

# INDIA-THAILAND

## BILATERAL TRADE REPORT

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This report has been prepared by full time students at a very short notice given 3 working days and provided as a gesture of goodwill for the North East India <-> Thailand, trade and investment development effort.

## **India-Thailand bilateral trade**

### **History**

India and Thailand have enjoyed economic and cultural relations since time immemorial. More than 2,000 years ago, for example, the great Emperor Ashoka sent Buddhist missionaries to Thailand and had since established Buddhism as one of the major religions in the region. Indian traders have also been plying the waters between India and Thailand since the ancient days, as evidenced by the ruins in the south that have been discovered and identified as settlements of ancient Indian settlers. Some of the bilateral agreements in economic field between the two countries are as follows

- 1 Bilateral Trade Agreement (1968)
- 2 Agreement for the Avoidance of Double Taxation (1986)
- 3 Air Services Agreement (1969)
- 4 Co-operation Agreement between Board of Investment of Thailand and the Foreign Investment Promotion Board of India
- 5 Bilateral Investment Promotion and Protection Agreement (July 2000)
- 6 An MOU on Collaboration on Information Technology and Services (signed in November, 2001)
- 7 An Agreement on Scientific, Technical and Environmental Co-operation and Transfer of Technology.
- 8 Agreement on Co-operation in the Exploration and use of Outer Space for Peaceful Purposes (signed on 1<sup>st</sup> February, 2002)
- 9 Framework Agreement on Free Trade Area (signed on 9<sup>th</sup> October, 2003)
- 10 An MOU on Co-operation in the field of Agricultural Science, Technology & Economy (signed on 9<sup>th</sup> October, 2003)
- 11 Agreement on Tourism Co-operation (signed on 9<sup>th</sup> October, 2003)
- 12 Programme of Co-operation in the field of Biotechnology (signed on 9<sup>th</sup> October, 2003)

Thailand is a signatory to several regional trade and economic co-operation pacts, including the Bangkok Agreement of 1975, which call for the mutual reduction of import duties among various South and Southeast Asian countries. The principal trading bloc to which Thailand is a signatory is the Association of Southeast Asian Nations (ASEAN), together with Brunei, Indonesia, Malaysia, the Philippines and Singapore. Vietnam, Cambodia, Laos and Myanmar are its new members. Preferential rates are granted to goods originating from any of these countries. India was a Sectoral Dialogue partner of ASEAN, which was established in March 1993 in three areas, namely, trade, investment and tourism. Since the dialogue relationship began, development co-operation between ASEAN and India has expanded considerably. At present, India is 'full-dialogue' partner of ASEAN, and is likely to become a member of ASEAN 'Summit'. Thailand is a full member of ASEAN, whose members agreed to establish the ASEAN Free Trade Area (AFTA) and introduced the Common Effective Preferential Tariff (CEPT) as the core mechanism for implementing AFTA. Thailand is also a member of the APEC forum, which decided to achieve full and open trade and investment in the region by 2010-2020 as per the Bogor Declaration. A large number of steps have been taken under AFTA toward economic integration process. The ultimate goal of the AFTA is to eliminate (a) import duties on all products, (b) quantitative barriers, and (c) other Non-Tariff Barriers. At present, most of the commodities/tariff lines of 'inclusion list' (85 per cent of total lines) of the six original signatories of ASEAN are already in 0 to 5 per cent range, for preferential treatment. Apart from the different steps undertaken in AFTA scheme, a number of other measures have been taken by ASEAN for economic integration. Some of these measures are: (i) *ASEAN Industrial Co-operation Scheme* (AICO): The scheme uses AFTA framework and is open to the manufacturing enterprises whose companies are operating in at least two ASEAN countries. When these companies enter into strategic alliance, the products traded between them are given 'Free' treatment, (ii) *Framework Agreement on Services*: The agreement intends to integrate the ASEAN market for services by eliminating restriction in trade in services. Beyond the commitments made in general agreement in trade in services (GATS), the final goal of the agreement is to realize free trade area in services, and (iii) *Other Economic Integration Measures*: A number of steps have also been taken by ASEAN Economic Integration process in many other fields including food security, promotion of Ecommerce, infrastructure development through energy, transport and communication.

