile of Grasim Industries Limited and Birla Jingwei Fibres Co. Limited

India's Grasim Industries Limited, part of the Aditya Birla Group, is a global leader in viscose staple fibre (VSF) and one of the largest private sector with a net revenue of US\$ 4.4 billion. Its other core businesses are cement, chemicals and synthetic fibre. It is one of the largest producers of VSF by covering 19 per cent of global share. In 2012, Grasim Industries Limited had a Joint Venture with Birla Jingwei Fibres Company Limited (BJFCL), one of its subsidiary firm invested about US\$ 9.56 million. BJFCL was established in 2006 as a joint venture company between the Aditya Birla Group and the Fujian Jingwei Group, to leverage the demand of Fujian Jingwei yarn mills. In 2008, BJFCL's 100-percent ownership was taken by the Aditya Birla Group. The plant is located in Taiping town of Xianyang City, Hubei Province in central part of China. The plant had an initial capacity of 30,000 TPA viscose staple fibre (VSF). Major modifications in effluent treatment were done initially to meet the stringent norms of water discharge as the plant is located upstream of the Hanjiaing river. A diffused aeration system was introduced for the first time in VSF wastewater treatment, which is energy-efficient and easy to maintain. The VSF capacity was increased to 72,000TPA along with a captive power plant of 15 MW. The new 40,000TPA plant has the latest equipment with the capability to operate on cotton lintel pulp as well as wood pulp, and to produce dope-dyed product.

Table 8: Indian Firm-wise Major Investments in Lao PDR (2008-2016)

(US\$ million)

Indian Firm	Foreign Firm	JV/ WOS	Major Activity	Value	Share in Total India's FDI Stock to Laos PDR (%)
Grasim Industries Ltd.	Birla Lao Pulp And Plantation Co Ltd	JV	Agriculture and Mining	12.38	87.7
CCS Grower Systems Private Ltd	CSS Champa Lao Co Limited	WOS	Agriculture and Mining	1.20	8.5
Siddhi Veneers Private Limited	T S Wood Processing Factory Sole Co Ltd	WOS	Manufacturing	0.21	1.5
Sri Ram Plywood Agencies	Lao Srau Veneer Sole Co. Ltd	WOS	Manufacturing	0.14	1.0
Phoenix Plywoods	Lao Veneer And Plywood Sole Co Ltd	WOS	Manufacturing	0.13	0.9
Tirupati Veneers Pvt Ltd	Fine Ply Laos Pvt Ltd	WOS	Manufacturing	0.03	0.2
Integrity Geosciences Pvt Ltd	Lao In Promotion Of Agro Industry Trading Co	JV	Construction	0.03	0.2

Source: Author's calculation based on RBI data.

Grasim industries have also invested about US\$ 12.38 million during 2008 to 2016 in agriculture sector in Lao PDR along with its own-subsiary firm Birla Lao Pulp and Plantation Co Ltd. Birla Lao Pulp and Plantation Co Ltd, established in June 2006, has invested US\$ 400 million in an Eucalyptus pulp and plantation project in Savannakhet province (Box 2). The other Indian firms investing in Lao PDR include CCS Grower Systems, Sri Ram Plywood Agencies, Triupati Veneers, Apollo Tyres, etc. (Table 8).

Box 2: Investment of Birla Group in Lao PDR

Birla Lao Pulp & Plantations Company Limited (BLPP) is part of the Aditya Birla Group, India. It was established in 2006 in Lao People's Democratic Republic (PDR) as part of the Group's initiative to achieve complete backward integration for the viscose staple fibre business. Three Group companies, viz., Grasim Industries Limited, India, Thai Rayon Public Company Limited, Thailand; and PT Indo Bharat Rayon, Indonesia, form the equity holders in BLPP. The company was set up with a concessional agreement with the National Assembly of Lao PDR to plant 50,000 hectares of Eucalyptus plantations, and establish a dissolving grade pulp mill, with a capacity of 200,000 Air Dried Metric Tonnes (ADMT) per annum. With an investment of US\$350 million in the country, this was considered to be the largest integrated project-of-its-kind in Laos. BLPP has planted 15,000 hectares of high quality Eucalyptus so far. The world-class nursery at Ban Dongmakfai has an annual production capacity of 10 million plants. The company provides significant direct employment opportunity to about 2,250 workers seasonally for plantations activities and 300 workers perennially at the nursery. The company plans to establish a pulp mill, in 350 hectares of land at Ban Dongmakfai by 2016-2017 with an investment of US\$ 300 million.

Table 9: Indian Firm-wise Major Investments in Myanmar (2008-2016)

(US\$ million)

Indian Firm	Foreign Firm	JV/ WOS	Major Activity	Value	Share in India's Total FDI Stock in Myanmar (%)
ONGC Videsh Ltd.	Daewoo International Corporation	JV	Manufacturing	29.95	21.1
ONGC Videsh Ltd.	Daewoo International Corporation	WOS	Manufacturing	18.33	12.9
ONGC Videsh Ltd.	ONGC Caspian E & P Bv	WOS	Agriculture and Mining	16.56	11.7
ONGC Videsh Ltd.	Mynamar Ad-2 Project	WOS	Manufacturing	15.60	11.0
Gas Authority Of India Limited	Daewoo International Corporation	JV	Manufacturing	12.12	8.6

Table 9 continued...

Table 9 continued...

ONGC Videsh Ltd.	Block Ad-7 In Myanmar	WOS	Agriculture and Mining	10.26	7.2
ONGC Videsh Ltd.	Mynamar Ad 3 Project	WOS	Manufacturing	8.87	6.3
ONGC Videsh Ltd.	SHWE Offshore Pipeline	JV	Agriculture and Mining	8.45	6.0
Century Plyboard India Ltd	Centuryply Myanmar Private Limited	WOS	Manufacturing	5.67	4.0
Gail (India) Ltd.	SHWE Offshore Pipeline	JV	Agriculture and Mining	3.96	2.8
ONGC Videsh Ltd.	Ad-9 Project Mynmar	WOS	Manufacturing	3.68	2.6
Greenply Industries Limited	Greenply Industries (Myanmar) Pvt. Ltd	WOS	Manufacturing	2.15	1.5
Essar Oil Ltd	Daewoo International Corporation	JV	Manufacturing	1.61	1.1
Jubilant Oil And Gas Private Limited	Jubilant Oil & Gas Private Limited	JV	Agriculture and Mining	1.29	0.9
The Mysore Chipboards Limited	Wwartayar Veneer Industries Pvt Ltd	WOS	Manufacturing	0.73	0.5
ONGC Videsh Ltd.	Block Ad-3 Myanmar	WOS	Manufacturing	0.43	0.3
Mak Plywood Industries Private Limited	Mak (Myanmar) Plywood Industries Private Limited	WOS	Manufacturing	0.36	0.3
Petro Engineering And Construction Pvt Ltd	Alpha Ecc (Myanmar) Private Limited	JV	Agriculture and Mining	0.29	0.2

Source: Author's calculation based on RBI data.

The major investments made by Indian firms in Myanmar are in oil and gas sector (98 per cent of India's total investment in Myanmar), of which, almost 90 per cent of India's investment in Myanmar has been made by ONGC Videsh Ltd. (Table 9). The company has invested via JV and WOS with various India-based and foreign-based firms in Myanmar (Box 3). ONGC Videsh Ltd. has also invested in oil and gas sector in Vietnam. The other major Indian firms in

oil and gas sector are Gas Authority of India Limited (GAIL), Jubilant Oil and Gas Private Limited, Oil India Limited, Petro Engineering and Construction Pvt. Ltd., etc.

Box 3: OVL's Investment in Mekong Subregion

ONGC Videsh Ltd. (OVL) is a Miniratna Schedule "A" Central Public Sector Enterprise (CPSE) of the Government of India. The company was formerly known as Hydrocarbons India Private Limited which changed its name to ONGC Videsh Limited in June 1989. Incorporated in 1965 and based in New Delhi, India, OVL is a subsidiary of Oil and Natural Gas Corporation Limited. It is under the administrative control of the Ministry of Petroleum & Natural Gas. OVL's portfolio comprises of 13 producing, 4 discovered, 17 exploration projects, and 2 pipeline projects. OVL has stake in 37 oil and gas projects in 17 countries, out of which Vietnam and Myanmar has two projects each. It also has overseas office in Ho Chi Minh City (Vietnam). OVL aims to support India's oil and gas security through overseas participation in oil and gas Exploration and Production activities. It is the first Indian company to produce equity oil and gas abroad. As per ONGC Group's Perspective Plan 2030, OVL's oil and gas production should increase from the existing level of 7.26 MMTon to 20 MMTon by 2017-18 and 60 MMTon by 2029-30. OVL has won two on land oil blocks in Myanmar in 2013 which have strengthened its presence in the south-east Asian nation. OVL has stakes in the A-1 and A-3 gas discovery blocks and three other offshore acreages in Myanmar. The Ministry of Energy, Myanmar has awarded 13 blocks onshore blocks, out of which OVL received Blocks B-2 (Zebyutaung-Nandaw) and EP-3 (Thegon-Shwegu) for exploration. In order to attract FDI in its production sharing contract (PSCs), Myanmar has plans to reduce the income tax rate from 30 per cent to 25 per cent and extend an existing three year tax holiday to five years. OVL has also been pre-qualified to bid for 30 offshore oil and gas blocks in Myanmar.

Major Indian investments in Thailand are in automobiles, electrical and electronic products, hotels and financial services. For instance, Tata Motors Ltd. has JV with Tata Motors Thailand Ltd., which has invested about US\$ 216.05 million (about 52.5 per cent of total India's FDI stock in Thailand) between 2008 and 2016 (Table 10 and Box 4).

Table 10: Indian Firm-wise Top Investments in Thailand (2008-2016)

(US\$ million)

Indian Firm	Foreign Firm	JV/ WOS	Major Activity	Value	Share in Total India's FDI Stock in Thailand (%)
Tata Motors Ltd.	Tata Motors Thailand Ltd	JV	Manufacturing	216.05	52.5
NRB Bearings Ltd	NRB Bearings (Thailand) Ltd	WOS	Wholesale, Retail, Restaurants and Hotels	67.19	16.3

Table 10 continued...

Table 10 continued...

Yash Jewellery P Ltd	Ansari Co. Ltd	JV	Manufacturing	27.00	6.6
ACG Associated Capsules Private Limited	ACG Capsules (Thailand) Co Ltd	WOS	Manufacturing	10.58	2.6
Rajratan Global Wire Ltd	Rajratan Thai Wire Co.Limited	WOS	Wholesale, Retail, Restaurants and Hotels	9.70	2.4
Mahindra Holidays & Resorts India Ltd	Infinity Hospitality Group Co Ltd	JV	Wholesale, Retail, Restaurants and Hotels	8.97	2.2
Klj Organic Ltd	Klj Organic (Thai Land) Limited	WOS	Manufacturing	6.91	1.7
Infosys BPO Ltd	Infosys BPO (Thailand) Ltd	WOS	Finance, Insurance and Business Services	6.90	1.7
Adani Welspun Exploration Ltd	Oil and Gas Exploration Block	WOS	Manufacturing	6.50	1.6
Polyplex Corporation Ltd	Polyplex (Thailand)Ltd.	JV	Manufacturing	5.17	1.3

Source: Author's calculation based on RBI data.

Box 4: Tata Motors Investment in Mekong Subregion

Tata Motors is India's largest automobile company established in 1945 as Tata Engineering and Locomotive Co. Ltd. to manufacture locomotives and other engineering products. It is the leader in commercial vehicles in each segment, and is among the top three in passenger vehicles with winning products in the compact, midsize car and utility vehicle segments. The company is the world's fourth largest truck manufacturer, and the world's second largest bus manufacturer. Tata Motors has also emerged as an international automobile company. Tata Motors has a substantial presence in Bangladesh, Nepal, Myanmar, Bhutan, Afghanistan, Indonesia, Malaysia, Philippines, Thailand and Vietnam. In 2006, Tata Motors entered into joint venture with Thonburi Automotive Assembly Plant Company of Thailand to manufacture and market the company's pickup vehicles in Thailand. The new plant of Tata Motors (Thailand) has begun production of the Xenon pickup trucks. Tata Motors manufacturing plant in Thailand could access the ASEAN and the Chinese markets through the Free Trade Area (FTA) treaties. The entry of Tatas into Thailand would also pave the way for other Indian auto players to explore manufacturing opportunities in this country. Tata Motors has plans to increase the range of its products along with the sales and service networks in Thailand.

Vietnam is the emerging investment destination for most of the Indian firms. Unlike other Mekong countries, there are many Indian firms invested in manufacturing, construction, agriculture and mining and garment sectors both through JV and WOS. Manufacturing remains a significant destination of FDI, accounting for 70 per cent of all FDI inflows since 2008 (Table 11). Low labour cost and trade barriers make Vietnam a major investment destination. Some of the major Indian investors in Vietnam are Marico, ONGC Videsh, Tata Power, Star Engineers, Gimpex Overseas, Manohar Filaments, Polaris Software, Premco Global, RK Marble, Spica Elastic, etc. Marico Industries has invested about US\$ 54.72 million between 2008 and 2017 (up to March) in Vietnam; one of the largest investors in Vietnam during 2008 and 2017 (up to March). Marico has been catering to varied categories of fabric care, hair care, edible oils, skin care, male grooming, and health foods. Marico has also acquired 85 per cent equity stake in International Consumer Products Corporation (ICP) to produce cosmetics and food products (Box 5).

Table 11: Indian Firm-wise Top Investments in Vietnam (2008-2016)

(US\$ million)

Indian Firm	Foreign Firm	JV/ WOS	Major Activity	Value	Share in Total India's FDI Stock in Vietnam (%)
Marico Industries Limited	International Consumer Products Corporation	JV	Manufacturing	54.72	27.3
R K Marble P Ltd	RK Marble (Vietnam) Limited	WOS	Construction	45.64	22.7
ONGC Videsh Ltd.	Petroleum Production Sharing Contract In Vietnam	JV	Manufacturing	30.58	15.2
ONGC Videsh Ltd.	Block 128 Oil And Gas Exploration Project Vietnam	WOS	Manufacturing	19.47	9.7
CCL Products (India) Ltd	M/S. Ngon Coffee Company Limited	JV	Manufacturing	7.00	3.5
Wolkem India Ltd.	Lam Hang Transportation Services And Trade Co Ltd.	JV	Agriculture and Mining	5.75	2.9

Table 11 continued...

Table 11 continued...

Uttara Foods & Feeds Pvt. Ltd.	Venky's (Vietnam) Co. Ltd.	WOS	Manufacturing	5.23	2.6
Tufropes Private Limited	Tufropes Vietnam Company Ltd	WOS	Manufacturing	5.22	2.6
Bola Surendra Kamath And Sons	Bola Vietnam Company Limited	WOS	Manufacturing	2.90	1.4
Spica Elastic Pvt Limited	Spica Elastic Vietnam Company Limited	WOS	Manufacturing	2.80	1.4
Premco Global Limited	Premco Global Vietnam Company Limited	JV	Manufacturing	2.65	1.3
Wolkem India Ltd.	Wolkem Vietnam Limited	JV	Agriculture and Mining	2.40	1.2
Tex Corp Ltd	Tex Vietnam Co Ltd	WOS	Manufacturing	2.40	1.2

Source: Author's calculation based on RBI data.

Box 5: Investment of Marico in Mekong Subregion

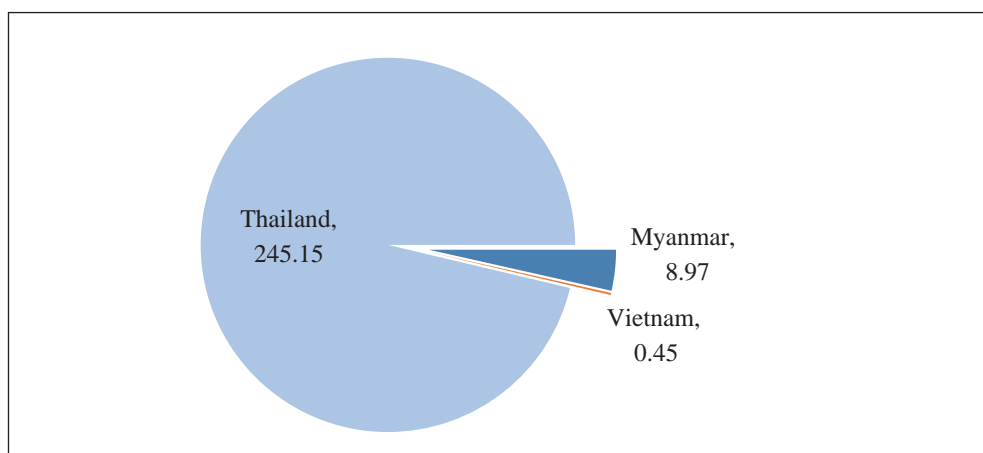
Marico Limited is one of the leading companies of consumer products in India. It operates in the space of beauty and wellness and is present in emerging markets of twenty five nations of Asia and Africa. During the financial Year 2015-2016, it has charted an annual turnover of Rs. 61 billion across the company portfolio. Some of the well-known Marico India business household brands are Parachute, Saffola, Nihar, Livon, Set Wet, Mediker, etc., which add value to the life of 1 in every 3 Indians. Marico entered the Vietnam market in February 2011 after acquiring 85 per cent equity stake in International Consumer Products Corporation (ICP). ICP is one of the most successful Vietnamese FMCG companies founded by Dr. Phan Quoc Cong and his partner in 2001. It owns many brands which have a significant existence in the personal care, beauty, cosmetics and foods categories. The X-Men brand, a chief player in the male grooming segment in Vietnam, is one of the most trusted personal care brands in the country. It has captured around 40 per cent market share of the men's shampoo category and has now extended its presence to other segments of male grooming for instance deodorants and shower gels. L'Ovite is the company's premium cosmetics brand which ranks amongst the top premium cosmetics brands in Vietnam.

