



Cambodia – Laos – Myanmar – Vietnam

**A PROMISING SUB-REGION
IN LIGHT OF “CHINA +1” STRATEGY**

April 2023

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Introduction

From now on, AHK Vietnam shall be appointed to promote, support and represent German business interests additionally in Cambodia, Laos and Myanmar, alongside Vietnam. The four countries together constitute a sub-region which will hereafter be referred to as “CLMV”. Let’s have a deeper insight into the economic potential of this sub-region and its cooperative mechanism which has been established since 2004. This blog focuses on crucial features and provides German businesses with investment opportunities of the sub-region.

1. Overview about the sub-region CLMV

“China + 1” has been considered as a common concern of numerous German companies who have been investing in China and are currently seeking to diversify their location outside China. By offering the most competitive market entry barriers for foreign companies, CLMV sub-region is emerging as a new preferable investment destination.

The CLMV’s cooperative mechanism aims to foster regional economic integration to ensure stability and prosperity of the four countries, and to narrow the development gap between the sub-region and other ASEAN members. The cooperation focuses on the following sectors: Trade and Investment, Human Resources Development, Agriculture, Industry, Energy, Transport, Information and Communication Technology (ICT), and Tourism.

With the advantages of a well-trained and competitive labor force, prompt global integration and a young and open market, this Mekong sub-region is now transforming strongly into an Advanced Global Business Hub.

2. CLMV key features

2.1. Development Framework Action Plan for 2023-2024 period

At the 14th CLMV Economic Ministers’ Meeting in September 2022 (CLMV-EMM 14), all four countries agreed on an action plan for implementing the CLMV Development Framework, which focuses on six identified areas:

- Trade and investment cooperation
- Digital economy promotion
- Implementation of regional commitments and post COVID-19 crisis recovery plan
- The action plan for implementing the CLMV Development Framework
- Human resources development
- Solutions and cooperation programs to help envision the CLMV in 2030 as upper-middle income countries.



Figure 1: The 14th CLMV Economic Minister's Meeting, 16 September 2022, Cambodia (Photo: VNA)

2.2. The global economic integration

All four countries of the sub-region are dynamic members of the ASEAN Economic Community (AEC) and, therefore, receive numerous advantages thanks to the economic relations between ASEAN and other countries and regions. AEC is the realization of the region's end goal of economic integration, which transforms ASEAN into a single market and production base, a highly competitive region, with equitable economic development, and fully integrated into the global economy.

According to the ASEAN Blueprint 2025, more strategic directions are developed to further deepen economic integration, such as free flow of goods, services and labor forces; introduction of transparent nationwide competition policies and laws (CPL); improvement of intra-regional connectivity; acceleration of CLMV's economic integration and utilization of the Free Trade Agreements (FTAs) and Comprehensive Economic Partnership (CEP) between the ASEAN and other developing countries and regions.

The FTAs and CEPs among ASEAN and other strategic partners are much economically benefit to the CLMV, as it reduces tariffs on goods and services, and facilitates transportation to enhance the sub-region's global supply chains and trade liberalization. The agreements contributed considerably to the growth in trade volume and rising inflow of foreign investors in the four countries. Up to this point, ASEAN has signed bilateral FTA with China, India, Japan, Australia-New Zealand and South Korea; additionally, RCEP with Korea, Australia, New Zealand, Japan and China. Other ASEAN Dialogue Partners with advanced economic relationships include Russia, the USA and Canada.

Particularly, Vietnam is proudly one of two ASEAN nations having signed the FTA with the EU (EVFTA), along with Singapore (EUSFTA). Vietnam is also a member of the CPTPP (TPP11), beside Malaysia, Brunei and Singapore.

2.3. The East-West Economic Corridor (EWEK)



Figure 2: Illustrated East-West Economic Corridor (above) and Vietnam's road projects connecting to EWEK

With the length of 1,450km, the economic corridor connects the most strategic provinces, ports and border gates of Myanmar, Thailand, Laos, and Vietnam. It yields numerous advantages in terms of trade and provides enormous potential for improving logistics, including cost reduction and optimization of transport time in the subregion. It also facilitates customs procedures, and therefore attracts more foreign direct investments.

