

India ASEAN bilateral relations- Emerging trends, Challenges and Opportunities

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Abstract- India's bilateral relation with ASEAN has been growing ever since they entered into partnership. Based on the secondary data, the present study tries to put forward a comprehensive analysis of the emerging India-ASEAN trade and investment relations in the last few years. The paper further analyses the key challenges to this trade relation with special reference to the challenge posed by the Covid-19 pandemic. We have also discussed how India and ASEAN have mutually engaged with each other to fight back the pandemic to their best capacities. We also highlight the emerging opportunities for India and ASEAN. Ideas and perspectives are thus, explored in the present study in order to search for a collective solution to strengthen the economic ties between India and ASEAN in the face of the changing world order due to the Covid-19 pandemic.

Keywords- India, ASEAN, Covid-19, trade, investment.

1. INTRODUCTION-

ASEAN (Association Of South East Asian Nations) was formed in 1967 and comprises of ten member countries. Today, it is one of the fastest growing economic organization in Asia. Together all the member countries of ASEAN ranks the third largest economy in Asia and seventh largest economy in the world.

India's relation with ASEAN has been growing ever since they entered into partnership. In the past few decades, trade and investment intra-Asian trade has tripled in value, (India ASEAN Trade and Investment Relations: Opportunities and Challenges, 2016). There is tremendous possibilities in future for mutually beneficial economic, political and demographic engagement of India and ASEAN.

However, the outbreak of Covid-19 pandemic worldwide has led to a deceleration of trade and investment relations among India and ASEAN. There has also been disruptions in supply chains, and decline in health and nutrition status, so on and so forth. Today, India and ASEAN together share a common challenge, i.e. to save their economies from the ravaging

impacts of COVID-19 pandemic. Since the initial months of the worldwide lockdown, India and ASEAN has been mutually engaged with each other to cope with the insurmountable challenges and fight back the pandemic together. Thus, the future of India ASEAN economic partnership looks promising with peaceful co-existence, larger integration and quick revival in trade and investment relations between the two.

This paper examines the different dynamics of trade and investment relations between India and ASEAN before as well as after the emergence of Covid-19. Apart from these, the paper analyses the emerging trends in trade and investment, the key challenges posed by the pandemic and the joint engagement and co-operation of India and ASEAN countries in dealing with it. Further, the ideas and perspectives are explored in order to search collective solution to strengthen economic ties between India and ASEAN in the face of changing world order due to the Covid-19 pandemic.

This study is unique in the sense that there has not been any major attempt in the existing literature to put forward a comprehensive perspective of the India –ASEAN bilateral relations particularly in the ongoing pandemic situation and their mutual co-operation in dealing with the challenges.

2. REVIEW OF LITERATURE-

In this section, an attempt has been made to make an in-depth review the existing studies undertaken in the concerned area relevant to our study.

C Veeramani and Gordhan K Saini (2011) in their paper, ‘Impact of ASEAN-India Preferential Trade Agreement on Plantation Commodities: A Simulation Analysis’, analysed the impact of Indo ASEAN trade agreement on some selected plantation commodities. The commodities they considered are tea, coffee and pepper. The results of their study showed that India’s imports from ASEAN is likely to increase as a result of the trade agreement. There would also be some net gain as a result of gain in consumer surplus. Smwarajit Lahiri Chakravartya and Ranajit Chakrabarty, (2013), their study, ‘*A gravity model approach to Indo-ASEAN trade-fluctuations and swings*’, considered the time period 1971-2010 in an attempt to study bilateral trade flows between India and ASEAN countries using the Augmented Gravity model of Frankel. The core objectives of their study were to examine whether there are any correlation as proposed by the gravity theory between Indian’s bilateral trades with the ASEAN countries? Nilanjan Banik (2014), made a study on the untapped potential of India ASEAN trade in view of the free trade agreement. The study conclude that the ‘Look East’ policy of India complements very well the ‘Look West’ policy of ASEAN and hence there is ample scope for the partnership to prosper. Harsh V Pant and Avantika Deb (2017) in their work titled, ‘India-ASEAN partnership at 25’ provides an overview of the trajectory of India and ASEAN partnership with its ups and downs during the past 25 years. They concluded that deeper co-operation and partnership should be prioritised for India and ASEAN. In another study by Vishal Sarin (2018), India-ASEAN trading ties are being explored and results showed that the emerging relationship of India and ASEAN is based on

complementarities in different fields like trade, investment, human resource development, and infrastructure and so on.

