Chapter 30
Inward and Outward Foreign Investments of the Asian Economies in Transition and India:
Determinants of FDI and India's Prospects in CLMV

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ABSTRACT

This chapter is divided into two parts. The first part examines panel data evidence concerning empirical significance of the determinants of Foreign Direct Investment (FDI) in CLMV countries. Theoretical and empirical findings and outcomes on FDI have been considered to test the model for the aforementioned nations. The data has been taken from the World Bank through 2005-2014. Findings accept the four proposed hypotheses and the results are significant. The second part explores the trade and FDI situation in CLMV through secondary data, and establishes that India has potential to augment bi-lateral ties through this route. Literature review for this section also corroborates with the findings of the first part.

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INTRODUCTION

The economic reforms of the 1990s in the developing countries were poised to bring about a sea change in the global market system. However, the post reform era exhibited a bleak growth trajectory for the countries. The Latin American crises, not just put a halt to the reform era but what ensued was years of lost growth opportunity. The starkest scenario was in Sub-Saharan Africa that was enmeshed in extreme poverty and debt. The Middle East, which had countries reeling under stagnation, became the breeding ground for terror activities. Finally, the currency crisis dealt a major blow to the promising growth take off exhibited by the Asian Tigers.

However the steady growth of both China and India, post the adoption of liberation strategies, came to salvage the situation. It had rippling effects on the world market due to increased demand for raw materials to fuel its export-led growth. This acted as a boost to the African and Latin American economies, as commodity prices ascended. With the developing economies recovering from their downturn, BRICS began to emerge as a major powerhouse (Jim O'Neill assigned the acronym BRIC to identify the four large countries, Brazil, Russia, India, and China, that encompass over 40% of the world's population, and whose fast-growing economies best represent the beginning of a new era of emerging markets) (Hidalgo, 2013). Thus began the golden era of the emerging economies wherein the advanced economies grew on average a 1.6% a year, while the 154 economies defined as emerging by the International Monetary Fund (2007) expanded by 6.2% every year. The emerging economies are classified as follows:

- Central and Eastern Europe and the Former Soviet Union (now the Commonwealth of Independent States (CIS)) (Kvint, 2008).
- Latin American countries emerging towards a market-based economy.
- African countries.
- Asian economies (India, China, and CLMV)

The late 1980s race to transform into market economies has led to the categorization of countries that are at various points along the track into transition economies. At present, the transition economies in Asia primarily comprise of Cambodia, Lao PDR, Myanmar, and Vietnam (CLMV). The 1997-1998 financial and economic crises had alerted the Association of Southeast Asian Nations (ASEAN) on the need to strengthen intraregional cooperation, which in turn resulted in the creation of a blueprint of the ASEAN Economic Community (AEC) in 2006. The ASEAN Economic Community Blueprint, which was signed by the ASEAN member countries in 2007, focusses on the following four core areas:

1. ASEAN as a single market and a base international production with elements of the free flow of goods, services, investment, skilled labour, and freer flow of capital;
2. ASEAN as a region with high economic competitiveness, with elements of competition rules, consumer protection, intellectual property rights, infrastructure development, taxation, and e-commerce;
3. ASEAN as a region with equitable economic development with elements of small and medium enterprise development, and the initiative for ASEAN integration CLMV countries (Cambodia, Myanmar, Laos, and Vietnam);
4. ASEAN as a region to be integrated fully into the global economy with elements of a coherent approach to economic relations happen outside the region, and increase participation in global production networks (Association of Southeast Asian Nations, 2008).