India is a member of South Asian Association for regional co-operation (SAARC) and Indo-Sri Lanka Free Trade Agreement (ILFTA). Under SAARC, the member countries have adopted South Asian Preferential Trading Arrangements (SAPTA). India has given concession to other member countries, but significant concession is given to only LDCs of SAARC. ILFTA is very comprehensive treaty in which India is giving free access to commodities of Sri Lanka.

Both India and Thailand are member of (i) Bangkok Agreement (established in 1975), (ii) BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation, and (iii) IOR-ARC (India Ocean Rim Association for Regional Cooperation). However, no preferential/tariff arrangement has been agreed between India and Thailand in Bangkok Agreement, IOR-ARC and BIMSTEC. In the last meeting of BIMSTEC, however, it was decided that the association would lead to free trade agreement in near future.

**India has inked a free trade agreement (FTA) with Thailand for setting up of a free trade area covering goods, services and investment in 10 years. The Indo-Thai FTA covers as many as 82 items and several areas in the first phase including services, investment, economic cooperation and goods like food items, tourism, auto parts, electronic goods.**

A Framework Agreement for establishing Free Trade Area (FTA) between India-Thailand was signed by their respective Commerce Ministers on 9<sup>th</sup> October 2003.

The Early Harvest Scheme (EHS) under Framework FTA, became operational from 1.9.04, with a tariff reduction of 50% on 82 items and subsequent reduction of 25% from 1.9.05. The duty on these 82 items has since been reduced to zero from 1.9.06. The items included range from fresh mangoes, grapes, apples, crab (prepared or preserved) to chromium ores and concentrates, acrylic polymers, precious stones (other than diamonds), semi-precious stones (un-worked, sawn or roughly shaped), diamond dust and powder, jewellery, alloy pig iron, helical springs of iron/steel, fans, parts of air/vacuum pumps, compressors, fans, refrigerators, certain machinery items, office machines, ball bearings, printed circuits, TV picture tubes, gear boxes wrist watches, etc.

### **Present situation**

Total FDI approvals during 1991-2006 were over US\$ 74.18 billion. Thailand ranks 19<sup>th</sup> & accounts for 0.95% with FDI approvals of US \$ 831.2 million of the total investment approvals. Cumulative FDI inflow during 1991-2006 was US\$ 48.17 billion, including amount on account of acquisition of existing shares (up to 1999), RBI's NRI Schemes, stock swapped and advance pending for issue of shares. Thailand ranks

27th and Cumulative FDI inflow from Thailand is US \$ 77.6 million (0.17%) excluding FDI inflows received acquisition of existing shares (up to 1999), RBI's-NRI Schemes, stock swapped & advance pending for issue of shares.

Top sectors attracting FDI approvals from Thailand (from August 1991 to December 2006) are Telecommunications (49.53%), Hotel & Tourism (22.91%), Food Processing Industries (14.69%), Trading (6.14%) and Chemicals (other than fertilizers) (3.44%). Top sectors attracting FDI inflows from Thailand (from August 1991 to December 2006) are Telecommunications (58.56%), Hotel & Tourism (13.98%), Transportation Industry (11.98%), Trading (2.87%), and Textiles, including Dyed, Printed (1.99%)

Though trade between the two countries increased 32 per cent in the first seven months of this year to US\$3.6 billion (Bt123 billion), Thailand enjoys a trade surplus with India. Exports from India to Thailand grew 25.7 per cent to \$1.1 billion, while exports from Thailand to India jumped 65.9 per cent to \$1.49 billion in the first seven months of the year. This is seen as a concern and several questions have been raised regarding the feasibility of the India & Thailand FTA. Top five sectors attracting technology transfer from Thailand are Food Processing Industries (8 collaborations), Industrial Machinery (4 collaborations), Hotel & Tourism Industry (3 collaborations), Transportation Industry (2 nos.) and Rubber Goods (2 nos.).

Top FDI inflows received (from January 2000 to December 2006) from Thailand through Indian companies are M/s Fascel Ltd., Interglobe Hotel P. Ltd., Ajinomoto India (P) Ltd., Royal Embroideries (P) Ltd., Enland International Pvt. Ltd., Charoen Pokphand Seeds (India) Pvt. Ltd, Thai Summit Neel Auto Pvt. Ltd., Tigar jewellery India Pvt. Ltd., Grobest Fees Corporation India Ltd., Holley Meters (India) Pvt. Ltd., etc.

