

India-ASEAN Trade Relations: A Path of Strong Relationship within Free Trade Region

Abstract

Regionalism has existed for so many years in various parts of the world. But it has never grown as rapidly as in the last two decades. In South East Asia, ASEAN (1967) is an oldest and dynamic regional group. ASEAN (Association of South East Asian Nations) is today a dynamic, rapidly growing regional bloc that strives to effectively manage both its diversity and growth. India's position in ASEAN's external trade and investment flows has not yet experienced any special momentum. One interesting fact about ASEAN is that, presently, intra-ASEAN trade contributes almost 23 per cent of its total external trade and intra-ASEAN FDI constitutes approximately 25 per cent of the grouping's total receipt of FDI. Here one thing is also very important that India is not a member country of ASEAN but they are created a free trade area among them. The paper aims to find out the major economic issues between India and ASEAN trade relationship. Paper also analysis the trade relations is where and how to making a strong relationship between India and ASEAN as creating a free trade area between them.

Keywords: ASEAN, LEP, AEP, FDI, RCEP.

Introduction

A deep and long history imbues India's relationship with the member states of the Association of Southeast Asian Nations (ASEAN) even as India has been underscoring the grouping's central role in shaping the regional order over the last two decades. India's 'Look East' policy was initiated in 1991 by the Narasimha Rao government Under the present government of Prime Minister Narendra Modi, the policy "Look East" is converted into "Act East" policy for doing better and strong multidimensional partnership among them. India's 'Look East' to 'Act East' policy started to generate significant interest in the member states of Association of Southeast Asian Nations (ASEAN). To improve the relationship prime minister of India visited ASEAN countries and signed on many agreements. The Supreme leaders of ASEAN nations became a chief guest on January 26, 2018 on the Republic Day of India. This shows a high determination for making a strong relationship.

The ASEAN countries too used the summit to hold bilateral discussions with India. The region has witnessed the formation of mega-trade blocs like the Regional Comprehensive Economic Cooperation (RCEP). At the 10th ASEAN-India Summit in New Delhi on December 20, 2012, India and ASEAN concluded negotiations for FTAS in services and investment. The two sides expect bilateral trade to increase to US \$ 100 billion by 2015, and US \$ 200 billion within a decade.



Dinesh Yadav
Research Scholar,
Deptt.of Economics,
University of Allahabad,
Allahabad

Journey of India- ASEAN Relations

Year	Events
1990	India adopts Look East Policy (LEP)
1992	India becomes ASEAN's sectoral dialogue partner
1996	India becomes full/ regional dialogue Partner of ASEAN
2002	India becomes ASEAN's Summit level partner
2003	ASEAN-India Framework Agreement on Comprehensive Economic Cooperation is signed
2004	1st Plan of Action aimed to foster partnership for peace, progress and shared prosperity is signed between ASEAN-India
2010	1. ASEAN-India Trade in Goods Agreement (AITIGA) comes into effect from 1 January 2010 2. 2 nd Plan of Action is signed between ASEAN-India
2012	1. India and ASEAN observe 20 years of dialogue partnership at Commemorative summit organized in New Delhi 2. India and ASEAN become strategic partners. ASEAN-India Centre (AIC) established to promote ASEAN-India Strategic Partnership
2014	India announces adoption of Act East Policy at 12 th ASEAN India Summit in November 2014
2015	1. ASEAN-India Trade in Services and Investment Agreements comes into force from 1 July 2015 2. 3 rd Plan of Action signed at 13 th ASEAN-India summit in November 2015. The POA focuses on political and security, economic and socio-cultural cooperation
2017	India and ASEAN to celebrate 25 years of dialogue partnership
2018	India hosted the heads of ASEAN countries as chief guests on the occasion of India's 69th Republic Day celebrations

Source: ASEAN-India Relations, Ministry of External Affairs, Government of India.