Objectives-

The objective of this study are as follows-

1. To analyze the emerging trends in the Indo-ASEAN trade and investment relation.
2. To explore the key challenges posed by the pandemic and the emerging opportunities for India and ASEAN.

3. MATERIALS AND METHODS-

The study is descriptive in nature and based on secondary data on trade, investment and other indicators compiled from various sources like DOTS, IMF, and some reports and published works. We have calculated simple percentages, shares, growth rate etc. and used tables and graphs to chart the data. The time period of the study is 2010-11 to 2019-20.

4. DISCUSSION-

Why is India-ASEAN trade significant?

Trade relations between India and ASEAN has a promising future. With the backdrop of strong complementarities between India and ASEAN economies, the merchandise trade between the two regions stands at USD 97 billion during 2018-19 and is expected to double to USD 200 billion by 2025. Going forward, strong economic linkages and complementarities between India and ASEAN economies will lead to greater economic integration to the mutual benefit of all, (India's Trade and Investment Opportunities with ASEAN Economies, 2019).

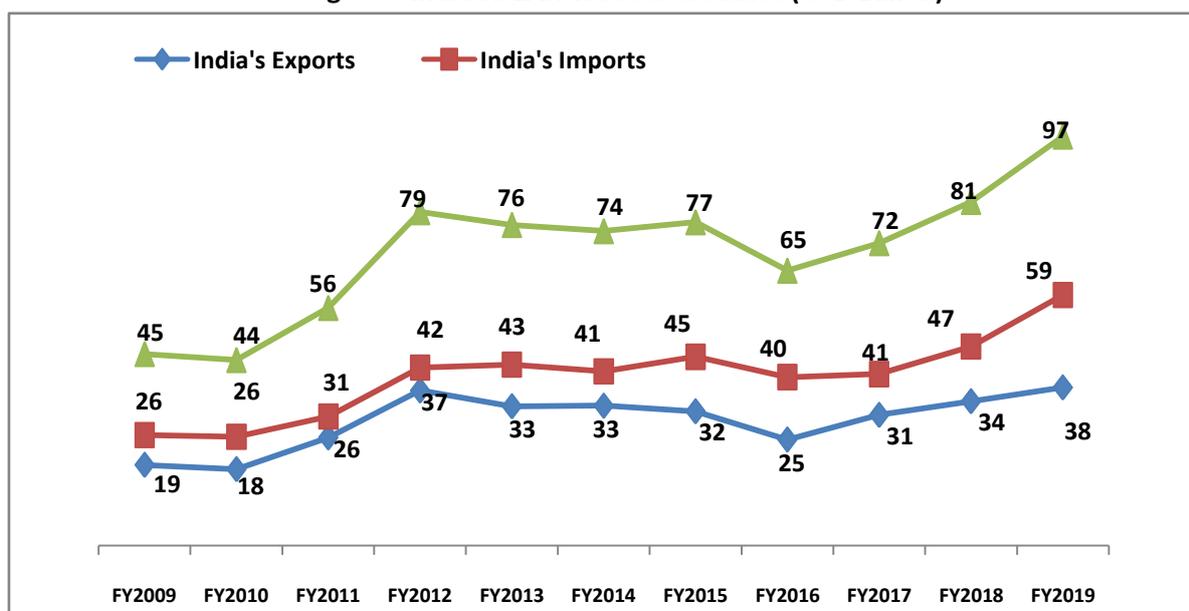
The major objective behind the formation of partnership was to explore all avenues for better exploitation of geographical proximity and natural endowments among themselves and to devise a means of escape from dependence on the more prosperous global markets (Kahler, 1995). There has been an increase in India-ASEAN merchandise trade post-AIFTA (ASEAN India Free Trade Area), agreement. The 'Act East Policy' which is now also called as 'Act Asia Pacific', also gives importance in promoting Indo-ASEAN mutual co-operation.

Moreover, there is tremendous possibility of diversification of India's export basket in the top 20 commodities to the ASEAN economies because India's export to ASEAN is quite high with a share of 85 %.(Handique, 2020). There are also huge investment and trade opportunities between India and ASEAN in some selected sectors like the ecommerce, education, health and pharmaceuticals sectors. Trade and investment in these promising sectors will provide additional gains especially after the pandemic situation.