4.3 FDI from Mekong Countries to India

Inward FDI flow from Mekong countries to India has been low (Figure 7). Since 2000, only Thailand has invested about US\$ 245 million and contributed 0.09 per cent of total FDI inflows in India. Thailand is the 36th largest FDI partner in India. The major Thailand companies investing in India are Italian Thai Development Public Co., Ltd; Major Ciniplex Group Public Co., Ltd; Summit Auto Seats Industry Co., Ltd; Kaysorn Construction Co, Ltd; Preuksa Overseas Co., Ltd; AAPC (Thailand) Ltd; Thai Parkerizing Co., Ltd; Apline Electronic

of Asia Pacific Co., Ltd; Ajinomoto Co., Ltd (Thailand); DET International Holding Ltd. Thailand major production activities in India are auto parts, agro and food processing, IT and software, textiles and pharmaceuticals sectors. In case of other MGC countries, Myanmar and Vietnam have invested about US\$ 9 million and US\$ 0.45 million, respectively, during 2000 and 2016. Vietnam's FDI in India is mainly in distributing products for livestock, doing business in building materials, exporting beauty products and IT products.²

Figure 7: Mekong Countries' FDI Stock in India: 2000-2016*



Note: *US\$ million.

Source: UNCTAD Bilateral FDI.

4.3.1 FDI Policies of Mekong Countries

Mekong countries are liberal towards attracting FDI into their countries and offer attractive investment incentives and tax incentives for the investors (Table 12). However, MGC countries have their own priority sectors and offer special tax and non-tax incentives for foreign investors. India has liberalised FDI upto 100 per cent in all most all the sectors, barring few, but even liberalised upto 49 per cent in the sectors include defence, insurance, banking, and pension. The most common sectors where MGC have countries allowed FDI include agriculture and agro-processing industry, infrastructure related sectors, energy, mining, tourism, high technology intensive, education, health care, etc. In addition, Thailand invites investment in machinery and transport equipment, electronic industry, electric appliances, chemicals, paper and plastics, whereas, Vietnam invites investment in textiles and garments, metallurgy and chemicals, ecology and environment protection and Labour intensive projects. Therefore, India and Mekong countries have covered many sectors to attract intra-regional investment and offer both tax and investment incentives to benefit each other.

Table 12: FDI Sectors and Policies in MGC Countries

	Sectors	Investment Incentives	Tax Incentives
India	Agriculture, Plantation, Mining, Manufacturing, Broadcasting, Banking, Railways, Construction, Pharmaceuticals, Plantation, Civil Aviation, Petroleum and Natural Gas, Defence, Telecom, Insurance, Pension, Power Exchanges and Banking	<ul style="list-style-type: none"> Allows 200 per cent deduction on in-house R&D facility Goods imported for R&D purpose receive incentives Incentives on Export turnover of US\$ 3 million in the preceding year for R&D Investment allowance at the rate of 15 percent to manufacturing companies that invest more than US\$ 14 Million in plant and machinery. Electronics, Modified Special Incentive Package Scheme(M-SIPS) is available 	<ul style="list-style-type: none"> FDI in SEZ units eligible for 15 year tax holidays in a phased manner Value added tax (VAT) exemption on the purchase of goods within the state. Service tax exemption for services received by the SEZ for authorised operations. Custom exemption on Goods imported for authorized operations Excise duty exemption on all goods brought from the DTA into an SEZ unit to carry out authorized operations. Exemption/Refund of various indirect taxes such as customs duty, excise duty and Central Sales Tax (CST) on the procurement of capital goods and inputs (as the case be) for permitted operations
Cambodia	Agro-industry and processing Industry, Infrastructure, Energy, Export-oriented industries, Technology intensive industries	<ul style="list-style-type: none"> Profit tax exemption upto 9 years in selected sectors, investment in SEZs and EPZ, Incentive on VAT exemption in SEZs within 20 km from the official border. Allows foreign investors to employ foreigners up to 10 per cent of total workforce. Foreign investor can own 100 per cent of their business with a long term lease up 99 years of land. 	<ul style="list-style-type: none"> Corporate Income Tax (CIT) exemption for up to 9 years Exemption from Minimum Tax. Special tax depreciation rate of 40 per cent for the first year of use of the asset.

Table 12 continued...

Table 12 continued...

Lao PDR	Education, Health care, Real Estate sectors, Hydroelectric Power, Mining, Tourism and Infrastructure related sectors.	<ul style="list-style-type: none"> Exemption from import duties on imported raw material, equipment, spares parts and vehicles. Loss can be carried forward for three consecutive years. Exemption from export duty on export products; Foreigners can have access to local financial sources; Foreign Invested Companies can own land for building their residences. 	<ul style="list-style-type: none"> CIT exemption for 1 – 10 years based on location Additional tax holidays, reduced tax rates for large projects with special concession are available upon negotiation and Exemption from profit tax in the next accounting year
Myanmar	Hydrocarbons, Oil and Gas exploration, Agro-technology, Healthcare, Transport, Telecommunications and other Infrastructure related sectors, etc.	<ul style="list-style-type: none"> Ability to carry forward and set off losses up to three consecutive years Right to carry forward and set off losses up to 3 consecutive years within 2 year the loss is sustained. Land lease up to 50 years plus 2 renewals of 10 years each. 	<ul style="list-style-type: none"> Exemption from Profit tax, if the firm reinvested the fund within one year. Exemption on Profit tax of 50 per cent for the export of goods Exemption from commercial tax on export-oriented commodities. The right of foreign employee to pay personal income tax at the same rate applicable to Myanmar Citizen Exemption or relief from customs duty, licensing requirements and internal spare parts and materials used in the business during the initial period/ period of construction and also on the import of raw materials imported within the first three years' of commercial production following start up/ the completion of construction.

Table 12 continued...

Table 12 continued...

Thailand	<p>Agriculture and Agricultural products, Mining, Ceramics and Base Metals, Light Industry, Metal Products, Machinery and Transport Equipment, Electronic Industry and Electric Appliances, Chemicals, Paper and Plastics, Services and Public Utilities, etc.</p>	<ul style="list-style-type: none"> • Permit for foreign nationals for the purpose of studying investment opportunities • Permit to bring skilled workers and experts to work in investment promoted activities • Permit to own land • Permit to take out or remit money abroad. 	<ul style="list-style-type: none"> • Tax incentives for the specific sectors related to high-tech industries such as Biotechnology, R&D, Engineering design, etc. These companies can also avail the exemption of corporate income tax for a maximum of 8 years. Additional 5 years 50 per cent deduction of corporate income tax, double deduction for transportation cost, electricity and water supply, and additional deduction of facilities improvement cost. • Reduction of import duties for raw or essential materials • Exemption of import duty on raw or essential materials imported for use in production for export.
Vietnam	<p>High-technology industries, Energy, Electronics, Infrastructure, Textiles and Garments, Automobile, Educational Training and Healthcare, Metallurgy and Chemical industries, Agricultural, Fishery and Forestry Production, Ecology and Environmental Protection, etc.</p>	<ul style="list-style-type: none"> • Incentives for projects in high-technologies and supporting industries; and agriculture and rural areas. • Exemption from Import duty on imported machinery, equipment and raw materials. • Exemption from land rental from 3 years to the duration of the project. • Incentives for (Build-Operate-Transfer) BOT projects. • Incentives for Special Economic Zones. 	<ul style="list-style-type: none"> • Preferential tax rate of 10 per cent, 15 per cent and 20 per cent • Corporate Income Tax (CIT) exemption for the first 2 or 4 years. • 50 per cent CIT reduction after the CIT exemption period expired.

India has signed 83 bilateral investment treaties (BITs) since 1994, of which 72 are in force. The major features of BIT are applicability (i.e. BITs apply to existing and future investments till the date on which India entered into the BIT), fair and equitable treatment and full protection and security, national treatment and most-favoured nation treatment, expropriation, dispute settlement mechanisms, both between states and between an investor and a state. Among MGC countries, India has signed BIT agreement with all the countries, except Cambodia. Therefore, with BIT in place, MGC investors, particularly SMEs willing to have business collaboration in India, can avail the benefits.

Table 13: Bilateral Investment Agreements between India and ASEAN Countries

Parties	Type of agreement	Status	Date of signature	Date of entry into force
Brunei Darussalam-India	Bilateral Investment Treaties	In force	22-05-2008	18-01-2009
India-Indonesia	Bilateral Investment Treaties	Terminated	10-02-1999	22-01-2004
India-Lao PDR	Bilateral Investment Treaties	In force	09-11-2000	05-01-2003
India-Malaysia	Bilateral Investment Treaties	In force	01-08-1995	12-04-1997
India-Myanmar	Bilateral Investment Treaties	In force	24-06-2008	08-02-2009
India-Philippines	Bilateral Investment Treaties	In force	28-01-2000	29-01-2001
India-Thailand	Bilateral Investment Treaties	In force	10-07-2000	13-07-2001
India- Viet Nam	Bilateral Investment Treaties	In force	08-03-1997	01-12-1999

Note: # Cambodia and Singapore's data are not available.

Source: Investment Policy Hub, UNCTAD.

Double Taxation Avoidance Agreements (DTAAs) are intended to make a country an attractive investment destination by providing relief on dual taxation. For instance, DTAA helps the tax payers to avoid being taxed twice for the same income when a tax-payer resides in one country and earns income in another. Such relief is provided by exempting income earned abroad from tax in the resident country or providing credit to the extent taxes have already been paid abroad. DTAAs also provide for concessional rates of tax in some cases. India has DTAAs with 88 countries, out of which 86 are in

force. In case of MGC countries, except for Cambodia and Lao PDR, India has DTAAAs with Thailand, Vietnam and Myanmar (Table 14).

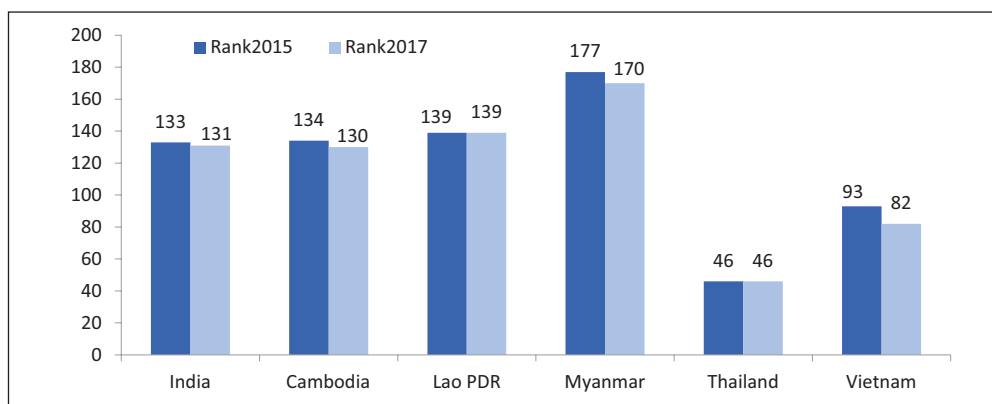
Table 14: Double Taxation Avoidance Agreement between India and Mekong Countries

Country	Date of Implementation (in force)
India-Myanmar	1st April 2010
India-Thailand	1986
India-Thailand	13th October 2015
India-Vietnam	2nd February 1995

Source: Income Tax Department, Government of India.

Ease of doing business is one of the important factors to attract FDI. Therefore, foreign investors closely look at the country's performance in *Ease of Doing Business*, reported by the World Bank, to access the quality of business environment, investment climate at the border level, quality of law and regulations, availability of resources such as land, credit, electricity, etc., and labour market regulations, protection and dispute settlements for the investors. In this regard, MGC countries are trying to improve their regulatory environments for investors to start a business at par with developed countries. Over the period, MGC countries have shown significant progress in improving the rank of *Ease of Doing Business* (Figure 8). Thailand still retains its ranking at 46 in 2017, followed by Vietnam, which has significantly improved its ranking and moved up from 93 in 2015 to 82 in 2017. Similarly, both Myanmar and Cambodia have moved up in rankings considerably, whereas, Lao PRD has retained its position at 139 in 2017. India's rank has moved up from 133 in 2015 to 131 in 2017 due to series of initiatives taken by the Government of India (see Box 7). Therefore, Mekong countries are active in attracting FDI through reforms and effective governance.

Figure 8: Ease of Doing Business Rank of MGC Countries



Source: Doing Business, The World Bank.

Box 7: Moving Up in Ease of Doing Business in India

According to the World Bank's *Ease of Doing Business Report*, India's ranks moved up from 131 in 2015 to 134 in 2017. The improvement in global ranks suggests that the Government of India's various ambitious programme of regulatory reform undertaken are making it easier to do business in India, particularly, the rank of 'Starting a Business' has improved from 164 in 2015 to 155 in 2017 due mainly to reducing the number of procedures and time taken to start a business in India. Similarly, the rank of indicator of 'Getting Electricity' has improved from 99 in 2015 to 26 in 2017 due to early approval (53 days) of electricity connection for a business. The reform measures create business-friendly environment for both domestic and foreign entrepreneurs. Some of the major initiatives are as follows:

Starting a business

- The requirement of Common company seal is eliminated.
- Can register the company within 1-2 working days.
- Early issue of PAN and TAN in T+1 day using digital signature. Will integrate processes for obtaining PAN, TAN, ESIC & EPFO registration with incorporation of company.
- Employees Insurance and Provident Fund (ESIC and EPFO) are made online.

Dealing with construction permits

- Introduction of fast track approval system for issuing building permits with features such as Common application form, provision of using digital signature and online scrutiny of building plans.

Trading Across Borders

- The Central Board of Excise and Customs (CBEC) has implemented 'Indian Customs Single Window Project' to facilitate trade. Importers and exporters can electronically lodge their customs clearance documents at a single point only with the customs.
- Reduction in the number of mandatory documents required by customs for import and export of goods

Getting Electricity

- Electricity connection in less than 15 days and require less number of documents for business.
- Online application for connections above 100 KVA has been made to reduce procedures, cost and time taken to obtain an electricity connection significantly.

Registering Property

- Registering property and all property tax records have been digitized in some of the states such as in Delhi and Maharashtra. The digitization of property records will reduce complexity and time; and ensure transparency.

Resolving Insolvency

- The Insolvency and Bankruptcy Code, 2016 will be introduced in Resolving Insolvency in India.

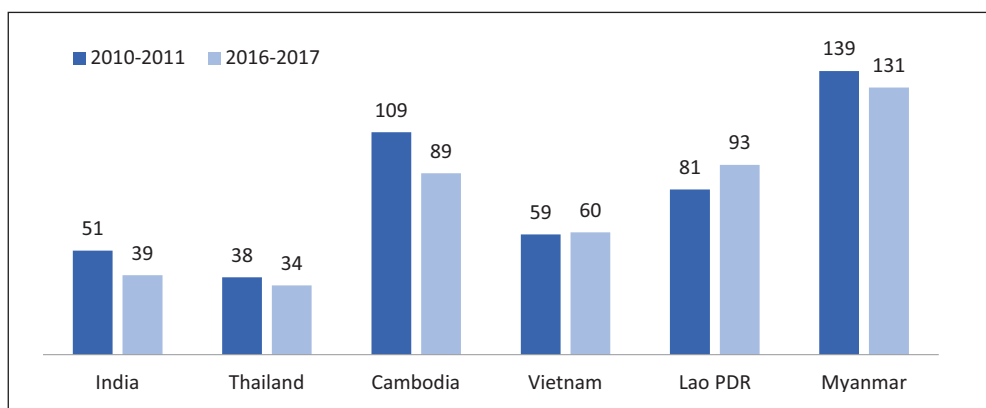
Paying Taxes

- Paying taxes made fully online for electronic return filing with online payment.
- E-Verification system will be made to avoid physical document submission to income tax authorities.
- Simplification in the forms for filing income tax return, VAT return, CST return, EPFO and ESIC return

Source: www.makeinindia.com

The other indicator that the investors widely use to compare between the countries is Global Competitiveness Index (GCI)³. GCI helps us understand the effectiveness of government's policy agendas towards improving performance and increasing productivity of an economy. GCI covers three broad parameters: (i) restoring basic requirement such as institution, infrastructure, macroeconomic environment and health and primary education; (ii) enhancing efficiency through higher education and training, market and labour efficiency, financial sector development and market size; and (iii) enduring innovation and sophistication factors. Among the MGC countries, Cambodia has moved up in GCI to 89th in 2016-17 from 109th in 2010-11, followed by Myanmar, which has moved up to 131st position in 2015-16 from 139th position in 2010-11. Thailand has moved up gradually to 34th in 2016-17, whereas Vietnam and Lao PDR have slipped to 60th and 93rd in 2016-17. In the case of India, it has climbed up consecutively in a row to reach 39th position in 2016-17 from 51st position in 201-11. The overall improvement in market efficiency, business sophistication, innovation, monetary and fiscal policy measures has made has strengthened India's position in GCI.

Figure 9: Global Competitiveness Index Ranking of MGC Countries



Note: for Myanmar, the data is reported for 2013-14 and 2015-16; for Lao PDR, the data is reported for 2013-14 and 2016-17.

Source: Global Competitiveness Index, World Economic Forum.

4.4 Policy Implications

There is a huge potential of FDI flows between India and Mekong countries. The presence of India's outward FDI in Mekong subregion is more visible, whereas, on the other, most of the inward FDI in India is from Thailand and Vietnam. Although FDI flows to Mekong countries have been high, intra-MGC FDI flow has been low. India's outward FDI in Mekong countries are actively engaged through Joint Ventures (JV) and Wholly-owned Subsidiaries (WoS) routes in agriculture and allied sector, energy (oil and gas exploration), manufacturing, automobiles, textiles, telecommunication, construction and

infrastructure related sectors. In view of India's global presence in ICT and financial services, India has advantages of investments in these sectors. With recent initiative such as 'Make in India', India is committed to attract foreign investment and to provide business friendly environment. India is also committed to improve the standard of ease of doing business. Therefore, Mekong countries have huge opportunities to invest in India, and most of sectors are now opened to all countries. However, to strengthen the intra-regional investment relations, there is a need of regional specific policy directions. Some specific policy recommendations are as follows:

(i) Initiate Business Facilitation Measures

There is an untapped opportunity for cross-border business collaboration. Both India and Mekong countries investors are eager to find local business partners for business development and local sourcing. Therefore, there is a need for India-Mekong Business Forum to create a platform in terms of encouraging business collaboration including business alliances or mergers and acquisition. The governments and industry associations have to coordinate in order to initiate India-Mekong business facilitation measures for promoting investment, competitiveness and knowledge-sharing.