### **Opportunity**

The further possible areas of cooperation between the two countries which would be beneficial are fisheries and aquaculture, information, communication and space technology, biotechnology, finance and banking, tourism, infrastructure development, healthcare and construction.

## Investment Opportunity

### Thailand's investment in India:

1. **Rubber:** India ranks 2nd in productivity (1727 kg/ha/annum), 4th in production (7,72,000 tonnes) and consumption (7,89,000 tonnes) and 5th in area (5,97,000 ha) under rubber cultivation. Tripura Forest Development Plantation Corporation has taken up commercial planting of rubber. Government of Tripura has established a Rubber Park with common facilities for rubber based industrial units.

Now the problem is that against a potential of 4.5 lakh ha in the NER (North Eastern Region), the present rubber plantation area covers only 13%. This is due to various factors including lack of technical assistance, shortage of manpower, insufficient supply of planting material, law and order problems etc. The Rubber Board currently has two zonal offices, eight regional offices, one residential training centre, four regional research station, one rubber research and training centre in the NER.

This can be an attractive investment opportunity area for Thailand. Thailand can use its advanced rubber technologies in plantation of rubber in the potential area available in NER. As there is only one rubber research center in NER, Thailand can look for investing in carrying out research under the local weather condition and come out with techniques for increasing productivity.

2. **Horticulture:** NER, by virtue of its diverse agro-climatic conditions, varied soil type and abundant rainfall has the promise of becoming an excellent sourcing point for high value horticultural produce and value added products unique to the region, for onward marketing both within the country and abroad. The North East is one of the most biodiverse regions in the world. This helps NER region to have wide range of fruits and vegetables. The investment can be done in terms of bio technology to have more efficient methods and techniques of horticulture. Horticulture in NER is not done on professional basis. It is done on house hold basis. This forms an opportunity to transform it to an organized sector. Investment can be done in the areas of infrastructure in terms of cold storages for fruits and vegetables and providing proper transportation. Also multipurpose fruit and vegetable processing plants like units for making pickles, jam can be another area of investment. This will help in the boosting of processed food sector.

Another area of investment can be building water reservoirs for providing water irrigation in NER. NER has huge potential for tapping water resources. This may even help the fisheries business to progress in that region which has huge potential in that area.

3. **Bamboo:** Abundant forest resources with many ethnic products which are unique to this region. The timber wood and bamboo are found in abundant in NER. The climatic condition of the Thailand suits the most for the cultivation of the bamboo. This has helped the Thailand to gain expertise in the crafts and furniture made out of timber and bamboo. Bamboo has variety of other uses including medicinal uses and in paper manufacturing. Since Thailand has gained expertise in processing bamboo and wood and making artifact and furniture out of them, Thailand can be lured to invest in this sector in the NER. It can be done in collaboration with the NER as people even in that region has experience in this field and has gained the art of making artifacts out of bamboo. This will help both the countries to develop their skills and make better artifacts. Research can be done in terms of increasing the productivity of the cultivation of bamboo and better techniques of cultivating bamboo. The 'muli' species of bamboo is one of the best varieties of bamboo which is available in NER.

4. **Infrastructure development for Power Generation:** The hydro-electric power sector in India is set for explosive growth in the next four years. In NER alone, NHPC(National Hydroelectric Power Corporation Ltd) has assessed the hydel potential at over 63000Mw. Of this only 1200Mw has been developed and 3600 Mw is under development. NHPC has lined up an investment of Rs 63000 crore for the hydro power projects in NER.

The investment can be done either in collaboration with NHPC or in developing the required infrastructure for building dams.

The investment can also be in the power sector as a whole. According to Eleventh Year Plan (2007-2012) the target for the power is 78577Mw. The tenth year plan had a target of 41110Mw out of which only 51.8 percent was met. So for the eleventh year plan which is in progress nothing substantial can be said as of now. Looking at the past record 100% achievement seems to be difficult. So, Thailand can look into this sector for investment as 100% FDI is allowed in generation, transmission and distribution of power. For the promotion of power sector government has provided various tax sops like profit on investment made in power sector during any block of 10

years in the first 15 years is exempted from income tax. In addition, the net interest and dividend income is exempted from income tax.