Figure 1 depicts India-ASEAN trade (imports, exports and total trade) from 2009 to 2019. Over the years, merchandise trade with ASEAN economies has increased significantly from around USD 45 billion in FY2009 to around USD 97 billion in FY2019, (India's Trade and

Investment Opportunities with ASEAN Economies, 2019). India's merchandise export to ASEAN and imports from ASEAN both have increased significantly during the study period. India's exports to ASEAN was USD 19 billion in 2009 which increase to 38 billion USD in 2019. Similarly, imports also increased from 26 billion USD to 59 billion USD during the same time period. As such, total trade between India and ASEAN have also been increasing (given by the green line in the figure)

Figure1 India-ASEAN Trade at a Glance (USD Billion)



Source: PHD Research Bureau, PHDCCL; Compiled from Ministry of Commerce and Industry, Government of India

Table 1 provides an overview of India's trade with ASEAN countries and rest of the world. Here, India's trade (import and export) with ASEAN and Two time periods are analyzed for comparison, i.e. 2010-11 and 2019-20.

In the year 2010-11, India's export to ASEAN was 25.63 billion USD which increased to 31.55 billion USD in 2018-19. India's export to the world has also increased during the study period from 249.82 billion USD to 313.36 billion USD in 2018-19. The share of India's export to ASEAN as a % of total world export however remained more or less same during the period, i.e. 10.2% in 2010-11 and 10.1% in 2018-19.

In case of imports, there has been an increasing trend as India's imports from ASEAN in 2010-11 was 25.80 billion USD which increased to 55.37 billion USD in 2018-19. India's total import from the rest of the world also increased from 288.37 billion USD in 2010-11 to 474.71 billion USD in 2018-19. As a result ASEAN's share in India's total imports from the world rose from 8.95 billion USD to 11.66 billion USD during the study period.

	2010-11			2019-20			Growth Rate	
	To ASEAN	To world	Share of ASEAN in total world trade	To ASEAN	To world	Share of ASEAN in total world trade	ASEAN (2010-11-2019-20)	World (2010-11-2019-20)
	USD Billion		(%)	(USD billion)		(%)	(%)	
Export	25.63	249.82	10.26	31.55	313.36	10.17	2.10	2.29
Import	25.80	288.37	8.95	55.37	474.71	11.66	7.94	5.11
Total	51.43	538.19	9.56	86.92	788.07	11.03	5.39	3.89

Source- Adopted from India ASEAN development and cooperation report 2021, DOTS, IMF

Table 2 shows the share of India's top 20 total import and exports items in ASEAN trade. For simplicity, the list of commodities are not mentioned in the table. It is seen that the share of imports is quite high i.e. 92.2 % in 2009 which slightly decreased to 90.5 % in 2018. Similarly, exports share us also quite high at 85.8% in 2009 and 85.4% in 2010-11 and 2019-20.

	2009	2018
Share of top 20 import items from ASEAN in India's total imports from ASEAN	92.2	90.5
Share of top 20 export items from ASEAN in India's total imports from ASEAN	85.8	85.4

Source: PHD Research Bureau, PHDCCI; compiled from Trade map database

Overall, the average annual growth rate of India's exports, imports and total trade with ASEAN and with rest of the world has been positive and increasing during the time period. Also the share of India's total exports and imports to ASEAN is quite high. This buoyancy in trade figures shows the deepening ties between India and ASEAN over the past few decades. Total bilateral trade increased more than threefold from US\$ 21 billion in 2005-06 to US\$ 65 billion in 2015-16, (India ASEAN Trade and Investment Relations: Opportunities and Challenges, 2016). The improvement in trade relations may be due to the formation of the

ASEAN India Free Trade Agreement (AIFTA) in 2010. The FTA reduced tariffs on multiple commodities which facilitated imports and exports between the two regions.