(ii) Create Opportunities for Regional Investment Promotion

ASEAN Economic Community (AEC) aims to facilitate intra-regional trade and investment flows and drive towards deeper levels of integration. AEC provides harmonised custom system to enhance the potential of integrated supply chains across the region. Regional value chains in ASEAN countries offer opportunities for Indian investors to invest in manufacturing, R&D, sales and services across the region. India's relationship with the ASEAN countries and Mekong countries in particular would pave the way for deeper integration. Therefore, deeper levels of economic integration between India and Mekong countries would help to increase intra-regional FDI flows as well as overall FDI flows to and from the region.

(iii) Skill Enhancement

Mekong countries should promote an integrated framework for skill enhancement in their respective economies, particularly in those sectors where they are facing shortage of skilled manpower. This would also ensure the specific need of high-skilled workforce for a competitive export sector, particularly, meeting the challenges for the Mekong countries to upgrade the technology, increase in productivity and move up with the other emerging developing countries. Therefore, government should also focus on human capital. There is also a need for Mekong cooperation in capacity building programmes, technical trainings, language proficiency to develop skilled

workforce that can cater to the needs of a foreign investor to meet the business needs.

(iv) Encourage Small and Medium Enterprises (SMEs)

SMEs play a significant role in the industrial and economic growth of developing countries. In a view of increasing role of global and regional value chains and production restructuring in Asia-Pacific, SMEs play a strong role in forward or backward linkages with foreign or domestic firms for the production of parts and components. SMEs engage in vertical linkages, directly or indirectly with foreign companies to produce goods and trade. Unlike large enterprises, SMEs face huge challenges in improving productivity due to lack of financial resources and human skills. Therefore, Mekong countries should give special emphasis to enhance the entrepreneurship, provide financial access, and support forums for SMEs to explore business relationships in their subregion.

4.5 Concluding Remarks

Mekong countries and India have introduced several important policy reforms over the last few decades to attract foreign direct investment. India, Thailand and Vietnam are three major sources of FDI in Mekong region. Among the MGC countries, Thailand and India lead in both inflows and outflows of FDI, followed by Vietnam. However, in terms of attracting FDI inflows, there is a steady rising trend in cases of Cambodia and Lao PDR. In terms of the potential sector for FDI, India, Thailand and Vietnam mostly have similar sectors such as construction, education, electricity, gas and water, finance, health and social services, hotels and restaurants, business activities, transport, storage and communications, machinery and equipment, chemical products, etc. Cambodia and Lao PDR receive FDI in agriculture and hunting, mining and quarrying, textiles, clothing and leathers, food and beverages sectors. Launching ASEAN Economic Community (AEC) in 2015 and India's massive reforms in recent years have improved the investor sentiments. Several companies are now planning to expand their presence in MGC. India and Mekong countries have huge potential to attract intra-FDI flows. However, there is a need of supportive business environment to attract both large and SMEs, promote skills, initiate business facilitation measures, among others.

Endnotes

- ¹ In particular, the shock in 2008 due to Global Economic Crisis and in 2011 crisis due to European Union on debt crisis.
- ² Refer, for example, <http://fia.mpi.gov.vn/detail/3205/Indian-Investment-in-Vietnam>
- ³ According to the World Economic Forum (2016) Global Competitiveness Index (GCI) defined "the set of institutions, policies, and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the country can achieve".

5

Mekong-India Connectivity: Fostering Integration

5.1. Introduction

The Act East Policy (AEP) is an effort to intensify India's engagement with Southeast and East Asia. India's proactive role in building a common market with an ambitious but realistic connectivity programme is the key focus of AEP.¹

India and ASEAN are home to 1.8 billion people and have an economic size of US\$ 3.8 trillion and have a substantial share of world resources, economic and otherwise.² With a free trade agreement (FTA) in goods in 2010, ASEAN and India have created a large economic area, the first major step towards creating an ASEAN-India regional trade and investment region. In 2016, both India and ASEAN-6 completed their major trade liberalization obligations. Building a common market may be achieved, provided trade liberalization is adequately complemented by effective trade facilitation and connectivity (Francois et al., 2009; Bhattacharyay et al., 2012).

Since the middle of the past decade, India's regional connectivity with ASEAN (and also with MGC) has been following two major openings: (a) soft connectivity, such as the Trilateral Motor Vehicle Agreement (Trilateral MVA); and (b) hard connectivity, such as the Trilateral Highway (TH), the Mekong-India Economic Corridor (MIEC), ASEAN-India digital links, among others.³ While the first route may lead to paperless trade, the second may help in facilitating seamless trade between them. At the same time, India's connectivity with ASEAN has been evolving primarily through two structures: (a) national connectivity, such as the Golden Quadrilateral (GQ) projects, the Delhi-Mumbai Industrial Corridor (DMIC) and the Dedicated Freight Corridor (DFC); and (b) regional connectivity such as the Trilateral

Highway and MIEC. India's regional connectivity with ASEAN (and MGC) has been evolving along two parallel paths – northeastern India for multimodal and intermodal operations, and southern India for multimodal operation. Although still at the initial stage of development, India's connectivity with ASEAN may turn out to be a great facilitator of pan-Asian integration in the coming years (Kimura and Umezaki, 2011; De, 2014).

5.2. Act East Policy and Connectivity

India has moved on to the Look East Policy Phase II, which is also termed as the Act East Policy (AEP),⁴ in its efforts to intensify India's engagement with Southeast and East Asian countries. Unveiled in 2014, the Act East Policy incorporates a greater degree of action and dynamism. Under AEP, India aims to play a proactive role in Southeast and East Asia. For example, both ASEAN and India are keen to build a common market with an ambitious but realistic connectivity programme, which is also another focus of AEP. ASEAN is at the core of AEP.

Connectivity is important, but converting the connectivity corridor into an economic corridor is the main challenge for India (RIS, 2012). The newly-launched AEP outlines an ambitious plan for building economic corridors, linking India with Southeast Asia. For example, the Government of India has been working with ASEAN to enhance physical connectivity via India's northeastern region and eastern seaboard. The India-Myanmar-Thailand Trilateral Highway, which is under implementation, will dramatically reduce travel time across borders and will open up numerous cross-border opportunities for trade and investment. Industrial clusters located along the connectivity corridor could emerge as economic nodes.⁵

More business dimensions have been gradually added in the connectivity-driven integration through AEP. For example, the State Government of Manipur is planning to build a township very close to the Moreh border (with Myanmar). A food park has been set up on the outskirts of Imphal city in Manipur and an SEZ is proposed at Thoubal in Manipur, which once completed, could become a major processing centre for fruit, pulses and other agricultural products.

Small and Medium-sized Enterprises (SMEs) drive such business – within and across borders. Earlier, there was no effort to engage SMEs in India-ASEAN integration activities. Under AEP, however, special focus has been placed on SMEs, which can build effective business networks across borders. To support the financing of such projects, India has announced creation of a Special Facility for project financing and quick implementation of connectivity projects with ASEAN. The SPV seeks to provide a framework whereby Indian

industry could receive government support for investments in connectivity projects with the ASEAN region, including the building of back-end linkages in India's northeastern region. The Special Facility would have provision of US\$ 1 billion during a 10-year period, and seek to catalyse investment to the tune of US\$ 10 billion from the Indian private sector during the same period. India has also established a US\$ 50 million project development fund. This initiative is expected to provide a fillip to trade and investment as well as help in integrating producers and manufacturers with regional value chains.

India has signed several bilateral and regional trade agreements with Southeast and East Asian countries, in the form of FTAs, comprehensive economic cooperation agreements and comprehensive economic partnership agreements; of these, the FTA with ASEAN is the most important in strengthening economic relations with Southeast Asia including Mekong countries.⁶ Although negotiations for a trade in services and investment agreement have been completed, it is yet to be implemented. At the same time, India is a partner of the Regional Comprehensive Economic Partnership (RCEP), which is a comprehensive free trade agreement being negotiated between the 10 ASEAN members and ASEAN's FTA partners, i.e. Australia, China, India, Japan, the Republic of Korea and New Zealand.⁷

To unlock the huge trade potential between India and Mekong countries, India and Mekong countries have to remove the impediments to trade and investment such as the high non-tariff barriers, lack of connectivity (physical, digital and social) and regulatory barriers. India and Mekong countries need to continue strengthening regional connectivity and integration, particularly through cross-border infrastructure. Building connectivity may help India to strengthen its manufacturing sector.

Stronger connectivity across the NER will build a stronger network of cross-border production chains, particularly with Southeast Asia and Bangladesh (De, 2014). Success of connectivity, however, will depend on how quickly it brings peace and prosperity, particularly to the northeastern states. Once connectivity projects start attracting investment, engaging development of the region and improving the quality of life of the local people through generation of employment and reduction of poverty, they become true public goods and culminating in an economic corridor.

5.3. India's Major Land Connectivity Projects with MGC

The corridors for linking the NER of India with Southeast Asia considered in this section are (a) the Trilateral Highway, (b) the Kaladan Multimodal Transit Transport Project and (c) the development of the Rhi-Tidim road. Although development work has started in most of the areas concerned on

the Indian side, container-enabled connectivity is the missing link that needs to be included.

Some of the ongoing projects are as follows: (a) the development of the Rhi-Tidim road (b) strengthening the bridges under the Trilateral Highway, and (c) the Zorinpui-Paletwa road in Myanmar under the Kaladan project. Apart from these corridors, the NER States of India are also implementing inter-state road development projects with the funding of Japan International Cooperation Agency (JICA), Asian Development Bank (ADB), World Bank, etc. Chittagong Port with Sabroom in Tripura will open up an effective connection for the NER. In addition, MIEC and the Sittwe Economic Zone are two important projects that would facilitate multimodal connectivity and investment. As mentioned earlier, Indian Prime Minister has announced a special facility of US\$ 1 billion to promote projects that support physical and digital connectivity between India and ASEAN with particular focus on Mekong countries.

(a) Road Development Projects in Northeast India

A network of roads linked to waterways has the potential to bring back much-needed economic activities in the Northeastern region. The North-Eastern States Roads Investment Programme was developed in parallel with the Government of India's Special Accelerated Road Development Programme in the North-Eastern Region (SARDP-NE), which aims to provide better connectivity to the State capitals and district headquarters in the NER by developing two-lane national highways and improving State roads. The ADB's Investment Programme was designed to complement SARDP-NE, by (a) focusing on improvements to intra-State connectivity (mainly to district headquarters and other places of administrative and economic importance in the individual States), and (b) enhancing the capacity of state public works departments to manage their road assets.⁸

On 17 February 2014, the Government of India and the ADB signed a US\$ 125 million loan for the second tranche of the ADB-financed North-Eastern States Road Investment Programme, approved in 2013. Reconstruction and rehabilitation of more than 236 km of State roads in Assam, Manipur, Mizoram and Tripura will contribute to the increase of transport efficiency in the project area as well as better mobility and accessibility in the wider NER. The second tranche adds to the 200 km of State roads already being improved under the first tranche of the investment programme, approved in 2011.

Better roads in the region will significantly improve the investment climate for the private sector, both domestic and foreign. Increased mobility and accessibility for many of the isolated communities in the project area may help to open up new economic opportunities, boost growth and reduce

poverty. In addition to ADB's loan of US\$ 125 million, the Central and State Governments of India have committed counterpart financing of US\$ 32 million. The second tranche of the investment programme is expected to be completed by March 2020.

Japan is keen to fund two more road projects in India's Northeast. Japanese Official Development Assistance (ODA) loan has also been provided in order to carry out the improvement of National Highways in NE⁹. Funding for improvement of two important sections in national highways is already under consideration that would provide vital links to Bangladesh and Myanmar.¹⁰

The World Bank has already sanctioned US\$ 107 million to connect Mizoram with Bangladesh and Myanmar via roads. The project funds construction of 91 km of roads that are design-ready. Roads that will be widened or strengthened include (i) a 22 km section of Lunglei-Tlabung-Kawrpuchhuah road on the border with Bangladesh; (ii) the 27.5 km Champhai-Zokhawthar road on the border with Myanmar; and (iii) the 41.7 km Chhumkhum-Chawnge North-South alignment connecting to the border roads with Bangladesh to the west and Myanmar to the south¹¹. This project is being financed by a credit from the International Development Association (IDA) – the World Bank's concessionary lending arm – which provides interest-free loans with 25 years to maturity and a grace period of five years.

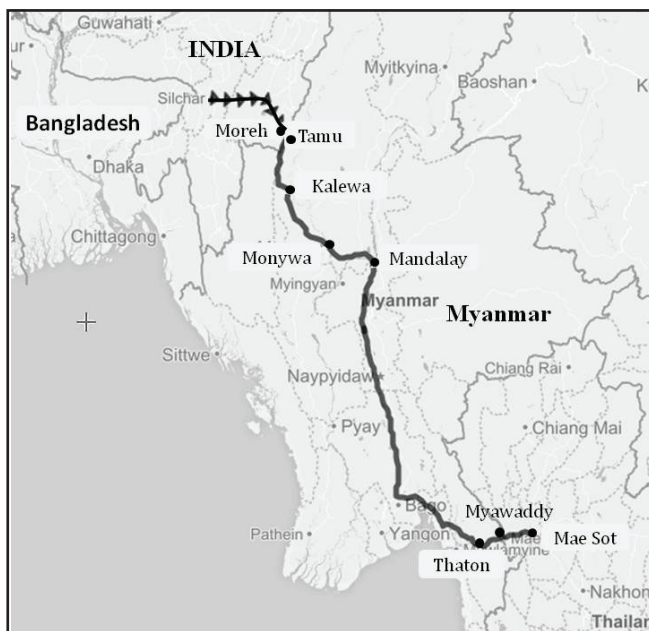
(b) Trilateral Highway and Trilateral MVA

Myanmar is termed as the land-bridge between South and Southeast Asia. The India-Myanmar-Thailand Trilateral Highway (Trilateral Highway) is a cross-border transportation corridor. This highway links Moreh (in India) with Mae Sot (in Thailand) through Mandalay (in Myanmar). The alignment of this trilateral highway falls within Asian Highways 1 and 2. Shown in Map 1, the agreed route of the TH (1,360 km) is as follows: Moreh (India)-Tamu-Kalewa-Yargi-Monywa-Mandalay-NayPyi Taw-Yangon-Thaton-Hypaan-Kawkaik-Myawaddy-Mae Sot (Thailand). Along this corridor, there are two border crossings (India-Myanmar and Myanmar-Thailand), four customs check-points, three international time zones, three customs EDI systems, two different vehicle driving standards, and three different motor vehicle laws. Challenge is to reach convergence in these standards and procedures along the corridor.

On the Trilateral Highway, the Tamu and Kalewa Friendship Road was constructed with India's assistance. About 132 km has been completed and handed over to Myanmar. Thailand has completed its part of the Trilateral Highway. India has also undertaken the task of repairing/upgrading 69

bridges on the Trilateral Highway, and upgrading the 120 km Kalewa-Yargyi road segment to highway standard. Myanmar has completed the upgrading of the Yargyi to Monywa stretch of the highway. This project will help in establishing trilateral connectivity between India and Mekong countries. India has also announced the extension of the Trilateral Highway to Cambodia, the Lao PDR and Vietnam.

Map 1: Trilateral Highway



Source: AIC at RIS.

The Trilateral Motor Vehicle Agreement (Trilateral MVA) is being negotiated. This Agreement will allow vehicles and passengers to move seamlessly for regional and international trade transportation purpose along the Trilateral Highway. The MVA shall provide a series of procedures that would facilitate movement of cargoes and passengers along the corridors such as operating procedures (OP) for vehicles, customs procedures, etc. and facilitation measures. The MVA will also provide the transit and transportation rights and obligations through Annexes and Protocols. This agreement will have a critical role in realizing seamless movement of passenger, personal and cargo vehicles along Trilateral Highway.

(c) Kaladan Multimodal Transit Transport Project (KMTTP)

One of the objectives of the Kaladan Multimodal Transit Transport Project (KMTTP) is to provide easy access from the Bay of Bengal to landlocked

Northeastern India, particularly Mizoram state of India. India's Ministry of External Affairs entered into a Framework Agreement with the Government of Myanmar in April 2008 to facilitate implementation of the project. Illustrated in Map 2, the components of this project include: (a) construction of an integrated port and inland water transport terminal (IWT) at Sittwe, including dredging; (b) development of navigational channel along the Kaladan River from Sittwe to Paletwa (158 km); (c) construction of an IWT-highway transshipment terminal at Paletwa; (d) construction of six IWT barges (each with a 300-tonne capacity) for transporting cargo between Sittwe and Paletwa; and (e) building a highway (109 km) from Paletwa to the India-Myanmar border (Zorinouri) in Mizoram. The Framework Agreement and two protocols (Protocol on Transit Transport and Protocol on Maintenance) were signed by India and Myanmar on 2 April 2008. Construction of the integrated port at Sittwe has been completed in 2016. Construction work of the IWT terminal at Paletwa was started in April 2013 and is expected to be completed by 2017.

Map 2 : Kaladan Multimodal Transit Transport Project (KMTTP)



Source: IWAI, New Delhi.

On the Indian side, construction of 100 km of new road from Lawngtlai in Mizoram state on NH 54 to the India-Myanmar border has been taken up under SARDP-NE Phase A. The road from the India-Myanmar border (Zorinpuri) to NH 54 (Lawngtlai) in Mizoram is in progress as part of the initiatives of the Ministry of Road Transport and Highways, Government of India, and is also termed as National Highway 502A (NH 502A). About 66

per cent of the new 99.83 km NH 502A, starting from NH 54 at Lawngtlai to Zorinpui in Mizoram, has been completed and the whole stretch should be operational by June 2018.¹² However, the 109 km road from Zorinpui on the India-Myanmar border to Paletwa in Myanmar is yet to be completed. In 2015, the Government of India approved the revised cost estimate (about Rs.29 billion) for construction of the KMTTP.