Review of Literature

An attempt has been made to review the various studies undertaken by scholars respect to the topic of the study. It covers the discussion of related papers and relevant secondary data from a comprehensive perspective, moving to more specific studies that are more associated with the problem:

Nag B. & Sikdar C. (2011) in their combined study on Impact of India-ASEAN Free Trade Agreement

"A cross-country analysis using applied general equilibrium modelling" analysed the impact of Indo-ASEAN FTA on India and ASEAN countries. Impact was analysed on different external sector and domestic microeconomic variables like export, import, profit etc. with the help of GTAP data base and several simulations were run under different scenarios.

Main finding of the study revealed that India's export and import volumes would increase under all the situations of partial liberalization, full liberalization. Trade would touch its pick under full liberalization situation and the minimum under current scenario. Choudhary S. (2013) in her paper on "India and ASEAN Trade Pattern: Overview" tried to explain that India and ASEAN can form a huge and big market together for trade and investment. Main finding of the study states that Indonesia, Singapore, Malaysia and Thailand are major countries with India is doing trading by analysing rate of increase of market share of each country in India's export and Import. India's trade with ASEAN is changing after 1995, on basis of empirical analysis of growth of trade of ASEAN with India; Vietnam has emerged as a promising market after 1995. ASEAN as a trade bloc has shown great dynamism and attracted many countries for trade by showing extra ordinary growth since 1980. Study also reveals that countries like Cambodia, Lao and Brunei are becoming potential market for future export and import. Chandran, B.P.S. (2018) the paper strongly reasons

the possibility of greater trade between India and ASEAN countries through RTA. Since the initial tariff levels are higher in India compared to ASEAN, ASEAN is likely to gain more in the short term. For India to exploit the trade potential with ASEAN the FTA should be operationalized beyond trade in goods to services and investment agreements.

Objective of the Study

The main objective of the paper is following:

1. To find out the trade pattern on volume of FDI between India and ASEAN.
2. To find out the major agreement and major summit between India and ASEAN.
3. To find out the causes behind a strong trade relationship between India and ASEAN.

India-ASEAN Trade and Investment Relations

ASEAN is the fourth-largest trading partner of India. As per the ministry of external affairs, the country's trade with ASEAN has increased to \$70 billion in 2016-17 from \$65 billion in 2015-16. Also, the export to ASEAN has increased to \$31.07 billion in 2016-17 from \$25 billion in 2015-16. On the other hand, India's import to ASEAN increased by 1.8 per cent in 2016-17 vis-à-vis 2015-16 and stood at \$40.63 billion. Investment flows are also substantial from both the sides, since 2000 approximately 12.5 per cent of investment flew into India from ASEAN. Also, the foreign direct investment inflow from ASEAN into India 2017 was about \$514.73 billion between April 2000 to August 2017, while FDI outflow from India to ASEAN countries from April 2007 to March 2015 was about US\$38.672 billion.

ASEAN and India have also been working on enhancing private sector engagement. ASEAN India-Business Council (AIBC) was set up in March 2003 in Kuala Lumpur as a forum to bring key private sector players from India and the ASEAN countries on a single platform for business networking and sharing of ideas. But when we compare our trade with China we lag far behind. Trade between China and ASEAN was about \$450 billion last year.

ASEAN is India's second largest trading partner with a total trade value of USD71.7 billion in 2016–17, which has increased from USD56.2 billion in 2010–11, reflecting a Compound Annual Growth Rate (CAGR) of about 4 per cent. After a steep rise in 2011–12 (up 40.4 per cent YoY), the trade value remained stable till 2016–17. Despite buoyant economic sentiment in India, the trade value has remained subdued on account of soft commodity prices. However, this trend is set to reverse owing to rigorous focus of both parties for expanding trade relations in existing areas, as well as exploring opportunities in new sectors. With renewed interest in economic cooperation, the bilateral trade value is expected to reach USD200 billion by 2022.