Emerging trends in India-ASEAN trade and investment relations

Investment Relations-

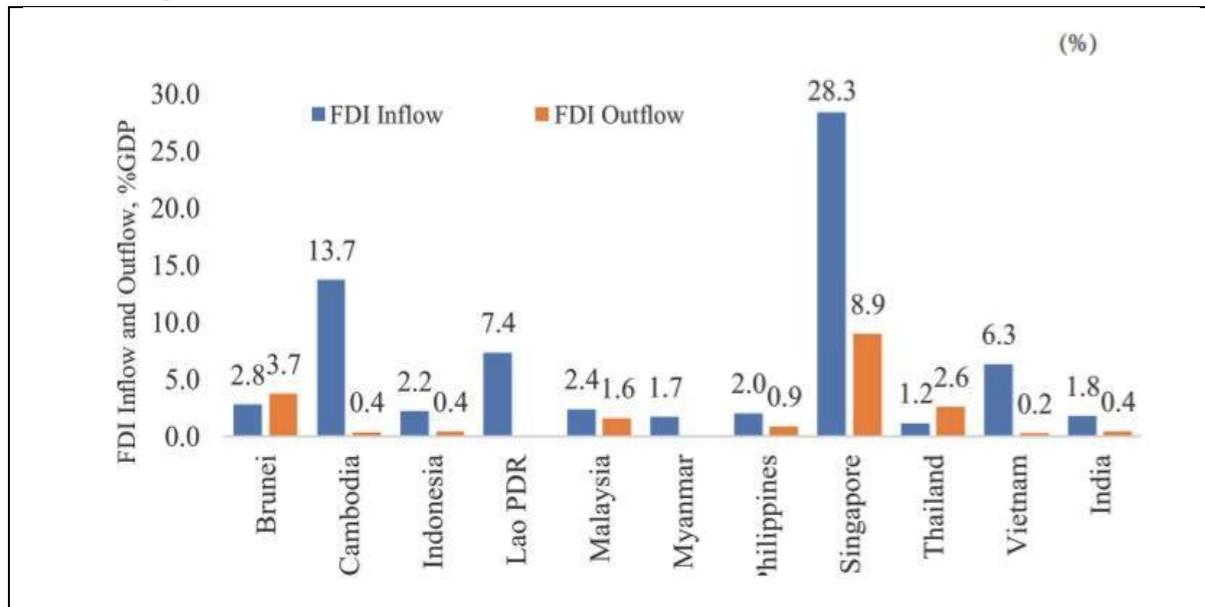
Lately, Asian countries have received considerable attention of investors due to their rapid economic growth rates. Moreover, they have emerging markets, suitable environments and active participations in global investment markets. As a result, there has been substantial inflow of investments to ASEAN countries like Singapore (USD 105.47 billion), Malaysia (USD 8.57 billion), Indonesia (USD 24.58 billion) and so on and so forth. India has also attracted a significant amount of FDI in 2019 (USD 50.61 billion).

Figure 2 shows the inflow and outflow of FDI in ASEAN and India as a percentage of their GDP. Singapore, Cambodia, Vietnam, Lao PDR are among the top countries with significant share of FDI in their respective GDPs. While India's FDI inflow and outflow is about 2% of the GDP.

In figure 3, we tried to put forward a comparative picture of Share of India's FDI inflows and outflows to regional groups in total FDI. It is clear that out of total FDI inflows and outflows, the highest FDI inflow and outflow of India takes place with ASEAN as compared to other regional groups. FDI inflows from ASEAN to India is 25% of total world inflows and that of outflows is 23%. Whereas, it is seen that the share of other regional groups are meagre i.e. MGC (inflows 0.16%, outflows 0.41%), SAARC (inflows 0.03%, outflows 0.85%), BIMSTEC (inflows 0.16 %, outflows 1.11%).

Thus, we can conclude that India is showing itself to be a choice investment option for ASEAN investors, particularly for investors in Singapore who are in search of a market for profit and diversification. More and more firms are now interested in investing in India.