In Vietnam, the EWEK runs along parts of National Highway 9 and 1A – two of the most important national arterial roads. Various infrastructure projects have been launched as well as currently in progress, aiming to facilitate transportation between international border gates to Laos and the economic zones and major international seaports of the provinces of Quang Tri, Thua Thien Hue and Danang (Vietnam) – three provinces in the Centre Vietnam, favorably located at the intersection of the North-South and East-West of the economic corridors.

2.4. Foreign Direct Investments (FDIs)

According to the ASEAN Investment Review, in 2021, FDI in CLMV countries reached 21.2 billion US\$, accounted for 12.2% share of FDI inflows of ASEAN. Investment in Cambodia and Vietnam was stable, 3.5 billion US\$ and 15.7 billion US\$ respectively, but inflows to Myanmar fell considerably by 55%. Laos has seen a positive investment growth of 10.8% to 1.1 billion US\$, strongly contributed by infrastructure and energy projects. Despite the impact of the pandemic, investors remained active in a wide range of industries in Vietnam, Cambodia, and Laos. Power and renewable energy are among infrastructure-related areas which increasingly attract international project finance activities. Vietnam has also offered investors various incentives such as simplified administrative procedures and requirements, reduction or exemption of administrative fees, as well as assistance with labor force recruitment and training.

2.5. Trade relationship with Germany

In the previous years, Germany and CLMV have enjoyed a great economic relation. Germany is one of the most strategic partners as well as the largest EU trading partner of the sub-region, and CLMV remains one of the largest textile exporters of Germany. According to data from Destatis, in 2022, total trade volume between Germany and CLMV grew to 22.3 billion EUR, registered an increase of 29.7% from the previous year. All countries in the sub-region enjoy a positive growth in exports volume with Germany. Particularly, Myanmar exports volume to Germany increased strongly by 65.6% to 1.6 billion EUR, contributing to a rise of 60.3% of total trade between two countries.

	Export to Germany	YoY (%)	Import from Germany	YoY (%)	Total Trade	YoY (%)
Vietnam	14.7	37.3	3.4	-9.1	18.1	25.3
Cambodia	2.2	42.4	0.1	-24.6	2.3	35.3
Myanmar	1.6	65.6	0.1	1.9	1.7	60.3
Laos	0.2	35.5	0.03	27.8	0.2	34.2
Total					22.3	29.7

Figure 3: Germany – CLMV Trade Update 2022 in billion EUR
(Source: Destatis)

3. A booster and sustainable partner for German businesses

3.1. Abundant and competitive labour market

Being a home to more than 175 million people with a low unemployment rate, the Mekong sub-region offers enhanced competitive and productive labor force. A growing youthful middle-class with higher consumption demand and purchase level, as well as motivated and well-trained workforce contribute to the large extent to the growth of the production capacity and domestic economy.