Trade between ASEAN and India

(In USD billion)

Year	Imports into India from ASEAN	Exports from India to ASEAN
2010-11	31.0	25.6
2011-12	42.2	36.7
2012-13	42.9	33.0
2013-14	41.3	33.1
2014-15	44.7	31.8
2015-16	39.9	25.1
2016-17	40.6	31.1
CAGR	4.8	3.3

Source: Export and import data, Ministry of Commerce and Industry, Government of India, July 2017

ASEAN as a group contributed almost 16 per cent of total FDI flows to India between 2010 and 2016. From 2006-07 to 2016-17, ASEAN's share in India's total exports and imports have risen from 9.97 per cent to 11.22 per cent and from 9.74 per cent to 10.56 per cent respectively. Notably, the two-way trade between India and ASEAN is tilted towards ASEAN with the trade gap expanding rapidly.

Table- Percentage share of Trade with ASEAN in India's Total Exports and Imports

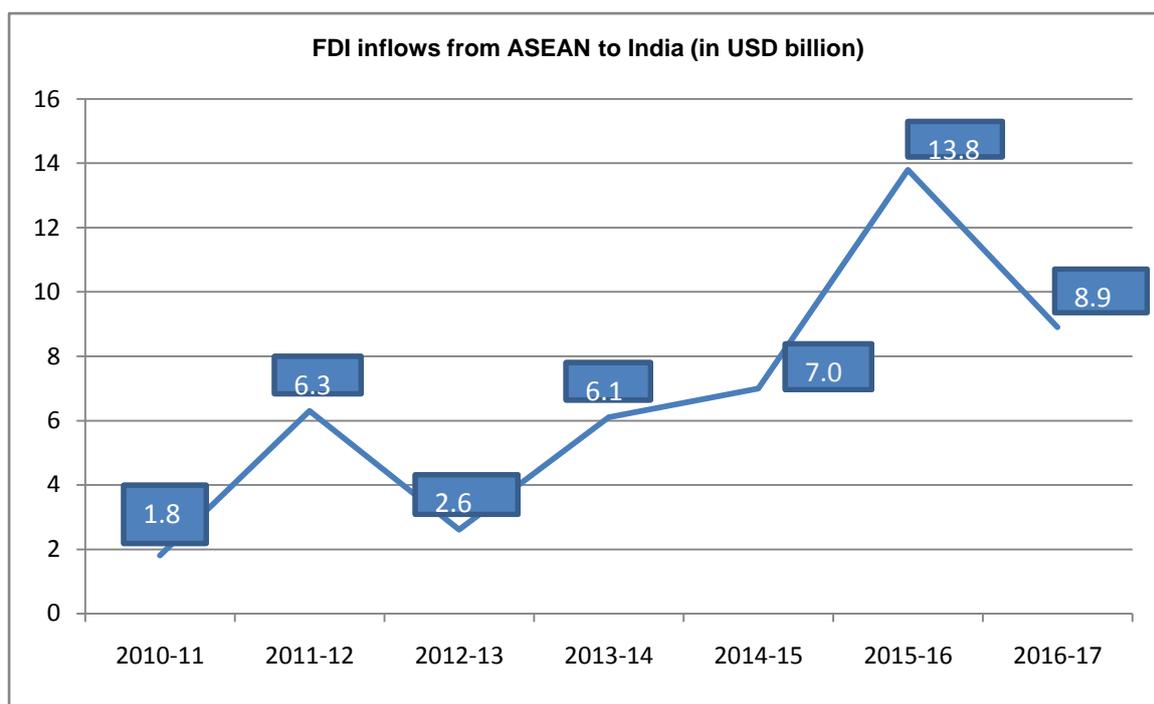
Share \ Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
% Share of ASEAN in India's Total Exports	12.0094	11.3214	10.9881	10.5385	10.2509	9.5903	11.2241
% Share of ASEAN in India's Total Imports	8.2776	8.3416	8.7351	9.1688	9.9802	10.4748	10.5676

Source- Department of Commerce, Export Import Data Bank, Ministry of Commerce, Govt. of India

While the trade value between the two parties has largely been unchanged, true growth of the partnership is reflected through rapid growth in Foreign Direct Investment (FDI) flow from ASEAN to India. India, one of the fastest growing economies in the world has emerged as a favoured foreign investment destination owing to various market-led factors such as availability of large talent-pool and huge domestic market. In addition, various flagships initiatives such as 'Make in India', 'Skill India' and 'Digital India' introduced by the Indian government. These initiatives are directed to enhance India's competitiveness as an investment destination.

