

## India-ASEAN Economic Relations: Examining Future Possibilities

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**ABSTRACT** India and Southeast Asia share a long cultural history, which over the years has helped shape economic and commercial relations between them. This partnership garnered an impetus following the launch of India's 'Look East Policy' in the early 1990s, rechristened 'Act East' in 2015. This brief analyses the trade and investment relations between India and the member states of ASEAN. It highlights the various challenges in the relationship in the areas of physical, institutional and people-to-people connectivity, which have restricted the integration of India in the regional value chain. The brief stresses the crucial role played by enhanced India-ASEAN connectivity for regional growth and prosperity.

### INTRODUCTION

As India progressed towards a more open and liberal trade-investment regime in the early 1990s, its interest in collaborating with its Eastern and South-Eastern neighbours deepened. India and the member nations of the Association of Southeast Asian Nations (ASEAN)<sup>1</sup> share colonial and cultural linkages that have evolved since their independence. During the Nehru era in India, various efforts were made by the country to build closer partnerships with the countries of Southeast

Asia. The Conference on Indonesia organised in New Delhi in 1949 and the Bandung Conference in 1955 were only some of the various initiatives undertaken during that period. However, these efforts failed to reinforce the economic, political or strategic partnership between India and ASEAN. This was mainly due to the dominance of China-born communities in many Southeast Asian countries, which encouraged these nations to engage more actively with China and, as a

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corollary, side-lining Indian interests in the region.<sup>2</sup>

The launch of India's 'Look East Policy' in 1992, which was later rechristened the 'Act East Policy', was a watershed event; it ushered in an era of reinvigorated partnership between India and Southeast Asia. Indian policymakers had long ago realised the strategic importance of the ASEAN region. The Act East Policy was a push in the right direction, focused on strengthening relations through greater economic and cultural exchanges.

This brief examines how economic relations between India and ASEAN, especially in the areas of trade and investment, have changed over time. Although India and ASEAN share a dynamic relationship that goes well beyond economics, the easy movement of goods, services, and capital across borders remains the foremost concern for both. It is thus necessary to review the value-chain integration between them, which enables greater economic cooperation given adequate connectivity links. There are a few challenges – in terms of physical, institutional and people-to-people connectivity – that could jeopardise the economic growth of these two regions. These barriers need immediate consideration by policymakers.

## **PRESENT ENGAGEMENTS**

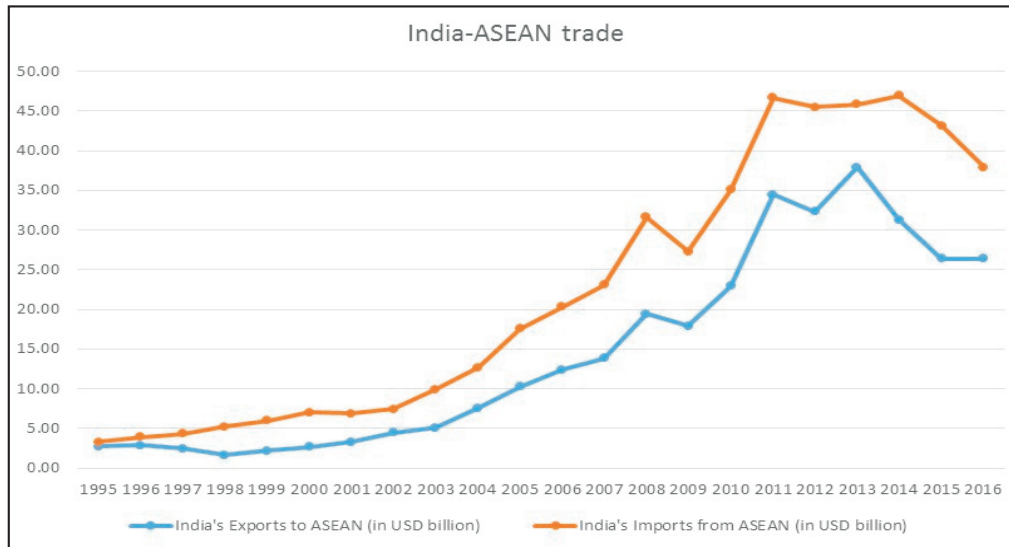
India-ASEAN relations have evolved over time, with India graduating from the Southeast Asian grouping's Sectoral Dialogue Partner<sup>3</sup> in 1992 to a Summit-level Partner in 2002. Since then, both sides have been actively engaged in fostering economic, security, political, and cultural cooperation. In 2012, during the first ever Commemorative Summit

of India and ASEAN, the leaders of all the countries involved decided to elevate their engagement to one of a strategic partnership. The year 2017 marked 25 years of dialogue partnership between India and ASEAN, and five years of the strategic partnership.