(d) Sittwe Economic Zone

It has been proposed to locate the Sittwe Economic Zone (SEZ) at Ponnar Kyun, 18 km upstream of Sittwe port. Situated at the mouth of Kaladan River, Sittwe port is being developed by India as a part of the KMTTP. The Government of Myanmar has identified about 1,833 acres of land at Ponnar Kyun for setting up this SEZ. The Kaladan river provides easy maritime connectivity with the region. Agro-industry and fisheries are likely to have good development potential in the region. This SEZ may accommodate industrial projects that cater to both the local and the larger Indian markets. Building the SEZ will not only benefit Sittwe port and the corridor, but would also create economic opportunities in Myanmar's Rakhine and Chin states. This economic zone may accommodate industrial projects that can cater to both the local and larger Indian markets. It could host Indian companies wanting to invest in Myanmar. Therefore, future connectivity through Myanmar would then mean intermodal links from the Indian coast in the Bay of Bengal to Vietnam's coast in the South China Sea, and beyond.

(e) Mekong-India Economic Corridor (MIEC)

Another important cross-border connectivity project is the Mekong-India Economic Corridor (MIEC), which involves integrating four Mekong countries, i.e. Myanmar, Thailand, Cambodia and Vietnam, with India. It will connect Ho Chi Minh City (Vietnam) with Dawei (Myanmar) via Bangkok (Thailand), Phnom Penh (Cambodia) and Chennai in India. The major part of the necessary investment is for the development of a deep-sea port at Dawei and SEZ. This corridor, when completed, is expected to augment trade with India by reducing the travel distance between India and Mekong countries and by removing supply-side bottlenecks. The emphasis of the corridor will be on expanding the manufacturing base as well as trade with the rest of the world, and particularly with India. The corridor will enable ASEAN economies and India to integrate further and collectively emerge as a globally competitive economic bloc.¹³

(f) Delhi-Hanoi Railway Link

Railways account for bulk transnational movement of goods and services

among India's neighbouring countries. In this regard, the needs are fourfold: (a) to link Manipur with India's main railway corridor; (b) to link Imphal with Kalay in Myanmar (about 212 km); (c) to link Thanbyuzayat with the Three Pagoda Pass in Thailand (110 km); and (d) to re-establish and renovate railway networks in Myanmar. Harmonisation of railway tracks in the region is essential. Without having a compatible and strong railway system inside Myanmar, closer communication would be difficult. The Government of India Enterprise RITES has completed a preliminary study to establish Delhi-Hanoi railway link in 2006. Although railways are in service in major parts of these routes, there are about 238 km of missing links that needs to be built in Myanmar in order to enable a Delhi-Hanoi railway operation. The renovation of railway network systems in southern Myanmar (Yangon to Dawei) and northern Myanmar (Mandalay to Kalay) Myanmar is essential.

Indian Railways is actively engaged in harmonization and construction of railway tracks in NER. Projects for rail connectivity to the state capitals of Sikkim, Meghalaya, Mizoram, Manipur and Nagaland have been sanctioned by the Indian Railways. On 4 January 2014 the first Broad Gauge (BG) train from Guwahati to Tezpur via Rangiya started. The railway lines between Harmuti-Itanagar and Dudhnai-Mendipathar have already been completed in 2015. Broad Gauge railway train service from Agartala to rest of India has started operating. The Government of India has been constructing railway lines in Manipur. The Jiribam to Imphal rail link is currently under construction, and is likely to be completed by 2018. On completion of these projects, there could be possibilities for (i) India-Myanmar-Thailand-Malaysia-Singapore rail link, and (ii) India-Myanmar-Thailand-Hanoi rail link.

(g) Rih-Tiddim Road

The Rih-Tiddim road project aims to build connectivity between India's Mizoram state and Myanmar, and to enhance border trade. It will start from Zokhawthar Land Customs Station (LCS) (also known as Champai LCS) in Mizoram State of India and end at Rih in Myanmar. The road distance between Rih and Tiddim is about 80 km. India has allocated US\$ 60 million for this project. India's Ircon International has been asked to develop the 80 km Rih-Tiddim road. The construction of the Rih-Tiddim road is likely to be completed by 2020, which may provide another access to Trilateral Highway from the Mizoram State of India.

(h) ASEAN-India Digital Link

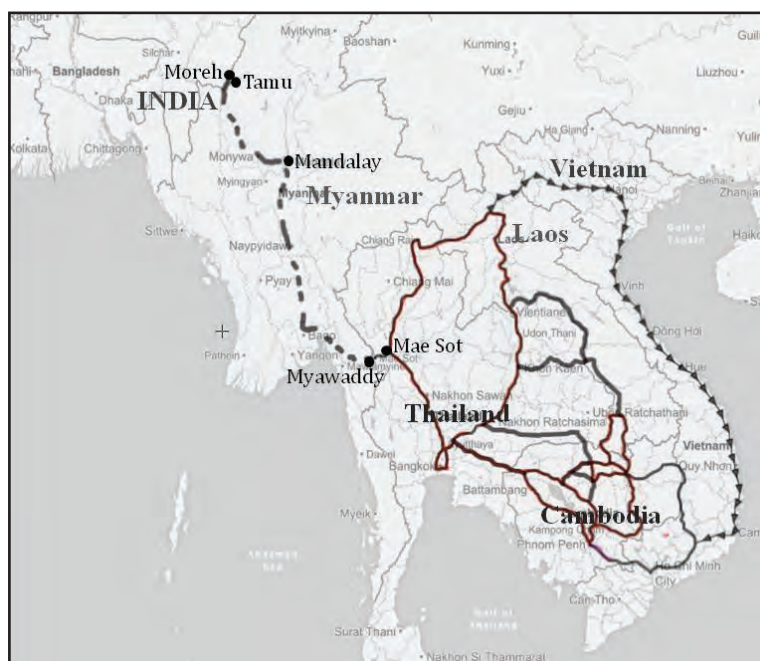
To improve the digital connectivity between ASEAN and India, India is setting up high speed fibre optic network through the use of Gigabit-capable Passive Optical Network (GPON) technology. The first meeting

between the telecom ministers of ASEAN countries and India was held in New Delhi on 20 February 2017. India is committed to provide financial as well as technological support for projects that could include high-speed fiber optic networks, digital villages, rural broadband, national knowledge network, secured communication networks and telecom training and skill development. The digital network will connect India with Mekong countries and Indonesia. It will help promote tele-medicine and tele-education beside leading to technological improvement.

(i) Extension of Trilateral Highway to Cambodia, Lao PDR and Vietnam

On request of Mekong countries, the Government of India has agreed to extend the Trilateral Highway (TH) to Mekong region. Three new developments in the Mekong region have opened up further opportunities to bring India closer to Southeast Asia without depending too much on existing routes. Three new bridges on the Mekong are being planned, which would enable faster road transportation directly to Lao PDR and Vietnam from Myanmar.¹⁴ The third bridge on Mekong river between Myanmar and Lao PDR is an alternative option for extending the TH from Myanmar to Lao PDR to Vietnam.¹⁵ In particular, the new Mekong bridge between Xiengkong (Lao PDR) and Kainglap (Myanmar) has already deduced the travel distance between India and the Mekong region. Illustrated in Map 3, the new route for the extension and/or new highway between India and Mekong region would be through Yangon, Meiktila, Tarlay, Kenglap (Myanmar), Xiengkong, Loungnamtha, Oudomxay, Deputachang (Lao PDR), Tay Trang, and Ha Noi (Vietnam).¹⁶ However, a section of Meiktila to Taunggyi to Kyaing Tong to Tralei is part of AH 2 and GMS corridor. Tarlay to Kainglap section (about 60 km) has to be rebuilt. The segment between Xiengkong and Muong Sing needs improvement since it is not an all weather road. While several proposals are underway, there is a need for a consolidated route alignment for bringing further clarity on the project. These corridors, when completed, are expected to augment trade in the region by reducing the travel distance between India and Mekong countries and removing supply side bottlenecks. The corridor would provide opportunities to Myanmar, Thailand, Cambodia, and Vietnam to build a strong economic and industrial base and a world class infrastructure. The emphasis of the corridor should be on expanding the manufacturing base and trade with the rest of the world, particularly with India. A Framework Agreement on extension of TH between India and Mekong countries may be signed. We may also consider setting up a Joint Working Group (JWG) for route survey, designing and implementation of the TH extension.

Map 3: Trilateral Highway Extension



Source: AIC at RIS.

5.4. Strengthening Air Services between MGC and India

Air transportation is an important mode to carry passengers, high-value fragile goods and perishable commodities from one place to another at a shorter time. Industries that rely mostly on air transport for their international freight shipments include high growth sectors such as pharmaceuticals, office equipment and electronic equipment sectors besides those that have high value to weight products. Therefore, high growth sectors in emerging markets are also among the most heavily dependent on the services of the aviation industry. Owing to the improvement in technological advancement, air transportation is recognised for its ability for multiple business activities and for stimulating economic development. MGC and India are seeking greater linkages to enhance economic, social and cultural exchanges.

The air traffic, both passenger and cargo, between ASEAN and India are governed by respective bilateral air services agreement (BASA) signed by India and partner countries over time.¹⁷ India has signed BASA with all the MGC (and ASEAN) countries. Airlines of Thailand, Singapore and Malaysia have been flying to major Indian cities such as Mumbai, Chennai, Kolkata, Delhi, Hyderabad and Bangalore. India has offered 18 additional points to ASEAN without any restriction as to frequency or aircraft and without being subject to any commercial agreement.¹⁸ The entitlements and offers vary

across BASA partners. On one hand, seats and frequency of air linkages with the Malaysia, Singapore and Thailand sectors are over-utilized; the same with CLMV, on the other, are largely underutilised.¹⁹

Today, out of 10 ASEAN countries, only five ASEAN countries namely, Malaysia, Myanmar, Singapore, Vietnam and Thailand have direct flight connection with India and vice versa. For the rest five ASEAN countries (Cambodia, Indonesia, Lao PDR, the Philippines, Brunei), there is no direct flight but have inter-connection from other airports, of which Indonesia and the Philippines are two prominent ASEAN countries with which India has substantial business and tourism interests, but they are yet to have direct air links. We are yet to witness ASEAN airlines to fly to India's Tier II and III cities. Indian airlines also do not connect them either. This imbalance needs to be corrected through greater cooperation not only at the government level but also through private sector collaboration. In order to facilitate the trade in parts and components, it is recommended to strengthen air services with ASEAN and MGC countries on priority basis.

Given the importance of global and regional value chains, there is a growing demand for on-time air cargo services. The entry of leading private air-cargo companies has brought in a wave of increasing automation, mechanisation and process improvement initiatives at major air cargo terminals in India. Such investments in air cargo handling at key airports such as Delhi, Mumbai, Bangalore, Hyderabad, Kolkata, etc. are expected to yield higher air cargo throughput and improved service levels. The current share of air cargo compared to other modes of cargo transportation is fairly low in India. We may consider airlines from Southeast and East Asia in air cargo to boost the regional and global trade. India has Open Sky Policy in air cargo for a long time.

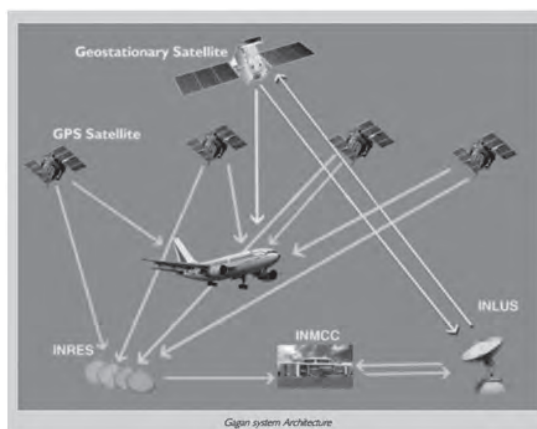
Air services could facilitate larger numbers of tourists between India and MGC countries. This is very important at a time when India has offered On Arrival Visa and e-visa to all the ASEAN countries, but India is yet to receive the same from some of the ASEAN countries. There is considerable interest from the ASEAN and MGC countries to visit Northeast and other parts of India on pilgrimage. To promote tourism, particularly in Tier II or Tier III cities, we shall encourage operation of more flights. Given the BASA we have and in view of 5th freedom rights of traffic, new air services may be explored in following sectors: (i) Guwahati → Dhaka → Yangon → Guwahati; (ii) Guwahati → Imphal → Mandalay → Guwahati; (iii) Guwahati → Bangkok → Guwahati; (iv) Imphal → Dhaka → Bangkok → Imphal; (v) Agartala → Bangkok → Agartala; (vi) Bagdogra → Dhaka → Bagdogra; (vii) Bagdogra → Bangkok → Bagdogra; (viii) Kolkata → Yangon → Bangkok → Kolkata; (ix) Kolkata → Port Blair → Phuket → Port Blair → Kolkata; (x) Vizag →

Kuala Lumpur → Vizag; (xi) Kolkata → Port Blair → Bangkok → Port Blair → Kolkata; and (xii) Gaya → Yangon → Gaya. The aforesaid routes may be negotiated with ASEAN and MGC countries under the BASA or through the proposed ASEAN-India Air Services Agreement.

Box 1: GAGAN: Satellite Based Navigation System

Global Positioning System Aided Government Navigation (GAGAN) is a satellite based navigation system to provide accurate navigation services over the Bay of Bengal, South East Asia, Indian Ocean, Middle East, and African regions. It is developed by Indian Space Research Organisation (ISRO) in collaboration with Airports Authority of India (AAI). GAGAN works by augmenting and relaying data from GPS satellites with the help of two augmentation satellites and 15 earth-based reference stations. It is compatible with other Space Based Augmentation Systems such as the Wide Area Augmentation System of the U.S., the European Geostationary Navigation Overlay Service and the Multi-functional Satellite Augmentation System of Japan. Therefore, it would provide seamless air navigation service across regional boundaries. India would become the fourth country in the world to adopt this system.

GAGAN Architecture



GAGAN would serve as a low cost substitute for Instrument Landing System (ILS). A Flight Management System (FMS), based on GAGAN, is under development to help civil aircraft operators to save time and money by managing climb, descent and engine performance profiles of aircraft. As fuel cost is a major consideration in the Indian aviation scenario as 45-50 per cent of total cost is dependent on it. Therefore, accurate guidance for planning shorter routes and safer landing patterns is expected to provide the aviation sector cost-saving options. In India, it was launched on 13 July 2015, initially India plans to use the GAGAN system in 40 candidate airports that will require CAT-1 or close to CAT-1 capability. The system will improve airport and airspace access in all-weather conditions while meeting environmental and obstacle clearance constraints. AAI has proposed that smaller aircraft can adopt the new technology and that acquisition norms can be made in such a way that promotes the usage of such a system.

Source: AIC-RIS (2016)

Although the ASEAN Open Skies Policy in part came into effect on 1 January 2015, it is yet to be fully operational. The ASEAN Single Aviation Market (ASAM) will lead to growth and development as it opens up the market to more competition. Greater connectivity between aviation markets arising from ASAM should encourage higher traffic growth and service quality, while lowering air fares. The most important aspect of liberalising aviation markets is the guarantee of third, fourth, fifth, and seventh freedoms of the air. Opening of ASAM would be advantageous to Indian carriers to fly to Southeast Asia destination in a larger scale.

While a comprehensive air transport agreement is needed to expand tourism and trade between ASEAN and India, this would only make sense when ASEAN becomes a single aviation market and a competition policy in place to regulate the market. In addition to air service liberalisation, we should also aim to improve aviation safety, aviation security, air traffic management, civil aviation technology, and air transport regulatory frameworks. With vast experiences in these fields, India can offer important lessons to Mekong countries. MGC and India can have greater cooperation in aviation technology and logistics. India and ASEAN (and MGC) countries should promote more cooperation for building new airports, aviation technology, safety and security, warehouse management, sharing of cargo resources and logistics know how. This is an area where both will have 'win-win' opportunities. There are plenty of good lessons that the Singapore Airport offers to India. At the same time, India may extend cutting edge technology like GAGAN to MGC. GPS Aided Government Navigation (GAGAN) is a satellite based navigation system to provide accurate navigation services over the Bay of Bengal, Southeast Asia, Indian Ocean, Middle East, and African regions (see Box 1 on GAGAN). More cooperation between cargo and airlines industry associations between ASEAN and India will strengthen the institutional links. Indian airlines association or air cargo associations may consider signing cooperation agreements with their counterparts in ASEAN and MGC countries.

Currently, India has air connectivity with Yangon in Myanmar and Ho Chi Minh City in Vietnam. There is no direct air connectivity with Cambodia and Lao PDR as on date. Therefore, better air links should be developed between metro cities of India and Cambodia, Lao PDR and Myanmar. The ASEAN-India Air Transport Agreement would increase air travel seating capacity on flights and liberalise air cargo services between the two sides, provided we remove the bottlenecks to trade and air transportation.

5.5. Policy Recommendations

While India-ASEAN trade prospects have grown rapidly, challenges have also become more complex. Non-tariff policy barriers have gained importance as tariff-based barriers including connectivity to trade have gradually declined. Under the Act East Policy, India and Southeast Asian countries are committed to increasing trade volumes through the ASEAN-India FTA (and also through the proposed RCEP), and to realising the trade and economic potential by expanding trade facilitation initiatives. Three major recommendations are suggested to strengthening the Mekong-India Connectivity.

(i) Financing Mekong – India Connectivity Projects

Demand for improved connectivity between India and Mekong countries has been rising rapidly. The big challenge is to secure financing for large infrastructure needs.²⁰ Public funds may not be adequate to meet this huge investment, so Public-Private Partnerships (PPP) should be encouraged. An important role for cross-border funding exists, including by multilateral banks and possible new institutions. Indian government has announced US\$ 1 billion special facility for physical and connectivity development. Indian banks and financial institutions can also join hand with ASEAN financial institutions to finance connectivity projects in Mekong region. The ASEAN Infrastructure Fund (AIF) is another potential source of financing.

