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for investment and trade

Opportunities for India GMS trade & investment

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1. Introduction

Trade and investment between India and the Greater Mekong Sub-region (GMS) countries of Cambodia, Thailand and Vietnam is relatively low in comparison to India's trade with the rest of the world. GMS countries offer many opportunities for Indian businesses given their geographic and cultural proximity and their involvement in similar global value chains such as automotive, garments and pharmaceuticals. In driving this integration, small and medium-size enterprises can play a key role in India's strategy – and assist it to progress its 'Act East' policy – to promote economic cooperation more closely with GMS, amongst others. It is believed that Indian SMEs are more likely than larger firms to enter the smaller GMS markets and it is further believed that this can provide a launchpad to expand into larger, more complex markets including further afield with ASEAN and the EU.

For businesses that are ready for this step, it is important to consider which approach to internationalisation is most appropriate. Possible approaches include exporting, importing, technology transfer, licensing, joint ventures, as well as inward and outward investment.

This factsheet provides an introduction to sectors that offer opportunities for international trade and investment but PROFIT cautions that businesses will not be able to realise all the opportunities and indeed, precisely because these are perceived as the opportunities, the competition may be tougher. So do not feel constrained if your business works in other sectors. Either way, PROFIT will help you explore further your desire to internationalise.

2. Level of trade

2.1 Exports

The volume of exports from India has been increasing for at least a decade as illustrated in table 1. However, despite the geographical proximity, currently a small proportion of exports from India go to Cambodia, Thailand and Vietnam. For Cambodia it is \$188 million of total exports in 2019 and for Thailand and Vietnam it was \$4 billion and \$7 billion respectively.

Given that the risks associated with trade are generally lower between countries that are closer together in geographical proximity and culture, this provides considerable opportunities for first time traders to gain experience at a lower cost.

Table1: Exports from India to GMS¹

	2011 (USD Mil)	2015 (USD Mil)	2019 (USD Mil)
Cambodia	67	142	188
Thailand	2,274	3,465	4,441
Vietnam	2,651	6,258	6,507
India total exports	249,815	310,338	313,361

India's Ministry of Trade and Commerce for 2019 show that key exports to Cambodia are automotive, pharmaceuticals and garment and footwear which comprise 60 per cent of Indian exports to Cambodia. For Thailand, they suggest that jewellery, chemicals, aquaculture and automotive are the main export sectors and for Vietnam it suggests that agri-processing, aquaculture, construction and textiles are the primary sectors. In addition, some service sector exports such as tourism and IT and IT enabled services are significant – indeed, in some cases, more so than the export of manufactured goods.

It is also important to consider the top importing sectors to assess whether there are further opportunities for Indian exporters. The top imports into Cambodia in 2018 are textiles, petroleum products and automotive. Pharmaceutical products, which was India's largest export to Cambodia in 2018, does not feature in Cambodia's top 10 imports. The top imports into Thailand in 2019 were electrical equipment including computers, petroleum products and precious stones and metals which together accounted for over 50 per cent of total imports. Automotive and chemicals were also among the top 10 imports. The top three sectors of imports into Vietnam in 2019 were mechanical and electrical equipment and plastics which contributed almost 55 per cent of the total. Iron and steel, automotive and cotton were also among the top 10 imports. Mechanical and electrical equipment and plastics cannot be identified as separate sectors as they can be used across a range of sectors such as agri and aqua processing as well as pharmaceuticals.

Services form a considerable part of Indian GDP and exports to the GMS. Although figures for exports are not available, services contributed almost 50 per cent of GDP in 2019. The largest service sectors are within ICT, where India has a considerable comparative advantage, and tourism. In regard to ICT, the push towards digitisation and innovation in

¹ Ministry of Commerce and Industry of India. Trade Databank, Available at commerce-app.gov.in/eidb/, accessed on 22/11/2020.

Thailand due to the Thailand 4.0 policy provides an opportunity for Indian firms to provide embedded services in high-tech manufacturing products or core IT services within the service sector such as in banking or logistics. In Cambodia, the government is interested in importing new technologies to enable higher value addition and in Vietnam the focus is on developing high tech and high intelligence manufactured products which could require inputs sourced from Indian SMEs and the service of these inputs. According to the ADB, IT services are India's highest service export to Cambodia and, based on each country's respective policies, each has a need or requirement for this. There may also be opportunities for Indian SMEs to export tourism services in certain sub-sectors such as hospitality and catering although this sector might be somewhat restricted in the coming years due to covid.

2.2 Imports

Statistics from the Indian Ministry of Commerce and Industry show that the majority of imports from Cambodia in 2019 came from the garments sector which is currently one of main drivers of economic growth in Cambodia. Apparel, accessories and footwear alone amounted to 52 per cent of total imports, though it is likely that much of this is re-exported, possibly after further value addition. Imports of electrical machinery and equipment have grown to 18 per cent of imports from Cambodia in 2019 and that of natural commodities with low value added such as coffee, tea and spices, have fallen over time.