5. **Real estate Sector:** According to the Moody's Investor service statement in June, the realty sector in India is set to grow from 14bn \$ in 2005 to 90bn \$ by 2015. According to Ernst & Young study which cited National Housing Bank estimates, developers need funds to build more houses in a nation that may have a shortage of 45 million homes by 2012. Construction of Houses accounts for 80% of the real estate industry. In short term to mid term India is an excellent destination compared with China, Vietnam, Malaysia and Indonesia, Thailand according to 80% of the respondents in the survey conducted by Ernst & Young on 50 global investors.

To meet the demand of the realty sector in India there can be strategic alliance between their real estate players and Indian real estate players. India real estate players need huge amount of capital to fund the projects to meet such a huge demand. They are raising capital by selling their shares. The alliance may help them with the availability of funds and the expertise and state of art technology which they have developed in the past years. This is one of the most potential avenues for investments to be made.

6. **Tourism:** The medical and health tourism can be increased specially in Tamil Nadu which has huge potential for the same. There can be investment in building up the infrastructure to support the expansion plans. The tourism to Gaya, Dal housie and other Buddhist places can be encouraged and promoted as there are Buddhist followers in Thailand.

### Opportunity with Thailand

### The potential in the north –east states of India

Today, India has woken up from her long slumber and is on her way to becoming one among the giant nations. However, NE India continues to hibernate. The vast international border with Bangladesh, Nepal, Bhutan, Burma, Tibet and China, has, instead of providing opportunities for trade, isolated the region. India's relationship with these neighbors has not been conducive for business, with the result the NE has been cut off not only from the neighboring nations but even mainland India. It has become like an economic island in the middle of Asia.

The region is ready to come out of a long history of strife, government dependency and general inability to prosper. The Government is striving to uplift the region by promoting business and tourism, yet not much has happened. It will take a greater effort by private enterprises and social entrepreneurs to liberate the discouraged minds and create models of success for the people in the region to emulate. By working hard, the people of NE will and can achieve success on their own.

The people are bright, talented, well educated and very fluent in both written and spoken English. This is a huge, undiscovered and under-utilized asset for any company wishing to setup shop in this region. The people of NE India have tremendous potential and a deep desire to see their region prosper. The key that will open up this region and fulfill the desires of the people will be a business that will succeed in this region. This will prove to the people and the world that NE India was the pearl in the oyster. It will prove that the local population is as capable as anyone else in the world. It is this hope that will create a new vision and usher in a new mind set. This, in turn will lead to exciting opportunities and the chain of positive outcomes and outlooks will continue.

### **Locational advantage of North East**

North East India is quite unique and has an envious position. The presence of good institutions and convent education has produced an entire generation, capable of effective English communication. The government and people with their relentless efforts have managed to bring peace to this region, which earlier had been torn apart. Infrastructure and facilities are being established aggressively. The bigger metros like Bangalore are getting saturated and rising costs, employee retention and infrastructure is becoming a big problem

Educated youth is an important demographic feature. Different states have varying literacy rates; Mizoram top ranks followed by Tripura, Sikkim, Manipur, Nagaland, Assam, Meghalaya and Arunachal Pradesh. The region has knowledge capital

## **INCENTIVES FOR INVESTMENT IN NORTH EASTERN REGION**

In view of the continuing backwardness of the North Eastern Region and the need for stimulating the development of industries in this Region, Government of India's Department of Industrial Policy and Promotion have extended a number of incentives/ concessions which are summarized as follows :-

### **DEVELOPMENT OF INDUSTRIAL INFRASTRUCTURE**

- Currently, the funding pattern of the Growth Centres envisages a Central assistance of Rs. 10.0 crores by way of equity for each Centre and balance amount to be raised by the State Governments and their agencies which implement the projects. Government has approved that entire expenditure on the Growth Centres in North Eastern Region would be provided as Central assistance, subject to a ceiling of Rs.15.0 crores for each Growth Centre. In the North Eastern Region, ten Growth Centres have been sanctioned and their locations are Niklog Ngorklung in Arunachal, Chariduar/ Matia/ Chaygaon in Assam, Lamlai-Napet in Manipur, Mendipathar in Meghalaya, Luangmual in Mizoram, Ganeshnagar in Nagaland, Denchong Block in Sikkim and Bodhjung Nagar in Tripura.
- In respect of the Integrated Infrastructure Development (IID) Centres, the funding pattern (Government of India : Small Industries Development Bank of India ratio) has been relaxed from 2:3 to 4:1 and the Government of India funds would be a grant. In the North Eastern Region, three Integrated Infrastructure Development Centres have been sanctioned and their locations are at Darrang/ Nowgono in Assam and Chandel in Manipur.