Key initiatives taken under these include:

1. Increase in upper limit for foreign investment in various industries, including digital and creative
2. Introduction of reforms, such as labour (allotment of labour identification number to simplify online compliance filing, among others), tax (launched Goods and Services Tax or GST), innovation (improved and faster registration of Intellectual Property Rights or IPR: Improvement of business environment by withdrawing obsolete and outdated policies (scrapped retrospective tax, withdrawn customs and duty exemptions on parts and components of mobile devices).



Source: FDI Statistics, Department of Industrial Policy and Promotion (DIPP), April 2011–March 2017.

Driven by these advantages, FDI in India is growing at an unprecedented rate. ASEAN, a key trading partner, also realises these benefits and is therefore investing in India. During 2010–11 to 2016–17, FDI from ASEAN to India grew five folds from USD1.8 billion to USD8.9 billion. While most of the growth has come from Singapore (about 98 per cent of the cumulative FDI inflows from ASEAN, during 2011–17), other ASEAN members have made significant investment commitments in recent times. In April 2017, major Indian and Malaysian companies in the oil and gas, infrastructure, and engineering sectors signed 31 Memorandum of Understanding (MoUs) to facilitate investment proposals worth USD36 billion in both countries.

Similarly, other ASEAN members, such as Myanmar, Vietnam and Thailand have signed MoUs in the areas of power and energy, financial services, and Information and Communication Technologies (ICT). In general, India’s market dynamics complements the business needs of ASEAN. For instance, Singapore’s outward FDI appears to be focused on growing markets (as observed in financial/retail/construction sectors) or achieving efficiencies in the existing business processes (as observed in the manufacturing sector). India, with its sheer population size, availability of labour and technical capabilities, serves as an appropriate investment destination for Singapore based companies. The similar case is observed in Malaysia, where government-linked programmes encourage local companies to expand operations overseas to gain scale and leverage technological advancements in the destination country. On the contrary, Thailand’s outward FDIs in foreign markets to overcome their domestic challenges

All these measures will help in further boosting the commerce with the region and achieving the target of \$200 billion by 2022. This summit has proved to be an important step towards a developed and prosperous future for both sides. Stronger relations with India will help the ASEAN countries stand up to Chinese aggression while for India it will curb Chinese encirclement policy. Asia’s “striving tiger cubs” – India and the ASEAN-5 – are well placed to attract the bulk of foreign direct investment or FDI flows over the next few years, according to Nomura, as rising labour costs in China and ageing population in north east Asia disincentivises flows in those regions. It expects FDI flows into India and ASEAN-5 (Indonesia, Malaysia, Thailand, Phillipines and Vietnam) combined to surge from \$100 billion per annum currently to around \$240 billion by 2025.

The pull factors for India and ASEAN-5 include:

1. Large, growing domestic markets
2. Focus on reforms
3. Liberal FDI regimes
4. Sound economic management
5. Political stability
6. Low-cost labour

In India, FDI inflows is seen in sectors in need of growth capital, like infrastructure, banks, e-commerce and hospitals, Nomura said. Sectors with strong long-term growth prospects such as retail, automobile, pharma and diagnostics are also expected to benefit, the broking and research firm adds. Listed e-commerce players, however, may see a negative impact of the higher inflows due to increased competition.

