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for investment and trade

Opportunities for Vietnam India trade & investment

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1. Introduction

In the last decade, Vietnam's economy recorded a high and relatively stable growth rate of about seven per cent per annum. The country's rapid economic growth can be observed in the development of several key sectors such as agricultural production (coffee, rubber, pepper, cashew, cassava and rice), light manufacturing (apparel, footwear and electronics) and tourism. Small and growing businesses may now be at a stage where they are considering international expansion and India provides an attractive option whether through trade or investment given its geographic and cultural proximity and its rapid growth and integration with the global economy.

For businesses that are ready for this step, it is important to consider the different approaches to internationalisation including exporting, importing, technology transfer, licensing, joint ventures, as well as inward and outward investment.

This factsheet provides an introduction to opportunities for international trade and investment but the PROFIT programme cautions that not all opportunities within the highlighted sectors will be successful, that not all successful opportunities will come from these sectors and that the opportunity and business do not have to belong to the same sector. Registering for PROFIT will help you explore how to benefit from internationalising your business.

2. Level of trade

2.1 Exports

As a result of country internationalisation policies, the value of exports to India has grown considerably from \$2.7billion in 2016¹ to \$7.3billion in 2019. Data from the Ministry of

¹ Mekong Economics (2018) Country Report: Facilitating Small and Medium-Sized Enterprises Foreign Direct Investment Flows Between India and the Mekong Region.

Commerce and Industry in India suggests that 60 per cent of exported goods come from the electrical and the fabricated metal equipment sectors². An additional 12 per cent is from natural commodities such as copper, rubber, coffee, tea and spices. For services, tourism has also been an attractive and growing sector for Vietnamese businesses. In 2018 over 130,000 tourists visited Vietnam, an increase of over 20 per cent from the previous year³.

The Vietnam Investment Review quotes the Standard Chartered Trade Opportunity Report suggesting that current opportunities would enable Vietnamese businesses to increase exports by as much as \$633 million⁴. It perceives the top five export trade opportunities as wholesale and retail trade, transport and storage, cotton (including thread and fabric), office services and knitted clothing. However, tourism could also offer big opportunities for further growth with mutual visa-on-arrival arrangements in place.

2.2 Imports

Data from the Ministry of Commerce and Industry in India show that the top sectors for imports to Vietnam in 2019 were agricultural processing, aquaculture, construction, and textiles. Despite these sectors being historically important sectors for importing, the following section suggests that moving forward opportunities lie more within investment for these sectors.

The Standard Chartered Trade Opportunity Report estimates that Indian companies could increase exports to Vietnam by \$475 million. It sees the main opportunities for India to export to Vietnam as IT, office services, zinc, iron and steel, and man-made fibres.

3. Investment

Outward foreign direct investment increased from almost nothing to just over \$2 billion in a couple of decades. However, currently Vietnamese businesses only have six projects in India with a total investment of approximately \$30 million dollars within the pharmaceutical, IT,

² Ministry of Commerce and Industry of India. Trade Databank, Available at commerce-app.gov.in/eidb, accessed 22/11/2020

³ Vietnam Economic News (2019), India, Vietnam tourism to take off with launch of direct flights. Available at ven.vn/india-vietnam-tourism-to-take-off-with-launch-of-direct-flights-40623.html, accessed 22/11/2020

⁴ Vietnam Investment Review (2020) Prospects growing for India-Vietnam trade, see www.vir.com.vn/prospects-glowing-for-india-vietnam-trade-80298.html, accessed 25 Nov 2020

chemicals, and construction sectors⁵. The amount of investment and sectors of operation, however, suggests that most of this investment is by large conglomerates.

Regarding inward investment, the Indian Embassy in Hanoi estimates that Indian FDI is around \$887 million in Vietnam 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 most of the investment is made by smaller Indian businesses and the selection of sectors indicate that a lot of this investment may have benefited smaller firms in Vietnam. Moreover, the Vietnam Investment Review sees Vietnam as an exciting prospect for Indian businesses⁶ noting that Vietnam is an important pillar of India's Act East policy and of its Indo-Pacific Ocean initiative.