### **TRANSPORT SUBSIDY SCHEME**

The Transport Subsidy Scheme has been extended further in so far as North Eastern States are concerned, for a period of another 7 years i.e upto 31st March , 2007, being coterminous with the Tenth Five Year Plan on the same terms and conditions as are applicable now. Under this scheme, subsidy ranging from 50% to 90% is admissible on transportation cost incurred by an entrepreneur on the movement of raw materials and finished goods from the designated rail-head/ ports upto the location of industrial units and vice-versa for a period of five years from the date of commencement of industrial production. North Eastern Development Finance Corporation Ltd. has been designated as the Nodal

Agency for disbursement of subsidy to the eligible units on the basis of recommendations of the State Level Committee/ State Government.

#### **FISCAL INCENTIVES TO NEW INDUSTRIAL UNITS AND THEIR SUBSTANTIAL EXPANSION**

- . Government has approved converting the Growth Centres and Integrated Infrastructure Development Centres into a total Tax Free Zone for the next 10 years. All industrial activity in these zones would be free from Income Tax, Excise for a period of 10 years from the commencement of production. State Government would be requested to grant exemptions in respect of Sales Tax and Municipal Tax.
- Industries located in the Growth Centres as also new industrial units and/ or their substantial expansion in other identified areas in the North Eastern Region are eligible for Capital Investment Subsidy at the rate of 15% of their investment in plant and machinery, subject to a maximum ceiling of Rs. 30.0 lakhs. The scheme is effective from 24.12.1997 to 31.3.2007 and North Eastern Development Finance Corporation Ltd. has been designated as the Nodal Agency for disbursement of subsidy to the eligible units on the basis of recommendations of the State Level Committee/ State Government.
- In line with Govt policy, the North East Development Financial Corporation have set up their offices in all State capitals of the North Eastern Region (in case of Nagaland, their office is at Dimapur) so as to increase their reach. Also, in case of first generation entrepreneurs, North Eastern Development Finance Corporation Ltd. is providing 85% funds (60% as Loan and 25% as Equity) against 15% contribution from the entrepreneur. In case of commercial borrowings, the ratio of North Eastern Development Finance Corporation Ltd. Loan and entrepreneur's contribution is 60:40.
- An interest subsidy of 3% on the working capital loan is provided for a period of 10 years to the new units in North Eastern Region, after commercial production. The scheme is effective from 24.12.97 to 31.3.2007. The working capital requirements are worked out as per the Nayak Committee. North Eastern Development Finance Corporation Ltd. has been designated as the Nodal Agency for

disbursement of subsidy to the eligible units on the basis of recommendations of the State Level Committee/ State Government.

- Similar benefits are available to the new industrial units or their substantial expansion in other Growth Centres or IIDs or industrial Estates/ Parks / Export Processing Zones set up by the States in the North Eastern Region. New industrial units or their substantial expansion in the specified industries located outside these Growths Centres and other identified locations are also eligible for similar fiscal incentives.

### **CENTRAL COMPREHENSIVE INSURANCE SCHEME**

A Central Comprehensive Insurance Scheme of industrial units in the North Eastern Region was notified on 14th July, 1999 and the scheme is effective upto 13.07.2009. All industrial units set up in the North Eastern Region after 24.12.1997 and included in Fire Policy 'C' (as per All India Fire Tariff) are eligible for subsidy under the scheme. The scheme envisages reimbursement of the insurance premium paid by the eligible units through a Revolving Fund maintained by the nodal insurance company which is the National Insurance Company. The Department of Industrial Policy and Promotion contributes the fund for the Revolving Fund.

### **RELAXATION OF PRIME MINISTER'S ROZGAR YOJANA (PMRY) NORMS FOR THE NORTH EASTERN REGION**

The Prime Minister's Rozgar Yojana has been expanded in scope to cover areas of horticulture, piggery , poultry , fishing , small tea gardens etc. so as to cover all economically viable activities in the *North Eastern Region*. Prime Minister's Rozgar Yojana has a family income ceiling of Rs. 40,000.00 per annum for each beneficiary along with his / her spouse and upper age limit has been relaxed to 40 years. Projects costing up to Rs.2 lakhs in other than business sector are eligible for assistance. No collateral is insisted for projects costing upto Rs.1.0 lakh. Group financing upto Rs. 5.0 lakhs is eligible. Scheme has a subsidy component @15% with an upper ceiling of Rs.15,000.00 . The margin money may vary from 5% to 12.5% of the project cost to make the subsidy and margin contribution at 20% of the project cost. Prime Minister's Rozgar Yojana continues to have Entrepreneurship Training component as per the existing rate.