India’s relationship with ASEAN has emerged as a key cornerstone of our foreign policy. The relationship has evolved from the ‘Look East Policy’ enunciated in early 1990s which led India to

become a Sectoral Partner of ASEAN in 1992, a Dialogue Partner in 1996 and a Summit-level Partner in 2002. The up gradation of this partnership to Strategic Partnership during the celebration of 20th anniversary Commemorative Summit at New Delhi in 2012 was a natural corollary to the growth of India-ASEAN relationship during last two decades. The India-ASEAN Strategic Partnership acquired a new momentum with the announcement of “**Act-East Policy**” in the 12th Summit in 2014. It conveyed a clear intent on the part of India to up-scaling its engagement with the ASEAN Member States.

15th ASEAN-India Summit

Prime Minister attended the 15th ASEAN-India Summit on 14 November, 2017 at Manila, Philippines. The significant initiatives announced during the Summit were as follows:

1. Enhance our strategic partnership by designating security and economic cooperation in maritime domain as a focus area.
2. Offer of joint exercises and fleet review by navies of ASEAN countries and India.
3. Offer of coordinated patrols to address traditional and non-traditional maritime threats and undertake exercises to effectively coordinate our response to natural disasters.
4. Offer of stepping up our economic cooperation in shared maritime domain by enhancing maritime connectivity and by working towards a Protocol on Blue Economy.
5. Organize a Start Up Festival in India to encourage digital commerce among ASEAN-India youth
6. Organize an ASEAN-India Pravasi Bharatiya Divas on the theme, “Ancient Route, New Journey : Diaspora in the Dynamic ASEAN-India Partnership”
7. Host a Business Summit and an ASEAN India Business Council event in January 2018.
8. Host ASEAN India Connectivity Summit in India
9. Host the first working group meeting on Civil Aviation at New Delhi.

Commemorative Summit 2017

India and ASEAN have celebrated 25 years of their Dialogue Partnership, 15 years of Summit Level interaction and 5 years of Strategic Partnership in 2017, in India and ASEAN Member States, leading to a ASEAN-India Commemorative Summit in India to be held on 25th January, 2018 at New Delhi on the theme “Shared Values, Common Destiny”. ASEAN Heads of States/Governments would be Guests of Honour on the Republic Day Parade on 26th January, 2018. The silver jubilee of our dialogue partnership was launched by organizing the 2nd ASEAN-India Cultural and Civilizational Conference at Jakarta on 19th January, 2017. Various other activities are being conducted during the year both in India and the ASEAN Member States on this occasion. The activities had a noticeable focus on the youth of India and ASEAN countries in view of the demographic dividend of youthful populations being witnessed on both sides. Activities conducted in ASEAN Member States in 2017 included ASEAN-India Biztech Conference at Kuala Lumpur, ASEAN-India Trade

Expo at Bangkok, ASEAN-India ICT Expo at Jakarta, alongwith a number of activities undertaken by our Missions in ASEAN countries to commemorate the event, such as ASEAN-India mountaineering expedition, ASEAN-India Family Fun Run at Jakarta, ASEAN-India Prabasi Bhartiya Diwas at Singapore, cultural programs, etc. These activities have brought focus to ASEAN Community in ASEAN member states in line with the ASEAN Vision 2025 and its 3 Community Blueprints.

India-ASEAN Plan of Action

As a reflection of the interest of ASEAN and India to intensify their engagement, the ASEAN-India Partnership for Peace, Progress and Shared Prosperity, which sets out the roadmap for long-term ASEAN-India engagement, was signed at the 3rd ASEAN-India Summit in 2004 in Vientiane. The Plan of Action (POA) for the period 2004-2010 was also developed to implement the Partnership. The 3rd POA (2016-20), which is in currency now, was adopted by the ASEAN-India Foreign Ministers Meeting held in August 2015. ASEAN and India have also finalised a list of priority areas for the period of 2016-2018, which would contribute towards successful implementation of the 2016-2020 Plan of Action. 70 out of 130 activities identified in the 3rd Plan of Action have been implemented.