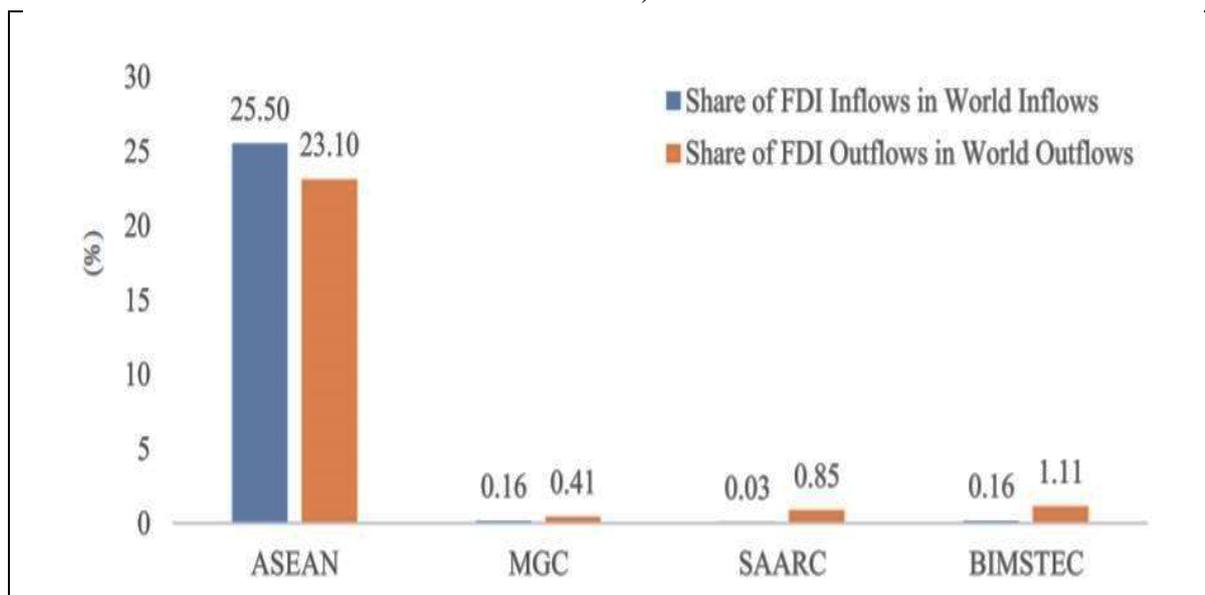
Fig-2 Inflow and outflow of FDI in India and ASEAN as % of GDP, 2019



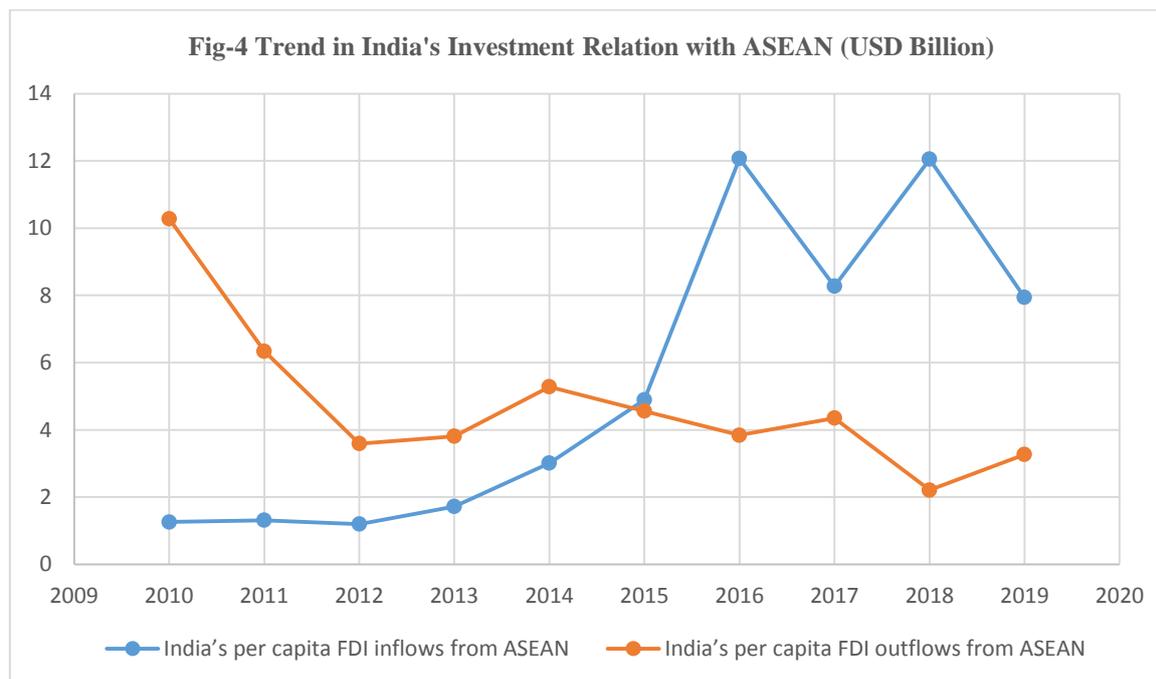
Source- compiled from Trade map database

Figure 4 shows trend of India and ASEAN’s investment relations during the year 2010-2019. Per capita FDI inflow to India from ASEAN has been increasing over the years. It indicates that more firms and investors are interested in investing in India. However, from India’s side, there is a decline of Investment in ASEAN countries.