India has engaged with ASEAN at both regional and sub-regional levels by signing economic cooperation agreements with its different members. A framework agreement on comprehensive economic cooperation was signed in Bali in October 2003 between India and ASEAN, which was expected to eliminate tariff barriers among all the members and eventually establish a free trade area in goods, services and investment. This was followed by a final agreement on trade in goods signed in Bangkok in 2009 and another on services and investments in New Delhi in 2015, but not all barriers have as yet been removed. Bilateral agreements with various other members such as Thailand, Singapore, and Malaysia have also been signed, all of them aimed at deepening economic integration with the region.

## **ECONOMIC RELATIONS: TRADE AND INVESTMENT LINKAGES**

Between 1995 and 2016, trade between India and ASEAN grew at a compound average growth rate (CAGR) of about 11.9 percent. Of total trade of nearly US\$ 64.3 billion in 2016, Indian imports from ASEAN countries accounted for a dominant share of 59 percent, with exports to ASEAN economies accounting for the remaining share. Indian imports from ASEAN witnessed a robust growth of 12.3 percent during this period while Indian exports to ASEAN recorded a CAGR of 11.4 percent. This indicates that the balance of

**Figure 1:** Trends in Indian Exports to and Imports from ASEAN countries, 1995-2016

Source: UNCTAD Statistics

trade has been in favour of ASEAN member countries throughout the reference period. Figure 1 shows the trends in Indian exports to, and imports from, ASEAN member countries over the period 1995-2016.

There are a few Southeast Asian countries such as Singapore, Malaysia and Thailand that have emerged as major export destinations for India. The main export items to Singapore include mineral fuels, oils and bituminous substances, ships, boats and floating structures. Indian imports from Singapore include organic chemicals, nuclear reactors, boilers, machinery and mechanical appliances, electrical machinery and equipment and parts, among others. India also imports agricultural products from Malaysia. Since there are trade complementarities between India and Southeast Asian countries in areas such as agriculture, machinery and minerals, among others, trade relations have continued to expand, barring a few periods of East Asian crisis such as 1997-98 and the global financial crisis of 2008-09.

Meanwhile, in investments, India received nearly US\$13.8 billion as foreign direct investment (FDI) from ASEAN economies in 2015-16. The major Southeast Asian economies investing in India are Singapore, Malaysia and Thailand. Over 99 percent of total FDI inflows into India are from Singapore, with other Southeast Asian countries accounting for less than one percent. The India-Singapore Comprehensive Economic Cooperation Agreement has provided an impetus to growing partnership between the two countries.<sup>4</sup>

Conversely, Indian outflows to ASEAN economies were recorded at US\$ 1.2 billion in 2015, up from US\$ 0.6 billion the previous year. However, outward investments from India have followed a downward trajectory after 2012. Even earlier, in 2011, Indian investment in these countries dropped by US\$ 1.9 billion. Table 1 shows the investment flows between India and ASEAN for the period 2010-2015.

**Table 1:** Investment flows between India and ASEAN in US\$ billion, 2012-2015

	2010	2011	2012	2013	2014	2015
<b>FDI Inflows into ASEAN from India</b>	3.80	-1.96	6.63	2.10	0.61	1.25
<b>FDI Outflows from ASEAN into India</b>	3.02	1.76	5.29	2.59	6.14	6.97

Source: ASEAN Investment Report, 2016; FDI Statistics for different years from DIPP Website

Note: FDI Outflows from ASEAN into India only include data points for a few Southeast Asian countries namely Indonesia, Singapore, Philippines, Malaysia, Thailand, Myanmar and Vietnam. For others, no data is available.

In 2015, India accounted for only 1.3 percent of total net inflows into ASEAN. India invested largely in the financial and insurance industries across Southeast Asia (60 percent), followed by wholesale and retail trade (nine percent) and real estate activities (eight percent).<sup>5</sup> Many Indian banks, such as Bank of Baroda, Indian Overseas Bank, and Andhra Bank, have established branches in the ASEAN region. This is essential to integrating banking and financial services between the two regions.

## INDIA-SOUTHEAST ASIA REGIONAL VALUE CHAIN

Regional value chains strengthen economic cooperation by expanding market access among nations. Integrating with regional value chains leads to benefits such as reduced cost of manufacturing and trading for the participating countries.<sup>6</sup> The benefits accrue from outsourcing and fragmentation of production in various locations. There are a range of policy measures including trade facilitation, liberalisation of goods, services and capital, competition policy, and infrastructure quality, which promote value chain integration.<sup>7</sup> FDI flow is one of the major factors that enable integration of economies by linking them to regional and global value chains. At a Business Conclave in Jaipur in February 2017, the then Indian Commerce and