The top sectors for imports from Thailand in 2019 were plastics, electrical machinery, chemicals, precious stones and automotive parts. In 2018, ADB suggested that there are interesting opportunities for economic integration between India and Thailand in the areas of precious stones, plastic and electrical machinery.

From Vietnam, over 60 per cent of exports to India in 2019 were electrical and fabricated metal equipment. An additional 12 per cent was from natural commodities such as copper, rubber, coffee, tea and spices.

3. Foreign direct investment

The World Bank highlights FDI outflows from India reached \$12 billion in 2019. According to the Council for the Development of Cambodia, total foreign investment inflows reached US\$3.6 billion in 2018. India investment worth US\$20 million (less than one per cent) still

ranked it in Cambodia's top 10 foreign investors. Major investments from India are in the field of agricultural machinery, power, construction and mining, most of which are by Indian multinational conglomerates rather than SMEs.² Cambodia is aiming to encourage foreign investment and so has been adopting liberal policies on taxation and foreign ownership. Key sectors include banking (though this is unlikely to be of interest to SMEs), insurance, energy, especially solar energy, e-commerce and, at least until the covid health crisis, aviation. However, it is also keen to encourage investment in the garments sector, hotels, agriculture, tourism and technology.³ The Economic Times of India reports that in Thailand there are currently around 40 Indian companies that have made total investments of \$2 billion in the areas of software, agri chemicals, electric car development.⁴ The Government of Thailand is keen to encourage investment by Indian businesses. Its Thailand 4.0 initiative aims to upgrade existing sectors (automotive, electronics, medical and wellness tourism, agri-processing and biotechnology) and develop new sectors (automation, aviation, biofuels, digital economy and medical hubs).⁵ This highlights a considerable opportunity for Indian businesses in relation to technology transfer.

The Indian Embassy in Hanoi estimates that Indian FDI in Vietnam is around \$900 million from 278 projects within the energy, mineral exploration, agri-processing, sugar, tea, coffee manufacturing, agri-chemicals, IT and auto components sectors. The large number of businesses investing in Vietnam suggests that conditions might be more favourable to SMEs. ADB notes that Indian pharmaceutical companies make up 25 per cent of registered foreign drug companies. Indian pharmaceutical SMEs could therefore have an opportunity to capture more of the value added by setting up manufacturing units locally. The Vietnamese strategy on exports and imports for 2011-2020 highlights specific sectors as a priority: fuel and minerals processing, agri-forestry and aqua products processing and the development of high tech and artificial intelligence manufactured products that will reduce dependence on imported materials such as mechanics, wood furniture, garment and textile and footwear. These sectors are therefore not likely to provide much prospects in for Indian

² India-Cambodia Bilateral Relations Brief (2020). Available at www.mea.gov.in/Portal/ForeignRelation/India-Cambodia_Bilateral_Brief_feb_2020.pdf, accessed 22/11/2020.

³ Doing Business in Cambodia (2020). Available at www.legaleraonline.com/articles/doing-business-in-cambodia-indian-perspective, accessed 22/11/2020.

⁴ The Economic Times of India (2018). Thai Companies keen to invest \$3 billion in Indian infrastructure. Available at economictimes.indiatimes.com/news/economy/foreign-trade/thai-companies-keen-to-invest-3-billion-in-indian-infrastructure-projects/articleshow/63883025.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

⁵ Anuroj, B. The Positives of Indian-Thai investments. Available at indiaincgroup.com/the-positives-of-indian-thai-investments-india-global-business/, accessed on 22/11/2020

exporters but could be particularly attractive to investors interested in technology transfer especially as the Vietnamese government expects to develop supply centres, invest in new technologies for the garment, textiles and footwear industry. The government also has had a strategy to advance the mechanical equipment sector during the last 10 years and see it as “one of the key foundation industries, having an important role in developing the economy and strengthening national security”.⁶ Investment in this sector could therefore reap considerable rewards.