(ii) Completion of Major Cross-Border Corridors

There are three major tasks ahead for completion of the Trilateral Highway: (a) the construction and improvement of Trilateral Highway between Kalewa to Yargyi – and the replacement of all vintage bridges along the highway; (b) the completion of the Kaladan Multimodal Transit Transport Project; and (c) completion of the Mekong – India Economic Corridor. These projects will further strengthen the integration in MGC as well as ASEAN-India.

(iii) Building a Stronger Coordination Mechanism

A stronger coordination between MGC (ASEAN) and India will be helpful in building cross-border connectivity. Regional connectivity has made progress within different regional frameworks in the recent past. ASEAN's dialogue partners are becoming increasingly involved and are contributing through their efforts to support the Master Plan of ASEAN Connectivity (MPAC) 2025. ASEAN acknowledges the important role of dialogue partners in achieving greater connectivity in ASEAN members. The ASEAN Secretariat and ASEAN Connectivity Coordinating Committee (ACCC) should actively engage with India in order to promote the ASEAN-India connectivity with particular reference to Mekong region.

5.6. Concluding Remarks

India and Southeast Asia are becoming more economically integrated and there is ample scope for deepening this integration process. Given India's diversity and geographical contrasts, an integrated transport network with Southeast Asia in particular is required to support the integration process. Asia-wide connectivity projects such as the Asian Highway and Trans-Asian Railway will be complemented by cross-border transport projects linking India with Southeast Asia, such as the Trilateral Highway. Intermodality in transportation is essential in many of the transportation chains between India and Southeast Asia. At the same time, it is important to exploit synergies across various types of cross-border infrastructure. The soft side of connectivity, such as transit, Single Windows, etc. will go hand-in-hand with the development of hard connectivity. Good coordination among countries, national line ministries, regional sector institutions and other stakeholders is essential. In addition, harmonization of the policy, legal and regulatory regimes between India and ASEAN (and also MGC) is needed. Stronger connectivity across NER will build a stronger network of cross-border production chains, particularly with Southeast Asia.

Southeast Asian countries and India have to identify the missing links and investment needs from a region-wide perspective. To a great extent, missing rail and road links in Myanmar is hindering the overland connectivity between South and Southeast Asia. Therefore, average road conditions and the railway system inside Myanmar need to be improved and upgraded. Roads leading from Myanmar to India and Thailand require widening and better maintenance in order to allow efficient movement of larger vehicles. The development of economic corridors taking countries in the region will facilitate investments as well as spur economic growth in India's southern and northeastern parts as well as in Myanmar and the Mekong countries. Extension of Trilateral Highway (TH) to Mekong countries, direct air links, completion of ongoing connectivity projects, maritime links with Cambodia and Vietnam are some of the projects which would take the cooperation between India and Mekong to a new plateau.

Endnotes

- ¹ Refer, De and Suthiphand (2017)
- ² Based on World Bank World Development Indicators (WDI).
- ³ Refer, for example, De (2014)
- ⁴ Speech of by the Indian Prime Minister at the twelfth AEAN-India Summit, held at Nay Pyi Thaw, Myanmar on 12 November 2014, available at www.mea.gov.in/Speeches-Statements.htm?dtl/24236/Remarks_by_the_Prime_Minister_at_12th_IndiaASEAN_Summit_Nay_Pyi_Taw_Myanmar).
- ⁵ Speech of the Secretary (East), Government of India, delivered at Mumbai in February 2015.

- ⁶ India's FTA with ASEAN was signed on 13 August 2009 and became effective in January 2010.
- ⁷ Some of the key subjects that have been discussed in the working groups are tariff modalities in goods, listing of services and investment, elements of the RCEP chapters and possible texts, intellectual property, competition, economic and technical cooperation, legal and institutional issues, customs procedures and trade facilitation, and rules of origin. The latest RCEP trade negotiations (15th round) were held in China in 2016.
- ⁸ See, for example, http://www.adb.org/sites/default/files/project_document/73252/37143-013-ind-ffa.pdf.
- ⁹ The first is the upgradation of 350 km stretch between Aizwal and Tuipang in Mizoram, a part of the Kaladan multi-modal transit transport corridor. The second project is the improvement of the Tura-Dalu section in Meghalaya that runs up to the Bangladesh border.
- ¹⁰ The portion that JICA is considering to fund are as follows: (i) slope protection of the Siliguri-Darjeeling stretch, which is prone to landslides, of national highway; and (ii) improving national highway that connects Shillong to Dawki in Meghalaya close to the Bangladesh border.
- ¹¹ Another 330 km of road works may be considered for a follow-on project or additional financing when the designs are ready.
- ¹² Refer, Indian Parliament question and reply by Gen. V K Singh, Minister of State (External Affairs) in April 2016
- ¹³ To finance the construction of a 132-km connecting road from the Thailand-Myanmar border to the Dawei deep-sea port, the Government of Myanmar has agreed to borrow Baht 4.5 billion from the Government of Thailand (*Bangkok Post*, 16 February 2017)
- ¹⁴ The three new bridges are as follows: First, Mekong bridge between Houysai (Lao PDR) and Xiengkong (Thailand): This is being constructed with funding assistance from the PRC and Thailand; second, Mekong bridge between Paksan (Lao PDR) and Bueng Kan (Thailand): Governments of the Lao PDR and Thailand have agreed to construct a bridge on the Mekong river between Paksan (Bolikhamxay Province) and Bueng Kan Province; and third, Mekong bridge between Xiengkong (Lao PDR) and Kainglap (Myanmar): Governments of the Lao PDR and Myanmar have agreed to construct a Mekong bridge between Xiengkong and Kainglap.
- ¹⁵ Governments of the Lao PDR and Myanmar have agreed to construct a Mekong bridge between Xiengkong and Kainglap, which is known as Lao PDR-Myanmar Friendship Bridge over the Mekong River at Xiengkong-Kainglap at a cost of US\$ 30 million. The governments of the Lao PDR and Myanmar have agreed to jointly finance (50 per cent each) the construction of the International Friendship Bridge across the Mekong River at Xiengkong (Lao PDR) and Kainglap (Myanmar).
- ¹⁶ Another presentation of the same route is through Taichang (Lao PDR – Viet Nam border), Muongkhua, Paknamnoy, Oudomxay, Nateuy, Luang namtha, Muongsing, Xiengkong, Kainglap (Lao PDR – Myanmar Mekong bridge).
- ¹⁷ A bilateral air service agreement has been concluded between two contracting countries and liberalises commercial civil aviation services between those countries. The bilateral air services agreements allow the designated airlines of those countries to operate commercial flight that covers the transport of passengers and cargoes between the two countries. Also they normally regulate frequency and capacity of air services between countries, pricing and other commercial aspects. The Chicago Convention determined that no scheduled international air service may be operated over or into the territory of a contracting state without their permission. Over the following years, ICAO developed a series of traffic rights, known as Freedoms of the Air. These freedoms continue to form the basis of rights exchanged in air services negotiations today (Refer, for example, Department of Infrastructure and Transport, Australian Government. 2009).

- ¹⁸ These 18 points are Patna, Lucknow, Guwahati, Gaya, Varanasi, Bhubaneswar, Khajuraho, Aurangabad, Goa, Jaipur, Port Blair, Cochin, Thiruvananthapuram, Calicut, Amritsar, Visakhapatnam, Ahmedabad, Tiruchirapalli.
- ¹⁹ Refer, for example, AIC-RIS (2016)
- ²⁰ ADB and the Asia Development Bank Institute (ADBI) study, *Infrastructure for a Seamless Asia*, estimated that Asia needed to invest approximately US\$ 8 trillion in overall national infrastructure between 2010 and 2020. In addition, Asia needs to spend approximately US\$ 290 billion on specific regional infrastructure projects in transport and energy that are in the pipeline (ADB and ADBI, 2009). This study also shows that ASEAN countries will require infrastructure investments of an average investment of US\$ 60 billion per year.

6

Harnessing Border Economic Zones for Border Connectivity

6.1. Introduction

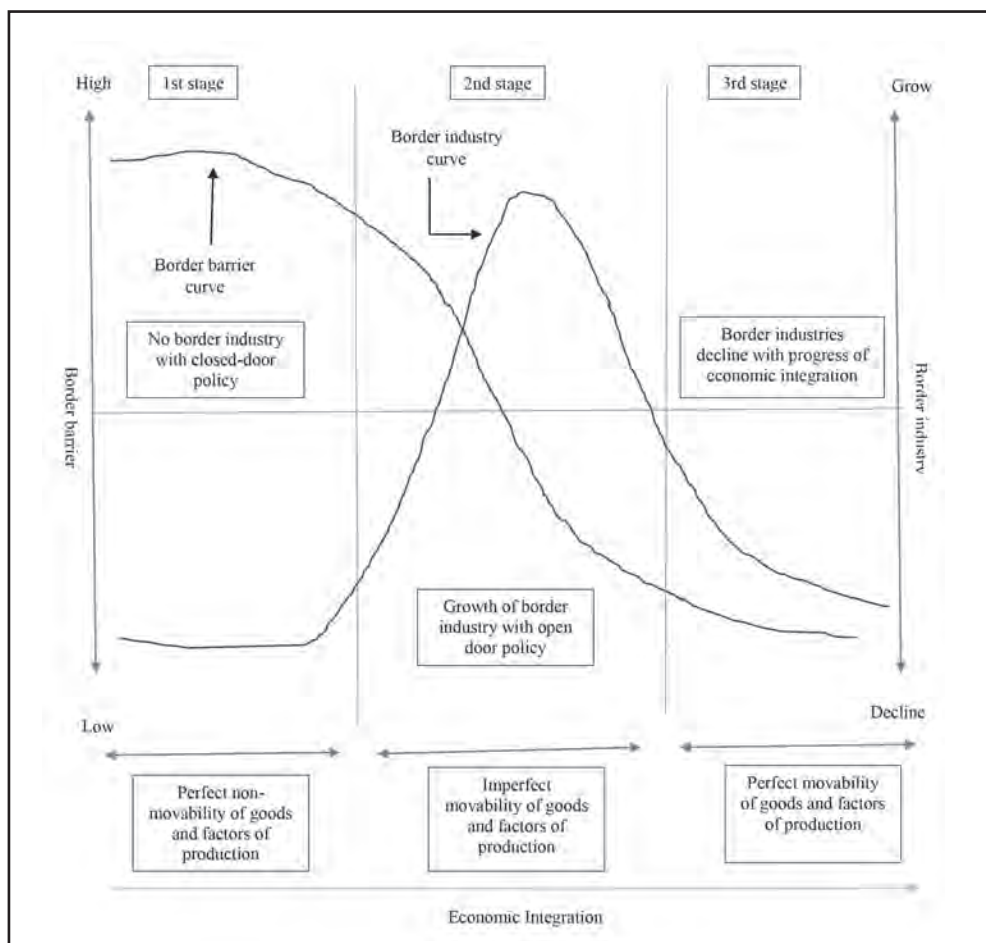
Mekong is a most prominent case where countries have successfully transformed borders into bustling place of economic activities. Borders in Mekong were semi-opened till late 1980s. “Economic Corridors” in Mekong subregion in 1990s, formation of the Great Mekong Subregion (GMS) economic cooperation initiative and the ASEAN membership in 1990s motivated the Mekong countries to adopt open door policy and the market liberalization programme.¹ With the end of the conflicts in Mekong subregion, cross-border movement of people and goods increased phenomenally. Borders in Mekong slowly transformed into “connectors”. To date, Mekong subregion has over two and a half dozens of economic zones including 15 Border Economic Zones (BEZs).² These BEZs offer some important lessons to enhance border connectivity in India and also between India and Mekong subregion.

6.2. Rise of Border Economic Zones and Economic Corridors

A border economic zone is a limited geographical enclave catering to economic activities in the vicinity of international border(s).³ Complementary and differentiated economic resources between the countries sharing geographical border help facilitate development of border industries, border trade and border tourism.⁴ In order to make border industries grow with or without BEZ, certain degrees of both divisiveness arising from the existence of the border line and openness enabling the movement of resources are necessary. In other words, good balance of the value of border resistance (divisiveness) and the progress of economic integration (openness) is a decisive factor for the growth and declination of border industries. Successful BEZs often need an incubation period before they began to build momentum.

Illustrated in Figure 1, there is no scope for border industry to grow in the 1st stage where border barriers are very high. As economic integration started working, border barrier curve declines and border industry curve reaches its peak. Wage gaps arising from the existence of the border line or the divisiveness and limited openness of the border promote the growth of the border industries.

Figure 1: Movability of Goods and Factors of Production and Rise and Fall of Border Industry



Source: Adopted from Kudo and Ishida (2013)

In the third stage, both border barrier and border industry curves decline, and economic integration makes further progress. Here, the two countries are integrated to such an extent that they are in the same country. Movement of factors of production such as people, goods, capital, technology, etc. have become free. Firms decide to locate the factory after seeking an optimized location in the integrated region. In this case, the firms are unlikely to choose

the border areas. Border industries decline at the third stage. Nevertheless, it is not easy to comment when the economic integration will progress into the third stage, and the same can be said for many regional blocs including ASEAN or EU. It is more realistic that the second stage will continue for the time being. In that case, it is still effective to promote the development of border areas as border economic zones.

Border trade is one of the integrated components of the BEZ. With rise of border industry curve, border trade also goes up in the initial phase. Once the barriers to trade are removed and the region becomes fully integrated, border disappears, and so also border trade. It then becomes just trade. Thailand shares land borders with maximum number of Mekong countries. Illustrated in Table 1, relatively higher share of border trade in Thailand's total trade indicate the prospect of BEZs across the Thai borders.

Table 1: Share of Border Trade in Thailand's Export and Import

(%)

Country	Export	Export	Import	Import
	2010	2015	2010	2015
Cambodia	68.80	75.20	62.60	60.20
Lao PDR	94.80	93.90	96.40	91.40
Myanmar	77.50	76.40	96.70	96.10
Malaysia	95.80	96.10	51.60	47.50
Vietnam	3.00	11.00	0.30	0.20

Source: Kudo and Ishida (2013) and Thai Ministry of Commerce.

Table 2: List of Border Economic Zones and Economic Corridors

Sr. No.	Routes	Border
1	Southern Economic Corridor	Aranya Prathet (Thailand) - Poipet (Cambodia) Bavet (Cambodia)-Moc Bai (Vietnam) Cham Yeam (Cambodia) - Hat Lek (Thailand)
2	East-West Economic Corridor	Myawaddy (Myanmar)-Mae Sot (Thailand) Savannakhet (Lao PDR)-Mukdahan (Thailand) Lao Bao (Vietnam)-Dansavanh (Lao PDR)
3	North-South Economic Corridor	Boten (Lao PDR)-Mohan (China) Chiang Khong (Thailand)-Houayxay (Lao PDR) Mae Sai (Thailand)-Tachilek (Myanmar) Hekou (China)-Lao Cai (Vietnam)
4	Other routes	Ruili (China)-Muse (Myanmar) Nongnokkhien (Lao PDR)-Trapeang Kreal (Cambodia) Thanaleng (Lao PDR)-Nong Khai (Thailand) Namphao (Lao PDR)-Cau Treo (Vietnam) Vangtao (Lao PDR)-Chong Mek (Thailand)

Source: AIC at RIS.

With the establishment of economic corridors, BEZs have grown up from less than six in early 2000s to over 15 in 2015. ADB has funded development of three economic corridors in Mekong subregion, namely, Southern Economic Corridor, North – South Economic Corridor and East – West Economic Corridor (Table 2, Map 1). Later, four more economic corridors were added, where many of the BEZs are located along the corridors.⁵ BEZs along with economic corridor facilitate firms' GVC participation, where low trade costs are critical to competitiveness.

Map 1: GMS Economic Corridors



Source: Asian Development Bank (ADB).

Developing economic corridors is a strategic priority for the Mekong countries. Adopted in 1998, significant achievements have been made in strengthening physical connectivity in the Mekong subregion through improvements in transport links along the GMS North-South, East-West, and Southern transport corridors.⁶ Map 1 illustrates these corridors.

- North-South Economic Corridor (NSEC) covers the major routes running from Kunming in Yunnan, China, going through Lao PDR and Myanmar, then through Chiang Rai to Bangkok in Thailand, whereas its other arm runs from Nanning in Guangxi, China, through Hanoi to Haiphong in Vietnam;
- East-West Economic Corridor (EWEC) runs from Da Nang in Vietnam, through Lao PDR and Thailand to Myanmar. This represents the only continuous land route that connects the South China Sea and the Andaman Sea.
- Southern Economic Corridor (SEC) runs through the southern parts of Thailand, Cambodia, and Vietnam, and possible extension to Dawei, Myanmar.

The corridors provide a backbone to border industries, clustering them along corridors or at BEZs. Box 1 presents some benefits of the GMS corridors. To coordinate the economic corridor development, a GMS Economic Corridors Forum, or ECF, was launched in Kunming in 2008. The ECF is the body within the GMS institutional framework that serves as the main advocate and promoter of economic corridor development in the GMS. It is designed to enhance collaboration among areas along the GMS economic corridors, among GMS sector working groups, and between the public and the private sectors. A Governors Forum, which is a mechanism for coordination among governors of the provinces along the economic corridors, has also been formed to complement the ECF.

Status of Economic Corridors

The EWEC is almost completed. The Government of Japan and ADB have helped finance the key components of the corridor in Lao PDR and Vietnam, including Route 9, the Hai Van Tunnel, and Da Nang port. The Thai Government has upgraded its section of the corridor, and has provided financial assistance to Myanmar for the rehabilitation of part of the Myanmar portion of the corridor. ADB is preparing a project to complete the remaining missing link on the Myanmar segment of the corridor. Upgrading and rehabilitation of key sections of the SEC has been substantially completed except for some sections in Cambodia and Lao PDR, and the extension to Dawei. A major achievement is the completion of the Tsubasa Bridge on the Mekong River in Phrey Veang, Cambodia, which was the key missing link in the SEC.

