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## **How Globalizing SMEs Can Link India with Mekong Economies** **Articles**



The study identifies the automotive industry as one of the potential businesses that either Indian or Thai small and medium-sized enterprises can explore. Photo: ADB.

**A study examines how India can increase its trade and investments in the Greater Mekong Subregion by helping small and medium-size enterprises tap into this market.**

## **Introduction**

India sees the Greater Mekong Subregion as its gateway to the rest of Southeast Asia. The subregion is geographically proximate, with Myanmar sharing a 1,600-kilometer border with India. There is also a significant Indian diaspora in some Mekong countries.

Trade and investments between India and the Mekong countries however remain

low with business promotion on either side focusing on the large markets of industrialized countries. In comparison, apart from Thailand, the domestic markets of Mekong countries in Southeast Asia are small.

[Research supported by the Asian Development Bank \(ADB\)](#) [3] shows that small and medium-size enterprises (SMEs) will have to play a key role in India's integration strategy with the Greater Mekong Subregion. Helping SMEs break into this market can provide India access to value chains and marketing networks throughout the subregion and beyond. These "internationalized" Indian SMEs—those doing regular, direct business with, or for overseas companies—can serve as pioneers in integrating with Mekong economies.

The study also examined how Indian SMEs can attract investment from Thailand and how outward foreign direct investment can strengthen India's integration into regional and global value chains.

The study covered four countries: Cambodia, India, Thailand, and Viet Nam.

This article is adapted from ADB's technical assistance report *Supporting Internationalization of India's SMEs: Linking India and ASEAN's Mekong Region*.

## Key Findings

### **The Mekong countries can help India integrate with ASEAN.**

The Greater Mekong Subregion offers potential for India to advance its Act East Policy, which seeks to promote economic cooperation and cultural ties, and develop strategic relationships with countries in Asia and the Pacific.

Five of the six countries that share the Mekong River are members of the Association of Southeast Asian Nations (ASEAN)—Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam. Economic cooperation in the Greater Mekong Subregion is an important building block for ASEAN.

The People's Republic of China (PRC), specifically Yunnan Province and Guangxi Zhuang Autonomous Region, is also part of the subregion.

Both ASEAN and the PRC are major players in the supply chains that drive the global economy. Closer integration with Mekong economies can help India to link up with global value chains not only in Southeast Asia but also in East Asia.

Recent initiatives open opportunities for strengthening economic ties with the Greater Mekong Subregion. These include infrastructure investments by ADB such

as the East Coast Economic Corridor, which promotes the integration of India's industrial clusters with value chains extending to Southeast Asia and East Asia; the Eastern Economic Corridor in Thailand; the Greater Mekong Subregion's Southern Economic Corridor traversing Cambodia and Thailand. These investments are supported by country initiatives such as the Mekong-Ganga pact; the Bay of Bengal Initiative for Multisectoral, Technical, and Economic Cooperation; and agreements with ASEAN.

## **SMEs need to be an integral part of the strategy.**

SMEs are the backbone of the Indian and Mekong economies, providing livelihood to many people, including the poor and the low-skilled. Internationalization of these SMEs supports inclusive growth of these economies as well as promotes innovation and competitiveness through knowledge and technology transfer.

Indian SMEs are more likely than larger firms to enter the smaller Mekong markets, which they can use as a launchpad for expanding into larger, more complex markets. Mekong countries offer many opportunities for them, particularly in sectors that are more integrated with global markets, such as auto components, garments, and pharmaceuticals. For example, India is a major supplier of pharmaceuticals to the subregion already; SMEs could set up manufacturing facilities in Cambodia's special economic zones or in Viet Nam and expand their market.

## **Opportunities for Indian SMEs in the Mekong Region**

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### **Thailand**

- **Automotive components:** Indian SMEs could leverage the competitive advantage of Thailand and join its value chain network by trading, investing in, and/or acquiring Thai makers of automotive parts.
- **Information technology and IT-enabled services (ITES):** Indian firms could provide embedded services in high-tech manufacturing exports, such as automotive, electronics, and white goods, as well as in core IT services for banking, finance, logistics, and public services.

### **Cambodia**

- **Pharmaceuticals and medical equipment:** India is a major supplier to the region already. Indian SMEs could use Cambodia's special economic zones or SEZs to set up manufacturing units and expand their market.
- **Auto components:** Indian SMEs could use strong incentives offered to investors to set up facilities and link with East Asian auto value chains.
- **IT and ITES:** IT services are India's highest services export and are highly regarded in Cambodia. IT expertise of Indian SMEs could meet Cambodia's demand for digitalization of business and government services.
- **Tourism:** Explore opportunities in the leisure industry and/or meetings, incentives, conferences, and exhibitions (MICE) market segments.

### **Viet Nam**

- **Pharmaceuticals:** Indian pharmaceutical companies make up 25% of registered foreign drug companies. Indian SMEs could set up manufacturing units locally and expand their market.
- **Automotive components:** Indian SMEs could use strong incentives offered to investors to set up facilities and link with East Asian auto value chains.
- **Garment and textile:** Viet Nam's burgeoning garment and textile industry provides opportunities for Indian SMEs.
- **IT and ITES:** India's large pool of technical IT SMEs could meet the demand for quality IT products and services that cannot be met by Vietnamese counterparts.