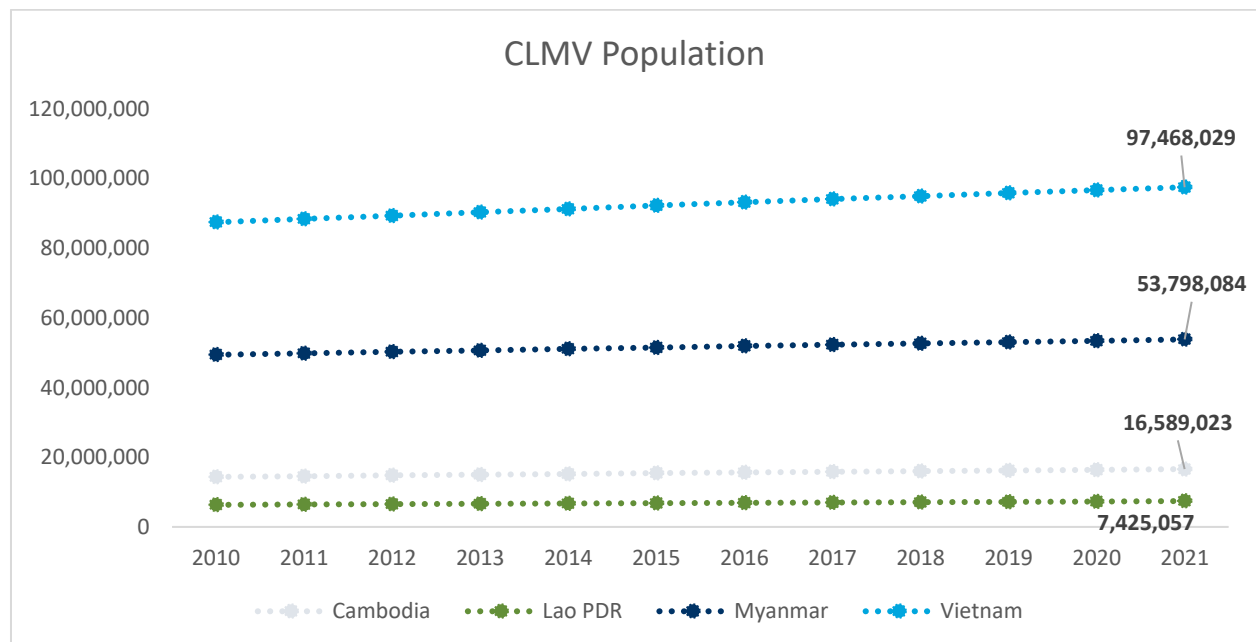


Figure 4: Population of the sub-region countries from 2010 to 2021 (Source: World Bank)

Dual Vocational Education and Training (VET) according to German DHIK Standards: Since 2013 the AHK Vietnam has offered German dual VET programs towards German, international and local companies, aiming to train a high-quality workforce for Vietnam. As off 2023, AHK Vietnam has successfully enrolled more than 500 apprentices across 10 generations in 10 different occupations. More details about our program can be found on our [website](#).

3.2. Booming E-Commerce market

The Covid-19 has propelled the E-Commerce market in the region into a new phase. “e-Economy SEA 2018”, a study by Google and Temasek projected that Southeast Asia’s internet economy could exceed 240 billion US\$ by 2025. In 2019, the ASEAN Economic Ministers (AEM) signed the ASEAN Agreement on Electronic Commerce, which focuses on facilitating E-commerce transaction and cooperation within the region, as well as creating an environment of trust and confidence in the use of E-commerce. Furthermore, the CLMV experienced a rapid growth of E-commerce market in 2022, aided by the prompt adaptation to digitalization and high technology, and increase in consumer demand. Taking advantage of the fast-growing digital economy in the ASEAN, the CLMV as a sub-region also plans to promote digital transformation in a wide range of sectors including government, healthcare, finance, transportation and logistics.

3.3. High integration of Industry 4.0

The industrial digitalisation has been continually receiving greater interest from German investors over the recent years, not only which are currently operating in the sub-region countries, but also seeking a production-base alternative and a new investment location. Recognizing the sub-region’s huge potential of Industry 4.0 integration, some German initiatives have already invested in various projects to utilise the potential. In Cambodia and Myanmar, Siemens and Phoenix Contact are investing in 4.0 acceleration through training programs, authorized dealerships and representative offices. In Vietnam, Festo, a German supplier of automation technology and technical education, has partnered with 25 schools, universities, and industry-wide institutes to train specialists. Additionally, since 2017, Henkel Adhesive Technologies has implemented smart factory system in their adhesive factory in Bien Hoa, Dong Nai. Furthermore, Bosch Rexroth has launched their Industry 4.0 Lab at LILAMA2 International Technology College.



*Figure 5: VinFast's factory with a complete welding solutions package from ABB
(Photo: VinGroup)*

3.4. Prospects of Sustainability and Green Growth

All four countries signed the United Nations Sustainable Development Goals (SDGs) and are committed to focusing on environmental protection, adapting and responding to climate change, and green technology and development. Otherwise, Vietnam, Cambodia and Laos have signed up to the Asia Zero Emission Community (AZEC) scheme in efforts to achieve carbon neutrality. Thanks to its advantageous geographical location, the CLMV sub-region offers a great potential for renewable energy. The number of German investors focusing on developing power plants within the region has increased rapidly in the last few years. Vietnam and other G7 nations have agreed on a bold Just Energy Transition Partnership (JETP), aiming to support Vietnam to deliver on its ambitious Net Zero 2050 goal. The Partnership will mobilize an initial 15.5 billion US\$ over the next 3 to 5 years.