Industry Minister, Nirmala Sitharaman, highlighted how textiles manufacturers in India could benefit by engaging with less developed countries such as Cambodia, Laos, Myanmar and Vietnam.<sup>8</sup> There is potential to create value chains in textiles between India and a few ASEAN economies, as the latter import cotton yarn (an input used in manufacturing of textiles) from India. Creating a value chain in fibres is another area of possible collaboration between India and ASEAN. Myanmar, for instance, is open to FDI in sectors such as garments, textiles and agriculture, which are conducive to creating a value chain between India and Southeast Asia.<sup>9</sup>

The free trade in goods agreement signed between India and ASEAN in 2009 has also facilitated the development of supply chains and production networks in many products such as electronics and automobiles, including vehicle and component manufacturing. However, there remain certain challenges to establishing a supply chain, such as non-tariff barriers, poor connectivity, and quality of infrastructure, among others.<sup>10</sup>

## CONNECTING INDIA WITH SOUTHEAST ASIAN ECONOMIES

Key to the task of strengthening economic relations between India and the Southeast Asian nations is fostering three kinds of

connectivity: physical, institutional, and people-to-people.

### Physical/Infrastructure Connectivity

Better transport connectivity is critical to India-ASEAN relations. After all, the seamless movement of goods and services across borders is highly dependent on effective transportation links. The reality is that transport and infrastructure barriers exist between India and Southeast Asia—including poor quality of roads, missing railway links, inadequate maritime and port facilities, and lack of customs cooperation. These all have implications for any potential integration between India and Southeast Asia. India's northeast is fundamental to efforts towards regional connectivity with ASEAN countries, given its strategic location. Myanmar, for one, shares a land border with India's northeast, thereby providing a bridge between Indian and Southeast Asian markets. Similarly, improving maritime connectivity between India and Myanmar is fundamental to their mutual growth and development. So far, the projects that have been undertaken by India with Myanmar include the Kaladan Multimodal Transit Transport Project and the India-Myanmar-Thailand Trilateral Highway.

The Kaladan Multimodal Transit Transport Project is the first major project undertaken by India in Southeast Asia. When completed, this project will connect Kolkata with Sittwe port in Myanmar, facilitating the movement of cargo across the India-Myanmar border through the sea route. This project will also provide an alternative transit route<sup>11</sup> between India's northeastern region and Myanmar by establishing new road, and inland water connectivity links between them.<sup>12</sup> The multimodal transit project includes various

segments, starting with linking Kolkata to Sittwe across the Bay of Bengal, and going on to connect Sittwe to Paletwa town in Myanmar along the Kaladan River. There are also plans to connect Paletwa to the India-Myanmar border by road, which will further be extended to Lawngtlai town in Mizoram. Work on this project is expected to be completed by 2020. It is expected to revolutionise the transit system for goods and tradable services between India and Myanmar, later extending to other Southeast Asian nations such as Laos, Cambodia, and Vietnam.

### Institutional Connectivity

To deepen connectivity between India and ASEAN nations, it is essential to build effective institutional connectivity by harmonising trade, investments, and financial policies. Physical connectivity (transportation and soft infrastructure requirements such as telecommunications) has to be built in tandem with proper institutional arrangements to achieve improved cross-regional connectivity. According to a 2015 report by the Asian Development Bank, there are ample opportunities for energy trading between India and Myanmar.<sup>13</sup> Given the vast natural resources and hydropower reserves of Myanmar, it becomes a potential source of energy for India. However, due to lack of adequate physical and institutional infrastructure between India and Southeast Asia, energy trading remains underutilised. Moreover, the presence of non-tariff barriers<sup>14</sup> and restrictive institutional arrangements<sup>15</sup> hinder the movement of goods and services. Trade facilitation measures to reduce the volume of documentation required— and thereby the time of transit — are necessary to improve economic exchanges between India and Southeast Asian countries.


## People-to-people Connectivity

India has a long history of people-to-people connectivity with Southeast Asian countries, particularly with Singapore, Malaysia and Indonesia, which are home to large populations of the Indian diaspora. Indians comprise nine percent of Singapore's population and seven percent of Malaysia's. India and the member countries of ASEAN jointly organise regular exchange programmes for students, farming communities, diplomats, and business and media personnel, among others.<sup>16</sup> However, there are certain restrictions on the movement of professionals and labour between India and Southeast Asia. Under the agreement on trade in services signed in 2015, India and ASEAN have agreed to liberalise trade in a few areas such as telecommunications and financial and insurance services, while regulating the movement of natural persons. It is known that for the growth of the less-developed ASEAN countries (Laos, Cambodia, and Myanmar), skilled labour and professionals are required. This is one area where India can play an important role.