**Potential areas of Services Trade Expansion**

Addressing this issue in the context of India-Thailand FTA it is possible to pin down a variety of services sectors where potentials for cooperation exist.

The following select services sectors are considered as having rich potentials for trade between India and Thailand:

- 1) Tourism
- 2) Information Technology Services
- 3) Educational Services
- 4) Audio-visual Services
- 5) Banking Services
- 6) Export Finance and Guarantee Services
- 7) Aviation and Shipping Services
- 8) Consultancy Services and International Marketing
- 9) Health Care Services
- 10) Construction Services

**Tourism**

The region offers possibilities for tourism industry especially eco tourism adventure based tourism and cultural tourism. There is also scope for internal and external collaboration in tourism. Both central and state government should take initiatives to attract investments in tourism based industries and marketing strategies to invite tourists from neighboring countries. As has been formulated in states like Andhra Pradesh, Orissa, Goa, Kerala, special action plan for the growth of tourist sites is required to be given shape in the region. With its famous reservoir of bio diversities the region may aspire to earn good amount

of revenue and other lateral benefits like direct and indirect employment from this neglected sector. It is important to note that long term scheme for growth of tourism in the region would be more rewarding and cost effective if all the constituent states participate and cooperate in this endeavor

The hotel sector is one of the most important segments of the tourism industry with high potential for employment generation and foreign exchange earnings. To give impetus to this sector, the government provides tax benefits and other incentives. The industrial policy has now placed hotels and tourism related activities as a priority industry. Foreign investment and collaborations are now facilitated under the new economic policy. Automatic approval is available for foreign equity investment up to 100 percent in hotel and tourism sector.

### **Fisheries and Aquaculture**

Both India and Thailand have had a prominent fisheries and aquaculture sector. They have great potentials in developing this sector through bilateral cooperation. Both countries have long coastal areas that can be jointly promoted so as to make this sector more dynamic in terms of production and exports.

Total output from this sector is higher in India than Thailand. the distribution of total output from this sector has been almost equal between marine and inland sources however, in the case of Thailand the marine sector output is higher than India and in the case of inland source the situation is reverse. This is due to relatively large land area in India. Nevertheless, it appears that in the Indian case marine sources could be exploited more with the help of Thai cooperation, considering that the fisheries sector on the whole has been one of the major sources of foreign exchange earnings for Thailand.

For marine fisheries, the Indian Government policy has been to subsidise the poor fishermen for motorising their traditional crafts. This helped increase the fishing areas and frequency of operation. The result has been an increase in total catch and earnings of In the case of Thailand, shrimp production has received policy attention. Even with some environmental implications, shrimp farms in Thailand have created significant amount of production both for domestic consumption and for exports.

### Information, Communication and Space Technology

In a scenario wherein India and Thailand have acquired considerable capability in the software and hardware sectors, respectively various dimensions of cooperation could be contemplated which could help both the countries facing the challenges of digital divide at the global level. In this regard, the potentials, *a priori*, are immense. The following areas in the information and communications technologies could be considered both for trade and investment (joint ventures): consumer electronic goods, electronic instruments, office equipments, medical equipments, telecom equipments, computer hardware, software services and telecom services and projects. Cooperation in these areas would also facilitate trade in goods as envisaged in the India-Thailand FTA through improved competitiveness of products and checking delays both at the firm level and the policy level.

The following policy steps could be initiated for strengthening cooperation between India and Thailand in Information, Communication and Space Technology to meet the challenges of digital divide:

1. Create an online database on trade, investment and technology partners in India and Thailand.
2. Trade, investment and technological cooperation could be explored in sectors such as consumer electronic goods, electronic instruments, office equipments, medical equipments, telecom equipments, computer hardware, software services and telecom services and projects.
3. Joint ventures in the software sector to tap the global market and intra-industry trade and investment in the hardware sector need to be accorded strategic focus.