Box 1: Benefits of GMS Economic Corridors

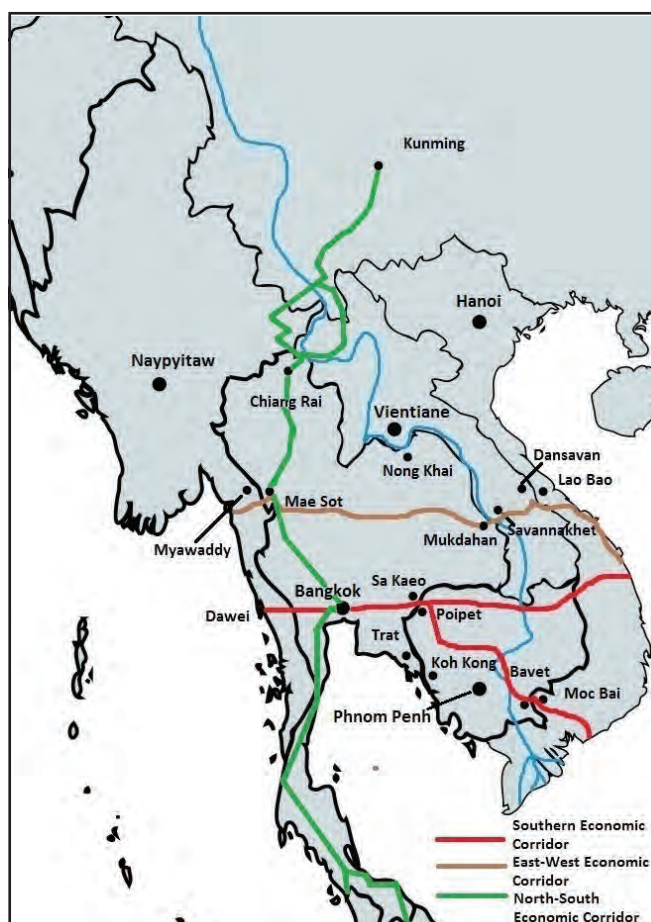
Phnom Penh - Ho Chi Minh City Highway Project (Road was completed in 2005). Some of the tangible benefits are as follows:

- The total value of trade through the Moc Bai (Vietnam)-Bavet (Cambodia) border increased by from around US\$ 10 million per annum in 1999 and to more than US\$ 700 in 2013.
- Travel time along this corridor reduced by 50 per cent in 2013 as compared with that in 1999.
- One of the industrial zones in the Vietnam side developed as a result of the road improvement project (Trang Bang Industrial Park) and is generating a large number of employment opportunities for the local population.

Overall, the resulting increased economic exchange and cooperation between Cambodia and the southern region of Vietnam, including the multiplier effects of such exchange and cooperation, have led to improved incomes of the population in the project influence areas. Beneficiaries include suppliers, carriers, and purchasers of goods that are being delivered at lower cost.

Source: Perdiguero (2016).

Map 2: BEZs in Mekong



Source: AIC at RIS.

6.3. Major BEZs in Mekong Subregion: Drawing Lessons

Here we present important features of some of the prominent BEZs in Mekong subregion, which have been successful in generating economic activities and offer important lessons towards improvement of border connectivity. Map 2 illustrates the BEZs and Table 3 presents an outline of the BEZs.

(a) Moc Bai in Vietnam and Bavet in Cambodia

Vietnam and Cambodia share a land border of 1,137 km long. The Moc Bai (Vietnam) – Bavet (Cambodia) is the most popular border area between Vietnam and Cambodia. Moc Bai – Bavet border is situated 70 km from Ho Chi Minh City and 170 km from Cambodia's capital, Phnom Penh. Located on GMS's Southern Economic Corridor, this border has witnessed a rapid increase in the flows of commodities, people and vehicles since 2006.⁷ Industrial units in Phnom Penh and Bavet export their final products through this border. This border is also used for trade Vietnam-Thailand trade.⁸ As of December 2016, 56 enterprises have been setup at Moc Bai BEZ. Cambodia has set-up Manhattan SEZ, near to Bavet BEZ, in 2005. Several industrial units from Taiwan are located at this SEZ.⁹

In 2014, total trade at this border increased to US\$ 20 million from US\$ 3.2 million in 2004, and over 2 million people had crossed the border.¹⁰ Exports from Vietnam to Cambodia are aluminium, plastics, noodles, cooking oil, fruit, soaps and detergents, construction materials, cloths, fertilizers, cements, etc., whereas Cambodia's export to Vietnam are manioc noodles, uncooked noodles, beans, plant seeds, rice, etc.

Agreement on the transit of goods between the Government of the Kingdom of Cambodia and the Government of the Socialist Republic of Vietnam, 2000 for transit permits entry/exit border gates between the two countries through Moc Bai-Bavet. Another Agreement between the Government of the Kingdom of Cambodia and the Government of the Socialist Republic of Vietnam on Road Transport, 2009 allows through-way transportation between two countries. Both passengers and cargo are handled at this border.

To facilitate trade, both governments accepted for each side 200 vehicles including passenger coaches moving interstate from 2010, and daily movement of about 800 TEUs per week between the two countries at the border. Most of the cargo handled is containerised and all vehicles are GPS-enabled.

Vietnam allows Cambodian export to USA through Cai Mep Deep Sea Port, imported cargo by sea freight to Cambodia via Ho Chi Minh City port, import air cargo to PNH via Tan Son Nhat Airport, export cargo from Cambodia to the world via Tan Son Nhat Airport by Land-Air Service, etc.

To facilitate investments, both Cambodia and Vietnam have started Single Stop/One Stop services. Easy access to sea ports and airport in Ho Chi Minh City, availability of electricity and factory land, availability of managerial and technical expertises, etc. are some of the advantages of this BEZ. However, there are some constraints at this border point. For example, lack of unification of customs joint inspection rules between Vietnam, Cambodia and Thailand is the most important one.

(b) Sa Kaeo in Thailand and Poipet in Cambodia

Sa Kaeo in Thailand is located on the Southern Economic Corridor, sharing border with Cambodia at Poipet. Sa Kaeo is an SEZ, located in four sub-districts along the border area of Aranya Prathet and Watthana Nakhon districts with a total area of 332 sq. km. The other side of Aranya Prathet border post is Poipet border post in Cambodia. Poipet is a busy town, located about 407 km from Phnom Penh. More than 70 per cent of the trade between the two countries is transacted via land transportation through the Aranya Prathet - Poipet border and Klong Yai - Koh Kong borders.¹¹

Like Sa Kaeo SEZ, Cambodia has set-up Poipet-O'neang SEZ on 389 hectares of land, which has labour-intensive industrial units such as garment, jewellery box manufacturing, etc. Electricity has been supplied from Thailand. Sa Kaeo region mostly has agro-processing and services industries. This BEZ is well connected with Laem Chabang seaport and Bangkok port as well as Sihanouk Ville port in Cambodia.

In 2014, Thailand's total exports to Cambodia were about US\$ 870 million, whereas Cambodia's total exports to Thailand were about US\$ 25 million.¹² The most important commodities imported by Cambodia from Thailand through this border include cement, construction materials and equipment, automobiles (motorbikes, cars, trucks, tractors), fresh and processed foods, cosmetics, consumer goods, fertilisers, garments, etc. The most important commodities exported to Thailand include scrap metals, second-hand clothes, handicrafts and fresh and processed fish.

Aranya Prathet border post has Customs, Immigration, Food and Drugs Agency, Animal Quarantine, Public Health, Ministry of Agriculture and Foreign Trade. However, the Thai side offers a one-stop-service center. On the Cambodian side, there are Customs (lead agency), CamControl, Police, Immigration and Quarantine, etc. Besides, freight forwarders, trucking companies, banks, warehouses, hotels, etc. are available at both sides of the border.

To facilitate investments at Sa Kaeo SEZ, Thailand has started Single Window services. Easy access to sea ports, availability of electricity and

factory land, availability of managerial and technical expertises, etc. are some of the advantages of this BEZ. As on date, not many companies have invested at this BEZ. The most likely reason is Phnom Penh SEZ and industrial zones in Chonburi region of Thailand offer better business prospects than border areas.¹³ There are some constraints at this border point. The major constraint to trade at this border is mismatch of customs formalities and trade procedures. For example, the customs EDI differs between the two countries. Thailand uses its own e-Customs system, whereas Cambodia uses ASYCUDA World at the border post. At the same time, approach road at both sides of the border is narrow, resulting in queue of vehicles. Besides, little progress had been made in implementing CBTA.

Table 3: BEZs and Their Locations

Sr. No.	BEZ	Located Country	Bordering Country	Area (sq.km)	Industry Types
1	Bavet	Cambodia	Vietnam	*	Bicycle, Footwear, Garment, etc.
2	Koh Kong	Cambodia	Thailand	*	Car assembly and spare parts,
3	Poipet	Cambodia	Thailand	*	Jewellery packaging, food processing, etc.
4	Lao Bao	Vietnam	Lao PDR	158	Food processing, wood, electrical, etc.
5	Moc Bai	Vietnam	Cambodia	213	Garments, food processing, engineering, electrical, etc.
6	Savan-Seno	Lao PDR	Thailand	3	Services, wood, agro and food processing, etc.
7	Dansavan	Lao PDR	Vietnam	17	Engineering, food processing, construction, services, etc.
8	Tak	Thailand	Myanmar	14	Services, agro and food processing, etc.
9	Mukdahan	Thailand	Lao PDR	579	Services, engineering, electrical, food processing, etc.
10	Sa Kaeo	Thailand	Cambodia	332	Services, engineering, food processing, etc.
11	Trat	Thailand	Cambodia	50	Services, engineering, food processing, etc.
12	Nong Khai	Thailand	Lao PDR	474	Services
13	Chiang Rai	Thailand	Myanmar	1524	Services
14	Mae Sot	Thailand	Myanmar	1419	Services, garment, agro and food processing, etc.
15	Myawaddy	Myanmar	Thailand		Services
16	Hit Khee	Myanmar	Thailand		Services

Note: *Not available

Source: Compiled by the AIC at RIS.

(c) Koh Kong in Cambodia and Trat in Thailand

Trat-Koh Kong BEZ is one of the largest BEZs in Mekong subregion. Trat and Koh Kong are located on Southern Economic Corridor. Trat BEZ is primarily a trade and distribution center and a multimodal transport and regional tourist hub. It comprises of three sub-districts along the border area with a total area of 50.2 sq. km. Trat is located about 420 km east of Bangkok. The other side of Trat BEZ is Koh Kong BEZ in Cambodia, which is located about 280 km from Phnom Penh. Trat is 340 km. from Laem Chabang seaport in Thailand, and 250 km. from Sihanouk ville seaport in Cambodia. Cham Yeam (Cambodia) and Hat Lek (Thailand) are the border points connecting the two countries.

Thailand exports fruit, vegetables, construction materials, sugar, beverages and consumer goods to Cambodia through Hat Lek, while Cambodia exports mainly food – largely fish, timber, etc. to Thailand through Cham Yeam.

Koh Kong SEZ (Cambodia) is located about 2.5 km from the border gate and has been built on 335 hectares of land. It has received FDI in past in automobile and parts and components, sports goods, etc.

Trat in Thailand is a declared SEZ along the Thai coast. Trat is a popular tourist destination. Till date, it does not have large presence of manufacturing industries. It has fishery units, seafood processing, etc. Once the Khlong Yai Seaport is constructed, investment prospect in Trat BEZ will certainly go up.

(d) Lao Bao in Vietnam and Dansavanh in Lao PDR

Lao Bao and Dansavanh BEZs are located along the GMS East-West Economic Corridor (EWEC) and one of the oldest border posts developed along the economic corridor. The border gates are also known as Lao Bao and Dansavanh. Lao Bao-Dansavanh is located 260 km Danang, 80 km from Dong Ha, and 240 km from Savannakhet. The Dansavanh Border Trade Commercial Zone is located in Savannakhet Province of Lao PDR on the border with Vietnam. As with the Savan-Seno SEZ on the opposite side of the province, it is at the intersection of the EWEC. Dansavanh Border Trade Commercial Zone is across from a parallel border trade zone in Vietnam. The zone extends for 19 km from the Laotian-Vietnamese border of the EWEC and spreads outwards for 1 km along each side of the road. Land usage is to be split between trade and industry, with 529 hectares set aside for commercial centres and 1,220 hectares for industrial production. As with the SEZs, the Dansavanh zone offers various incentives in order to attract investment. These include profit tax privileges, duty incentives, and exemptions on land leasing. The GMS CBTA was implemented experimentally.

Export from Vietnam to Lao PDR through Lao Bao border has increased from US\$ 57 million in 2000 to US\$ 750 million in 2014, whereas export of Lao PDR to Vietnam through Dansavanh border increased from less than US\$ 1 million in 2000 to US\$ 20 million in 2014. Lao PDR's imports from Vietnam through this border range from necessities such as food products (garlic, cookies, noodles, etc.) and household utilities to large items such as transport equipment (cars). On the other, Lao PDR's major export goods include processed wood, wood products, and gypsum, among others. Some of the items imported by Lao PDR from Vietnam (e.g. garlic) are also re-exported to Thailand, and some items such as garments imported by Lao PDR for re-export to Vietnam. There is also a high informal trade between the two countries at this border point.

Lao Bao Special Economic and Commercial Area (SECA) is one of the most popular BEZs in Vietnam. Lao Bao SECA consists of two townships, namely, Lao Bao and Khe Sanh, and five communes. As on date, over 100 projects have been sanctioned and have started operating at Lao Bao SECA, most of which are trade and services industries. There are some units manufacturing agro and processed foods, electronic equipments, construction materials, automobile components, tyres and tubes, telecom equipment, hotels, restaurants, trading, etc. On the other, Savannakhet province of Lao PDR has set up Dansavanh Border Trade Zone (BTZ) with a total area of 3301 hectares. As on date, there are only 15 projects which have been given licence to do business at Dansavanh BTZ.

(e) Kong Khai in Thailand and Thanaleng in Lao PDR

Kong Khai-Thanaleng BEZ is one of the oldest border economic zones in Mekong subregion. Located across the first Mekong bridge, Thanaleng BEZ has been developed to accommodate manufacturing units with investments from Thailand, China and other countries. Kong Khai and Thanaleng are also the border posts handling trade between the two countries. Lao PDR being the landlocked country also uses this border post for transit trade through seaports in Thailand. Kong Khai-Thanaleng border posts handle about 90 per cent of Lao PDR's export to Europe and the United States, which transits through Thailand's Laem Chabang seaport.

Thanaleng BEZ has been developed over 50 sq. km of area. Presently, it has several manufacturing units in the sectors like beverages, processed food, garments, etc., whereas the Kong Khai BEZ hosts services units such as hotels, hospitals, super markets, etc. Kong Khai and Thanaleng BEZs are also popular tourist destinations, particularly for entering into Lao PDR from Thailand and vice versa.

In 2014, Thailand's exports to Lao PDR through Kong Khai–Thanaleng border posts were US\$ 1.5 billion, and the imports were US\$ 450 million. Lao PDR's major exports to Thailand through Kong Khai–Thanaleng border posts are timber and wood products, maize, coffee, beverages, etc., whereas imports from Thailand are engineering goods, automobiles, gasoline, textile and clothing, construction materials, processed food, etc.

Kong Khai–Thanaleng are also busiest border posts. In 2015, according to Thai customs, 103,961 vehicles entered into Lao PDR from Thailand through Kong Khai–Thanaleng border posts, whereas 16,170 vehicles entered into Thailand from Lao PDR through the same border posts. Lao PDR has direct railway links with Bangkok.

Thanaleng BEZ has over 20 business units, whereas Kong Khai BEZ has over 1000 business units including hotels, hospitals, super markets, etc. However, both the border posts suffer from infrastructure facilities, particularly Thanaleng BEZ. It has narrow approach road, limited warehousing facilities, lack of parking spaces, etc. Logistics facilities have to be improved on Lao PDR side of the border. Vientiane Logistics Park is being developed by Lao PDR government, which will be ready by 2017.

The major constraints are trade documentations, lack of harmonization of customs procedures, absence of testing facilities, faster handling equipment, vehicle tracking system, etc. Border infrastructure at Lao PDR side has to be improved and approach road has to be widened and properly maintained.

(f) Myawaddy in Myanmar and Mae Sot in Thailand

Myawaddy (Myanmar)–Mae Sot (Thailand) BEZs are located on the East-West Economic Corridor (EWEC). These border posts are also part of Trilateral Highway. Distance between Myawaddy and Yangon is 455 km, whereas Mae Sot's distance with Bangkok is 485 km.

Myanmar has a total of 14 official border trade posts with its neighbours, including five with Thailand. Myawaddy is the biggest border post with imports of US\$ 950 million in 2015 and exports of US\$ 75 million. Thai exports to Myanmar included mobile phones and accessories, beverages, gasoline, garments, automobiles, palm oils, etc., and imports from Myanmar are mainly live cattle, fish, furniture, antimony oxide, peanuts, etc. However, unofficial trade at this border zone is very high.

Labor-intensive industries are located at Mae Sot BEZ. It is well connected with Bangkok by road. The labour supply comprises migrant day-workers from Myanmar. Since 2013, some labor-intensive activities have been relocated to Myawaddy, while higher value operations remain in Mae Sot. Till 2015, there were over 500 factories are located in Tak province of Thailand, of

which over 100 were garment factories. In Tak SEZ, over 100 Thai firms have setup their factories. Garment Myanmar government is planning to set-up an industrial zone at Myawaddy. Myanmar has received GSP benefits from the EU, raising the potentials of investments in the BEZ.

(g) Mukdahan in Thailand and Savannakhet in Lao PDR

Mukdahan (Thailand)-Savannakhet (Lao PDR) BEZs are located across the second Lao-Thai friendship bridge, which was built on Mekong river in 2007. It falls in the East-West Economic Corridor (EWEC).¹⁴ Mukdahan is located 642 km. northeast of Bangkok. Since the opening of the bridge in 2007, Mukdahan has been serving as an important gateway to Lao PDR and other countries in Mekong and China.¹⁵ It is also a popular tourist destination.