Fig-3 Share of India’s FDI inflows and outflows to regional groups in total FDI (2010-2019)



Source- compiled from Trade map database



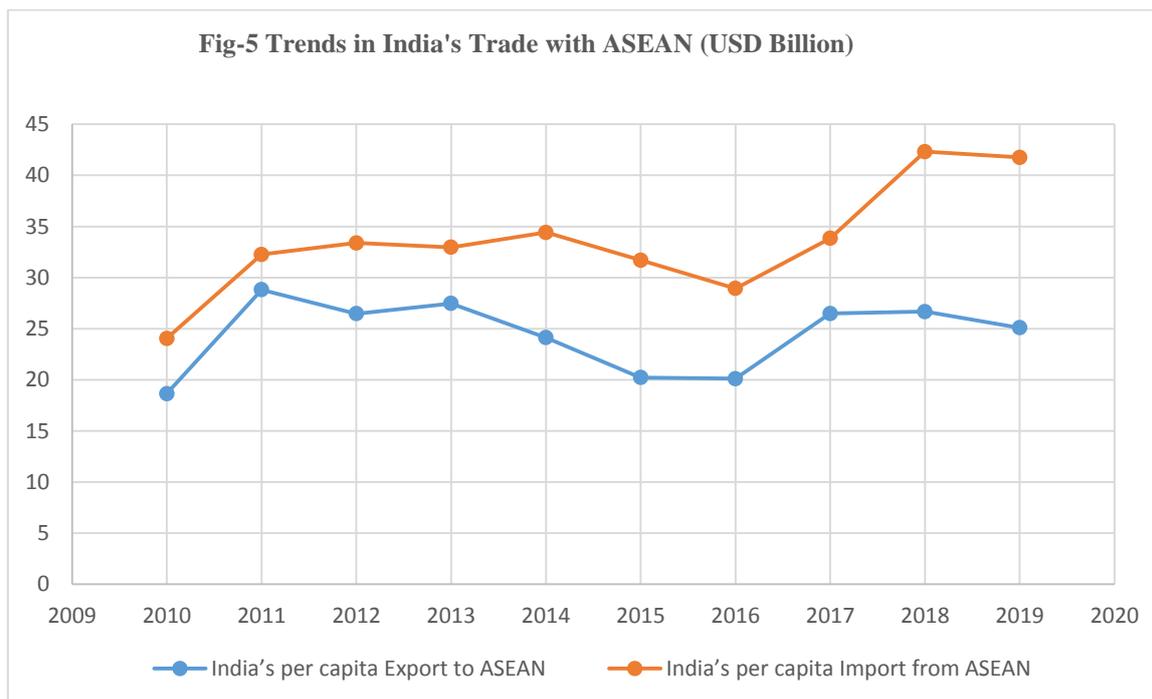
Sector wise investment in India and ASEAN-

At a disaggregate level, the sectors in which India's FDI flows with ASEAN countries are, electricity, restaurants and hotels, education, transport, construction sector, health, social service sector, finance, communication, gas and water, machinery and equipment, chemicals etc. There is no denying of the fact that the outbreak of the pandemic has affected investment relations between India and ASEAN. But, the pandemic has also opened doors for investment opportunity in different sectors like online education, healthcare, telecommunication, e-commerce, telemedicine etc. in which the demand have grown tremendously. This has undoubtedly given new areas of investment between India and ASEAN.

Country wise analysis made by 'ASEAN-India Investment relations; challenges and opportunities' report found that- Between 2008 to 2019, 12,000 firms from Singapore have invested in India, 200 to 700 firms from Malaysia, Thailand and Indonesia. The highest investment came from Singapore, Thailand and Malaysia. On the other hand, 300 Indian firms have invested in ASEAN countries like Indonesia, Malaysia, Singapore and Thailand and 100 in other countries Vietnam, Philippines and Myanmar. Compared to India, more and more countries from ASEAN have invested in India.

Trade Relations-

Figure 5 shows trend in India's trade with ASEAN during the study period i.e. 2010 to 2019. Trade figures are positive and increasing during the study period. Export as well as imports both are on an increasing trend. India's per capita import from ASEAN is however a little bit higher than per capita exports to ASEAN. Overall trade between India and ASEAN shows a promising trend.