*Source: ADB country studies.*

Businesses in Mekong countries, particularly Thailand, are also interested in investing in India, given its large domestic market and growing prosperity in major cities.

The report however notes that the ability of SMEs to internationalize is greatly affected by the cost of doing business in foreign markets and depends on their managerial capability and readiness to operate on a global scale.

### **SMEs will need government support in internationalizing.**

SMEs have few resources and need government support in both the origin and destination countries to compete successfully in international markets.

The easiest and most common way for Indian SMEs to internationalize is through exports. SMEs contribute almost 40% of India's exports, but some evidence show this involves only a few enterprises. Firms in the services sector begin exporting earlier than those in the manufacturing sector and tend to be more involved in global value chains.

Indian SMEs link to global value chains primarily to access better technology, higher-quality inputs, and networks, and often after receiving foreign direct investment.

The study shows that medium-sized enterprises, mostly in the manufacturing sector, are interested in investing abroad after years of exporting. Their reasons are to expand their business, gain access to better technology, and diversity risks.

SMEs need assistance most in scoping out potential markets and finding reliable information. They also need assistance in starting operations. The best way to find SMEs with potential to internationalize is through industry associations and through embassies in the destination country.

### **Collaboration between governments is needed to promote foreign direct investments from Thailand into India.**

The study identified five sectors in India with the highest potential for investments from Thailand. These are auto parts, agro-processing, information technology and IT-enabled services, logistics, and the wellness sector. There is growing interest in India among Thai SMEs in these sectors. However, they lack market information and do not know how to do business in India. Interviews with Thai firms show that they consider finding a good business partner in India as a critical factor for investing there.

The governments of India and Thailand should work together to provide information and services to these SMEs, particularly matchmaking services that identify and connect potential business partners.

### **Tamil Nadu is well-placed as an originator of SMEs that can move to the Mekong region.**

The study looked at Tamil Nadu state in southern India, which has a diversified manufacturing sector dominated by SMEs and the highest number of factories and operational special economic zones. It focused on four sectors where the state has a strong, competitive base: textiles and apparel, leather, automotive and auto components, and IT and IT-enabled services. SMEs in these sectors have ventured abroad, although on a small scale.

At present, business links between Tamil Nadu and Mekong countries are limited, and Indian SMEs are not aware of the opportunities.

## **Recommendations**

The ADB study suggests a three-pronged approach to linking India and the Greater Mekong Subregion through SMEs.

### **Actively facilitate the internationalization of SMEs that are ready to cross borders.**

- Promote exports to Mekong markets through India's Market Access Initiative and Market Development Assistance schemes.
- Exploit the opportunity for India's SMEs to become extended suppliers of firms in Thailand and Viet Nam by setting up web-based platforms for SMEs in priority sectors, such as textiles and apparel, leather, food processing, and automobile components.
- Set up twin "accelerators" in Thailand (to support Indian SMEs moving into Mekong) and in Tamil Nadu (to support Thai firms moving into India) that provide "one-stop shop" services that includes information about opportunities, industry expertise, mentoring, and guidance on typical issues of market entry.
- Assess how to augment financial resources to support globalizing SMEs, including through respective country export-import banks.
- Harmonize India's regulatory standards with Mekong countries and enter into mutual recognition agreements.
- Strengthen intellectual property rights protection by streamlining procedures and reducing application costs and time.

## **Build the capacity of SMEs that have potential to internationalize.**

- Provide a holistic package of services targeting firms in dynamic clusters in high-potential sectors. Services include upgrading managerial skills, supporting innovation by giving information on market trends and opportunities in domestic and global markets, and on new technology; and mentoring and providing access to networks.
- Improve SMEs' access to finance for technology upgrades.

## **Increase absorptive capacity of the economy by supporting SMEs that are not yet ready to internationalize.**

- Improve coordination between the governments of India and Thailand in attracting anchor investors from Thailand and provide matchmaking services to connect them with Indian SMEs as potential partners and/or suppliers.
- Set up forums to promote learning between internationalized SMEs and others in their sector, particularly in Indian states that are less ready to do business abroad.

The study suggests focusing efforts initially on areas around economic corridors where the necessary infrastructure is already in place and on SMEs that are part of well-established and integrated industrial clusters.

## **Resources**

Asian Development Bank (ADB). [Regional: Facilitating Small and Medium-Sized Enterprises Foreign Direct Investment Flows: An ASEAN+6 Case Study](#). [3]

ADB. 2019. *Supporting Internationalization of India's SMEs: Linking India and ASEAN's Mekong Region*. Consultant's Report. Manila (TA 9271-REG).

## **Meet the Expert**



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[ADB Provides \\$300 Million Loan to BIDV to Support SMEs in Viet Nam](#) [4]

[ADB, Ascent Capital's Equity Investment Deal to Provide Growth Capital to Private Enterprises in Myanmar](#) [5]

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