India-ASEAN Trade & Economic Cooperation

The ASEAN-India Trade in Goods Agreement signed in August 2009 has paved the way for the creation of one of the largest FTAs. The ASEAN-India Trade-in-Services and Investment Agreements have also come into force in July 2015. With the signing of these Agreements, the ASEAN-India FTA is now complete. ASEAN-India trade for 2016-17 rebounded USD 70 billion after a period of stagnant growth due to global slowdown of trade. Cumulative FDI inflows into India from ASEAN between April 2000 to December 2016 are US\$ 54.97 billion, The major sources of FDI from ASEAN countries are Singapore, Malaysia, Indonesia and Thailand. Cumulative FDI outflows from India to ASEAN countries, from April 2007 to March 2015 was about US\$ 38.67 billion with Singapore being at the top of the list, followed by Indonesia, Malaysia, Thailand, Philippines, Vietnam and Myanmar.

India-ASEAN Business Council (AIBC)

The AIBC was set up in March 2003 in Kuala Lumpur with the 1st meeting held in Malaysia in 2005. A Secretariat for AIBC was established in Malaysia in 2015 at the 4th meeting of AIBC which was held in Kuala Lumpur in August 2015. The AIBC consists of eminent Leaders of Business in ASEAN Member States and India. They meet on the sidelines of ASEAN- India Economic Ministers’ Meeting.

ASEAN-India Centre (AIC)

At the Commemorative Summit held in 2012, the Heads of the Government recommended establishment of ASEAN-India Centre (AIC) to undertake policy research, advocacy and networking activities with organizations and think-tanks in India and ASEAN, with the aim to promote the ASEAN-India Strategic Partnership. The AIC was established in 2013 and has since been serving as a resource

centre for ASEAN Member States and India, for strengthening ASEAN-India strategic partnership and promoting India-ASEAN dialogue and cooperation in the areas of mutual interests. AIC has provided some very valuable inputs to policy makers in India and ASEAN on implementation of ASEAN-India connectivity by organising seminars, roundtables etc. AIC also organizes workshops, seminars and conferences on various cross-cutting issues relevant to ASEAN-India strategic partnership. It undertakes regular networking activities with relevant public/private agencies, organizations and think-tanks in India and ASEAN and EAS countries, with the aim of providing up-to-date information, data resources and sustained interaction, for promoting ASEAN-India Strategic Partnership. A formal MOU for establishment AIC at New Delhi has been negotiated and is undergoing ratification process in India and ASEAN countries.

Conclusion

India ASEAN always tries to make a progressive and strong relationship in each and every sector. AIFTA is a big achievement in this direction. There is a point has been noted that India is not a member country of ASEAN while the trade of India with ASEAN is increasing day by day. Under PM Modi, "Look East" is changing into "Act East". ASEAN is India's second largest trading partner. After a steep rise in 2011–12 (up 40.4 per cent YoY), the trade value remained stable till 2016–17. Close engagement and further cooperation should be prioritized by both sides if the full potential of this engagement is to be realized. The results suggest a high level of foreign direct investment can generate high level of economic growth and a high level of economic growth can generate high level of foreign direct investment. That means the policy implications are very straightforward. To get more economic growth and development, we need to bring more and more foreign direct investment from neighbour country like ASEAN nations. And to get more foreign direct investment, there is need of sustainable economic growth in the economy. The agreements on economical, political and cultural are likely to increase the India-ASEAN trade. The target is to achieve \$200 billion by 2022. To achieve this targets India ASEAN taken many positive steps and hopeful to achieve. In the past year, New Delhi has tried to focuses on ASEAN nations to make strong relationship, for this purposes government has taken massive decisions to attract FDI from ASEAN and facilitate to Businessman of ASEAN nations. In this context the ASEAN-India Centre was inaugurated in New Delhi on 21 June 2013. It will be a resource centre for India-ASEAN strategic partnership. The External Affairs Ministry is also setting up a separate ASEAN-India Trade and Investment Centre to strong relationship. It is also notice that India ASEAN free trade agreement in Goods and services open the door for business and to increase the volume of trade among them.

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