Commodity wise trade between India and ASEAN-

Table 3 and table 4 shows Compound Annual Growth Rates (CAGR) of India's top five export items and top five import items during the years 2010-11 and 2019-20. The commodity classifications are based on HS-code classification. In case of export items, turbojets occupy the top position with a CAGR of 68.13 %. In case of imports from ASEAN countries, top position is occupied by Stainless Steel coil (thickness less than 3 mm). The CAGR of Stainless Steel coil is 62.02%.

HS code	Commodity	2010-11	2019-20	CAGR
		USD million		%
841112	Turbojets	2.84	304.94	68.13
840820	Piston Engines	2.68	194.81	61
020629	Edible and bovine animals (frozen)	4.45	159.18	48.80
390720	Other polyethers	1.82	50.7	44.73
720719	Semi- finished iron and non-alloy steel products	7.12	186.76	43.76

Source- ASEAN-India Development and Co-operation Report 2021 : Avenues for Co-operation in Indo-Pacific

Table-4 CAGR of India's top 5 major import commodities to ASEAN between 2010-11 to 2019-20 based on HS code				
HS code	Commodity	2010-11	2019-20	CAGR
		USD million		%
721914	Stainless Steel coil (thickness less than 3 mm)	1.96	150.83	62.02
740819	Compounded rubber	10.01	747.46	61.48
291030	Epichlorohydrin	1.32	97.22	58.63
390490	Polymers of vinyl chloride and others	1.15	73.14	58.05
m901580	Instruments and appliances	1.1	96.61	53.64

Source- ASEAN-India Development and Co-operation Report 2021 : Avenues for Co-operation in Indo-Pacific

Key challenges posed by Covid-19 pandemic-

The Covid-19 pandemic has distorted the world order by causing crisis in health and economic crisis across countries. The global growth was expected to contract by 4.4 % in 2020 (IMF). The worst affected however the developing countries like India are. The key challenges posed by the Covid-19 pandemic between India-ASEAN bilateral relations is categorized herein into different types-

1. Developmental Challenges-

According to the IMF, the impact of Covid-19 on economic growth is even worse than the financial crisis of 2007-08. As the countries had to impose stringent emergency lockdown to stop the spread of the virus, sudden economic and financial shock were inevitable. All these led to negative growth rates in India and ASEAN countries. The expected GDP growth rates of ASEAN and India turned to be negative and India's growth rate was expected to fall by -10% in 2020.

2. Challenges in Trade and Investment-

The imports and exports fell by about 20% during the Covid-19 crisis between June 2019 to June 2020. Also the investment between India and ASEAN came down drastically. However, to revive trade and investment, India and ASEAN governments have taken several fiscal, monetary and trade policy measures. As a stimulus, ASEAN countries as well as India have spent a big portion of the GDP in formulating and executing policies to revive the economy.

3. Challenges in Production networks-

At the onset of the Covid-19 pandemic, there was worldwide lockdown imposed immediately to contain the spread of the virus. As a result, stores were closed down, international

communication were stopped which resulted in shipping delays leading to disruption supply chains across the world. Disruption in supply chain led to drop in demand in sectors such as airlines, tourism, business trips, trade and investment etc. all came to a halt. India and ASEAN countries were no exception to these discrepancies and thus, both the economies suffered lot.

4. Challenges in the service sectors-

Service sector has lately become the driver of Indian economic growth. As a result of the travel restrictions imposed due to the pandemic, the worst affected is the service sectors like tourism, transport and logistics, travel etc. As a result there was huge financial loss in India as well as in other ASEAN countries. Service trade between ASEAN and India is thus another major challenge imposed by the Covid-19 pandemic.

India-ASEAN mutual co-operation in fighting back the pandemic-

	Brunei	Cambod	Indones	Lao PDR	Malaysi	Myanm ar	The Philippi	Singapo	Thailan	Vietna
Telephone/video conferencing		Yes	Yes	Yes		Yes	Yes	Yes	Yes	Yes
Vande Bharat Mission		Yes	Yes		Yes	Yes	Yes	Yes	Yes	Yes
Exchange of information and experts			Yes			Yes	Yes	Yes	Yes	Yes
Distribution of medical supplies		Yes	Yes	Yes	Yes	Yes	Yes		Yes	Yes

Note-blank cell indicates unavailable data, Source-India ASEAN development and cooperation report 2021

The COVID-19 pandemic has hardly hit the world economies in terms of deteriorating human health and damaging the economy and India and ASEAN is no exception. ASEAN and India stands among top three worst affected countries with 8, 29, 778 and 7.49 million total cases respectively. However, India and ASEAN countries have responded to the pandemic and fought back to its best capacities.