Vietnam has ranked #2 among ASEAN countries in the assessment of its progress toward achieving SDGs, according to the latest Sustainable Development Report. The Ministry of Planning and Investment also held a kick-off workshop on development of Vietnam's Voluntary National Review (VNR) 2023, which offers parties navigation towards the accomplishment of the SDGs by 2030. The purpose of the project is to share its achievement in fulfilling SDGs as well as difficulties, challenges and experience during the implementation process, and put forward major upcoming strategies, according to the Deputy Minister. Particularly, the German Agency for International Cooperation (GIZ) and the United Nations (UN) asserted to accompany and support Vietnam in the VNR 2023 process.

With a total investment of 50 million US\$, Alba Asia Group, a German company in the waste management and recycling industry signed a cooperation agreement to jointly develop the largest food-grade PET/HDPE plastic recycling plant in Vietnam. The project is much of a necessary solution to Vietnam's growing plastic waste problem. It also helps creating a significant number of green jobs, and therefore improving living quality of many people, according to the chairman of ALBA Group.

As one of the major contributors to sustainability development in Vietnam, Siemens AG has supported numerous power plants with high-tech solutions, particularly those in Nhon Trach power plant in Dong Nai Province. After the success of the first turbine in Nhon Trach 2, the construction of other two gas turbines in Nhon Trach 3 and 4 with an estimated investment of 1.5 billion US\$ was approved. Furthermore, Siemens Gamesa Renewable Energy has signed a Memorandum of Understanding (MOU) with BCG Energy on providing equipment and technical solutions for wind power plants in Vietnam. The contract value is expected to worth about 400 million US\$.

According to the state-owned power authority Electricity of Vietnam (EVN), by the end of September 2022, more than 100,000 rooftop solar systems were installed, accounting for more than 10% of the total installed capacity of Vietnam's power system. The GIZ and the Electricity and Renewable Energy Authority (EREA) of the Ministry of Industry and Trade have joined hands to implement a rooftop solar project in the commercial and industrial sectors. Additionally, Binh Dinh People's Committee and PNE AG, a multinational wind power group, signed an agreement to develop a 4.6 billion US\$ offshore wind farm, showing a positive prospect of Vietnam reaching a green economy in the near future.

Cambodia is actively showing efforts in attaining sustainable growth and embracing international SDGs with support of the "Policy and Innovation Hub for Sustainable Development". The program, initiated by the United Nations Development Programme (UNPD), aims to assist Cambodia in the preparation and development of a national plan, policy research, financing and innovative solutions



Figure 6: The 60-MW solar farm in Kampong Speu province of Cambodia, supported by ADB (Photo: EDC)

for the following aspects: inclusive and sustainable growth, environmental protection and climate change adaptation and mitigation, and opportunities for all workers. After the pandemic, the country has successfully built a green recovery through actions such as natural resource preservation, climate change combat or energy efficiency promotion that set the foundation for Cambodia's first VIR. The GIZ, Cambodia's government, the United Nations (UN) agencies and NGOs have jointly financed the project with a total budget of 14 million US\$.



Figure 7: A 240-MW floating PV project at Laos' largest hydropower dam on the Nam Theun River, owned by the French energy giant EDF (Photo: EDF)

Known as “The battery of Southeast Asia”, Laos has received support from the EU on inclusive and sustainable development with two programs of 55 million EUR value: the “ASEAN Regional Integration Support-Lao PDR Trade-Related Assistance” and the “EU Nutrition Budget Support”. Thanks to its positioning within the Mekong River, Laos has a huge potential in renewable power production, in particular hydropower, which has been attracting the most FDIs. Consistent growth over the last two decades was predominantly driven by large-scale investment in hydropower. In term of solar power plant, in total of 58 stations around the country are reported to be planned, under construction or completed.

solar climate and geographic features. Myanmar is currently among the largest electricity exporter to neighboring countries. Foreign investors are currently exploring opportunities for investment in Myanmar's abundant solar, wind, biomass sources. According to GTAI, energy sector is among the major sectors that has received the most FDI Inflows in the last few years.