The ADB Vietnam country study highlights that Indian pharmaceutical companies make up 25 per cent of registered foreign drug companies. Much of this may have been driven by import regulations, introduced in 2006 and reinforced in 2017⁷, that restrict foreigners from distributing medicines and drugs in Vietnam. As a result, this provides opportunities to distribute imported Indian pharmaceutical products and provides incentives for joint ventures and licensing for Vietnamese businesses considering partnerships with Indian pharmaceutical firms.

4. Government priorities

The government of Vietnam is focused on export-led growth and industrialisation to steer the economy into higher value production. The five-year Socio-economic Development Plan 2016-2020 and the Strategy on exports and imports for 2011-2020 highlight 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. The government also has had a strategy to

⁵Embassy of India Hanoi, India-Vietnam Relations. Available on <https://www.indembassyhanoi.gov.in/page/india-vietnam-relations/> Accessed 22/11/2020

⁶ Vietnam Investment Review (2020) op. cit.

⁷ Duong, B.N. (2018), Vietnam: New decree on the Promulgation of the Law on Pharmacy in Vietnam. See www.mondaq.com/food-and-drugs-law/657592/new-decree-on-the-promulgation-of-the-law-on-pharmacy-in-vietnam, accessed 22/11/2020

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”⁸.

Moving forward there are likely to be fewer incentives to import agricultural machinery from India and more incentive for production in the natural resource processing industries. This might provide Vietnamese firms within the processing industries with incentives to seek Indian investment in the form of technology transfer and/or joint ventures to allow export of higher value added products such as coffee, tea and spices to India. The Indian processing industry is known for its advanced technologies and ability to adapt tailor and develop them for specific contexts and would therefore be a good provider of these technologies. Once production peaks and capabilities are developed, Vietnamese firms will also be able to export the processing and mechanical equipment to India and beyond. Currently electrics and mechanics are among the top three imports into India and Vietnamese firms are catering to less than five per cent of the import market, yet they are within the top three exports from Vietnam.

For the garment, textiles and footwear sector, the government expects to develop supply centres, invest in new technologies and attract foreign investment through favourable policies. The government of Vietnam 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 yarns⁹. If the government is successful in attracting Indian investors, Vietnamese firms will have an opportunity to seek joint ventures which will offer the best form of technology transfer and will lead to the production of higher value garments for exports. The Government of Vietnam is also particularly promoting investment opportunities in construction, cosmetics, agriculture and agri-processing and automotive, which currently attracts many immigrant investors.¹⁰

⁸Vietnam Trade Promotion Agency, Vietnam Mechanical Products. See 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

⁹ 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

5. Opportunity sectors

It appears, therefore, that several sectors offer promising prospects for SMEs considering international trade and investment in India.

SMEs could consider exporting in the established exporting sectors of mechanics, electrics and natural commodities (such as tea, coffee and spices) and tourism once the pandemic subsides. Given the focus of government policy in the promotion of high tech and higher value exports, there is considerable opportunity for firms to consider licensing of technologies and/or joint ventures with Indian innovators. In turn this would allow them to reduce their dependence on imports, to improve their technological capabilities and return for exporting.

In addition to opportunities for exporting and investment in the agriculture, aquaculture and forestry processing sectors there are similar opportunities in the garment, textiles and footwear sectors. Vietnamese firms have an opportunity to develop their local supply chains, reduce their costs of production and transfer technology from Indian investors. There is potential to develop joint ventures to increase market share and dominance.

There are opportunities to develop partnership in various forms with Indian pharmaceutical firms given the restrictions on distribution that they face.

6. 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](https://www.av.sc.com/corp-en/content/docs/Standard-Chartered-Trade-Opportunity-Report.pdf)

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