India-ASEAN Relations

Why in news?

India will host the mega India-ASEAN commemorative summit shortly, marking 25 years of bilateral relations.

How did the partnership evolve?

- Ever since the launch of the Look East Policy in 1991, the bilateral relations have travelled a long distance.
- The two sides established a Sectoral Dialogue Partnership in 1992.
- This was elevated to a full-fledged dialogue partnership in 1996, and India also became a member of ASEAN Regional Forum.
- The bilateral tie up was further taken to a strategic partnership level in 2012.
- Currently, ASEAN and India have about 30 platforms for engagement, including an annual leaders’ summit and ministerial dialogues.
- The India-ASEAN bonhomie has broadened at political, strategic, security and defence level ties, in addition to the economic realm.
- ASEAN is now clearly the central pillar of India’s Act East Policy.
How is the economic integration?

- Despite multifrontal engagements, the prime focus continues to be the furtherance of economic and commercial ties.
- Evidently, ASEAN is India’s 4th largest trading partner, and India is the 7th largest trading partner of the bloc.
- The economic integration process further strengthened after the creation of the ASEAN-India free trade area in 2010.
- This was followed by the implementation of the India-ASEAN agreement on services and investment in 2015.
- Given all these, the **bilateral trade and investment ties are still way below the true potential.**
- Besides, the balance of trade has always been in favour of ASEAN member countries.
• The Indian FDI into ASEAN nations accounts for 22% of its total outbound FDI; far less in comparison to the US, the EU and Japan.

• Also, the investment share is skewed, with 99% of the total FDI inflows from the region coming from Singapore alone.

• This is because of the Comprehensive Economic Cooperation Agreement with Singapore.

• The other major Southeast Asian economies including Malaysia, Indonesia, and Thailand account for less than 1%.


What are the roadblocks?

• SMEs are a vital aspect of both Indian as well as the ASEAN economy, contributing nearly 45% to the Indian manufacturing.

• However, a range of factors hamper FDI inflows and SMEs collaboration between India and ASEAN countries.

• Some of them include:

  i. challenges in establishing a supply chain
  ii. poor infrastructure
  iii. bad maritime and air connectivity
  iv. bureaucratic costs involved in complex tax and duty structures
  v. licensing, and other business activities

• Complexity - All the countries of the region have differing levels of socio-economic development, posing a challenge.
• The Indian SMEs have to adjust with a new set of supply-chain strategies to each country's varying regulatory requirements.

• **Technology** - The SME sector in India is hugely dependent on foreign technologies because of lack of in-house R&D.

• **China** - The CLVT countries (Cambodia, Laos, Vietnam and Thailand) are emerging as manufacturing hotspots for China.

• China is increasingly outsourcing its production to countries along the Belt and Road project, mainly ASEAN members.

• Given the low levels of manufacturing, these countries stand to gain from industrial capacity cooperation with China.

• The dominant Chinese footprint in the region makes the competition even tougher for Indian SMEs.

What should India focus on?

• **Technological upgrading** is pivotal to enabling the SMEs to be more competitive in the global market.

• India's **logistics sector and the supply-chain environment** should be developed to a world-class level.

• The ongoing projects and arrangements for infrastructure development and connectivity should be carried on without delays.

• They include:
  
  i. India-Myanmar-Thailand Trilateral Highway
  
  
  iii. Kaladan Multimodal Transit Transport Project (linking the Kolkata with Myanmar’s Sittwe port)
LDCs of ASEAN bloc, like Laos, Vietnam, Cambodia and Myanmar, are the beneficiaries of generalised system of preferences in US and EU.

Indian manufacturers setting up business units here are bound to get the benefits while exporting to the US and EU markets.

India must use the upcoming commemorative summit to project it as a lucrative investment destination for the ASEAN countries.

Source: Financial Express