### Finance and Banking

Trade integration between India and Thailand under FTA would necessitate concomitant efforts on the front of finance and banking cooperation. This would be so because trade flows can be given a stimulus by setting in place an appropriate trade facilitating financial and banking framework. Various trade-related financial and banking services need to support the trade liberalization efforts between the countries. The starting point could be to forge strong institutional linkages in the area of export finance.

the following areas could be considered for bilateral cooperation between India

and Thailand: (i) Institutionalising bilateral export finance and promotion activities of the EXIM Banks of India and Thailand in a more strengthened manner (ii) launch a joint technology upgradation scheme (iii) R&D activities in different sectors such as biotech, information technology etc. (iv) establishing business cells in both the EXIM Banks (v) increasing the presence of commercial banks on a mutual basis (iv) encouraging FDI from Thailand to India in banking operations (v) financial services collaboration.

### **Infrastructure Development**

Infrastructure development is considered as a key to enhance the economic development in general and economic cooperation in particular. Without adequate infrastructural facilities trade augmentation between two countries is not possible even if tariffs are liberalised. Similarly, developed infrastructural services have emerged as an important determinant of FDI inflows. There could be several subsectors of the infrastructure sector that need to be focused upon for achieving developmental objectives. But in the context of India-Thailand FTA, highway and seaport facilities are considered relatively more

### **Development of Entrepreneurship**

Though the region is rich in natural resources, such as petroleum, natural gas, coal, forest products bamboo etc, it has been still treated as industrially backward region of the country. It will be apparent from the fact that there are less than 3 per cent of the country's large and medium industries and less than 2 per cent of small industries in the region. It would be important to identify the social and cultural factors which hinder the development of entrepreneurship in northeast. Cluster development for small scale industries, development of SEZs, training and assistance for local entrepreneurs, insurance policy for investors, credit delivery etc will play vital role in development of entrepreneurial culture in the region.

### **Encouraging MNCs**

In the era of globalization it is impertinent for Northeast to encourage FDI through MNCs. Prior to 1998, the scenario of industrial sector in the Northeast was limited to some small-scale sector except the oil, tea, plywood and some state owned public sector units. But in present days, a number of multinational companies have come to set up industries either themselves or through franchise. The New Industrial Policy of North East offers competitive advantages to foreign investors in settings up industries. Northeast offers certain unique opportunities for investment and the region has a favorable investment environment. There is a perceptible air of optimism, which was missing till few years back<sup>15</sup>. Proximity to Southeast Asian countries gives immense market potential to MNCs operating in the region. Direct foreign investment

up to 100 per cent equity in a business venture is being allowed on a wide-ranging basis. In a very liberal investment atmosphere, the benefits for MNCs in India's Northeast is very high. States should take initiatives to allot lands on lease for companies and to exempt it from sales tax. There should be initiatives for building new industrial parks and special economic zones with all infrastructural facilities. Some of the companies have already started bold steps towards penetrating the region. North East Pure Drinks, a franchise of the Pepsi, was the first MNC in the Northeast region. This has an investment of Rs. 450 million. Having different products like mineral water, juice, and soft drinks, this company has started a new industrial climate in this region. Like North East Pure Drinks, many other companies like Cosmo, a franchise of the Joolen International from America has also set up a unit for the production of toothpaste, hair dye, and shampoo. In a very short span of time the turn-over has increased many folds. The company has started trading products inside and outside India. In the financial year 2002-03, the total export of this unit is around Rs. 600 million<sup>16</sup>. Prominent MNC, M/s Glaxo Smith Kline Consumer Health Care has also set up a Horlicks Processing & Packaging Plant at Mongaldoi with an investment of Rs. 60 million and employment of 100 persons in franchisee with M/s SRD Nutrients. Thus there should be combined effort from state- central governments and civil society to encourage MNCs and domestic investments in the region to tap the under utilized potential of northeast resources.

### Other potential areas

The favourable agro-climatic condition, low use of chemicals and the availability of good varieties of spices offer good opportunities for development and procurement of spices.

Major spices : Ginger (1,82,000 MT), Turmeric (2,67,000 MT), Chilli (75,000 MT), Black Pepper (10,000 MT)

There is ample scope for area expansion under organic spices cultivation in Tripura. Major spices include Ginger, Turmeric, Chilli, Black Pepper, Cinnamon, Tezpatta.