Mukdahan-Savannakhet border points are the second most important borders between Thailand and Lao PDR. In 2014, Thailand's export to Lao PDR through Mukdahan was US\$ 1.20 billion and import from Lao PDR was US\$ 580 million.¹⁶

Major Thai exports to Lao PDR through this border point are beverages, fruits, electronic parts, automobiles, etc., while major Thai imports are processed woods, processed foods, agro products, etc. In 2015, according to Thai customs, 38,251 vehicles entered Lao PDR from Thailand and 35,689 vehicles entered Thailand from Lao PDR through this border gates. A good amount of informal between Thailand and Vietnam trade takes place through this border post.

Tourist arrivals have increased substantially after the opening of the friendship bridge; the number of tourists in Savannakhet has increased from 474,826 in 2008 to 1,120,021 in 2015. As a result, tourism industries have also grown at this BEZ.

The Savan-Seno SEZ at Savannakhet was established during 2002-2003. The Savan-Seno SEZ appears to be a success in bringing investors to Lao PDR (ADB, 2016). Till date, it has several manufacturing units producing camera parts, aircraft seats and equipment, garments, furniture, electrical items, etc.

6.4. Border Haats in India and Moving Towards Border Economic Zones

6.4.1 Development of Border Haats

Border Haats have been set up in India's Northeastern Region along India-Bangladesh border. Border haats are important projects to foster border connectivity. Border Haats are fenced area which are equipped with market sheds, medical and security booths. India presently has four border

haats in operation along India-Bangladesh border, of which two (Srinagar and Kamalasagar) are located in Tripura state and other two (Kalaichar and Balat) in Meghalaya state (Map 3). Trade at border haats is conducted based on Indian rupees/Bangladesh taka on barter basis. During 2011-12 and 20015-16, a total exchange of Rs. 168.66 million was carried out in these four border haats.¹⁷ However, the facilities are inadequate to support the larger number of consumers coming to the border haats.¹⁸ The traded items are mostly consumer goods, horticultural products, processed foods, cloths, spices, vegetables, etc., which are in local demand. Border haats opens on particular time of a day and operates in a fixed schedule of a week.

Map 3: Operational Border Haats in India



Source: AIC at RIS.

Till date, there are no border haats in operation along the Bhutan, China and Myanmar borders. However, the Government of India is planning to set up six more border haats (two in Tripura state at Palbasti and Kamalpur and four in Meghalaya state at Bholaganj, Nalikata, Shibbari and Ryngku). India and Myanmar have signed an MoU for establishment of couple of border haats along India-Bangladesh border.

Border haats aim to improve the well-being of people living both sides of the border. Border haats have been quite successful in building people to people links and improving the border connectivity. However, most of the border haats suffer from infrastructure inadequacy and lack of space.

Table 4: Myanmar's Border Trade with India

(US\$ million)

Year	Exports	Imports	Total
2005-2006	11.28	4.13	15.41
2006-2007	11.02	4.75	15.77
2007-2008	10.91	3.92	14.83
2008-2009	5.49	4.43	9.82
2009-2010	7.79	5.95	13.73
2010-2011	8.30	4.50	12.80
2011-2012	8.87	6.54	15.41
2012-2013	26.96	11.67	38.63
2013-2014	30.92	17.71	48.63
2014-2015	42.61	18.11	60.72
2015-2016	53.02	18.62	71.64

Source: Indian Embassy, Yangon.

6.4.2 Way Towards Border Economic Zones in Northeast India

In Northeast India, the border barriers have been declining. To give a big push to the border connectivity, we need to facilitate industries in the border region. Once this happened, firms will be motivated to locate the factories in the border region. NER is in perfect moment to enter into the second stage (as illustrated in Figure 1). So, it is quite effective to promote the development of border areas as border economic zones in NER.

Border trade is one of the integrated components of the BEZ. The trade between Northeast India and MGC through Myanmar has increased from about US\$ 15.41 million in 2005-06 to US\$ 71.64 million in 2015-16, and will continue to grow, *ceteris paribus* (Table 4). The trend in border trade between Myanmar and India indicates Northeast India is getting relatively higher market access in MGC/ASEAN through Myanmar, and the volume of market access and supply chain will continue to grow, especially after the formation of the Regional Comprehensive Economic Partnership (RCEP).

In view of the above, the Government may consider building BEZs across India-Myanmar (and also India-Bangladesh) border. Mekong countries offer rich lessons. Similar to GMS economic corridors, several cross-border connectivity corridors are under construction in NER such as Trilateral Highway, BCIM Economic Corridor, Kaladan Multimodal Transit Transport Project, etc. A possible extension to India-Myanmar-Thailand Trilateral Highway to Cambodia, Lao PDR and Vietnam is also under consideration. A consensus on finalising the proposed protocol of the India-Myanmar-Thailand Motor Vehicle Agreement (IMT MVA) has been reached. This agreement will have a critical role in realizing seamless movement of passenger, personal and

cargo vehicles along roads linking India, Myanmar and Thailand. As noted in Chapter 5, Indian Prime Minister has announced a special facility of US\$ 1 billion to promote projects that support physical and digital connectivity between India and ASEAN with particular focus on Mekong countries.

Apart from these corridors, the NER States of India are also implementing intra- and inter- state road development projects with the funding of JICA, ADB, World Bank, etc.¹⁹ Indian Railways is actively engaged in harmonization and construction of railway tracks in NER. Projects for rail connectivity to the state capitals of Sikkim, Meghalaya, Mizoram, Manipur and Nagaland have been sanctioned by the Indian Railways. Box 2 presents the current inland connectivity development scenario. Better road and rail connectivity in the region will significantly improve the investment climate for the private sector, both domestic and foreign. Stronger connectivity across the NER will build a stronger network of cross-border production chains, particularly with Southeast Asia and Bangladesh. Moving towards BEZ means larger space for industries, which would facilitate 'Make-in-India' in Northeast India. Ultimately, it will generate employment for local youth.

We have to draw on local advantages, e.g., low-wage or labour-intensive activities, to become competitive. Myanmar has received the GSP and GSTP benefits, similar like Cambodia or Lao PDR in Mekong. India may gain huge benefits if BEZs are promoted, particularly with Myanmar. To start with, two BEZs may be considered to set-up in Northeast India: (i) Manipur (Moreh-Tamu border) with Myanmar; and (ii) Mizoram (Champai-Rih border) with Myanmar. BEZs can also be developed along India-Bangladesh border. We have to classify the economic activities such as border trade, border industries, border tourism, etc. Target industries could be horticulture, processed food, software, electronics, education, health, garments, consumer goods, wood products, handicrafts, etc. BEZs can provide additional support to cross-border value chains.²⁰

To facilitate setting up BEZs, some of the important policy recommendations are as follows.

(i) Promote PPP Model and Financing BEZs

There are two options: first, we follow public-private partnership (PPP) model, where BEZs (or industrial parks or SEZs) are developed and run by private sector but the government continue to play a key role in providing legal and infrastructure services. Private investments are welcome for the establishment of supporting services such as bonded warehouse, logistics and distribution centers, services-related activities such as hotels, banks, hospitals, etc. Driven by private sector, most of the BEZs in Mekong subregion have a strong tourism component. NER is India's one of the important tourists destination. Developing BEZs would facilitate tourism automatically. Engaging private

sector in BEZs thus offers substantial merit. The big challenge is to secure financing for development of BEZs. Public funds may not be adequate to meet this huge investment, so PPPs should be encouraged. An important role for cross-border funding exists, including by multilateral banks and possible new institutions. The State Bank of India and EXIM Bank of India could be important source for funding the development of BEZs or their components.

Box 2: Road and Railway Development in North East India

On 17 February 2014 the Government of India and the ADB signed a US\$ 125 million loan for the second tranche of the ADB-financed North-Eastern States Road Investment Programme, approved in 2013. Reconstruction and rehabilitation of more than 236 km of state roads in Assam, Manipur, Mizoram and Tripura will contribute to enhancing of transport efficiency in the project area as well as better mobility and accessibility in the NER. The second tranche adds to the 200 km of state roads already being improved under the first tranche of the investment programme. In addition to ADB's loan of US\$ 125 million, the Central and State Governments of India have committed counterpart financing of US\$ 32 million. The second tranche of the investment programme is expected to be completed by 2020.

Japan is keen to fund two more road projects in India's Northeast. Japanese Official Development Assistance (ODA) loan has been provided in order to carry out the improvement of National Highways in NER. The first is the upgradation of 350 km stretch between Aizwal and Tuipang in Mizoram, a part of the Kaladan multi-modal transit transport corridor. The second project is the improvement of the Tura-Dalu section in Meghalaya that runs up to the Bangladesh border. Funding for improvement of two important sections in national highways is already under consideration that provides vital links to Bangladesh and Myanmar. The portion that JICA is considering to fund are (i) slope protection of the Siliguri-Darjeeling stretch, which is prone to landslides, of national highway; and (ii) improving national highway that connects Shillong to Dawki in Meghalaya close to the Bangladesh border.

The World Bank has already sanctioned US\$ 107 million to connect Mizoram with Bangladesh and Myanmar via roads. The project funds construction of 91 km of roads that are design-ready. Roads that would be widened or strengthened include (i) a 22 km section of Lunglei-Tlabung-Kawrpuchhuah road on the border with Bangladesh; (ii) 27.5 km Champhai-Zokhawthar road on the border with Myanmar; and (iii) 41.7 km Chhumkhum-Chawngte North-South alignment connecting to the border roads with Bangladesh to the west and Myanmar to the south. Another 330 km of road works may be considered for a follow-on project or additional financing when the designs are ready. This project is being financed by a credit from the International Development Association (IDA) – the World Bank's concessionary lending arm – which provides interest-free loans with 25 years to maturity and a grace period of five years.

On 4 January 2014 the first Broad Gauge (BG) train from Guwahati to Tezpur via Rangiya started. The railway lines between Harmuti-Itanagar and Dudhnai-Mendipathar was already completed in 2015. Broad Gauge railway train service from Agartala to rest of India has started operating. The Government of India has been constructing railway lines in Manipur. The Jiribam to Imphal rail link is currently under construction, and is likely to be completed by 2018. On completion of these projects, there could be possibilities for (i) India-Myanmar-Thailand-Malaysia-Singapore rail link, and (ii) India-Myanmar-Thailand-Hanoi rail link.

Source: De (2017).

(ii) Strengthening Backward Linkages

Many BEZs are unable to cope up with the rising demand of finished products due to slow or negligible backward linkages. Backward linkages would also depend on the specialization of border industries. Countries have to improve domestic capacity so that local firms from the NER can take part in regional supply chains. Skilling and education are essential for value chain up gradation.

(iii) Strong Coordination

Successful BEZs in Mekong subregion bring in all stakeholders-the private sector, non-governmental organizations, developers, government agencies-at all stages of development. To facilitate the development of BEZs, government may consider setting up of the Border Economic Zone Development Authority (BEZDA), which will facilitate BEZs in NER. BEZDA will do both intra- and inter – country coordination.

(iv) Adopting One Stop Service (OSS)

In future, when the RCEP is fully implemented, communications and connectivity for raw materials, finished goods and services, and supply chain will increase. In such a scenario, investment potentials in BEZs along India-Myanmar border is very high. Time is ripe that the One Stop Service (OSS) should be adopted for investors, and government should provide supporting services for the development of infrastructure of BEZs.

(v) Safe and Secure Borders

Smart borders are essential for security and safety of goods, vehicles and passengers. In order to have complete vigilance, border posts have to be equipped with modern gazettes such as scanner, container handling equipment, 24x7 security, biometric measures, etc. Simple border-crossing procedures with online transaction are essential to encourage cross-border trade and investment.

Next Step

- To move ahead with BEZ development, the Government of India may conduct a feasibility study. This study will look into the technical feasibility with detailed investigation of BEZs in Mekong countries. Stakeholders consultations, particularly with Industry Associations would be needed for an effective planning of the zones.
- The Ministry of Northeast Development (DONER), Government of India may consider setting up a Joint Working Group (JWG) and a Task Force,

headed by the Secretary of North East Council (NEC), for coordination with the state governments, and for the development of BEZs. An inter-ministerial meeting should be convened.

- The Ministry of External Affairs (MEA), Government of India may consider setting up a team for inter-country coordination.

6.5. Concluding Remarks

Border barriers have been declining in India's Northeast region in the present era of Look East-Act East Policy. The trend in border trade between Myanmar and India indicates Northeast India is getting relatively higher market access in MGC/ASEAN through Myanmar, and the volume of market access and supply chain will continue to grow, especially after the formation of the Regional Comprehensive Economic Partnership (RCEP). To give a big push to the border connectivity, we need to facilitate industries in the border areas. The BEZs of Mekong subregion offer some important lessons to enhance border connectivity in India and also between India and Mekong subregion. Government may consider setting up BEZs across India-Myanmar (and also India - Bangladesh) border. We have to draw on local advantages, e.g. low-wage or labour-intensive activities, to become competitive. Myanmar has received the GSP and GSTP benefits, like Cambodia or Lao PDR in Mekong. India may also gain huge benefits if BEZs are promoted, particularly with Myanmar. To start with, two BEZs may be considered for setting up in Northeast India: (i) Manipur (Moreh-Tamu border) with Myanmar; and (ii) Mizoram (Champai-Rih border) with Myanmar. Finally, development of border areas through BEZs will help us realise a balanced development and bring the NER from periphery to the core of today's development process.

Endnotes

- ¹ The Great Mekong Subregion (GMS) regional cooperation initiative and the GMS economic corridors are designed and developed by the Asian Development Bank (ADB). The GMS countries are Cambodia, the People's Republic of China (PRC, specifically Yunnan Province and Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Vietnam. In 1992, with assistance from ADB, the six countries entered into a programme of subregional economic cooperation, designed to enhance economic relations among the countries.
- ² In literature, BEZs are also described as SEZs, industrial parks, bonded zones, border trade zones, etc.
- ³ Refer, Kudo and Ishida (2013).
- ⁴ Ibid.
- ⁵ An impressive US\$ 15 billion or so invested in GMS projects (ADB, 2017).
- ⁶ Refer, for example, Perdiguero (2016).
- ⁷ Refer, for example, ADB (2007).

- ⁸ Transportation from Vietnam to Cambodia via border Moc Bai – Bavet, and transportation from Cambodia to Thailand via border.
- ⁹ Cambodia's GSP benefits, low wage rates, access to sea ports in Vietnam and easy availability of factory land have attracted several foreign units at Manhattan SEZ.
- ¹⁰ Some of the statistics have been drawn from Shiraishi (2013).
- ¹¹ Refer, for example, World Bank (2014).
- ¹² Data refers Thai Customs.
- ¹³ Refer, for example, World Bank (2014).
- ¹⁴ Savannakhet is also known as Savan-Seno.
- ¹⁵ Stone and Strutt (2009) and Menon and Warr (2006) argued that the second bridge on Mekong at Mukdahan (Thailand) – Savannakhet (Lao PDR) had benefits in terms of reduction in cost and time for cross-border activity, job creation, and a boost to local economies.
- ¹⁶ Based on Thai Customs.
- ¹⁷ Refer, PIB Notification dated.
- ¹⁸ Refer, for example, BEI (undated).
- ¹⁹ Refer, De (2017).
- ²⁰ Refer, for example, De and Majumdar (2014).

7

Mekong-Ganga Cultural Fusion

7.1. Introduction

The Mekong subregion comprises both coastal and inland countries of Southeast Asia. No other river in Southeast Asia has such immense importance as the Mekong and the river has nourished not only the economies of the Mekong countries (Cambodia, Lao PDR, India, Myanmar, Thailand and Vietnam), it also has been a catalyst to ancient civilisations that spin around powerful and culture-loving kingdoms of *Funan*, *Khamboj*, *Champa*, *Subarnabhum*i. Probably such similarities could be drawn with ancient riverine civilisations of the Nile, the Tigris or the Euphrates. In context of India's relations with the Mekong region, the ancient relations have been identified with the Ganga basin. The river Ganga continues to be the lifeline of India and an indispensable part of Indian civilisation and culture. Akin to the Ganga in India, the Mekong is seen not only as a source of livelihood but also a sacred entity with cultural and spiritual significance.

One of the strongest bases of the present day interactions between India and Southeast Asia is the long trajectory of socio-cultural contacts with the region. The relations between them are age old, and a rich repository of scriptural, epigraphic, numismatic and architectural evidences help one chart the magnitude and depth of this historical relationship. The cultural influence flowed both ways. Southeast Asia has also contributed in enriching India's culture and traditions.¹

There is the need to take the relationship between India and Mekong subregion forward in the contemporary period. In tune with the gradual acceptance of sub-regional initiatives, the Mekong-Ganga Cooperation (MGC) was launched in 2000. What needs to be espoused here is the primacy of civilisational contacts. Symbolic of the civilisational aspect, the MGC was

launched at Laung Prabang, the ancient capital of Lao PDR, located on the banks of river Mekong, on occasion of their festival of lights. It drives home the importance of ancient civilisation and culture as components that would constitute the backbone of this cooperation framework. It is, therefore, very apt that the fundamental areas that have been identified for MGC initiative are tourism, education, culture and transportation. Cultural engagements between India and Mekong countries have grown very fast in recent years, particularly since the Act East Policy (AEP) was introduced.

7.2. Building Bridges: Contemporary Endeavours

A somewhat detailed description of the historical links between India and the Mekong countries is not unjustified because it is based on the firm belief that the present can build and sustain inter-state relation only on a base of a positive past. India's endeavours at building bridges with its eastern neighbours, be it through India-ASEAN or India-Mekong region (through MGC), will need deeper connections based on not only economic linkages but through further deeper connectivity. By connectivity, it not only means physical infrastructural connectivity; it also means connections between communities, groups, societies and the people. This is possible through academic channels, institutional exchanges but even more intensively through sports, cultural platforms, travel and tourism. It must involve the people - common people who can help in developing a better sense of integration between the two sides - India and the Mekong countries. India has already taken some policy decisions in taking those primary strides in establishing the 'human contact', which is called the soft approach.