This section of the study presents the co-operative effort of India and ASEAN in fighting back the pandemic. Table 5 depicts India's engagement with the ASEAN countries and their mutual co-operation in dealing with the COVID-19 pandemic. India and ASEAN countries co-operated and worked together exchange of information via telephonic conversations, video-conferencing, online expert meets and distributions of medical and pharmaceutical supplies. India's Vande Bharat mission operated in full scale during this period. Vande Bharat is the largest global evacuation mission in which India's government brings back or rescues Indians residing in different parts of the world during an emergency. During the Covid-19 pandemic crisis, Indian government evacuated nearly 9.5 lakh Indians stranded in different

parts of the world. India also extended helping hand to the Indians in ASEAN countries and successfully brought them home during the pandemic crisis.

Emerging opportunities- The way forward

The relationship between India and ASEAN is steady yet stable. This fact finds credence that both the areas have a promising future ahead of the pandemic period. Greater integration between India and ASEAN will provide huge impetus for economic growth and prosperity in the years to come. The need of the hour is thus to build a strong partnership with a common voice and visibility towards the world.

Post-pandemic period will bring forward sensitiveness towards increase in globalization and international trade and India and ASEAN could play out this opportunity. On the positive front, the pandemic has opened doors of demand in newer areas like telecommunication, e-commerce, digital connectivity, market, online education, online services in entertainment and business, health care etc. All these opportunities may be explored to strengthen the ties between India and ASEAN.

Another need is to revive the trade relation between India and ASEAN. A sharp rise in exports and imports is possible when global competitiveness is maintained. Both should upgrade their manufacturing abilities and build stronger regional production networks to emerge as an alternative market post-pandemic period. This can be done by facilitating trade and reducing tariffs etc. In case of India and ASEAN, the already existing FTA i.e. the AIFTA agreement may be upgraded for greater integration and trade flow.

There is scope for business and economic co-operation through streamlining of mutual areas of interest of India and ASEAN. With initiatives like 'Make in India for the world', business environment in India will likely improve along with suitable monetary, fiscal and trade policy. There are certain area of mutual interest like financial technology, connectivity, innovation and start-ups etc. which may be laid emphasis on. Engagement in new areas like energy, maritime security etc. Also may be beneficial. The pandemic will also create new opportunities in service trade between India and ASEAN which must be utilized.

5. CONCLUDING REMARKS

The two major objectives behind this study was to analyze the emerging trends in trade and investment between India and ASEAN countries and to explore the key challenges posed by the unprecedented Covid-19 pandemic. We also shed some light on the mutual co-operation and engagement of India and ASEAN to deal with the pandemic and revive their mutual ties. The major goal of the paper however is to search for a collective solution to revive and strengthen the relation between India and ASEAN in the years to come.

The rationale behind focusing on India-ASEAN bilateral relation is based on the fact that trade and investment relations between India and ASEAN seems to have a promising future. With the backdrop of strong complementarities between India and ASEAN economies, the merchandize trade between the two regions stands at USD 97 billion during 2018-19 and is expected to double to USD 200 billion by 2025.

In our analysis made for the period 2010 to 2019, we discovered that the emerging trends in trade relation is not as bad as it seems. Although the effect of the pandemic is felt off lately, the overall trend is positive. India's per capita import from ASEAN and export to ASEAN both are on an increasing trend. Overall trade between India and ASEAN shows a promising future if fuelled with the right policies. In case of investment, we can conclude that India is showing itself to be a choice investment option for ASEAN investors, particularly for investors in Singapore who are in search of a market for profit and diversification. More and more firms are now interested in investing in India. We also explored the key challenges posed by the pandemic like developmental challenges, challenges in trade, investment and services, disruption of supply chain etc. and how India and ASEAN through join co-operation dealt with them to their best capacities.

Thus, the study highlights the present status, challenges and opportunities in India ASEAN partnership and underlines the need for deeper integration between India and ASEAN post-pandemic for a collective and resilient recovery of both the economies.

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