### **Medicinal Plant sector :**

At least 266 Medicinal plants with 68 species of trees, 71 herbs, 39 shrub and 88 climbers. The State Government has constituted the Medicinal Plant Board of Tripura. The Medicinal Plant Policy has been declared by the State Government.

### **Bio-Fuel Sector**

Potential in Bio-Fuel sector by planting *Jatropha curcas*. Constitution of State Bio-Fuel Mission under Forest Department is in anvil. The State Government invites investment in this sector through PPP mode.

### **Eco-Tourism :**

One of the Global Bio diversity Hotspots with diverse kind of biological and cultural variance. Great potential for development of Eco Tourism in the designated protected areas of Trishna, Sepahijala and Roa

### **International funding through IFC**

The World Bank provides loans to developing countries to help reduce poverty and to finance investments that contribute to economic growth. The World Bank began lending to Thailand in 1950, a year after the country became a member in 1949. In subsequent years through June 1999, Thailand requested and received approximately US\$8.0 billion in loan and credit assistance for over 130 operations. Bank support has taken many forms, including intense policy dialogue, technical assistance, and knowledge sharing. Currently the Bank is engaged in 12 projects in the rural development, energy, education, transport, social, and economic/ financial sectors, with a total commitment of US\$ 918.4 million.

IFC, the Bank's private sector arm, has been involved in the protection of its portfolio companies and the restructuring of non-portfolio companies with good long-term fundamentals. IFC has as committed portfolio in Thailand in the amount of US\$ 460 million in various industry sectors including chemicals, transportation, finance, food & beverages, and health care. For fiscal year 2003, the volume of the IFC's activities will depend on the pace of corporate restructuring.

Thailand ratified the Multilateral Investment Guarantee Agency (MIGA) convention on August 11, 2000 and became a member effective October 20, 2000. MIGA has not guaranteed any projects in Thailand.

However, investors have expressed considerable interest in MIGA guarantees for investment, particularly in the infrastructure sector.

Since the onset of the financial crisis in 1997, the World Bank's assistance to Thailand has focused on three major objectives to restore sustainable and more equitable growth:

- 1) Renewing competitiveness of Thailand's private sector and labor force;
- 2) Improving governance through enhanced private and public sector management, and 3) sharing growth and ensuring quality of life by protecting the vulnerable and targeting the poor and improving environmental management.

The Bank supports Government efforts in these areas through a combination of lending, guarantees, technical assistance, and policy advice. Other forms of Bank support include analytical reports, policy notes, a program of international knowledge exchange, and public policy seminars. A brief description of each group member follows:

The International Bank of Reconstruction and Development (IBRD) provides loans and development assistance to middle-income countries and creditworthy poorer countries. Voting power is linked to members' capital subscriptions, which in turn are based on each country's relative economic strength. The IBRD obtains most of its funds through the sale of bonds in international capital markets.

- The International Development Association (IDA) plays a key role in supporting the Bank's poverty reduction mission. IDA assistance is focused on the poorest countries, to which it provides interest-free loans and other services. IDA depends on contributions from its wealthier member countries – including some developing countries – for most of its financial resources.
- The International Finance Corporation (IFC) promotes growth in the developing world by financing private sector investments and providing technical assistance and advice to governments and businesses. In partnership with private investors, IFC provides both loan and equity finance for business ventures in developing countries.
- The Multilateral Investment Guarantee Agency (MIGA) helps encourage foreign investment in developing countries by providing guarantees to foreign investors against loss caused by non-

commercial risks. MIGA also provides technical assistance to help countries disseminate information on investment opportunities.

- The International Center for Settlement of Investment Disputes (ICSID) provides facilities for the settlement – by conciliation or arbitration – of investment disputes between foreign investors and their host countries.

### **ASIAN DEVELOPMENT BANK (ADB)**

The Asian Development Bank, headquartered in Manila, is an international financial institution owned by 56 Developing Member Countries (DMC's), of which the United States and Japan are the largest shareholders.

The Bank provides loans and equity investments for the economic and social advancement of DMC's in the Asia/Pacific Region. The Bank provides technical assistance for development projects and advisory services; promotes investment of public and private capital for development purposes; and responds to requests for assistance in coordinating development policies and plans of DMC's.

An important aspect of the ADB's operational policy is to support the development of the private sector in DMC's. While all loans normally made to DMC's are guaranteed, the Bank provides direct loans to private companies without government guarantee for projects that produce essential items or provide vital services.

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