The Government of Vietnam is particularly promoting investment opportunities in construction, cosmetics, agriculture and agri-processing and automotive, which currently attracts many immigrant investors.⁷ The Government of Vietnam also argues that the EU-Vietnam Free Trade Agreement creates opportunities for Indian investors. They note, for example, that the garments and textiles sector is increasing exports to the EU whilst seeking investment from Indian businesses as well as being a source of quality fabrics and yarns. Another sector thought to be attractive to Indian investors is renewable energy⁸. Government priority sectors

In 2018 the Ministry of Commerce and Industry identified nine sectors for export promotion which included gems and jewellery, leather, textiles and apparel, engineering, electronics, chemicals and petrochemicals, pharmaceuticals, agriculture and allied and marine products⁹ many of which operate in the SME market. In terms of services the government has set targets to increase their share of global service exports from three per cent in 2015 to four per cent by 2022 and has provided a fund of nearly \$700 million to support the sectors of information technology & information technology-enabled services, tourism and hospitality, medical value travel, transport and logistics, accounting and finance, audio visual, legal, communication, construction and engineering, education, environmental services, and financial services.¹⁰

⁶ Vietnam Trade Promotion Agency, Vietnam Mechanical Products. Available at en.vietrade.gov.vn/index.php?option=com_content&view=article&id=1122:-vietnam-mechanical-products-&catid=106:n-phm-ting-nc-ngoai&Itemid=124, accessed on 22/11/2020

⁷ Top 5 industry investment opportunities in Vietnam for foreigners. Available at www.enworld.com.vn/blog/2019/11/top-5-industry-investment-opportunities-in-vietnam-for-foreigners

⁸ Nguyen, T. (2020). EVFTA creating good opportunity for Indian investors. Available at vietnamtimes.org.vn/evfta-creating-good-opportunity-for-indian-investors-21404.html, accessed 22/11/2020

⁹ The Hindu Business Line (2018). Commerce Ministry to focus on 9 key sectors to promote exports. Available at www.thehindubusinessline.com/economy/commerce-ministry-to-focus-on-nine-key-sectors-to-promote-exports/article25111505.ece, accessed on 22/11/2020

¹⁰ The Economic Times (2019). India's strategy is to increase export market share. Available at economictimes.indiatimes.com/news/economy/foreign-trade/indias-strategy-is-to-increase-exports-for-higher-market-share/articleshow/68146847.cms?from=mdr_a, accessed on 22/11/2020.

For outward investment, the government launched India's 'Act East' policy in 2014 to improve economic integration with ASEAN countries which include Cambodia, Thailand and Vietnam.

5. Conclusion

Based on this analysis, several sectors offer promising prospects for SMEs considering international trade and investment in Cambodia, Thailand and Vietnam.

SMEs could consider exporting within the automotive, pharmaceutical and textiles sectors to Cambodia and importing within garment and footwear and electrical machinery sectors. Given that there is a clear opportunity for businesses to gain higher value in global value chains in the garment sector, there are also opportunities for Indian businesses to invest in Cambodia within this sector. Other sectors that might have interesting opportunities for investment for Indian business in Cambodia are insurance, energy, e-commerce, aviation, agriculture technology and, once COVID subsides, tourism.

For Thailand, sectors to consider for both export and import are chemicals and automotive as both are within Thailand's top exports and imports. Again, there are possible opportunities in both sectors for Indian investment in Thailand that would allow Indian businesses to gain higher value in global value chains through 'Thailand plus one' and in transfer of technology given Thailand's 4.0 strategy. Thailand is known to provide inputs for to the major automotive clusters in Chakan in Maharashtra, Oragadam in Tamil Nadu and Sanand in Gujarat.¹¹ These sectors are generally labour-intensive and are well suited to the highly skilled and lower cost labour force in Thailand which also presents an opportunity for Indian investors to reduce their production costs. Other sectors that might be suitable for technology transfer are electronics, medical and wellness, agricultural processing, and aviation.

Attractive sectors for exporting to Vietnam are agricultural processing, aquaculture and construction and although historically textiles and garments have been major exports to Vietnam from India, the Vietnamese government is now promoting inward investment in this sector rather than trade to reduce dependence on imports. Likewise, the government also has had a strategy to advance the mechanical equipment in sectors such as agricultural

¹¹ Make in India. Autohubs in India. India's Automobile Hubs. Available at www.makeinindia.com/article/-/india-s-automobile-hubs, accessed on 22/11/2020.

processing and construction and it would therefore provide attractive opportunities for Indian investors. Pharmaceuticals is also an established sector for Indian investors.

For businesses within the IT and IT enabled services sector there are considerable opportunities to trade and invest in the GMS based on the product offered and the sectors the technologies are catering to. Government strategies of Cambodia, Vietnam and Thailand are focused on improving technologies for higher value addition, automation and transitioning to high intelligence manufactured products.

4. Further information

The Standard Chartered Trade Opportunity Report describes high potential export sectors for India and 10 trading partners including Vietnam and Thailand, see av.sc.com/corp-en/content/docs/Standard-Chartered-Trade-Opportunity-Report.pdf

See startupinthailand.com/top-10-items-traded-between-thailand-and-india/ for a list of suggestions for specific market and trade opportunities.

Pugnatorius, international lawyers, have some information on both opportunities and how to invest at pugnatorius.com/india/

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