Myanmar has received a great interest in solar power and photovoltaic development due to its favorable

3.5. Resilient and Sustainable Supply Chain

With the theme “Connecting Regions: Partnerships for Resilient and Sustainable Supply Chains”, the ASEAN and the Organisation for Economic Cooperation and Development (OECD) actively look forward to partnership for sustainable supply chain.

Furthermore, Vietnam and OECD signed a MoU for the 2022-2026 period, under which the OECD pledged to support Vietnam's energy sector to fulfil its plan of net zero emissions by 2050, as effective clean energy in the manufacturing sector is increasingly of much interest of foreign investors, according to the OECD.

In 2021, GIZ has established the “Sustainable Textile Industry in Cambodia (2021 - 2024)” project, under the execution of the Ministry of Economy and Finance (MEF) of Cambodia, illustrating objectives of improving welfare, reducing environmental damages and contributing to diversification and competitiveness of the sector. In 2022, Cambodia has launched “Responsible Business Hub 2022” which aims at strengthening capacity of the national industry and manufacturing sections in order to comply with Germany's new Supply Chain Due Diligence Act (LkSG) requirements. The hub is partnered by GIZ, the European Chamber of Commerce (EuroCham) and the Textile Apparel Footwear and Travel Goods Association in Cambodia (TAFTAC).



Figure 8: The only European managed industrial park in Vietnam, Deep C using renewable energy from a rooftop solar panel and a wind turbine for industrial production. (Photo: VIR)

More and more German companies are relocating their production to Vietnam as an increasingly important link in the supply chains in Asia. Accordingly, companies have to prepare in time and abundance for the entry into force of this law. Understanding the difficulties relating to language and culture while doing business in Vietnam, AHK Vietnam offers German companies pragmatic support in sustainability consulting. Our services include customized consulting, report on working process of local suppliers, training program for local suppliers, active supplier management and support in complaint management. Contact us on our [website](#) for an individual offer.

In the last few years, textile and garment have been Myanmar's major export products to Germany. The sector has provided job opportunities for a great number of workers and significantly contributed to the economic development and reduced poverty. Seizing the importance of the sector to the country's economy, several initiatives have been projected to improve social, environmental and safety standards in supplier factories, and to build skills of workers. These include, among others, GIZ program on "Promoting Sustainability in the Textile and Garment Industry in Asia (FABRIC)" running from 2019 to 2025; "SMART Myanmar", funded by the EU and other private sector partners which aimed at promoting labor right in the industry, running from 2013 to 2022; and the EU-funded Multi-Stakeholder Alliance for Decent Employment (MADE), aiming to strengthen economic resilience and transparency and promote best practices with regards to sustainability in the garment and textile sector.



Figure 9: MADE project launched in March 2023 in Yangon, Myanmar (Photo: SMART Textile & Garments/sequa)

4. Conclusion

The CLMV sub-region has strongly enhanced their economic prosperity over the last years, its growth rate has also outperformed other giant countries in the region. The Economic Intelligence Centre of the Siam Commercial Bank forecasts that the CLMV countries will gain stronger growth momentum in 2023, of which key drivers will be rising domestic demand and tourism. Given more FDI-friendly policies and incentives, and numerous advantages of labor force, high integration of E-Commerce market and Industry 4.0, prosperity of green growth and sustainable development as well as sustainable supply chain, the sub-region is emerging confidently as a promising investment hub for investors, particularly from Germany.

Interested in expanding your business in Cambodia, Laos, Myanmar and Vietnam? Contact us for support and company. Our AHK – Team is ready to discuss your business needs and on how to do business in the CLMV sub-region successfully. For contact details see: <https://vietnam.ahk.de/en>

Contact us

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