To begin with, the 2nd Ministerial Meeting of MGC that drew the outline of cooperation in the sectors identified through the Hanoi Action Programme (HAP) ensured that education, culture, tourism (apart from connectivity) received constant attention.

Education, especially higher education, has been an important element in India's policies towards the region. Human resource development is expected to develop as India's forte, and it includes capacity building. Capacity building has now a more unique approach that involves inculcating ethical values, developing professional attitudes and skills, environment conscious approach and a democratic orientation in decision making because India has a strong democratic culture. The impact of Indian value system would help to create a more positive mindset towards it. The establishment of Entrepreneurship Development Centres (EDCs), Centres for English Language Training (CELTS) and Vocational Training Centres (VTCs) are substantial steps. These centres will be supplemented with new Centres of Excellence in Software Development and Training.²

Scholarships constitute a major component in India-Mekong cooperation. It is noted that about 900 scholarships are already being offered by India under the Indian Technical and Economic Cooperation (ITEC) Programme every year. Laos alone gets 210 slots under this scheme every year, while Vietnam gets around 150, Cambodia gets 96 slots and Myanmar gets around 30 slots.³ Demand seems to be increasing, and it has been announced that India will train one representative each from Cambodia, Lao PDR, Myanmar, Vietnam and Thailand in museology and conservation techniques, under the ITEC Programme.⁴ This will help create experts to take care of the heritage of the region, which has elements of India-Mekong region ancient contacts. Besides, such expertise will help taking care of the recently founded MGC Traditional Asian Textile Museum at Siem Reap in 2014.⁵ India also proposes to supplement the existing capacity building programmes in the fields of law enforcement, financial markets, information technology and space. About 50 scholarships have been provided by the Indian Council of Cultural Relations (ICCR) and the scheme has been extended till 2016.⁶ A total six scholarships are offered for studying at the Nalanda University. At present, four students are enjoying this scholarship.⁷ There are also other scholarship slots for individual Mekong countries under the Colombo Plan, the Mekong-Ganga Cooperation Scholarship Scheme and the General Cultural Scholarship Schemes (both by ICCR). Nalanda University has been built by the Government of India in collaboration with several Asian countries in India in 2014 (see Box 1). Nalanda University is envisaged as a centre of inter-civilizational dialogue.

Box 1. Nalanda University

Nalanda University (NU) came into being by a special Act of the Indian Parliament – a testimony to the important status that Nalanda University occupies in the Indian intellectual landscape. The ancient Nalanda was a centre of learning from the fifth century CE to twelfth century CE. It is more than 800 years after the ancient seat of learning, the Nalanda Mahavihara, was reduced to ruins that classes commenced at the 21st century varsity, conceptualized with the same philosophy, from September 1, 2014. Nalanda is a stand alone international university unlike any other established in the country. Located in the town of Rajgir, in the northern Indian state of Bihar, Nalanda University is mandated to be “an international institution for the pursuit of intellectual, philosophical, historical and spiritual studies”. This new university contains within it a memory of the ancient Nalanda University and is premised on the shared desire of member States of the East Asia Summit countries to re-discover and re-strengthen educational co-operation. Located just 12 km from the ancient site, a total of seven schools have been planned at NU on about 450 acres of area. Once completed, it will accommodate about 7000 people. The Government of India has sanctioned funds to the tune of Rs 27.27 billion over a period of 10 years for the development of this University. Today, the university has three Schools: School of Buddhist Studies, Philosophy and Comparative Religions; School of Ecology and Environment Studies; and School of Historical Studies.

Source: AIC at RIS.

Figure 1: Civilizational Links between India and Mekong Countries

(a) My Son Temple



(b) Ananda Temple



(c) Vat Phu Temple



(d) Ta Phrom Temple



India's cultural relations with the Mekong countries have also started gaining momentum. It has certain visible components and activities - capacity building is a part of the cultural programme where the role of ICCR is very vital. Conservation and restoration of heritage sites in some Mekong countries constitutes another important ingredient. Temple complexes at Vietnam, Myanmar, Lao PDR and Cambodia are being restored that include at My Son⁸ the Ananda Temple, the Vat Phu temple, and the Ta Phrom Temple (see Figure 1). Bilateral cultural exchange agreements have also been signed with the Mekong countries. With Lao PDR, a Cultural Exchange Programme for the years 2011 to 2013 was signed in 2010, and similarly, India-Vietnam Cultural Exchange Programme 2011-2014, India-Cambodia Cultural Exchange Programme 2013-2015, India-Thailand Cultural Exchange Programme 2016-2019 have also been launched. The Government of India is also planning to undertake a project for mapping of Indian inscriptions along the Mekong river as well as a project to capture the cultural symbols of our diversity.⁹

Film Festivals, Festival of India, individual troupe dance performances, etc. have showcased the Indian culture in the Mekong countries. For instance, Indian Film Festival was arranged in Laos in 2012. Such a film festival was also arranged in Vietnam in 2015. A festival of India was organised in 2014 showcasing Indian dance, performances by Sangeet Natak Academy, Buddhist Festival by Central Institute of Himalayan Cultural Studies, Food festival, folk dance by Kalbelia Group, Mehendi, and Yoga. All elements of the festival received an overwhelming response in Vietnam. An Indian dance performance took place in Vietnam in 2014. Again, in Myanmar and in Cambodia, cultural exchanges have taken place in the form of dance troupe performances by both the sides.

Indian cultural centres shoulder the responsibilities of these cultural exchanges and other activities that help India fulfil its goals. While Myanmar, and Thailand each has a cultural centre, Vietnam, Phnom Penh and Vientiane are yet to have their respective India cultural centres. But that has not hampered substantive steps in building the blocks of India-Mekong cultural relations. Especially Buddhism has emerged as a strong component of the cultural link. For instance, a Chair on Buddhist and Sanskrit Studies has been set up at Preah Sihanouk Raja Buddhist University that has been operational since October 2010. India has donated a 16-foot sandstone to Myanmar, which has been placed in the Shwegadon Pagoda, Yangon. The International Conference on Buddhist Cultural Heritage was organised in 2012. Myanmar was invited with other members of the MGC as Guest of Honour at the 5th Buddhist Conclave, which was held in Varanasi in October 2016. Indian Prime Minister has acknowledged the leadership of Vietnam in facilitating the inscription of the Archaeological site of Nalanda Mahavihara. India has confirmed a project to preserve and conserve stone inscriptions and temples of King Mindon and King Bagyidaw of Myanmar in Bodhi Gaya would be undertaken by the Archeological Survey of India (ASI) with financial support from the Government of India. The two sides have also agreed on joint technical support for preservation and conservation of the two stone inscriptions. The Nalanda University is gradually being turned into a centre for archival resources (Common Archival Resource Centers (CARCs)), and courses on history of the region have been designed accordingly. The above mentioned MGC Museum at Siem Reap, Cambodia was constructed by India at a cost of US\$ 1.772 million.¹⁰ Documentaries to highlight the importance of the MGC Museum titled 'Power of the 6' has been commissioned, DVDs made and copies distributed to the member states. It will eventually reiterate the point of civilisational contacts Box 2 presents a quick outlook of the museum.

Culture is expected to encourage people to people contacts as much as tourism. The India-ASEAN Framework has provided the background for promotion of tourism between India and the Mekong subregion. It is believed that tourism has potential to promote India's cultural diplomacy. Yet, the starting point receives a jolt when one looks at the state of connectivity and measures that could boost tourism in the region. Air connectivity is not very promising. For instance, there were no direct flights between India and Vietnam until 2014, following a revised Air Services Agreement in 2013.¹² In 2015, India and Cambodia have signed bilateral treaties aimed at promoting of tourism. Yet, we find the lack of adequate air connectivity between India and the Mekong subregion for not only boosting tourism but also to support India's Act East Policy.¹³

Box 2: MGC Asian Traditional Textiles Museum, Siem Reap, Cambodia

With the aid of India, the Mekong-Ganga Cooperation (MGC) Asian Traditional Textiles Museum was set-up in April 2014, and it aims to familiarise the public with a range of textile traditions from India and the Mekong delta. The Museum also represents the civilisational, cultural and commercial linkages among the member countries down the centuries. The Museum explores raw materials, methods of processing the raw materials, weaving methods, methods of decorating the textiles, variety of textiles etc. from the Mekong-Ganga region. It features all-encompassing processes of making of traditional textile from around the cultures of these two rivers. Cambodia, India, Lao PDR, Myanmar, Thailand and Vietnam are the countries that have collaborated in the establishment and collections of the MGC Asian Traditional Textiles Museum. The Museum features the strong textile traditions of these countries. The Museum aims to make the viewing and understanding of variegated styles of textiles, their processes and contemporary fashion etc. a joyful and enriching experience. It also features extensive collections related to the textile traditions of countries in the Mekong-Ganga region. Each country has its own varieties of silk cocoon. Cambodia and Vietnam have gold cocoon feeding on the mulberry. India has Tussar, Endi/Eri, Muga varieties. Siem Reap is the gateway town to Angkor Park, where each of the monuments show many narratives from Hindu and Buddhist mythology. The carvings on the walls and the sculptures in the monuments speak volumes about the Angkor traditional textiles. But the drapes, styles etc. of the textiles on these carving and sculptures do not relate to the texture, colors, materials, vibrancy etc. of the textiles.

Source: MGC Asian Traditional Textiles Museum

There is substantive literature on how Northeast India is absolutely crucial for the entire roadmap of connectivity. Buddhism has a strong potential in promoting tourism. The Buddhist Circuit has the potential of attracting number of Buddhist followers to India. As early as 2010, the Government of India had started promoting Buddhist tourism by arranging for Buddhist Tourist Trains for travel companies to familiarise the pilgrim sites. There have been government projects to promote Buddhist Tourism in Uttar Pradesh and the Ajanta Ellora Caves. The recently held International Buddhist

Conclave was a big platform for launching plans pursuant to that. In line with the government's *Swadesh Darshan* (auspicious sights of the homeland) programme, India is preparing to develop a trans-border Buddhist circuit across South and Southeast Asia for people. The Quick Impact Projects undertaken by India also cover education, culture, tourism, development and Small and Medium Industries (SMEs); they await Plan(s) of action for implementation.

7.3. Going Beyond the Threshold: Imagining New Pastures

Browsing the relevant literature on the significance of the cultural relations in the MGC region makes cause for advocating for more. This is not to discount the ongoing activities, but yes to the MGC being an 'imagined community' of sorts that straddles to regions, its civilisation, culture and the people-to-people contact that matter utmost. These are the building blocks of this entity. Mekong countries and India countries have to build on this approach in order to take forward the MGC. One of the most vital things in bringing the people of the region closer is to facilitate hassle free movement of people across the border. It would need a proactive government and also sustainable funding. In a region that comprises of less developed to developing countries, public-private partnership would help solve some of the financial issues. Given the fact that private investors may not be interested in investing in large or long-duration infrastructure projects, we must invite private operators in the field of tourism and education. NRIs or any other private businessmen would be forthcoming to help promote either of these sectors. Another extremely vital element is involving stakeholders in the MGC. To further strengthen the cultural relations, we propose following policy measures.

(i) Strengthening Educational Links

Information Technology being one of India's strong advantages, the premiere institutes like the Indian Institute of Technology (IITs) will have promising future in the region. So would be the Indian management institutes like the Indian Institute of Management (IIMs), Indian Institute of Foreign Trade (IIFT) or some other professional institute like the National Institute of Fashion Designing (NIFD). India could help in promoting the research agenda by introducing institutes like Indian Institute of Oceanology, The Energy Resources Institute (TERI) or Tata Institute of Social Science (TISS). There is also enough scope for universities to assist the education systems in the MGC countries. Universities and educational institutes particularly from East and Northeast India can play a forthcoming role.

(ii) Opening India Studies Centres in Mekong and Mekong Studies Centres in India

There is a need to establish a series of India Studies Centre in the Mekong countries and vice versa, which will be an umbrella study centre for study and researching on a wide variety of streams and issues on India and Mekong countries.¹⁴ It would play a crucial role in showcasing India, its history, culture, politics, etc. and vice versa.

(iii) Promoting Tourism in All Dimensions

It is well known that India has yet to unleash all its potential in tourism and that is not happening until the physical connectivity is established. In fact, tourism in India should not be limited to Buddhist Circuit only. There is immense scope for ecotourism, sports and adventure tourism, medicinal tourism, and, perhaps also historical tourism, wherein packages could be offered based on historical periods, regimes. It would need some amount of research and imagination to design out novel packages. Northeast India could be turned into a hub of tourism as many communities of the region naturally relate to people across the borders.

(iv) Involving Youth, Facilitating Festivals, Music, Cultural Exchange Programmes, and Setting up Network of Media

Intercultural communication is vital to develop a better understanding of each-other practices and sensitivities, likes and dislikes, and thus, it could be very helpful in boosting mutual interaction. Small steps like indigenous food festivals, theatre festivals, art exhibitions, local art and handicrafts' displays involving indigenous cuisines along the border regions provide valuable input in weaving people-to people contacts. Archiving is important so that extinct indigenous art forms, music, performances do not get lost. Setting up a network of MGC news channels and digital media would pave the way for wider dissemination of MGC activities.

(v) Setting up Digital Networks and Archives

MGC countries should create an online resource centre. It is important to form some form of digital networking between known and unknown sources of valuable data, documentation, audio-visual materials that help construct the cultural currents within the region. An archive at Nalanda University perhaps is not enough to nourish the culture of the region. Other universities need to be part of the documentation process.

(vi) Cultural Resource Management and Building Network of Museums

The Mekong region and India could work together to share their best practices in the area of cultural resource management (CRM). Technological and professional cooperation could enhance understanding and improve sustainable CRM. A network of museums between India and Mekong countries may be taken up on priority basis.

(vii) Documentation of Civilizational Ties and Undertaking New Research Projects in Joint Collaborations

India and Mekong countries should undertake new collaborative research projects on documentation of civilizational ties. Nobel Laureate Rabindranath Tagore travelled to Southeast Asia. His literature is popular in the East, including Southeast Asia. There is ample scope to take up research projects on Indian literature not only Tagore's but also of literary figures from the region. Translation projects could help disseminate ideas about societies of these regions.

7.4 Concluding Remarks

As of now, the MGC seems to be a somewhat top-down process (as in most cases about regional integration in this part of the world), where the organisation is not only member-driven but policy-driven from the top. Time has come to go in for a bottom-up approach involving the real stakeholders in designing the integration process. It increases awareness amongst the people of the region. Awareness about MGC should be there amongst the new generation, and, therefore, MGC and integration of this region ought to be a part of the academic curriculum in higher studies. Needless to say, India being a democratic pluralist society has an important role to play. One must also understand that attracting students, young scholars and performers from the region will not enhance its image but help the region wean away from the overarching influence of other culture to a certain extent. A little careful planning and execution will not only yield positive dividends for India but also the MGC will emerge as a successful example of socio-cultural integration within the parameters of South-South cooperation. Thus, pragmatic cultural policy could drive a convergence of interests towards cooperation in finding common solutions. The fusion of cultural past could be enriched further through a robust cooperation between the Mekong region and India.

Endnotes

- ¹ Refer, Chaturvedy (2017).
- ² Remarks by the Minister of State for External Affairs Dr. V. K. Singh at the 7th Mekong-Ganga Cooperation Finance Ministers Meeting in Vientiane, Lao PDR on July 24, 2016.
- ³ Ministry of External Affairs (MEA), New Delhi.
- ⁴ Ibid.
- ⁵ Further India has proposed workshops to integrate traditional textiles with other art forms like painting, literature, puppetry and other performing arts and fashion trends. There is also a plan to build what is called a 'LIVE' section to showcase textiles artisans. Remarks by Secretary (East) at the Inaugural of the MGC Museum of Asian Traditional Textiles in Siem Reap, Cambodia, April 7, 2016.
- ⁶ "Mekong Ganga Cooperation", *Government of India Report, July 2016*, available at, https://www.mea.gov.in/Portal/ForeignRelation/MCG_N_2016_.pdf, accessed on 19.11.2016.
- ⁷ Ibid.
- ⁸ My Son, a monument of ancient Hindu Cham civilisation is considered as a symbol of the historical ties between India and Vietnam.
- ⁹ Refer, Prime Minister's Modi's speech at 14th ASEAN-India Summit which was held at Vientiane on 8 September 2017, available at http://www.mea.gov.in/Speeches-Statements.htm?dtl/27551/Remarks_by_Prime_Minister_at_the_14th_ASEANIndia_Summit_in_Vientiane_Lao_PDR_September_08_2016
- ¹⁰ Ministry of External Affairs (MEA), Government of India.
- ¹¹ Ibid.
- ¹² Refer, "Towards a Stronger Cultural Link", Chapter12, *ASEAN-India Development and Cooperation Report 2015*, ASEAN-India Centre, RIS, published by New York, Routledge, 2016, p.134 (AIC-RIS, 2015)
- ¹³ Minister of State for External Affairs V.K. Singh underlined the importance maritime and air connectivity at the 2016 MGC Ministerial Meeting at Vientiane, Laos. See, "India asks MGC states to increase maritime, air connectivity", *india today in*, available at, <http://indiatoday.intoday.in/story/india-asks-mgc-states-to-increase-maritime-air-connectivity/1/722841.html>, accessed on, 21.11.2016. Also refer, AIC-RIS (2016)
- ¹⁴ Chulalongkorn University has an India Studies Centre, and there is one *Centre for Indian Studies* at the ISEAS Vietnam.

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ASEAN-India Centre at RIS

Core IV-B, Fourth Floor, India Habitat Centre
Lodhi Road, New Delhi-110 003, India
Tel.: +91-11-2468 2177-80, Fax: +91-11-2468 2173-74
E-mail: dgooffice@ris.org.in; aic@ris.org.in
Website: www.ris.org.in; <http://aic.ris.org.in>