## CONCLUSION

Notwithstanding the massive promise carried by stronger connectivity between India and Southeast Asia, there are various barriers that hobble such integration. For one, the delay in completing infrastructure projects—including road, rail, seaports, and highways—due to various political and financial constraints, has impeded the progress of

economic cooperation. Keeping in mind its interest in collaborating with Southeast Asia for potential benefits in varied sectors such as agriculture, energy, and gas, India has undertaken initiatives to enhance cross-regional cooperation. For instance, India invited Myanmar to join the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in December 1997,<sup>17</sup> as it has a locational advantage that can be leveraged to integrate India with Southeast Asia. It is suggested that India and ASEAN identify their common challenges and shared interests as it will help them promote cooperation. Trade in services remains largely protected in ASEAN member countries. As India has a comparative advantage in the services sector, especially information technology services, domestic regulations in ASEAN economies need to be liberalised to promote cross-regional cooperation. The challenges of inadequate physical connectivity (road and rail linkages), along with infrastructural bottlenecks (non-tariff barriers) need to be addressed to strengthen India-ASEAN partnership.

Further, ASEAN member countries and India have been working towards ratifying the Regional Comprehensive Economic Partnership Agreement, which is expected to improve trade and investment among all member countries. This process needs to be expedited. Greater progress is envisioned in India-ASEAN relations upon liberalisation of the services trade (particularly Mode 4 – movement of natural persons), and other areas of common interest and potential. 

### ABOUT THE AUTHOR

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## ENDNOTES

1. ASEAN is a regional grouping of 10 member states, namely, Indonesia, Singapore, Philippines, Malaysia, Brunei, Thailand, Cambodia, Lao PDR, Myanmar, and Vietnam.
2. I. Rao, 2012, 'Emerging India's Policy towards Southeast Asia during the Post-Cold War Era', *Area Studies*, vol. 6, no. 2 (July-Dec 2012), 90-109.
3. Sectoral partner status entails discussions on sectors such as trade, investment, tourism, and science and technology. For more details on engagement of India-ASEAN, please see Sen et al., 2004, 'ASEAN-India Economic Relations: Current Status and Future Prospects', *Economic and Political Weekly*, vol. 39, no. 29 (Jul. 17-23, 2004), 3297-3308.
4. About 1,295 Indian firms have established base in Singapore (ASEAN Investment Report 2017, UNCTAD).
5. According to the ASEAN Investment Report (2016), about \$1.03 billion has been invested by India in financial and insurance activities, and \$0.2 billion in real estate activities, in ASEAN economies. The figures in parentheses represent the share of these activities in total FDI flows from India into ASEAN and have been sourced from the latest ASEAN Investment Report (2017).
6. A. Mukherjee and T. Goyal, 2015, 'Reinvigorating India's manufacturing sector: Integrating the services value chain with Southeast Asia', *International Growth Centre Blog*.
7. Organisation for Economic Cooperation and Development, 'The Participation of Developing Countries in Global Value Chains: Implications for Trade and Trade Policy', April 2015, OECD.
8. Kirtika Suneja, "Create value chains with nations getting US, EU sops: Government to companies", *Economic Times*, February 28, 2017, <http://economictimes.indiatimes.com/news/economy/policy/create-value-chains-with-nations-getting-us-eu-sops-government-to-companies/articleshow/57382370.cms>.
9. 'India can be reliable source of fibres for ASEAN: Smriti Irani', *The Pioneer*, July 2, 2017, <http://www.dailypioneer.com/business-and-finance/india-can-be-reliable-source-of-fibres-for-asean-smriti-irani.html>.
10. 'ASEAN-India Strategic Partnership: Perspectives from the ASEAN-India Network of Think Tanks', 2012, Proceedings of the first roundtable on ASEAN-India Network of Think Tanks organized on 7-8 August 2012 in New Delhi.
11. A new transit (sea and inland water transportation) route will be provided, which will be an alternative to the existing and overused land route via Siliguri in West Bengal.
12. Press Information Bureau, Government of India, 'Implementation of the Kaladan Multi Modal Transit Transport Project in Myanmar at the Revised Cost Estimate of Rs 2904.04 Crore', 2015.
13. 'Connecting South Asia and Southeast Asia', 2015, joint study by Asian Development Bank and Asian Development Bank Institute, Japan.
14. Non-tariff barriers here include number of documents required and time taken for trading, cumbersome customs procedures, among others.

15. Institutional arrangements include all legal and institutional mechanisms that may facilitate or restrict the movement of goods, services and persons across borders. This includes a limited list of tradable products, different modes of payment settlement, and absence of standard operating procedures at border checkpoints.
16. Projects launched by India for promoting people-to-people connectivity with ASEAN include training programmes for ASEAN diplomats, exchange of Parliamentarians, ASEAN-India Network of Think Tanks, exchange of farmers and agricultural scientists, etc. Ministry of External Affairs, Government of India, '*India-ASEAN Relations*', 2016. Available at: [https://www.mea.gov.in/Portal/ForeignRelation/India\\_2016.pdf](https://www.mea.gov.in/Portal/ForeignRelation/India_2016.pdf)
17. See no.13.



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